Three decades of trade policy in Uganda: two generations of reforms in the quest to become part of the global market

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ABSTRACT

We study trade policy in Uganda, particularly focusing on the post conflict period of 1986 to date. We divide trade policy reforms in that period in two generations. A first generation associated to the structural reforms agreed between the National Resistance Movement (NRM) and the international institutions, which wanted to limited state intervention and impose a free market oriented economy open to international trade. We conclude that Uganda’s first generation of reforms, beginning in 1987, have been largely successful in kick-starting the integration into global markets of an economy that had collapsed under the previous 15 years of political instability and economic mismanagement. Nonetheless, mixed results in terms of promoting export diversification, creating an adequate regulation of the trade system and integrating with neighbour countries, among other factors, warranted a more active intervention of the public sector in trade policy, a change that we termed second generation reforms.

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I. - Introduction

Uganda, the “pearl of Africa” is a country of contrasts. Its economy has expanded at an average rate of 7 percent per year in the last 20 years. But its poverty rates remain significantly high and unimpressive in reflecting this growth rates (table 1). This reflects the low base from which the economy began to turn around in the 1990s. It had experienced 15 years of devastating political instability, social and economic collapse that reversed the optimistic situation inherited at the time of independence in 1962. At this time Uganda, had a stable and growing economy and a promising physical and human capital development, superior that of its neighbouring countries. This optimism gave way to economic destruction, international isolation and emergence of uncompetitive subsistence production system with limited participation in both domestic and international markets. In 1986, the National Resistance Movement (NRM) after a five year protracted civil war, captured power and initiated a reign of relative political stability, economic reforms that laid a foundation for sustained economic growth and expansion seen to date.

Table 1: Uganda basic economic indicators

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Quinquennium</th>
</tr>
</thead>
<tbody>
<tr>
<td>GDP growth (annual %)</td>
<td>3.1</td>
</tr>
<tr>
<td>Gross capital formation (% of GDP)</td>
<td>7.3</td>
</tr>
<tr>
<td>Industry, value added (% of GDP)</td>
<td>8.6</td>
</tr>
<tr>
<td>Net ODA received (% of GDP)</td>
<td>7.2</td>
</tr>
<tr>
<td>GDP per capita, (PPP, 2005 USD)</td>
<td>538</td>
</tr>
<tr>
<td>Poverty gap at $2 a day (PPP) (%)</td>
<td>50.2</td>
</tr>
<tr>
<td>Poverty ratio at $2 a day (PPP) (%)</td>
<td>85.9</td>
</tr>
<tr>
<td>Human Development Index</td>
<td>0.28</td>
</tr>
<tr>
<td>Inflation, consumer prices (%)</td>
<td>56.2</td>
</tr>
<tr>
<td>Trade (% of GDP)</td>
<td>31.8</td>
</tr>
<tr>
<td>Average tariff rate (%)</td>
<td>25.1</td>
</tr>
<tr>
<td>Manufactures exports (% of exports)</td>
<td>2.4</td>
</tr>
</tbody>
</table>

SOURCE: World Development Indicators (World Bank), Human Development Index (UNDP) and average tariff rate (COMTRADE)

Note: 5 year averages for the period 1980-2010.

The present research focuses on the post civil war conflict. It presents stylized facts of the implementation of the Structural Adjustment Program (SAPs) of 1980s in Uganda under the auspices of international donor community, specifically the World Bank and the International Monetary Fund. Emphasis is put on the implementation of the trade policy reforms as a key component of the SAPs. The basic premise of the trade policy, as framed in the Washington Consensus dialectic, it was “Access to imports of intermediate inputs at competitive prices is regarded as important to export promotion, while a policy of protecting domestic industries against foreign competition is viewed as creating costly distortions that end up penalizing exports.
and impoverishing the domestic economy.” (Williamson, 1989). Free trade was supposed to stimulate the economy through a market oriented system with minimal intervention. Countries had to “discover” their efficient sectors when facing international competition that reveals their comparative advantages, raising the total productivity of the economy by stimulating the production of these industries, which become the exporters, and eliminating the inefficient ones, that are replaced by imports.

Our research propose to divide the implementation of Uganda’s trade policy reforms into two generations: a first set implemented in the framework of Uganda’s SAP, which focused on the stabilization of the exchange rate and elimination of trade barriers such as tariffs, export taxes and other indirect distortions to trade. The second generation of reforms follows immediately after Uganda has achieved a considerable integration in the global economy and are related to government interventions in order to implement an efficient (no necessarily minimal) regulation system for trade -avoiding excessive non-tariff barriers(NTBs)-, to stimulate the incorporation of non-traditional export sectors and to pursuit agreements promoting regional integration.

The need for second generation of reforms is warranted by the mixed results of the first generation reforms. That is the SAP in Uganda led to macroeconomic stability, improvement in international trade but left pockets of structural failures that warrant the involvement of the public sector to strengthen the results of rather theoretical laissez faire approach to development.

Like in most Sub Saharan Africa, the first generation of reforms under the SAP begun in the early 1980s in Uganda but were overshadowed by the ongoing civil war at the time. In 1987, the government of Uganda agreed to a reform package (the Economic Recovery Package, ERP) with the World Bank, the International Monetary Fund and other International Institutions. The ERP was mainly characterised by: First, domestic market liberalisation with emphasis on government leaving the act of doing business to the private sector as the engine of economic growth; Second, macroeconomic stability induced by currency reforms, low inflation levels, financial sector liberalisation, fiscal discipline, expansion of domestic revenue mobilisation, and investment policy reforms; Third, trade policy reform.

The results of the first generation reforms in Uganda have been considerably mixed, but there has been a number of successes: first, the economic grew at average rate of 7 percent in the last 20 years (1990-2009), the gross capital formation exceeded 20 percent of GDP in the 2000s, the industry sector share of GDP rose to 25 percent and Uganda achieved a single digit inflation rate level for over 20 years. In the same period extreme poverty has been reduced from above 50 percent of the population to around 30 percent currently. These developments are reflected in the improvement of Uganda’s Human Development Index that takes not only increase incomes but also improvements in education and longer life expectancy (see table 1). However, poverty is still widely spread across the country especially in rural areas, where the relatively unproductive agricultural sector is the main source of employment and livelihood. It is also struggling with domestic resource mobilisation and reduction of foreign aid dependence. Both hidden and open corruption is rife especially in the public service delivery including within the health and education sector. Civil liberties are still significantly restricted.

Evaluation of the whole SAP in Uganda is beyond the scope of the current research. Therefore we focus on presenting the evolution and stylized facts of the trade policy reform component. Uganda’s economic recovery has mainly been related to growth of internal consumption (World Bank (2006). However, the role of trade cannot be neglected, and its relevance has increased in the last years. Data indicates that developing countries trade openness, i.e. exports plus imports as a percentage of GDP, is in the range of 50%, a figure that Uganda surpassed recently (Table 1).
Figure 1 shows the evolution of Uganda’s export structure. Just after the onset of the ERP, Uganda’s exports were practically just coffee.

Figure 1: Composition of Uganda’s exports. SOURCE: Authors’ calculation using COMTRADE data.

In the decade beginning 2000, Uganda export structure begun to change. The value and number of non-traditional exports increased, and share of manufactured products sector expanded towards the end of the decade (Table 1). That is the basket of products has increased as well as the destination markets (Uganda’s trading partners have increased). Figure 2 shows the evolution of trading partners and the increasing importance of diversity in Uganda’s export destination markets. Uganda’s non-traditional trade partners and regional partners have become more significant in the last decade. Especially regional trading partners in COMESA have taken up the European traditional place as major destination of Uganda’s exports.

Figure 2: Composition of Uganda’s exports destinations. SOURCE: Authors’ calculation using COMTRADE data.

The latest trade statistics depict a successful implementation of trade policy reforms in Uganda on three accounts: first, Uganda’s basket of exports has expanded including traditional and non-traditional exports; second, Uganda’s number of trading partners have also increased significantly; third, Uganda has succeeded in expanding the share of manufactured products in its
export basket as well as a percentage share of GDP. However, we note that Uganda’s integration in the global trading system, it still faces a number of significant challenges including strengthening the capacity of its trade facilitating institutions, its private sector to fully take advantages and opportunities of international trade.

The rest of the study is arranged as follows in 5 sections. Section 2 presents a historical account of the salient features of Uganda’s trade policy during the colonial period (1900-1962) the post independence period (1962-1986). Section 3 gives an account of the first generation economic reforms with emphasis on trade policy during the SAP. Section 4 presents stylized facts related to the second generation of trade policy reforms, particularly regional integration, the reduction of NTBs and the promotion of new exporting sectors are treated in depth. The final section draws policy lessons from the study, challenges ahead and concludes the research.

II. - Historical Overview

Evolution of Economic Policy Making in the Pre-Independence Period (1894-1962)

Uganda effectively became a British protectorate in 1894. The early colonial government encouraged a dual economy in which indigenous peasant export crop growing in Buganda and Eastern provinces complemented the European owned plantations in Western Province particularly Bunyoro (Youé, 1979). The formulation of economic policy was a prerogative of the sitting governor, but the basic premise was to maximize supply of raw materials like cotton, coffee, sugar, rubber and tea for the British Empire and diversifying the economy to increase the protectorate revenues from taxing the peasant export crop growers.

The colonial government determined marketing and pricing policies for export crops produced by the peasant subsistence growers and the profits accruing from export crops was accumulated by a government agency i.e., the Marketing Boards. The peasant growers of cotton and coffee only received a small portion of the receipts by government from these export crops, averaging of 36 percent throughout the entire period (Bowles, 1975). The colonial government justified such a pricing policy to smoothening cotton and coffee prices both in the times of booms and busts (price variations) and to control inflation in the economy. The pricing system was considered unfair by the local population and is often indicated as one of the detonating factors in the anti-colonial movement started in 1949.

The colonial government taxed substantially the export crops, an average export tax of 17 percent of the total revenues from cotton and coffee. The revenues went directly into the government funds. Moncrieffe (2004) notes that the colonial taxation policy discouraged development of small scale entrepreneurs in Uganda. That small indigenous trader was systematically and forcibly excluded from the market and/or coerced largely through intermediaries such as Buganda chiefs. The participation of indigenous Ugandans was further limited through a rigorous and exclusive licensing system. On the other hand, the authorities encouraged the migration of Europeans and Asians. The latter were very active into the retail wholesale trade and cotton ginning, sugar and coffee processing. By 1959, Ugandans handled less than 10 percent of national trade (Kasozi, 1999).
The colonial economic policy and thus its trade policy resulted into four characteristic features for the Ugandan economy: (i) it was concentrated in a few export crops mainly coffee, cotton and tea; (ii) subsistence indigenous farmers produced most of the export crops that were traded internationally but as a result of the licensing systems, processing like cotton ginning, value addition and trading was conducted by non-Africans; (iii) the colonial administration taxed African export crop growers to obtain revenue to run the colonial administration and other government purposes, thus the indigenous export crop producers only obtained a small proportion of receipts from crop exports; and (iv) the sale of export crops was concentrated in government run monopolies in form of marketing boards for instance the Coffee Marketing Board that procured and exported coffee produce.

The key legacy of the colonial economic policy making in Uganda that continued to influence the evolution of the structure of Ugandan economy is that the colonial administration focused on Uganda producing raw materials for export to Britain and imported finished goods from Britain. It also did not encourage development of indigenous skills to engage in crop processing, value addition, manufacturing activities through provision of appropriate education. This is because the early administration did not prioritize provision of social services like education to the indigenous people except those provided by mission societies, despite the revenue collections from taxes. As Acemoglu et al (2001) note on different colonization policies around the world, British policy in Uganda could be viewed as one which promoted establishing Uganda as an “extractive state” thus, did not introduce much of the institutions for protection of private property, nor provide checks and balances against government expropriation. However, it evidently supported the establishment of the physical infrastructure mainly railway to transport export crops to Kisumu on Lake Victoria and all the way to Mombasa port.

The Post Independence Period 1962-1986

Despite the extractive nature of colonial regime, Uganda at the time of independence faced prospects of economic prosperity. The fertile new country had a subsistence agriculture sector that was not only self-supporting but very strong. The export of coffee, cotton and cocoa was complemented by an incipient mining sector in the South and the production of some other raw materials that reflected in a positive balance of trade (Sejjaaka, 2005). Uganda had a relative literacy rate advantage over the other newly independent states in the region as well as good road, communication systems and reasonable medical services (Kasozi, 1999).

However, these prospects of economic prosperity reversed within five years after independence and the economy begun to decline. This was largely due to political instability, violence and uncertainty that ensued in the post independence regimes of President Obote and the following brutal regime of Idi Amin. In the mid 1960s, political factions based on ethnic and religious groups begun to emerge. President Obote, exploited these fragile factions and increasingly implemented a dictatorial regime with the help of the army that later toppled him in a coup d’état of January, 1971.

President Obote had begun to direct the economic system toward socialism, and in effect adopted a “control regime” i.e. a mixture of anti-market policies. These were largely characterised by the movement toward the closed economy and import substitution policies, heavy handed regulation, sponsorship and promotion of indigenous industry and wide spread intervention in the market (Ndulu & O’Connell, 2007).
In 1970, private business mainly foreign firms were nationalized precipitating massive capital flight. Nationalisation created state owned monopolies in commodity processing and trade. The ensuing regulation, tight control over the exchange rate market and exchange rate rationing created an anti-export bias and resulted into a poor policy environment that discouraged the private sector growth.

These events culminated into a coup d’état of Idi Amin in January, 1971. Amin’s notorious regime continued to accelerate Uganda’s economic decline and destruction. In 1972, he launched his economic war by expelling over 70,000 Asians and expropriating their private property. This meant a significant loss of much needed business skills and entrepreneurial management to the Ugandan economy. It also marked the beginning of death of the private sector. These actions by Amin’s government triggered a spiral down trend for the economy and by the end of the decade income per capita had deteriorated by 40 percent and the economy’s composition had radically changed (Collier & Reinekka, 2001). With economic scarcity, uncertainty, and insecurity, social decline ensued across the country. Within the military ranks, extortion and looting became rampant because the government could not pay the soldiers or paid them in a worthless currency, thus resorted to paying themselves in kind through looting.

The government heavily taxed exports both directly and indirectly through overvaluation exchange rates and rationing of the foreign exchange but also through inefficient government import monopolies. This led to almost complete collapse of the export sector except coffee which constituted around 90 percent of Uganda’s export at the time (see Collier, 1997). Additionally, retail prices were heavily controlled, there was monopsony purchasing by government parastatals like the Coffee Marketing Board. Further still, the government instituted a monopoly on coffee transportation. These economic conditions encouraged smuggling to thrive and the informal economy to prevail, these factors combined to result into diminished government tax revenues.

Further, Amin’s regime pursued an extremely lousy fiscal and monetary management that led to rampant inflation and consequent de-monetisation of the economy (Henstridge, 1999). As a consequence, Uganda suffered capital flight and increasing cost of doing business. The quantity and composition of capital was drastically changed. Individuals resorted to holding more of mobile or liquid forms capital both of which encouraged capital flight relative to fixed capital (see Collier et al, 2002). The consequence of capital flight was gradual reduction in private capital stock per worker which was at 10 percent lower than in 1970 by 1986 (Collier and Reinekka, 2001) and by 986, Uganda had the worst rating of institutional investor risk in Africa.

The Amin regime was toppled by Tanzanian forces in 1979, but soon after a civil war, the “bush war”, ensued because of an equally destructive regime of the returned Milton Obote that last for the first half of the 1980s. Obote distanced from his previous socialist discourse and tried to implement a structural reform program that was unsuccessful under the unstable political and military situation.

By the end of 1985, over one million Ugandans were killed; over all life expectancy had reduced from 50 to 40 years; infant mortality increased from 91.9 out of 1000 in 1973 to 100 out of 1000 in 1984; maternal mortality increased; the ratio of doctors per population decreased from 1/10000 to 1/25000; ignorance, disease and poverty became the norm of many Ugandans of all social classes (Moncrieffe, 2004). In the 15 year period, 1971-1985, both Ugandan economy and society had collapsed and this includes the social and institutional collapse with consequent severe social capital problems.
III. - First Generation reforms: 1986-2000

The National Resistance Movement (NRM) took over power in Uganda on January 26, 1986 under the leadership of President Museveni. The new government initially blamed Obote’s failed structural adjustment reforms for the devastation of the economy and favoured state intervention in the economy. This means a reversal to state control of internal and external trade mainly through government parastatals and price controls of consumable commodities like Sugar, Salt, wheat flour (World Bank, 1992).

The new government began with revaluing the shilling and fixing the exchange rate at one third of the parallel market rate (kibanda rate). Second, because of the collapse of institutional capacity to collect tax revenue, the government was cash trapped. Consequently, it borrowed heavily from the central bank as well accumulated external payment arrears. This combined with the raising of crop producer prices at the time, a 238 percent increase in the private sector credit, transport bottlenecks and a shortage of foreign exchange triggered a chain of unfavourable economic response. Inflation accelerated from 120 percent in May 1986 to 240 percent in May 1987. These errors contributed to the erosion of the tax revenue from coffee for instance, coffee tax revenue in 1986/87 was 1.7 percent of GDP compared to 4.9 percent in the previous year (Collier & Reinekka, 2001).

The Economic Recovery Program (ERP)

Given the deplorable state of the economy, the NRM was forced to abandon the initial anti-market discourse. After a year in power, the new government agreed to adopt and implement a reform package it negotiated with the World Bank and International Monetary Fund and other donors. The ERP included conditions to abandon policies that sought to override market forces and adopt policies that harnessed the market incentives. This constituted a policy reversal for the leadership of President Museveni. Consequently a comprehensive Structural Adjustment Program or ERP would be implemented in a sequence beginning in May 1987.

The first phase of the ERP constituted two major elements: first, attainment of peace, security and political stability almost across the whole country; second, attainment of a well functioning market economy that was led by the private sector. To achieve the later, the government initiated a series of fundamental economic policy reforms that included: (i) currency reform (including a large nominal devaluation of the exchange rate); (ii) achieving fiscal discipline i.e., resorted to cash budget management, and matching government expenditure to the resource envelope; (iii) achieving macroeconomic stability; (iv) privatization of state owned enterprises; and (v) liberalisation of internal and external trade.

At the same time the World Bank begun to assist the government to build physical infrastructure and eliminate other bottlenecks that affected economic production and marketing. It also engaged in helping the new government in capacity building of institutions including market and public institutions (see World Bank, 1992).

As part of getting the private sector incentives right, especially for the producers, the government moved to abolish most of the price controls and other inefficient anti-market policies. To promote private investment and restore investor confidence, it introduced investor incentives including guaranteeing private property rights. It also initiated a process for the return
of the expropriated properties to the Asian owners. It encouraged and called upon Ugandans holding private wealth abroad to return and invest in the country. By 1992, 67 percent of Uganda’s private wealth was held abroad (Collier and Reinikka, 2001). The government also focused on increasing domestic mobilization of revenues and enhanced expenditure control and curtailting of spiralling inflation by preventing excessive monetary policy expansion. All these steps were geared toward achieving macroeconomic stability.

Besides, reforming the currency, the exchange rate policy aimed at getting the prices right, the government also moved to liberalise the financial sector to allow interest rates to be determined by the market and encourage competitive financial intermediation. Some weak banks were closed, others with liquidity problems were recapitalised in the spirit of supporting the private sector growth.

The government prioritized revamping the institutional capacity to mobilize domestic revenue and curtail aid dependence that was over 50 percent of its budget outlays. In 1991, a new semi-autonomous body, the Uganda Revenue Authority (URA) was instituted and mandated to collect tax revenue and tax administration. Uganda’s reform in tax structure was designed to move away from taxing international trade to taxing consumption, income and profits. Thus in 1996, URA introduced the Value Added Tax (VAT).

In the 1980s, Uganda had a tarnished reputation for investment attraction. To emphasize its commitment to build investor confidence and creating a favourable environment for both domestic and foreign investment, the government introduced an investment code in 1991. The investment code established the rights of foreign investors and clearly spelt out the procedures and steps for undertaking investment in Uganda as well as due incentives. For instance it defined the threshold for certificate of incentives for domestic investors at $50,000 and foreign investors at $300,000. Some of these bold measures represented a government commitment to private sector led economic growth and development.

**Trade policy reforms in the ERP**

At the time of the implementation of the ERP, Uganda had at least eight serious specific trade policy (and or trade policy related) distortions: (i) it taxed heavily its exports including coffee exports; (ii) it run an overvalued currency which acted as an implicit tax on the export sector; (iii) it controlled and rationed foreign exchange to a select few sectors and import of government essential goods, a practice that was also an indirect export taxation; (iv) it had very high import tariffs but corrupt and inefficient customs system; (v) it had bureaucratic import and export licensing system that acted as a barrier to international trade; (vi) it encouraged statutory exemptions from import taxes to some business entities and organisations like diplomatic bodies, embassies and government agencies; (vii) it had several non-tariff barriers to trade including quantitative restrictions and import bans; (viii) state owned enterprises controlled marketing and export of produce for instance Coffee Marketing Board had monopoly over coffee exports.

The government set to reform its trade policy with a primary focus on; first removing the anti-export bias both direct and indirect; second, restore its export sector that had collapsed; and third, to increase Uganda’s firms participation in international trade to improve its trade balance.

*Alignment of the exchange rate.* The first step was to remove the anti-export bias as a result of exchange rate misalignment and overvaluation. It was seen as crucial for the reform program to be able to support the export sector in particular and Uganda’s participation international trade in general. A stable exchange rate was a fundamental prerequisite. Even though the debate about the correct policy for managing the exchange rate—currency peg,
floating or intermediary solutions- in developing economies is open (see e.g. Calvo and Mishkin, 2003), it is clear that a stable exchange is key for both successful exporting and importing business (international trade) and overall private sector growth.

Uganda’s exchange rate was highly misaligned in the 1980s (figure 3). Steps were taken to stabilize the exchange rate effective in the budget speech of 1990, in which legalisation of the parallel markets was announced and later complete unification of the exchange rate markets became effective by 1996. Stabilisation of exchange rate was vital to achieving success in the first generation reforms. The shilling begun to appreciate in real terms there after mainly reflecting achieved fiscal discipline and the increasingly benign macroeconomic environment. However, the high coffee prices during the 1990s (figure 3) induced terms of trade effect and continued the appreciation of the shilling which tended to discourage non-traditional exports.

Figure 3: Exchange rate and Coffee prices. SOURCES: WDI and International Coffee Organization respectively (Annual price for Ugandan producers).

This step of currency reforms and exchange rate realignment therefore led to realignment of the economic incentives helped the government to implement a budget consistent with low inflation and triggered export expansion in volume for both traditional and some non-traditional exports at an annualised rate of 17 percent in the 1990s (figure 1).

Elimination of export taxes. Export taxes had crippled Uganda’s exports leading to a concentrated export structure in which coffee was contributing more that 90 percent of Uganda’s exports. As a consequence of export taxes, all exports collapsed except coffee. Tea production fell from a peak of 20,000 tons in the early 1970s to around 2,000 tons by the early 1980s and cotton production fell from a peak of 87,000 tons, to 2,000 tons (Collier and Reinikka, 2001). Coffee production declined only slightly because, it could be smuggled to neighbouring markets, coffee trees were long lasting and the plantations required less inputs compared to the other crops.

In 1992 all export taxes were removed including export taxes on coffee and coffee marketing was liberalised by breaking the monopoly of Uganda Coffee Marketing Board. However, coffee export tax was reintroduced temporarily in 1994 during the coffee price boom for macroeconomic stability reasons but later removed again in 1996. Currently Uganda does not tax any of its exports. However, Coffee Development Authority levies a 1 percent levy for its sustenance budget on coffee.
Unilateral tariffs cut. Uganda started its unilateral trade liberalisation in 1992 with the rationalization of its tariff structure into a 10-60 percent range.\(^6\) This range of import tariffs were justified at the time for government revenue to replace revenue that was coming from taxation of coffee and other exports. However, tariffs on other raw materials were completely abolished to encouraged manufacturing within the country for domestic and international markets. To streamline import trade, the government introduced the harmonised commodity coding system in 1993. By 1998 however, Uganda’s import tariff structure has been further simplified into a three band structure of 0, 7 and 15 percent. 0 percent applied for imported raw materials and some other essential capital goods and machinery used in production for export. 7 percent applied intermediate capital goods. While the 15 percent tariff rates applied on finished goods (some of which attracted special excise duties as well). Thus in the late 1990s Uganda’s tariff structure had changed drastically, passing from an average of 25% in the 1980s to a less than 10% at the beginning of the new century (table 1), when it was among the most liberalised country in the region.

Reform of statutory exemptions that distorted trade policy and denied government significant amount of revenue was also at the heart of import liberalisation. Collier and Reinikka (2001) note that by the mid-1990s, exemptions, legal and illegal, dominated the import tax system. Legal exemptions amounted to 25 to 40 percent of the total value of imports. These exemptions were gradually reformed and others abolished by 2000.

Import licensing system reforms. Because of acute shortages of foreign exchange reserves to ensure sustainable imports in 1986, Uganda maintained an exchange allocation and import licensing system that was cumbersome but also imposed restrictions on imports.\(^7\) Thus in 1987/88 the import regime was rationalised through an open general licensing system (OGL) import scheme (Sharer, \textit{et al}, 1995). Progressively further measures to simplify the import licensing scheme were implemented including introduction of automatic licensing system under an import certification scheme in 1991 (WTO, 1995).

The other characteristic feature of trade policy inherited by the NRM in 1986 was the extensive use of non-tariff barriers like quantitative restrictions e.g., import bans, quotas; these were gradually removed and replaced by \textit{ad valorem} taxes. Further still by 1996, the central government purchasing was reformed and subjected to tendering without preference for domestic firms over imports a practice that was further strengthened in the public procurement and disposal of assets act in 2003.

Reform of the market structure. As part of government policy to relinquish active participation in economic activity and strengthen the policy of private sector led economic growth and development, the 1991, Public Enterprises Reforms and Divestiture (PERD) outlined the government strategy to reduce the role of the public sector in the economy and privatize state owned enterprises. In 1993, the privatization process of over 150 public enterprises was launched, aimed to promote development of efficient markets led by the private sector and increase economic efficiency and boost national export output, earnings and formal employment.

The colonial legacy of government control over coffee marketing and pricing continued up to the 1990s through the Coffee Market Board (CMB).\(^8\) In addition to taxing coffee exports, it was required that all the coffee be transported by the government railway transport system. Direct coffee export taxes and indirect as result of overvalued exchange rates constituted a major source of public revenue. The CMB also controlled the payments of smallholder producers of coffee and payments were always delayed for a long time. With the support of the World Bank in 1991-1992, the government undertook to liberalise the coffee subsector with conversion of the CMB into a publicly owned corporation and the newly formulated Uganda Coffee Development...
Authority would take the responsibility of regulation and quality control. Additionally, the Bank of Uganda would no longer provide crop financing. The results were immediate including increased competition, liquidity and reduced crop finance problems. Also the mode of transport used by coffee exporters was deregulated. The resultant competition led to over 100 registered firms to enter into a coffee exporting business. This also led to changes in prices paid to producers both in absolute terms and as a share of border prices (from 20 to 30 percent to more than 80 percent) and farmers who used to have to supply coffee to the primary cooperatives on credit are now paid in cash.

This increased substantially the quantity of coffee produced in the country for instance in 1994-95 coffee production increased from 2.7 to more than 4 million 60-kilo bags per year (Collier and Reinikka, 2001).

IV. - Second generation reforms: regional integration NTBs, export diversification,

The second generation reforms came after the Uganda was effectively integrated in the international markets. These reforms, unlike the first generation, include active participation of the public sector in different trade policy related actions. We particularly focus on the role of negotiating regional integration, promoting export diversification and reduction of various non-tariff barriers to trade (NTBs).

Regional Integration

One of the most relevant components of the second generation of reforms in Uganda is the transition from unilateral trade liberalization to the integration with preferential trade zones, notably with the East African Community (EAC). The phenomenon of regionalism and the spread of free trade agreements have a strong regional dimension and have been developed sequentially in different parts of the world, with Sub-Saharan being one of the latest regions to get involved. Since trade agreements have a contagion effect (Baldwin and Jaimovich, 2010), it is to be expected that regional trade integration, once started, will continue growing, a fact that it is reflected in the Uganda’s experience.

The British Colonial Administration encouraged Uganda to integrate with its regional neighbours as early as 1917. In 1917, it formed a customs union with Kenya, to which then Tanganyika (later Tanzania) joined in 1927. The three countries maintained close economic integration through different institutions created both during the colonial era and post independence. The EAC was originally founded in 1967, but collapsed in 1977 given the divergent economic policies of its members. In November 1999 the Treaty for the re-establishment of the EAC was signed, and entered into force in July 2000.

The EAC Trade Protocol was signed in March 2004 and the customs union was launched in January 2005, establishing a policy of common external tariffs (CET) and removal of intra-regional duties in a five-year transition period. In 2007 Burundi and Rwanda joined the EAC as full members. Some potential future members of the Community are Malawi, Democratic Republic of Congo, Zambia and the newly independent Southern Sudan. On 1st July, the five
members East African Community became a single market and preparations are under way for it to achieve a full monetary union by 2012 and a possible political federation by 2013.

Economic integration with neighbouring countries represents significant opportunities for Ugandan trade development. As landlocked and relatively small economy, the access to a potential market of 140 million consumers for its products and facilitation to reach the port facilities in Kenya and Tanzania are direct benefits. In the long term, integration should imply more political stability and peace for the region, a crucial condition to improve internal markets and attract foreign investors.

But integration also represents some threats. Particularly in the case of Uganda, there is the problem of potential trade diversion, related to the fact that trade with more efficient partners can be replaced with trade from less productive EAC partners that gained an administrative comparative advantage with elimination of tariffs among EAC members. Uganda is particularly vulnerable to this problem given that its tariffs were lower than those of the partners, and then the application of the CET impose an increase on the effective Ugandan average duties from third parties (Non-EAC members). As shown in Table 2, the simple average effectively applied tariff before the implementation of the CET was 7.2%, increasing to 10.7% after EAC customs came into force.11 Even when the tariffs are weighted by the share of each sector over total imports, it is possible to see that the increase after customs union implementation raised Uganda’s applied tariffs. The trade diversion problem is particularly relevant considering that some of the duties that increased more are related to products that represent an important share of the consumption in poor urban households, notably food (World Bank, 2006).

Table 2: Uganda’s effective average tariff

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<thead>
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<th>Year</th>
<th>Simple average effective MFN</th>
<th>Weighted average (by imports) effective MFN</th>
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<td>2000</td>
<td>8.54</td>
<td>6.61</td>
</tr>
<tr>
<td>2001</td>
<td>8.36</td>
<td>6.63</td>
</tr>
<tr>
<td>2002</td>
<td>8.19</td>
<td>6.47</td>
</tr>
<tr>
<td>2003</td>
<td>7.75</td>
<td>6.11</td>
</tr>
<tr>
<td>2004</td>
<td>7.21</td>
<td>5.63</td>
</tr>
<tr>
<td>2005</td>
<td>10.74</td>
<td>10.73</td>
</tr>
<tr>
<td>2006</td>
<td>10.46</td>
<td>8.64</td>
</tr>
<tr>
<td>2007</td>
<td>10.29</td>
<td>9.35</td>
</tr>
<tr>
<td>2008</td>
<td>10.43</td>
<td>8.27</td>
</tr>
<tr>
<td>2009</td>
<td>10.34</td>
<td>8.17</td>
</tr>
<tr>
<td>2010</td>
<td>10.42</td>
<td>8.79</td>
</tr>
</tbody>
</table>

SOURCE: Author’s calculations based on HS 6 digit product level COMTRADE data

The fact that the weighted average tariffs dropped after the initial rise in 2005, while the simple average was basically unchanged, reflects some preliminary evidence of trade diversion, but it also related to the progressive elimination of the duties for selected Kenyan products. The
increase of Kenyan imports can be seen in Table 3. The imports during the period 2000-2004 approximated $300 million on average, and increased to $500 million for 2005-2009.\textsuperscript{12}

Table 3: Uganda’s trade with EAC partners (US$ thousands)

<table>
<thead>
<tr>
<th>Year</th>
<th>Kenya Exports</th>
<th>Kenya Imports</th>
<th>Tanzania Exports</th>
<th>Tanzania Imports</th>
<th>Rwanda Exports</th>
<th>Rwanda Imports</th>
<th>Burundi Exports</th>
<th>Burundi Imports</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000</td>
<td>33,630</td>
<td>261,096</td>
<td>4,913</td>
<td>8,833</td>
<td>3,918</td>
<td>694</td>
<td>509</td>
<td>106</td>
</tr>
<tr>
<td>2001</td>
<td>33,447</td>
<td>220,395</td>
<td>8,685</td>
<td>6,419</td>
<td>7,019</td>
<td>2,485</td>
<td>804</td>
<td>722</td>
</tr>
<tr>
<td>2002</td>
<td>35,068</td>
<td>307,338</td>
<td>9,997</td>
<td>6,723</td>
<td>9,398</td>
<td>1,195</td>
<td>2,034</td>
<td>186</td>
</tr>
<tr>
<td>2003</td>
<td>41,290</td>
<td>379,230</td>
<td>10,668</td>
<td>10,286</td>
<td>17,259</td>
<td>13,448</td>
<td>6,109</td>
<td>430</td>
</tr>
<tr>
<td>2004</td>
<td>41,491</td>
<td>292,300</td>
<td>9,932</td>
<td>11,290</td>
<td>13,296</td>
<td>4,123</td>
<td>9,200</td>
<td>448</td>
</tr>
<tr>
<td>2005</td>
<td>42,115</td>
<td>534,192</td>
<td>9,746</td>
<td>23,362</td>
<td>37,353</td>
<td>467</td>
<td>12,106</td>
<td>1,449</td>
</tr>
<tr>
<td>2006</td>
<td>51,478</td>
<td>391,729</td>
<td>10,430</td>
<td>24,800</td>
<td>52,410</td>
<td>1,074</td>
<td>17,649</td>
<td>1,457</td>
</tr>
<tr>
<td>2007</td>
<td>100,009</td>
<td>478,314</td>
<td>17,667</td>
<td>24,902</td>
<td>84,933</td>
<td>2,140</td>
<td>38,727</td>
<td>2,510</td>
</tr>
<tr>
<td>2008</td>
<td>114,098</td>
<td>529,852</td>
<td>21,995</td>
<td>56,991</td>
<td>141,742</td>
<td>5,197</td>
<td>33,032</td>
<td>2,807</td>
</tr>
<tr>
<td>2009</td>
<td>57,325</td>
<td>598,311</td>
<td>12,120</td>
<td>50,312</td>
<td>165,810</td>
<td>5,692</td>
<td>28,515</td>
<td>6,439</td>
</tr>
</tbody>
</table>

SOURCE: Author’s calculations based on COMTRADE data

Another interesting feature of Table 3 is the rise in imports from Tanzania, that increased by a factor of five since the beginning of the CET (oil prices are not affecting the results here), but still are small compared with those of Kenya.

Burundi and, particularly, Rwanda, became important destination markets for Uganda’s exports, a process that started with the pacification of both countries, but that has deepen since their accession to EAC. These less developed markets, together with Southern Sudan, have an important potential to increase the process of export diversification in Uganda, if some challenges related to political stabilization and non-trade barriers can be overcome.

Uganda is also an active member of the Common Market for Eastern and Southern Africa (COMESA), established in 1994. It includes other 18 countries: Burundi, Comoros, DRC, Djibouti, Egypt, Eritrea, Ethiopia, Kenya, Libya, Madagascar, Malawi, Mauritius, Rwanda, Seychelles, Sudan, Swaziland, Zambia, and Zimbabwe. The East African Community and therefore Uganda are currently negotiating a Customs Union Protocol with COMESA (i.e., harmonising the common external tariff between the regional blocks) that could result in a single market of 400 million people and a gross domestic product of approximately US$ 350 billion.\textsuperscript{13}

Other regional groups in which Uganda participates actively and would promote the expansion of its exports both in terms of product basket and trading partners include the Organisation of Islamic States (OIC) Framework Agreement on Trade Preferences (TPS-OIC-PRESTAS) signed by other 15 members: Bangladesh, Cameroon, Egypt, Guinea, Iran, Jordan, Lebanon, Libya, Malaysia, Pakistan, Senegal, Syria, Tunisia, Turkey, UAE.

Other international initiatives that have provided an opportunity for Uganda’s export expansion and diversification include the unilateral trade preferences extended by developed countries such as Everything but Arms (EBA) by the European Union, the African Growth and Opportunity Act (AGOA) of the United States (since 2000) and offers by Canada and Japan.
under the Generalized System of Preferences (GSP) and finally, China and Morocco under Special Preferential Treatment. Uganda is also a founding member of the WTO since 1995 and thus enjoys the benefits of multilateral liberalisation of trade.

**The challenge of Non-Tariff Barriers (NTBs)**

In the first generation of trade policy reforms, Uganda achieved two main policy goals: first, it eliminated export taxes; and second, it reduced and simplified its import tariffs. This was aimed at increasing its participation in international trade particularly boosting its export growth and diversification. With tariffs now formulated at a supranational level as common trade policy instrument of the East African Community member states, Uganda’s key challenge as part of its second generation reforms is the Non-Tariff Barriers (NTBs). NTBs can have similar or worse, effects than excessive tariffs and taxes, and they are particularly difficult because they cannot just be reduced by law, but an overall overhaul of the administrative culture supporting international trade in Uganda.

Hillman (1991) defines NTBs as “any governmental device or practice other than a tariff which directly impedes the entry of imports into a country and which discriminates against imports, but does not apply with equal force on domestic production or distribution i.e., all restrictions, other than traditional customs duties, which distort international trade” (Hillman, 1991). NTBs often refer to Sanitary and Phytosanitary (SPS) measures and Technical Barriers to Trade (TBT), but several new categories have been added in recent classifications (UNCTAD, 2010).

In Uganda, non-tariff barriers are mainly “structural bottlenecks,” and trade related inadequate government capacity to facilitate trade including ineffective trade facilitating institutions. These include bureaucratic red tapes or lengthy business procedures, mismanagement, erratic application of rules and regulations, bureaucratic staff attitudes and low staff morale (East Africa Business Council, 2006). Uganda government first attempt to reduce NTBs started in 1991 with the introduction of the automatic licensing under the Import Certification Scheme (Collier, 1997). Later several efforts have been made, but NTBs are still an impediment to trade. Additionally, wide spread corruption impedes the effectiveness of any of the reforms to remove these structural bottlenecks. For instance, for 2011, World Bank’s “Doing Business” index for trading across borders ranks Uganda at 148 out of 183 countries. This is not withstanding some efforts like the reduction in the number of required documents to import (from 18 to 8) and export (from 11 to 6) in 2007, or the reduction in 2 days of the custom clearance in the same year.

Nevertheless, as reported in Table 4, most of the cost and delay in international trade is linked to inland transportation and handling, that relates in part to poor infrastructure but also to numerous checkpoints and mandatory weighbridges. For example, 36 police roadblocks were found along the Northern Corridor Mombasa-Kigali (most of them in Kenya), at an estimated bribe rate of US$ 0.55 per roadblock per truck on Ugandan side (EAC, 2009).
Table 4: Time and cost for exports and imports

<table>
<thead>
<tr>
<th></th>
<th>Documents preparation</th>
<th>Customs clearance and technical control</th>
<th>Ports and terminal handling</th>
<th>Inland transportation and handling</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Exports</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Duration (days)</td>
<td>9</td>
<td>4</td>
<td>6</td>
<td>18</td>
<td>37</td>
</tr>
<tr>
<td>US$ Cost</td>
<td>220</td>
<td>135</td>
<td>375</td>
<td>2,050</td>
<td>2,780</td>
</tr>
<tr>
<td>Documents</td>
<td>6</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Imports</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Duration (days)</td>
<td>10</td>
<td>5</td>
<td>6</td>
<td>13</td>
<td>34</td>
</tr>
<tr>
<td>US$ Cost</td>
<td>350</td>
<td>150</td>
<td>390</td>
<td>2,050</td>
<td>2,940</td>
</tr>
<tr>
<td>Documents</td>
<td>8</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>


Unlike tariffs, that can be clearly measured, systematically recorded and reported (especially in the case of WTO members), NTBs are diffuse, and their quantification is difficult.

We use recent data collected in 2008 by UNCTAD, which surveyed 300 firm managers in Uganda participating in international trade, and questions focussed on the NTBs facing their business on different products in Uganda and in international markets. We find that NTBs are still prevalent and constitute an essential part of the trade reform agenda. This comprehensive data is composed of 44 imported and 65 exported products (at HS 2 level disaggregation). This covers almost half of the Ugandan firms involved in international trade based on Uganda Export Promotion Board firm registry. The survey was designed to be representative of the distribution of firms, in terms of location, production sector and volumes.

Table 5 summarizes the NTBs faced by the main importing sectors and its respective problems. While some NTBs are sector specific, most complains relate to regulations for registration, testing, documentation, clearance and inspections. 45% of the barriers are classified as SPS, 22% as TBT and 16% as other technical measures. In terms of the problems, the managers tended to agree that excess of documentation, strict rules and delays in obtaining authorization were the most important. In this sense, the survey is in line with the perception that bureaucracy and inefficiency are the main barriers to trade in Uganda.

Nevertheless, it must be noted that the data was collected just after important reforms introducing more efficiency for importers, reducing the number of required documents and time for custom clearance (as mentioned below), but the surveyed managers could have answered with respect to their historical experience. These improvements were in the right direction, but probably still more work in this issue need to be addressed as part of any trade promotion reform.
Table 5: Main NTBs faced by Ugandan importers

<table>
<thead>
<tr>
<th>Industry</th>
<th>HS2 Code</th>
<th>Main NTBs</th>
<th>Specific problems related to the NTBs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Food and beverages</td>
<td>10, 11, 12, 20, 22, 402, 409, 713, 803</td>
<td>A300: Conformity assessment related to SPS; B340: Inspection and clearance requirement.</td>
<td>A1: Behaviour of customs officials; C1: Too much documentation; C2: Too strict, testing, certification or labelling requirement; C3: Substantial delays in obtaining authorization.</td>
</tr>
<tr>
<td>Machinery and vehicles</td>
<td>84, 85, 87</td>
<td>A132: Product characteristics standards; A340: Inspection and clearance requirement; C210: Documentation requirement; E110 Licence with no specific ex-ante criteria.</td>
<td>C1; C4: Complex clearing mechanism; F. Unusually high fees or charges.</td>
</tr>
<tr>
<td>Clothing</td>
<td>61, 63, 64</td>
<td>A300; A350: Registration requirement; C210.</td>
<td>C1; C2; C3.</td>
</tr>
<tr>
<td>Minerals, chemical and plastic products</td>
<td>27, 29, 31, 34, 38, 39, 40, 68, 69</td>
<td>A330: Testing requirement; A340; B340.</td>
<td>C1; C3; F.</td>
</tr>
<tr>
<td>Pharmaceutical products</td>
<td>30</td>
<td>A340; A350; B330: Testing requirement.</td>
<td>C1; C2; C3.</td>
</tr>
</tbody>
</table>


Note: The codes for NTBs and related problems are those used in the classification specified in UNCTAD (2010). “A” codes are for SPS-like NTBs, “B” for TBT, and “C” for other technical barriers.

It is interesting to note that just 2 percent of the NTBs reported are associated to corruption (responses to the question: whether an “an ‘informal’ payment was requested” in the survey). This can manifest two issues: first, positively, the anti-corruption efforts of government have succeeded in reducing the incidence of corruption; or secondly, negatively, it can be as a result of a respondents fear to criticize the government, Another alternative is that bribes constitute a small portion of trade costs in Uganda compared with administrative and legal burdens. Thus corruption it is indeed an issue in Uganda, and must be considered as one of the most important pending reforms.

It is also remarkable that very few respondents mentioned outdated procedures or lack of resources as barriers to import. This may be related to the automation of the customs system by incorporating the ASYCUDA++ software, which was first implemented in 2004 at the Kampala Customs Business Centre and then has been extended to the rest of the country in following years. With this system, most international transactions are received and responded to electronically. The process is optimized by classifying all the requirements in different lines according to the risk of the transaction. The time required for each transaction has diminished considerably in the areas that adopted the new system (World Bank 2006).

When it comes to the exports, the UNCTAD survey just collected information about the NTBs faced by Ugandan exporters from the rest of the world, not for the internal barriers. As it can
be seen in Table 6, half of the complaints refer to measures imposed by neighbouring countries, a fact reflecting that NTBs remain a major restriction to expansion of intra-trade in the EAC.

Particularly striking is the number of complains for exporting to Rwanda. The average number of complains for this country are 2.1 per exporter (121 by 59 exporters), by far the highest and also bigger than other neighbours like Kenya, were the average was just 0.89 (65 by 73 exporters). The main NTBs reported are the number of documents, the inspections and the clearance requirements to cross the Rwandan border. This could be related to the lack of coordination between the two countries in adjusting border controls with respect to the sudden increase in trade flows between them, that increased 15 times from 2002 to 2009 (Table 3). To deal with the problem, there have been a series of bilateral meetings that resulted in the announcement in 2010 that Katuna, the Rwanda-Uganda customs passage, will become a one-stop border crossing that will operate 24 hours.

Similar problems than those faced with Rwanda, but in a lesser extent, were reported for the trade with Burundi.

Table 6: Main NTBs faced by Ugandan exporters, by market destination

<table>
<thead>
<tr>
<th>Destination</th>
<th>% of complains</th>
<th>Main exporting sectors</th>
<th>Main NTBs</th>
<th>Specific problems related to the NTBs</th>
</tr>
</thead>
<tbody>
<tr>
<td>European Union</td>
<td>29%</td>
<td>Coffee, flowers, fish, fruits, tea, tobacco.</td>
<td>A213, B213: Packaging requirements; A222: Processing history; A330; B330; C210.</td>
<td>C1; C2; C3; C5: Short submission deadlines to supply information; D2: Unannounced change of procedure/regulation.</td>
</tr>
<tr>
<td>Rwanda</td>
<td>17.6%</td>
<td>Food, construction materials, chemicals.</td>
<td>A340; C210.</td>
<td>C1; C2; C3; C4.</td>
</tr>
<tr>
<td>Kenya</td>
<td>9.5%</td>
<td>Food and beverages</td>
<td>A330; A340; C210.</td>
<td>C2; C3; C4; F.</td>
</tr>
<tr>
<td>Sudan</td>
<td>8.9%</td>
<td>Food, construction materials, chemicals.</td>
<td>B300: Conformity assessment related to TBT; C210; F000: Para-tariff measures (a).</td>
<td>C2; C3; F.</td>
</tr>
<tr>
<td>Burundi</td>
<td>5.5%</td>
<td>Food, construction materials, chemicals.</td>
<td>A340; C210.</td>
<td>C1; C2; C4.</td>
</tr>
<tr>
<td>DRC</td>
<td>4.7%</td>
<td>Food and beverages</td>
<td>B300; F260: Additional charges for merchandise handling or storing fees.</td>
<td>C2; C3; F.</td>
</tr>
<tr>
<td>Tanzania</td>
<td>3%</td>
<td>Food and beverages, paper products.</td>
<td>A213; C240: Transportation restrictions.</td>
<td>C2; C3.</td>
</tr>
</tbody>
</table>

**Note:** The codes for NTBs and related problems are those used in the classification specified in UNCTAD (2010). “A” codes are for SPS-like NTBs, “B” for TBT, “C” for other technical barriers.
Even the average restrictions reported from the other two EAC founding members are relatively low; there are still some pending improvements for trans-border movement of goods. For Kenya still the main complaints related to the excess of documentation, inspections and clearance, possible associated with specific requirements for food and beverages. In the case of Tanzania, the barriers are associated to delays, including some transport restrictions.

The EAC has recognized the problem of NTBs as a threat to the block integration and in 2008 launched the “time bound programme for elimination of identified and future Non Tariff Barriers”. In 2009 a report described the main unresolved 29 (as well as 29 already solved) NTBs among members, most of them related to the problems described below: (i) customs documentation and administrative procedures; (ii) lack of harmonization of systems and procedures; (iii) immigration procedures (iv) quality inspection procedures (v) transiting procedures; (vi) police road blocks; and (vii) business licensing and registration. These NTBs frustrate business people and translate into time loss and additional costs for the exporters and importers in the region (EAC, 2009).

In order to implement the EAC effort, Uganda established the National Monitoring Committee for Non Tariff Barriers, in charge of the identification of NTBs affecting Ugandan business, and studying ways to eliminate them in partnership with similar committees in the other member states.

Another country in the region, but outside EAC, that experienced a big increase in trade with Uganda is Sudan (particularly the semi-independent region of Southern Sudan). The rate of complain was low for this country (61 reports by 76 exporters), and the main issues relate again with excessive documentation and delays, but also to the use of Para-tariff barriers to trade.15 The issue of Para-tariff barriers also was mentioned by firms exporting to DRC.

In the case of the other main destination region, the European Union, the situation is different. The main NTBs with this area are related to standards, testing and tractability, that seem to be requirements difficult to fulfil by Ugandan exporters. Here not just the number of documents and the time required to prepare them is a problem, but also the short submission deadlines to supply information and “unexpected” change in regulation. These factors provide evidence to support that the managers are not well informed and probably not properly coordinated in order to reach the European standards and rapidly adapt to changes in norms. It is the role of the government and producers associations to take advantage of the economies of scale of information sharing, and in Uganda there is scope for improvements in this sense.

**Export diversification**

A salient feature of Uganda’s international trade in the last decade is the diversification of exported products (seen in figure 1). In 1990 the share of coffee over total exports was 80%, in 1999 still 65% and got reduced to 33% in 2009.

A more accurate description can be obtained by analyzing the concentration index presented in Figure 4. The Herfindhal index ranges from 1, total concentration, to zero, full diversification.16 In the 80s the Uganda’s Herfindhal index was close to 1 indicating concentration of exports in a single commodity. But this has been reversed to 0.5 in the 90s and significantly close to 0.1 by the later 2000s. In Figure 4 the concentration index is higher, as usually is the case, for more aggregated sectors (HS 2) than the detailed products (HS 6) because the export diversification is happening more within than between sectors.
The export diversification has been driven especially by an increase in non-traditional export basket. The most important ones are flowers (mainly roses), fresh fruit and vegetables (bananas, hot pepper, chilli, okra, green beans, passion fruit and others), hides and skins (raw and wet blue), vanilla, sesame seed, and maize and beans. Fresh and frozen fish has also become Uganda’s major exporting sector, particularly in 2006, Nile Perch exports were among top two exports, coffee being the other and constituted equal shares in the total exports. Gold and cobalt have also become important mineral exports from Uganda (See Figure 1).

While the first generation of reforms helped to create a better environment for exporters, the financial underdevelopment and the difficulties in the de facto implementation of various reforms continued to be an impediment for small firms and start ups, particularly in non-traditional sectors (Dijkstra, 2001). However, in the last one decade, in the period after 2000, a series of changes can be noticed: (i) the reforms were consolidated, became effective and credible; (ii) the drop in coffee prices encouraged producers to switch to other sectors; (iii) diverse initiatives from international donors started to be successful; (iv) regional integration and pacification of neighbouring countries opened opportunities in new markets.

There has also been a consistent effort and partnership between government, private sector and donor community to promote export diversification within the new sectors. The growth and expansion of the non-traditional exports like flowers and fisheries can be attributed to this joint effort between government, private sector and the donor community.

Trade promoting institutions. The key trade promoting institution in Uganda is the Uganda Export Promotion Board (UEPB), which is a semi-autonomous body operating under the Ministry of Tourism, Trade and Industry. It was established by the Uganda Export Promotion Board Statute No.2 in 1996. Its core function is to promote Ugandan exports in international markets with emphasis on the non-traditional exports (UEPB Annual Report, 2003). It also charged with undertaking preparation of exporters to meet international export standards, conduct international market research, select and develop market entry strategies. It conducts resource mapping, product selection and development. It facilitates exporters’ participation in trade fairs,
exhibitions and trade missions. It is also mandated to basically monitor and analyse export policy developments and advise government on possible interventions.

However, the UEPB needs to be more effective by increasing its linkages with the private sector to serve their demands and also address the supply side challenges of the exporting business in Uganda. It has to be an exporter driven institution to be effective. This is part of the broad challenge of private sector development Uganda faces both in the short and long term horizons. It needs a high level institutional framework to support private sector development as well offer an effective support to the exporters to access international markets. A caricature of an effective institutional framework to support the private sector and therefore the Uganda’s exporter would take up a multistakeholder holder forum at high level including line ministries, trade promoting agencies and actors in the export sectors especially for industries with good growth potential.

Trade financing. This is an area that has not been streamlined in the export promoting policy of the government. However, a number of largely entrepreneur specific as opposed to institutionalised trade financing mechanisms and rather scattered export financing schemes and taxes incentives were initiated and administered by bank of Uganda. These include: the duty drawback schemes in which raw materials for industrial production were refunded import duties and VAT. However, the refund mechanisms attracted criticisms on grounds of inefficiency and the new mechanisms were introduced, in July, 2000. This included the fixed drawback scheme (FDD), duties paid on inputs that go into production of exports are refunded especially for the exporters of agricultural and fishery products and manufactured goods that do rely heavily on imported inputs, such as packaging materials. The manufacturing under bond scheme is intended to meet the needs of companies that export all their output. A number of other more minor measures, such as tax exemptions have also been introduced to support exports.

Strategic export programs. Additionally, the government has launched several programs in which the public sector has an active role in the promotion of new export sectors. The Strategic Exports Programme (SEP) was started in 2001 aimed at directing resources (including donor support) to a selected list of strategic agricultural products with potential for export. In 2004, the president directed that the country be zoned based on their comparative advantage in agricultural production with aim to identify, promote agro-processing to take advantage of regional and international export markets. This was followed by initiation of the National Exports Strategy (NES) in 2007 that was launched with a plan for the development of exports in several sectors between 2008 and 2012. The government launched National Planning Authority (NPA) five year plans among other things, it will be responsible for coordinating all these programs related to development including export development (See, National Development Plan, 2010).

However, these efforts are still hampered by limited institutional capacity to be effective. For instance, in the case of fish exports, the European Union imposed three bans on fish exports from Uganda in the 90s. The bans represented a serious challenge to survival of the sector, and required prompt intervention of the government. Clearly this demonstrated the lack of capacity and coordination within the public sector agencies like Uganda National Bureau of Standards (UNBS), Fisheries Department Ministry of Health and other public entities to set quality regulations and monitoring their adherence among producers to ensure that Uganda’s export products meet international quality standards (Dijkstra, 2001). Coordination of different public entities to support exports is definitely a challenge in a country with the third largest cabinet in the world, with 71 ministers.
V. - Conclusions

In the present study we have combined the review of previous studies, historical facts and data from different sources to analyze trade reform in Uganda, particularly focusing in the reforms after the structural adjustment program implemented by the government of the NRM in 1987. We have classified the trade reforms in two generations. In the first generation the aim was to limit state intervention and impose a free market oriented economy open to international trade. It achieved four specific goals. First, it managed to eliminate anti-export biased policies, aligning the exchange rate; secondly, it unilaterally liberalised its trade; third, it eliminated price controls and specifically abolished government monopolies; fourth, it initiated a process of elimination of non-tariff barriers trade as a result of complex licensing system of international trade. As a consequence, the Uganda changed its export structure and increased its participation in international trade, all of which contributed to a rapid and sustained growth of 7 percent for a period of 2 decades.

The first generation reforms basically reduced to the minimum participation of the government and its intervention in the market and the economy in general. But to unleash the full potential of the international trade, an active role of public sector is also needed. Thus, in the second generation of reforms, the role of market is recognised jointly with the participation of the government. We particularly identify three main group of policies, that started to be implemented in the late 1990s, as part of the new trade reforms: the state turning from unilateral liberalisation to a negotiated regional integration –notably with the EAC-, the public efforts to incentivise export diversification and the quest for implementing an efficient regulatory framework and administrative system, related to the so-called non-tariff barriers to trade (NTBs).

The first generation of reforms had a tremendous challenge because of the relatively rapid dramatic shift in economic structure that was inward looking and encouraged a production system based on import substitution to a market based economy fully participating in international trade. To a great extent, by the end of first generation reforms Uganda had attained the objective of being an open market economy. The composition of Uganda’s exports changed markedly during the 1990s from which it follows an upward trend in growth both in volume and products diversification and trade partners. Non-traditional exports gained significance in contributing the export revenues besides traditional cash crops whose share declined significantly notably coffee and cotton. Nevertheless the pace of results was probably slow, 25 years has passed for Uganda to reach the average level of openness to trade among developing countries, and just in the last decade other products than coffee began to be really important exports.

The research points out that the less than maximum results of the first generation reforms could be attributed to need and justification of the second generation reforms to complete the process of attaining a fully functioning market economy in Uganda.

First, the research argues that for a Ugandan economy with a limited capacity of local producers to reach and satisfy international markets conditions, needs a support of multiple actors including the government, international donors and NGOs. That is concerted effort is needed to address the supply-side constraints that limits the benefits of an open economy and international markets to reach a local producer in Uganda. It is necessary to reduce supply side costs, to permit Ugandan producers to take advantage of economies of scale and promote the research and development necessary to develop new sectors. Most of the new exporting sectors were developed as a joint effort of private entrepreneurs and external actors. Unfortunately, as we have shown, the coordination of the different government agencies has not been always adequate, and
the excess of bureaucracy and lack of transparency have tantalized the success of reforms aimed to stimulate new exporters.

The other robust fact that comes out of the second generation reforms is the need to emphasise and improve regional integration to expand market opportunities for Ugandan entrepreneurs. The data indicates that the process of integration with EAC has created deep changes in the approach to international trade, particularly after the creation of a custom union with the other four state members. The regional integration has created great opportunities reflected in the fact that now neighbouring countries have become Uganda’s main trading partners (figure 2). The research also shows preliminary evidence of regional preferences resulting into trade diversion for Uganda with a decrement of trade from other more efficient producers for the Ugandan market.

Even if the first generation of reforms had reduced most of the tariff distortions to trade, there were several NTBs creating disincentives for both exporters and importers. Excessive regulations, procedures, licence requirements, road controls, etc, are a major challenge for firms trying to get involved in international trade. Using a recent data collected by UNCTAD (2008), we have demonstrated that NTBs are indeed an important problem, and that several measures are on the way in order to reduce them.

To summarize, even the goal of the trade reforms of the original SAP seems to have accomplished the goal of converting Uganda into a market economy open to international trade, new reforms that involve an active role of the government have been implemented afterwards to correct trade policy in various aspects.

How important has been international trade in Uganda’s recovery and the increase of Uganda’s wellbeing? This is a complicated question that goes beyond the aim of the present study, but the evidence that we have shown make clear that at least part of the improvement in social and economic conditions must be related to trade. A first effect is the reduction in the price of imported goods and services, which increase welfare via the diversification of consumption and should increase productivity given cheaper and better inputs of production. In terms of the impact of exports, there must be expected that sectors with comparative advantages and relative more endowments than the rest of the world will benefit. Accordingly, Balat et al. (2009) show causal evidence that households engaged in export cropping are less likely to be poor than subsistence-based households. Nevertheless, it is a common result of all trade models the fact that with liberalisation “the economy as a whole will benefit, but some sectors will lose”. It is very difficult to identify the losers and to have counterfactuals to provide a general evaluation of the success of the trade reform, something that constitutes a fruitful avenue for future research.

**Challenges for the future**

Our study has shown how Uganda went from an autarkic economy in the 1980s to a participant of global markets in the last years. Will Uganda continue to integrate in the global economy? Will the diversification of exports continue? Who will be getting the potential benefits of trade? Will the government intervene with new trade policies (maybe a third generation)? There are several challenges for the future of trade policy in Uganda, some of which we will briefly address.

Of all challenges for the future, there is one particularly important not just in terms of trade policy, but for Uganda’s economy as a whole: oil. As a result from recent discoveries Uganda is now estimated to possess around 2.5 billions barrels in reserves, that will start to be pumped in 2012. The country is likely to pass from an oil importer to a medium size exporter. No doubt the
oil can be an opportunity for Uganda’s development, but also can represent a threat, particularly for export diversification. The risk is related to the so-called Dutch disease, with the revenues from oil exports creating an appreciation of Uganda’s currency that disincentives the rest of the exports and can motivate conspicuous cheaper consumption of foreign goods (Cordon and Neary, 1982). This is not the only channel thought which oil can harm. If most of government income start coming from the revenues of oil, the willingness to support new exporting sectors can be discouraged. Definitely there are ways in which the sudden revenues can be managed in order to not creating a threat to the economy, like establishing a fund that transparently allocate the oil revenues as in the successful Norway’s experience in the 1990s, now replicated in some developing nations (AFDB, 2009).

Another big challenge relates to the political system. The relationship between economic development and democracy is very controversial in the literature, and not clear prediction has been made. The modernisation hypothesis suggests that as countries become richer, their citizens will start asking for democratic reforms. While there are several counter-examples to this argument, it is not unlikely that this can happen in Uganda’s near future, given the increase in educated population. Even democracy by itself will not promote development, the evidence is clearer in the sense that it is important to have a “selectorate”, meaning a group of people that decides who stays in power (Besley and Kudamatsu, 2007), an explanation of why Chinese-like autocracies promote economic growth unlike most of African leader-driven regimes. In terms of trade policy, Giavazzi and Tabellini (2005), have shown that the effects openness work better when initiated in more autocratic regimes that then become democracies, since civil freedoms are important to promote full participation of the whole society in the creation of economic value.

The deepening in regional integration is another of the upcoming events in trade policy. Even the custom union has almost been completely implemented; the start of the common market, the integration of labour markets with the other members and potential currency union can re-shape the external economic policy of Uganda. The integration seems to be irreversible by now, but the volatile political situation of the region makes any prediction uncertain.

Overall, Uganda is full of opportunities and menaces, and is to be expected that the future trade policy, as well as the general political and economic management, will contribute to materialise the dreams of prosperity that will keep the pearl of Africa shining.
APPENDIX 1: Time table of the trade reforms in Uganda

<table>
<thead>
<tr>
<th>Year</th>
<th>Trade policy reform</th>
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<tbody>
<tr>
<td>1964</td>
<td>▪ Customs (dumping and subsidies) Act</td>
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<tr>
<td>1967</td>
<td>▪ EAC first established</td>
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</tbody>
</table>
| 1970 | ▪ The East African Customs Act  
      ▪ The excise Management Act  
      ▪ The Stamp Duties Act |
| 1977 | ▪ EAC dissolved |
| 1983 | ▪ Uganda National Bureau of Standards Act  
      ▪ Uganda Export Promotion Council Act |
| 1986 | ▪ Revaluation of the official exchange rate |
| 1987 | ▪ Economic Recovery Program Introduced  
      ▪ Dual trade licensing system introduced  
      ▪ Duty exemptions on raw materials and capital goods suspended |
| 1988 | ▪ Some protective tariffs (sugar, soap) raised  
      ▪ Open General license (OGL) scheme of importation implemented |
| 1989 | ▪ Retention account scheme for export earnings introduced  
      ▪ Special import programme  
      ▪ Duty exemptions on raw materials |
| 1990¹ | ▪ Export licensing system is replaced with certification system  
      ▪ Forex bureau/parallel foreign exchange market legalized  
      ▪ Taxes on government imports abolished  
      ▪ Legalization of the parallel foreign exchange market (March 1990) |
| 1991 | ▪ Import licensing replaced with Import Certification Scheme  
      ▪ Investment code introduced  
      ▪ Duty drawback scheme introduced  
      ▪ Uganda Revenue Authority established  
      ▪ Uganda Coffee Development Authority created  
      ▪ Liberalization of coffee marketing |
| 1992 | ▪ Foreign exchange auction market created;  
      ▪ Tariff structure rationalized (10-60% range)  
      ▪ Several duties on raw materials abolished  
      ▪ Coffee marketing board’s monopoly removed |
| 1993 | ▪ Unified inter-bank foreign exchange market/ floating exchange rate  
      ▪ Surrender of coffee receipts waived  
      ▪ Harmonized commodity coding system of imports introduced  
      ▪ System of trade documentation reformed, pre-shipment requirements introduced  
      ▪ Cross border initiative (CBI) to promote regional trade introduced  
      ▪ Public Enterprise Reform and Divestiture Statute |

¹ Other reforms in the period 1990-1995 included: (i) dropping the dual exchange rate system (ii) lifting the coffee export tax; (iii) permitting refinancing arrangements and the formation of joint ventures (iv) abolishing the mandatory floor export price (v) private firms were allowed to export along with cooperative unions
<table>
<thead>
<tr>
<th>Year</th>
<th>Events</th>
</tr>
</thead>
</table>
| 1994 | - Establishment of the Permanent Tripartite Commission for EAC  
- Further rationalization (10-50% range) of the tariff structure  
- Import duties on some of the materials suspended  
- Tax on coffee exports reintroduced  
- Cotton Development Organization Statute (covering cotton)  
- Establishing the Common Market for Eastern and Southern Africa (COMESA) |
| 1995 | - Coffee export tax reduced  
- Narrow range of products on a negative import list  
- Reduced exemptions from duties on raw materials and intermediate inputs  
- Uganda acceded to World Trade Organization (1st January 1995)  
- COMESA implementation Bill (covering rules of Origin) |
| 1996 | - Coffee export tax abolished  
- Further rationalization of tariffs, with reductions of top rate to 30%  
- Uganda Export Promotion Board (UEBP) Established  
- Uganda National Bureau of Standards (UNBS) established  
- Uganda Coffee Development Authority (UCDA) established  
- Cotton Development Organization (CDO) established |
| 1997 | - Accepted the obligations of Article VIII of the IMF Agreement |
| 1998 | - Tariff bands reduced to three- 0, 7 & 15 percent (although with some special excise duties) and almost all import bans removed |
| 1999 | - Maintained an independently floating exchange regime  
- Treaty for the Establishment of the EAC signed |
| 2000 | - Fixed Duty Drawback Scheme and the Manufacturing Under Bond Scheme introduced for exporters  
- Treaty for the Establishment of the EAC enters into force |
| 2001 | - Government of Uganda launches the Strategic Exports Programme (SEP). |
| 2003 | - Public Procurement and Disposal of Assets Act  
- Trade Preferential System with Islamic States (OIC) entry into force |
| 2004 | - Foreign Exchange Act  
- EAC Customs Union Protocol  
- EAC Customs Management Act  
- New Copy Rights Act  
- Customs automation process started. |
| 2005 | - Excise Tariff Act  
- EAC Common External Tariff (CET) comes into force  
- Loans to agriculture sector exempted from tax |
| 2007 | - Reduced documents to import (from 18 to 8) and export from (11 to 6)  
- The Republic of Rwanda and the Republic of Burundi accede to the EAC Treaty  
- National Export Strategy (NES) is launched |
| 2008 | - Road license Fees except for charges on first registration abolished  
- 10 year tax holiday to companies engaged in value exports  
- EAC launches a programme for identification and elimination of NTBs |
| 2009 | - Created a new credit registry or bureau  
- Increased procedural efficiency at main trial court (commercial court) |
| 2010 | - EAC Market Protocol came into force |

References


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1 Uganda ranks 145 out of 162 countries in terms of GDP per capita, as listed by the World Bank. In terms of the HDI, the ranking is 143 out of 169, according to the statistics of the UNDP.

2 A discussion of trade policy in the context of the structural reforms can be found in Rodrik (1995) and Dean et al. (1994), among other authors that have extensively described the structural programs in the 1980s.

3 One explanation for the fact that at the time of independence Uganda was better endowed than other African countries is the centralised structure of the original kingdoms that was preserved by the colonial authorities (Gennaioli and Rainer, 2007).

4 There existed an illegal market for foreign exchange rate that was commonly referred to as Kibanda.

5 Byaruhanga et al (2010) point out that Uganda’s reforms were not completely driven by donor conditions but arose from vigorous debate within Uganda with political support from president Museveni.

6 This was further rationalised into a range of (10-30 percent) in 1994.

7 Sharer, Robert L., Hema R. De Zoysa, Calvin A. McDonald (1995) note that foreign exchange was allocated by a ministerial committee headed by the prime minister and priority was given to debt service payments, oil imports, other governments and parastatals as well other Ugandan embassies abroad.

8 The coffee marketing board undertook all major activities of coffee trade including extension services, research, export processing, promotional activities, processing and quality control.

9 In practice, most of the internal tariffs were eliminated, with the exception of exports from Kenya to Uganda and Tanzania, as a measure to protect less developed industrial in the latter countries.

10 The Republic of South Sudan is scheduled to be independent on 9th July 2011.

11 A deeper analysis of the implication of the CET implementation for its member is offered in Morrissey and Jones, 2008.

12 However, this rise could reflect both the drop in tariffs as well as increase in oil prices.

13 However, progress has been hampered by the overlapping membership in these regional initiatives for instance; Tanzania is member of another regional initiative, the Southern African Development Community (SADC).

14 Collier (1997) and Morrissey and Rudaheranwa (1998) claim that most NTBs were removed in the 1990s. Here we present evidence in the opposite direction.

15 Para-tariff measures are defined as: Other measures that increase the cost of imports in a manner similar to tariff measures, i.e. by fixed percentage or by a fixed amount, calculated respectively on the basis of the value and the quantity: these include for instance customs surcharges; additional charges; internal taxes and chargers levied on imports and decreed customs valuations.

16 The Herfindhal index is built as the sum of the square of sectors shares on total exports.

17 This may include re-exports from the Democratic Republic of Congo.

18 For instance USAID has been running a program to support agricultural productivity “Uganda Agricultural Productivity Enhancement Program (APEP).