

Uganda's Trade: Performance and policy implementation

Jakob Rauschendorfer (IGC)

Economic Growth Forum III

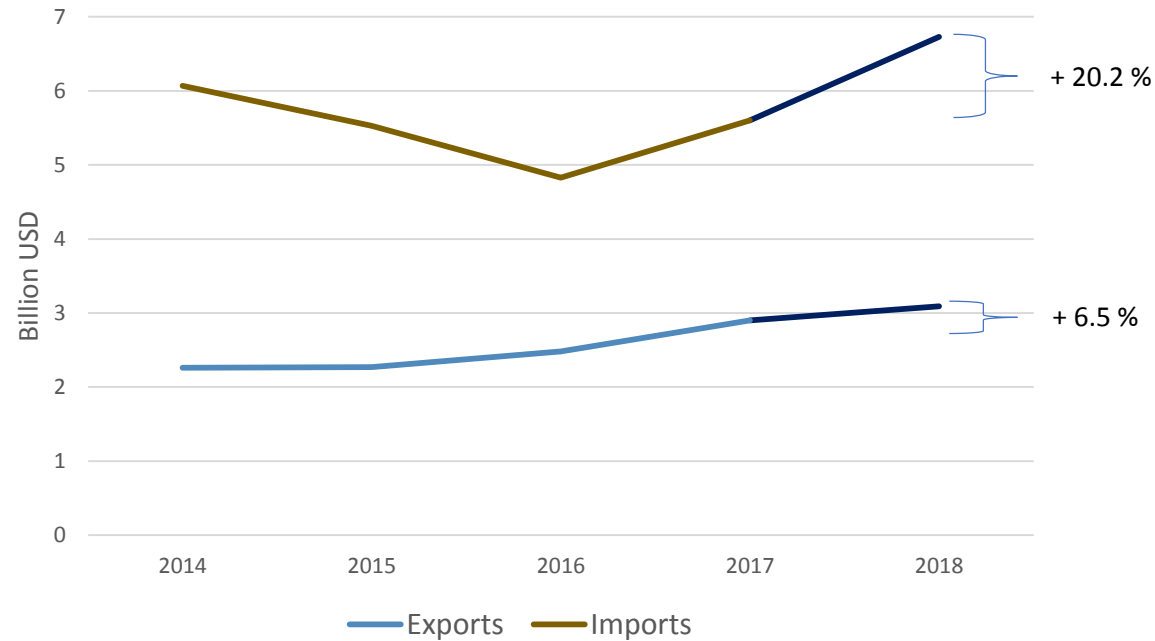
22nd August 2019

Trade for growth: key objectives of the government

Budget Speech Fiscal Year 19/20:

*“(...) the manufacturing sector is now able to meet domestic demand for basic products like cement, tiles, light steel products and consumables such as sugar and soap. **The next phase of manufacturing in Uganda will be to produce goods for exports and also replace Uganda’s imports.**”*

Uganda's trade performance: a snapshot ...



Source: UnComtrade (2019).

... and two long term trends.

- Diversification into higher-value exports (agro-based manufacturing).
- Growing importance of the EAC as an export destination.

Ongoing policy challenges

- **Non-Tariff Measures:** Homemade and imposed by trading partners.
- **Review of the EAC *Common External Tariff***
- **Disruptions in key markets:**
 - Regional: South Sudan, Katuna border closing, Kenya EPA
 - Global tensions: EBA/Brexit, AGOA
- **Transport costs and infrastructure**
- **Enforcement of relevant policies**

Recommendations from Economic Growth Forum I and II

Economic Growth Forum I

- Encourage certification and standardization to promote competitiveness in the international market
- Strengthen the linkages between SMEs and large enterprises through the implementation of the local content strategy
- Reduce informal trade across borders
- Address anomalies in the CET classification
- Support packaging and branding of Uganda's exports
- Enhance regional integration and intra-EAC trade by lowering and transport costs and non tariff barriers

Economic Growth Forum II

- Focus on infrastructure, freight costs, governance, energy and regulatory compliance
- Focus Uganda's trade policy on having a CET that promotes export growth, addresses NTBs, implements trade facilitation measures and reduces the cost of trade logistics
- Diversify exports markets to allow survival of exporting firms. Government should support firms to achieve through helping the matching process between firms by providing information on suppliers
- Focus on exploiting available overseas export markets
- Scale up manufacturing ability and address all hindrances to growth of the manufacturing industry with particular emphasis on agro industry and mineral processing

Recommendations from EGF I and II: Implementation

Actions	Implementation	Score (1 = no progress, 2 = some progress, 3 = action achieved)												
<p>The Common External Tariff (CET)</p> <ul style="list-style-type: none"> EGF I: “Address anomalies in the CET classification” EGF II: “Focus Uganda’s trade policy on having a CET that promotes export growth, addresses NTBs, implements trade facilitation measures and reduces the cost of trade logistics” 	<ul style="list-style-type: none"> Outstanding for some years. The removal of “anomalies” (miss-classification of products) is a key goal of the Ugandan <i>National Task Force for the review of the CET</i>. Uganda deviated from the CET this FY 19/20 (agro-processed goods). CET itself is not directly linked to “NTBs, trade facilitation and trade logistics” 	2												
<p>Informal Cross Border Trade</p> <ul style="list-style-type: none"> EGF I: “Reduce informal trade across borders” 	<p><i>Informal Cross Border Trade Survey by UBOS and BoU:</i></p> <table> <tr> <td></td><td>Informal exports (US\$ mil.)</td><td>Informal imports (US\$ mil.)</td></tr> <tr> <td>2016:</td><td>419</td><td>65</td></tr> <tr> <td>2017:</td><td>549</td><td>81</td></tr> <tr> <td>2018:</td><td>547</td><td>60</td></tr> </table>		Informal exports (US\$ mil.)	Informal imports (US\$ mil.)	2016:	419	65	2017:	549	81	2018:	547	60	1
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Actions	Implementation	Score (1 = no progress, 2 = some progress, 3 = action achieved)
<p>Trade facilitation and non-tariff barriers</p> <ul style="list-style-type: none"> • EGF I: “Enhance regional integration and intra-EAC trade by lowering and transport costs and non tariff barriers.” • EGF II: “Focus on infrastructure, freight costs, governance, energy and regulatory compliance.” 	<ul style="list-style-type: none"> • <i>World Bank Doing Business report:</i> Uganda's score for "trading across borders" has consistently increased since 2016 but is hovering in the mid-60s (out of 100). • EAC put into place the <i>Elimination of Non-Tariff Barriers Act 2017</i>. • MTI: <i>National Response Strategy on the Elimination of Non-Trade Barriers</i> (Budget allocation UGX billion) <p>FY 17/18: 0.8 approved, but nothing spent by end of December FY 18/19: 0.8 proposed budget</p> <ul style="list-style-type: none"> • ITC Survey (2016) shows significant obstacles. 	<p>2</p>

Actions	Implementation	Score (1 = no progress, 2 = some progress, 3 = action achieved)
<p>Enhance local content in domestic manufacturing (reduce reliance on imported inputs)</p> <ul style="list-style-type: none"> • EGF I: “Strengthen the linkages between SMEs and large enterprises through the implementation of the local content strategy” 	<p>Oil and gas LCU: A <i>National Local Content Policy</i> for the oil and gas sector was ratified by cabinet on 25 June 2018. PAU allocated funds (0.12 Bil. UGX spent) to "promotion and enforcement of local content" (FY 18/19).</p> <p>ICT LCU: An ICT focused local content strategy was a planned output for Q4 of FY 16/17 but was not achieved, which was attributed to inadequate funds. In subsequent budget performance reports (FY 17/18 and 18/19), there is sparse details on a local content strategy despite reporting the development of a <i>media</i> local content policy (FY 17/18) and an implementation action plan (FY 18/19).</p> <p>National Budget Framework Paper (FY 2019/20): Notes the need to meaningfully implement this local content policy and regulation.</p>	2

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How to operationalize import substitution policy: Improving supplier linkages and the role of search obstacles in Ugandan firm markets

John Spray

University of Cambridge



What do we mean by improving linkages?

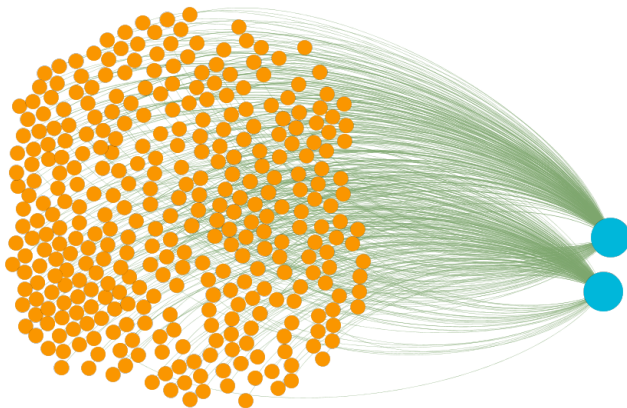
Supply chain



2 small factories (blue)

What do we mean by improving linkages?

Supply chain



2 small factories (blue):

- buy inputs from 340 suppliers (orange)

What do we mean by improving linkages?

Supply chain

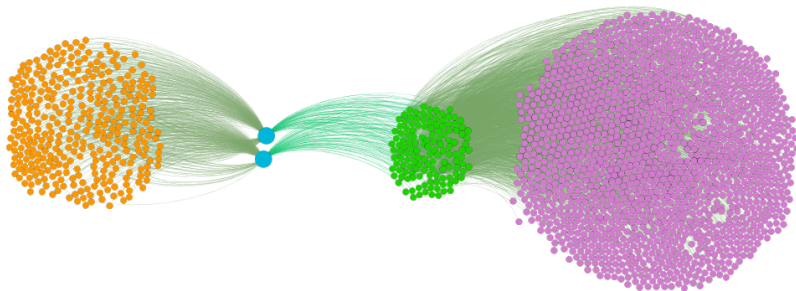


2 small factories (blue):

- ▶ buy inputs from 340 suppliers (orange)
- ▶ sell to 135 firms (green)

What do we mean by improving linkages?

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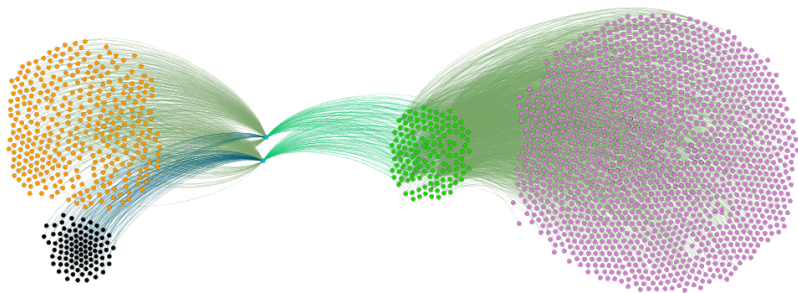


2 small factories (blue):

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- ▶ sell to 1548 firms (purple)

What do we mean by improving linkages?

Supply chain



2 small factories (blue):

- ▶ buy inputs from 340 suppliers (orange)
- ▶ sell to 135 firms (green)
- ▶ sell to 1548 firms (purple)
- ▶ buy imports from 96 foreign suppliers from 28 diff countries (black)

Import Substitution - replacing imports with domestic?

- ▶ Lessons from elsewhere
 - ▶ Latin America - high cost and low quality inputs lowered quality and competitiveness
 - ▶ USA and China - trade war pushes up prices
 - ▶ EAC - tit for tat lowers size of the pie

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- ▶ Key question: why are firms not already using local supplier?

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- ▶ Key question: why are firms not already using local supplier?
 - ▶ Information holds back firms

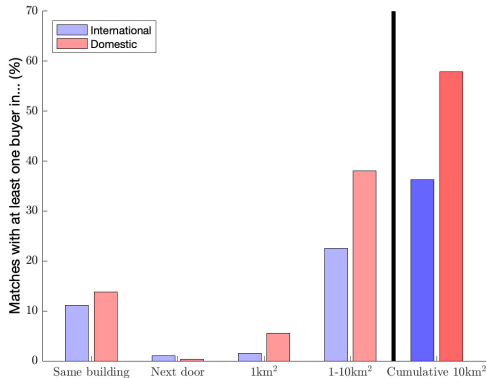
Plan for presentation

1. What holds back Ugandan firms?
 - ▶ Information holds back firms
 - ▶ 25% reduction in search costs could lead to an 8% increase in consumer welfare
 - ▶ Better firms survival rates
2. How does Uganda reduce firm information constraints?
 - ▶ Firm specific support, firm peer learning, internet platforms

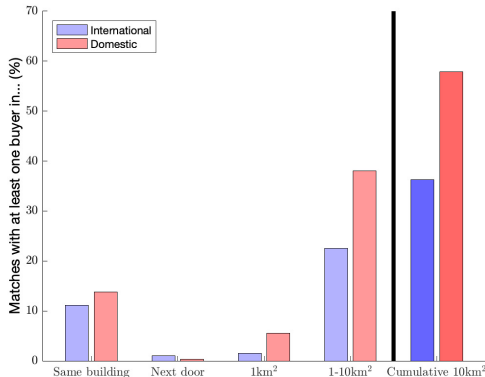
How do firms make successful linkages?

- ▶ Business networks
 - ▶ **China:** when firm managers join business groups they refer each other to clients and suppliers (Cai & Szeidl, 2017)
- ▶ Geographical networks
 - ▶ **Hungary:** firms in the same business network add imports from the same country (Bisztray et al., 2018)
 - ▶ **Uganda:** firms in the same location add the same import and domestic suppliers (Spray, 2019)
- ▶ Existing knowledge
 - ▶ **Uganda:** export survival rates higher when entry in markets already served Ugandan exporters (Brenton, 2018)

10% of Ugandan new connections have an existing customers in the same building

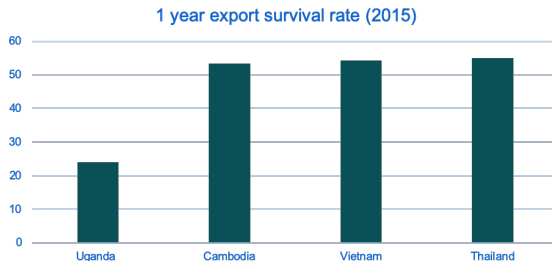


10% of Ugandan new connections have an existing customers in the same building



Key takeaway: transfer of information enhances linkages

Survival rates: EAC vs. RoW



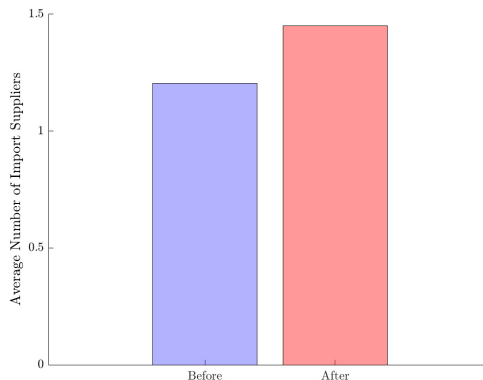
Source: Brenton (2018)

- ▶ Survival rates higher when entry occurs in markets already served by that country's exporters
- ▶ Survival in global market higher for exporters that have exported first to regional markets

What is at stake - model results

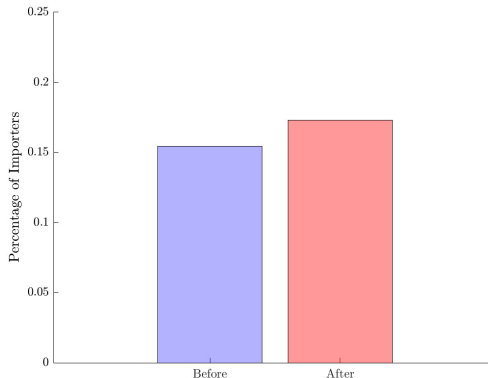
- ▶ Simulate 20,000 firms making search decisions by matching a model to Ugandan data
- ▶ Simulate how these firms respond if we were to reduce search costs (e.g. 25%)
- ▶ Look at firm and consumer outcomes

Average number of import suppliers \uparrow 20% when search costs \downarrow 25%



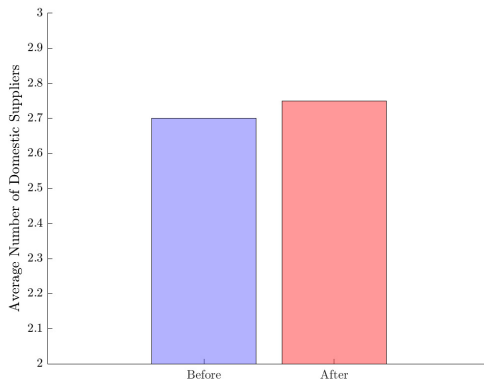
Model simulations from Spray (2019)

Proportion of firms which import \uparrow 12% when search costs
 \downarrow 25%



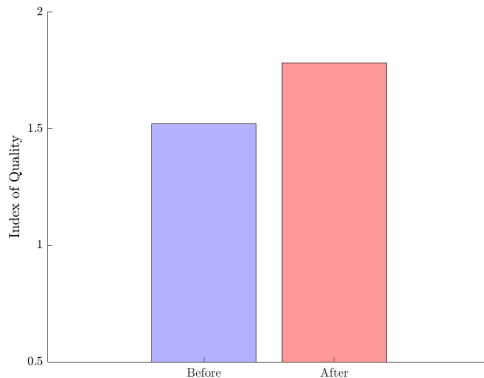
Model simulations from Spray (2019)

Average number of domestic suppliers \uparrow 1.9% when search costs \downarrow 25%



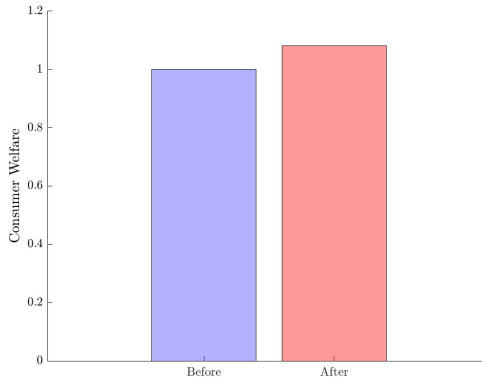
Model simulations from Spray (2019)

Quality \uparrow 17% when search costs \downarrow 25%



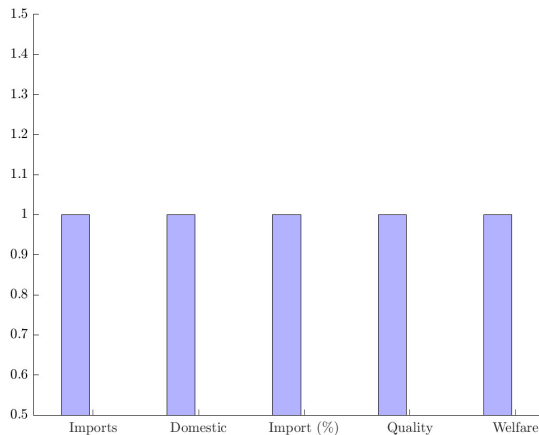
Model simulations from Spray (2019)

Consumer welfare \uparrow 8% when search costs \downarrow 25%



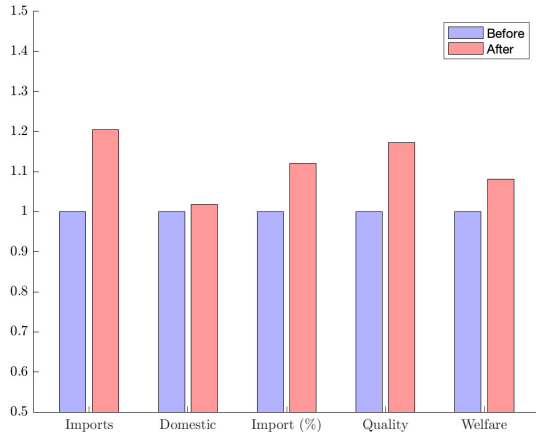
Model simulations from Spray (2019)

Summary results from lowering search costs by 25%



Model simulations from Spray (2019)

Summary results from lowering search costs by 25%



Model simulations from Spray (2019)

Uganda has a plan

- ▶ Draft Industrial Policy, 2018, p.17

“promotion of firm-to-firm backward and forward linkages between small and large scale industries; attracting strategic FDI especially in acquisition of technologies critical for value addition.”
- ▶ Draft National Industrial Strategy, 2018, p.80
 - ▶ “Organize artisanal miners into cooperatives or clusters”
 - ▶ “Equip producer cooperatives with skills and tools”
 - ▶ “Create linkages between the artisanal miners through signing MOUs with large scale processors to add value and ensure profitable returns”
- ▶ Buy Uganda, Build Uganda
- ▶ Local Content Policy

Target 25% reduction in search costs

1. Internet platform support programme (e.g. Ali Baba, Jumia, Amazon)
 - ▶ e.g. organize quarterly training sessions with the Uganda Manufacturers Association [Ali Baba](#)

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2. Firms peer-to-peer learning
 - ▶ e.g. organize quarterly peer groups with Uganda business groups [China](#)
3. Target key firms in Supplier Development Programmes
 - ▶ e.g. establish anchor firm support unit and annual public-supplier meetings [Chile](#)

Appendix

China: Business groups tackle information constraints

Cai and Szeidl, 2017

- ▶ Commission of Industry and Information Technology (CIIT) organised 1,500 firms into groups of 10 managers
 - ▶ Managers held monthly meetings for one year
 - ▶ group leader in charge of organising meetings
- ▶ Certificate
- ▶ Outcomes: revenue, inputs, ... , customers and suppliers

China: Business groups tackle information constraints

Cai and Szeidl, 2017

- ▶ Results
 - ▶ Firm revenue increased by 8.1 percent (+ profit, inputs, utility costs, linkages, borrowing, management)
 - ▶ Effects lasted for at least 2 years
 - ▶ Firms which had better peers experienced larger growth
 - ▶ **Managers referred each other to clients and suppliers**
- ▶ Government intervention led to:
 - ▶ Learning: managers shared business-relevant information
 - ▶ Partnering: Managers referred each other to clients and suppliers

Chile: Supplier Development Programme improves quality


Arraiz, Henriquez, and Stucchi, 2012

- ▶ CORFO Supplier Development Programme
 - ▶ Strengthen management of SMEs through sponsored training, technical advice, technology transfer
 - ▶ Programme developed in partnership with large firms
 - ▶ CORFO splits up to 50% of cost with a large firm

- ▶ Government intervention led to:
 - ▶ Increased sales, employment, higher salaries, improved survival rates

 - ▶ Similar lessons from Ethiopia, Rwanda, Costa Rica etc.

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[Categories](#) [Products](#) [Search](#) [Sign In / Join Free](#) [My Alibaba](#) [Order Protection](#) [Favorites](#)

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Made in China motorcycle spare parts suppliers

FOB Reference Price: [Get Latest Price](#)

US \$0.5-50 / Piece | 10 Piece/Pieces (Min. Order)

Supply Ability: 100000 Pair/Pairs per Month

Port: Chongqing

[Contact Supplier](#)

[Start Order](#)

[Chat Now!](#) [Add to Favorites](#)

Seller Support: [Trade Assurance](#) - to protect your orders from payment to delivery

Payment: [visa](#) [Master](#) [TT](#) [e-Checking](#) [More](#)

[Trade Assurance](#)

[3YRS](#) [Chongqing RATO Power Manufacturing Corporation](#)
 China (Mainland) | Manufacturer, Trading Company

Transaction Level: [❤️](#) [❤️](#)

Supplier Assessments: [📊](#) [📊](#) [📊](#)

18 Transactions [220,000+](#)

Response Time: [⌚](#) [<24h](#)

Response Rate: [📈](#) [92%](#)

Too 3 Markets:

South America [📈](#) 75.00%

Southeast Asia [📈](#) 12.00%

Africa [📈](#) 10.00%

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Transaction History of the Supplier

Below is the information about the supplier's transactions conducted via Alibaba.com. if you require further details regarding the transaction data, please contact the supplier directly.

Transaction Overview

[2016.04 - 2017.03](#)

Transactions



Export Markets

No. of Transactions Transaction Value



Our Product Range

All Products

Motorcycles

RATO ATVs

Motorcycle parts&access...

RATO engines

Parts for South America M...

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Made in China motorcycle spare parts suppliers

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Top 3 Markets:

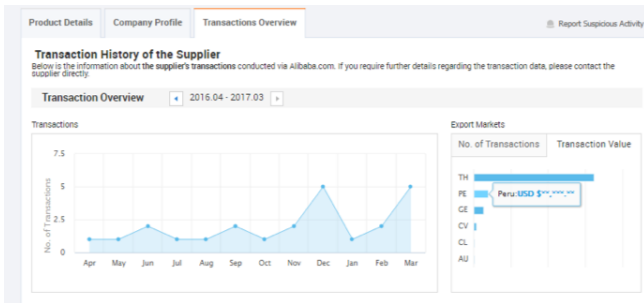
South America  75.00%

Southeast Asia  12.00%

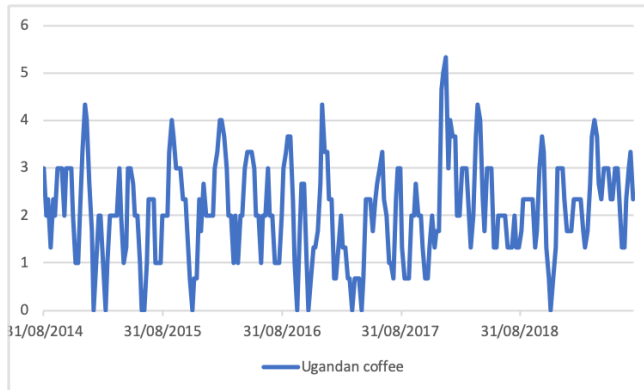
Africa  10.00%

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Internet Platforms

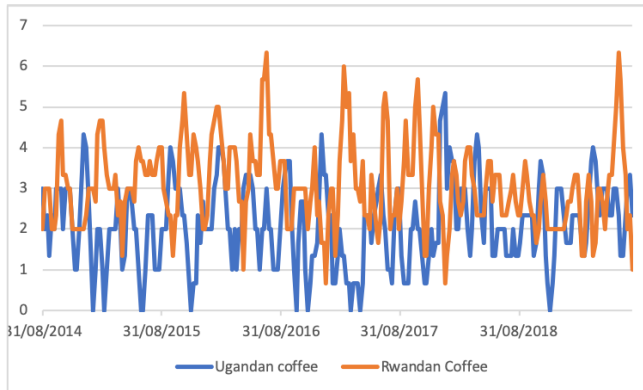
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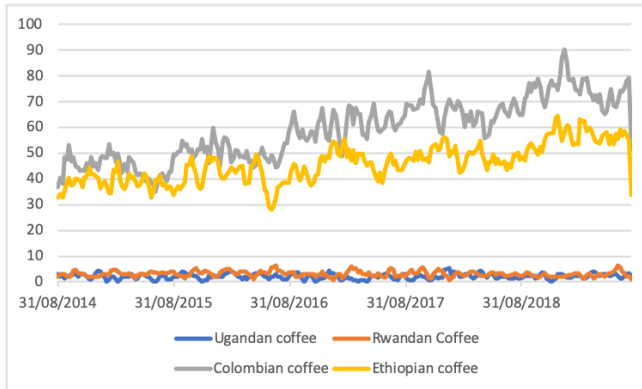
Google searches for Ugandan Coffee

Internet Platforms



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