

RWANDA'S PROSPEROUS ECONOMIC UPGRADE: FROM GENOCIDE TO A FAST-GROWING ECONOMY

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Abstract

After the Genocide from 1994, Rwanda has shown surprising economic growth with a steady annual increase of GDP of 8%. This success was due to the determined government policies involving investment in health and education and energetic implementation with the support of developed partners. The main goal of this research is to analyze the economic progress and how a change in the governance of the country managed to have a positive impact on Rwanda's evolution over time. Rwanda's progress doesn't stop here, as the president want to transform the country into an upper middle-income by 2035 with a per capita income of \$4.035 and into a high-income country by 2050 with a per capita income of \$12.476. The methods used in this research paper are: conceptual analysis; observational trial based on a longitudinal approach; quantitative research. Even though Rwanda is one of the smallest countries from Africa, with good governance and by implementing the right policies, it managed to become one of Africa's fastest-growing economies. As follows, the main purpose of this paper is to emphasize the progress of a poor country gaining a significant role in the economy of the African continent.

Keywords: Rwanda, genocide, fast-growing economy, GDP growth, export-import, Vision 2050

1. Introduction

Africa has been always considered to be a poor continent with no future economic opportunities. The continent has been devastated by slavers, colonizers, exploited by world powers, especially during the Cold War, and destroyed by post-colonial conflicts making it the continent of poverty. Africa's potential has been underestimated for ages, but nowadays the continent is experiencing its highest economic growth rates from the overall perspective.

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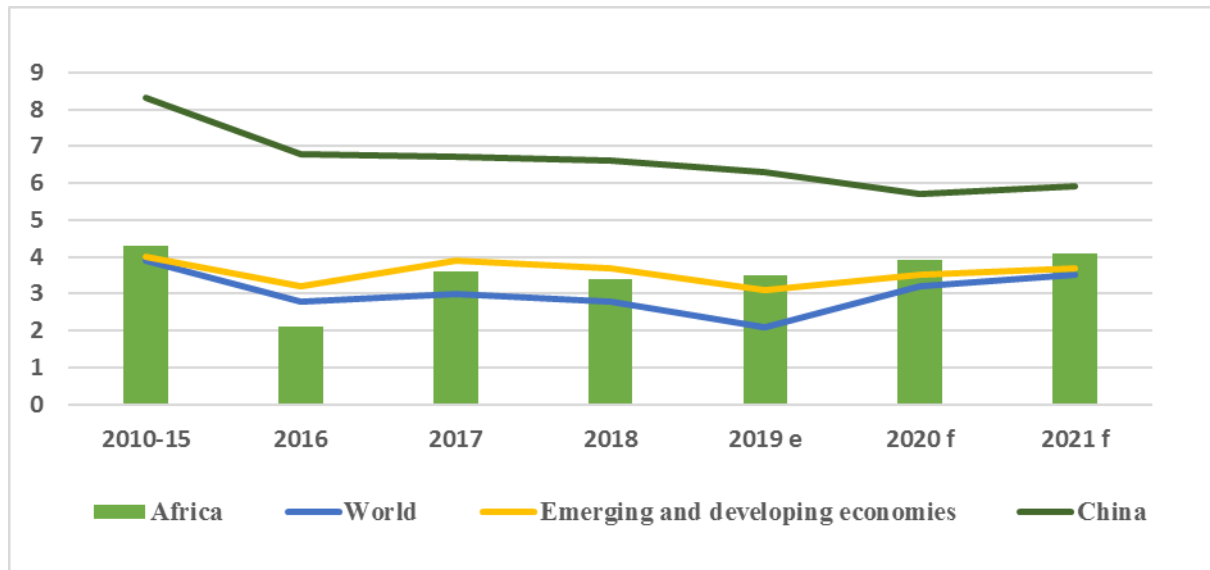


Figure 1. Africa's GDP growth is above the world average

Source: Elaborated by the author based on the African Development Bank statistics and IMF World Economic Outlook database, available at <https://www.imf.org/en/Publications/SPROLLS/world-economic-outlook-databases#sort=%40imfdate%20descending> [visited on 22.10.2020]

Africa's economic growth rate according to the African Economic Outlook 2020 was 3.4 % in 2019 and is expected to pick up to 3.9% in 2020, and even 4.1% in 2021. The macroeconomic climate has improved significant as external debts were reduced; the number of conflicts has declined, while political and economic governance has also registered good performance. As the world's youngest and fastest-urbanizing continent, by 2045 Africa will have a forecasted population of 24 million more people- much more than India and China combined (based on a major increase in consumption and on this wise, household consumption is expected to grow by 3.8% annually until 2025, reaching \$2.6 trillion, while business spending should grow almost by \$1 trillion in 2025. As high economic growth rate is predicted, business opportunities are expected to grow of \$5.6 trillion (McKinsey report). The continent is abundant in natural resources, which include 10% of the world's oil reserves, 40% of gold, and 80% of platinum reserves. The largest African economies that have registered big progress on making the African Continental Free Trade Area a functioning regional economic bloc are Egypt, Nigeria and South Africa. However, small economies are also demonstrating powerful reforms with up to scratch results [7, 9].

2. The evolution of macroeconomic indicators in Rwanda

One of the African countries that is helping to push up African's overall economic growth rate forecast is Rwanda. Rwanda is one of the smallest countries in Africa, Kigali being its capital. The country is situated in the Great Rift Valley, the place where African Great Lakes region and East Africa converge. The population of the country is mainly formed of two ethnic groups: Hutus and Tutsis. There been always tension between them, but the intensity has grown substantially since the colonial period. Belgian colonists in 1916, considered the Tutsis to be superior to the Hutus, which later created a legacy tension that exploded into violence. However, after a Hutu revolution in 1959, more than 330,000 Tutsis were forced to leave the country. In

1994 the real genocide begins, after the death of the country's president in a plane crash, where especially Hutu extremist were blamed. Within an hour of the plane crash, Hutus took the power in their hand and the only way to maintain it, was by eliminating the Tutsis ethnic. The U.N. estimates that nearly 800,000 Rwandans were killed in just 100 days of slaughter [7].

After the 1994 Rwandan Genocide, the country has succeeded to recover becoming one of the fastest growing economies from Africa. Since then, country's economy has been growing steadily at 7% every year, scoring the highest growth rate at 8.7% in 2020, followed by Ethiopia with 7.4%. Due to its success story, Rwanda has become a role model that other African countries should follow [1].

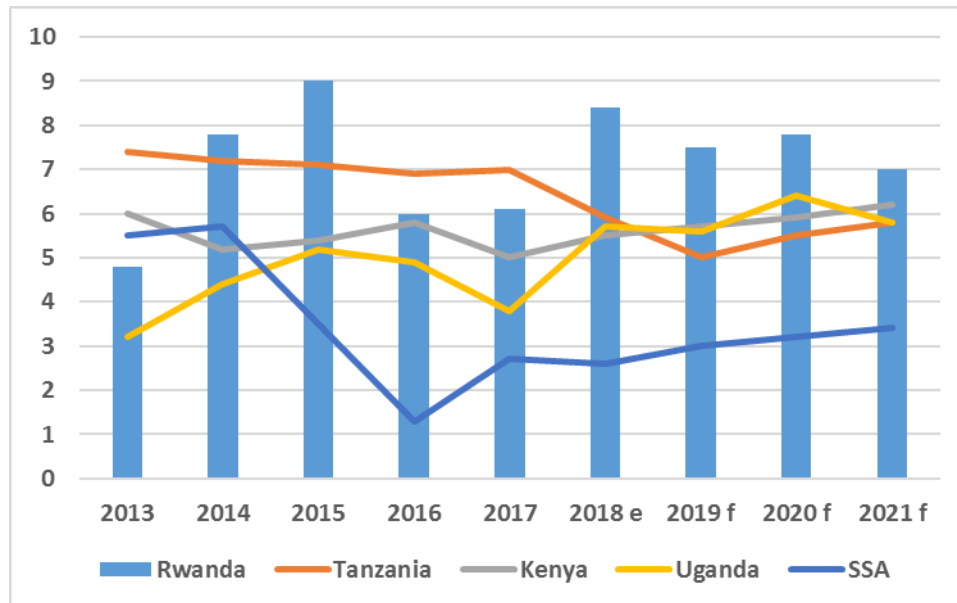


Figure 2. Global and regional economic growth, 2013-2021 (percent)

Source: Elaborated by the author based on WBG 2019 data.

Note: SSA: Sub-Saharan Africa; EAC: East Africa Community, available at:

<http://documents1.worldbank.org/curated/en/593831561388957701/pdf/Rwanda-Economic-Update-Lighting-Rwanda.pdf> [visited on 25.1-.2020]

According to Trading Economics global macro models and official data from the World Bank, Rwanda's GDP was 10.12 billion US dollars in 2019, representing just 0.01% of the world economy. Ranking the 34th economy from Africa based on GDP, Rwanda is still considered a powerful economy [17].

The GDP per capita in Rwanda has registered a steady increase starting from 2010 till nowadays, last recorded at 904.70 US dollars in 2019, which is equivalent to 7% of the world's average. [7]

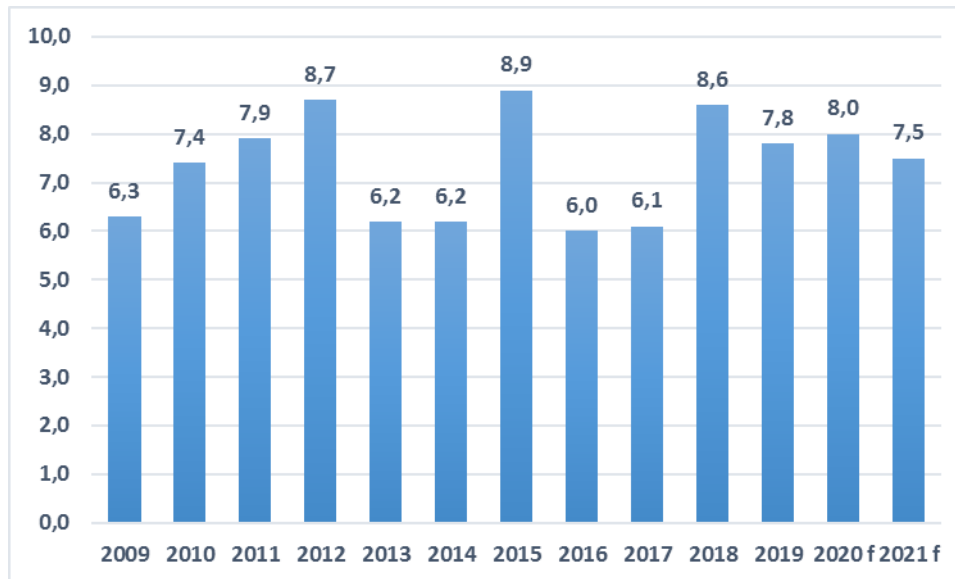


Figure 3. GDP growth of Rwanda 2009-2021 (annual %)

Source: Elaborated by the author according to the World Bank Data, available at: <https://data.worldbank.org/indicator/NY.GDP.MKTP.KD.ZG?locations=RW> [Visited on 27.10.2020]

According to the index of economic freedom, Rwanda was ranked as the 33rd freest economy in the world with a score of 70.9, and ranked 2nd among 47 countries in the Sub-Saharan Africa region. Moreover, the country is rated the least corrupt African country in Transparency International's 2019 Corruption Perception Index and the 55th of 198 countries, with a score of 53 out of 100, making Rwanda a friendly business environment [14].

Furthermore, Rwanda's economy is mainly dominated by agriculture, as follows the employment in agriculture was 66.06% of total employment in 2019. The favorable performance of this sector seems to be attributable to government interventions. In addition to this, the government has implemented a number of projects for marshland development, such as soil improvement and irrigation projects. However, a lot of investments are done in the private sectors, especially related to the infrastructure of the country, as it understands the importance of a developed infrastructure. So, we can assume that the state is specialized in the agriculture sector, with a tendency to boost and increase the industry and service sectors.

3. Trade and FDI sector of Rwanda

In 2018, according to the Observatory of Economic Complexity, in 2018 Rwanda registered \$970M in exports making it the 152nd exporter in the world, and \$1.98B in imports making it the 156th trade destination in the world, resulting in a negative trade balance of \$1.01B. The exports per capita were \$78.8 and its imports per capita were \$161 [12].

Rwanda due to its richness in mineral resources is mainly exporting gold (65.6%), niobium, tantalum, vanadium and zirconium ore (7.91%), coffee (6.85%), tea (5.78%) and in 2018, these were mainly exported to the United Arab Emirates (66%), USA (7%), Thailand (5%), Pakistan (4%), China (4%), Malaysia (2%) and others.

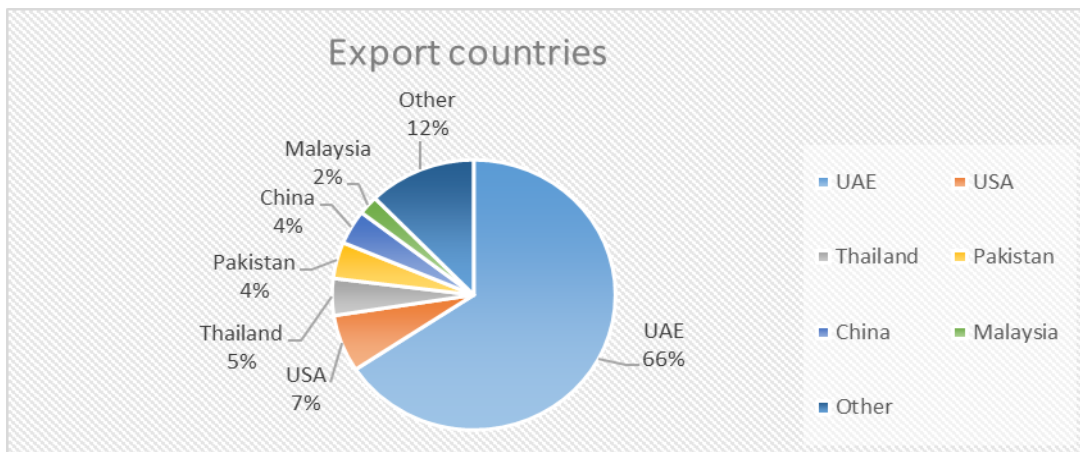


Figure 4. Export countries of Rwanda

Source: Elaborated by the author according to the OEC World, available at: <https://oec.world/en/profile/country/rwa/> [visited on 27.10.2020]

It is also very important to know that over years, Rwanda’s export sector has been mainly dominated by commodities rather than by manufacturing or processed goods. Moreover, Rwanda is also exporting small amounts of hides, skins and horticultural products, however their values from an international perspective are significantly low. Handicrafts, is another potential area of diversification, being a small but growing sector in Rwanda. Rwandans make an extensive range of handicrafts including wood products, ceramics and pottery, hand textiles, embroidery etc.

Rwanda’s main imports in 2018 were led by other furniture (6.03%), broadcasting equipment (3.89%) baked goods (4.11%), plastic housewares (3.89%). The most common import partners were Tanzania (33%), Uganda (10%), Kenya (9%), China (8%), India (7%), UAE (6%) etc. For Rwanda, in other contexts, high quality inputs have been found to be complementary with high-skill workers, so if firms are using higher-quality inputs, they also increase their use of skill. Moreover, is good to know that in Rwanda, firms that increase their use of imports, as a result to price changes induced by exchange rate changes, end up increasing their skill utilization at the firm level. Also, its been found out that firms that increase the amount that they import end up employing more workers to produce a given level of firm outputs [5].

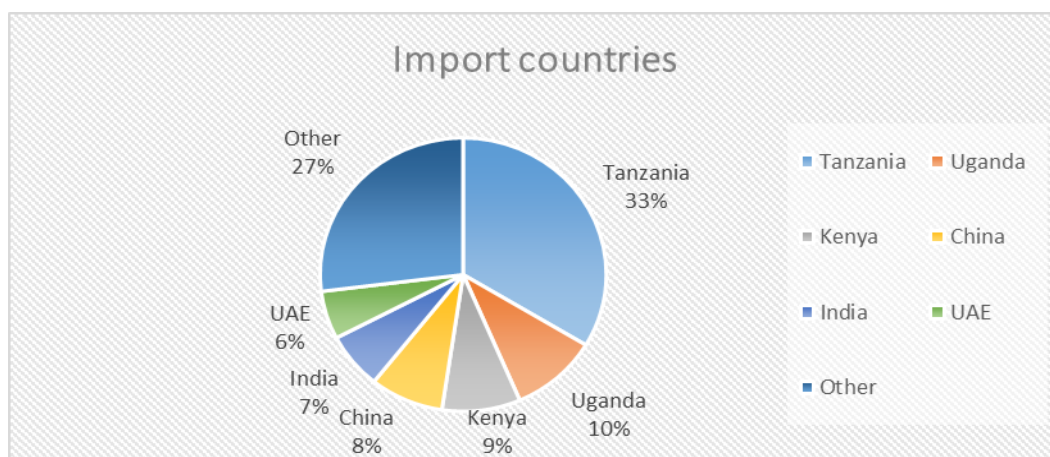


Figure 5. Import countries of Rwanda

Source: Elaborated by the author according to the OEC World, available at: <https://oec.world/en/profile/country/rwa/> [visited on 27.10.2020]

Rwanda has given a lot of reasons to invest in it, becoming one of the fastest growing economies from Africa. It has sustained a high economic growth with a steady GDP growth of 8% each year, a stable inflation and exchange rate. According to the UNCTAD 2020 World Investment Report, in 2019 Rwanda has registered FDI inflows of \$420 million, while FDI stock was estimated at \$2.6 billion at the end of 2019. In addition to this a record total investment level of \$2.46 billion were record, 37% of which in FDI (RDB) [10].

Due to country's investor friendly climate, there are a lot of untapped investment opportunities, particularly in the infrastructure sector, agriculture, energy, and more than that the information and communication technology. Rwanda is also attracting a lot FDI due to the fiscal incentives and the approved investment law.

So, Rwanda has approved the following fiscal incentives:

1. Zero corporate income tax for companies that plan to relocate headquarters to Rwanda;
2. 15% preferential corporate income tax for strategic sectors as energy, transport, affordable housing, ICT and financial services;
3. Exemption of capital gains tax;
4. Seven-Year corporate income tax Holiday for large projects in strategic sectors as energy, exports, tourism, health, manufacturing and ICT.

The following represent non-fiscal incentives:

1. Quick business and investment online registration (24h);
2. Assistance with tax-related services and exemptions;
3. Assistance to access utilities (water & electricity);
4. Assistance with obtaining visas and work permits;
5. Provision of Aftercare services to fast track project implementation [15].

As stated by, last year Africa accounted for 66.5% of the total investments into Rwanda of \$1.6bn. In 2019 in Rwanda were invested \$478.2m in 79 projects. The Kigali city attracts more than 70% of the FDI in the country, as from 2015 to 2019, the Kigali Special Economic Zone attracted \$665.8 million in investments generating \$349.2 million in export revenues and over 12,000 permanent jobs [11, page 44].

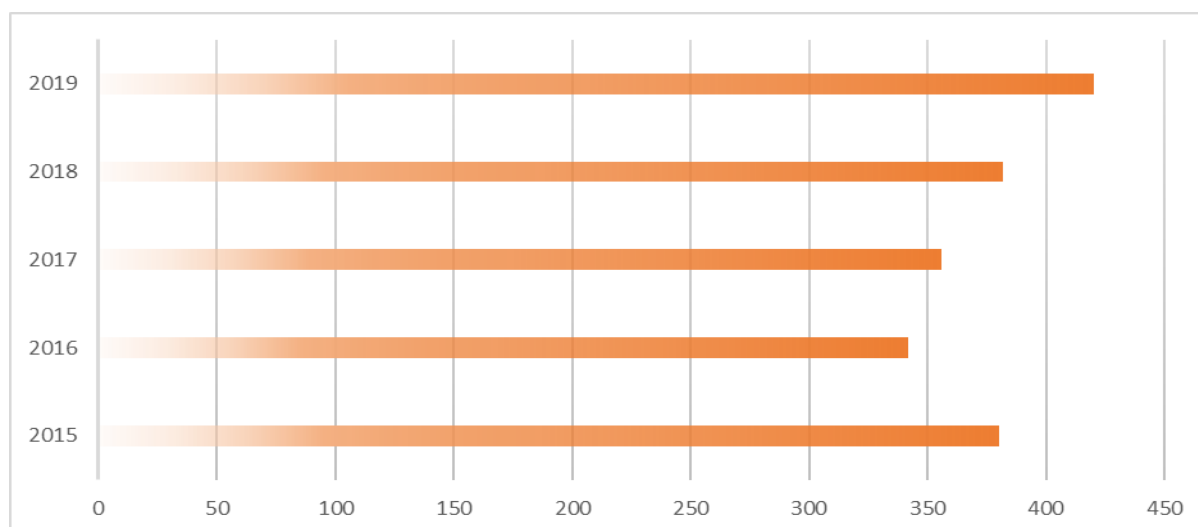


Figure 6. FDI Inflow to Rwanda 2015-2019 (US\$ million).

Source: Elaborated by the author based on the Official Rwanda Development Board. Annual Report 2019. <https://rdb.rw/wp-content/uploads/2020/09/RDB-Annual-Report-2019.pdf> (page 8)

According to the 2020 World Bank Doing Business Report, Rwanda is ranked the 38th easiest country globally to do business and the 2nd easiest country in Africa [16].

Commenting on this year's report, Clare Akamanzi, CEO of the Rwanda Development Board said:

“We continue to make bold and ambitious steps to improve our business environment and further Rwanda’s vision of a private sector-led economic transformation. While we acknowledge this year’s Doing Business Report, we note with great disappointment the abrupt change in methodology which has affected Rwanda’s global rankings negatively. We will continue to engage the World Bank on this issue.”

4. Rwanda’s progress registered by global reports

According to the Global Competitiveness Index 2017-2018, Rwanda is ranked the 58th country from 137, remaining one of the most competitive African countries, due to its efficient goods and labor markets and a stable political situation that supports high increase of GDP growth.

Table 1. The Global Competitiveness Index 2019 of Rwanda

Index Component	Rank/137	Score (0-100)
Global Competitiveness Index 4.0	100	52.82
Subindex A: Basic requirements	114	50.76
1st pillar: Institutions	36	63.21
2nd pillar: Infrastructure	111	52.00
3rd pillar: Macroeconomic environment	96	72.67
4th pillar: Health and primary education	107	61.39
Subindex B: Efficiency enhances	94	56.38
5th pillar: Higher education and training	94	46.14
6th pillar: Goods market efficiency	66	55.31
7th pillar: Labor market efficiency	45	63.58
8th pillar: Financial market development	90	56.34
9th pillar: Technological readiness	111	37.63
10th pillar: Market size	129	35.08
Subindex C: Innovation and sophisticated factors	74	48.26
11th pillar: Business sophistication	46	65.58
12th pillar: Innovation	100	30.93

Source: Elaborated by the author based on the World Economic Forum’s Global Competitiveness Report 2019, available at <https://knoema.com/WFGCI2019/global-competitiveness-report?country=1001220-rwanda> [visited on 28.10.2020]

Even though the big progress of the country Rwanda is still far from registering a high human development index. The HDI value of Rwanda in 2018 was 0.536, which categorize the country in the low human development category, positioned on the 157th place out of 189 countries. However, it has to be taken into consideration that between 1990 and 2018, this value increased from 0.245 to 0.536, a total increase of 119.0 percent. Also, the gross national income per capital has increased by about 126.5% in the same time period.

Regarding the Innovation Index, in 2019 Rwanda has scored 27.4 points, while the world’s average based on 129 countries was 36.31 points. Despite this low score, Rwanda is still

one of the most innovating countries from Africa. Especially the shifted focus towards tech in education, willingly hosting tech gatherings, establishing Africa's first electronic world trade platform, having a government that promotes ICT and attracting continent start-ups and investment have been considered the most important factors that contributed to the innovation of the country. Rwandans have even succeeded to produce their own smartphone, and they are proud to hold a "Made in Rwanda" smartphone rather than the "Made in China" one. One of the projects implemented five years ago by the government, as a result of the 4G coverage, is making WI-FI available on public transportation in Kigali. In comparison with other countries, Rwanda is using drones in a very different way. Rwanda has become the first country in the world using drones for delivering urgent blood supplies to hospitals [16, 18].

5. Future drivers of growth in Rwanda. Vision2050

Taking into account Rwanda's evolution, it is expected this country to grow even more in the future. Rwanda plans to become an upper middle-income of \$4,035 per capita country by 2035 and high-income of \$12,427 per capita country by 2050. In order to achieve this goal it will be required an average annual growth of 10%. This requires a reformed agenda, as for accelerating so at so high levels and sustaining it is complex and highly demanding [20].

An important policy introduced in Rwanda is "Made in Rwanda", designed to help boost industrial contribution to the economic growth promoting the brand of the Rwandan locally made products at the global stage, expecting otherwise to reduce country's dependence on imports. Moreover, it is expected to significantly narrow the trade deficit of the country by almost 450 million dollars annually in the next seven years.

Vision 2050 is mainly about ensuring high standards of living for all Rwandans, so important transformations are going to be done in the following areas:

1. Quality of life: sustained food security, universal access to quality health care and services, education, SMART housing;
2. Modern infrastructure and livelihoods with green/eco-friendly cities powered by renewable energy;
3. Transformation for prosperity by diversifying tourism, high value IT, improved logistic sector, scientific and technological innovations;
4. Values for vision 2050 with main focus on integrity, equity, accountability, national stability, transparency and openness, self-determination;
5. International cooperation and positioning: regional integration multi-lateral and bilateral cooperation, positioning abroad (public and private), freeing ourselves from aid dependency sooner [2].

6. Conclusions

Africa has always been considered a poor continent with no opportunities for further development. However, due to better management of resources, better governance it become the host continent of some of the fastest-growing economies in the world. Africa has begun to attract more and more investments, transforming otherwise the continent into a new almost untapped market with huge economic opportunities.

One of Africa's fastest growing economies is Rwanda, which succeeded to recover after the genocide from 1994 and to become a role model for the rest of the continent. Also called "The Singapore of Africa", Rwanda has gained a pretty good place on the international arena, because of its quickly improved macroeconomic indicators.

Even though the country has a small population and a surface area of just 26.338 km², it is enough rich in mineral resources, making it a good exporter of gold, niobium, tantalum and other minerals. However, the country still has a negative trade balance, as imports exceeds exports. Regarding the FDI, Rwanda has given a lot of reasons to invest in it, even though by changing its fiscal incentives making the business environment of the country more attractive to the foreign investors. Only in 2019 in Rwanda were invested \$478.2m in 79 projects, giving more opportunities to the country to upgrade itself.

The economic progress of the country is not going to stop here, as higher annual growth of GDP is expected. Even more, the president of the country- Paul Kagame, is almost sure that he is going to transform the country into a high-income country by 2050. Generally, the Vision 2050 programme has as main goal to upgrade the country even more making it a good competitor between the big economies of the world.

As an overall recommendation, I think that a

Moreover, if to make a meticulous analysis, we can find a lot in common between Rwanda and the Republic of Moldova. In case of an interstate agreement both of the countries would just benefit from one another. Rwanda has shown a lot of interest in the political, social and economic situation of their state, interfering with well-thought strategies, proving that there is still a chance to make a difference. Moldova in this case could have the possibility to enter a new era and create a better place to live. Both of them have similar targets, such as energy and infrastructure, rural development, good governance, civil society and as follows this could lead to a great cooperation. Obviously, there is work to be done, but supporting and helping each other an amazing outcome may result from such a collaboration. Such a possible case could support and reinforce national efforts for further development and even enhance standpoints on best practices and lessons learnt in other states.

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