CHAPTER ONE
INTRODUCTION

The endeavor of this work is to identify "Impact and Influence of International Trade on Economic Growth and on Small and Medium Enterprises of Rwanda since 2000 to 2016". Rwanda is a landlocked country in East and central of Africa which dreams nevertheless to perform well in international trade. Rwanda is a country with catastrophic record but also with much internal dynamism and anticipation. Rwanda has renowned itself for its economic restructuring and for its government’s commitment for encouraging and supporting economic growth. Rwanda’s government has accomplished significant improvement in dropping corruption and humanizing the business environment.

1.1 Background of the study

Early in the 1980s, many governments from developing nations introduced outward oriented strategies as a way to boost manufacturing efficiency and increase the broadcasting of technological knowledge from developed nations. The major purpose was to accomplish economic development that could stimulate completion and efficiency in domestic industry. It was expected that a more open economy to international trade and capital flow would improve output growth and alleviate structural macroeconomic problems. Behind two decennium of applying this strategy, there is still not a general agreement about whether or not financial liberalization achieved its goal.

The general public conceives proliferation as a set of economic strategies imposed by global organizations to make easy the mobility of assets and commodities. In the academic field, there are also different opinions between opponents and advocates of managed prices and capital mobility, both trying to prove the benefits or costs with experimental confirmation.

In general, there is no conformity about whether or not nations have benefited directly from business relaxation programs. Nevertheless, many nations deserted the protectionist tactics that won through in the 1960 and 1970 and bowed towards outwards economic
reforms. The internationalization of SMEs has flourished in current times crosswise the globe (Etemad; Andersson; Orser). About one fifth of manufacturing SMEs obtain 10% to 45% of their transactions revenues from international sources (OCED). Various macro and micro earnings offered by transshipment business have been confirmed in many nations.

The export led growth hypothesis presumes that export business stimulates the expansion at countrywide and firm level. Support for this hypothesis has been found in Canada (Serletis, Awokuse), United State, United Kingdom, Japan and Germany (Marine), Egypt (Abu-Stait), Malaysia (keong) Argentina, Brazil, Mexico City (Maneschiöld) and Jordan (Husein).

The magnitude of SMEs has been acknowledged in sub-Saharan Africa and Africa in general. In SSA, Rankin et al persuade that the domestic market is feeble, and for that reason, without export contribution, it will be doubtful to propel firms into growth. In Africa, Rankin et al, Kuada and Wolf reported that the continent is rising at a firm growth rate.

In addition, Etemad convinces that because of the pressure of globalization, firms are at an amplified peril of breakdown, if they prefer to concentrate exclusively on their home marketplace. Further to the evidence above, in the majority of developed countries, researchers have supported the importance of export manufacturing among SMEs in Africa. Bigsten et al used firm level data from the industrialized sector in four African countries to confirm the export led growth hypothesis; in this study, the researchers concluded that the firms from Africa learn from export business. Ahmed et al utilize samples from five countries in SSA and also confirmed the significance of business and growth hypothesis. The same, Nyikam carried out a similar study of 21 countries of SSA and found country-specific uphold for the hypothesis.

On the large scale, export activity among SMEs has shown the ability to make monetary expansion, according to the OECD. Export business assimilates countries keen on the planet economy and lessens them from external surprises and from the other countries. Additionally to this, export business supplies a source of foreign exchange to the concerned countries and diminishes potential balance of payment troubles. Firm’s
exports, for that reason, engender employment in the domestic economy, which in turn boosts consumption and personal expenses. Furthermore, openness to trade improves international negotiations concerning trade and tariff issues, and countries can use this platform for their own benefit and build their respective welfare positions concerning trade barriers (Maneschiöld\textsuperscript{10}).

Moreover, the specific macro and micro benefits, advancement in international transportation and communication, reduction in trade barriers, the shortening of product and technology life cycles, and large multinational enterprises competing against SMEs in their own domestic marketplace are also among the factors facilitating the SMEs to be in international level (Coviello\& Munro\textsuperscript{19}; Rasmussen et al\textsuperscript{20}; Etemad\textsuperscript{1}).

The literature on international economics advocates that there are a percentage of habits in which the expansion of exports encourages economic growth. Increasing export earnings help to reduce the overseas exchange gap and thus facilitate the importation of capital goods and technical knowledge, and these would lead to economic growth. According to Bhagwate\textsuperscript{21} and Krueger\textsuperscript{22}, the spreading out of exports shows the way to specialization, economy of scale and well-organized distribution of resources.

This, in turn of results and an increase the real income, economic growth and productivity of a country, a sequence of events which they call the export led growth hypotheses (ELGH). Even though the export, the anticipated positive result of selling abroad on gross domestic product, however, less industrialized nations, depending on their financial supplies and their arrangement, have not only relied on such transshipment promotion rules but also pursued the buying abroad substitution strategies or, indeed, a combination of these two.

The internationalization of today’s trading surroundings has forced economies to prioritize the expansion of the export competitiveness of their region, as to be able to stay alive amidst the ferocious worldwide competition and challenges. The digital economy has shaped new means and waterway of overcoming obstacles of trade faced by SMEs owing to their bulk and insufficient resources.
The international trade structure is altering very quickly in wake of the improvement of ICT. The worldwide integration and incorporation of international wealth got a fillip with the advent of internet. Internet gives a novel concept of wired and inter-linked globe and now physical distances are no further a major barrier. Today world has shrunk into a cyber village connected digitally, accessible just by a crick of mouse (Jetro\textsuperscript{23}).

In Africa, the SMEs sector account for almost 90% of all the firms in which they are situated in both the countryside and city areas, whereby they supply extra evenhanded delivery of revenue in all vicinities of the countries. This earns that the SMEs are the fundamental source of supplying employment to the community and encourage the development of the countries by supporting the entrepreneurship and the business talents surrounded by communities and strengthen the local production sector as well as the industrial base. Hence the African’s SMEs have been believed to be incredibly vital engine for achieving countrywide progress ambitions, such as poverty eradication and economic intensification (Mokaddem\textsuperscript{24})

However, Rwanda like other counties, SMEs plays a considerable role in the process of development and economic enlargement by appreciably contributing to job creation, revenue invention and transforming development in municipal and countryside areas (Minicofin\textsuperscript{25})

1.1.1. Features of global financial system

The international monetary system is made by the large number of political autonomous nations which have different categories and degree of interdependencies and very diverse economic characteristics of between and within them. Considering the World Bank’s annual publication World Development Report (WDR) 2016 and World Development Indicators record, there are 220 economies in the world that has at least 30,000 of population or more. These nations are often categorized into diverse clusters depend on their earnings per person intensity and other enhancement barometers. The term country, utilized alternately by means of economy, does not engage political autonomy but is related to several territory for which the system description disconnect social or economic statistics, https://data.worldbank.org/products/wdi
1.1.2 Categories of Economies

Based on per capita income, countries are generally categorized as low income, middle income and high income economies.

- **Low income economies** are all nations that their GNI per capita are $1,025 or less.
- **Inferior middle income economies** are all nation among a GNI per capita of $1,026 - $4,035;
- **Upper middle income economies** are the entire nations through a GNI per capita involving $4,036 - $12,475.
- **High income economies** are countries with very elevated per capita income. Those with a per capita of GNI of $12,476 or above.

1.2 Rational of the study

This research looks for investigating the reason of the poor international trade performance of Rwanda with special reference of SMEs which have been identified by the MINICOM as one of the trust sectors for export promotion.

The association among international trade and expansion is an imperative one in economics, mostly for increasing the income of countries that look for improving the source of revenue of their citizens throughout economic alteration. One of the objectives of all nation was to contain a positive balance of payments, or a circumstances where the exports are bigger than the imports, and to keep away from a negative balance of payments, or a circumstances where the imports are large than the exports.

The other objective of each country is to ameliorate the living average of the population by increasing its economic growth. The purpose of SMEs is a means of creating growth, quality employment and shared wealth. This study highlights the deficiencies of the improvement process and tactic for a subdivision with very good export potential and suggests measures for a healthy enlargement of Rwandan.

1.3 Research problem
Natural corporate assets are essential supporting funds of national capital approximately the globe. Numerous nations have used their congenital corporate assets as an ambition to protect their economic development and accelerate their competitiveness. On the contrary, experience that natural resources are neither indispensable nor sufficient for economic affluence and improvement. The long standing benefits of the natural resources of the world alongside, replication or adopting guidelines that have been flourishing in a different location seldom succeed.

Conversely, the appearance of ICT has altered the enthusiasm of several industries (OECD\(^26\)). Internet is used to develop effectiveness and expand market incorporation domestically and worldwide, mainly in less industrialized nations that are mostly deprived by underprivileged of admittance to information. While the internet should augment global growth, it also brings augmented risk to countries that cannot access it efficiently.

All of the aforementioned analysis will be useful on the SMEs that are functioning in the natural stone sector in diverse competitive environments (Italy, Turkey and Jordan), which all are rich amid natural stone, have dissimilar competitive position and located in different economic stages.

There are lots of graduate and artisans with prospective of innovating new businesses or better develop on their manufactured commodities and for example if technically sustained. Innovation and the invention of new business ideas have generally been considered quite weak in Rwanda.

In contrast, Rwanda has a dormant accumulation of trainable labor force, a great foundation of educated workers, scientists, probable innovators, who would donate towards private sector job creation through research and development and innovation (starting commercialization enterprises), yet little has been achieved to this end. Many Rwandan teaching institutions and agencies have focused on coaching business management and practical talent, business diagram competitions for graduate students and entrepreneurs. Nevertheless, there is little advance support and insufficient
mentorship to apply the ability and knowledge attained through coaching to profitable opportunities.

Attempts were made to introduce the perception of trading incubation in Rwanda in the 2000s, and from up today. In addition, other establishments and business groups have been acknowledged by executing the concept. Nonetheless, technology and business incubation is not well understood and experienced to a restricted extent in Rwanda. It should be piercing out that the incubation system is relatively new in Rwanda and in the region. Absence of information (no academic comprehensive study) on the process of creating an effective incubator, i.e. coordination, design, development and management processes in relation to science, technology and implementation of new system in Rwanda.

Thus improving the process of international business in Rwanda is the high relevance to both research and practice. This situation provided the motivation to make up research and suggest solutions to the above problems. Additionally, it becomes very important to reconsider the existing approaches for supporting commercialization of inventive thoughts and develop enterprises, and assess the likely tasks of trading precaution strategy and other apparatus in exciting techno-entrepreneurship and nurturing industrial development in Rwanda.

1.4 Objectives

This study has both general and specific objectives. Then the general and specific objectives of this research are presented as follow:

1.4.1 General objective

The general objective of this study is to examine the outcome of international trade on economic growth through capacity of promoting the expansion in production of Rwandan’s SMEs.

1.4.2 Specific objectives
To analyze the role of government in promoting international trade and the expansion of SMEs;
To determine certainly how the SME is an exogenous variable that has a large effect on output growth and also in international trade;
To investigate the critical success that convince the SMEs’ performance in Rwanda and in international market;
To assess financial based problems facing small and medium enterprises;
To examine the causal link surrounded by international trade and economic growth;
To develop strategies for formulating national industrial policies to improve the poor competitiveness of Rwanda’s products in international markets;
To analyze the SMEs’ significance of national economy and poverty alleviation in Rwanda.

1.5 Research questions

1. Did international trade influence economic growth and SMEs in Rwanda?
2. What is the contribution of government of Rwanda in promoting international trade and extension of SMEs?
3. What are the main barriers of international trade that can discontinue the realization of plans and arrangements for producing more in worldwide marketplace?
4. What are the impacts of access to finance on performance of Rwandan’s SMEs?

1.6 Hypotheses

1. International trade has had influence on economic growth as well as on SMEs’ performance in Rwanda.
2. Government of Rwanda contributes positively and elaborates the policies that facilitate the encouragement of international trade and expansion in production of SMEs.
3. The absence or deficiencies of the international trade strategy and the deficiencies in the implementation of the plans and programs have contributed to the poor production and performance in international market of Rwandan products.

4. Having access to finance has a positive result on performance of SMEs of Rwanda.

1.7 Significance of the study

Intensifying costs aspects and escalating competition in starting and operating businesses have supported cost and risk allocation schemes amid firms leading to networks of firms and R&D alliances. These systems and coalitions in turn motivate the growth of institutions or enterprises planned to recognize problems and supply solutions concerning specialization knowledge.

International business as a high value added service environment if successfully implemented, together with the clustering program, can play a key task in addressing the mentioned challenges in the process of industrialization. Understanding international trade processes, success factors and challenges of trades can strengthen the effective partnership between the government, researchers (academia) and the business between group of people (triple helix) in Rwandan context. There is no known assessment and evaluation framework of traders in Rwanda.

This study contributes to provide the research gap of international trade process in Rwandan context and laid the foundation for further study in the future. The research ambitions are in line with the Rwanda Vision 2020 (MINICOFIN\textsuperscript{27}), aspirations of the Rwanda government plan 2013-2017 and its particular improvement indicators; i.e. employment creation and value accumulation, increasing the level of industrial sector development, promoting science, technology, modernization and ICT to enhance aggressive, and improving the country’s spirited position.

The research findings contribute to intensify our sympathetic of the international trade climate and are importance to researchers; policy makers and traders’ practitioners for addressing the key issues starting from assessment of the inexperienced or potential
entrepreneurs’ ideas until their vision are realized. The conceptual model contributes to establishing, operation and evaluation of sustainable international business.

Application of the proposed model will be helpful for the international trade through the monitoring and evaluation process, the overall strengths, weaknesses, development needs and possible solutions are identified. The thesis has provided to the knowledge of the functioning methods of different international business and growing literature about open innovation taking to the corporate approach in Rwanda.

1.8 Structure schedule for completing this study work

This study will be divided into six chapters. A part from the general introduction which will be the chapter one; the second will deal with the review of literature and theoretical arrangement. The third chapter will be focused on the material and methods, that is the methods and approaches used to obtain and analyze the obtained data and information from the field; the fourth chapter will concern with the presentation of results; analyze and interpret the main determinants of international trade in Rwanda and the influence of international trade on SMEs with the implication of their changes on economic growth of Rwanda; chapter five will discuss on the hypotheses of the study and the chapter six will deal with summary, conclusion and recommendations.