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CRITICAL ANALYSIS OF THE STUDY OF THE IMPACT AND SUSTAINABILITY OF ECONOMIC PARTNERSHIP AGREEMENT FOR THE ECONOMY OF UGANDA

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Contents

Abbreviations:

ACP	Africa Caribbean and Pacific
CA	Cotonou Agreement
CIF	Cost Freight and Insurance
COMESA	Common Market for East and Southern Africa
CSO	Civil Society Organisation
EAC	Easy African Community
EDF	European Development Fund
EPA	Economic Partnership Agreement
ERP	Economic Recovery Programme
ESA	East and Southern Africa
EU	European Union
GATS	General Agreement on Trade in Services
GDP	Gross Domestic Product
GoU	Government of Uganda
IAS	Impact Assessment Study
ICT	Information and Communications Technology
MTCS	Medium Term Competitive Strategy
NAADS	National Agricultural Advisory Services
PEAP/PRSP	Poverty Eradication Action Plan/Poverty Reduction Strategy Paper
PMA	Plan for Modernisation of Agriculture
PMU	Project Management Unit
SADC	Southern African Development Community
SP	Special Products
SSM	Special Safeguard Mechanisms
TRADES	Trade and Development Studies (TRADES) Centre
URA	Uganda Revenue Authority
VAT	Value Added Tax
WTO	World Trade Organisation

1. Introduction

Uganda is negotiating the Economic Partnership Agreements (EPAs) with the European Union (EU) as part of the Eastern and Southern Africa (ESA) group. The negotiations are challenging mainly because the contents and impacts of the EPAs are largely unknown. There is uncertainty as regards the actual impact of the EPAs on the economies and people's livelihoods. This is why the ESA group agreed to carry out Impact Assessment Studies (IAS) collectively as well as individually, in order to determine the overall effects of trade liberalisation with the EU under the EPA framework.

In 2004, Uganda, with the assistance of the EU undertook such a study, which brought out a number of issues. The dissemination of the study has been limited and the issues raised have largely remained unknown to a number of stakeholders. The issues raised in the IAS also require a critical review to assess the gaps and highlight the salient points raised. Such a review of IAS would bring to debate issues of concern to Uganda in the on going negotiations, and also equip the negotiators and other key stakeholders i.e. Members of Parliaments (MP), Civil Society Organisations (CSOs), and the media with information pertaining to the impact of the EPAs on Uganda's economy.

It is against this background that SEATINI Uganda has undertaken a critical review of Uganda's IAS with the following specific objectives:

i. To analyse the gaps in the study so as to come up with a holistic picture of the impact of the EPAs on the Ugandan economy and people's livelihoods.
ii. To come up with recommendations for the protection of Uganda's development interests in the negotiations and for further studies.

In the different sections, this IAS review therefore covers the following issues in more detail

- Section One gives the background to Uganda's Impact Assessment Study including why it was conducted, the context and nature in which it was conducted.
- Section Two gives a brief analysis of the IAS findings in relation to the gaps and development interests for Uganda. It further provides a specific analysis on the following:

    i. Economic performance and Trade policy
    ii. Performance of the economic sectors, and
    iii. Key National Indicators like employment and revenue
- The last section gives recommendations, which are relevant for the protection of Uganda's development interests in the EPA negotiations.

Section One:

Background to the IAS

The IAS is part of the EU technical assistance to Uganda for capacity building in support of preparations for negotiation of an Economic Partnership Agreement (EPA) in the context of the Cotonou Agreement (CA). It was initiated in response to a request by the Government of Uganda (GOU) to the European Commission to assist the government in strengthening its capacity for the EPA negotiations. The Project Management Unit [PMU] of the ACP/EU contracted the Trade and Development Studies (TRADES) Centre to undertake the study. Specifically, the consultants were required to undertake a study on the potential impact and sustainability of the EPA on the Uganda economy by analysing the potential impact of the EPA on production, consumption, employment and government revenue. In addition, the study explores the compatibility of Uganda's trade policy with its regional and multilateral commitments and examines the human and institutional capacity in Uganda to negotiate the EPAs. Finally the study draws policy recommendations regarding the nature of the EPA, capacity building, and sources for revenue loss compensation. Box 1.1 show the specific objectives which guided the IAS

Box 1: The major objectives of the study were to:

- Examine the economic and trade policy and performance of Uganda and assess why Uganda has failed to derive benefits from Lomé and Cotonou trade arrangements;
- Analyse Uganda's existing production structures by major sectors and competitiveness in view of EPAs;
- Investigate the impact of EPA induced trade liberalization by estimating potential trade creation and trade diversion;
- Examine the employment, wages and prices adjustments envisaged in current trade and economic policies resulting from the conclusion and implementation of an EPA and comparison with EBA;
- Review the linkages between the EPA negotiations and the multilateral negotiations under the Doha Work Programme and the cumulative impacts for Uganda;
- Assess the compatibility and coherence of the Uganda's national trade policy with commitments Uganda has undertaken within regional and multilateral trade regimes;
- Explore the revenue losses induced by EPAs under different scenarios of tariff and explore ways of compensating for the loss in revenue without necessarily causing policy reversals;
- Analyse potential adjustment measures on trade and economic policies that Uganda has to put in place in anticipation of the EPAs;
- Assess the institutional, human capacity and national consensus requirements for negotiations of EPA;
- Explore the impacts of EPA on poverty; and,
- Make recommendations on EPAs in regard to capacity building, geographical configuration, content, fiscal revenue stand, economic and trade policy adjustments, and other.

Section Two

2.0 Analysis of the IAS findings

2.1 Economic Performance and Trade Policy

This section provides an overview of the national economy performance in relation to achieving development targets as a result of implementing past economic and trade reforms.

2.1.1 Economic Performance

The government of Uganda initiated an Economic Recovery Programme (ERP) in 1987 to try and reverse the trends of poor economic performance that marred the country prior to 1986. A number of reasons could explain the poor performance. These include political turmoil, high inflation running at an annual rate of 240%; high dependence on one export crop with coffee contributing 50% of tax and 70% of export earnings; limited scope of external borrowing severely constraining government's ability to meet its obligations.

The ERP sought primarily to create a stable macro-economic environment for private sector investment and fiscal consolidation to control inflation. It established public spending priorities in rural roads, primary education, primary health, rural water, and agricultural research and extension. Further, revenue collection was improved while measures were introduced to reduce tax exemptions.

The economy, as a result of a number of reforms experienced some positive aspects. For example inflation declined from 66% per annum for the year ending June 1992 to 6% for 1999/00, and was still running at that rate as of February 2001.

Further, according to findings of the Private Sector Investment survey of 2004, economic policies have successfully induced appropriate growth in the private enterprises and investments over the years. From 1992 to 1998, the annual rate of growth of real GDP was 6.8 percent or about 3.7 percent per capita[1]. Average per capita income rose over the decade by 65 percent, from US$200 in 1990 to US$330 in 2000.

Despite improvements in some economic trends, poverty reduction has been fluctuating with the proportion of people living below poverty line reducing from 56 percent in 1993, down to 44 percent in 1997 and further to 35 percent in 2000 before rising again to 38 percent in 2003.

However, like many other poor countries, Uganda's economy has remained very vulnerable to shocks in the world economy – especially upsurge in oil prices, fluctuations in commodity prices for exports like coffee, tea, cotton etc – which affect the performance of the local economy. The vulnerability has also been heightened by full liberalization of most parts of the economy. The fundamental weaknesses of the economy have been lack of export growth causing tremendous income and foreign exchange losses.

[1] See Joint Paper prepared by the government of Uganda, Development Partners and the Private Sector on Economic growth and transformation strategy for the Consultative Meeting (CG) on May 2001

To date revenue collection as a ratio of GDP is still low compared with the Sub Saharan average of 17%. The Uganda Revenue Authority (URA) revenue to GDP ratio for 2001/02 increased to 11.8% from 10.8% in 2001/01. The current projections however, of revenue as a percentage of GDP for 2001/02 – 2003/04 were much lower: 12.3, 12.1, and 13% respectively. Given that taxes collected from international trade contribute the largest share of gross revenue of 50.61%,[2] a share higher than all other tax categories combined, any external shocks have a significant impact on the revenue performance of the country.

This situation has led to declining export dynamism and increasing trade deficit which was financed mainly through private transfers, and foreign assistance like grants and loans totaling to US$ 598 million in 1999/2000 (GoU Consultative Report, 2001). As a result there has been build up of Uganda's external debt although government tried to direct some efforts to boosting non-traditional exports like fish, cut flowers, vegetables and services.

Currently Uganda's trade prospects (the EPAs inclusive) will depend on how the Trade Policy being formulated will guide trade within and outside the country. The Trade Policy should be comprehensive enough to address factors like Uganda's narrow export base. This has often resulted into poor terms of trade and consequently balance of payments given the very high demand for imports that is not equally matched by export revenues.

The Impact Assessment Study noted that there are very limited alternative sources to the revenue losses also given the fact that Uganda heavily depends on donor aid to approximately 56% of her national budget and over 85% of the Development budget with the EU being one of the biggest lenders to Government.

2.1.2 Trade Related Policies

The status of Uganda's current trade regime is mainly underpinned by the continued effort to liberalize trade activities and the economy within the framework of macroeconomic stabilization policies and measures designed to spur growth and economic performance. Such measures supportive of trade activities include those intended to remove uncertainties within the overall trade environment and to instill price and economic stability necessary for efficient allocation of resources, while helping to boost confidence in the role of international trade in Uganda. Since the Trade Policy Reviews of Uganda in 1995 and subsequently in 2001, the Government of Uganda has continued to implement policies consistent with free trade including through the liberalization of the exchange system and marketing of inputs and products, elimination of trade -distorting biases, and reduction of undesirable trade barriers.

As previously noted Uganda has carried out its trade within and outside its boarders without a comprehensive trade policy in place. The study needed to have brought this out as one of Uganda's major challenge to the country's successful trade operations. Instead the Poverty Eradication Action Plan (PEAP) has been used with a projected target of reducing headcount poverty to less than 10% by the year 2017. Some trade-related components within the PEAP are implemented through the Plan for Modernisation of Agriculture (PMA), the Medium Term Competitive Strategy (MTCS) for Private Sector (2000–05) as well as the Medium

[2] Draft Estimates of Revenue and Expenditures 2003/04

Term Expenditure Framework (MTEF). Other policy initiatives introduced by the Government include the Strategic Exports Programme (SEP).

However, the current PEAP/PRSP has its own challenges regarding incorporating important trade tools for development without guidance of a clear trade policy (which serves development and poverty eradication needs of the country).

The IAS should not have only stated the various government development programmes mentioned above but rather gone ahead to clearly analyse their impact on the different sectors and on peoples' livelihoods. For example under the PMA and with reference to the National Agricultural Advisory Services (NAADS), the state has pulled out of most of its public roles like essential service delivery leaving it more to the private sector. Though government recognizes the importance of agriculture, it spends little directly on the sector as reflected by the household survey figures (Forester et al, 2002). Agricultural support services remain scarce: 62% of the communities surveyed reported that no farmers had received agricultural extension visits, and less than 20% of the farmers are in contact with extension services and women have had less access than men.[3]

Not to say that the private sector cannot deliver but some of these areas like extension service delivery still need state support given that Uganda's agricultural base is still weak and most of the people engaged in it are the rural poor who can hardly afford the price of the now privatized services. Government therefore needs to revisit the operation of some of these policies and also insist in the EPA negotiations that a reasonable amount of support be given both by government and the EU to these sectors if development is to be attained.

Apart from addressing fundamental domestic impediments to trade, Uganda has also been active in participating and building market coalitions and economic partnerships intended to expand trade within respective trading partners, particularly within COMESA and the East African Community (EAC).[4]

However, the study falls short of putting forward the challenges that Uganda faces in fully utilizing these markets. Regional integration is one of the ways that a country may develop through utilizing its market potential. To date trade within these two regions remains very low while that with the EU is high. In the EAC, intra-regional trade accounts for about 10-15% of total trade while in the case of total intra-COMESA trade the values are even much lower. Uganda should not lose sight of trade with international trading partners but should explore exhaustively the market potential regionally.

Given the nature of exports to the regional markets like COMESA, most of them are produced by small-scale farmers. However, due to the high liberalised economy – especially with no particular measures to support farmers -, the benefits from these increasingly important markets do not necessarily reach the farmers.

Therefore, any trade policy that Uganda will come up with, should not only guide trade performance but also define clearly a set of development indicators, which balances out domestic needs and its interface with the global economy.

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[3] UDN Review Report No. 5

[4] Bank of Uganda. The Current State of the Ugandan Economy, 2003

The IAS goes on to note that the introduction of EPAs is against a background of strong economic growth. However, while the success of economic reforms and policies above can be looked at from growth of a country's GDP, like the study rightly put it, it's important to explore other indicators like absolute poverty. It could be appropriate to think about the fact that the internationally acclaimed liberalisation programmes Uganda has undertaken over the past 20 years (1986-2005) still coexist with rising poverty levels in the country as a whole. Poverty is rampant in most rural areas and upcountry towns.

It is important therefore that Uganda analyses other important indicators before concluding on a few to justify further liberalisation through the EPAs. Past liberalisation, despite some positive impacts, has had great negative impacts on the economy and on the peoples' livelihoods. This is a very critical factor that should be considered in the negotiations for the EPAs. Questions about the persistence of widespread poverty should be addressed first before concluding the EPAs.

2.2 Performance of different Economic Sectors

The IAS analyzed Uganda's major economic sectors in order to assess the capacity of the economy and the potential impact or threats that might arise from the EPAs. The major economic sectors discussed were: agriculture, manufacturing, and the services (tourism, transport, communication, finance and construction) sectors.

2.2.1 The Agriculture Sector

Uganda is predominantly an agricultural country**.** The IAS recognises that the agricultural sector is currently important to Uganda's economic growth given that it contributes about 80% of national output, 90% of export earnings and about 40% of government revenue. It also provides most of the raw materials to the mainly agro-based industrial sector. However, it is still largely uncompetitive in comparison to EU productivity levels due to its low level of mechanisation. The sector employs about 80% of the labour force, with more than 87% of this labour force living in the rural areas where crop production accounts for more than 70% of total employment within the sector. Agriculture is also the major source of household incomes whereby crop farming still contributes 32% and other agricultural enterprises contributing 26% of the income.

Uganda's traditional exports include coffee, cotton, tea and tobacco; with coffee alone contributing over 40% of total export earnings. The share of traditional exports has been declining i.e. from 71.3% in 1999 to 39.1% in 2002 as a result of the fall in world market prices of primary commodities; and the increase in the export of non –traditional exports such as fish, cut flowers, fruits, vegetables among others.

The study lists the constraints facing the agricultural production and export as being: poor technological innovations, poor infrastructure, lack of credit and financial support, lack of skilled manpower. There are also factors within the EU (which is Uganda's main export market) that hinder Uganda's exports. These include the high quality and health standards. Therefore as a result of both the demand and supply side constraints, Uganda has been unable to take advantage of the preferences extended by the EU under the Lome Conventions.

Under the 4 successive Lome Conventions, the EU granted a preferential trade regime to ACP countries through trade preferences, commodity protocols and other instruments of trade cooperation like financial and technical aid. However, Uganda was unable to utilize the sugar quota of 5,000 tons, which provided a great trade opportunity. Unlike Uganda, other countries like Mauritius have been able to develop as a result of utilizing such quotas.

Given the above constraints, Box 2 below highlights the recommendations given in the IAS that the ESA group should negotiate for in the EPAs:

Box 2: Recommendations by the I.A.S that the ESA group should negotiate for:

(a) Commodity Protocols as provided for under Article 36(4) of the Cotonou Agreement;
(b) improved SDT to ensure the increased flexibility needed for implementation of an EPA;
(c) the preservation and improvement of existing market access of ACP states while taking into account existing commodity arrangements, timeframes, tariff-reduction percentages and the need to limit loss of ESA benefits resulting from the erosion of preferences:
  i) specific agricultural safeguards, given the sensitivity of agriculture;
  ii) a programme to build capacity in the agriculture sector;
  iii) no change in sanitary and phyto-sanitary and environmental regulations unless there is a proven scientifically valid reason to do so and which is supported by a valid risk assessment, and which allows the ESA a reasonable period of time to adjust before any new regulations are enforced;
  iv) the maintaining and improving of competitiveness that existing preferences give to beneficiaries; and
  v) commodity agreements for the importation into the EU of part of the ACP production of commodities in order to ensure a fair remuneration to ACP producers and a mechanism to provide an insurance to absorb the volatility in prices of commodities.

The discussion on agriculture clearly brings out the constraints it is facing. As regards what needs to be negotiated in the EPAs, the recommendation should be more specific and take into account what has already been achieved in the WTO negotiations.

The IAS recommends in c (i) above that negotiations should consider specific agricultural safeguards given the sensitivity of agriculture. The WTO negotiations have already provided for the negotiation of a Special Safe guard Mechanism (SSM) for developing countries to protect their agriculture against import surges. So, proposals recommended should have centered on the nature and criteria of the safeguards that will ensure that Uganda protects its agriculture.

Under the WTO negotiations on agriculture, developing countries have been allowed to designate Special Products (SP) to promote food security and their economic development. The IAS should have further explored the exact criteria for designating a SP and the kind of flexibilities the SP will enjoy.

Such criteria for selection of special products should include the significance of the product in the development prospects or objectives of a particular country in relation to:

- Export performance and foreign exchange earnings;
- Possibility of processing and high value added opportunities;
- Forward ad backward linkages into the economy;
- Contribution to employment especially in the rural areas; and,
- Importance for food sovereignty and women empowerment.

As pointed out in the IAS, Uganda has failed to take advantage of the existing market access due to both supply and demand side constraints. The study should have come out clearly to state what the Uganda government and the EU should do to build the competitiveness of the Ugandan economy. The operationalisation of Article 36.3 of the Cotonou agreement is therefore of crucial importance. The Competitiveness programmes and policies like, the Medium Term Competitive Strategy (MTCS) for private sector, the Strategic Export Programme (SEP) as well as other liberalisation and privatisation policies should be regularly reviewed against the development objectives. The EU should also regularly review the effectiveness of its support and its adequacy and timeliness of the resources provided. For example, the process of accessing the EDF funds is lengthy and complicated, which undermines its usefulness.

Another important area in the negotiations is the fisheries sector. Although fish and fish products are among Uganda's leading exports to the EU; and the fisheries sector is included in the EPAs for negotiations, the IAS is silent on this very important area. The Cotonou Agreement provides for negotiations on "fishery agreements aimed at guaranteeing sustainable and mutually satisfactory conditions for fishing activities in ACP States", in which "the ACP States shall not discriminate against the Community or among the Member States … nor shall the Community discriminate against ACP States".[5]

The EPA negotiations in this sector are therefore about liberalising access to fishing waters of ACP and EU States to both parties. Since Uganda has no meaningful fishing capacity to compete on EC waters, access to EU waters is meaningless.

In this respect therefore, Uganda's interests are 4 fold:

i. Reduction or elimination of fisheries subsidies in the EU which may, hopefully lead to the reduction of fish supplies from the EC market creating increased demand for Ugandan fish on the EC market;
ii. The setting up and implementation of fair and meaningful health standards;
iii. Technical and financial assistance to invest in fish harvesting and processing, and to meet the EU standards; and,
iv. Preservation of fish stocks given its importance not only for export purposes but also for food security.

2.2.2 The Manufacturing Sector

The agriculture and manufacturing sectors are closely interlinked since manufacturing is characterized primarily by processing of agricultural raw materials and production of consumer goods. Agro-related industries account for 39% of all manufacturing establishments. Box 3 gives the constraints facing the manufacturing sector as highlighted in the IAS.

Box 3: Constraints facing the Manufacturing Sector

The development of the manufacturing sector in Uganda is constrained by factors both at firm level and on the national level. Firm level constraints include technological obsolescence of factory machinery, lack of the requisite technical skills, poor (unreliable) supply of inputs, low labour productivity, poor quality and standards, etc. At the national level, the manufacturing sector has to contend with such constraints as (i) poor infrastructure, (ii) poor institutional infrastructure (institutions that stimulate and support industrial development), (iii) poor access to credit, etc.

The challenge facing Uganda in the EPA negotiations is that of opening up Uganda's market to EU subsidised exports. The IAS recommends therefore that, Uganda should concentrate on seeking technical and financial assistance, establishment of list of sensitive imports from the EU into Uganda for which tariffs would remain for a fixed period, Rules of Origin which allow full cummulation from ACP countries, and a system which would enable ESA countries to quickly deal with import surges.

In order for Uganda to utilise the market opening envisaged under the EPAs, in addition to the above suggestions, Uganda should also negotiate for the elimination of tariff escalation and tariff peaks as well as the elimination of export subsidies and the phasing out of domestic support in the EU.

2.2.3 The Services Sector

The services sector is one of the fastest growing sectors in the economy. The main sub-sectors covered in the IAS are Tourism, Information and Communication technology (ICT), the financial sector; and transport and communication.

a. Tourism

A major sub-sector of the services sector in Uganda is tourism. Although the sector is small by international standards; it nevertheless makes a significant contribution to the economy at a level of 3.1% of GDP and almost 25% to the total exports. However, the sub-sector has been hit by political insecurity, poor infrastructure, limited skills and facilities.

The major concern for many developing countries has been that tourism is increasingly conducted on the basis of full package holidays. This is where tourists make one-off payments to travel agencies based in their countries of origin, to cover all their major expenditures in the tourist destinations. As a result, tourists hardly spend in countries that are promoting tourism as part of their economic development strategies.

Therefore Uganda should negotiate for the establishment of commercial presence in the sub-sector of travel agencies and tour operators, so that firms from Uganda could be based in the countries of origin of the tourists.

b. Information and Communication technology (ICT)

The ICT sub-sector though still in its infancy has a high potential of generating export earnings and creating employment especially in the area of e-business. Uganda has a convenient time zone location from the major consumers of ICT related services e.g. - 8 hours from USA and Canada, -3 hours from UK and +6 hours to Japan.

However, the IAS did not come out with specific recommendations of what should be done especially in relation to human resource development, infrastructure, and technology. These are necessary for transforming the potential in the ICT sub-sector into a reality. This analysis would provide a basis for negotiations in the EPAs.

c. Financial Sector

This sector is largely underdeveloped, small and not diversified in terms of value, volume of transactions undertaken and scope of services provided. The sector is predominantly bank-based.

The IAS does not discuss the fact that the financial sector is whole owned by foreign banks, other than the Micro finance institutions, which factor, coupled with the liberalisation of the capital account has led to capital flight and to lack of funds for investment.

d. Uganda's transport sector

The transport sector can be divided into four components, namely: road transport, rail transport, air transport and water transport. The national road network accounts for 80% of Uganda's traffic and thus forms the most vital infrastructure driving the country's economy. In spite of the heavy investment in improvements and development of the road infrastructure, the standard of the country's road network remains unsatisfactory.

Uganda has an underdeveloped railway network, which comprises 1,244 kilometres of track. The railways network is however constrained by limited funding, limited haulage capacity, poor conditions of the lines, etc.

Air transport revolves around the Entebbe International Airport, Uganda's sole international airport. Entebbe has all the modern facilities for safe air transport operations, including cargo and aircraft handling. However, Uganda lacks a national airline and air transport in Uganda is constrained by inefficiencies in ground handling, poor standards of facilities, poor infrastructure, etc.

Although the transport sector is important in improving the performance of an economy, the IAS does not bring out this linkage nor the link between the sector and the negotiations.

The communications sub-sector is one of the fastest growing sectors in the Ugandan economy today. The liberalisation of the communication sub-sector has led to dramatic improvements and created a basic modern communications infrastructure to meet business needs. The liberalisation of this sector has witnessed the mushrooming of mobile telephone operators, Internet access service providers, 8 VSAT International Gateways, radio stations, several operational television stations etc.

The energy sector is one of the key economic sectors in Uganda. It consists of four major components: petroleum, electricity, wood-fuel, and new and renewable sources. The sector is characterized by a heavy dependence on biomass resources, which provide 94% of the total national energy needs. Biomass is the most important energy source for households, small-scale industries like lime, brick and tile making, and a number of agro-based industries like tea, tobacco, and fishing. Electricity contributes 1% of the total energy consumed

Although Uganda has a high hydroelectric potential estimated at over 2,000 MW, current exploitation is only about 317 MW. And in spite of this potential however, Uganda's electrification rate is quite low, with grid access of only 5% for the whole country and less than 2% in rural areas. Petroleum provides about 5% of the country's energy consumption requirements. Petroleum products whose prices are increasing on the world market are obtained entirely through imports increasing the cost of production.

As far as Services are concerned, it is clear from the IAS that Uganda does not have offensive interests. The study rightly recommends that liberalization of trade in services should be progressive. And that prior to undertaking services liberalisation it would be important to undertake a detailed situational analysis and baseline studies of the services sector with a view of establishing key national interests, developing offensive and defensive positions.

However, the IAS does not bring out the fact that Uganda has liberalised extensively its services sector under the IMF/WB conditionalities with far reaching implications on the economy and on people's access to essential services. Under the WTO, Uganda has made commitments in only 2 sectors i.e. Tourism and travel-related services, and Telecommunications. The lessons from this liberalisation should be discussed to provide a basis for negotiations.

Mode IV, which deals with the movement of natural persons, is another important area for Uganda in the negotiations. Uganda's leading source of foreign exchange has for several years now been remittances by Ugandan's working abroad, including the semi-skilled and the unskilled. Therefore in the negotiations Uganda should vigorously negotiate for the movement of natural persons (Mode IV). In line with this, Uganda should put in place mechanisms at the national level to take into account the question of brain drain since granting of market access in this area may target only the highly skilled labour.

Uganda's services sector is very weak and still in its infancy stage; therefore strengthening it should be a priority area in the negotiations. Article 4 of GATS provides that developed countries should assist developing countries, especially least developed countries to:

- Strengthen the capacity of their services sectors for instance through access to technology,
- Improve their access to distribution channels and information networks, and
- Liberalise market access in sectors of export interest to them.

The Cotonou Agreement provides that the EC is to support the strengthening of the capacity of ACP services sectors, particularly those related to, "labour, business, distribution, finance, tourism, culture, and construction and related engineering with a view to enhancing their competitiveness and thereby increasing the value and the volume of their goods and services".[6] Uganda should insist that the EU fulfils these provisions.

If Uganda is to effectively compete in the market envisaged after the EPA negotiations, then its goods and services have to be of good quality, priced well, and are delivered in a timely manner and in the required quantities so as to ensure predictability. Thus the issue of enhancing the competitiveness of the Uganda's economy becomes very important.

[6] Article 41.3

The Cotonou agreement provides for the enhancement of the competitiveness of ACP States both in the long term and in the short term. Regarding the long term**,** Article 21.1 provides that:

> "*Cooperation shall support the necessary economic and institutional reforms and policies at national and/ or regional level, aiming at creating a favourable environment for private investment, and the development of a dynamic, viable and competitive private sector.*"

While specifically in the preparatory period, Article 37.3 provides that:

> "*The preparatory period shall also be used for capacity building in the public and private sectors of ACP countries, including measures to enhance competitiveness, for strengthening of regional organisations and for support to regional trade integration initiatives, where appropriate with assistance to budgetary adjustment and fiscal reform, as well as infrastructure upgrading and development, and for investment promotion.*"

Uganda should insist that the EU fulfils these provisions.

2.3 Implications on Key National Indicators

2.3.1 Employment and Industrialization

One of the major objectives of the IAS was to examine employment, wages and price adjustments envisaged in current trade and economic policies resulting from the conclusion and implementation of an EPA. The IAS also dedicated a full section on this as well as providing specific analysis mainly on employment in other sections.

Overview of the IAS findings on Employment and Industrialization

The IAS recognises that the creation and promotion of employment has been at the core of government's development programmes and poverty eradication strategies for a long time. Therefore in order to achieve this objective government had to use approaches like, putting in place measures to boost industrialisation especially value addition which is linked to production in rural agricultural areas, promoting private investment, and export diversification among others.

The analysis of the effect of EPAs on employment was therefore made against the background that employment in Uganda would not be affected as a result of the reciprocal arrangement with the EU. In any case, the EPAs should enhance employment creation as well as mitigate the negative consequences on the same especially during the implementation phase.

The manufacturing sector is also small and largely based on import–competing industries which are benefiting from the preferential market access in the region (EAC and COMESA) and international (EU). Given that Uganda's industrial base has been diminishing over time as a result of poor policies and competition from other countries, employment in this sector is quite minimal. The assessment also recognises this problem especially the downward trend in industrial output as factories closed down in the late 70s and early 80s.

Implications of IAS findings on Employment and Industrialization

It is against the above, that the review of IAS on likely effects of EPAs on employment is summarised as below:

- The agricultural sector is a key and sensitive sector for Uganda, which would affect employment levels negatively due to the high competition and inflow of agricultural products from EU. Some of the key products, which were identified to be affected, include sugar, edible oil and other processed agricultural products. This means that some people especially those involved in the production and processing of the local products may find themselves out of employment due to competition from EU products. In general, employment in the agro-processing sector[7] like; coffee hulling, cotton ginning, tea processing, sugar production, textile mills, soap industries, edible oil industries, cigarette manufacturing, grain milling, meat processing, dairy and leather products manufacturing will be affected and yet

[7] Agro-related industries account for 39% of all manufacturing establishments (UBOS 2002).

this is the base against which Uganda intends to industrialise. However, the IAS is short on the extent of job losses (within the sector and those, which are linked to it) both in the short and long term.

- Secondly, the maintenance of high agricultural subsidies by EU will reduce the competitiveness of Uganda's agricultural exports in world markets. They have already increased rural unemployment and deprived subsistence farmers of their livelihoods as domestic prices continue to drop.

- Thirdly, regarding the general employment in the industrial sector, the simulation done in the study shows that domestic manufacturers will face increased competition from cheaper high EU imports, a situation which will lead to some manufacturing industries collapsing. The IAS further emphasises that increased EU exports to Uganda, along with increased competition, will lead to a reduced production in the import-competing sectors. As a result, employment and wage labour in the manufacturing sector will suffer leading to reduction of incomes.

- Another key sector in relation to employment is the services sector. It is mainly composed of tourism, information and communication, financial, transport, energy, among others. However, this sector is also not well developed and thus does not contribute to high level of employment. For example, tourism employs on average 70,000 people, including the transport-related activities to tourism. The IAS also highlights that the EU is likely to seek more market access in the services sector and therefore employment and income generation is likely to be affected depending on how the liberalisation process will be effected.

- Apart from the employment in the private sector, government happens to be a key employer. The bulk of the recurrent expenditure, which is about 60% of total government expenditure, is wages and salaries. The IAS highlights that the EPAs are likely to lead to substantial reductions on the revenue, which will definitely affect the wage bill.

- According to the analysis done by the IAS, overall employment is likely to be affected negatively by the EPAs once they come into effect. This will be both within the private sector and government. As industries face competition from imported duty free products from EU, there will be loss of employment and de-industrialisation. This effect will not only affect industries focused on supplying the local market but even those based in Uganda but exporting goods and services to regional markets like the East African Community and COMESA.

2.3.2 Revenue Losses and Alternative Tax Base

Another key national indicator the IAS looked at was the extent of revenue losses as during implementing phase of EPAs as further liberalisation reforms are put in place. Other related revenue losses include the adjustment costs that come with the implementation of the EPAs. These include putting in place measures, policy adjustments, institutional reforms, human resource, laws and systems among others as may be required for effective implementation of the EPAs. The IAS therefore endeavors to identify policy measures and other sources of compensation for such revenue losses.

The IAS makes reference to the difference in the earlier ACP-EU arrangement under the Lomé cooperation and the current Cotonou Agreement. Some of the most significant differences in the current Cotonou arrangement include the requirement for reciprocity and abolishing the Stabex scheme which helped countries like Uganda to stabilise export receipts on a wide number of agricultural products.

These new proposals do not only take away Uganda's ability to develop mitigation measures in case of any instability in the revenue but also limit alternative financing which is based on performance of further liberalisation reforms under the EPAs.

Given that at the moment Uganda's proportion of indirect taxes of total revenue has remained high e.g. 75.8 % in the 2002/03 financial year, this indicates that government's reliance on *ad valorem* taxes (which are mainly trade taxes) is still disproportionately high. Under the reciprocity arrangement, the EU is likely to seek reduction in high tariff rates, which would lead to high levels of revenue losses. For example, the IAS estimated that the introduction of the EPAs will cause revenue losses of about 9% of total imports from the EU.

The simulation generated in the IAS looks at the implication of the tariff reduction required under the EPA as follows: On implementation of the EPA requirements in 2012, it is assumed that there will be a 50% reduction in import duties. A further reduction of 30% would occur in 2016, and a final phasing out of the import duty in 2020. In this estimation, revenue losses for just twenty imports from Europe Union will be to a tune of 35.9 billion shillings per annum over a period of time when the EPA regime becomes fully effective. While for all imports from the EU, the expected loss in revenue is projected to be at about 40.4 billion shillings when EPA comes into full effect.

However, this loss is likely to be higher because the assessment in the IAS is only based on the reduction in import duty. Other tax duties levied on imports include: the VAT, which is also based on the CIF value and import duty. This therefore means that if there are losses resulting from reduction of the import duty, this will have an effect on other taxes as well.

The IAS does not also look at other multiplier effects on the revenue losses on the whole economy, which will be as a result of the reduction in import duty. The analysis therefore falls short of providing the whole impact of revenue losses by giving relatively low values based on revenue losses resulting from the reduction in import duty alone.

Regarding alternative sources of revenue to compensate both for revenue losses and adjustment costs, the IAS clearly indicates that they are limited as Uganda relies heavily on donor funds for central budget income and this should be a major concern especially given that it can easily fall out with donors. Loss of revenue sources without alternative sources is also likely to cause other macroeconomic problems as well as deterioration in social indicators as expenditure on human development reduces further lower.

Section Three

Key Recommendations

The study did not bring out a critical analysis on the alternative strategies or mitigating measures especially where there is likely to be adverse implications. For example, revenue losses, unemployment and de-industrialisation seem to be major outcomes of the EPAs. Although, the study assumes that these negative effects will be outweighed by the positive outcomes, the study is short on the policy actions and interventions, which would lead to this.

The IAS is a broad study covering the analysis of the general performance of the economy and the impact of the EPAs on this economy. Since the negotiations are structured around specific areas like agriculture, fisheries, market access, etc, it is important that Uganda carries out specific assessments or studies in line with the negotiating clusters. Such studies can bring out the exact negotiating positions in each cluster.

According to the Cotonou agreement, the EPA negotiations are supposed to be compatible with the WTO provisions. It is therefore important that EPAs are mindful of the progress in the WTO trade negotiations, and that the EPA negotiations build onto what has been achieved but not take on extra commitments other than those agreed upon in the WTO.

The EPA negotiations do not seem to differentiate between LDCs and Developing Countries within the ACP. This means loss of preferential treatment along the way which comes with serious implications on Uganda's market access to the EU. Given Uganda's low competitiveness, the IAS should have spelt out clearly strategies or actions on how Uganda should overcome this problem. There is need therefore to have a clear understanding of Uganda's competitiveness and potential in the EU markets vis-à-vis other ACP countries.

Uganda is already part of the East African customs union and also belongs to COMESA together with Kenya and other countries other than Tanzania, which belongs to SADC. The overlaps in regional integration have serious implications on the trade within the region especially as regards movements of goods and services and the nature of trade policy instruments to be used in each country. Although these regional economic integration processes are still evolving, the IAS does not bring out implications of the EPAs on these efforts.

Despite the gaps in the IAS, it broadly brings out the negative implications of the EPAs and also a clear indication for the need for further specific studies. The timeframe of the negotiations should therefore take into consideration the need for the ACP countries in general and Uganda in particular to carry out more relevant studies so that they can negotiate from an informed point of view. The current deadline of concluding the negotiations in December 2007 is unrealistic.