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WHAT BENEFITS CAN TANZANIA DERIVE FROM THE EAST AFRICAN COMMON MARKET (EACM) ARRANGEMENT?

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INTRODUCTION

The East African Community (EAC) currently comprises 5 member states: Tanzania, Burundi, Rwanda, Uganda and Kenya. The region has a population of about 138 million people, with per capita Gross Domestic Product (GDP) of about US$560. The proposed EAC's regional integration process included formation of a Free Trade Area; a Customs Union; a Common Market; a Monetary Union and further reaching a Political Federation. Currently, the region has reached implementation of a Common Market (CM) for which a protocol came into effect on 1st July 2010.

I. ASSUMPTIONS AND EXPECTATIONS IN THE INTEGRATION PROCESS

From theory and experiences around the world, economic integration success with particular reference to the common market is premised on the belief that participating countries are in agreement to coordinate and manage their fiscal, trade, investments and monetary policies in ways that are mutually beneficial to all of them (Sir Arthur Lewis-1965). It is further assumed that: (i) all countries in the economic integration process have wide varieties of goods and services from which to choose, (ii) acquiring goods and services can be done at much lower costs than in a single country market, especially with removal of trade barriers and reduction or removal of tariffs completely, (iii) along the route of integration, the countries would find it easy to get into further agreements and will stick to them (C. Kapoor – Benefits of Economic Integration), (iv) FDIs would be attracted due to the larger market's economies of scale in production and selling, (v) the pool of skilled labour and managerial expertise would be more plentiful as it is mobile across the borders etc. Similar merits were claimed in other common market arrangements like the EU, which provide relevant lessons as to what did or did not work. Indeed, back home the erstwhile East African Community (EAC) that collapsed in 1977, though it did not mature to a full fledged common market, had many similar elements of the economic cooperation.

In accordance with the provisions of the EAC Treaty Protocol, it provides for progressive implementation of: (i) Free movement of goods, services and persons, (ii) The right of establishment, (iii) The right of working and residence, (iv) Free movement of capital, (iv) Harmonization of Academic and Professional Qualifications, (vi) Economic, Financial and Specific Sector Cooperation, (vii) Competition and consumer welfare; and others.

Functional cooperation existed under the defunct EAC by sharing specific public services for synergic advantages. The East African Railways, Airways, Telecommunication and Posts were shining examples. At the moment there are some functional service elements from which specific and sector cooperation can be expanded. These include: (i) Lake Victoria Basin Commission, (ii) Civil Aviation Safety and Security Oversight Agency, (iii) Lake Victoria Fisheries Organization, (iv) Inter-University Council for East Africa, (v) East African Development Bank and (vii) The East African Court of Justice.

II. TAKNET DISCUSSIONS

In Tanzania, though participation in the East Africa integration course is widely supported, this consensus is only a general feeling. When it comes to details, differences and sometimes open opposition emerge. The Economic and Social Research Foundation (ESRF) has thus initiated a TAKNET discussion on the benefits of common market arrangements and by implication challenges that lie ahead for Tanzania. This is a topic that is opportune for Tanzania and it is very pertinent under the ESRF mandate. Specifically, the TAKNET topic moderators asked participants to focus more on the following issues:

- What should the Tanzanian government (and citizens) do in order to increase gains while minimizing losses from the common market arrangement?
- What is the comparative advantage that Tanzania needs to capitalize on?
- What opportunities are available for Tanzania in the Common Market arrangement?
- Labour Movement: How effective is it in facilitating development for the EAC economies?

The TAKNET discussion attracted a large number of participants. In total, 62 contributions were made from 23 participants. The comments were quite rich and noteworthy. The contributors addressed the moderators' questions: most did so directly and others in a winding way. On the other hand, contributors leaned more on the risks under the East African Common Market (EACM) than on the benefits that Tanzania is likely to derive from the EACM process, although these can be easily identified in the Market Integration Protocol of 2010.

The following topics received ample coverage in the TAKNET discussion: (a) opportunities and threats entailed in the EACM arrangement, (b) the scope of the domestic and external markets , (c) the environment and cost of doing business in Tanzania, (d) Key Sectors that need most attention, (e) migration, employment and the land issues, (f) need for strategizing in leveraging Tanzania opportunities and (g) the mind-set of Tanzanians (viz. education, language, private sector attitude and assertiveness).

The Common Market Opportunities and Threats

The benefits and opportunities presented within the Common Market arrangement had been identified, negotiated and recognized in the EAC Market Integration Protocol. They were implied in the moderators' opening remarks.

We start with potential benefits. Those identified by TAKNET contributors included the following: (i) the large internal market of Tanzania is able to attract other East African exporters thereby helping in lowering the prices to the domestic consumer, (ii) the availability of large tracts of arable land being able to absorb enterprising farmers from other East African countries (and thus help in raising farm productivity through the demonstration effect and production partnership), (iii) free movement of goods and people (with open and safe cross border trading) allows our farmers to get higher prices for agricultural products from the farms, forests and waters,(iv) power interconnection becoming easier and allowing domestic consumers enjoy cheaper prices on electricity imported from our neighbours, with some of the interconnection lines jointly financed with investors from the neighbouring countries, (v) taking more advantage of Tanzania's geographical location to service neighbouring countries by utilising out ports of DSM, Tanga and Mtwara and the railways that link them.

Despite the potential benefits cited above, there are still many Tanzanians out there whose fears about the EACM need to be allayed. Hebron Mwakalinga mentioned the dangers of rushing things with deadlines, fast tracking[1] , etc, instead of moving steadily as the European Union (EU) did. He also points to lurking dangers such as revealed in the recent financial turbulences and budget crunches in Greece, Portugal, Ireland and Spain, all members of the EU. Other contributors added the following concerns: (i) ill-equipped youth to compete for jobs with counterparts from Kenya or Uganda who are more audacious and possibly better educated (John Butoyi, Anthony Gikuri), (ii) scanty or no information on market opportunities to producers and traders, (iii) deficient transport and marketing facilities to convey products or services to neighbouring countries (Kabuje Furaha , Deo Mutalemwa, et al) (iv) high relative prices of Tanzania goods and (v) fear of large scale farmers and land grabbers (Salatiel Moyo).

The Domestic Market and External Markets

Tanzania produces for both the domestic and foreign markets. Food crops (such as maize, rice, millet/sorghum, cassava, bananas and sweet potatoes) and animal products have in the past essentially been consumed domestically, and traditional cash crops (like coffee, sisal, cotton, cashew nuts, and tobacco) exported overseas. Over the years, however, things have changed considerably. Cash crops are in part processed for the home market and food and livestock are now increasingly being sold in the neighbouring countries. With its varied climate and vast land resources, often of rich soils, Tanzania can produce much more to satisfy its large internal food demands. Based on economies of scale advantage, she can at the same time step up production and sales to meet a significant demand from the neigbouring countries for unprocessed as well as processed food items, with the latter benefiting from low transportation costs due to distance, if the production takes place in Tanzania border regions (reason for setting up Economic Processing Zones(EPZs) in those regions). A large domestic market is advantageous for starting up and expanding export-oriented agro-processing (e.g. for value addition in grains, leather, wood products, fruit beverages, cotton, etc.). The large size of Tanzania's agricultural sector can also benefit from the EAC market protocol facilities in procurement of agro-inputs as neighboring countries deliver them without tax and with competitive transportation costs and delivery schedules.

While mentioning some of the above EACM benefits, TAKNET discussants pointed out five inconsistencies and issues as follows: (i) that before looking beyond our borders, we have to satisfy our domestic market - it is the largest domestic market (still unsaturated) in the EACM that is now incessantly targeted by neighbouring countries' producers, resulting in our supermarkets getting full of imported foodstuffs (mchicha, tomatoes, tomato ketchup , Arab and Kenyan juices and water, etc) that can be produced locally (Angomwile Fungo, Omari Khamis ,and Mwiru Sima); (ii) the lack of value addition on our small farmers' produce leads to low sales income or even losses such as fruits in Tanga; (iii) our knowledge and information

1.*For details also see Fast Tracking East African Integration by T.N. Kibua and A. Tostensen (CMI) Oct.2005*

on market potentials in the neighbouring countries is limited (Monica Hangi and Mwiru Sima); (iv) several contributors decried the poor transport infrastructure such as inefficient rail and port operations or what exists in roads is not geared to support agricultural surplus and/or inputs transportation, and (v) there are other types of infrastructure bottlenecks like unreliable power supply, poor marketing credit facilities and poor rural access to ICT facilities.

As Mwiru pointed out "There are a lot of market opportunities out there, what we need to do both government, private sector, individuals, etc. is to act so fast and continuously scan the environment, analyse our competitive and comparative advantage, and use the information to maximize on available opportunities." We can't simply brag about the EAC market being so large with 138 million inhabitants (i.e. consumers) and a GDP of about US$ 77 billion, and then stop there.

The Environment and Cost of Doing Business in Tanzania

The quality of the business environment affects the cost of doing business and thus a country's attractiveness to investors and its international trading competitiveness. World Bank Statistics (2011 Doing Business Report) inform that the rating of Tanzania worldwide is very low, at Number 128 overall out of 183 economies/countries surveyed (thus outpaced by Kenya and Uganda in the last two years). For instance in Starting Business, Tanzania is placed at Number 122, Getting Credit 89, and Trading across the Borders at 109. Not much change has been taking place in the last few years, although cross border trading has improved slightly.

For Tanzania, the cost of an inefficient business environment is estimated to be very high in international comparison: amounting to 25 percent of sales; this is due to things like the difficulties and cost of contract enforcement, regulation, bribes, crime, and unreliable or poor infrastructure (e.g. roads, railway and ports, telecom, water, electricity). In an EACM or worldwide where Tanzanian products have to compete with those of countries such as China or India, high indirect cost are a severe impediment. While in China indirect costs are only about 8 percent of total cost, in Tanzania these indirect costs are about 24 percent. Some of the business environment drawbacks were mentioned in the TAKNET. Bureaucracy, corruption and poor transport means were repetitively cited, as well as very slow court businesses adjudication processes. Within the EACM framework, Tanzania needs to learn faster from the other countries that are doing better.

Key Sectors that Can Leverage Tanzania's Position in the EACM

A number of sectors and cross–cutting issues were highlighted in the EACM protocol as important facilitators of integration and cooperation. Agriculture has been singled out for leveraging food security in the region and for reaping on rising food prices worldwide, whereby Tanzania is seen by Tanzanians and the EAC partners as a potential surplus food supplier and is likely to exploit advantageously the new needs for bio-fuels. But the relatively good soils and water sources have to be profitably exploited instead of being wasted (warning by Grant Stuart Simpson from South Africa). The point of departure among the TAKNET contributors was whether to give policy preference to small farmers or to big farmers to boost agricultural production to realize Tanzania's comparative and competitive advantage. The compromise advanced was in some form of partnership among the two farmer groups, as already witnessed in sugar, tea and sisal growing areas in respect of large estates working in partnership with small out growers. As S. Moyo and K. Wanda however insisted, it is important to learn from the bad experiences of Zimbabwe and Kenya (where the small farmer was marginalized at the risk of causing uprising by the landless). It is therefore important to enforce equitable and fair share of resources. Indeed we were reminded that in Tanzania there are already pressures for land grabbing to watch, from both domestic and foreign investors.

Contributors also mentioned transit Transport to be of immense potential for Tanzania to reap benefits from the EACM venture. Tanzania is surrounded by 6 landlocked countries and can take advantage of its geographical location by helping them to easily access the Indian Ocean. Three of these, Uganda, Burundi and Rwanda; are in the EACM. Remarkable investments have been made in Tanzania road infrastructure in the last 10 years, but the other main outlet routes, especially railways and ports, require huge maintenance funds and significant investments.

Several contributors kept reminding on the role of good education to leverage Tanzania's participation in the EACM. They were quite categorical about the poor quality of education; that it is likely to make Tanzania lose out in the competition engendered by the EACM onset. Several contributors urged that the country should focus on the quality of the whole education system, not just the language question of use of English versus Swahili. In fact, it was argued that it is also possible, as in some EU countries, for Tanzania citizens to be fluent bi-linguists or tri-linguists or more (including English and Swahili), without forgetting the fact that Swahili is steadily becoming an East African trading language - which is an advantage to Tanzania.

III. CONCLUSION AND RECOMMENDATIONS

It was asserted that in view of its rich soils, varied climate and population, Tanzania is a sleeping giant. However, deliberate, robust, coordinated and strategic actions under strong government leadership and appropriate involvement of the private sector are required, for the country to effectively participate in the unfolding Common Market. TAKNET participants made the following recommendations on what should be done:

• Tanzania should come up with a Comprehensive Strategy for effective participation in the EACM. Inter alia, this should include making Tanzania a center for excellence in learning Swahili language in the EAC. Given ministerial efforts made so far, it is better that this Strategy be launched at the level of the President's Office so that it is executed with requisite priority and discipline among various MDAs.

• The quality of our education system needs to be significantly improved and the population be readied education-wise for stiff competition in export trading, employment, and attracting investments. English language teaching should be improved substantially.

• Unlike most of its EAC partners, Tanzania has in many districts plenty of unutilized land. But we should continue being vigilant on land hoarding by foreign and local investors (Hangi, John Butoyi, I. Mabamba, Maro, Wanda). Nonetheless, this does not mean complete cutting them off. In agro-processing for example, good partnerships between investors in big estates and the outgrowers can enhance agricultural productivity, improve technology and create rural employment.

• Tanzania ought to capitalize more on its geographical location advantage, i.e. nearness to the sea (Khamis, Maro), provided more investments in railways and ports are properly chosen, sequenced and cost-sharing among countries and investors determined.

• The government should provide more funds to Think Tanks for research so as to enhance informed government policy engagement in regional integration; it should as well enhance skills of Tanzanians for effective participation in the EACM process.

• Government should discourage unnecessary imports for our supper markets, furniture shops, government offices, etc (within the limits set by WTO); But robust support to local farmers, industry and others to increase value-addition and the quality of our products is vital for winning the competition even in the domestic market.

• We need to widely disseminate to the population the EAC market opportunities and procedures for investing in other member states; government websites should be more update and informative in this area.

OTHER TAKNET POLICY BRIEFS

1. Growth and Poverty Reduction in Tanzania: Why such a Mismatch? (Policy Brief number 1)
2. The Role of Information and Communication Technologies (ICT) in Enhancing the Livelihood of the Rural Poor (Policy Brief number 2)
3. Incentive Package for Foreign Direct Investment (FDI) in Tanzania (Policy Brief number 3)
4. Tatizo la Walemavu wa Ngozi (Albino) Tanzania: Nini Kifanyike? (The Plight of Albino in Tanzania) (Policy Brief number 4)
5. Petroleum Policy and Constitutional Paradox in the United Republic of Tanzania (Policy Brief Number 5)
6. Tanzania National Poverty Reduction Framework – MKUKUTA What are the Lessons (Policy Brief number 6)
7. The Effect of Global Financial Crisis and Way Forward for Tanzania (Policy brief number 7)
8. 2009/10 Government Budget: What impact should be expected? (Policy Brief number 8)
9. Social Welfare and Ageing in Tanzania (Policy Brief number 9)
10. Tanzanian Cultural Environment and Economic Growth (Policy Brief number 10)
11. School Competition and Student Learning Rights (Policy Brief number 11)
12. Informal Sector Taxation in Tanzania (Policy Brief number 12)
13. Msongamano wa Magari Jijini Dar Es Salaam: Nini Kifanyike? (Policy Brief number 13)
14. Importation of counterfeit products in Tanzania: What should be done? (Policy Brief number 14)
15. Vifo Vya Akina Mama Kutokana Na Matatizo Ya Ujauzito(Maternal Mortality) ni tatzo kubwa Tanzania : Nini kifanyike kutatua tatizo hili? (Policy Brief number 15)
16. Improving Public Service Delivery and Citizens Engagement through E-Government (Policy Brief number 16)

The TAKNET contributors were as follows: Festo Maro, Monica Hangi, Kelly Wanda, Mwiru Sima, Angomwile Fungo, Jiduma Luhende, Japhet Makongo, Kabuje Furaha, . Salatiel Moyo, I. Mabamba , John Butoyi, Anthony Gikuri , Alphonce Massaga, , Deo Mutalemwa, Grant Simpson, Hebron Mwakalinga, Furaha Simbeye, Senorina Kimario, Andrew Dennis Punjila , Muhe Damian Joachim , Omari Mwinyi Khamis , Victor Don, Marja-Liisa Swantz . In most cases the contributions in the text have not been directly attributed to the respective individuals

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