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Lessons from Rwandan Trade for Uganda

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   b) And Skill Utilization
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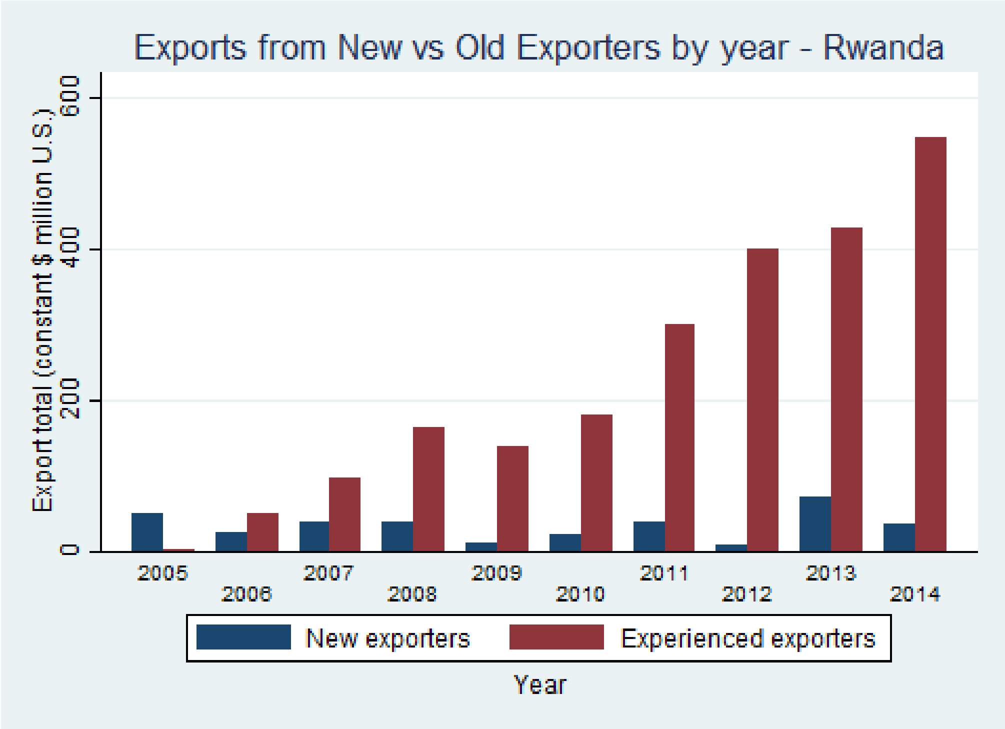
Exports by New and Experienced Firms

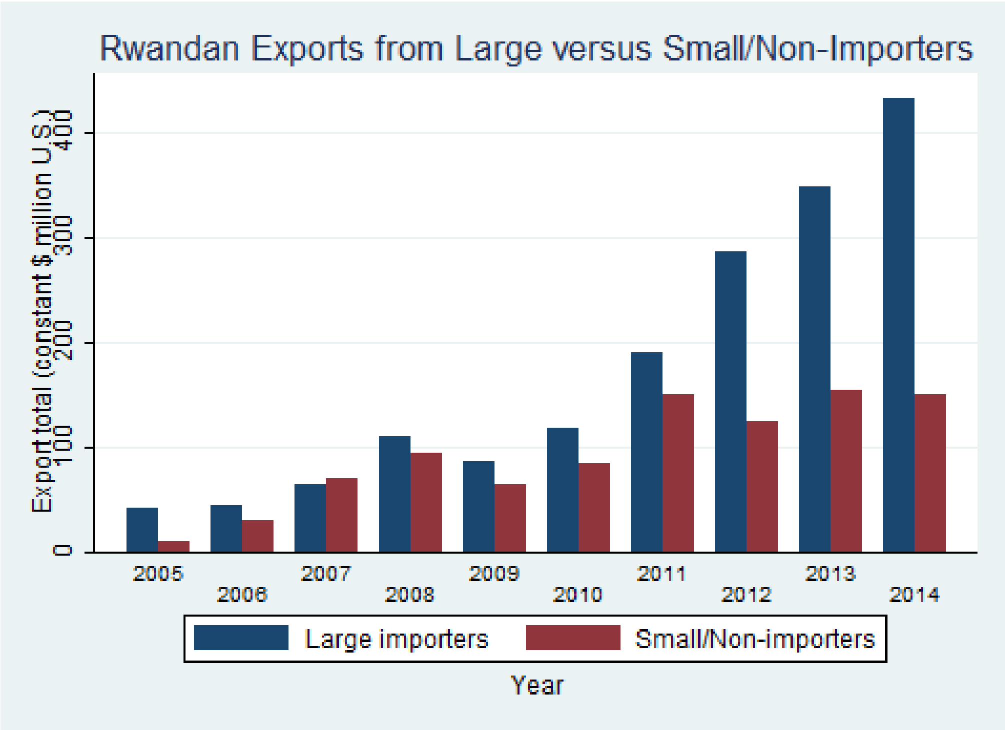
While new firms start exporting each year, the bulk of export expansion is from experienced exporters.



Source: Author calculations.

Exporting and Importing

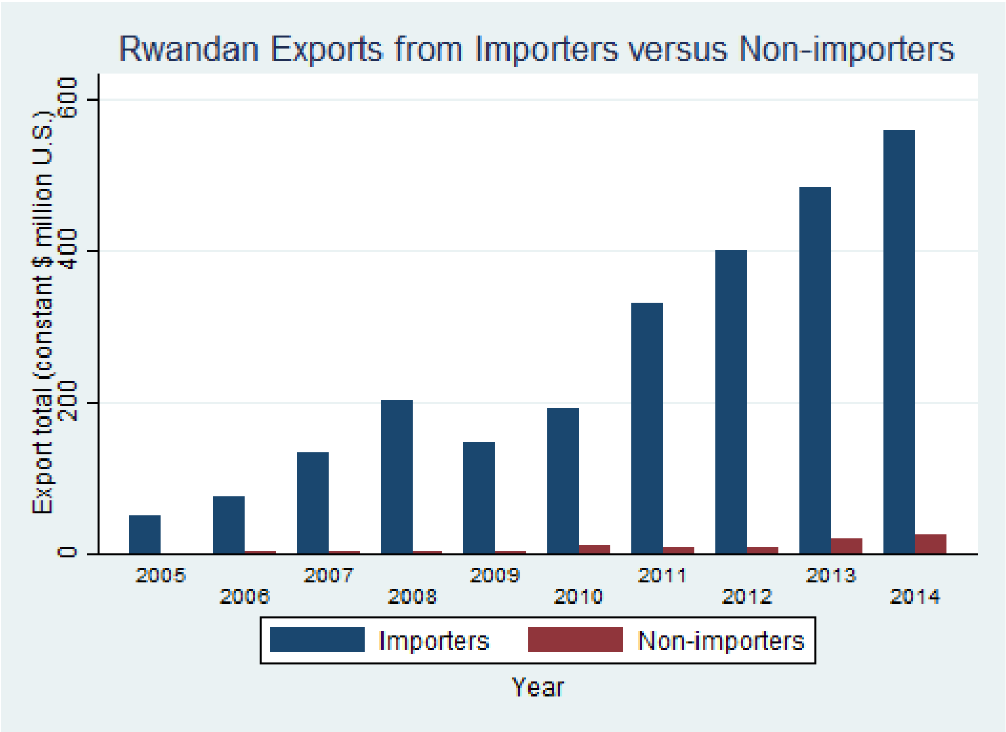
The bulk of the export expansion is from firms that do a significant amount of importing (more than 10% of the value of their exports).



Source: Author calculations.

Exporting and Any Importing

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



Source: Author calculations.

(Almost) Everyone Imports…At Least Indirectly

- Exports are important for a relatively small, low-income country like Uganda, but these remain concentrated in a few sectors, while the benefits of importing are felt across all sectors in Uganda (including exporters, and consumers)
- One of the benefits that a developing country like Uganda 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, including services exports (e.g. tourism, business process services, transport and logistics, hospitality)

Imports and Skill Utilization

- In other contexts, high quality inputs have been found to be complementary with high-skill workers.
- I found that 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.
- Firms that use imports increased the demand for skilled labour.

Imports and Employment – Cause for Concern?

- Increasing demand for skilled workers is good, but…
- 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.

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.

Uganda and Trade Policy

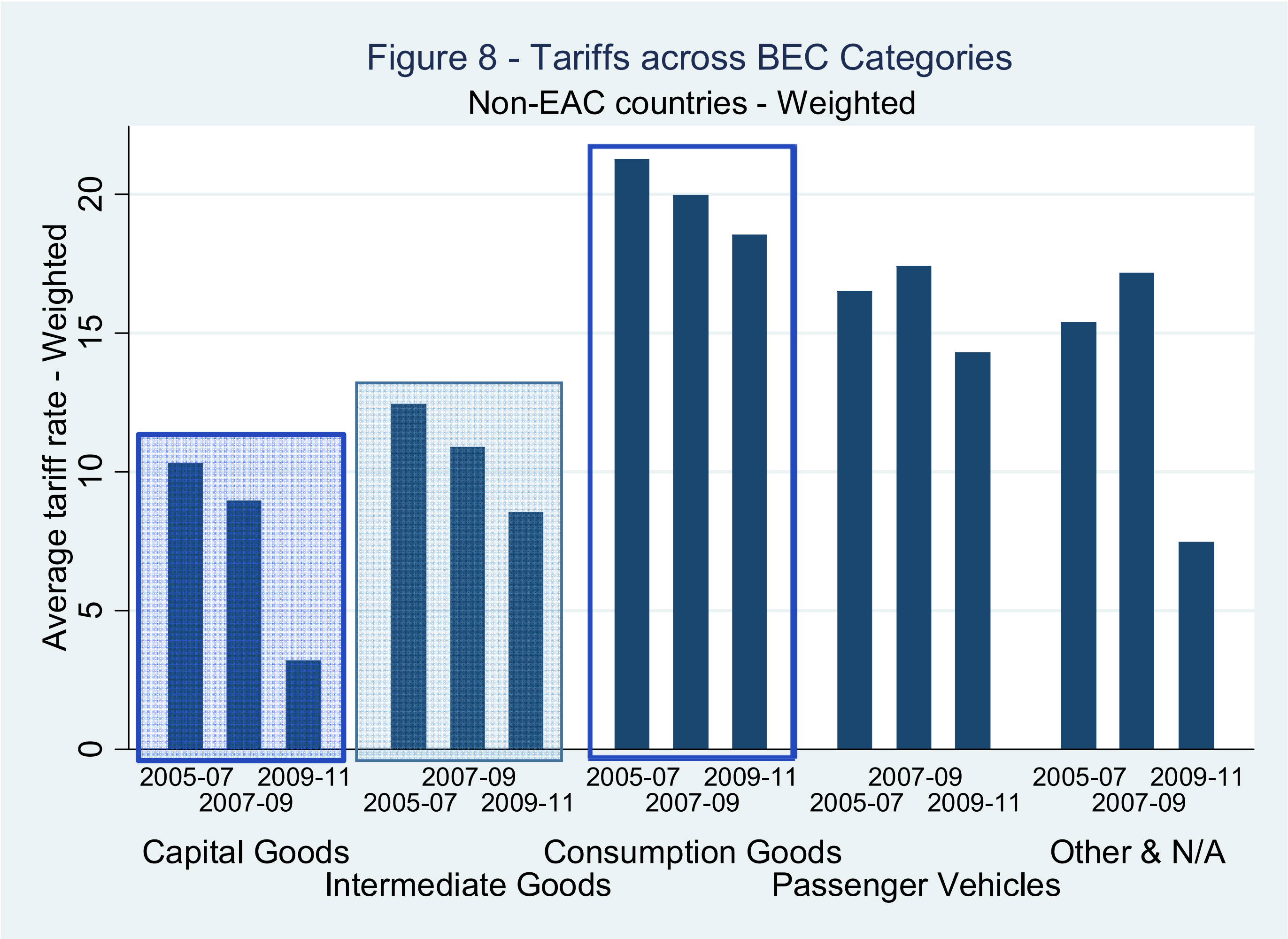
- COMESA Partners (Kenya, Uganda, Burundi, DRC, Malawi, Zambia, Zimbabwe, Swaziland, South Sudan, Ethiopia, Eritrea, Sudan, Djibouti, Egypt, Libya, Comoros, Madagascar, Mauritius, Seychelles)

- EAC Partners (Kenya, Uganda, Burundi, **Tanzania**)

- To come..(?)
  - COMESA + EAC + SADC = Tripartite Free Trade Agreement
  - Continental Free Trade Agreement

EAC Tariff Changes under the Common External Tariff (CET)

We see that the tariff changes were largest for capital goods, then intermediate goods, and then consumer goods.

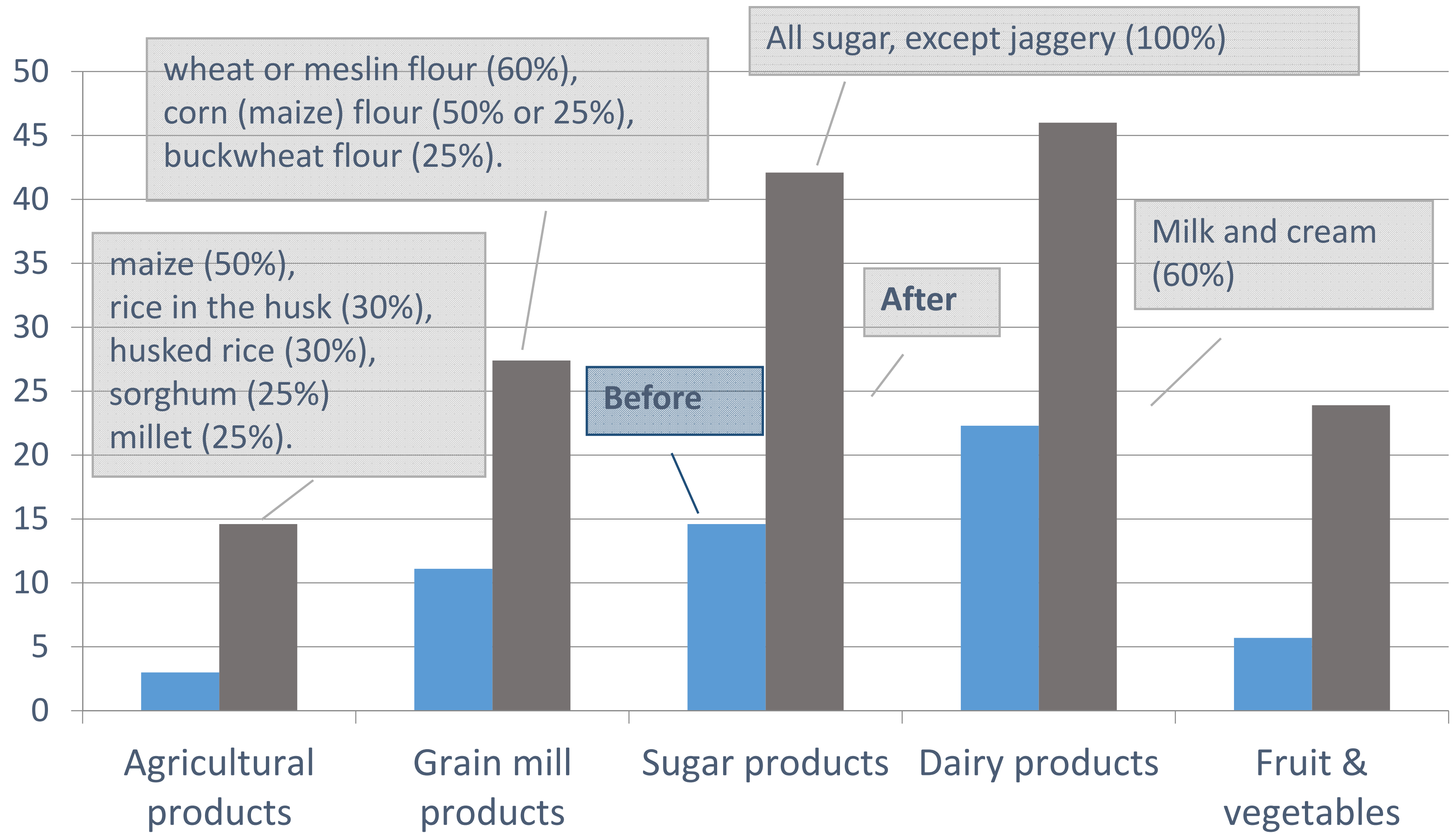


Exception to Falling Tariffs – the Sensitive Items (SI) List

However, tariff rates were raised to higher than 25% on “sensitive items”, largely food staples:

Milk	60% (same after 2012)
Wheat Grain	35% (same after 2012)
Wheat Flour	60% (same after 2012)
Maize	50% (same after 2012)
Sugar	100% (same after 2012)
Worn Clothing	50% (reduced to 35% after 2012)
Kanga, Kikoi and Kitenge	50% (same after 2012)

CET – Tariffs on staples



The CET and Poverty

Sector	Expenditure Share
Agricultural products products	10
Meat products	9
Grain mill products	9
Soap products	8
Bakery products	6
Sugar products	5
Other food products	4
Wearing apparel	3
Petroleum products	3
Dairy products	3
Beverages & tobacco	3
Oils & fats products	2
Footwear	2
Other manufacturing	2
Other paper products	1
Fish products	1
Fruit & vegetables	1

The brown-coloured categories did not change their tariff rates under the CET more than 25%.

The petroleum product category was the only category where the tariff rate dropped more than 25%. (Even here, it was replaced by an excise tax.)

In each of the blue categories, the tariff rate increased by more than 100%. In the agricultural products category the tariff rate increased by 380%.

Ugandan Trade Policy Context – Trade Costs

- **Moving Forward on the Standard Gauge Railway:**
  - It still costs $3800 US to ship a container from Mombasa to Kampala

Ugandan Trade Policy Context – Trade Costs

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

Source: Daily Nation, June 5, 2016

Ugandan Trade Policy Context – Trade Costs

- **Moving Forward on the Standard Gauge Railway:**
  - Work on the railway is not done after it is built. It will need to be well-managed and competitively priced.

Trade Policy Context – Concluding Comments

- 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.
- Therefore, policies that facilitate importing should be encouraged.
- Tariffs under the CET remain abnormally high for a set of goods that are all disproportionately consumed by the poor. As a result, these tariffs are mostly felt by the poor. (And the few producers who benefit).
- 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.