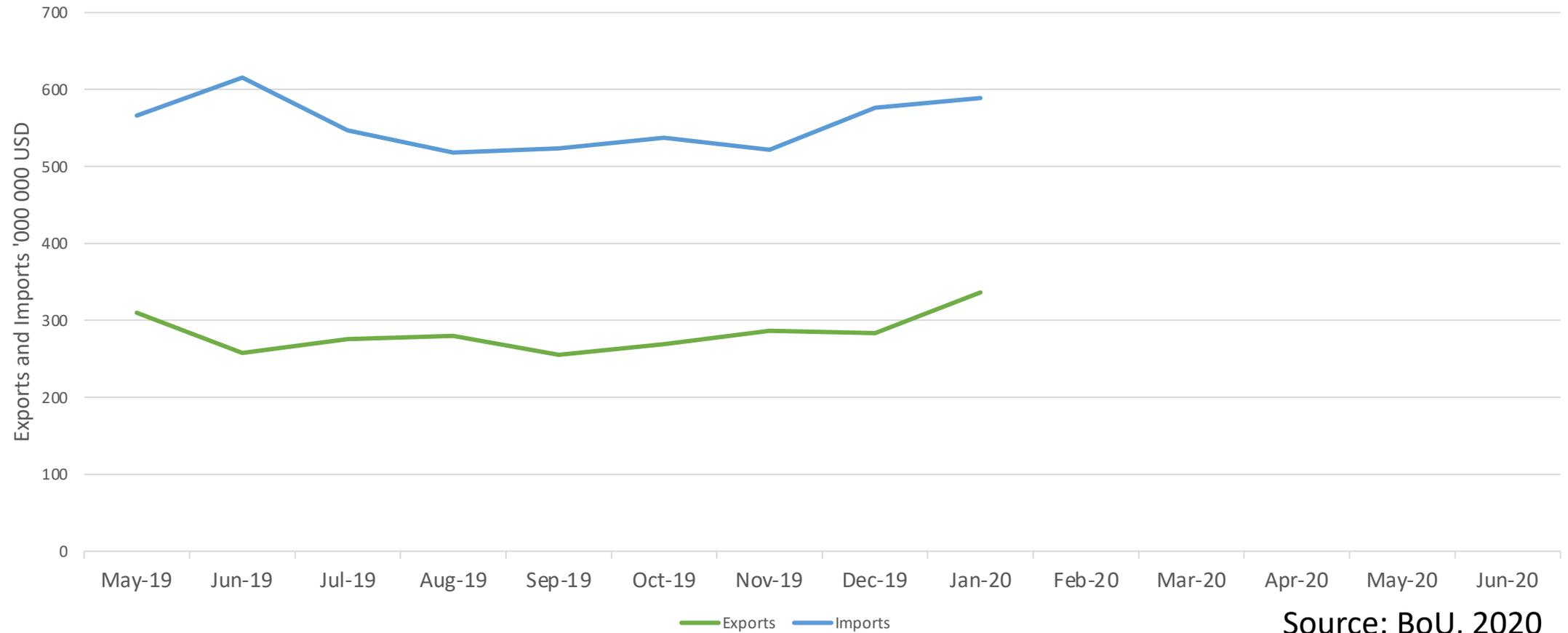


Export promotion and import substitution: Opportunities (and threats) from the COVID-19 shock?

John Spray

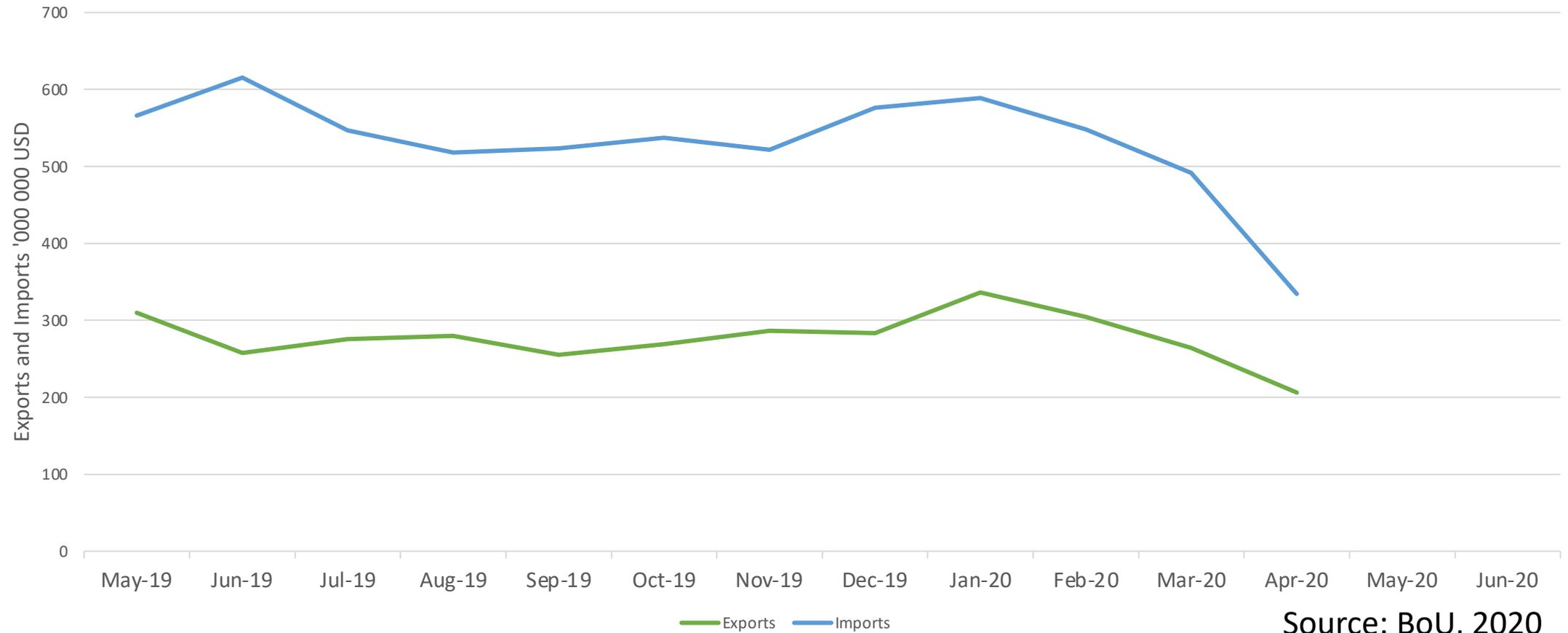
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Covid-19 disruptions caused a 43% reduction in imports

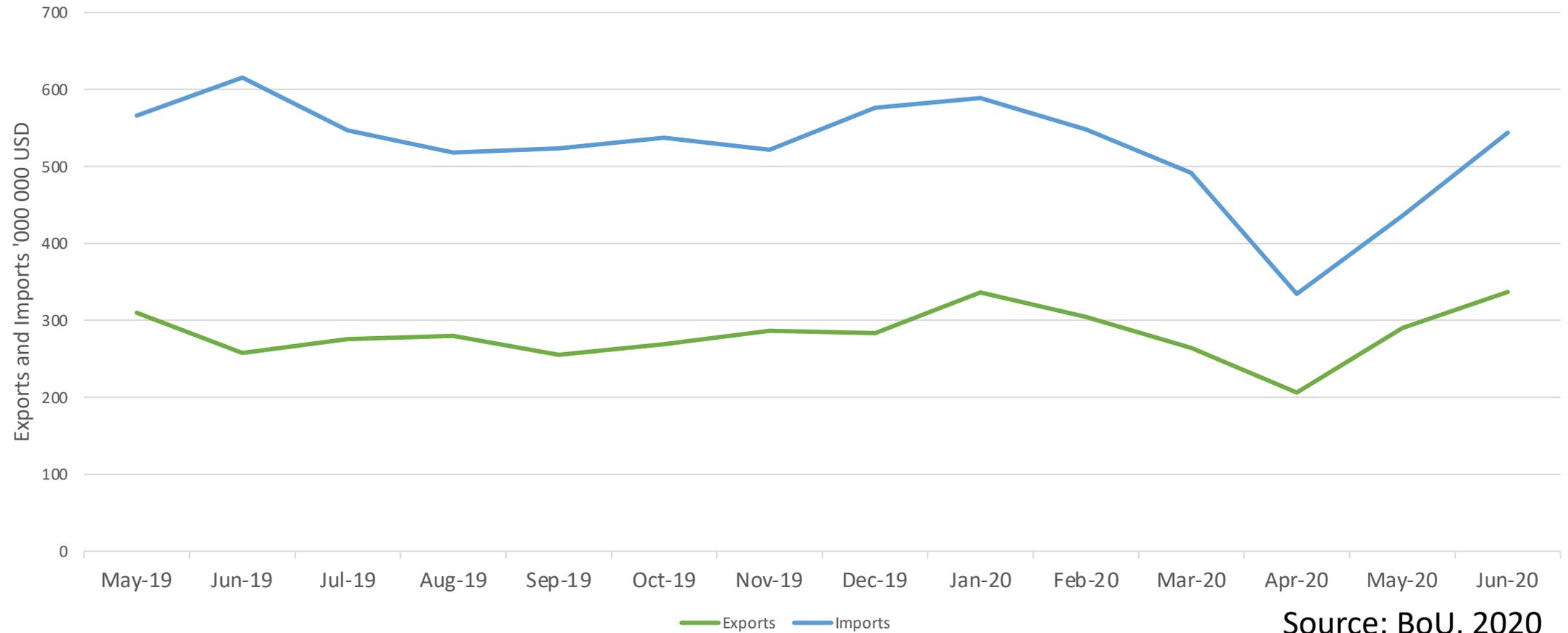


Source: BoU, 2020

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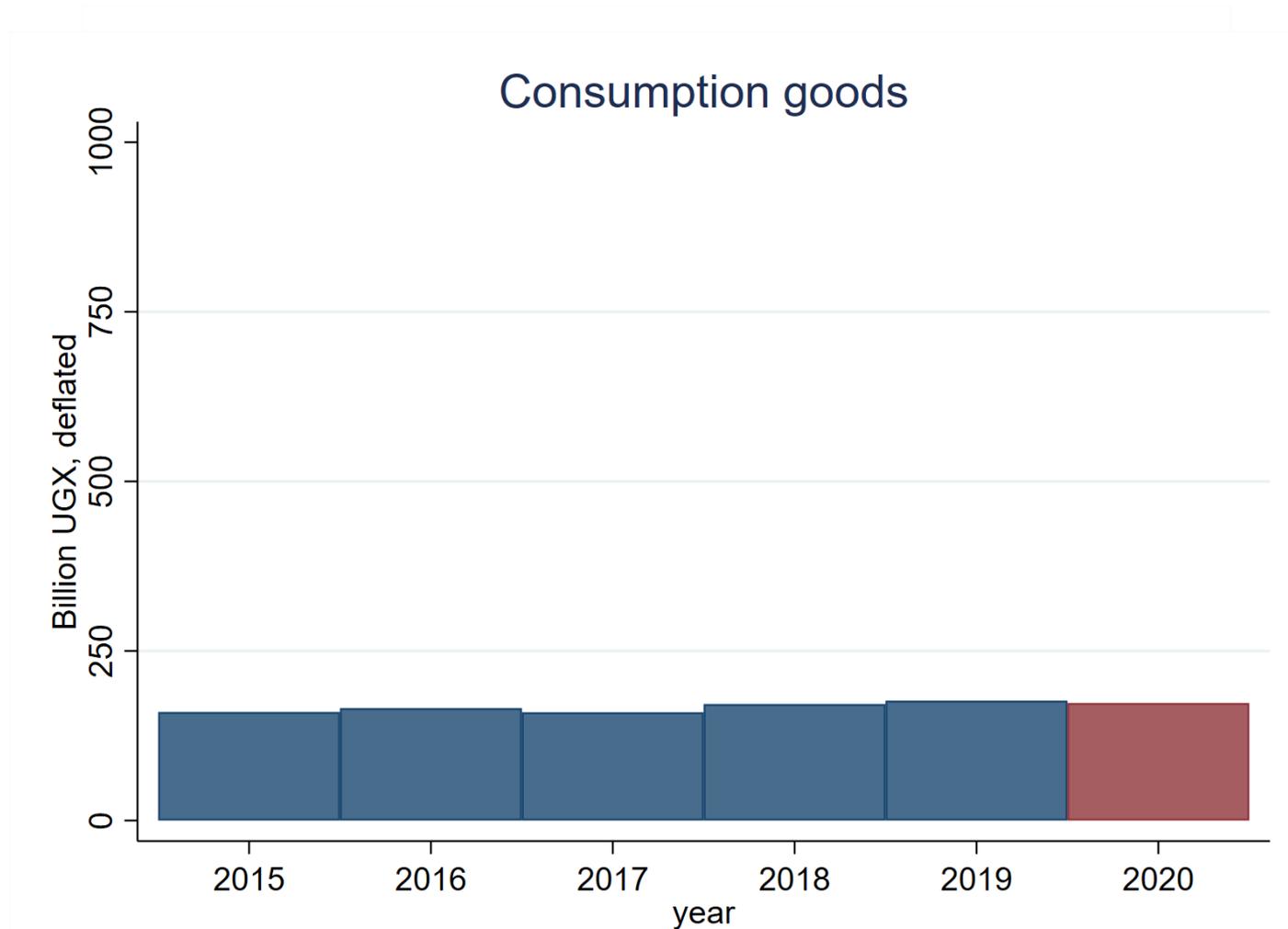
Two possible responses to this...

- An opportunity
 - *Since the pandemic (...) started taking its toll on the economy, the phrase 'import substitution' has become a buzzword." [\(Daily Monitor 2020\)](#)*
- A threat
 - *"Manufacturing: has declined on account of disruptions to the inflow of raw materials" and "(...) products that we import from China (...) have increased in price and reduced in supply" (Presidents Investor's Roundtable, 2020).*
- NDP III: "Export promotion and import replacement will be strategies to ensure production for domestic, regional and international markets."

Why we should take the threat seriously

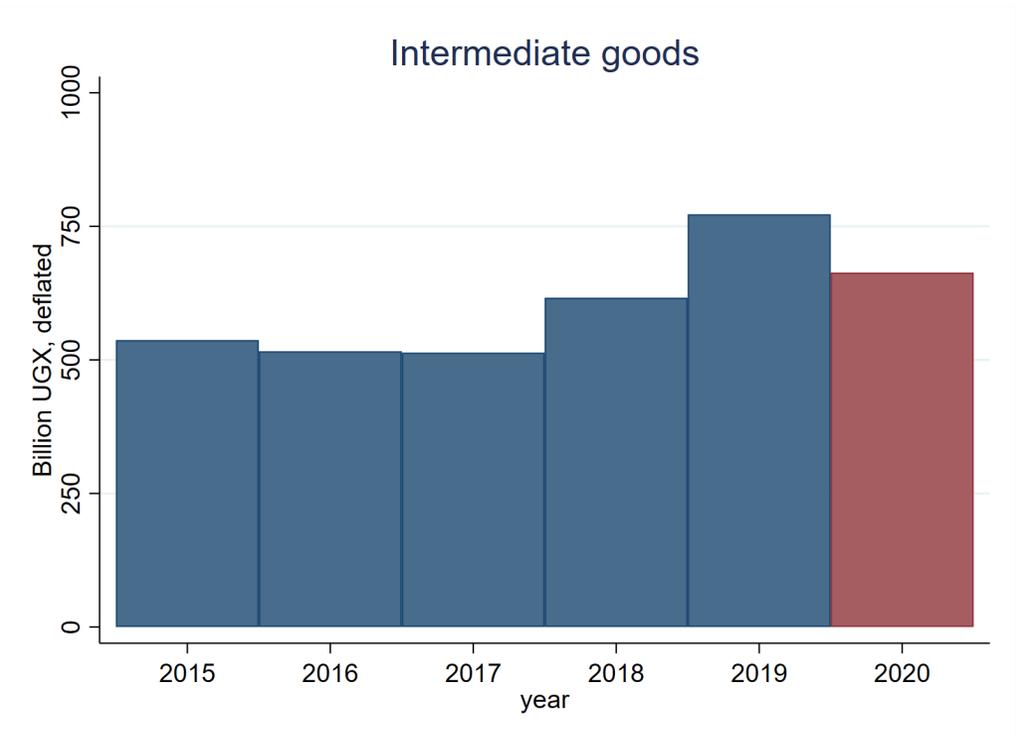
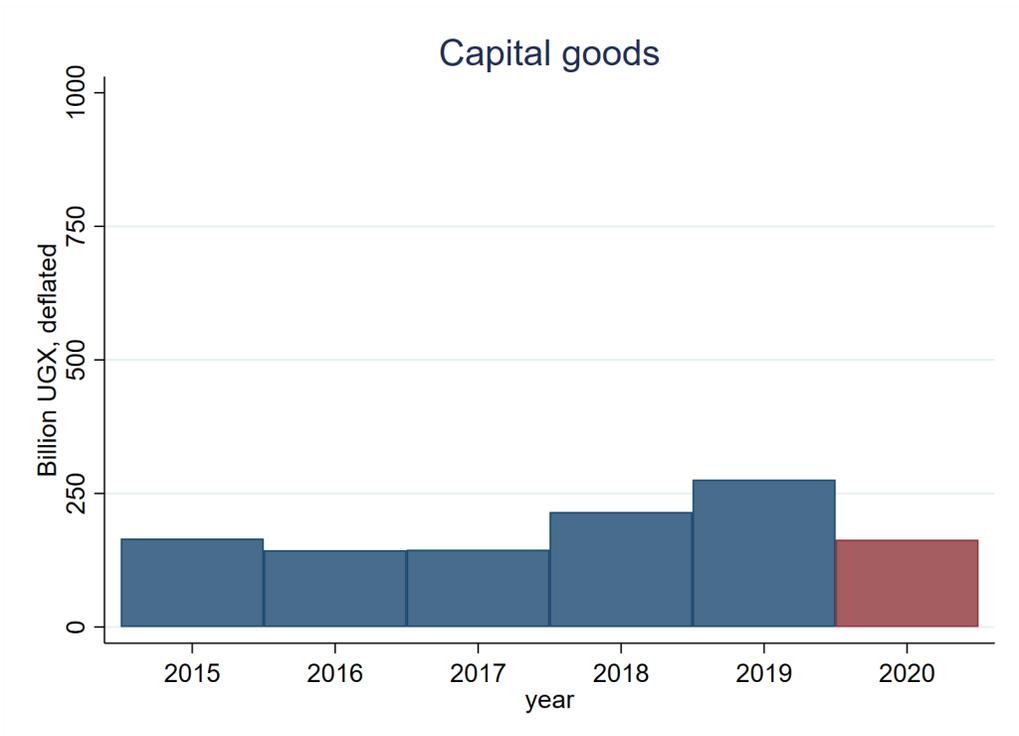
- Impact on intermediaries
- Impact on employment
- Impact on productivity

COVID-19 had no impact on consumption goods



Source: Rauschendorfer and Spray, 2020

Covid-19's led to sizeable reductions in intermediary and capital goods



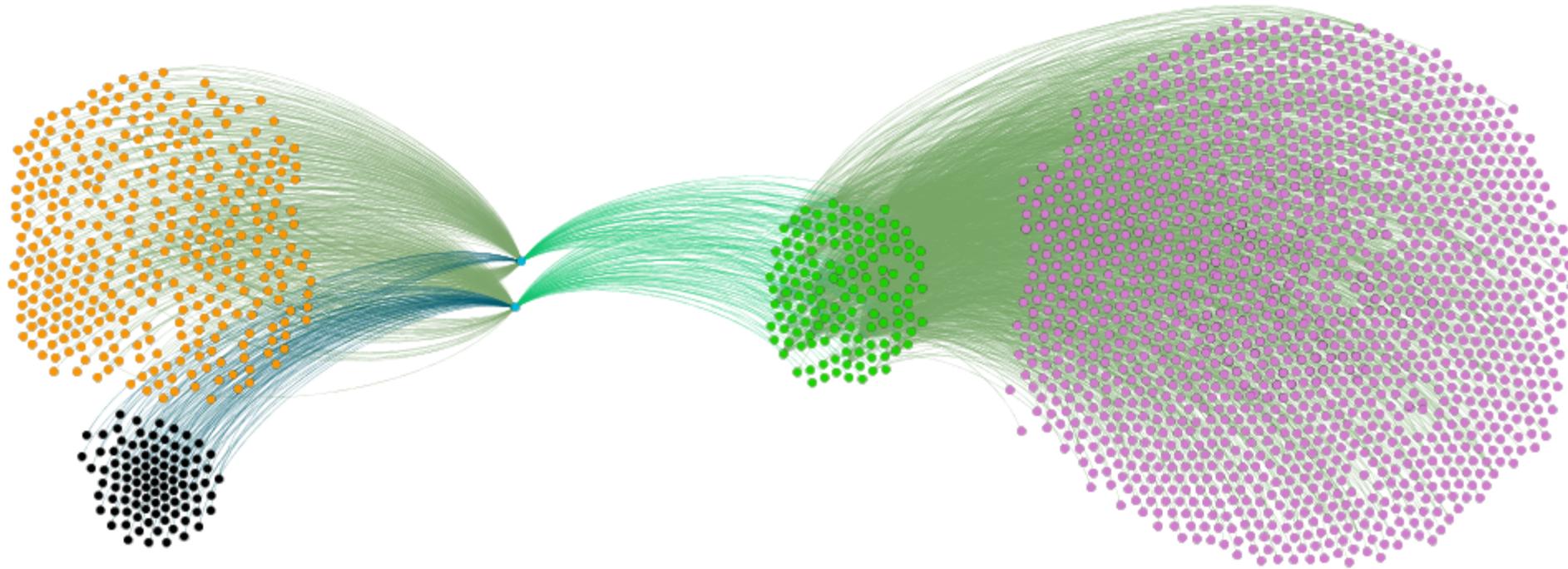
Source: Rauschendorfer and Spray, 2020

Examples of intermediary goods hit include iron products, medicines, and packaging

HS-Code	Description	Type	3-year average (March)	Value in March 2020
8504.2300	Transformers	CAP	41.15	4.10
3004.9000	Medicaments	INT	46.33	33.96
3002.2000	Vaccines	INT	13.94	2.02
6309.0000	Worn clothing	INT	10.47	0
7213.9100	Iron products	INT	8.64	0
8471.6000	Data processing machines	CAP	8.11	0.16
8422.3000	Packaging machines	CAP	10.14	3.36
1511.9030	Palm olein	INT	7.18	0.98
8406.8200	Turbines	CAP	6.17	0
8410.9000	Turbines (parts)	INT	7.96	2.20

Source: Rauschendorfer and Spray, 2020

Many supply chains rely on imports



Two factories (blue), rely on imports (black) from 96 foreign suppliers from 28 different countries

Source: Carvalho, Elliott and Spray, 2020

Simulations of a reduction in imports cause large reductions in firms and employment

- Reduction in imports in line with COVID-19 shock
 - 6.6% reduction in active firms and 4.7% reduction in formal employment
- It will disproportionately impact firms in important sectors
 - Manufacturing sectors
 - Tea and coffee production
 - Hospital sector
 - Transport sector

Why we should take the threat seriously

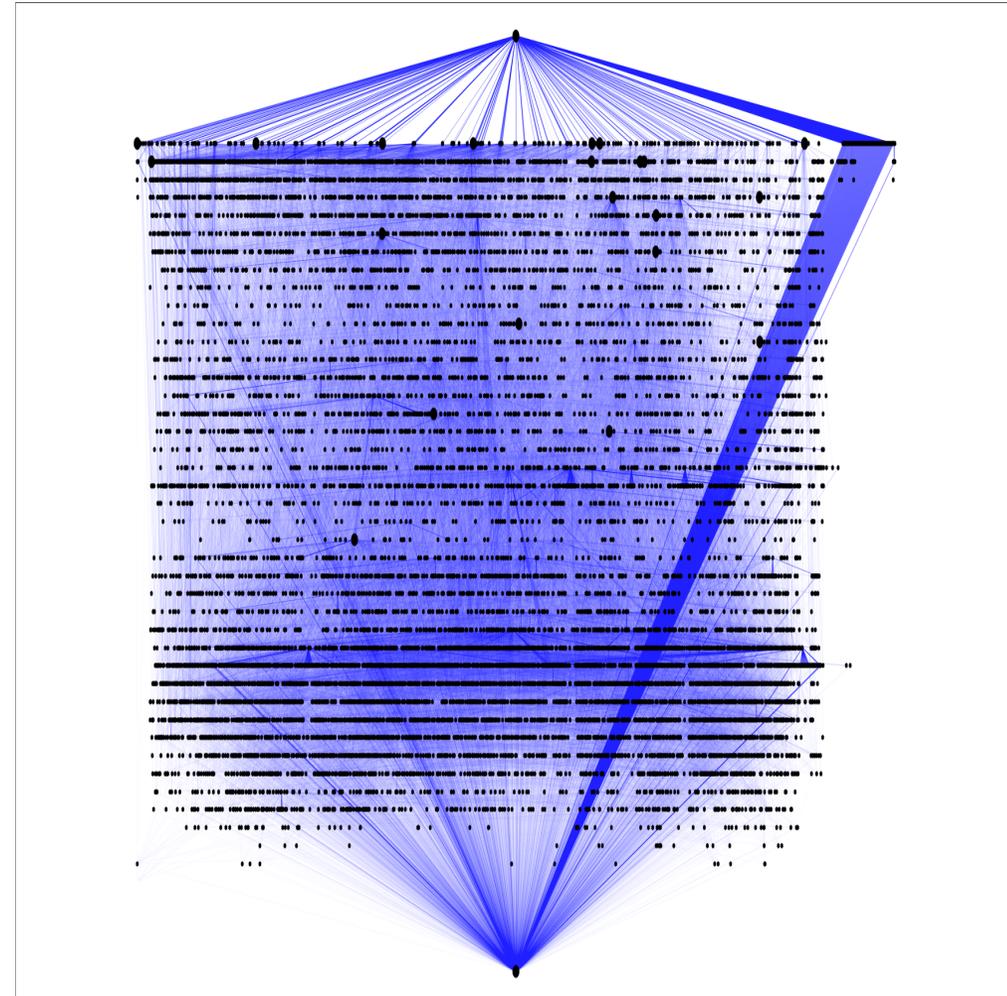
- Impact on intermediaries
 - Reduce intermediary inputs essential for Ugandan production
- Impact on employment
 - Will hurt employment as some firms rely directly or indirectly on imports
- Impact on productivity
 - Will hurt key sectors – medical, building materials, manufacturing

Is there an opportunity?

- Yes, if targeted **competitive** domestic production
 - Chance for firms to reevaluate supply-chain decisions – supplier development
 - Policies to encourage **globally competitive** production of medical supplies – masks, gloves, etc.
 - Only then can achieve goals of NDP III: “increase the product range and scale for import substitution and improved terms of trade....Key expected results include: **increased share of manufactured exports in total exports, growth in the industrial sector contribution to GDP, and increased share of labour force employed in the industrial sector**”
- However, mandating local sourcing may be counter-productive
 - May lower productivity which in the LR harms firms
 - May harm consumers

Where to focus? Top 20 Anchor firms

- Manufacturing firms
 - Building materials, food processing, etc.
- Service industries
 - Financial services, packaging, telecoms, etc.
- Utilities sectors
 - Electricity, water, etc.



Policy Recommendations

- Supplier development programmes in an age of COVID
 - Facilitate digital matchmaking platforms and invest in joint programmes with large firms to subsidise capacity building.
 - NDP III: *“Government will scale up interventions to increase use of locally procured goods and services through use of preference schemes and investment in supplier development programmes.”*
 - Budget recommendation: Budget to be allocated to UIA for local content programme where large FDI firms are provided funding to work with local suppliers on product development, training, quality control.
- Eliminate tariffs on crucial imported inputs
 - I.e. inputs that are needed for competitive production to boost import substitution and exports of final, high-value products.
 - NDP III: *“Increased share of intermediate goods (inputs for manufacturing) in total import bill from 18 percent to 25.5 percent.”*
 - Budget recommendation: MoFPED to set up a task force on tariff policy and conduct quarterly workshops with the private sector to review the tariff schedule for the upcoming fiscal year.
- Trade facilitation
 - Strengthen electronic infrastructure that minimizes human contact and reduces the cost of trading (e.g. Uganda Electronic Single Window).
 - NDP III: *“... strengthening electronic systems in submission of export and import documentation.”*
 - Budget recommendation: Assign a budget to the URA dedicated to improving electronic trade facilitation in Uganda (e.g. institutions to move their services to the UESW through dedicated workshops with technical personnel).