Trade Openness and Economic Growth in Rwanda

Working Paper

Abstract

This paper empirically examines the impact of trade openness on the economic growth in Rwanda for the period between 1980 and 2022. The analytical framework of this study is embedded in the theoretical and empirical debate between three dominant theoretical approaches about trade openness and economic growth: the Ricardian- Hecksher-Ohlin trade Theory and Endogenous Growth Theories. The study finds that the three theories are complementary and mutually exclusive in explaining the relationship between international trade and economic growth. The study employs Cointegration -based estimator models to investigate the relationship between trade openness (TOT) and economic growth. The findings consistently reveal a significant positive impact of trade openness by 44.4% increase on economic growth across all models. The results also reveal plausible evidence of bidirectional long-run causality, running from trade openness to GDP per capita and vice versa in Rwanda. The implications of these findings highlight the importance of fostering trade liberalization policies as a key driver for sustainable economic development, as well as the imperative of export diversification of commodities.

Keywords*: Trade Openness, Rwanda, Economic Growth*

JEL Classification: F11; F14; F13; B27

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