Uganda's Access to Global and Regional Markets

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ABSTRACT

As a landlocked country in East Africa, Uganda faces two major disadvantages concerning access to foreign markets. It does not have an immediate gateway to low-cost ocean transport, but first has to pass its imports and exports through neighboring countries by road or rail. Nor does it share a common border with an industrialized country that produces the goods and services that Uganda imports and that could absorb a large share of the country's exports. In this context it is all the more important to fully exploit existing opportunities in regional and global markets, as well as opening new export markets by negotiating trade barrier reductions on a preferential or multilateral basis. These trade barrier-related aspects of regional and global market access are analyzed in this paper. In particular, the discussion reviews market access policy in Uganda and identifies a number of key issues and challenges for the country.

KEYWORDS

Trade, tariffs, regional integration, overlapping agreements, preferences, world markets

JEL CLASSIFICATION

F13; F14; F15; O24

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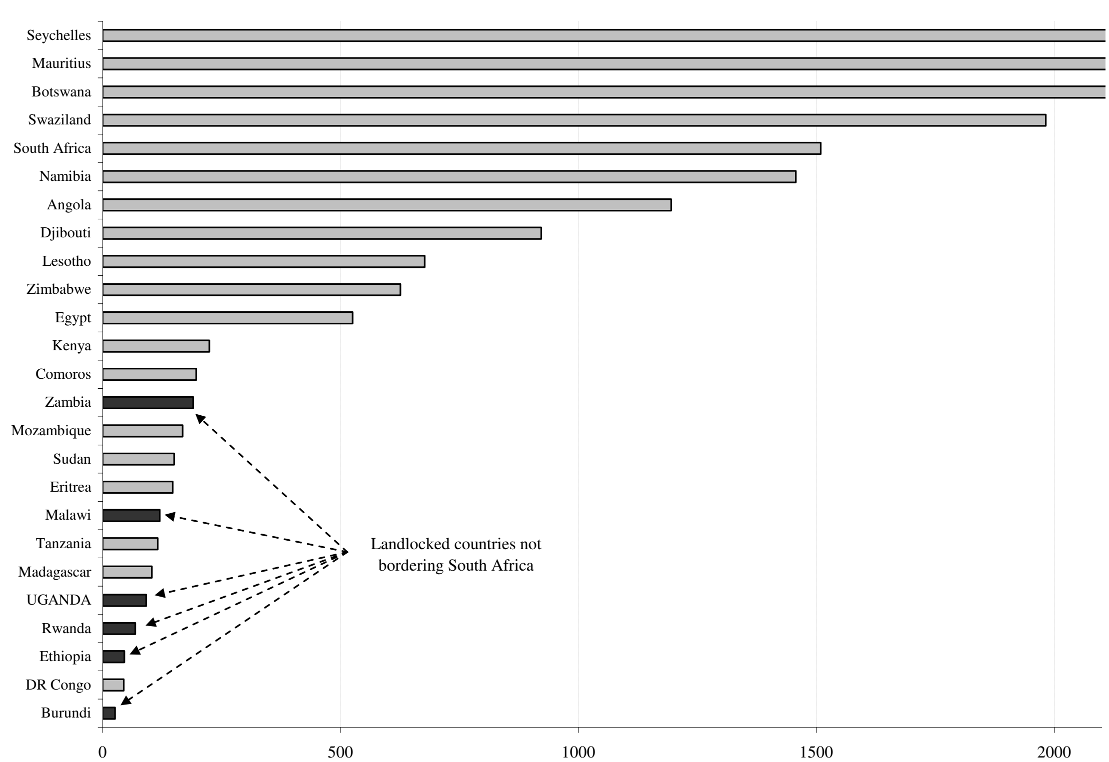
1. THE ISSUE OF MARKET ACCESS

As a landlocked country in East Africa, Uganda faces two major disadvantages concerning access to foreign markets. It does not have an immediate gateway to low-cost ocean transport, but first has to pass its imports and exports through neighboring countries by road or rail. Nor does it share a common border with an industrialized country that produces the goods and services that Uganda imports and that could absorb a large share of the country's exports. As a result and like other landlocked countries in the region that do not have a common border with South Africa, Uganda shows a very low degree of trade intensity, as measured by total trade per capita (Figure 1).

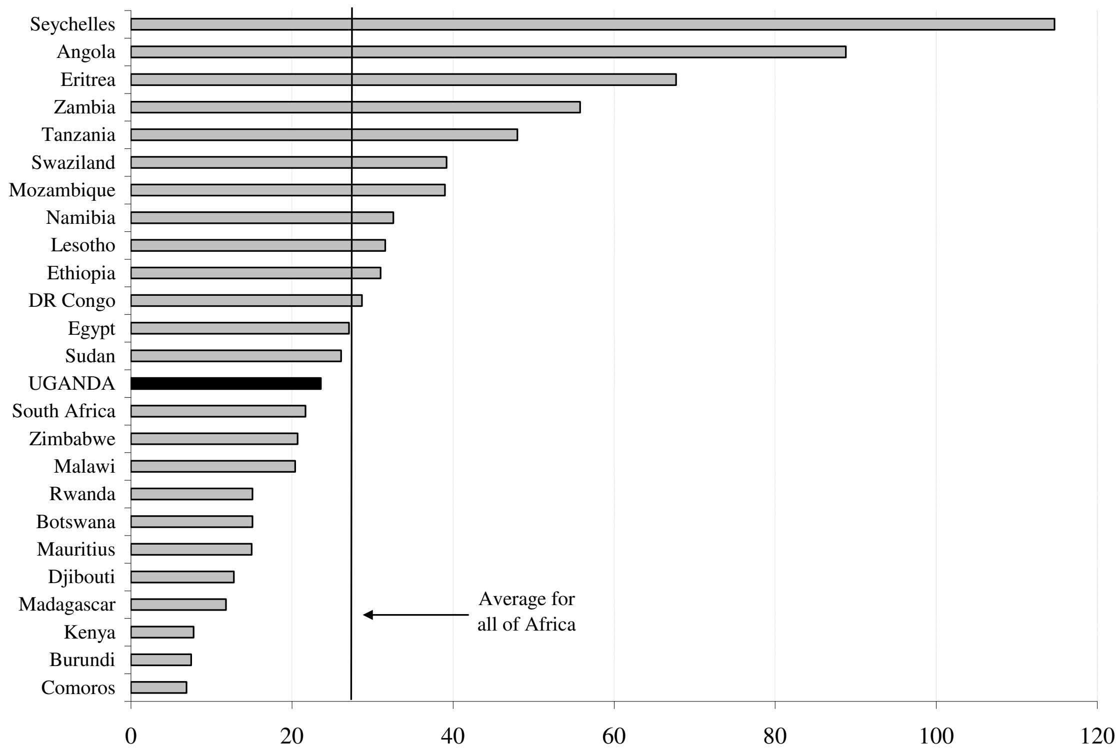
Figure 1: Trade Intensity in Eastern and Southern Africa
(Imports plus exports per capita, in US Dollars)



Note: Data for 2002. No comparable information available for Somalia.
Source: World Bank, World Development Indicators.

Uganda has also not been exceptionally successful in attracting foreign direct investment (FDI), which is often closely linked to trade in services. In 2004, Uganda received FDI-inflows of 237 million USD, bringing its total FDI stock to 1.6 billion USD, or 23.6 per cent of GDP (UNCTAD, 2005). The country thereby ranks about average in Eastern and Southern Africa and slightly below the all-African mean (Figure 2).

Figure 2: Stock of Foreign Direct Investment in Eastern and Southern Africa, 2004
(Per cent of GDP)



Note: No comparable information available for Somalia.
Source: UNCTAD, 2005.

What can policy makers and development partners do to ameliorate the situation and reap larger benefits from increased trade? Efforts to reduce trade transactions costs through streamlining of border procedures and improved transit arrangements are one means. Such measures are discussed extensively in the chapter on transport and trade facilitation. Another avenue consists of trying to more fully exploit existing opportunities in regional and global markets as well as opening new export markets by negotiating trade barrier reductions on a preferential or multilateral basis. These trade barrier-related aspects of regional and global market access are analyzed in this chapter.

In particular, the subsequent discussion reviews market access policy in Uganda and identifies a number of key issues and challenges for the country. The analysis falls into three parts. First, the state of regional integration is described, with particular emphasis on the prospective effects of the recently concluded East African Community (EAC) customs union. Then, Uganda's global market opportunities are examined, including an assessment of the degree of preference utilization in industrialized country markets. And finally, some priorities for the attention of policy makers and international donors are identified based on the preceding analysis.

2. ACCESS TO REGIONAL MARKETS

Like other countries in Eastern and Southern Africa, Uganda is committed to the process of regional integration and is pursuing closer ties with neighboring nations. Indeed, economic integration efforts in the region go back by almost a century (Box 1). Uganda is currently engaged in two regional trade agreements, namely the East African Community (EAC) and the

Common Market for Eastern and Southern Africa (COMESA). Moreover, Uganda is a member of the Regional Integration Facilitation Forum, and has a number of bilateral agreements, even though the latter are not always thoroughly implemented.

Box 1: History of Regional Integration

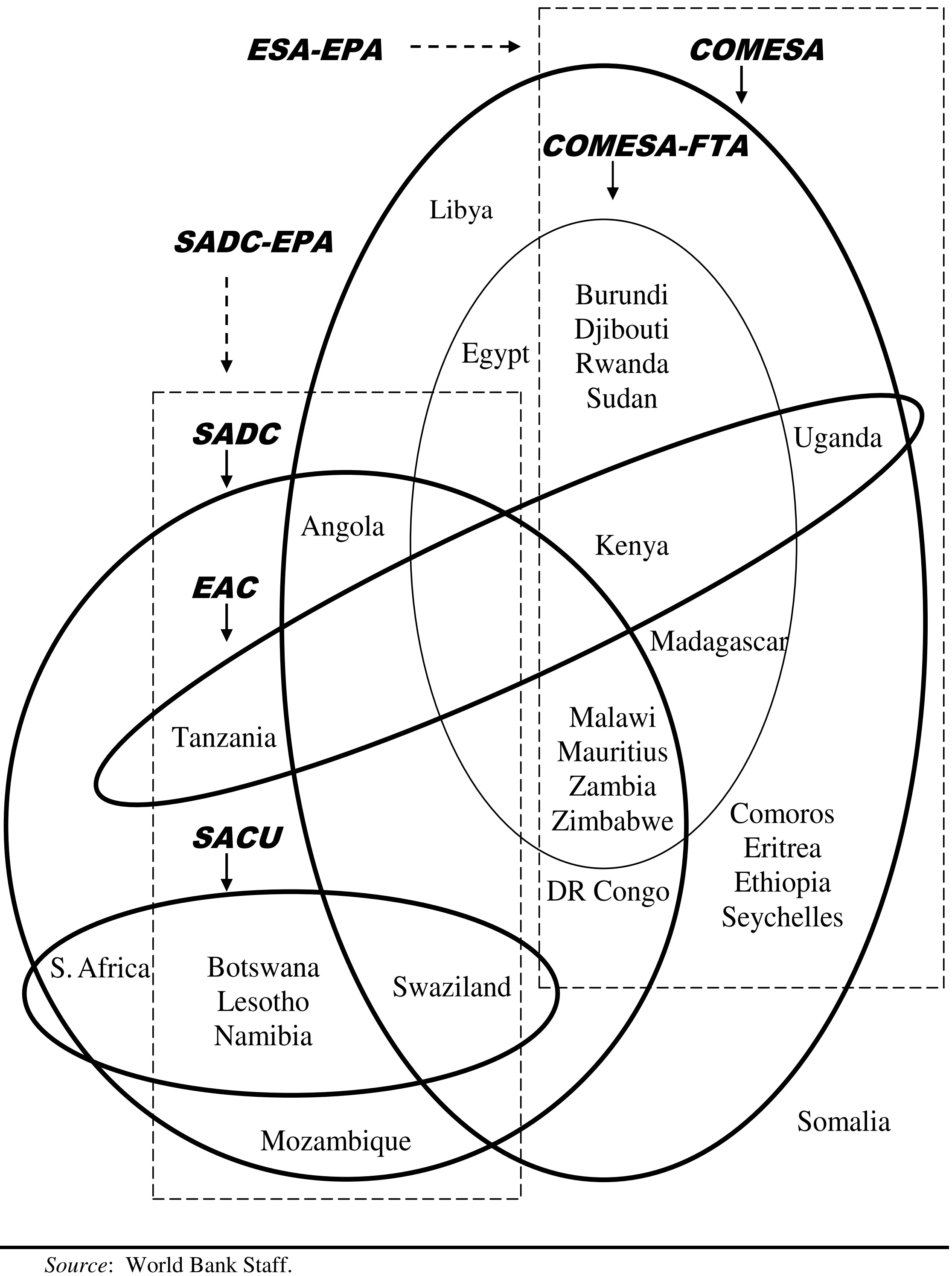
East Africa has a long history of regional integration. Kenya and Uganda first formed a customs union in 1917, which the then Tanganyika (later Tanzania) joined in 1927. Subsequently, the three countries had close economic relationships in the East African High Commission (1948-1961), the East African Common Services Organization (1961-1967), the East African Community (1967-1977), and the East African Co-operation (1993-1999). In November 1999, the Treaty for the establishment of the (new) East African Community was signed, and entered into force in July 2000.

The EAC Trade Protocol was signed in March 2004. After subsequent ratification in national Parliaments, the customs union was launched in January 2005, establishing a common external tariff and removing all intra-regional trade barriers during a five-year transition period. Once the customs union is completed, the EAC partners envisage further integration steps with the creation of a common market, a monetary union, and ultimately a political federation, although no time table has been established yet.

Uganda is also an active member of COMESA, which was founded in 1994 to replace the region's former Preferential Trade Area. In addition to Uganda, there are 19 other COMESA members, namely Angola, Burundi, Comoros, Democratic Republic of Congo, Djibouti, Egypt, Eritrea, Ethiopia, Kenya, Libya, Madagascar, Malawi, Mauritius, Rwanda, Seychelles, Sudan, Swaziland, Zambia, and Zimbabwe. One of the main objectives of this regional arrangement was to establish a free trade area, which was (partly) achieved in October 2000, when nine COMESA's members (Djibouti, Egypt, Kenya, Madagascar, Malawi, Mauritius, Sudan, Zambia and Zimbabwe) removed their intra-regional trade barriers. Burundi and Rwanda joined the free trade area in January 2004, bringing the number of participating countries to eleven. A further integration step in the form of the establishment of a customs union, which had originally been planned for 2004, has been postponed, as the final structure of the common external tariff has yet to be agreed upon.

Additional impetus for regional integration comes from the Economic Partnership Agreement (EPA) negotiations with the European Union. The Cotonou Agreement signed in 2000 by the EU and 77 African, Caribbean, and Pacific (ACP) States calls for the establishment of economic partnerships between the EU and regional groupings of ACP members based on reciprocal market access preferences. In order to facilitate the negotiation process and to enhance the development impact of the agreements through increased intra-regional trade, the EU intends the EPAs to be signed with free trade areas or customs unions rather than individual countries. Since early 2004, two country groupings for the negotiations have established themselves in Eastern and Southern Africa: the ESA-EPA group of 16 COMESA members, including Uganda, and the SADC-EPA group of seven SADC members (Figure 3).

Figure 3: Major Regional Trade Arrangements in Eastern and Southern Africa



Source: World Bank Staff.

2.1 Importance of Formal and Informal Trade within the Region

According to official statistics, the value of total trade (imports plus exports) amounted to about 34 per cent of Uganda's GDP in 2004 (Table 1). About a third of this total was carried out with other countries in Eastern or Southern Africa, up from a quarter a decade earlier. Most of the regional trade occurred under preferential market access conditions within COMESA or EAC. Trade with SADC-only countries, i.e. countries in the region that are neither members of COMESA nor EAC, such as South Africa, amounted to 2.2 per cent of GDP.

Regional trade in manufactured products is relatively more important than regional trade in agricultural commodities. This is due to a significant share of Uganda's manufactured imports originating in other countries in the region, notably Kenya and South Africa. For agricultural products, Uganda has a trade surplus *vis-à-vis* Eastern and Southern Africa, which in 2004 exceeded the corresponding surplus with the Rest of the World.

Table 1: Structure of Uganda's Merchandise Trade within the Region

(per cent of gross domestic product)

		Total trade			Exports			Imports			Net-Exports		
		1994	1999	2004	1994	1999	2004	1994	1999	2004	1994	1999	2004
All Goods													
World		28.3	25.5	33.6	11.3	8.5	9.4	17.1	17.0	24.2	-5.8	-8.5	-14.9
- Africa		6.9	8.0	11.0	1.5	2.6	3.2	5.4	5.4	7.9	-3.8	-2.7	-4.7
- Countries in	E & S Africa	6.9	7.7	10.7	1.5	2.3	2.9	5.4	5.3	7.8	-3.8	-3.0	-4.9
	COMESA	6.5	5.9	8.1	1.5	1.7	2.6	5.0	4.2	5.5	-3.5	-2.5	-2.9
	ESA-EPA	6.4	5.7	7.7	1.5	1.6	2.5	5.0	4.1	5.2	-3.5	-2.6	-2.6
	EAC	5.4	4.9	6.6	0.5	0.6	1.3	4.9	4.2	5.3	-4.4	-3.6	-4.0
	SADC only	0.2	1.5	2.2	0.0	0.6	0.1	0.2	1.0	2.1	-0.1	-0.4	-1.9
- Other Africa		0.0	0.3	0.3	0.0	0.3	0.2	0.0	0.0	0.0	0.0	0.2	0.2
- Rest of World		21.4	17.5	22.6	9.7	5.8	6.2	11.7	11.6	16.4	-2.0	-5.8	-10.2
Agriculture (HS 1-24)													
World		13.3	9.4	10.2	10.6	7.0	6.1	2.8	2.4	4.1	7.8	4.5	1.9
- Africa		2.4	2.3	2.6	1.2	1.8	1.8	1.1	0.6	0.7	0.1	1.2	1.1
- Countries in	E & S Africa	2.4	2.1	2.5	1.2	1.5	1.8	1.1	0.6	0.7	0.1	1.0	1.0
	COMESA	2.3	1.7	2.1	1.2	1.3	1.6	1.1	0.4	0.5	0.2	0.9	1.2
	ESA-EPA	2.3	1.6	2.0	1.2	1.2	1.6	1.1	0.4	0.4	0.2	0.8	1.2
	EAC	1.4	0.8	1.2	0.4	0.4	0.8	1.0	0.4	0.4	-0.6	0.0	0.4
	SADC only	0.0	0.3	0.3	0.0	0.1	0.1	0.0	0.1	0.2	0.0	0.0	-0.1
- Other Africa		0.0	0.3	0.1	0.0	0.3	0.1	0.0	0.0	0.0	0.0	0.3	0.1
- Rest of World		11.0	7.1	7.7	9.3	5.2	4.3	1.7	1.9	3.4	7.7	3.3	0.8
Manufacturing (HS 25-99)													
World		15.0	16.1	23.4	0.7	1.5	3.3	14.3	14.6	20.1	-13.6	-13.1	-16.8
- Africa		4.6	5.7	8.5	0.3	0.9	1.3	4.3	4.8	7.1	-4.0	-3.9	-5.8
- Countries in	E & S Africa	4.5	5.6	8.3	0.3	0.8	1.2	4.3	4.8	7.1	-4.0	-3.9	-5.9
	COMESA	4.2	4.2	6.1	0.3	0.4	1.0	3.9	3.8	5.1	-3.7	-3.4	-4.1
	ESA-EPA	4.1	4.1	5.8	0.3	0.4	1.0	3.9	3.7	4.8	-3.6	-3.4	-3.8
	EAC	4.1	4.0	5.4	0.1	0.2	0.5	3.9	3.8	4.9	-3.8	-3.6	-4.4
	SADC only	0.2	1.2	1.9	0.0	0.4	0.1	0.2	0.8	1.9	-0.1	-0.4	-1.8
- Other Africa		0.0	0.1	0.2	0.0	0.0	0.2	0.0	0.0	0.0	0.0	0.0	0.1
- Rest of World		10.4	10.4	14.9	0.4	0.6	2.0	10.0	9.8	13.0	-9.6	-9.1	-11.0

Note: E & S Africa is taken as all countries that are members of COMESA or SADC. Regional Trade Blocs (COMESA, ESA-EPA, EAC) are aggregated from individual country data according to the membership structure as of January 2005 (see figure 3). "SADC only" refers to Botswana, Lesotho, Mozambique, Namibia, and South Africa.

Source: UN COMTRADE database.

Uganda has been running trade deficits with its two EAC partners, Kenya and Tanzania. In 2004, these amounted to 3.2 million USD *vis-à-vis* Tanzania and a more substantial 267 million USD *vis-à-vis* Kenya (Table 2). Uganda is a net exporter of agricultural products and electricity to both of its partners, but imports large quantities of manufactures.

Table 2: Structure of Uganda's Trade with its EAC Partners, 2004

('000 USD)

ISIC-3 Code	Sector Description	Kenya				Tanzania			
		Total trade	Ex-ports	Im-ports	Net trade	Total trade	Ex-ports	Im-ports	Net trade
01	Agriculture & hunting	26060	21630	4431	17199	5348	2810	2537	273
02	Forestry & logging	17	0	17	-17	0	0	0	0
05	Fishing	1	0	1	-1	1	0	1	-1
10	Mining of coal and lignite	12	0	12	-12	0	0	0	0
11	Crude petroleum and natural gas	2736	0	2736	-2736	0	0	0	0
14	Other mining and quarrying	9772	51	9721	-9670	0	0	0	0
15	Food products and beverages	50173	31846	18327	13519	1830	903	927	-24
16	Tobacco products	37	0	37	-37	7		7	-7
17	Textiles	9843	2280	7563	-5283	1786	1193	592	601
18	Wearing apparel & fur	1771	1	1770	-1769	8	4	3	1
19	Leather & footwear	3636	128	3507	-3379	136	0	136	-136
20	Wood except furniture	829	13	816	-803	280	7	273	-266
21	Paper and paper products	18118	85	18032	-17947	225	148	78	70
22	Publishing & printing	1941	12	1928	-1916	26	13	13	0
23	Coke & refined petroleum	155055	5	155049	-155044	510	2	508	-505
24	Chemicals and chemical products	39473	1242	38231	-36990	1062	957	106	851
25	Rubber and plastics products	9463	207	9256	-9049	633	496	137	359
26	Other non-metallic mineral products	24396	5	24391	-24385	1104	98	1007	-909
27	Basic metals	18570	778	17793	-17015	8537	945	7592	-6647
28	Fabricated metal products	7474	159	7315	-7157	55	45	9	36
29	Machinery and equipment	8875	2277	6597	-4320	766	370	395	-25
30	Office & computing machinery	1422	329	1093	-763	261	175	86	89
31	Electrical machinery and apparatus	3051	16	3035	-3020	117	61	56	5
32	Radio, communication equipment	2375	1687	688	999	147	64	82	-18
33	Medical & optical instruments	1073	19	1053	-1034	3	1	2	-2
34	Motor vehicles & trailers	9914	2987	6927	-3940	288	248	41	207
35	Other transport equipment	1633	511	1123	-612	36	36	0	36
36	Furniture	2612	111	2501	-2389	204	196	8	189
40	Electricity, gas, and hot water supply	8969	8967	2	8964	3107	3107	0	3107
	Other activities	1608	1377	231	1146	1003	268	734	-466
	Total	420906	76723	344183	-267460	27477	12147	15330	-3183

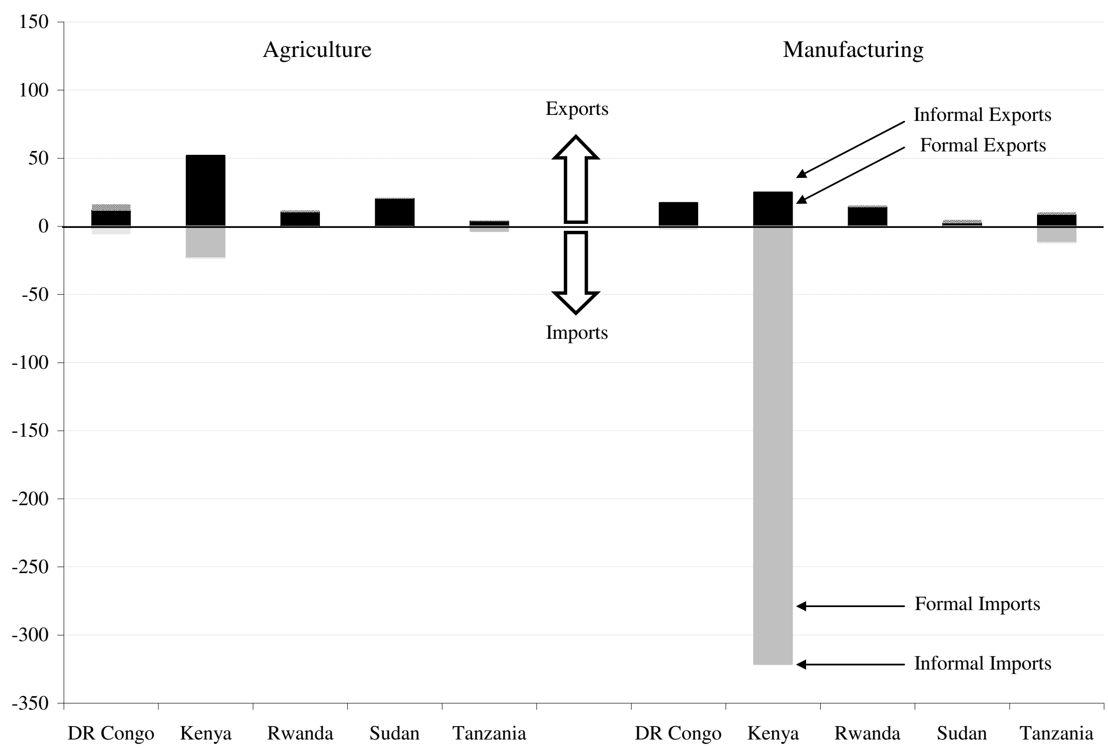
Source: UN COMTRADE database.

The trade balance with regional partners improves if informal cross-border transactions are taken into consideration. The Uganda Bureau of Statistics monitored small-scale trade at border crossings that is not subject to customs regulations during the period from October 2003 to January 2004. The authorities tolerate shipments by bicycle or wheelbarrow of up to 200 kg as not requiring official registration, so that traders can avoid the (relatively low) EAC or COMESA tariffs and other direct and indirect taxes that apply only to formal businesses. Enumerators were stationed at border posts with all of Uganda's five neighbours, i.e. DR Congo, Kenya, Rwanda, Sudan, and Tanzania. They recorded both informal export and import transactions at the border posts and made estimates on the extent to which informal transactions took place in the post's vicinity (UBOS, 2004).

The results indicate that the volume of informal trade is significant and that Uganda's informal exports exceed informal imports by a substantial margin. Informal exports to the five partner countries corresponded to about half of formal trade, while informal imports amount to less than five per cent of the value of imports reported in official statistics. The informal trade surplus over the four month survey period from October 2003 to January 2004 was estimated to amount to 19.1 million USD. The loss in government revenue over this period due to non-collection of import tariffs and value-added taxes is estimated to amount to about 1 million USD (UBOS, 2004). Informal cross-border transactions are bound to persist even if tariffs are reduced to zero, such as envisaged between Uganda, Kenya and Tanzania after the EAC transition period, because the fiscal disincentive related to becoming a formal business, including liability for value-added and other taxes, will remain. Hence, the toleration of informal trade transactions will continue to lead to revenue slippage.

The importance of informal transactions varies considerably across the countries neighbouring Uganda. Informal trade with DR Congo and Kenya is quite substantial, while informal transactions are only of minor significance for Uganda's trade relations with Rwanda, Sudan, and Tanzania (Figure 4). According to the UBOS study, Uganda has informal trade surpluses with all its five neighbours and in each case for both agricultural and manufacturing products. The positive informal trade balance for manufactures with Kenya is particularly remarkable, since for official trade, Uganda runs a very large trade deficit with that country. However, further verification of the extent of informal cross-border transactions seems desirable, since earlier surveys conducted during the mid-1990s found a substantial deficit in informal trade of manufactures for Uganda with Kenya (Ackello-Ogutu and Echessah, 1997), so that the findings to date should be treated with care.

Figure 4: Uganda's Formal and Informal Trade with its Neighbors, 2004
(in million US Dollars)



Note: Informal trade estimates should be treated with care, as the trade volumes for the four month study period of October 2003 to January 2004 were extrapolated to the full year 2004.

Source: UN COMTRADE database, and UBOS, 2004.

While the product composition of informal trade varies across partner countries, the overall most important agricultural commodities that are traded informally are maize and beans. For manufactured products, shoes, bitenge, and used clothes feature prominently. A substantial part of the latter represents re-exports, as Uganda receives large amounts of used clothing from developed countries. The unit values of informally traded commodities were found to be lower than those observed in formal trade, suggesting that the products that go through informal channels might be of inferior quality. This finding, again, merits further investigation and year-round monitoring of cross-border transactions, for example, would make it possible to capture seasonal variations in pricing and trade flows and gain valuable information to complement official trade statistics.

2.2 Economic Effects of Regional Initiatives

Economic integration at the regional level can make it possible to reap benefits from international trade, while tailoring the provisions of the agreement to the particular needs and adjustment capacities of the countries involved. In the short term, regional integration will entail adjustment needs, as prices on the domestic market change in response to tariff reforms. Such structural adjustments are to be expected as a result of Uganda's most recent and most far-reaching regional integration step, i.e. the formation of the EAC.

2.2.1 The EAC Tariff Regime

Uganda changed its structure of domestic market protection when joining the customs union with Kenya and Tanzania in January 2005. Tariff rates were adjusted to the level of the common external tariff and the previously existing import commission fees of two per cent were discontinued, while intra-regional trade barriers will be phased out. In particular, the arrangement calls for Kenya to eliminate all tariffs on imports from Uganda and Tanzania, and for Uganda and Tanzania to eliminate tariffs on each other's imports. Regarding imports from Kenya, Uganda and Tanzania will eliminate tariffs on all imports except for an agreed-on list of products for which the tariff will be gradually reduced to zero over a period of five years. The asymmetry in liberalizing intra-regional trade is intended to give Tanzania and Uganda, which are less developed and have a large trade deficit with Kenya, additional time to initiate structural adjustments. Uganda's list contains 443 products, which are subject to import tariffs of 10 per cent in 2005 that will be reduced to zero in five annual steps. With this 10 per cent import duty, Kenyan exporters of listed products face (temporarily) higher import barriers in 2005 under EAC preferences than they used to under COMESA preferences in 2004.

The agreed common external tariff has an escalatory three-band structure, with a zero rate for raw materials, capital goods, and meritorious goods, such as medical, pharmaceutical and educational supplies; a 10 per cent rate for intermediate goods, and a 25 per cent maximum rate for finished goods. The customs union protocol provides for a revision of the top rate five years after the customs union entered into force, and it is expected that the top rate will at that point be reduced to 20 per cent. Almost 40 per cent of all tariff lines are subject to the maximum rate (Table 3).

Table 3: The EAC Common External Tariff

Category	Number of tariff lines	*Ad valorem* tariff (per cent)
Items in zero band	1927	0
- of which: Meritorious goods	105	0
Raw materials	1111	0
Capital Goods	711	0
Intermediate goods	1159	10
Finished goods	1886	25

Source: World Bank Staff.

In the negotiations on the formation of the customs union, the three EAC partners agreed on a list of 56 sensitive products to which “special tariffs” apply. About a fifth of the latter are combined duties, consisting of an *ad valorem* and a specific element, which can yield significant protection for domestic producers. The *ad valorem* tariffs range from 35 to 100 per cent, with the highest duties applying to sugar imports. Other sensitive products include milk, grains, cigarettes, kitenge, and used clothing. Since for most of the sensitive products, the special tariffs exceed the previously existing national import duties, adverse economic effects, notably higher consumer prices, are likely. Some analysts point out that it seems questionable whether regional producers will be able to increase production or offer substitutes in comparable quantity, quality and price to offset the protection-induced reduction in third country imports (Stahl, 2005). Higher prices will notably hit consumers on low incomes, who depend for their livelihood heavily on the basic products included in the sensitive list. An aggravating factor is that these regressive effects will be felt most intensively in the relatively poorer EAC partners, above all in Uganda, in the view of the country’s relative low import protection prior to EAC formation. In this context, the government of Uganda should press its partners to establish a timetable that calls for the imminent phase-out of the special tariffs.

As a result of the adoption of the common external tariff, the listed average duty rate (including excise duties and import commissions in 2004) increased from 11.3 per cent to 12.3 per cent. This increase in protection affected both agricultural and manufactured products. The tariff regime is escalatory by granting higher protection to processed products than to raw materials. This tariff escalation generates effective rates of protection (ERPs) that exceeds nominal tariff protection for producers that have access to inputs at low-tariff rates, while being able to shield behind high import barriers for their final products. By taking into account protection on both outputs and inputs, ERPs provide a better representation of tariff-generated transfers to producers than nominal rates of protection (NRPs), which are based on protection of outputs only.

In some sectors in Uganda, ERPs exceed NRPs substantially and reach levels of up to 100 per cent (Table 4). Also, ERPs show a larger variation across sectors than NRPs, implying significant differences in production incentives due to the structure of tariff protection. For most sectors, both NRPs and ERPs increased in 2005 with the adoption of the CET. The highest protection is granted to producers in agro-industry, beverages, and textiles.

Table 4: Nominal and Effective Rates of Protection in Uganda's Manufacturing Sector

	Nominal rate of protection		Effective rate of protection	
	2002	2005 (CET)	2002	2005 (CET)
Agroindustry	20.5	42.1	27.1	59.5
Bakery	13.2	24.2	13.4	11.9
Beverages	25.7	25.0	102.6	96.7
Chemicals & Paints	19.7	23.2	26.9	28.0
Construction Materials	13.3	15.5	13.9	15.7
Furniture	16.1	24.9	17.1	32.9
Metals	14.6	18.4	16.0	23.5
Machinery	0.9	1.5	-9.9	-8.1
Paper, Printing, Publishing	17.3	17.6	20.7	14.6
Textiles	15.0	25.0	50.8	91.9
Garments	15.0	25.2	11.0	33.4
Wood	23.9	23.7	26.4	26.6
Miscellaneous	23.4	26.6	27.9	32.4
Repair & Maintenance Services	16.9	22.3	18.8	38.4

Notes: Data based on findings of a survey of 228 manufacturing firms. Nominal rates of protection reflect tariffs plus discriminatory excise duties as listed in the tariff schedule.
Source: Rajhi, Marchat and Webster, 2005.

Domestic market protection comes at a cost, notably to consumers and firms that source their inputs domestically. Also, tariff protection introduces an anti-export bias. If firms produce for the export market, they do not receive the same market price support that producers for the domestic market enjoy. Uganda operates a duty drawback system, which makes it possible for exporters to claim back the duty and value-added tax paid on inputs of exported products. This arrangement thus neutralizes the effects of tariff and tax policy for exporting firms, if the duty refunds are indeed paid in a timely manner. Yet, the arrangement does not generate the significant policy-generated transfers that producers for the domestic market obtain, thus biasing producers' decisions against selling abroad. Indeed, the higher the domestic market protection is, the stronger the anti-export bias becomes. The EAC customs union protocol provides for a revision of the top CET rate five years after the customs union entered into force, and it seems in the interest of Uganda to ask its partners for a reduction in the highest-band duty from 25 to 20 per cent.

2.2.2 The impact of EAC integration

How is the increased domestic market protection going to affect firms, workers and consumers in Uganda? The impact depends on how different economic forces play out (Box 2). In the short term, econometric analysis based on firm-level data suggests that the adoption of the EAC's common external tariff by Uganda will overall change profit margins, productivity, wages and employment only slightly (Table 5). The predicted effects are not uniform across sectors, though, as the changes in input and output prices differ, with the metals and textiles sectors being generally subject to more pronounced impacts. However, these findings should be treated with care, as the estimates are not always statistically significant.

Table 5: Short-Term Impacts of the Adoption of the Common External Tariff in Uganda
(change in per cent)

Sector	Price-Cost Margin	Productivity	Employment	Wages
Agro-industry	-0.39	-0.85	0.70	0.19
Chemicals and Paints	-0.22	-0.63	0.63	0.00
Construction Materials	-0.46	-0.63	0.37	0.13
Metals	-1.35	-1.80	0.73	0.21
Paper and Publishing	-0.73	-0.55	0.73	0.19
Textiles and Leather	-1.85	5.70	0.62	0.37

Note: Calculations based on listed overall average tariffs.
Source: Rajhi, Marchat and Webster, 2005.

In the case of the EAC, the positive short-term employment and wage effects from higher protection against third country exports are to some extent counterbalanced by reduced protection *vis-à-vis* the customs union partners. The phase-out of intra-EAC trade barriers has indeed given rise to concerns that Ugandan manufacturing firms might find themselves in a difficult situation versus their more developed and more sophisticated competitors from Kenya. Analysis using firm-level data to derive competitiveness indicators shows a mixed picture, though (Siggel and Ssemogerere, 2004). Ugandan manufacturing firms, although not generally cost-competitive with Kenyan companies, have benefited from the recently established more business-friendly environment and are more competitive in several industries than is generally assumed. The analysts claim that Ugandan firms may not be able to export internationally, but that they are likely to hold their ground against Kenyan imports under regional free trade. According to the study, industries that have an advantage in Uganda are fish processing, auto batteries and footwear, whereas Kenyan industries are relatively more competitive in dairy production, grain milling, textile & clothing and metal products.

Box 2: Welfare impacts of regional integration initiatives

The overall welfare consequence of regional integration depend on several factors. If the reduction of intra-regional trade barriers fosters partner countries to expand output and exports of products for which they are internationally competitive, the price of final goods or production inputs on the importing country market falls to the benefit of consumers and input-purchasing producers. In this case, welfare-enhancing trade is created.

Moreover, regional trade initiatives can have beneficial indirect effects. Opening domestic markets to partner countries, for example, can increase competition in sectors with previously highly concentrated industrial structures and thereby reduce the monopolistic pricing power of incumbents. Such pro-competitive impacts are particularly important for countries like Uganda that have only a nascent domestic competition policy.Also, regional cooperation can be effective in harmonizing customs procedures and domestic regulations. Adopting common rules on investment, for example, has the potential to encourage increased inflows of foreign direct investment (FDI) by enhancing the credibility of FDI-policies and providing a restraint on sudden policy reversals.

Some observers justify RTAs in political economy terms by seeing them as laboratories for international integration, training grounds for negotiations at a broader level, and strategic means of trade policy making. By teaming up with regional partners, countries may be able to increase the weight of their positions in international trade negotiations and possibly achieve more favorable negotiation outcomes. Also, regional trade agreements make it possible for countries to gain some control over the trade policy of their partner countries.

Conversely, engaging in RTAs implies passing parts of a country's sovereignty on to the regional bloc. For example, as a result of joining the EAC customs union, Uganda can no longer freely decide on its level of import duties, but depends on consensus with Kenya and Tanzania to pursue changes to the common external tariff. Hence, the institutional framework for trade policy making changes.

Furthermore, RTAs may result in losses of government revenues, as tariffs on intra-regional trade are phased out, or promote costly trade diversion rather than welfare-enhancing trade creation, if trade is shifted from efficient producers outside the RTA to preferential trading partners that produce at higher costs. In this case, the government loses tariff revenue on imports from third countries, without domestic producers benefiting to a corresponding extent from lower import prices. The risk for trade diversion to occur is particularly high if MFN tariffs remain high and trade with partner countries accounts for only a small share of overall trade (World Bank, 2004). A recent review of studies on the trade and welfare effects of customs unions concluded that the elimination of intra-regional trade barriers between small developing countries is likely to generate mostly trade diversion and little trade creation, unless significant reductions in MFN-tariffs accompany the regional integration efforts (Schiff and Winters, 2003).

In relation to third countries, the formation of the EAC customs union and the adoption of the common external tariff led to modest average MFN-tariff increases. Analysis using a partial equilibrium model that takes into account the response of producers and consumers to tariff and price changes following customs union formation suggests that imports into Uganda from EAC partners would increase by 0.15 per cent compared to 2002-levels with temporary tariffs on imports from Kenya in place and would grow by 6.1 per cent following the complete phase-out of intra-regional tariffs (Castro, Kraus, and de la Rocha, 2004). Imports from third countries would decrease, respectively, by 1.3 per cent and 3.3 per cent. Overall, a fall in imports by 0.9 per cent is projected (both with and without temporary tariffs). Customs revenues are expected to fall by 2.9 per cent with temporary tariffs on imports from Kenya and by 8.6 per cent without these transitory duties. The largest share of revenue losses is caused by declining tariff revenues on imports of crude materials and chemicals (Table 6).

The projection that trade with EAC partners increases while imports from third countries decrease suggests that the trade policy changes that were undertaken (liberalization of intra EAC trade plus adoption of a common external tariff) are likely to lead overall to welfare-decreasing trade diversion for Uganda. This finding is at broadly confirmed by an earlier study that used a computable general equilibrium model to assess to economic effects of EAC formation (DeRosa, Obwona, and Roningen, 2002). DeRosa *et al.* project economic welfare losses for Uganda due to trade diversion as the country's average MFN-tariffs increase with the adoption of the CET. They argue further that Uganda faces the danger of reduced industry competitiveness due to the EAC's higher tariff protection for the country's nascent import competing industries, which reduces the incentive to innovate, bring down production costs, and improve marketing capabilities. They see the economic growth momentum that Uganda has enjoyed since the mid-1990s as a result of trade and macroeconomic reforms (Hinkle, Herrou-Aragon and Krishnamani, 2004) thereby being partially undermined. As a remedy, they recommend for Uganda to strive for lower external tariffs in the EAC.

Table 6: Customs Revenue Change following CET Adoption by Sector

	Change in customs revenue	
	million USD	Per Cent of 2002-revenues
Food and live animals	2.0	1.09
Beverages and tobacco	0.0	0.01
Crude materials, inedible, except fuels	-4.7	-2.47
Mineral fuels, lubricants and related materials	-0.5	-0.28
Animal and vegetable oils, fats and waxes	-1.6	-0.88
Chemicals and related products.	-2.5	-1.34
Manufactured goods classified chiefly by material	-1.0	-0.56
Machinery and transport equipment	1.2	0.67
Miscellaneous manufactured articles	1.8	0.96
Commodities and transactions not classified elsewhere	0.0	0.00
Total	-5.3	-2.90

Note: Estimates assuming that temporary tariffs on imports from Kenya are in place.
Source: Castro, Kraus, and de la Rocha, 2004.

2.2.3 The impact of COMESA integration

In parallel to developments in the EAC, COMESA has been furthering its regional integration efforts, including negotiations on a prospective common external tariff. Uganda has had and still has a relatively liberal trade regime by regional standards, and increases in protection under a hypothetical COMESA-arrangement would likely lead to losses in international competitiveness and economic welfare. The discussion on the prospective COMESA-CET have not yet been finalized, but top rates of up to 40 per cent are under consideration, and sensitive products might receive even higher protection (COMESA, 2005). Hence, COMESA integration bears risks for Uganda.

Moreover, the production and trade structures of countries in Eastern and Southern Africa are not particularly complementary (Khandelwal, 2004). Similarities between the export basket of one country and the import basket of another can be analyzed by using the bilateral product complementarity index. The value of this index can range from zero, which represents no complementarity between exports and imports of two countries, to one hundred, which implies a perfect match. The higher the index between two countries, the greater the product complementarity.

On the importing side, Uganda shows high complementary with Egypt and Kenya, and moderately high values for exports to Mauritius, Seychelles, and Egypt (Table 7). But for most country pairings, the values for COMESA complementarity fall short of those for well established, successful regional trade initiatives, such as the European Union (index value of 53.4) and the North American Free Trade Agreement (56.3). The potential for beneficial trade exchange within the region, hence, seems limited, while high external trade barriers suggest a substantial risk of trade diversion to occur.

Table 7: Bilateral Complementarity Indices in COMESA, 2003

	Importer													
Exporter	Burundi	Comoros	Egypt	Ethiopia	Kenya	Malawi	Mauritius	Madagascar	Rwanda	Seychelles	Sudan	**Uganda**	Zambia	Zimbabwe
Burundi	…	5.2	9.6	1.7	3.6	3.7	5.6	3.0	4.9	9.8	5.3	**3.8**	2.0	2.4
Comoros	4.4	…	8.8	4.6	5.5	5.2	5.0	5.2	4.8	12.3	7.2	**5.4**	4.8	5.9
Egypt	42.1	24.0	…	46.4	44.5	44.4	45.8	52.1	46.3	29.4	35.0	**46.6**	38.7	63.9
Ethiopia	5.2	7.7	15.4	…	5.8	5.3	9.5	8.0	8.8	12.5	9.9	**6.2**	5.1	3.6
Kenya	37.8	23.6	33.8	40.2	…	44.0	38.5	47.1	44.1	31.6	32.1	**41.9**	35.3	51.3
Malawi	7.1	7.7	13.8	7.6	7.8	…	9.3	7.9	10.3	14.0	12.1	**9.1**	8.1	6.6
Mauritius	10.3	9.1	13.6	10.3	9.9	11.3	…	11.6	11.6	15.6	11.1	**12.0**	10.3	8.9
Madagascar	17.4	13.4	22.2	14.0	15.5	18.9	38.8	…	19.6	24.6	18.6	**18.4**	17.2	13.9
Rwanda	1.9	1.5	6.8	1.6	2.5	2.2	2.5	1.8	…	9.1	4.9	**2.0**	1.9	2.6
Seychelles	4.4	2.4	11.4	3.1	3.3	2.7	6.7	3.4	3.2	…	3.4	**2.8**	3.4	3.5
Sudan	16.1	8.2	14.0	20.4	20.6	21.2	20.6	28.5	17.2	13.6	…	**19.3**	12.4	45.8
Uganda	**17.7**	**17.3**	**24.8**	**17.8**	**17.9**	**21.1**	**25.8**	**19.1**	**19.3**	**25.1**	**21.1**	**…**	**17.7**	**14.8**
Zambia	11.4	12.1	17.8	11.3	12.0	12.9	19.3	12.2	15.0	18.6	12.8	**12.3**	…	11.9
Zimbabwe	13.9	12.5	16.8	10.5	10.8	14.0	18.4	10.5	14.3	14.1	14.2	**14.2**	9.1	…

Note: The product complementarity index C_{jk} between two countries j and k is defined as $C_{jk} = 100 - \sum i(|M_{ik}-X_{ij}|/2)$, where X_{ij} represents the share of good i in total exports of country j and M_{ik} represents the share of good in total imports of country k. Indices for Angola, the Democratic Republic of the Congo, Djibouti, and Eritrea were not computed because of lack of data.
Source: Khandelwal, 2004.

While further quantitative analysis of the economic effects of regional integration initiatives in Eastern and Southern Africa seems warranted, the available evidence suggests that there is considerable uncertainty about whether the existing regional agreements are in the best economic interest of Uganda and its partner countries in the region. The authorities should try to maximize the benefits from Uganda's RTAs by pursuing deeper integration through harmonization of trade standards and behind-the-border regulations. In parallel, the Government should follow a paradigm of open regionalisms by continuing to push for lower external trade barriers in order to counter the risk of trade diversion. RTAs should generally be seen as a means of economic cooperation that can contribute to the achievement of the country's overall development strategy, but that can not be a substitute for continuing domestic policy reform and multilateral trade liberalization.

2.3 Overlapping Membership in Regional Agreements

EAC and COMESA are not the only regional integration initiatives in Eastern and Southern Africa. In fact, there are four major regional trade arrangements in this part of the world and almost all countries in the region have become members of several agreements, creating a regional configurations of overlapping preferential arrangements (Figure 3). Some observers argue that countries could maximize the benefits from regional integration by participating in several arrangements simultaneously (Lyakurwa *at al*., 1997). Liberalizing trade within smaller groups facilitates the coordination and harmonization of national policies, and makes it possible to increase competition for sensitive domestic industries at a more measured pace. Multiple agreements also open up alternative liberalization tracks that provide countries with flexibility to switch their integration focus in the event that progress within a particular grouping were to stall. Moreover, since aid agencies frequently provide funds for region-wide projects, participation in multiple regional arrangements might be seen as a means to fully exploit the potential pool of donor-funds.

On the other hand, there are significant drawbacks. Since each of the agreements involves different partners, different rules of origin, different tariff schedules, and different implementation periods, effectively administrating the multiple regional integration efforts can pose major political and technical challenges and increase trade transactions costs. These consequences from overlapping agreements are bound to intensify as many of the existing arrangements are scheduled to deepen their integration by moving from preferential agreements to free trade areas or customs unions.

Multiple membership of overlapping RTAs creates demanding requirements in several respects. In the private sector, traders have to operate within different trade regimes, each with its own tariff rates, regulations and procedures. For example, non-coordination amongst regional arrangements concerning transit bonds has been cited by private sector representatives as a significant impediment (Charalambides, 2005). In the border services, customs officials have to deal with different rules of origin, trade documentation, and statistical nomenclatures, thereby multiplying internal procedures and paperwork. And on the political level, negotiating and serving different regional initiatives can absorb large amounts of scarce administrative resources and occupy policymakers' attention to a considerable extent. This concerns, in particular, the preparation, attendance, and follow-up of meetings of technical experts or ministers. At times, integration efforts are duplicated and counterproductive competition between countries and regional institutions – including with respect to dispute resolution – can emerge (UNECA, 2004). In addition, budgetary contributions from member states towards the administration costs of the various RTAs can be a significant burden, as indicated by the cumulative (annual) arrears in membership contributions in SADC and COMESA (Kritzinger-van Niekerk and Moreira, 2002).

2.3.1 Conflicting Integration Schemes

Potentially conflicting integration schemes as a result of simultaneous participation in several regional trade agreements are another major drawback. Such contradictory requirements indeed have the potential to create serious dilemmas for trade policy makers in Uganda and its EAC partners. As discussed earlier, Uganda and Kenya are members of COMESA, but not of SADC, while Tanzania is a member of SADC, but not of COMESA. This asymmetric configuration is creating confusing and conflicting situations, which are bound to intensify over time as the respective integration agendas of EAC, SADC and COMESA are deepening. In particular, the EAC customs union came into effect in January 2005 and both COMESA and

SADC are also hoping to form customs unions in the medium-term future. Since one country can not realistically apply two different common external tariffs, let alone implement the customs and fiscal integration (e.g. revenue-sharing) that are basic components of fully functioning customs unions, Uganda and its EAC partners are sooner or later bound to face the choice about which agreement they want to go with.

Another type of problem from overlapping RTA-membership relates to conflicting commitments and potential trade deflection. The COMESA Treaty (Article 56.2) states that "Nothing in this Treaty shall prevent a Member State from maintaining or entering into new preferential agreements with third countries provided such agreements do not impede or frustrate the objectives of this Treaty and that any advantage, concession, privilege and favour granted to a third country under such agreements are extended to the Member States on a reciprocal basis." The SADC Trade Protocol (Article XXVIII, paragraph 2) contains a similar provision Since upon joining the EAC customs union, Uganda (and Kenya) granted market access preferences to Tanzania that exceed those given to its COMESA partners, the literal reading of the provisions implies the requirement to extend the EAC free intra-regional trade benefits also to all COMESA and SADC countries.

Yet, after deliberating on the matter, the EAC Council decided not to extend the EAC market access benefits to other COMESA and SADC partners. However, the EAC members were allowed to continue with their existing obligations to SADC and COMESA and imports from the respective countries were exempted from the EAC's common external tariff. This continuation of member-specific preferences within the customs union could result in trade deflection, unless border controls are maintained for strict intra-EAC policing of trade, notably verification of rules of origin. Otherwise, Egyptian traders, for example, could export goods to Uganda under COMESA preferences and the local importers could then ship them duty free on to Tanzania under the EAC regime. Conversely, SADC members could use Tanzania as a transit route to Kenya and Uganda. To counter any unintended extension of preferences, border controls will need to continue. Indeed, as long as the situation of overlapping membership remains, the EAC will not be able to become a fully functioning customs union and its members will not be able to reap the benefits of free internal movement of goods.

Over the past years, SADC, COMESA and the EAC have been working more closely together in areas such as regional trade analysis, capacity building, and transport facilitation. So far the economic integration schedules and the move towards freer intra-regional trade have not resulted in any major inconsistencies. Yet, the formation of the EAC customs union and the possibly resulting problems of trade deflection highlight the emerging integration conflicts, as the individual trade initiatives deepen their status.

2.3.2 Rules of Origin

One issue that deserves particular attention in the context of overlapping agreements is the potentially significant trade transactions costs that can result from the need to comply with multiple rules of origin (ROO) regulations (Brenton and Imagawa, 2004). Preferential trading agreements use ROOs to ensure that third countries do not unduly benefit from the preferential treatment that members of a RTA grant to one another. They specify the amount of processing that a product must undergo in partner countries in order to quality for market access under the preferential agreement. These rules can add considerable complexity to the trading process and augment the costs of international trade, in particular if the ROOs vary across different agreements.

When designing their customs union, the partner countries in the EAC agreed on rules of origin that represent a negotiating compromise between the prevailing arrangements in COMESA and SADC and do not correspond to either of the previously existing arrangements. The EAC-

ROO are to a large extent based on the ROO used in COMESA, which specify a local value addition requirement of 35 per cent or a change in tariff heading. But for a number of tariff lines, more complex, sector and product-specific SADC rules of origin, which are more restrictive and more difficult to handle, were adopted. This situation with different rules of origin in EAC, SADC, and COMESA may pose problems for firms in EAC members that want to trade with neighboring countries and force them to adjust their production or trade operations. For example, firms might be compelled to focus on only certain export destinations, given that they might need to produce differently in order to receive preferential access in different foreign markets.

Moreover, companies not only have to comply with the rules on sufficient domestic processing, but also need to obtain a certificate from the competent authorities that proves compliance. Within North America, the costs of providing appropriate documentation to prove origin have been estimated to amount to as much as 3 per cent of import value (Anson *et al.,* 2005). These costs might well be even higher for small-scale firms in developing countries that do not have sophisticated accounting procedures in place in order to keep track of the geographical origin of their production inputs. If such firms are then confronted with ROOs that vary across different agreements, the effort of showing compliance can become prohibitively expensive.

Strict and complex ROO might also inhibit firms to integrate into global or regional production networks. Indeed, it has been argued that ROO can be trade diverting and can "export" protection from one trading partner, who imposes strict ROO, to another, who adjusts local production patterns accordingly (Krueger, 1997). In particular, producers faced with restrictive ROOs and the prospect of benefiting from preferential tariffs might well turn away from low-cost, third country suppliers of intermediate inputs and towards highly protected, high-cost suppliers located in the partner country, thereby increasing their production costs and making them less competitive in the global market (Krishna and Krueger, 1995).

Multiple origin schemes also place a burden on the administrative capacity of the customs services. A recent world-wide survey of customs agencies in member countries of the World Customs Organization sought information on the role of customs in issuing and checking certificates of origin and requested the views of customs officials on their experiences of administering ROOs (Brenton and Imagawa, 2004). Almost half of all respondents stated that overlapping agreements with differing ROO created problems, and of the respondents from Africa, more than two-thirds agreed with the statement that overlapping ROO were problematic.

In addition, there are issues of integrity. The existence of different rates of import duty from different countries provides incentives for false invoicing, so as to show origin in the country subject to lower duties. Also, situations at the border may arise that are open to abuse or subject to excessive bureaucracy, thereby inflicting costs on traders in addition and beyond those related to compliance with the applicable ROO regulations.

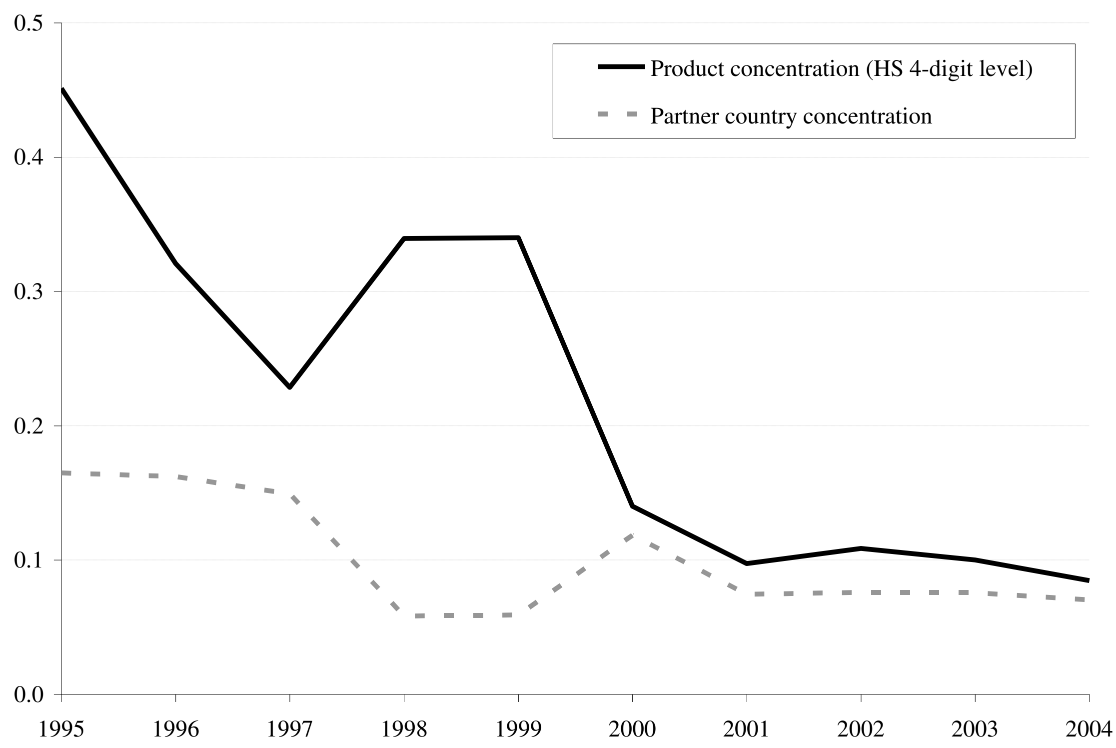
3. ACCESS TO GLOBAL MARKETS

Even taking into account that official statistics do not reflect informal trade with neighboring countries, the majority of Uganda's imports and exports are undertaken with trade partners outside the region. The conditions under which Ugandan traders can overcome their disadvantage of being landlocked and access international markets is, hence, important. On the import side, Uganda has been operating a relative liberal trade policy and even after the EAC-induced tariff increases, the country remains one of the more open economies in Eastern and Southern Africa. Hence, access to imports is not a major problem, with the exception of some sensitive products that face high special tariffs.

On the export side, the situation is more complex. Uganda's total world export market share is small and amounts to less than 0.01 per cent. Moreover, many of Uganda's traditional export products, such as coffee, tea, tobacco and cotton, have shown below average world market export growth during the early 2000s, so that the country's established export sectors are shrinking in relative terms. In this context, diversification into new export products with more dynamic demand in overseas markets is of central importance in order to maintain and enhance export performance.

Indeed, Uganda has made considerable progress in diversifying its exports. The Herfindahl index of export concentration shows a declining trend both for the type of products exported and the foreign partner countries (Figure 5). The shift towards more broadly based export products and partners was particularly pronounced during the second half of the 1990s, but appears to be continuing.

Figure 5: Concentration of Exports, 1995-2004
(Herfindahl index)



Note: The Herfindahl index H is calculated as the sum of the squares of partner country/product line market shares: $H = \sum_i s_i^2$, where s_i represents the share of partner country/product line i in total exports. Lower values imply less concentration.
Source: UN COMTRADE database.

Despite this encouraging diversification trend, Uganda's exports remain highly concentrated on a limited number of commodities and partner countries. The top-5 product lines, which are all commodities, accounted for more than 55 per cent of total exports. Hence, the economy continues to be vulnerable to adverse developments in commodity prices in its core markets.

3.1 Trade Barriers in International Markets

Another avenue to foster diversification is the pursuit of opportunities in previously underexploited markets. In some cases, Ugandan exporters might face significant policy-generated trade barriers that might explain their low export intensity. The tariff barriers that Uganda's main export crops face can indeed be considerable (Table 8). The duties claimed on imports of fish fillets, coffee, tea, tobacco, and cotton, which together account for more than half of Uganda's exports, tend to be particularly high in medium income countries. For example, Mexico levies a 30 per cent tariff on fish fillets, India charges import duties of 100 per cent on coffee and tea, Sri Lanka has 75 per cent tariffs on tobacco, and China asks cotton importers to pay duties of 47 per cent. Import duties on these products in industrialized countries are generally much lower and of a single digit magnitude, with the exception of fish and tobacco in the European Union, tea in Japan, and notably tobacco in the United States. Moreover, industrialized countries grant least developed countries, such as Uganda, preferential market access (see below), so that Ugandan exporters only pay the full MFN-duties if their shipments do not qualify for preferential treatment, perhaps due to problems of showing compliance with rules of origin requirements.

Moreover, a team of analysts in the World Bank's Research Department has recently estimated a measure of aggregate barriers faced by exporters in foreign markets (Kee, Nicita, and Olareagga, 2005). This Market Access Overall Trade Restrictiveness Index (MA-OTRI) corresponds to the uniform tariff that if imposed by all trading partners on exports of a particular country would leave overall exports of that country unchanged. The indicator aggregates information on tariff and non-tariff barriers, and takes unilateral, bilateral and regional market access preferences into account. It is derived through econometric estimation, based on a new set of import demand elasticities (Kee, Nicita and Olareagga, 2004).

For Uganda in the early 2000s, the MA-OTRI amounted to 26.8 per cent on agricultural exports and to 9.3 per cent on manufactured products. For all merchandise trade, the indicator value was estimated as 13.9 per cent. Among the 91 countries for which data are available, Uganda thereby ranks in the third of the sample that is facing relatively low tariff and non-tariff barrier obstacles to exports.

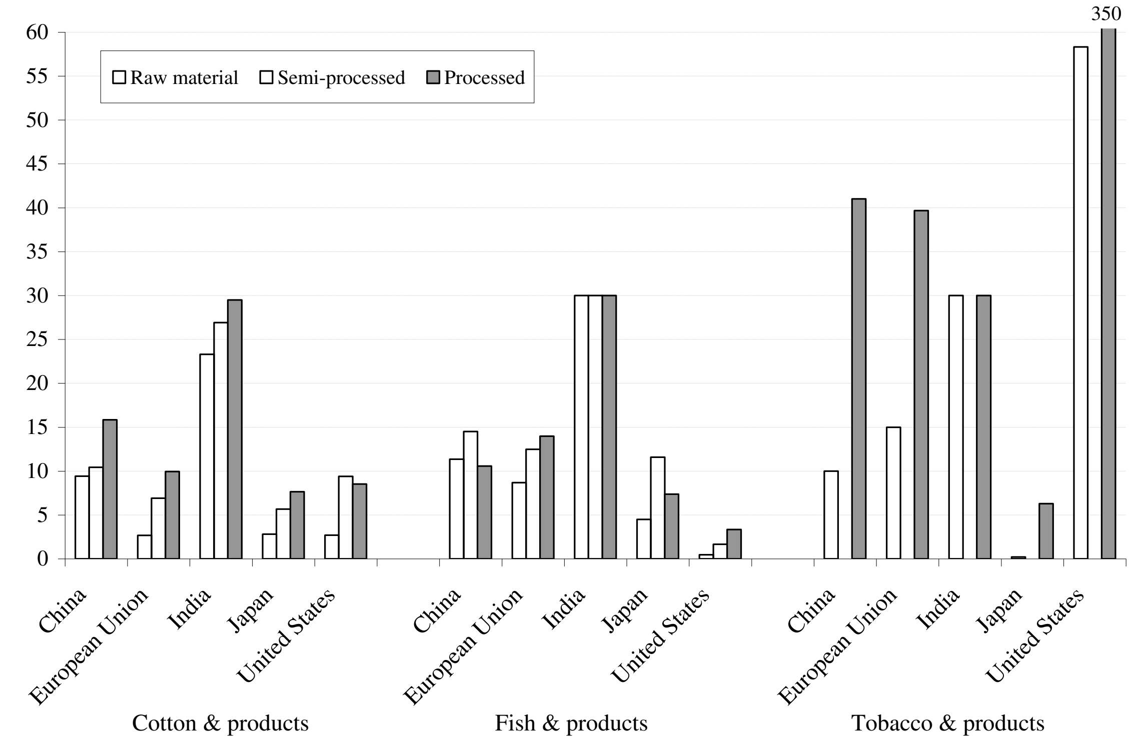
Table 8: Simple Average of MFN Barriers on Uganda's Main Exports in Potential Partner Countries, 2004

	Fish fillets (HS 0304)	Coffee (HS 0901)	Tea (HS 0902)	Tobacco (HS 2401)	Cotton (HS 5203)
Argentina	..	11.5	..	..	..
Australia	0.0	0.0	0.0	0.0	0.0
Bangladesh	..	..	..	..	0.0
Brazil	11.5	..	..	..	..
Brunei	..	..	..	..	0.0
Bulgaria	..	13.2	..	27.5	..
Canada	0.0	0.0	0.0	..	2.5
Chile	..	6.0	6.0	..	..
China	13.9	13.2	15.0	10.0	47.2
Colombia	20.0	..	..	11.7	..
Croatia	10.0	6.3	..	11.3	..
Cuba	10.0	..	..	..	..
Dominican Republic	20.0	..	..	..	0.0
European Union	10.9	5.3	0.8	14.5	0.0
India	..	..	100.0	..	30.0
Indonesia	5.0	..	..	5.0	5.0
Israel	0.0	0.0	0.0	..	0.0
Japan	4.4	6.0	11.7	0.0	0.0
Kenya	0.0	0.0	15.0	20.0	..
Macedonia	..	14.0	..	..	..
Mali	..	..	10.0	..	..
Mexico	30.0	52.4	..	51.1	10.0
New Zealand	0.0	3.3	0.0	..	..
Pakistan	..	..	17.5	25.0	..
Paraguay	..	..	..	14.1	..
Peru	..	..	..	12.0	..
Romania	23.2	9.0	..	46.7	0.0
Russian Federation	10.0	5.0	5.0	5.0	0.0
Saudi Arabia	5.0	0.0	1.5	..	5.0
Senegal	..	..	10.0	5.0	..
Singapore	0.0		0.0	0.0	
Sri Lanka	..	..	27.5	75.0	0.0
Switzerland	0.0	0.0	0.0	0.0	..
Tunisia	..	28.3	44.0	29.0	0.0
United States	1.0	0.0	1.6	58.3	4.8
Vietnam	..	..	..	27.5	0.0

Note: (..) means that the country is not among the world's top-twenty importers of the respective commodity. For the European Union, data for 2003 are reported and specific duties are converted into *ad valorem* equivalents. For the Russian Federation, data for 2002 are reported.
Source: UNCTAD Trains database.

Yet, one impediment to improved export performance that low-income countries like Uganda face despite relatively low average export barriers is related to the tariff structure in partner countries. Many countries have escalatory tariff regimes, with low duties on raw materials, but higher ones on semi-processed and processed products (Figure 6). This encourages imports of unprocessed goods, often from low-income countries, which are then transformed in the importing country under high protection. For the raw material exporter this tariff escalation means that value-addition before exports is discouraged, as processed products face high tariff barriers in foreign markets. Hence, the diversification process into higher value-added production activities is impeded.

Figure 6: Tariff Escalation for Selected Products, 2004
(MFN tariffs in per cent)



Note: For the European Union, data for 2003 are reported. The categorization of products as unprocessed, semi-processed and processed goods follows the MTN (Multilateral Trade Negotiations) classification of the World Trade Organization. For tobacco, no semi-processed products exist in the MTN classification.
Source: UNCTAD Trains database.

It should be noted that preferential access for developing countries to high-income country markets will tend to neutralize the effects of escalatory MFN-tariff regimes in these countries. However, in many cases, rules of origin provisions on processed goods are more complicated or more difficult to meet than the rules on raw materials of unfinished products (Carrere and de Melo, 2003). For example, it has been estimated that the costs of compliance for food products are more than twice as high as those for agricultural commodities (OECD, 2005). Such "rules of origin escalation" will tend to have qualitatively the same adverse effects on developing countries' efforts to shift into higher value-added production as tariff escalation.

3.2 Impact of Trade Preferences in Industrialized Country Markets

As mentioned earlier, Uganda's exporters benefit from reduced-tariff access to industrialized country markets under preferential treatment schemes, such as the Generalised System of Preferences (GSP), the European Union's Cotonou Agreement and Everything But Arms Initiative (EBA), and the United States' African Growth and Opportunities Act (AGOA).

The extent of duty reductions, product coverage, and rules of origin specifications differ across the various arrangements (Box 3), but the largest benefits in all of the arrangements accrue to least developed countries, like Uganda. The potential advantages for Uganda of these preferential arrangements are considerable, since the country ships most of its exports to preference granting partners.

The actual value of the preference schemes to individual developing countries depends on several factors. Obviously, preferences are valuable only if there is a positive preference margin over non-eligible countries' supplies, that is if the importing country has non-zero MFN-duties in the tariff lines of interest. Moreover, the value of preferences depends on the costs involved in showing compliance with rules of origin requirements. If these costs exceed the MFN-duty, exporter will not bother to ask for preferential treatment, but pay the tariff. Finally, the extent of benefits from preferential market access are a function of the volume of goods the country is allowed to export to the target market, for example under preferential tariff rate quotas. Hence, three factors play a crucial role: the available preference margin, the costs of showing compliance with rules of origin requirements, and quantitative limits, including those originating from insufficient supply capacities in the exporting country.

In 2002, the total value to Uganda of preferential market access in the European Union, Japan, and the United States is estimated to amount to USD 10.5 million (Table 9), or 2.2 per cent of total export value (or 0.015 per cent of Uganda's GDP). Almost all of these benefits are due to preferences in the EU market. Most imports into the EU were thereby using ACP rather than EBA-preferences, due to the less strict rules of origin of the former. The average preference margin obtained on all exports to the three markets amounted to 8.5 per cent. For individual products, the preference margin was even more important and commercially interesting. For example, for some Ugandan exports of seafood products to the EU, the preference margin amounted to 21 per cent of the import value.

Overall preference utilization, that is the exports that used preferences as a share of the exports that were eligible for preferential treatment, amounted to more than 97 per cent. The utilization rate for agricultural products was significantly higher than that for manufactures, and exports to the EU benefited more consistently from preferential treatment than shipments to Japan and the United States. In fact, none of the exports to Japan that were eligible for preferences during 2002 used them. Several reasons have been put forward to explain the under-utilisation of preference schemes by developing countries. These explanations focus on the constraints of complying with rules of origin (Brenton and Imagawa, 2004), the costs of satisfying requirements related to certification, traceability and administrative documentation (Estevadeordal and Suominen, 2003), and uncertainty about the applicability of individual schemes (OECD, 2005). The latter explanation seems to be particularly pertinent for small-scale, infrequent shipments to overseas markets, such as Uganda's exports to Japan.

Box 3: Major Preferential Market Access Programs

The *Generalised System of Preferences* is based on the 1979 Enabling Clause that created a permanent waiver to the most-favoured-nation provision in the General Agreement on Tariffs and Trade. Under GSP, selected products originating in developing countries are granted non-reciprocal preferences in the form of reduced or zero tariff rates. Least developed countries receive preferential treatment for a wider coverage of products and deeper tariff cuts. GSP schemes represent unilateral preferences that differ in their design and duration across preference granting countries. The following entities currently operate GSP schemes: Australia, Belarus, Bulgaria, Canada, the European Community, Japan, New Zealand, Norway, the Russian Federation, Switzerland, Turkey and the United States of America.

The *Cotonou Agreement* of 2000 between the EU and 77 African, Caribbean and Pacific countries provides preferential access to the EU market in addition to and beyond GSP. The Agreement grew out of the Lomé Convention that governed the relations between the EU and its former colonies in the ACP region from 1975 until 2000. It grants comprehensive market access preferences and allows partners to count the value-added in imports from other ACP countries as local input when determining the origin of a product ("full cumulation"). However, the EU has exempted bananas, beef, and sugar from the preferential access arrangements. The Agreement has been concluded for twenty years, with a clause allowing for revision every five years. In 2008, the present market access preferences are supposed to be replaced by arrangements to be agreed upon in Economic Partnership negotiations.

The EU's *Everything But Arms* initiative of 2001 grants duty-free access to imports of all products from least developed countries, except to arms and munitions. Only imports of bananas, rice and sugar were not fully liberalised immediately. Duties on those products will be gradually reduced until duty free access will be granted for bananas in January 2006, for sugar in July 2009 and for rice in September 2009. In the meantime, there are duty free tariff quotas for rice and sugar. The EBA provisions have been incorporated into the EU's GSP scheme. The rules of origin of the latter allow in four regions in the Caribbean, East Asia, Latin America, and South Asia that intermediate inputs from regional partners are counted as local value-added, if the degree of prior transformation of the inputs would have conferred origin in the regional partner country ("diagonal cumulation") . Outside these regions, only imported inputs from the EU can be counted towards local value-added ("bilateral cumulation"). The regulation on EBA foresees that the special arrangements for LDC's are to be maintained for an unlimited period of time.

The *African Growth and Opportunities Act* of 2000 extends the GSP scheme of the United States to additional products, notably garments, from African countries that satisfy certain economic, social and political criteria. A special program for countries with a gross national product per capita of less than 1500 US$ relaxes the otherwise strict rules of origin for apparel and allows qualifying countries to count yarn and fabric from anywhere in the world as local content in apparel assembled in their countries. AGOA is a time-bound program that requires periodic renewal by the US Congress. The special textile benefits expire in September 2007, while the overall program is scheduled to run until 2015.

Table 9: Preference Utilization in Major Markets, 2002
(USD and per cent)

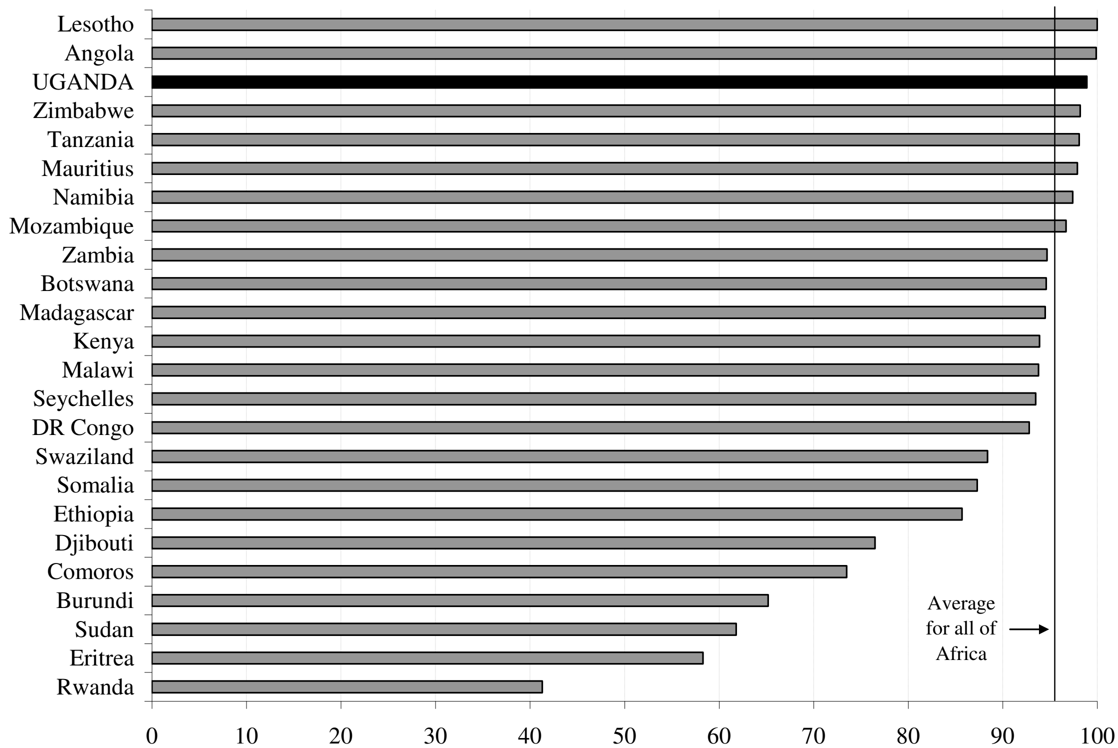
	Agriculture	Manufacturing	All Goods
Imports into the ***EU, Japan and USA***			
Total shipments	233 410 554	39 827 861	273 238 415
Dutiable trade (MFN>0)	130 113 171	2 840 619	132 793 202
Trade eligible for trade preferences	121 175 465	2 839 894	124 015 360
Trade requesting trade preferences	120 026 100	362 475	120 388 575
Share of eligible trade requesting preferences	99.1%	12.8%	97.1%
Potential value of preferences	10 738 401	99 347	10 837 748
Value of preferences actually requested	10 519 493	18 272	10 537 765
Preference utilization rate	98.0%	18.4%	97.2%
Potential preferential margin	8.9%	3.5%	8.7%
Realized margin on trade eligible for preferences	8.7%	0.6%	8.5%
Imports into the ***EU***			
Total shipments	205 569 125	38 387 140	243 956 265
Dutiable trade (MFN>0)	121 144 403	2 677 008	123 821 411
Trade eligible for trade preferences	121 144 403	2 677 008	123 821 411
Trade requesting trade preferences	120 013 594	343 095	120 356 689
Share of eligible trade requesting preferences	99.1%	12.8%	97.2%
Potential value of preferences	10 736 861	81 041	10 817 902
Value of preferences actually requested	10 518 893	17 449	10 536 342
Preference utilization rate	98.0%	21.5%	97.4%
Potential preferential margin	8.9%	3.0%	8.7%
Realized margin on trade eligible for preferences	8.7%	0.7%	8.5%
Imports into ***Japan***			
Total shipments	14 103 806	440 385	14 544 191
Dutiable trade (MFN>0)	8 953 536	4 522	8 958 058
Trade eligible for trade preferences	15 831	4 522	20 353
Trade requesting trade preferences	0	0	0
Share of eligible trade requesting preferences	0.0%	0.0%	0.0%
Potential value of preferences	475	167	642
Value of preferences actually requested	0	0	0
Preference utilization rate	0.0%	0.0%	0.0%
Potential preferential margin	3.0%	3.7%	3.2%
Realized margin on trade eligible for preferences	0.0%	0.0%	0.0%
Imports into the ***USA***			
Total shipments	13 737 623	1 000 336	14 737 959
Dutiable trade (MFN>0)	15 232	159 089	13 733
Trade eligible for trade preferences	15 232	158 364	173 596
Trade requesting trade preferences	12 506	19 380	31 886
Share of eligible trade requesting preferences	82.1%	12.2%	18.4%
Potential value of preferences	1 066	18 138	19 204
Value of preferences actually requested	600	823	1 423
Preference utilization rate	56.3%	4.5%	7.4%
Potential preferential margin	7.0%	11.5%	11.1%
Realized margin on trade eligible for preferences	3.9%	0.5%	0.8%

Notes: The value of preferences is calculated by multiplying the value of imports by the margin between MFN and preferential tariff rates. For the USA, data averages for 2002 and 2003 are used.
Source: World Bank staff based on data from the European Commission, Japan and the United States.

In cross-country comparison, Uganda's preference utilization in its main export market, the European Union, was very high and exceeded the rate achieved by most other countries in Eastern and Southern Africa (Figure 7). Hence, Ugandan exporters seem to be able to meet the requirements for preferential treatment on a consistent basis. There might, of course, be cases in which the market access conditions are so demanding that exporters do not (or no longer) try to serve the European market, but direct their supplies elsewhere right away. But given the relatively high preference utilization rates, lack of domestic supply capacities might well be more of a constraint to export growth than barriers in the European market.

Figure 7: Preference Utilization Rates in the EU Agriculture and Food Market, 2002

(Per cent of eligible, non-zero duty trade that received preferences)



Source: OECD, 2005.

Since 2002, there has been one important shift in Uganda's preference utilization. This change concerns apparel exports to the United States under AGOA. Uganda has qualified for AGOA preferences since October 2000 and became eligible for the special apparel benefits under the program in October 2001. Since then, apparel exports to the United States have been growing very dynamically, increasing from zero in 2002 to more than USD 4 million in 2004 (Table 10). The expansionary trend continued into 2005, despite a more competitive international apparel market environment following the phase-out of quantitative restrictions on textile and clothing exports under the Multi-fibre Arrangement.

Table 10: US Imports from Uganda, 2002-2005
('000 USD)

	2002	2003	2004	2004 (Jan-Jun)	2005 (Jan-Jun)
Total US Imports from Uganda	15 229	36 392	30 957	17 170	14 967
- Non-AGOA	15 165	33 374	20 663	11 914	10 579
- AGOA	32	1 509	5 147	2 628	2 194
-Agriculture	13	30	1 008	1 008	15
- Textiles	0	1 433	4 009	1 585	2 162
- Other	19	46	130	35	17

Source: United States Department of Commerce.

However, it is unclear whether Uganda has a comparative advantage in apparel production, given the scarcity of locally produced yarn and fabric that is of appropriate quality and competitively priced. Current exports to the United States make use of the special, very liberal rules of origin requirements under AGOA, which allow Ugandan exporters to utilize low-cost fibre from Asian suppliers in their US-bound production. If these rules were tightened, as seems likely with the termination of the special rule for lesser developed countries in September 2007, it is questionable whether the Ugandan apparel export industry would remain viable.

The Government of Uganda (GOU) has actively tried to encourage companies to exploit opportunities under AGOA and has extended considerable political and financial support to the apparel export industry in its efforts to serve the US market. There have been recent press reports ("Ugandan Company to Export Steel to US", The Monitor, Oct. 17th, 2005) that GOU is also supportive of attempts to launch stainless steel exports to the US in order to benefit from AGOA. A steel plant is reported to have invested USD 10 million to upgrade and expand its facilities in order to satisfy US quality standards. Ugandan exports would benefit from a preference margin of about 30 per cent on their stainless steel shipments under AGOA, which is considerable. However, steel production is a very capital intensive activity, so that it is unclear whether Uganda has a long-term comparative advantage over other competitors in steel production and whether there would be any significant employment creation effect from the investments.

3.3 Negotiations of an Economic Partnership Agreement

Many of the preference granting programs that benefit developing countries are limited in duration and are subject to periodic review. As a result of such a review, the EU's preferences for its ACP partners were renewed in the Cotonou Agreement of 2000. At the same time, it was decided to amend the relationship between the EU and ACP countries and change the existing trade preferences from non-reciprocal to reciprocal in order to ensure full compliance with provisions under the WTO agreement. The conclusion of the intended economic partnership agreements (EPAs) is likely to have major impacts on the ACP countries (Hinkle and Schiff, 2004).

The EPA negotiations started in 2004 and are supposed to conclude by the end of 2007. In order to facilitate the negotiation process and to enhance the development impact of the agreements through increased intra-regional trade, the EU intends the EPAs to be signed with free trade areas or customs unions rather than individual countries. All countries in Eastern and Southern Africa are involved in the EPA process, except Egypt, Somalia and South Africa. Since early 2004, two country groupings for the negotiations have established themselves: the ESA-

EPA group of 16 COMESA members and the SADC-EPA group of seven SADC members (Figure 3). However, neither of the two negotiating groups corresponds in its composition exactly to the existing RTAs. Of the seven countries that are members of both COMESA and SADC, five have opted to negotiate in the context of ESA-EPA and two as part of SADC-EPA. As a member of COMESA but not SADC, Uganda has naturally joined the ESA-EPA group.

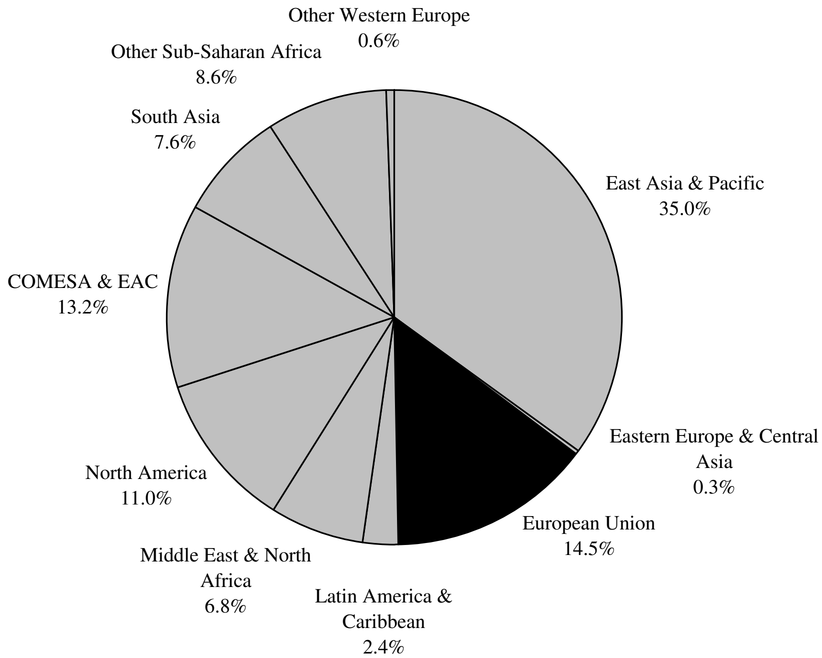
Yet, even though negotiations with the EU in the two groupings are already ongoing, the regional configuration remains an issue for discussion and concern. This is because Tanzania has opted to negotiate as part of SADC-EPA, while its EAC partners Kenya and Uganda are members of ESA-EPA. Unless the two negotiating tracks are closely coordinated, differences in commitments *vis-à-vis* the EU could emerge among the EAC partners that would make the implementation of the EPAs within the existing EAC customs union cumbersome and costly. Moreover, if SADC-EPA and ESA-EPA were to pursue deeper regional integration in the context of the existing regional configuration and form free trade areas or customs unions, there would be overlap within the existing EAC and these two new integration initiatives (that is SADC-EPA and ESA-EPA) that could lead to contradictory requirements and large-scale trade deflection. How these problems would eventually best be dealt with is difficult to assess at this stage, but their emergence could be largely if not entirely be avoided if Tanzania could be convinced to switch negotiating groups. This change might entail for Tanzania to rejoin COMESA, which given the country's withdrawal from the agreement as recently as 2000 would involve significant political costs. But by making the switch, Tanzania would not only avoid substantial trade transactions costs for itself from trade deflection and cumbersome customs administration, but would also do a service to its neighbors by clearing the way to advance the region's economic integration aims.

The prospective EPA agreement will not improve the preference margins that countries like Uganda currently enjoy in the EU market. As a least developed country, Uganda is eligible for duty and quota free access to the EU market under the EBA initiative, which is of unlimited duration. However, the EBA rules of origin are more restrictive than those under the Cotonou Agreement, notably by not allowing "full" regional cumulation. The GOU, therefore, might aim in the EPA negotiations to obtain rules of origin provisions that are at least as favorable as those currently enjoyed under Cotonou. And if it were possible to negotiate more favorable specifications that confer origin based, for example, on a simple change of tariff heading or a low value-added rule, additional market access opportunities for Ugandan exporters would open up.

On the imports side, reciprocity means that over a twelve year transition period from 2008 to 2020, Uganda would have to open its market to supplies from EU members. This market opening will have the typical effects of preferential trade liberalization, bringing benefits from trade creation, increased competition and lower consumer prices at the expense of costs related to trade diversion and loss of tariff revenue. To date, there are no studies available for the East Africa region that try to quantify the impacts of the prospective EPAs and assess how the benefits and costs measure up overall. Analysis of a prospective EPA in West Africa finds that imports from the EU would increase by 5-20 per cent and that trade creation would exceed trade diversion (Busse and Großmann, 2004). There would be significant, adverse impacts on tariff revenues, though, with duty collection in most countries dropping by 40-60 per cent.

For Uganda, tariff revenues on imports from EU members accounted for about 15 per cent of total duty collection in 2004 (Figure 8). This share represents the lower boundary of the prospective border tax losses following the full implementation of a prospective EPA. Actual duty losses will be higher, as the preferential market access granted to the EU will tend to lead to a replacement of imports from other countries by duty-free EU supplies. Revenue losses will be attenuated to the extent that certain "sensitive" products were to be exempted from the liberalization process.

Figure 8: Estimate of Tariff Revenue Shares according to Origin of Imports, 2004



Note: Estimates include applicable import duty (MFN or preferential), import commission, and excise duty, but no value-added taxes on imports. Import exemptions are not taken into account due to lack of data.
Source: World Bank staff based on data from UN Comtrade and UNCTAD Trains.

The coverage of the EPA negotiations is *a priori* not limited to the goods sector, but might also embrace services. This part of the negotiations could provide opportunities for GOU to request the relaxation of current EU restrictions on temporary migration, allowing more workers from Uganda to take up short-term employment in EU countries. The overseas workers would not only relieve pressure in the domestic labor market and gain a higher income themselves, but would possibly trigger a broader development process at home through transfers of remittances and know-how. GOU might also use the EPA negotiations to lock in and advance reforms of its domestic services sector.

3.4 Multilateral Trade Negotiations

While preferential trade liberalization can be advantageous, some objectives can be better achieved at the multilateral level. In particular, adverse effects from trade diversion are avoided, the complexity of trade regulations is reduced, and better market access can be achieved in countries that are unwilling to engage in preferential agreements. Moreover, highly sensitive issues, such as agricultural subsidy reductions in industrialized countries, can only be effectively addressed in a multilateral form. The multilateral trading system also provides a legal framework that treats all members equally, irrespective of their economic status. Uganda has recognized these advantages and has been participating in multilateral negotiations as a founding member of the WTO.

Early on there have been fears that multilateral trade liberalization, as agreed in the Uruguay Round of trade negotiations, would erode the existing preferences for Ugandan exporters in industrialized country markets and thereby deteriorate the export prospects of the country (Atkinson, 1999). But subsequent analysis suggests that the impact of multilateral liberalization on Uganda appears to have been quite slight, and on balance positive, largely because there have only been very small impacts on the world prices of the agricultural commodities that the country exports (Blake, McKay, and Morissey, 2001). And some local analysts see a successful conclusion of the current Doha Round of multilateral negotiations as a prime opportunity for Uganda to advance its export interests by contributing to increased transparency, stronger commodity prices, and expanded trade in world markets (Abdalla and Egesa, 2005).

The impact of the Doha Round on Uganda will, of course, depend on the outcome of the negotiations. Recent model-based analysis of the economic effects of alternative Doha trade liberalization scenarios suggests that Sub-Saharan Africa (SSA) could more than proportionally gain from multilateral reform, but that countries will need to take a proactive stance in the negotiations to secure a positive outcome (Anderson, Martin, and van der Mensbrugghe, 2005). Opening agricultural markets in industrialized countries is projected to result in large benefits for poor African countries, but the reductions in tariffs, domestic support and export subsidies need to be ambitious. Exempting even just a few "sensitive" or "special" products could reduce hugely the gains from reform, since these products are likely to be the tariff peak items.

Expanding non-agricultural market access at the same time as reforming agriculture is equally important for SSA. Such reforms in manufacturing and services, including in developing countries, are needed in order to improve the prospects of concessions by industrialized countries concerning agriculture, and to obtain greater efficiency gains in SSA. The latter are important to offset the terms of trade losses suffered either by net food importers or by recipients of tariff preferences. South-South concessions in the form of own reforms also are needed for developing countries to get the most out of the Doha round. Since developing countries are trading quite intensively with each other, they would be the major beneficiaries of reforms by other developing countries.

How would Uganda's trade regime be affected by an ambitious outcome of the Doha round? Uganda currently has tariff bindings in 815 out of 5028 tariff lines (Table 11). Its bound rates, as well as those of its EAC partners, are generally well above the applied tariffs, so that significant binding overhang exists. Hence, Uganda could offer in the Doha negotiations to significantly expand its binding coverage and reduce bound rates, without necessarily facing major adjustments in its trade regime and domestic economy. Further reductions in EAC external trade barriers might be desirable in order to reap benefits from a more open trade regime, but such a liberalization would likely not be forced on Uganda and its EAC partners by Doha, but remain in its extent and timing subject to unilateral policy decisions.

Table 11: WTO Tariff Bindings of EAC Members

Country	Number of bound tariff lines	Minimum binding (%)	Maximum binding (%)
Kenya	748	18	100
Tanzania	755	120	120
Uganda	815	40	80

Source: WTO Consolidated Tariff Schedules database.

4. RECOMMENDATIONS FOR POLICY REFORM AND TECHNICAL ASSISTANCE

This study described and assessed Uganda's trade policy situation at a critical point in time, i.e. just after joining the EAC customs union. It thereby identified a number of issues that need to be addressed in order to make better use of Uganda's trade potential. A set of policy reform priorities and technical assistance needs that emerges from the preceding discussion is developed and presented in Table 12.

Table 12: Policy Reform and Technical Assistance Matrix

		Requirements				
Policy issue	**Action recommended**	**Implement existing policy**	**Change policy/ legislation**	**Seek technical assistance**	**Agency involved**	**Time frame**
Access to regional markets						
	Establish a time-table for the phase-out of special tariffs on "sensitive products".		X		MTTI	Medium term
	Ask during the review of the CET for a reduction in the top rate from 25 to 20 per cent.		X		MTTI	Longer term
	Push for simple, non-restrictive rules of origin specifications in regional agreements.		X		MTTI	Longer term
	Pursue deeper regional integration through harmonization of trade standards and behind-the-border regulations		X		MTTI	Longer term
	Aim for flexibility within RTAs, including COMESA, to avoid contradictory requirements.		X		MTTI	Longer term
	Undertake year-round monitoring of informal cross-border transactions to improve statistics.			X	UBOS	Medium term
Access to global markets						
	Use EPA negotiations to obtain more favorable rules of origin for access to the EU market		X		MTTI/MoF	Medium term
	Push for reductions in tariff peaks and tariff escalation in international trade negotiations.		X		MTTI/MFA	Longer term
	Take proactive stance in Doha Round by offering own concessions (e.g. extention of tariff bindings and bound tariff cuts) in exchange for substantial reforms of world agricultural trade.		X		MTTI/MFA	Medium term

Note: Agency abbreviations: MTTI – Ministry of Tourism, Trade and Industry; MoF – Ministry of Finance, Planning and Economic Development; MFA – Ministry of Foreign Affairs; UBOS – Uganda Bureau of Statistics. Time frame: Short term – within 12 months Medium term – within 2 years Longer term – 2 to 5 years.
Source: World Bank Staff.

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ANNEX: UGANDA AND THE COMESA FREE TRADE AREA

There are opportunities for further integration within the existing COMESA framework. Uganda is taking part in COMESA's tariff reduction program and currently grants an 80 per cent reduction to imports from other members that are at the same stage of intra-regional trade liberalization. In other words, the tariffs it charges on imports from these COMESA countries are only one fifth of MFN-rates. Conversely, these other members charge one fifth of their MFN-duties on Ugandan exports.

However, since not all countries are equally advanced in their intra-regional tariff reduction efforts (Annex Table), different tariff regimes apply to Uganda's trade with it's COMESA partners. Tariff reductions under the COMESA program are applied in a reciprocal manner, so that countries that have been more progressive in their tariff liberalization and are already participating in the COMESA-FTA, such as Rwanda and Sudan, are granting the 80 per cent reductions on their MFN-tariffs to imports from Uganda that the latter is offering them (while allowing free trade with fellow COMESA-FTA members). COMESA members that have moved slower in their intra-regional tariff reduction programs charge higher tariffs (and conversely receive a smaller tariff reduction on their exports to Uganda). For example, Ethiopia applies a 10 per cent reduction in tariffs to its COMESA trading partners, so that Ugandan exporters that want to enter the Ethiopian market pay 90 per cent of the MFN-rates on their shipments. Angola, DR Congo, and Seychelles apply their full MFN duties to Ugandan exports.

Annex Table: Trade Relationships among COMESA Members

Rate of Duty Reduction	COMESA country
100% (COMESA-FTA)	Burundi, Djibouti, Egypt, Kenya, Madagascar, Malawi, Mauritius, Rwanda, Sudan, Zambia, Zimbabwe
80%	Comoros, Eritrea, Uganda
10%	Ethiopia
Nil	Angola, DR Congo, Seychelles
Under derogation	Swaziland

Source: COMESA Secretariat.

Uganda aims to join the COMESA free trade area, and according to the COMESA Secretary General, corresponding consultations on FTA-accession are already under way.[1] FTA membership would simplify trade procedures and lower tariffs with countries like Rwanda and Sudan, and, hence, make it easier for Ugandan exporters to reach regional markets. Some observers claim that exports to Sudan could double if free trade were instituted.[2] But the GOU has indicated that it needed more time to study the effects of a complete elimination of tariffs. It has also requested that a compensatory mechanism for losses of tariff revenue be established and that safeguard measures to soften the impact of potential import surges be implemented.

Yet, given that official imports from COMESA-FTA members other than Kenya, with which Uganda is already in the process of practicing free trade under EAC provisions, account for less than 1 per cent of Uganda's total imports and that these imports already occur at reduced tariff rates, the prospective impacts of joining the COMESA-FTA on tariff revenues and the

[1] "More COMESA countries urged to join Free Trade Area," Xinhua, 6 December 2005.
[2] "Sudan: Uganda losing out to FTA countries," The East African, 7 February 2006.

economy at large seem rather limited. Moreover, two COMESA-FTA members, notably Burundi and Rwanda, are expected to accede to the EAC during 2006, even though the exact timetable and procedures, including possible transitional arrangements, remain to be determined.[3] The rationale for Uganda to stay outside the COMESA-FTA is further weakened under these circumstances and the GOU should consider to advance its integration with COMESA and join the FTA in order to maximize the benefits from regional trade.

[3] "Rwanda, Burundi join EAC in March," The New Times, 10 February 2006.