

# EAC GENEVA FORUM

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to the WTO

COUNTRY UPDATE NOTE N°2



## PROMOTING WIN-WIN BILATERAL FREE TRADE AGREEMENTS

Perspective from Rwanda

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February, 2012

<sup>1</sup> This note is based on views and perceptions of stakeholders, including from the grassroots, in Rwanda



**PACT EAC PROJECT**  
Promoting Agriculture, Climate and Trade Linkages  
in the East African Community

This note is produced as part of the "Promoting Agriculture-Climate-Trade linkages in the East African Community" (PACT EAC) project, undertaken by CUTS International Geneva with funding support from the Swedish International Development Agency. More information at <http://www.cuts-geneva.org/pactec>.

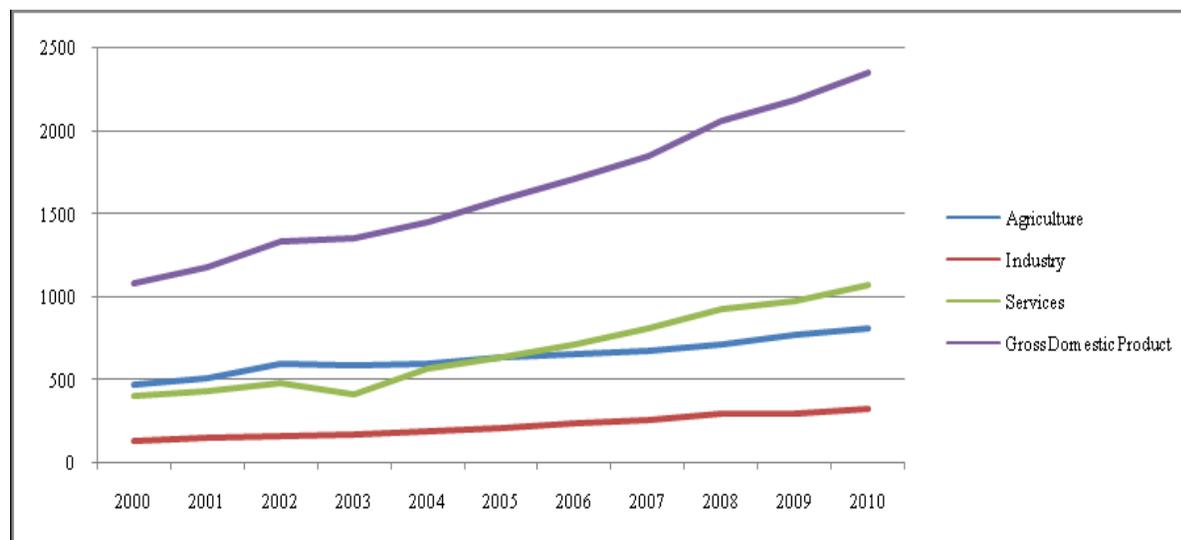
# INTRODUCTION

## Rwandan Economy

Rwanda is a small landlocked country with a land area of 26,338 square kilometers at an altitude ranging from 1000-4500m above sea level. It has few natural resources especially minerals compared to its neighboring country like DRC and Uganda. The country has an estimated population of around 11million which is considered to high based on the size of the country.

The country's development agenda is well articulated in its national vision 2020. There is a clear vision and strategies where Rwanda is and where it wants to be in 2020. In the past few years, Rwanda has made positive strides towards achieving a middle income status by 2020 and its growth will be primarily driven by service oriented sector. The current GDP figures show that the service sector accounts for 47% of the GDP, Agriculture 33% despite its contribution to rural employment while the manufacturing sector accounts for 20%.

### TABLE: THE GROWTH DOMESTIC PRODUCT PER SECTOR OF ACTIVITY PER CONSTANT PRICES 2006



Source: NIS 2011

In Rwanda's efforts to enhance its economic development, there is a realization for the need *to trade with other countries in the region and all around the world*. It is through this realization that Rwanda has concluded a number of related Agreements in regard to regional integration and global economic integration. Rwanda is a member of the World Trade Organization (WTO)

and belongs to a number of Regional Economic Communities (RECs), like the East African Community (EAC). In addition, Rwanda has Bilateral Trade Agreements (BTAs) with various countries and related agreements meant to enhance Rwanda's trade capabilities for sustainable development. This paper is focusing on Rwanda's BTAs with other countries, looking

at; the countries with which Rwanda has BTAs, the ones being negotiated, related challenges in the negotiations process, perceptions by the relevant stakeholders and key recommendations.

## Rwanda's Trade Policy

The Ministry of Trade and Industry is the Government Ministry in charge of all aspects of trade policy including trade policy formulation, trade negotiations as well as policy issues relating to all aspects of internal and external trade. The department of trade and industry has professionals in charge of regional and multilateral trade, Competition policy as well as internal and external trade. The department currently manages the country's trade negotiations agenda in the WTO as well as COMESA and the EPA negotiations.

Responding to the ambitions in Rwanda Vision 2020, the vision of Rwanda's trade policy is to build a robust economic base underpinned by expanding and diversified production of quality goods and services for trading nationally, regionally and internationally. The trade policy vision contributes directly to achieving Rwanda Vision 2020's short, medium and long-term goals<sup>2</sup>. It is also designed to contribute to promoting Rwanda's achievement of the Millennium Development Goals especially poverty reduction, gender empowerment and sustainable growth.

## Rwanda's Trade Policy Objectives

Increased productivity, competitiveness and diversified sustainable productive capacities for

trading nationally, sub-regionally, regionally and internationally;

Enhanced participation of importers and exporters of goods and services in regional and international trade taking advantage of trade opportunities. Special attention would be paid to supporting women farmers and entrepreneurs as well as rural-based exporters;

Increasing investment, including foreign direct investment, into production of competitive goods and services for the export market;

Increased human resources skills in trade and development through training and retraining in private and public institutions; and

Strengthened science, technology and innovation policies, strategies and institutions including intellectual property laws, in support of industrial development and creative knowledge-based industries.

## Institutional framework for trade policy and trade negotiations

Rwanda's current trade policy formulation and implementation framework is coordinated by the Ministry of Trade and Industry (MINICOM). While MINICOM rightly takes the lead in issues of trade policy, it is significant to note that trade policy issues are usually cross cutting in nature and require the input of other government institutions as well as private sector stakeholders and other relevant non-state actors.

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<sup>2</sup> Ministry of Trade and Industry "Rwanda Trade Policy" Document, June, 2010

# RWANDA'S PARTICIPATION IN THE BILATERAL TRADE AGREEMENTS (BTAs)

Rwanda's participation in the various BTAs is in line with the broad policy orientation to enhance cooperation with other countries through

## The BTAs which have been signed

Rwanda has signed a number of bilateral agreements which have a bearing on trade. Though some of the Agreements are not necessarily trade agreements such as Free Trade Agreements (FTAs), they are trade related. These agreements include, those on; investment promotion, avoidance of double taxation, trade and business facilitation, among others. The countries with which Rwanda has signed these Agreements include among others; the United States of America (USA), South Africa, Mauritius and Belgium.

In addition, Rwanda has concluded bilateral framework trade agreements to facilitate movement of goods and persons with Burundi, the Republic of Congo, the Democratic Republic of Congo, Kenya, Tanzania and Uganda. Rwanda is also a beneficiary under the EU's Everything But Arms 'EBA' initiative as well as under many other Generalized Systems of Preferences (GSP) schemes with key Countries, including Canada, China, India and Japan.

Most of the signed Agreements have not been implemented effectively and some are not even commonly known. However, there are some that are well known and are being taken advantage of in terms of business transactions as a result thereof. Some of the common Agreements that

economic, trade and development cooperation. In this respect, a number of bilateral agreements have been concluded covering trade related issues. Some of the Agreements are directly dealing with trade issues while others are dealing or coverings issues and areas related to trade. These Agreements that are not purely Trade Agreements do have trade related issues therein and also have a direct impact on trade.

are well known, even by the relevant stakeholders include those with the following countries;

### The United States of America (USA)

Rwanda negotiated, concluded and signed a Trade and Investment Framework Agreement (TIFA) with the USA. In addition to the TIFA and based on this framework, the two countries signed a Bilateral Investment Treaty (BIT). Rwanda is also eligible to export to the US on a duty-free and quota-free basis under the African Growth and Opportunity Act (AGOA).

### South Africa

Rwanda has signed two relevant Agreements with South Africa; an Agreement on the promotion and protection of investment as well as an Agreement on the avoidance of double taxation.

### Box 1: BTAs that attract investments, improve exports ...

On 06/07/2006, the United States and Rwanda Sign Agreement aimed at deepening and strengthening trade and investment ties between the two countries. The **Trade and Investment Framework Agreement** (TIFA) will create and provide a formal consultative mechanism to address bilateral trade issues and will help enhance trade and investment relations between the United States and Rwanda and may lead to sector specific and other trade-enhancing agreements.

"Rwanda views the United States of America as an important commercial partner and welcomes the signing of this framework agreement," said Rwandan Minister Mitali. "The TIFA clarifies our governments' orientation and commitment to cooperation and forms the basis for increased dialogue between our two economies. We are most thankful to the U.S. Government, not only for opening the U.S. market through **the AGOA facility** but also for reaching out to our economy through the TIFA mechanism. We believe this agreement will help in strengthening American investors' confidence in our business environment."

Background: U.S. imports from Rwanda were valued at \$6.3 million in 2005, up 17 percent from 2004, and consisted mainly of coffee and tungsten ores. The Rwandan Government has shown a strong interest in increasing and diversifying exports to the United States by using its eligibility under the African Growth and Opportunity Act. In the past year, Rwandan firms, with assistance from the U.S. Agency for International Development, have undertaken partnerships with Macy's and Starbucks for trade in fine

basketwork and specialty coffee, respectively. U.S. exports to Rwanda totaled \$10.2 million in 2005, a decline of eight percent from 2004

Source: [http://www.usstr.gov/archive/Document\\_Library/Press\\_Releases/%202006/June/United\\_States\\_Rwa\\_Sign\\_Agreement\\_to\\_Deepen\\_Trade\\_Investment\\_Relations.html](http://www.usstr.gov/archive/Document_Library/Press_Releases/%202006/June/United_States_Rwa_Sign_Agreement_to_Deepen_Trade_Investment_Relations.html)

## Mauritius

Rwanda has signed two relevant Agreements with Mauritius; an Agreement on the promotion and protection of investment as well as an Agreement on the avoidance of double taxation.

It is important to note that, it is reportedly mentioned that the Agreement on the avoidance of double taxation expired before it was implemented and now process of re-negotiating this Agreement has started.

## Belgium

Rwanda has signed an Agreement on the avoidance of double taxation with Belgium.

## Others (See Box 2)

The other countries with which Rwanda has Bilateral Trade Agreements, include; Burundi, the Republic of Congo, the Democratic Republic of Congo, Kenya, Tanzania and Uganda. The pacts to facilitate cross border trade are directly benefiting the citizens of the signing countries

## BTAs being negotiated

Currently Rwanda is in the process of negotiating more Bilateral Agreements with its potential trade and economic partners. Most of these Agreements are Trade Agreements, others are on trade related issues like avoidance of double taxation and investment promotion and protection and others are just on general economic cooperation but containing trade related issues. The negotiations process is handled by the relevant government institutions/ministries, which are the Ministry of Trade and Industry, the Ministry of Finance and Economic Planning and at times the Ministry of Foreign Affairs.

The countries that Rwanda is negotiating such agreements with include Cuba -Nigeria -Turkey -Gabon and Singapore

## The objectives being sought through BTAs

Rwanda's development vision is consistent with BTAs objectives of enhancing trade cooperation. For example, regional and international economic integration is one of the six pillars of Rwanda's Vision 2020. Also, Rwanda's trade

policy is designed to promote exports meaning that there is a need to explore foreign markets for the Rwandan market.

### Box 2: BTAs that improve livelihoods and Food security ...

On 13 Feb 2012, Rwanda has signed a **bilateral agreement** with Burundi to establish a one-stop border post at Gasenyi 1/ Nemba.

The move is expected to bolster trade across the two countries by harmonizing border control regulations and procedures and enabling expeditious and more effective border control mechanisms.

According to the agreement, the two countries will also maximize the use of Information and Communication Technologies in order to enhance the easier and speedier sharing of border control data that is useful in border operations. The implementation of the bilateral agreement will see the two countries conduct joint technical training for border control officers so as to achieve common levels of conceptual understanding of the one stop border post (OSBP) operations.

It will reduce the time taken by **cross border traders to clear their goods** as there will be no repetition of processes at either customs offices," said Ben Kagarama, the Commissioner General, Rwanda Revenue Authority.

The agreement will also enable the two revenue authorities to achieve maximum possible integration of border control documentation, procedures and systems for the mutual success of the objectives underpinning this Agreement.

"This border post will result into increased cross border trade and profitability thus increase in revenue collection of the two countries," Mr Kagarama said. However, the border post lacks of accommodation facilities with revenue officials living approximately 3.5 kilometers away from the border. The 2 countries are urged to step up investment into the necessary physical infrastructure to facilitate the business community using the border post.

In this regard, the main purpose of BTAs for Rwanda is to actually pursue its related national policy objectives through such Agreements. These objectives include;

- Strengthening trade and economic cooperation with potential economic partners;

- Exploring and securing foreign markets for Rwanda's products;
- Promoting exports from Rwanda; and
- For neighbouring countries and most countries in the region, such Agreements also serve as instruments to strengthen diplomatic and political cooperation that in turn boost investment confidence and sustained trade ties.

## RELATED CHALLENGES IN NEGOTIATING BTAs

There are challenges related to the negotiations process and the implementation period. At the negotiations level, the related challenges include;

Usually Bilateral Trade Agreements are negotiated within a short time and before some key stakeholders learn about the process to provide relevant contributions, the process is already completed.

Unlike regional or multilateral negotiations, there is usually minimal involvement of wider stakeholder consultations for inputs. In such instances, the negotiations are commonly handled by the government officials with minimal or at times without the participation of non-state actors. This is different from regional or multilateral negotiations where committees are created including non-state actors (private sector and civil society) participate and handle the negotiations.

In regard to the implementation process, the following are related challenges;

There is a tendency of everything being slow in terms of ratification, putting in place appropriate institutional framework and the required

committees and working groups to follow up and ensure effective implementation of such Agreements.

Most of the time there is lack of follow up by the concerned parties.

Regional integration process: some of the rights and obligations contained in the BTAs are at times sub-consumed in regional integration agreements.

For example:

*“The obligations and rights contained in the Bilateral Agreements between Rwanda and other EAC Partner States; Burundi, Kenya, the United Republic of Tanzania and Uganda may to a large extent be taken care of within the EAC Protocols. So, as the EAC integration process deepens by the implementation of related protocols at the EAC level, the previous bilateral Agreements may seemingly tend to become irrelevant.”* Observation by the author

Also in some other cases like the European Union (EU), regional integration in the EU has had a huge impact on BTAs where by EU Member States have to decide on how best to implement such Agreements upon becoming EU members.

## MAIN BENEFITS TO BE OBTAINED FROM BTAs

First and foremost, it is very important to note that such agreements aim at liberalizing trade between two countries and ensuring that business transactions between the two countries are smooth. A Bilateral Trade Agreement is a pact between two countries or areas in which they both agree to lift most or all tariffs, quotas, special fees and taxes, and other barriers to trade between the entities. The purpose of such agreements is to allow faster and more business

between the two countries/areas, which should benefit both.

For example, the underlying economic theory of free trade agreements is that of "comparative advantage," which originated in an 1817 book entitled *"On the Principles of Political Economy and Taxation"* by British political economist David Ricardo.

Put simply, the "theory of comparative advantage" postulates that in a free marketplace, each country/area will ultimately specialize in that activity where it has comparative advantage (i.e. natural resources, skilled workers, agriculture-friendly weather, etc.) The result should be that all parties to the pact will increase their income.

## PERCEPTIONS FROM NON-STATE ACTORS (CSOS AND THE PRIVATE SECTOR)

Not so much involved during the negotiations process and at times not aware when the BTAs are signed. They tend to learn about them at a later stage or when the Agreements have already been signed.

For the private sector, it is usually at the top level that the relevant information is known. For example the Apex bodies like the Private Sector Federation (PSF) tend to get informed during the negotiations process and upon signature of such agreements.

For the Civil Society Organizations (CSOs), most of them are not even aware of such Agreements. Only a few CSOs that focus on economic development issues are aware of such Agreements and related policies but they are also not usually involved in the negotiations process. So, unlike the regional or multilateral

negotiations process where committees are created for the task whose compositions include non-state actors, BTAs negotiations process is usually carried out by government institutions.

## RECOMMENDATIONS INCLUDING ON THE ROLE OF GENEVA AMBASSADORS

In an effort to improve the current status, the following are the recommendations;

Focus should be on the countries that have potential economic ties to benefit Rwandan businesses, boost exports and generally to promote mutual trade between the two parties.

There is a need for active follow up to ensure effective implementation. This would be well achieved through the creation of appropriate institutional structures embedded within such Agreements.

Involving non-state actors, that is, the private sector and CSOs is crucial and should be ensured to anticipate in advocating for BTAs that have direct effects on sustainable livelihoods and food security for the citizens.

For the Agreements that are purely on trade issues, there is a need to also seek advice from the Geneva Ambassadors to ensure that what is done is in line with WTO rules and principles.

BTAs between Rwanda and its neighbours should be encouraged and implemented for the direct benefits of the ordinary citizens using the cross border trade as a source of livelihoods and food security

BTAs are not known by the ordinary citizens and business communities they are signed to serve, the relevant stakeholders and ministries should invest not only in awareness around the BTA but

also provide technical knowledge and skills to use the opportunities embedded in them

There is a need to set up a framework to assess the benefits and costs of the signed BTAs (gains and losses in trade terms, increase in exports and imports; movement of people and jobs; food security, etc...

## CONCLUSION

In conclusion, is important to note that Trade agreements are meant to liberalize trade. Trade agreements are either bilateral, involving only two countries, or multilateral, involving more than two countries. They are usually intended to lower trade barriers between participating countries (though not necessarily between those countries and other non-participating countries) and, as a consequence, increase the degree of economic integration between the participants.

This paper's focus was on bilateral agreements and their potential benefits. An obvious attraction of a bilateral trade agreement is that members obtain preferred access to the markets of other members. As noted above, this may not produce optimal outcomes in the long term. It depends on the overall impact of the arrangements and other concurrent trade policies. Trade agreements set rules for regulating trade and trade-related activity as well as incorporating commitments to remove trade barriers.

For the case of Rwanda, as reflected in this paper, there are number of countries with which Rwanda has signed Bilateral Trade Agreements including with the EAC partner states focusing on trade facilitation. However, full utilization of the benefits therein is yet to be effectively achieved. Also, for other countries like the EAC Partner States, the rights and obligations tend to be sub-consumed within the wider regional integration initiatives. In this light therefore, there

are enormous potential benefits in Bilateral Trade Agreements but ensuring full utilization depends on the other related policies and the pro-activeness to ensure effective implementation and follow up.