SEATINI

Strengthening Africa in World Trade

Free Trade Agreements and their Implications for Industrialization in East Africa:

The Case of Uganda

June 2017

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Acronyms and Abbreviations

AGOA	African Growth and Opportunity Act
AIDA	Accelerated Industrial Development of Africa
CET	Common External Tariff
CIP	Competitive Industrial Performance
EAC	East African Community
EPA	Economic Partnership Agreement
EPZs	Economic Processing Zones
EU	European Union
IIAs	International Investment Agreements
LVAC	Local Value Added Content
MAPS	Marketing and Agro-Processing Strategy
MoFPED	Ministry of Finance, Planning and Economic Development
MSME s	Micro, Small and Medium Enterprises
MTTI	Ministry of Tourism, Trade and Industry
NPA	National Planning Authority
PMA	Plan for Modernization of Agriculture
R & D	Research and Development
RTP	Regional Trade Policy (RTP)
SAPs	Structural Adjustment Programmes
SSM	Special Safeguard Mechanism
UDC	Uganda Development Corporation
UNIDO	United Nations Industrial Development Organisation
WTO	World Trade Organisation

Executive Summary

Industrialization is central in any country's efforts to promote sustainable development and to improve significantly the quality of life of its citizens. Despite this recognition, full realization of industrialization on the African continent and among East African Community (EAC) Partner States remains elusive. Whereas Trade policies and agreements have a role to play in the industrialization efforts, the policies must be consistent with the country's level of industrial development. A choice has to be made between free trade policies and nationalistic policies. Free trade policies are often biased towards promoting the interests of advanced economies with an inherent potential to be detrimental to the relatively backward agrarian economies (such as Uganda) whose embryonic manufacturing firms need more nationalistic policies. This study examines the trade and industrial policies that are unfolding in EAC with an eye on the effect of these policies on the industrialization aspirations of Uganda in particular and the EAC region in general.

Uganda has in place an industrial policy, albeit to be reviewed, which aims at building the local industrial sector into a modern, competitive and dynamic sector that is integrated in domestic and global economies. The policy identifies points of strength on which local industrialization will be based. Most of the stated points of strength are doubtful and some of them, like R&D capability, are rather points of weakness. Nonetheless, the policy acknowledges that for it to be successful it has to be aligned with associated and other national policies.

The EAC industrial policy, on the other hand, aims at enhancing industrial production and productivity and to accelerate the structural transformation of economies of the EAC region in order to enable sustainable wealth creation, improve incomes, and attain a higher standard of living for the EAC. The policy attempts to harmonize and create synergies between individual member country's industrial policies. It is also notable that the policy is broadened beyond a narrow economic focus, to take into consideration certain social and environmental dimensions of industrialization. The EAC industrial policy identifies six strategic industries in which the region has potential comparative advantage that would drive industrialization. These industries include: agro-processing, iron and steel processing, other mineral processing, chemicals (fertilizers and agro-chemicals), pharmaceuticals, energy, and oil and gas processing. What cuts across East Africa's supposedly 'strategic' industries is that all of them are based on natural resource advantages, not competitive advantages. Industrialization based on natural resources has inherent constraints, which include political interference, lack of technology and start-up funds. It is noted that the success of the EAC industrial policy will depend on all member countries agreeing on a common vision and strategy towards industrialization.

Regarding trade policy, Uganda has a trade policy currently under review while that of the EAC is still in the making. Uganda's trade policy objective is to develop and nurture private sector competitiveness, and to support the productive sectors of the economy to trade domestically, regionally and at international levels. Implicit to this objective is the local industrialization aspect. A number of interventions are proposed and the trade policy provisions intersect in various ways with the country's industrial policy. These policy intersections provide pointers to areas of synergies between trade and industrial policies which can be taken as a good thing since both polices reside within the same ministry in the country. A key challenge for is that some of the provisions in Uganda's trade agreements with trade partners especially in the EPA with the EU are counter to the national and by extension to the EAC regional industrialization efforts.

Going forward, it is recommended that Uganda and the EAC region should ensure that provisions of trade agreements in which they engage do not contradict their industrialization efforts, but rather supplement them, for example through industrial technology acquisition. Further still, the country and the EAC region need not reinvent the wheel but should emulate lessons from other countries which have managed to industrialize or are industrializing in the context of fairly restrictive regional and global contexts. These include Ethiopia and the Asian tigers.

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Introduction

1

Industrialization is central to any country's efforts to promote sustainable development and improve the quality of life of its citizens. With the possible exception of Australia, Belgium and a few other cases, no economy has ever been spurred to higher and sustained levels of growth without substantial industrial transformation. This is so because industrialization has proved to offer greater prospects for local value-addition; employment creation; export earnings; tax revenue; and purchasing power, among others.

The realization of the role of industrialization in improving the well-being of people in Africa is not new. In the words of Kwame Nkrumah (1957:7) "Industry rather than agriculture is the means by which rapid improvement in African living standards is possible" (Ghana, 1957:7). Under the Structural Adjustment Programmes (SAPs), governments withdrew from the industrialization process and left it to the market forces. As a result of the widespread failure of this development strategy and due to the need to promote structural transformation, industrial policy is back on the agenda. There is a renaissance of industrial policy as a central element of development strategies in many African countries. Africa leaders showed their commitment – at least in principle - to the industrialization of the continent when they dedicated the January 2008 Summit to the theme: "the industrialization of Africa'. During the Summit, African Leaders endorsed and adopted a "Plan of Action for the Accelerated Industrial Development of Africa (AIDA)". They also developed a strategy for the implementation of an accompanying plan of action. The major aim of the plan of action was to mobilize both financial and non-financial resources for purposes of enhancing Africa's industrial performance". More recently in 2015, industrial policy and by extension industrialization was the key theme of the 4th Congress of African Economists. At the Congress, optimal industrial policy for Africa's transformation was discussed among other industrialization-related themes.

Nonetheless, the realization of industrialization on the continent and specifically among EAC Partner States, with the possible exception of Kenya, largely remains elusive. It is against this background that the quest to achieve industrializations is back on the development priority list of the EAC in general, and Uganda for our purpose. At the regional level, the EAC has also put in place an industrialization policy (2012-2032) aimed at growing the manufacturing sector to the extent that it can undertake high value addition and manufactured products diversification. As part of this rejuvenated prioritization of industrialization, Uganda developed a national industrial policy in 2008 which is being reviewed, whose major aim was to build the local industrial sector into a modern, competitive and dynamic sector fully integrated into the domestic, regional and global economies. Local industrialization is also central to Uganda's Vision 2040 which envisions transforming Uganda "from a peasant to a modern and prosperous country within 30 years".

From a local development perspective, it is important for industrial policy to ensure that the industrial strategies and their implementation promote inclusive and sustainable development. An appropriate industrial policy must be seen to navigate beyond the economic aspects, to include social and environmental dimensions. Coherence between the industrial policy and other key development concerns is essential for promoting sustainable industrialization. One of such development concerns is the trade policy.

Trade policies and agreements have a role to play in the industrialization effort. To promote industrialization, trade-related policies and frameworks need to be aligned to the industrialization agenda of the region. Hence, trade agreements as key elements of trade policies, if properly negotiated, can act as a tool for promoting inclusive and sustainable industrialization. If poorly negotiated though, trade agreements can impede industrialization. The Economic Partnership Agreement (EPA) negotiated between the EU and the EAC is one of such Free Trade Agreements whose provisions may have far-reaching implications for industrial development in Uganda and elsewhere in the EAC.

While Uganda is in the process of reviewing her National Trade and Industrial Policies, the EAC, is in the process of developing a Regional Trade Policy. It is important to understand the interplay between these policies and strategies like the "Buy Uganda Build Uganda" and "Buy East African Build East Africa" and the promotion of industrialization in the region.

It is against this background that SEATINI Uganda undertook this study in order to assess and document the implications of trade policies and agreements like the EPA on industrialization in Uganda and EAC. The study specifically sought to:

- Outline the status of industrialisation in the EAC in general and Uganda in particular inrelation to value chain enhancement; employment creation, and poverty reduction.
- Examine the provisions of the EAC Trade Policy as well as the Uganda National Trade Policy, and assess their linkage to (the level of) industrialization.
- Assess the provisions of the EU-EAC Economic Partnership Agreement, and its implications for industrialization in Uganda and the EAC.
- Propose amendments/ recommendations and justifications for amendments in the trade policies and the EPA to inform peer-to-peer dialogue and policy advocacy to influence policy reforms.

Guided by the research objectives, the rest of this report is arranged as follows: Chapter 2 looks at the state of industrialization in Uganda and the EAC region in general from a historical perspective. It discusses the linkages between industrialization, value chain enhancement, employment creation, and poverty reduction; and also analyses the efficacy of both the Uganda and EAC industrial policies in supporting the industrialization efforts in Uganda and the region.

Chapter 3 examines the link between trade policy and industrialization; and analyses the provisions of the Uganda's and the EAC's trade policies in the context of the industrialization efforts in Uganda and the region. Chapter 4 focuses on how the provisions of the EAC-EU EPA supports or hinders industrialization in the region. Chapter 5 concludes with recommendations on what needs to be done to align industrial and trade policies and agreements to industrialization in Uganda and the region.

2

Issues in East Africa's Industrial Development

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2.1 Share of Industrial Manufacturing in GDP

The industrial sector in the EAC region is still weak, precisely because it is dominated by low value-added processing of agricultural and mineral resources. Without substantial value-addition (proxied by the level of manufacturing value-added), the contribution of the industrial sector to GDP and employment in all the EAC countries is small. Additionally, diversification is still limited, and the level of technological development low..

Table 2 below presents the share of manufacturing and industry in the national GDP of the EAC member countries. In Kenya, which is supposedly the industrial "giant" of East Africa, the share of manufacturing in national GDP is only 10.9 percent compared to 7.5 percent in Tanzania; 10.0 percent in Burundi; 9.4percent in Uganda and 5.9 percent in Rwanda (EAC, 2016). The shares were not significantly different by 2015.It is evident that the manufacturing sector's contribution to national GDP across board is still very low. However it should be noted that the definition of the industry sector used in the table is broad, giving an impression of a relatively vibrant sector.

For example construction is also included in this sector.

Country/year	2011	2012	2013	2014	2015
Burundi	10.0	10	10	-	-
Kenya	10.9	10.9	10.4	10.0	10.3
Rwanda	5.9	5.9	5.1	-	-
Tanzania	7.5	7.5	6.4	5.6	5.2
Uganda	9.4	9.4	8.9	7.9	8.2

Table 2: Share of Manufacturing in National GDP of EAC Countries.
Source: Country Reports - EAC Secretariat

Some countries in the region, especially Kenya and Tanzania have relatively advanced industries for chemicals, rubber and plastics, and basic metal products. However 90% of inputs in these products are imported. This underscores the absence of well-developed and integrated local industries[1].

There are opportunities for the EAC to develop regional industries. The abundant resources in the region should be the basis for regional industrialization. Critical aspects of agro-processing (such as textiles manufacturing) could be tapped into to promote industrial development. Indeed, the textiles and clothing subsector has the potential to stimulate production and productivity enhancement in the agricultural sector where on average 60% of all East Africans are employed. Being labour intensive with backward and forward linkages, the subsector is likely to provide jobs both in the rural and urban areas. Other possible sectors include the leather and wood products sectors which can also source raw material inputs within the region; the pharmaceutical industries; and the manufacture of construction materials (such as cement) which are crucial for the construction boom in the region.

2.2. Obstacles to Industrial Manufacturing in the EAC.

The EAC faces substantial obstacles to industrial manufacturing which include inadequate, costly and fluctuating energy supply among others. Indeed, the region has the lowest per capita energy generation capacity on the continent. The inconsistent and fluctuating power supply necessitates the use of alternative sources of power i.e. diesel generators – which are expensive. Transport infrastructure is also inadequate. The low penetration of rail transport has resulted in over-dependency on road transport which increases the cost of doing business. By 2010 Tanzania and Kenya, which could be considered as leaders in the railway transport in the region, had a railway network of only 3,676km and 2,778km respectively (EAC, 2017). The existing legal and regulatory frameworks are also weak. For most of the EAC countries, political leaders, at their own discretion, still make decisions pertaining to investment and industrialization. In general, putting in place comprehensive and transparent regulations on investment and industrialization is still an ongoing process in the region

The challenges faced by the region are summarized by UNIDO's Competitive Industrial Performance (CIP) index, which uses specific indicators (manufacturing value added per capita, manufactured exports per capita, share of medium and high-tech activities manufacturing value added, and share of medium and high-tech products in manufactured exports among others) to assess an economy's ability to produce and export manufactured goods competitively (UNIDO, 2002). The CIP index includes a measure of export quality, measured by the average of the share of manufactured exports in total exports and of medium and high-technology products in manufactured exports.

The CIP index for 2012/13 lists Kenya and Tanzania as 102nd and 106th respectively in the global rankings (out of 135 countries surveyed). Kenya and Tanzania are trailed by Uganda (120th), while Rwanda (129th), and Burundi (132nd) is clustered near the bottom of the rankings. While the region has improved its CIP index scores over the years, the progress has been slow and quantitatively minimal compared to rival East Asian economies (such as Taiwan, South Korea or Malaysia).

1 Africa Development Bank : Eastern Africa's Manufacturing Sector ; Promoting Technology , Innovation, productivity and Linkages, 2014

2.3 EAC industrial policy and prospects for supporting industrialization

East African Community member-states cannot be faulted for doing nothing about the plight of the industrial sector. An industrial policy dubbed the EAC Industrialization policy and strategy (2012-2032) has been developed. The central theme of this policy is: Structural transformation of the manufacturing sector through high value addition and product diversification based on comparative and competitive advantages of the region." The policy envisions "a globally competitive, environment-friendly and sustainable industrial sector, capable of significantly improving the living standards of the people of East Africa by 2032". The overall objective is to enhance industrial production and productivity. The goal is to accelerate the structural transformation of the economies of East Africa in order to enhancing sustainable wealth creation, improved incomes, and higher standards of living for the people.

The challenges identified in the policy include the following:

a. Small, fragmented and underdeveloped markets (both nationally and regionally);

b. The absence of coherent strategies, laws and regulations to guide the industrialisation efforts;

c. Limited institutional capabilities to provide support services, which are needed to backstop the process of industrialisation;

d. Inadequate human skills/resources

e. Constraining infrastructure (including a poor road and railway network, worsened by low penetration rates of CITs/bandwidth);

f. Limited research and development which is grossly underfunded by EAC member-states, resulting in low technological readiness in the industrial sector; and

g. Limited access to affordable finance. This has constrained the growth of industries, particularly the micro, small and medium enterprises (MSME) growth.

The policy and strategy identifies six strategic industries in which the region has potential comparative advantage (EAC, 2012). The earmarked industries include the following:

- **Agro-processing**: The agro processing industries were earmarked since they are the biggest formal-sector employers of a substantial number of citizens. They are also offer huge indirect employment potentials through their backward and forward linkages with industries.

- **Iron and steel:** This sector, together with other mineral processing industries, was prioritized largely because of its strategic role (as a source of capital goods/equipment) needed in the industrialization process.

- Other industries identified are fertilizers and agro-chemicals; pharmaceuticals; energy and bio-fuels; and petro-chemical and gas processing (given that most of the EAC Partner States have discovered commercially viable oil and gas).

To ensure that the broad vision is attained within a reasonable timeframe, the policy sets out specific targets and outcomes. These include raising Local Value Added Content (LVAC) of manufactured exports to at least 40% from the currently estimated value of 8.62% by 2032; strengthening national and regional institutional capabilities for industrial policy design;

strengthening of R&D, technology and innovation capabilities to support structural transformation of the manufacturing sector; increasing share of manufactured exports to the region relative to imports from the current 5% to about 25% ; and growing the share of manufactured exports relative to total merchandize export to 60% from an average of 20%; and transforming micro, small and medium enterprises (MISMEs) into viable and sustainable business entities capable of contributing at least 50% of manufacturing GDP from 20% base rate.

It is envisioned that by 2032 the manufacturing sector's contribution to the regional GDP, will average 25% and that the employment in the manufacturing sector would be 2.3 million people. The figures pertaining in 2012 for contribution to GDP and for employment were 8.7% and 456,000 respectively. Other ambitious outcomes included increasing GDP per capita from US $ 558, to US $ 1,300; and manufactured value added per capita, currently from US $50 to US$ 258 in 2032 (EAC, 2012).

In order to address the industrialization challenges, the EAC Partner States undertook to implement a number of broad policy measures which include: promoting the development of the strategic regional industries and enhancing value addition; strengthening national and regional institutional capabilities for industrial policy design and management; strengthening the capacity of industry support institutions (ISIs) to develop and sustain a competitive regional industrial sector, strengthening the business and regulatory environment; enhancing access to financial and technical resources for industrialization; facilitating the development of, and access to appropriate industrial skills and know-how; facilitating the development of MSMEs, and strengthening industrial information management and dissemination systems. It further undertook to promote equitable industrial development in the EAC region; develop supporting infrastructure for industrialization along selected economic corridors; promoting regional collaboration and development of capability in industrial R&D, technology and innovation, promote sustainable industrialization and environment management; expand trade and market access for manufactured products and promote gender in industrial development (EAC, 2012:12).

The policy takes cognizant of the importance of complimentary policies such as trade policy that are tailored to the needs and objectives of industrialization; and the need for policy coherence between industrial policy and other sectoral and macro- economic policies such as exchange rate policy, monetary and fiscal policies.

The policy provides for the institutional framework to undertake and oversee the implementation of the industrial policy and strategy. This framework includes the EAC secretariat and the sectoral council on industrialization, to lead in the implementation of the policy and provide policy guidance. An inter-ministerial coordination forum comprising ministers responsible for complimentary polices and industrial development is also provided for. Its primary responsibility is to ensure follow-up on the implementation of complementary policies and measures. The Department of Industrial Development (IDD) in the Secretariat is to be strengthened to ensure effective coordination of implementation and preparation of Programmes and projects (EAC, 2012:28). The capacity of IDD will be reinforced by creating the following functional units in the department: Industry competitiveness/ industrial observatory, SME development, Industrial R&D, and Technology transfer and innovation units.

The policy provides clarity on the industrial journey of the EAC. However it lacks a couple of things. The issue of trade policy as one of the complimentary policy measures is very critical. The policy recognizes that one of the challenges hindering market expansion for manufacturers is competition. Cheaper imports from China and India, for example, make local products highly uncompetitive. However, the EAC policy does not spell out how this challenge will be addressed and the kind of trade policies that should be in place to support industrialization in East Africa. This lacuna is the reason why there is no consensus among the EAC Partner States on the Economic Partnership Agreements (EPA). Without a common agreement on the complimentary micro-economic policies needed to support industrialization, it might be difficult for East Africa to achieve the outcomes stated in the industrial policy.

2.4 EAC Trade policy in the context of the EAC's industrialization aspirations

At the moment, the EAC does not have an approved Regional Trade Policy (RTP). A document entitled: "The EAC- the Development of the EAC Regional Trade Policy" by Imani Development nonetheless provides some insight into the envisaged regional trade policy. The vision of the proposed RTP is to achieve a competitive regional economy, generate sustainable livelihoods through export diversification and the promotion of inward investments. The goals of the policy include enabling regional integration and external trade that are coherent and mutually re-enforcing; increasing access to markets and resources; contributing to private sector development; and generating benefits for all EAC partner sates.

The priority areas for the RTP are

a. a common external tariff;

b. application of trade remedies;

c. effective participation at the WTO;

d. enhancing trade facilitation; and

e. promoting the ease of doing business or what is popularly termed improving the investment climate (Imani Developments, 2016). Despite other priority areas, the Common External Tariff (CET) appears to be the most important. This is so because tariffs affect the free movement of goods, which is the area where disciplines are strongest and implementation is most advanced.

Secondly, tariffs impact national policy decisions with regards to the duty exemptions which in turn have a direct effect on the free movement of goods. This movement requires the continued use of rules of origin and border controls to ensure that duty exempt goods are not sold duty free within the EAC.

Thirdly, the CET is also an area where two of the five EAC Partner States are in violation of their international trade policy commitments as a result of joining the EAC.

The most important aspects for a regional trade policy to address in terms of coherence and compatibility across member states are:

- Overlapping membership
- The stay of application of the CET
- The exemption and duty drawback regime
- The issue of export processing zones (EPZs); and
- The violation – real or potential – of tariff binding commitments to the WTO.

In all, the EAC Regional Trade Policy is important for industrialization as it determines the level of liberalization and protection of sectors and specific products. The proposed RTP alludes to this issue in its proposals for the CET. The Regional Trade

Policy recognizes the need for a review of the CET, although this review is for diverse reasons as expressed by the Partner States. On the issue of infant industry protection, the RTP recommends the use of protective tariffs. However, such tariffs are to be used for a very limited number of products in a strictly time bound fashion. The products on which the tariffs will be applicable are not mentioned though. The reason for this is that infant industry protection can be expensive for the region. The RTP recognizes the need by the EAC to attract foreign direct investment (FDI). Conclusion on EAC Industrial Policy and Regional Industrialization

The EAC industrial policy outlines an industrialization strategy to be followed but does not give any specifics. It does not, for example, specify how sector-specific challenges will be addressed. For instance, while the development of value chains is emphasized in the policy, no specifics are given on the "how to" question.

The EAC regional trade policy is work in process. Its most important significance is that it is an opportunity for the region to refine it in line with the ongoing industrial policy processes. The RTP should be linked to industrialization as is clearly stated in the EAC industrialization policy. The CET is also undergoing review. This review should again be linked to the EAC industrialization goals.

The policy recognizes pitfalls of unsustainable economic growth characterized by high levels of pollution, waste production and inefficient use of resources such as energy, material and water; and subsequently the need to put in place environmental laws and regulations to mitigate the harmful environmental effects. However the policy document needs to articulate how the region can take advantage of new innovations, technologies and business models to promote green industrialization. The 2016 ECA Report on Africa[2] provides relevant information which the region can use.

In addition to environmental issues, the policy provides for the promotion of gender in industrial development. This is important as it ensures that the scope of industrial policy is broadened beyond a narrow economic focus. It would be useful though that policy includes the issue of food security. Industrialization if not properly thought through can affect local food security.

The EAC industrial policy provides a broad framework to guide the industrialization efforts of the EAC as a region. It attempts to harmonize and create synergies between individual member country industrial policies. It is also notable that the policy is broadened beyond a narrow 2 UNECA 2016: Greening Africa's Industrialization ; Economic Report on Africa; 2016 economic focus to also take into consideration pertinent gender, social and environmental dimensions of industrialization.

However, the success of the EAC industrial policy highly depends on all member countries agreeing on a common vision and industrialization strategy. It will also depend on how the policy will enable relatively equitable industrialization such that all member countries realize some transformative outcomes. Otherwise, the policy might become a source of discontent for countries that suffer exclusion, real or imagined.

2 UNECA 2016: Greening Africa's Industrialization ; Economic Report on Africa; 2016

3

The EU-EAC EPA and its implication to industrialization in EAC

"……the rejection of EPAs in their current form is informed by the potential harm on the Kenya Economy. Nowhere will the dangers of an all-out liberalization of trade with EU be felt more than in the dominant agricultural and the nascent manufacturing sector " Deputy Speaker Joyce Laboso , Kenya National Assembly (House of Parliament), July 2013 ; while introducing a motion to abandon the EPA.

The EPAs are reciprocal free trade negotiations between EU and its former colonies in Africa, Caribbean and Pacific (ACP). There are a departure from the previous non-reciprocal trade relationship which had been pertaining between the two parties since 1975 under the four successive Lomé Conventions. Launched in September 2002 the EPA negotiations were supposed to be concluded by 2007 and the new trading arrangement to come into effect in January 2008. However up to now the EPA negotiations have not been signed and ratified by all the EAC Partner States. Although the EAC negotiated as a region and was supposed to conclude and sign as a region, this unity has not materialized as Kenya, individually, has signed and ratified the EPA, Rwanda has signed, while Uganda, Tanzania and Burundi have neither signed nor ratified. Tanzania has out rightly rejected the EPAs insisting that the EPAs are detrimental to the economic development of Tanzania and the region at large; and that it will negatively affect the current efforts towards industrialization. This position has been echoed by civil society organizations, think tanks and other governments both in the North and the South.

The major contentious issue regarding the EPA as far as industrialization in the EAC is concerned is the issue of the extensive liberalization to be undertaken by the EAC. In this section, the implication of this liberalization on the industrialization efforts in Uganda and the EAC is discussed in detail. The extensive liberalization is also coupled with a number of arduous articles, a combination of which will make industrialization untenable in the region. These articles include: Article 3 (Rendez-vous clause), Article 12 (standstill); Article 14 (Export duties and taxes), Article 15 (More Favorable Treatment resulting from a free trade agreement); and Article 49 &50 (Bilateral and Multilateral safeguards). The provisions of these articles and their implications on industrialization will be discussed.

3.1 Trade liberalisation commitments in the EU-EAC EPA

Article 5 (Scope and objective) provides for the market access offers by both EU and EAC. EU undertook to provide "full duty-free and quota-free market access conditions for goods originating in the EAC Partner States into the market of the EU on a secure, long-term and predictable basis in accordance with the modalities established in this Agreement".[3] This treatment would apply from entry into force of the framework agreement for all products, except sugar and rice, for which duty- and quota-free treatment would be phased over a transition period. This offer also includes elimination of all tariffs and tariff quotas on products not fully liberalized under the Cotonou Partnership Agreement (CPA), such as bananas, beef and other meat, dairy products wheat and all cereals, as well as fruits and vegetables. Implementation of the EU market access offer was supposed to begin on January 1st, 2008. The assumption was that the EPAs would be concluded by 2007.

On the other hand, the EAC undertook to "liberalize progressively and gradually the EAC Partner States' markets for goods originating from the EU in accordance with the modalities established in this Agreement"[4] According to the modalities agreed upon, the EAC offered to liberalize 82.6% of her imports from the EU over a 25 year transition period by initially liberalizing 65.4% on entry into force of the agreement. The products covered during this phase are already zero-rated under the EAC customs union Common External Tariff (CET). These include mainly industrial inputs and capital goods (e.g. machinery, pharmaceuticals). The rationale for locking in this liberalization is that these products are needed by the region cheaply. The EAC also agreed to liberalize 14.6% from the 7th – 15th year so that after 15 years from the day the agreement comes into force, 80% of the exports from the EU will enter the EAC market duty-free. The products covered at this phase include intermediate goods used in the production process as wells goods whose availability at lower costs would enhance competitiveness. Lastly in the 13th–25th year of entry into force of the agreement, the EAC agreed to liberalize 2.6%. These sum up to a total of 4006 tariff lines to be liberalized under the agreement. Only 17.4% (1432 tariff lines) have been excluded from liberalization. These are mainly agricultural goods as well as some processed agricultural commodities and industrial products which are already locally produced or which Uganda can produce – e.g. unassembled vehicles, motorcycles, footwear, glassware, textiles and clothing, plastics, tobacco, wines, steel products, etc. The major overriding reason to this exclusion is to protect sensitive products in terms of industrialization and agricultural production.

Therefore in total the EAC commits to liberalize 82.6% of all its imports from the EU by 2033. These liberalized products will be forever condemned to being without tariff protection given the fact that Article 12 (Standstill) prohibits the Parties from increasing their applied customs duties for products subject to liberalization under the Agreement. According to Bilal and Ramdoo, (2010), the Standstill clause also contradicts the development provision of the EPA as this could potentially harm the development benefits envisaged to accrue from the Agreement. Thus the impact of trade liberalization under EPAs would be deeper than those experienced under the Structural Adjustment Programs (SAPs) since the SAPs involved tariff reduction not elimination. It should be noted that the WTO regime allows for raising the applied tariffs to the bound tariff rates.

3 EU-EAC EPA Text

4 ibid

Tariffs and the flexibility to raise them is an indispensable part of industrial development policy as they shield the infant industries from undue competition and also provide the policy space for countries to protect crucial sectors. The history of development has indicated that no country industrialized without using tariffs to nurture and develop infant industries. Regarding the liberalization in the EPA, the EAC Geneva Ambassadors in their letter to the EAC Trade Ministers dated 1st June 2010, pointed out that "Binding most Tariffs at Zero will deny us the use of dynamic trade policy space, and could mean that we remain largely exporters of primary commodities"[5]

There are a number of studies undertaken on the nature of liberalization under the EPAs which shows that the level and nature of liberalization will affect productive capacities and industrialization in the EAC. According to the study undertaken by South Centre[6], the level of liberalization undertaken by the EAC in the EPA is much more pronounced for non-agricultural products compared to agricultural products. According to the study, EAC as a whole committed, in value terms, to liberalize 87.2% of non-agricultural products and only 11.4% of agricultural products. These levels of liberalization are echoed also at the respective national levels i.e. for Tanzania and Rwanda it is 89.3% & 88.1% for non-agriculture products, while for agriculture products it is 9.4% and 7.2% respectively. This high level of liberalization of non-agriculture products negates the drive and aspiration in the region for industrialization.

The extensive liberalization also has the potential to enable EU products to dominate the national and regional markets. These markets are important in the promotion of industrial and manufactured products; and there is a case for regional industrial development. 60% of intra- EAC trade is manufactured products, while only 6% of EAC exports to the EU are manufactured goods. The loss of the regional market and the concentration on primary exports to the EU will not support the industrial growth of the EAC countries. In 2015, 50.8% of Uganda manufactured exports were traded with EAC countries (EAC, 2016), South Sudan being one of the major clients of Uganda's diversified exports. Companies like Roofing's Group have owned their dynamism not only to the domestic but also regional markets. Deepening regional integration will be critical for boosting manufacturing competiveness, particularly in view of the adverse trends in global trade that have been limiting the expansion of manufacturing globally.

It is clear that the liberalization undertaken by the EAC in the EPA is very extensive, especially given the fact that the EAC's economy is still weak. The EPAs are following in the footsteps of the SAPs under which the region liberalized their economies with disastrous effects especially on the industrial sector. In the case of Uganda, it should be noted that during the wave of structural adjustment policies implemented across Africa in the late 1980s and 1990s, Uganda was one of the first countries in the region to liberalize its economy. Applied tariffs in Uganda declined from 30% in 1988 to 12% in 2015. Despite relatively high nominal tariffs on EAC imports of consumer goods (at 25%), the levels of applied effective tariffs are low compared to the historical experience of industrialized countries at comparable levels of development. For example, towards the end of the 19th century when the United States was trying to catch up with Britain by way of infant industry protection, its average applied tariffs on manufactured imports were close to 50%. Therefore instead of liberalisation further Uganda and the other EAC Partner States should be reviewing their tariff upwards if they are to achieve their aspirations for industrialization.

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6 Ibid

The nature of liberalisation also seems to be taking a static approach to development which does not envisage Uganda and the East African region graduating to producing either industrial inputs or the capital goods. While at the moment the region might need cheap and affordable medicines and machinery, in future the region might want to produce them locally. However this might prove difficult due to the competition from outside. This situation is complicated further by the fact that the safeguards, both multilateral and bilateral, provided for in the text are not user friendly.

3.1.1 The specific liberalisation schedule

It was assumed that the liberalization schedule with its longer time period for the liberalization of some products and the total exclusion of others is enough safeguard to protect the nascent industries. However there are contradictions within the schedules which may have implications on the EAC's industrialization efforts. For example, on one hand, the EAC has protected maize (corn) flour (HS Code, 6 digits 110220) at a duty rate of 50% yet on the other hand, maize (corn) starch (HS Code, 6 digits 110812), which is a bi-product of maize flour has been liberalized. These contradictions equally apply to other products like cassava (manioc) and potatoes. With such a liberalization schedule, promoting value addition through agro-processing will be very much constrained and will also compromise food security given the supportive linkages between agriculture and manufacturing. The products in Phase II i.e. from the 7th -15th year, for which tariff will be reduced from 10% to zero over a period of thirteen years, includes farm products such as: fruits; seeds cereals; and animal food; and also value added products such as sugar cane, animal fats and oils, a range of fertilizers, insecticides and herbicides; and medicaments such as vaccines. The reduction to 0% is quite drastic given the little time available and limited government commitment to prepare these products for competition with EU products.

3.2 Other contentious Articles in the EU-EAC EPA and their implications on Industrialization in the EAC

3.2.1 Multilateral and bilateral safeguards

Safeguards are contingency restrictions on imports taken temporarily to deal with special circumstances such as a sudden surge in imports. Import surges which are sharp but temporary rise in import volumes, are particularly critical because of their potential impact on agricultural production and industrialization and because sudden increases in import volumes can threaten the otherwise viable and efficient domestic sectors.

Under Article 49, (Multilateral Safeguards) the EPA text provides for the use of the WTO Agreement on Safeguards and Article 5 of the WTO Agreement on Agriculture. Therefore the agreement provides for the use of Special Safeguard Provision (SSG) as articulated under the Agreement on Agriculture (AoA). The provisions can be used if a domestic industry is injured or threatened with injury caused by a surge in imports accompanied by a price fall. A price decline alone does not qualify. The restrictions can be on quantity imported like a quota or an increase in tariffs above the bound rate. An injury test is required, and negotiations for compensation must be pursued. The GATT's general safeguard provisions require Members invoking the measures to prove injury or threat thereof to the domestic industry and establish through an investigation based on objective evidence that there is a causal link between increase in imports and the injury or threat thereof to the domestic industry

The Bilateral safeguards (Article 50) allow a Party to apply safeguard measures of limited duration where a product originating in one Party is being imported into the territory of the other Party in such increased quantities and under such conditions as to cause or threaten to cause serious injury to the domestic industry producing like or directly competitive products in the territory of the importing Party, or disturbances in a sector of the economy, particularly where these disturbances produce major social problems, or difficulties which could bring about serious deterioration in the economic situation of the importing Party, or; disturbances in the markets of like or directly competitive agricultural products or in the mechanisms regulating those markets.

There are conditionalities on the usage of the Safeguard measures referred to in Article 50. For example they are not to be applied for a period exceeding two (2) years. Where the circumstances warranting imposition of safeguard measures continue to exist, such measures may be extended for a further period of no more than two (2) years. No safeguard measure is to be applied to the import of a product that has previously been subject to such a measure, for a period of at least one (1) year since the expiry of the measure.

The nature of the both the multilateral and bilateral safeguards and the conditionalities attached to their usage makes them very cumbersome to invoke as a party has to prove import surges and injury, and establish a causal relationship between the surges and injury to the whole industry. The country must also have in place an investigative mechanism which is difficult to establish. This is why developing countries have not invoked these remedies in the WTO and are also demanding for a Special Safeguard Mechanism (SSM) which is user friendly; as it would be applied to all agricultural products and would be triggered by both volume and price without proving injury to the domestic industry. The extent of the remedy should be commiserating with the depth of the import surge or the fall in prices.

Other limitations on the uses of the bilateral safeguards include:

- Limits infant-industry protection to products where duty reduction is underway (i.e. it is not applicable to products excluded from the duty-reduction provisions under the agreement);
- Defines the period of time over which infant-industry protection can be accorded from the date of entry into force of the agreement;
- Limits the scope of the protection measures which can be adapted to those applicable under bilateral safeguards and subjects the application of infant-industry protection measures to procedures, which may prove difficult.

Most of the developing countries including the EAC countries cannot use the Safeguard Mechanism provided for under the multilateral safeguard since they did not undertake the tariffication process.

The EAC countries, like many other developing countries lack the institutional capacity to implement, in a rigorous manner, the detailed procedural requirements necessary to apply the safeguard measures in accordance with the Safeguards Agreement. Furthermore, the nature of agriculture in the EAC characterized by large number of subsistence and small farmers will make it difficult for Uganda and the EAC Partner States to effectively use the safeguards provided for in the EPA text; thus leaving them exposed to the vagaries of international prices and sudden increase in imports with detrimental effects on their agricultural and industrial sector.

3.2.2 Domestic Subsidies in the EU

Another problematic article as far as agricultural production and industrialization in the EPA is concerned, is the issue of subsidies. Under Article 68(2) Subsidies, the EU undertakes not to grant export subsidies to all agricultural exports to EAC Partner States. However, notwithstanding this commitment, the real challenge to the EAC's agricultural production and industrialization is the ever increasing domestic subsidies in the EU. The EU has refused both in the EPA and in the WTO to reduce domestic subsidies, and has continued to engage in shifting their prohibited (red) subsidies into allowable (green) subsidies. It should also be noted that the EU has already committed to eliminate export subsidies in the WTO.

3.2.3 Export Duties and Taxes

Article 14 (Export duties and taxes) prohibits the institution of any new duties or taxes in connection with the exportation of goods to the other Party that are in excess of those imposed on like products destined for internal sale. There are exceptions provided for whereby the EAC Partner States can impose export taxes and duties. These include circumstances whereby the EAC Partner States wants to foster the development of domestic industry; to maintain currency stability, when the increase in the world price of an export commodity creates the risk of a currency overvaluation or to protect revenue, food security and environment.

However there are conditionalities imposed on the usage of export taxes even under these circumstances. The taxes should be enforced on a limited number of products, on a temporary basis after notifying the EU. The taxes are to be reviewed by the EPA Council for renewal after 48 months.

Export taxes can be a useful measure for the promotion of domestic industries, as they can play a role in discouraging the export of raw materials thus securing availability and affordability of essential inputs for these industries. This in turn means countries are adding value to their products instead of simply depending on exporting raw material. In this way countries can be able to create employment and increase production.

The issue of export taxes is central in the quest for promoting industrialization. At the 17th EAC Summit, the EAC presidents directed that the bloc speeds up the process to ban the exportation of raw hides and skins outside the East African region. This decision was taken on the basis of promoting vertically integrated industries in the textile and leather sector. These industries depend on raw materials to manufacture finished products. Some EAC countries have instituted export taxes especially on raw hides and skins.

In Uganda and Kenya the tax is 40% while Tanzania it is 90%. There are also other products especially the extractive sector where export taxes can be beneficially used to stem the outflow of raw minerals. Given the importance of export taxes in promoting industrialization, they (export taxes) are allowed by the WTO. Therefore, the EAC countries should not allow the EU to take away this critical tool. It is contended that the EU is insisting on limiting the usage of Export taxes because of the EU Raw Materials Initiative which is meant to maintain a secure and affordable supply of raw materials for industrial sustainability in the EU

3.2.4 Rendezvous clause

Under Article 3 (Rendezvous Clause) the parties undertake to conclude negotiations in areas of services, investment, government procurement, trade and sustainable development, intellectual property rights, competition policy, Transparency in public procurement and any other areas that the parties may agree upon. The negotiations are to be concluded within five years upon entry into force of the EPA.

Some of these issues, especially investment, competition and government procurement have been contentious since they were introduced in the WTO in 1995. Developed countries have been pushing these issues in the WTO with the major motive of the expansion and maximization of the rights of foreign enterprises to have market access to developing countries through their products and investment; the reduction to a minimum of the rights of the host government to regulate foreign investors; and the prohibition of governments from taking measures that support or encourage local enterprises. The WTO principle of "National Treatment" when applied to the three issues as proposed by major developed countries would mean that foreign goods and investors are given equal or more favorable treatment than local goods and investors. Governments will also be prohibited from giving preferences to local investors and industries. This issue is at the center of the misgiving about these issues and their implication on industrialization in developing countries in general and in the EAC in particular.

Specifically regarding the issue of investment, the interests of the major developed countries as proponents of binding agreements in this area are well known and have remained constant in the past many years. They conflict with the aspiration of developing countries in general and EAC Partner States in particular to nurture and grow their nascent industries. Some of the major features of the existing International Investment Agreements (IIA) which are contentious inclu:

- Obligations on the right to entry and establishment: These provide foreign investors the rights to entry and establishment in member countries without (or with minimal) conditions and regulations and to operate in the host countries without most conditions now existing. In FTAs involving the USA, the foreign investor is given "pre- establishment" rights. This means that rights are provided to potential investors even before they enter the country, implying that there would be no or minimal regulation on the entry of investments. In contrast, post-establishment rights means that the host country can decide whether or not to accept a potential investor or investment and can impose conditions on the investment if it decides to allow entry to the investor.
- "Non-discrimination" and national treatment principles: National treatment and MFN status would be given to foreign investors and investments. National treatment means that the foreign investor would be given rights to be treated no less favourably than local investors (the meaning is that the foreign investor can be given treatment better than or equal to but not less than the local). Measures that promote or give preferential treatment to local investors may be curbed as these are seen to be discriminating against foreign investors.
- Ban on Performance Requirements: The host state would be prohibited from imposing performance requirements on the foreign investor or investment. For example,

regulation on limits and conditions on equity, obligations for technology transfer, measures for using local materials and for increasing exports or limiting imports would be prohibited or disciplined.

Such an agreement or chapter is ultimately designed to maximize foreign investors' rights whilst minimizing the authority, rights and policy space of governments and developing countries. This has serious consequences in terms of policy making in economic, social and political spheres, affecting the ability to plan in relation to local participation and ownership, balancing of equity shares between foreign and locals and between local communities, the ability to build capacity of local firms and entrepreneurs, etc. It would also weaken the position of government vis-à-vis foreign investors (including portfolio investors) in such areas as choice of investments and investors, transfer of funds, performance requirements aimed at development objectives such as technology transfer, protecting the balance of payments, and the formulation of social and environmental regulations. This will have negative impact on the governments' ability to promote inclusive and sustainable industrialization.

Uganda and the EAC Partner States, individually have signed a number of Bilateral Investment Treaty (BITs) which include some of these provisions which has limited the policy space of governments to direct and use FDI to promote industrialization. These contentious issues notwithstanding, FDI can play an important role in catalyzing industrialization and structural transformation through generation of productivity spill overs, through technology and skills transfer. However these benefits are not automatic and EAC Partner States must have the policy space to put in place policy frameworks to make this happen. Regulations are required to balance the rights and obligations of both the investors and host countries and allow for the harnessing of FDI for inclusive and sustainable development and industrialization.

Therefore, negotiating investment in the EPAs, given the position of the EU on this issue, would constrict further the policy space for Uganda and EAC Partner States to harness FDI to promote industrialization

3.3 Government procurement in the EPA and industrialization

Government procurement comprises the expenditures of government on goods and services. The expenditure include the purchase of goods, payment for all kinds of services, and a variety of projects, from the building of schools, health facilities and roads to billion-dollar mega-dams and industrial complexes. The total amount of money spent by the public sector, including the central and local government, statutory bodies and state run enterprises, is enormous, accounting for a significant share of national public finance. Therefore, government procurement is a big business presenting huge opportunities for both international trade and opportunities for national government to use it as a development tool.

Government procurement can be major policy tool and powerful driver of development and industrialization through governments' purchase of locally produced materials. Already Uganda has put in place the "Buy Uganda, Build Uganda – BUBU" Policy in order to encourage local production and industrialization. In addition, Uganda and the other EAC Partner States are also in the process of putting in place Local Content policies to further encourage the purchase by government and investors from local producers. However effecting these policies and using government procurement as a tool to pursue a national industrial policy will require policy space to put in place national and regional policies which allow it to give preference to local firms, suppliers and contractors. Negotiating government procurement in the EPA may jeopardize this policy space given the fact that the EU has continued to push for binding rules on government procurement in the Free and Bilateral Trade Agreements. The European Union has consistently pointed out that Government Procurement is a focus area among others in opening up new markets.' (Global Europe, 2006).

The EU's position can be discerned from the EU-CARIFORUM EPA. Public procurement is provided for in Chapter 3 of the EU-CARIFORUM EPA text. The text provides for principles of transparency, openness and due process in government procurement practices. The Text puts onerous obligations on the Partner to ensure transparency in government procurement. These include having in place, inter alia:

- Procedural guarantees that increase information flow on procurement opportunities, notification of specific procurement opportunities and guarantees that all suppliers will have access to the same information on an equal basis and provision for review mechanisms when disputes arise.
- Prompt publication, in appropriate publications including officially designated electronic media, of any law, regulation, judicial decision and administrative ruling of general application, and procedures, all modifications to such measures.
- Provision for effective dissemination of the tendering opportunities generated by the
- relevant government processes.
- Publish in advance a notice of intended procurement

According to the CARIFORUM EPA Agreement, the opening of tenders and awarding of contracts should be done in fair and transparent manner and the results of the procurement process should be promptly disseminated; and on request, any eliminated supplier should be informed of the reasons for the rejection of its tender and of the relative advantages of the successful supplier's tender. The text also allows the supplier to challenge domestic measures. Thus Parties have to establish, identify or designate at least one impartial administrative or judicial authority that is independent of its procuring entities to receive and review a challenge by a supplier arising in the context of covered procurement.

Such provisions if included in the EAC EPA text will greatly restricts the ability of Uganda and the EAC countries to use government procurement to promote local industries and suppliers.

3.3.1 Revenue Losses

Undertaking industrialization requires finances for investment. Already Uganda is caught up in a revenue deficit trap as it has to constantly borrow to balance its budget. This situation will further be worsened by the revenue losses under the EPA as a result of the extensive liberalization. Various estimates exist on the amount of tariff revenue losses that EAC Member States would have to incur as a result of duty reduction and elimination under the EPA. According to the South Centre Analysis of the EAC EPA[7], besides tariff revenue loss, reduction and elimination of duties also reduces the Value Added Tax (VAT) collected on imports, as EAC Member States levy VAT on the import price inclusive of duties. Kenya applies a rate of 16% whereas Rwanda, Burundi and Tanzania apply a rate of 18%. Furthermore, duty reduction/elimination will

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lead to trade diversion, i.e. increased imports of EU to the detriment of non-EU sources which lead to tariff revenue losses otherwise collected from non-EU sources.

Taking into account both VAT and Trade diversion, Berthelot (2016) estimates, on the based on EU export data from Eurostat, that the total annual tariff revenue losses of all EAC Member states would rise from €78.3 million in the 7th year after entry into force of the EPA to €276.7 million at the end of the implementation period. Total cumulative tariff revenue losses would amount to €3.6 billion in at the end of implementation period.

3.4 Conclusions

In the fourth EU-Africa Summit held on 2-3 April, 2014 in Brussels, the two continents recognised industrialisation as a central priority for Africa's development. A communiqué from the Summit read "We recognise that preserving existing and creating new jobs including in the manufacturing sector is a high priority for both continents. Faster industrialization and modernisation of the enterprise sector is essential for many African countries which is to be premised inter alia on the transformation and value-addition of raw materials at the source as a catalyst for industrial development which is essential to reach middle income status"[8]

The provisions of the EPAs that the EU wants to finalise with the EAC seem to contradict position expressed at the Summit. It is important therefore for the EPA to be aligned in content and spirit with the EU-African Summit of 2014. Where there is contradiction, the industrialization aspiration of the region should take precedence.

8 Declaration of the Fourth EU-Africa Summit 2-3 April 2014, Brussels.

4 Industrialization in Uganda

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The industrial sector has the potential to contribute significantly to the economy of a country by stimulating the development of other sectors like agriculture and services; increasing foreign exchange earnings; creating jobs; and modernizing the lives of people. Uganda, like the rest of the East African Partner States, has been aspiring to promote industrialization as a way of addressing the development challenges facing the country. This chapter presents the history of industrialization efforts in both Uganda and the EAC; and the role played by the industrial sector in promoting employment, value addition and poverty reduction in region but focusing on Uganda. The chapter also analyses the efficacy of the Uganda and EAC industrial policies in supporting the ongoing industrialization efforts.

4.1. Industrialization in Uganda: Historical Perspective

Uganda and the East African countries were colonies and their production system was closely linked to the economies of their colonial masters. The region, as well as most of continent was largely a producer of raw materials (minerals and agriculture) for the industrial expansion of Europe, and a market for manufactured goods. After independence this production pattern continued to be perpetuated.

The industrial base of the region at independence was extremely small; and was dominated by the production of basic consumer goods and a limited range of intermediate goods to replace imports. In the early 1960s, the contribution of manufacturing to gross domestic product (GDP), in most EAC countries, was less than 5 percent.

Uganda was one of a few African countries with a reasonably thriving industrial sector prior to independence. There were small and medium industries, as well as large-scale industries in the country. With the establishment of the Uganda Development Corporation (UDC) in 1952, industry was accorded priority in the country's development efforts. The UDC was charged with the responsibility of promoting the establishment of industries, including joint ventures, of negotiating finance and attracting direct foreign investment, as well as promoting the establishment of industrial research institutions and related support services. Uganda's manufacturing sector was developed mainly through import substitution with a focus on the production of consumer goods. Such industries relied heavily on imported inputs. They were heavily protected and in some cases heavily subsidized. The industries included those producing textiles, soaps, vegetable oils, cigarettes, beer, soft drinks and other beverages, sugar, cement, and footwear. Some of the products such as sugar were also exported to neighboring countries.

Like in many other African countries, the industrialization strategy being pursued in Uganda at the time was that of import substitution with a focus on the production of consumer goods that had hitherto been imported (UNIDO, 2007). There was a heavy dominance of Asians in the manufacturing sector at the time though. The first phase of import-substitution industrialization lasted until early 1970 when the Asians were expelled from the country. From 1972 to 1984, the second phase of industrialization, the country experienced a drastic reduction in industrial capacity and manufacturing. Manufacturing output in the country had drastically fallen by mid- 1970s. Average annual growth of the industry was less than 5.0%. By 1984, there was a dire need to revitalize the industrial sector.

In response to the industrial decline, the mid 1980s ushered in a new industrialization era based on economic liberalization ideals. This was the time when the World Bank and IMF were pushing the Economic Structural Adjustment Programmes on every developing country's economic agenda. Some of the interventions introduced within this phase involved the reduction of direct government participation in industrial development and in the economy in general. The expectation was that this would improve the efficiency and performance of industrial enterprises through, inter alia, the privatization of public enterprises and strengthening industry support institutions. The poor performance of industry nonetheless continued until early 1990s.

The post 1990 and the current industrialization phase is basically a continuation of the 1980's industrial liberalization phase but this time with some focused interventions and strategies. It is guided by the Industrialization Policy and Framework of 1994-1999, for example, whose primary role was to promote investment, especially investments that contributed to increased exports, effective transfer of technology and the optimum utilization of the country's natural resources (UNIDO, 2007). This latest phase of industrialization has been fairly successful in turning the tide of de-industrialization in the country. As a result of the framework and other concomitant interventions, industry grew from an annual rate of 11.8% in 1992 to some 17% in 1998. Industry's contribution to the gross domestic product (GDP) of the country increased from 10% in the 1980s to approximately 20% by 1997/98. The share of manufacturing to GDP

increased from 6.2% in 1992 to approximately 10 percent in 1995, and the number of industrial establishments in the country also increased from 1,320 in 1989 to approximately 11,968 by 2003 (UNIDO, 2007). Nonetheless the country as a whole is still at a very low level of industrial development. Over the period between 2000-2014 manufacturing's contributions to GDP growth has amounted to just 8%, compared to 30% related to other activities (mostly services), 18% by transport and communications and 17% commerce. At best, manufacturing's contribution to the overall growth of Uganda remains modest.

4.2 Industrialization, employment creation, value chain enhancement and poverty reduction in Uganda

Industrialization can be an important driver of employment and by extension a means towards poverty reduction for a developing country. This is especially so at early stages of transition from an agrarian economy to a modern economy.

Historically, most cases of sustained economic growth have been linked to industrialization, particularly the dynamic growth in manufacturing production. Manufacturing is a key engine of growth in low-income economies because there are usually very strong linkage and spillover effects associated with manufacturing activities (Rodrik, 2007).The manufacturing sector may absorb low skilled surplus labour from the subsistence agricultural sector (Athukorala and Sen, 2015).

Job creation by industrialization is not automatic though. There are exceptions and these exceptions may be relevant to Uganda. Generating significant number of jobs via industrialization depends on: whether the industrialization strategy adopted is in-ward looking or import substituting, whether externally focused or export oriented, whether the technology to be used in the production is labour intensive or capital intensive, and whether the sector in which the industrialization is taking place is linked to other sectors of the economy. For example, if industrialization takes place in high Information Technology (IT) sector in Uganda, there may only be a handful of Ugandans that will be employed because of the high and specialized skills requirements needed in this sector. On the other hand, coffee processing plants or cotton ginneries spread across the country may create significant employment in rural areas.

In general, countries like Uganda which are still at a low level of economic development and industrialization should deliberately opt for labour intensive industrialization in the short to medium term. In addition, they should not focus exclusively on import substitution industrialization but have segments of the industry that focus on producing for export markets especially regional markets. Focusing on import substitution industrialization is not sustainable because of the relatively small domestic market that limits local firms from achieving economies of scale. Moreover, it keeps the local industries perpetually inefficient, unable to compete on international markets and subsequently not being able to bring external resources into the local economy. Being late industrialiser, it may already be difficult for Uganda to compete in international markets. So, industrialization can indeed create jobs for a country. However for this to happen, there should be well-thought strategies that take into account structural characteristics of the country's economy.

4.3 Industrialization and employment in Uganda.

Employment is a critical socio-economic development imperative for the country. Hence the success of any policy has to be adjudicated based on its impact on employment among other factors. Unemployment especially that of the youths who form the majority of the Ugandan population, is exceptionally high. The unemployment rate of the youths aged 14-38 years in the country was estimated at 76% (NPA, 2010; MoFPED, 2015). The number of jobs that can be created through industrialization is to a large extent a function of the achieved levels of industrialization. However, the level of industrialization in Uganda still remains low. Between 2008 and 2015, the contribution of the industry sector to national GDP remained below 25% on average, lesser than the contribution of agriculture and service sector (Figure 1 below).

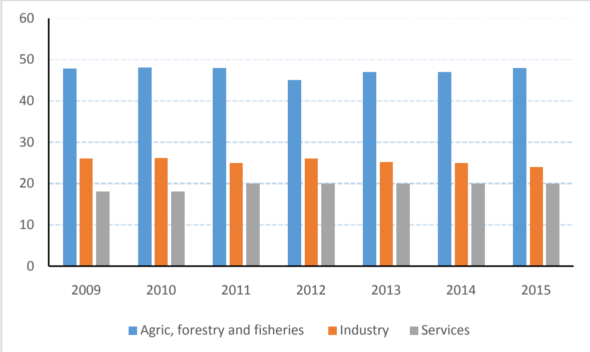

Figure 1: Sector Contribution to GDP Uganda (%) – 2009 to 2015.

Source: Uganda Bureau of Statistics, 2015

The low contribution of the manufacturing sector to national GDP is informative on the extent of the jobs that could have been created by the sector. Globally, employment elasticity (extent to which employment responds to increase in manufacturing) in the manufacturing or industry sector has been mixed. For mainly developed countries, the employment elasticity in the manufacturing sector has been consistently positive, meaning that increase in manufacturing activity has always been accompanied by increase in jobs.

For Africa, in the period 1965-2004, this has not been the case. Increase in the manufacturing activities has been accompanied by reduction rather than increase in employment of the manufacturing sector (Table 1 below)

Region	1965-2004
Developed countries	0.34
Africa	-0.69
Latin America and Caribbean	0.03
Central and East Europe	0.40
East and South East Asia	0.42
South Asia	-0.87
Other Asia and Pacific	0.19

Table 1: Employment Elasticity in Manufacturing by Region 1965-2004

Source: Calculations from UNIDO Statistics

Elasticities tend to persist overtime because they are dependent on the structure of the economies and changing the structure of an economy takes a long time. So despite the data being up to 2004, and without noticeable evidence that African economies have undergone fundamental changes since 2004, one can conclude that industrialization is not creating jobs in many of the economies on the continent. Specific to Uganda, anecdotal evidence confirm that that the industrialization has thus far not contributed to significant job creation. This is mainly because the Ugandan manufacturing sector is that it is dominated by small and medium enterprises (SMEs), which make up some 93.5% of firms operating in the sector. The SMEs employ relatively few people and their mortality rate is quite high.[9]

4.4 Industrialization and poverty reduction in Uganda

The link between industrialization and poverty reduction in the country is dependent on two aspects. First, that high levels of industrialization are realized in the country. Second, that the benefits of industrialization are passed on the people of the country especially the poor, directly or indirectly.

In adjudicating the effect of industrialization on poverty levels of the country, one has to take a holistic consideration of the socio-economic impact of industrialization. These effects can be put in three broad categories that are direct, indirect and induced effects.

- Direct socio-economic effects of industrialization are those that will relate to actual production and employment that is be generated by industrial activity.

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- The indirect socio-economic effects are those that will occur in other sectors of the economy that supplies or uptakes goods and service from the industries. These benefits are realized by business or sectors related to industries
- Induced socio-economic effects of the industrialization relates to changes and increase in well-being of people whose incomes are improved as a result of remuneration from any activity related to industrialization

These three effects, in totality, determine the effect of industrialization on poverty reduction in a country.

Direct socio-economic effects of industrialization and poverty reduction in Uganda

The main source of direct socio-economic impact of industrialization is employment of people in the sector. When people are employed, they earn an income that in turn they use to improve their own and dependents' well-being. The assumption made here is that those being directly employed are paid a living wages that is over and above the cost of employment. If workers in the industries are exploited and are paid very low wages, just enough to keep them living while working, the direct socio-economic benefits of industrialization and its subsequent impact on poverty alleviation will not be realized.

At the moment, Uganda does not have a minimum wage set by law and organized labour is so weak to fight for a reasonable or living wage for those employed in different industries. Anecdotal evidence indicates that the few Ugandans employed in the industries are not well paid particularly those with low skills. As a result, the impact of industrialization on poverty alleviation through its direct socio-economic impact to society at large remains minimal in the country.

Indirect socio-economic effects of industrialization and poverty reduction in Uganda

Indirect socio-economic effects of industrialization basically relates to the linkages between the country's industrial sector and the positive effects that emanate from industrialization to other sectors of the economy which ends up benefiting the people in these other sectors. In the context of industrialization and poverty alleviation, indirect effects will refer to employment created for the poor people in sectors whose performance and demand for labour originates from the manufacturing or industrial sector of the economy.

In Uganda, the majority of poor people are in rural areas engaged in agriculture. With this recognition, the indirect socio-economic effects of industrialization and subsequent poverty reduction can be reduced to a single question: How many people in the agricultural sector have ended up having gainful employment as a result of the country's industrialization effort? Again, specific information to answer this question is not readily available, but through causal observation the number is insignificant.

Therefore, it plausible to conclude that the effects of industrialization on poverty alleviation through its indirect socio-economic impact to society remain insignificant in the country.

Induced socio-economic effects of industrialization and poverty reduction in Uganda

Induced socio-economic effects of industrialization relate to improved well-being of people as a result of income received from any activity or undertaking related to industrialization. If the direct and indirect socio-economic impacts of industrialization are low or insignificant, it will automatically follow that the induced socio-economic impact of industrialization will be less, and by extension, it contribution to poverty reduction in the country trivial. Supporting industrialization in Uganda: the efficacy of the existing industrial policies

Uganda and the EAC Partner States, individually and as a region have realised the importance of industrial policy in order to guide their industrialisation efforts. Uganda has started the process of reviewing its industrial policy which is due to expire in 2018; while, as already hinted, the EAC has the EAC Industrialisation Policy and Strategy 2012-2032.

4.4.1 Uganda's industrial policy: Policy Synopsis

The desire to industrialize Uganda has been expressed numerous times. At one point, it was the campaigning key message of the ruling party in 2006 under the broad slogan "prosperity for all". As part of the move towards prosperity for all Ugandans through creating local industrial base, the Ugandan government through the ministry of Tourism, Trade and Industry developed a national industrial policy in 2008.

The long term vision of the industry policy for Uganda is that of creating a vibrant and competitive industrial sector, contributing approximately 20 percent to the gross domestic product and fully integrated in the global economy.

The industrial policy was broadly aimed at building a local industrial sector into a modern, competitive and dynamic sector that is integrated in domestic and global economies. The policy was supposed to enable transformation of existing industries into ones that can produce goods and services for local and international markets, but also facilitate the coming up of industries hitherto not in the country that too produces goods and services that are sold in the locally and abroad.

The objectives of Uganda's industrial policy are stated as:

- To create a business friendly environment for private sector-led industrialization in which industries will develop, and productivity and the quality of products will improve. Productivity is expected to be driven by heightened productivity and innovation in the local economy.
- To improve on infrastructure needed to support local industrialization.
- To encourage and nurture innovation, entrepreneurship, adjustment and adoption of best management practices in the quest for improved competitiveness.
- To create a framework that supports joint participation of the public and private sectors in the development of scientific and technological competencies needed for successful higher value added goods and services.
- To facilitate improvement in supply chain efficiency and market responsive product and brand development.
- To encourage foreign direct investment in industry and industry related services.
- To promote environmentally sustainable industrial development to reinforce national goals of long-term growth and development.
- To support the growth and development of a skilled and productive labour force needed for industrial development.
- To promote safe work place practices in all industry sub-sectors.

- Promote the participation of disadvantaged sections of society in industrial development activities.
- Create support systems for sustainable micro and small industries development.
- To create jobs for the widest section of the population.

4.4.2 A reflection on Uganda's industry policy objectives

Broadly, the industrial policy objectives are too many for one policy and they are not exclusive to industrialization. They read like a wish list for the country's socio-economic development. The objectives are unrealistic and seem not to acknowledge that there are other policies that specifically address the same aspect. For example, skills development for the local economy resides in the education policy space. What is needed from the ministry of trade and Industry, in this regard, is to ensure alignment between education and industrial policy.

Another issue of concern on the policy is that there is confusion between the objectives and the activities that have to take place to achieve the objectives. Activities and envisaged outcomes are stated as objectives thus the multitude of the objectives of the policy. This complicates implementation of the policy.

Industrial policy is supposed to set out government's approach to a country's industrialization path and clearly stating the role both the government and the private sector will play in this regard. In the case of Uganda, the role of the state in industrialization seems to have already been relegated. It is only the role of the private sector that is emphasized hence the phrase 'private sector led industrialization'. Experience shows that the private sector undertakes industrialization at their own terms which may not necessarily be aligned to a country's socio- economic development priorities.

In mapping out how the policy will be implemented, the following aspects are identified as the country's points of strength upon which industrialization will be based:

- Natural resources endowment.
- Labour market flexibility that allows for ease of employing people.
- The liberal economic policy stance of the country.
- Macroeconomic stability.
- Government stance on promoting public-private partnerships.
- A growing service sector.
- Political commitment to the industrialization objective.
- Reasonable levels of Research and Development taking place in the country.

4.4.3 A reflection of areas of strength on which Uganda's industrial policy is based

A close look at the points of strengths for Uganda's industrialization as stated in the industrial policy reveals that many of them are weaknesses and the other are just probable. The following section, briefly unpacks this statement with reference to each of the stated elements of strength for Uganda's industrialization.

Natural resource enabled industrializationand the dynamics thereof:

The industrial policy cites existence of natural resources as one of the major strength of Uganda in achieving its industrialization aspirations. Industrialization based on natural resources is not straight forward process. Countries that have a comparative advantage in natural resources often lack the technological capacity to industrialize and have to compete with the developed countries that are already processing the natural resources acquired via importing. It is also important to note that even if natural resourced-based industrialization was to be achieved in Uganda and a breakthrough to international market is made, this will take a very long time. For example, it took 40 years for the Japanese car-makers (established in the early 1930s) to break into the world market, while it took 17 years for Nokia electronics (founded in 1960) to make any profit. In the short to medium term, the optimal position would be for the natural-resource-based sectors to provide the output, jobs, and, above all, export earnings that will finance the import of machinery and technologies for the new industries (Chang, 2015).

Hence, the time element and elements of accessing global markets need to be taken into account in making the industrial policy operational. Doing so, requires a careful and close aligning with the country's trade policies and trade agreement that the country is negotiating with external parties. It is also important to note that natural resources-based industrialization in developing countries is constrained by perverse politics. Natural resource rich countries tend to breed dictatorial, one-man vision politics and corruption. Instead of benefiting the country, resources generated from natural resources are used as a tool of patronage and perpetuation of staying in power thus rendering the industrial policy impotent. At the end of the day, there are no resources left to channel to the industrialization objective. Uganda presents one of the typical examples of natural resources discovery and perverse politics. Gold mines in the country are privately owned and there is no accountability of how they are being run or even whether they contribute to the national coffers. Since the discovery of oil in the country, the focus has been on who indeed owns the oil resource and less on how the oil resource will be managed to support local development. A lot of money has changed hands, including the famous 'presidential golden handshake' to a selected group of Ugandans who purportedly contributed toward winning a capital gain tax related to the change of ownership in the oil sector.

With the money from the natural sector being given out as reward to the few, the likelihood that natural resources will ever raise enough capital to ignite the desired local industrialization is extremely low. From the above observations, existence of natural resources in Uganda may be more of a weakness rather that strength for local industrialization contrary to what the industrial policy states or assumes. This can however be turned around with good governance of natural resource by those in power. But again this is unlikely

Labour market flexibility and industrialization:

The labour market is not a key determinant of industrialization. Labour is an input in the production process and as such its demand is induced demand. It dependents on demand of the goods or services that labour produces. Without the demand of these goods and services, labour cannot be demanded. It is the aggregate effective local demand of goods and services, in the local economy and for exports that triggers the need to industrialize as a means towards supplying that which is being demanded.

Entrepreneurs and industrialists will only be motivated to engage in industrialization if there is existing evidence of effective demand. Whether the labour market is flexible or not is secondary.

Moreover, in practical terms, labour flexibility refers to the ease to hire and fire employees. It may be an aspect that contributes towards motivation for industrialization but them it defeats the purpose of why industrialization is desired from a socio-economic perspective. The ease to hire and fire is not in the country's development interest.

Government stance on promoting public-private partnerships:

The assumption being made here is that public private partnership is the winning formula for industrialization. But this is not necessarily so. Newly industrialized countries in the East Asia, like China and Singapore, have demonstrated that at low levels of industrialization, governments should plan and play an active role and indeed participate in industrial activity. This is particularly so because at low levels of a country's industrialization there are often many business risks that private entrepreneurs may not be willing to take.

After achieving some level of industrialization, then public-private partnership may be sought for some but not necessarily all sectors of the economy. This is an aspect that Uganda's industrial policy ought to have considered too.

A growing service sector:

Indeed there are services that are critical to industrialization. For example banking and insurance services play a critical role in mobilization of capital and transfer of resources both monetary and non-monetary. But industrialization and active participation in the modern economy should lead the growth of the service industry. The service sector is supposed to service existing economic activities including local value addition. The experience of Uganda has been that many upcoming local industrialists have lost their manufacturing businesses because of the service sector particularly the banking services. They were given unfavorable loans which they could not service. Without any structured way or deliberate policy by government to assist such local industrialists, their manufacturing businesses were sold off. Sembule Steel Works was one of the victims of this service industry growth.

The point being made here is that the growth of the service sector may not necessarily support or be aligned to the country's industrialization effort. As such, it should be a qualified point of strength when articulation its relevancy to the country's industrialization.

Political commitment to the industrialization objective:

The mere statement of political commitment without visible actions in this regard or without an informed vision on how to proceed cannot be considered a point of strength. Political patronage in the industrialization process in Uganda has, in some cases, been more detrimental than supportive to local industrialization. Cunning business men have taken advantage of the so called political commitment to industrialization to use politicians to by-pass checks and balances aimed at ensuring that industrial activity is done in national interests. The result has been 'foot-loose, low value adding and minimalist-integrated' industrialization in the country. A good case in point was that of the textile and clothing industrialization project under AGOA. The project was supposed to re-kick start the textile sector in the country, provide market for cotton farmers and create employment. Due to political influence, the 'industrialist' ended up just sewing garments in the country with all other inputs being imported. The anticipated socio-economic benefits of the project were never realized.

Much as it can be a point of strength, political commitment to industrialization can work counter to the industrialization objective for the country. This negative side of the commitment to national industrialization effort is unfortunately evident in Uganda, in some cases.

Reasonable levels of Research and Development taking place in the country:

Research and development at a level required to support industrialization is non-existent in Uganda. It is a misnomer that R&D was considered a point of strength in the policy. Whether judged on number of patents registered in the country or anecdotal evidence of Uganda's manufacturing technology, the country is still at very low level of R&D. Of recent, the country was celebrating a concept clean energy car named "Kiira EV" but the car was still at concept level and its likelihood of making to the market to compete with other conventional car remains close to zero.

The country's industrial policy should have rather recognized that R&D and subsequent innovation as constraints to local industrialization. Subsequently it should have proposed interventions to overcome this constraint. One of the interventions could have been including technology access on the agenda of trade negotiations that the country engages in.

4.4.4 Concluding remarks on Uganda's industrial policy

Ideally, the industrial policy is supposed to set out principles, processes and a set of strategic processes through which industrialization in local economy will happen!!It should be pitched at a strategic rather than on operational level. The policy should provide strategic direction regarding industrial development for the country. Emphasis need to be put on strategic rather than operational issues. In Uganda's industrial policy, there a so many operational elements that blurs the strategic direction. Implementers and users need to differentiate between these two elements in using the policy.

An important element that the policy acknowledges though is that the policy does not reside in a single government department but requires careful coordination across a range of government departments. Further, that the policy can only be implemented successfully if it is aligned with associated and other national policies. This recognition should be at the center of operationalizing the policy if it is indeed to serve the national industrialization aspiration

5 Trade policy and industrialization in Uganda

Trade policies are closely related to industrialization and, depending on how the policies are crafted, they can either impede or facilitate industrialization efforts of any country. Trade policies determine the sectors and products that will be protected or liberalised and also the support and protection to be provided to the local private sector and local industries. These factors have a strong bearing on the industrialization efforts of a country.

5.1 Uganda's trade policy in the context of Uganda's industrialization aspirations

Uganda has a broad trade policy that came into being in 2008. The vision of the policy is stated as the transformation of the country into a dynamic and competitive economy in which trade stimulates production in other sectors of the economy, subsequently contributing towards poverty eradication, wealth creation and prosperity for all Ugandans.

The overall objective of the policy is indicated as "to develop and nurture private sector competitiveness, and to support the productive sectors of the economy to trade at both domestic and international levels, with the ultimate objective of creating wealth, employment, enhancing social welfare and transforming Uganda from a poor peasant society into a modern and prosperous society".

A few aspects stands out from the vision and the overarch objective of the policy, that is a) competitiveness of the local economy and the private sector in particular, b) link between trade and performance of other sectors of the economy, c) link between trade and poverty eradication, and d) link between trade and structural change of the local economy. The interface of these aspects with the industrialization objective requires closer scrutiny.

By implication, for the trade policy to be effectively implemented and for it to achieve its objectives, the underlying assumptions pertaining to the above aspects must hold and if they do not hold, then one of the tasks in the implementing the policy would be to ensure that these assumption and assumed relationships indeed hold. These assumptions are briefly discussed in the following sections.

5.2 Trade and the structure of the Ugandan economy

A fundamental assumption that is being made in the policy is that trade can change the structure of an economy from one that is now predominantly subsistence or low agriculture-based to a modern one characterized by high wages industrial workforce. What is being eluded here is easier said than done.

Very few countries have ever managed to use trade, especially in primary, low-value added products, to achieve full scale modern industrialization. Some of the reasons why this not often feasible are:

- Relatively low earnings from the primary, low-value added products which do not raise enough capital for industrialization
- Steep hurdles, some deliberate, faced in acquiring technology needed for industrialization
- Trade being dominated by private individuals or sector actors whose focus is often profit maximization and investment risk reduction. To these private actors, investing their profits in untested local industrialization may be seen as a high risk undertaking.
- A critical mass of people in the local economy with the capability and tenacity to engage competitively in sophisticated manufacturing, does not often exist in late industrializing countries like Uganda.

Ultimately, other interventions, over and above trade policy are needed to change the structure of an economy like that of Uganda. Each of the constraint identified above need to have a specific intervention to overcome it if the country's economy is to be transformed as envisaged.

5.3 Efficacy of the Uganda trade policy interventions in supporting local industrialization

The trade policy specifies three key interventions in its operationalization. These are: development of domestic trade, promotion of international trade and harnessing synergies and complementarities with other national policies.

5.3.1 Development of domestic trade

There are a number of interventions proposed as part of developing domestic trade. Four of these that are related to industrialization-are:

- Implementation of the Marketing and Agro-Processing Strategy (MAPS) of the Plan for Modernization of Agriculture (PMA).
- Developing strategies to promote value addition, production of high-value products, and niche marketing.
- Promoting the use of local materials in the production process with a view to stimulating growth in local production sectors..

5.3.2 Promotion of international trade

In an effort to promote international trade, the policy specifies that the country will "Identify and develop products and services where the country has comparative and competitive advantage, together with the respective markets and promote product/service and market specialization". The aspects enumerated here reside in the industrial development space. Hence the achievement of the implied sub-objectives will depend on how the trade policy will be harmonized with the industrial policy. The good thing about the harmonization of the two policies is that they both reside within the same ministry.

5.3.3 Harnessing synergies and complementarities with other national policies

Under the special intervention of harnessing synergies and complementarities with other national policies, the following industrialization-related policy actions are specified:

- Enact policies and design strategies to ensure development of productive capacity to take advantage of trade opportunities arising from various trading arrangements.
- Come up with laws and policies to protect intellectual property rights, with a view to, inter alia, protect Uganda's genetic resources, and encourage innovativeness.
- Acquire and promote usage of modern production technology through implementation of measures aimed at promoting technology transfer.

What is abundantly clear is that a number of interventions proposed and the Uganda's trade policy intersect with those under the country's industrial policy. These provide pointers to areas of synergies between the two policies which can be taken as a good thing since both polices reside within the same ministry in the country as previously mentioned.

For the successful implementation and achievement of Uganda's trade policy vision - transform Uganda into a dynamic and competitive economy in which the trade sector stimulates the productive sectors; and to trade the country out of poverty, the policy should be linked and aligned with the country's industrial policy. The two policies need to be implemented side-by- side, maximizing synergies and most importantly avoiding contradictions. The aspect of identification and exploitation of policy synergies is acknowledged in the policy but the issue of avoiding contradictions is not, yet it could be the most important.

5.3.4 Competitiveness of the private sector and promotion of trade.

It's a fair and tested fact that competitiveness is central to successful trading in contested markets; competitiveness being the ability of a firm or industry to increase in size, market share and profitability. Without being competitive, a firm can neither increase its market share nor its profits in absolute terms.

It is the 'how' aspect of this assumption that it is rather problematic. According to the wording of the policy, it is assumed that the state has the capacity to develop and nurture competitiveness of the private sector, which is not necessarily true for Uganda. At best, it should have been stated that the state will create a 'conducive environment', a term often cited by neo-liberal economists, for the local private sector to achieve competitiveness. This would have motivated policy makers to reflect on the question of what the state will have to do in this regard. In addition, it would have brought to the fore the issue of producing goods and services at the lowest cost possible which is directly linked with the efficiencies in production of primary commodities and local value addition. The later aspects fall in the area of industrialization.

Apart from supporting R&D and innovation, the state may have to protect the firms from external competition, in the interim, for the purposes of enabling them to become competitive. If such a decision is made, then it should form part of the policy implementation imperative. It should be noted though that R&D may not always lead to competitiveness (Papadakis, 1995); however, it is widely accepted that R&D is the most common way through which national industries can acquire independent and unconditional intellectual property rights needed for competitiveness.

It is also important to note that there is an implicit position to relegate the role of the state to just supporting the private sector under this assumption. As mentioned previously, experiences of successful participation in international markets and industrialization in South East Asia reveal that the role of governments' nurturing of domestic competitiveness and industrialization goes beyond supporting the private sector. National government got involved in manufacturing, particularly in the sectors of the economy with high investment risks that the private sector was un-willing to engage in. At a later stage, governments diversified some its manufacturing role to the private sector.

Achieving competitiveness is closely linked with industrialization. In this regard, it is important that the state supports competitiveness of the private sector but it role should not be limited to doing so. If need be, the state should engage in direct manufacturing in strategic or high investment risk sectors as long this supports socio-economic objectives of country such as job creation. At a later stage, after achieving competitiveness and a reasonable level of industrial growth, the state can systematically pull out of active market participation and allow the private sector to take the lead.

5.3.5 Link between trade and performance of others sectors of the economy

Uganda's trade policy assumes, without making it explicit, that there is a positive link between trade and the performance of other sectors of the economy. In other words, that the effects of increased trade are transmitted down to other productive sectors of the economy which results into more production. Manufacturing being one of the major sectors of the economy, it is implied that increased trade will lead to more goods and services being manufactured in the country and by extension higher levels of industrialization.

Although the assumption is logically correct, in practical terms it may not hold. The major reasons why increased trade may not stimulate other sectors' production, especially in the case of international trade, is because of the high proportion of imported inputs used in what is being traded. A good example is that of textile export from Uganda to the USA under the AGOA dispensation. Because the fabrics were being imported, even at its peak textiles export, there was no increase cotton growing in the country.

According to the architects of the trade policy, its success is expected to have positive spillovers to the manufacturing sector of the economy among others. Hence, in it lies the potential to support national industrialization effort. However, if no deliberate efforts are made to increase the proportion of local content in exported goods and services from the country, the positive effects of the trade to the local industrialization effort will remain theoretical than real.

5.3.6 Link between trade and poverty alleviation

Again a positive link is assumed between levels of trade and poverty alleviation in the country. For this positive link to hold though, a number of factors have to hold jointly or in isolation:

- Trading should be in the goods or services being produced or offered by the poor, if not, there should be at least income spillovers from the trading sectors to those sectors where the poor are employed or would get employment.
- Profits earned through trading should be transmitted down to the primary producers of goods and services who are often the poor people of the country. Alternatively, but not exclusively, the profits should be re-invested in sectors that have high absorption capacity for employing the poor people of the country.
- The terms of trade of the goods and services should not be declining with the increase in trade. Terms of trade refers to the unit price of what a country is selling in the market place relative to what it is buying. At an individual level, it is the peoples' 'earning-price' compared to their 'buying-price'. Trade may lead to increase in production but as long people do not earn more from what they are selling or if they earn more but have to spend more to acquire what they need, then increased trade will not reduce poverty.

Creating employment opportunities in the manufacturing sectors increases the likelihood of relatively higher incomes, coming from trade of higher value commodities. If the industry is employing people from the lower earning segments of the population, and assuming a perfect labour market situation where labour is paid the value of its marginal product, this can lead to the reduction in poverty.

Aligning trade and industrial policy to industrialization:

Conclusion and recommendations on the way forward

6

SEATINI

Strengthening Africa in World Trade

It is clear that there is a fundamental link between industrial and trade policies on the one hand, and the achievement of sustainable industrialization on the other. In order to align the EAC trade policy and that of Uganda to the pursuit of industrialization, the following have to be explicitly noted and done:

- To achieve the competitiveness objective while at the same time promoting jobs creation and poverty alleviation, industrial policy needs to promote industries that can produce goods and service efficiently and hence competitively. Even if such industries may be capital intensive as is often the case, as long they have confirmed positive linkages with the other sectors of the economy that are labour intensive they should be prioritised. In other words, pursuing the objective of the job creation through industrial policy is imperative. However, focus should not be only on direct jobs. Both indirect and deduced jobs should be considered.
- At the heart of achieving industrial growth, whether labour or capital intensive, is the acquisition of technology. Hence trade policy should always cater for technology acquisition. The nature of the technology to be acquired, the sources, and the strategy for local technology absorption, uptake and innovation should all be spelled out in the trade policy.
- Given the great importance of government procurement policy as a tool for nurturing local industries; and given the ambitions of EU in government procurement, it is imperative that EAC countries (such as Uganda) refrain from signing an EPA giving foreign powers unlimited access to EAC government procurement. In this way, the EAC countries can maintain policy space to pursue their industrialization agenda while at the same time getting the benefits of increased trade. By implication, therefore, trade policy should not contain aspects that drastically limit policy space for the EAC members to aggressively pursue industrialization using tools like local procurement policies.
- Foreign Direct Investment (FDI) is important in boosting industrialisation because in addition to providing capital, it can facilitate the transfer of knowledge, technology and skills. However, national governments must have the policy space to direct FDI to those
- sectors that support industrialisation and to demand performance requirements from the FDI. Therefore Uganda and other EAC members

should reject provisions in any unequal treaties (such as the EPAs and Bilateral Investment Treaties) that encroach this policy space.

- In addition to investment and government procurement, government should ensure that all economic and fiscal policies support rather than undermine industrialisation. Ensuing policy coherence will go a long way in guaranteeing inclusive and sustainable industrialization.
- Extensive liberalisation of a country's economy while still at low levels of industrialization may not be good for long term achievement of industrial transformation. It is imperative that trade policy does not contain or endorse unqualified liberalisation of the local economy. Therefore beyond the EPAs, Uganda and the EAC in general should be wary of the flood of manufactured goods from India, China and other countries, which block domestic industrialization.
- Deepening regional integration will be critical for advancing industrial competiveness, particularly in view of the adverse trends in global trade that have been limiting the expansion of manufacturing globally. Consequently, in the ongoing review of the Common External Tariff (CET) the EAC Partner States should consider the increase in the tariffs of those products that are critical for industrialization in the EAC

Going forward, it is recommended that Uganda and other EAC member-states ensure that provisions of trade agreements in which they engage do not contradict their industrialization efforts. What the EAC needs are policies and agreements that promote domestic industrialization, for example, through industrial technology acquisition. Ultimately Uganda and other EAC countries should not reinvent the wheel. They must learn lessons of good practice from countries (such as the Asian tigers) which have effectively industrialized in the context of a constraining international policy environment. Ethiopia, which is effectively industrializing today, also offers lessons of good practice (UNIDO, 2014)

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