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Foreign Direct Investment in Kigali's Special Economic Zone and its Impact on Rwanda's Economic Reconstruction

Sabrina Roberts
SIT Study Abroad

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Advisor: Celine Mukamurenzi

School of International Training

Rwandan Post-Genocide Restoration and Peacebuilding

Home Institution: Middlebury College

List of Abbreviations

FDI…. Foreign Direct Investment

KSEZ…. Kigali Special Economic Zone

RDB…. Rwanda Development Board

GDP…. Gross Domestic Product

ODA…. Official Development Assistance

Abstract

Vision 2020 is a development strategy implemented by the Rwandan government. It aims to make Rwanda a middle-income country with a per capita income of $1240 USD. One pillar of this strategy is increasing regional and international integration. The Kigali Special Economic Zone (KSEZ) was created in direct response to this pillar.

The paper begins with an introduction to Rwanda's post-conflict economic situation and goes on to describe and explain the role that Foreign Direct Investment (FDI) in the KSEZ has played in reconstructing the Rwandan economy. The study focuses on the impacts of the KSEZ and the significance of these impacts. To realize this investigation, I visited the KSEZ, conducted structured interviews and completed a rigorous review of secondary sources.

This paper concludes that in the short term, the KSEZ has made a modest contribution to FDI in Rwanda, but, has not made a significant impact on Rwanda's economic reconstruction. No significant losers have been identified, so, it is advised that the country continue to invest in increasing regional and international integration to reap the potential long-term benefits of FDI in the KSEZ.

Acknowledgements

I would like to thank Celine, Janvier and Mercy for their academic and pastoral support. Without their patience and positivity, my stay in Rwanda would not have been possible.

Also, to the girls of apartment F6, whom I lived, laughed and cried with while working on this project. I am excited to see you all again soon.

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Chapter I: General Introductions and Background

1.1 Background of Study

One of the pillars of the Rwandan government's Vision 2020 plan to transform the country into a middle-income nation includes increasing regional and international integration. The government wants to encourage foreign direct investment (FDI) through minimizing barriers to trade and creating special economic zones, an example is the Kigali Special Economic Zone (KSEZ). In 2016, 66% of firms operating in the KSEZ were foreign investments.

Foreign investment is often criticized by the Western academics for not benefiting local economies and local communities. Reports from the International Trade Union Confederation suggest that Chinese companies' wages are among the lowest in African countries and Chinese companies usually pay less than other foreign investors. There have also been reports of poor working conditions in Chinese enterprises in foreign countries, with health and safety hazards as well as long working hours (Tang, 2016, pp. 3, 4). Rwanda is among one of many African countries to host Chinese investments. In March 2017, there were 45 registered Chinese investments in Rwanda and since then, many more Chinese companies have invested in Rwanda. Some of these firms are stationed in KSEZ, one of which is C&H Garments ("China's Xi Jinping," 2017).

The post-conflict context in Rwanda means that economic development is slightly different. When reconstructing the economy, it must be taken into account that 25 years ago, the country had no stable financial policies or institutions, low employment, poor infrastructure and no industry potential. Also, the stakes for economic development are much higher in this post-conflict context because economic development can be seen as a method of post-genocide reconstruction (USAID, n.d.).

1.2 Research Problem

FDI has been increasing in Rwanda in recent years and the government has encouraged this through Vision 2020. In order for Rwanda to reach the main goal of Vision 2020, to be considered a united, middle-income country with a per capita income of $1240 USD, all parts of society need to benefit from FDI. However, the extent of these benefits and whether or not they are widespread is unclear.

In order to narrow my research, I will focus specifically on FDI in the KSEZ. The KSEZ is located in Masoro-Munini and Kagarama-Musave, on the outskirts of Kigali. It is a measure created in direct response to the "Increasing Regional and International Integration" pillar of Vision 2020.

1.3 Research Objectives

Through this ISP, I hope to explore and then make a decisive judgement on the success of FDI in the KSEZ as a method of economic reconstruction in Rwanda. I will achieve this through:

a. Finding out how the KSEZ has facilitated foreign investment in Rwanda.
b. Find out the extent to which foreign investment, housed in the KSEZ, is contributing to the economic recovery of Rwanda.

Chapter II: Research Methodology

2.1 Scope

In research related to international economics, quantitative data is typically used to measure the impact of foreign direct investment. Prior studies in this subject in Rwanda have used tax collection data to gather information on SEZ firm activity, for example. However, this study primarily used qualitative data from interviews with 10 economic experts located in Rwanda and the US and supplemented it with published, secondary data. This is due to time and resource constraints. It would have been impossible to gather a statistically significant sample of SEZ firms, regular citizens and SEZ employees to measure for example, indicators like changes in income as a result of FDI activity in the KSEZ. By relying on qualitative data, I gathered perceptions on FDI in the KSEZ to get insight into the impacts it has on Rwanda's economic reconstruction.

To supplement qualitative data from interviews, I also engaged in a robust review of secondary literature. Seven key articles about FDI and SEZs in Rwanda were reviewed and helped to determine opinions on how FDI and the KSEZ have the Rwandan economy.

2.2 Data Collection Techniques

I conducted structured interviews with economic experts. These interviews were conducted in English and were not recorded. The experts were from the following sources:

a. Government officials at MINECOFIN and RDB (3)
b. Economics Professors from University of Rwanda (3)
c. Economists at international research centers (2)
d. Economic Journalist at Rwanda Broadcasting Agency (1)
e. Executive of Rwandan Stock Exchange (1)

For a list of interview questions see Appendix A. For a full list of informants, see Appendix B.

These interviewees were selected through purposive and snowball sampling. I purposely tried to conduct interviews with outliers on this topic. This includes those who are extremely positive to FDI and SEZs in Rwanda, like government officials in the Rwanda Development Board (RDB) and those who are extremely negative to FDI and SEZs in Rwanda, like scholars, were interviewed.

2.3 Ethical Values Observed

As a foreigner with a limited grasp on Rwandan cultural norms, conducting research in Rwanda, I was careful with their interactions with locals and foreigners, so as to not offend them. I was also extremely respectful and grateful for them taking their time to inform my research and allowing me to have this academic experience.

Information about SIT and information pertaining to the study were made available to the informants before and after the interview. All informants were given my contact information and the research results once they were complete. All interviews were conducted in the interviewees' office or in public areas of the interviewee's choice, in order to make them feel comfortable.

Also, I grew up in Hong Kong, a place that heavily relied and relies on international business and foreign direct investment to propel its economy. In order to avoid a bias of analyzing FDI as being more positive to Rwanda than it actually is, I made a concerted effort to approach this topic with an open mind.

2.4 Study Limitations

The study was limited by time and resource constraints. The researcher had one month to identify interviewees, conduct interviews with various stakeholders, analyze data and write this paper. Since targeted interviewees were usually in high positions, they were busy and had limited time to meet with me. Therefore, not all targeted interviewees were able to be interviewed. Also, since this is a qualitative study, figures reported by interviewees are only approximations and could have skewed data.

The fact that the SEZ has not been operating for 10 years, yet foreign direct investment is a long term phenomenon, is another limitation. It is difficult to investigate all the impacts that FDI in the SEZ have had due to the time lag associated with some of these impacts. They have yet to be measured and may not even be present in society yet. As a result, it is important to emphasize that this is an explorative study.

Chapter III: Literature Review and Definition of Key Concepts

3.1 Economic Situation in the Aftermath of Conflict

In the aftermath of conflict, a series of factors make it difficult to resume and incite economic activity on an individual level. During conflict, a large portion of the population has lost assets, which decreases purchasing power and shrinks markets. Even if individuals have assets, they may be unsure of the legality of their ownership because of mass population displacement and robbing of assets during conflict. This means there is little incentive to build on their assets or use their assets to invest and is a challenge to inciting business. Traumas from conflict also create a lack of trust between individuals, making it unlikely for people to cooperate and engage in business (Sweeney, n.d., p. 17).

On a broader, societal level, physical damage and macroeconomic issues are also barriers to formal economic activity. Damage to physical infrastructure and communication technologies make it difficult to start a business. Also, a weak currency and poor access to financial services like loans decreases purchasing power and deters local and foreign investment. Therefore, in post-conflict economies, subsistence level, informal economies are more popular. This does not contribute to the nation's economic growth as much as the formal economy because it is on a small scale and is not accounted for in tax revenue (Sweeney, n.d., p. 19).

These characteristics associated with a post-conflict economy are exemplified around the world. The genocide against the Tutsi in Rwanda led to an immediate, 58% GDP drop. After the first two years of WWII, the Germany GDP per capita also decreased, by 64% and it took 17 years to return to the country's pre-war GDP. This demonstrates the immense economic decline experienced during genocide and the immense difficulty countries face in rebuilding an economy after a genocide (Hodler, 2019, p. 3).

3.2 Rwanda's Vision 2020

In order to reconstruct the economy, the Rwandan government consulted with community members and created Vision 2020 in 1998 and 1999 (Republic of Rwanda Ministry of Finance and Economic Planning, 2000, p. 6). Vision 2020 is a framework of Rwanda's future development goals and aims "to construct a united, democratic and inclusive Rwandan identity, after so many years of… exclusivist dispensation" (Republic of Rwanda Ministry of Finance and Economic Planning, 2000, p. 3). This framework seeks to transform Rwanda into a middle-income country. The government defines being a middle-income country as a nation with an annual per capita income of US$900, a poverty rate of 30% and an average life expectancy of 55 years (Republic of Rwanda Ministry of Finance and Economic Planning, 2000, p. 11). One of the pillars of Vision 2020 is 'increasing regional and international integration'. This means that the Rwandan government is aims to promote foreign direct investment to develop the economy and indirectly encourage national reconciliation (USAID, 2009).

3.3 Special Economic Zones (SEZ) Definition

A Special Economic Zone is a geographically delimited area that helps to overcome barriers to investment and attracts foreign direct investment. There are a range of types of SEZs, which include export processing zones, economic processing zones, free zones and industrial parks (Steenbergen & Javorcik, 2017, p. 10).

These zones operate under a regulatory regime that has more liberal investment, trade and operating rules as well as more administrative efficiency than the rest of the economy. An SEZ also has access to better physical infrastructure, like roads, electricity, water and telecommunications, which eases business. In addition, SEZs have a governance structure that ensures investors benefit from efficient service provision. These zones are commonly used by developing countries to encourage investment and were extremely successful for the Asian Tigers (Steenbergen & Javorcik, 2017, p. 10).

3.4 Kigali Special Economic Zone (KSEZ)

For the Rwanda to reach their Vision 2020 goal and for the economy to reach a middle-income status, there had to be an annual growth of 7% (Republic of Rwanda Ministry of Finance and Economic Planning, 2000, p. 6). More specifically, for the industrial sector to reach a target of 20% of GDP contribution by 2020, the industrial sector had to grow by 14% per year. To incite this growth, special economic zones were established (Steenbergen & Javorcik, 2017, p. 3).

Prior to 2009, Rwanda had two types of Special Economic Zones – the "Kigali Industrial Park" for domestic producers and the "Rwanda Free Trade Zone" for foreign producers. In 2007, however, Rwanda joined the East African Community (EAC) and entered special trade agreements with Uganda, Kenya and Tanzania. Since Uganda, Kenya and Tanzania, the three major foreign producers in the "Rwanda Free Trade Zone", no longer needed this SEZ to be incentivized to invest in Rwanda, he Rwandan government decided to merge the two economic zones into one "Kigali Special Economic Zone (KSEZ)" with Phase 1 and Phase 2 in 2009. In this KSEZ, companies engaging in export sales share infrastructure with those engaging in domestic sales and resources are consolidated. The government created laws surrounding the SEZ in 2011 and the Rwanda Development Board was established as the regulator for the SEZ (Steenbergen & Javorcik, 2017, p. 16). The SEZ started operations in 2013 (Steenbergen & Javorcik, 2017, p. 23).

In 2016, there were 75 companies in Phase 1 and 9 companies in Phase 2, with 66% of firms being foreign (Steenbergen & Javorcik, 2017, p. 17, 22). The most popular firm type in KSEZ was manufacturing products, followed by warehousing and support services

(Steenbergen & Javorcik, 2017, p. 21). The sales from the KSEZ made up 2.5% of national total sales in 2016 (Steenbergen & Javorcik, 2017, p. 19).

In 2017, the KSEZ attracted $87.2 million in investment, generated $36 million of export revenue and created 5205 permanent jobs. By 2017, there were 80 companies in Phase 1 of the SEZ, 11 companies in Phase 2 and Phase 2 was 90% booked ((Rwanda Development Board, 2017, p. 37).

3.5 Definition of Foreign Direct Investment (FDI)

FDI is a category of investment where an investor sets up an enterprise in an economy other than the home economy of the investor. There is a long term relationship between the investor and the economy they are investing in (Glossary of Foreign, p. 7).

3.6 Theoretical Impact of FDI on the Economy

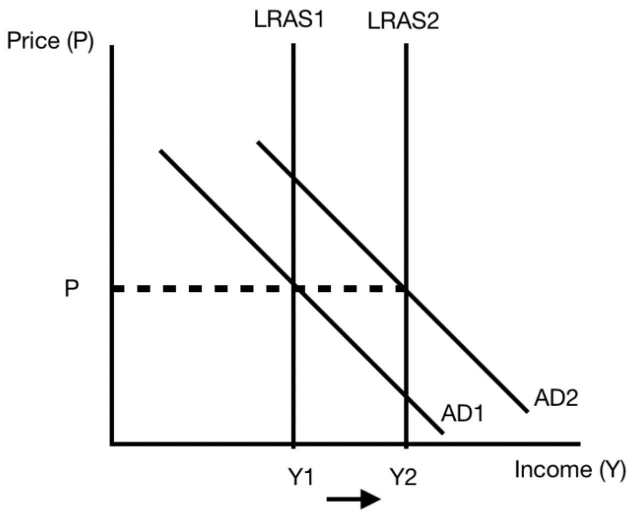

Figure 1: Impact of FDI on an Economy. Created by author.

According to basic economic theory, foreign direct investment increases capital and is an injection into the economy. This increases aggregate demand (AD = G+I+C+(X-M)) and shifts the aggregate demand curve to the right. At the same time, foreign direct investment increases the capacity of the economy in the long run, shifting the aggregate supply curve to the right. This means that a higher level of income can be achieved, demonstrating the theoretical positive impacts of foreign direct investment.

Scholars who oppose FDI describe it as failing to contribute to the long-term economic and social development of the host country (Ádám, 2000, p. 81). Investors from foreign countries tend to hire cheap contract labour and do not lead to a real diffusion of technological development or knowledge. This way, the effectiveness of the host economy does not improve significantly (Ádám, 2000, p. 81).

3.7 FDI in Rwanda

FDI as a proportion of Rwanda's GDP has increased over the past few years (Republic of Rwanda, 2012, p. 1). In 2000, FDI made up 0.46% of GDP, while in 2017, it made up 3.41% of GDP. A variety of countries are involved in these investments, the top six investing countries in 2017 included Portugal, the UK, India, the UAE, Germany and China (Bizumungu, 2018). In 2017, Europe was the largest foreign investor in Rwanda, making up 42.6% of foreign investments. Asia was the second largest investor, making up 11.2% of investments. This data is slightly skewed due to Portugal's investment and construction of the new Bugesara Airport, which dramatically increased investment from Europe from previous years (Republic of Rwanda, 2012, p. 13).

While there is vast literature on this topic, there is no specific research done on the impact of foreign direct investment in KSEZ on Rwanda. This is what I intend to add to the field.

Chapter IV: Presentation, Analysis and Interpretation of Data

4.1 Unique Characteristics of Rwanda's Economy

4.1.1 Characteristics in Comparison to Developing Economies

When asked to compare Rwanda's economy to other developing economies, all interviewees highlighted Rwanda's post-conflict situation as a unique characteristic. All interviewees either directly or indirectly mentioned that the genocide against the Tutsi led to the devastation of the country. Rwanda is different in comparison to other developing economies because of the damage of the genocide against the Tutsi, the government's approach to growth in the post-genocide era, the loss of human capital and the large amount of ODA received.

In July of 1994, no buildings were standing (ID 08, personal communication, Nov 19 2019), 1 million were dead, at least 2 million people fled, and tens of thousands of people were in prison as suspected perpetrators (Lemarchand & Clay, 2019). This post-genocide devastation meant that the government got a fresh start to implement new social, political and economic systems. This made economic institutions less engrained in Rwanda and has allowed the government to experiment with policies that have led to fast yet inconsistent growth (ID 09, personal communication, Nov 20 2019).

One of the new economic and political systems put in place in the aftermath of the genocide relates to government strategies on growth. An economist who works for an international research organization that I interviewed (ID 09) added that the government's approach to development in Rwanda is also different to that of other developing countries in the region. One necessary political condition that led to the economic miracle in East Asia is an exceptionally difficult circumstance that forced national elites to focus on inclusive economic development for political legitimacy (Singh & Ovadia, 2018). This closely applies to the case of Rwanda. In the aftermath of the genocide, the Rwandan government faced an ethnically divided population. Since the post-conflict government was an ethnic minority, this was an existential threat. If the government played the tribal game and kept the benefits of economic growth to their own people, they would risk losing power. Therefore, the government made specific efforts to focus on an inclusive outlook on economics (ID 05, personal communication, Nov 14 2019).

The genocide of 1994 decimated the county's human capital by killing most of Rwanda's skilled labor (ID 03, personal communication, Nov 13 2019). In 1995, a large majority of civil servants didn't have a post-secondary education and it is estimated that there were only 10 qualified lawyers left in the country (Serieux, 2019, p. 10). When the one university in Rwanda reopened in 1995, lecturers only had bachelor degrees (ID 08, personal communication, Nov 19 2019). This lack of capital and skilled labour across all sectors poses a challenge to GDP per capita increasing (ID 03, personal communication, Nov 13 2019).

Another interviewee (ID 03), a professor whose PhD thesis covered exogenous factors impacting the macroeconomic situation in Rwanda also brought up that Rwanda being a post-conflict economy also received more official development assistance (ODA) than other developing countries (ID 03, personal communication, Nov 13 2019).

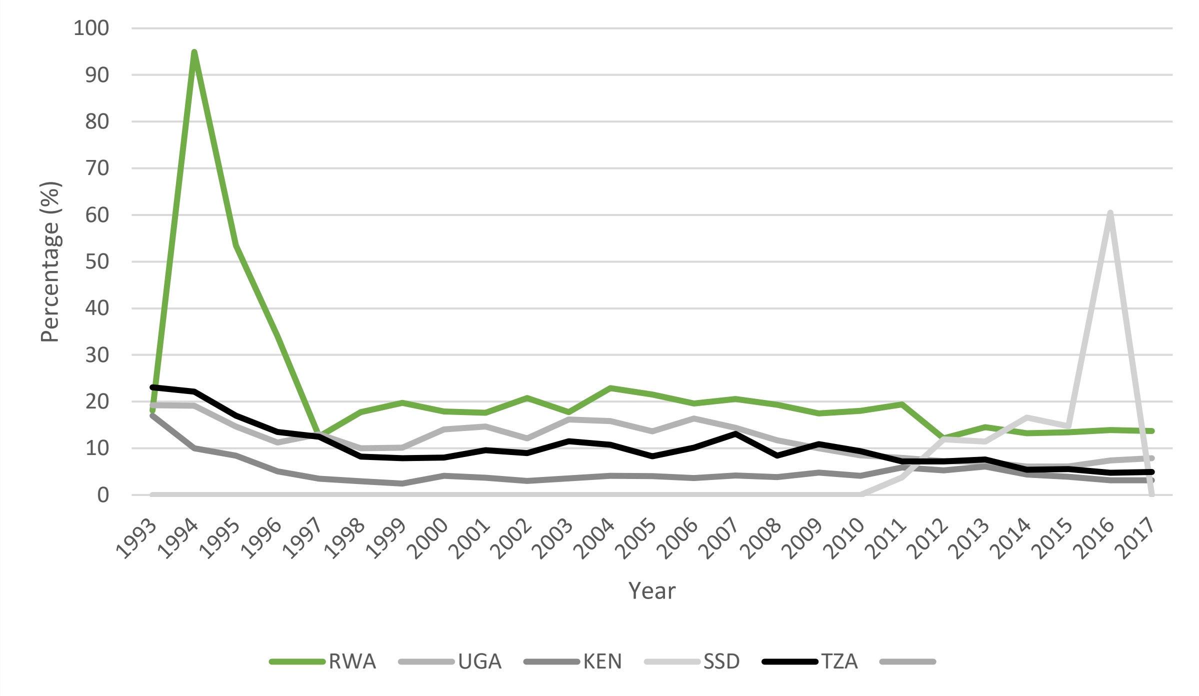

Figure 2: Net ODA received as a percentage of GNI over time. Created by author. Data from World Bank Indicators, 2019.

This graph demonstrates the amount of ODA received from countries in the EAC from right before the genocide against the Tutsi to the most recent data point available, in 2017. I chose to exclude Burundi because the country experienced ethnic tensions and a civil war between 1993 and 2005, making its economic situation similar to Rwanda and not just a developing country. For almost 20 years, between 1994 and 2012, Rwanda has either received the greatest amount of ODA as a percentage of GNI or has tied in the region in this category. It is common for developing countries to receive ODA. Aid is an inflow of external resources to government spending and is a form of fiscal policy that can help grow the economy. This extra access to funding demonstrates a clear advantage that the country has had in development in comparison to other developing countries in the region ("Indicators," 2019).

4.1.2 Characteristics in Comparison to Post-Conflict Economies

All respondents also highlighted to me that Rwanda is different from other post-conflict economies. All three government officials (ID 02, 07, 08) that I spoke to agreed that the government that took power after the genocide against the Tutsi had a clear political agenda, which is rare in post-conflict situations. Usually, "people fight but don't think about what they would do if they win" (ID 08, personal communication, Nov 19 2019). Since the RPF government had clear goals, economic reconstruction has been more smooth. Plans like Vision 2020 were implemented and high rates of growth have been achieved (ID 08, personal communication, Nov 19 2019). While it is true that the government's actions have been instrumental in creating and implementing Rwanda's growth strategy, this may have been overemphasized by the government officials that I interviewed as they are bias and pro-government.

An economist who works for an international research organization (ID 10) added that in some ways, the Rwandan government is less paternalistic than governments in other post-conflict countries. This interviewee has an academic background and therefore shared with me information on other literatures published on this subject. The Rwandan government allows some key agencies, like the Rwandan Revenue Authority, the RDB and the Social Security Board to be semi-autonomous. As a result, these government agencies can pay higher salaries, can make decisions without full input of the cabinet and can recruit outside of government human resource procedures. This has been key to the success of the Rwanda Revenue Board and its involvement in spurring economic growth in Rwanda (ID 10, personal communication, Nov 22 2019).

4.2 The Decision to Promote FDI and the KSEZ:

Gaining an understanding of characteristics unique to Rwanda's economy helps contextualize the country's decision to promote FDI. All interviewees agreed that Rwanda needed FDI and the KSEZ. Reasons for attracting FDI and building an SEZ include a low savings rate, a current account deficit and increasing competitiveness.

One reason for attracting FDI to the country is because of the low savings rate, which is partially due to low financial inclusion in Rwanda. This was brought up by two interviewees (ID 01, 08). The percentage of population over the age of 15 that had an account at a financial institution or with a mobile money service provider in 2017 was 50% ("Indicators," 2019). This is low compared to low and middle income economies around the world, where 63% of the population had an account at a financial institution or with a mobile money service provider ("Indicators," 2019). Access to banks in Rwanda is also lacking, the number of commercial bank branches per 100,000 adults was 5.75 branches 2017("Indicators," 2019). Meanwhile, low and middle income countries around the world had an average of 8.78 banks branches per 100,000 adults in 2017 ("Indicators," 2019). Poor financial inclusion means that the population has no way of saving and investing their money, contributing to low gross domestic savings rates ("Indicators," 2019).

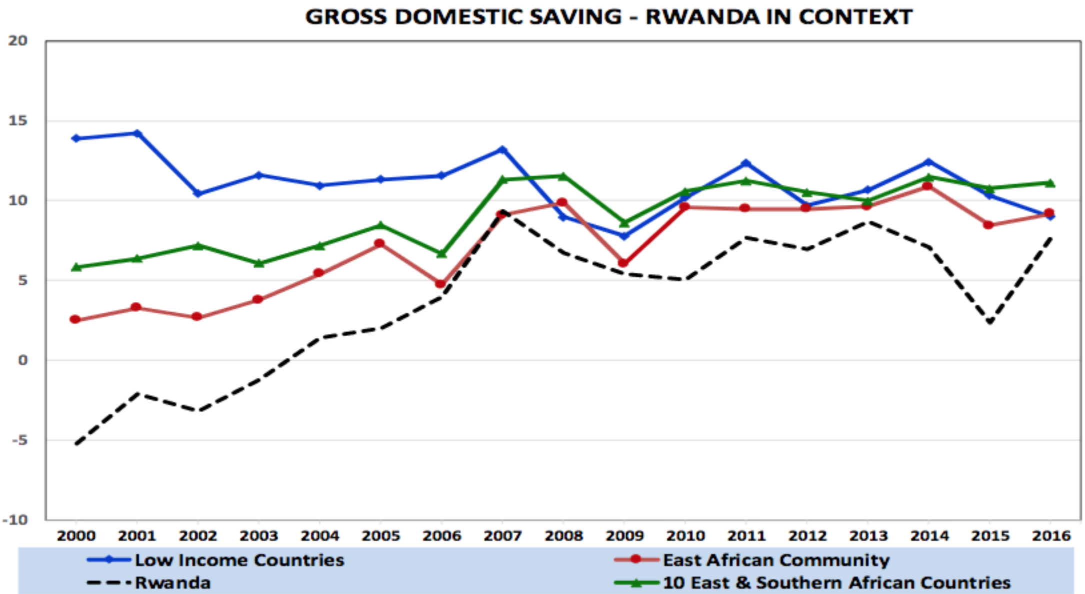

Figure 3: Gross domestic savings. Graph from Serieux, 2019, p.10. Data from World Bank Indicators, 2019.

This graph demonstrates Rwanda's low savings rate, which is significantly lower than the average savings rate for rest of the east African community and for low income countries in general. This is problematic for the long term growth of Rwanda's economy, especially if it wants to become self-reliant. Low domestic savings means low investment levels, decreasing the amount of capital that the government has access to for future development projects. In order to make up for this lack of domestic capital, FDI is necessary as an external resource (Serieux, 2019, p. 10).

Another reason for encouraging FDI in Rwanda is to offset a trade deficit. Rwanda lacks natural resources, like petroleum, sugar, wheat and metal, that are necessary for daily life and for large construction projects (ID 04, personal communication, Nov 14 2019). The impacts of being poorly endowed are illustrated in the graph below.

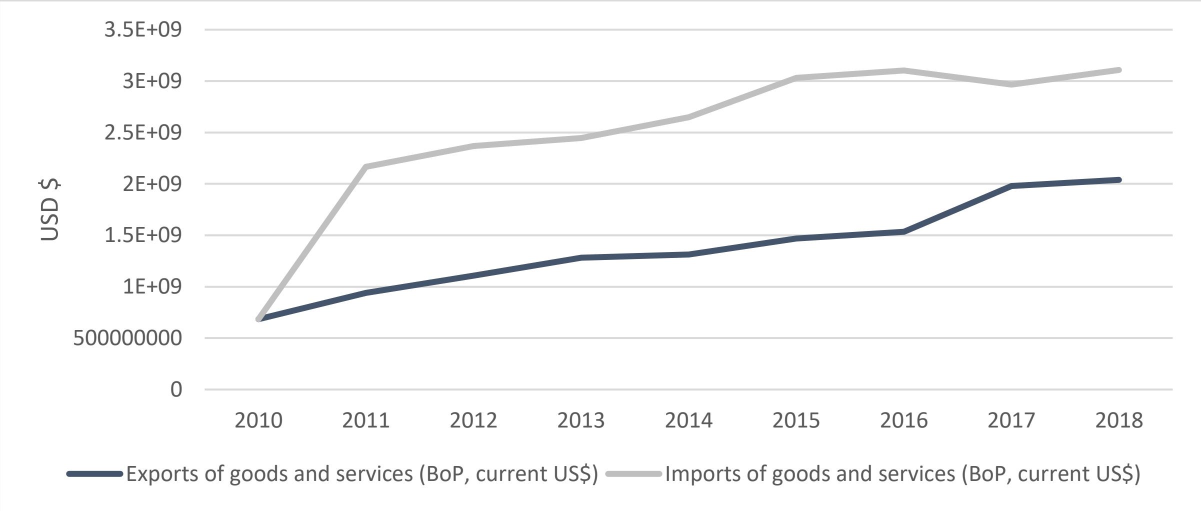

Figure 4: Imports and exports in Rwanda. Graph created by author. Data from World Bank Indicators, 2019.

This graph demonstrates high levels of imports and low levels of exports in Rwanda, which is caused by poor access to necessary resources. In 2018, Rwanda imported approximately 3 billion USD worth of goods, but only exported 2 million USD worth of goods ("Indicators," 2019).

Having more imports than exports creates a negative trade balance, which leads to a current account deficit. Rwanda has experienced a current account deficit for the last 8 years, meaning that in this time, more money has left Rwanda than has entered Rwanda and the country has had to borrow to support their spending. While IMF's debt sustainability report categorizes Rwanda as low risk for external debt distress, one interviewee who is a financial engineer was extremely concerned about Rwanda's government borrowing too much (ID10). It is important for the government to try to reduce the need to borrow in the long term so that they can be self-sustainable (Rwanda Debt, 2017). Export oriented FDI, which the KSEZ aims to create, will help mitigate the current account deficit and is good for Rwanda's long term growth (ID 07, personal communication, Nov 19 2019).

One respondent (ID 10) also highlighted that Rwanda needs an SEZ to increase its competitiveness. In order to further facilitate FDI in Rwanda, the government needs to find a way to make the country more attractive to investors than other locations in East Africa. Rwanda must compete with cheaper labor, higher quality capital and larger land area in Tanzania, Kenya and Uganda (ID 10, personal communication, Nov 22 2019).

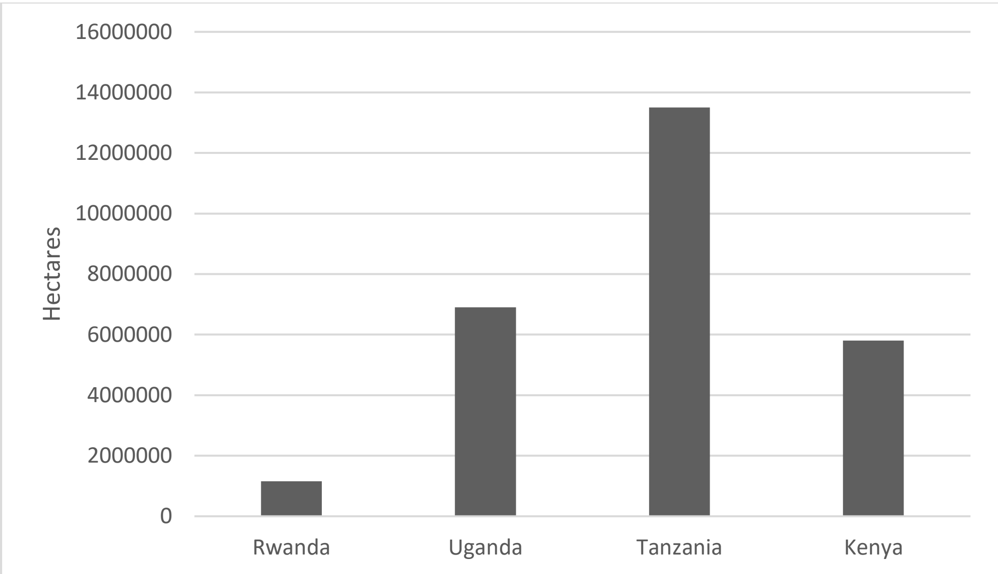

Figure 5: Arable land in 2016 in hectares. Graph created by author. Data from World Bank Indicators, 2019.

This graph demonstrates one category where Rwanda faces steep competition in the region. Rwanda had less than 2,000,000 hectares of arable land in 2016, which is significantly less than the arable land than Uganda, Tanzania and Kenya. This is poses a challenge to the growth of Rwanda's agricultural industry as well as the agro processing industry, a subset of the manufacturing industry ("Indicators," 2019).

Being less competitive in resources like land, capital and labour, in addition to combating the stereotype of being the country where the genocide happened, means that Rwanda needs to take extra measures to attract competitors. Building an SEZ makes Rwanda more attractive and attempts to give the country a competitive edge (ID 10, personal communication, Nov 22 2019).

4.3 Role of Rwanda's Post-Conflict Situation in this Decision

Respondents agreed that Rwanda needs FDI because of the country's macroeconomic situation and the KSEZ is necessary as it increases Rwanda's competitiveness. This raises the question of whether or not, and how Rwanda's post-conflict situation plays a part in the decision to promote FDI and establish a KSEZ.

All but one interviewee agreed that the decision to implement FDI in Rwanda is related to the post-conflict situation there (ID 02, personal communication, Nov 12 2019). The one respondent who disagreed answered the question with one word, "no" and asked to move on to the next question. They may have done so because the topic of genocide is sensitive in Rwanda and the interviewee felt uncomfortable speaking about genocide. The researcher did not ask the respondent any further questions about the post-conflict situation in Rwanda after this and moved on to questions specifically about the KSEZ (ID 02, personal communication, Nov 12 2019).

From the respondents who agreed and elaborated on their answers, two common reasons arose as to why Rwanda needed FDI in the aftermath of the genocide.

In the aftermath of the genocide against the Tutsi, the Rwandan government faced high costs and a lack of financial resources. The estimated annual budget for Gacaca tribunals was $2,200,000 USD (Zorbas, 2004, p. 4). The government also created a Genocide Survivors Assistance Fund (FARG) and stipulated in the law that 5% of domestic revenue must be dedicated to this fund each year. These are examples of the high costs that the government faced ("Historical Background," 2015). At the same time, in 1995, there were few functioning, tax-paying businesses. Savings are usually used to finance a country's investments, however, since savings come from taxes and tax revenue was low, the government did not have enough resources to fund expensive post-conflict justice and reconciliation projects, in addition to economic growth programs (ID 03, personal communication, Nov 13 2019). To meet these costs, the government had no choice but to rely on external resources to grow its economy. This was brought up to me by two -thirds of the university professors I spoke to (ID 03, 09). This could be due to their theoretical understanding of FDI, savings and low investments.

Another reason for promoting FDI is to change the mindsets of Rwandans. After the genocide, many citizens were 'mindlocked'. Few Rwandans had left the country before and many would live and die in the same village, making them more easily manipulated by propaganda (ID 08, personal communication, Nov 19 2019). A government official expressed that liberalizing the economy was also done to make Rwandans feel like 'citizens of the world'. This was a reason shared by two interviewees (ID 01, 08), one had worked for the government since the aftermath of the genocide and the other came back to Rwanda after the genocide to build up the private sector. Both of whom have been involved in the Rwandan economy since the end of genocide, so they are more likely to see economic reconstruction as a way to solve the root social causes of the genocide against the Tutsi and not just as a strategy for economic recovery.

6 respondents (ID 03, 04, 05, 06, 07, 10) agreed that the decision to build the Special Economic Zone is linked to the post-conflict situation in Rwanda. They said this was because the KSEZ was built to facilitate FDI and Rwanda's post-conflict context needed FDI. 4 respondents (ID 01, 02, 08, 09) disagreed and said that the KSEZ was established in 2013, many years after the genocide, so its establishment is not related to the post-conflict situation.

These opinions, whether agreeing or disagreeing, depended on whether interviewees see Rwanda's Vision 2020 strategy as a response to genocide and underdevelopment and whether they feel the economic effects of genocide still persist in Rwandan society today.

4.4 Preferential Treatment in the KSEZ

The KSEZ was built to provide industrial infrastructure and to increase industrial productivity in Rwanda. As a result, the KSEZ houses heavy and light manufacturing industries and large scale industrial plants. In 2018, there were 15 manufacturing firms, 7 agro processing and food processing firms, 4 construction firms, 2 import and distribution firms, 2 textile firms, one wholesale pharmacy firm and one printing firm. (Republic of Rwanda Ministry of Trade and Industry, 2018, p. 11). The KSEZ provides a range of preferential services to firms and all interviewees agreed on the services that are provided in the Zone.

To attract investors, the government of Rwanda has worked to ensure that firms can set up and operate their businesses in the KSEZ with ease. This is exemplified through streamlining business regulation in the Zone. Getting a business license, permits for land administration and construction as well as completing the environmental impact assessment can all be done at the One-Stop Center, instead of firms having to visit multiple offices around Kigali city to complete necessary paperwork (Steenbergen & Javorcik, 2017, p. 40).

The KSEZ also has high quality infrastructure. The roads in the KSEZ are easily accessible for most trucks in comparison to other roads in Kigali. Firms in the zone have also reported that they have access to a reliable electricity source and do not have to use a generator in the Zone. Water and sanitation services in the KSEZ also seem to be superior to other parts of Kigali. This provision of infrastructure decreases the barriers of entry for firms. Firms already have a designated piece of land and do not have to expropriate communities;

they have access to basic necessities like water and electricity so their factories operate smoothly, and their goods can be transported in and out of the zone efficiently (Steenbergen & Javorcik, 2017, p. 35).

The KSEZ also has systems in place to facilitate trade. There are two types of expedited customs procedures in place for SEZ firms. The 'Blue Channel' is eligible for importers of goods over a certain size and the 'Gold Card Scheme' is available for firms who have a good compliance record with Customs, maintain proper records and have audited financial reports. Firms said that this trade facilitation was one of the main benefits. Without needing additional inspections, accessing imports of raw materials is much more efficient. This extra support means individual firms deal with fewer logistical issues (Steenbergen & Javorcik, 2017, p. 39).

These incentives implemented by the Rwanda Development Board demonstrate the high level of government support that firms in the KSEZ receive. Firms have expressed that the RDB is instrumental in lobbying for policy change that benefits foreign firms (Steenbergen & Javorcik, 2017, p. 40). Also, there is strong communication between firms in the Zone and the RDB. Any challenges that firms in the KSEZ face are discussed with the RDB and the RDB tries to provide solutions that best suit the investor (ID 04, personal communication, Nov 14 2019). Preferential treatment in the zone is especially important for foreign firms, who are likely to be unfamiliar with the existing infrastructure systems and business procedures in Rwanda.

4.5 Preferential Treatment Attracting FDI

The ease of establishing and operating a firm in the KSEZ has led to foreign direct investment in the zone. At the end of 2016, the Zone was dominated by foreign firms, who made up 66% of the total firms at the time (Steenbergen & Javorcik, 2017, p. 22). The firm make up in the KSEZ is likely to have shifted in the last three years as the last 25% of land plots in Phase 2 have now been reserved and more firms, both foreign and domestic have entered the Zone.

Another point is that in 2013 when the KSEZ was established, 15 firms that were already operating in Gikondo Industrial Park before the KSEZ was established, were forced by the government to move to the KSEZ. Four of these firms were foreign firms, meaning that out of 66% of foreign firms in the KSEZ in 2016, not all of them made the decision to invest in Rwanda with the KSEZ benefits in mind (Tuyishime, 2017). Despite this, the majority foreign firm make-up of the Zone in 2016 and land plots in the zone continuing to be filled demonstrates that the ease of business, provision of infrastructure and trade facilitation in the Zone has been able to attract foreign investment.

At the same time, the private sector executive (ID 01) that I interviewed explained that the Zone is not able to provide adequate support to all kinds of manufacturing firms. The Skol brewery is located in the North West of Kigali, near the Southern Province. The firm was encouraged to move to the KSEZ, however, they insisted on staying in their current location because their production process requires water from the Nyabarongo river (ID 08, personal communication, Nov 19 2019). This demonstrates that the services provided in the KSEZ are not attractive for all types of manufacturing firms and this may be a factor deterring other foreign breweries from investing in Rwanda.

The KSEZ is not the only incentive attracting FDI to Rwanda. One of the many incentives is preferential tax rates for foreign companies. Well established international companies with a regional office in Rwanda are entitled to a corporate income tax rate of 0% as long as they invest at least 10 million USD in Rwanda, employ Rwandans, conduct international transactions of at least 5 million USD through a commercial bank in Rwanda and spend 2 million USD in Rwanda per year. Also, investors investing at least 50 million

USD in Rwanda and contributing at least 30% of this investment in equity in specified industries, including manufacturing, are also eligible for a tax holiday of up to 7 years ("One Stop," 2019).

This is more attractive than neighboring Tanzania's investment incentives for foreign investors. Foreigners investing a minimum of $300,000 USD in Tanzania benefit from a reduced import tariffs and investment allowances on industrial capital but still face a corporate tax rate of 30% ("Business Information," 2019). This comparison demonstrates that there are characteristics unrelated to the KSEZ that make Rwanda attractive to FDI, especially in the region (ID 10, personal communication, Nov 22 2019).

Another incentive is the ease of doing business in Rwanda. This is something that the 8 Rwandan nationals that I interviewed were very proud of (ID 01, 02, 03, 04, 06, 07, 08, 09). Rwanda ranked 38th out of 190 Economies in the World Bank's 2020 Doing Business report. In this report, it ranked 2nd on the African continent and 1st in East Africa. Out of 100, Rwanda scored higher than 80 points in 5 of the 10 categories, including starting a business, getting electricity, registering property, getting credit and paying taxes. These rankings demonstrate that Rwanda is conducive to starting and maintaining a business, which may be another factor, in addition to the KSEZ, in attracting FDI to Rwanda (World Bank Group, 2019).

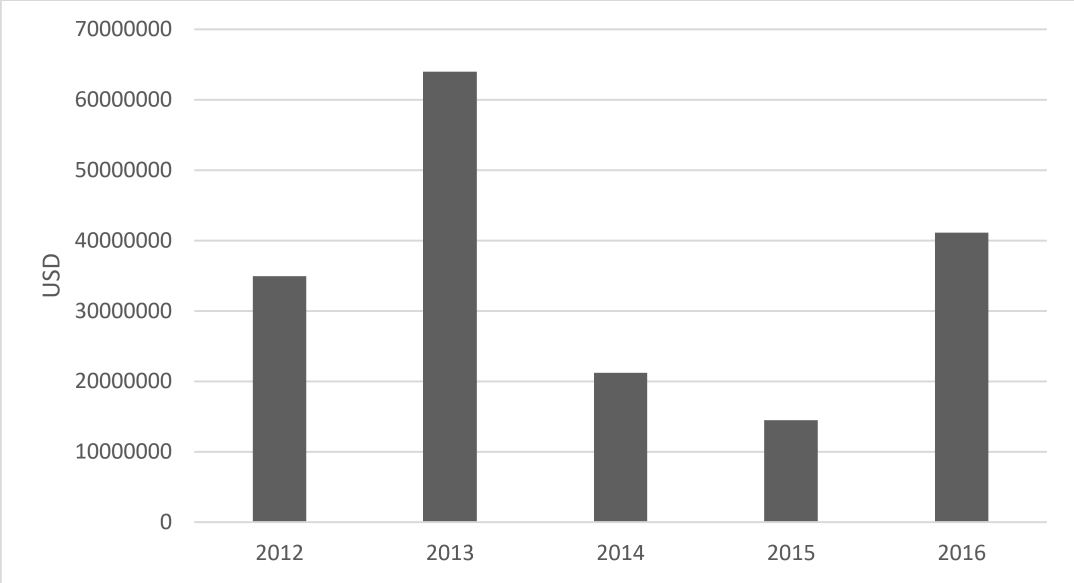

Figure 6: Foreign Direct Investments Inflows in Manufacturing. Graph created by author. Data from National Institute of Statistics Rwanda, 2016.

Despite the difficulty in isolating how the single-handed impacts of the KSEZ, the KSEZ has contributed to inflows of FDI. The above graph demonstrates inflows of FDI in USD in the manufacturing sector in Rwanda and includes inflows to the special economic zone. The zone was established in 2013 and between 2012 and 2016, there was a net increase in FDI inflows in the manufacturing sector, demonstrating a correlation between the building of the zone and increased FDI in the country. Inflows in manufacturing increased dramatically the year the Zone was established in 2013 and activity in the Zone has not led to reduced FDI in the manufacturing sector. This makes it clear that while the KSEZ may only be contributing to a modest amount of FDI inflows, it still plays a part in increased FDI in the country (National Institute of Statistics Rwanda, 2016).

4.6 Impact of FDI in Rwanda:

Eight of the ten people I interviewed (01, 02, 03, 04, 05, 08, 09, 10) believe that FDI in Rwanda is not fully achieving its intended impact of catalyzing economic growth. These interviewees think that while FDI has brought some benefits to the country, the economy has not grown the way the government has envisioned it would, considering the economic reforms that have been made. The two interviewees (ID 06, 07) who disagreed believed that FDI in Rwanda is fully meeting the intended impact of economic growth. One of these interviewees was a government official (ID 07), whose responses were generally very positive to the government, who puts FDI policies in place. This may have skewed their opinion on the success of FDI in Rwanda. The other interviewee (ID 08) who disagreed was a university professor. This professor's explanation for disagreeing was based in economic theory, rather than the reality of Rwanda's economy. This confusion may have skewed the professor's answer.

All of the 8 interviewees who agreed that FDI in the KSEZ is not as successful as it should be stated in some way that the government's spirit in making reforms to attract FDI is much greater in comparison to the enthusiasm that foreigners have towards investing in Rwanda. This is especially true in the manufacturing sector.

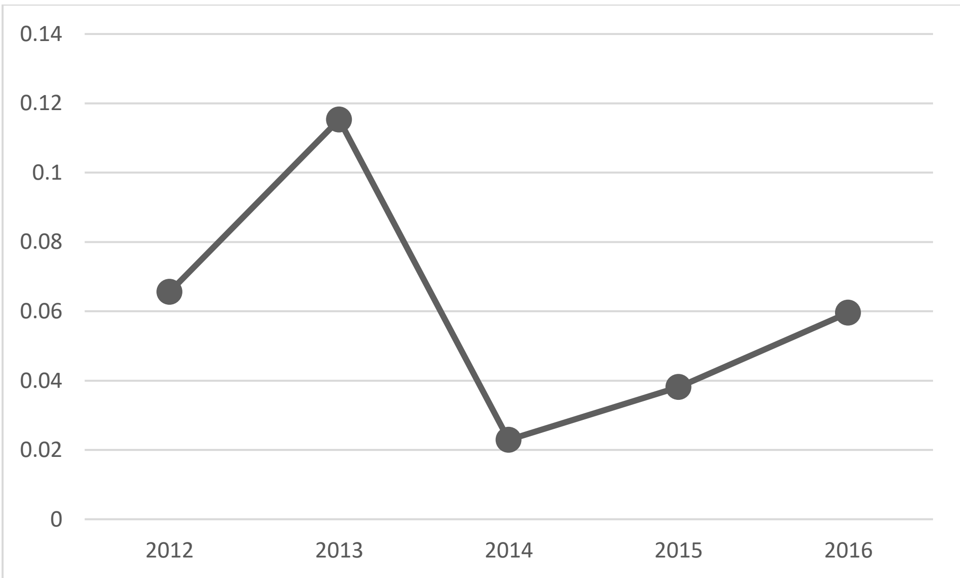

Figure 7: Manufacturing as a % of total GDP. Graph created by author. Data from National Institute of Statistics Rwanda, 2016.

This graph shows value added manufacturing as a percentage of GDP in Rwanda. Over the past 10 years, there has been less than 0.5% growth in the manufacturing industry and in recent years, since the development of the KSEZ in 2013 and 2018, no net growth at all. This demonstrates that while there are impacts on the Rwandan economy and foreign inflows in the manufacturing sector have increased in the time that the KSEZ has been established, firms in the KSEZ are not producing a significant amount, thus, there has not been growth in the manufacturing sector as a percentage of GDP (National Institute of Statistics Rwanda, 2016).

4.6.1 Increased Competition

One interviewee (ID 05) discussed that FDI in the KSEZ has positively impacted the coffee industry. Starting from the 1930s and through to the Kayibanda government and Habyarimana regime in the post-independence era, the government was significantly involved in Rwanda's coffee sector. Farmers were required to plant coffee trees, coffee prices were restricted, and export taxes were imposed on coffee sales (Boudreaux, 2011, p. 10). The firm responsible for exporting coffee beans was also operated by the government, so prices for farmers were depressed so the government could collect more revenue. This gave producers little incentive to produce high quality coffee and therefore, for many decades, Rwanda produced relatively lower quality coffee (Boudreaux, 2011, p. 7).

In 2009, an American entrepreneur was invited to Rwanda to set up the Rwandan Coffee Trading Company. This Trading Company is now located in the KSEZ and focuses on exporting high quality beans to international markets. The presence of a new player in the market and their focus on producing quality beans has increased competition in Rwanda. The Trading Company also trained locals to identify a good coffee bean. With higher quality beans being produced by more coffee farmers, foreign demand increased for Rwandan beans, and beans could be sold at a higher price. The farmgate price of the coffee cherry increased from 50 Rwandan francs per kilo in 2002 to 200 Rwandan francs in 2010 and then to 250 Rwandan francs in 2015 as a result (ID 05, personal communication, Nov 14 2019) . The coffee industry also grew as a whole in that time frame. Between 2005 and 2015, the coffee sector in Rwanda grew by 7% per year (Ggombe & Newfarmer, 2017, p. 18). A foreign firm working in the KSEZ increased competition and created a knowledge spillover, allowing coffee prices to increase and the industry to grow. This is especially significant because of the impact it has outside of the KSEZ and down the entire coffee value chain in Rwanda. The 400,000 smallholder coffee farmers as well as the washers, processors, packagers and exporters, who are scattered across the country are able to benefit (ID 05, personal communication, Nov 14 2019).

4.6.2 Access to Goods

Two interviewees (ID 02, 09) added that another benefit of the KSEZ is better access to goods because goods that are new to Rwanda are being produced in the KSEZ. Access to a greater variety of goods is enjoyed by the entire population because Rwanda is a small country and there are good roads (ID 09, personal communication, Nov 20 2019). This is exemplified by Africa Improved Foods and their NootriMama, NootriToto and NootriFamily multigrain porridge mixes. These nutritious mixes target breastfeeding mothers, children over the age of 6 months and entire families ("Our Products," 2019). The products are widely consumed in Rwanda and have played a part in combatting malnutrition. Since Africa Improved Foods’ establishment in Rwanda in 2017, the prevalence of stunting among children under 5 years has decreased, from 37% in 2015 to 34% in 2018 (Relief International, 2018). This is extremely important for the future of Rwanda’s economy. One estimate found that the per capita income of Rwanda’s workforce would be 10 percent higher if adult Rwandans were not stunted as children (World Bank Group & Government of Rwanda, 2019, p. 23). With better access to a diverse set of goods, standards of living improve and economic growth can be achieved more easily.

However, the foreign goods produced in the KSEZ are not cheaper than if they were imported. This is due to the high transport and labour costs and the fact that raw materials need to be imported (ID 08, personal communication, Nov 19 2019). The price of Volkswagen cars and Mara Phones smartphones, despite the products now being manufactured locally, are still not affordable for the majority of Rwanda's population. The most affordable Mara Phone model, Mara X goes for $130 USD (Mwai, 2018) while the most affordable Volkswagen vehicle, the VW Polo, costs $23,881 USD with all taxes included (Mwai, 2019). These goods are completely inaccessible for the majority of the population, since 55% of the population lives on less than $1.90 a day ("Indicators," 2019). This demonstrates that while FDI in the KSEZ has made a greater variety of goods available in the country, it has not necessarily made these goods more accessible to average citizens.

The high costs of goods produced in the KSEZ is also an example of FDI benefitting the higher income classes the most. Consumers who are more well off are able to afford and benefit from the greater variety of goods, while consumers who are less well off cannot reap the benefits of more goods being available (ID 09, personal communication, Nov 20 2019). At the same time, even if not all the goods can be accessed by the entire population, having big foreign companies in the country helps to set a precedent and increase the credibility and reputation of Rwanda (ID 05, personal communication, Nov 14 2019). This is important for the first stage of investment and had the long term impact of attracting more large companies in the future (ID 08, personal communication, Nov 19 2019).

4.6.3 Spillovers and Employment

Two interviewees (ID 01, 07) brought up that FDI in the KSEZ has also created a knowledge and technology spillover in the manufacturing industry. Prior to the KSEZ being built, there was only one garment factory in Rwanda, UTERXRWA. UTEXRWA is a

Ugandan garment firm that has traditionally made uniforms for workers and school children in Rwanda, rather than garments for retail. This demonstrates that prior to the KSEZ, Rwanda did not have the knowledge or technological capacity to produce garments for export. In 2015, C&H Garments set up a factory in the KSEZ. The factory employs more than a thousand workers and all new workers go through a 6 month training period (ID 07, personal communication, Nov 19 2019). In May of 2019, C&D Mango, another Chinese garment firm, signed a deal to set up a factory to make garments for both domestic and export markets. C&D Mango is expected to provide 7,500 jobs and have export earnings of USD $20 million in the next five years (Bizimungu, 2019). This will further the knowledge and technological transfer between foreign manufacturers and Rwanda (Bizimungu, 2019).

Filling of knowledge and technological gaps through FDI in the KSEZ is not just limited to the garment industry. Volkswagen and Mara Phones factories, the first automobile and smartphone factories in the country, were set up in the KSEZ in 2019. These investments help to fill gaps in other sectors of manufacturing.

While two government officials (ID 02, 07) that I interviewed boasted that the KSEZ has created numerous jobs, this contrasts with information gathered from four other interviews (ID 07, personal communication, Nov 19 2019).

At the end of 2016, it is estimated that the KSEZ employed a total of between 3000 and 4000 temporary and permanent workers (Steenbergen & Javorcik, 2017, p. 21). Most workers hired by foreign companies in the manufacturing industry are low skilled workers, so low skilled workers that are able to be hired in the KSEZ benefit from employment. Not being able to create significant and widespread job opportunities is one example where FDI in the KSEZ has not been able to create impact on the desired scale (ID 05, personal communication, Nov 14 2019). Four interviewees agreed with this (ID 01, 04, 05, 08).

Figure 8: Number of KSEZ firms and permanent employees (as % of National). Graph and data from Steenbergen & Javorcik, 2017, p. 21.

The above graph helps to put this number of workers employed into context. In all the years of the existence of the KSEZ, KSEZ employees have made up 2% or less than 2% of national permanent employees, even in the second quarter of 2014, when the percentage makeup of national permanent employees in the KSEZ spiked (Steenbergen & Javorcik, 2017, p. 21). There is a positive relationship between the number of firms and the number of permanent employees. Since the number of firms in the KSEZ have increased since 2016, it is likely that KSEZ workers today make up a slightly larger percentage of national permanent employees than in the last quarter of 2016. Even with this slight increase, the KSEZ is not creating a significant number of jobs for local people. This is because the KSEZ focuses on heavy and light manufacturing industries which, with the garment industry as an exception, are heavily mechanized and do not require significant labour. This means that the potential benefit of FDI in the KSEZ, increasing employment and off-farm job creation, is not significantly achieved (Steenbergen & Javorcik, 2017, p. 21).

This lack of job creation can be evidenced by the Mara Phones production facility. The facility employs 200 workers, 90% of which are Rwandan (Mwai, 2019). The production facility cost $50 million USD to build and fully outfit with machinery (Mwai, 2019) When comparing the total value of investment with the small amount of labor that the factory requires, it is clear that the manufacturing industry does not create many jobs.

The KSEZ not creating many job opportunities also reduces the knowledge spillover that it creates. While the technology spillover still takes place and many workers in the garment industry are being trained, knowledge in large-scale production in the manufacturing industry is not being spread to many people because not many people are being employed. (Steenbergen & Javorcik, 2017, p. 18).

The insignificant number of jobs created by the KSEZ also limits the potential benefits to the city of Kigali, where the Zone is located. If the Zone employed more people, it would contribute to an urban-rural migration of workers, which would have trickle down effects of spreading wealth to more rural communities in other provinces in Rwanda.

4.7 Reasoning for Insignificant Positive Impacts

The KSEZ not making a large contribution to the manufacturing sector as a whole, not making goods cheaper, not employing a significant number of people and not creating the desired knowledge spill overs is due to firms not following through with agreements. Foreign investors are not meeting the targets that they promise to make when they sign investment deals with the RDB. An example of this is Africa Improved Foods and the multigrain porridge mixes it produces, four interviewees brought this example up to me. The agro processing company agreed to sourcing 80% of its maize inputs locally, however, due to quality concerns, only 20 to 30% of maize inputs are sourced locally. The rest is imported from other countries in Africa and South America depending on market price (ID 02, personal communication, Nov 12 2019).

This feeds into the bigger picture of a lack of accountability for foreign firms. An economist working for a research organization that I interviewed (ID 10) attended a conference where the impacts of FDI in Rwanda were discussed. This interviewee shared some topics of discussion from the conference with me. Foreign firms are not meeting investment promises, are not being penalized for it and instead, still benefit from previously agreed upon incentives from the government, like tax breaks (ID 10, personal communication, Nov 22 2019). As a result, in 2015, tax incentives to investors cost Rwanda 0.9% of the GDP (Bizumungu, 2018).

An interviewee (ID 10), who is a professor, said the lack of accountability and loss of GDP can be attributed to the power dynamics between foreign investors and the government of Rwanda. The government is so enthusiastic to have foreign investors and needs external resources for development, while foreign investors have many options of developing countries to invest in. This results in the government having to make compromises to keep FDI in Rwanda (ID 09, personal communication, Nov 20 2019).

While the coffee industry has benefited from FDI and the KSEZ has been able to bring new industries into the region, these positive effects have not been extensive and have not spilled over significantly. This means that FDI in the KSEZ is contributing to economic reconstruction only a to a small extent.

4.8 Losers from FDI in the KSEZ

FDI in the KSEZ has not been able to meet its full potential and therefore, there are no clear winners. This raises the question of whether FDI in the KSEZ has caused a detriment to Rwanda's economy and whether there are clear losers as a result. If there are clear and significant losers, then FDI should not be utilized in Rwanda.

Two interviewees (ID 01, 05) believe there are only small groups of losers from FDI in the KSEZ. One respondent said that the unskilled labor force who cannot tap into the jobs created by the KSEZ lose (ID 01, personal communication, Nov 12 2019). While it is true that they are missing out on an opportunity and could be better off with a new job in the KSEZ, this depends on wages in the KSEZ and whether these workers were previously unemployed. If the workers are employed already and wages at the KSEZ are the same or lower than in the rest of the country, then not getting access to these new jobs in the KSEZ is neither a gain nor a loss. This makes the loss to low skilled workers much less significant.

Another interviewee (ID 02) said that communities who used to live on KSEZ land, who were expropriated, lose from the KSEZ. This interviewee is a government official who has been involved in the expropriation process and interacted with community members who have been expropriated, which may explain why they brought this group up as losers, while other interviewees did not (ID 02, personal communication, Nov 12 2019).

To build the KSEZ, communities living on the land and in the surrounding areas were expropriated. In June of 2015, a law relating to expropriation in the public's interest was put in place by Kagame and the Cabinet in Rwanda. This law gives the government powers to order expropriation for a project lasting more than 120 days. The project must be in the public interest and the government must give those being expropriated fair compensation ("Law N° 32/2015," 2015, p. 8). Activities of public interest include public infrastructure like schools, hospitals, government buildings, memorial sites or activities to implement development master plans, like the KSEZ. To determine fair compensation for expropriation, the government follows prevailing market rates established by the Institute of Real property Valuers in Rwanda. Those being expropriated are paid the total value of their property that is being expropriated as well as compensation for disruption, which is 5% of the value of their property ("Law N° 32/2015," 2015, p. 43). Once fair compensation is received, the expropriated person has 120 days to relocate ("Law N° 32/2015," 2015, p. 48).

A study conducted by the Rwanda Civil Society Platform in partnership with Norwegian People's Aid, analyzed land expropriation in Rwanda in 8 different districts.

While this study did not cover the KSEZ specifically, a majority of instances of expropriation in the study were conducted by the central government. The expropriation in the KSEZ was also conducted by the central government so it can be assumed that the expropriate processes are similar (Norweigan People's Aid & Rwanda Civil Society Platform, 2017, p. 18).

Based on the 449 households who were surveyed, the amount of compensation paid per 1 square meter of land ranged from 131 FRW and 20,000 FRW (Norweigan People's Aid & Rwanda Civil Society Platform, 2017, p. 19). The prices in urban areas are higher, while prices in rural areas are lower (Norweigan People's Aid & Rwanda Civil Society Platform, 2017, p. 26). 69% of people being expropriated received their compensation on time and 56% received an extra 5% for the delay in compensation (Norweigan People's Aid & Rwanda Civil Society Platform, 2017, p. 29). The government transparency, organization and valuation of the expropriation process has led households to be fairly satisfied. 74.4% of those surveyed were satisfied with the laws, regulations, policies and reform that lead expropriation, 72.2% were satisfied with the land valuation process and 55% were satisfied with the compensation process (Norweigan People's Aid & Rwanda Civil Society Platform, 2017, p. 30). These satisfaction levels demonstrate that expropriation is not too much of an inconvenience to Rwandans and therefore decreases the magnitude of the disadvantages experienced when being moved from one's community.

Expropriation also does not have a significant economic effect. Those who were expropriated from the land surrounding the KSEZ are low income people who relied on subsistence agriculture as their main source of economic activity, so the impact of moving them is short term and not significant in the big picture of the Rwandan economy. This is because they were expropriated in the interest of the entire country and building the KSEZ is a more lucrative economic activity than subsistence agriculture. There may be a benefit due to the increase in construction of new homes where the expropriated people relocate. This also makes this negative impact less significant (ID 05, personal communication, Nov 14 2019).

4.9 A Win-Win Situation

Seven of my 10 interviewees (ID 02, 03, 04, 05, 07, 08, 10) were reluctant to identify "losers" from FDI in the KSEZ because they believe this is a win-win situation for all and there are no losers. It is likely they held this opinion because they were thinking about FDI in the KSEZ as a long term investment. Also, the magnitude of the losses the aforementioned losses are small in comparison to the theoretical, long term benefits of FDI and the KSEZ. These benefits cannot yet be measured because the KSEZ has been established for less than 10 years.

One interviewee (ID 03), a professor, provided an example of these win-win benefits. This professor, who focuses on theoretical economics, approached my research from an academic point of view. The professor explained that FDI in the KSEZ increases production, causing aggregate supply to increase (ID 03, personal communication, Nov 13 2019). Since FDI is investment, aggregate demand also increases. Thus, expanding the economy in the long term (ID 03, personal communication, Nov 13 2019). An executive working in the private sector that I interviewed added to this long term win-win situation. They said that investment snowballs because as the reputation and credibility for Rwanda increases, more and more investment will come, thus further escalating the benefits (ID 01, personal communication, Nov 12 2019).

One interviewee (ID 09) said that while it can be a win-win situation, the gains are not spread evenly throughout the population. Since Rwanda is a capitalist economy, the rich will always gain more than the poor (ID 09, personal communication, Nov 20 2019). This was evidenced in section 4.6.2, where I discussed that while FDI in the KSEZ increased the variety of goods in Rwanda, it did not increase accessibility to goods for all. This can also be evidenced by a lack of upward mobility.

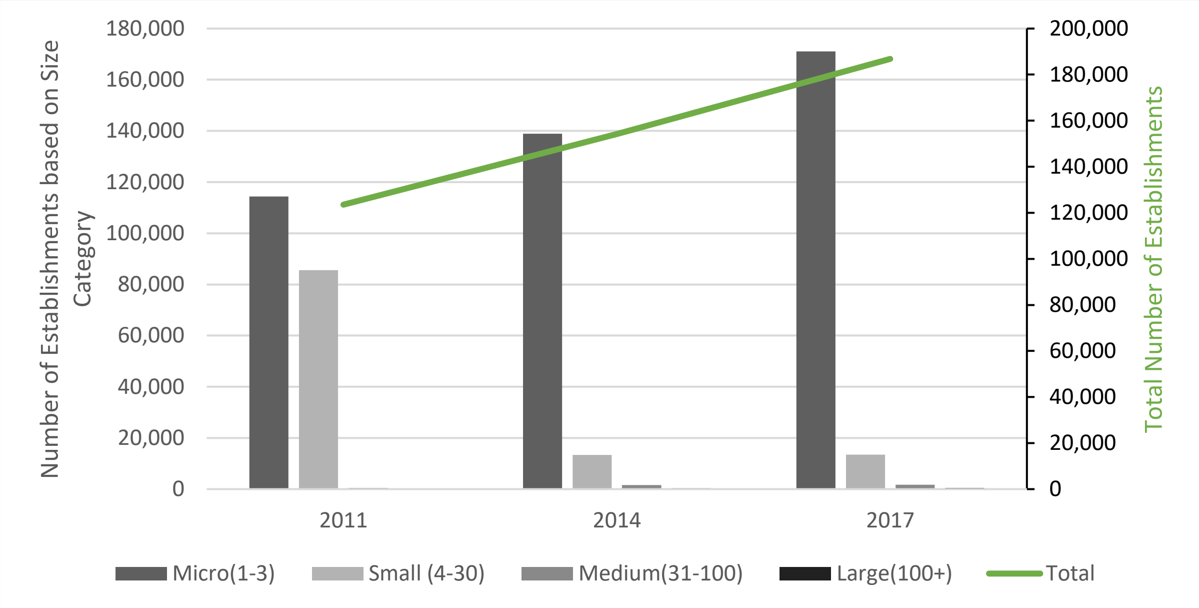

Figure 9: Operating establishments in Rwanda. Graph created by author. Data from National Institute of Statistics Rwanda, 2016.

A lack of upward mobility can be demonstrated through the above graph. The graph shows the distribution of operating establishments based on their size. Since the KSEZ was established in 2013 and became operational in the years after that, the total number of businesses has increased, but there have been minimal increases in the number of medium and large businesses, a decrease in the number of small businesses and a steady increase in the number of microbusinesses. This means that those owning medium and large businesses are controlling the market and people from lower socioeconomic classes are not able to overcome the barriers of entry to expand their businesses (National Institute of Statistics Rwanda, 2016).

Chapter V: Conclusion and Recommendations

5.1 Conclusion

This study began with the question of "To what extent is FDI in the KSEZ making a positive contribution to the economic reconstruction of Rwanda 25 years after the genocide against the Tutsi?" The study aimed to explore how the KSEZ has facilitated foreign investment in Rwanda and the effects of FDI on economic recovery in Rwanda.

Data collected from interviews showed that Rwanda's economy is unique to other developing countries and other post-conflict economies. The genocide against the Tutsi devastated government systems and human capital in the country. After this genocide, new systems were formed, and the government has been able to experiment with different strategies and policies for economic growth. This includes focusing on inclusive growth. The lack of educated professionals in the country, on the other hand, made it difficult to increase the GDP per capita. In comparison to other post-conflict economies, the Rwandan government has been successful at developing and implementing a development agenda and in some ways, is less paternalistic with its government agencies. This has had positive impacts of Rwanda's development.

All interviewees agreed that Rwanda needed FDI and the KSEZ. The country's low levels of financial inclusion and low savings rate means that the government does not have enough domestic capital to fund development projects. Export-oriented FDI also helps to combat Rwanda's reliance on imports and its current account deficit. Also, the KSEZ is especially important because it allows Rwanda to be competitive to foreign investors in comparison to other countries in the region.

A majority of interviewees believed that the decision to encourage FDI was related to Rwanda's post-conflict situation. After the genocide, the government faced high costs that they could not cover without external resources and wanted to use FDI to change the mindsets of Rwandans. Whether or not respondents felt the decision to build to KSEZ was related to the genocide against the Tutsi was mixed, however. Their opinions depended on whether they think the country is still recovering from the genocide or not.

The KSEZ provides a range of services, including smooth business procedures, superior infrastructure, systems to facilitate trade and high government support. This preferential treatment has contributed to the KSEZ having a majority of foreign firms in 2016. While Rwanda has many other initiatives in place to attract foreign investors, in the years that the KSEZ has been operating, there has been a net increase in manufacturing inflows, demonstrating that the KSEZ is contributing to the increase in FDI. At the same time, it is difficult to isolate how much the KSEZ contributes to this increase and overall, the increase has not been that large. This means that while the KSEZ is making a contribution, it is only to a small extent.

FDI in Rwanda has brought about increased competition and a technological spillover, but according to interviewees, has not created impacts on the desired scale. The manufacturing sector has not grown significantly, there is a greater variety of goods but only the wealthy can access them. The knowledge spillover is also limited because the KSEZ employs only a small group of workers. This potential positive impacts of the FDI are not truly being achieved. Even if they are being achieved, benefits are limited only to one industry, rather than the entire manufacturing sector. This is because foreign investors are not keeping investment promises and the government is not holding foreign firms accountable to their investment promises. This sheds light on the power dynamic between foreign firms and the Rwandan government.

Losers from the FDI are not significant and most interviewees described FDI in Rwanda as a win-win situation, especially in the long term. While there may not be clear benefits now and FDI in the KSEZ is not making a significant positive contribution to the economic reconstruction of Rwanda at the present moment, there are large potential benefits in the future. An example is the potential agglomeration effects. By concentrating production in the KSEZ and in Kigali in general, firms can benefit from backward and forward linkages where firms buy raw materials and intermediate goods from each other. This reduces transportation costs and should lower the cost of the good in general. These benefits can also build an environment that attracts more firms to the SEZ.

Agglomeration effects also have impacts on labour. The clustering of firms around an SEZ creates large labour pools. With a greater availability of labour, firms can better match the skills of an employees to a job, thus increasing productivity of labour and lowering the cost of searching for workers. Employees can also benefit from a wider choice of employment opportunities and more power in finding a job with the best wage (World Bank Group, 2017, pp. 16,17). This demonstrates that there can be more benefits to keeping FDI in one location, rather than spreading it around the country. As the SEZ grows and it begins to house more firms, it will be able to have a greater impact on the entire population, by attracting migrant workers and increasing access to cheaper goods. This is because if more linkages are developed, there will be less demand for imports as intermediate goods can be accessed from other producers in the SEZ.

Since the KSEZ has only been operating for a short amount of time, not even 10 years, there has not been enough time for these agglomeration effects to develop. However, SEZs in other countries have been able to capitalize on these agglomeration effects. An analysis of 321 prefecture-level cities in China between 1978 and 2008 showed that SEZ programs generate significant agglomeration economies (Zeng, 2015, p. 4). Since there are no significant detrimental effects of continuing to promote FDI and operate the KSEZ, it is worth waiting for the potential long term positive effects.

5.2 Recommendations

As only a month of time was dedicated to this study on the KSEZ and FDI in Rwanda, all of the discussion points can be investigated in further depth. For example, gathering information that is more specific to the KSEZ, rather than relying on statistics on FDI in Rwanda in general and extrapolating them. This also applies to opinions on expropriation. It would be valuable to get opinions from the communities that were expropriated for the KSEZ, rather than just communities who have been expropriated in Rwanda in general.

Time limitations also meant that not all relevant stakeholders were contacted for interviews and their perspectives were not included. Future studies would benefit from interviewing firms operating in the KSEZ and local people affected by goods produced in the KSEZ. This would provide deeper insight into the true impacts of the Zone.

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Appendices

Appendix A: List of Interview Questions

Do you feel that Rwanda's post-conflict economic situation makes it unique compared to other developing economies? Why or why not, can you explain? Could you provide an example?

Do you think that Rwanda's post-conflict economic situation impacted the government's decision to build Special Economic Zones (SEZs) and promote Foreign Direct Investment (FDI)? Can you please explain why or why not, and how?

Has the SEZ in Kigali facilitated foreign investment in Rwanda? Is it able to facilitate more foreign investment than outside of the KSEZ? Why is this the case and what are some examples/statistics to support this?

According to your expertise and work, what do you see as the intended impact of FDI on the Rwandan economy? Do you feel that this intended impact matches the reality? Why or why not? Can you give an example?

How geographically widespread are the impacts of FDI in the KSEZ?

How significant is FDI's contribution in the context of the overall Rwandan economy?

Who do you feel benefits the most from FDI in the KSEZ? Who do you feel are the most disadvantaged by FDI in the KSEZ? Why is this the case and what are some examples?

Have you received or heard any feedback from local Rwandans about FDI in SEZs in Rwanda? What did they tell you? Have you heard about any differences in experience between people who live in Kigali and those who live outside of Kigali? (for gov. officials)

What are perceptions of the local people of FDI in Rwanda, specifically housed in the KSEZ? Does this differ between people living in Kigali versus outside of Kigali? (for all other informants)

Is there anything else you would like to tell me, or you think is important for me to know about FDI and the KSEZ when I'm writing my paper?

Appendix B: List of Interviewees

Interview ID	Profession	Sex	Date	Locality	Language	Recorded
01	Finance Executive	M	12/11/2019	Kigali	English	No
02	Government Official	M	12/11/2019	Kigali	English	No
03	Professor	M	13/11/2019	Kigali	English	No
04	Journalist	M	14/11/2019	Kigali	English	No
05	Economist	M	14/11/2019	Skype	English	No
06	Professor	M	16/11/2019	Kigali	English	No
07	Government Official	M	19/11/2019	Kigali	English	No
08	Government Official	M	19/11/2019	Kigali	English	No
09	Professor	M	20/11/2019	Kigali	English	No
10	Economist	F	22/11/2019	Kigali	English	No