Barriers to Uganda's Trade within the Regional Trade Blocs of the EAC and COMESA

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Uganda is a member of two regional trade blocs: the East African Community's (EAC's) Customs Union, along with Kenya, Tanzania, Rwanda and Burundi; and the Common Market for Eastern and Southern Africa (COMESA), which has a total membership of 19 independent states, including Burundi, Comoros, Djibouti, Egypt, Eritrea, Ethiopia, the Democratic Republic of the Congo, Libya, Sudan, Uganda, Kenya, Malawi, Zambia, Mauritius, the Seychelles, Madagascar, Swaziland, Zimbabwe and Rwanda. The ratio of Uganda's trade flow to the COMESA has declined over the years, from 71.2 percent of the country's total exports to the world in 2003 to 37.6 percent in 2010. Likewise, the country's exports to the European Union dropped from 34 percent in 2002 to 22.6 percent by 2010, although this is narrower compared with the COMESA. Conversely, Uganda's exports to the EAC region grew by about 7.2 percent from 2001 to 2010. The drop in Uganda's trade flow to the COMESA could partly be attributed to the poor physical infrastructural network, which adds greatly to the costs of transporting goods.

Although there has been much progress in trade liberalization within the EAC and COMESA, a range of reforms still need to be addressed, especially nontrade measures hindering full exploitation of the trade potential within these blocs. A number of attempts have been made and are now underway to deal with some of the trade barriers within the blocs. However, many of the efforts require more resources and political will aimed at addressing issues of poor physical infrastructure to reduce the cost of transportation, as well as facilitating the free flow of trade within the region. Another challenge is the slow implementation of the member states' commitments to eliminate tariff and nontariff barriers. The current tariff barriers refer to category B products (i.e. products that are considered particularly sensitive to competition from other countries, including for example agricultural products and various manufactured goods), which were granted asymmetrical tariff liberalization among the EAC partner states, that is, Uganda and Tanzania on Kenyan products. The common nontariff barriers still prevailing within the two blocs include the major impediments of cumbersome customs documentation and clearance procedures, border controls, transportation and transit traffic regulations, visa requirements and corruption.

The primary barrier to Uganda's trade with its regional partners is the poor physical infrastructure development in terms of quality, maintenance and connectivity within the region. The railway and road networks linking Uganda to its regional partner states remain in poor condition. Their connectivity also remains limited to EAC and COMESA partners. For example, Uganda lacks railway connection to Tanzania, Burundi, Rwanda, the DRC, Sudan and Ethiopia. Likewise, Kenya lacks the same infrastructural linkages to Tanzania, Ethiopia and Sudan. These deficiencies have increased trade transaction costs and depressed trade opportunities within the region. For example, inland transportation and handling for Uganda costs $2,150 during exportation and importation (World Bank and International Finance Corporation 2011). Conversely, in Malawi it costs $1,000 for export-related inland

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transportation and handling ($1,900 for import-related) and only $900 for export and import inland transportation and handling in Lesotho, both of which are landlocked countries whose expenses are much lower than those of Uganda. However, other landlocked countries in East Africa suffer similarly, with costs in Rwanda and Burundi being $2,300 and $2,200 for export-related costs.

The second issue is the persistent interference with ground transportation, especially truck transportation, which is characterized by arduous customs and roadblock checks. For example, it takes four and five days, respectively, to secure export and import customs clearance and technical controls in Uganda (World Bank and International Finance Corporation 2011). In addition, there are about six truck scales from Mombasa to Malaba, including those in Mariakani, Narok (mobile), Gilgil (Static), Eldoret (mobile), Webuye (static) and Amagoro (mobile, but permanent). In Uganda, there are three truck scales between Malaba and Kampala located in Malaba (permanent) just before customs, Busitema (permanent) and Iganga (mobile).

Likewise, there are about 13 checkpoints in Kenya staffed by security agencies (mainly Kenyan police and administration police), which are located in Mombasa (town exit), Miritini, Mazeras, Voi, Konza, Athi River (before the truck scale), Mai-Mai, Mau escarpment, Mai-Mahiu, Gilgil, Salga, Timborwa and Kandui. Likewise, in Uganda, there are more than seven checkpoints, which include Malaba (Special Protection Revenue Unit, SPRU), Busitema (Uganda Revenue Authority, URA), Busitema (Police, 1 kilometer from URA checkpoint), Kitende (police), Lukaya (URA/SPRU), Kyazanga (police), Mbarara (URA) and Kabale (police). These holdups act as avenues for corruption, consequently undermining the efforts toward trade facilitation practices at border entry and exit points, roadblocks and truck scales (Uganda Freight Forwarders Association 2011).

The EAC and largely COMESA partner states are currently entwined in exporting substitutable products rather than complements. For example, all the EAC partner states export to each other, inter alia, plastics, dairy products, food stuffs, soap products, cement, paints and varnishes, and vegetable, fats and palm oil. This has generated unnecessary competition within the single market, which in turn has limited the gains from trade, especially for Uganda because it is landlocked and incurs more production costs for the transportation of some raw materials. Thus, Uganda needs to rapidly diversify its exports, especially in the services industry, in order to reap the gains of integration.

Uganda and its partners within the EAC, except for Rwanda, maintain work permit requirements even for citizens of other EAC and COMESA partner states. This restriction undermines the free movement of people within the region. Similarly, in terms of capital movement, Tanzania remains closed to foreign capital stock trading—among others, according to the EAC Protocol on the Movement of Capital, the purchase of foreign securities locally by nonresidents (however, this restriction will end December 31, 2014), the sale or issuing of debt securities locally by nonresidents (ending December 31, 2015), the sale or issuing of debt securities abroad by residents (the elimination date is December 31, 2012), the purchase and sale of money market instruments locally by nonresidents (ending December 31, 2015) and the purchase or sale of money market instruments abroad by residents (ending December 31, 2015).

Recommendations

Uganda first and foremost needs to address the stock and quality of its physical infrastructure affecting the efficiency of its producers and traders. This will require extensive investment in the road, railway and energy sectors. This could be done more effectively, especially for the energy sector through a public–private partnership framework, which seems to be the current alternative. However, this should be done in rationalized formulas, that is, with appropriate laws and policy strategies to guide the process. Likewise, with regard to the road and rail infrastructure, there is a need for a joint venture among the partner states to combine their resources to construct highways and rail networks that would connect regional markets. This could work through forming a trust infrastructure fund that could be developed through borrowing and putting the funds in one basket under the management of the EAC Secretariat, which is currently attempting to implement the ambitious and robust EAC Fourth Development Strategy (2011-16) geared toward the consolidation of the customs union, with emphasis on infrastructure development to facilitate trade in the region.

Uganda also strongly needs export diversification. Achieving successful and sustainable diversification will require a mix of public and private sector activism to address coordination failures and support the entry of firms into new activities. In an effort to minimize unnecessary competition of products within the region, the EAC Secretariat is drafting an industrial policy strategy to guide partner countries on the respective sectors of their relative comparative advantage. However, some of the semiautonomous agencies have encountered challenges vis-à-vis such initiatives—for example, the Uganda Investment Authority, which is charged with investment promotion and licensing, has been faced with high political influence over some of its activities, particularly in public land allocation, vetting investor potential, and monitoring and evaluating incentive structures. The successful implementation of the EAC industrial strategy therefore would require partner states to establish autonomous agencies in charge of investment in particular sectors, and thereafter the government could fault the shares in the market for private shareholding. For example, this could entail recreating agencies such as the Uganda Development Corporation, which was an autonomous body charged with overseeing preliminary investments in various sectors in the 1960s to 1980s.

Political will and commitment are central to the implementation of trade agreements. The prevailing nontariff barriers, such as arbitrary police roadblocks and unnecessary checks along highways and customs border posts, violate Article 13 of the EAC Customs Union Protocol. These barriers can be indefinitely removed or eliminated through political interventions. However, the staffs of the committees that are charged at national levels with monitoring the elimination of these barriers are made up of mere civil servants who do not have any political authority to ensure enforcement. Therefore, the political heads need to strengthen institutions with sufficient political authority to deal with such barriers to improve trade flow. For example, the Ministry of Trade and EAC Affairs in Uganda should be given a degree of political authority over the police in dealing with such barriers.

The free mobility of skilled labor is a prerequisite for open trade. Given that the implementation of the EAC Common Market took effect on July 1, 2010, there is a need to ease and adjust the respective partner migration policies toward skilled labor to facilitate the flow of labor and to address persistent skills shortages in specific fields. This would help foster regional trade and raise competitiveness. Thus, Uganda and its partner states need to follow the directions of Rwanda with regard to the elimination of work permits, in order to deepen the spirit of regional integration and harness the benefits of trade.

References

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