Mitigating the Effects of the Credit Crunch through Trade: The Case of Uganda

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Abstract

The global financial crisis is envisaged to cause substantial global economic instability in the foreseeable future. More worrying however is the fact that the developing countries, which at the start of the crisis seemed to be far away from its effects (first round) will most likely bear a considerable share of its blunt (through the second round effects). In the developing world, Sub-Saharan Africa is likely to be severely affected largely because of the high level of susceptibility of most of its economies to external shocks (through the various transmission channels) and also from the fact that these economies had steadily started to be integrated into the global economy over the last one and half decades.

This paper analyzes how Uganda could exploit export market diversification as one of the possible responses to the potential impacts of the global financial crisis. It provides an overview of the possible impact of the crisis on the macroeconomic outlook and ways in which the effects can be mitigated with regard to casting a wider export destination for Uganda’s products. The analysis indicates that Uganda can diversify her export markets by capitalizing on the regional market as well as emerging markets in Asia, the Middle East and Europe.

In order to increase our export potential, Uganda Investment Authority should also use this information in guiding investors in the agricultural sector on the existence of these markets for their outputs. The results also demonstrate the need to deepen and expedite the process of regional integration. This is because the results show that a considerable portion of the potential markets for Uganda’s exports are within the region. Therefore, the removal of impediments to cross boarder flow of goods and persons as well as the harmonization of procedures with regard to trade is of utter most importance.
I Introduction and Rationale

The global financial crisis as it became evident in the second half of 2008 is envisaged to cause substantial global economic instability in the foreseeable future. More worrying however is the fact that the developing countries, which at the start of the crisis seemed to be far away from its effects (first round) will most likely bear a considerable share of its blunt (through the second round effects). In the developing world, Sub-Saharan Africa is likely to be severely affected largely because of the high level of susceptibility of most of its economies to external shocks (through the various transmission channels) and also from the fact that these economies had steadily started to be integrated into the global economy over the last one and half decades\(^1\). Given these trends and likely effects, the need for concerted action by policymakers in these economies, with the help of the international community should not be over emphasized.

As it may be pointed out, there had been previous calls by development economists to have a closer look at the direction which the global economy had taken. The difficulties faced by the continuation of this global economic down turn and the challenges associated with its correction had earlier on been recognized among policy circles (IMF, 2006, 2007; UN-DESA, 2007; OECD, 2006; Eatwell, Cripps and Izurieta, 2005). These events point to the need to build national policy capabilities especially in the developing economies to formulate concerted national and regional policy responses to this slow down.

The crisis has affected both the real and financial sectors, thereby causing adverse effects in the advanced, emerging and developing countries. All major advanced economies are in recession, while activity in emerging and developing world is slowly grinding to a halt. It should be noted that the last decade had been marked by considerable progress in terms of growth in investment in Sub-Saharan Africa. Growth in these economies had been founded on improvement in macroeconomic fundamentals, favorable commodity prices and increased foreign inflows both from development partners (Official Development Assistance) through the various channels of Budget support, project support, debt relief initiatives and other support targeted at helping achieve the MDG goals. These have been in addition to private inflows from citizens in the Diaspora and foreign direct investment.

\(^1\) There are projections that 26 developing countries have been identified as being vulnerable, with a financing requirement of US$25 billion in 2009 alone and there are more calls for additional external assistance, IMF (2009).
As the crisis begins to widen, LDCs have become exposed more than ever before because they have increasingly been integrated in the global economy through trade and financial inflows. The down turn is therefore envisaged to significantly impact on the developing economies through reduced demand for their exports. Given such a situation, the search for diversification of export markets from the traditional export destinations turns out to be of utter most importance. This not only arises from the fact that global trade is slowing down mainly from the decline in demand from the traditional export destinations but also from the fact that government revenues are bound to decline as a result of lower remittances and foreign direct investment (FDI) amidst uncertainty of development assistance from donor countries. Donor support and its associated conditions are likely to pose considerable pressure on developing countries’ budgets. Similarly, remittances which have increasingly become another crucial source of foreign exchange earnings for the developing countries registered no growth in the second half of 2008, while projections for 2009 are negative.

On the brighter side however, many developing countries can now better handle the crisis than was the case during the previous shocks of the 1980s or 1990s. The strengthening of macroeconomic policy management – including fiscal and external positions, in many cases – has served to ensure that a considerable number of these countries are less susceptible. In addition, sovereign debt is currently better managed in most countries than was the case during the “Asian flu”. Similarly, the move to flexible exchange rate arrangements makes it easier for countries to partially absorb the shock through exchange-rate adjustment. From a social welfare perspective, the number of people worldwide living in extreme poverty has dropped by more than 300 million since the financial crisis which was experienced in the 1990s (Chen and Ravallion 2008). Furthermore, the crisis has had an effect of relieving inflationary pressures, changed expectations, and (for net importers) reduced commodity prices, which would otherwise put a strain on some developing economies.

This paper analyzes how Uganda could exploit export market diversification as one of the possible responses to the potential impacts of the global financial crisis. It provides an overview of the possible impact of the crisis on the macroeconomic outlook and ways in which the effects can be mitigated with regard to casting a wider export destination for Uganda’s products. In so doing, the paper intends to share insights on how best to bolster the likely decline in foreign inflows from the traditional sources by searching for alternatives through the trade sector. The inevitability of need for export diversification can be summerised from some of the following trends: first, import growth for most developed countries has been declining steadily; secondly, foreign investment both portfolio and direct investment in physical assets have dramatically declined in
several developing countries as investors turn away from these markets that are perceived to be riskier and finally, aid from the developed countries is likely to decline as these governments reassess their fiscal priorities in light of the downturn.

Objectives
i) Analyse the potential impacts of the global down turn on the outlook of Uganda’s macroeconomy.
ii) Examine potential markets for Uganda’s exports.
iii) Summarize policy actions to respond to the global melt down through trade.

The paper is structured as follows. Section I highlights the origins of the issue under investigation as well as the rationale for the study. Section II discusses the global economic outlook with regard to growth and commodity prices, while Section III provides an overview of Uganda’s economic outlook. The approach used in assessing the potential markets for Uganda’s exports is contained in section IV. While the final section (V) suggests emerging policy issues that could be utilized to help the economy during the crisis.

II Global Economic Outlook

Trade and terms of trade channel
Trade has become a significant source of growth in developing countries over the last two decades. Trade openness, calculated as the ratio of the sum of exports and imports to GDP, has increased substantially since 1991 and has been accompanied by an acceleration of growth. Most developing countries exports go to developed economies, although this has been on the declining trend. The composition of developing countries exports remain highly concentrated on commodities. In the past decade, the average share of primary commodities in the exports of developing countries has been approximately 70 percent. At a more micro level, some exporters in developing countries are already experiencing difficulties in obtaining trade credits which form a crucial part of their operations. The ultimate consequence is the crippling of export sectors that are sooner than later being hit by slumps in foreign demand.

This high concentration on commodities poses serious implications for growth in developing countries, as far as the demand for commodities is highly pro cyclical. This is in turn, linked with both volumes and prices (WEO, 2001). With regard to demand for services, Developing countries are equally more exposed than ever before. For instance, the share of services in total exports has been on an upward trend over the past decade, the main activities being transportation and tourism. Services currently
represent two thirds of World Gross Domestic Product (GDP). The share of services value added in GDP has risen significantly, standing at 69 percent on average in high income countries (73 percent in the United States), against 55 percent and 44 percent respectively in middle- and low-income countries. Even in the latter group, the production of services is generally a core economic activity, whose contribution to GDP is above that of both industry and agriculture.

For most countries, services accounted for at least 30 percent of exports in 2007, while others are heavily dependent on services receipts. Projections point to significant negative likely impacts that developing countries are to face in 2009 through the trade channel (see Table. 1).

### Table. 1: Selected indicators for Developing countries

<table>
<thead>
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<th></th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
</tr>
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<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Exports (% of GDP)</td>
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<td>26.5</td>
<td>21.8</td>
</tr>
<tr>
<td>Imports(% of GDP)</td>
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<td>42.5</td>
<td>38.6</td>
</tr>
<tr>
<td><strong>Services</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Exports (% of GDP)</td>
<td>9.7</td>
<td>9.2</td>
<td>9.0</td>
</tr>
<tr>
<td>Imports (% of GDP)</td>
<td>12.2</td>
<td>14.2</td>
<td>13.6</td>
</tr>
<tr>
<td>Terms of trade</td>
<td>2.2</td>
<td>-4.7</td>
<td>-0.7</td>
</tr>
</tbody>
</table>

Source: IMF, 2009

Current account balances have been deteriorating at approximately 3 percent of GDP since the April 2008 (IMF, 2009), with substantial declines in export growth than in import growth. Mirroring the sharp declines in commodity prices, terms of trade are also projected to deteriorate.

Declining world demand from developed countries is likely to lead to a reduction of developing countries’ exports. In addition, the financial crisis is likely to curtail global trade financing. This is true specifically for the component which is financed by documentary credits, due to financial institutions’ unwillingness to carry foreign risks and, to rising bargaining power of international buyers in extending/reducing credits into their global supply chains (Hoekman, 2008). Massa and te Velde (2008) have also included African countries exporting high income elastic services such as tourism on the list of possible ‘losers’. In addition, exporters facing declining world prices will be at risk.

After having a long period of decline, terms of trade of developing countries had started to improve substantially over the last decade (Kaplinsky, 2006). Though this has had unexpected positive effects on commodities exporters, developing countries that are net
importers of natural resources and - more recently – food, have been severely affected by high prices. An analysis by the International Monetary Fund released in June 2008, when the prices of food and oil were at their peak, suggested that African countries in a situation of fragility were exposed to severe macroeconomic effects due to this negative terms of trade shock.\(^2\)

Having highlighted the effects which the crisis will have on developing countries which export commodities, there are similar macroeconomic implications for countries whose major source of revenue is from the exports of natural resources. A recent analysis from the World Bank highlighted the widespread implications for the Democratic Republic of Congo due the fall in the price of copper.\(^3\) The consequence of this drastic fall in revenue will be the direct impact on the Balance of Payments. This is likely to impact on capital developments such as infrastructure development. These drastic changes have been envisaged to affect other countries like Zambia, where Chinese mining companies have left local mines in correspondence with the slowdown in the prices of raw materials (Herbst and Mills, 2009). De Beers has had to close some mines in Botswana and Namibia as well in the wake of a slowdown in the global demand for gemstones.

\(^2\) This is referred to as the “double squeeze” phenomenon. IMF (2008) identified 18 African countries for which this adverse shock exceeds either 2.5 percent of GDP or 50 percent of the foreign reserves, and 11 of these countries had been classified by the World Bank as being “low income countries under stress” in recent years.

\(^3\) The price of copper fell from $4 per pound in June 2008 to $1.20 in December 2008.
Remittances

For many developing countries, remittances are a vital source of external financing, providing income to a substantial number of households and contributing to growth. From a global analysis, remittances are estimated to have grown at a double-digit annual rate for the past two decades (World Bank, 2006). In fact, remittances have been relatively stable compared to other external flows. Remittance flows vary substantially across countries and regions, both from the recipient and country of origin point of view (World Bank, 2008).

Official flows of remittances to Sub-Saharan Africa were estimated to be US$19 billion, out of approximately US$265 billion directed to the entire developing world (ERD, 2009). However, this figure could substantially underestimate absolute flows of remittances to the region. For instance, Freund and Spatafora (2008) recently found that high transaction costs pose as a crucial factor in diverting remittances towards informal channels that are not captured by the Balance of Payments statistics, and the under development of the financial sector in these countries clearly contributes to the escalation of transfer fees. In addition, Ratha and Shaw (2006) note that some African migrants tend to move intra-regionally, and transfers between neighboring countries offer significant opportunities to resort to informal channels.

Whereas remittances to Sub-Saharan African countries have not matched the funds that the region receives through official development assistance, evidence provided by Gupta et al., (2009) indicates that remittances contribute to poverty reduction as well as financial development of these countries. Specific evidence from Somalia shows that remittances have played a vital role and have contributed in shielding recipient households from some of the worst economic consequences of state failure.

The current crisis has caused debate in the policy circles on the extent to which the flow of remittances to the developing countries is going to be affected. One issue of concern is the fact that there is a concentration of migrant workers in sectors – such as construction, services and tourism – that usually magnify the fluctuations of the business cycle. This implies that migrant workers are particularly exposed to the risk of losing their jobs, and this could have a negative impact on remittance flows. Similarly, destination countries could react to the crisis with the introduction of tighter immigration policies, in a bid to keep immigrants from "stealing natives’ jobs”. This being the expectation, Ratha et al., (2008) argue that remittances are likely to be resilient, and could only fall modestly even in the worst case scenario that has been depicted.

Foreign direct investment
There have been increased inflows of Foreign Direct Investment in the previous two decades. The sources of investment have also been diversified. FDI flows to the developing world are expected to shrink sharply. Empirical evidence points to the fact that FDI to developing countries depends largely on the health of the origin country’s economy. World Economic Outlook projections indicate that FDI inflows for 2009 will decline by almost 20 percent from their 2008 levels, compared to over 10 percent growth that was projected in the April of 2008 year. Multinational corporations’ reduced profit margins, coupled with difficult financing conditions and volatile commodity prices (since FDI in the developing countries is heavily concentrated in natural resource sectors), have already begun to spark off reduced commitments from MNCs for the foreseeable future.

A case in point is in the Peoples Democratic Republic of Lao and Mozambique, where FDI related to expansionary developments of hydroelectric power stations and mining projects has been delayed or suspended. By and large, reduced FDI in 2009 is expected to have a substantial impact in a good number of developing economies. Latin America and Asian economies have been envisaged to be mostly affected. On the other hand in Africa, the impact is likely to be muted, due to the fact that the concentration of FDI activity is in natural resource sectors. In this regard, new projects may most likely be delayed but most ongoing projects are anticipated to be continued. The likely losses associated with pulling out from these projects prior to their completion, given the substantial capital investments which have already been sunk, reduce the likelihood of withdrawal.

Aid Flows
There have been substantial aid flows during this decade, targeted at poverty reduction initiatives. These have been driven by the HIPC and MDRI initiatives, coupled with increased flows from emerging donors such as Russia and China. However, excluding debt relief grants, net official development assistance remained broadly unchanged in real terms in 2006–07 (OECD, 2008a).

Figure 1: Developing Countries Aid Index
In the wake of any reductions in external support to the developing countries, there will be serious consequences. Available evidence shows that aid is pro-cyclical with both donor and recipient incomes (Bulir and Hamann, 2006). Pallage and Robe (2001) in their sample of 18 donor countries show that the co-movements of total aid disbursements with donors’ output were positive for almost three fourths of donors for a period spanning 35 years. Given the magnitude of the meltdown in growth of advanced economies, likely reduction in support to the developing world cannot be ruled out. Projections of aid to the developing world have been envisaged to decline in 2009. This high level of projected aid partially reflected multilateral aid packages approved towards the end of 2008 to help developing countries in coping with food and fuel shocks experienced in early 2008.

III  Country Economic Outlook

Trade

The export sector has had steady growth over the past decade posting annual growth rates of approximately 18 percent over the last five years. For the case of merchandise exports, there had been stagnation but they recovered in 2002/03, reaching US$ 1.19 billion in both formal (US$ 962.1 million) and informal (US$ 231.7 million) merchandise exports in 2006 (MTTI, 2007). Total export earnings improved in 2007/08 to approximately 13.7 percent. Exports to GDP declined to 14 percent down from 14.1 percent, implying an increased level of GDP. The trade deficit, increased from US$993 to 1,639.6 million in fiscal year 2007/08 mainly on account increased imports which grew to about 34.9 percent.

There was marked growth in export earnings attributed to the continued recovery in the world export prices and increased production (figure.2). The index of exports improved by approximately 12.8 percent, while the value stood at 5.4 percent in 2008. Merchandise exports for the previous year to 1,752.3 million.
Imports increased to 3,391.9 million in 2007/08 mainly on account of increased private sector imports. Services exports dominated by tourism have also been on the rise from US$24m in 1992/93 to increase to US$ 850.6 million in 2008. At the same time, imports were US$1,392 millions. Services exports declined by 3.8 percent while imports increased by 16.1 percent, leading to a widening in the deficit on services by 27.6 percent.

The sector’s traditional exports have been on the decline while non-traditional exports have increased over time, surpassing the traditional exports. The major non-traditional exports include fish which has surpassed coffee exports as the largest merchandise export item. In addition, cut flowers have also risen considerably from the time they emerged on Uganda’s export menu. Cereals, hides and skins, cobalt, and beans have also been part of the key non-traditional exports.

Despite overall growth in exports, Uganda still suffers a negative balance of payments problem on both the goods and services accounts. The deficit in the current account widened by 58.2 percent in 2008 compared to an earlier improvement of 6 percent registered in 2007. Relief in the BOP performance only came from the capital account which more than offset the imbalances in the current account. Consequently, overall BOP registered a surplus of US$ 488 million. However, this was a decline when compared to a surplus of US$745.4 million which was registered in 2007.

Remittances
It is also important to note that remittances by Ugandan workers abroad brought in a total of US$ 1,392.35 million in 2007/08 and have increasingly become a source of foreign exchange earnings and key to macroeconomic stability as well as private investment. This is largely because remittance inflows are often observed to be a less volatile source of external funding than private capital and foreign direct investment flows, which are often pro-cyclical.

For that matter, increased inflows of remittances have implications for not only the stability of the financial system but as a source of foreign currency as well as a means for financial asset building. In Uganda, adequately leveraging such flows constitutes an important opportunity for economic development. While relative to the entire population remittance recipients constitute a small proportion, their ability to build assets is larger and the opportunities to bank these inflows are not negligible.

Official statistics on remittances are inconclusive in terms of the real flows. ⁵ Bank of Uganda statistics on remittances have shown significant increases over time. As a result, it was reported that inbound remittances tripled from 2005-2007 to nearly US$900 million. This would translate into 10 percent of the country’s GDP and approximately 800,000 person to person transfers.⁶ These were reviewed following Bank of Uganda’s survey of recipients which looked at remittance patterns, where it was established that the median annual amounts was approximately US$1000.

As a result the 2007 Bank of Uganda estimate stood at US$476 million. However, a study by Orozco (2008) estimates remittances to Uganda to be at least US$700 million remitted by nearly one million Ugandans living in the Diaspora. Despite the discrepancies in the data, one important point to note is that remittances are of crucial importance to the Ugandan economy as a source of foreign inflows and it implications for financial stability as well as development. Therefore, the projected job losses among Ugandan migrant workers and the resultant declines in inflows in the wake of the current global economic meltdown are something for which the policy makers have to contend with.

**Foreign capital flows**

Foreign capital inflows in recent years have become the main driver of the business cycle in quite a number of emerging market and other developing economies. For instance, Uganda Investment Authority has projected a 25 percent rise in foreign

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⁵ Bendixen Survey of remittances to Uganda, April 2008.
⁶ The number of transfers is based on a median annual transfer of US$1,000 as reported by the Bendixen survey and the Central Bank survey. However, using data from money transfer companies, the average remitted is higher at US$350 at a frequency of 9 times a year (for a total of US$3150 per year), a situation that may yield a lower number of person to person transfers.
investment to US$3 billion in 2009 despite the global economic crisis. FDI inflows were recorded at US$2.4 billion during 2008. However, given that the process is driven largely by variations in the availability of foreign capital rather than by developments in the host countries is strongly indicated by the significant size of variations in the overall flow of capital.

For example, when foreign investors develop buoyancy for risk, there is a boom in capital flows. Conversely, the bust is marked by a “flight to quality”. A case in point was in October 2008, the Uganda Securities Exchange experienced a flight of US$51.8 million in one day amidst increased panic from the global meltdown. Despite the fact that the fundamentals in several developing countries continue to appear more attractive than in developed markets, the sharp reversal in capital flows which is currently being experienced marks an end to a period of strong global economic growth and ample availability of liquidity in the developing world.

This development is already posing severe credit restraints, for Uganda whose current-account deficits has widened by 58.2 percent in 2008 (BoU, 2008). While the development of local-currency debt markets would be a way to correct currency mismatches, these markets are nevertheless characterized by short-term biases which ensure that problems of market liquidity cannot be resolved. Similarly the market for corporate and government bonds is not yet sufficiently developed, which further limits the scope for conducting counter-cyclical macroeconomic policies.

**Aid**

In 2008, net external financing was 3.1 percent compared to 1.8 in 2007. This was attributed to the low levels of amortization, emanating from the impact of debt relief which had been granted to the country. Generally, there has been an increase in general budget support to the country from development partners. The country’s external financing portfolio has been variable over time, (MFPED, 2008).

**Figure. 3**
However, it is important to note that average donor aid to Uganda has been on a declining trend as well (figure.3). This volatility in donor inflows has had implications on long term planning of government’s development programmes. This has been in addition to the fact that what is pledged is usually less than what is disbursed, not to mention, that disbursements are not always timely. With the escalation of the global melt down, this trend is envisaged to either continue or worsen and the resultant impact on Government’s development programmes is likely to be drastic. There is therefore need to search for home grown alternative avenues for financing the likely disruptions in the trends and volume of support.

Nonetheless, there have been government efforts to reduce reliance on external support for its development. Mirroring this recent effort, support from the development partners fell to approximately 35 percent of GDP for the financial year 2007/08. This has been realized with expenditure rationalization and increased revenue collection efforts. On the donor side, there have been changes in the nature of support since Uganda became a middle income country. Consequently, inflows are coming as loans rather than grants. This underscores the need to develop sources of financing government expenditure with no strings attached and one of these options is to boost export revenue by exploiting these export markets.
IV Methodology

The study employs the Market Analysis Tool developed by the International Trade Centre in order to investigate potential markets for Uganda exports. This tool is crucial for formulating a coherent export strategy as given in the schema below:

Figure 4: The Market Analysis process

Source: ICT, 2009
## Market Analysis

### Table 2: Uganda's Exports by County 2007

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<td>'India</td>
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<td>286</td>
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<td>0.1</td>
<td>4961</td>
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<td>-13906</td>
<td>0.1</td>
<td>435</td>
<td>1504</td>
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<td>'Tunisia</td>
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<td>0.1</td>
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<td>2968</td>
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Notes: The results are based on raw data analyzed from the ICT Trade Map database (2007)
Table 2 above gives a summerised analysis of Uganda’s export market structure based on 2007 trade indicators from the ICT Trade Map data base. The data points to the fact that Uganda’s exports grew at a remarkable rate than world imports. This translated into an increase in market share. This is given by 25 percent compared to the total import growth of 16 percent. From the list of top 25 importers, the country’s export market diversification drive is fairly on course, except that there is need to take a keener and sustained focus mostly on the emerging markets.

The market structure has a combination of large clients (the traditional export destinations) who are the world’s major importers like the USA, UK, Belgium, Germany, Netherlands, among others. On the other hand, there are also emerging markets on which the country should mostly focus. The emerging markets have a number of advantages. First, the requirements in terms of quantities may not put a high toll on Uganda’s exporters in terms of having to respond to huge changes in quantities demanded. This can be seen from the column of the share of a partner country in World exports. Where this is low, then such a market would be ideal since there are challenges of having to respond to huge quantities due to supply side constraints. The bulk of emerging markets as from the table above constitute regional markets such as Sudan with a 71% in market growth, Democratic Republic of Congo (123%), Rwanda (173%), Burundi (108%), Congo Brazzaville (423%), Central African Republic and Tunisia.
Other emerging markets outside the regional markets illustrated in figure 6 below include: Spain (58%), China (109%) and Indonesia.

Source: Authors Manipulations from ITC Data Base (2007)
These markets are crucial in the process of diversifying Uganda’s export markets. This is because the traditional export destinations are registering a declining trend and are also the economies that have severely suffered from the financial crisis. This implies that demand has to slow down and yet it was already on the declining trend from the 2006-2007 data before the financial crisis.

Figure. 7: **Growth in export value in the traditional export destinations**

![Growth in Export Value (2003-07)](image)

**Source:** Authors Manipulations from ITC Data Base (2007)

Figure.7 above shows that the traditional export markets for Uganda’s exports recorded slow growth and in some case negative growth was registered from 2003-2007. Even the United Arab Emirates which had recorded and impressive growth between 2003 and 2007 saw its growth declining by 5 percent in the year 2007 (see Table. 2). This underscores the importance of diversifying the export markets by venturing into these emerging markets in the wake of the economic meltdown.
Figure. 8: Export market destinations for selected products

Source: Authors Manipulations from ITC Data Base (2007)

Figure. 8 gives an analysis of the leading export markets for cereals, milk and starch. It should be realized that these markets are regional and have indicated an impressive level of growth from 2003-2007, with Sudan taking the lead at 263% growth and 145% for 2007 alone. The Democratic Republic of Congo which had recorded a decline of 3% for the period 2003-2007 eventually picked up in 2006-2007 by posting a 70 percent growth. These developments are largely attributed to a steady return of peace and stability within the Great Lakes region, a development which Uganda should ably exploit as a regional food basket in this respect. In so doing, revenue from this category of exports should play a role in cushioning the slump in demand for other exports, especially from the traditional markets which are currently being affected by the credit crunch.
The case of cotton when analyzed in figure 9 indicates that there has been a decline in import value for Uganda’s cotton in the traditional export markets. A case in point is the UK, Kenya, Switzerland and Mauritius which registered a decline in import value of 11, 13, 29 and 29 percent respectively for the period 2003-2007. This therefore calls for taking a closer look at emerging markets such as Rwanda, Singapore and Malaysia as promising destinations for Ugandan cotton.

For the case of coffee, tea, spices and mate Uganda, the following markets were markets were identified (figure. 10). It should once again be noted that the traditional markets have considerably registered declining import growth rates. This underscores the need to diversify into emerging markets with high market growth rates but whose overall share in world imports is not very big as this has implications for larger export requirements for the country, which it may not be in position to sustain given the supply side constraints which the country still grapples with. For instance, Rwanda, Australia, Romania, Slovenia and Israel are potential markets for export of coffee, spices, mate and tea.
Source: Authors Manipulations from ITC Data Base (2007)
Table 3: Importing Markets for Fish, crustaceans, Molluscs, aquatic invertebrates

<table>
<thead>
<tr>
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<td><em>Hong Kong (SARC)</em></td>
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<td><em>United States of America</em></td>
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<td>DR Congo</td>
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<td>0</td>
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</table>

Source: COMTRADE

Emerging markets for fish and other related products have been identified to be Lebanon, Democratic Republic of Congo, Cyprus, Hong Kong and Cyprus. As it can be deduced from the table above, the growth in traditional markets has been on the decline echoing the need to diversify the markets further. Specifically, the markets in the US, Italy, Australia, Singapore and UAE registered a decline in import growth for fish and related products. Exports to France declined slightest in 2007.
Conclusion

The above analysis gives the trends in exports markets for selected exports. The trends indicate that Uganda can diversify her export markets by capitalizing on the regional market as well as emerging markets in Asia, the Middle East and Europe. This is because the traditional exports markets have steadily registered a declining trend in import growth demand for Uganda’s products. Furthermore, the fact that the global financial crisis is evidently affecting the traditional markets for Uganda’s exports further underscores the need to capitalize on these emerging markets because it is these markets where Uganda’s export market potential lies.

VI Policy Options

From the above analysis, it has been seen that there will be declines in financial flows from trade, aid, remittances and foreign direct investment. It was on the basis of these projections that the study set out to establish markets which Uganda could rely on to cushion the declines in financial flows. This would be by way of diversifying markets for exports to bolster export revenue declines arising from slumps in import demand from Uganda’s traditional export markets.

In this regard, the Ministry of Trade Tourism and Industry with its support institution; the Uganda Export Promotion Board should sensitize producers and exporters on the specific potential markets for Uganda’s exports so as to make them focused and respond to the specific requirements for these markets. In the same move, the Ministry of Foreign Affairs with the help of embassies and commercial attachés in these countries should further still make the possible contacts to ensure increased inflows of Uganda’s exports into these markets. In order to increase our export potential, Uganda Investment Authority should also use this information in guiding investors in the agricultural sector on the existence of these markets for their outputs. This would go a long way in supporting government efforts aimed at stimulating production, revenue generation, employment creation and poverty reduction. This in summary is also in line with governments’ programme of Prosperity for All.

The results also demonstrate the need to deepen and expedite the process of regional integration. This is because the results show that a considerable portion of the potential markets for Uganda’s exports are within the region. Therefore, the removal of impediments to cross borderer flow of goods and persons as well as the harmonization of procedures with regard to trade is of utter most importance.
Finally, once the revenue is mobilized through this export drive; it should be utilized in an efficient way. This would call for a review and taking a closer look at fiscal policy in response to the crisis. There is need to increase expenditure rationalization and increasing spending efficiency of the precious resources available. Reducing unproductive expenditures, particularly those of a recurring nature, while often politically difficult, can be the first option. In this category, there are transfers to loss-making enterprises and some unnecessary government employment.
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