

The African Continental Free Trade Area

Opportunities for Ugandans

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FAMILY &
JUSTICE**





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The African Continental Free Trade Area: Opportunities for Ugandans

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The Center of Faith, Family and Justice (CFFJ) is a Ugandan Christian Think Tank founded in 2021 to contribute to evidence-based policy, advocacy, and decision making. Our main focus is to investigate how the social, political and economic conditions of life affect faith, family and justice. We aspire to connect policymakers and citizens; and to build transformed, resilient, and integrated communities.

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Executive Summary

The African Continental Free Trade Area was officially opened for business on 14th January 2021. Ugandans have not yet started exploiting the immense potential the open market offers its traders. To worsen matters, the AfCFTA opened amidst the global COVID-19 pandemic, at a time when countries' concerted efforts were concentrated on public health and safety, with economic recovery and gains in the backseat. With many African countries still facing lockdown restrictions, it will take more time and effort to recover and harness the current trading opportunities available to African enterprises through intra-continental trade. Actively engaging in intra-continental trade would allow Africans to leverage their comparative advantages for economic benefit, potentially multiplying traders' earnings, and lifting myriads out of poverty.



Introduction

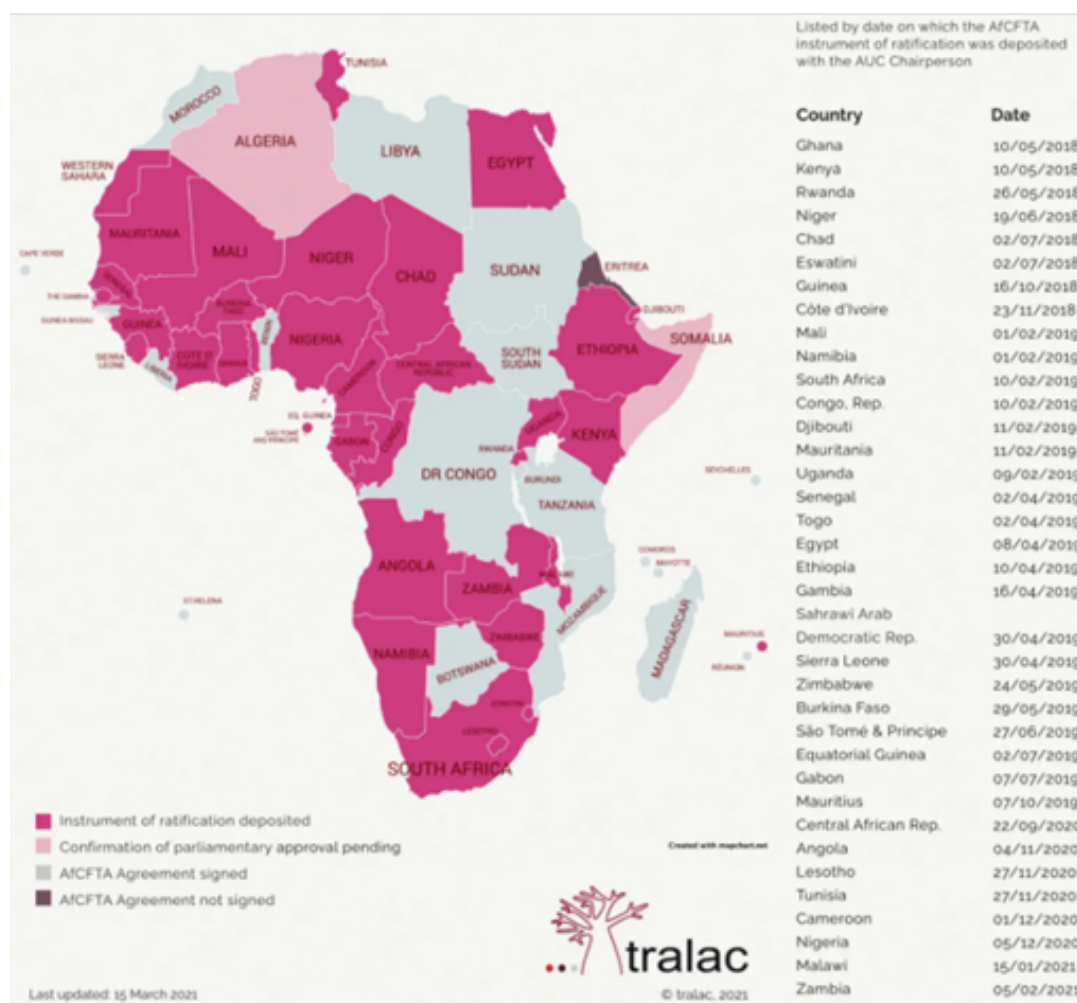
The African Continental Free Trade Area (AfCFTA) opened for business on 1st January 2021. With high presidential election fevers due to elections slated for 14th January 2021, this momentous step was not given sufficient attention by the Ugandan media houses and public. The majority of the public thus remains oblivious of the great transition Africa is entering.

Africa's Continental Free Trade Area was created to merge Africa's national markets, creating the largest continental common market. The agreement aims to remove or minimize all intra-continental trade restrictions to goods and services in Africa and it will create one joint market of 1.3 billion people whose combined GDP stands at over \$3.4 trillion (AU n.d.).

The membership of this new common market will be second only to that of the World Trade Organization. This agreement has taken over 15 years to prepare and, even to-date, ratifications are still ongoing. 54 out of the 55 African member states signed the Agreement with only Eritrea staying out. All the 35 out of 55 countries whose agreements were ratified are now open to trade on the common market (Balino 2021).

Uganda signed and ratified its agreement on February 9th 2019 (TRALAC 2021) making Ugandans eligible to trade with the countries whose ratifications were also deposited. The map shows the ratification statuses for each of the African countries.

Figure 1: Ratification statuses for African countries.



Background

Many strong and developed countries are export-based economies. The Balance of Trade for all such countries is heavily positive and always indicative of a heavily positive Balance of Payments.

Uganda is still an import-based economy. It has had a negative Balance of Trade and Balance of Payments through the past decades. These negative balances contribute significantly to Uganda's low Gross Domestic Product.

Figure 2. below gives evidence to the stronger industrial prowess Uganda enjoyed in the 1960's and 1970's. Several reasons account for the deteriorating Balance of Trade trend: Firstly, Uganda's population has grown tremendously over the past few decades. An increasing population signals an increased consumer base and thus increasing demand. This demand if not met by locally produced goods, is forced to be met by imported goods.

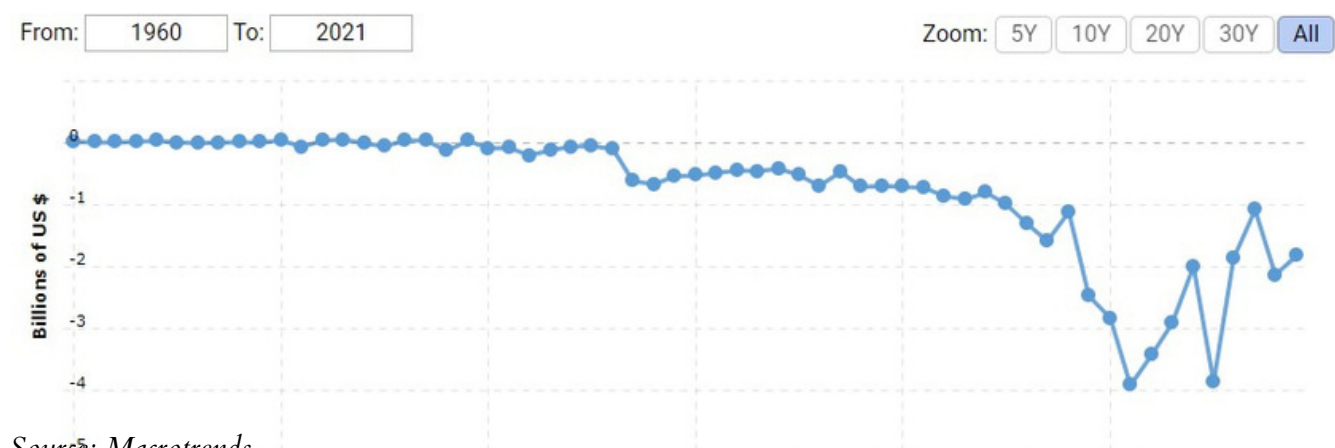
Secondly, the modernization/westernization trends that have swept through the world have not left Uganda unscathed. The heavy consumerist culture, which has a compounding effect on the level of demand, is taking over all the sectors of the modern world.

Significant portions of Uganda's national budget continue to be financed by grants and external debt (CEPA n.d.). Such cycles of debt lead to an ever-increasing debt burden and eventually debt stress. This debt will take generations of tax revenues to clear.

In addition to other reforms, transitioning to an export-based economy could contribute significantly to the breaking of Uganda's vicious debt cycle. Export earnings would greatly benefit Ugandan producers and traders and would boost Uganda's Government reserves through taxes and other direct proceeds.

The Government of Uganda has aggressively promoted value addition by putting in place favourable policies for foreign and local investment to create a conducive environment for local manufacturing (UIA n.d.). Value addition to raw materials would increase the country's earnings and provide much-needed employment opportunities to unemployed youth. With youth making up over 70% of Uganda's population (Population Pyramid 2015), the Government and civil societies should encourage and empower youth to engage more meaningfully in local production, value addition and trade, both locally and internationally.

Figure 2: Uganda's Trade Balance

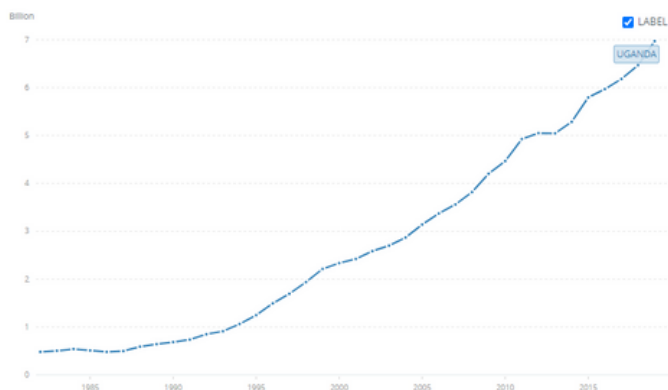


Source: Macrotrends

Statistics

Manufacturing Value Added of an economy is the total estimate of net-output of all resident manufacturing activity obtained by adding up outputs and subtracting intermediate consumption (UNIDO n.d.).

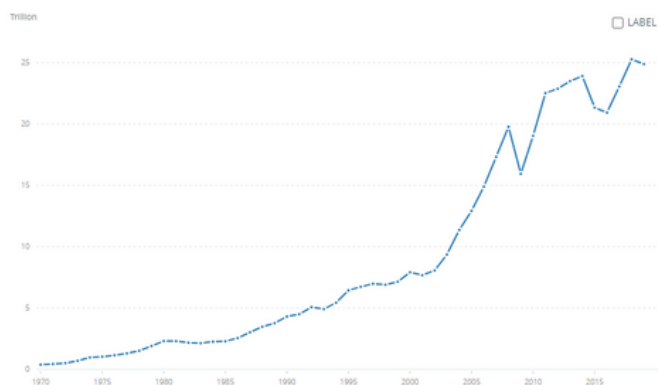
Figure 3: Uganda- Manufacturing, Value Added (Constant 2010 US\$)



Source: World Bank Data

Uganda's export volumes have grown steadily despite the structural failures and civil service decay Uganda suffered in Idi Amin's times (Obwona et al. n.d.). Museveni's regime restored a level of stability that has made local manufacturing possible. But because Idi Amin expelled all the Indians who had been the majority owners of industries in the 1950's and 60's, all the industries and factories that they left behind fell in disarray and many never got back on their feet. This way, Uganda lost the great industrial momentum it once had.

Figure 4: Uganda Exports of goods and services (current US\$)

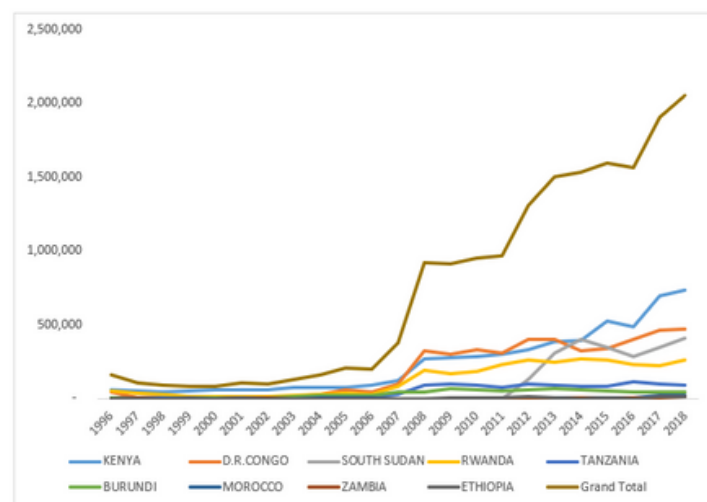


Source: World Bank Data

Figure 5 below shows Uganda's intra-Africa exports over the past 3 decades. Kenya has been a leading export destination of Ugandan goods over the past few years with the Democratic Republic of Congo following closely by. The AfCFTA will hopefully diversify Uganda's intra-continental market. And to have more to give, Uganda must position itself strategically to export what the neighbouring countries do not have much of. The quality of its exports must be better than that of its competitors if it is to develop its competitive edge in the market. Uganda may find itself at the receiving end of the majority of the intra-Africa trade exports from better established African countries, leaving Uganda's Balance of Trade even within Africa, negative.

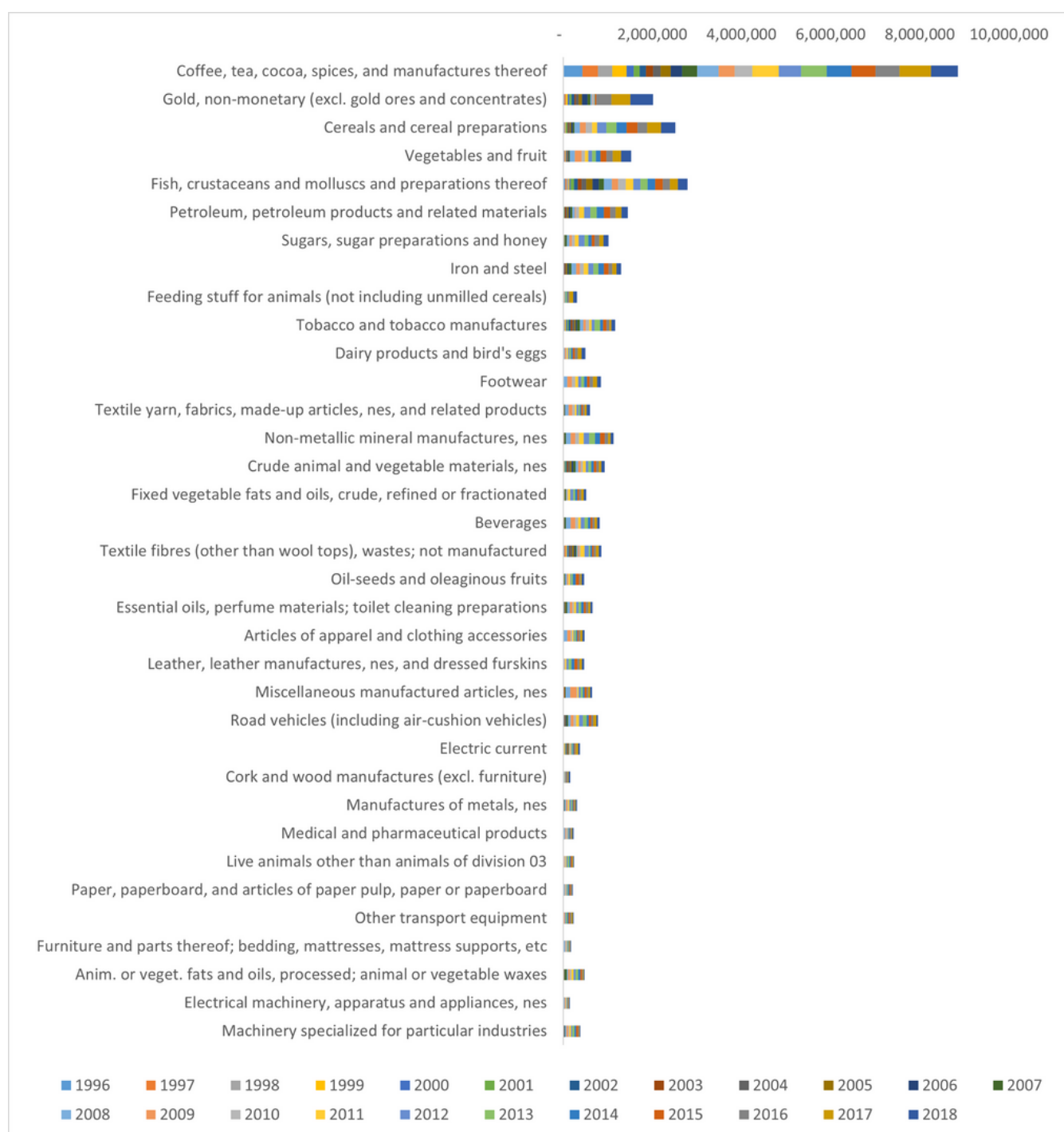
Over the recent years however, Uganda's earning from intra-continental exports have exceeded earnings from extra-continental exports (Dijkstra, n.d.), a standing that provides great hope for Uganda's future in the AfCFTA.

Figure 5: Leading Formal and Informal Exports by African Country of Destination in Thousand US Dollar, 1996-2018



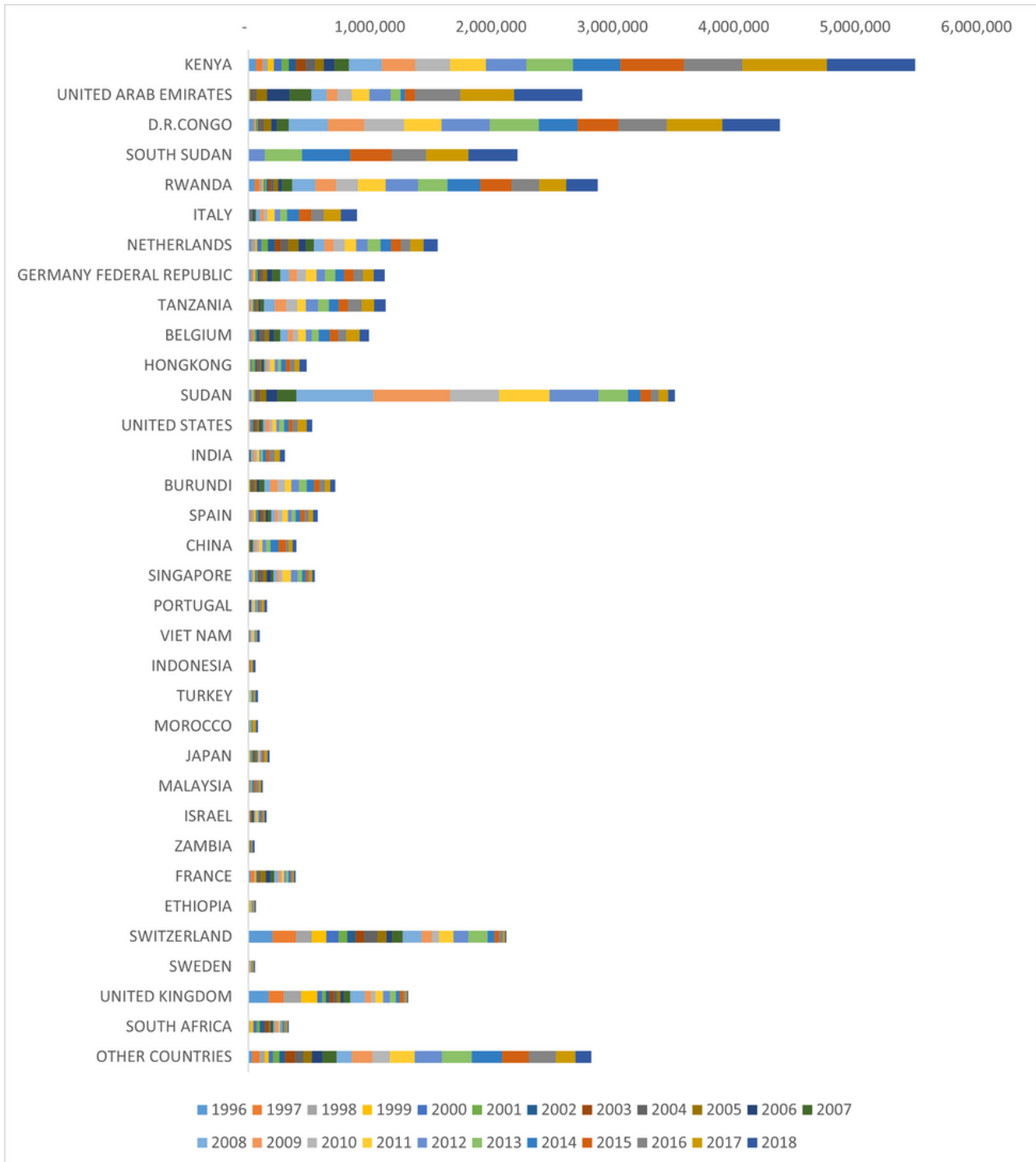
Source: UBOS Data

Figure 6: Leading Formal and Informal Exported Products in Thousand US Dollar, 1996–2018



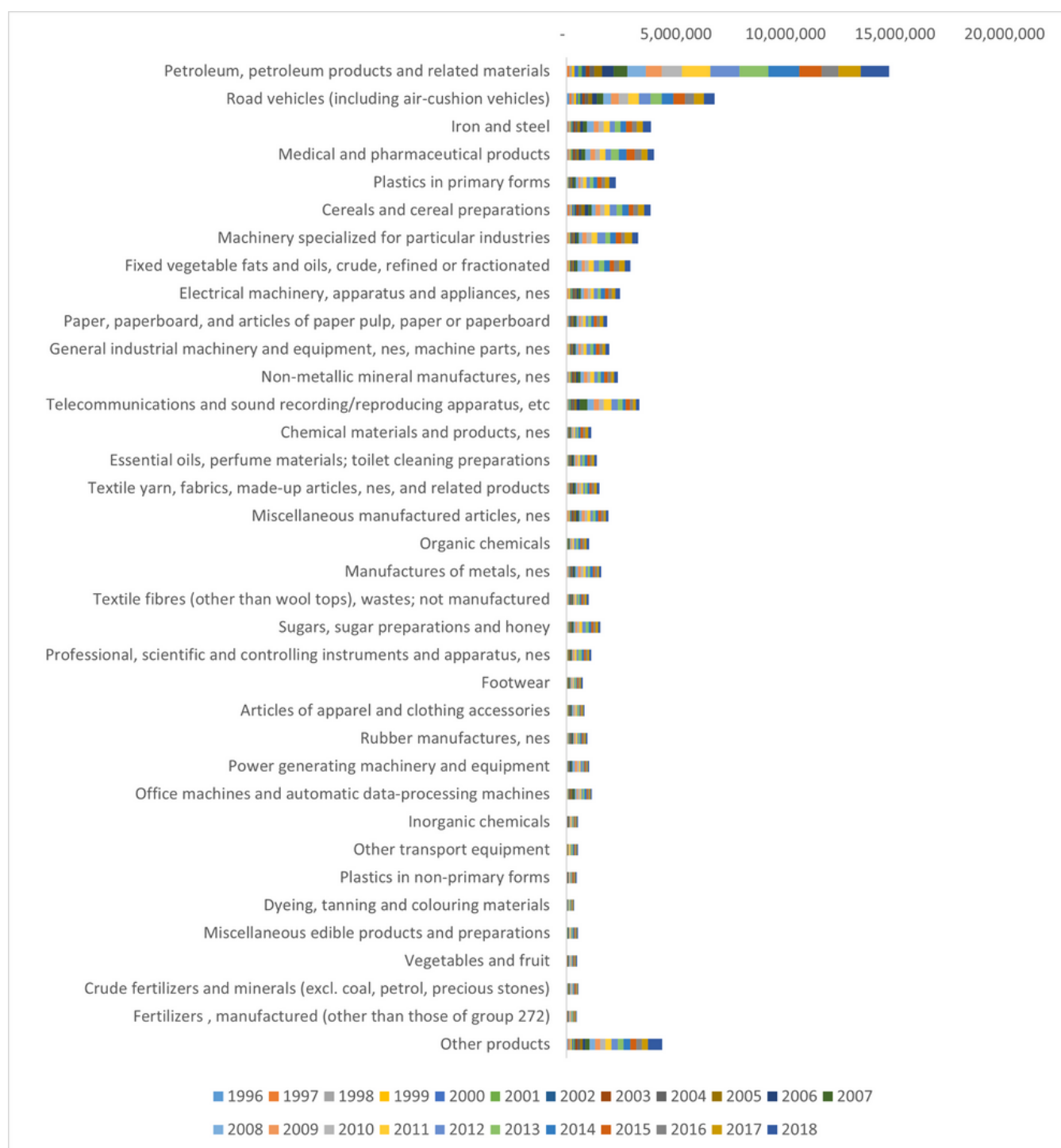
Source: UBOS Data

Figure 7: Leading Formal and Informal Exports by country of Destination in Thousand US Dollar, 1996–2018



Source: UBOS Data

Figure 8: Leading formal and Informal Imported products in Thousand US Dollars, 1996–2018



Source: UBOS Data

Policy recommendations

Digitizing Uganda's economy will facilitate more efficient use of financial instruments and travel logistics making trade easier. Embracing e-commerce will allow producers, retailers and consumers to connect more easily.

The Government of Uganda (GoU) must continue to *invest in infrastructural development*. Good roads, good facilities, and railway lines are some of the facilities that attract and promote foreign investment. Proper infrastructure also makes production and trade easier and more convenient.

Boost local value-addition enterprises: Continue encouraging local production and value-addition by providing them with capital at a low cost. Ugandans continue to suffer discouragingly high costs of borrowing (BOU n.d.). The GoU should intervene to protect local investors and local manufacturers from this high cost of capital acquisition.

In promoting the creation of high value-addition industries, Uganda would greatly boost its profit margins and earnings. The sale of products in their raw form only to import their products back again robs Uganda of billions of dollars in potential earnings every year. Agriculture and mineral products would bring great benefit if they went through value-addition chains before export.

Promote migration: Both immigration and emigration come with many advantages. Uganda should export labor to other African countries to reduce the heavy unemployment burden its youth suffer. Uganda has implemented open migration policies which have allowed foreigners to visit, work and settle in Uganda relatively easily. With the AfCFTA in place, Ugandans will find it even easier to move to other African countries.

Promote skilled labour: For Ugandans to fully benefit from the AfCFTA, education and continual skilling of its labour is vital. Skilled Ugandans are required to boost creativity, innovation, production and even self-employment.

Find and harness Uganda's comparative advantages: To enjoy high demand for high goods and services, Uganda must find, promote and exploit her comparative advantages in order to maximize benefits from Intra-African trade. Some known comparative advantages include:

- *Education services:* Over the past few decades, Uganda has hosted and educated millions of African students. Investors should be encouraged to build world class institutions.
- *Tourism services:* Uganda, rightly called the pearl of Africa, should continue boosting her tourism sector. Both local and international tourism have great potential to boost Uganda's economy.
- *Natural resources:* Uganda is abundantly rich in various minerals like oil, gold and iron ore and many others. These should be processed and sold in their final output forms to maximize profits from them while reducing imports of the same finished products that could be made on the Ugandan market. Fresh food produce are another form of resources that should be processed and sold in their final outputs, for example chocolate from cocoa would yield much higher benefits for Uganda. Shea cosmetics would also earn Uganda much higher benefits than if sold in their unprocessed form.

Overall, actively engaging in intra-continental trade would allow Africans to leverage their comparative advantages for economic benefit. This would multiply traders' earnings, lifting myriads out of poverty.

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