Trade policy workshop: Leveraging exports for growth

Event report

Engaging in international trade enables firms to grow faster, by facilitating improved supply of inputs, increasing competition in final goods markets, and expanding market access. Even though Uganda exports less than average for other countries at its per capita income, export growth over the last 20 years has been relatively rapid and with considerable diversification. This has largely been driven by regional integration, in particular with the East African Community (EAC) customs union.

The workshop provided an opportunity to discuss two IGC-funded studies with policymakers in key institutions. Aleksandar Stojanov (World Bank) presented his study of Uganda's participation in international and regional trade, which provides backwards-looking evidence on how Uganda's trade has evolved over the last 20 years, identifying pressing challenges as well as potential opportunities. Professor Lawrence Edwards (University of Cape Town) presented his study of the impact of the African Continental Free Trade Area (AfCFTA) on Uganda's trade.

Participants at the workshop were drawn from two key trade policy institutions in the Ugandan Government. The External Trade Department at the Ministry of Trade, Industry and Co-operatives has policy responsibility for trade negotiations. Officials in this department are tasked with negotiating new trade agreements on behalf of the Government of Uganda. The Private Sector Development Unit and the Ministry of Finance, Planning and Economic Development has policy responsibility for domestic competitiveness and private sector development in Uganda. The workshop provided a forum for policymakers in these two institutions to come together to discuss ongoing negotiations on the AfCFTA, EAC Common External Tariff, and helping Ugandan firms prepare for competition across the continent.

Opening remarks

Moses Kaggwa, Director of Economic Affairs at the Ministry of Finance, Planning and Economic Development provided opening remarks for the workshop. Director Kaggwa discussed the importance of trade with EAC regional partners for Uganda's recent economic growth trajectory. He also highlighted the deleterious effects of trade disruptions – such as Kenya's recent ban of Ugandan dairy products – on Ugandan producers, and noted that the

imminent implementation of the AfCFTA will be critical to Uganda's future growth trajectory.

Harnessing the AfCFTA for growth in Uganda

Professor Lawrence Edwards from the University of Cape Town presented his study, which simulates the impact of the AfCFTA on Uganda's trade flows.

He noted that Uganda's existing exports to the rest of the continent are concentrated in products facing low tariffs, while tariffs on the products Uganda exports to the EAC (a proxy for the counterfactual bundle of goods Uganda could export under no tariff barriers) are relatively high. This implies that liberalisation presents a significant opportunity for export diversification in new markets – but equally, implies no additional gain in market access for existing exports to other African markets.

Under full liberalisation, Ugandan exporters will have to compete with other African exporters, with no protection from the EAC Common External Tariff. Uganda's existing exports to the EAC are biased towards products exported under high preference margins[1], meaning that the trade correction effects of the AfCFTA could significantly disrupt existing export flows.

Edwards simulated trade with three trading partners - South Africa, Nigeria and Ghana – these countries represent large, geographically distant African markets, with which Uganda does not currently have preferential trading agreements in place. The modelling considers three scenarios – full liberalisation of trade between the EAC and the three partners (Scenario 1), partial implementation of the AfCFTA, with reductions in tariffs based on EAC and partner countries' 'Schedule A' submissions (Scenario 2), and full liberalisation of trade in addition to implementation of the WTO's Trade Facilitation Agreement (TFA), which aims to reduce the cost of trading across borders (Scenario 3).

The results of the simulations are striking – there are considerable increases in exports to new partners under full liberalisation (boosting exports to these destinations by around 10% per year, on existing trade volumes). However, these gains are eroded by increased competition in the EAC market displacing existing highly-protected export flows. The Schedule A scenario reduces the potential losses in the EAC market, but equally reduces the gains in new markets. But these two scenarios are completely dwarfed by the potential gains from the third scenario (liberalisation and TFA).

[1] The preference margin is calculated as the difference between the preferential tariff (i.e. EAC rate) and the Most Favoured Nation tariff, and represents the degree of external protection that Ugandan exporters benefit from under the EAC CET.

On the imports side, Edwards estimates full liberalisation will boost imports from new partners by around 9% - but that close to half of these gains come from diversion of imports from other countries. The Schedule A scenario is estimated to have a small impact on imports – since the EAC offer retains protection on key imports from new partners. As with exports, the largest gains are expected to come from the combination of full liberalisation with trade facilitation. In addition, Edwards estimates that the gains from non-tariff border revenues (VAT, excises, etc) would offset the loss in tariff revenue under this scenario. At the household level, liberalisation is expected to have a pro-poor impact, which greater gains for the lowest-income households – but these gains are eliminated if tariff reductions are limited to the Schedule A list.

Uganda's participation in international and regional trade: Patterns, prospects, and policy

Aleksandar Stojanov (World Bank) presented his study of Uganda's trade patterns, identifying upcoming challenges and opportunities.

Stojanov began by providing an overview of Uganda's recent trade performance. He noted that Uganda is less integrated in global trade than expected, given its level of development. The value of exports and imports together come to around 37% of GDP – this is below average among peer countries with similar income levels. Over the past decade, Uganda's exports have also grown slower than those of its' peers, although a recent spike in exports has resulted in some catch-up –this was driven by a surge in exports of gold.

Stojanov noted that regional trade is key to Uganda's export performance – Uganda relies heavily on regional neighbours with the Democratic Republic Congo (DRC), Kenya, South Sudan and to a lesser extent Tanzania absorbing most of the country's exports. Crucially, Uganda also exports large volumes of goods to these countries unregistered - small-scale cross border trade to these destinations is as high as 40 percent of formal exports. Growth in services exports has slowed in Uganda, but services still represent an opportunity for expansion – especially outside of travel and tourism, which have historically been the vast majority of services exports from Uganda.

Stojanov finds that Uganda has become more diverse in terms of exported products but more concentrated in terms of destination markets. While the foodstuffs sector improved market diversification in the early 21st century, expansion has been somewhat slower in the last decade, underscoring the potential need for further market expansion in the foodstuffs sector. Uganda's participation in the global trading system can be improved by supporting measures to improve export market and product diversification. Over the past

decade, product and market diversification in Uganda has been driven by the agricultural sector, particularly vegetables and foodstuffs.

The growth of agricultural exports has to some extent led to a concentration of Ugandan exports in specific markets, partly due to EAC-CET shields from regional competition. In the EU, coffee accounts for 60% of total exports, followed by fish and flowers. In the EAC and COMESA, trade is concentrated in dairy (20% of exports to the region), as well as maize, dried beans, tobacco and tea.

Only 25 percent of Uganda's agricultural exports are processed (i.e., not raw produce), with a track record in dairy products and fish. Expanding value addition by Ugandan producers is crucial and will depend on key imported inputs and technologies. Existing champions can set the stage for new entrants toward more domestic processing and expansion to foreign markets.

Stojanov also finds that agricultural exporters involved in both exporting and importing activities are found to be larger. Around 30 percent of firms in the agricultural sector that participate in export activities also import goods, and these firms tend to be of larger size. This highlights the fact that reducing access to globally sourced inputs could hinder firm’s export success.

Finally, Stojanov noted that there is a tension between Uganda’s ambitions to harness regional integration for higher exports and the country’s attempts to shield its domestic market for local firms. Tariff increases are not usually accompanied by decreases in import volumes – indicating that these may be ineffective at protecting local producers.

Discussion and policy implications

The discussion session was chaired by Godfrey Byamukama, Assistant Commissioner – Private Sector and Investment, Ministry of Finance, Planning and Economic Development. Participants discussed key implications from the two studies presented, including:

- The importance of reducing trade costs – internationally through the trade facilitation provisions in the AfCFTA, but also through domestic measures such as increasing investment in One Stop Border Posts and publication of up-to-date trade rules and procedures on the Uganda Electronic Single Window.
- Whether investment in new transport infrastructure (e.g. Standard Gauge Railway) will enable goods to reach geographically distant markets once tariff barriers are removed under the AfCFTA liberalisation effort.
- The interaction between the new EAC Common External Tariff rate of 35% and the imminent implementation of the AfCFTA. While domestic firms will

benefit in the short term from reduced competition, higher external protection in the EAC raises the scope for trade diversion when the AfCFTA is implemented.

- The role of imported inputs in fostering domestic competitiveness – many of Uganda's largest exporters are also importers. Increasing tariffs on imported inputs can put Ugandan firms at a competitive disadvantage, especially when domestically-produced substitutes are not available at competitive prices.