

## Analysis of the Performance of Rwanda Trade in Services and Regional Integration

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### Authors' contributions

The two authors designed, analyzed and interpreted and prepared the manuscript.

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Case Study

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### ABSTRACT

Rwanda as a least developed 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.

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## 1. INTRODUCTION

### 1.1 Research Background

Rwanda is a low income and land locked country, located in sub-Saharan and Central-East African region, and it shares boundaries with United Republic of Tanzania in its East; Democratic Republic of Congo in its West; Republic of Burundi in its South and Republic of Uganda in its North. Rwanda occupies a total surface area of km<sup>2</sup> 26,338 (including km<sup>2</sup> 2,120 of area under water and swamps) with a total population of 10,996,891 [1].

Rwanda in its vision 2020 aspirations, it envisaged to transform its economy into middle income economy (attain per capita income of about USD900 per year) by shifting from subsistence agriculture based economy to knowledge based economy with a high level of savings and private investments in the light of reducing county's dependence on external aid [2].

Nevertheless, Rwanda is still counting too much on agriculture sector as key source of employment and exports; agriculture employs over 70 per cent of the country labor force. But the sector's share in the country's Gross Domestic product is getting reduced over periods (45.1% in year 2000 to 33% in 2013) as a result of government initiative of stimulating entrepreneurship in the light of creating more off-farm jobs. In turn, service sector highly gets improved in such way that its contribution on GDP rose from 38% in year 2000 to 45% in 2013 [3].

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 [1].

### 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 [2]. 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 [4]. Indeed, it is of paramount important to note that service sector play crucial role in the country's economic growth and development by not only providing smooth running economic system but also being intermediate inputs into all sectors of economy, in turn becomes reliable source of employment [5]; for instance, education and health services are corner stone for development and reproduction human capital while financial, distribution, information, communication and technology, energy, environmental and transport services create underlying fundamental networks enabling well functioning of the overall economic system. Thus, main concern of this study is to ascertain change in service sector of Rwanda using trend analysis.

### 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?

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

**2. UNDERSTANDING MODES OF TRADE IN SERVICES**

General Agreements on Service Trade (GATS) define trade in service as sale and delivery of intangible products depending on territorial presence of the supplier and the consumer at the time of transaction. There are four modes of trade in services such as cross border trade whereby service delivery takes place from the national territory of one member to the territory of another member; Consumption abroad-service delivery takes place in the territory of service provider to the service consumer from another national territory. In other words, nationals of one country travel to another country to consume service; Commercial presence by which a service supplier moves to another country to establish his/her business in the light making direct export of services (the relevant example is the case of Kenyan banks-KCB and Equity Bank in Rwanda); Presence of natural persons under which a service supplier of one country provides services through the presence of natural persons in the territory of another country [6]. However, while analysis performance of trade in services for Rwanda, the researcher grouped services into ten main categories such as trade and transport services (Wholesale, retail and transport), hotels and restaurants, information and communication, financial services, real estate activities, professional, scientific and technical activities, administration, defense and

support services, Education, Health and social work services, and cultural and other personal services [1].

**3. METHODOLOGY**

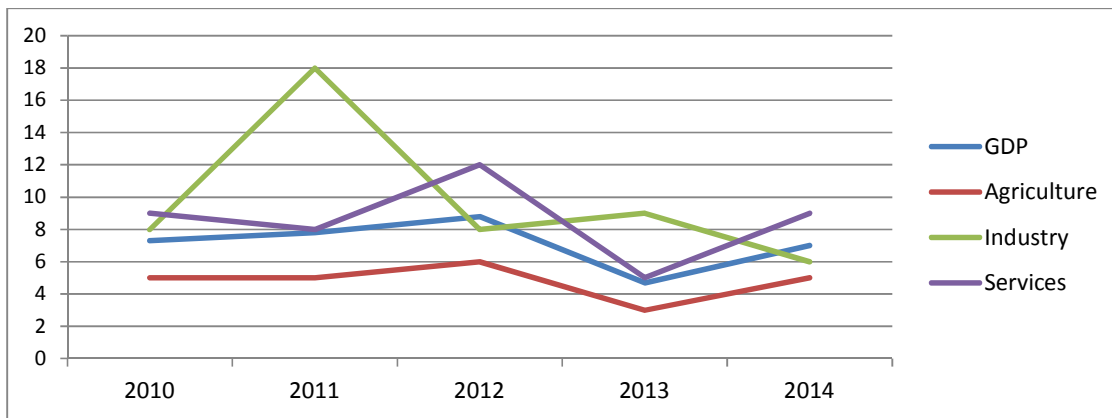
The researcher adopted purely a desk research approach whereby secondary data were gathered through data retrieval from National Institute of Statistics of Rwanda (NISR) and International trade Centre (ITC) data bank on trade in services, and analyzed. A trend analysis approach was used to present and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

**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 caparison to the contribution of agriculture and industry sectors.

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



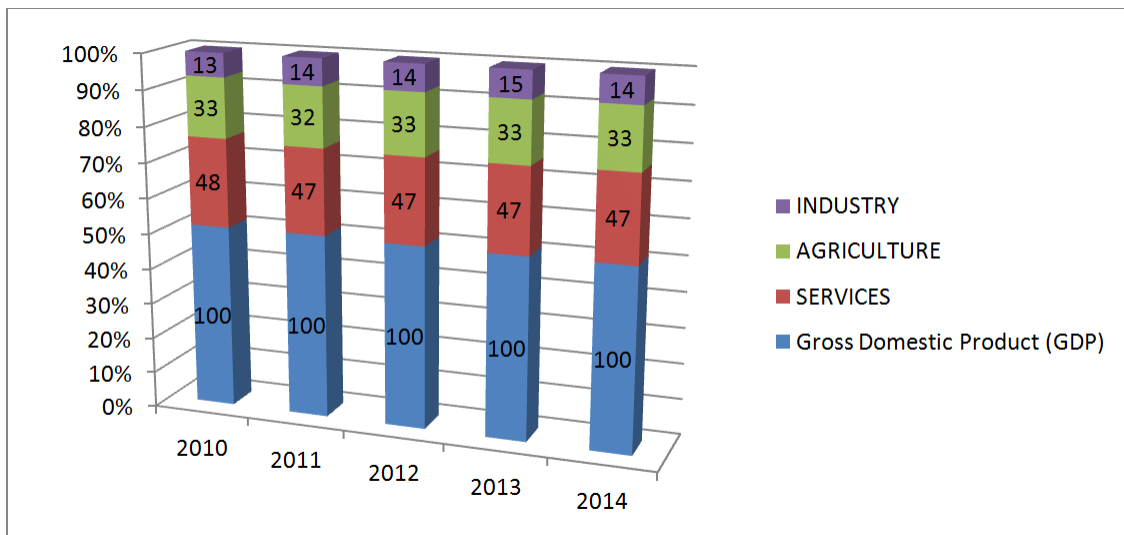
**Fig. 1. Rwanda real GDP growth (in %)**  
 Source: (NISR, 2015) Rwanda Statistical Yearbook 2015

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.

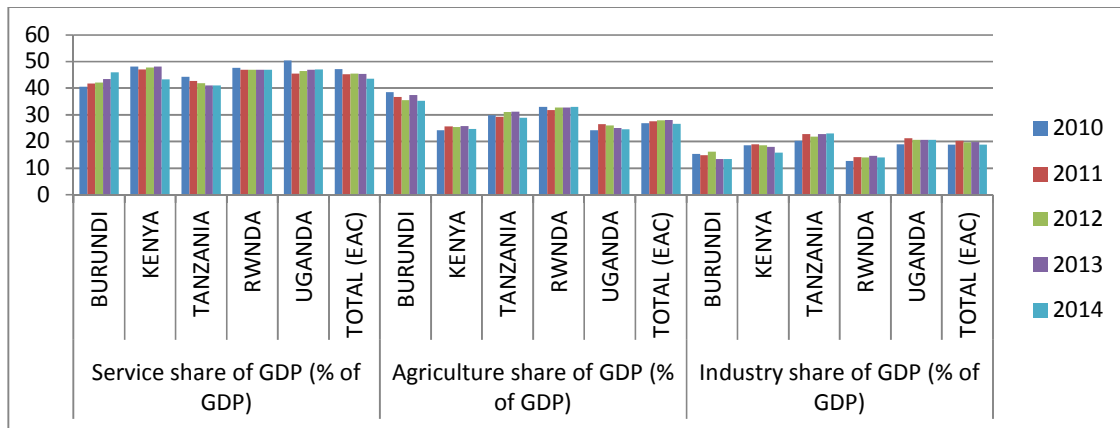
The data presented in the above figure indicate that service sector keeps dominating other sectors (Agriculture with 33% and Industry with

14%) towards contribution to GDP with a share of 47%. Despite of relatively high growth in industry, the sector keeps to be the least contributing sector to GDP. This implies that the country's labor market is still predominated by agricultural labor intensive with relatively low wage.

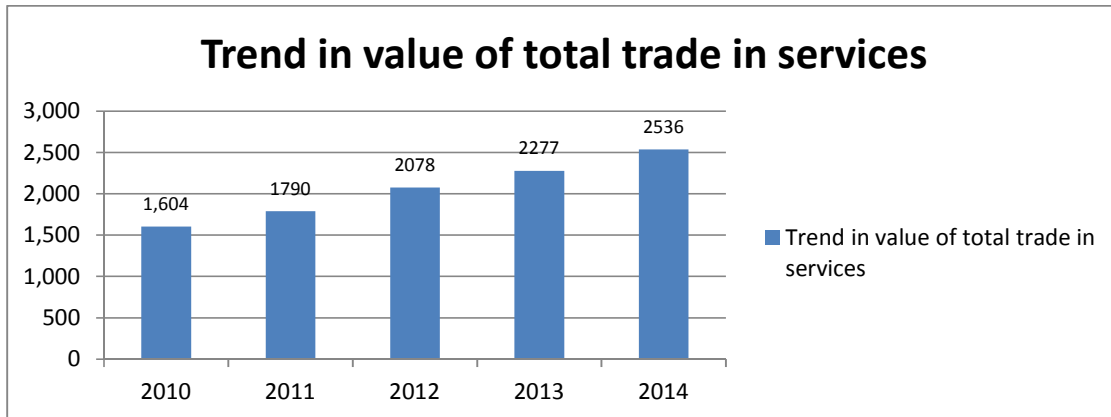
From the data presented on the above figure, it is clearly indicated that service sector continues dominating agriculture and industry sectors in terms of contribution to the countries' GDP over time for all member states of East African Community.



**Fig. 2. Service sector share in GDP compared to industry and agriculture**  
 Source: (NISR, 2015) Rwanda statistical yearbook 2015



**Fig. 3. EAC member states service share in GDP compared to industry and agriculture**  
 Source: East African community facts and figures 2015



**Fig. 4. Trend in value of total trade in services**  
 Source: (NISR, 2015) Rwanda Statistical Yearbook 2015

Burundi service sector contributes an average of 43% to the country's GDP over five years' period (2010-2014) against 37% of Agriculture share and 14% of industry share. For Kenya's GDP, services contribute an average of 46.4% over five years' period against 25% of agriculture and 18% of industry sectors. Tanzania's services contributed an average of 44% compared to 30% and 22% of agriculture and industry sectors respectively. While Rwanda services contributed 47% to the country's GDP over five years (2010-2014) against 33% of agriculture and 14% of industry sectors, Ugandan service sector contributed 47% against 25% of agriculture and 21% of industry sectors. Furthermore, it is worth to note that service share of GDP is generally increasing while the share of agriculture decreases overtime for all EAC member states. This implies positive response towards strategies and reforms put in place in all EAC members states (including regional integration) in the light of transforming respective economy into knowledge based economy rather than Agro-based economy.

**4.2 Trend in Value of Total Trade in Services (in Billion of RWF)**

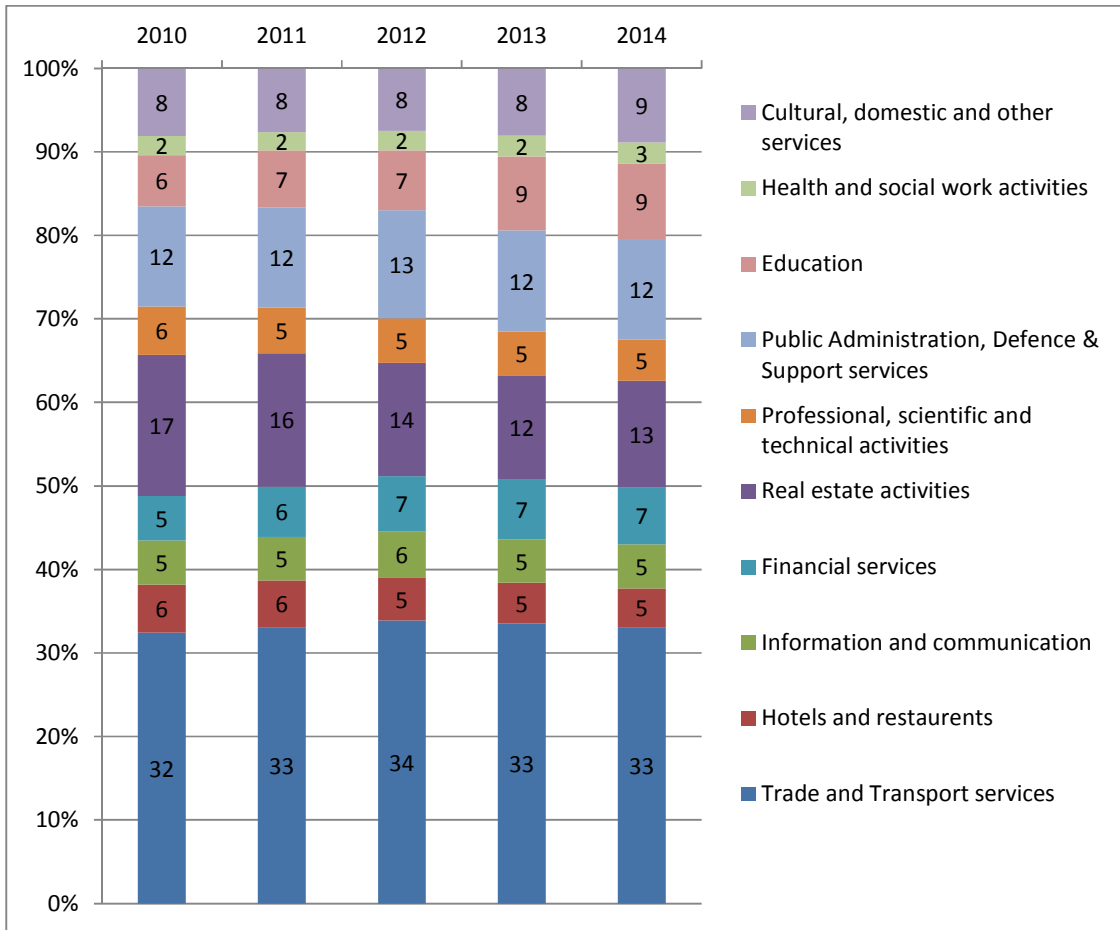
Considering the trend in total value of trade in services presented in the above figure, it is indicated that trade in services keeps increasing over years; over five years (from 2010 to 2014), the trade value of services tended to be doubled (1.58 times). This implies a positive responsiveness to accommodative 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.

**4.3 Trend in Elements of Rwanda Trade in Services (Share Percentage of Total Value)**

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.

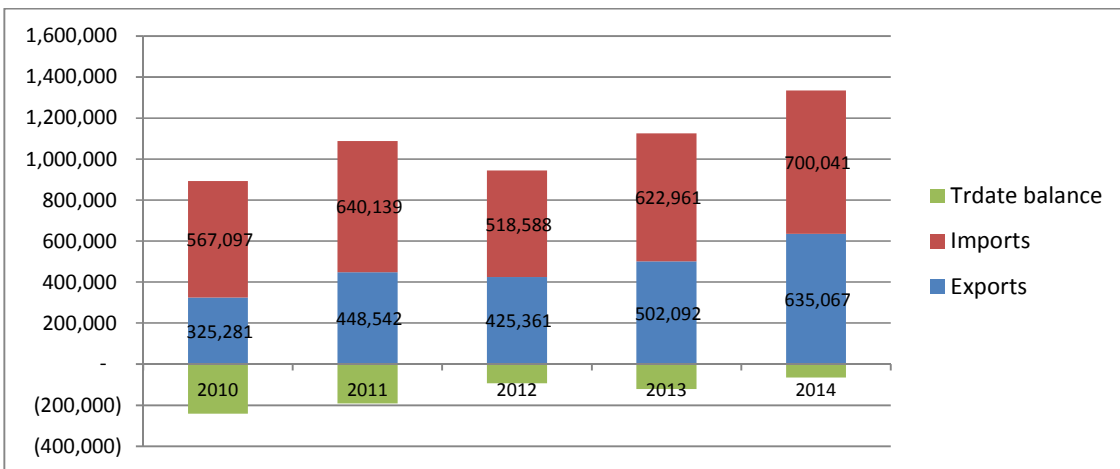
**4.4 Rwanda Exports and Imports in Services (In Thousands of USD)**

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



**Fig. 5. Trend in share percentage in value of total Rwanda trade in services**

Source: (NISR, 2015) Rwanda Statistical Yearbook 2015



**Fig. 5. Trend in value of Rwanda exports and imports in services (in thousands of USD)**

Source: ITC, UNCTAD, WTO Joint data set

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

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

Source: ITC, UNCTAD, WTO Joint data set

From the information presented in Table 1 and Fig. 5, it was realized that total external trade in services was considerably improved over five years period; the total trade (Exports and imports) was increased by 49.6% from 2010 to 2014. The good thing to note is that the value of exports was highly improved against imports value (95% increases in value of exports versus 23.4% of imports), which in turn resulted considerable decline of trade deficit unlike trade in goods; trade deficit in services declined by almost 4times from 2010 to 2014.

#### **4.5 Implication of Regional Integration to Rwanda Trade in Services**

Considering the geographical location of Rwanda for which it is considered as a gate way Central Africa Francophone countries and East African Anglophone countries, Rwanda tourism exports earnings is improving over time due single tourism visa EAC integration. Furthermore, the outcome of Rwanda trade in services is getting improved by enlarging competitiveness of domestic firms as results of competition from regional entrants (especially Kenyan based intentions) in the market. Few to mention are Kenya commercial bank (KCB), Equity Bank, Phoenix of East Africa in financial services; NAKUMATI and SIMBA super market in retail business; Jomo Kenyatta University, Mount Kenya University in education [7].

### **5. CONCLUSION AND POLICY RECOMMENDATIONS**

#### **5.1 Conclusion**

Despite of the pressure from global decline in commodities prices, Rwanda trade in services keeps improving in value notably in exports, which is reducing trade deficit over time; the country is leveraged on regional integration benefits noted in enlargement competitive business services and tourism exports earnings. It was realized that Rwanda economy is becoming a service sector led economy, and trade and transport services (including tourism) counts more than a third of the sector.

Nevertheless, financial services continue to have minor share in the total value of trade in services yet it is deemed to be a financing engine of the 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.

#### **COMPETING INTERESTS**

Authors have declared that no competing interests exist.

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