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**UGANDAN TRADE POLICY AND EXPORT PERFORMANCE IN THE
1990s**

by

Oliver Morrissey and Nicodemus Rudaheranwa

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The Authors

Oliver Morrissey is Director of CREDIT and Senior Lecturer in the School of Economics, University of Nottingham. Nicodemus Rudaheranwa is a Research Student in the School of Economics, University of Nottingham.

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NB: Full tables are in the Appendix at the back of the paper. Table numbers in the Appendix may not correspond to referred table numbers in the text.

UGANDAN TRADE POLICY AND EXPORT PERFORMANCE IN THE 1990s

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Abstract

The Ugandan economy has been transformed since 1987. We ask how effective have the reforms been in increasing the incentives to exporters. Uganda has made significant progress in reducing the anti-export bias in its trade policy. Taxes on exports have been abolished, the foreign exchange market is liberalised and exporters are allowed to retain their export earnings. Import protection has also been reduced considerably. However, while the relative incentives to exporting have improved, export earnings have not. The real problem facing Uganda is the severe lack of export diversification and the fact that it is a price taker on world markets. Uganda can take measures to encourage export diversification, both in terms of quality and niche markets for traditional commodities and in terms of encouraging non-traditional exports. Trade policy reforms are only part of such a strategy. Improved infrastructure and institutional support are an important component of export support, to reduce the adverse effects of natural barriers. We conclude that the principal trade policy reforms have been implemented, and the policy environment is right now for export support, through investment in infrastructure and institutional support.

Outline

1. Introduction
2. Trade Policy Since 1987
3. Composition of Trade and Export Performance
4. Export Promotion
5. Conclusions

1 INTRODUCTION

The Ugandan economy has been transformed over the past decade. Since 1987 there has been dramatic progress in ‘market-oriented’ policy reforms, especially liberalising the foreign exchange market and attaining macroeconomic stabilisation, notably tight fiscal and monetary policies which help maintain low inflation. The macroeconomic stability of recent years has contributed to business confidence and a favourable trade environment. Initiatives to revive the private sector by encouraging both domestic and foreign investors have also been undertaken through provision of various incentives to investors, in particular the enactment of the Investment Code in 1991, and provision of fiscal incentives. The return of confiscated properties to Asians in the early 1990s, under the Custodian Board, was important in encouraging investors to have confidence that property rights would be secure.

While the success of these reforms can be evaluated against various criteria, we confine attention to one. How effective have the reforms been in increasing the incentives to exporters, and has Uganda witnessed an improved export performance? A survey conducted by the Export Policy Analysis Unit (EPAU, 1995b) reveals that exporters and investors in Uganda appreciate the extent of macroeconomic policy reforms but regard institutional and infrastructural support as being inadequate. Exporters identify a number of problems that increase trade costs: paperwork and slow clearing procedures for exporting, the high cost and lack of credit, and high freight charges. These high transaction costs make exporters less competitive in export markets. Exporters also perceive tariff reforms and incentives provided by the government to reduce anti-export bias as being inadequate. It appears that although much has been achieved, more needs to be done.

This paper reviews Ugandan trade policy reforms since 1987, concentrating on the effect on incentives to exporters. Section 2 considers the principal trade liberalisation reforms that have been implemented, while Section 3 examines trends in external trade, paying particular attention to trends in the level and composition of exports. Section 4 looks at explicit export promotion measures and reviews evidence on how exporters perceive the trade environment. Our conclusions are offered in Section 5. First, we briefly consider the principal macroeconomic trends.

Macroeconomic Performance in Uganda

Uganda is a landlocked country dominated by agriculture and associated activities. In 1990, agriculture accounted for more than 50 per cent of GDP, was the mainstay of the majority of Ugandans in terms of food, employed over 80 per cent of the labour force and generated more than 90 per cent of export earnings (World Bank, 1991). By 1997, agriculture accounted directly for 42 per cent of GDP (half of this was estimated non-monetary GDP) and about 75 per cent of export earnings (*Background to the Budget 1998/99*). Historically the contribution of manufacturing to the economy has been marginal, but it has grown recently, from just over five per cent in the late 1980s to almost 10 per cent by 1997 (*Background to the Budget 1998/99*). Agriculture is a major source of inputs into manufacturing, mainly processing of agricultural produce. Policies directed to develop the agriculture sector, given its importance and linkages with other sectors in the economy especially in income generation, can make a major contribution to economic growth in Uganda.

Real annual growth rates fluctuated but averaged around five per cent during the recovery period since 1987, with what appears to be a sustained increase to over seven per cent per annum over 1995-97 (Table 1). Inflation was reduced substantially from in excess of 100 per cent in the late 1980s, to double figures in the early 1990s, and down to single figures since 1994. Fluctuations in the inflation rate are to be expected, either because of slippage in budgetary targets or external factors, such as the drought in 1992 or Kenyan border closures. The principal means of bringing inflation under control was tight fiscal policy. Prior to 1986, fiscal deficits were mainly financed from the banking sector, through printing money, but since the Economic Recovery Programme (ERP) in 1987 financing has been from foreign sources. This, coupled with increased effort in tax revenue collection, through the creation of the Uganda Revenue Authority in 1991, resulted in slower monetary growth, from 203 per cent in 1988 to 33 per cent in 1994 and 16 per cent in 1997 (Table 1).

TABLE 1

Ugandan Economic Indicators, 1987-1994

	1987	1988	1989	1990	1991	1992	1993	1994
<i>Annual growth rates:</i>								
Real GDP	1.0	7.7	6.5	5.5	4.4	2.6	7.2	4.5
Money Supply (M2)	95.0	202.9	122.4	56.0	46.8	53.4	42.0	33.4
Inflation rate	256	180.1	102.2	48.1	24.5	42.2	28.3	6.5
<i>As % GDP:</i>								
Agriculture	54.1	54.2	53.9	52.6	50.2	50.6	49.0	
Industry	12.5	12.2	12.3	12.9	13.8	13.7	14.7	
Manufacturing	5.3	5.5	5.6	5.8	6.6	6.5	7.1	
Services	33.4	33.6	33.8	34.6	36.0	35.7	36.4	
Gross Domestic Investment	9.2	11.6	12.7	13.0	16.3	16.5	16.3	16.4
Gross Domestic Savings	-12.6	-10.6	-8.4	-3.4	-1.1	1.0	-0.7	2.2
Public Sector Balance	-4.6	-5.8	-5.2	-6.4	-7.9	-14.5	-12.6	-10.9
Net foreign financing	0.5	2.2	2.2	6.6	3.6	5.2	5.2	6.4
Domestic bank financing	4.3	2.0	1.4	-1.4	0.2	1.9	-0.4	-0.8
non-bank financing	-	-	0.1	-0.2	0.3	0.2	-0.2	0.2
<i>As % Exports:</i>								
External debt	309	563	626	895	1246	1358	1301	910
Debt Service Ratio	54.0	62.0	74.0	81.0	95.9	127.7	85.1	56.5
Foreign Exchange reserves	0.7	0.7	0.8	0.5	1.3	2.2	1.8	2.9
Real EER	558	435	485	569	931	1215	1333	-

Notes: Debt variables are percentages of exports of goods and services. Foreign exchange reserves are in months of imports of goods and non-factor services. A rise in real effective exchange rate (EER) implies depreciation. Sector shares in GDP are for financial years; for example, 1991 refers to 1991/92.

Sources: Sharer *et al.* (1995), WTO (1995), World Bank 1995.

Depreciation of the real effective exchange rate, from 558 to 1333 Uganda shillings (USh) per \$US dollar between 1987 and 1993, led to increased producer prices. The cost of imports doubled (as off-setting tariff reductions were insufficient), increasing business costs and permitting import-competing firms to charge higher prices. The principal beneficiaries were commodity exporters that received much higher prices (in Ugandan shillings, USh), generating incentives to produce more for export (as coffee was the major export, this had important implications as discussed below). In principle, such depreciation was supposed to improve the trade balance by curtailing demand for imports and increasing exports. However, import expenditures remained quite stable over 1987-92 whilst export earnings declined (Table 3); the trade deficit increased dangerously from 75 per cent of exports in 1987 to twice the value of exports by 1992 but improved significantly thereafter and was below 30 per cent of exports in 1996 (Table 1). The increased demand for imports was financed from external inflows, increasing the external debt: the debt service ratio rose from 54 per cent of exports in

1987 to a peak of 128 per cent in 1992, declining to 57 per cent in 1994 (Table 1). By 1997, however, Uganda's debt was becoming manageable.

The standby capacity to import was less than one month of imports up to 1990 but has increased since then. Evidence on trends in external debt given in Table 1 underscore the need to improve the export sector so that required imports are financed from the country's export earnings. Uganda is a small exporter, unable to influence world prices, but increasing efficiency (by cutting costs) in production and distribution would increase the profit margin to producers and exporters thus encouraging them to increase the volume of exports. Trade policy reforms are central to export growth.

2 TRADE POLICY SINCE 1987

A stabilisation programme was adopted by Uganda in 1981 but, given severe political instability, was abandoned in 1984. Trade policies in the 1970s and early 1980s were influenced by conditions in the world coffee market. In turn coffee export earnings influenced the exchange rate and the administered coffee producer prices. The dominance of coffee in terms of export earnings and revenue to the government helps to explain the persistent overvaluation of the exchange rate, which was at a fixed rate until the mid-80s. The implications of the boom in coffee prices in the mid-90s, believed to have caused exchange rate appreciation, are discussed below. The economic situation in Uganda before 1986, or more accurately prior to the reforms initiated under the Museveni government, is succinctly described by WTO (1995: 4):

Erratic and inconsistent policy management discouraged formal economic activities, in particular production for exports: administered producer prices for cash crops were rarely raised in line with inflation and resulted in a sharp fall in real farm returns. State-owned trade and processing monopolies further stifled farmers' initiatives and, coupled with a narrow export base, increased the government's dependence on export taxes, particularly on coffee; and tight foreign exchange allocation procedures discouraged any alternative international activities. The anti-export bias was compounded by a requirement on major cash crop exporters to surrender export proceeds at the over-valued official rate.

Since 1987 there has been progress in policy reforms towards market and price deregulation. Significant steps have been taken in liberalising the foreign exchange market, attaining macroeconomic stabilisation and attracting investors. As noted above, these have contributed to business confidence.

The government launched a comprehensive Economic Recovery Programme (ERP) in 1987 with support from the International Monetary Fund (IMF), the World Bank and other donors. One of the objectives of the ERP was to create an environment enabling increased volume and diversity of exports, through policies geared towards establishing market-determined exchange rates and producer prices, and the privatisation of inefficient state-owned enterprises, such as Marketing Boards. In an attempt to encourage more production for export markets a drawback scheme was introduced in 1991 under which the custom duties initially paid are refunded once the export has taken place. Table 2 summarises the policy reforms since the launching of the ERP in 1987.

TABLE 2
Uganda's Export Composition, 1989-1995

Commodity	Commodity exports (% total)						
	1989	1990	1991	1992	1993	1994	1995
Coffee	-	80.3	64.2	65.0	53.1	74.6	69.3
Other TE	-	7.0	12.6	13.5	11.7	4.2	4.7
TE	90.9	87.3	76.8	78.5	64.8	78.8	74.0
Fish	-	0.8	2.9	4.4	4.6	2.3	3.2
SS	-	3.0	5.7	4.4	1.4	0.3	1.0
Maize	-	1.9	2.3	2.7	11.6	6.2	3.5
Beans	-	2.4	2.3	1.9	6.3	2.8	2.0
Other NTE	-	6.0	10.4	8.6	12.5	8.6	17.5
NT E	8.9	14.1	23.6	22.0	35.2	20.2	27.2

Notes: Other traditional exports (TE): tea, cotton and tobacco; SS, Sesame seeds; NTE, non-traditional exports mainly agricultural commodities. Figures may not add up to 100% due to rounding.

Source: Uganda Statistical Abstract 1996.

There has been rapid progress in deregulating the foreign exchange market. Initially the exchange rate policy involved repeated devaluation and rationing of the available foreign exchange under various schemes, the Open General License (OGL) in 1988 and Special Import Programme (SIP) in 1989. Private Forex Bureaux were introduced in 1990 and by 1993 the exchange rate was completely market-determined and exporters

were allowed to retain 100 per cent of their export receipts (all surrender requirements had been abolished). Most export taxes in Uganda are implicit rather than explicit, with the exception of coffee export taxes, which used to be the main source of government revenue. Tax on coffee exports was abolished in 1992 but reintroduced in 1994 to limit the appreciation of the exchange rate as a result of the coffee price boom. This coffee tax (the Stabilisation tax) was abolished in 1996 (see below).

The implicit taxes, such as tariffs on imported inputs, have been eroded over time as import liberalisation proceeded, with successive measures since 1992 to replace quantitative restrictions with tariffs, rationalise and reduce tariffs, and reduce the number of goods on the negative list. The first bout of tariff rationalisation in 1992 established a range of 10-60 per cent, reduced to 10-50 per cent in 1994; by 1996 the highest tariff rate was 30 per cent, and in 1997 the range of rates was further reduced to 0, 5, 10 and 20 per cent. The range of rates on imports from COMESA countries, notably Kenya and Tanzania, was 0, 2, 4 and 8 per cent. This understates actual protection. When tariffs were reduced in 1996 an Excise Duty of 12 per cent (of the tariff inclusive price) was imposed on certain imports. The Duty was reduced to 10 per cent in 1997, but its coverage extended to apply to almost all finished and consumption goods (including, especially, those from COMESA). Furthermore, VAT at 17 per cent was introduced in 1997; while this applies to imports and domestically produced goods equally, it is applied to the import price inclusive of tariffs and Excises. Thus, for example, the tax on a domestic manufactured product would add 17 per cent to the price, but if a competing manufacture was imported from outside COMESA (hence 20 per cent tariff) it would attract a cumulative tax of about 55 per cent.

A number of products attract very high tax rates. Excises are 215 per cent on petrol (Super), 160 per cent on diesel, 105 per cent on kerosene, 122 per cent on finished tobacco products (in addition to 30 per cent import duty, 12 per cent COMESA), 130 per cent on spirits (20 per cent import duty), 20 per cent on larger cars and 4WDs, plus higher rates on some other products. Beers, mineral waters, car batteries and vehicle retreads were removed from the negative list on 1 April 1998, but any imports will attract high Excises. Cigarettes are to stay on the negative list until 1999. The Excises on petroleum products are motivated by revenue needs, whereas the others are motivated by protection.

Total import duty revenues in 1996/97 were approximately \$100m on assessed imports exceeding \$600m, implying an average nominal tariff of 16 per cent. Exempted imports, however, were worth some \$100m. Two sources of exemptions are unalterable: 47 per cent are due to exemptions for Diplomats, and 21 per cent to International Agreements. Exemptions for investors were only three per cent of the total (down from 16 per cent the previous year) but discretionary exemptions accounted for 29 per cent, representing a potential revenue loss of some \$2.5m (International Development Consultants, 1997). From 1997/98, the total value of discretionary exemptions is limited to US\$1bn, which should lead to some revenue increases.

A number of marketing boards have either been privatised or lost their monopoly powers by being exposed to competition from the private sector. A prominent example is the former Uganda Coffee Marketing Board, which since 1992 has increasingly lost most of its coffee export shares to other private exporters (especially multinationals). The monopoly power of Uganda Railway Corporation in shipping coffee exports was reduced recently when coffee shipments were opened to competition, allowing the participation of truck transport as well. Other policies under the programme include replacement of the trade license needed each time an export transaction is made with a trade certificate that lasts at least six months.

To insulate the economy from adverse terms of trade and instability in export earnings associated with commodity concentration, there has been a policy shift since 1987 to diversify the country's exports to include non-traditional (mainly agricultural) exports. To some extent there has been a significant rise in export revenue from non-traditional exports, from \$3 million in 1986 to \$71 million in 1993, representing 35 per cent of total export earnings, and to \$151 million in 1995, representing 27 per cent of total export earnings (Sharer *et al*, 1995). Traditional exports, especially from coffee, still constitute the major share of foreign exchange earnings (and will remain so for the foreseeable future).

Under the third Structural Adjustment Credit agreed with the World Bank (SAC3), Uganda is to further rationalise tariffs to two rates, 7 and 15 per cent, and is expected to abolish the special Excise Duties on imports (the latter is at present a principal sticking

point). It is likely that duties currently at rates of 0 and 5 per cent will go up to 7 per cent, while those at 20 per cent will go down to 15 per cent. It is unclear what duty will apply to goods currently subject to the 10 per cent tariff (revenue and protection motives suggests that most if not all commodities at this rate will attract a higher rate).

Future trade policy reforms will be influenced by progress in establishing a regional integration agreement with Kenya and Tanzania, the East Africa Cooperation (EAC). The EAC Development Strategy approved at a summit on 28 April 1996 stated the aim of a common trade and investment area. Discussions have mentioned a common external tariff and zero internal tariffs. One sticking point in negotiations is how the external tariff would be shared, especially as that due to Uganda would be collected either at Mombassa or Dar-es-Salaam. As neither country is an important export market for Uganda, progress on the EAC will not have a significant effect on exporters (although they will benefit if investment in infrastructure improves).

3 THE COMPOSITION OF TRADE AND EXPORT PERFORMANCE

Trade liberalisation was designed, amongst other things, to reverse and even eliminate the trade deficit through increasing export earnings and curtailing the demand for imports. Incentives geared towards the export-oriented trade and market-determined exchange rate policies are expected to encourage both traditional and non-traditional exports. Nevertheless, merchandise exports continued to decline whilst imports remained steady throughout the liberalisation period from 1987 to 1992; thereafter, the value of exports improved markedly (Table 3). The persistent trade deficit simply reflects the composition of Uganda's export basket (primarily coffee and other cash crops) and import basket (manufactures, equipment and machinery) and the impact of deteriorating terms of trade. This explains why the goal of eliminating the trade deficit has not been achieved.

TABLE 3
Traditional Agricultural Exports, 1982-1993

<i>Period</i>	Coffee		Tea		Cotton		Tobacco	
	<i>Tonnes</i>	<i>US\$/Kg</i>	<i>Tonnes</i>	<i>US\$/Kg</i>	<i>Tonnes</i>	<i>US\$/Kg</i>	<i>Tonnes</i>	<i>US\$/Kg</i>
1982	174700	2.00	1200	0.67	1800	1.78	0	0
1983	144300	2.40	1300	0.92	7000	1.60	700	1.29
1984	133200	2.70	2500	1.32	6700	1.81	700	2.14
1985	151500	2.30	1200	0.83	9553	1.46	300	1.33
1986	140800	2.80	2800	1.11	4875	1.04	0	0
1987	148153	2.08	2100	0.90	3443	1.19	0	0
1988	144254	1.84	3079	1.00	2088	1.42	39	1.49
1989	176453	1.49	3195	1.00	2321	1.73	490	1.16
1990	141489	0.99	4760	0.75	3038	1.52	2268	1.24
1991	124819	0.94	7018	1.00	7819	1.50	2467	1.90
1992	119066	0.80	7816	1.00	7536	1.50	2322	1.90
1993	114133	0.94	10178	1.00	2483	1.50	4109	1.90

Source: Background to the Budget 1994-95.

As noted above, the economy is dominated by agricultural activities, as is the commodity composition of exports. While the share of Food and Live Animals declined from 93 per cent of exports in 1987 to 68 per cent in 1992 but recovered to over 75 per cent in the mid-90s (Table 3); this is largely a reflection of the variability in coffee earnings. With the increase in coffee prices and growth of non-traditional exports since the mid-90s, the trade balance has improved (although the composition is still dominated by agriculture). The composition of imports has remained remarkably stable, and the volume has only increased markedly since 1994 (Table 3).

Exports are grouped into traditional (coffee, tea, cotton and tobacco) and non-traditional (NTEs), mainly composed of agricultural commodities such as sesame seeds, maize, beans, horticulture and fish. Traditional commodities account for over 70 per cent of exports for most of the period between 1989 and 1993 (Table 4). The inherent problem of dependency on coffee is borne out by declining world prices, which halved between the late 1980s and early 1990s (as discussed below, they rose again after 1993). Prices for other traditional exports remained fairly stable; cotton and tea prices recovered in 1996 but only that for tobacco increased throughout the 1990s (Table 5). Exports volumes had increased significantly by 1997, suggesting potential for supply response (Table 5). Given the disastrous rains in the first quarter, output and exports are likely to decline in 1998.

TABLES 4
Perceptions on export promotion measures

Response	Foreign Exchange Retention		Exchange rate liberalisation		Export Certification	
	1992/93	1994/95	1992/93	1994/95	1992/93	1994/95
%						
Satisfied	72	72	90	88	88	80
Not satisfied	28	17	10	5	12	16
Not specified	-	11	-	7	-	4

Note: Figures given are percentage of sample of exporters.

Source: EPAU (1995b).

The strategy to reduce export commodity concentration is indicated by a relatively sharp rise in the percentage share of non-traditional agricultural exports from nine per cent in 1989 to around 28 per cent in 1993 (Table 4). Non-traditional exports are characterised by fluctuations within and across commodities on aggregate both in quantities and prices and therefore on earnings. For example, maize exports rose from 33 thousand tonnes with a value of \$4.2 million in 1991, to 160 thousand tonnes with a value of \$23 million in 1993, but then fell to 99 thousand tonnes in 1994, although the value rose to almost \$29 million (*Uganda Statistical Abstract 1998*, pp. 74-5). Beans also experienced fluctuations in both export quantities and earnings. Despite fluctuations in export prices, increasing volumes of exports can enhance foreign exchange earnings. The fluctuations may reflect the high costs and risks involved in production and marketing of non-traditional agricultural exports, especially for new entrants. Fluctuations in demand for beans and maize were influenced by political conditions in the region for most of 1990s as purchases were by the World Food Programme (WFP) as food relief for refugees in the region

Two factors that influence export performance in Uganda can be distinguished, a combination of deteriorating terms of trade and declining (but erratic) volumes of traditional exports, especially coffee (there are some signs of both trends reversing since 1996). Unfortunately, the increase in volume and value of non-traditional exports was rarely adequate to compensate for declines in coffee export earnings (Table 3). Furthermore, increases in output of other traditional exports did not prevent the trade balance from deteriorating.

Exports from Uganda are not only composed of a few commodities but also are destined to a small number of export markets, mainly the European Union and North America. The share of exports to the EU increased over time while that to North America declined (*Background to the Budget*, various years). Traditional exports are destined for industrial markets while most NTEs (excepting horticulture and sesame) are destined for regional markets. Given the negligible share of manufacturing exports, it follows that most exports are unprocessed. There is very little trade between Uganda and its neighbours, with the exception of imports from Kenya. In reality, there is more trade (both imports and exports) between Uganda and industrial countries than with other developing countries. Such a trade structure may be explained by several factors. Most developing countries are heavily protected by both tariff and non-tariff trade barriers, which reduces the level of trade. Furthermore, regional trade is constrained by poor transport and communication systems, and long border and customs clearance delays (Folke *at al*, 1993). A more obvious factor for Uganda is that it produces primary commodities, generally the same as those produced by neighbours, which are only likely to be demanded (in large volumes) by industrial countries. With the exception of Kenya, which has a larger and more established manufacturing sector, Uganda produces the same goods as its neighbours, with obvious implications for any regional trading arrangements (such as the EAC).

A more serious impediment to trade among developing countries is lack of finance both for individual exporters¹ and at the national level. The main financial constraint facing developing country exporters is that of foreign exchange, which puts severe limitations on their import capacity. This problem is often overcome through counter-trade (a form of barter trade) or regional clearing arrangements. Uganda adopted barter trade in 1986-87 but abandoned it because of the complexity and high transaction costs involved in the scheme, while the clearing arrangement system is operational within the PTA (COMESA) region. An alternative solution to the financial constraint is seeking aid from industrial countries. One of the consequences of aid (especially tied aid) is that it may influence the trade structure (both imports and exports) of the recipient country.

¹ Developed countries are in a better position to offer generous credit terms to their exporters than developing countries (Folke, *at el.*, 1993). Individual exporters both in industrial and developing countries may receive support from their governments through various schemes including export credit guarantee scheme, but the terms offered (e.g. duration of the payment, interest rate, etc.) by developing countries may not compete those offered by industrial countries.

This may partly explain the high concentration of trade between Uganda and the European Union, especially with the United Kingdom.

Since 1984 Uganda's export revenue declined persistently in the face of deteriorating terms of trade. At the same time, imports continued to rise as domestic production stagnated and imported inputs and capital goods were required to rehabilitate the economy after 1987 (a large proportion of imports comprise machinery and capital equipment for which there are no domestic substitutes). One objective of ERP was to improve the trade balance by increasing both the diversity and volume of exports; much of the decline in export earnings since 1987 can be attributed to a declining or stagnant price and volume of traditional exports, especially coffee (Table 5). Furthermore, the inflexibility of administered relative to world coffee prices prior to 1989 resulted in illegal coffee shipments, further reducing export earnings (Henstridge, 1995). Similar problems applied to other exports (World Bank, 1991: 14):

The output of cotton in 1988/89 was 10,000 bales, which led to US\$2.4 million in exports. However, this output was down from around 470,000 bales in 1970s. As a crude calculation, if production had remained at 470,000 bales in 1988/89 and if we assume the same average price per bale as was actually realised with the 10,000 bales, then cotton export earnings in 1988/89 would have been about US\$83 million instead of the US\$2.4 million actually earned. Similarly, if exports of tea in 1988/89 had been 21 thousand tons as achieved in 1972 instead of 2.5 thousand tons, the export earnings would have been US\$36 million instead of US\$4.3 million.

This combination of declining volume and world prices of primary commodity exports reinforced the implicit anti-export bias created by protective policies. Degradation of the infrastructure and lack of institutional support may have added to the anti-export bias by implicitly taxing exporters. However, the real problem facing Ugandan attempts to increase export earnings is the severe lack of export diversification and the fact that it is a price taker on world markets. Uganda can do nothing to influence world prices for primary commodities and for the foreseeable future its export performance will depend on the world price for coffee (in recent year gold has been a significant source of export earnings, but this is due to instability in Congo, hence unreliable). Uganda can take measures to encourage export diversification, both in terms of quality and niche markets

for traditional commodities (such as organic coffee) and in terms of encouraging NTEs. Trade policy reforms are only part of such a strategy, and Uganda has gone far down that road. Improved infrastructure and institutional support are an important component of export support, to reduce the adverse effects of natural barriers (Milner and Morrissey, 1997). Some of these issues are addressed in the next section, and in more detail in Milner, Morrissey and Rudaheranwa (1998).

As coffee is such a dominant export, and as a temporary tax on coffee exports was introduced in the face of high world coffee prices in the mid-90s, it is worth considering this episode in some detail. Such a consideration serves to highlight important aspects of Ugandan export performance. The Stabilisation Tax (on coffee exports) was introduced in the Budget speech of June 1994, the stated reason being to reduce pressures on (appreciation of) the exchange rate. The source of this pressure, presumably, was the increased \$US revenue of coffee exporters. As the Ugandan Shilling (USh) was effectively a floating exchange rate at that time, the increased availability of \$US pushed up the price of USh (*Background to the Budget*, various years). From a low of USh 1255 to the dollar in April 1993, during a period of steadily rising world coffee prices, the currency appreciated to USh 973 in June 1994 (when the coffee tax was introduced at 32% of the price in excess of a threshold of USh 1100/Kg). The exchange rate reached a maximum of USh 925 per \$US in November 1994 (which was also roughly when the world price for coffee peaked). The currency then depreciated gradually to stabilise around USh 1030 in early 1996 (in July 1995 the coffee tax was revised to 32% beyond a threshold of USh 1500/Kg). On this basis, the tax may have contributed to stabilising the exchange rate. The Compulsory Floor Price was abolished on 1 March 1995, but replaced by an indicative price.

An economic evaluation of the effect of the tax requires identifying both the incidence of the tax and the propensity to save of those who received the windfall gain. A standard argument is that an export tax should not be levied because producers will always utilise the windfall gain better than the Government. The *a priori* case for this is strong. First, coffee farmers had low yields and a strong need for increased revenue to be used for investment and purchase of inputs. Second, the inability of the Government of Uganda to meet counterpart funds requirements of the development budget, an issue of contention with the World Bank, suggests that it was diverting funds. A windfall increase in

government revenue may also be diverted, or used as counterpart funds, rather than being used to finance investment. There are counter-arguments:

1. Price transmission was imperfect, i.e. part of the coffee price increase accrued to exporters rather than to producers. Available evidence suggests that producer prices increased significantly in real terms, but not by as much as world prices. World prices began rising from mid 1993, and increased 232% by end 1994; farm prices did not increase until mid 1994 (when the tax was introduced) and rose 166% by the end of the year (UCDA, 1995). This suggests that incidence of the tax fell largely on the exporters (traders).
2. Revenue from the Stabilisation Tax only accounted for 2-3% of tax revenue in 1994/95 and 1995/96, suggesting that it is unlikely to have had a significant impact on the budget or government behaviour. Collection efficiency was remarkably low.
3. It has been suggested that while farmers did increase investment, notably by planting new cuttings, as their revenues increased there was also a significant increase in conspicuous consumption, notably on houses and cars. While this may have benefited the local economy, it undermines the argument that the government would have used the revenue any less constructively.

The principal concern regarding the coffee tax, as stated by the Uganda Coffee Trade Federation was that it encouraged smuggling. Coffee exports had been rising steadily in the 1990s, reflecting increased yield due to new plantings, peaking at over 3m bags in 1993/94 (the season is October to September, so this was when world prices were rising fastest). Exports then fell to some 2.8m bags in 1994/95, when world prices were high but the tax was in place, but jumped to over 4m bags in 1995/96 coinciding with the period when the tax became redundant and was abolished. It is certainly reasonable to claim that (recorded) exports should have been much higher in 1994/95. Neighbouring countries levied no coffee taxes during this period. Given the high prices, and especially the squeezed trader margins (as tax was largely incident on traders), incentives for smuggling were high. Unfortunately, Customs provided no data on exports recorded as transshipments from Rwanda or Zaire (trucks bringing relief goods to these countries were claimed to have returned empty but with papers for coffee from these countries, then

loaded with coffee in Uganda). Another problem is that the tax was introduced quickly, without full consideration of how it would be administered, generating a number of problems. The mechanisms to monitor which traders exported coffee and at what price were poor, hence evasion was rife.

In the early 1990s farmers began to replant and improved their agronomic practices. Hence yields rose. When the world price increased, competition for coffee purchases was intense and farm-gate prices rose considerably. Yields increased most in those areas where good extension services were provided, especially in maintenance and husbandry (not usually something in which farmers themselves invested). Quality control remains a problem. This highlights the fact that increasing exports of agricultural crops is not simply a trade policy issue, although that is important to establish relative price incentives. It is also an issue of agricultural policy, and the details of providing education and extension services to small, dispersed farmers, and encouraging adoption of the most appropriate technology to ensure high quality output. Trade policy contributes to improving price incentives, but other policy interventions are necessary to relax constraints and ensure supply response (McKay *et al*, 1997). Some of these will be agricultural policy, others will be export promotion, to which we now turn.

4 EXPORT PROMOTION

The foregoing discussion demonstrates that economic policies adopted to increase both the volume and diversity of exports have proved inadequate, although largely for reasons beyond Uganda's control. Notwithstanding the external constraints, there was minimal supply response of exporters to improved incentives. To get some understanding on this issue we can consider how investors and exporters perceive the export promotion policies that accompanied the economic reforms.

The macroeconomic policy environment in Uganda in recent years has been regarded as favourable for exporting business, by 72 per cent and 78 per cent of exporters in 1992/93 and 1994/95 respectively (EPAU, 1995b). This favourable export climate stems from sweeping economic reforms under the ERP, notably some direct export subsidies and 100 per cent retention of foreign exchange by exporters, coupled by a duty drawback scheme. Table 6 summarises the views on export policy of exporters. Some 72 per cent were satisfied with the export retention scheme (in both years), about 90 per cent in each

year were satisfied with liberalisation of the exchange rate. However, support for export certification, as a result of bureaucratic difficulties, fell from 88 per cent to 80 per cent in 1992/93 and 1994/95 respectively.

TABLES 5
Reported Problems facing Ugandan Exporters

<i>Nature of problem</i>	Exports within PTA		Exports outside PTA
	1992-93	1994-95	1994-95
Inadequate market information	35	25	30
Inadequate institutional support	10	10	4
Unreliable importers	11	10	6
Difficulties in payments	17	10	11
Difficulties in meeting export requirements	17	10	27
Prices are not competitive	28	18	31
Others	6	5	4
<i>Sources of information to exporters</i>	1992-93		1993-94
Approaches from overseas	30		37
Opportunities discovered while travelling abroad	35		32
Promotion by local institution	8		7
Discovered opportunities from other exporters	47		32
Others	12		24

Note: Figures given are percentage of sample of exporters.

Source: EPAU (1995b).

Table 6
Awareness and Use of Credit Facilities

<i>Type of credit</i>	<i>Awareness</i>		<i>Usage</i>	
	1992/93	1994/95	1992/93	1994/5
Crop finance	27	19	3	4
Export refinance scheme	48	25	11	5
Development Bank Scheme	40	31	16	8
Other	9	6	2	2

Note: Figures given are percentage of sample of exporters.

Source: EPAU (1995b).

Table 7
Transport Costs from Kampala to the Seaport

	<i>Imports</i>		<i>Exports</i>		<i>Petroleum, oil and Lubricant (POL)</i>	
	US\$m	% cif	US\$m	% cif	US\$m	% cif
Time delays	6.8	2.0	2.1	1.9	0.51	0.8
Losses	3.3	1.0	1.1	1.0	0.10	0.2
Total	10.1	3.0	3.2	2.9	0.61	1.0
<i>Transit costs of break bulk imports in 1988 and 1993 (US\$/tonne in 1988 prices)</i>						
	From Mombasa				From Dar-es-Salaam	
	All road		Rail/Ferry		Rail/Ferry	
	<i>1988</i>	<i>1993</i>	<i>1988</i>	<i>1993</i>	<i>1988</i>	<i>1993</i>
Direct costs	112	98	67	71	107	70
Indirect Costs	14	18	38	17	103	18
Total costs	126	105	105	88	210	88

Notes: The time taken for shipping exports to Mombasa seaport ranges between 40 and 44 days depending on the route and mode of transport used while that of imports ranges between 42 to 46 days. Most of dry cargo exports and imports are ferried mainly through Mombasa but coffee uses both seaports while POL imports dominate the Dar-es-Salaam route. The surface transport system is composed of either rail and road at times combining with the ferry or a combination of the three modes. Rail/ferry transport incur low direct transport costs than road transport but faces high indirect costs simply because long delays.

Sources: Compiled from 'The Great Lakes Study', World Bank 1994.

Lack of information is a major impediment constraining Ugandan exporters; inadequate market information was the most serious impediment to exporting both within and outside the region, followed by uncompetitive prices and difficulties in meeting the export requirements (Table 7). These problems are likely to be self-reinforcing in that poor market information will constrain the quality of exports, which will hamper export competitiveness, and increase transaction costs thereby discouraging exporters. In effect, this may negate the incentives provided by the government to exporters and the positive impact of the exchange rate; for example, over 50 per cent of sampled exporters were not aware of available credit facilities, and awareness and usage declined between 1992/93 and 1994/55 (Table 8).

Constraints regarding market information may be improved through exporter-importer link relationships (Egan and Mody, 1992) or alternatively through hosting and participating in trade fairs locally and abroad. Experience in Zimbabwe, where International Trade Fairs are an annual event, indicates that exporters and buyers have

gained much through personal interaction in such events (*Financial Gazette* April 24, 1997). There are salient benefits of participating in trade fairs: the customer or buyer has the opportunity to examine the product on sale and compare it with others on exhibit. Trade fairs may be seen as venues suitable for information searches that give vital feedback on products and opportunities. Promotion of non-traditional exports in Colombia involved augmenting the exchange rate and other fiscal incentives, not only with simpler administrative procedures, improved port and other infrastructural facilities, but also by providing exporters with information (Teigeiro and Elson, 1973).

A separate institution (PROEXPO) was created to provide exporters with information on foreign markets and technical assistance regarding transport, parking, advertising, etc. PROEXPO was also responsible for organising trade fairs within Colombia and abroad, and administering the export insurance scheme providing exporters with protection against political and other non-commercial risk (Teigeiro and Elson, 1973). This form of acquiring information is limited in the case of Uganda. The Uganda Export Promotion Council is an institution assigned to link exporters to market opportunities but its function is limited by insufficient financing; exporters largely make their own initiatives in acquiring market information mainly through other exporters, approaches from overseas or while travelling abroad (Table 7).

Finance for exporting can be analysed in terms of availability, accessibility and affordability both of short term and long term credit. Tight fiscal policy since 1987 eased pressures on monetary expansion and reduced inflation, reducing real rates of interest. In Uganda, exporters have limited access to credit facilities, mainly because the borrowing rate of interest is too high (relative to the deposit rate) for profitable exporting business. The high cost of credit is attributed to inefficiency in the financial sector (Harvey, 1993), reflected in a wide spread between lending and deposit rates of interest (World Bank, 1991; EPAU, 1995a). Furthermore, commercial banks are reported as being more reluctant to become involved in long-term lending to exporters, especially for non-traditional exports that are perceived to be more risky.

Liberalisation of internal pricing and the foreign exchange market increased competition and led to higher producer prices and prompt payment to farmers. The increased producer prices provided an incentive for farmers to increase production of export crops.

Successful exporting requires not only a favourable macroeconomic environment but also supportive institutional and infrastructural facilities. Easy access to affordable credit, faster but simple export clearing procedures, availability of suitable but cheap storage/transport facilities, are all necessary for exporters to take full advantage of export opportunities. Exporters in Uganda still experience problems from the lack of these facilities in delivering their produce to export markets, especially for non-traditional exports (EPAU, 1995a and 1995b). Inefficiency is still noticeable in all paperwork necessary in exporting, from application for credit² to clearing of export and imports at the ports of exit (Table 10)³. High direct freight costs and indirect costs resulting from clearing delays all increase trade costs to exporters (Table 9) and render their exports less competitive in foreign markets. This indicates that there is some inefficiency and therefore room for improvement in the distribution chain. Availability of these facilities would reduce the transaction costs and increase the profits of exporting. For example, World Bank (1994) estimated that savings at \$3m could be made through improved transit procedures on the Mombasa route alone (Table 11).

Table 8
Breakdown of Transit time on Mombasa and Dar-es-Salaam routes

1.	About 20 days at Mombasa port for dry cargo, with time spent approximately equal between shipping and freight forwarding documents, port documents and customs clearing
2.	Cargo going by rail spends around 3 days in Mombasa in addition to the time spent on documentary and customs clearing, waiting for trains to be formed
3.	Between 2 and 4 days is often a norm for clearance at the Uganda port of entry (Malaba or Busia). Delays experienced are likely to be higher since customs do not work in the evenings or at the weekends.
4.	For road transport about 5 to 10 (an average estimate of 5) days are consumed by the convoy system between the border and Kampala, i.e. the time required to form a convoy
5.	The cargo further spend about 4 days at Kampala clearing port (Nakawa) but this is recommended to take less than 2 days
6.	Using rail from Dar-es-Salaam to Kampala via Mwanza takes 21 days for imports and 19 days for exports and 24 days for petroleum products. Transit times are shorter on the Dar-es-Salaam route than the Mombasa route mainly because of efficient port clearing at the former, i.e. it takes 4 to 7 days for shipping and about 2 to 4 days for customs clearance.

Source: Compiled from 'The Great Lakes Corridor Study', World Bank 1994.

² A study by Onyach-Olaa *et al.* (1994) for example found that time taken from lodging an application to getting a loan ranged between 7 to 210 days with an average of 46 days to complete the process.

³ It takes approximately 39 days to get exports to Mombasa and 44 days to deliver imports from Mombasa to Kampala (Table 10). Exporters interviewed during the last field visit felt that a range between 7 and 14 days for a return trip to Mombasa was achievable. Kampala to Mombasa is about 1500 km and some exporters felt that with efficiency the total time a truck would take is about 7 days: 2 days onward journey, 2 days return, 2 days for off/on loading and a one day allowance that includes resting.

Table 9
Cost shares for selected Mexican Horticultural Exports to the United States in 1984/85 (%)

Commodity	Production Costs	Internal Transport & Marketing Costs	International Transport & Handling Costs
Tomatoes	48	29	23
Bell peppers	42	38	20
Cucumbers	30	36	34
Green beans	54	28	18
Egg plants	38	30	32
Squash	49	22	29

Notes: Production costs include harvesting and packaging, Internal transport costs are from the farm to the export point, International transport costs are from the export point to the delivery point in the importing country.

Source: Islam (1990).

Table 10
Trade Policy Reform in Uganda since 1987

Year	Policy reform
1987	<input type="checkbox"/> Dual trade licensing system introduced, <input type="checkbox"/> Duty exemptions on raw materials and capital goods suspended.
1988	<input type="checkbox"/> Some protective tariffs (sugar, soap) raised, <input type="checkbox"/> Open General License (OGL) scheme of importation implemented,
1989	<input type="checkbox"/> Retention account scheme for export earnings introduced <input type="checkbox"/> Special import programme, <input type="checkbox"/> Duty exemption on raw materials
1990	<input type="checkbox"/> Export licensing system replaced with certification system, <input type="checkbox"/> Forex bureau/parallel foreign exchange market legalised,
1991	<input type="checkbox"/> Import licensing replaced with certification system, <input type="checkbox"/> Investment code introduced, <input type="checkbox"/> Duty drawback scheme introduced,
1992	<input type="checkbox"/> Foreign exchange auction market created, <input type="checkbox"/> Tariff structure rationalised (10-60% range), <input type="checkbox"/> Several duties on raw material abolished, <input type="checkbox"/> Tax on coffee exports abolished, <input type="checkbox"/> Coffee marketing board's monopoly removed
1993	<input type="checkbox"/> Unified inter-bank foreign exchange market /floating exchange rate <input type="checkbox"/> Surrender of coffee receipts waived, special import surcharges on Kenyan imports applied <input type="checkbox"/> Harmonised commodity coding of system for imports introduced, <input type="checkbox"/> System of trade documentation reformed, pre-shipment requirements introduced, <input type="checkbox"/> Cross border initiative (CBI) to promote regional trade introduced
1994	<input type="checkbox"/> Further rationalisation (10-50% range) of the tariff structure <input type="checkbox"/> Import duties on some of the materials suspended <input type="checkbox"/> Tax on coffee exports reintroduced
1995	<input type="checkbox"/> Coffee tax reduced <input type="checkbox"/> Narrow range of products only on negative import list <input type="checkbox"/> Reduced exemptions from duties on raw materials and intermediate inputs
1996	<input type="checkbox"/> Coffee tax removed abolished <input type="checkbox"/> Further rationalisation of tariffs, with reduction of top rate to 30% (though protective excise duty of 12% applies also on many tariff lines)

Source: Adapted and modified from Milner (1994) and World Bank (1995).

Agricultural exports (both traditional and non-traditional) face special problems (weather, etc.) in production and marketing processes. A high proportion of non-traditional agricultural exports comprises perishable commodities, such as fruits and vegetables, that are associated with high post-harvest transaction costs. These perishable commodities must be refrigerated within a few hours of harvest and need refrigerated storage facilities and trucks for transportation, through from producers to market centres, to prevent any spoilage of the produce (Table 12). This illustrates the importance of efficient infrastructure and market information. In order to market the export produce on profitable terms, exporters must find a foreign buyer, where the process may involve negotiating terms of exchange, transferring goods, monitoring and reinforcing, all of which may be complex to exporters (Collins, 1995). Evidence from Uganda in this regard suggests that refrigeration and processing is only undertaken in the fish industry (EPAU, 1995b). Other exporting firms are constrained by a lack of cleaning and refrigerated truck and storage facilities for perishable commodities and even for non-perishable exports storage facilities are not adequate (Onyach-Olaa *et al*, 1994). This lack of proper and adequate transport/storage facilities reduces quality and competitiveness in the export market, and also generates losses of produce that reduce the profit margin.

Transport infrastructure, internal and international, is an important factor in the chain linking the exporter and the buyer. Once production is complete, export produce should reach the market on time and in the right condition. To produce and deliver exports to the market on schedule requires an efficient transport system. The reliability and speed of transport is critical for a range of goods and becomes more important as one moves from basic, bulk commodities to products which may be perishable, have a short shelf-life or restricted market windows. Examples may include tropical fruits, vegetables and horticulture, that all take windows of opportunity during the off-peak season in Europe.

To some extent, the impact of international transport (ocean freight costs) on trade has been analysed, but inland transport costs are often ignored. The Mexican experience, however, shows that internal transport costs are higher and constrain exports more than international transport (Islam, 1990). For exporters in Uganda, the transport chain may be divided into three phases. Produce has to be procured from the farm for the collecting centres and then to the export point in Kampala. Then, produce has to be transported to

the seaport at Mombasa or Dar-es-Salaam (or Entebbe airport); and finally to overseas export markets. Initially, Uganda used to export on fob Mombasa or Dar-es-Salaam basis, but there has been a shift to exporting fot (free on truck or rail) from Kampala recently. This has improved prompt payment to exporters and minimised the difficulties and losses exporters would face in transporting produce to the seaport. Milner, Morrissey and Rudaheranwa (1998) estimate the implicit 'tax' on exporters due to transport inefficiencies.

Exporters pay transport costs when goods are sold on a cif basis while the importers pay when prices are fob or fot. Who bears the burden of transport costs, however, depends on relative elasticities of demand and supply for the export commodity being transported (Laing, 1977; Amjadi and Yeats, 1995). When demand is inelastic relative to supply, the burden of freight costs is born by an importer. Exports from Uganda face inelastic supply relative to demand and therefore exporters can be expected to have to absorb a high fraction of freight charges. It should be noted that Uganda is likely to face a relatively elastic supply and inelastic demand for imports, and therefore will bear transport costs of these, increasing costs of imported inputs.

In Uganda, poor transport infrastructure is perceived as a major constraint to exporters. Results from the EPAU (1995b) survey of exporters show that high fuel costs and poor roads, especially in the rainy season, were major concerns with regard to internal transportation while international transport attracted high freight charges and losses due to delays in transit (Table 9)⁴. Being a landlocked country, Uganda is naturally disadvantaged and her exports are either ferried by surface transport through Kenya or Tanzania and then by sea (some goods may be transported by air; while this relates only to a small quantity of NTE exports at present, it may become increasingly important). High freight costs reduce the local value added and a part of the export earnings that could otherwise be spent on productive capacity-building is spent on (international) transport. Uganda exports mainly unprocessed (low value added) commodities and therefore freight cost are a relatively high proportion of export value. As processed goods are generally lighter and less bulky than raw materials, one would expect that exporting processed (higher value added) goods would save on transportation costs,

⁴ For example it takes about 40 and 37 days to transport export output by rail and road respectively from Kampala to Mombasa port (World Bank, 1994).

although evidence suggests this is not always the case.⁵ While there are probable benefits to the Ugandan economy from moving up the processing chain and aiming to export higher value added processed goods, this is unlikely to yield any gains in lowering unit transport costs (relative to unit value). In fact, the desire to diversify exports, either into NTEs or more processed products, is likely to increase the transport, infrastructural and institutional needs of exporters. It is in this direction that export promotion policies in Uganda should move.

5 CONCLUSIONS

The Ugandan economy has been transformed since 1987. A credible degree of macroeconomic stability has been established and the trade and exchange rate regimes have been significantly liberalised. This has contributed to business confidence and a favourable trade environment. How effective have the reforms been in increasing the incentives to exporters? The policy environment (Morrissey, 1997) for exporting has greatly improved. Political stability and commitment to trade policy reform and macroeconomic stability are in place, although administrative capacity (especially to provide institutional support to exporters) is weak in many areas.

Uganda has made significant progress in reducing the anti-export bias in its trade policy. Taxes on exports have been abolished (the stabilisation tax on coffee exports was a temporary measure rescinded once world coffee prices fell from their 1995 peak), the foreign exchange market is liberalised and exporters are allowed to retain their export earnings. Import protection has also been reduced considerably; the maximum tariff has been reduced from 50 per cent in 1992 to 20 per cent in 1997, and the unweighted average tariff was only nine per cent in 1996. Furthermore, almost all non-tariff barriers have been removed. These reforms have improved the incentive to export by increasing the price of exportables relative to importables. As the reforms have been at a time of considerable depreciation of the Ugandan Shilling, the cost of imported inputs has not

⁵ Empirical studies (Waters, 1970; Yeats, 1977; Clark, 1981; Amjadi & Yeats, 1995) show that as developing countries move into processing their *ad valorem* shipping costs increase. This is attributed to the institutional structure of the shipping industry (Hecht, 1997). Marine shipping is mainly carried by liners or tramps. Tramps handle bulk and are affordable to exporters that can fill the shipping capacity. In contrast, liners transport small quantities and handle fragile or perishable processed goods. Developing country exporters of processed goods often rely on the liners because of the nature and size of their shipment. To the extent that liners handle small and non-containerised cargo and are organised in cartels, they charge higher freight rates. As a result shipping costs facing developing countries often rise when they move into exporting processed goods.

fallen in line with tariff reductions. In terms of trade policy, progress has been commendable and the likelihood is for further slight reductions in protection of imports.

However, while the relative incentives to exporting have improved, export earnings have not risen in line with the cost of imports. The real problem facing Ugandan attempts to increase export earnings is its dependency on a few primary commodities and the fact that it is a price taker on world markets. Uganda can do nothing to influence world prices for primary commodities and for the foreseeable future its export performance will depend on the world price for coffee. Uganda can take measures to encourage export diversification, both in terms of quality and niche markets for traditional commodities and in terms of encouraging non-traditional exports. Trade policy reforms are only part of such a strategy. Improved infrastructure and institutional support are an important component of export support, to reduce the adverse effects of natural barriers.

Uganda can do more to encourage exports, but now needs to turn to more direct export promotion (or support) measures. This does not mean subsidies. Rather it means investment in improving the efficiency, and reducing the costs, of transport, distribution and storage. This is especially important if there is to be an increase in non-traditional exports of perishable commodities such as cut flowers or beans. When exporters are asked to state the principal constraint to exporting, they commonly respond that information and institutional support are inadequate. These are linked and the government can help. Many Ugandan exporters are small-scale enterprises that are not themselves equipped to get information on marketing opportunities in, for example, different European countries, the legal and quality requirements to export, the distribution networks overseas, etc. An export promotion agency would be most helpful if it could provide such information, advice and technical support. Another area where government can help is in providing export credit guarantees and insurance, and through general investment in improving infrastructure.

The central theme of this paper has been that the Ugandan government has implemented most of the trade policy reforms required to eliminate the bias against exports, but this alone is insufficient to improve export performance. Export diversification is the key to the long-term improvement in export earnings, but is a slow process. Uganda is a land-locked country and transport costs play an important role in exporting. Its geographical

location is a 'natural' barrier to exporting, but the cost can be alleviated by improving transport efficiency. For internal transport, from producer to point of export, Uganda can itself invest in infrastructure. This includes storage and, for some products, exporting can be by air from Entebbe. For many products, notably traditional exports, transport will be through Kenya or Tanzania. This is somewhat beyond Uganda's control, although progress on the EAC should help. In a companion paper (Milner, Morrissey and Rudaheranwa, 1998) we estimate the implicit tax on exporters associated with transport inefficiencies and demonstrate that it is indeed a high cost. We can conclude this paper by reiterating that the principal trade policy reforms have been implemented, and the policy environment is now right for export support, through investment in infrastructure and institutional support.

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Appendix

Table 1 Ugandan Economic Indicators, 1987-1994

	1987	1988	1989	1990	1991	1992	1993	1994
<i>Annual growth rates:</i>								
Real GDP	1.0	7.7	6.5	5.5	4.4	2.6	7.2	4.5
Money Supply (M2)	95.0	202.9	122.4	56.0	46.8	53.4	42.0	33.4
Inflation rate	256	180.1	102.2	48.1	24.5	42.2	28.3	6.5
<i>As % GDP:</i>								
Agriculture	54.1	54.2	53.9	52.6	50.2	50.6	49.0	
Industry	12.5	12.2	12.3	12.9	13.8	13.7	14.7	
Manufacturing	5.3	5.5	5.6	5.8	6.6	6.5	7.1	
Services	33.4	33.6	33.8	34.6	36.0	35.7	36.4	
Gross Domestic Investment	9.2	11.6	12.7	13.0	16.3	16.5	16.3	16.4
Gross Domestic Savings	-12.6	-10.6	-8.4	-3.4	-1.1	1.0	-0.7	2.2
Public Sector Balance	-4.6	-5.8	-5.2	-6.4	-7.9	-14.5	-12.6	-10.9
Net foreign financing	0.5	2.2	2.2	6.6	3.6	5.2	5.2	6.4
Domestic bank financing	4.3	2.0	1.4	-1.4	0.2	1.9	-0.4	-0.8
non-bank financing	-	-	0.1	-0.2	0.3	0.2	-0.2	0.2
<i>As % Exports:</i>								
External debt	309	563	626	895	1246	1358	1301	910
Debt Service Ratio	54.0	62.0	74.0	81.0	95.9	127.7	85.1	56.5
Foreign Exchange reserves	0.7	0.7	0.8	0.5	1.3	2.2	1.8	2.9
Real EER	558	435	485	569	931	1215	1333	-

Notes: Debt variables are percentages of exports of goods and services. Foreign exchange reserves are in months of imports of goods and non-factor services. A rise in real effective exchange rate (EER) implies depreciation. Sector shares in GDP are for financial years; for example, 1991 refers to 1991/92.

Sources: Sharer *et al.* (1995), WTO (1995), World Bank 1995.

Table 2 Uganda's Export Composition, 1989-1995

Commodity	Commodity exports (% total)						
	1989	1990	1991	1992	1993	1994	1995
Coffee	-	80.3	64.2	65.0	53.1	74.6	69.3
Other TE	-	7.0	12.6	13.5	11.7	4.2	4.7
TE	90.9	87.3	76.8	78.5	64.8	78.8	74.0
Fish	-	0.8	2.9	4.4	4.6	2.3	3.2
SS	-	3.0	5.7	4.4	1.4	0.3	1.0
Maize	-	1.9	2.3	2.7	11.6	6.2	3.5
Beans	-	2.4	2.3	1.9	6.3	2.8	2.0
Other NTE	-	6.0	10.4	8.6	12.5	8.6	17.5
NT E	8.9	14.1	23.6	22.0	35.2	20.2	27.2

Notes: Other traditional exports (TE): tea, cotton and tobacco; SS, Sesame seeds; NTE, non-traditional exports mainly agricultural commodities. Figures may not add up to 100% due to rounding.

Source: Uganda Statistical Abstract 1996.

Table 3 Traditional Agricultural Exports, 1982-1993

Period	Coffee		Tea		Cotton		Tobacco	
	Tonnes	US\$/Kg	Tonnes	US\$/Kg	Tonnes	US\$/Kg	Tonnes	US\$/Kg
1982	174700	2.00	1200	0.67	1800	1.78	0	0
1983	144300	2.40	1300	0.92	7000	1.60	700	1.29
1984	133200	2.70	2500	1.32	6700	1.81	700	2.14
1985	151500	2.30	1200	0.83	9553	1.46	300	1.33
1986	140800	2.80	2800	1.11	4875	1.04	0	0
1987	148153	2.08	2100	0.90	3443	1.19	0	0
1988	144254	1.84	3079	1.00	2088	1.42	39	1.49
1989	176453	1.49	3195	1.00	2321	1.73	490	1.16
1990	141489	0.99	4760	0.75	3038	1.52	2268	1.24
1991	124819	0.94	7018	1.00	7819	1.50	2467	1.90
1992	119066	0.80	7816	1.00	7536	1.50	2322	1.90
1993	114133	0.94	10178	1.00	2483	1.50	4109	1.90

Source: Background to the Budget 1994-95.

Table 5 Perceptions on export promotion measures

Response	Foreign Exchange Retention		Exchange rate liberalisation		Export Certification	
	1992/93	1994/95	1992/93	1994/95	1992/93	1994/95
%						
Satisfied	72	72	90	88	88	80
Not satisfied	28	17	10	5	12	16
Not specified	-	11	-	7	-	4

Note: Figures given are percentage of sample of exporters.

Source: EPAU (1995b).

Table 6 Reported Problems facing Ugandan Exporters

<i>Nature of problem</i>	Exports within PTA		Exports outside PTA
	1992-93	1994-95	1994-95
Inadequate market information	35	25	30
Inadequate institutional support	10	10	4
Unreliable importers	11	10	6
Difficulties in payments	17	10	11
Difficulties in meeting export requirements	17	10	27
Prices are not competitive	28	18	31
Others	6	5	4
<i>Sources of information to exporters</i>	1992-93		1993-94
Approaches from overseas	30		37
Opportunities discovered while travelling abroad	35		32
Promotion by local institution	8		7
Discovered opportunities from other exporters	47		32
Others	12		24

Note: Figures given are percentage of sample of exporters.

Source: EPAU (1995b).

Table 7 Awareness and Use of Credit Facilities

<i>Type of credit</i>	<i>Awareness</i>		<i>Usage</i>	
	1992/93	1994/95	1992/93	1994/5
Crop finance	27	19	3	4
Export refinance scheme	48	25	11	5
Development Bank Scheme	40	31	16	8
Other	9	6	2	2

Note: Figures given are percentage of sample of exporters.

Source: EPAU (1995b).

Table 8 Transport Costs from Kampala to the Seaport

	<i>Imports</i>		<i>Exports</i>		<i>Petroleum, oil and Lubricant (POL)</i>	
	US\$m	% cif	US\$m	% cif	US\$m	% cif
Time delays	6.8	2.0	2.1	1.9	0.51	0.8
Losses	3.3	1.0	1.1	1.0	0.10	0.2
Total	10.1	3.0	3.2	2.9	0.61	1.0
<i>Transit costs of break bulk imports in 1988 and 1993 (US\$/tonne in 1988 prices)</i>						
	From Mombasa				From Dar-es-Salaam	
	All road		Rail/Ferry		Rail/Ferry	
	<i>1988</i>	<i>1993</i>	<i>1988</i>	<i>1993</i>	<i>1988</i>	<i>1993</i>
Direct costs	112	98	67	71	107	70
Indirect Costs	14	18	38	17	103	18
Total costs	126	105	105	88	210	88

Notes: The time taken for shipping exports to Mombasa seaport ranges between 40 and 44 days depending on the route and mode of transport used while that of imports ranges between 42 to 46 days. Most of dry cargo exports and imports are ferried mainly through Mombasa but coffee uses both seaports while POL imports dominate the Dar-es-Salaam route. The surface transport system is composed of either rail and road at times combining with the ferry or a combination of the three modes. Rail/ferry transport incur low direct transport costs than road transport but faces high indirect costs simply because long delays.

Sources: Compiled from 'The Great Lakes Study', World Bank 1994.

Table 9 Breakdown of Transit time on Mombasa and Dar-es-Salaam routes

1.	About 20 days at Mombasa port for dry cargo, with time spent approximately equal between shipping and freight forwarding documents, port documents and customs clearing
2.	Cargo going by rail spends around 3 days in Mombasa in addition to the time spent on documentary and customs clearing, waiting for trains to be formed
3.	Between 2 and 4 days is often a norm for clearance at the Uganda port of entry (Malaba or Busia). Delays experienced are likely to be higher since customs do not work in the evenings or at the weekends.
4.	For road transport about 5 to 10 (an average estimate of 5) days are consumed by the convoy system between the border and Kampala, i.e. the time required to form a convoy
5.	The cargo further spend about 4 days at Kampala clearing port (Nakawa) but this is recommended to take less than 2 days
6.	Using rail from Dar-es-Salaam to Kampala via Mwanza takes 21 days for imports and 19 days for exports and 24 days for petroleum products. Transit times are shorter on the Dar-es-Salaam route than the Mombasa route mainly because of efficient port clearing at the former, i.e. it takes 4 to 7 days for shipping and about 2 to 4 days for customs clearance.

Source: Compiled from 'The Great Lakes Corridor Study', World Bank 1994.

Table 10: Cost shares for selected Mexican Horticultural Exports to the United States in 1984/85 (%)

Commodity	Production Costs	Internal Transport & Marketing Costs	International Transport & Handling Costs
Tomatoes	48	29	23
Bell peppers	42	38	20
Cucumbers	30	36	34
Green beans	54	28	18
Egg plants	38	30	32
Squash	49	22	29

Notes: Production costs include harvesting and packaging, Internal transport costs are from the farm to the export point, International transport costs are from the export point to the delivery point in the importing country.

Source: Islam (1990).

Table 12: Estimated Cost savings from Improved Transit Trade Procedures for Uganda (Mombasa Route)

	Break Bulk	Containers
Time savings US\$/ton	4.8	11.1
Reliability Savings US\$/ton	2.4	5.6
Losses Savings US\$/ton	3.6	8.3
Utilisation savings US\$/ton	5	5
Total Savings US\$/ton	15.7	30
Percentage reduction (% of road transport cost only)	17	33
Total savings (US\$ million)	1.5	1.6

Source: The Great Lakes Corridor Study, 1994

Table 11: Trade Policy Reform in Uganda since 1987

Year	Policy reform
1987	<input type="checkbox"/> Dual trade licensing system introduced, <input type="checkbox"/> Duty exemptions on raw materials and capital goods suspended.
1988	<input type="checkbox"/> Some protective tariffs (sugar, soap) raised, <input type="checkbox"/> Open General License (OGL) scheme of importation implemented,
1989	<input type="checkbox"/> Retention account scheme for export earnings introduced <input type="checkbox"/> Special import programme, <input type="checkbox"/> Duty exemption on raw materials
1990	<input type="checkbox"/> Export licensing system replaced with certification system, <input type="checkbox"/> Forex bureau/parallel foreign exchange market legalised,
1991	<input type="checkbox"/> Import licensing replaced with certification system, <input type="checkbox"/> Investment code introduced, <input type="checkbox"/> Duty drawback scheme introduced,
1992	<input type="checkbox"/> Foreign exchange auction market created, <input type="checkbox"/> Tariff structure rationalised (10-60% range), <input type="checkbox"/> Several duties on raw material abolished, <input type="checkbox"/> Tax on coffee exports abolished, <input type="checkbox"/> Coffee marketing board's monopoly removed
1993	<input type="checkbox"/> Unified inter-bank foreign exchange market /floating exchange rate <input type="checkbox"/> Surrender of coffee receipts waived, special import surcharges on Kenyan imports applied <input type="checkbox"/> Harmonised commodity coding of system for imports introduced, <input type="checkbox"/> System of trade documentation reformed, pre-shipment requirements introduced, <input type="checkbox"/> Cross border initiative (CBI) to promote regional trade introduced
1994	<input type="checkbox"/> Further rationalisation (10-50% range) of the tariff structure <input type="checkbox"/> Import duties on some of the materials suspended <input type="checkbox"/> Tax on coffee exports reintroduced
1995	<input type="checkbox"/> Coffee tax reduced <input type="checkbox"/> Narrow range of products only on negative import list <input type="checkbox"/> Reduced exemptions from duties on raw materials and intermediate inputs
1996	<input type="checkbox"/> Coffee tax removed abolished <input type="checkbox"/> Further rationalisation of tariffs, with reduction of top rate to 30% (though protective excise duty of 12% applies also on many tariff lines)

Source: Adapted and modified from Milner (1994) and World Bank (1995).

Table 13: Direction of Export Trade 1982-1991 (%).

<i>Country</i>	<i>1982</i>	<i>1983</i>	<i>1984</i>	<i>1985</i>	<i>1986</i>	<i>1987</i>	<i>1988</i>	<i>1989</i>	<i>1990</i>	<i>1991</i>
United States	42.5	30.8	23.0	28.3	29.9	25.7	17.7	14.5	7.8	10.8
UK	10.2	12.5	14.7	15.1	16.0	18.3	15.5	11.5	10.4	6.3
Belgium	0.6	0.5	0.5	1.5	1.3	1.8	1.8	3.3	3.0	2.1
France	8.4	10.6	9.7	7.0	9.2	11.6	12.0	12.2	12.8	14.7
Netherlands	2.5	3.2	4.3	4.1	6.2	9.3	12.2	14.9	21.4	19.6
Germany	6.8	9.0	9.3	8.0	7.5	5.8	7.4	9.0	6.2	9.9
Italy	4.5	6.0	7.0	6.6	3.7	3.7	5.1	6.3	8.6	7.2
Spain	5.7	10.0	10.4	9.9	11.2	10.0	9.5	9.9	9.9	10.1
Other Europe	2.2	2.1	3.1	2.5	4.0	5.1	4.0	5.8	7.9	8.9
Japan	6.2	5.0	6.9	2.6	3.9	5.3	2.9	3.4	3.5	1.5
India	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.3	0.4
Other Asia	2.9	3.5	2.0	7.8	3.9	0.7	6.8	0.7	0.9	3.4
Kenya	0.6	0.4	0.3	0.3	0.3	0.3	0.4	0.5	0.8	1.0
Other Africa	3.6	3.5	3.2	0.9	0.1	0.0	0.1	0.4	2.7	1.5
Other	3.3	2.8	5.6	5.4	2.8	2.3	4.6	7.6	3.7	2.7

Table 14: Direction of Imports Trade 1982-1991 (%).

<i>Country</i>	<i>1982</i>	<i>1983</i>	<i>1984</i>	<i>1985</i>	<i>1986</i>	<i>1987</i>	<i>1988</i>	<i>1989</i>	<i>1990</i>	<i>1991</i>
United States	2.9	1.5	1.2	1.8	1.3	4.0	3.7	5.5	6.2	3.2
UK	18.9	11.6	14.8	19.7	11.6	13.5	14.6	15.4	16.7	15.0
Belgium	2.7	4.7	4.5	3.5	1.4	0.9	1.9	2.2	2.1	2.7
France	3.2	3.4	4.8	1.7	1.6	1.6	1.1	2.3	2.7	3.4
Netherlands	2.4	1.9	1.9	3.1	4.0	1.6	2.4	1.8	2.0	1.1
Germany	11.9	12.2	7.5	6.5	10.7	9.5	7.3	11.6	10.4	6.9
Italy	2.7	4.1	4.2	6.3	5.4	12.7	7.5	5.0	10.9	6.0
Spain	0.2	0.1	0.2	0.6	0.2	0.1	1.2	3.2	0.0	3.7
Other Europe	5.6	3.7	3.4	3.4	4.4	10.2	5.8	5.8	5.7	4.4
Japan	2.6	5.3	6.5	7.6	4.8	7.0	5.9	6.7	5.8	9.3
India	4.9	5.2	1.9	3.5	9.7	4.0	4.0	3.9	2.8	2.7
Other Asia	1.3	3.2	6.7	4.3	7.7	12.4	16.8	10.5	8.1	14.2
Kenya	34.4	37.3	35.8	32.2	32.0	18.2	21.9	21.6	21.3	23.3
Other Africa	0.5	1.0	1.5	1.3	1.6	0.3	0.4	0.4	1.1	0.4
Other	5.7	4.7	5.1	4.5	3.5	4.0	5.5	4.0	4.0	3.7

Sources: Own computation from *The Background to the Budget*, series 1991 and 1995

Table 15: Region's share in export trade

(a) Change in horticultural exports due to various factors 1970-72 to 1983-85 (%e share)						
<i>Region</i>	<i>Change in exports</i>	<i>Growth Effect</i>	<i>Market effect</i>	<i>Competitive Effect</i>		
Africa	-100	175.9	-23.8	-252.2		
Latin America	100	50.5	33.5	16.0		
Near East	100	74.1	7.8	18.1		
Far East	100	37.3	20.1	42.6		
All Developing	100	72.3	23.8	3.9		
All developed	100	120.4	-15.4	-5.0		
(b) Impact of factors influencing overall export from developing countries 1962-62 to 1991-93						
<i>Country group</i>	<i>Demand growth (%)</i>	<i>Actual X growth (%)</i>	<i>Demand (% change)</i>	<i>Competition (% change)</i>	<i>Diversity (% change)</i>	
sub-Saharan Africa	7.58	5.41	572.1	-41.7	0.5	
Low Income Africa	7.55	5.21	566.8	-52.1	0.6	
Middle Income Asia	7.69	6.08	596.9	-37.9	0.4	
Low Income Asia	8.49	14.42	778.6	383.4	0.2	
Middle Income Asia	8.33	16.40	740.1	724.9	0.1	
Latin America & Caribbean	7.98	10.02	658.5	77.7	0.1	
North Africa	9.53	10.53	1058.4	-19.1	-	
Middle East	9.34	10.48	1020.8	36.7	0.1	
Other European and Asia	10.38	11.38	1386.4	30.7	-	
High Income Non-OECD	14.26	18.83	3979.6	304.7	-	

Source: Adapted from (a) Islam (1990) and (b) Ng and Yeats (undated).

Table 16: Recommended Conditions for some non-traditional agricultural exports

<i>Commodity</i>	<i>Temperature (⁰C)</i>	<i>Relative Humidity (%)</i>	<i>Approximate storage life</i>
Beans (snap)	4-7	95	7-10 days
Garlic	0	65-70	6-7 months
Ginger	13	65	6 months
Okra	7-10	90-95	7-10 days
Onions (dry)	0	65-70	1-8 months
Bananas	13-14	90-95	2-4 weeks
Mangoes	13	85-90	2-3 weeks
Papayas	7	85-90	1-3 weeks
Pepper (dry)	Room temperature	65-70	Over 3 months
Passion fruit	7-10	85-90	3-5 weeks
Pineapple	7-13	85-90	2-4 months
Avocados	7-13	85-90	2-8 weeks

Source: *Exporters Handbook II* (1992).