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The Mauritius IFC: A platform for business to Africa

"The Country's adherence to principles set by International bodies makes Mauritius a neutral, safe and trusted jurisdiction."

Hon. Xavier-Luc Duval, Vice Prime Minister and Minister of Finance and Economic Development.

"The Evolving Challenge and Hostile Operating Environment for Global IFCs"

Percy Mistry, Chairman
Oxford International Associate

The development of a Yuan Offshore market in Mauritius

"Everything Changes – Nothing Disappears" – Greek Poet Ovid

"It is only the dreamers that move mountains" – Fitzcarraldo, in the movie, "Ftizcarraldo", directed by Werner Herzo

I have been living in Hong Kong for the past quarter century and visited Mauritius in October, 2012. My first visit to Mauritius was in 1985. In fact I took one of the first few flights out of Singapore when Air Mauritius started its direct service to Mauritius. It was a Boeing 707 and the flight was bumpy. When I landed I found a rather poor country but also an island full of warm and well educated people. I have returned after a gap of 27 years and found in 2012 a middle income island where the people are still warm and intelligent. One good thing about returning after such a long gap is that one has a better perspective how many good things have been achieved in spite of the many problems encountered.
My primary purpose of writing here is not to flatter Mauritians, but rather to explore how the rise of the Chinese Yuan, also known as the Renminbi (RMB), may offer some opportunities for Mauritius if it is able to leverage its history, culture and geopolitical position?

The rise of China

China has the largest foreign reserves in the world of about US $3.2 trillion dollars. So China is now poised to emerge into what Britain did in the 19th century and the US did in the earlier part of the 20th century and the Japanese did in the second part of last century, namely to become the largest capital exporter in the world.

While most people in the world know about China's bulging reserves, not so many people know about India's bourgeoning need for capital. India is hoping to spend about 1.2 trillion US dollars to fix its creaking infrastructure. India not only does not have that level of savings available to tap but it also lacks a strong enough long term capital market which can enable it to raise such enormous sums.

So it looks like China's surpluses and India's need for long term funds is a match waiting to happen and would probably happen eventually. It is the stated policy of China to diversify its reserves and make them less dependent on funding the deficits of the US.

It is also the stated policy of India to move towards a more open financial system and closer economic relations with China. The ground realities and specific policies leave much to be desired; just because China has large reserves and India has large funding needs will not automatically lead to convergence. But there seems to be little long term alternative for the policies of China and India except, however grudgingly, to embrace each other financially. European, and to a lesser extent the US, financial institutions have neither the balance sheet nor the risk appetite to meet India's needs. In fact it is obvious to anyone watching the financial industry that the Europeans in particular are in the process of pulling back from even traditional and low risk financing activities such as trade financing in Asia.

Capital is fungible and Chinese surpluses are already funding at arm's length the needs of India. If the world financial system has no access to Chinese funds. India would probably find it harder to get the funds it needs. True, China and India are uneasy partners - both politically and economically in spite of the fact that trade between the two giants is growing tremendously. They see each other as competitors and have an unresolved border dispute. But things can change and change dramatically too.

In a geopolitical sense China sees itself, rightly or wrongly as a country that the US is trying to encircle with the help of Japan, Mongolia and even South Korea and some countries of South East Asia. Looked at this way, it is important for China to prevent India from joining the US sponsored "encirclement" policy, - that is much more important to China now than to worry about a border war that happened 50 years and now remains one of the most peaceful borders of the world. The political readiness to trade with or finance a country is important in every situation but especially so in the case of China, which still remains a centrally planned and command economy.

India has been doing its best until recently to wish away the rise of China, neither doing anything like joining forces with others to prevent the rise of China nor embracing China too closely to try and get special favours from China.

Mauritius as a bridge

Mauritius is in the fortunate position of having good relations with China and India. It is true that Singapore also has the same advantages while at the same time being one of the major financial centres of the world and with a very big Yuan deposit base. But Mauritius is not without its peculiar advantages

One should not underestimate the problems that Mauritius will encounter while trying to be the match maker between China's foreign reserves and India's funding needs. Many other cities and countries, including London, Singapore and Malaysia have already staked their claim to become the "offshore Yuan" trading centre and all those places have bigger economies and better geographical locations. However, smallness, nimbleness and the ability to focus on one task instead of trying to be everything to everybody does have its advantages too.

The reason that the DTA between Mauritius and India became such a success was because of the objectives of all the major parties, the foreign portfolio investors into India, the Mauritian government and legal services sector and the objective of the Indian government coincided. The portfolio investors wanted lower taxes and the Indian government wanted a way to attract portfolio investments quickly through friendly ➤

parties even before the restructuring of the Indian economy; and the capital markets were fully ready for them. Since it made everyone happy the DTA was a success for about twenty years.

Now the situation is different: rightly or wrongly many people in the Indian government view the DTA as something that, rather than helping India, is depriving the government of revenues. This may or may not be accurate and we can argue about it - but that is the reality today. Even the corporate sector in India is not enthused enough to fight for the retention of the DTA strongly. Unlike in the past two parties out of three are now not strong supporters and therefore the DTA can at best only limp along.

The Next Chapter in the Mauritian – Indian Financial Relations

As they say, whenever one door closes, another one opens. Just at the time when the Indian corporate are losing interest in the DTA, the Indian companies, especially the capital intensive infrastructure companies, are looking with interest at the bulging reserves of China and wondering how to access it. China's main focus is not India: but China would not mind diversifying a small portion of its exposure to India rather than support what it perceives as the bullying US and the sick Europe. All it needs now is an honest broker to make that marriage possible. And Mauritius has a fighting chance - if not a strong - chance to fulfil this role. Of course it will **not** be easy: but it can be done.

How to make Mauritius become a Yuan Financing Centre for India

If Mauritius believes in its potential to become a yuan centre in the region it will have to take some concrete actions outlined below and which may be a first step:

Declare that Mauritius wants to become a Yuan financing centre – just like London, Dubai, Singapore and Malaysia have. Such a declaration by the government should not be dismissed as hot air but rather as a catalyst to gel the private sector players around the idea, safe in the knowledge that they will be acting in accordance with broad government policy.

Invite Chinese financial institutions to open an office in Mauritius. The Chinese banks are willing and eager to expand abroad and incidentally the Industrial and Commercial Bank of China (ICBC) has just opened its first branch in India. The ICBC can surely justify opening a branch in Mauritius as a "gateway to Africa" or "gateway to India" – as Chinese companies have been adding operations in both places.

Promote Mauritius in East Asia: Mauritius is already well known in India but not many know about Mauritius in Hong Kong since there is no one in charge of promoting Mauritius in Hong Kong.

Yuan is already convertible in Hong Kong. While inside China and even inside the large banks in Hong Kong one would find that there are all sorts of restrictions on not only taking Yuan out of China but even taking other currencies into China, as the Chinese government wants to prevent the flow of "hot money" into China. On the other hand you can go to corner money changers in Hong Kong who operate quite legally and change into Yuan or out of it with minimal fuss for hundreds of thousands of dollars. This is because there is a very liquid "two way" market for Yuan in Hong Kong unlike inside China.

Open an Office and Sign MOUs with Hong Kong based institutions: London stock exchange has already signed an MOU with Hong Kong's de facto central bank, "Hong Kong Monetary Authority" to co-operate in developing a Yuan market.

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