International Growth Centre

The African Continental Free Trade Area: Opportunities for Ugandan exports

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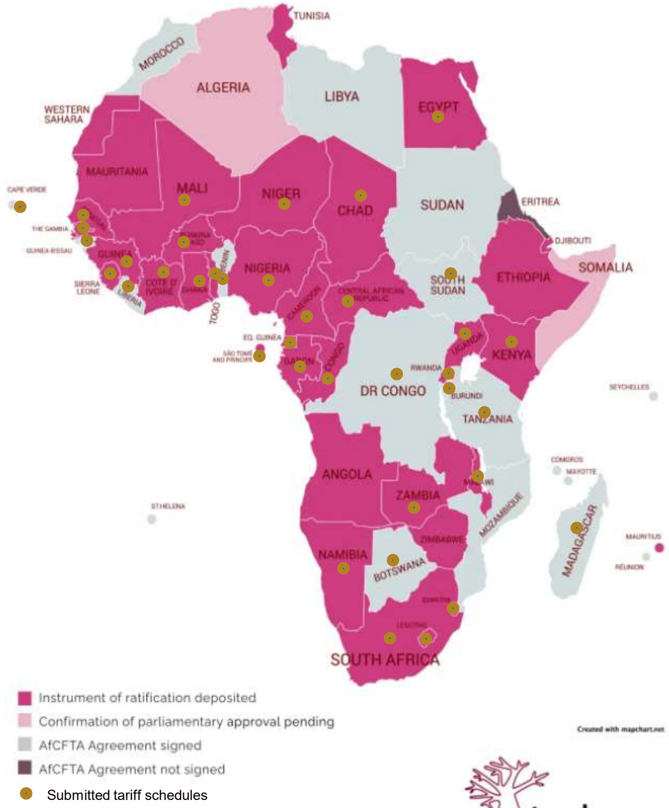
The African Continental Free Trade Area (AfCFTA)

- Ambitious in scope and objectives
- Expectations are high
- Impacts likely unequal across countries
- Use product data, transaction data and simulation of FTA between EAC, SACU, Ghana and Nigeria as lens to understand implications for Uganda



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Uganda made excellent progress in raising and diversifying product composition of exports

Composition of Uganda exports, 2000 and 2018

2000 ($ 395 million)

2018 ($ 3.36 billion)

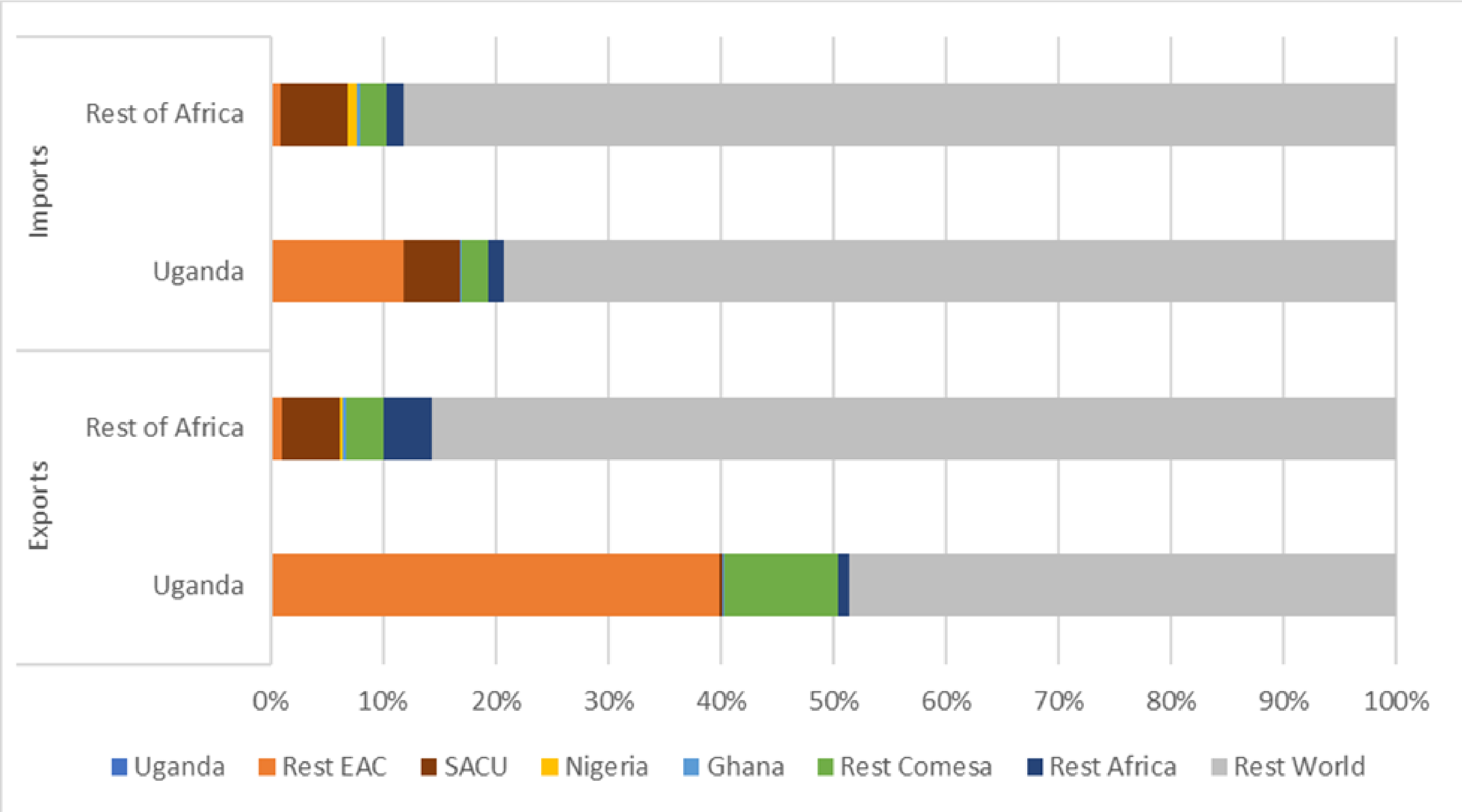
Despite successes, Uganda under-performs in exports

	Exporting firms per population (100 000)	Mean exports/firm (million USD)	Share of top 5 % exporters in aggregate export value	1 year survival rate of new exporters
Uganda	4	0.75	0.74	0.26
Rest of EAC	9	1.16	0.85	0.32
Rest Africa	20	2.74	0.81	0.40

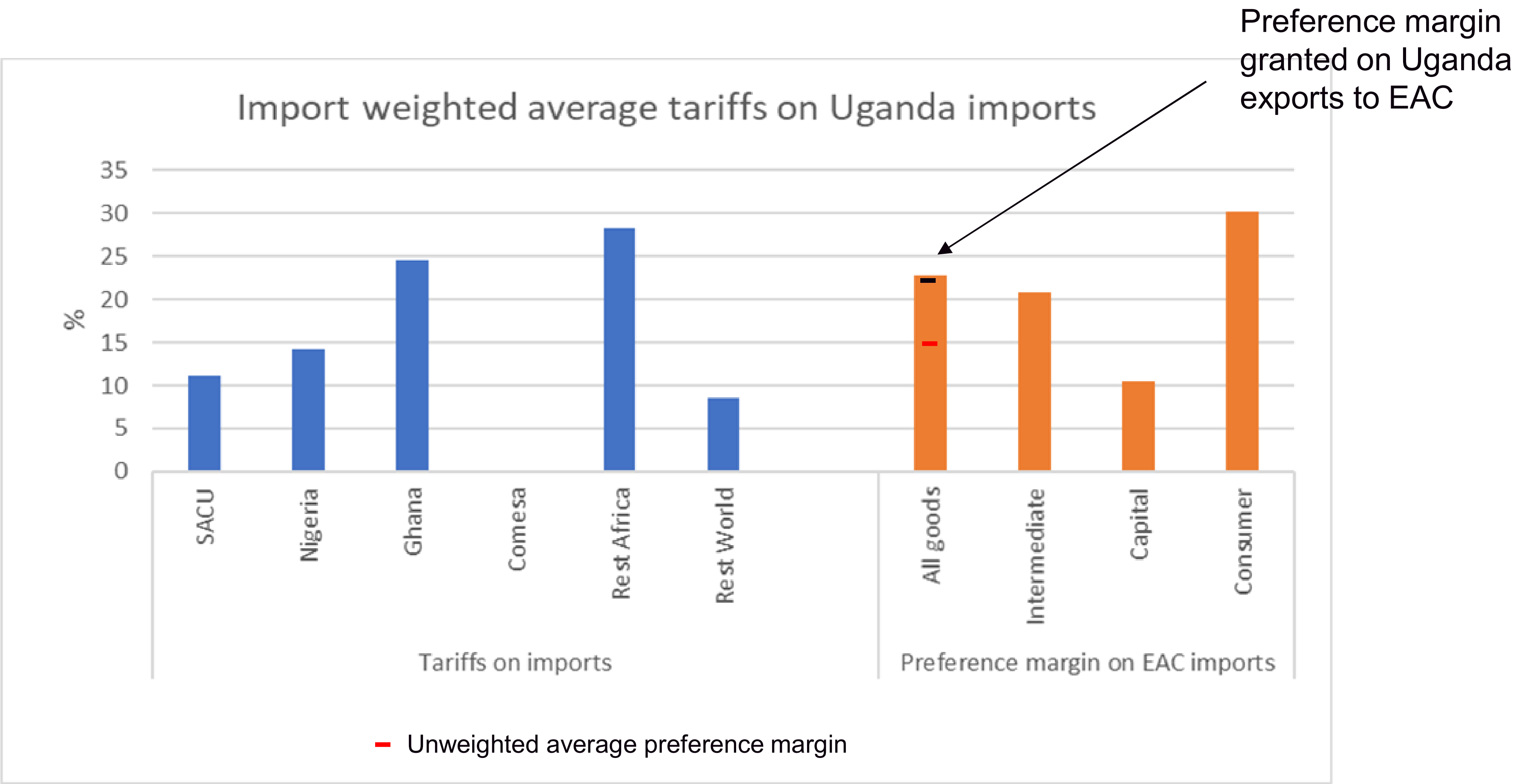
Notes: Data for Uganda are for 2018 and exclude gold. Data for other countries is average from 2011-2014 obtained from World Bank EDD. "Exporting firms per population (100 000)" is rounded.

Success in integrating into local region, but not as much into rest of Africa

Regional composition of trade in goods – Uganda and Rest of Africa, 2018



Value, product and firm composition of regional trade strongly driven by preference margins



Disproportionate number of Uganda exporters and products to EAC, but this has not translated into high export values per firm or per shipment.

Characteristics of Uganda exporters to EAC and the Rest of the World, 2018

	Number exporters	Average export value per exporter ($ million)	Average number of products per exporter	Average export value per shipment ($ million)
EAC	990	0.4	3.1	0.1
Rest World	385	1.4	1.4	0.3

Data for 2018. A shipment is the export of a product to a destination. Gold exports are excluded

- New export relationships to EAC have lower initial values, lower survival rates (5.8% vs. 16.8% after three years) and lower growth rates (18.4% vs. 61% per year)

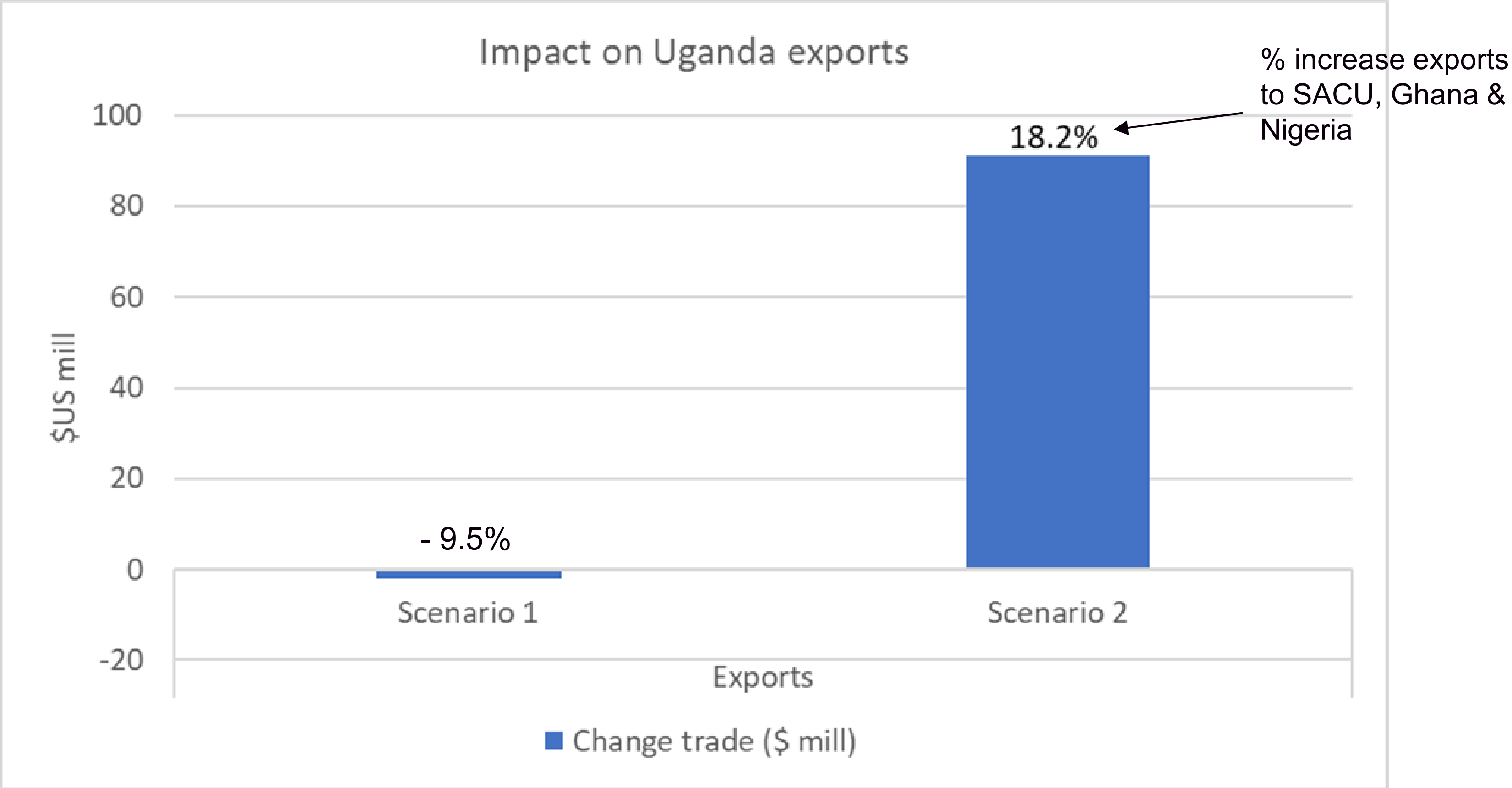
Three considerations for Uganda’s trade under the AfCFTA

- Preference erosion: For exporters more competition in EAC market, imports become less costly
- Low value of existing exports to the rest of Africa imply slow response despite removal of high tariffs
- High trade costs accessing African markets impede diversification and growth of Ugandan exports

Simulating impact of FTA between EAC, SACU, Ghana and Nigeria

- Simulation scenarios
  - Scenario 1: Full liberalization between the EAC, SACU, Ghana and Nigeria.
  - Scenario 2: Scenario 1 + EAC, SACU, Ghana and Nigeria implement a trade facilitation agreement (TFA) that reduces import trade costs on non-mineral products.

Impact on Uganda Exports



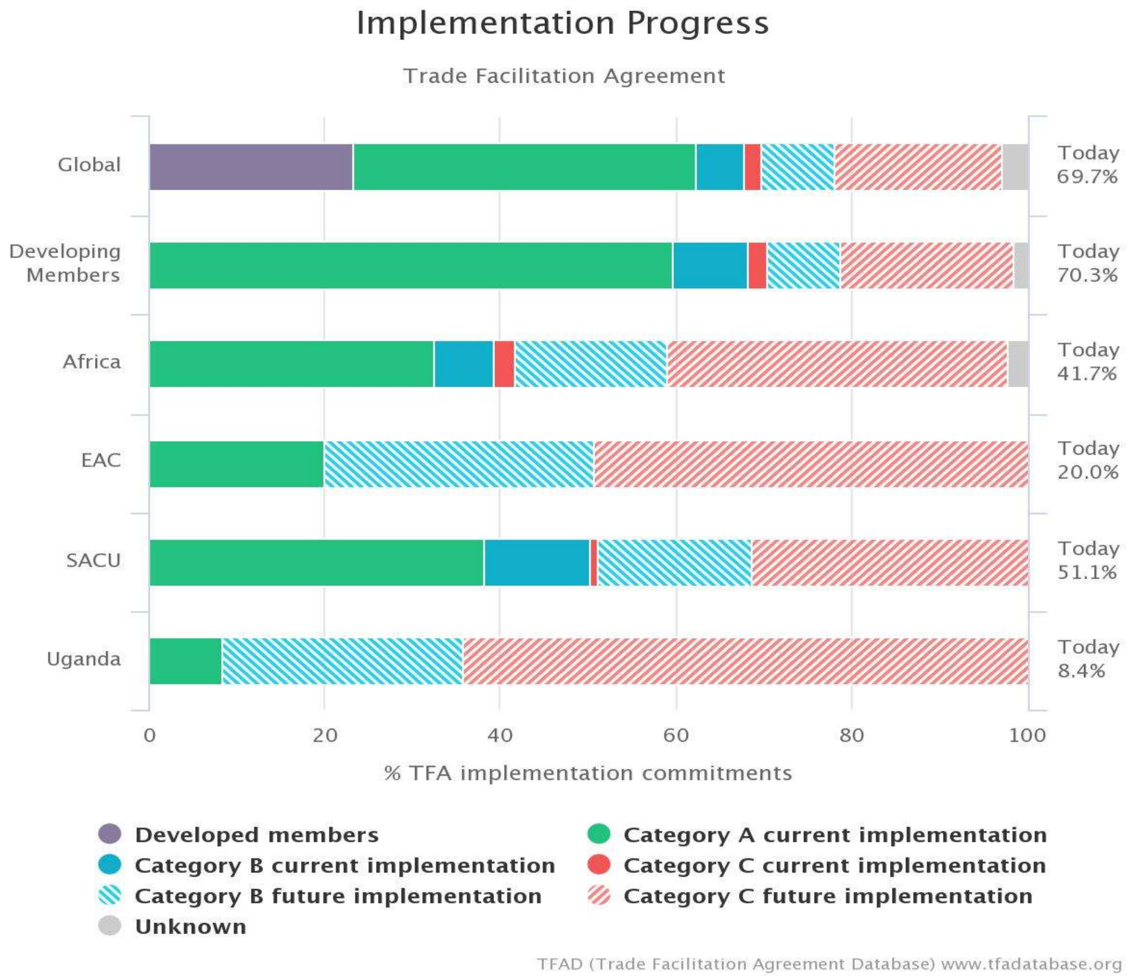
- Losses in exports to EAC outweigh export gains to Ghana, Nigeria and SACU in Scenario 1
- Implementing AfCFTA annex on trade facilitation critical for export gains

Policy recommendations

- The AfCFTA is not a substitute for policies to enhance access by exporters into international markets.
  - Market access information, electricity, FDI facilitation, access to imported inputs (CET review).

- Leveraging off the achievements of the EAC Secretariat and related coordination vehicles to drive down Africa wide trade costs.
  - *One Stop Border Posts* as example of effective coordination of the block.
  - Drive greater coordination and acceleration of WTO-FTA implementation within the EAC and by African partners.

An observation: WTO-TFA implementation progress



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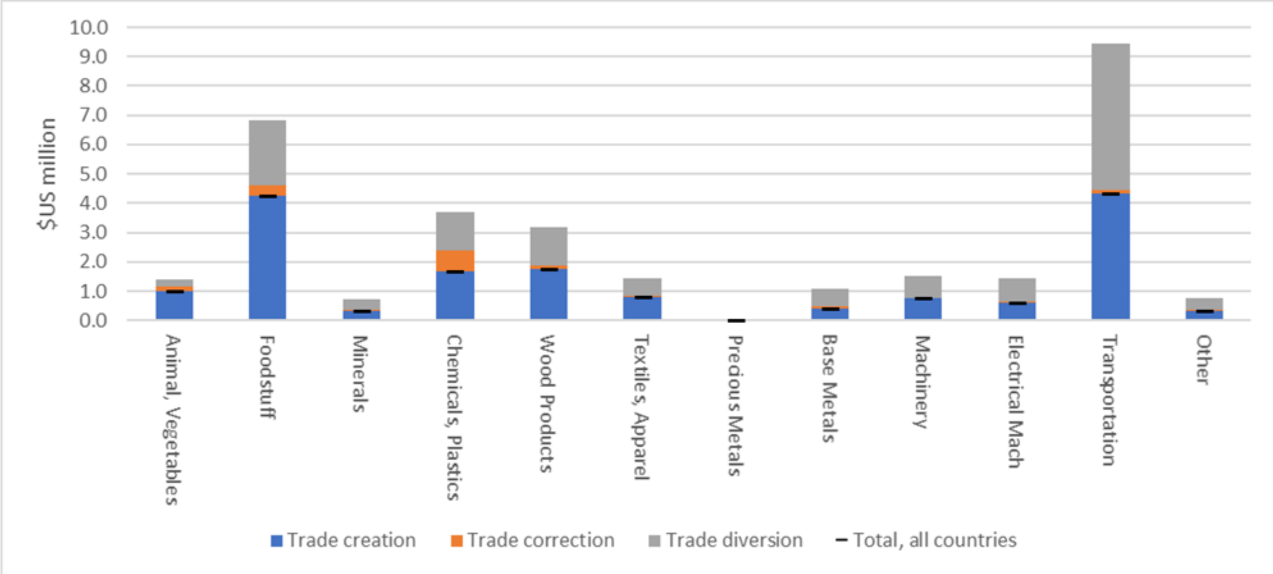
Additional slides

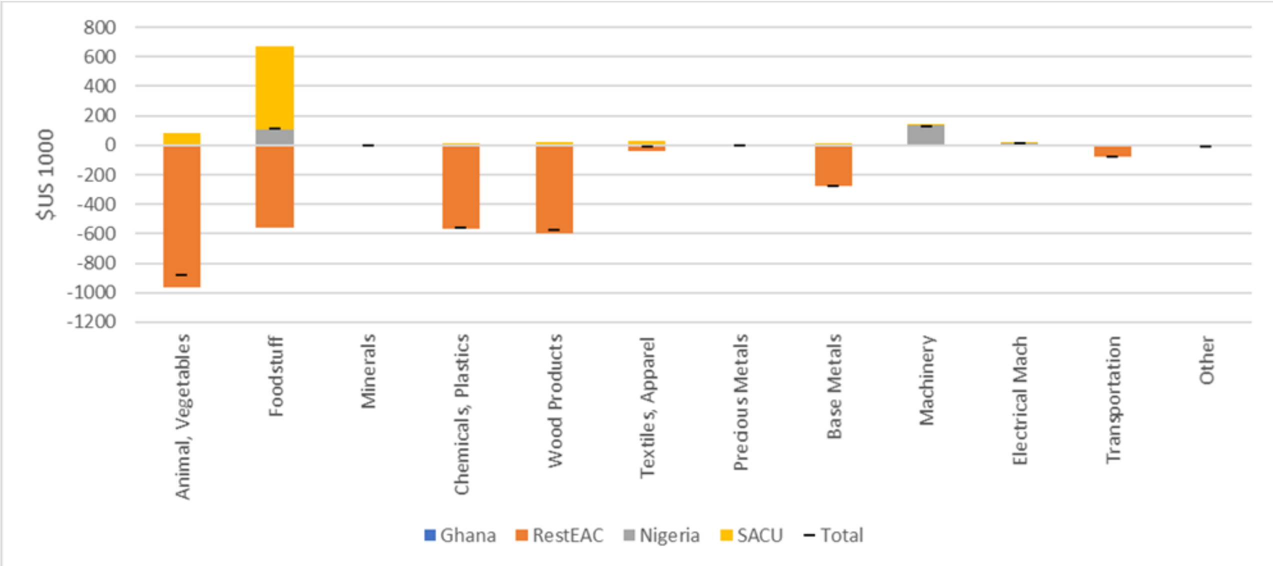
Product level trade effects

Top 5 products experiencing rising import and export trade with SACU, Nigeria and Ghana: Scenario (1), $US 1000.

Description	Ghana	Nigeria	SACU	Description	Ghana	Nigeria	SACU
Imports				**Exports**			
Sugar			2239	Fresh Cut Orchids and Buds	1		
Wine			1277	Kidney Beans, White Pea Beans			18.9
Nonconiferous Wood	4			Cotton Seeds			19.9
Uncoated paper			1492	Vegetable Sap and Extracts			28.1
Fabrics, more than 85% cotton	3			Tobacco, not Stemmed		104.1	
Fabrics, less than 85% cotton	3			Tobacco, stemmed			49.4
Woven fabrics, synthetic fibres	2			Smoking Tobacco			515.9
Worn Clothing		16		Phenol (hydroxybenzene)	1.1		
Wigs, False Beards, etc.		17		Reinforced Pipe	0.6		
Glass sheets		13		Threaded Screws and Bolts	0.6		
Smart cards		11		Metal Photo/Picture Frames	1.3		
Passenger Vehicles, Petrol			1236	Mechanical Front-end Loaders		33.5	
Passenger Vehicles, diesel	47			Machinery for Preparing Tobacco		96.2	
Trucks, not over 5 Metric Tons			7428	Antennas and Reflectors		8.7	
Sanitary towels, baby diapers		21		Insulated Electric Conductors		5	
Total top 5	59	78	13672		5	247	632
Total effect	69	168	31261		11	257	704
Share top 5	85	47	44		40	96	90

Sectoral trade effects



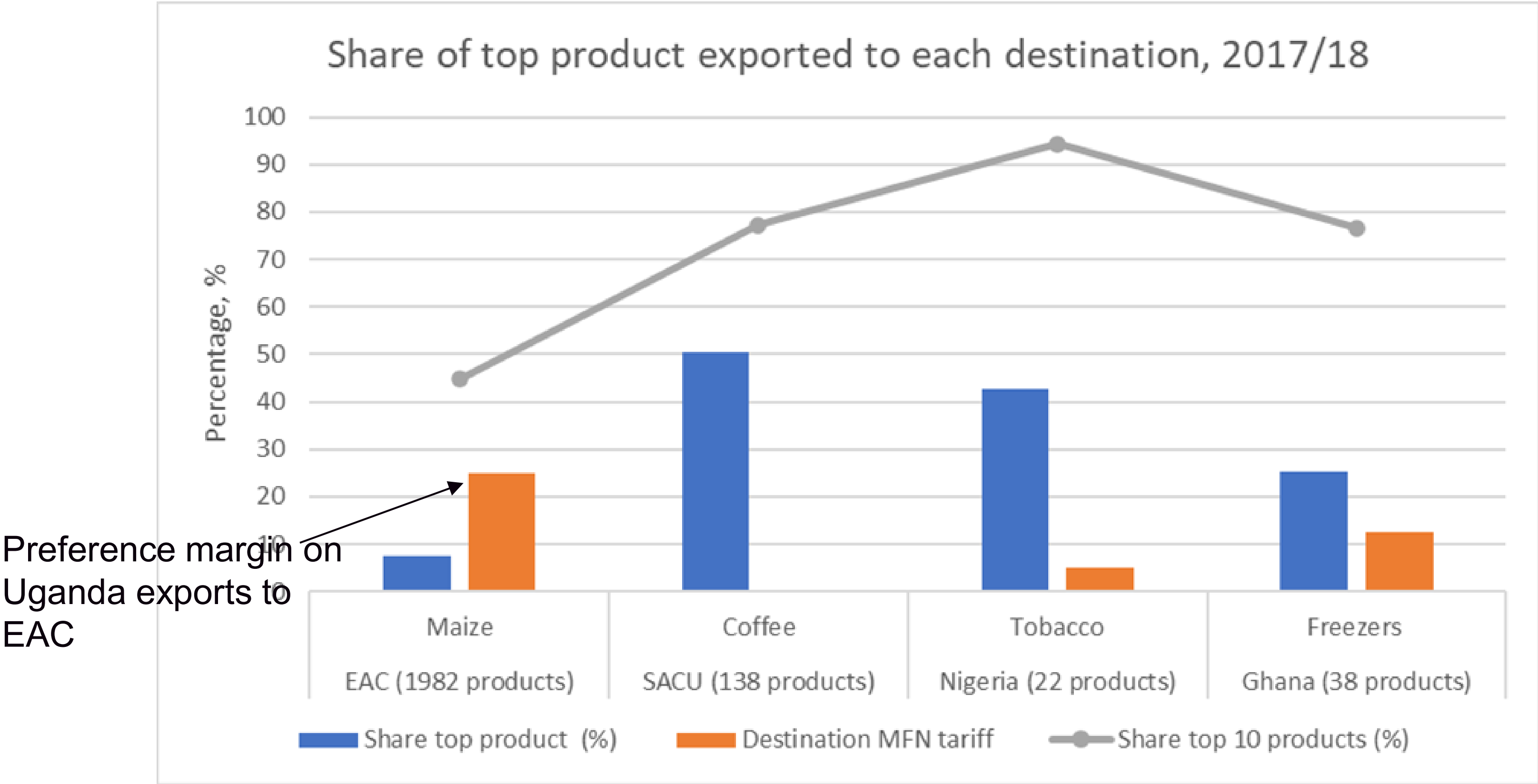


Impact on revenue

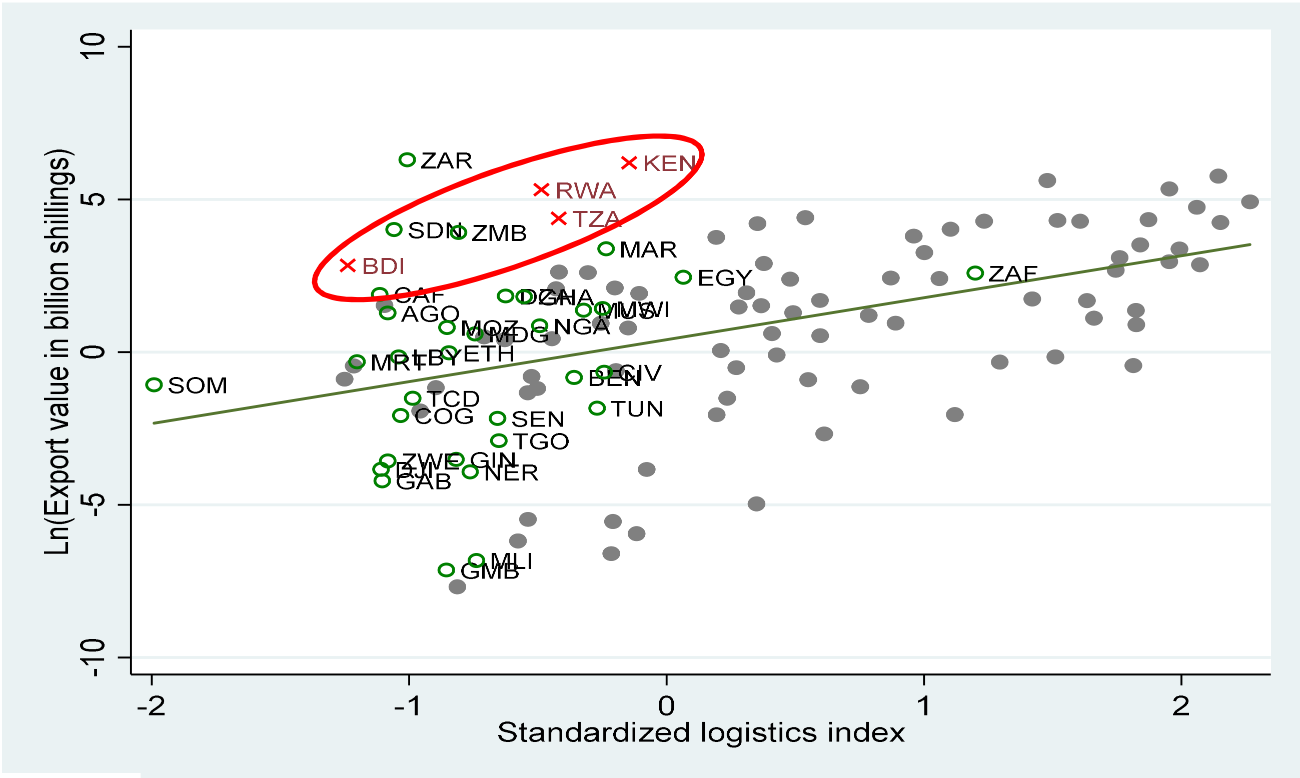
	Scenario 1: Liberalisation	Scenario 2: Schedule A	Scenario 3: Liberalisation + TFA
Change in customs revenue ($US mill)	-19.75	-3.42	0.74
% change customs revenue	-5.87	-1.02	0.22
Change in border revenue ($US mill)	-16.82	-3.28	70.32
% change total border revenues	-1.01	-0.20	4.24

- Key messages
  - Scenario 1: Customs revenue falls by $US 19 million, but partially offset by gains in VAT, excise duty, withholding taxes
    - Make up a small share of overall border revenues (1%)
  - Implementation of TFA offsets customs revenue losses leading to 4.3% increase in total revenue

Trade with rest of Africa is very concentrated, but see substantial differences in product composition



Destination tariffs and high costs related to logistics, transport and customs processes impede growth and diversification of Uganda’s exports



- High trade costs reduce number of exporters, number of products, and value of exports per firm and product