

Let's tap Chinese funds via Mauritius

N. BALAKRISHNAN

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China wants to diversify its investments, while India needs long-term capital. Mauritius can be a match maker.

January 1, 2013:

When Indians think of Mauritius, they think of high society weddings, beautiful beaches and if they work in the financial field, about tax planning.

But Mauritius is much, much more than that. This little country, with just a little more than a million people, majority of whom are ethnic Indians, has acted as an important catalyst in the economic transformation of India far exceeding its size. And if India is willing to make the right regulatory moves, Mauritius may yet again play an important role in the transformation of India's economy and its creaking infrastructure.

Those looking at the data about incoming investments into India are often struck by Mauritius being listed at top of the table as the leading foreign investor into India!

This is because of the double-taxation treaty between India and Mauritius that makes it advantageous from the tax point of view to route investments through Mauritius.

Some in India think that this leads to taxes being lost by the Indian authorities, without realising that in the 1990s — when India was emerging from near bankruptcy and the world was still sceptical about Indian reforms and its balance-sheet strength to support dividend remittances — the “Mauritius route” provided a lot of comfort to foreign investors.

Welcome route

Much of the capital that came into India during the 1990s would not have come in, but for the comfort provided by the “Mauritius route”. As anyone who worked in finance in India at that time will know, both government officials from India and the corporate sector welcomed the help provided by Mauritius to a capital-starved India.

But things move on and some in India now seem to think, based mostly on a misreading of the way the real world of investment works, that Mauritius is somehow denying tax revenue that is “due” to India.

But Indian critics of Mauritius and even Mauritius itself should perhaps look to the future rather than quibble about the past.

If India and Mauritius change their focus to the future, they will find that Mauritius can contribute to India’s growth in a way that will dwarf what Mauritius has done in the past.

What India needs now is not so much portfolio investment, which is what Mauritius specialised in, but direct long-term investment to build India’s infrastructure.

The traditional suppliers of long-term capital in the past — the US and European banks — are now not in a position to do this, having not quite recovered from the financial crisis. Even Japan, with its ageing population, is going to run out capital to export soon.

Looking to diversify

That leaves China, with foreign reserves of \$1.2 trillion — the largest the world has ever seen and almost none of it invested in India, which needs all the capital it can get.

China is now suffering from the investment equivalent of Hell, in that it is using most of its reserves not even to invest in its strategic competitor — the US — but actually subsidising the alarming fiscal deficits of the US.

Just as India is thirsting for long-term capital, China wants to diversify its investments. Some in India think that China is a competitor or even an enemy, but that is not the view that is shared in China, where they worry much more about the US “containing” China and perhaps pulling in the historical occupier of China, Japan.

China is looking to diversify its bulging reserves, now poorly invested in the US. India — looking for long-term capital that is scarce — can, under the right circumstances, be a match made in heaven. All it needs is an honest match maker, trusted by both China and India, for capital to start flowing across the Himalayas.

And Mauritius has good claims to be that match maker in heaven, if all parties concerned can look beyond the past, display some imagination and seize this historic moment to bind the economic ties between these two Asian giants.

Mauritius recognised the People’s Republic of China rather than Taiwan soon after its Independence, unlike many island nations in the Pacific that went with Taiwan.

Chinese have long memories and, therefore, have trust in Mauritius and, of course, India’s cultural, economic and other ties with Mauritius are so strong that they need not be stated again.

Trade ties

I am not underestimating the major regulatory, financial and political hurdles that need to be overcome before this capital can start flowing between China and India.

Those who read history will know that until the early 1970s, the US forbade all trade with China, but these two countries have now emerged as the largest trading partners the world has ever seen.

The relations between China and India are much better than they were in the 1970s and the distance that needs to be crossed is much less. History shows that today’s enemies can become tomorrow’s friends.

All it needs is some faith, imagination and a leadership which wants to work hard to earn its place in history for having served the large populations of both these countries.

Mauritius, as the smallest parties of the three is willing, but are the giants of Asia ready for the historic moment?

The author is Honorary Consultant to ‘China-India Fortune Foundation’, based in Hong Kong.