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Leapfrogging manufacturing?
Rwanda's attempt to build a services-led 'developmental state'

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ABSTRACT

A key characteristic of East Asian 'developmental states' was a strategic focus on manufacturing, but developing countries today face more complex decisions about whether to prioritise manufacturing or attempt to 'leapfrog' straight to services. Rwanda is a striking example of a country that both resembles a developmental state and employs a service-led strategy. However, we argue that unlike the Asian developmental states, Rwanda is not experiencing an integrated process of transformation that ties human development together with economic growth. Instead, there are two parallel trajectories within the services sector: a growth story linked to investment in 'modern' services (such as tourism, finance and real estate) and a human development story linked to 'basic' services such as health and education, with limited linkages between the two. This mismatch between growth sectors and the labour force raises questions about the sustainability of services-led approaches and their ability to emulate the East Asian experience.

Introduction

Aspiring developmental states today are not only distinguished by their new geography but by varying approaches to structural transformation, and specifically the extent to which manufacturing lies at the heart of their developments strategies. The classical developmental state literature, which focused on Japan, South Korea and Taiwan, charted successful state-driven paths to structural transformation through manufacturing industry (Johnson, 1982; Amsden, 1989; Wade, 1990). However, it is less clear to developmentally-oriented regimes in low-income countries today that manufacturing constitutes a desirable – or feasible – way ahead. The rise of Asian manufacturing, global value chains, global finance and new resource discoveries present a different range of possibilities and constraints.

In this context, ideas of services-led development have grown in significance. Service sectors have been prioritized in many developing countries for a variety of reasons, including deindustrialization (Dasgupta and Singh, 2007; Rodrik, 2016), the hostile attitude of donor community to industrial policy (Rodrik, 2008) and the diminished policy space resulting from World Trade Organization (WTO) rules and other bilateral and multilateral trade treaties (Wade, 2003). The idea of 'leapfrogging' manufacturing holds particular appeal in countries that are landlocked and face high import and export costs, making it harder to compete with existing low-wage manufacturing economies.

Despite this, evidence and opinion are divided on whether prioritizing services over manufacturing is viable for sustained developmental progress. Some scholars have argued that developing countries' comparative advantages today 'can just as easily be in services as in manufacturing' (Ghani and O'Connell, 2014, p. 3), and that a 'third industrial revolution led by services' (ibid, p. 2) is underway. Against this is the fact that historical experiences of successful developmental transformation without industrialization are lacking (Chang, 2002), outside of a few states heavily endowed with valuable natural resources. Moreover, recent research has shown that manufacturing still has unique 'growth engine' features (Szirmai and Verspagen, 2015), and that manufacturing is as important as ever globally (Haraguchi et al, 2017).

In this paper, we contribute to these debates in two important ways. First, by offering a detailed case study of the experience of one country (Rwanda) charting a service-driven path to development. Existing research on the prospects for services-led development tends to focus on the cross-country level, seeking to identify general trends, despite the fact that the prospects for success in services relative to manufacturing are known to be highly context-specific (Eichengreen and Gupta, 2011; Haraguchi et al, 2017). This must be rectified if we are to understand how service-led strategies relate to context.

Second, we use the Rwanda case to explore the challenges arising from services-based development strategies and the degree to which they are able to achieve the kinds of economic and societal transformation associated with the manufacturing-led developmental states of East Asia. While much academic analysis of the developmental state paradigm focuses on issues such as bureaucratic autonomy and the relationship between state and market, a relatively underexplored (but crucial) aspect of the East Asian experience was the manner in which labour was integrated into development strategies. As we argue in this paper, services-based development strategies sit uncomfortably with this aspect of the paradigm, because of the type of skills and level of education required among the population to ensure that services-led growth can be combined with broad-based, sustainable job creation.

Rwanda is an especially suitable case study in which to explore the relationship between the developmental state paradigm and a services-led approach. Both the structural conditions and aspects of the institutional context in Rwanda are reminiscent of the East Asian developmental states. However, the Rwandan government has chosen services rather than manufacturing as the key driver of transformation away from an agrarian economy. In this paper, we focus on two clusters of international services sectors, which, alongside tourism, have become important in Rwanda and other aspiring service-led developers: Meetings, Incentives, Conferences and Events (MICE), and Finance, Insurance and Real Estate (FIRE). Our analysis is based on qualitative interviews with a wide range of key informants conducted by both authors over a six-year period between 2011 and 2017.[1] During this period, service sectors have become increasingly visible elements of Rwanda's development strategy. This is especially evident through attempts to develop Kigali into a business hub through the construction of the Kigali Convention Centre and more recently, through new tourism initiatives such as #VisitRwanda's $30 million sleeve-sponsorship investment in Arsenal F.C. Interest in manufacturing has recently been revived (Behuria, 2017), but services contribute a larger share of growth and are growing at a much faster rate.

The existing literature on Rwanda's service-led approach is mainly econometric and uncritical in its approach to this strategy (Spray and Wolf 2016; Uwitonze and Heshmati, 2016; Ggombe and Newfarmer, 2017). In contrast, we argue that the emphasis on services, which has a clear rationale in the context of land-lockedness, donor pressures and limited natural resources, has contributed to economic growth but done little for equality and internal economic integration, and remains somewhat dislocated from Rwanda's labour market context. Rwanda has made significant investments in human capital (Lavers, 2016; Williams, 2017; Chemouni, 2018), and made some accompanying gains in social indicators; yet we argue that unlike in the classical developmental states, these processes are relatively disconnected from its economic growth trajectory.

Thus, the Rwandan narrative of growth and poverty reduction is underpinned by two distinct parallel trajectories, in contrast to the highly integrated trajectory of the East Asian developmental states. Part of this, we argue, relates to the focus on services because of the difficulty of generating the necessary skills and linkages to generate mass employment in the kinds of service sectors Rwanda prioritizes. This lack of integration has not been adequately acknowledged in research thus far, partly because it is also obscured by the way that 'services' sectors lump together extremely diverse forms of activity. A closer look at services, which recognises that economic growth in 'modern' services such as MICE and FIRE does not necessarily build on parallel developments in 'basic' services such as education and health, reveals the marked difference between Rwanda's trajectory and the East Asian model. Rather than the development of human capital forming a 'productivist' base for broader economic development, there is a mismatch between capital and labour skills, and a lack of attention to domestic linkages in the economy. Consequently, the structural transformation of Rwanda's economy rests on fragile foundations.

Services-led development and the rise of MICE and FIRE

The evolving debate on 'developmental states' and the role of services

Chalmers Johnson (1982) coined the term 'developmental state' in his study of Japan's Ministry of Trade and Industry (MITI) and its strategic interventions to promote industrialization. The seminal works of Alice Amsden (1989) and Robert Wade (1990) on Korea and Taiwan followed. By the end of the century, a developmental state paradigm had emerged, though with significant differences in emphasis between key authors.[2] As mainstream development policy shifted towards policy alleviation in the 1990s, some developmental state theorists such as Evans (2014a) responded by beginning to incorporate human-centred approaches, in line with the ideas developed by Amartya Sen (1999). Other scholars were highly critical of this shift, which emphasized health and education services but did little to promote the production-side of development or job creation (Amsden, 2012). This split partially overlaps with a divide between arguments that continue to emphasize the centrality of manufacturing, and those that prioritize services, with Evans' (2014a) idea of 'capability-enhancing developmental states' in the latter category. In his recent contributions to the debate he argues that 'the new centrality of services forces any state that wants to be "developmental" to focus more intensely on people and their skills, instead of machines and their owners.' (Evans, 2014b, p. 43).

This dispute obscures the extent to which the successful developmental states focused on the link between 'people and their skills' and 'machines and their owners': in other words, between labour and capital. Linking these two is especially hard in internationally-competitive service sectors as it is challenging to construct a comparative advantage in the requisite forms of labour. This raises questions about the extent to which a focus on such sectors can provide the 'potential for rapid technological progress and labour productivity growth' (Öniş, 1991, p. 112), something that was central to the strategic selection of priority sectors in countries such as South Korea. In support of their drive to industrialize, the East Asian developmental states all employed varying forms of 'productivist' social policy, whereby labour was suppressed politically but the provision of education, healthcare and welfare were targeted towards the 'productive sectors' of society (Mkandawire, 2007, p. 25). Social rights were thus initially extended only to industrial workers in

South Korea (Holliday, 2000), and ‘aggressive, proactive manpower development strategies based on medium to long term vision of occupational skill requirements’ were adopted in several cases (Bennell and Segerstrom, 1998, p. 286). Meanwhile, in Japan and Korea, resources mobilized through pensions funds were channeled directly into industrialization, further driving a virtuous circle of social investment and industrialization.

As a consequence of these strategies, the architecture of social policy was ‘transformational’, serving to integrate labour into specific industrial development strategies (Mkandawire, 2007). These often-overlooked aspects of the East Asian experience were crucial for the rapid evolution of industrial productivity. They helped to generate high-yield labour that was ‘able to reskill itself during the process of industrial upgrading’ (Castells, 1992, p. 53) and not only transformed the economy but ‘completely changed the society’ (ibid, p. 66).

The highly skilled and specialized nature of work in many service sectors poses challenges for creating the requisite forms and quality of labour, particularly for highly globalized international services sectors. Incentives set by external interests are partly to blame for this. In 1986, the World Bank argued that the social returns for higher education were lower compared to those of pre-primary education – an argument, which laid the foundation for ‘university bashing’ from other donors and NGOs in Africa (Mkandawire, 2011, p. 17). Donors’ obsession with quantitative measures including enrolment and construction of classrooms to evaluate the effectiveness of their investments in education has also led to obscuring a focus on the quality of education – as Williams (2017) has shown in Rwanda. Thus, perhaps ironically, the attempt to create services-led developmental states faces particular challenges because of the greater difficulty in using ‘basic’ services (such as healthcare, education provision and forms of social protection) to generate an appropriate labour force for ‘modern’ services (such as finance, ICTs, tourism and real estate).

The state of evidence on services-led development

The classical pattern of structural change, theorized through the experience of industrialized countries, begins with the reduction of the share of output and employment in the agriculture sector and its transfer to the manufacturing sector, and later (in some advanced countries) to the services sector (Clark, 1940; Chenery, 1960). Though it could be argued that China has followed this model, India's decline in agriculture has been accompanied by some increase in industry but a much larger increase in services, which has been interpreted as a response to changes in the global economy (Nayyar, 2013). These two paths of structural change have had varied impacts on the relationship between capital and employment in these countries.

Most African countries have seen a similar trend to India, involving substantial growth in the services sector even without the saturation of manufacturing demand. As of 2015, services contributed to almost half of Africa's total output and about one-third of formal employment (UNCTAD, 2015). The increasing prominence of services has been accompanied by optimism about services-led growth. Much has been made of how information technology has permanently changed central characteristics of the world economy, with the rise of a network society (Castells, 2010). Arguing against traditional Kaldorian (1967) perspectives, which favoured the central position of manufacturing in economic transformation, some now argue that services 'are leading to the expansion of manufacturing, rather than the other way around' (Dasgupta and Singh, 2005, p. 1055). Clearly, some services – like finance – are essential components of economic transformation and growth. However, in today's more integrated world and with the increasing prominence of global value chains, services that facilitate coordination, administration and transportation are considered strategically important (Kaplinsky and Morris, p. 2016).[3]

Ghani and O'Connell (2014) argue that not only do services comprise an increasing component of GDP as countries become richer, but in the contemporary global economy, they create more jobs at earlier stages of development than manufacturing and demonstrate faster productivity growth. However, this positive assessment of services as a 'new boat that latecomers can take' relies on a broad and unspecified definition of services, with little consideration either of the informal economy or the nature of the jobs created. Crucially, the kinds of services that are driving growth and prioritized in policy are often very different from those in which jobs are being created. As has been argued elsewhere, cities in developing countries tend to exhibit a persistent disconnect between capital and labour (Schindler, 2017), which is partly a function of low degrees of industrialization.

Although services such as IT and finance can in theory play the 'escalator role that manufacturing has traditionally played', such services sectors are highly skillintensive and cannot absorb the type of labour that exists in low- and middle-income countries (Rodrik, 2016, p. 29). Other services are either not very dynamic technologically or are non-tradable. How exactly ‘basic’ services such as education and health provision fit into ideas of service-led growth is also contested. These are usually seen as social goods that help build the human capital to spur growth in other sectors, but they also comprise significant growth sectors in some developing countries, particularly where international aid plays a substantial role in growing activity within these sectors. This underscores how diverse the service ‘sector’ really is, and the complexity of the stories of ‘service sector growth’.

Moreover, there are important differences between ‘first wave’ service growth at relatively low-income levels, which tends to mostly comprise ‘traditional’ services (such as lodging, meal preparation, housecleaning, beauty and barber shops), and ‘second wave’ service growth, which includes ‘modern’ services such as financial, ICT, legal, advertising and business services (Eichengreen and Gupta, 2011). Some developing countries have benefitted from ‘second wave’ service growth much more than others. Another report (UNECA, 2015) argues that since most services are non-tradable, countries reliant on their services sector for economic growth will eventually struggle with trade balance constraints.

a) The role of MICE and FIRE

Notwithstanding these ongoing debates, service sectors have become central both to growth trajectories and development strategy in many countries. Tourism in particular has become integral to economic strategies in many developing countries. International organizations like the United Nations World Tourism Organization (UNWTO) and academic scholarship (Wearing et al, 2005) have argued that the sector has potential for poverty alleviation. It also provides obvious benefits for developing countries in dire need of foreign exchange. However, a large portion of tourism scholarship has remained critical of the sector’s developmental impacts (Harrison, 2001). Despite the opportunities that tourism provides, small countries are invariably forced to develop strategies that leave them highly dependent on foreign capital and vulnerable to the perceptions of outsiders.

MICE has been an increasingly important component of growth of global tourism (Mistilis and Dwyer, 1999). It refers to business tourism dedicated to planning and facilitating conferences, seminars, meetings, exhibitions or similar events. The strategic appeal of MICE is that it potentially links together multiple service sectors in a mutually supportive way, including tourism and hospitality, education, financial services, transport and logistics, and real estate development. MICE also boosts the construction sector, and is thought to have broader benefits in technology acquisition, knowledge exchange and the forging of business connections (Kumar et al, 2014).

MICE has become a component of economic strategies in several countries in the Asia-Pacific region (UNWTO, 2012). Some developmental benefits have been recognized; for example, in the Philippines, MICE visitors spend an average of six times as much in the country as regular tourists (Francisco et al, 2017, p. 6). Although MICE provides foreign exchange and facilitates associated infrastructure, prioritizing it does little to accommodate low-skilled employment and, like tourism, success is highly dependent on foreign capital and perceptions. There is also evidence that international MICE tourists are unlikely to spend much time – or money – outside 'gateway' cities, limiting distributional benefits (Mistilis and Dwyer, 1999).

A further group of services sectors can be categorized under the banner of Finance, Insurance and Real Estate (FIRE). The study of the relationship between economic growth and the development of finance and insurance is beset with problems of reverse causality and contested data. It has been argued that financial development is not only pro-growth but pro-poor (Demirgüç-Kunt and Levine, 2009). However, one recent study of 21 countries in sub-Saharan Africa found that 'there is still very limited support for the hypothesis that financial development leads economic growth in SSA countries' (Menyah et al, 2014, p. 393). Significantly, financial sector growth has been preceded by the liberalization of the financial sector in most African countries. In comparison, no East Asian developmental state relinquished control of their financial sectors prior to achieving significant structural change (Wade, 1990). The situation is equally contested with regard to insurance, with one meta-analysis of 85 studies finding only very patchy evidence on causal relationships (Outreville, 2013).

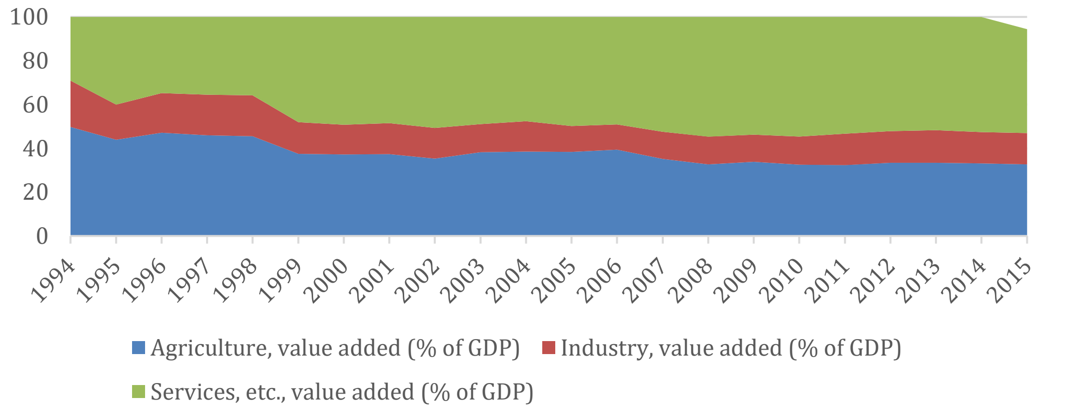
Real estate, the final component of FIRE, is a booming sector in many developing countries, often fuelled in part by aid, diaspora finance, high inflation rates and the lack of productive manufacturing sectors (Obeng-Odoom, 2010; Goodfellow, 2017a). This supports jobs in the construction industry and can encourage foreign investment. However, data from China suggests a much stronger causal relationship from GDP growth to real estate development rather than the other way around (Shen and Liu, 2004). Evidence from OECD countries also suggests that FDI in real estate does little for economic growth (Gholipour et al, 2014). Growth aside, the developmental benefits of real estate development are not clear. While new models of state-led and market-driven forms of housing investment are unfolding across Africa, the former are often used for clientelistic purposes to reward supporters while the latter rarely provide for the poor, and most real estate development is untaxed (Croese, 2017; Goodfellow 2017b; Pitcher, 2017).

More broadly, growth in FIRE sectors does not generally translate into a proportional increase in employment. In the US, for example, the percentage of GDP generated in the FIRE sectors increased by 34.2% between 1979 and 2005, yet the percentage of the population working in those sectors increased only 10.6% over the same period (Palley, 2013). For over half a century, scholars have argued that this shift from the 'real' economy to the finance economy can contribute to economic vulnerability (Baran and Sweezy, 1966). Overall, while there are obvious reasons why many developing countries prioritise MICE and FIRE today, these are mostly negative ones: i.e. their structural weaknesses and the difficulty of constructing comparative advantage in manufacturing, rather than clear evidence that MICE and FIRE will deliver developmental benefits.

Rwanda's Services-led Development Strategy

The Rwandan Patriotic Front (RPF)-led government has overseen Rwanda's economic recovery since the genocide, despite widespread criticism of its record on human rights and political freedoms (Reyntjens, 2013). Rwanda has enjoyed annual GDP growth of more than 6% most years since 1994. Though agriculture and industry have both experienced some growth, services sectors have been growing the fastest. The composition of Rwandan GDP shows signs of some transformation, with the main element of that being a shift from agriculture towards services (Figure 1). The share of services has increased from 29% in 1994 to over 47% in 2015, while industry has reduced from 21% in 1994 to about 14% in 2015.

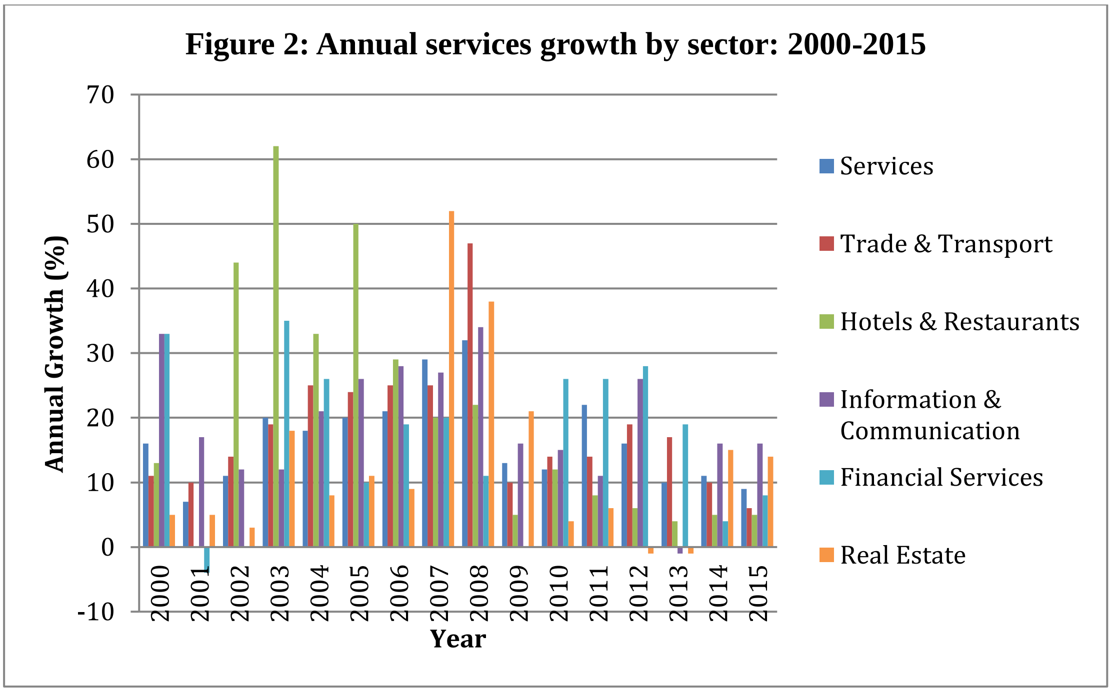
Figure 1: Composition of Gross Domestic Product in Rwanda: 1994-2015



Source: World Bank

Figure 2 demonstrates that service sectors have had very healthy growth over the past 15 years, particularly trade and retail, finance, ICT and tourism. The primacy of such sectors was explicitly highlighted in the government's national development strategy – Rwanda Vision 2020, developed in 2000 – demonstrating its eagerness to gamble on developing a knowledge-based economy (GoR, 2000). Services were seen as becoming 'the most important engine of Rwanda's economy' (GoR, 2000, p. 7). The developmental niche that the country aimed for was 'services, communication and financial sectors' (p. 16) to become a 'hub' at the 'Gateway between East and Central Africa' (p. 7).

In the more recent Economic Development and Poverty Reduction Strategy Paper II (EDPRS 2), there are some shifts in emphasis. While these include some attention to 'light manufacturing', this is listed alongside other 'emerging sectors' including business tourism, financial services and Business Process Outsourcing (BPO). Overall, the emphasis on 'modern' service sectors is still dominant, with the word 'manufacturing' appearing just 8 times in the 172-page document relative to 33 for tourism and 33 for financial services/financial sector (MINECOFIN, 2013).



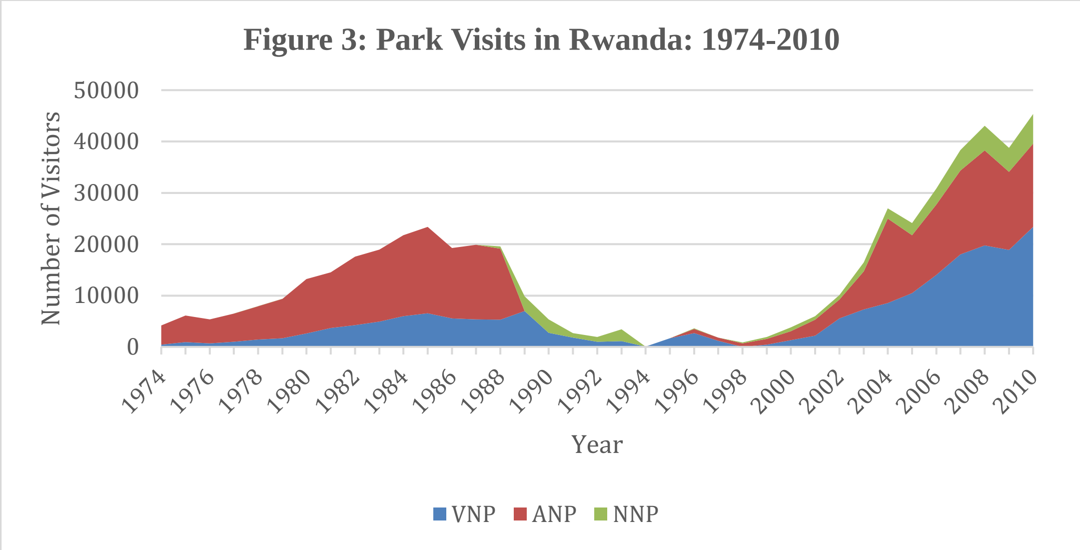
Source: MINECOFIN

Recent literature has emphasized the significance of services in Rwanda's recent development trajectory (Uwitonze and Heshmati, 2016; Ggombe and Newfarmer, 2017). This literature also highlights some key differences between Rwanda's experience and the more 'bottom-up' service-led growth in some major emerging economies. In India, for example, the advance of the service sector has been attributed primarily to the expansion of health and education in the population (Latha and Shanmugam, 2014). In contrast, services growth in Rwanda has been driven by public investment (Ggombe and Newfarmer, 2017) and factors such as increased access to finance, training personnel, new ICT applications and the tax system: in other words, it is a much more state-driven process (Uwitonze and Heshmati, 2016).

Government officials explicitly state that prioritizing services was as a result of their own domestic technical constraints (including transport costs and limited domestic market).[4] Transforming Kigali into an international 'hub' of various kinds – transport, financial, tourism and information technology – was seen as integral to link Rwanda to the fastest-growing sectors of the global economy. Tourism has become an increasingly important source of foreign exchange; by 2015, it had become the single largest export sector, accounting for 29% of all exports (IGC, 2016). In 2014, the government received US $342m from tourism receipts (Bishumba, 2016).

There can be little doubt that the Rwandan government has worked particularly hard to grow its tourism industry. They invested in the construction of what is now the Serena Hotel (against donor advice), hoping it would work as a 'demonstration effect' to bring international hotels to the country (Behuria, 2015). The government has also heavily invested in the national airline (Rwandair), the Kigali Convention Centre and in conservation attempts of Virunga National Park and other tourist destinations within the country. The Rwandan government took the decision to prioritise the tourism sector as part following advice from donors and consultancy groups, with a National Tourism Strategy developed in 2001 (Mazimhaka, 2007). Supporting gorilla tourism – historically, Rwanda's most significant tourist attraction – was central to the strategy. The dependence of tourism revenues on gorilla tourism increased from 75% in the early 1990s to 93% (Mazimhaka, 2007). Of the 800 mountain gorillas residing in the world, 440 are in Rwanda, with 216 born since 2005 (Tashobya, 2016).

The government acknowledges that gorilla tourism 'is our main attraction',[5] and in line with leveraging growing international interest gradually increased the cost of a permit for foreign visitors from US $250 in the early 2000s to US $750 in 2013. Over 20,000 people visited the VNP in 2014, more than three times the number that visited in 2003. Building on the apparent willingness of foreign visitors to pay high prices, in 2017, the government doubled cost of a permit from US $750 to US $1500. Operators and consultants argued that this insistence on high prices relative to neighbouring Uganda and DRC was part of 'an obsession with high-end tourists', which neglected the other kinds of opportunities available.[6] However, the 2017 decision also demonstrates efforts to build Rwanda into a broader tourism and MICE destination: a 30% discount applies for visitors who visit other national parks in Rwanda for at least 3 days, and a 15% discount for those who stay 'pre and post MICE events' to see the gorillas.[7]



Source: Rwanda Development Board (RDB)

This reflects a broader aim became to ‘go beyond gorillas’ and establish Rwanda as more than an add-on destination at the end of a tour of East Africa (GoR, 2009). Emphasis was placed on attracting ‘high-end international tourists’ and by 2010, RDB officials were impressed with the increases of visitors for national parks and began to see MICE as a priority area for further support,[8] including through improving customer service in hotels and restaurants and expanding air travel facilities.[9] Currently, the average visitor to Rwanda spends only 3.2 days in the country, and it is seen as crucial to try and raise this to a week or more (IGC, 2016, p. 25). In pursuit of this, Rwanda sharpened its focus on the key sectors needed for its MICE ambitions to succeed. In the following section, we examine how the government has built the MICE sector and how this has been supported by a concurrent focus on FIRE.

MICE on FIRE

Chasing MICE

The Rwanda Convention Bureau (RCB) was launched by the government in 2014. Rick Taylor, CEO of the Business Tourism Company that helped to set up the RCB, argued that the ‘propeller’ to deliver the Rwandan government’s vision of becoming the first middle-income country in Africa ‘is categorically, the MICE sector.'[10] The government claimed success in the few years after RCB was created, announcing that MICE revenues were projected to triple from US $49m in 2013 to $150m by 2017.[11] In the same period, the government was also working feverishly to complete the physical centrepiece and symbol of its MICE strategy: the Kigali Convention Centre (KCC). The project was initiated in 2007 by three corporate investors – Rwanda Investment Group, Prime Holdings and the Rwanda Social Security Board (RSSB). Initially slated for completion in 2011, it was beleaguered by controversy, escalating costs and terminated construction contracts, and only finally opened in June 2016. Expectations on the Convention Centre were piled high: a government official argued that it was a 'gamechanger for Rwanda's development', while a private consultant characterized it as 'Rwanda's version of the Eiffel Tower. That's how important it is.'[12] With construction costs of over $300m, the KCC is now the most expensive building complex in Africa. The KCC comprises a 5-star Radisson Blu hotel, a 2,600-capacity conference centre, Kigali Information Technology Park and a museum on the bottom floor.

The effort and expenditure to facilitate MICE activities have been reflected in increasing numbers of high profile events. In 2016, Rwanda hosted over 40 international conferences, including high profile events such as the World Economic Forum, Global African Investment Summit and the AU Summit. Consequently, Rwanda was ranked joint third in the International Congress and Convention Association (ICCA) 2016 business tourism rankings for the continent, after South Africa and Morocco. This actually exceeds the RCB's own ambitions, which were to rise into the top 10 by 2016, up from 21st in 2014. Kigali itself is now placed third among the continent's top cities for meetings, conventions and events – above Durban and Johannesburg. In 2016, Kigali hosted the same number of major meetings as Mumbai, Basel, Philadelphia and Nanjing (ICCA, 2016).

By the end of 2016, Kigali had 3,400 upper- and middle-range hotel rooms available.[13] Hotels had been another major focus of the government since 2007, both in the capital and beyond.[14] One businessman recounted how the President invested his own money in regional investment groups to persuade local businessmen to invest in hotels in regional towns.[15] In Kigali, a prominent local businessman who previously served in the Rwandan Patriotic Army (RPA) during the liberation effort led investment in the first Marriott hotel in sub-Saharan Africa outside of Cape Town. This was a further landmark for the MICE sector, containing 18 conference rooms.

Alongside the various major investments in hotels, Rwandair – the country's national airline –significantly expanded its fleet, providing infrastructural support to the MICE industry. The government owns 99% of Rwandair, which began operations in 2002 and now operates routes to over 20 cities within and outside Africa. Rwandair is yet to make a profit, but government officials argue that it is integral to promoting Kigali as a services hub in Africa.[16]

In addition, the Rwanda Association for Professional Conference Organizers (RAPCO) was established to develop an accreditation system for professional conference organizers. This, it is hoped, will build on the positive reputation Rwanda enjoys with large shares of the global business community, evidenced by Rwanda's 2015 ranking in the World Bank's Doing Business index as the third-best country to conduct business in Africa, as well as third-least corrupt country in Africa by the Global Corruption Perception Index (Rwirahira, 2017). Criticisms of the Rwandan government from within academia (Reyntjens, 2013; Thomson, 2013) have not damaged the country's reputation among the global business community, providing a further boon to the MICE strategy.

a) Sparking the FIRE

FIRE sectors are natural counterparts to MICE, particularly given the major, capital-intensive infrastructure and real estate requirements for MICE activities.[17] Financial liberalization rapidly gathered pace in the 2000s, as a number of foreign banks bought shares in struggling Rwandan commercial banks and new commercial banks from Nigeria, Kenya and Uganda entered the market (Behuria and Goodfellow, 2016). In 2017, there were 13 commercial banks in the sector. The government only retains a majority share in the largest bank – Bank of Kigali (BK) – which enjoys 30% of the financial sector in most indices including assets, deposits and labilities. Despite BK's influence, Commercial bank representatives themselves commented on their surprise that the government eagerly liberalized finance before 'Rwanda can stand on its own two feet.'[18] As the liberalised financial sector expands to include more citizens, the loan books of commercial banks have developed a concentration that reflects an emphasis on MICE and FIRE. In 2016, construction, hotels, commerce and transport accounted for more than 85% of BK's loan book. Commercial bankers' loan books had a similar composition, and some were worried about this concentration, highlighting that it was 'a ticking time bomb' and 'unsustainable in the long-run.'[19]

Simultaneously, the government has put significant effort into developing the real estate sector, with a strong focus on Kigali, and – as with the tourism sector – a strong focus on the 'high end'. This includes, most spectacularly, the 'Vision City' project, the first phase of which comprises 504 variable-sized units that retail at prices ranging from US $370,000 to $560,000.[20] When complete, the project aims to accommodate over 22,000 people, and is reputedly the largest real estate project in East Africa.[21] This project is funded by the RSSB, which has been pivotal in the expansion of MICE and FIRE since it holds 40-50% of liquidity in the financial sector and its investments are largely concentrated in real estate, hotels and construction.[22] Also investing in real estate are domestic party-owned enterprises such as CVL Developers (the real estate arm of party-owned conglomerate, Crystal Ventures), Kenyan firms such as Fusion Capital and some domestic private investors.

There has also been a rapid increase in mortgage provision in recent years. Up to 70% of the loans made by some banks are now in the form of mortgages.[23] There is concern about the sustainability of this model in the Rwandan context; some bankers have allegedly 'grown wary of bricks and mortar.'[24] Interest rates of around 17% combine with the costs of landlockedness, and the removal of construction incentives in 2013, to render construction very expensive in Rwanda. A 2017 report from the consultancy firm Turner & Townsend (2017), found construction in Kigali to be more expensive per square metre than in Johannesburg, Kampala, Dar es Salaam and Nairobi. At $1117 per square metre, the cost is approaching twice that of Nairobi's $683 (ibid). This makes building for the mass market very difficult, and a handful of real estate developers in Kigali are all 'fighting for 20% of the market', with very little provision for the majority. There is increasing evidence of oversupply at the high end, with rents starting to dip significantly from around 2014, despite a chronic housing shortage. The significant growth in construction and real estate thus conceals growing concerns about a bubble in the process of bursting (Goodfellow, 2017a).

These recent developments reflect the fragility of Rwanda's services-led development strategy. The success of MICE and FIRE depend significantly on 'going big'; in other words, capturing high-end, luxury international markets. Even beyond the sectoral focus itself, Rwanda's approach differs significantly from the classical developmental state approach in ways that are intrinsically linked to its decision to focus on international services. These include the liberalization of finance and the outward-facing role of the RDB, which acts primarily as a hub for investors to polish Rwanda's international image rather than a nodal agency stimulating innovation and participating directly in industry (Behuria, 2018). As we explore below, this services-driven strategy also involves significant differences in the capital-labour relationship, with implications for the potential for transformation of the kind achieved by Asian developmental states.

Parallel development trajectories and missing linkages

While they undeniably played a role in economic growth, the contribution of service sectors such as MICE and FIRE to employment and internal economic integration have been much more ambiguous. The 'black box' of services conceals this to some extent: because services have increased substantially as a share of both GDP and employment, it looks as though a virtuous circle is at play. However, a closer analysis reveals gaps and vulnerabilities, raising questions about the sustainability of the approach. It is helpful here to distinguish broadly between three types of service sectors (building on the existing literature): 'basic services' such as health, education, and forms of social protection; 'traditional services' such as small-scale provision of low value-added services in the informal economy; and 'modern' services, such as those discussed above. Rwanda has seen substantial investment-fuelled economic growth in the latter, alongside largely aid-funded progress in the first category (Chemouni 2018; Williams 2018). It has also experienced what we might characterize as ordinary, expected growth in the middle category, which tends to swell in the context of urbanisation. However, the lack of an integrated development trajectory linking the three into a process of deeper structural transformation is clear from a closer qualitative analysis of what lies the statistics.

For example, it is still 'traditional' service activities such as wholesale and retail trade, repair of motor vehicles and motorcycles, and transportation and storage that comprise the majority of establishments and employment in the services sector (NISR 2017). Similar to many other developing countries, these are the kinds of activities that swell the numbers of people working in services. They are also sectors in which the vast majority of workers – 93-98%, according to the government's own data (NISR, 2017, p. 136) – work in the informal sector, with little connection to the MICE and FIRE strategy. There is therefore a gulf between service sectors that employ large numbers of people and those that are leading economic growth. When it comes to contribution to GDP, the MICE and FIRE sectors loom large: real estate, for example, comprised almost 8% of GDP in 2017 – more than the entire manufacturing sector at 6% - but employs a mere 0.1% of the population (BNR, 2018; NISR, 2017; p. 136). Finance comprised around 3% of GDP in 2017 (four times the amount in 1999); yet finance and insurance combined employ only 0.4% of the population (ibid) and just 1.75% of the people working in 'services' (BNR, 2018).

On one level, it is not surprising that the 'modern' services sectors employ relatively few people, and the increase in output from these sectors relative to employment is often celebrated as 'increases in productivity' driven by a sectoral shift out of agriculture and towards services (e.g. Ggombe and Newfarmer, 2017). However, the fact that these are capital rather than labour-intensive sectors can be seen as highly problematic in the context of Rwanda's demographic shift - with the working age population projected to increase from 6.7 million in 2014 to 16 million in 2050 (World Bank 2016) – and contrasts starkly with the 'developmental state' experience. The fact that in finance and insurance, for example, 75% of people are formally employed and 53% have a university degree only underlines the gulf between these people and the vast majority of those working in 'services' – a gulf that Rwanda is finding extremely difficult to bridge.

Tourism provides an interesting example. In 2016, it contributed approximately 74,000 jobs, adding 123,000 jobs indirectly.[25] However, despite the fact that of all the 'modern' service sectors, it has been the most successful in creating jobs, the sector retains an 'acute gap of 69.4% skilled human resources' (Mastercard Foundation, 2016). Attempts to provide skills training for the tourism sector have lagged behind the needs of the sector. The government established Rwanda Tourism University College (RTUC) in 2006, and the Akilah Institute for Women in 2010, but such initiatives are very small in scale and have not provided the requisite skills at the pace needed to match the growth of tourism investments. Foreigners dominate senior and managerial roles in the sector, with one manager of a five-star hotel in Kigali noting that ‘tourism gives some employment but we also have to compete for jobs with Kenyans and Ugandans. Most of the managers are also Kenyan.’[26]

The skills deficit is especially acute in the hotel and hospitality sub-sector, as well as in sub-sectors such as passenger air transport (RDB, 2012a). Additionally, 50% of staff were thought to need language training in key international languages including English, French and Chinese (RDB, 2012a, p. 70). Other basic skills were seen as lacking: in the words of one tourism operator, ‘Graduates from RTUC know how to fold a napkin but they don’t actually know anything about tourism or service.’[27] In general, there is an emphasis on certification rather than developing the problem-solving, project management, entrepreneurial and team management skills needed by managerial staff (MasterCard Foundation, 2016).

Similar problems can be observed in other MICE and FIRE sectors. In financial services, a bank official noted that ‘our biggest problem has been human resources’, due to a lack of skilled financial experts who can be hired ‘at the right price.’ The tendency therefore is to hire foreigners, usually from elsewhere in the East Africa region because ‘it is hard to hire Rwandese.’[28] Meanwhile, there are fears of a brain drain because Rwandans returning home with international Masters degrees are often unable to find suitable work, and end up in ‘lowly jobs’ such as cleaning.[29] Paradoxically, qualified Rwandans therefore often find themselves applying for jobs elsewhere, while firms resort to hiring foreign staff to get the specific expertise they need. This disjuncture suggests a mismatch between the skills being acquired by educated Rwandese and the sectoral demands generated by new investment.

Construction firms echoed the view that it is ‘a huge drain on resources to hire locals.’[30] The skills shortage in this sector, which is usually considered within ‘industry’ but underpins both MICE and FIRE, is particularly acute, amounting to 65% of the existing labor force. Despite increasing demand for professional construction services, ‘the number of students taking construction courses and graduating from universities is dismal. In the last two years, less than 130 professionals have graduated in this field.’ (RDB 2012b, p. 78). This represents a clear missed opportunity to link labour to the booming sectors of the economy. Moreover, in this sector especially, there is controversy around employment due to the role of Chinese investors and contractors. A common perception was that Chinese firms ‘bring in hundreds and sometimes thousands of Chinese workers’, partly because ‘the construction manuals are all in Chinese’,[31] and that ‘the skills transfer just isn't happening yet.'[32] Chinese construction firms contest these narratives, arguing that one Chinese supervisor will oversee as many as 30 local staff, and that they are committed to building local capacity.[33] The Rwandan government itself has always taken the attitude that 'we can buy capacity while building our own.'[34] However, in the relatively liberalized MICE and FIRE sectors, the extent to which 'buying capacity' and building it are mutually compatible is questionable: without adequate training or skill transfer, the buying-in of capacity could undermine building it at home.

Some systemic impacts of MICE on internal economic integration may also be undermining its growth benefits. Despite claims that job creation in major international hotels like the Serena generates multiple additional jobs in wider society (MasterCard Foundation, 2016), there are significant drawbacks to the proliferation of high-end hotels. Some are now over-supplied and damage mid-tier hotels that were 'already operating at or below 50% capacity utilization […] below the break-even point for many' (IGC, 2016, p. 25). Between 2013 and 2015, at least 100 hotels were put up for sale after owners failed to repay their loans (Gahigi, 2015). The government's hotel strategy does not currently match the demand of visitors, aside from the brief duration of occasional international conferences. Even long-standing hotels such as Mille Collines were only around 30% full most of the time in 2015.[35]

Other concerns relate to the extent to which robust backward linkages are being developed in the construction of hotels and other MICE and FIRE projects. The MICE strategy is characterized by a reliance on foreign investors for large-scale investment, alongside some strategic use of state- or party-owned enterprises and a handful of domestic entrepreneurs. There is some evidence that these firms enter partnerships with smaller local firms, for example in terms of inputs into the construction sector.[36] However, in the rush to feed the construction boom, many Rwandese actors claim that the government eagerly hands contracts over to foreign firms without sufficient attention to integrating the domestic economy. In the words of the CEO of one Rwandan firm:

> 'Rwanda is the only country I know where you can just sit on your computer in China and bid for something and win it…even in Kenya, you would have to have local content, prove that what you were planning to do can't be done by locals...we need to start shifting in this direction.'[37]

Many large foreign firms are not registering with the relevant professional body in Rwanda – the Private Sector Federation (PSF) – in a way that enables linkages, knowledge exchange and skills transfer to occur. There is therefore no mechanism to ensure large foreign firms share their learning and skills. This was corroborated by interviews with foreign firms; one representative of a Chinese firm was not even aware of the PSF and had never been approached to join it.[38]

This raises broader issues about linkages in the MICE and FIRE sectors and whether these are being cultivated – including between MICE, manufacturing and agriculture, which have greater unskilled job creation potential. In 2008, OTF argued that Rwanda must develop 'stronger bonds between large hotels or "anchor firms" and local SME providers, such that goods and staff are sourced locally.'[39] However, some small firms suggested the government was too focused on identifying strategic priority sectors and did not help entrepreneurs develop linkages, for example by encouraging the manufacture of goods to feed into MICE sectors.[40]

Given these problems, it is questionable whether Rwanda's bold attempt to push a services-led strategy through a developmental state approach can generate the kinds of structural and societal transformation associated with the East Asian experience. The combination of low wages with rapid increases in productivity was crucial in East Asia and was supported by productivist social policies that channeled welfare and human development directly towards economic goals. This is harder to achieve with services like MICE and FIRE. People with the requisite skills are few and demand high wages, with international staff filling many of the gaps. Unlike in Taiwan, where the proliferation of highly localized small industries provided opportunities for low-skilled and low-wage factory work that could then be progressively up-skilled and up-scaled as the economy developed, Rwanda is attempting to leap into high-end, high-skilled activities.

None of this is to say that Rwanda has not invested substantially in human capital formation – it clearly has. It can even be argued that its approach to social protection programme has 'productivist' elements, in the sense that it goes beyond basic poverty-reduction goals to support a broader development agenda, as Lavers (2016) has shown. However, the function of social protection beyond poverty alleviation in Rwanda is more about promoting community self-reliance and securing government legitimacy than creating a productive workforce for specific sectors (ibid). Meanwhile, advances in healthcare such as the community-based health insurance remain heavily donor-dependent, pursuing an elusive goal of universal basic coverage (Chemouni 2018) with little link to a productivist agenda. Even clearer in support of our argument is the case of education. Williams (2017) has shown how performance-based incentives led to progress in education in terms of quantitative measures like construction of classrooms and enrolment, but the quality of education and its capacity to produce a skilled workforce was very poor. Thus school-leavers find themselves 'included in the country's development project vis-à-vis the education system while simultaneously excluded from meaningful opportunity given the poor quality of that system' (ibid: 559). The trajectories of human development and economic growth in Rwanda are therefore largely progressing along separate, parallel tracks rather than being progressively intertwined and mutually supporting each other as was the case in East Asia.

Conclusion: prospects for a services-led developmental state

Rwanda is attracting attention as an aspiring services-led developmental state with a rapidly growing tourism sector, and success in MICE and FIRE sectors. Though the government has directed this services-driven approach through state-led strategies reminiscent of developmental states and achieved substantial growth, its priority has been to develop links outwards with global finance and engage with the international business community. Less attention has been paid to the needs of businesses, the role of labour and the potential for creating domestic economic linkages.

The Rwandan experience raises important questions about how a focus on high-end services is facilitating internal integration, technology acquisition and skills transfer. These issues are often overlooked in the literature on services-led versus manufacturing-led development, which is largely concerned with short-term growth effects. The focus on 'going big' across a range of interlinked services sectors in Rwanda has a certain logic. But one of the key difficulties in pursuing this approach is that international service sectors have increasingly globalized standards and processes, which Rwandan training institutes are not yet seen to be providing. Time is also a significant constraint given that the rapid growth of MICE and FIRE sectors have left little time for local Rwandans to acquire the skills necessary for quality employment in those sectors. Thus, even where there is substantial job creation resulting from investments in these sectors, many jobs are not filled by Rwandans.

These problems are likely to be faced by any country seeking to specialize in 'modern' international services from a position of low levels of human development, and are particularly worrying for those with large and growing youth populations. The dynamism and highly globalized nature of these sectors means that trying to catch the 'boat' requires rapid, focused and targeted investment not only in terms of capital but also in labour. This is much harder to do than in the context of manufacturing industry, which creates more low-skilled than high-skilled jobs. What is likely to happen in the case of 'modern' services is the creation of relatively few high-skilled jobs and even fewer low-skilled ones. Parallel efforts to provide education and social protection for the majority cannot easily bridge the gap either by creating lower-skilled jobs or generating the requisite skills to fill the few high-skilled ones.

Rather than producing an East Asian-style outcome, these parallel trajectories are likely to produce volatile growth coupled with significant inequality and a reliance on that other group of 'services': traditional precarious labour associated with work in the informal economy. A services-driven development route necessarily involves a fundamentally different trajectory from the classical developmental states. Services-driven development can potentially succeed, but there is no automatic 'trickle-down' from 'modern' service growth. Any broader development depends on continuous redistributive policies, which will probably need heavy support through continued aid. The Rwandan government has belatedly realized that a better balance between services and manufacturing is required. However, any country hoping to emulate the 'developmental states' has to work hard to innovate in building the linkages between manufacturing and services, and between both of these and its labour force.

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Notes

[1] The research also draws on earlier work from the two authors dating back as early as 2009, and a range of documentary sources. Informants interviewed include government officials at local and national levels, ministers, local businessmen and foreign investors, property developers and construction firms, hotel managers and banking officials.

[2] See Routley (2014) for a recent review of the developmental state literature.

[3] For a detailed review of the literature on services growth in developing countries, see Balchin et al. (2016).

[4] Interview, Rwanda Development Board, May 2013; Interview, Office of the President, January 2015

[5] Interview, RDB official, January 2012.

[6] Interview, consultant, January 2015; Interview, tour operator, May 2012.

[7] Volcanoes National Park website: http://www.volcanoesnationalparkrwanda.com/trip-planner/gorilla-permits.html. Accessed 18 July 2017.

[8] Interview, RDB official, November 2011.

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[10] http://www.internationalmeetingsreview.com/rwanda/rwanda-steps-outreach-mice-business-98995. Accessed 18 July 2017.

[11] Interview, RDB, May 2013.

[12] Interview, MINICOM, August 2016; Interview, Rwandan consultant, August 2016.

[13] Ibid.

[14] Interview, RDB, February 2012.

[15] Interview, local businessman, May 2012.

[16] Interview, MINICOM, March 2012.

[17] We do not discuss the insurance sector in Rwanda in detail, both for reasons of space and because it is considered to be performing relatively poorly and lagging behind other service sectors (http://www.newtimes.co.rw/section/read/208402/, accessed 18 July 2017).

[18] Interview, foreign bank official, January 2015.

[19] Interviews, commercial banks, June 2017.

[20] Documents obtained from Ultimate Developers, June 2014.

[21] Interview with foreign construction firm A, January 2015.

[22] Interviews, commercial banks and government representative, August 2016 and June 2017.

[23] Interview with banking official, January 2015

[24] http://www.africapropertynews.com/east-africa/3249-property-bubble-looms-in-rwanda.html, accessed 18 July 2017.

[25] Internal consultancy report.

[26] Interview, hotel manager, March 2012.

[27] Tour operator quoted in MasterCard Foundation 2016: 16.

[28] Interview with banking official, January 2015

[29] Interview with international consultant, January 2015.

[30] Interview with foreign construction firm B, January 2015

[31] Ibid.

[32] Interview with foreign construction firm B, January 2015

[33] Interview with foreign construction firm A, January 2015

[34] Interview with senior government minister, December 2009.

[35] Conversation with member staff, Hotel de Mille Collines, January 2015.

[36] Interview with construction firm Project Manager, January 2015.

[37] Interview with Director of a domestic firm, January 2015.

[38] Interview with Chinese firm representative, January 2015.

[39] Internal consultancy report.

[40] Interview with entrepreneur, January 2015.