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Governance Innovations Facing Chronic Trade Deficit in Rwanda (2000- 2015)

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Abstract
Since 1930, the year of first Exportations, Rwanda's Balance of Trade continues to be chronically Deficit due to higher Imports over Exports. The National Bank of Rwanda (BNR) reported that from 2000 to 2015, the deficit value (expressed in million US dollars) passed from -238.63 in 2000 to -1616.50 in 2015. Trade deficits are not necessarily seen as a cause for concern, nor are they seen as good predictors of a country's future economic growth; however, they also may reflect a low level of savings and make countries more vulnerable to external economic shocks, such as dramatic reversals of capital inflows. For the case of Rwanda where imports have been always dominated by consumer goods rather than capital goods, its chronic trade deficit traduces the lower the Country's strength and the lower its economic growth. Facing the gap requires increasing production, fighting subsistence production and encouraging market oriented to national and international markets through exportation. Promoting local manufacturing and Made in Rwanda in general generates internal jobs and reduces jobs transferred to foreign countries by Importations. The solution to the crisis could be found on Private Sector side but it is unfortunate that the private sector in Rwanda is still embryonic. Only Governance innovations addressing the issue by promoting Made in Rwanda can face a number of challenges in industrial and micro small medium enterprises and leads to lower deficit trade.

The present research has double aims: analysing Rwanda's deficit trade and its impact on business and consumers and economic growth; and providing appropriate governance initiatives to face the gap by promoting made in Rwanda. The research used Descriptive Quantitative methods with Documentary techniques. The Data were provided by the National Bank of Rwanda. The software for data analysis was Eviews Version 8.

Key Words: Balance of Trade, Exports, Governance Initiatives, Imports, Local Manufacturing, Made in Rwanda, Production.

Jel Code: (E23, E29, F19)

1. Background of the Study

Gathani and Stoeringa 2012 traces the origins of Rwanda's export sector back to 1917 with the first exportation of Coffee that was introduced in Rwanda in 1904 by Missionaries. Exportation Sector properly can be traced around 1930 following a number of investments by the Belgian colonial administration. At the time of independence in 1962, Rwanda was an exporter of Coffee (55%), Minerals such as Cassiterite, Tin and Wolfram (37%), Pyrethrum (3%) and Tea (2%). Coffee became widespread in the late 1930s following five waves of mandatory coffee tree planting imposed by the Belgian colonial administration in order to increase revenue collection from its Rwanda – Urundi colonies in the context of the 1930 – 1940 Great Depression, known as the lowest point in economic cycle that affected the world from USA and characterised by reduced purchasing power, mass unemployment, excess of supply over demand, falling prices, falling wages and general lack of confidence in future. Pyrethrum was introduced during the same period in areas where coffee trees could not grow, in particular at high altitudes. Rwanda's Minerals sector was started in 1930 and by 1955 included more than 200 quarries, controlled by Belgian settlers and companies, extracting tin, gold, silver, wolfram and cassiterite. Tea was introduced much later, in the early 1950s, by European and Asian settlers. Until very recently, these products have accounted for over 90% of Rwanda's merchandise exports (Bezy, 1990).

Nibeza 2015 demonstrated that the development of Rwanda's exports sector since independence comprises three main periods: The 1960 – 1986 period where merchandise exports averaged 8% of GDP, with 60% of income coming from Coffee exports, about 30% from the exports of Minerals, with smaller export products including Tea and Pyrethrum. The 1986 – 1995 period characterised by a rapid decline started in 1986 as the result of a very large drop in global coffee prices which fell by an estimated 70% between 1986 and 1992. This decline was amplified by the unsustainability and economic instability following consecutive devaluations in the early 1990s and the political instability leading to the 1994 Genocide against Tutsi. The post 1994 period: where Rwanda's exports sector has fully recovered from the catastrophic impact of the 1994 Genocide and increased from about 5% of GDP in 1994. In fact, according to International Monetary Fund (IMF) 2016, Exports value in Rwanda in 1994 was 54.62 million US $ over GDP evaluated at 1.2 billion US $. In 2015, Exports value was 709.48 million US $ over GDP evaluated at 8.3 billion US $, thus 9%.

Despite during the period post Genocide Exports have increased in value and in percentage together with GDP, the Balance of Trade has continuously been deficit (as it was been since external trade exists), from -2.74 million US $ in 1994 to -1616.50 million US $in 2015 as reported annually by the National Bank of Rwanda (BNR). Such Deficit Trade Balance handicaps business and consumers together with economic growth in a number of ways.

The present Research aims at analysing Rwanda's deficit trade and its impact on business and consumers and economic growth; and providing appropriate governance initiatives to face the gap by promoting made in Rwanda.

2. Literature Review

2.1. Deficit trade balance in East African Countries: Uganda, Kenya and Tanzania

Uganda: Staas (2016) analyzed deficit trade in Uganda and found that alarming is Uganda's trade deficit. In fact, this deficit in exports is harmful to Uganda's development, employment situation and society. Uganda's external trade position is fragile, largely due to higher import growth, as export earnings remain sluggish. The trade deficit remained persistent at USD 437 Million, equivalent to 7.7 per cent of GDP in 2015/16. However, trade is a major driver of growth, associated with increased employment opportunities and higher incomes. Therefore, exports need to be increased as means of creating jobs, stabilizing the exchange rate for better business planning and boosting the overall development of the country. The author recommends the following elements to Uganda to boost its exports: To identify Uganda's trade niche such as fish and fish products, tobacco and tea, flowers, cotton and maize; to narrow its trade focus on its most dominant trading partners; to integrate all the small- scale farmers. In fact Small- and medium sized enterprises, especially in the agricultural sector, are the backbone of Uganda's economy; therefore they should be where to set off from to increase exports. In this line, the author recommends increase processing facilities because the potential of agricultural commodities is not fully maxed out. The author points out the problem of corruption in government ministries where significant amounts of money are being wasted by government agencies instead of being invested.

Kenya: Agricultural products are central to Kenya's export industry with horticultural and tea being the most important. Other export items include textiles, coffee, tobacco, iron and steel products, petroleum products, cement. Kenya imports mostly machinery and transportation equipment, petroleum products, motor vehicles, iron and steel, resins and plastics. According to the World Bank (2016) Kenya posted a trade gap of KES 76.5 billion in December of 2016, following a KES 73.6 billion shortfall in the previous year. Exports decreased 8.3 percent year-on-year to KES 46.7 billion, driven by food and beverages, which account for 42.5 percent of total sales. As for Uganda, Kenya is accused a high level of corruption that affects trade. Omondi 2017 describes how appetite for imports helped narrow Kenya's trade deficit. Kenya's import bill for the 10 months to October last year went down significantly, offering much-needed reprieve to the country's balance of payments. The decline saw the country's trade deficit decline by 13.2 per cent to Sh705 billion - the lowest since 2012, as reported by Kenya National Bureau of Statistics (KNBS). In 2016, improvement in trade deficit reading was mainly driven by an 8.8 year-on-year drop in imports driven by reduced purchases of transport equipment which averaged 10.4 per cent of total imports in 2016 compared with 16.3 per cent in 2015. During the period under review, the imposition of higher excise taxes on cars hit the car importation business hard. The National Treasury removed excise tax on locally assembled vehicles, opting to charge 20 per cent of a used imported vehicle's value instead of the flat fee of Sh200,000.

Tanzania: Tanzania major exports are agricultural commodities with tobacco, coffee, cotton, cashewnuts, tea and cloves being the most important. Other exports include gold and manufactured goods. Tanzania imports mostly transport equipment, machinery, constructions materials, oil, fertilizers, industrial raw materials and consumer goods. Shawa and Shen 2013 analyzed the determinants of trade balance in Tanzania and found that Tanzania's trade was deficit since long time. Their research recommended incentives for attracting local and foreign investors, promoting education; reduction of both government and household's consumption, new discoveries of natural resources such as mines and natural gases, and trade liberalization. While analyzing barriers to business, Tanzania Economic Outlook (2016) found that overall, Tanzania ranks 139 out of 189 economies in "Starting a Business" as per the Ease of Doing Business Report, 2016. Poor access to finance, corruption and inadequate infrastructure are seen as the largest barriers to doing business. In his regard the Tanzanian government named these sectors as some of the main focus areas in the 2016/17 budget. Today, The Country recorded a trade surplus of 150.30 USD million in 2017. Such achievements are due to the implementation of a set of policies aimed at stimulating domestic production, promoting exports, safeguarding domestic industries against dumping (protectionism), and consumer protection. Imports in Tanzania are dominated by Capital goods (41%).

2.2. The Impact of Trade Deficit on Economic Growth, Business and Consumers

- ✓ Trade Deficit affect Gross Domestic Product (GDP)

GDP= C+I+G+X,
Where: C= Consumer Expenditure
I= Investment (Capital produced –Capital Consumed)
G=Government expenditure
X= Net Exports (Exports-Imports) (Nibeza & Tumusherure, 2015)

GDP increases when the total value of goods and services that domestic producers sell to foreigners exceeds the total value of foreign goods and services that domestic consumers buy, otherwise known as a Trade Surplus. If domestic consumers spend more on foreign products than domestic producers sell to foreign consumers – a Trade Deficit – then GDP decreases. GDP growth increases output people can enjoy. It raises standards of living as well as disposable incomes. If domestic production is insufficient and or does not provide variety that consumers want, consumers will switch to buying foreign goods with their excess disposable income. This is that the propensity to import increases. The growth in GDP has hence led to growth in imports. Exports are also likely to fall because domestic demand is high. Trade is likely to title unfavourably against the economy and it may experience deficits.

- ✓ Deficit Trade Balance affects Employment

Trade deficits transfers jobs to importers countries and thus affect employment. Gould, Ruffin, and Woodbridge (1993) correlated unemployment rates of the twenty-three OECD (Organization for Economic Cooperation and Development) countries with their import penetration ratios (the ratio of imports to GDP) and their export performance ratios (the ratio of exports to GDP) over thirty-eight years. They found that, for about half the countries, the correlation between import penetration ratios and unemployment rates (future or present) is negative (that is, higher imports are related to lower unemployment).

- ✓ Trade deficit affect Exchange Rate (EXCH)

The Balance of Trade influences currency exchange rates through its effect on the supply and demand for foreign exchange. When a country's trade account does not net to zero – that is, when exports are not equal to imports – there is relatively more supply or demand for a country's currency, which influences the price of that currency on the world market. To pay for foreign goods and services, the Country' consumers need foreign currencies. Country's consumers inject Country's currency into the exchange market and that raises the supply of Country's currency against the other currencies. If we maintain stable the other currencies, the rise of Country's currency supply implies the Country's currency will depreciate against other currencies (Ng Yuen-Ling, Har Wai-Mun and Tan Geoi-Mei, 2008). For example, the National Bank of Rwanda reported that in 2015/2016, more pressures on exchange rate have been observed resulting from a widening mismatch between imports and exports mainly due to a decline in commodity prices. Consequently in 2015/2016, the FRW depreciated by 8.9%, compared to 5.4% recorded in the previous fiscal year (BNR, 2016).

✓ Deficit trade balance affects business and consumers

Zhao (2015) analyzed the effect of deficit trade balance in United States of America and outlined the following negative effects of trade deficit: On GDP, Exchange rate and rate of unemployment, his study found the same results as described by previous studies. Other effects outlined by the study are:

- *Standard of living*: by allowing US consumers to benefit from other countries goods and services at a lower price, the deficit trade balance seems to have positive effect. However, as long as domestic jobs are lost and outsources, the standard of living drop significantly.
- *Dependency*: A country that maintains a structural trade deficit against another country shows a significant dependency against that country for particular imported goods and services.
- *National insecurity*: The heavy reliance on imports and the erosion of manufacturing capacity could expose the US to global economic disruptions (e.g: China).
- *Economic vulnerability*: The country that exports has in hand, an excess of US dollars (importations greater than exportations) that it keeps in reserves. The country will use the reserves currency to pay for its own imports and/or make investments.

The author concludes that deficit trade balance in US, as in all countries, appears to be favorable at short term to the country such as benefiting of lower prices from foreign goods and services, increasing profits margin of U.S. businesses, decreasing rate of inflation and rising standard of living. However, in longer term it shows some threats such as a decrease of real GDP, rise of unemployment, rise of inflation for local economy, enforcement of dependency from foreign products and services, a risk for the national security, and an increased vulnerability of U.S. economy from foreigners.

2.3. Strategies to promote Exports

Belloc and Di Maio (2011) and different studies and publications have been conducted on how to promote exports. Those studies outlined successful strategies and practices for Export Promotion in Developing Countries:

The first output states that establishment of Export Promotion Zones (EPZs) or Special Economic Zone (SEZ) is effective way to promote exports: In fact, Zeng (2015) noted that common EPZs features include streamlined processing of goods ready for export, lower export fees and reductions in taxes and import tariffs on intermediates, all of which aim to make SEZ firms more competitive on world markets. The Economist, 2015 affirms that as of 2015, the number of SEZs stood at more than 4000 from 3500 EPZs in 2008 which amounted to 68 million jobs and over $500 billion in trade-related value added (Davies & Mazhikeyev, 2016). While analysing Exports Promotion in Latino- America, ECLAC 2004 worked on strategies to promote exports demonstrated that since the beginning of the 1990s, Export Processing Zones (EPZs) have been one of the most used strategies to increase exports in Latin American countries. EPZs also called Development Economic Zones or Special Economic Zones, EPZs are type of free trade zone (FTZ), set up generally in developing countries by governments to promote industrial and commercial exports. In addition to providing the benefits of a FTZ, these zones offer other incentives such as exemptions from certain taxes and business regulations. ECLAC share position with Melo, 2001 who proved that in improving exports, all Latin American countries have created EPZs with the only large country exception of Chile. UNECA, 2011 cites Mauritius as one example of the successful African countries cases in establishing EPZs to promote Exports. In this country the creation of EPZs stimulated the boom in sugar and export earnings in the 1970s and caused an increase in the investment in joint-ventures between domestic and foreign investors in the special zones.

The second strategy established by studies in line with Exports Promotion is through attracting Foreign Direct Investment (FDI). Hussain and Haque 2016 analysed the relationship between foreign direct investments, trade and growth rate of per capita GDP in Bangladesh. They found that the trade and foreign investment variables have a significant impact on the growth rate of GDP per capita. Because FDI and trade are two important components of economic growth in Bangladesh, it is important to frame policies that promote growth and reduce the barriers for capital flows. In line with FDI, Different measures can be used to attract FDI, such as income tax holidays, tariff exemptions and subsidies for the creation of infrastructures.

In the 1990s' the British government offered between 30.000 and 50.000 US$ per employee to attract Samsung and Siemens, whereas Ireland has attracted FDI through a corporate tax rate of (only) 10 per cent to all foreign manufacturers who moved part of their production in Ireland (Görg and Strobl, 2008). Strategies for attracting FDI in specific sectors have also been widely used. Alfaro and Charlton (2007) show that, considering a sample of 29 countries, the most targeted sectors worldwide include machinery, computers, telecommunications and transport equipment. In line with this strategy, The Kenyan Investment Authority provides a 60 per cent allowance on investment in manufacturing and hotels and the offsetting of losses by future payable taxes. The government of Malawi grants lower taxes on remittance and payments to foreign firms that provide training programmes or that invest in disadvantaged areas. In Senegal, incentives for new foreign enterprises include: (a) the cancellation of VAT (for 3 years), (b) the provision of tax credits, (c) lower tax on profits, (d) the exemption from patent fee, (e) property tax and license fee, (f) zero income taxes for stocks and shares.

The third strategy for Exports Promotion is through establishment of Trade Promotion Organisations (TPOs). According to International Trade Centre (ITC) 2015, TPOs have an essential advocacy role to play to reduce the cost of doing business across borders and facilitate a conducive business environment. The World Trade Organisation Trade Facilitation Agreement creates a legal structure to accomplish this, but TPOs need to encourage governments to implement business-friendly reforms. SMEs need incisive trade and market intelligence to enter new markets. TPOs' raison d'être is to assist SMEs to obtain this expertise at an affordable cost. To remain competitive, businesses also need to ensure gender inclusiveness, adopt new technologies and extend brand identity. In each of these areas, there are models of excellence where TPOs have served as valuable intermediaries between local enterprises and global and regional markets. TPOs usually rely on a network of offices abroad in order to facilitate the information gathering on foreign markets and sales opportunities. TPOs provide a number of services including: (a) dissemination of information on export markets, (b) assistance in export marketing, (c) packaging and labelling, (d) quality standards management, (e) general training about export activity, (f) legal assistance, (g) assistance in obtaining export financing, (h) trade missions and trade fairs. TPOs can be government-funded or operate through the private sector. As example, the Trade and Investment South Africa (TISA) has objectives of identifying new products and new markets and to facilitate exports by matching potential exporters with foreign buyers. Finally, it provides financial assistance to implement the Export Marketing and Investment Assistance (EMIA) scheme, which is a scheme to support both the export activity by domestic producers and to attract FDI in the country (Department of Trade and Industry, 2006).

The fourth strategy for Exports Promotion is by Trade fairs and trade show. In fact, The promotion of Rwandese products using trade fairs and exhibitions at National and international level is one of the Government's Seven Years Program set as Trade Policy and Strategies to be achieved from 2006 (GoR, 2006). A report produced by KPMG (1994) computed the ROI of the Trade Fairs Support Scheme (TFSS) operated by the UK Department of Trade and Industry showed that the programme generated positive results. The Report also found that sales of firms that attended overseas trade fairs increased on average by 19 per cent, while 17 per cent of participating firms increased employment as a result of the TFSS provision.

The Fifth strategy for Exports Promotion is by Trade finance provision. The World Trade Organisation 2016 affirms that financing gaps are the greatest in the poorest countries, notably in Africa and developing Asia. Multilateral trade finance facilitation programmes helped facilitate over US$ 30 billion in trade in 2014. According to WTO, up to 80 per cent of trade is financed by credit or credit insurance, but coverage is not uniform. A lack of trade finance is a significant non-tariff barrier to trade, particularly (but not exclusively) in developing countries. SMEs in developing countries face even greater challenges in accessing trade finance.

The estimated value of unmet demand for trade finance in Africa is US$ 120 billion (one-third of the continent's trade finance market) and US$ 700 billion in developing Asia.

Bridging these gaps in provision would unlock the trading potential of many thousands of individuals and small businesses around the world (WTO, 2016). A study conducted by Melo 2001 affirms that Credit access constraints still represent an important barrier to export even in developed countries because imperfections in the credit markets increase the transaction costs faced by firms that intend to export. To deal with these market failures, government may provide trade credit and trade insurance. Melo reports that 14 out of 26 countries in Latin America have some institutional scheme to provide credit to exporters.

The sixth strategy for improving Exports is by improving the investment climate and other complementary policies. US Department of State in Rwanda 2015 testifies that Rwanda enjoys strong economic growth, high rankings in the World Bank's Ease of Doing Business Index and a reputation for low corruption. The Government of Rwanda has undertaken a series of pro-investment policy reforms intended to improve Rwanda's investment climate and increase foreign direct investment (FDI). The country presents a number of opportunities for U.S. and foreign direct investment, including in renewable energy, infrastructure, agriculture, mining, tourism, information and communications technology (ICT). While analysing Investment Climate in Danish, Boston Consulting Group, 2004 found that the Danish Government's efforts have been addressed to create a favourable economic and administrative environment for domestic enterprises and to provide them with the conditions for a successful international involvement. Such targeted policies entail (a) the removal of financial constraints, (b) education and training programmes, (c) a flexible and entrepreneurial workforce (university reform, specialised training facilities, regional entrepreneur parks, tax breaks for foreign workers with skills shortages), (d) investment in R&D and advanced technologies, (e) incentives for collaboration between public and private entities, (f) improved access to venture capital (Danish Investment Fund, state-owned financial company, loans provided on commercial terms, incentive to pension companies to invest in small and innovative businesses), (g) market liberalisation (such as those implemented in the electricity market – 2003, or in the gas market – 2004), (h) the removal of bureaucracy or administrative constraints to business activities (such as simplification of processes with online forms and of tax payment procedures for SMEs).

3. Data and Methodology

Data source: This study used data provided by the National Bank of Rwanda through its Annual Reports 2000- 2015; and data recorded are collected from two entry points such as the Kanombe International Airport and Magasins Généraux du Rwanda (MAGERWA) where pass goods entering by land.

Methodology: The study used descriptive quantitative focusing on documents review. In fact, the author collected information from National Bank of Rwanda (BNR) Annual Reports and other documents related to exports and imports and analyzed their content using Eviews version 8 for data computation.

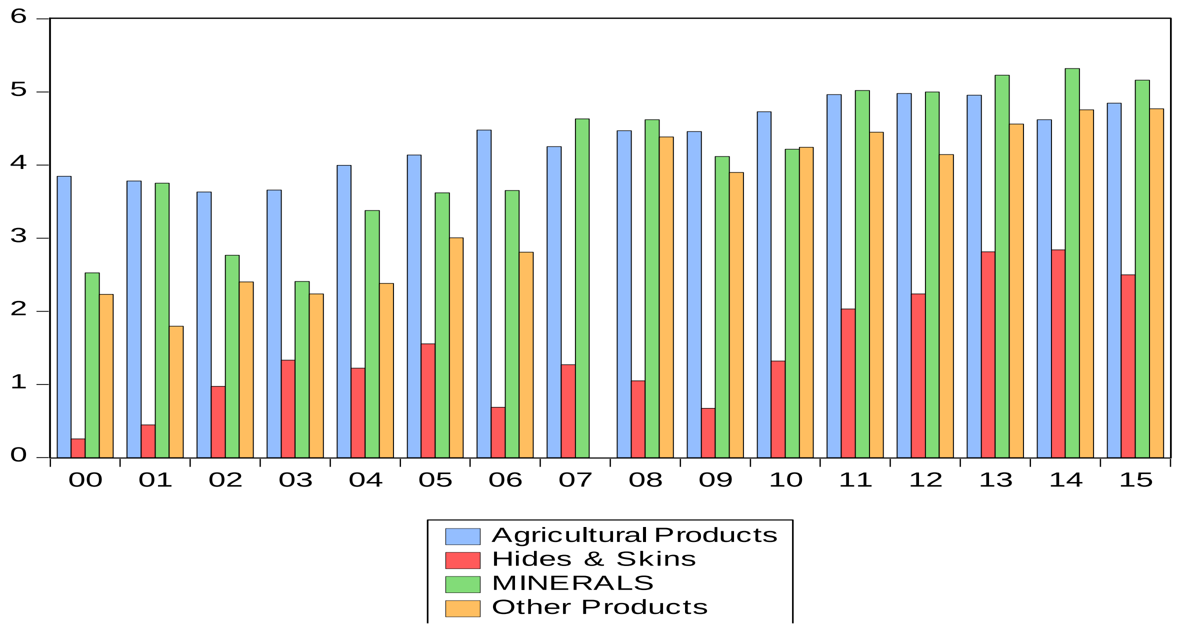
4. Findings and interpretations

This section will describe the evolution of Exports in Rwanda during 2000- 2015 period. Rwanda exports are into two main categories: Formal Exports, also known as Traditional Export, composed mainly by Agriculture crops (Coffee, Tea, and Pyrethrum), Minerals (Coltan, Wolfram, Tin and Cassiterite), Livestock (Hides and Skins). Another Category of Export is composed of Non-Traditional Exports composed of Horticulture (fruits, nuts, vegetables, ornamental plants, flowers, Herbs & Spices and Horticulture Processed Products), cereals, Products of the milling industry, Mineral Water and Beer, Cement, Cosmetic products, Plastics and articles thereof, Textiles and textile articles, Footwear, Handcrafts, Scraps Iron, Iron and steel. Tourism is somehow classified as Export Sector but the present research will not include this Service. Throughout the description, the section entitled Other Exports cover a series of products such as foodstuffs and other minerals, live animals among others. The study will not mention Re-exports Products mainly composed by petroleum products, machines & engines, vehicles and minerals because their values and volume are not clearly defined by the National Bank of Rwanda.

4.1. Formal Exports Evolution Value: 2000- 2015

Formal exports in Rwanda can be classified into four major categories: Agricultural Products (Coffee, Tea and Pyrethrum), Minerals (Cassiterite, Colombo Tantalite or Coltan, Wolfram and Tin), Animal Products (Hides and Skins), and Other Products (foodstuff, non-traditional minerals and live animals) (BNR, Annual Reports). During the period of the study, the following figure schematises the evolution in exports per Sector.

Figure 1: Evolution of Exports values per Sector during the period 2000- 2015 (value in million USD)



Source: Author's computation using Eviews 8 on data provided by BNR Annual Reports 2000-2015.

The present figure shows that Agriculture products have dominated Exports in Rwanda from 2000 to 2006. While it dominated other sectors, it has decreased from 2000 – 2003 and increased from 2003– 2006. Agriculture products have also dominated Exports in 2009 – 2010. The figure shows its increasing during 2009 – 2011 and it has decreased slowly from 2011 – 2013. In 2014 agriculture products have considerably decreased and re-increased in 2015. The Minerals Sector has seconded Agriculture during 2000 – 2006 period. Since 2007 up to 2015, Minerals have dominated exports in Rwanda so that in 2014 the minerals sector doubled income from Agriculture sector. Animal Products sector occupies the third position in exports. The sector fluctuated with little income during 2000 – 2006. From 2006 it has fluctuated while increasing in amount of dollars earned from it. Other Products such as foodstuff, non-traditional minerals and live animals, have always earned a little amount and continue to present a small part in exportation in Rwanda.

Considering overall exports for formal exports, according to BNR Annual Report, Export value between 2000 and 2005 has been varying as the following: It passed from around 70 million UDS in 2000 to 93.27 million in 2001 due to the boom of Coltan exports. The situation changed in 2002 due to the fall of Coltan price added to the Coffee prices since 1989. In 2003, the export sector became sluggish and was marked by a continuous decrease of revenues which fell to 63.05 million US$ from 67.29 million US$ in 2002 (BNR, 2003). An exception has been in 2004 where the value of exports in 2004 was one of the highest amounting to 97.89 million US$. Such achievement is due to good performance of coffee and metal exports which were stimulated by the significant rise in the prices of these commodities on international markets. Other products such as, tea, skins and hides and pyrethrum did not perform well, between 2000 and 2004 (BNR, 2004). Exports achieved 124.89 million US $ in 2005 from 97.89 in 2004. Such increase is due to good performance in coffee exports, metal exports as well as re-exports. Coffee export value registered a strong increase due to both favourable prices on international markets and improvements in the quality of the Rwandan exported coffee (BNR, 2005).

Exports revenue amounted to USD 145.21 million in 2006 against USD 124.89 million in 2005. This increase was due good performance of coffee and tea exports accompanied by significance increase in mineral exports (BNR, 2006). The 2007 good performance of exports resulted essentially from mining sector. Exports are valued at 176.34 million US $ (BNR, 2007). The 2008 marks the high performance of exports during the period 2005 – 2009 where exports are valued at 271.61 million US $. This resulted essentially from performance in mining and agriculture sectors (BNR, 2008). The fiscal year 2009 mark exception in Exports: Export sector performed very badly in 2009 falling from 271.61 million US $ in 2008 to 198.66 in 2009 due to the Agricultural export products which represented around 40% of Rwanda's exports in 2009 and affected by climatic conditions that are beyond the country's control. Only tea performed well. Also Minerals declined (BNR, 2009).

The period 2010 – 2015 was marked by an increase in Exports. In 2010, the Rwandan exports remained dominated by traditional export products (coffee, tea and minerals). Tea exports have continued to perform better in both value and volume. Coffee exports also performed better than 2009 increasing highly as a result of improvement in domestic production and high international prices. Driven by overall upward trend of prices on international markets for minerals, the Rwanda mining exports value increased despite a decline in volume in 2010 compared to 2009. The increase in prices is mostly attributed to Tin whose prices rose from an average of USD 6.69/kg in 2009 to 10.86/kg in 2010 (BNR, 2010). From 2011 to 2015, Exports were dominated by minerals (BNR, 2011; BNR, 2012; BNR, 2013; BNR, 2014; BNR, 2015). Other export products included mainly foodstuff, non-traditional minerals and live animals, while re-exports were mostly composed of petroleum products, machines & engines, vehicles and minerals (BNR, 2013). During the fiscal year 2013/2014, total receipts from exports were valued to USD 576.65 million mostly dominated by traditional products (BNR, 2014). During the fiscal year 2014/2015, total receipts from exports were valued at USD 581.43 million mainly dominated by traditional products (coffee, tea and minerals) (BNR, 2015).

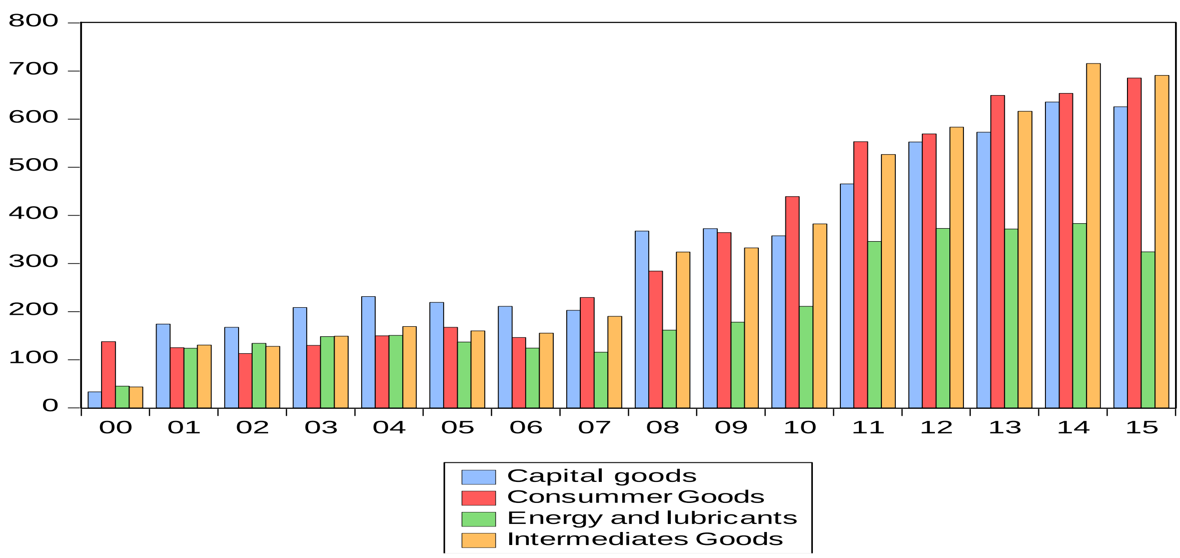
4.2. Non- Traditional Exports

Non- traditional products exported between 2007 -2011 are Beans, Skin care products, Hand crafts, Cement, Shoes/ Footwear, Mineral water, Beer, Livestock, and Edible vegetables, roots and tubers. From 2007 to 2011 they earned respectively 6.463.466; 16.491.521; 12.865.157; 13.4753651; and 18.999.508 USD. They increased from 2007 to 2008 for decreasing in 2009-2010 and re-increasing in 2011 (BNR, Annual Reports 2007- 2011). In 2012 new products entered into scene: Cereals, Products of the milling industry, Cosmetic products, Plastics and articles thereof, Textiles and textile articles, Scraps Iron, and Iron and steel. Together with products cited in previous paragraph, they increased export value to 45.860.000 USD in 2012 which increased at 87.340.000 USD in 2013 and falling to 57.300.000 USD in 2014 for re- increasing to 70.500.000 USD in 2015 (BNR, Annual Reports 2012- 2015).

4.3. Formal Imports Evolution

The formal imports in Rwanda comprise four major categories: Consumer goods dominated by foodstuff, Intermediary goods, Capital goods and Energy and lubricants products dominated by fuel. Considering the import values expressed in million USD, all four categories of imports have considerable increased in terms of quantity and value so that the total value imported passed from 258.5 in 2000 to 2325.98 million USD in 2015. The following figure summarizes the evolution of importation comparing all four cited categories:

Figure 2: Formal imports evolution 2000- 2015 (value in million USD)



Source: Author's computation using Eviews 8 on data provided by BNR, Annual Reports 2000-2015

As clearly demonstrated by the figure, considering the quantity or volume of imported goods, the period 2000- 2015 can be subdivided into two sub- periods: 2000- 2007 where the volume is still low; and 2008- 2015 characterized by an increased in volume and value of importations. The growth in importation in that period is justified by several reasons: Since 1995, where Rwanda's manufacturing sector has gone from reconstruction to renewed growth and from a state-driven system to greater liberalisation, privatisation and regional integration. Around 80% of the existing manufacturing firms today entered the market between 2006– 2011 (Gathani & Stoelinga, 2013). The formal industrial sector today consists of 4752 firms of which 97% are manufacturing, 2% construction and 1% mining and quarrying firms. Another factor of increased importations since 2008 is the increase of Rwanda's population that passed from 9,481,082 in 2007 to 12 988 423 in 2015.

✓ ***2000- 2007 period***

During this period, imports have been dominated by Capital Goods that are tangible assets such as buildings, machinery, equipment, vehicles and tools that are used to produce goods and services in order to produce consumer goods and goods for businesses. Consumer goods occupy the second rank in importations: This situation mean that Rwanda continue to import consumer goods because local productions have not yet achieved the level of satisfying the market needs. Intermediate goods occupy the third rank and energy and lubricants came at the last position.

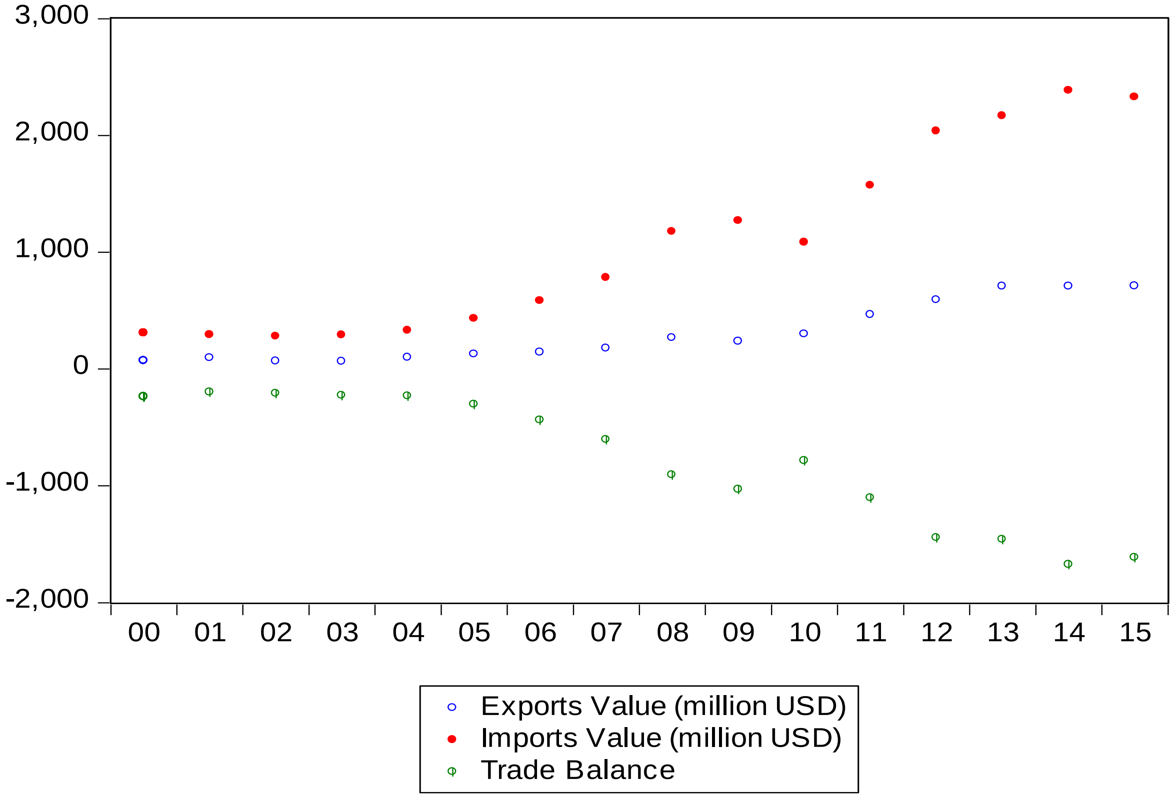
✓ ***2008- 2015 period***

During 2008- 2015 period, imports are dominated by Consumer Goods (mainly consisting of food stuff), followed by intermediate goods. The predominance of consumer goods is due to an increase of the population without increase of neither land, nor high agricultural technologies that can satisfy food for 12 million of the population. Rwanda continues to import food stuff for the population. Intermediate good is a product utilized to produce a final good or finished product. These goods are sold between industries for resale or for the production of other goods. Occupying the second position in imports during 2008- 2015 period, traduces that during the same period manufacturing has accelerated activities and required to imports intermediate materials. Capital goods occupy the third position with high level of value: This signifies that Rwanda continues to invest in different domain and imports capital goods for investment. The last position is occupies by energy and lubricant: During the period under consideration energy and lubricant have increased the quantity and the value but still low compared to other goods.

5. Rwanda's Chronic Deficit Trade

The balance of trade in Rwanda has been deficit since its first exportations in 1917. The figure below schematizes the situation of deficit trade during 2000- 2015 period as following:

Figure 3: Deficit trade Evolution 2000- 2015



Source: Author's computation using Eviews 8 on data provided by BNR, Annual Reports 2000-2015.

Rwanda' trade has been characterized by heavy imports over exports. Exports values have never exceeded 33% of imports values. They increased from 22.4% in 2000 to 32% in 2001 and fallen to 24.2% in 2002 and reached 21.7% in 2003. They increased to 29.6% in 2004 and decreased slowly to 29.0 in 2005 to fall to 24.5% in 2006 and became stable during 2007- 2008 with 22.6%. They fallen to 18.5% in 2009 and jumped to 27.4% in 2010 to increase normally to 29.6% in 2011, to 29.0% in 2012. They increased to 32.6% in 2013 and decreased to 29.7% in 2014 for re-increasing to 30.5% in 2015.

6. Discussion and Policy implications

1. *Exports and imports in Rwanda have considerably increased: In fact, imports passed from 258.5 USD million in 2000 to 2325.98 USD million in 2015 (around 9 times); and exports passed from around 72 USD million to 487.6 USD million (around 7 times).*

Exporting and importing help grow national economies and expands the global market. Imports are important for businesses and individual consumers: Country like Rwanda needs to import goods that are either not readily available domestically or are available cheaper overseas. Individual consumers also benefit from the locally produced products with imported components as well as other products that are imported into the country. Oftentimes, imported products provide a better price or more choices to consumers, which help increase their standard of living. Importing is not necessarily a bad thing because it gives us access to important resources and products not otherwise available or at a cheaper cost. On the other hand, the more a country exports, the more domestic economic activity is occurring. More exports mean more production, jobs and revenue. If a country is a net exporter, its gross domestic product increases, which is the total value of the finished goods and services it produces in a given period of time. In other words, net exports increase the wealth of a country.

2. *Deficit trade is and continues to be a challenging and shared issue for Rwandan, East African Countries' and other Countries' economy*

Exports values have never exceeded 33% of imports values and Rwanda has always characterized by deficit trade since 1917. Such situation affects economic growth, business and consumers. In fact, and if a country continues to import more than export, more money is leaving the country and jobs are transferred to other country and such situation cause inflation. Such crisis is shared between East African Countries, African countries and developing countries in general. The issue cannot be handled at once. It required a long process. More efforts are required to reduce the gap between imports and exports until reaching balance equilibrium.

3. *Rwanda's exports increases its percentage over imports favorably, despite very slowly, towards trade balance: in average, Rwanda's exports passed from 24% of imports between 2000- 2010 to an average of 30% of imports between 2010- 2015. The lower percentage was 18.5% in 2009 due to climatic conditions that affected agricultural production; and the highest percentage was 32.6% in 2013 where traditional products performed well; and 32% in 2001 with the boom of coltan.*

Such situation traduces achievements of several Government's programs and efforts promoting exports such as: the Law N° 06/2015 of 28/03/2015 relating to investment promotion and facilitation in Rwanda. The law states to invest in priority economic sectors such as export, industry and manufacturing, energy, transport, information and communication technologies, financial services and construction of low-cost housing. The law incentives foreign investors and guarantee facilitation; (ii) National Industrial Policy aims at diversifying the economy by increasing the share of industry to the country's GDP, increase exports to 1.5 billion USD by 2020 and increase the number of off-farm jobs (MINICOM, 2011a); (iii) National Export Strategy (NES I & II) aiming at accelerating industrial and export growth (MINICOM, 2011b; MINICOM, 2015); (iv) Vision 2020 expecting an industrial contribution of 26% to GDP by 2020 (GoR, 2000) ; (v) EDPRS II where industrial contribution of 20% to GDP by 2018 is expected and annual growth rate of 14% (GoR, 2013); (vi) Private Sector Development Strategy aiming at building a more competitive manufacturing sector (MINICOM, 2012); (vii) Rwanda Industrial Master Plan (RIMP) (2009-2020) has been designed as a roadmap for upgrading, modernising and expanding the industrial sector in Rwanda. It aims to create and build momentum behind the transformational industrial growth that would make Rwanda regionally and internationally competitive (MINICOM, (2009) (viii) Favourable fiscal and non-fiscal incentives provided to manufacturers (PricewaterhouseCoopers Rwanda Limited, 2015); (ix) Special Economic Zones to increase local domestic and foreign supply of manufactured goods and 4 Industrial Parks Bugesera, Huye, Nyabihu, Rusizi to address the short comings in the business environment by developing infrastructure, streamlining business regulations and facilitating fast moving investors; and Export Processing Zone (EPZ) status advantages for manufacturers who export 80% of their produce (GoR, 2010).

4. *Minerals and Agricultural products dominate Rwanda's exports*

Rwanda's trade niche consists of Agricultural Products (Coffee, Tea and Pyrethrum), Minerals (Cassiterite, Colombo Tantalite or Coltan, Wolfram and Tin). Facing trade imbalance will consist of concentrating efforts in improving production in area of agriculture and discovering new types of mines available under Rwanda's ground. For improving agricultural commodities, the Government of Rwanda should increase the production by identifying export crops that are cultivable in all areas because today's crops accept only hills; and promoting research for improved technologies in their planting.

The Government should plan for incentives promoting such production such as encouraging price, facilitating financial access for investors in the domain. For improving the production in mineral, the Government of Rwanda should plan for a local industry that treats such production. This policy will facilitate the business by increasing the price. The Government should also plan for increasing skills on mining sector and appropriate technologies for the localisation and extraction of mines.

A part from promoting export crops, the Government of Rwanda should plan to decrease imports by increasing the production of agricultural crops that are mainly imported such as sugar, wheat and rice. In fact Rwanda covers a series of marshlands that are not exploited maybe because of a heavy investment required for their irrigation. By targeting long- term period, projects or external debts should be taken to irrigate those marshlands located mainly at Bugesera and other regions.

For improving animal production, the Government should review education system/ curriculum and integrate modern agriculture and livestock in courses that have to be covered and tested in national exams for at least nine years basic education. In fact, the land continues to be stable but the population grows. Young people should be trained on how to produce more on a small land and how to invest in livestock and make money.

To increase processing facilities for agricultural and livestock production: Some agricultural products like milk, sweet potatoes are easily deteriorated while being reach in proteins. Initiatives have been made to promote milk collection centers but they do not yet cover the whole territory. Further technologies are required to capture the total production and transform them for a better conservation.

To integrate all the small- scale farmers in policy making decisions will facilitate assimilation and implementation of policies. In fact, Policy makers should avoid bureaucracy and work closely with implementers and beneficiaries of defined policies. When beneficiaries are not consulted during policy elaboration, it becomes very hard during implementation phase.

5. *Climatic variations affect agricultural export crops and affect trade imbalance*

Agricultural export production is affected by unpredictable climatic conditions and lower exports. As example, in 2009 agricultural products performed badly and this has decreased exports. Such situation is over Rwanda's control because climatic variations depend on black economy characterizing industrial society. However, over the world there are countries that have been able to adapt to climatic variations such as Israel. The Government of Rwanda should plan sending students and researchers in Israel and get enough skills in advanced agricultural technologies.

6. *Exports performance is affected by the variation of price on international market especially for mining production.*

This situation is over Rwanda's control. To face the problem, the Government of Rwanda should increase the production as described in previous findings and/ or varying productions by discovering new types of mines.

7. *Rwanda's imports are dominated by Consumer goods such as foodstuff (cereals, flour and seeds, vegetables, fruits and spices, sugar and sweets), articles of clothing, health and care products, beverage and tobacco, and domestic use; and Intermediate goods such as construction materials and industrial products.*

Governance initiatives should face the gap in several ways: Promoting agricultural products as described above; reviewing taxation system in line with promoting local manufactures especially for articles of clothing, health care products, beverage, domestic use, and construction materials. The example of Kenya can be fruitful in this domain. Another way of promoting local manufactures is by reviewing while reducing the interest rate for facilitating affording credits for investment. In fact, interest rate (especially in SACCOs) is very high (it reaches 28.6%) and is not favorable for credits for investments.

8. *Made in Rwanda promotion is a sure way to reduce Rwanda's chronic deficit trade*

To promote low appetite for certain imports and restrict the local market for local manufactures is a sure measure to face deficit trade. In fact, Rwanda imports from notebooks, pens, pencils, 'cure- dents' (T-2000 and Simba super markets) to aircrafts. It is true that some local manufactures do not fill international standards. The Government should first identify all manufacturers having ISO or RBS Certificates and allow them the whole local market by imposing heavy taxes for the same products from other countries as did Kenya for cars importation that has been successful. This measure will motivate local manufactures because they produce less than their capacity because of having a limited number of customers. By allowing access to market only certified products, manufacturers will perform well and they will achieve the needed quality.

9. *Other "Made in Rwanda promotion measures" include the following:*

✓ *Empowering education-for-job system by "Integrated Entrepreneurship Education"*

Being young, manufacturing in Rwanda faces a number of challenges: technical and managerial skills gaps; the predominance of family and micro firms (affecting the use of appropriate technologies, investment, more job creation etc…); the predominance of sole traders firms and limited by shares (limiting foreign investors and access to finance); low production (the value of the manufacturing production oscillated at around 19% from 1994 to 2009 to 20% from 2010 to 2015) limiting regional and international competitiveness (except for mining and quarrying, manufacturing products in Rwanda are sold at local market and a little quantity in East Africa); low quality (leading to lack of demand in favour invasion of manufacturing products from abroad such as China, India etc…); the predominance of informal sector (currently it occupies 64% of manufacturing firms), Under capacity production for firms (40% of manufacturing industries in Rwanda produce less than 50% of their capacity and 73% produce less than 75% of their capacity).

By Integrated Entrepreneurship Education at all levels from primary to university level, together with sending students for internship in countries with advanced manufactures will allow young Rwandese produce better and high quality and quantity of consumer goods covering imports. Kenya ranks among the most entrepreneurial economies in East Africa, an environment characterised by a relatively high level of provision of skills required for enterprise development. Such achievement is due to entrepreneurially focused business education aims to deliver technical skills, business management skills and personal entrepreneurial skills as important learning outcomes. These ideas are widely accepted in Kenya, and are embraced within the concept of Integrated Entrepreneurship Education (IEE). IEE in Kenya covers the teaching of knowledge and skills that enable individual students to plan, start and run their own businesses in the formal or informal sector.

✓ *Incentives for Foreign Direct Investment*

Rwanda has done more in attracting foreign investors, and the country is well ranked for easy of doing business. However, more efforts are required to achieve desired. Agriculture sector lack enough investors and rural areas.

Conclusion

The present Research aimed at analysing Rwanda's deficit trade and its impact on business and consumers and economic growth and how, in long- term, it handicaps the country by transferring jobs for foreign countries and thus increase poverty; and providing appropriate governance initiatives to face the gap by promoting made in Rwanda. Unique way to face the issue is by increasing local production, promoting local manufacturing, brief, Made in Rwanda, where imports will be reduced due to the satisfaction of local market needs, in favour of export promotion.

The Study has outlined core causes of lower exports vis- a- vis imports: In fact, the majority of exports in Rwanda are agricultural products (Coffee, Tea, Pyrethrum, Horticulture etc…) which fructuously represent around 30% of Rwanda's exports and depending on instable climatic conditions that are beyond country's control. Other handicaps for exports include the fluctuation of price on international market for products such as agricultural products such as Coffee, tea, and minerals such as Coltan Wolfram, Tin and Cassiterite; fall in currencies; and low production remaining under control of big producers influencing international market prices.

Promoting Made in Rwanda consists of fixing a number of challenges faced by industrial and MSMEs sectors such as: (i) lack of demand due to the quality and the price of the products; (ii) difficulties to access the markets due to transport barriers that face small entrepreneurs; (iii) limited access to credit, seen as the cardinal challenge to SMEs; (iv) skills gap leading to failure and affect access to credits.

A number of mechanisms can be implemented in line with solving the problems: In fact, if local manufactures suffer from quality, instead of importing the final products from abroad, better is to imports technologies and trainers. By this measure, local manufactures will be skilled and they will be competitive at international market. If local manufactures suffer from demands from local market, when the quality will be achieved, the Government should impose high taxes for imports and allow internal consumption of local productions. If local manufactures suffer from little quantity, as it has been noted by MINICOM that MSMEs produce no more than 66% of their capacity, reasons are due to the culture of importations.

When importations will be discouraged and local manufactures having competitive quality, certainly local manufacturing will produce 100% of their capacity. If rural manufacturers claim for transport infrastructures and transport ways to access the markets, in partnership with Private Sector, the Government would create favourable environment for transporting goods and services especially in rural areas. If local manufacturers have limited access to loans and credits and claim heavy interest rate, it is understandable that the difficulties to access the loan for entrepreneurs handicap the development. The Government has distributed throughout the country a series of SACCOs per sector, and it has accredited a series of Banks and Microfinance Institutions. The Government through the Central Bank should control whether those institutions work in line with their mandate else impose policies facilitating access to loans while protecting the banks or microfinance providers. This has to go parallel with analysis of the capacity for MSMEs to exploit and use correctly such credits. In fact, skills gap observed in MSME, if not controlled, can leads to failure and auctions. Made in Rwanda faces another strong issue: the mindset that pouching most of Rwandans loving products from outside than Rwanda's. This gap can be handed over by education and protectionism mechanisms that imposing heavy taxes for importations and thus lowering appetite them.

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