

## THE EAST AFRICAN COMMUNITY (EAC) AND ITS INFLUENCE ON TANZANIA'S MANUFACTURED EXPORTS INTENSITY AND COMPETITIVENESS

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### ABSTRACT

*This paper examines the relationship between the revived EAC and both export intensity and competitiveness of Tanzania's manufactured exports in the East African region. The study uses simple descriptive statistics, which is later supplemented with export intensity and export competitiveness models (also termed as indices) to determine the dynamics and competitiveness of Tanzania's intra-EAC manufactured exports. Manufactured export intensity is above 100 whereas export competitiveness is found to have increased but below unit since the establishment of the current EAC. Concerted efforts should be taken within both, Tanzania and the EAC as a whole so as to improve the situation. The conclusions point out that EAC is liable to be useful if supply side and market access related constraints are unanimously eradicated.*

### INTRODUCTION

There is a widespread consensus that exporting manufactured goods may be good for economic growth and development. This is because manufacturing generates employment opportunities through value-adding activities based on the existing economic resources of a given country (Albaladejo, 2002; UNIDO, 2007; UNCTAD, 2008). Theoretically, good performance of manufacturing sector is mainly driven by human capital, Information and Communication Technology (ICT), technology transfer through FDI and licensing, technology effort and development of infrastructure (Albaladejo, *ibid*).

The stimulation of export intensity and competitiveness of manufacturing products should start with high efficiency relative to regional markets as a necessary route to

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international competitiveness. The key lies in the conversion of prevailing comparative advantages to national comparative platforms (Mwaigomole, 2009). Poor performance of many African economies including EAC Partner States has been associated with low growth of exports in general and of manufactured exports in particular. As a consequence, moves towards outward-oriented trade policies and trade liberalisation to support export growth, have become standard practice in economic growth and industrialization strategies of African countries (Söderbom and Teal, 2001; Gries and Naude, 2004). Tanzania, like other EAC Partner States, has had no substantial growth in manufactured exports and thus a case in point.

The manufacturing sector in Sub-Saharan Africa, which includes the East African region, has been hampered by several factors including high input costs, lack of technological learning and innovation, inward looking trade policies, protective industrial policies, overvalued exchange rates and inflation rates (Mazumdar and Mazaheri, 2003; Fukunishi, 2004). Such constraints have led to overall lack of structural change, supply side constraints which make it difficult for production to respond to and meet the requirements of the export markets, the very slow rate of productivity growth and the limited range of goods in which EAC Partner States are competitive. Moreover, Musonda and Wangwe (2000) argue that cross-border investments in East Africa have not only been low (5-10 percent of the total FDI) but have also been unidirectional mainly flowing from Kenya to Tanzania and Uganda.

The Literature suggests that Regional Trade Arrangements (RTAs) like the EAC are intended to increase production and export of more goods (trade intensity) and the competitiveness of firms within the region following greater internal demand and reduced barriers to trade (Amponsah, 2002; Holmes et al., 2006). Another reason behind that argument is that firms operating within RTAs have an opportunity to exploit economies of scale through enlarged and more diversified local markets and enhance intra-industry trade through vertical value-chain specialization (Amponsah, *ibid*). Many studies' interest has been in the factors that generally propel export growth in Tanzania's manufacturing sector (see for example, Mbele, 2000; Semboja, 2007; Kahyarara, n.d, Mpangalile et al., 2008). The argument "whether or not the revived EAC has so far improved trade intensity and competitiveness of Tanzania's manufactured exports" has received much less if any academic enquiry and therefore, the knowledge gap that this work attempts to bridge.

The general objective of this empirical study is to analyze the influence of the newly established EAC on Tanzania's manufactured exports to other founder states (i.e., Kenya and Uganda). Specific objectives are: first to analyse the dynamics and intensity of Tanzania's manufactured exports before and after the establishment of East African Co

community; and secondly, to measure regional competitiveness of Tanzania's manufactured exports within the region. The study focuses mainly on founder states because they are the ones that ratified the Treaty for establishment of the East African Community that entered into force on July 7, 2000 and mastered a Customs Union Protocol for several years (that is from January 1, 2005) before the accession of Rwanda and Burundi. Nevertheless, Rwanda and Burundi are incorporated in the recommendations because they are already part of the community since July 1, 2007.

Study findings offer important information that would help policy makers and negotiators identify and safeguard national manufacturing interests in the context of the EAC framework. In addition, the findings shed light pertaining to mechanisms that Tanzania would suggest for better implementation of the joint initiatives to improve competitiveness among manufacturing firms within the community while learning from other countries that have formed similar arrangements.

The next section of this paper defines regional integration and reviews literature on manufacturing. The third section develops trade models to measure Tanzania's manufactured export intensity and competitiveness and provides a brief discussion of data sources. The fourth section presents the empirical analysis using simple descriptive statistics and trade models. The fifth section concludes and gives policy recommendations after discussing the opportunities and challenges of Tanzania's manufactured exports in East African region.

## **LITERATURE REVIEW**

### **What is Regional Integration?**

Regional integration is a process in which states enter into a regional organization in order to increase regional cooperation and diffuse regional tensions. Past efforts at regional integration have often focused on removing barriers to free trade in the region, increasing the free movement of people, labour, goods, and capital across national borders, reducing the possibility of regional armed conflict and adopting cohesive regional stances on policy issues, such as the environment. Such an organization can be based either on supranational or intergovernmental decision-making institutional order<sup>i</sup>.

The Logic of integration among EAC Partner States is multi-faceted. It has a peace-building component, which aims to reduce conflicts through greater interdependence and co-operation, as well as putting in place region-wide security arrangements, to

enhance international bargaining power in the course of expanding and protecting East African markets. Furthermore, the integration aims to take economies of scale advantage through exploitation of development opportunities meanwhile conserving cultural heritages.

The performance of Tanzania's manufactured exports since the establishment of EAC in 2000 is worth-assessing because industrial development is among the twelve areas of cooperation identified in the 2001-2005 EAC Development Strategy and in contrast to agricultural commodities; manufactured products tend to experience more elastic demand and less volatile prices. Moreover, investment opportunities available in EAC Partner States exist in the manufacturing sub-sector (East African Community - EAC Trade Policy Review, 2006).

Determinants, intensity and competitiveness of a given country's manufactured exports in Regional Trading Arrangements (RTAs) like EAC can be best explained by the Orthodox Theory of the Customs Union and new trade theory based on Economies of Scale. The former is a conventional theory based on comparative advantages of a country whereas the latter is a modern theory explaining the advantages of trade due to large-scale production, cumulative experience and transitory advantages resulting from innovation. The two theories bear some similarity in the view that they both consider trade between countries and put emphasis on the advantages emanating from specialisation (Holmes et al., 2006; Brakman et al., 2006).

The difference between traditional and new trade theories is that, while it is generally accepted that traditional theories explain inter-industry trade sufficiently, they fail to explain intra-industry trade. At the level of inter-industry trade (basing on monopolistic competition), comparative advantage continues to be the dominant explanation of trade flows, whereas at the level of intra-industry trade, economies of scale become the dominant explanation of trade flows in differentiated products (Grubel and Lloyd, 1975). The new set of trade theories relaxes the assumptions of perfect competition and constant economies of scale and again supports the role of government intervention as an active policy to advance the international competitiveness of a country (Grubel and Lloyd, *ibid*). So this paper opts for these two theories in order to capture both components, i.e. dynamics and export intensity and then competitiveness of Tanzania's manufactured exports to other EAC Partner States based on the exploitation of comparative advantages found in the country.

### **The Orthodox Theory of the Customs Union**

In this theory, Viner (1950) argues that trade creation occurs when an RTA leads to greater specialization according to comparative advantage and thus a shift in production from high-cost (non-member nations) to lower-cost (member nations) sources. Trade diversion occurs when a customs union diverts consumption from goods produced at a lower cost outside the union to goods produced at a higher cost (but tariff free) within the union.

Regarding the latter theory, Sloman (2004) argues that at any cost, static effects (especially trade creation) are not guaranteed for countries with similar factor endowments, small markets and low incomes, undeveloped capital markets and different tax and regulatory arrangements. So it is worth-testing empirically the applicability of both, Viner's and Sloman's arguments in the context of EAC.

### **The New Trade Theory: Economies of Scale Argument**

Under the new trade theory economists argue that many industries experience increasing returns to specialisation because of the presence of substantial economies of scale. As output expands with specialisation, the ability to realize economies of scale increases and so the unit costs of production should decrease (Mill, 2002). This has been witnessed over the nineteenth and twentieth centuries. The argument is that since economies of scale are important for the production of manufactured goods, an increase in the size of the global economy makes it easier to recover fixed investment costs (Brakman, 2006).

Also Amponsah (2002) argues that RTAs present firms in member countries with the opportunity to exploit economies of scale through enlarged and more diversified markets. This implies that market access expansion among EAC Partner States should be an advantage to all countries' manufactured goods. Deep integration and associated externalities generate technology transfer, productivity gains and economies of scale (Smithian gains). Therefore, enhanced intra-EAC trade is expected to provide opportunities for Tanzania's manufacturing to achieve greater economies of scale and lower output prices as the firms capture larger markets for their products both at home and in other EAC Partner States.

Various researches (Elbadawi, 1998; Yoshino, 2007) prove that expanding manufacturing production is often considered as a necessary stepping stone to economic growth and development in developing and least developed countries. However, the empirical evidence in support of a country's manufacturing export intensity and the corresponding international competitiveness in the context of African

regional trade arrangements is not conclusive. The following part therefore reviews dynamics in terms of export intensity and then competitiveness of various countries manufactured exports basing on Orthodox theory of customs union and economies of scale argument.

Iapadre (2004) did a study using intra- and extra-regional trade intensity. In this study it is found that generally an increase in intra-regional trade intensity is associated with a fall in the corresponding index of extra-regional trade. In this study Mercado Común del Sur (MERCOSUR) is proven as the area with the highest level of intra-regional trade intensity, with an upward trend. The index for the Association of Southeast Asian Nations (ASEAN) was approximately equal to that for the European Union (EU) whereas North American Free Trade Area (NAFTA) appears the region with the lowest intra-regional trade intensity.

In another similar study, Okabe and Urata (2007) analyse the impacts of Free Trade Arrangements (FTAs) on trade flows. The results in this study show that trade intensity increased after the establishment of FTAs for the NAFTA, the MERCOSUR, Centre for European Reform (CER) and the ASEAN Free Trade Area (AFTA). It is further found that trade intensity for Japan-Mexico increased rather noticeably in 2005 after the enactment of Japan-Mexico FTA. MERCOSUR shows the strongest intra-FTA trade relationship, as the trade intensity figure is recorded at 7.8, CER (5.6) and AFTA (4.5). Also Gries and Naude (2004) using Random-Effects (RE) Tobit Model find foreign market access a significant determinant of South Africa's manufactured exports. These findings imply that a direct relationship may appear between transborder costs (which include tariff and non-tariff barriers) and export performance.

In the assessment of winners and losers from regional integration agreements, Venables (2002) uses generalized Ricardian Model and Heckscher-Ohlin Armington model and finds that if manufacturing starts from small base and if factors complementary to manufacturing (for example, provision of business services, telecommunications and infrastructure) are thinly distributed, then the likelihood of manufacturing development agglomerating in few locations is relatively high. Also Yoshino (2007) finds that Africa's manufacturing sector is mainly constrained by supply side and foreign market access factors, which include internal transport costs and physical infrastructure ranging from roads, ports to energy and telecommunications. The knowledge gap in these studies is that they do not depict empirical evidence from East Africa.

Findings in previous studies done by Komba (1999) using comparative analysis approach, Semboja (2007) using Porter Probit Model, Söderbom and Teal (2001) using simple descriptive statistics and Yoshino (2007) using Tobit Model, generally reveal

that overvalued exchange rates and constraints on imports can make exporting unprofitable for nearly all products not only, or mainly, for manufactured ones. Also Gylfason (1998) uses cross-sectional regression analysis and finds that real exchange rate is inversely related to inflation as long as the adjustment of nominal exchange rate to prices is not instantaneous. These findings are in consistence with those of Mbelle (2000) and Mwaigomole (2009) whose arguments are that Tanzania's manufacturing performance and the corresponding exports competitiveness have been mainly constrained by limited production capacity. They also mention such other factors as weak trade promotion stance, high costs of utilities, lack of dynamic entrepreneurial sector and poor infrastructure are detrimental to the competitiveness of the country's manufactured exports. Given the methodologies that all these studies used and the time that has elapsed specifically for the studies by Komba (1999), Mbelle (2000), Söderbom and Teal (2001), it is worth-testing competitiveness of Tanzania's manufactured exports in the framework of the newly established EAC.

Davis and Weinstein (2003), argue that manufactured exports are determined by increasing returns, rather than comparative advantage as in the standard trade theory. Davis and Weinstein find that costs associated with manufacturing performance include market information (through soft infrastructure), launching overseas sales-promotion campaigns and adapting products to foreign markets. These costs can be particularly severe for smaller firms. In comparison large firms may be better placed in expanding abroad as they have more resources with which to enter foreign markets.

Yoshino (2007) in an empirical study of domestic constraints of firm-level manufacturing exports in Africa argues that firm economies of scale (firm size) are "a robust determinant of export participation and explains firm's export intensity." The analysis of Turkey's industrial competitiveness is not put into a comparative perspective as the Middle East and North African countries that Turkey is compared with are relatively not that strong in the manufacturing sector. Nonetheless, Albaladejo suggests that Turkey should improve the investment environment, develop local capabilities and establish stronger links to global markets.

In another similar study, Albaladejo (2004) uses Manufactured Export Competitiveness (MEC) index to assess industrial competitiveness of West China. The results show that the index values for Sichuan, Shaanxi & Yunnan in 2002 were 0.2887, 0.2550 and 0.1115 respectively. Hence, Shaanxi has the strongest export base of the three provinces, yet it presents weaknesses in the technological upgrading of its exports. The author concludes that these provinces have a great industrial potential given their rich natural resources and an abundant and cheap labour. This implies that Tanzania is

likely to have a comparative advantage in resource-based and labour-intensive manufactured exports within EAC.

From the reviewed studies it is vivid that a country's export intensity and competitiveness in foreign markets are influenced by factors internal and external to both exporting firms and the country at large. Mwaigomole (2009) puts forth two stages as regards such factors. The argument is that sources of trade intensity and competitiveness would be drawn from factor-driven and investment driven stages. At the factor driven stage, the exporting firms and the country as a whole should own basic production factors such as natural resources, cheap and skilled labour and networks to global markets. At this stage, industries in factor driven economies like EAC Partner States compete using relatively cheap and unsophisticated technologies. On the other hand, the investment stage is characterized by the ability of a country's industry to absorb and improve the technology. Some Asian countries and other countries like Argentina, Brazil and Mexico fall under this stage of competitive advantage.

Generally, RTAs like the EAC are expected to increase country's intra-regional trade intensity at the expense of extra-regional trade intensity. The assumption is that sources of production and exports shift from high-cost (non-RTA Partner States) to lower-cost (RTA Partner States). RTAs normally enable the country to specialize by using her comparative advantages. In this case, firms' production efficiency improves and enables them realise economies of scale, which in turn increase their export intensity and competitiveness. So it is very important to find out if this is happening to Tanzania's intra-EAC manufactured exports.

## **METHODOLOGY**

In order to assess the influence of EAC on the performance of Tanzania's manufactured exports in the region, the study uses simple descriptive statistics, intra-regional trade intensity and regional competitiveness model. The simple descriptive statistics is used to observe dynamics of Tanzania's manufactured exports before and after the establishment of the current EAC. The latter analysis is supplemented with the measure of Tanzania's share in intra-EAC manufactured exports by modifying the models (indices) used by Venables (2002), Iapadre (2002), Okabe and Urata (2007). The competitiveness of Tanzania's intra-EAC manufactured exports is empirically measured by bringing into the model the context of international competitiveness (or specialization).

In order to keep in line with the Orthodox theory of customs union and the new trade theory (Economies of Scale argument) that were introduced earlier, the following trade intensity model and competitiveness (specialization) model are tested. This is intended to find out if what happens in other countries pursuing RTAs also happens in Tanzania. The results will certainly prove convergence or divergence between the employed theories and what is really happening on the ground in respect of Tanzania's manufactured exports to EAC Partner States.

Trade intensity model (also termed as index), pioneered by Brown (1949) and elaborated by Iapadre (2004) can best serve the purpose of this study. In its simplest form, the *intra-regional trade intensity index* of the region  $i$  ( $I_i$ ) is equal to the ratio between the intra-regional trade share ( $S_i$ ) and the region's share in world trade ( $W_i$ ):

$$(1) \quad I_i = S_i/W_i = (t_{ii}/t_i) / (t_i/T),$$

where:

- $t_{ii}$  = region  $i$ 's intra-regional trade
- $t_i$  = region  $i$ 's total trade
- $T$  = world trade

This index is equal to one if the region's weight in its own trade is equal to its weight in world trade (caused by *geographic neutrality* which means absence of preferential directions in trade flows). On the contrary, if intra-regional trade is relatively more important than trade flows with the rest of the world, as it is usually the case, the intra-regional trade intensity index is higher than one. If a region's intra-regional trade intensity is higher than one, it implies that the region's trade is 'specialized', i.e. relatively more oriented, towards its member countries than towards the rest of the world.

The intensity of Tanzania's share in intra-EAC manufactured exports in relation to world's manufactured export share in EAC, ( $T_{EAC}$ ) is measured by modifying the intra-regional trade intensity model found in Iapadre (2004) into the following form:

$$(2) \quad T_{EAC} = (X_{T-EAC}/X_t) / (X_{W-EAC}/X_{Wt}),$$

where:

- $X_{T-EAC}$  = Tanzania's manufactured export share in East African region
- $X_t$  = Tanzania's total manufactured exports
- $X_{W-EAC}$  = World manufactured exports to EAC Partner States
- $X_{Wt}$  = World total manufactured exports

$T_{EAC}$  is equal to one if Tanzania's weight in intra-EAC manufactured exports is equal to world's weight in EAC manufactured exports. The index is higher than one if Tanzania's intra-EAC manufactured exports are relatively more important than

manufactured export flows with the rest of the world. This measure helps to know the dynamics of Tanzania's manufactured exports and the significance of EAC markets in relation to the markets of the rest of the world. EAC is expected to have shifted Tanzania's manufacturing production and exports from high-cost (non-member nations) to lower-cost (EAC member nations) sources.

International competitiveness model (also termed as index) or specialization index used by Lundberg (1988) helps to measure Tanzania's advantage or disadvantage in selling her manufactured products in EAC markets. If Tanzania is a net exporter in manufactured products, then  $R_i$  is greater than 1; the higher the  $R_i$  the greater net exports are relative to domestic consumption, and the stronger the competitiveness in Tanzania's manufacturing sector and the degree of specialization on the manufactured products. Thus, the formula takes the form:

$$(3) R_i = Q_i / C_i = (C_i + X_i - M_i) / C_i = 1 + (X_i - M_i) / C_i,$$

where:  $C_i$  = domestic consumption

$Q_i$  = domestic production

$M_i$  = imports

$X_i$  = exports

$i$  = products of industry  $i$ .

## **FINDINGS**

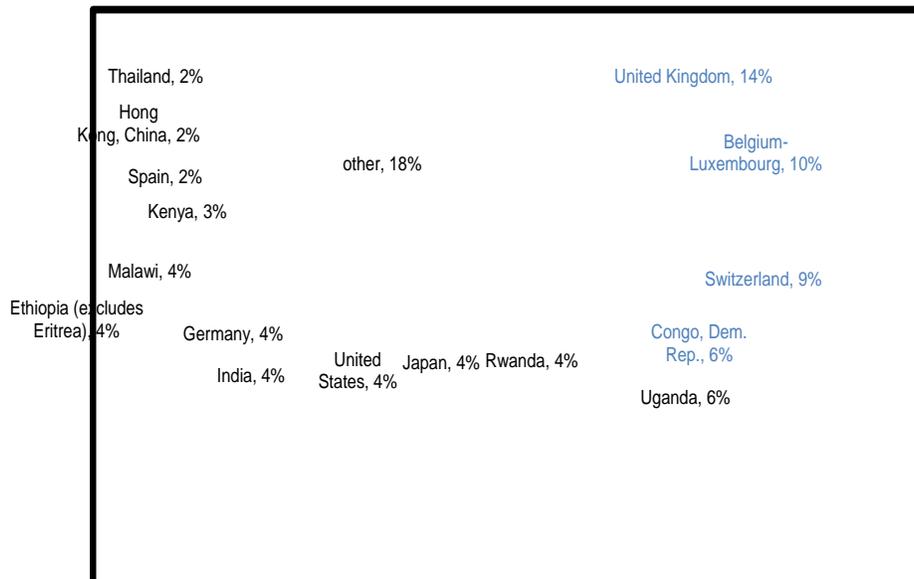
Data generating export intensity and export competitiveness were obtained from Tanzania Revenue Authority (TRA) and international trade statistics of the World Trade Organization (WTO). Since the indices (2 and 3) intend to measure the extent to which EAC has influenced the performance of Tanzania's manufactured exports, the study uses annual time series secondary data covering the period of eight years, i.e. from 2000 when the establishment of EAC was ratified to 2007. This aims to make the study empirically relevant and coherent.

This section presents empirical findings with regard to the performance of Tanzania's manufactured exports in the context of integration among EAC Partner States. The study first looks at the dynamics of Tanzania's manufactured exports using simple descriptive statistics, the analysis which is supplemented with export intensity index and international competitiveness index of Tanzania's manufactured exports within East African Region. The empirical findings are presented as follows.

### Dynamics of Tanzania's Manufactured Export Markets

In 1997, the United Kingdom, Belgium-Luxemburg, Switzerland and the Democratic Republic of Congo were the four leading export markets accounting for more than 50 percent of Tanzania's manufactured exports (Figure 1). The lead of these four countries could be attributed to the fact that EAC treaty was not yet in existence and during 1990s (during Lome IV Convention); Tanzania had already started enjoying trade preferences from the European Union (EU) of which the United Kingdom and Belgium-Luxemburg are members. Also by then Tanzania was still a member of Common Market for Eastern and Southern Africa (COMESA) Preferential Trade Arrangement of which the Democratic Republic of Congo was also a member.

**Figure 1: Tanzania's manufactured export markets, 1997**

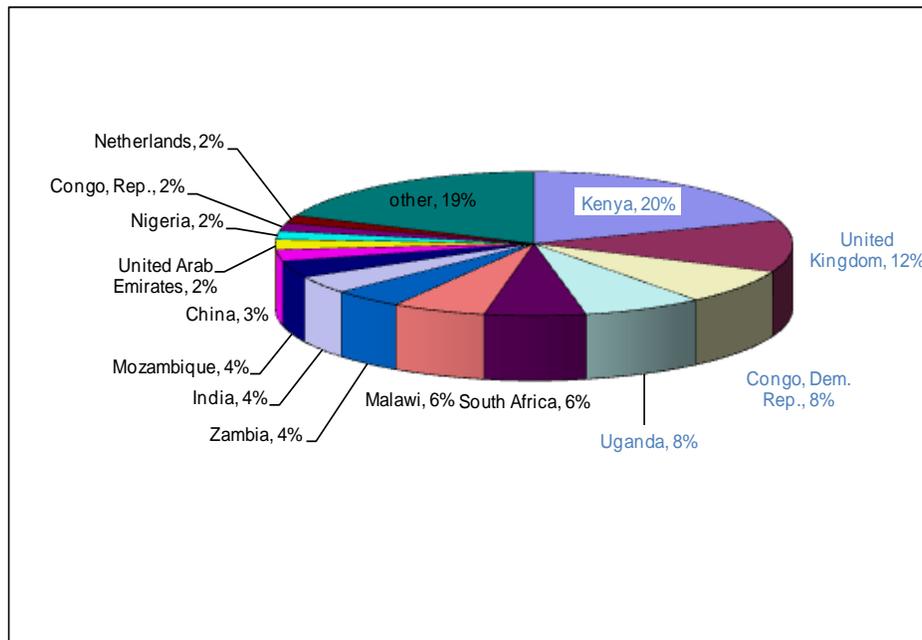


Source: United Nations Commodity Trade Statistics (UN COMTRADE) Database, 2007

A comparison of manufactured export markets in 1997 and 2006 (Figure 1 and 2) reveals a change in Tanzania's manufactured export markets. In 2006 the lead destinations of Tanzania's manufactured exports had changed to Kenya, United Kingdom, the Democratic Republic of Congo and Uganda in that order; the four leaders accounted for close to 50 percent of Tanzania's manufactured exports. If the United Kingdom (which had already granted Tanzania free market access through European Union's Everything but Arms (EBA) initiative is left out, the remaining three lead destinations of Tanzania's manufactured exports belong to the Sub-Saharan Africa.

This outcome suggests that Tanzania is probably embracing the strategy of south-south cooperation, including the implementation of EAC treaty that entered into force in 2000. In fact, of the remaining 10 export markets in 2006, 8 were southern countries, 1 a middle Eastern country and another 1 a European country.

**Figure 2: Tanzania's manufactured export markets, 2006**

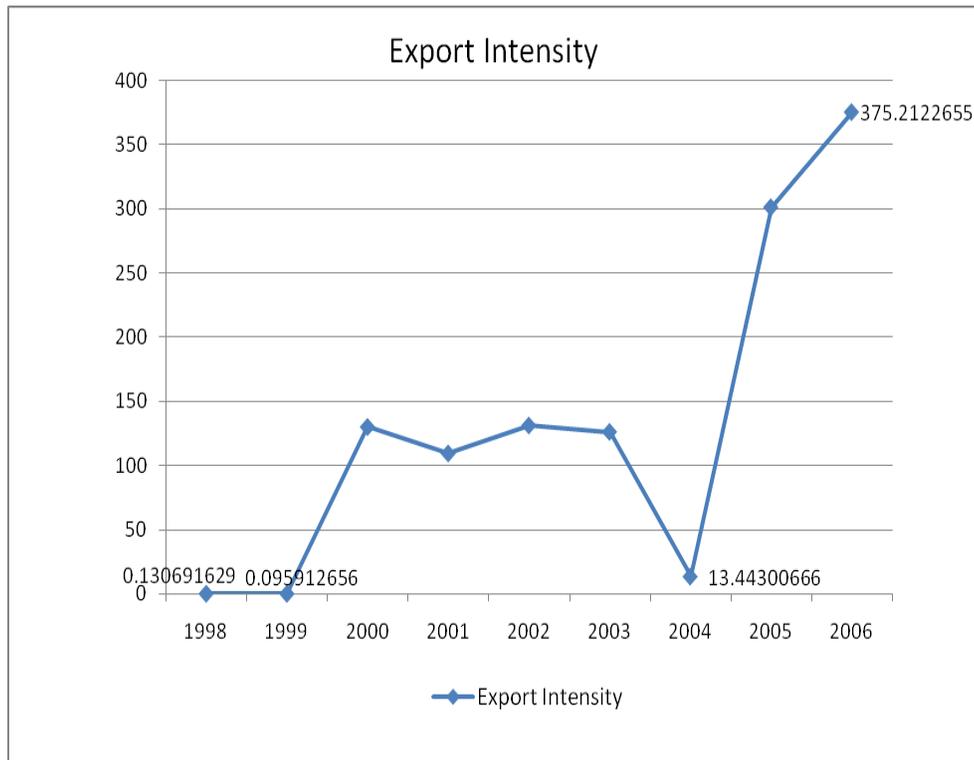


Source: United Nations Commodity Trade Statistics (UN COMTRADE) Database, 2007

### Tanzania's Share in Intra-EAC Manufactured Exports

Although the explanations accompanying Figure 2 indicate that Tanzania's intra-EAC manufactured exports have increased, the significance of EAC market over the world market for Tanzania's manufactured exports must be examined. This can be tested empirically using model 2 which measures Tanzania's intra-EAC manufactured export intensity in relation to the world's EAC-manufactured export intensity. The results for the test are given in figure 3.

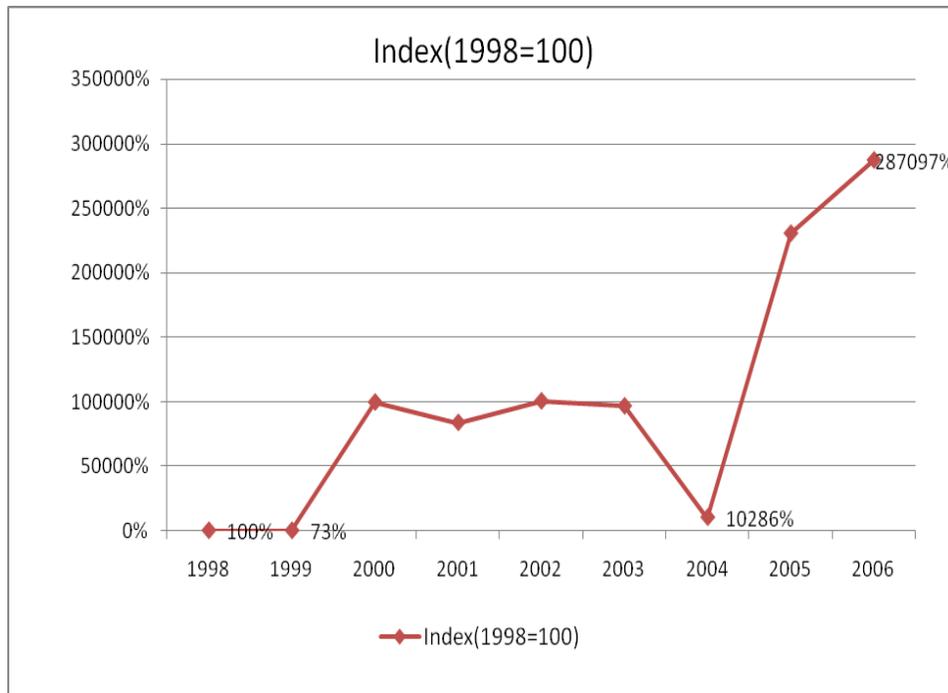
**Figure 3: Tanzania's versus world's manufactured export share in EAC**



**Source:** Author's Construct by Using Data from TRA and International Trade Statistics, 2007

Figure 3 shows that before the ratification of EAC treaty (1998 and 1999), Tanzania’s weight in intra-EAC manufactured exports was less than its weight in world manufactured exports intensity whereas from the ratification of that bloc in 2000 onwards, the trend became opposite, taking the upward movement. This suggests that there are factors that generate a preferential orientation in manufactured export flow in the framework of EAC. In Figure 4, we examine the way manufactured export intensity has been growing.

**Figure 4: Growth of manufactured export intensity**



**Source:** Author’s Construct by Using Data from TRA and International Trade Statistics, 2007

Similarly Figure 4 shows that before the ratification of EAC treaty (1998 and 1999), the growth of Tanzania’s manufactured export intensity was well below 100 percent where as from 2000 to 2006 export intensity though volatile, was significant and grew above 100 percent (i.e. above unit). This index is larger than expected, given the partner countries’ importance in world trade. No matter the growth of export intensity

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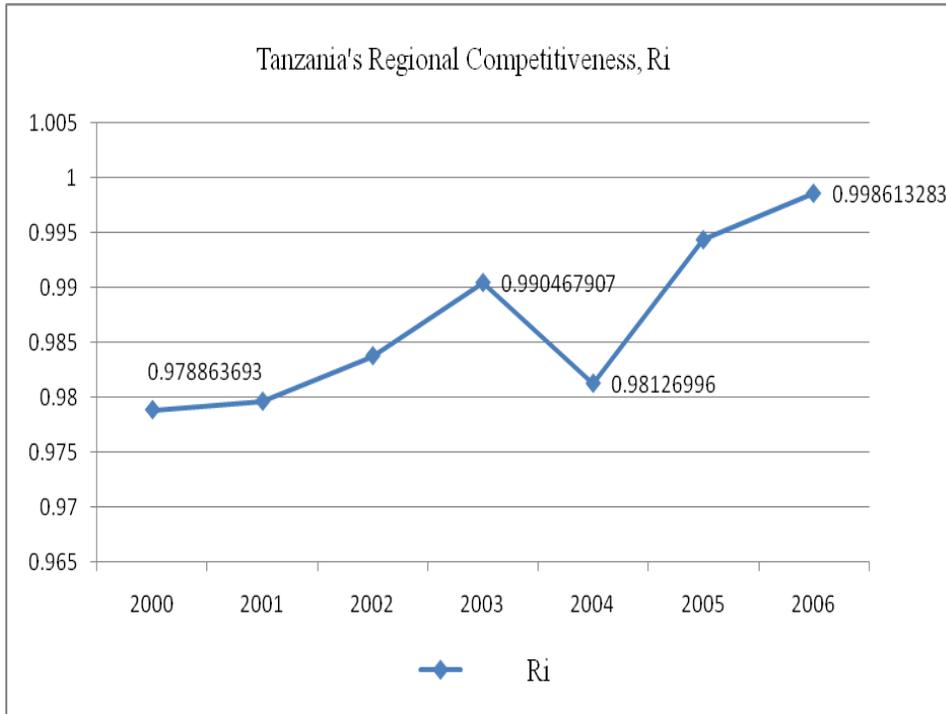
from the year 2000 to 2006, Tanzania's manufacturing firms remain dominated by light, resource based industries: food, beverages, tobacco, textile and leather industries and recent investment trends provide no indication of significant shifts in resource allocation (Economic Survey, 2006). The dominance of light, resource based industries could be attributed to the country's concentration on sectors other than manufacturing, particularly agriculture (Mwaigomole, 2009). Unlike agriculture, manufacturing has comparatively experienced much more supply side obstacles arising from an increase in oil prices, regular power cuts, lack of and in some cases obsolete technology that limits the production of capital goods, lack of capital among entrepreneurs and unfair competition from cheap imports (Mbelle, 2000; Mwaigomole, *ibid*).

Results pertaining to export intensity and its growth correspond to the findings put forward by Iapadre (2004) that generally an increase in intra-regional trade intensity is associated with a fall in the corresponding index of extra-regional trade. In line with the same results, Okabe and Urata (2007) who analysed the impacts of free trade arrangements on trade flows find that trade intensity increased after the establishment of FTAs for the NAFTA, the MERCOSUR, CER and the AFTA.

### **Competitiveness of Tanzania's Intra-EAC Manufactured Exports**

Despite the increase in Tanzania's weight in intra-EAC manufactured exports (as shown in Figure 3), there is a need to find out if Tanzania's manufactured exports have been competitive since the revival of the current EAC in 2000. Thus, Figure 5 sets out the results from model (index) 3 which measures the competitiveness of Tanzania's manufactured products in EAC markets.

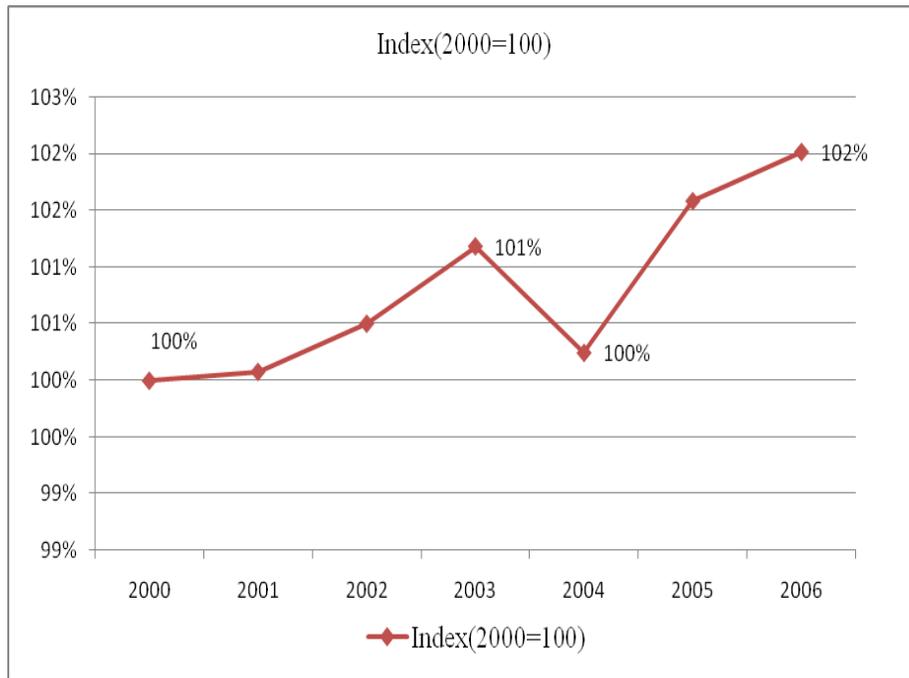
**Figure 5: Tanzania’s intra-EAC manufactured export competitiveness**



**Source:** Author’s Construct by Using Data from TRA and International Trade Statistics, 2007

The results in Figure 5 show that the competitiveness index,  $R_i$  of Tanzania’s manufactured products in EAC markets has all along (since the revival of EAC) been below unit ( $R_i$  is less than one from 2000 to 2006). This implies that Tanzania consumes more of the manufactured exports from other EAC Partner States than it exports to the same markets. Therefore, Tanzania’s specialization on manufactured exports is still low and the competitiveness of these products in EAC markets is not strong. However, this argument on competitiveness index is not wholly enough to explain the advantage of EAC as regards Tanzania’s manufactured exports. Thus Figure 6 gives more illustrations with regard to competitiveness growth of Tanzania’s manufactured exports.

**Figure 6: Growth of Tanzania's intra-EAC manufactured export competitiveness**



**Source:** Author's Construct by Using Data from TRA and International Trade Statistics, 2007

The results in Figure 6 show that, except in 2004, the competitiveness of Tanzania's manufactured exports has an upward trend (positive growth) since 2000. This upward growth implies that although  $R_i$  is less than one, Tanzania has great manufacturing potential given its rich natural resources plus abundant and cheap labour. Those results are similar to those of Albaladejo (2004) who finds Shaanxi to have a strongest industrial base regardless of the weaknesses in technology upgrading of its exports.

The fall in Tanzania's competitiveness in 2004 could be attributed to internal factors that led to the fall in production of manufactured products of export interest to Tanzania. Such factors have intensively been reviewed somewhere else (see for instance, Mbelle 2000; Mkenda, 2005; Semboja, 2007; Mwaigomole, 2009) and are therefore peripheral to the focus of this study. Manufactured exports that were detrimentally affected in 2004 include aluminum products, corrugated iron sheets, paints, textiles, sisal ropes, wheat flour and sugar (Economic Survey, 2004).

### **CONCLUSION AND RECOMMENDATIONS**

With regard to the influence of EAC on Tanzania's manufactured exports, the analysis indicates that the integration among EAC Partner States significant. The most outstanding performance effects manifest themselves in the shift of markets for Tanzania's manufactured exports, increased manufactured export intensity and some increase in competitiveness during the period of integration (2000 to 2006).

The study findings are to a great extent consistent with the reviewed theories of international trade. For instance, Viner (1950) in the Orthodox theorem of customs union, argues that trade creation occurs when an RTA leads to a shift in production from high-cost (non-member nations) to lower-cost (member nations) sources. In this regard, EAC is a building block for Tanzania's manufactured exports as the performance of Tanzania's manufactured exports, at least at the aggregate level improved after the establishment of the current EAC.

Much as research findings show some progress made in terms of the performance of Tanzania's manufactured exports, still the country plus her EAC counterparts have a number of challenges to deal with in order to make the integration more lucrative. For example, apart from having EAC's implementation of infrastructure projects, intra-EAC infrastructure links are not yet satisfactory. Worse still more other challenges that Tanzania's manufacturing sector is facing are internal and they inhibit effective implementation of the national trade policy. Tanzania has for instance, not yet prepared a national framework for making effective use of aid for trade facility that takes into consideration with synergies on issues that are covered in the enhanced integrated framework and addressing the gray areas. Tanzania has high levels of unemployment and markets are fragmented due to poor infrastructure, therefore aid for trade initiative is an appropriate step to build sufficient capacity to enable the country's effective participation in intra and extra-EAC trade.

Multiplicity of objectives is another factor that hinders the implementation of trade policy in Tanzania. This is because Tanzania's concentration on domestic development is to a great extent disturbed by its effective involvement in two regional

groupings (i.e. SADC and EAC) whose objectives are overlapping. These groupings consist of different and sometimes incompatible agenda items that can hardly be coordinated and harmonized. For instance, the implementation of the *planned* common external tariffs of SADC and the already existing common external tariffs of EAC are likely to conflict with interests of some members and thus common external tariffs will be very hard to administer.

The differing initial levels of development and the varying stages and outcomes of policy reforms hold back the level and speed of regional integration. Moreover, EAC still comprises five small and fragmented markets; there are four Least Developed Countries (LDCs) and only one non-LDC developing country (Kenya) all experiencing different rates of inflation and hence asymmetric shocks which normally have a detrimental impact on the prices of not only manufactured exports but also on all other types of exports. This is likely to make some countries feel unequally benefiting from the community.

EAC still does not have a strong supra-national institution and adequate sanctioning mechanism to punish member states pursuing policies which conflict with the Articles of agreements. For instance, Article 15 of the protocol which requires the removal of Non Tariff Barriers (NTBs) is highly violated. Moreover, the mechanism for identifying and monitoring removal of non-tariff barriers which are a threat to Tanzania's manufactured exports is not yet in place.

### **Recommendations**

The researcher considers Tanzania and the EAC as a whole as a sleeping giant with a lot of potentials to curb the aforementioned challenges and other problems relating to research findings. They have a lot of opportunities to exploit and capabilities to take all partner states to greater heights of economic success. So taking into consideration the available opportunities, the researcher has the following to recommend.

The current EAC is very different from the former one. First, it is very different because currently there is an active involvement of private sector in the formulation of decision and protocols, as there are increased outreach programmes to educate East Africans on the benefits of integration. Secondly, on July 1, 2007 Rwanda and Burundi joined the EAC and thus made a number of EAC Partner States amount to five. With respect to market expansion, Viner (1950) suggests that significant gains might be associated with economies of scale in the formation of RTAs. Therefore, the accession of more members like Rwanda and Burundi to the community should be used as an

opportunity. The outreach programmes should also be used to educate East African manufacturers how to realise economies of scale through enlarged and more diversified markets in order to have a substantial bearing on their manufactured exports within and outside the region.

With the renewed and reinvigorated East African Community it is envisaged that market for Tanzania's manufactured exports will expand. The realization of a large regional economic bloc encompassing Burundi, Kenya, Rwanda, Tanzania and Uganda with a combined population of 120 million, land area of 1.85 million square kilometers and a combined gross domestic product of US Dollars 41 billion, bears great strategic and geo-economic significance with respect to performance of Tanzania's manufacturing sector. So in order to make market expansion meaningful EAC Partner States should avoid multiplicity of objectives caused by their memberships in other regional groupings like SADC and COMESA because these will eventually hinder the implementation of trade policies in all countries. For instance, it is almost impossible to master several customs unions, so member states should look for best ways to harmonize policies in these different regional groupings or alternatively stop multiple memberships.

Market expansion is more attractive to Foreign Direct Investment (FDI) and stimulates more domestic economic activities through competition among the firms in EAC Partner States which normally leads to a search for new technologies to improve production and trade. Moreover, EAC Partner States are more likely to be synchronized because they produce more-or-less similar manufactured products and trade extensively with each other. This similarity is likely to make them face similar problems (symmetric shocks) and ultimately require similar policies. So EAC Partner States should attempt to upgrade the capacity and export quality of manufacturing companies which are largely dominated by small exporters. They should as well reconsider types of FDIs that all EAC Partner States receive. For instance, the impact of FDI on development and promotion of value adding activities in Tanzania is still negligible and insignificant.

For the country like Tanzania the cost of sacrificing policy independence will decline with the degree of integration with the EAC Partner States. EAC Partner States should therefore capitalize on benefits emanating from the adoption of similar policies which include: eliminating exchange rate volatility, eliminating currency conversion costs and consequently reducing trade costs. It is hypothesized that trade between countries using the same currency can be up to three times greater than between countries using different currencies.

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As regards market access, currently manufactured exports originating from Tanzania to other EAC Partner States are duty free provided that they satisfy the EAC Rules of Origin. The EAC is likely to provide a level playing field for the region's producers by imposing uniform competition policy and law, customs procedures and external tariffs on manufactured products imported from third countries, which should assist the region to advance its economic development and poverty reduction agenda. So EAC Partner States should expedite the implementation of such infrastructure projects as East African Road Network, East African Power Master Plan and Lake Victoria Environmental Management Program in order to create meaningful avenues for entrepreneurs in the manufacturing sector. On her part, Tanzania has to see to it that internal markets are well networked.

Therefore, the usefulness of trade among EAC Partner States is indisputable in this era of "knowledge economies", that is under the age of globalization. The fact is that trade facilitates efficiency through each country doing what is better at and it also facilitates specialization which in turn facilitates economies of scale and possibilities for mass production at low and falling costs. So Tanzania and all other EAC Partner States should try hard to resolve manufacturing restraining challenges and exploit the available opportunities.

#### **SCOPE OF THE STUDY AND FUTURE RESEARCH**

The study was limited to the influence of the newly established EAC on Tanzania's manufactured exports in terms of export intensity and competitiveness within the region. The analysis was at the aggregate level to allow generalisations. Taking into account the importance of manufacturing, it is expected that the findings of this study will prompt more researches in this sector. Future researches should therefore analyse this sector at the product category and individual product levels to enable the country and entrepreneurs identify areas for specialisation. Research on Tanzania's regional performance of such products in comparison with other EAC Partner States is also important to help the country establish the mandate regarding offensive and defensive interests for bilateral, regional and multilateral (particularly WTO) business and trade negotiations.

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#### **END NOTE**

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<sup>i</sup> Obtained from [en.wikipedia.org/wiki/Regional\\_integration](http://en.wikipedia.org/wiki/Regional_integration) as on October 26, 2008