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

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- Uganda has made progress in diversifying its trading partners – but more work remains to be done to expand exports of higher value-added products and integrate into Global Value Chains.
- More than 70% of Uganda’s new export relationships – at the product and destination country level – fail to survive for more than one year. To achieve sustained export growth and diversification, both successful entry into export markets and survival of export flows are crucial.
- At the firm level, access to imported inputs is an important determinant of export participation - firms which import some of their inputs are more likely to be exporters than firms which source all of their supplies domestically. This suggests that reducing barriers to importing could support export development.
- The African Continental Free Trade Area (AfCFTA) presents an opportunity for Uganda to expand its exports to continental partners. By fiscal year 2035, Uganda’s total annual export volume is expected to have exceeded its volume of USD 4.15 billion in fiscal year 2020 by an additional USD 2.55 billion. Similarly, imports could rise by around USD 3.1 billion by 2035.[2] However, achieving these results requires taking measures to improve trade facilitation and supporting exporters’ competitiveness to offset declines in external protection.

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[1] This brief is based on work by Rauschendorfer, Stojanov and de Melo (2021).
[2] These figures represent recent estimates taken from: Whyte, S., Sebudde, R. K., Stojanov, A., Atamanov, A., and D. Lukwago (2022) *Uganda Economic Update 20th Edition : Unlocking the Benefits of the African Continental Free Trade Area and Regional Integration.* Washington, D.C., World Bank Group.

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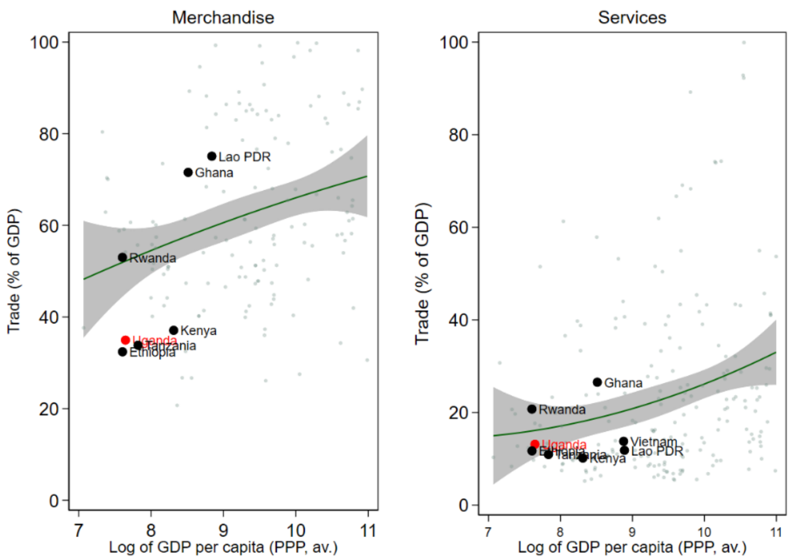
Characteristics of Uganda's trade

Uganda is less integrated in global trade than would be expected, given its level of economic development. To illustrate, merchandise trade accounted for around 38% of GDP on average over the period 2017-2019 – compared to around 56% for Rwanda. The reason is that Uganda's trade has grown at slower pace than those of comparator countries over the last decade.

Figure 1: Merchandise and Services Trade as a share of GDP (2017 – 2019 average).



Source: World Development Indicators, Authors' calulations.

Note: The figure plots the value of imports plus exports (merchandise and services) as share of a country's GDP against its GDP per capita for all countries in the world over the period 2017-2019. The fitted line shows the predicted value of exports as a share of GDP for a given level of income. The grey band represents the 95 percent confidence interval of that prediction.

Which products drive export growth in Uganda?

Agricultural goods are Uganda's main source of export revenue, accounting for around 64 percent of total merchandise exports. The export basket is dominated by cash crops (e.g., coffee), dairy products, fish and cut flowers. These products are also the main drivers of export growth in Uganda. Foodstuffs and vegetable exports show the highest annual average growth rate of around 15 percent.

The growth of services exports has stagnated in recent years, mainly due to lower export values in construction services and personal travel. Growth rates in the services sector were dampened by the impact of the Covid-19 pandemic but have since rebounded.[3]

Which markets are most important to Uganda's trade?

Regional trade is key to Uganda's export success, both in terms of formal trade as well as for the country's informal small-scale cross border trade. Uganda relies on its regional neighbours as export destinations: the Democratic Republic Congo (DRC), Kenya, South Sudan and (to a lesser extent) Tanzania absorb most of the country's exports. Crucially, Uganda also exports large values of goods to these countries informally: Small-scale cross border exports to these destinations can contribute as much as 40 percent to total exports.

Exports to the EU are smaller, accounting for only 20 percent of Uganda's total exports in value terms and tend to be more concentrated on individual destination countries and products. However, this degree of concentration may be overestimated, as Uganda's exports to the EU consist mainly of cash crops or flowers, which tend to be shipped to specific markets that function as hubs for re-distribution within Europe. For example, flower exports are mostly shipped to the Netherlands, but then redistributed across the continent.

Progress on export diversification

In recent years, Uganda has become more diverse in terms of export products but more concentrated in terms of destination markets. Over the past decade, product and market diversification in Uganda been driven by the agricultural sector, particularly vegetables and foodstuffs. 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.

Gold and oil re-exports have emerged as significant components in Uganda's export basket over the last ten years. These products are highly volatile in terms of export volumes, and like all commodities are subjected to significant price fluctuations. Because these products offer limited opportunities for domestic transformation and value addition, they are excluded from the remaining analysis.

Low export survival rates hinder growth

Successful entry into export markets but also survival of export relationships are crucial to achieve sustained export growth and diversification. However, Uganda's export survival rate is low. The probability of a new export relationship at the country of destination and product level surviving past the first year is

[3] It should be noted that on the external side, imports and exports of services fell from 14.2 percent of GDP in 2019 to 11.2 percent in 2020 and have since increased only slightly to 12 percent of GDP in 2021, according to the latest data from the World Bank's World Development Indicators.

less than 30 percent. The probability of the relationship surviving for more than two years is less than 17 percent.

Crucially, survival rates for Uganda's export products and firms tend to be higher for countries where Ugandan exporters enjoy preferential market access. Specifically, at an average first year survival rate of approximately 40 percent, Uganda's exports have a higher probability of survival in the EU-28, US-Canada and East African Community (EAC) markets where preferential access exists.

Export relationships with non-EAC African countries have the lowest survival rate compared to other regions. Only 20 percent of new relationships exist after one year and less than 10 percent survive the second year. The entry into force of the African Continental Free Trade Area (AfCFTA) could create a more adaptive environment to improve survival rates at the regional level and with other Africa countries.

Participation in Global Value Chains

Participation in backward-looking Global Value Chains (GVCs) is important for export diversification. GVCs involve multiple trade flows across borders thereby multiplying the impact of high trade costs (e.g. transport and logistics bottlenecks) and other border-level obstacles on economic competitiveness.

Uganda has successfully integrated into the global floriculture value chain, the regional dairy value chain, and to a limited extent the fish value chain. The country can build on this success to improve product quality and market participation – and ultimately improving its GVC participation – by adopting domestic policies to support investment and export diversification. Higher GVC integration will ultimately promote a more inclusive and sustainable economic recovery.

Characteristics of key value chains

Coffee

Coffee contributes about 15 percent to total Ugandan export earnings in any given year and represents more than 60 percent of total agricultural exports, in value terms. The commodity is mainly exported to the EU and was barely affected by the Covid-19 pandemic, despite a significant drop in prices, driven by higher-than-usual export volumes.

While the Ugandan coffee market is dominated by a relatively small number of exporters, these reveal a significant degree of diversification with respect to destinations served. In the medium to long run, the government could leverage this market structure of the coffee value chain – consisting of many small-scale farmers that can only reach global markets through a small number of exporters

– to incentivize quality upgrading along the value chain by working towards higher standards at the export gate.

Dairy

Driven by strong regional demand and powered by Foreign Direct Investment, dairy has shown exponential export growth and has become a key export product for Uganda over the last decade. Dairy exports are highly regionalized and predominantly shipped to the East African Community (mostly Kenya) tariff-free, protected to some extent from competition from outside of the region by high EAC-CET rates. Markets outside of the EAC only absorb about 5 percent of Ugandan dairy exports.

Given the dependence of the country on a handful of adjacent markets, dairy exports are highly vulnerable to disruptions in regional market access. Most crucially, Kenya has increasingly started to block Ugandan products, including maize, sugar and dairy, citing concerns that Uganda does not wholly produce these products itself. In addition, tariff liberalization under the AfCFTA will erode preferential access to regional markets in the coming years. Ugandan dairy producers should prepare for competing with continental heavyweights including South Africa and Egypt.

Fish

Despite being landlocked, Uganda is the fifth biggest fish exporter in Africa. Fish is exported to high-value markets in the EU and Asia, in addition to being traded informally in large quantities to regional markets. A small number of exporters account for the bulk of the Uganda's formal fish exports, which add substantial value locally before exporting (drying, salting, preparing as filets). Government priorities for the fish sector should include to prevent overfishing and to support adherence to quality standards. In the past Uganda has been subject to import bans by the EU (one of its key markets), namely in 2002, 2015 and in 2019.

Firm-level determinants of export success

Regression results suggest that firms in the agriculture, agribusiness and manufacturing sectors are more likely to engage in export activities than firms engaged in other sectors in Uganda. In addition, whether a firm imports inputs from abroad is highly predictive of export market participation, especially for agriculture and manufacturing firms: Firms that import and are engaged in agribusiness and manufacturing are 33.7 percent and 29 percent more likely to export, respectively, compared to firms that are active in other sectors and that do not import.

How does trade policy affect Uganda's trade integration?

Uganda is a signatory to several trade agreements that matter for the country's export performance at the global and regional level. Within Africa, the members of the EAC are the most important destinations for Uganda's exports, followed by members of COMESA. In 2019 – the last pre-Covid-19 year – EAC members Burundi, Kenya, Rwanda, South Sudan and Tanzania absorbed 51 percent of Uganda's total exports.[4]

The EAC is crucial for Uganda's export performance but faces several challenges that will require greater cooperation among members to preserve and grow intra-regional trade. While access to other members of the EAC is crucial for Uganda's export success, the integrity of the customs union has been under threat for several years as member states increasingly undermined the agreement's central element, its Common External Tariff (Rauschendorfer & Twum 2021). In July 2022, however, the EAC implemented a revised Common External Tariff, with more tariff bands and higher peak rates (see below).

Additionally, political tensions in the region have a strong negative impact on intra-regional trade and threaten Uganda's prospects for exports growth under the EAC and COMESA. Beyond tensions internal to the EAC, the advent of the AfCFTA as well as Kenya's graduation to middle-income status could have an impact on regional trade integration and make intensified collaboration among EAC members to preserve and enhance intra-regional trade an even higher priority (see Edwards et al. 2022 for further details).[5] Embedding adequate mechanisms for dispute resolution in free trade agreements, and making use of these mechanisms, is critical to resolving disputes at the technical level and avoiding the deleterious impacts of political intervention in trade policy.

Uganda has several trade-related policies and strategies. However, lack of cross-institutional collaboration is an obstacle hindering a concerted export push and many strategies are outdated and only weakly implemented – for example, the National Export Development Strategy expired in 2020 but has not been renewed (MTIC, 2015). In addition, there is a tension between Uganda's ambitions to harness regional integration for greater exports and the country's attempts to shield its domestic market for local firms. In recent years, Uganda increased tariffs through unilateral deviations from its primary tariff regime and recently successfully introduced a fifth EAC-CET band at 35%. So far, these

[4] Excluding gold, which is almost exclusively shipped to the UAE and may not actually originate from Uganda.
[5] Kenya's graduation to middle-income status may pose a challenge to regional integration in the EAC, since the country is bilaterally negotiating market access to the EU and the United States in order to maintain the preferential access provided by unilateral preference schemes (AGOA and EBA). Bilateral agreements concluded by a single member of the EAC would likely raise demands for more stringent or more complex customs procedures to prevent traders from preventing resulting tariff differentials (e.g., imports from the United States entering at lower tariffs into Kenya than under the EAC's Common External Tariff regime).

tariff increases do not seem to have achieved their goal of reducing imports of targeted products significantly.

The time and cost of trading remain high in Uganda and hinder increased exports and Global Value Chain participation. In the aggregate, in 2018 Uganda's rank on the World Banks Logistics Performance Indicator was 102 out of 160 economies, lower than regional peers like Rwanda (57) or Kenya (68). Uganda scores particularly low in two categories: infrastructure (124th out of 160 countries) and tracking and tracing (123th out of 160 countries).

Policy recommendations

The transition from exporting unprocessed commodities to participation in more sophisticated export activities will require improvements in skills, logistics and transport, as well institutional capacity and business and investment environment. Uganda's path toward greater integration into global and regional trade requires a multifaceted strategy that should aim at increasing the attractiveness of the country for domestic and foreign private investment, which could boost the country's export performance and diversification and foster the role of trade for job creation and economic transformation. The following summarises key objectives for consideration by the government:

- Work towards stronger unity within the East African Community through active participation in regional fora and by working closely with the Secretariat of the East African Community and its various vehicles.
- Improve access to imported inputs to facilitate globally competitive production and participation in Global Value Chains.
- Reduce the time and cost of importing and exporting through targeted customs and trade facilitation reforms, for example by improving administration of customs procedures, both domestically and in collaboration with regional partners.
- Strengthen the adherence of Ugandan exporters to international standards, and provide accessible certification options, to reduce the frequency of quality-related trade disputes.
- Boost agricultural productivity by promoting the uptake of modern technologies (seeds, fertilizers) as well as improving extension services and storage and handling for agricultural inputs and final products.
- Conduct further research to on Uganda's low export survival rate, and use this to inform industrial policy to support export development

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