

# Trade Liberalization and Performance Of Private Sector In Rwanda: A Case Study of PSF Nyagatare District

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**Abstract-** The objective of this study was to evaluate the effect of trade liberalization on performance of private sector in Rwanda and in Nyagatare district in particular during 2015-2017. The collected data was analyzed through SPSS software from 44 respondents selected among 120 members of PSF Nyagatare. For data analysis, SPSS21 was used for descriptive statistic and correlation analysis. The findings for the first objective shows the overall of 3.03 and standard deviation of .547 indicating that trade liberalization plays an important role on the performance of private sector in Nyagatare district during the period of study. The findings for the second objective indicated the mean 4.15 and .481 standard deviation as high mean. That means that the effectiveness of private sector in Nyagatare district depends on trade liberalization policies implemented and followed by PSF members in their doing business of importing or exporting products with neighboring countries. The third objective indicated challenges hindering private sector members including poor infrastructures, competition, poor quality products and transport cots. The overall mean of 4.23 and .513 of standard deviation, showing that they really exist and need preventing correcting measures. The Pearson's correlation obtained was 0.877 at a two-tailed level of significance at the 0.05, implying that there is a strong correlation between the level of liberal trade and the promotion of PSF in Nyagatare district. This correlation indicates that 87.7% of PSF members do better in their doing business through trade liberalism policies that facilitate in exports or imports of goods from neighbor countries. The adjusted R2 (85%) shows that trade liberalism factors including tariffs and quotas removal, free movement of people and locally produced products, subsidies influence private sector in doing business in Nyagatare district. The significance of trade liberalization factors  $s .002$  is less than 0.05%, which means the predictors are significant. These results shows that trade liberalization factors have positive impact on PSF Nyagatare during the period of our study. The fourth objective was about curbing challenges hindering PSF members in Nyagatare district, the findings revealed the overall mean of 4.25 and .527 standard deviation, i.e. a high mean, implying that the given solutions i.e. improve services, using non-price competition, improving quality products and language familiarization can be used to solve efficiently the mentioned challenges.

**Index Terms-** Trade liberalization, private sector and performance

## I. INTRODUCTION

Since the end of the Cold War and the collapse of communism in 1989, globalization has characterized international economic affairs (Hill, 2013). Increasing economic integration between national economies has led to a substantial increase in world trade. However, today's market liberalization also seeks social justice in addition to economic growth, hence a more fair distribution of the income generated. This has required better harmonization between international and national rules, and the need for well-functioning supranational institutions (Sunday, 2006).

Wacziarg et al. (2008) presented a new evidence on the time paths of economic growth, physical capital investment, and openness around episodes of trade policy liberalization. Analysis based on the new data set suggests that over the 1950 - 98 period, countries that liberalized their trade regimes experienced average annual growth rates that were about 1.5 percentage points higher than before liberalization. Post-liberalization investment rates rose 1.5 - 2.0 percentage points, confirming past findings that liberalization fosters growth in part through its effect on physical capital accumulation. Liberalization raised the average trade to GDP ratio by roughly 5 percentage points, suggesting that trade policy liberalization did indeed raise the actual level of openness of liberalizers. However, these average effects mask large differences across countries.

Austvik et al. (2012). An ideological fundament in the International Monetary Fund (IMF) and the World Bank (WB) is based on the so called Washington consensus, where one of the pillars is trade liberalization as the universal medicine for economic growth in both poor and rich countries. This idea is also supported by the World Trade Organization (WTO), established in 1995 to rule the multilateral trading system, liberal trade policies, policies that allow the unrestricted flow of goods and services sharpen competition, motivate innovation and breed success (WTO 2011).

The relationship between increased openness to international trade and labour market outcomes continues to be of considerable interest both for policy makers and researchers. At the theoretical level, free trade generates dynamic or efficiency-enhancing gains that stimulate economic growth (the classical trade theory). If markets are sufficiently flexible, opening up to international trade would induce short-term shifts of labour from previously protected sectors to those in which a country has a comparative advantage. This provides the basis for assessing the net effects of trade policy shocks on aggregate employment (Eria Hisali, 2012).

In the framework of the new growth theory, increased openness may facilitate diffusion and adoption of superior production techniques. Exposure to increased competition can also induce innovative practices and generation of knowledge (Baldwin and Charles, 2012). The spirit of the new growth theory also allows for some level of protection to certain sectors if, for example, they generate large multiplier effects or if such protection promotes more technologically dynamic sectors (Rodriguez and Rodrik, 2009). One important implication of the new growth theory is that whereas trade openness is positively associated with growth, it may impose significant adjustment costs in the labor market.

Rwanda has decided that having an open liberalized economy is a pre-condition for its economic growth. The trade policy therefore, does not look at reviewing alternatives to Rwanda's commitment to liberalization, but rather at establishing the right strategies to ensure that Rwanda benefits fully from liberalization, and to ensure that the potential negative effects are mitigated.

Effective participation in international trade represents a formidable avenue to promote economic growth and contributes towards putting the economy on a sustainable growth path. To this end, a well-articulated trade policy is needed to promote broad-based, sustainable economic growth and inclusive development that targets poverty elimination (MINICOM, 2013).

Even though the Ministry of Trade and Industry is responsible for developing trade in Rwanda, current interventions affecting trade development and competitiveness in Rwanda can be found in numerous policy documents and the implementation is performed across a number of institutions and ministries. There is therefore a need to harmonize and consolidate trade policy interventions into a coherent trade policy. The trade policy document creates a structured policy framework for the coordination of these interventions, and it provides the policy framework for the Government of Rwanda's mobilization of resources, (Rwanda Trade Policy, 2016).

The Trade policy document outlines the key objectives of Rwanda's trade policy as well as the strategic initiatives and actions to achieve the objectives. It outlines the objectives of strengthening productive capacities as well as investment into productive capacities, some of the recommended activities are the mobilization of investment for establishment of selected export-oriented industries; improving climate for attracting investment into productive activities, (Hasan and Toda, 2014). Building up capacities to meeting product standards for human, animal and

health protection, as well as environmental norms; The trade policy also proposes the objective of strengthening participation in international trade through seeking greater market access and entry opportunities by developing a National Export Strategy; supporting enterprises in finding new markets for exports of Rwanda, especially in Africa, in the EU under EPAs, in Asia and in transition economies; building up and disseminating data and information on tariff and non-tariff measures affecting exports of Rwanda among others (Greenaway et al., 2012).

## 1.2 Statement of the Problem

Over the last 20 years, Rwanda's economy has been growing at an average rate of 8% per annum. This has been driven in part by a significant expansion in export value, which has expanded by 20% annually in the decade up to 2014 (MINICOM, 2015). While trade has been one of the main engines of growth, a considerable share of this export growth was driven by rising prices of a small number of minerals, following a global commodity boom. When demand for such commodities fell in 2015, there was a significant decline in mineral revenues. Other exports were unable to compensate, and the total value of Rwanda's exports declined by 7% in 2015 (despite an increase in export volumes). Yet, the value of *imports* has continued to grow, and amounted to three times the size of exports in 2016.

As a result, Rwanda's trade imbalance is large and has been widening considerably in recent years. This has also reduced foreign exchange reserves, which in 2016 were projected at only 3.2 months of imports (MINICOM, 2015). Expanding exports has thus become an urgent government priority to reduce the trade imbalance, attract foreign exchange, and ensure macroeconomic stability. This is also reflected in Rwanda's strategic plans, with the national export strategy for 2015-18 proposing a 20% annual rate of export growth (MINICOM, 2015).

However, in order to realize its ambitious trade liberalization, the Government has launched detailed plans such as the Private Sector Development Strategy (MINCOM, 2013) and the revised National Export Strategy (MINICOM, 2015). More recently, special focus has been given to the 'Made in Rwanda' programme. This builds on the Rwanda's Domestic Market Recapturing Strategy (MINICOM, 2015) which aims to expand local content in domestic value chains.

Made in Rwanda is developing into an even more ambitious policy that seeks to improve perceptions of Rwandan products within Rwanda, promote nascent industries, and boost productivity of exporting sectors across regional value chains. This programme is still taking shape, and it is against this backdrop that the researcher intends to find out the effect of trade liberalization on the performance of private sector in Rwanda and the underlying challenges towards private sector performance in Rwanda.

## 1.3 Objectives of the study

### 1.3.1 General Objective

The general objective of the study is to evaluate the effect of trade liberalization on performance of private sector in Rwanda

### 1.3.2 Specific objectives

1. To find out the role of Trade liberalization in boosting performance of private sector in Nyagatare district during 2015-2017
2. To evaluate the effectiveness of trade liberalization in export promotion Nyagatare district during 2015-2017
3. To find out the challenges underlying trade liberalization policy in Nyagatare district
4. To find out strategies of combating the challenges of trade liberalization in Nyagatare district

### 1.4 Research questions

1. What is the role of trade liberalization Programme in boosting private sector performance in Nyagatare district
2. What is the effectiveness of trade liberalization in export promotion in Nyagatare district during
3. What are the challenges of trade liberalization policy in Nyagatare district?
4. What are the strategies of combating the challenges of trade liberalization policy in Nyagatare district?

## II. LITERATURE REVIEW

### 2.1 Definition of Concepts

#### 2.2.1 Trade Liberalization

According to the free encyclopedia, (2017), *Trade* involves the transfer of [goods or services](#) from one person or entity to another, often in exchange for [money](#). A [system](#) or network that allows trade is called a [market](#). An early form of trade, [barter](#), saw the direct exchange of goods and services for other goods and services.

Hence trade liberalization is often defined as a situation without tariff barriers or with a reduction of tariff and non-tariff barriers imposed on the inflow and outflow of goods and services. The rationale of free trade stems from the 18<sup>th</sup> and 19<sup>th</sup> centuries when Adam Smith and then David Ricardo developed the basis for international trade as part of their efforts to make a case for free trade (Pugel and Lindert 2013: 32)

#### 2.2.2 Performance

The accomplishment of a given task measured against preset known standards of accuracy, completeness, cost, and speed. In a contract, performance is deemed to be the fulfillment of an obligation, in a manner that releases the performer from all liabilities under the contract. Performance has been defined by Fouchet, (2010:401), as the degree of accomplishment of tasks that make up an employee's job. Whereas according to Gok (2009:11) performance is the organizational ability to attain its goals by using resources in an efficient and effective manner to accomplish institutional objectives and goals.

#### 2.2.3 Private sector

The **private sector** is the part of the economy, sometimes referred to as the **citizen sector**, which is run by private individuals or groups, usually as a means of enterprise for [profit](#), and is not controlled by the [State](#), in Rwanda private sector has formed a forum to advocate for its members and the forum is named Private Sector Federation (PSF) (MINICOM, 2014).

### 2.3 Theoretical Framework

Two main directions are focused on: The classical and neoclassical trade theories, which share the common conviction that trade liberalization is the "universal medicine" for economic growth. The other direction is theories which criticize the classical and neoclassical for the one size fits all comprehension. In a generic term, one calls them the heterodox theories of international trade. They are especially concerned with issues related to developing countries, and state that special treatment is needed, such as allowing for protectionist trade policies. Only in this way, it will be possible to eventually catch up with developed countries and become competitive under a system of free trade according to this view. One starts out with the first direction addressed, namely the classical and neoclassical theory of international trade, Gok (2009:14)

#### 2.3.1 Classical and neoclassical trade theory

Within the classical and neoclassical school of thought one focuses on three theories which have been influential in the development of the theoretical framework for international trade. One starts out with the Ricardian model and the doctrine of comparative advantage. Second, presentation of the Heckscher-Ohlin model and the factor price equalization theorem which builds upon the Ricardian model, but adds additional factors of production. A common feature of these trade models is that they employ a *static* framework in the sense that free trade will increase the *level* of income. The third theory is the new trade theory which adopts a *dynamic* framework that also relates to the *growth* effects (Kaufmann et al., 2007)

#### 2.3.2 The Ricardian Model

In order to fight the English Corn Laws, the classical economist David Ricardo demonstrated that trade is mutually beneficial through the theory of comparative advantage. This static trade theory is described in *The Principles of Political Economy and Taxation* from 1817. Ricardo's first goal was to demonstrate that trade between countries is mutually beneficial, and second, to illustrate the importance of a free trade policy (Hill, 2013).

In the Ricardian model, labor is assumed to be the only factor of production. Labor productivity is thus the measure of a country's technological level, expressed in the amount of labor needed in the production of a good. As Ricardo states, labor is "...the ultimate price which is paid for everything (Ricardo and Fogarty 2005:253). Labor was believed to be immobile, but a major advantage with international trade was the distributional effect that arose from specialization and division of labor. Ricardo argued that under a system of free trade, each country would devote its capital and labor in the most efficient and beneficial way.

The most important contribution of Ricardo to the development of international trade theory is, as we have seen above, the comprehension of *relative prices* to determine the patterns of trade. However, this theory is exposed to delimitations of how the economy functions today, as it builds a model upon a one-factor economy. In the subsequent section, the neoclassical trade theory Heckscher-Ohlin model (H-O model) will be presented and includes an additional factor to the trade model (Routledge and Robert, 2011).

### 2.3.3 The new trade theory

In the late 2010s, a group of theorists within the neoclassical school of thought challenged the static equilibrium models employed in international trade theory. These theorists constitute the new trade theory here presented by the work of Paul Krugman. A hallmark of this direction is the emphasize put on *dynamic* effects of economies, implying that an economy can obtain long-term growth effects due to increasing returns. This is an independent cause of international specialization and trade, and must therefore be added as a new factor for why trade arises between countries (Krugman 2013).

Ricardo and Fogarty (2005) argued that underlying differences between countries is only one reason for why trade takes place. Countries also trade because of the advantages created by specialization caused by increasing returns in one sector not related to comparative advantage. Intra-industry trade is a common feature in world trade. For instance, France exports wines to South Africa and at the same time import wine from the same country, which would not fit into a model based on comparative advantage. However, the patterns of intra-industry trade are in themselves unpredictable. This happens because of product differentiation in order to offer consumers a wider range of wines. Due to advantages of large-scale production it leads to a random division of labor among countries. Thus, new trade theory concentrates more on resource allocation rather than the production of goods as an explanation for the gains from trade (Fouchet, 2010).

Nowadays technology is a driving force for international specialization. In contrast, Ricardo's perception of technology was solely the productivity of labor, and Heckscher and Ohlin assumed that technology was the same between the trading countries. In many industries, knowledge generated through research and development (R&D) and experience can determine countries' competitive advantage.<sup>8</sup> Technological innovations may also generate spill-over effects to the rest of the economy. An industry in a country can thus become more competitive in its production even though the country originally was relatively poor endowed with that specific factor of production (Krugman 2013:8).

In sum, new trade theory has updated the theoretical framework for international trade by regarding economies as dynamic rather than static. Patterns of trade are not explained by the theory of comparative advantage, but by increasing returns made possible by imperfect market structures. Since income is generated also from the relatively scarce factors, it turns out that increasing returns increases rather than reduces the gains from international trade and is therefore good for long-term growth (Krugman 2007:134). Even though Krugman considers free trade as the desired trade policy, he also accounts for advantages with protectionism.

I have now presented classical and neoclassical theories of international trade. The Ricardian model and the Heckscher-Ohlin model are static theories where the sources and patterns of trade are determined by the doctrine of comparative advantage. New trade theory emphasizes that economies are dynamic, so gains from trade arise from increasing returns instead of comparative advantage. A common stance among these theories is that free trade policies are believed to maximize the utility created by international trade (Pugel and Lindert, 2013). Based upon this part of the theoretical framework, the objectives of the study will be proved empirically later in the thesis:

### 2.5 Rwanda's Trade Performance

The main export earnings come from few commodities, namely, tea, coffee, Tin Ores, Niobium and Tantalum and Tungsten ores which, for the period 1997 - 2007 generated over 80% of the export earnings. All these commodity exports are resource-based and the country struggles to enter the global value addition chain due to limited or lack of a strong manufacturing sector. Dependence on commodities exports has resulted in an export decrease over the years due to international price volatilities. The service sector has been growing at a faster rate and is now an important contributor to the economy. But services exports are also limited to few sectors, especially tourism (Rodrik et al.2012).

Rwanda's merchandise exports have also increased significantly over the recent past, rising to \$268 million in 2008 from \$98 million in 2004. At the same time as this impressive growth in exports, imports to Rwanda have grown faster, from \$276 million in 2004 to \$881 million in 2008. The ratio of exports to imports has therefore remained virtually unchanged at around 30-35 per cent in the past six years. Rwanda's trade deficit (goods and services) in 2008 was therefore \$748 million and growing representing 14.2 per cent of Rwanda's GDP, down from 16.5 per cent in 2004. Rwanda's main commodity imports are motor vehicles, petroleum oils, computers and other machinery, electrical machinery, pharmaceutical products, iron, steel, cement salt, animal vegetable fats and oils, worn clothing and other made up textile articles, wheat or mesh flour, articles of iron or steel, sugar and sugar confectionery, medical appliances, plastics, paper and paperboard, cereals/maize seed/rice and furniture (Santos-Paulino, 2015).

Strengthening the participation of Rwanda in international trade will be a medium to long term process. Rwanda's current weak trade performance is largely attributable to its weak supply side capacity. It is therefore clear that Government should undertake more work on strengthening the productive capacity of the country and its trade-related infrastructure, while continuing to focus on the demand side in terms of securing more favorable market access conditions for its exports, particularly in addressing non-tariff obstacles (Gilpin, 2011).

Being landlocked constitutes a major impediment for Rwanda's trade development. Costs for trading are higher because of long land-transport routes and the high import and export freight service costs in the region. The high trading cost endures dependence on poor infrastructure and administrative procedures with neighboring countries Kenya and Tanzania. In addition, the condition of the roads and regional railways are inadequate for the

export of goods since the many delays slow down transportation (IGC Report, 2017).

#### 2.4.2. Trade and economic growth

Economic development through trade development and promotion comprises an important strategy for generating and sustaining development. At the heart of this strategy for Rwanda is the need to build competitive and diversified productive capacities in the traditional sector of agriculture, as well as in manufactures and in services for marketing in the domestic, sub-regional, regional and international arenas (Gilpin, 2011)

Trade liberalization and export-led approaches alone, as past experience has shown especially for LDCs, are not enough to help trade and economic growth. Linked to both is the strengthening of complementary support services like infrastructure, trade facilitation, trade financing and technology among others. Therefore to better articulate a coherent approach to trade development, the development-driven Trade Policy is a form of one-stop (or umbrella) comprehensive policy, addressing both trade and other related sectoral policies including agriculture, industrial development, and intellectual property. The trade policy must be coherent with and supportive of other complementary types of policies geared towards the holistic development strategy of the country. The trade policy must also pay attention not only to the quantity of trade (which is often measured through trade openness indicators), but also to the quality of trade, which refers to the composition of both exports and imports and their impact on jobs and incomes, including equitable distribution as well as promoting the protection and preservation of the environment and becoming more gender sensitive (Gandhi, 2004).

#### 2.4.3 Trade constraints in Rwanda

A Diagnostic Trade Integration Study was conducted for Rwanda under the Integrated Framework program in November 2005. The study identified key barriers and constraints to Rwanda's trade growth. The Rwanda DTIS was updated in December 2009. The DTIS identified the following constraints to the growth of trade in Rwanda.

##### I) Infrastructure

The DTIS identified weaknesses in infrastructure as a key constraint to the growth of trade in Rwanda. Two aspects of infrastructure are particularly important for Rwanda, namely energy and transport. Sufficient supply and efficient use of energy are important factors for economic development. However, the energy situation in Rwanda is not sufficient for its development: per capita energy consumption is very low and people rely heavily on fuel-wood which accounts for over 80 per cent of the energy supply. Moreover energy resources are limited and dependency on imported energy such as petroleum products is rising. Thus, it is crucial for Rwanda to aggressively pursue a secure stable supply of energy. Rwanda's electricity cost at \$0.24/Kwh is the highest in the region and more than double that of Kenya. Ultimately, this negatively affects the competitiveness of Rwandan exports and impedes Rwandan manufacturing businesses' ability to compete with imported manufactured products from the likes of Kenya. With its mountainous terrain and associated rainfall erosion, severe constraints have been placed on the country's road network – for which the maintenance cost is twice higher than that of most

Sub-Saharan countries. The country's road network of 14,000 km, spread over barely 27,000 square km of national territory, is among the densest in Sub-Sahara Africa, and far exceeds its human and financial capabilities. Recent sector surveys have found that 45 per cent of Rwanda's paved national road network in 2008 was in good condition, while around 10 per cent of earth national roads and 10 per cent of district roads were in good condition<sup>2</sup>. Roads are therefore a heavy constraint on trade and commerce within Rwanda, (Edwards, 1997).

##### II) Trading across borders

Being a landlocked country 1,740 km from the Port of Mombasa and 1,480 km from Dar es Salaam, Rwanda's transport costs represent as high as 40 per cent of export and import values. Furthermore, there are additional costs to trade across Rwanda's Northern and Central Corridors, which are avoidable. These non-tariff barriers (NTBs) include the weighbridges and corruption found on the transport corridors. Bureaucracy at border-posts and at the ports used by Rwandan traders are also a constraint bringing additional costs and delaying the speed and turnover of trade.

##### III) The business environment

*Paying taxes:* Businesses believe that the system is difficult to understand. This forces businesses to hire additional staff which increases costs. As a consequence, numerous businesses and banks complain that tax liabilities are uncertain because it is difficult to predict what will be allowed or disallowed. This raises business risks, which in turn raises the risk premium charged by banks. Moreover, inappropriate tax assessments raise the costs of paying taxes, through both higher tax liabilities and the added cost of protesting the assessment. There is also a perception that tax administration does not offer incentives for businesses, especially SMEs, to pay taxes and recent studies cite tax as a significant hindrance to operating in Rwanda<sup>5</sup>.

##### IV) Human resources

The DTIS found that the recruitment and training of sufficiently skilled staff is seen as a major difficulty by Rwandan businesses. An adequate technical and vocational education and training (TVET) sector is crucial to overcome this difficulty and ensure that a wide range of skilled technicians and professionals are available.

##### V) Limited value addition of existing exports

Rwanda is heavily reliant on its traditional export sectors of tea and coffee, as well as the more recent growth industry of minerals. Together these consistently constitute around 90 per cent of exports<sup>7</sup>. These sectors face volatile international prices particularly coffee and minerals exports, which can lead to sharp variations in the export receipts of the country, leading to an unstable balance of payments position. Other existing exports with much smaller shares include hides and skins, horticulture including pyrethrum, as well as handicrafts. A much larger sector in services attracting huge revenues of foreign currency is the Rwandan tourism sector.

International markets for most of Rwanda's existing exports are very large and have complex chains of added value. In these international value chains, with the exception of tourism, Rwandan production is firmly towards the bottom end. Higher

value added in these sectors – for instance the roasting of coffee, or the production of leather and leather goods as opposed to exporting raw hides and skins – offers the strongest potential for Rwanda to increase its role in global trade. However, at present, Rwanda’s existing export industries face a number of constraints to value addition. These include those faced by other firms (skills, finance etc.), but also challenges specific to them. For example, in the tea sector, policy has been driven by the privatisation of tea estates and factories, in order to promote efficiency. In horticulture, cold storage was a key component of the first DTIS (2005), and is now in operation, although producers still face challenges in transporting their goods from Rwandan farms to Kigali.

#### VI) Limited diversification of exports

As stated above, Rwanda is still over-reliant on a limited export basket dominated by low value added commodities. Diversification of the export base is therefore required. Furthermore, with over \$1 billion of imports, there are a number of industries in which it would be beneficial if Rwandan firms could compete<sup>9</sup>. Entering into new export markets is a process fraught with market failures – for example a firm entering a new market takes on risks and if successful, would see the benefits accrue to other firms, hence the firm may refrain from entering the new market, hurting the Rwandan economy as a whole. There is therefore a role for Government and policy action to encourage experimentation in new markets for goods and services. RDB has undertaken work to identify clusters that have the best chance of becoming new and lucrative export markets for Rwanda. Each of these markets faces a specific set of challenges and constraints to overcome if they are to succeed. Sectors to target include business process outsourcing (BPO), specialised tourism, mining services, processed fruit and vegetables, silk textiles and dairy. Furthermore other work by the President’s Office has suggested the promotion of the pharmaceuticals, metals and bio-plastic sectors. All selected sectors will require support and capacity building in the short to medium-term to maximise the chances of success.<sup>10</sup>

#### VII) Lack of investment in productive sectors

Like many developing countries, Rwanda’s banks and other financial institutions do not lend at levels that meet the demands of the commercial sector. Lending is constrained by costs and risks arising from five factors: high reserve requirements, defective legal and regulatory environments, crowding out by government bonds, asymmetrical information, and inadequate skills for assessing and managing risk. Many steps are underway to address these issues, including the improvement of lending-related laws, strengthening of court enforcement systems, and creation of credit information resources. (Integrated Trade study, 2010)

### III. RESEARCH METHODOLOGY

#### 3.1 Research design

According to Kerlinger F. (2011), a research design is a plan, structure and strategy of investigation so conceived as to obtain answers to research questions. The plan is the complete scheme or program of the research. In order to achieve the successful objectives of this study, a descriptive research design was employed. According to Larry B. (2012), a descriptive study is an intensive description and analysis of single individual,

organization or events based on information obtained from a variety of sources such as interviews, documents, test results and archival records. This research design is adopted because the researcher is targeting to study a variety of entities such as Nyagatare private sector federation, Nyagatare District Administration and Kagitumba boarder post.

#### 3.2 A profile of the study area

Nyagatare is the largest and second most populous district (akarere) in Rwanda. Located in Eastern Province, Rwanda, Nyagatare occupies the northeastern extremity of Rwanda. Its capital is Nyagatare City, the former capital of the now defunct Umutara province. Nyagatare District borders Uganda in the North, Tanzania in the East, Gatsibo District of the Eastern Province in the South, and Gicumbi District of the Northern Province in the West. Nyagatare has an area of 1741 km<sup>2</sup>, what makes it the largest district in Rwanda. With a population of 466,944 in 2012, Nyagatare is the second most populated district of Rwanda only after Gasabo District of Kigali City with 530,907 inhabitants. This is an 83% increase from 2002 when the population was only 255,104. This sharp rise in the population is due to the major movement of the population from other parts of the country in search of land, (Monography of Nyagatare district, 2013).

#### 3.3 Population of the study

According to Grinnell (1990) a “population is a total of persons or objects with which the study is concerned”. According to Carl et.al, (1991), population refers to the total group of people from whom the information is needed. A population is defined as all members of any well-defined class of people, events, or objects about which the generalization is made. It is the entire set of relevant units of analysis, or data (Nachmias and Nachmias, 1996:179). For example in a study where Rwandan adolescents constitute the population of interest, you could define this population as all Rwandan boys and girls within the age range of 12-21 Because of our inability to access every element of a population, what we do is to gather information from a ‘sample’ and then apply our findings to a broader population. The population of PSF is 120 members of which 44 were chosen for distribution of questionnaires as the sample size.

#### 3.4 Sampling techniques

A sample is a portion of the population selected to achieve the objectives of the study. This study adopted purposive sampling procedure and used the following formula of Dagnel, to select the sample size (n) of population as quoted by HODALI A. E (2012:35-36)

$$n = \frac{z^2 \times p \times q \times N}{d^2 (N - 1) + z^2 \times p \times q} \quad (\text{Dagnel, 2006: 213})$$

Where: n= sample size, N= size of population (PSF members),  
Z= Normal distribution coefficient, q= probability of failure,  
d= margin error, p= probability of success.

The margin error varies between 5% and 10%. We used the margin error of 10%, then the confidence level of 90%, our probability of success is  $p=0.5$ , failure probability of  $q=0.5$ , as  $Z_{0.25}=1.65$

For this case, the population size of 120 members of PSF Nyagatare district was sampled as follows:

$$n = \frac{(1.65)^2 \times (0.5)^2 \times 120}{(0.1)^2 \times (120 - 1) + (1.65)^2 \times (0.5)^2} = \frac{81.675}{1.870} = 44$$

### 3.5 Data collection methods

#### 3.5.1 Questionnaires

A questionnaire is defined as a list of carefully structured questions, chosen after testing, with the view of eliciting reliable responses from a chosen sample. The aim of a questionnaire is to find out what a selected group of participants do, think or feel (Meyer et al., 2004:42-45).

A self-administered questionnaire was designed by the researcher. The total number of 44 questionnaires were used to gather information from the target population. A Structured questionnaire with a set of close ended questions (Yes/No questions and multiple choice questions) and Open-ended questions (Completely Unstructured questions) to be asked to the target population was used.

#### 3.5.2 Interview

An interview is a [conversation](#) where questions asked and answers are given. In common parlance, the word "interview" refers to a one-on-one conversation between an interviewer and an interviewee (Carl et.al,1991). In this study, interview was used to gather opinions concerning the effects of liberal trade on PSF Nyagatare district where the Boarder Manager of Kagituba, the Mayor of Nyagatare district and the Chairman of PSF Nyagatare district were consulted to provide their perspectives on the same.

#### 3.5.3. Documentation

The term documentation is generally used for the gathering and recording of information, especially to establish or provide evidence of facts or testimony. In order to get more accurate information concerning the research subject, it is very important to carry out documentation with the purpose of being aware of what information exists about the topic (Neal and Christopher, 1991).

Therefore, documentation was used as a mean to access recently compiled or published information on informal saving groups which helped to have a good literature review. Not only to get informed literature, documentation was helpful to make a good discussion of results by comparing the results from previous research against those generated by the present study; which therefore helped to draw reliable conclusions and recommendations

#### 3.5.4. Observation

Observation is used as a research method in two distinct ways structured and unstructured (Pretzlik, 1994). In positivistic research, structured observation is a discrete activity whose purpose is to record physical and verbal behavior. Observation schedules are predetermined using categorization developed from known theory.

In contrast, unstructured observation is used to understand and interpret cultural behavior. Observation is valuable because it informs about the influence of the physical environment.

Observation also captures the whole social setting in which people function, by recording the context in which they work (Mulhall, 1997:308).

While conducting a research, it is of vital importance to check whether the responses from respondents match with the real situation. However, observation is always needed to have a real picture of what is talked from the interview against what is observed. During this study, observation was used as a means of checking whether the respondents' responses are relevant to the real situation.

### 3.6 Data analysis and Interpretation

Before the data were analyzed, the researcher recorded all interviews, observations, documents, journal entries and field notes. The process of recording allows the researcher to become acquainted with the data (Riesman, 1993).

#### 3.6.1. Data processing

According to Causley. et al (2007:14) argue that data collection is not an end itself, unless the data can be processed, analyzed and converted into information in a format that can be helpful to the user. Once the set of data is collected, it must be carefully processed to get meaningful results. The data were processed through editing, coding and tabulation.

##### 3.6.1.1. Editing

By definition, data editing is the activity aimed at detecting and correcting errors (logical inconsistencies) in data (Mulhall, 1997). Data editing was helpful to improve data quality though errors containing in data was removed. Data editing and coding was done using Statistical Package for Social Sciences (SPSS).

##### 3.6.1.2. Coding

A systematic way in which to condense extensive data sets into smaller analyzable units through the creation of categories and concepts derived from the data (Pretzlik,1994). Data coding is also the process by which verbal data are converted into variables and categories of variables using numbers, so that the data can be entered into computers for analysis Variable was given a particular code referred to as smaller analyzable units (for example 1, 2, 3...) which allow easy analysis of data, SPSS was helpful in data coding.

##### 3.6.1.3. Tabulation

Gilbert and Churchill Jr (1992:51) tabulation refers to the orderly arrangement of data in table or other summary format achieved by counting the frequency of responses to each question.

Tabulation is the final step in analyzing data. Tabulation is the putting together of data into some kind of statistical tables. Data tabulation was done after editing and coding. Tabulation is either done by computer (by Microsoft word for word processing, excel and SPSS for windows to make tables and graphics.

#### 3.6.2. Data analysis

Content analyses were used to compare and analyze the state of respondents before and after being members of PSF Nyagatare, and then discover the causes and relationship in order to come with useful conclusions and suggestions.

Mean as descriptive statistics for measuring central tendency of distribution was evaluated based on the following intervals and equivalences;

5. Strongly agree [4.21-5.00] = Very high

4. Agree [3.41-4.20] = High
  3. Not sure [2.61-3.40] = Moderate
  2. Disagree [1.81-2.60] = Low
  1. Strongly disagree [1.00-1.80] Very low
- 3.6.2.1 Description of descriptive statistics**
5.  $4.3 \leq \mu \leq 5.0$ : Very high mean, i.e. strong evidence of the existence of the fact
  4.  $3.5 \leq \mu \leq 4.2$ : High mean, i.e. the fact appears more
  3.  $2.7 \leq \mu \leq 3.4$ : Neutrality
  2.  $1.9 \leq \mu \leq 2.6$ : Low mean, i.e. the fact appears less
  1.  $1.0 \leq \mu \leq 1.8$ : Very low mean i.e. the fact is not apparent

The standard deviation helps to measure how far or near from the mean. The Spearman's correlation coefficient is a statistical measure of the strength of a monotonic relationship between paired data.

### 3.7. Ethical considerations

The layout of a questionnaire should be presented in an interactive style, be easy to read, pleasant on the eye and the sequence of questions should be easy to follow (Kumar, 2005:126). The potential for mistakes increases dramatically when questionnaires are disorderly, overcrowded or disorganized (McNamara, 1998). Questionnaires were easy to respond and arranged appropriately for the purpose of not boring the participants and make sure that questions avoided negative connotations which are against the Rwandan culture.

### 3.8. Limitation of the study

During the course of this study, the researcher encountered some challenges during the process of data collection that sometimes made this research difficult. One of challenges faced was accessibility of respondents due to long distance of travel and financial means as well as failure of respondent to fill welcome in the research because the data were collected during working hours.

### 3.9. Partial conclusion

This chapter was focusing on the research methodologies that was be used during our study. In this chapter, we described the study area, study population and data collection methods and techniques used. The importance of this chapter is that it facilitates the collection of true and accurate data which result in appropriate findings helping to draw reliable conclusions and recommendations. Highlighted methodologies were thoroughly utilized for proper data collection and analysis.

## IV. THE STUDY FINDINGS

### 4.1 Profile of respondents

#### 4.1 The role of trade liberalization on performance of private sector in Nyagatare district

As the Melchior (2012) findings on the role of trade liberalization on private sector while it facilitate the ease movement of people, goods and services. The tariffs are removed so that there is a shift from high cost to low cost. In this study, the researcher wanted to investigate whether since the implementation of trade liberation in Rwanda, the boarder district experience the mentioned advantages quoted by Melchior. The table below shows the findings from members of PSF Nyagatare district using SPSS descriptive statistics.

The result shows the role of trade liberalization on performance of private sector in Nyagatare district. Concerning the question about "*The tariffs imposed on goods and services promote the performance of your business*" This means that the implementation of trade liberalization removed tariffs which prevented the performance of PSF members business. That is to say, the population of Nyagatare district understand very well the role of trade liberalization on their daily business activities.

On the other hand trade liberalization gave the government a task of solving the problem related to tariffs in case it is seems that it is was changed.

The results matches with Laffer theory on taxation that consider high tax level of a disincentive to work, he emphasized that "Sometimes governments impose taxes which are too high for individuals or firms to pay with ease, leading to high tax evasion and tax avoidance. This is explained by the Laffer curve which suggested that, *as taxes increased from low levels, tax revenue receives by the government would also increase. However, as tax rates rose, there would come a point where people would lead not consider working hard in order to avoid taxation*". This theory in Nyagatare district is almost applied when some businessmen attempt to tax avoidance through smuggling behavior.

In relation to the above findings, the Border Manager of Nyagatare district added that:

*"Since the implementation of liberal trade, Nyagatare population benefited more from it, while people from the district cross the border using identity card instead of Pass-port or a Laisser-Passer. The cost of sibling was reduced. Again, businessman can import locally produced products from both countries free of tax that led to the availability of products of different types at low price...*

These results validate the claim that trade liberalization would promote the performance of private sector in case tariffs and taxes on imported or exported goods and services are removed for members' countries. This finding agrees with those of Harrison (1994) for Cote d'Ivoire; Ackah et al. (2012) for Ghana; Adenikinju and Chete (2002) for Nigeria; and Njikam and Cockburn (2011) for Cameroon.

Rwanda's official policy desires to transform her economy away from over-dependence on agricultural and an import dependent economy to a diversified and export oriented economy by means of attaining an enviable level of structural transformation, with liberal being an integral component. Price volatility which is characteristic of the international market for primary agricultural products has made over-reliance on this sector risky. Periods of low agricultural prices have repeatedly led to deficits in the budget and spending cuts by the government. Furthermore, during such times dwindling foreign exchange earnings become insufficient in sustaining the high level of imports. The manufacturing sector provides the base on which reduction in dependence of primary sector can be built by Rwanda.

#### 4.3 The effectiveness of trade liberalization on export promotion in Nyagatare district



According to the theoretical framework, trade liberalization encourages exports in countries through the supply side variables. In particular, liberal trade policies tend to increase exports and imports performance. If a full employment of resources is assumed, higher trade flow is expected to encourage domestic firms to focus on those activities in which it has a comparative advantage. In the line of these theories, the second objective of the study was intended to evaluate whether trade liberalization promote PSF members of Nyagatare to boost the quantity of goods and services allocated to export with neighboring countries. The summary of their opinions are presented in the table below using descriptive statistics.

The findings to know whether *“trade liberalization motivated you to increase your business activity”* have the mean of 4.12 and the standard deviation of .435 which is very high mean. This means that PSF members of Nyagatare district activities increased since the implementation of trade liberalization policies. This result matches with the Heckscher- Ohlin-Samuelson (H-O-S model of international trade) (1920s), where export is the most relevant component of total trade performance that expected to be affected by trade liberalization policies.

The results on *“the implementation of trade liberalization motivated you working harder”* have the mean of 4.18 and the standard deviation of .515 showing a very high mean between trade liberalization and hard working. The hardworking of PSF members of Nyagatare district is justified by fostering for competition with different products from neighboring countries in terms of quality, quantity and delivery time for ordering products and services. This is the evidence that open developing economies grew faster than closed economies as Paudel (2014) emphasized that, disciplined liberal economic policy contributes to the competitive domestic environment, increasing saving and attracting foreign capital to improve export.

The findings on the *“Trade liberalization reduced the cost of goods and business”* shows the mean of 4.08 and the standard deviation of .500, implying that trade liberalization entails the reduction of cost of production and that of doing business of PSF members in Nyagatare district, justified by acquiring raw materials or labor from neighboring countries members at low cost and easy movement of people and goods and services. As a result of policies liberalization, the performance of business communities improves, and country’s economy grows (Bhagwati, 2004).

The results on *“trade liberalization motivated PSF members to export more products”* presented the mean of 4.07 and the standard deviation of .435 as a very high mean between the variables i.e, more products are being exported by PSF members of Nyagatare district as the results of trade liberalization. Chang (2015) and Lall (2013) have stressed the infant industry argument when liberal trade policies repress beneficial structural change and therefore have long-term effect on export and, as a consequence on growth.

The result on *“Trade liberalization promote the private sector in Nyagatare district”* showed the mean of 5.58 and the standard deviation of 0.500, a very high mean of variables,

indicating that PSF members of Nyagatare district benefits are based on the liberal trade. Moreover, Santos- Paulino and Thirlwall, (2014) analyzed the panel data for ten period; they find a significant relationship between trade liberalization and private sector promotion. They claimed that trade liberalization raises private sector on average by 0.085- 1.91 percentage and vice-versa.

The overall mean for the second objective questions showed the mean 4.15 and .481 standard deviation as high mean. That means that the effectiveness of private sector in Nyagatare district depends on trade liberalization policies implemented and followed by PSF members in their doing business of importing or exporting products with neighboring countries.

In relation to the above findings the Mayor of Nyagatare district added that:

*“That trade liberalization allowed private sector to be more competitive in the aim of meeting the demand from Uganda customers. Since its implementation, more people undertook the business of exporting locally produced products from this district that increased the level production....”*

The PSF chairman added:

*“The achievement of PSF members nowadays are justified by the improved trade liberal policies”*

The findings here shows the opinions of PSF members of Nyagatare district in terms of means and standard deviations about challenges they face since the implementation of liberal trade. The overall mean is 4.23 and .513 of standard deviation. These findings shows that even though trade liberalization promote PSF activities in Nyagatare district, but there are challenges such as poor infrastructures, competition, lack of funds and high transport cost that still challenging and require preventive measures or to be solved. This matches with the findings of Seker (2011) on the challenges of liberal trade and different ways of solving.

*In relation to the above results, “Chairman of PSF Nyagatare added that, challenges don not miss at any happen economic activities but, we are fostering in dealing with them and we hope that they will have solutions in later coming days .....*

#### **4.5 Strategies of overcoming the challenges of trade liberalization in Nyagatare district**

Different authors and scholars proposed different solutions for trade liberalization. In this study, using open-ended questions, the researcher would to know different problems of PSF members Nyagatare district and their feasible ways of solving. The following table contains strategies of

The outcomes from the above table reveals the opinions of respondents regarding how challenges related to how trade liberalization PSF members in Nyagatare district are facing in their to day-to-day doing businesses. The overall mean average of all the proposed strategies is 4.25 and .527 standard deviation, i.e. a high mean, implying that the given solutions such as improve infrastructure, improving quality products, availing funds to PSF members and reducing the transport costs can be used to solve efficiently the mentioned challenges. This finding is in consonance with that of Yalçin (2000) for Turkey, saying that

even they exist problems in liberal trade; they must be different solution for solving them.

## CONCLUSION AND RECOMMENDATIONS

The study set out to evaluate the effect of trade liberalization on performance of private sector in Rwanda, taking into account PSF members in Nyagatare district. This district was chosen while it is boarded with Uganda using Kagitumba border.

To achieve the needed growth in widening the external market the government of Rwanda at 6 July, 2009 joined East African Community market in the aim of improving the trade relation with eastern neighboring countries in terms of alleviating tariffs and quotas on import or export goods, easy movement of people and other factors of production

Many scholars and authors are in the debate regarding the effects of trade liberalization on the performance of private sectors. There are various findings conclude that there is no positive effect while others do not find significant empirical evidences.

The study has recognized that there is positive effect of trade liberalization on performance of people doing different activities of production or business of services across different sub-sectors. This is because the tax removal on imported or exported goods and services enhanced total factor productivity and motivate people working harder to meet local and foreign markets. The study revealed a strong relationship between liberal trade in terms of improving productivity in Nyagatare district through reduction of production cost and availability of heterogeneous products at feasible price.

The study established that trade liberalization leads to a more competitive domestic market through its effect in curtailing prices and excess profits of domestic private firms. Thus, trade liberalization increases competitiveness of private sector and hard working. The study revealed that the benefits from the trade liberalization are higher than the challenges, so that the preventive measures could be used to alleviate the effects underlined.

Based on the results obtained, the conclusion is that trade liberalization raises the performance of PSF members in Nyagatare district. Also the results confirm the importance of liberal trade on export leading to improved export performance. These findings are robust to the estimation techniques used and consistent with other studies showing a positive relationship between the two variables.

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