CHAPTER 18: TRADE WITHIN AND OUTSIDE EAST AFRICA

Key Words	After studying this chapter, the learner should be able to;
✓ Trade patterns ✓ Regional and local trade. ✓ Trade agreements ✓ Imports ✓ Exports ✓ Visible trade ✓ Invisible trade ✓ Barter trade ✓ Balance of trade ✓ International trade ✓ Wholesale trade ✓ Retail trade	• Some terms used in trade. • Know the patterns of trade in East Africa • Use fieldwork to study the local market so as to identify trade patterns. • Understand the importance of trade in the development of a given country. • Know the major imports and exports of East Africa, their origin and destination. • Understand the meaning of favourable balance of trade and their importance. • Understand the challenges of unfavourable Balance of trade. • Understand the problems facing East Africa's trade and how to overcome them. • Understand why there is limited trade among or between East African countries. • Suggest ways of encouraging trade among the East African countries. • Understand the advantages of value addition on exports through processing. • Understand the importance of import substitution industries. • Use statistical charts, diagrams and maps to show trade patterns.

Chapter Over view

We have all visited a roadside market, wholesale shop, shopping mall or even a retail shop. You in particular can remember the items you found there. ***Discuss such items with your neighbour.*** In case you bought some items from these areas, then you used something to buy the goods. For instance, there was exchange of goods for goods, goods for services or goods for money.

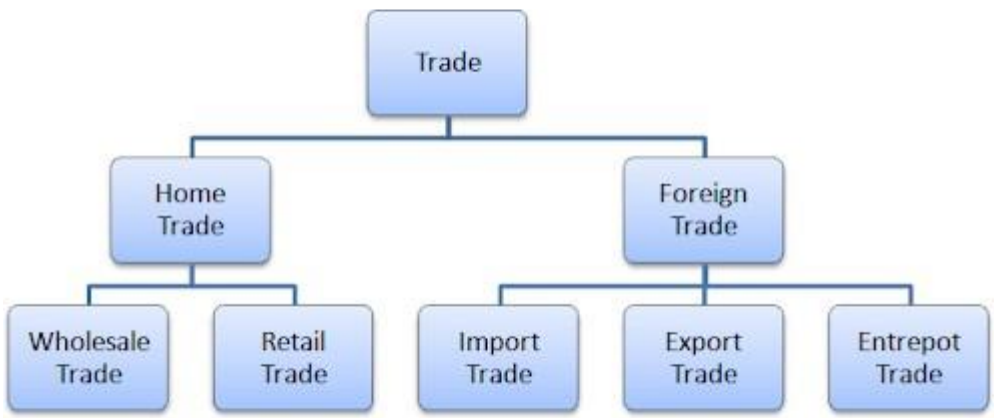
Patterns of trade in East Africa

Trade is the fundamental state of business activity involving sale and purchase of goods or services for money. It involves exchange or transfer of goods.

Producers build goods and transfer them to wholesalers, then to retailers andfinally to you the final consumer.

In East Africa, both internal and external trade (international trade) arecarried out. Therefore, **Internal** trade involves the exchange of goods and services between people but within the geographical boundaries of a nation. For instance within Kenya. It is also known as domestic trade or home trade. **International** tradeinvolves exchange of goods and services where two or more individuals from different countries are involved or when different countries are involved in the trade.

Countries therefore depend on each other for survival. This means that, no country is self-reliant in all its needs but instead countries depend on each other for various goods and services.



Activity 18.1*Understanding Trade in east Africa*

You have all moved in a nearby marked around your home or a large supermarket in a nearby trading centre. Use the information obtained to do the following tasks:

1. *Draw a simple table to show the types of goods you saw and where they come from.*
2. *How are the prices of these goods set?*
3. *You will discover that there are some goods which are sold depending on the season while there are those sold continuously irrespective of the season. Identify any two for each category.*
4. *While you visited, you found out a number of problems facing traders in the area. Explain these problems.*

Present your report to the class.

Exploring Uganda's Export Trade.

Uganda exports a number of goods most of which are agricultural products such as coffee, cotton, tea, hides, skins, Fruits like Oranges, and vegetables such as tomatoes, Cabbage and Onions.

The country imports goods such as heavy machinery, pharmaceutical equipment, vehicles, petroleum products, textiles and electronics such as phones and accompanying accessories.

Comparing Uganda's import and exports trade, we discover that there is a trade deficit in the country's trade since the value of imports is greater than that of exports.

Barter Trade.

This is a system of exchange in which participants directly exchange goods or services for other goods or services without using a medium of exchange such as money. Barter trade is considered to be the oldest form of commerce or trade. Through it, people obtained what they wanted such as food, clothing by trading different items for items. It is still being used today. For instance, you have often given biscuits to your friends in the dormitory in exchange for tomato sauce or Groundnut paste. This is barter trade since you are exchanging what you have for something you need.

Advantages of Barter Trade

- There is no concentration on economic power
- It is the simplest system of trade.
- There is no shortage of foreign exchange
- There is no problem of under or over production since people only produce and consume what they want and can consume. This checks on wastage.

Disadvantages of Barter Trade

- Double coincidence of wants usually occurs. For instance, if you are a wheat producer and you want apples and then the producer of apples wants rice, then trade will hardly occur leading to wastage of time looking for the right trade partner.
- There is difficulty in trying to get a fair exchange. For instance a cow owner may need 1 of wheat when a cow is worthy 5 bags but when the wheat seller is only willing to exchange one bag only hence unfairness.
- There is difficulty in division and subdivision of goods
- There is difficulty in calculation the value of goods.

Visible and invisible trade

Trade can be further categorised into visible and invisible trade

1. **Visible trade** is the **importing and exporting of physical goods, products that you can touch**. The product being traded could be a raw material such as coal, oil and timber, or the finished product, such as automobile like vehicles, electronics such Televisions, phones and microwaves. It is therefore the exchange of physical goods in every stage of production.

   Advantages of visible trade

   - Drives economic growth
   - Enhances efficiency
   - Leads to increased innovation
   - Greater fairness since it is a rules based system.

   Disadvantages

   - Leads to tax avoidance
   - Can lead to political instability
   - Leads on dependency on other countries for survival
   - Can lead to over exploitation of resources leading to depletion.
   - Can lead to pollution due to massive production through large scale farming and industrialisation to feed the ever increasing demand for some goods.

2. **Invisible trade** involves the exchange of non-tangible goods or items but services instead. It involves services such as education, insurance, tourism, consultancy and banking.

Advantages of invisible trade.

- Leads to economic growth
- Leads to increased revenue and foreign exchange
- Leads to provision of employment opportunities hence improved standards of living such as tour guides.
- Leads to increased innovations

Disadvantages

- Can lead to local unemployment since it requires a highly skilled labour force that may be less available in some developing countries especially of East Africa.
- Leads to tax avoidance hence loss of revenue.
- Can lead to political insecurity.

N.B:

Balance of trade is the difference between the value of a country's value of visible exports and the value of her visible imports.

When the value of imports is greater than that of exports, the country will have unfavourable Balance of Trade.

When the value of the country's exports is greater than that of her imports, then she will have a surplus Balance of trade (favourable Balance of Trade)

Structure of Uganda's Exports

- Agricultural products like coffee, vanilla, tea, cocoa, tobacco
- Fish products like fish fillets frozen fish fresh fish.
- Livestock products like hides, skins, goats, sheep.
- Wood products like timber, plywood, wood pulp.
- Industrial product like textiles, iron and steel, cement.
- Alcoholic drinks like Uganda waragi, Bell, Nile.
- Art and Craft materials.
- Services through tourism, migrants to other countries.

Characteristics of Uganda’s export.

✓ Mainly from the primary sector
✓ Mainly agriculture products
✓ Few and limited
✓ Poor quality and semi processed
✓ They earn low Income.

Structure of Uganda's imports

* Textile product
* Ammunitions (guns, grenades, tear gas)
* Vehicles from Japan or spare parts
* Alcoholic drinks like spirits and wines
* Stationery and printing materials like books
* Iron and Steel
* Computer and other accessories
* Leather products e.g. bags shoes belts.

Characteristics of Uganda's imports

- They are more than exports.
- Mainly manufactured or processed.
- Mainly from the secondary sector.
- They are of high value.
- They take a lot of foreign exchange.

Buy Uganda Build Uganda (BUBU)

BUBU is an initiative of the government of Uganda through the ministry of Trade, Industry and Cooperatives to promote consumption/usage of locally originating products (goods and services).

The policy was approved by cabinet in 2014 and launched in 2017 to promote the consumption and procurement of goods and services produced locally while prompting the use of local materials in the production process.

Obejctives of BUBU

* To promote consumption of local goods and services.

* To promote use and conformity to standards to guarantee quality goods and services.
* To provide capacity building programs to local suppliers of goods and services.

Uganda’s persistent trade deficits are cause by continued high import bill. The high import bill is majorly caused by the refusal of domestic market to purchase locally available products like plastics, cement, eggs and beverages.

Advantages of BUBU

- Encourage foreign and local producers to produce locally.
- Improve capacity of local producers to supply government.
- Enhance the quality and competitiveness on the local and international market.

Creation of jobs and drive the country to achieve middle income status.

Interpreting Export statistics

Commodity	Export value (000 USD)
Coffee	371,674
Coton	31,571
Tea	71,488
Tobacco	64,061
Fish and fish products	121,487
Iron and steel	70,840
Sugar and confectionary	100,251
Cement	80,016
Gold and gold compound	339,529
Petroleum product	114,096
Maize grain and flour	70,301
Cocoa bean	74,996
Animal and vegetable fat	62,090
Beans and other legumes	50,519

1. Which of the exports fetched the highest amount of money?
2. Which export fetched the lowest amount of money?
3. Classify the products under two categories. Unprocessed and processed. Which list is longer?
4. Uganda has traditional (well known) and non-traditional (other) exports. Classify the exports shown in the table under traditional and non-traditional exports.
5. Identify the category of exports that earned Uganda most money.
6. Do you think Uganda should strengthen trade in traditional export or non-traditional export: Write clear reasons for your answer.

Comparing the Value of Uganda's exports and Imports.

The table below shows the value of Uganda's top 10 imports.
The amount indicated is what Uganda spends on buying the indicated categories of goods.

Commodity	**Import value (000) USD**
Chemical materials and products.	106,355
Paper paperboard and articles of paper pulp	134,662
Textile, yarn, fabric, garments and related products	126,245
Machinery specialised for particular industries	207,788
Iron and steel	158,179
General industrial machinery, equipment machinery products	141,541
Road vehicles	412,857
Electrical machinery, apparatus and appliances	158,938
Telecommunication, sound recording/ reproducing apparatus	121,930
Miscellaneous manufacturing articles	119,169

1. Identify the category of goods that Uganda imports (Processed or unprocessed).
2. Find out the difference between Uganda's imports and export commodities in terms of Value.
3. Uganda exports and also imports iron and steel. What do you think is the reason?
4. Compare the value of the iron and steel Uganda exports and the value of the same than Uganda imports. Which one has more value and what do u think is the reason.
5. Basing on what you have learnt about Uganda's exports and imports, what can Ugandans do to increase the value our exports?

Activity: Finding out about Uganda's export and Impot trade.
Read the following passage carefully and respond to task below.

Uganda's export trade:

Agricultural products have dominated Uganda's exports throughout its history. Coffee became the most important export after 1950, but Cotton, tea and tobacco, and some manufactured goods were also important. During the 1970s, all exports except coffee declined as a result of low producer prices, marketing problems, declining exchange rates and general economic disruption.
From 1981 to 1984, general exports steadily increased, but only in 1984 and 1985 were they were sufficient to produce a trade surplus. In 1986, a trend of declining exports and increasing import developed and continued to the end of the decade. Uganda sent most of her exports to the United States, Britain and the Netherlands and France.
Exports to regional trading partners were less important but increased slightly

in the late 1980s
During the early 1980's, the value of imports remained fairly steady, limited mainly by shortage of foreign exchange. The government normally allocated foreign exchange for the purchase of essential goods such as fuel, vehicles, machinery medical supplies and military equipment.
Principal import mainly construction materials machinery and spare parts came from Kenya, Britain, Malasia and Italy

Tasks

1. List Uganda's main exports and imports before 1986.
2. List the counties where Uganda exported its products
3. List countries when Uganda imported from.
4. List the types of trade that are mentioned in the passage
5. The government has to allocate foreign exchange to essential goods. Do you think it was a good thing? Give reasons.

Importance of trade:

* Promotion of international relations and regional cooperation through export and import trade like between Uganda and Kenya.
* Production of basic good for example food, clothings, drugs fuel and food supplies improving standards of living.
* Source of foreign exchange through exports used for importing and making investments
* Provision of employment opportunities to customs offices, clearing and forwarding agents leading to high standards of living.
* Improvement in transport and communication like Construction of roads, standard gauge railway, modern ports and airports for connectivity.
* Source of government revenue by taxing people and companies leading to increase in national income.
* It leads to increase in national unity since people interact in towns, shopping centres and markets.
* Promotion of education and research by visiting markets, shopping centres for better skills.
* Promotion of urbanisation and port development because of population increase around market centres hence provision of services like clean and piped water, housing.

Limitations / Problems facing Uganda's Export Trade

* Political differences in ideology has limited export trade with Uganda's neighbours like Rwanda in terms of licencing requirements and certification process which creates obstacles.
* Language differences between trade partners which require one to translate instructions and descriptions of goods in transit.
* Currency differences have complicated price determination among trade partners since it increases bank charge fees for currency conversion, increasing trade costs.
* There is alot of bureaucracy and documentation hence causing delays at border points for example customs declaration.
* Differences in standard units of measurement e.g. Weight/Capacity Causing delays at border points.
* Outbreak of wars in neighbouring countries like DRC has limited the market potential for Uganda's export goods.
* Production of similar goods has resulted into price fluctuations hence losses for traders.
* Technological deficiencies in the manufacturing process which increases Uganda's import bill, the manufactured and semi processed products in this regard are mainly sourced from Europe, Middle East, America and Asian countries.
* High costs of doing business due to high regulatory burden on producer. This involves acquisition of operational licences which is sometimes bureaucratic scaring many potential producers.
* Increased competition from imports particularly from China and India where production subsidies are offered to producers which enables firms to compete successfully in foreign markets (for example textiles and garments.
* Limited value addition of available domestic raw materials particularly agricultural products with the Ugandan economy being highly concentrated in agro-processing activities.
* Dominance of Micro, small and medium-sized Enterprises (MSMEs) in manufacturing which are constrained in producing high quality goods by inability to meet standards set by importers in regional and international markets. This explains why successful exporters in Uganda are usually foreign players.
* Lack of an effective export strategy focused particularly in accessing international market. This has limited penetration into international market for example the loss of AGOA market which provided tariff free and quota free preference.
* Climate change has resulted to occasional drought which affect production of grains (e.g. maize) This has led to volatility of grain export.
* The prevalence of Non-Tariff Barrier. (NTBz) have ended up undermining the potential to increase intra-regional trade.

Possible solutions to problems/ Strategies to unlock Uganda's trade potential/ How

to promote Trade.

- Signing trade agreements with international markets for example European Unions, China and United Arab Emirates to expand the market potential.
- Harmonisation of Customs procedures, transit procedures tariff liberalisation and rule of origin. (ROO used to determine how much of a product was made in a specific country and how much was added to it during manufacturing.
- Joining of other regional economic groupings like COMESA, P.TA to widen market boundaries for trade.
- Diversification of exports to reduce production of similar goods that tends to reduce market.
- Promote exchange of trade delegations between different Countries to encourage exchange of ideas.
- Priotising business development through promotion of locally produced goods and services (under the Buy Uganda Build Uganda Initiative).
- Supporting development of Micro, Small, and Medium Enterprises (MSMEs) as part f measures to facilitate achievement of the country's industrialization goals.
- Boost national investments inorder to expand supply capacity including removal of barriers to trade and offering incentives to producers for export-oriented production.
- Creating awareness on the importance of intellectual property rights (IPR) protection against piracy.
- Continued support of integrating the single customs territory, Stop Border posts and integrated border management initiatives as part of the customs union.
- Supporting promotion of sector-based products with high potential to promote production of high value-added goods for domestic, regional and international markets, including leather industry, textiles/garments industry.
- Removing foreign exchange restrictions and opening many international banks to avoid currency disparities.
- Improvement of transport networks through implementing construction of the standard gauge railway to ease movement of goods for export.
- Promotion of peace, security and stability through peace talks to encourage smooth trade activities.
- Empowering export promotion agencies like Uganda Export Promotion Council, to promote international trade.

Economic integration/trade blocks

This is the grouping of countries for economic, political and social development. An example is the East African Community.

East African Community

The East African Community (EAC) is a regional inter-governmental organization of eight (8) partner states. These include The Republic of Burundi, Democratic Republic of Congo, Kenya, Rwanda, Federal Republic of Somalia, South Sudan, Uganda and Tanzania with its headquarters in Arusha.

Importances of economic integration

* Development of trade by reducing tariffs and barriers.
* Economic strength because of joint investments and bargaining.
* Regional specialization leading to international trade because of comparative advantage.
* Improvement in social services like power, education and water
* Promotion of research leading to improvement in science and technology.
* Development of urban centres like Arusha which serve as administrative centres.

Trade relations among members of East African Community are characterized by economic interdependence. This has facilitated regional integration, cooperation and mutual economic benefits despite occasion challenges.

Cause of trade restrictions among members of the East African Community.

- Exports being of poor quality
- Production of similar products that may discourage other partner state producers.
- Retaliation as partner states may have imposed similar restrictions on products.
- Strained political differences between East African Member states.
- Enforcement of International restrictions to pressurize partner states to make reforms.
- Outbreak of diseases in the agricultural sector posing Health risks.
- Protection of local producers from unfair trade with other member states.
- High tariffs/taxes imposed on products being imported.
- Adulteration (addition of substances into products) due to poor handling or storage especially perishables.
- Political instability/conflicts and disputes/ misunderstandings among member states.

International trade is the exchange involving goods and services between two different countries. It involves imports and exports.

Imports are goods or services brought into a domestic country

Exports are goods or services sold to a foreign country. International trade mutually benefits countries and promotes globalisation.

Table 11: Uganda merchandise trade 2009-2018 (US$'000)

Year	**Merchandise exports**	**Merchandise imports**	**Total Merchandise**	**Balance of Trade**
2009	1,567,592	4,247,370		
2010	1,618,606	4,664,327		
2011	2,159,070	5,630,868		
2012	2,357,505	6,044,147		
2013	2,407,725	5,817,510		

Task.

a) Calculate Uganda's total merchandise Trade for selected years.

b) Calculate Uganda's trade balance between 2009-2013

A table showing Uganda's trade with other regions of the World (2021)

Region	Export in million Dollars	Import in million Dollars
Asia	279.6	3628.1
East Africa	1,065	1608.2
North America	58.7	188.4

Interpretation of the Relationship between Exports and Imports

- Uganda imports more than she exports goods.
- Uganda Imports more goods from Asia i.e. 3628.1 million dollars compared to 279.6 million US dollars of exports.
- Uganda exports more to East African region than any other parts of the World
- 1.068m US $
- Uganda export least to North America with goods worth 58.7 M Us $
- She imports least from North America (.188.4 MUS$)

∗ **Terms of trade** refers to the ratio of export prices to import prices. It can be interpreted as the amount of import goods an economy can purchase per unit of export goods.

∗ **Balance of trade** refers to the difference between the value of goods and services exported out of a country and the value of goods and services imported into the country.

∗ **Balance of payments** is the difference between all money flowing into the country in a particular period of time and the outflow of money to the rest of the world.

∗ Balance of payments is said to be **unfavourable** when the debits of the country are more than its receipts. On the other hand when the debits of the country are less than its credit, the balance of payments is said to be **favourable.**

∗ **Favourable balance of trade** is when the value of exports of a country exceeds the value of its imports whereas **unfavourable balance of trade** is when the value of imports of a country exceeds the value of its exports.

- it allows a country to purchase the assets of another nation
- it allows countries to reinvest in specific industries
- it creates more jobs for the domestic economy it creates more free trade opportunities.

Reasons for Uganda's unfavourable terms of trade.

- High dependence on primary commodity exports (raw materials like coffee and cotton which are subject to fluctuations global prices and declining terms of trade.
- Import dependence for example petroleum products, machinery and manufactured goods which are often expensive and contribute to tradedeficits.
- Limited export base (low diversification) making Uganda vulnerable toexternal shocks and price fluctuations.
- Low value addition since Uganda's exports are largely unprocessed, resulting into low prices and fewer profits.
- High transportation costs and logistical challenges which increases the cost of trade making Uganda's exports less competitive.
- Weak institutions framework leading to inefficient trade facilitation processes and inadequate trade regulations.
- Dependence on few trade patrons which make it vulnerable to changes in their economies.
- Climate change. Climate related shocks like floods affect agriculturalproductivity and exports leading to trade instability
- Low levels of technology and innovation reducing competitiveness
- Global market dynamics like fluctuations, tariffs and trade agreements can affect terms of trade adversely.
- Global pandemics like Covid 19 which may close up potential markets

Effects of Unfavourable terms of trade to Uganda's economy

- Reduced export earnings hence decreased revenue
- Imports become more expensive
- Slows down economic growth
- Increased poverty due to low incomes
- Reduced investment
- Increased inflation due to higher import costs
- Reduced competitiveness of exports on global market.

Table 1: Export value in million US dollars (US $) for Uganda and Tanzania (2006-2010).

Country	2006	2007	2008	2009	2010
Uganda	1,524	1,993	3,506	3,753	4,087
Tanzania	3,233	4,079	5,208	4,963	5,975

Adapted: African Development Indicators 2012/13.

Tasks:

a) Draw a suitable graph to show the information in the table.
b) Describe the trend of Uganda's exports between 2006- 2010
c) Advise East African countries on how to boost trade.

Scenario; Uganda has continued to trade with other countries ever since it gained her independence. Currently, she imports most of her commodities. Despite the efforts Uganda government is putting in place to change the situation, this has always landed on a hard rock. This situation is expected to even worsen in the next 10years from 2023.

Task.

a) What are the challenges faced by Uganda as a result of importing more than she exports?

Scenario

The government of Uganda is committed to the attainment of an independent self-sustaining economy. To achieve this, there is need to increase earnings, from foreign trade. In 2021, Uganda's trade statistics with other regions of the world showed that Uganda earned 279.6 million US dollars from exports to Asia, and imported 3,628.1 million-dollar worth of goods from Asia. Within the East African region, Uganda exported goods worth 1,061 million US dollars, while the imports were 1,608.2 million US dollars. From North America, Uganda imported 188.4 million US dollars' worth of goods and exported 58.7 million US dollars' worth of goods. Your headteacher has asked you to study the information in the scenario and use it to address the school business club members on the position of Uganda in foreign trade. **Adapted:** *Monthly export and import statistics of Uganda from January 2020- Jan 2021. UBOS Monthly Merchandise Trade Statistics bulletin March 2021 Pages 13 and 16.*

Task:

a) Present the information on Uganda's trade in a table.
b) Draw a suitable statistical diagram which you will use to illustrate this information during the address.

Scenario

Uganda and Kenya have been great trading partners. Recently the Kenyan government

restricted the entry of some trade items like eggs, maize flour, milk and chicken citing health hazards in these items which can greatly affect the lives of the people. This has not only affected farmers and traders in Uganda but also strained the diplomatic relations between the two countries calling for government quick response.
The ministry of Trade, Industry and Cooperatives has organized a symposium on how to address the situation where you have been invited to give your opinion.

Task

a) Using your knowledge of trade within and outside East Africa, explain the causes of trade restrictions between Uganda and Kenya.
b) Advise the ministry on how to address the situation.

Activity

Why do you think Uganda needs to implement Import substitution strategy of Industrial Development.