

IMPORTS, EXPORTS AND ECONOMIC GROWTH IN UGANDA (2000-2012)

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DECLARATION

I WARDI OMER MOHAMED registration number BEC/33708/111/DF do declare that this research report has been my working and it has never been submitted to any institution for approval

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Signature

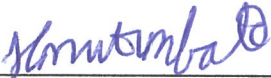
27/05/2014

Date

APPROVAL

This research report has been submitted to the under graduate degrees committee for the award of a Bachelor degree of ART in Economics of Kampala International University with my approval as a supervisor.

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Date : 27th MAY 2014.

DEDICATION

This research report is dedicated to my dear father Mr. Omer Mohamed and my dear mother Mrs. Anab Hussein Waise, and my beloved brothers and sisters for the courageous effort, support, love , care and tireless work they have done for my success. May the Almighty Allah reward them abundantly

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ABBREVIATION AND ACRONYMS

BoU	Bank of Uganda
COMESA	Community of Eastern and Southern Africa
EU	European Union
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
GNP	Gross National Product
GWP	Gross World Product
IFS	International Financial Statistic
IMF	International Monetary finance
MoFPED	Ministry of Finance Planning and Economic Development
OECD	Organization for Economic and Development cooperation
R &D	Research Development
UBOS	Uganda Bureau of Statistics
WB	World Bank
WTO	World Trade Organization
USD	United States Dollar
SADC	South Africa Development Cooperation

ABSTRACT

This research report set out to investigate the relationship between Exports, Imports and economic growth (measured by GDP) in Uganda (2000-2011), the study employed time series survey data since examined data for a short time ,its objectives were; to establish the trend of Export in Uganda(2000-2011) to establish the trend of import in Uganda(1995-2011, to establish the trend of GDP growth of Uganda(2000-2011) ,to investigate the relationship between exports, import and GDP growth in Uganda (2000-2011), the hypothesis of the study was there is no significant relationship between Exports, imports and GDP growth in Uganda time series analysis such Correlation analysis, regression analysis mechanisms were used. The trend of exports, imports and GDP growth showed a general increase with percentages change of 71.3, 76.9and 53.3 percent respectively. Using the correlation, regression approach, there was a strong positive correlation between exports, imports and GDP growth ($r_1=0.9356$, $r_2=0.9931$) respectively, there was also significant relationship between export, imports and GDP growth at 0.05 level of significance,) . n conclusion therefore both exports, import and GDP growth has a general increase, there is a positive relationship between exports, import and growth in Uganda which agreed with Khan (1997), Grima(1982),Connolly(1998) study on imports, exports and GDP growth this has implied that the exportation and importation of goods and services play a very important role in economic growth of Uganda.. The study has also supported the theory of comparative advantages since developing country like Uganda cannot foster without importation of goods and services. Finally Uganda should embark much on the exportation of good to increase on the country level of growth.

CHAPTER ONE

PROBLEM AND ITS STATEMENT

1.1 BACKGROUND

By the end of the 19th century, Japan was not a rich country. The real GDP per person was well behind Argentina's and only a third of the levels of the United States and the United Kingdom. But during the ensuing 100 years, Japan maintained an average growth rate of GDP per capita of 2.81 percent implying that, today, Japan is among the richest countries of the world with a GDP per capita that is higher than that of the United Kingdom. If Japan had only been able to generate an average growth rate of 1.16 percent (the average growth rate of Pakistan and Bangladesh 1900-2000), then Japan's GDP per capita today would be in line with that of China and less than 20 percent of that of the United Kingdom (numbers from Mankiw, 2004).

An important source of potential growth for African economies in 2011 is through the exploitation of export opportunities, both regionally and internationally. There is a consensus that increased export growth leads to overall economic growth. Indeed, the experiences of the Asian Tigers and more recently of Brazil, China, India and South Africa support this observation. Increasing exports is also associated with other gains, like access to larger markets, which in turn enables exploitation of economies of scale, efficiency gains from technological spillovers and better resource allocation, employment generation and foreign exchange earnings. By following the market and trade liberalization reforms of the 1980s, African exports rose from 22 percent of GDP in 1983 to an average of 32 percent during the last two decades (Tehranchian, A. M., 2009) Likewise, real GDP growth rose from an average of negative 3 percent in 1983 to an average of over 4 percent during the past two decades. Africa's share of total world exports plummeted from 4.1 percent in 1981 to 1.7 percent in 1998, only rising slightly to 2.4 percent in 2009. Over this entire period, Africa has on average only accounted for about 2 percent of total global exports, of which 30 percent is attributed to South Africa (World Bank 2010)

Uganda remains one of the poorest countries in Africa. Its GDP per capita averaged US\$235 in 2000-2004, compared to the Sub-Saharan Africa average of US\$585.1 This is despite a remarkable growth rate in GDP per capita of 5.9 percent per annum in the period 1980-2004. The Asian continent remained the leading source of Uganda's imports throughout the period under review. For instance, its market share rose to 45.4 percent in 2011, compared to the previous market shares of 37.2 percent and 41.8 percent recorded in 2009 and 2010 respectively. The overall imports expenditure for Uganda rose by 20.2 percent in 2011 compared to an increase of 9.0 percent in 2010. Although the formal imports bill increased over two consecutive years (2010 and 2011) informal imports maintained a stable decline of 18.9 percent in the same period (UBOS 2012). Exports of goods and services amounted to 7 percent of GDP in 1985-89, increasing to 13 percent in 2000-2004. The share of imports in GDP increased from just 14 percent to 32 percent over the same period. The gap is met through aid inflows, which rose from 5.9 percent of GDP to 13.8 percent of GDP (IMF 2005) ,the importation of good play a key role in the growth rate of Uganda economy since it is still a growing economy the importation of technology will enable Uganda to produce goods for export earnings.

Exports

UBOS (2012), defined Exports as the outward flows comprising goods and services leaving the economic territory of a country to the rest of the world, Bradley et al (2003) defined exports as goods and services sold to international buyers, and this study will go by Bradley et al (2003) definition and it will be measured in millions of US dollars.

Imports

According to UBOS (2012) Imports are inward flows of goods and services from the rest of the world into the Economic territory of a country, Campbell et al (2002) defined imports as the spending by individuals, firms and government for goods and services produced in foreign countries. This study adopted Campbell definition and was in term import (current US dollar) .

Economic growth

There are so many methods of measuring economic growth that is; Gross National Product, Gross Domestic Product, Net National Product among others but for this case the study adopted measuring economic growth in term of Gross Domestic Product since it is more reliable. **Gross Domestic Product** :According to UBOS (2012) Gross Domestic Product (GDP) as the total value of goods and services produced within the economic territory of the country, Jeff Holt (2007) defined Gross domestic product as the total market value of all final goods and services produced annually within the boundaries of the country whether by national or foreigner supplied resources. This will be measured in billion US dollar

1.2 Purpose of the Study

The purpose of the study was to investigate the relationship between imports, Exports and economic growth measured in term of Gross Domestic Product (GDP) within a period of thirteen years (2000 to 2011), to show the trend of imports, to show the trend of Exports in Uganda (2000 to 2011).

1.3 problem statement

Owing to both internal and external factors, the growth performance of the Ugandan economy has been less than satisfactory during the past four decades. Externally, the quadrupling of oil prices that took place during the period 1973-74 and the export short fall associated with the world recession of 1974-75 resulted in chronic balance of deficit problem that greatly affected the economic growth of many LDCs and the country. In

addition, the period of the 1980s was also characterized by the collapse of commodity prices that resulted in deterioration of terms of trade of primary-commodity exporting countries, which further worsened the economic performance of the country (World Bank 2000).

As the country is not self sufficient in generating the saving that is essential to realize a sustainable economic growth, the external sector becomes very crucial for the growth performance of the economy. During the past four decades, the country is becoming more and more open increasing its outward linkages with the rest of the world. For instance the openness of the economy (measured as the ratio of export plus import to GDP) which was about 23 percent on average during the imperial regime reached 26.1 and 36.2 the level of Ugandan imports is more than exports yet by now the Uganda's exports would be more so that it can realize fast economic growth, therefore this study will seek to investigate the relationship between imports, exports and economic growth in Uganda.

1.4 Research objectives

- I. To establish the trend of Exports in Uganda (2000 to 2011)
- II. To establish the trend of Imports in Uganda (2000 to 2011)
- III. To establish the trend of Exports in Uganda (2000 to 2011)
- IV. To investigate the relationship between Imports, Exports and GDP growth in Uganda (2000 to 2012)

1.5 Research Questions

- I. What is the level of trend of Imports in Uganda?
- II. What is the level of trend of imports in Uganda?
- III. What is the level of trend of GDP growth in Uganda?
- IV. What is the relationship between imports, Exports and GDP growth in Uganda?

1.6 Hypothesis of the study

Ho: There is no significant relationship between imports, Exports and GDP growth in Uganda (2000 to 2011)

1.7 Scope of the study

1.7.1 Content scope

The study will be focused on the establishment of the trend of imports in Uganda (2000 to 2011), the trend of Exports in Uganda (2000-2011), the trend of GDP growths in Uganda (2000 to 2011) and in determination of the relationship between Imports, Exports and GDP growth in Uganda (2000 to 2011).

1.7.2 Geographical Scope

The study was conducted in Uganda (from 6th August 2013 to 21st December 2013).

1.7.3 The theoretical scope

The study will be guided by the **law of comparative advantage** stated by David Ricardo's (1817) that a country should export the commodity in which its relative cost

advantage is greater and import the commodity in which its relative cost advantage is smaller.

1.7. 4 Time scope

The study was conducted for five month and it will be used to review the thirteen-year time series data that is, from 2000 to 2012 in Uganda.

1.8 Significance of the Study

This research is significant to the following stakeholders;

The government/policy makers; the government base on the findings of the study to formulate and implement import substitution policies, export promotion policies can be platform for the sustained economic growth and development.

The study is useful to academia .Especially researcher who may be interested in carrying out empirical studies on Imports, Exports and GDP growth in Uganda

1.9 Operational definitions

Gross Domestic Product (GDP)

Jeff Holt (2007) defined Gross Domestic Product as the total market value of all final goods and services produced annually within the boundaries of the country whether by national or foreigner-supplied resources. This study adopted Jeff Holt definition of GDP growth and it will be measured in billion of US dollar.

Exports

UBOS (2012) Defined exports as outward flows comprising goods, services leaving the economic territory of a country to the rest of the world, this research will go by this definition, and will be measured in millions of USD

Imports

Campbell et al (2002) defined imports as the spending by individuals, firms and government for goods and services produced in foreign countries. This study adopted Campbell definition and it will be measured in billion of US dollar

CHAPTER TWO
LITREATURE REVIEW
CONCEPTS, IDEAS, OPINION FROM AUTHORS/EXPERTS

2.1 Exports

Exports as a share of GDP have increased over time in Uganda. Before the liberalization of the economy and the emphasis on import substitution and export diversification in the 1990s, Uganda depended mainly on coffee as its main export. This dependence on a single commodity was a major constraint to terms of trade growth, especially when world coffee prices dropped, as they did in the mid-1990s. To insulate the economy from adverse terms of trade and instability in export earnings associated with commodity concentration, the government adopted a policy shift in 1987 that sought to diversify the exports base to include nontraditional (mainly agricultural) exports. Since then, Uganda has diversified its exports base to include larger shares of flowers, fishing, and other agricultural exports. Revenue from non-coffee exports increased by more than six fold between 1997/98 and 2008/09, rising from \$189.6 million to \$1,199.6 million

(URA, 2010)

Uganda's year-on-year fourth quarter total value of exports of 2009 dropped by 7.9%, Uganda recorded a reversal in portfolio capital inflows, from a net inflow of \$66.30 million in 2007/08 to a net outflow of \$108.95 million in 2008/09. Real GDP growth in 2008/09 was lower than targeted (7.1% instead of 8.5%) and lower than that of 2007/08. Exports in Uganda decreased to 220.13 USD Million in December of 2012 from 240.46 USD Million in November of 2012. Historically, from 1993 until 2012, Uganda Exports averaged 94.33 USD Million reaching an all-time high of 260.40 USD Million in August of 2012 and a record low of 12.40 USD Million in July of 1993 (UBOS, BOU, 2012)

Uganda mostly exports agricultural products (80 percent of total exports). The most important exports is coffee (22 percent of total exports) followed by tea, cotton,

copper, oil and fish. Uganda's main export partners are Sudan (15 percent), Kenya (10 percent), DR Congo, Netherlands, Germany and South Africa. Nonetheless, Uganda's economic performance compared with other sub-Saharan African countries (and especially Western countries) was very good. From September 2009, Uganda began to rebound from the adverse effects of the war. The first signs were the appreciation of the local currency (CIA world fact book, 2010)

2.2 Imports

Imports defined by UBOS (2012) as inward flows of goods and services from the rest of the world into the Economic territory of a country. According to Campbell et al (2002) imports is the spending by individuals, firms and government for goods and services produced in foreign countries and it consists of capital, intermediate and consumers goods

Capital Goods

Capital goods are defined as produced commodities, which serve as inputs in the production of other commodities (Baark, 1988). A meaning of capital goods as produced means of production is associated with the classical economists. They broadly consist of three main goods namely transport, agriculture and industrial equipment. Thus, the development of these three factors leads to the growth of GDP. Imports of capital goods are also influenced by the investment policy of the government. An increase in industrial growth in turn requires substantial additional imports of capital goods. High-technology imports like capital goods are helpful for high production and industrial development. The role of capital goods in the manufacturing sector can be seen from two "main stream" perspectives. These are growth oriented and innovation-oriented approach (Baark, 1988).

A reduction in transportation costs exerts technological improvement in manufacturing through increased demand for manufacturing products. Because the gain from creating new goods are related to their market size, lower transportation costs will lead to innovation in the form of more manufacturing goods in equilibrium"(Asillis et al 1994).

The import of capital goods supplies efficient machines that embody new technology, which is obtained from their search and development in developed countries. Thus, diffusion of embodied technology to domestic industry from developed country is important to increase productivity growth throughout the economy and this raises domestic output, in turn, leading to growth of GDP. A good example in this category of imports is import of computer hardware and software. This increases the efficiency of labor by reducing time spent on production and hence raises production, in turn leading to growth of GDP (River-Batiz et al 1994).

Intermediate Goods

Intermediate goods are input for the production of other commodities. Imports of these goods from developed countries bring new technology to developing countries, which in turn enhance the productivity of factors and leads to the growth of output (Coe, *et al*, 1997). This implies that these new technologies increase efficiency and thereby raise the scale of production and which in turn reduces the cost of production. The benefit is more if developing countries like Uganda import from an industrial country that has a large stock. Intermediate goods are composed of raw materials, semi-finished goods and fuel.

For instance, Keller (2000) argued that developing country stands to gain more in terms of both the product that it can import and the direct knowledge it can acquire than it would import from another developing country. This implies that importing a new (or better) type of intermediate goods will increase the degree of specialization in the production of other products. One example, which is sighted in this respect, is import of crude fertilizer, which constitutes high-technology imports from developed countries to developing countries. This is a transfer of foreign technology that helps us to increase productivity in the agricultural sector.

Imported Consumer Goods

The effect of imports of consumer goods on economic growth (measured by real \GDP growth) may be ambiguous. Imports of consumer goods like medical and pharmaceutical goods are important to make worker healthy and healthy workers are more productive than unhealthy workers, in turn leading to growth of GDP. Imports of non-durable consumer goods like food have adverse effect on real GDP growth if there is sufficient amount of domestic production since the shift of demand toward imports would reduce the demand for domestic goods; hence production of domestic goods, in turn leading to slower growth in food production (Jaeger, 1992).

Consumer goods like radio, TV contribute information for society. Most durable goods are luxury items that are required to keep the welfare of society. Food imports are one of the main non-durable consumer goods in Sub-Saharan Africa. "Based on recent literature, the growth in Africa's food import is widely assumed to be caused by slow growth in production resulting from a deterioration of productive capacity; poor performance domestically has led to an increase in imports to meet the growing gap between demand and domestic production, and leading to a growing food dependence on industrial countries (Eicher, Johnston, Serageldin) Jaeger,1992:21).

According to Jaeger (1992), the causal direction between imports of food and domestic production is ambiguous. If domestic foods are not perfect substitute for imported foods, then rising demand for imported food could be the result of higher income. The reduction in domestic production can be the result of policies, which have constrained productivity growth (Jaeger, 1992) .

2.3 The GDP trends in Uganda;

According to Projections prepared for the 2012 *African Economic Outlook*, suggested that the economy will improve in 2012 to 4.5% and to 4.9% in 2013. The Gross Domestic Product (GDP) in Uganda expanded 2.80 percent in the third quarter of 2012 over the same quarter of the previous year.

Historically, from 2008 until 2012, Uganda GDP Annual Growth Rate averaged 5.56 Percent reaching an all-time high of 12.20 Percent in June of 2009 and a record low of 0.90 Percent in December of 2011 (Uganda Bureau of Statistics Annual Reports).

In Uganda, the annual growth rate in GDP measures the change in the value of the goods and services produced by the country economy during the period of a year.

2.4 The relationship between Imports, Exports to Economics Growth

Michaely (1977), Feder (1982), Marin (1992), Thornton (1996) found that countries exporting a large share of their output seem to grow faster than others. The growth of exports has a stimulating influence across the economy as a whole in the form of technological spillovers and other externalities. Models by Grossman and Helpman (1991), Rivera-Batiz and Romer (1991), Romer (1990) posit that expanded international trade increases the number of specialized inputs, increasing growth rates as economies become open to international trade. Buffie(1992) considers how export shocks can produce Export-Led Growth" (Ribeiro Ramos, 2001). "Oxley (1993), using Portuguese data, finds no support for the ELG hypothesis, quite the reverse, adding fuel to the controversy concerning programmes for growth. Export growth is often considered to be a main determinant of the production and employment growth of an economy. This so-called hypothesis of export-led growth (ELG) is, as a rule, substantiated by the following four arguments" (Balassa, 1978; Bhagwati, 1978; Edwards, 1998)."First, export growth leads, by the foreign trade multiplier, to an expansion of production and employment. Second, the foreign exchange made available by export growth allows the importation of capital goods which, in turn, increase the production potential of an economy.

Third, the volume of and the competition in exports markets cause economies of scale and an acceleration of technical progress in production. Fourth, given the theoretical arguments mentioned above, the observed strong correlation of export and production growth is interpreted as empirical evidence in favor of the ELG hypothesis" (Ribeiro Ramos, 2001). "Export expansion and openness to foreign markets is viewed as a key determinant of economic growth because of the positive externalities it provides. For

example, firms in a thriving export sector can enjoy the following benefits: efficient resource allocation, greater capacity utilization, exploitation of economies of scale, and increased technological innovation stimulated by foreign market competition" (Helpman and Krugman, 1985).

"In the GLE case, export expansion could be stimulated by productivity gains caused by increase in domestic levels of skilled-labor and technology (Bhagwati, 1988; Krugman, 1984).

Neoclassical trade theory typically stresses the causality that runs from home-factor endowments and productivity to the supply of exports (Findlay, 1984). The product life cycle hypothesis developed by Vernon (1986) has also attracted considerable attention among international trade theorists in recent years. Segerstrom et al. (1990), for example, use the product life cycle hypothesis as a basis for analyzing north-south trade in which research and development competition between firms determines the rate of product innovation in the north" (Ribeiro Ramos, 2001)..

"The third alternative is that of Import-Lead Growth (ILG) suggests economic growth could be driven primarily by growth in imports. Endogenous growth models show that imports can be a channel for long-run economic growth because it provides domestic firms with access to needed intermediate and foreign technology (Coe and Helpman, 1995). Growth in imports can serve as a medium for the transfer of growth-enhancing foreign R&D knowledge from developed to developing countries" (Lawrence and Weinstein, 1999; Mazumdar, 2000).

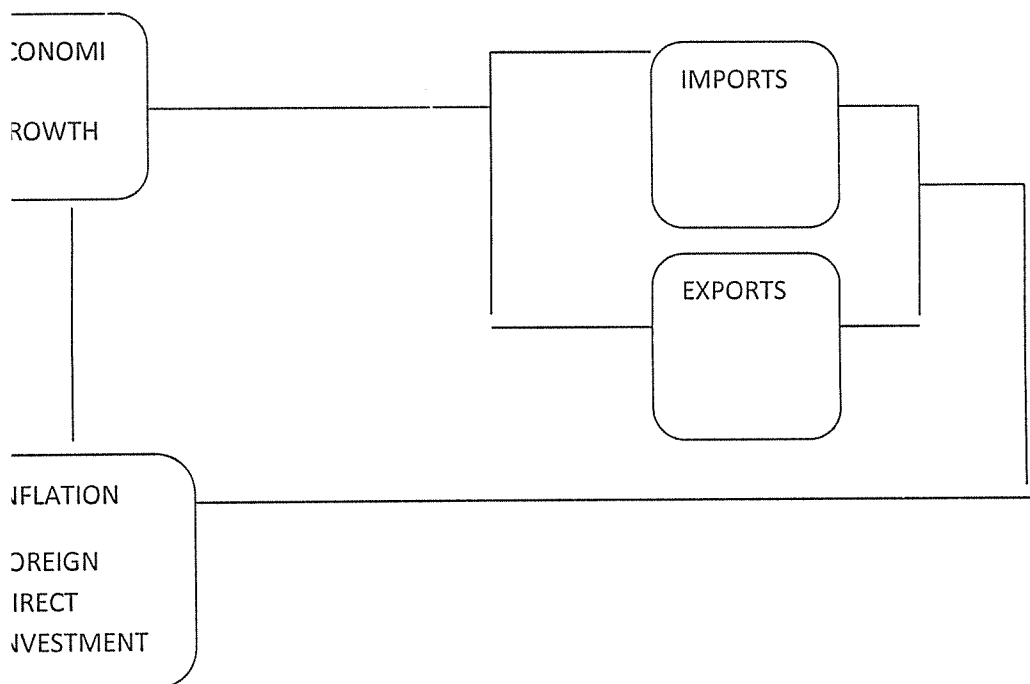
"The most interesting economic scenarios suggest a two-way causal relationship between growth and trade. According to Bhagwati (1988), increased trade produces more income (increased GDP), and more income facilitates more trade _ the result being a 'virtuous circle'. This type of feedback has also been noted by Grossman and Helpman (1991) in their models of north-south trade.

However, they point to a causal relationship between international trade and exports and economic growth. Finally and crucially, for the purpose of this paper, the strong correlation of export (import) and GDP growth rates has nothing to say about a

relationship between the export(import) and the GDP trend development" (Ribeiro Ramos, 2001). In order to test for the existence of a long-run or trend relationship among GDP and exports and imports, the theory of cointegration developed by Pesaran and Shin (1995) among others has to be applied

2.5 The Conceptual Frame work

As mentioned earlier in this paper the dependent variable in this study are GDP and the independent variables are Exports, import. In our research we are trying to analyze the relationship between dependent and independent variables.



In the conceptual model we demonstrate the relationship between exports and imports and some economic factors (FDI, , inflation)

2.6 Theoretical Study

The idea that international trade brings economic growth and increases the welfare of a nation started during the 17th century by a group of merchants, government officials and philosophers who advocated an economic philosophy known as mercantilism. According to mercantilists, for a nation to become rich and powerful, it has to export more than it imports where the resulting export surplus is used to purchase precious metals like gold and silver.

Thus the government in its power has to control imports and stimulate the nation's exports. Adam Smith attacked the main mercantilists' views and proposed the classical theory of international trade based on the concept of absolute advantage model. According to his stock of human, man-made and natural resources rather than stock of precious metals were the true measure of the wealth of a nation and argued that the wealth of a nation can be expanded if the government would abandon mercantilist controls. In addition, he showed that trade can make a nation better off with making another worse off [Mannur, 1996 p.21].

Absolute advantage, however, explains only a very small part of the world trade today i.e. trade between developed and developing countries. Most of the world trade especially trade among developed countries could not be explained by absolute advantage [Salvatore, 1990].

The model of comparative advantage was later articulated by David Ricardo to replace the principle of absolute advantage. According to this model, a country will specialize in the production and export of the commodity in which it has a comparative advantage i.e. the commodity that it can produce at the lowest relative cost.

The comparative advantage model is based on a set of assumptions one of which is the labor theory of value. According to the labor theory of value, (a) either labor is the only factor of production or is used in the same fixed proportion (b) labor is homogeneous i.e. of only one type. Since neither of these assumptions is true the labor theory of value must be rejected. In addition to the above argument, the comparative advantage model states that trade depends on the terms of trade which in turn is determined by internal cost ratios in two trading countries i.e. by supply conditions alone. This obviously is flawed since terms of trade are not only determined by supply factors but also by demand forces. In order to modify the Ricardian theory, the principle of this theory argues that each country has a comparative advantage in that commodity which uses the country's abundant factor. Thus capital abundant countries should specialize in

the production and export of capital-intensive goods while labor abundant countries should specialize in the production and export of labor-intensive commodities.

This theory, which played a predominant role in the early literature of trade theory, encouraged third world countries to focus on their labor and land intensive primary product exports. It was argued that by exchanging these primary products for manufactured goods of the developed countries, third world nations could realize enormous benefits obtained from trade with the richer nations.

Although the factor endowment theory contributed a lot to the modern theory of international trade, the validity of the theory is based on a set of assumptions that are unlikely to hold. Specifically, six basic assumptions of the neo-classical trade model are criticized in explaining trade between the developed and the developing countries.

In recent years economists have therefore challenged the static neo-classical model and developed new models that explain trade between developed and developing countries. Unlike the traditional model which is assumed to apply to all nations, the so called North-South trade models focus specifically on trade relation between rich and poor countries [Ocampo, 1980].

Other theories of trade have also been put forward which attempt to either supplement the neo- classical trade theory or replace it with different approaches. These include the vent for surplus theory of international trade [Myint, 1958], preference similarity or overlapping demand theory developed by Linder (1961), the technological gap and the product cycle theory articulated by Posner (1961) and Vernon (1966), respectively.

These theories that are referred as complementary (alternative) theories do not suggest that the neo-classical trade model should be discarded. They are not comprehensive and try to fill a portion of the gap in the international trade that the traditional classical theory couldn't explain.

2.7 Empirical study

Michaely (1977), Feder (1982), Marin (1992), Thornton (1996). Found that countries exporting a large share of their output seem to grow faster than others. The growth of exports has a stimulating influence across the economy as a whole in the form of technological spillovers and other externalities.² Models by Grossman and Helpman (1991), Rivera-Batiz and Romer (1991), Romer (1990). posit that expanded international trade increases the number of specialized inputs, increasing growth rates as economies become open to international trade.³ Buffie (1992). considers how export shocks can produce export-led growth. Oxley (1993), using Portuguese data (1865-1985). Finds no support for the ELG hypothesis, quite the reverse, adding fuel to the controversy concerning programmes for growth

Atrkar roshan Sedigheh (2008), with the subject of export expansion and economic growth, evidence of Iran after the revolution period found that in both stages she confirmed the positive relationship of export expansion and economic growth in Iran for the period after the revolution.

Tehranchian, Amir Mansour (2009), with this subject "The effect of import on Iran's economic growth" was studied on the effect of capital goods' import, indirectly or consumption on growth. Investigation of import process showed that in the studied period despite the increasing of import all three groups of these goods, combination of imported goods especially after the implementation of development programs has changed in favor of intermediary goods and capital. Also based on offering econometrics model the stretching coefficients of economic growth in proportion to import of capital goods and intermediary are 0.06 and in proportion to imports of consumption goods are estimated -0.22 this state the direct effect of capital goods import and intermediary, indirect effect and reducing the import of consumption goods on economic growth indicator in Iran.

Murat Çetinkaya and Savas Erdogan (2010), In the study, using the figures of import-export belonging to the periods 2002:01 – 2010:03 of Turkey, VAR Analysis was carried out. In this period, it was determined that there was causality relationship between these variables, the variable import influenced GDP, and GDP influenced the variable export. Between export and import, two way Causality relationships released mutually. In the same way, the results of causality overlap with variance decomposition test.

Maleki, Amin(2011), he with this subject " the effect of export technological composition on economic growth" concluded that the estimation of time series model with two techniques at least simple normal squares and augmented confirmed the hypothesis of efficiency differentiation in utilization of production factors, in sectors of technology export also believes that technology sectors on non-oil export has more effect on growth especially are emphasized on industry's role with low technology in country's economic growth.

Barbara Pistoresi and Alberto Rinaldi (2011), the nexus between trade and economic growth in Italy has been widely debated by historiography. However, there are not long run analyses on this topic that cover the whole span from Unification to present days. This paper contributes to fill this gap by investigating the relationship between real exports, imports and GDP in Italy from 1863 to 2004 by using cointegration analysis and causality tests. The outcome suggests that these variables commove in the long run but the direction of causality varies across time. In the period prior to the First World War import growth led GDP growth that in turn led export growth. Conversely, in the post-Second World War period we have a strong bidirectionality between imports and exports consequent on the increase in intra-industry trade. They also find a weak support for export-led growth and growth-led imports. This suggests that exports were not the only or the main driver of economic growth. There was probably a multiplicity of factors at work, among which high rates of capital formation and the expansion of internal demand probably stood out.

Tyler (1981) analyzed the empirical relationship between economic growth and export expansion in a sample of 55 middle-income developing countries using inter-country cross section analysis. Bivariate correlation tests (simple Pearson and Spearman rank correlation tests) reveal a strong positive association between export growth and economic growth. The study supplements the correlation analysis by estimating an aggregate production function relating output with traditional inputs (capital and labor) and exports. This analysis suggests that export performance is important, along with capital formation, in explaining the inter-country variance in the rate of output growth. The time lag here is too long and therefore my study will test if the same result holds for Uganda, with inclusion of regression analysis from 1992 to 2011.

Kavoussi (1984) examined the relationship between export expansion and economic growth in a sample of 73 developing countries. The correlation tests indicate that export expansion is associated with better economic performance in both groups of low and middle-income countries. The study also examined the effect of export growth on total factor productivity in terms of an estimated production function and concludes that export expansion has a positive impact on total factor productivity leading to higher economic growth, this study considered Export expansion in relation to the level of factor productivity, so my study will test if the same applies to Uganda with low factor productivity like labor characterized by poor skills and knowledge.

Gonclaves and Richtering (1986) conducted empirical analysis for a sample of 70 developing countries for the period 1960-1981 and find that export growth rate and change in export/GDP ratio are significantly correlated with GDP growth. The study finds no significant correlation between non-export output growth and export growth. This did not talk about imports

Mwega (1993) estimated the generalized import demand of Moran (1989). He used an error correction model to estimate demand elasticity for aggregate imports and components in Kenya over the period 1964-1991. In this result, real income is not significant in the long run in the import of food, beverages and tobacco, which are

consumer goods. In his view, the reason for this is that, as the economy expands, domestic production substitutes these goods. Similarly, real income does not have a significant influence in the long run on mineral fuels and lubricants imports, which are part of intermediate goods. In his view, the reason for this is that, real income is highly correlated (0.84) with relative import prices. Machinery and transport equipment that are part of capital goods are significantly influenced by real income. The time in which it was carried out was too long.

Umo and Fakiyesi(1995) examined the determinants of components of import in Nigeria, based on OLS estimation procedure for the period between 1950 and 1988. They tested for structural break by partitioning the years. The regression result shows that the import of machinery is negatively related to real per capita income in the period 1955-1972. This means that an increase in per capita income is not spent on purchase of machinery or investment.

Girma (1982) estimated value of import as a function of GDP only in Ethiopia during the period 1970 to 1978, based on OLS estimation method. In his result, GDP is significant and positively affect import of goods this study in the long period of time and it may not relate to the current situation of Uganda and even the its was some 26 years back which can not relate now.

According to Moran (1989), LDC's import depends on both the demand side and capacity factors. He estimated the general import model, which incorporated both traditional and Hemphill import model, using pooled cross-section time-series data for twenty-one developing countries during the period 1970-83. Real income is considered, as determinant of imports but its significance, measured by the corresponding t-values, is smaller than the significance of foreign exchange receipts and international reserves. The short run income elasticity of import is also generally statistically significant.

Connolly (1998) showed that high technology imports from developed country have a positive influential effect on real per capita growth than domestic technology. His study was based on forty countries during the period 1970 - 1985. The effect of income

(measured by real GDP) growth on imports has been analyzed in estimating import demand model. Nevertheless, when you look at most of the developing countries like Uganda it is low in the level of technolog

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Research Design.

A time series analysis was adopted and the use of quantitative techniques to analyze secondary data scientifically to critically conclude the research objectives, secondary data was collected from different ministries, some quantification was necessary because of the need to tabulate data and use of statistical techniques to arrive at a dependable conclusion. Also inferences will be drawn by fitting the regression model and testing for its significance using the t-statistic. The research also correlated the two independent variables on one dependent variable and test for significant of the Pearson's correlation coefficient of determination in Uganda for thirteen years (2000-2012).

3.2 Research Population

The research took for thirteen year's time series of study that is, from 2000 to 2012.

3.3 Sampling Technique and procedure

The sampling technique will be judgmental sampling for data collection for thirteen years (2000-2012).the choice of the period of reference is significant because imports and exports constitute the matter of serious policy consideration. This period witnessed a steady and a positive growth; this period encompasses the major landmarks in our economy.

3.4 Research Instrument.

The Record sheet was used to enter the yearly data on Imports, Exports and GDP growth in Uganda for thirteen years that is from 2000 to 2012.

3.5 Data Gathering Procedure and Source

After the proposal was approved, the researcher got an introductory letter from the Department of Economic and Applied Statistics of Kampala International University, which introduced him to the respective ministries and they were informed by the researcher on area of interest of data to be collected. Data collection was done by

skilled research assistants under close supervision of the researcher to ensure that all the information required are collected.

The domestic sources are the annual and quarterly bulletin of the National Bank of Uganda, IMF's, International Financial Statistics, World Bank and United Bank of Africa. The data will entered into the record sheet and compiled; this will used to analyze the relationship between Imports, Exports and economic growth in Uganda (2000-2011) with the help of computer -statistical package

3.6 Time Series Data Analysis

This was analyzed with the help of Ms. excel and word, STATA packages was used to derive descriptive statistics and accompanying table, diagrams and graphs was also relevant for the study prior to the estimation of the regression line ,descriptive analysis was conducted to describe the behaviors of the individual variable over the duration of the study by plotting each variable against time ,it included testing for significant and correlation between the imports, exports and economic growth.

The following formulae and computational equations were.

The correlation is given by

$$r_0 = \frac{n \sum xy - \sum x \sum y}{\sqrt{(n \sum x^2 - (\sum x)^2) \{n \sum y^2 - (\sum y)^2\}}}$$

$$r_1 = \frac{n \sum xy - \sum x \sum y}{\sqrt{(n \sum x^2 - (\sum x)^2) \{n \sum y^2 - (\sum y)^2\}}}$$

The t_c compute was

$$t_c = \frac{r\sqrt{n-2}}{\sqrt{1-r^2}}$$

Reject H_0 if $t_c \geq t\alpha$ at 0.05 level of significance

The Simple Linear Regression Model.

GDP growth = $\alpha + \beta_0$ (exports) + β_1 (imports) + e_i

$$Y = \alpha + \beta_0 X_0 + \beta_1 X_1 + e_i$$

Where y: Real GDP growth

α : The GDP growth rate without imports and economic growth

β_0 : The rate of change GDP growth to Exports

β_1 : The rate of change GDP growth to Imports

x_0 : Exports

x_1 : Imports

3.7 Limitations of the Study

In Uganda, evaluating the quality of data, there is no adequate, consistent data in domestic sources. For example, there is a discrepancy of GDP data reported by IFS yearbook and the National Bank of Uganda. One of problems in data collection is that different sources use different calendar year. Since it is difficult to compare different calendar, year data effort was made to convert data from different calendar years into the same calendar year.

Therefore, the data collected was representative enough to enable the researcher to draw general conclusions.

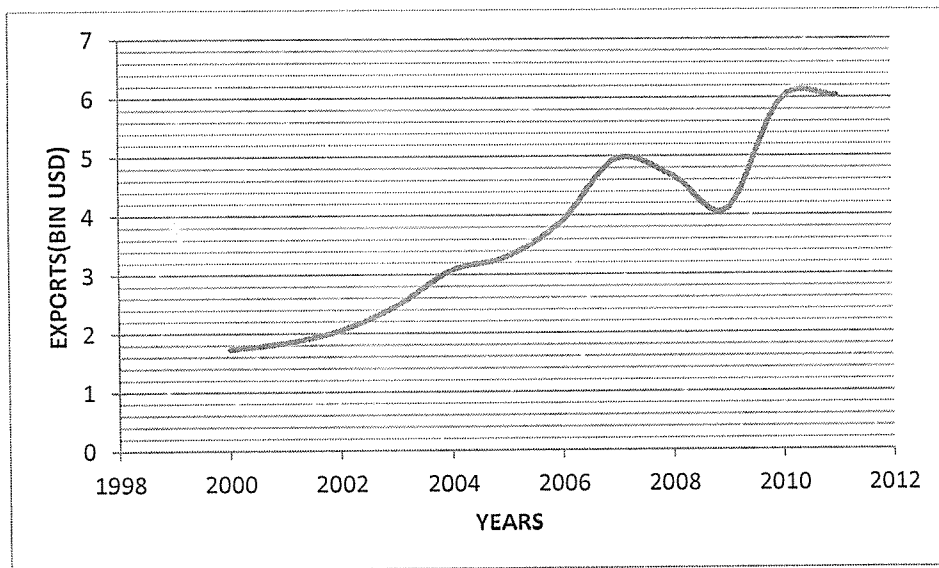
CHAPTER FOUR

PRESENTATION, ANALYSIS AND INTERPRETATION OF DATA

Data was presented using figures, graphs based on the research objectives and the corresponding research questions, testing the hypothesis and for implication of the findings. (i) To establish the trend of exports in Uganda (2000 to 2011), (ii) To establish the trend of Imports in Uganda (2000 to 2011) (ii) to show the trend of GDP growth in Uganda (2000 to 2011),(iii) to investigate the relationship between exports, imports and GDP growth in Uganda (2000 to 2011).

4.1 The Trend of the Exports of Uganda (2000-2011)

Objective one was to show the trend of exports of Uganda (2000-2011).Under this; the researcher used the line graph as can be seen below



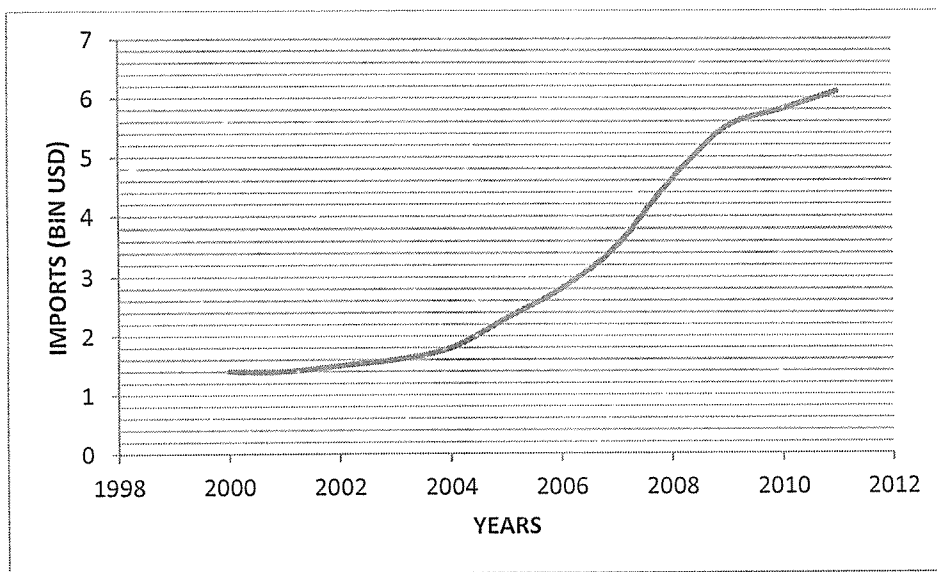
SOURCE: world bank, IFS, IMF (2012)

Exports have shown a steady increase from 2000 to 2007, then cyclical fluctuation between 2007 to 2011. An increase is due to the favorable factors that promote exportation of goods and services such as favorable government policy, fair tax among others. The percentages change in Exports for the period under study is 71.3 percent.

The regression model is $\text{Exports} = 1.031 + 0.41 \text{ time}$. This indicates that when time is zero Exports is 1.03 billion USD. Also a unit change in time by one year lead to an increment in Exports by 0.41 billion USD.

4.1 The Trend of the Imports of Uganda (2000-2011)

Objective one was to show the trend of exports of Uganda (2000-2011). Under this; the researcher used the line graph as can be seen below



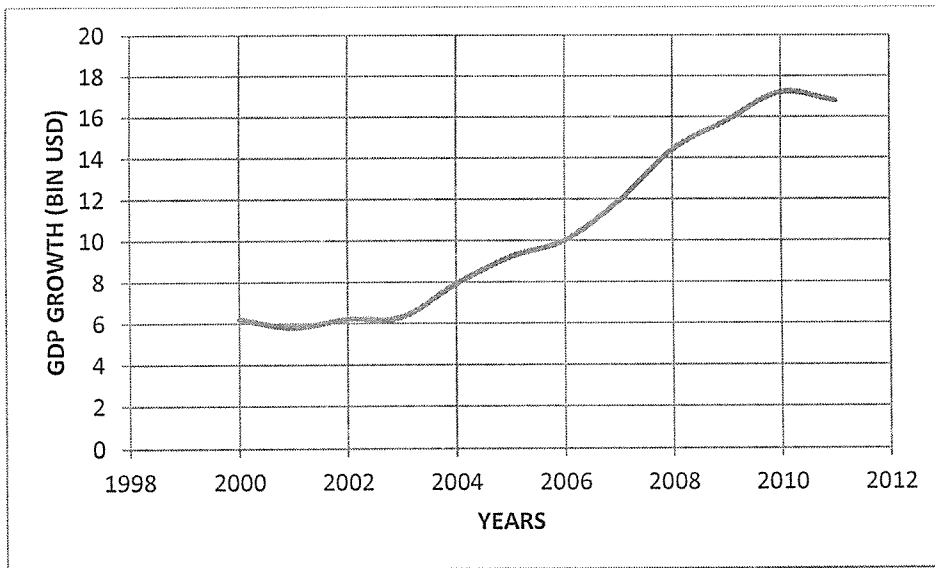
SOURCE: world bank, IFS, IMF (2012)

There is a general increase in the imports for period under study. The percentage change of import for 2000 and 2011 is 76.9 percent indicating high rate of change and the regression model is $\text{Imports} = 0.0121 + 0.489 \text{ time}$. This indicates that when time is zero Import is 0.0121 billion USD. Also a unit change in time by one year lead to an increment in Imports by 0.489 US billion.

4.2 The Trend of the GDP Growth in Uganda (2000-2011)

Objective three was to show the level of trend of GDP growth in Uganda. Under this, the researcher used a line graph as can be seen below:

Figure 2: Trend of GDP Growth in Uganda (2000-2011)



SOURCE: world bank, IFS, IMF (2012)

There is general increase in the GDP growth in Uganda for the period under study, then it declined steadily in 2011. This could be due to other variable which influence GDP growth in Uganda but it has been omitted. The percentage change of GDP growth for 2000 and 2011 has been reduction by 58.3 percentages. The regression model is $GDP = 2.527 + 0.7532 \text{ time}$. This indicates that when time is zero GDP is 2.527. Also a unit change in time by one year lead to an increment in GDP growth by 0.732 billion US dollar.

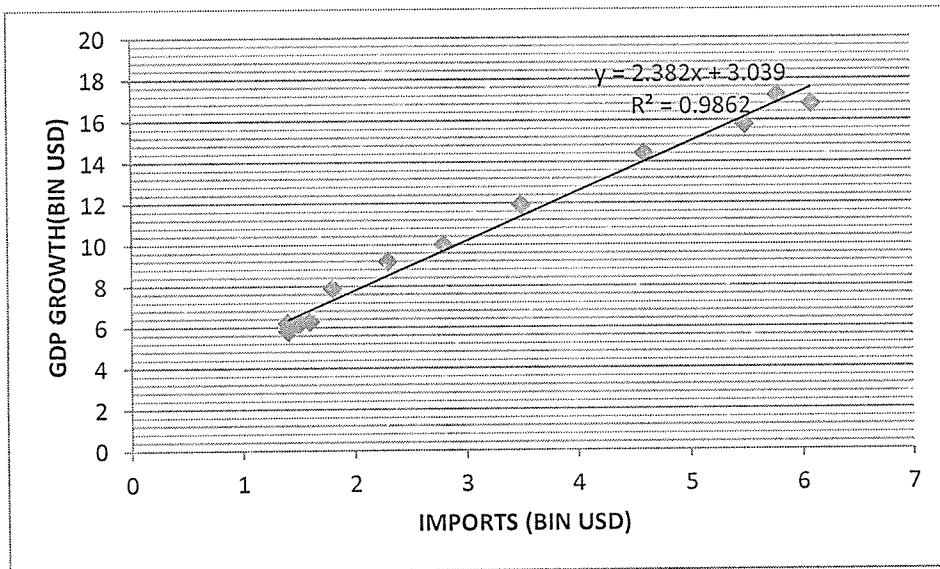
4.3 The relationship between import and GDP growth in Uganda (2000-2011)

Objective four was to investigate the relationship between Exports, Imports and GDP growth in Uganda, the researcher used scatter plot graph, correlation analysis, regression analysis as can be seen observed.

A scatter plot of Exports against GDP growth in Uganda (2000-2011)

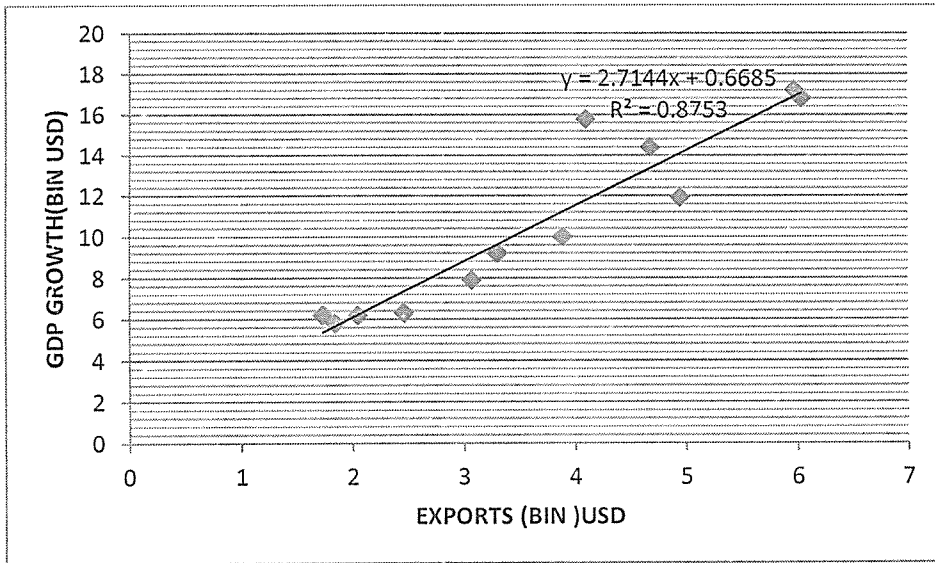
To show the relationship between imports and Gross Domestic Product in Uganda, the researcher used scatter plot as can be seen below.

Figure 4: A scatter plot of Exports and Gross Domestic Product (GDP) in Uganda



SOURCE: world bank, IFS, IMF (2012)

Most of the points are closed to the fitted trend this implies there is a normal distribution between imports and GDP growth in Uganda, some of the points, which are far apart, is due to the other variable, which has been omitted. This indicates that a strong relationship between Imports and GDP growth.



SOURCE: world bank, IFS, IMF (2012)

Most of the points are close to the fitted line this implies there is a strong relationship between exports and GDP growth. Some points are far away from the trend this might be as result of some other factors, which determine GDP apart from exports, this might be due importation of high level of technology which encourages industrialization which promote economic growth among others. The fitted regression model is $GDP = 0.6685 + 2.714 (Exports)$. This implies that the GDP growth without exports is 0.6685 billion USD and a unit change in Exports lead to GDP growth by 2.714 billion USD.

4.3.1 Correlations Analysis of Exports, Imports and GDP Growth of Uganda

The researcher used Pearson's correlation coefficient to establish the strength of relationship between Exports Imports and GDP growth in Uganda.

Table 1: Correlation of Exports, Imports and GDP Growth in Uganda (0.05)

Variable correlate	R-Value	Sign-value	Interpretation	Decision
export verse GDP growth	0.9356	0.000	Significant relationship	Reject the null hypothesis
Imports verse GDP growth	0.9931	0.000	Significant relationship	Reject the null hypothesis

Source: Research (2013)

There is a strong positive correlation between exports, Imports and GDP growth as can be seen from the above table ($r_1 = 0.9356$, $r_2 = 0.9931$) respectively the strength of the relationship between exports, imports and GDP growth is determined by the coefficient of determination ($r_1^2 = 0.875$ and $r_2^2 = 0.986$). This implies that the variation in GDP growth is explained by exports by 87.5 percent and the remaining percentage is explained by other variables apart from exports and the variation in GDP growth is explained by Imports is by 98.6 and other factors remain constant, since ($\text{sig} = 0.000 < \text{sig} = 0.05$), we reject the null hypothesis and conclude that there is significant relationship between exports, imports and GDP growth in Uganda (2000-2011).

4.3.2 Regression Analysis of Exports Components and GDP Growth in Uganda

To investigate the relationship, the researcher used multivariate and simple linear regression analysis as can be seen in the table below;

Table 2: Regression of Exports, Imports and GDP Growth in Uganda (0.05)

Variable represented	Adj. R ²	F-Value	Sign-value	Interpretation	Decision
Exports and GDP growth	0.985	495.28	0.000	There is significant relationship	Reject the null hypothesis
Imports and GDP growth	0.985	495.28	0.000	There is significant relationship	Reject the null hypothesis
Coefficient	Beta	T	Sign-value	Interpretation	Decision
Constants	2.412	2.20	0.055	No Significant relationship	Accept the null hypothesis
Exports	0.493	10.75	0.000	significant relationship	Reject the null hypothesis
Imports	2.007	6.07	0.000	significant relationship	reject the null hypothesis

Source: Researcher (2013)

The researcher fitted a multivariate model as can be seen below

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \epsilon_i$$

$$\text{Gross Domestic Product} = 2.412 + 0.493(\text{Exports}) + 2.007(\text{Imports}) + \varepsilon_i$$

From the above it has indicated that amongst the variable that has contributed much to economic growth is Imports because a unit change in imports lead to an increase in GDP growth by 2.007 Billion USD and last is exports, a unit change in Exports lead to an increase in GDP growth by 0.493 billion USD and the growth of GDP growth without the two variable (Imports and Exports) is 2.412 billion USD. The sig of (Imports = **0.000**) < (**sig = 0.05**) we reject the null hypothesis and concluded that there is a relationship between Imports and GDP growth in Uganda and exports have not shown a significant relationship because (**sig Exports = 0.055**) > (**sig = 0.05**) we accept the null hypothesis and conclude that Exports has little influence on GDP growth. The Adj $r^2 = 0.989$ this implies Exports, Imports affect GDP by increase of 98.9 percent

CHAPTER FIVE

DICUSSION, SUMMARY, CONCLUSION AND RECOMMENDATION

5.1 DICUSSION

The trend of Exports in Uganda

Exports in Uganda has shown a steady growth between 2000 to 2007 this is due to factors that favors the exportation of goods such as favorable climate which promotes agricultural sectors, good prices ,favorable government policy, among others and other factors which promotes exportation but have been ignored. The fluctuation in the exports value is as result of high taxes, poor communication network, and unfavorable government policy among others on the exported goods

The Trend of Imports in Uganda.

There is a general increase in the import of Uganda over that seventeen year (2000-2011), this has been because Uganda depend highly on imported goods since it cannot produced all the goods to sustained its economy, there is also demand for capital goods, intermediate, and consumers goods the capital goods are needed for industrialization and industry cannot do without the spare parts since they always get worn up and are very expensive which lead to increase in the level of expenditure.

The other factors which might have led to the general rise in import is the exchange rate, the higher the exchange rate the higher will be the price of the imported goods at the world market, when you look at Uganda currency which have low value against dollars have to pay much money leading to increase in price of the imported goods, also people demand has increase as peoples income increases this will make the demand for domestically produced goods to fall resulting outflows of capital.

The Trend of Economic Growth in Uganda.

There has been a general increase GDP growth in Uganda over the period under study that is (2000-2011), an increase in the GDP growth rate is due to intermediate and capital goods, capital goods include machines, spare part, which lead to industrialization hence promotion economic growth other factors which lead to economic growth apart from import are; highly level of technology, favorable government policy, and revenue and economic which are healthy for economic growth, high earning from export leads injection into the country, technology lead high production of goods in quantity and quality which enable to promote trade ,favorable government policy that encourage both importers and exporter leads to favorable balance of payment, mean while taxation lead to generate revenue to the country which can be invested and we know that investment leads to economic growth.

The relationship between Exports, imports and economic growth in Uganda.

The relationship between Exports, Import and Economic growth has been significant relationship according to the fitted line and regression analysis, correlation, the use of parametric test , were performed there has been a strong positive relationship between Exports,Imports and GDP growth ($r_1=0.975$ and $r_2= 0.993$) respectively, The study has confirmed Khan(1994) which studied the same topic on import demand and per capita real income and had significant relationship, Ghimay et al (2001), consisted of 19 LDCs, found a long-run relationship between exports and economic growth in 12 of the 19 countries. Export promotion also attracted investment and increased GDP in 15countries hence rapid development, Grima(1982) study the relationship between import and GDP Growth in Ethiopia using OLS and found GDP has a positive significant effect on import of which this study has confirmed of Ugandan case since is amongst the developing countries like Ethiopia for on which exports and imports play a key role in economic development and there was trend in export ,import and GDP growth in Uganda .Other variables which have played a key role in economic growth are Agriculture, technology, government policy and others.

5.1. Summary of Findings

The main objective of this study was to investigate the relationship between Exports, imports and GDP growth in Uganda. For the relationship between exports, imports and GDP growth, the probability of the t-distribution was used based on a simple linear regression model at **0.05** level of significance. The dependent variable and the independent variables were found to be normally distributed. Implying significant relationship between the two variables. The trend of imports and exports were found to have general increase economic growth had also shown the general increase for the period under study, the tested statistics for the relationship was found to have a significant relationship. This is a strong relationship therefore this indicates that there is a strong relationship between imports, exports and economic growth in Uganda.

5.3 Conclusion.

This study has established the trend of exports in Uganda (2000-2011) and found a steady increase between 2000-2007 then it fluctuates for the remaining years and it has percentage change of 71.3 percent, the trend of import in Uganda (2000-2011) was found to have a general increase with 76.9 percentage change over the period under studied as can be seen from fig 2 above, it has established the trend of GDP growth in Uganda (2000-2011) and found cyclic fluctuation due to other factors which determine GDP growth a part from import 63.47 percentage change, the study has also investigated relationship between exports, import and GDP growth in Uganda using correlation, regression analysis with the test of hypothesis and found a positive relationship, for a country like Uganda. The study was guided by the theory of comparative advantages stated by David Ricardo (1817), that a country should export a commodity in which its comparative cost is greater and import a commodity in which its comparative cost advantages is less, because of insignificant relationship, the study has accepted the theory since Uganda cannot do without importation and exportation of goods since they are the key factors that geared the economic growth.

5.4 Recommendation

Ugandan economy which is still a developing country with low level of skilled labor, importation of capital and intermediates goods may lead to economic growth, therefore I would recommend the government to embark on industrialization, and modern technique of agricultural production since this area can employ large population resulting into high productivity hence economic growth.

The government should also embark on exportation of goods and services to ensure balance of favorable balance of payment this healthy to economy leading to economic growth.

5.5 Suggestions for Further Research

The results presented in this report are very not conclusive and should be treated as being preliminary. Further analysis of the survey data (Exports, Imports and Economic growth) needs to be done to validate these findings and provide greater confidence in explaining the changes in exports, import and GDP growth

1. A study should be carried to establish how the exchange rate, trade policies performance in relationship to economic growth.
2. The impact of imported capital, intermediate and consumer goods to economic growth.
3. How exchange rate affect the import demand
4. The relationship between inflation and economic growth.

Population growth rate and economic growth

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Appendix1: IMPORTS, EXPORTS AND ECONOMIC GROWTH OF UGANDA (000,000,000)

YEARS	IMPORTS(BIN USD)	EXPORTS(BIN USD)	GDP GROWTH(BIN USD)
2000	1.4	1.73	6.2
2001	1.4	1.84	5.8
2002	1.5	2.05	6.2
2003	1.6	2.46	6.3
2004	1.8	3.07	7.9
2005	2.3	3.3	9.2
2006	2.8	3.89	10
2007	3.5	4.95	11.9
2008	4.6	4.68	14.4
2009	5.5	4.1	15.8
2010	5.8	5.98	17.2
2011	6.1	6.04	16.8

SOURCE: world bank, IFS, IMF (2012)

Appendix 2: Regression of GDP on exports and imports

Source	SS	df	MS	Number of obs =	12
-----+-----			F(2, 9) = 495.28		
Model	213.073219	2	106.53661	Prob > F	= 0.0000
Residual	1.93594599	9	.21510511	R-squared	= 0.9910
-----+-----			Adj R-squared = 0.9890		
Total	215.009165	11	19.5462878	Root MSE	= .46379

gdpgrowthb~d	Coef.	Std. Err.	t	P> t	[95% Conf. Interval]	
-----+-----						
exportsbin~d	.4962973	.2257596	2.20	0.055	-.0144063	1.007001
importsbin~d	2.007135	.186647	10.75	0.000	1.58491	2.42936
_cons	2.412081	.3973679	6.07	0.000	1.513172	3.310989

Appendix 3: Correlation of GDP on exports and imports

(obs=12)

	gdpgr ^o d	export ^o d	import ^o d
gdpgr ^o d	1.0000		
export ^o d	0.9356	1.0000	
import ^o d	0.9931	0.9137	1.0000