

August 2022

Trading up: Harnessing the AfCFTA for growth

Professor Lawrence Edwards, School of Economics, PRISM
University of Cape Town

[with Jing-Woei Chien, Harriet Conron, & Godfrey Kamutando]



The African Continental Free Trade Area (AfCFTA)

- Ambitious in scope and objectives
- Expectations are high
- What are the opportunities and challenges for Uganda?



Composition of Uganda non-gold exports, 1995 and 2018

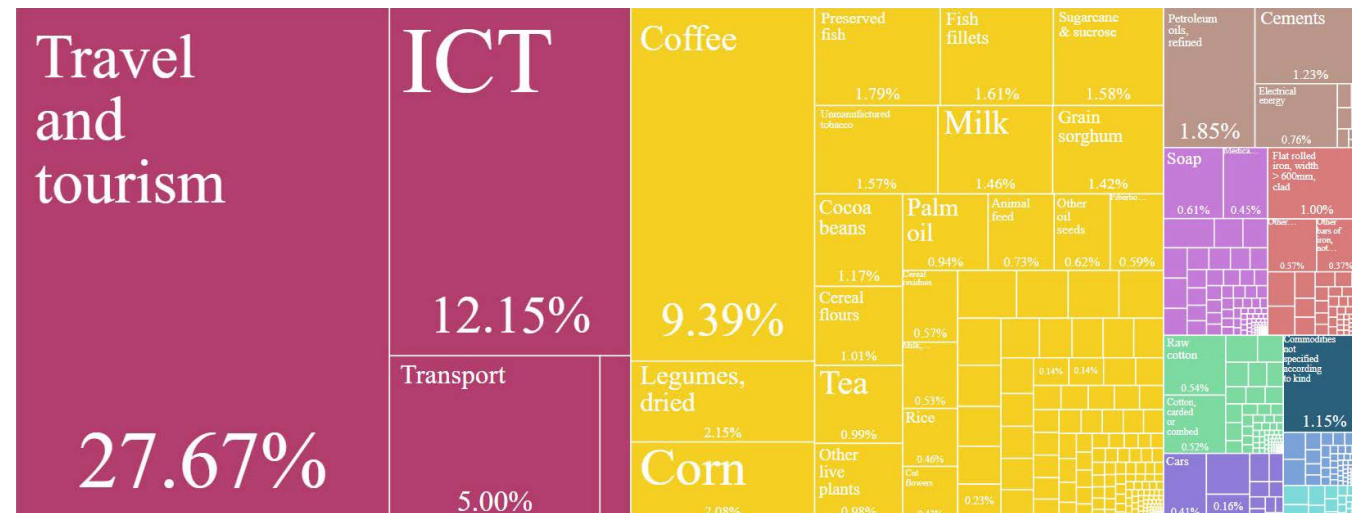
Uganda made excellent progress in raising and diversifying product composition of exports of goods and services



1995 (\$ 777 million)



2018 (\$ 4.37 billion)



Despite successes, Uganda under-performs in exports

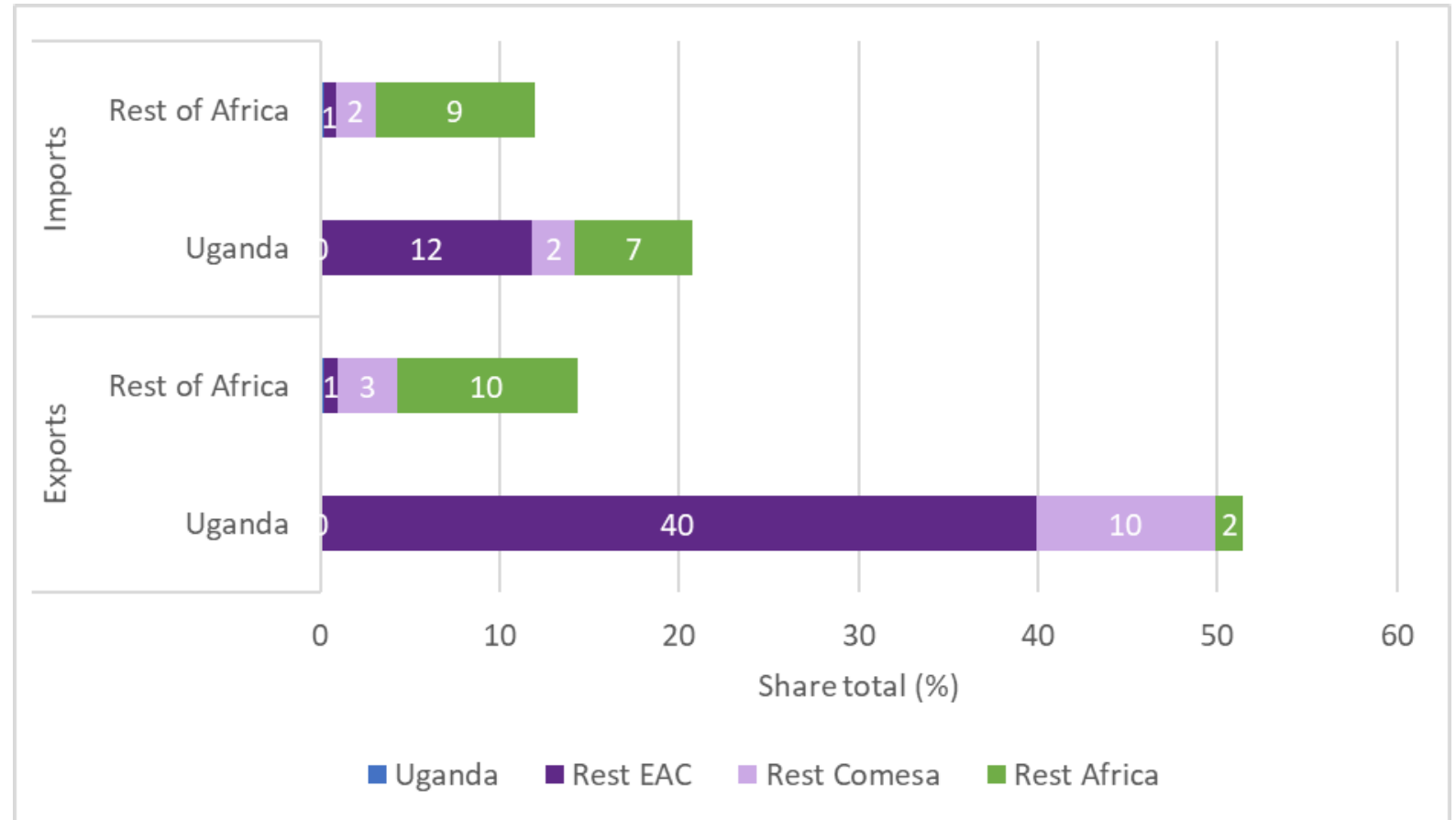
	Exports per GDP (%)	Manufacturing share goods exports (%)	Exporting firms per population (100 000)	Mean exports/firm (million USD)	Share of top 5 % exporters in aggregate export value	1 year survival rate of new exporters
Uganda	17	14	4	0.75	0.74	0.26
Rest of EAC (Excl. Burundi)	16	21	9	1.16	0.85	0.32
Rest Africa	23	24	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. Exports per GDP and manufacturing share of exports from World Development Indicators for 2019 with Rest of Africa covering Sub-Saharan Africa

AfCFTA presents an opportunity for growth

- Success in integrating into EAC (particularly exports)
- ... but not as much into rest of Africa

Intra-Africa share trade in goods – Uganda and Rest of Africa, 2018 (% total)



AfCFTA presents an opportunity for growth

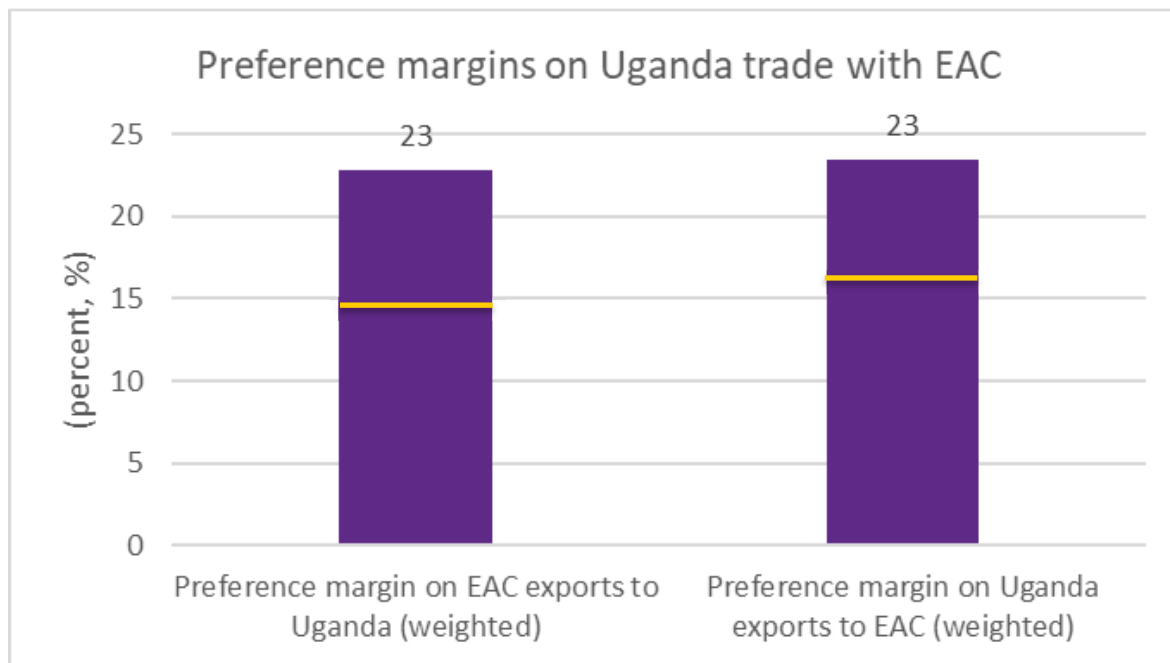
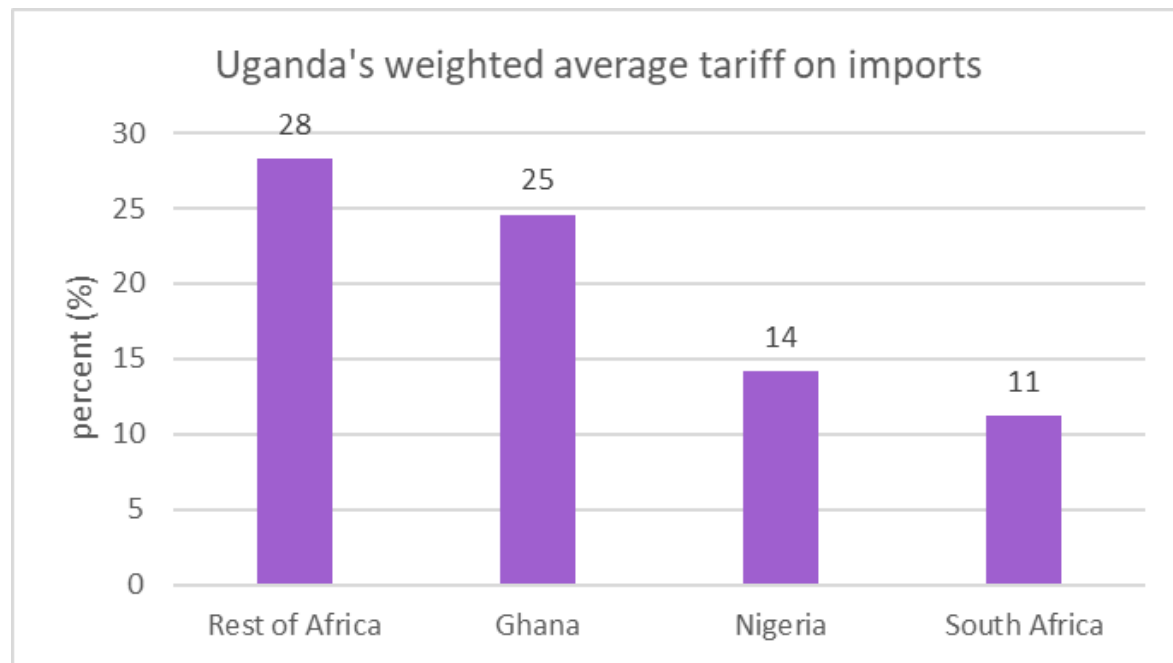
- Existing exports to the rest of the continent are often concentrated in products facing low tariffs
- No significant gain in market access for bulk of existing exports
- But high simple average tariffs and tariffs on counterfactual bundle imply trade barriers impede Ugandan export growth and diversification

<i>Trading partner</i>	<i>Tariff on current exports</i>	<i>Tariff on EAC-equivalent export basket</i>
Nigeria	5.3 (10.9)	12.4
Ghana	4.2 (12.7)	13.6
South Africa	1.6 (10.5)	9.4
Rest of Africa	8.4 (10.6)	14.4

Note: Trade weighted. Simple average in parentheses.

But competition from African exporters is a threat

- Under full liberalisation, Ugandan firms/exporters will have to compete with other African exporters in **domestic** market and **EAC** market, with no protection from the EAC CET



Note: Preference margin = MFN tariff - preferential tariff
Yellow line is simple average tariff

Four considerations for Uganda's trade under the AfCFTA

- **Market access:** Lower tariffs increase market access
- **Preference erosion:** For exporters more competition in EAC market, but 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

Simulation of AfCFTA impacts

Partner countries

We simulate trade with three large geographically distant African markets, with which Uganda does not currently benefit from preferential trade arrangements:

- SACU
- Nigeria
- Ghana

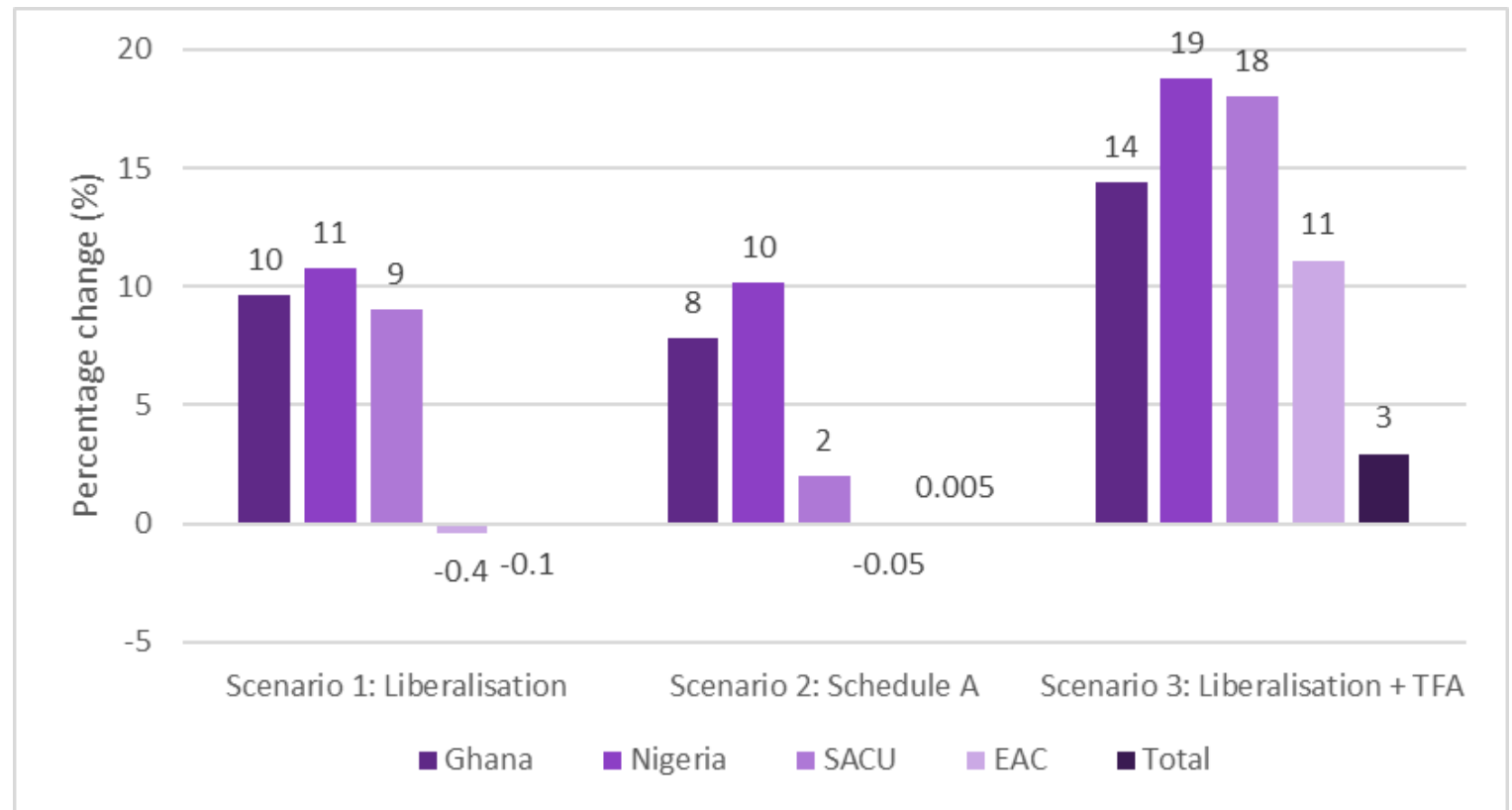
Scenarios

1. Full **liberalisation** of trade between EAC and partner countries
2. Partial implementation, with reductions in tariffs based on EAC and partner countries '**Schedule A**' submissions
3. Full liberalisation of trade between EAC and partner countries, plus implementation of the WTO trade facilitation agreement (**TFA**) provisions affecting imports

Scenario impacts - exports

- Considerable increases in export to new partners under full liberalization.
- But aggregate gains eroded by increased export competition in EAC market
- Schedule A reduces gains, particularly to SACU, and losses to EAC, but trade gains almost zero
- Biggest gains to exports if liberalization accompanied with TFA

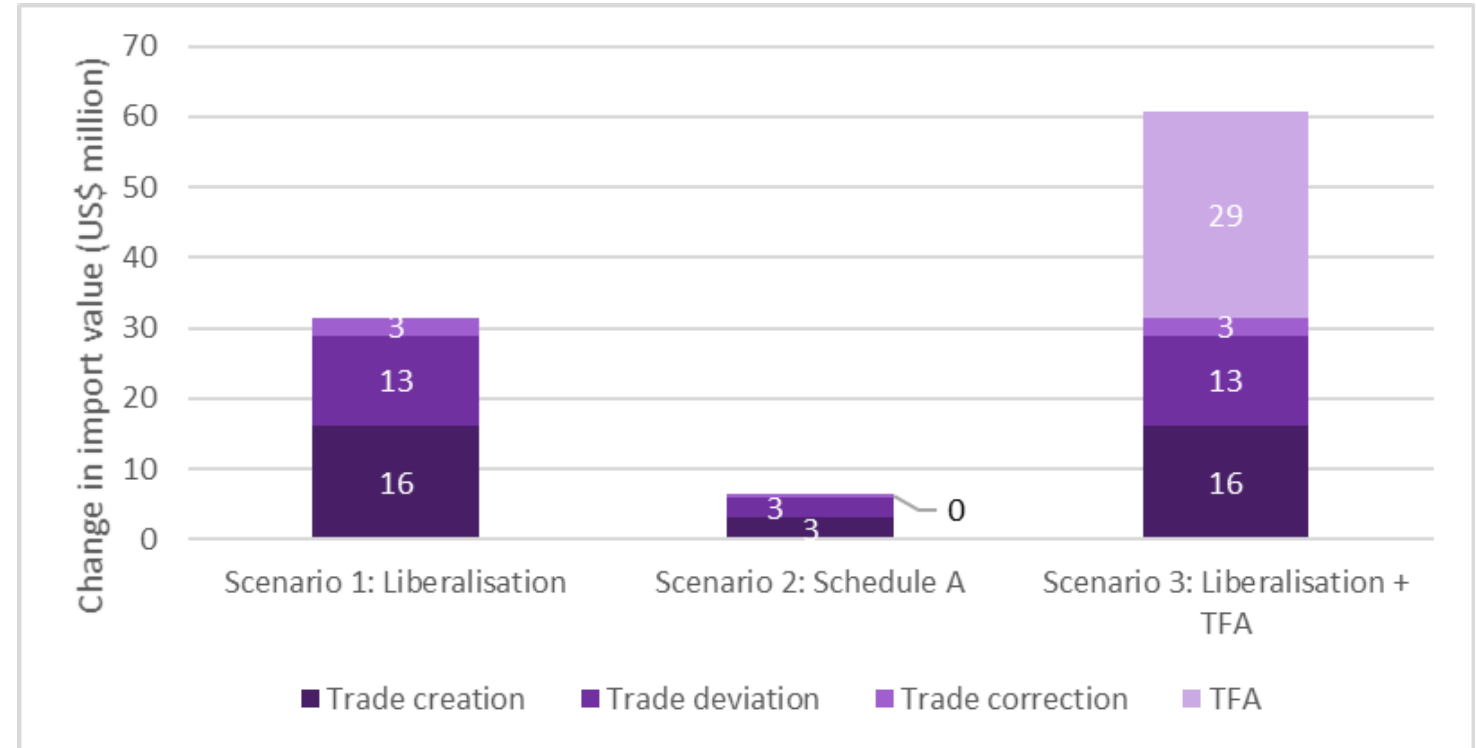
Figure: Percentage change in exports to destinations (%)



Scenario impacts - imports

- Full liberalization boosts imports from new partners by US\$ 32 million (9.3% initial value)
- But close to half of gains are from diversion of imports from other countries
- The EAC schedule A offer retains protection on major imports from new partners.
- Biggest gains to imports if liberalization accompanied with TFA

Figure: Change in imports from new partners by type (US\$ million)



Scenario impacts – customs revenue

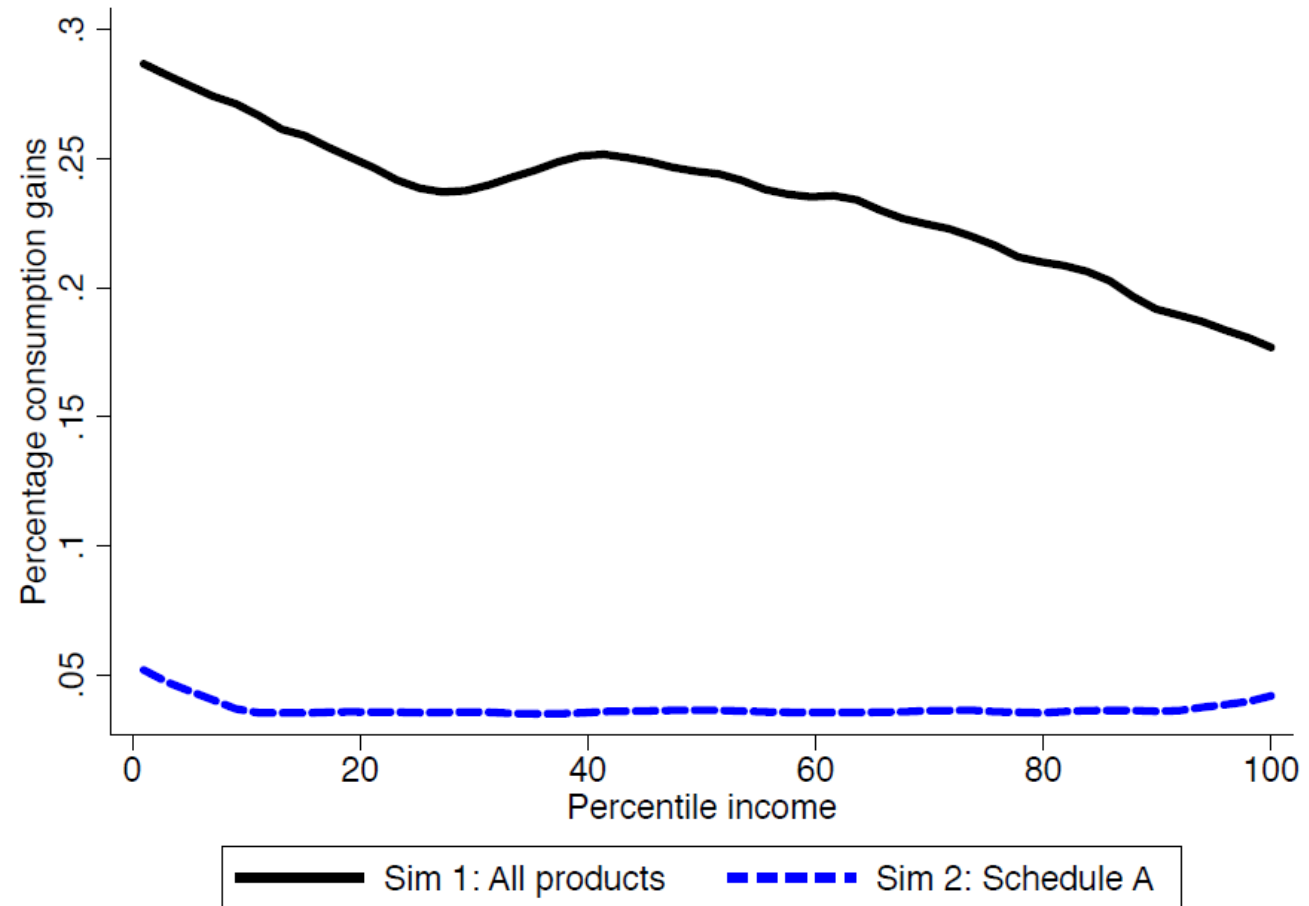
	Scenario 1: Liberalisation	Scenario 2: Schedule A	Scenario 3: Liberalisation + TFA Africa only
Change in customs revenue (\$US mill)	-20	-3.4	-20
Change in other border revenue (VAT, excise, etc.)	3	0.1	21
Total change in border revenue (\$US mill)	-17	-3.3	2
% change total border revenues	-1.0%	-0.2%	0.1% (4.2%)

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 US\$ 6184 billion, which is 89% of Uganda Revenue Authority declared revenues from international trade in 2018/19.

Scenario impacts – consumer impact

- Pro-poor impact via consumer expenditure
- But gains eliminated if only Schedule A tariff reductions applied

Figure: Percentage gain to Ugandan consumers from trade agreement (% initial household expenditure)



Note: Own calculations based on data obtained from Artuc et al. (2021) and changes in import weighted average tariff from simulation 1 and simulation 2. Assumes full pass-through of tariff reductions to landed price of imported good.

Policy implications – FTA negotiations

Too defensive a strategy reduces gains to consumers and exporters: Consider faster reductions in Schedule A tariffs than required under AfCFTA

Consider the interaction between the AfCFTA and EAC CET. Higher external protection in the EAC raises the potential for negative impacts on Ugandan exporters under AfCFTA liberalisation.

Remain conscious of the role of imported inputs in fostering competitiveness – Increasing tariffs can put Ugandan firms at a competitive disadvantage

Uganda should support the AfCFTA's NTB provisions to establish a mechanism to identify, classify and eliminate NTBs.

Minimising compliance costs of rules of origin is also a priority, to ensure that Ugandan exporters can fully benefit from promised expanded market access

Policy implications – domestic

Trade facilitation is crucial and Uganda should push for TFA provisions in the AfCFTA to be as ambitious and as rapidly implemented as possible.

Unilateral measures to reduce trade costs are advisable, while TFA negotiations are ongoing. These include

- Increased investment in One Stop Border Posts and the Uganda Electronic Single Window
- Publishing trade rules and procedures
- Other

Uganda should also consider investments which reduce transport costs, to enable goods to reach geographically distant markets once tariff barriers are removed.

Consider mechanisms to support entry and survival of small exporters.

Contacts

Professor Lawrence Edwards
School of Economics
University of Cape Town
Lawrence.Edwards@uct.ac.za

International Growth Centre
London School of Economics
and Political Science

www.theigc.org



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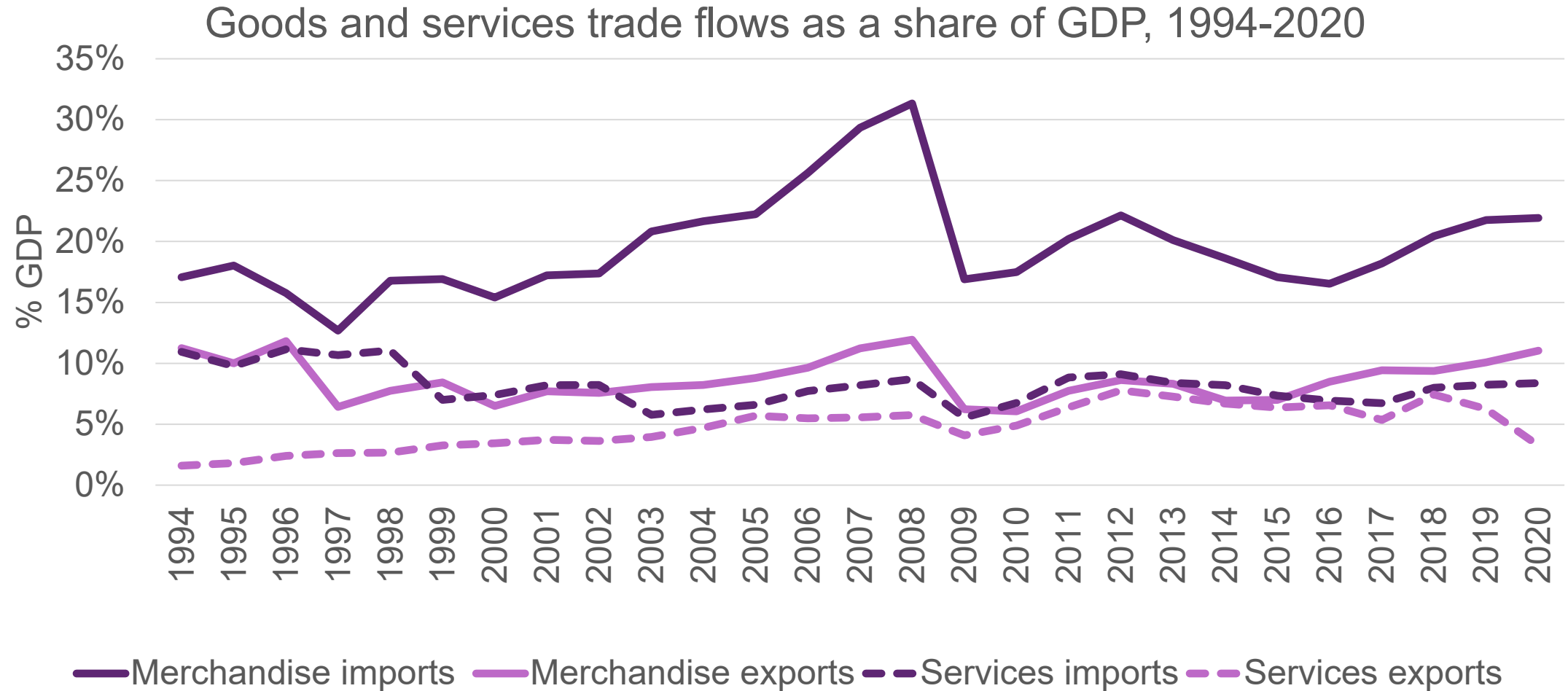


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Appendix: Uganda's export performance

... but this has not improved export performance



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

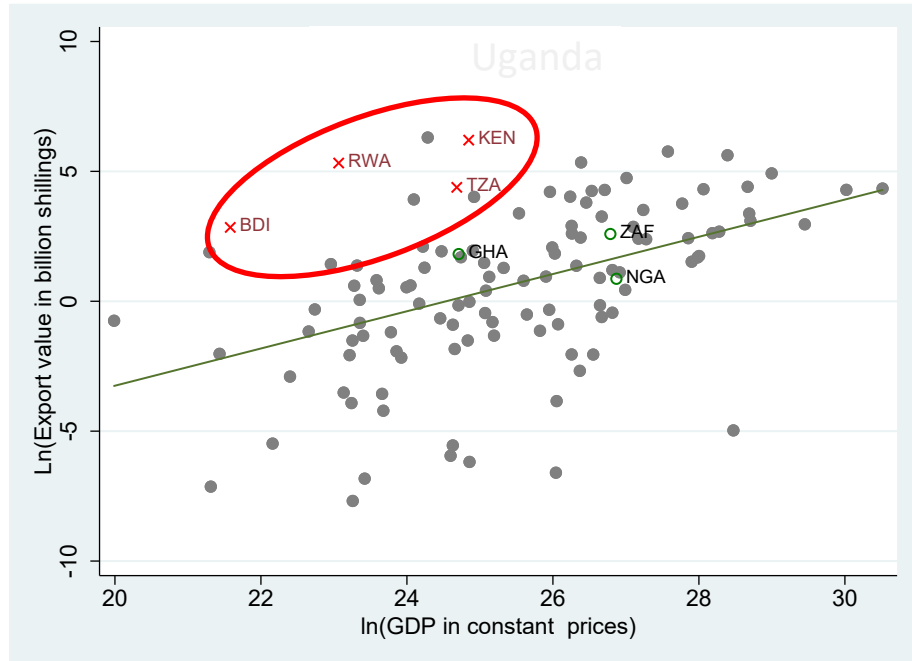
Data for 2018. A shipment is the export of a product to a destination. Gold exports are excluded

- 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)

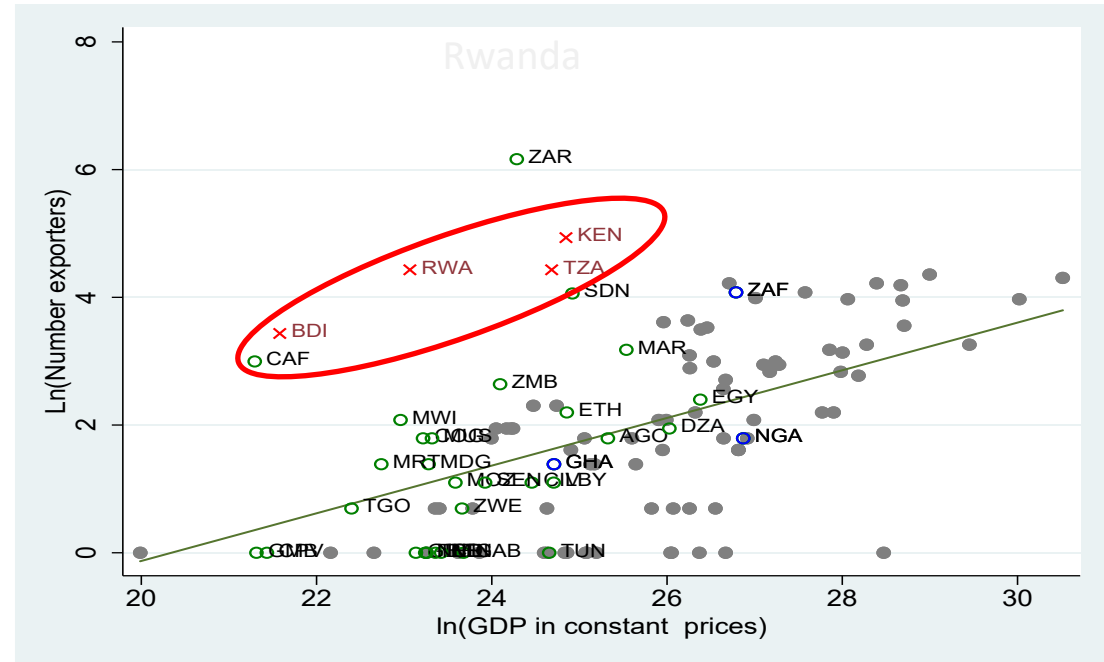
Regional market attracts many small exporters

Uganda disproportionately exports to EAC - mostly driven by extensive margin (number of firms and transactions/firm)

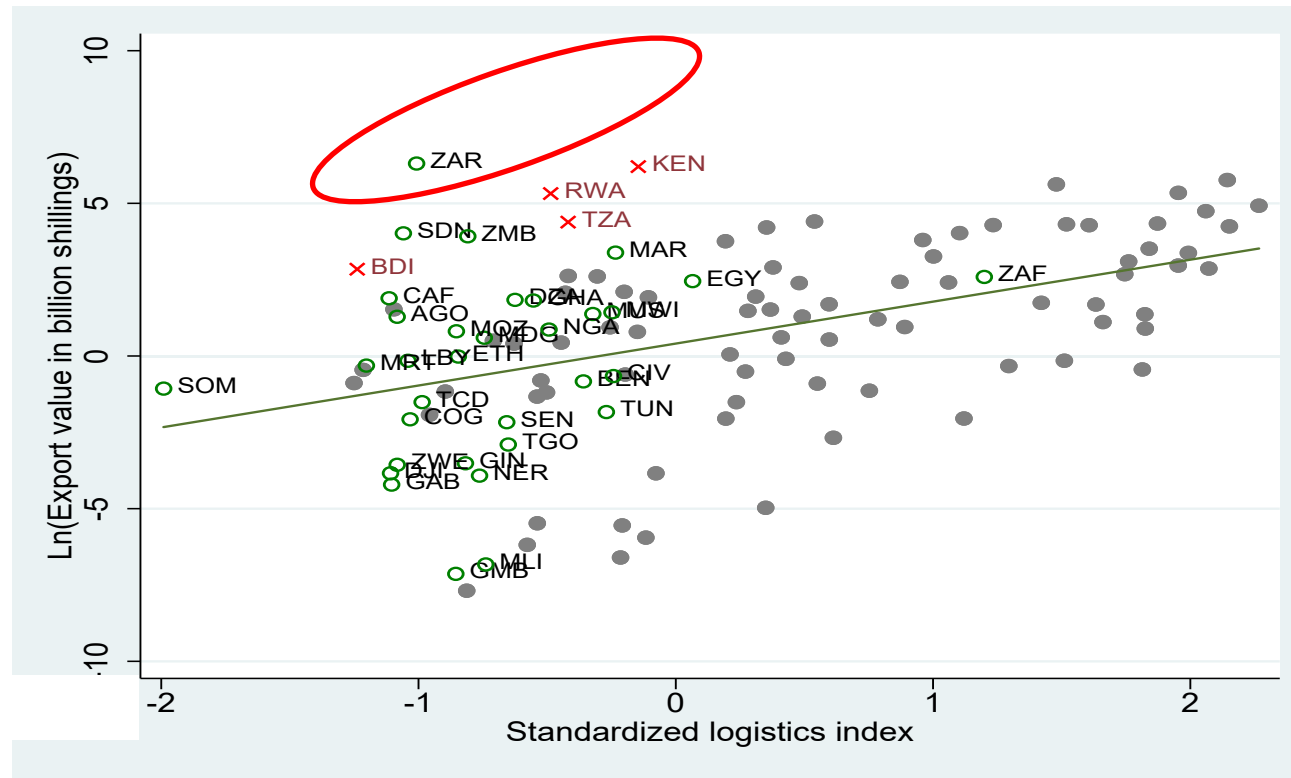
Total Uganda export against destination GDP, 2018



Number of exporters against destination GDP, 2018



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

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