"IOR-ARC … living up to its promise?"

Remarks by Mr Rundheersing Bheenick, Governor, Bank of Mauritius, at the first IOR-ARC[1] Economic and Business Conference, Mauritius, 4 July 2013.

I am delighted to be here this morning and to reconnect with the IOR-ARC since the days of Kailash Ruhee, the First Secretary General. Our current Secretary General, Shri K. V. Bhagirath, brings a level of energy, enthusiasm and commitment which is strongly reminiscent of the spirit that prevailed when we were laying the foundations of what has turned out to be IOR-ARC today. I still remember the sessions where we had to decide on the name to christen our organisation. Our colleague from Oman at the time, a delegate of the Ministry of Foreign Affairs, suggested "League of Indian Ocean Nations" – or LIONs for short. But LIONs could not compete with Noah's Ark which was the inspiration for IOR-ARC, with its promise of a new beginning. It was a time of great promise which I remember very well.

Whether IOR-ARC has lived up to its promise or not, is a moot point. But that is a subject for another, richer and wider, debate. The theme of our session this morning is much more limited, and the time I have been given to address these issues is even more limited than that. Seven minutes to discuss the potential of the services sector in the Indian Ocean region is a pretty tall order. The services industry englobes a vast array of sectors from Financial Services, which includes banking and investments, all the way to ICT and Tourism. But we should not forget shipping, transport, medicine, education and a whole range of other issues, including construction. So, there is a tremendous wealth of subject matter here. It is so vast that I will do a grave injustice to the subject if I try to cover everything within seven minutes.

One advantage of being the last speaker in a panel is that you can always expect previous speakers to have canvassed some of the issues that you were planning to raise. I have not been disappointed. Which makes my life much simpler. Now, aided as well by the five minutes that I have been given so generously, I can only skim over some of the issues that can be raised in this context.

I will, therefore, focus on just three themes this morning. My first one is "Diversity through Unity". That is, I shall consider briefly how we can unlock the potential for greater cooperation in the region through leveraging our diversity. My second theme would be the "Financial Services Sector as a Key Driver of Growth"; and the third one, "The use of Technology to bring us closer together."

Let me then first address the issue of "Diversity through Unity" and what is the potential there for greater cooperation in the IOR-ARC region.

Our grouping is made up of developed and developing nations with different levels of economic development. However, our region's diversity in terms of resources, technological and economic progress should not be viewed as a sign of a disjointed bloc. Our diversity is in fact a source of strength and resilience. Distance is no hindrance. More than 10,400 kms separate Cape Town and Sydney while more than 6,500 kms separate Mauritius from the northern tip of India. Our region is blessed with a bulging population, an exploding middle-income class, and high-rise cities of the future while our tropical islands are some of the most beautiful in the world. In what other regional bloc do we have

[1] Indian Ocean Rim Association for Regional Integration

members forming part of two of the fastest-growing continents of the planet under a single roof? Unity of purpose can help us plough through our evident diversity and unlock the tremendous potential of the IOR in the services as well as other sectors.

Let me therefore move to my second theme, "The Financial Services Sector as a Key Driver of Growth."

The services sector gained momentum after the cold war. IOR member-states seized the opportunities to capitalize on three burgeoning sectors – Financial Sector, Tourism and ICT. The likes of Maldives, Seychelles, Singapore and Mauritius successfully developed niche markets.

The thinking behind the "Vanilla Islands" concept, a grouping made up of a number of IOR-ARC members such as Seychelles, Madagascar, Reunion, Maldives and, hopefully soon, Sri Lanka and Zanzibar, is that if we can focus our resources together and create a multi-destination brand and the cost-effective packages surrounding that, we can attract more carriers and tour operators to our shores. Of course, we need not poach from each other's existing client base but gear such packages to markets where we have little or no market share to achieve a win-win outcome.

As European banks struggle with building up adequate capital and continue to engage in de-risking, our banks are seizing the opportunity and collecting the low-hanging fruit.

From Dubai to Sydney and in many places in between, many of our member-states have created global financial centers which can rival those of the West.

Over the past decade, increased competition in home markets, coupled with increased linkages amongst various emerging and developed Asian states, have spurred large local banks from countries like Australia, India, Malaysia and Singapore to seek growth opportunities beyond their shores.

- Four of the 50 largest banks in the world are Australian and they are looking to flex their muscles.
- The region of Eastern Africa with its high growth rate, low banking penetration rates and still sky-high interest margins, remains a great land of opportunity for partnerships with existing local banks. Large Kenyan banks such as Kenya Commercial Bank and Equity Bank are also busy expanding in the region from South Sudan to fast-growing Rwanda.
- Nearer home, seven Mauritian banks figure in the list of Africa's Top 100 banks. They have been seeking partnerships to diversify their operations from an already-mature domestic market. They are already in Madagascar, Maldives, Reunion Island and the Seychelles. More recently, they have moved into Kenya, Malawi and Zimbabwe. They are expanding into India and prospecting Bangladesh and Vietnam. I am sure other IOR countries have similar stories to tell. All this augurs well for furthering IOR ties.

Let me move to my third theme, "The use of Technology as a tool to bring us closer together."

Considering our population size and the large geographical distance between IOR states, technology is the key to close the development gap and to bridge distances. To borrow an image from

Friedman, the world is getting flatter. We need to take greater advantage of this and unlock synergies that we could not even dream of a few years ago.

Take Kenya as an example. Its banks and mobile operators have used Western mobile telephone technology to increase their banking penetration rates. M-PESA in Kenya has been a pioneer and enabled millions to bridge the financial divide and join an increasingly connected world. Others, like Equity Bank, have used internet and mobile technology to connect clients in remote villages and towns through agency banking, one of the fastest growing segments of the bank.

The larger South African banks like Standard Bank and Investec have gone global since quite some time. Smaller-and medium-sized African banks, eager to gain market share, are potential partners for IOR banks from other regions looking to add Africa to their investment portfolios.

The fact that this is the first IOR-ARC Business Conference in more than 10 years is itself an indication that we have not even begun to scratch the surface when it comes to unlocking the potential of the services sector as a bloc. Our biggest weakness is the fact that we have not exploited our resources better as we have been pulling in different directions.

The Indian Ocean will shrink and become a pond, just as the North Atlantic has done. We must make better use of it, come closer together, find synergies through partnerships, and use our emerging financial sectors as leverage for greater cooperation for mutual benefit.

There is a great window of opportunity before us as the world emerges from the global economic crisis, hopefully in a not too distant future. You can be sure that, post-crisis, we will be confronted with a rather different economic landscape than the one we have become used to since World War II. The centre of economic gravity is changing from North America and Western Europe to the East and the South – to the awakening giants in Asia, − that some have called CHINDIA − and to the African continent where major resource discoveries hold out prospects for rapid growth. At the peak of the crisis, the “de-coupling” theory saw the BRICS and CHINDIA as the saviour to lift the global economy out of recession. Be that as it may, global rebalancing is here to stay. Aren’t we lucky that two of the BRICS are in our membership? This is the opportunity that beckons. This is the challenge for decision-makers and policy-makers working on the regional integration agenda.

For the IOR-ARC member-states to really really unlock the potential of the services sector, we must walk the talk. This can only happen if we genuinely believe that the potential benefits from working together outstrip the potential costs. Only then will the IOR-ARC truly emerge as a viable economic grouping in the new world order. Only then will it live up to the rich promise that it held at the time of its creation.