Trading in Pandemic Times: Implications for Uganda

Dr Stephen Karingi
Director, Regional Integration and Trade Division of the UN Economic Commission for Africa
OUTLINE

01 MACROECONOMIC SNAPSHOT of Eastern Africa

02 TRADE IMPACT of COVID

03 BENEFITS OF THE AFCFTA
EA was one of the fastest growing regions before COVID-19

Average Growth Rates (%), 2015 – 2021\(^f\)

In 2021, the Uganda grew faster than the world average

Uganda: 4.9%

Source: National sources, UNDESA WESP mid-2020, UNECA calculations
*Ethiopia and Uganda used fiscal year data 2014/15 to 2019/20
Per capita incomes experienced largest decline in the last 50 years

Eastern Africa GDP per capita growth (%), 1971 – 2022
Many economies experienced their first contraction in recent years.

GDP Growth Rates (%), 2019 and 2020e

Source: National sources, UNDESA WESP mid-2020, UNECA calculations
*Ethiopia and Uganda used fiscal year data 2014/15 to 2019/20
The economic crisis has had an uneven impact across sectors

**Sectoral composition of growth* (%)**, 2020e

### Rwanda

- Hotels & restaurants: 29%
- Education: 16%
- Mining & quarrying: 8%
- Transport services: 8%
- Fishing: 7%
- Export crops: 4%
- Wood & paper; printing: 3%
- Administrative and support service activities: 2%
- Construction: 2%
- Textiles, clothing & leather goods: 2%
- Furniture & other manufacturing: 1%
- Wholesale & retail trade: 1%
- Maintenance and repair of motor vehicles: 1%
- Financial services: 1%
- Cultural, domestic & other services: 1%
- Professional, scientific and technical activities: 1%
- Non-metallic mineral products: 1%
- Food crops: 0%
- Real estate activities: 0%
- Beverages & tobacco: 1%
- Chemicals, rubber & plastic products: 1%
- Electricity: 4%
- Manufacturing: 4%
- Water & waste management: 2%
- Public administration and defence; compulsory: 2%
- Forestry: 2%
- Food: 1%
- Metal products, machinery & equipment: 1%
- Livestock & livestock products: 1%
- Human health and social work activities: 1%
- Information & communication: 1%

### Uganda

- Professional, Scientific & Technical Arts, Entertainment & Recreation: 49%
- Education: 32%
- Accommodation & Food Service: 24%
- Agriculture Support Services: 15%
- Fishing: 9%
- Administrative & Support Service: 5%
- Transportation & Storage: 3%
- Forestry: 2%
- Manufacturing: 2%
- Other Service Activities: 1%
- Construction: 1%
- Food crops: 3%
- Activities of Households: 3%
- Trade & Repairs: 3%
- Electricity: 4%
- Financial & Insurance: 5%
- Water: 3%
- Mining & quarrying: 2%
- Real Estate Activities: 6%
- Cash crops: 7%
- Livestock: 8%
- Human Health & Social Work: 9%
- Information & Communication: 14%
- Public Administration: 18%

*Selected sectors presented; see report for full list

**Hospitality and education** are consistently among the worse hit sectors, while **ICT** thrived
Prior to the crisis, debt levels were already elevated for some countries.

**Government Debt in 2019 (% of GDP)**

- D.R. Congo: 14.8%
- Comoros: 25.2%
- Tanzania: 38.2%
- Uganda: 38.2%
- Madagascar: 38.4%
- Djibouti: 38.5%
- Rwanda: 51.4%
- Burundi: 57.4%
- Ethiopia: 57.6%
- Kenya: 62.1%

**Total Debt Servicing (% of exports and primary income)**

- D.R. Congo: 8.4%
- Comoros: 3.1%
- Tanzania: 14.7%
- Uganda: 4.9%
- Madagascar: 2.5%
- Djibouti: 1.5%
- Rwanda: 7.4%
- Burundi: 0%
- Ethiopia: 28.9%
- Kenya: 38.2%

*Source: IMF, World Bank*
Regional debt sustainability faces heightened risks

National Debt Statistics (% of GDP and %-pt change), 2021 latest available

Source: IMF WEO (April 2021), World Bank
Inbound financial flows did not decline as expected

2020 Trends in Main Foreign Financial Inflows

**Cross-Border Investment**

- **Foreign direct investment** into East Africa declined by **16%**
  - However this was uneven across sectors and countries
  - Tourism sector FDI project numbers declined by **67%**
  - Communications sector cross-border capital investments grew by **41%**

**Remittances**

- Remittances fell in some countries and were resilient in others
  - Kenya (USD million)
    - January 2020: 259
    - March 2020: 219
    - May 2020: 229
    - July 2020: 258
    - September 2020: 289
    - November 2020: 300
  - Comoros (KMF billion)
    - January 2020: 4.1
    - March 2020: 4.0
    - May 2020: 4.1
    - July 2020: 6.7
    - September 2020: 8.9
    - November 2020: 8.0

Source: UNCTAD
The pandemic itself has not been especially inflationary…

But it has been conducive to inflationary pressures in some sub-sectors (food, transport, etc.)

**Average Annual Inflation Rate (%), 2015 – 2020**

<table>
<thead>
<tr>
<th>Country</th>
<th>2015 – 2020</th>
<th>2020e</th>
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</thead>
<tbody>
<tr>
<td>S. Sudan</td>
<td>52.8%</td>
<td>38.0%</td>
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<tr>
<td>Ethiopia</td>
<td>9.6%</td>
<td>20.4%</td>
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<tr>
<td>DRC</td>
<td>0.7%</td>
<td>11.3%</td>
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<tr>
<td>Rwanda</td>
<td>2.5%</td>
<td>8.0%</td>
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<tr>
<td>Burundi</td>
<td>5.6%</td>
<td>7.3%</td>
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<tr>
<td>Kenya</td>
<td>6.6%</td>
<td>5.3%</td>
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<tr>
<td>Eritrea</td>
<td>28.5%</td>
<td>4.9%</td>
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<td>Madagascar</td>
<td>7.4%</td>
<td>4.2%</td>
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<tr>
<td>Uganda</td>
<td>5.4%</td>
<td>3.8%</td>
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<tr>
<td>Tanzania</td>
<td>5.6%</td>
<td>3.0%</td>
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<tr>
<td>Djibouti</td>
<td>-0.8%</td>
<td>2.9%</td>
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<tr>
<td>Seychelles</td>
<td>4.0%</td>
<td>1.2%</td>
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<tr>
<td>Comoros</td>
<td>0.9%</td>
<td>1.1%</td>
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**2020 Inflation Rate**

- **Africa**: 10%
- **Global**: 3.2%

Source: UN DESA WESP (mid-2021), IMF WEO (April 2021)
Food prices are a particular concern...

Global Food Price Indices, 2018 – August 2021

Change in indices since Jan 2020

Cereals
Food Price Index ▲ 24%

Dairy
Meat

Prices in Eastern Africa generally rose for:

- Transport
- Housing
- Utilities
- Food

Source: FAO, Federal Reserve Bank of St. Louis, COMESA
Note: For food index, 2014–2016 = 100; energy index, 2016 = 100
OUTLINE

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Merchandise trade recovered strongly in the second half of 2020

### Merchandise Trade (% annual change), 2020

<table>
<thead>
<tr>
<th>Country</th>
<th>Exports</th>
<th>Imports</th>
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</thead>
<tbody>
<tr>
<td>Seychelles</td>
<td>41%</td>
<td>6%</td>
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<tr>
<td>Tanzania</td>
<td>21%</td>
<td>-10%</td>
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<tr>
<td>Eritrea</td>
<td>19%</td>
<td>8%</td>
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<tr>
<td>Rwanda</td>
<td>14%</td>
<td>11%</td>
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<tr>
<td>Djibouti</td>
<td>14%</td>
<td>-2%</td>
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<td>Kenya</td>
<td>8%</td>
<td>-9%</td>
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<tr>
<td>Uganda</td>
<td>5%</td>
<td>-1%</td>
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<tr>
<td>DRC</td>
<td>3%</td>
<td>-54%</td>
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<td>Ethiopia</td>
<td>1%</td>
<td>-10%</td>
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<tr>
<td>Burundi</td>
<td>-6%</td>
<td>6%</td>
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<td>Somalia</td>
<td>-14%</td>
<td>73%</td>
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<tr>
<td>Comoros</td>
<td>-20%</td>
<td>8%</td>
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<td>Madagascar</td>
<td>-23%</td>
<td>-22%</td>
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<tr>
<td>South Sudan</td>
<td>-56%</td>
<td>12%</td>
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Source: IMF DOTS, national sources (see paper)
Services trade remains severely depressed

Services Exports (USD millions), January 2020 – latest month

Source: National sources (see paper)
Uganda sourced more imports from within Africa after the COVID-19 outbreak

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<tr>
<td>Africa Share</td>
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<td>Asia Share</td>
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Uganda’s intra regional imports increased after Covid
AfCFTA presents potential opportunities for recovery from pandemic.

Uganda exported 40% to Africa and imported 28% from Africa (UNCTADStats).


The chart shows the share of exports and imports from Africa for various countries in Eastern Africa over the 2018-2020 period. The data highlights the importance of intra-African trade and the potential it presents for recovery from the pandemic.
Implementing the AfCFTA can catalyze regional economic recovery

Stage of AfCFTA Ratification as at 10 September 2021

Source: TRALAC
AfCFTA estimated benefits across the continent

**USD450 BILLION**
boost to continental GDP from a single market

**52%+**
boost to intra-regional trade

**14 MILLION+**
decent new jobs in manufacturing

**OTHER BENEFITS INCLUDE:**

- **Increasing trade diversity** – since most of intra-African trade is *not extractive*
- **Protecting women traders** – especially the women making up 70% of informal trade
- **Growing the SME sector** – opening trade for SME businesses that are 80% of the private sector
- **Boosting sustainable growth** – contributing to SDGs, Africa 2063 and other goals

Source: AU, UNECA
In Eastern Africa, the AfCFTA will boost manufacturing exports

Potential Change in Eastern Africa Intra-African Exports

- Textiles and...: 100%
- Heavy...: 63%
- Light...: 61%
- Processed food: 54%
- Livestock and...: 39%
- Transport and...: 37%
- Grains and crops: 18%
- Extraction: 17%

Uganda’s intra-African exports expected to increase by 50%

Source: ECA simulations
Uganda’s potential benefits from AfCFTA could help in trade recovery from pandemic

Predicted potential benefit from AfCFTA for Uganda (UNECA, 2021)
For a small price in terms of fiscal revenues...

### Tariff Revenue Losses (%)

<table>
<thead>
<tr>
<th></th>
<th>As proportion of total tariff revenue</th>
<th>As proportion of total government revenue</th>
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<tbody>
<tr>
<td>Tanzania</td>
<td>6.2%</td>
<td>1.3%</td>
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<td>0.7%</td>
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Note: Tariff revenue is the sum of import tariff rate times the value of imports by the type of import and source.
Source: Author calculations based on GTAP 10.0 database.
In the final analysis the AfCFTA gains will not be automatic for EAC and Uganda

- Ongoing EAC common external tariff review needs to be finalized.
- AfCFTA market access offers for goods and services need to be finalized in an offensive way that positions EAC and Uganda to benefit.
- Regional industrialisation strategy needs to be aligned with appropriate industrial and investment policies.
- EAC rules of origin need to be revised to reflect industrialisation realities.
- As AfCFTA rules of origin are being finalized, development of value chains to optimize on the deal breaking sectors need to start (textiles and apparel, automobiles)
Thank You

UNECA

Name of presenter
Title of presenter