

The Tentative Developmental State in Rwanda: From Anti-Manufacturing to Recapturing the Domestic Market

In this post, Dr Prithish Behuria highlights the reintroduction of import substitution in Rwanda under the moniker – recapturing the domestic market. He argues that this signals the tentative emergence of Rwanda’s developmental state, which has previously paid little attention to its domestic manufacturing sector.

The reintroduction of industrial policy to mainstream international development discourse has led to a comeback of sorts for the ‘developmental state’ – a term coined by Chalmers Johnson in his [study of Japan’s Ministry of Trade and Industry](#). Recent discussions of industrial policy in development policymaking have emerged [in a much more market-oriented form than before](#). Such an orientation sharply [diverges](#) with the arguments of [development states scholars](#). Though the ‘developmental state’ has received attention when examining the development experiences of some African countries ([Ethiopia](#), [South Africa](#), [Botswana](#), [Mauritius](#) and [Rwanda](#)), there is very little direct comparison with East Asian experiences. If such comparisons do exist, they evince some common characteristics rather than highlight differences. Strikingly, there is very little attempt at underscoring the lack of manufacturing sector growth that has been a feature of the development trajectories of growth in the success stories of Africa.

[Ben Fine](#) argues that scholars, who studied the ‘developmental state’, eventually began to split into two categories. The first category was the political school, best illustrated by the work of [Peter Evans](#). This group was characterised as being more concerned with the creation of an autonomous bureaucracy and other more ‘political’ characteristics of developmental states. The second – [the economics school](#) – was more concerned with industrialization (and particularly, manufacturing sector growth). Fine lamented the decline of political economy explanations of the developmental state. However, in recent years, it has become apparent that there has been a clear marginalization of the economics school. Developmental state scholarship has refocused on other issues including examining whether a [‘democratic developmental state’](#) can be established. Since [deindustrialisation](#) has been apparent on the African continent, policymakers are also less optimistic about the potential to challenge established global leaders in traditional manufacturing export sectors. [Others](#) argue that industrial policy must take a different form with an increasing importance for local firms to enter and climb global value chains. Still, [others \(including Evans\)](#), argue for service-oriented capability-driven development, with the increasingly [bit-driven](#) nature of 21st century economies. Though many of these arguments provide important lessons for developing countries today, they all tend to disregard the importance that East Asian developmental states placed on securing the home market.

[Alice Amsden](#) argues that after colonies won their independence, they begun their larger battle of ‘securing their home markets’ and reducing economic dependence. National firms can use opportunities in home markets to reach scale economies, build supplier networks and learn to raise productivity. However, securing the home market requires protection. Proposing protectionist policies is especially arduous for most African countries where governments were forced to liberalise their trade regimes in the 1980s and 1990s. Reversing such policies is a challenge. It is a political challenge because Western governments [often oppose](#) such change and domestic consumers may suffer short-term price increases. However, there are also normative and technical challenges. It is difficult to access heterodox experts and oppose existing consultants and donors who offer what Hirschman called [‘blueprint approaches’](#) and do not acknowledge the initial ignorance and uncertainty that comes with initiating industrial policy. Today, the tide is turning in several African countries ([although Ethiopia already did this!](#)), with Rwanda and other East African countries pushing to ‘secure the home market’. Perhaps, the developmental state (with some emphasis on manufacturing) is finally ready to emerge.



Since 1994, Rwanda has experienced a period of **miracle growth** – with annual growth of six per cent every year for the past 21 years (except for 2003 and 2013). This has led some observers to characterise Rwanda as a developmental state because of the country's productive use of party and military-owned enterprises and **its prioritisation of the agriculture sector**. However, it is rarely mentioned that the Rwandan government has chosen not to prioritise manufacturing sector growth. Instead, Rwanda's new developmental state, through its **VISION 2020** development strategy, has embarked on a trajectory to become a knowledge-based service-led economy. However, in 2012, the Rwandan government **acknowledged** the need to revisit this strategy. National surveys showed that underemployment was a severe problem. The Census reported that 65 per cent of Rwandans of working-age were underemployed. **Services-led growth** and capability-enhancing reforms were not creating the jobs that were demanded by Rwandan youth. In effect, as Alice Amsden argues, such poverty alleviation policies were guilty of **job dementia**. The government reacted to this by establishing a developmental-state like job target (200,000 jobs every year till 2017) and refocused its efforts on promoting its domestic manufacturing sector. The Rwandan government had reasons for not prioritising the manufacturing sector. Government officials acknowledged that it was almost impossible for domestic manufacturers to become competitive in regional markets let alone internationally. High transport costs, the lack of local availability of raw materials, inadequate and inconsistent supplies of energy and lack of skills and local training were all factors that persuaded the Rwandan government to assume that the country's best bet was to focus on services-led growth. However, in 2012, there was recognition that this gamble would not suffice on its own. Over the last year, Rwanda has been in a crisis with the trade deficit mounting and the government retaining very limited access to foreign reserves. With the recent receipt of an **IMF loan**, the need for finding new exports (which has been a priority for the government since 1994) has also been accompanied by the realisation that imports must be reduced.

A central component of Rwanda's new industrial strategy is its **Domestic Market Recapturing Strategy**. The DMRS builds on existing strategies (including the **National Export Strategy**, **National Industrial Strategy** and **Special Economic Zone Policy**). Seven high priority sectors have been highlighted, as part of the DMRS. These include cement, textiles and garments, soaps and detergents, packaging materials, fertilizers, edible oils and maize. To support the DMRS, the government has embarked on a **'Made in Rwanda'** campaign to encourage consumption of locally produced goods (Tanzania is now employing a similar strategy). However, in many sectors, there is substantial competition from large firms within the East African community. For example, though CIMERWA has been successful in capturing close to half the domestic market in recent years (from a relatively low base), companies like Uganda's Hima cement and Tanzania's Simba cement continue to dominate segments of the local market and also offer lower prices.



The C&H Garments factory in Rwanda

Perhaps, the most significant move has been the controversial proposal to ban the import of second-hand clothing. In February, the East African Community **proposed a ban** on second-hand clothing and shoes. In Rwanda, the ban has not been initiated yet. However, in June, the Rwandan government increased duties on the import of used clothes from \$0.2/kg to \$2.5/kg. Similar duties were imposed on used shoes from \$0.5/kg to \$5/kg. Such a ban, in itself, will not lead to recapturing the domestic market and domestic firms must be supported. The government has already initiated plans to support the establishment of **Kigali Garment Centre**. Undoubtedly, prices will increase for consumers in the short-term but there is hope that employment benefits that accrue and such changes may yield sustained benefits.

Trade liberalisation in East and Central Africa in the 1980s and 1990s not only destroyed local textiles and garment production firms but also negatively affected employment patterns. One

author claims that Kenya’s clothing sector once employed 500,000 people but now, it only employs approximately 20,000 workers. In East and Central Africa, **as in West Africa**, trade liberalisation may have forced the transformation of business classes ‘**by suppressing commercial rent-seeking and eliciting productive investment.**’ However, in many cases, trade liberalization had the effect of permanently weakening local enterprises in traditional light manufacturing sectors like textiles. In Rwanda, the local textile manufacturer (UTEXRWA) has lost its market share. The import of second-hand clothing and Chinese garments has increased significantly over the years. Recently, the Rwandan government has sought to combat increasing imports by enticing **Chinese-owned C&H Garments** to establish a base in Rwanda. Within a year of establishment, C&H officials said they would begin producing for both the local market and for export to the United States through AGOA. UTEXRWA has also committed to producing for the local market and other investors (like African-owned **Albert Supplies Ltd.**) have also expressed interest. Despite some positive news, it is too early to discuss the revival of Rwanda’s textiles and garments sector. The government will have to balance the urgent need for reducing imports with the need to manage resistance that may accompany increasing prices.

Rwanda’s development strategy has always been different from that of East Asian developmental states. Now, the government has recognised the importance of the manufacturing sector as a pathway to sustained growth. The simultaneous prioritisation of capturing the domestic market and finding new exports signals the tentative emergence of the Rwandan developmental state. However, there are several challenges in terms of accessing space to pick winners and capture domestic markets, as well as to learn from previous experiments.

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