CHAPTER 1.6

Enhancing Competitiveness in Four African Economies: The Case of Botswana, Mauritius, Namibia, and Tunisia

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The recent optimistic picture of Africa's economic development is being undermined by the global economic crisis. Although the initial effects of the crisis were slow to materialize in Africa, its impact is now being felt throughout the continent; this chapter considers the impact on four African countries. Because their competitiveness is still lagging behind that of other regions, most African countries will find it more difficult than others to cope with external shocks.

The small size of most African economies, with close to half of the countries having a population of less than 10 million, is often cited as a major constraint to their economic development. But a small size is not necessarily a cause for failure. Experience elsewhere shows that in small countries it is often easier to implement reforms and changes in policy. There are many well-run small countries that have developed quickly and that are at the top of world rankings; these include the Nordic countries, Singapore, Switzerland, and so on.

In Africa, this principle is well illustrated by a few countries that have adopted development strategies with pragmatic policies promoting efficient market mechanisms. For instance, the economic performances of Botswana, Mauritius, Namibia, and Tunisia show that smallness may compel the business community to compete globally and governments to build efficient institutions that promote private-sector development. These four economies have recorded good macroeconomic performances and are classified as middle-income economies in spite of their meager share of the continent's gross domestic product (GDP) and natural resources. Unlike most of the larger economies on the continent, these countries are among the few in Africa that are relatively well ranked among the top 100 in the World Economic Forum's Global Competitiveness Index and in the World Bank's *Doing Business 2009* report. In addition, they have maintained social and political stability over the years. The four countries can provide lessons to a host of other small economies in Africa, which include some of the resource-rich countries. However, with globalization and the emergence of big economies such as China and India, they face new challenges and opportunities.

This chapter analyzes the recent competitiveness performance of Botswana, Mauritius, Namibia, and Tunisia, as well as the main factors driving their competitiveness, some of which are discussed in Chapter 1.1. The analysis shows that economic policy has been a key explanatory feature of their competitiveness. The use of an active exchange rate policy and sound, credible,

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and predictable state institutions are identified as the main pillars of these countries' competitiveness. An active exchange rate policy has helped Mauritius and Tunisia, in particular, to maintain their international competitiveness. Sound institutions have been a decisive factor in reducing transaction costs and promoting innovation in these countries. Credible and predictable state institutions have encouraged entrepreneurship and supported the development process.

An important lesson from these four countries is their long-run holistic vision of development. This orientation of economic policy was supported by strong and visionary political leaders (see Box 1) where the state played an important role. They constitute a counter example to the commonly held view that African states are typically weak. Successes in Botswana and Namibia indicate that the Dutch disease or "resource curse" can be avoided. Mauritius and Tunisia illustrate that the state can promote manufacturing diversification and seize opportunities, such as partnership with the European Union. The relative success of the four economies suggests that the functioning of the market is underpinned by sound state institutions.

Going forward, these four countries need to diversify their economies. This would require new efforts to develop the productive base in the context of both a global economic slowdown and acute competition from other emerging economies. The four countries have to make further efforts to improve their competitiveness position in a number of areas. These include:

- **Market size:** These countries face the problems of small markets in their strategy to intensify exports and regional integration. They therefore need to make more investments in infrastructure to promote regional trade and integration.

- **Labor force:** They must improve the employability of the labor force by raising the quality of training and matching training programs to the needs of the labor market. They need to deregulate the labor market without endangering social stability.

- **Bank financing:** They must facilitate access to bank financing to supplement family and short-term financing, and must encourage investment and the restructuring of certain sectors with potential economies of scale.

This chapter has six sections. The following section examines how the four countries promoted economic growth while maintaining macroeconomic stability. The third section pursues two objectives. First, we draw attention to some exogenous factors of the domestic or external environment that have contributed to the country's long-run performance. Second, we investigate the specific role of economic policy, especially the exchange rate regime and inflation control. But getting the prices right is not enough; the fourth section examines the role of institutions for business environment and firm productivity. The four countries are compared with four other non-African middle-income countries. The fifth section draws the main lessons learned as well as challenges confronting the four countries, and the final section presents conclusions to be drawn.

Economic performance of the four countries

African countries strive to achieve sustainable growth based on solid domestic foundations. This principle is highlighted by the current global crisis, which threatens to undermine the gains that many countries have made over the past five years. Sound economic policies are important for competitiveness for both resource-rich and resource-poor economies.

Botswana and Namibia: Beyond the benefits of factor endowments

Botswana and Namibia are naturally resource-rich economies with arid climates, small populations, and low densities. Both are highly dependent on the mining sector. Botswana is the largest diamond producer in the world. The diamond sector accounts for more than one-third of Botswana's GDP, over 45 percent of government revenue, and more than 75 percent of export earnings (see Appendix B).

At independence in 1966, Botswana was one of Africa's poorest countries. It had a weak human capacity (22 university graduates), few assets, underdeveloped infrastructure (12 kilometers of paved road), and an abattoir as the only "industry."[1] Over the last three decades, Botswana has recorded an impressive economic growth rate—one of the highest in the world. Performance slowed down during the 1999–2007 period, but per capita GDP still grew at about 5 percent a year, with diamond production being a significant driver of economic growth.

Botswana's exports are sufficient to finance its imports while sustaining a gross domestic savings rate exceeding 50 percent of GDP. The country spent its revenues productively, investing surpluses abroad. The flip side of high savings has been moderate pressures on demand and thus inflation, as well as low indebtedness (Table 1). Imports of capital goods, necessitated by high investment rates, have increased much more in Botswana than in other African countries, a number of which, in fact, experienced a decline in investment and savings after 1970. In Botswana, savings and investment ratios have been above the African average and have contributed to the recorded high growth rates.

Botswana's manufacturing sector has declined over time, dropping from 8 percent of GDP in 1966 to less than 4 percent in 2007, mainly as a result of the growth of the mineral sector. Gains made during the diamond

Box 1: Examples of Pragmatic Leadership

Sir Seretse Khama (1921–80): Founding President of Botswana, 1966–80

In Africa, visionary leadership can make all the difference. Sir Seretse Khama, first President of Botswana, is such an outstanding example. He inherited an impoverished and internationally obscure state from British rule and left an increasingly democratic and prosperous country with a significant role in Southern Africa. Botswana's superior economic performance can be attributed in part to good leadership under Sir Seretse Khama and subsequent leaders. Under Sir Seretse Khama, Botswana enjoyed one of the highest economic growth rates in the world combined with a stable and democratic political system. This was in sharp contrast to the rather modest economic growth performance posted by most other African countries. Worse still, many of these countries became embroiled in pernicious internal or interstate wars—but not Botswana.

Though Botswana came to be described as a "paternalist democracy" under the dominance of one political party, it has succeeded in establishing itself as both prosperous and peaceful. Between 1966 and 1980 Botswana had the fastest-growing economy in the world. It also came to be seen as a remarkable state with high principles, upholding liberal democracy and non-racialism in the midst of a region embroiled in civil war, racial enmity, and corruption. State mineral revenues were invested in infrastructure development, education, and health, and in subsidies to cattle production. The result was a great increase in general prosperity, in rural as well as urban areas, though with inequities that were to become increasingly apparent after the death of Sir Seretse Khama.

As the leader of a black majority–ruled state bordering an apartheid South Africa, Sir Seretse Khama exhibited impressive diplomatic skills in combining a pragmatic recognition of vulnerability in relation to a powerful neighbor with a foreign policy based on strong moral principles and an opposition to racism. Sir Seretse Khama also emerged as a respected international statesman and a voice for moderation. At home, he was able to balance freedom of expression with strong political authority. One of his great legacies was strong institutions for robust economic growth and social stability. He set high standards of personal leadership for his successors to emulate.

"In his last years, Seretse Khama looked increasingly outwards and onwards. He was one of the 'Front-Line Presidents' who negotiated the future of Zimbabwe and Namibia. He developed a vision of the future of Southern Africa after colonialism and apartheid, as a peaceful, democratic and prosperous region. He was thus the key founder of what has since become the Southern African Development Community."[1]

Sir Seewoosagur Ramgoolam: First Mauritian Prime Minister

Born into a poor Hindu family, Sir Seewoosagur Ramgoolam qualified as a medical doctor in Britain. He joined the Mauritius Labour Party in 1953, becoming its leader in 1958; he was the leading figure in the movement demanding an end to British colonial rule in Mauritius. At the country's independence in 1968, he became its first Prime Minister. Under his rule, Mauritius was marked by democracy, stability, and significant levels of economic growth. A skillful politician, he was successful in dealing with the racial, ethnic, and religious cleavages within the Mauritian political system. In 1973, he was awarded the United Nations prize for Human Rights. From 1976 to 1977, he chaired the Organization of African Unity (OAU).

Following defeat in the 1982 elections, he stepped down in favor of the opposition (the first leader of an African state to do this). In 1983 he was appointed to the largely ceremonial position of Governor-General. A quiet and unspectacular political leader, he laid the solid foundations of modern Mauritius.

During his years in public service, particularly those when he was Prime Minister after independence was achieved, Ramgoolam realized the dreams he had had for his people as a young man. With the University of Mauritius, he offered universal education; he opened hospitals and created village councils; built housing for workers; and instituted old age pensions, along with family allowances, widows' pensions, and a national pension plan. Workers also began to enjoy the benefits of workers in other democratic countries, from electricity in their homes to trade unions that moderated wages and employee benefits such as sick leave and holiday pay. He helped oversee the building of banks, hotels, industries, and an airport that would come to bear his name, honoring him even in death.

Source: Parsons, 1999; Mogae, 2008; http://www.answers.com/topic/seewoosagur-ramgoolam.

Note

1 Parsons 1999.

Table 1. Macroeconomic performance of Botswana, Mauritius, Namibia, and Tunisia

	BOTSWANA				MAURITIUS				NAMIBIA				TUNISIA			
Average annual growth	2000–07				2000–07				2000–07				2000–07			
GDP (%)	5.2				3.5				5.0				4.8			
Year	2006	2007	2008e	2009p	2006	2007	2008e	2009p	2006	2007	2008e	2009p	2006	2007	2008e	2009p
GDP (%)	5.1	4.4	3.9	2.6	3.9	5.4	4.8	3.0	7.1	4.1	3.4	2.7	5.5	6.3	5.1	4.1
Consumer prices (%)	11.6	7.1	12.6	9.2	8.9	8.8	9.8	6.5	5.0	6.7	10.3	8.6	4.5	3.1	5.0	2.9
GDP (%)	2007				2007				2007				2007			
Agriculture	2.1				5.3				10.1				11.4			
Industry	51.2				26.1				35.5				35.3			
Manufacturing	3.9				18.9				16.8				18.8			
Services	46.6				68.6				54.4				53.3			
GDP (%)	2007				2007				2007				2007			
Gross capital formation	26.9				26.9				20.9				24.8			
GDP (%)	2007				2007				2007				2007			
Exports of goods (f.o.b.)	42.3				29.5				33.5				42.6			
Year	2006	2007	2008e	2009p	2006	2007	2008e	2009p	2006	2007	2008e	2009p	2006	2007	2008e	2009p
Current account balance (GDP %)	17.2	16.6	13.5	11.5	–9.4	–5.3	–9.9	–6.1	13.9	18.0	3.6	2.7	–2.0	–2.6	–4.2	–3.2
Public finance overall (+)/(–) (GDP %)	13.2	6.5	–0.3	–0.5	–5.3	–4.3	–3.4	–3.2	4.1	0.9	–3.6	–3.4	–2.7	–2.8	–3.0	–3.2
GDP (%)	2008				2008				2008				2008			
Total debt outstanding	11.9				8.9				29.9				49.6			

Source: AfDB Statistics Department; *African Economic Outlook,* March 2009.
Note: *e* is estimate and *p* is projection.

boom could decline in the future through decreasing export volumes and, as seen currently, because of the global slowdown. As underlined by the recent scaling up of exploration by private companies, uncertainty prevails around diamond resources. Diamond production is expected to increase from 32 million carats in 2005 to 44 million carats in 2017. However, production is expected to decrease after 2017. In the worst-case scenario, Botswana's diamond reserves could be depleted by 2029.[2] The risk around diamond production, together with the need to increase formal employment,[3] is a strong argument in support of the need to diversify the economy. Diversification is on the government's agenda and will continue to be the main challenge in the future beyond the country's Ninth Development Plan (2003–09).

Health and the quality of education are also important for improving competitiveness. In Botswana, enrollment at all levels of education has increased steadily since independence. Enrollments in primary education are still lower in the remote western and northwestern districts than in other areas of the country, but performance of enrollment is already impressive. In 2007, the gross primary enrollment rate (108 percent) and the literacy rate of the population older than 15 years (82.8 percent) is significantly higher than the average sub-Saharan ratios (see Appendix C). However, the high prevalence of HIV/AIDS in Botswana, in addition to its adverse social and human effects, has severe negative impacts on labor productivity and on the country's competitiveness.

Namibia is a small economy closely integrated with that of South Africa. In 2007, it recorded moderate economic growth in spite of a strong performance in diamond production. GDP growth averaged 5.0 percent over the period 1999–2007, and declined to 3.4 percent in 2008. This trend partly reflects the country's ability to benefit from favorable international specialization and partly reflects the first gains from diversification. Under Vision 2030, the Namibian government expects to transform the country into an industrialized and competitive economy. The mining industry accounts for 9 percent of GDP, 45 percent of export earnings, and a third of fixed capital formation. As in Botswana, diamonds are important—Namibia is among the 10 largest exporters of diamonds, which represents 90 percent of the GDP share of the mining sector. In 2006, diamonds accounted for 40 percent of exported goods and other minerals (copper, zinc, uranium, and gold) accounted for 18 percent, against 15 percent in 2003.

In 2007, manufacturing activities accounted for about 17 percent of GDP in Namibia. In recent years, more diamond was extracted as its price increased. The higher price and volume contributed to a high current account surplus of 7 percent of GDP in 2008 and higher economic growth. Several initiatives have been undertaken to expand the export base; these have met with some success after 2003. The production of grapes, one of Namibia's nontraditional exports, has more than tripled in the last decade. The country's main industry is fish processing. Most other manufacturing activities, especially textile, suffer from strong competition from Asian countries. Namibia is also promoting tourism as part of its diversification efforts.

Namibia's fiscal surplus reached 1.9 percent of GDP in fiscal year 2007.[4] Thanks to efficient government management, the country's total outstanding debt ratio has been limited to less than 20 percent of GDP in the recent past, although it rose to 30 percent in 2008. In 2006, gross capital formation in Namibia was the highest among the four countries, with a ratio of 27 percent of GDP. Inflation has been kept at about 10 percent during the last three years. Pegging the Namibian dollar to the South African rand has helped to manage inflation by linking monetary policy to South Africa's targeting framework. Inflation pressures are a little higher in Namibia than they are in South Africa. One potential explanation of the small nominal differential can be seen in the Balassa-Samuelson effect.[5] As productivity increases, wages and prices of non-tradable goods tend to increase, causing a real appreciation of the domestic currency. Productivity growth in Namibia is also higher than in South Africa.

Namibia ranks 5th in the continent in terms of per capita income and 11th in the Human Development Index. Therefore, like Botswana, Namibia's social indicators reflect its long-run economic performance. High rates of unemployment and poverty reflect the country's challenge in achieving shared growth. Formal wage employment accounts for less than half of the workforce. According to the Labor Force Survey, the official unemployment rate is about 20 percent. If "discouraged people"—those who are not currently employed but who have stopped looking for work—are included, the rate is as high as 54 percent.

With 85 percent of its adult population being literate, Namibia has one of the highest rates in sub-Saharan Africa. Various informal adult education programs have been implemented to enhance literacy levels. Beyond good socioeconomic performance, real problems exist, especially in poverty and health. Most Namibians are poor, with about half of the population living below the poverty line. Undernutrition and malnutrition are still problems, especially for young children. In Namibia, as in Botswana, HIV/AIDS prevalence is among the highest in the world. Life expectancy at birth in Botswana is low—about 51 years in 2007 (see Appendix C). This is 20 years less than the average in upper-middle-income countries.

Mauritius and Tunisia: Success and competitive pressures

Both Mauritius and Tunisia have more diversified economies than Botswana and Namibia. Mauritius has one of the highest population densities in the world (610 inhabitants per square kilometer). In Mauritius, the export processing zone (EPZ) concentrates on labor-intensive production of goods for the export market, with key products being textile, electronics, plastics, and leather. Tunisia began to diversity its economy after the 1970s, making new investments in mechanical and electro-mechanical equipment as well as in textile, which accounts for about a quarter of all manufacturing operations.

Mauritius has had one of the most striking development stories in Africa. The past 40 years have proved Meade et al.'s initial forecast—that Mauritius was doomed—wrong.[6] Meade et al. rightly perceived that Mauritius faced severe constraints. Some of these constraints included the country's low initial level of income, its dependence on sugar exports, its rapid population growth, potential ethnic tensions among a very diverse population, and its geography. Mauritius is also geographically disadvantaged by being at least 25 to 30 percent farther from world markets than the average African country.

From 1973 to 1999, real GDP grew at an average rate of 6 percent annually, compared with less than 2.5 percent average for sub-Saharan Africa. The income of the average Mauritian has more than tripled over a 40-year period, while that of the average African has increased by only 32 percent. High growth rates (Table 1) have been achieved in a stable macroeconomic environment, with low inflation (less than 10 percent over the recent period).

However, although Mauritius has had commendable macroeconomic performance, the economy is now under heavy pressure from globalization. The loss of trade preferences for its textile exports in 2005, reform in the European Union's sugar protocol (2006–10), and high international oil prices have adversely affected Mauritius' terms of trade. Growth has fallen over the past few years, reflecting a marked contraction of activities in the EPZ, dominated by textile. These changes have led to rising unemployment. The current account surplus has recently turned into a deficit, reaching 5.2 and 6.7 percent of GDP in 2007 and 2008, respectively (Table 1). Two main reasons for this drop are lower exports and high oil and food prices. Low growth and high fiscal deficits have fueled an increase in public debt, and a slow adjustment in consumption behavior is contributing to a widening of the current account deficit and increasing external vulnerability.

Real GDP growth is projected to remain below the past decade average during the next five years, even with the assumption that a significant part of the competitiveness of the textile and sugar sectors is restored. Because of the various shocks, new sectors—in particular, information and communication technologies (ICT)—should be promoted to sustain high growth and create jobs in the medium term. The success of such a strategy is crucial for Mauritius' capacity to enhance its competitiveness.

The quality of human resources is a strong positive argument for the development of Mauritius. More than 90 percent of all children of primary-school age receive primary education, the gross primary enrollment rate is 102 percent, and secondary education is of high quality. Life expectancy at birth increased from 61 years in 1965 to 73 years in 2007 (see Appendix C).

The Tunisian economy is much more diversified and closer to European markets than the three others. Tunisia is among the best performers in Africa. Strong real GDP growth, averaging 5 percent over the past decade, accelerated in 2007 to reach 6.3 percent. The economy is estimated to have grown by 5.1 percent in 2008, thanks to the dynamism of agricultural output and the expansion of both services and non-textile manufacturing activities.

Tunisia has maintained inflation rates between 3 and 5 percent over the last years. Factors influencing inflation include oil and basic commodities prices as well as dynamic domestic demand. The nominal depreciation of the Tunisian dinar against the euro and the US dollar has helped the real adjustment of the tradable sector. Indeed, by reducing firms' domestic costs expressed in foreign currency, a more flexible exchange rate policy has played a significant role in allowing producers to adapt to a more competitive environment both domestically and in international markets.

The current account deficit in Tunisia has remained small in recent years. In spite of exogenous shocks, in 2006, the balance of payments recorded a large surplus owing to the partial privatization process of Tunisie Télécom, one of the country's largest national firms. At the end of 2006, foreign exchange reserves were equivalent to five months of imports. In the past, significant foreign borrowing by the government contributed to an external debt of more than 65 percent of GDP, quite a high ratio compared with those observed in other middle-income countries. The total debt outstanding ratio declined to 49.6 percent in 2008, and a debt sustainability analysis suggests that the Tunisian economy has a limited vulnerability to the financial impact of the debt service. Beyond the debt issue, Tunisia has shown resilience in the face of the surging prices of oil and other imported commodities, sustaining relatively strong growth while maintaining macroeconomic stability. Tunisia has been recognized by *The Global Competitiveness Report* (GCR) as the most competitive country within the region, and it benefits from a good perception among international rating agencies.

Education is free to all school-age children in Tunisia, and schooling is compulsory between the ages of 6 and 16. Virtually all children are enrolled in primary education, and nearly one-sixth of its young people proceed to universities or institutes of higher learning. About three-quarters of the population is literate; the rate among men is somewhat higher than that among women, but the gap is narrowing.

Although the educational systems are quite advanced in both Tunisia and Mauritius, more needs to be done in the educational system to support and deepen the diversification process of the economy and to reduce the unemployment rate. In Tunisia in particular there have been recent concerns about the high unemployment rate of university graduates (see Box 2). There is a need to address the labor market mismatch while at the same time ensuring a throughput of high-quality university graduates with operational skills.

Factors underlying macroeconomic performance of the four countries

The long-run macroeconomic performances of the four countries have been influenced by a combination of exogenous factors (e.g., natural resources endowments and external agreements) and sound policies. Among the policy instruments discussed in this section, the exchange rate regime is given special attention, as it has a direct impact on relative prices and costs. Although Botswana and Namibia did not succumb to the Dutch disease, Mauritius and Tunisia supported exchange rate flexibility that facilitated the gradual removal of import quotas and tariffs as well as confronting the growing competition in external markets for some critical sectors such as textiles.

Management of exogenous factors

In Botswana, diamond production and abundant natural resources contributed significantly to the high and sustainable performance of its economy. But if Botswana benefited from its natural resource endowments, it cannot be ignored that elsewhere similar opportunities have resulted in poor outcomes. In many countries, the abundance of natural resources has been a curse rather than a blessing and has led to poor governance and a lack of public-sector accountability. As a result, policy implementation has been weakened, and, in a number of cases, conflicts and civil wars have arisen because of rent seeking. In Botswana and in Namibia, minerals have provided a base for strong economic growth and have not constrained the production of other tradables. Thanks to sound monetary and fiscal policies, Botswana and Namibia maintained their inflation at the level of South Africa.

Both Mauritius and Tunisia have benefited from windows of opportunities—especially trade preferences offered by the European countries—that allowed them

Box 2: Competitiveness and the labor market in Tunisia

Tunisia has had impressive macroeconomic performances over decades. But the country still struggles with a persistent and high unemployment rate. Unemployment is particularly severe for first-time jobseekers, with the rate hitting 30 percent for highly educated people under 30. Although the educational system is generally considered to be one of the best in Africa, its quality is now under criticism. There is need to undertake significant reforms in all segments—from secondary schools to university, including vocational training. To overcome all these problems, the government has embarked on a series of policies that touch on the issues of labor demand, skills supply, and the mediation between the two.

Recent evidence about the situation and the impact of current policies supports the position that labor demand appears to be constrained both by the high cost of capital and by barriers to formal markets. Opening the banking sector to more domestic and foreign competition is an important first step; this process should be continued. To the extent that private banks become more competitive and serve their customers better, the large and complex public provision of development banking and investment subsidies could begin to cease. A corresponding review of this area is already underway. Rather than making the incentives of the subsidy and tax relief system more complex, it might make sense to review the overall corporate tax system in the medium term.

The skills supplied by the educational system do not fully meet the demand of the labor market in part because the system has difficulty responding. A planning of future higher education policies, consistent with the above evidence, would include attenuating the immediacy of the baccalaureate-university link in the short term; institutionalizing the spirit of the recent higher education law in legal decrees, and promoting both the contractual autonomy of universities and their external public evaluation. In vocational education and training, the government has already embarked on all policies of relevance; it is now only a question of pushing the roll-out of the envisaged measures.

Regarding regulatory liberalization, the government should be commended for the components of the new law on economic initiative, which improves the speed and accountability of startup procedures. The imminent decrees will realize the law in the medium term. Also in the short to medium term, it is in Tunisia's interest to increase the ease and transparency of access to independent professional activity, especially for lawyers and accountants. Regarding the way wages are determined, the collectively agreed wage scales appear to contribute to graduate unemployment. Wage floors by qualification, including floors for university degrees, seem to be too high for the labor market to accommodate the current rising number of graduates. The government could pursue the debate already begun on liberalizing the hiring options for firms, including allowing private employment mediation and temporary employment agencies. In the short run, the issues raised by the Convention Collective could be addressed. Most probably, subsidies could be saved and employment improved by liberalizing graduate entry wages.

Source: World Bank. MENA "Labor Demand, Skills Supply and Employment: Towards an Integrated Strategy for Job Creation" A Policy Note. 2008.

to tap into world markets. For example, in both Mauritius and Tunisia, the garment and textile industries—a key sector for their economic growth—benefited from the Multi Fiber Agreement (MFA) until 2005. In Tunisia, textile still represents about 5 percent of the production in industries and services. Under the MFA, European Union (EU) markets assigned country-specific quotas for Asian exports while these markets were totally open to Tunisia's and Mauritius's textile exports.

After independence in 1968, Mauritius secured quotas for its sugar exports to the European Union at a price that was, on average, 90 percent above the market price between 1977 and 2000. The resulting rents were used by Mauritius to finance capital accumulation. Economic growth was also supported by efficient economic policies. In Mauritius, the trade and development strategy supported export growth at an annual rate of 7.1 percent over the period 1986–96. Import substitution promoted the initial diversification of the manufacturing sector, as the government made significant efforts to progressively open the economy. Trade protection was high, with average tariff rates exceeding 100 percent in 1980 and about 65 percent in 1989. Until the 1980s, extensive quantitative restrictions applied in the form of import licensing, which covered nearly 60 percent of imports.

The Mauritius EPZ was established in 1971. All imported inputs were duty-free for EPZ companies, with the objective of supporting the export sector's competitiveness. Tax incentives were also provided to EPZ firms, while EPZ employers benefited from greater flexibility to adjust labor in accordance with the output requirement. The MFA allowed Mauritius to benefit from international import redistributions and attracted Hong Kong entrepreneurs who sought overseas locations for their textile operations in an attempt to circumvent textile quotas. The EPZ, which accounts for 25 percent of GDP and more than 36 percent of employment, facilitated foreign direct investment and productivity growth. During the period 1983–99, total factor productivity (TFP) growth in the EPZ averaged about

3.5 percent a year, compared with 1.4 percent in the economy as a whole. The preferential access granted by Mauritius' trading partners in the sugar, textile, and clothing sectors (90 percent of total exports) amounted to an implicit subsidy of the tradable sector.

Tunisia launched a structural adjustment policy in 1983. The economy's outward orientation intensified notably through the 1995 Association Agreement with the European Union, although the average tariff was still higher than the world's rate (9.8 percent) or sub-Saharan Africa averages (13.7 percent). However, the effective protection that increased from 56 percent in 1995 to 71 percent 1997 declined to 26 percent in 2005. Since January 1, 2008, trade in industrial products with the European Union has been fully liberalized, and EU industrial products enter Tunisian markets duty-free. A restructuring program has allowed firms to adjust efficiently. The maximum customs duty on imports of manufactured products from the European Union was less than 10 percent in 2007, compared with over 100 percent in 1995. In 2005, the industry was faced with the expiration of the MFA and the potential trade diversion attached to this loss of preferential access to external markets. Within the clothing sector, which accounts for about 40 percent of the manufactured value-added in Tunisia, the government and firms tried to move away from subcontracting to joint-contracting. In addition, the government promoted agricultural production in such areas as olive oil and bio-culture, which are below their EU export quota levels.[7]

Exchange rate policies for price competitiveness

Relative prices or costs are important variables considered by firms that produce standardized products and compete in world markets. Although the real effective exchange rate (REER) is generally used to appraise price competitiveness, the interpretation of this index is sometimes unclear.[8] Undervalued exchange rates benefited Asian exports in the 1980s, while an overvalued currency does not necessarily hurt production of tradables because it stimulates imports of capital goods and allows productivity gains. Rodrik supports the view that an undervalued currency would boost economic growth while overvaluation would be harmful,[9] arguing that the production of tradable goods in developing countries suffers from market failures as well as institutional failures. Following this argument, real exchange rate depreciation would be a second-best option for alleviating these costs and distortions.

The REER is used to analyze its potential economic impact in all four countries (see Appendix A). With the exception of Namibia, the other three countries adopted a managed or free exchange rate regime (see Box 3). Nominal costs evolve as the consumption price index and the productivity gains are hypothesized to be similar or close across countries. Therefore, firm competitiveness deteriorates when the REER appreciates and improves when it depreciates.

Box 3: Exchange rate regime in the four countries

The Botswana pula has moved from an adjustable to a crawling peg against a basket of currencies comprising the South African rand and the special drawing rights. The new exchange rate is adjusted continuously against the basket according to factors that include the expected inflation differential between Botswana and its major trading partner countries.

Mauritian authorities chose a different option from the one generally adopted by small island economies, which very often peg their currencies to a hard currency for credibility purposes. In line with the liberalization of the capital account and gradual floating of exchange rate in the 1990s, the Central Bank of Mauritius revised its monetary policy and officially adopted a managed floating regime in 1994.

In Namibia, the rand was the domestic currency between 1921—when the South African Reserve Bank was established—and 1990. The Namibian dollar was introduced after independence in 1990, but it is pegged to the rand. According to the institutional arrangements of the Common Monetary Area (CMA), the rand freely circulates at par with the domestic currency. The Bank of Namibia has limited capacity to conduct independent monetary policy. This leaves fiscal policy as its main tool to cope with shocks. However, such a policy reacts at best only with a time lag.

In Tunisia, because of historical links and the weight of trade partners, the dinar was first anchored to the French franc and later on to the other currencies of the European Monetary System (EMS). The situation has changed over the last 10 years, with a growing role attached to a basket of currencies (including the US dollar). To some extent, and according to the IMF exchange rate regime classification, the dinar has progressively moved from a crawling peg to a managed floating one with no pre-announced path for the exchange rate.

Mauritius and Tunisia: The impact of the managed floating exchange rate policy

An active exchange rate policy has contributed to improving price competitiveness in Mauritius as well as in Tunisia. Mauritius has been able to achieve a low inflation rate, which decelerated from 10 percent over the years 1989–93 to about 8 percent in mid-1996, when it introduced an inflation-targeting regime, and 4 percent in 2004. More recently, its inflation rate has increased to the late 1980s level because of high oil and food prices, although inflation targeting has allowed it to come close to the levels observed in developed countries. The Mauritian rupee significantly depreciated. In 2008, it was less than 60 percent of its 1995 level and allowed significant price competitiveness. These gains ranged from 10 to 20 percent between 1990 and 2006 (Table 2). The managed floating exchange rate regime has helped maintain the external competitiveness and the current account sustainability of the country. This flexibility remains very important, although the current account position has recently deteriorated (Table 1).

Tunisia has been implementing a managed exchange rate regime over the last decade. With the growing openness of the economy, this policy has become central to macroeconomic management. There has been impressive progress in the reduction the number of trade tariffs, from 14 to 9. The prudent monetary policy reduced inflationary pressures to levels close to those prevailing in the industrialized countries, which led to the real depreciation of the effective exchange rate. Indeed, the authorities are preparing to gradually open up the capital account and to meet the domestic demand for portfolio diversification through foreign financial assets. Over the medium term, greater exchange rate flexibility has been a valuable factor in strengthening the external position and in preserving price competitiveness.

Botswana and Namibia: Sensitivity to the weight of the rand

Both Botswana's and Namibia's nominal effective exchange rates, as measured by the bilateral-trade shares of imports, have been strongly influenced by the South African rand. On the one hand, over the 1999–2003 period, South Africa accounted for close to 80 percent of Botswana's imports and more than 90 percent of Namibia's. On the other hand and for the same period, Botswana and Namibian exports to South Africa accounted for only 6.5 and 32 percent of their total exports, respectively. This difference explains the variation of the nominal exchange rate that has been stable in terms of the import-based REER, while it appreciated in terms of the export-based REER. To a large extent, these nominal differences have been passed on to the real evolution of the indexes. Because of the large depreciation of the rand from 1995 to 2002, the export-weighted REER depreciated strongly over this period while the import-based index was stable for Namibia but appreciated somewhat in Botswana, especially between 2000 and 2004.

In Botswana, the appreciation of the pula was a consequence of the pegged-basket system and the 40 percent depreciation of the South African rand against the special drawing rights. The pula's appreciation against the rand placed nontraditional exporters at a disadvantage and reduced Botswana's attractiveness to foreign investors compared with countries with currencies that are pegged to the rand. The International Monetary Fund suggests that the pula depreciated in nominal and real effective terms after devaluations (in 2004 and 2005) and the shift (in 2005) to a crawling peg.[10] The crawling rate of the pula is set at the difference between the

Table 2: Nominal and real effective exchange rates: Two trade-weighting patterns (100 = 1995)

		Non-oil imports		Exports	
	Year	NEER	REER	NEER	REER
Botswana	1990	106.2	97.2	126.8	88.8
	1994	101.9	99.9	106.7	100.8
	1998	96.1	99.4	68.8	78.4
	2000	99.6	106.9	64.6	79.8
	2002	113.2	117.7	54.0	70.2
	2004	116.9	119.8	68.5	89.1
	2005	111.8	115.6	66.3	87.6
Mauritius	1990	96.5	94.8	107.1	93.6
	1994	99.8	100.1	99.6	98.7
	1998	88.1	94.8	77.1	86.6
	2000	90.1	103.1	79.2	94.3
	2002	87.8	106.3	69.1	87.8
	2004	75.6	94.6	64.3	84.2
	2006	65.9	89.2	55.9	78.5
Namibia	1990	102.2	98.0	117.1	90.2
	1994	100.7	99.1	104.7	100.1
	1998	97.3	98.7	77.0	85.0
	2000	96.2	105.0	71.5	87.6
	2002	93.3	108.6	53.8	74.6
	2004	96.0	116.3	64.8	94.4
	2006	95.5	115.4	62.4	91.8
Tunisia	1990	103.3	93.2	98.5	91.2
	1994	99.3	96.5	98.7	96.4
	1998	95.3	99.7	95.8	99.5
	2000	93.2	99.4	95.3	100.8
	2002	91.6	99.0	94.5	101.5
	2004	81.7	90.5	83.7	92.0
	2006	75.9	85.6	77.6	86.8

Source: Authors' calculations using *International Financial Statistics* data.
Note: Nominal and real appreciations of indexes mean a loss of competitiveness.

inflation target and the forecasted inflation of Botswana's trading partners. Monetary policy has helped contain inflationary pressures, so that by the end of 2007 the REER was about 10 percent below its pre-2004 peak. As a result, price competitiveness has been restored to its late 1990s level.[11]

The exchange rate policy has proved to be less active in Namibia and Botswana than in Mauritius and Tunisia. The choice of the exchange rate regime may partly explain this difference, but the fundamentals of the long-run equilibrium exchange rate should also be considered. The two resource-rich countries benefited from favorable external terms of trade for minerals, while the two more diversified and resource-scarce economies chose to use their exchange rate to support exports of manufactured goods in a more competitive environment.

Institutional and business environment factors

Beyond the direct impact of prices, institutions play a central role for firm productivity and cost minimization. Indeed, by reducing transaction costs and market failures, adequate formal rules and enforcement mechanisms shape the opportunities and incentives for firms to invest and raise productivity.

A number of factors affect the competitiveness of economies through the cost of doing business. Firms' behavior, as well as actions by public institutions, is critical to competitiveness. These factors include governance, the cost of corruption, the inability of the government to promote security, and predictability in the way business conflicts are solved. Some institutional barriers raise costs and limit "contestability" in domestic markets, ultimately undermining the Schumpeterian "creative destruction" process.

Regulations affect competitiveness notably through the rules governing the starting or the closing of a business. Barriers can also exist at the level of the input markets, such as the ease of firing and hiring workers. When contractual arrangements are set up under tight regulatory constraints, they tend to negatively affect firm competitiveness. Another element of excessive costs of doing business arises from deficiencies in the provision of public goods or public tradable services. In most developing countries, the poor quality of the roads and other infrastructural services are serious constraints to competitiveness and productivity.

The key drivers of competitiveness of the four African countries, along with the four non-African countries Thailand, Trinidad and Tobago, Uruguay, and Venezuela, are highlighted in this section. All these eight countries can be classified according to their stages of development, as defined in Chapter 1.1. While Botswana and Venezuela are in transition from stage 1 to 2, the others belong in stage 2; the exception is Trinidad and Tobago, which is in transition from stage 2 to 3 of the development process. The discussion that follows is based on information and data from World Economic Forum's *Global Competitiveness Report 2008–2009* and Chapter 1.1 of this *Report,* the World Bank's *Doing Business 2009,* and the World Bank's *Investment Climate Assessment* reports.

Table 3 gives the Global Competitiveness Index (GCI) rankings and scores for the four African countries; it shows that Tunisia (36th) has the highest rank in Africa and is close to Thailand (34th) in the 2008–2009 GCI. As for Botswana (56th), it has improved significantly, moving up a remarkable 20 places to achieve the biggest improvement in the most recent GCI. Botswana's strengths are its reliable and stable institutions that contribute to transparency and accountability of public policy and a stable macroeconomic environment. Namibia, at 80th place, driven by an adequate set of institutions protecting property rights with a judicial system perceived as independent, moved up nine places. Mauritius (57th) also had an improvement of three places since the previous *Report*. The country has strong and transparent public institutions, well protected property rights, and reasonable levels of judicial independence and security.

Table 3: GCI rankings of four African and four non-African countries

	2007–2008		2008–2009	
Country	Rank (out of 131)	Score (out of 7)	Rank (out of 134)	Score (out of 7)
Botswana	76	3.96	56	4.25
Mauritius	60	4.16	57	4.25
Namibia	89	3.85	80	3.99
Tunisia	32	4.59	36	4.58
Thailand	28	4.70	34	4.60
Venezuela	98	3.63	105	3.56
Uruguay	75	3.97	75	4.04
Trinidad and Tobago	84	3.88	92	3.85

Source: World Economic Forum, 2008.

Factors impacting the business environment

Table 4 refers to the World Bank's *Doing Business 2009* report, which provides objective measures on business regulations and their enforcement in the world. The *Doing Business* data are collected in a standardized way and offer valuable advantages, including the use of international benchmarking that potentially drives investment decisions. In Table 5, the charts of the most problematic factors for doing business presented in the Competitiveness Profiles section of this volume are considered. Respondents were asked to select the 5 most problematic out of a list of 15 factors. Information in Tables 4 and 5 is used to analyze some of the key factors that drive competitiveness of the eight economies.

Botswana ranks 38th out of the 181 economies in World Bank's *Doing Business* and 56th in the GCI. Problems related to market failure of both labor and goods (Table 5) are more serious than those related to political and administrative governance. Inefficient government bureaucracy (11.1 percent) is ranked 3rd among the most problematic factors for doing business, after work ethic in national labor force (19.0 percent) and inadequately educated workforce (14.0 percent). But the political dimension of public governance is not as problematic in Botswana as in other African countries. Botswana is ranked well on issues related to reliable and legitimate institutions that contribute to public trust in politicians, and it has the best record on anti-corruption enforcement in Africa.

The 2007 World Bank Investment Climate Assessment Survey shows that, compared with manufacturing enterprises in other sub-Saharan countries, firms in Botswana are relatively productive. Labor productivity is high: about US$8,000 per worker, more than twice that of low-income countries in sub-Saharan Africa. However, for total factor productivity (TFP), Botswana compares unfavorably both with non-African upper-middle-income countries and with regional TFP standards observed in South Africa or Namibia. Wages are higher than in China or Thailand, but lower than in

Table 4: Doing Business in four African and four non-African countries

Indicator	Botswana	Mauritius	Namibia	Tunisia	Venezuela	Trinidad and Tobago	Uruguay	Thailand
Rank out of 181 countries	**38**	**24**	**51**	**73**	**174**	**80**	**109**	**13**
GNI per capita (US$)	**5,840**	**5,450**	**3,360**	**3,200**	**7,320**	**14,100**	**6,380**	**3,400**
Starting a business								
Procedures	10	5	10	10	16	9	11	8
Duration (days)	78	6	66	11	141	43	44	33
Cost (percent GNI/capita)	2.3	5.0	22.1	7.9	26.8	0.9	43.5	4.9
Enforcing contracts								
Procedures	29	37	33	39	29	42	40	35
Duration (days)	987	750	270	565	510	1,340	720	479
Cost (percent of claim)	28.1	17.4	29.9	21.8	43.7	33.5	19.0	14.3
Closing a business								
Time (years)	1.7	1.7	1.5	1.3	4.0	No practice	2.1	2.7
Employing workers								
Difficulty of hiring index	0	0	0	28	78	0	33	33
Difficulty of firing index	40	50	20	80	100	20	0	0
Registering property								
Procedures	4	4	9	4	8	8	8	2
Days	11	210	23	39	47	162	66	2
Cost (percent of property value)	5.0	10.8	9.9	6.1	2.2	7.0	7.1	1.1
Getting credit								
Legal rights index	7	5	8	3	3	8	5	4
Credit information index	4	3	5	5	0	4	6	5
Protecting investors								
Investor protection index	6.0	7.7	5.3	3.7	2.7	6.7	5.0	7.7
Paying taxes								
Payments number	19	7	37	22	70	40	53	23
Time (hours)	140	161	n/a	228	864	114	336	264
Total tax rate (percent profit)	17.1	22.2	25.3	59.1	56.6	33.1	58.5	37.8
Trading across borders								
Documents for export (number)	6	5	11	5	8	5	10	4
Time for exports (days)	31	17	29	17	49	14	19	14
Cost to export (US$ per container)	2,508	725	1,686	733	2,590	866	1,100	625
Documents for imports (number)	9	6	9	7	9	6	10	3
Time for imports (days)	42	16	24	23	71	26	22	13
Cost to import (US$ per container)	3,064	677	1,813	858	2,868	1,100	1,330	795

Source: World Bank, 2008.

most of the Southern Africa Customs Union (SACU) economies or Mauritius. The unit labor cost (e.g., the ratio of the average labor costs to value-added) is not a serious constraint on competitiveness. The World Bank's Enterprise Survey also shows that access to finance is a severe constraint for about 60 percent of micro-enterprises and 40 percent of larger organizations.

The quality of labor is one of the constraints to businesses in Botswana, although the number of years of schooling of a typical worker in the median firm in that country is quite high. The problem is related to the relevance of the curriculum in formal institutions of learning. Other constraints relate to infrastructure and starting a business. The four African economies are ranked relatively well on issues concerned with macroeconomic policy stability and political stability as compared with the four non-African countries. In Botswana, trading across borders is expensive. Because of the distance to markets, the cost to import (US$2,508) or to export a container (US$3,064) is high (Table 4), making it difficult for exporters to reach their regional and international markets, especially with standard manufacturing goods for which competition is generally strong.

Table 5: The most problematic factors for doing business

Indicator	Botswana (percent)	Mauritius (percent)	Namibia (percent)	Tunisia (percent)	Venezuela (percent)	Trinidad and Tobago (percent)	Uruguay (percent)	Thailand (percent)
TOTAL	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**
Poor work ethic in national labor force	19.0	7.2	13.6	9.1	1.6	14.7	3.3	2.2
Inadequately educated workforce	14.0	15.2	19.4	5.3	1.2	5.1	5.7	7.4
Inefficient government bureaucracy	11.1	18.6	12.7	14.6	13.8	11.0	18.0	12.1
Inadequate supply of infrastructure	10.5	15.2	4.2	7.5	1.1	5.7	7.5	5.2
Access to financing	10.1	4.5	6.4	15.8	1.6	2.3	11.9	4.1
Inflation	7.4	7.2	6.5	8.6	6.5	15.3	2.4	8.5
Restrictive labor regulations	7.2	10.7	15.1	13.9	12.6	1.6	22.6	1.2
Corruption	6.3	8.0	5.4	2.7	8.4	13.2	0.5	10.3
Crime and theft	5.2	3.7	4.9	0.0	4.6	21.9	1.5	0.8
Poor public health	3.6	0.2	2.2	0.8	0.6	3.4	0.0	0.6
Tax regulations	2.3	1.6	2.0	7.7	2.6	0.7	7.6	5.1
Policy instability	1.3	4.1	0.2	0.6	19.3	1.7	5.5	13.0
Foreign currency regulations	1.2	1.8	1.1	5.8	20.1	0.3	0.0	4.6
Tax rates	1.0	1.8	6.4	6.9	1.1	1.8	13.4	3.5
Government instability/coups	0.0	0.2	0.0	0.6	5.1	1.3	0.0	21.5

Source: World Economic Forum, 2008.

Mauritius is the second-most competitive economy in sub-Saharan Africa in the GCI and the first in Africa in the World Bank's Doing Business (ranked 24th) in 2009 (Table 4). The procedures to start or to close a business are not burdensome. However, labor-market institutions need to be made more flexible. Entrepreneurs face stringent hiring and firing laws that increase their production costs. Importing a container in Mauritius costs US$725. The distance to international markets that, in the 1960s, was considered to be a major constraint for the development process does not appear as important as it was initially thought for competitiveness. For imports, it is observed that Mauritian standards are close to those prevailing in Thailand. The cost and the time to register property is high, however—in Mauritius this is about 210 days, against 162 days in Trinidad and Tobago, another small island of less than 2 million inhabitants; this same process takes only 2 days in Thailand (Table 4).

Mauritius is ranked 57th overall on the 2008–2009 GCI. It has strong institutions with reasonable levels of judicial independence. However, the 2008 World Economic Forum Executive Opinion Survey (Survey) suggests that, among 15 problematic factors for doing business, the most severe constraint is the country's inefficient government bureaucracy for 18.6 percent of respondents, followed by its inadequate supply of infrastructure (15.2 percent), inadequately educated workforce (15.2 percent), and restrictive labor regulations (10.7 percent). Addressing those inefficiencies would surely benefit the Mauritian economy. But, beyond red tape and extensive regulations, its bureaucracy is deemed benevolent. In other words, firms trust government and bureaucrats, but there are "too many rules." This is a significant difference from Trinidad and Tobago, where state failure is a serious constraint.

Firm performance in Mauritius, as measured by average labor productivity or TFP, is higher than in China although lower than the standards in the most productive Chinese provinces of Shenzhen or Hangzhou. Mauritius outperforms low-income sub-Saharan countries in productivity, but it lags behind Brazil and South Africa, partly because of its lower capital intensity. The country's unit labor cost is quite high and can be seen as a potential hindrance to the diversification process. On a yearly basis, the total cost of wages and other benefits in Mauritius is about US$3,800 against US$2,000 in the most efficient Chinese province of Hangzhou. The combination of productivity and wage measures gives Mauritius a unit labor cost that is twice the current ratios of large Asian countries such as China and India.

Mauritian firms perceive access to finance as a major constraint to their operations, and they suffer from bureaucratic red tape for getting business licensing or operating permits as well as facing many required procedures to start a new business. Firms also complain about the weak quality of human capital and consider that the educational system does not meet their needs. In addition to the unavailability of skilled workers, which has a clear negative impact on total productivity, firms have to provide on-the-job training. McDonald and Yao suggested that the recent increase in the unemployment rate could be explained by the rigidities in the labor market, namely wage regulation.[12] There is, therefore, need for reforms to improve business environment.

In the World Bank *Doing Business 2007,* Namibia is ranked 51st; it is 80th overall in the GCI 2008–2009. Starting and closing a business in the country is problematic. These difficulties tend to be correlated with a stable market structure that does not necessarily support economic performance in diversifying sectors. A low turnover of firms is generally correlated with a poor creative destruction process that encourages incumbent firms, low competitive pressure, and a weak innovation environment. Registering property takes a long time and is financially costly. The Namibian environment provides a relatively good fiscal incentive since the percentage of the profit going to the state is 25.3 percent—compared with 58.5 percent in Uruguay, but only 17.1 percent in Botswana (Table 4).

Trading across borders in Namibia is expensive, as evidenced by the cost per container for both import and export (Table 4). Although Namibia should benefit from its coastal location, its distance to the rich markets of northern Europe and America tends to counterbalance this advantage. Labor regulations do not appear to be a major concern. The problem that Namibian producers face is in the inability to fire workers, who benefit from extensive legal protection against dismissal. One of the crucial problems in Namibia seems to be the behavior of workers. According to the GCR, 3 out of the 15 most problematic factors for doing business relate to the labor input and represent about 48 percent of the total recriminations by Namibian respondents (Table 5). Identified problems with this factor are an inadequately educated workforce (19.4 percent), restrictive labor regulations (15.1 percent), and a poor work ethic in the national labor force (13.6 percent). These three items prove to be much more serious than the weaknesses resulting from the functioning of the state: inefficient government bureaucracy (12.7 percent), inflation (6.5 percent), and tax rates (6.4 percent).

In 2007, the World Bank's Namibia Investment Climate Assessment (ICA) was conducted in Windhoek and Walvis Bay. According to the ICA study, firm productivity can be considered to be good. The median firm performance as measured by the value-added per worker is about US$15,000, 50 percent under the South African median firm, but nearly 50 percent above the level in Botswana and Mauritius. Labor productivity is also higher than in China and Thailand, some of the fastest-growing lower-middle-income countries. The median monthly Namibian wage for full-time permanent production workers is close to US$300. This is considerably higher than in most sub-Saharan countries, but much less than in South Africa, where it is US$800.

Labor cost accounts for about 30 percent of value-added in Namibia, a little more than in China or Thailand, so it does not appear to be a major constraint for the country's international competitiveness. Perceptions about the investment climate are somewhat atypical in the sense that there is no prevailing problem among the 17 considered areas. The ICA reports that for about 20 percent of firms, worker skills are a serious matter, but this ranks after crime (28 percent) and tax rates (20 percent). Taxation rates on profit are mentioned as a major concern by only 4.1 percent of the business executives. Namibia compares favorably with a wide range of middle-income economies and is one of the best performers in Africa in terms of productivity. Firm technical efficiency results from their organizational knowhow, as well as from a good economic and institutional environment. Few firms in Namibia complain about infrastructure. Managers in the manufacturing sector are mainly concerned about security, worker skills, and education. Consistent with this, both educational attainment and the quality of education are generally considered to be low.

Tunisia ranks among the most efficient middle-income countries on its business environment, comparing favorably with other Middle East and North African countries, and ranks 36th overall on the GCI, close to Thailand (34th). Thailand is a resource-scarce and labor-abundant economy with a per capita GDP close to that of Tunisia (US$3,200 in 2008) and an economy whose GDP growth is driven by manufacturing activities. However, the World Bank's *Doing Business 2009* ranks Tunisia 73rd against 13th for Thailand. The latter is in a highly competitive regional environment that requires pragmatic policies to promote efficiency and attract foreign direct investment. The Tunisian environment is less conducive in spite of its proximity to the European Union, and the fact that it has opened its market to European products duty-free since 2008.

In Tunisia, relations between employees and workers are strongly regulated. For instance, the firing index, which assigns values from 0 to 100 with higher values representing more rigid regulations, is 0 for Thailand and Uruguay, but 80 for Tunisia 80 (Table 4), close to what is observed in Venezuela (100), and significantly above the average for middle-income countries. Although closing a business is not a long and costly process, contract enforcement still remains problematic.

The total tax rate in Tunisia is high, absorbing 59 percent of profits compared with 38 percent in Thailand (Table 4). This high level of taxation is a consequence of high social security contributions that Tunisians have to pay rather than the corporate income tax rate, which is one of the lowest among the eight countries considered in this chapter. In November 2006, The Institut d'Economie Quantitative (IEQ) published a report on Tunisian competitiveness on the basis of a survey conducted with a sample of manufacturing enterprises. Most firms considered excessive tax and regulations to be major constraints for doing business in Tunisia, and they believed that this raises labor costs. Indirect costs, through the labor tax and social security contributions, are burdensome and viewed as a disincentive to invest in labor-intensive technologies.

Accessing credit is also considered to be an important concern for small- and medium-sized enterprises in Tunisia. The legal rights index score, which measures the degree to which collateral and bankruptcy laws facilitate lending, is quite low: 3, the lowest value in Table 4. According to the IEQ study, access and the cost of getting loans are a severe constraint for Tunisian firms.

Getting a loan needs to be covered by significant guarantees that vary from 138 percent of the total amount of the loan for large firms to 203 percent for small ones. Providing loans to the productive sector is one of the crucial objectives over the medium run. These constraints are also specified in Table 5. Indeed, access to financing (15.8 percent) ranks first among the most problematic factors for doing business, followed by government bureaucracy (14.6 percent) and problems around labor regulations (23 percent), while tax rates (7.7 percent) is the sixth most problematic factor. In comparison to Thailand, Tunisian authorities find their comparative advantage in the promotion of a more stable economic and political environment (1.2 percent against 34.5 percent) and less corruption (2.7 percent against 10.3 percent). But both countries still suffer from heavy bureaucracy.

Diversification of the economies and efficiency enhancers

Diversification of economies implies that countries produce, and presumably export, a wider range of products than they did initially. Over and above this, countries need to produce for export a wider range of goods and services, with emphasis on high-tech, higher-value-added, modern items. The usual argument for diversification for resource-rich economies is to mitigate the effects of Dutch disease. Since many resource prices have been highly volatile, overreliance on resource exports can be risky. This calls for countries to take mitigating measures by creating resource funds in good times or by promoting diversification. In the case of small economies such as our four countries, production is often narrowly based, with few significant exportables; this is also a source of economic vulnerability and therefore increases the need for diversification. In addition, the argument for diversification arises from the fact that natural resource production and exports benefit little from innovation and productivity gains, and countries need to expand into sectors that do benefit from such gains. And, although countries are encouraged to diversify, they need to ensure that the new goods or services are of high-enough quality to be internationally competitive.

The transformation of the four economies started with marginal changes favoring a reduction of the anti-export bias through incentives, rather than radical trade liberalization policies that would have been difficult to implement. However, broadening the productive base through the diversification process still remains a major challenge for all four of these economies.

The analysis of efficiency enhancers shows that market size shapes the development pattern. But with the removal of trade preferences, the current international environment is more difficult than the one that prevailed for decades. Regional integration is one of the solutions. The four countries have each signed several bilateral and regional agreements. For example, Botswana, Namibia, and Mauritius are member states of the South African Development Community (SADC), which was created in 1992. In August 2008, the last Summit of Heads of State and Government of SADC launched the free trade area, which recognized that regional free trade will create a larger market, releasing potential for trade, economic development, and employment creation. The SADC Protocol, which became effective in 2000, called for the establishment of the free trade area by 2012. Tunisia is likely to benefit from the gradual creation of a free-trade zone through the Euro-Mediterranean partnership of the Barcelona Declaration. Countries need to address issues related to the diversification process as globalization makes competition and firm survival more urgent than ever.

Stiffer competition forces economies to implement policies to improve productivity levels. In the four countries, price or cost competitiveness has been important for export promotion, but not strong enough to speed up diversification. African economies need to put a diversification process in place through pragmatic policies such as those of successful Asian economies. In Tunisia, businesses are taking advantage of the nearby European consumers and are also improving on the quality of their products. This strategy seems to be efficient, as evidenced by the 15.9 percent increase in exports in 2007 compared with a decline of about 3 percent in 2006.[13] In Mauritius, after several years of contraction, exports of apparel and clothing accessories are increasing. Both economies apparently have the potential to face Asian competition. However, this will require further restructuring and diversification through building additional niche markets in the manufacturing sector as well as providing strong support for the emergence of tradable services.

In Botswana, concerns about diversification of the economy are being addressed in the country's Ninth Development Plan, which was designed in response to the risk related to the depletion of diamond production and the need to increase formal employment. Structural reforms are being implemented to support private sector–led investment in nontraditional and non-mining sectors. In 1999, the International Financial Services Centre was created to mobilize Botswana's domestic expertise in financial services. In Namibia, authorities are promoting diversification through agro-industry, aquaculture, and some niche industries such as cement and small-scale processing of diamonds. Structural reforms might help to attract foreign investors as the private sector is expected to take the lead in diversifying exports.

Among services, tourism is an important sector from which Botswana could benefit because of its proximity to South Africa. Tourism, accounting for more than 10 percent of Botswana's GDP, is the third-largest sector in the economy and one of the most important that could support diversification of the economy.

Table 6: Global Competitiveness Index 2008–2009 scores for four African and four non-African countries

Global Competitiveness Index component	Botswana Rank (score)	Mauritius Rank (score)	Namibia Rank (score)	Tunisia Rank (score)	Thailand Rank (score)	Venezuela Rank (score)	Uruguay Rank (score)	Trinidad and Tobago Rank (score)
Global Competitiveness Index overall score	**56 (4.2)**	**57 (4.2)**	**80 (4.0)**	**36 (4.6)**	**34 (4.6)**	**105 (3.6)**	**75 (4.0)**	**92 (3.9)**
Basic requirements	**53 (4.6)**	**50 (4.7)**	**48 (4.7)**	**35 (5.2)**	**43 (5.0)**	**111 (3.6)**	**57 (4.5)**	**65 (4.4)**
1. Institutions	36 (4.7)	39 (4.7)	42 (4.6)	22 (5.2)	57 (4.2)	134 (2.4)	45 (4.6)	104 (3.4)
2. Infrastructure	52 (4.0)	43 (4.3)	33 (4.6)	34 (4.6)	29 (4.7)	109 (2.5)	69 (3.5)	63 (3.6)
3. Macroeconomic stability	22 (5.7)	117 (4.0)	27 (5.7)	75 (4.9)	41 (5.4)	110 (4.3)	104 (4.4)	51 (5.2)
4. Health and primary education	112 (4.2)	57 (5.7)	118 (4.0)	27 (6.1)	58 (5.6)	74 (5.4)	54 (5.7)	72 (5.4)
Efficiency enhancers	**82 (3.8)**	**66 (4.0)**	**93 (3.6)**	**53 (4.2)**	**36 (4.5)**	**94 (3.6)**	**83 (3.8)**	**80 (3.8)**
5. Higher education and training	87 (3.7)	67 (4.0)	110 (3.1)	27 (4.8)	51 (4.3)	79 (3.8)	62 (4.1)	78 (3.8)
6. Goods market efficiency	93 (3.9)	40 (4.6)	94 (3.9)	30 (4.8)	46 (4.5)	132 (3.1)	79 (4.1)	90 (4.0)
7. Labor market efficiency	52 (4.5)	65 (4.4)	50 (4.5)	103 (4.1)	13 (5.0)	131 (3.4)	106 (4.0)	76 (4.3)
8. Financial market sophistication	40 (4.8)	32 (5.0)	53 (4.5)	77 (4.1)	49 (4.6)	116 (3.5)	88 (4.0)	52 (4.6)
9. Technological readiness	89 (3.0)	55 (3.6)	85 (3.0)	52 (3.7)	66 (3.4)	86 (3.0)	64 (3.4)	63 (3.4)
10. Market size	101 (2.7)	110 (2.5)	122 (2.3)	62 (3.6)	21 (4.9)	36 (4.5)	91 (3.0)	103 (2.7)
Innovation and sophistication factors	**98 (3.2)**	**69 (3.6)**	**104 (3.2)**	**30 (4.2)**	**46 (3.9)**	**116 (3.0)**	**82 (3.4)**	**79 (3.5)**
11. Business sophistication	106 (3.5)	55 (4.3)	94 (3.6)	40 (4.5)	46 (4.4)	115 (3.3)	85 (3.8)	73 (4.0)
12. Innovation	83 (3.0)	80 (3.0)	111 (2.7)	27 (3.9)	54 (3.4)	115 (2.6)	77 (3.0)	86 (3.0)

Source: World Economic Forum, 2008.

Note: For each of the 12 pillars, the first figure refers to the international ranking out of 134 countries. The specific score, on a 1-to-7 scale with 1 being the worst and 7 the best, is shown in parentheses.

Similarly, in Namibia, tourism accounts for about 17 percent of GDP and employment, while in Mauritius and Tunisia, activities in tourism are already highly significant. In Mauritius, tourist arrivals increased by 15 percent in 2007, with the greatest rise occurring in the number of arrivals coming from China. In Tunisia, although new information and communication technology (NICT) is now a key strategic sector within services, tourism is the leading sector, accounting for 6 percent of the country's GDP in 2006.[14]

The four economies need to improve on the four key pillars of efficiency enhancers, on which they are ranked relatively low (Table 6). Further reforms still need to be implemented in crucial areas that influence firm productivity, including labor regulations and access to finance. In the manufacturing sector, labor input generally contributes to a high share of value-added. It means that more flexibility in contractual arrangements would reduce production costs. Among the efficiency enhancers of the GCR, out of 134 countries, Botswana ranks 52nd on labor market efficiency. However, some public regulations in Botswana still remain problematic for doing business;[15] this is also the case in Namibia. The impact of full implementation of Namibia's new Labor Act is yet to be fully determined, and labor market rigidities partly contribute to the high unemployment rate in Namibia.

About half of the Namibian population falls below the poverty line. Undernutrition and malnutrition are still problems, especially for young children. In Namibia and Botswana, HIV/AIDS prevalence—which has an enormous impact on life expectancy—is among the highest in the world; in Botswana, it was about 51 years in 2007, which is 20 years less than the average in upper-middle-income countries worldwide. In Tunisia, the rise in the working population and the rate of women's labor force participation create an unemployment problem. In Mauritius, in spite of continuous progress since the 1990s, labor regulations remain a problem outside the EPZ. A more efficient labor market would help workers in the transition from declining sectors to growing ones. Hiring and firing rules for the entire economy need to be adjusted to the more flexible standards that prevail in the EPZ. Furthermore, labor costs and firm competitiveness would improve with the dismantling of the current centralized wage settlement mechanism that undermines the relationship between nominal cost and factor productivity. In spite of these problems, Mauritius's ranking on the labor market efficiency pillar improved dramatically, moving from 82nd in 2007 to 65th in 2008.

In the four countries, reforms in the educational system are also required to provide growing sectors with skilled workers to meet market demand. Higher education and training is one of the six pillars of the efficiency enhancers component of the GCI. Education and training are key factors for technological readiness and increased productivity as well as competitiveness; this is the second main problematic factor for doing business in the three of the four economies, after market size. In Botswana and Namibia there is an acute shortage of skilled workers.

Education has been one of the main determinants of TFP gains over the period 1960–90 in Tunisia and Mauritius.[16] In Tunisia, quality education has supported new specializations through manufacturing niches and outsourcing activities. Education and training is also an important driver for competitiveness in Mauritius. However, weaknesses in the educational system of Mauritius is regarded as the third most problematic factor for doing business, forcing firms to provide on-the-job training.

Lessons and challenges in the current global context

The four African countries have addressed their different challenges in ways appropriate to their own circumstances. Some of their solutions share common traits. Together they provide some useful insights for other countries facing the same kinds of issues.

Lessons learned

Good governance and strong and visionary leadership through formal institutions and informal rules greatly contributed to the success of all four countries. Social consensus was promoted and strengthened over time. For example, political contestability and effective institutions governing private property have always existed in Botswana. According to Acemoglu et al., these institutions protected the property rights of actual and potential investors and provided political stability.[17] These institutions also ensure that political elites are constrained by the political system and the participation of a broad cross-section of the society. This active participation of the population dates back to the Kgotla, a precolonial and still operative institution where adult males assemble and freely discuss issues of public interest. This contributed to the constitution of efficient social capital giving rise to valuable social cohesion. Traditional institutions have coexisted with modern or more formal institutions in an efficient way. Through Kgotlas, people have the opportunity to criticize, to express their "voice" or "loyalty." Thus electoral competition but also traditional checks and balances support performance.

To a large extent, the other three countries also succeeded in building efficient institutions. Mauritius and Namibia share strong and transparent public institutions as well as independence of the judiciary. Although not at the same level or in the same form as in the three other countries, Tunisia's institutions are rated highly in the GCI, resting on fairly transparent and trustworthy relations between the government and civil society and providing some of its major competitiveness advantages.

Public governance has also played an important role. The four countries benefited from an efficient state combining responsible governments and good governance compared with most other African countries. This is particularly true in the areas of security, political and economic stability, and corruption. Important public goods (competent and honest bureaucracy, public safety, law and order, and health and sanitary standards) are aptly provided in the four countries. Infrastructure is fairly good, although more has to be done at this level to enhance competitiveness. Botswana ranks highly worldwide in the efficiency of government spending. It has succeeded in managing its development while many other African countries got trapped by the "resources curse." In Namibia, long-run dynamic growth was supported by a prudent and efficient fiscal policy that helped maintain a budget surplus and minimize external borrowing. Tunisia also managed its public spending efficiently. In all four countries, corruption is not considered a serious problem, and they enjoy a responsible civil service.

Importantly, the four countries succeeded in promoting a long-run holistic vision of development. This orientation of economic policy was supported by strong and visionary political leaders. States recently designed industrial policies in a broad sense, which included all policies stimulating specific economic activities (not industry per se) and promoting structural change.[18] Market failures that justify industrial policy can be found in virtually all kinds of nontraditional activities, not just in manufacturing. In Tunisia and Mauritius, industrial policies have made possible the coexistence of inward-looking protected activities with the development of an efficient export sector. Mauritius succeeded in overcoming the problem of its small market through the EPZ Act of 1970, which created a special regime for firms catering exclusively to the export market. The sugar cane monoculture economy of that country gradually diversified and transformed its productive sector beyond trade-protected activities. In Tunisia, early in the 1970s, the government followed a similar policy of providing fiscal incentives to exporters of textiles and garments. This contributed to strengthening light industry beyond traditional food-processing activities, and was further enhanced through the first Structural Adjustment Process (1986) and the implications of the Barcelona Declaration (1995). In both Tunisia and Botswana, development plans have been the traditional public instrument to promote their long-run visions.

These countries have all paid strong attention to the political feasibility of reforms. Political leaders were concerned with both the preservation of the social consensus and the promotion of economic reforms. Accordingly, the transformation of economies started with a preference given to marginal changes. The speed of the liberalization adopted in these countries was that of gradualism instead of shock therapy. This strategy was made possible by the quality of institutions, especially the ability and credibility of governments to commit over the long run. The reduction of the anti-export bias through incentives was favored over radical trade liberalization policies, which would have been difficult to implement not only because of the permanent search for social peace, but also because of the difficulty in going against vested interests.[19] Protected firms may use their influence to block any policy reforms that may eliminate their domestic advantages. Small groups benefiting from trade protectionism hurt economic growth; but since the benefits of these policies are concentrated among the few coalition members and the costs are diffused throughout the whole population, public resistance to the cost of protection is unlikely.[20]

Although manufacturing activities still remain limited in Namibia and Botswana, the diversification process had initial political problems similar to those in Mauritius and Tunisia. Harvey and Lewis argue that, at independence, Botswana's government was inexperienced in running a modern state.[21] By the mid 1970s, when diamond revenues exceeded those from ranching, it was important that political elites did not fear becoming political losers of economic transformations. According to Acemoglu et al., political elites in Botswana and communities inherited a set of institutional prerequisites that placed restrictions on infighting among themselves over political rents.[22] In Tunisia, except for the two post-independence decades, the leadership preferred public-private partnerships to the public sector alone in the management of economic affairs.

To some extent the four countries adopted pragmatic industrial policies copying the experience of Japan's Ministry of International Trade and Industry (MITI), where developmental nationalism was embodied in formal institutions or state bureaucracies.[23] For example, Botswana negotiated in 1967 a lasting and win-win partnership with the South African diamond company De Beers. This partnership enabled the government to obtain revenues from mineral wealth that it successfully channeled into productive investments. A second example of the ability to create a fruitful dialogue with private organizations is Tunisia's *mise-à-niveau* program, which was developed in the wake of the association agreement with the European Union in 1995. This program, which was launched in 1996, played a positive role in the performance of the Tunisian industry. It entails allocating to companies that present an upgrading investment plan a financial subsidy to both strengthen their competitiveness and preserve market shares through modernizing their facilities and increasing their use of human capital and intangible production means. Firms that took part in this program have improved their productivity and export performance compared to others.

The challenges

Beyond past performance, these four countries face the challenge of the current global economic crisis in the short and medium terms in managing their economies and competitiveness. In the long run, they have to address the issues of accelerating the diversification of the productive base to enhance their competitiveness.

Short-term challenges: The financial crisis

The financial crisis is now having an impact on the real sector of the four African economies considered in this chapter.[24] Their growth outlooks have deteriorated and their macroeconomic balances worsened (Table 1). For example, the African Development Bank pre-crisis growth estimates for Botswana in 2008 and 2009 were 5.3 and 5.2 percent, respectively. They have been revised down to 3.9 and 2.6 percent, respectively. Similar growth deceleration trends are being experienced in the three other countries.

The global downturn is severely affecting Botswana's mining industries, as well as manufacturing and services that rely on external demand. The fall in diamond production and prices since November 2008 have been important contributing factors to this deterioration. Botswana has experienced a sharp decline in industrial production, export, and government revenues, leading to fiscal outruns and external imbalances. Foreign reserves are falling rapidly. The near outlook is quite pessimistic because the fall in mineral revenues is expected to be prolonged, limiting the government's ability to finance economic recovery plans.

In Namibia, the first-round impact of the crisis occurred through indirect channels: exchange rate, inflation, and interest rates. The Namibia dollar depreciated against major currencies during the first three quarters of 2008. This led to high prices of imported goods and inflation, and, consequently, high interest rates. The GDP growth estimates for 2008 and 2009 have been revised downward from 4.4 and 3.3 percent to 3.4 and 2.7 percent, respectively. Estimated and projected exports revenues have also been revised downward, while the current account surplus will be maintained but at much lower level than pre-crisis.

Although Tunisia was initially sheltered from the financial crisis because of a relatively closed financial sector and restrictions on the capital account, it has by now experienced the full spectrum of the effects of the global economic downturn, from a contraction in industrial production and exports to sharp declines in government revenues and foreign reserves. Tunisia, with 80 percent of its exports to the euro zone, is highly vulnerable to the economic slowdown in that area. As a result, 2009 growth projections have been revised downward by 1.5 percentage points.

In Mauritius, the financial system was protected from the first-round effects of the global financial crisis. The banking system is well regulated, and banks are adequately capitalized and highly liquid. In addition, local banks have been quite conservative in their investment strategy, with their loans being financed mainly through domestic deposits. The second-round effects of the global economic meltdown are now being felt by the real sector. The export sector is being affected by the recession in Mauritius' major export markets, and the

Mauritian tourism sector is also affected by a decline in arrivals from Europe, its main market.

The four countries have attempted to mitigate the adverse impact of the crisis. For instance, Botswana's Central Bank cut its bank rate by 50 basis points, to 15 percent in December 2008. Namibia's Central Bank also reduced its repurchase rate to stimulate borrowing and boost private investment and consumption. The Tunisian government has taken a number of steps to attenuate the impact of the financial crisis: a commission to monitor the crisis has been established; the 2009 budget includes a significant increase in public investments, along with measures to increase external competitiveness and employment and strengthen social protection; and the Central Bank is relaxing its monetary policy stance—the dinar money market rate has fallen from about 5.2 percent in December 2008 to 4.65 percent in January 2009. In Mauritius, in January 2009 the government announced in a stimulus package to boost domestic demand and increase job creation. This package is worth 10.4 billion Mauritian rupees (US$0.3 billion), or approximately 3 percent of the country's GDP.

The crisis has underscored the relative vulnerability of these four small open economies, which are highly reliant on a few key products that either face acute competition on world markets (e.g., textiles) or whose prices are highly correlated with the global economic situation (diamonds). There is a critical role for export diversification in reinforcing the resilience of economies to external shocks. To achieve this goal, the stiffer international competition calls for these countries to improve their business environment and possibly establish more active exchange rate policies. As argued by Rodrik, a structural undervaluation of the exchange rate facilitates economic growth.[25] This strategy has proved efficient in some Asian economies, including China.

Medium-term challenges: Diversification

In Mauritius and Tunisia, the textile industry is facing some challenges. Some years after phasing out the MFA, textile has performed better than was expected in these two countries. In Tunisia, producers try to position their production both on the basis of short distribution channels by catering to nearby European consumers and on quality productions. This strategy seems to be working well for the sector's efficiency, as evidenced by an increase in exports of 15.9 percent in 2007 compared to a decline of about 3 percent in 2006.[26] In Mauritius, increasing South-South trade partnerships could mitigate the direct impact of big emerging economies.

As former President Festus Mogae of Botswana has recently recalled, the diversification of Botswana's economy remains its biggest challenge.[27] Concerns about the diversification of the economy are addressed in the Ninth Development Plan in response to the risk of a depleted diamond stock and the need to increase formal employment. Structural reforms are being implemented to support private sector–led investment in nontraditional and non-mining sectors.

In Namibia, the focus is on diversification through agro-industry and aquaculture, and includes some niche industries such as cement and small-scale diamond processing. The private sector is expected to take the lead in diversifying exports, so structural reforms that could attract foreign investors are being considered.

Based on the development pattern of Mauritius and Tunisia, tourism is one sector that has the potential to contribute to the diversification of Botswana's and Namibia's economies. Tourism is Tunisia's leading sector, accounting for 6 percent of GDP in 2006;[28] both Botswana and Namibia can benefit from their proximity to South Africa in growing their tourism sectors—in Botswana, it now accounts for more than 10 percent of GDP and is its third-largest sector. In Namibia, tourism accounts for about 17 percent of GDP and employment.

Reforms can be facilitated by good relative prices, and the exchange rate policy contributes to this end. But the four economies can also improve the costs of doing business both internally and with the outside world. However, additional improvements are needed in all four. Business executives complain about some restrictive regulations, especially at the level of the labor market, which negatively impact productivity levels.

In the manufacturing sector, labor input generally contributes a high share of value-added, and there is need for more flexibility in contractual arrangements. In Namibia, where the impact of full implementation of the new Labor Act is uncertain, labor market rigidities could be contributing to the high unemployment rate. In Tunisia, where there are significant labor rigidities, the rise in the working population and the rate of women's labor force participation has an impact on the unemployment rate. In Mauritius, in spite of continuous progress since the 1990s, labor regulations remain a problem outside the EPZ. Therefore, labor market liberalization in all four countries would help the deepening of their integration into the world economy—provided that governments find the right way to maintain the social stability that contributes to long-run economic successes.

In the four countries, reforms in the educational system are also required to provide growing sectors with skilled workers. For all four, education and training are a major problem. In Botswana and Namibia, there is an acute shortage of skilled workers that needs to be addressed. There is a strong relation between investment in people and economic growth. Education and training are therefore a key factor for technological readiness to raise productivity and to enlarge production of more sophisticated products. These factors are therefore crucial to move these economies on to an efficiency-driven economies and, eventually, to an innovation-driven growth path.

Many observers consider that education has been one of the main determinants of TFP gains over the period 1960–90 in Tunisia and Mauritius.[29] In Tunisia, a new sectoral production structure will depend on the possibility of a more efficient mobilization of human capital and knowledge, more efficient production processes, and a higher quality of products. Education and training are also important drivers for Mauritius, as the weakness of the educational system is among the most problematic factors for doing business (Table 5). To counterbalance this shortcoming, firms have to provide training, which constitutes an additional cost to them.

Channeling adequate and long-term financial resources to producers, which is a driving force for diversifying the economy and for the restructuring of the manufacturing sector, still remains a challenge for these economies.

The scope of the convertibility of domestic currencies is also a medium-term objective. Mauritius has moved more rapidly than Tunisia to a high level of convertibility of the domestic currency with free capital mobility. Although the liberalization of the capital account is a factor for deepening the integration into the world economy, unfettered capital account liberalization may increase risks leading to currency and banking crises. With lessons learned from the crises in Asia and Latin America over the last decade, and with the financial problems that some emerging countries are presently facing with the worldwide crisis, it is clear that African countries must move very carefully with capital account liberalization.

Conclusions

Botswana, Mauritius, Namibia, and Tunisia are among the few countries that qualify as African economic success stories. In all four countries, the governments have proved to be a driving force behind their success. The four states established fairly clear rules of the game, and maintained peace and security as well as provided adequate public services.

Resource-rich Botswana and Namibia avoided the Dutch disease and the violence and domestic conflicts that very often come with natural resource endowments. In both countries, thanks to efficient governance, natural resources have been a blessing, not a curse. In Mauritius and Tunisia, which are resource-scarce and labor-abundant countries, an active and flexible real exchange rate policy has helped their development. Along with sectoral adjustments this has allowed them to reach macroeconomic equilibrium.

Beyond a sound macroeconomic framework, institutions have been a determining factor for social cohesion in all four countries. Good governance as well as strong and visionary leadership through formal institutions and informal rules, as in the case of Botswana, has greatly contributed to the success of the four countries. Social consensus was promoted and strengthened over time. Governance is part of this institutional environment and has proved to be efficient. States have proved to be efficient in promoting a long-run holistic vision of development, taking into account the constraint of their small economies and the need to maintain social cohesion.

The governments of Mauritius and Tunisia were concerned about the political feasibility of reforms. They chose gradualism over shock therapy. This choice was made within a framework of credible public actions and the ability of these governments to commit to their long-run goals. As in some Asian countries, public-private partnerships were favored over large public sectors in the management of economic affairs. Some of these positive elements will be significant assets that these countries can use to manage the implications of the global economic crisis and to diversify their economies to enhance their competitiveness.

The four countries benefited from an efficient state combining responsible governments and good governance compared with most other African countries. This is particularly true in the areas of security, political and economic stability, and corruption. Important public goods (competent and honest bureaucracy, public safety, law and order, and health and sanitary standards) are aptly provided in the four countries. Infrastructure is fairly good, although more has to be done at this level to enhance competitiveness. Botswana ranks highly worldwide in the efficiency of government spending. It has succeeded in managing its development while many other African countries got trapped by the "resources curse." In Namibia, long-run dynamic growth was supported by prudent and efficient fiscal policy that helps maintain a budget surplus and minimize external borrowing. Tunisia also managed its public spending efficiently.

Botswana, Mauritius, Namibia, and Tunisia all need to increase the quality of their human resources to further their competitiveness. Given their current stages of development and the global economic environment, human capital will be a key condition for these countries to enhance firm productivity, upgrade technologies, and develop high-value-added services. In this respect, higher education and training need to address labor market needs. All four countries would benefit from having greater flexibility in the labor market. However, such flexibility needs to preserve the social contract that helps those countries avoid violence, crime, and endemic corruption.

Notes

1 Acemoglu et al. 2003.

2 Basdevant 2008.

3 The paradox of diamond exploration in Botswana is that it accounts for about 5 percent of employment.

4 AfDB 2007a.

5 Balassa 1964 and Samuelson 1964.

6 This initial forecast was made in Meade 1961. See Subramanian and Roy 2001.

7 AfDB 2007a.

8 Rogoff 2005.

9 Rodrik 2008.

10 IMF 2007.

11 IMF 2008.

12 McDonald and Yao 2003.

13 AfDB 2007a.

14 AfDB 2007a.

15 Basdevant 2008.

16 See Morrisson and Talbi 1996; Subramanian 2001.

17 Acemoglu et al. 2003.

18 Rodrik 2008.

19 See Hellman and Kaufmann 2001.

20 Olson 1965, 1982.

21 Harvey and Lewis 1990.

22 Acemoglu et al. 2003.

23 Kiiza 2006.

24 AfDB 2009.

25 Rodrik 2008.

26 AfDB 2007a.

27 Mogae 2008.

28 AfDB 2007a.

29 See Morrisson and Talbi 1996; Subramanian 2001.

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Appendix A: Price competitiveness through real effective exchange rates

For each country, two indexes have been considered to measure the standard real effective exchange rates (REERs). These two indexes differ according to the international partners and the external trade weighting pattern we refer to. In both cases, the 10 largest bilateral trade partners are considered over the period 1999–2003. One index refers to the non-oil countries from which a country imports its goods and services; the other is based on the countries to which a country exports its products. Weights are calculated as an average over the period 1999–2003 in order to focus the competitiveness diagnosis on the most recent years. This choice can take into account the increasing contribution of some large emerging countries such as China, India, and Brazil. Using the OECD's list, 21 countries are classified as oil-exporters—those for which petroleum-related products represent at least 50 percent of exports. The main rationale for this distinction is that competition between oil imports and domestic production is limited or does not exist. Moreover, an oil price increase that can be anticipated as permanent is a positive shock to the terms of trade for energy producers. Such an increase raises the level of permanent income of the oil-producing country's citizens and gives rise to potential inflationary pressures, generating the Dutch disease phenomenon. The potential negative impact of the domestic relative price movement is not negligible for the production structure of oil-exporters. But it is much more damaging for oil-importers. Indeed, when external terms of trade deteriorate, the same inflationary pressures mean a loss of competitiveness for all tradables.

Because of its better statistical properties, a geometric rather than an arithmetic mean of the relative prices has been used to compute the REER. An appreciation of the average nominal exchange rates reflects a potential loss of competitiveness. In equations (1) and (2), (i) refers to a partner and wi to its relative contribution to the total bilateral imports.

Nominal effective exchange rate (NEER)

$$NEER = \prod_{i=1}^{10} (NBER_i)^{wi} \qquad (1)$$

Real effective exchange rate (REER)

$$REER = NEER \times \prod_{i=1}^{10} \left(\frac{CPI}{CPI_i}\right)^{wi} \qquad (2)$$

where (according to the IMF's *International Financial Statistics*)

CPI = consumer price index of the African country or its partners (i);

$NBER_i$ = nominal bilateral exchange rate of the country as regards partner i;

and (according to *PCTAS-SITC-Rev.3*)

wi = the weight of the ith partner in the bilateral trade of the country (1999–2003).

The 10 largest partners are considered. $i = (1 \ldots 10)$.

Appendix B: Main exports and their respective share in total exports, 2006

Countries and products	Product 1 (percent)	Product 2 (percent)	Product 3 (percent)
Botswana	Diamonds, non-industrial (78.6)	Nickel mattes (11.4)	Diamonds, industrial non-worked (4.1)
Mauritius	T-shirts, jerseys, vests, etc. knits (17.7)	Sugar (beet or cane), raw (17.9)	Skipjack or stripe-bellied bonito, frozen (9.7)
Namibia	Diamonds, industrial non-worked (39.5)	Zinc, crude (15.3)	Natural uranium (9.8)
Tunisia	Petroleum oils and oils from bituminous) minerals, crude (8.7	Men/boy's trousers and shorts, cotton, not knitted (6.2)	Olive oil, virgin (5.4)

Source: *African Economic Outlook 2008,* AfDB, OECD, and UNECA, 2008. Available at http://www.oecd.org/document/33/0,3343,en_2649_15162846_39963489_1_1_1_1,00.html.
Note: Products are at the 4-digit level of the SITC3.

Appendix C: Macroeconomic performance and social development indicators, 2007

Indicator	Botswana	Mauritius	Namibia	Tunisia	Sub-Saharan Africa	Upper middle income	Low middle income
Population (millions)	1.9	1.3	2.1	10.3	800	823	1,296
GDP at constant 2000 prices (US$)	4,439	4,649	2,246	2,626	842	5,913	2,037
Infant mortality per 1,000 live births	46.5	14	42.3	19.8	94	22	85
Life expectancy at birth (years)	50.7	72.8	52.9	62.5	51	71	57
Literacy rate (percent of population age 15 +)	82.8	87.1	86.6	77.9	59	93	61
Gross primary enrollment (percent of school aged population)	108	102.1	106.3	110	94	111	94
Access to water, 2004 (percent of population)	95	100	87	93	58	95	68

Source: African Economic Outlook 2008, AfDB, OECD, and UNECA, 2008. Available at http://www.oecd.org/document/33/0,3343,en_2649_15162846_39963489_1_1_1_1,00.html.

Note: Enrollment rates may be higher than 100 percent because of repeaters, adults who are enrolled even though they are not in the age group being measured, and other discrepancies. For the last three columns, see the World Bank's Country-at-a-glance tables, available at http://web.worldbank.org/WBSITE/EXTERNAL/DATASTATISTICS/0,,contentMDK:20485916~menuPK:1297819~pagePK:64133150~piPK:64133175~theSitePK:239419,00.html.