



THE UNITED REPUBLIC OF TANZANIA

**NATIONAL TRADE POLICY**

TRADE POLICY

FOR A COMPETITIVE ECONOMY

AND EXPORT-LED GROWTH

**MINISTRY OF INDUSTRY AND TRADE  
DAR ES SALAAM, FEBRUARY 2003**

## **FOREWORD**

Tanzania enters the Twenty First Century with hope inspired by the goals of Development Vision 2025 and our determination to consolidate gains on the macro-economic front and to face the economic challenges that lie ahead. This inspiration has led to the determination to forge a strong, diversified, resilient and competitive economy. Towards this end all sectors have specific roles and contributions to make in raising the pace of development to a dynamic self-sustaining level. In this regard, the trade function is seen as a central and pivotal pillar in the attainment of the mission of the economic sectors towards higher efficiency, productivity and international competitiveness.

While Development Vision 2025 inspires and raises hope, the argument for trade as the engine of growth and development in the face of globalisation needs no emphasis. Unfolding developments in the political, economic and social spheres are bringing about tremendous changes and challenges in the business environment. These changes entail radical shifts in international economic relations, evident in the trade liberalisation and globalisation phenomenon.

Tanzania needs a trade policy that will ensure effective participation in the rules-based trading system that has emerged at the international level and in seizing the opportunities inherent in the free flow of resources inherent in globalisation. The goal of Tanzania's National Trade Policy is to facilitate smooth integration into the Multilateral Trading System (MTS) and roll back the gradual descent towards marginalisation. It is intended to ensure that liberalisation offers meaningful, identifiable and measurable benefits.

The efficacy of trade policy depends on the establishment of a specific macro-economic, social and political environment. When fundamental changes occur in the underlying environment, the configuration of policy strategies also has to change. Consequently this policy reflects the dynamics of Tanzania as an economy in

transition towards a market system.

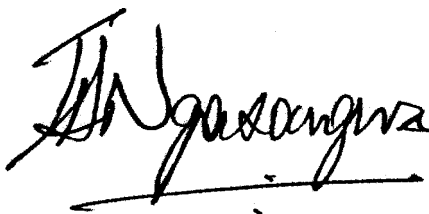
One consequence of liberalisation is the de facto merger of domestic and international markets into a single market and the necessity for domestic firms to become internationally competitive even in internal markets. The impact of globalisation is the accessibility to domestic firms, of resources that can facilitate enhanced productivity and efficiency necessary for competitiveness. In this setting, export-led growth is both an opportunity and a challenge for Tanzania. Tanzanian firms and entrepreneurs, like their counterparts in other parts of the world, have to strive towards production of higher quality goods and first class services at lower prices. The overall strategy includes reform of institutional structures and change of cultural norms and practices in economic activities so as to put in motion the process of re-orienting the economy towards an open market system targeting export-orientation.

The policy is presented in two documents - the main policy document and one volume of annexes. The Annexes present technical papers charting out the strategic path for trade development. These documents are the output of an extensive consultative process of involved stakeholders from different walks of life in the public and private sectors, civil society and the academia. Public and private sector institutions were represented in the Technical Committee, established in March 2000, which undertook the basic research and produced the first set of working documents. Moreover, this policy document is an outcome of deliberations at various levels of the public decision-making machinery.

This policy is, therefore, the outcome of joint effort by a wide spectrum of stakeholders, reflecting public-private smart partnership. Its implementation equally depends on the common effort of each one of us as we strive to carve a place for Tanzania in the global economy and a niche for its products in the international market place. As stated time and again in the policy, the private sector is the lead implementer, the economic agent responsible for the

production of goods and services that will enable Tanzania take its rightful place in the global market. The public sector's primary role is that of facilitating this process. Further, because of the current weaknesses of the private sector, the public sector is also expected to play the role of stimulating private sector development.

This is the essence of the strategy that will enable Tanzania to use her resources, especially her manpower base, to address economic challenges with the objective of attaining the goals of the Development Vision 2025, of poverty eradication within two and a half-decades. The goal is achievable if all of us work together in a focused and strategic way.

A handwritten signature in black ink, appearing to read 'Juma A. Ngasongwa', with a horizontal line underneath.

Hon. Dr. Juma A. Ngasongwa (MP)  
**MINISTER OF INDUSTRY AND TRADE**

**Dar es Salaam, February, 2003.**

## **ABBREVIATIONS AND ACRONYMS**

ACP:	Africa Caribbean Pacific
ASDP:	Agriculture Sector Development Programme
ASDS:	Agriculture Sector Development Strategy
AIDS:	Acquired Immune Deficiency Syndrome
ATI:	African Trade Insurance
AU:	African Union
BDS:	Business Development Services
BET:	Board of External Trade
BEST:	Programme for Business Environment Strengthening for Tanzania
BOOT:	Build Own Operate Transfer
BOT:	Build, Operate and Transfer / Bank of Tanzania
BRELA:	Business Registration and Licensing Agency
CAMARTEC:	Centre for Agricultural Mechanisation & Rural Technology
CTI:	Confederation of Tanzanian Industry
DDB:	Duty Draw Back scheme
DFID:	Department for International Development
EAC:	East African Community
EDS:	Export Development Strategy
EPZ:	Export Processing Zone
ERP:	Economic Reform Programme/Effective Rate of Protection
EWURA:	Energy and Water Utilities Regulatory Agency
FCC:	Fair Competition Commission
FDI:	Foreign Direct Investment
GATT:	General Agreement on Tariff and Trade
GDP:	Gross Domestic Product
HIV/AIDS:	Human Immuno Virus/Acquired Immunity Deficiency Syndrome
ICT:	Information and Communication Technology
IF:	Integrated Framework
ILO:	International Labour Organisation

<b>ISO:</b>	<b>International Standard Organisation / Industry Support Organisation</b>
<b>JITAP:</b>	<b>Joint Integrated Technical Assistance Programme</b>
<b>LDCs:</b>	<b>Least Developed Countries</b>
<b>MAFS:</b>	<b>Ministry of Agriculture and Food Security</b>
<b>MCM</b>	<b>Ministry of Cooperatives and Marketing</b>
<b>MCT:</b>	<b>Ministry of Communication and Transport</b>
<b>MEC:</b>	<b>Ministry of Education and Culture</b>
<b>MEM:</b>	<b>Ministry of Energy and Minerals</b>
<b>MoF:</b>	<b>Ministry of Finance</b>
<b>MFN:</b>	<b>Most Favoured Nation</b>
<b>MIT:</b>	<b>Ministry of Industry and Trade</b>
<b>MFAIC:</b>	<b>Ministry of Foreign Affairs and International Co-operation</b>
<b>MNRT:</b>	<b>Ministry of Natural Resources and Tourism</b>
<b>MTN:</b>	<b>Multilateral Trade Negotiations</b>
<b>MTS:</b>	<b>Multilateral Trading System</b>
<b>MWLD:</b>	<b>Ministry of Water and Livestock Development</b>
<b>NISC:</b>	<b>National Investments Steering Committee</b>
<b>NPHC:</b>	<b>National Policy Harmonisation Committee</b>
<b>NICs:</b>	<b>New Industrialising Countries</b>
<b>NDC:</b>	<b>National Development Corporation</b>
<b>NGO:</b>	<b>Non Government Organisation</b>
<b>NTBs:</b>	<b>Non Tariff Barriers</b>
<b>PRSP:</b>	<b>Poverty Reduction Strategy Paper</b>
<b>POPP:</b>	<b>President's Office, Planning and Privatisation</b>
<b>PSI:</b>	<b>Pre Shipment Inspection</b>
<b>PSDS:</b>	<b>Private Sector Development Strategy</b>
<b>R &amp; D:</b>	<b>Research and Development</b>
<b>RTA:</b>	<b>Regional Trading Agreements/Areas</b>
<b>RoO:</b>	<b>Rules of Origin</b>
<b>SADC:</b>	<b>Southern Africa Development Community</b>
<b>SIDO:</b>	<b>Small Industries Development Organisation</b>
<b>S&amp;D:</b>	<b>Special and Differential (Treatment)</b>
<b>SSA:</b>	<b>Sub-Sahara Africa</b>
<b>SME:</b>	<b>Small and Medium Enterprises</b>

<b>STE:</b>	<b>State Trading Enterprise</b>
<b>SOE:</b>	<b>State Owned Enterprise</b>
<b>SAP:</b>	<b>Structural Adjustment Programme</b>
<b>SPS:</b>	<b>Sanitary and Phytosanitary Measures</b>
<b>SUMATRA:</b>	<b>Surface and Marine Transport Regulatory Agency</b>
<b>TBTs:</b>	<b>Technical Barriers to Trade</b>
<b>TAS:</b>	<b>Tanzania Assistance Strategy</b>
<b>TCCIA:</b>	<b>Tanzania Chamber of Commerce, Industry and Agriculture</b>
<b>TEMDO:</b>	<b>Tanzania Engineering &amp; Manufacturing Design Organisation</b>
<b>TBS:</b>	<b>Tanzania Bureau of Standards</b>
<b>TIC:</b>	<b>Tanzania Investment Centre</b>
<b>TPSF:</b>	<b>Tanzania Private Sector Foundation</b>
<b>TIRDO:</b>	<b>Tanzania Industrial Research and Development Organisation</b>
<b>TRA:</b>	<b>Tanzania Revenue Authority</b>
<b>TRIMS:</b>	<b>Trade Related Investment Measures</b>
<b>TSN:</b>	<b>Trade Support Network</b>
<b>USD (US\$):</b>	<b>United States Dollar</b>
<b>VAT:</b>	<b>Value Added Tax</b>
<b>WMA:</b>	<b>Weights and Measures Agency</b>
<b>WTO:</b>	<b>World Trade Organisation</b>

# **NATIONAL TRADE POLICY, 2003**

## **TABLE OF CONTENTS**

	Page
FOREWORD	i
ABBREVIATIONS and ACCRONYMS	iv
1. BACKGROUND .....	1
1.1 INTRODUCTION .....	1
1.2 LIBERALISATION AND GLOBALISATION	3
1.3 HISTORICAL PERSPECTIVE, ECONOMIC INDICATORS AND POTENTIAL	4
1.3.1 Historical Background .....	4
1.3.2 Trade Liberalisation and Reorientation of Internal Trade ....	6
1.4 RATIONALE FOR A NATIONAL TRADE POLICY	7
1.4.1 Domestic Market Considerations .	8
1.4.2 The International Environment ....	9
1.4.3 Re-orientation Towards Trade Development .....	10
2. ECONOMIC OVERVIEW .....	12
2.1 TRENDS IN WORLD TRADE AND THE PLACE OF SUB-SAHARAN AFRICA .....	12
2.2 TANZANIA: ECONOMIC PERFORMANCE TRENDS .....	13
3. TRADE POLICY VISION, MISSION AND OBJECTIVES .....	15
3.1 VISION .....	15
3.2 MISSION .....	16
3.3 OBJECTIVES .....	16
4. CONSTRAINTS AND CHALLENGES FOR TRADE POLICY .....	18
4.1 ENABLING POLICY ENVIRONMENT .....	19
4.1.1 Good Governance .....	19
4.1.2 Macro-economic Policy Environment .....	20
4.1.3 Legal and Regulatory Framework ..	21
4.1.4 Economic Regulation and Competition Policy .....	22
4.2 CAPACITY DEVELOPMENT .....	23



4.2.1	Human Skills Development .....	23
4.2.2	Private Sector Development .....	26
4.2.3	Institutional Capacity Building .....	27
4.2.4	Transformation of Production .....	
	Capacity .....	28
4.3	INFRASTRUCTURE DEVELOPMENT .....	29
4.4	CROSS-CUTTING ISSUES .....	30
4.4.1	Trade and the Environment .....	30
4.4.2	Trade and Gender .....	31
4.5	DOMESTIC MARKET AND DEMAND .....	
	CHALLENGES .....	32
4.6	REGIONAL AND INTERNATIONAL	
	TRADE DIMENSIONS .....	33
4.7	IMPLEMENTATION INSTRUMENTS AND	
	COMPLEMENTARY SECTOR POLICIES ....	34
5.	TRADE POLICY INSTRUMENTS AND PRIORITY	
	SECTORS	36
5.1	TRADE POLICY TARGETS .....	36
5.2	POLICY INSTRUMENTS .....	37
5.2.1	Tariff-based (Ad Valorem) Instruments..	38
5.2.1.1	Tariffs .....	38
5.2.1.2	Taxation .....	39
5.2.1.3	Duty Draw Back Scheme....	40
5.2.1.4	Export Taxes .....	41
5.2.2	Non-Tariff Barriers/Measures .....	41
5.2.2.1	Import Licensing .....	42
5.2.2.2	Pre-shipment Inspection.. ..	43
5.2.2.3	Customs Valuation.....	43
5.2.2.4	TRIMs (Local Content	
	Requirement) .....	44
5.2.2.5	Standards .....	45
5.2.2.6	State Trading Operations ...	46
5.2.2.7	Government Procurement ..	47
5.2.2.8	Administrative Procedures .	48
5.2.3	Trade Defence Instruments.....	49
5.2.3.1	Safeguard Measures .....	49
5.2.3.2	Anti-dumping.....	50
5.2.3.3	Subsidies and Countervailing	
	Duties .....	50

5.2.3.4	Rules of Origin .....	52
5.2.4	Trade Development Instruments .....	52
5.2.4.1	Export Processing Zones ....	53
5.2.4.2	Investment Code and Rules	54
5.2.4.3	Export Promotion and Market Linkages .....	55
5.2.4.4	Export Facilitation .....	56
5.2.5	International Policy Instruments .....	57
5.2.5.1	Bilateral Co-operation .....	57
5.2.5.2	Regional Trading Arrangements	57
5.2.5.3	The WTO Agreements .....	58
5.3	PRIORITISATION OF POLICY INSTRUMENTS	60
5.4	SECTOR POLICIES ALIGNMENT .....	61
6.	IMPLEMENTATION FRAMEWORK AND ACTION PLAN .....	64
6.1	ROLES AND FUNCTIONS .....	64
6.1.1	Public Sector - The Facilitator .....	64
6.1.2	Private Sector - The Implementer ....	66
6.1.3	Civil Society .....	67
6.1.4	Development Cooperation Partners ..	68
6.2	TRADE POLICY DEVELOPMENT GROUP AND SUPPORT NETWORK .....	68
6.3	SEQUENCING AND CONTINUITY OF TRADE POLICY .....	70
6.4	TRADE POLICY IMPLEMENTATION ACTION PLAN .....	71
6.4.1	Major Implementation Issues .....	71
6.4.2	Sectoral Strategies and Programmes	73
6.4.3	Implementation Matrix and Concepts	74
6.4.4	Implementation Programmes and Projects	75
6.4.5	Market Supporting Institutions and Capacity Building .....	77
6.4.6	Monitoring and Evaluation .....	78
Annex	.....	80
Figure 1:	STRUCTURE OF TRADE POLICY DEVELOPMENT GROUP .....	81
Figure 2b:	TRADE POLICY IMPLEMENTATION MATRIX	82

# CHAPTER ONE

## **BACKGROUND**

### **1.1 INTRODUCTION**

Tanzania has declared, through the Development Vision 2025, the bold goal of poverty eradication within the lifespan of one generation. The challenge is formidable. On the one hand, developments in the international setting provide unique opportunities for the attainment of this goal. These opportunities include: globalisation and liberalisation; the new forces for trade expansion and rapid economic growth; technological innovation summed up in the digital revolution that is transforming the means and costs of human communication and interaction leading to dramatic declines in the cost of production; and political thrust for good governance that is reviving the traditional values of humanity and stimulating human-centred development. On the other hand, at the national level, social tranquillity, resource endowment and determination in carrying through reforms are providing the platform for building economic competitiveness.

The opportunities in the international environment notwithstanding, internal weaknesses, if not addressed adequately, can be debilitating constraints to trade expansion and growth. The process of economic transformation towards an open market system poses new challenges on the need to build a strong private sector and addressing the concerns of empowerment associated with this. Economic liberalisation also means fundamental changes in the perception of internal trade as a sector through which the government controlled economic activity as underscored by the 1982 internal trade policy.

The objective of this National Trade Policy is to enable Tanzania identify ways and means of navigating through a viable and steady

path towards competitive export-led growth for the realisation of the goal of poverty eradication. By adopting this National Trade Policy, Tanzania commits itself to one direction of change, namely that of trade liberalisation based on selectivity and a gradual process. In this regard, the strategy provides some space for government intervention in the direction of trade subject to continuing conformity with obligations in the MTS and regional undertakings.

In a dynamic world, trade policy must be even more dynamic. This calls for a timeframe of 5 years as the duration of the policy and the need for constant monitoring, evaluation and review of the implementation process. The goal of breaking out of the vicious cycle of poverty within 25 years may be ambitious, but it is unavoidable and achievable.

In this presentation of Tanzania's first comprehensive market-oriented trade policy, the first chapter revisits the background to the policy formulation process, recalls the goal of National Development Vision 2025 and the need for a responsive policy paper. The second chapter makes an overview of domestic and world economic trends while chapter three presents the mission and objectives of the trade function responding to these developments. Chapter four reviews unfolding developments in the internal environment in order to identify persistent constraints, ensuing challenges and emerging opportunities, highlighting the need for consistent movement away from control and protectionism towards competitiveness through initiatives for trade development. It is in this setting that chapter five reviews the current status of policy instruments targeting the realisation of priority objectives and determines the appropriate strategic path of implementation. Finally, chapter six concludes the process with a treatise on the policy implementation framework starting with the identification of deliverables and culminating in proposals for the transformation of the National Trade Policy into programmes and viable projects.

## **1.2 LIBERALISATION AND GLOBALISATION**

Tanzania's economic take-off, more than ever before, depends on how the country makes use of opportunities presented by trade liberalisation and globalisation. Trade liberalisation has meant gradual lifting of restrictions on trade through removal of Non-Tariff Barriers (NTBs) and the reduction of tariffs. Trade liberalisation leads to fierce competition within and outside the economy. Opportunities that accrue out of trade liberalisation are enhanced domestic productivity, efficiency, improved quality and low prices which ultimately lead to improved consumer welfare. The main challenge facing Tanzania is how to enhance the competitiveness of domestic firms and entrepreneurs.

Globalisation refers both to increasing flow of goods, assets and resources across national borders and to the emergence of a complementary set of organisational structures to manage the expanding network of international economic activity and transactions. A global economy is one where firms and financial institutions operate beyond the confines of national borders. In a global economy goods, factors of production and financial assets almost flow freely. Globalisation entails the merging of Tanzania's domestic markets into the global market. Tanzania's major challenge is how to effectively and gainfully participate in the emerging global market. Globalisation requires dynamic policies and strategies geared at exploiting inherent opportunities. It is beneficial in terms of trade development through enhanced access to the world market and the opportunity to convert current comparative advantages into new sources of competitiveness based on the free flow of investment resources, factors of production, assets and information.

Both globalisation and liberalisation impose constraints that inhibit available domestic capacity to compete with the external sector. So far, Tanzania has not been able to derive substantive benefits from globalisation and trade liberalisation due to inadequate supply and delivery capacity characterised by low technology, inadequate

physical and human capital and underdeveloped infrastructure. The main challenge therefore is to address the constraints limiting Tanzania's meaningful participation and integration into the global economy.

### **1.3 HISTORICAL PERSPECTIVE, ECONOMIC INDICATORS AND POTENTIAL**

The United Republic of Tanzania consists of the area formerly known as Tanganyika and Zanzibar (including the islands of Unguja and Pemba). The former gained independence in December 1961 while the latter became independent in December 1963 and the two sovereign republics formed the union on 12<sup>th</sup> January 1964.

Located in Eastern Africa between longitude 29° and 41° East and latitude 1° and 12° South, the country has a total land area of 945,000 sq km with more than forty million hectares of arable land and good tropical climate, adequate rainfall and ample water resources for irrigation purposes. Current population is estimated at 34.5 million people with per capita GDP of about USD 270. Eighty per cent of the population depends on agriculture, the sector that also contributes about 50% to GDP and 70% of earnings from merchandise exports. Major export products are coffee, cotton, sisal, cashew nuts, cloves, diamonds and gold. High growth potential lies in mining, tourism, agriculture and industry. Specific high potential products include gemstones and minerals, fish and fish products, horticultural products and spices, cotton and textiles, handicrafts and tourism services.

#### ***1.3.1 Historical Background***

Over the four decades of independence, Tanzania has pursued diverse economic policies culminating in major changes in trade policy with profound consequences on expansion of trade and economic development. The first major policy initiative was consequent to the Arusha Declaration in the 1970s, followed

subsequently by the Structural Adjustment Programme (SAP) initiated in 1986.

The post-independence trade regime was a liberal one reflecting the relationships inherited from the colonial era, with the private sector playing the conventional role of economic agent and engine of growth. Foreign trade flows and relations rested on continued increased production of agricultural commodities and raw materials for export, largely in unprocessed form. Domestic trade relations reflected the predominance of a subsistence economy in which policies and laws encouraged commercial activity based on export commodities and the discouragement of commercialisation of the production of food-crops. This situation prevailed up to 1972 when the “Policy of Confinement” was adopted as one of the pillars for the implementation of the Arusha Declaration.

The policy of confinement largely sought to place the trade regime, comprising of foreign and internal trade for goods and services at levels from wholesale to retail, under public sector control and management. Eventually direct Government intervention in all operational aspects and the common use of administrative resources allocation, price controls, import quotas, rationing and use of permits to control the internal movement of goods and services became the primary policy instruments. Increasing recourse to control-oriented trade policy instruments prevailed with the onset of the economic crises resulting from the internal limitations of a planned economy and external factors such as the series of oil-price shocks and the collapse of the East African Community (EAC).

By the early 1980s the policy of trade confinement and its implications culminated in the following problems:

- Inefficient resource allocation and inability to mobilise adequate resources due to government intervention and controls in monetary policy including exchange and interest rate controls;
- The emergence of an inefficient payment system attributed to lack of competition in the financial system and the collapse of

the credit system;

- Decline of private sector activity and Foreign Direct Investment (FDI) due to the nationalisation of foreign and domestic investments and assets; and
- Transformation of the co-operative movement into an inefficient state-owned enterprises and crop authorities serving as single agricultural marketing channels dependent on public subsidies.

These developments culminated in the emergence and prevalence of parallel markets in the financial and goods markets, with the larger proportion of transactions taking place in unofficial channels leading to worsening balance of payments and widening fiscal deficits. By mid-80s the prevalence of controls in a situation of increasing shortages made change in trade policy imperative.

### ***1.3.2 Trade Liberalisation and the Reorientation of Internal Trade***

The initial trade policy reforms took the form of informal trade liberalisation measures initiated in 1984 based on the liberalisation of imports and of exchange controls through partial retention of the proceeds of own exports. The formal introduction of the Economic Reform Programme (ERP) in 1986 facilitated the extension of the liberalisation initiative to include wide spread price decontrol, and the removal of import restrictions through the introduction of the Open General Licence. The ERP introduced a series of measures designed to establish a market economy based on free trade through gradual introduction of policies that complement and facilitate effective functioning of trade policies. The set of complimentary policies which have been put in place since then include:

- Establishment and sustaining of a stable macro-economic environment through a series of monetary and fiscal policy measures and initiatives including the introduction of a floating exchange rate, interest rate liberalisation and financial sector institutional reforms;



- Liberalisation of agricultural marketing system including the re-introduction of the co-operative movement;
- Restructuring and divestiture of state-owned enterprises in the productive, services and trade sectors;
- Social sector reforms covering the health and education sectors with a view to raising the quality and outreach of these services with emphasis on broad-based accessibility; and
- Public sector reforms to facilitate more efficient delivery of private sector support services and the establishment of an enabling business environment through legal and regulatory reforms.

By 1996, initiatives in these areas had not achieved the objective of reversing the general trend of stagnating trade flows. At the same time the process of economic opening entailed a continuing systematic shift of the theme of trade policy away from the concept of internal trade based on a closed economy towards a competitive system based on a market economy. The formation of the World Trade Organization (WTO) and the deepening process of globalisation have added new impetus to the need for building a competitive market economy for the purpose of withstanding competitive pressures in the domestic market and more effective participation in Regional Trading Arrangements (RTAs) and in the MTS. The initiative to formulate and implement a comprehensive trade policy paper responds to the consequences of these developments, particularly the fact that the concept of internal trade is no longer valid as the domestic market has become an integral part of the global market.

#### **1.4 RATIONALE FOR A NATIONAL TRADE POLICY**

Tanzania's trade policy has evolved and been shaped by changes in its socio-economic regime and political philosophy over the past four decades. Immediately after independence, Tanzania pursued free trade policy. In order to address the legacy of colonial inequality and underdevelopment, the Government adopted the Arusha Declaration whose policy focus was public ownership of the

commanding heights of the economy, trade confinement and import substitution guided by protectionism. The formal trade policy adopted in 1980 as part of this regime focused solely on internal trade controls based on the concept of building a self-sufficient economy. After one and a half decades of implementing trade policies that were formalised in 1980, the economy was plunged into a series of severe economic crises that necessitated a policy shift towards trade liberalisation under a market-led economy. The unfolding process of globalisation has accelerated the process of liberalisation and economic opening up.

#### ***1.4.1 Domestic Market Considerations***

As the domestic economy opened up to the rest of the world, liberalisation has been accompanied by substantial short and medium term adjustment costs in the form of firm closures, loss of jobs, incomes and more poverty. The structure and level of effective domestic demand remains effectively weak and inadequate as a source of poverty reducing growth. This highlights the need for a trade policy to guide liberalisation so as to reduce its negative effects while promoting trade development as the means of raising the capacity of domestic demand through a strategy based on increasing participation in the global market.

Strategic trade liberalisation entails a number of things; the most important being movement in one direction of trade liberalisation but gradually and selectively allowing some space for government intervention. This entails effective management of the process of change to ensure policy continuity and credibility. It entails the removal of intra-regional and district administrative barriers to trade. Finally it calls for deliberate measures for rapid trade development through widening and deepening of linkages in the domestic market and more effective participation in the global market.

The primary objective of this trade policy is to enhance Tanzania's economic growth, which addresses Tanzania's key priority of

poverty eradication. Openness to trade is positively related with growth and growth is the prime requirement for poverty eradication. However, the transmission mechanism between trade liberalisation and poverty eradication is not automatic and suitable policy interventions are necessary if desired objectives are to be attained.

### ***1.4.2 The International Environment***

The international business environment has been subjected to radical shifts in relationships resulting from technological changes and emphasis on good political and corporate governance. Economies are opening up to trade and small national markets are merging into larger entities through regional integration schemes. Competition is intensifying as firms become more innovative. Developments in Information and Communication Technology (ICT) have given rise to new communication media with wide and instantaneous outreach at relatively low cost. The ultimate result is the transformation of customer expectations that are forcing the business world to strive for higher quality, lower prices and first-rate services.

In this situation, export-led growth is a prerequisite for the attainment of poverty eradicating rates of GDP growth in Tanzania. However, the proficiency underpinning the competitiveness required in export-led growth is built and nurtured through the learning processes and experiences gained in the domestic economy. This calls for a dynamic process of trade development to stimulate the competitiveness of Tanzanian goods and services in the domestic and regional markets as the stepping-stone to more effective entry and participation in the global market. Trade policy must stimulate the adoption of trade development strategies that respond proactively to the emerging opportunities and challenges and address divergences between supply capacity and the demands of a converging global market.

### ***1.4.3 Re-orientation Towards Trade Development***

Tanzania's new trade policy goes beyond the traditional focus on tariffs and quantitative restrictions and changes in relative prices. It captures the deeper transformational and production issues. It emphasises the role of the government as implementer of trade policy and that of the private sector as the engine of growth as well as partners in the formulation and implementation process. It sets new and modern rules on how to increase international competitiveness, establishes how these rules are made and implemented, elevates the role of the private sector and creates opportunities for its development and promotes a new philosophy of economic management based on serious commitment to openness.

This policy addresses the critical issues facing the Tanzanian economy including:

- Consolidating consensus on trade development measures that will entrench the continuing policy shift from a protected and controlled economy towards a competitive market economy;
- Highlighting the central role and contribution of the trade function to the attainment of the primary goal of poverty eradication under the National Development Vision 2025;
- Identifying measures for the development of the domestic market as a tool of inclusion and broad-based participation in economic activity based on improved market-infrastructure, technology diffusion and access to market information;
- Alignment of national development agenda with regional and international trade obligations and maximisation of the benefits of participation in regional and international trade arrangements;
- Adopting an appropriate framework of measures for the interim safeguarding of domestic industry and economic activity threatened by liberalisation including identification of sectors to be protected, the rationale and costs of protection, and the maximum duration for protection; and,

- How best to address the supply-side constraints that inhibit expansion of trade within the domestic and global market as the route towards rapid economic development.

## CHAPTER TWO

# **ECONOMIC OVERVIEW**

### **2.1 TRENDS IN WORLD TRADE AND THE PLACE OF SUB-SAHARAN AFRICA**

During the 1990s, world trade expanded by over 55% in nominal US dollar terms, from US\$4,300 billion to US\$6,700 billion. Trade volume growth, averaging 6.7% per annum, has continued to out-pace significantly the growth of real GDP, rated at an average of 3% a year. The ratio of global trade to GDP rose from 19% in 1990 to 23% in 1998.

Transactions in trade in services rose from about 20% of total trade value in 1993 to about 33% by 1997, equivalent to 7.6% of world GDP with a value of US\$2,200 billion. The most promising sub-sector, for developing countries, is the tourism industry and transit trade although services based on movement of natural persons is gaining in importance. The key to better performance in the services industry lies in the adoption and popularisation of ICT in enhancing performance in services delivery. Tanzania has the potential to build on the rapid expansion in trade in services.

Continuing expansion of manufactures has been the key source of growth in international trade. Over that period, manufactured goods accounted for about 93% of the increase in value and currently accounts for over 70% of international trade. In contrast trade in raw materials, ores and metals demonstrated a declining trend from over 30% of world trade in the 1960's to only 5.8% in 1998. Only trade in food products has demonstrated increase in growth followed closely by trade in fuels.

Analysis of world trade by major economic areas indicates that the

industrialised countries dominate world trade. Developing countries in total account for less than 30% of world trade with the smallest 150 trading countries accounting for less than 15%.

The share of Sub-Saharan Africa (SSA) in world trade, excluding South Africa, has over the past twenty years declined from 5% to around 2%. SSA countries continue to trade in primary commodities, mainly agriculture and mining products. The fundamental cause for their poor performance is the failure to share in the increase in trade in manufactured goods. The share of SSA countries in world manufacturing output declined from 0.6% in the 1970s to 0.3% by 1995. The growing importance of trade in services, particularly tourism, offers new opportunities to reverse the trend of declining SSA share in world trade.

## **2.2 TANZANIA: ECONOMIC PERFORMANCE TRENDS**

The share of Tanzania's exports in world trade has been on the decline. The nation maintained a surplus balance of trade up to 1969 but has experienced a widening trade deficit since then. Import demand has increasingly been financed through external borrowing and assistance. Between 1979 and 1995, export earnings were barely adequate to meet a third of imports. A leap in export earnings recorded in 1994 resulted from, among other things, the implementation of trade liberalisation measures and changes in both volumes and prices for three major crops: coffee, cotton and tobacco. Export earnings from the three products peaked in 1996, but starting from 1997 onwards, there has been resumption of the declining trend in terms of volume of output and earnings.

Merchandise exports declined from US\$ 764 million in 1996 to US\$ 603 million by 1999 with a slight improvement to US\$ 751 million in 2000. Agricultural commodities accounted for more than 70% of merchandise exports while manufactured products contributed only about 15% of exports. The contribution of tradable services to foreign

earnings increased substantially consequent to the rapid growth of the tourism industry. Earnings from tourism grew at an average of 29% increasing from US\$ 65 million in 1989 to US\$ 730 million by 1999.

Constraints to trade expansion and growth in Tanzania include: low production capacity; technology-related problems; inadequate physical and economic infrastructure; and the consequences of marginalisation in the context of globalisation. Whereas liberalisation and globalisation present daunting challenges to Tanzania, they also provide opportunities for increasing its share in world trade.

By way of addressing the constraints against trade expansion, Tanzania embarked on a number of reforms. The reforms include foreign exchange de-control and liberalisation of interest rates; removal of export taxes; and privatisation of state owned firms. On the export front, the Export Development Strategy (EDS) initiative has provided the foundation for programmes initiated under the framework of the MTS, such as the Integrated Framework for Trade Development (IF) and the Joint Integrated Technical Assistance (JITAP) that are contributing to the establishment of an appropriate environment and framework for increasing exports.



## CHAPTER THREE

# **VISION, MISSION AND OBJECTIVES OF TRADE POLICY**

This trade policy responds to and builds upon the internal economic reforms that have been under implementation since the mid 1980s, and to unfolding events in the international economic scene. These developments call for a systematic and consistent approach in the application and use of trade policy instruments in the process of building a competitive economy and striving for higher rates of growth. From the internal perspective, the policy draws upon the primary goal of the National Development Vision 2025, emphasising on poverty reduction and its ultimate eradication. In order to address the problem of poverty, it is necessary to attain and sustain a minimum GDP growth rate of 7% which in turn requires a minimum rate of 14% for trade growth. This highlights the importance of the international dimension in trade expansion strategies. Hence, from the international perspective, the policy draws upon unfolding changes in the MTS and emerging opportunities which can contribute immensely to the process of attaining and sustaining the high rates of economic growth that underpin strategies for poverty eradication.

### **3.1 TRADE POLICY VISION**

The role of the trade sector towards the realisation of the national goal of poverty eradication will be attained through the structural transformation of the economy and enhanced productivity that will in turn contribute to the process of international competitiveness and lead to rapid economic growth. In this regard, Tanzania's Trade Policy Vision is:

*“... to transform the economy from a supply constrained one into a competitive export-led entity responsive to enhanced domestic integration and wider participation in the global*

*economy through national trade liberalisation”.*

### **3.2 MISSION**

Trade is not an end in itself but a means for achieving higher welfare to society, than would be possible without trade. The function of the trade sector, therefore, is to integrate the Tanzanian economy into the global economy through trade. This entails structural transformation of the national economy, and product/market diversification.

Indeed, to sustain an economic growth rate above the 7% necessary for the achievement of the goals of National Development Vision 2025 depends on developing a modern export-led economy. High volumes of exports are necessary to achieve the goals of Vision 2025. Sustaining a high growth rate is a necessary but not sufficient condition for poverty eradication. Growth has to be complemented by broad-based equal opportunity of access to the primary assets of production – land, education and finance – for such growth to be translated into poverty eradication. The mission of the trade sector is therefore to:

“...stimulate the development and growth of trade through enhancing competitiveness aiming at rapid socio-economic development.”

### **3.3. OBJECTIVES**

In accordance with the National Development Vision 2025, the goal of trade policy is that of raising efficiency and widening linkages in domestic production and building a diversified competitive export sector as the means of stimulating higher rates of growth and development. Five specific objectives emanate from and reflect this goal.

The first specific objective is to stimulate a process of trade development as the means of triggering higher performance and

capacity to withstand intensifying competition within the domestic market. This includes the establishment of improved physical market-place infrastructure and stimulating dissemination of market information and increasing access to the market. The second objective involves economic transformation towards an integrated, diversified and competitive entity capable of participating effectively in the MTS.

The third objective entails the stimulation and encouragement of value-adding activities on primary exports as a means of increasing national earnings and income flows even on the basis of existing output levels. Fourth is the stimulation of investment flows into export-oriented areas in which Tanzania has comparative advantages as a strategy for inducing the introduction of technology and innovation into production systems as the basis for economic competitiveness.

The fifth objective is the attainment and maintenance of long-term current account balance and balance of payments through effective utilisation of complementarities in regional and international trading arrangements as a means of increasing exports combined with initiatives for higher efficiency in the utilisation of imports. The ultimate target is to enhance income generation and the people's earning power at the grass-roots level as the key to poverty reduction in fulfilment of the fundamental human right of equal opportunity for all citizens as enshrined in the constitution of the United Republic of Tanzania.

## CHAPTER FOUR

### **CONSTRAINTS AND CHALLENGES FOR TRADE POLICY**

Tanzania's trade performance within a shrinking domestic market, in an increasingly liberalising economy that is converging with a deepening global market, is a source of concern. The essence of impediments against the growth and expansion of Tanzanian trade flows lies in "supply-side constraints." The success of the envisaged trade development strategies depends on prioritising the implementation of measures addressing the totality of supply-side constraints. These constraints extend across the entire commodity/product value chains from production through processing and delivery to the consumer and encompass the full range of supporting services involved.

From the perspective of globalisation the same constraints assume the feature of two fundamental requirements: the need for raising the private sector's capacity to compete; and ensuring that benefits from the unfolding opportunities are accessible to broader segments of the society. Successful resolution of these demanding multi-dimensional constraints depends on prior determination of fundamental premises underpinning the development of production capacities including increasing access to the means of production and inherent challenges.

The major fundamental premises and challenges include: establishing and sustaining an enabling business environment; development of hard and soft infrastructure; building capacity for market supporting institutions; creating the internal ability to participate in and influence changes in the world trading system; and promotion of private sector development in the context of supply-side capacity.

## **4.1 ENABLING POLICY ENVIRONMENT**

The fundamental role of government is in providing the enabling policy environment that will facilitate the private sector in becoming the engine of economic activity and growth through efficiency and better performance. The Tanzanian Government is already implementing a policy entailing its withdrawal from direct involvement in economic activity to facilitate channelling of its resources in the conventional area of establishing and maintaining a conducive and enabling policy environment. Four categories of measures are involved in the process of creating an enabling environment: good governance; stability of the macro-economic framework; legal and regulatory framework reforms; and efficient economic regulation and competition policy.

### **4.1.1 Good Governance**

#### *Constraints and Challenges*

Good governance is a pre-condition for development entailing the existence of a combination of tangible and intangible attributes and functions of the government machinery. The intangible attributes refer to the well-functioning of the state coupled with the institutional capacity to: maintain peace, law and order; create an atmosphere of tranquillity and confidence for investment; ensure individual liberty and equality before the law; ensure security of property and fair delivery of commercial justice; and provide adequate checks and balances in the exercise of power including transparency and predictability in public decision-making.

For example, the ongoing socio-political and economic reforms including broadening popular participation of the people in economic and political processes, and entrenching security of people are intended to enhance good governance. Likewise, major public and private sector investments in social and physical infrastructure aim at strengthening the capacity for efficient delivery of services

necessary for competitive economic activities. However, its efficiency is hampered by a weak institutional framework for enforcement and execution.

### *Strategy*

The Government is continuing with the implementation of measures aimed at strengthening its capacity to maintain good governance as its cardinal mandate including promotion of self-regulation through introduction of codes of conduct. Other measures will include extensive public awareness campaigns and moral persuasion targeting public and private sector active involvement and participation in good governance.

## ***4.1.2 Macro-economic Policy Environment***

### *Constraints and Challenges*

One of the prerogatives for attaining and sustaining high rates of economic growth is the establishment of an attractive, stable and predictable macro-economic environment for increased flow of investment and trade. This rests on the implementation of appropriate monetary and fiscal policies such as lowering and controlling inflation and the stabilisation of interest and exchange rates. Also it requires increased liberalisation of the operations of the financial, commodity and labour markets. In the socio-political sphere the observance of good governance, maintenance of peace, the rule of law and enhanced efficiency in the delivery of goods and services are of paramount importance.

### *Strategy*

The Government will continue with the implementation of measures aimed at sustaining a conducive macro-economic policy environment in its entirety as the basic condition for stimulating economic growth through increased investment and trade expansion. The

Government will continue to strengthen its institutional and supervisory capacity for this purpose. This entails building a national consensus on the direction of fundamental macro-economic policy variables combined with a deliberate change in the culture of government service towards increasing responsiveness to the needs of the business community.

### ***4.1.3 Legal and Regulatory Framework***

#### *Constraints and Challenges*

The establishment of an enabling business environment entails a process of continuous adjustment of the legal and regulatory framework impacting on the performance of the business sector. Despite economic reforms sustained since the mid-eighties, there are still residual impediments that lead to high transaction costs. This discourages the inflow of foreign and domestic investment and hinders efficient trade sector performance. The envisaged legal and regulatory reforms seek to lower transaction costs, enhance business compliance and improve efficiency and competitiveness. The ultimate objective of legal and regulatory reforms is to protect the interests of consumers through enhancing the capacity of government institutions to perform their regulatory functions efficiently and by maintaining regulations only where they are necessary for this objective.

#### *Strategy*

The Government is expediting measures to stimulate international competitiveness through:

- (a) Reduction of unnecessary bureaucratic procedures that lead to high transaction costs for the business sector;
- (b) Facilitating and encouraging the development of private sector capacity to participate more effectively in the process of better regulation through public-private sector partnerships and improved advocacy; and

- (c) Expediting the establishment of market-supporting institutions in the area of better regulation to ensure co-ordinated legal and regulatory reforms and improvement of commercial justice delivery.

#### ***4.1.4 Economic Regulation and Competition Policy***

##### *Constraints and Challenges*

Generally, competition policy addresses the problem of concentration of economic power that can arise from market imperfections, monopolistic behaviour in economic activities and consequent restrictive business practices. Restrictive business practices primarily affect the consumer through either higher prices and unacceptable quality standards or limitations on the availability of goods and services. Competition policy aims at perpetuating freedom of trade, freedom of choice and access to markets. Competition law is a component of competition policy prohibiting firms from engaging in anti-competitive behaviour and abuse of dominant market position. The ultimate objective of economic regulation and competition policy is to protect the consumer through control of monopoly behaviour on the part of producers.

Tanzania has enacted three laws to govern competition and regulation of economic activity: the Fair Trade Practices Act of 1994; the Energy and Water Utilities Regulatory Act (EWURA) of 2001 and the Surface and Marine Transport Regulatory Act (SUMATRA) of 2001. The SUMATRA Act also amends the Fair Trade Practices Act to establish the Fair Competition Commission (FCC) in place of the Fair Trade Practices Bureau. The mandate of these Acts is limited to the regulation of natural monopolies in the utilities and communications sectors and does not cover activities in the social and economic sectors.



## *Strategy*

The Government is expediting the implementation of Competition law under the co-ordination of the FCC and related regulatory institutions and promote consumer protection through broad-based public awareness on consumer's rights and obligations.

### **4.2 CAPACITY DEVELOPMENT**

Capacity development in the context of Tanzania's future development agenda concerns strengthening, diversifying and evolving a supply-side that is reliable and in tandem with changing trends in the world market. This also requires enhancing productivity of the factors of production and raising efficiency for exports to become competitive both in the domestic and export markets. Moreover, it requires building capacities and skills to predict and interpret changes and adopting appropriate responses. This capacity depends on human skills development and institutional capacity building, transformation of production systems and overall private sector development.

#### ***4.2.1 Human Skills Development***

##### *Constraints and Challenges*

The concept of human capital as a major factor of production is increasingly assuming importance. The development of human capital from the perspective of developing economies entails focusing on four factors: basic nutrition, education, health and protection against economic vulnerability.

The level of access to formal education and technical skills in leading sectors is the determinant factor in human skills development. A relatively high level of education to a large segment of the population and good training in the different aspects of the economic environment and the trade development function are the

prerequisites for a successful trade regime. The experience of the Newly Industrialising Countries (NICs) shows that the process of economic transformation was underlined by quality universal primary education, enrolment ratios higher than 25 per cent in secondary education and an average of 10 per cent enrolment ratio in tertiary and university education.

Data for Tanzania indicates the magnitude of the task involved in the education sector in terms of raising the scope and outreach of secondary and university education to levels necessary for the realisation of the goals of Vision 2025. For instance, at 6% the ratio of secondary school enrolment is the lowest in SSA. Performance in skills development and extension services has also remained below expectations and requirements with respect to production practices in key sectors particularly agriculture, tourism and small-scale mining.

The level of skills is relatively low compared to other regional economies due to low enrolment ratios in formal education at the secondary and tertiary levels and curtailed training in production and value-adding activities for workers in key economic sectors. The pace of economic transformation in Tanzania depends on the rate at which society can absorb and assimilate modern production skills and technologies in areas where the nation has advantages in resource endowments. The importance of education and skills is crucial to the perception of technology as encompassing better production and delivery techniques and practices rather than mechanisation. At the same time the legal framework prevailing in the labour sector contributes to the pace of development of an adequate pool of skilled labour. Existing labour laws retain the tendencies of a command economy characterised by lack of flexibility in hiring practices and over-protection of employees, and limited linkage between performance and remuneration.

The daunting task of expansion of the outreach of the education sector in Tanzania is highly constrained by the implications of

demographic features including the concept of demographic transition and the incidence of HIV/AIDs. Demographic transition refers to the rate of change of the rates of birth and death. The essence of the concept is that developing countries experience rapid population growth and changes in its dependency ratio. While the death rate has been declining, the rate of birth has been rising resulting in the increase in the dependency ratio. HIV/AIDs has become a major health problem as well as a serious impediment to socio-economic development through its impact in the reduction of the active labour force, in particular the human capital that underpins economic transformation, higher productivity and competitiveness.

### *Strategies*

**Education:** With respect to education, the Government had planned to raise primary education enrolment ratio to 85% by the end of 2002 and increase the rate of transition from primary to secondary education from 15% prevailing since 1998 to 20% by 2003. Emphasis had been placed on training in business education and entrepreneurship at various levels of the education system. This thrust and tempo will be maintained in the medium and long term as a strategy to bridge the gap in the outreach of the national education system.

**Training:** With regard to skills development and production techniques top priority will be accorded to extension services for agronomic and animal husbandry practices in agriculture where the highest potential for growth based on wide linkages across sectors prevail. This will include promotion of irrigation based on traditional and modern practices and mechanised farming as far as possible. The Government will also initiate measures to introduce better packaging and delivery practices in direct response to market expectations and demands. The Government will take measures to contribute to market linkage programmes that aim at stimulating trade development through product and market diversification based

on introduction of new product and new processes for value-adding activities.

**Labour laws:** The Government is reviewing prevailing labour laws and regulations to induce the evolution of labour practices that conform to market practices that link merit, efficiency and productivity to rewards and flexibility in employment to reflect the principles of free entry and exit into industry. Labour law reforms will adhere to obligations from the International Labour Organisation. The Government will implement social sector policies aimed at the development of human capital through creation of a large pool of trained and trainable labour force as the base of structural transformation of the economy.

**HIV/AIDS:** The government will implement a broad-based strategy of raising awareness on the scourge of HIV/AIDS and the incidence of demographic transition and encourage change in social behavioural patterns. Towards this end, emphasis will be placed on the instruments of moral persuasion and social responsibility based on accountability and self-determination rather than laxity and social permissiveness as the key to stimulating change in cultural patterns, attitudes and habits. Finally increasing accessibility to income generating activities for socially vulnerable groups will be one of the pillars to address the problem.

#### ***4.2.2 Private Sector Development.***

The private sector is now formally recognised and accepted as the producer of goods and lead provider of services for the domestic and export markets and consequently the leading employer and primary vehicle for poverty eradication. The thrust of socio-economic reforms undertaken since 1995, highlights the determination to build a vibrant private sector for this purpose.

## *Strategy*

The Government is developing a Private Sector Development Strategy (PSDS) to ensure broad-based and inclusive participation in production and trade and will expedite its adoption and implementation. The strategy entails the establishment of an enabling business environment through better regulation; increased private sector access to capital including “titled-land,” education, skills and entrepreneurship as well as provision of business support services in management, production and marketing.

### ***4.2.3 Institutional Capacity Building***

Institutional capacity building amongst the key public and private sector stakeholders in the trade policy process is the key to successful implementation. Performance in public institutions, including the Ministry of Industry and Trade (MIT) and its supporting agencies, and in business sector associations that serve the private sector, such as the Tanzania Private Sector Foundation (TPSF), Confederation of Tanzania Industry (CTI) and Tanzania Chamber of Commerce, Industry and Agriculture (TCCIA), reflects major cultural and operational weaknesses, often associated with the “mind-set.” These include lack of proactive initiative in identifying and addressing problems, low analytical capacity, low commitment to work and poor co-ordination. Moreover, there is evidence of lack of appropriate experience to amend or repeal obsolete laws and make better and simpler regulations to facilitate enforcement on the part of the public sector, and lack of analytical capacity to advocate for requisite change on the part of the private sector.

## *Strategy*

The Government will undertake capacity building needs assessment to identify institutional complementarities and gaps. Priority will be accorded to private sector capacity for analysis and advocacy in influencing policy formulation and implementation. Twinning of

indigenous institutions with overseas counterparts will be explored and utilised to facilitate rapid movement along the learning curve.

#### ***4.2.4 Transformation of Production Capacity***

Agriculture remains the backbone of the Tanzanian economy with over 80 per cent of the population dependent on this sector. It remains a source of employment to 75 per cent of the population, contributing 50 per cent to GDP and about 70 per cent of export earnings. Leaving the economy dependent on traditional agriculture, which in turn is dependent on the whims of nature and fluctuating terms of trade, makes the path of development unstable and unpredictable. Success of this trade strategy in the context of the goal of Vision 2025 depends on strategies for the transformation of agriculture.

The revival of the agricultural sector is constrained by lack of support to facilitate technology diffusion for modern agronomic practices to raise productivity and slow response by foreign investment culminating in stagnation in the development of the private sector and agribusiness. Specific constraints include: limited access to extension services, inputs and credit facilities necessary to stimulate product diversification; weak market linkages due to poor infrastructure; and lack of market knowledge and information necessary to facilitate market diversification.

Likewise there is need to modernise production practices in the designated lead sectors of mining and tourism and other priority sectors such as industry and transit trade. Such modernisation depends on application of modern technology on the national resource base. Enhancing competitive value-adding capacity in these sectors is the key to transformation of economic activity.

#### ***Strategy***

The Government will prioritise measures for agricultural

transformation through implementing the Agricultural Sector Development Strategy (ASDS) of 2001. One priority aspect is to ensure a net-inflow of resources into the sector to facilitate transformation of production technologies through wider research and dissemination of research results and better extension services. The government will also encourage investments in commercial farming and agro-processing industries as growth poles of the sector through out-grower and contract farming schemes and other market linkage relationships.

Other measures include the promotion of industrialisation through investment in Export Processing Zones (EPZs) and Industrial Parks. The Government will also encourage the channelling of investment resources to non-traditional sectors, in particular mining, tourism, livestock and transit trade services. Implementation of the agricultural sector development strategy will ensure the prioritisation of efforts to mobilise and channel investment resources into the sector.

### **4.3 INFRASTRUCTURE DEVELOPMENT**

There are two categories of infrastructure, i.e. hard and soft infrastructures. Both hard and soft infrastructure are vital for economic growth. Hard infrastructure includes telecommunications, transportation, power, water and sanitation. Soft infrastructure refers to financial and information services. Efficient delivery of both categories is critical to the development of a competitive economy and for broader participation in economic activity.

Tanzanian infrastructure is generally underdeveloped and sparse relative to needs, making service delivery unreliable and expensive. There are major challenges in the capital market with pressing needs to widen and deepen financial markets. Lack of financial instruments in the formal sector to serve the informal sector and the Small and Medium Enterprises (SME) *niche* remains a major constraint and impediment to private sector development and

economic empowerment.

### *Strategies*

The Government will implement strategies for the development of hard and soft infrastructure based on the following measures:

- Expedite implementation of the ICT policy adopted recently as the basis of building a knowledge-based economy;
- Continue implementation of measures to consolidate the financial sector and encourage private sector investment in specialised banking institutions targeting key sectors such as agriculture and industry;
- Encourage reforms underpinning the emergence of a suitable credit culture as the means of stimulating efficient financial intermediation in support of the SMEs segment;
- Restructuring and divestiture of the utilities sector, especially power and water, as a means of raising the reliability of supply while lowering costs to regionally competitive levels; and
- Modernisation and expansion of the transportation infrastructure based on increasing recourse to private sector resources through Build, Own, Operate and Transfer (BOOT) and Build, Operate and Transfer (BOT) schemes. Emphasis will also be placed on efficient utilisation of existing infrastructure in the course of exploiting the accessible resource-base.

## **4.4 CROSS-CUTTING ISSUES**

Trade development initiatives have implications for the environment and gender issues. Both issues should be taken into account and given priority in trade policy formulation.

### ***4.4.1 Trade and the Environment***

Growth and development depends on sustainable and optimal use of the world's renewable and non-renewable resources. This entails



judicious exploitation of existing resources and the protection and preservation of the environment. Tanzania attaches great importance to the growing need to protect and conserve the environment and has consistently upheld environmental conservation measures. Nevertheless, the capacity to administer and enforce implementation of the environmental regulation is weak and frequently violated allowing continuation of degradation of the environment and compromises the sustainability of its resource base. The push for economic transformation and attainment of higher rates of growth tends to lead to environmentally degrading production practices. This highlights the need for pro-active measures to mitigate against the emergence of environmentally harmful production practices in developing economies.

### *Strategy*

The government will strengthen institutions entrusted with the execution and enforcement of environmental laws and regulation. Priority measures include the mainstreaming of environmental issues into the development agenda. Environmental policies and simplified guidelines will be put in place to ensure consideration of environmental issues in formulating and implementing growth strategies.

#### **4.4.2. Trade and Gender**

Gender issues are normally perceived from the perspectives of sex, age and physical disability. The pertinent issue is the inclusion of disadvantaged population segments and groups into the mainstream of economic activity through facilitating their effective participation in domestic and foreign trade.

Women, as a disadvantaged group in developing economies, are the normal focus of the gender factor in view of their unique role as a productive force severely constrained by limitations in their accessibility to key production assets, including capital, education

and skills. This is evidence of the need to highlight the gender issue from the perspective of inclusion of women in trade development processes through more egalitarian access to productive assets particularly titled land, infrastructure, finance, education and skills.

### *Strategy*

The Government realises that measures to increase gender equality, apart from their social and distributional implications, have considerable potential in inducing growth acceleration. Consequently, policy initiatives to ensure access to better extension services in agriculture for the rural population and in particular women will be expedited.

## **4.5 DOMESTIC MARKET AND DEMAND CHALLENGES**

Although Tanzania has a large population, estimated at about 34.5 million people, the level of effective demand remains low with a per capita income of approximately USD270 and half of the population living in poverty. Clearly, the domestic market does not constitute adequate demand to stimulate the high rates of growth that are the prerequisite for poverty reduction. In this regard, export-led growth is a prerogative rather than a matter of choice. However, export-led growth depends on emerging competitiveness in the domestic market. Consequently, initiatives for more effective participation in the global market have to start with deeper economic integration within the domestic economy based on trade development.

Essentially the development of trade within the domestic market depends on three factors: enhanced economic efficiency based on wider participation; improved market access based on development of physical marketing infrastructure; and access to market information. These aspects highlight the need for the development of modern market-place facilities and dissemination of information on trends in the market. Simultaneous with these actions is the need to remove intra-district trade barriers and encourage cross-

border official trade particularly in food-products, the emerging area of product competitiveness for many African countries. The strategic policy direction on the domestic market is to encourage higher production and output of food products so as to remove the underlying cause for intra-district trade barriers.

## **4.6 REGIONAL AND INTERNATIONAL TRADE DIMENSIONS**

Economic cooperation has assumed increasing importance as the building block for the creation of larger markets and increasing trade flows. The essence of trade cooperation is fourfold: solidarity in forging bargaining power; creation of larger more viable markets through merging weak and fragmented markets; preservation of regional markets; and locking-in of trade liberalisation. Regional and international cooperation stimulates productivity and competitiveness through economies of scale and lower transactions costs by facilitating trade between countries and regions. Tanzania has consistently placed high priority in participation in regional and multilateral trading arrangements and economic integration. The goal of Tanzania's continuing participation in these arrangements will be the maximisation of advantages of inherent opportunities.

### *Strategy*

Tanzania will undertake measures to ensure that the nation will benefit from the opportunities of market access and investments arising in the MTS and from membership in RTAs. Towards this end, the nation will implement strategies aimed at targeting the following:

- Increasing agricultural exports in particular non-traditional products;
- Promote valued-adding activities on current exports particularly in the areas of agriculture, mining and tourism on the basis of stimulating investment in industry;
- Encouragement and channelling of foreign and domestic

investments into commercial farming that will serve as links between domestic producers and the international market; and

- Expansion and modernisation of the services industry with priority on tourism and transit trade sectors.

#### **4.7 IMPLEMENTATION INSTRUMENTS AND COMPLEMENTARY SECTOR POLICIES**

Trade policy, in comparison with sector economic policies, is a unique cross cutting collection of strategies addressing the single goal of achieving a high rate of economic growth. As such it seeks to address a wide range of economy-wide constraints apparent in the fundamental premises for successful trade policy. This feature extends to the instruments that are conventionally necessary for effective implementation. There are two broad categories of trade policy instruments. These include instruments that have a direct relationship and impact on policy transmission such as tariffs, NTBs and measures for the safeguard of threatened industry.

While tariffs, NTBs and safeguards generally contribute to the enabling environment, there are other direct policy instruments that target the productive and delivery capacity and these include the group of trade development instruments.

Consequently, there is a wide package of instruments available for implementation of strategies necessary to address the constraints that mitigate against the realisation of the major objective of achieving higher rates of economic growth. These instruments have to be applied consistently as a package. Direct trade policy instruments are supplemented by key economic sector policies that compliment trade policy measures. In practical terms, the application of each group of trade policy instrument calls for the identification of underlying constraints and challenges, a specific objective for each and adoption of an appropriate and consistent strategy for its implementation. The treatment of trade policy instruments adopted in this policy reflects the fact that the nation has been implementing

the recommended trade policy in the course of economic reforms initiated in mid-1980s. The objective of this policy paper is to facilitate ownership of these initiatives, consolidating and continuing their systematic and consistent application.

## CHAPTER FIVE

# **TRADE POLICY INSTRUMENTS AND PRIORITY SECTORS**

### **5.1 TRADE POLICY TARGETS**

Tanzania is endowed with a rich and varied natural resource base and a strategic geographical location relative to international and regional markets. The country has enjoyed exceptional social and political stability over the past four decades, and has forged a cohesive national identity based on a common language and cultural orientation. However, the country has persistently displayed high levels of incidence of poverty and its impact on low standard of living.

The current structural pattern of the economy reveals that the share of agriculture, in terms of output and employment, as well as that of agricultural commodities in total exports show a downward trend. However, overall contribution to total production and exports remains dominant. On the other hand, the contribution of industry to GDP remains insignificant accounting for only 8%. Effective trade policy implementation will, therefore, have to be measured against the level of achievement in transforming the current structure, level of production, global market repositioning and integration.

Specific targets for this policy are:

- (a) Contribute to raising per capita income to levels targeted in National Development Vision 2025;
- (b) Trade development measures to stimulate and expand domestic demand through product and market diversification;
- (c) Limited interim safeguard of domestic economic activity threatened by liberalisation while building economic competitiveness;

- (d) Achieving and sustaining a rate of growth in trade of not less than 14% i.e. an average of twice the targeted rate of growth of GDP;
- (e) Achieving and sustaining the long-run share of exports in GDP of about 25% and reversal of the declining trend in the import-coverage ratio;
- (f) Attainment of a two-fold increase in manufactured exports for every ten-year interval, and a two-fold increase in trade in services at intervals of 6 years; and,
- (g) Raising the value of merchandise export earnings in absolute terms to US\$1,700 million within five years as envisaged in the EDS.

To achieve trade volume growth of 14% the following fundamental conditions should be fulfilled:

- Creation of an enabling environment consistent with the implementation of a dynamic trade policy;
- Adoption and implementation of appropriate sector policies in key economic and social sectors;
- Increase in savings and investments;
- Transformation of agriculture;
- Development of market linkages; and,
- Human capital development.

## **5.2 POLICY INSTRUMENTS**

Trade policy instruments are measures taken by governments to influence the direction and pattern of trade development. The application of these instruments in Tanzania will be guided by the need to stimulate domestic production, promote exports, safeguard domestic industry against dumping practices and protect consumers. Tanzania will exercise trade policy options in line with its international obligations. These instruments include: tariff-based (*ad valorem*) instruments; NTBs; trade defence mechanisms; trade development instruments; and international trade policy instruments as listed hereunder.

- (a) Tariff-based instruments:** Tariffs; Taxation; and Duty Draw-Back (DDB) Schemes.
- (b) Non-Tariff Measures:** Quotas; Import Licensing and Registration; Pre-shipment Inspection (PSI) and Customs Valuation; Local Content Requirements; Standards; State Trading Operations; Government Procurement; and Administrative Barriers.
- (c) Trade Defence Mechanisms:** Subsidies; Safeguards; Antidumping; and Rules of Origin (RoO).
- (d) Trade Development Policy Instruments:** Investment Code and Rules; EPZs; Export Promotion Measures; and Export Facilitation Measures.
- (e) International Trade Policy Instruments:** Bilateral Cooperation Initiatives; RTAs; and WTO Agreements.

### ***5.2.1 Tariff-based (Ad Valorem) Instruments***

#### ***5.2.1.1 Tariffs***

Tariff measures will continue to be the major instrument for trade policy implementation. Tariffs have traditionally been used for the twin objectives of revenue generation and protection of domestic industry. Under the import substitution industrialisation regime the protection element led to the emergence of non-uniform and high tariffs that harm unprotected industry and ultimately reduce consumer welfare. Ongoing reforms have reduced the problem significantly, leading to the current four-band tariff structure (0, 10, 15 and 25) in comparison to over 40 bands that existed previously. The average rate has also been reduced significantly to about 16%.

#### ***Policy statement***

The Government will ensure transparent application and predictability in use of tariffs and further liberalisation and rationalisation of the tariff structure. This includes rationalisation of the continued use of tariffs as an instrument of protection and



revenue generation; further reduction of tariff rates; and narrowing of tariff bands. The objective is to increase competitiveness and raise consumer welfare. In applying this instrument, evaluation benchmarks will include the degree of tariff rationalisation and reduction to levels conforming to regional and multilateral obligations. Instrument application strategies will include the building of analytical capacity for tariff policy analysis including Economic Impact Assessment or the calculation of Effective Rates of Protection (ERP).

### *5.2.1.2 Taxation*

The Tanzanian tax regime comprises different types of central and local government taxes, with weak coordination between the two regimes. This leads to overall higher rates and high administration and management costs.

The existence of many types of taxes has contributed to the high incidence of tax evasion and duty exemptions. This adversely affects the Government budget. For instance, total exemptions (VAT and tariffs) amounted to 49% and 42% of total assessment for fiscal years 1997/98 and 1998/99 respectively. A desired situation would be one where discretionary exemptions are minimised due to their inherent lack of efficiency and transparency.

### *Policy Statement*

On taxation, the Government targets widening of the tax base and raising the ratio of taxation revenue as a percent of GDP from the current level of 13% to the conventional level of 20% prevailing in other neighbouring states. The strategies towards this objective include the reduction of taxpayers burden through rationalisation and institution of a unified tax regime in place of the prevailing two-tier regime. The government will ensure that the tax regime is supportive of increased exports with a view to responding to the problem of a domestic market that is too small for the realisation of

the economies of scale in modern industry. The necessary measures will include reduction of the types and number of taxes, increasing efficiency in tax-regime management and expansion of the revenue base. Ongoing initiatives involving capacity building in the tax administration authorities and computerisation of the tax system will be expedited.

The Government appreciates the importance of increasingly shifting the function of tariffs from being a major instrument for revenue generation to becoming the primary instrument for trade expansion. Hence it will continue implementing measures targeting the reduction of tax and duty rates in conjunction with the eventual minimisation of exemptions as a means of enhancing revenue generation through taxation. The aim is to facilitate the use of tariffs as a trade policy instrument including its systematic use as an instrument to protect domestic industry in conformity with WTO rules.

### *5.2.1.3 Duty Draw-Back Scheme*

The DDB scheme is a tool for export promotion through refund of import taxes on imported inputs that go towards production for exports. Tanzania has a DDB scheme in place but its major constraint is lack of capacity for timely technical verification on the value of inputs consumed by exports resulting in delays in effecting duty refunds. These constraints continue to prevail in spite of a number of recent reviews.

### *Policy Statement*

The significance of DDB in stimulating exports declines with progressive reduction of tariff rates. Lower tariffs are generally a better instrument for the stimulation of exports than cumbersome tax refunds, even when the refund system is efficient, and this remains the long-term objective of trade policy. In the short and medium term, the Government will review and strengthen the institutional framework for efficient refund of import taxes under

the DDB scheme. Likewise the mechanism for VAT refunds, where applicable, will be expedited.

#### *5.2.1.4 Export Taxes*

Export taxes are instruments for the discouragement of exports of raw materials in favour of value added products although in many developing countries they are applied ostensibly for revenue generation purposes. In Tanzania, the use of export taxes has been phased out as part of economic reform measures. However, export taxes are still applicable to the primary export commodities including cashew nuts and cotton, ostensibly as a source of revenue to finance product development activities including research, training and extension services.

#### *Policy statement*

The Government, recognising that export taxes may be used as an instrument to discourage export of unprocessed products such as logs, hides and skins, cashew-nuts, cotton, oilseeds and the like, will use this instrument to encourage export of value added goods. The Government will allow, on selective basis, the levying of export taxes to achieve the objectives of raising funds for research, training and extension services in the agricultural sector, in the most appropriate manner.

#### **5.2.2 Non-Tariff Barriers/Measures**

Non Tariff Barriers (NTBs) are instruments for the protection of industry that work on the basis of restriction of imports. NTBs work through a variety of administrative or regulatory measures such as quantitative restrictions, administrative arrangements and stringent standards and quality requirements. The following NTBs are applicable in Tanzania: import licensing and registration; customs valuation; Trade Related Investment Measures (TRIMs) such as local content requirements; standards; state trading; government

procurement procedures; and administrative procedures.

The Government acknowledges that the obligation emerging from participation in the WTO is the gradual elimination of NTBs and their replacement with tariffs as the instrument of protection, where necessary. The ultimate objective is to phase out NTBs through tariffication. Tanzania is already implementing a strategy for the tariffication of NTBs in line with WTO obligations.

### *5.2.2.1 Import Licensing*

Import licensing can serve as a trade barrier, with adverse effects on the flow of trade. The WTO agreement on import licensing seeks to ensure transparency and non-discrimination in the use of import licences. There are two types of import licenses: automatic licensing where the authorities issue licenses automatically without discretionary powers; and non-automatic licensing used for administration of quota restrictions and other measures based on discretionary powers. Tanzania has adopted automatic granting of import licenses, for trade facilitation, data collection and monitoring purposes. The objective of the instrument of registration of importers is to keep track of imports for tariff and tax administration purposes.

### *Policy statement*

The Government recognises the adverse consequences associated with discretionary licensing, use of import permits and registration of importers as instruments of regulation of trade. The Government will implement measures to strengthen the machinery for collection of duties and taxes. However it will maintain judicious use of import licensing and registration, in accordance with the WTO obligations for the purposes of consumer protection in specific circumstances such as the importation of pharmaceuticals and hazardous products.

### *5.2.2.2 Pre-shipment Inspection*

PSI is a set of activities aimed at the verification of quality, quantity, price, exchange rates, financial terms and customs classification of goods undertaken in the exporting country at the request of the importing country. WTO recognises that developing countries need PSI with the objective of preventing capital flight through over-invoicing and the loss of customs revenue through under invoicing by traders. The WTO PSI agreement aims to strike a balance between the concerns of exporters and the need to safeguard the essential interests of importers in developing countries.

#### *Policy statement*

The Government recognises the need to distinguish between mandatory and voluntary PSI and use of the former in consumer protection. Increasing recourse will be made to the use of alternative but more direct instruments in verifying valuation for taxation and duty collection purposes and ensuring consumer protection with a view to reducing the incidence of mandatory PSI for control purposes, while encouraging the option of voluntary PSI on the part of the importer. The success of alternative measures for enhancing conformity to consumer protection and taxation measures, combined with successful implementation of customs valuation as an independent instrument will facilitate the gradual elimination of the expensive exercise of mandatory PSI.

### *5.2.2.3 Customs Valuation*

Although Tanzania has in the past treated customs valuation as part of PSI, the WTO agreements treat the two as separate instruments. The main objective of the WTO in the area of customs valuation is to provide procedures for greater uniformity and certainty in the undertaking of customs valuation on a fair, uniform and neutral system.

Currently the responsibility for mandatory psi and customs valuation in Tanzania is contracted to private firms. In January 2001, Tanzania switched from using the BDV definition for customs valuation to WTO-compatible customs value definition precluding the need for PSI. The interim objective of the reviews of customs valuation and PSI has been to shorten the turn-around time required for customs clearance to internationally competitive levels.

### *Policy Statement*

The Government will expedite measures to restore the function of customs valuation under the Tanzania Revenue Authority (TRA) taking into consideration ongoing measures to build the requisite capacity. The success of these measures will facilitate the de-linking of the customs valuation function from PSI and facilitate improvements in customs valuation as an independent instrument.

#### *5.2.2.4 TRIMs (Local Content Requirements)*

The instrument of local content requirements falls under the WTO agreement on Trade Related Investment Measures (TRIMs). The agreement covers a number of restrictive issues on foreign investments in view of their trade restricting impact. These include conditionalities on local content, local equity, foreign exchange balancing, import obligations and others that are specifically prohibited under the TRIMs agreement. The TRIMs agreement prohibits countries from using these measures as they are considered inconsistent with GATT rules on national treatment and rules against the use of quantitative restrictions. Tanzania, as a least developed country (LDC), was required to comply with the TRIMs agreement by 2002 following the expiry of a 7-year grace period given to LDCs.

### *Policy statement*

The Government will undertake initiatives to seek extension of the TRIMs compliance deadline so as to facilitate use of this instrument

to enable local industry to gain the necessary edge in developing its competitiveness. In the course of future TRIMS negotiations, the Government will adopt measures to emphasise concern on the need for developed countries to perceive the issues of firms equity requirements, local content requirement, technology transfer and export performance as necessary conditions for LDCs to expedite the process of socio-economic development.

### *5.2.2.5 Standards*

Technical Barriers to Trade (TBTs), such as Sanitary and Phytosanitary (SPS) measures and other standards, are used as instruments of trade policy to authenticate the quality and specification of imports and exports in conformity with international safety requirements and regulations that largely aim at consumer protection. Tanzania has developed a combination of mandatory and voluntary standards, some of which have been adopted from International Standards Organisations (ISO).

Tanzania faces two challenges with respect to standards. First is the need for further alignment of national with international standards, building of capacity for enforcement and development of the culture of observing the standards of main international trading partners in major export products. The second challenge is that of conforming to WTO agreements on SPS/TBTs based on building capacity for scientific analysis and risk assessment matching with the requirements of international markets for national exports.

### *Policy statement*

The Government will implement measures to ensure that TBTs and SPS will not be used as unnecessary trade restrictive measures on imports. It will continue to observe and enforce international standards rigorously in order to protect economic activities particularly in the agricultural and livestock sectors from the dangers of exotic pests through SPS measures. Likewise measures will be

undertaken to protect its consumers against sub-standard and harmful products through application of suitable measures under the SPS and TBT agreements. Other initiatives will focus on raising awareness on international standards with respect to conventional exports and to new products adopted under economic diversification strategies. These measures will include building public and private sector capacity for conformity to prevailing standards as part of entry strategies in accessing new markets.

As regards export development, the government will seek membership, accreditation and participation in international standard setting organisations. The government recognises that lack of adequate technical and financial capacities in local standard organisations is an impediment to market access. It will explore opportunities emerging in the MTS, regional groupings and bilateral arrangements regarding the provision of technical assistance on standards and SPS and utilise them to build the requisite capacity. In addition, it will encourage and build a culture of strict adherence to standards, starting with those that are relatively easy to implement such as specification requirements based on weights and measures. Finally initiatives will be undertaken to build international accreditation capacity on standards at the national level and in collaboration with regional economic partners.

#### *5.2.2.6 State Trading Operations*

State trading is undertaken by enterprises that are broadly defined as: “Government and non-governmental enterprises, including marketing boards which have been granted exclusive or special rights or privileges including statutory or constitutional powers in the exercise of which they influence through their purchases or sales the level or direction of imports or exports”.

State Trading Enterprises (STEs) need to be distinguished from government procurement. In some countries state trading still continues to play an important role in import and export of certain



goods particularly food and food products and commodities traded in bulk.

The General Agreement on Trade (GATT) rules impose two main obligations on member countries in regard to STE. One is the requirement to conduct business on the basis of commercial considerations i.e. prices, quality, availability, marketability, transportation and other conditions of purchase or sale. The obligations also insist on allowing competition in such purchases or sales by other purchasers or sellers. The second is transparency through notification to the WTO regarding state enterprises engaged in foreign trade and the products they import or export.

### *Policy statement*

The existing policy position, evident in the divestiture of State Owned Enterprises (SOEs), emphasises Government withdrawal from direct participation in economic activities including trading services, in favour of the private sector takeover of this function while the Government concentrates on the conventional facilitating role. Yet, the Government recognises the benefits of state trading enterprises in that they can still play an important role in import and export of selective products including food and food products particularly at times of crises. Where such a need arises the government may give exclusive rights to STEs to provide the requisite services for a specified duration.

### *5.2.2.7 Government Procurement*

The Government procurement system is based on a tendering system whose objective is to facilitate least-cost procurement through centralisation of international and national procurement procedures. A specific law to regulate the process of Government procurement has already been enacted. Government procurement remains an inevitable instrument and the issue on hand is how much to open the Tanzanian system at different hierarchical levels to international

bidders in conformity with WTO regulations.

### *Policy statement*

The Government appreciates the importance of maintaining an open procurement system as a means of increasing competitiveness amongst suppliers and lowering costs. The policy of openness has to be balanced with other considerations, such as measures for stimulating the development of an infant private sector. The Government will undertake measures to motivate the development of the domestic private sector through the procurement system and will also cooperate with donors in working towards the opening up of the procurement system for donor-funded projects.

#### *5.2.2.8 Administrative Procedures*

Administrative procedures prevail in developing economies as a response to difficult situations at times of natural disasters such as the need to ensure food security when grain shortages are envisaged due to shortfalls in production. They are applicable at the regional and district levels. Their main impact include the discouragement of cross-border trade in grains and other food crops, timber and livestock in border regions/districts. Currently the application of administrative procedures is largely at the discretion of regional and district authorities.

### *Policy Statement*

The Government will take measures to rationalise local government by-laws so as to conform to specific national guidelines as well as to stimulate the integration of rural sub-sectors into the national and international economy through the commercialisation of food products so as to prevent the emergence of administrative procedures as barriers to trade.

### ***5.2.3 Trade Defence Instruments***

The WTO agreements provide for safeguarding specific economic activities within a limited time-frame through application of a set of instruments that are identified as “trade defence instruments.” Instruments available for this purpose are safeguard measures, subsidies and countervailing duties, anti-dumping legislation and RoO. The aim of these instruments is to ensure fair competition through availing infant industries time to grow and become competitive without inhibiting trade, hence contributing to gradual acceleration of trade expansion. The instruments can be used to address a wide range of situations and provide for flexibility in application in line with perceptions of prevailing problems.

#### ***5.2.3.1 Safeguard Measures***

According to the WTO Agreement on Safeguards, if a sub-sector of the domestic industry of a country suffers injury or considers that there is a threat of injury from a surge of imports, measures for safeguarding that sector can be taken by the importing country. Safeguards normally take the form of raised tariffs and are a temporary relief measure.

#### ***Policy statement***

To ensure free and fair competition, expansion of trade as well as to protect its national interests against unfair international trade practices, Tanzania will, whenever necessary, invoke trade defence mechanisms through safeguard measures in line with WTO Agreement on Safeguards. Safeguards will also be invoked in public interests and applied only to the extent necessary to prevent or remedy serious injury and facilitate adjustment on a non-discriminatory basis.

### *5.2.3.2 Anti-dumping*

Dumping occurs when a country or a company exports a product at a price lower than the price it normally charges for the same product in its home market. This practice distorts trade and undermines local industry. The WTO prescribes action against dumping when the practice affects competition. The application of these measures calls for the enactment and application of anti-dumping legislation at the national level. The main problem in taking anti-dumping action is determination of dumping margins, the level of threat or material injury on domestic industry, and causal link between the dumping and the injury. This calls for building national capacity in the public and private sectors in undertaking the related investigations and analysis. The issue of effective undertaking of anti-dumping measures can also be addressed from the regional perspective, given that the incidence of dumping equally affects the East African region. Tanzania is moving towards further liberalisation of its import regime and anti-dumping measures can be used as an effective instrument for the safeguarding of domestic industry.

#### *Policy statement*

The Government will take measures for the enactment of anti-dumping legislation and utilise opportunities emerging from international programmes that aim at capacity building for better participation in the MTS. In this regard, the objective will be to build the requisite public and private sector capacity for investigation and analysis involved in the course of establishing the existence of dumping and initiation of anti-dumping action.

### *5.2.3.3 Subsidies and Countervailing Duties*

Subsidies are measures that confer benefits to producers and exporters and exist where a public body or the Government provides financial contribution to producers in the form of grants, soft loans

or equity. It is recognised that subsidies are intended to increase and diversify production and exports, promote technological development and enhance competitiveness both in the domestic and international markets. There are three types of subsidies:

- Permissible and non-specific subsidies that are non-actionable (green box). They are subsidy programmes granted on the basis of objective criteria that are economic in nature and do not favour certain enterprises over others. Subsidies given by governments to SMEs identified on the basis of size or number of employees fall under this category. Other allowable subsidies include those for research, technological development, adoption of existing production facilities to new environmental requirements and development of industries in disadvantaged regions.
- Permissible but actionable subsidies (amber box) are subsidies that are specific and targeted to:
  - An enterprise or group of enterprises;
  - An industrial sector or group of industries; and
  - A designated geographical region within the jurisdiction of the granting government.
- Prohibited subsidies (red box) are subsidies that impede competitiveness of prospective exports to other countries. Instances of prohibited subsidies include more favourable exchange rates to exporters, packaging and transportation assistance and the like.

In order to safeguard against unfair practices, clear rules and procedures have been laid down in the WTO system on the granting of subsidies and requisite action against them. Tanzania has no export subsidy schemes currently in place although there is provision under the WTO for use of export subsidies by LDCs within the transition period of 8 years expiring by January 2003 with possibility of extension for two more years.

### *Policy statement*

The government recognises the role of subsidies in the stimulation of exports within the allowable limits given under WTO obligations. In this context the government will take measures to utilise subsidies as an instrument for export trade stimulation. At the same time measures will be undertaken to ensure the use of the concept of “prohibited” subsidies as a trade defence instrument. Likewise the Government will use countervailing duties to address unfair competition from subsidised imports as an instrument of protection.

#### *5.2.3.4 Rules of Origin*

RoO are laws, regulations and administrative criteria applied by a country to determine the country of origin of goods, for tariff preference purposes, subject to specific conditions as defined in WTO Agreements and RTAs. Clear and predictable rules of origin and their application facilitate the flow of international trade. Nevertheless, RoO can create unnecessary obstacles to trade and nullify or impair the rights of members in regional and multilateral trading arrangements including the EAC, SADC and the WTO. Consequently, RoO have to be applied in a transparent, predictable, consistent and neutral manner so as to avoid their negative effects.

### *Policy statement*

The Government will undertake measures to observe RoO preferences requirements prevailing in different trading arrangements with a view to maximising benefits accruing in the cause of implementation. Priority will be accorded to the issue of building national capacity for effective utilisation of this instrument.

#### **5.2.4 Trade Development Instruments**

This group comprises of instruments that are used in stimulating the development of export trade by focusing on measures at all

levels

of production, such as crop/animal husbandry practices and product transformation processes through the various aspects of marketing and actual delivery. They target addressing the supply side constraints that remain the major impediment to trade expansion in developing countries. Trade development instruments include EPZs, Investment Code and Rules, export development/promotion and export facilitation.

#### *5.2.4.1 Export Processing Zones*

The EPZ is a trade development instrument used to stimulate export-oriented economic activities through building an exporting culture, acquisition of appropriate technology and skills, and building capacity for competitiveness. The instrument works through reducing the relatively higher transaction costs facing exporting firms as compared to those operating in the domestic market. The EPZ eliminates the need for initial investments in infrastructure and limits capital investments to machinery and equipment. It is an interim measure aimed at compensating investors for distortions in an economy pending the emergence of an efficient market system.

#### *Policy statement*

The legal and regulatory framework for the establishment of EPZs in Tanzania is now in place. The Government will undertake a concerted marketing drive for the establishment of EPZs through the mobilisation of private sector resources. Zones will be located in different regions depending on the existing potential for export-oriented production. Priority locations will be selected on the basis of criteria including: proximity to resources used as inputs in processing, proximity to neighbouring country markets; and access to existing physical infrastructure such as ports and airports. Promotion of manufacturing capacity within the zones will place emphasis on products that use local materials such as textiles, garments and leather goods, agro-processing, the lapidary industry and implementation

of programmes that facilitate the diffusion of technology to local entrepreneurs and firms.

#### *5.2.4.2 Investment Code and Rules*

The investment code as a trade policy instrument works through compensation for distortions which impede the flow of foreign investments largely due to market imperfections. In principle, the investment code is considered a necessary interim instrument for stimulating both foreign and domestic investments while initiating measures for strengthening the enabling business environment and working for the emergence of a vibrant market economy. In the long-run, the necessity of this instrument declines as imperfections in the market are reduced and an enabling environment emerges.

Tanzania has undertaken significant efforts to encourage investments through the Tanzanian Investment Act of 1997 and the establishment of the Tanzania Investment Centre (TIC), the Mining Act of 1998 and the establishment of Dar es Salaam Stock exchange in 1996.

#### *Policy statement*

The Government recognises that current macro-economic policy achievements notwithstanding, the inflow of FDI into the critical sectors of agriculture and industry remains negligible while the level of domestic investments is still low, and it is necessary to use the Investment Code and Rules to change this situation. From the short-term perspective, the Government will address constraints of a regulatory and administrative nature that impede investments through use of the National Investments Steering Committee (NISC) chaired by the Prime Minister. In the medium and long-term, the Government will expedite reforms of the legal and regulatory framework and encourage self-regulation by the private sector as part of measures to enhance the enabling business environment so as to stimulate higher FDI flows



and increase domestic investments.

### *5.2.4.3 Export Promotion and Market Linkages*

Export promotion entails the provision of support services to exporters with the objective of expanding trade for existing product lines. Such services include the undertaking of market research, demand surveys, packaging and labelling, prices, quality and delivery systems. Other functions include dissemination of information on markets, organisation and facilitation of business contacts, trade fairs and missions. Export promotion primarily focuses on the demand side of the production function and works well for product-lines for which competitive supply capacity is already in place.

Market linkages is a concept that complements export promotion in that it places equal emphasis on both supply and demand side. In this regard, market linkages as a tool for trade expansion examines trends in the world market relative to products for which a country has the potential production capacity and identifies the full-range of requirements for successful production. In the case of agricultural products this entails the organisation and training of farmers in production methods for the full product-cycle, undertaking research on production technology and requirements, support through provision of inputs and extension services, and facilitating contractual linkage with commercial enterprises for the purpose of processing and marketing. Market linkages is a necessary tool in implementing strategies for product diversification through the re-orientation of supply capacity to reflect the needs and demands of the market. Export promotion is an efficient tool for trade expansion when used in complementing market-linkages as part of an EDS.

#### *Policy statement*

The Government will use the joint tools of market linkages and export promotion to implement a strategy of economic diversification, through product and market diversification, as recommended in the EDS report of 1996. This includes the introduction of new agricultural products, such as

horticultural products, and adding value to conventional products as a means of facilitating entry into new markets. Necessary institutional reforms in the export sector will be undertaken as part of measures to ensure the effective use of these instruments to facilitate effective public and private sector co-operation and co-ordination in the course of stimulating the rapid expansion of trade through higher exports.

#### *5.2.4.4 Export Facilitation.*

Export facilitation works through the simplification of trade procedures and reduction of the high costs involved through measures such as provision of export credit financing, insurance and credit guarantee schemes, and access to better storage facilities. In spite of major financial reforms undertaken during the 1990s, Tanzania has few conventional export facilitation instruments: Likewise there are no institutions undertaking the export facilitation function subsequent to the withdrawal of the Bank of Tanzania (BOT) and the Board of External Trade (BET) from this area of operations during the 1990s. Recent Government accession to the African Trade Insurance (ATI) encourages the development and provision of support for insurance, co-insurance, re-insurance, guarantees and other financial instruments and services for trade facilitation and investments stimulation.

#### *Policy statement*

The Government will implement measures to promote better regulation and enhance efficient commercial justice delivery as a means of addressing the problems underlying the withdrawal of BOT and BET from the delivery of export facilitation services. The objective is to stimulate the entry of private sector service providers, especially banks and insurance companies, in the provision of export facilitation services. The government will work with other African countries to enable ATI facilitate access to commercial and political risk insurance. Private sector institutions, particularly the commercial banks, working in

collaboration with relevant public institutions such as BOT, TRA and BET, will be encouraged to address issues involved in the simplification of export procedures and the re-introduction of export credit guarantee schemes.

### *5.2.5 International Policy Instruments*

There are three international trade policy instruments: Bilateral Co-operation Initiatives; Regional Trading Arrangements; and the WTO agreements.

#### *5.2.5.1 Bilateral Cooperation Initiatives*

These are international instruments whose efficacy depends on the willingness of contracting parties to promote bilateral investments and trade expansion. Bilateral co-operation was the preferred internal trade policy instrument in Tanzania during the 1980s and early 1990s as it conformed to the demands of the time. The instrument took the form of trade cooperation agreements administered through joint commissions. However, developments in the late 1990s emphasise the shifting of international economic relations away from bilateral towards regional and multilateral trade arrangements.

#### *Policy statement*

In recognition of the benefits from RTAs and the MTS, the Government will implement measures emphasising more effective participation in these schemes. These measures imply a gradual shift from bilateral arrangements towards trade expansion within the framework of regional and multilateral co-operation.

#### *5.2.5.2 Regional Trading Arrangements*

RTAs evolved from the concept of economic integration and are considered as a building block towards effective participation in the MTS. The main objective

of this instrument is to create large markets for goods and services through trade liberalisation, introduction of preferential tariffs and reduction of other barriers to trade.

Tanzania is a pro-active member of two regional economic co-operation schemes, i.e. SADC and EAC. The nation has not benefited significantly from these arrangements mainly due to supply-side constraints that culminate in lack of competitiveness. Tanzania's main objectives for participating in regional arrangements are to: reduce trade imbalances with regional partners; achieve harmonisation of policies with regional partners; promote diversification of exports; and become a competitive regional economy. These goals will be achieved through access to the larger markets resulting from regional economic co-operation.

### *Policy statement*

The Government will strive to take full advantage of membership in regional markets and the reversal of balance of payments deficit through four measures:

- Encouraging production of quality goods and services including focus on diversification of both products and markets;
- Improvement of hard (physical) infrastructure and soft (information and financial services) infrastructure to ensure reliable availability of services at competitive prices;
- Implementing measures contributing to private sector development; and
- Capacity building for private and public sectors in order to facilitate proactive participation in the processes of negotiation and implementation of regional and international co-operation agreements.

#### *5.2.5.3 The WTO Agreements and the Multilateral Trading System*

The WTO coordinates the rules-based MTS. The objectives of the

MTS are to stimulate sustainable world economic growth through trade expansion, encouraging specialisation and opening up of national economies through elimination of tariffs and NTBs. The basic premises on which the MTS operates include: fair competition and transparency in trade; national treatment entailing equal treatment of nationals and foreigners in trade; and the most favoured nation treatment (MFN) whereby the most favourable terms in trade are extended to all WTO members. The system includes a mechanism for dispute settlements amongst members and allowable trade defence mechanisms.

Tanzania's ability to effectively participate in the WTO processes is largely constrained by the volume of negotiations in the MTS involving an average of 12,000 meetings a year, and the relative complexity of the issues involved. While benefits in terms of trade expansion through enhanced access to the world market are apparent, the nation has not been able to benefit from these opportunities in view of limited participation and follow-up of proceedings in the plethora of committee meetings in which implementation problems are reviewed and decisions on alternative courses of action are made.

As an LDC, Tanzania is eligible for Special and Differential (S&D) Treatment which provides lesser obligations in the form of market access preferences, zero tariffs and derogation on compliance for specified periods. Tanzania is also eligible for technical assistance from multilateral and bilateral development partners for building capacity for compliance with and application of international standards and SPS requirements. These measures are designed to facilitate smoother but more effective integration into the global economy.

### *Policy statement*

The Government will develop and implement a strategy of interactions in the MTS that aims at prioritisation of the realisation of the following targets: capacity building for more effective participation in multilateral trade negotiations (MTNs); implementing resulting agreements; ensure the use of the rules-based system in defending and enhancing national economic and commercial interests; and securing the opportunities and privileges provided for under the S&D Treatment.

Towards this end, the Government will undertake measures aimed at raising private sector awareness of the essence and opportunities inherent in the MTS including ensuring pro-active participation in negotiations and implementation. The Government initiatives will include advocating group positions in MTS negotiations based on regional economic schemes such as EAC, SADC and African Union (AU) and political groupings such as the LDCs group. To ensure the success of these measures, the Government will strengthen the negotiating capacity of institutions involved.

### **5.3 PRIORITISATION OF POLICY INSTRUMENTS.**

Tanzania recognises the importance of prioritisation of trade policy instruments as necessary to ensure maximum effectiveness in stimulating growth, taking into consideration factors such as the structure of the domestic economy, the growing challenge of globalisation, the reduced role of government in direct commercial activities and the key role of the private sector as the producers of goods and services.

The major problems constraining trade expansion and growth in Tanzania include limited production capacity, low competitiveness and poor export development and promotion. To address these problems it is necessary that the choice of suitable instruments should reflect the most direct relationship between issues involved in the identified constraint and the instruments available. Trade policy implementation has to prioritise the application of instruments to address specific problems

on the basis of envisaged direct impact. Effective trade policy also depends on adoption of a common direction for different instruments so that these instruments complement rather than contradict each other.

### *Policy Statement*

The Government will adopt and implement a prioritisation strategy that ensures that first priority will be accorded to instruments addressing the perceived binding constraints related to supply and delivery capacity. In this regard, the promotion of investments into sectors and sub-sectors with high combined domestic and export market potential based largely on internal resources is the leading instrument. Simultaneously tariff and tax policies will be implemented in such a manner as to promote trade through encouraging investment into areas in which Tanzania has comparative advantages. Third priority will be accorded to export development, promotion and facilitation.

TBTs, SPS measures and other standards will be used to facilitate enhanced market access and consumer protection while the RoO will be used to maximise utilisation of domestic resources in production for export. Finally, use of trade defence mechanism will be taken into consideration as the means to secure Tanzania's economic interests and to ensure free and fair competition in the course of a consistent process of liberalisation. These priority instruments will be used to steer the economy from the current comparative advantage basis towards competitive advantage orientation for enhancing high export led growth.

## **5.4 SECTOR POLICIES ALIGNMENT**

The trade function cuts across all sectors of the economy, ranging from the productive sectors to the economic and social services sectors. The essence of export-led growth and its success hinges on appropriate prioritisation of sectoral development strategies and the adoption of

appropriate and linked sector policies over a given span of time. As such it is imperative that all productive sector policies are closely interlinked and co-ordinated and focus on the key aspect of stimulating supply-side capacity. Sector policies have to aim at removing impediments that hamper competitive supply from the stage of production to actual delivery. The key sectors in a trade strategy include the social sectors (i.e. education and health) and the productive sectors (i.e. agriculture, industry, mining, tourism and sectors responsible for the economic services). The orientation of specific policies in these sectors entails the following:

- Sector policies relating to hard (physical) and soft (information and financial services) infrastructure should facilitate the process of linkage to markets and delivery capacity;
- Social sector policies should ensure availability of healthy and trained or trainable pool of manpower to meet the demands of the productive sectors;
- Other social sector policies especially those concerning the judiciary, land and labour issues, have to contribute to the establishment and sustenance of an enabling competitive business environment;
- Ultimately policies in the productive sectors have to focus on building capacity for product competitiveness in unique sub-sectors where the nation has the opportunity to convert comparative advantages to competitive ones; and,
- Establishment of a National Policy Harmonisation Committee (NPHC) to ensure focused implementation of sector policies consistent with the goals of Development Vision 2025.

### *Policy Statement*

The Government will continue and expedite the implementation of well co-ordinated and linked sector policies that will ensure maximum contribution to rapid economic growth for poverty eradication through trade expansion. In this regard, it will establish a NPHC to co-ordinate and harmonise the thrust of key economic sector policies in line with the goal of Development Vision 2025.



Specific sector policies that require harmonisation and co-ordination in terms of theme and direction include:

- Modernisation of physical infrastructure including the mobilisation of private sector resources on the basis of the BOT (Build, Operate and Transfer ) or the BOOT (Build, Own, Operate and Transfer) concepts;
- Transformation of the education sector policies to accommodate a rapid increase in enrolment capacities at the secondary and tertiary education levels and improvement of quality and standards at the primary school level to match with the demand for human capital and the emergence of a knowledge-based society;
- Transformation of the agricultural sector through adoption of modern technology in terms of crop husbandry practices from planting through to harvesting, packaging/storage and delivery to the market, including market linkages and access;
- The rapid development of an industrial sector oriented towards adding value to agricultural produce and natural resources;
- The consolidation of tourism and mining as lead sectors whose proceeds can be ploughed back to investment in critical sectors where returns have longer gestation periods such as education, infrastructure and agriculture;
- Formulating and implementing a PSDS which links a wide range of initiatives that target the emergence of a vibrant private sector, responds to the concerns for economic empowerment and takes into consideration the de facto designation of the sector as the engine of trade expansion and economic growth; and
- Revitalisation of soft infrastructure sector policies to become responsive to the demands of the private sector.

## CHAPTER SIX

# **IMPLEMENTATION FRAMEWORK AND ACTION PLAN**

The efficacy of even the most articulate trade policy lies in the design and implementation of specific programmes and projects within a specific time frame. The time frame for this policy is 5 years - from 2003 to 2007. Likewise, successful implementation requires stakeholder consensus on key implementation issues including methodology, mechanisms and functional roles for each party. Such consensus defines and facilitates broad stakeholder participation; appropriate institutional framework including organisational behavioural patterns; sequencing of projects and activities taking into account the dynamism of trade policy in a changing environment; and definition of monitoring and evaluation criteria and systems.

### **6.1 ROLES AND FUNCTIONS**

On the one hand, effective trade policy implementation requires harnessing of resources from all stakeholders, that is the government as implementers, the private sector as partners and NGOs/civil society as supporters and active participants. On the other hand, it requires recognition of the fundamental roles of the private sector as the generator of wealth and engine of growth and that of the government as a facilitator of the economic activities that generate wealth and lead to growth. In the second perspective the private sector is the implementer of economic activity and the public sector the facilitator.

#### ***6.1.1 Public Sector - The Facilitator***

The public sectors' role in the trade function hinges on the

formulation and implementation of macro-economic and sector policies that define and provide the guidelines for competitive economic activity underpinning trade. The essence of good governance relates to the efficiency with which the Government performs the facilitative role including the establishment and maintenance of an enabling environment, social infrastructure and services, and provision of key economic services in areas where private sector involvement is either weak or non-attractive. The concept underlying the public sector's facilitative role should not be misconstrued with the fact that it remains the lead agent in terms of formulating and overseeing the implementation of policies.

The public sector comprises of Government Ministries, departments and specialised institutions. Several Government Ministries are involved, to different extents, in trade policy formulation, monitoring and evaluation. These include MIT, the Ministry of Finance (MoF), the President's Office, Planning and Privatisation (POPP), the Ministry of Foreign Affairs and International Co-operation (MFAIC), the Ministry of Agriculture and Food Security (MAFS), the Ministry of Cooperatives and Marketing (MCM), the Ministry of Water and Livestock Development, the Ministry of Energy and Minerals (MEM), the Ministry of Natural Resources and Tourism (MNRT), and the Ministry of Communications and Transport (MCT). The lead role on the side of the public sector rests with MIT, which has the functional mandate for the trade portfolio.

MIT, as the focal point on trade related issues, will not only co-ordinate policy implementation but also play a key role in actual implementation in terms of pro-active promotion, facilitation and coordination of trade development. MIT's effectiveness requires urgent consolidation of the currently fragmented mandate regarding the trade function, including import management under one ministry, review of the roles and functions of Regional Trade Officers and re-introduction of trade and economic representatives in key Tanzania missions abroad. Likewise trade policy aims at building common guidelines in setting sector policy directions and targets

for the realisation of economic development goals. In performing its co-ordination and facilitating role, MIT is assisted by several public institutions and agencies under its auspices i.e. the BET, the National Development Co-operation (NDC), the Small Industries Development Organisation (SIDO), the Tanzania Bureau of Standards (TBS), the Business Registration and Licensing Agency (BRELA) and the Weights and Measures Agency (WMA). There are also several Research and Development (R & D) institutions supporting the industrial sector such as the Tanzania Industrial Research Development Organisation (TIRDO), the Centre for Agricultural Mechanisation and Rural Technology (CAMARTEC) and the Tanzania Engineering and Mechanical Design Organisation (TEMDO). Other public institutions that play significant roles include: BOT, TRA and TIC and a wide range of sector R & D institutions such as those serving the agricultural sector.

### ***6.1.2 Private Sector - The Implementer***

In a market economy, the private sector is recognised as the main engine of growth by virtue of its role in the production and distribution of goods and services. As such it is also recognised as the public sector's partner in the formulation and implementation of trade policy. The emergence of a vibrant private sector is of paramount importance for this reason. Towards this end, a PSDS is necessary to stimulate and expedite the strengthening and growth of the domestic private sector in Tanzania. The issues involved in such a strategy constitute part of the fundamental premises for trade development and highlight the facilitative role of the Government and place of proactive initiatives on the part of the private sector itself. Private sector development initiatives have to target high priority sectors including agriculture, mining, industry, natural resources (fisheries), and the services.

Ultimately, the goal of poverty eradication implies the issue of economic empowerment is an integral part of a PSDS. This strat-

egy has to prioritise the fundamental concerns involved, such as broad-based participation and inclusion of disadvantaged population segments in economic growth opportunities through equitable access to production assets.

### ***6.1.3 Civil Society***

Civil society includes NGOs, academia, the media and other members of society. This group has a role in trade development through supporting initiatives for higher productivity, assisting in market development and facilitating domestic as well as export market linkages. For instance the print and electronic media, national and educational institution libraries can play a major role in the dissemination of and creating awareness on trade policy implementation. These roles are necessary for inclusion of poor rural communities in a commercialised domestic economy and eventually into the international market. The initiatives of this group also provide examples of best practices necessary to tackle the problem of poverty by facilitating access for the poor to factors of production including education, skills development and finance. Key civil society institutions include:

- The academia and research institutions whose role is to provide technical back-up and training;
- Micro finance institutions providing critical financial support to small firms;
- Business Development Services (BDS) providers especially those involved in product and market development and market linkages
- Sub-sector business associations working on advocacy and other membership services;
- Other non-governmental organisations working in the area of poverty reduction in rural and urban areas; and,
- Print/electronic media and library networks in policy dissemination and awareness creation.

### *6.1.4 Development Cooperation Partners*

Development cooperation partners play a critical role by supporting national efforts in addressing constraints to development. They provide resources towards development of physical infrastructure, transportation, communications system and facilities, the utilities, the modernisation of the social sectors and improvement of governance institutions, which is crucial for competitiveness and export-led growth. These resources are providing the supportive role that is necessary to propel the economies of many developing countries onto the path of sustainable higher rates of growth.

## **6.2 TRADE POLICY DEVELOPMENT GROUP AND SUPPORT NETWORK**

The trade policy-making process involves four distinct stages: situation analysis to identify constraints and opportunities; formulation of policy strategies and measures; actual implementation; and monitoring and evaluation based on regular review. Realisation of the objectives of trade policy calls for close inter-linkages between these stages. Often missing links have evolved around provision of effective leadership, institutional capacity and stakeholder inclusiveness.

Effective leadership calls for the Government to take trade-related issues as paramount in its overall economic development strategy and ensuring that trade is mainstreamed into national development plans by key sector ministries and institutions. Inclusiveness refers to the need for a co-ordination and consultative process for the various stages of the trade policy-making process so as to involve all stakeholders and parties including government ministries and agencies, the business community and private sector, civil society and development co-operation partners.

Figure 1 in the annexes illustrates an adaptation of the relationship and interactions in conventional trade-policy making process to the

Tanzanian situation. At the top, the chart highlights the theme and gist of National Development Vision 2025 and the consequent mission for trade strategy necessary to contribute to the realisation of this vision. The main goal of Vision 2025 is poverty eradication while the resulting mission for trade strategy is attainment and sustenance of high rates of poverty reducing growth.

The middle section of the chart portrays the four categories of stakeholders or parties involved in the trade policy process and need for flexibility in their interactions in the process of formulation and implementation of measures that will facilitate the realisation of declared goal and mission. This interaction highlights consensus building on defining the objectives reflecting the primary goal and identification of policy measures and instruments to facilitate their achievement. Such policy measures and instruments include those responding to developments at the international level and the realities of the internal situation. The bottom line highlights the need for identifying specific trade objectives that reflect the attainment of broader economic development objectives and of transforming these objectives into quantifiable targets with which to evaluate the achievement of the goals of the National Trade Policy.

However, effective policy implementation calls for further adaptation of the Trade Policy Development Group model with the objective of establishing an efficient Trade Support Network (TSN). Emerging best practice indicates that the ideal TSN links the major public and private sector institutions involved in an export-oriented trade policy from two perspectives: that of formulation of a strategy for Export Development and that of coordinating initiatives for the implementation of such a strategy. The practice is to establish an Export Development Council, under the auspices of the Ministry responsible for trade to perform the coordination role. The implementation of National Trade Policy, 2003, calls for revisiting the EDS adopted for implementation in 1999 and the initiation of measures for its effective implementation, based on the establishment of a TSN.

### **6.3 SEQUENCING AND CONTINUITY OF TRADE POLICY**

The attainment of trade policy objectives depends on the timing, sequencing and continuity of policy interventions through appropriate policy instruments in co-relation and consistency with other macroeconomic policy objectives and measures (e.g. monetary, fiscal, industrial, etc.), as well as with sector policies (e.g. agriculture, industry and mining, etc.). It is also of fundamental importance to avoid reversal of policies in favour of short-run objectives and due to possible conflict that may exist between trade reforms and the entrenched elite interests especially those of industry that benefit from protection and naturally works for indefinite postponement of trade liberalisation.

The strategic path and sequential order for trade liberalisation in a competitive and export oriented economy passes through four phases. The first priority measure is to address NTBs through their conversion to tariff equivalents. The second priority sequence is to reduce tariffs peaks and tariffs dispersion with a view to moving towards lower and more uniform tariffs across the economy while taking into consideration the need for measures to compensate for revenue lost through the process of lowering tariffs. The third move entails the rationalisation of tariff bands in a further drive to unify the tariff structure. In the fourth instance, there is need to develop capacity to make increasing use of safeguard measures such as anti-dumping, safeguards, countervailing duties and rules of origin as instruments of protecting nascent industrial structures and ensuring upholding consumer safety, rights and welfare.

Equally important is the simultaneous emphasis on the use of complimentary policies at macro and micro levels with the objective of addressing supply constraints and creating market links. Macro-economic stability, competitive exchange rates and political commitment are the prime requirement for building the environment in which dynamic sector policies will lead to higher efficiency,



productivity and competitiveness in the market place.

The major impact of trade liberalisation depends on the totality of reforms under implementation and the consistency with which the process is pursued. There are often tendencies to reverse the process due to the pressures of interest groups and misconception on the causes of unfair competition between imports and domestic output, however this only serves to lengthen the timing of the inevitable reform process and extend the attendant economic adjustment costs. The key to avoiding reversal of trade liberalisation lies in building broad national consensus for the adoption of a trade strategy that includes simultaneous action on the issues identified as constituting the fundamental premises for trade liberalisation to work so as to ensure that positive results will be forthcoming in the medium term. Partisan political interests can lead to trade policy reversal. However, the implications of such reversals in the context of obligations arising from membership in the WTO, and the need to strengthen effective participation in the MTS rather than withdrawing from the WTO in view of the process of globalisation, are sufficient arguments for the necessity to adopt a bi-partisan national approach to trade policy implementation.

## **6.4 TRADE POLICY IMPLEMENTATION ACTION PLAN**

Experience shows that although the nation is adept in formulating good policies, implementation has been wanting and many policies end up largely unimplemented, or with limited realisation of underlying objectives. This trend is attributable largely to failure to include implementation initiatives in the policy formulation process and undertaking actual implementation subsequent to Government approval.

### ***6.4.1 Major Implementation Issues***

In addressing this shortfall, this trade strategy includes an

implementation matrix comprising of 6 interrelated parts corresponding to the questions: What, Why, Where, How, When and By Whom?

### *What?*

The first question is: “What?” This question highlights the issue of fundamental premises and challenges that serve as prerequisites towards achieving the objectives and vision of trade policy. Fourteen issues or premises are identified under this question namely:

- Improvement of the macroeconomic environment;
- Creation of an enabling business environment;
- Competition policy and regime;
- Human skills development;
- Development of hard infrastructure (i.e. transport, communication systems, water and energy supply);
- Development of soft infrastructure (i.e. financial services and information technology);
- Trade-related environmental and labour issues;
- Trade and electronic commerce;
- Tourism services industry;
- Intellectual property services;
- Regional economic cooperation ;
- MTS;
- Liberalisation and globalisation; and
- Trade development and promotion.

### *Why?*

In posing and answering the second question – Why? – we seek the specific objectives for measures envisaged under the fourteen premises identified above and their linkage to trade development.

### *Where?*

This is the third question and it aims at the definition of targets underlying trade policy objectives. Generally, it is these targets that will determine the nature and direction of specific deliverables that are envisaged as outputs of the process of implementation of the National Trade Policy.

### *How?*

Once targets have been defined, it is necessary to determine the activities through which the set targets can be achieved. This is addressed by the fourth question: “How?” The essence here is not only the identification of requisite activities but also their prioritisation.

### *When?*

The fifth question refers to the benchmarks and time frames for the implementation of trade policy. This responds to the question “When?”. The overall timeframe of the trade policy is 5 years from date of initiation of actual implementation, i.e. 2003 - 2007.

### *By Whom?*

The sixth and final questions refers to the line of responsibilities on the major issues involved i.e. who does what? Effective implementation calls for clear division of labour among various stakeholders at all stages, from policy formulation and implementation to monitoring and evaluation.

## *6.4.2 Sectoral Strategies and Programmes*

Successful implementation of the National Trade Policy is dependent on the thrust of complimentary policies in the form of sector policies

in key economic sectors. Tanzania has designated five high growth economic sectors: agriculture, industry, mining, tourism and transit trade. Policy themes and their implementation programmes in all these sectors reflect the goals of National Development Vision 2025 and the framework provided by the Tanzania Assistance Strategy (TAS). Trade is included in the TAS framework as a cross cutting issue.

In more specific terms all key sector policies focus on achieving the objectives of the Poverty Reduction Strategy Paper (PRSP). Trade Policy also orients its core theme towards this direction. Other specific policy papers and development programmes whose implementation is crucial for the success of this Trade Policy include:

- The Agricultural Sector Development Strategy (ASDS) approved in October 2001 and its implementation document, the Agricultural Sector Development Programme (ASDP);
- The Sustainable Industrial Development Strategy of 1996 and its implementation mechanisms based on Industrial Competitiveness Programmes;
- The SME Policy paper of 2003 and the Micro Finance policy;
- The Tourism Policy;
- The Mining Policy and Mining Act; and
- Policies on physical infrastructure and the utilities (i.e. energy and water).

### ***6.4.3 Implementation Matrix and Concepts***

The starting point for implementation is a matrix highlighting concepts that form the basis for the design of programmes and projects for the transformation of policy statements into concrete actions and activities. Figure 2a presents a template of this matrix whilst the actual matrix is presented in Figure 2b.

Fig 2: Template for Tanzania’s Trade Policy Implementation Matrix

	<b>Subject/ Issue</b>	<b>Objectives</b>	<b>Targets</b>	<b>Priority Activities</b>	<b>Benchmarks/ Timeframes</b>	<b>Responsi- bility</b>
<b>Questions</b>	<b>What?</b>	<b>Why?</b>	<b>Where?</b>	<b>How?</b>	<b>When?</b>	<b>By Who?</b>

### ***6.4.4 Implementation Programmes and Projects***

The current approach is to develop the implementation matrix into a full “Implementation Programme Document” immediately after the policy paper is approved by the Government. However, as an interim implementation measure, three groups of programmes emerge from the implementation matrix: programmes already under implementation; programmes in the design stage; and other potential programmes.

#### *(a) Programmes Under Implementation*

The unilateral trade liberalisation measures initiated in 1984 gained momentum following accession to the WTO and the emergence of the rule-based MTS. Tanzania is implementing two programmes addressing the concern of marginalisation of LDCs in the MTS. These are JITAP and IF. JITAP responds to the need to build public/private sector and civil society understanding of the main issues involved in the WTO and aligning national legislation with WTO rules. The IF programme is a framework for the co-ordination of Trade-Related Technical Assistance targeting trade development in LDCs as a strategy to mitigate against their marginalisation in the MTS. A number of bilateral and multilateral support programmes for enhancing the enabling environment, including the programme for Business Environment Strengthening for Tanzania (BEST), and for trade development through private sector development are being initiated under the IF. BEST is a sector wide programme focusing on better regulations through legal and regulatory reforms and enhanced commercial justice delivery. It includes components for the development of private sector advocacy targeting the grass-roots

level, changing the culture of Government and capacity for the TIC to implement its five-year corporate plan.

### *(b) Programmes Under Design*

The formulation of this trade strategy incorporates preparations for implementation supported by Sida. A second major programme supported by DFID, is the Tanzania Trade and Poverty Programme (TTPP), whose objectives include the identification of the links between trade and poverty and the institutional capacities available for trade policy implementation. TTPP also aims at carrying forward the process of capacity building for participation in the international trade agenda through enhancing the awareness of stakeholders in government, the private sector and civil society of the WTO agreements with respect to analysis, negotiations and implementation. Another objective is the mainstreaming of trade development issues into the national planning processes.

TTPP includes an Institutional Review whose objectives include consideration of the issue of establishing an effective TSN as the basic framework for the implementation of the National Trade Policy, 2003. A third programme, supported by DANIDA, targets capacity building on market access issues, including that for participating in trade negotiations and conforming to standards.

### *(c) Other Potential Programmes*

Several programmes under implementation and others under design focus on creating awareness on WTO issues and institutional capacity building in the public and private sectors. In addition, proposals on priority areas of support in trade development have been submitted to major bilateral development partners and consultations are underway regarding extension of support to private sector development related to supply-side constraints. These proposals are drawn from the recommendations of the EDS adopted by the Government for implementation in 1999. The thrust is to

identify selected priority sub-sectors and products and channel Government and donor resources into these areas.

#### ***6.4.5 Market Supporting Institutions and Capacity Building***

The efficiency of a market economy, particularly in the case of LDCs and other developing countries, depends on the establishment of well-functioning market supporting institutions. These institutions include the totality of behavioural norms, habits and customs as well as organisational structures designed to address shortcomings that arise from market imperfections and malfunctioning. Market-supporting institutions include the measures designed to promote and enhance competition under the umbrella of competition policy and the regulatory role of a wide range of government institutions. The objective of these measures and respective institutions is to ensure and maintain fair competition amongst investors and producers, protecting consumer welfare, while also laying the groundwork for national competitiveness in the global context.

In many cases the reversal of trade liberalisation is attributable to failure to establish new market supporting institutions in view of wariness in creating new organs at a time when emphasis is on divestiture. Tanzania, as a nation transiting towards a market economy needs to make deliberate efforts for the establishment of market support institutions whose absence is the cause of high adjustment costs in the process of liberalisation. Where these already exists, the strategy is to expedite their reform and restructuring.

From the behavioural perspective, cultural norms and patterns comprise a set of institutional aspects for which change is a prerequisite for market efficiency. Players in the public and private sectors need to change their ways of thinking or mind-set to conform to the exigencies of public-private partnership and co-operation that underlies competitiveness. The public sector needs to become more proactive in its facilitating role while the private sector needs to

become more aggressive in building upon national strengths to achieve and sustain international competitiveness. Institutions such as the BOT, the TRA and TIC have undergone a process of change that has raised their outlook to correspond with the basic needs of building a market economy. For instance, the TRA is implementing the Tax Administration Programme geared towards raising the efficiency of the tax and tariff regimes.

The concept of “internal trade,” the centre-piece of a closed command economy, has been rendered redundant by the process of globalisation and the necessity of consistently building an open economy. Consequently, MIT, the lead government agency on trade issues, together with its lead supporting institutions, including BET and NDC, are revisiting their structural and functional set up to reflect capacity and orientation for leading the initiative of trade development. Likewise, BRELA and WMA have been reconstituted from internal departments of MIT into executive agencies to improve their performance. Other Industrial Support Organisations are also reorienting their functions towards the central theme of trade development through support to the development of a strong and vibrant private sector as the engine of growth. The ultimate goal is to develop a TSN that will serve as the framework for effective coordination of trade development initiatives.

#### ***6.4.6 Monitoring and Evaluation***

Systematic monitoring and evaluation is essential for policy assessment. The overall responsibility for the monitoring and evaluation of trade policy implementation lies with the MIT working in close collaboration with the economic sector ministries. The central ministries, including the MoF and POPP all play key roles in the implementation process as well as monitoring and performance evaluation. Likewise, key sector ministries include MAFS, MCM, MNRT, MWLD and MEM. The Ministries responsible for social and physical infrastructure also have a critical role to play. These are the MCT, the Ministry of Education and Culture (MEC), the Ministry



of Science Technology and Higher Education (MSTHE) and the Ministry of Works (MW). Effective monitoring will depend on co-ordinated efforts and close co-operation between these public institutions and the private sector in a relationship of enduring smart partnership. Clear definition of the specific roles of the different institutions in the course of monitoring and evaluating this trade policy is a function of time and the process of learning that results from active implementation.

**Dar es Salaam, February 2003.**

# **ANNEX**

**Figure 1: STRUCTURE OF TRADE POLICY DEVELOPMENT GROUP**

