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Improving Export Performance by Improving Policy Focus in Uganda

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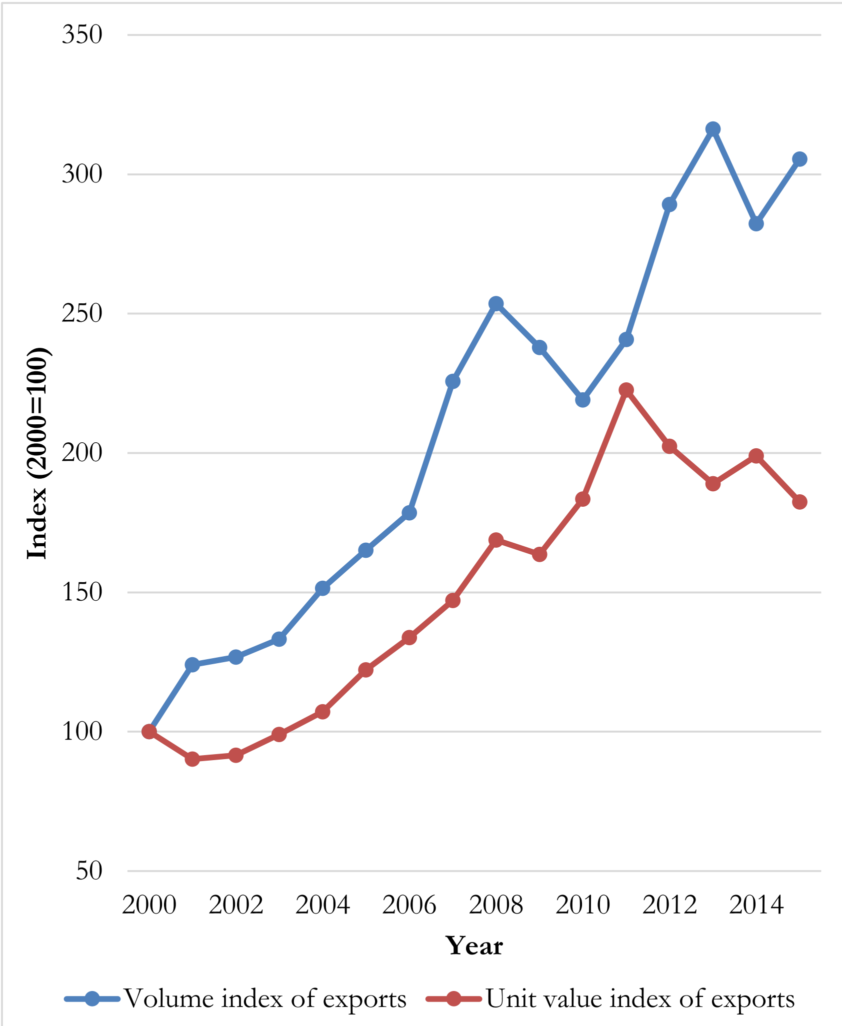
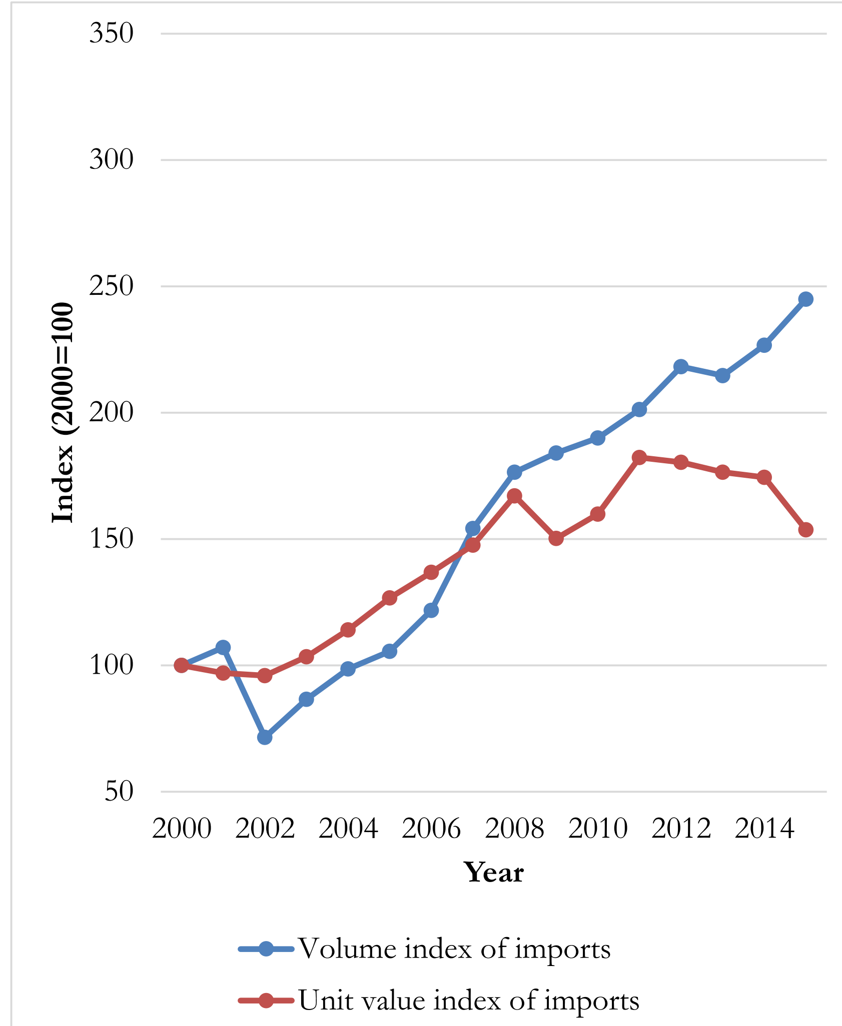
Outline

1. Trade volumes have been growing strongly, with some improvement in prices.
2. Trade integration can help support structural change.
3. Policy reforms can promote dynamic upgrading and GVC participation.
4. Conclusion.

1. Trade volumes have been growing strongly, with some improvement in prices.





Source: UNCTAD

1. Trade volumes have been growing strongly, with some improvement in prices.

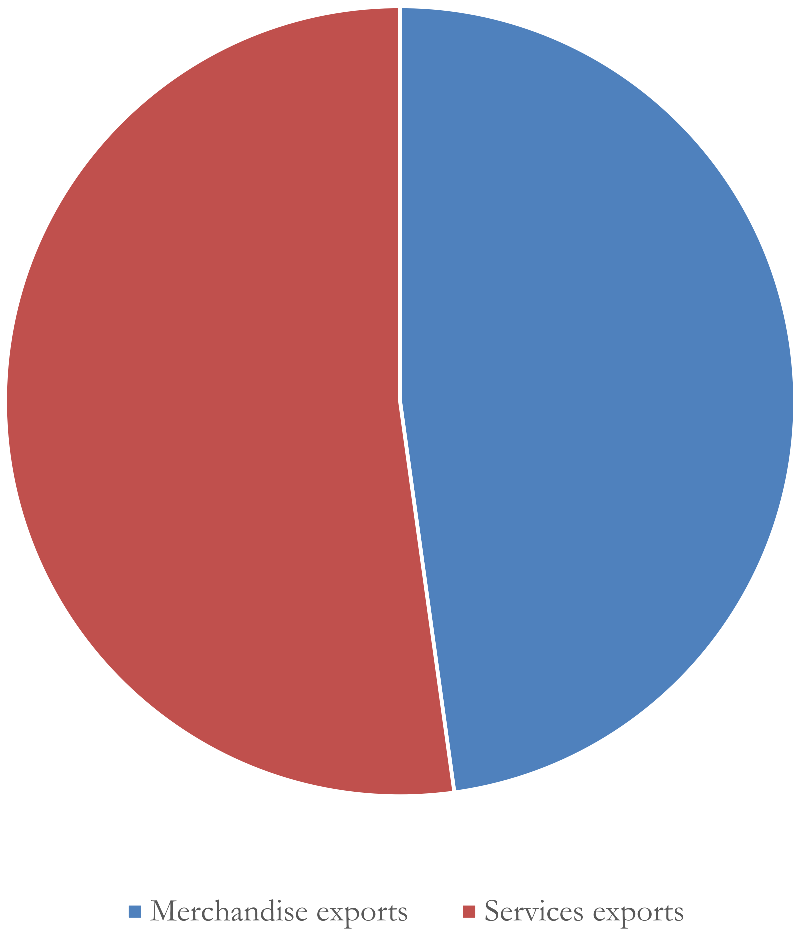
- Although Uganda is running a current account deficit that is larger in % GDP terms than the SSA average, it is not currently a cause for concern, especially given access to concessional financing.

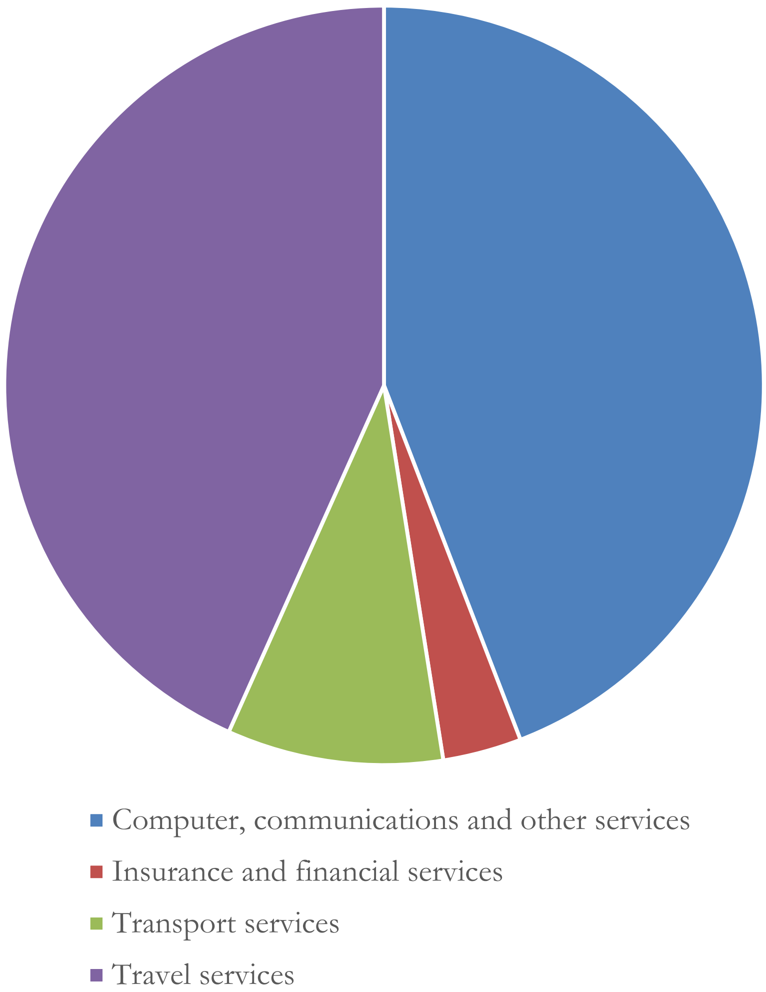
- Moreover, trade performance does not seem to be the primary determinant.
  - Services exports play an important role in total trade performance, especially travel and tourism.

- The current account is largely a function of macroeconomic variables, namely the balance between savings and investment (private and public).

- Important variable from a policy perspective is growth rate of exports.

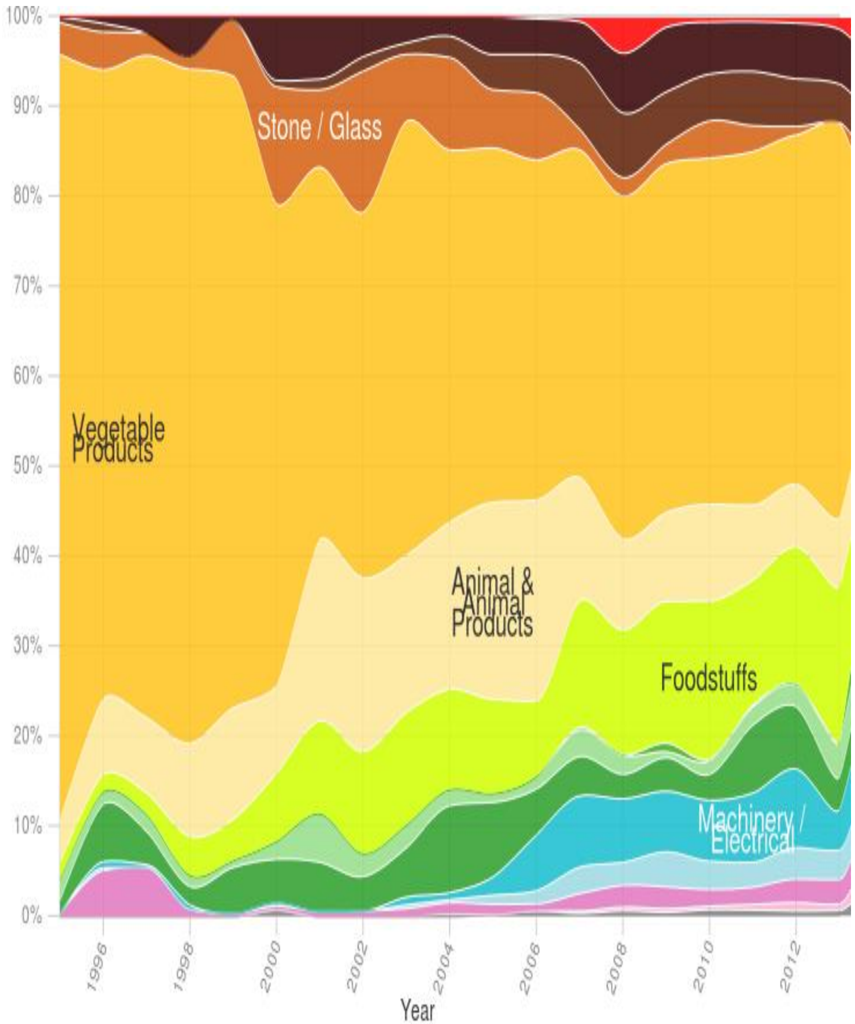
1. Trade volumes have been growing strongly, with some improvement in prices.





Source: World Development Indicators.

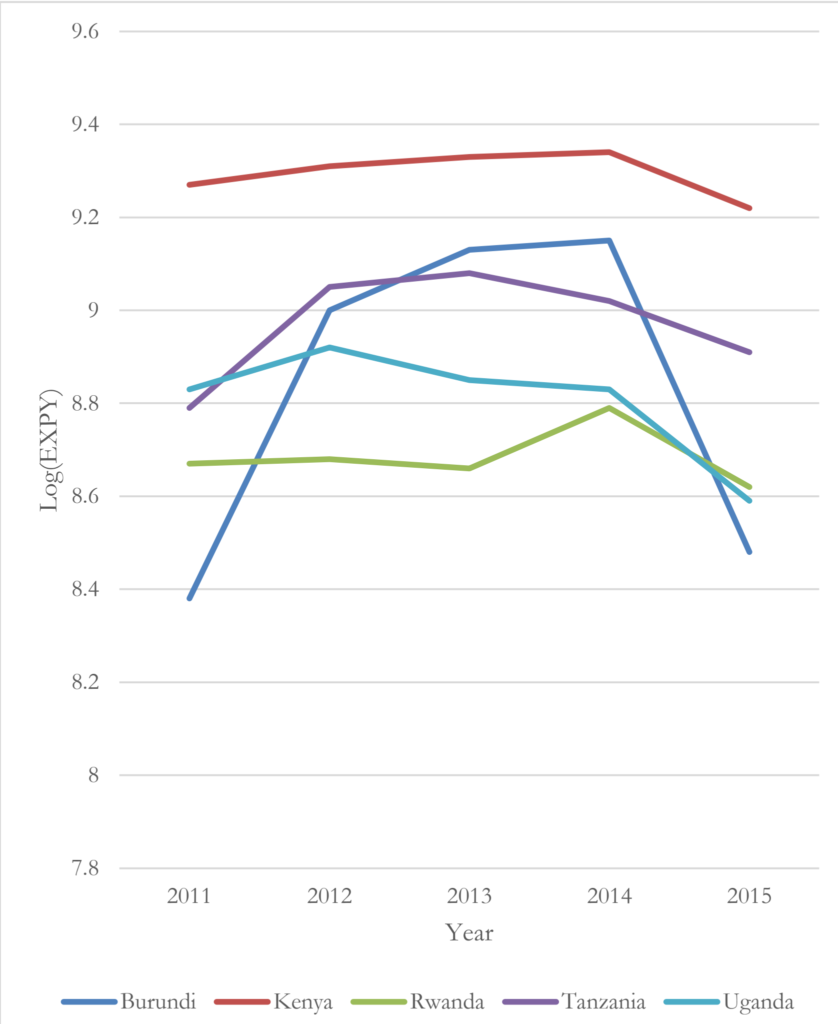
2. Trade integration can help support structural change.



- Merchandise exports (2013) are still heavily dependent on primary sectors.
- But changing over time, with some development of manufacturing.
- Are Uganda's exports helping support structural transformation of the economy?

Source: Atlas of Economic Complexity.

2. Trade integration can help support structural change.



- Expy measures export sophistication by comparing the income levels of countries that export particular products.
- Uganda's export sophistication could be trending slightly downwards over time, and is lower than in some comparators.
- What more can trade and investment policy do to support productive upgrading and structural change?

Source: WITS-COMTRADE.

2. Trade integration can help support structural change.

Top Twenty Product Groups in terms of Merchandise Export Share Growth

	Lall –Class.	SITC product group	# of firms	% EAC	% OECD	# of products	Product survival - years	Firm survival - years	Monthly Output in m USD	# of emp	Out/ Worker Rank	Av. Wage
1	Low-tech	Leather, leather man…	13	0.06	0.64	91	2.37	4.15	0.49	38	7	81
2	Res.Base	Non metallic mineral…	70	0.43	0.01	48	0.83	3.89	0.52	77	30	82
3	Primary	Oil seeds and oleagi…	48	0.07	0.41	51	1.41	3.58	0.16	37	26	164
4	Low-tech	Miscellaneous man…	134	0.32	0.11	30	0.88	4.16	0.53	67	31	97
5	Primary	Vegetables and fruit…	192	0.17	0.29	39	0.72	3.19	0.35	38	21	157
6	Res.Base	Beverages	42	0.68	0.02	65	1.13	4.31	1.06	72	15	74
7	Res.Base	Fixed vegetable oils…	16	0.44	0.50	49	1.52	5.06	1.34	66	6	140
8	Primary	Feedstuff for animal…	42	0.89	0.00	59	1.82	4.88	1.14	67	4	99
9	Mid-tech	Other transport equi…	13	0.01	0.65	19	4.19	6.54	0.14	55	52	89
10	Res.Base	Processed Animal and.	10	0.59	0.20	83	2.20	7.10	1.59	96	5	113
11	Mid-tech	Road vehicles	51	0.36	0.07	45	0.53	3.37	0.67	48	14	109
12	Low-tech	Iron and steel	49	0.87	-	34	0.85	4.45	1.44	96	8	79
13	Primary	Cork and wood…	8	1.00	0.00	28	0.96	4.75	0.21	131	57	33
14	Res.Base	Paper and paper ma… manu…	42	0.83	0.03	48	0.95	3.93	0.28	71	20	84
15	Low-tech	Manuf. of meta…	91	0.54	0.02	39	0.70	4.01	0.86	70	16	97
16	High-tec	Power generating ma..	10	0.17	0.21	72	0.98	6.50	0.16	103	56	60
17	Primary	Miscellaneous edible	26	0.20	0.00	100	1.12	5.35	0.64	44	23	108
18	Low-tech	Plastics in non-prim…	31	0.62	-	46	1.31	4.29	0.52	82	42	102
19	Primary	Cereals and cereal p…	159	0.52	0.00	33	0.78	3.18	0.40	52	17	134
20	Res.Base	Essential oils for p…	66	0.44	0.02	58	0.71	3.12	0.55	68	25	85
		Economy-average	44	0.46	0.16	48	1.17	4.30	0.58	70		101

Yellow: high growth, high productivity agri-business products.
Green: high growth resource based manufacturing products.
Brown: high growth low technology manufacturing products.

Source: Spray and Wolf (2016).

3. Policy reforms can promote dynamic upgrading and GVC participation.

- Lower trade costs can help promote productive upgrading and innovation.
  - Extensive firm level empirical evidence from all across the developing world.
  - Tariffs are difficult to deal with (CET), but trade costs can also be reduced by improving logistics and trade facilitation performance.
  - Free Zones can be part of the answer, but they need to be carefully designed so as to leverage Uganda's comparative advantage for sustained competitiveness.
  - Duty draw back is at best a partial solution, but is difficult to implement, and does not allow firms to "grow into" exporting.

- Developing the services sector can promote export growth (tourism) and support the competitiveness of other sectors.
  - Backbone sectors: transport, finance, telecommunications.

3. Policy reforms can promote dynamic upgrading and GVC participation.

- Increasing GVC participation and developing domestic supply chains.
  - GVCs can help bring flows of trade, investment, and knowledge that can promote productive upgrading, in addition to acting as a source of employment.
  - Light manufacturing is crowded in the world market, but there could be significant opportunities in agriculture, horticulture, and leather products.
  - Developing supply linkages is crucial to ensure that firms are not islands.
    - Targeted investment promotion.
    - Information transfer.
    - Development of sustained competitiveness.
    - Leveraging locational advantages through reduced internal trade costs.

3. Policy reforms can promote dynamic upgrading and GVC participation.

- Elements of an action agenda:
  - Reform NTBs including standards to lower trade costs.
  - Help value chain consolidation by facilitating entry by large, lead firms, and support information exchange with local suppliers.
  - Examine barriers to integration of regional services markets, particularly in finance, by applying regulatory impact assessment.
  - Continue to improve the business environment and investment climate, to attract FDI.
  - Refocus SEZs, as well as export and investment promotion programs, to leverage comparative advantage and learn from overseas successes.

4. Conclusion

- The external sector—imports and exports alike—can be a powerful force promoting structural change.

- Uganda's trade performance has some bright spots, including evidence of increasing diversification, but it is not yet reaching its full potential in terms of promoting growth and development.

- The trade-related policy reform agenda should be ambitious and wide-ranging.

- There is also a need for study and data:
  - FDI and GVC linkages, to establish strategic sectors and partners.
  - Policies affecting investment and services trade.
  - Effectiveness of investment and export promotion measures.