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Degree of Master of International Studies
(International Area Studies)

COMPARATIVE ANALYSIS OF EXPORT
PROMOTION OF RWANDA AND
SOUTH KOREA

August, 2019

Graduate School of International Studies
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A thesis presented

by

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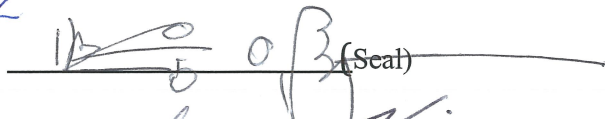
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Abstract

Rwanda is striving to promote export expansion, this thesis show why Korea was chosen, similarities of the two countries, analyses Korea's situation before and all the process to export expansion strategies adopted and implemented, measures used, also shows Rwanda's initial start to export, what Rwanda is doing to promote export, what lesson to draw from Korea's experience of success in export expansion and then recommends. The study reveals that, the key strategy to the Korea's success in export promotion was the state's intervention in policy formulating, resource allocation, incentives and subsidy's allocation, human resource and education, market diversification, firms allocated in exporting and importing sectors with their different incentives at the start of the year and celebrate at the end of the year for achieving the set targets and giving rewards to the best performers.

Key words: Export promotion, Developmental state, Import Substitution, Export Substitution

초록

르완다는 수출 확대를 위해 노력하고 있다. 본 논문은 대한민국과 르완다의 수출전략을 비교 분석 하고, 한국을 선택한 이유, 양국의 유사점, 수출 확대 전략을 이행하기 전 한국의 상황을 분석한다. 또한, 르완다가 수출전략을 개시한 시점, 르완다가 수출을 촉진하기 위해 무엇을 하고 있는지, 수출 확대 경험이 한국의 경험에서 끌어낼 수 있는지를 보여준 후 전략의 개선을 위한 제안사항을 제시한다. 연구 결과에 따르면 한국의 수출 촉진 성공 전략은 정부의 정책 수립, 자원 배분, 인센티브 및 보조금 배분, 인적 자원 향상을 위한 교육, 시장 다양화 등이 있다. 다른 인센티브로는 정부가 수출 및 수입 부문에 각각 적합한 기업을 배정하고 매년 목표를 제시하였고 최고의 실적을 내어 목표를 달성한 기업들에게 보상을 제공하였다..

실마리어: 수출 촉진, 개발도상국가, 수입 대체, 수출 대체

Abbreviations

GDP =Gross Domestic Product

EDPRS II= Economic Development Poverty Reduction Strategy II

H.E = His Excellency

ELI =Export Led Industrialization

ISI =Import Substitution Industrialization

UNCTAD =United Nations Conference on Trade and Development

GATT = General Agreement on Tariffs and Trade

SITC84 = Exports of articles of apparel and clothing accessories

KOTRA =Korea Trade Promotion Corporation

KTA =Korea Trade Association

MINICOM = Ministry of Trade and Industry

MINICOFIN=Ministry of Finance and Economic Planning

RDB =Rwanda Development Board

SEZs =Special Economic Zones

DMRS = Domestic Market Recapturing Strategy

EGF =Export Growth Facility

SME =Small Medium Enterprise

PSDS =Private Sector Development Strategy

SNV =Netherlands Development Organization

UNIDO =United Nations Industrial Development Organization

USAID =United Nations Agency for International Development

EAC =East African Community

DRC =Democratic Republic of Congo

US =United States

WTO =World Trade Organization

MOU = Memorandum of Understanding

KSEZs= Kigali Special Economic Zones

SEZ = Special Economic Zone

SOES = State Owned Enterprises

AGOA = African Growth and Opportunity Act

GATT = General Agreement on Tariffs and Trade

WDA = Work Force Development Authority

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Chapter 1: INTRODUCTION

1. INTRODUCTION

In the past two decades, Rwanda's economy has been the quickest flourishing economy in the Sub Saharan Africa at GDP growth of 8% (World Bank 2015 a). Later, the economic growth declined due to poor performance in Agriculture (Smith 2012). Regardless of the former country's economic growth, however, development in export promotion particularly in manufacturing sector and in general industrial sector have remained weak. Generally, one crucial indicator of country's economic development is its stand in industrialization (UK essays trusted by students since 2003). Also (Rodriguez Mwalenga, Sept, 2012) Industrialization is important pillar of economy's development, particularly in developing countries, it speeds-up economic growth, decreases dependence in foreign aid, creates employment opportunities, generates consumer goods to other sectors in need of them, adds up value to primary goods to mention a few (Brisbane, 1980). The above author continues to discuss how in the year 1945 after second world war up to 1970s, countries that adopted Import Substitution Strategy to produce consumer goods for luxuries and domestic market with high tariffs. However, some countries transitioned to export-oriented strategy and succeeded as will be elaborated in the details while others which didn't change to Export-oriented failed. Thus Export Substitution Strategy proved to be important pillar of economy's development (<https://www.investopedia.com>).

It is from this outlook; this thesis aims to examine which strategies can Rwanda learn from Korea's experience of 1960s to 1970s to promote export promotion in manufacturing industry.

Then one can ask, **why South Korea?**

South Korea is one of the four Asian Tigers that is recognized of being the fast- growing economies in the second half of the 20th century. The four Asian Tigers are Hong Kong, Taiwan, South Korea and Singapore. Among the four countries, the author chose south Korea as comparative case of Rwanda in this thesis due to some similarities two countries share. South Korea is a country that has flourishingly changed into absolute industrialized economy but when historically, it was like other developing countries among which Rwanda is included hence this thesis.

More to this, in his remarks of 12th National leadership retreat in 2015, H.E the president of Republic of Rwanda Paul Kagame addressing to the leaders said **“compare yourself with the best, not the worst. If you want to compare, compare with those who have achieved what we are struggling to achieve”**.

It is in regard to the above remarks this research will compare South Korea’s export promotion process and that of Rwanda so as to obtain some appropriate lessons from South Korea’s experience. In this introductory chapter one, the following parts will come as follows; Research questions, research objectives, significance of the study and thesis structure.

1.1 RESEARCH OBJECTIVES

In light of these research questions, this research’s goal is to achieve the following objectives. First and foremost, this research attempts to examine the strategies formulated by Rwanda government to promote export expansion and develop industrial sector to increase domestic production and export promotion in relation to those implemented by South Korea as a

comparative case study. In specific, it seeks to examine strategies formulated to promote export promotion and industrial sector to increase domestic production and to promote exports.

The second objective of this thesis is to examine the roles of government in formulating and implementing strategies in the case of South Korea as a comparative case study of this thesis.

The third objective and the last one of this thesis will attempt to draw appropriate strategy lessons to promote exports and industrial sectoral development through construction of Special Economic Zones (SEZs) to increase domestic production and promote exports in Rwanda and to provide potential policy recommendations in future.

1.2 RESEARCH QUESTIONS

Rwanda is striving to promote export expansion through developing industrial sector to increase domestic consumption and promote export promotion to foster future growth of Rwanda economy. In line with this strategic move, this thesis attempts to answer the questions as follows;

- a. What are the rationale of Rwanda to develop strategies to promote export promotion and increase domestic production?
- b. What lesson can Rwanda learn from South Korea's successful strategies to develop industrial sector to increase domestic production and promote export?
- c. According to Korean experience, how can Rwandan policy for export and import be improved?

1.3 SIGNIFICANCE OF THE STUDY

This study will play a part to the innovation of export promotion policies and strategies to increase domestic production and export promotion.

Second, the comparative analysis of Korea's successful experiences provides a new insight on policy and strategy formulation for developing countries that have a target of becoming middle-income countries among them is Rwanda.

Third, this thesis will help policy makers to adopt effective policies and strategies formulation to promote not only export promotion expansion, but other sectors of development of the country. The outcomes of this study will provide useful contribution in the formulation of other development plans and policies.

1.4 THESIS STRUCTURE

This Research is composed of seven chapters.

The first chapter comprises of Introduction, Research questions, Research objectives, significance of the study, thesis structure, similarities of two countries, Rwanda's economic development, Rwanda's industrial sector, statement of the problem, Research methodology and lastly, the Scope and limitations of the study.

The second chapter is divided into ten parts, the first part deals with Literature Review, definition of key terms, empirical evidence, import substitution strategy, foundational and historical perspectives of export strategy, advantages of export strategy, Analytical concept of Developmental state in East Asia (Four Asia Tigers), the role of Developmental state, developmental state in Latin America and Developmental state in Africa. Chapter three is

composed of ten parts, the first part outlooks Korea's import substitution policy, introduction, Kickoff export promotion strategy, export incentives in 1950s-1960s, Government support to SMEs, Korea's import policy, KOTRA and other institutions, Musan special economic Zones, introduction, Musan objectives, Link of SEZs performance with domestic economy, contributions of SEZs and Korea's success in export. Chapter four is divided into eleven parts, the first part discusses Rwanda's export sector, introduction, export composition, Rationale to promote exports, industrial sector, establishment of Rwanda development board, establishment of Kigali special economic zones (SEZs), inception of domestic market recapturing strategy, made in Rwanda campaign, establishment of export growth fund, EGF objectives, EGF targeted sector. Chapter five, makes a comparative analysis of import-export strategy of two countries of Korea and Rwanda. Chapter six is divided into two eight parts, the first part makes introduction of the chapter, state intervention, import-export transition, export incentives, Human resource and education, selective products, market diversification and Agency responsible for export promotion. The seventh chapter which is the last of this thesis, is divided into three parts, the first one is the summary of the thesis, followed by conclusion and lastly, recommendations.

1.5 SIMILARITIES OF TWO COUNTRIES

To start with political factor, South Korea's experience is potentially appropriate to a wide developing countries in general, but in particular to Rwanda due to some shared history termed as initial conditions. South Korea was historically colonized which is same to Rwanda, South Korea had just emerged from its civil wars with North Korea in which most of the population was killed and displaced. Similarly, to Rwanda's case of 1994 genocide in which almost one million people lost lives, economy destroyed and political system. South Korea is recognized as

a country which spoke out against corruption during its time of development up to presently. Likewise, to Rwanda's case, the leadership of His excellency president Kagame is against corruption and other issues related to it, thus Rwanda comes on the fourth position in Sub Saharan Africa and 48 out of 180 countries and territories in the world (Corruption perceptions index 2017). Last on Leadership, South Korea's president was popular to business people and all citizens, he invited business people to invest their money in projects that are beneficial to the state, he also valued the significance of five-year Economic Development Plan and initiation of Saemaul Undong (New village movement) whose objective was to overcome poverty and achieve better Korean communities (Saemaul Undong concept). Likewise, to Rwanda government do recognize that, to attain development, private sector has to play a role, as the reason Rwanda government has formulated private sector development strategy 2013-2018 (PSDS) whose objectives are to help Rwanda achieve growth, create jobs, exports and investment. The government has established a government program Vision 2020 as policy orientation whose major objective is to transform the country from Agricultural based to middle income country, free from poverty and people have health life, EDPRS 1 &II, as functional and policy orientation to vision 2020. (Vision 2020, EDPRS I & ii)

In economic factor, South Korea was aid dependence, infant mortality was high, life expectancy was 57 years and 60 percent of the population lived below poverty line, had trade deficit, geographically land was mountainous not easy for cropping, un employment, made land reform to ease industrialization, all this characterized Korean economy but in short time, Korea has transitioned from economic under development to developed nation thus this move given name of "The Korean miracle" (Irma Adelman Nov 16, 2007). Likewise, all the economic challenges mentioned above are the same like Rwanda, where life expectancy in Rwanda is on 62, under

poverty line on 30%, infant mortality 30, but still under implementation of different policies to reach a better standard, land was reformed in Rwanda (World Bank report 2015, World Bank country overview, land law No 08/2005 of 14/07/2005).

South Korea and Rwanda shares common geography and history, where the two countries are mountainous with little natural resources hence a need to adjust in innovation and technology. In both countries people have one mother language. However, the two countries do have some dissimilarities in size, population and geographical location. Firstly, comparing the size of two countries, South Korea is 99.720 square km, while Rwanda is 26.338 square km. In brief, South Korea is about four times bigger than Rwanda. (www.mylifeelsewhere.com/country-size-comparison/south-korea/rwanda).

Secondly, as far as population is concerned, in 1960s South Korea's population was 25 million people (world population review.com/countries/south. Korea).

While the current population of Rwanda is 12.552.401 million people, that is, two times of South Korean population (<https://tradingeconomics.com>).

Last but not the least is geographical location of each country, South Korea is located in East Asia, surrounded by three seas, the yellow sea to the west, the East of China to the South and the North Korea to the North, as we can see it is within the sea. While Rwanda is a land locked country located in central Eastern Africa, bordered by the Democratic Republic of Congo to the west, Uganda in North, Tanzania to the East and Burundi to the south (<https://en.wikipedia.org/wiki/Rwanda>).

After realizing the similarities between South Korea and Rwanda, the author found the two countries suitable to be compared in comparative analysis of this thesis.

1.6 Rwanda’s economic development

Rwanda is a small country in size and in population in Sub Saharan Africa, also its economic growth is comparably lower than its members in EAC. The country is rebuilding itself from tragedies that it faced in 1994 genocide. It also lacks access to ports which affects its international trade. Further to this, the country is under-endowed with little natural resources, it also lacks infrastructures like electricity and transportation which still affects its trade, which in turn are barriers to private sector to engage in business. Despite of all challenges above, the leadership shows strong commitment to pursue economic development.

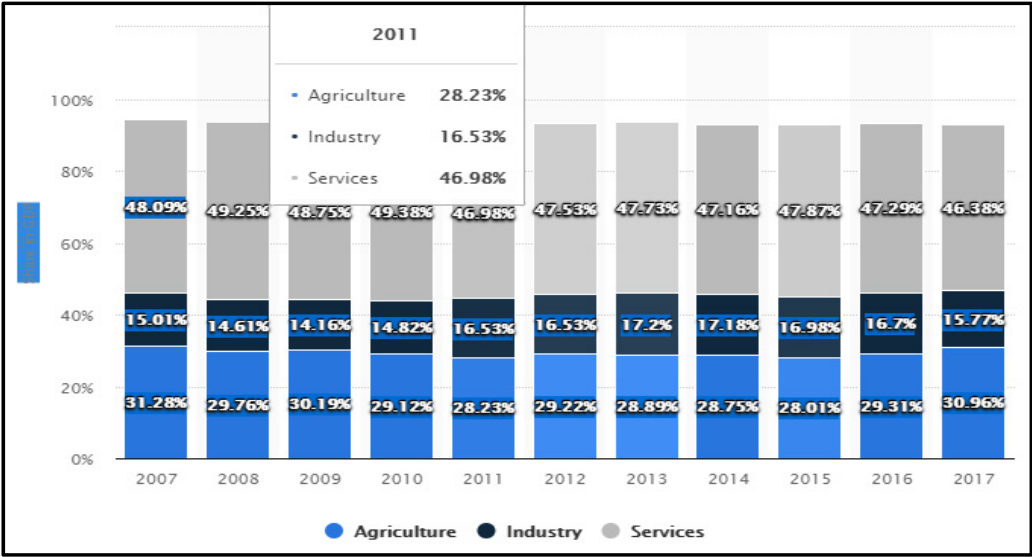


Figure 1.1 Share of economic sectors in the gross domestic product (GDP) from 2007 to 2017

Source: The statistics portal (<https://www.Statista.com>)

According to the graph, the share of economic sectors in the gross domestic product (GDP) in Rwanda from 2007 to 2017, the share of Agriculture in Rwanda was 30.96%, industry had 15.77% and service sector contributed 46.38%. The industrial sector comes behind other sectors of the economy. From the above graph, the observation shows that industry sector has a gap which need to be brimmed. Though, the percentage of industry is low, in the year 2001 to 2012, the real GDP growth has been increasing annually at around 8%, however, in the following years the growth rate decreased at 7% (World Bank 12 a). The government established development program strategy in 2000 which has six objective pillars, the key one is to transform the country from low income country to a middle income by 2020 (Government of Rwanda 2000). In order for the government to obtain its long-term development goals, it has elaborated a medium term strategy for five years called the Economic Development and Poverty Reduction Strategy (EDPRS I). Presently, the country is under implementation of EDPRS II which outlines strategies of 2013 to 2018. Among all the strategies that it consists the highest priority is to speed up the growth and poverty reduction in five dimensions which are; economic transformation, rural development, productivity and youth employment and lastly is governance and accountability. Specifically, the main goal of EDPRS is to make GDP grow so as to reach at 1000\$, reduce poverty rate below 30% and to reduce extreme poverty rate under 9% (Government of Rwanda 2013).

1.7 RWANDA'S INDUSTRIAL SECTOR

Rwanda industrial sector is composed of mining and quarrying, agro-processing, other manufacturing, utilities and construction. Among all, construction contributes 7.1%, agro-processing come as the second with 3.5%, followed by mining and quarrying with 1.8% second

to the last is other manufacturing with 1.4% and the last one is utilities with 0.6%. For more details, see the table below.

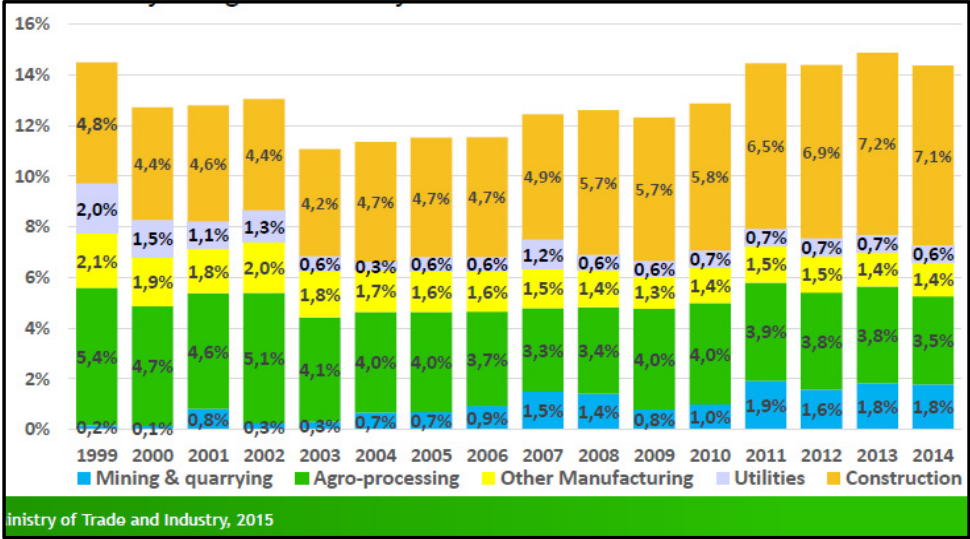


Figure 1.2 Industrial components totals to 14.4% from 1999-2014

From the graph, the components of Industrial sector are not strong enough to support the economy’s development as the table above shows.

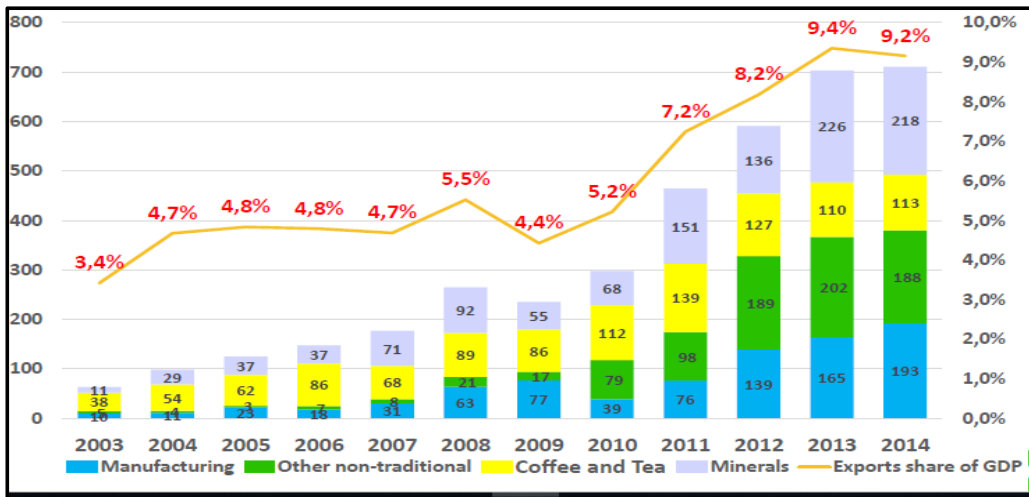


Figure 1.3 Exports share of GDP from 2003-2014

Source: Ministry of Trade and industry, 2015

From the figure 1.3, exports share increased due to increase in minerals that exported, like in 2010, the exports were 5.2% and it improved in 2014, where exports increased to 9.2%. The improvement was due to the increase of minerals in the following years of 2013 and 2014. Rwanda exports are extremely reliant on traditional basic products like coffee, tea, tantalum, tungsten, wolfram and pyrethrum. In the year 2013, minerals were the leading exports in Rwanda but it shortly fell when mineral prices were hit. In the year 2014 and 2015, export voucher from minerals lessened, the government become anxious about how to obtain exchange rate. As a response, the Rwanda government pledged to higher extra rate flexibility, decreasing imports and preventing fiscal policies (IMF 2016). Apart from the fall of mineral's prices, the remaining products cannot sustain economy. industrial base is very small while technological capacity remains highly primitive to be competitive (Trading economics.com), National Bank of Rwanda).

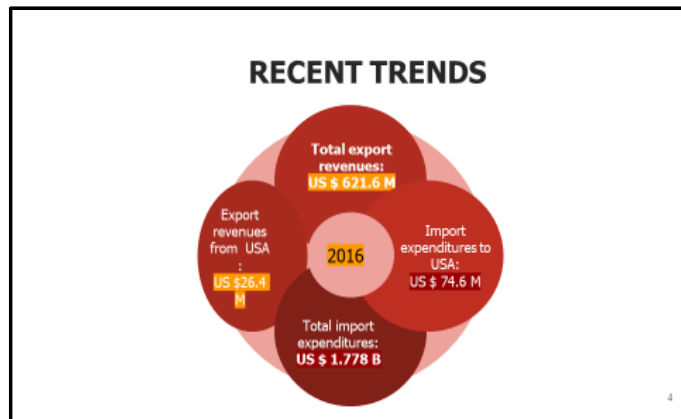


Figure 1.4 Recent trends for trade case in Rwanda

Source: Author's alteration

1.8 STATEMENT OF THE PROBLEM

The current problem related to export is that Rwanda exports relies on traditional commodities whose prices are not stable and spends more on imports of consumer goods and other products which are not produced locally. The remaining exports are weak to keep economy, thus a challenge on how to acquire foreign exchange and at the same time aid flow which would compensate decreased at 50% (IMF Staff report, July 2016). This results to be the main cause of inflation as all imports are paid in USD at high price (see 827.5 RWF on May 11, 2017) according to UN Comtrade Database,2017). As introduced from the introduction part, the reason for Rwanda to adopt export promotion is to speed-up economy (Rodriguez Mwalenga 2012) exports benefits a country's economy in many ways; through exports country earns foreign exchange, goods are sold in return for foreign exchange, resources are greatly utilized, employments are created, primary products value added and so many, thus a country like Rwanda need to promote export to enjoy above benefits.

Furthermore, Rwanda as a country in East African countries and neighboring a big country need to export promotion so as to access regional markets like East African Community in which it belongs and the neighboring country of Democratic Republic of Congo(DRC) and lastly, lack of employment opportunities as mentioned in the debut, export promotion creates employment. Thus the more expansion, the more employment is created

1.9 RESEARCH METHODOLOGY

To answer questions raised, this thesis will utilize comparative analysis on the existing studies related to the topic and seek to draw applicable recommendations for similar development in Rwanda. In essence, the academic reports, literatures and the government documents will be evaluated to examine which strategies are best to foster export promotion. Also strategy instruments and motivations which Korea used will be explored and contrasted to depict some practical implications for export promotion in Rwanda.

The case study of South Korea was selected based on its characteristics that are comparable to Rwanda. The analysis of export promotion strategy in each respective country examples will be based on the assemblage of illustrations considered in the existing literatures. The implications strategy proposals will be rooted/ based on the comparison between the established strategy frameworks, instruments introduced in the previous analysis.

1.10 SCOPE AND LIMITATIONS OF THE STUDY

This thesis is limited to accomplishment strategies that made South Korea to have speedy economic growth mainly in export sector, although Korea is infamous of her accurate achievement, but is not a matter of copy-and-paste but need to analyze Korea's quick growth at

least in two causes. The first cause will base on Comparing Korea's political and economic situations of the two countries, that is Korea and Rwanda where they have similarities.

Secondly, analyze some strategies which were productive in Korea's economic development. In brief, this thesis will be much carefulness and prudence while looking which strategies Rwanda can embrace from Korean development strategies.

CHAPTER 2: LITERATURE REVIEW

2. INTRODUCTION

In this chapter, earlier studies and literatures are reexamined to set recent theoretical and empirical literature. This section is divided into four parts; the first part comprises the definitions of key terms. The second part discusses empirical literatures on export growth on economic development, the third part displays the model countries in implementing two strategies and their advantages to economic development of a country, and lastly analytical concept of developmental state in four Asian Countries, North America, South Korea, Africa and Conclusion.

2.1 DEFINITION OF KEY TERMS

Export Substitution Industrialization (ELI), Export-led, growth is a trade and economic policy aiming to speed up the industrialization process of a country by exporting goods for which the nation has a comparative advantage (<https://www.definitions.net/definition/export>).

Import Substitution Industrialization (ISI) is Development strategy focusing on promoting domestic production of previously imported goods to foster industrialization (<https://www.britannica.com/topic/import>).

Export promotion measures means incentive programs that attracts firms into exporting(<https://www.britannica.com/topic/import>)

Developmental state or hard state, is a term used by international political economy scholars to refer to the phenomenon of state-led macroeconomic planning (<https://www.definitions.net/definition/development>)

2.2 EMPIRICAL EVIDENCE

Notwithstanding that, it is well-recognized that export growth is significant to the economic growth, there has been evidence based on it to see if really it is salient. Starting from half way 1980s Granger causality experiments were carried out to find out the relation between export growth and economic growth, the results manifested that, export led growth does not hold any effects until certain level of economic development, at the same time. This has resulted to the mixture of empirical works. Another scholar in the name of Hans Singer expressed the view that the positive effects of export oriented become not clear from the halfway 1970s even in the newly industrializing countries (Singer, Hans W., 1989). Awokuse displays that there is some practical proof that backs the export-led hypothesis (Awokuse, Titus Vol.40, No.2, 2008), other scholars Lyer, Rambadi and Tang (2009) apply a co-integrated vector autoregressive model counter parted by a Granger causality test and display that the exports as manifested to be not important in explaining economic growth. Hence, the empirical evidence appears to be mixed. Amin Gutierrez de pineres and Avella-jorda (2007) use data for sixteen Latin American countries and come to the conclusion that the results for export-led growth hypothesis contrast with depending on the selection of data and test methodologies. Other group of works has tried out the hypothesis that changes the export product composition cause economic growth. The practical proof has shown back of the hypothesis in general. Ghatak et al. used co-integration and causality tests to examine the export led growth hypothesis for Malaysia and found that the economic growth of Malaysia was directed by manufacturing exports rather than exports of primary goods (Ghatak, S., Milner, c and Utkulu., Vol.29, No.2,1997). According to this author, the production of manufacturing like textiles has already started but requires the government of Rwanda to look for more investors partners in this sector as it has been proved to speed-up

economic growth. Koh and Mah use co-integration test and error correction models to Korea. Their outcomes show that growth ratio of non-textiles, that is heavy and chemical industries, exports to textile exports has led to higher economic growth and vice versa. Trade liberalization is shown to have a positive effect on economic growth of Korea (Kon, sae Ran Jai S. mah, 2011). Different from the works examining the relation between export growth and economic growth, some scholars have examined whether export promotion measures truly results to export expansion significantly Jung and Lee, (1986) explored the impacts of various types of export promotion policies on the amount of manufactured exports in Korea. They found an aggregate export supply function where relative prices, subsidy and capacity utilization ratio as the domestic demand pressure variables. Subsidies like preferential export finance, tariff reduction and exchange rate changes using data for the period 1964-1980, they display that 1 percent increase in subsidy would bring about 2 percent growth in export supply. Despite the fact that, it is the first empirical work on the effect of export promotion policy on export, the measure of export subsidy includes neither export insurance nor duty drawback scheme was effective in promoting export supply of Korea during 1975-2001. Also this strategy of providing incentives has proved to be contributing the promotion of exports though the percentage is not high, but a starting country in the field of export can provide regarding the selected sectors to promote like manufacturing since it has proved too. Lederman et al (2010) used data covering 103 developing and developed countries, their cross section analysis displays that export promotion agencies have statistically significant outcome on export expansion; For now, they do not consider export incentives such as export insurance and duty draw back (Jai S. Mah, October 2010). This analysis backs the provision of export promotion, though, there are others which are no longer in use, but support that if countries give export incentives, there will be increase in export and

economic growth as well. Rwanda has just started manufacturing which is at starting period, thus need to provide these export promotions so as to attract more investors to invest in Manufacturing sector to increase productivity and be more competitive in the region.

2.3 IMPORT SUBSTITUTION STRATEGY

The strategy of Import Substitution Industrialization (ISI) results into replacement of goods that were previously imported with domestic of international openness. The strategy was founded in most of Latin American countries as a response to the break of World War I and ii and the economic depression of 1930s (Ayob Kahsai Michael, 2003:22).

Later, in 1955, ISI was followed as an intentionally industrialization strategy. It was provoked mainly by the ideas of Singer and Prebisch in the 1950s. One of the challenges developing countries face, is to ameliorate their economic growth due to the lack of success to recognize ways to amalgamate their economies with the world economy (ibid). The puzzle is to choose among the two strategies among Import Substitution Strategy and Export Substitution Strategy. Especially developing countries chose ISI, giving reason of having no ability to compete internationally and therefore choose ISI so as to make policies that protect their domestic market. The advantage of ISI, is that it creates a fence of import from their countries so as to back their home market for improvement (Ayob Kahsai Michael, 2003:22).

Table 2.1 Countries implemented two strategies and results

COUNTRY	PERIOD	TRADE SRATEGY	GROWTH RATE
Brazil	1955-0	Import Substitution	6.9
Brazil	1960-5	Import Substitution	4.2
Brazil	1965-0	Export Substitution	7.6
Brazil	1970-6	Export Substitution	10.6
Colombia	1955-0	Import Substitution	4.6
Colombia	1960-5	Import Substitution	1.9
Colombia	1970-6	Export Substitution	6.5
South Korea	1953-0	Import Substitution	5.2
South Korea	1960-5	Export Substitution	6.5
South Korea	1970-6	Export Substitution	10.3
Tunisia	1960-0	Import Substitution	4.6
Tunisia	1970-6	Export Substitution	9.4

Source: Ayob Kahsai Michael, 2003:22

The Table 2.1 shows, the difference in economic growth in the countries that implemented two different strategies of industrialization. The table compares four countries for a period of 23 years, Brazil changed from Import Substitution to Export-led and gained an increase in economic growth, in 1970s, gained 10.6 compared to 4.2 of 1960s. Colombia in 1970s gained an increase in economic growth compared to the first period of Import Substitution, the most exciting change happened in South Korea from 1960s when it transitioned to Export-led strategy and in Tunisia in 1970s.

Having insights of different countries increase in their economic growth, after implementing two strategies, the experience shows the best strategy to apply as Export-led strategy than Import Substitution. But again, all countries transition to Export –oriented after having carried out Import substitution, it means that Import Substitution is a prerequisite for Export-oriented promotion. When countries transition to export-oriented, there are some improvements in industrialization, industrial labor development and modern infrastructures which all are necessary for export-oriented. Thus on Rwanda’s case to implement DMRS to reduce Rwanda’s trade deficit which is a big challenge to economy and increase local production for consumption need to carry out both strategies but to a big extent export-led.

2.4 FOUNDATIONAL AND HISTORICAL PERSPECTIVES OF EXPORT STRATEGY

Export strategy industrialization was formally component of the national economies ‘growth of some countries like Japan, Singapore, Taiwan and South Korea by the time of post-world war ii. It moved to fame in latter 1970s when it succeeded the import substitution strategy which had influenced development policy intelligent in the Latin America region in 30 years later after world war ii. The main intention of this strategy is to increase trade instead of reducing trade (Thomas I. parry, July, 2011:3). Further, even though, some countries that adopted export strategy industrialization do charge high tariffs on certain goods especially agricultural products, their interventions are more outward than those of import substitution strategy (Ayob Kahsai Michael, 2003:22). Export strategy is the major task term to comfort national success as well as looking ways to alleviate poverty and bridge the gap that exists between developed and developing countries. Thus, necessary to expand general comprehension on latent explanation for reasons why developing countries including Rwanda should adopt Export Strategy

Industrialization. In regard to the above, ISI was perceived to have been neglected long ago, after it failed to deduct external reliance, in all times of importing raw materials. It should however, be noted that industries in developing countries had permitted technology from developed countries. Government intervention most especially via state owned enterprise (SOES), proved to be a culvert for flow of resources.

2.5 ADVANTAGES OF EXPORT STRATEGY

The need to acquire international exchange is necessary as why there is coercion from international institutions, like World Bank and International Monetary Fund (IMF) which have approved export industrial policies since 1960s and the leading countries in the process were Taiwan, Singapore and South Korea which are the base of developing countries to start to adopt their policies to manufacture for the global market instead of their small domestic market (Choen Krainara, 2007:9). Greenaway and Nam (Kyklos,1988) and World Development Report, 1987 both suggest that the best performer among the two strategies is export-oriented industrialization which can lead to the successful growth of the country. Other scholars like, Arruria, Miguel and Seiji Naya displayed how the strategy is advantageous to economy's development. The strategy consists better policies like motivations instead of controls, all the measures are applied Worldwide. Contrary to ISI policies which are bias to exports and generate market distortion. In export- oriented, it is easy to prove the effectiveness of export promotion strategy because its outcomes can be detected smoothly and their faults are rectified as soon as possible. Export-oriented provide firms the chance to expand their markets and gain greater scale of economies. Export-oriented pushes firms to join contest in foreign market and obtain competences. According to (Car Baugh, 2007) export-oriented strategy motivates and persuades firms in which

developing countries are probably to have a relative advantage like labor intensive fabricated goods. Further, Balassa, 1978 stresses that, as developing countries are rich in human resource endowment, export-oriented strategy devotes to create jobs. The strategy is significant to developing countries including Rwanda which if established and promoted can kill two birds with one stone, meaning the strategy can;

- a. Promote foreign exchange
- b. Satisfy home market and foreign market
- c. Job creation opportunities.

Lastly, Kissinger 1967, states that in export-oriented strategy, international rivalry compels domestic entrepreneurs to concentrate on possibilities and boost learning procedures.

2.6 ANALYTICAL CONCEPT OF DEVELOPMENTAL STATE

The Developmental state theory is when the government has taken a crucial part of exhilarating trust to different investors by assisting them via socializing in subsidies investment scheme. So as to understand the developmental state, Johnson (1999) defined by pinpointing its first prime concern as economic development, that the developmental situation of the state dominates

Ha-Joon Chang defines Developmental state as a state which produce and control informally and antagonistically attached to economic and political connection that can back constant industrialization. Chang (1999) continue to explain institutional adoption as when the state contains to changing outside market situation to endure competitive and further investment in human resource and development. Crucial components of the developmental state include state financial control via credit-based financial incentive structures and industrial policy drafted by

self-governing meritocratic elite embedded in association of common business conversion. The state organizes and negotiates investment resolutions accompanied by a big economic association in a crucial sector. It is significant to record that devotion concerted objectives on the promise of private equity as well as encouragement of nationalist sentiment.

2.7 DEVELOPMENTAL STATE IN EAST ASIA (FOUR ASIA TIGERS)

In East Asia, particularly in South Korea, government supplied firm and foreseeable motivation schemes to industries that performed successful and could take these incentives away in case firms performance wasn't sufficient. The selection criteria for targeted industries for assistance were in the domain of export performance and in the domestic competition. Though East Asia were good in formulating industrial policies. it should be admitted that, yet they had similarities and dissimilarities between the knowledge and actions of four Asian tigers. Like in South Korea and Taiwan, government interference was predominant and less insignificance in Singapore and Hong Kong. Besides, South Korea and Taiwan devoted to a great degree in development of domestic innovation abilities, contrary from Singapore and Hong Kong whose key technology strategy was to entice foreign investors (Lall 2000).

2.8 SOUTH KOREA'S SUCCESS IN EXPORT STRATEGY AND THE ROLE OF DEVELOPMENTAL STATE

According to Chibber 1999, Park declared that the exports was the main pedestal of the country's economic planning. On top of that, industries would in the end be awarded if fulfilled well and disciplined if they did worse than agreed on or they fail to do as well as expected. Such degree of economic accomplishment which president Park devoted to industries was noticeable. This

working situation prepared Korea business owners to produce exports for global markets which Koreans had a bit of comprehension and readiness (Benjamin Pham: political Science 211).

Amsden (1989) use Johnson's idea of the developmental state and use it to explain South Korea's development background. The following are the most salient reasons for Korea's success;

South Korea government's goal was to have rapid industrialization. Second, the government generated solid political environment which was conducive to Korean businesses to be bravery. Korea's government interventions were intended to "get prices wrong" in order to persuade investment in another action plan which were salient firms (Benjamin Pham: political Science 211). Last but not the least, Firms which accomplished the given tasks were financed, and the conditions were created in exchange for these allowances. Industries that worked well were given bonus, while those that didn't reach to required standards were not given support and would sometimes be punished or fail forever in some cases. Allowances given to industries in many times were in terms of finance which Korea government had absolute control.

2.9 DEVELOPMENTAL STATE IN LATIN AMERICA

In Latin America, developmental state was un productive compared to four Asian tigers. The reason was that, industrialization strategy and other industrial policy asserted were not like those in East Asia. The difference of the two regions is that, all firms in Latin America were given same motivations as supplied to firms in East Asia but those of Latin America were inept. For example, the way rules and rivalry policies changed the structure of domestic market. crucial features of a victorious developmental state. The policies were same in almost developing countries but their outcomes were still different in the two regions. For the side of four Asian

tigers, the policies brought conducive environment and used the advantage to exploit economies of scale and make firms to grow efficiently, while in Latin America, they only created a preserved home market for local firms but even unproductive.

Also in Latin America, they espoused an anti-export strategy of import industrialization and lacked government capacity and investment in different sectors like in education, science and technology innovation was less qualified than in East Asia.

2.10 DEVELOPMENTAL STATE IN AFRICA

Making an effort for industrialization in Africa was in general inadequate. Even though, there are some successful countries like Mauritius, Botswana and Madagascar. But in general inward industrialization in Africa failed. According to UNCTAD (2007) the first reason for failure given is that developmental state wasn't successful due to incapacity of the African states to formulate and implement an effectual industrial policy.

The second reason given, is incapacity of ISI to modify external conditions differently and the third reason which is the last is political dimension where Robinson (2009) explains that industrial policy succeeds when leaders with power really want industrialization to flourish. In relation to the Robinson's idea, Rwanda since 2000 has established a government program development with six objectives, but among all the key is to transform a country from agricultural based to middle income country, from all above experiences, Rwanda has an advantage of knowing which strategy to apply, according to Winston Churchill "**Those that fail to learn from history, are doomed to repeat it**". Thus the history of other countries should be insight for Rwanda to know which strategy to apply. In short, after insight of past and current experiences of some countries like Brazil, Colombia, East Asian countries, Latin America and

African countries, one can ask which strategy should Rwanda adopt? Having seen countries that succeeded and others that failed, this will provide Rwanda with awareness to decide how to go through so as to afford to design and execute its export promotion effectively.

Also Rwanda will acknowledge that for a country to formulate industrial policy, need to have dynamic nature of controlling excellent policy, where its content and objectives are extendedly assessed and upgraded taking into consideration the outcomes acquired, under the restrictions provided by the convenient wealth and capacities. Also according to recent literature Rwanda should know, that there is no single formula for effective export industrialization. Preferably, the prominent general agreement is that the successful export industrialization policy requires to be combination of many practices and country's domestic exercises are all important characteristics.

Though economic literature of industrial policy is huge, something important has been learnt from its theory and empirics, for a country like Rwanda need to consider its political economy of industrial policy, the history of the country that need to formulate industrial policy, what characterizes the economics of the country and the last the political environment of the country, all components mentioned above determine what kind of industrial policy is practical and achievable to execute (Michele Di maio, industrial policy, 2014).

CHAPTER 3: KOREA IMPORT SUBSTITUTION POLICY

3. INTRODUCTION

From 1950s, the Korean government policy was Import protectionist and export to certain extent so as to acquire some foreign exchange. Essentially, it was government's development policy whose intention from the beginning was to enlarge industrial from import Substitution, the government espoused to it as an answer to the serious foreign exchange crisis by then. Import Substitution under protection was the stand and policy for industrialization recommended by the economics profession in the 1950s and 1960s, it was only after the East Asian experiences that benefits of open trade regime began to be recognized by the profession (Kruger (1997)). The policy aim for industrial development through Import Substitution was obvious in the tariff increase of the tariff system that established in 1950, they arranged from zero to more than 100% on goods like essential, food grain, raw materials and other non-competent goods. Luxury goods contained tariff cost of 100% or above. For a long time, tariff exemptions were established in 1952, capital goods imported and individual tariff rates were amended, but the whole structure tariff wasn't changed up to 1970s. Import restriction has upsetting effect on export through another pathway like effect on foreign exchange rate. Import restriction decreases the import demands and consequently the demand for foreign exchanges, thereby decreasing the exchange rate, that is, the won-dollar rate in Korea is example (Jungho Yoo, 2017).

3.1 KICKOFF OF EXPORT PROMOTION STRATEGY

Korea government adopted export-oriented strategy which had favorable outcome contrasted to the earlier ISI procedures. It is said that US coercion to reduce aid was the salient factor that directed South Korea to adopt export strategy. In the beginning Korea depended on US foreign aid, the time reached when America gestured to Korea that it wasn't reluctant to persist providing aid to South Korea, from this gesture South Korea found alternative source of to obtain foreign currency reserves was to adopt export strategy. Besides, US advisors had earlier along persuaded Korean leaders to enlarge its export size in part since America's growing military confrontation in Vietnam in which Korea can export to (Siwook Lee, Spring 2003).

3.2 EXPANSION AND EFFECTS OF EXPORT STRATEGY

The annual growth grew to 35.3% on average, from 1963 to 1969 later in 1970, the growth decreased to 25.4%. Studies show that Korea's economic growth started by the time of Import Substitution then to Export Substitution promotion in 1960s and the trade policy shifted in the direction of less interference and more relaxation method (Core & Lyman, 1971). Differently to other studies that followed in 1980s which support the government to have contributed a big role. According to Table 3.1, it comes into view as the year 1959, to be the commencement year of total export. In that year, the amount of export grew to double-digit rates which is the proof. Although, during that time growth look to have happened by possibility totaling to 25.5% growth of non-manufactured exports, which didn't continue to grow in the following years (Jungho Yoo, 2017:3).

Table 3.1 Korea's export expansion from 1957-1970

(MILLION CURRENT DOLLARS)

Year	Total exports	Manufacturers	Non-manufacturers	Export/gnp (%)
1957	22.2(-9.7)	4.1(66.6)	18.1(-18.2)	0.6
1958	16.5(-25.9)	2.6(-37.3)	13.9(-23.3)	0.6
1959	19.8(20.4)	2.4(-7.1)	17.4(25.5)	0.7
1960	32.8(65.7)	4.5(89.2)	28.3(62.5)	1.4
1961	40.9(24.5)	6.2(37.8)	34.6(22.4)	1.8
1962	54.8(34.1)	10.6(69.6)	44.2(27.5)	2.0
1963	86.8(58.4)	39.5(273.7)	47.3(6.6)	2.9
1964	119.1(37.2)	58.3(47.7)	60.7(28.9)	3.9
1965	175.1(47.1)	106.8(83.1)	68.3(12.5)	5.8
1966	250.3(43.0)	153.6(49.9)	96.7(41.6)	6.6
1967	320.2(27.9)	215.2(40.0)	105.1(8.7)	7.1
1968	455.4(42.2)	338.2(57.2)	117.2(11.6)	8.1
1969	622.5(36.7)	479.1(41.7)	143.4(22.3)	8.8
1970	335.2(34.2)	646.3(34.9)	188.9(31.8)	10.2

Note: The number in the brackets are annual growth rates in current dollars.

Source: KOSIS, On-line information service, National statistics office, the Korean government, Jungho Yoo, (2017)

The Table 3.2 displays how the share of SITC6+8 in total exports increased expeditiously from 1962 growing from 10% to 70% until 1968. It is believed that, this rapidly increase in export was great role played by labor-intensive manufactures. Thus, the year 1962 is recognized of the year of rapid export expansion. Also another distinct feature that entitled to have played a great role in the export expansion is the new items that appeared in the same category of subgroup SITC6+8 which led to uncountable growth.

Table 3.2 Export of new items, 1960 to 1970 (Thousand Current Dollars)

Years	New items			sum	All others	
	In 1961	In 1962	In 1963		Share in SITC 6+8(%)	
1960	-	-	-	-	-	32.827(65.7)
1961	36	-	-	36(-)	0.8	40.878(24.5)
1962	1.358	40	-	1.398(3783.3)	17.2	53.415(30.8)
1963	5.384	578	23	5.985(328.1)	17.3	80.815(51.3)
1964	7.499	1.431	749	9.679(61.7)	17.4	109.378(35.3)
1965	24.914	3.104	4.572	32.590(236.7)	32.3	142.491(30.3)
1966	39.269	4.851	14.175	58.295(78.9)	40.7	191.242(34.2)
1967	68.556	10.300	26.687	105.543(81.0)	53.1	214.684(12.3)
1968	124.103	17.583	39.611	181.297(71.8)	58.4	274.100(27.7)
1969	172.474	13.676	63.543	249.693(37.7)	60.0	372.820(36.0)
1970	233.313	11.642	104.250	349.205(39.9)	60.9	485.977(30.4)

Note: 1. “New items” are footwear, travel goods, and clothing, which began to appear in 1961; synthetic fabrics, umbrella, and artificial flowers in 1962; woolen fabrics and wigs in 1963. “All others” denote total export less export of new items.

2. The numbers in parentheses are percentage growth rates in current prices.

Source: Bank of Korea, Economics statistics yearbook, 1960,1964, 1966, Ministry of commerce, trade statistics yearbook, 1964

The table 3.2 shows that; the expansion of new items was blistering than the growth of the actual export items. Within five years of exports, when new items become visible in exports in the year 1961, they grew 1091 times current dollar terms, those of 1963 grew 1722 times. The plausible example is clothing(SITC84) item export which increased from 2 thousand dollars in 1961 to 213.6 million dollars in 1970. In comparison with the former items for exports, their

total export was less compared to new items. The growth rate of new items didn't last for long, thus the growth decreased and became like the former items. Although, it is believed that new items led to the sudden and rapid export expansion (Jungho Yoo, 2017:5).

3.3 EXPORT INCENTIVES IN 1950s-1960s

The first system was trade credit system which was in place in 1950, in this system, exporters benefited the prime concern of being allocated in domestic credits. This policy approval persisted from 1960s to 1970s, the interest rates on loans to exporters were badly decreased from 1960s. Another export means in the name of preferential export system or export-import link system was espoused in 1951, in which exporters of nonessential domestic goods benefited the appropriate way to use some parts of foreign exchange earnings for importing popular items which couldn't have been imported. This system was stopped in 1953 by the time of devaluation. Since 1952 to 1954 exporters benefited preferential access to foreign exchange loans in a scheme that was set for the government-held foreign exchanges (KFX) to domestic users. In 1955 direct subsidies were provided for exporters later on, the subsidies came to an end due to government failure to include them in government budget which was established in 1959 on imports of raw materials and intermediate goods for exporting. Tariff exemption which later was changed to tariff rebate in 1974 (Jungho Yoo, 2017). A subsidy in the name of Importer's licenses were allowed only to the industries whose export execution fulfilled at least an approved model or standards. The lowest export required for a permit in 1964 was at \$ 100.000, in 1969 it increased to \$ 200.000 and in 1970, it reached to \$ 300.000 (Jungho Yoo, 2017).

Table 3.3 Major export incentives

Description	Dates Applicable
Tariff exemption on imports of raw materials and spare parts	1959-72
Domestic indirect and direct tax exemptions	1961-72
Accelerated depreciation	1966-72
Tariff and tax exemptions granted to domestic suppliers of exporting firms	1965-72
Wastage allowances subsidies	1965-72
Import entitlement linked to exports	1951-55, 1963-65 and 1966-71
Reduced rates on public utilities	1967-71
Registration as an importer conditional on export performance ^a	1957-72
Dollar-denominated deposits held in Bank of Korea by private traders ^b	1950-61
Korean Trade promotion corporation	1964-72
Monopoly rights granted in new export markets ^c	1967-71
Direct Subsidies	1955-56 and 1961-64
Export targets by Industry	1961-64
Credit subsidies	1962-72
Export credits ^d	1950-72
Foreign exchange loans	1950-54 and 1971-72
Production loans	1959-72
Bank of Korea discount of export bills	1950-72
Import credits	1964-72
Capital loans by medium industry bank	1964-72
Offshore procurement loans	1964-72
Credits for overseas marketing activities	1965-72

Source: Charles Frank, Jr., Kwang Suk Kim and Larry E. West phal, 1975

In addition to this, in the year 1969, traders were classified in four categories and given names like blue, white, yellow and red-cards holder, which accounted for annual achievement jazzed-up, the best performance businesses were favored in different ways including exemption of collateral for regular and special tariffs, relaxation of tax surveillance and preferential treatment in foreign exchange allocations for overseas (Charles Frank, Jr., Kwang Suk Kim and Larry E. West phal, 1975:67). Individual exporters were likely given monopoly rights in new market export. This

type of subsidy started in 1962 but only was used to few goods till 1967. In 1972 was a reform of many export incentives which was lessened. The lessening was as follows; 50% reduction in tax of corporation and individual business income earned from export was terminated. Government declared a gradual adoption of a tariff rebate. Lastly, till 1973, imports of raw materials for exports were allowed tariff exemption, but when importer failed to rise the designed export target and rules was fined.

In Table 3.4, it is shown that, from 1967 to 1970, export incentives persisted on going. Among all the subsidies, preferential loans were the powerful and salient engine for export promotion during the interest rate reform of 1965. The table displays the increase of diverse subsidized government finance loan schemes for exports in the year 1967 to 1970. Also in the year 1968 and 1969 export industry operating credit and export industry promotion were terminated. Government replaced them with credits for domestic production of raw materials for export productions and processing.

Table 3.3 Government subsidized finance loan schemes for exports in 1967-1970
Outstanding credit million won as of Dec 31

		1967	1868	1989	1970	Annual interest rate	Term	
1.	Export credit	6.618	8.072	11.866	19.129	6.0	90-135 days	
2.	Loans for suppliers of US off-shore procurement	3.399	3.567	5.291	4.510	6.0	90 days	
3.	Credit for imports of raw materials for export	17.835	20.239	31.868	49.981	1.5	60 days	
4.	Payment guarantee	(11.8350)	(8.859)	(14.201)	(21.244)			
5.	(Domestic issuance foreign exchange)	(62)	(29)	-	-	6.0	90-135 days	
6.	(Import loans)	(6.481)	(11.351)	(17.666)	28.737	6.0	90.135 days	
7.	Export issuance	652	550	1.986	4.463	6.0	90-120 days	

8.	Loans for export	-	-	35	154	6.0	90-120 days	
9.	Foreign exchange loans for import of capital goods for export industries	1.849	7.802	10.297	21.372	12	3-5 years	80% of import value through 68 & 90% in 69
10.	Export industry promotion loans	61	368	28	7	26.0	90 days	Abolished 1969
11.	Export industry operating loans (count part fund)	193	-	-	-	18.0	1 year	Abolished after 1968
12.	Equipment loans for conversion into export industry	1.531	2.237	2.536	2.826	12.0	5 years	A maximum of 10m won to those industries specified by the ministry of commerce and industry
13.	Loans for export specializing industries	292	563	742	807	12.0	90-120 days	5 years
14.	Loans for production of raw materials	-	-	134	833	6.0	90-120 days	220 won per dollar in 1969-1970
15.	Loans for preparing agricultural and fishery products for export	-	-	3.413	4.001	12.0	90-180 days	70% of required funds
	Total	32.430	43.398	68.196	180.083			

Source: Bank of Korea: Medium industry Bank Raised to 90 percent per annum, June 1971

Another subsidy in the name of flexible wastage allowance increased in support another incentive for export in 1960s to support many industries (Charles Frank, Jr., Kwang Suk Kim and Larry E. West phal, 1975:63-65). However, Korea government have invested a lot of export measures to promote exports, the findings manifested that, these measures did not directly influence exporter's earnings, and their effects that was observed on export was unintended [Hong (1979:49), Frank, Kim & West Phal (1975:38,60).

Table 3.4 Growth and changes in industrial structure 1953~1977

	1953	1957	1962	1967	1972	1977 ^a
Industries (percentage distribution of value added)						
Agriculture and forestry	46	42	39	32	23	16
Fishery	2	2	2	2	2	3
Mining and quarrying	1	1	2	1	1	1
Manufacturing	6	9	12	17	25	35
Electricity, water and sanitation	0	0	1	1	2	2
Transportation and communications	2	2	3	5	6	7
Construction	2	2	3	4	5	6
Wholesale and retail trade	11	13	15	15	18	17
Banking and other services	8	8	9	8	8	6
Education and public administration	17	14	12	10	8	5
Ownership of dwellings	5	4	4	3	2	2
GNP (in billions of 1977 \$)	5.0	6.1	7.3	11.2	18.0	31.5
Per capita GNP (in 1977 \$)	240	266	275	368	541	864
Commodity exports/GNP ^b	1	1	2	7	18	33
Commodity imports/GNP ^b	10	11	16	21	25	35
Trade (in billions of current \$)						
Commodity imports	0.35	0.44	0.42	1.00	2.52	10.81
Service imports ^c	0.01	0.01	0.03	0.08	0.19	1.68
Commodity exports	0.04	0.02	0.06	0.32	1.62	10.05
Service exports ^c	0.12	0.04	0.10	0.30	0.49	2.69
Official aid ^d	0.19	0.37	0.22	0.15	0.07	0.00
Foreign loans	—	—	0.00	0.17	0.63	1.02

Source: Bank of Korea, National Income in Korea and Economic Statistics Year-book

As the table 3.4 displays, the increase in growth rate was escorted by the quick change in manufacture make up. The example in agriculture, industry and fishery which composed of 42 % of GNP in 1957 amounted to 23% in the 1972, manufacturing which had 9% grew to 25% of GNP in 1972. Thus the growth was observed during export promotion.

Table 3.5 Korean Exports by Major Sectors from 1953-1975

SITC code Year	Food and Beverages (0 and1)	Crude materials 2 and 4	Mineral Fuels (3)	Chemicals (5)	Manufactured Goods (6 and 8)	Machinery and Transportation Equipment
1953	5.6	89.6	2.6	-	2.3	-
1955	6.2	81.8	2.7	.5	7.3	1.3
1957	15.2	65.9	.0	.0	18.2	.3
1960	30.9	48.8	3.5	1.2	12.3	.3
1963	20.8	30.5	3.5	1.0	39.8	4.7
1965	16.6	21.2	3.0	+2	57.6	3.1
1968	11.7	13.5	1.1	.7	68.2	5.4
1970	9.6	12.0	2.0	1.4	68.7	7.4

Source: Bank of Korea, Economic statistics yearbook, various years

Note: Figures do not add to 100 owing both to rounding and to a small “unclassified” category in Korean imports

Table 3.6 Major four digits commodities exported

SITC Code	Commodity	Value (millions of U.S. Dollars)
8414	Clothes and accessories, knitted or crocheted	132.9
8411	Clothing of textile fabrics	129.2
6312	Plywood	126.8
8999	Miscellaneous manufacturing neck.	70.6
7293	Valves and tubes	48.5
2613	Raw silk	39.3
8510	Footwear	37.4
8412	Clothing and accessories made of fabric	36.2
6521	Cotton fabrics	20.7
0311	Fish, fresh and chilled	20.0
6516	Yarn and thread of synthetic fibers	19.2
6743	Iron and steel plates and sheets	19.2
6556	Twine, cord, and rope	17.2
6535	Fabrics made of synthetic fibers	14.4
0313	Crustaceans and mollusks	14.1

Source: Bank of Korea, Economic Statistics Yearbook, various years.

Table 3.7 identifies 15 biggest four-digit export categories. Such products include textile, apparel items which was dominant but entails also iron sheet products, ply wood, footwear and fishery products and many others in table 3.7

3.4 GOVERNMENT SUPPORT TO SMES

Korea government initiated countless tangible incentives to encourage small entrepreneurs to become exporters. When the government targeted a certain product as far as the market oriented, it generated direct and indirect incentives whether in financing, taxation and managerial command to the producer who met the requirements. The incentives included reductions in corporate and private income taxes, tariff exemptions for tax rebates. Government provision of accelerated allowances to manufacturing industries enabled them more than 50% of revenue in foreign exchange and gained more 30% of ordinary depreciation which was authorized by the tax law. All incentives government provided, interest subsidies to exporters was the most significant.

3.5 KOREA'S IMPORT POLICY

Although Korea government was necessarily export oriented, it had not quit or introverted to the free trade. Likely, in 1967 in Korea, domestic industries were safeguarded by direct import controls. Imports were allowed on the starting point of those items that were included on the list of items allowed to be imported. The list included main items like essential raw materials, energy, capital and intermediate goods. After the government adopted consolidated exchange rate system in 1964, it continued to construct incentive formation that preferred utilization of imported capital and intermediate products to expand active export firms. The government proceeded with

import measure's restrictions especially on general quota, foreign exchange allocation and imports legislations to dishearten consumer's importing (Ibid).

Table 3.7 Comparison of bank interest rates in export vs commercial loans

	Export lending (A)	Commercial lending (B)	A/B
April 1962	12.78	16.43	0.78
July 1962	10.95	16.43	0.67
December 1962	9.13	15.70	0.58
May 1963	8.03	15.70	0.51
March 1964	8.00	16.00	0.50
September 1965	6.50	26.00	0.25
June 1967	6.00	26.00	0.23
May 1973	7.00	15.50	0.45

Source: The Bank of Korea: Economic Statistics Yearbook

All through the initial two decades of Korea's engagement in the export promotion, the export interest rates were remarkably below than that of commercial rate, computing to 40 to 60% of the commercial. Table 3.98 shows that, in 1965 when commercial interest rate increased to 26%, that of export adventures financed as much as 6.5% short term credits to exporters which continued to increase up to 7% of required capital by 1973. Export credits had always been forbidden to form credit controls (Kwan S. Kim, November 1991). Standard units for moral

incentives were espoused with almost same coercion. Ministry of Commerce and industry set annual export targets for firms in export section. If targets were not achieved, the responsible people in the ministry looked for the causes and get solutions as soon as possible so as not to let export promotion fail. Export producers were allowed subsidized loans from established institutions to promote exports, such as Korea Development Bank, the Export-Import Bank, Technology Development Corporation and National Investment fund. In these institutions, a number of legislation and regulations like tax incentives law, the government budget and accounting law and the tariff laws provided diverse forms of tax relief and tariff reductions for imported inputs to the manufacturer.

3.6 3.6. KOTRA AND OTHER INSTITUTIONS

Institutions related with export promotions were established like (KOTRA) Korea Trade Promotion Corporation, these institutions were formed in 1962 with tasks of making research and trade promotions. Their tasks include; display Korean products, participate in international trade affairs, dispatches trade missions to potential markets and receives inquiries and visits from foreign businessmen seeking Korean products, the institutions also sponsored the Korean exhibition center which hosts major trade fairs like foreign buyers. While another private sector called Korean Traders Association which runs the World Trade center in Seoul, gave feedback to whichever information related to trade to its over 2300 member companies. Another trading companies named Chonghap Sangsa was important agency which was formed by the government to train exporters how to increase export promotion(ibid). Big companies were attracted to infiltrate the business field of diverse incentives like advantages in the areas of trade administration, export financing, taxation and foreign exchange control. The government cracked

export targets into detailed parts by domestic exporters inspiring them to produce in the direction of the adequate acceptable performance. The selected exports found on what the industries reflected to attain were increased every year by the government regarding its own prediction on how fast export should mushroom. So the Chonghasangsa establishment was another instrument to make export oriented work better for the country. Because of Chonghasangsa, there was completely development of industries that came to be recognized than in the beginning, network reached all over the world, all agencies established, worked conjointly to assist industries to get niche in overseas markets. Hence, President Park's official policy for bringing industrial base into existence for export promotion showed beyond doubt fruitful impacts of development(Ibid).

3.7 MUSAN SPECIAL ECONOMIC ZONES

3.7.1 Introduction

Like other developing countries, Korea in its developing time adopted Special Economic Zone Strategy (SEZs) in 1966-1970. In latest years, SEZs has enticed great number of countries that moved from inward strategy to outward strategy using SEZs as a master plan for extending and improving country's economies. As SEZs entice countries, the more number of zones have been growing in different countries (ILO, October 2009), among which Korea is included, apart from that, the number of employment in SEZs grew as well as its variety (Guan Gwen meng, 2005).

3.7.2 Musan objectives

In its first phase of commencement, Korea established its five-year development strategy in which it adopted two objectives;

- To promote export-oriented and

- import oriented in consumer goods.

Table 3.8 Musan size and firm's composition activities

mfg.-type	Year of Establishment	Area (Ha)	Composition of SEZs
SEZs	1970	95.4	-Manufacturing type, multi product high-tech, high value added manufacturing -Logistics-type, trading logistics

Source: Aradhna Aggarwal 17.73, Copenhagen Business School

As Korea's technological know-how was weak by then, the country encouraged firms to concentrate on foreign technologies so as to overcome the challenge of reducing total amount of imports and foreign exchange shortage it has. The solution to this challenge, Korea government found the best way to handle it, was to inspire FDI in export oriented sector so as to gain new technology and advance Korean manufacturing (Lee sang Cheol, Seoul: KIEP, 2008)

Table 3.9 Showing Masan SEZs in Korea.

Total firms	Foreign firms	Export US \$ Million	Imports US \$ Million	Investment US \$ Million	Foreign Investment US \$ Million	Employment
83	52	3.256	1.921.2	213.5	135	7.318

Source: Jeong Hyunggon, operation system and policies for success of Navoi FIEZ

By the time of its establishment, the zone attracted 70 enterprises with \$ 218 million in investment, 85.4% was FDI while the rest was local investment. Japan alone invested 97% of total FDI.

3.7.3 Link of SEZs performance with domestic economy

In the beginning of SEZs establishment, 80% of the total amount of imports were used by SEZs firms from foreign markets, only the portion of domestic market procurements was 20%. However, as time passed, the percentage of domestic market procurement increased at 40% of total imports by 1990s (Dorsahi madani, working paper, no.2238)

3.7.4 Contributions of SEZs

The portion of Masan SEZs in Korea national exports has never been considerable in the starting period. The export share of Masan SEZs was 1.21% in recent years of 1990 since its establishment, on the other hand, SEZs covered up some deficit in the balance of trade, it also did some role in 1980 of reducing total trade surplus at the percentage of 69 (Aradhna Aggarwal 17.73, Copenhagen Business School). Apart from covering some deficit, SEZs played some crucial roles in Korean economic development as follows;

- SEZs provided employment and foreign exchange generation in earlier stages of economic growth,
- Built technological capabilities in the manufacturing sector during the take-off stages. While in the latest stage of growth, Korea's SEZs was used as a key tool in upgrading technological aspects of the economy.

In conclusion, Masan SEZs is recognized as the most fortunate SEZs in Korea and the first zone to be established with the highest scores. In its debut stage of the first five years, FDI in its area of location grew from 1.23\$ US Million exceeding almost 88 \$ US Million. Later, in the following years investment declined in Masan export zone due to different reasons like oil crisis, global recession and labor revolts.

3.7.5 Korea's successful export promotion

Korea's successful in export expansion has many factors that contributed to this export growth to which among them was Government intervention. The government role was credited to have contributed a significant role in export promotion whereby this extraordinary economic growth began in 1961 when Korea government transitioned from Import policy to Export Substitution. Since from transition, Korea has shown remarkable performance in export. To further this expansion, the government put in place countless of direct export incentives some include long term low interest, government subsidized loans and price controls (Irma Adelman, 2014).

Furthermore, to promote export promotion, Korean government categorized export firms in relation to market oriented dimensions and the president of Korea forced individual firms to implement as they were told. To support these firms that were forced to produce certain goods, they were allowed a safeguarded domestic market. The government printed a forbidden imports and quotas out so as to allow exporters satisfy domestic market without competition.

Another salient factor for export promotion was commitment of Korea's president Park. In 1965-1979 after attaining the achievement of export which was set, president Park established export monthly meeting to promote export. This meeting was chaired by president Park and attended by top policymakers and industrialists, all problems and obstacles related to export promotion was identified and solved in the meeting. In addition, export day was a chance of meeting private sectors themselves without delegation, in this monthly meeting, ministry of trade announced the annual export target in the beginning of the year, and at the end of the year, successful exporters were highly acknowledged and given award and other government incentives. This culture of rewarding best performers motivated exporters and this made exporters to work hard to meet targets set. As a result, monthly export promotion meeting was often considered as a collective

learning process, building capacity of all participants of the meeting, including policy makers and businessmen. To strengthen investment, capital goods imports were given preferential treatment and to increase utilization cost rate of existing requirements. Also intermediate goods imports were given preferential care. Failure to defend intermediate capital goods in 1950s to 1960s which contributed a prominent role to the fast export promotion in the end 1960s and 1970s as producers of exports were free to utilize low-cost imported intermediate and capital goods in place of high-cost domestic products.

In conclusion, South Korea is recognized of the best achiever in export promotion in 1960s and 1970s yet it was not the only country that adopted export strategy alone to develop countries economic development, but has managed to be the successful one, while other countries that adopted the same strategy failed, one can ask which strategies Korea used to reach its achievements? It is said that one of the core strategy for Korea's success was state's intervention. The Korea government undertook crucial responsibility in undertaking the assignment of resource distribution so as to generate distinct national forms like production, investment and export. All policies which ruled capital distribution which would influence industrial make up were handled carefully by the government. Further, Korea's strategies were ever changing, tactical and fast in adjusting strategy preferences. Korea set two principle objectives to attain its set goals.

Firstly, the government found the best way to reach its goals is to support the already exporters that were in industries with comparative advantages. Secondly, to advocate SMEs that were in export area, so that if government assist them can quickly adjust to industrial sector. Thus, Korea's export led strategy was formulated based on export strategy type with incentives to

promote export industries not forgetting to protect domestic industries that were producing for domestic market.

CHAPTER 4: RWANDA EXPORTS

4. INTRODUCTION TO RWANDA EXPORTS

The development of Rwanda exports outset from early 1930s following the Belgian colonial administration until 1962 when Rwanda got independence, the main export was coffee with 55%, followed by various minerals like cassiterite, tin and wolfram consisting of 37%, 3% pyrethrum and 2% tea up to 1994, the main export commodity of Rwanda was coffee which become extensively in the country from 1930s when Belgian colonial administration forced Rwandans to grow coffee to increase revenue collection to Belgian colonies of Rwanda –Urundi during the time of great depression. From independence time to 2009, Rwanda exports can be classified into three interval periods.

The first interval starts from 1962-1986. In this period, the export average was 8% GDP, coffee commodity with 60%, minerals had 30% and other export products like tea and pyrethrum.

The second interval start from 1986-1995. During this time, export sector inclined down ward. The cause for decline was the global coffee down-turn that happened in 1986, this made a decrease of 70% export in this period. This was followed by consecutive devaluation and political instability of 1990 Rwanda genocide (Dimitri stoelinga, Nov 2012).

The third interval period start from 1995-2011. In this period, Rwanda was rebuilding itself from 1994 genocide. The export commodities had collapsed between 4-5% of GDP, services overtook the export and had 55% of exports in 2000(Ibid).

4.1 EXPORT COMPOSITION

Rwanda exports are composed of traditional goods which include tea, coffee and minerals. In Rwanda national development program vision 2020, the government ‘s goal is to achieve GDP per capita of US \$ 900 in 2020, the export growth is targeted at 15% per year and is considered as a key tool to play a role of reducing imbalance-of-payment difficulties and trade deficit (NES, March 2011). But with EDPRS II (2013-2018) the annual growth rate was accelerated to 28% per year (EDPRS II). The three main exports account for 88% of the country’s exports, while the rest has 12% which include non-processed agricultural products, live animals, pyrethrum, construction materials and many others (NES,2011).

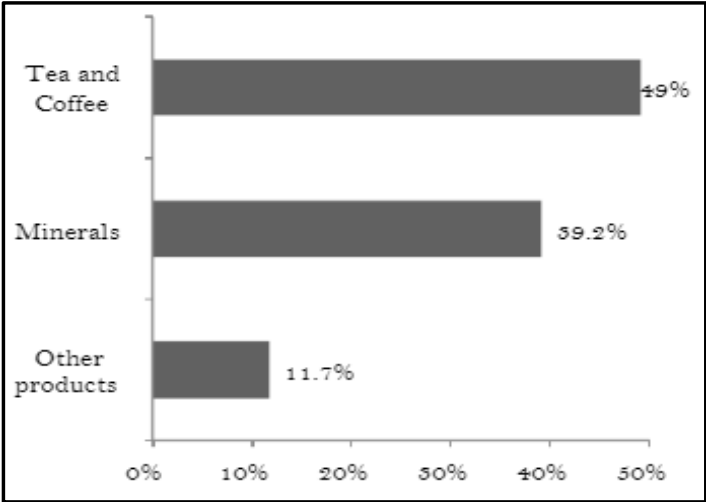


Figure 4.1 Rwanda exporting commodities in 2010

Source: Dimitri Stoelinga Nov 2012, Understanding Rwanda’s export sector

Sector	Share of firms (2006)	Share of firms (2010)	Difference in share	Number of new firms
Vegetable Products	37%	40%	3%	98
Construction Materials/Metals	2%	16%	14%	61
Animal & Animal Products	1%	7%	7%	28
Chemicals & Allied Industries	2%	4%	2%	11
Machinery / Electrical	2%	3%	1%	9
Mineral Products	16%	8%	-8%	6
Miscellaneous	11%	6%	-6%	4
Wood & Wood Products	6%	3%	-2%	4
Stone / Glass	1%	2%	0%	4
Foodstuffs	5%	3%	-2%	3
Textiles	9%	4%	-5%	2
Plastics / Rubbers	4%	2%	-2%	2
Transportation	0%	1%	1%	2
Raw Hides, Skins, Leather, & Furs	3%	2%	-2%	1
Footwear / Headgear	1%	1%	0%	1

Figure 4.2 New firms in manufacturing with new exports

Source: Dimitri Stoelinga Nov 2012, Understanding Rwanda's export sector

In 2005, Rwanda gained new exporting firms as well as new exporting commodities from manufacturing sector. According to the table above, the portion of firms and their exports has increased mainly in tea, after it was privatized in 2006, also coffee processors increased after it was privatized and also in mineral mining sector due to investors that have invested in this sector.

4.2 RATIONALE OF RWANDA TO PROMOTE EXPORTS

In the last past years, Rwanda's economy has been increasing at average rate of 8% per year (World Bank, 2015 a). The growth has been guided by important expansion of export worth, which has increased by 20% every year since 2014 (MINICOM, 2015). In the past years, the increasing growth was facilitated by the increase and stable mineral prices in the global market. However, in 2015, when the prices of the minerals declined, other export commodities are weak

to compensate, as a result there was decrease of 7% in 2017(Trade and export promotion, IGC Jan 2017). While on the side of imports, it has continued to increase three times that of exports in 2016. This has resulted to increase of trade imbalance, foreign exchange reserve decrease according (MINICOM,2015). As a result, Rwanda government has thought out of promoting exports as quick as possible so as to reduce trade deficit that is rapidly increasing, increase foreign exchange and to ensure macro-economic stability to mention but a few. Furthermore, export expansion will create jobs as Rwanda has targeted to create 200.000 jobs per year according (MINECOFIN, 2013). To achieve this target, Rwanda need to formulate suitable strategies to attract investors in export sector who will promote export as well as creating jobs (Trade and export promotion, IGC Jan 2017).

4.3 INDUSTRIAL SECTOR

In 2011, industrial policy was established with a vision “to have competitive industrial and advanced service sectors producing over \$ 1.5 billion of exports by vision 2020, while increasing the number of off jobs” (industrial policy 2011). This section is subdivided into two parts.

The first part discusses Background of industrial sector in Rwanda.

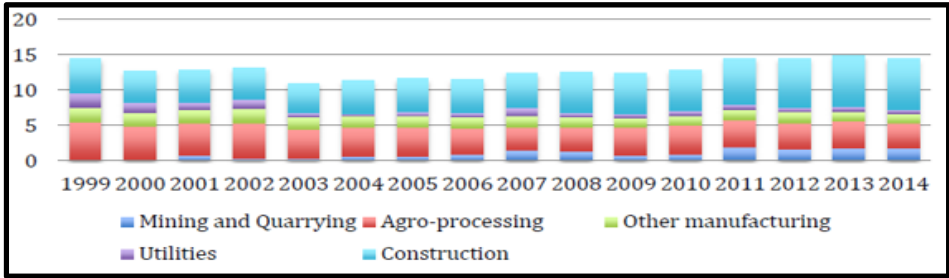


Figure 4.3 Composition of industrial sector in Rwanda 1999-2015

Source: Ministry of Finance and Economic Planning, Rwanda

The figure 4.3 shows the components of industrial sector in Rwanda, Construction carries high percentage followed by agro-processing and others as the table narrates.

To develop export promotion, industrial sector in which manufacturing is included, need different strategies and policies put forward by Rwanda government to develop and promote industrial sector among which, some has been done are as follows;

4.4 ESTABLISHMENT OF RWANDA DEVELOPMENT BOARD (RDB)

The government established Rwanda Development Board (RDB) in 2008, so as to bring together other government institutions that deal with investment under one agency. The government gave the agency the following tasks;

- The agency was to serve as a one stop shop for all investors.
- The agency was responsible for new business registration, promote investment, environmental authorization and privatization.
- The agency has the task of transforming the country into a global hub for business, investment and innovation
- Lastly to provide the current and potential exporters trade and market information as well as advise and recommend to the government on practical measures to stimulate export trade (Rwanda Development Board 2015).

4.5 ESTABLISHMENT OF KIGALI SPECIAL ECONOMIC ZONES (KSEZS)

The plan to establish Special Economic zones (SEZs) in Rwanda came in 2006 and put in real implementation in 2008. The SEZs has two stages. The first stage comprises of sixty-one (61)

plots which were in operation in 2014, all plots in this zone are already reserved with current companies migrated from the old industrial park area called Gikondo. The second stage has also finished to be prepared in which the government announced more than 80% of the plot were reserved. Large number of investments are in lineup with strategic DMRS targets. The SEZs was established to answer domestic private sector constraints like industrial and commercial land, Cost of energy, transport linkages, market access and reduced bureaucracy and availability of skills.

Diverse attempts have been undertaken to bring more investors to Kigali Special Economic zone which is a mixed use of the following investments;

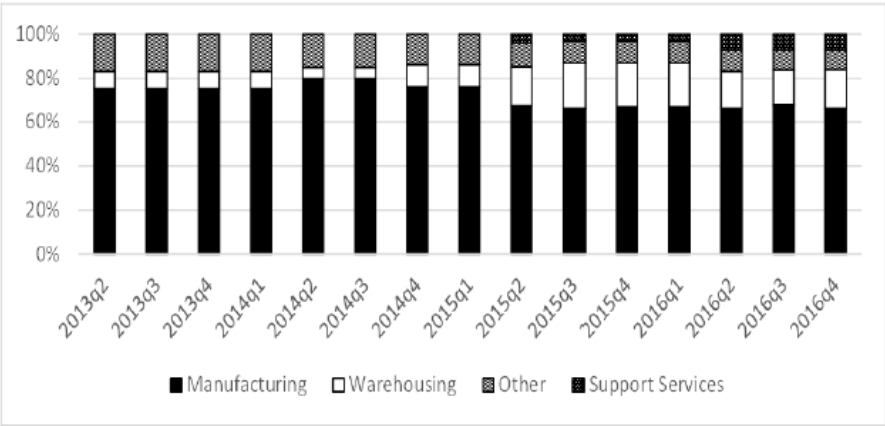


Figure 4.4 Showing KSEZ firm categories from 2013-2016

Source: victor steenbergen Beata javorcik, August 2017

According to figure 4.4, there are four comprehensive categories of KSEZ firms. The bigger one comprise of manufacturing firms, followed by warehouses, then other firms and support services. The key motive for initiating special economic zone is to attain foreign exchange and domestic private sector investment into the nation in order to approach new business capital, ameliorate

industry’s productivity, export growth, arouse job creation and diversification development of industry.

Secondary, SEZ act as part of broad economic reform strategy that targets to grow and expand new export industries especially manufacturing prior to enlarging them to the rest of the economy. For better functioning, the SEZ is maintained with roads, electricity, water, a fire fighting system, a sewage system and fiber-optic cables (F-38419- RWA-1, August 2017).

Because of commitment of Rwanda’s leadership, quality of its work force and the conditions offered in SEZ, C&H Garments decided to set up in Rwanda in 2014, C&H is the factory that manufactures many varieties including police uniforms, handmade pieces and many others. Most of the manufactures are intended for export use (Ibid).

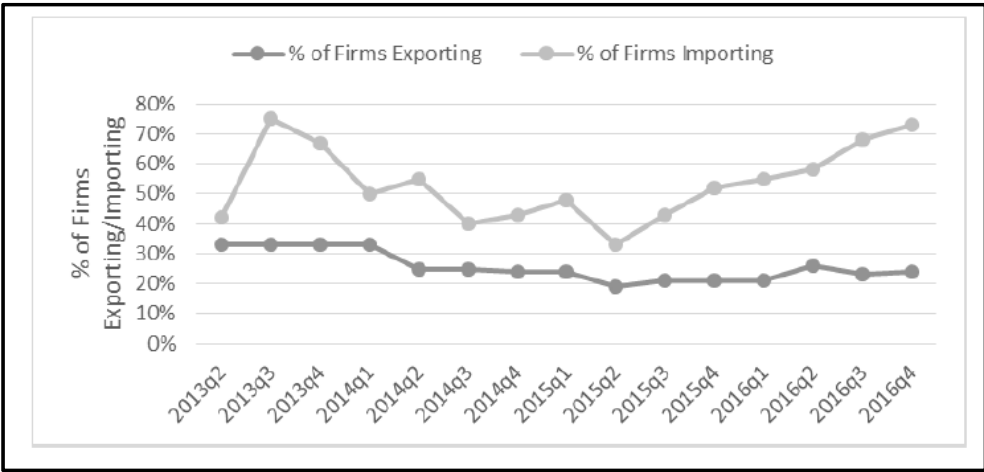


Figure 4.5 Impacts of Kigali Special Economic Zone on exporting and importing

Source: victor steenbergen Beata javorcik, August 2017

According to the figure 4.5, the portion of firms in Kigali special economic zone, that export are relatively small, and their number has been low as time passed. The example, is in the year 2013 in which 33% of all firms in KSEZ exported small quarter of goods, again in the year 2015, the export amount decreased to 20% which later in the end 2016, the export amount increased to 25% of all firms in KSEZ that exported. It was observed that, between the year 2014 and 2016, the firms that were established in KSEZ came into sight to be focused on the domestic market than the primary reason of KSEZ establishment. The firms in KSEZ carry on more imports to use in production for domestic market.

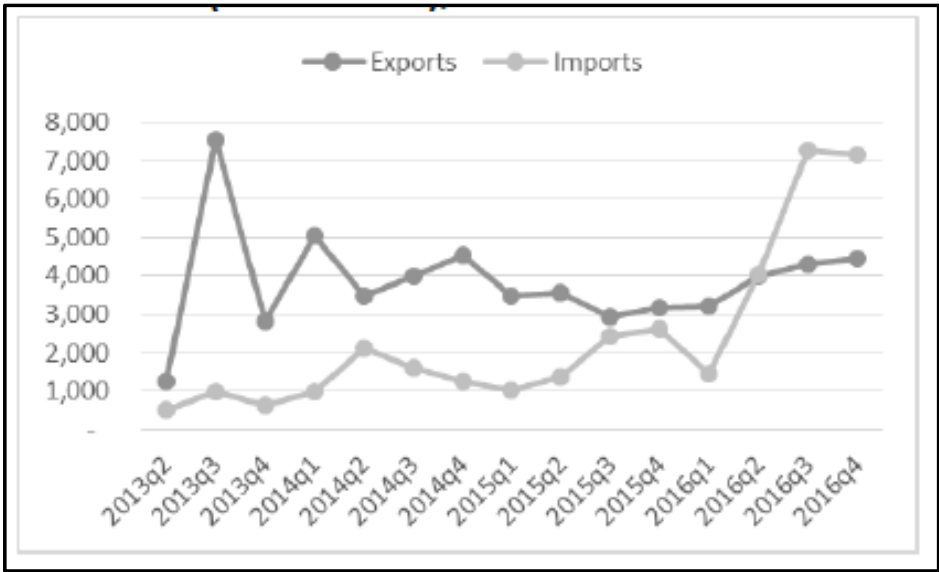


Figure 4.6 Firms in KSEZ that exports and imports (Annex A. 4)

Source: victor steenbergen Beata javorcik, August 2017

The figure 4.6 shows that, in the year 2013 the main exported goods were foodstuffs totalling to 75% in KSEZ, followed by 24% from furniture. In the year 2015, the more firms were established in KSEZ, in which the overall goods for export expanded to eight categories, and in

the year 2016 the categories for exports increased to 10 exporting KSEZ firms. Although, the total of exports has not extended exceedingly extra , it perceived through different categories of exports that increased, hence KSEZ contributing significant role of export diverseness.

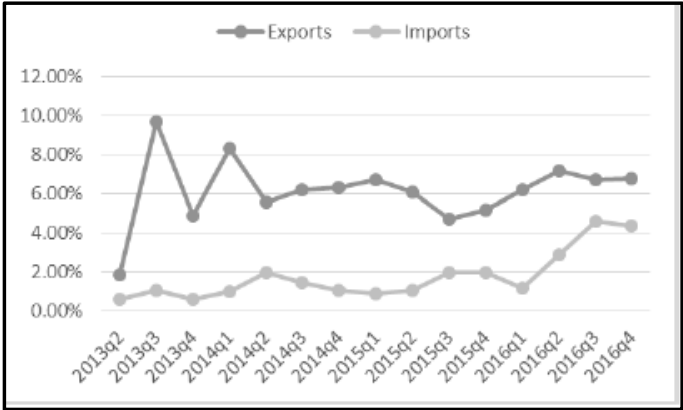


Figure 4.7 KSEZ firms exports and imports

Source: Victor steenberg Beata javorcik, August 2017

The figure 4.7 shows the total of exports and imports. Thus KSEZ advocate to be doing a great job of reducing Rwanda’s trade imbalance. Even though exporters are few in number, but their exports exceed imports. Hence KSEZ proving to be the salient source of government export though not all firms in KSEZ export.

In conclusion, Kigali economic special zone (KSEZ) is still immature as it was established in 2013, Rwanda government has put much effort to develop it. In short since KSEZ establishment, it has played a salient economic contribution like employing permanent employees and increasing domestic sales. Also KSEZ has contributed 4.5% of all national exports and firms in KSEZ are increasingly manufacturing variety of different export commodities comprehensively. KSEZ has played prominent roles in reducing Rwanda’s trade balance in all

quarters except in the year 2016, though imports is apt to exceed exports (Victor steenberg Beata javorcik, August 2017).

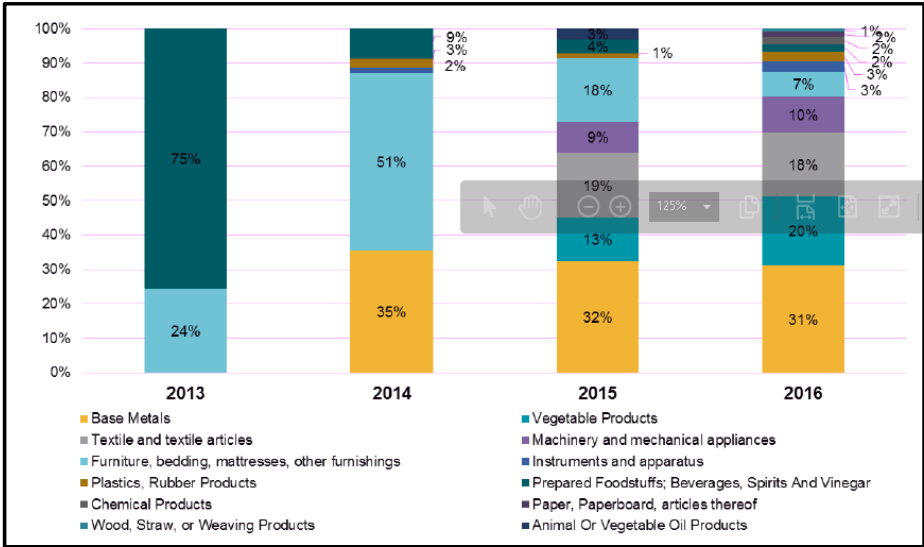


Figure 4.8 Types of KSEZ commodities exported

Source: victor steenberg Beata javorcik, August 2017

4.6 INCEPTION OF DOMESTIC MARKET RECAPTURING STRATEGY

In the year 2015, DMRS was formulated to supplement other strategies like National industry strategy, National export strategy and Special economic zone policy (SEZ) all aiming to reduce Rwanda’s trade deficit, increase local production for the domestic market while adding to basic conversion of fruitful part and increasing global competitiveness. In accordance with DMRS goals are to boost domestic production for local consumption, provide fundamental change of productive sector and increase global competitiveness (MINICOM 2015). DMRS priority sectors are categorized as follows;

- Construction materials
- Light manufacturing and agro processing.

The sectors consist of twenty-one (21) particular sectors with selection based on capacity deduction to import reduction, the state of organized activities in the sector, the dimension of the home market and export capacity to neighboring countries, opportunities of raw materials and whether activities have strong connectivity's to the domestic capacity of the domestic sectors like cement, textiles and garments were spotlighted as compelling for the DMRS, with big possibilities for recapturing the domestic market (Pritish Behuria, Feb 2017).

4.7 MADE IN RWANDA CAMPAIGN

To aid the DMRS, Rwanda government initiated made in Rwanda campaign, whose intention is to transform the mindset of local people to buy local and have confidence in the admirable local products. Partly, Rwanda government pledged to back local firms through its procurement contracts, at the same time holding affairs and finance in advertising for community produced products. The government founded an Export Growth Facility (EGF), with estimation of higher than one billion Rwandan Francs. The EGF permits exporters to obtain finance at 8% dividends per annually up to 50% of the value exports acquired when searching new markets overseas (Pritish Behuria, Feb 2017).

4.8 ESTABLISHMENT OF EXPORT GROWTH FUND

Rwanda government to increase external connectivity and growth of exports as crucial priority of EDPRS 1& II as well as to boost economic growth and alleviate people from poverty, has

launched Export Growth Fund (EGF). The fund is to support under three main components, which are;

- An investment catalyst fund: Is a subsidy provided with interest rate of loans to private investors who decided to invest in export oriented.
- A matching grant fund for market entry: Are grants given to certain firm that invested in export activities.
- An export guarantee facility: Are transactions related to commercial banks

4.9 EGF OBJECTIVES

To facilitate SMEs with interest rate return of 50.000 Rwandan francs to 1 Million to access bank for export production expansion

Rwanda government facilitate SMEs with technical assistance to improve their capability on export promotion

To widen financial services to Rwanda's has improved formal finance sector.

4.10 EGF TARGETED SECTORS

To motivate private sector investments in exports via subsidized loans with 10% as interest rate.

The fund facility is targeted to promote horticulture, agro-processing, artisanal and manufacturing.

Source: <https://www.brd.rw/brd/proin-sodales-quam>.

Also a lot of strategies and policies have been established like SME Development policy (2010) who's among many objectives, the prominent one is to champion job creation and grow in size tax and export base via the encouragement of aggressive new and current SMEs mostly in value added industries. (SME Development policy 2010:14). Not only that, other policies like Trade policy (2010), competition and consumer's policy (2010), private sector Development strategy (PSDS) (2013-18), different supports and capacity buildings like Netherlands Development Agency (SNV), UNIDO and USAID are in place to give support to industrial sectors.

Further still, Empowering institutions responsible for capacity building like WDA, has been established, reform policies have been implemented to avail land for industries and agriculture, good governance and zero tolerance to corruption.

Also, Rwanda joined EAC and Common wealth bodies to ensure partnerships and wider markets (Pritish Behuria, February 2017).

In short, Rwanda exports are composed of traditional goods, however in recent years there have been increase in minerals which also increased the price of exports. This increase in minerals didn't last for long, and due to the composition of Rwanda exports, when mineral price decreased, the remaining exports are weak to compensate for the gap created, thus a very big challenge for the economy due to increase in trade deficit (Mincom, 2015). To expand export expansion, many strategies has been in place to increase domestic production as well as promote exports.

CHAPTER 5: COMPARATIVE ANALYSIS OF SOUTH KOREA AND RWANDA IMPORT- EXPORT EXPANSION STRATEGY

5. COMPARISON OF KOREA AND RWANDA

Table 5.1 and Table 5.2 show the detailed analysis of import- export Strategy

Table 5.1 A comparative analysis of import- export strategy of Korea and Rwanda

Strategy applied	South Korea	Rwanda
The institution contributed to export expansion	State intervention	State intervention
Adoption of the strategy	import and export strategy	Import and Export strategy
Government strategy	5 Year government program	Vision 2020 and EDPRS I & ii
Strategies and policies to eradicate poverty	Semaul-Undong	Girinka and ubudehe and many others
Export start-up period	1950s on wards	1930s on wards
Major exports commencements	New items were manufactured like clothing, foot wear, umbrella, artificial flowers	Export commodities were coffee, tea and minerals
Objectives	Self-sufficient	Transform Rwanda into middle income by the year 2020
Export incentives	Korea invested huge export – import incentives and bank subsidized loan incentives	Removal of Non Trade Barriers and created Export growth fund to support exporters and investors
Government institutions established to promote exports	-MINISTRY OF COMMERCE AND INDUSTRY -EPB -KOTRA -KTA -CHONGHAPSONGSA (TRADING COMPANIES CREATED BY GOVERNMENT)	-MINICOFIN -MINICOM -RDB -RIEPA

Institutions established to provide Subsidized loans to exporters	-Korea Development Bank -Export-Import Bank -The Technology Development Bank -National Investment Bank	-Export Growth fund put in Rwanda Development Bank
Selective of priority industries and targeting sectors	Korea used this system of selecting and targeting since its export promotion	Rwanda has adopted this system recently in 2015 in the name of Domestic Market Recapturing Strategy (DMRS)
Role of private sector	Korea's private sector has contributed a lot to Korea's development through exporting and importing	Rwanda's private sector is still weak

The two Countries, Korea and Rwanda espoused export strategy to develop their economic development and applied different strategies. Korea implemented its policies through five-year economic plan to promote exports while on Rwanda side, they are included in vision 2020 and medium term of its implementation EDPRS I and ii. Also Korea established institutions that provided subsidized loans, to both exporting and importing firms to increase their production and targets while Rwanda has launched export facility fund to finance SMEs, investors that are in exporting sectors only. Last but not least Korea government through ministry of commerce and industry set targets for firms' production which kept on increasing from year to year which helped Korea's exporting firms to be successful this has resulted into big private sectors like Sum sung, Hyundai, and many others while Rwanda's private sector is still weak.

Table 5.2 Comparative analysis of SEZs Evolution of Korea (1970) and Rwanda (2013)

Feature	Korea	Rwanda
Establishment of SEZs policy	Export-oriented small extent import	SEZs is to promote both export and import strategies
SEZs Authority	Under Government	Under Government Authority called SEZAR
SEZs objectives	-Promote export -import oriented and -promote investment	-Promote export growth -Promote industry's productivity -Investment -Job creation -industry's development diversity
Location of SEZ first zone	-Advanced region near airport	-Advanced region near airport
Year of establishment of SEZs	1966-1970	2008-2014
Size of zone coverage	95.4 (ha)	98(ha)
SEZs firm composition	-manufacturing -multi product high tech -value added manufacturing -logistics type trading	-manufacturing -warehousing -support services -others
Number of foreign firms	85.4%	66%
SEZs contribution to country's economy	-Employment -Investment -technological capabilities	-Employment -Investment -Reduced trade deficit -Contributed to export growth
Trade facilitation	Provided incentives (list of number of incentives)	Provided incentives
No of employment	Number of employment increased from 21.000-36,000	Number of employment increased from 2.000-4.000 still in the process
Performance linkage with domestic economy	30% of imports came from foreign market,20% domestic market later domestic increased to 40%	-In 2013, 75% firms imported from foreign market, the number varies
SEZs objectives has not been considered in the debut	-Contributed to trade surplus, share of exports 1.21%	-Reduced trade deficit than increasing exports, share of national exports was 4.5%

In brief, the SEZs policy adopted by Korea and Rwanda was to promote export and import oriented substitution within the plan of export oriented as their set objectives. Since the initial stage of the policy, on the side of Korea the SEZs did not consider the objective of export-import oriented instead contributed in trade surplus side, while on the side of Rwanda, the SEZs has contributed in reducing trade deficit. However, in both countries the firms established in the zone are dependent of foreign market imports. On the side of governance, SEZs in Korea is under government institution led while as on Rwanda side, the government has established an Authority under the law N° 05/2011 of 21/03/2011; which regulates the establishment, development, operation and maintenance of special economic zones in Rwanda (SEZAR). Last but not the least, the establishment year of SEZs in both countries are different, in Korea the SEZs was launched in 1966 and put under implementation in 1970, while in Rwanda the launch was in 2008 and implemented in 2014, although SEZs has not contributed so far as export expansion is concerned, but has played a big role in creating employment, increased investment, reducing trade deficit and increasing industry's productivities.

In conclusion, this chapter's center of attraction is to make a comparative analysis on export promotion in Korea and Rwanda. It summarizes both country's adoption of import-export strategies, examines the strategies that each country has adopted. The chapter begin by analyzing similar strategies adopted by both countries like import-export strategy, government intervention in both countries' economic development, both countries had government strategic year plan, For Korea, it is five-year plan, Rwanda is EDPRS 1 & II medium term, which includes Government programs to alleviate poverty from people, establishment of institutions to promote exports and to provide loans and subsidies, selective of priority sectors to accelerate exports, then establishment of SEZs in both countries to promote economic developments of two countries.

Almost in both countries the strategies look similar because all countries' aims are to promote their economy's development, for the side of Korea to promote exports much concentration has been focused in manufacturing sector from the beginning, in which the government has invested much incentives to both exporting and importing firms, apart from this, the government established various banks to give loans to the firms engaged in these sectors, each firm was allocated in certain sector and given targets to reach, from these working mood and targeting led to the growing of some firms into big companies as Sum Sung, Hyundai and many others. While on Rwanda side, the concentration was put on developing traditional commodities from the starting stage of exporting, later the government privatized coffee and tea to private companies, Mining sector given to investors, exporters are assisted in solving some challenges they encounter like removing NTBs, trade barriers on boarder countries and some transport tariffs, for the subsidy loans, Rwanda government established EGF a fund provided to support exporters and investors, this certain fund is allocated in Development Bank of Rwanda, also Rwanda government has started targeting some sectors to promote exports using Domestic Market Recapturing Strategy (DMRS) whose goal is to boost domestic for local production and increase of global competitiveness. The difference is that Korea was in much focused in promoting exports but with less attention in import, while as in Rwanda the focus is in import-export promotion to increase domestic local production for domestic market as well as for exporting and reducing trade deficit through establishment of DMRS and Made in Rwanda campaign.

In summary, Korea established five-year economic plan with objective of self-sufficient industrial structure. Much emphasis was put in areas like electrification, fertilizers, oil refining, synthetic fibers and cement while in Rwanda the general development strategy is explained in the government program called vision 2020 and EDPRS. Both documents provide overall

development objectives of the country. Vision 2020 supplies the general development objectives where the short term, is to promote macroeconomic stability and wealth creation to reduce aid dependency, in the medium term, is to transform the country from agrarian to knowledge-based economy, and lastly in the long term, is the creation of a productive middle class promoting entrepreneurship. Hence EDPRS is the functional document to vision 2020.

CHAPTER 6: PROPOSED SOLUTION BASED ON KOREAN EXPERIENCE

6. INTRODUCTION

Notwithstanding that, this thesis main intention is to examine the lessons Rwanda can learn from South Korea's experience, the international trade environment of 1960s and 1970s and the present situation conditions are different. For example, the forces of globalization of both trade and capital flows are now powerful than during those years of Korea, also today's trade is concentrated on intra-regional trade which is more important and foreign firms have created production networks within the world and in the region. The rules and regulations that guide world Trade Organization are now more strengthened than those of GATT, which Korea was working through. In addition, many concepts and plans that has connection to economic policies are successful in exciting economic development and are presently different from those of 1960s and 1970s (Hany H. Makloof, vol.3, No.3, 2016). In spite of that, there are some lessons Rwanda can learn from successful export promotion which has made Korea to be among the tenth world exporters in the world but will also discuss some of the policies Koreans used which are not applicable today. The lesson from Korea's experience will follow under the following factors.

6.1 STATE INTERVENTION

Under government intervention, starting from Korea's president, it is believed that Korea's successful in export promotion the great role was played by president Park. In 1964 to 1979, the government set a target of collecting 100\$ million from exports, after achieving it in 1979, they come together to celebrate and from then president Park established a monthly export meeting

chaired by him which was attended by other high officials and leaders of private sectors, the agenda of the monthly meeting was to discuss issues related with exports, the participants had opportunity especially the exporters to speak out any challenges they encounter to the president so as to be solved and make exports continue increasing. The meeting was another tool of communication between business people and the president. Also seeing president giving value to exports, people came to know how export was significant to the country's economy. In every beginning of the year, ministry of industry and commerce set targets for the firms and in the monthly meeting, the best performers in export were given reward and prize on the export day.

Rwanda government need to walk in footsteps of Korean government to promote export and make economy grow more. In Rwanda, targets are set to some government institutions like in a government agency responsible for collecting taxes called Rwanda Revenue Authority (RRA), districts in performance contracts of the year (imihigo). After the end of the year, in Rwanda Revenue Authority (RRA) the best performers or best tax payers are recognized and rewarded, same like the districts, the end of the year the districts performance contracts are evaluated and the best performers are rewarded. For this reason, the culture should be on every government institution and exporting and importing firms should work on targets mainly those in export sector so as to motivate firms involved to produce more, while on the side of the districts, after end of the year, they are evaluated depending on their targets from the beginning, and they are ranked from the first one up to thirty as districts are thirty in the country, and the first three performers are recognized and rewarded. On issue of having a monthly meeting with the head of state normally in Rwanda the meeting with exporters carrying out their business especially in EAC is chaired by the ministry of East African Community (EAC) quarterly, if in a year the meeting is chaired by the president, it would be an added value and helpful in addressing

challenges firms and industries in Rwanda in this sector are facing. Also target working spirit is another lesson that helped Korea to succeed in export promotion, if this culture of working on target is imitated in Rwanda and practiced in all sectors can be useful when firms know that they will be evaluated at the end of the year.

6.2 IMPORT AND EXPORT TRANSITION

Import substitution was the foundation to transition to export oriented. In export oriented, new items that increased export products included clothing, footwear and others which kept economy growing. For Korea's transition to export, government didn't quit from import substitution, instead continued to carry out import substitution, while complementing outward oriented. Korea continued protectionist to selective items that were produced by domestic industries. But allowed imports like essential raw material, energy, capital and intermediate goods. Hence the experience for Korea is that though much effort was invested in export promotion but also protecting domestic industries was done so as not to be dominated by these imports. But imports which these domestic industries needed as raw materials were allowed such as capital goods and intermediate goods (Kwan S. Kim, November 1991). Despite that, Rwanda is carrying out both Import and Export Substitution, much focus should be put on export- oriented according to what observed from literature review and lessons from Korea's experience on which adoption of outward export promotion has been proved to be productive and making economy grow, however, Import Substitution should be maintained so as to protect domestic firms.

6.3 EXPORT INCENTIVES

Furthermore, Rwanda also can draw a lesson from Korea's experience in extending credits to exporters at a reasonable interest rates and in motivating savings which would be used for capital formation. Korea established institutions like Korea Development Bank, the exporter's bank, the technology Development corporations and National Investment Fund which had legislation and rules related to tax incentives and many other forms of taxes. The lesson from Korea was that, the government established other many institutions to work hand in hand with exporters in searching market and in training how to improve and promote exportation, on side of Rwanda, the government has created Export Growth Fund (EGF) which is a facility with aim of facilitating export oriented to access finance by offering interest subsidies on investment loans, grants for market penetration and credit insurance guarantee to boost export volumes and access new markets. This EGF money was put in Rwanda Development Bank, which has signed Memorandum of Understanding (MOU) with private banks to lend money to exporters and small medium enterprises which I see as not the way to enhance export promotion and doing business, the private banks will wait for exporters to come for money, but had the money been put in government banks, these banks would go for mobilizing people to come for money and improve their exportation size and volumes. Also in private banks, exporters may face challenges to access information about the money invested for export and investing.

6.4 HUMAN RESOURCE AND EDUCATION

Korea's success in export promotion experience is again observed in its human experience. This has been a significant factor for Korea's development which started from their quality education. Korean government invested much in education which the parents have been supportive to the policy. Education together with human resource made Korea's industries competent in managerial skills as well as in high quality labor force which contributed to the Korea's growth of export led industrialization (Ibid). Rwanda has got the challenge of qualified personnel as in past years, private sectors has announced this issue, however Rwanda government has put much effort to make this challenge solved by setting up a work force development authority (WDA) in the year 2008 so as to nurture expertise in development. According to C& H Garments a new investor in garments who has recently established her factory, has shown that Rwandan workers are disciplined and trainable (Manson 2015b), though government tasked its institution WDA to continue preparing training manual, but a lot need to be done from schools both in vocational and non-vocational schools so as to have a competent labor force as Korea.

6.5 SELECTIVE PRODUCTS

Another lesson from Korea's experience is making selected products while giving subsidies and loans to exporters involved in their production which helped Korea to enter in capital intensive production while following market oriented. This way of working helped Korea to specialize in comparative advantage in industrial sector. The more Korea started mobilizing exporters to take a part in industries, the larger number that intervened, the more economy was liberalized with little government intervention. The lesson for Rwanda to learn is that, much effort should be put

in selected products in the beginning, provide all necessary aid to exporters like subsidies, loans and advises to show direction, the more progress in direction government will give, the more achievement, the more liberalization in trade, the less government intervention

6.6 MARKET DIVERSIFICATION

Another lesson from Korea's experience is the President Park's different market diversification. It said that during export promotion, Korea had signed many agreements with different countries for trade. This helped Korea to sell the manufactured products in different countries because the more the state promoted exports, there should be where to market them, Korea diversified 23% of exports to China, 13% to EU, 10% to US and Japan 5%. By 2009, china had 85%exports of Korea which all helped Korea during recession.

Rwanda has got good market opportunities mainly to regional neighbors where in 2015 Rwanda exported 32.2% to Democratic Republic of Congo(DRC) as the first country's exportation harbor, apart from these, Rwanda has got other countries to export from like Kenya, Europe to mention but a few. In the second National Export Strategy and Economic Development and Poverty Reduction Strategy ii (EDPRS II) calls attention to the importance of DRC and Burundi to be the export destinations to Rwanda according (MINICOM, 2015b, MINECOFIN, 2013). Rwanda has got many exporting harbors and enjoys preferential access to developed markets, but need to improve its productivity since it has identified target products like specialty food, textiles, apparel and home décor and fashion (Linda, Phyllis Judith Tyson, June 2017). In addition, for Rwanda to promote export, the government need to look patterns especially from developed countries who can invest in the selected sectors for more productions. In Domestic Market Recapturing, the government selected three priority sectors which include; Construction

materials, Light manufacturing and Agro-processing, which have twenty-one specific sectors chosen based on how they are potential to reduce imports (Pritish Behuria, Feb 2017). Nevertheless, two countries have got similarities, ISI strategy has been perceived as unjustifiable model of speeding-up development. Likewise, since Rwanda is in need of a strategy that can faster economic development, it is better to carry export-led strategy as the one has been proved to be effective strategy.

6.7 AGENCY RESPONSIBLE FOR EXPORT

Also another lesson from Korean experience is that, in export substitution, policy needs should be closely monitored and modified if necessary. The strategy is a continuing process, not just a single event. It means periodic policy re-evaluation and revision are necessary (Siwook Lee, spring 2013).

Rwanda government should strengthen an institution responsible to promote export so as to help Rwandan exporters to have access advantages which are not utilized due to lack of coordination and knowledge on export promotions. In National export strategy, it is said that Rwanda products has preferential access to many key markets, but due to above challenges mentioned, Rwanda is not maximizing its advantage. An example is AGOA trade preference, according to the study carried out by RDB, it manifests that Rwandan stakeholders need to improve their export skills to bound export accounts. For Korea case, the government established an institution called KOTRA which had task of participating in international trade fairs in return would train exporters what they need to improve and how to go through market. Also the agency, dispatched trade missions to potential markets and received inquiries and visited foreign market and businesses seeking market for Korean products.

Even though there are lessons to learn from Korea, but there some policies Korea used which are not applied to day. These include;

Korea is said to have achieved its growth due to countless incentives and loans. However, these subsidies and loans are severely banned by World Trade Organization. Such taxes include tariffs and quotas for the protection of domestic markets of exporters which are presently banned. Also WTO rules put much effort to ban export subsidy levels. Export-quotas and domestic content rules for direct foreign investment are forbidden. Inspire of all subsidies banned, the technological change responsible for globalization of production is possible to promote export.

CHAPTER 7: CONCLUSION AND RECOMMENDATIONS

7. SUMMARY

This final chapter is subdivided into two components. The first part will make conclusion and the second part will give policy recommendations. Despite Rwanda and Korea have different levels of development, Rwanda and South Korea have similarities. Both countries have an advantage of strong and committed leadership, well-functioning institutions in fight against corruption and a high degree of government organization and security environment. The detailed conclusion and recommendations are as follow:

7.1 CONCLUSION

Korea's successful in export promotion has got many debates about to which factor that contributed most, but it has been argued the paramount and strong one to be the state's intervention sometimes called Developmental state as elaborated in this thesis literature. Thus Rwanda to learn from the experience of South Korea it is possible since the two countries have some similarities like all to have been colonized in the past years, both countries passed through bloody post conflicts in which millions of people died but both countries have managed to reconstruct the country out of the past tragedies, both countries lack natural resources, both countries were aid dependence, both countries have one ethical language and lastly, people in these countries have showed devotion to back their leader's for development achievement. Though, both countries have similarities to enable Rwanda learn lessons from Korea, the two countries have dissimilarities like, geographic location of Korea being near the sea and Rwanda being a Land locked country which is a vital challenge for export promotion, thus for Rwanda to

succeed in export promotion following footsteps and strategies of Korea in 1960s and 1970s is possible though may differ in intensities due to Rwanda's economic challenge which is the biggest obstacle to carry out an international trade. Apart from the above, Rwanda's private sector is also weak compared to how powerful Korea's private sector have contributed a lot to export expansion. Lastly, both leaders of the two states have devotion and commitment to develop their country's economic development, despite of the highlighted obstacles above, Rwanda has recognized the solution to it, is to integrate with East African Community hence conclude saying it is possible for Rwanda to learn lessons of promoting export expansion like those of Korea in 1960s and 1970s despite of some economic challenges mentioned above.

7.2 RECOMMENDATIONS

- a.** In order for Rwanda to become successful in export promotion as Korea successful achieved, the government's strategic plan should be elaborated well in which the purpose of the development and intention of the state is clearly stated. It is imminent to have the advice and command from the leader with a well stated intention but under the circumstance of which market is not active. The government strategy and market plan should be established in complementary way, that is complementing one another. All these to be done, need skillful economists and technical experts with expertise in economic systems.
- b.** South Korea succeeded in export promotion in which much push was put in manufactured exports which was produced by labor. These products were traded in Japan and US, where South Korea acted as middle supply and capital goods thus gaining the advantage of being the largest and main exporter in the market. Likewise, For Rwanda to promote export strategy, more effort and emphasis should be put in manufactured exports as center of

concentration since Rwanda has labor to produce such manufactured goods like clothing, footwear, processed food, sports goods and toys which can be sold in East African market and neighboring countries of DRC and Burundi.

- c.** Rwanda being a land locked country, regional integration is the salient factor to strengthen trade. The country being far from the port, makes transport of exports and imports expensive. The World Bank ranked Rwanda's trading across boarders 87th out of 183 economies assessed (World Bank 2017), Rwanda's land locked location and almost high transportation cost increase the expense and speed of cross border trade. Rwanda being a member of East African community will reduce transportation obstacles but more partnership in trade should extend to DRC as EDPRS II targets and vision 2020 has elaborated to the biggest market population.
- d.** Mobilization of investors to invest in export sector is highly needed. Though Rwanda's domestic market is small, EAC and DRC are other wide market which can attract more investors.
- e.** Nonetheless, much effort has been put in place to overcome the challenge of skilled personnel, but the journey continues as the ones trained are not enough. Thus Rwanda government together with WDA need further training not just to fulfil private sector's demand but also for skilled personnel with various aspects of skills in different sectors.
- f.** Rwanda to become successful in export promotion, its correct that much effort should be put in export oriented but again other sectors shouldn't be forgotten since all are important in country's development. In Korea, though export was much focused on, but agriculture was valued too.

- g.** Rwanda to strengthen export promotion, industrial development policy should be integrated in Rwanda Development Board. Presently, the industrial development policy makers are under ministry of trade, while the ones that enforces these policies are in RDB, thus a challenge to know the situation the investors on field are facing. It would be better to formulate the policies, make a follow up of their implementation so that in case, there is a challenge modification could be done. From the experience of Korea, policy makers were quick and flexible in policy implementation viewing positive and negative effects that might abrupt policy implantation and ready to formulate plans so as to achieve their set goals. In addition, constant evaluations of the performance and dynamics were done.
- h.** In addition, for Rwanda to promote export, the government need to look patterns especially from developed countries who can invest in the selected sectors for more productions.
- i.** For Rwanda to promote exports need to formulate policies that will lead to export expansion. From the experience of Korea, export incentives played a prominent role in promoting exports.

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