



International
Growth Centre

The EAC Common External Tariff and Uganda's trade policy *

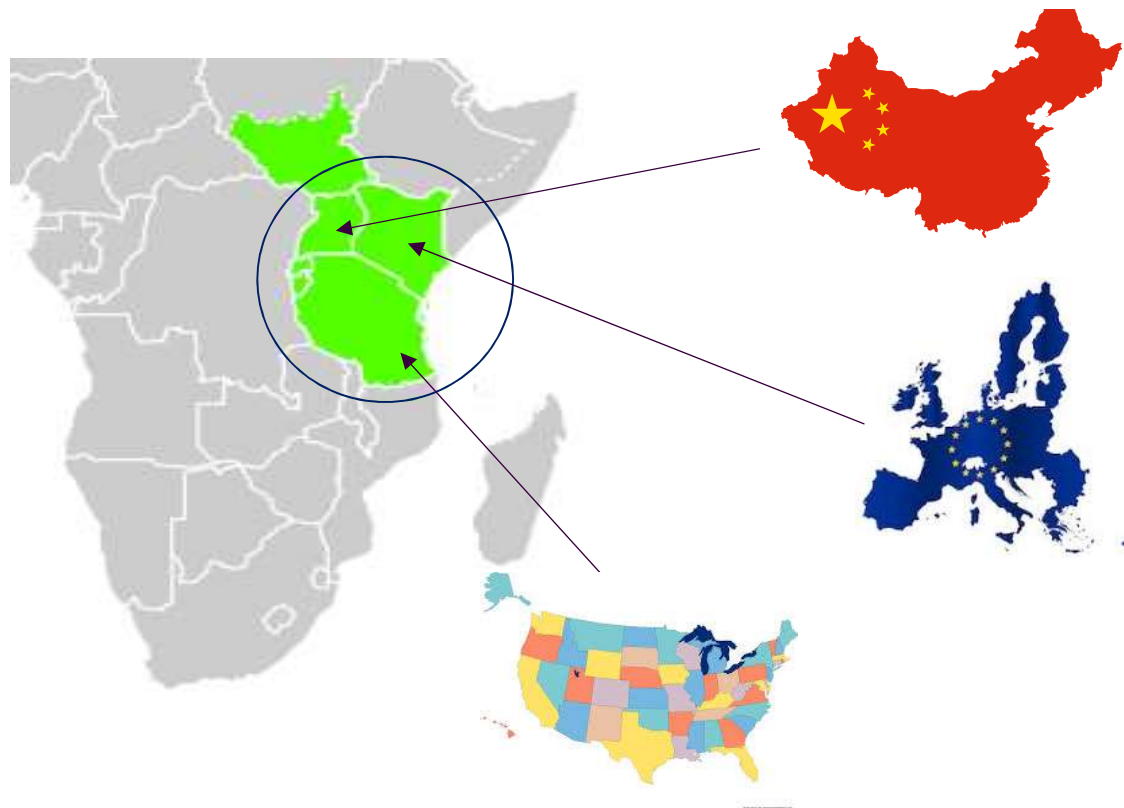
Jakob Rauschendorfer, IGC Uganda

31st March, 2021

* Based on Rauschendorfer and Twum (2021) "*Unmaking of a customs union: Regional (dis)integration in the East African Community*", IGC Working Paper.

The East African Community (EAC)

- Customs Union comprising Kenya, Tanzania, Uganda, Rwanda and Burundi (and South Sudan);
- Free trade between members. Common External Tariff (CET) sets the same tariffs on imports entering from outside of the EAC;
- Compared to a FTA, the CET facilitates free circulation within the union.
- But: EAC countries increasingly implement national tariff policy through **unilateral deviations**.



A new data set of deviations from the CET

Deviations are published in the *East African Community Gazette*

30th June, 2019

EAST AFRICAN COMMUNITY GAZETTE

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Legal Notice No. EAC/76/2019

EAST AFRICAN COMMUNITY GAZETTE

THE PROTOCOL ON THE ESTABLISHMENT OF THE
EAST AFRICAN COMMUNITY CUSTOMS UNION

LEGAL NOTICE

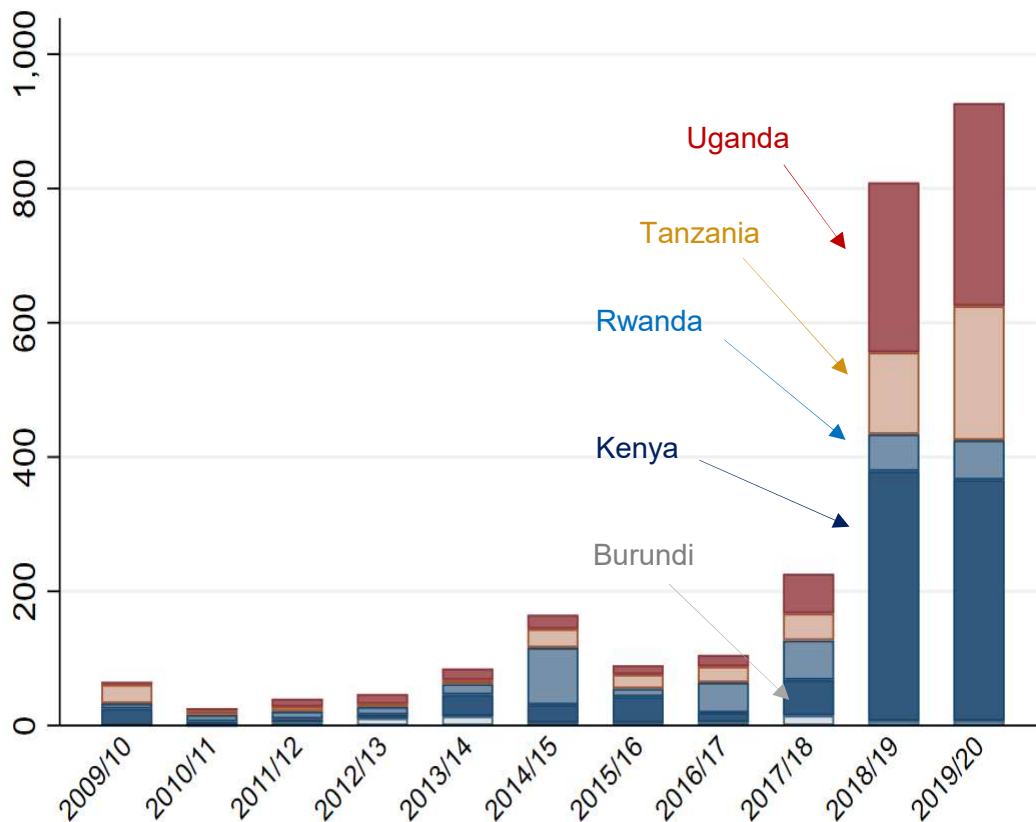
In EXERCISE of the powers conferred upon the Council of Ministers by Articles 12 (3) and 39(c) of the Protocol on the Establishment of the East African Community Customs Union, the Council of Ministers has approved the following measures on customs duty rates on the items provided under The Harmonized Community Description and Coding System in Annex 1 to the Protocol:

S/N	HS code	DESCRIPTION	DECISION
1.	1006.10.00	Rice in the husk	Kenya to stay application of EAC CET rate of 75% or USD 345/MT whichever is higher and apply a duty rate of 35% or USD 200/MT whichever is higher for one year.
	1006.20.00	Husked (Brown) rice	
	1006.30.00	Semi milled or wholly milled rice	
	1006.40.00	Broken rice.	

Extract information of all deviations from the last ten years to assess the state of the CET and countries' trade policies.

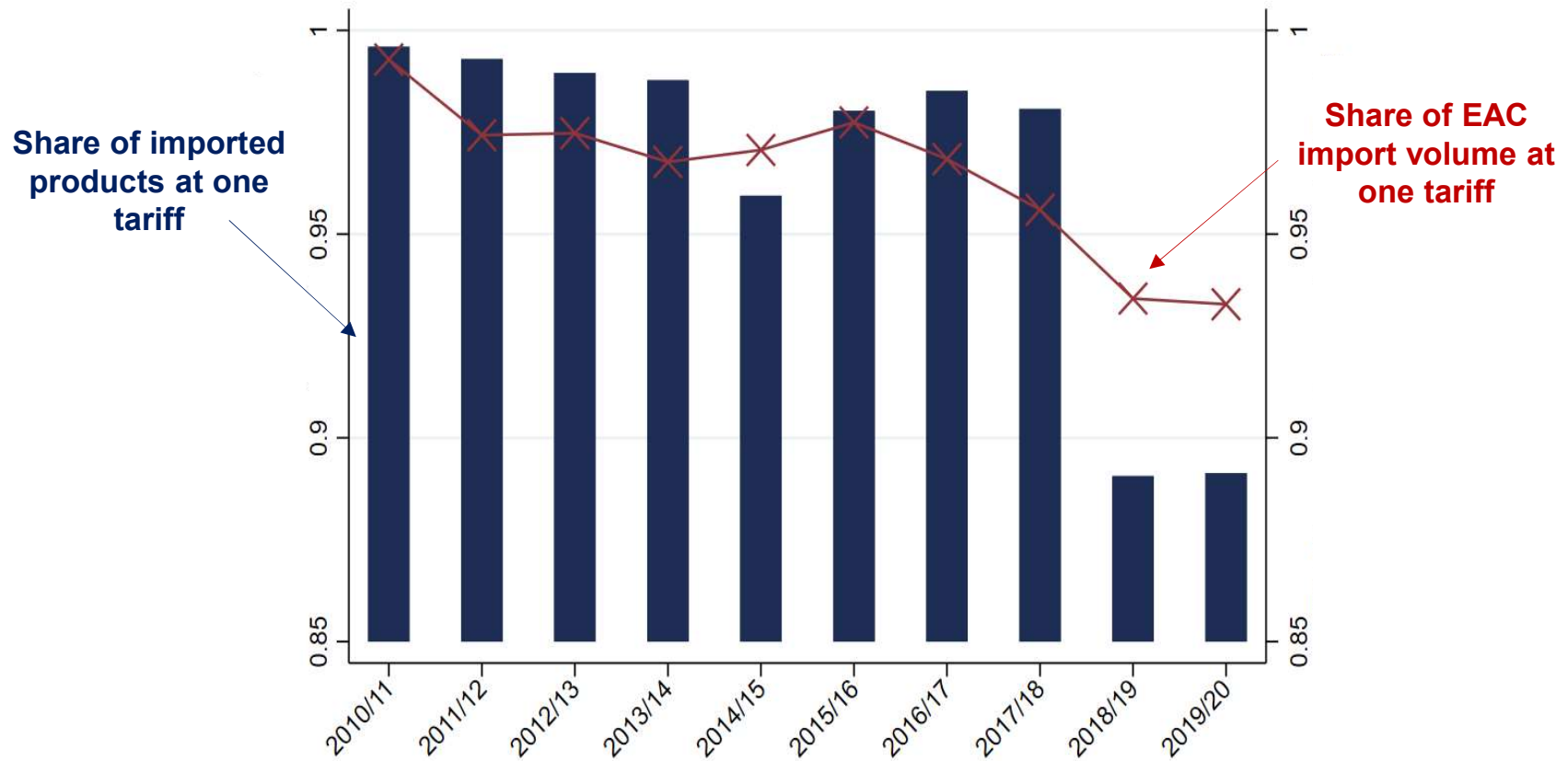
The Common External Tariff is becoming increasingly less “common”

country-level deviations from the CET (products)



Source: Rauschendorfer and Twum (2021).

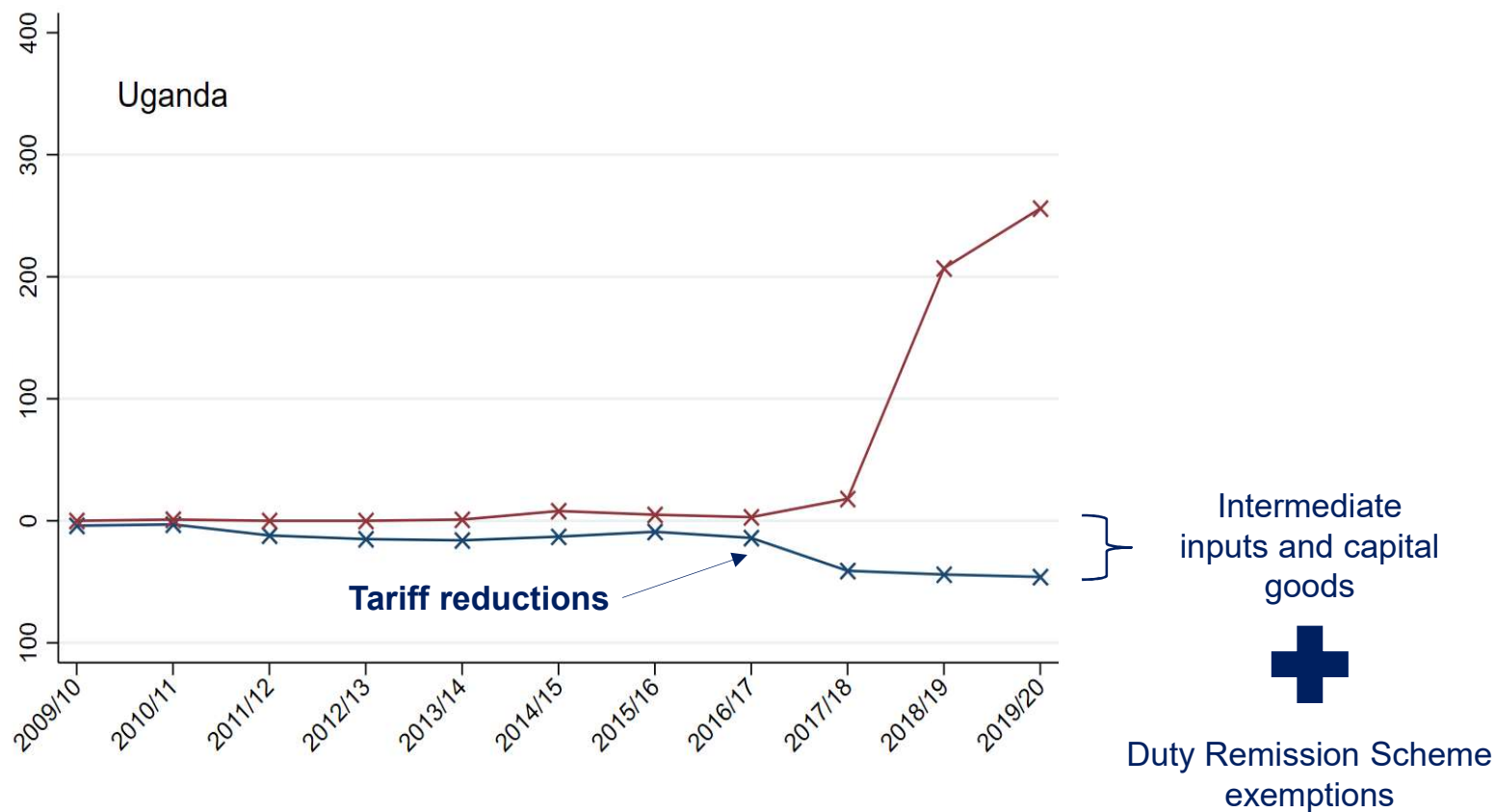
The Common External Tariff is becoming increasingly less “common”



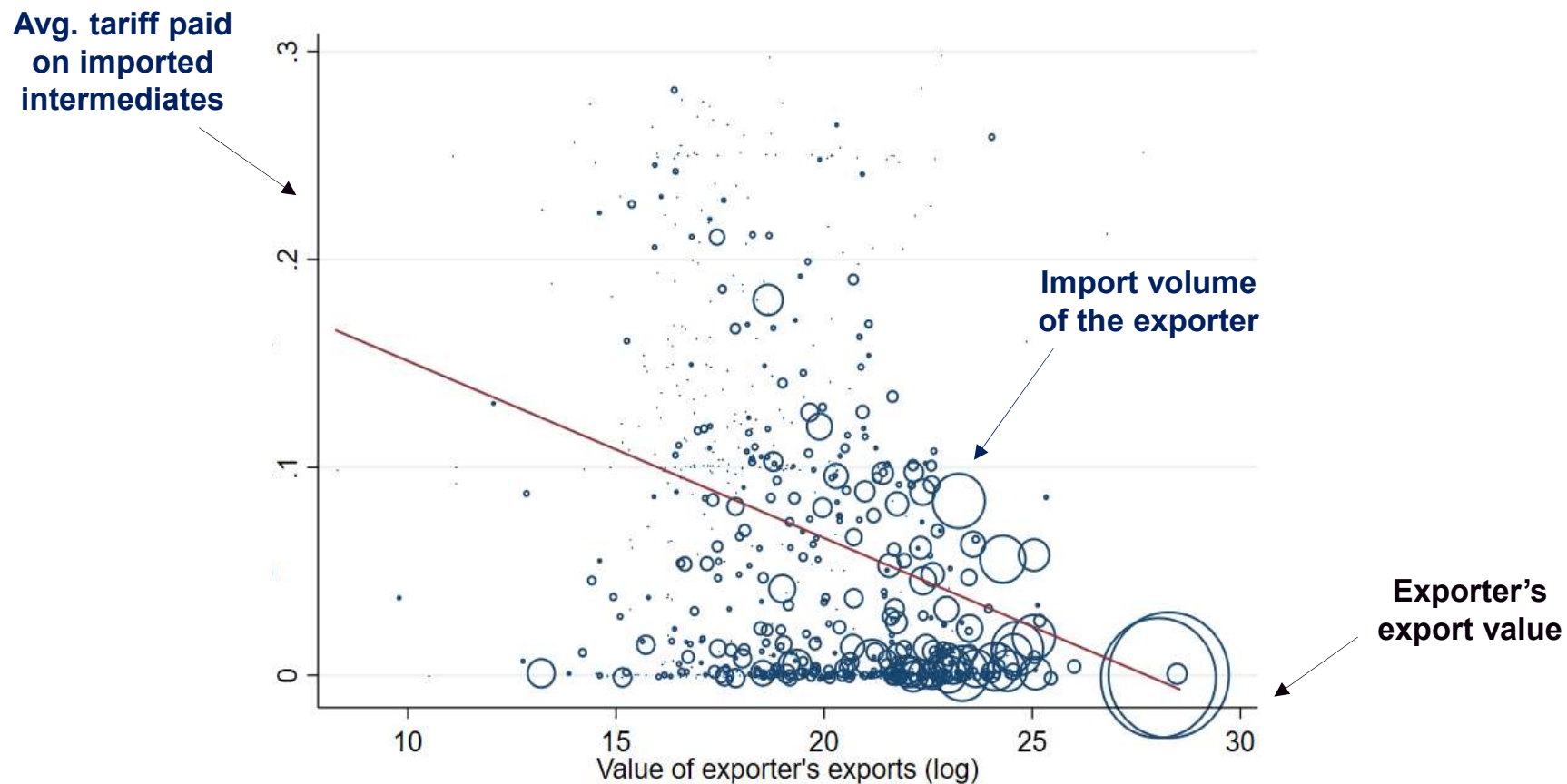
Source: Rauschendorfer and Twum (2021).

Uganda's CET strategy: Reduce tariffs on inputs

country-level deviations from the CET (products)

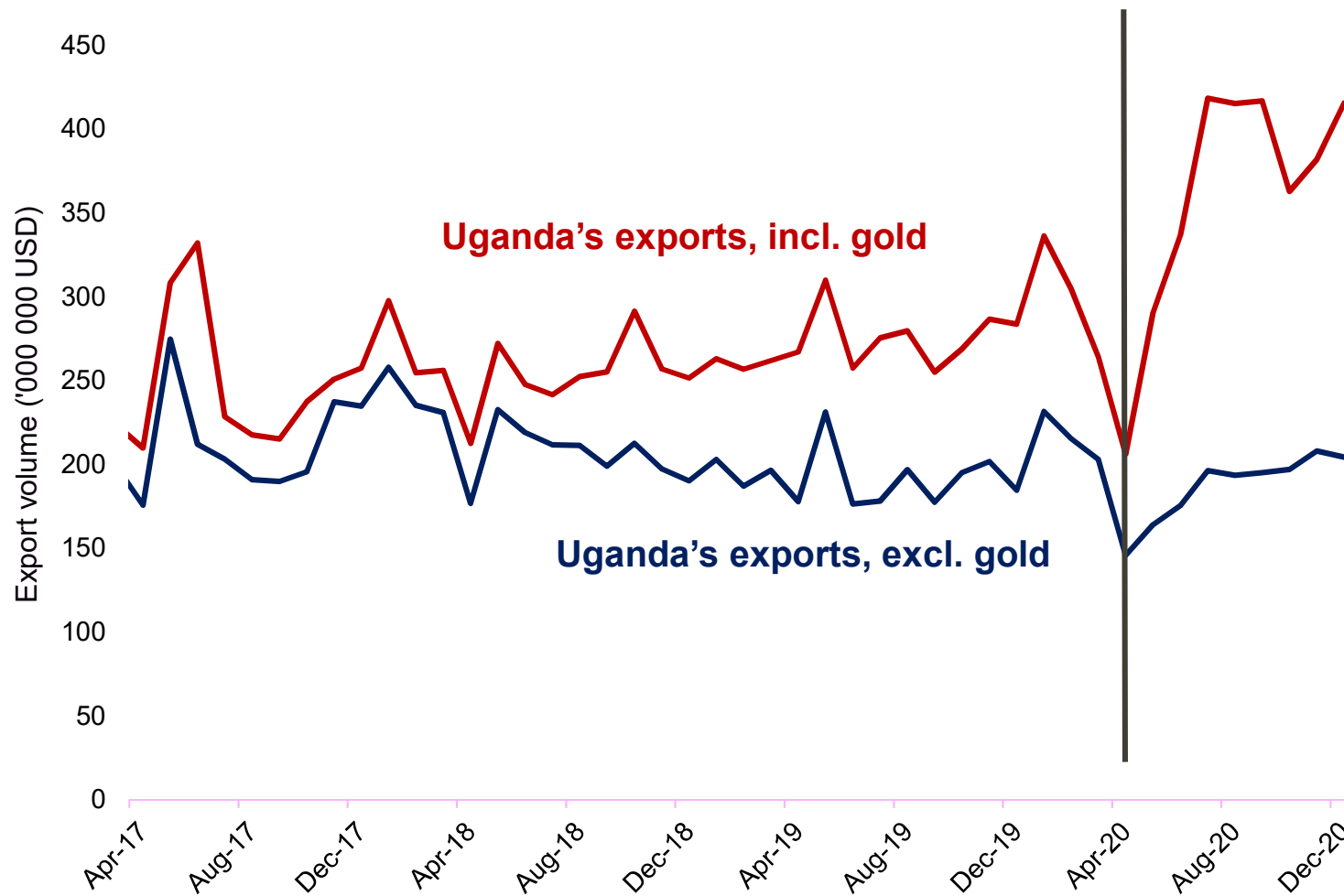


Ugandan exporters rely on imported inputs ...



Firms that export more (X-Axis), use more imported inputs (bubbles) and have better access/pay less duties (Y-Axis). N = 1,598 Ugandan exporters.

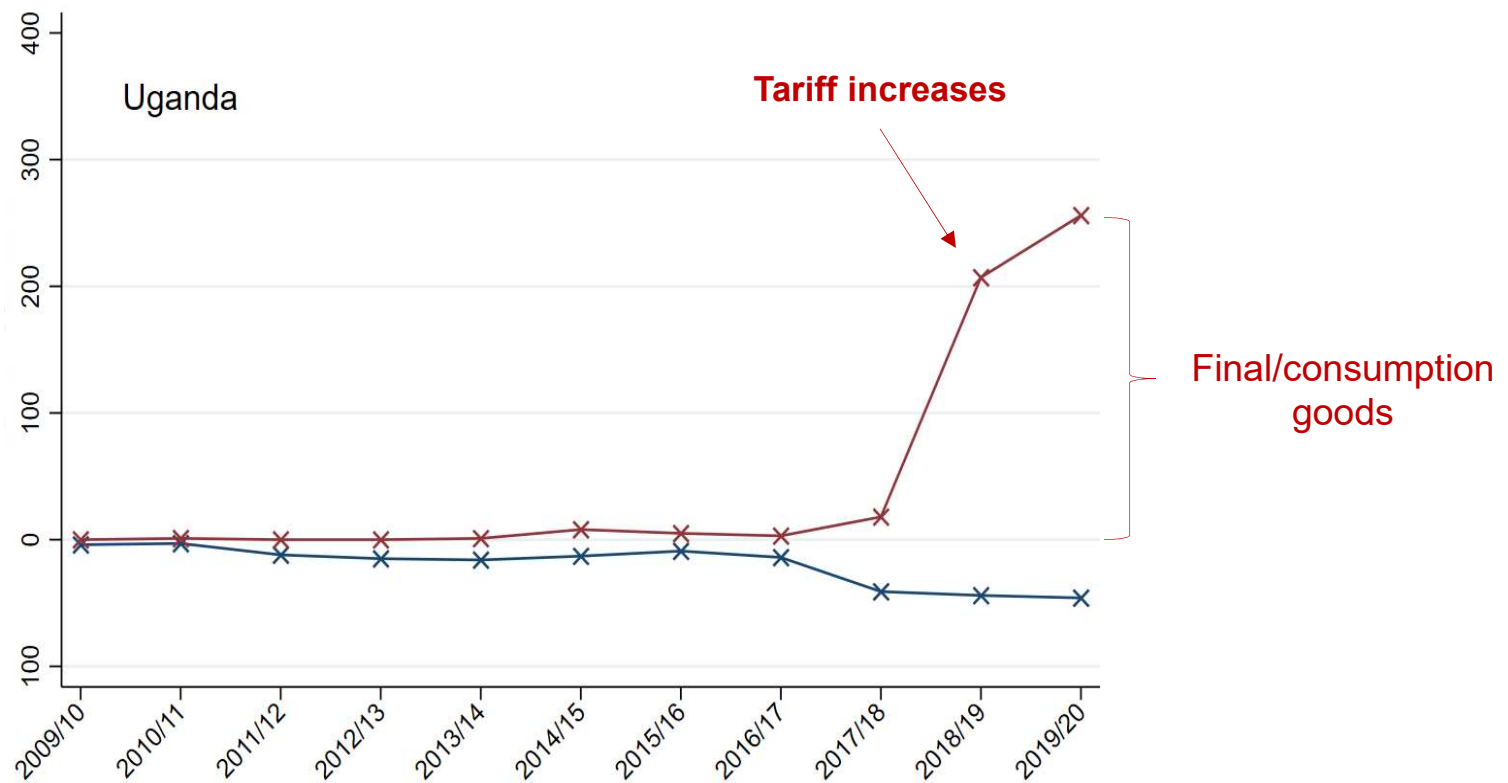
... which could matter for the recovery.



Source: Bank of Uganda (2021).

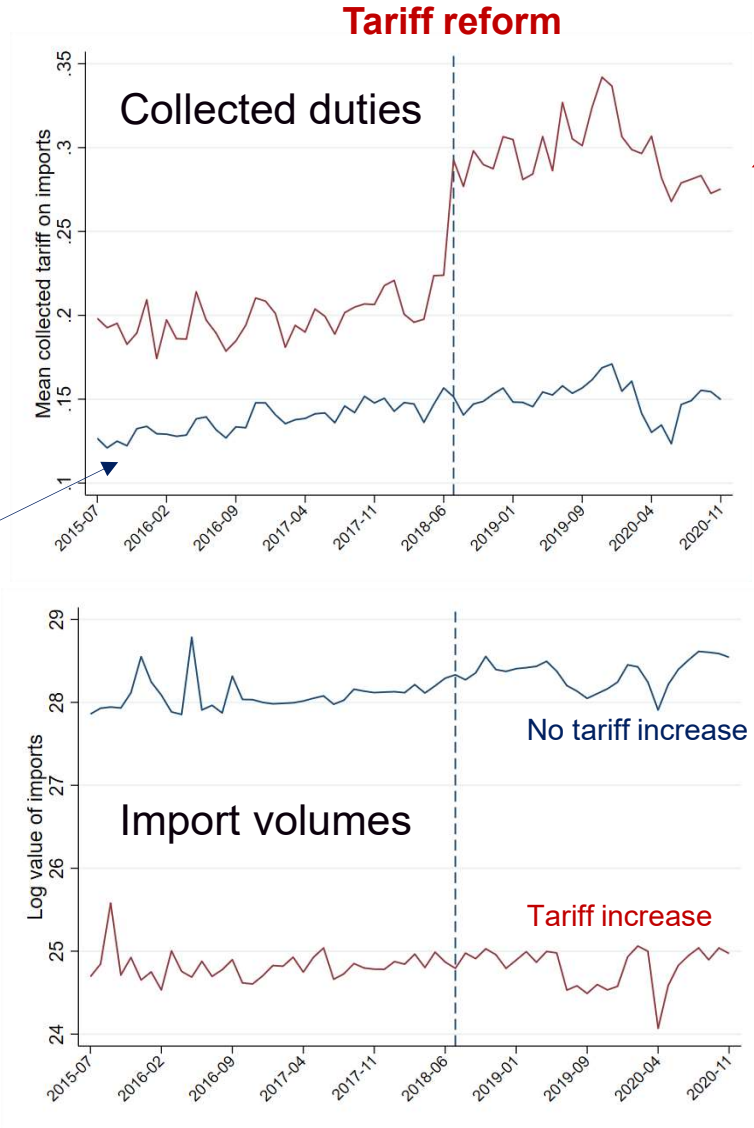
Uganda's CET strategy: Increase tariffs for final goods

country-level deviations from the CET (products)



Source: Rauschendorfer and Twum (2021).

Tariff increases do not seem to have reduced imports ...



Average duty paid on imports of 132 final/consumption goods for which Uganda raised tariffs in FY 2018/19.

Average duty paid on products with no tariff change.

Products that were subject to tariff increases were not imported less after the policy change.

... but tariff increases are likely to adversely affect consumers.

Simulation results using Ugandan household data: Eliminating tariffs on rice (75%), wheat and wheat flour (10%, SoA), vegetable oil (10%) and sugar (100%) could **raise real incomes by as much 1.6 percent through lower prices.**

Negative impact of tariffs on consumers is well documented in other contexts:

United States (Fajgelbaum et al (2020)): *“We estimate an aggregate loss of \$7.2 billion, or 0.04% of GDP. (...) we can conclude that the consumer losses from the trade war were large.”*

Relevant in times of falling incomes due to Covid-19?

Policy recommendations

- Conclude the review of the CET **without raising tariffs and with a focus on making sure that crucial inputs are affordable to firms** (and avoid regional “tit-for-tat” protectionist policies).
- Alternative: Support domestic firms to harness domestic and foreign demand by **solving supply side constraints**.
 - Reduce **trade costs** by cutting “red tape” and by implementing electronic solutions (e.g., *National Single Window*).
 - Provide **adequate testing and certification facilities** allowing (agricultural) exporters to access high-income markets.

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