

Rwanda's National Trading Policy: Guiding Socio-Economic Development Toward Prosperity



DOI reference: 10.1080/13673882.2024.00001008

By Judith Akinyi Ogolla, Theresia Bihtekum, Abida Sultana and Paul N. Ngang (LinkedIn; email), Thomas More University of Applied Sciences, Postgraduate in African Business Studies, Mechelen, Belgium.

After its independence from Belgium in 1962, Rwanda's economic trajectory has significantly shifted, especially in trade and foreign exchange. Initially marked by stringent restrictions and controlled by the Banque Nationale du Rwanda (BNR), the country transitioned from a fixed to a flexible exchange rate, with trade liberalization becoming a pivotal driver of its economic transformation.

During the first three decades post-independence, Rwanda tightly regulated trade

and foreign exchange, managing all currency transactions through the BNR. This approach, while instrumental in stabilizing the economy, also posed challenges. Notably, the tariff structure in the 1990s averaged 34.8 per cent, and various restrictions, such as quotas and licensing, were imposed on imported goods. The BNR's role extended beyond currency management, encompassing control over other financial transactions.

Despite these constraints, Rwanda's economy demonstrated resilience, with notable growth from Frw 2,758 billion in 2021 to Frw 3,583 billion in 2022. The country's major trading partners, Kenya and Uganda, played a crucial role in this growth, emphasizing the significance of trade for economic development. Scholars argue that trade fosters competition, innovation, and specialization, leading to domestic industry growth. Rwanda's commitment to liberal reforms on trade, finance, and foreign exchange has fostered an environment conducive to private sector investment, the development of small and medium enterprises, and export diversification.

Rwanda's trade policy aligns with broader business growth goals, consumer protection, and socio-economic development. The National Trading Policy explicitly supports Rwanda's pursuit of Sustainable Development Goals, particularly poverty eradication (SDG 1) and gender equality (SDG 5). This aligns with Rwanda's broader vision of transitioning into a middle-income economy.

The historical context of Rwanda's trade evolution includes the post-genocide period, marked by economic changes such as monetary liberalization, trade reforms, and tariff reductions. Despite the challenges, the economy became more competitive, emphasizing the role of the BNR in stabilizing inflation and maintaining a steady exchange rate with the US Dollar.

Rwanda's traditional exports, including tea, coffee, and minerals, have declined, prompting diversification into horticultural products. As measured by the Herfindahl-Hirschman Index, export concentration has decreased, indicating a positive shift towards a more diversified and competitive market. The regional trade dynamics within the East African Community (EAC) and the Common Market for Eastern and Southern Africa (COMESA) have played a crucial role in this transformation. The introduction of regional trade agreements has increased trade volumes, reduced monopolistic tendencies, increased investments, and improved factor mobility.

Trade Indicators and Sectors

The significance of trade is paramount, with various economic theories, such as Adam Smith's absolute advantage, David Ricardo's comparative advantage or opportunity cost, and the Heckscher-Ohlin (H-O) theory, providing diverse perspectives on its determinants and benefits. Lederman, Xu, Baier, and Bergstrand have contributed to understanding the relationship between trade and economic development. Despite conceptual differences, these theories unanimously emphasize the crucial role of trade in fostering economic development (Umutesi, 2018).

Scholarly discussions on the link between trade and economic growth reveal varied viewpoints, with some scholars asserting that imports stimulate domestic industry growth through competition, innovation, and specialization. Others argue that trade generates more income, fueling further trade activities (Umutesi, 2018). Recent trade indicators in Rwanda underscore this importance, with a 48 per cent increase in trade volume between the third quarters of 2021 and 2022, reaching a total of US\$ 2,031.24 million. The GDP grew by 10 per cent in the same period, reflecting the country's dynamic economic landscape (NISR, 2022a; NISR, 2022b).

Rwanda's economic growth, primarily driven by agriculture, services, and industry, has been positive in recent years. The contributions of the service and industry sectors to GDP have risen, indicating a shift away from dependence on primary production (Malunda & Musana, 2012; Umutesi, 2018). In 2022, the services sector played a pivotal role in the 10 per cent GDP growth, contributing 47 per cent, followed by agriculture at 24 per cent and industry at 21 per cent. Tax adjustments and subsidies contributed 8% to GDP (NISR, 2022a).

Rwanda's Trade Policy in a Nutshell

Aligned with the Rwanda Vision 2020 and the Economic Development and Poverty Reduction Strategy (EDPRS), Rwanda's trade policy is designed to facilitate economic transformation. While achieving a middle-income economy by 2020 remains a work in progress, Rwanda has made substantial strides in the right direction. The EDPRS, emphasizing job creation, private sector investment, exports, rural development, and social protection, is the guiding framework for Rwanda's trade policy (Malunda & Musana, 2012).

The overarching goal of Rwanda's trade policy is to establish a robust economic foundation, aligning with the objectives of Rwanda Vision 2020. It aspires to foster sustainable, diversified, high-quality goods and services for local, regional, and global trade, ultimately enhancing the Rwandan population's employment, income levels, and living standards. The policy directly contributes to the short-, medium-, and long-term objectives of Rwanda Vision 2020, with an additional focus on supporting the achievement of Millennium Development Goals related to poverty eradication, women empowerment, and sustainable growth (Republic of Rwanda, 2010).

The trade policy encapsulates five strategic goals the Ministry of Trade and Industry set. These goals encompass creating an environment for business growth and consumer protection, increasing the proportion of services and manufacturing in GDP, supporting private sector growth and job creation, promoting trade integration into regional and international markets, and building an adequate trade infrastructure (Republic of Rwanda, 2010).

The Ministry of Trade and Industry's policy recommendations aim to catalyze Rwanda's development by emphasizing skills development for trade negotiators, analyzing trade-specific human resources, and reviewing science, technology, and innovation policies. Other initiatives include mobilizing investment for export-oriented industries, improving the investment climate, and promoting market identification for Rwandan exports. While Rwanda encourages foreign direct investment (FDI) in various sectors, criticism arises concerning its pro-poor impact, especially regarding subsistence farmers' staple food production (Republic of Rwanda, 2010; Malunda & Musana, 2012).

The Role of Rwanda's Development Board

Crucial to Rwanda's economic development, the Rwanda Development Board (RDB) serves as a one-stop-shop for business and investment, embodying global best practices. Established in 2009, RDB focuses on accelerating economic growth by facilitating private sector growth and attracting foreign and domestic investments. Critical services include business and investment registration, visa facilitation, environmental impact assessment, tax incentive management, investment promotion, export and exceptional economic zone development, tourism and conservation, and private sector skills development (RDB). RDB's success metrics encompass direct foreign and domestic investments, increased

exports, and job creation. Through strategic international engagements and industry-specific events, RDB plays a pivotal role in promoting Rwanda as a competitive business destination (RDB).

Conclusion

Over the past 25 years, Rwanda has made significant strides in advancing gender equality through legislative and policy measures. Notable achievements include ratifying international treaties, amendments to discriminatory laws, and enacting comprehensive domestic legislation spanning various aspects of life. Despite these commendable efforts, gaps in the legal framework and practical barriers persist, hindering full gender equality. The Legal Aid Forum's analysis provides valuable insights and recommendations to enhance Rwanda's compliance with national, regional, and international legal obligations.

In tandem with these gender-focused initiatives, Rwanda has shifted its trade policies to prioritize poverty alleviation. Key development priorities aligning with Sustainable Development Goal 1 (no poverty) include restoring peace and security, creating jobs—especially in rural areas—integrating rural areas into markets, expanding the manufacturing sector, increasing Rwanda's global trade share, and curbing brain drain. The government emphasizes value addition, export diversification, employment creation, tax reductions for manufacturing, and an effective financial regime as crucial elements for socio-economic development. These strategic measures have contributed to Rwanda's status as one of Africa's fastest-growing economies (Malunda & Musana, 2012).

References*

Malunda, D., & Musana, S. (2012). *Rwanda Case Study on Economic Transformation* (p. 65). Institute of Policy Analysis and Research - Rwanda (IPAR).

NISR, N. I. of S. R. (2022a). *GDP National Accounts (Third Quarter 2022)*.

NISR, N. I. of S. R. (2022b). *Statistical reports*.

Republic of Rwanda, M. of T. and I. (2010). *Rwanda Trade Policy*.

Umutesi, M. C. (2018). *An Analysis of the Causative Factors of Trade Flows between Rwanda and its leading Trading Partners* [Jönköping University].

*These references are part of the authors' original work, 'A Case Study On Business Relations Between Africa and China'. This article published in Regions e-zine Issue 17 is the authors' reflective essay.

About the Authors

Judith Akinyi Ogolla, Theresia Bihtekum, and Abida Sultana are former African Business Studies (PABS) postgraduate students. Paul N. Ngang is the PABS Director. The PABS is a pioneering program at Thomas More University of Applied Sciences in Belgium, the first in Europe. The program offers a curriculum in African Business that is taught in collaboration with African Embassies and top regional universities. With a focus on cross-cultural management, entrepreneurship, and business, PABS provides graduate students and future managers with the knowledge and skills to navigate the growing demand for world-class professionals in the global marketplace.