TRADE
MARK
EAST AFRICA
*Growing Prosperity Through Trade*

# The African Continental Free Trade Area:

## Impact Assessment for Uganda

www.uneca.org

www.trademarkea.com

# The African Continental Free Trade Area:

## Impact Assessment for Uganda

United Nations Economic Commission for Africa

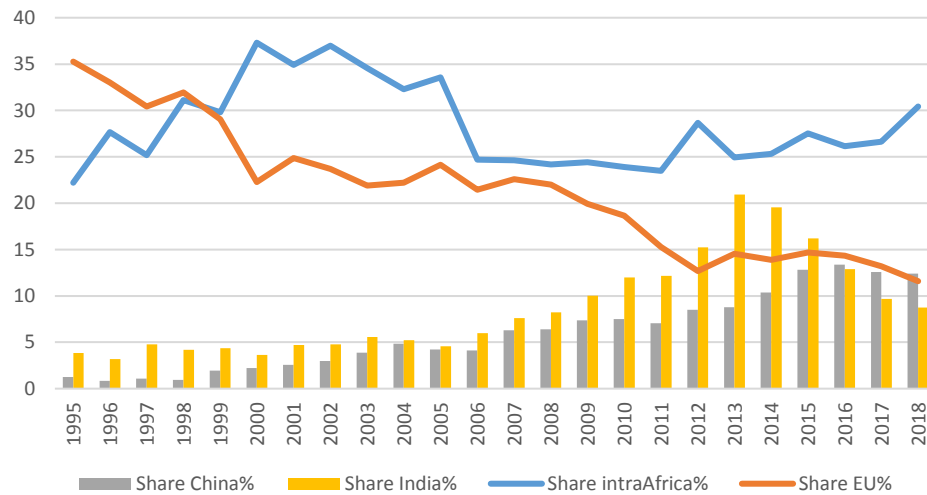Office for Eastern Africa 2019

# Contents

# Summary

In this study, we analyse the effects of the AfCFTA on Uganda using both the partial equilibrium and the computable general equilibrium models. While the results of the two models are different in terms of the magnitudes of effects both models were consistent in terms of the direction of the benefits of the AfCFTA. The policy conclusions can be summarised as follows:

❖ Once implemented, the AfCFTA will significantly boost welfare and intraregional exports in manufactured goods for Uganda.

❖ Services trade liberalisation will lead to even larger gains from the AfCFTA for Uganda.

❖ Informal trade is especially important in Uganda's case. The AfCFTA will create opportunities to introduce new measures for formalising a larger share of that trade.

❖ The AfCFTA strategy should coordinate the development of cross-border clusters in sectors like pharmaceuticals, textiles and agribusiness, which would boost the creation of regional value chains.

# 1. Why the AfCFTA is critical for Uganda

The African Continental Free Trade Area (AfCFTA) will increase Uganda's intra-African trade by reducing tariff and non-tariff barriers on trade with African countries. Africa as a regional market has already overtaken the European Union (EU) to become Uganda's most important trading partner (Figure 1), with trade shares increasing from around 22 percent in 1995 to more than 30 percent by 2018. In terms of export values, Uganda now exports over 50 percent of its total exports to Africa, a figure far higher than the shares of other East African countries, highlighting the importance of the AfCFTA to Uganda (Figure2).

**Figure 1: Uganda, Intra-African and Trade Partners' Trade Shares, 1995–2017**



*Source: COMTRADE 2019*

**Figure 2: Share of Uganda's trade flows with Africa, 2015-2017 average**



*Source: UNCTADStat (2018).*

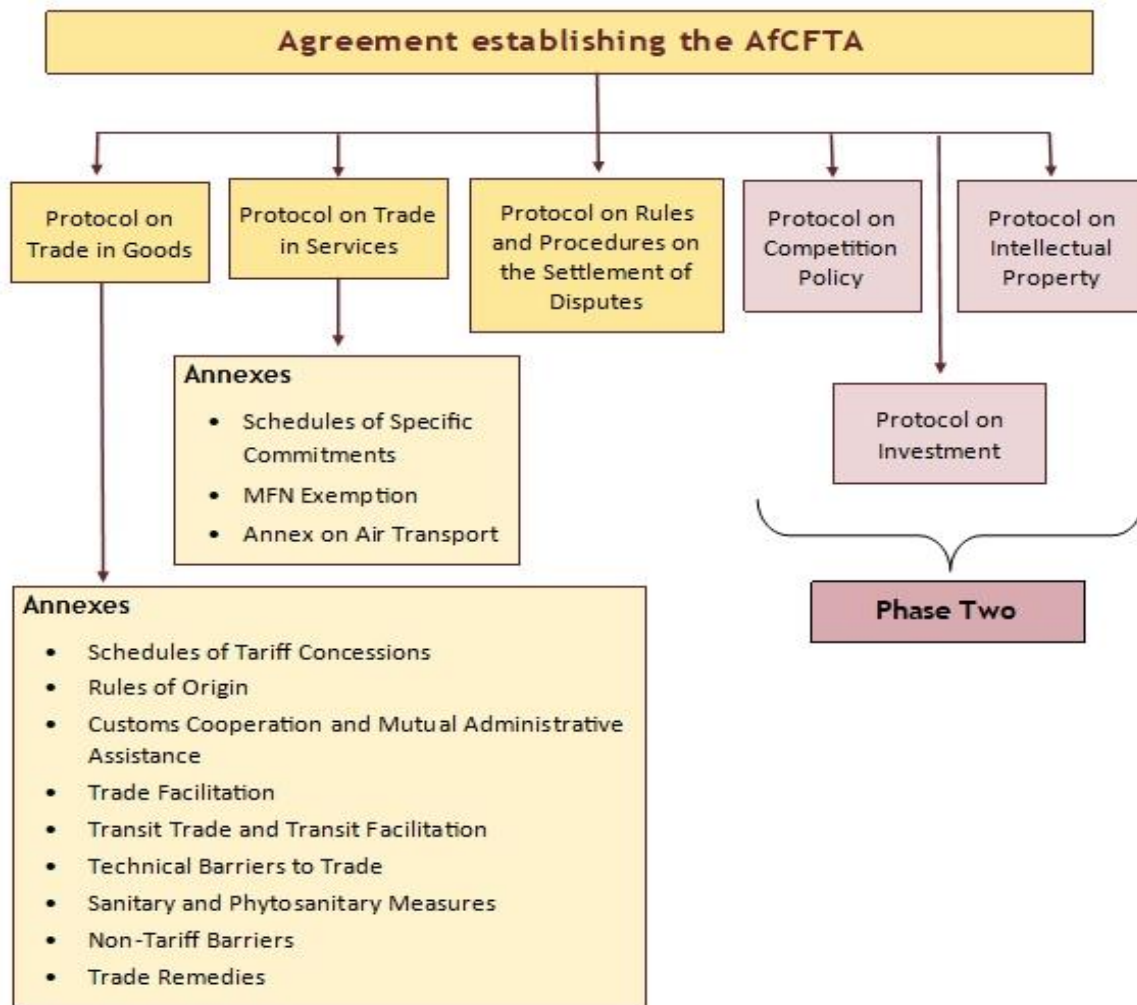Not only will the AfCFTA increase trade volumes with other African trading partners, but it will also enhance the prospects for export diversification by increasing the demand for manufactured goods exports. Although there has been some progress in recent years (ECA/UNDP, 2017), the country has generally performed poorly in terms of trade diversification, with exports concentrated in services and primary (mostly low value-added) goods, while the manufactured goods exports remain limited (Figure 3). Economists have long argued that the composition of exports matters for growth and those countries that export a higher share of manufactured products grow faster than countries that export a low share of manufactured products. (Fosu, 1990,1996, 2002, Imbs and Wacziargs 2003, Hausman et al., 2007), a relationship which appears particularly strong for African countries (Fosu, 1990, 1996 and 2002). Because intra-African trade is much more focused on manufactured and industrial goods than extra-African trade, the AfCFTA will promote industrialisation, an important goal for structural transformation and aligned with the objectives of the Ugandan national development plan.

**Figure 3:  Uganda's exports by shares (%), 2018**



*Source: Harvard University (2019)*

## 2.  What is the African Continental Free Trade Area?

The African Continental Free Trade Area (AfCFTA) will potentially cover the 55 Member States of the African Union, making it the world's largest free trade area (by number of participating countries) since the formation of the World Trade Organization in 1994. To date, 54 Member States have signed the agreement – something that represents a remarkable degree of consensus in a large, diverse continent. It is called a 'free trade' area, but its scope is wider than that of a traditional free trade area. The main objectives of the AfCFTA are to create a single continental market for goods and services, with free movement of business persons and investments, and lay the foundations for the establishment of a Continental Customs Union.  The operational phase of the African Continental Free Trade Area (AfCFTA) was launched, after a summit of Heads of State and Government of the African Union (AU) in Niamey, Niger on July 7, 2019.

**Figure 4: Structure of the AfCFTA**



*Source: TRALAC 2019*

According to Article 4 of the AfCFTA, for purposes of fulfilling and realising the objectives of the agreement, member states shall:

- Progressively eliminate tariffs and non-tariff barriers(NTBs) to trade in goods;
- Progressively liberalise trade in services;
- Cooperate on investment, intellectual property rights and competition policies;
- Cooperate on all trade-related areas between State Parties;
- Cooperate on customs matters and the implementation of trade facilitation measures;
- Design a mechanism for the settlement of disputes concerning their rights and obligations; and
- Establish and maintain an institutional framework for the implementation and administration of the Continental Free Trade Area.

The AfCFTA will promote industrial development through diversification and regional value chain development and resolve the challenges of multiple and overlapping memberships of Regional Economic Communities. In the particular case of Uganda, for instance, the country is a member of the Common Market for Eastern and Southern Africa (COMESA), the East African Community (EAC) and the Intergovernmental Authority on Development (IGAD).

How will the tariff concessions be negotiated? African Union Member States have agreed to remove 90 percent of their tariffs on goods over a period of between 5 and 15 years, depending on whether a country is classified as developing or least developed, with special and differentiated treatment for the group of seven countries (Table 1). The ten percent of goods classified as sensitive or excluded may be liberalized over longer time frames or exempted from any tariff reductions. The lists of excluded, sensitive and non-sensitive products will be determined country by country, except for the East African Community (EAC), the Economic Community of Central African States (ECCAS), the Economic Community of West African States (ECOWAS) and the Southern African Customs Union (SACU), for which common lists for all member States within each of the four regional groupings are established (ECA 2019a). As a customs union, it is essential that all 6 Member States of the East African Community take a common position on these matters – there is no option of a 'variable geometry' with respect to the AfCFTA without undermining the viability of the Customs Union. As a consequence, government authorities must work closely with the East African Community in adopting a common position with regard to the reduction of tariffs.

**Table 1: Schedule of liberalisation envisaged under the AfCFTA reform**

| | | Tariff reductions | | |
| --- | --- | --- | --- | --- |
| | | **For non-sensitive products** | **For sensitive products** | **For excluded products** |
| Country classification | **Developing Countries** | **fully liberalised over 5 years (linear cut)** | **fully liberalised over 10 years (linear cut)** | **no cut** |
| | **Least Developed Countries** | **fully liberalised over 10 years (linear cut)** | **fully liberalised over 13 years (linear cut)** | **no cut** |
| | **Group of six** *(i.e. Ethiopia, Madagascar, Malawi, Sudan, Zambia, Zimbabwe)* | **85% fully liberalised over 10 years (linear cut); an additional 5% fully liberalised over 15 years (linear cut)** | **fully liberalised over 13 years (linear cut)** | **no cut** |

*Source: ECA, 2019    Note: After consultations, Ethiopia, Madagascar, Zambia and Zimbabwe agreed to the level of liberalization of 90% to be implemented over 15 years (AU, 2019c:4)*

The agreement establishing the AfCFTA entered into force on 30 May 2019 for the 24 countries that had deposited their instruments of ratification.[1] While the AfCFTA has been ratified, critical features of the agreement (the Schedules of Tariff Concessions, the Rules of Origin, and the Schedules of Specific Commitments on Trade in Services) are still outstanding. Without these elements, there cannot be any trade under the AfCFTA. This implies that trade will continue under the MFN rules of the WTO or as provided for by specific Regional Economic Community (REC) arrangements. Article 19 of the AfCFTA Agreement states explicitly that the RECs will co-exist under the AfCFTA. Trade under AfCFTA rules will become possible only once the agreement is ratified and outstanding negotiations concluded. Only those countries which have ratified the AfCFTA (or have subsequently acceded) will be bound by the new rules and will enjoy the benefits related to enhanced market access in goods and services. Additionally, countries must also adopt domestic arrangements to ensure that there will be compliance with the commitments undertaken in terms of the AfCFTA Protocols (Gerhard,2019).

---

[1] The 24 countries that have deposited their instruments of ratification are Ghana, Kenya, Rwanda, Niger, Chad, Congo Republic, Djibouti, Guinea, eSwatini (former Swaziland), Mali, Mauritania, Namibia, South Africa, Uganda, Ivory Coast (Côte d'Ivoire), Senegal, Togo, Egypt, Ethiopia, The Gambia, Sierra Leone, Saharawi Republic, Zimbabwe, and Burkina Faso (TRALAC 2019).

# 3. What will be the effects of the AfCFTA on Uganda?

In this study, we use both the Partial Equilibrium (PE) models and Computable General Equilibrium (CGE) models to analyse the static impact of the AfCFTA on Uganda (See ECA 2019). The PE models give the magnitude of the direct effects of the trade policy change without taking into account the sectoral market interactions (feedback effects) whereas the CGE models take into account the second-round effects, such as inter-industry effects and some macroeconomic adjustments. The CGE models, however, rely on a relatively large number of assumptions compared to the PE models which depend on simpler and more transparent assumptions[2] – PE results are largely driven by the data that they are based on and only a relatively limited number of equations are considered in the simulations (ECA et al., 2019b). More importantly, data requirements for PE are less demanding than for the CGE, and the PE can provide results at a highly disaggregated level (HS-6-digit product level). Arguably, a combination of both models provides a more comprehensive answer to assessing the impact of trade liberalization (ECA/UNDP, 2017). In addition, it should be observed that the estimates so derived should only be used to give a sense of the order of magnitude that a change in policy can mean for economic welfare or trade (Piermartini and Teh, 2005).

## 3.1    Analysis of the AfCFTA using a Partial Equilibrium model

Our partial equilibrium simulations are based on the WITS-SMART model, and the model measures the changes in trade, trade creation effect, and the trade diversion effect. Data on trade flows and tariffs used in the model is extracted from the COMTRADE and UNCTAD TRAINS database with the underlying data referring to a 2014 base year. The elasticities incorporated in our simulation are the import demand elasticity, Armington substitution elasticity, and infinite export supply elasticity (price taker assumption)[3].

### Export gains will be most significant in the manufacturing sector

The results suggest that Eastern Africa as a block[4] could gain around USD 737 million from the increase in the intra-African exports when compared to the exports of the base year (Table 2). In terms of absolute value, Uganda would be the largest beneficiary of the AfCFTA in Eastern Africa, with exports to the rest of Africa increasing by USD 199 million.

**Table 2: Change in Value of Intra-African Exports, Post-AfCFTA**

| | Absolute amount (US$ '000) | Compared to the base year |
|---|---|---|
| Eastern Africa | **736,501** | **13%** |
| Uganda | 198,546 | 21% |
| Kenya | 188,227 | 10% |
| Tanzania | 171,780 | 17% |
| Madagascar | 93,186 | 47% |

---

[2] Key assumptions in the GTAP model include the choice of perfect competition (or imperfect competition) , the size of the trade (Armington) elasticities and the choice of model closure(selection of which variables in the model are to be exogenous).

[3] The 'price-taker' assumption is usually realistic in the case of small countries which export onto global markets, and where their own production costs are unlikely to impact on prices in that particular sector.

[4] Eastern Africa is defined using the ECA definition, i.e. including Burundi, Comoros, Democratic Republic of Congo, Djibouti, Ethiopia, Eritrea, Kenya, Madagascar, Rwanda, Seychelles, Somalia, South Sudan, Tanzania and Uganda.

| | Absolute amount (US$ '000) | Compared to the base year |
|---|---|---|
| Rwanda | 56,010 | 22% |
| Ethiopia | 10,718 | 10% |
| D.R. Congo | 9,843 | 1% |
| Seychelles | 3,963 | 7% |
| Somalia | 2,988 | 31% |
| Djibouti | 716 | 5% |
| South Sudan | 401 | 8% |
| Eritrea | 55 | 1% |
| Burundi | 39 | 0.4% |
| Comoros | 28 | 1% |

*Source: Calculations based on WITS/SMART partial equilibrium model. Note: Since the WITS-SMART simulations focus on one importing market and its exporting partners in assessing the impact of a tariff change, the estimates for Uganda, Kenya, and Ethiopia may be underestimated as they do not take into account exports from these countries to South Sudan and Somalia.*

Encouragingly, for the region, the increase in intra-African trade will be most pronounced in the manufacturing sector, which accounts for almost 40 percent (US$ 235 million) of the total increase in the intra-African exports, followed by the agricultural sector at 28 percent (US$ 176 million). Similarly, for Uganda, the biggest boost to intraregional trade will be in the manufacturing and agricultural sectors (Table 3)

**Table 3: Changes in Uganda's Exports by product, Post-AfCFTA**

| Product Code(HS) | Product Description | Change in value of Exports (USD '000) | % change |
|---|---|---|---|
| 721041 | Iron or non-alloy steel; flat-rolled, width 600mm or more, corrugated, plated or coated with zinc | 110,681 | 445% |
| 100640 | Cereals; rice, broken | 14,393 | 108% |
| 110100 | Wheat or meslin flour | 7,646 | 172% |
| 170191 | Sugars; sucrose, chemically pure, in solid form, containing added flavouring or colouring matter | 6,747 | 814% |
| 90111 | Coffee; not roasted or decaffeinated | 5,525 | 18% |
| 721420 | Iron or non-alloy steel; bars and rods, hot-rolled, hot-drawn or hot-extruded, containing indentations, ribs, grooves or other deformations produced during the rolling process or twisted after rolling | 5,217 | 27% |
| 151190 | Vegetable oils; palm oil and its fractions, other than crude, whether or not refined, but not chemically modified | 3,739 | 20% |
| 870323 | Vehicles; spark-ignition internal combustion reciprocating piston engine, cylinder capacity exceeding 1500cc but not exceeding 3000cc | 2,264 | 28% |

| Product Code(HS) | Product Description | Change in value of Exports (USD '000) | % change |
|---|---|---|---|
| **340119** | Soap and organic surface-active products; in the form of bars, cakes, moulded shapes, and paper, wadding, felt and nonwovens, impregnated, coated or covered with soap or detergent, not for toilet use | 1,993 | 16% |
| **170199** | Sugars; sucrose, chemically pure, in solid form, not containing added flavouring or colouring matter | 1,872 | 10% |

*Source: Calculations based on the WITS/SMART partial equilibrium model*

It is also informative to assess the direction of the additional exports from the region after the liberalization of the tariffs on trade in goods. More than 90 percent of the increase in exports from Uganda will be to D.R. Congo, reflecting the size of the market, proximity and the common border. Because of data limitations, unfortunately, the model does not account for exports from Uganda to South Sudan. South Sudan is the second most important destination for Ugandan exports in Africa, in 2017 Uganda exported USD 277 million (9.5 percent) worth of goods to South Sudan.

**Table 4: Changes in Uganda's exports by destination**

| | Value (US$, 1000) | Share of total exports (%) |
|---|---|---|
| Congo, DR | 192,282 | 96.8 |
| Tunisia | 5,313 | 2.7 |
| Algeria | 790 | 0.4 |
| Nigeria | 247 | 0.1 |
| Ethiopia | 101 | 0.1 |
| Tanzania | (22) | 0.0 |
| Morocco | (25) | 0.0 |
| Burundi | (27) | 0.0 |
| Rwanda | (628) | -0.3 |

*Source: Calculations based on the WITS/SMART partial equilibrium model*

## The increase in Uganda's imports will be smaller than the increase in exports

Our results also show that imports from other African countries to Eastern Africa will increase as a result of the implementation of the AfCFTA driven by the lower tariffs. The simulation estimates suggest that Eastern Africa intra-African imports could increase by around 16 percent when compared to the imports of the base year (see Table below). Likewise, Uganda's imports from the rest of Africa would increase by 3 percent. Contrasting Uganda's change in imports to the change in exports shows that for every unit increase in intraregional imports, intraregional exports would increase six times more, contributing modestly to an improved Ugandan trade balance.

**Table 5: Change in Intra-African imports, Post-AfCFTA**

| | Absolute amount (US$ '000) | Compared to the base year |
|---|---|---|
| Eastern Africa | 1,490,406 | 16% |
| D.R. Congo | 1,079,372 | 32% |
| Ethiopia | 166,680 | 21% |
| Madagascar | 77,119 | 25% |
| Kenya | 68,159 | 5% |
| Uganda | **31,318** | **3%** |
| Djibouti | 18,144 | 35% |
| Rwanda | 16,361 | 2% |
| Tanzania | 14,053 | 1% |
| Eritrea | 8,947 | 6% |
| Comoros | 4,302 | 8% |
| Seychelles | 3,065 | 3% |
| Burundi | 2,885 | 2% |

*Source: Calculations based on the WITS/SMART partial equilibrium model*

## The AfCFTA will lead to trade creation

Will the AfCFTA lead to trade creation or trade diversion?  Trade creation within the AfCFTA's arrangements reflects the displacement, due to the tariff reduction, of inefficient (high cost) producers with more efficient suppliers of the same goods within the newly formed continental market, while trade diversion reflects the displacement of the relatively efficient (low cost) producers outside the regional block, with more inefficient ones within. The net balance between these two effects is an empirical question  - some regional integration projects have been found to be net trade creating, and others net trade destruction[5]. The results from the PE model show that trade creation will occur in all countries in Eastern Africa and the trade creation effect of the AfCFTA will exceed the trade diversion effect, leading to a net trade effect of US$ 1 billion for the region (see Table below). Similarly, for Uganda, the trade creation effect of the AfCFTA will exceed the trade diversion effect, leading to a net trade effect of US$ 6 million (Table 6).

---

[5] [5] See Laird and Yeats (1986) for the technical derivation of the trade creation and trade diversion formula.

**Table 6: Trade Creation and Diversion (USD millions)**

| | Trade Creation | Trade Diversion | Net Effect |
|---|---|---|---|
| Eastern Africa | **1,253** | **219** | **1,034** |
| D.R. Congo | 986 | 93 | 893 |
| Ethiopia | 114 | 53 | 61 |
| Madagascar | 57 | 20 | 37 |
| Kenya | 40 | 28 | 12 |
| **Uganda** | **19** | **13** | **6** |
| Djibouti | 14 | 4 | 10 |
| Tanzania | 11 | 3 | 8 |
| Rwanda | 7 | 4 | 3 |
| Burundi | 2 | 1 | 1 |
| Eritrea | 2 | 0.5 | 1.5 |
| Comoros | 1 | 0.5 | 1.5 |
| Seychelles | 0.33 | 1 | -0.67 |

*Source: Calculations based on WITS/SMART partial equilibrium simulations.*

## 3.2 Analysis of the AfCFTA using a General Equilibrium model

As previously stated, in addition to the partial equilibrium model, we analysed the effect of the AfCFTA using a computable general equilibrium (CGE) model, the Global Trade Analysis Project (GTAP) model. This model describes global bilateral trade patterns, production, consumption, and intermediate use of commodities and services, with the underlying data referring to a 2014 baseline. The model is run using a regional aggregation which includes the standard regions included within the GTAP model, with disaggregation of the individual countries/region in Africa. The sectoral aggregation covers 65 sectors. We studied the impact of implementing the AfCFTA on Eastern Africa and Uganda by simulating the removal of the existing tariffs on all intra-African trade (100 percent liberalisation)[6].

## The AfCFTA will result in large welfare gains

The GTAP CGE model results reveal a net welfare gain of USD 1.8 billion for the Eastern Africa region through the reduction of tariffs (Table below). Similarly, Uganda would receive a net welfare gain of USD 280 million. Driving these results are marked improvements in both the endowment effect (changes in the quantities of labour and capital) and the allocative efficiency (due to the reduction of tariffs).

---

[6] Full liberalisation scenarios are often used in this kind of modelling work when the exact outcome of tariff schedule negotiations are not known.

**Table 7: Welfare (Equivalent Variation) effect of the AfCFTA (US$ Millions)**

| | Allocative Efficiency | Endowment Effect | Terms of Trade Effect | Investment Savings | Total |
|---|---|---|---|---|---|
| **Ethiopia** | 60.6 | 272.1 | -10 | -17.1 | 305.6 |
| **Kenya** | -7.3 | 192.4 | -28.2 | -28.3 | 128.6 |
| **Madagascar** | 1 | 6.3 | -0.3 | 0 | 6.9 |
| **Rwanda** | 19.3 | 52.2 | 2.2 | 0.7 | 74.4 |
| **Tanzania** | 250.7 | 622.6 | 10.5 | -4.1 | 879.8 |
| **Uganda** | 15.4 | 256.7 | 7.7 | -0.1 | 279.7 |
| **Rest of Eastern Africa** | 32.5 | 131.8 | -11.4 | 6.3 | 159.1 |
| **Total** | 372.2 | 1534.1 | -29.5 | -42.6 | 1834.1 |

*Source: Calculations based on GTAP simulations.*

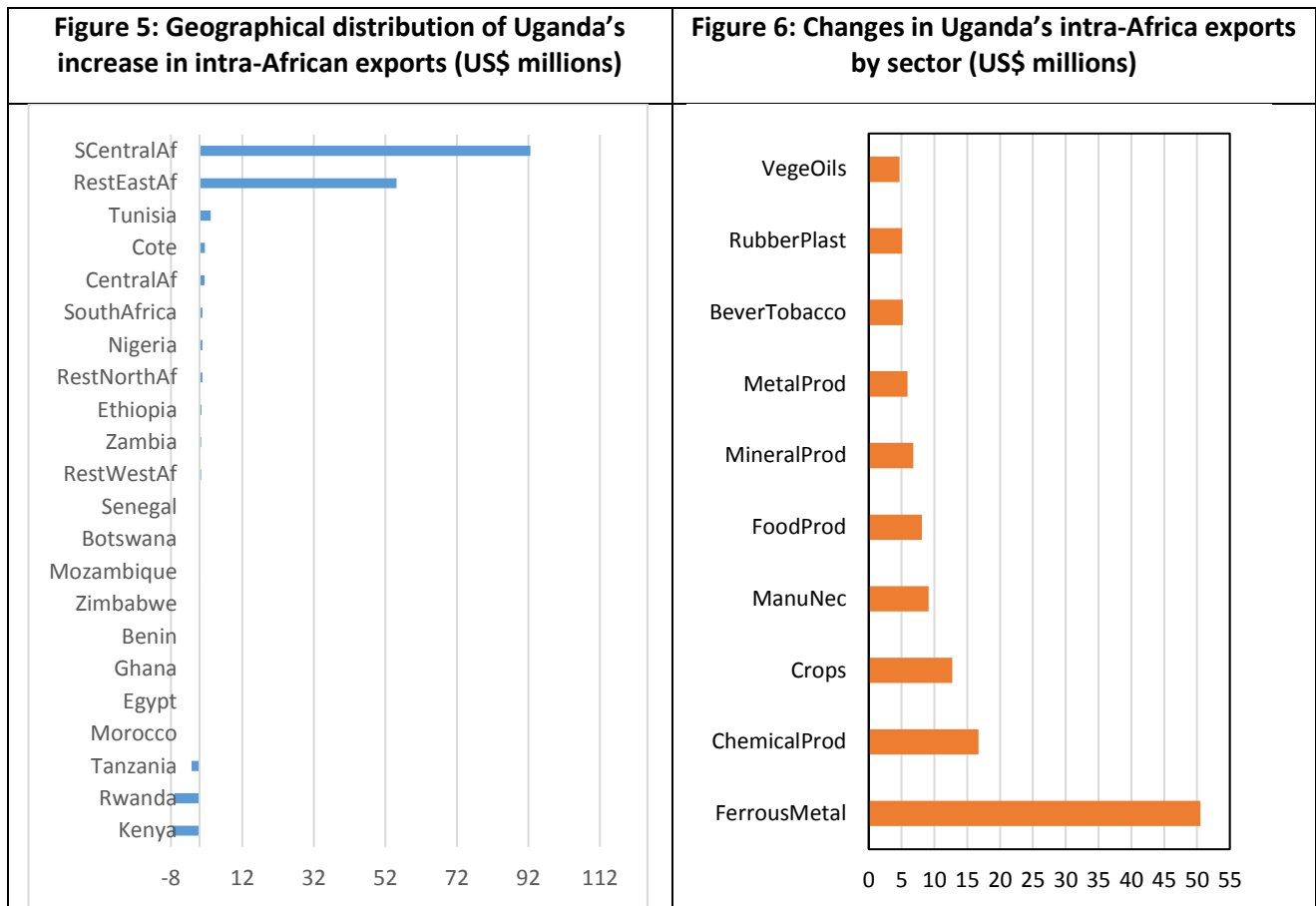## Export gains will be most significant in the manufacturing sector

Regarding changes in exports, our simulation work suggests that the AfCFTA could boost Uganda's exports to Africa by US$ 141 million (Table 8), mainly to South Central Africa (a region which comprises of DRC and Angola in the GTAP database)[7] and the Rest of East Africa. In a boost to the manufacturing sector, ferrous metals, and chemical products, register the highest export gains (Figure 5).

**Table 8: Change in Intra-African Exports for Select Eastern Africa Countries, Post-AfCFTA**

| | Absolute amount (USD millions) | Compared to the base year |
|---|---|---|
| Tanzania | 323 | 23% |
| Uganda | 141 | 14% |
| Kenya | 140 | 7% |
| Ethiopia | 113 | 10% |
| Rwanda | 37 | 17% |

*Source:  Calculations based on GTAP simulations*

---

[7] The GTAP database does not have individual country data for DRC. But we can assume that, in line with the PE analysis, the vast bulk of the increased intra-African exports will be going to DRC, and not Angola.

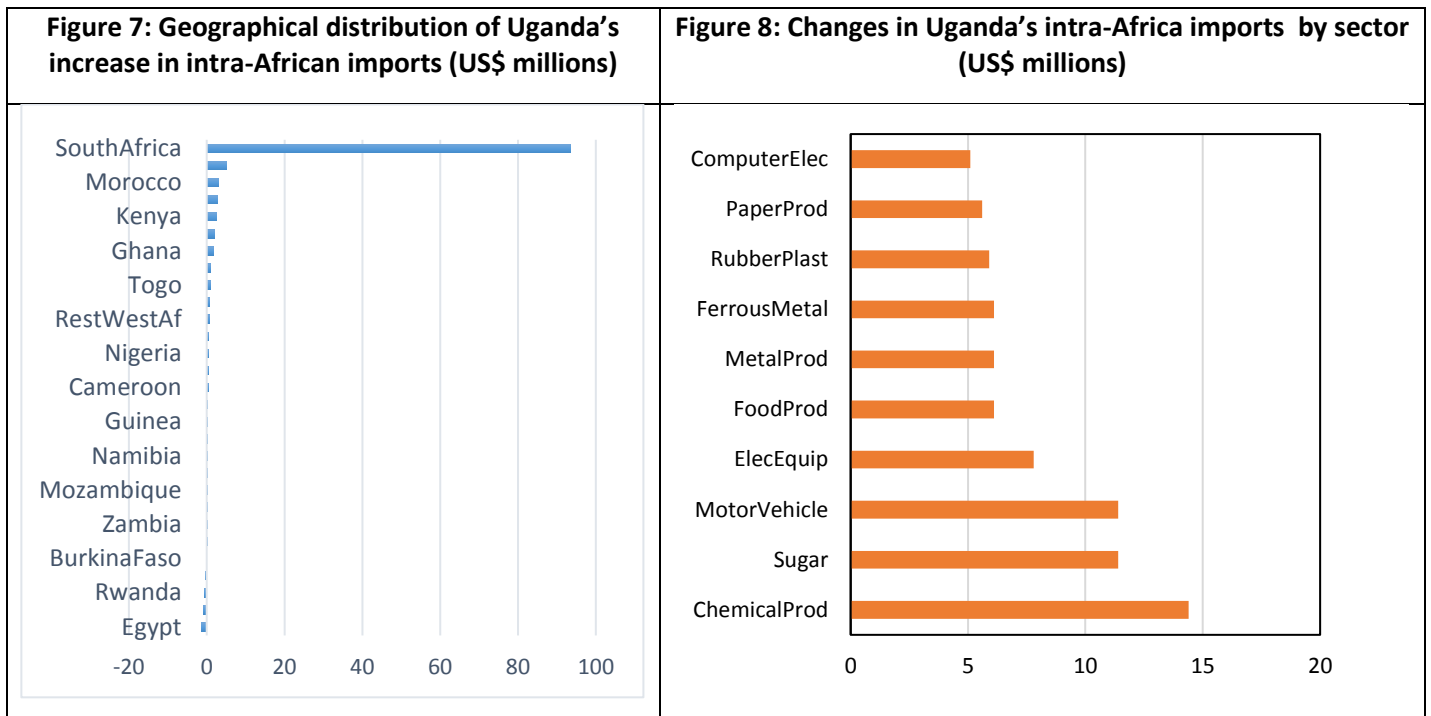| Figure 5: Geographical distribution of Uganda's increase in intra-African exports (US$ millions) | Figure 6: Changes in Uganda's intra-Africa exports by sector (US$ millions) |
|---|---|
|  |  |

*Source: Calculations based on GTAP simulations*

## Imports from South Africa will increase significantly

The simulation estimates indicate that the AfCFTA would increase Uganda's intra-African imports by US$ 114 million (Table 9) and these imports will be mainly from South Africa (Figure below), and this is partly because until the Tripartite Free Trade Agreement is implemented, Uganda does not have any preferential trading arrangement with South Africa.

**Table 9: Change in Intra-African Imports**

| | Absolute amount (US$, millions) | Compared to the base year |
|---|---|---|
| Tanzania | 663 | 41% |
| Ethiopia | 515 | 68% |
| Kenya | 422 | 16% |
| **Uganda** | **114** | **11%** |
| Rwanda | 57 | 10% |

*Source: Calculations based on GTAP simulations*

| Figure 7: Geographical distribution of Uganda's increase in intra-African imports (US$ millions) | Figure 8: Changes in Uganda's intra-Africa imports by sector (US$ millions) |
|---|---|
|  |  |

*Source: Calculations based on GTAP simulations*

## The revenue effect is likely to be minimal

Regarding the concerns about tariff revenue losses due to the AfCFTA, our preliminarily estimates suggest that the tariff losses would be modest. Uganda's revenue losses are estimated at 0.6 percent of total government revenues (Table 10). Moreover, the tariff revenue losses in the short-run should not be understood as absolute losses but as redistribution of income from the government to consumers and producers (i.e., lower taxes paid by domestic consumers and exporters). The loss of revenues may be construed as a small price to pay for the wider economic benefits accruing from the implementation of the AfCFTA, and indeed it is not unrealistic to project in the medium- to long-term increased tax and revenue income from the higher levels of economic activity due to the AfCFTA.

**Table 10: Summary Results of Tariff Revenue Losses**

|  | Tariff revenue loss (US$ million) | As a share of total tariff revenue | As a share of total government revenue |
|---|---|---|---|
| **Uganda** | **23** | **8.40%** | **0.6%** |
| **Ethiopia** | 61 | 6.10% | 0.70% |
| **Kenya** | 67 | 3.20% | 0.60% |
| **Madagascar** | 2 | 0.70% | 0.10% |
| **Rwanda** | 6 | 4.00% | 0.30% |
| **Tanzania** | 91 | 6.20% | 1.30% |

*Source: Calculations based on the GTAP 10.0 database.*

# 4. Conclusions

In this study, we analysed the effects of the AfCFTA on Uganda using both the partial equilibrium and the CGE models. While the results of the two models may have been different in terms of the magnitudes of effects (because of the different assumptions involved), both models were consistent in terms of the direction of the effects and the results can be summarised as follows:

1. **The AfCFTA will boost welfare and intraregional trade in manufactured goods**
   Based on the results of both the partial equilibrium and CGE models, the AfCFTA will boost Uganda's welfare and intra-African trade and most importantly the AfCFTA will boost Uganda's manufacturing sector, an important goal for structural transformation and in line the objectives of Uganda's National development plan.

2. **Benefits from services trade liberalisation will lead to even larger benefits from the AfCFTA**

   Because of the lack of both bilateral service trade data and tariffs, we do not estimate the impact of the AfCFTA on services trade. However, the literature has shown that the services sectors are a major beneficiary of deeper regional integration.[8] Services already make up a large portion of the total Ugandan exports - 35 percent (USD 1.6 billion) of exports. Under AfCFTA service sector liberalisation, that share could rise and make a significant contribution to addressing the trade deficit.

3. **Address the non-tariff barriers and increase the threshold amount on which the simplified trade regime is applied**

   To maximise the potential benefits from the AfCFTA, non-tariff barriers(NTBs) must be addressed for both formal and informal traders. While we do not include estimates of NTBs in our estimation, other studies have shown increased benefits accruing from the AfCFTA due to the removal of NTBs (see Mevel and Karingi , 2013; Vanzetti, Peters and Knebel, 2018 ). And secondly, in Uganda, informal cross border exports are a significant portion of exports making up about 15 percent (USD 552 million) of total exports. Trade facilitation measures can support AfCFTA trade opportunities through investment in infrastructure (soft and hard), harmonizing standards and the introduction of a simplified trade regime, to help small and informal traders (mainly women) gain from the AfCFTA. Additionally, Uganda can increase the threshold amount on which the simplified trade regime is applied and reducing the associated requirements to help small traders. Under the EAC Customs Union, the simplified trade regime is a special provision aimed specifically at small traders, transacting goods valued at less than US\$ 2,000 exempting them from import duty. Under the AfCFTA this threshold value can be increased to encourage trading among small traders.

4. **Champion the creation of large regional companies that can take advantage of the AfCFTA**

   Uganda needs to become a champion of the AfCFTA because it would be one of the biggest beneficiaries of the AfCFTA in Eastern Africa. Uganda should advocate for a regional AfCFTA strategy led by the private sector. The regional AfCFTA strategy should champion the regional business environment, in order to create more productive and competitive large regional companies that can take advantage of the opportunities of a unified continental market. Additionally, the regional AfCFTA strategy should coordinate the development of cross-border clusters in sectors like pharmaceuticals, textiles and agribusiness, which would boost the creation of regional value chains.

---

[8] For example, a study by Mayer et al. (2018) studied the impact of the European single market over the period from 1950 and 2012, and found that the single market increased services trade by 58 percent.

# References

ECA/UNDP (2017). *An ABC of Industrialization in Uganda: Achievements, Bottlenecks and Challenges*, Regional Office for Eastern Africa, Kigali https://www.uneca.org/publications/abc-industrialisation-uganda-achievements-bottlenecks-and-challenges

ECA (2019a). *An empirical assessment of AfCFTA modalities on goods,* mimeo, UNECA, Addis Ababa.

ECA (2019b forthcoming). *Making the case for the African Continental Free Trade Area -An assessment for Eastern Africa,* UNECA, Addis Ababa.

Fosu, A.K.(1990). *Exports and economic growth: the African case.* World Development, 18(6), pp.831-835.

_____.(1996).*Primary exports and economic growth in developing countries.* World Economy, 19(4), pp.465-475.

_____.(2001).*The global setting and African economic growth.* Journal of African Economies, 10(3), pp.282-310.

Gerhard Erasmus.(2019).*When will Trade under AfCFTA Preferences become a Reality?.* Trade Law Centre.Available at: https://www.tralac.org/documents/events/tralac/2741-tralac-brief-when-will-trade-under-afcfta-preferences-become-a-reality-march-2019.html

Harvard University (2019). Atlas of economic complexity. Centre for International Development, Harvard

Hausmann, R., Hwang, J. and Rodrik, D.(2007).*What you export matters.* Journal of economic growth, 12(1), pp.1-25.

Imbs, J. and Wacziarg, R.(2003). *Stages of diversification.* American Economic Review, 93(1), pp.63-86.

Mayer, T., Vicard, V. and Zignago, S.(2018) "*The cost of non-Europe*, revisited", *Economic Policy*, May, https://doi.org/10.1093/epolic/eiz002

Piermartini, R., & Teh, R. (2005). *Demystifying modelling methods for trade policy*, WTO Discussion Paper No. 10, Geneva

Mevel, S. and Karingi, S. (2013). 8.*Towards a Continental Free Trade Area in Africa: a CGE Modelling Assessment with a focus on agriculture - Shared harvests: agriculture, trade, and Employment*, p.281. Geneva. Available at: https://unctad.org/en/publicationslibrary/ditctncd2013d2_en.pdf#page=289

UNCTADStat (2018). United Nations Conference on Trade and Development (UNCTAD). Available at: http://unctadstat.unctad.org/EN/

Vanzetti D., Peters R. and Knebel C.,(2018) *Non-tariff measures: lifting CFTA and ACP trade to the next level.*UNCTAD.Geneva. Available at: https://unctad.org/en/PublicationsLibrary/ser-rp-2017d14_en.pdf