

## Comparative Advantage and Economic Performance of East African Community (EAC) Member States

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**ABSTRACT** The researchers have investigated comparative advantage in the East African Community member states. They have also investigated economic performance of the member states. Balassa's Revealed Comparative Advantage (RCA) index was used to establish member states' comparative advantage. An analysis of real GDP, employment levels and stability of exchange rates was used to measure their economic performance. The results show Kenya has comparative advantage in 471 product codes, Tanzania in 471 products, Uganda in 437 product codes, Rwanda in 275 products codes and Burundi in 152 product codes. There is therefore evidence that the member states have revealed comparative advantage although in limited products and that economic indicators show they have performed well. However, there is a need that GDP growth rates should exceed population growth rates in order to have sustainable economic growth.

### INTRODUCTION AND BACKGROUND

A comparative advantage is necessary for a country or a group of countries to benefit from international trade. Kenya, Uganda, the United Republic of Tanzania, Rwanda and Burundi constitute the East African Community (EAC). This paper intends to investigate whether the East African Community (EAC) member states have comparative advantage. The other goal is to gauge economic performance of its member states. In order to achieve the above stated goals, there is going to be a need of looking at individual member states' economic indicators as it is from these that the performance of the community is measured.

There are many regional groupings around the world. Amongst the notable ones are the European Union (EU) and the North American Free Trade Agreement (NAFTA). In Africa, there are also many regional economic groupings such as the Southern African Development Community (SADC), Common Market for Eastern and Southern Africa States (COMESA), the Economic Community of West African States (ECOWAS), Southern Africa Customs Union (SACU) and East African Community (EAC) amongst others.

The East African Community (EAC) is a regional economic grouping which comprises of Kenya, Uganda, United Republic of Tanzania, Rwanda and Burundi (EAC 2012). Kenya, Tan-

zania and Uganda have many times in the past worked together in some form of co-operation. Such co-operations have manifested through the Customs Union for example the one formed by Kenya and Uganda in 1917. This was later expanded to include Tanzania (then Tanganyika) in 1927. Between 1949 and 1961 the three countries formed the East African High Commission. Between 1961 and 1967, they formed the Eastern African Common Services Organization. They later then formed the East African Community which began its operations in 1967 and was dissolved in 1977. Between 1993-2000, they formed Eastern African Co-operation (EAC 2012). In 1984, Kenya, Tanzania and Uganda entered and signed Mediation Agreement meant to divide assets and liabilities which arose from dissolution of the East African Community in 1977 (EAC 2012).

The spirit of working together never departed from Kenya, Tanzania and Uganda. They established the Permanent Tripartite Commission for East African Co-operation on 30 November 1993. The East African Co-operation began to function in full on March 1996 (EAC 2012). The Treaty of establishing the East African Community was signed on 30 November 1999. It became operational upon ratification on 7 July 2000. A protocol that established the East African Community Customs Union was signed on 2 March 2004 by Kenya, Tanzania and Uganda. Burundi and Rwanda joined the East African

Customs Union in 2005. They became full members on 1 July 2007 (EAC 2012).

The objectives of the Customs Union are: liberalization of intra-regional trade in goods; promoting efficient production in member states; attracting foreign direct investment (FDI); and promotion of economic development and industrialization (EAC 2012). The East African Community has a total population of 133.1 million and combined GDP amounting to US\$72.2 billion (EAC 2012).

There is duplication of activities in the Common Market for Eastern and Southern Africa (COMESA), Southern African Development Community (SADC) and EAC. All the EAC members belong to at least two of the above regional groupings. In order to minimise duplication, the COMESA-EAC-SADC Free Trade Area was launched on 20 June 2011. Three major areas of integration have been identified namely: infrastructural development, industrial development and market. The first round of negotiation process will deal with tariff liberalisation, rules of origin, customs cooperation and customs related matters, non-tariff barriers, sanitary and phytosanitary measures, technical barriers to trade, trade remedies and dispute settlement mechanisms. In the second round of negotiations, the issues will include: negotiating trade in services and trade related issues including intellectual property rights, competition policy and trade development and competitiveness. Parallel to the first stage will be negotiations to facilitate movement of business people in the region. The first round of negotiations was expected to take 36 months (Mzumara 2012; Trade Mark Southern Africa 2013).

### **Literature Review on Comparative Advantage and Economic Performance**

All economies, regardless of their size, depend to some extent on other economies and are affected by events outside their borders. Smith (1776) said that a country enjoys absolute advantage over another country in the production of a product if it uses fewer resources to produce that product than the other country does. Ricardo (1817) with the Classical Economists say that a country enjoys comparative advantage in the production of a good if that good can be produced at a lower cost in terms of other goods.

Assuming two countries, each producing two goods, even if a country had a considerable absolute advantage in the production of both goods, Ricardo (1817) would argue that specialization and trade are still mutually beneficial. When countries specialize in producing the goods in which they have a comparative advantage, they maximize their combined output and allocate their resources more efficiently. The sources of comparative advantage are factor endowments, that is, the quantity and quality of labour, land and natural resources of a country. Factor endowments seem to explain a significant portion of actual world trade patterns.

The Heckscher-Ohlin (1919, 1933) theorem explains the existence of a country's comparative advantage by its factor endowments. According to the theorem, a country has a comparative advantage in the production of a product if that country is relatively well endowed with inputs used intensively in the production of that product.

The case for free trade is based on the theory of comparative advantage. When countries specialize and trade based on comparative advantage, consumers pay less and consume more and resources are used more efficiently. Trade is considered by economists as the engine for economic growth and development. When trade barriers for example tariffs, quotas and exchange controls are imposed, some gains from trade are lost.

The idea to determine a country's 'strong' sectors by analyzing the actual export flows was pioneered by Liesner (1958). Since the procedure was refined and popularized by Balassa (1965, 1989) it is popularly known as the Balassa Index. Alternatively, as the actual export flows 'reveal' the country's strong sectors it is also known as *Revealed Comparative Advantage*.

Many countries are, for example, producing and exporting cars. To establish whether a country, say Japan, holds a particularly strong position in the car industry, Balassa argued that one should compare the share of car exports in Japan's total exports with the share of car exports in a group of reference country's total exports. The Balassa index is therefore essentially a normalized export share. More specifically, if  $BI_j^A$  is country A's Balassa index for industry j, this is defined as to:

$$BI_j^A = \frac{\text{Share of industry } j \text{ in country } A \text{ export}}{\text{Share of industry } j \text{ in reference country export}}$$

If  $BI_j^A > 1$ , country A is said to have a *revealed* comparative advantage in industry j, since this industry is more important for country A's exports than for the exports of the reference countries. Hinloopen and van Marrewijk (2001) discuss the empirical distribution of the Balassa index, while Hinloopen and van Marrewijk (2006) show empirically that the Balassa index is theoretically sound.

A number of studies have been carried out using revealed comparative advantage. Hungarian Academy of Sciences (2002) carried out a study to investigate the competitiveness of Hungarian agriculture in relation to that of the EU by employing four indices of RCA for the period 1992-1998. The results of their study suggest that despite significant changes in Hungarian agriculture during the 1990s, the pattern of RCA has remained fairly stable. RCA indices despite their limitations provide a useful guide to underlying comparative advantage and offer a further insight into the competitiveness of Hungarian agri-food sectors and the implications for trade when membership of the EU becomes a reality. European Centre for International Political Economy (2008) examined Kazakhstan's exports to the EU-27 and intra-exports between the EU-27 member countries. The empirical analysis was based on Balassa's RCA measure. The analysis revealed that although Kazakhstan shows a RCA in a number of sectors, its competitiveness has a falling trend in almost all sectors.

Mirzaei et al. (2001) carried a survey on comparative advantage of Iran's chicken meat export in the Middle East region. Their study examined the comparative advantage of chicken meat export of Iran using RCA and RSCA indices during 1990-1999 period. The results of the research showed that Iran does not have a comparative advantage in exporting chicken meat. In addition, the trade and production policies and economic behavior of producers have been in such a way that could not show an appropriate and timely response of region. Also the revealed instabilities in the trends of RCA and RSCA indices during the study period led to the conclusion that there is no well defined strategy and plan for utilization of low production factors, effectiveness of human power, knowledge of bargaining power and target markets.

Shinyekwa and Othieno (2011) examined the comparative advantage of Uganda to the East African Community (EAC) partner states, and how it has evolved during the implementation of the EAC treaty. They recommended that the identified list of commodities with RCA should be the basis for strategically informing the Uganda industrialization strategy within the context for further EAC integration. Makoche-kanwa (2007) analysed Botswana's competitiveness in world trade using RCA for the period 1999 and 2004. The study established that Botswana gained comparative specialization in sugar products, copper ores and concentrates in which it previously had a comparative disadvantage. On the downward side, the country lost specialization in products such as coal gas and water gas.

Muriel and Terra (2009) in their study, "Sources of Comparative Advantage in Brazil", investigated factor abundance in Brazil as revealed by its international trade. Two different periods were studied, that is, one characterized by high trade barriers (1980-1985) and the trade liberalization period (1990-1995). The study found out that the Brazilian international trade reveals abundance in capital, land and unskilled labour, and scarcity in skilled labour, with qualitatively equivalent results for the two time periods studied.

Widodo (2010) in a paper, "Comparative Advantage: Theory, Empirical Measures and Case Studies" concluded that in cases of ASEAN countries, the higher the comparative advantage for a specific product, the higher the possibility of the country as a net-exporter becomes. This finding strongly supports the theory of comparative advantage.

## METHODOLOGY

This paper has used Balassa (1965) RCA in the form of:

$$RCA = \left( \frac{X_{i,j}}{X_{w,j}} \right) / \left( \frac{X_{i,tot}}{X_{w,tot}} \right)$$

With:

$X_{i,j}$  denoting country  $i$ 's exports of product  $j$ ;  
 $X_{i,tot}$  denoting country  $i$ 's total exports;  
 $X_{w,j}$  denoting the world's (all countries) export of product  $j$ ; and  
 $X_{w,tot}$  denoting total exports in the world.

It was first used by Balassa (1965) and by Krugell and Matthee (2009) in measuring the export capability of South African regions.

Mzumara (2011) used the method to measure performance of Mozambique. The method has been found to be reliable in identifying products with export potential. The method is further justified as Wu and Chen (2004) put it that in a dynamic competitive market economy, comparative advantage as revealed in export composition, is consistent with comparative advantage based on the country's economy factor endowment, and evolves along with economic development. It reveals products a country may have comparative advantage in.

An RCA of equal and greater than 1 demonstrates that the country has revealed comparative advantage. Further the paper has used historical approach to evaluate economic performance of EAC member states. Data used to compute RCA was obtained from Trademap owned by International Trade Centre (ITC) based in Geneva, Switzerland. Data used to measure economic performance was obtained from United Nations Conference on Trade Development (UNCTAD).

## RESULTS

Kenya has revealed comparative advantage (RCA) greater or equal to 1 in 778 product

codes. Table 1 shows top 10 products with the highest RCA in Kenya.

Tanzania has revealed comparative advantage (RCA) greater or equal to 1 in 471 product codes. Table 2 shows top 10 products with the highest RCA in Tanzania.

Uganda has revealed comparative advantage (RCA) greater or equal to 1 in 437 product codes. Table 3 shows top 10 products with the highest RCA in Uganda.

Rwanda has revealed comparative advantage (RCA) greater or equal to 1 in 275 product codes. Table 4 shows top 10 products with the highest RCA in Rwanda.

Burundi has revealed comparative advantage (RCA) greater or equal to 1 in 152 product codes. Table 5 shows top 10 products with the highest RCA in Burundi.

## DISCUSSION

Kenya is the most competitive country in the Eastern Africa Union (EAU). It has revealed comparative advantage in 778 product lines. This signifies that Kenya is specialized in the production of such products. However, the top 10 products with the highest RCA comprise mainly non valued added products (primary

**Table 1: Top 10 products with highest RCA in Kenya**

| Product code | Product description                            | RCA 2007 | RCA 2008 | RCA 2009 | RCA 2010 | Average RCA |
|--------------|------------------------------------------------|----------|----------|----------|----------|-------------|
| 090240       | Tea, green (unfermented) in package < 3kg      | 1014.8   | 994.59   | 839.84   | 995.9    | 961.3       |
| 530390       | Jute and other bast fibres                     | 724.1    | 1113.6   | 927.6    | 528.9    | 823.6       |
| 060390       | Cut flowers and flower buds for banquet, dried | 449.5    | 1010.4   | 576.7    | 576.5    | 653.3       |
| 530490       | Sisal and agave                                | 2443.7   | 0        | 0        | 0        | 610.9       |
| 293929       | Cinchona alkaloids                             | 2079.2   | 0        | 0        | 0        | 519.8       |
| 283699       | Carbonates of metals nes                       | 364.1    | 712.6    | 554.8    | 393.3    | 506.2       |
| 530410       | Sisal and agave, raw                           | 1597.9   | 0        | 0        | 0        | 399.5       |
| 130214       | Pyrethrum roots                                | 1499.6   | 0        | 0        | 0        | 374.9       |
| 060210       | Cuttings and slips, not rooted                 | 397.9    | 273.8    | 367.5    | 362.8    | 350.5       |
| 200559       | Beans, nes prepared or preserved               | 323.4    | 285.7    | 147      | 247.5    | 250.9       |

Source: Computed using the data from TradeMap 2012

**Table 2: Top 10 products with highest RCA in Tanzania**

| Product code | Product description                                | RCA 2007 | RCA 2008 | RCA 2009 | RCA 2010 | Average RCA |
|--------------|----------------------------------------------------|----------|----------|----------|----------|-------------|
| 430190       | Raw fur skin pieces                                | 2521.8   | 1344.5   | 3066.6   | 2121     | 2263.5      |
| 050710       | Ivory, unworked or simply prepared                 | 1423.8   | 972      | 10004.9  | 1294.1   | 1173.7      |
| 261690       | Precious metal ores and concentrates except silver | 1125.4   | 1090.5   | 1413.1   | 805.2    | 1108.6      |
| 560729       | Twine nes                                          | 394.8    | 637.9    | 2000.8   | 462.9    | 874.1       |
| 530410       | Sisal and agave, raw                               | 2567.4   | 0        | 0        | 0        | 641.9       |
| 410691       | Tanned/crust hides and skins                       | 785      | 476.3    | 476.9    | 281.2    | 504.9       |
| 710310       | Precious, semi-precious stones unworked            | 662.8    | 560.9    | 282.7    | 332.2    | 459.7       |
| 520300       | Cotton carded or combed                            | 435.6    | 622      | 373.7    | 166.2    | 399.4       |
| 030410       | Fish fillet or meat                                | 1268.3   | 0        | 0        | 0        | 317.1       |
| 440500       | Wood wool, wood flour                              | 486.6    | 284.2    | 183.9    | 172.7    | 281.9       |

Source: Computed using the data from TradeMap 2012

**Table 3: Top 10 products with highest RCA in Uganda**

| <i>Product code</i> | <i>Product description</i>           | <i>RCA 2007</i> | <i>RCA 2008</i> | <i>RCA 2009</i> | <i>RCA 2010</i> | <i>Average RCA</i> |
|---------------------|--------------------------------------|-----------------|-----------------|-----------------|-----------------|--------------------|
| 410691              | Tanned/crust hides and skins         | 2852            | 2203            | 1018            | 2502.9          | 2144.2             |
| 090190              | Coffee husks and skins               | 1381.4          | 2777.8          | 914.7           | 1002.6          | 1519.1             |
| 060240              | Roses                                | 1204.5          | 1318.2          | 1147.6          | 1182.5          | 1213.2             |
| 520300              | Cotton carded or combed              | 739.1           | 416.2           | 724.1           | 597.3           | 619.2              |
| 030270              | Fish livers and roes                 | 1.1             | 232.4           | 1232.7          | 638.1           | 526.1              |
| 110220              | Maize (corn) flour                   | 494.9           | 405.8           | 405.1           | 295.8           | 400.4              |
| 060210              | Cuttings and slips, not rooted       | 360.4           | 229             | 448             | 537.6           | 393.8              |
| 721041              | Flat rolled iron                     | 475.3           | 431.5           | 310.1           | 284.8           | 375.4              |
| 140420              | Cotton linters                       | 760.9           | 23.5            | 87.4            | 187.9           | 264                |
| 090230              | Tea, black (fermented) in pack < 3kg | 146.2           | 163.6           | 184.8           | 206.5           | 175.3              |

Source: Computed using the data from TradeMap 2012

**Table 4: Top 10 products with highest RCA in Rwanda**

| <i>Product code</i> | <i>Product description</i>                   | <i>RCA 2007</i> | <i>RCA 2008</i> | <i>RCA 2009</i> | <i>Average RCA</i> |
|---------------------|----------------------------------------------|-----------------|-----------------|-----------------|--------------------|
| 260900              | Tin ores and concentrates                    | 11812           | 8566.8          | 5593.5          | 8657.4             |
| 261590              | Niobium, tantalum and vanadium               | 6577            | 7697.7          | 3994.6          | 6089.8             |
| 261100              | Tungsten ores and concentrates               | 6357.2          | 2563.3          | 1944.4          | 3621.6             |
| 261790              | Ores and concentrates                        | 1605.8          | 781.4           | 2312.3          | 1566.5             |
| 090240              | Tea, black (fermented) in package > 3kg      | 497.2           | 1591.8          | 1217.6          | 1102.2             |
| 901110              | Stereoscopic microscopes                     | 0               | 0               | 625.4           | 208.5              |
| 090190              | Coffee husks and skins                       | 9.3             | 231.6           | 266.7           | 169.2              |
| 410692              | Tanned/crust hides and skins, nes            | 0               | 0               | 305.2           | 101.7              |
| 711100              | Metals, clad with platinum semi-manufactured | 0               | 0               | 242.7           | 80.9               |
| 630629              | Tents, of textile material nes               | 5.8             | 0.5             | 225             | 77.1               |

Source: Computed using the data from TradeMap 2012

**Table 5: Top 10 products with highest RCA in Burundi**

| <i>Product code</i> | <i>Product description</i>                           | <i>RCA 2007</i> | <i>RCA 2008</i> | <i>RCA 2009</i> | <i>RCA 2010</i> | <i>Average RCA</i> |
|---------------------|------------------------------------------------------|-----------------|-----------------|-----------------|-----------------|--------------------|
| 410310              | Goat or kid hides and skins, raw                     | 4051.4          | 27394.8         | 88979           | 0               | 53691              |
| 900912              | Electrostatic photocopiers                           | 0               | 0               | 10908.2         | 0               | 2727.1             |
| 261100              | Tungsten ores and concentrates                       | 271.9           | 1631.1          | 1105            | 2628.8          | 1409.2             |
| 520291              | Garnetted stock of cotton                            | 0               | 0               | 3849            | 0               | 962.3              |
| 520300              | Cotton carded or combed                              | 440             | 440             | 356.4           | 657.3           | 473.4              |
| 910811              | Gold powder non-monetary                             | 0               | 0               | 1841.7          | 45.8            | 471.9              |
| 852790              | Radio reception apparatus                            | 0               | 0               | 1849.2          | 0               | 462.3              |
| 090111              | Coffee not roasted, not decaffeinated                | 262             | 277.5           | 311.3           | 492.9           | 335.9              |
| 060310              | Cut flowers and flower buds for bouquets, etc, fresh | 14.6            | 224.5           | 463.6           | 0               | 175.7              |
| 410691              | Tanned/crust hides and skins nes without wool        | 0               | 143.4           | 433.6           | 0               | 144.3              |

Source: Computed using the data from TradeMap 2012

products). Tea tops with very high RCA of 961.3 well above the minimum of 1. It is followed by jute with RCA of 823.6. Cut flowers are in a third place with 653.3.

Tanzania is the second competitive country in the EAU. It has revealed comparative advantage in 471 product lines. It is highly specialized in the production of such products. Tanzania has a very high RCA of 2263.5 in the production of raw fur skin pieces. It is followed by ivory in which it has RCA OF 1173.7. The third

place is occupied by precious metal ores and concentrates with RCA of 1108.6. Tanzania like Kenya the top 10 products are predominately primary products. However, Tanzania indices are very high signifying greater degree of specialization in the products than Kenya. Kenya has the highest number of products it has revealed comparative advantage in. However, the degree of specialization in them is not very high. Amongst the top 10 products, Kenya and Tanzania show that both countries are specialized

in the production of sisal and agave. However, the implication is that it narrows the scope of intra-EAC trade.

Uganda occupies the third position in terms of competitiveness in the EAU. It has revealed comparative advantage in 437 product lines. It is highly specialized in the production of such products. Uganda just like Kenya and Tanzania has majority of the top 10 products are primary products. Uganda has the highest revealed comparative advantage in the production of tanned/crust hides and skins with RCA of 2144.2. It is followed by coffee husks and skins with RCA index of 1519.1. The third place is occupied by roses with RCA index of 1213.2. The top 10 products in Uganda also comprise mainly primary products. Uganda just like Tanzania has very high indices. Cotton features in the top 10 products in both Tanzania and Uganda. They also specialize in fish although they fall in different HS-6digit code. Kenya specializes in green tea whereas Uganda specializes in black tea. Kenya also specializes in cut flowers while Uganda specializes in roses.

Rwanda occupies the fourth place in terms of competitiveness. It has revealed comparative advantage in 275 product lines. It has very few products it specializes in. However the products in which it demonstrates supply capabilities have very high RCA indices signifying very high degree of specialization in them. Tin ores and concentrates occupy the top 10 products with RCA index of 8657.4 followed by nicobium, tantalum and vanadium with RCA index of 6089.8. The third place is occupied by tungsten ores and concentrates with RCA index of 3621.6. The top 10 products are also mainly primary products. Uganda and Rwanda are specialized in the same products such as black tea, coffee husks and skins and tanned/crust hides and skins.

Burundi is the least competitive amongst all EAU members. It has revealed comparative advantage in 152 product lines. Those products it has revealed comparative advantage in, the country has a very high degree of specialization

in them as demonstrated by very high indices. However most of the 10 top products are classified as primary products. Goat or kid hides and skins top other products with RCA index of 5369.1 followed by electrostatic photocopiers with RCA index of 2727.1. The third place is occupied by tungsten with RCA index of 1409.2. Kenya and Burundi both specialize in cut flowers. Uganda and Burundi both also specialize in cotton. Rwanda and Burundi both specialize in the same product, tungsten ores and concentrates. Generally, the EAC member states are gaining from international trade as propagated by Ricardo (1817) and Heckscher-Ohlin (1919, 1933).

### Analysis of Performance in Selected Indicators

Three different indicators are used here to measure economic performance of the EAU. These are real GDP growth rates, employment data and exchange rates. Table 6 shows real GDP growth rates for 2006-2010.

Generally the EAC members have experienced positive real GDP growth rates for the period 2006 to 2010. High real GDP growth rate was experienced in Rwanda in 2008 amounting to 11.5%. The Ugandan economy in the same year also grew by 10.5%. In that year Kenya had the least real growth rate. It registered only 1.5%. Burundi had the highest real growth rate in 2007. It registered 6.4%. Kenya had the highest real GDP in 2007. It registered 7%. The EAU average real GDP for the period 2006-2010. Table 7 shows employment in all sectors 2007-2012.

Employment in Burundi in all sectors grew by 4.4% (using 2007 as base year) in 2008 (Table 7). In 2009 employment grew by 8.5% then increasing by 12.3% in 2010. In 2011 employment grew by 15.7% before being projected to grow by 18.7% in 2012. Kenya's employment level grew by 3.1% in 2008 then grew by 6.4% in 2009. In 2010 employment level increased

**Table 6: Real GDP growth rates in EAC for 2006-2010<sup>1</sup>**

| Country | 2006 | 2007 | 2008  | 2009 | 2010 |
|---------|------|------|-------|------|------|
| Burundi | 5.5% | 6.4% | 4.3%  | 3.4% | 3.9% |
| Kenya   | 6.3% | 7%   | 1.5%  | 2.6% | 5.6% |
| Rwanda  | 9%   | 7.7% | 11.5% | 6.1% | 7.5% |
| Uganda  | 7%   | 8.1% | 10.4% | 4.4% | 2.5% |

Source: Compiled from UNCTADSTAT 2012

by 9.7% then increasing to 13.2% in 2011. In 2012 employment grew by 16.7%. In Rwanda employment grew by 3.1% in 2008 then grew by 6.3% in 2009. In 2010 employment level grew by 9.5% then in 2011 by 12.6%. In 2012 employment has grown by 16.1%. In 2008 employment level in Tanzania grew by 2.3% then in 2009 grew by 5.7%. In 2010 employment grew by 8.6% then in 2011 by 11.8%. In 2012 employment has been projected to grow by 15%. In Uganda, the employment level grew by 3.2% in 2008 then grew by 6.6% in 2009. In 2010 employment grew by 13.7% then in 2011 employment grew by 17.5%. In 2012 employment has been projected at 21.4%. Uganda has experienced highest growth rates followed by Burundi.

Table 8 shows East African Community exchange rates Vs United States dollar.

The local currency in Burundi slightly lost value in 2007, 2008, 2009 and 2010. The currency generally remained very stable.

The Kenyan shilling gained value in 2007 and slightly lost value in 2008. It further slightly lost value in 2009 and 2010. However, Kenyan shilling has remained relatively stable against the United States dollar.

Rwanda's local currency slightly gained value in 2007 and maintained it also in 2008. In 2009 and 2010 the currency lost value against the United States dollar. However the currency has remained relatively stable against the United States dollar.

The Ugandan shilling slightly gained value in 2007 and 2008. The currency slightly lost

value in 2009 and 2010. However, the shilling was relatively stable against the United States dollar.

Tanzanian shilling slightly gained value in 2007 and 2008. In 2009 and 2010, the Tanzanian shilling slightly lost its value against the 'greenback'. The currency however, remained relatively stable.

## CONCLUSION

All the members of the East African Community have revealed comparative advantage. However, the product number in which they have comparative advantage is small and also produce the same products thereby restricting intra-East African Community trade.

## RECOMMENDATIONS

It is recommended that the East African Community should continue discussing with the Southern African Development Community (SADC) and Common Market for Eastern and Southern Africa (COMESA) for possible merger that way the community can be more trade creation than trade diversion considering the limited number products in which the member states have comparative advantage.

The general indicators show that the economies in the region have done well. However, there is a need to ensure that economic growth rates should be higher than population growth rates in the region.

**Table 7: Employment levels in EAC 2007-2012 (in thousand)**

| Country  | 2007    | 2008    | 2009    | 2010    | 2011    | 2012    |
|----------|---------|---------|---------|---------|---------|---------|
| Burundi  | 3841.2  | 4008.4  | 4168.1  | 4314.4  | 4444.4  | 4557.8  |
| Kenya    | 14092.4 | 14535.2 | 14991   | 15461.3 | 15946.9 | 16447.4 |
| Rwanda   | 4772.9  | 4921.2  | 5073.2  | 5227.6  | 5381.6  | 5540.8  |
| Tanzania | 20376.2 | 20940.2 | 21526.8 | 22137.4 | 22773.4 | 23435.9 |
| Uganda   | 12187.9 | 12582.2 | 12992.5 | 13862.1 | 14322   | 14799.2 |

Source: Compiled from UNCTADSTAT

**Table 8: East African Community exchange rates Vs United States dollar**

| Country        | 2006    | 2007    | 2008    | 2009    | 2010   |
|----------------|---------|---------|---------|---------|--------|
| Burundi (BIF)  | 1028.68 | 1081.87 | 1185.69 | 1230.18 | 1230.5 |
| Kenya (KES)    | 72.1008 | 67.3176 | 69.1753 | 77.352  | 79.22  |
| Rwanda (RWF)   | 551.71  | 546.955 | 546.849 | 568.281 | 586.25 |
| Uganda (UGX)   | 1831.45 | 1723.49 | 1720.44 | 2030.31 | 2169.1 |
| Tanzania (TZS) | 1251.9  | 1245.04 | 1196.31 | 1320.31 | 1411.7 |

Source: Compiled from UNCTADSTAT 2012

## NOTE

<sup>1</sup>No real GDP data was available for Tanzania

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