



**Multi-year Expert Meeting on Enhancing the Enabling Economic Environment  
at All Levels in Support of Inclusive and Sustainable Development (2nd session)**

*Towards an enabling multilateral trading system for inclusive and sustainable  
development*

**Geneva, 8 – 9 December 2014**

## **COUNTRY PAPER**

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**Multi-year Expert Meeting on Enhancing the Enabling Economic Environment at All Levels in Support of Inclusive and Sustainable Development “to be held in Geneva from 8-9 December 2014.**

## **1.0 BACKGROUND**

### **1.0 Role of Trade in growth and Development**

Trade plays a significant role in the country’s growth and development through its linkages with all the sectors of the economy. Trade supports agriculture, manufacturing and service industries by creating markets through which goods and services get to the consumer and therefore provide the channel through which effects of economic growth are transmitted to various players in the economy. For trade to be effective, therefore, it is imperative that the factors affecting the inter-relationship in the manufacturing, agriculture and service value chain are comprehensively addressed. Trade also plays a critical role in poverty reduction through employment creation in informal, retail, and wholesale trade. In addition, trade provides MSMEs with opportunities of accessing more favorable prices in international markets.

**Tanzania has experienced a high level of growth over the past decade, driven to a large extent by growth in mining, telecommunication, tourism, and construction.** Growth accelerated from 3.5 percent on average in the 1990s to 7 percent on average in the 2000s. Propelled by a surge of foreign direct investment, exports of gold account today for 40 percent of total merchandise exports. Recently, starting from a very low base, manufacturing value-added grew at around 9 percent from 2003 to 2008, with exports having grown by about 17 percent annually since 2005, driven by regional exports to other East African Community (EAC) countries. The services sector has grown at around 8 percent over the past decade, driven by growth in trade, transportation, and tourism. Agriculture—the sector on which about 70 percent of households depends as the primary economic activity—faces stagnation in its productivity growth. Agricultural value-added has grown at around 4 percent per year since 2000, or only around 1 percent in per capita terms. It is expected that focus on value chains development management and finance in agriculture driven by farmer ownership the growth in agriculture sector will improve significant and also contribute to increased manufacturing related to food processing, cottage industries to support packaging, storage, financing, insurance and other related services.

### **2.0. Inclusive growth through trade Development**

**Effective trade in particular for Agribusiness based economies is the one that is focused more in value chains development management and financing driven by farmers since they own and control the largest resource base which is the land. Abject poverty alleviation will be achieved faster if value added, captured at the end markets is equitably distributed among the main products and related service value chains actors. A holistic, integrated, interrelated value chains development, management and finance within the small scale farmers farming systems in Tanzania and Africa in general will also be more relevant as it will contribute to spread the farming and income streams risks.**

**The value chain development, management and financing approach may create more collaboration, cooperation and coordination among the chains actors that will empower the chains actors to participate in price setting instead of being price takers in the input and output markets. Effective transfer of our significant program of value addition to the South which enhance more trade between the South-South trading partners. Value chains development management and financing approach create a role for value chains managers whose functions include capacity building of all chains actors, capturing, processing and dissemination of pertinent information to all chains actors for them to make rational business decisions. The role of trade development will be more relevant if countries target markets linkages support to households within their farming systems and implement interventions to change attitudes and mindset that will be driven by desire for development, determination to succeed, devotion to the cause and discipline necessary to achieve objectives.** It is envisaged that positive value chains development management and financing now being introduced in Tanzania through the SAGGOT will result to exportation of value added products and services that will contribute to sustainable trade development and reduce the trade imbalance due to increased value of exports.

### **3.0 Globalization and Regional Trade Agreements**

Globalizations entails the merging of Tanzania's domestic markets into the global market. Tanzania's major challenge is how to effectively and gainfully participate in the emerging global market. Globalizations requires inclusive and sustainable dynamic policies and strategies geared at exploiting inherent opportunities. It is beneficial in terms of trade development through enhanced access to the world market and the opportunity to convert current comparative advantages into new sources of competitiveness based on the free flow of investment resources, factors of production, assets and information. Both globalization and liberalization impose constraints that inhibit available domestic capacity to compete with the external sector. So far, Tanzania has not been able to derive substantive benefits from globalization and trade liberalizations due to inadequate supply and delivery capacity characterized by low technology, inadequate physical and human capital and underdeveloped infrastructure. The main challenge therefore is to address the constraints limiting Tanzania's meaningful participation and integration into the global economy.

The Multilateral Trading System (MTS) negotiations provide an important forum for ensuring a development friendly trade policy liberalization policy. That is, a need to ensure that trade liberalisation is not anti-development and can in fact be a catalyst for development and poverty alleviation. Clearly, as shown in literature, if trade liberalization is not properly managed and sequenced, it may have adverse effect on social-economic development, as it can result into marginalisation of rural households given potential market failures. For example, several studies have shown the negative impact of import surge on Tanzania (see Matambalya, 2007; FAO, 2003; 1999; UN, 2006, Sharma 2005 et al) including; (i) crowding out domestic investments and destroying the domestic base for agricultural production and trade (ii) eroding the means of livelihood of the poor in general and the rural poor in particular (iii) increasing the poverty incidence in the country (iv) exacerbating the problem of food insecurity.

Addressing such effects will depend on the extent to which Tanzania will be able to tap the opportunities provided by trade liberalisation without exposing the rural households to the pertinent risks. Using value chains development, management and financing approaches may mainstream the small scale farmers into the global economy and dramatically address the negative effects brought out by liberalization and change them into opportunities. In particular if the small scale farmers embrace farming is business and pay on performance principles and shift from subsistence agriculture. The vulnerability of the farmers to the traders and middlemen could be minimised if they have effective business plans, savings and credit schemes that will finance their basic needs and effectively linked to inputs and output markets.

### **3.0. Barriers to Trade**

Non-Tariff Barriers (NTBs) are instruments for the protection of industry that work on the basis of restriction of imports. NTBs work through a variety of administrative or regulatory measures such as quantitative restrictions, administrative arrangements and stringent standards and quality requirements. The following NTBs are applicable in Tanzania: import licensing and registration; customs valuation; Trade Related Investment Measures (TRIMs) such as local content requirements; standards; state trading; government procurement procedures; and administrative procedures. The Government acknowledges that the obligation emerging from participation in the WTO is the gradual elimination of NTBs and their replacement with tariffs as the instrument of protection, where necessary. The ultimate objective is to phase out NTBs through tariffication. Tanzania is already implementing a strategy for the tariffication of NTBs in line with WTO obligation.

#### **Tariffs**

Tariff measures will continue to be the major instrument of trade policy implementation. Tariffs have traditionally been used for the twin objectives of revenue generation and protection of domestic industry. Under the import substitution industrialization regime the protection element led to the emergence of non-uniform and high tariffs that harm unprotected industry and ultimately reduce consumer welfare. Ongoing reforms have reduced the problem significantly, leading to the current four-band tariff structure (0, 10, 15 and 25) in comparison to over 40 bands that existed previously. The average rate has also been reduced significantly to about 16%. **As Tanzania move from selling raw low value materials into selling value added goods and services as a result of embracing value chains development, management and financing in particular in agriculture, we may need to evaluate the current tariff regimes.**

### **Domestic Regulations**

As we embark into more value addition, using the concept of value chains development management and financing, it is likely that we may be required to develop sustainable regulatory framework that will guide the processes of value addition

### **4.0 Regional Trading Arrangements**

The deepening and expansion of regional integration and bilateral trade agreements have however widened the scope of trade opportunities for the Tanzania businesses. The study commissioned by the Ministry of Industry and Trade observed that, since 2003 there had been some changes and shifts in the country's economic and trade profiles. For one, the business environment has changed in many ways. The private sector today plays an increasingly important role in the economy; trade in services is growing in importance, and there are changes in consumer choice and technology –including e-commerce. Tanzania has deepened its level of integration within the East African Community (EAC), revised its framework to engage with the European Union (EU) under Economic Partnership Agreement (EPA) that EAC has been negotiating with European Commission (EC) –commonly referred to as the EAC-EC-EPA agreement. Further changes are possibly in the works with the recently proposed single free trade area (FTA) made up of EAC, Common Market for Southern Africa (COMESA) and the Southern African Development Community (SADC) regional groupings (EAC-COMESA-SADC FTA). All these developments at the local and regional level have been happening in tandem with the dynamics of the global economy.

Tanzania has the potential to become a more competitive player in the region and global economy. However, the country's global competitiveness remains a major challenge due to low levels of productivity, un-conducive business regulatory environment and inadequate infrastructure development. Intervention measures need to be initiated and aim at further improving the business climate in terms of a conducive regulatory environment and greater access to finance and infrastructure development. Promoting application of the concept of value chains development management and financing approach may dramatically change the prevailing challenges into opportunities as the chains actors within the chains work as team to address the bottlenecks identified above. The team approach will make the actors look into the

process of trade in a wider perspective whereby the challenges that used to be seen as other people concerns that they have to be resolved by those others will not be seen as the team challenges that need to be resolved by the teams. This approach may make cost of trade being more competitive as costs of doing business decrease and sustain trade development and profits increases.

## **5.0 Links with BRICs- China , India and Brazil**

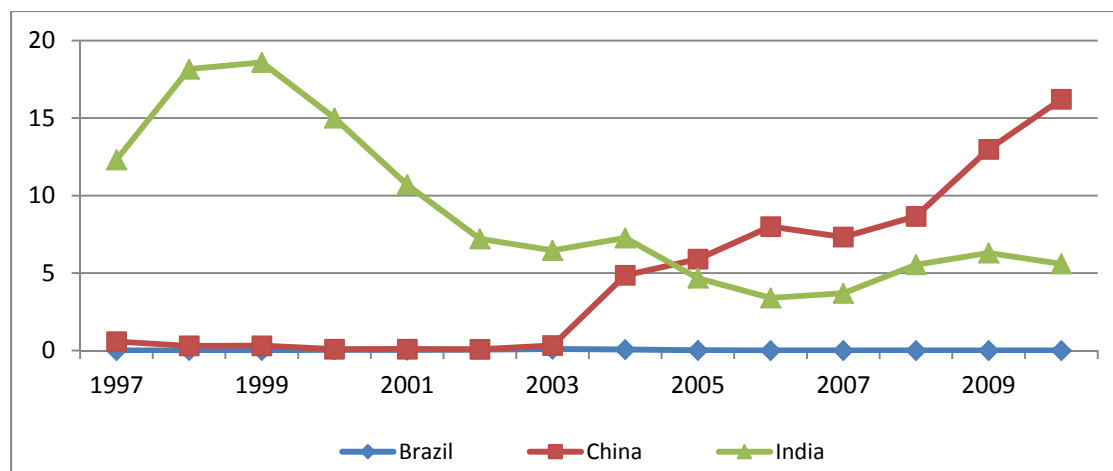
Over the years, emerging economies, commonly referred to as “the BRICS” have become important players in the world economy as manifested in terms of global GDP, investment, savings, trade, foreign exchange or manufacturing capability. The BRICS - with the inclusion of the much smaller but symbolically important South Africa - have become a major factor in the global economy and in South-South relations. The internal dynamics of the BRICS, their increased role in the international arena and the growing ties among them has been well acknowledged. They have experienced significant growth over the last decade and will soon become the major contributor to global economic growth. In 2010, the BRICS accounted for over a quarter of the world GDP (22.6% without Russia, 15% of global trade in 2010 (12.7% without Russia), and 17.8% of global FDI inflows (14.5% without Russia). The BRICS also accounted for 60% of the net capital inflows to the developing countries in 2010. Researches seem to suggest that soon, the BRIC will account for more than half of global growth.

If we critically look into the “BRRICS” economies and study their development process we will note that much of the economic growth in these countries has been driven by value addition in many sectors of the economy mainly, finance, information, and hospitality. If Tanzania embrace effectively the value chains development model, management and financing approaches using internally generated resources to finance the activities related with this concept Tanzania may transform its economy in a relatively short period of time, essentially the achievement of the national goal of becoming a middle income economy by 2005.

### **Share of Market to Tanzania Total Exports in Selected BRIC Countries**

In terms of the direction of exports, China is becoming an important export destination market

**Figure 1: Share for Tanzania exports. of selected market to Tanzania total exports**



Source: WITS 2011

The major markets for Tanzania exports are the growing internal markets results from regional integration and international markets access opportunities in local markets holds a huge potential as value addition activities create higher paying jobs, employ more people, and stimulate higher demand for goods and services. Regional markets may provide the second best opportunity for goods and services in which Tanzania has the competitive advantage. International markets are more competitive as Tanzania will have to compete with mature economies with demand for high value products, with best quality, packaging, and distribution.

The challenges of market penetration are being addressed through adoption of Intellectual Property instruments such as trademarks, patents, and industrial designs and geographical indicators for the goods and services produced in Tanzania.

## 6.0 Business Environment Program-The Big Results Now (BRN) Program

Tanzania is in the midst of implementing a major business environment reforms program covering six broad sectors that have a mandate on regulating economic activities, which include realigning regulations and institutions, taxation, labor laws skills, land administration, contract enforcement and curbing corruption. Similar reforms are also taking place at the regional level and can have influence and impact on the process of deepening regional integration. Even more fundamental is the need to undertake such reforms at the local government level. Through these reforms the government seeks to create the enabling environment for sustainable trade development. Despite economic reforms sustained since the mid-eighties, there are still residual impediments that lead to high transaction costs. This discourages the inflow of foreign and domestic investment and hinders efficient trade sector performance. The envisaged legal and regulatory reforms seek to lower transaction costs, enhance business compliance and improve efficiency and competitiveness. The ultimate objective of legal and regulatory reforms is to protect the interests of consumers through enhancing the capacity of government institutions to perform their regulatory functions efficiently and by maintaining regulations only where they are necessary for this objective.

The Ministry of Industry and Trade is coordinating the reforms work stream on “Realigning regulations and Institutions by virtue of its coordinating mandate on issues relating the trade and development. So we believe Tanzania can benefit from sharing in the experiences of other countries on how they have tackled the challenges of regulations that are source of most non-tariff barrier at regional, national and local government levels.

## **7.0 OBSERVATION**

This expert meeting on trade and development creates opportunities for members to share new experiences and knowledge developed “outside the box” taking advantage of emerging challenges and opportunities. .

## **8.0 RECOMMENDATION**

Development in value chains, management and financing has created huge opportunities to transforming countries trades, through movement of factors of production rather than goods, which boosts trade in services. The concept has huge opportunity to mainstream the rural poor in Tanzania into the global economy and make them more active partners in trading relationships output markets. Value chains integration in agriculture create the potential to grow farm based or agricultural economies.

It is recommended that we embrace the concept of value chains development, management and finance to grow and the economy that will stimulate trade and development. It is also recommended that economies development focuses on households within as the center of development. This will result in a shift of the current approach in development which is many cases focuses sectors and issues on things, products and objects such as crops, transport, health, education etc.



