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Imports and Rwandan Firms

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Overview

1. Recap and Trade Policy Context
 - a) SI List
 - b) Services
 - c) IPCA
 - d) Inland trade costs
2. Imports
 - a) And Exports
 - b) And Skill Utilization
 - c) And Employment
3. Conclusion

Policy Recommendations from 2012 and 2015

- Eliminate items on the Sensitive Items List of the CET
 - Annual exemptions, rather than permanent changes, but the effect has been the same, so far
- Expand services exports.
 - We will hear more about this later today.
- Modify Import Product Conformity Assessment (IPCA) procedures
 - Government tried to implement recommendations, and is currently implementing “spirit” of the recommendations using a Destination Inspection scheme.
- Reduce the inland trade costs for Rwanda
 - Reduction of weighbridges and checkpoints along the Northern Corridor

Rwandan Trade Policy Context – Trade Costs



Lineup at a truck weigh station in Kenya (on the way to Rwanda)

Source: Daily Nation, June 5, 2016

Rwanda – Next Step on Trade Costs

Landlocked Countries of the World

Afghanistan	Hungary	Paraguay
Armenia	Kazakhstan	Rwanda
Austria	Kosovo	Serbia
Azerbaijan	Kyrgyzstan	Slovakia
Belarus	Laos	South Sudan
Bhutan	Lesotho	Swaziland
Bolivia	Luxembourg	Switzerland
Botswana	Macedonia	Tajikistan
Burkina Faso	Malawi	Turkmenistan
Burundi	Mali	Uganda
Central African Republic	Moldova	Uzbekistan
Chad	Mongolia	Zambia
Czech Republic	Nepal	Zimbabwe
Ethiopia	Niger	

Countries in the top 100 (out of 222) by income ranking

Countries in the top 20 (out of 222) by income ranking

Rwanda – Next Step on Trade Costs

Landlocked Countries of the World Without Rail Access to a Port

Afghanistan
Bhutan
Burundi
Central African Republic
Chad
Nepal
Rwanda

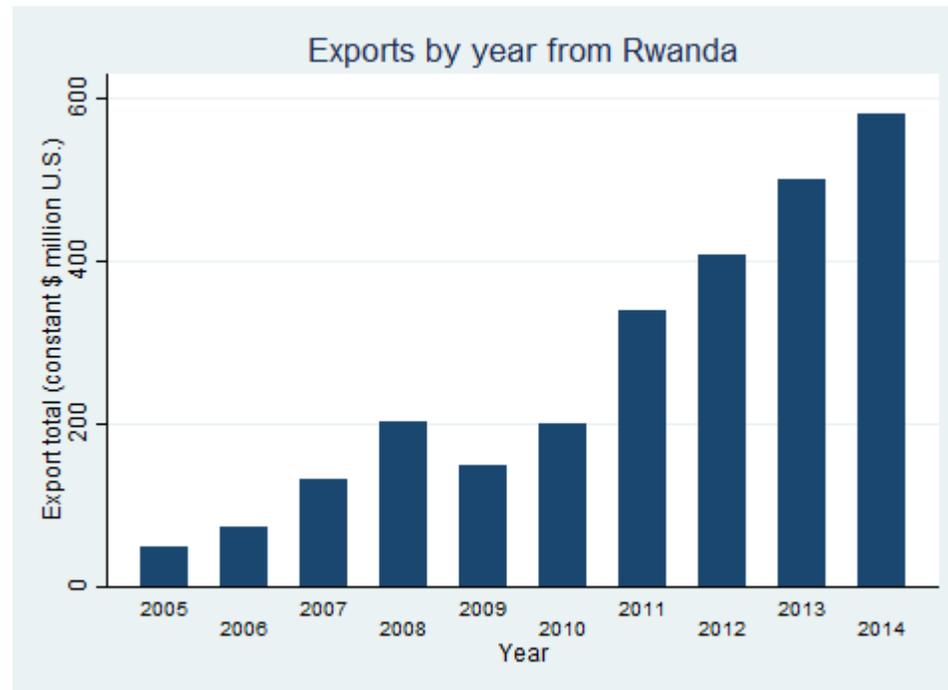
- Average per capita income (PPP) rank of countries without rail access to a port (194 – roughly that of Chad)
- Average per capita income (PPP) rank of countries with rail access to a port (131 – roughly that of Cyprus)

Rwandan Trade Policy Context – Trade Costs

- **Moving Forward on Railways:**

- While plans are in place for advancing railways on both the Northern and Central Corridors, there have already been delays, with the potential for more in the future.
 - While Chinese financing appears to have been secured for this project, if there are any hiccups that arise from this financing, the EAC partners should look towards pension funds (government and private sector) in industrialized countries that are currently looking for investment projects with very long-term horizons on returns.
 - The best organization of these railways would be an intergovernmental railway authority, that is independent of each of the EAC governments. This authority could negotiate with, and regulate, a private railway company that manages the railway, with disputes referred to a dispute settlement panel, agreed to by the authority and the railway company.

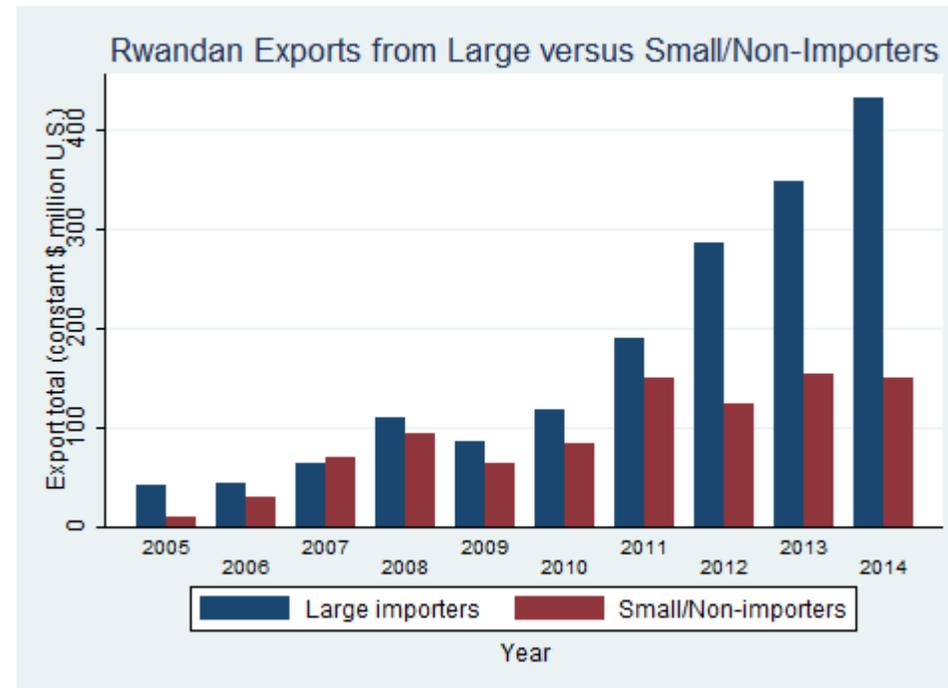
The Rwandan Trade Policy Context - Exports



Source: Author calculations.

The Rwandan Trade Policy Context - Exports

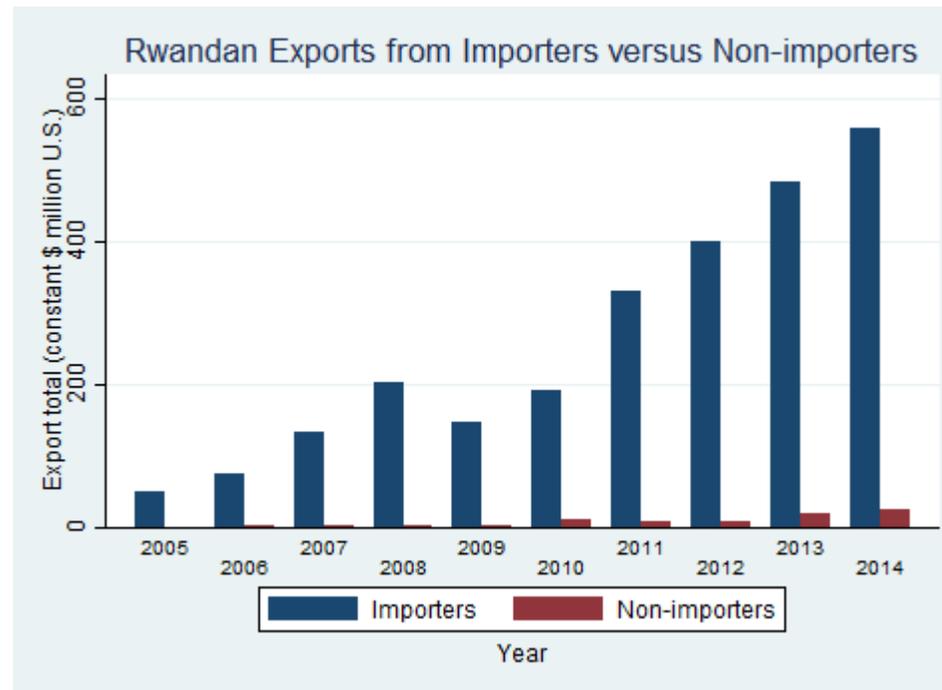
The bulk of the export expansion is from firms that do a significant amount of importing (more than 10% of the value of their exports).



Source: Author calculations.

The Rwandan Trade Policy Context - Exports

Essentially ALL export expansion is from firms that do at least some importing.



Source: Author calculations.

Rwandan Imports and Skill Utilization

- One of the benefits that a developing country like Rwanda can gain through imports is access to higher-technology and/or higher-quality inputs.
- High-quality inputs have been shown to be essential to create the high-quality products that succeed on the export market.
- In other contexts, high quality inputs have been found to be complementary with high-skill workers, so if firms are using higher-quality inputs, they also increase their use of skill.
- I found that, in fact, in Rwanda, firms that increase their use of imports (as a result of price changes induced by exchange rate changes) end up increasing their skill utilization at the firm level.
- Firms are using imports to gain access to high-quality, high-technology inputs.

Rwandan Imports and Employment – Cause for Concern?

- While my research showed that firms using imports increase the level of skill that they demand in their workers, which is good, the danger could be that they demand fewer workers
- If firms use imported high-technology goods or machines as “labour-saving” devices, there can be an immediate reduction in employment as a result of the imports. In fact, a study in France found exactly this effect.
- Imported inputs may still be worth it in order to create the high-quality goods to enter export markets, but we should at least know the impact on employment.

Rwandan Imports and Employment - Results

- In fact, firms that import are larger (employ more people) than firms that do not import. (unsurprising, and not the right metric for policy purposes).
- Conditional on firm sales, importing firms employ more people (surprising!)
- Also, firms that are increasing the amount that they are importing end up employing more workers to produce a given level of firm output. Surprisingly, this is particularly true of imports from high-income countries.
- Decomposing the employment growth in firms:
 - Average annual employment growth in registered firms in Rwanda over the period 2008 to 2012 is 3.6%
 - Firms that are continuously importing over this period are essentially responsible for all of this employment growth, as non-importing firms form a much smaller share of the overall employment, and firms that stop importing are shrinking their workforce.

Rwandan Imports and Employment - Results

Table 4 - Employment Growth and Import Status - All Sectors			
	Rate of growth of employment	Average share in total employment	Contribution to overall employment growth rate
All Firms	0.036	1.000	0.036
By Import Category:			
Never imports	-0.002	0.188	0.000
Continuously imports	0.056	0.660	0.037
Starts importing	0.085	0.063	0.005
Stops importing	-0.083	0.089	-0.007

Rwandan Trade Policy Context – Concluding Comments

- Rwanda has achieved much in the past 10 years. Exports have grown. The country has experienced per capita GDP growth and poverty reduction.
- Joining the EAC has been beneficial to Rwanda.
- Transport costs are disproportionately significant for manufacturers => Efforts to reduce transport costs through railway construction are important. The design of the railway ownership/operation/management will be important.
- Facilitating imports also helps exporters, who rely on imports.
- Firms are able to gain access to high-quality/high-technology inputs through imports. These high-quality inputs are essential to produce the high-quality goods that are required for the export market.
- Firms that use imports are not using high-technology imported inputs or machines as “labour-saving” devices. In fact, importers employ more workers than non-importers. Virtually all of the employment growth in registered firms over the period from 2008 to 2012 was in continuously importing firms.