

Creating a Competitive Rwanda

Professor Michael E. Porter
Harvard Business School

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This presentation draws on ideas from Professor Porter's articles and books, in particular, [The Competitive Advantage of Nations](#) (The Free Press, 1990), "Building the Microeconomic Foundations of Competitiveness," in [The Global Competitiveness Report 2006](#) (World Economic Forum, 2006), "Clusters and the New Competitive Agenda for Companies and Governments" in [On Competition](#) (Harvard Business School Press, 1998), and ongoing research on clusters and competitiveness. No part of this publication may be reproduced, stored in a retrieval system, or transmitted in any form or by any means - electronic, mechanical, photocopying, recording, or otherwise - without the permission of Michael E. Porter. Further information on Professor Porter's work and the Institute for Strategy and Competitiveness is available at www.isc.hbs.edu

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

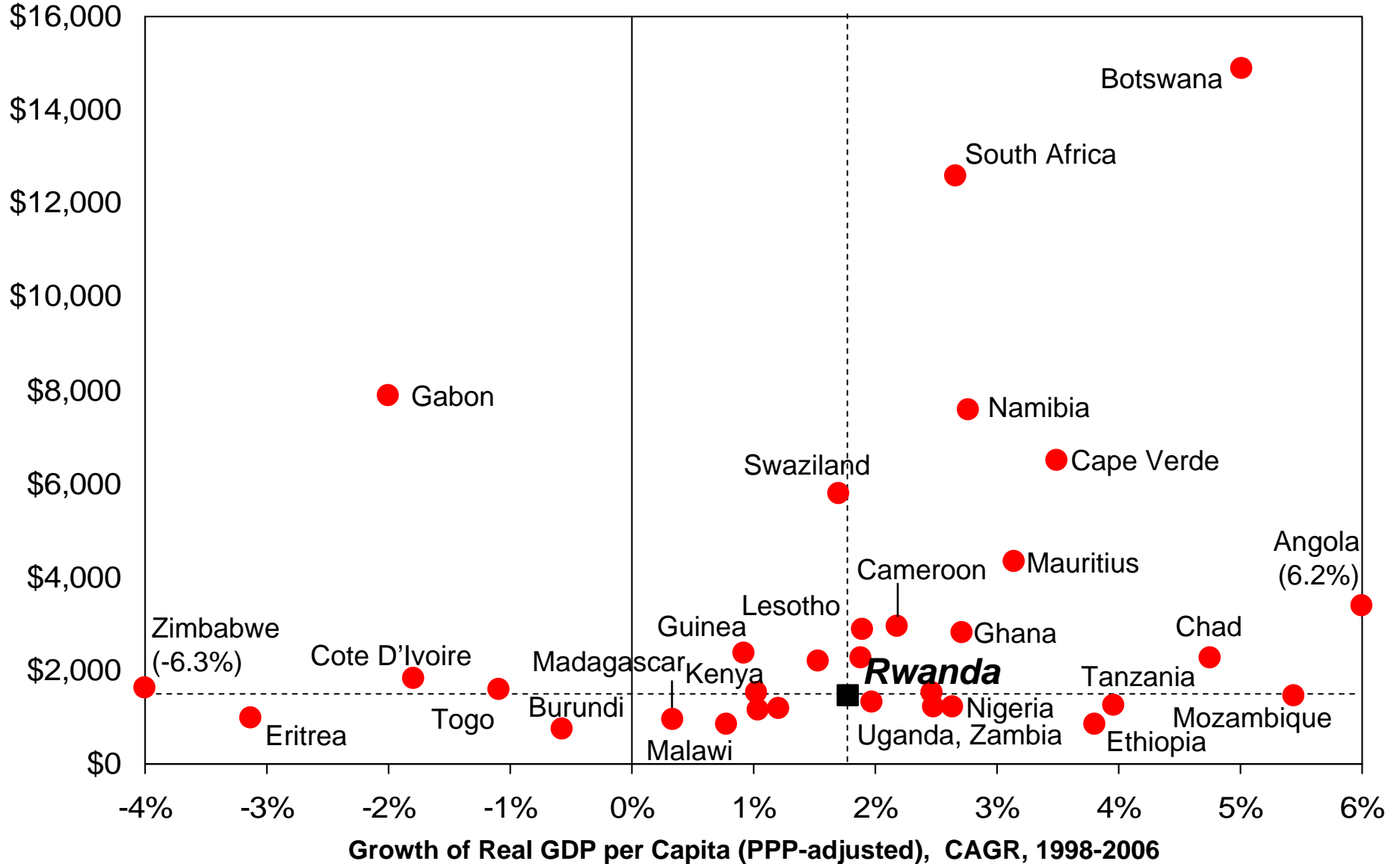


- Improving competitiveness is **increasingly essential** to Rwanda's prosperity

Prosperity Performance

Selected Countries

Real PPP-adjusted GDP per
Capita, 2006

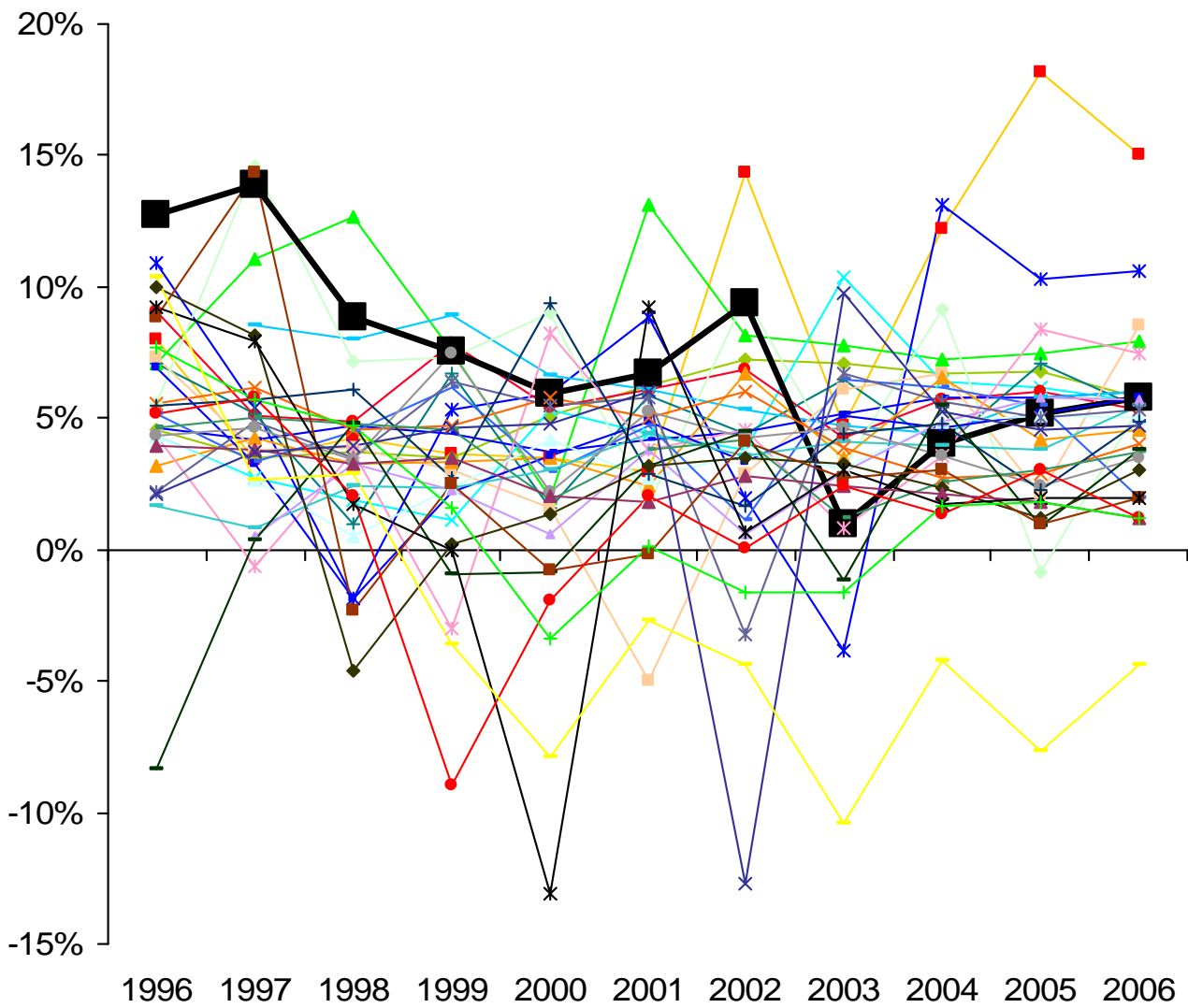


Comparative Economic Performance

Real GDP Growth Rates

Annual growth rate of real GDP

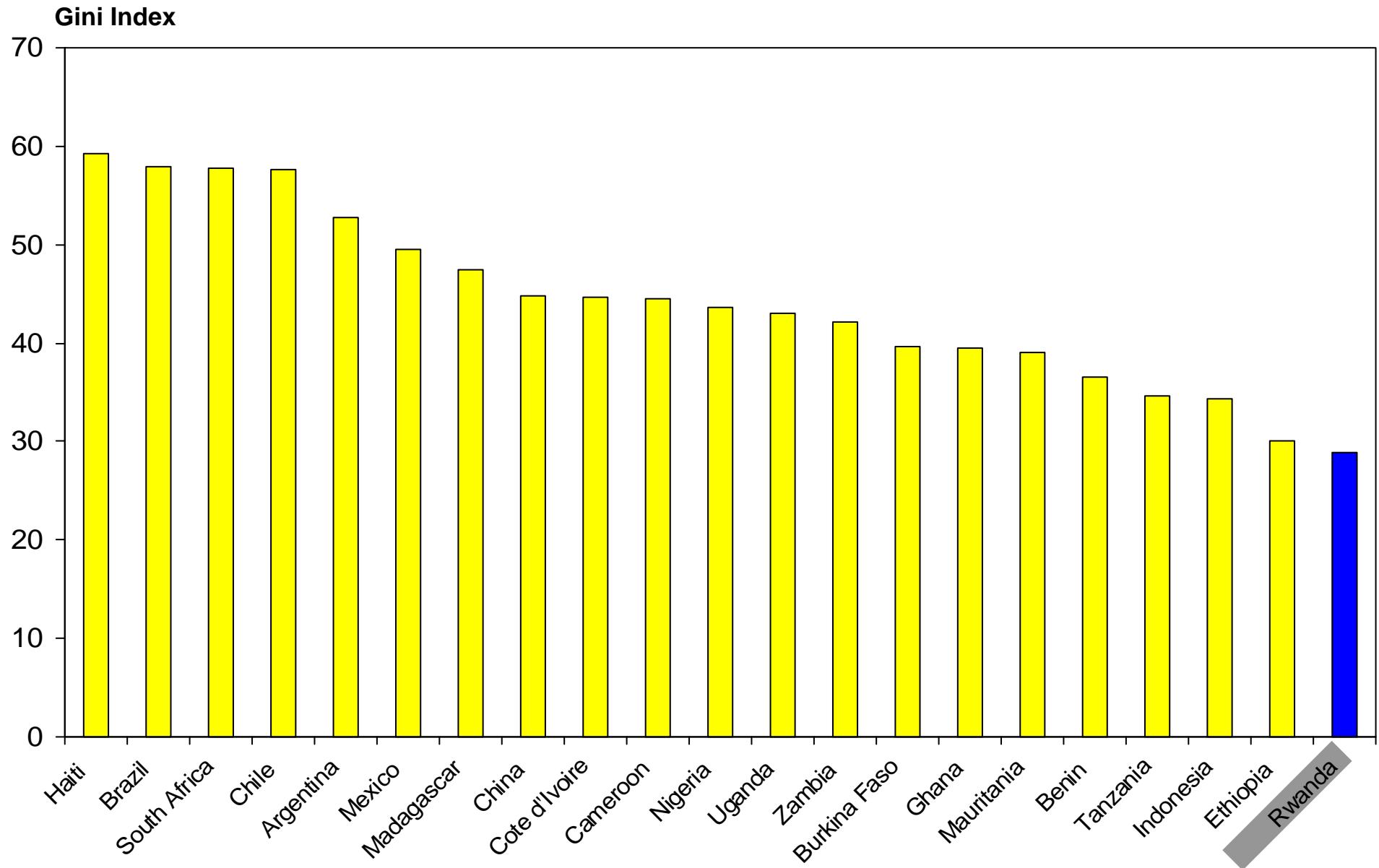
Countries sorted by 2001-2006 annual real GDP growth rate (CAGR)



- ANGOLA
- ▲ MOZAMBIQUE
- ◆ TANZANIA
- ✕ NIGERIA
- ✱ ETHIOPIA
- UGANDA
- ✚ BURKINA FASO
- GHANA
- CAPE VERDE
- MALAWI
- ◆ BOTSWANA
- ▲ NAMIBIA
- RWANDA
- ✱ CONGO (BRAZZAVILLE)
- ZAMBIA
- SOUTH AFRICA
- SENEGAL
- SAO TOME AND PRINCIPE
- KENYA
- ✕ BENIN
- ✱ THE GAMBIA
- CAMEROON
- MAURITIUS
- GUINEA
- BURUNDI
- ◆ LESOTHO
- TOGO
- ▲ SWAZILAND
- ✕ MADAGASCAR
- ✱ ERITREA
- GABON
- COTE D'IVOIRE
- ZIMBABWE

Income Inequality

Selected Countries



Note: Most recent Gini index data available for each country (1999 – 2003). Rwanda's data is from 2000.

Source: World Bank, World Development Indicators, 2007.

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**

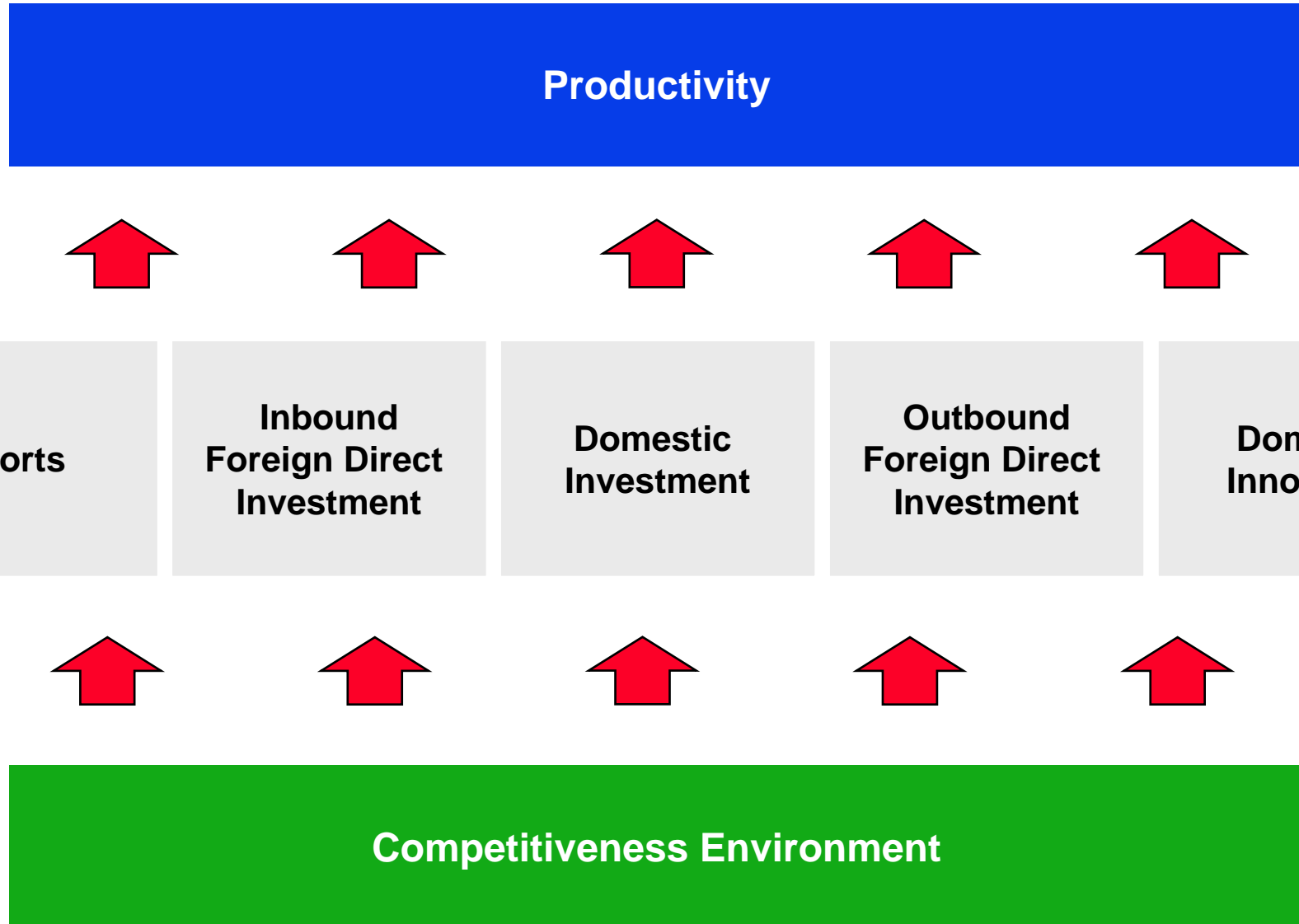
What is Competitiveness?

- 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

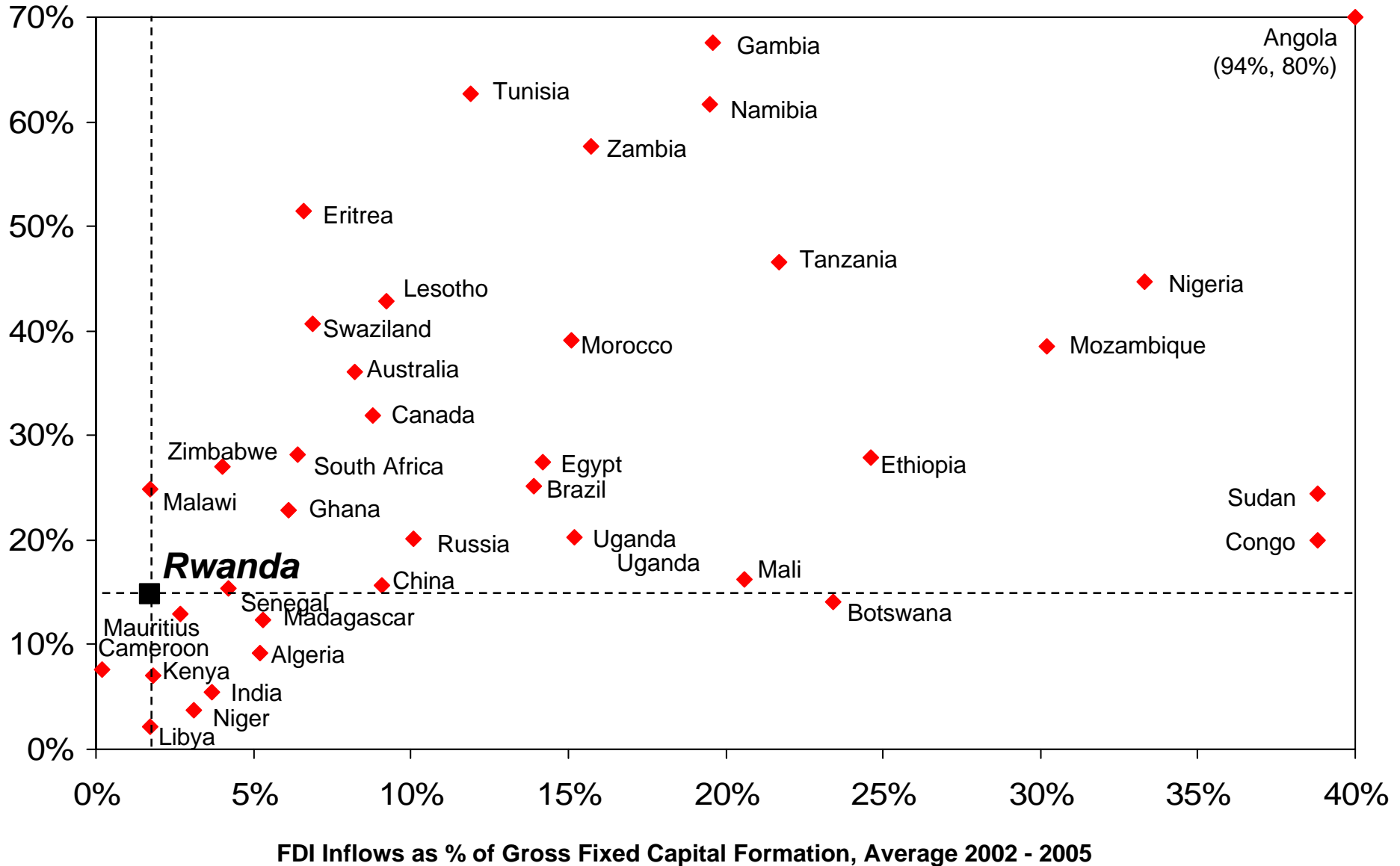
Enablers and Indicators of Competitiveness



Foreign Inward Investment Stocks and Flows

Selected Countries

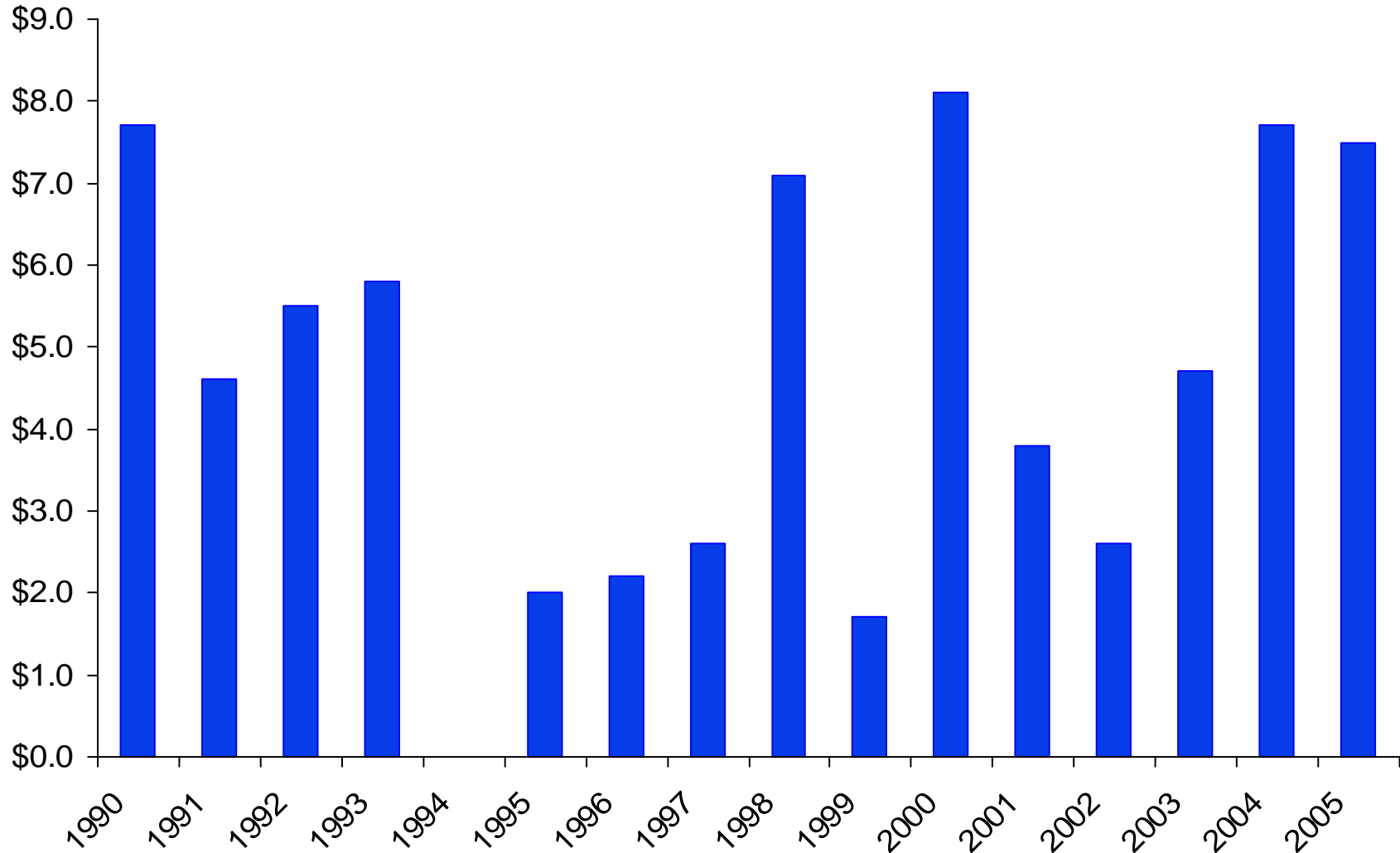
FDI Stocks as % of GDP,
Average 2002 - 2005



Inward Foreign Investment Flows

Rwanda, 1990 – 2005

Inward Foreign
Direct Investment,
\$M



Note: Data not available for 1994.

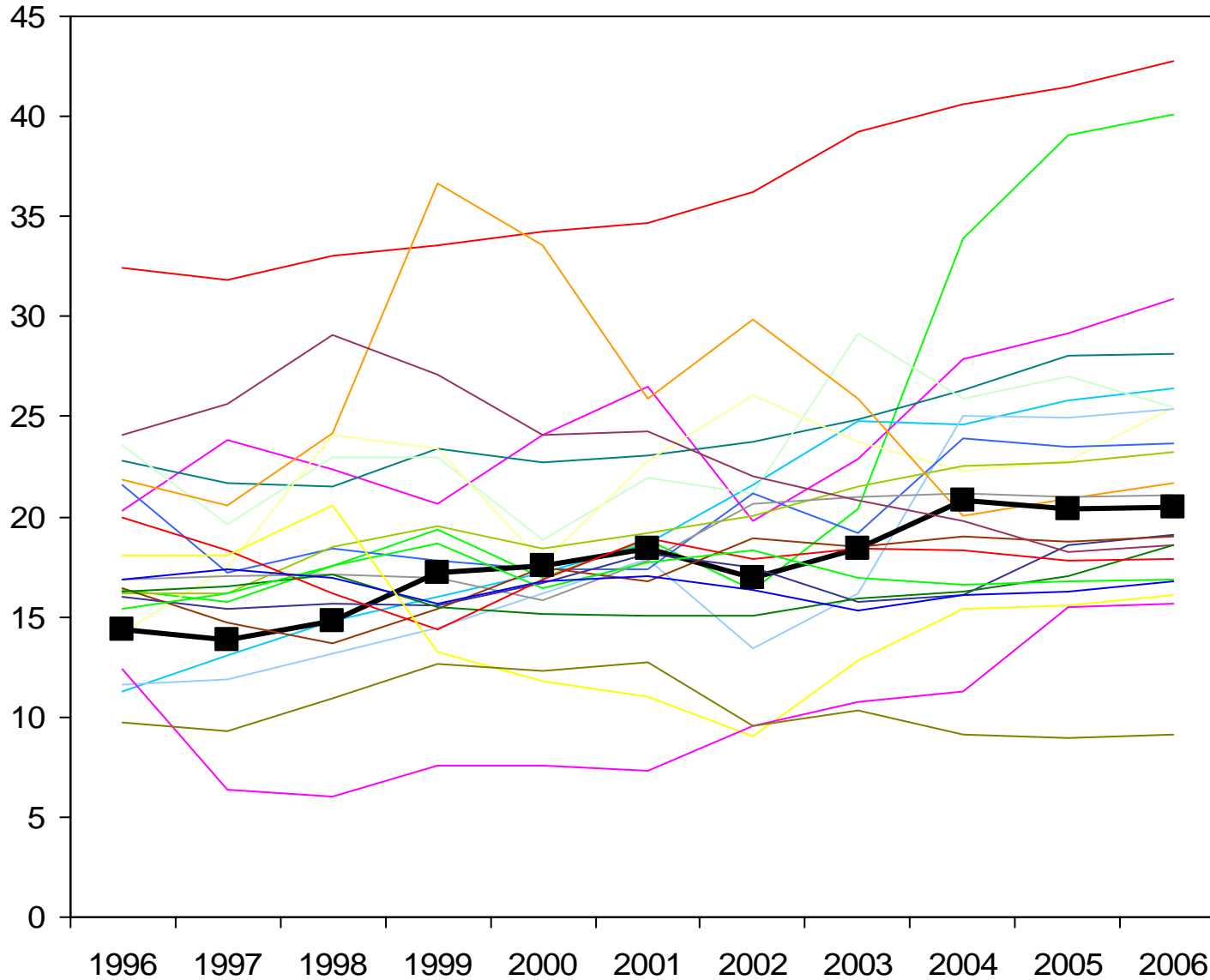
Source: UNCTAD (2007)

Kenya CAON 2007 June-07.ppt

Investment Rates

Selected Countries

Gross Fixed Investment as
% of GDP

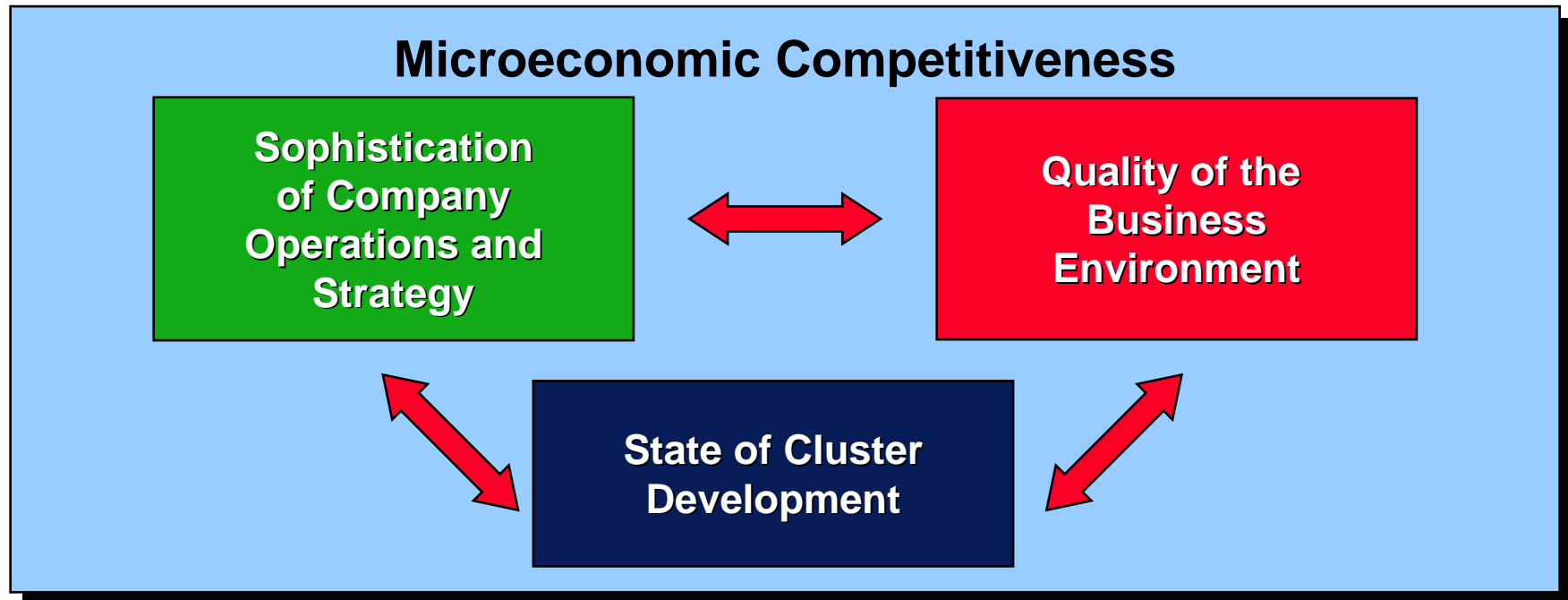


Sorted by 2006 Share

- China
- Senegal
- Ghana
- India
- Zambia
- Namibia
- Nigeria
- Madagascar
- The Gambia
- Uganda
- Mozambique
- Ethiopia
- Rwanda
- Kenya
- Tanzania
- Botswana
- South Africa
- Russia
- Cameroon
- Brazil
- Zimbabwe
- Burundi
- Malawi

Determinants of Competitiveness

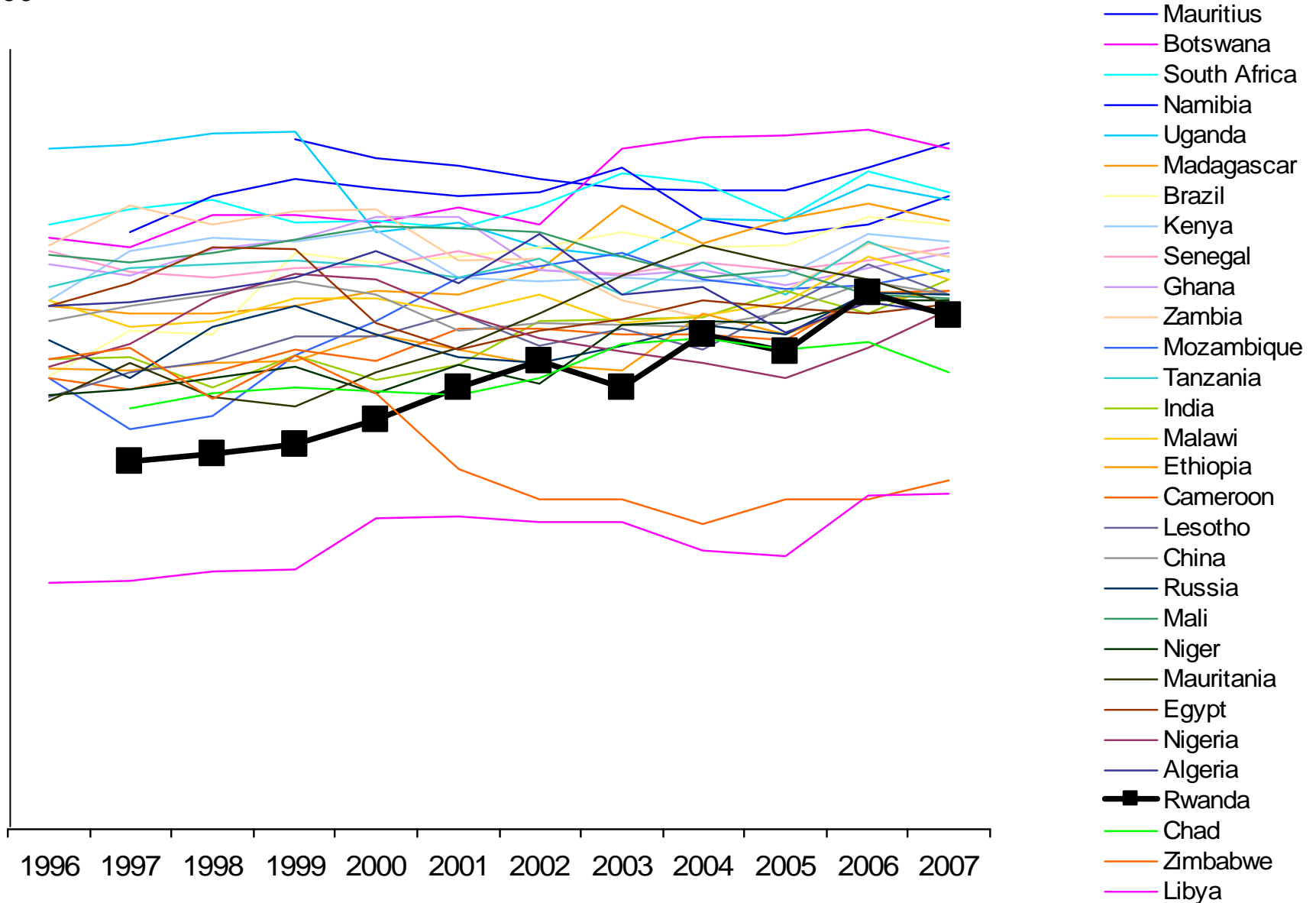
Macroeconomic, Political, Legal, and Social Context



- 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

Free



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

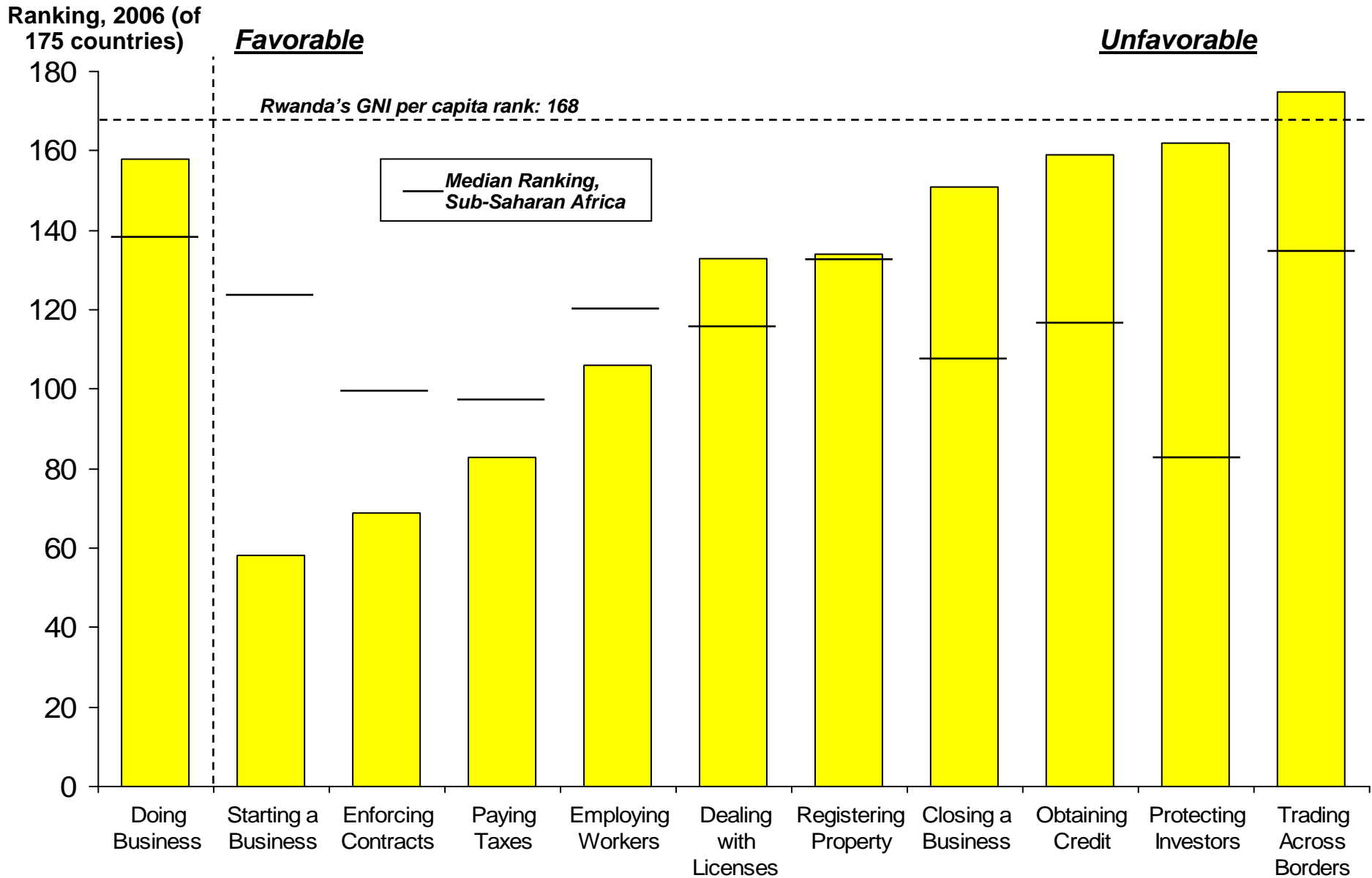
Related and Supporting Industries

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



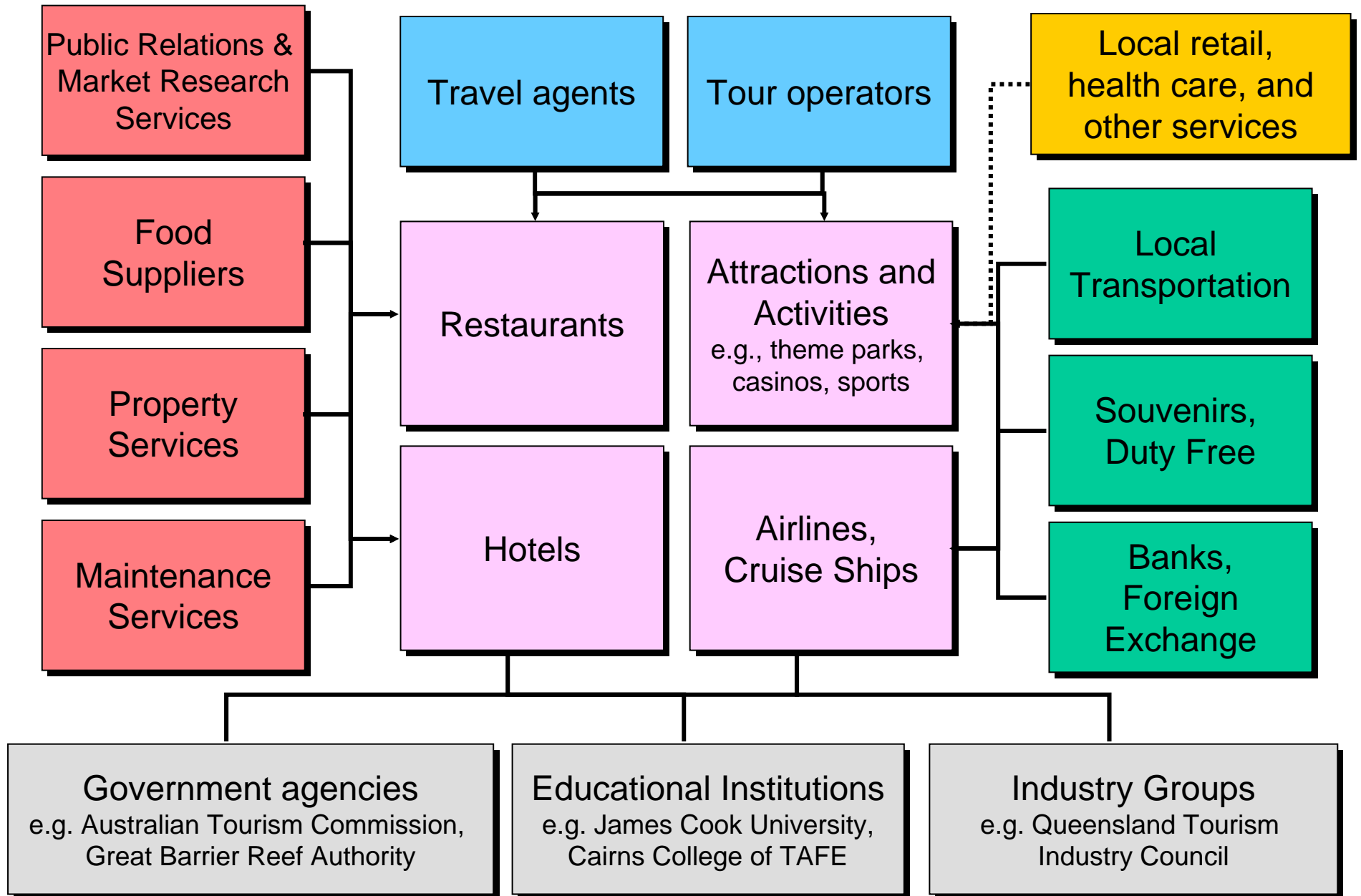
- Successful economic development is a process of **successive upgrading**, in which the business environment improves to enable increasingly sophisticated ways of competing

Ease of Doing Business Rwanda



Enhancing Cluster Development

Tourism Cluster in Cairns, Australia

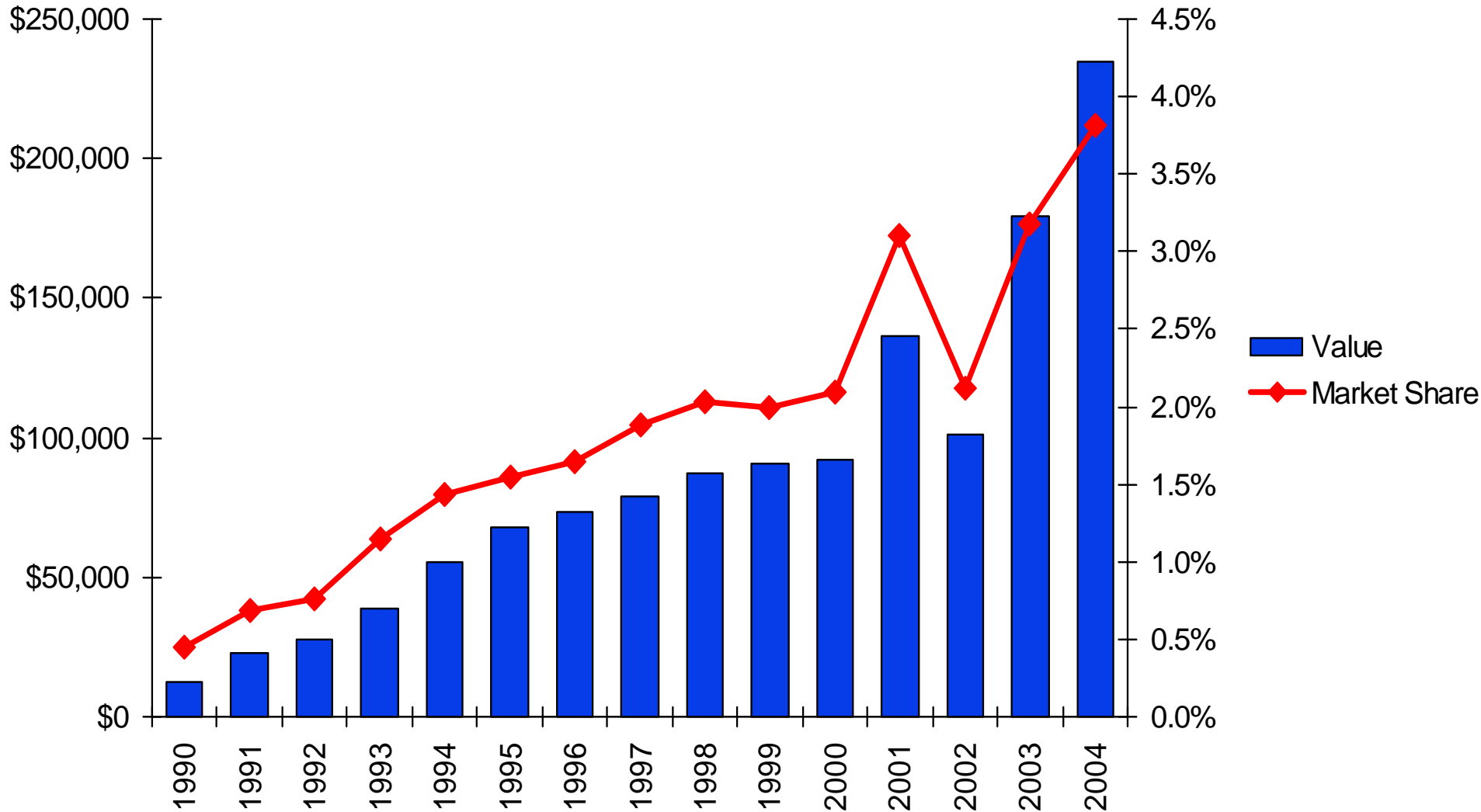


The Kenyan Cut Flower Cluster

Trade Performance

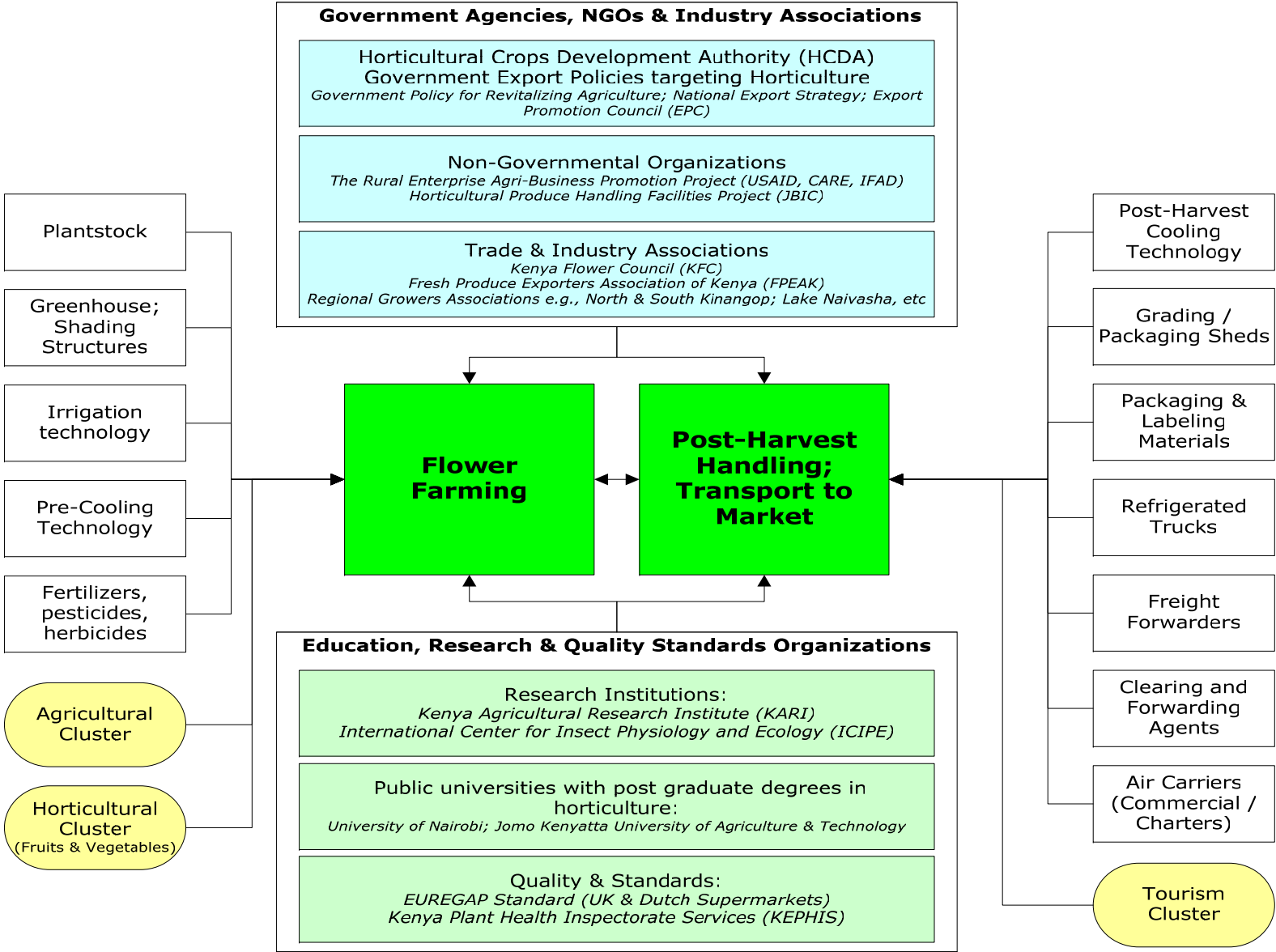
Kenyan Cut Flower Exports in thousand US \$

Kenyan Cut Flower World Export Market Share



Source: Prof. Michael E. Porter, International Cluster Competitiveness Project, Institute for Strategy and Competitiveness, Harvard Business School; Richard Bryden, Project Director. Underlying data drawn from the UN Commodity Trade Statistics Database.

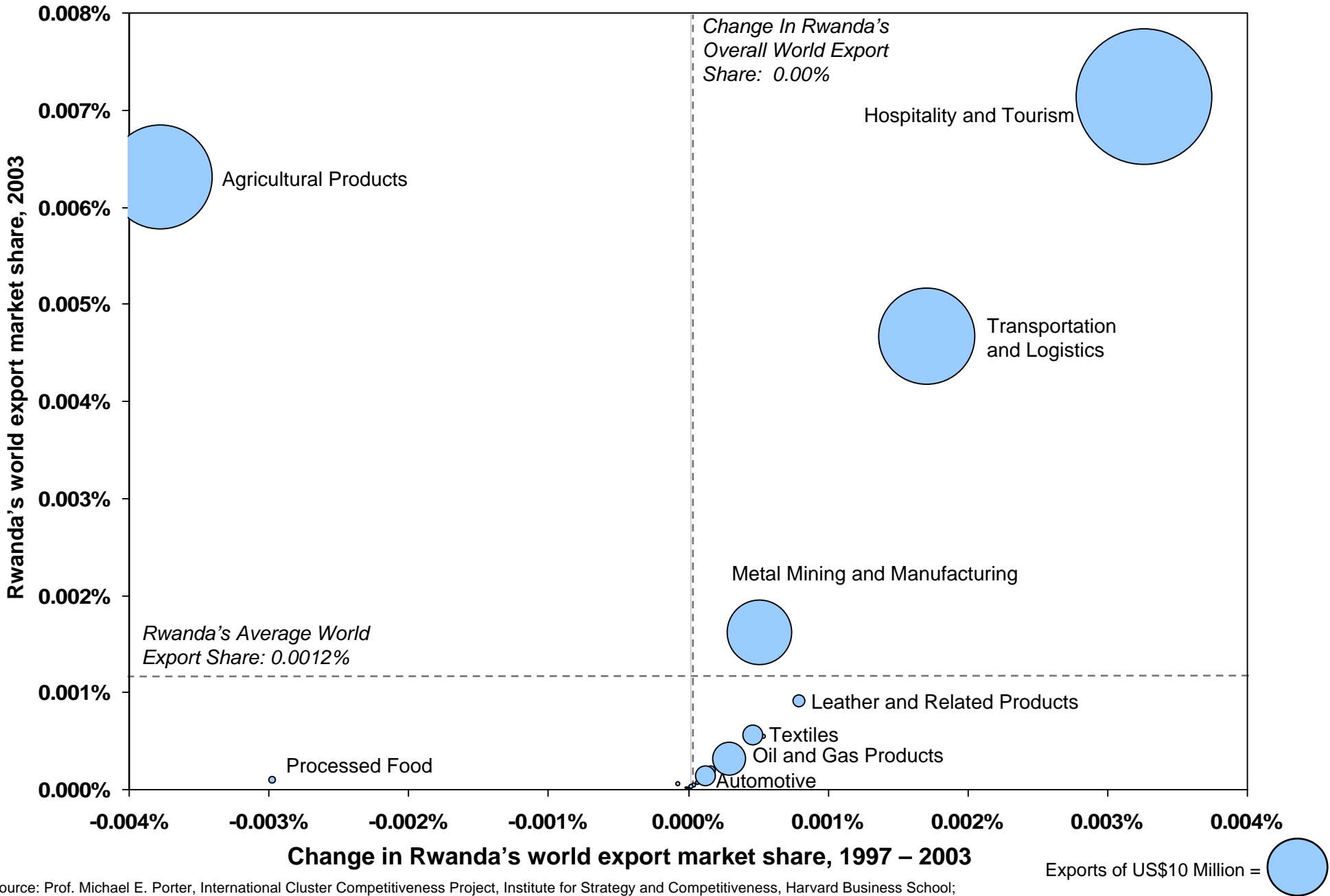
Kenya's Cut Flower Cluster



Sources: HBS student team research (2007) - Kusi Hornberger, Nick Ndiritu, Lalo Ponce-Brito, Melesse Tashu, Tijan Watt

National Cluster Export Portfolio

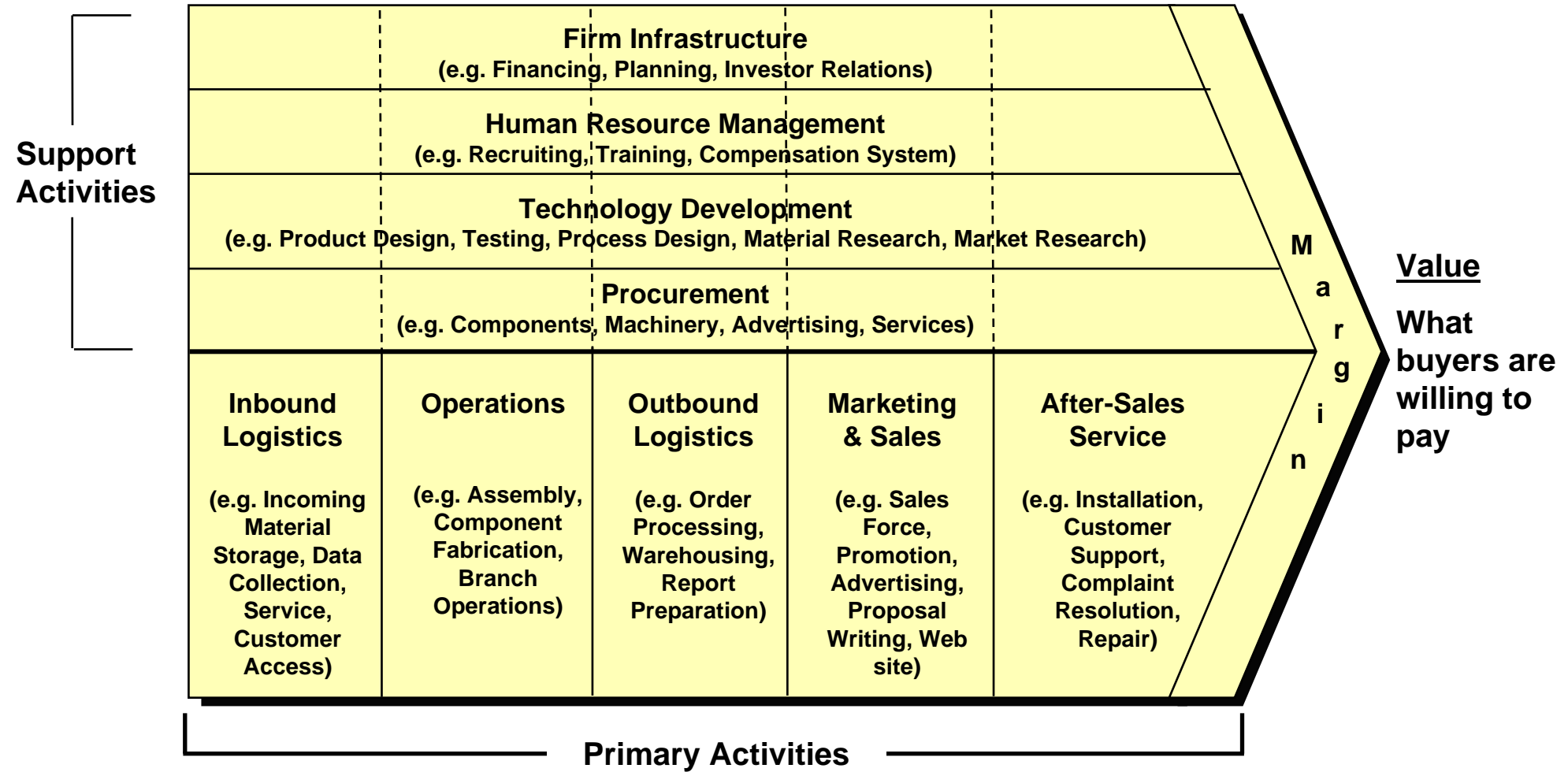
Rwanda, 1997-2003



Achieving Superior Company Performance



Competitiveness and the Value Chain



- 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

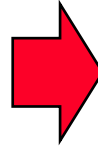
- Share **best practices** in government operations
- Create regional **institutions**
 - Dispute resolution mechanisms
 - Regional development bank
- Develop a regional **marketing** strategy

The Process of Economic Development

Shifting Roles and Responsibilities

Old Model

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

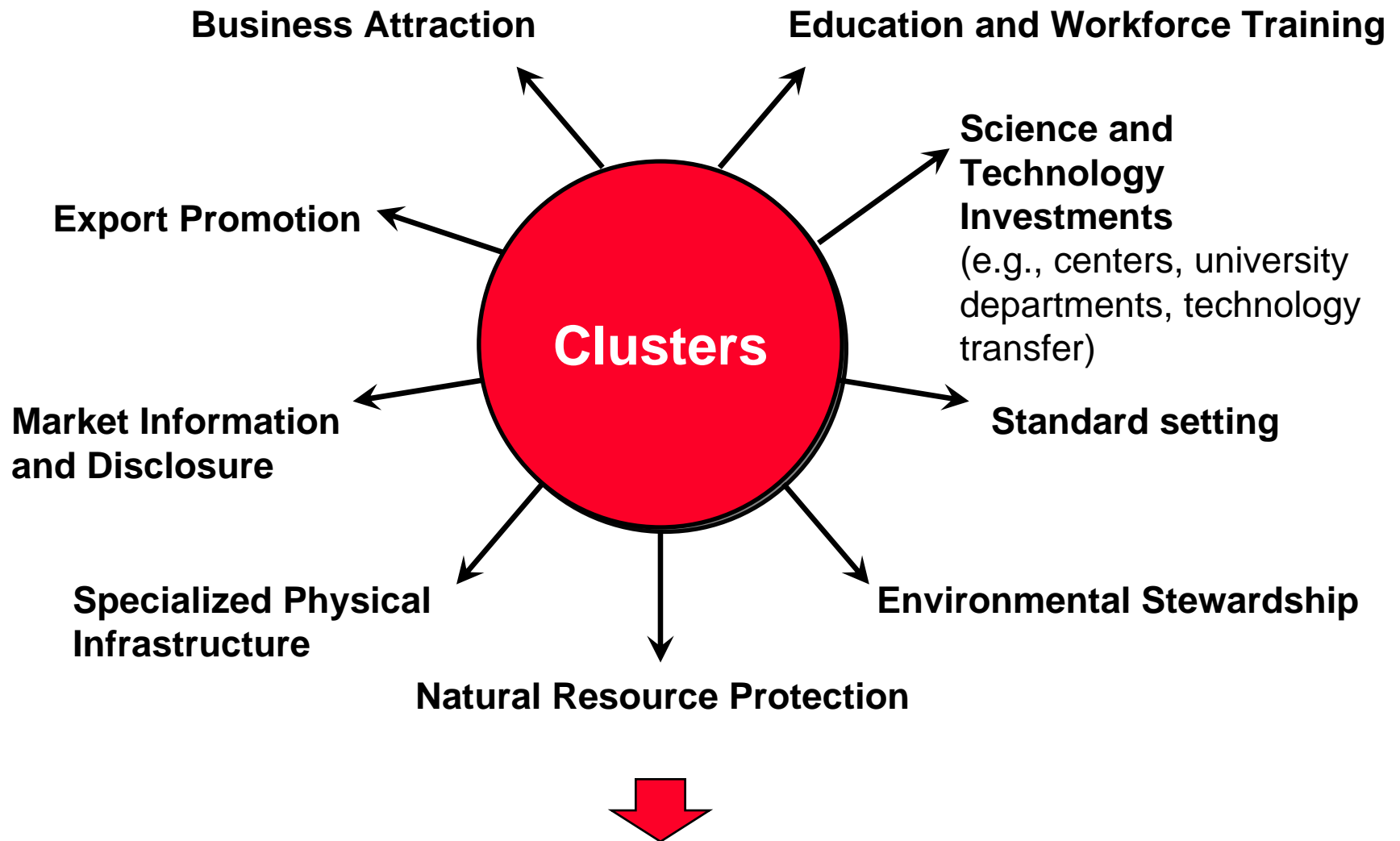


New Model

- 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



“Switzerland of Africa”

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