IGC International Growth Centre

Rwanda

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The Common External Tariff (CET) after Two Years: An Evaluation from Rwanda's Perspective

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This presentation benefitted from research of Jonathan Argent, Economist IGC -Rwanda

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Roadmap

Evaluation of the CET

- **Part 1: Mechanics of the Tariff Change**
  - Harmonize the external tariff of all EAC partners, including Tanzania
  - Did this happen?
- **Part 2: Evaluating development goals**
  - Exports
  - Employment
  - Poverty reduction
- **Part 3: Evaluating protection**
  - Protection by origin
- **Part 4: Impact on revenue**
- **Conclusions**

Executive summary

Applied tariffs were reduced under the CET from an average of 15.8% to 11.5 %,

Gains:

The reduction in tariffs on inputs reduced costs of local production hence increasing exports

Employment (private registered) increased post CET. This was most likely related to the GOR's many policy initiatives, including the CET.

Losses:

The increase in tariffs for items on the Sensitive Items (SI) List is increasing poverty and reducing manufactured exports in agricultural commodities.

The benefits of protection under the EAC-CET are accruing more to EAC partners than to Rwanda.

CET - Harmonization of Tariffs

<u>Reduce</u> the tariff rate for imports from Uganda, Kenya and Burundi, (already low because of joint membership in COMESA)

<u>Significantly reduce</u> the tariff rate for imports from Tanzania

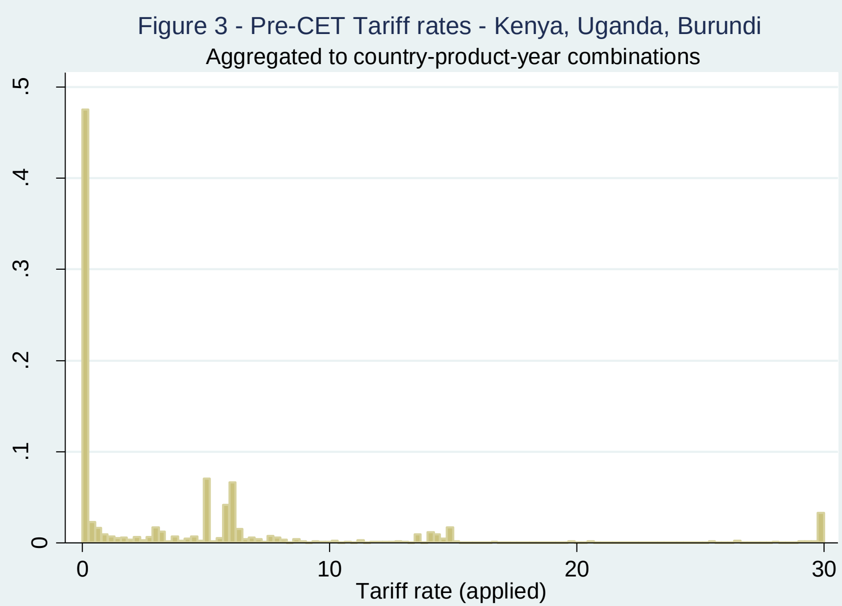
Set a <u>common tariff</u> for goods from outside the EAC.
Specifically, replace a 0 -5 -15-30 tariff structure (0% tariff for raw materials, 5% for goods with economic importance, 15% for semi-finished goods, and 30% for finished products) with a 0-10-25 normal tariff structure (0% for raw materials, 10% for semi-finished products, and 25% on finished products)

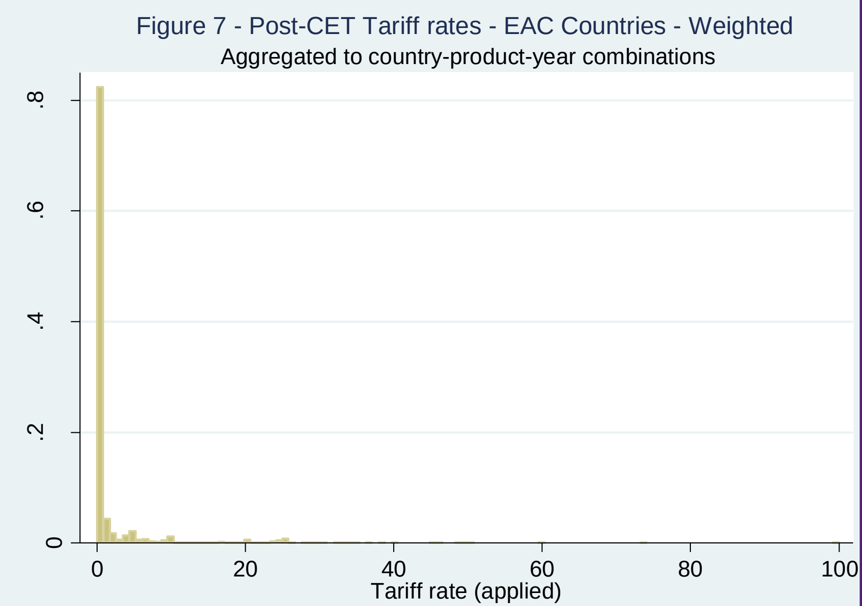
CET – Application by destination

Tariff rates dropped for COMESA partners (Kenya, Uganda, Burundi):

Pre-CET:

Post-CET:





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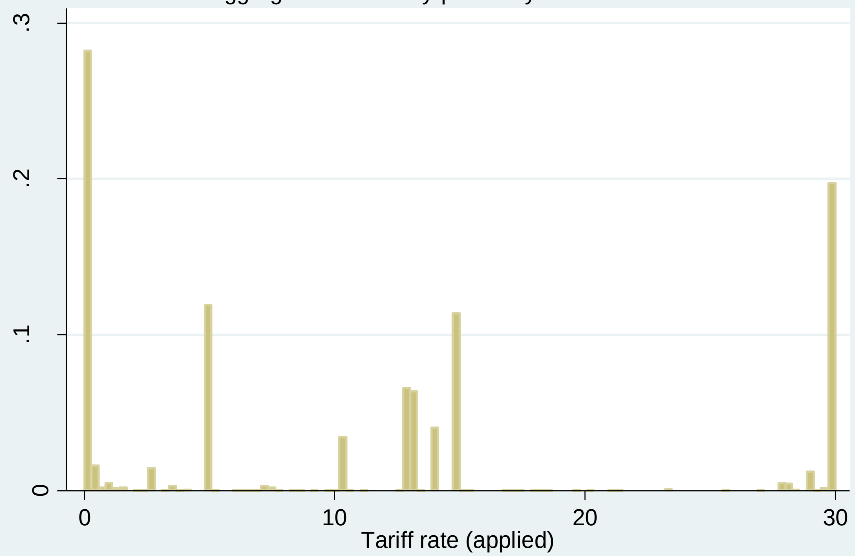
CET – Application by destination

Tariff rates dropped more for Tanzania:

Pre-CET:

Figure 4 - Pre-CET Tariff rates - Tanzania

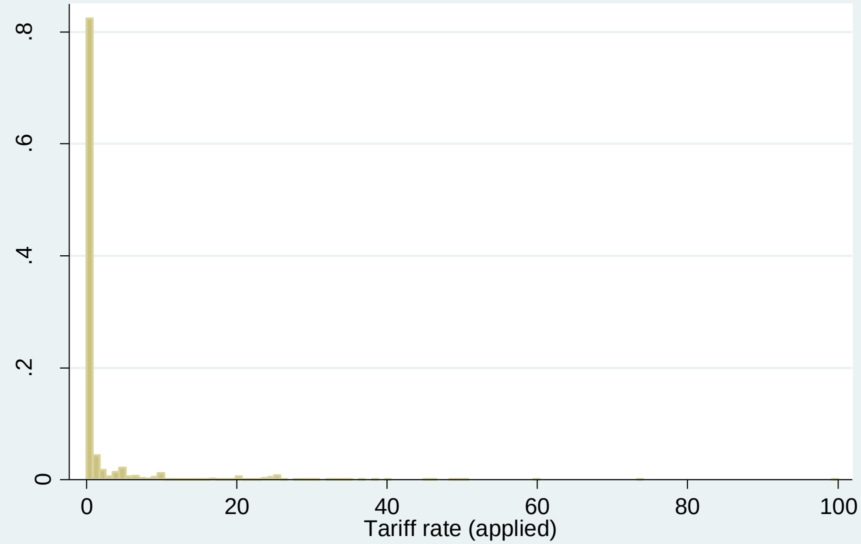
Aggregated to country-product-year combinations



Post-CET:

Figure 7 - Post-CET Tariff rates - EAC Countries - Weighted

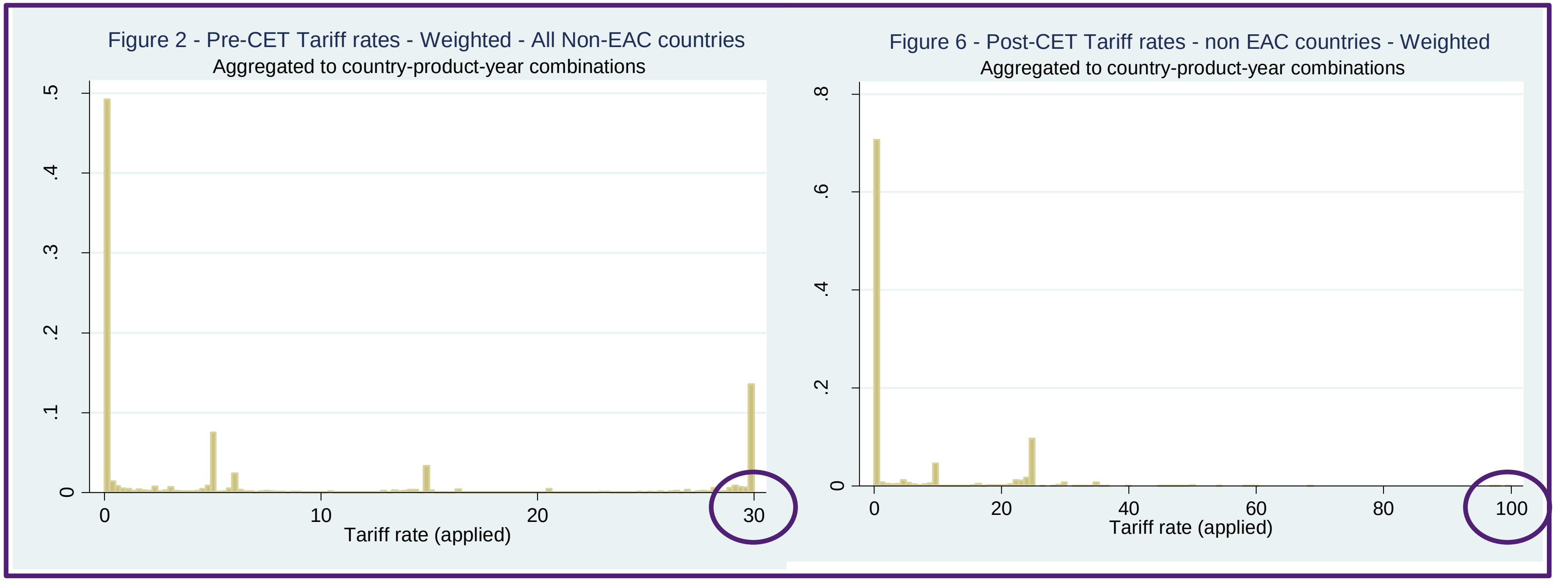
Aggregated to country-product-year combinations



CET – Application by destination

Tariff rates also changed for external (non-EAC) countries

Pre-CET (0-5-15-30): **Post-CET (0-10-25):**



But now there are a number of exceptionally high tariff rates on the Sensitive Items (SI) List

CET – Application by good type

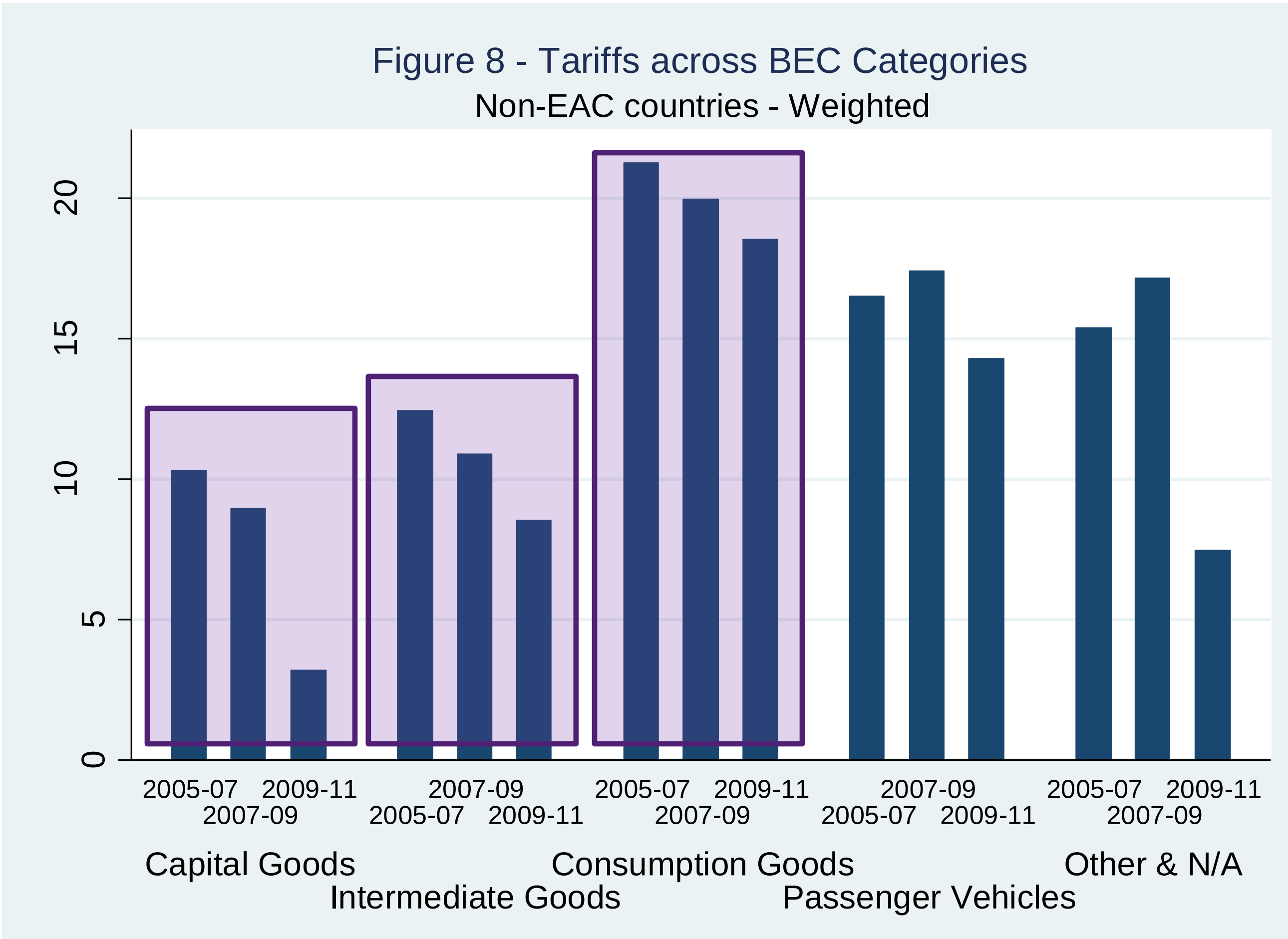
Sensitive Items are largely food staples

Milk	60%
Wheat Grain	35%
Wheat Flour	60%
Maize	50%
Sugar	100%
Worn Clothing	50% (or 0.75/kg, the highest)
Kanga, Kikoi and Kitenge	50%

The temporary reprieves that are currently in effect for wheat grain and sugar (and wheat flour, to 35%) are helpful, but temporary.

CET – Application by good type

Tariff reductions were largest for



CET – Development

<u>Exports</u>

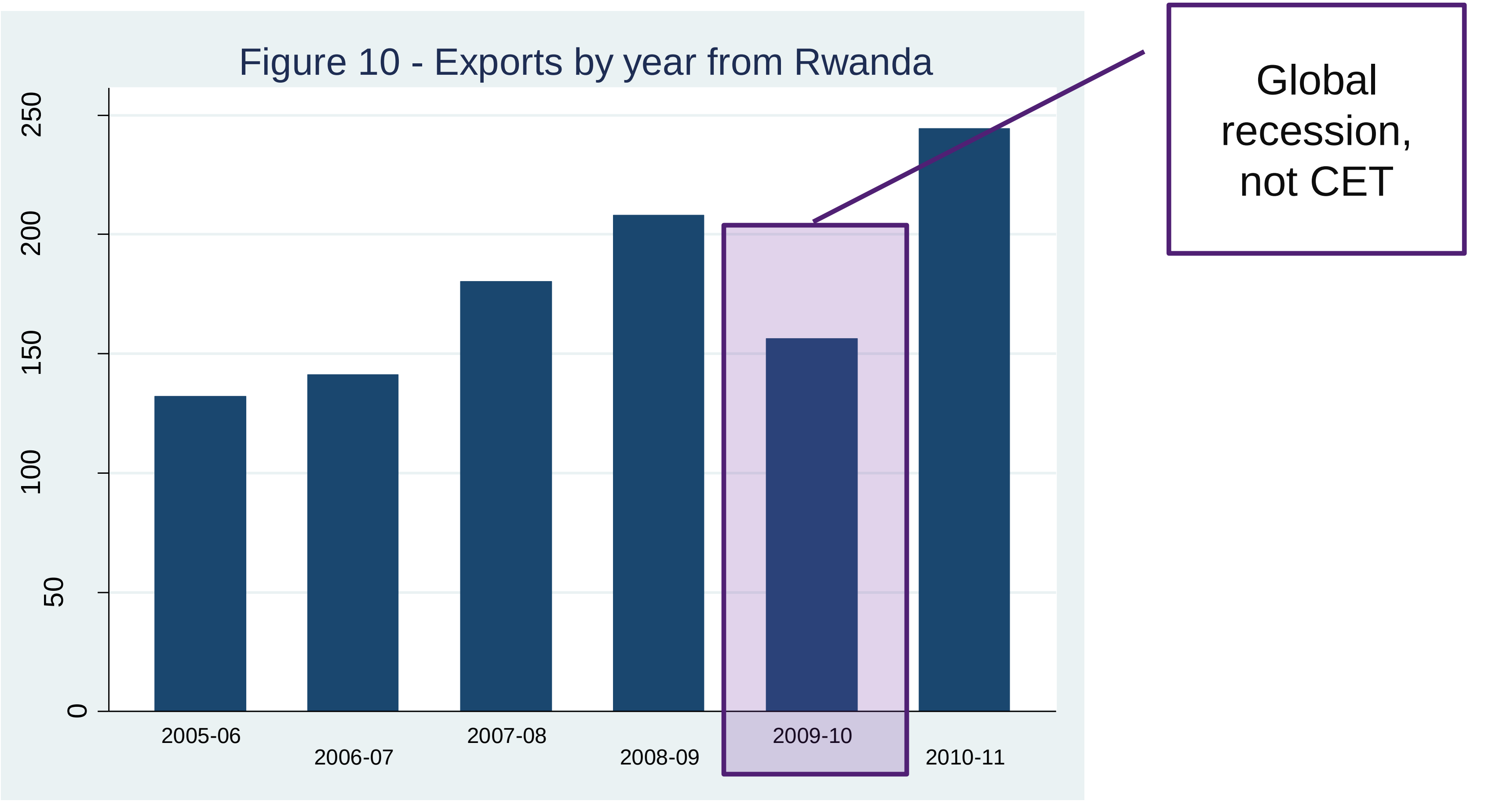
<u>Employment</u>

<u>Poverty Reduction</u>

We will evaluate the impact of the CET on each of these three areas, as well as on tariff revenue, which is obviously important.

CET – Impact on exports

Exports fell drastically after the CET in comparison to the pre-CET trend, but then picked back up:



CET – Impact on exports

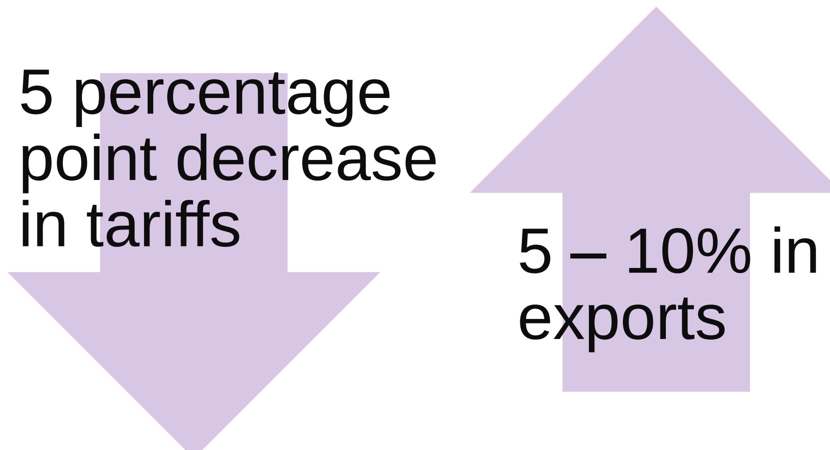
CET dropped import tariffs on average, **not** on everything.

When tariffs drop, some import-competing firms will go out of business, and the resources may end up being used by exporting firms.

But, more directly, many exporting firms also import. So, the reduced prices for imports are advantageous to them. Specifically, Rwandan exporters faced an average tariff rate of 12.0% on their imported inputs prior to the CET, and 7.3% after the CET.

CET – Impact on exports

Accounting for the global economic slowdown, expansion, exporting ability, and trends within export product lines (and other factors, in order to establish a causal impact):



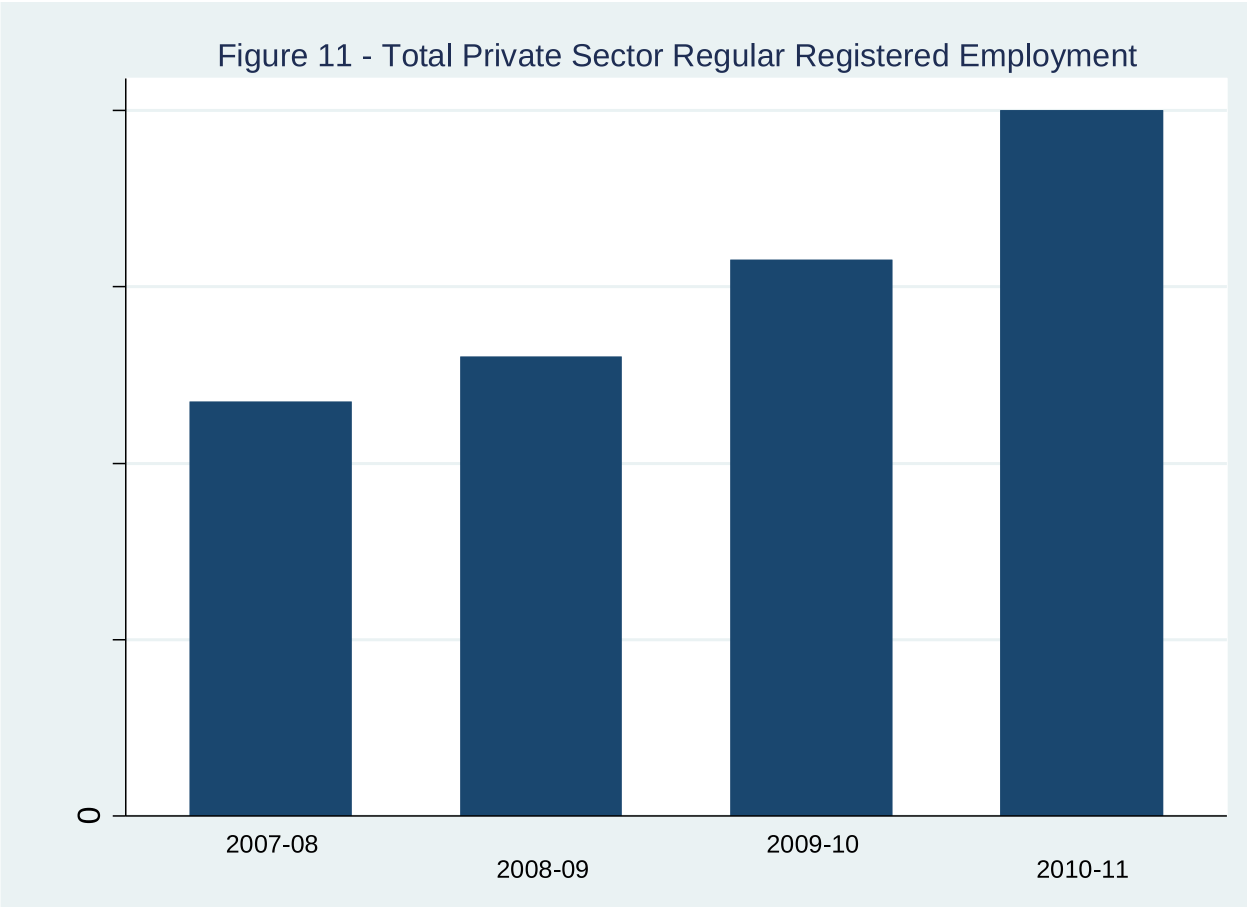
This is an underestimate the effect of these reduced tariffs, because it calculates the direct effect of imported input price decreases on just the exporters that imported them. The lower prices will also benefit other exporters who buy from a “middleman” .

CET – Impact on exports

The tariffs in most input categories used by exporters dropped post-CET, but the tariffs on one input increased.

…Sugar. As we know, sugar is on the Sensitive Items List and was subject to a tariff rate of 100%. This reduced manufactures, in terms of food processing, as well as the export of these manufactures.

CET – Impact on employment



No evidence of the increase being due directly to CET

However, the CET, coupled with the other policy changes likely combined to increase employment.

Absolutely no evidence of the CET reducing employment.

CET – Impact on poverty

72% of consumption of the poor:

Tariff rate increased by more than 100%. In the agricultural products category the tariff rate increased by 380%.

The petroleum product category was the only category where the tariff rate dropped more than 25%. (replaced by an excise tax.)

Tariffs did not change by more than 25%.

	%
Agricultural products	10
Grain mill products	9
Sugar products	5
Dairy products	3
Fruit & vegetables	1
Petroleum products	3
Meat products	9
Soap products	8
Bakery products	6
Other food products	4
Wearing apparel	3
Beverages & tobacco	3
Oils & fats products	2
Footwear	2
Other manufacturing	2
Other paper products	1
Fish products	1

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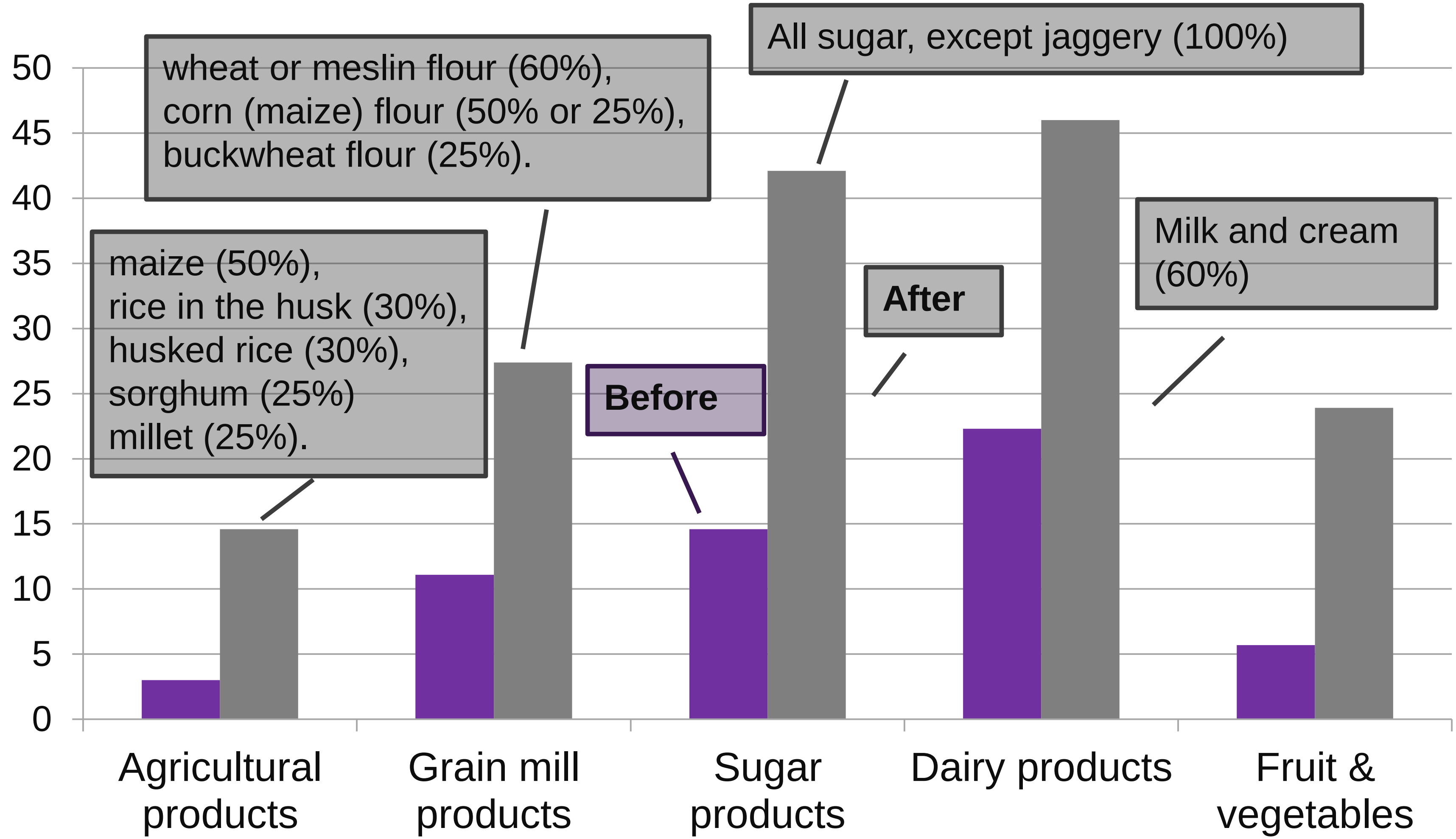
CET – Tariffs on staples



CET – Impact on poverty

If we take into account all of the price changes induced by the tariff changes, CET directly reduced the income of low-income people in Rwanda by 4% (two weeks of their annual income)

➔Why? Products on the SI List.

Low-income households are very similar in the EAC

All EAC states should be interested in removing these items from the SI list

CET – Protection

The first EAC Common Market ended for a variety of reasons, including the fact that Kenya was benefitting from concentration of manufacturing, at the expense of Uganda.

A similar danger for Rwanda exists in the current EAC Customs Union.

Tariff costs

higher costs to consumers, and potentially the distortion of resources away from their most productive use.

Tariff benefits

Tariff revenue, and the increased price to producers, inducing further production.

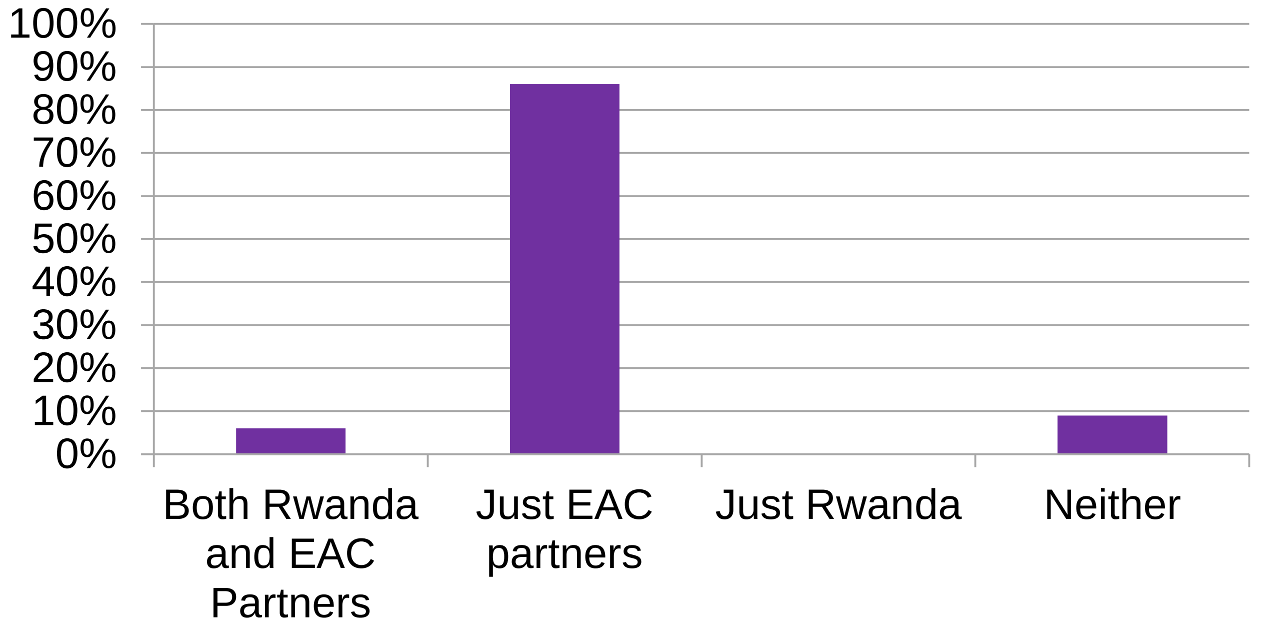
The case for Rwanda

Opportunity
Export duty-free to its EAC partners,

Threat
If benefitting producers are not in Rwanda, Rwanda bears the costs reaping no benefit

CET – Impact on protection

Percentage of prrotected products by importance for the exporting country

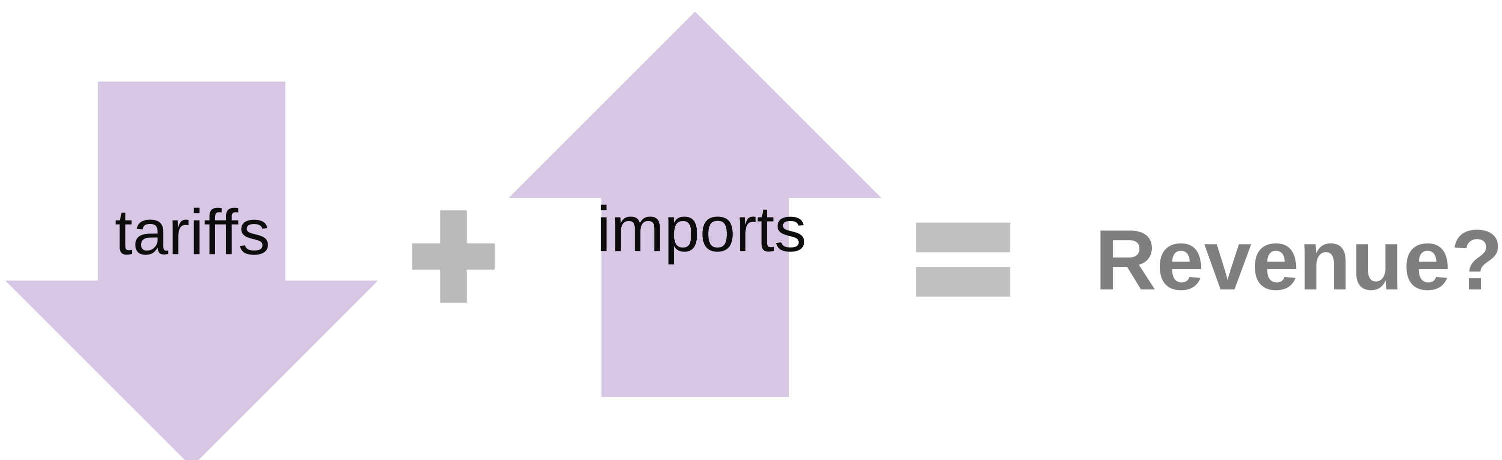


Much more evidence of production in EAC-partner countries in the protected product lines (tariff rate of 25%) than there is within Rwanda

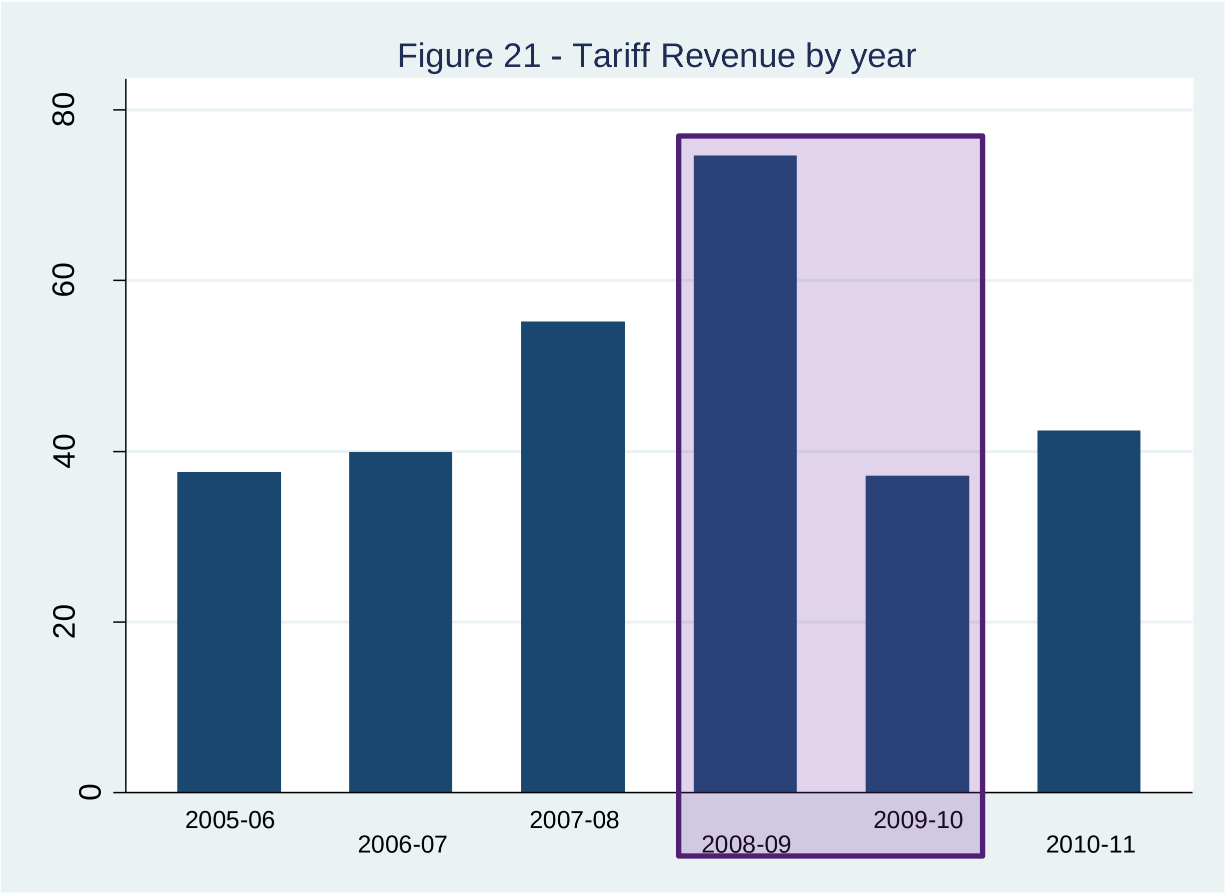
There are a few product lines that Rwanda is using the EAC-CET protection to export to its EAC partners, but many more products in the opposite direction.

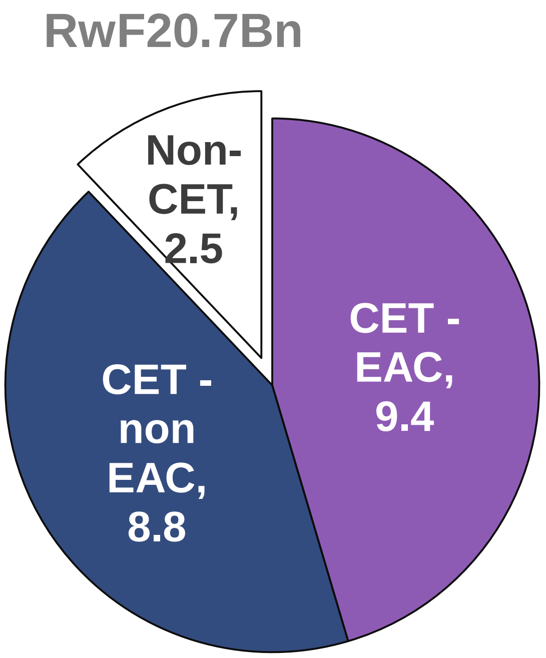
CET – Impact on revenue

1. External tariff lowered
2. EAC countries tariffs removed.



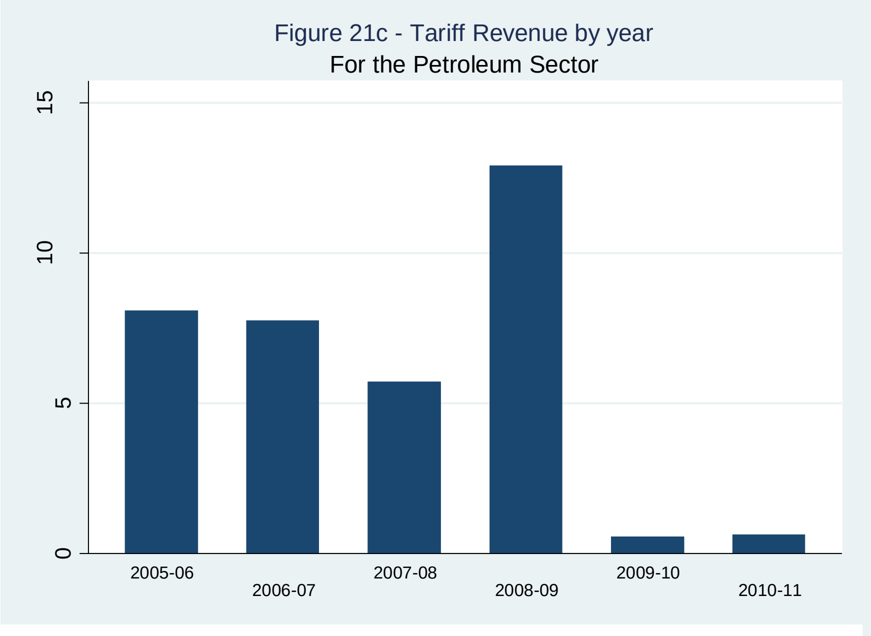
CET – Impact on revenue

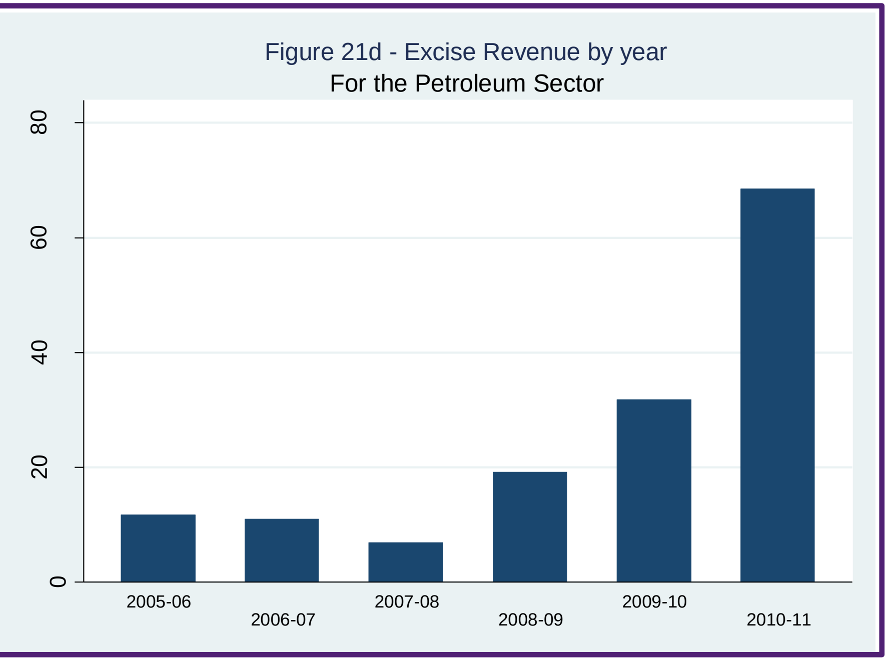




CET – Impact on revenue

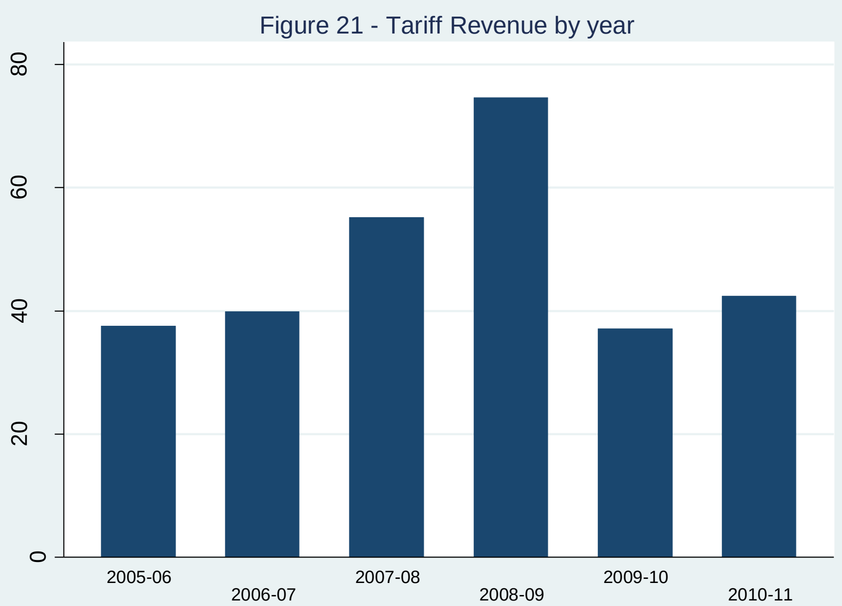
However, a significant portion of that tariff revenue lost was in **petroleum**: And it was replaced with a commensurate increase in the petroleum **excise tax** collected at the border.

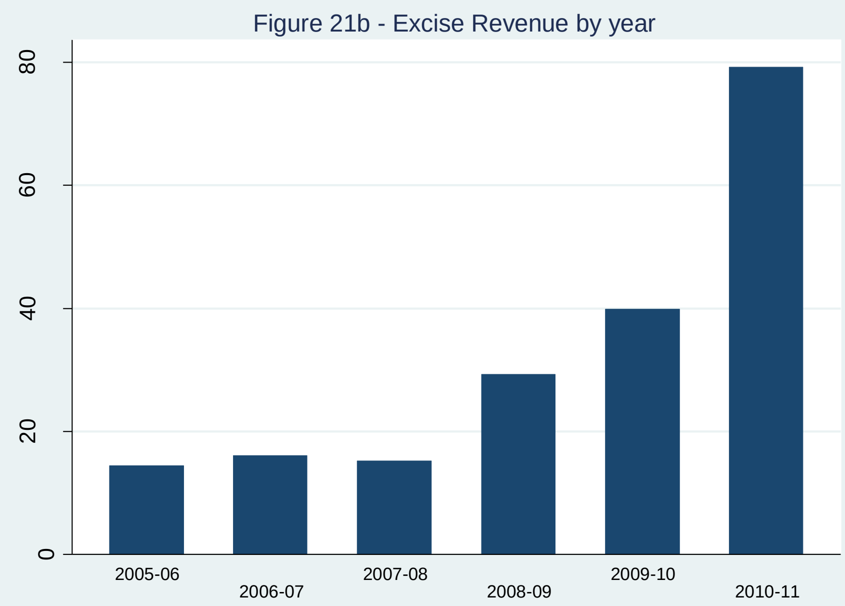




CET – Impact on revenue

Overall the decrease in tariff revenue was partly offset by this increase in excise revenue





Conclusion

Gains:

The reduction in tariffs on intermediate reduced costs of local production hence increasing exports

Employment increased post CET. This was most likely related to the GOR's many policy initiatives, including the CET.

Losses:

The increase in tariffs for items on the SI List is increasing poverty and reducing manufactured exports in agricultural commodities.

The benefits of protection under the EAC-CET are accruing more to EAC partners than to Rwanda.

Recommendations

Immediate/Short-Term Measures:

- Redefine SI list to 25% max allowing each country to place the same (limited) number of items on the list

Medium-Term Measures

- Reduce other rates: 25%→20%, 10%→5% to increase exports

Other Recommendations

Rwanda's focus on improving the institutions of government, and its openness to doing business should continue, and is central to improving Rwanda's trade and economic growth.

Efforts should continue to reduce the inland trade costs for Rwanda

Efforts should continue to expand services exports.

Rwanda should leverage its growing perception of fighting corruption and improving institutions particularly to expand services that involve a measure of trust and reputation (most services).

Similarly, its bilingual capacity, combined with point (4) almost uniquely position Rwanda as a bridge between anglophone and francophone Africa.