

**Study on the  
Impact of the Implementation of  
The East African Custom Union On  
The Business Community**

**TCCIA**

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# General Outline

- Chapter One: Introduction
- Chapter Two: EAST AFRICAN COMMUNITY CUSTOMS UNION
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- Chapter Eight: Labour market
- Chapter Nine: Firms Interlinkages
- Chapter Ten: Major Constraints Problems and Limitations
- Chapter Eleven: The Conclusion



# Chapter One: INTRODUCTION

- ***The EAC Customs Union Protocol***
  - The main thrust of the Custom Union is the final realisation of a viable integrated East African Common Market, which will stimulate production, investments and trade both intra, regional and international.
  - Thus, formation of the EAC Customs Union is a necessary step towards translating provisions of the treaty into economic opportunities for the East Africans
- ***Justification for EAC-CU-TCCIA-2008 Study***
- ***Research objectives***
- ***Methodology and Approach of the Study***
- ***Consultations***



# Chapter Two: EAST AFRICAN COMMUNITY CUSTOMS UNION (1)

- ***Background***

- The EAC Customs Union (EAC-CU) Protocol entered into force on 1 January 2005, after its ratification by the EAC Partner States – Kenya, Tanzania and Uganda. The EAC common external tariff took effect on 1 January 2005;
- At the same date, tariffs on intra-EAC trade were partially liberalized and expected to be fully eliminated by end 2009.
- For the last three years, 2005, 2006 and 2007, EAC Partner States have attempted to hasten implementation of various policies, strategies, lines of activities and processes aimed at supporting implementation of EAC-CU

- ***Policy Objectives and Strategies of the EAC-CU***

- The general policy objective of EAC-CU is to widen and deepen cooperation among the Partner States



# Chapter Two: EAST AFRICAN COMMUNITY CUSTOMS UNION (2)

- 2.3. Custom Administration
- 2.4. Trade facilitation
  - *Documentation*
  - *Common standards of trade procedures*
- 2.5. Trade related aspects
  - *Specific trade related aspects and policy issues include the Rules of Origin, anti-dumping measures, subsidies, countervailing measures, competition, duty drawback, VAT remission scheme, manufacturing under bond and re-exportation of goods*
- 2.6. Rules of Origin
- 2.7. Anti-dumping measures
- 2.8. Subsidies



## Chapter Two: EAST AFRICAN COMMUNITY CUSTOMS UNION (3)

- 2.9. Trade Liberalization
- 2.10. Community tariff treatment
- 2.11. Internal tariff
- 2.12. Common external tariff.
- 2.13. Non-tariff barriers
- 2.14. Institutional Framework for the CU
- 2.15. Trade Agreements with countries outside the EAC Custom Union



# Chapter Two: EAST AFRICAN COMMUNITY CUSTOMS UNION (4)

- 2.16. The Implementation of the Customs Union Protocol
  - EAC-CU is *on and kicking*
- 2.17. The first round generic impacts are *input processes* of the establishment of the ECA-CU
  - Elimination of internal tariffs was initiated in Tanzania and Uganda during the 2006/07 fiscal year and is expected to be completed in 2010/11.
  - After some initial teething problems, the implementation of the CET was fully operational by the end of January 2005 in Tanzania while Kenya and Uganda followed suit in February and March respectively
  - A harmonised Customs Management Act and regulations thereon has superseded the national Customs Laws and regulations of the three partner states. Transitional arrangements have been agreed upon.
- 2.18. The second round generic impacts are outcomes of the EAC-CU on the Revenue Performance
  - *It is now evident that the customs union had no negative impact on total tax revenues. Whereas there were initial cases customs revenue losses, there have been revenue increases in all sources and in all the countries.*



# Chapter Three: PERFORMANCE IMPACT ASSESSMENT(1)

- 3.1. Awareness on the implementation of the EAC CU protocol
  - *Awareness of the implementation of the EAC-CU protocol and customs union in general in 2008 is still low amongst Tanzanian business community and firms*
  - *However, the situation has improved compared to 2005*
- 3.2. The degree at which the business sector like or dislike the idea of the EAC-CU
  - *About 35 percent were positive on the coming of EAC-CU*
- 3.3. Main EAC-CU Components and Issues of Concern by Business Community
  - *Common external tariffs (16.1 percent)*
  - *Competition (34.6 percent)*
  - *Customs administration and documentation, (11.1 percent)*
  - *Internal tariffs and taxes elimination (36.4 percent)*
  - *Others (including ROO) (1.3 percent)*



# Chapter Three:

## PERFORMANCE IMPACT ASSESSMENT(2)

- **3.4 Noted EAC-CU problems related with objectives, nature and implementation processes**
  - *[1] Documentation and administration procedures and delay; [2] Tariff, NTB's and CET [3] Lack of awareness on EAC-CU [4] Poor infrastructure [5] Macroeconomic issues, [6] Political crisis & security; [7] Labour and Employment, [8] Competition [9] Others Issues*
- **3.5. Impact of EAC CU on business activities**
  - *About 33.6 percent of firms argue that EAC-CU has no impact on their business activities and about 12 percent were not aware or do not know whether the EAC-CU has had an impact on their business activities. On average, about 54 percent of firms whose argue that their business activities had been impacted by the EAC-CU.*
- **3.6. Manner of Impact of EAC-CU on Business Activities**
  - *Increasing competition as a positive impact as cited by an average of 36 percent of firms. Others included tariffs, NTBs, and CET cited by about an average of 26 percent of all the firms*
- **3.7. Major impacts and intensities of the EAC CU protocol**
  - *These include increased production efficiency, quality of products, domestic trade activities expansion, and expansion of both import and export trade activities. Other key items under assessment are market competition, prices stability, labour movement, use of capital and investments, wages and income change impacts on environment, food security, public safety and security, market access and others*



# Chapter Four: GENERAL FIRMS ECONOMIC PERFORMANCE (1)

- **4.1. Organizational and Legal Status**
  - *On average the most dominant types of legal status is the limited liability company and sole proprietorship which are 50.0 percent and 40.3 percent respectively.*
- **4.2. Foreign Ownership**
  - *Very Few Firms owned by “foreigners” suggesting that foreigners do not have much enthusiasm of direct owning of firms in Tanzania*
- **4.3. Indigenous Ownership**
  - *Most micro, small and medium scale firms are owned by indigenous Tanzanians. The EAC-CU has not had much of an impact on changing the structure of ownership*
- **4.4. Firm’s sales, output value and inventories of manufactured products**
  - *Data reveals that output sales increased by more than double of the increase in output value.*



# Chapter Four: GENERAL FIRMS ECONOMIC PERFORMANCE (2)

- **4.5. Proportion of Materials Imported**
  - *Data suggests that while the percentage of imports used in agriculture has not changed, it has increased by about 4 percent and 5 percent for the commercial and industrial sectors respectively. Some of these increases are the result of reduced tariffs within the customs union. This suggests that lower tariffs combined with liberalized output markets will lead to increased business volumes and thus demand for raw material inputs*
- **4.6. Modes of Operations**
  - *The establishment of the customs union has not had an impact on the modes of operation of firms in Tanzania*
- **4.7. Rate of Capacity Utilization**
  - *Capacity utilization has changed slightly after the customs union but is still generally low. This is mostly due to power constraints in terms of rising power costs and irregular power supply.*
- **4.8. Production Exports**
  - *Exports have just increased slightly after the formation of the customs union*
- **4.9. Marketing channels**
  - *Data suggests that the selling of commercial services directly to foreign buyers has increased by over a third after the customs union came into effect. This implies that commercial sector firms are becoming more informed about the opportunities existing within the EAC and thus acting to maximize these opportunities*



# Chapter Four: GENERAL FIRMS ECONOMIC PERFORMANCE (3)

- **4.10. Desire of firms to start or expand export trade**
  - *More than half of the firms desire to expand exports to the EAC because of the opportunities that exist within the customs union. This suggests that most of the firms are aware of the EAC customs union and its benefits.*
- **4.11. Motivation of the desire to expand exports**
  - *The main motivation for wanting to expand exports is the need to take advantage of the expanded EAC market. This is an indication that the customs union has led to market expansion which Tanzanian firms are beginning to take advantage thereby maximizing opportunities presented the customs union*
- **4.12. Main Sources of Financing**
  - *The use of own funds*
- **4.13. Value Addition and Farm Management**
  - *A significant number of agriculture firms add value to their crops before selling them as well as having a person in charge of day to day farm activities. The agricultural sector is thus in a position to maximize opportunities in the customs union*



# Chapter Five: Restructuring, rehabilitation and improvement programme (1)

- **5.1. Restructuring, rehabilitation and improvement programme**
  - *On average all the three sectors have restructured, the industrial sector takes the lead with about 78.3 percent of respondents indicating to have restructured.*
- **5.2. Restructuring and EAC-CU**
  - *About 91.7 percent of industries indicated to have restructured but without any direct linkage to the implementation of EAC-CU protocol.*
- **5.3. Purpose of Restructuring**
  - *The industrial sector restructured to increase output, improve quality and for cost efficient*



# Chapter Five: Restructuring, Rehabilitation and Improvement Programme (2)

- **5.4. Nature and context of rehabilitation**
  - *[1] Plant repair [2] Replacement; [3] Overhaul of equipments, [4] Training of personnel, [5] Balancing and diversifications of major equipment*
- **5.5. Context of rehabilitation**
  - *[1] Modernization or change of production/service delivery; [2] Change in production/service line and [3] Improvement of existing capacity*
- **5.6. Influence of rehabilitation on technology**
  - *Rehabilitation call for the need of frontier production technologies*



# Chapter Five: Restructuring, rehabilitation and improvement programme (3)

- **5.7. Type of production technologies**

- *[1] Current generation and heating system; [2] Production and Quality control [3] Information communication and [4] Computerized system systems [5] Packaging and [6] Counting machines, [7] Others*

- **5.8. Impact of rehabilitation on firms' business environment**

- *[1] Competitiveness [2] Product Quality; [3] Financial Profitability; [4] Production Cost Reduction; [5] Capacity Utilization*



# Chapter Six: PRODUCTION TECHNOLOGIES (1)

- **6.1. Acquisition new production technology**
  - *Consultations revealed that the customs union has not had an impact on acquisition of new technology by firms in Tanzania*
- **6.2. Modification of Technology**
  - *Modification of acquired technology has increased after the introduction of the EAC-CU.*
- **6.3. Contractual Terms of Production Technology**
  - *The contractual terms for acquiring technology has not changed much after existence of the EAC-CU*
- **6.4. Firm Involvement in Research and Development**
  - *Significant number of firms are involved in research and development activities.*



# Chapter Six: PRODUCTION TECHNOLOGIES (2)

- **6.5. Scientists, Engineers and Technicians Employed in Research and Development**
  - *A low number of scientists, engineers, and technicians employed in research and development thereby implying that firms in the country have not invested much in augmenting their capital in order to increase their productivity.*
- **6.6. Changes Undertaken to Main Product with EAC-CU and Full Time Staff Employed in Product Design**
  - *A small proportion of firms undertake changes to their products with the dominant form of change undertaken pertaining to adaptation of product to market demand in all the three sectors*
- **6.7. Full-Time Staff Employed in Product Development**
  - *Only slight changes are undertaken is reflected in the small number of full-time staff employed in product design*
- **6.8. Quality Control Systems**
  - *Data suggests that firms in the industrial and commercial sector use quality control systems of various kinds*
- **6.9. Source of Technology**
  - *Data indicates that the introduction of the customs union has had no effect on firms' sourcing of technology whatsoever*



# Chapter Seven: PRODUCT MARKET PERFORMANCE (1)

- **7.1. General market competitiveness**
  - *Data suggests that many indicated to have benefited from the implementation of EAC custom union.*
- **7.2. Degree of market competition from imports**
  - *Data suggests that the degree of import competition has increased over time in all economic sectors*
- **7.3. Degree of market competition from local supplies**
  - *Data suggests that the degree of domestic competition has increased over time in all economic sectors*



# Chapter Seven: PRODUCT MARKET PERFORMANCE (2)

- **7.4. Market share**

- *Data suggests that market shares have not changed during the last three years*

- **7.5. Profitability**

- *Data suggests that there are few firms which have registered an increasing rate of profitability. About 36.3 percent in commercial sector, 24.2 percent in agriculture and 19.1 percent in manufacturing have confirmed that profit levels have increased in the recent years. It is interesting to note that about 22.5 percent of commercial firms have indicated that they are now less profitable with the establishment of the EAC-CU*

- **7.6. General sector performance**

- *About 44 percent perceived that on average they are satisfied. Whereas about 28.8 are complaining that their performances have been inadequate about 27.2 percent are happy with their performances*



# Chapter Seven: PRODUCT MARKET PERFORMANCE (3)

- **7.7. Price setting mechanism**
  - Overall the survey suggest that the mostly common strategy in setting price by firms from all the three sectors is fixing price as a mark up of costs.
- **7.8. Number of competitors**
  - Number of competitors has increased in all sectors.
  - Data suggest that there are more competitors in the agriculture and commercial sector than is the case in the industrial sector. For example over 52 percent and 33 percent in the commercial and agriculture sector indicated to have facing competitors from more than ten competitors
- **7.9. Size of competitors**
  - The sizes of competitors in the industrial sector are largely medium and large enterprises provided by 18.4 and 37.2 percent respectively. There is an increase of at least 3 percent in the number of large enterprises after the formation of EAC Custom Union.



# Chapter Eight: Labour Market (1)

- **8.1. Changes in employment**

- *The survey suggests that number of firms with employment of full-time workers had increased from 31 percent to 36 percent in the small scale manufacturing firms and decreased from 8.2 percent and 2.4 percent to 7 percent and 1.2 percent in the medium scale and large scale manufacturing firms respectively. There were no significant changes in the agriculture and commercial firms*

- **8.2. Impact of EAC- CU on Income**

- *Industrial workers indicate to have experienced a decrease in salary income of 1 to 10 percent over the period. However, regarding food and house allowance there has been an increase of about 3 percent and this increase is also between 1 to 10 percent.*
- *No change in terms of salary income in the agriculture sector over the period as is the case with commercial services.*



# Chapter Eight: Labour Market (2)

- **8.3. Impact of EAC- CU on labour union**

- *About 81 to 100 percent of employees' member of labour unions come from only 15.3 percent of all industries in the sector prior to EAC-CU with a marginal increase of about 1.2 percent after the implementation of EAC-CU.*
- *In the agriculture sector 81 to 100 percent of employee's member of labour union represents about 6.7 percent of all employs in the sector with a sharp decrease of about 4.5 percent after the implementation of EACCU.*
- *Commercial sector retain equal representation before and after formation of custom union standing at 13.9 percent. This limited representation implied weak bargaining power of labour union in negotiating better deals for its members hence limited motive to attract more people.*

- **8.4. Labour lay-off, dismissal, resignation, absconded, and retired**

- *The industrial sector had the highest degree of dismissals and resignation*
- *Both agriculture and commercial sector stood below average regarding labour lay-off, dismissal, resignation, absconded, and retirement*



# Chapter Nine: Firms Inter-linkages (1)

- The contractual relationships in industrial sector have only grown both for suppliers of components from about 44 percent before EAC-CU to 46 percent after the establishment of EAC-CU.
- Satisfaction for Tanzania business community in terms of prices paid to main suppliers, quality of goods and services rendered and the capacity to keep delivery deadlines has improved.
- Data suggests that in all aspects less than half of interviewed firms in all economic sectors are satisfied both before and during the implementation period.
- Business Support and Current Institution Linkages have improved



# Chapter Nine: Firms Inter-linkages (2)

- Banking services dominates in industrial sector followed by commercial sectors and lastly agricultural sector.
- Main banking services offered to business firms include depositing, overdrafts, money transferring and loans.
- However extents of assistance received by business firms from banking institutions are not adequate and are mainly biased in industrial firms mainly located in urban areas.
- In addition the quality of these services is ranked very low



# Chapter Ten: MAJOR CONSTRAINTS, PROBLEMS AND LIMITATIONS (1)

- **10.1. High production cost**
  - *10.1.1. High labour Costs*
  - *10.1.2. High electricity tariffs and poor quality*
  - *10.1.3. High water tariff and poor quality*
  - *10.1.4. High telecommunication costs*
  - *10.1.5. High cost of capital*
- **10.2. Financial and Credit Related Constraints**
- **10.3. Weak Institutional Framework and Bureaucracy**
- **10.4. Multiplicity of bureaucratic procedures and systems**
- **10.5. Uncoordinated and Uncertain Development Policies**



# Chapter Ten: MAJOR CONSTRAINTS, PROBLEMS AND LIMITATIONS (2)

- 10.6. Inadequate Information and Communication Technology
- 10.7. Increased Competitive Product Market Environment
- 10.8. Human Resource Constraints
- 10.9. Poor Economic Infrastructure
- 10.10. Corruption
- 10.11. High and Multiple Taxes
- 10.12. Other general constraints, limitations and challenges
- 



# Chapter Eleven: CONCLUSION

## (1)

- *The first round generic impacts* of the establishment of the ECA-CU were output results related with customs duties and customs operations as part of the EAC-Customs Union protocol
- *The second generic impacts* of the EAC-CU were related general firm economic performances. These were outcomes of the EAC-CU on business trade, business growth, and employment
- *The third and final generic impacts* of the EAC Customs Union were the creation of a single liberalized perfect competitive output and input markets of over 91 million people and a combined GDP of around US\$30 billion.



# Chapter Eleven: CONCLUSION

## (2)

- To reap the benefits to the fullest possible extent, Tanzania needs to address *domestic supply constrains/ problems* that could negate the potential benefits from the EAC CU. For instance, Tanzania policy makers need to address the problem of differential tariffs under the multiple RTAs to SADC, COMESA and the EAC. Given the variance between the COMESA and Kenyan preferential tariffs, importers often declare goods under the COMESA rules of origin to benefit from lower tariffs. This has significant implications
  - *first*, it leads to import mismanagement and often customs fraud that on the one hand, negates the benefits of preferential access allowed to the member countries' products and on the other, has an adverse impact on revenue collection in Tanzania.
  - *Second*, it hampers domestic production and the development of the local industry in Tanzania
- Increased sensitization of stakeholders through sector ministries, department and agencies on issues pertaining specifically to impact of EAC-CU on the Tanzanian firms and strategies to maximize opportunities from the EAC-CU through the media, workshops, brochures and business organizations.
- Since legal status as well as the size of the firms is correlated with accessibility to financing, micro, small and medium firms as well as sole proprietorships find it difficult to access financing the government as a facilitator should emphasize the operationalization of the promoting the development and growth of small and medium scale enterprises which serve both domestic and export sector as per the objective of the National Investment Policy (1996)
- Government promotion of competitive infrastructural facilities especially reliable power, water, telecommunication and transport to keep down or lower the costs of the infrastructural facilities in order to enhance Tanzanian firms' ability to be competitive in the EAC-CU as well as to attract foreign investment



# Chapter Eleven: CONCLUSION

## (3)

- There is a strong need to break the communication and information flow gap to various stakeholders. This shall enable the business community at large to carry out their activities in mind of the opportunities and challenges of the EAC custom union. Thus awareness campaign and public education is required to address the gravity of the problem. This should include identifying areas where firms, industry and the country at large have competitive advantage and build capabilities to take advantage of both regional and international markets.
- Promote investment in the necessary infrastructure and monitoring improvement in the level of competitiveness in terms of quality, reliability and cost. This should take an integrated approach to ensure adequate, reliable and affordable energy supply in the country and need to continue improving intra and enter region transport and communication facilities.
- Ensure appropriate training of personnel in various scientific and technological discipline, enterprise and entrepreneurship development for SME's and in other spheres of business development. Well trained personnel are the most important resource for a business enterprise and the country at large.
- Recognize the fundamental importance of science and technology for economic development and attainment of competitiveness in all sectors not limited to commercial sector alone. Emphasis should be on the fact that ICT is a resource and tool for competitiveness and development.
- Develop feasible strategies, tailor made to address sector specific constraints limiting firms optimal use of its capacity.



# Chapter Eleven: CONCLUSION

## (4)

- Government should pay attention on rules of origin (ROI) to ensure that a goods entering one partner state under a different trading arrangement does not filter into the country at zero tariff. Moreover, government should continue promoting competition as one of the development priority. Similarly government through its agency should enhance market price determination mechanism such that no single agent should influence or determine market price.
- Ensure wider participation of Tanzanian business community in the region market through creating appropriate domestic business enabling environment for the private sector at all levels ( small, medium and large) to take advantage of the extended market.
- Develop strategies to increase income and employment in industrial and commercial sector.
- Ensure that among others the EAC custom union becomes an effective welfare enhancing tool for its members particularly the welfare of disadvantaged and marginalized group.
- The government should facilitate and strengthen programmes to sustain agriculture and livestock development.
- In the on going process of deepening the integration, the implementation should continue being participatory and effectively bring on board participation of key stake holders. This will mean enhancing the role of women, private sector and civil society.
- Promote technological upgrade in production activities and facilitate export activities.
- Develop economic and other sectoral policy audit to address inadequacies in implementation process and in policy itself in line with time.
- Promote resource based medium and small scale industries and agro processing activities through value addition