Implication of Tanzania's Multiple Memberships in Trade Performances: Focus of EAC and SADC Market

Ms. Digna Mtana
Trade Economist, MoHSW, Tanzania
Email: dignamtana@gmail.com

Johansein Rutaihwa
Assistant Researcher, EAC, Secretariat, HQ, Tanzania
Email: johansein@gmail.com;jrutaihwa@eachq.org

Abstract
This study discusses implications of Tanzania`s multiple membership in trade performance with its two major trading blocks of Southern African Development Community (SADC) and East African Community (EAC). The findings of both intra-trade and RCA shows Tanzanian manufactured and agricultural products to have greater market opportunity compared to the SADC market. Trade in SADC is dominated by agricultural products without value addition and mostly with South Africa. Trade with the rest of SADC countries have higher intra-industry trade on agricultural stuffs such as cereals crops. This study recommends more efforts on EAC market by having and strengthening institutions framework as there is greater market opportunity for manufactured products. Strengthening special bilateral agreements with South Africa to tap the market of agricultural products in SADC; Need for implementing big projects on agro-processing value chains to be able to tap the existing opportunities in EAC region; and Strengthening the participation of the private sector in the integration process to tap the market opportunities.
Keywords: SADC, EAC, Trade, RCA, IIT

Introduction
International trade is viewed as one of the key factors underlying the success of the fastest growing economies. Yet many countries remain isolated and have failed to achieve this integration. Joining a particular Regional Economic Bloc is a policy choice for a country. Tanzania is party to several trade agreements both at the regional and multilateral levels (see Table 1.1). Multiplicity of membership raises the problem of coordination and commitment for an individual country in terms of adequacy and efficiency of human and financial resources. For a poor country like Tanzania with inadequate financial sources and human

capacity, multiple memberships in regional groupings is considered a daunting challenge, which limits the effectiveness and implementation of agreed protocols (Musonda, 2004).

It is important for one to note that, Regional Economic Blocs are different in focus. Therefore reasons for a country to join multiple blocs may differ based on a perceived cost-benefit analysis (variable geometry argument). Objectives of these blocs range from purely market/economic integration to socio-political cooperation agreements. The market integration model is based on Viner's (1950) custom union theory, which was used in increasing trade flows amongst member states. The theory predicts two possible outcomes of eliminating trade barriers in a regional context: *trade creation* (increased trade flow from efficient producers in the region) and *trade diversion* (increased trade flow from inefficient producers in the region). The development integration model of blocs follows a conscious intervention by member states to pursue certain benefits of cooperation. This is particularly relevant when there are barriers to realizing economic benefits to trade and investment.

This situation raises pertinent question of analyzing the impact of Tanzania's multiple memberships in Regional Economic Blocs (REC's) and its implication on trade; specifically, to what extent is Tanzania performing in the East Africa Community (EAC) and Southern African Development Co-operation (SADC) integrations?

Methodology

The study uses trade indices as the best way of analysing trade performance between Tanzania and its trading partners in the Regional Integration Agreements (RIA's). This indices includes trade intensity index which is given as;

$$TI_j^c = \frac{X_j^c / X_j}{X_w^c / X_w}$$ Where X_j^c are country j's exports to partner country c; Xj are country j's total

exports, X_w^c are the worlds exports to partner country c and w, X are the total world exports, TI is the Trade Intensity. When the trade intensity indicator is equal to one, then there is no preferential trade and the Regional Trade Arrangements (RTA) does not have any trade-diverting effect. That is, RTA members are trading among themselves at the same intensity as they would with non-members. If the trade intensity index is more (less) than one, this indicates that the countries *i* and *j* have greater (less) bilateral trade than would be expected based on the partner country's share of world trade.

Revealed Comparative Advantage (RCA) index is used to assess the capability of country`s export to endure competitive difficulty in the international market and was developed by Ballasa. The RCA is the observed trade pattern that helps to identify which sectors of the economy have a comparative advantage in comparison with other trading partners or world average. The RCA index is therefore expressed as a ratio of two shares. The RCA has been criticised due to the fact that trade barriers or other policies such as export subsidies can create distortion of the index. The Ballasa Index (BI) has been described as one-dimensional, deterministic, and positive as it describes the actual situation that is seen and is *ex post* (Siggel, 2003). In spite of this, RCA indices still remain a popular way to measure a sector or product competitiveness. The formula used is presented as follows:-
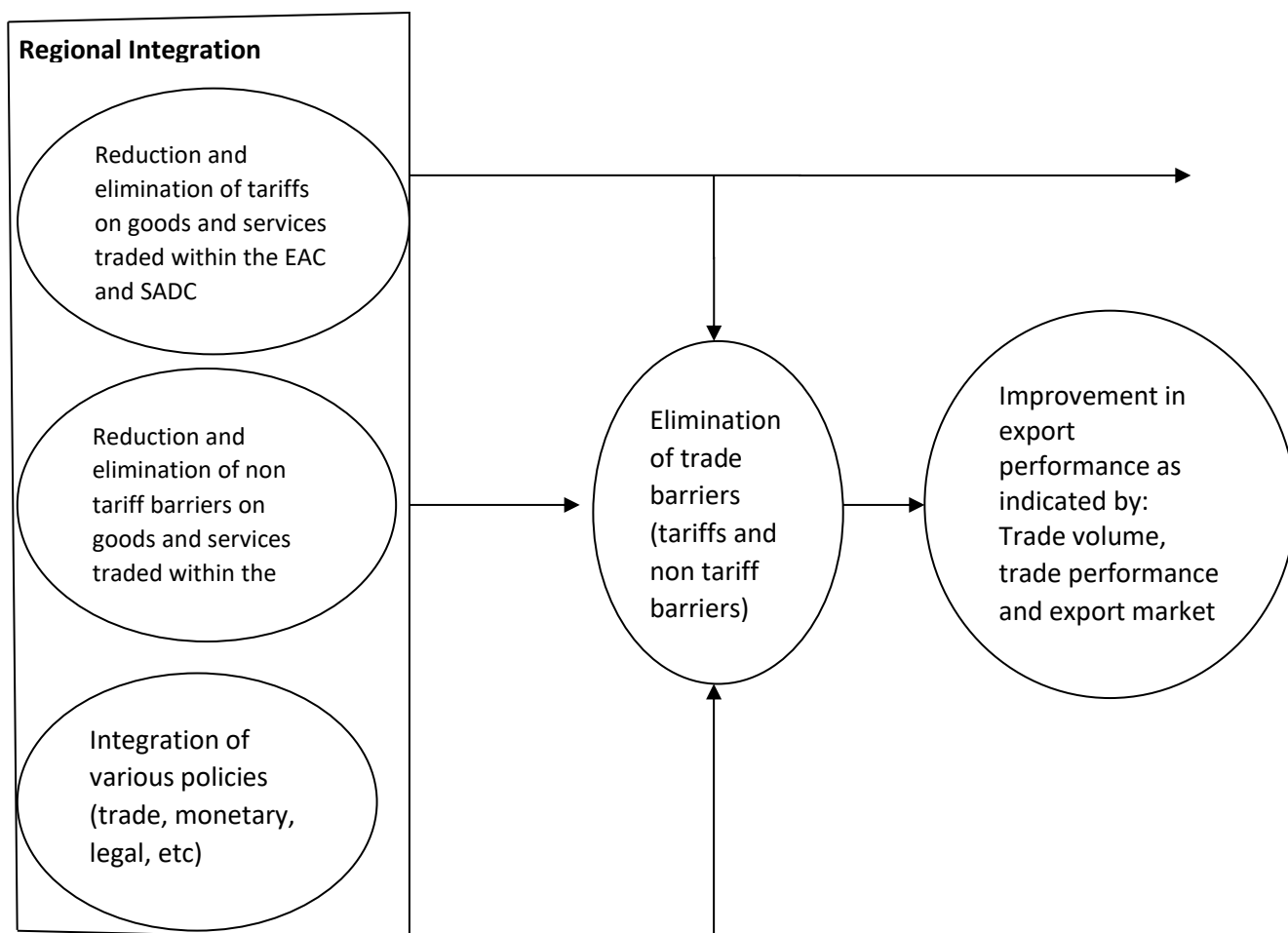
$$RCA_{ij} = \frac{X_{ij} / \sum_i X_{ij}}{\sum_j X_{ij} / \sum_i \sum X_{ij}} * 100$$

where the numerator represents the percentage share of a given sector in country *X*, exports are *i j* which means, exports of sector *i* from nation *j*. The denominator represents the

percentage share of a given sector. It varies from zero to infinity; with a value of less than unity signifying that the country has a revealed comparative disadvantage in the product. A value larger than one implies that the country has a revealed comparative advantage in the item, and it will be specializing in that sector and if RCA is below one then the country does not specialize in that sector. Data for this analysis were obtained from EAC and SADC websites, National Bureau of Statistics, academic papers, relevant publications, trade statistics of the United Nations, UNCTAD, and UNCOMTRADE, WITS as well as country economic surveys of 2009 and 2010.

The theoretical framework that guide this study considers regional integration as an independent variable and export performance is a dependent variable. In Figure 1.1, regional integration leads to reduction of trade barriers and so should increase export volumes, trade intensity and export market share. This framework build up the relationship between the framework and the empirical models.

Figure 1.1: Conceptual Frame work of the study

Source, Author's Own Construction

Literature Review
Theoretical Review
This study define Regional integration as the cooperation between two or more sovereign states for the purpose of mutual advancement of trade and other economic and increasingly non-economic activities. According to AFNDD Report (2008, p.1), regional integration can be

broadly understood as the unification of states working within a framework to promote free movement of goods, services and factors of production with the intention of improving welfare, reducing poverty and promoting economic development. Balassa (1961) developed a five level taxonomy of trade agreements as follows: Preferential trading arrangements (PTA); Free trade area (FTA) (PTA with zero internal tariffs); Customs Union (CU) (free trade agreement (FTA) plus common external trade policy; Common market (CM) (customs union (CU) plus free movement of factors of production), and Economic Union (EU) (common market (CM) plus common economic policies).

Herbert G, (1981) argues that, the main question of trade theorists is whether the trade creation outweighs the trade diversion and how to maximize the gains from trade creation. This question is likely to be responded by Heckscher–Ohlin Theorem which states that countries export those commodities, which require, for their production, relatively intensive use of those productive factors found locally in relative abundance. The twin concepts of relative factor intensity and relative factor abundance are most easily defined in the small dimensional context in which the basic theory is usually developed. Two countries are engaged in free trade with each producing the same pair of commodities in a purely competitive setting, supported by constant returns to scale technology that is shared by both countries. Each commodity is produced separately with inputs of two factors of production that, in each country, are supplied perfectly inelastic (Findlay, 1995). Following the Ricardian distinction, commodities are freely traded but productive factors are internationally immobile. Stopler- Samuelson theorem, is another theory which discusses trade creation and trade diversion by explaining how tariffs would affect the incomes of workers and capitalist within a country. It argues that the "opening of trade in a labor abundant country will increase the relative price of (labor-intensive) export goods, expanding export sectors and the demand for factors used intensively in (labor-intensive) export production". Suppose that there are constant returns to scale in both sectors and no factor intensity reversal. In this case an increase in relative price of good increases the real return to the factor that is used intensively in the production of that good and decreases the real return to the other factors.

Empirical Review

As much as most regional trade blocs have a wide goal of lowering barriers to trade between members, Mangeni (2008), proposes that, for African countries to benefit from RTAs they should avoid multiple membership as that results in partial participation in either of the blocs. This implies that Tanzania's participation in two regional trade blocs cannot reap much benefit to the country as it is participating partial in both RECs, thus being on the losing side on RTA`s. On the other hand, Dollar (1992) argues that a well-crafted trade bloc can increase competition in domestic industries and spur productive efficiency gains which improve the quality and quantity of inputs and goods available to the economy. This implies that the greater market size created through the Regional Trade Agreement (RTA) expands opportunities for exports and employment growth. However, one should note that, RTAs may augment intra-bloc trade by diverting trade away from non-member countries. This arguments is debated by Clausing (2001),who points that trade liberalization under preferential trade agreements makes it very difficult to assess a priori whether trade effects will be positive or negative such that trade creation will outweigh trade diversion.

As result of this argument, it is not clearly if Tanzania being in multiple membership may be of benefits in terms of trade performance or will undermine the performance of the country. Thus the success of Tanzania in these blocs will ultimately depend on its ability to participate

in intra-regional trade. The expectation from Tanzania side in these RECs is that through the lowering of tariffs and removal of non-tariff barriers, trade costs will be lower and economic welfare in member countries will rise by facilitating consumer choice and increasing competition among producers. On paper, regional integration appears to be strong and moving towards deeper integration with the implementation of the EAC Customs Union in 2005, EAC common market 2010 and political integration in 2013. Khorana, et al. (2007) clarify that regional trade arrangements have become a popular vehicle for the promotion of trade and growth. This is particularly so in Africa where a number of overlapping arrangements have been existing. In East Africa the previously outdated East Africa Community has been resurrected to improve trade between Kenya, Tanzania, Uganda, Rwanda and Burundi. To facilitate the development of the East African Community, transitional arrangements have been put in place to liberalize inter and intra- regional trade. Khorana, (2007) uses a partial equilibrium model, and examines the implications of the transitional measures for products sensitive from the Ugandan perspective. The simulation results questioned the underlying rationale for those arrangements. This discusses whether they confer any real benefits on the stakeholders and suggests alternative approaches that may increase the benefits for Uganda from trade liberalization within the East African Community. As a result of this its clearly shows overlapping memberships of RTAs in Africa may undermine their effectiveness of such integrations.

The discussion above for both empirical and theoretical reviews shows there is a knowledge gap that needs to be addressed by researchers. One being the over generalization of the multiple membership, the notion found here indicates that most of the studies took the approach of outlining the challenges of multiple membership rather than analyzing the trade performances of a country in multiple blocs. Different from other studies, this study identifying specific products and analyze their performances n two blocs EAC and SADC.

Findings and Policy Recommendations

The findings on the intra-industry trade shows that Tanzania have a higher intra-trade on agricultural stuffs (tobacco, sugar, glass, fish, pepper, milk and coconuts) both in SADC and EAC, however much of the trade in SADC is with South Africa alone. This situation calls for agro-processing value chains projects (Table 1.2&1.3). Tanzania imports milk products significantly from Kenya and South Africa, but also exports much raw milk to Kenya. Trade with the rest of SADC countries shows higher intra-industry trade relative to that with South Africa on cereals products such as rice. In EAC most of the products with higher IIT are of manufactured goods and furniture. This implies that the country has opportunities for both agricultural and manufactured products in EAC markets compared to SADC. Furthermore, findings show that intra EAC trade has been on an upward swing, with Kenya being the dominant player with a total of US$1,544.4 million in exports and US$302.9 million in imports in 2011, while Uganda moved exports worth US$ 649.7 million and US$721.5 million in imports; with imports from Kenya valued at US$671.6 million. Tanzania has been a conservative player in intra EAC trade, with exports of US$416.8 million and imports of US$378 million. The growth intra EAC trade to total EAC trade implies that the intensity of trade among Partner States is growing at a modest pace.

Findings on RCA (Table 1.4), indicates Tanzania to have strong RCA in traditional cash crops (e.g. coffee, tea, cotton, sugar, etc.) and other agricultural products including fish, hides and skins at SADC. Conversely, Tanzania is confirmed to have low or no RCA in manufactured products. The RCA on EAC indicates Tanzanian manufactured products to have greater market

opportunity compared to the SADC market. On the other hand the index of export intensity for world market is shown to be greater than one for beverage, cereals and sea foods products implying that Tanzania exports to the world market by greater proportion than the total export to the EAC and SADC market. As result of these findings, the study recommends; Tanzania needs to put more efforts on EAC market as there is greater market opportunity for her manufactured products. The trade in SADC is based mostly to South Africa only, thus in absence of the South Africa, Tanzania has no markets in SADC; Need for Tanzania to implement big project on agro-processing value chains to be able to tap the existing opportunities in EAC region as well as SADC; Involvement of the private sector in the integration process is highly required to be able to tap the market opportunities; needs of clear strong institution framework to drive the integration process within the country which will also define the potential for each market.

References

Bohanes, J. 2002. "Multiple Memberships in Regional Trading Arrangements: Reflections on Tanzania and in General." Trade Brief. Trade Law Centre for Southern Africa, Stellenbosch.

Brenton, P., and H. Imagawa, 2004. "Rules of Origin, Trade and Customs." In De Wulf, L., and J. Sokol (editors), Customs Modernization Handbook. Washington, DC World Bank,

Castro, L., C. Kraus and M. de la Rocha, 2004. Regional Trade Integration in East Africa: Trade and Revenue Impacts of the Planned East African Community Customs Union. Africa Region Working Paper Series No. 72. World Bank, Washington, DC.

De la Rocha, M., 2003. The Cotonou Agreement and its Implications for the Regional Trade Agenda in Eastern and Southern Africa. World Bank Policy Research Working Paper No. 3090. World Bank, Washington, DC.

Grubel Herbert (1981): International Economics, Ontario

Ethier, W. 1974; "Some of the theorems of international trade with many goods and Factors": Journal of International Economics, Volume 4; 199–206.

Findlay, R. 1995. Factor proportions and growth, Cambridge, MA, MIT Press

Hess, R., 2004. "Tanzania"s Obligations under the Various Regional and Multilateral Trade Agreements and How These Will Impact on the SADC-EC-EPA Negotiations." Study prepared for the Government of Tanzania. Imani Development Consultants, Pretoria.

Hinkle, L.E., and M. Schiff, 2004. "Economic Partnership Agreements Between Sub-Saharan Africa and the EU: A Development Perspective." World Economy 27(9): 1321-1333.

Hope, D., V. Bhowon, and F. Ruhindi, 2003. "Study to Develop a Legal, Institutional and Administrative Structure for the Customs Union." Report prepared for the East African Community Secretariat and the European Commission. Imani Development Consultants, Pretoria.

IMF, 2009: The Implications of the Global Financial Cris for Low Income Countries, SADC member states and SADC Microeconomic Convergence Database.

Jones, R. 2007a: "Key international trade theorems and large shocks": Forthcoming, International Review of Economics and Finance

Kritzinger-van Niekerk, L., and E. Moreira, 2002. "Regional Integration in Southern Africa: Overview of Recent Developments." Discussion Paper, World Bank, Washington, DC.

Krugman R, P and Obstfeld, M (2006). International Economics Theory and Policy., Daryl Fox, USA.

Kweka, J., and P. Mboya, 2004. "Regional Integration and Poverty: A Case Study of Tanzania." Working Paper. Economic and Social Research Foundation, Dar es Salaam.

Matambalya, F.,.2004. "The Implications of Tanzania`s Withdrawal from COMESA: Qualitative Overview of Implications and Reflections on the Way Forward." Discussion Paper University of Dar es Salaam, Dar es Salaam

NBS, Ministry of Finance, December 2010 ''Foreign Trade Statistics 2009''

NBS, Ministry of Finance and Economic Affairs, June, 2010. ''Statistical Abstract 2009''

NBS, Ministry of Finance and Economic Affairs, June, 2010 ''Tanzania in figures, 2009''

Schiff, M, and L.A. Winters, 2003 Regional Integration and Development Oxford University Press, New York.

Stahl, M, 2005. Overlapping membership in COMESA, EAC, SACU and SADC: Trade Policy Options to Overcome the Problem of Multiple Memberships. Arusha: Deutsche Gesellschaft für Technische Zusammenarbeit (GTZ).

United Republic of Tanzania, 2003. National Trade Policy: Trade Policy for a Competitive Economy and Export-Led Growth. Ministry of Industry and Trade, Dar es Salaam

Van Beers, C. P. and H. Linneman. 1988. "Commodity composition of trade in manufacturing and South-South trade potential." Research memorandum, Free University, Faculty of Economics and Econometrics, Amsterdam, The Netherlands.