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Market Insights & Strategy
Global Markets

24 July 2017

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Off The Beaten Track

The big economies of Sub-Saharan Africa, such as South Africa, Kenya and Nigeria are regularly reported upon and analyzed, but there are a number of much smaller states which have made significant advances, both politically and economically, over the past few years, who do not quite get the same degree of limelight. So in a change of tack from our usual publications I thought this month we would take a brief look at three of these countries, namely; Djibouti, Mauritius and Rwanda. Each face numerous and ongoing challenges, but at the same time highlight the true potential and hope for the world's largest continent as well as dispelling some of its myths.

Djibouti

Geographically Djibouti is a tiny city-state situated at the horn of Africa and along the Red Sea, a stretch of water whose historical importance in terms of trade stretches back more than 3,500 years and is now the world's busiest shipping lane. Prior to its independence in 1977, Djibouti was governed by France and known as 'French Somaliland' between 1894 and 1967, after which it was renamed the 'French Territory of the Afars and Issas', in recognition of the country's two main ethic groups. During the 1990s Djibouti was riven by civil war which only officially ended in 2001 following the signing of a peace accord between the government of Ismail Omar Guelleh and a rebel group called FRUD, (The Front for the Restoration of Unity and Democracy). Guelleh continues to act as President to this day after being re-elected for a 4th term of office in 2016.

Most of Djibouti is barren and thus not suited for any real agricultural activity although it does have some exportable natural resources such as fish, salt, gold, marble and diatomite, and is starting to look at its tourism potential. However the main drivers of the economy for now remain the service and transport sectors, which in turn are reliant on the volume of traffic transiting via the Doraleh and Tadjourah ports. This is where the government has managed to leverage heavily on Djibouti's strategically important location, (especially overlooking the Gulf of Aden and being so close to the entrance of the Suez Canal), as well as its relative political stability. This importance is underlined by the number of foreign military bases currently hosted there including those belonging to; France, Germany, Italy, Japan, Spain and the US, whose rent payments make a significant contribution to the government's coffers, while Chinese and Saudi Arabian forces are also reportedly busy setting up their own facilities there.

China in particular has ramped up its direct investment and commercial presence in the country in recent years, focusing on the creation of an industrial base and customs free zone, as well as providing financial assistance towards the government's ongoing major infrastructure projects such as housing, port expansion and power generation. EXIM Bank of China alone is currently investing in eight major infrastructure projects in Djibouti including a US$300 million water pipeline project from Ethiopia and a new international airport just outside the capital. Meanwhile China's establishment of a 90 acre military base there is significant from a geo-political standpoint too, because it will be the PLA's first official overseas base and will provide its navy with a resupply capability enabling it to have a much wider global reach. Djibouti also acts as the transit route for 95% of Ethiopia's imports and exports, a long-term reliance further strengthened by the completion of a 750km railway line between the two countries earlier this year.

Of course it must be noted that despite its successes the state still faces some major issues including; a high level of poverty, (due in part to the general population's lack of access to higher education which in turn has exacerbated unemployment), and the inordinately high cost of electricity. Meanwhile a jump in government spending over the past few years has worsened Djibouti's external debt position which widened to 85% of GDP last year compared to 50% in 2014, and as outlined above, the economy still relies heavily on the transit of regional and global trade.

In response the government has promised to diversify the economy and boost domestic job creation as it pursues its long-term 'Vision 2035' strategic growth plan. This includes the removal of red-tape such as last year's complete revision of Djibouti's mining laws, and encouraging the establishment of quality hotels and resorts in order to attract more tourists. Meanwhile the country which currently relies on expensive heavy fuel oil and diesel run plants as well as transmission imports from Ethiopia to meet its power needs, is also working to expand its ability to generate cheaper electricity via domestic renewable resources such as geo-thermal, wind and solar power projects. Geo-thermal power appears to have the greatest potential; this was highlighted in a study undertaken by Japan's International Co-operation Agency back in 2014 which identified a number of sites in Djibouti which once developed could combined produce more than 1GW of electricity.

In conclusion, It's likely that Djibouti will be able to leverage off its unique location for some time to come, but if it also continues to implement its structural reform program and rein in its debt over the next few years, then its potential to become an important East African hub cannot be ignored.

Djibouti - Key Indicators (End 2016)*

Population	Real GDP Growth	Debt-to-GDP	Unemployment	Inflation	FX Reserves	FX Regime
960,000	6.50%	85%	39%	3.50%	373 mio	Currency Board

Source: IMF/WB/FAB

Mauritius

Mauritius is an island nation located around 1,200 miles off the south-eastern coast of Africa. It was first colonized by the Dutch in 1638, followed by the French and finally the British before becoming an independent nation in 1968. The island's current population of 1.3 million consists of various ethnic and religious groups, including those descendants of people from India, Africa and China.

The country has a relatively well-diversified economy with thriving manufacturing, financial, agricultural and hospitality sectors. This combined with a stable democratic political environment, a high literacy rate and a history of good governance saw Mauritius rise to number one spot as Africa's most competitive economy following a survey by the World Economic Forum in 2014.

Mauritius is blessed with outstanding natural beauty and with its wide range of hotels and resorts managed to attract over 1.2 million tourists in 2016 to relax within its warm waters and coral reefs. Europe remains the primary source of visitors, although there has recently been a sharp jump in the number of tourists arriving from the GCC region and Asia. However while the hospitality sector continues to expand, it is probably still not close to its full potential, especially if you consider the fact that total Mauritian tourism numbers are still below their main Indian Ocean competitors; the Maldives and Sri Lanka. In response officials are reportedly looking to conduct more aggressive marketing in the lucrative Chinese market and at revising current airline agreements, a bugbear for some in the industry who have alleged, according to a recent FT article, that the number of flights to the country by foreign airlines were being restricted by the government in an effort to protect the state-owned carrier, a claim the authorities deny.

Interestingly the country has also become home to a large number of high-net-worth individuals, highlighted by a 50% jump in the total number of US dollar millionaires basing themselves there between 2006 and 2016. This sharp rise has been attributed to a number of factors including; a low tax regime (15% personal/company tax and zero capital gains/inheritance tax), automatic residency to those purchasing property valued at more than US$500,000, and the fact that over the years Mauritius has established itself as a significant offshore banking centre, with 22 banks currently operating there and its finance industry accounting for more than 12%

of the economy, while its registered GBC's (Global Business Companies) manage over US$600 bio in assets. This has of course created some issues, and one recent high profile case in particular relates to claims that some Indian residents and firms were using a double-tax treaty agreement to rout funds via subsidiaries in Mauritius and thus take advantage of the resultant tax break. This route has now been partially shut down after the two governments agreed to amend their bi-lateral agreements with regards to shell companies and capital gains tax in April 2017. Mauritius, along with 68 other countries, has also agreed to sign the OECD's Multilateral Convention document, and implement the agreement's added provisions which are designed to curtail multinational tax avoidance. On the regulatory side Mauritius was one of the first countries to become compliant with FACTA and implemented the BASEL III guidelines in 2014. Meanwhile the country's stock exchange has a dual listing agreement with South Africa's JSE, and preparations are underway for the launch of the Mauritius International Derivatives and Commodities Exchange (MINDEX) by the end of this year.

On a slightly separate front Mauritius is hoping to leverage on the success of its finance industry by attracting 'fintech' firms to the island with a particular eye towards becoming a regional hub for blockchain technology. In this regard the government already began preparing and implementing regulatory 'sandbox' legislation which can be used by blockchain technology firms to research, develop and commercialize their applications in the country. Moreover it's worth noting that Mauritius is rated as the top country in Africa and came 6th in the world overall on the 2017 Global Cybersecurity Index, due to its legal, technical and organizational capabilities in dealing with cybercrime.

For most of the past 50 years, the manufacturing industry, which is the primary contributor towards GDP, was driven largely by high quality textile and clothing production, and while these also remain the country's leading exports, the sector itself has widened substantially in recent times to include jewelry, watch parts, medical devices and tools. In an attempt to boost this further, the government last month announced an 8-year tax holiday for those companies incorporated in Mauritius after June 8th 2017 and engaged in the manufacture of pharmaceutical products or medical instruments. The corporate tax rate will also be reduced to 3% from the next financial year on any company's profits derived from direct exports. Meanwhile a 'Business Facilitation Bill' was approved in May which lifted constraints on the granting of permits, and there are plans to introduce e-licensing systems to help shorten the time it takes to incorporate companies to less than 2 hours.

Finally while the amount of arable land in Mauritius has declined from 50% in the 1970s to around 37% today, sugar cane remains an important export crop, while forestry and fishing have recorded healthy growth figures over the past few years.

In conclusion, Mauritius is definitely not just another beautiful tropical island off the coast of Africa, it has established itself as a leading example for the continent on the benefits of good governance, sound economic policies and a willingness to embrace new technology.

Mauritius - Key Indicators (June 2017)*

Population	Real GDP Growth	Debt-to-GDP	Unemployment	Inflation	FX Reserves	FX Regime
1,259,000	6.50%	58%	7.40%	2.33%	5.26 Bio	Float

Source: IMF/WB/FAB

Rwanda

Rwanda is a landlocked country in East Africa, which is sadly remembered most for a civil war in the 1990s which triggered a horrific genocide and led to the death of an estimated 800,000 people in just a 100-day period. Visitors to the country today however will discover a completely different land whose citizens have pro-actively worked to confront the emotional and physical scars of this terrible event, rebuild their shattered economy and turn Rwanda into a real African success story. Official data underlines this swift turnaround, with Real GDP growth averaging 8% per annum between 2001 and 2015, and GDP per capita rising from just US$ 250 in 1998 to in US$ 1,900 in 2016, however in order to fully comprehend how remarkable this recovery has really been, it's important to first discuss the country's modern history in a little more detail.

For most of the 19th century the 'Kingdom of Rwanda' was ruled by the Tutsi King Rwabugiri IV whose court's primary wealth was derived from hundreds of large agricultural estates, and its power secured by a number of Tutsi and Hutu chiefs who took care of administrating their areas of influence and securing the Kingdom's frontiers. In 1894 following Rwabugiri's death, his successor Rutarindwa inherited the throne, but he was disliked by many within the Royal council and was soon deposed and replaced with Yuhi Musinga. Further divisions within Rwandan society continued and it was this dissent, which was also echoed in the neighbouring but independent Kingdom of Urundi, that helped the colonial powers of Belgium and Germany, (who had already begun staking their respective claims to the region following an 1890 conference in Brussels), to further extend their authority there, leading to the annexation of both Kingdoms by the German Empire until after the 1st World War, when the League Of Nations granted Belgium control of the area in 1924 and officially named it Ruanda-Urundi. Eventually after a sustained period of civil unrest during the 1950s, the country was split in two in the early 1960s to form the independent and self-governing states of Burundi and Rwanda.

Unfortunately division and mistrust between the area's two largest ethnic groups (the Hutus and Tutsis) which had been exacerbated during the colonial era continued to widen in the preceding years leading to a military coup and creating severe regional upheaval which eventually dragged in Zaire, Uganda and Tanzania culminating in the dreadful genocide against the Tutsis by the Hutus in 1994.

Later that same year a Tutsi rebel group led by a former Ugandan army officer, Paul Kagame, who along with his family had been forced to flee from their ancestral Rwandan home to Uganda in 1959, overthrew the Hutu-led regime and established a new coalition government. In an initial effort to try and unify the country Kagame took the posts of vice-President and Minister of Defence whilst at the same time approving the appointment of a Hutu President, Pasteur Bizimumgu. Senior officials accused of initiating and encouraging the genocide were immediately arrested and executed, and while thousands of ordinary citizens who had allegedly taken part in the mass killings were jailed, most had first been judged by informal village courts that encouraged them to confess and apologize to their victims' families, which in turn helped to build national reconciliation. Following Bizimungu's resignation in 2000, Kagame became acting president while a new constitution was drafted two years later which included the elimination of any reference to ethnicity within the country and was approved by a referendum. This was followed by Rwanda's first legislative elections in 2003 which was won by his party, the Rwandan Patriotic Front, with Kagame winning the Presidential poll soon after by a landslide. He was re-elected for a second term in 2010 and is expected to win his third successive term in the upcoming vote due to take place on August 4th this year.

Once political stability had been restored, Kagame's administration, supported by an influx of foreign aid set about rebuilding the economy, and with very few natural resources apart from its fertile volcanic soil and some tin mines it was going to be major challenge. Rwanda is particularly suited for growing the Arabica type of coffee and so the government's initial focus was on reinvigorating farming this specific crop as well as tea. General agricultural activity, until it was almost wiped out by the genocide, was and still is undertaken primarily by small scale farmers. In order to get these farmers not only planting again but also becoming much more productive, the government provided not only training but also encouraged the creation of cooperatives and the establishment of centralized coffee bean washing and milling stations, the latter funded and guided by a US aid charity called PEARL. The authorities also set a minimum price that these stations pay farmers for their beans based on the current global market prices for such. This system was so successful that by 2013 cooperatives were earning an average of 4 US dollars per kg compared to just 20 US cents back in 2000, and the country's coffee is of such good quality that its main buyers include global giants such as Starbucks and Costco. As the economy slowly began to recover the government started appointing technocrats to key positions, improving tax collection, eliminating corruption and ensuring that public officials were accountable for their actions, a policy which is probably one of the key drivers behind Rwanda's economic revival and its success in attracting foreign investors into the country. In 2017 Transparency International listed the country as the 3rd least corrupt in Africa, alongside Mauritius and ahead globally of countries like Italy and Hungary.

Education was another key target area, and Rwanda now spends close to 25% of its annual budget on this and health care. As a result the overall literacy rate is now over 70% compared to just 38% in 1978, while average life expectancy has risen to 65 years from 48 years just 17 years ago. Meanwhile a law was introduced in 2003 which makes it mandatory for 30% of parliament to be reserved for women only, and in fact female MPs currently hold 49 of the total 80 seats.

Whilst agriculture remains the largest employer, tourism has grown sharply in recent years, and by 2015 was the main foreign exchange generating sector of the economy. It's not just the opportunity to see mountain gorillas in their natural habitat or the ease of visa-free entry that's drawing in more foreign visitors. Rwanda has also jumped on the conference bandwagon, hosting over forty conferences during 2016 and helping to bump overall annual visitor numbers from 104,000 in 2000 to more than one million last year. Mining too has been invigorated and its exports of tin, tungsten and coltan, combined with the country's position as the main conduit for mineral exports from its giant neighbor, the Democratic Republic of Congo, means that this industry is now the second largest hard currency earner after tourism. Looking forward, the government has promised to continue to focus on the further expansion of the private sector by making business registration much simpler, and to push the East African region as a whole to lift unnecessary red-tape, which is still hindering the growth of trade between the various countries. It is also seeking to broaden Rwanda's financial sector which has already attracted investment by a number of foreign institutions such as KCB, Rabobank and Access Bank, eager to take advantage of the country's still under-banked population.

Arriving at the international airport in Kigali and heading out on the streets of the capital highlights the results of another unique and recently introduced tradition. It's called 'Umugganda' which basically means 'working together.' In practice this is the monthly gathering by members of most communities in the country during which citizens clean and maintain the area and homes where they live. These efforts combined with efficient city councils and the banning of plastic bags, means that the county as a whole is very clean and orderly, a rather uncommon sight compared to other parts of the continent.

Of course it's not all Nirvana, and the country still faces many challenges. There are also accusations by both human-rights activists and exiles that the Kagame government has become too authoritarian, that there is zero tolerance towards any real political opposition movements, and that freedom of speech is being suppressed. The government denies these charges, and it has to be said that the President himself remains an extremely popular figure. It also worth bearing in mind that the nightmare, he and the people of Rwanda managed to miraculously extricate themselves from, occurred less than 25 years ago, and so with such a sensitive history, the need for peace, stability, and the ability to provide an opportunity for every citizen to earn a decent living can understandably sometimes outweigh other concerns.

Rwanda - Key Indicators (June 2017)

Population	Real GDP Growth	Debt-to-GDP	Unemployment	Inflation	FX Reserves	FX Regime
11,590,000	6.20%*	41.48%	13.20%	4.80%	1 Bio	Managed Float

Source: IMF/WB/FAB

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