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127

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Mauritius' Free Trade Agreement with China: Lessons and Implications for Africa

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Executive summary

The Mauritius–China Free Trade Agreement, signed in 2019, was Beijing's first with an African country. This raises a number of questions as to the nature of a small country's trade relationship with this Asian giant and how China may influence the African Continental Free Trade Area. This paper argues that Mauritius is an unlikely partner for a free trade agreement with China. It lacks resources, including labour, and has both a tiny domestic market and a remote location. Moreover, the benefits of the free trade agreement to Mauritius will be limited and biased in China's favour. Mauritius' exports to and investment in China are virtually non-existent. While the free trade agreement will afford various Mauritian products duty-free access, it appears that the chances of Mauritian exporters penetrating the Chinese market are slim. Thus, the agreement may simply inflate the already-large trade deficit that Mauritius has with China. In addition, the likelihood of attracting more Chinese FDI to Mauritius, other than in real estate, is also small given the country's narrow manufacturing base.

Against this backdrop, this paper argues that it may in fact be strategic and geopolitical interests that are driving China's interest in Mauritius. The paper also examines the potential impact of the Mauritius–China Free Trade Agreement on the African Continental Free Trade Area. A conclusion reached is that there is limited danger of Mauritius' trade being deflected away from Africa towards China because of the low levels of competition between Africa and China for the Mauritian market or Mauritian exports. However, in view of China's pattern of engagement with Africa, a very different story may unfold if China set out to replicate the Mauritius–China Free Trade Agreement with other African countries or with the African Continental Free Trade Area as a whole.

Introduction

The Mauritius–China Free Trade Agreement (MCFTA), signed in October 2019, entered into force on January 1, 2021. In theory, it represents a major opportunity for Mauritian exporters and investors to penetrate the large yet elusive Chinese market. In practice, Mauritius' exports to China are negligible. Survey findings suggest that exporters have a fear of the Chinese market since they lack the capacity to meet demand on a sufficient scale. If this does not change, the FTA will do little to redress the trade imbalance between the two countries.

Yet it is doubtful that the accord was driven by purely economic imperatives. Political-economy considerations are likely to have eclipsed any economic rationale, especially for a small country like Mauritius, which coincidentally also signed a Comprehensive Economic Cooperation and Partnership Agreement (CECPA) with India in February 2021, just one month after the China trade pact came into effect. These events can hardly be dismissed as mere coincidence. Mauritius, it seems, has become the unfortunate battlefield on which the war for economic supremacy between India and China is being fought.[1]

China's choice of Mauritius as the first African country with which to sign a trade pact is hardly surprising. China is known to start off on a small, experimental scale and then progressively build up, expand and replicate. This was the approach China adopted when building special economic zones (SEZs) at home, initially in the province of Shenzhen. It also explains why China picked New Zealand – a relatively small country – in 2008 for its very first FTA with a developed country. The same model was used to pilot SEZs outside of China, and once again, Mauritius was chosen to host the first SEZ in Africa in 2006. However, 15 years on, the much-vaunted SEZ is yet to see the light of day – a far cry from the original blueprint. Will the MCFTA suffer a similar fate?

It is worth noting that trading under the African Continental Free Trade Area (AfCFTA) started on the same day that the MCFTA became operational. Mauritius has burgeoning trade relations with Africa, and the AfCFTA agreement could further boost trade and investment with the continent. Will the trade agreement with China interfere with Mauritius' trade with Africa? With Mauritius positioning itself as a 'gateway to Africa', does the MCFTA presage China's desire to negotiate a similar trade deal at the continental level? In that case, what will become of the AfCFTA and its goal of accelerating intra-Africa trade?

China in Mauritius: Historical background and recent developments

Prior to the signing of their FTA, Mauritius and China had signed several other agreements in the areas of economic and technical cooperation, double taxation (1994) and investment promotion (1996). The start of the new millennium saw a sharp increase in diplomatic activity between the two countries, with a flurry of agreements signed in areas ranging from infrastructure development to labour protection. Notably, the Chinese government pledged to invest some $500 million in the first-ever special economic zone (SEZ) outside mainland China in 2006.[2]

Initially conceived as an integrated industrial park featuring a range of high value-added industries, the Jin Fei Economic and Trade Cooperation Zone (ETCZ) has been transformed into a real estate project, featuring a smart city designed to serve as a regional headquarters for Chinese firms doing business in Africa.[3] In this form, the project will not have the

1 Vinaye Dey Ancharaz, 'China's Challenge to India's Economic Hegemony over Mauritius: A Tale of Two Giants and a Pigmy,' *Journal of African Development*, Vol. 13(2) (Spring 2011).

2 Vinaye Dey Ancharaz, 'David v. Goliath: Mauritius Facing up to China,' *European Journal of Development Research*, Volume 21(4) (August 2009).

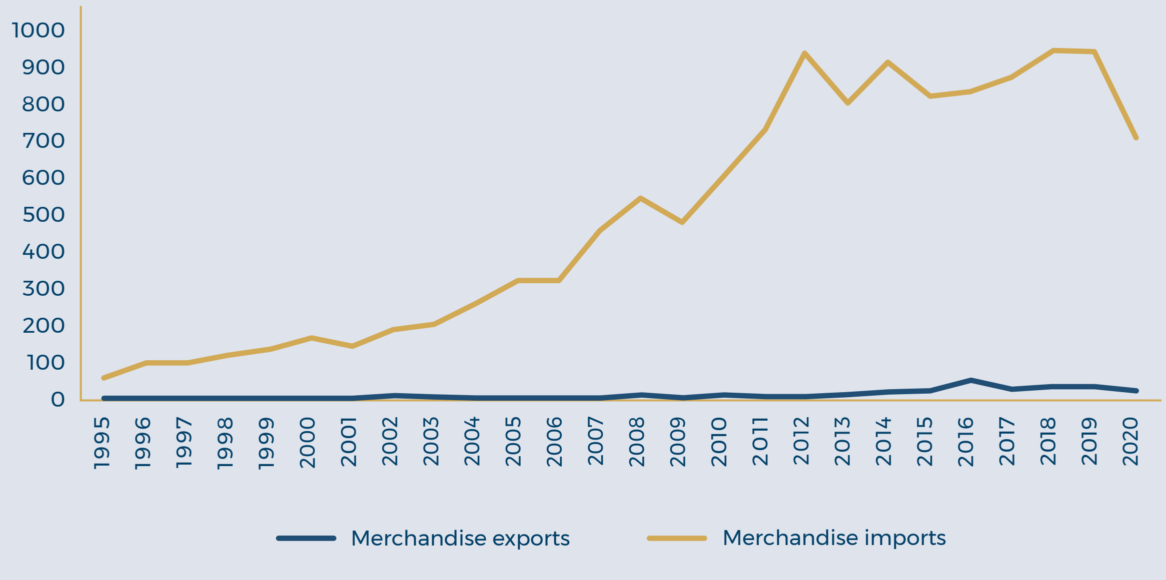
3 Government of Mauritius, 'Mauritius Jinfei zone to further consolidate ties between Mauritius and China,' November 25, 2019, http://www.govmu.org/English/News/Pages/Mauritius-Jinfei-zone-to-further-consolidate-ties-between-Mauritius-and-China.aspx.

expected impact in terms of industrial diversification, export development and job creation; nor will it create significant linkages with the economy.[4] In the meantime, China's SEZ strategy has expanded to other African countries, driven by the search for markets and for natural resources, and for the development of Chinese logistics on the continent.[5] Mauritius does not offer any of these advantages on a significant scale, which supports the view that China's decision was motivated more by geopolitical and political considerations than purely economic ones.[6]

Lopsided trade

Trade between Mauritius and China is overwhelmingly in favour of the latter (Figure 1). Merchandise imports from China have increased steadily over the years, reaching a peak of $936 million in 2018/2019. While Chinese imports plunged in the pandemic year of 2020, China remains the largest supplier to the Mauritian market, ahead of India and South Africa. Given current trends, Mauritius' imports from China are poised to surpass those from the whole of Europe. China's ubiquitous presence in Mauritius is evident in the abundance of Chinese goods in retail outlets across the country, its price supremacy over local producers and the significant threat that it poses to traditional industries like footwear and furniture.

Figure 1 Mauritius' merchandise trade with China, 1995–2020 ($ million)



Source: Authors using data from UN COMTRADE (https://comtrade.un.org/)

4 Vinaye Dey Ancharaz and Baboo Nowbutsing, 'Are Chinese economic zones in Africa development-oriented? Insights from a case study of the Jin Fei Zone in Mauritius,' *Trade Negotiation Insights*, 3(10) (2011): 12–13.

5 Ana Cristina Alves, 'Chinese Economic and Trade Cooperation Zones in Africa: The Case of Mauritius' (Occasional Paper No. 74, South African Institute of International Affairs, Johannesburg, January 2011).

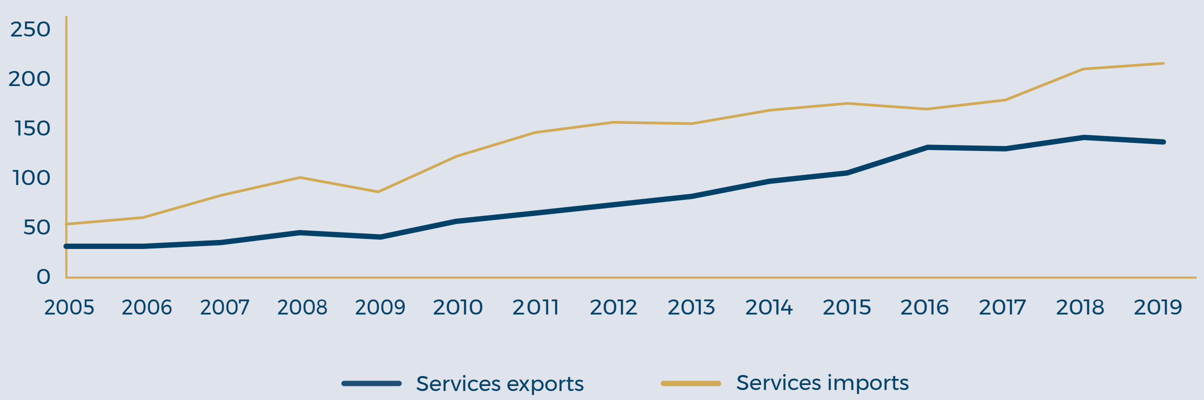
6 Ana Cristina Alves, 'Chinese Economic and Trade.'

Conversely, merchandise exports to China languished at less than $10 million per year on average over the two decades up to 2015. Despite a small uptick since then, the gap between exports and imports remains glaring by any standard. In 2020, China accounted for 16.6% of Mauritius' imports but absorbed a mere 1.5% of its exports. Notably, Mauritius imported 30 times more than it exported to China, and China alone was responsible for over one-quarter of Mauritius' total trade deficit.

> China remains the largest supplier to the Mauritian market, ahead of India and South Africa. Given current trends, Mauritius' imports from China are poised to surpass those from the whole of Europe

China's dominance also extends to services trade, an area in which Mauritius has historically registered a surplus. Yet, with respect to services trade with China, Mauritius showed a deficit throughout the period 2005–2019 which, since 2016, has widened even more (Figure 2).

Figure 2 Mauritius' services trade with China, 2005–2019 ($ million)

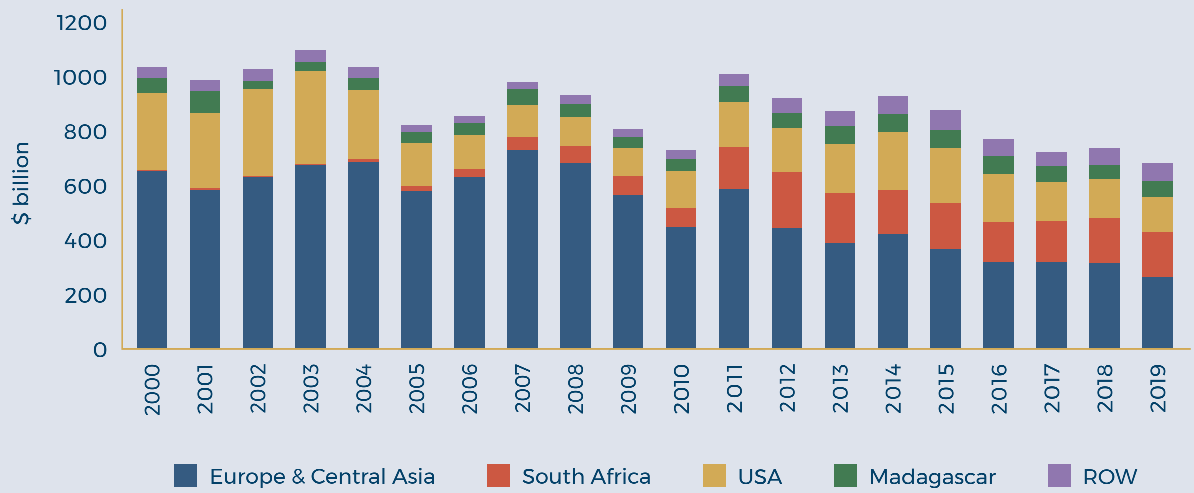


Source: Authors using data from UN COMTRADE (https://comtrade.un.org/)

China may also have compromised Mauritius' trade in other ways. No sector has been more affected than textile and clothing (T&C). Clothing exports represented 69% of Mauritius' merchandise exports in 2000, but the share had plunged to 36.1% by 2019. There were fears that the phasing out of the Multifibre Agreement by the end of 2004 would decimate the clothing industry in less competitive countries.[7] In practice, the impacts turned out to be milder than expected.[8] In Mauritius, clothing exports contracted by 22.4% between 2003 and 2005 but bounced back after 2005 to reach a peak in 2007, suggesting that 'China could not be held responsible for the earlier setback'.[9]

However, an extra decade of data sheds new light on the real impacts of China. Mauritius' apparel exports declined by more than 34% between 2000 and 2019, with 30.3% of that loss occurring after 2007. While it was expected that the sharpest decline would be seen in exports to the US, where Chinese competition is arguably most acute, it turns out that Mauritius lost the most in its traditional European market, where exports dropped by almost 60% over the two decades in question. Had it not been for some degree of market diversification, with South Africa and Madagascar absorbing bigger volumes of Mauritius' exports, the decline would have been more dramatic (Figure 3). China's T&C exports, in turn, doubled during this period. Yet, to Europe, exports grew almost nine-fold.[10] This suggests that China had out-competed Mauritius in its traditional markets, condemning the domestic clothing industry to an inevitable decline.

Figure 3 Mauritius' textile and clothing exports, 2000–2019



Source: Authors, using data from the World Integrated Trade Solution (WITS) database (https://wits.worldbank.org/)

7 Aaditya Mattoo, Devesh Roy and Arvind Subramanian, 'The Africa Growth and Opportunity Act and its Rules of Origin: Generosity Undermined?' (Policy Research Working Paper WPS 2908, World Bank, 2002).

8 Raphael Kaplinsky and Mike Morris, 'Dangling by a Thread: How Sharp Are the Chinese Scissors?' (Brighton: Institute of Development Studies, 2006).

9 Vinaye Dey Ancharaz and Verena Tandrayen-Ragoobur, 'The Impact of China–Africa Trade Relations: The Case of Mauritius' (AERC Policy Brief Issue No. 7, AERC, November 2010), 56.

10 Europe includes Central Asia. All data on T&C exports are from the World Integrated Trade Solution (WITS) database, https://wits.worldbank.org/.

Tied aid, mounting debt

China's practice of providing aid to Mauritius is as old as China–Mauritius relations. Such aid has typically been interest-free or on a grant basis[11] and before 2009 involved relatively small amounts. Chinese aid-funded projects are often confused with Chinese investment undertakings. However, infrastructure projects financed by China are not investment projects because, typically, they do not extend any measure of ownership and control to the Chinese government (except perhaps in cases of default). They are tied aid projects, with reduced multiplier effects to the host economy during the construction phase. The use of Chinese contractors and workers as well as equipment and building materials imported from China means that much of the aid eventually finds its way back to China. In Mauritius, infrastructure projects of all kinds, both large and small, have been financed by China and executed by Chinese contractors. The availability of 'easy' finance from China has encouraged the present-day government to borrow excessively, pushing the national debt above 100% of GDP, with attendant long-term consequences.

The MCFTA and its potential impacts

Of giants and pigmies

China has signed 17 FTAs since joining the WTO in 2001, with several more in the negotiation pipeline or under consideration. While China's earlier FTAs were with small countries, more recent agreements have involved larger countries or regions. The Regional Comprehensive Economic Partnership (RCEP), concluded in November 2020, is by far the largest trade agreement to which China is a signatory. The latest FTA with Mauritius, however, seems to deviate from this trend. Mauritius is a small country by any measure, and if China's FTAs have been motivated by a need to reconquer markets and boost export growth,[12] then Mauritius is an unlikely candidate.

We can only speculate as to the true reasons behind China's desire to conclude a trade agreement with Mauritius. One reason could be that Mauritius has positioned itself strategically as a 'gateway to Africa' – a metaphor coined and exploited by local policymakers to attract foreign investors to the island. The island also purports to offer 'all of the key ingredients for investor confidence'.[13] In Africa, Mauritius is a member of SADC, COMESA and the IOC. It is also party to the AfCFTA and began trading under the terms of the AfCFTA agreement on January 1, 2021.

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11 However, Chinese DFIs (for example, the China Eximbank and the China–Africa Development Fund) have provided much bigger loans, usually on concessional terms.

12 John Whalley and Chunding Li, 'China's regional and bilateral agreements,' *Vox*, March 5, 2014, https://voxeu.org/article/china-s-regional-and-bilateral-trade-agreements.

13 Jean-Claude Bastos de Morais, 'Could Mauritius be the new African hub?', World Economic Forum, July 19, 2016, https://www.weforum.org/agenda/2016/07/could-mauritius-be-the-new-african-hub/.

Another possible reason is that the reconfiguration of the Jin Fei industrial zone into a regional headquarters for Chinese businesses operating in Africa portends that China expects to see a substantial increase in its operations on the continent. China can set up a base in Mauritius – not in manufacturing as such but in services – to export to Africa on preferential terms under the AfCFTA.[14] Market penetration is not an issue for China since shops in Africa are already awash with Chinese goods. A more strategic goal for Chinese exporters would be to use the African market to experiment with new brands as they seek to move upmarket, give the 'Made in China' label a stronger foothold, and relocate their value chains in the face of higher cost pressures at home.[15]

A third reason could be geopolitical. Lying at the crossroads of South-East and East Asia, Africa and the Middle East, Mauritius occupies a coveted position in the Indian Ocean. It boasts an exclusive economic zone of 2.3 million km^2, more than a 1000 times the country's land mass, which is rich in marine resources and (potentially) offshore oil. Most of the world's superpowers are vying for control over the Indian Ocean, and several have already established a military or strategic presence in the region.[16] The US operates an aero-naval base on the island of Diego Garcia in the Chagos Archipelago, and there are widespread allegations that India is building a military facility on another island (Agalega) belonging to Mauritius.[17] China set up its first military facility in Djibouti in 2017 and its 'larger maritime ambitions' have become a 'source of shared anxiety' for the other key powers in the region.[18] China could be eyeing an opportunity in Mauritius to reinforce its military prowess. The MCFTA, then, can be viewed as a strategic response by the Chinese government to the AfCFTA; an opportunity to extend the Belt and Road initiative and deepen its influence in the Indian Ocean and in Africa.[19]

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Mauritius is caught up in a power game between China and India. The two giants have been rolling out tit-for-tat strategies as they vie to maintain economic hegemony over tiny

14 Chris Devonshire-Ellis, 'Why the China-Mauritius free trade agreement opens up the African Belt and Road, Silk Road Briefing, January 5, 2021, https://www.silkroadbriefing.com/news/2021/01/05/why-the-china-mauritius-free-trade-agreement-opens-up-the-african-belt-and-road/.

15 Video of Carlos Lopez's interview imbedded in: CNBC Africa, 'How the AfCFTA impacts China-Africa trade relations,' February 18, 2021, https://www.cnbcafrica.com/2021/how-the-afcfta-impacts-china-africa-trade-relations/.

16 Darshana M. Baruah, 'What is happening in the Indian Ocean?' Carnegie Endowment for International Peace, March 3, 2021, https://carnegieendowment.org/2021/03/03/what-is-happening-in-indian-ocean-pub-83948.

17 Leaza Jernberg, Timothy Walker, and Denys Reva, 'Naval-gazing in the Indian Ocean: Why Africa should worry,' Institute for Security Studies, August 25, 2021, https://issafrica.org/iss-today/naval-gazing-in-the-indian-ocean-why-africa-should-worry.

18 Darshana M. Baruah, 'What is happening.'

19 Chris Devonshire-Ellis, 'Why the China-Mauritius.'

Mauritius.[20] Thus, it is hardly surprising that India urgently sent its Minister of External Affairs to Mauritius in February 2021 to sign the CECPA along with a slew of other agreements in response to the MCFTA coming into effect on January 1, 2021. China will inevitably respond with bigger 'development projects' – to the delight of the government, which has not missed an opportunity to praise the 'generosity' of Mauritius' friends.

Salient features of the MCFTA

The MCFTA embraces the spirit of modern-day, deep integration arrangements. It goes beyond the traditional, narrow focus on trade in goods to encompass services, investment, competition, intellectual property rights (IPR) and e-commerce. The agreement includes a chapter on economic cooperation, which is likened to Economic Partnership Agreements (EPAs).

The text makes frequent references to relevant WTO agreements, with which the agreement claims to be fully compliant. Conversely, the 'WTO-plus issues' – notably, competition, IPR and e-commerce – have received little coverage in the text. The agreement is focused mainly on trade in goods, trade in services, and investment, which makes it largely indistinguishable from a conventional FTA. The chapter on investment takes up one-third of the main text, testifying to the importance that the two countries attach to this topic. It also delves heavily into disputes, making one wonder whether the parties – or perhaps just Mauritius – expect disputes to be more likely in this context than in others.

The FTA envisages immediate liberalisation of some 96% of trade on each side. Mauritius is expected to benefit from immediate duty-free access to the Chinese market on 7,500 tariff lines, with a further 723 tariff lines slated to be progressively liberalised over a maximum period of seven years

Regarding trade in goods, the FTA envisages immediate liberalisation of some 96% of trade on each side. Mauritius is expected to benefit from immediate duty-free access to the Chinese market on 7,500 tariff lines, with a further 723 tariff lines slated to be progressively liberalised over a maximum period of seven years. Excluded products account for 3.6% of tariff lines and include products of export interest to Mauritius, such as green tea, woollen and cotton fabrics, and machines. A tariff rate quota (TRQ) of 50,000 tons of Mauritian sugar is touted as another major attraction of the deal.

20 Vinaye Dey Ancharaz, 'China's Challenge to India's Economic Hegemony.'

Mauritius, for its part, has committed to liberalising 94.2% of its tariff lines within five years. Tariffs will be phased down from 30% to 15% and from 15% to 10%, which will also apply to products such as tea, rum and spirits, and furniture that compete directly with local industries.

With respect to services, Mauritius and China have agreed to remove restrictions in more than 100 service sectors, including some sectors in which Mauritius has an offensive interest (eg., financial services, professional services, education and tourism). As a services-oriented economy, Mauritius already has a fairly liberal services trade regime. However, the agreement opens up new sectors to Chinese service providers. In return, it allows Mauritians to establish businesses in China as wholly owned entities or as joint ventures with Chinese operators. The chapter includes an annex on traditional Chinese medicine (TCM), calling on both parties to strengthen cooperation in this sector even though, in practice, China will be the major beneficiary. Regarding Mode 4 (movement of natural persons), the chapter exhorts professional bodies to implement processes for the mutual recognition of qualifications and experience. It is notable that the chapter does not apply to government procurement.

Potential impacts: (1) Trade in goods

The government of Mauritius is optimistic about the MCFTA, publicising it as a major opportunity for Mauritian exporters and service providers to gain a foothold in the Chinese market. In particular, the Economic Development Board (EDB) of Mauritius, which operates as a one-stop shop for investment and export promotion, is confident that goods of export interest to Mauritius, such as seafood products, rum and spirits, animal feed, soaps and detergents, garments and medical devices, could benefit from preferential tariffs in China – this in addition to the 'generous' TRQ on sugar. In the services sector, Mauritius could leverage its reputation as an international financial centre to attract Chinese companies wishing to do business in Africa (and elsewhere) to set up their regional headquarters and/or register in Mauritius, thereby taking advantage of the country's low taxes and extensive network of tax avoidance treaties and investment promotion and protection agreements. Mauritius could also position itself as a Renminbi (RMB) clearing hub for the region. Beyond financial services, the ICT sector and professional services are well placed to profit from improved market access to China.

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The economy could also benefit from Chinese investment in sectors with high growth potential but weak capacity at present. Artificial intelligence and robotics, the digital economy, video conferencing facilities, ICT, pharmaceuticals and traditional medicine have specifically been singled out. The government has also welcomed the special attention that the agreement gives to economic cooperation and expects to receive further aid and technical assistance in several priority sectors, including agriculture and food security, health, social housing and air transport.

Given current trends, tariff cuts under the MCFTA are likely to cause Mauritius' imports from China to swell but it will take time for exporters to respond to the opportunities offered by the new trade regime

The above-mentioned benefits of the MCFTA are, however, mere expectations and wishes. Even where export potential exists, there is no guarantee that it will be materialise. The bilateral trade data is unequivocal: Mauritius has hardly made its presence felt in the Chinese market so far. Imports from China are close to the USD 1 billion mark whereas exports to China slid to $23.7 million in 2020. Given current trends, tariff cuts under the MCFTA are likely to cause Mauritius' imports from China to swell but it will take time for exporters to respond to the opportunities offered by the new trade regime. Survey findings suggest that Mauritian exporters have a fear of dealing with China because of the sheer size of the Chinese market. They worry about their capacity to meet export volume requirements.[21]

The MCFTA has been in force for just one year – too short a period to allow any meaningful assessment of its impacts. Consequently, much of the information available on this subject consists of observers' views rather than analytical insights. These 'observers' comprise stakeholders who have an interest in the MCFTA and independent experts whose opinions may be regarded as more objective. Not surprisingly, the former tend to have a more favourable view of the MCFTA, flaunting its benefits to both parties, especially to Mauritius. The EDB, for example, has published a long list of Chinese import products that could be supplied by Mauritius at a preference margin.[22] Table 1 provides a summary.

21 Vinaye Dey Ancharaz, 'David v. Goliath.'

22 Economic Development Board of Mauritius, 'Workshop: Mauritius–China Free Trade Agreement: Shaping Future Economic Perspectives,' March 2, 2021, https://www.edbmauritius.org/newsroom/workshop-mauritius-china-fta-themed-shaping-future-economic-perspectives

TABLE 1 TOP 10 PRODUCTS OF EXPORT INTEREST TO MAURITIUS UNDER THE MCFTA	
Product	**Preference margin**
Fish and fish products	10%
Black tea	15%
Rum and spirits	10%
Flour, meals, pellets of fish	2%
Soap and related products	9%–15%
Handbags	10%
Articles of apparel	14%–16%
Sunglasses	20%
Medical devices	3.3%–4%
Watch straps (non-metallic)	14%

Note: Products are in order of HS code, not priority

Source: Authors' compilation based on Mauritius Economic Development Board data, 2021 (https://www.edbmauritius.org/)

The stakeholders' optimism should be taken with a pinch of salt, however, as the EDB's back-of-envelope analysis is flawed on several counts. First, the preference margins in Table 1 are relatively small and are likely to shrink further as China continues to liberalise multilaterally. On January 1, 2022, China reduced tariffs on 954 products and will further trim MFN, or most favoured nation, tariff rates on 62 IT products on July 1, 2022.[23] Such tariff liberalisation will erode any competitive edge afforded by the MCFTA.

Second, for each of the products in Table 1, the EDB identifies the main countries currently exporting to China. Many of these countries themselves have FTAs with the Asian giant. For example, South Korea is among the major exporters of fish fillet and tuna to China, Japan is a key exporter of medical devices and Vietnam is big in clothing exports. All these countries are, along with China, members of the RCEP and benefit from preferential tariffs. It will be quite difficult for Mauritius to compete with them. Indeed, competitiveness is the third factor that Mauritian stakeholders seem to ignore.[24]

Fourth, several of the products (eg, black tea, rum, soap, sunglasses) that are eligible for duty-free access into China under the MCFTA are neither among Mauritius' top exports to the world nor among its main exports to China (Table 2). They may be emerging exports, and so it is naïve to assume that, even if the potential to export to China exists, it will automatically translate into actual exports. This is confirmed to some degree by the Export Similarity Index (ESI) and Trade Complementarity Index (TCI) shown in Table 3. The ESI is low and has shown a declining trend since 2018. This suggests that Mauritian and Chinese

23 China Briefing, 'China lowers tariffs on 954 products from January 1, 2022,' December 17, 2021, https://www.china-briefing.com/news/china-lowers-tariffs-on-954-products-from-january-1-2022/.

24 Mauritius moved from 39th position in 2015 to 52nd in 2019 on the Global Competitiveness Index, trailing behind many of the countries vying for a share of the Chinese market.

exports, which were fairly dissimilar to begin with, have become more divergent over time. While the two countries' very different export structures may offer good potential for them to export to each other, the TCI says otherwise. The low level of the index suggests weak complementarity between the products that Mauritius exports and those that China imports. This could be because China is a competitive producer of a wide range of goods, including many that Mauritius exports.

TABLE 2 MAURITIUS' TOP EXPORT PRODUCTS TO THE WORLD AND TO CHINA IN 2020

World	China
Prepared or preserved fish	Refined copper and billets
Cane sugar	Frozen fish
Articles of apparel	Articles of apparel
Frozen fish	Uncombed single cotton yarn
Diamonds	Flours, meals and pellets, of meat or fish
Live animals	Photosensitive semiconductors
Medical instruments and appliances	Trunks, cases, bags and containers
Medicaments	Aluminum alloys and related products
Plastic articles for packing of goods	Cane sugar
Flours, meal and pellets, of meat or fish	Green tea

Source: Authors' calculations based on data from UN COMTRADE (https://comtrade.un.org/)

TABLE 3 MAURITIUS–CHINA EXPORT SIMILARITY & TRADE COMPLEMENTARITY INDICES

Year	Export Similarity Index	Trade Complementarity Index
2015	21.3	22.1
2016	18.6	28.6
2017	15.6	29.1
2018	17.2	30.0
2019	16.1	32.0
2020	11.0	31.5

Source: Authors' calculations based on data from UN COMTRADE (https://comtrade.un.org/)

One product in which Mauritius has a natural advantage is sugar. Sugar is Mauritius' second biggest export and, as a 'wholly produced' good, it automatically meets the rules-of-origin requirements for export under the MCFTA. For this reason, the TRQ of 50,000 tons of sugar at an in-quota tariff rate of 15% (instead of 50%) is lauded as a key achievement of the negotiations underpinning the MCFTA. Yet, once again, the data offers little cause for celebration. Sugar production is influenced by many factors and Table 4 shows that since 2015, local output has been on a downward path. In 2020, Mauritius' sugar production fell short of the required export volume by more than 85,000 tons, which the country made good through imports. Against this backdrop, it is doubtful whether the TRQ of 50,000 tons of sugar exports to China can be met. Also, will such exports be sold at a competitive price relative to Mauritius' traditional sugar market, notably the EU?

TABLE 4 MAURITIUS SUGAR PRODUCTION AND EXPORTS, 2017–2020

Year	Local sugar production (tons)	Sugar exports (tons)			Surplus/Deficit (-) (tons)
		EU	Rest of world	Total	
2017	355,213	169,100	176,109	345,209	10,004
2018	323,406	232,735	132,987	365,722	-42,316
2019	331,105	260,046	93,181	353,227	-22,122
2020	270,875	224,561	132,056	356,617	-85,742

Source: Mauritius Sugar Syndicate and authors' calculations

In the light of the above, it seems more appropriate to support the experts' view that the MCFTA may benefit China more than Mauritius – at least in terms of merchandise trade.[25]

Potential impacts: (2) Trade in services

China is a net importer of commercial services. In 2018, China's services imports crossed the half-a-trillion-dollar mark and the invisible trade deficit soared to $255.5 billion. While the pandemic has taken a toll on services trade, the deficit, albeit smaller, continues. Mauritius, in contrast, is a services-driven economy. Services exports, which are dominated by travel and tourism, made up over 70% of total exports in 2019/2020. Given the country's competitive advantage in the services sector, Mauritius is hopeful that the MCFTA will unlock new opportunities to export to China. This expectation is a legitimate one since China's services trade regime is notoriously restrictive.

With a score of 0.42 on the OECD Services Trade Restrictiveness Index (STRI), China ranks as the fifth most restrictive economy in the world. Among the sectors with the highest STRI are accounting services (0.727), broadcasting (0.671), telecommunications (0.667) and legal services (0.478).[26] Conversely, banking, insurance and computer services are relatively open to trade. These are the very sectors in which Mauritian service providers hope to make a dash to the Chinese market, aided by enhanced access and preferential treatment.

However, that is easier said than done. Although Mauritius' services exports to China are much bigger than its merchandise exports, China is one of the rare countries with which Mauritius has a deficit in both goods and services trade. Faced with such adverse conditions, it will be a challenge for Mauritius to grow its services exports to China to the

25 TRTWorld, 'China-Mauritius FTA goes into effect. But who benefits?' January 4, 2021, https://www.trtworld.com/magazine/china-mauritius-fta-goes-into-effect-but-who-benefits-42954.

26 Organisation for Economic Co-operation and Development, 'Services Trade Restrictiveness Index,' n/d, https://stats.oecd.org/Index.aspx?DataSetCode=STRI.

extent that it will rectify the deficit on the services account (at least in the foreseeable future) – more so because the preferential treatment promised by the MCFTA may be diluted by stricter conditions imposed by China's other regional trading arrangements, notably the RCEP. For example, insurance service providers in the RCEP region can establish operations in another member country without any restriction whatsoever, whereas there is a 51% foreign ownership requirement for Mauritian firms in a joint venture with a Chinese partner.[27] Fortunately, there is no preference margin for RCEP firms in other service sectors of potential interest to Mauritius. Of these, banking services appear to be a promising route under Mode 3 (commercial presence). The Bank of China was, via an exception, granted a licence to operate in Mauritius in 2016. The government of Mauritius can negotiate a reciprocal 'favour' for a local bank to be set up in China. However, the power dynamics in any negotiation with the Chinese are arguably biased in the latter's favour. For a small country like Mauritius, MCFTA or not, the danger is that China could wangle a far better deal for itself at the expense of its weaker partner.

It will be a challenge for Mauritius to grow its services exports to China to the extent that it will rectify the deficit on the services account (at least in the foreseeable future)

Potential impacts: (3) Investment

The EDB has identified a series of products in which Mauritius could build production capacity by attracting investment from China with a view to eventually exporting the same to China under the MCFTA. Products like LCD panels, medicaments, integrated circuits, cosmetics, chemical products and motor vehicle parts have long been on the government's radar as part of an industrial push towards light manufacturing, which has become more urgent in the face of the ongoing decline of the clothing industry.

However, the MCFTA brings only marginal improvements to Mauritius' already open and flexible investment regime. Therefore, if the Chinese did not invest in light industry before – including in the original Jin Fei project, which was conceived as an industrial zone but ultimately evolved into a real estate venture – why would they do so now? The fact is that constantly rising real wages have eroded Mauritius' cost-based comparative advantage in labour-intensive manufacturing. Moreover, the introduction of a national minimum salary in January 2018 (now at MUR[28] 11,075, or $260 at current exchange rates) came as a coup

27 Trade Economics, 'The Mauritius-China Free Trade Agreement: An analysis for trade in services opportunities,' August 17, 2021, https://www.tradeeconomics.com/the-mauritius-china-free-trade-agreement-an-analysis-for-trade-in-services-opportunities/. This restriction applies only to the first three years.

28 Currency code for Mauritian rupee.

de grace. Labour is in short supply, forcing businesses to hire foreign workers, and the country does not have any natural resources.

These conditions mean that the manufacturing base in Mauritius is narrow and unattractive for FDI. Not surprisingly, the bulk of FDI in recent years (80% in the first quarter of 2021) has flowed into property development. This trend is likely to continue as the smart city and the Chinese regional headquarters in the Jin Fei zone take shape and as Mauritius attracts further investment from China into the real estate market under the MCFTA. The economic value of such investment is dubious in an economy that banks on innovation and seeks to develop new growth poles. If anything, it has led to a speculative bubble, with property prices soaring out of reach of the median income earner.

The MCFTA could be more beneficial to Mauritian investors since it opens up new pathways in the hitherto-closed Chinese investment regime. Whether this will translate into real opportunities and whether Mauritian investors will be able to take advantage of them remains to be seen. If data were a guide, over 62% of Mauritius' outward FDI over the past five years has gone to Africa, mostly into manufacturing as Mauritian factories have relocated to the region. Conversely, China has received virtually no FDI from Mauritius in recent years. Will the MCFTA reverse this trend?

Conclusion: MCFTA–AfCFTA interactions

The MCFTA came into effect on the same day – January 1, 2021 – that trading under the AfCFTA commenced. Multiple, sometimes-overlapping, memberships of FTAs create many implementation challenges, and Mauritius is no stranger to this. Mauritian exporters will have to comply with rules of origin specific to each FTA; importers will have to keep track of applicable customs duties, if any; and service providers and investors will have to navigate new layers of legal and cultural complexity.

However, although the AfCFTA aspires to be a deep integration agreement, much like the MCFTA, it is not there yet. So far, only negotiations on goods, services, dispute settlement and a side agreement on movement of persons have been concluded. Moreover, while the Protocol on Trade in Goods is already in operation, critical elements, such as schedules of concessions and rules of origin, still require ironing out. The second phase of the negotiations, focused on investment, competition policy, IPR and e-commerce, was slated to be completed by the end of 2020, but this deadline has had to be pushed out due to the pandemic.

While the start of trading under the AfCFTA was welcomed with great enthusiasm in Accra and elsewhere, it hardly made any noise in Mauritius. Yet Mauritius has every reason to celebrate the AfCFTA. Africa is a key market for Mauritian exports and trade with the continent is more balanced. Moreover, Mauritius runs a trade surplus on its services account with Africa, in contrast to the large trade deficit on its services account with China. Finally, while Mauritius' outward investment in China is non-existent, bilateral FDI with Africa flows in both directions – even if Mauritius is a net recipient of FDI from Africa.

> Africa is a key market for Mauritian exports and trade with the continent is more balanced. Moreover, Mauritius runs a trade surplus on its services account with Africa, in contrast to the large trade deficit on its services account with China

There is one area, though, where Mauritius' engagement with China is more beneficial than that with Africa – aid. The relentless flow of grants and concessional financing from China, especially over the last decade, has encouraged the Mauritian authorities to turn a blind eye to the otherwise-lopsided economic relationship with the giant. The inclusion of a chapter dedicated to economic cooperation in the MCFTA seems to accentuate this. The Mauritian government has heaped praise on China for this initiative, with the associated euphoria drowning out any concerns about growing Chinese dominance in the country.

Finally, it is useful to explore whether the MCFTA presents any risk of Mauritius' trade with Africa under the AfCFTA being diverted in favour of China. Although both FTAs are being implemented in parallel, the MCFTA seems to have had a head start since it is complete and, as a bilateral agreement, easier to implement. Moreover, it is conceivable that the Chinese would make aid promised under the agreement conditional upon the latter's effective implementation. In contrast, there is no mechanism to sanction poor implementation of the AfCFTA.

Trade data suggests that there is little competition between Africa and China either for the Mauritian market or for Mauritian goods. Mauritius' imports from Africa are mainly agricultural and mineral products while imports from China are concentrated in electronic products and construction materials. Similarly, while Africa is an established market for Mauritian exports, exports to China form a tiny part of Mauritius' top exports; only clothing and sugar exports are common to both. Moreover, exports to China are fickle. On the whole, evidence suggests that there is little risk of the MCFTA deflecting Mauritius' trade away from Africa towards China.

More broadly, the MCFTA raises the question: does Mauritius represent a laboratory in which China experiments with prototypes before implementing them on a wide scale in Africa? One is tempted to ask this question in view of the recent history of China's engagement in Mauritius. China developed the first SEZ outside its borders in Mauritius in 2006. Even though the project failed – and was transformed into something else – for reasons specific to Mauritius, it nevertheless served as a springboard for Chinese SEZs elsewhere in Africa. The MCFTA marks China's first FTA with an African country. Will it suffer the same fate as the SEZ? Time will tell.

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Cover image

Harvesting sugar cane

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