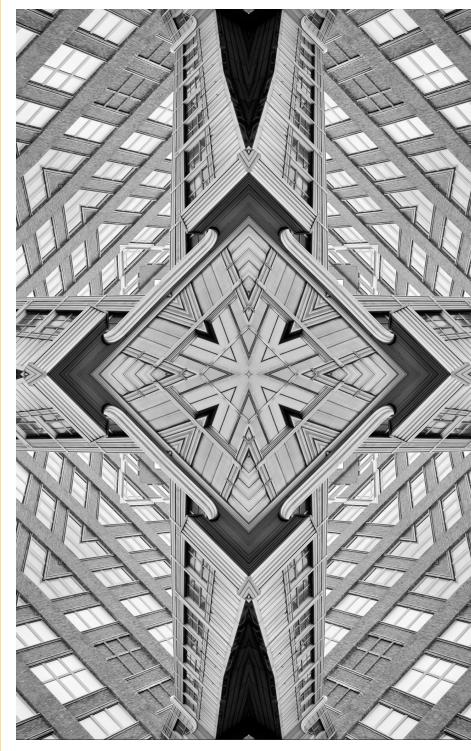


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China's FTA with Mauritius: A Strategic Mix of Trade and Diplomacy

Samir Bhattacharya

In October 2019, China's Free Trade Agreement (FTA) with Mauritius opened the Chinese market to Mauritian exporters and investors. Not long after, concerns arose that Mauritius might be lacking in the capacity to benefit significantly from the agreement and thus lose in terms of a trade imbalance that clearly favours China. This brief revisits China's motivations for the FTA, and finds economic and geopolitical goals. Given Mauritius's small market, other African countries are unlikely to compete against China. Historically, however, China has tried new models in smaller states before implementing them at scale. If China intends to replicate the model in other countries in Africa, it could have broader continental and global implications.

Attribution: Samir Bhattacharya, "China's FTA with Mauritius: A Strategic Mix of Trade and Diplomacy," ORF Issue Brief No. 752, November 2024, Observer Research Foundation. rade has played a crucial role in China's growth, particularly since its economic reforms beginning in the late 1970s. Over the subsequent three decades, China transformed from a closed, centralised economy to a market-based one,¹ achieving remarkable growth due to its ever-increasing trade dominance over the world and adaptive trade policy.

In 2001, China became a permanent member of the World Trade Organization (WTO), and by 2013, China had surpassed the United States (US) as the world's largest trading country.^{a,2} Today, China has established trade partnerships globally, including across Africa, where it has become the continent's largest bilateral trading partner within two decades. China's bilateral trade with Africa received a boost in 2000 with the first Forum on China-Africa Cooperation (FOCAC) Summit,^{b,3} since then held every three years, alternating between China and an African country.

During the 2008 global financial crisis (GFC), China emerged as an alternative market for African products as conventional trade partners faced economic contraction, resulting in their reduced demand.⁴ This shift helped China to raise its profile in Africa, and in 2009,^c China surpassed the US to establish itself as the largest trading partner for Africa.⁵

African countries import Chinese manufactured goods, electronics, and machinery, while exporting primary commodities such as metals, mineral products, and fuel. In 2023, China-Africa trade reached a historic high of US\$282 billion.⁶ However, despite China's exports to Africa increasing to US\$173 billion, its imports from the continent fell by 6.7 percent to US\$109 billion in 2023.⁷ Consequently, Africa's trade deficit with China continued to grow, from US\$46.9 billion in 2022 to US\$64 billion in 2023.

China was a late adopter of FTAs, signing its first agreement with the Association of Southeast Asian Nations (ASEAN) in 2002.⁸ China thereafter accelerated its FTA diplomacy, signing 22 FTAs with 29 trade and investment

a China employs different bilateral and multilateral trade arrangements. Similarly, China also uses FTAs at both the bilateral and regional levels. See: https://dialogopolitico.org/wp-content/uploads/2024/02/cap-7-china-and-its-free-trade-agreements-with-latin-america-DP-2023.pdf

b Established in 2000, the Forum on China-Africa Cooperation (FOCAC) is a triannual event between China and African nations, with the host altering between China and one African country. The 9th FOCAC Summit, the last one, took place in China in September 2024.

c Since 2009, China has remained Africa's largest trading partner. Currently, around 20 percent of Africa's exports are destined for China, and about 16 percent of Africa's imports originate from China. See: https://www.cnbcafrica.com/2024/why-strong-regional-value-chains-will-be-vital-to-the-next-chap ter-of-china-and-africas-economic-relationship/. Among all African economies, South Africa is China's largest trading partner, with 19.9 percent of total trade with the continent, followed by Nigeria and Angola. See: https://www.globaltimes.cn/page/202308/1296816.shtml.

partners by January 2024.⁹ Following the COVID-19 pandemic, as global trade slowed, China signed three FTAs with Ecuador, Nicaragua, and Serbia.^d

In 2019, China signed its first FTA with an African country, the small island state of Mauritius.^{e,10} The Chinese government and scholars from the mainland claim that China's approach to negotiations is based on Confucian values¹¹ and with the aim of benefiting smaller countries.¹² Western analysts, for their part, observe that China's FTAs have benefitted primarily China.¹³

Mauritius is one of Africa's wealthiest and most developed nations on a percapita Gross Domestic Product (GDP) basis. Its traditional agricultural base is supplemented by the textiles, tourism, and financial services sectors. It leads Africa in both the World Bank's Ease of Doing Business rankings¹⁴ as well as the World Economic Forum's 2019 Global Competitiveness Index, scoring 64.27.¹⁵

As China looks to signing FTAs with other African countries, this brief aims to comprehend Beijing's motivations for its FTA with Mauritius.

d To see the complete list of China's FTAs: http://fta.mofcom.gov.cn/

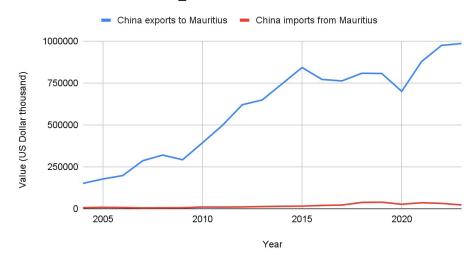
e Even before signing the FTA, China slowly raised its trading profile in Africa. Since 1 September 2022, China has introduced tariff-free exports of 98 percent of taxable products from Djibouti, Togo, and Rwanda to attract more African products. Later, beginning on 1 December 2022, nine more countries were added to the list: Benin, Burkina Faso, Guinea-Bissau, Lesotho, Malawi, Sao Tome and Principe, Tanzania, Uganda, and Zambia. The policy currently covers some 8,786 items. See: https://assomac. it/fr/news/news-from-world/china-on-course-for-africa-trade-boost-as-it-offers-duty-free-access-to-9-more-countries/. This includes both agricultural and other products such as olive oil, cocoa powder, nuts, and chemicals. Yet, China signed its first FTA in Africa with Mauritius, which was not part of the previous beneficiary list.

China-Mauritius Silateral Trade ince establishing diplomatic relations in 1972, China and Mauritius have seen progress in economic and technological cooperation.¹⁶ Although Mauritius was severely hit by the COVID-19 pandemic, it managed to maintain a GDP of US\$12.89 billion.^{£17}

The Mauritian economy has witnessed progress since implementing an economic and trade reform programme in the 1980s,¹⁸ largely due to its focus on international trade. Since these reforms, Mauritius's exports have increased by more than 40 percent within 30 years. However, imports have nearly doubled, and thus the country's trade deficit has increased exponentially and is now pegged at US\$9.03 billion.

Mauritius imports large volumes from Asian countries, of which China is the biggest source. Mauritius's imports from China reached US\$993.08 million in 2023, as its exports to China remain abysmally low at only US\$26.32 million in 2023 despite annual increases.¹⁹

Figure 1: China's Exports to Mauritius vs. China's Imports from Mauritius



Source: World Bank (World Integrated Trade Solution), https://wits.worldbank.org/

f This translates to a per-capita GDP of US\$10,433.

Mauritius primarily imports electrical machinery, equipment, nuclear reactors, and mechanical appliances from China. Nuclear reactors and mechanical appliances comprise a larger portion, valued at US\$106.07 million, followed by electrical machinery and equipment at US\$94.45 million (see Table 1). Altogether, China is currently Mauritius's largest supplier of manufactured products, with recent years showing a sharp increase in imports of electric vehicles, lithium batteries, and photovoltaic products.²⁰

Table 1: Mauritius's Imports from China

China Exports to Mauritius	2015 (Value in USD)	2023 (Value in USD)
Machinery, Nuclear Reactors, Boilers	\$89.7 million	\$106.07 million
Electrical, Electronic Equipment	\$72.4 million	\$94.45 million
Furniture, Lighting Signs, Prefabricated Buildings	\$63.2 million	\$85.06 million
Plastics	\$59.1 million	\$71.45 million
Vehicles Other Than Railway, Tramway	\$51.3 million	\$62.44 million
Articles of Iron or Steel	\$49.2 million	\$61.25 million
Aluminum	\$32.8 million	\$40.66 million
Ceramic Products	\$27.4 million	\$32.37 million
Footwear, Gaiters and the Like	\$25.6 million	\$30.45 million
Toys, Games, Sports Requisites	\$19.4 million	\$23.63 million
Iron and Steel	\$17.5 million	\$23.22 million

Source: https://tradingeconomics.com/mauritius/exports/china

On the other side, Mauritius primarily exports sea products to China, with fish and related preparations making up US\$11.44 million (see Table 2), almost one-third of its exports to China.

China-Mauritius Bilateral Trade

Table 2: Mauritius's Exports to China

Mauritius Exports to China	2015 (Value in USD)	2023 (Value in USD)
Fish, Crustaceans, Mollusks, Aquatic Invertebrates	\$7.6 million	\$11.44 million
Copper	\$3.9 million	\$4.62 million
Sugars and Sugar Confectionery	\$2.1 million	\$3.59 million
Articles of Apparel, Not Knit or Crocheted	\$900K	\$1.06 million
Articles of Leather, Animal Gut, Harness, Travel Goods	\$700K	\$933.23K
Electrical, Electronic Equipment	\$670K	\$890.92K
Wood and Articles of Wood, Wood Charcoal	\$500K	\$621.55K
Residues, Wastes of Food Industry, Animal Fodder	\$300K	\$483.47K
Articles of Apparel, Knit or Crocheted	\$280K	\$354.06K
Other Made Textile Articles, Sets, Worn Clothing	\$250K	\$343.95K

Source: https://tradingeconomics.com/mauritius/exports/china

China-Mauritius Bilateral Trade hina and Mauritius began their FTA negotiations in December 2017, and after four rounds of talks officially signed the agreement on 17 October 2019.²¹ The FTA came into effect on 1 January 2021, coinciding with the start of trading under the African Continental Free Trade Area (AfCFTA).^g It was China's first FTA with any African country.²²

Although the text of the agreement frequently references relevant WTO agreements and claims full compliance, emerging trade issues such as competition, intellectual property rights, and e-commerce do not feature prominently in the text.²³

Trade and Investment Liberalisation

As countries seek to leverage globalisation to attract more investments, trade liberalisation under different arrangements has become essential. This process involves removing or reducing obstacles that hinder the free exchange of goods and services including non-tariff barriers such as quotas and licensing requirements, as well as tariffs like duties and surcharges.

As per the FTA, Mauritian exporters benefit from duty-free access to the Chinese market on 7,504 tariff lines, with an additional 723 lines set to be eliminated over a five- to seven-year period, beginning from 1 January 2021.²⁴ Products such as green tea, woollen and cotton fabrics, and machinery are excluded from the tariff liberalisation. In addition, a Tariff Rate Quota (TRQ)^h will be implemented for 50,000 tonnes of sugar on a progressive basis over a period of eight years.²⁵

Regarding trade in services, both parties have agreed to lift restrictions across more than 100 service sectors, including financial services, telecommunications, ICTs, professional services, construction, and health services.²⁶ While Mauritius, a service-oriented economy, already has an open service trade environment, the agreement introduces new opportunities for Chinese service providers. In turn, it permits Mauritian enterprises to establish wholly-owned businesses or joint ventures in China. One of the highlights of service liberalisation is the

Facets of China-Mauritius FTA

g The African Continental Free Trade Area (AfCFTA) is one of the flagship projects of the African Union. It entered into force in May 2019, and trade under AfCFTA began on 1 January 2021. Fifty-four AU member states have signed it (except Eritrea) and so far, 47 of them have ratified it.

h A tariff rate quota (TRQ) is an economic system that combines import quotas and tariffs to regulate imported products. It sets a limit on the amount of a product that can be imported at a lower duty rate, but there is no limit on the amount that can be imported at a higher rate.

natural movement of persons, allowing Chinese nationals to engage in newly opened sectors.

The FTA enables Chinese companies to establish regional headquarters in Mauritius, using it as a gateway for investments in other African nations.²⁷ Mauritius could capitalise on its status as an international financial hub to attract Chinese firms looking to expand in Africa and beyond. By setting up regional offices or registering in Mauritius, these companies can benefit from the country's low tax rates and extensive network of tax avoidance treaties and investment protection agreements.

In return, Mauritius would gain cost advantage and convenience by utilising its existing retail network, manufacturing, and logistics platforms with other African countries. Given its membership in the South African Development Community (SADC) and the Common Market for Eastern and Southern Africa (COMESA), Mauritius is well-positioned to become a Renminbi (RMB) clearing hub for the continent. On 16 December 2022, the Bank of Mauritius (BoM) set up a Renminbi clearance centre, the third in the continent to do so, after South Africa and Zambia.²⁸

Mauritius could also gain from Chinese investments in high-growth sectors lacking capacity such as ICTs, pharmaceuticals, and traditional medicine.²⁹ The government has expressed appreciation for the agreement's focus on economic cooperation, expecting increased aid and technical support in critical areas such as agriculture, food security, health, social housing, and air transport.

Tourism is an important industry in Mauritius, and the island is a popular destination among Chinese tourists.³⁰ According to the FTA, in addition to opening up the tourism service markets to each other, both parties will strengthen cooperation in tourism infrastructure, exchange mechanisms, and promotion of tourism products.³¹

Facets of China-Mauritius FTA

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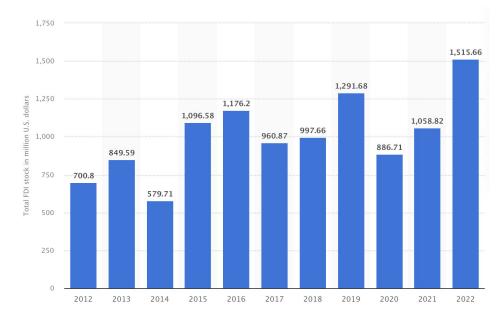


Figure 2: Chinese Investments in Mauritius

Source: World Bank (World Integrated Trade Solution), https://wits.worldbank.org/

Financial Services Sector

Mauritius may also gain from the FTA in areas where its activity dovetails with the Belt and Road Initiative (BRI). The country is already a hub for investments across Africa, and according to a 2018 study, cross-border investments accounted for 60 percent of Mauritius's international financial centre's economic value-addition.³² Although China has several bilateral investment and tax treaties with African nations, the FTA will encourage Chinese entities to leverage Mauritius's extensive portfolio of Bilateral Investment Treaties (BITs) and double tax agreements to explore additional opportunities.

The FTA's investment chapter, which includes investor protection and dispute mechanisms, offers greater security to Chinese enterprises investing in Mauritius, making it an attractive platform for onward investment into Africa. Other provisions, such as the setting up of a Renminbi clearing and settlement facility, as well as technological knowledge transfer from China in domains such as fintech, could enhance the status of Mauritius as a fintech hub and increase the presence of Chinese fintech in Africa.

Facets of China-Mauritius FTA

Motivations for nina's 6 here are multiple explanations for China's signing of an FTA with Mauritius. Despite its small size, Mauritius is strategically positioned as a gateway to Africa, and serves as a diplomatic bridge between Asia and Africa.³³ The island's business-friendly government also offers strong support to win investor confidence. Further, Mauritius is a member of multiple regional organisations such as SADC, COMESA, and the IOC,³⁴ and is party to the AfCFTA, under which it began trading under in January 2021.³⁵ Despite its size, Mauritius offers China some economic prospects to trade and invest in Mauritius and beyond.

Further, China's gradual approach to FTA negotiations³⁶ aims to help its negotiators to build the experience and expertise needed to strengthen its position in future discussions with larger economic partners. This incremental trade negotiations process and the slow pace of trade liberalisation in China's FTAs also allow Beijing to establish special protection measures for domestic industries, giving domestic stakeholders time to adapt to more comprehensive and potentially challenging trade liberalisation measures in the future.

Moreover, studies have found that China's primary interest in FTAs often extends beyond mere economic to include geopolitics and strategy.³⁷ The predominance of non-economic and strategic objectives in China's FTA diplomacy has led Chinese officials to negotiate agreements with a low level of obligation, which can later support the creation of a broader framework for regional trade liberalisation.

While emphasising both the economic and political motivations underlying China's preferential trade liberalisation agenda, other studies suggest that political and diplomatic factors often outweigh economic calculations in China's choice of FTA negotiation partners. Some studies also suggest that China's pursuit of FTAs reflects a desire to avoid missing out on regionalism trends and secure additional bargaining platforms to safeguard against adverse changes in the multilateral trading system.³⁸ This section tests the above hypotheses in the context of the Mauritius FTA.

hina's trade agreements have typically been shaped by strategic and geopolitical factors.³⁹ Chinese authorities are more inclined to negotiate agreements with countries that hold strong political ties with China or play a significant role in its diplomatic agenda. This explains why China has more trade with countries like Zimbabwe and Angola, with which China shares historical ties.⁴⁰

Further, China's foreign policymakers highlight its 'big country morality', asserting that China, unlike Western powers, avoids exploiting power asymmetries in trade negotiations.⁴¹ Instead, Beijing claims to 'take less and give more' to smaller countries, as exemplified in the Early Harvest Programs with ASEAN and Pakistan.⁴² Former Minister of Commerce Bo Xilai had once remarked that China made more concessions than gains in the China-ASEAN FTA.⁴³

China presents FTAs as instruments for economic objectives similar to those of other countries. However, in other FTAs, smaller powers usually allow some economic concessions to join political or strategic engagements with bigger powers, such as the US-Australia FTA and the US-South Korea FTA. Chinese policymakers claim that China's approach is grounded in historical morality. In the traditional tributary system, countries paid tribute to China and, in return, received greater material resources from Chinese emperors.ⁱ

China's decision to select Mauritius as its first African country for a free trade agreement aligns with its strategy of starting with small, experimental initiatives that can later be replicated and scaled up. This approach was evident in China's development of special economic zones (SEZs), which started in the Shenzhen province before being expanded.⁴⁴

This strategy also explains China's choice of New Zealand for its first FTA with a developed nation in 2008, and thereafter in 2013, Iceland—a small but politically important country. Similarly, Mauritius was selected to host China's first SEZ in Africa in 2006, demonstrating this incremental and strategic model.

China's strategy of starting its trade diplomacy with smaller states suggests a preference for a 'side door' and gradual experimental approach towards a

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The 'tributary system' is a model by which China conducted foreign relations from approximately the Han dynasty (206 BCE–220 CE) to the Qing dynasty (1644–1911/12). This system expressed the Chinese emperor's belief that China was culturally and materially superior to all other states, and it required those who wished to trade with or otherwise interact with China to approach the emperor as his vassals, acknowledging him to be the ruler of "all under heaven."

regional trade policy. This method enables China to gain experience in regional trade dynamics and steadily position itself as a key regional trade partner.

Geostrategic and Political Interests

Located at the crossroads of Southeast Asia and East Asia, Africa, and the Middle East, Mauritius occupies a coveted position in the Indian Ocean with a 2.3 million sq km exclusive economic zone, more than 1,000 times its land mass, rich in marine resources and (potentially) offshore oil.⁴⁵ The region has become a focal point for power dynamics, with states competing for influence and establishing military or strategic presence in the region.⁴⁶

South Africa stands out as the dominant force in the Western Indian Ocean (WIO), recognised as a key security provider for many nations. France, meanwhile, leveraging its colonial history and strong ties in the region, has long held a leadership role among the island nations. It established the Indian Ocean Commission (IOC) in 1982—a regional alliance of five island nations. The US, for its part, maintains an aero-naval base on Diego Garcia in the Chagos archipelago.

Despite a strong trade relationship, Mauritius has remained outside the BRI. While the reason can be some suspicion over the Chinese investment domestically, analysts attribute Mauritius's close relations with India as a primary reason for such a decision.⁴⁷ With over half of Mauritius's population being of Indo-Mauritian origin, many locals are concerned about the potential debt trap and geostrategic implications of the BRI.⁴⁸

Although geographically distant, India has historically viewed the West Indian Ocean as part of its maritime neighbourhood and has accelerated its engagement in the region in the past decade. In March 2020, India was granted Observer status in the IOC and, alongside France and European partners, works to combat terrorism, particularly in the Mozambican Channel.

India is also strengthening its own diplomatic relations with Mauritius. In January 2021, concurrent with the Mauritius-China FTA, India signed a Comprehensive Economic Cooperation and Partnership Agreement (CECPA) with Mauritius—its first with an African country. The deal would give Mauritius preferential trade access to the Indian market for about 615 products, while India receives similar access for certain products.49

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While the CECPA could bolster trade ties, India is also strengthening its security partnership with Mauritius. Early this year, India completed a naval base on Agalega Island, part of Mauritius's Chagos islands, featuring a new jetty and airstrip.⁵⁰ This development positions India for a more significant role in regional security. Moreover, having a strong security relationship with the US may work as a deterrent against Mauritius joining the BRI.

In 2017, China established its first military base in Djibouti. Staffed with 400 marines.⁵¹ In Mauritius, Huawei has led infrastructure projects, including a 700-km underwater cable for high-speed internet, connecting Rodrigues—Mauritius's second-largest island—under the Mauritius and Rodrigues Submarine Cable System (MARS).⁵² Additionally, Beijing extended a US\$350-million loan to support the Mauritius Safe City project (MSCP), indicating that Mauritius could be considered a strategic location to bolster China's military presence.⁵³

Scramble for Resources

China's pursuit of FTAs highlights its need to secure critical primary resources amid rising global commodity prices. As the 'world's factory', China's vast manufacturing sector demands a steady flow of raw materials, energy, and agricultural products. By establishing FTAs, China not only ensures continued access to these essential resources but also strengthens its strategic resilience against potential supply disruptions, allowing it to maintain industrial and economic stability.⁵⁴

For example, China's FTA with Chile, signed in 2005, was designed partly to ensure the supply of energy as well as copper, a vital industrial input. Similarly, FTAs with resource-rich partners such as Australia, ASEAN, and the Gulf nations reflect China's desire to improve access to oil, iron ore, and other minerals. However, Mauritius does not possess any such strategic resources, and the logic of resource acquisition does not apply in this case.

Economic Interests

Similar to any participants in FTAs, China expects such deals to fulfil its economic objectives, particularly in expanding exports and diversifying markets.⁵⁵ Chinese trade policymakers aim to increase exports of manufactured goods to not only in large markets but also through smaller countries such

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as Chile and Norway. Smaller countries often work as an avenue for Chinese products to enter the continental market in each continent, benefiting from the provision of rules of origin.^j

From this perspective, China is likely to pursue FTAs with major trading partners that offer access to larger markets or suppliers of raw materials and intermediate products to China. With global economic integration through trade and FDI characterising China's development strategy, entering into FTAs with countries that either have large domestic markets or are already importing from China appears to be advantageous towards Beijing's overall economic development goals.

Some argue that China prefers FTA partners with higher asymmetrical trade dependence on it.⁵⁶ Such asymmetrical trade relations enhance China's bargaining power regionally, allowing it to diversify its origins of import and exports, reduce over-reliance on a few economies, and increase its political influence vis-a-vis these FTA partners who may have had a considerable share of their trade diverted to China.⁵⁷

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j Rules of origin, in international trade, are legal standards supporting the differential treatment of some products on the basis of their country or region of origin.

auritius's FTA with China has not reduced the existing trade imbalance, with Chinese exports to Mauritius still far exceeding its imports from Mauritius. The FTA may, however, soon enable Chinese exports to other African nations via Mauritius, especially with the implementation of the AfCFTA. Mauritius stands to gain from facilitation fees from China, creating a mutually beneficial scenario in that regard. While both parties may see absolute gains, relative gains are crucial.

Beijing expects the same political and economic benefits from Mauritius as it has gained from other FTA partners. However, challenges exist in realising these objectives. The exceptional morality in China's FTA behaviour, which Chinese policy elites claim China to possess, is difficult to demonstrate or sustain with smaller countries or maintain even if it does exist. Despite having a trade relationship with China, Mauritius is not part of the BRI. China likely aims to increase its influence over Mauritian policymakers through this FTA and expect the nation to join BRI soon.

While political explanations dominate China's FTA with Mauritius, economic considerations are not entirely absent. This analysis has emphasised the economic considerations underlying China's FTA with Mauritius—i.e., to gain access to the African market using provisions on rules of origin. This can further tilt the balance of China-Africa trade in Beijing's favour, especially when AfCFTA is at full throttle. It would do well for other African countries to study the Chinese model of FTA with Mauritius.

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