Policy brief
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Imports, sensitive items, and Ugandan trade policy

Overview

When examining international trade policy, the focus is typically on exports. Exports are clearly important, as without them, imports cannot be purchased, but the importance of analysing the value of imports is often overlooked. This brief examines imports in the context of Uganda. While the type of data that could be used to analyse, at an establishment level, imports into Uganda is starting to become available, there are few detailed analyses of Ugandan imports at this point. Therefore, some of the conclusions arise from the Rwandan context, but only for those characteristics of imports that Uganda and Rwanda share in common.

Benefits of imports across sectors

Part of the importance of imports in the Ugandan context relates to its low-income status. In low-income contexts such as Uganda, exports are typically concentrated within a few sectors; in Uganda, these sectors include coffee, tea, cotton, copper, oil, and fish. The benefits of exports are felt primarily in these primary commodity sectors. In contrast, imports are used by virtually every sector in Uganda, including hospitality and tourism, construction, and services sectors. Therefore, the benefits of obtaining access to imports are felt widely across sectors within Uganda.

The importance of imports for exporters

In addition, imports are typically also important for exporters. While similar analysis has not yet been performed for Uganda, the following figure breaks the growth in exports in Rwanda into two segments. The red bars in the diagram below show the export expansion over the period from 2005 through 2014 for export firms that do little or no importing (less than 10% of the value of their exports), while the blue bars show the export expansion for firms that do a significant amount of importing. We can see that the bulk of the export expansion in Rwanda has occurred in exporting firms that do a significant amount of importing (at least 10% of the value of their exports).

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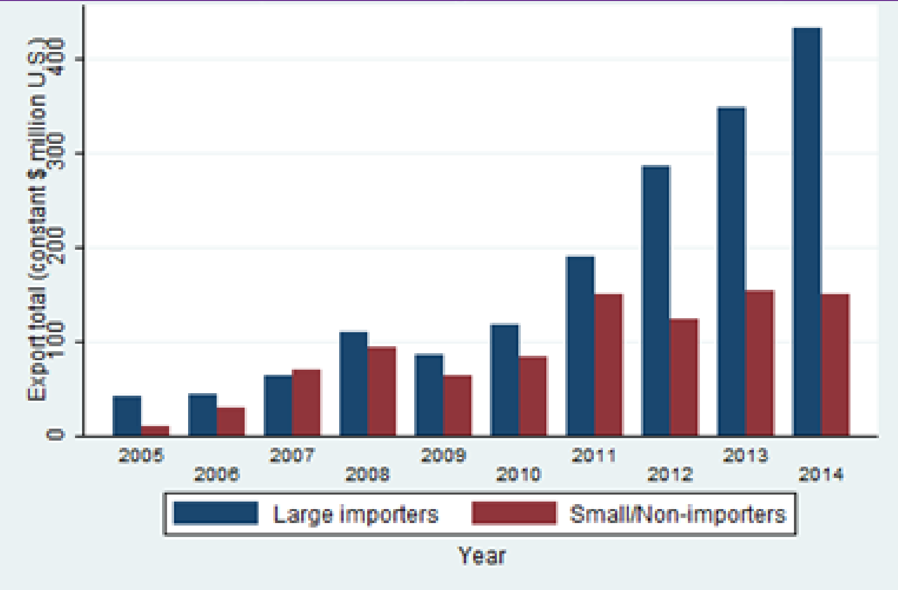
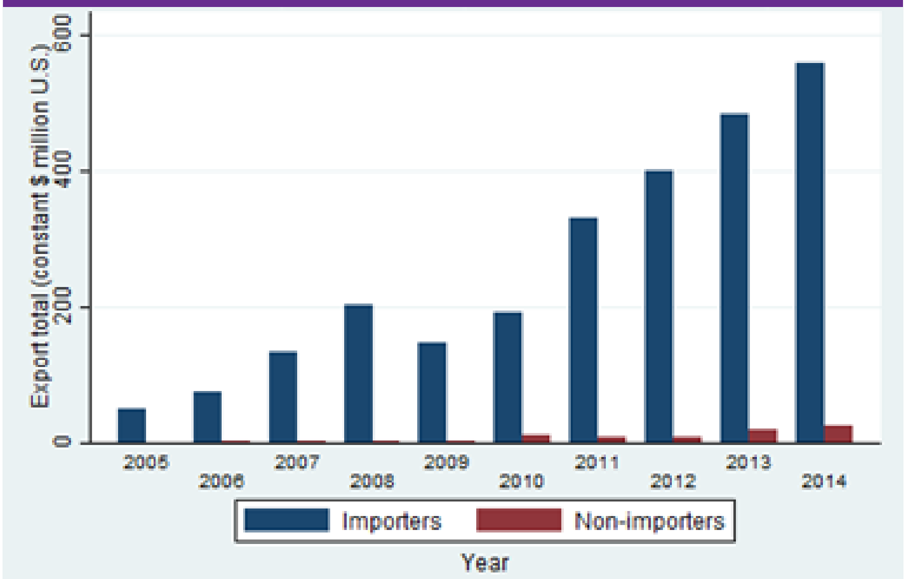
Figure 1: Rwandan exports from large verses small/non-importers



If we change the threshold, we see that the importance of imports to exporters is even starker. This figure separates firms into two groups. The blue bars represent the exports of firms that do at least some importing, while the red bars represent the exports of firms that do not import anything.

Figure 2: Rwanda exports from importers versus non-importers



We see that in Rwanda, firms that export are also firms that import. While this is data for Rwanda, as opposed to Uganda, the context is similar enough on this dimension to expect a result that is similar in overall direction, if not in exact magnitude. However, what should also be remembered is that this data only measures direct imports. In fact, many firms used imported goods which they have not imported directly, but rather purchased from wholesalers or retailers. Therefore, the two figures above actually understate the importance of imports for exporters in an East African context, because included in the red bars above are firms that are doing a significant amount of indirect importing.

The value of imports

One of the benefits of imports in a low-income context such as Uganda is to obtain access to higher-technology and/or higher-quality inputs. Part of the reason why this has been important to exporters is that in order for goods to succeed on the export market, these goods need to be of high quality. In addition to merchandise exports, this is likely also relevant for services exports such as tourism, hospitality services, business process services, as well as transport and logistics.

In other contexts, high quality inputs (like those required to create high quality exports) have been found to be complementary with high-skill workers. In a research study that I performed using Rwandan data, 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 utilisation at the firm level. This is certainly consistent with the idea that firms are using imports to gain access to high-quality, high-technology inputs, and that these imports increase the demand for skilled labour. This can be particularly important in a context such as Uganda, which has been working to increase the supply of skilled labour through increasing education.

Imports and employment

While this increase in the demand for skilled labour is valuable, a potential danger could be that firms demand more highly-skilled workers, but actually demand fewer workers. For example, if firms use imported high-technology goods or machines as "labour-saving" devices, there could be an immediate reduction in employment as a result of these imports.

Imported inputs may still be worthwhile in order to create the high-quality goods required to enter export markets, but policymakers should be aware of this potential impact on employment.

The impact on employment was examined in the Rwandan data. It was found that firms that import are larger (employ more people) than firms that do not import. This is unsurprising, as these firms could simply be inherently better firms, that are more productive, hire more people, and so this fact is not of strong consequence for policy. However, more important and surprising is the fact that conditional on firm sales, importing firms actually employ more people. In addition, firms that are increasing the amount that they are importing end up employing more workers to produce a given level of output. While these facts may or may not apply in Uganda, these facts are currently the most relevant facts available when trying to predict the employment consequences of importing in Uganda.

Import tariffs and the Common External Tariff (CET) Sensitive Items (SI) List

Uganda has shared the Common External Tariff (CET) with its East African Community (EAC) partners of Kenya and Uganda since 2005. Rwanda and Burundi joined the EAC and the CET on 1 July 2009. The structure of the CET is a 0-10-25% tariff structure, with a tariff rate of 0% on raw materials, 10% on semi-finished products, and 25% on finished products. Such a tariff structure is common for the purpose of protecting domestic production.

There are potential benefits and costs for a country like Uganda which is average among EAC countries in terms of income level and level of industrialisation. However, for the purposes of this note, I would simply like to draw attention to a list of extremely high tariffs that are part of the CET, namely the items in the Sensitive Items (SI) List. The tariff rates for items on the SI List are considerably higher: 60% for milk and cream, 35% for wheat grain, 60% for wheat flour, 30% for rice, 50% for maise, and 100% for sugar.

The problem with these extremely high tariff rates is that while the goal of tariffs is to raise prices for domestic producers, this also raises prices for domestic consumers, and these goods form a relatively large component of the consumption basket of the poor. This issue is not unique to Uganda, but will be true for poor households in all EAC countries. For this purpose, a period of phase-out of these extremely high tariff rates is recommended. This would allow time for local producers to become competitive on international markets while working towards lower prices for the benefit of poor consumers in each of these countries.

Conclusion

Expanding exports is important for a low-income country like Uganda. However, at the same time, ensuring that firms have adequate access to the imports that they require is also important in this context. Imports are utilised across all sectors of the economy, and not just the export sectors, which is a narrower part of the economy in Uganda. Therefore, efforts to expand access to imports, or to facilitate imports make things easier in sectors such as transportation, tourism, hotels, construction, services, as well as manufacturing. Firms use imports to gain access to higher-quality, higher-technology inputs, which are required to produce the high quality goods necessary for export.

At the same time, no evidence currently exists that these imported inputs are being used by firms as “labour-saving devices” as firms that are importing more are not reducing their employment in a similar East African context (Rwanda). Finally, the cost of imports sometimes matters for such important goals as poverty alleviation. This is particularly true of the food staple items on the SI List of the CET, which are raising the prices of goods that are important in the consumption baskets of poor households. Reducing the price of access to these imported inputs would lower the cost that domestic producers of these staples could charge, which would benefit poor households in all of these EAC countries.