Creating a Competitive Rwanda
The Changing Nature of International Competition

Drivers

- Fewer barriers to trade and investment
- Rapidly increasing stock and diffusion of knowledge
- Competitiveness upgrading in many countries

Market reaction

- Globalization of markets
- Globalization of capital investment
- Globalization of value chains
- Increasing knowledge and skill intensity of competition
- Value migrating to the service component of the value chain

- Improving competitiveness is increasingly essential to Rwanda’s prosperity
Prosperity Performance
Selected Countries

Real PPP-adjusted GDP per Capita, 2006

Growth of Real GDP per Capita (PPP-adjusted), CAGR, 1998-2006

Source: EIU (2007)
Comparative Economic Performance
Real GDP Growth Rates

Countries sorted by 2001-2006 annual real GDP growth rate (CAGR)

Source: EIU (2007)
Income Inequality
Selected Countries

Gini Index

Haiti Brazil South Africa Chile Argentina Mexico Madagascar China Cote d'Ivoire Cameroon Nigeria Uganda Zambia Burkina Faso Ghana Mauritania Benin Tanzania Indonesia Ethiopia Rwanda

Note: Most recent Gini index data available for each country (1999 – 2003). Rwanda’s data is from 2000.
The Rwandan Economy in 2007

- Economic growth rates have rebounded strongly since 2003
- Many areas of the Rwandan business environment have improved (e.g., communications and IT, education)
- Established clusters (coffee, tea, tourism) have performed well

However

- The global economic environment has been favorable
- Rwanda’s growth rates are still moderate relative to peers
- Numerous areas of the business environment need further improvement
- Strengthening the private sector and increasing public-private collaboration is essential to achieving the next level of progress

- Rwanda must dramatically improve its competitiveness
What is Competitiveness?

- Competitiveness is determined by the **productivity** (value per unit of input) with which a nation uses its human, capital, and natural resources.
  - Productivity sets a the standard of living (wages, returns on capital, returns on natural resources) that a nation can sustain
  - Productivity depends on the **prices** that a nation’s products and services command (e.g. uniqueness, quality), not just on **efficiency**
  - It is not **what** industries a nation competes in that matters for prosperity, but **how** it competes in those industries
  - Productivity requires a **combination of domestic and foreign firms** operating in the nation
  - The productivity of “**local**” or **domestic** industries is fundamental to competitiveness, not just that of traded industries
  - Devaluation does **not** make a country more competitive

- Only **business** can create wealth
- Nations compete in offering the **most productive environment** for business
- The public and private sectors play **different but interrelated roles** in creating a productive economy
Enablers and Indicators of Competitiveness

Productivity

Exports
Inbound Foreign Direct Investment
Domestic Investment
Outbound Foreign Direct Investment
Domestic Innovation

Competitiveness Environment
Foreign Inward Investment Stocks and Flows
Selected Countries

Source: UNCTAD (2007)
Inward Foreign Investment Flows
Rwanda, 1990 – 2005

Note: Data not available for 1994.
Source: UNCTAD (2007)
Investment Rates
Selected Countries

A sound context creates the potential for competitiveness, but is not sufficient. Competitiveness ultimately depends on improving the microeconomic capability of the economy and the sophistication of local competition.
Index of Economic Freedom
1996 - 2007


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Improving the Business Environment: The Diamond

- **Context for Firm Strategy and Rivalry**
  - A local context and rules that encourage investment and productivity
    - e.g., Intellectual property protection
  - Meritocratic incentive systems in businesses and other institutions
  - Open and vigorous local competition
    - e.g., Anti-monopoly laws, openness to imports

- **Factor (Input) Conditions**
  - Presence of high quality, specialized inputs available to firms
    - Human resources
    - Capital resources
    - Physical infrastructure
    - Administrative infrastructure
    - Information infrastructure
    - Scientific and technological infrastructure
    - Natural resource availability

- **Demand Conditions**
  - Local demand with improving sophistication
  - Local customer needs that anticipate those elsewhere
  - Unusual local demand in specialized segments that can be served nationally and globally
  - Access to capable, locally based suppliers and firms in related fields

- **Related and Supporting Industries**
  - Access to capable, locally based suppliers and firms in related fields

- Successful economic development is a process of successive upgrading, in which the business environment improves to enable increasingly sophisticated ways of competing.
Ease of Doing Business
Rwanda

Rwanda’s GNI per capita rank: 168

Enhancing Cluster Development
Tourism Cluster in Cairns, Australia

Public Relations & Market Research Services
Food Suppliers
Property Services
Maintenance Services
Travel agents
Tour operators
Restaurants
Attractions and Activities
e.g., theme parks, casinos, sports
Hotels
Airlines, Cruise Ships
Government agencies
e.g. Australian Tourism Commission, Great Barrier Reef Authority
Educational Institutions
e.g. James Cook University, Cairns College of TAFE
Industry Groups
e.g. Queensland Tourism Industry Council
Local retail, health care, and other services
Local Transportation
Souvenirs, Duty Free
Banks, Foreign Exchange

Sources: HBS student team research (2003) - Peter Tynan, Chai McConnell, Alexandra West, Jean Hayden

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The Kenyan Cut Flower Cluster
Trade Performance

Kenyan Cut Flower Exports in thousand US $

Kenyan Cut Flower World Export Market Share

Kenya’s Cut Flower Cluster

Government Agencies, NGOs & Industry Associations

- Horticultural Crops Development Authority (HCDA)
  Government Export Policies targeting Horticulture
  Government Policy for Revitalizing Agriculture; National Export Strategy; Export Promotion Council (EPC)

- Non-Governmental Organizations
  The Rural Enterprise Agri-Business Promotion Project (USAID, CARE, IFAD)
  Horticultural Produce Handling Facilities Project (JBIC)

Trade & Industry Associations

- Kenya Flower Council (KFC)
- Fresh Produce Exporters Association of Kenya (FPEAK)
- Regional Growers Associations e.g., North & South Kienogop; Lake Naivasha, etc.

Education, Research & Quality Standards Organizations

- Research Institutions:
  - Kenya Agricultural Research Institute (KARI)
  - International Center for Insect Physiology and Ecology (ICIPE)

- Public universities with post graduate degrees in horticulture:
  - University of Nairobi; Jomo Kenyatta University of Agriculture & Technology

- Quality & Standards:
  - EUREGAP Standard (UK & Dutch Supermarkets)
  - Kenya Plant Health Inspectorate Services (KEPHIS)

Sources: HBS student team research (2007) - Kusi Hornberger, Nick Ndiritu, Lalo Ponce-Brito, Melesse Tashu, Tijan Watt
National Cluster Export Portfolio
Rwanda, 1997-2003

Change in Rwanda's world export market share, 1997 – 2003

Achieving Superior Company Performance

Differentiation (Higher Price)

Competitive Advantage

Lower Cost
• Competing in a business involves performing a set of discrete activities, in which competitive advantage resides
Strategic Positioning
Pollo Campero, Guatemala

Value Proposition

• Low cost fast food chicken tailored to the tastes and preferences of the Central American customer

Set of Activities

• Service with a “human touch,” including some table service
• Heavy and distinctive marketing and promotion
  – “An affordable treat for the whole family”
  – Frequent gimmicks and promotions, targeting every member of the family
  – Strong civic pride and social awareness
• Emphasize high productivity in the labor force through incentives, education, and training
• Engineering department studies motion to improve restaurant efficiency
• Company-owned chicken farms to ensure high quality raw materials

• The low cost strategy expands the market
• Pollo Campero competes effectively against U.S. fast food companies in Central America through better understanding of local customer needs
• Pollo Campero is penetrating the Latino segment in the U.S. West Coast

Rwanda’s Role in the Neighborhood
Regional Economic Coordination
Illustrative Policy Areas

**Factor (Input) Conditions**
- Improve regional transportation infrastructure
- Create an efficient energy network
- Interconnect regional communications
- Link financial markets
- Facilitate the movement of students to enhance higher education
- Harmonize regulatory requirements for business
- Coordinate programs to improve public safety

**Context for Strategy and Rivalry**
- Coordinate macroeconomic policies
- Eliminate trade and investment barriers within the region
- Simplify and harmonize cross-border regulations and paperwork
- Coordinate antimonopoly and fair competition policies

**Demand Conditions**
- Harmonize environmental standards
- Harmonize product safety standards
- Establish reciprocal consumer protection laws

**Related and Supporting Industries**
- Coordinate development of cross-border clusters, e.g.
  - Tourism
  - Agribusiness
  - Transport & Logistics
  - Business services

**Regional Governance**
- Share best practices in government operations
- Create regional institutions
  - Dispute resolution mechanisms
  - Regional development bank
- Develop a regional marketing strategy

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Factor
Context for Strategy and Rivalry
Demand Conditions
Related and Supporting Industries
Regional Governance

Factor (Input) Conditions

Regional Economic Coordination
Illustrative Policy Areas
The Process of Economic Development
Shifting Roles and Responsibilities

Old Model

- **Government** drives economic development through policy decisions and incentives

New Model

- Economic development is a **collaborative process** involving government at multiple levels, the private sector, universities, research institutions, and business associations

- Competitiveness must become a **bottom-up process** in which many individuals, companies, clusters, and institutions take responsibility
Clusters and Economic Policy

- Clusters provide a framework for **organizing the implementation** of public policy and public investments towards economic development.
Role of the Private Sector in Economic Development

- A company’s competitive advantage depends partly on the quality of the business environment
- A company gains advantages from being part of a cluster
- Companies have a strong role to play in upgrading their business environment
  - Take an active role in upgrading the local infrastructure
  - Nurture local suppliers and attract foreign suppliers
  - Work closely with local educational and research institutions, to upgrade their quality and address the cluster’s needs
  - Inform government on regulatory issues and constraints bearing on cluster development
  - Focus corporate philanthropy on enhancing the local business environment
- An important role for trade associations
  - Collaboration, cost sharing, and increasing influence
Rwanda’s Competitiveness Agenda

Business Environment

• Land use
• Physical infrastructure
  – Roads
  – Airport
  – Economic zones
• Energy
  – Renewable
• Urbanization outside of Kigali
• Skills development
• Capacity-building across institutions
• Government efficiency and cross agency coordination

Cluster Development

• Activate a formal cluster development program led by the private sector
• Established clusters
  – Tea
  – Coffee
  – Tourism
  – Niche mining
• Emerging clusters
  – Construction and real estate, logistics, silk, ICT services, horticulture

Private Sector

• Engage the private sector in economic development
• Support cooperative private investment vehicles to jumpstart the private equity market

Neighborhood

• Initiate actionable economic integration initiatives with each neighboring country
• Kenya represents an important potential strategic partner
Defining a National Economic Strategy

Value Proposition

- What is the unique competitive position of the nation given its location, legacy, and existing and potential strengths?
  - What roles with neighbors, the region, and the broader world?
  - What unique value as a business location?
  - For what types of activities and clusters?

Developing Unique Strengths

- What elements of context and the business environment become crucial priorities?
- What existing and emerging clusters should be developed first?

Achieving and Maintaining Parity with Peers

- What weaknesses must be addressed to achieve parity with peer countries?

Competitiveness cannot be achieved only by reducing weaknesses, but by building on existing and potential strengths
# National Economic Strategy

## Singapore

### National Value Proposition
- **What roles in regional and world economy?**
  - e.g., Business, financial, and knowledge hub of Southeast Asia
- **What unique value as a business location?**
  - e.g., Highly efficient place to do business; access to skilled and hardworking staff
- **For what range of clusters, activities within clusters?**
  - e.g., clusters benefiting from a business hub but not dependent on a large home market or physical proximity to markets

### Creating Unique Strengths
- **Macro/political/legal/social**
  - e.g., Absence of corruption
- **National Diamond**
  - e.g., Singapore’s physical infrastructure
- **Cluster Development**
  - e.g., Singapore’s logistical services, financial services, petrochemical processing, tourism
- **Company Capabilities**
  - e.g., large number of world-class multinationals with regional headquarters and significant operations in Singapore
- **Geographic Levels**
  - e.g., Growth Triangle, ASEAN

### Mitigating Weaknesses
- **Macro/political/legal/social**
  - e.g., Expand cultural attractions
- **National Diamond**
  - e.g., Upgrade Singapore’s research institutions; improve the efficiency of Singaporean domestic economy
- **Cluster Development**
  - e.g., Develop more Singaporean SMEs to deepen clusters; improve the number and quality of IFCs
- **Company Capabilities**
  - e.g., build the capability of Singaporean companies and encourage regional strategies
- **Geographic Levels**
  - e.g., Create friendly relationships with ASEAN neighbors
Toward A Rwandan Economic Strategy

What is Unique about Rwanda?

- Corruption-free
- Stable with social progress
- Secure
- Clean
- Responsive
- Unique climate and growing conditions
- Central location on the African continent
- Growing position in tea, coffee, tourism
- Opportunity to lead the region in ICT and services

Some Implications

- Rwanda must accelerate improvement of business infrastructure, the ease of doing business, and improve Kigali
- Rwanda should seize the opportunity to transform agriculture
- Rwanda is unlikely to be competitive in exporting bulky goods with low value-to-weight
- Air freight and services exports nullify Rwanda’s logistical disadvantages
- Rwanda must create a positive image for economic and social development

“Switzerland of Africa”