PRESENTATION BY PROFESSOR JOSEPH STIGLITZ ON POST FINANCIAL CRISIS: OPTIONS FOR SIDS AND EMERGING ECONOMIES

SWAMI VIVEKANANDA INTERNATIONAL CONVENTION CENTRE PAILLES

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SPEECH

BY

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Distinguished Guests,
Ladies and Gentlemen,

The hosting of this one-day Conference on "Post-Financial Crisis and the Options for Small Island Developing States (SIDS) and Emerging Economies" could not be more timely for our country.

It is not every day that we have the privilege to listen to a Nobel Prize Laureate.

So let me, first of all, extend a warm welcome to Professor Stiglitz, who has kindly agreed to share with us his views on such an important theme.

The financial crisis, confronted emerging market economies with two shocks:

- **A sudden stop of capital inflows driven by global deleveraging, and**

- **A collapse in export demand associated with the global slump.**

Although the overall outlook has improved somewhat, recovery is still characterised by some degree of uncertainty.

Most of the big emerging market economies, including China, India, Brazil, and Turkey, wriggled out of the financial crisis relatively unscathed.

Asia is beginning the year in better shape economically than most of the rest of the world. That region will be the fastest-growing in the world, reflecting its strong fundamentals, as well as, the emergence of China as an independent engine of regional growth.

Most countries in Sub-Saharan Africa have recovered quickly from the global financial crisis but the pace of the recovery has varied within the region.

Developing countries, in particular SIDS, are bearing the brunt of the profligacy of industrialized countries, including the detrimental consequences of climate change.

SIDS, which are highly vulnerable to economic shocks beyond domestic control, have been deeply affected by their reliance on exports to the United Kingdom, the European Union and the United States.

The benefits that SIDS expected to reap from globalization, that is, from increased trade to greater development cooperation, have generally been far more difficult to harness than originally thought.

Ladies and Gentlemen,

Every generation is prone to exaggerating the historical significance of the period in which they live. Yet, surely, future generations will look back at the financial crisis that erupted so dramatically in 2007, and which became a global economic crisis and continues to flare today, in Athens, Dublin, Lisbon and Madrid and pinpoint this as the time when the world shifted significantly yet again. Nothing will be the same again.

The world has seen many financial crises before. The last thirty years have seen a plentiful occurrence of what are so often called "emerging market crisis". But this time it is the developed world that is experiencing an emerging market crisis.

As money flows to emerging markets, as the power of creditors rises compared to debtors and as the forces of economic convergence continue, we are seeing a fundamental reshaping of the world around us.

This reshaping of the world is occurring around three key themes:

The <u>first</u> is a rebalancing of the world economy away from the mature economies of Western Europe, and what the economic historian Angus Maddison termed as "Western offshoots" towards the fast growing emerging markets;

The <u>second</u> dramatic change is through an imminent reshaping of the financial system;

The financial crisis was caused by many factors but several of them had their origins in the financial system itself. We are already seeing some changes in financial regulation as a result of the crisis, but I suspect, there is still much more to come.

The <u>third</u> shift is an intellectual one. Since the Thatcher – Reagan years, we have seen an increase in deregulation. It is indisputable that deregulation has helped contribute to growing economic success.

China since 1978 and India since 1991 have undoubtedly benefited economically from deregulation. And so has Mauritius.

But we all know now, that deregulation went too far.

We cannot rely on Adam Smith's invisible hand alone to correct market failures. In some areas you need the strong, very visible hand of the Government.

Mauritius has of course, close ties with Europe and the US and the travails of these economies are an adverse headwind for many of our industries.
Yet our location and our history also give us a firm connection with emerging markets. Trade in goods, capital and ideas with India are firmly established. We have the good fortune of being chosen by China as a Special Economic Zone and benefit substantially from Chinese investment in Mauritius.

Our geographical position is being increasingly tapped by China, India and other Asian countries as a launching pad to do business in Africa – a continent that is now considered as a new economic growth pole in the world.

Crisis, as we have experienced, brings with it challenges as well as opportunities. As the global economic centre of gravity moves towards the emerging economies, our countries should take advantage of this opportunity to diversify their economies and lessen their excessive dependence on exports to traditional markets.

They should identify new sources of funding and look to do more trade with Asia and other emerging economies.

And that is precisely what we are doing.

The global economic crisis, the sovereign debt crisis in the euro zone, as well as the strong expansion of emerging economies have prompted us to seriously envisage the diversification of export markets, which had for too long been dependent on Europe, and to a lesser extent the US.

One of the main thrusts of the last Budget is directed towards the rebalancing of growth away from a euro-centric development strategy towards the emerging poles of economic activity, notably BRIC countries (Brazil, Russia, India, China), South Africa and other regional countries.

Whereas in other countries the real economy has suffered as governments support their financial system, here in Mauritius, the banking system has helped support the real economy through the crisis.

This leads on to the third shift in the world economy – the move away from deregulation.

In Mauritius we have always believed in a balanced economy. Deregulation is needed to enable market forces to provide incentives for firms and individuals to make profit and drive the economy forward. But as I said earlier a healthy economy requires a balance between market and Government if it is to serve the broad population. This insight has never been lost on my Government.

What then are the options for SIDS and emerging economies in the post-crisis world? I will certainly not have the temerity to answer this question – we want to hear our distinguished guest's views on the subject. – Many do not realize that world has changed – we cannot make same assumptions.

But, the crisis clearly demonstrates that the State has a role to play. Government action can help to expand the policy space available to SIDS and emerging economies to pursue supportive macroeconomic policies while instilling confidence that should limit downward pressures on exchange rates.

In a globalised world, we must act globally.

However, most of the SIDS and emerging economies will need to create fiscal space to address developmental challenges such as meeting infrastructure needs and reducing poverty.

Furthermore, greater use of Public Private Partnerships, if well managed, could potentially allow the public sector to take advantage of private-sector efficiencies.

Governments should also create conditions conducive to the strengthening of governance. Over the last decade, growth theorists and development experts have realized that governance goes a long way in explaining growth.

Ladies and Gentlemen,

I have always been inspired by the theories put forward by Professor Stiglitz to the effect that unfettered markets neither lead to social justice, nor do they produce efficient outcomes.

This is very relevant to the balance that we, in Mauritius, have to strike when it comes to deciding the role of the State and to what extent we will let the market decide.

I am of those who are aware that the real world has long ago departed from the idealized vision of neo-classical economic theory.

I have never been a believer in unbridled free-market policies, <u>or</u> in unregulated financial liberalization or in trickle – down economics.

This is why the underlying principles of my Government's economic policy are economic pragmatism, growth-oriented economic diplomacy and the provision of a strong social umbrella for the more vulnerable amongst our citizens.

I believe that the bottom line of political economy and the right path to a sustainable, equitable, balanced and inclusive growth is human added-value.

Before concluding, let me congratulate the organisers for giving the policy and decision-makers of the country, the opportunity to learn from and to interact with such a prominent personality.

I wish all of you a very fruitful exchange of views.

I thank you for your attention.

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