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NAVAL POSTGRADUATE SCHOOL

MONTEREY, CALIFORNIA

THESIS

**APPLYING MODERN STAGE THEORY TO
MAURITANIA: A PRESCRIPTION TO ENCOURAGE
ENTREPRENEURSHIP**

by

Jennifer M. Warren

December 2014

Thesis Advisor:
Second Reader:

Robert E. Looney
Tristan J. Mabry

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13. ABSTRACT (maximum 200 words) Dr. Robert E. Looney is an accomplished economist who to date has written over twenty books and advised the governments of Iran, Jamaica, Mexico, Panama, and Saudi Arabia. In 2014, he compiled and released <i>The Handbook of Emerging Economies</i> , which includes perspectives from acclaimed economists and includes a chapter in which Dr. Looney relates modern stage theory to emerging economies. With an understanding that entrepreneurship is key for sustained economic growth, Looney studies an array of economic indexes, analyzing the data by stages of development, and mathematically determines which factors drive transition from one stage of development to the next. This thesis uses Mauritania, a West African commodity-driven country, as an opportunity to apply Dr. Looney's recent work to a new case. It describes the Mauritanian context, explains modern stage theory, recounts Looney's findings, uses Looney's methods to collect data on Stage 1: Factor-Driven economies, applies Looney's theory to Mauritania, and concludes with policy recommendations for both the U.S. and Mauritanian governments. This thesis concurs with Looney's findings that trade freedom and business freedom are the most significant factors influencing countries to proceed from Factor-Driven economies to a transition stage between Factor-Driven and Efficiency-Driven. The U.S. government can focus on opening trade between the U.S. and Mauritania by reducing tariffs, overly burdensome regulations, and subsidies that inflate the price of Mauritanian goods in the U.S. market. The Mauritanian government may focus on improving business freedom by streamlining the time, cost, and complexity to open a business, assisting financing, and providing mentorship to budding entrepreneurs.				
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**APPLYING MODERN STAGE THEORY TO MAURITANIA: A PRESCRIPTION
TO ENCOURAGE ENTREPRENEURSHIP**

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Submitted in partial fulfillment of the
requirements for the degree of

**MASTER OF ARTS IN SECURITY STUDIES
(MIDDLE EAST, SOUTH ASIA, SUB-SAHARAN AFRICA)**

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ABSTRACT

Dr. Robert E. Looney is an accomplished economist who to date has written over twenty books and advised the governments of Iran, Jamaica, Mexico, Panama, and Saudi Arabia. In 2014, he compiled and released *The Handbook of Emerging Economies*, which includes perspectives from acclaimed economists and includes a chapter in which Dr. Looney relates modern stage theory to emerging economies.

With an understanding that entrepreneurship is key for sustained economic growth, Looney studies an array of economic indexes, analyzing the data by stages of development, and mathematically determines which factors drive transition from one stage of development to the next. This thesis uses Mauritania, a West African commodity-driven country, as an opportunity to apply Dr. Looney's recent work to a new case. It describes the Mauritanian context, explains modern stage theory, recounts Looney's findings, uses Looney's methods to collect data on Stage 1: Factor-Driven economies, applies Looney's theory to Mauritania, and concludes with policy recommendations for both the U.S. and Mauritanian governments.

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LIST OF ACRONYMS AND ABBREVIATIONS

AQIM	Al Qaeda of the Islamic Maghreb
GCI	Global Competitiveness Index
GDP	Gross Domestic Product
GEDI	Global Entrepreneurship and Development Index
HF	Heritage Foundation
IEF	Index of Economic Freedom
PPP	Purchasing Power Parity
WB	World Bank
WEF	World Economic Forum
WGI	Worldwide Governance Indicators

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I. INTRODUCTION

A. TARGETED GUIDANCE BEATS A LAUNDRY LIST

Scholars, politicians, activists, and economists design prescriptions to advance development in countries across the world. Prescriptions can be broad and untailed—simply fix the indicators that are broken. In essence, get-well plans are long laundry lists of areas for improvement, usually focusing on governance. This lack of targeted guidance can leave decision makers feeling overwhelmed. Furthermore, working on all underperforming indicators simultaneously is often unrealistic because it is entirely too expensive or limited funding renders unfocused work ineffective. Conversely, the recently published work of Robert Looney provides a new method to tailor recommendations. For factor-driven economies, Looney recommends a focus on entrepreneurship instead of governance. This thesis will examine Looney’s theory using Mauritania as a case study, and it will provide entrepreneurship-focused policy recommendations for both the U.S. and Mauritania.

Economic advice for developing countries transitioned from the Washington Consensus of the 1990s—a school of thought that emphasized “stabilize, liberalize, privatize”—to a more metered recommendation that still upheld these tenets, but with a strong emphasis on governance in the 2000s. Dani Rodrik aptly described stabilization, liberalization, and privatization as, “get your macro balances in order, take the state out of business, give the markets free rein.”¹ The World Bank explains governance as how, “power is exercised through a country’s economic, political, and social institutions.”² Economists generally agree that governance, in the form of institutions that support rule of

¹ Dani Rodrik, “Goodbye Washington Consensus, Hello Washington Confusion? A Review of the World Bank’s Economic Growth of the 1990s: Learning from a Decade of Reform,” *Journal of Economic Literature* 44, no. 4 (2006): 973, doi: 10.1257/jel.44.4.973.

² World Bank, “What is Governance?” accessed on May 21, 2014, <http://go.worldbank.org/G2CHLXX0Q0>.

law, information flow, and infrastructure, is important because it enables stability and economic growth.³

In his book, *The Handbook of Emerging Economies*, Robert Looney presents a novel argument that on one hand agrees with the mid- to long-term goal of improved governance, but changes the focus to entrepreneurship. He sees entrepreneurship as achievable in the short-term and as a governance driver, therefore making entrepreneurship the key to jumpstarting a developing economy. Looney analyzes modern stage theories, focusing on emerging economies while analyzing data on countries in all stages of development. His analysis provides a framework to energize growth based on a country's stage of development.⁴ By providing a targeted development strategy based on empirical data, Looney enables more effective resource allocation for state development. He argues different stages necessitate different foci to encourage entrepreneurship.⁵ Therefore, actors' main endeavors should change as a country moves through the stages of development.

This thesis has two goals: 1) to apply Looney's new theory using Mauritania as a case study, and 2) provide appropriate policy recommendations for both U.S. and Mauritanian governments, given Mauritania's status as a factor-driven economy. Looney focuses primarily on emerging economy case studies in his work, and this thesis will apply his theory using a factor-driven country instead. If this application proves accurate, policy recommendations can be created based on the economic indicators that need improvement. The Mauritanian government, like any other government, would be interested in boosting its economic outcomes. Policy recommendations for the U.S. would support the U.S.'s two-pronged approach to Africa that addresses democracy

³ World Bank, *The Growth Report: Strategies for Sustained Growth and Inclusive Development*, 29. http://siteresources.worldbank.org/EXTPREMNET/Resources/489960-1338997241035/Growth_Commission_Final_Report.pdf.

⁴ Robert E. Looney, "Modern Stage Theories and Their Relevance for the Emerging Economies," in *Handbook of Emerging Economies*, ed. Robert E. Looney (New York: Routledge, 2014), 172, 174.

⁵ *Ibid.*, 174.

and economic growth. “Sustainable, inclusive economic growth is a key ingredient to security, political stability, and development, and it underpins efforts to alleviate poverty.”⁶

B. PROBLEMS AND HYPOTHESES

Underdeveloped countries receive numerous recommendations from diverse sources describing how to improve their economies. Guidance comes from within the government, foreign governments, non-governmental organizations, and others. Recommendations vary, and can even be contradictory, ranging from industry-protecting markets to open markets. Furthermore, recommendations can be extremely broad, instructing that a laundry list of indicators be improved. Rather than providing a generic to-do list, Robert Looney explains which indicators lead growth during each stage of development.⁷ A government can use this focused information as a guide for resource allocation.

Looney advocates encouraging entrepreneurship to build sustained economic growth. While his book focuses on helping emerging economies become developed economies, his analysis addresses all five stages of development. He provides empirical data that demonstrates which economic improvements are correlated with moving from one stage of development to the next.⁸ The hypothesis in this thesis is that Looney’s model will successfully stand correct when applied with Mauritania as a case study.

Mauritania provides an opportunity to apply Looney’s theory using a Stage 1, Factor-Driven economy. Using Looney’s model, this thesis will determine which indicators may be most beneficial for promoting entrepreneurship, and

⁶ The White House, *U.S. Strategy Toward Sub-Saharan Africa*, (Washington, DC: GPO, 2012), i. http://www.whitehouse.gov/sites/default/files/docs/africa_strategy_2.pdf.

⁷ Looney, “Modern Stage Theories,” 174.

⁸ *Ibid.*, 137–176.

therefore stable economic growth, within Mauritania. This discovery will lead to policy recommendations for both Mauritanian and U.S. strategies.

C. MAURITANIA—A BEGINNER’S GUIDE

Mauritania lies on the west coast of Africa and is often considered a transition area between North Africa and Sub-Saharan Africa (see Figure 1). Mauritania is the eleventh-largest country in Africa and is about one-eighth the size of the U.S.



Figure 1. Political map of Mauritania (from Quest Connect, insert from Stamps, Notes, Coins)⁹

⁹ “West Africa,” questconnect.com, accessed November 19, 2014. <http://www.questconnect.org/images/West-Africa-map.gif>.; inset: “Location of Mauritania in Africa,” *StampsCoinsNotes.com*, accessed November 19, 2014. <http://stampscoinsnotes.com/country/mauritania/>.

Mauritania is primarily desert, but it also has a substantial coastline that boasts some of the most plentiful fishing in the world (see Figure 2). Approximately 3.5 million people live in Mauritania, with the majority of the population living in the urban centers of Nouakchott and Nouadhibou on the coast, as well as along the Senegal River in the south.¹⁰



Figure 2. Satellite map of West Africa (from Google Earth)

1. Independence, Coups, and Elections: A Brief Political History

Mauritania gained its independence from France in 1960, and since then the country oscillated between elected leadership and coups. The first president, Mokhtar Ould Daddah, remained in power until 1978 (see Figure 3). During his time in office, Ould Daddah moved toward an Arabization of Mauritania by

¹⁰ Central Intelligence Agency, "Africa: Mauritania," *CIA World Factbook*, accessed November 19, 2014. <https://www.cia.gov/library/publications/the-world-factbook/geos/mr.html>.

declaring Arabic the official language, encouraging education in Arabic, and forming alliances with Arab nations.



Figure 3. Mauritanian Heads of State¹¹

Ould Daddah's rule came to an end when Moustapha Ould Saleck displaced him by coup in 1978. Saleck's rule was short-lived, but during that time he managed to uproot the Constitution and remove the one-party system established by Ould Daddah. Shortly thereafter, Mohamed Khouna Ould Haidalla seized control of the government. Haidalla survived three coup attempts, established Sharia Law, and abolished slavery during his rule. Haidalla's Prime

¹¹ Giuseppe Maimone, "Mauritania: Recent History," *Europa World Plus*, (New York: Routledge: 2014).

Minister, Maaouiya Ould Sid'Ahmed Taya, deposed Haidalla at the end of 1984, beginning a new era of rule in Mauritania.¹²

Taya remained in office for over twenty years, making him the longest-ruling president to date. In 1991, Taya implemented a new constitution and created the first elections in Mauritania, at the urging of the United States, World Bank, and International Monetary fund, in exchange for aid. The new government included a National Assembly, a Senate, and a President. At this time, Mauritania became the Islamic Republic of Mauritania, with Islam as the official religion. Elections were conducted in 1992, and Taya remained in office by earning an outright majority of the vote. Taya's government renovated the electoral system in 2001; independent candidates became prohibited, seats in the National Assembly increased, and proportional representation was used for legislative elections.¹³

Like Haidella, Taya survived multiple coup attempts, but eventually succumbed. Despite creating a Presidential Guard, Taya lost his grip on Mauritania in 2005 when a group of seventeen colonels staged a bloodless coup while Taya was in Saudi Arabia. One of the coup leaders, Ely Ould Mohamed Vall, became president. Soon after, Vall abrogated the Parliament, while at the same time he insisted his goal was to transition to democratic elections. Vall's administration rewrote the constitution, changing legislative elections to a mix of direct voting (two-thirds of the seats) and proportional representation (one-third of the seats). Furthermore, independent candidates were again legal. These constitutional amendments gained a 97% approval at a national referendum in June 2006.¹⁴

Mauritanians elected their only president to come to office by a democratically elected change of power in 2006. Sidi Ould Cheik Abdallahi won

¹² Maimone, "Mauritania: Recent History."

¹³ Ibid.

¹⁴ Ibid.

the presidential run-off and took office in early 2007. During Abdallahi's presidency, violence escalated quickly. The most publicized event was the al Qaeda in the Islamic Maghreb (AQIM) execution of four French tourists who were visiting the town of Aleg, which led to the cancellation of the Paris-Dakar Rally race planned for January 2008. Abdallahi's power continued to wane; his Prime Minister resigned, and the next Prime Minister received a no-confidence vote.¹⁵

Another bloodless coup successfully replaced the president, this time exchanging Abdallahi for Mohamed Ould Abdel Aziz, one of the co-leaders of the coup that put Vall in office. Abdel Aziz pursued the same strategy as his last coup, using the coup to defend democracy. Abdel Aziz had the support of the majority of the Legislature, and he quickly gained popular support by reducing the costs of goods that benefitted the poor. He resigned control of the government from April 2009 until elections were held in July so he could earn his presidency via democratic election. Abdel Aziz won the election with a majority of the votes cast in the first round, obviating the need for a run-off.¹⁶

The Arab Spring brought unrest to Mauritania, where Yacoub Ould Dahoud mimicked Muhammad Bouazizi of Tunisia, setting himself on fire in front of the Mauritanian presidential palace to protest government misconduct, as Bouazizi had done in Tunisia. Abdel Aziz managed to maintain his presidency, though protests surged and faded throughout 2010–2012. Protests ended suddenly when the president was shot. Stories vary as to whether the shooting was an accident or an assassination attempt, and whether Abdel Aziz was shot in the arm or the torso. After a couple of hospital stays in France, Abdel Aziz returned permanently to Mauritania.¹⁷ Despite this scare, unrest in the country, and government scandals involving money laundering and tax evasion, Abdel Aziz was reelected in June 2014 with 82% of the vote.¹⁸

¹⁵ Maimone, "Mauritania: Recent History."

¹⁶ Ibid.

¹⁷ Ibid.

¹⁸ Ibid.

2. Economic Overview

Like many African countries, Mauritania's economy runs primarily off of agriculture and natural resources. Mauritania has iron, gold, and copper mines. Oil was discovered in 2001, and since then Mauritania became one of the ten largest oil producers in Africa. The oil deposits are both offshore and onshore, and unfortunately the oil is low quality. Mauritania also boasts some of the best fishing grounds in the world. Fishing proceeds are approximately 20% of the government's annual budget, and mineral and oil exports are about 75% of total exports.¹⁹

Despite plentiful fishing and significant oil reserves, Mauritania's economy remains weak. The unemployment rate is 30%, and 40% of the population lives below the poverty line. The news is not all bad, though; the Gini index of inequality score is 39 (0 represents perfect equality, 100 represents perfect inequality), which is better than the United States' Gini score of 45. The Gross Domestic Product (GDP) per capita is \$2,200 and it grew by \$100 each year for the last two years.²⁰

3. Identity and Racial Tensions

As mentioned earlier, Mauritania is a transitional area between the Maghreb and Sub-Saharan Africa. As such, there exist ongoing tensions between the Arab-dominated ethnic groups and the African-dominated ethnic groups. The CIA World Factbook describes three categories within the population and their relative size: "black Moors (Haratines [*sic*]- Arab-speaking [*sic*] slaves, former slaves, and their descendants of African origin, enslaved by white Moors) 40%, white Moors (of Arab-Berber descent, known as Bidhan) 30%, black Africans (non-Arabic speaking, Halpulaar, Soninke, Wolof, and Bamara ethnic groups) 30%." (See Figure 4.)²¹

¹⁹ Maimone, "Mauritania: Recent History."; Central Intelligence Agency, "Mauritania."

²⁰ Ibid.

²¹ Central Intelligence Agency, "Mauritania."

Ethnic Groups

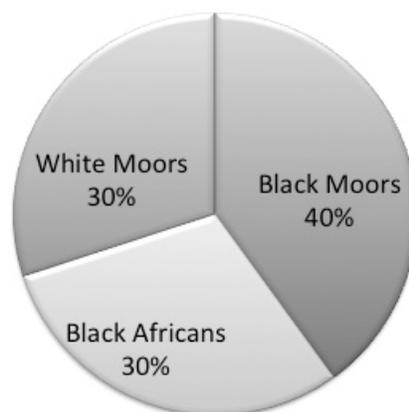


Figure 4. Ethnic Groups in Mauritania²²

Although the Mauritanian government declared slavery illegal in 1981, the practice persists and is a significant source of tension between the Haratians and the Arab population (white Moors). Reforms in 2001 attempted to address human trafficking, which was still plaguing the black population. Though slavery became illegal in 1981, it did not become a crime until 2007. More anti-slavery reforms were drafted, but the coup in 2008 interrupted their enactment.²³ Slavery still exists today, with estimates stating, “10% to 20% of the population still lives in slavery.”²⁴ In his long-form piece for CNN.com, John D. Sutter attributes the persistence of slavery in Mauritania to politics that ignore it, geography that makes enforcement difficult, poverty that makes living on one’s own almost impossible, religious mores that condone the practice, racism and a caste system that perpetuate slavery, and lack of education that prevents some from even realizing they are enslaved.²⁵

²² Central Intelligence Agency, “Mauritania.”

²³ Maimone, “Mauritania: Recent History.”

²⁴ John D. Sutter, “Slavery’s Last Stronghold,” CNN.com, March 2012, accessed November 21, 2014. <http://www.cnn.com/interactive/2012/03/world/mauritania.slaverys.last.stronghold/>.

²⁵ Ibid.

Land reforms in the early 1980s drove a wider divide between the African and Arab populations. Arable land, rather scarce in Mauritania, was reallocated from blacks (who resided there for centuries) to Arab elites. Arrests and forced exile followed, and the Minister of the Interior, a black African, was removed from his post. A group of black Africans attempted to overthrow Taya in 1987, and as a result over 700 Haratians were removed from the army.²⁶ These government actions separated the Haratians from their sources of income, making this an economic argument that divided along racial lines.

Further fueling tensions for Haratians were violent disagreements between Mauritians and Senegalese along the Senegal River. In 1989, Senegalese agriculturalists and Mauritanian pastoralists exchanged blows; Senegalese set Mauritanian-owned shops in Senegal on fire, and the ensuing fights led to hundreds of deaths. In response, the Senegalese government drove 230,000 Mauritians back to their home country. The Mauritanian government returned the favor by sending Senegalese away, but at the same time an estimated 80,000 black Mauritians were exiled to Senegal because they could not prove their Mauritanian citizenship. This also made room for the Mauritanian government to continue land reform programs by freeing land to give to poor Arabs and Haratians who were feeling the ongoing pressure of increased desertification in the north.

In 2007, Mauritania, Senegal, and the United Nations reached an agreement to help repatriate the Mauritians who were sent away in 1989–1990. About 20,000 people lived in refugee camps in Senegal, and the agreement promised to return them to their homes. Difficulties ensued because these lands had been assigned to others in the meantime, and having lived there for nearly two decades, these new tenants were not ready to give up their homes, further increasing the tensions among the people of Mauritania.²⁷

²⁶ Maimone, "Mauritania: Recent History."

²⁷ Ibid.

D. LITERATURE REVIEW: EVOLUTION OF STAGE THEORY AND ROBERT LOONEY'S STUDY OF ECONOMIC DRIVERS IN EACH STAGE OF GROWTH

Looney's primary aim is to aid countries with economic growth and therefore advance from one stage of development to the next.²⁸ In order to thoroughly understand Looney's theory, one must first understand stage theory. Stage theory went through two main evolutions. The first evolution included a series of authors who defined the stages of development, each building upon his or her predecessors. The second evolution in stage theory advanced the school by not only defining the stages of development, but also prescribing how a country could help itself move from one stage to the next. Looney's theory is novel because it focuses on entrepreneurship as the engine of economic growth, especially in the early stages of development. Furthermore, he postulates that strengthening entrepreneurship in turn solidifies governance, a widely accepted requirement for moving from one stage to the next.²⁹

There are two general schools of thought for explaining how economies grow: stage theory and continuum theory. Stage theory suggests economic growth occurs in a series of stages, and an economy progresses from one stage to another as it grows. Furthermore, stage theory, "implicitly assume[s] that markets do not always provide the correct signals as to increased scarcity and/or that many of the potentially binding factors are not traded in markets so that their constraining effects cannot easily be gauged and preventative action taken."³⁰ Continuum theory, on the other hand, is not a specific theory unto itself, but instead a catchall for economic growth theories that do not describe stages in economic growth. Continuum theory aligns with neo-classical economic theory, which relies on the balance of supply and demand within markets. Looney points out, "The continuum approach... assumes that markets function to provide

²⁸ Looney, "Modern Stage Theories."

²⁹ Ibid., 174.; World Bank, *Growth Report*, 26–8.

³⁰ Looney, "Modern Stage Theories," 137.

signals of impending bottlenecks and that there is sufficient flexibility in the economy to respond and alleviate these constraints to growth before serious diminishing returns set in.”³¹ Thus, in continuum theory economic growth occurs via a constant balancing act within the economy and moves in a more fluid fashion. Looney does not attempt to build a new stage theory, but uses stage theory as the foundation for his assertion that entrepreneurship is the engine for economic growth. The purpose of this thesis is not to prove or disprove stage theory over continuum theory, but instead to give the reader an understanding of the application of stage theory, upon which Looney’s theory rests. Therefore, this review focuses on developing the reader’s understanding of stage theory and its evolution.

1. Stage Theory Evolution Part 1: Defining the Stages of Development

Stage theories began with authors defining the stages of development, each building upon his predecessors. In 1848, Karl Marx described a progression of political economies through agrarian, industrial, capitalist, and communist stages in his influential work, *The Communist Manifesto*.³² W.W. Rostow wrote *The Stages of Economic Growth: A Non-Communist Manifesto* in 1960, wherein he defined five stages of economic growth: 1) The Traditional Society, 2) The Preconditions for Take-Off, 3) The Take-Off, 4) The Drive to Maturity, and 5) The Age of High Mass-Consumption.³³ Rostow’s progression suggests a single development path upon which all countries will tread on their way to industrialization and modernization.³⁴

³¹ Looney, “Modern Stage Theories,” 137.

³² Karl Marx and Friedrich Engels, *The Communist Manifesto* (New York: Bantam, 1992), 22–6.

³³ W.W. Rostow, *The Stages of Economic Growth: A Non-Communist Manifesto* (New York: Cambridge Press, 1960): 6–11.

³⁴ Naazneen H. Barma and Steven K. Vogel, *The Political Economy Reader* (New York, Routledge, 2008): 196.

Michael Porter modernized Rostow's stages with *The Competitive Advantage of Nations* in 1990. Porter defined only three main stages of economic growth: 1) Factor-Driven, 2) Investment-Driven, and 3) Innovation-Driven. Porter defines the factor-driven stage as one in which, "successful industries in the nation draw their advantage almost solely from *basic* factors of production, whether they are natural resources, favorable growing conditions for certain crops, or an abundant and inexpensive semi-skilled labor pool."³⁵ In investment-driven economies, "the ability and willingness to invest is the principle advantage rather than the ability to offer unique products or produce with unique processes."³⁶ Innovation-driven countries have firms that, "not only appropriate and improve technology and methods from other nations but *create* them." Innovation-driven economies are the most diverse of the three stages, and competitive advantage depends on productivity instead of factor costs.³⁷

The World Economic Forum (WEF) uses Porter's stages of growth to create the Global Competitiveness Index (GCI) (see Table 1). Because the titles of the WEF GCI stages of development are lengthy, in this thesis they will be called Groups, which are numbered one through five (see Table 1). The WEF categorizes countries using Gross Domestic Product (GDP) per capita and the percentage of mineral exports in relation to total exports. This mineral export adjustment helps avoid false-positives where countries may seem like they are in Group 3, but in fact the wealth earned via mineral exports raised GDP per capita without demonstrating the economic development activities expected in Group 3, such as investment in factories and large-scale production.³⁸

³⁵ Michael E. Porter, *The Competitive Advantage of Nations* (New York: Free Press, 1990): 546–7.

³⁶ *Ibid.*, 549.

³⁷ *Ibid.*, 554.

³⁸ World Economic Forum, *The Global Competitiveness Report 2013–2014*, 10. <http://reports.weforum.org/the-global-competitiveness-report-2013–2014/>

Table 1. Stages of Development

	Marx	Rostow	Porter	WEF GCI	Bremer & Kasarda
Group 1	Agrarian	Traditional Society	Factor-Driven	Stage 1: Factor-Driven	
Group 2		Preconditions for Takeoff		Transition from Stage 1 to Stage 2	First Phase
Group 3	Industrialist	Takeoff	Investment-Driven	Stage 2: Efficiency-Driven	Middle Phase
Group 4		Drive to Maturity		Transition from Stage 2 to Stage 3	
Group 5	Capitalist	Age of High Mass-Consumption	Innovation-Driven	Stage 3: Innovation-Driven	Advanced Phase
	Communist				

2. Stage Theory Evolution Part 2: Prescriptions for Moving between Stages

Marx, Rostow, and Porter explain the path from one stage to another; Jennifer Bremer and John Kasarda added to stage theory not only new stage definitions, but also a layer explaining *how* countries move from one stage to another. Bremer and Kasarda explain governance and sequencing policy reforms are critical enablers for moving from one stage to another in what they call the New Second World—countries in transition out of agriculture Third World status into a mode of, “industrialization, economic diversification, and urbanization.”³⁹ These authors define three phases: First, Middle, and Advanced (see Table 1). The First Phase involves industrialization, income growth, and economic diversification. The Middle Phase occurs after a decade or more of growth from the First Phase, and countries in the Middle Phase experience sustained growth

³⁹ Jennifer Bremer and John Kasarda, “The Origins of Terror: Implications For U.S. Foreign Policy Defusing the Time Bomb,” *Milken Institute Review* no. 4 (2002): 38. https://www.milkeninstitute.org/publications/review/2002_12/34_48mr16.pdf.

and low value added manufacturing. Finally, the Advanced Phase occurs after ten to twenty years spent in the Middle Phase. In the Advanced Phase, proper management, increased globalization, and choice-based systems can lead to entry into the First World. To Bremer and Kasarda, the key to moving between phases is governance and choice-based systems of government.⁴⁰

Table 1 offers not only a summary, but also a comparison among various stage theories. Each of these stages is not a one-for-one match to the others in the same group. Rather, they loosely relate to others in the same group, showing some similarity between theories as the school of thought modernizes. What the table does not show is that all these theories, except Bremer and Kasarda, lack a guide for moving from one stage to the next.

Prescribing government action to assist economic growth is generally accepted, but dissenters may argue against government interference. One may look to Vladimir Lenin's Soviet Union to contest active government policy for moving from one stage to the next.⁴¹ Lenin attempted to achieve Marx's communist state by creating the institutions described in Marx's writing. Marx saw the need to progress through each of the stages, including capitalism, before reaching the utopia of communism. Each stage provided different motivations and tools to the proletariat, thus enabling transition from one stage to another.⁴² Lenin attempted to circumvent Marx's stages, jumping straight to communism from an early industrialist society. Leninism created new institutions and laws abruptly, bringing unrest and poverty. At the end of his regime, Lenin liberalized the economy with the New Economic Policy, moving more toward capitalism.⁴³

While Lenin's experience may be a valid argument about the ineffectiveness of communism, it does not successfully refute the efficacy of

⁴⁰ Bremer and Kasarda, "Origins of Terror," 37.

⁴¹ World Bank, *The Growth Report*, 29.

⁴² Marx and Engels, *The Communist Manifesto*, 43–45.

⁴³ Lars T. Lih, "Political Testament of Lenin and Bukharin and the Meaning of NEP," *Slavic Review* 50, no 2. (1991): 244, doi:10.2307/2500200.

government intervention in economic development. Forcing a stage change and enabling a stage change are two different approaches. Specific actions to improve growth-inducing factors can be effective. If purposeful improvement of economic conditions were futile, governments would not have the ministries and departments of finance, but instead leave growth to chance. A single failed communism experiment does not mean that all government efforts to develop economies are ineffective.

When examining Marx, Rostow, and Porter, one sees the characteristics of each stage, but not how to encourage movement from one stage to the next. The list of deficient factors is available, but how best to improve them is little more than a laundry list. Bremer and Kasarda go beyond merely describing their three phases; they offer insight into governance and economic reforms and appropriate sequencing of each for moving from one stage to another.⁴⁴

3. Topic of Study: Looney's Theory Empirically Explains Where to Focus Development Efforts

The novelty of Looney's theory is that he suggests that kick starting sustained economic growth rests upon entrepreneurship. Looney begins with the WEF's stages of growth, and he examines the likely constraints on growth at each stage. By examining growth constraints, he learns that entrepreneurship jumps significantly between Group 1 and Group 2. From there, he surmises this growing entrepreneurial group demands increased governance and reforms, which help economies move from one group to another in later stages.

To create his data set, Looney merged indicators from the WEF GCI, the World Bank, and the Heritage Foundation Index of Economic Freedom. Within this database, he merged the twenty-eight indicators into five thematic factors: 1) Economic Freedom, 2) Fiscal/Governance, 3) Health/Education, 4) Labor Market Efficiency, and 5) Growth/Competitiveness. Looney analyzed the database of

⁴⁴ Bremer and Kasarda, "The Origins of Terror," 46–8.

indicators for countries within each WEF GCI stages of development, then across groups for each stage of development (Group 1 through Group 5).⁴⁵

Looney argues economic growth and entrepreneurship have different needs from each other, and their needs vary across the stages of development. Growth potential correlates most to Factor 5 (growth/competitiveness), whereas entrepreneurship's correlation is not as clear-cut across the sample. Entrepreneurship relies on Factor 1 (economic freedom), Factor 3 (health/education), and Factor 4 (labor market freedom and efficiency). Furthermore, the data analysis shows a relationship between governance and development, with the governance being the most important as a country moves from Group 4 to Group 5.⁴⁶ Additionally, Looney demonstrates trade freedom and business freedom most heavily influence entrepreneurship in Group 1 and Group 2, while competitiveness factors were key for Group 3 and Group 4, increasingly so as the country develops. Control of corruption factored heavily in transition from Group 4 to Group 5.⁴⁷

Therefore, virtuous circles of, "economic liberalization, extended entrepreneurship, expanded growth, and improved governance," build into sustained growth and development.⁴⁸ Furthermore, business climate improvements and trade liberalization are indispensable for enabling the powerful increase in entrepreneurship in Group 1 and Group 2. What these arguments lead to is an assertion that the entrepreneurial environment can be improved in the short term without needing to enact significant governance reform.⁴⁹ Looney asserts, "we should expect to find that entrepreneurship is a leading force in

⁴⁵ Looney, "Modern Stage Theories," 148–50.

⁴⁶ Ibid., 148,151.

⁴⁷ Ibid., 167.

⁴⁸ Ibid., 174.

⁴⁹ Ibid.

affecting—either directly or indirectly—these key transition variables [governance/competitiveness/economic freedom].”⁵⁰

E. METHODS AND SOURCES

This thesis uses a case study approach, where Looney’s theory of entrepreneurship is applied to Mauritania. Data on Mauritania will be analyzed to see first if it supports Looney’s model; a positive result is expected. Based on the results, Mauritania will be assessed. The outcome will be recommendations for both U.S. policy and Mauritanian policy, where guidance will explain specific measures that can be taken to support entrepreneurial activity in Mauritania, and therefore help Mauritania move from Group 1 to Group 2 of development.

The materials for this study rely heavily on secondary sources and economic data from the World Economic Forum, the World Bank, the Heritage Foundation, and the Global Entrepreneurship and Development Index. Looney is also consulted, to ensure the application of his theory is performed correctly.

This thesis aims to apply Looney’s theory to Mauritania by analyzing data to determine how Looney’s model applies to Stage 1, Factor-Driven economies. To help the reader gain a more detailed understanding of Mauritania, the Security Concerns chapter describes the Mauritanian political and security environments. The Assessments chapter scrutinizes the data and determines the trends for Mauritania across multiple factors and indexes. Finally, the Policy Recommendations chapter provides targeted recommendations for boosting entrepreneurship in Mauritania. These recommendations focus on the factors Looney deemed most influential in driving entrepreneurship, trade freedom and business freedom, and outline specific measures that can be taken by the U.S. and by Mauritania.

⁵⁰ Looney, “Modern Stage Theories,” 161.

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II. DATA OVERVIEW

A. INTRODUCTION

Gathering the data for this project involved gathering information from the World Economic Forum, the World Bank, the Heritage Foundation, and the Global Entrepreneurship and Development Index. The data collection mirrors and builds upon that of Looney. This work focuses on factor-driven countries considered to be in Stage 1 of development by the World Economic Forum, whereas Looney's work focused on Group 2 countries, seen to be in transition between factor-driven and investment-driven stages. From the data and an examination of Mauritania when compared to other Stage 1 countries, the analysis will drive policy recommendations to encourage entrepreneurship in Mauritania.

B. WORLD ECONOMIC FORUM GLOBAL COMPETITIVENESS INDEX

The World Economic Forum's *2013–2014 Global Competitiveness Index* (WEF GCI) lists thirty-eight countries as Stage 1, factor-driven economies. According to the WEF GCI, "in the first stage...countries compete based on their factor endowments—primarily unskilled labor and natural resources."⁵¹ The WEF GCI determines if countries are factor-driven, efficiency-driven, innovation-driven, or a period of transition between these by examining twelve pillars of competitiveness: institutions, infrastructure, macroeconomic environment, health and primary education, higher education and training, goods market efficiency, labor market efficiency, financial market development, technological readiness, market size, business sophistication, and innovation. Of 148 countries, 26% are factor-driven, 13% are transitioning from factor-driven to efficiency driven, 21% are efficiency-driven, 15% are transitioning from efficiency-driven to innovation

⁵¹ World Economic Forum, *Global Competitiveness Report*, 10.

driven, and 25% are innovation driven.⁵² To simplify, these five stages can be referred to as Groups 1–5.

C. WORLD BANK WORLDWIDE GOVERNANCE INDICATORS

Reviewing the World Bank Worldwide Governance Indicators (WB WGI) 2012 data provides an opportunity to study the Stage 1 countries in more detail. The six indicators used to measure governance are voice and accountability, political stability and absence of violence/terrorism, government effectiveness, regulatory quality, rule of law, and control of corruption. The WB WGI presents the data for these indicators on a -2.5 to +2.5 scale (see Tables 2 and 3).

⁵²World Economic Forum, *Global Competiveness Report*, 11.

Table 2. Summary of World Bank Data

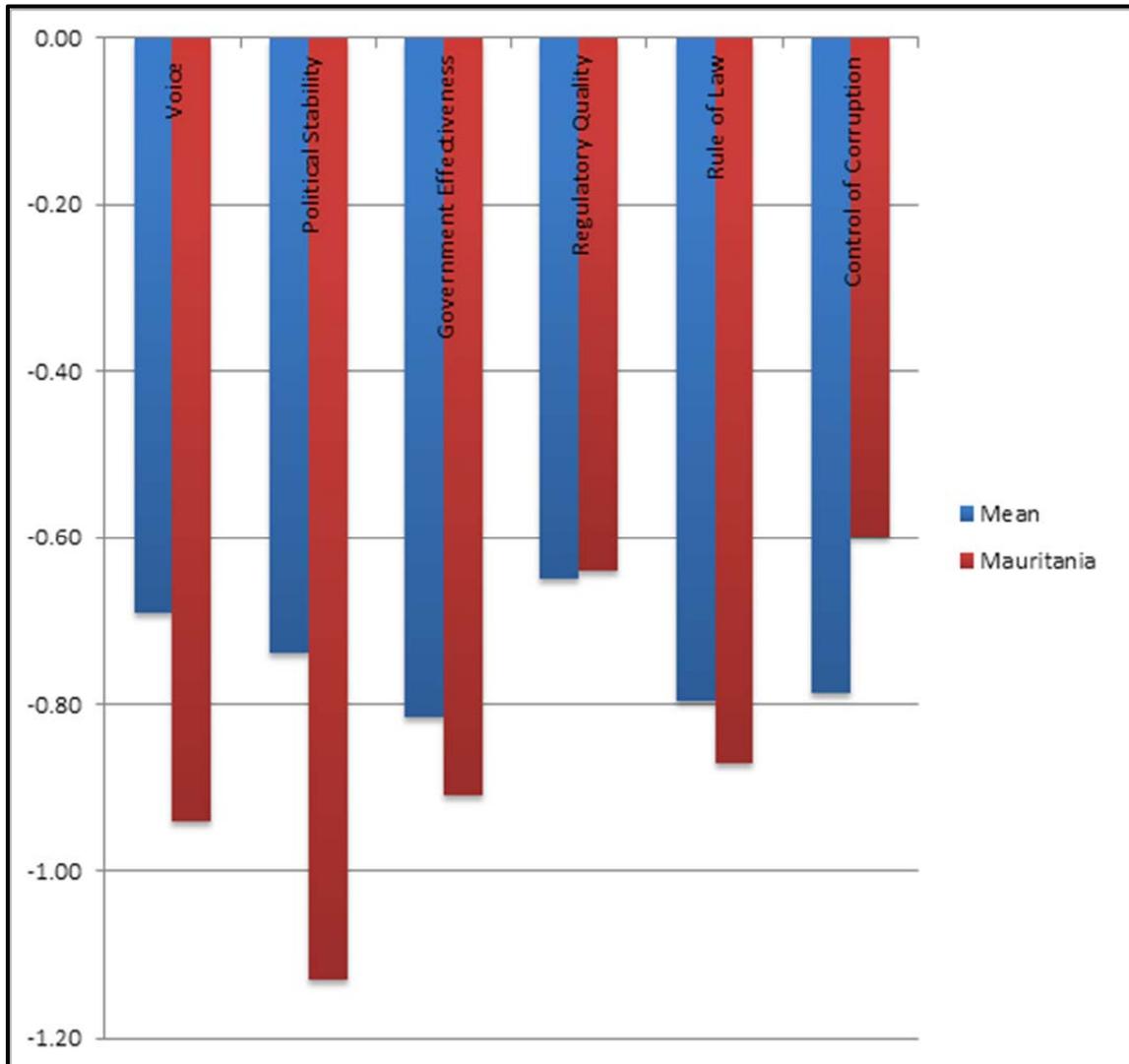


Table 3. World Bank Worldwide Governance Indicators For Stage 1 Countries⁵³

	Voice	Political Stability	Government Effectiveness	Regulatory Quality	Rule of Law	Control of Corruption
Mean	-0.69	-0.74	-0.82	-0.65	-0.80	-0.79
No. of Countries	38	38	38	38	38	38
Std Deviation	0.536	0.810	0.400	0.421	0.398	0.423
Mauritania	-0.94	-1.13	-0.91	-0.64	-0.87	-0.6
Bangladesh	-0.42	-1.35	-0.83	-0.96	-0.91	-0.87
Benin	0.07	0.31	-0.53	-0.39	-0.64	-0.92
Burkina Faso	-0.35	-0.62	-0.63	-0.12	-0.43	-0.52
Burundi	-0.93	-1.68	-1.33	-0.96	-1.09	-1.46
Cambodia	-0.98	-0.14	-0.83	-0.35	-0.97	-1.04
Cameroon	-1.03	-0.58	-0.90	-0.93	-1.02	-1.24
Chad	-1.33	-1.07	-1.49	-1.08	-1.45	-1.25
Cote d'Ivoire	-0.79	-1.26	-1.11	-0.77	-1.11	-0.91
Ethiopia	-1.28	-1.54	-0.44	-1.07	-0.66	-0.60
Gambia	-1.25	0.01	-0.51	-0.23	-0.54	-0.64
Ghana	0.41	0.10	-0.07	0.12	-0.03	-0.09
Guinea	-1.08	-1.28	-1.27	-1.02	-1.44	-1.11
Haiti	-0.80	-0.79	-1.63	-0.95	-1.34	-1.24
India	0.35	-1.25	-0.18	-0.47	-0.10	-0.57

⁵³ Access Worldwide Governance Indicators, World Bank, accessed May 21, 2014.
<http://info.worldbank.org/governance/wgi/index.aspx#reports>.

Kenya	-0.30	-1.29	-0.55	-0.31	-0.87	-1.10
Kyrgyz Rep	-0.64	-0.89	-0.66	-0.35	-1.15	-1.09
Lao PDR	-1.58	0.04	-0.88	-0.84	-0.83	-1.04
Lesotho	0.04	0.25	-0.38	-0.54	-0.29	0.11
Liberia	-0.36	-0.47	-1.18	-1.05	-0.92	-0.57
Madagascar	-0.85	-0.57	-1.08	-0.58	-0.89	-0.61
Malawi	-0.23	-0.01	-0.50	-0.71	-0.24	-0.45
Mali	-0.55	-1.98	-0.99	-0.42	-0.69	-0.76
Mauritania	-0.94	-1.13	-0.91	-0.64	-0.87	-0.60
Mozambique	-0.18	0.35	-0.64	-0.46	-0.60	-0.59
Myanmar	-1.65	-0.96	-1.53	-1.87	-1.35	-1.12
Nepal	-0.70	-1.38	-0.99	-0.81	-0.79	-0.83
Nicaragua	-0.53	-0.37	-0.89	-0.30	-0.74	-0.78
Nigeria	-0.73	-2.05	-1.00	-0.72	-1.18	-1.13
Pakistan	-0.87	-2.68	-0.79	-0.73	-0.91	-1.06
Rwanda	-1.24	-0.21	-0.06	-0.10	-0.26	0.66
Senegal	-0.05	-0.10	-0.46	-0.10	-0.33	-0.32
Sierra Leone	-0.36	-0.27	-1.21	-0.71	-0.87	-0.94
Tanzania	-0.22	0.03	-0.69	-0.40	-0.58	-0.85
Uganda	-0.49	-0.89	-0.57	-0.24	-0.36	-0.95
Vietnam	-1.38	0.25	-0.29	-0.68	-0.50	-0.56
Yemen	-1.39	-2.43	-1.28	-0.70	-1.27	-1.23
Zambia	-0.16	0.61	-0.50	-0.43	-0.40	-0.36
Zimbabwe	-1.45	-0.79	-1.21	-1.83	-1.62	-1.27

The WB WGI defines voice and accountability as, “perceptions of the extent to which a country’s citizens are able to participate in selecting their government, as well as freedom of expression, freedom of association, and a free media.”⁵⁴ Out of the Stage 1 countries, only four received a score above zero, with Ghana scoring the highest at +0.41. The average score among Stage 1 countries was -.069, and Mauritania scored below this average with a rating of -0.94.

Political stability and absence from violence/terrorism is a measure indicating perceived, “likelihood that the government will be destabilized or overthrown by unconstitutional or violent means, including politically-motivated violence or terrorism.”⁵⁵ In this category, Stage 1 countries fared slightly worse than in voice and accountability, with a political stability average score of -0.74. The scores were more widely spread, with nine countries getting a positive score. Mozambique led with a score of +0.61, while Pakistan scored a dismal -2.68 (an outlier performing so badly it scores off the index’s scale). Mauritania came in well below average with a score of -1.13. Interestingly, in the two years leading up to Mauritania’s 2008 coup, the scores were +0.22 and -0.27. The year of the coup, when one might expect the number to be extremely negative, the score was -0.65. Since then, the score has been getting progressively worse (more negative), with only marginal improvement from 2011 (-1.17) to 2012 (-1.13).

Government effectiveness assesses the perception of, “quality of public services, the quality of the civil service and the degree of its independence from political pressures, the quality of policy formulation and implementation, and the credibility of the government’s commitment to such policies.”⁵⁶ No Stage 1 country scores above 0 on this measure, and the average score for the group

⁵⁴ World Bank, “Voice and Accountability,” Worldwide Governance Indicators, accessed May 21, 2014. <http://info.worldbank.org/governance/wgi/index.aspx#doc-intro>.

⁵⁵ World Bank, “Political Stability and Absence of Violence,” accessed May 21, 2014. <http://info.worldbank.org/governance/wgi/index.aspx#doc-intro>.

⁵⁶ World Bank, “Government Effectiveness,” accessed May 21, 2014. <http://info.worldbank.org/governance/wgi/index.aspx#doc-intro>.

was -0.82. Mauritania scores just below this, with -0.91. Though none scored a positive number, the spread is not as wide here as it was in political stability; Haiti earned the lowest score, -1.63.

The WB WGI explains regulatory quality as the perception, “of the ability of the government to formulate and implement sound policies and regulations that permit and promote private sector development.”⁵⁷ In this area, one country, Ghana, scores above zero (+0.12). Mauritania sits right in the middle of the group with its score of -0.64 when the average is -0.65.

The Stage 1 countries are again unable to achieve positive scores in the next category, rule of law. “Rule of Law captures perceptions of the extent to which agents have confidence in and abide by the rules of society, and in particular the quality of contract enforcement, property rights, the police, and the courts, as well as the likelihood of crime and violence.”⁵⁸ Mauritania’s score of -0.87 comes in just below the group average of -0.80. The lowest score in the group, -1.62, comes from Zimbabwe.

The last indicator presented by the WB WGI is control of corruption. Two Stage 1 countries achieve a positive score: Lesotho (0.11) and Rwanda (+0.66). The group mean is -0.79, and this is the only WB WGI indicator in which Mauritania scores somewhat above the average, coming in at -0.60. Four countries round out the bottom of this indicator with nearly identical scores: Cameroon (-1.24), Chad (-1.25), Haiti (-1.24), and Zimbabwe (-1.27).

D. HERITAGE FOUNDATION INDEX OF ECONOMIC FREEDOM

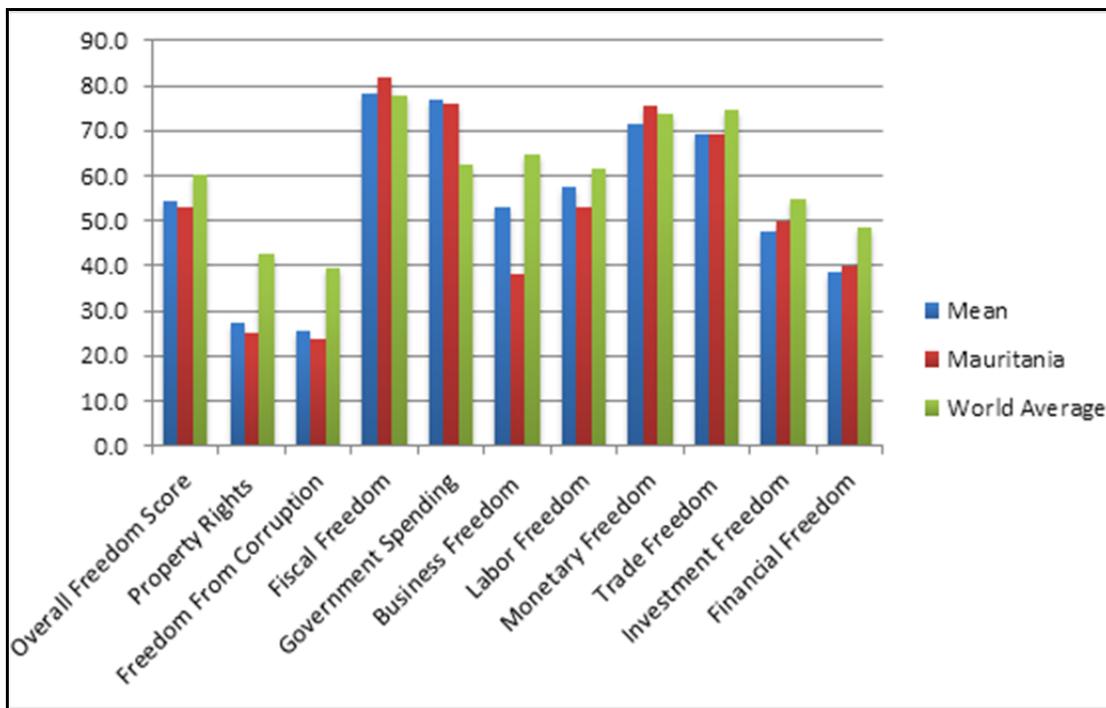
The next index, the Heritage Foundation’s *2014 Index of Economic Freedom* (HF IEF), is the most dense of the indexes examined here. The HF IEF examines four areas of economic freedom: rule of law, limited government, regulatory efficiency, and open markets. Rule of law considers property rights

⁵⁷ World Bank, “Regulatory Quality,” accessed May 21, 2014. <http://info.worldbank.org/governance/wgi/index.aspx#doc-intro>.

⁵⁸ Ibid.

and freedom from corruption. Limited government delves into government spending and fiscal freedom, “a measure of the tax burden imposed by government.”⁵⁹ The scope of regulatory efficiency includes business, labor, and monetary freedom. Lastly, the Heritage Foundation measures open markets, which involves trade, investment, and financial freedom.⁶⁰ The Heritage Foundation scores each of these areas on a scale of 1 to 100 and awards an overall freedom score to each country (see Tables 4 and 5).

Table 4. Summary of Heritage Foundation Data



⁵⁹ World Bank, “Control of Corruption,” accessed May 21, 2014. <http://info.worldbank.org/governance/wgi/index.aspx#doc-intro>.

⁶⁰ Heritage Foundation, “About the Index,” *2014 Index of Economic Freedom*, accessed May 21, 2014. <http://www.heritage.org/index/about>.

Table 5. Heritage Foundation Part I: Overall Freedom Score, Rule of Law, and Limited Government⁶¹

	Overall Freedom Score	Rule of Law		Limited Government	
		Property Rights	Freedom From Corruption	Fiscal Freedom	Government Spending
Mean	54.5	27.4	25.4	78.1	76.8
No. of Countries	38	38	38	38	38
Std Deviation	5.561	10.117	7.193	9.143	15.981
Mauritania	53.2	25.0	23.9	81.7	75.8
World Average	60.3	42.6	39.3	77.6	62.5
Bangladesh	54.1	20	23.3	72.5	92.3
Benin	57.1	30	29.5	68.3	86.1
Burkina Faso	58.9	30	31.3	83.0	82.3
Burundi	51.4	20	15.9	73.5	51.9
Cambodia	57.4	30	18.7	90.8	88.4
Cameroon	52.6	30	21.9	71.7	86.0
Chad	44.5	20	15.9	46.2	80.0
Cote d'Ivoire	57.7	30	22.1	79.1	79.8
Ethiopia	50.0	30	27.0	77.5	89.9
Gambia	59.5	30	31.7	79.0	79.8
Ghana	64.2	50	40.4	85.4	83.3
Guinea	53.5	20	19.2	69.3	86.2
Haiti	48.9	10	16.9	80.3	66.3
India	55.7	50	31.5	79.4	77.8
Kenya	57.1	30	21.0	78.0	74.6
Kyrgyz Rep	61.1	20	19.2	94.6	60.2
Lao PDR	51.2	15	18.6	86.6	86.7
Lesotho	49.5	40	37.1	67.4	0.0
Liberia	52.4	30	33.8	83.6	70.5
Madagascar	61.7	40	27.3	90.8	92.3
Malawi	55.4	45	31.9	78.0	63.0
Mali	55.5	20	27.7	69.8	81.7
Mauritania	53.2	25	23.9	81.7	75.8
Mozambique	55.0	30	26.2	75.7	64.6

⁶¹ Heritage Foundation, "Explore the Data," *2014 Index of Economic Freedom*, accessed May 21, 2014. <http://www.heritage.org/index/explore>.

	Overall Freedom Score	Rule of Law		Limited Government	
		Property Rights	Freedom From Corruption	Fiscal Freedom	Government Spending
Myanmar	46.5	10	11.6	86.9	89.2
Nepal	50.1	30	21.3	85.9	89.6
Nicaragua	58.4	15	24.1	78.6	80.0
Nigeria	54.3	30	22.7	85.0	74.5
Pakistan	55.2	30	22.7	80.6	88.3
Rwanda	64.7	30	46.9	80.3	78.2
Senegal	55.4	40	29.5	65.1	75.4
Sierra Leone	50.5	15	24.6	80.7	85.7
Tanzania	57.8	30	28.8	79.7	78.3
Uganda	59.9	30	23.8	79.1	87.3
Vietnam	50.8	15	26.9	77.0	71.4
Yemen	55.5	30	19.4	91.7	74.9
Zambia	60.4	30	31.3	71.8	82.9
Zimbabwe	35.5	10	19.3	63.3	64.0

The average freedom score for Stage 1 countries is 54.5, while the world average stands at 60.3. Mauritania is near the Stage 1 average with a score of 53.2. The top two Group 1 performers are Ghana (64.2) and Rwanda (64.7). Chad (44.5) sits eleven points above Zimbabwe (35.5), the country with the lowest overall freedom score. Examining these scores, especially across categories, can be confusing because the average score in each subgroup varies widely. For instance, the world average for freedom from corruption is 39.3, while the world average for fiscal freedom is 77.6. Therefore, rather than comparing raw numbers from category to category, it is more useful to compare world and Stage 1 averages to individual country scores.

Within rule of law, Stage 1 countries score significantly lower than the world average. The Stage 1 countries come in at 27.37 in property rights while the world average rests at 42.6. Similarly, Stage 1 scores 25.39 in freedom from corruption, well below the world average of 39.3. Mauritania's scores in these two subcategories arrive just below the Stage 1 average.

The Heritage Foundation measures limited government (low taxes and low government spending as a percentage of gross domestic product) as a positive indicator. Others might disagree, because this can mean the government is not providing basic public goods. When taking the index at face value, however, the HF IEF shows that Stage 1 countries score better than the world average in both sub categories. The Stage 1 average (78.1) edges out the world average (77.6), while Mauritania scores just a bit higher (81.7). In government spending, the Stage 1 countries (76.82) far outscore the world average (62.5), and Mauritania is near the Stage 1 average with its score of 75.8.

Moving to regulatory efficiency, the data first appears rather mixed (see Table 6). The Stage 1 business efficiency average (53.1) is well below the world average (64.6), and the Mauritanian score is a paltry 38.0. The labor freedom data is, however, more tightly clustered with a world average (61.7) just above the Stage 1 average (57.55), slightly outpacing the Mauritanian score (53.1). Then, in monetary freedom, the tables turn, and the Mauritanian score (75.5) is higher than the world average (73.9), and both are higher than the Stage 1 average (71.54), but all score are high and tightly grouped. To examine how this category's data looks in aggregate, one can average the three subcategory scores, getting a regulatory efficiency world average of 66.7, Stage 1 average of 60.7, and Mauritania average of 55.5. This aggregate look reflects the economic freedom data trends more closely, in that the world average is larger than the Stage 1 average, which is generally larger than the Mauritania score, with all three scores relatively close to each other.

The final area of consideration by the Heritage Foundation is open markets as measured by trade, investment, and financial freedom. Trade Freedom averaged 74.8 across the world, 69.4 for Stage 1 countries, and Mauritania right under the average at 69.0. Investment Freedom provides a similar picture, with the world average (54.9) exceeds the Stage 1 average (47.5), but Mauritania excels in this category with a score of 50.0. The world average financial freedom score (48.7) has the largest gap between it and the

Stage 1 score (38.7) at ten points. Mauritania helps bring up the financial freedom average with its score of 40.0.

Table 6. Heritage Foundation Part II: Regulatory Efficiency and Open Markets⁶²

	Regulatory Efficiency			Open Markets		
	Business Freedom	Labor Freedom	Monetary Freedom	Trade Freedom	Investment Freedom	Financial Freedom
Mean	53.1	57.6	71.5	69.4	47.5	38.7
No. of Countries	38	38	38	38	38	38
Std Deviation	12.622	14.236	5.682	7.783	16.956	12.340
Mauritania	38.0	53.1	75.5	69.0	50.0	40.0
World Average	64.6	61.7	73.9	74.8	54.9	48.7
Bangladesh	70.8	51.9	65.9	59.0	55	30
Benin	51.0	50.5	75.4	60.0	70	50
Burkina Faso	60.7	55.0	78.8	67.8	60	40
Burundi	59.8	63.1	68.2	71.8	60	30
Cambodia	36.6	50.2	77.9	71.0	60	50
Cameroon	45.0	56.1	69.4	61.2	35	50
Chad	24.9	43.3	69.8	55.2	50	40
Cote d'Ivoire	55.1	59.0	80.6	71.4	50	50
Ethiopia	57.8	54.7	59.0	64.2	20	20
Gambia	57.4	65.8	71.3	65.0	65	50
Ghana	62.6	60.2	65.8	64.8	70	60
Guinea	51.8	73.4	64.1	61.2	50	40
Haiti	33.3	68.5	73.6	70.4	40	30
India	37.7	74.0	65.5	65.6	35	40
Kenya	55.8	64.0	74.9	72.8	50	50
Kyrgyz Rep	74.2	83.8	73.7	75.2	60	50
Lao PDR	60.7	54.9	75.5	58.6	35	20
Lesotho	54.0	62.4	75.5	68.6	50	40
Liberia	62.3	47.0	72.9	64.1	40	20
Madagascar	62.8	43.9	77.6	77.8	55	50

⁶² Heritage Foundation, "Explore the Data."

	Regulatory Efficiency			Open Markets		
	Business Freedom	Labor Freedom	Monetary Freedom	Trade Freedom	Investment Freedom	Financial Freedom
Malawi	38.9	60.3	64.1	72.7	50	50
Mali	48.0	63.2	76.7	73.2	55	40
Mauritania	38.0	53.1	75.5	69.0	50	40
Mozambique	65.2	36.7	80.8	75.5	45	50
Myanmar	28.3	75.7	64.8	73.6	15	10
Nepal	58.5	43.8	76.3	61.0	5	30
Nicaragua	52.6	60.3	72.8	85.4	65	50
Nigeria	48.0	66.4	73.1	63.8	40	40
Pakistan	69.4	47.3	68.5	64.8	40	40
Rwanda	69.6	84.1	74.8	77.7	65	40
Senegal	47.5	41.5	81.8	73.2	60	40
Sierra Leone	55.3	28.7	70.2	70.2	55	20
Tanzania	47.0	61.1	66.0	76.8	60	50
Uganda	45.1	87.4	71.0	75.4	60	40
Vietnam	62.0	68.3	63.6	78.7	15	30
Yemen	59.2	54.9	62.1	82.4	50	30
Zambia	74.9	50.1	68.0	84.6	60	50
Zimbabwe	34.5	22.2	73.0	54.2	5	10

E. WORLD ECONOMIC FORUM—COUNTRY/ECONOMY PROFILES: MAURITANIA

The data collections examined in previous sections show a broad perspective on how Stage 1 countries perform while also highlighting Mauritania's performance. Taking a more focused look at Mauritania provides an opportunity to further understand this country and provide tailored policy recommendations. The World Economic Forum's *Global Competitiveness Report 2013–2014* provides a very useful synopsis of Mauritania's performance and challenges.

The first section of the Mauritania country report shows the gross domestic product as measured by purchasing power parity (GDP [PPP]) from 1990–2012 and compares it with Middle East, North Africa, Afghanistan, and

Pakistan. While the group of countries experienced a steady upward GDP (PPP) growth, this measure remains relatively flat in Mauritania.

Next, the *Global Competitive Index* (WEF GCI) data for Mauritania is compared to other Stage 1 countries. On average, Mauritania performs at or below other Stage 1 countries in each of the twelve pillars except for macroeconomic environment, where Mauritania scores slightly higher than the average.

The WEF GCI groups the twelve pillars into three weighted categories: basic requirements (60%), efficiency enhancers (35%), and innovation and sophistication factors (5%).⁶³ Mauritania's overall score for 2013–14 is 141 of 148 countries, which is a slide down from 134/144 the previous year. Mauritania ranks 132/148 in basic requirements, 147/148 in efficiency enhancers, and 134/148 in innovation and sophistication factors. Based on the responses garnered by the WEF, access to financing is by far the hardest part of doing business in Mauritania. Other challenges include corruption, policy instability, and government instability/coups (the last coup was in 2008). Other notable areas for improvement are the inadequately educated workforce, inefficient government bureaucracy, inadequate supply of infrastructure, inflation, poor work ethic in the national labor force, and insufficient capacity to innovate. Crime/theft and tax rates did not contribute to business challenges.⁶⁴

Each of the WEF GCI twelve pillars contains between four and twenty-one sub-factors. There are a few sub-factors in which Mauritania performed particularly well: Institutions: business costs of crime and violence (38/148), Macroeconomic Environment: government budget balance (16/148), Goods Market Efficiency: imports as a percentage of GDP (30/148), Labor Market Efficiency: redundancy costs, weeks of salary (44/148), and Market Size: exports as a percentage of GDP (26/148). To determine Mauritania's readiness to

⁶³ World Economic Forum, *Global Competitiveness Report*, 272–3.

⁶⁴ Ibid.

promote entrepreneurship, the assessment section of this thesis will examine Mauritania's scores in the factors most important for entrepreneurship as described by Looney in *The Handbook of Emerging Economies*.

F. GLOBAL ENTREPRENEURSHIP AND DEVELOPMENT INDEX (GEDI)

The 2014 GEDI measures entrepreneurship within each country by providing three scores—overall country score, individual-level score and institutional-level score. The aim of this data collection is to measure entrepreneurship in new, helpful ways that allow world leaders to make intelligent, data-driven policy decisions on entrepreneurial growth.⁶⁵

The mean GEDI score of Stage 1 countries is 21.61 on a 100-point scale (see Tables 7 and 8). Stage 1 countries averaged 59.61 on the individual ratings and 41.46 on the institutional ratings. Mauritania scored 18.5, 60.2, and 34.6, therefore achieving numbers just below or right about the average for Stage 1 countries. This shows that Mauritania has the individual skills and perceptions to seek entrepreneurship, but the institutional support needs some work in order to meet the Stage 1 average (and even more if Mauritania hopes to move beyond Stage 1).⁶⁶

⁶⁵ Zoltán J. Ács, László Szerb, and Erkkó Autio, *Global Entrepreneurship and Development Index 2014* (Washington, DC: Global Entrepreneurship and Development Institute, 2014), 5.

⁶⁶ *Ibid.*

Table 7. Summary of GEDI Data

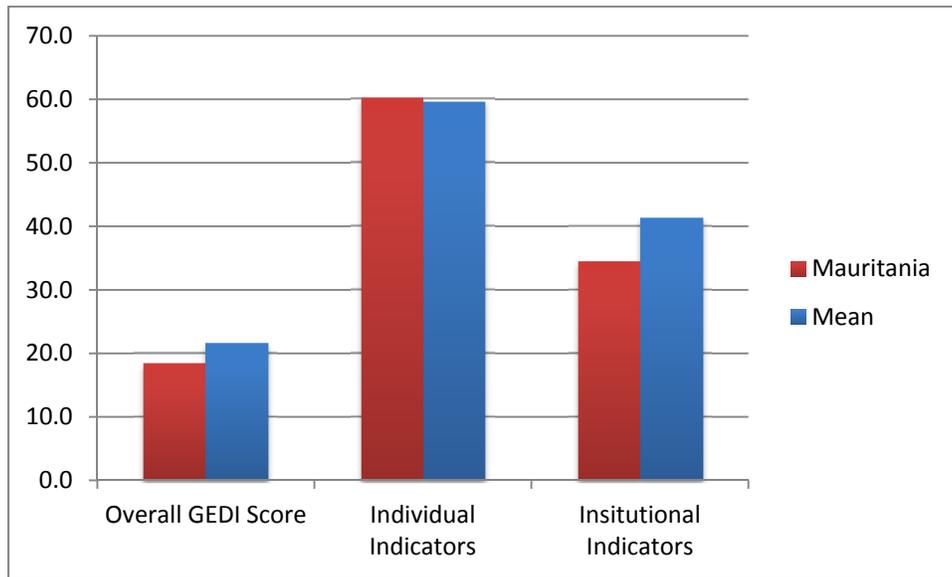


Table 8. GEDI Data⁶⁷

	Overall GEDI Score	Individual Indicators	Institutional Indicators
Mean	21.6	59.6	41.5
No. of Countries	27	27	27
Std Deviation	4.430	5.861	6.088
Mauritania	18.5	60.2	34.6
Bangladesh	13.8	37.5	38.1
Benin	24.6	64.8	41.1
Burkina Faso	19.8	60.2	38.6
Burundi	15.5	60.2	31.7
Cambodia			
Cameroon	24.6	64.8	41.2
Chad	15.0	60.2	29.8
Cote d'Ivoire	19.4	60.2	38.1

⁶⁷ Ács, *Global Entrepreneurship*.

	Overall GEDI Score	Individual Indicators	Institutional Indicators
Ethiopia	19.8	63.7	33.9
Gambia	21.0	60.2	46.3
Ghana	26.2	59.1	49.7
Guinea			
Haiti			
India	31.3	60.2	53.7
Kenya	23.8	60.2	48.9
Kyrgyz Rep			
Lao PDR			
Lesotho			
Liberia	24.5	60.2	48.1
Madagascar	19.5	60.3	37.6
Malawi	20.8	64.0	38.4
Mali	18.8	60.2	36.2
Mauritania	18.5	60.2	34.6
Mozambique	20.6	60.2	41.6
Myanmar			
Nepal			
Nicaragua	22.1	56.7	39.6
Nigeria	31.6	67.2	50.1
Pakistan	18.7	46.4	42.4
Rwanda	21.0	60.2	43.0
Senegal	24.7	60.2	46.9
Sierra Leone	17.6	60.2	34.5
Tanzania	22.5	60.2	45.6
Uganda	19.3	55.4	43.1
Vietnam			
Yemen			
Zambia	28.4	66.7	46.5
Zimbabwe			

G. CONCLUSION

The data provided here illustrates the current state of affairs in Stage 1 countries, and more specifically in Mauritania. These countries have a wide range of areas for improvement in order to progress to the next stage of development. It is, however, not necessarily helpful to provide a voluminous wish list for change. Using the data here, the author will present a tailored approach to promote entrepreneurship in Mauritania, described in the assessment and recommendations sections of this thesis.

III. SECURITY CONCERNS

As a Stage 1, factor-driven economy, it is no great surprise that Mauritanian infrastructure and security have room for improvement. This does not, however, imply that Mauritania exemplifies the stereotype of rural backwardness. The capitol, Nouakchott, and the commercial center of Nouadhibou both feature thriving metropolitan areas with deep-sea ports.⁶⁸ Roads are in disrepair and government bureaucracies could use revamping, but the crime rate in Mauritania, and specifically Nouakchott, is comparable to cities in the United States.⁶⁹ The U.S. Department of State classifies crime in Mauritania as Medium.⁷⁰

Mauritania's political history is similar to many other countries on the continent: independence, political unrest, authoritarianism, coups, and finally limited democracy. Mauritania gained its independence from France in 1960. The French-installed president, Moktar Ould Daddah, remained in power until removed by a bloodless coup in 1978. Ongoing instability continued over the years, and a coup in 1984 installed Colonel Maaouiya Ould Sid Ahmed Taya as president.⁷¹

Mauritania's tumult continued during President Taya's tenure. Multiple coup attempts eventually led to Taya's dismissal in 2005. The coup victorious against Taya occurred while he was out of the country and then concluded with the creation of a military ruling council. The military ceded control to civilians via the country's first democratic election in 2007.⁷²

⁶⁸ U.S. Department of State, *Mauritania 2013 Crime and Safety Report*, <https://www.osac.gov/pages/ContentReportDetails.aspx?cid=13671>.

⁶⁹ Ibid.

⁷⁰ Ibid.

⁷¹ BBC Africa, "Mauritania Profile Timeline," Last updated September 3, 2014. <http://www.bbc.com/news/world-africa-13882166>.

⁷² Ibid.

Despite the ostensible gains of democracy, 2008 proved a particularly fitful year. The Paris-Dakar Rally, an auto race that traversed Mauritania, was canceled because a French tourist was murdered in Mauritania at the end of 2007. Multiple AQIM engagements transpired, including an attack on the Israeli embassy in Nouakchott, an arrest of eight AQIM members indicted on murder, and an AQIM ambush that killed 12 Mauritanian soldiers. The highlight of 2008 unrest came with yet another successful coup, this time placing General Mohamed Ould Abdel Aziz in power. Since this coup, the presidential power appeared to stabilize somewhat, while the country turned its attention to fighting AQIM.⁷³

AQIM activity in Mauritania ramped up in 2008 and peaked in 2010. Both civilians (foreign and local) and soldiers died at the hands of AQIM, but the Mauritanian government fought back. In 2010, a new anti-terrorism law enabled the government to more effectively pursue terrorists, and as a result captured and prosecuted multiple terrorists, even sentencing some to death.⁷⁴ The U.S. Department of State reported no major AQIM events in Mauritania since the Mauritanian security forces chased AQIM members back into Mali in mid-2011.⁷⁵ AQIM still operates in Mauritania, but AQIM offensive action in Mauritania seems to be quiet for the time being.⁷⁶

Peaceful elections took place at the end of 2013 (parliament) and mid-2014 (executive). The president was re-elected for another term with 82% of the votes.⁷⁷ For the first time in Mauritania, a woman ran for president.⁷⁸

⁷³ BBC Africa, "Timeline."

⁷⁴ Ibid.

⁷⁵ U.S. Department of State, "Crime and Safety Report.," U.S. Department of State, "Mauritania Travel Warning," last updated October 7, 2014. <http://travel.state.gov/content/passports/english/alertswarnings/mauritania-travel-warning.html>.

⁷⁶ Ibid.

⁷⁷ Abdellahi Ould Soueid'Ahmed, Ahmed Ould Ghanahalla, and Manthita Tandia, "Communiqué Portant Proclamation des Résultats des Élections Présidentielles de 21 Juin 2014 [Communication Proclaiming Results of the National Presidential Election of June 21, 2014]," accessed September 18, 2014. http://ceni.mr/IMG/pdf/declaration_provisoire_des_resultats_fr.pdf.

Mauritania's story follows a path familiar to many African nations, but of course has its own unique elements. This country is struggling to improve the strength of its government functions, which enabled it to make some hard-earned progress over the last few years, especially in the security realm. Rule of law improvement in Mauritania will likely make the environment increasingly more hospitable for entrepreneurs in the coming years.

⁷⁸ "Woman Runs for President in Islamic Mauritania," *NDTV*, May 8, 2014.
<http://www.ndtv.com/article/world/woman-runs-for-president-in-islamic-mauritania-520217>.

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IV. ASSESSMENT

The data on Mauritania paints a consistent picture—Mauritania is near or below the average of Stage 1 countries on most measures (see Table 9). On the positive side, Mauritania demonstrates some positive qualities that can be built upon. Significant growth opportunities exist; Mauritania need not overcome the dire circumstances present in the most dismally performing Stage 1 countries.

Table 9. Summary of Stage 1 Averages and Mauritanian Measures Across Indexes⁷⁹

Measure	Stage 1 Average	Mauritania	Index
Voice	-0.69	-0.94	Worldwide Governance Indicators
Political Stability	-0.74	-1.13	Worldwide Governance Indicators
Government Effectiveness	-0.82	-0.91	Worldwide Governance Indicators
Regulatory Quality	-0.65	-0.64	Worldwide Governance Indicators
Rule of Law	-0.80	-0.87	Worldwide Governance Indicators
Control of Corruption	-0.79	-0.60	Worldwide Governance Indicators
Overall Freedom	54.5	53.2	Index of Economic Freedom
Property Rights	27.4	25.0	Index of Economic Freedom
Freedom From Corruption	25.4	23.9	Index of Economic Freedom
Fiscal Freedom	78.1	81.7	Index of Economic Freedom
Government Spending	76.8	75.8	Index of Economic Freedom
Business Freedom	53.1	38.0	Index of Economic Freedom
Labor Freedom	57.6	53.1	Index of Economic Freedom
Monetary Freedom	71.5	75.5	Index of Economic Freedom
Trade Freedom	69.4	69.0	Index of Economic Freedom
Investment Freedom	47.5	50.0	Index of Economic Freedom
Financial Freedom	38.7	40.0	Index of Economic Freedom
Overall GEDI	21.6	18.5	GEDI
Individual GEDI	59.6	60.2	GEDI
Institutional GEDI	41.5	34.6	GEDI

⁷⁹ Access Worldwide Governance Indicators, World Bank; Heritage Foundation, “Explore the Data.”; Acs, *Global Entrepreneurship*.

The three areas where Mauritania lags most behind the Stage 1 average are Voice, Political Stability, and Business Freedom.⁸⁰ These three areas are within the control of the government, but whether or not these items should take priority in policy decisions depends upon their roles in encouraging entrepreneurship. First, individuals do not have an active voice in the government, but the government effectiveness, regulatory quality, and rule of law are acceptable, therefore voice does not need to be a policy priority when focusing solely on entrepreneurship. Second, political stability has a direct impact on entrepreneurship because if entrepreneurs believe that the government may change hands unexpectedly, business owners may hesitate to invest in their businesses. The potential reward would not be worth the risk of losing assets in times of government instability. Therefore, policies that promote government stability can benefit entrepreneurship. These policies do not need to be democratic; they need to define how power changes hands in a peaceful manner, whether from one authoritarian to another or one elected official to another.

Finally, business freedom is crucial for boosting entrepreneurship. The Heritage Foundation defines business freedom as, “the ability to start, operate, and close a business that represents the overall burden of regulation as well as the efficiency of government in the regulatory process.”⁸¹ The process for opening and operating a business, as well as the associated costs, influence the likelihood that an entrepreneur will incur the time and effort to begin the business, and can drive how successful the business will be. If government regulation of businesses is too burdensome, businesses may fold under the pressure of payments and certifications despite having a product or service that the market demands. Simplifying business regulations should be a top policy priority for

⁸⁰ Access Worldwide Governance Indicators, World Bank; Heritage Foundation, “Explore the Data.”

⁸¹ Heritage Foundation, “Regulatory Efficiency,” *2014 Index of Economic Freedom*. <http://www.heritage.org/index/regulatory-efficiency>.

Mauritania because it can be a relatively easy and low-cost method to stimulate entrepreneurship by removing regulatory disincentives.

For a country to inspire entrepreneurship, the aim is not to meet the averages of other countries in the same stage of development. Instead, the goal is to focus on policy areas that will help the country move to the next stage of development. For Mauritania, this means moving away from a factor-driven economy and toward an efficiency-driven economy. Determining which policies and focus areas will most effectively encourage entrepreneurship is the subject of the next chapter.

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V. POLICY RECOMMENDATIONS

A. INTRODUCTION

Looney's work on developing economies mathematically derives the variables most tightly linked to entrepreneurship in Group 1 and Group 2 countries: trade freedom and business freedom. These two variables are so influential that they explain more than 50% of the variance in entrepreneurship in these groups.⁸² The Heritage Foundation classifies trade freedom as a subset of open markets, and defines trade freedom as, "a composite measure of the absence of tariff and non-tariff barriers that affect the imports and exports of goods and services."⁸³ Business freedom falls into the Heritage Foundation's category called regulatory efficiency. Business freedom is, "a quantitative measure of the ability to start, operate, and close a business that represents the overall burden of regulation as well as the efficiency of government in the regulatory process."⁸⁴

The goal of this thesis is to provide a targeted list of policy recommendations, relying upon the understanding that entrepreneurship is key to creating sustained economic growth. As economic growth continues, countries progress through the stages of development. Pointing to Looney's assertion that trade and business freedom are paramount for Stage 1 countries, the recommendations here provide both United States leaders and Mauritanian leaders opportunities to increase Mauritania's entrepreneurial activity and long-term economic development.

⁸² Looney, "Modern Stage Theories," 163.

⁸³ Heritage Foundation, "Open Markets," *2014 Index of Economic Freedom*.
<http://www.heritage.org/index/open-markets>.

⁸⁴ Heritage Foundation, "Regulatory Efficiency."

B. UNITED STATES POLICY

One might ask why the United States has any interest in Mauritania's economic development. The *U.S. Strategy Toward Sub-Saharan Africa* states quite clearly, "we will be guided by our core interests in sub-Saharan Africa: ensuring security of the United States... and fostering broad-based, sustainable economic growth and poverty alleviation."⁸⁵ Mauritania's unemployment rate of 30% makes the people of Mauritania both a potential recruitment base for terrorist organizations and a promising opportunity for economic expansion.⁸⁶

To aid Mauritania, the United States should focus on improving trade freedom by reducing barriers for Mauritanian exports to the United States. First, the United States should remove tariffs and any overly burdensome import regulations on Mauritanian goods, such as fish, oil, agricultural goods, textiles, and small manufactures. This includes quantity and price regulations set on incoming goods. Furthermore, the U.S. should cease subsidies to U.S. producers of these types of goods. These are not popular policies for U.S. politicians with short-term goals (especially getting votes in the next election), but these policies make the markets more efficient, which benefits more Americans by enabling them to purchase goods at lower prices, instead of the artificially high prices created by subsidy- and tariff-driven market inefficiencies. Also, as producers in the U.S. move away from artificially-priced/protected goods, it provides an opportunity for the American economy to move up the value chain, thus providing new opportunities for U.S. economic development. The downside, however, is that short-term unemployment is often a side effect of this growth process. Employees are laid off from the downsizing protected industries, and it takes time to reallocate resources to establish and grow the new industries.

⁸⁵ The White House, *U.S. Strategy Toward Sub-Saharan Africa*, 1–2.

⁸⁶ Heritage Foundation, "Mauritania," *2014 Index of Economic Freedom*.
<http://www.heritage.org/index/country/Mauritania>.

C. MAURITANIA POLICY

While it may seem obvious why a government would want to improve its economic future, leaders' motivations must also be considered, especially in the African context. Although Mauritania holds elections and has three branches of government, it is not a fully developed democracy. Freedom House categorizes Mauritania as "Not Free," citing in its 2014 report that the Mauritanian political system is corrupt and dominated by the president and his party.⁸⁷ The political elite might not see increased entrepreneurship as a benefit, but instead as an erosion of their economic and political bases. The appeal of improving entrepreneurship is the creation of virtuous circles. If entrepreneurship increases, then the tax base increases, thus improving the financial and political strength of the government. If the citizens see employment opportunities opening up, especially if they learn the government directly provided these circumstances that lead to lower unemployment, then the voter base will be happier. A satisfied citizenry can lead to fewer uprisings or protests, and in fact can build support that easily keeps the current party in office. Enabling the economic growth of the masses can be done in a manner that preserves and even strengthens the power of the government, thus making it appealing to encourage entrepreneurship. Lastly, in order to move away from being a factor-driven economy, Mauritania must encourage efficiency-driven (manufacturing) and innovation-driven business development. Entrepreneurship is key to creating new companies that are higher on the value chain than commodities, thus providing economic development opportunities critical to progressing through the stages of development.

Mauritania should focus on improving business freedom. The first step is to reduce the time, cost, and procedures for starting and licensing a business. If starting a business is overly burdensome in time, cost, or complexity, it can be a barrier to entry for potential entrepreneurs. If startup and operating costs are

⁸⁷ Freedom House, "Mauritania," *Freedom in the World 2014*.
<http://www.freedomhouse.org/report/freedom-world/2014/mauritania-0#.VEQuZr5Og7R>.

reduced, more businesses can be competitive both in the domestic and international markets. Second, the Mauritanian government can help reduce the extremely high cost of financing, which is currently curbing entrepreneurship in Mauritania.⁸⁸ Again, when it costs more to start and run a business, fewer businesses will succeed, so not only do the administrative and government costs need to be reduced, but also the financing costs.

Lastly, the Mauritanian government should create a business and trade assistance organization. This organization would have two aims: 1) help entrepreneurs navigate the domestic processes for legally starting and operating a business and 2) assist entrepreneurs to trade their goods internationally. On the domestic side, this would be a one-stop-shop where people with business ideas can get guidance on what licenses are needed, where to look for rules that might affect their business, mentors to help new businesses avoid common mistakes, and access to reasonably priced insurance and financing. On the international trade side, this office would help businesses establish relationships with potential overseas customers and with other local businesses. As on the domestic side, an international trade mentor can help businesses just starting international trade to avoid common pitfalls and make sure their activities do not break international law or the law of the importing country. Learning about packaging or processing requirements can help a business decide if modifications to make the product eligible for international sales are worthwhile. Small local vendors can work together to gain economies of scale by sharing shipments or large-scale inputs purchases. A small company just starting to trade internationally would not likely have the finances, goods, or demand to subsidize an entire shipping container, but a few businesses could work together to share the costs of the shipment. These economies of scale usually enjoyed only by larger companies make them more competitive because the cost per unit produced goes down. By enabling these savings for small businesses, the

⁸⁸ Heritage Foundation, "Mauritania."

Mauritanian government can improve the likelihood of success of these budding companies.

D. CONCLUSION

As the adage goes, “rising tides raise all ships.” Increasing entrepreneurship in Mauritania will reduce its unemployment rate, help Mauritania develop economically, reduce the domestic and international security threat, strengthen the Mauritanian government by increasing its tax base and popularity, make the U.S. economy more efficient by making cheaper goods available, and improve the daily lives of those going into business for themselves. In order to nurture entrepreneurial growth in Mauritania, the U.S. should improve trade freedom with Mauritania by reducing competitive barriers—tariffs, U.S. subsidies, and excessively burdensome requirements. Mauritania should enhance business freedom by reducing the time, cost and processes involved in opening, operating, and closing a business. Furthermore, Mauritania can help new and growing businesses maneuver within the domestic and international markets by creating an agency that provides mentors and centralized access to information and resources. While many areas in Mauritania need improvement, focusing on these policies can energize entrepreneurship. Increased entrepreneurship can help bring down the 30% unemployment rate and improve economic development, which are key for moving to the next stage of development.

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