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

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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 the manufacturing sector is mainly driven by human capital, information and communications technology (ICT), technology transfer through FDI and licensing, and the development of infrastructure (Albaladejo, 2002). The stimulation of export intensity and competitiveness of manufacturing products should start with greater efficiency relative to regional markets as a necessary route to international competitiveness. The key lies in the conversion of prevailing comparative advantages to national comparative platforms (Mwaigomole 2009).

The poor performance of many African economies, including EAC partner states, has been associated with the low growth of exports in general and of manufactured exports in particular. As a consequence, moves towards outward-oriented trade policies and trade liberalization to support export growth have become standard practice in the 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 is 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 the lack of structural change and supply-side

constraints, which make it difficult for producers to respond to and meet the requirements of the export market, the very slow rate of growth in productivity and the limited range of goods in which EAC partner states are competitive. Moreover, Musonda and Wangwe (2000) argue that cross-border investment in East Africa has not only been low (5–10 percent of total FDI) but has 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, the export of 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 them is that firms operating within RTAs have the opportunity to exploit economies of scale through enlarged and more diversified local markets, and enhance intra-industry trade through vertical value-chain specialization (Amponsah 2002). The interest of many studies 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 question of 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 is the knowledge gap that this work attempts to address.

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). Its specific objectives are first, to analyze the dynamics and intensity of Tanzania's manufactured exports before and after the establishment of the EAC, and second, to measure the competitiveness of Tanzania's manufactured exports within the region. The study focuses mainly on the founder states because they are the ones that ratified the Treaty for the Establishment of the EAC that entered into force on 7 July 2000, and administered a Customs Union Protocol for several years (from 1 January 1 2005) before the accession of Rwanda and Burundi. Nevertheless, Rwanda and Burundi are incorporated in the recommendations because they have been part of the community since 1 July 2007.

The study's findings offer important information that could help policy makers and negotiators identify and safeguard national manufacturing interests in the context of the EAC framework. In addition, the findings shed light on the mechanisms that Tanzania suggests would allow for the better implementation of the joint initiatives to improve competitiveness