Uganda’s participation in international trade agreements: Challenges and opportunities[1]

Introduction

The Government of Uganda strives to promote private sector development and job creation through active participation in international trade agreements. However, planers and decision makers are aware that the benefits of these agreements to Uganda’s firms are not automatic. The *National Development Plan III* states as follows:

> *“(…) there are significant market opportunities that are opening up through the various protocols to which Uganda is signatory or involved, such as the East African Community, the Africa Continental Free Trade Area (AfCFTA), Forum for China Africa Cooperation (FOCAC), the European Union Everything But Arms (EBA), and others. Until now, the country has not planned sufficiently to take advantage of these new trading arrangements and opportunities. The private sector remains inadequately informed about these arrangements and the opportunities they present. NDPIII aims to mainstreamed interventions aimed at increasing exports by exploiting new emerging market opportunities.”*
>
> *National Development Plan III (2020)*

Cognizant of the challenges and opportunities associated with Uganda’s participation in international trade agreements, the *Private Sector Development Unit* under the *Ministry of Finance, Planning and Economic Development* in collaboration with the *Ministry of Trade, Industry and Cooperatives* and with support from the *International Growth Centre* conducted a seminar on *Trade Agreements for Private Sector Development*.[2] The goal of the event was to provide a platform for commissioners from Government as well as high-level representatives from the private sector to discuss recent research on Uganda’s participation in trade agreements and to identify policy actions that will allow the country’s private sector to leverage existing and future market opportunities.[3]

Purpose of the Management Note

The purpose of this note is to summarize the main insights from the two studies presented at the event and propose policy actions based on both: recommendations from the academic research presented and the contributions of a high-level panel of Government officials and private sector representatives.

[1] This note was prepared by Dr. John Bosco Oriyema (PSDU) and Jakob Rauschendorfer (IGC).
[2] The seminar was chaired by the *Director of Economic Affairs* of the Ministry of Finance, Planning and Economic Development, Mr. Moses Kaggwa and took place on the 31st March 2021 in Kampala.
[3] Beyond providing policy recommendations to harness trade agreements, the event also intended to identify priorities for the upcoming *National Strategy for Private Sector Development (2020/21 - 2024/25),* Uganda’s primary long-term strategy to guide private sector development in the country.

Findings from studies on Uganda's participation in international trade agreements

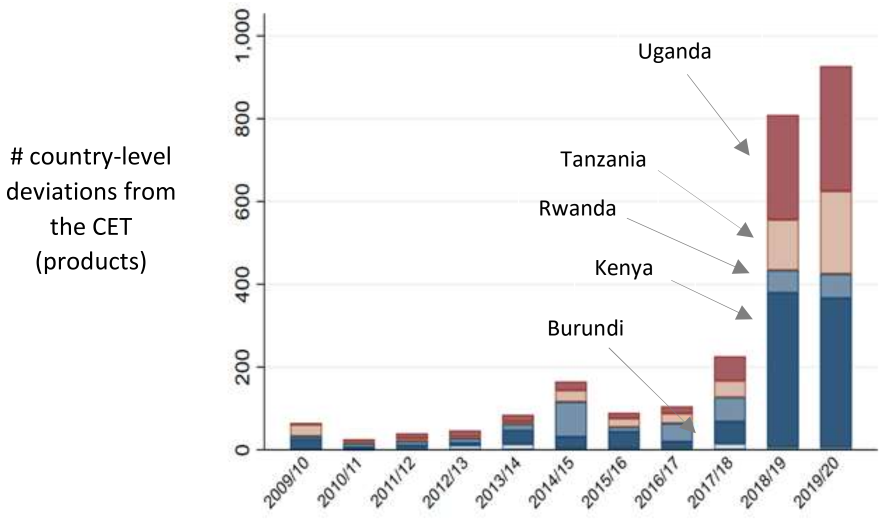
This section provides insights from studies concerned with Uganda's participation in two trade agreements: The *East African Community* (EAC) Customs Union and the *African Continental Free Trade Area* (AfCFTA). The EAC Customs Union came into force in 2005 and has been at the heart of Uganda's increasing trade with its neighbours.[4] In 2019, members of the EAC absorbed 27% of Uganda's exports, including most of Uganda's more high-value added exports of agro-based manufactures. The AfCFTA was only ratified by Uganda in November 2018, with implementation scheduled to commence in 2021.[5] Given its objective of creating the world's largest trade agreement, the AfCFTA poses significant future opportunities to drive Uganda's export growth.

The EAC Common External Tariff and Uganda's Trade Policy

The first study analysed the central element of the EAC customs union, the *Common External Tariff* (CET). The CET removes price-differentials for imported products, allow for the unrestricted circulation of goods within the EAC and is used to promote a common industrial policy. Crucially, economic research shows that in recent years EAC-members have increasingly made use of the possibility to deviate from the CET through so called *Stays of Applications.* These allow an EAC member to implement a tariff different from the in the EAC-CET for an individual product and fiscal year. Figure 1 depicts the increase of these *Stays of Applications* in recent years. Each of the EAC-members has implemented a large number of such deviations.

This practice of deviating from the communal tariff regime of the customs union undermines the key element of the trade bloc. It prevents a common trade policy and bears the potential to trigger the practice of trade deflection where firms import goods through the country with the lowest tariff and export them duty free to other countries under the customs union.

Figure 1: EAC countries implement deviations from the CET for a large number of products.



Source: Rauschendorfer and Twum (2021).

[4] Founded by Uganda, Tanzania and Kenya in 2005, Rwanda and Burundi joined the EAC in 2007. South Sudan is also member of the EAC since 2016, but to date the country does not implement the CET of the customs union.
[5] It should be noted that Uganda is also a member of the *Common Market for Eastern and Southern Africa* (COMESA) as well as the *Intergovernmental Authority on Development* (IGAD).

As shown in Figure 1, Uganda also increasingly made use of the *Stays of Applications* to implement tariffs different from the CET, for example for 302 individual products in 2019/20. The study therefore evaluated Uganda's strategy with respect to tariffs over the last years. The following insights emerged from the analysis.

- **Uganda *reduced* tariffs on a number of inputs into manufacturing and export-oriented industries.** This part of Uganda's tariff policy is strategic and has the potential to boost production and export of goods that rely on imported inputs.
- **Uganda *increased* tariffs on a number of consumption goods.** The analysis based on recent data on Uganda imports showed that this strategy did not achieve the desired goal of reducing Uganda's imports. However, tariff increases negatively affect consumers through higher prices.

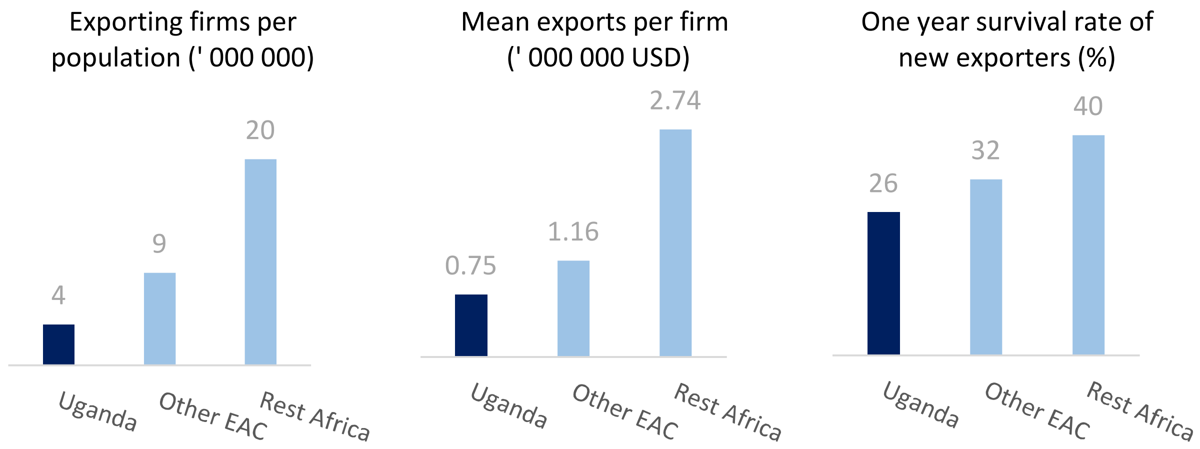
In sum, the study recommended for Uganda to work towards the review of the CET as a key priority and to not further increase existing tariffs.

The African Continental Free Trade Area: Opportunities for Ugandan Exports

The second study analysed opportunities and challenges associated with the African Continental Free Trade Area (AfCFTA) – an agreement still to be implemented fully.[6]

It was observed that export diversification and growth in Uganda has been impressive over the last two decades, increasing from only 395 million USD in 2000 to about 3.36 billion USD in 2018. But Uganda underperforms with respect to exports in comparison to regional benchmarks (Figure 2). It was noted that Uganda has fewer exporters per citizen than the EAC and the rest of Africa. Ugandan firms exports less on average than peers and survival rates for export firms are low: Out of 100 new firms that start exporting, only 26 firms continue exporting in the next year.

Figure 2: Uganda underperforms with respect to exports – a regional comparison of indicators.



Source: Based on data presented in Edwards (2021).

[6] Tariff phase down under the AfCFTA was due to commence on the 1st of January 2021, but has been delayed.

Additionally, Uganda's exports are focused on the East African Community. Besides factors like proximity, this is due to high external protection of the EAC regional market. For example, products like maize, sugar and dairy products have become key drivers of Uganda's export performance and these products are subject to high Common External Tariffs. Due to this high protection, Ugandan firms that focus on the EAC as a destination have failed to become globally competitive since they do not have to directly compete with internationally operating firms. From this basis the likely impacts of the AfCFTA on Uganda's exports were examined and two scenarios were studied.

- **Scenario one:** Full trade liberalization with other African countries.
- **Scenario two:** Full trade liberalization with other African countries and at the same time a significant reduction of trade costs through a Trade Facilitation Agreement.

The key result emerging from the analysis is that without a reduction of trade costs or other supportive measures as in Scenario two, Ugandan exports could be reduced due to the AfCFTA. This is because Ugandan firms would lose market share in the EAC due to higher competition from large countries like South Africa and Nigeria, and due to not being able to compensate for such losses through higher exports to other destinations on the continent due to high trade costs.

Policy actions: Supporting Uganda's private sector to leverage trade agreements

The research studies as well as a discussion among Commissioners involved in Uganda's trade policy as well as high-level representation from the Ugandan private sector resulted in the following policy recommendations. These should be adopted to boost private sector growth and employment through increased trade and exports. [7]

<u>Priority 1</u>: *The East African Community is a key destination for Uganda's exports and is the building block for future trade agreements, including the AfCFTA. Access to international markets is only through Kenya and Tanzania. The functioning of the EAC is therefore of crucial importance. Key actions to strengthen EAC unity are the following.*

1. **Complete the review of the EAC-CET and design the new schedule such that the tariff regime enables access to important inputs at low or no tariffs**. Additionally, high import tariffs for consumer items are not likely to lead to the development of a globally competitive industry and should be avoided.

[7] The panel discussion was led by Dr. Peter Ngategize, Head of the Private Sector Development Unit at the Ministry of Finance, Planning and Economic Development. The following officials were on the panel: Mr. Moses Kaggwa, Director Economic Affairs, Ministry of Finance, Planning and Economic Development, Mr. Abel Kagumire, Commissioner Customs & Excise, Uganda Revenue Authority, Mr. Emanuel Mutahunga, Commissioner External Trade, Ministry of Trade, Industry and Cooperatives, Mr. Daniel Birungi, Executive Director Uganda Manufacturers Association, Mr. Moses Ogwapus, Commissioner Financial Services, Ministry of Finance, Planning and Economic Development, Mr. Stephen Asiimwe, Director Policy and Business Development, Private Sector Foundation Uganda.

Government bodies responsible for implementation**:** *Taskforce on the Review of the EAC-CET*, comprising of Ministry of Trade, Industry and Cooperatives, Ministry of Finance, Planning and Economic Development, Uganda Revenue Authority and the private sector.

2. **Continue to reduce trade costs regionally through cooperation with other EAC-members on trade facilitation initiatives.** This includes the completion of *One Stop Border Posts* as well as investment into improved facilities along transport corridors, such as improved road surfaces, removal of police check-points and usage of cargo scanners to prevent delays.

   Government bodies responsible for implementation: Uganda Revenue Authority (Customs & Excise), Ministry of Finance, Economic Planning and Development, Ministry of Works and Transport.

<u>Priority 2</u>: *Uganda needs to actively prepare for future competition in the East African Community due to trade liberalization. This can be achieved by addressing domestic supply side constraints. The following actions should be priorities.*

3. **Reduce the cost and time of exporting and of importing inputs through the roll-out of the *Uganda National Single Window*.** The *Uganda National Single Window* allows firms to submit all documentation required to export and import on a centralized online platform, which greatly reduces the time and cost of trading. Further resources are needed to ensure that all relevant institutions are embedded on the platform.

   Government bodies responsible for implementation: Uganda Revenue Authority (Customs & Excise), Ministry of Finance, Economic Planning and Development.

4. **Strengthen the enforcement and adherence to quality and standards of Ugandan exports.** Quality and safety related concerns are behind the ban of Uganda's maize by the Government of Kenya and past export stops (e.g., fish) to the European Union. Uganda's exporters need to be facilitated with opportunities to showcase the quality and safety of their goods in line with international standards.

   <u>Specific actions include</u>:

   - *Crucial borders and airports (Busia, Malabba, Mutukula, Mpondwe, Elegu, Katuna, Suam, Lwakhakha as well as Entebbe) need to be equipped with a sufficient number of inspectors and equipment to successfully inspect exported goods for pests that could lead to import bans from destination countries. This can be achieved through the roll out of*

One Stop Facilities by the Ministry of Agriculture, Animal Industries and Fisheries at these borders.[8]

- *The private sector needs to be adequately sensitized on EAC standards and all goods exported need to be certified by the Uganda National Bureau of Standards. This requires investments in the capacity of the Uganda National Bureau of Standards.*

- *Farmers are being sensitized with respect to proper post-harvest handling and storage to avoid pests, especially for fresh fruits and vegetables, but also food crops like maize. While more sensitization is desirable, a key focus should now be on adequate enforcement of such standards to ensure that agriculture produce can continue to be exported.*

Government bodies responsible for implementation*:* Ministry of Agriculture, Animal Industries and Fisheries, Uganda National Bureau of Standards, Ministry of Finance, Economic Planning and Economic Development.

[8] This specific recommendation is taken from a letter by the *Uganda National Cross Border Traders' Association* to the *Ministry of Finance, Planning and Economic Development* concerned with responding to the recent Kenyan ban of maize imports from Uganda (see MoFPED 2021).

References

Edwards, L. (2021) "The African Continental Free Trade Area: Opportunities for Ugandan exports" PowerPoint Presentation given at the event "Trade Agreements for Private Sector Development" by the Ministry of Finance, Planning and Economic Development and the Ministry of Trade, Industry and Cooperatives on the 31st March 2021 in Kampala.

Edwards, L. (forthcoming) "Uganda and the African Continental Free Trade Area: A framework for analysis with application to the South African Customs Union, Ghana and Nigeria."

Ministry of Finance, Planning and Economic Development (MoFPED) (2021) "Response to issues on the ban of Uganda's maize exports to Kenya". Letter by the Uganda National Cross Border Traders' Association to the Ministry of Finance, Planning and Economic Development (MoFPED), 11th May 2021.

National Planning Authority (2020) "Third National Development Plan (NDP III) 2020/21 – 2024/25". Republic of Uganda, July 2020.

Rauschendorfer, J. and A. Twum (2021) "Unmaking of a customs union: Regional (dis)integration in the East African Community." IGC Working Paper F-20020-UGA-1