



Trading up: Harnessing the African Continental Free Trade Area (AfCFTA) for growth in Uganda

Lawrence Edwards

- In the absence of trade facilitation measures, the African Continental Free Trade Area (AfCFTA) has the potential to disadvantage Uganda, as exporters will experience a decline in East African Community (EAC) preference margins.
- Without trade facilitation reforms, it is estimated that liberalisation will reduce border revenues by around USD 17 million per year. Meanwhile, with such trade facilitation measures, border revenues would increase by USD 70 million per year.
- The trade facilitation provisions may be the most important component of the AfCFTA negotiations for Uganda's trade – Uganda should push hard for these provisions to be as ambitious and as rapidly implemented as possible.
- While negotiations are ongoing, unilateral measures to reduce the cost of trade are advisable – including increasing investment in One-Stop Border Posts and the Uganda Electronic Single Window.

POLICY BRIEF UGA-22136

SEPTEMBER 2022

This project was funded
by IGC Uganda

www.theigc.org

DIRECTED BY



FUNDED BY



Introduction

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. We use consignment-level customs data to simulate three different implementation scenarios on trade with large and geographically distant African markets. We then calculate the impact on Uganda's exports, imports and border revenues, and household consumption.

- Scenario 1: Full liberalisation between the East African Community (EAC), Southern African Customs Union (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.¹
- Scenario 3: Full liberalisation between the EAC, SACU, Ghana and Nigeria; and the implementation of the trade facilitation provisions, which provide a framework for simplifying and harmonising customs laws and procedures.

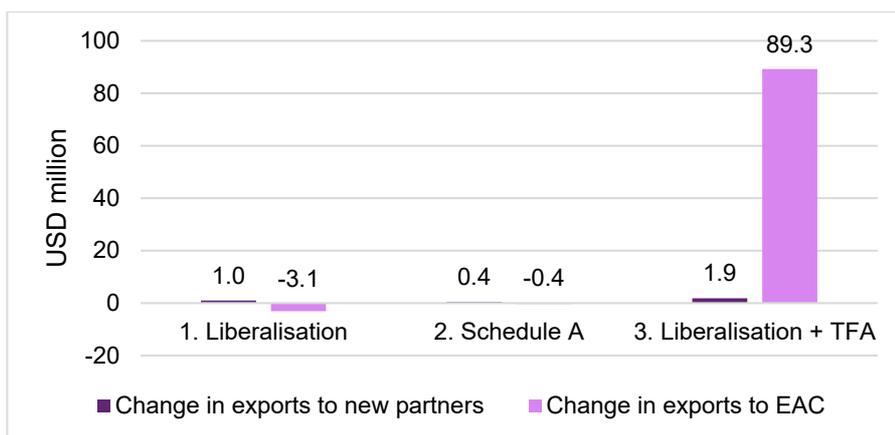
Exports

Figure 1 summarises the impacts of these three scenarios on Uganda's exports.

- Under Scenario 1, the benefits of 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 USD 3.1 million.
- This is also the case in Scenario 2 (Schedule A list), although 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 over \$90 million (almost 3% of Uganda's export revenues), with benefits to trade both with the new FTA partners as well as existing EAC partners.

¹ Member states are not required to fully liberalise trade with partner countries immediately. The Schedule A lists are the initial offers of member states, which provide for liberalisation of 90% of all tariff lines over a 5-to-10-year period.

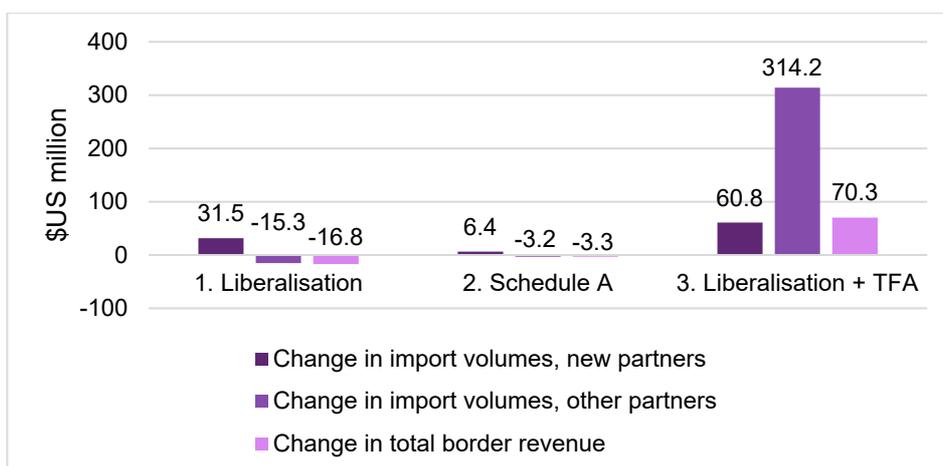
Figure 1: Scenario impacts on Uganda's exports



Imports and border revenue

Implementation of the Trade Facilitation Agreement (TFA) would also offset the impact of liberalisation on border revenues. Liberalisation under the AfCFTA (Scenario 1) is predicted to have a modest effect on total import volumes but to reduce border revenue significantly² (Figure 2). Retaining tariffs on highly protected sensitive products on the Schedule A list reduces the impact on revenue and 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.

Figure 2: Scenario impacts on imports and border revenues



Household consumption

In addition to the aggregate impacts on export and import volumes, we also simulate the effect of different implementation scenarios across the household income distribution. Full liberalisation under scenarios 1 and 3 results in the

² Border revenues include tariff duties, VAT, excise duties, withholding taxes, petroleum taxes, and environmental taxes on imports.

greatest benefit – in terms of increased consumption – to the poorest households. However, these household consumption gains are eliminated only if Schedule A tariff reductions are applied.

Policy recommendations

- Trade facilitation is crucial, and Uganda should push for TFA provisions in the AfCFTA to be as ambitious and as rapidly implemented as possible.
- Minimising compliance costs of rules of origin is also a priority, to ensure that Ugandan exporters can fully benefit from promised expanded market access.
- Uganda should 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 Non-Tariff Barrier (NTB) provisions to establish a mechanism to identify, classify, and eliminate NTBs.
- Uganda should also consider:
 - Investments that reduce transport costs to enable goods to reach geographically distant markets once tariff barriers are removed.
 - Faster reductions in Schedule A tariffs than required under AfCFTA – too defensive a strategy reduces gains to consumers and exporters.
 - The interaction between the AfCFTA and EAC Common External Tariff. Higher external protection in the EAC raises the potential for negative impacts on Ugandan exporters under AfCFTA liberalisation.
- 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.³

³ See here for further details: <https://www.oecd.org/trade/topics/trade-facilitation/>.