International Trade Centre

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Managing Competitive Advantage

MOVING FROM COMPARATIVE TO COMPETITIVE ADVANTAGES: TANZANIA'S EXPERIENCE

Contributed by the Tanzanian Country Team

1. CONCEPTS AND ANALYTICAL FRAMEWORK

The traditional concept of comparative advantages is an approach to international trade relationships with specialization based on national resource endowment. Accordingly, since African countries are rich in natural resources and ample farming land, their economies specialize in the production and export of commodities – agricultural products and minerals. Conversely, the industrialised countries, Africa's leading trading partners, have comparative advantages in capital resources (both finance and human capital) hence specialization in industrialization processes that are necessary to convert commodities into end-user products. Technology is considered a given factor with no direct impact on trading relations.

In the competitive advantage approach, the deciding factor in international trade relations is technology. At the micro level, firms can create a competitive edge over others through innovation leading to better ways of doing things at any level of the product cycle and supply value chain – marketing, product transformation, finance and management. In a global market, competition also takes place between nations and depends on national competitive platforms that elevate the competitiveness of firms.

Policy-making in most African countries, Tanzania included, have only recently embarked on initiatives to formulate and implement export development strategies based on the tenets of competitive advantages. For instance, Tanzania's initiatives are largely limited to work undertaken under the JITAP programme and a range of donor supported intervention schemes for private sector development in the agricultural and manufacturing sector. Many of these schemes are still in the incubation stage and are yet to bear fruit. Strategies for trade development including export strategy formulation are only beginning to receive the deserved attention from public and private sector institutions. This attention is substantially reflected in export development efforts underwritten by institutional reforms of the supporting framework targeting re-orientation towards trade development.

2. BEST PRACTICE IN TRADE DEVELOPMENT

Best practices call for public sector interventions targeting areas that are difficult to run on commercial basis. In cases where commercialisation is difficult initially but is possible once industry concerned reaches a certain level of development, public sector intervention should be of an interim nature. Direct private sector participation has to be encouraged to take place in all operations that can be run on commercial basis. Suitable vehicles for the private sector's role in enhancing its own development have to be identified and encouraged. For instance investment in production belongs to the level of the firm and the entrepreneur while there is a specific role for business sector associations. Government support in these areas may be necessary initially but these have to be directed in a manner and form that does not discourage and hamper competitiveness.

Approach to appropriate public sector intervention to stimulate trade development should reflect the following premises:

(i) Strengthening of market supporting institutions;
(ii) Appropriate interventions along the entire supply or value chain based on the marketing concept (co-ordinated links from the farm to the table);
(iii) Appropriate roles for public and private sector market support institutions; and
(iv) Approaches to best practice interventions – who are the key players and what are their roles.

Finally effective interventions for trade development have to take into consideration the gradual process of transformation from the early stages of capacity and competence building through reduction of transaction costs to identification and pursuit of market opportunities. Adaptation of technology and its diffusion handles the aspect of competence and capacity while the creation and maintenance of an enabling environment addresses the issues of reduction of transaction costs. Finally identification and pursuit of market opportunities is encompassed in the totality of the concept of trade development.

3. BUILDING COMPETITIVE ADVANTAGES IN CASHEW INDUSTRY.

Probably no other products highlights the significance and impact of the need for deliberate efforts to shift from comparative advantages to competitive advantages than Tanzania's experience in the case of cashew nut production.

In the 1960s and 1970s Tanzania was a leading cashew nut producer with output of unprocessed nuts amounting to metric tons 145,000 tons in the early 1970s. However output declined to less than 20,000 tons by the mid 1980s. Efforts to revive production saw output rising to a record 164,000 metric tons in 1998 (compared to an output of 313,000 tons by India, the leading world producer). Although output of raw nuts declined substantially to metric tons 102,000 in 1999 and 95,000 in 2001, exports earnings declined amounted to USD107 million in 1998, declined slightly to USD100 million in 1999 and more dramatically to a mere USD57 million in 2001. This was attributable to inability to influence the raw nut market and failure to add value to Tanzania's cashew exports.

During the 1980s Tanzania invested in ten large processing plants to produce kernel nut for export. Problems attributable to inappropriate strategies underpinning these large capital investments culminated in failure to compete in the market for processed kernels and recourse to export of raw nuts inspite of large investment in capital intensive processing plants. In the 1990s Tanzania resorted to export of raw nuts to the Indian Market where it is processed to kernels and re-exported to large brand processors and distributors in the Industrialised Countries. In terms of the value chain, Tanzania has been pushed to the low value, high cost links of the supply chain, characterised by low returns, while Indian importers and processors have managed to internalise the medium return parts of the supply chain. The highest return are still in the hands of the large international brand houses.

Tanzanian efforts to internalise parts of the supply chain that offer higher returns are based on a strategy that includes installation of new processing capacity based on high labour and low capital input that facilitates higher quality nut at the processing end. Additional efforts are being undertaken at the farming end through promotion of measures for the certification of organic farming taking advantage of the fact that most cashew farming is already organic by default and what is required is establishment of acceptable records systems for certification purposes. Finally the strategy includes initiatives for market diversification targeting the organic product market and the kernel market.

The envisaged returns from this strategy are substantial as can be discerned from the data on value added in processed nuts. For instance about 3.5 tons of raw nuts yield 1 one ton of kernels and 315 kgs of CNSL (cashew nut shell liquid). The net export value of 3.5 tons of raw nuts is USD3,375 (at USD750 per ton f.o.b.). Export of kernels earn the average of price USD5,000 per ton apart form a CNSL output with a value of USD 125. CNSL is used primarily for the manufacture of industrial resins for paints and brake linings.

Value added in exporting kernels rather than raw nuts amounts to 35% of the value of raw nuts. This value can be internalised by countries like Tanzania subject to formulating and implementing a successful strategy based on creating competitive advantages at the processing stage combined with market diversification. Innovation and creativity at the farming stage based on organic farming is bound to lead to even more dramatic returns even without changing current output levels.

4. FUTURE PROSPECTS

Value chain interventions based on marketing concept is a necessary condition for trade development in Africa in the 21st Century. This is the basic premise for internalisation of parts of the value chain that have higher returns for commodity producers. A second premise for transformation is adoption of market diversification strategies as an integral part of efforts to reposition on the supply chain. Finally success depends on an integrated approach involving public private partnerships.