LOOKING EAST: CHINA-AFRICA ENGAGEMENTS

RWANDA COUNTRY CASE STUDY

Kigali, December 2009
Preface

This report supplements a study of China-Africa economic engagement by the African Center for Economic Transformation (ACET), funded by the Rockefeller Foundation. It describes China’s economic engagement with Rwanda—focusing on trade, investment and economic and technical cooperation—and recommends strategies for policymakers to maximize potential benefits while mitigating potential risks and challenges.

To develop its analysis and recommendations, the study team analyzed available economic data, reviewed secondary literature, and interviewed key stakeholders, including Rwanda government officials, Chinese government officials, organized private sector players, labour leaders, private Chinese businessmen and private Rwandan businessmen. The study also benefited greatly from access to data from several Rwandan government institutions, including the National Bank of Rwanda, the Central Public Investments and External Finance Bureau, the Ministry of Foreign Affairs and Cooperation, the Ministry of Finance and Economic Planning, the National Institute of Statistics, and the Rwanda Development Board. Other institutions were also important sources of data, including the China Economic and Commercial Office, the Confucius Institute at the Kigali Institute of Education, the Kigali Institute of Science and Technology and the Private Sector Federation.
Acknowledgements

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Kofi Blankson-Ocansey, Senior Associate, ACET, coordinated the work. Edward Brown, Director of Policy Advisory Services, ACET, provided overall supervision. K. Y. Amoako, President of ACET, provided overall guidance for the study.

The views represented in this study are those of the authors and do not necessarily reflect the views of ACET or of the Rockefeller Foundation.
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<th>Abbreviation</th>
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<tbody>
<tr>
<td>ACET</td>
<td>African Center for Economic Transformation</td>
</tr>
<tr>
<td>BNR</td>
<td>National Bank of Rwanda</td>
</tr>
<tr>
<td>COMESA</td>
<td>Common Market for Eastern and Southern Africa</td>
</tr>
<tr>
<td>DAC</td>
<td>Development Assistance Committee</td>
</tr>
<tr>
<td>ECOWAS</td>
<td>Economic Community of West African States</td>
</tr>
<tr>
<td>EDPRS</td>
<td>Economic Development and Poverty Reduction Strategy</td>
</tr>
<tr>
<td>EFU</td>
<td>External Finance Unit, MINECOFIN</td>
</tr>
<tr>
<td>Eximbank</td>
<td>Export-Import Bank of China</td>
</tr>
<tr>
<td>FDI</td>
<td>Foreign direct investment</td>
</tr>
<tr>
<td>GDP</td>
<td>Gross domestic product</td>
</tr>
<tr>
<td>HIPC</td>
<td>Heavily Indebted Poor Countries</td>
</tr>
<tr>
<td>ICT</td>
<td>Information and communication technologies</td>
</tr>
<tr>
<td>IMF</td>
<td>International Monetary Fund</td>
</tr>
<tr>
<td>MINAFFET</td>
<td>Ministry of Foreign Affairs and Cooperation</td>
</tr>
<tr>
<td>MINECOFIN</td>
<td>Ministry of Finance and Economic Planning</td>
</tr>
<tr>
<td>NISR</td>
<td>National Institute of Statistics, Rwanda</td>
</tr>
<tr>
<td>OECD</td>
<td>Organization for Economic Co-operation and Development</td>
</tr>
<tr>
<td>RBS</td>
<td>Rwanda Bureau of Standards</td>
</tr>
<tr>
<td>RDB</td>
<td>Rwanda Development Board</td>
</tr>
<tr>
<td>RIEPA</td>
<td>Rwanda Investment and Export Promotion Agency</td>
</tr>
<tr>
<td>SADC</td>
<td>Southern African Development Community</td>
</tr>
<tr>
<td>SOE</td>
<td>State-owned enterprise</td>
</tr>
<tr>
<td>VAT</td>
<td>Value-added tax</td>
</tr>
<tr>
<td>ZTE</td>
<td>Zhong Xing Telecommunication Equipment Company Limited</td>
</tr>
</tbody>
</table>
Executive Summary

China’s trade, investment, and economic and technical cooperation in Rwanda resemble its engagement in other African countries, but Rwanda’s unique situation makes some aspects of the relationship uncharacteristic. Rwanda’s civil war and genocide in 1994 significantly depleted the country’s human capital while severely damaging the economy. Despite significant economic recovery since the end of the war, Rwanda continues to depend primarily on subsistence agriculture and foreign aid. But the country’s Vision 2020 plan charts a course of national reinvention that will transform the economy into a regional communication and trading hub. China’s economic engagement with Rwanda has the potential to support this transformation.

Trade
Trade is central to Rwanda’s Vision 2020 goal of becoming a middle-income country by 2020. Its future competitiveness and prosperity depend on establishing a vibrant services sector and encouraging greater technology transfer. Challenges to maximizing its trading potential include the high cost of land transport to seaports in neighbouring countries, a narrow export base (more than 60% of exports are tea and coffee), an expensive energy supply and a largely unskilled workforce.

China is not a major trading partner—accounting for only about 6% or $100 million of Rwanda’s trade in 2008. However, China-Rwanda trade doubled annually from 2006 to 2008, a trend expected to continue in coming years as Rwandan businesses continue to source machinery and products in China and Chinese companies explore ways to tap Rwandan markets. Increased exports of low-cost Chinese consumer goods—growing more than 700% between 2004 and 2008—have created a large and growing trade imbalance favouring China.

Following an aggressive shift to an open economy, Rwanda has pursued policies to attract global trading partners. China is considered a source of the inexpensive and cost-effective technology and skills needed to rebuild the economy, especially in the infrastructure sector and the information and communication technologies sector, an important emerging trade and investment sector tied to Vision 2020. The result has been an influx of Chinese firms, products and traders into Rwanda. Challenges in China-Rwanda trade relations include perceptions that Chinese goods are low quality, competition from Chinese traders living in Rwanda, difficulties entering China’s market, violation of intellectual property rights, lack of trust and quality control.

Conclusions and recommendations: trade. Rwanda should refocus its Vision 2020 trade policy to consider the links between trade and foreign direct investment. New outcome-based policy goals could maximize China’s potential to be a key player in developing the information and communication technologies (ICT) sector through its expertise in manufacturing ICT equipment. The Rwanda Bureau of Standards needs more capacity to monitor import quality and competitiveness. Rwanda’s trade policy planning process needs to formally capture and prioritize the agribusiness relationship to maximize China’s potential market for Rwandan agricultural products. And Rwanda’s private sector needs expert government assistance in developing joint projects with Chinese manufacturers.

Foreign direct investment
Determined to move past the conflict-ravaged economy of the mid-1990s, Rwanda is upgrading human capital and infrastructure, building stronger institutions, and creating a wide array of
incentives for domestic and foreign investors—raising its global ranking from 148 to 139 from 2008 to 2009. Foreign direct investment (FDI) can complement national private and public investment, help the private sector become an engine of growth, widen the domestic economic base and build human capital through technology and skills transfer.

Chinese FDI in Rwanda is small-scale, at less than 1% of China’s total FDI in Africa, recent and irregular in the timing of its delivery. But from the Rwandan perspective, Chinese FDI looks more substantial, averaging 5.6% of the stock between 2003 and 2007. Contrary to popular belief that Chinese investments are concentrated in traditional sectors—services and natural resource extraction—most Chinese investments in Rwanda are in transformative sectors such as telecommunications and manufacturing. Registered Chinese investments have yielded many jobs for Rwandans, including socially significant technical training and skilled work for women. Key challenges for Chinese FDI in Rwanda include high taxes, language barriers, a largely unskilled workforce, Rwandan perceptions that Chinese goods are low quality, competition between Chinese and Rwandan traders and anti-union policies at Chinese work sites.

Rwanda needs to more proactively encourage Chinese investment in sectors key to achieving Vision 2020, especially ICT and agribusiness. A skills census would identify and encourage workforce skill-building in transformative sectors. Tax rates should be competitive with other countries that are Rwanda’s cohorts, especially relative to the attraction of FDI. Finally, Rwanda must invest in a better functioning infrastructure, improving the roads and generating, transmitting and distributing electricity.

**Economic and technical cooperation (ETC)**

Though generally aligned with Rwanda’s needs, Chinese ETC could better support Rwanda’s development priorities. China has provided grants and loans to Rwanda since 1971 and technical assistance since 1972. Originally motivated by political concerns about diplomatic recognition of Taiwan, Chinese ETC is now designed to facilitate market entry for Chinese goods, services and investments. Most aid has gone to infrastructure financing and construction, with some assistance to agriculture, education, health and trade. Current Chinese policy emphasizing concessional loans through China Eximbank, however, conflicts with Rwanda’s debt reduction goals mandated by the IMF and World Bank. The effectiveness of Chinese aid—inconsistent in its timing and lacking long-term objectives—is still in question. Rwanda needs to avoid taking on more Chinese debt than it can repay and consider its ability to maintain and sustain major infrastructure and construction projects after they are completed.

Rwanda’s future development, as articulated in Vision 2020 and the Economic Development and Poverty Reduction Strategy, depends on it continuing to pursue an expansionary fiscal policy that improves education and infrastructure. The country has benefited from substantial aid and debt relief from foreign donors, including China but Rwanda will find it difficult to achieve all its goals without a sustainable fiscal policy that exploits debt appropriately. Moreover, its narrow export base and vulnerability to economic and financial shocks are major challenges. Rwanda should ensure that aid is not excessively tied to Chinese products and services and that it does not acquire Chinese commercial loans in such volume or at interest rates that would harm its macroeconomic stability. In order to achieve these aims and use aid more effectively, Rwanda needs to better use existing data to plan aid projects.
1. Context of China-Rwanda Economic Engagement

China’s trade, investment, and economic and technical cooperation (ETC) engagements with Rwanda are broadly similar to the patterns of engagement established with other African countries. Nevertheless, the recent history of Rwanda—the economic impact of the horrific genocide and civil war of the mid-90’s—has had an influence on its economic engagement with the world, including China, that is different from national economic activity across most of Africa.

Notable among the distortions brought on by the genocide and its effects were the depletion of human capital in both the private and public sectors, as well as a severe contraction of the economy during the years of conflict. By some estimates, more than a million Rwandans lost their lives or escaped to the safety of neighboring countries, while the Rwandan economy shrank by approximately 50% at the peak of the conflict.

One overriding challenge for the government of Rwanda in the post-conflict era has been returning the economy to good health. Through a combination of factors, some of which will be dealt with in more detail later, the government of Rwanda has achieved some success in this arena: the economy has grown by approximately six percent from 2000 to 2007; similarly, Rwanda’s income per capita increased from $131 to approximately $340 from 1994 to 2007. Furthermore, in 2008 GDP was $2.2 billion, about 30% of which was generated from the agricultural sector.

The future of Rwanda and its economic growth is interlinked with its ability to improve performance in the agricultural sector, given that agriculture is the mainstay of the economy and employed an estimated 5 million Rwandans out of a population of 9.7 million in 2007. Currently, Rwandan agriculture is tilted toward the production of subsistence crops, with export crops only making up 7% of total (agricultural) exports in 2003. A principal goal of any strategy to reinvent Rwandan agriculture to generate greater revenues would be increasing the ratio of export crops in the mix of agricultural output.

Rwanda has devised a master plan, called the Vision 2020 plan, to guide its near- to mid-term economic growth goals, which if successful would see Rwanda become a middle-income country by 2020. Vision 2020 takes stock of the country’s current socioeconomic status and embarks on a path of national reinvention that will transform the economy from one largely based on subsistence agriculture into one driven by a knowledge economy—incorporating a fibre optic infrastructure that will provide broadband communication throughout the country—which will also be the hub of regional trade and investment in the East African Community.

Meeting Rwanda’s Vision 2020 goals means creating new sources of economic activity, or significantly raising the productivity of existing ones, in order to generate additional GDP. The levers for achieving this are increased economic engagement (such as FDI and trade) as well as the judicious use of aid. A meaningful manifestation of such an achievement will indicate that Rwanda has managed to minimize its heavy dependence on foreign aid, currently at almost 50% of the national budget.

The magnitude of the challenge ahead for Rwanda is illustrated by the fact that between 2000 and 2006, annual net official development assistance from all donors averaged approximately $490 million, which translated into an annual average of 107% of gross capital formation. Further, Rwanda was
only able to achieve a budgetary surplus in 2005 of RWF 9 billion (or $19.7 million) through the injection of foreign grants. Without these grants, Rwanda would have incurred a deficit of more than RWF 174 billion ($381 million). It is also noteworthy that grants, exclusive of technical cooperation, peaked at about $1.5 billion in 2006, clearly a significant figure in a country with a GDP the size of Rwanda’s.

Delving into Rwanda’s potential to increase its GDP through trade reveals that trade volume was $1.5 billion in 2008, of which 23% was with the European Union, and 17% with Kenya, Rwanda’s largest single-country trading partner. China’s share of Rwanda’s trade is small but growing rapidly, with records indicating growth from a base of 3% of total trade in 2005 to 7% in 2008. A realistic appraisal of Rwanda’s ability to reach Vision 2020 goals through trade would have to take into account the factors that limit Rwanda’s trade potential: a narrow export base, volatility in the demand and supply of exports—largely agricultural and subject to fluctuations in weather and international market prices—and a land-locked geography.

Inflation, which averaged approximately 9% annually between 2003 and 2007, poses another significant challenge to Rwanda’s economic growth strategy, especially in the current climate in which it runs relatively large trade deficits. The currency depreciating effects of inflation affect the ability of Rwandan entrepreneurs to import at reasonable prices. Further, it increases the discount factor by which investments in Rwanda are evaluated. Government action to rein in inflation would seem to be a prerequisite to achieving Vision 2020 goals.

The third dimension of economic engagement—foreign direct investment (FDI) is also a critical component for implementing the fundamental structural change in the Rwandan economy envisaged in Vision 2020. The need for massive amounts of new FDI is made more urgent by the fact that the domestic savings rate, which averaged 2.2% annually between 2000 and 2007, is incapable of providing the investment capital needed to accomplish this transformation.

The current rate at which Rwanda attracts FDI is inadequate, with inflows of approximately $17 million annually between 2000 and 2007, resulting in stock of almost $81 million. The Services sector has attracted the most FDI—making up more than 40% of the value of registered FDI projects between 2000 and mid-2009. The next two top sector destinations of FDI are Information and Communication Technologies (19% of the value of registered projects) and Energy and Petroleum (14%).

Measured by country of origination, the top five sources of FDI into Rwanda are the United States, Kenya, Libya, United Arab Emirates and Mauritius. The volume of FDI originating from China is relatively low, averaging about 5.6% of total FDI between 2003 and 2007. By some analysts’ accounts, Rwanda’s ability to attract FDI is hampered by its small market, limited proven natural resource base, high operating costs, low levels of human capital, relatively poor infrastructure and the largely rural and landlocked nature of the economy.

Integral to its Vision 2020 ambitions is Rwanda’s ability to position itself as a regional hub for services-based commerce in the East African region. To that end, Rwanda’s membership in three regional economic communities and initiatives - the East African Community, the Common Market for East and Southern Africa and the Nile Basin Initiative—provide it with the platform for realizing these ambitions.
2. Trade

Overview
Trade is central to Rwanda’s ability to attain its Vision 2020 development goal of becoming a middle-income country, which is defined as a $900 per capita level of national income, by 2020., There are, however, several impediments in Rwanda’s way as it moves toward achieving these goals through trade. First, Rwanda’s transport infrastructure, consisting of an inefficient road network leading over long distances to seaports in neighbouring countries, and operated according to the rules of a cumbersome bureaucracy, adds cost to trade, making imports more expensive and disadvantaging Rwandan exports. A railroad network is in advanced stages of planning and should, when built, alleviate the constraints imposed by the current network considerably in the mid-term.

Second, Rwanda’s export base remains undiversified, with tea and coffee contributing more than 60% of export volume. The mining sector is thought to have some potential with regard to the diversification of the export base, but much more work remains to be done to quantify the size of the underlying reserves. Thirdly, there is the belief in some quarters that Rwandan products are of low quality, rendering them uncompetitive in the global marketplace. Lastly, Rwanda would need to improve its energy supply and upgrade workforce skills in both the production and commercial aspects of trade.

Trends in China-Rwanda trade
Trade between Rwanda and China has recently enjoyed a remarkable upswing. Over the past few years, Rwandan trade with China has grown faster than trade with any of its other top ten trading partners, doubling to $50.6 million from 2006 to 2007 and reaching $100.8 million by 2008 (see table 2.1 and figure 2.1), according to the Rwanda Revenue Authority customs department. This burst of growth has led to China becoming Rwanda’s third-largest trading partner, behind Kenya and Uganda. While absolute trade volumes are much less than those with, say, Kenya (trade between Rwanda and China is 40% of the trade between Kenya and Rwanda), the trajectory of the trade between Rwanda and China is very positively upwards. In addition, Rwanda-China trade is poised for additional growth as Rwandan businesses continue to source machinery and products in China and Chinese companies explore ways to tap Rwandan markets.

The growth in Sino-Rwandan trade, largely driven by the increased imports of low-cost Chinese consumer goods, has created a large and growing trade imbalance that favours China. Although the increase in growth has been bi-directional, with imports from China growing by more than 700% between 2004 and 2008, and Rwandan exports to China exhibiting an even larger rate of growth, on a dollar value basis the difference between Rwanda’s imports and exports has widened from $13 million to $89 million (figure 2.1). Highly attractive Chinese pricing of consumer goods and machinery has helped drive the strong boost in Chinese exports in this market.
Aside from legitimate concerns about a persistent trade deficit in China’s favour and the potential for this to exacerbate pressure on Rwanda’s macroeconomic monetary policy, trade between Rwanda and China is largely a positive development, with Rwandans gaining consumer welfare from lower-cost products, Rwandan businesses gaining access to lower-cost production machinery, and Rwandan exports finding new markets in China that offer much potential for greater growth in the future.

The next stage of trade benefit to Rwanda is likely to come in the form of exploiting the expanded list of tariff exempt products that China announced at the last Forum of China and Africa Conference, held in Sharm el Sheikh, Egypt in early November 2009. Also in the near-term, there is the possibility that concerted African dialog with China will result in the easing of non-tariff barriers that hamper Sino-Africa trade. Furthermore, greater gains to trade will definitely emerge when countries like Rwanda are able to export more value-added goods into the Chinese market. These prospective developments are strong drivers of economic growth and should be pursued vigorously by Rwanda and countries in similar positions to it.

<table>
<thead>
<tr>
<th>Country</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>Burundi</td>
<td>2.1</td>
<td>2.4</td>
<td>4.4</td>
<td>9.2</td>
<td>12.2</td>
</tr>
<tr>
<td>China</td>
<td>13.4</td>
<td>20.1</td>
<td>25.4</td>
<td>50.6</td>
<td>100.8</td>
</tr>
<tr>
<td>COMESA</td>
<td>16.5</td>
<td>20.9</td>
<td>31.0</td>
<td>54.8</td>
<td>172.0</td>
</tr>
<tr>
<td>ECOWAS</td>
<td>0.8</td>
<td>1.1</td>
<td>2.3</td>
<td>0.5</td>
<td>2.0</td>
</tr>
<tr>
<td>European Union</td>
<td>72.9</td>
<td>200.3</td>
<td>170.1</td>
<td>191.5</td>
<td>356.3</td>
</tr>
<tr>
<td>India</td>
<td>13.0</td>
<td>19.3</td>
<td>23.8</td>
<td>31.5</td>
<td>52.7</td>
</tr>
<tr>
<td>Country</td>
<td>2004</td>
<td>2005</td>
<td>2006</td>
<td>2007</td>
<td>2008</td>
</tr>
<tr>
<td>------------------</td>
<td>-------</td>
<td>-------</td>
<td>-------</td>
<td>-------</td>
<td>-------</td>
</tr>
<tr>
<td>Kenya</td>
<td>62.6</td>
<td>82.5</td>
<td>99.3</td>
<td>120.0</td>
<td>262.2</td>
</tr>
<tr>
<td>Rest of Africa</td>
<td>0.5</td>
<td>1.6</td>
<td>0.6</td>
<td>0.9</td>
<td>1.1</td>
</tr>
<tr>
<td>Rest of the world</td>
<td>24.8</td>
<td>101.6</td>
<td>120.1</td>
<td>242.5</td>
<td>339.3</td>
</tr>
<tr>
<td>SADC</td>
<td>21.0</td>
<td>31.6</td>
<td>29.3</td>
<td>56.0</td>
<td>119.8</td>
</tr>
<tr>
<td>Tanzania</td>
<td>17.3</td>
<td>8.3</td>
<td>9.2</td>
<td>16.1</td>
<td>0.8</td>
</tr>
<tr>
<td>Uganda</td>
<td>61.8</td>
<td>40.8</td>
<td>63.5</td>
<td>101.7</td>
<td>172.0</td>
</tr>
<tr>
<td>United Arab Emirates</td>
<td>17.9</td>
<td>28.0</td>
<td>33.7</td>
<td>52.7</td>
<td>97.6</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>13.8</td>
<td>39.3</td>
<td>37.7</td>
<td>46.3</td>
<td>37.5</td>
</tr>
<tr>
<td>United States</td>
<td>17.4</td>
<td>17.2</td>
<td>21.2</td>
<td>38.3</td>
<td>43.9</td>
</tr>
<tr>
<td><strong>Total trade</strong></td>
<td><strong>803</strong></td>
<td><strong>861</strong></td>
<td><strong>1,546</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>China share</td>
<td>3%</td>
<td>6%</td>
<td>7%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>European Union share</td>
<td>21%</td>
<td>22%</td>
<td>23%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Kenya share</td>
<td>12%</td>
<td>14%</td>
<td>17%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Uganda share</td>
<td>8%</td>
<td>12%</td>
<td>11%</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

*Note: The United Kingdom amount is also included in the European Union total, and the Burundi amount is also included in the COMESA total. COMESA and SADC membership overlap, so those amounts reflect double counting. The totals for 2006–2008 were obtained from a compiled National Institute of Statistics Rwanda (NISR) file.*

*Source: NISR and National Bank of Rwanda (BNR).*

According to China’s Bureau of Economic Cooperation—confirmed by data from the National Bank of Rwanda (tables 2.2 and 2.3)—Rwanda’s key imports from China are electronics, building materials, shoes, clothes and machines for manufacturing goods such as bricks or tea bags. Rwanda’s key exports to China are rawhides, skins, and minerals such as wolfram and tungsten.
Table 2.2 Rwanda’s key imports from China (2007)

<table>
<thead>
<tr>
<th>Products</th>
<th>Value ($)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Parts of telephone sets, including telephones for cellular</td>
<td>27,192,927</td>
</tr>
<tr>
<td>networks or for other wireless</td>
<td></td>
</tr>
<tr>
<td>Tubes, pipes and hollow profiles of cast iron</td>
<td>7,162,074</td>
</tr>
<tr>
<td>Spades, shovels, pickaxes, picks and hoes</td>
<td>3,477,491</td>
</tr>
<tr>
<td>Apparatus for voice transmission or reception</td>
<td>2,952,525</td>
</tr>
<tr>
<td>Primary cells and primary batteries</td>
<td>2,867,603</td>
</tr>
<tr>
<td>Insecticides</td>
<td>2,771,409</td>
</tr>
<tr>
<td>Uncut fabrics of synthetic staple fibres</td>
<td>2,589,193</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>49,013,223</strong></td>
</tr>
</tbody>
</table>

*Note:* This table shows only goods with value exceeding $2,000,000.
*Source:* BNR 2008 values.

Table 2.3 Rwanda’s key exports to China (2007)

| Products                                                       | Value ($)  |
|                                                               |            |
| Rawhides and skins of goats                                   | 172,413    |
| Rawhides of sheep                                             | 171,702    |
| Niobium ores                                                  | 112,319    |
| Slag, dross (other than granulated slag)                      | 56,654     |
| Rawhides of bovines                                           | 53,108     |
| **Total**                                                     | **566,196** |

*Source:* BNR.

Rwanda’s recent economic success is partly the result of a conscious repositioning as an open economy receptive to global trading partners such as China. China has impressed important Rwandan stakeholders in the public and private sectors as a source for relatively inexpensive and cost-effective technology. It is also recognized that China can provide some of the skills needed to rebuild Rwanda’s economy, especially in the Information and Communication Technologies and Infrastructure sectors. Rwanda’s favourable posture toward China has translated into an influx of Chinese firms, products and—to some extent—Chinese traders into the country.

Officially, Rwanda seems favourably disposed toward an intensification of trade links with China; indeed, there are plans to increase the Rwandan presence in China through the opening of a Rwanda Development Board (RDB) office there that will complement the efforts of the commercial attaché at the Rwandan embassy. By including Rwandan businesspeople in official delegations to China, among other measures, the Rwandan government has encouraged its businesspeople to pursue greater links with the Chinese business community in both China and Rwanda. One of the outcomes of the proactive posture of the Rwandan government has been the alacrity with which Rwandan businesspeople have embraced the import of Chinese products.
Complementing the efforts the Rwandan government is making to spur Sino-Rwandan trade have been the aid and investment policies that China itself deploys on to foster that trade. One trade-positive strategy used by China to spur trade has been the tying of grants to materials sourced in China as a means of facilitating the introduction of Chinese products to Rwandan markets. Another prime example of deliberate policy implementation was the use of the construction of the Ministry of Foreign Affairs and Cooperation building as a showpiece of Chinese building products, technologies and services. The Chinese state-owned and private sectors also participate in effort to push Chinese products and services, even on projects that are not financed by the Chinese government. In these situations, Chinese enterprises use their ability to source and obtain impressive discounts and greater customization directly from Chinese manufacturers as a very strong bargaining chip in their negotiations with project owners and other stakeholders.

As a further spur to trade with Rwanda, China also encourages Rwandan businesspeople to buy Chinese products by sponsoring their travel to trade fairs in China, with up to 100 Rwandans taking advantage of this opportunity every year. The Chinese also assist the growth of Rwandan exports to China by providing entrée and facilities at trade fairs in China, and by providing information to Chinese buyers on products available from Rwanda.

In recent years China and Rwanda’s renewed interest in working ‘with common efforts’ to encourage potentially strong companies to invest in Rwanda has pushed entrepreneurs from both countries to increase mutual understanding, seek more business opportunities and cement development. Rwandan and Chinese officials interviewed for this study are optimistic that the countries’ strengthening relationship will benefit not only China but also Rwanda and the region as a whole.

As Rwanda’s ambitions to become the dominant regional player in communications and outsourcing services progress toward fruition, it has become important for it to advance its infrastructure development for information and communication technologies (ICTs). A signal development underscoring the seriousness of this effort by the Rwandan government has been the signing of a 2005 memorandum of understanding between the Rwandan government and ZTE Corporation of China, which in turn has led to the engagement of Chinese ICT experts to work in Rwanda to boost the sector. Parenthetically, ZTE is China’s largest state-owned enterprise (SOE) in China with more than 60,000 staff, and it operates in 54 African countries, where it provides telecommunications gear to telecom operators MTN and Tigo.

Rwanda has engaged other Chinese telecommunication enterprises in its quest for leadership in these sectors, with telecommunications giant Huawei providing ICT equipment to Rwandatel SA. These agreements with two of China’s leading technology companies are expected to establish Rwanda as a leader in e-government programmes that have the potential to help streamline its own government operations, as well as perhaps provide revenue when these services are sold to other governments.

There are a number of projects being carried out by Chinese experts in Rwanda. These include the establishment of an ICT Park in Kigali, and the construction and operation in 2007 of a factory by A-Link Technologies, a registered Chinese ICT company that assembles mobile phones. It is hoped

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1 Discounts can be very large if both the Chinese contractor and the Chinese manufacturer are state-owned enterprises (SOEs).
that the provision of inexpensive handsets will spur the growth in mobile services, and also help lower the costs of communication.

The largest Chinese ICT investor in Rwanda, Star Media Communication Network Technologies, has established a pay-TV system with the potential to reach many African countries, and further expects to invest $20 million in a television station and an Internet services provider. The company’s executives attributed the selection of Rwanda as the base of the pay-TV project to its ‘strategic geographic location’.

**Emerging issues in China-Rwanda trade**

As with most economic relationships, trade between Rwanda and China has its problems, especially as seen from the side of Rwandan stakeholders. Research and analysis into these issues reveal that they span a spectrum of concerns, some serious, others more perceptual. In the case of the former, a concerted effort has been made to suggest some policy remedies and to bring these to the attention of the appropriate stakeholders.

**Market access**

At FOCAC IV in Sharm el-Sheikh China reiterated its official position of providing tariff-free access to “95 percent of the products from the least developed African countries having diplomatic relations with China, starting with 60 percent of the products within 2010”\(^2\). Despite this pledge, it is the view of some African officials that these preferential trade pledges by China and other countries have not brought substantive market openings to Least Developed Countries like Rwanda because other non-tariff barriers remain in place. Consequently, China’s market remains fairly closed to Rwandan products. It is thus imperative that a dialog on these issues be initiated to ensure parity in market access.

**Quality**

To counter widespread perceptions—in Rwanda and elsewhere—that Chinese products are of low quality, China is working with its trading partners to acquaint potential buyers and consumers with the wide range of quality and price available in Chinese products. According to Chinese stakeholders, China is being made responsible for the choices made by Rwandan traders more interested in price than quality in making purchase decisions.

There are instances in which certain perceptions, though not necessarily true, are so deeply held that they have had a real impact on the public discourse and distort the actual picture as it relates to quality. It is no doubt true that there is a great range of quality and pricing available in China. Where goods of unacceptable quality are being sold to Rwandan consumers, those consumers should bring these transactions to the attention of the authorities. It must be understood, however, that there is little a government can do to police exchanges between buyers and sellers of “low-quality” goods, unless those goods pose a danger to the public well-being or contravene the law.

**Crowding out local traders**

The growing number of Chinese nationals living in Rwanda—500 currently, according to the Confucius Institute—is ascribed partly to the increase in official engagements between China and Rwanda and partly to an influx of traders from China. Chinese traders often first enter Rwanda as

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\(^2\) Speech by Premier Wen Jiabo at FOCAC IV on November 8, 2009.
part of a project’s labour detail and remain at the project’s conclusion, registering as investors with the Rwanda Development Board (RDB) through a relatively simple process. Subsequently, many trade in areas foreclosed to them, or in which they have not received official permission to operate. To prevent continued abuses of the investor registration process, the RDB is now more carefully scrutinizing applications from would-be Chinese investors.

Rwanda’s Private Sector Federation does not currently perceive the increasing presence of Chinese retailers, medicine providers and restaurants to be a threat to its interests. The labour movement has complained about the impact of Chinese labour on local jobs but is less concerned that Chinese products might threaten local industry, deemed to be very small. The consensus is that Chinese traders are a greater threat to traditional suppliers from Kenya and India than to Rwandan business. Furthermore, labour is willing to down-play the longer-term threat of competing against Chinese products at a time when small-scale manufacturing in Rwanda is in its infancy.

Given the widespread concern about this issue, the Chinese government has undertaken to raise awareness among its citizens in African countries about the need to respect and obey local laws. On the Rwanda side, Immigration officials, who have the mandate to enforce existing laws in this area, could easily deal with this issue. There is also the question of whether the number of Chinese traders cited here really serves to crowd out local traders, and how much of a threat this phenomenon really poses.

**Difficulties entering China’s market**

Entering the Chinese market requires tough, disciplined and patient negotiation for much longer than is typical for most trade relationships. Beyond that, the length of the commitments favoured by Chinese counterparts tends to be very short-term—six months for a typical contract period. These negotiations are difficult for many Rwandan businesspeople because of their limited exposure to international trade and lack of Chinese language skills. Nevertheless, the Chinese market has many attractions, not least of which is the prompt payment record of Chinese trading partners.

This is an area in which assistance to Rwandan businesspeople in improving their negotiation and language skills *vis à vis* their Chinese counterparts could yield significant positive benefits, and needs to attract government support.

**Intellectual property rights**

There is a persistent and recurrent concern that some locally-made traditional handicrafts—key exports for Rwanda—have been counterfeited for sale by some Chinese businesspeople. Rwanda’s Ministry of Trade has expressed concern that this counterfeiting could kill the local handicrafts industry.

There are a few dimensions to dealing with a problem of this kind. First, the veracity of the issue has to be conclusively established. Secondly, the scale of its impact, as well as the attendant damage it does to the Rwandan economy, needs to be ascertained. Finally, a determination of culpability has to be made. That is to say, is this the result of deliberate Chinese government policy or the workings of private sector actors?

Determining answers to questions of this kind requires a clear level of coordination between Chinese and Rwandan authorities. The rules for this kind of coordination and collaboration need to
be put in place relatively soon, given the pace at which the underlying trade between the two
countries is growing and the likelihood that such growth will engender problems of this kind.

Lack of trust
Some Rwandan businesspeople interviewed asserted that a lack of trust kept them from entering
joint ventures with some Chinese businesspeople with whom they had entered discussions and kept
their business interactions at the trading level—despite lost opportunities for added value. A
concrete example of this hesitancy was expressed by Rwandan businesspeople who had foregone the
opportunity to enter a furniture exporting business using hardwoods from the Democratic Republic
of Congo with the Chinese partners.

To counter this negative perception, China has begun a campaign to communicate more about its
business practices and measures that are in place to facilitate business between Chinese nationals and
Rwandans, such as Chinese language and culture classes at the Confucius Institute. The Confucius
Institute is also working to acculturate Chinese businesspeople in local languages and customs.

This is a seminal example of a misperception that has been allowed to fester without empirical
evidence and which has the potential to inhibit Chinese trade-linked investments in countries that
need such investments. Underlying this perception is probably a sense of the inadequacy of legal
protections in the realm of Sino-Rwandan trade. There is clearly a need to create, at the level of
government, an even contractual playing field.

Quality control
A definite drawback to the economic relationship between Rwanda and China is the perception by
Rwandans that they are being exploited by traders who sell them low-quality Chinese products. Part
of the Rwandan government’s response to the outcry over the quality of imports into the country
has been the establishment of the Rwanda Bureau of Standards (RBS), a new agency that is still
building capacity. Other safeguards, especially with regard to the purchase of capital goods from
China will require measures such as the hiring of expert consultants to advise Rwandan
businesspeople.

Other perceptual issues that give Rwandans cause for pause with regard to some Chinese goods—
baby foods and pet foods, for example—were mentioned in the course of this research. Clearly,
while the vast majority of Chinese consumer goods do not evoke such fears, the public relations
damage caused by these globally-publicized health scares have been enormous. Absent appropriate
governmental action on both sides of Sino-Rwanda trade, there is the very real risk that considerable
damage will be done to the trading environment.

Innovation and government support
Overcoming China’s advantage in low-cost production will be a difficult challenge for Rwandan
businesspeople in the short term, but that is not the only option open to Rwandan businesses. For
example, one Rwandan firm is examining an innovative “cooperative” strategy to turn this
disadvantage into an opportunity: design in Rwanda, outsource manufacturing to China, and market
in Rwanda and elsewhere.

Rwanda’s future competitiveness and prosperity will depend on the extent to which it is able to re-
conceptualize what its unique competitive advantages are, be they in the establishment of a vibrant
services sector or other sector. In any case, this reinvention of the Rwandan economy will require
greater levels of technology transfer. The government’s role will be key in any such endeavour, especially given its ability to initiate dialog among all of the relevant stakeholders. One prominent group of stakeholders, the Rwandan Private Sector Federation, advocates a model of growth built around public-private cooperation similar to that enjoyed by Chinese trading companies, which are supported by their government with either SOE status or access to cheap financing.

**Future prospects**
A realistic appraisal of Rwanda’s prospects with regard to China-Rwanda trade indicate the possibility of growth for both partners, albeit with deficits that continue to favor China. Adroit investments in market entry strategies and policies by Rwandan stakeholders should result in a significant expansion of Rwandan exports into the Chinese marketplace.

The greater gains to be obtained in the near-term will come from exploiting the expanded list of tariff-free items China has established for exports from Least Developed Countries, and by negotiating to remove the non-tariff barriers in place as well. In the longer-term, even greater gains can be obtained from Sino-Rwandan trade by shifting Rwandan exports to a greater mix of value added products.

**Agriculture**
The growing consumption of coffee in China (Lee 2004), a sign of growing affluence and changing lifestyles, bodes well for the producers of high-end Rwandan coffee. Although China is itself a major producer of tea, a well-crafted marketing campaign might serve to introduce Rwandan tea to select markets within China.

Furthermore, there is great potential in the current efforts to improve Rwandan agriculture—using Chinese expertise in crops such as rice and bamboo—to produce a more diversified export crop base. If successful, these initiatives should help Rwanda export food to China, exports which could include meat and dairy products. Given China’s population, the growth rate of its economy, the changing consumption patterns of its urbanized population and the positive posture taken by the Chinese government with regard to African agriculture, there can be little doubt of the need to consider China a major market for African produce in general, and for Rwanda’s in particular.

To make significant gains in the Chinese market, Rwandan stakeholders need to accelerate the implementation of incentives that will help develop a world-class agribusiness environment capable of meeting and satisfying the exacting needs of the Chinese consumer. One concrete proposal is for Rwanda to improve its agribusiness skills by granting China a 20-year concession to cultivate marshland for exportable products.

Rwanda has embarked on a farsighted effort to enhance the value added component of its leather product exports. A recent government directive that has prohibited the export of unprocessed hides and skins should spur the building of tanneries that may be used to process value-added exports. In the short-run, the building of the tanneries and the prohibition of export of raw skins has had a negative impact on national income, but in the long run, this represents the way to make a meaningful difference in economic performance.

**Ores and metals**
Rwanda has set a goal of increasing its exports to China of ores and metals, especially tin ore, an important source of national revenue. At the same time, China has identified Rwanda as a source of
metals, according to the China Bureau of Economic Cooperation in Rwanda. To reach these mutual
goals, China has started investing in Rwanda's nascent mining sector, with one Chinese mining
concern already prospecting for tungsten to export.

Tourism
Built around unique scenic assets and one of the few natural habitats of the mountain gorilla
worldwide, Rwanda’s tourism potential has not been fully exploited. Barely 21,000 tourists visit
annually, most from Europe (43%) and the Americas (31%). China is clearly an underexploited
market for Rwandan tourism. As a first step to marketing Rwanda to Chinese tourists, Rwanda’s
Ministry of Trade, Commerce and Industry in 2006 persuaded the Chinese government to put
Rwanda on its list of approved and preferred tourism destinations. Rwanda needs to move beyond
this step, however, if it is to attract meaningful numbers of Chinese tourists to its scenic vistas. A
necessary step in making this a reality would be for the Rwandan government to create an
environment designed to meet the needs of Chinese tourists.

Conclusions and policy recommendations
Rwanda’s national recovery program, of which its recent economic liberalization has been a
significant component, has involved the rebuilding of neglected national infrastructure, reinvestment
in the productive capacity of businesses, and the re-ignition of consumer demand. These sizeable
dimensions of economic activity have combined to have a very substantial impact on the country’s
trade figures. Largely it has meant a rapid increase in imports, and as a result has created a national
trade deficit with most of its trading partners, including China. Given China’s ever-growing
importance as a manufacturing superpower, it is not surprising that its trade with Rwanda across a
wide cross-section of goods and services has grown, or that this trade has resulted in a fairly
persistent trade deficit in favour of China.

A closer examination of the components of Rwanda’s exports from China reveals a logic consistent
with the strategic direction of Rwanda’s Vision 2020. While cement and petroleum products occupy
prominent positions in the exports from China, how these items are used is also an important
component of revival. Cement is an indispensable item in the rebuilding of infrastructure in both the
private and public sectors. Given the assessment that Rwanda’s infrastructure is in a deficient state,
it can be expected that the country will spend even more on cement in the coming years. The only
issue in this matter of importing cement and petroleum is the adoption of an optimum purchasing
strategy, as well as a usage strategy that works to enhance the national development agenda.

The issue of consumer welfare also arises from a review of Rwanda’s importation patterns. It is
again clear that a “buy China” strategy, if done mindful of the quality and negative externalities
discussed in this report, does add to consumer welfare. Thus, it may be expected that there will be a
continuation of the importation of consumer goods to satisfy Rwanda’s growing population.

In spite of the foregoing, there are attendant issues to an ever-expanding trade deficit that need to be
addressed to alleviate the pressure on a country’s currency, as well as to ensure that vital needs in
building a productive industrial infrastructure are addressed through the use of funds currently used
in consumption. Rwanda must, as a matter of urgency, move toward a strategy of industrialization
and service sector development that offsets this growing deficit. In fact, it must ensure that
incentives are created that favour spending on productive items rather than those that go toward
pure consumption. It must also ensure, as far as possible, that the deficit with China is reduced by
the export of value-added items to China.
In this vein, the Rwandan government has to accelerate its assistance to the private sector by better articulating its role in the development of the private sector’s ability to form joint projects with Chinese manufacturers, especially those with greater knowledge of international markets. Further, Rwanda has to pay greater attention to building local competencies through trade with China, particularly with regard to designing mechanisms that ensure the transfer of skills to local players with the wherewithal to value-added exporters, especially in the largely untapped markets of Burundi and the Democratic Republic of the Congo.
3. Foreign Direct Investment

Rwanda is quickly earning an impressive reputation for its readiness to engage with both international and domestic investors. The Rwandan government fully recognizes that foreign direct investment (FDI) can play a unique role in Rwanda by complementing national private and public investment, helping the private sector become an engine of growth, widening the domestic economic base and building human capital through technical and skills transfer.

Starting with its Vision 2020, which is firmly linked to an investment-driven future, Rwanda has undergone a series of profound and extensive institutional, legislative and policy reforms aimed at strengthening the institutional base by which it will interact with investors. An outcome of this process includes the creation of a wide array of incentives for both domestic and foreign investors. These actions have improved the investment climate, eased the process of doing business in Rwanda and helped raise its global ranking as a favourable investment destination from 148 to 139—by some accounts, one of the largest-ever recorded single year advances—between 2008 and 2009 (World Bank 2009). Rwanda’s concerted and determined effort to attract foreign investors seems to be reaping the right results, as demonstrated by the ever-increasing interest of foreign investors to do business in the country.

Chinese investment in Rwanda

Data from both Chinese and Rwandan authorities indicate that Chinese FDI has only recently started flowing into Rwanda, and, even then, in relatively small quantities. This pattern is hardly surprising, since Chinese priorities are driven by trade, with FDI lagging the establishment of a trade foothold within a country. Data on FDI inflows have been collected since 2003, and those for stock since 2005. Official Chinese data reveal that FDI flows to Rwanda, which were $1.4 million in 2005, and rose by 47% to $3.0 million in 2006, fell to -$0.4 million in 2007 (figure 3.1, table 3.1). Given the size of the inflows and their timing, a one-time negative event hardly sounds a death knell for Chinese interest in Rwanda, especially given the assertions of continued interest by the investors on the ground who were interviewed for this study. The stock of FDI follows a similar pattern to that of FDI, with a slight rise from $3.3 million to $4.7 million between 2003 and 2005, a more than 60% increase to $7.7 in 2006 million, and then a small retrenchment to $7.3 million in 2007 (figure 3.2, table 3.1).
**Figure 3.1 China's FDI flows in Rwanda, 2005-2007**

Source: Based on 2007 Statistical Bulletin of China’s Outward Foreign Direct Investment.

**Figure 3.2 China's FDI stock in Rwanda, 2003-2007**

Source: Based on 2007 Statistical Bulletin of China’s Outward Foreign Direct Investment.
Table 3.1 Chinese FDI in Rwanda, Africa and the world, 2003–2007

<table>
<thead>
<tr>
<th>Year</th>
<th>Total Flow ($ millions)</th>
<th>Percentage of Africa</th>
<th>Percentage of world</th>
<th>Total Stock ($ millions)</th>
<th>Percentage of Africa</th>
<th>Percentage of world</th>
</tr>
</thead>
<tbody>
<tr>
<td>2003</td>
<td>n.a.</td>
<td>n.a.</td>
<td>n.a.</td>
<td>3.3</td>
<td>0.7</td>
<td>0.01</td>
</tr>
<tr>
<td>2004</td>
<td>n.a.</td>
<td>n.a.</td>
<td>n.a.</td>
<td>3.3</td>
<td>0.4</td>
<td>0.01</td>
</tr>
<tr>
<td>2005</td>
<td>1.40</td>
<td>0.40</td>
<td>0.010</td>
<td>4.7</td>
<td>0.3</td>
<td>0.01</td>
</tr>
<tr>
<td>2006</td>
<td>3.00</td>
<td>0.60</td>
<td>0.020</td>
<td>7.7</td>
<td>0.3</td>
<td>0.01</td>
</tr>
<tr>
<td>2007</td>
<td>-0.40</td>
<td>-0.03</td>
<td>-0.001</td>
<td>7.3</td>
<td>0.2</td>
<td>0.02</td>
</tr>
</tbody>
</table>

Source: Based on 2007 Statistical Bulletin of China’s Outward Foreign Direct Investment.

Predictably, given the recent nature of Chinese investment in Rwanda, Chinese FDI in Rwanda is low when compared to its total FDI: consistently less than 1% of its FDI flows to Africa, peaking at 0.6% in 2006, and usually less than 0.01% of its global FDI. And Rwanda’s share of Chinese FDI stock in Africa declined to 0.2% in 2007 from a peak of 0.7% in 2003 (table 3.1). Yet again the shift of Chinese investment into countries that are resource-rich lends credence to this observation. In the context of total FDI arriving in Rwanda, regardless of source, Chinese FDI has come to assume great importance, growing from 9.9% of total investment flows to Rwanda in 2005, up to 19.3% in 2006, and averaging 5.6% of FDI stock between 2003 and 2007, peaking at 7.5% in 2006 (table 3.2). China’s interest in investing in Rwanda seems to be rising, albeit from a low base.

Table 3.2 China’s share of total FDI in Rwanda

<table>
<thead>
<tr>
<th>Year</th>
<th>Total FDI ($ millions)</th>
<th>Chinese FDI ($ millions)</th>
<th>Chinese % of total</th>
<th>Total FDI ($ millions)</th>
<th>Chinese FDI ($ millions)</th>
<th>Chinese % of total</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000</td>
<td>8.1</td>
<td>n.a.</td>
<td>n.a.</td>
<td>55.2</td>
<td>n.a.</td>
<td>n.a.</td>
</tr>
<tr>
<td>2001</td>
<td>18.5</td>
<td>n.a.</td>
<td>n.a.</td>
<td>57.0</td>
<td>n.a.</td>
<td>n.a.</td>
</tr>
<tr>
<td>2002</td>
<td>1.5</td>
<td>n.a.</td>
<td>n.a.</td>
<td>57.0</td>
<td>n.a.</td>
<td>n.a.</td>
</tr>
<tr>
<td>2003</td>
<td>2.6</td>
<td>n.a.</td>
<td>n.a.</td>
<td>62.0</td>
<td>3.3</td>
<td>5.3</td>
</tr>
<tr>
<td>2004</td>
<td>10.9</td>
<td>n.a.</td>
<td>n.a.</td>
<td>69.0</td>
<td>3.3</td>
<td>4.8</td>
</tr>
<tr>
<td>2005</td>
<td>14.3</td>
<td>1.4</td>
<td>9.9</td>
<td>77.0</td>
<td>4.7</td>
<td>6.1</td>
</tr>
<tr>
<td>2006</td>
<td>15.5</td>
<td>3.0</td>
<td>19.3</td>
<td>103.0</td>
<td>7.7</td>
<td>7.5</td>
</tr>
<tr>
<td>2007</td>
<td>67.2</td>
<td>-0.4</td>
<td>-0.6</td>
<td>170.2</td>
<td>7.3</td>
<td>4.3</td>
</tr>
</tbody>
</table>

Source: Based on UNCTAD FDI Database and 2007 Statistical Bulletin of China’s Outward Foreign Direct Investment.

Investing in Rwanda has so far been a positive experience for existing Chinese investors, leading them to indicate a desire to further invest in Rwanda. Driving this confidence among this investor group was their favourable appraisal of the following: the security of investment, life and property; a well-regulated business and social environment; government transparency and minimal corruption; predictable government policy and macroeconomic conditions; and the government’s determination to transform the country into a regional hub. The practical take-away of these findings are that these
benefits were key to the ability to attract investors. Investors indicated that they appreciated the unique efforts being made by Rwanda to enhance the probability of success for their ventures.

Between 2000 and June 2009 the Rwanda Investment and Export Promotion Agency (RIEPA)—responsible for facilitating and registering foreign investment projects in Rwanda—registered nine Chinese investment projects worth RWF 21.8 billion (about $46 million), about 4.3% of registered investment projects during that period.\(^3\) Currently, five of these projects are operational. The data reveal that given the spurt of investments registered and operationalized since 2007 (table 3.3), the opportunities offered by investing in Rwanda are coming into focus for Chinese investors. There clearly is the possibility of using these existing success stories as a platform for attracting even more Chinese investment. Rwandan authorities working in the area of investor attraction have in their possession data that should help make Chinese FDI inflows more predictable. The current initiative to increase the presence in China of Rwandan officials charged with increasing Chinese investment should also provide a welcome boost to these efforts.

\(^3\) Not all Chinese companies operating in Rwanda in a given year appear in RIEPA data. Two Chinese state-owned enterprises (SOEs) operating in Rwanda, China Road and Bridge and China Civil Engineering Construction Corp. (CCECC), do not appear on the RIEPA registration list either because they were not registered during 2000–2009 or because they are contractors executing projects funded by the Chinese government or by other multilateral donors rather than investors.
Table 3.3 China’s total registered FDI in Rwanda

<table>
<thead>
<tr>
<th>Project</th>
<th>Year</th>
<th>Value (Rwandan franc)</th>
<th>Jobs</th>
<th>Sector</th>
<th>Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>China Rda Prod. Wholesale and Re-export Promotion Center</td>
<td>2003</td>
<td>6,960,000,000</td>
<td>1000</td>
<td>Services</td>
<td>Not operational</td>
</tr>
<tr>
<td>A-Link Technologies</td>
<td>2007</td>
<td>194,700,000</td>
<td>84</td>
<td>ICT</td>
<td>Operational</td>
</tr>
<tr>
<td>Star Communication</td>
<td>2007</td>
<td>10,893,135,000</td>
<td>31</td>
<td>Telecommunications</td>
<td>Operational</td>
</tr>
<tr>
<td>LIU Xinen S.a.r.l.</td>
<td>2007</td>
<td>285,046,420</td>
<td>43</td>
<td>Manufacturing</td>
<td>Operational</td>
</tr>
<tr>
<td>Huawei Technologies Rwanda</td>
<td>2007</td>
<td>550,000,000</td>
<td>31</td>
<td>Telecommunications</td>
<td>Operational</td>
</tr>
<tr>
<td>Rwanda Toothpaste Company Ltd.</td>
<td>2008</td>
<td>180,122,500</td>
<td>28</td>
<td>Manufacturing</td>
<td>Operational</td>
</tr>
<tr>
<td>Zong Wang International Leather</td>
<td>2008</td>
<td>2,073,775,000</td>
<td>61</td>
<td>Manufacturing</td>
<td>Not operational</td>
</tr>
<tr>
<td>Great Lakes Refinery S.a.r.l.</td>
<td>2008</td>
<td>412,500,000</td>
<td>6</td>
<td>Minerals refinery</td>
<td>Not operational</td>
</tr>
<tr>
<td>Fadar Ltd.</td>
<td>2009</td>
<td>239,400,000</td>
<td>40</td>
<td>ICT</td>
<td>Not operational</td>
</tr>
</tbody>
</table>

Source: RIEPA Registered FDI Database.

**Positive effects of Chinese investment in Rwanda**

Contrary to the general belief that Chinese investments are concentrated in traditional sectors—services and natural resource extraction—most Chinese investments in Rwanda are in transformative sectors such as information and communication technologies (ICTs), telecommunications and manufacturing (table 3.3), with only one Chinese investment in the services sector. And the single Chinese investment in mining is an extensive value-chain operation featuring a value-added mineral refinery as well as exploration and extraction, and thus is targeted at improving the country’s potential to produce higher value mineral exports. These Chinese investments in transformative sectors offer a counterpoint to the commonly-held belief that resource-poor countries do not make significant gains in their engagement with China (Zafar 2007).

The operations of investments registered by Chinese interests have yielded a considerable number of jobs for Rwandans, with at least 1,313 generated between 2000 and June 2009, and with one company, the China Rda Prod. Wholesale and Reexport Promotion Center, providing approximately 1,000 jobs. A significant spill-over effect of Chinese investment has been in the creation of jobs for women, with one ICT company, A-Link Technologies, for example, creating about 20 jobs exclusively for women in its mobile phone assembly plant (see box 3.1 for more on this investor). Women with little formal education, never more than the secondary school level, are benefiting from both the wages they are earning as well as the opportunity to get skill training in promising technology markets.
Box 3.1 Profile of a Chinese investor in Rwanda

A-Link, founded by a Chinese investor, Edward Yin, is reputedly the first mobile phone assembly plant in the Great Lakes region. Starting from a relatively limited base of knowledge about Rwanda, Mr. Yin took advantage of an invitation from the Rwanda Development Board and RIEPA promotions to visit Rwanda. While in Rwanda, Mr. Yin decided to invest in the country after favourably assessing the culture and investment incentives that were on offer.

A-Link trained manufacturing personnel for a year in the technical aspects of mobile phone assembly. The technology transfer was conducted by Chinese experts who were given the mandate to create a core of proficient Rwandans who would essentially run the operations. Today, the firm has two production lines with a daily production capacity of 700 mobile phones. The company projects that at full production capacity, it will have 100 employees, a significant increase from the current force level of twenty.

According to Mr. Yin, communicating across languages posed the greatest challenge for a Chinese-speaking investor interacting with a non-Chinese speaking workforce, especially in light of the fact that the investor did not speak the languages spoken by most Rwandans (French and Kinyarwanda). Other challenges included a relatively high cost of living, high cost of utilities, some pilferage, and the lack of a post-investment forum between investors and the appropriate officials to discuss such challenges.

Currently in the build-up phase, the investor sees the size of the market as a major constraint to growth. The solution to this challenge would be to make efforts to regionalize its footprint, using Rwanda as its base. Other strategies being contemplated by the investor include a diversification of the company’s product lines to include the assembly of televisions and laptops.

Overcoming the reputation for the low-quality reputation of some Chinese products also provides a challenge for the firm. The firm counters this challenge by investing in quality control and in using only the best components at each price point. Given its ambitions to be a long-term player in the region, the company has properly focused on ensuring that the market perceives its products as being of world-class quality.

Winning in the Rwandan marketplace has required developing innovations unavailable elsewhere. These include menu features in the local Kinyarwanda language, as well as a relatively inexpensive solar energy system for charging mobile phone batteries.

A-Link’s has made several positive contributions to the domestic economy, including a focus on rigorously training inexperienced workers in highly technical assembly processes, targeting women for employment, and making technology transfer a key part of its mission.

Source: Investor interviews.

Rwandans with direct knowledge of the operations of Chinese firms and Chinese investors claim that the country is already benefitting from the skills and technology transfer offered by Chinese firms. At the La Rwandaise d’Assurance Maladie (RAMA) construction site, for example, China Civil Engineering Construction Corporation trains Rwandans with little formal education or technical
skills to high levels of proficiency in the building crafts. As a result, its tile-layers, plumbers, electricians and other skilled labourers are highly sought after in the market.

To cite another example, it is the official position of the China Road and Bridge Corporation to ensure that each Chinese expert on their projects coaches at least 10 local workers. As recounted in greater detail above, workers who were hired without formal education at the A-Link Technologies mobile phone assembly plant attest to the effectiveness of the on-the-job training that they obtained in that company.

With an apparent match between some Chinese technologies and Rwanda’s—indeed, Africa’s—development needs, encouraging the proper FDI ought to infuse the economy with appropriate capital and technology that can facilitate the transformative growth that Africa requires. Indeed, some African visitors to China, including the president of Rwanda’s Private Sector Federation, have acknowledged the very effective usage of advanced technology by even small-scale producers working in the backstreets of Chinese cities.

**Key challenges in China-Rwanda investment**
Investing in Rwanda is both rewarding and challenging, and might be more so for Chinese investors, who essentially are operating in a very different cultural context and one that poses communication obstacles. This section of the report highlights the challenges as perceived by Chinese and local stakeholders, such as investors, private sector businessmen, organized labour leaders and public sector actors.

**Chinese investor perspective**
Chief among the challenges cited by Chinese investors is the issue of communication. The difficulty of communicating across the mix of Chinese, English, French and Kinyarwanda is clearly an additional cost to doing business. Two approaches have been tried to overcome this challenge. The first is to hire interpreters to facilitate training in technical skills; the second is to develop an innovative hybrid of Chinese, French, English and the local Kinyarwanda languages for less technical communication.

The other critical challenge that cuts across sectors was the small size of the pool of skilled technically trained labour. Beyond that, ready and cost-effective access to raw materials emerged as a serious barrier to business success. As the general manager of a major Chinese construction firm commented regarding the dearth of appropriate labour, his company was compelled to bring in workers from China to compensate for these conditions in Rwanda. Investors in the construction area had to contend with trucking in stones needed for construction in Kigali 300 kilometres from Cyangugu and often cement would have to be brought in from Uganda.

**Rwandan private sector perspective**
The concern about the difficulty of communicating between Rwandans and the Chinese was also a major concern for the Rwandan private sector actors, leading to wasted time during negotiations and other business interactions.

Another leading concern expressed by the Rwandan private sector was the difficulty of assessing the quality of Chinese products, particularly expensive capital goods, because of the difficulty in obtaining accurate information about these goods. As a result, Rwandans’ ability to make critical business decisions was often impaired. In one case, a cement producer seeking to purchase
production equipment needed to expand its annual production capacity from 100,000 tonnes to 600,000 tonnes was strongly cautioned by its financiers to ensure that it only purchased the equipment from a highly reputable Chinese firm. These warnings stemmed from the financiers prior experience with clients who had purchased equipment from China and who had difficulty obtaining the requisite product information.

In other cases, Rwandan businesspeople were more concerned about the effect on the competitive environment of allegedly inexpensive and low-quality products from China. Concerned that it would be too difficult for a Rwandan firm to compete with low-end and inferior quality Chinese products, a furniture manufacturer upgraded its products and positioned itself for higher end markets, ceding the low end to the Chinese. This crowding-out phenomenon is seen as a very serious threat to the emerging African production base.

Rwandan labour unions also had reservations about the nature of the Chinese entry into the Rwandan business environment, according to a senior Rwandan labor union official. The official proposed the following three initiatives as a means of addressing concerns he and his cohort seemed to share: First, Chinese investors needed to do more to address the problem of unemployment in Rwanda. Second—though this was not unique to the Chinese—the Chinese investors needed to make a more determined effort to improve working conditions. Third, Chinese firms needed to open up their closed working systems and allow their workers to join the labour movement.

The considered view of some segments of Rwanda's labour unions is that Chinese investment activities seem to pose more of a threat to Indian and Kenyan interests in Rwanda than to those of Rwandan businesspeople. On a positive note, Chinese businessmen and workers were lauded for their commitment to hard work and the success of their businesses. Labour officials believed that it was important to stay engaged with Chinese businesses in the effort to ensure that workers’ rights are recognized and respected by all employers, including the Chinese.

**Public sector perspective**

Discussions with key members of the Rwandan public sector revealed that since China was following a rather different path than that of traditional donors in its economic engagement with Africa, specifically, with regard to its stance of non-interference in the internal affairs of other countries and in the deployment of state-owned or supported enterprises, Rwanda was required to implement a specific set of policies for dealing with China. It was believed that without such a fundamental and pragmatic move, Rwanda may not be able to maximize the benefits and minimize the potential risks inherent in the Chinese economic engagement.

**Conclusions and policy recommendations**

A rigorously definitive assessment of the impact of Chinese investment on outcomes such as job creation, output, productivity and economic transformation in Rwanda is currently impossible, given the fact that most of the investments have been made only recently, and that the investments are relatively small, so far. Nevertheless, several real and potential benefits and challenges have been identified within this study and offer the basis for recommendations to help Rwanda maximize the benefits of Chinese investment while minimizing the inherent challenges and risks.

The positive experiences reported by existing Chinese investors in Rwanda indicate a need for Rwanda to be much more proactive in its efforts to increase the flow of Chinese investment. Clearly, Chinese stakeholders have the appetite and the means to make significant global investments. It
remains for Rwandan stakeholders to make the case for Rwanda to the Chinese by conducting intensive dialogue and analysis with Chinese stakeholders during the investment decision-making process.

Keeping in mind the goals of Vision 2020, Rwandan stakeholders need to identify sectors that can most benefit from Chinese investment and design the right strategies for attracting investors into those sectors. This report has detailed mechanisms by which China can help Rwanda realize its vision of becoming a regional hub for ICT and develop high value-added agribusinesses that will generate employment. The government of Rwanda should create a forward-looking road map that will guide Chinese participation in these sectors in a very meaningful manner.

To address Chinese concerns that Rwanda lacks sufficient workforce capacity in a positive manner, Rwanda ought to invest in a skills development program that will comprise a census to catalogue the current skill base and initiate an incentive programme to build skills in the sectors that have been highlighted as sound prospects for additional investment by the Chinese.

Rwanda’s investment tax code is another source of concern for Chinese investors, who assert that Rwanda has relatively high domestic tax rates and suggest the need for Rwanda to revamp its tax and fiscal policies to better align them with its aspirations to attract investors. To ensure that it becomes a preferred investment destination from a tax perspective, Rwanda should set tax rates (VAT, corporate and personal income taxes) that are competitive with other countries that might be considered competitors in the race to attract FDI, especially that originating from China.

A stronger investment promotion programme would help Rwanda counter Chinese misperceptions about living and working in Rwanda. Most FDI comes from a small number of countries, such as Kenya, that are already familiar with its investment climate, but Rwanda has been less successful at attracting investment from countries outside of this familiar circle. As one Chinese investor explained, all he knew about Rwanda prior to being approached by RIEPA’s China office was the 1994 genocide. RIEPA’s efforts need to be strengthened to promote Rwanda as an attractive source of investor interest worldwide.

A well-functioning infrastructure helps a country attract high-quality, capital-intensive investments, especially the kind that foster technology and skills transfer. While most investors interviewed found Rwanda’s road network and power supply to be adequate, they found the cost of energy too high. Rwanda needs to make greater national investments in the generation, transmission and distribution of electricity in order to sustain and further expand its attractiveness to investors.
4. Economic and Technical Cooperation

Chinese foreign assistance is different from that offered by other major aid donors through the Development Assistance Committee (DAC) in both name and substance. First, China prefers to call its assistance “Economic and Technical Cooperation,” or ETC. Secondly, given the deep involvement of the Chinese government in all the dimensions of economic engagement with Africa—including Rwanda—some foreign direct investment projects can greatly resemble ETC in that they are secured by official bilateral agreements, do not impose any real financial risks on the Chinese companies involved and do not result in Chinese ownership of foreign assets.

China’s decision to not formally participate in the DAC—or keep similar records—limits data available for analyzing aid effectiveness. Furthermore, the link between aid and China’s own development goals raises questions about conflicts of interest. In this context, Rwanda, as well as other African countries, faces the additional burden of making sure that they craft strategies for the utilization of Chinese ETC that take into account the anomalous nature of the Chinese external development assistance program.

Chinese and Rwandan aid strategies

China’s provision of aid to Rwanda dates back to the establishment of diplomatic relations in November 1971. However, the inter-country aid program became more formalized with the signing of the first economic and technological cooperation agreement in 1972. China was first motivated to provide aid on political grounds, perhaps as recognition of Rwanda’s support, beginning in 1970, for Beijing’s ‘One China’ policy. In recent years, however, economic considerations rather than politics have underlain China’s aid program. According to some analysts, Chinese aid was meant to facilitate market entry for Chinese goods, services and investments. Linked to China’s development needs, aid projects facilitate the export of raw materials—natural resources and commodities—to China and require that project materials and services, including labour, be sourced in China.

China’s external assistance program is defined through an external assistance budget compiled by the Ministry of Finance and authorised by the National People’s Congress. Various ministries with jurisdiction over specific types of assistance administer the aid that falls under their purview. Overall responsibility for aid policy, including the drafting of assistance measures and supervising their implementation, resides with the Department of Foreign Aid in the Ministry of Commerce. Other departments with limited aid responsibilities include the ministries of education, finance, foreign affairs, health and science and technology. Recipient countries need to understand this underlying complexity in order to harmonize the aid initiation and delivery processes and the institutional management of the effort.

To access Chinese aid, Rwanda must approach the appropriate Chinese authorities to negotiate terms and conditions. Rwanda and China usually conclude an economic and technical cooperation agreement—essentially a line of credit—against which the Rwandan government suggests projects. Chinese teams execute feasibility studies and architectural drawings for agreed-upon projects and submit them for approval to the relevant Rwandan ministry. Technical assistance is provided by Chinese teams working side-by-side with ministry officials. China disburses grants and loans when the agreement has fulfilled criteria that benefit Chinese as well as Rwandan development. Each project must conform to the criteria listed below:

- Approval by both the Chinese and Rwandan governments.
• Assuance of technical feasibility and economic viability, especially with regard to the ability to generate favourable economic returns.
• Generation of social benefits.
• Selection of Chinese enterprises as the principal contractor, implementer or exporter.
• Preferential procurement from China of no less than 50% of equipment, materials, services or technology needed for the project.
• Advance procurement of local requirements for funds, equipment and labour necessary for the project.

These criteria illustrate the degree to which Chinese grants, interest-free loans or concessional loans are tied assistance.

China’s foreign assistance to Rwanda primarily comprises grants and interest-free loans administered by the Ministry of Commerce through its Department of Foreign Aid and, to a lesser extent, by the Export-Import Bank of China (China Eximbank) under the Ministry of Finance and the Ministry of Foreign Affairs. China Eximbank is the only state-owned entity that distributes official economic assistance in the form of low-interest concessional loans, export credits and guarantees (Eisenman and Kurlantzick 2006). Other assistance includes concessional loans and debt relief (figure 4.1). Terms and conditions are negotiated by joint permanent commissions (JPCs) established to represent the interests of both countries. One stakeholder interviewed for this study asserted that JPCs ‘lack [a] monitoring and evaluation structure’, needed for Rwanda to take a more strategic approach to aid.

Figure 4.1 Aid flow channels

Source: Authors’ analysis 2009.

China–Rwanda aid is influenced by International Monetary Fund (IMF) and World Bank mandates which seek to establish at least a 50% grant component for all loans to Rwanda. There are additional constraints to the quantum of aid provided by third parties to countries that are signatories to the

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4 In 2007 China cancelled all of Rwanda’s debt.
Heavily Indebted Poor Countries (HIPC) initiative, which includes Rwanda, in order to avert a return to the debt stress that used to burden these countries. Rwanda currently performs a debt sustainability analysis before it contracts new debts and is prohibited from providing government guarantees for third-party quasi-governmental debt. Rwanda’s financing from bilateral and multilateral donors ranges from a 100% grant component to 25% (table 4.1).

For the last 40 years China had provided grants or interest-free loans that usually came with a 10-year grace period and which were in practice cancelled before full repayment. Now China requires Rwanda to obtain loans through Eximbank, with higher interest rates and shorter maturities. Since China added concessional loans to its development assistance policy, Rwanda’s Ministry of Finance and Economic Planning has tried to get Eximbank to increase the grant component of its loans from 35% to 50%. But apparently influenced by Rwanda’s lack of strategic importance to China, Eximbank has not accorded Rwanda more favourable treatment than other loan recipients.

### Table 4.1 Conditions on aid to Rwanda

<table>
<thead>
<tr>
<th>Source of aid</th>
<th>Grant component</th>
<th>Grace period</th>
<th>Interest rate</th>
<th>Maturity</th>
</tr>
</thead>
<tbody>
<tr>
<td>World Bank</td>
<td>100%</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>African Development Bank</td>
<td>100%</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>European Union</td>
<td>100%</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>China Eximbank</td>
<td>35%</td>
<td>6 years</td>
<td>2</td>
<td>20 years</td>
</tr>
<tr>
<td>India Eximbank</td>
<td>25%</td>
<td>5 years</td>
<td>1.5</td>
<td>20 years</td>
</tr>
</tbody>
</table>


One stakeholder interviewed for this study pointed out that aid fails to achieve goals when the recipient country has no overall strategic approach to ensure that aid delivery does not become sporadic and uncoordinated. To avoid uncoordinated and ineffective aid programmes, Rwanda has developed an aid policy focused on ownership and setting of the priorities that determine the usage of aid. Though generally aligned with Rwanda’s needs, Chinese aid programmes could better support Rwandan priorities embodied in the Economic Development and Poverty Reduction Strategy (EDPRS) and sector strategic plans. One example of how Rwanda might have used Chinese aid more effectively is in agriculture. China’s rice cultivation project failed to revolutionize Rwandan agriculture because it did not teach Rwandans rice-growing techniques and technology. Rwanda may have been able to develop its local rice-growing capacity by negotiating with China to relax the tied-aid requirement for Chinese labour.

**China’s aid to Rwanda**

China’s foreign aid is difficult to quantify. Unlike other major aid donors, China does not have a centralised aid agency affiliated with its foreign affairs ministry. A great deal of information about official aid is considered to be a state secret and is thus not disclosed. This study relies principally on data provided by the Rwandan Ministry of Foreign Affairs and Cooperation (MINAFFET) and the External Finance Unit (EFU) of the Ministry of Finance and Economic Planning (MINECOFIN). EFU data is the most comprehensive available in Rwanda and is based on donor self-reporting supplemented by additional material compiled by the agency. Cross-checking data on China’s grants proved impossible, so the amounts pledged in bilateral economic and technical cooperation agreements are only directional indicators of China’s aid levels to Rwanda. In addition, grants from DAC donor
countries cannot be rigorously compared to estimates of Chinese assistance because of differing definitions of aid. Despite this, sufficient data exist to give a well-founded estimate of the relative size of China’s assistance to Rwanda.

Table 4.2 Reported Chinese grants to Rwanda by year, 2000–2009

<table>
<thead>
<tr>
<th>Year</th>
<th>Total (USD $m)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000</td>
<td>2.4</td>
</tr>
<tr>
<td>2001</td>
<td>0</td>
</tr>
<tr>
<td>2002</td>
<td>3.6</td>
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<tr>
<td>2007</td>
<td>0</td>
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<tr>
<td>2008</td>
<td>10.2</td>
</tr>
<tr>
<td>2009</td>
<td>4.4</td>
</tr>
</tbody>
</table>

Source: MINAFFET, Field data collection.
Based on average year end exchange rates

Figure 4.2 China’s grants to Rwanda compared to other donors ($ millions)

Source: MINECOFIN and MINAFFET.

As is illustrated in figure 4.2 above, Chinese official aid to Rwanda has been of relatively low volume compared to other donors. It has, however, been relatively steady. Aid increased significantly in 2008—up to $10 million from $2m - $4m in previous years, reflecting agreements negotiated after the 2006 Forum on China-Africa Cooperation (FOCAC) in Beijing. With the exception of a few completed plant and technical assistance projects, Chinese aid has not been a major factor in Rwanda’s donor assistance program.
Sector analysis
Chinese-supported projects up to 2008 have included work in several economic sectors.


Health. Chinese ETC in the Health sector has gone to provide for the construction and later expansion of the Kibungo Hospital, the construction of the Kibungo Nurse School in 2005, the provision of anti-malarial drugs to the Ministry, and to fund doctors to provide technical assistance.

Infrastructure. Most Chinese aid has gone to infrastructure financing and construction, including the Kigali-Rusumo road (completed in 1977), other roads in Kigali City (2001), the Amahoro Stadium (1987 and 2005) and the conference hall known as ‘Prime Holdings’ (2004). China has also targeted aid towards two government buildings in 2001 and 2009, one being the new building that houses the Rwanda ministry of foreign affairs which cost about $8.6 million. The most recent significant provision of ETC was the early August 2009 interest-free loan of about $37.8 million with a 35% grant element to fund the Kigali road network rehabilitation project.

Education. Under the terms of its economic and technical cooperation agreements, China is obligated to provide Rwanda with at least nine university scholarships annually, however, since 2006, it has unilaterally provided 20 more. China has also built an agro-veterinary secondary school in Western province and, recently, opened a Confucius Institute in Kigali to teach Chinese language and culture.

Trade and investment. The Chinese government has invested in the construction and operation of Rwanda’s only cement plant. The cement company began operations in 1984 as a joint project between Rwanda and China, and was operated and managed by Chinese executives on Rwanda’s behalf until 2006. In 2007 the plant was privatised, with the government retaining 10% of the shares and the Rwanda Investment Group taking over the management. A Chinese company was later commissioned to expand the plant’s annual capacity by 500,000 tonnes. Chinese companies will implement the expansion program and continue to provide maintenance and supply spare parts.

Conclusions and policy recommendations
Chinese aid is often an expression of state support for its state-owned enterprises, a feature which distinguishes Chinese aid from that offered by DAC donors. In Rwanda, the presence of the China Road and Bridge Corporation is a prime example of this phenomenon. Though criticized as disorganised, Chinese aid has long been conducted under a set of implicit rules. China has not only consistently applied the principles of ‘equality and mutual benefits’ and ‘non-interference in internal affairs’ to its aid program, but also appears to be a flexible donor.

The effectiveness of Chinese aid in Rwanda is still in question. Critical analysis of China’s assistance programmes in Rwanda suggests that they may be somewhat flawed, inconsistent and lacking in long-term objectives. Second, the burden of Chinese debt could become worrisome if it exceeds Rwanda’s repayment capacity and is not written off. Finally, insufficient thought about the long-term effectiveness of aid could leave Rwanda with projects it does not have the capacity to maintain or sustain. If the

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5 Stadium repair and renovation
disappointment of the past is not to haunt the future, Chinese engagements with Rwanda will have to seriously address capacity-building to ensure the sustainability and maintenance of aid projects.

Rwanda’s future development, as articulated in Vision 2020 and the EDPRS, depends on its continuing efforts to pursue an expansionary fiscal policy to improve education, infrastructure and foreign and domestic investment. These goals are supported by substantial foreign aid and debt relief from the IMF–World Bank Heavily Indebted Poor Countries (HIPC) initiative in 2005–06 and China’s 2007 debt forgiveness. Rwanda also attained Millennium Challenge Account Threshold status in 2006. Still, Rwanda will find it difficult to achieve all of its goals without a sustainable fiscal policy that exploits debt appropriately. Moreover, its narrow export base and vulnerability to economic and financial shocks are major challenges. Since the cancellation of its debt, the IMF has advised Rwanda to look for and mobilise grants at a high enough level to maintain the external debt-to-exports ratio at sustainable levels—a project subject to the understanding and will of donors. The HIPC debt relief initiative was premised on the willingness of donors to increase their grant contributions to poor countries, including Rwanda, so they could avoid acquiring more debt. The HIPC initiative’s impact on Rwanda and other recipient countries has been mixed. Recipients’ restraint in acquiring debt has not been matched by an equivalent increase in donor aid, leaving deficits Rwanda and other countries remain unable to finance.

China’s complicated funding administration enables recipients to fine-tune their aid requests—though probably with considerable search costs. It is in Rwanda’s interest to make requests that support its own development needs. The possibility of aid from China should not blind Rwanda to the need to exercise prudence in acquiring it. Rwanda should ensure that aid is not excessively tied to Chinese products and services and that it does not acquire Chinese commercial loans in such volume and interest as would harm its macroeconomic stability. Rwanda would prefer to receive more favourable terms of trade and investment with China, but until that is routinely the case, it would be best for Rwanda to focus on obtaining highly concessional loans or grants.

To use aid more effectively, Rwanda needs to better understand existing data. Rather than waiting for China to publish aid figures in the Development Assistance Database, the Ministry of Finance and Economic Planning’s External Finance Unit should collect all data other government agencies have access to and use them for aid planning. China can be approached later to ensure that the data are harmonized on both sides.

China’s aid policy must be more transparent. A superpower of China’s stature can make a difference in the developing world, but to fulfil that potential, China needs to lead in ways that it has not so far. A good starting point for new Chinese ETC compact with the developing world could be a revamping of its aid delivery programme. China could demonstrate that its aid policies are not driven solely by the desire to secure natural resources and access to markets and major infrastructure projects, and that the Chinese government is committed to improving the long-term welfare of citizens in the recipient country. Responding to requests from recipient countries, harmonizing its processes and institutions to accommodate specific programme priorities can make a substantial contribution to the recipient’s economic development. China’s ‘go global policy’ deserves no less.
Bibliography


