Trading up: Harnessing the AfCFTA for growth in Uganda

Lawrence Edwards and Harriet Conron

- The African Continental Free Trade Area (AfCFTA) presents a promising offer of continent-wide market access for Uganda.
- However, these gains are not guaranteed, and the benefits of the AfCFTA also come with increased competition for Uganda's exports.
- Using a sample of large geographically dispersed African countries, our modelling estimates a net reduction in exports of around $2 million per year if tariff reductions are the sole instrument of the AfCFTA.
- But this result reverses if liberalisation is accompanied by a programme of trade facilitation measures, with exports predicted to increase by 3% ($91 million), accompanied by higher customs revenue.

POLICY BRIEF UGA-20269

MARCH 2022

This project was funded by IGC Uganda

www.theigc.org

DIRECTED BY LSE UNIVERSITY OF OXFORD

FUNDED BY UKaid from the British people

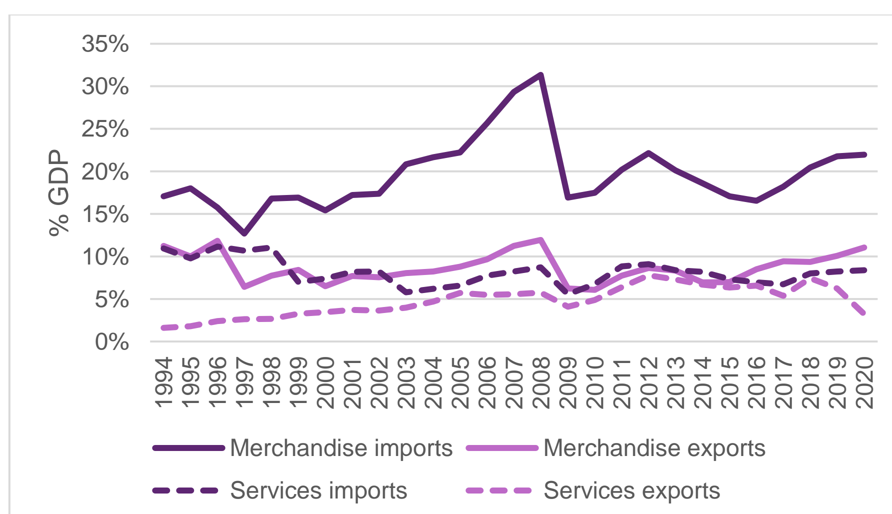
The African Continental Free Trade Area (AfCFTA) is an ambitious programme of regional integration across 54 African states, covering trade in goods, services, investment, intellectual property rights, and competition policy. The African Development Bank estimates that the gains from implementing the AfCFTA could amount to 3.5 percent of the continent's GDP, ($100 billion per year), but only if tariff reductions are complemented by removal of non-tariff barriers (NTBs) and improvements in trade facilitation (African Development Bank, 2019).

This brief outlines the existing structure of Uganda's trade and considers potential opportunities and challenges from the implementation of the AfCFTA, before simulating the impact of three AfCFTA scenarios (full liberalisation, partial liberalisation, and full liberalisation with improvements in trade facilitation) on Uganda's imports, tariff revenue, and exports.

Trade performance - retrospective

Over the last 25 years, Uganda has failed to materially improve its aggregate trade performance. While the total value of goods exports grew in nominal terms from $0.5 billion in 1994 to $4.1 billion in 2020, – merchandise exports as a share of GDP remained flat at 11% over the same period. This is weak in comparison to other large African economies – both South Africa and Ghana have export-to-GDP ratios of around 25%, and Nigerian exports account for 15% of its GDP. These figures exclude exports of services, which are more difficult to measure by virtue of being intangible. Uganda has made progress in boosting services exports, chiefly tourism. Balance of payments data suggest Uganda's exports of services approximately doubled as a share of GDP from 2000 to 2019, from around 3% to 6% of GDP - but the impact of Covid-19 on Uganda's tourism industry reversed all of this progress in 2020 (Figure 1).

Figure 1: Exports and imports as a share of GDP



Source: Own calculations using UN COMTRADE and World Bank data. The GDP of Uganda was revised upwards in 2009, resulting in the dramatic decline in trade as percentage GDP in that year.

Uganda has also made considerable progress in diversifying its export bundle. In 1995, agricultural products such as coffee, fish fillets, maize and legumes dominated exports, with coffee alone accounting for 62% of the total value of goods and services exports. By 2018, the share of coffee had shrunk to 8%, with gold emerging as a dominant export (17%), although much of this reflects the processing and re-export of gold imports from the region. Diversification also occurred within agriculture, with milk and other dairy products becoming important sources of export revenue. The composition of Uganda's export basket between goods and services also changed considerably during this period, with services growing from 13% of total exports in 1995 to 38% in 2018 (Figure 2).

Figure 2: Composition of Uganda gross exports, 1995 and 2018

(a) 1995

(b) 2018

Source: Atlas of Economic Complexity Data. Gross trade, measured at HS4-digit level. The value of exports in 1995 was $798 million and in 2018 was $5.28 billion.

Using the broad categories defined by the Atlas of Economic Complexity, major drivers of export growth during the period 2000-2018 were agriculture, precious metals & stones, and services. Together, these categories accounted for 88% of the increase in aggregate exports over this period (Table 1). Non-traditional exports also grew strongly, with the value of exports in metals, electronics and vehicles growing by 15% or more per year on average over this period. At the product level, dairy was a significant driver of growth, with exports of milk, butter and concentrated milk powder growing by an annual average of 61%, 44% and 41% over the period, respectively. Gold is the major driver of strong growth in

precious metals & stones exports seen in Table 1– it grew by 45% per year, on average. Growth in exports of services was driven by travel and tourism, which grew by 12% per year to reach $1.2 billion in 2018, accounting for 23% of Uganda's total export basket. Services exports were also boosted by the emergence of ICT exports (growing by 22% per year since 2000), transport (11% per year) and insurance services, which were not exported in the year 2000, but which generated $32 million in export revenue in 2018.

Table 1: Export growth by sector, 2000-2018

	Export value ($US million)		Annual growth rate (%)	Contribution to growth (%)
	2000	2018		
Agriculture	289	1,727	10%	31%
Minerals	26	179	11%	3%
Chemicals	5	123	19%	3%
Textiles	25	89	7%	1%
Precious metals & stones	29	908	21%	19%
Metals	6	115	18%	2%
Machinery	4	27	11%	1%
Electronics	1	18	17%	0%
Vehicles	4	51	15%	1%
Other	5	50	13%	1%
Services	213	1,991	13%	38%
Total	607	5,279	13%	100%

Source: Own calculations using Atlas of Economic Complexity data

Uganda's exports are highly regionalised, with more than half of all exports of goods remaining on the continent. Table 2 presents data on the value and regional composition of Uganda's export and import trade in goods in 2000 and 2018. Trade is aggregated to Africa and Rest of the World, with Africa further disaggregated to the following regional groupings: EAC, SACU, Rest of COMESA, Nigeria and Ghana.

Within Africa, much of Uganda's exports are concentrated within the EAC (40% of total exports in 2018) and COMESA (8%) where FTAs already exist. The share of Uganda's exports to other African countries such as SACU (largely South Africa), Nigeria and Ghana is much lower, jointly making up less than 2% of total export value.

These low export flows with African countries outside of the EAC and COMESA provide rationale for the removal of tariff barriers to intra-African trade, as is anticipated under the AfCFTA. But the high share of exports already destined for the continent also reflects a reduced scope to further expand exports into the region and the limitations of existing trade agreements in assisting Ugandan exports to reach markets outside Africa.

Table 2: Uganda's exports and imports of goods by destination

	Total (US$, million)		Annual Growth rate (%)	Share (%)	
Country Groupings	2000	2018	**2000-2018**	2000	2018
Exports					
Rest of World	276.9	1486.3	9.8	68.7	48.2
Africa	126.0	1600.2	15.2	31.3	51.8
EAC	79.3	1254.5	16.6	19.7	40.6
SACU	30.6	9.8	-6.1	7.6	0.3
Nigeria	0.1	2.8	20.1	0.0	0.1
Ghana	0.0	3.9		0.0	0.1
COMESA	12.9	243.9	17.7	3.2	7.9
Total	402.8	3086.6	12.0	100.0	100.0
Imports					
Rest of World	564.2	5327.8	13.3	59.2	79.3
Africa	388.5	1388.3	7.3	40.8	20.7
EAC	305.3	796.3	5.5	32.0	11.9
SACU	70.9	335.0	9.0	7.4	5.0
Nigeria	0.2	0.6	6.4	0.0	0.0
Ghana	0.0	3.4	31.4	0.0	0.1
COMESA	10.4	160.2	16.4	1.1	2.4
Total	952.7	6716.0	11.5	100.0	100.0

Source: Own calculations using Uganda reported trade from UNComtrade.
Notes: 'COMESA' refers to trade with countries which are not also members of the EAC and SACU.

Opportunities and perils of the AfCFTA

Covering 54 African Union countries, the AfCFTA will be the largest trade agreement, by number of members, since the formation of the World Trade Organisation. In population terms, the AfCFTA dwarfs the EU single market, which is world's largest existing free trade area with around 450 million people. The AfCFTA will cover 1.4 billion people.

The agreement is also ambitious in terms of its scope and covers comprehensive liberalisation of trade in goods that goes beyond removal of tariffs on African goods to include mechanisms for the identification, classification, and resolution of NTBs, and implementation of a package of measures to facilitate trade. The agreement also includes protocols to reduce barriers to intracontinental trade in services, as well as provisions on investment, intellectual property and competition policy.

The specifics of how many of these measures will be implemented in the AfCFTA remain yet to be determined. The resolution of negotiations on addressing NTBs and the 'rules of origin', which qualify products for tariff-free market access, will be critical in shaping how Uganda stands to benefit from the AfCFTA.

Table 3: Trade weighted average MFN tariffs on Uganda exports to destinations

	Tariff on current exports	Tariff on EAC equivalent exports	Difference
Ghana	4.2	13.6	9.4
Nigeria	5.3	12.4	7.2
Rest Africa	8.4	14.4	6.0
South Africa	1.6	9.4	7.8

Notes: Based on TRAINS data. Column (2) reflects the tariffs imposed by the partner country on an import bundle equivalent to what Uganda exports to the Rest of the EAC. If the partner country does not import the product from any country, it is excluded from the bundle.

High statutory tariffs imposed by African trading partners not currently covered by an FTA present potential for export growth. Under the AfCFTA, Uganda has an opportunity to expand exports by selling new products to new markets. To evaluate the extent to which tariffs in SACU, Ghana, Nigeria and the rest of Africa may impede diversification of Uganda's existing exports, we use the current bundle of goods exported by Uganda to the EAC as a counterfactual example of what is possible under no tariff barriers.

Table 3 presents the weighted average tariff on the counterfactual bundle of exports (column 2), as well as the average tariff applied on the existing bundle of exports. In all cases, the tariff on the counterfactual bundle exceeds that of the current export bundle by a sizeable amount. This suggests that high tariffs in destination markets are impeding diversification of Uganda's export bundle – and as a result, liberalisation under the AfCFTA presents an opportunity to reach new markets with new products.

Uganda's existing exports to the rest of the continent are concentrated in products facing relatively low tariff barriers. Table 4 presents the simple and weighted average statutory tariffs facing products Uganda exports to African countries and regions. While average tariff rates on Ugandan exports to African trading partners are reasonably high, these reduce substantially when weighted by the product composition of trade. This implies that tariff reductions under AfCFTA are unlikely to substantially improve market access for Uganda's existing export bundle. For example, 65% of Uganda's existing exports to SACU (mainly coffee, vanilla beans, cocoa and other horticultural products) already face zero statutory tariffs, implying no additional gain in market access from the AfCFTA.

The AfCFTA will increase competition for Ugandan exports to the EAC, which are currently protected by high Common External Tariff (CET) rates. The last row of Table 4 presents the preference margin granted to Ugandan exporters under the EAC CET. Preference margins are calculated as the difference between the preferential tariff and the Most Favoured Nation tariff for each product exported to the EAC, and represent the degree of protection Ugandan exporters benefit from under the EAC CET. This protection will disappear with respect to other African exporters under the full liberalisation proposed in the AfCFTA. While the basic preference margin (15.5%) is already quite high, when weighted by product composition this rises to 23.4%, indicating

that Uganda's exports to the EAC are heavily biased towards highly-protected products. This suggests potentially large correction effects from implementation of the AfCFTA, which will increase competition for Ugandan exports to the EAC.

Table 4: Average statutory tariffs applied on Ugandan exports and EAC preference margin, 2018

		Simple average	Weighted average
Importer	SACU	10.5	1.6
	Nigeria	10.9	5.3
	Ghana	12.7	4.2
	Rest Africa	10.6	8.4
	EAC	0.0	0.0
	EAC preference margin	15.5	23.4

Source: Own calculation using data obtained from TRAINS. Data are for 2018, with exception of Nigeria (2016) and several countries included in the Rest of Africa group where data for the most recent year is used if not available for 2018. Rest of Africa also includes COMESA countries that provide preferential access to Uganda. Weighted average rates are weighted by the product composition of exports to each destination market.

High tariffs are not the only constraint to boosting Uganda's exports to other African markets. While trade with EAC partners is fully liberalised, NTBs imposed unilaterally continue to hamstring Uganda's export performance. Kenya's recent import bans on Ugandan dairy, maize and poultry on the grounds that Ugandan exports did not meet quality standards highlight the deleterious effect that NTBs can have on export-oriented value chains.

Ugandan exporters face some of the highest trade costs in the world. The 2018 World Bank Logistics Performance Indicators, which measures the cost of transporting tradeable goods, ranked Uganda 102nd out of 160 countries, below other landlocked African countries such as Rwanda (57th), Burkina Faso (91st), Mali (96th) and Malawi (97th). Similarly, bureaucratic delays and red tape increase the cost of moving goods across borders. The World Bank's 2020 Doing Business report ranked Uganda 121st out of 188 countries on the Trading Across Borders indicator, which measures the time and cost associated with the logistical process of exporting and importing goods. By comparison, Rwanda was ranked 88th.

AfCFTA simulations

Simulations of the impact of the AfCFTA reveal no benefit to Ugandan exports without trade facilitation measures. We simulate three different implementation scenarios:

- Scenario 1: Full liberalization between the EAC, SACU, Ghana and Nigeria.
- Scenario 2: Partial implementation of the AfCFTA with tariff reductions between the EAC, SACU, Ghana and Nigeria based on each country's Schedule A submission
- Scenario 3: Full liberalization between the EAC, SACU, Ghana and Nigeria; and the implementation of the trade facilitation provisions, which provide a

framework for simplification and harmonisation of customs laws and procedures.

The AfCFTA's trade facilitation provisions are based on the WTO's trade facilitation agreement (TFA). The TFA encompasses administrative reforms designed to make it easier for businesses to comply with customs procedures (for example, requirements to publish information on import, export and transit procedures; applied rates of duties and taxes; trade restrictions, etc.), and protocols to reduce the cost of transporting goods across borders. These measures are particularly salient for Uganda, as its landlocked geography means that access to international markets depends on not only on trading partners' customs administrations, but also those of third-party transit countries. For landlocked countries, delays at ports and high trade costs can have a compounding effect. The recent fuel crisis caused by the introduction of Covid-19 testing for truck drivers at the Malaba border post provides an illustration of this broader point.

Table 5: Summary of liberalization scenario results on Uganda exports

	Scenario 1: Liberalisation	**Scenario 2: Schedule A**	**Scenario 3: Liberalisation + TFA**
Change in exports to new partners ($US mill)	0.97	0.41	1.87
SACU	*0.70*	*0.15*	*1.40*
Nigeria	*0.26*	*0.24*	*0.45*
Ghana	*0.01*	*0.01*	*0.02*
% Change in exports to new partners	9.45	3.94	18.16
Change in exports to EAC ($US mill)	-3.10	-0.37	89.25
% Change in exports to EAC	-0.39	-0.05	11.11
Change in total exports ($US mill)	-2.12	0.04	91.12
% Change in total exports	-0.07	0.00	2.95

Table 5 presents a summary of liberalization scenario results on Ugandan exports. Under Scenario 1, the benefits of liberalization (expanded market access) are more than offset by reduced trade with EAC partners, as exporters in SACU, Ghana and Nigeria out-compete Ugandan exporters, reducing Ugandan exports to the EAC by an estimated $3.1 million. This is also the case in Scenario 2 (Schedule A list), though the impact is muted by EAC partners retaining tariffs on relatively protected sensitive products. By contrast, full implementation of the AfCFTA alongside the measures in the Trade Facilitation Agreement results in an overall increase in total exports of almost 3%, with benefits to trade both with new FTA partners (SACU, Ghana and Nigeria) as well as existing EAC partners.

Implementation of the TFA would also offset the impact of liberalisation on import tariff revenue. Liberalisation under the AfCFTA (Scenario 1) is predicted to have an only modest impact on total import volumes, but to significantly reduce customs revenue (Table 6). Retaining tariffs on highly protected sensitive products on the Schedule A list both reduces the impact on revenue, but also the magnitude of the increase in imports. By contrast, full liberalisation implemented alongside the trade facilitation agreement is

expected to increase imports by more than 5%, with the increase in import volumes offsetting reductions in customs revenue as a result of the removal of tariffs

Table 6: Summary of liberalization scenario results on Uganda imports and revenue

		Scenario 1: Liberalisation	Scenario 2: Schedule A	Scenario 3: Liberalisation + TFA
Imports	Change value imports, new FTA partners ($US mill)	31.50	6.39	60.79
	SACU	31.26	6.34	60.50
	Nigeria	0.17	0.05	0.21
	Ghana	0.07	0.01	0.08
	% change in total imports, new FTA partners	9.32	1.89	17.98
	Change value imports, other countries ($US mill)	-15.28	-3.17	314.15
	Change total value imports ($US mill)	16.21	3.23	374.94
	% change in total imports	0.24	0.05	5.66
Revenue	Change in customs revenue ($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
	Change in average tariff (percentage points)	-0.31	-0.05	-0.26
	% change in border price	-0.30	-0.05	0.74

Note: Change in border revenues include tariff duties, VAT, excise duties, withholding taxes, petroleum taxes and environmental taxes on imports. Total simulated border revenues for Uganda are USh 6184 billion, which is 89% of Uganda Revenue Authority declared revenues from international trade in 2018/19.

Conclusion and recommendations

To maximise gains from the AfCFTA, Uganda should push hard for the establishment of regional institutions and processes that reduce the cost of intra-regional trade. These are particularly important for Uganda given its geography and remoteness from international markets. The institutional framework established under the AfCFTA presents a useful blueprint for the coordination of regional infrastructure and trade facilitation policies to reduce trade costs. Lowering trade costs is critical to enhance Uganda's regional trade flows and integration into regional supply networks. Currently, EAC partners have proposed varying levels of commitment under the WTO's Trade Facilitation Agreement (which the TFA provisions in the AfCFTA are based on). As a first step, working with regional partners to agree a common EAC position on the TFA would be beneficial – it is in Uganda's interests for these common commitments to be as ambitious as possible.

Concluding negotiations on rules of origin and the resolution of NTBs is critical. Rules of origin are important in any regional trade agreement with a common external tariff, as they prevent tariff leakage through imports from non-preference countries being repackaged in a preference country and exported tariff-free. Rules of origin usually specify a minimum percentage of value added in the domestic market in order to qualify for tariff-free market access. However, if rules of origin are poorly designed, the compliance costs of certifying local content requirements can outweigh the benefits of tariff-free market access. For example, some retailers operating in Southern Africa opt to forego South African Development Community preferential tariffs because they deem the

cost of administering rules of origin documentation too costly (Gillson & Charalambides 2012). This clearly undermines the benefit of a free trade agreement – it is critical that negotiations on the operation of rules of origin are concluded to avoid this outcome.

Harmonisation of product quality standards is an important part of any regional trade agreement, as standards promote trust and facilitate trade – but standards can equally be used as a tool for protectionism, particularly when they are set without reference to the local context. For example, the EAC's quality standards for dairy products are adopted from the FAO's Codex Alimentarius, which reflect Western consumption patterns, and are very expensive to meet for most regional producers. These standards provide an opportunity for governments to erect NTBs by blocking imports which do not comply, without providing any material benefit to food safety, since the vast majority of milk is boiled before consumption in East Africa (Jensen & Keyser 2012). To maximise the economic gains from the AfCFTA, negotiators should avoid the wholesale import of Western quality standards, particularly where these are very expensive for regional producers to comply with, and not reflective of local consumption patterns. In addition, Uganda should support the AfCFTA's NTB provisions, which would establish a mechanism for the identification, categorisation and elimination of NTBs.

In the short term, Uganda can adopt unilateral measures to reduce the cost of trading across borders. Approximately 70% of procedural hurdles reported by exporters are caused by domestic institutions (ITC 2018), providing ample scope to improve export performance by improving administration of export procedures and cutting unnecessary red tape. Recommendations from the OECD's trade facilitation index provide a blueprint for reducing trade costs and improving the speed of customs procedures. These include improving the availability of information on customs procedures and fees and charges, as well as the digitalisation and automation of certain processes (OECD 2019). Uganda's National Export Development Strategy should be revised and implemented to guide these efforts.

Lastly, the AfCFTA should not be seen as a substitute for policies to enhance access by exporters into international markets. Exporters that are able to access international markets are more likely to survive and grow. More importantly, the African market is constrained in economic size. Greater market access through the AfCFTA will raise exports, but largely through increasing the number of firms and products exported, rather than through increases in the value of export per firm. A key constraint to Uganda's export performance is a shortage of very large firms that account for high shares of export value, as is found in other countries. Improved access to larger international markets through preferential agreements, marketing, and investment facilitation, will be required for the emergence of these super exporters.

References

African Development Bank (2019) African Economic Outlook 2019. African Development Bank publication.

Gillson, I & Charalambides, G (2012) ‘Addressing Non-Tariff Barriers on Regional Trade in Southern Africa’, in *Non-Tariff Measures – A Fresh Look at Trade Policy’s New Frontier*, edited by Cadot, O & Malouche, M, pp. 225-246, Washington, DC: World Bank and Centre for Economic Policy Research

Jensen, M & Keyser, J (2012) ‘Standards Harmonisation and Trade: The Case of the East African Dairy Industry’, in *Non-Tariff Measures – A Fresh Look at Trade Policy’s New Frontier*, edited by Cadot, O & Malouche, M, pp. 187-209, Washington, DC: World Bank and Centre for Economic Policy Research

Organisation for Economic Cooperation and Development (2019) OECD Trade Facilitation Indicators. Paris, France: OECD. <https://www.oecd.org/trade/topics/trade-facilitation/>

World Bank (2018). Connecting to Compete 2018: Trade Logistics in the Global Economy. Washington, DC: World Bank.

World Bank. 2020. Doing Business 2020. Washington, DC: World Bank. DOI:10.1596/978-1-4648-1440-2.

World Bank (2020). The African Continental Free Trade Area: Economic and Distributional Effects. Washington, DC: World Bank. doi:10.1596/978-1-4648-1559-1.