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MULTILATERAL TRADING SYSTEM IMPACT ON NATIONAL ECONOMY AND EXTERNAL TRADE POLICY ADAPTATION

UNITED REPUBLIC OF TANZANIA

Report prepared by UNCTAD

In the framework of the Joint ITC/UNCTAD/WTO Integrated Technical Assistance Programme to Selected Least Developed Countries and other African Countries (JITAP)

Under cluster 9: MTS impact on national economy and trade policy adaptation

JITAP Joint Integrated Technical Assistance Programme to Selected Least Developed and Other African Countries

ITC — UNCTAD — WTO

Cluster 9

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This report was prepared by UNCTAD in the framework of the Joint ITC/UNCTAD/WTO Integrated Technical Assistance Programme to Selected Least Developed Countries and other African Countries (JITAP) (cluster 9 MTS impact on national economy and trade policy adaptation). It benefited from the contribution of Mr. Keith C. Atkinson, international expert, and Mr. L. Mmasi, national expert.

CONTENTS

SECTION **PAGE**

ABBREVIATIONS

ACP	Africa Caribbean and the Pacific Group of States
ASYCUDA	Automated System of Customs Data (UNCTAD)
CBI	Cross Border Initiative
CET	common external tariff
COMESA	Common Market for Eastern and Southern Africa
CRF	Clean Report of Finding Form
EAC	East African Community
EDF	European Development Fund
ESRF	Economic and Social Research Foundation
EU	European Union
FISCU	Finance and Investment Sector Co-ordination Unit (SADC)
FOB	free on board
FTA	free trade agreement
GATT	General Agreement on Tariffs and Trade
GSP	Generalized System of Preferences
HET	Harmonised External Tariff
IDF	import declaration form
IGAD	Inter Governmental Authority on Development
IGADD	Inter Governmental Authority on Drought and Development
ILO	International Labour Organization
IMF	International Monetary Fund
IPA	Investment Promotion Agency
ITC	International Trade Centre (UNCTAD/WTO)
LDC	least developed country
MFA	Multi-Fibre Agreement
MFN	most favoured nation
MTN	multilateral trade negotiations
MTS	multilateral trading system
OECD	Organisation for Economic Co-operation and Development
PTA	Preferential Trade Agreement
REPA	Regional Economic Partnership Agreement
RESA	Regional Export Services Agency
RFI	Request for Information Form
SACU	Southern African Customs Union
SADC	Southern African Development Community
SADCC	Southern Africa Development Coordinating on Conference
TAN	tax assessment notice
TNF	Trade Negotiation Forum
TRA	Tanzanian Revenue Authority
USAID	United States Agency for International Development
WTO	World Trade Organization

EXECUTIVE SUMMARY

1 Background

The broad objective of the Joint ITC/UNCTAD/WTO Integrated Technical Assistance Programme to Selected Least Developed and Other African Countries (JITAP) is to facilitate the participating countries' full integration into the multilateral trading system within the framework or rules provided for in the WTO Agreements. The emphasis of the programme is on the enhancement of the participating countries' ability to take advantage of trade opportunities arising from improved market access conditions while adjusting their respective trade policy regimes to the WTO disciplines.

This country specific impact study is aimed at assisting the Government of United Republic of Tanzania, the private sector and civil society to better understand the overall impact on the country's development prospects of the Uruguay Round Agreements (URAs). A better understanding of new multilateral trading system (MTS) issues would in turn facilitate adaptation to the URAs including by way of elaborating trade policies and export strategies to take maximum advantage of the emerging trading opportunities and to cope with the challenges. In addition, the study provides an analytical base to enable United Republic of Tanzania to identify a positive trade negotiating agenda consistent with its development objectives, and hence enable its trade negotiators to become more effective participants in defending and promoting its interests in international trade negotiations.

The study focuses on the impact of the URAs in several areas. First, it reviews import conditions in target markets in the light of market access conditions created by the URAs. Second, it reviews the current macro-economic and trade policy framework in United Republic of Tanzania and identifies internal policies and reforms required for promoting the development of competitive export-oriented sectors as well as regulatory changes related to the adaptation of legislation to selected URAs. Third, it undertakes a careful analysis of the country's strategic export options from the sub-regional and regional perspectives to derive and establish where best long-term sustainable export opportunities lie, taking into account potential competition from sub-regional and regional producers of the same products.

Drawing from the impact analysis, the study recommends policies required, on the one hand, to meet the obligations assumed under the WTO and, on the other hand, to overcome constraints in order to benefit from the liberalization of the global market. These include in particular competitiveness-enhancing polices, strategic options for the development of exports and policies and measures to be pursued in sub-regional, regional and multilateral trade negotiations. These would address three main areas of concern namely, the competitiveness of the country's products, the internal economic and trade environment, and the external trade environment. Within these broad areas of focus the following specific subjects are addressed:

- Background, outcome and impact of the Uruguay Round on United Republic of Tanzania (Chapters 1 and 5);
- Review of national economic environment and competitiveness (Chapter 2);
- Review of the international trade environment and market access opportunities (Chapter 3);

- Analysis of the challenges to export competitiveness (Chapter 4);
- Recommended courses of action for United Republic of Tanzania to address issues and obligations raised by the Uruguay Round (Chapters 5 and 6);
- Recommended negotiating agenda for the MTS and policies and options to improve competitiveness (Chapter 6).

The study draws upon a very wide range of literature that has been written on the Uruguay Round, as well as national economic reports, studies on United Republic of Tanzania and East African trade issues, as well as extensive field work. In a number of areas it provides recommendations and options that would require further extensive debate and discussion at the national level in order to arrive at a consensus on the way forward. It highlights actions that are required by United Republic of Tanzania to meet its multilateral trade agreement obligations. The study also highlights down-to-earth market opportunities and constraints to competitiveness that would need to be addressed by all Tanzanian stakeholders concerned with increasing the country's export performance. There are also a series of annexes which either provide supporting evidence or elaborate on specific issues covered in the main report.

It is anticipated that the study will be accessible to and usable by a number of audiences. Policy makers and trade development agencies can find explanations of the impact of the URAs as well as constraints that need to be addressed. Enterprises can find explanations of the trade agreements that affect their operations as well as market access conditions and opportunities for them to consider in their marketing plans. Academics can find teaching and reference material on the MTS that is specific to United Republic of Tanzania.

As a general conclusion it can be stated that United Republic of Tanzania is likely to continue to rely on a narrow range of traditional export products in the medium term. These products are resource based and mostly targeted at the European Union and Asian markets. The URAs will assist to some degree in levelling the playing field, but will conversely also increase competition as tariff barriers to other developing countries outside of the ACP Group are reduced into the key European Union market. Enhanced competitiveness will centre on achieving improved transport routes including lower transport costs, as well as increased efficiency of output. However there are positive signs in United Republic of Tanzania of some product diversification as there has been productive investment into the mineral, horticulture and fish processing sectors in particular.

In the context of regional markets such as EAC (East African Community), COMESA (Common Market for Eastern and Southern Africa) and SADC (Southern African Development Community), United Republic of Tanzania shows some export opportunity in value-added manufactured products such as beer, building materials and metal products. Also certain resource-based industries, such as fisheries, timber and food crops, have the potential to increase exports to these same markets. However, for further market penetration, increased output and price competitiveness, product diversification as well as a suitable market information system would be necessary. This is because in these regional markets, the country faces increased competition from regional suppliers including its East African neighbours, Zimbabwe and South Africa. Moreover in United Republic of Tanzania a number of significant constraints to export still need to be removed including utility costs, poor infrastructure, administrative bottlenecks, cost of finance and a shortage of technical skills.

These barriers impede not only the exportation of existing products but also hamper the development of supply capacity in new export products (and services).

On the broader regional level, United Republic of Tanzania is faced with a potential conflict of interest over its multiple membership of regional trade bodies (EAC, COMESA, and SADC) with the possible confusion and incompatibilities between their respective obligations. A rationalization of approach would be needed.

It is recommended that United Republic of Tanzania focuses on its supply capacity in order to meet the opportunities offered by a liberalizing regional and international trade regime. Sector specific policies and strategies targeting products of competitive advantage need to be implemented. United Republic of Tanzania should continue to seek product and market diversification, based where possible on value added competitiveness. The development of new supply capacity in both goods and services, in particular those products with dynamic export potential, is essential. It is also recommended that economic policies that enhance domestic and foreign private sector investment, support infrastructural development, remove the bias against exports and increase productivity should be strongly supported by all stakeholders.

United Republic of Tanzania should continue to be actively involved in regional trade agreements. They provide the means to improving regional market access for its exports of goods (and eventually of services). Regional trade agreements also provide the means for United Republic of Tanzania to pool regional resources with other participants in addressing such common development problems as regional transport and communication infrastructure building, as well as adopting common positions in international trade negotiations. However, it may need to design an approach to satisfy the overlapping requirements of EAC, SADC and COMESA so as to maximize the exploitation of benefits and minimize the costs incurred. It should undertake periodic impact analyses of the costs and benefits of its membership in these organizations.

United Republic of Tanzania needs to continue to take advantage of technical assistance programmes to enhance its administrative capabilities in monitoring and complying with the results of multilateral trade negotiations as well as sub-regional and regional trade negotiations. This should include on-going impact analysis and evaluation of commitments and opportunities, for the benefit of both the public and private sectors as well as the civil society, including in the context of United Republic of Tanzania's participation in new multilateral and regional trade negotiations.

2. Summary Effects of Uruguay Round

Overview

To summarize the effects of the Uruguay Round on developing countries in general and United Republic of Tanzania in particular is difficult. The quantifiable effects on goods under the Multilateral Agreements on Trade in Goods were positive for the world, but insignificant in size and, for some sectors and groups uncertain in result. The services liberalization under the General Agreement on Trade in Services (GATS) is probably positive for developing countries as a group, in view of its development-friendly structure. For those on trade-related investment measures (TRIMS) and trade-related aspects of intellectual property rights (TRIPS), the effect is small and uncertain.

Developing countries gain on a stronger dispute settlement mechanism, from new market openings in agriculture and textiles and clothing, and from increased information from the country trade policy reviews; but may lose on the new rules on subsidies, safeguards, anti-dumping, and pre-shipment inspection. A stronger WTO should be a gain for such economically weak countries as United Republic of Tanzania. The gains come mainly from the reforms, extension, and reinforcement of an orderly rule-based system of international trade relations. The significance for United Republic of Tanzania and other developing countries derives from their growing exposure to that system, and their relative weakness in a less orderly system.

Statements regarding the ratification of the Uruguay Round agreements by United Republic of Tanzania and other developing country members of the WTO suggest that most of them see the results as positive, even among the poorest for whom the quantifiable effects are insignificant or uncertain in the immediate term. Their expectations were also premised on the flexibility provided for developing countries and the least-developed among them in terms of adjusting to their WTO obligations in a manner consistent with their trade, financial and development needs. However, the design and content of these special and differential provisions in WTO agreements have been such that they have not provided the expected impact. Thus developing countries are seeing improvements in WTO provisions on consolidating and strengthening the principle of special and differential treatment. This includes more market access for their products, greater space to pursue a variety of development policies to enhance development (such as participation in regional trading arrangements) and enhanced assistance to their reforms, with emphasis on the technical and administrative costs.

World Trade Organization

Although the idea of the WTO was not foreseen in the Punta de Este Declaration launching the Uruguay Round in 1986, it was presented and finally accepted as a necessary instrument for implementing the results of the Round and imposing stronger discipline on unilateral trade measures. The WTO Agreement entered into force on 1 January 1995 and with it the creation of the WTO, providing a common institutional framework for the conduct of trade relations among members guided by the Uruguay Round Agreements, and for new trade negotiations.

Tariffs on Industrial Products

On average, the developed countries lowered their most-favoured-nation (MFN) tariffs on industrial products in the Uruguay Round by about 2 percentage points, from 6 per cent to 4 per cent. The changes were greater for some of the most protected products. However, of importance to United Republic of Tanzania and other developing countries is that in most cases the effects of this was insignificant (small changes in products of little export interest to them) or negative. As they received Generalized System of Preferences (GSP) treatment and, in many cases, additional preferences (Lomé Convention) for their exports in their main markets, reductions in the MFN rate did not improve their access, but may have reduced their effective level of preference by improving the access of other developing countries.

Non-Tariff Measures

The Uruguay Round came after a decade in which the developed countries had increasingly used non-traditional non-tariff measures such as “voluntary” export restraints, temporary import controls etc. The introduction of a “standstill” on these during the Uruguay Round, followed by the increased strength of WTO disciplines, effectively ended these new protectionist measures, and there has been a slow reduction in the existing measures. However, in recent years there has been new resurgence in developed countries requiring abuse of legitimate trade rules, as non-tariff barriers against exports of developing countries where market penetration has grown. Such measures pertain to standards and anti-dumping actions.

Agriculture and Textiles and Clothing

The effects of the reform of trade in agriculture under the Agreement on Agriculture and the progressive dismantling of the Multi-Fibre Arrangement (MFA) under the integration programme of the Agreement on Textiles and Clothing were potentially positive for the most efficient producers, including many developing country exporters of these products. The MFA will be phased out over 10 years.

In agriculture, issues of concern to United Republic of Tanzania and many other developing countries include the erosion of the margin of preferences enjoyed under the Lomé Convention in the European Union market and loss of GSP preferences in major developed country markets. Also included is the existence of peak tariffs (exceeding 12 per cent and in some cases reaching or exceeding 300 per cent) resulting from the tariffication of non-tariff measures and tariff escalation affecting many agricultural items which limits the scope for expansion of production into value-added and higher-priced finished coffee products. A major concern is of an expected increase in food prices as developed countries reduce their subsidization of this sector under their WTO commitments, which would affect food security in net-food importing countries and least-developed countries (LDCs). This concern for food security was to be addressed by the Marrakesh Ministerial Decision on Measures Concerning the Possible Negative Effects of the Reform Programme on Least-Developed and Net Food-Importing Developing Countries. However, lack of effective implementation of this ministerial decision has raised concern among LDCs and other developing countries. Other non-trade concerns such as rural employment also figure importantly for developing countries in the impact of agriculture liberalization.

The progressive liberalization in these two key product sectors for developing countries will ensure that the international markets for these once heavily protected sectors in developed countries will be determined more by competitiveness and less by quotas. However, there may be a short-term cost, possibly in agriculture and probably in clothing, for those countries that have benefited from the barriers.

Trade in Services

The Uruguay Round broadened the coverage of GATT to include services under the framework of the General Agreement on Trade in Services (GATS). The GATS result was important for two reasons. First, it increased the ease of obtaining information about controls or access and secondly, it offered a platform from which future rounds could negotiate improved access. The GATS could possibly enable LDCs to strengthen their services sectors and increase the exports of services.

Special and Differential Treatment

In general, notwithstanding the "single undertaking" principle of the WTO, the Uruguay Round Agreements provided for differential and more favourable treatment for developing countries, with the treatment being even more favourable for LDCs. The Uruguay Round brought explicit special provisions for developing countries, with two classes, least developed countries and other developing countries. The provisions for differential and more favourable treatment in multilateral agreements on trade in goods include longer periods for implementing obligations; higher or lower thresholds for undertaking certain commitments, depending on the specific agreement; flexibility in obligations and procedures; "best endeavour clauses" and technical assistance and advice. In general, for example, developing countries were allowed to offer only two-thirds of the concessions (agricultural support) or were permitted 50 per cent longer to implement measures (for example on intellectual property). LDCs including United Republic of Tanzania were given even longer transition periods or totally exempted in some cases.

As regards services, the GATS in general recognizes the needs of developing countries and in particular the least-developed among them, and endeavours to facilitate their increasing participation in international trade in services and the expansion of their services exports. The provisions, however, are in the nature of "best endeavour clauses" without any obligations on the part of Members to implement them.

The differential and more favourable treatment provisions in the URAs was accomplished in a somewhat *ad hoc* manner, not as a result of an underlying consensus as to how the trade and development needs of developing countries should be reflected in trade principles and rules. The special treatment for developing countries was thus considerably eroded because it was addressed separately in each negotiating group in the Uruguay Round without an underlying conceptual framework. There was no overall consensus as to the trade measures required by developing countries as essential elements of their development programmes. At the same time, however, the special treatment being an integral part of the Uruguay Round Agreements meant that these were placed on firmer legal grounds.

Rules

An important effect of the Uruguay Round negotiations was to reinforce the increasing degree of regulation in international trade and enforce acceptance of all these rules under the principle of "single undertaking." Also, the increasing complexity of the goods which are traded, because of the increase in the share of manufactures and of the sophistication within manufactures, has been an important force for the imposition of minimum quality or other standards. Below are some of the key outcomes:

- Concerns about health of humans, plants and animals have increased regulation of foods. The new WTO rules reinforce and add to these via the Agreement on the Application of Sanitary and Phytosanitary Measures. Similar concerns underpinned the Agreement on Technical Barriers to Trade, mainly to encourage the development of standards and at the same time ensure that they do not create unnecessary obstacles to international trade. The Agreement establishes rules over the use of technical regulation and standards including packaging, marking and labelling requirements and procedures for assessment of conformity with these regulations and standards;

- More national subsidies on industrial products are subject to regulation under the Agreement on Subsidies and Countervailing Measures;

- The regulations for anti-dumping measures were made more formal by the Agreement on Implementation of Article VI of the GATT 1994;

- The TRIMS Agreement prohibits trade-related investment measures that have been judged inconsistent with GATT obligations regarding national treatment (GATT article III) and the general elimination of quantitative restrictions (GATT article XI);

- The GATS, although only a framework agreement in terms of what may be liberalized, sets out definitions of the type of services which can be negotiated;

- The protection of intellectual property rights in international trade was regulated, with requirements for reform of national legislation, while at the same time ensuring that such measures do not become disguised barriers to legitimate trade. The rules were instituted under the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS);

- The dispute settlement system was made more formal, reducing the scope for indefinite delay or failure to apply the results and increasing accessibility of developing countries initiating disputes within the WTO. The strengthened rules were established under the Understanding on Rules and Procedures Governing the Settlement of Disputes.

Built-in Agenda

The conclusion of the Uruguay Round in Marrakesh (Morocco) in 1994 left some unfinished business, with formal provision for re-opening negotiations in some sectors and for further review of the provisions of some agreements within a few years. The two most important areas in the ‘built-in agenda’ were agriculture and services, in both of which WTO members were required to open new negotiations by 2000. There also have been new sectoral agreements since the completion of the Uruguay Round on telecommunications and on financial services, in which some developing countries have participated.

Lomé Convention

The current proposals from the European Commission for the successor agreement to the Lomé Convention offer ACP countries several choices. One choice is to continue the Lomé Convention for a 5-year period during which time measures would be designed to move to a free trade arrangement with the European Union, with each region of the ACP Group signing a separate agreement. The European Commission believes that such free trade areas would be sufficient to meet the WTO’s requirement under GATT article XXIV and the Understanding of this article, that, among other things, they cover “substantially all the trade.” This would need to be tested by the WTO examination procedure for free trade areas and customs unions. In this case, United Republic of Tanzania as a member of the EAC or COMESA or SADC agreement with the European Union would assume regional reciprocal trade liberalization commitments.

Another choice for those ACP countries not accepting the first choice is to revert to an enhanced GSP status. In this case there is no reciprocity in concessions provided, however, that the ACP participants no longer participate in the determination of the preferences; that will be the sole responsibility of the European Union. This choice is not likely to be of interest to United Republic of Tanzania. More likely is to reject both of these choices and continue to benefit from present preferences enjoyed under the Lomé Convention, basically replicated for all LDCs by the European Union in 1998 in its WTO commitments to increasing market access for LDCs. Under this arrangement the LDCs are intended to have the equivalent of full Lomé access, except for rules of origin. However, they do not have this yet, because the European Union has not completed adapting of agricultural access, although it has promised to.

In response to the EU proposals, the ACP Group proposes the continuation of the Lomé Convention for a 10-year period, following which an alternative trade arrangement would be instituted. The alternative trade arrangement, which may include any of the options proposed by the European Commission as well as others, would be drafted during the 10-year transition period. In general, however, the potential inevitable loss of preferences and progression into reciprocal trade agreements does encourage product and market diversification and competitiveness, which will render United Republic of Tanzania less vulnerable to changes in policy or economic crises in the future.

Trade with the United States

Discussions are currently underway within the United States Administration and Legislative Branches in respect of developing a preferential trading arrangement with qualifying African countries. This “African Growth and Opportunity Act” arrangement is still at a preliminary stage and has not yet been finally approved within the United States. At this stage, the arrangement is expected to provide a framework for new trade and investment relationships between the United States and Sub-Saharan Africa. It will be open to those SSA countries that demonstrate an adequate level of trade liberalization and democracy. The ultimate objective is to move toward a free trade area by 2025 for the countries that conform best to these criteria. The most immediate benefit it would provide to sub-Saharan African countries is expanded product coverage under the GSP scheme, as well as tariff and quota-free exports of textiles and apparel products to the United States, subject to meeting certain rules of origin criteria.

The United States has shown particular interest in developing an arrangement (possibly a FTA) with the SADC region in the early stages. It therefore appears to be a plan to develop a relationship somewhat similar to the current Lomé Convention relationship.

Effects of Overlapping Regional Trade Agreements

United Republic of Tanzania is a member of both the EAC and COMESA. The EAC is not in conflict with COMESA since the COMESA Treaty allows the formation of smaller sub-regional groups as long as they operate on the basis of subsidiarity with COMESA.

COMESA is notified under the 1979 Enabling Clause to the WTO as a regional trade agreement among developing countries. It permits COMESA members to accord each other preferential market access without extending the same preferences to other WTO members in line with the MFN rule. The EAC should be notified to the WTO as and when the free trade agreement between members is signed and takes effect.

Relations between SADC and COMESA are those of “peaceful coexistence”, and cooperation, although both organizations seem to be avoiding resolving the outstanding, incompatible issues of their trade policies. However, the SADC Trade Protocol containing incompatible elements with those of COMESA’s trade policies, are the main obstacle in relations between the two organizations, raising concern over future moves of the region toward integration as well as problems in the other partners’ dialogue with the region. When the COMESA common external tariff (CET) and Customs Union is established, it will be very difficult for those COMESA members which are also SADC members, including United Republic of Tanzania, to go ahead with the SADC FTA (free trade agreement) plans.

The chart presented in this section shows the multi-membership of many Sub-Saharan African countries.

FIGURE1

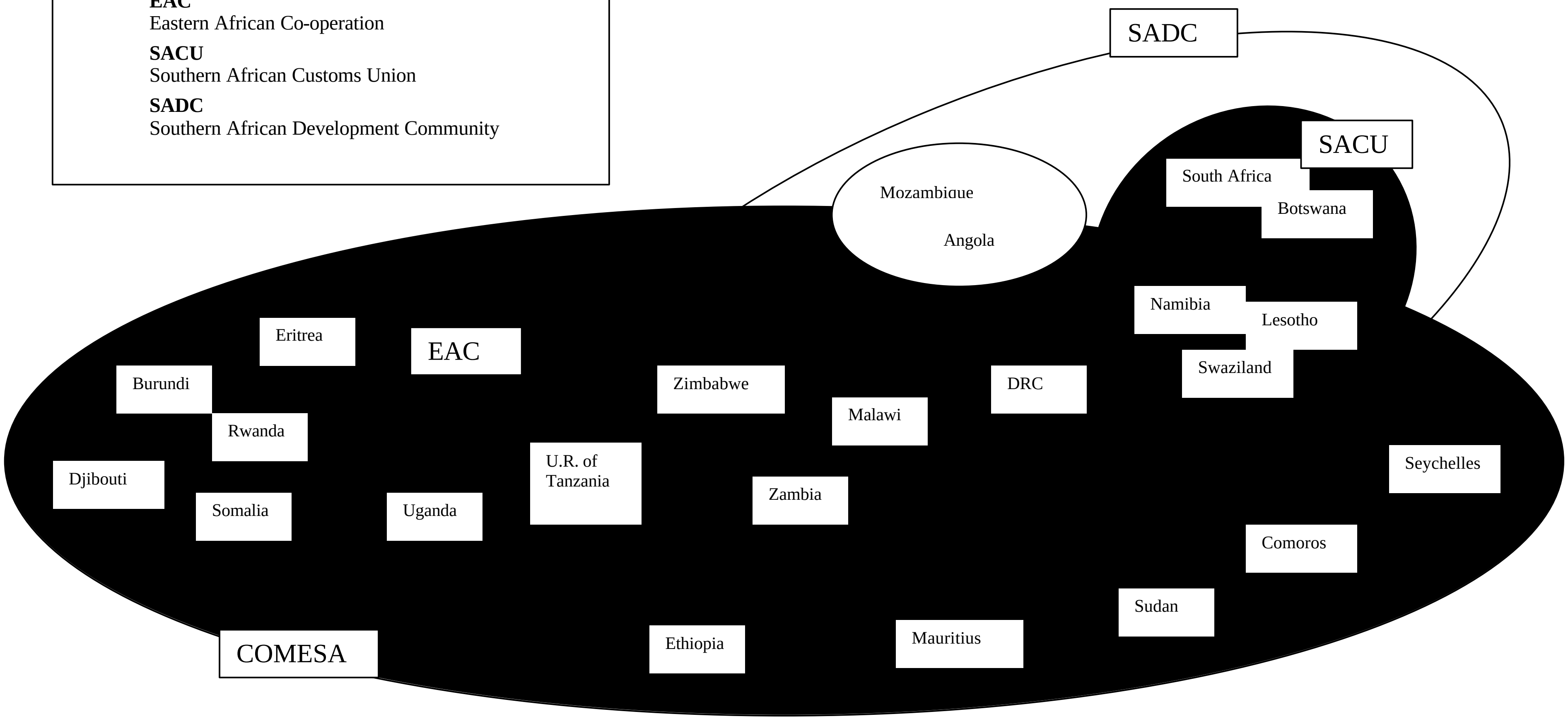
REGIONAL INTEGRATION IN SOUTHERN AND EASTERN AFRICA

COMESA
Common Market for Eastern and Southern Africa

EAC
Eastern African Co-operation

SACU
Southern African Customs Union

SADC
Southern African Development Community



3. United Republic of Tanzania's Obligations and Actions under WTO

General conformity to WTO rules

United Republic of Tanzania needs good and timely information about WTO decisions (and their interpretation) and a capacity to influence the new agenda of the WTO at an early stage. The WTO is "member-driven" and reacts only to member initiatives. Financial assistance could be sought, but technical or other direct participation would be inappropriate in a negotiating organization.

Tariffs, import licensing and other interventions on imports

The country has complied with most of the Uruguay Round requirements on its import licensing and tariff regimes; it may need to reformulate its legislation to fit the authorized exceptions more precisely. This should be a matter for simple technical assistance. Tanzania may be under other pressure to reduce the level or the differentiation of its tariffs.

Agriculture

Although in compliance on agricultural support, the country needs to closely monitor the forthcoming negotiations on agriculture as the requirements could be tightened, and they may face pressure outside WTO requirements.

Non-tariff Barriers

Only well-informed local trade experts, probably with legal rather than economic training and familiar with all their own country's economic measures can make a reasonable assessment of whether any non-tariff barriers are in conflict with WTO rules. Familiarity with complaints made and sustained about other countries' measures may help. As such there is a role for training in trade policy, but the judgments will need to be made by trained outside experts who are unlikely to have the required detailed familiarity with local policies. This is an ongoing process, as the case law about what is a barrier evolves (particularly in areas like services), and there is therefore an ongoing requirement for following WTO dispute decisions.

Subsidies

As with NTBs, United Republic of Tanzania needs to re-examine all Government measures to see if they are in conflict with the new provisions on subsidies, using the training which they can obtain from the international organizations.

Anti-dumping rules, countervailing actions and safeguards

For formal compliance with the WTO, United Republic of Tanzania must see that the COMESA rules and procedures on anti-dumping, countervailing, and safeguards are reformed to fit the WTO rules, and this appears to be underway. It is important to ensure that it is coordinated across all COMESA. There are, however, no immediate national interests in such legislation, as either plaintiff or defendant, so it is not, in policy terms, a priority for implementation. From a negotiating point of view, however, reforming the system may be a priority if rules are included in the next Round, especially as the number of anti-dumping cases continues to rise.

Customs valuation and other customs rules

United Republic of Tanzania is fast approaching the end of the permitted delays in conforming to the WTO rules on customs valuation. On a technical level, conformity will not be difficult, and the information and training are being made available. On the revenue side, Tanzania needs to give more priority to reforming the tariff or tax system to keep the level of revenue up. It is probable that Tanzania has sufficient margin below their bound tariff rates to make any necessary adjustments, but it may choose alternative taxes as part of a more general fiscal reform.

Pre-shipment inspection

The PSI provisions of the Uruguay Round were drafted and designed to meet a problem that was diminishing as the Round progressed. Formally, United Republic of Tanzania may be able to meet the requirements on transparency, although some of the points raised by Kenya suggest that there may be serious difficulties on “non-discrimination”. In the long run, higher income and better-trained customs officials will obviate the need for PSI. It is not clear that this is an efficient use of scarce training and other resources in the short-run as this is an area (unlike most of those discussed here) where a substitute is available to purchase. United Republic of Tanzania will need to consider how to divide resources between compliance and negotiating clarification or amendment of the provisions.

Trade Related Investment Measures (TRIMS)

Under GATT 1947, investment law had not been central to its rules, and countries have been able to ignore the rules. Now under the WTO, with the strengthening of the disputes procedure, the limits placed by the TRIMS agreement on the use of certain important trade-related investment measures such as local content requirements can no longer be ignored. This agreement and the discussion of a more extensive regulation of investment under the WTO, against the backdrop of increased interest in attracting foreign investment means that United Republic of Tanzania needs at least to be aware of the rules and its vulnerabilities if it does not adapt to them. The wide variety of types of investment regime which are used by developing (and developed) countries, however, makes technical assistance less certain than in more clearly defined areas. The analysis must be combined with awareness of other countries’ regimes and national judgment.

Standards

International standards are becoming more common, and for countries which have not yet set their own, adopting these at an early stage may be a particularly efficient step. Developing countries may therefore have an interest in promoting the adoption of international standards. An alternative for United Republic of Tanzania in a region like the EAC or COMESA is to shift to regional standards. Although this may be a saving in costs on national standards, it still leaves the future costs of adapting when an international standard is eventually set. Notifications of regional standards have been made for the EAC. These need to be made by United Republic of Tanzania because EAC is not yet a recognized region in the WTO.

Services

As there were effectively no minimum requirements for services offers in the Uruguay Round, United Republic of Tanzania formally complied. But there will be much more pressure in the next round to make substantive offers. As there has not yet been a clear indication on the type of assistance needed by United Republic of Tanzania will need for a major exercise in both economic strategy and regulatory legislation. The country will certainly need to find models. The WTO may offer one, but it may not be suitable for least developed countries, or for countries with a high dependence on services income, or for countries in particular economic or political situations. Analyzing its suitability would itself be a major task. Services should be a priority for attention by policy makers in the countries and under the JITAP.

Trade Related Intellectual Property (TRIPS)

Tanzania must comply with the TRIPS rules within the next six years. The country has legal systems which are likely to be adaptable to the standard forms of laws.

Government Procurement

There is no obligation to join the agreement on Government Procurement, and few developing countries have. Unlike other WTO agreements, access depends on reciprocity, and there might be little cost because the countries may be heavily dependent on foreign suppliers for most tradable goods.

Whether United Republic of Tanzania should join depends on whether it wants to export to government purchasers who have joined the agreement, and whether it wants to give preference to any local suppliers who would be in competition with potential foreign suppliers. If a substantial proportion of a country's government expenditure is financed by aid, there may be other constraints on its purchasing (and a commitment to open tendering could offer a counterweight to preferences for donors' suppliers). This is a question where Tanzania must take its own view. International agency advice is unlikely to be sufficiently informed about the country situation to be useful, but the experience of other developing countries could be useful, although it will be difficult to find any that have signed.

Interactions between Regional Trade Agreements and the MTS

The new regulations for regional trade agreements do not affect the EAC countries' arrangements on goods trade directly, as they fall within the ambit of the 1979 Enabling Clause, which was not changed by the Uruguay Round. The status of SADC remains to be clarified in this respect as it is still finalizing its free trade agreement. However, these trade arrangements could be affected by the rigour with which they are examined. If they move into further integration on services, they would need to balance this with any offers they make multilaterally because of the way the services agreement is structured. The services agreement must be consistent with the requirements of GATS article V. There is no effective form of external advice for this. They will need to look at how they will act together on common policies in future negotiations. Other customs unions offer examples, and may offer advice or a common position.

Labour and the Environment

There is no need for immediate action on labour or environmental issues to meet international standards (except for the existing environmental protocols and obligations under ILO Conventions). But there will be opportunities for United Republic of Tanzania to use environmental arguments in trade negotiations, and therefore it may be useful to examine products for which liberalization is sought from this point of view.

4. Policies to Improve Competitiveness

Trade Liberalization

In the Tanzanian case, the highly regulatory economic policies that were adopted during the pre-liberalization period principally explained the low productivity of the economic sectors. Hence, a shift from Government regulation of the economy to a more market-based and competitive policy regime would necessarily create the much sought after enabling environment that would ultimately free productive resources to respond competitively to market signals. A more market-based policy climate should thus be seen as essential for the development of productive enterprises.

Under these conditions, it can be observed that although the long-term benefits of the policy of liberalization are clear, the short-term adverse effects of a comprehensive exposure to full-scale competition (that includes competition with incoming imports) have remained a major challenge. In light of this realization, there is growing recognition that the process of creating a fully-fledged competitive market would take time especially under conditions where private sector development has been characterized in the past by an inhospitable policy environment.

Over the years there has been progressive capacity under-utilization and virtual disappearance of many locally manufactured goods. This phenomenon can be seen in any street in Dar-es-Salaam. There are countless “walking shops” of foreign goods carried on the backs of some of the energetic persons who have abandoned production in the villages and in the factories. The risk is a backlash against this perceived flood of imported products, and increasing pressure to revert to a protectionist stance. This would be an error not only for well recognized economic reasons but also because some countries do not have sufficient domestic capital to generate economic growth and employment. FDI is an essential input and this will not be attracted to a protected, distorted, controlled, small domestic market place.

It is within this context that United Republic of Tanzania will develop its future trade policy. At the present time there is no formal national trade policy, although there are a number of policies and directions taken, constituting the main elements of a trade policy. These are usually built into overall economic policy which is based upon macroeconomic and market reform, trade liberalization, exchange control liberalization, privatization and the like. Work has been done for a number of years on developing a formal trade policy but it is not yet complete. The current tariff regime is based around five bands being 0 per cent, 5 per cent, 10 per cent, 20 per cent and 30 per cent. There has been considerable rationalization of tariffs over the last five years.

United Republic of Tanzania needs to enhance its trade development polices to upgrade skills, and increase productivity. Remaining anti-export biases in the economy need to be removed while the costs of utility services should be reduced. Corruption and poor administration continue as serious constraints that must be overcome if there is to be a conducive environment for business. Closely related to this is the need to attract more FDI into productive activity as a source of finance for development. Policies should focus on increasing value-added performance within resource-based industries. This will require capital investment to rehabilitate infrastructure to facilitate market access.

Positive Factors for Competitiveness:

- Climate, land and water for agricultural production;
- Growth of the private sector;
- Open economy with low barriers to entry;
- Reasonable access routes to East and Southern African markets;
- Duty free access to major international markets;
- Basic manufacturing sector still in existence;
- Textile industry has potential to be a basis for industrial exports;
- Increasing role of mineral resources;
- Dynamic tourism sector;
- Improving financial sector.

Negative Factors against Competitiveness

- Low level of skills in general workforce;
- Small domestic capital base for investment;
- Expensive transport routes to international markets;
- Limited direct air access to international markets;
- Domination of imported manufactured products affecting local production capability;
- High utility costs;
- Bureaucracy still prevalent in administration of international business transactions;

- Lack of credit for working capital needs;
- Limited diversification of exportable products;
- Limited knowledge of regional and international markets;
- Poor market information dissemination – a "vacuum of data";
- Limited knowledge of pros and cons on trade agreements;
- Limited technology transfer to increase value added production;
- Weak linkages between various sectors of the economy.

These problems may be reduced by private sector participation in the economy. However, this will very much depend on the reliability and availability of inputs and other services (e.g. water, electricity, telecommunication services and other infrastructure) at reasonable and fair prices. The Government could facilitate and monitor the private sector to competitively produce goods and services for the regional market.

There is a need to move from a high tax/low compliance regime to a low tax/high compliance environment. This will lead to sustainable growth and a manageable fiscal policy by the Government. Tax thresholds may also need to be reviewed in the context of regional competitiveness and inflationary factors.

At the local Government level there has also been a tendency to impose arbitrary levies and taxes, all of which either promote corruption or raise the cost of doing business.

Exporters face a further difficulty in that the duty drawback scheme has been a major ongoing administrative and fiscal problem with long delays on payments resulting in lower competitiveness.

A number of key issues require further debate by the stakeholders. These include:

- The roles of the public and private sectors;
- Revenue implications of tariff reduction programmes;
- National competitiveness in the context of production and supply constraints, infrastructure and the rehabilitation of the manufacturing sector;
- Increasing efficiency and effectiveness of the trade facilitation system;
- Capacity building of institutions involved in trade policy formulation and those facilitating competitiveness. These would include the Ministry of Industry and Trade, Customs, Export Promotion Board, Chambers of Commerce, and the like;
- Review of the legal framework to ensure compatibility with the MTS agreements;

- Review of the domestic taxation system and incentives to promote investment;
- Review of bureaucracy and hidden costs affecting businesses operations;
- Removal of confusion and overlapping agendas amongst different trade agreements and creation of linkages between such agreements;
- Creation of export finance facilities;
- Implementation of agreed policies and protection versus openness.

Trade Policies Requiring Action by Tanzania

SECTOR/ AREA	MEASURE	CODE	CURRENT STATUS	PLANNED CHANGES/TIME FRAME.
TRADE				
Foreign Trade Liberalization	Eliminate tariffs on intra-regional trade.	2	Reduction of COMESA tariffs by 80% has been effected and published in the Customs Tariff Book. A study on tariff structure is in progress	The plan is to reduce the tariffs by 100% by the year 2000.
	Harmonize External Tariff (HET)	2	Quite a number of external tariffs have been harmonized. The maximum rate is 30%. Other duties and import charges have been incorporated in the tariff structure.	Although implementation is taking place no detailed study has been made to assess the impact on revenue on moving to HET. This study is expected to be completed in 1998.
		3	A study on "Customs Duty Harmonization in East Africa" which is currently in progress is expected to assess the viability of establishing a CET within East Africa and its impact on revenue and suggest alternative sources to compensate for areas of loss.	1999
Trade Facilitation	Introduce bond guarantee scheme	4	Discussed and agreed upon but not applied. There has to be a regional legal framework in place to enforce it.	To be enforced when a regional legal framework is in place.
PAYMENT				
Exchange System	Capital Account	2	Foreign investment has been partially liberalized. The capital account is not fully liberalized. Foreign investment in Treasury Bills, for example, is not allowed. Also foreign investment in IPO's and In Stock exchange is restricted to domestic investors only. Repatriation of dividends and profits is free from restrictions. Remittance of dividends is freely done through commercial banks upon presentation of audited accounts indicating declared dividends to be repatriated plus tax Clearance. Investors are permitted to use up to 100% of their net foreign exchange earnings for debt servicing or remittance of profits and dividends.	Continuous.
INVESTMENT				
Investment	Harmonize	3	At East Africa level, this is being done under the auspices of	In progress.

SECTOR/ AREA	MEASURE	CODE	CURRENT STATUS	PLANNED CHANGES/TIME FRAME.
Regime	investment regimes		the East African Cooperation.	
Immigration	Remove visa requirements at regional level.	2	Visa requirements for nationals of East Africa have been eliminated. The East African passport has been launched. Visa requirements for some members of COMESA and SADC have been removed.	Visas for the remaining members of COMESA and SADC to be eliminated on reciprocal basis.
Others	Conclude double taxation agreements	2	Double taxation agreements with Kenya, Uganda, Malawi and Zambia do exist but await Ratification by Parliament. Bilateral negotiations with other COMESA countries are in progress.	Conclude double taxation agreements with other COMESA states.
	Develop cross-listings on regional stock exchanges.	3	Dar es Salaam Stock exchange started operations in April 1998. The Dar es Salaam Stock Exchange is expected to cooperate with those of Uganda and Kenya (also SADC).	Cross listings on regional stock exchange will start soon.
INSTITUTIONS				
Improve Dialogue between the private sector and the Government.	Strengthen national and regional business organizations.	2	The Government has forged good working relations with various business organizations and has assisted in securing assistance from donors and international organizations. The business organizations which have received such assistance are:- 1) Tanzania Chamber of Commerce, Industry and Agriculture (TCCIA). 2) Confederation of Tanzania Industries (CTI). 3) Tanzania Exporters Association (TANEXA). 4) TCCIA is a member of the East African Business Organization. 5) The Private Sector Foundation has been established to coordinate the activities of the business organizations in Tanzania. 6) CBI conducted 5 sensitization and training seminars/workshops for the private sector in 1998 to enable them to exploit available facilities in this Initiative and thereby expand their scope of doing business regionally. Similar seminars/workshops will be held in the two of the remaining centres in 1998/1999.	Continuous Completed seminars in all the regions of United Republic of Tanzania except Kilimanjaro, Arusha, Tanga, Singida and Dodoma.
	Allow greater involvement to	2	In view of the increasing role of the private sector in CBI activities, the Government has been encouraging this sector to	Continuous

SECTOR/ AREA	MEASURE	CODE	CURRENT STATUS	PLANNED CHANGES/TIME FRAME.
	private sector in regional integration activities.		participate in regional trade fairs and buyers / sellers meetings. In addition it has now become a practice to include members of the private sector in official delegations involving Heads of State	

Codes:

1. Fully implemented.
2. Partially implemented.
3. Arrangements for implementation in preparation
4. Arrangements for implementation not yet identified

5. Strategic Options for Expanding Exports

United Republic of Tanzania's exports are divided about evenly between developed and developing countries with a tendency towards developing countries and a falling share to the European Union. Another important partner is Japan and other South Asian countries including India and Pakistan.

Food items remain the principal export, mainly tea and coffee. The share of manufactures are small compared to other developing countries. Nevertheless, exports of fibres, yarn, and clothing are significant for United Republic of Tanzania especially cotton and some textile products. Fibre exports include sisal as well as cotton. Other important export products are fruits, nuts, vegetables, copper, tobacco, fish, jewellery, spices and seaweed. United Republic of Tanzania is still at the stage where other developing countries were in the 1960s or 1970s, of being outside the main area of international trade negotiations and reform, except in so far as agriculture is coming on the agenda.

Traditionally exports were concentrated in a few commodities like coffee, cotton, sisal, tea, cashew nuts, and tobacco that required little processing. Over time, efforts have been made to diversify exports, and indeed in the mid-1980s non-traditional exports like petroleum products, minerals (including gold) and some labour-intensive manufactures grew, only to fall back in the 1990s.

Tanzania will continue to rely on its traditional exports for the medium-term. These are targeted at the European and Asian markets. However, there is potential to increase exports of non-traditional products such as horticulture and floriculture, timber products, processed fish, leather products and mineral products. These are all resource-based and the objective would be to achieve some level of value added processing prior to export. On the manufactured side there is limited scope to export products such as edible oils, beer, cement and metal products to neighbouring markets.

In Eastern and Southern Africa, United Republic of Tanzania has a potential comparative advantage in, for example, marine resources, agricultural potential in food and cash crops, livestock and horticulture, tourism, minerals and energy. The ports and transit position are other areas from which it can benefit in the EAC, SADC, COMESA regional economic cooperation arrangements. However, there are many shortcomings both in the implementation of policies and in the performance of the economy.

Access to information is one of the crucial factors that promotes the export performance of countries. Normally, this information can be obtained from the chambers of commerce, International databases, export promotion organizations and the Internet. In fact, the Internet is the fastest and easiest way of marketing the country's products. One can get information about countries, markets, potential clients and competitors from this source.

Exporters are seriously constrained in terms of the amount, quality and usefulness of the trade information available within the country from traditional sources. Access to information should be improved even via the internet or other multimedia sources and private or public databases. In addition, the availability of traditional information sources should be more easily accessible to exporters. Information is the key issue in the trading world.

Another increasingly important factor is the environmental approach to trade. The increasing concern for the sustainability of the environment in many developed countries has increased demand for consumer goods which are provided in a more “environmentally friendly” way in developing countries than in developed ones. Some of the products have been identified by the WTO’s Committee on Trade and the Environment. The argument is that removing such barriers could produce benefits to both development and the environment, and that this could increase the strength of the case for liberalization. The products which have been identified include several which are important to United Republic of Tanzania, including horticultural products, non-timber forest products (such as essential oils, gums, cardamom and honey), timber products, fish, and natural fibres like sisal, which could replace artificial fibres.

If the environmental arguments are translated into liberalization, leather products, fruits, cut flowers, non-timber forest products, wood and wood products, fish, natural fibres, leather and leather products, could see increases in markets outside the European Union, although on some they could face reduced preferences in United States as well. On almost all, they would suffer a reduction in preference in the European Union. The exceptions would be fish and natural fibres: there the proposed reforms are reductions in subsidies to their substitutes in developed countries, so that there could be a gain in access if reforms were undertaken.

Problems of Tanzania’s Export Sector

- Over-dependence on agricultural raw materials often in glutted international markets and suffering from rigid (inelastic) demand function;

- Lack of industrial capacity, hence lack of export supply, and heavy dependence on imports for capital and intermediate goods and a larger part of consumer goods;

- Perpetual balance of payments problems arising mostly from a yawning trade deficit;

- Collapse of domestic industry arising from dumping and a corrupted control system. Products in question include textile, footwear, garments, chemicals/medicaments, cars, etc;

- Quality demand from advanced countries often insisting on high standards and production techniques out of reach of Tanzanian producers;

- Inarticulate financial sector divorced from world financial systems which has no aptitude in domestic financing coupled with expensive credit supply to domestic businessmen. In effect the deposit rate is unattractive (5%) and the lending rate is discouraging (24-25%);

- Rundown infrastructure creating difficulties in the supply of water, power and communication by road, air and water;

- Technological backwardness impinging on the levels of productivity and quality of products. Even more precarious are the levels of foreign investments (FDI) inflow into the country;

- Untrained manpower incapable of manning major technical, scientific, managerial and services capacities for industry;

- Individual trading companies are not involved in the negotiations for the better terms of the trade. As a result, most agreements lack contribution from business enterprises and anticipated effects are often unrealistic.

In agriculture, for instance, United Republic of Tanzania's natural endowments could be utilised more efficiently and yield better return if a number of initiatives were implemented. These initiatives include, among others: more conducive land polices to attract new export-related investments (including FDI, modernized commercial law to enable FDI to form new strategic alliances and partnerships with indigenous firms); alignment of environmental policies with the export objective better targeted, and more market-oriented R&D in order to diversify products; and upgraded infrastructure to enable exporters of agricultural products to improve their yields and product deliverability.

The manufacturing, garment, leather, footwear and other sectors could easily attract FDI, if serviced land were available, to take advantage of the Untied Republic of Tanzania’s natural endowments and low cost structure, leading the way for further expanding exports. The introduction of EPZs and the provision of serviced land is expected to “jumpstart” the acceleration of manufacturing growth and to attract FDI with market linkages. Recommendations to develop firm-level capacity through education, export skills development, product development and adaptation, will also be instrumental in increasing manufactured product growth potential. Institutional strengthening, particularly of such organizations as the TBS will also play a critical role in helping exporters of manufactured goods to meet high quality standards which are increasingly becoming important in meeting foreign competition.

6. The External Negotiation Tasks and Timeframe

The Internal Negotiation Tasks and Stakeholders

Before United Republic of Tanzania can successfully take its place at international negotiation fora it must reach internal domestic agreement on the priorities, strategies and way forward. Some of the outstanding issues at the national level are listed below:

Tasks	Stakeholders	Inputs	Outputs
Tariff measures	Finance, Trade, Customs, CB, PS	Economic and revenue impact analysis	Tariff reduction/ stabilization programme
Infant industry issues	Trade, PS, Finance	ERP analysis, incentive options, time frames	Programme of support to infant industries
Rules of origin and customs issues	Finance, Customs, Public Service Board, Justice, PS	Resource requirements, legal amendments	Improved trade facilitation and transparency
Export incentives	Finance, Trade, CB, PS	Economic analysis, revenue impact	WTO compatible programmes to boost exports
Standards, technology and	Industry, Standards Bureau, Justice, PS	Technical and financial resources, legislation	Enhanced value added production meeting

quality issues		amendments	international requirements
Trade Facilitation	Trade, Customs, Transport, Finance, CB, Justice, PS	Technical review of trade processes, documentary and legislative changes	Transparent, non-bureaucratic trade processes
Utility costs and infrastructure	Finance, Utility Operators, Transport, PS	Prioritization of projects and processes affecting utility and transport provision	Competitive, efficient provision of utilities and transport

Key: Finance includes any National Revenue Authority,
Trade, Industry, Transport, Finance means any Ministries responsible for these issues
Customs means the National Customs Authority
CB means the Central Bank
PS means the private sector representatives

The Regional and International Negotiation Tasks

The following is a suggested list of the issues that need to debated, agreed upon and implemented within the context of the different agreements to which United Republic of Tanzania is a signatory.

EAC**:** Tariff reduction, tariff harmonization, common external tariff, infant industry protection, cross border investments, rules of origin compliance, customs administration, export incentives and export processing zones, labour regulations, utility costs, business licenses, services.

COMESA**:** Common external tariff, rules of origin compliance, cross border investment, customs administration, cross border investments, labour movement, services, exchange controls, trade facilitation.

SADC: Tariff reduction, tariff harmonization, infant industry protection, cross border investments, rules of origin compliance, customs administration, export incentives, labour movement, services, trade facilitation.

European Union**:** Tariff preferences, stabilization funds, reciprocity, trade development assistance, SPS, inward investment, trade facilitation, services.

WTO: Tariff bindings, safeguard measures, countervailing and anti-dumping requirements, customs administration, legislative change, SPS, NTBs, competition policy, export incentives and subsidies, ATC, services, technical assistance, technology transfer.

MTS	Task					Probable Timeframe
EAC	Tariff reduction	HET	NTBs	Standards	Legislation	1999-2002
COMESA	Tariff reduction	CET	NTBs	Safeguard measures	Cross-border Investment	1999-2004
SADC	Tariff reduction	HET	NTBs	Safeguard measures	Cross-border Investment	1999-2007
EU	Re-negotiation of Lomé	SPSs	NTBs	Market stability	Inward Investment	1999-2005
WTO	Notification, Legislation	ATC	TRIMS	TRIPS	Services	1999-2005

The Table below summarizes the action needed and where assistance could be sought for furthering United Republic of Tanzania's involvement and commitments to the MTS. There are a few areas where all that is needed is direct legal or other short-term technical assistance to meet a clear requirement, including checks of existing rules for compliance in import policy, agriculture, anti-dumping and safeguards, the rules on customs valuation, and TRIPS. There are some areas where medium-term assistance will be necessary, financial (for support in Geneva) or support amounting to development assistance to meet new requirements from an appropriate technically specialized agency. JITAP offers the possibility of this, but because of the way in which it has been organized, with different assessments of different countries, countries may need to take the lead in identifying their specific needs.

Areas mentioned here include:

- Legal training in trade law and its interpretation to make national assessments of the status of assistance to industry in the context of rules on non-tariff barriers and subsidies;

- Assistance in designing fiscal reform to meet the cost of changes in customs valuation or any import requirements found not to be in compliance;

- Assistance in developing national and regional standards;

- Identifying suitable trade development assistance to enhance performance of export products.

Summary of Actions For Tanzania

Subject	United Republic of Tanzania
WTO participation	
Action	Strong representation in Geneva.
Assistance	Ask for financial assistance.
Least Developed Programme	
Action	
Assistance	Check that all commitments made in 1997 are met. Ask for assistance from specialist organizations as well as WTO/ UNCTAD.
Import policy	
Action	Need final legal check that comply with rules.
Assistance	Ask for short-term legal assistance from WTO.
Agriculture	
Action	No action required at present. In next negotiation, watch for increased regulation.
Services	
Action	Have met minimum requirements for Uruguay Round. In next Round, there may be pressure to increase the number of services covered. National policy makers must formulate national priorities, as
Assistance	background for new offers. Information from other developing countries.
Non-tariff barriers	
Action	Check all local policies against current interpretation of WTO rules. Continue to check as WTO law evolves.
Assistance	Legal training for local experts.

Subject	United Republic of Tanzania
Subsidies	
Action	Notify subsidies for import-replacement, and abolish by 2003 (or ask for extension). Check all local assistance against definition of "subsidy".
Assistance	Legal training for local experts.
Anti-dumping, countervailing, safeguards	
Action	Reform COMESA rules to comply with WTO. Ensure a regional approach.
Assistance	Short-term technical assistance from WTO.
Customs valuation	
Action	Reform rules for valuation and notify compliance to WTO.
Assistance	Find alternative revenue sources.
Pre-Shipment Inspection	
Action	Train customs officers to meet requirements on transparency and non-discrimination. Consider how agreement can be clarified in the next Round
Assistance	Coordination with other users of PSI.
TRIPS	
Action	Meet WTO rules by 2005.
Assistance	Legal short-term assistance, (already offered).
TRIMS	
Action	No immediate action required. Watch discussions for potential negotiations.
Assistance	Study other countries' rules and experience.
Standards	
Action	Establish standards and enforcement mechanism Coordinate regionally. Look at possibility of new international standards.
Assistance	Long-term technical assistance from specialist agencies. Coordination with EAC, COMESA and other developing countries.
Government procurement	
Action	No action required by WTO. Consider long-term advantages and disadvantages.
Regional obligations	
Action	No immediate action required. Examine EAC and COMESA commitments in context with how WTO Committee on Regional Trade Agreements interprets understanding on GATT Article XXIV, and interrelations with the 1979 Enabling Clause. Examine interaction between services in WTO and in regional trade
Assistance	agreements. Develop regional negotiating machinery. Exchange experience with other customs unions.
Labour and environment	
Action	No immediate action required. Examine potential environmental arguments for individual exports. Assistance with analysis and production by sector from sectoral experts.
Assistance	

CHAPTER 1
CONTEXT FOR MULTILATERAL AND REGIONAL TRADE AGREEMENTS

1.1 Pre-Uruguay Round

Since the formation in 1947 of the GATT (General Agreement on Tariffs and Trade) until the Tokyo Round of GATT multilateral trade negotiations of the late 1970s, arguably even until the Uruguay Round negotiations which began in 1986, the GATT's scope, in most areas, was of limited interest to developing countries. The concentration of GATT negotiations on those industrial products of primary interest to the developed countries, combined with a widely-accepted development strategy in developing countries that placed most weight on inward-looking development and industrialization, not on international trade, meant that it was not seen as the essential arena for developing countries. During the 1950s up to the 1970s and even into 1980s, most developing countries were following a strategy of import-substitution industrialization controlling their own imports and not promoting exports; hence the losses from participating in GATT were potentially large, while the gains seemed small.

In addition, GATT negotiations have traditionally been held between the major importers and exporters of each product, so that countries without significant roles in the goods included in negotiations, namely the large majority of developing countries, were often marginalized. Also from the point of view of the developed countries, the developing nations were not important markets or (with a few exceptions) competitors. Even in 1973, the beginning of the Tokyo Round, the developing countries' share in world trade was only 21 per cent, and their exports were predominantly in primary goods. By 1986, however, their share in world exports was 26 per cent, of which 60 per cent was manufactured goods, and has now risen to more than 75 per cent. The dominant trade performers come from the newly industrializing economies of South-East Asia and Latin America.

Furthermore, agriculture had been effectively excluded from GATT trade disciplines at the insistence of the United States (and European Union), while textiles and clothing have been the subject of a long-standing derogation under the MFA (Multi-Fibre Arrangement) and its predecessors. However in these two important products, some developing countries, notably in Africa, had special arrangements with their former colonial powers giving them preferred access to their principal markets. For example, most primary and industrial products from African, Caribbean and Pacific States, who were members of the ACP Group entered the European Union at low or zero tariffs within the framework of the Lomé Convention and its predecessor arrangements. For the ACP States, with their special access to their principal trading partner, the European Union, all of the multilateral trading arrangements under GATT offered poorer access, and they concentrated their trade negotiating efforts on the European Union in Brussels.

Nonetheless, many developing countries were members of GATT including United Republic of Tanzania, Kenya, and Uganda. It needs also to be remembered that many of the industrialized countries were still at a middle income level at the time GATT was founded; it was never restricted to developed countries. In addition, developing countries' concerns had not been entirely neglected.

There was an initiative in the 1960s to give differential treatment to the developing countries, including non-reciprocity in trade relations. This was built into the GATT as Part IV on "Trade and Development" in 1965 and the establishment of a Committee on Trade and Development. Part IV provisions permitted GATT contracting parties to give more favourable treatment only to developing country exports, which would have otherwise been contrary to the GATT requirement that all members give the same treatment to all other members under Most Favoured Nation (MFN) treatment. It also gave developing countries greater freedom to restrict their own imports for development (infant industry) or balance of payments reasons. They could also avoid "binding" their tariffs - notifying their level and structure to GATT and agreeing to make no upward adjustment.

Subsequently in 1979 a decision on "Differential and More Favourable Treatment, Reciprocity and Fuller Participation of Developing Countries" (Enabling Clause) was added to GATT following the Tokyo Round negotiations. The Enabling Clause, among other things, legalized the provision by essentially developed GATT contracting parties of non-reciprocal trade preference under the GSP (Generalized System of Preferences) to developing GATT contracting parties. It also set less restrictive conditions for the formation of regional trade agreements among developing countries (in comparison to the conditions set under GATT article XXIV). The initiative and negotiations to achieve what became the GSP had come not from the GATT, but from UNCTAD, and it was there that most developing countries concentrated their attention.

The feasibility of ignoring the GATT and also the terms of the trade-off between policy freedom and trade rules were sharply altered in the 1970s and 1980s. The traditional constraints applied by developed countries, especially those on agriculture and clothing, were becoming more unpredictable and more damaging. The European countries became major exporters of agricultural goods, which resulted in falling food and commodity prices, and the discretionary clauses of the MFA to be used more frequently. There was a revival of protection in the industrial countries using non-tariff barriers and disciplinary trade actions like anti-dumping and other trade remedies. The growth of the importance of external trade for the developing countries led to a realization of how tightly their independence of action was limited by the non-tariff interventions of their trading partners. Many of the other African countries also diversified the direction and composition of their exports, and they became more vulnerable to restrictive trade actions in their main markets.

Developing countries also had a new perception of a successful growth policy by reflecting on the example of how the South-East Asian newly industrializing countries had developed, by moving from import-substitution to highly directed export-oriented strategies. Their success led international donors and institutions to strongly encourage other developing countries to copy the East Asian success strategy. This meant that obstacles to exports were seen not just as barriers to static efficiency gains or extra costs, but as constraints on the most successful strategy for development. Thus developing countries started to lower their own barriers and embrace the export-oriented strategy, and in doing so the freedom to impose or increase these barriers ceased to be a major reason to avoid active membership in GATT. Against this background of a changing development paradigm, the perceived advantages of international trade rules and their predictability in the face of increased use of non-tariff barriers became major reasons for the increased interest of developing countries in the GATT system.

More broadly, the 1980s saw a widening of development processes among developing countries and an attendant diversification of their individual trade interests. In short, the North-South model of international economic relations began to seem too simple. Some developing countries were now involved in trade disputes on a range of subjects with the developed countries, and there was no longer a perception of a unified developing country interest for them to represent. The breakdown of the Soviet Union and the East European regimes at the end of the decade reinforced the sense that the old blocs were changing, and that action now had to be multilateral and embracing the *laissez-faire* model of development. Immediately following the demise of the former Eastern block of socialist States, the European Union turned its attention to re-building the Eastern European States with a view to ultimately integrating into the European Union as full-fledged members. Moreover the European Union's own trading interests broadened, leading it to negotiate/form free trade agreements with individual countries or groups of countries. This meant that negotiations between ACP Group of States and European Union were no longer sufficient for a national trade policy, neither for the African (as well as Caribbean and Pacific) countries or for the European Union. This set the scene for the Uruguay Round.

1.2. The Uruguay Round: Some of the key results

1.2.1 The World Trade Organization

Although the idea of the WTO was not foreseen in the Punta de Este Declaration launching the Uruguay Round in 1986, it was presented and finally accepted as a necessary instrument for implementing the results of the Round and imposing stronger discipline on unilateral trade measures. The WTO Agreement entered into force on 1 January 1995 and with it the creation of the WTO, providing a common institutional framework for the conduct of trade relations among members guided by the Uruguay Round Agreements. The WTO facilitates the implementation, administration and operation of the agreements in the "Final Act Embodying the Results of the Uruguay Round of Multilateral Trade Negotiations". It also provides a forum for negotiations among members concerning the agreements and for further negotiations among the members. Furthermore, it administers the integrated dispute settlement mechanism for the settlement of trade disputes among members.

1.2.2 Tariffs on industrial products

On average, the developed countries lowered their tariffs on industrial products in the Uruguay Round by about an average of 38 per cent on a trade-weighted basis from 6.3 per cent to 3.9 per cent. The changes were greater for some of the most protected products (discussed further in Chapter 3). However, what is important to developing countries is that in most cases the effect on tariffs was insignificant (involving small changes in products of little export interest to them) or negative. As they receive GSP and in many cases additional preferences under the Lomé Convention, reductions in the MFN rate do not improve their access but may reduce their effective level of preference.

The other change in tariffs was an increase in “binding” - notifying a ceiling rate to the WTO. Developed countries practically completed the binding of their manufactured tariffs; the percentage of tariff bindings rose from 78 per cent to 99 per cent.

The proportion of bindings for countries in transition rose from 73 per cent to 98 per cent. Developing countries were also encouraged to bind theirs: the proportion bound tariffs rose from 21 per cent to 73 per cent, although this was mainly accounted for by Latin America (100%) and Asia (70%). African countries in general did not increase bindings (or bound only at very high levels), which mainly affected their exports, and not their domestic trade policy. Nonetheless for many, the bound rate was substantially higher than the currently applied rate, giving some flexibility to raise rates; the margin of difference was often of the order of 20 points.

1.2.3 Non-Tariff Measures

The Uruguay Round came after a decade in which the developed countries had increasingly used non-traditional non-tariff measures (not only the MFA but also “Voluntary” export restraints, orderly marketing arrangements, temporary import controls etc) to restrain the entry of competitive exports. The introduction of a “standstill” on these during the Uruguay Round, followed by the increased strength of WTO disciplines, in particular the agreements on safeguards, anti-dumping and subsidies and countervailing measures, which effectively ended new measures, and provided for the slow phasing out of other measures. Developing countries' use of direct controls was also restricted. Although they had had greater latitude under GATT Part IV to use these as balance-of-payments measures; they were now expected to use tariffs instead. There had already been pressure on the more advanced to avoid using them; this was now extended to all developing countries. This approach was reinforced by the pressure toward trade and economic liberalization supported by the international financial institutions, and in some cases undertaken unilaterally by developing countries.

1.2.4 Agriculture and Textiles and Clothing

Although the Uruguay settlement on agriculture was less comprehensive than had been hoped, and its effects slow to discern, it was the first time agriculture had been included in GATT. The Agreement on Agriculture had three main aspects. The first was market access improvement by way of the conversion in of all of measures (including non-tariff barriers) affecting imports of agricultural products into tariffs (tariffication). This resulted in many cases in developed countries of very high tariffs which nevertheless could be viewed as an important technical gain for African countries because there was an associated increased potential to continue offering preferences on agricultural products from these countries. These preferences included the special market access privileges on agricultural products provided, for example, to ACP States under the Lomé Convention for most ACP agricultural exports. In addition to “tariffication”, WTO members had to bound the resultant tariffs and reduce them; in the case of developed countries the tariff rates would be reduced by 36 per cent over a 6 years, and in the case of developing countries by 24 per cent over 10 years. Some indications of the market access improvements that could benefit United Republic of Tanzania in terms of tariff reductions for its agricultural products in its main markets are provided in annex V.

The other two important areas of liberalization in agriculture are the commitment to bind and reduce support to domestic producers of agricultural products, and the commitment to bind and reduce export subsidies. In addition after the implementation period, the settlement opens the possibility of new negotiations to bring further liberalization to trade in agricultural products by way of further market access improvements and further disciplining of domestic and export subsidies.

The Multi-Fibre Arrangement (MFA) which took effect in 1974 will be progressively dismantled over 10 years under the integration programme of the Agreement on Textiles and Clothing and brought under the normal WTO trade regime. The phasing out of the MFA will involve on the one hand the elimination over 4 stages during the 10 year period, of restrictions on products currently covered by the bilateral agreements negotiated under the MFA; and on the other hand by an increase in the quotas of the products remaining under restriction over the 10 year period according to a fixed growth rate. The Agreement states clearly that all restrictions shall be terminated on the first day of the one hundred and twenty-first month that the WTO Agreement is in effect, and there shall be no extension of the Agreement.

The effects of the reform of trade in agriculture under the Agreement on Agriculture and the progressive dismantling of the Multi-Fibre Arrangement (MFA) under the integration programme of the Agreement on Textiles and Clothing were potentially positive for the most efficient producers, including many developing country exporters of these products. The progressive liberalization will ensure that the international markets for these once heavily protected sectors in developed countries will be determined more by competitiveness and less by quotas. There may be a short-term cost, possibly, in agriculture and, probably, in clothing, for those countries that have benefited from the barriers.

In agriculture which is of major concern to United Republic of Tanzania, the main impact issues include the erosion of the margin of preferences enjoyed under the Lomé Convention in the European Union market and loss of GSP preferences in major developed country markets. It also includes the existence of peak tariffs (exceeding 12 per cent and in some cases reaching or exceeding 300 per cent) resulting from the tarification of non-tariff measures and tariff escalation affecting many agricultural items which limits the scope for expansion of production into value-added and higher priced finished coffee products. Another concern is an expected increase in food prices as developed countries reduce their subsidization of this sector under their WTO commitments, which would affect food security in net-food importing countries and least-developed countries (LDCs). This concern for food security was to be addressed by the Marrakesh Ministerial Decision on Measures Concerning the Possible Negative Effects of the Reform Programme on Least-Developed and Net Food-Importing Developing Countries. The lack of substantive implementation of this decision however has raised concern among LDCs and net-food importing countries. Other non-trade concerns such as rural employment also figure prominently for developing countries about the impact of agriculture liberalization.

1.2.5 Services

The Uruguay Round broadened the coverage of the GATT to include services under the framework of the General Agreement on Trade in Services (GATS). The GATS defines trade in services to include 4 modes of supply namely supply through cross-border movement, the movement of consumers, commercial presence and the presence of natural persons. National treatment and market access commitments however are confined to those sectors, sub-sectors and modes of supply specifically included the in individual Schedules of Commitments of each member. In this respect most of the offers by the developed countries only repeated existing rules and levels of access and many developing countries, particularly the least developed, made offers in only a limited number of sectors. The GATS result however was important for two reasons. First, it increased the ease of obtaining information about controls or access and secondly, it offered a platform from which future rounds could negotiate improved access.

The GATS could possibly enable LDCs to strengthen their services sectors and increase the exports of services. (For details see the attached Background Papers Five and Six on opportunities for LDCs in services trade).

1.2.6 Special and Differential Treatment

In general, notwithstanding the “single undertaking principle”, the Uruguay Round agreements provided for differential and more favourable treatment for developing countries with the treatment being even more favourable for LDCs. The Uruguay Round thus brought the explicit special provisions for developing countries, with two classes, least developed countries and other developing countries. The provisions for differential and more favourable treatment in multilateral agreements on trade in goods include time-limited derogations from obligations and longer periods for implementing obligations; higher or lower thresholds for undertaking certain commitments, depending on the specific agreement; flexibility in obligations and procedures; “best endeavour clauses” and technical assistance and advice.

In general, the developing countries were allowed to offer only two-thirds of the concessions (agricultural support) or were permitted 50 per cent longer to implement measures (intellectual property). As regards services, the GATS in general recognized the needs of the developing countries and in particular the least-developed among them, and endeavoured to facilitate their increased participation in international trade in services and the expansion of their services exports. The provisions however are in the nature of “best endeavour clauses” without any obligations on the part of Members to implement them. The LDCs were entirely exempted from some provisions and given even longer delays on others (all these are discussed in more detail in Chapter 5).

These differential and more favourable treatment provisions were accomplished in a somewhat *ad hoc* manner, not as a result of an underlying consensus as to how the trade and development needs of developing countries should be reflected in trade principles and rules. The provisions were considerably eroded because they were addressed separately in each negotiating group in the Uruguay Round without an underlying conceptual framework. There was no overall consensus as to the trade measures required by developing countries as essential elements of their development programmes. Thus developing countries have argued for greater specificity in the provisions on special and differential treatment and for enhanced implementation. At the same time however the fact that these provisions are integral parts of URAs meant that they were placed on firmer legal footings.

The reasons for the “special and differential” treatment for developing countries were mixed. It was partly the traditional view that a country's development strategy might require greater Government intervention than should be permitted to developed countries (this could explain the allowance of greater freedom to subsidies, for example). But there was also a view that even when developing countries should follow the same disciplines as developed countries, they needed more time to adjust their legislation, because they were further from the requirement or because of lack of technical expertise. Even with the increased time, Uganda for example, with other least developed countries like Tanzania, has argued that it was insufficient: “Most least developed countries have had tremendous difficulties in the implementing of WTO Agreements notably in the areas of notifications and review requirements” (Kajura, 1996). For additional details, see attached Background Paper Four.

1.2.7 Rules

An important effect of the Uruguay Round results was to reinforce the increasing degree of regulation in international trade and enforce acceptance of all these rules under the principle of “single undertaking.” Also the increasing complexity of the goods which are traded, because of the increase in the share of manufactures and of the sophistication within manufactures, was an important force for the imposition of minimum quality or other standards. In addition by establishing multilateral obligations in new areas and tightening disciplines in other areas and linking these to the integrated dispute settlement mechanism, the WTO reduced the freedom members had in the past to resort to unilateral approaches. WTO members are obliged to ensure the conformity of their laws, regulations and administrative procedures with their obligations under the URAs.

Some of the key outcomes were as follows:

- Concerns about health of human, plants and animals have increased regulation of foods. The new WTO rules reinforce and add to these via the Agreement on the Application of Sanitary and Phytosanitary Measures. Similar concerns underpinned the Agreement on Technical Barriers to Trade, mainly to encourage the development of standards and at the same time ensure that they did not create unnecessary obstacles to international trade. The agreement established rules over the use of technical regulation and standards including packaging, marking and labelling requirements and procedures for assessment of conformity with these regulations and standards;

- More national subsidies on industrial products are subject to regulation under the Agreement on Subsidies and Countervailing Measures;

- The regulations for anti-dumping measures were made more formal and stringent by the Agreement on Implementation of article VI of the GATT 1994 to supervise the use of such measures;

- The TRIMS Agreement prohibits trade related investment measures that have been judged inconsistent with GATT obligations regarding national treatment (GATT article III) and the general elimination of quantitative restrictions (GATT article XI);

- The GATS, although only a framework agreement in terms of what may be liberalized, sets out definitions of the type of services which can be negotiated;

- The protection of intellectual property rights in international trade was regulated, with requirements for reform of national legislation, while at the same time ensured that such measures did not become disguised barriers to legitimate trade. The rules were instituted under the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS);

- The dispute settlement system was made more formal, reducing the scope for indefinite delay or failure to apply the results and increasing accessibility of developing countries initiating disputes within the WTO. The strengthened rules were established under the Understanding on Rules and Procedures Governing the Settlement of Disputes.

1.2.8 Trade Policy Review

A new direct relationship between the WTO and its members is the Trade Policy Review Mechanism. Under this, almost every member's trade policy is reviewed every 2, 4 or 6 years, according to trade and economic size. The United States and European Union are reviewed every 2 years for example, while LDCs such as United Republic of Tanzania are reviewed less often. The reviews are an interesting demonstration of the increase in the scope and the powers of the WTO. Under GATT the trade policy reviews covered only trade policy related to goods. Following the completion of the Uruguay Round, they were extended to services, intellectual property, and in practice to investment regulation and company law, going well beyond what is actually covered even now by WTO. The country reports are prepared by the WTO secretariat on the basis of visits to the country and documentation from the government. Unlike OECD country reviews, the comments in the reports of the WTO Secretariat are not cleared with the concerned Governments. The county concerned also provides its own report. These reports are then discussed in the Trade Policy Review Body. Unlike the IMF country reviews, the reports are intended to be descriptive even when measures are found that seem to violate WTO rules. The reports also differ from the IMF reviews in that they are published (and are an excellent introduction to countries' economies).

The early reviews (until about 1990) were purely descriptive. Since then they have become increasingly critical albeit still descriptive, including analyses of countries' policies. As the WTO does not itself have any direct role in enforcing its own rules (only a member country can bring a case in the dispute settlement procedure), they have become effectively the WTO's own enforcement mechanism. They are also potential sources for formal complaints by other countries, especially as the discussion of the reports are published with the report, and include complaints and criticisms by trading partners.

1.2.9 Built-in Agenda

Many of the URAs contained provisions on further negotiations to deepen liberalization and provisions on regular reviews of the Agreement or special reviews of work programmes to introduce further improvements or verify the implementation of the substantive provisions in agreements. As far as negotiations are concerned the Agreement on Agriculture provides for a continuation of the reform process. The negotiations for this process is to be initiated one year before the end of the implementation period (1999). Also, the GATS provides that members will enter into successive rounds of negotiations, beginning not later than 5 years from the date of entry into force of the WTO Agreement (i.e. also in

1999). The special reviews or work programmes affect many URAs. For additional details see attached Background Paper Three.

1.2.10 Summary

To summarize the effects of the Uruguay Round on developing countries in general and United Republic of Tanzania in particular is difficult. The quantifiable effects on goods under the Multilateral Agreements on Trade in Goods were positive for the world, but insignificant in size and for some sectors and groups, especially among developing countries uncertain in result. The services liberalization under the General Agreement on Trade in Services (GATS) is probably on balance positive for developing countries as a group in view of its development-friendly structure; and those on trade-related investment measures (TRIMS) and trade-related aspects of intellectual property rights (TRIPS), discussed in chapter 6, small and uncertain. Developing countries gain on a stronger dispute settlement mechanism, from new market openings in agriculture and textiles and clothing, and from increased information from the country trade policy reviews; but may lose on the new rules on subsidies, safeguards, anti-dumping, and pre-shipment inspection. A stronger, more prominent WTO should be a gain for such economically weak countries as United Republic of Tanzania. The gains come mainly from the reforms, extension, and reinforcement of an orderly rule-based system of international trade relations. The significance for Tanzania and other developing countries derives from these countries' growing exposure to that system, and their relative weakness in a less orderly system.

In almost all sectors, quantified and un-quantified assessments indicate that it is the more advanced developing countries, especially the South-East Asian countries, which appear to have gained most, or the least to lose. The goods in which they trade includes those in which there are major reforms; they had less to lose in preferences. The Latin American countries have already liberalized their own trade, their services are less concentrated in regulated sectors, and they are less advanced in some of the other areas. But they gain geographically, because of the reforms in temperate agriculture; on some tariffs; and, because of others' loss of preferential margin, in tropical agriculture. The Caribbean and some of the other smaller countries face more mixed prospects, with apparent losses on present exports, but with histories of moving rapidly from one export to another as conditions change.

The region that had none of the aforementioned advantages was Africa. Africa was still less involved in trade, especially in manufactures. It did not have increased bargaining power because of higher imports from the industrial countries. It was not attracting investment and associated technology. It did not export products affected by the highest trade barriers and had not faced as many protectionist NTBs by the industrial countries. Its preferences under special arrangements gave it access equal to, or beyond, what other countries gained, and as the margins of preferences were reduced by the Uruguay Round results the region effectively lost. However, Africa may benefit from the general tightening of regulation/disciplines of international trade and market opening in the future.

The effects of the Agreement on Agriculture and Agreement on Textiles and Clothing were clearly positive for the most efficient producers, and positive for the developing countries as a whole in that markets will now be determined more by competitiveness and less by quotas. There may be short-term costs possibly in agriculture and, probably in clothing for those countries that have benefited from the barriers. Further reform in the agricultural sector and the abolition of the MFA through the full implementation of the textiles and clothing agreement is required to integrate these two sectors of major importance to the trade of developing countries into normal WTO rules.

Although GATT Part IV and the Enabling Clause remain valid (and were not amended) by the Uruguay Round results, specific elements of special treatment were substituted with lower obligations or longer periods of adjustment, general endeavour clauses, and with differentiation between “developing” (Kenya) and “least developed” (United Republic of Tanzania). The WTO Agreement imposed restrictions on countries' policies earlier in their development than had been accepted in the past. Bound tariffs, intellectual property and services are the obvious examples, but the regulations on subsidies and Government intervention in other sectors are also worth mentioning. Tariff binding has removed the possibility of a reversion to these policies and increased predictability in market access.

1.3 Key Issues for Future WTO Negotiations

The key issues for United Republic of Tanzania to raise at future WTO negotiations relate to market access and trade rules. These issues include: the nature and scope of the current URAs; the advantages and opportunities of the URAs; the place of LDCs in the current multilateral trading and investment regime; notification procedures; dispute prevention and settlement mechanism; trade related investment measures (TRIMs); intellectual property rights (TRIPS); trade in services; subsidies; countervailing duties, dumping and anti-dumping measures; duty draw-backs and remissions or rebates; free trade zones and free processing zones; and government procurement. Some of the most important issues are discussed in greater detail below.

The Uruguay Round left some unfinished business (the “built-in agenda” as noted previously) with formal provision for re-opening negotiations and for further review of some provisions of some WTO agreements would be needed within a few years. See attached Paper Four for a summary of the built-in agenda. The two important areas in trade for further liberalization are agriculture and services, in both of which WTO members were required to open new negotiations by 2000. There have been new agreements since the completion of the Uruguay Round on telecommunications and on financial services, in which United Republic of Tanzania has participated. United Republic of Tanzania should prepare to negotiate on these unresolved issues in the Uruguay Round by analyzing, discussing among all stakeholders and preparing negotiation options to defend the country’s trade and development interests.

A major issue for United Republic of Tanzania and most other developing countries is the full implementation of what was agreed in the Uruguay Round (concessions, reduction of support, technical assistance etc.). All the agreements had provisions for staged implementation, for agriculture and textile and clothing - most of the effects are expected to come through in the final stages. The WTO must formally review whether these are carried through or not. United Republic of Tanzania should also review and assess its level of compliance with the various WTO agreements so as not to be in default with its commitments. Likewise it should review the level of compliance with obligations by other WTO members in the key agreements/provisions of interest to it. For a brief assessment of the main obligations and required actions by Untied Republic of Tanzania, see Annex IV.

Another issue is that in agriculture, the expectations of many WTO members are that tariffs could fall by one-third. In particular, there may be reductions in the very high tariff peaks (following the conversion from quotas to tariffs, some reached 900 per cent), and this will also be required of United Republic of Tanzania and other developing countries. Nonetheless, the differentiation in obligations between LDCs (lower level of obligations) and other developing countries is expected to be maintained. Also in agriculture, there is pressure to reduce export subsidies, considered even more distorting than high tariffs. This affects United Republic of Tanzania's trading partners such as the European Union rather than United Republic of Tanzania, which has not utilized such subsidies. There is support among some agricultural exporters for re-examining the "Green Box", the subsidies or other assistance to agriculture which are acceptable under the Uruguay Round agreement, and moving at least some of the measures which may be particularly distorting into more controlled categories. Some of those which are most damaging to competing exporters – for example income support to producers, or payments for regional assistance – are among those which may be increased by the European Union in reforming the CAP (common agricultural policy) and other developed country measures. They are, however, seen as doubly distorting, not only for their effects on protecting farmers, but because it is (in general) only the developed countries which can afford such payments. Moreover the exportation of these subsidized products into developing countries at competitive prices undermines the domestic production of like agricultural products.

The expectation is that the further reform of trade in agriculture will generally be about levels of tariffs or subsidies, etc., and not about changes in the rules. At the same time, United Republic of Tanzania and other developing countries are concerned about food security issues that can arise from the removal of subsides. They should thus emphasize the elaboration of concrete measures/provisions for the yet-to-be implemented Marrakesh Ministerial Decision on Measures Concerning the Possible Negative Effects of the Reform Programme on Least-Developed and Net-Food Importing Developing Countries.

In services the agenda is expected to be broader, with attempts not only to increase the market access enshrined in the GATS, but also to extend liberalization to some issues such as transport on which little progress has been made. Telecommunications, finance and information technology agreements may also be re-opened for further liberalization. Although there is no proposal to go from the "positive list", of what countries want to include, to a "negative list" system, WTO members may require preparation of standard schedules which would make omissions more obvious. There is still no agreed way of quantifying services liberalization or control although work in this regard in underway in WTO and UNCTAD, but the assumption must be that all countries will be expected to move in the direction of liberalization across a wide range of services.

United Republic of Tanzania and other developing countries should, in these negotiations, seek elaborated enforceable provisions to ensure implementation of GATS article IV (on increasing participation of developing countries' in services trade). They should also demand that the negotiations abide by the principle of progressive liberalization by developing countries, in line with their development situation, as enunciated in GATS article XIX (paragraph 2).

Tariffs on industrial products are likely to be tabled even in a short negotiation round, and would certainly be included in a longer one. United Republic of Tanzania must prepare for such negotiations by assessing its tariff levels and identifying where concessions could be offered in terms of further reduction and bindings. It must also assess the tariff protection in its major markets on its exports and seek further tariff reductions.

There will be more countries in the new negotiation rounds as more developing countries (such as the Seychelles) decide to join, as well as the entrants from the formerly centrally planned economies including the Russian Federation and notably China. This has different potential effects. Many developing countries are agricultural exporters, which may, if organized, form a strong lobby group. But there has been a tendency for the WTO members to insist in the accession process that new members take fewer exceptions from rules, even when they might be entitled to this by their income level. This has created some expectations by both developed WTO members and the new entrants that existing developing country members may need to reduce their use of exceptions and concessions.

The regulatory issues introduced in the Uruguay Round particularly in respect to contingency protection rules, could be raised again, along with new ones. The rules for regional trade agreements as contained in GATT Article XXIV were clarified somewhat in the Understanding on the Interpretation of article XXIV of GATT 1994. These could be made more explicit as there will soon be some direct evidence of how they are working in the post-Uruguay Round period and drawing upon the work conducted by the WTO Committee on Regional Trade Agreements. Some proposals to this effect have been submitted during the preparatory process for the Third WTO Ministerial Conference.

Of the potential “new issues”, competition policy and the regulation of restrictive business practices have traditionally been matters for research and debate at UNCTAD, and have not yet secured momentum and critical mass of acceptance by members for multilateral regulation. Nonetheless, United Republic of Tanzania should consider competition policy issues as part of its overall development policy efforts. Likewise efforts to regulate investment among some developed countries failed in the Multilateral Agreement on Investment negotiations at the OECD. There is a working group under the WTO to consider the relationship between investment and trade but its work has not reached to the point where multilateral negotiations on disciplines can be considered, and is thought to be unlikely to be ready in the immediate future. However, United Republic of Tanzania needs, as with competition policy issues, to assess and develop policies on attracting new investment into productive activities. In addition, it should prepare for the review mandated to take place in 2000 in the TRIMS agreement to consider issues of competition policy and investment.

WTO members have been searching for ways to reconcile the environmental conventions (under other international agencies), some of which include provisions on trade with WTO’s trade rules. This is likely to continue, but perhaps through *ad hoc* agreements, rather than inclusion in a new negotiation(s) round. The environmental effects of particular types of production (and therefore of trade measures which encourage or discourage them) are becoming issues in conventional trade negotiations. United Republic of Tanzania should become aware of environment issues and their relationship with trade, including in the context of the work by the WTO Committee on Trade and Environment.

Most countries, developed and developing, have opposed the introduction of “social clauses”, (conditions on human or labour rights, into preferential or multilateral trade agreements) which are unlikely to feature in any new negotiation round(s). At the multilateral level, developing countries take the position that labour issues should be discussed in the ILO as agreed at the First WTO Ministerial Conference. However a few major trading nations (European Union and the United States) have continued to advance arguments for international codes on labour, partly because of the trade-related arguments. The European Union and the United States have introduced social clauses into their preferential trade measures such as the GSP. Globalization, not only of production and trade, but also of culture and intellectual awareness, has contributed to a demand for common rules and to an extension of the same concerns about the treatment of others that are now largely accepted at the national level.

There are three other issues that will affect developing country members of the WTO, including United Republic of Tanzania, outside any negotiation round(s) and thus advance preparation is needed:

- The process of continuous negotiations, which emerged after the Uruguay Round means that it is essential, almost a *sine qua non*, for WTO members to maintain a permanent presence accredited to the WTO in Geneva. At present, countries which are rich enough (and well supplied with active diplomats) to maintain a continuing presence in Geneva and participate in the continuous negotiations in the various WTO committees and councils have even more of an advantage than in the past over those less well endowed. In the interim as United Republic of Tanzania and other developing countries endeavour with their limited means to monitor and participate in various negotiations, the question of transparency and manageability of negotiations in the WTO assumes critical importance for them;

- The WTO is at an important stage in its evolution because it is acquiring a stronger regulatory role and greater self-confidence as an organization to make its own judgments. The first is an essential element in a more complex and globalized world, in order to give certainty and predictability to decisions that affect not only countries but private business and individuals. The second has happened almost accidentally, partly because the organization needed to take the initiative in the stalled Uruguay Round negotiations, but partly no doubt because of the example of the international financial organizations. The dispute settlement body in particular has made interpretations on provisions of WTO agreements that have become legally binding. United Republic of Tanzania and other developing countries thus need to be more active participants in WTO decision-making processes, cognizance of that fact that even without new negotiation round(s), changes to existing WTO rules are being realized;

- Finally, there is a view emerging among many WTO members that the new negotiation round(s) will be mainly about “development”, to focus more on the trade needs of the developing countries. But against this is the fact that many of the items on the potential new agenda are more about regulation. This could help development by increasing the security and predictability of national trading regimes, or hurt it, by reducing freedom of countries to take their own actions. The support for further regulation comes from the goal of increasing the integration of all countries into the multilateral trading system. Developing countries will need to take their own initiatives in respect of policy flexibility to keep their interests on the agenda.

1.4 Preferential and Regional Trade Agreements

There are a number of trade liberalization initiatives underway, apart from the WTO Agreements, which will have significant implications for United Republic of Tanzania and other East African countries. They should help improve the region's competitiveness in the long run and make the region a more attractive environment for direct and portfolio investment. Imported inputs to industry will become cheaper, whilst finished products and domestic manufacturers will have to become internationally competitive in terms of price, quality and service in order to survive. New market opportunities will open up in the foreign markets as import barriers are reduced, thus providing new export opportunities.

1.4.1 The Lomé Convention between European Union and African, Caribbean and Pacific (ACP) States

The first agreement of the Lomé Convention was signed in 1975 and subsequent extensions have been implemented in 1979, 1984 and 1989 with the Fourth Lomé Convention. The trade provisions provide the industrial exports and most processed and agricultural exports of ACP States to enter the European Union duty-free and exempted from most NTB's. These preferences provided by the European Union to ACP States are non-reciprocal, stable (offered for five years in most conventions and 10 years in the fourth convention) and predictable (contractually binding). Four Protocols (sugar, beef, rum and bananas) give ACP countries preferential access, at guaranteed prices, for specific quotas of these agricultural goods. Lomé IV will expire on February 29, 2000 and a successor agreement is currently being negotiated between the two parties. A major underlying principle, especially from the point of the European Union as a major trading nation in the WTO, is to ensure that the trade provisions of the successor agreement to the Lomé Convention are WTO-compatible. United Republic of Tanzania and other ACP States thus would need to prepare for greater competition that will rise as their preferred status in the European Union is gradually eroded by multilateral trade liberalization.

The mid-term review negotiations of the Lomé IV Convention indicated that the partnership between the European Union and Africa is under pressure. The reluctance of several member States to provide appropriate resources to the European Development Fund (EDF) is the expression of a much broader shift in EU approaches towards foreign and security policy as well as security, aid and trade. Africa, in particular, fears to be at the losing end of these changes. Its position in the emerging global market economy is very fragile. It observes decreasing aid budgets, many conditional ties, diversion of trade and investment flows and absence of measures to address structural obstacles to development.[1]

United Republic of Tanzania and other African countries are concerned that in the new competitive trading environment, they would need substantial assistance from the European Union to improve their infrastructure and supply capacities to become more efficient and competitive.

The European Commission is proposing a complete transformation of the long-standing agreement between the European Union and the ACP States, following the expiry of Lomé IV. It proposed that those ACP States not classified as least developed be offered the

[1] Bossuyt, J. 1995. The Future of EU-Africa Development Co-operation: With or Without the Lomé Convention? (ECDPM Working Paper Number 95-2). Maastricht: ECDPM.

choice of either negotiating individually or jointly as members of an integration grouping (SADC for example) a reciprocal free trade agreement with the European Union, or having their terms of access to the European market changed to the standard (but an improved) GSP. This would be done through a series of Regional Economic Partnership Agreements (REPA) with the ACP States, to come into operation in 2005. This concept however has not met with much enthusiasm within the ACP States. The ACP States prefer a continuation of the Lomé Convention for another 10 years to enable them to adjust their productive systems to meet the rigours of the competitive multilateral trading system. During the 10-year "transition" period, ACP States and European Union would consider and elaborate "alternative trading arrangements" which would be WTO-compatible to replace the Lomé Convention. It is however certain that in the long-term, multilateral rules require that some measure of reciprocity will have to be established, except for the LDCs, which would retain non-reciprocity.

1.4.2 Trade with the United States

Discussions are underway currently within the United States in respect of developing a preferential trading arrangement between the United States and qualifying African countries. This arrangement is still at a preliminary stage and has been finally approved within the United States. The Africa Growth and Opportunity (Crane-McDermott) Bill which gives effect to this new arrangement has passed through the House of Representatives but was rejected by the Senate. At this stage, the arrangement is expected to provide a framework for new trade and investment relationships between the United States and Sub-Saharan Africa. It will be open to those Sub-Saharan African countries that demonstrate an adequate level of trade liberalization and democracy. United Republic of Tanzania could be a candidate.

The ultimate objective is to move toward a Free Trade Area by 2025 for the countries that conform best to these criteria. However in the early stages, non-reciprocal preferential or free access would be given to the qualifying Sub-Saharan African countries in the United States market. An economic forum is expected to be created with economic ministers from the Sub-Saharan African region and the United States, as well as representation from the private sector and the NGO community. The United States has shown particular interest in developing an arrangement (possibly a FTA) with the SADC region in the early stages, which will have an impact on United Republic of Tanzania. It therefore appears to be a plan to develop a relationship somewhat similar to the Lomé Convention relationship.

1.4.3 Sub-regional Integration Groupings[2]

1.4.3 (a) East African Cooperation

United Republic of Tanzania is a member of the EAC, together with Kenya and Uganda. The EAC aims to integrate the economies of its members by setting up a common market to eventually culminating in the establishment of an economic union (operating with the framework of COMESA).

[2] See also Annexure XIII.

For details on the main objectives and areas of cooperation of the EAC see annex XIII (1) (and contrast with those of IGAD in annex XIII (4) as one of the members is also a member of EAC as well, and in this connection interacts with United Republic of Tanzania). The current time frame for concrete interaction as laid down in the EAC's development cooperation strategy document (EAC 1997) has a very broad scope and a tight schedule. Unfortunately, this has not been met: of the twelve or so actions that should have been taken before the end of October 1997 (barring the commission of studies), only a few (of which the only significant one is the introduction of a common passport) have actually been taken. There is a danger that the EAC will fall far behind its commitments causing donor apathy and private sector scepticism. Adherence to proposed tariff reduction schedules and other integration measures will be of critical importance. United Republic of Tanzania together with Kenya and Uganda should pay closer attention to implementing the agreed measures and in turn unlock and benefit from the potential trade, production and investment prospects. See attached background paper one for an assessment of the trade and investment prospects under the EAC, and Paper Two on possible coordination of macro-economic policies to create an enabling environment for the sub-region's business community to operate and compete.

1.4.3 (b) Southern Africa Development Community

United Republic of Tanzania is also a member of SADC, whose aims are to foster and advance regional cooperation and integration in the Southern African sub-region, including by way of co-coordinating development efforts among its members. In respect to the sectoral distribution of responsibilities among member States, United Republic of Tanzania coordinates the SADC industry and trade sector. For details on the main objectives and areas of cooperation of SADC (as well as related groupings of SACU and CMA) see annex XIII (2). The SADC Protocol on Trade is a particularly important agreement as it provides for the creation of a free trade area that is WTO-compatible. However, by the end of 1999 the protocol was not operational as it had yet to be ratified by the required two-thirds of all members. (Ratified in early 2000)

The Protocol's stated objectives are:

- To liberalize intra-regional trade in goods and services in an equitable manner and to establish a Free Trade Area within the region;
- To enhance industrialization and economic development within the region;
- To foster greater production efficiency and to improve the investment climate within the region.

Decisions have been made on the implementation mechanisms for moving toward the FTA, which are expected to be finalized when the whole liberalization package has been negotiated and agreed to among SADC members. The broad agreement reached on the modalities and utilized by the SADC Trade Negotiating Forum (at senior officials and ministerial levels) in negotiating tariff reductions is as follows:

- There will be a "linear tariff reduction" approach. Under this method each country will reduce its tariffs on intra-regional trade by given percentages over the eight-year period according to agreed criteria on classification of products. Furthermore South Africa and the other SACU countries would reduce their tariffs faster than the other SADC countries, followed by the other SADC countries, to reflect the asymmetry. The LDCs in SADC would liberalize at the slowest pace, although some confusion arises as to LDCs that are SACU members (i.e. Lesotho) and are supposed to liberalize faster;

- Each country is to determine its list of sensitive products and there final agreement would be reached when the final liberalization package is agreed;

- Under this Protocol, each member State is also due to identify and eliminate all non-tariff barriers on trade with the rest of SADC. These concessions would be specified within the final liberalization package.

A major reason for the reluctance of some member States to ratify the Trade Protocol is that negotiations on tariff reduction schedules have not been concluded, and therefore the potential impact of the Trade Protocol on their respective economies is not clear. The Trade Negotiating Forum has been meeting every month since early 1999 in an effort to reach agreement. However, even if a sufficient number of member States do ratify the Protocol in early 2000, this does not guarantee that the agreed provisions will actually be "implemented". If the private sector has not been sufficiently consulted during the negotiations, or if Government units responsible for implementation at national levels do not have sufficient capacity to implement specific provisions, then it is unlikely that the elimination of barriers to intra-SADC trade will be achieved within the planned eight-year time frame after ratification.

1.4.3 (c) Common Market for Eastern and Southern Africa

United Republic of Tanzania is also a member of COMESA whose member States have agreed to establish a free trade area and customs union. For details on the main objectives and areas of cooperation of COMESA see annex XIII (3) (and contrast with those of IGAD in annex XIII (4) as several of the members are members of COMESA as well and in this connection interact with United Republic of Tanzania). Significant progress has been achieved on intra-group tariff reductions toward the formation of the free trade area scheduled for realization in October 2000. At the moment most COMESA members offer to each other a rate of preference of between 60 to 80 percent discount off the MFN tariffs. Non-tariff barriers to intra-group trade also have been identified and removed. In respect of the customs union, COMESA member States have already committed themselves to the implementation of a CET (common external tariff) by the year 2004 of 0 per cent, 5 per cent, 15 per cent and 30 per cent on capital goods, raw materials, intermediate goods and final goods respectively.

Whilst it is highly unlikely that all COMESA member States will be ready to enter the Free Trade Area in 2000 and the Customs Union in 2004, it is likely that a core group of countries will be ready for each occasion. Tariff reductions are also encouraged by the Cross-Border Initiative, which acts as a fast-track for COMESA implementation policies (see discussion below). Other measurable achievements have been made in the area of transport, finance and technical cooperation. At the Kinshasa Summit (July 1998), the Heads of State and Governments decided that COMESA should be declared a Common Investment Area at the advent of the Free Trade Area in October 2000.

1.4.(d) Cross-Border Initiative

United Republic of Tanzania participates in the Cross-Border Initiative which although is not an agreement in itself, it initiates many activities in trade and investment policies. The CBI covers Southern and Eastern Africa and the Indian Ocean Islands, and is cosponsored by the African Development Bank, the World Bank, the IMF and the European Union. It's underpinned by the notion that "given the on-going economic reform programmes in these countries, a parallel set of policy and institutional reforms could accelerate the pace of economic growth through regional integration, particularly by fostering efficient cross-border investment and trade flows."[3]

The CBI aims to facilitate increased intra-regional economic linkages, specifically concerning trade, investment and payments and thus to improve regional integration as a vehicle for economic development within Eastern and Southern Africa and the Indian Ocean region. It has involved the identification of major constraints to intra-regional trade, investment and payments and the development of measures to overcome them and agreement on a set of actions to be taken at the national level to help overcome these constraints. United Republic of Tanzania and other participants involvement and realization of the benefits from CBI depends on their effective implementation of the agreed measures and actions in a timely manner.

The CBI puts emphasis on the following areas:

- Outward orientation, particularly openness to the rest of the world to ensure greater integration of the sub-region into the world economy;

- Avoidance of new institutions;

- Direct involvement of the private sector in the formulation and implementation of a conducive policy/institutional environment,

- The need for CBI to be driven by the participants to ensure ownership as a key to effective implementation.

1.4.4 Overlapping Effects in Regional Trade Agreements

The above section shows that United Republic of Tanzania is a member of several sub-regional organizations aiming at trade integration namely EAC, SADC and COMESA and through these associations interacts with members of SACU and IGAD, and also participates in the Cross-Border initiative. Also it is a member of the ACP Group and benefits from the preferential trading arrangement whose future is likely to move toward greater reciprocity. The country could become involved in closer economic relations with the United States if the African Growth and Opportunity Act is passed by the United States Congress. United Republic of Tanzania's multiple members in various agreements indicates on the one hand a deliberate policy action to secure economic and political benefits; and on the other hand it can have major costs including membership fees and overlapping and sometimes contradictory obligations.

Relations between SADC and COMESA are characterized by "peaceful coexistence", and cooperation; both organizations though seem to be avoiding resolving the outstanding, incompatible issues of their trade policies. However the SADC Trade Protocol contains incompatible elements with those of COMESA's trade policies.

[3] R. Thomas, "Trade liberalisation issues affecting SADC within the context of the forthcoming Post-Lome negotiations", SADC/EU trade liberalisation seminar report, Dar-es-Salaam, 5-7 May 1998.

It acts as a major obstacle in relations between the two organizations and creates concerns over future progress of the sub-region towards integration as well as problems in the other partners' dialogue with the sub-region. When the COMESA CET and Customs Union is established, it will be very difficult for those COMESA members which are also SADC members to go ahead with the SADC FTA plans. It will be impossible for those COMESA members which are also SACU members to enter the COMESA customs union. A country cannot belong to two customs unions unless they maintain the same CET. Whilst the SADC Protocol on Trade makes no reference to a CET, some members are already talking about the need to harmonies their external tariffs and eventually establish a CET. This will be incompatible with COMESA (and SACU), unless one unified CET is adopted for the whole sub-region. This will be difficult to bring about given the diverse nature of the economies (especially concerning South Africa).

The EAC is not in conflict with COMESA since the COMESA Treaty allows the formation of smaller sub-regional groups as long as they operate on the basis of subsidiarity with COMESA.

The chart presented below shows the multi-membership of many Sub-Saharan countries.

1.4.5 Compatibility of the Regional Trade Agreements and Preferences with WTO Requirements

The notification to the WTO by United Republic of Tanzania and other developing countries of regional trade agreements in which they are members, for trade in goods, has to invoke either the provisions of the Enabling Clause of the 1979 Tokyo Round, or the GATT 1994 article XXIV and as further clarified by the Understanding on the Interpretation of that article. Beyond these alternatives, there is also the waiver procedure under GATT article XXV and the Marrakesh Agreement Establishing the WTO, article IX (paragraphs 3 and 4). It can and has been invoked by parties to a regional trade agreement, which does not fully respond to the requirements of the Enabling Clause or GATT article XXIV. The waiver requires a decision by the WTO members with a qualified majority, and is subjected to an annual review. The waiver has been invoked to cover the Fourth Lomé Convention and other non-reciprocal preferential trade arrangements. The notification to the WTO for trade in services has to invoke GATS article V.

Most regional trade agreements of developing countries have been notified and accepted by GATT/WTO members under the provisions of the 1979 GATT Decision of 28 November on Differential and More Favourable Treatment, Reciprocity and Fuller Participation of Developing Countries (Enabling Clause). The Enabling Clause requires that members in the regional trade agreement show that the agreement:

(i) Is designed to facilitate and promote trade of members and does not raise barriers or create undue difficulties for the trade of third countries;

(ii) Does not constitute an impediment to the reduction or elimination of tariffs and other restrictions to trade on a MFN basis;

(iii) Shall in the case of such treatment accorded by a developed member to developing member be designed and, if necessary, modified to respond positively to the development, financial and trade needs of developing countries (this provision becomes irrelevant if South Africa is accepted as a developing country);

(iv) Is notified to the WTO Committee on Trade and Development upon its creation, modification or withdrawal. The CTD may establish a working party upon the request of any interested member to examine the regional trade agreement or its conformity with the provisions of the Enabling Clause.

The practice under the former GATT has been for the CTD or its working party to take note of the notification with little or no discussion. This has changed under the WTO and developing countries should be prepared for a more substantive and lengthy examination of their regional trade agreements. Endorsement by the CTD permits members of the regional trade agreement to accord each other preferential market access without extending the same preferences to other WTO members in line with the MFN Rule.

COMESA, for example, had been notified to the WTO as a regional trade agreement. It was notified on 29 June 1995 under the Enabling Clause. The EAC and SADC likewise would have to notify their respective free trade/customs union agreements as and when these have been finalised, signed and entered into force.

The provisions of article XXIV of GATT 1947 are applicable to bilateral and regional trade agreements involving developed countries and do not prevent the formation of a custom union or a free trade area between the territories of contracting parties. The provisions could become applicable to United Republic of Tanzania in the event that the country enters into a free trade agreement or customs union with a developed country. A Custom Union is defined by GATT article XXIV as the:

"Substitution of a single customs territory for 2 or more customs territories, so that duties and other restrictive regulations of commerce are eliminated with respect to substantially all the trade between the constituent territories of the union or at least with respect to substantially all the trade in products originating in such territories, and substantially the same duties and other regulations of commerce are applied by each of the members of the union to the trade of territories not included in the union.”

A Free Trade Area is defined by GATT article XXIV as “group of two or more customs territories in which the duties and other restrictive regulations of commerce are eliminated on substantially all the trade between the constituent territories in products originating in such territories”.

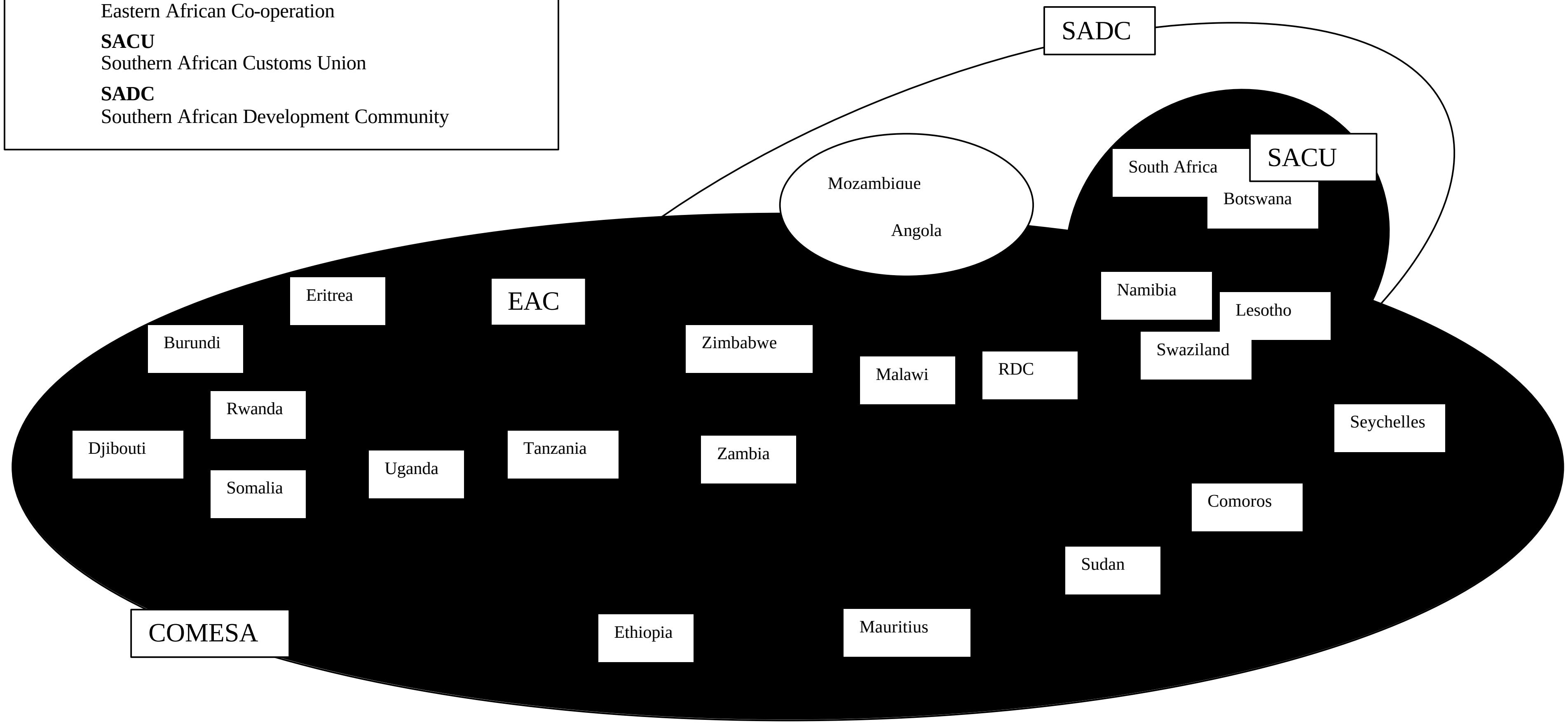
REGIONAL INTEGRATION IN SOUTHERN AND EASTERN AFRICA

COMESA
Common Market for Eastern and Southern Africa

EAC
Eastern African Co-operation

SACU
Southern African Customs Union

SADC
Southern African Development Community



1.5 Actions of the Donors in Supporting Trade and Investment in the Region

Several donors are supporting regional integration programmes and activities under COMESA and SADC and thus benefiting members States such as United Republic of Tanzania. Notable among these are the European Union, the United States Agency for International Development (USAID), GTZ, UNCTAD, UNDP and UNIDO. The European Union has funded a number of projects over the past several years. In the context of COMESA these include the introduction and implementation, in cooperation with UNCTAD, of ASYCUDA (automated system for customs data) and Eurotrace in the region. The European Union support has also encompassed institutional support including equipping the secretariat with latest computer hardware, setting up a LAN at the secretariat linking all staff members with individual e-mail addresses, setting up an Internet domain and a web site for the secretariat. The European Union has funded numerous studies undertaken by short-term experts (such as preparation of the Common External Tariff) in addition to funding technical assistance personnel based at the secretariat providing longer-term inputs to supplement COMESA's staffing levels.

USAID has recently funded a study reviewing the COMESA Rules of Origin and may soon fund another study examining the Yellow Card scheme. USAID is also financing training in WTO matters for member State personnel. UNDP through ITC has supported the TINET project for a number of years while UNIDO supports the metallurgy and industry projects.

In SADC, again the European Union has supported short-term experts for studies, such as the one to recommend implementation schedules for the tariff reductions under the Protocol on Trade and the study for FISCU referred to previously. Support has also been offered to help in developing the Finance and Investment Protocol. GTZ has provided long term technical assistance to SADC secretariat in the field of trade policy and short term assistance to member countries to assist with the preparations for the Trade Negotiation Forum (TNF) meetings. DFID has assisted with studying possible Post-Lomé arrangements. USAID has assisted SADC in the ratification and implementation process for the SADC Trade Protocol.

UNCTAD has provided technical assistance for the Trade Negotiation Forum process devoted to the preparation of the SADC trade liberalization programme leading to the formation of the desired free trade area. Assistance has also been given to SADC by the Commonwealth Secretariat in such areas as development of a regional industrial policy, and complimentary policies to underpin the FTA.

Additional assistance that could be provided by donors includes technical assistance in WTO matters; regional trade integration issues and in monetary harmonization and convergence programmes; support in bringing COMESA and SADC programmes and activities closer to the private sector; selling the region to the international investor community as a viable and lucrative investment destination; and helping to unify the integration programmes of SADC and COMESA to remove the incompatibilities.

1.6 Impact of Regional Trade Arrangements and Economic Liberalization on United Republic of Tanzania

SECTOR/ AREA	MEASURE	CODE	CURRENT STATUS	PLANNED CHANGES/TIME FRAME.
TRADE				
Foreign Trade Liberalization	Abolish import licensing	1	Import licensing was abolished since 1993	Accomplished
	Abolish NTBs.	1	No NTBs exist in as far as trade is concerned. Imports to United Republic of Tanzania of above $5000 are subject to compulsory pre-shipment inspection for quality, quantity and price verification.	Accomplished.
	Eliminate tariffs on intra-regional trade.	2	Reduction of COMESA tariffs by 80 per cent has been effected and published in the Customs Tariff Book. A study on tariff structure is in progress	The plan is to reduce the tariffs by 100 per cent by the year 2000.
	Abolish export licensing	1	Export licensing and surrender of foreign exchange proceeds have been abolished since July 1993. Exporters fill in Form CD3 for purely statistical purpose.	Accomplished.
	Open up trade in services.	1	Trade in service is fully liberalized	Accomplished.
	Harmonized External Tariff (HET)	2	Quite a number of external tariffs have been harmonized. The maximum rate is 30 per cent. Other duties and import charges have been incorporated in the tariff structure.	Although implementation is taking place no detailed study has been made to assess the impact on revenue on moving to HET. This study is expected to be completed in 1998.
		3	A study on "Customs Duty Harmonization in East Africa" which is currently in progress is expected to assess the viability of establishing a CET within East Africa and its impact on revenue and suggest alternative sources to compensate for areas of loss.	1999
Trade Facilitation	Implement harmonized transit charges.	1	United Republic of Tanzania continues to maintain road transit charges as approved by the COMESA Council of Ministers.	Accomplished.
	Introduce single goods customs declaration document (Bill of Entry).	1	It has been introduced and is being used.	Accomplished.
	Introduce bond guarantee scheme	4	Discussed and agreed upon but not applied. There has to be a regional legal framework in place to enforce it.	To be enforced when a regional legal framework is in place.
PAYMENT				

SECTOR/ AREA	MEASURE	CODE	CURRENT STATUS	PLANNED CHANGES/TIME FRAME.
Domestic Payments and Settlements .	Complete financial sector reform programme.	1	The financial sector reform programme is progressing well. The banking system has fully been liberalized; Exchange control has been abolished; Exchange rate of United Republic of Tanzania shilling is determined in the Interbank Foreign Exchange Market and is flexible; The United Republic of Tanzania's shilling is freely convertible with the Kenyan and Ugandan shillings; Dar es Salaam Stock Exchange started operations in April 1998; Interest rates are determined in the financial market.	Continuous.
	Introduce foreign trade financing instruments.	1	They have been introduced in the context of financial market liberalization.	Continuous.
	Remove impediments to entry by foreign financial institutions.	1	The Banking and Financial Institutions Act of 1991 allows free entry of foreign financial institutions. There are now about 30 banks and financial institutions.	Accomplished.
Exchange System	Remove restrictions on external current account.	1	Current account of the balance of payment is fully liberalized.	Accomplished.
	Capital Account	2	Foreign investment in United Republic of Tanzania has been partially liberalized. The capital account is not fully liberalized. Foreign investments in Treasury Bills, for example is not allowed. Also foreign investment in IPO's and In Stock exchange is restricted to domestic investors only. Repatriation of dividends and profits is free from restrictions. Remittance of dividends is freely done through commercial banks upon presentation of audited accounts indicating declared dividends to be repatriated plus tax Clearance. Investors are permitted to use up to 100 per cent of their net foreign exchange earnings for debt servicing or remittance of profits and dividends.	Continuous.
	Establish unified interbank spot exchange markets.	1	Introduced since 1994	Accomplished
INVESTMENT				
Investment Regime	Simplify investment approval procedures	1	Approval procedures have been simplified following the enactment of the new Investment Act in 1997 transforming the Tanzania Investment Centre into "ONE STOP CENTRE" for investment information, advice, registration and certification.	Continuous

SECTOR/ AREA	MEASURE	CODE	CURRENT STATUS	PLANNED CHANGES/TIME FRAME.
	Remove investment licensing requirements	1	Partially removed	Continuous.
	Publish investment code and regulations	1	Publication of an investment code and regulatory framework has been done.	Accomplished but refinement may be needed.
	Harmonize investment regimes	3	At East Africa level, this is being done under the auspices of the East African Cooperation.	In progress.
Immigration	Remove visa requirements at regional level.	2	Visa requirements for nationals of East Africa have been eliminated. The East African passport has been launched. Visa requirements for some members of COMESA and SADC have been removed.	Visas for the remaining members of COMESA and SADC to be eliminated on reciprocal basis.
	Improve processing of residence and employment permits.	1	Permits are given in respect of employees under registered and certified investments provided that such employees meet the relevant criteria.	Accomplished.
Others	Join MIGA and similar bodies	1	United Republic of Tanzania is a member of MIGA and International Centre for the Settlement of Industrial Disputes (ICSID).	Accomplished.
	Conclude double taxation agreements	2	Double taxation agreements with Kenya, Uganda, Malawi and Zambia do exist but await ratification by Parliament. Bilateral negotiations with other COMESA countries are in progress.	Conclude double taxation agreements with other COMESA states.
	Develop cross-listings on regional stock exchanges.	3	Dar es Salaam Stock exchange started operations in April 1998. The Dar es Salaam Stock Exchange is expected to cooperate with those of Uganda and Kenya (also SADC).	Cross listings on regional stock exchange will start soon.
INSTITUTIONS				
Improve Dialogue between the private sector and the Government.				
	Strengthen national and regional business organizations.	2	The Government has forged good working relations with various business organizations and has assisted in securing assistance from donors and international organizations. The business organizations which have received such assistance are: 1) Tanzania Chamber of Commerce, Industry and Agriculture (TCCIA). 2) Confederation of Tanzania Industries (CTI). 3) Tanzania Exporters Association (TANEXA). 4) TCCIA is a member of the East African Business Organization.	Continuous

SECTOR/ AREA	MEASURE	CODE	CURRENT STATUS	PLANNED CHANGES/TIME FRAME.
			5) The Private Sector Foundation has been established to coordinate the activities of the business organizations in United Republic of Tanzania. 6)CBI conducted 5 sensitization and training seminars/workshops for the private sector in 1998 to enable them to exploit available facilities in this initiative and thereby expand their scope of doing business regionally. Similar seminars/workshops were held in the two of the remaining centres in 1998/99.	Completed seminars in all the regions of United Republic of Tanzania except Kilimanjaro, Arusha, Tanga, Singida and Dodoma.
	Allow greater involvement to private sector in regional integration activities.	2	In view of the increasing role of the private sector in CBI activities, the Government has been encouraging this sector to participate in regional trade fairs and buyers/sellers meetings. In addition it has now become a practice to include members of the private sector in official delegations involving Heads of State.	Continuous

Codes:
1. Fully implemented.
2. Partially implemented.
3. Arrangements for implementation in preparation
4. Arrangements for implementation not yet identified

CHAPTER 2
TRADE LIBERALISATION AND IMPACT

2.1 Performance of United Republic of Tanzania's Economy

United Republic of Tanzania is classified as one of the Least Developed Countries (LDCs) by the United Nations General Assembly. Its GDP (gross domestic product) at current prices was TShs 4,281,218 million in 1997 or about $6,860 million. With a mid-year population estimate of 29.1 million, the income per capita is TShs 147,134 or $236, one of the lowest in the world. Real GDP growth was 3.3 per cent in 1997. This accelerated to about 4.5 per cent in 1998. Over the last 10 years the economy's commercial sector accounted for about 70 per cent of GDP. Non-commercial subsistence sector occupied a significant 30 per cent of the economy.

Agriculture, hunting and fishing (primary sector) accounted for about 46.7 per cent in 1997 which, although significantly much less than it was in 1986 (55.2%) shows the economy is predominantly based on agriculture. This position is strengthened by the fact that agriculture contributed about 36.1 per cent of the monetary sector of the economy and about 71.8 per cent of the non-monetary subsistence sector. Over time, the modernization of productive activity has not been impressive in spite of continuous efforts. As a result the share of manufacturing in the GDP has continued to decrease from about 9.3 per cent in 1990 to about 7 per cent in 1997.

Owing to these weak structural features and other technological deficiencies, United Republic of Tanzania's participation in the multilateral trading system is limited.

More positively, thanks to the implementation of monetary policies and fiscal measures, the annual average rate of inflation has continued to decline. This favourably influenced the business environment to encourage trade and investments. During 1998, the headline inflation continued to fall from 15.4 per cent in 1996 and 1997 down to 11.2 per cent in 1998.

2.2 Trade Performance

As a result of Government efforts to encourage trading, total exports showed significant recovery during the 1990s. However, over the last 3 years, the trends in total exports showed declining tendencies. Further analysis of export performance in the 1980s and 1990s in its major commodity products could be obtained from annex VIII.

During 1998, total exports were worth $679.2 million showing a decline of about $43 million, or about 5.9 per cent below 1997 exports. Imports on the other hand increased by about 8.5 per cent to US$1453.5 million in 1998 compared to $1337.7 million in 1997. Consequently the trade balance worsened as the deficit increased from $620.6 million in 1997 to $777.5 million in 1998.

Substantial product and market diversification was evident in the year 1998 (see table 2.1). While earnings from traditional exports continue to dominate the export portfolio, new non-traditional products emerged during 1998, thanks to economic liberalization policies. Major changes during 1998 include among others the following:

- Cashew nuts jumped to first position as a result of a boom in the production and shipment of the crop. This surpassed the peak achieved in 1973/1974;
- Fish and Fishery products are taking substantive and more reliable share of the export portfolio;
- Exports of cut flowers gained commanding dominance in the export sector more than some of the traditional crops.

The performance of United Republic of Tanzania's export sector was characterized by several factors. In the traditional sector, cashew nuts posted a robust 57 per cent increase in export revenue (see table 2.1). This gain however, could not compensate losses made on the traditional heavy weights of coffee, cotton and tobacco as well as other products. In the non-traditional sector, gains made from increases of about 43.5 per cent in fishery exports coupled with gains made from cut flowers influenced an increase in exports offsetting losses made on manufactured exports.

With regard to market diversification Japan and India are increasing their imports from United Republic of Tanzania. Some of United Republic of Tanzania's main export destinations are indicated in annex IX. On the other hand, United Republic of Tanzania's imports are taking a dramatic turn as:

- Japan and South Africa surpassed the United Kingdom as main exporter to United Republic of Tanzania;
- United Kingdom is exporting more to United Republic of Tanzania through their establishments in Kenya directly benefiting from the East African Community developments;
- The United States has increased their exports to United Republic of Tanzania's market than before.

Table 2.1: United Republic of Tanzania Exports 1997 – 1998 (Product ranking by value) Value in $000

No.	Description	1997 Value	1997 Quantity	1998 Value	1998 Quantity
1.	Cashew nuts	67,614,653	81,552	105,687,567	161,539
2.	Coffee (raw)	102,846,070	41,124	87,957,440	35,572
3.	Frozen Fish Fillets	39,313,733	16,456	56,452,773	23,760
4.	Cotton (52010000)	114,518,351	75,514	38,499,981	29,948
5.	Tobacco (24011040)	24,188,063	11,922	34,721,516	15,842
6.	Tea (black tea 09024000)	29,962,230	19,960	30,154,149	22,076
7.	Other Tea	251,712	178	19,816,759	8,769
8.	Tobacco (24011040)	24,733,163	10,416	15,017,278	7,722
9.	Cotton (52030000)	2,242,918	1,562	9,019,110	7,271
10.	Fresh Flower	5,140.670	4,437	8,411,754	3,517
11.	Sugar (17019911)	82,715	170	8,078,505	1,677
12.	Diamonds (0713101)	13,255,993	43,214CT	7,896,153	23,018CT
13.	Peas (for sowing)	602,064	2,112	7,592,299	18,592
14.	Fish Fillets (Fresh/chilled)	11,207,358	4,982	7,042,715	2,762
15.	Sisal fibre	7,998,280	13,666	6,651,069	11,387
16.	Precious/Semi Stones	5,956,928	321,867	6,533,882	158
17.	Other Sugar (A01119)	498,122	1,018	6,185,599	10,950
18.	Grouts & Meal of rice		3,681	6,101,369	10,100
19.	Manufactured (61091091)	6,076,086	913	5,250,208	562
20.	Frozen Shrimps/Prawns	4,298,388		4,631,127	1,062

Source: Customs and Excise Department.

Table 2.2: Export Earnings 1997/1998

	1997		1998	
	O (tonnes)	V ($000)	Q (tonnes)	V ($000)
Cashew nuts	81,552	67,614	161,539	105,682
Coffee	41,123	102,846	35,571	87,957
Cotton	75,514	114,518	29,948	38,500
Tobacco	35,202	73,255	44,898	54,314
Tea	19,960	29,962	22,076	30,154
Sisal	13,666	7,998	11,388	6,651
Sub Total		396,193		323,258
Non Traditional		226,456		266,051
Total		622,649		589.309

Source: Customs & Excise Development (unadjusted)

2.2.1 Traditional Sector

Coffee

Coffee shipments decreased by about 13.7 per cent in 1998 compared to 1997 leading to a foreign exchange loss of about 14.9 per cent as earnings came down from $102.8 million in 1997 to $87.9 million in 1998 (see table 2.2). Japan increased its purchases of Tanzanian coffee slightly. Sipments to the German market, along with revenues fell drastically by more than 50 per cent.

Cotton

Earnings from cotton fell sharply by 66.3 per cent as a result of both a supply shortfall and a price slump (see table 2.2). Shipments of only 29,948 tonnes were made in 1998 compared to 75,514 tonnes in 1997, a shrinkage of about 60 per cent in volume. World market prices for cotton lint fell by about 13.5 per cent. Despite substantial decrease in sales volumes, major buyers of United Republic of Tanzania's crop remain the South-East Asian countries of Indonesia, Thailand, Taiwan Province of China and Malaysia. EU buyers especially Portugal, Switzerland, and the United Kingdom maintained their second position. Kenya, India continued to be reliable buyers.

Cashew nuts

Due to the transformation of marketing channels from single to multi-channel systems, production of cashew nuts has increased sharply. Export shipments of raw cashew nuts increased by about 98 per cent (about double) from 81,552 tonnes in 1997 to 161,539 tonnes in 1998, a record performance since 1973/1974 (see table 2.2). Outstripping processing capacity by far, most of the crop was sold raw about 90 per cent to India and 8 per cent to Singapore. Other buyers are United Kingdom, Democratic Republic of Congo, Kenya and Saudi Arabia.

Despite the volume increase, revenue increased by about 57 per cent which shows a substantial price slump compared with the prices obtained in 1997. Nevertheless, export earnings reached $106 million topping the country's products and overriding coffee and cotton.

Tea

Tea exports increased by about 10.6 per cent in 1998 from 19,960 tonnes in 1997 to 22,076 tonnes. This increase, however, was almost offset by a substantial FOB price decline as earnings increased by only 6 percentage points.

Tobacco

Tobacco's impressive performance made large reversals in 1998 compared to 1997. Shipments decreased from 35,202 tonnes in 1997 to 25,898 tonnes in 1998, a drop of about 26.4 per cent (see table 2.2 and table 2.3). This impinged upon export revenues, which declined by almost an equal magnitude of 25.9 per cent. Prices of the crop made a slight improvement during this period.

Table 2.3: Tobacco Exports 1997, 1998 ($000)

Product	***Year***	**1997**		**1998**	
Code	Description	Quantity (Tonnes)	Value ($000)	Quantity (Tonnes)	Value ($000)
24011030	Flue cured	10,416	24,733	7,722	15,017
24011040	Fire cured	11,922	24,188	15,842	34,721
24012030	Flue cured	12,864	24,334	2,334	4,576
	Total	35,202	73,255	25,898	54,314

Sisal

Sisal was United Republic of Tanzania's leading foreign exchange earner during the 1960s. In 1998 the crop took 15th position as shipments decreased yet further from 13,660 tonnes in 1997 to 11,388 tonnes in 1998; a decline of about 16.6 per cent (see table 2.2). As a result export earnings were reduced to $6,651,069 down by about 16.8 per cent from $7,998,280 earned in 1997.

2.2.2 Non-Traditional

Earnings from the non-traditional sector increased from $226.45 million in 1997 to $266.05 million in 1998, a rise of about 17.5 per cent. The increase in the earnings in this sector may be attributed to a number of factors in each product group.

(a) Fishery products

Export performance of fresh, chilled and dried fish, frozen fish fillets and shrimps made substantial gains during 1998 compared to 1997 (see table 2.4). Earnings reached $69,552,000 in 1998 which is about 22.5 per cent above the earnings realized in 1997. Export of fish fillets increased by about 43.5 per cent as a result of increased shipments. World market prices were fairly stable.

Table 2 4: Shipment of Fishery Products 1997- 1998 (US$000)

	1997		**1998**	
Description	**Quantity**	**Value**	**Quantity**	**Value**
Dried Fish	1,889	1,953	3,676	1,427
Shrimps	913	4,298	1,062	4,631
Fresh / Chilled Fish	4,982	11,207	2,767	7,042
Frozen Fillets	16,456	39,313	23,760	56,452
Total	26,240	56,776	31,265	69,552

(b) Cut Flowers

Although fresh cut flowers have been exported for a long time, their contribution to total exports have not been as high as they were in 1998. Ranking 10th in United Republic of Tanzania's export portfolio, 3,517 tonnes worth $8,411,754 (see table 2.1) were exported mainly to the Netherlands (50%), Kenya (32%) and Norway (14.2%). Export earnings from this product group in 1998 were 63.7 per cent more than they were in 1997 (although a slight drop in volume was experienced). Studies have shown that United Republic of Tanzania has ample resources for raising flowers and the world markets are quite attractive.

(c) Minerals

Exports of mineral products increase by about 24 per cent in 1988 according to the Bank of United Republic of Tanzania records.

(d) Manufactures

Despite increases in some products as well as small gains by many smaller products, exports of manufactured products decreased by about 50 per cent in 1998 compared to 1997.

2.3 Trade Liberalization

2.3.1 Unilateral Trade Liberalization

The Government of United Republic of Tanzania launched the Economic Recovery Programme in 1986 with the aim of solving structural weaknesses in the economy, improving macro-economic management and encouraging private sector participation in economic activities. Overall the role of the Government was to improve the macro-economic environment for exchange and investment. Consequently major policy actions were taken in a number of important areas.

(a) Trade liberalization to cut down on bureaucracy, documentation, tariff and non-tariff barriers and transforming regulations as well as the marketing channels from single channel system to multi-channel systems.

(b) Monetary policy reforms to allow the liberalization of credit supply and activating money market operations, including the foreign exchange markets.

(c) Liberalization of the financial sector operations by opening the functions of commercial banking, capital markets and foreign exchange markets to competition. This allowed the licensing of foreign and private commercial banks and money changers.

(d) Fiscal policy reforms whereby the Government endeavoured to maintain a balanced budget. This entailed a controlled Government expenditure, refraining from credit creation for Government borrowing and divestiture of commercially based parastatal organizations.

The need to liberalize foreign trade could be seen not only as national policy action but perhaps as part of the Governments obligation in international fora such as the WTO. In addition, it is party to a number of sub-regional groupings such as COMESA, EAC and SADC (as discussed in Chapter 1) the work of which is to ensure that a tangible measure of trade and economic liberalization does take place in each of its members. For example, as part of its commitments in the Cross Border Initiative, United Republic of Tanzania has taken deliberate action to liberalize inter-regional trade and payments systems and investments. While it has gone a long way in the implementation of CBI objectives, all measures taken comprise a dynamic process leading to a fully liberalized trading system regionally and an improved trading regime internationally. In general it is contended that free trade facilitates maximization of welfare among trading countries and that as a result of trading all nations of the world gain.

However, the world's trading nations participate in trading activities with caution. As a result, trading blocks, economic integration groupings and even the establishment of the WTO have found their rationale in continuous dialogue with a purpose to agree on how to free world trade for mutual benefit.

2.3.2 Trade Liberalization in WTO

United Republic of Tanzania acceded to the WTO following its acceptance of the Marrakech Agreement Establishing the WTO effective 1 January 1995. Membership commits it to liberalize its trade in compliance with the Uruguay Round Agreements (see Annex IV for a discussion of some of the implications of the obligations assumed by United Republic of Tanzania in becoming a WTO member). United Republic of Tanzania made its liberalization commitments in the WTO and expects to benefit from the commitments of others, which are organically embedded in the WTO agreements.

The objective of WTO "is to create a liberal and open trading system under which business enterprises from its member countries can trade with one another under conditions of fair and undistorted competition". This objective is achieved through the application of various rules/disciplines.

(a) Protection of domestic industry through tariffs

While recognizing the need for countries to protect domestic production against foreign competition and raise fiscal revenue, the WTO requires member countries and custom territories to maintain them at low levels and avoid the use of quantitative restrictions. United Republic of Tanzania's tariff structure has a maximum of 30 per cent. The tariff structure is maintained on 0, 5, 10, 20 and 30 per cent tariff bands. Although there is much pressure to reduce the tariffs further, the Government finds this a difficult challenge as tariffs serve for much of their revenue effects than they do as trade policy instruments. For a historical review of United Republic of Tanzania's trade taxes, see annexes III and VI.

(b) Binding of tariffs

WTO members including United Republic of Tanzania are required to eliminate protection by reducing tariffs and eliminating other barriers to trade through multilateral trade negotiations (MTN's). The tariffs so reduced should be bound against further increases by being listed in each country's schedule. Such schedules are part of the WTO legal system.

The United Republic of Tanzania's country schedule is simple and it bears the following characteristics:

- Regarding MFN Tariff section 2 on Agricultural products, the tariff binding is 120 per cent and is applicable for all product items included in Annex 1 of the Agreement on Agriculture;

- Regarding MFN Tariffs section II on other products, United Republic of Tanzania schedule binds the tariffs of products as follows;

Tariff Item	Description	Bond rate of Duty	Other Duties And charged
5007.20	Silk fabrics (85% or more silk)	120%	84%
5113.10	Woven fabrics	120%	84%
8410.13	Hydraulic Water Turbines of power Exceeding 10,000kw		
8602.10	Diesel electric locomotives	120%	84%
9610.00	Dummies and other lay figures	120%	84%
9706.00	Antiques of age exceeding 100 years	120%	

- Regarding Part II on Preferential Tariff the country schedule has a nil entry. There is no preferential tariff.

- Regarding Part IV on Agricultural Products: commitments limiting subsidization (article 3 of the Agreement on Agriculture) sections 1 and 2 regarding domestic support and export subsidies the country schedule's position is as follows:

(i) Domestic Support – Such measures meet the criteria set forth in the relevant annex to the draft agreement;

(ii) Export Subsidy – The Government of United Republic of Tanzania does not grant export subsidies as indicated in article 9 of the Draft Agreement on agriculture.

c) Most Favoured Nation (MFN) treatment

This fundamental WTO principle (GATT article 1) requires WTO members to apply tariffs and other regulations to imported or exported goods without discrimination among countries. The exception to this rule involves trading among members of regional trading arrangements, the application of the Generalized System of Preferences (GSP) schemes and waivers for non-reciprocal preferential schemes like Lomé. United Republic of Tanzania as stated previously participates in regional trade agreements and benefits from GSP schemes.

(d) National Treatment

This other fundamental WTO rule (GATT article 3) prohibits discrimination between imported products and equivalent domestically produced goods in the matter of levying of internal taxes and regulations.

2.3.3 Problems in taking advantage of the Uruguay Round Agreements

Trade liberalization as discussed above is pursued to meet national development objectives. In the context of the multilateral trading system, the URAs are supposed to provide opportunity to members to increase exports abroad (market access); access to imports at a fair and reasonable price; and ensure the survival and growth of domestic manufacturing capacity, employment and domestic economic growth.

However, the capacity of United Republic of Tanzania's export sector to take full advantage of the opportunities is constrained by a number of factors in terms of (a) implementing the URAs (see annex I and Background Paper Three) and launching the necessary export supply response. In the latter respect, the following are some of the important limitations:

- Over-dependence on agricultural raw materials often in glutted international markets and suffering from rigid (inelastic) demand function;
- Lack of industrial capacity, hence lack of export supply, and heavy dependence on imports for capital and intermediate goods and a larger part of consumer goods;
- Perpetual balance of payments problems arising mostly from a yawning trade deficit;
- Collapse of domestic industry arising from dumping and a corrupted control system. Products in question are textile, footwear, garments, chemicals / medicaments, cars, etc.
- Quality demand from advanced countries often insisting on high standards and production techniques out of reach of United Republic of Tanzania producers.
- Inarticulate financial sector divorced from world financial systems which has no aptitude in domestic financing coupled with expensive credit supply to domestic businessmen. In effect the deposit rate is unattractive (5%) and the lending rate is discouraging (24-25%);
- Rundown infrastructure creating difficulties in the supply of water, power and communication by road, air and water;
- Technological backwardness impinging on the levels of productivity and quality of products. Even more precarious are the levels of foreign investments (FDI) inflow into the country;
- Untrained manpower incapable of manning major technical, scientific, managerial and services capacities for industry;
- Individual trading companies are not involved in the negotiations for the better terms of the trade they deal with. As a result most agreements lack contribution from business enterprises and anticipated effects are often unrealistic.

2.3.4 Export Sector Response to Trade Liberalization

When one looks at United Republic of Tanzania's international trade, imports have been raising while exports have been declining over the years. The deficit has been constantly between \$400 million and \$700 million (at an average of \$500 million) per year.

(a) Agriculture Exports

The reason for this permanent deficit situation is mainly derived from the fact that United Republic of Tanzania depends almost entirely on traditional cash crops for which the international market price suffers from fluctuations depending on the forces of supply and demand. The price for commodities have been low and sometimes declining.

On the production side of the traditional cash crops for exports, the volumes have been declining because of lack of power, poor farming techniques, poor delivery to market from production sites due to poor roads while in some places there are no roads at all to transport commodities. About 40 per cent or more of the farmers crop rots during the heavy rainy season either for being stored in the open air or leaking store roofs. In addition to this, the crop gets eaten by termites and decline, in weight on account of warm/hot weather conditions. Whatever is put on trucks for export suffers from heavy spillage while on transit because of poor truck conditions and poor handling at the port while being loaded on ships.

The cost of production, transportation, taxes and levies added to the losses related to the conditions mentioned above, the cost per kilogram or per metric ton is about twice the price offered by the international market at FOB prices. Overall, the quality of commodities – coffee, cotton, sisal, tea, etc – is poor and therefore attracts lower prices. In addition to all these factors, farm productivity per acre is almost the lowest in Africa. For example in the case of cotton, West Africa and Zimbabwe, where they also grow non-irrigated cotton, yields are 50 per cent to 150 per cent higher than in United Republic of Tanzania. This suggests work is needed on seed quality and availability of fertilizer and pesticides.

Although 97 per cent of United Republic of United Republic of Tanzania’s cotton is exported, it only represents a small percentage of the total world production, sand must accept the current market price. The quality of cotton produced here is generally good and there are possibilities to sell more. The question is how to make production profitable for all the stakeholders concerned. What is true for the cotton situation also applies to the rest of United Republic of Tanzania’s crops sold in the world market.

In addition to poor farm productivity, out of the total arable land available, only 8 per cent is put under cultivation. Therefore, even with the low farm productivity and low price, United Republic of Tanzania could increase in volume and value the commodities sold in the world market.

In order to become a net exporter of farm produce, it should, in addition to the broad measures mentioned in the previous section, do the following:

(i) Improve yield per acre to reach the level of international yield standards;

(ii) Improve the quality of seeds with high yield;

(iii) Apply modern technology and scientific approach to farming;

(iv) Improve the storage and transportation infrastructure to make them cost effective;

(v) To reduce losses, arising from spoilage by weather and termites;

(vi) Give appropriate incentives to the farmers.

Besides producing traditional crops and commodities as a matter of urgency, United Republic of Tanzania should engage in the production of organic foods, which have higher demand in the world especially in the developed countries where prices are high. In order to be successful and produce good quality organic foods, it is necessary to apply modern farming techniques. The research institutions associated with agriculture should be well equipped to conduct research programmes and to have modern facilities to disseminate research findings to the farmers. In the case of arid areas where rain is scanty, techniques of harvesting, capturing and saving water during the rainy seasons, from mist and clouds should be applied to get water for irrigation of small farm organic foods designated for the export market. In addition to this, it should be noted that United Republic of Tanzania has large water resources from the inland rivers, springs, lakes and ocean. The conservation techniques to conserve and to get maximum utility from these water resources should be put into use. The packaging industry for organic foods should be designed to match the international standards. These measures specific to export commodity development are essential in order to facilitate the exploitation of the potential benefits that can accrue to the agriculture sector from trade liberalization. International assistance should be sought to supplement that national effort in this regard.

(b) Manufactured exports

United Republic of Tanzania has the resources to produce manufactured goods for export but lacks the appropriate technology to achieve high quality production of industrial products under very competitive prices in the market. Yet it is important to participate in the world market for manufactured products as these are among the more dynamically growing exports.

Possible solutions in this regard include the following:

- Look for strategic investors from the countries who have the appropriate technology to manufacture whole or components of these products under license;

- Upgrade the local industrial establishments using very old technology to be replaced with modern technology for quality and quantity production for the export market;

- Elaborate an industrial policy that should encourage large manufacturing establishments to subcontract component production requirements to SMEs as part of an export order. This will facilitate transfer of technology from the bigger firms to the smaller firms;

- Ensure and target investment to train skilled and professional personnel to improve human resources capacity together with the attendant institutional capacity.

c) Export of Services

This area is the most under developed sector of the economy. Yet it is extremely important as a facilitator to the other economic sectors that are engaged in production and in the delivery of products and services to the export markets. This is a potential economic sector which should given much attention and development to match the needs of change in technology and markets. With a view to progressive aggressively into this sector, a national programme on services development including trade in services should be elaborated by the Government and implemented with technical and financial support from international agencies such as UNCTAD, WTO and ITC.

(d) Key Sectors Contribution to Future Growth

While all export sectors will benefit from the recommendations put forward in United Republic of Tanzania Export Development Strategy and Action Plan, some sectors clearly have the potential to grow at a more rapid pace than others. In particular, it is believed that the potential to expand and diversify exports is substantial in the areas upon which the aforementioned growth projections are based, also taking into account the opportunities that could be exploited from the multilateral trading system (see also annex VII).

In agriculture, for instance, United Republic of Tanzania's natural endowments could be utilized more efficiently and yield a better return if a number of the initiatives proposed in the strategy were implemented. These initiatives include, among others, more conducive land polices to attract new export related investments, including FDI; modernized commercial law to enable FDI to form new strategic alliances and partnerships with indigenous firms; alignment of environmental policies with the export objective; better targeted and more market oriented R&D in order to diversify products; and, upgraded infrastructure to enable exporters of agricultural products to improve their yields and product deliverability.

In horticulture, the export strategy will enable Tanzanian exporters to take advantage of the comparative climate advantages in producing various exotic products in demand in overseas markets. In addition, the recommendation put forward in the Action Plan to better utilize agreements to assist exporters and to utilize the Tanzanian Embassies and overseas networks is expected to particularly benefit Tanzanian horticulture exporters who are already facing unfair trade practices and non-tariff barriers in European Union markets.

In tourism, the export strategy recommendations would enable indigenous tourism operators access to financing; to form strategic alliances with overseas operators; to access the Business Support Services Fund; to seek consulting assistance; and to explore franchising initiatives to help create linkages between smaller and larger enterprises and to provide the basis for franchised "business format" growth of indigenous service firms. Significant potential export growth may also be possible in other services sectors including transit trade, consultancy, banking, and insurance.

In manufacturing, garments, leather, footwear and other sectors could easily attract FDI, if serviced-land were available, and could take advantage of United Republic of Tanzania’s natural endowments and low cost structure, could lead the way for further expanding exports. The introduction of EPZs and the provision of serviced land is expected to "jumpstart" the acceleration of manufacturing growth and to attract FDI with market linkages. Recommendations put forward in the Action Plan to develop firm-level capacity through education, export skills development, product development and adaptation, will also be instrumental in increasing manufactured product growth potential. Institutional strengthening, particularly of such organizations as the Tanzania Bureau of Standards will also play a critical role in helping exporters of manufactured goods to meet high quality standards which are increasingly becoming important in meeting the foreign competition.

In the area of gemstones, there are two key recommendations that should lead to realizing further export growth and diversification potential. These include controlling smuggling of gemstones and upgrading the capacity of small-scale miners by organizing them; and providing them with needed facilities to encourage value-added processing. In the area of minerals, the various policy, institutional, infrastructural, and capacity recommendations put forward in the Action Plan should enable Tanzanian exporters to take greater advantage of endowments in industrial minerals such as kaolin, diatomite, nickel and cobalt.

Significant potential export growth may also be possible in the areas of marine resources, and forestry products.

2.4 Conclusion

Overall the Government's aim was to raise the GDP growth to about 5 per cent during the Economic Recovery Programme. Although the GDP growth threshold for the elimination of poverty is estimated at 8 per cent per annum, in reality with the population growing at 2.8 per cent per annum, coupled with a huge debt burden close to $9 billion, the GDP growth rate should be pegged at above 10 per cent annually. The impact of the liberalization efforts has been below expectation due to structural and weather conditions.

In addition the global market place has not been friendly to domestic economic activity especially as regards:

- Primary commodity prices oscillating downward;
- Debt servicing obligations became a heavy burden to the small productive commercial sector of the economy;
- Foreign Direct Investment has not been as forthcoming as anticipated on account of investment risk related to unclear investment policy in terms of financial, legal, infrastructural and skilled labour perspectives.

In agriculture, although liberalization of the marketing systems is already exerting a significant impact for a relatively greater supply of cashew nuts, cotton, tea and a number of food crops, efforts have yet to be made to promote investment into large scale agriculture production – mostly for coffee, sisal, tobacco, tea and food crops. The mining sector is expected to grow rapidly as a result of new investments now being implemented. This sector along with the tourism sector is among the fastest growing in the economy and the first to record gains from economic liberalization in terms of output growth and export earnings.

How does the above-discussed policy of liberalization affect enterprises? There are several positive points. To the extent that competition enhances productive and allocative efficiency, its long-term benefits are expected to maximize economic and social welfare. In particular, structural adjustment processes in general and competition in a liberalized economic regime in particular has the potential, in the long-term, to facilitate the opening up of new production opportunities for enterprises, especially when considered against the background of past restrictions on domestic and external trade and price controls. The highly regulatory economic policies that were adopted during the pre-liberalisation period principally explained the low productivity of the economic sectors. Hence, a shift from government regulation of the economy to a more market-based and competitive policy regime would necessarily create the much sought after enabling environment that would ultimately free productive resources to respond competitively to market signals. A more market-based policy climate should, thus, be seen as essential for the development of productive enterprises.

In theory, deregulation-cum-competition that United Republic of Tanzania has adopted contributes to the development of enterprises at two levels, namely: (i) productive gains through improved efficiency; and (ii) lateral expansion due to the enabling environment created for the establishment of enterprises. These two benefits are derived from such liberalization policies as the relaxation of protracted investment approval procedures, price decontrols and freeing of labour market regulations.

The open competitive trading system has resulted in the availability of, and/or easier access to, better quality inputs which should allow enterprises to improve and diversify their areas of activities, thus, creating new production opportunities for the sector. This would also allow for easier adjustment to changed market conditions.

Notwithstanding the above advantages that are associated with liberalization, there are still a number of outstanding challenges. At the macro level and in the transitional, short-term, a number of factors and elements must be in place in United Republic of Tanzania, as in other LDCs, to facilitate the anticipated economic efficiency gains emanating from competition enhancement. Some of these elements are: (i) the existence of a fairly developed market (as opposed to "*imperfect market*"); (ii) the presence of a well-developed private sector with entrepreneurs that have the capacity to respond promptly to market signals; (iii) the existence of regulatory and legislative atmosphere, including enforcement capacity, that provides the needed regulations; and (iv) economic stabilization that induces relatively efficient operation of the privatised enterprises.

In United Republic of Tanzania, the above pre-requisites for the maximization of benefits from competition are hardly developed and the expected responses to free market-induced changes are often not forthcoming. Entrepreneur development is still in its infancy; the markets are often imperfect in important respects; the legal and regulatory infrastructure that safeguards competitiveness is still undergoing development and refinement amidst institutional and human resource capacity limitations; and economic stabilization still remains illusive despite externally-supported structural adjustment.

In addition, there are still weaknesses in the competition law, compromising the development and consolidation of enterprises. The conditions under which enterprises operate in United Republic of Tanzania today demand that the legal and regulatory regime has to recognize their particular circumstances and offer some preferences if their productive capacity is to be enhanced, in the short-term, so that they become competitive, in the medium- to long-term.

Under these conditions, it can be observed that although the long-term benefits of the policy of liberalization are clear, the short-term adverse effects of a comprehensive exposure to full-scale competition (that includes competition with in-coming imports) have remained a major challenge for United Republic of Tanzania. In light of this realization, there is growing recognition that the process of creating a fully-fledged competitive market would take time especially under conditions where private sector development, has been characterized in the past by an inhospitable policy environment. Enterprises' income levels have generally remained low and many of them are actually closing down due to the fact that liberalization has entailed sudden increase in input expenditure almost across the board following Government withdrawal from the provision of inputs and credit facilities. Although the withdrawal by the Government of the United Republic of Tanzania from the delivery of credit is understandable in a country that is passing these responsibilities to the private sector, this has led to a crisis especially given the slow response from the still budding private sector to fill the void left open by the retracting State. This is a development that has resulted in the cost escalation of vital inputs for enterprises.

From the above analysis, it is clear that, presently, the conditions are evidently uncertain regarding the degree to which purely market forces and the enhancement of competition, at least during the transition, would alone automatically improve enterprises' productivity.

CHAPTER 3

DEVELOPMENTS AFFECTING MARKET ACCESS CONDITIONS AND TRADING OPPORTUNITIES

3.1 United Republic of Tanzania's Trading Potential in the MTS[4]

Economic growth in United Republic of Tanzania (as in Kenya and Uganda) declined in 1997 compared to the previous year largely due to poor agricultural performance following the drought situation in the East African sub-region (Table 3.1). In addition, the limited size of domestic markets and import dependence (intermediate and capital goods) limits the export capacity of United Republic of Tanzania. International competitiveness has also affected the performance of the Tanzanian export sector.

In order for United Republic of Tanzania to improve its export competitiveness, higher investment levels are required. The introduction of trade liberalization (as a sure way of correcting price distortions and the misallocation of resources) has so far failed to transform the export sector. This deficiency in the export sector has also been worsened by the under-capitalization of the productive sector, leading to low productivity.

Table 3.1: Output growth (1990-1997) per cent change over the previous year

Country	1990-95	1995	1996	1997
Kenya	1.6	4.4	4.3	2.0
Tanzania	4.1	3.8	4.2	4.1
Uganda	7.5	9.6	9.4	4.2

United Republic of Tanzania has very different patterns of export destinations as compared to its neighbours, so the changes in trade policy which have occurred from the Uruguay Round and since, will affect them differently. Exports are divided evenly between developed and developing countries. (see table 3.2) Exports to developed countries are principally to the European Union, but this share has been falling (in contrast to other East African countries). Another important developed partner is Japan. In contrast to both Kenya and Uganda, United Republic of Tanzania's principal developing country partners are in Asia, again in South Asia, but including India as well as Pakistan. Its only important African partner is Rwanda. United Republic of Tanzania's exports to developing countries have been rising (annexes VIII, IX and X).

[4] This section uses sources from (1) CBI News Bulletin (various issues, 1997, 1998, 1999), (2) UNCTAD, The Least Developed Countries Report, 1997, and (3) UNCTAD. Trade and Development Report, 1998.

Table 3.2: Destination of Exports 1990, 1995, and 1996 ($ million)

	Kenya			United Republic of Tanzania			Uganda		
	1990	1995	1996	1990	1995	1996	1990	1995	1996
Exports									
Total	1,120	1,952	2,203	416	726	805	181	533	559
Percentages									
to Developed	42.4	47.3	46.3	53.5	43.8	39	89.5	86.8	82.1
EU	37.3	38.4	38.4	40.4	31.4	27.8	74.6	79.0	72.6
US	2.5	5.0	4.6	6.7	3.0	2.2	7.7	2.3	2.7
Japan	1.0	1.5	1.1	3.8	8.1	7.3	3.3	1.9	1.8
to Developing	50.4	47.5	48.3	43.9	48.3	52.8	10.5	13.2	17.9
Africa	37.6	31.0	32.1	8.6	14.3	14.8	5.2	2.1	2.4
Kenya	0.0	0.0	0.0	2.9	1.5	1.6	0.0	1.3	1.6
Tanzania, U.R.	2.0	7.1	7.3	0.0	0.0	0.0	0.6	0.4	0.4
Uganda	17.0	8.7	9.0	1.0	1.1	1.2	0.0	0.0	0.0
Rwanda	6.7	1.7	1.9	0.0	5.0	5.3	1.7	0.2	0.2
Asia	7.8	9.9	9.0	32.0	27.3	30.4	1.2	2.7	2.8
India	0.9	0.7	0.7	16.6	8.0	9.1	0.0	0.0	0.2
Indonesia	0.0	0.2	0.2	1.0	2.3	2.4	0.0	0.2	0.2
Malaysia	0.4	0.4	0.5	0.0	0.0	0.0	0.0	0.2	0.0
Pakistan	5.4	5.7	4.5	0.7	3.0	6.0	0.0	0.6	0.4
Taiwan province of China	0.0	0.1	0.0	4.1	3.3	2.6	0.0	0.0	0.2
Middle East	3.6	6.0	6.5	1.4	5.0	4.9	2.4	1.7	1.9
Egypt	1.3	3.7	3.8	0.5	0.3	0.2	1.7	1.1	1.3

Source: IMF, *Direction of Trade Statistics*, 1997

The performance of other East African countries shows interesting contrasts to that of United Republic of Tanzania. Kenya's export destinations are similar as they are also divided fairly evenly between developed and developing countries. Its exports to developed countries are principally to the European Union, but there is also a significant share (7 per cent in 1996) to the United States; this means that its share to the European Union is only just over one-third. Most of its exports to developing countries go to Africa; its EAC partners are the only countries with shares of more than 5 per cent (the cut-off for inclusion in the table), and the other markets are widely distributed, including Ethiopia, Mauritius, Rwanda, Somalia, South Africa, and Sudan. Exports to Asia are significant, especially to Pakistan. Uganda is dissimilar, with more than 80 per cent of its exports going to developed countries and more than 70 per cent to the European Union. Unusually, its major developing partners are in Eastern Europe.

Food items remain the principal export in United Republic of Tanzania as in Kenya and Uganda, although the latter has a much higher share (table 3.3). These food items are mainly tea and coffee (table 3.4). Manufactures occupy only a small share as compared to other developing countries. Fibres, yarn, and clothing are significant for United Republic of Tanzania (as well as for Kenya and Uganda).

Table 3.3: Composition of Exports (percentages)

	Kenya		Tanzania	Uganda
	1980	1990	1980	1980
Major divisions				
Food				
Agricultural raw materials	43.8	49.1	58.1	95.8
Fuels	8.1	5.6	17.5	2.3
Ores and metals	33.4	13.1	4.7	0.5
Manufactured goods	2.5	2.9	5.4	0.5
Chemicals	12.1	29.2	14.1	0.7
Machinery and transport	3.1	4.1	0.7	0.1
Other	0.6	10.3	0.6	0.1
Other	8.4	14.9	12.9	0.5
	0.1	-	0.1	0.1
Principal sectors				
Petroleum products				
Textiles and clothing	33.4	13.1	4.7	-
Metals	3.2	5.3	24.1	2.1
Machinery	1.4	3.7	0.7	0.3
Non-electrical				
Electrical	0.2	2.6	-	0.1
Transport	0.2	1.9	0.5	-
	0.2	5.8	-	0.1

Source: UNCTAD, Handbook of International Trade and Development Statistics 1995, Geneva, 1997.

Table 3.4: Principal exports 1993-1994 (percentage)

	Share in country's exports	Share in developing country exports	Share in world exports	Share in exports to EU (1995)
Kenya				
All commodities	100.0	0.15	0.04	
074 Tea and mate	24.64	18.98	15.56	21.77
071 Coffee and substitutes	17.56	3.04	2.39	31.20
292 Crude veg. materials nes	7.36	3.49	0.87	15.80
334 Petroleum products, refin	4.52	0.18	0.08	
058 Fruit preserved, prepared	3.88	1.59	0.57	6.42
054 Veg etc fresh, simply prsvd	3.40	0.85	0.25	9.95
034 Fish, fresh, chilled, froz	3.22	0.84	0.27	2.84
897 Gold, silver ware, jewellery	2.99	0.68	0.24	
611 Leather	2.76	0.82	0.35	
661 Lime, cement, bldg prods	2.46	1.56	0.41	
056 Veg etc, preserved, prepared				2.46
057 fruit, nuts, fresh, dried				2.39
United Republic of Tanzania				
All commodities	100.00	0.04	0.01	
071 Coffee and substitutes	20.52	0.90	0.71	42.80
263 Cotton	18.39	1.58	0.83	
057 Fruit, nuts, fresh, dried	8.44	0.34	0.14	
682 Copper exc. cement copper	4.84	0.23	0.07	
121 Tobacco unmnfctrd, refuse	4.80	0.64	0.35	
074 Tea and mate	4.16	0.81	0.66	2.11
054 Veg etc fresh, simply prsvd	2.81	0.18	0.05	3.47
667 pearl, prec-, semi-p stone	2.53	0.12	0.03	5.49
036 Shell fish fresh, frozen	2.49	0.09	0.06	2.46
657 Special textile fabric, prods	2.43	0.21	0.06	2.36

	Share in country's exports	Share in developing country exports	Share in world exports	Share in exports to EU (1995)
846 Undergarments, knitted				7.03
034 Fish, fresh, chilled, frozen				5.99
061 Sugar, honey				5.13
292 Crude vegetable material nes				3.37
689 Non-ferrous base metals nes				2.78
714 Engines and motors nes				2.77
072 Cocoa				2.01
Uganda				
All commodities	100.00	0.03	0.01	
071 Coffee and substitutes	77.33	2.71	2.13	90.44
211 Hides, skins, exc. furs, raw	5.54	2.52	0.33	
034 Fish, fresh, chilled, froz	3.71	0.20	0.06	6.21
263 Cotton	3.15	0.22	0.11	
121 Tobacco unmnfctrd, refuse	1.88	0.20	0.11	
222 Seeds for "soft" fixed oil	1.58	0.14	0.04	
035 Fish salted, dried, smoked	0.91	0.58	0.11	
054 Veg etc fresh, simply prsvd	0.80	0.04	0.01	
074 Tea and mate	0.66	0.10	0.08	
292 Crude veg materials nes	0.55	0.05	0.01	
Remainder	3.90			

Source: UNCTAD, *Handbook of International Trade and Development Statistics 1995,* Geneva, 1997; CREDIT, *Study on the Economic Impact of Introducing Reciprocity into the Trade Relations between the EU and EAC Countries*, 1998.

Other important Tanzanian export products are fruits, nuts, vegetables, copper, tobacco, fish, jewellery, spices and a new export, seaweed (eucheuma cottonii and eucheuma spinosum), a source of a gum used in foods. The other products important for Kenya are vegetables, fruits, and other foods, petroleum products, fish, leather, jewellery, and building materials. Important Ugandan exports include: hides, fish, tobacco, and vegetables. Other non-traditional exports it is trying to promote include: nuts, fruits, spices, essential oils, flowers, and silk (WTO, Uganda, 1997). United Republic of Tanzania (as well as Kenya and Uganda) is thus (in terms of the analysis of chapter 1) still at the stage where most developing countries were in the 1960s or 1970s, - outside the main area for international trade negotiations and reform, except in so far as agriculture is coming on to the agenda. But the important share in world trade represented by Kenya's tea and coffee means that in cooperation with United Republic of Tanzania and Uganda, it has a potential negotiating role as a principal supplier. Kenya and United Republic of Tanzania also have successfully developed an horticultural export sector.

United Republic of Tanzania should note that generally, products exported from developing countries such as yarn, blouses and shirts, cotton fabric, bicycles, lighters, photo albums, welded tubes, finished leather and alarm clocks are affected by anti-dumping duties in the European Union. Exporting companies from the East African sub-region should avoid markets that are already dominated by large multinational companies as well as selling direct to the user industry as quantities are low and costs high. Promising entry is through an agent or importer/agent.

3.2 Opportunities arising from the Uruguay Round Agreements

The average MFN tariff duty (the rate applied to countries not receiving regional or preferential arrangements) reduction on industrial products in the Uruguay Round by developed countries was 2.4 percentage points (i.e. from an average of 6.3% to 3.9%). In the case of developing countries the average MFN tariff reduction was about 2.5 percentage points, and in the case of LDCs such as United Republic of Tanzania it was about 1.7 percentage points (table 3.5).

The new market access openings provided by developed countries are not directly applicable to developing country exports, because on most products in most markets, both developing and least developed countries enjoyed better access conditions under preferences, such as the GSP or the Lomé Convention. In fact, United Republic of Tanzania and other developing countries may be worse off . The reduction in the MFN rate reduces the value of the preferences, as these are normally 0 (the usual Lomé preference), a flat rate lower than the MFN (the GSP), or a percentage of the MFN rate (the current European Union's GSP, for example). In all cases a reduction of the MFN rate reduces the difference between preferred and "un-preferred" suppliers and thus increases the competition that is now being faced by the preferred suppliers in the European Union. The preferences though for the time being remain significant in some sectors such as textiles and clothing and certain agricultural products.

Table 3.5: MFN tariff reductions offered by the developed countries in percent (manufactures excluding petroleum)

Product Category	Average Tariff		
	Pre-Uruguay Round	**Post-Uruguay Round**	**Reduction**
All excluding petroleum	6.3	3.9	2.4
Textiles and clothing	15.5	12.1	3.4
Metals	3.7	1.5	1.7
Minerals, precious stones and metals	2.3	1.1	1.2
Electric machinery	6.6	3.5	3.1
Leather, rubber, footwear, travel goods	8.9	7.3	1.6
Wood, pulp, paper and furniture	3.5	1.1	2.4
Fish and fish products	6.1	4.5	1.6
Non-electric machinery	4.8	2.0	2.9
Chemicals and photo. supplies	6.7	3.9	3.0
Transport equipment	7.5	5.8	1.7
Manufactured goods nes	5.5	2.4	3.1

Source: Page, Davenport 1994

3.2.1 Changes in market access

In manufactures, the principal changes were in textiles and clothing, machinery, miscellaneous manufactures, chemicals and wood (table 3.6). Only textiles are of interest to United Republic of Tanzania, and then only in the United States market (Lomé exempts United Republic of Tanzania from tariffs, and Japan's GSP covers textiles and clothing, the United States GSP does not include textiles and clothing). If there is any effect from the other regions, it would be negative from loss of preferences (see some estimates provided in table 3.7).

Table 3.6: Industrial products, changes in export value, excluding textiles and clothing ($ million)

	Metals Minerals	Wood Paper	Leather footwear	Chemicals	Elec. equip	Nonelect. mach.	Trnspt equip	Other industrial	OECD Imports 1992	Shift + creation	Change in value
Share in OECD imports, %											
ACP	6.3	1.4	0.4	0.9	0.1	0.0	0.1	0.4			
Other developing	38.8	16.1	36.2	11.7	27.0	13.3	5.3	17.1			
MFN countries	54.9	82.4	63.5	87.4	72.9	86.6	94.6	82.5			
Change in:											
World price	1.7	2.3	1.5	2.6	2.9	2.7	1.6	2.3			
EU price	-0.4	-0.6	-0.4	-0.7	-1.3	-1.0	-0.4	-1.0			
Trade shift from:											
ACP (a)	-0.9	-2.0	-2.1	-4.0	-4.1	-3.5	-2.3	-3.2			
Other developing (b)	-0.0	-0.4	-0.3	-0.3	-1.3	-2.0	-0.5	-0.8			
Trade creation (c)	0.5	0.8	1.0	1.9	1.5	1.6	1.2	1.2			
Kenya	-0.2	-0.1	-0.0	-0.4	-0.3	-0.3	-0.0	-2.7	107	-3.1	-4.0
Tanzania	-0.5	-0.1	-0.0	-0.0	-0.0	-0.1	-0.0	-0.5	61	-1.0	-1.4
ACP (66)	-86.1	-42.7	-7.2	-39.4	-15.9	-5.5	-12.1	-116.3	12766	-247.8	-325.2
Africa	-1237.8	-50.5	-8.9	-41.0	-30.5	-18.2	-19.6	-219.6	20300	-399.3	-526.1
Latin America	139.2	13.7	15.8	38.5	-26.1	-63.3	47.1	0.8	46450	-335.9	165.6
South Asia	37.8	0.3	9.2	4.3	-0.4	-3.0	1.1	4.3	9207	-42.7	53.7
Other Asia	17.2	3.6	55.8	18.6	-16.7	-22.7	3.0	28.9	44739	-361.4	87.6
ASEAN	44.0	26.8	19.2	5.7	-34.5	-51.9	2.4	16.8	46506	-436.5	28.5
NIEs Asia	32.7	9.0	53.9	27.3	-68.8	-325.2	29.5	49.4	118181	-1381.3	-192.4
Developing Countries	291.4	15.0	94.7	67.1	-152.1	-473.4	81.3	-8.0	329077	-3061.0	-213.0
Least developed (d)	-51.2	-6.2	-0.1	-8.7	-2.0	-1.8	-5.9	-34.7	4277	-86.3	-110.6

(a) as % ACP exports (b) as % other developing country exports (c) as % OECD imports (d) least developed exclude Bhutan, Kiribati, Myanmar, and Samoa

Table 3.7: Tropical products, changes in export revenues (US $ million)

	Coffee	Tobacco	Other tropical (d)	Fish	OECD imports 1992	Volume change	Change in value
Share in EU imports %							
ACP	33.2	6.9	12.5	3.4			
Other developing	66.8	6.3	12.4	24.6			
Developed Countries	0.0	86.9	75.1	72.0			
Change in:							
World price	-1.5	-1.9	1.4	0.9			
EU price	-3.8	-2.7	-1.5	-1.6			
Trade shift							
ACP (a)	1.5	2.8	2.3	1.7			
Other developing (b)	-0.7	-0.5	-0.8	-0.1			
Trade creation (c)	0.7	2.0	1.7	1.5			
Kenya	-7.6	-0.3	-11.6	-1.0	497.4	-10.2	-20.5
Tanzania, U.R.	-3.4	-1.0	-0.7	0.0	114.1	-1.9	-5.2
Uganda	-7.5	-0.3					
ACP (66)	-54.8	-37.9	-43.2	-13.8	5159.8	-83.2	-176.7
Africa	-49.6	-30.4	-48.5	-20.7	4005.4	-85.7	-177.1
Latin-America	10.8	18.1	39.4	13.3	11485.9	92.5	112.0
South Asia	0.2	2.3	1.3	0.4	306.8	1.8	4.8
Other Asia	0.1	0.8	11.7	5.5	2441.2	23.0	9.4
ASEAN	0.1	4.4	8.7	15.0	6213.6	38.1	36.5
NIEs Asia	0.0	1.7	46.5	20.7	5869.8	16.1	66.0
Developing Countries	-38.4	-3.0	60.2	34.6	30394.6	86.0	53.2
Least Developed	-28.1	-19.0	-8.8	-2.7	1367.6	-25.0	-60.9

Note: (a) as % ACP exports (b) as % other developing country exports (c) as % OECD imports (d) excluding also cocoa and vegetable oils.
Source: Page, Davenport, 1994.

In agriculture, the average tariff cut was more than one third, on much higher tariffs, but the tariff cuts on temperate food products tended to hurt food importing countries including United Republic of Tanzania (because the reform of the agricultural policies led to increased prices for non-United States, non-European Union producers, and therefore increased costs for importers), while the MFN tariff cuts for fruit and vegetables reduced the value of their preferences and increased the competition faced from other exporters of similar products. On tropical beverages, most developed countries had 0 tariffs, at least on unprocessed forms, before the Uruguay Round. The exception was the European Union which had duties on coffee at 5 per cent MFN and 4.5 per cent GSP to give a margin of preference to the ACP countries which paid 0 tariffs (table 3.7). These were removed in the Round, eliminating the value of the preference. United Republic of Tanzania (as well as Kenya and Uganda) is expected to lose export share because of this (table 3.8).

Table 3.8: Effects of changes in the Trade regime on Access by Product

Measures Products	Share in exports	Uruguay Round tariffs		MFA	LLDC	Asian Crisis	Env. Prod	Excise	New Round	Post-Lome
		Developed	Developing							
Coffee, Tea										
Kenya	42.2	-				-				-
Tanzania, U.R.	24.7	-				-				+
Uganda	78.0	-				-				+
Tobacco										
Tanzania, U.R	4.8							-		
Uganda	1.9							-		
Petroleum Products										
Kenya	4.5					-		-		
Machinery, transport, metals										
Kenya	10.3	-	+		-	-				
Tanzania, U.R.	4.8	-	+		-	-				
Clothing, text										
Kenya		+	+	-		-				
Tanzania, U.R	2.4	+	+	-		-				
Uganda		+	+	-		-				
Veg oils, etc										
Kenya	7.4	-	+		-				-	-
Uganda	2.1	-	+		-				-	+
Cotton										
Tanzania, U.R.	18.4	+	+	+	-	-				
Uganda	3.2	+	+	+	-	-				
Fruit, veg, flowers										
Kenya	7.3	-			-		-			-
Tanzania, U.R.	2.8	-			-		-			+
Uganda	0.8	-			-		-			+
Nuts, honey, spices, essential oils										
Tanzania	10.0	-			-		-			+
Uganda		-			-		-			+
Seaweed										
Tanzania, U.R.		-			-		-			
Fibres, sisal										
Tanzania, U.R.		-			-		+			
Fish										
Kenya	3.2	-	+		-	-	+			-
Tanzania	5.0	-	+		-	-	+			+
Uganda	4.6	-	+		-	-	+			+
Hides, leather, footwear										

Measures Products	Share in exports	Uruguay Round tariffs		MFA	LLDC	Asian Crisis	Env. Prod	Excise	New Round	Post-Lome
		Developed	Developing							
Kenya	2.8	-			-	-	+			
Uganda	5.5	-			-	-	+			
Jewellery										
Kenya	3.0	-			-	-				
Tanzania, U.R.	2.5	-			-	-				
Building Materials										
Kenya	2.5	-			-					

There was an offsetting factor in the form of the reductions in tariffs by the developing countries, especially the most advanced. The effect of this on some countries, normally those in the same region as the liberalizing countries, could be important, but United Republic of Tanzania, Kenya and Uganda were not major exporters to any of the countries making reductions. The tariff cuts could have helped some products, however, as the major reductions were in fish and textiles (table 3.9). The only other offsetting factor to the loss of preferences was the possible increase in total demand (which could offset a loss of market share) because of the income increasing effect of trade liberalization.

Table 3.9: Uruguay Round tariff cuts by developing countries

	Average Tariffs		
	Old rate	**New rate**	**Reduction**
Non-grain crops, wool and other livestock	18.0	13.9	4.1
Coal, oil, gas & other minerals	11.5	9.5	2.0
Processed food, beverages & other manufactures	18.0	13.3	4.7
Trade and transport services	0	0	0
Utilities, construction, other private govt. services	0	0	0
Forestry products	0.1	0.1	0
Fishing products	35.2	8.1	27.1
Paddy rice, wheat and other grains	17.3	13.4	3.9
Textiles	30.3	20.3	10.0
Clothing	14.6	10.8	3.8
Chemicals, rubber	19.1	13.2	5.9
Primary iron and steel	8.7	6.0	2.7
Primary non-ferrous metals	2.7	2.1	0.6
Fabricated metal products	8.5	6.9	1.6
Transport equipment	27.2	17.3	9.9
Merchandise trade	13.5	9.8	3.7

Source*:* Page, Davenport 1994.

In addition to the tariff cuts, the Uruguay Round brought the promise of an end to the Multi-Fibre Arrangement, which had imposed quotas on textiles and clothing from the most successful developing countries since 1974 (in other forms from 1962). It had been a "permitted derogation" from the GATT rules which allowed developed countries to impose quotas unilaterally on individual developing countries at a detailed product classification. United Republic of Tanzania, Kenya and Uganda were not affected by the European Union's regime (because ACP countries were exempt) and United Republic of Tanzania and Uganda as LDCs had escaped controls from other developed countries (most of these countries avoided imposing quotas on least developed countries, unless they were major exporters like Bangladesh). Kenya, however, is controlled under the United States MFA. It remains controlled, and has also kept the right to take safeguard measure against textile imports, although this has not been used.

The Uruguay Round produced an agreement to phase out the MFA in four stages, over a 10 year period from 1 January 1995. On that date, importing countries had to remove 16 per cent of products covered from controls. On 1 January 1998, a further 17 per cent was removed. On 1 January 2002, 18 per cent will be removed, with the remaining 49 per cent freed in 2005. The combination of a choice in the first two stages of removals which concentrated on goods which were not filling their quota (so that there was effectively no liberalization) and the leaving of almost half of imports to be freed at the last stage means that the effects are still to come through – leading to fears that full liberalization may not be accomplished. The sectors still controlled, however, did have their quotas increased, at an increasing rate, during the transition. Paradoxically, United Republic of Tanzania should endeavour to maximize the use of its preferred access to European Union and other developed country markets during this transition period of 10 years in which the trade in textiles and clothing is integrated into normal WTO rules.

Estimates of the effect of removing the MFA have to answer two questions: by how much will total imports by the developed countries increase and how will the composition of suppliers change in favour of the previously controlled countries. As the United States was the most tightly controlling country (partly because of the European Union's exemptions for the ACP), its imports should certainly rise sharply (and probably change in supplier), while other developed countries are more uncertain. The estimates generally used were either an increase of 20 per cent in demand (over the 10 years, or 2 percentage points a year, if it were not back-loaded) if only the United States has a significant increase or 50 per cent if all rise significantly. Table 3.10 gives the results of these two assumptions, if there were no switch to the previously controlled suppliers. Under any of the different assumptions about the amount that could be switched back, the African countries would lose share. For United Republic of Tanzania, the high shares of unprocessed cotton would limit its loss (it could gain because of the increase in demand). The net effect is likely to be insignificant, and could be negative. Table 3.8 indicates the direction of effect for each product.

Table 3.10: Exports of textiles and clothing, 1992 (per cent)

Country	**Share in country's exports to OECD countries**		**Share in country's total exports**		**Share of country in total OECD imports**		**Effect on total exports, if finished exports rise, for all countries**	
	Clothing	All textile products	Clothing	All textile products	Clothing	All textile products	At 2%	At 5%
Kenya	3.04	5.28	1.84	3.20	0.02	0.02	0.43	1.24
Tanzania	2.17	20.03	1.33	12.30	0.01	0.03	0.34	0.99
Uganda	0.26	6.85	0.25	6.52	0.00	0.00	0.05	0.15
Africa	6.10	8.05	5.15	6.80	4.13	3.14	1.15	3.29
Sub-Saharan	2.26	4.26	1.57	2.96	0.89	0.97	0.35	1.00
Asia	15.42	20.04	8.82	11.46	44.81	33.53	2.06	5.91
Latin America	4.49	6.18	3.68	5.07	4.88	3.86	0.87	2.50
Middle East	1.56	2.97	0.89	1.70	1.14	1.25	0.21	0.61
Total non-OECD excluding E. Europe	10.03	13.29	6.34	8.39	56.98	43.42	1.47	4.23

***Source*:** Page, Davenport 1994

(a) Traditional export commodities

Tropical beverages (coffee, cocoa and tea) are not import-competing products in the developed countries and their market access conditions were already relatively good before the conclusion of the Uruguay Round. But the fall in real world market prices largely because of a sizeable potential for increased output in major producing countries in the face of relatively inelastic import demand. This trend is likely to continue.

Global demand for the agricultural raw materials such as natural fibres has been weak for the past two decades. The commodities are suffering from competition of synthetic substitutes. However, with increasing consumer awareness of environmental issues, they have the advantage of being "natural" products and therefore the demand for them should hold up better. With virtually no or very low import duties, in most of the major markets, the direct impact on any further tariff reductions on these raw materials will be small. The demand for cotton is expected to be boosted with the lifting of the Multi-Fibre Arrangement (MFA) by 2004. Several LDCs, especially those in West, Central and East Africa could benefit from this in the United States market in particular as well as those LDCs that are not beneficiaries of the Lomé Convention in the European Union market.

The banana market is demand-driven, with very few import barriers in major importing countries other than the European Union, where imports are regulated through tariff quotas. As regards sugar, the Uruguay Round did not drastically change the import regimes in the European Union. Nontheless world market prices are projected to rise somewhat mainly because of increased demand for sugar in developing countries.

(b) Non-traditional commodities

Trade in several non-traditional commodities such as fruits and vegetables have increased relatively in recent years. This trend is expected to continue due to trade liberalization and the continuation of income growth over the medium term. Under GSP and Lomé Convention, United Republic of Tanzania and other LDCs have preferential access. For most traditional primary agricultural commodities, notably tropical beverages and agricultural raw materials, the extent of tariff preferences is low since imports in developed country markets are either free of duty or subject to very low tariffs. For these commodities, United Republic of Tanzania and other LDCs would have to compete for market shares in developed countries on an equal basis with non-LDC exporters. But for sugar and bananas, preferential margins for those that have market access will continue to remain high under present import arrangements.

However, there is likely to be a shift in the location of production as competition intensifies among exporters in a global trading environment. Thus, the challenge facing United Republic of Tanzania and other LDCs is to improve their competitive position by overcoming supply-side and other related constraints. Although traditional exported primary commodities suffered from slow growth in world import demand and secular declines in real world prices, non-traditional agricultural exports are becoming more important. Another potentially beneficial effect of the Uruguay Round for the development of value-added industries in the LDCs is the reduction in tariff escalation. Tariffs that have been higher on processed agricultural products than on primary commodities have been reduced although the problem remains in many product sectors such as coffee.

3.2.2 Developments affecting market access in post-Uruguay Round

The discussion in this section of factors affecting market access opportunities generated by the Uruguay Round for United Republic of Tanzania and other developing countries is also summarized in table 3.8.

(a) Programme for the least developed countries

In the 1997 following the conclusion of an High-Level Meeting for LDCs, convened under the auspices of the WTO as a follow-up to a recommendation of the First WTO Ministerial Conference in Singapore in 1996, the European Union announced an offer to grant least developed countries outside the ACP Group, market access conditions that would bring them closer to the same level enjoyed by the ACP Group (thus engendering a further preference erosion for United Republic of Tanzania and other ACP States). The United States agreed to add 1,700 products to the duty-free list of its GSP scheme for LDCs. Turkey also provided concessions for LDCs. Morocco, Republic of Korea, Thailand, Turkey, and Egypt were among the first of the more advanced developing countries to offer special concessions to the LDCs, mostly within their respective regions. Mauritius was the most recent country to offer concessions (late 1998). This liberalization of markets by countries other than the European Union will help United Republic of Tanzania to diversify its markets.

(b) Asian Crisis 1997-1998

The effect of the crisis on developing countries has been to lower demand from what were becoming important markets, to increase competition in third country markets, with a diversion of supply from home and neighbouring markets and an increase in competitiveness because of the devaluations, and a sharp fall in commodity prices (due to the sharp fall in demand and the devaluations). United Republic of Tanzania is unlikely to have been badly affected by the first of these, because its Asian markets are largely in South Asia, which have survived the crisis largely unscathed, or in Japan, whose market was already depressed. United Republic of Tanzania is also not among the principal competing suppliers for any of the principal exports of the five worst affected countries (Indonesia, Republic of Korea, Malaysia, Philippines, and Thailand), but it does export to some of them. Exported products include woven fabrics (where the Asian countries pre-crisis accounted for 25 per cent of world exports, shellfish (22%), preserved fish (18%), and footwear (16%). Jewellery demand has suffered badly from the crisis. The commodity price fall has been general, and has also affected some standard manufactures which are similar to commodities in their generic nature, including clothing, cars and car parts, and electronic components. The decline in clothing prices could affect United Republic of Tanzania.

c) *Environmental approach to trade*

The increasing concern for the preservation of the environment in major markets (see also section 3.4) as well as increased worry among developing countries that this concern will be used to justify protection against goods from developing countries has led to a movement to align these two divergent concerns. The WTO's Committee on Trade and the Environment has been discussing among other things to identify goods which are produced in a more "environmentally friendly" way in developing countries than in developed, and where there are significant barriers. It is argued that by removing such barriers benefits could accrue to both development and the environment, thus strengthening the case for liberalization. The products, which have been identified, include several which are important to United Republic of Tanzania and other East African countries. These include horticultural products, non-timber forest products (such as essential oils, gums, cardamom and honey), timber products (a potential export for United Republic of Tanzania), fish (where subsidies have led to over-fishing in developed country waters and by developed countries in distant waters), and natural fibres such as sisal, which could replace artificial fibres.

Leather products are discussed also in the context of the environment, despite the argument that usually the polluting processes are less damaging in the developing countries given the greater preference for increasing income over conserving the environment. Hence, there would be a net increase in welfare from moving production to developing countries.

While some fruits face low tariffs in the European Union, most citrus fruits still face exceptionally high tariffs up to 19 per cent, combined with special seasonal provisions. There are virtually no concessions under the GSP. The United States protects many fruits by high tariffs (up to 26%) or seasonal rules, normally without preferences for those where domestic production competes. Japan also has high protection on most fruits (up to 33 per cent, but around 19 per cent for most), with only a few concessions under GSP.

Liberalization would reduce preferences in the European Union market, increase access to the United States, and have little effect in Japan. Cut flowers face tariffs of 15-17 per cent in Europe with a GSP rate for only a small number of varieties. The United States has lower tariffs of about 7 per cent, and these are zero under GSP (except roses). Japan has zero tariffs. Among non-timber forest products, most nuts pay average tariffs in the European Union, but there are few GSP preferences. Most other forest products face average (or slightly above average MFN tariffs, of 4-6 per cent, but are zero for GSP. The exception is honey, which faces a tariff of 25 per cent, with no GSP preference. The US has low or zero tariffs on most nuts, and only a few do not receive GSP preference, Japan has generally low tariffs, and preferences for the others. Any liberalization of flowers or non-timber products would therefore greatly reduce the preferences available to the ACP countries in Europe, with little benefit in other markets.

Wood and wood products are not, in general, subject to high tariffs or other restraints because tariffs were substantially cut in the Uruguay Round, but tariffs remain high in some developing country markets. On these, United Republic of Tanzania and other East African have little to lose, but could gain access to other developing countries.

Fish face very high tariffs in the European Union, with most ranging between 12 per cent and 22 per cent for MFN and 10 per cent for GSP. For the United States, there are tariffs only on tuna, and these are reduced to zero for GSP. Japan has MFN tariffs of 4 per cent, but zero under GSP. This suggests a serious loss of preference. As far as fishery sector is concerned, however, it is more the subsidies within developed countries, notably the European Union and other European countries, which discriminate against imports. If these were reduced, there would be an increase in the demand for fish caught by all developing countries including by United Republic of Tanzania.

Tariffs on natural fibres are low in most countries, except in the European Union where there are tariffs of 4-6 per cent. The barrier to increased use, however, is likely to be in the form of subsidies to raw materials and the production of the artificial substitutes, rather than the tariffs, so again United Republic of Tanzania and other developing countries could gain from reform.

Leather and leather products, along with the clothing sector, continue to be one of the sectors where high tariffs remain in the post-Uruguay Round tariff environment. Tariffs in the European Union are about 7 per cent for untanned leather but (unusually) lower for processed products. The United States, in contrast, has low rates for leather, most reduced to zero under GSP, but rates of up to 20 per cent for some products, and only a few receiving GSP preferences. Japan has high tariffs for untanned products (up to 50 per cent reduced to 24 per cent for GSP) and 10-20 per cent for most products (5-9 per cent for GSP).

If concerns for the environment are translated into liberalization, all these products could see increases in markets outside the European Union, although some could face reduced preferences in United States markets as well. On almost all, they would suffer a reduction in preference in the European Union. The exceptions would be fish and natural fibres where proposed reforms are reductions in subsidies to their substitutes in developed countries, so that there could be a gain in access if reforms were undertaken. All these industries might also attract support from donor agencies.

(d) Concern over health

The move to use economic tools to deter damaging consumption has led to higher excise duties on such products as tobacco and petroleum, and is likely to continue. These have the same effect as increases in tariffs. In addition, sanitary and phytosanitary standards as well as technical standards for products have been tightened and often made difficult for developing country producers to meet.

3.3 The Generalized System of Preferences and the Lomé Convention

The Generalized System of Preferences applies to industrial and agricultural products, and in some GSP schemes complementary tariff preferences are offered in the framework of the special encouragement ruling in the social field and the environment, and extra preferences for products originating in the LDCs. In the case of United Republic of Tanzania the GSP scheme of the European Union, its major market, is not particularly relevant as the preferences offered under the Lomé Convention, which are more attractive, and the stability and contractual nature of the Convention generates greater predictability for its exports. For a review of the import coverage of GSP schemes and rate of utilization by LDCs, see Background Paper Eight. United Republic of Tanzania is eligible for preferences provided by the GSP schemes of all developed countries.

The preferences received by United Republic of Tanzania from the European Union under the Lomé Convention are more significant than in the GSP. The Convention offers duty-free access for all manufactures and most agricultural goods, with preferences over other developing and all developed countries in the remaining agricultural goods. For fruits and vegetables, some seasonal controls affect exports during specific times of years. United Republic of Tanzania (and Kenya and Uganda) show much larger shares for coffee in its exports to the European Union than in other exports (table 3.5 above). Prior to the Uruguay Round, United Republic of Tanzania had enjoyed preferences in these products. They are no longer important, but preferences remain important for fruit and vegetables. Fish and honey which are also important exports of United Republic of Tanzania are also sectors enjoying high preferences in the European Union.

Overall the preferences provided by the GSP and the Lomé Convention are being eroded by the liberalization, especially in the industrial sector, achieved under the Uruguay Round. The preferences remain important for some products though such as textiles and clothing and certain agricultural products, in particular those benefiting from commodity protocols.

3.4 The European Union's Eco-labeling Programme

United Republic of Tanzania as other beneficiaries of preferences provided by the European Union increasingly need to consider and adhere to environmental provisions on exports, imposed by the European Union as these measures become increasingly important standards. Moreover, the European Union scheme provides the opportunity to make use of a single "green" marketing instrument throughout the whole of the European Union while compliance is only needed with one set of criteria. Regarding companies in United Republic of Tanzania and other developing countries, therefore, the advantages of adhering to the European Union's Eco-labelling scheme seem to outweigh the disadvantages.

The European Union published a draft version of its Ecolabel in the textiles sector which seeks to establish a wide integrated product policy that focuses on product life cycle analysis, producer responsibility, take back of waste, source separation of waste, energy taxes and rules for green procurement procedures. The scheme is designed to approach the environmental impacts and improvements more holistically as well as creating a solid foundation for sustainable development. It is expected that after its revision, it will also cover services, and other interested groups such as industry, environmental groups and consumer groups from outside the European Union which will play a greater role in the decision-making process. The Commission is proposing to lower the fees companies have to pay in order to obtain the European Union's Ecolabel. See also Background Paper Seven which provides an overview of the environmental challenges in exporting to the European Union.

The draft textile proposal consist of: textile clothing which consist of at least 90 per cent by weight of textile fibre; the interior textiles products for indoor use, consisting of at least 90 per cent by weight of textile fibres, but excluding floor-coverings; and the yarn and fabric for use in textile clothing or interior textiles. This is aimed at promoting the reduction of water pollution related to the key process in the textile manufacturing process including fibre production, spinning, weaving, knitting, bleaching, dyeing and finishing.

Over 160 products from 20 different manufacturers now carry the European Union Eco-label. However, the European Union's Eco-labeling scheme is presently undergoing a revision with the objective of making the system more market-oriented and more appealing to European, and non-European companies. The exercise will allow differences in local production methods, the lowering of tariffs for participation (especially for developing country manufacturers) and improving the clarity of the system. The different types of eco-abels include the following:

- Traditional labels which are official national eco-labelling schemes operating much the same way as the European Union's scheme;

- Fair trade labels which focus mainly on the labour and living conditions of the workers/employees who produce the product in question. However, environmental issues play a (minor) role within the scope of these labels, which focus on products that are more or less natural/renewable. These labels affect such products as fruits, vegetables and certain textiles;

- Labels of organic production which focuses mainly on agricultural produce and fruits, vegetables, flowers and plants in the widest sense;

- Product specific labels which focus on environmental aspects of one product group only such as forestry products.

3.5 Access to Information

This is one of the crucial factors that promotes export performance of countries. Normally, this information can be obtained from the Chambers of Commerce, international databases, export promotion organizations and the Internet. In fact, the Internet is the fastest, biggest and easiest way of marketing the country's products. One can get information about countries, markets, potential clients and competitors from this source.

Exporters in United Republic of Tanzania are seriously constrained in terms of the amount, quality and usefulness of trade information available within the country from traditional sources. Technical and financial constraints have resulted in an under-developed trade information system. Various donor-supported projects are underway in all three countries to try and address this problem, but speedy dissemination of appropriate information has a way to go before it satisfies the needs of the exporting community. Access to information should be improved through the Internet, other multimedia sources and private or public databases. As well, the availability of traditional information sources should be easier accessible to exporters. Information is the key issue in the trading world, and particularly with respect to small and medium scale exporting enterprises from developing countries.

3.6 Possible Future Changes in International Trade Access

The prospective sources of change in trade access include the next WTO round of negotiations, following on the Ministerial Conference of November 1999 or the negotiations mandated within the built-in agenda. They also include the reform of the ACP preferences (due 2000, although likely to be postponed until 2005), the proposed United States initiative for Africa, and, later and to some extent dependent on these, any reforms when the GSP schemes of the United States, European Union, and Japan come up for renewal.

The next WTO trade negotiation round(s) has to include agriculture and services, but whether other matters are covered will have to be negotiated among the members. Further agricultural liberalization is expected, and could reduce the preferences available in the

European Union to United Republic of Tanzania; if the distribution of benefits is similar to the first reduction in protection in the Uruguay Round, United Republic of Tanzania is likely to lose, on balance. If there are further reductions in tariffs for manufactured goods, again United Republic of Tanzania will lose preference, but the remaining preferences (except in products like clothing and shoes that attracts peak tariffs) are small, so there is little left to lose. In both agriculture and manufactured goods, United Republic of Tanzania may gain in non-EU markets because it seems likely that there will continue to be increased preference for LDCs. In all these cases of reduced preference, there is an unquantifiable advantage in encouraging countries to diversify their markets away from the high dependence on the European Union. This is particularly important for United Republic of Tanzania.

The current proposals for reform of the Lomé convention from the European Union are to offer ACP members a choice: to move to a “free trade” arrangement with the European Union, with each region of the ACP countries signing a separate agreement or to revert to normal GSP status. The LDCs from the ACP Group can opt for Lomé-type non-reciprocal preferences which the European Union would offer to all LDCs. In the first case, United Republic of Tanzania, as a member of an EAC or COMESA (or SADC) agreement with the European Union would keep the same access. The European Commission believes that the free trade arrangements would be sufficiently prepared to meet the WTO’s requirement that any FTA cover “substantially all trade”: this would need to be tested by the WTO review procedure, so there would be no changes in table 3.8. However, United Republic of Tanzania and other members of the grouping would offer reciprocal preferences to the European Union and open-up to competition with European Union producers. In the other case (shown in table 3.8), United Republic of Tanzania would keep effectively the same access.

The LDCs including United Republic of Tanzania will have the equivalent of full Lomé access, except for rules of origin; they do not have this yet, because the European Union has not completed adapting agricultural access, although it is promised. In contrast, Kenya would lose the difference between GSP and Lomé access (subject to any reforms of GSP). This would be particularly important in horticultural products and coffee (see table 12). Although there is no tariff on unprocessed coffee, on processed it is 9-12 per cent, even allowing for GSP preferences. Table 3.11 gives estimates of the effect by product. All ACP Group LDCs would gain share because of this loss (and any losses incurred by other non-least developed ACP countries that did not sign agreements with the European Union).

Any reform of GSP could counter (some of) the loss of preferences to be incurred in a new multilateral trade round of negotiations (or from the end of Lomé), but it is impossible to speculate which products would be most affected. The Africa Initiative could increase the preference margin in the United States market.

Table 3.11: Effects of changes in the Trade regime by Destination

Measures Products	**Share in exports**	**EU**	**US**	**Japan**	**South Asia**	East Asia	
						In Uruguay Round	In Crisis
Coffee, Tea							
Kenya	42.2	-					-
Tanzania, U.R.	24.7	-					-
Uganda	78	-					-
Tobacco							

Measures Products	Share in exports	EU	US	Japan	South Asia	East Asia In Uruguay Round	East Asia In Crisis
Tanzania, U.R.	4.8	-	-				-
Uganda	1.9	-	-				-
Petroleum Products							
Kenya	4.5	-	-				-
Machinery, transport, metals							
Kenya	10.3	-	-			+	-
Tanzania, U.R.	4.8	-	+			+	-
Clothing, text							
Kenya		-				+	-
Tanzania, U.R.	2.4	-	-			+	-
Uganda		-	-			+	-
Veg oils, etc							
Kenya	7.4	-	+	+		+	
Uganda	2.1	-	+	+		+	
Cotton							
Tanzania, U.R.	18.4	+	+			+	-
Uganda	3.2	+	+			+	-
Fruit, veg, flowers							
Kenya	7.3	-	+	+		+	-
Tanzania, U.R.	2.8	-	+	+		+	-
Uganda	0.8	-	+	+		+	-
Nuts, honey, spices, essential oils							
Tanzania	10	-					
Uganda		-					
Fish							
Kenya	3.2	-				+	
Tanzania, U.R.	5	-				+	
Uganda	4.6	-				+	
Hides, leather, footwear							
Kenya	2.8	-	+	+			-
Uganda	5.5	-	+	+			-
Jewellery							
Kenya	3	-	+	+		+	-
Tanzania, U.R.	2.5	-	+	+		+	-
Building Materials							
Kenya	2.5	-	+	+			-

Table 3.12: Estimated loss of Kenya exports to the EU if GSP replaced Lomé preferences

Product	Exports to EU in 1996 (millions of ECU)	Percentage of total exports to EU	Estimated margin of preference (Lomé relative to GSP, %)	Estimated reduction in exports (millions of ECU)	Percentage of total reduction in exports
Coffee	219.4	29	6.1	-12.7	23.9
Tea	135.1	18	6.1	-7.8	14.7
Cut flowers, etc.	84.2	11	11.3	-9.0	17.0
Fruits, nuts etc.	49.9	7	15.4	-8.4	15.9
Leguminous vegetables	46.1	6	9.6	-2.7	5.0
Fish	33.3	4	7.4	-2.8	5.2
Fruit juices	16.1	2	15.4	-2.7	5.1
Other fresh and chilled vegetables	15.2	2	9.6	-0.9	1.6
Other preserved vegetables	14.2	2	15.4	-2.4	4.5
Others	(131.1)	(18)	(na)	(-3.8)	(7.1)
TOTAL	744.6	100	na	-53.2	100

Source: CREDIT, 1998.

3.7 Conclusion on Market Access

Table 3.8 gives the direction of change, by product, for each of the changes discussed in this section, and table 3.11 attempts to distinguish these by destination (not including the potential effects of a new multilateral trade round or the reform of Lomé). In most products, the most prominent effect is loss of preference. Only manufactured products exported to developing markets are spared. This is particularly important in explaining the negative effects in the European Union market. As all African countries including United Republic of Tanzania had virtually free entry to that market, they could only lose from either reduction in protection against other suppliers or changes in the regime for them. This is most important for African countries given their high share of exports to the European Union.

The picture is mixed where there are reductions in tariffs which affect them. Notably the United States tariffs reductions on clothing and other products where GSP preferences are small or absent in the Uruguay Round and reductions by other developing countries could offset the loss of EU markets faced by African countries. The clearest improvement would have been in the East Asian markets, if it were not for the reduction in their imports in the last two years. This could be important when they recover, if United Republic of Tanzania and other East African countries can increase the very low shares of these markets. The loss of preferences does encourage diversification, which could make United Republic of Tanzania less vulnerable to changes in policy or economic crises in a single market in the future.

3.8 Review of Market Opportunities Review for Exportable Products from United Republic of Tanzania (and other East African countries)

3.8.1 Hides and Skins

There is always demand for hides and skins but the supply is limited as the quantities depend on the size of the livestock in each country. National production in almost all European Union's member countries is not sufficient to cover local demand for leather. There is a growing need for variety and (high) qualities in leather. Some important supplying countries such as Argentina, Brazil, Pakistan and India have export restrictions in order to build up their own leather industry.

The market for hides is therefore a highly competitive one and European Union tanners are always exposed to the fluctuations in the availability of hides and skins. For instance, in 1995 the world production of raw hides and skins amounted to 5,835 thousand tonnes. The main consuming industries are furniture upholstery, shoe and leather goods. European Union is the main supplier of leather goods in the international market. Of this group, Italy accounts for half in volume and value. In 1997, Italian leather goods production was ECU 2,275 million. Other major producers include Spain, Germany, United Kingdom and France. Portugal is a fast growing country for upholstery leathers. European Union is the world's largest market for footwear, and the most important producing countries are Italy, Spain and France.

Upholstery industry is a growing market for hides and skins, especially the upholstery of automobiles. Upholstered furniture consumed 13 per cent of the European Union tanners' output. There are opportunities for hides from developing countries in the lower quality furniture segments. Leather goods industry (bags, belts, luggage, briefcases, wallets, etc.) take about 18 per cent of the total European Union tanners' output. Germany is the largest importer of leather goods. As is the case in the shoe industry, production has shifted to Eastern Europe and Asia and leather goods are imported at low prices. However, European Union tanning sector has lost production of over 1,000 units and about 30,000 employees since the 1980s, especially in the Northern countries such as Germany.

The future of the European Union's leather industry lies in the high quality leather segment; more investments in high technological equipment and new techniques are necessary. Tanners sometimes specializes in particular niche markets, which require good design and an ability to anticipate consumer needs. But some markets are out of reach for European Union tanners because of trade barriers to the resources as well as to market access. Furthermore, export restrictions are often combined with dual pricing policy which is aimed at keeping the cost of raw hides and skins artificially low for local tanners. The European Union leather industry and the WTO are currently taking political counter measures.

There are market opportunities in some European Union countries. Opportunities in the Netherlands and Italy are presented below:

- Netherlands: the largest consuming industry is the upholstery of furniture which takes about 58 per cent of the turnover, followed by the shoe industry (30%) and the leather goods industry (10%). The Netherlands imports such hides as bovine, calfskin, lamb and sheepskins. The importation of reptile skins is not allowed. Imports from developing countries are still very low;

- Italy: market opportunities exist for exporters in Italy for leather goods and upholstery leathers, but only for the medium to low quality ranges and at extremely low prices. High quality calfskin and goat suede is expected to stay in demand in this market. In the Northern European Union countries, the clothing and leather goods sectors have become less important consuming sectors. These countries are expected to further specialize in the production of shoes, which is an opportunity for developing countries.

3.8.2 Textiles

There is positive growth for textile exports between European Union and non-European Union countries. Product analysis shows that export value increased for most textile goods. This trend is reflected in some items as shown below:

- silk velvets (an increase of 28 per cent);

- yarns and continuous yarns (an increase of 18 per cent);

- prepared fibres, excluding carded or combed man-made fibres (an increase of 17 per cent).

All European Union member States in 1997 registered textile import increases ranging from Germany's 7 per cent to Spain 37 per cent. Italy, Ireland, Greece and Portugal had growth rates between 21 per cent and 29 per cent. France, Belgium, The Netherlands, United Kingdom, Denmark and the three new members (Austria, Finland and Sweden) registered increases between 11 per cent and 19 per cent.

3.8.3 Horticultural products

Production of high quality produce is no longer sufficient in itself in order to maintain a place in the European Union market. Food hygiene, pesticide residues, food additives and packaging waste legislation must also be addressed. However, problems may occur such as incomplete phytosanitary documentation or wrong quality-class labelling of product. The major markets are Western Europe (50%), United States (40%) and Japan (10%). Developing countries' suppliers maintain about one-third of this market. For almost all the major products, these markets are verging on oversupply, notably bananas, citrus, orange juice and tomato paste. Nevertheless, prices are falling in real terms. In the highly competitive environment, the exporter must target his efforts on those products or markets with the strongest opportunities to achieve the fastest growth rates.

(a) Distribution

In Western Europe, the supermarket sector dominates in the northern half of the continent, holding about 85 per cent of the market in Scandinavia, 60 per cent in Germany and about 55 per cent in France and United Kingdom. There are about five significant chains in each country. These are the most powerful link in the production/market chain, setting the standards and have formidable buying power.

Northern Europe is the primary import market in the world for fresh and processed horticultural products. Although there has been a decline in generalized grocers, the number of specialty shops catering to luxury eating habits has expanded. The catering sector accounts for only about 15 per cent of sales, but is expanding.

The southern half of the European continent is still a relatively poor import market; supermarkets have, at present, only a limited share of the markets. Consumers prefer locally-grown fresh produce sold in market stalls and via small, independent shops. In the longer term, southern Europe is expected to expand as an important market with out-of-season demand and the development of the supermarket sector. Europe is largely self-sufficient in vegetables, but imports large volumes of fruits and fruit products from Africa as well as Central and Southern America.

(b) Trends in international trade

Trends in international trade of horticulture have included the following:

- Consolidation of production, processing and exporting into larger and more professionally managed enterprises;
- Decline in the importance of small-farmer production;

- Continued shift to lower-cost transport modes, e.g. from airfreight to seafreight;
- Vertical integration of the marketing chain, both through forward and backward linkages;
- Impact of food safety legislation on production techniques, quality assurance programmes and post-harvest handling techniques;
- Continued pressure importance of value-added products;
- Exploitation of higher-priced niche markets;
- Development of independent quality inspection and quality assurance services;
- Targeting of sales on the higher prices supermarket sector, the expanding food service sector and on the development of new markets;
- Continued development of new varieties, new products and new production technologies.

World production of cut flowers is increasing, with developing countries focusing on the European Union market. However, over supply tends to affect the market. The Netherlands is the biggest importer of cut flowers in Europe. Other main importing countries in Europe are Germany and United Kingdom. These three together account for about 85 per cent of the total imports. In this scenario, imports from Kenya in 1995 rose significantly by 33.0 per cent respectively. In the other group, Uganda and Malawi experienced the highest growth (see table 3.13 below).

Table 3.13: Netherlands cut flower import (1,000kg)

Country	1991	1995	%
Kenya	13,864	17,244	33.0
Tanzania, U.R	178	683	1.3
Other (*)	3,041	3,670	7.0

Note: * including Uganda

Opportunities exist for exporters who can supply average quality products at the lowest prices. This will necessitate innovation most especially in distribution such as counter trade to better utilize shipping, bulk transportation, etc. However, very large investments must be made in order to improve the distribution of fresh fruits for their processing.

(c) Market trends in Europe

The European horticultural market has experienced an ever-accelerating pace of change over recent years. Throughout Europe consolidation of this industry has occurred through business mergers and take-over, creating larger, more sophisticated produce-handling and marketing companies. A number of factors have influenced the horticultural market trends in Europe.

On factor is consumer behaviour. Consumers throughout Europe are interested in convenience, healthy eating and freshness of food as evidenced by the demand for leafy vegetables and salads in pre-packed and semi-prepared presentations sold through supermarkets. Presently there is a growing interest and demand for flavour.

Another factor is phytosanitary legislation and quality standards. Phytosanitary measures and quality standards may be regarded as the “traditional” legislation in relation to horticultural exports and most exporters will be very familiar with these requirements. But problems in this area still occur and include incomplete phytosanitary documentation or wrong quality-class product labelling. Such things result in delays at the port of destination or in destruction of the product at considerable cost to the exporter.

Yet another factor is food safety and hygiene. European Union legislation covers all forms of contamination including bacteria, chemicals, pests, glass splinters, metal pieces, etc. This legislation holds the supplier responsible for any food safety problem unless due diligence can be demonstrated. This includes the identification of the detailed procedures and checks to ensure food safety and the traceability of product and the maintenance of appropriate documentation and records.

Pesticide residues and food additives are another factor. This is covered by the food safety legislation which has to ensure that the maximum residue level in each product is adhered to.

In addition packaging waste is a factor. There is a legislation on management of packaging and packaging waste which set the target for re-cycling and recovering (i.e. by energy recovery) of packaging waste by the year 2001. National targets and schemes vary within Europe and this is an area where exporters need to be alert. Implications for exporters include the need to use the minimum of packaging and to select re-usable (e.g. returnable plastic trays or re-usable pallets) or recycled packaging for their products. Care is required to ensure that any increased costs borne by an importer due to the particular packaging supplied with the product do not reduce the competitiveness of the exporter.

Looking ahead, in response to consumer concern on food safety and particular sensitivity to pesticide use, new initiatives are beginning to emerge, designed to maintain consumer confidence in the industry as a whole. This is being achieved through the launch of accreditation schemes open to all growers. This scheme provides independent accreditation against crop production protocols based on integrated crop management principles.

3.8.4 Edible Nuts

The cashew nut is grouped under the “edible nuts” family which also includes almonds, brazil nuts, desiccated coconut, macadamia nuts, groundnuts, hazelnuts, pecans, pistachios and walnuts. As an example of the demand for such products in the European market, the consumption of edible nuts on the Dutch market is steadily increasing due to their growing demand as a luxury nut mainly in supermarkets. Recent research reveals that the total market for pre-packed peanuts and other nuts in the mid-90s amounted to 238 million guilders. Luxury nuts like cashew nuts, pistachios and various mixes accounted for 71 million guilders.

The growing popularity of repacked luxury nuts is being attributed to a growing preference by the European consumer for quality products, products that are healthy and taste good, but also for products that are convenient and have an air of “adventure”. The luxury nuts product group satisfies this demand at varying levels and demand for this category has remained strong and constant. As far as the overall range of nuts is concerned, there is a clear shift from peanuts to luxury nuts. In terms of individual nut awareness and consumer purchase the cashew nuts ranks second after peanuts. In terms of awareness, cashew nuts ranks fifth after peanuts, walnuts, hazelnuts almonds and coconuts.

3.8.5 Spices

Trade in spices amounts to between 400,000 tons and 450,000 tons annually, valued at $1.5 billion to $2.0 billion. In the late 1980s and early 1990s, the value of this trade tended to stagnate because of low prices for almost all spices. The level was primarily a reflection of excess supply and recession conditions in the major markets. In the mid-1990s prices improved somewhat but are still a distance from the higher figures prevalent in the mid-1980s.

North America and Western Europe continue to be the two leading importing regions for most spices. The United States is the world’s largest individual market for spices. The Canadian market is relatively small compared with the United States. In 1994 the European Union countries imported 195,801 tons valued at $ 444.4million. Germany is the largest market in Europe for spices and the second largest in the world after the United States. It imports over one-third of the total shipments of spices going into West European countries. In descending order the other major European importing countries are: Spain, France, United Kingdom, Austria, Finland, Norway, Sweden and Switzerland.

The former Union of Soviet Socialist Republics (USSR) and the former socialist countries of Eastern Europe were significant purchasers of pepper from India, and pimento (allspice) from Jamaica prior to the major changes in that region. After a sharp decline, spice imports into these markets have shown some recovery.

Countries in North Africa and the Middle East, in particular Saudi Arabia, have accounted for a substantial and increasing share of the international spice trade in recent years. Other countries in the region are also significant importers. Saudi Arabia purchases cardamom and pepper in particular.

The major importer of spices in the Asia-Pacific region is Japan, the third largest spice market in the world. In 1994 Japan purchased 87,796 tons of spices valued at $137.2 million. Other outlets for spices in the region are Australia and New Zealand. Although Singapore and Hong Kong, China, consume small quantities, Singapore is important in the entrepot trade.

3.8.6 Oil Seeds

Major oil seed product groups imported by the European Union are groundnuts, soya beans, sunflower seeds, sesame seeds, rape seeds, palm kernels, hemp seeds. Soya beans is the predominant product group being imported followed by rape seeds, sunflower seeds and groundnuts.

The major importing countries within the European Union are Germany and the Netherlands. Together they account for almost half of the total volume and value of imports by the European Union. Belgium, Luxembourg and Italy show stable growth, whereas the United Kingdom and Portugal lost some ground.

The major proportion of the imports by member States of the European Union originates outside of it. Extra-European Union trade is dominated by Soya bean imports (mainly originating from the United States, Brazil and Argentina). Imports from developing countries mainly consist of Soya beans from Brazil, Argentina and Paraguay. Developing countries lost ground on almost all product groups in the early 1990s except for sesame seeds. A new share was gained with respect to rape seeds. Almost all of these supplies came from Panama and were destined for France. Sunflower seeds and rape seeds are the only product group dominated by intra-EU trade.

3.8.7 Tobacco

A ban on tobacco advertising is imminent in European Union, probably toward the end of 2001. This affects cigarettes and other tobacco products whose advertisement will disappear from the streets and underground stations as well as from the radio. A year later, tobacco advertisement will vanish from newspapers and magazines. The advertising of tobacco products on TV was already banned in 1989 by the European directive. There will be a total ban on the free distribution of tobacco products.

New market opportunities are opening up in the former centralized economies of Eastern Europe, Russia and some Asian countries for tobacco products.

3.8.8 Cotton Grey Cloth

The United Kingdom, Germany, Italy and France, are reportedly the most important markets for grey cloth in the European Union followed by the Netherlands and Belgium. The Netherlands market takes a share of 4 per cent of total consumption in the European Union.

Consumption of cotton grey cloth takes the lion's share of the total consumption in the Netherlands. Although the consumption of cotton cloth declined in 1993 when compared to 1990 (by more than 30 per cent), it accounts for 36 per cent of total consumption. Synthetic filaments are ranked second at 29 percent, followed by synthetic staple fibres at 23 per cent. Unfortunately, there are no figures available for artificial filaments.

The preference for the use of cotton is still manifest. In particular, the eco-trend reinforces the demand for natural products. As such, a clear trend can be observed in the Netherlands toward more consumption of eco-cotton and other natural fibres.

The clothing industry, the home furnishings industry, the technical textiles industry and the household textiles industry process Grey cloth. The most important buyers of Grey cloth are the home furnishings industry and the clothing industry. The decrease in these markets directly influences the market for grey cloth. The market for these fabrics is strongly dependent on consumer spending. Between 1990 and 1993 sales of clothing and home furnishing textiles dropped considerably (see table 3.14). Between 1990 and 1993 sales of fabrics to the clothing industry dropped by 15.6 per cent to Dfl. 588 million. Sales of home furnishing fabrics dropped by 13.8 per cent to Dfl. 401 million in the same period. The recession in the European Union during the early 1990s was the major determinant. Besides that, sales dropped due to international competition, unfavourable exchange rates and unfavourable developments of labour costs.

The biggest decrease in sales occurred in the sales of household textiles. The production of household textiles, which was already relatively modest, further declined by 21 per cent to Dfl. 120 million between 1990 and 1993.

Table 3.14: Fabric Sales in the Netherlands, 1990-1993 (by Dfl. million)

	1990	1991	1992	1993	1990-1993%
Total	1,795	1,840	1,724	1,566	-12.8
Clothing fabrics	697	698	649	588	15.6
Home furnishing fabrics	465	471	455	401	-13.8
Technical textiles	334	340	314	285	-14.7
Upgrading activities	147	183	165	172	+17.0
Household textiles	152	148	141	120	-21.1

Source: Textile Association (KRL)

The above reflects that cotton fabrics are the most important fabrics. The main demand for cotton fabrics comes from the clothing industry. The second most important consumers of cotton cloth are the producers of household textiles and made-up fabrics.

A great deal of unfinished fabrics is delivered to the clothing industry. Therefore, the demand for grey cloth is directly influenced by demand in the clothing industry. The import of grey cloth in the Netherlands declined in the early 1990s. Between 1990 and 1992 the imports declined by almost 26 per cent in value from ECU 277 million to ECU 205 million. The import volume decreased by 17 per cent from 60,655 tonnes to 50,166 tonnes. However, more recent market trends reveal increasing imports of grey cloth.

3.8.9 Clothing

In 1996, European Union's clothing industry recorded the lowest production levels. But, preliminary data available for some European Union members indicate a further growth for 1997 and 1998. In spite of the fall off in German consumption of clothing, Germany remained an extremely attractive market for clothing exporters. The German consumers are the second largest spenders on clothing in the European Union after neighbouring Austria. Belgium and Denmark are ranked third and fourth in total clothing consumption per country. Lower consumers are Italy, France and United Kingdom.

Besides independent stores with usually one single outlet, there are clothing chains, department and variety stores, supermarkets and hypermarkets and mail-order companies. The decreasing market share of independent stores indicates an increased concentration of organized retailers. Other trends include increasing cross-border activities; continuing pressure on retail prices; growth in market shares of specialist clothing chains and (non-specialized) supermarkets and hypermarkets and the introduction of new technologies.

3.8.10 Fishery products

The European Union made a broad decision that only fishery products issuing from a restricted list of countries can be authorized for import into the European Union. Consumption of fishery products in the European Union has increased in recent years. The increased popularity can be explained by higher sales of smoked fillets (particularly of trout, mackerel and salmon) and a wider marketing of fishery products throughout Europe. Also, fish is increasingly used in ready meals, the latter being one of the fast growing food markets. The Spanish and Italian markets are the largest in Europe in terms of volume – accounting for more than one fifth of the total fish consumption. These are followed by France and Germany who account for about 15 per cent of the volume.

(a) Marketing patterns and trends

To exploit the fish market in Europe, the following factors need consideration:

- Fishery products are associated with healthy food and are regarded as a substitute for meat;

- Consumers appreciate quality more and more, hence are willing to pay a higher price for better quality;

- Fishery products are convenient since they are quite easy to prepare and quick to cook;

- Residents in the European Union have a relatively higher income, hence they can afford fishery products; and

- Portioned fishery products are gaining popularity in the catering sector and the fish-processing industry.

(b) Production

Over-fishing has resulted as a consequence of the increased demand for fishery products. Meeting this demand has led to over-fishing and had a dramatic effect on many species, resulting in both environmental and economic costs. Different measures have been installed including quotas on fish catches leading to decreasing landings. As a result, the fishery industry is forced to rely on alternative production methods such as deep-sea fishing and aquaculture to cope with the strong demand.

Imports of fish

These are strongly influenced by the restrictions on catches imposed on the European Union fishing industry. Hardly any fishing industry in Europe even approaches satisfying the domestic demand and it is expected that Europe will become more dependent on imports due both to restrictions on landings and the rising consumption levels. For instance, the European Union in 1996 (excluding the three new member states of Austria, Finland and Sweden) imported almost 5.6 million tonnes of fishery products. Spain is the largest import market in terms of volume followed by France (the largest import market in terms of value) and Germany.

Developing countries are leading exporters of fishery products. This consists mainly of warm-water species from tropical areas. This shows that products from developing countries have an easier introduction on the European markets if they can serve as substitutes for local species. For easy access to European Union market, quality is the key.

(c) Reference prices

This was laid down for a selected number of fishery products. However, the reference prices do not have binding status and third countries are allowed to export below the reference prices. But if large volume of fishery products continue to be imported below reference prices, the European Union will set the reference prices as minimum import prices. However, the possibility to use this measure (as a form of protection for the European Union market) is considerably restricted by the regulations of the WTO.

3.8.11 Coffee

Since the beginning of the 1990s coffee has struggled to maintain the pace of growth in consumption that it enjoyed over the past several decades. As the international coffee market continues to experience considerable volatility, many exporters and roasters are rethinking the way in which they conduct their business. The rapid increase in consumer prices of standard quality coffee during the 1994/1995 coffee year had not only reduced total off-take but in some instances resulted in a decline in the quality of coffee that is purchased. Against this background, the "gourmet and speciality" segment of the coffee trade is showing growth in a number of importing countries.

The United States and Japan, the latter for canned coffee, are the leading innovators in this segment. "Speciality" coffees account for about 16 per cent of the United States retail market, and market sources suggest that this could rise to as much as 30 per cent by the end of the 1990s. But it would appear that the rise in specialty sales in the United States is largely at the expense of "other" coffees, as overall United States coffee consumption has not risen.

In Japan and elsewhere in Asia the picture is quite different in the sense that speciality coffee is gaining new customers and creating demand for coffee where previously coffee sales were non-existent or very low.

The realization that well presented "quality" coffees appeal to sophisticated and often wealthy customers has opened new doors and created new opportunities virtually world-wide for coffee exporters. The innovations and successes of the sector in the United States and Asia also affect the European market scene, even if in many countries in Europe quality standards for coffee have traditionally been high.

This "gourmet and specialty" segment of the market is therefore of great importance to producers, not only because of the price incentives it offers but even more so because it improves the image of coffee at the retail level. Consumption in the United States fell over a period of years because the quality and image of the traditional product was low. The speciality sector on the other hand has introduced novel ideas and new quality products and has therefore stimulated interest and thus new demand for coffee.

By improving and diversifying the product and by giving consumers the quality and choice to satisfy individual preferences, the sector has set a new and positive course that helps safeguard existing coffee consumption and may, eventually, lead to increased levels of coffee intake overall.

Trends in the main markets show different prospects. Overall imports of coffee into the United States reached about 17 million bags in 1995, up from 1994 but a decline compared with the early 1990s. The specialty market in the country is growing strongly, however, and some trade sources expect it to account for as much as one-third of the market by the turn of the century, roughly doubling its current share, as mentioned above. Many small roasters in the United States have commenced operations to service the expanding specialty market. The three major roasters continue to hold a sizeable portion of the combined grocery and institutional markets, possibly 70 per cent.

The level of coffee consumption has also declined in the past several years in a number of European countries, mostly because of high retail prices. This has been the case for instance in Germany, France, Belgium, Luxembourg and Denmark.

This downward trend could be reinforced because of current consumption patterns in the youth markets in Europe. In some countries, notably Germany and Denmark, young people are showing preferences for beverages other than coffee, for example cold drinks. (Typically, coffee drinkers are first exposed to coffee at an early age, but begin to consume coffee on a regular basis when they start to work.) Some observers however regard the interest of youth in speciality coffees as an offset to beverage switching. This particular interest in coffees such as expresso, cappuccino and mocha has spread, for instance in Germany, France, Norway and Netherlands. In Germany demand by young consumers in the speciality soluble segment is quite considerable and, therefore, positive for the growth of coffee sales.

Potential for an increase in coffee consumption is particularly strong in Japan and other Asian countries. Quality is of great importance to Japanese coffee consumers. In the Japanese market many gourmet and speciality coffees are available. The coffee house segment is also expanding rapidly. Japan ranks among the leaders in product innovation, such as canned, iced and flavoured coffees. This trend in coffee consumption is spreading to other affluent Asian markets, for instance Singapore and Hong Kong, China.

Coffee is the world’s second most important commodity and is a very important trade product for developing countries. Uganda (United Republic of Tanzania’s immediate neighbour) is among the most important exporting countries to European Union. There is also a slight growth of coffee products such as ice, espresso and soluble coffees with different kind of flavours. Consumption of this product is confined to northern member states of European Union, the most important being Germany, Italy and France.

3.8.12 Tea

The European Union is responsible for 20 per cent of the world's tea imports. About 90 per cent of all tea comes from developing countries. Of the above, Kenya accounts for about 30 per cent. There is also an upward trend in terms of exporting tea to European Union from United Republic of Tanzania. Areas of growth lie in particular market segments such as flavoured teas for the young, offering enough choice and complying with the need for variety and individuality of the 1990s. Another fast growing segment is the ready-to-drink tea (ice-tea), now having a penetration in the cold drinks market of 20 per cent. There is also a growing interest among younger adults for single origins, healthy and organic teas. Almost every European Union country is a significant consumer of tea. Most countries are dominated by the tea bag bought at supermarkets. European tea markets have a highly diverse consumption pattern, that is, black tea and green tea markets. There is room in Italy for more tea given the low overall penetration of black tea and about 90 grams consumption per capita.

The growth of the European Union import volume was characterized by a shift from bulk to packed tea. Main importing countries include United Kingdom, Germany and the Netherlands. New markets are East-European countries with their large demand for packed teas, blended or flavoured. In southern European countries, there is also room for growth since the awareness of tea is low and the interest in drinking tea as a usual drink, instead of as an exclusive English afternoon drink needs to be further developed.

However, constraints with exporting packed tea to Europe pertain to difficulties for producers in developing countries to make blended tea of a similar constant quality, while at the same time their products are preferred by consumers in one or more particular member States of the European Union. There is a tendency to buy more blended tea, packed in the country of origin.

3.8.13 Costume jewellery

Costume jewellery is demanded by fashionable clothing shops and boutiques. The following are the rules of producing costume jewellery that attract customers:

- Design – must fit in well with current trends and life styles;
- Quality – perfect finish;
- Reliability – consistent quality and deliveries on time;
- Exclusivity – this refers both to design and to distribution channels;
- Production capacity to fill orders;
- Speedy deliveries

However, European Union regulations stipulate that all plating has to be completely free of nickel and for the colours, no azo dyes are permitted. On packaging and distribution, suppliers are required to pack the jewellery in such as a way that the order can be channeled directly to the distributors/clients. Suppliers are advised not to engage child labour.

European Union represents a very large market for jewellery and total sales in the 15 member countries are estimated to account for about 30 per cent of the world consumption (ECU 5 billion). Within the community, Italy and United Kingdom are the largest markets followed by Spain, Germany and France. Within European Union too, the most pronounced differences in consumer taste are noticeable between the warm southern European countries and the cooler northern countries. The former is more extravagant in their choice of jewellery and favours more gold and brighter colours than their counterparts in the north whose taste is more conservative and dull and favours more silver and less extrovert design and colour. However, where high fashion jewellery is concerned, the distinctions between national markets are far less obvious, and young people's preferences are influenced mainly by international trends, street fashion and the media. Precious jewellery dominates the market in value terms accounting for 85-90 per cent.

However, the fashion jewellery segment which includes imitation, costume and some silver jewellery is today a major global industry and trade. International trade in fashion jewellery has become a world business in the following three main ways:

- The development of fashion in costume jewellery closely follows that of the clothing sector. Seasonal forecasts reflect an assimilation of high fashion with, on the one hand, trends in shoes, American street crazes, sports, TV/soap series and pop world and, on the other hand underlying contemporary influences such as spiritualism, simplicity and nostalgia for the 1960s and 1970s;

- There has been a major shift of jewellery manufacturing from European countries where the costs of production are relatively high to countries in Southeast Asia where factories today have the capability to design and produce excellent quality modern jewellery at very competitive prices;

- The advance of travel, tourism and telecommunications has meant that both trade and consumers buy jewellery from sources all over the world.

3.8.14 Pharmaceutical products

Pharmaceutical raw materials & ingredients and medicinal herbs are also abundant due to favourable climatic conditions. Parts of Eastern Africa have similar climatic conditions as in Europe where many European medicinal herbs are cultivated such as camomile, peppermint leaf, garlic, thyme and fennel. Many fatty oils are available: olive, coconut, sunflower, caster and wheat germ. Products derived from starch are liquid glucose and pre-gelatinized starch, the latter being used for the disintegration of tablets. There is increasing demand for natural remedies, essential oils and organic compounds in the developed markets. United Republic of Tanzania as well as Kenya and Uganda are urged to look into the possibilities of developing this industry.

CHAPTER 4

CHALLENGES TO EXPORT COMPETITIVENESS

4.1 Trade Overview of United Republic of Tanzania and other East African Countries

On the export side, industrialized countries provide 46 per cent, 82 per cent and 39 per cent, respectively of the destinations for the exports of Kenya, Uganda and United Republic of Tanzania. Uganda thus appears to be quantitatively different from the other two countries in that over 80 percent of all its exports are destined for the industrialized countries, particularly the European Union.

Developing countries account for almost half of all exports for Kenya (48%) and United Republic of Tanzania (53%) and a modest 18 per cent for Uganda. Two-thirds of all of Kenya's exports to the developing countries is to other countries in Africa. COMESA accounts for about 19 per cent of all Kenyan exports, with the bulk of this destined for Uganda and United Republic of Tanzania.

From the import perspective, both Uganda and United Republic of Tanzania are significantly dependent on trade with Kenya although bilateral Uganda-United Republic of Tanzania trade is insignificant.

COMESA countries account for about 26 per cent of Kenya's total 1996 exports, 12 per cent of United Republic of Tanzania's exports and a minor 2 per cent of Uganda's exports. Kenya's export destinations contrast sharply with source of imports. COMESA accounted for less than 3 per cent of total imports between 1990 and 1994 and declined to 1.7 per cent in 1996.

Within COMESA, the major trading partners for Kenya are its East African partners. The significance of the East African market for Kenya is illustrated by the fact that the market accounts for over 60 per cent of total exports to COMESA. Kenya is a major source of both Ugandan and United Republic of Tanzanian imports, contributing 30 and 10 per cent of the two countries' imports, respectively. As a proportion of its exports, the two countries provide a destination for over 16 per cent of Kenya's total exports. However, reflecting the broader COMESA pattern, Kenya sources a negligible proportion of its imports from the two East African countries. This situation results in a significant imbalance in the intra-regional trade flows in East Africa. Ugandan trade with United Republic of Tanzania is small at present with United Republic of Tanzania sourcing only one-tenth of one per cent of its imports from Uganda while Uganda sources 1.5 per cent of its imports from United Republic of Tanzania.

The composition of Kenya's exports is as follows: Food and beverages account for 53 per cent of total 1996 exports, reflecting among other things the continued importance of exports of coffee and tea. However, non-food industrial supplies constitute a sizeable 26 per cent of exports and consumer goods another 13 percent. The residual 8 percent export share is largely accounted for by exports of fuel and lubricants.

Uganda is generally self-sufficient in food and is regarded as a potential net food exporter of substance, but requires extensive imports of machinery, fertilizer and other inputs to raise yields and output. Manufacturing output contributes only 7 per cent of GDP, but has been growing as a result of increased productivity and newly-invested capacity. However, manufacturing output is still heavily dependent on imported inputs. Some manufacturers are now dependent on imports for up to 80 per cent of their inputs and many of them add little value to these intermediate goods.

Traditionally United Republic of Tanzanian exports were concentrated in a few commodities such as coffee, cotton, sisal, tea, cashew nuts, and tobacco that required little processing. Over time efforts to diversify exports succeeded, and indeed in the mid-1980s non-traditional exports such as petroleum products, minerals (including gold) and some labour intensive manufactures grew, only to fall back in the 1990s. Traditional exports provided 57 per cent of total exports compared to 52 per cent in 1989. Manufactured exports fell by 10 percentage points of total exports over the same period.

It is important to recognize the implication or this structure of regional trade. First, Kenya faces a quantitatively different problem than Uganda and United Republic of Tanzania because of the low share of imports from those two countries. Second, Kenya's imports from the two countries mainly consist of foods and raw materials, which face low tariffs. For both these reasons, reduced (harmonized) tariffs on these commodities would have a minimal effect on the overall level of Kenya's Government revenues.

It has been recommended that achievement of a COMESA or EAC simple harmonized external tariff (HET) as a priority objective, which could be accomplished by July 2000. Given the current tariff structures in the region this is a realistic objective that could be accomplished without adverse impact on revenue collections. Analysts have concluded that the current Ugandan structure of (0, 7 and 15%} has a number of merits that recommend it as a desirable common tariff structure for East Africa. The current Ugandan tariffs incorporate all of the objectives Governments should seek in a tariff harmonization exercise in that they improve welfare, lower the landed prices of imports and also simplify the customs classification of imported goods.

However there is a real risk to successful integration which could arise from a hasty approach to the creation of a free trade area when both revenue and protection concerns have not been adequately incorporated into the decision. The application and gradual deepening of the COMESA preference over the past decade in the context of large intra-regional trade imbalances has already provoked a number of countervailing reactions that are inimical to economic integration. In this context, a longer phase-in period for the elimination of internal tariffs is required.

4.2 Terms of Trade for United Republic of Tanzania and other East African Countries

Table 4.1 shows a catastrophic fall in the terms of trade and purchasing power of exports for United Republic of Tanzania and Uganda. The Kenyan situation is also poor. All of the countries are worse off than they were in 1970. There has been improved purchasing power of exports for Kenya and Uganda in recent years as they liberalized, increased their export performance and adjusted exchange rates.

Table 4.1 Terms of Trade for East Africa (1980 = 100)

Country	Kenya			Tanzania			Uganda		
Year	1970	1990	1994	1970	1990	1994	1970	1990	1994
Terms of Trade	79	66	67	94	65	56	91	42	35
PP of exports*	100	69	97	187	71	43	273	35	96

Note: * Purchasing Power of Exports
Source: Handbook of International Trade & Development Statistics, UNCTAD, 1995

4.3 Investment in United Republic of Tanzania and other East African Countries

Table 4.2: Foreign Direct Investment (FDI) Inflows to East Africa (US$ million)

Host Country	1995	1996	1997
Kenya	33	13	40
Uganda	121	121	250
Tanzania, U.R.	120	150	250
SSA	3,874	3,515	2,899
Africa	5,136	4,828	4,710
World	331,189	337,550	400,486

Source: World Investment Report, 1998 United Nations

Table 4.2 indicates that Kenya shows an erratic and somewhat low level of FDI in recent years, while both Uganda and United Republic of Tanzania reflect increasing levels of FDI in response to their privatization programmes and trade liberalization programmes. See also Annex II regarding investment conditions applied by United Republic of Tanzania.

4.4 United Republic of Tanzania Trade Development Review

4.4.1 Trade Relations

United Republic of Tanzania, as noted earlier, is a member of a number of overlapping trade agreements including the WTO, COMESA, SADC, EAC, Lomé Convention and GSP. As an LDC it has considerable latitude in the observance of the rules of the MTS as laid out during the Uruguay Round. This has both positive and negative implications. From a positive perspective the country has a longer time frame to adjust to the new rules and to reach compliance. It also has considerably more latitude in the degree of compliance. However, on the downside, it has less of a motivational force to achieve compliance and its allocation of resources to MTS issues tends to be on the very low side. Internal knowledge of MTS rules, opportunities and threats is minimal, except amongst a small group of individuals who have been involved in the Uruguay process or have attended workshops and the like. Such people tend to be in the academic and public sector.

Knowledge of the requirements of the Lomé Convention and GSP market access conditions are somewhat better known as exporters of a number of products target the European Union and Asian markets. Duty free access, documentation and market opportunities tend to be better understood by the business community in this respect.

The COMESA agreement is fairly well known and understood, again amongst that group of firms that have targeted the regional market. There is also a higher level of knowledge amongst the public sector and academia due to a fairly high level of involvement in COMESA meetings over the years.

Knowledge of SADC as a “political” regional grouping is high, but there is little knowledge of the terms and implications of the SADC Trade Protocol.

The EAC is still in its formative stage. Naturally the knowledge of the other East African markets, particularly Kenya is well known by a broad section of United Republic of Tanzanian businesses that are involved in export and import trade. Due to the direction of trade, it is mostly importers that are dealing with cross-broader trade with Kenya on a regular basis. Also the impact of the EAC is taking on increasing importance in the minds of both the public and private sectors as the three countries move closer to some form of customs union. The announcement that there would be zero tariffs between the three States has brought trade issues into sharp focus. See also Background Paper One on trade and investment prospects in the sub-region of the EAC.

4.4.2 Current and Future Competitiveness

United Republic of Tanzania exports the following major products: Coffee, cotton, cashew nuts, copper cathodes, fish fillets and tobacco.

Non-traditional products include sesame seeds, cotton shirts, sisal twine, crustaceans, tea, cut flowers, beans and peas, semi precious stones, diamonds, cocoa beans, raw cane sugar, cloves and articles of jewellery. All of these products achieved over $2 million in export value in 1997. A few products of potential include timber, semi-processed leather, beeswax, and edible oils. Nearly all of United Republic of Tanzania's export products are targeted at the European market and Asian markets with some regional sales. Asian countries like India, Japan, Indonesia and Malaysia figure quite prominently in their destination markets.

Total commodity exports at $645 million for 1997/1998 were about 20 per cent lower than for the same period in 1996/1997. There has been a significant decline in manufactured exports, which has only been mitigated by the good performance in horticulture, tobacco, tea and cashew nuts.

If, as is anticipated, world prices for food rise as a consequence of the Uruguay Round then there will be increased pressure on United Republic of Tanzania to increase its domestic food production as well as negotiate supplementary food aid under periods of shortage.

In 1988 world coffee prices were well below those prevailing during the same period in 1997 but were equal to the average price over the last ten years (approximately $2.80/kg). Cotton prices were also down on the previous year but again not far off the average for the decade (approximately $1.50/kg). Sisal prices were strengthening and reached the second highest level in the last ten years with the highest being in 1996 (approximately. $812/ton). Tea prices had been firming steadily and were at their highest point for the last ten years (approximately $2.60/kg). Maize prices were firm and well above the ten-year average (approximately $162/ton). Gold was at its lowest point in the last ten years (approximately $300/ounce).

4.4.3 Positive Factors for Competitiveness

- Climate, land and water for agricultural production;
- Growth of the private sector;
- Open economy with low barriers to entry;
- Reasonable access routes to East and Southern African markets;
- Duty free access to major international markets;
- Basic manufacturing sectors still in existence;
- Textile industry has potential to be a basis for industrial exports;
- Increasing role of mineral resources;
- Dynamic tourism sector;
- Improving financial sector.

4.4.4 Negative Factors against Competitiveness

- Low level of skills in general workforce;
- Small domestic capital base for investment;
- Expensive transport routes to international markets;
- Limited direct air access to international markets;
- Domination of imported manufactured products affecting local production capability;
- High utility costs;
- Bureaucracy still prevalent in administration of international business transactions;
- Lack of credit for working capital needs;
- Limited diversification of exportable products;
- Limited knowledge of regional and international markets;
- Poor market information dissemination – a “vacuum of data”;

- Limited knowledge of pros and cons on trade agreements;
- Limited technology transfer to increase value added production;
- Weak linkages between various sectors of the economy.

4.4.5 Specific Export Constraints

Tanzanian manufactured exports are coming from a low base, having been stagnant for the 1980s and early 1990s. However there has been no significant change in the share of total exports by manufactured goods in the last ten years. Manufactured products are structurally weak being resource based and low technology. There is little significant upgrading and technology development within these products.

Very little export oriented FDI despite having very low wage levels. The lack of skills and technology are a real constraint. There is also insufficient infrastructure. The SME sector is unable to compete with much of the imported product groups. The business environment is improving but still not fully enabling to ensure sustainable competitiveness.

There is an urgent need to broaden the tax base to ensure fiscal stability and lessen corruption. Balance of payments support during the adjustment phase is critical and possibly more important than project support particularly where counterpart funding is very problematic.

There is lack of clarity on United Republic of Tanzania's realizable comparative advantage in relation to its East African neighbours, COMESA and even on the international front. The current direction of FDI is mainly into primary products and tourism. Therefore, there is a need to examine a medium to long-term scenario for specialization of the economy.

4.4.6 Investment Review

FDI into United Republic of Tanzania has increased substantially over the past two years (see table below). Most of the foreign direct investment into United Republic of Tanzania in 1997 was in the mining and exploration sector, and received investments of $300 million in mining and exploration in that year. See also Annex II for details on conditions applied to investment.

Year	FDI as % of GDP
1993	1.4
1994	1.5
1995	2.2
1996	2.3

Source: World Bank Africa Regional Database (1 October 1998)

Reforms being undertaken to create an investor-friendly climate in United Republic of Tanzania include:

- Cutting down the jungle of red tape in government business;
- Easing-upon visas and work permit restrictions to foreigners;
- Reducing the level and number of taxes;
- Initiating new policies for land and industry;
- Maintaining security of employment, but at the same time giving more powers to employers under the labour laws.

Reduction and minimization of costs of production is another issue to be looked at. United Republic of Tanzania's products can not be competitive in the regional market, if they cost relatively more than those from counterparts. Inefficiency and low productivity have been for a long time a common phenomenon in most parastatal organizations leading to highly priced products.

These problems may be reduced by private sector participation in the economy. However, this will very much depend on the reliability and availability of inputs and other services (like water, electricity, telecommunication services and other infrastructure) at reasonable and fair prices. The Government could facilitate and monitor the private sector to competitively produce goods and services for the regional market.

There is a need to move from a high tax/low compliance regime to a low tax/high compliance environment. This will lead to sustainable growth and a manageable fiscal policy by the Government. Tax thresholds may also need to be reviewed in the context of regional competitiveness and inflationary factors.

At the local Government level there has also been a tendency to impose arbitrary levies and taxes, all of which either promote corruption or raise the cost of doing business.

Exporters face further difficulty in that the duty drawback scheme has been a major ongoing administrative and fiscal problem with long delays on payments resulting in lower competitiveness.

Due to the anti-export bias combined with import liberalization there is increasing pressure from manufacturers to raise tariffs as a form of protection. Tax evasion has worsened the situation as shown in particular within the textile industry where imported textiles that have evaded tax have led to the demise of the local industry. In general there is demand by manufacturers to create a level playing field whereby tariffs on imported finished products are not the same as or lower than the tariffs on raw materials or intermediate inputs.

4.4.7 Domestic Production Review

(a) Agriculture

United Republic of Tanzania's economy crucially depends on agriculture for development and growth. The sector contributes about 50 per cent to the GDP and accounts for about 75 per cent of the country's foreign exchange earnings. Furthermore, about 80 per cent of the population depends on agriculture for their livelihood.

In 1997, the agriculture sector registered a growth of 19.3 per cent compared to 25.7 per cent in 1996, all at current prices. An area of 4.6 million hectares was cultivated with maize, sorghum, millet, wheat, beans, bananas, cassava and other food crops. The cultivated area dropped by 6 per cent compared to the previous season. A total area of only 0.8 million hectares which is equivalent to about 17 per cent of total cultivated land which was harvested during the unusual rains which began in November 1997 (the El Nino rains). Much of the produce was destroyed. Furthermore, more than 2,259 hectares of irrigated areas were lost as a result of the destruction of irrigation schemes.

(1) Cash Crops

Sisal and tobacco procurement increased during l998 compared to 1996/1997, while cotton procurement declined. The purchases for other cash crops have remained more or less the same.

(2) Non-Traditional Crops

Foreign exchange earnings from non-traditional crops which include vegetables, fruits, flowers and seed flowers, groundnuts and sesame amounted to TShs. 2.7 billion in 1997. A total of 3,552 tons of these crops were exported. Private sector involvement in the strengthening of extension services and training to farmers has promoted production of these crops.

(3) Constraints

In 1997/1998,the agricultural sector continued to be constrained by the following problems:

- High input and farm implement prices;
- Lack of well established mechanism for credit to small holder farmers;
- Late payment to farmers for their produce.

(b) Manufacturing

While growth of manufacturing value added was negative during 1979 – 1985, in the post-1986 period average growth of the manufacturing sector recovered to about 5 per cent per year. This recovery was achieved within the same industrial structure under which the decline of industry ccurred in the first place. The question which has yet to be answered is whether this recovery is sustainable. It would appear that this is more of a capacity utilization boom, whose sustainability will largely depend on the capacity of the economy to shift away from dependence on donor financing and generate higher levels of export earnings. Even more important, sustainability of industrial recovery will require industrial restructuring in the direction of efficiency and competitiveness.

The envisaged industrialization process has not been realized on account of policy failures, inadequate institutional capacity, poor infrastructure, and little commitment to make necessary investments to cope with technological change and failure to invest in the required human resources.

Because of the production crisis and overall economic crisis that the country was facing, the share of manufactured exports to total exports declined to 14.5 per cent in 1996. It started showing signs of improvement, and its share increased to 16.7 per cent in 1997. In value terms, exports of manufactured goods picked up in the reform period and peaked at $97 million in 1990, to reach $52 million in 1993. Thereafter, manufacturing exports picked up again to reach $109 million in 1995 and have continued more or less at the same level up to 1997. Since 1995, manufactured export performance has tended to stagnate, a development that questions the dynamism of this sector and raises concern over the need to improve this situation (see annex XI).

(c) Tourism

Tourism in United Republic of Tanzania is rapidly realizing its potential. Despite a very weak infrastructure and poor communications there has been significant new investments in recent years. Zanzibar has witnessed the opening of a number of new resorts and charter flights from Europe. The mainland is developing new tourist circuits in the South and improving on its source market promotions. The removal of much of the bureaucracy and controls in the economy over the last five years has also encouraged both visitors and investors. In 1997 tourist arrivals had reached 350,000, up 13 per cent on the previous year.

4.4.8 Domestic Trade Policy Review

In Eastern and Southern Africa, United Republic of Tanzania has a potential comparative advantage in, for example: marine resources, agricultural potential in food and cash crops, livestock and horticulture, tourism, minerals and energy. United Republic of Tanzania's ports and transit position are other areas from which it benefits in EAC, SADC, COMESA regional economic cooperation arrangements. However, there are many shortcomings both in the implementation of policies and in the performance of the economy.

Over the years there have been progressive capacity under-utilization and virtual disappearance of many locally manufactured goods. This phenomenon can be seen in any street in Dar-es-Salaam, where there are countless "walking shops" of foreign goods carried on the backs of some of the energetic persons who have abandoned production in the villages and in the factories. The risk is a backlash against this perceived flood of imported products, and increasing pressure to revert to a protectionist stance. This would be an error, not only for the well recognized economic reasons but also because countries such as United Republic of Tanzania do not have sufficient domestic capital to generate economic growth and employment. FDI is an essential input and this will not be attracted to a protected, distorted, controlled small domestic market place.

It is interesting to look at an example of intra-East African competitiveness to illustrate the problem. The example provided compared the costs of producing cotton fabric in the three countries (table 4.3). Not unexpectedly Kenya came out with the lowest cost of production, followed by Uganda and then United Republic of Tanzania. This explains two things – either United Republic of Tanzania does not have a “natural” competitiveness in this product line; or that costs of production are distorted by non-competitive, domestic input costs such as utilities. Given that the fundamental potential to produce cotton fabric in the three countries is not very different, one must conclude that it is the distorted input process that affect the competitiveness of United Republic of Tanzania and to a lesser degree Uganda.

Table 4.3: Cost of Producing 200 gms/Square Metre of Cotton Fabrics (US$)

	Uganda		**Kenya**		**Tanzania, U.R.**	
Cost Component	Cost	%	Cost	%	Cost	%
Cotton	0.433	21.5	0.74	42.8	0.53	21.95
Chemicals	0.188	9.3	0.17	9.66	0.46	19.01
Direct Labour	0.147	7.3	0.52	30.14	0.26	10.68
Utilities	0.302	14.9	0.18	10.30	0.5	20.52
Other Overhead	0.681	33.7	0.02	0.98	0.63	26.13
Depreciation	0.266	13.2	0.11	6.07	0.04	1.66
Total	2.017	100	1.74	100	2.42	100

Source: Comparative Cost of Production Analysis in East Africa, Mwaniki Associates

The country has as yet made serious efforts at promoting exports. This is clear from the fact that, to date United Republic of Tanzania's major export earners are agricultural products, which are exported, in raw form. Export diversification – that is, increasing exports of manufactured goods is feasible. The country has sufficient raw materials which can enable it to produce a number of basic consumer goods and also enough natural resources which can enable the country to produce intermediate end capital goods. On the other hand, a well developed system of harbours, railways and roads could earn the country substantial revenue in foreign exchange not only from the East African countries but also from other hinterland countries such as Burundi, Rwanda, Zambia, etc.

“To alleviate this problem, Tanzania could develop basic consumer goods industries which would produce for the domestic market as well as for the export market within the region. For these basic consumer goods industries to perform better than the existing industries in the product lines, e.g. textiles and leather related industries the major pitfalls that have affected the efficiency of the current industrial establishments will have to be overcome. That is they must have strong local roots in terms of financing, technology and management, use to the fullest extent possible local raw materials and should be vertically and horizontally integrated within United Republic of Tanzania economy. Also the industries must operate at maximum efficiency in order to be able to produce products which can compete successfully within the EAC.”[5]

Adopting an export oriented industrialization strategy, United Republic of Tanzania could boost the chances of export diversification. This entails the identification of the products in which it has a comparative cost-advantage over other countries in the region, such as export of processed fish and fish products; vegetables; and processed animal products (see also annex VII).

[5] Review of Economic Implications For Tanzania Regional Co-operation Arrangements, ESRF, 1997

4.5 Conclusion

It is within this context that United Republic of Tanzania develops its future trade policy. At the present time a formal national trade policy does not exist. Nevertheless, there are a number of policies and directions taken by the country that constitute the main elements of a trade policy. These are usually built into overall economic policy that is based upon macro-economic and market reform, trade liberalization, exchange control liberalization, privatization and the like. Work has been done for a number of years on developing a formal trade policy but it is not yet complete. The current tariff regime is based around five bands being 0 per cent, 5 per cent, 10 per cent, 20 per cent and 30 per cent. There has been considerable rationalization of tariffs over the last five years.

A number of key issues require to be debated further by the stakeholders. These include:

- The roles of the public and private sectors;
- Revenue implications of tariff reduction programmes;
- National competitiveness in the context of production and supply constraints, infrastructure and the rehabilitation of the manufacturing sector;
- Increasing efficiency and effectiveness of the trade facilitation system;
- Capacity-building of institutions involved in trade policy formulation and those facilitating competitiveness. These would include the Ministry of Industry and Trade, Customs, Export Promotion Board, Chambers of Commerce, and the like;
- Review of the legal framework to ensure compatibility with the MTS agreements;
- Review of the domestic taxation system and incentives to promote investment;
- Review of bureaucracy and hidden costs affecting businesses operations;
- Removal of confusion and overlapping agendas amongst different trade agreements and creation of linkages between such agreements;
- Creation of export finance facilities;
- Implementation of agreed policies and protection versus openness.

United Republic of Tanzania will continue to rely on its traditional exports for the medium term. These are targeted at the developed European and Asian markets. However there is potential to increase exports of non-traditional products such as horticulture and floriculture, timber products, processed fish, leather products and mineral products. These are all resource based and the objective would be to achieve some level of value added processing prior to export. On the manufactured side there is limited scope to export to neighbouring markets products such as edible oils, beer, cement and metal products.

United Republic of Tanzania needs to enhance its trade development polices to upgrade skills, and increase productivity. Remaining anti-export biases in the economy need to be removed while the costs of utility services should be reduced. Perceived corruption and weak administration are seen as serious constraints that must be overcome if there is to be a conducive environment for business. Closely related to this is the need to attract more FDI into productive activity as a source of finance for development. Policies should focus on increasing value-added performance within resource-based industries. This will require capital investment to rehabilitate infrastructure to facilitate market access.

CHAPTER 5
TRADE POLICY IMPACT OF WTO AGREEMENTS

The WTO requirements outlined in Chapter 1 are onerous for developing countries. This chapter provides the details of the specific trade policy reforms required, and indicates what United Republic of Tanzania has done or needs to do.

5.1 General conformity to WTO rules

United Republic of Tanzania has not yet been reviewed under the Trade Policy Review Mechanism (as a least developed country, it need not be included in the usual six-year cycle). A review was scheduled for March 2000. In the years since 1995, Uganda and Kenya (which as non-LDC developing countries have higher level of requirements) have made regular notifications of the stages of compliance to the WTO. United Republic of Tanzania has made far fewer notifications.

Ensuring sufficient representation in Geneva is one of the difficulties faced by small economies. This is needed to acquire full information on WTO requirements, including how these are being interpreted by the WTO, by the dispute procedure, and by other countries. But it is also necessary because initiatives for new policies come from individual countries, and arise from discussions before they reach the stage of formal proposals. Some countries still have no representation in Geneva, relying on embassies in other European capitals (often Brussels for the ACP). This is a serious handicap even in keeping informed about decisions by the WTO, and makes any negotiating position effectively impossible.

Kenya had 3 staff members in Geneva in 1997 (up from 1 in 1982 and 2 in 1987), while United Republic of Tanzania also had a representation of 5 in 1997. United Republic of Tanzania is exceptional among LDCs in the size of its representation. It was active in the Uruguay Round negotiations (as a least developed country leader), and its representatives have chaired important GATT and WTO committees, and the WTO General Council in 1999. This is in contrast to its weak position on notifications. Moreover, United Republic of Tanzania has the additional responsibility for trade under SADC, and its ambassador takes the lead in cocoordinating their response. Its large representation may reflect this situation.

There have been proposals to assist developing countries, including least developed countries, ACP Group of States, Commonwealth, or other regional groups. While such assistance has not fully materialized, if it does, it should never be more than financial, because donor interests and developing country interests in the negotiations may differ.

United Republic of Tanzania needs good and timely information about WTO decisions (and their interpretation) and a capacity to influence the new agenda of the WTO at an early stage. The WTO is “member-driven” and reacts only to member initiatives. Financial assistance could be sought, but technical or other direct participation would be inappropriate in a negotiating organization.

5.2 Tariffs, import licensing and other interventions on imports

United Republic of Tanzania and other East African countries had already abolished most import licensing, before the end of the Uruguay Round. In 1996, Uganda notified its remaining requirements to the WTO. Kenya notified the goods requiring licenses in 1997, but stated that (except for prohibited imports, which were mainly prohibited parts of endangered species or hazardous materials) there were no quantitative controls. Some were for sanitary and phytosanitary, environmental, or technical standard reasons, including live animals, seafood products, plants and cuttings, insecticides, etc. Others were simply listed as still requiring specific approval. These included weapons and other explosives. It also notified that it was retaining the freedom to impose import controls on clothing and textiles, but this has not been used. All these would probably be permitted under standard GATT or WTO exceptions, but they would need to be reclassified and the appropriate exception specified. All have removed export licensing (although some certification procedures remain). The countries are, therefore, probably in compliance on these.

United Republic of Tanzania, Kenya and Uganda bound most of their tariffs, although in most cases above current rates. Kenya bound agricultural tariffs at 100 per cent and other products at between 18 per cent and 62 per cent (CREDIT 1998). United Republic of Tanzania bound agricultural products and some others at 120 per cent. Uganda bound 87 per cent of its agricultural products, most at 80 per cent, and the remainder at between 40 per cent and 70 per cent, and bound about 15 per cent of its non-agricultural products at between 40 per cent and 80 per cent, giving a total share of bound tariffs at about one-quarter (WTO, Trade Policy Review, 1995). Its applied rates are between 0 and 60 per cent, but most fall between 10 and 30 per cent. There are no formal requirements on the percentage of tariffs to be bound, although there was strong pressure to bind all agricultural tariffs. Binding all tariffs is likely to be required in the next round. This could put pressure on Uganda to renounce its still large degree of flexibility on policy for industrial goods.

Under the Integrated Framework for Trade-Related Technical Assistance to LDCs (Integrated Framework), it is the IMF which has responsibility for providing assistance on “rationalizing the import tariff” and improving “efficient collection of revenues” in all the countries. Such measures are part of the general development side of the programme, not required as part of the Uruguay Round compliance. See also annexes III and VI for details on the evolution of trade taxes in United Republic of Tanzania.

United Republic of Tanzania as well as Kenya and Uganda have complied with most of the Uruguay Round requirements on their import licensing and tariff regimes. They may need to reformulate their legislation to fit the authorized exceptions more precisely. This should be a matter for simple technical assistance. They may be under other pressure to reduce the level or the differentiation of their tariffs, especially in any new round of multilateral trade negotiations.

5.3 Agriculture

Under the Uruguay Round Agreement on Agriculture, all agricultural quantitative border measures were to be replaced by tariffs, although these could be (and were) designed to provide substantially the same level of protection (and thus range up to 1,000 per cent in some developed countries). Then, tariffs and export subsidies were to be reduced by 36 per cent over six years by developed countries. Developing countries were allowed 10 years, with a minimum reduction of 24 per cent. LDCs were not required to make any reduction. Domestic support was to be reduced by 20 per cent (developed countries), or 13.3 per cent (developing).

Measures judged to have a minimal effect on trade, the so-called “green box”, are excluded from the reduction commitments. In particular, income-support policies not linked to output were permitted, as are environmental programmes and domestic food aid. Certain assistance measures to promote agricultural and rural development were allowed in developing countries. Direct payments under production-limiting programmes, are also broadly exempt. The problem is that both these are more available to developed countries than to developing. The exemptions for least developed countries mean that Uganda and United Republic of Tanzania are not required to notify or change their rules.

United Republic of Tanzania is in compliance on agricultural support. The country needs to watch the forthcoming WTO negotiations on agriculture under the built-in agenda, as the requirements could be tightened, and it may face pressure outside WTO requirements.

5.4 Services

Shortly before the completion of the Uruguay Round, GATT made estimates of the developing countries most dependent on exports of services. Kenya (at about one-half of export earnings) and United Republic of Tanzania (one-third) were both among them. Uganda is trying to increase its earnings.

Including services in the GATT disciplines was one of the principal objectives of the United States in proposing the Uruguay Round. The outcome was less than was hoped before the Uruguay Round, but much more than might have been expected given the 40 years it had taken to obtain substantial reductions in tariffs on goods. Except for minor provisions on the timing of submitting the offers and a section on the need for information and technical assistance, but to improve efficiency, not compliance, there are no special provisions for developing countries. There was a general principle in GATS article IV on increasing the participation of developing countries. They were also allowed to delay setting up the “National Enquiry Points” that were to give information about a country’s specific regulations.

The GATS explicitly provided for new general negotiations to be held within five years – by 2000. In some sectors these negotiations were to begin immediately. These included financial services and shipping, where there were serious disagreements at the end of the negotiations, and most offers were left provisional; basic telecommunications (telephone systems, etc.) where there was a basic division between those who had liberalized their national service and the rest; and labour movements.

The types of demands made in the negotiations on trade in services went beyond what is meant by “access” for goods. This was partly because of the nature of intervention in services. Although there are some taxes and fees which are equivalent to tariffs in trade in goods (port and customs services charges; taxes on travel or transport services, etc.), many more obstacles are either in the form of direct Government regulation or limits on establishing a distributor in the foreign market.

The approach of regulating the supplier rather than the service is reflected in the four-way classification of “means of provision” of services used in the agreed framework. These are: (i) cross-border supply (the direct equivalent of trade in goods); (ii) consumption abroad (arguably closely equivalent); (iii) commercial presence (effectively taken for granted in trade in goods, but the direct and intangible character of services makes the nature of the presence more critical than the nature of a sales agent for a good); and (iv) presence of “natural persons” (again, a need for this is a consequence of the nature of many services).

The manner in which a country’s treatment of services is brought under the WTO are effectively divided into four. The first decision is whether a service will be opened to international regulation, that it, incorporated in a country’s offer. For those which are, a country can register any of three types of control: restrictions on market access, limitations on national treatment of the supplier, or derogations from the general rule of Most Favoured Nation among suppliers. All of the last three can be at national, sectoral, or individual service level. Most of the offers are subject to some general national restrictions, with additional ones on individual items.

It was thus possible to avoid opening services and thus retain the right to increase current controls: by not making any offer in some, even most, sectors; by imposing and registering strict restrictions; or by specifying the registered restrictions as “unbound”. The agreement on services lists the types of barriers which would be considered obstacles to access, and which a country must therefore specify if it wishes to maintain them. They are a mixture of restrictions analogous to NTBs on goods (quotas on suppliers or transactions), restrictions on labour, and restrictions on capital. The listing is on a “positive list” principle: services not listed in a country’s offer are not included. The offers on individual sectors were prepared under 11 headings: business, communications, construction, distribution, education, environment, financial, health, tourism, recreation, and transport. Government services (and Government procurement) are excluded (unless expressly added). All countries were required to “offer” at least one sector, but there was no minimum degree of liberalization within this.

The GATT Secretariat disaggregated the commitments by detailed sub-sector and by type of commitment. The average share of the total possible commitments for developing countries was 15 per cent, with Asia highest at 26 per cent and Africa lowest at 10 per cent. The European Union and the United States both included about 60 per cent. Measured using only the 11 major sectors, the same pattern held: the African countries normally offered fewer than half the sectors, with several at only one. The Latin American and more advanced Asian countries made offers in more than half the sectors, and India and Pakistan offered 5. Almost all the developing countries have made offers in tourism (and this is frequently the single offer for those making only one). Kenya offered four: communication, financial services, tourism and transport. United Republic of Tanzania and Uganda both offered only tourism. In principle therefore, all gained much more on access than they offered.

The African offers are, fairly consistent, and limited even in countries which have opened their trade in goods. A closer examination of individual countries shows that for the sectors in which they do make offers, the detail is much less than in the offers of the industrial countries or of the Latin American and more advanced Asian countries, presumably reflecting less advanced domestic regulatory regimes.

The need to specify at the time of the offer all MFN exemptions (special arrangements within regions) and all limitations on the services which are scheduled, without the possibility of adding to them, as countries become more experienced in using, providing and trading services, not surprisingly, made the least developed countries very cautious in offering individual sectors. (It might have been possible to make detailed, but unbound, registration of current regulation, as India did, but this option seems to have been little used.) Although developing countries can create an effect equivalent to protection from imports (where reciprocity has not been specified) through not making offers and using the offers of those that have made them on a MFN basis, there is no provision for an equivalent of preferences. Industrial countries could have created this, through appropriate scheduling of MFN exemptions, but they have not done so with minor exceptions.

Since the Uruguay Round, financial services and telecommunications were (as agreed) renegotiated, and Kenya has revised its financial services section, while Uganda added telecommunications. Both have also made the required notification on a “National Enquiry Point”. Assistance in developing services policies is being provided by UNCTAD, on increasing efficiency by the World Bank.

The WTO has now prepared reports for about 20 sectors on how the arrangements made in the Uruguay round are working, and on problems with them, which will help to set the agenda for simple reforms (www.wto.org/wto/services/w65.htm). The proposal for model WTO schedules could provide a structure for more fundamental negotiations, aimed at greatly extending the coverage and the degree of liberalization in a new services agreement. There are, however, still no data on how much countries, particularly developing countries, may have benefited (or lost) from progress so far. This lack of information will make the negotiations difficult. It requires countries to make their own studies and plans. The nature of the services negotiations has evolved differently from goods, with greater reliance on specialists (not necessarily from trade ministries), and therefore a particular need for a coordinated national approach. Electronic commerce, often linked to services, is not in itself an issue. It is a way of supplying goods or services (themselves governed by the relevant rules), or a particular way of carrying on business: as such it may be cross-border or not. The WTO and private business do not see it as raising new issues, but rather put the emphasis on what is being supplied. But the new forms will affect negotiations.

There is a strong expectation that developing countries will be expected to increase the number of sectors in which they have made offers in services, particularly countries such as United Republic of Tanzania with only one sector bound, and only a limited offer in that. As was clear in the initial offers, this is particularly difficult for countries with still limited domestic services sectors, because the existing regulation may be weak or poorly designed, and therefore both unsuitable for notification and unsuitable for the country to bind itself to for the future. This is seen as a priority area for all three countries. Although in numbers Kenya may meet expectations, its commitments are very limited. They need assistance in designing national objectives for the type of service sectors and nature of regulation, which they expect to need in the long run, and then to obtain information about how other similar countries regulate their services.

There were effectively no minimum requirements for services offers in the Uruguay Round, so United Republic of Tanzania has formally complied. But there will be much more pressure in the next round to make substantive offers. There has, as yet, been no clear indication on the type of assistance to be made available that United Republic of Tanzania will need for a major exercise in both economic strategy and regulatory legislation. The country will certainly need to find models: the WTO may offer one, but it may not be suitable for LDCs, or for countries with a high dependence on services income, or for countries in particular economic or political situations; analyzing its suitability would be a major task. Services should be a priority by policy makers in the countries and under the JITAP.

5.5 Non-tariff Barriers

The multilateral round of trade negotiations before the Uruguay Round – the Tokyo Round – had made the first effort to regulate these (although they had been in principle illegal from the beginning of GATT). They had been increasingly used by the developed countries in the 1970s and were becoming a major strain on the trading system.

The reforms to agriculture and the phasing out of the MFA in the Uruguay Round brought two of the major areas of protection under regulation, if not control. There is no formal classification or regulation; if they are forbidden measures, like quotas, they have always been illegal under GATT; if they are *de facto* barriers, but not formally forbidden, there are no constraints. United Republic of Tanzania must be aware of the rules and alert to the possibility of complaints by other countries.

Only well informed local trade experts, probably with a legal rather than an economic training and familiar with all their own country's economic measures can make a reasonable assessment of whether any non-tariff barriers are in conflict with WTO rules. Familiarity with complaints made and sustained about other countries' measures may help, so there is a role for the training in trade policy, but the judgments will need to be made by those trained: outside experts are unlikely to have the required detailed familiarity with local policies. This is an ongoing process, as the case law about what is a barrier evolves (particularly in areas like services), and therefore an ongoing requirement for following WTO dispute decisions.

5.6 Subsidies

The Agreement on Subsidies and Countervailing Measures defined subsidies not allowed on traded goods. It exempted LDCs from the provisions on export subsidies, and gave other developing countries eight years to conform. For import replacing subsidies, LDCs had eight years and other developing countries five. Developing countries are also allowed a stricter standard of proof in any complaint: for developed countries, there is a presumption that any subsidy equivalent to more than 5 per cent of the value of the product is damaging, but for developing countries it is necessary to prove damage. While some phasing out was to occur during these periods, the countries have no obligations, except on import-related subsides by 2003; they can apply for an extension (giving at least a year's notice) beyond this.

Until then, their obligation is to notify the WTO of any subsidies. They need not notify permitted subsidies, for example, within the *de minimis* provisions (3% for manufactures, 10% for agriculture), or green measures. But if a country does not notify a subsidy that does come under the regulations, then it loses its exemption period, leaving a dilemma if there are subsidies about which it was doubtful, although this becomes less important as 2000 and 2003 draws nearer. United Republic of Tanzania has not notified subsidies, so if any are now challenged and found to be unacceptable subsidies, they will not be able to secure exemption.

As with NTBs, United Republic of Tanzania must re-examine all Government measures to see if they are in conflict with the new provisions on subsidies, using the training which they can obtain from the international organizations.

5.7 Anti-dumping rules, countervailing actions and safeguards

The decreasing level and flexibility of tariffs made the use of alternative ways of controlling unexpected and unwelcome increases in imports during the 1980s and 1990s. Thus a clearer definition of subsidies in both the Agreement on Subsidies and Countervailing Measures and the Agreement on Agriculture made the scope for using countervailing measures clearer. (Agricultural subsidies are not actionable until 2003, because of a "cease-fire" agreed in the Uruguay Round). Anti-dumping measures are taken against countries exporting goods at prices below home prices because of action by private companies. Countervailing measures are taken where a subsidy by the exporter's government can be identified. Safeguards in general are measures taken where there is no formal finding of dumping or subsidy, and therefore no other available action, but a country can show "serious injury" .

The pre-Uruguay Round GATT agreement allowed countries whose producers were being "seriously injured" (article XIX) by a rise in imports to impose temporary controls on imports of that good. It did not permit these quotas to discriminate by country. Country-specific quotas were, however, among the most frequent NTBs, and making these legitimate was one of the European Union's objectives for the Round. The Agreement on Safeguards permitted this, introducing regulations on how they are used. Normally the quotas should be equal to recent shares in imports, unless the increase from "certain members" is "disproportionate". Developing countries appear favoured by the provision that imports from them should not be controlled unless one country accounts for more than 3 per cent of total imports or all imports from developing countries with less than 3 per cent account for more than 9 per cent. But in practice, as new suppliers, they cannot avoid having "disproportionate" increases if they are to acquire any market share. There is a four year initial and eight-year total limit on all controls. Developing countries are allowed to extend these to 10 years. Existing controls, none of which met the article XIX or the new rules, had to be brought into conformity with the new regulations within four years.

The principal users of anti-dumping measures have been the United States, Australia and European Union. The United States and Australia have also been the principal users of countervailing duties. Of the East African countries, none has used anti-dumping and only Kenya has been the subject of it. The Uruguay Round agreement replaced a "plurilateral" code adopted in the Tokyo Round (which countries could follow or not). It gave a new, in some ways more flexible, definition of the prices to be used in making investigations of dumping and also introduced requirements for procedures and automatic review after five years. The new rules in most cases required countries to revise their existing legislation, and to notify when this was done.

The anti-dumping rules make no distinction in their application between developed and developing countries. The new rules on countervailing duties (against domestic subsidies to production or export) do have higher *de minimis* provisions for them and some exemption for subsidies, partly to bring them into line with the more relaxed rules on subsidies and longer periods of adjustment allowed to developing countries by the other sections of the settlement. The only special mention of developing countries in the anti-dumping provisions is that they may need assistance to meet the more detailed provisions when taking their own anti-dumping actions.

The WTO has taken the requirement to conform to the new rules to mean that countries with no legislation had to introduce such legislation, and has been particularly active in technical assistance and encouragement in this area. There is a COMESA regime for anti-dumping to which United Republic of Tanzania, together with Kenya and Uganda, is a party. This is likely to need amendment, and Kenya requested WTO assistance for this in 1996. Clearly, the East African countries will need to coordinate the revisions with each other and the other COMESA members. None of the countries has formal procedures for other safeguard measures, although Kenya has notified that it takes *ad hoc* measures.

As developing country producers may compete more on cost factors than those in industrial countries, the increased scope of the anti-dumping actions is more likely to damage them than industrial countries. This is reinforced by the increased respectability given to this form of protection by its greater prominence in the WTO system and by such innovations as GATT courses in how to take anti-dumping action for developing countries.

Both the anti-dumping procedures and the subsidies codes (on which countervailing actions are based) are now subject to much more precise regulation. In itself, this increases certainty and reduces the possibility of arbitrary action, but it also makes any dispute potentially more technically complicated. This could put poor or inexperienced countries and new firms at a disadvantage. The response offered by WTO (and other international institutions) is increased training.

For formal compliance with the WTO, United Republic of Tanzania must see that the COMESA rules and procedures on anti-dumping, countervailing, and safeguards are reformed to fit the WTO rules, and this appears to be under way. It is important to ensure that it is co-coordinated across all COMESA. There are, however, no immediate national interests in such legislation, as either plaintiff or defendant, so it is not in policy terms a priority for implementation. From a negotiating point of view, however, reforming the system may be a priority if rules are included in the next Round, especially as the number of anti-dumping cases continues to rise.

5.8 Customs valuation and other customs rules

The Uruguay Round agreements included a range of rules on items like customs valuation which require countries to check whether they comply. United Republic of Tanzania and other East African countries have formally requested the delay in implementation permitted to developing countries. (None had submitted legislation for approval under the Tokyo Round procedures.) Uganda stated in its trade policy review that it intended to comply. This is an area that not only requires formal changes in the customs rules and training of officials (on which assistance is possible), but has potential effects on tariff revenue, unless complementary changes are made in tariff or other tax legislation. Using reference prices (as has been done) instead of the actual prices (as required by the WTO rules) can mean that tariffs are calculated on a higher base. Therefore, reform requires national analysis as well as formal compliance.

The East African countries are approaching the end of the permitted delays in conforming to the WTO rules on customs valuation. On a technical level, this will not be difficult, and the information and training are being made available. On the revenue side, United Republic of Tanzania needs to give more priority to reforming the tariff or tax system to keep the level of revenue up. It is probable that all the East African countries have sufficient margin below their bound tariff rates to make any necessary adjustments, but they may choose alternative taxes as part of a more general fiscal reform.

5.9 Pre-shipment inspection

On pre-shipment inspection, there was considerable suspicion by the developed countries of its use by developing countries, which led to its inclusion in the Uruguay Round negotiations. It had become a less heated issue by the end of the Round, partly because greater experience had already led to more standard procedures.

Since the mid-1980s, many developing countries had brought in international agents to check the price and/or quality of their imports before they were shipped from the exporting country. This was intended to supplement normal customs procedures (in at least one case, Indonesia, it entirely replaced the customs service) and reduce the risks of exporters not meeting normal quality standards or over-pricing; developing countries were assumed to be vulnerable as inexperienced buyers.[6] It was also a deterrent to the use of over- or under-pricing to transfer funds to low-tax countries, profits beyond the reach of a possibly unstable country, and payments to possibly corrupt customs services. Exporters objected to it, ostensibly on the grounds of delay and cost.

The Uruguay Round agreement is phrased as clarifying existing GATT obligations, not instituting new ones. It does not forbid PSI but it requires non-discriminatory and transparent implementation, and commercial confidentiality. Exporters should not be required to supply extra information, and it sets a time limit for the inspection. The principal new requirement was the limits on which prices can be used for comparison of export prices: not

[6] This was not an imaginary problem: over-pricing to the OPEC countries in the late 1970s had been large and conspicuous enough to find its way into the specification of trade models, as well as into the consciousness of importers.

prices for products for other markets or from other countries or home prices in the importing country, and not the costs of production, for example. A separate dispute settlement mechanism is provided, but the normal GATT mechanisms remain available. The agreement refers throughout to "developing countries".[7]

The PSI provisions of the Uruguay Round were confusingly drafted and designed to meet a problem that was diminishing as the Round progressed. Formally, United Republic of Tanzania may be able to meet the requirements on transparency, although some of the points raised by Kenya suggest that there may be serious difficulties on "non-discrimination". In the long run, higher paid and better trained customs officials will obviate the need for PSI. It is not clear that this is an efficient use of scarce training and other resources in the short-run as this is an area (unlike most of those discussed here) where a substitute is available to purchase. United Republic of Tanzania will need to consider how to divide their resources between compliance and negotiating clarification or amendment of the provisions.

5.10 Trade Related Aspects of Intellectual Property Rights (TRIPS)

Copyright, patent and other forms of protecting "intellectual property" were not treated as trade (or even trade-related) issues before the Uruguay Round. They were treated under other international negotiations, notably through the World Intellectual Property Organization, or were subject to bilateral agreements.

They were brought into the Uruguay Round initially because exports from some South-East Asian countries of counterfeit goods, ranging from software to designer clothing, were seen as a growing problem.

Also, pharmaceutical companies, especially in the United States, had long seen local production of their products, without payment of licence fees and justified under national health policies, as a serious cost of their potential trade. If these could be treated as trade issues, this opened up the possibility of using trade sanctions, whether bilateral or multilateral through GATT, particularly as domestic enforcement mechanisms within the offending countries do not meet the agreed standards or are ineffectual.

The TRIPS Agreement thus had to go beyond the traditional GATT concept of national treatment, namely equality with local producers, to setting minimum acceptable standards for protection. It affects all goods and services, not only those traded. The agreement required countries to accept the substance of existing international conventions on copyright (the Berne Convention) and on patents (the Paris Convention). It also opened the WTO dispute settlement and enforcement mechanisms, including trade-offs with other trade issues, to those with intellectual property complaints. In principle, there should be no conflict between TRIPS provisions and those of the existing conventions: the WTO Agreement is declared to prevail in any conflicts of competence. It adds to the existing conventions by clarifying protection of computer programmes, databases, films, and unauthorized (and uncompensated) recording, and by specifying the minimum periods of protection. On patents, it allows countries to exclude certain types of processes for reasons of national policy, but

[7] As the 'least developed' countries are considered a separate group, not a sub-category of 'developing countries', in other provisions it is not clear whether the Agreement applies to them. This ambiguity is found in several parts of the Uruguay Round Agreement.

specifically includes among products to be patentable, the controversial one of plant varieties. It also specifies minimum legal and administrative procedure requirements to be used for enforcement.

Special treatment for developing countries in TRIPS is limited to transitional period for the adjustment. While industrial countries had to conform within a year (1995), developing countries had 5 years for implementation (the end of 1999). United Republic of Tanzania and other LDCs have 11 years (up to end of 2005, but this can be extended by the WTO TRIPS Council which is to supervize the agreement if a country makes a “duly motivated” request). In some cases where there is no current legislation, the middle-income countries have 10 years, but pharmaceutical and some chemical products can start to apply for patents immediately, receiving the protection as soon as the adjustment period is completed. There are increased obligations to license the use of technology.

United Republic of Tanzania must comply with the TRIPS rules within the next six year. The country has legal systems that are likely to be adaptable to the standard forms of laws.

5.11 Trade Related Investment Measures (TRIMS)

Trade-related investment measures were a major issue at the outset of the Uruguay Round, but faded into the background during the Round. Some of the issues related to investment were incorporated into other parts of the agreement, including services and TRIPS; changes in attitudes and in the direction of flows in investment probably also contributed. More industrial countries were receiving investment; more developing countries were liberalizing their own provisions, as part of their trade liberalization or because of growing confidence in their ability to exploit its advantages.

The TRIMs provisions deal only with investment related to traded goods (services investments are covered in the services section, and thus only apply to national offers). Its principal requirements are national treatment and prohibition of export or import restrictions, but these are specified as compliance with existing GATT articles III and XI. Effectively, therefore, it is merely confirming and perhaps clarifying existing obligations: it adds an “illustrative list” of measures that would be inconsistent with these articles. Developing countries can have temporary exemptions under the usual balance-of-payments protection conditions. There are further exceptions for not only existing arrangements with companies but concessions to companies that might compete with those which already have concessions. Countries are required to notify WTO of those measures which they are using, and to remove them within 2 years for industrial countries, 5 for developing and 7 for the least developed. Thus, United Republic of Tanzania has only just over two years to comply.

Until the Uruguay Round, investment law has not been central to GATT rules, and countries have been able to ignore the rules. Now, with the WTO and the strengthening of the dispute settlement procedure, increased interest in attracting foreign investment, and discussion of a more extensive regulation of investment under the WTO, United Republic of Tanzania needs at least to be aware of the rules, and its vulnerability if it does do not adapt to them. The wide variety of types of investment regime which are used by developing (and developed) countries, however, makes technical assistance less certain than in more clearly defined areas. It must be combined with awareness of other countries' regimes and national judgment.

5.12 Standards

These can be used as a barrier to trade, if a country sets unduly high standards, and especially if it expects higher standards in imports than in home production. But they can also be a real barrier, where there are genuine differences in standards or where there is lack of information about what the standards of export markets are or how to meet them. The WTO attempted to introduce transparency, through requiring identification of national standard-setting bodies, and to require technical or scientific justification for the standards used, restricting the possibility of using idiosyncratic national standards, by requiring countries to show a reason if they did not use international standards. This could cut not only the cost of setting standards, but the information cost, if all export markets had the same, international standards.

The agreement on technical barriers to trade was intended to prevent countries from using standards as barriers to trade, on any good. It therefore dealt with how standards should be set and enforced, requiring information and transparency, and use of international standards were available (unless there are special reasons). As with several other provisions, one of the requirements was the establishment of a national information point. United Republic of Tanzania has notified this to the WTO. It has also started to make joint notifications with other members of EAC (Kenya and Uganda). For developing countries, there was to be assistance in implementation, and also a requirement that international standards be attainable by them.

There was a request to allow them to not use international standards "which are not appropriate to their development, financial and trade needs", but this is not binding.

There was encouragement of international bodies to provide standards for developing country products. Again, they are allowed to apply for time to comply.

International standards are becoming more common, and for countries which have not yet set their own, adopting these at an early stage may be a particularly efficient step. Developing countries may therefore have an interest in promoting the adoption of international standards. An alternative for countries in a region like the EAC or COMESA is to move to regional standards; this may be a saving in costs on national standards, but still leaves the future costs of adapting when an international standard is eventually set. Notifications of regional standards have been made for the EAC. These need to be made by each of the three countries individually because EAC is not yet a recognized in the WTO.

Agricultural standards, especially sanitary and phytosanitary rules (SPS) are becoming increasingly important, and will be so particularly to agricultural exporters like United Republic of Tanzania. The WTO is providing technical assistance to all countries on this. There was explicit provision in the agreement for WTO members or international organizations to provide such assistance, and "where the appropriate level of protection allows scope for the phased introduction of new sanitary or phytosanitary measures longer time-frames for compliance should be accorded on products of interest to developing country Members". However, this was by implication in the requirements of developed countries (as it was to protect developing exports), not in the regulations of developing countries. For that, there was provision for them to apply to the Committee on SPS for time to comply. This was first aimed simply at the notification obligations, but has now acquired a more “developmental” orientation. The assistance provided, however, has so far been mainly in the form of regional seminars, rather than focused assessment of the training and institutional needs of individual standards organizations. Although the review of the needs of United Republic of Tanzania undertaken in 1997 (annex XII) suggested that direct assistance was needed. This remains, however, very short-term. It identifies a need for the international standards organizations to play a part.

The WTO is making progress in helping countries with the technical compliance with the WTO agreements on notification and application of standards, in connection with the provisions on Sanitary and Phytosanitary Measures and Technical Barriers to Trade. A more sustained assistance than the WTO provides is necessary for full compliance, probably from the standards organizations themselves or from an agency specializing in such assistance, e.g. ITC. It will be important to ensure that assistance to United Republic of Tanzania is coordinated across at least the EAC, and probably the COMESA, region to avoid duplication or conflicting advice, and to secure the economies from joint setting and enforcement of standards.

5.13 Government Procurement

The agreement on opening government purchases which was reached following the Tokyo Round was a “plurilateral agreement”, in other words GATT members could choose whether to join it. The agreement negotiated during the Uruguay Round has the same status in the WTO, an exception to the attempt to make the WTO universal. The new agreement includes extension to some services, including construction; to other levels of Government, at the equivalent of States or countries and some large cities (previously only national Governments were covered); and to five public utilities: water, ports, airports, electricity, and urban transport. The WTO estimated that this could extend its coverage by a factor of 10, but this is very uncertain because, as in the services agreement, countries have the option of deciding to which levels of Government and which utilities they will apply these extensions.

There was little direct effect on developing countries because the only developing country to sign was Republic of Korea. In principle there could be some diversion in countries which have followed the practice of permitting some foreign bidding, but with a price advantage for national bidders; by receiving national treatment, other members for the agreement will be placed at an advantage relative to non-members. The new agreement, however, is also intended to encourage more developing countries to join, apparently principally by providing assistance in analyzing the benefits to particular country of joining.

Whether United Republic of Tanzania should do so depends on whether it wants to export to Government purchasers who have joined the agreement, and whether it wants to give preference to any local suppliers who would be in competition from potential foreign suppliers. If a substantial proportion of a country's Government expenditure is financed by aid, there may be other constraints on its purchasing (and a commitment to open tendering could offer a counterweight to preferences for donors' suppliers). This is a question where United Republic of Tanzania must take its own view; international agency advice is unlikely to be sufficiently informed about the country situation to be useful, but the experience of other developing countries could be useful, although it will be difficult to find any that have signed.

There is no obligation to join the Agreement on Government Procurement, and few developing countries have. There could be advantages if any of the member countries exports anything that could be the subject of Government procurement in other countries which have signed. This is because unlike other WTO agreements, access depends on reciprocity, and there might be little cost because the countries may be heavily dependent on foreign suppliers for most tradable goods. The question for United Republic of Tanzania needs further national study, possibly with advice from similar countries, to determine the present purchasing and exporting prospects of each country.

5.14 Interactions between regions and the multilateral system

During the Uruguay Round, two important areas, Europe and North America, moved to closer integration through the intensification or formation of regional economic groups. This led to the inclusion of tighter regulations on how far regional trade agreements could operate within the WTO in the final settlement. Regional trade agreements violate the most fundamental principle of the GATT or the WTO, the most-favoured nation treatment, that members should treat all other members equally. (The special and differential treatment for developing countries and the extension of this to a division between developing and least developed countries, of course, also violates the rule; that is why it needed an amendment to the GATT agreement before GSP or other preferences could be allowed.)

However from the beginning, GATT recognized that some countries had special relationships with each other, and tried to find a compromise between allowing a reduction in barriers and minimizing the potential damage to those excluded. This is embodied in GATT article XXIV (and in the Enabling Clause for developing countries). The first requirement in both GATT article XXIV and the Enabling Clause is that all regional trade agreements be notified to the WTO to ensure transparency and compliance with the relevant WTO disciplines. Beyond this, the principal risk to non-members of a regional trade agreement is that their access to the members will be reduced. This can be done directly, through raising the barriers at the regional level. Thus, GATT article XXIV stipulates that regional trade agreements which form customs unions are forbidden to raise the overall tariff level. It can also happen indirectly. For example, by lowering barriers within the region, barriers to the outside are inevitably made higher in relative terms. If trade is then “diverted” to a supplier within the region, the former supplier is damaged. GATT article XXIV attempted to discourage this by requiring that any regional trade agreement cover substantially all trade, and thus prevent it from “cherry picking” the goods where there would be diversion from the outside, while not liberalising goods where there would be competition within the region.

The tightening in the Uruguay Round of disciplines of GATT article XXIV was:

- To clarify the calculation of the average tariff;
- To strengthen the regulation of indirect discrimination by setting a time limit on adjustment (10 years), to oblige regions to meet the criteria in a reasonable time;

- To gloss the definition of "substantially" by saying that no major sector could be excluded. While no official text was included, it may be seen as implying that the trade coverage of 90 per cent is necessary.

For trade in services, the GATS introduced a provision (article V) which was meant to be parallel to GATT article XXIV for goods. The rules for discriminating in favour of regional partners, however, are even less developed (although on paper stronger) than those for goods. They have not yet been tested by any ruling by the WTO on submission on trade in services made by some regional trade agreements involving primarily developed countries. The feasibility of partners' discriminating in the purchase of an immaterial item, however, may be more limited. The European Union set the precedent for substantial progress at regional level, but this was largely in the 1980s before the progress made at the WTO.

The structure of the way in which services offers were made discriminated in favour of existing regional trade agreements, and against new ones, with countries allowed to specify any discrimination that already existed, without limit, but subject to strict rules for new discrimination.

For all other questions, there is no formal provision either permitting or regulating regional discrimination. For some points (such as TRIPS) the regulations may seem so tight that there is no room for such discrimination. For others, the position is mixed. Some international standards prevent regional divergence; for areas where there are no international standards, regional standards may replace national ones, giving *de facto* discrimination in favour of the members of the group who all face the same standards in the regional partners as at home.

What are the implications for United Republic of Tanzania and other members of EAC, COMESA, and SADC? It remains likely that as a much smaller and economically weaker region than MERCOSUR, it is likely to be able to be examined only by the Committee on Trade Development. However the climate of opinion on regional trade agreements could make the examination stricter than in the past. As the declared objective of the EAC is zero internal tariffs, and the intended common external tariff will come after a period in which the countries have been lowering tariffs, this should not be a problem. On services, there are proposals to reduce barriers within the regions. While United Republic of Tanzania and other East African countries have not, as indicated above, made significant offers on services, and therefore are not bound in what they can do at the moment, if they are "encouraged" to offer more in the next negotiation round, the fact that they have not included each other as "exceptions to MFN" in their services offers could create complications. They may find it useful to have a clear idea of which services they intend to liberalize regionally and which they would be willing to liberalize multilaterally before they make further offers to the WTO on services.

The reduction in internal tariffs within COMESA may be less complete, but WTO members may need to test the liberalization which is achieved against the WTO criteria. The emphasis is likely to be on the potential damage a regional trade agreement may do to those excluded, rather than on details on rules. As small trading areas, both COMESA and EAC may escape strong opposition. In contrast, any agreement with a larger trading partner, particularly a developed country, for example the proposed Regional Economic Partnership with the European Union post-Lomé, would be more carefully examined both because the potential effects could be greater and because it would come under GATT article XXIV. Both EAC and COMESA will need to be formally notified to the Committee on Trade and Development. A regional trade agreement with the European Union would need to be notified to the Committee on Regional Trade Agreements.

With a common tariff, the countries will find themselves in the same position as the European Union and SACU in the next Round. They must act as a unit, at least on those matters which are EAC (or COMESA) responsibilities, for example, tariff, any services already negotiated, and common standards, etc.

United Republic of Tanzania and other East African countries will need to find an appropriate negotiating machinery. They may also want to work with the European Union, SACU, and MERCOSUR to find a way for regional trade agreements to have a formal role in the WTO.

The new regulations for regional trade agreements do not affect the EAC and COMESA arrangements on goods traded directly, but could affect the rigour with which they are examined. If these groupings move into further integration on services, they would need to balance this with any offers they make multilaterally because of the way the services agreement is structured. There is no effective form of external advice for this. Thus, United Republic of Tanzania (Kenya and Uganda) will need to look at how they will act together on common policies in future negotiations. Other customs unions offer examples, and may offer advice or a common position.

5.15 Labour and the environment

Rules on these have appeared in regional arrangements (notably in European Union and the NAFTA), but the rules and the provisions for enforcing them have been separate from the trade agreements. This is in accordance with the multilateral system, which up to now has dealt with these subjects by separate environmental covenants and the International Labour Office (ILO). Some members of the WTO have proposed including these in future negotiations, but this has not been generally accepted, especially by developing countries.

The WTO Symposium on Trade and Environment (15-16 March 1999) did not show a clear position in favour of including the environment explicitly in future negotiations. However, proposals to consider the environmental effects of different products or locations of production in trade negotiations could give countries which can present environmental cases some advantage. The products which have been suggested include fruit and cut flowers (relevant to Kenya) and non-timber forest products, including honey (relevant to United Republic of Tanzania), as well as wood, coal, oil, fish (relevant to all EAC), meat, sugar, leather, natural fibres, and non-ferrous metals (Page, 1999).

There is no need for immediate action on labour or environment issues to meet international standards (except for the existing environmental protocols and any obligations under ILO Conventions). But there will be opportunities for WTO members to use environmental arguments in trade negotiations, and therefore it may be useful to examine products for which liberalization is sought from this point of view.

5.16 Summary

United Republic of Tanzania needs good and timely information about WTO decisions (and their interpretation) and a capacity to influence the new agenda of the WTO at an early stage. The WTO is "member-driven" and reacts only to member initiatives. Financial assistance could be sought, but technical or other direct participation would be inappropriate in a negotiating organization. An adequate trade policy and an integrated institutional mechanism (involving all affected stakeholders) for follow-up at the national level is also crucial, in enhancing the country's capacity at the national level to respond effective to negotiations. Coordination with other developing countries, especially in trade negotiations affecting sectors of common interest, will help to ensure maximum benefits.

United Republic of Tanzania needs to ask for assistance in assessing its trading organizations (public and private), and identifying which adjustments are relevant to each of these. It needs to be aware of all the international organizations which may be relevant for each type of assistance, and ensure that the "lead organization" in each case makes full use of the expertise of the others. Effective follow-up at the national level on implementation of technical assistance is also important, given that such assistance increasingly focuses on developing national capacity to continue provision of similar services when the technical assistance comes to an end.

United Republic of Tanzania has complied with most of the Uruguay Round requirements on their import licensing and tariff regimes. It may need to reformulate its legislation to fit the authorized exceptions more precisely. This should be a matter for simple technical assistance. It may be under other pressure to reduce the level or the differentiation of its tariffs; this should be clearly differentiated from legal requirements.

Unless other countries successfully challenge any of United Republic of Tanzania's support measures, it is in compliance on agricultural support. The country needs to watch the forthcoming negotiations on agriculture as the requirements could be tightened, and they may face pressure outside WTO requirements. Also, the further liberalization may further erode the preferences United Republic of Tanzania enjoys in its major markets either as a member of the ACP Group or being in the LDCs category.

There were effectively no minimum requirements for services offers in the Uruguay Round, so United Republic of Tanzania and other East African countries have formally complied. But there will be much more pressure in the forthcoming mandatory next negotiations under GATS to make substantive offers. There has as yet been no clear indication that the type of assistance that the country will need for a major exercise in both economic strategy and regulatory legislation for services will be available. United Republic of Tanzania will certainly need to find models: the WTO may offer one, but it may not be suitable for LDCs, or for countries with a high dependence on services income, or for countries in particular economic or political situations - analyzing its suitability would be itself a major task. Services should be a priority for attention by policy makers in United Republic of Tanzania.

Only well informed local trade experts, probably with mainly legal but also economic training and familiar with all their own country's economic measures can make a reasonable assessment of whether any non-tariff barriers are in conflict with WTO rules. Familiarity with complaints made and sustained about other countries' measures may help, so there is a role for the training in trade policy but the judgments will need to be made by those trained. Outside experts are unlikely to have the required detailed familiarity with local policies.

As with non-tariff barriers, United Republic of Tanzania needs to reexamine all Government measures to see if they are in conflict with the new provisions on subsidies. It should use for this purpose its personnel who have benefited from the training on WTO rules provided by international organizations.

For formal compliance with the WTO, United Republic of Tanzania must see that the COMESA rules and procedures on anti-dumping, countervailing measures, and safeguards are reformed to fit the WTO rules, and this appears to be under way. It is important to ensure that it is cocoordinated across all COMESA. There are, however, no immediate national interests in such legislation as either plaintiff or defendant, so it is not in policy terms a priority for implementation.

Regarding negotiations, however, reforming the system may be a priority if rules are included in future negotiations, especially as the number of anti-dumping cases continue to rise.

United Republic of Tanzania is approaching the end of the permitted delays in conforming to the WTO rules on customs valuation. On a technical level, this will not be difficult, and the information and training are being made available. On the revenue side, the country needs to give more priority to reforming the tariff or tax system to keep the level of revenue up.

The PSI provisions of the Uruguay Round were confusingly drafted and designed to meet a problem that was diminishing as the round progressed. Formally, United Republic of Tanzania and other East African countries may be able to meet the requirements on transparency, although Kenya has suggested that there may be serious difficulties on "non-discrimination." In the long run, higher paid and better trained customs officials will obviate the need for PSI. United Republic of Tanzania will need to consider how to divide its resources between compliance and negotiating clarification or amendment of the provisions.

Kenya must comply with the TRIPS rules by the end of this year; United Republic of Tanzania and Uganda have another 6 years, and have access to technical assistance for this. All three have legal systems which are likely to be adaptable to the standard forms of laws. Thus, priority must be placed on improving such rules and assistance sought from WTO, WIPO and other donors to improve compliance with TRIPS.

Until now, investment law has not been central to GATT or WTO rules, and United Republic of Tanzania has been able to ignore the rules. Now, with the strengthening of the disputes procedure, increased interest in attracting foreign investment, and discussion of a more extensive regulation of investment under the WTO, United Republic of Tanzania needs at least to be aware of the rules, and their vulnerability if it does not adapt to them. The wide variety of types of investment regime which are used by developing (and developed) countries, however, makes technical assistance less certain than in more clearly defined areas. It must be combined with awareness of other countries' regimes and national judgment.

The new regulations for regional trade agreements do not affect the EAC countries' arrangements on goods trade directly, but could affect the way in which they are examined. If they move into further integration on services, they would need to balance this with any offers they make multilaterally because of the way the services agreement is structured. There is no effective form of external advice for this. They will need to look at how to act together on common policies in future negotiations; other customs unions offer examples, and may offer advice or a common position.

There is no need for immediate action on labour or environment issues to meet international standards (except for the existing environmental protocols and any obligations under ILO Conventions). But there will be opportunities for United Republic of Tanzania to use environmental arguments in trade negotiations, and therefore it may be useful to examine products for which liberalisation is sought from this point of view.

CHAPTER 6
CONCLUSIONS AND RECOMMENDATIONS

6.1 Continuous Trade Negotiations

By definition negotiation is the process of discussion and compromise in order to arrive at a mutually acceptable (not necessarily mutually beneficial) arrangement. In the past, trade negotiations were conducted in cycles and in between these cycles, the implementation of the agreed results took place. Today, international trade negotiations occur almost continuously, and involve many different forums. This presents a difficult challenge for all countries and in particular for developing countries and the least developed among them such as United Republic of Tanzania. The negotiations are not only onerous in terms of costs of participation and implementation of results, but also onerous in terms of addressing the many different and difficult trade subjects considered such as services and intellectual property rights.

The Uruguay Round was one of the more remarkable negotiation activities in the world in the last twenty years. It was the lengthiest round of all previous rounds, and included the largest number of participants, especially developing countries. However, African countries played a marginal role in the process despite the fact that the outcome set the scene for international trade relations for the foreseeable future.

The various Lomé Conventions (i.e. first, second third and fourth conventions) have also been one of the most dominant negotiation platforms on development since the Second World War. United Republic of Tanzania and other African States through the mechanism of the ACP Group have played a much more active role in the process. This was expected given the benefits in terms of financial assistance and market access provided by the European Union under the Convention. However, the significant point so far is that Lomé has been a one way traffic with trade and aid concessions flowing from the European Union States to the ACP States.

The PTA for Eastern and Southern Africa which became COMESA has been a more internal negotiation process for the African countries concerned. However negotiations on trade issues were relatively uncomplicated and were not protracted. Under the guidance of the UN agencies, the Economic Commission for Africa (ECA) and the PTA Secretariat a fairly straight forward process of tariff reductions was established, initially against a “Common List” and a set of rules of origin. In time these were modified from being exclusive to being inclusive and rules of ownership were removed from the qualifying criteria. While compliance with the tariff reduction process has been variable by the member States there has been no fundamental revision of the process.

The recreation of the East African Community is a relatively recent event and has been driven in the main by a political process. It has considerable economic impacts and will also see the development of a *de facto* Free Trade Area amongst the three member states. The trade negotiation process is in its infancy but some supporting impact analysis with World Bank support has been completed.

The Cross Border Initiative is not a formal trade agreement but is rather a technical process to assist the successful compliance by the member countries with their trade and investment liberalization commitments, as well as to try and fast track the liberalization process. It is aligned to the COMESA agreements and is supported by a number of the multilateral aid agencies.

United Republic of Tanzania has also been involved in the negotiations stemming from the SADC Trade Protocol. Through the SADC Trade Negotiation Forum (TNF), it has been included in the proposed tariff reduction process. This process is somewhat more complicated than that of COMESA and requires SADC States to give serious thought to impact analysis and the development of a sensitive list of products. If the process is successfully concluded it should give United Republic of Tanzania considerably improved access to the key South African market. The burden of this negotiation on United Republic of Tanzania has been augmented by the fact that the country is the co-coordinator for the trade sector in SADC and has responsibility for ensuring the finalization of the SADC free trade area.

Putting all these agreements and initiatives together, the following matrix emerges:

WTO	Lomé	COMESA	SADC	EAC	CBI
Kenya	Kenya	Kenya	-	Kenya	Kenya
Tanzania, U.R.	Tanzania, U.R.	Tanzania, U.R.	Tanzania, U.R.	Tanzania, U.R.	Tanzania, U.R.
Uganda	Uganda	Uganda	-	Uganda	Uganda

The anticipated end point of these agreements is as follows:

WTO	Lomé	COMESA	SADC	EAC
Liberalised, transparent world trade order	Mutually beneficial liberalised trade between the EUROPEAN UNION and the ACP states* Possibly leading to an FTA	Customs Union amongst participating states by the Year 2004 with a CET	Free Trade Area amongst participating states within 8 years of Trade Protocol entering into force	Customs Union possibly by the Year 2004 with a CET

* Excluding all of the other development functions of the Lome Convention

United Republic of Tanzania and the other two members of EAC have three levels of negotiations in which they need to be actively involved:

- The first is amongst themselves over the shape and form of the EAC;
- The second is with other African States within the context of COMESA or SADC; and
- The third is with the international community under both Lomé and the WTO.

6.2 The Negotiation Agenda

6.2.1 The Internal Negotiation Tasks and Stakeholders

Before United Republic of Tanzania (as well as Kenya and Uganda) can successfully take its place at the international negotiation fora it is important that it reach internal domestic agreement on the priorities, strategies and way forward. Some of the outstanding issues at the national level are as follows:

Tasks	Stakeholders	Inputs	Outputs
Tariff measures	Finance, Trade, Customs, CB, PS	Economic and revenue impact analysis	Tariff reduction/ stabilisation programme
Infant industry issues	Trade, PS, Finance	ERP analysis, incentive options, time frames	Programme of support to infant industries
Rules of origin and Customs issues	Finance, Customs, Public Service Board, Justice, PS	Resource requirements, legal amendments	Improved trade facilitation and transparency
Export incentives	Finance, Trade, CB, PS	Economic analysis, revenue impact	WTO compatible programmes to boost exports
Standards, technology and quality issues	Industry, Standards Bureau, Justice, PS	Technical and financial resources, legislation amendments	Enhanced value added production meeting international requirements
Trade Facilitation	Trade, Customs, Transport, Finance, CB, Justice, PS	Technical review of trade processes, documentary and legislative changes	Transparent, non-bureaucratic trade processes
Utility costs and infrastructure	Finance, Utility Operators, Transport, PS	Prioritisation of projects and processes affecting utility and transport provision	Competitive, efficient provision of utilities and transport

Key: Finance includes any National Revenue Authority.
Trade, Industry, Transport, Finance means any Ministries responsible for these issues.
Customs means the National Customs Authority.
CB means the Central Bank.
PS means the private sector representatives.

6.2.2 The Regional and International Negotiation Tasks

The following is a "suggested list" of the issues that need to debated, agreed upon and implemented within the context of the different agreements to which United Republic of Tanzania is a signatory:

EAC: Tariff reduction, tariff harmonization, common external tariff, infant industry protection, cross border investments, rules of origin compliance, customs administration, export incentives and export processing zones, labour regulations, utility costs, business licenses, and services.

COMESA: Common external tariff, rules of origin compliance, cross border investment, customs administration, cross border investments, labour movement, services, exchange controls, and trade facilitation

SADC: Tariff reduction, tariff harmonization, infant industry protection, cross border investments, rules of origin compliance, customs administration, export incentives, labour movement, services, and trade facilitation.

European Union: Tariff preferences, stabilization funds, reciprocity, trade development assistance, SPS measures, inward investment, trade facilitation, and services.

WTO: Tariff bindings, safeguard measures, countervailing and anti-dumping requirements, customs administration, legislative change, SPS, NTBs, competition policy, export incentives and subsidies, agreement on textiles and clothing, services, technical assistance, and technology transfer.

6.2.3 The External Negotiation Tasks and Timeframe

Leading from the above agendas is the setting out of an indicative framework of priority tasks and timings for United Republic of Tanzania's international negotiations. This framework would need to be debated and enhanced within the national context involving all key stakeholders.

MTS	Task					Probable Timeframe
EAC	Tariff reduction	HET	NTBs	Standards	Legislation	1999-2002
COMESA	Tariff reduction	CET	NTBs	Safeguard measures	Cross-border Investment	1999-2004
SADC	Tariff reduction	HET	NTBs	Safeguard measures	Cross-border Investment	1999-2007
EUROPEAN UNION	Re-negotiation of Lome	SPSs	NTBs	Market stability	Inward Investment	1999-2005
WTO	Notifications, Legislation	ATC	TRIMS	TRIPS	Services	1999-2005

6.2.4 Guiding Principles for Regional Integration

The principle of "reciprocity" has primacy in regional integration. It is a principle whereby preferences offered by one member country in a regional agreement should be reciprocated by all the other members under an agreed framework.

The "subsidiarity" principle underscores the need for integration schemes to incorporate multi-level participation and involvement of a wide range of stakeholders in the process. This implies that all relevant inputs will be allowed to influence developments in the regional cooperation arrangements, and highlights the recognition that there are various interest groups.

The "variable geometry" principle allows for progression in cooperation among a sub-group of members in larger integration schemes in a variety of areas and at different speeds. EAC, SADC and COMESA, in one way or another, have adopted a development integration approach which provides for continuing with functional cooperation in addressing the developmental issues of production, infrastructure and efficiency in the member countries and the different levels of economic development in each member country

The principle of "international competitiveness", whereby benefits of regional cooperation and/or integration can also be seen in terms of removing or reducing the economic problems and difficulties of the cooperating countries, individually or collectively. It implies an acceptance of the discipline of the global markets. International competitiveness is guided by the following factors: the macroeconomic environment; the ability to use and develop technology to reduce costs, improve product quality and generate new products; the ability to market products successfully in domestic, regional and international markets.

In addition to those trade negotiations, which are conducted individually, the member countries of an integration grouping can try to obtain trade agreements and concessions in bloc. This has greater effectiveness within a customs union whose external trade policy has been integrated into a common external tariff.

6.3 Issues of Particular Concern for United Republic of Tanzania

6.3.1 Regional

Common External Tariffs: Possibility of converging toward the least liberalized level. There is the possibility that under the EAC or COMESA arrangement negotiations would lead to the adoption of tariffs being applied by the least liberal member. This would effectively mean that those countries that have gone furthest along the tariff reform process would have to step backward and reimpose higher tariffs. This retrogressive step could be adopted in order to achieve consensus. This has a higher chance of happening in the EAC due to the small number of countries involved. In the context of COMESA it is expressly recognized in the treaty that some members may opt out at the start of a CET and that possibly only a sub-group would proceed, with the others joining at a later stage.

Rules of Origin: Over stringent requirements, questions of substantial transformation and inputs from third country member States. No need for internal rules of origin if effective CET in place. Rules of origin can often be used as NTBs. They can also be an administrative nightmare with the potential to generate corrupt practices. The principle of keeping it simple and easily verifiable should be followed, so that both the enterprises and the verifying authorities (usually Customs or the Chamber of Commerce) can use the rules as positive instruments for internal trade development and value-added processing.

Subsidies: Definitional issues and investigations of compliance. The LDCs have considerably more leeway under WTO rules to provide subsidies in one form or another for economic development. Clear definitions of what is permitted and what are not will need to debated and agreed upon. In United Republic of Tanzania (as well as Kenya and Uganda) the limits to the national budgets means that very little is actually available for direct subsidies to the enterprise community. Generally there are only duty drawback schemes which do not function very well and are under-resourced. Export development funding is usually through a donor programme providing technical assistance, concessionary finance or matching grant funds.

Overlapping obligations and variable time frames: These can cause considerable confusion. A Tanzanian importer, for example, will use the rules governing COMESA or the EAC for imports from Kenya. Or if he is importing from Zambia he will refer to the COMESA rules or the SADC rules.

Redistribution effects and possible compensatory mechanisms: As countries undergo structural change and the impact of liberalization, there is increasing pressure for development finance or compensatory mechanisms to be put in place to alleviate some of the short term negative effects. Often the issue is where such support is to come from. ACP countries are most familiar with the STABEX and SYSMIN systems of the European Union. Within the region, the only similar example is the revenue sharing formula operated by the South African Customs Union (SACU).

How to achieve large-scale impacts through regional integration: There is evidence to indicate that such integration tends to work best where the member States have a strong link to a major market. Relevant examples include SACU with South Africa, MERCOSUR with Brazil and the European Union with Germany. Given the dynamics of the Lomé Convention, COMESA and SADC there are various options that could be explored. Is it conceivable that under the EAC umbrella and given that United Republic of Tanzania is a member of SADC, a bilateral trade treaty could be negotiated between the EAC and SACU. This could anchor the EAC into the dynamism and size of the South African market as a counter-balance to possible loss of market preference into Europe.

Product differentiation: Another concern is the similar structure of production in United Republic of Tanzania, Kenya and Uganda with similar primary commodity exports, limited exchangeable manufactured products (with possible exception of Kenyan manufactured goods) and similar import requirements which are not produced in the region (such as machinery and transport equipment). However, while there are understandable fears that EAC regional integration will create difficulties for the domestic industries in United Republic of Tanzania and Uganda in particular, the overall adjustment process in which the three countries are involved will by definition increase competition for domestic industries. It is just possible that by creating competition within a more limited environment of East Africa, domestic industries will have time to adjust before facing the full onslaught of the international market place. Suitable exchange rate adjustments will have a vital role to play in this situation given the rapidly declining tariff barriers both at the regional and multilateral level. The essential feature amongst all this is a high level of coordinated action and harmonization of polices by the three countries if the process is to be successful and equitable. Development finance will play a crucial role in assisting the integration process.

6.4 Strategies to Improve Economic Performance

6.4.1 Strategies to Improve the Investment Potential

- *For Government*

A stable macro-economic and political environment: This is essential to attract regional and foreign investment. This includes stable rates of exchange, inflation and interest as well as the commitment of Governments in protecting the interests of those parties that invest in their countries. Policies planned for the economy need to be clearly stated, and deviations from the strategy should be minimal. A recent survey[8] carried out among United Kingdom investors to United Republic of Tanzania, Uganda, South Africa, Zambia and Zimbabwe, pointed out that some adjustment policies have done much to improve prospects. It was mainly through reducing regulation and bureaucracy through privatization, trade reform, new investment codes, decontrol of foreign exchange, prices and tax holidays. However, structural and social issues such as infrastructure, labour skills and regional integration had been neglected.

Privatization: It is a vehicle for attracting additional domestic and foreign investment flows. It acts as a signal of Government commitment to the private sector, consolidating the

[8] “Private Capital Flows to Sub-Saharan Africa, A Supply-Side Study”, External Finance for Africa, July 1997.

credibility attributed to other economic reform measures. It creates expectation that privatized companies will provide a more reliable service and will expand their capacity. It also creates an environment where investment could increase more easily.

Liberalization of financial markets: These would improve access to finance. In United Republic of Tanzania an institutional mechanism is needed to support a market economy through a legal environment where corporate disputes are settled on time.

Improved fiscal policy: The successful introduction of independent revenue authorities in some countries has improved efficiency in collecting taxes and providing a better environment for investment. More work can still be done in this area in United Republic of Tanzania.

Investment promotion: Investment promotion missions, with strong private sector participation, should be undertaken to let foreign investors know of the investment potential in United Republic of Tanzania and other East African countries. Investment Promotion Agencies should be more focused in their investment promotion and targeting efforts and their regional approach should be strengthened by setting-up campaigns for the region as a potential investment zone. Use the private sector to sell investment opportunities.

Reduced bureaucracy: The potential for corruption and investment costs will be reduced if regulations can be simplified and made more straightforward.

Other issues to be considered: These include: (a) allocating more resources to improvement of infrastructure; (b) diversifying sectors and source countries; and (c) targeting promotion efforts with a deeper analysis of firms' motivations, sectors' investment policies and ways of retaining existing investment.

- *For Regional Integration Institutions*

Promote regional investment among potential investors in the following areas:

- Creating a common market within the region to widen the consumption base;

- Promoting cross-border joint ventures;

- Improving information sharing and avoiding duplication of efforts;

- Implementing agreed programmes and projects;

- Coordinating investment promotion activities for member States. Example: The EAC seminar on "East Africa – from Cooperation to Community" in January 1999 in London which gathered senior Government officials from Kenya, United Republic of Tanzania and Uganda, EAC officials, delegates from the European Union and the Commonwealth Secretariat and the East African and foreign private sector. The seminar targeted participants from companies interested in setting up manufacturing, trading and business operation in the region, bankers and corporate financiers, fund managers and investment analysts, consultants, lawyers and other professional advisers;

- Creating and maintaining peace in the region. The institutions can play a central role in resolving ongoing disputes and devising effective mechanisms of conflict prevention. This in turn creates an environment more conducive for attracting investors.

- *For Donors*

The options proposed for the donors can be summarized as follows:

- Harmonizing donors' programmes to fit in with the priorities of the recipient;
- Focusing more on private sector development, recognizing them as an independent entities;
- Supporting efforts that either work toward increasing investment or toward minimizing impediments to investment;
- Improving coordination with other donors to avoid duplication in resource allocation;
- Facilitating access to finance especially for small- and medium-sized companies;
- Focusing on the improvement of the overall infrastructure of the countries.

- *For Private sector*

Focus on private-sector driven actions to improve the investment climate, financial services and local capacity, especially:

- Investing in capacity building through education and training to develop a better skilled labour force and to increase management capacity;
- Adopting a regional outlook and be pro-active;
- Seeking ways of diversifying available financial institutions and instruments for private sector development, such as investment funds and leasing companies;
- Developing a capacity to compete for resources and markets. Private sector associations should network with counterpart organizations in the region and internationally, for technology transfer, capital attraction and development of joint-ventures;
- Taking up opportunities created by the privatization programmes;
- Taking active part in investment promotion activities.

6.4.2 Strategies to Improve the Private Sector Participation in Regional Integration, and Trade Policy Formulation

All the main actors in the regional integration process can help improve the situation. Underlying this process should be a renewed commitment to regional integration, realizing that although there may be short-term problems associated with the process, the long-term gains will overall have a far greater impact.

(a) Governments

Governments should give a commitment to positively involve the private sector in policy dialogue relating to regional integration. In United Republic of Tanzania this would involve inviting private sector participation at the national level in determining national policy positions. The CBI Technical Working Groups (TWGs) could play an important role in this respect. They should be given the mandate by Governments to facilitate, at the national level, the decision-making process and subsequent implementation of decisions made by regional institutions. The TWGs should provide a forum in each country for discussion and debate between all relevant Government departments and the private sector. Furthermore they can initiate studies at the national level to help in the discussions at the regional level. Workshops and seminars, on a joint public/private sector platform, should be organized to discuss particularly important issues with the wider business community. For specific issues, special joint public/private task forces could be set up.

At the higher policy-making level, United Republic of Tanzania should consider establishing a joint public/private sector forum for regional integration issues. Membership of this forum would comprise Government Ministers with responsibility for economic and integration issues, Governors of the Central Banks and leaders of the private sector. In Mauritius a Regional Cooperation Council exists specifically for this function.

Governments should invite private sector representatives to be official delegates in their delegations to regional meetings where policy issues are discussed. If funding is a problem for certain representatives, Governments should seek means to cover the direct costs of their participation in regional meetings in the same way as the costs are covered for public sector officials. Close cooperation between the public and private sector on regional integration issues will do much to enhance mutual trust and respect between Government and private sector representatives.

(b) Private sector

The private sector in United Republic of Tanzania must become more proactive in respect to the issue of regional integration, realizing that the global liberalization trends will leave them behind unless these issues are given their full attention. Regional integration is a stepping stone to global integration of the markets, a trend that is well underway now in East Africa. Private business people, both from small as well as larger companies, need to give adequate resources to their membership organizations, in terms of manpower and finance, to enable these organizations to adequately participate in regional issues. These organizations need to be adequately staffed with professionals capable of handling these issues.

Business people also need to give of their time to meet with Government officials to discuss, lobby and participate in the process. This could involve participating in TWG or

EAEN meetings, workshops and other fora set up for discussing these issues. The apathy that has characterized private sector participation in these issues must be a thing of the past.

(c) Regional integration institutions

Regional integration institutions have to give more than lip-service to private sector participation in their activities. Some recent initiatives that are helpful include the decision by the EAC Secretariat to circulate widely the draft text of the Treaty to establish the East African Community. This document has been in the public domain for nine months already. It gives civil society, including the private sector, the opportunity to discuss the document and give feedback to the policy makers before the text is finalized. The TWGs in each of the three concerned countries have taken the opportunity to have the draft Treaty discussed in joint public/private sector workshops. This approach to publish and circulate draft texts should be taken as standard practice by regional integration institutions when developing new policy instruments, with emphasis on increasing use of electronic communications (e-mail and the Internet) for such purposes. Workshops involving private sector representatives, at both the national and regional levels should be organized to debate significant key policy issues.

The private sector should be viewed as a main actor in the regional integration process, not as an “extra”. The private sector should be invited to participate in the technical meetings of the institutions, both as members of national delegations and through apex private sector organizations, such as the East African Business Council and EAEN. Policy discussion documents should be circulated in advance to such bodies and their views sought.

(d) Donor organizations

Inevitably there will not be adequate funds for the private sector in East Africa to participate as extensively as would be desirable. Donor organizations can help in this process. Regional projects can be developed (in consultation with the private sector) to support the private sector in regional integration activities. On the one hand practical support measures can be given to facilitate intra-regional trade and investment. An example is the EC-funded PRIDE[9] project for the Indian Ocean Commission countries. Under this project, assistance is given to manufacturers and exporters in these countries to enable them to undertake activities to reposition themselves and improve their competitiveness on regional and international markets. Eligible activities include trade missions, trade fair participation, inter-industry visits, manpower development in the areas of production and international trade, market studies, technical assistance for improvement of productivity and quality, and development of joint-ventures. Funding is part grant and part loan, organized through commercial banks.

The other main area of assistance would be in the area of policy dialogue. At the national level, private sector organizations usually have insufficient in-house expertise to handle these important policy issues. Donors can support these organizations through technical assistance to carry out studies and to help organizations prepare their own policy statements.

Donor organizations can also assist with cost-sharing for private sector attendance at meetings, workshops and seminars to discuss regional policy issues. This was the case with the workshops held on the draft EAC Treaty.

[9] Programme Régional Integré de Développement des Echanges

6.5 Recommendations for MTS Actions

The Table below summarizes the action needed and where assistance could be sought by United Republic of Tanzania for furthering their involvement and commitments to the multilateral trading system (Annex I). There are a few areas where all that is needed is direct legal or other short-term technical assistance to meet a clear requirement, including checks of existing rules for compliance in import policy, agriculture, anti-dumping and safeguards, the rules on customs valuation, and TRIPs. There are some areas where medium-term assistance will be necessary, financial (for support in Geneva) or support amounting to development assistance to meet new requirements from an appropriate technically-specialized agency.

JITAP offers the possibility of this, but because of the way in which it has been organized, with different assessments of different countries, countries may need to take the lead in identifying their specific needs. Areas mentioned here include:

- Legal training in trade law and its interpretation to make national assessments of the status of assistance to industry in the context of rules on non-tariff barriers and subsidies;
- Assistance in designing fiscal reform to meet the cost of changes in customs valuation or any import requirements found not to be in compliance;
- Assistance in developing national and regional standards;
- Identifying suitable trade development assistance to enhance performance of export products.

There are also areas where the best form of assistance may be information from or coordination with other developing countries, which require the same strategic decisions about domestic policies and international negotiating positions. These include how to manage the integration of services into the international system, the use of PSI, regulation and promotion of investment, regional coordination of standards and lobbying for international standards, and the interaction between customs unions and the WTO.

Finally, there are areas where only national Governments (perhaps with regional coordination) can take action, including designing long-term strategies for services, investment, and government procurement rules.

Table 6.1: Summary of Actions for United Republic of Tanzania

	United Republic of Tanzania
WTO participation Action Assistance	 Strong representation in Geneva Ask for financial assistance
Least Developed Programme Action Assistance	 Check that all commitments made in 1997 are met Ask for assistance from specialist organizations as well as WTO/ UNCTAD
Import policy Action Assistance	 Need final legal check that comply with rules Ask for short-term legal assistance from WTO
Agriculture Action	 No action required at present
	In next negotiation, watch for increased regulation
Services Action Assistance	 Have met minimum requirements for Uruguay Round. In next Round, there may be pressure to increase the number of services covered National policy makers must formulate national priorities, as background for new offers Information from other developing countries
Non-tariff barriers Action Assistance	 Check all local policies against current interpretation of WTO rules Continue to check as WTO law evolves Legal training for local experts
Subsidies Action Assistance	 Notify subsidies for import-replacement, and abolish by 2003 (or ask for extension) Check all local assistance against definition of “subsidy” Legal training for local experts
Anti-dumping, countervailing, safeguards Action Assistance	 Reform COMESA rules to comply with WTO Ensure a regional approach Short-term technical assistance from WTO
Customs valuation Action Assistance	 Reform rules for valuation and notify compliance to WTO Find alternative revenue sources
Pre-Shipment Inspection Action Assistance	 Train customs officers to meet requirements on transparency and non-discrimination Consider how agreement can be clarified in the next Round Coordination with other users of PSI
TRIPS Action	 Meet WTO rules by 2005
Assistance	Legal short-term assistance, (already offered)
TRIMS Action Assistance	 No immediate action required Watch discussions for potential negotiations Study other countries’ rules and experience; prepare for review in 2000

	United Republic of Tanzania
Standards Action Assistance	 Establish standards and enforcement mechanism Coordinate regionally Look at possibility of new international standards Long-term technical assistance from specialist agencies Coordination with EAC, COMESA and other developing countries
Government procurement Action	 No action required by WTO Consider long-term advantages and disadvantages
Regional obligations Action Assistance	 No immediate action required Examine EAC and COMESA commitments in context with how WTO Regional Committee interprets understanding on article XXIV Examine interaction between services in WTO and in region Develop regional negotiating machinery Exchange experience with other customs unions
Labour and environment Action Assistance	 No immediate action required Examine potential environmental arguments for individual exports Assistance with analysis and production by sector from sectoral experts

ANNEXES

ANNEX I

CONSTRAINTS AND RECOMMENDED POLICY ORIENTED SOLUTIONS FOR A MORE EFFECTIVE PARTICIPATION IN WTO AGREEMENT

No.	Nature of Problem	Recommended Solutions by United Republic of Tanzania Stakeholders	Recommended MTS Actions
1.	Over dependence on primary exports	Support agriculture by encouraging private investments for both food crops and cash crops. Opening up new avenues in horticulture, floriculture, spices, grains, pulses, oilseeds etc. Develop infrastructure on water resource utilization and harnessing thereof in arid areas for irrigated agricultural production.	Relax market entry conditions especially in relation to technical conditions for tropical products in temperate markets. In the absence of such relaxation, JITAP may have to assist in national capacity-building to achieve increased production both in agriculture and industry to enable United Republic of Tanzania to export to the developed countries.
2.	Supply of industrial products by United Republic of Tanzania's industrial sector is very small.	Encourage private sector investment including FDI through direct financial support, joint ventures, Greenfield investments and investment for production under licensing to enhance technology transfer. Emphasize rehabilitation of infrastructure to facilitate trade in agriculture, manufactured goods and trade in services. To put in place an SME Industrial Policy with checks and balances to make it easy to implement and to measure performance.	Consider and focus on the emphasis to lower technical barriers to trade in new negotiations. Insist that countries observe more transparent Government procurement procedures. Support proactive industrial policies based on SMEs Ceiling of tariff concessions be brought to realistic levels so that protectionist tariffs may not be raised or roll backed to previous tariffs.
3.	Rising competition from imports is inhibiting survival of local industry.	Local industrial production must be assisted to improve quality of products.	Reduction of technical barriers to trade to improve market access.
4.	Imported products are being dumped onto the market.	Government should improve border controls for purposes of improving revenue collection and avoiding dumping and counterfeit goods. To improve PSI techniques to prevent substandard	Assist United Republic of Tanzania to measure/determine dumping and the extent of injury to local industry especially regarding (1) garments, (2) footwear and (3) electronic consumer products.

No.	Nature of Problem	Recommended Solutions by United Republic of Tanzania Stakeholders	Recommended MTS Actions
		goods being imported by unscrupulous segments of the society.	
5.	Balance of payments problems arising mostly from unfavourable trade balance.	Government should assist in the promotion of exports to COMESA and EAC to offset imbalance of its trade with Kenya and South Africa which are among the leading sources of United Republic of Tanzania imports.	Both at WTO level and regional COMESA or EAC level, Kenya and South Africa should be prepared to lower their tariff rates below COMESA or MFN levels for their imports from United Republic of Tanzania without reciprocity condition.
6.	Manpower and expertise for handling foreign trade issues is lacking.	Government should have a clear strategy to develop the necessary expertise for the accomplishment of regional integration strategies and objectives; support of technical skills and management training institutions in which the private sector and R & D institutions play a vital role.	Increase training efforts by JITAP of human resources which could then provide in-country training on continuous basis, with the support of Government and private sector.
7.	Private sector participation has been almost non existent in MTS issues.	While the Government and donors at the policy level recognize the importance of the role played by the private sector as the engine of economic growth and trade as well as being the ultimate bearers of the burden and beneficiaries of WTO Agreements, they should give positive and tangible financial allocation in the national budget to develop internal private sector capacity to be able to enter the competitive global market and to benefit from market access openings of WTO Agreements.	WTO should sensitize positively the club of Paris, the OECD countries and the multi-national financial institutions to completely eliminate the loan burden of the most indebted LDC countries in order to release local capacity to support the private sector to implement WTO agreements. Create a forum and vehicle for the OECD countries to transfer technology to the poor LDC countries through promotion and facilitation of FDI and increased joint-ventures relationships with small local firms.

No.	Nature of Problem	Recommended Solutions by United Republic of Tanzania Stakeholders	Recommended MTS Actions
8.	Organizational and managerial deficiencies in the handling of WTO issues.	The Government must re-double its efforts in the coordination of sectoral ministries and departments, independent institutions and the private sector to focus toward implementation of the WTO agreements. In order to make this effective, a programme should be organized in the form Production and Export Trade Policy Initiative (PETPI). The donor institutions should be incorporated in the PETPI as a support to get the Initiative started and to keep momentum.	JITAP should be prepared to provide technical and financial assistance to have inter-ministerial committee working groups installed to interface with the private sector. JITAP to be the initiator of PETPI programme and help to coordinate it at the international level where more than one country is involved in the initiative.

ANNEX II

UNITED REPUBLIC OF TANZANIA'S INVESTMENT GUIDELINES

	100 % FOREIGN OWNERSHIP PERMITTED
Import Duty	Exemption on all machinery and equipment, spare parts, materials and supplies necessarily required for an approved enterprise except for a nominal charge of 10% (under NIPPA approved projects)
Ownership	-Remission of a period of 5 years (Under NIPPA approved projects) For mining companies specific minerals a reduced rate of 20% in the fourth years of operation under (Mining Act)
Corporate Tax Rates	35% For all companies 25% for cooperatives
Withholding Tax	- Remission for a period of 5 years on dividends, royalties and interest payments, followed by reduced rate (NIPPA approved projects)
Capital Gains Tax	Abolished with effect from 1st July 1996
Foreign Exchange Control	No Exchange Control Restrictions On Current Account With Effect From 15th July, 1996
Repatriation Of Profits	Freely, in choice of currency after payment of tax duties
Land	Available on lease In process of establishing an Export Processing Zone in Dar es Salaam
Recruitment Of International Staff	Allowed
DOUBLE TAXATION AGREEMENT (DTAs)	DTAs have been signed with Denmark, Finland, Italy, Norway, Sweden, United Kingdom, Canada and Zambia. Others such as Kenya and Uganda soon to be negotiated
Investment Guarantees	Protection Clause, Bilateral Treaties And Under MIGA
Companies Act, 1972	Regulations of dividends, surpluses and miscellaneous provision repealed w.e.f. 1 July 1996
Dispute Resolution	Signatory to ICSID

ANNEX III

TAX AND TARIFF ADMINISTRATION IN UNITED REPUBLIC OF TANZANIA

The Tanzania Revenue Authority (TRA) was introduced and became operational on 1 July 1996. It is a semi-autonomous body operating outside the civil service framework. The Authority is an agent of the Government under the general supervision of the Minister. The newly created TRA has been already commenced operations, consolidating the three existing revenue departments: Income Tax Department, Sales Tax Department and Customs Department. The major responsibility of TRA is to ensure fair, efficient, and effective administration of revenue laws by revenue departments of the Union Government. The TRA is empowered, among other functions, to administer and effect laws or specified provisions of the laws set out in the First Schedule to the Act, and for the purpose to assess, collect and account for all revenue to which those laws apply. The Authority is also supposed to advise the Minister of fiscal policy issues.

Tariff Administration

Over time, especially in the 1980s, tariff administration in United Republic of Tanzania left much to be desired. However, the problems in the tariff administration have been closely linked to the general inefficiency in tax administration in the country. Various and constant changes tariff rates had some effects on the tariff administration and the main critique is given on efficiency grounds. It has been purporting that the tariff administration in United Republic of Tanzania has, over time, been very inefficient and openly admitted in many venues that the departments that deal with tariff administration in the country lacked adequate, competent and honest officers on such fields as assessment, collection, auditing, computer usage, etc. Whereas, lack of sufficient and up to date equipment and facilities is rampant to all tax offices, poor pay and absence of incentives to tax administrators exacerbates the phenomenon even further. Over time, this became a burning problem that donors had to suspend aid inflow into the country. United Republic of Tanzania depends to a larger degree on tariffs and other import charges as they are easier to collect (the compliance of other taxes is usually lower).

A study on the parallel economy in United Republic of Tanzania conducted by Economic and Social Research Foundation (ESRF) has shown that tax administration is one of the causes for parallel activities in the country. According to the study, bureaucratic customs controls have been among factors that have encouraged parallel activities in import/export trade. In 1995, it took on average, three to four weeks to clear any imported goods. The procedures, documentation and taxes for imported goods. According to the study, in 1995 there were nine steps which had to be followed before importers' goods could be released from Port. The processes included, a bill of lading and invoice processing, process import Declaration Form (IDF) forms and Clean Report of Findings (CEB) certificates, process Tax Assessment Note (TAN) forms, process Pay-in-Slip documents, goods inspection procedure, verification of TAN forms, port procedures, wharfage/storage/handling payments and final clearing procedures. All these stages took time, on average between two to seven days, totalling 37 days and cost was involved because of delays.

Pre-Shipment Inspection

Because of shortcomings of Customs Department in tax collection, especially in evaluation of imports, the Government found it necessary to establish private contracts with Pre-shipment Inspection Companies to assist with quality and price verification of imports, and the assessment and collection of customs duties. Two companies are currently under contract to undertake the work. These are Societe Generale de Surveillance (SG) and Inchcape Testing Services (Inchcape). Both companies carry out similar activities. Inspection is required for all imports including those exempted from duties and taxes. Excluded from inspection are mainly a limited number of items (imports for diplomatic missions, international organizations, religious and charitable organizations) and imports valued at less than $5,000. The work is divided between SOS and Inchcape along geographical lines. The inspection fee is 1.2 per cent of the value of inspected goods with 0.25 per cent allocated to the Bank of United Republic of Tanzania as an administration fee and 0.95 per cent allocated to the PSI company.

The introduction of a single Bill of Entry has streamlined the existing cumbersome procedure which required importers to fill in various documents and show some others such as Import Declaration Form (IDF), a Request for Information Form (RFI), a Clean Report of Finding form (CRF), a Tax Assessment Notice (TAN), and a pay in slip from importer's commercial bank, showing duties have been paid.

Taxes in United Republic of Tanzania

Tax burden on agricultural products

The agriculture sector is found to be highly taxed through multiple tax components, both at the local and central level, see Table below:

Summary of tax burden of major traditional cash crops, situation up to July 1, 1998 (with export tax and stamp duty)

	Local Taxes Per kg	Central Taxes Per kg	Total Taxes Per kg	Local Taxes as %PF	Central Taxes as %PF	Total Taxes as %PF	Total Taxes as % of GM
Coffee							
Arabia	74	120	195	6	10	16	29
Robusta	26	38	64	8	12	20	37
Cotton	10	10	28	5	9	14	23
Tobacco	32	64	97	5	9	14	42
Cashew	17	35	52	6	12	17	90

Note: PF is farmers price.;
G.M. is gross margin.
Source: ESRF

Traditional export crops such as coffee, cotton and tobacco have a tax burden of 14-20 per cent of the farmer's price. The central taxes account for two-thirds of the total tax burden and local taxes for one-third.

The total tax burden in terms of percentage of gross margins (farmers income) ranges from 23 to 42 per cent for the major traditional export crops, and is as high as 90 per cent for cashew. The gross margin of cashew is smaller than the taxes that are to be paid, resulting in a negative income for this crop.

The three major taxes on livestock are the livestock fees, market fees, slaughter and meat inspection fees. Although the rates have increased in nominal terms, in terms of United States dollars, the rates of the past years show only a marginal increase compared to previous years. In fact, the highest rates were levied in the first years of operation, that is 1985 and 1986. The three taxes together amounted in those years to $4.00 per head of cattle and in subsequent years the value ranged around $2.00 to rise to $2.50 in 1997.

In case of export crops, the share farmers obtain from the exports' price is a good indicator of the real taxation burden. In most crops this share has been increased due to more crop buyers and subsequent competition among them. However, concern is expressed, that the recent proliferation of taxes at the local level may have pushed the trend down again as indications are that this is already happening in coffee.

Summary of tax burden of major traditional cash crops, situation after July 1, 1998 (without export tax and stamp duty)

	Local Taxes Per kg	Central Taxes Per kg	Total Taxes Per kg	Local Taxes as %FP	Central Taxes as %FP	Total Taxes as %FP	Total Taxes as % of GM
Coffee							
Arabia	74	45	19	6	4	10	18
Robusta	26	22	48	8	2	10	27
Cotton	10	9	19	5	4	9	15
Tobacco	32	33	66	5	5	10	20
Cashew	17	19	36	6	7	13	60

Note: PF is farmers price.
G.M. is gross margin.
Source: ESRF

ANNEX IV

AN INITIAL ASSESSMENT OF THE IMPLICATIONS OF THE URUGUAY ROUND AND MEASURES TO BE TAKEN BY UNITED REPUBLIC OF TANZANIA[10]

By acceding to the WTO, United Republic of Tanzania and other developing countries have committed themselves to higher levels of multilateral obligations by way of notifications; a surveillance of policies and a compliance to the requirements stipulated in the agreements and instruments constituting the WTO Agreement. These obligations have concomitant demands for a series of the required servicing linkages such as the financial outlays necessary to legislate, monitor and administer the various obligations. In implementing TRIPs, for example, countries will have to comply with the immediate tasks of meeting the national treatment and MFN by legislation; while the transitional stage will oblige them to take other supplementary measures in legislative, customs and administrative requirements. Obviously this will involve considerable costs. A major point of significance related to this concerns the need for United Republic of Tanzanian constituency to analyze and apply the Agreements within a strategic setting of trade and economic goals reflecting the changing global environment. This is important in view of the inter-linkages and the increased competition in market access, technology and TRIPS as well as trade in services.

Among the many issues involved, it will be essential to enact domestic legislation in accordance with the various WTO Agreements, to administer strategy/policy matters implicit in the agreement, as well as tackle bottlenecks and tap opportunities that arise in the course of time. All these point to the significant need for of a growing domestic capacity at the Ministry of Industries and Trade as the international trade coordinating authority. This will have to be achieved through, among other things, an increase in the training of senior officials in the various issues following from the WTO Agreement, the mapping out of key WTO elements and the establishment of how they fit into a foreign trade strategy for United Republic of Tanzania. In addition, the domestic capacity issue also sounds an echo to the need to strengthen the research and analytical capabilities of officers dealing with the international trade sector, particularly those in the Ministry of Industries and Trade, the Board of External Trade and the Bank of United Republic of Tanzania. An area deserving examination by authorities concerns the relevance of establishing a Foreign Trade Institute as a supplementary measure to deal mainly with training in the development of foreign trade in United Republic of Tanzania.

In terms of capacity, there is an urgent need for United Republic of Tanzania and other countries belonging to the same regional and sub-regional fora such as SADC, COMESA, ECA and OAU to develop a strategy of joint participation or interventions in key multilateral negotiations. This approach has several advantages including the utilization of their limited resources to pursue common goals in trade. During the Uruguay Round, efforts to collaborate in this area were unfortunately not adequate; leaving a situation of less coordinated and ad hoc participation by African countries without any significant support from the trade secretariats of either regional or sub-regional institutions. A major

[10] Extract from Implications of the Uruguay Round on Tanzania's Development, M. Kisiri, 1995

improvement on this front would be of immense benefit to United Republic of Tanzania and others facing the same challenge.

Besides the above, other complimentary measures including those rightly highlighted by the Trade and Development Report of 1994 can be pursued in the international community. These will serve to facilitate United Republic of Tanzania's trading opportunities (and those other LCD's) through:

- An improvement of the GSP schemes through the widening of product coverage to include all products of export interest to the LDCs; provision being made for deeper tariff cuts in such areas as textiles, processed food and beverages (where the problem of tariff escalation prevails); and in leather; wood and fisheries products where tariff peaks remain;

- The further liberalization of rules on origin and elimination of the remaining tariff barriers to imports;

- Increased technical and financial assistance to improve agricultural productivity and the infrastructure;

- Concrete action in the relevant international fora toward more vigorous debt relief measures.

ANNEX V

SIMPLE AVERAGE TARIFF REDUCTIONS ON AGRICULTURAL PRODUCT CATEGORIES (IN %) AS A RESULT OF URUGUAY ROUND

Extract from ESRF Report (Green Book) Uruguay Round Table

	Developed Countries	European Union	United States	Japan
All Agricultural Products	37	37	39	36
Fruits and Vegetables	36	28	39	39
Coffee, tea, cocoa, mate	35	41	39	39
Sugars	30	27	23	27
Spices and cereal preparations	35	43	38	30
Grains	39	44	50	31
Animals and Products	32	42	34	31
Oilseeds, fats and oils	40	42	42	46
Flowers, plants, vegetable materials	48	53	42	42
Beverages and spirits	38	28	50	40
Dairy Products	26	26	15	18
Tobacco	36	25	41	16
Other agricultural products	48	48	51	16
Tropical Products	43	40	42	45
Tropical Beverages	46	53	39	35
Spices, flowers and plants	52	61	47	55
Certain oilseeds, oils	40	41	48	51
Roots, Rice, tobacco	40	30	42	24
Tropical nuts and fruits	37	26		38

Note: The difference between the reductions on coffee, cocoa, tea and mate" and "tropical beverages" is due primarily to the inclusion in the former of chocolate.
Figures refer to reductions in simple as opposed to trade weighted tariff averages.

Source: GATT Secretariat, Table 10 from Document for Tunis Meeting 24-27 October 1994.

In the case of United Republic of Tanzania, products of export interest presented in the above list include coffee, tobacco and tea in the very high group (51-100%); followed by other agricultural products, the high interest group (2l-50%) or high interest group and then a medium cluster (1l-20%) consisting vegetables and fruits. The approximate share of these products in United Republic of Tanzania's export earnings is around 71.4 per cent which provides a long-term potential increase in earnings for some of the products which will experience price increases in the world market. Certainly, the effect of tie Uruguay Round on the trade in exports of United Republic of Tanzania will, among other things, create the dual challenge of coping with the increased global competition and facing the loss in preferences and hence competitiveness. It is estimated that by the year 2002, world agricultural prices for selected products will have changed.

ANNEX VI

TARIFF REGIMES AND NON-TARIFF BARRIERS IN UNITED REPUBLIC OF TANZANIA AND EAST AFRICA

Whilst in the past in United Republic of Tanzania and other East African countries maintained very protective policies in order to develop industries for the domestic market, the approach has been radically altered in recent years. There is recognition of the need to open the economies to the pressures of competition to create more competitive economies in both the regional and global contexts.

United Republic of Tanzania (Kenya and Uganda) has been engaged in significant reform of its tariff structures in recent years. These reforms have generally resulted in the lowering of MFN rates and the adoption of a cascading structure in tariffs, whereby the lowest rates are applied to capital goods and raw materials, middle rates are applied to intermediate goods and the highest rates are applied to finished products.

In United Republic of Tanzania, during the 1996/1997 financial year, customs duties had widely dispersed rates from zero to 40 percent (5, 10, 20, 25, 30, 40). In 1997/1998, reforms were introduced to reduce the dispersed rates to four, (5, 10, 20, 30), thus, reducing the maximum rate from 40 per cent to 30 per cent. Elements of the excise duty and sales tax, which also are sometimes discriminatory to imports, provide additional protection to domestic industry. United Republic of Tanzania had suspended its COMESA tariff reductions.[11]

Customs duty exemptions in United Republic of Tanzania are also considerable. Discretionary exemptions are much larger than statutory ones. In 1996 total customs duty collections amounted to only 50 per cent of potential revenue. Official exemptions amounted to 47 per cent of potential. “Unofficial” exemptions or leakage therefore amounted to 3 per cent or TShs 4.1 billion. The most significant product accounting for official exemptions was motor vehicles, especially four-wheel drive vehicles. It would be hard to find legitimate reasons for justifying this.

Customs duty revenue losses and exemptions

Country	Year	Currency	Potential Revenue	Actual revenue	Revenue loss	Official exemptions	Rev. loss as % of potential
United Republic of Tanzania	1996	TShs	166.6 bn	84.0 bn	82.6 bn	78.5 bn	49.6

Some non-tariff barriers are still remaining after the significant efforts of the Governments to abolish them as a means of protectionism, but the more traditional legal NTBs have mostly disappeared. United Republic of Tanzania has diminished tremendously the list of goods that were previously prohibited or restricted.

[11] Ed – In the 1998/1999 budget Tanzania introduced an 80 per cent reduction on tariffs on qualifying imports from COMESA countries, but also imposed some suspended duties.

ANNEX VII

EXCHANGEABLE PRODUCTS FOR UNITED REPUBLIC OF TANZANIA (SOURCE: ITC)

Below is the evaluation of export performance and potential of the priority products for United Republic of Tanzania. The products were selected according to their weight in the export basket, their export performance and the dynamism of world demand.

United Republic of Tanzania's ten priority products are:

030420 Fish fillets frozen
030759 Octopus, frozen, dried, salted or in brine
060310 Cut flowers & flower buds for bouquets or ornamental purposes fresh
030130 Cashew nuts, fresh or dried, whether or not shelled or peeled
090111 Coffee, not roasted, not decaffeinated
090700 Cloves (whole fruit, cloves and stems)
120740 Sesame seeds, whether or not broken
520100 Cotton, not carded or combed
530410 Sisal and other textile fibres of the genus Agave, raw
740311 Copper cathodes and Sections of cathodes unwrought

Indicators for additional products are as follows:

030410 Fish fillets and other fish meat, minced or not, fresh or chilled
071333 Kidney beans & white pea beans dried shelled, whether or not skinned or split
090240 Black tea (fermented) & partly fermented tea in packages exceeding 3kg
152190 Beeswax, other insect waxes & spermaceti whether or not refined or coloured
170111 Raw sugar, cane
442010 Statuettes and other ornaments of wood
620520 Men's/boys shirts, of cotton, not knitted
711319 Articles of jewellery & pt thereof or precious metal w/n plat/clad w precious metal

ANNEX VIII

REGIONAL TRADE AGREEMENTS IN WHICH UNITED REPUBLIC OF TANZANIA IS A MEMBER

1. East African Cooperation

The East African Cooperation fields of common interest are Trade, Transport, Communication, Finance and Investment as well as Regional Immigration and Security. A Secretariat was established in November 1994 in Arusha, United Republic of Tanzania. The achievements of EAC include the following:

- Currencies from Kenya, Uganda and United Republic of Tanzania are fully convertible and other supporting measures are to come in respect of fiscal and monetary policies;

- A preferential customs tariff is intended to prevail within EAC;

- The Nairobi Stock Exchange is open to investment from the other two cooperating countries where businessmen can buy shares in Kenyan companies.

Among the different initiatives of EAC, the following are of relevance:

- The Revenue Authorities of the three East African countries, under the auspices of the EAC, are working on plans to minimize cross-border smuggling and increase legitimate trade;

- The launching of an East African loan scheme in Kampala, which will lend money to small-scale traders in the three East African countries, is backed by a regional group of investors, Stanhope Finance Company Ltd., with the backing of the EAC; and

- The joint missions abroad with the aim of promoting East Africa as a bloc for investment consideration.

2. Southern African Development Community

The SADC Treaty was signed in August 1992 to replace the Southern Africa Development Coordination Conference (SADCC), which had existed since 1980. Development and economic growth are key objectives for SADC, which are to be achieved through a number of measures, including harmonization of economic policies and improved regional cooperation. SADC has adopted a development integration approach which provides for the formulation of coordinated sectoral policies and plans, and an active trade and market integration component, aimed at creating a unified regional market.

The immediate goal is trade and market integration, involving the progressive removal of tariff and non-tariff trade barriers over an agreed period, and the eventual harmonization of external trade regimes, fiscal and monetary policies. Over the longer term, the goal is to achieve economic integration, which is a process of cooperation that promotes development of common economic, political and social values and systems. The ultimate goal is to attain regional integration, which is a process of cooperation that promotes a common identity in an economic community.

The approach for such integration is given in sectoral protocols. At this stage, eight protocols have been signed and two others are under preparation. For a protocol to enter into force, two-thirds of the signatory members need to ratify it. Currently, none of the protocols have entered into force. Ratification of the protocols will greatly assist the integration process, including development of the SADC Free Trade Area, envisaged in the SADC Trade Protocol.

Several members of SADC are also members of the Southern African Customs Union and the associated Common Market Area. The SACU Agreement was signed in 1969 and is still in operation. It covers Botswana, Lesotho, Namibia, South Africa and Swaziland. A process of renegotiation commenced in 1994, and is not yet concluded.

The Agreement provides for duty-free trade in goods, and there is a common external tariff (CET). There is no mention of trade in services but, in practice, many services have flowed freely across the borders. The arrangement, in fact, is somewhat more than a customs union – it goes some way toward being a fiscal union since it also covers excise taxes and sales duties other than general sales tax.

3. Common Market for Eastern and Southern Africa

The Common Market for Eastern and Southern Africa (COMESA) was established in 1994 to replace the Preferential Trade Area for Eastern and Southern Africa States (PTA).

The main objectives include:

(i) Free Trade Area to be effective by October 2000;

(ii) Custom Union with a Common External Tariff by October 2004;

(iii) Free movement of capital and investment supported by common investment practices;

(iv) Gradual establishment of a payment union based on COMESA's Clearing House;

(v) Adoption of common visa arrangements and the right of establishment.

The COMESA Authority of Heads of States and Governments in December 1994, adopted the following priorities to be the basis of COMESA's focus for the following ten years:

1. Significant and sustained increases in productivity in industry, manufacturing, processing and agro-industries to provide competitive goods as the basis for cross-border trade and to create more wealth, more jobs and more incomes for the people of the region;

2. Increase agricultural production, with special emphasis on the joint development of lake and river basins so as to reduce dependence on rain-fed agriculture and new programmes on food security at the provincial or district levels, national and regional levels;

3. Development of transport and communications infrastructures and services with special emphasis on linking the rural areas with the rest of the economy in each country as well as linking the Member States;

4. New programmes for trade promotion, trade expansion and trade facilitation especially geared to the private sector, so as to enable the business community to take maximum advantage of the Common Market.

Notable achievements of COMESA are:

- Implementation of tariff reductions for intra-COMESA trade leading to a Free Trade Area in October 2000. At the moment most countries offer a rate of preference of between 60 to 80 per cent discount off the MFN tariffs;

- The removal of non-tariff barriers;

- Implementation of the Automated System of Customs Data (ASYCUDA) by most Member State custom administrations to facilitate trade;

- Formulation and adoption of a single COMESA Customs Document, the COMESA-CD;

- Putting in place effective measures for transit traffic to facilitate the movement of goods; this also includes the implementation of a regional motor insurance scheme - the Yellow Card; and

- The establishment of independent institutions such as the regional trade and development bank, the PTA Bank, ZE-PRE and the Clearing House to support private sector activities.

The COMESA Clearing House is in a process of restructuring with the proposed change into a Regional Export Services Agency (RESA). The services provided would be the following ones – the proposed services are the ones resulting from a feasibility study carried out in June 1998, reported in the synopsis "A needs assessment study of banking and business sectors: a case for the creation of a Regional Export Services Agency", Tony Hawkins, ed. Janelle Farris, 1998:

- Africa Guaranty Facility covering political risks on trade related transactions of to 0 to 3 years;

- Fast Payment Facility to reduce cost of regional transactions in a liberalized foreign exchange regime by improving risk management in payment system;

- SWIFT Regional Centre for the standardization and automation of international payment messaging; and

- Business Services to help businessmen and enterprises that want to trade or invest in the COMESA region (network of facilitators).

4. Intergovernmental Authority on Development

The Intergovernmental Authority on Development (IGAD) charter was approved in March 1996 replacing the “Authority superseding the Intergovernmental Authority on Drought and Development” (IGADD) which was created in 1986 by Djibouti, Ethiopia, Kenya, Somalia, Sudan and signed by the State of Eritrea in 1993 (all of which are also members of COMESA). The IGAD Council of Ministers identified three priority areas of cooperation in April 1996:

- Conflict Prevention, Management and Resolution and Humanitarian Affairs;
- Infrastructure Development (Transport and Communications);
- Food Security and Environment Protection.

IGAD’s vision is to pool resources and coordinate development activities in order to tackle the present and future challenges more efficiently, and enable the sub-region to interact and compete in the global economy. The IGAD aims and objectives are to:

- Promote joint development strategies and gradually harmonize macro-economic policies and programmes in the social, technological and scientific fields;
- Harmonize policies with regard to trade, customs, transport, communications, agriculture, and natural resources, and promote free movement of goods, services, and people within the sub-region.
- Create an enabling environment for foreign, cross-border and domestic trade and investment;
- Initiate and promote programmes and projects to achieve regional food security and sustainable development of natural resources and environment protection, and encourage and assist efforts of Member States to collectively combat drought and other natural and man-made disasters and their consequences;
- Develop a coordinated and complementary infrastructure, in the areas of transport, telecommunications and energy in the sub-region;
- Promote peace and stability in the sub-region and create mechanisms within the sub-region for the prevention, management and resolution of inter-State and intra-State conflicts through dialogue;
- Mobilize resources for the implementation of emergency, short-term, medium-term and long-term programmes within the framework of sub-regional cooperation; and
- Facilitate, promote and strengthen cooperation in research development and application in science and technology.

BACKGROUND PAPERS

BACKGROUND PAPER 1

PROSPECTS FOR TRADE AND INVESTMENT UNDER THE EAC[12]

Trade prospects

These are likely to increase as a result of similarities in the region in terms of income which is translated to similar demand influenced by similar taste (Linder hypothesis). Thus for instance, to the extent that, say, Kenyan industries are formed around the processing of raw materials found in Kenya, there are prospects that these raw materials could be imported from United Republic of Tanzania or Uganda. In addition, food and other consumer goods produced in, fore example, United Republic of Tanzania is likely to find markets in the two other countries as well. Examples include beans, maize, timber and cashew nuts.

Production prospects

Linked to trade prospects the new cooperation is also likely to result in production prospects for United Republic of Tanzania as, in future each country will specialize in the production of goods and services for which it has a comparative advantage (Heckscher-Ohlin theory). Indications show that United Republic of Tanzania has comparative advantages in Uganda and Kenyan market for the commodities mentioned in the preceding paragraph. Also, United Republic of Tanzania would seem to have comparative advantage, vis-à-vis other SSA countries in textiles and tourism. United Republic of Tanzania has known but not yet explored gas deposits in Songo Songo – a product with a market potential in the region (although it is uncertain if the amount of gas will be sufficient for export, given United Republic of Tanzania's own power deficit). It was also revealed that, currently, United Republic of Tanzania is the second largest producer of raw materials for Kenyan industries after South Africa.

Investment prospect

The broadened market may also encourage foreign and domestic investment as investors consider a larger market in anticipation of enjoying economies of scale. Multinational corporations can take advantage of the bigger market so it expected that investment will increase due to market size and harmonized investment climate. Investment can be coordinated to take advantage of the East African market. For example, in tourism, a circuit can be planned and coordinated in include all tourist services East Africa as a region can offer.

It should be noted, however, that the Kenyan infra-structure for tourism is much better developed than the Tanzanian and there is a clear risk that most of the benefits of East African tourism will accrue of Kenya (much as it is today). On the other hand, it deserves to be pointed out, first, that while Kenya is likely to gain more from an integrated tourist circuit, United Republic of Tanzania is not likely to lose in absolute terms and, second, this is a short-term problem because if proper attention is given to infra-structure (probably the major

[12] International Trade Profile for East Africa: 1996

impediment to United Republic of Tanzanian tourism), the country will rapidly become competitive.

	Kenya	Uganda	Tanzania, U.R.
1. IMPORTS: $ Million	3263	1231	1338
INDUSTRIALIZED COUNTRIES %	46.0	46.1	34.0
O/w European Union	34.1	34.5	24.2
O/w United States of America %	3.2	2.6	3.1
O/w Japan	5.5	6.0	4.8
DEVELOPING COUNTRIES	53.9	53.9	62.5
O/w Asia % (excl. Japan)	25.9	13.4	20.0
O/w Middle East %	14.8	3.0	12..5
O/w Europe %	1.1	0.5	0.7
O/w Africa %	11.0	36.8	28.7
O/w COMESA %	1.7	32.6	14.8
O/w Kenya %	--	29.4	9.9
O/w Uganda %	0.25	--	0.11
O/w United Republic of Tanzania %	0.39	1.5	--
O/w South Africa %	9.3	4.2	12.6
2. EXPORTS: $ Million	2026	622	721
INDUSTRIALIZED COUNTRIES %	46.3	82.1	38.9
O/w European Union %	38.5	72.6	27.8
O/w United States of America %	4.6	2.7	2.2
O/w Japan %	1.1	1.8	7.3
DEVELOPING COUNTRIES %	48.3	17.9	52.7
O/w Asia % (excl. Japan)	8.8	2.9	30.9
O/w Middle East %	6.5	2.0	5.0
O/w Europe %	0.6	10.7	2.6
O/w Africa %	32.1	2.3	14.8
O/w COMESA %	25.8	2.2	12.0
O/w Kenya %	--	1.6	1.6
O/w Uganda %	9.0	--	1.2
O/w United Republic of Tanzania %	7.3	0.4	--
O/w South Africa %	1.6	0.2	0.6
3. GROSS INT. RESERVES (1997)	603	633	622
4. TRADE SHARE OF GNP. (1997)	57	28	36
Exports %	22	9	11
Imports	35	19	25

Sources: WDR 1998 for items 1, 2, and 3. Import and Export shares by trading partner from Direction of Trade and Statistics Yearbook, 1997, IMF

BACKGROUND PAPER 2

POLICY OPTIONS AND RECOMMENDATIONS FOR FUTURE EAST AFRICAN COUNTRIES MACRO-ECONOMIC COOPERATION

These policy recommendations are necessary to avoid the possibility that the only function of less industrialized countries will be importers and assembly lines for more developed countries. East African countries differ in level of (industrial) development, economic structures, size, sensitivity to external policies and the way they deal with their adjustment problems.

Up to now East African countries held on too much to their sovereignty and macroeconomic policy was mainly made at national level. The impact of the nationally-driven adjustment policies were minimal on poverty reduction within the countries (though it is difficult to draw firm conclusions because of data problems). The whole changing economic environment, within the context of increased globalization and liberalization forces the range of barriers between EA economies to be brought down. This reduces the impact of nationally-focused policies and requires a different approach to industrial development, instead of a passive and defensive approach.

East African member states should realize that there is a growing need to approach macro-economic and development issues, such as labour market and industrial issues, in a cooperative, integrated and consistent approach. For the whole EA enterprises to survive, macroeconomic policy making should be approached on a sub-regional level instead of merely on a country-by-country basis. Member States should address problems together in order to create more stable and productive economies, which does not mean that they should abandon nationally-driven initiatives but complement these with wider development objectives by a joint approach. They should be convinced that national benefits can be maximized through such changes. Following the approach of adjustment policies at sub-regional level, consensus about a series of key building blocks should grow across the individual countries. However a system of adjustment based on a common package for all EA countries should be avoided.

Within the macro-economic framework, policy-making will be determined by the interaction of the EA partners; actions concerning coordination and cooperation, taken by each country will determine the degree and pace of the cooperation process. Attention should be paid, within an EA-wide approach to macro-economic policy-making, to the following interlinked areas:

- Research and knowledge,
- Information flows across East African countries,
- Developing a nationally-based institutional framework (to lead the flow of information and improve communication channels).

East African States need to have the institutional ability to undertake macro-economic analysis which draws together and exchanges information on a national and sub-regional level to further suitable policy formulation.

BACKGROUND PAPER 3

NEGOTIATION AGENDA AGREED IN URUGUAY ROUND

Built-in Agenda Agreed on Uruguay Round		**Deadlines**
Agriculture	Negotiations initiated	By the end of 1999
Subsidies	Review of use of provisions on R&D subsidies	By 1/07/96
Services	New round of negotiations start	By 01/01/00
Services MFN exemptions	First review	By 01/01/00
Maritime Services	Market access negotiations	30/06/96 suspended to 2000
Services and Environment	Modification of GATS on general exceptions	Ministerial conference 12/96
Intellectual property	Review of application of provisions on geographical indications	By the end of 1996
Intellectual property	Negotiations on creating a multilateral system of notification and registration of geographical indications for wines	Start in 1997
Intellectual property	Review of certain exceptions to patentability and protection of plant varieties	1/01/99 or after
Intellectual property	Examination of scope and methods for complaints where action has been taken that has not violated agreements but could still impair the rights of the complaining country ("non-violation")	By the end of 1999
Intellectual property	Yearly review of the implementation of the agreement	By 01/01/00 or after
Pre-shipment inspection	Yearly review of the operation and implementation of the agreement	By the end of 1996
Government procurement of services	Negotiations start	By the end of 1996
Government procurement	Further negotiations start, for improving rules and procedures	By the end of 1998
Basic telecommunications	Negotiations end	Postponed from 1996
Financial services:	Negotiations end	Postponed from 1996
Technical barriers to trade	Yearly review of the operation and implementation of the agreement	By the end of 1997
Trade Policy Review Body	Appraisal of operation of the review mechanism	By 1/01/00
Trade related Investment Measures	Review of the operation of the agreement and discussion on whether provisions on investment policy and competition policy should be included in the agreement	By 01/01/00
Textile and Clothing	Review of the implementation of the agreement Textiles Monitoring Body to report to Goods Council by end of 07/01 and 07/04	By the end of 1997, up to full integration into GATT 1/01/05
Safeguards	Results of negotiations on emergency safeguards to take effect	By 1/01/98
Anti-Dumping	Examine standard of review, consider application to countervail cases	1/01/98 or after
Rules of Origin	Work programme on harmonization of rules of origin to be completed	20/07/98
Sanitary and Phytosanitary measures	Review of the operation and implementation of the agreement	In 1998
Dispute settlement:	Full review of rules and procedures	By the end of 1998
Tariff bindings	Review of definition of "principle supplier" having negotiating rights under GATT on modifying bindings	By 01/01/00

Source: WTO

BACKGROUND PAPER 4
SPECIAL AND DIFFERENTIAL TREATMENT

The principle of Special and Differential Treatment (S&D Treatment) was enunciated in the Tokyo Declaration saying that the Tokyo Round negotiations should seek to accord particular benefits to the exports of developing countries, consistent with their trade, financial and development needs. Among proposals for special and differential treatment are:

- Reduction or elimination of tariffs applied to exports of developing countries under the Generalized System of Preferences (GSP);
- Expansion of product and country coverage of the GSP;
- Acceleration of the implementation of tariff cuts agreed to in the Tokyo Round for developing country exports;
- Substantial reduction or elimination of tariff escalation;
- Special provisions for developing country exports in any new codes of conduct covering non-tariff measures;
- Assurance that any new multilateral safeguard system will contain special provisions for developing country exports;
- Principle that developed countries will expect less than full reciprocity for trade concessions they grant developing countries.

The Tokyo Round has legitimized preferential treatment in the “Decision on differential and more favourable treatment, reciprocity and fuller participation of developing countries” in 1979, usually described as the “Enabling Cause”.

The Enabling Clause codified the “graduation” principle by which developing countries would be expected to take on more and more of the obligations of GATT membership as their economies grew stronger. This has generally been interpreted to mean that developing countries will progressively give up various components of S&D Treatment as they achieve higher levels of economic development, although the Enabling Clause itself contains no specification of appropriate criteria for graduation.

Special and Differential Treatment rested then on two operational pillars:[13]

1. Enhanced access to market:

- Through preferential access under the GSP;
- The right to benefit from multilateral trade agreements, particularly on tariffs in

[13] UNCTAD Discussion paper on Special and Differential Treatment in the context of globalisation, December 1998.

accordance to the MFN principle, without being obliged to offer reciprocal concessions;

- The freedom to create preferential regional and global trading arrangements on Free Trade Areas and Customs Union (article XXIV).

2. Policy discretion in their own market:

- Concerning the access to their market (right to maintain trade barriers to deal with Balance of Payment problems and to protect their infant domestic industries);

- The right to offer Government support to their domestic industries using various industrial and trade policy measures that otherwise would be inconsistent with their multilateral obligations.

Most of the changes in S&D treatment during the Uruguay Round can be traced to one institutional innovation that was adopted as a guiding principle for the round: the "Single Undertaking" principle. This principle required that all members of GATT/WTO would be bound by more or less the same set of rules. The acceptance of this principle automatically reduced the scope of many of the existing S&D provisions.

The Uruguay Round Agreements, accepted by all developing countries (which was not the case for the Tokyo Round), provide for Special and Differential Treatment mainly in the form of:

1. Time-limited derogation in the application of countervailing measures and for undertaking certain commitments. The time-limits will be phased out in the context of WTO Agreements by 2005[14];

2. Greater flexibility with regard to certain obligations;

3. Best endeavour clauses.

[14] There are only few exceptions under which developed countries, and particularly LDCs may obtain an extension of the transition periods. LDCs may, under the TRIPs Agreement, if their request is "duly motivated", obtain extension of the transitional arrangements. Developing countries may also request the Council for Trade in Goods to extend the transition period for the elimination of TRIMs. Under the Agreement on Subsidies and Countervailing Measures, LDCs and low-income developing countries (less than $1,000 per capita) are exempt from the prohibition of export subsidies contingent upon export performance, while others must phase out export subsidies over an eight year period, i.e. by the end of 2003. However, a developing country may request an extension of this eight-year period from the Committee on Subsidies and Countervailing Measures.

The single most important S&D provision to survive the Uruguay Round without modification for both developing and Least Developed countries is the GSP.

Most of the S&D treatments have been incorporated into the Multilateral Trade Agreements (MTAs) but it has been done in a somewhat ad hoc manner. There were considerably eroded during the Uruguay Round because it was addressed separately in each negotiating group without an underlying conceptual framework. There was no overall consensus as to the trade measures required by developing countries as essential elements of their development programmes.

POST-URUGUAY ROUND PROVISIONS ON SPECIAL AND DIFFERENTIAL TREATMENT

Subject	**Developing Countries**	**Least Developed Countries**
Safeguards	• Measures extendable for an additional duration of 2 years beyond the general limit of 8 years. • Can reapply measures more often. • No safeguard action can be taken against a product originating in a developing country if its share of imports is less than 3% or not more than 9% for a group of developing countries.	• Measures extendable for an additional duration of 2 years beyond the general limit of 8 years. • Can re-apply measures more often. • No safeguard action can be taken against a product originating in a developing country if its share of imports is less than 3% or not more than 9% for a group of developing countries.
Balance of Payments	• Simplified consultation process applies.	• Simplified consultation process applies.
Subsidies		
Exports	• Not prohibited for LDCs with per capita income <than $1000.	• Not prohibited.
Import Substitution	• Not prohibited for 5 years from 1995.	• Not prohibited for 8 years from 1995.
Anti-dumping	• Special consideration when action is contemplated.	• Special consideration when action is contemplated.
TRIMs	• Temporary deviation allowed for BoP protection. • Elimination of prohibited measures within 5 years from 1995. • Time extension can be requested.	• Temporary deviation allowed for BoP protection. • Elimination of prohibited measures within 7 years from 1995. • Time extension can be requested.
TBTs	• Not bound to use international standards. • Technical assistance to be provided.	• Not bound to use international standards. • Technical assistance to be provided.
Customs valuation	• May delay implementation for a maximum period of 5 years.	• May delay implementation for a maximum period of 5 years.
Agriculture		
Tariff reduction	• Lower levels of reduction over longer period.	• No commitment required.
Domestic support	• Lower levels of reduction over longer period.	• No commitment required.
Export subsidies	• Lower levels of reduction over longer period.	• No commitment required.
Textiles and Clothing	• More favourable treatment for small producers.	• More favourable treatment.
Services	• Special considerations. • Technical assistance.	• Special considerations. • Technical assistance.
TRIPs	• Longer transition period: 5 years extendable to 10.	• Longer transition period: 10 years subject to further extension.
Dispute Settlement Process	-	• Obligatory provision for good offices, conciliation for mediation.

The application of the S&D principle in future trade will depend on the recognition that the basic elements of the “Enabling Clause” are still relevant and could be consolidated by their restatement and adaptation to the current context. This would involve:

1. Recognition that GSP treatment should not be “rolled back”, meaning that the access provided under the GSP should be maintained;

2. Extension of time limits for S&D Treatment in the context of WTO MTAs where the need for such extension can be demonstrate;

3. Encouraging regional and inter-regional preferential agreements among developing countries under the Enabling Clause. Developing countries should be provided differential and more favourable treatment in regional agreements with developed countries;

4. Extension of Duty Free access to all imports from LDCs;

5. Financial assistance, without which the countries will not be able to implement their obligations and exercise their rights.

BACKGROUND PAPER 5

TRADE IN SERVICES (GATS)

The Provisions on LDCs stipulate that:

- The serious difficulties of the LDCs should be taken into account in the operation of the GATS;
- Priority should be given LCD's in the negotiation of specific commitments and on the increasing participation of developing countries in international trade in services;
- There would be special treatment and particular recognition of the LCD's in future stages of progressive liberalization in international trade in services;
- Increased technical assistance opportunities would be available to LDCs in the course of applying GATS.

BACKGROUND PAPER 6

TRADE IN SERVICES: NEW OPPORTUNITIES FOR LDCS[15]

"For LDCs, services are increasingly important both as a direct export and as inputs into the production process. For some LDCs, the export of services is, or has the potential to become, a significant source of export earnings: the Gambia and Maldives are major tourist destinations; Benin and United Republic of Tanzania earn substantial fees from transit through their ports of the imports and exports of neighbouring countries; and Bangladesh and the Sudan receive substantial remittances from workers living abroad.

The availability of efficient, cost-effective commercial services to domestic producers is an important determinant of competitiveness. Where the domestic economy is unable to provide the quantity or quality of producer services demanded by local producers and exporters, there is an increased demand for the import of these services, resulting in additional pressure on an already fragile balance of payments. Few LDCs are in a position to benefit immediately in a significant way from the export of commercial services, given the weaknesses of LDC firms' financial and human resources and their restricted access to international distribution networks and information channels. Nevertheless information technology is creating new opportunities for long-distance labour-intensive export activities from developing countries, such as data entry in the Caribbean or software-writing in India.

Another segment of the tourist market which offers potential to certain LCDs is eco-tourism, which encompasses activities that are based on respect for the environment and do not entail environmental degradation. Eco tourism typically involves the operation of small-scale tours to natural areas or wildlife habitats, and since it is less capital-intensive than mass tourism it offers greater opportunities for local small and medium-sized enterprises. Uganda is an example of an LDC which is successfully developing the low-volume high-value-added eco-tourism market, based on the rare wildlife, particularly the gorilla, which inhabits protected areas in the country, and rafting or surfing on the Nile river at the Bujagali Falls. Bhutan and Nepal have been successful in developing the high-value-added market for trekking, although Nepal is now experiencing some of the adverse environmental impacts of over-rapid expansion."

"So far, two major service sectors have been covered by a multilateral agreement. In February 1997, agreement was reached on basic telecommunication services by 69 WTO members, including 40 developing countries, and at the end of 1997, agreement was reached on trade in financial services by 70 WTO members. GATS recognizes that the process or liberalization should take place with due respect for national policy objectives and the level of development of individual members, both overall and in individual sectors. Thus, developing countries have the flexibility to sequence their market liberalization in line with their particular development situation. In addition, GATS calls on members to help developing countries, through specific negotiated commitments, to strengthen their domestic services sector and improve their access and distribution channels and information networks. Priority is to be given to the liberalization of sectors and modes of supply of export interest to LDCs.

[15] Extract from The Least Developed Countries 1998 Report, UNCTAD

LDCs could gain significantly from a more active involvement in trade in services for a number of reasons. First, the liberalization of trade and investment in services can bring significant efficiency gains. Particularly in crucial infrastructure services such as telecommunications, transport and environmental services. Second, the high skill level needed in many service sectors, combined with a high local labour content, suggests that the transfer and diffusion of knowledge and know-how can be another important gain from inward investment in services. Third, services fulfill crucial linkage functions in an economy: the most obvious examples are transportation and telecommunications, but business services such as finance, insurance and accounting also allow other industries, (producing either goods or services) to operate more efficiently (World Bank, 1997). To ensure that these gains are realized from the liberalization of imports of these services, it is desirable to lay clown conditions giving priority to the infrastructure and other critical services, transfer and diffusion of knowledge and know-how and important linkages with domestic industry."

Liberalization of Tourist Services[16]

"LDCs can use GATS and the multilateral trade framework to support the implementation of policy measures to help their face up to a more competitive market environment. By participating in the forthcoming review of the GATS Annex on Air Transport Services, LDCs can press for the liberalization of air transport regulation as a way of lowering the price of air travel and improving the efficiency of airlines. They can also seek commitments to the training of personnel and the provision of access to distribution channels, which are essential to tourist exports, as provided for in articles IV and XIX of GATS.

The liberalization of investment codes and the provision of commitments under GATS may encourage foreign direct investment in the tourist sector, particularly in hotel infrastructure. A range of options are available for foreign direct investment projects, including full ownership by foreign investors, joint ventures, franchising, management contracts, hotel consortia and full national ownership. Important benefits of foreign involvement in the hotel sector are the transfer of marketing and managerial skills, staff training and help in meeting international quality standards."….

In formulating a liberalization strategy for the service sector, LDCs need to consider two broad questions (UNCTAD/World Bank, 1994). First, what price is the economy paying for inefficient service sectors in terms of missed development opportunities? Second, to what extent might these inefficiencies be reduced by increased liberalization of transactions in services? These questions can be asked both for the service sector as a whole and for individual service activities. In the case of the latter, policy reform may focus on a service sector where the country has a comparative advantage, such as tourism, and where the removal of restrictions on foreign investment may enhance the export capacity of the sector. In other cases, the focus may be on sectors where the country does not have a comparative advantage, such as financial services, but where improved efficiency as a result of liberalization should decrease the costs of inefficiencies that are passed on to the rest of the economy.

[16] Ibid

LDCs also need to review their position regarding GATS, and to reconsider whether they are taking full advantage of the opportunities it offers for creating a more secure and transparent environment for suppliers of services (UNCTAD, 1996a). The promotion of development is, after all, an inherent objective of GATS; for example, article IV recognizes the asymmetry in the level of development of services in developed and developing countries and commits the developed countries to taking measures aimed at strengthening the domestic service sectors of developing countries and providing effective market access for their exports. Article XIX of GATS provides developing countries with the appropriate flexibility to progressively extend market access to foreign service suppliers in line with the country's individual development situation, and to attach conditions to such access with the aim of achieving the objectives referred to in article IV. Negotiations on the further liberalization of trade in services are continuing in WTO with a view to completing the framework of GATS rules by the end of the decade. It would appear to be in the interests of LDCs to engage more fully in the negotiations than they have done hitherto.

The challenge for policy makers pursuing a liberalization strategy is to find a proper balance between greater competition and adequate regulation. Regulation is needed in situations where there is a monopoly or near-monopoly of supply, or where information is inadequate. An effective regulatory and supervisory framework is a prerequisite for the liberalization of the financial sector. Banking supervisory authorities have a central and distinctive role to play through the licensing of banks, enforcement of proper capital adequacy standards and enforcement of disclosure of accurate information on banks' assets and liabilities. They must have the power and financial resources to either re-capitalize bankrupt banks, force liquidation or negotiate acquisition by other parties, and to ensure that small investors are protected (for example, by means of a deposit insurance scheme)."

BACKGROUND PAPER 7

ENVIRONMENTAL CHALLENGES FOR EXPORTING TO THE EUROPEAN UNION

Table: Environmental policy instruments European Union

X In force (existing), with explicit environmental orientation
^ In force, but without explicit environmental orientation
- Not in force, not used
O Under discussion/planning

	CS	FE	AF	WP	PE	BM	EE	HE	OE	FU	PA	TX	PG	DC	BT	PV	SO
Various Prohibitions	x	x	x	x	X	-	-	-	-	-	-	-	-	-	-	-	-
Admission Procedures	x	-	-	-	x	-	-	-	-	-	-	-	-	-	-	-	-
Registration	x	-	-	-	x	-	-	-	-	-	-	-	-	-	-	-	-
Information duties	x	-	-	-	x	-	-	-	-	-	-	-	-	-	-	-	-
Product Standard	x	-	-	x	x	x	x	-	x	-	-	-	x	x	-	-	-
Take-back Obligations	-	-	-	-	-	-	-	-	-	-	-	-	x	-	-	-	-
Distribution Restrictions	^	-	-	-	^	-	-	-	-	-	-	-	-	-	-	-	-
National Product charges	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Compulsory Labelling	x	x	-	x	x	-	x	x	-	x	x	x	x	x	X	x	x
Declaration of contents	x	-	-	-	x	-	-	-	-	-	-	-	-	x	X	-	-
Quality* Marks	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

Note: *Other than official ecolabelling schemes
Source: Eco Trade Manual,. Kommanet BV, 1998

Explanation of abbreviations

AF	Animal Feed	BM	Building Materials
BT	Batteries	CS	Chemical substances
DC	Detergents and Cleaners	EE	Electronic Equipment
FE	Fertilizers	FU	Furniture
HE	Household Equipment	OE	Mineral Oils (and energy)
PA	Paper	PE	Pesticides
PG	Packaging	PV	Paints, lacquers, Varnishes
SO	Solvents	TX	Textiles
WP	Wood Preservatives		

National Ecolabelling Schemes

Name of the Label	Scope (which countries)
- EU Ecolabel	All of the 15 EU member states
- Milieukeur label	
- Blaue Engel/Blue Angel label	The Netherlands
- Stiftung Warentest label	Germany
- Empfohlen vom IBR label	Germany
- Nordic Swan	Germany, Denmark
	Finland, Norway and Sweden

Product groups covered by the EU Ecolabel Scheme (February 1998)

Product group	Published in the Official Journal of the European Union
- Revised criteria for washing machines	L 191 of 01 August 1996
- Dishwashers	L 198 of 07 August 1993
-Soil improvers	L 364 of 31 December 1994
- Tissue paper products	L 019 of 24 January 1998
- Laundry detergents	L 217 of 13 September 1995
- Single-ended light bulbs	L 302 of 15 December 1995
- Indoor paints and varnishes	L 4 of 06 January 1996
- Bed-linen and Tshirts	L 116 of 11 May 1996
- Double ended light bulbs	L 128 of 29 May 1996
- Copying paper	L 192 of 02 August 1996
- Refrigerators	L 323 of 13 December 1996

Products groups for which EU Ecolabels are under development (October 1998)

Product group	Status
Bed mattresses	Criteria completed, awaiting formal adoption
Personal computers	Criteria completed, awaiting formal adoption
Footwear	Criteria under development
Textile products	Criteria under development
Detergents for dishwashers	Criteria under development
Batteries for consumer goods	Study completed
Floor-cleaning products	Study completed
Sanitary-cleaning products	Study completed
Shampoos	Study completed
Rubbish bags	Study completed
Converted paper products	Study completed
Converted paper products	Study completed