EPRC POLICY BRIEF

Issue No. 32 SEPTEMBER 2013

The Quest to Deepen Intra-EAC Regional Trade: Progress and Challenges for Uganda

Isaac Shinyekwa and Lawrence Othieno

Executive statement

The empirical question is whether Uganda's intra- East African Community (EAC) trade is increasing following the implementation of the regional treaty and protocols or is still dominated by other trading blocs, namely the European Union (EU), Asia and Common Market for Eastern and Southern Africa (COMESA). Progress has been registered in the elimination of intra-EAC tariffs, however, there are challenges that need to be addressed to deepen the EAC integration.

Gravity model panel results demonstrate that whereas Uganda's exports are getting more integrated into the EAC and COMESA regions,-between 2001 and 2010, imports are more integrated into the Asian and EU trading blocs. Therefore, strong links with trading blocs outside the EAC (i.e. EU and Asia) with regard to imports still exist. Thus, it is imperative for Uganda to target implementation of regional trade agreements to expand the country's regional export markets. Uganda as well as the EAC region should collectively attract investment in production of high technology products to increase intra-EAC imports and reduce imports from Asia and the EU. The EAC region should adopt a legally binding approach to Non-Tariff Barriers, harmonises trade policies and standardises documentation and procedures.

Introduction

This brief provides compelling evidence that Uganda's foreign trade flows are slowly getting integrated into the EAC region, suggesting that the integration has played a significant role in increasing intra-regional trade. The elimination of intra-regional trade tariffs, reduction of non-tariff barriers and adoption of a Common External Tariff (CET) has therefore paid off as anticipated in the EAC Customs Union (CU) Protocol. The analysis comparing the intra-bloc effects depicts export trade being integrated more in the EAC and COMESA regions than other trading blocs/regions. On the other hand, it is clear that Uganda's imports are more integrated with the Asian and EU blocs than the EAC bloc. Strong links thus remain in trading blocs outside the EAC with reasonable variations between exports and imports. This is explained by the nature of commodities imported in the EAC region as a result of technological deficits. Uganda in this case heavily relies on the industrialised countries for high technology products and exports primary products/commodities. The analysis is based on an estimation of a gravity model using a panel data set from 2000-2009 and computation of a number of trade indices that include: regional trade concentration and dispersion index, trade intensity index and trade complementarity index.

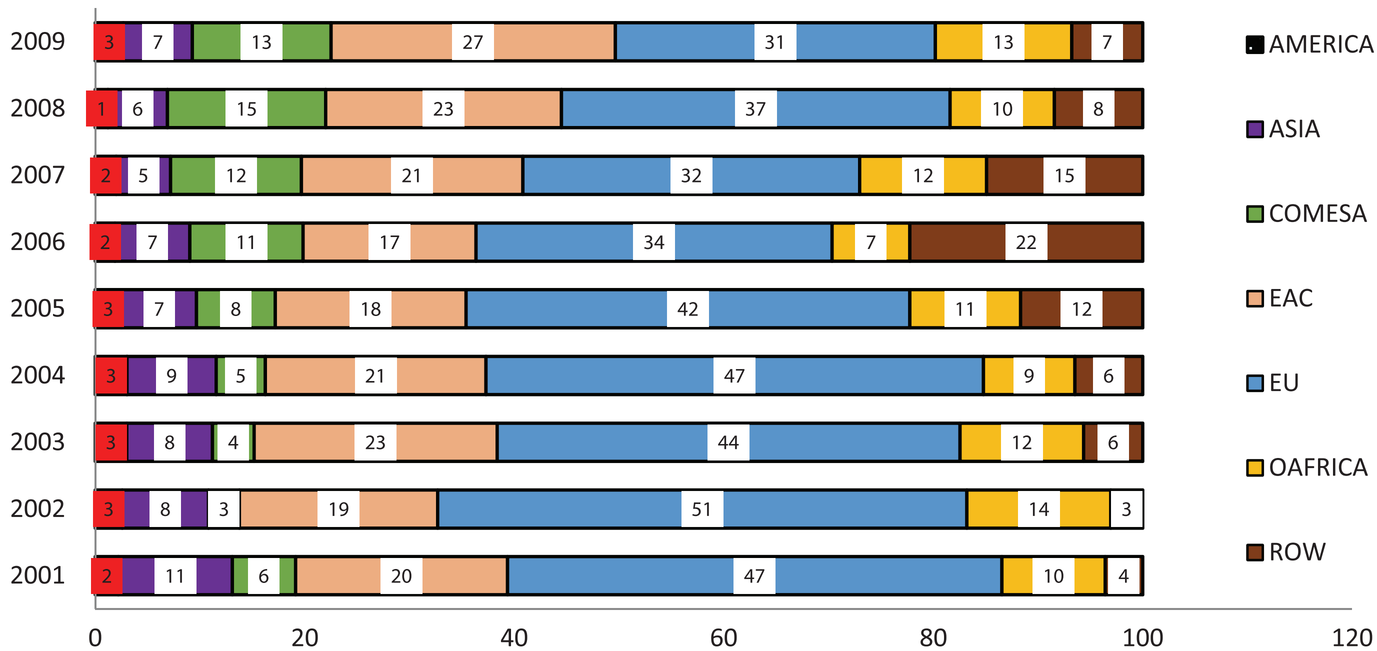
Trends in Uganda's exports to and imports from the different trading blocs, 2001-2009

Following the implementation of the EACCU in 2005, the value of intra-EAC trade steadily increased and more than doubled from US$1.6 billion in 2006 to US$3.8 billion in 2010 (WTO, 2012[1]). This is reflected in the share in total intra-EAC trade as proportion of

1 World Trade Organization (2012) Trade Policy Review Report: The Secretariat East African Community

world trade which improved from 7.8 to 11.4 percent during the same period, although significant differences exist with respect to specific member states. Figure 1 demonstrates that starting in 2001, Uganda registered an increase in the value of total exports to all the trading partners within the EAC from about 20 percent in 2001 to 27 percent in 2009. However, other trading blocs like the EU still play a significant role with regard to Uganda's exports. The EU accounted for 31 percent of total export trade in 2009 having declined from 51 percent in 2002. From a regional perspective, Uganda's exports to EAC and COMESA combined have grown from 26 percent in 2000 to 58 percent in 2009 underlining the increasing role of regional export trade. Likewise, it suggests an increasing role of the COMESA and the EAC in Uganda's export trade pattern.

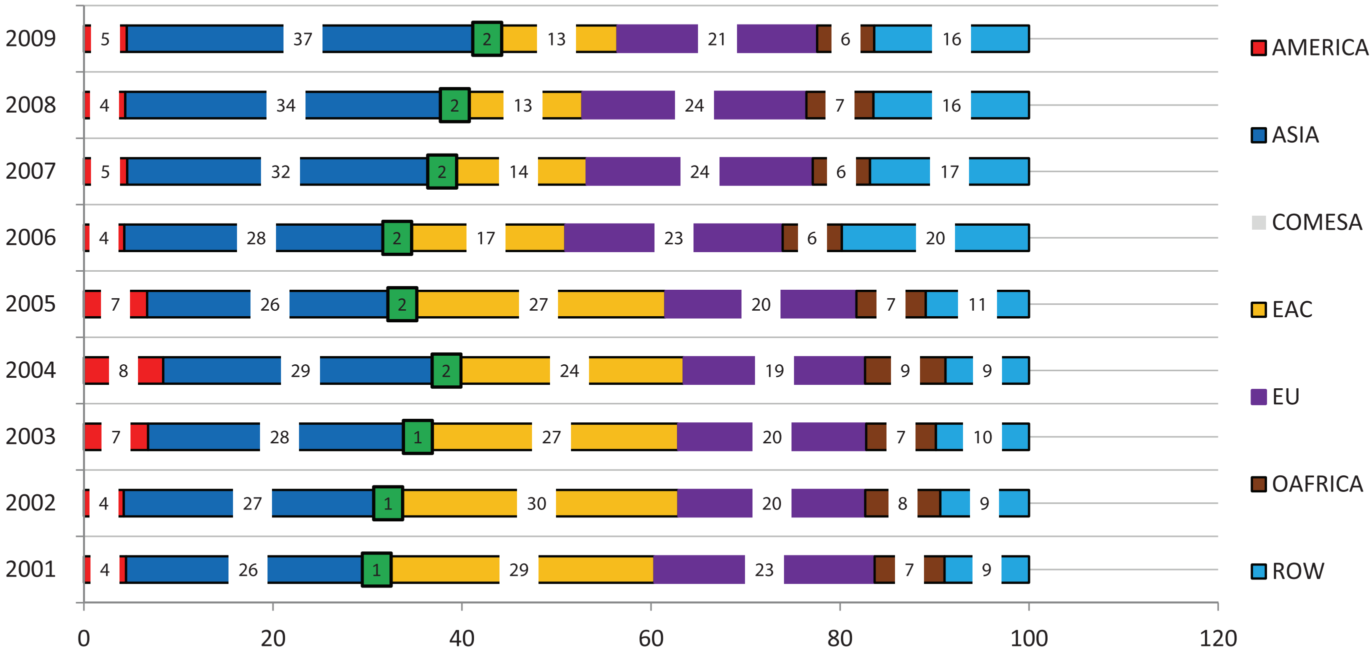
Figure 1: The proportions of Uganda's exports to the different trading blocks, 2001-2009 (%)



Uganda's imports from the EAC region declined significantly from 29 percent in 2000 to 13 percent in 2009. In value terms, Uganda's imports from the EAC partner states increased from US$288million in 2001 to US$547million in 2009. This suggests that although the value of imports from the EAC partner states doubled, the proportion to total imports declined implying that Uganda is increasingly depending on other trading blocs for the country's imports. COMESA without the EAC partner countries contributes a small proportion that has increased from 2 percent in 2001 to 3 percent in 2009. During the same period, the EU maintained a constant proportion of exports to Uganda with an average of about 21 percent of the total imports for the country. This suggests that the implementation of the EAC treaty has so far not reduced Uganda's imports from the EU.

Uganda has experienced a tremendous growth in imports from Asia, from 26 percent of total imports in 2001 to about 37 percent of total imports in 2009 and it may remain a dominant region for the foreseeable future since the EAC region does not produce the type of goods currently imported from Asia. In monetary terms, imports into Uganda from Asia have increased from US$259million in 2001 to US$1.576 billion in 2009. This reveals the increasing role the Asian region plays on the Ugandan economy. The increase in imports especially from Asia and Europe is primarily explained by the growth in private sector imports of capital and consumer goods such as petroleum products, iron and steel, mineral fuels, electrical machinery, pharmaceutical products and sugar. What therefore emerges from this analysis is that although in absolute value, Uganda has increased imports from the EAC region (specifically Kenya), in terms of proportion, there is a notable decline in favour of Asia in particular.

Figure 2: The proportions of Uganda's imports from the different trading blocs 2001 – 2009 (%)



Challenges

Ideally, formation of a CU should increase intra-regional trade implying that Uganda's trade with the EAC partner states should increase both proportionally and in value terms. Article 75 of the EAC Treaty and the CU Protocol highlight the commitment of partner states to support export promotion schemes in the community. These include: (i) elimination of tariffs on intra-EAC regional trade and other charges of equivalent effect (ii) elimination of non-tariff barriers; (iii) establishment of a CET; (iv) duty drawback, refund and remission of duties and taxes, among others. These and others are among the efforts to boost intra-EAC trade. It was anticipated that the implementation of these provisions would increase the value and volume of trade within the EAC. There have been milestones as well as impediments that constitute challenges that should be addressed in order to achieve optimal mutual integration results. These milestones and impediments are discusses below:

1. Although the EAC community successfully eliminated intra-regional tariffs between 2005 and 2010 having adopted an asymmetrical tariff reduction approach with a transition arrangement, NTBs have been persistent. Over 35 NTBs have been identified by the EAC Secretariat and these remain a major problem to Uganda's intra-EAC trade (Kirk, 2010[2]). They include: non-harmonized technical regulations, sanitary and phytosanitary measures, customs procedures and documentation, and police road blocks (Okumu and Nyakori, 2010[3]). The National Monitoring Committees (NMCs) established to monitor progress on NTB elimination have achieved little.

2. Whereas a number of legal documents have been adopted at the EAC level to fully harmonize partner states' trade policies against non-partner states, challenges do still exist. The EAC multiple membership phenomenon by individual countries impedes full harmonization of policies. Consequently, this complicates trade-related procedures in the region and ultimately undermines the principles of a CU. The existence of divergent trade policies and the non-uniform application of regional instruments by EAC partner states hinders trade led development.

3. Even when the CU Protocol provides for standardisation of customs formalities and harmonization of documentation and procedures by member states (WTO, 2012), in practice these have not been fully harmonized.

2 Kirk, R. (2010), Addressing Trade Restrictive Non-Tariff Measures on Goods Trade in the East African Community

3 Okumu Luke and Okuku Nyakori (2010) Non-Tariff Barriers in EAC Customs Union: Implications f or Trade Between Uganda and Other EAC Countries

Recent Policy Briefs

"Expanding HIV/AIDS prevention programmes through Safe Male Circumcision and Voluntary Counselling and Testing in Uganda"
Gemma Ahaibwe, Ibrahim Kasirye and Mildred Barungi
No. 31 August 2013

"The Impact of the NAADS Programme: directions for the future"
Geofrey Okoboi, Annette Kuteesa, Mildred Barungi
No. 30 July 2013

"Improving the Use of Agricultural Technologies in Uganda"
Ibrahim Kasirye
No. 27 June 2013

About the Authors

Isaac Shinyekwa is a Research Fellow, Trade and Regional Integration at the Economic Policy Research Centre.

Lawrence Othieno is a Research Fellow, at the Economic Policy Research Centre.

4. The EAC countries have continued to use different customs systems where Burundi, Rwanda, Tanzania, and Uganda use ASYCUDA while Kenya uses SIMBA 2005. This has created some difficulties in attaining a smooth exchange of information. The creation of an interface of the two systems as a solution to operate under the Revenue Authorities Digital Data Exchange (RADDEx), has been limited by capacity resulting into partial implementation only at some customs posts. The lack of standard customs formalities slow down the pace of business and thus discourage cross border trade.
5. On the side of export promotion schemes, Uganda largely uses an export credit guarantee scheme; foreign exchange liberalisation that entitles exporters to retain 100 percent of their foreign exchange earnings; duty and Value Added Tax exemptions on exports; duty draw back; and manufacturing under bond. Export promotion zones have not been actualised and yet these could increase the volume of exports.
6. In spite of the growth in intra-EAC trade performance there are impediment like poor infrastructural services, mainly physical infrastructure (roads and rail), and high costs of energy, resulting in high costs of doing business that make it difficult to boost trade.

The emerging policy issues

In light of these findings:(i) Uganda should target regional destinations for the country's exports primarily in addition to other blocs; (ii) Regional trade agreements should adequately be implemented to promote intra-EAC trade; (iii) Given the composition of Uganda's exports and imports, to increase intra-EAC regional trade, Uganda, and other EAC partner states should attract and channel investment in production of high technology products. This can be done through deliberate government involvement and attraction of strategic foreign direct investment. There is need for Uganda and the EAC region to undertake joint infrastructure projects such as roads and railways construction to reduce transport costs and improve on trade facilitation to boost trade.

The Economic Policy Research Centre (EPRC) is an autonomous not-for-profit organization established in 1993 with a mission to foster sustainable growth and development in Uganda through advancement of research –based knowledge and policy analysis.

Learn more at www. eprc.or.ug
https://twitter.com/EPRC_Official
http://www.facebook.com/pages/Economic-Policy-Research-Centre/214044168654308?sk=info

Address:
Economic Policy Research Centre
Plot 51, Pool Road, Makerere University Campus
P.O. Box 7841, Kampala, Uganda
Tel: +256-414-541023/4
Fax: +256-414-541022
Email: eprc@eprc.or.ug