

Case study

ANALYSIS OF THE PERFORMANCE OF RWANDA TRADE IN SERVICES AND REGIONAL INTEGRATION

ABSTRACT

Rwanda is a land locked, Sub-Saharan African country precisely located in central-east African region. The country is in economic transformation process for which it aimed at moving from agrarian based economy to knowledge and private sector led economy thereby agricultural labor intensive activities get replaced by industry and service dominance. With economic reforms and policies aligned with vision 2020, service sector became major contributor of the Rwanda GDP (47% compared to 33% for agriculture and 14% for industry). Thus, our research on the analysis of the performance of Rwanda trade in services and regional integration was carried out with the aim of analyzing various trends in trade in services of Rwanda over five year period (2010 to 2014).

The results show that, trade in services value considerably improved (Frw1604 to 2536 billion) over five years 2010-2014, which makes service sector major contributor in the country's GDP. The sector itself is dominated by trade and transport services (33% of total service value) while financial services which deemed to finance engine of the whole economy counts minor share (5% of total service value). Moreover, unlike trade in goods, external trade for Rwanda trade in services marked good performance by reducing trade deficit for about 4 times over five years 2010-2014.

In conclusion therefore, Rwandan economy is becoming leveraged on trade in services. As it is facing limited natural resources endowments, Rwanda should continue to embody trade in services in its economic reform and policies. But still, industrialization particularly for agricultural harvest would add value even to service sector contribution.

Key words: Analysis; performance; Rwanda; Trade in services and Regional integration

LIST OF ABBREVIATIONS

AfDB :	African Development Bank
BNR:	National Bank of Rwanda/ Banque Nationale du
Rwanda	

31	EAC:	East African Community
32	FRW:	Rwandan Franc/Franc Rwandais
33	GATS:	General Agreement on Trade in Services
34	GDP:	Gross Domestic product
35	ITC:	International Trade Centre
36	KCB:	Kenya Commercial Bank
37	MINECOFIN:	Ministry of Finance and Economic Planning
38	NISR:	National Institute of Statistics of Rwanda
39	UNCTAD:	United Nations Conference on Trade and Development
40	USD:	United States Dollar
41	WTO:	World Trade organization

42 **1. INTRODUCTION**

43 ***1.1. Research Background***

44 Rwanda is a low income and land locked country, located in sub-Saharan and Central-East
 45 African region, and it shares boundaries with United Republic of Tanzania in its East;
 46 Democratic Republic of Congo in its West; Republic of Burundi in its South and Republic of
 47 Uganda in its North. Rwanda occupies a total surface area of km² 26,338 (including km²
 48 2,120 of area under water and swamps) with a total population of 10,996,891 (NISR, 2015).

49 Rwanda in its vision 2020 aspirations, it envisaged to transform its economy into middle
 50 income economy (attain per capita income of about USD900 per year) by shifting from
 51 subsistence agriculture based economy to knowledge based economy with a high level of
 52 savings and private investments in the light of reducing county's dependence on external aid
 53 (MINECOFIN, 2000) .

54 Nevertheless, Rwanda is still counting too much on agriculture sector as key source of
 55 employment and exports; agriculture employs over 70 per cent of the country labor force. But
 56 the sector's share in the country's Gross Domestic product is getting reduced over periods
 57 (45.1% in year 2000 to 33% in 2013) as a result of government initiative of stimulating
 58 entrepreneurship in the light of creating more off-farm jobs. In turn, service sector highly gets
 59 improved in such way that its contribution on GDP rose from 38% in year 2000 to 45% in
 60 2013 (AfDB, 2014).

Moreover, it is of paramount important to note that Rwanda is experiencing steady economic growth (over 5%) since the inception of vision 2020; the country's per capita income increased from USD225 in 2000 to USD701 in 2014 (NISR, 2015).

1.2. Statement of the problem

Since the inception of vision 2020, Rwanda had an impressive aspiration of transforming its economy from agrarian based economy to knowledge based and private sector led economy, and hence moved from low income countries to middle income countries with a target of per capita income above USD900 by 2020 (MINECOFIN, 2000). Therefore, in the line with vision 2020 achievement, policy makers would be embarking into economic reforms and policies including regional integration strategies deemed necessary for improving quality of agriculture products, industrial production and service sector. By so doing, few years to 2020 the country's service sector has replaced agriculture to be the main contributor to GDP (47% versus 33% in 2014) and employs over 20% of the country labor force (ITC, 2014). It is with these regards, the researcher is interested in analyzing Rwanda trade in services and regional integration.

1.3. Research Objectives

This research aims at analyzing the performance of Rwanda trade in services and regional integration over five years' period (from 2010 to 2014). Specifically the following were objectives of the study:

- i. To analyze trend in the contribution of services to GDP compared to agriculture and industry sectors
- ii. To analyze trend in the value of trade in different sub sectors made trade in services of Rwanda.
- iii. To analyze trend in import and export for trade in services of Rwanda
- iv. To ascertain implication of regional integration in service trade of Rwanda

1.4. Research Questions

The following questions were used to guide research:

- i. How is the trend of services contribution in GDP compared to agriculture and industry sectors?
- ii. How is the trend in value of trade in different sub-sectors made trade in services of Rwanda?

- 92 iii. How is the trend in import and export for trade in services of
93 Rwanda?
- 94 iv. What is the implication of regional integration in service trade
95 of Rwanda?

96

97 **2. LITERATURE REVIEW**

98 General Agreements on Service Trade (GATS) define trade in service as sale and delivery of
99 intangible products depending on territorial presence of the supplier and the consumer at the
100 time of transaction. There are four modes of trade in services such as cross border trade
101 whereby service delivery takes place from the national territory of one member to the
102 territory of another member; Consumption abroad-service delivery takes place in the territory
103 of service provider to the service consumer from another national territory. In other words,
104 nationals of one country travel to another country to consume service; Commercial presence
105 by which a service supplier moves to another country to establish his/her business in the light
106 making direct export of services (the relevant example is the case of Kenyan banks-KCB and
107 Equity Bank in Rwanda); Presence of natural persons under which a service supplier of one
108 country provides services through the presence of natural persons in the territory of another
109 country (WTO, 2013). However, while analysis performance of trade in services for Rwanda,
110 the researcher grouped services into ten main categories such as trade and transport services
111 (Wholesale, retail and transport), hotels and restaurants, information and communication,
112 financial services, real estate activities, professional, scientific and technical activities,
113 administration, defense and support services, Education, Health and social work services, and
114 cultural and other personal services (NISR, 2015).

115

116 **3. METHODOLOGY**

117 The researcher adopted purely a desk research approach whereby secondary data were
118 gathered through data retrieval from National Institute of Statistics of Rwanda (NISR) and
119 International trade Centre (ITC) data bank on trade in services, and analyzed. A trend
120 analysis approach was used to present and discuss the performance of Rwanda trade in
121 services over five years' period (from 2010 to 2014).

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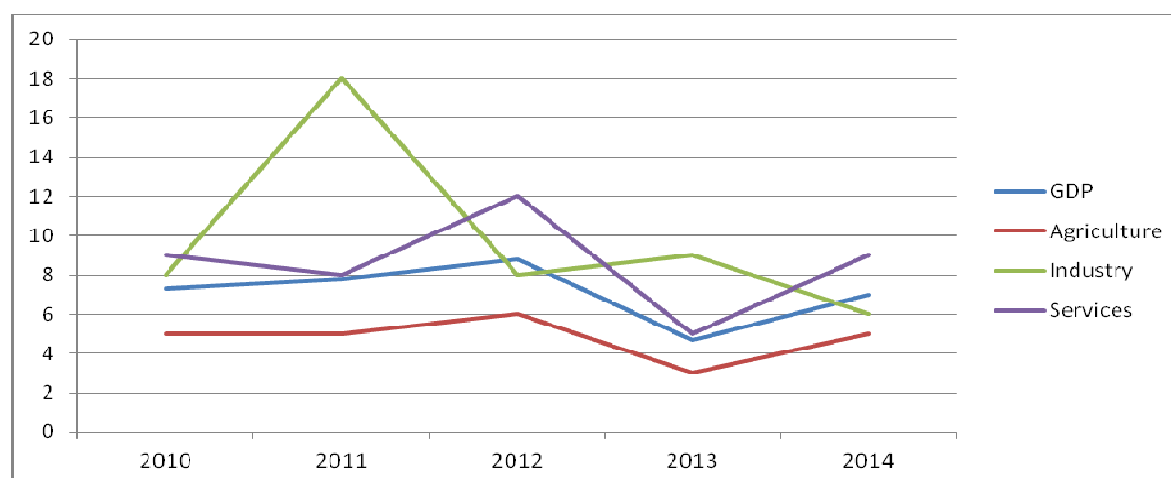
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4. RESULTS AND DISCUSSION

4.1. Trend in Rwanda Real GDP growth and share of services compared to industry and agriculture sectors

The figure below presents the trend in contribution of services in the real GDP growth in comparison to the contribution of agriculture and industry sectors.

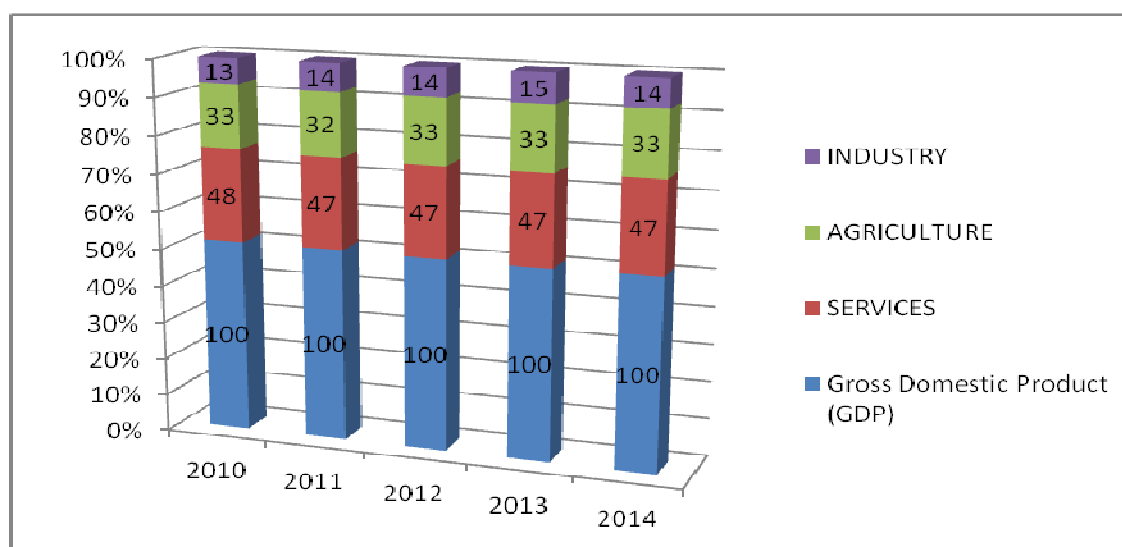
Figure 1: Rwanda Real GDP growth (in %)



Source: (NISR, 2015) Rwanda Statistical Yearbook 2015

Considering the data on the growth of real GDP presented in above figure, it is indicated that Rwanda registered good economic performance with an average GDP growth of 7.12% over five years (from 2010 to 2014). The industry and service sectors were proven to have contributed more in the continuous economic growth (with an average of 9.8% and 8.6% respectively) compared to agriculture sector which contributed an average of 4.8%. It is worth to note that, the good performance shown in service and industry sector is highly linked to the country policies designed to entrepreneurship in the light of creating off-farm employment. However, looking on individual sectors performance in year 2010, 2011, and 2012, each sector marked considerably high growth compared to year 2013 and 2014, and this was due to general decline in the commodities prices in the global market.

147 **Figure 2: Service sector share in GDP compared to Industry and Agriculture.**



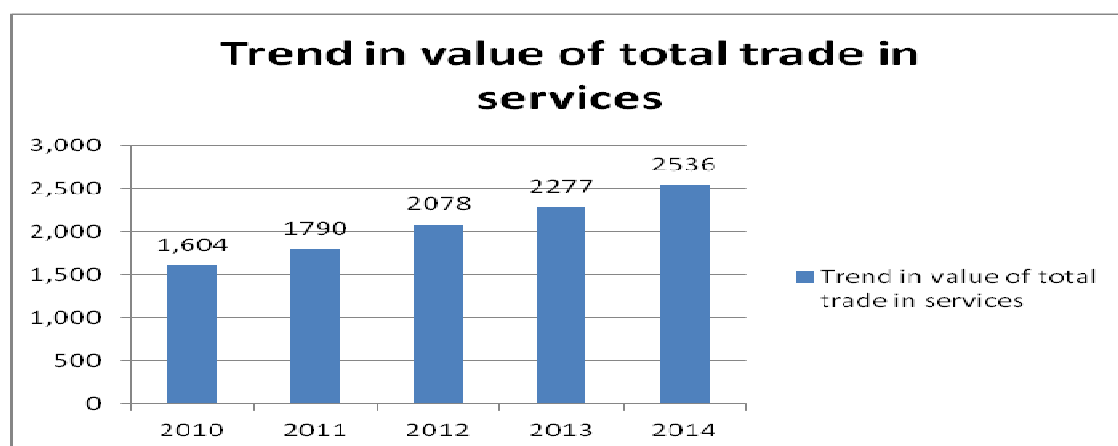
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149 **Source:** (NISR, 2015) Rwanda Statistical Yearbook 2015

150 The data presented in the above figure indicate that service sector keeps dominating other
 151 sectors (Agriculture with 33% and Industry with 14%) towards contribution to GDP with a
 152 share of 47%. Despite of relatively high growth in industry, the sector keeps to be the least
 153 contributing sector to GDP. This implies that the country's labor market is still predominated
 154 by agricultural labor intensive with relatively low wage.

155 **4.2. Trend in value of total trade in services (in billion of RWF)**

156 **Figure 3: Trend in value of total trade in services**



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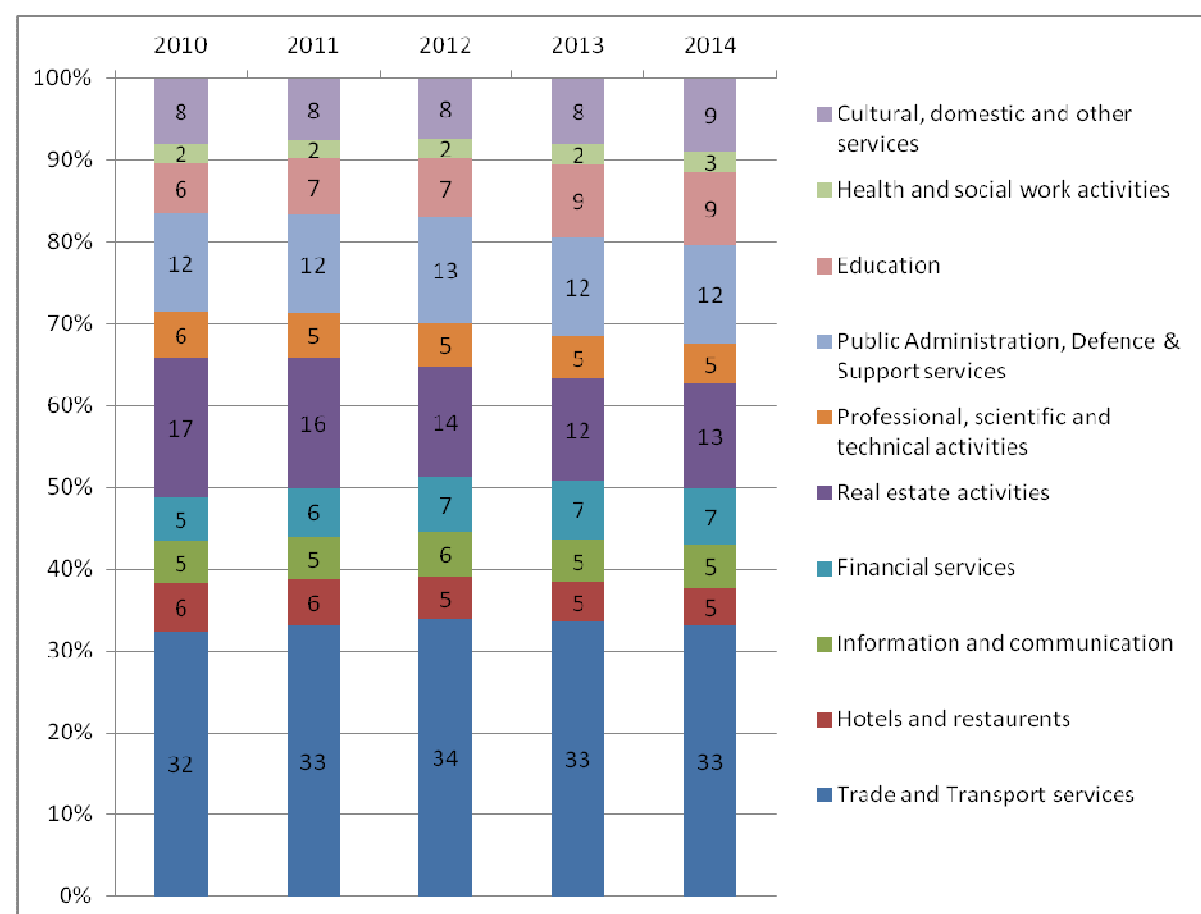
158 **Source:** (NISR, 2015) Rwanda Statistical Yearbook 2015

159 Considering the trend in total value of trade in services presented in the above figure, it is
 160 indicated that trade in services keeps increasing over years; over five years (from 2010 to

2014), the trade value of services tended to be doubled (1.58times). This implies a positive responsiveness to accommodative monetary policy of the central bank (BNR) which highly supports financing of service sector in response to Government's employment initiative of creating more off-farm jobs.

3.3. Trend in elements of Rwanda trade in services (share percentage of total value)

Figure 4: Trend in share percentage in value of total Rwanda trade in services



Source: (NISR, 2015) Rwanda Statistical Yearbook 2015

From the data presented in the above figure, it is noted that trade in services of Rwanda is dominated by trade and transport services (33% of the total value of trade in services) followed by real estate (13%), public administration, defense and support services (12%), culture, domestic and other services (9%), education (9%), hotels and restaurants (5%), financial services (5%), Information and communication (5%), professional, scientific and technical activities (5%) and Health and social work activities (3% in 2014). Trade and transport services as a service sub sector is made of wholesale and retail, travel and transport agencies, and maintenance and repair of motor vehicles. It is of paramount important to say

that on the top of nature of sub sector itself, trade and transport services leveraged on country's policy of easy doing business and regional integration. For instance, regional retailers are operating in Rwanda few to mention are NAKUMATI and SIMBA super markets; Rwanda Air, and domestic and regional travel agencies have considerably increased trips across EAC countries. Nevertheless, it was realized that financial services are still contributing minor share in the value total trade in service yet it is the one deemed to finance the rest of the economic activities.

4.4. Rwanda Exports and imports in services (in thousands of USD)

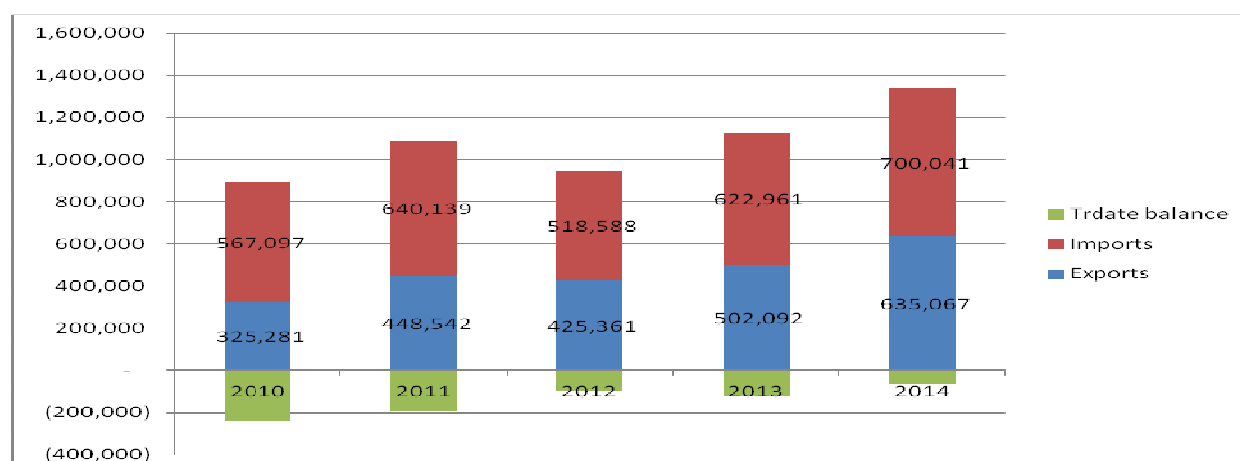
Table 1: Exports and Imports in services (in thousands of USD)

Trade in Services	2010	2011	2012	2013	2014
Exports	325,281	448,542	425,361	502,092	635,067
Imports	567,097	640,139	518,588	622,961	700,041
Trade Balance	(241,816)	(191,597)	(93,227)	(120,869)	(64,974)

Source: ITC, UNCTAD, WTO Joint data set

The information in the above table indicates that both service exports and imports are generally increasing over five years' period (2010 -2014).

Figure 5: Trend in value of Rwanda exports and imports in services (in thousands of USD)



193 **Source:** ITC, UNCTAD, WTO Joint data set

194 From the information presented in table 1 and figure5 above, it was realized that total
195 external trade in services was considerably improved over five years period; the total trade
196 (Exports and imports) was increased by 49.6% from 2010 to 2014. The good thing to note is
197 that the value of exports was highly improved against imports value (95% increases in value
198 of exports versus 23.4% of imports), which in turn resulted considerable decline of trade
199 deficit unlike trade in goods; trade deficit in services declined by almost 4times from 2010 to
200 2014.

201 ***4.5. Implication of Regional Integration to Rwanda trade in services***

202 Considering the geographical location of Rwanda for which it is considered as a gate way
203 Central Africa Francophone countries and East African Anglophone countries, Rwanda
204 tourism exports earnings is improving over time due single tourism visa EAC integration.
205 Furthermore, the outcome of Rwanda trade in services is getting improved by enlarging
206 competitiveness of domestic firms as results of competition from regional entrants (especially
207 Kenyan based intentions) in the market. Few to mention are Kenya commercial bank (KCB),
208 Equity Bank, Phoenix of East Africa in financial services; NAKUMATI and SIMBA super
209 market in retail business; Jomo Kenyatta University, Mount Kenya University in education
210 (World Bank, 2012).

211 **5. CONCLUSION AND POLICY RECOMMENDATIONS**

212 ***5.1. Conclusion***

213 Despite of the pressure from global decline in commodities prices, Rwanda trade in services
214 keeps improving in value notably in exports, which is reducing trade deficit over time; the
215 country is leveraged on regional integration benefits noted in enlargement competitive
216 business services and tourism exports earnings. It was realized that Rwanda economy is
217 becoming a service sector led economy, and trade and transport services (including tourism)
218 counts more than a third of the sector. Nevertheless, financial services continue to have minor
219 share in the total value of trade in services yet it is deemed to be a financing engine of the
220 economy.

5.2. Policy Recommendations

Rwanda should continue to embody in its policies necessary actions to enlarge trade in services base since it is facing limited natural resources endowments. Trade and transport services (Wholesale, retail, travel and transport) and in particular tourism outcome should be leveraged on in the light of boosting total trade in services outcome. Furthermore, more efforts are still required on the improvement of financial services production capacity; on the top capital accumulation through national saving culture, capital market as well as domestic manufacturers should be strengthened.

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