TRADE PROSPECTS FOR TANZANIA IN THE EAST AFRICAN CO-OPERATION

by

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Abstract

The revival of the East African Community which has taken the form of the formation of the East African Co-operation has rekindled hopes for increased economic co-operation between the three EA countries, i.e Kenya, Uganda and Tanzania once dashed when the EA Community collapsed in 1997. There are sectors like tourism and mining which offer substantial trade prospects for Tanzania in the new co-operation set up. The private sector in Tanzania has to take the lead to ensure that the exiting trade potential on the new EA Co-operation are realized. One way to ensure that it is to conduct studies that would show which products and commodities that are produced in Tanzania can 'break' into the larger EA market.

1. INTRODUCTION

It has become conventional wisdom to analyse the effects regional integration scheme (RIS) by using viner's (1950) trade creation and trade diversion model.[1] The model focuses primarily on production effects brought by an economic come-together of nations and postulates that trade creation effects of a RIS occur when a formation of a customs union (CU) leads to a shift in production from a higher cost domestic producer to a low cost producer in a partner country. According to Viner (1950) a RIS leads to trade diversion effects when a CU formation leads to a shift in production from a lower cost producer in the rest of the world (ROW) to a higher cost producer in a partner country. Trade creation effects are, in general terms, welfare improving while trade diversion effects are to the integrating countries, welfare reducing. [2]

A number of researchers (e.g. Lipsey, 1957 Meade, 1955 and more recently the gravitational models) have attempted to modify Viner's work but there is agreement that his (Viner's) work remain, up to now, the basic and most essential analytical tool in RIS.

Analysed from a global context it is noticeable that there are re-newed interest in the formation of regional economic blocks. In the Western hemisphere for instance the creation of the North Atlantic Free Trade Area (NAFA) is one evidence of the tendency towards formation of RIS. In Europe the European Economic Co-operation (EEC) has transformed itself into a more powerful block the European Union (EU) while in Asia the Association of South East Asian Nations (ASEAN) has made efforts of its own towards greater economic co-operation of the countries in that region.

In Africa signs of increased interest in regional co-operation are to be found in, for example, the promotion of Southern Africa Development Co-ordination Conference (SADCC) to a more powerful Southern Africa Development Co-operation (SADC) and the Preferential Trade Area (PTA) to the Common Market in Eastern and Southern Africa (COMESA).

In the East Africa sub-region which is the main focus of the current paper and where Tanzania belongs, there has been determined efforts aimed at reviving the defunct East Africa Community into a new East Africa Co-operation. Signs of the seriousness of the current efforts being made at integrating the three East African (EA) countries (Kenya, Uganda and Tanzania) are seen in *inter alia*, (a) the formation in 1996 of the EA Secretariat charged with over-seeing the day-to-day activities of the Co-operation (b) creation in 1997 of a common East African passport to be used by residents of the sub-region and (c) discussions about currency convertibility and possibly (in future) unification.

While the euphoria-like atmosphere which seem to have griped politicians and policy makers alike in the sub-region has not sub sided it is, according to this paper, an opportune time to reflects on the prospects for Tanzania in the new Co-operation. The paper deals with trade prospects alone.

After this introduction, in section two the paper has three other sections. In section two the paper deals with trends of import and export trade during the days of the defunct EA Community. The aim of this section is to draw lessons from the past former EA Community which may enable the new co-operation arrangement to avoid committing the mistakes similar to those in the past. In section three the paper reviews areas and sectors in which Tanzania could have trade comparative advantage over others partners and the type of policies needed to ensure that the potential comparative advantages are actually realised. Finally in Section four concluding remarks are made.

2. Trade Related Lessons from the Defunct EA Community

Economic co-operation between Kenya, Uganda and Tanzania has a long history dating back to the times of colonial rule when Britain the colonial master established an elaborate economic co-operation between the three countries. As Tanzania's (then Tanganyika) independence was nearing in 1960 Julius Nyerere was ready to postpone Tanganyika's independence if in doing so the three countries could form an economic integration. However it was until 1967 when the signing of the treaty establishing the EA Community was signed following the recommendations of the Philip Commission set up in 1966.

In the ten years in which the EA Community existed it experienced several (political and economic) problems. This paper deals only with trade related problem for analysis and singles out the trade imbalances between the three countries as a source of friction in the EA community and which could also pose as a problem in the new EA co-operation. Table 1 shows trade imbalances that existed between the three partner states during the 1967-1976 period.

Table 1: Table Imbalances Between Kenya, Uganda and Tanzania 1967 - 1976

Year	Kenya		Uganda		Tanzania	
	Intra	Extra	Intra	Extra	Intra	Extra
1967	254	-1,052	-58	476	-196	250
1968	282	-1,139	-70	333	-212	56
1969	340	-1,072	-152	488	-118	247
1970	309	-1,408	-122	875	-187	252
1971	359	-2,158	-245	370	-114	-679
1972	386	-1,740	-187	1,038	-199	-570
1973	430	-1,663	-360	1,522	-170	-899
1974	691	-3,801	-537	1,310	-154	-2,893
1975	1,004	-3,360	-870	1,037	-154	-2,747
1976	750	-4,223	-531	2,059	-219	-1,439

Source: Hazlewood, A. (1975) and Mwase, N. (1977)

Throughout the ten year period both Tanzania and Uganda negative intra trade balance with Kenya. It was the latter partner (Kenya) which had a healthy and positive intra EA Community trade. In simple terms this suggest that the value of Kenyan exports of the other partners out-weighed the value of Kenyan imports from the other two member states.

The existence of intra trade imbalances between Kenya, Uganda and Tanzania per se would not be a source of friction if one considered the different levels of industrial development that existed during that period. As Kenya had by far the largest white settler community compared to the other countries it had established a number of manufacturing industries whose products found market in both Tanzania and Uganda.

The source of friction was in the extra trade balance in which Kenya maintained negative balances throughout the period while the other partner states had in the early years, a positive balance and later negative balances as well. It was like Kenya and was importing more goods from (low cost) producers in the rest of the world and re-exporting them to the other partners (Tanzania and Uganda). This essentially meant that the economic integration arrangement under EA Community resulted into trade diversion.

The other source of friction in the defunct EA Community which was closely related to trade issues concerned the distribution of tariff revenues (Hazlewood, 1975). The differences in the level of industrialisation meant that the proportion of tariff revenues going to the relatively industrially advanced country (Kenya) was higher than the tariff revenue share going to the other less industrially advanced partners. This led to an agreement (the Kampala Agreement) in which the establishment of new industries in the three countries was to be apportioned.

The lessons for the new EA Co-operation from the experiences of the defunct EA Community are two fold. First in future, trade imbalances between Tanzania, Kenya and Uganda are likely to continue even under the new EA Co-operation set up. However instead of the imbalances in trade being the source of friction among the co-operation members it should act as a challenge for the private sector in Tanzania and Uganda to device workable strategies 'breaking' into the Kenyan market.

Secondly the establishment of industries in three EA countries need no physical allocation by authorities. In other words what is being suggested here is that so long as the co-operation is a level where factors of production can move freely from one partner state to the other it is market forces which will best allocate the distribution of industries. The following section is an attempt to analyse specific sectors and areas where Tanzania could have a comparative advantage over others in the new Co-operation.

3. The Potential Benefits for Tanzania in the EA Co-operation

The new EA Co-operation brings together an estimated total of nearly 80 million people (i.e. 29 million from Kenya, 31 from Tanzania and another 20 million from Uganda). Apart from the large population Eastern Africa as a geographical entity offers a lot of common aspects to the respective countries. For instance, the climatic conditions in general dictate the cultivation of almost similar agricultural export crops (tea, coffee and cotton). The existing per capita incomes in the three countries are not significantly different. One can add that even the tastes in the three countries are not so different.

The large market of about 80 million people has a potential to absorb all the goods and services that are currently produced in East Africa. This says in part that manufacturers and firms will not have to worry about a market to sell their products. What will matter and which will differentiate products in the broader EA market is the competitiveness of each partner state's product relative to the competitiveness of the other partners' products. How firms handle quality aspects in production or packaging and advertisement of products will have a lot of influence in the earnings in the larger market.

Given this background it is necessary for firms in Tanzania to start re-organising their production in line with the broader and larger East African market if they are to survive the kind of competition that is envisaged in the EA Co-operation. Table 2 provides the performance of selected macroeconomic indicators for the Kenya, Uganda and Tanzania

Table 2: Selected Macroeconomic Indicators for Kenya, Uganda and Tanzania

Year	1993			1994			1995		
	K	U	T	K	U	T	K	U	T
GDP Growth [1]	0.2	5.3	4.4	3.0	10.6	3.5	4.9	8.5	3.5
CPI[2]	46	5.1	25.3	28.8	10.0	34.1	1.6	6.66	30.0
Population (m)	26.0	18.1	26.7	26.8	18.7	27.4	27.5	19.3	28.2
Exchange Rate [3]	58.0	1,195.0	405	56.05	979.4	510	51.43	968.9	575

Source: Economic Intelligence Unit, Country Reports, 3rd Quarter, 1996

Notes: [1] Real Gross Domestic Product
[2] Consumer Price Inflation (%)
[3] Respective country's shilling per US $
K,U, and T stands for Kenya, Uganda and Tanzania respectively

Several sectors including agriculture, industry, communications and services have been earmarked as possible ventures where the three countries could invest and whose products could find a market in the larger markets. There are however certain sectors of the Tanzanian economy where Tanzania could have a competitive edge over other EA Co-operation partners. One such sector is tourism. The country has more tourist attractions including (i) game reserves (ii) national parks (iii) historical sites and longer shorelines than other countries (curry, 1975). The EA secretariat has indeed identified tourism among other sectors that the three EA countries could establish joint operations. This is an area where Tanzania could begin serious preparations well in advance of the planned joint venture tourism operations by first of all taking stock of what the sector needs in order to become competitive. It is known for example that what the tourism industry in Tanzania lack is corresponding tourist services like hotels and other tourist facilitating infrastructure (roads, telephones, trucks etc). Tanzania has to make deliberate efforts to provide these services if it is to make significant gains in the planned joint EA tourism operations. The 1997 Economic Intelligence Report notes for example that the existing tourism resources available in Tanzania, when fully developed, have a potential to contribute more positively to the country's economic growth that the sector is currently doing.

Another trade related prospect for Tanzania in the new EA Co-operation concerns the easing of trade barriers amount the three partner states. The existence of trade barriers in countries which have close historical and geographical links have led to the existence of parallel (illegal) trade especially in the bordering regions. Thus, although no official statistics exist unofficial reports indicate that a number of Tanzania's agro and mineral based commodities find their way out of the country each year to be marketed in neighbouring countries.

Currently for example products including coffee from Kagera, Maize from Kilimanjaro and cattle from Mara regions and a number of mineral products are marketed illegally across Tanzania's boarders and officials can not know their value. The easing of trade barriers will help Tanzania in that the currently unofficial trade activities between itself and the neighbouring countries will become official trade and appropriate import and export taxes will be levied and there are prospects of increasing government revenues.

Apart from tourism other Tanzania commodities which are said to have a potential in the broader EA market include (i) beer (ii) blankets and (iii) cigarettes. However, instead of guessing which products are likely to 'break' into the expanded market the government of Tanzania could initiate and commission studies for purposes of establishing areas and sectors in which products from Tanzania could be traded in the larger EA market. This will be in line with the recommendations of the Ricandian comparative advantages theory which suggests that, although in a two-nation, two commodity and two-factor arrangement one nation could have an absolute (lost) advantage over another beneficial trade could still take place between them if one was to carefully consider the comparative cost advantages.

In the current EA Co-operation set up special emphasis is placed on the role of the private sector as a force that will propel the co-operation forward. Unlike in the EA Community where state owned trading enterprises were active in trade matters the atmosphere has currently changed and the private sector has, in all the three countries, taken an upper hand in economic and commercial spheres of their economies.

Part of the reason is that all the three countries have been pursuing the International Monetary Fund (IFM) sponsored economic reforms which, *inter alia*, have resulted in the 'rolling back' of the commercial and economic functions once carried out by their governments. Instead, and as noted above, one finds throughout East Africa including Tanzania, the private sector gaining an upper hand in the running the economic affairs of their countries. However, for it to effectively participate in the new EA Co-operation the private sector in Tanzania needs support from the government. One form of support is in organising trade fairs in the country and assistance to participate in trade fairs organised by other partner states so that the products from Tanzania can be advertised and potential markets sought.

Government support is also required in the private sector in Tanzania to help the sector carry out comprehensive studies which will indicate areas and sectors in which partner states. Such studies will certainly go a long way in terms of, for example, reducing the costs for firms of producing commodities meant for the broader EA market on a focused approach instead of producing for the East African market on a trial and error basis.

The private sector in Tanzania can, however, not rely solely on the support of the government for its effective participation in integration affairs. The government might be budget constrained to be able to support the sector. The sector has to start preparing for the competitive environment that the new co-operation arrangement is about to introduce. The common constraint facing private sector operators in Tanzania is lack of capital. While this is generally acknowledged the (private) sector operators in Tanzania could use the existing capital outlays to conduct their own research and hold small scale trade fairs and invite other operators from EA Co-operation partners for purposes of marketing their products in the broader market.

4. Concluding Remarks

The history of economic co-operation between Kenya, Uganda and Tanzania dates back to the colonial era when, for example under the British rule the three countries shared, among other things, a common currency, common railway and port services. During post-colonia era economic relations between the three countries were cemented and formalised by the signing of the 1967 Treaty for the East African Community. After existing for only 10 years and, faced with various political and economic problems the EA Community collapsed in 1977.

Since the early 1990s however there has been increased activities aimed at reviving economies co-operation between East African Countries. In March 1996 for example the East African Co-operation Secretariat was officially inaugurated ushering a fresh page in the economic co-operation history of the three countries.

This paper has attempted to highlight few sectors of the Tanzanian economy in which the country could have a competitive edge over others in the new EA Co-operation set up. The paper has noted for example that trade prospects for Tanzania in the new EA Co-operation arrangement appear brightest in sectors like tourism. In this sector, trade prospects for Tanzania are enormous because the country has numerous tourist attractions compared to those of other countries. What is required is to identify (through studies) the critical requirements of the sector and ensure that the private sector (supported, at least initially from the government) focuses its activities on solving the needs of the sector . Likewise the removal of trade barriers between the countries is likely to convert current parallel trade activities into official trade where the government can benefit from tax revenues.

The private sector in Tanzania has to take the lead in ensuring that the potential trade activities that exist in the integration scheme are fully realised and are used for the economic development of the country.

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