

**ECONOMIC AND SOCIAL RESEARCH FOUNDATION
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**Trade and Poverty in Tanzania:
Missing Impacts or Linkages?**

***A Background Paper for Tanzania's Case Study of the CUTS's
Project on Trade, Development and Poverty (TDP)***

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Table of Contents

| | |
|--|------------|
| LIST OF TABLES | II |
| LIST OF FIGURES | II |
| LIST OF ABBREVIATIONS AND ACRONYMS | III |
| 1.0 INTRODUCTION | 1 |
| 2.0 MACROECONOMIC POLICY ENVIRONMENT AND PERFORMANCE | 2 |
| 2.1 BACKGROUND TO THE TANZANIAN ECONOMY | 2 |
| 2.2 MACROECONOMIC POLICY REFORMS AND PERFORMANCE | 2 |
| 2.3 MACROECONOMIC CHALLENGES | 3 |
| 3.0 TRADE POLICIES AND PERFORMANCE | 5 |
| 3.1 REVIEW OF TANZANIA’S TRADE POLICY | 5 |
| 3.2 TRADE PERFORMANCE..... | 7 |
| 3.3 OVERVIEW ON TRADE POLICY STAKEHOLDERS AND INSTITUTIONS | 9 |
| 4.0 LINKING TRADE, DEVELOPMENT AND POVERTY | 11 |
| 4.1 TRENDS IN POVERTY STATUS..... | 11 |
| 4.2 CONCEPTUAL FRAMEWORK OF THE LINKAGE BETWEEN TRADE AND POVERTY REDUCTION | 12 |
| 4.3 LINKAGE BETWEEN TRADE AND POVERTY REDUCTION: EVIDENCE FROM TANZANIA | 14 |
| 4.4 POLICY RESPONSE ON TRADE AND POVERTY | 18 |
| 4.5 SUGGESTED SECTORS AND ISSUES OF CASE STUDIES..... | 19 |
| 5.0 CONCLUSION | 21 |
| REFERENCES | 22 |
| APPENDICES | 24 |
| APPENDIX 1: TANZANIA COMPETITIVE INDEX RANKING RELATIVE TO AFRICAN COUNTRIES | 24 |
| APPENDIX 2: EXPORT PERFORMANCE FOR MAJOR CROPS (1994-2002)..... | 25 |
| APPENDIX 3: MFN TARIFFS AND TANZANIA’S EXPORTS, 2003 | 26 |

LIST OF TABLES

| | | |
|----------|---|----|
| Table 1: | Contributions to growth (%; in constant shillings)..... | 1 |
| Table 2: | Tanzania macroeconomic indicators..... | 3 |
| Table 3: | Openness Indicators for Tanzania (in percent) | 5 |
| Table 4: | The EAC Common External Tariff..... | 6 |
| Table 5: | Tanzania export growth 1991-2003 in global perspective (annual rate in percent) | 7 |
| Table 6: | Contribution to growth in exports of Goods and Services (%)..... | 7 |
| Table 7: | Poverty indicators for Tanzania and comparable economies..... | 12 |

LIST OF FIGURES

| | | |
|-----------|---|----|
| Figure 1: | Simple Average Tariff in Eastern and Southern Africa | 6 |
| Figure 2: | Inflation and REER (percent changes in CPI, REER = 100 in 1990)..... | 8 |
| Figure 3: | Share of people below the poverty line in urban and rural areas..... | 12 |
| Figure 4: | Conceptual Framework on the Linkage Between Trade and Poverty Reduction | 13 |
| Figure 5: | Share of Agriculture in the Value of Exports (1995-2002) | 15 |

LIST OF ABBREVIATIONS AND ACRONYMS

| | |
|---------|---|
| CIBDS | Centre for International Business Development Services |
| CMSA | Capital Markets and Securities Authority |
| COMESA | Common Market for Eastern and Southern Africa |
| EAC | East African Community |
| ESRF | Economic and Social Research Foundation |
| GAT | General Agreement on Tariffs and Trade |
| GCA | Global Coalition for Africa |
| GoT | Government of Tanzania |
| ICT | Information Communication Technology |
| IMF | International Monetary Fund |
| MKUKUTA | Mkakati wa Taifa wa Kukuza Uchumi na Kupunguza Umaskini |
| NSGRP | National Strategy for Growth and the Reduction of Poverty |
| NTP | National Trade Policy |
| PRS | Poverty Reduction Strategy |
| RIFF | Regional Investment Facilitation Forum |
| RTAs | Regional Trade Agreements |
| SACU | South African Custom Union |
| SADC | Southern African Development Coordination Conference |
| SDT | Special and Differential Treatment |
| SMEs | Small and Medium Enterprises |
| TIC | Tanzania Investment Centre |
| URT | United Republic of Tanzania |
| WTO | World Trade Organisation |

1.0 INTRODUCTION

The efficacy of trade (or trade policy) in poverty eradication has attracted remarkable attention both to the policy makers and analysts. In the context of globalisation process, chief reason underlying this interest is the significant position that trade policy has assumed in development policy debate in the last decade or so; which has also shaped the focus of policy reforms in most developing countries. Across the globe, and especially in developing countries, a change in trade policy is considered to have significant impact on welfare. In the case of Tanzania, the argument that trade has been an important source of economic growth is evident in Table 1. Export and import of goods and services were one of the largest contributors (60%) to growth especially in the last 5 years. However, two export items: tourism and gold contributed significantly (see Table 6) to this growth, implying that both the export growth and GDP growth will be unsustainable if the export base (diversification) is not expanded, and the decline in traditional export crops is not addressed.

Table 1: Contributions to growth (%; in constant shillings)

| | 1990-1995 | 1996-2000 | 2000-2003 | 1990-2003 |
|---|-----------|-----------|-----------|-----------|
| Private Consumption | 1.6 | 3.9 | 2.7 | 3.1 |
| Government Consumption | -0.5 | 1.5 | 1.5 | 0.8 |
| Investment | -0.8 | 0.6 | 2.3 | 0.5 |
| Export of Goods and Non-factor Services | 2.5 | 0.6 | 4.3 | 2.2 |
| Import of Goods and Non-factor Services | 1.5 | -0.1 | 4.8 | 2.0 |
| Statistical Discrepancy | 0.4 | -2.6 | 0.4 | -0.8 |
| GDP at market prices | 1.8 | 4.1 | 6.4 | 3.8 |

Source: Calculated using data from Economic Survey (see DTIS, 2005)

Evidence on impact of trade liberalization in Tanzania is rather patchy. However, the policy debate, especially in the last 5 years has been on whether trade has effectively helped to reduce poverty. In response to this, the government has mainstreamed trade in the Poverty Reduction Strategies (PRSs) based on the assumed role of trade in enhancing growth through which to reduce poverty. A broader issue worth analysis is how trade links with development and poverty concerns. This issue is important given the argument that the impact of trade (or trade policy liberalization) may differ not only across different countries but also across different groups of people within one country or different agents within the same sector along supply chain. This paper provides background to the Tanzania country (one of the 13 countries covered by the project) case study for the Consumer Unit Trust Society (CUTS)-initiated project on the linkages between trade, development and poverty.

The aim of the paper is two folds. First, to examine the potential short-term impact of trade liberalisation on poverty, and explain why the outcome of trade liberalisation has been mostly negative. One major hypothesis is that, trade liberalisation has had limited impact on poverty because the link between trade and poverty are weak particularly because the poor have no capacity to effectively participate in trade. Second, by examining trade policy and performance, the paper intends to identify two sectors and issues: one being a success story, and the second a failure case of trade liberalisation for further/detailed analysis in the form of case studies. After this introduction, section 2 of the paper provides a review of macroeconomic policy performance in Tanzania by identifying key challenges on sustaining higher growth and employment for poverty reduction. Section 3 examines the performance of trade and hence its efficacy in sustaining growth and poverty reduction by discussing recent trade policy performance and institutional capacities. The discussion on the linkages between trade and poverty reduction and the identification of the key issues and sectors for the case studies are done in section 4 while section 5 concludes.

2.0 MACROECONOMIC POLICY ENVIRONMENT AND PERFORMANCE

2.1 Background to the Tanzanian Economy

Like most other Sub-Sahara African (SSA) economies, the Tanzanian economy is characterised by a large traditional rural sector and a small modern urban sector and depends heavily on agriculture, which accounts for about half of GDP, provides 85% of exports, and employs 80% of the work force. Topography and climatic conditions, however, limit cultivated crops to only 4% of the land area. The manufacturing sector is still small, contributing less than 10 percent of GDP. Manufacturing traditionally featured the processing of agricultural products and light consumer goods. The World Bank, the International Monetary Fund, and bilateral donors have provided funds to rehabilitate Tanzania's out-of-date economic infrastructure and to alleviate poverty.

Exports rely on a few cash crops, notably coffee, cotton and cashew nuts, but in the recent years tourism and mining have become the largest earner of foreign exchange. Growth in 1991-2002 featured a pickup in industrial production and a substantial increase in output of minerals, led by gold. Oil and gas exploration and development played an important role in this growth. Recent banking reforms have helped increase private sector growth and investment. The level of government spending as a proportion of GDP has been high, albeit growing at a slower rate in recent years. Donor financing has assumed greater importance (currently over 40 percent of Budget) after adoption of economic reforms in 1986. Continued donor assistance and solid macroeconomic policies supported real GDP growth of more than 5.2% in 2004. Servicing of foreign debt absorbs an increasing share of recurrent revenue, which relies heavily on indirect taxes.

2.2 Macroeconomic Policy Reforms and Performance

Starting from mid 1990s Tanzania scaled up the pace of economic reforms that started in mid 1980s with the removal of the public sector from commercial and business activities in favour of private sector. At the core of Tanzania's stabilization efforts is fiscal consolidation. In 1996/97, Tanzania adopted a cash budget system, under which expenditures are strictly limited to available resources from domestic revenue and foreign aid. This virtually eliminated net-domestic borrowing. In parallel to regaining fiscal control, donor assistance in the form of grants and concessional lending increased substantially, which financed the increase in government expenditures from about 16 percent of GDP in 1997/98 to more than 22 percent in 2003/04.

Having achieved impressive results in macroeconomic stabilisation, macroeconomic policy reforms have placed emphasis on institutional reforms to better the business-operating environment, strengthen the regulatory role of the government and reform the legal and public service institutions.

Examination of the post reform economic performance in Tanzania shows three interesting facts. First is the significant improvement in economic growth. In the recent years, the economy has been growing at about 5 percent per year in 2002. Second, is an impressive macroeconomic stability illustrated by a significant reduction in inflation rate to a single digit since 2000. Finally, although the government has put in place an elaborate policy framework for poverty reduction (Poverty Reduction Strategy Paper – PRSP), the above macroeconomic achievements have not matched the expected level of poverty reduction. Some details on Tanzania's macroeconomic (fiscal, monetary and trade policy) performance is summarised in Table 2.

The new type of aid (i.e., programme aid) encouraged structural policy reforms and many experts believe that the reforms have created a conducive environment for economic growth (Noni et al, 1999). In turn, improvement in the policy environment (after mid-1980s) has been a key factor in attracting more aid and FDI. On average, both savings and investments have remained low, at about 10 and 17 percent of GDP, respectively.

Note that, although macroeconomic stability has improved notably, the balance of payments has shown little improvement. However, foreign reserves have improved markedly, from about 2 months of imports in 1995 to over 8 months of imports in 2004. External debt remained precarious during the review period despite HIPC debt relief. FDI inflows nearly doubled between 1995 and 2004. In the monetary sector, the gap between deposit and lending rates narrowed slightly, but the spread remains too high to entice higher borrowing and investment.

Table 2: Tanzania macroeconomic indicators

| Indicator | Unit | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 |
|---|---------------|--------|--------|------|-------|------|------|------|-------|-------|-------|
| Income and Investment Indicators | | | | | | | | | | | |
| Population | Millions | 27.5 | 28.3 | 29.1 | 30 | 30.9 | 31.7 | 32.7 | 34.5 | 35.1 | 35.2 |
| Per capita income | US\$ | 176.9 | 210.3 | 236 | 220 | 240 | 270 | 280 | 281 | 281 | 282 |
| GDP growth | % | 3.6 | 4.2 | 3.3 | 4 | 4.7 | 4.9 | 5.7 | 6.1 | 6.3 | 6.4 |
| Gross domestic savings | (as % of GDP) | 9.1 | 10.7 | 7.7 | 5.4 | 5.3 | 11 | 11.2 | 13.9 | 13.9 | 14.2 |
| Gross investment (as | (as % of GDP) | 19.7 | 16.5 | 14.7 | 16.2 | 15.5 | 17.6 | 16.1 | 19.3 | 19.5 | 19.8 |
| Inflation | % | 27.4 | 21 | 16.1 | 12.9 | 7.8 | 6 | 5.2 | 4.9 | 4.4 | 4.6 |
| Exchange rate | Tshs/US\$ | 574.8 | 580 | 612 | 664.7 | 745 | 800 | 876 | 929 | 999 | 1077 |
| External Sector Performance | | | | | | | | | | | |
| Exports | Millions US\$ | 1266 | 1301 | 1235 | 1110 | 1144 | 1291 | 1456 | 1173 | 1276 | 1453 |
| Imports | Millions US\$ | 2140 | 2029 | 1948 | 2338 | 2210 | 2050 | 2250 | 2308 | 2699 | 2852 |
| Current account balance | Millions US\$ | -589.9 | -265.1 | -403 | -905 | -830 | -499 | -480 | -1135 | -1423 | -1399 |
| Balance of payments | Millions US\$ | -329.5 | -146.9 | -200 | -506 | -109 | -35 | 17.5 | 7.3 | 440 | 244 |
| Foreign reserves | Millions US\$ | 270.9 | 441.1 | 623 | 599 | 776 | 974 | 1157 | 1184 | 1670 | 1952 |
| External debt | Billions US\$ | 8.4 | 7.8 | 3.8 | 3.1 | 4.2 | 5.7 | 6.2 | 6.5 | 5.8 | 5.3 |
| Foreign Direct Investment | Millions US\$ | 150 | 148.5 | 158 | 172.2 | 517 | 463 | 327 | 283.8 | 244 | 254 |
| Monetary Sector Indicators | | | | | | | | | | | |
| Average deposit rate | % | 12 | 11 | 10 | 8.5 | 7.4 | 6.4 | 4.4 | 3.5 | 3.5 | 3.7 |
| Average lending rate | % | 28 | 26.5 | 24 | 24.4 | 23 | 23.1 | 21.3 | 15.7 | 15.9 | 16.9 |
| Growth in money supply (M2) | % | 26.1 | 11.6 | 11 | 10.8 | 18.6 | 14.8 | 17.1 | 13 | 13.5 | 13.9 |

Source: Bank of Tanzania, Bureau of Statistics and Public Expenditure Review (various issues).

At a microeconomic level according to World Bank (2005b), increases in total factor productivity explain most of the growth that occurred during the period 1995-2003 compared to labour and capital (physical and human) productivity. The increase in total factor productivity represents overall gains in the efficiency of the economy as a result of macro-economic stabilization and structural reforms. These reforms have also fostered a focus of investments on activities with high return through the elimination of unproductive parastatal investment and the removal of low cost access to finance for the private sector.

2.3 Macroeconomic Challenges

Despite the impressive rate of economic growth and macroeconomic stability, many challenges abound for Tanzania. These are sustenance of the achieved macroeconomic performance; linking macroeconomic achievements to the broader objective of poverty reduction; reduction of dependence on external assistance; and improvement of governance.

On the **first** set of challenge, sustaining the macroeconomic achievements requires continuation of the monetary and fiscal policy stance (tight monetary and fiscal policy), strengthening financial sector reforms, higher domestic revenue mobilisation and further integration with regional and global trade through strategic trade reforms and effective development of the private sector.

The **second** set of challenge is how to effectively avail the benefits of growth for poverty reduction. The extent and trends of poverty and performance of poverty reduction goal are disappointing in that poverty is still a huge problem in Tanzania. It is not entirely clear, from either the literature nor policy documents whether the low level of poverty reduction following reforms and the macroeconomic achievement is due to lack or combination of trickle down, inappropriate growth or irresponsiveness of the poor. Why has the implementation of economic liberalisation not generated widely shared improvements in economic and social well-being? This question is particularly vital in ensuring sustained commitment to reforms and growth strategies.

The **third** challenge is aid dependence. The extent of donor involvement both in terms of agenda setting and supply of human and financial resources for macroeconomic policy reforms is undoubtedly substantial, and has increased tremendously during the last decade reflecting donors' confidence with the Government's commitment in pursuing reforms and opening up the economy. To ensure policy coherence and move the macroeconomic achievement faster into poverty reduction, ownership of development policy and effective capacity for implementation will be as important as the resource inflows.

The **fourth** and final challenge and which relates to the preceding one is governance and accountability issues. Although formally it is considered that corruption has declined substantially, the practical fact on the ground implies that corruption is still pervasive especially at lower level. In some respects, it is considered a gratuity (or popularly *takrima* in Swahili). Addressing this is vital since that is where poor encounter the vice and are in turn affected by it. Aart Kraay (2005) supports this view, contending that if corruption-related poverty traps are important, then large increases in external assistance might be counterproductive. To ameliorate this problem, Collier (2004) argues that tackling the underlying causes of poverty must be done in parallel with any large increases in aid; and that is why "governance" is an important clause in most of the conditionalities associated with foreign aid inflows.

3.0 TRADE POLICIES AND PERFORMANCE

3.1 Review of Tanzania's Trade Policy

As part of the ongoing reforms that started in 1985 and heightened in early 1990s, the government of Tanzania has embraced trade liberalisation by opening the economy to the external markets for trade, investment and (by limited extent) capital flows. More specifically the National Trade Policy (NTS) of 2003 recognises trade openness as a prerequisite for economic development (URT, 2003). Success can be seen in the form of reduced import restrictions, liberalised foreign exchange transactions, and simplified tariff structure, among others. Taxes on exports have been eliminated¹. The financial, telecommunication and transport sectors have been liberalised.

It is also clear that, with the significant trade liberalisation carried out by Tanzania, the economy has become more open but in favour of disproportionate increase in imports relative to exports, hence increased trade deficit (see Table 3).

Table 3: Openness Indicators for Tanzania (in percent)

| Indicator | 1985 | 1990 | 1995 | 2000 | 2004 |
|----------------------------------|------|------|------|------|------|
| Export/Import Ratio | 28 | 31 | 54 | 62 | 64 |
| Balance of Trade | -18 | -26 | -19 | -13 | -19 |
| Total exports | 7 | 12 | 22 | 21 | 35 |
| Total imports | 25 | 38 | 42 | 35 | 54 |
| Total Trade (export and imports) | 32 | 50 | 64 | 56 | 89 |

Notes: Total export/import means export/imports of goods and (none-factor) services).

Balance of trade is total exports minus total imports.

Source: Own Calculation using data from the Economic Survey

The trade regime emanating from policy reforms discussed above has sought to promote domestic manufacturing. Under the current trade regime capital goods and unprocessed material imports enjoy zero tariffs while most unfinished products are subject to a maximum of 25 percent tariff (World Bank, 2005a). Furthermore, restrictions to imports exist in terms of licensing, minimum dutiable values and suspended duties among others. Despite the favourable policy regime, performance of the manufacturing sector in Tanzania has not been impressive. Part of the problem is low level of competitiveness of the economy that renders exportable less competitive as discussed below.

Another significant features of the National Trade Policy (NTP) is its sound emphasis on regional integration and commitment to the Multilateral Trade System (MTS) given the potential for regional integration to increase trade opportunities to member states than the global markets whose standards are often difficult to meet by a poor country (Kweka, 2005). Tanzania is a member of EAC and SADC established in 1999 and 1992 respectively. The three partner states of EAC (Kenya, Tanzania and Uganda) have established a Customs Union whose protocol was signed on 2nd March 2004 and became operational in January 2005 by eliminating internal tariffs for the next 5 years so that the Customs Union is expected to be fully functioning by 2010.

With the establishment of the EAC Customs Union in January 2005, Tanzania effectively changed its trade policy regime by adopting the Common External Tariff (CET). The previous 4-band escalatory tariff structure of 0, 10, 15 and 25 percent (on capital goods and unprocessed materials; semi-processed inputs; fully

¹ However, there are a couple of export royalties in fish, mining and hides/skins.

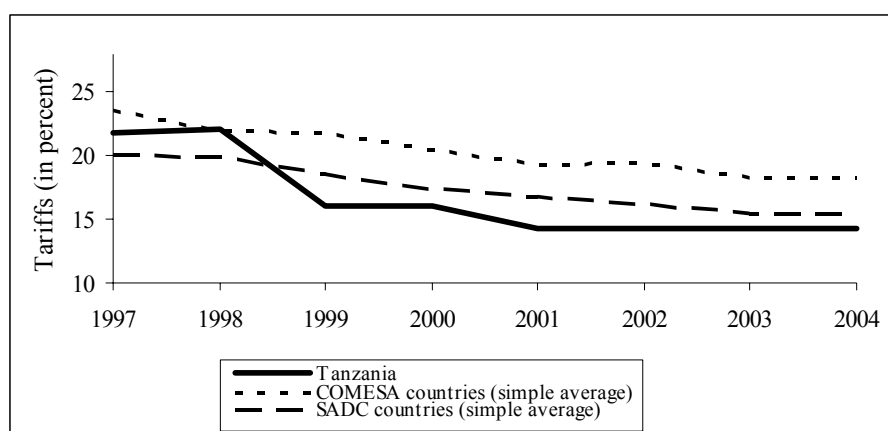
processed inputs; and final consumer goods, respectively) was replaced by a 3-band escalatory tariff structure of 0, 10 and 25 percent (on raw materials, capital goods (including meritorious goods), and finished goods, respectively) as indicated in Table 4. By adopting the CET, Tanzania lowers its average tariff from 13.8 to 12.3 percent. In fact, as shown by Figure 1, Tanzania has lower average tariff than the average for both COMESA and SADC.

Table 4: The EAC Common External Tariff

| Category | | Number of tariff lines | Ad valorem tariff (percent) |
|--------------------|-------------------|------------------------|-----------------------------|
| Items in zero band | | 1927 | 0 |
| - of which: | Meritorious goods | 105 | 0 |
| | Raw materials | 1111 | 0 |
| | Capital Goods | 711 | 0 |
| Intermediate goods | | 1159 | 10 |
| Finished goods | | 1886 | 25 |

Source: World Bank, 2005a.

Figure 1: Simple Average Tariff in Eastern and Southern Africa



Note: Membership in the Common Market of Eastern and Southern Africa (COMESA) and the Southern African Development Community (SADC) overlaps.

Source: Adopted from World Bank, 2005a.

The SADC Trade protocols was signed by 11 of its 14 members including Tanzania in 1996 and entered into force in January 2000; and expect to result into a Free Trade Area (FTA) by 2008; and completely liberalise all its products by 2012. Tanzania withdrew her membership from COMESA in 2000, although some stakeholders (especially the private sector) do not favour the withdrawal, but the government aimed to cut down cost and commitment to too many regional organisations by sticking to SADC and in EAC. Already these regional integration processes are bearing fruits in terms of increasing trade flows. According to Kweka and Mboya (2004) Tanzania's trade with regional members have intensified during the last decade, both in terms of volume of trade and scope of goods traded (mostly non-traditional goods including cereals).

Regarding the Multilateral Trading System (MTS), Tanzania is a founding member of WTO. in which it is obliged to implement the WTO's agreements. However, Tanzania's prospects in the multilateral trading system depend on the successful accomplishment of negotiations in the Doha round. Evidence shows that since these negotiations started in 2001 there has been little progress (reflecting lack of commitment by rich countries) in tackling the key developmental concerns of developing countries; especially on Special and Differential Treatment (SDT) and implementation issues.

In pursuit of the EPA negotiations that require an ACP country to conclude an Economic Partnership Agreement (EPA) with the EU under a particular regional body, Tanzania has opted to negotiate an EPA under the SADC configuration. This indicates her intention to embrace SADC integration process parallel with that of EAC, albeit the inherent challenges of overlapping memberships. With the EAC's agenda to fast-track possibility for federation, the challenge in providing sincere leadership for this issue is imperative. Tanzania is also eligible for multilateral trade preferences under the US Africa Growth and Opportunity Act (AGOA) and the European Union's Everything But Arms (EBA) initiative. The government is undertaking efforts to build Tanzania's capacity to access global markets and increase exports, while conforming to trade rules, especially those of the WTO.

3.2 Trade Performance

3.2.1 Export Performance

Since the late 1990s there has been a significant growth in export. However, the recorded export growth in Tanzania is low by regional and global standards (see Table 5). However the longer term trend in export growth show that, Tanzanian export grew by 8.6 percent on average compared to 12.9 percent for Uganda and 9.4 percent for other developing countries between 1991 to 2004. The export structure also changed as export composition shifted from traditional products such as coffee, cotton, sisal, tea and tobacco towards non-traditional products such as mining, fish and fish products, horticulture and tourism.

Table 5: Tanzania export growth 1991-2003 in global perspective (annual rate in percent)

| Country | 1991-95 | 1996-99 | 2000-2003 | 1991-2004 |
|----------------------|---------|---------|-----------|-----------|
| Tanzania | 13 | 2.4 | 1.7 | 8.6 |
| World | 8.7 | 6.1 | 6.8 | 6.4 |
| Developing Countries | 12.2 | 7.2 | 10.6 | 9.4 |
| Africa | 2.1 | 5 | 11 | 5.3 |
| Kenya | 11.5 | 4.8 | 6.5 | 7.3 |
| Uganda | 38 | 3.2 | -0.9 | 12.9 |

Source: World Bank, 2005a.

Table 6: Contribution to growth in exports of Goods and Services (%)

| Sector | Average 1990-2003 |
|-----------------------------|-------------------|
| Agricultural crop exports | 1.40% |
| Horticulture | 0.10% |
| Fish | 0.60% |
| Gold Exports | 2.80% |
| Manufacturing | 0.60% |
| Tourism | 3.80% |
| Exports of Goods & Services | 13.50% |

Source: Derived based on data from Economic Survey 2003, GOT, and IMF BOP (for tourism data).

Note: Contribution to growth is derived from shares * growth rates.

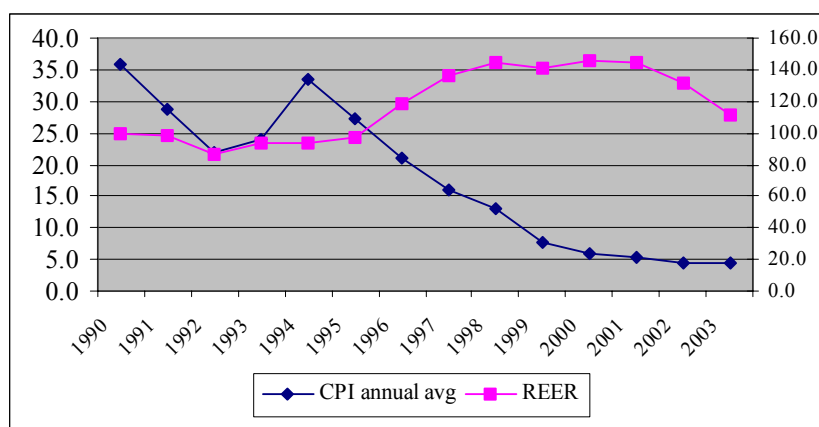
The majority of Tanzania's exports go to industrial countries. Tanzania's top 10 export partners are in the OECD (Japan, Netherlands, U.K., Germany, and the U.S). OECD countries absorbed 83 percent of Tanzania's exports in 2003, with EU markets taking in two-thirds, and Japan 10 percent. Two major developing countries also make it to the top 10—India and China, taking in 9.9 and 2.6 percent, respectively. Finally, regional export partners are becoming more important, in particular Kenya, Malawi and Zambia, although Tanzanian exports to the region are still small in the aggregate.

3.2.2 Export Competitiveness

Among other things, the unsustainable growth of exports and low level of integration into the global economy is basically caused by low level of export competitiveness². In turn, the low level of competitiveness is determined by various factors, including macroeconomic instability, unfavorable business environment that raise transaction costs and limit entrepreneurship. In addition, constraints such as lack of export entrepreneurship and poor infrastructure including transport, energy and communications, and export-related services such as port handling, shipping, insurance and credit facilities significantly limit the extent of exporting for a country such as Tanzania (GCA, 1997).

Figure 2 shows trends in Real Effective Exchange rate using definition adopted by the IMF (see IMF, 2004) and inflation using Consumer Price Index (CPI). Tanzania undertook structural reforms aimed at realigning the incentive structure towards increased exports but these measures have not translated to notable improvements in the levels of export competitiveness.

Figure 2: Inflation and REER (percent changes in CPI, REER = 100 in 1990)



Source: REER from IMF; CPI from Economic Survey 2003.

Tanzania also faces high transaction cost that lead to high costs of inputs and materials. Although there have been commendable efforts in lowering tariffs on imported capital goods intermediate goods (raw materials). Competition among new, private traders seems to have reduced the costs of exchanging many export crops, but the presence of multiple marketers have made completion of other exchanges in the marketing chains more costly (Winter-Nelson and Temu, 2003).

To date low production levels and limited delivery capacity characterised by lack of technology (hence lack of standards and low quality), inadequate human capital and underdeveloped infrastructure have impeded Tanzania's participation and integration in the global economy. Another obstacle limiting Tanzania's global competitiveness is low level of entrepreneurship. Entrepreneurs in Tanzania lag behind Eastern African counterparts in skills development, managerial acumen and business credentials (Kathleen, 2004). Entrepreneurs require greater access to land, education, finance and BDS (business development services) that will enhance their capacity to compete for export led growth. Tanzania also faces stringent conditions in

² As shown in Appendix 1, Tanzania's rank in Global competitiveness index is very low, especially on innovation and technological factors that are crucial for sustenance of her export growth.

accessing external markets. As shown in Appendix 3, Tanzania faces high tariff for some of her export products such as Textile.

To enhance competitiveness, a number of trade facilitation issues also need to be addressed. These include, *inter alia*; inaccessible feeder roads from production sites to distribution centres to ports; lack of cold storage facilities and warehouses for perishable goods; limited direct air access to international markets; high cost of electricity and ICT services; incidence of red tape, corruption and bureaucratic delays; limited diversification of exportable products.

3.3 Overview on Trade Policy Stakeholders and Institutions

Since is not easy to identify all stakeholders of trade liberalization given the scope of this paper, we simply examine four broad groups of stakeholders, namely: the donors, the government, the private sector (enterprises), and the civil society organizations (including NGOs and academic/research institutions). The purpose is to provide an overview of their respective role (participation) in the formulation and implementation of trade policy. Our main sources of information include policy documents, available literature (especially the institutional review document - see URT, 2002) and knowledge.

The Donors: Universally donors are prioritising poverty reduction in their programs based on the Millennium Development Goals. Poverty Alleviation was the explicitly stated motivating force driving multi-lateral and bilateral and some country/institutional aid program. Countries are now encouraged to prepare Poverty Reduction Strategy Papers and for the Heavily Indebted Poor Countries, PRS processes are now the basis for World Bank and IMF concessional lending and for the conversion of debt into aid. Bilaterals are increasingly requiring a PRS as a precondition for their own programs.

The Government: The Tanzanian Government has committed itself to a long-term strategy aimed at eradicating poverty by 2025 by increasing growth. In this recognition, the government has formulated an elaborate trade policy aimed at transforming Tanzanian economy to achieve high level of competitiveness important for sustained pro-poor trade performance.

The key institution mandated with the formulation of trade policy is the Ministry of Industry and Trade (MIT). The Ministry of Industry and Trade (MIT) is responsible for domestic trade policy formulation and international trade policy development regional trade integration and multilateral trade negotiations. The main capacity constraints it faces include lack of appropriate skills base and access to analytical techniques. Its staff still reflects the Ministry's old role of administrating parastatals, rather than the developing policy. Therefore it has no social or poverty analysis capability. Other key institutions involved in the trade policy include the Ministry of Foreign Affairs and International Cooperation; The Ministry of Finance; The Planning Commission; and Non-ministerial organizations such as Tanzania Bureau of Standards, Bank of Tanzania and the Tanzania Revenue Authority.

Private Sector: Like in other countries, the private sector in Tanzania is considered as the engine of economic growth. It therefore has an important role in achieving poverty outcomes. However, one of the main concerns of the private sector is whether the Private Sector Development has been integrated in the poverty agenda. Furthermore, the private sector is concerned about the effectiveness of the Government in implementing the Growth and Poverty Strategy given the existence of infavourable tax regime, high

transaction costs and inefficient institutions, all of which add to cost of doing business and compromise Tanzania's competitive position.

The private sector participants in trade policy process include Confederation of Tanzania Industries (CTI), Tanzania Chamber of Commerce, Industries and Agriculture (TCCIA), Tanzania Private Sector Foundation (TPSF) and other sector business associations. The role of the private sector is to advise the government in the formulation of trade policy and national positions on the issues under the trade negotiations. This is done during national consultations.

The Civil Society Organizations (CSOs): CSOs exist at a number of levels, including the grassroots, media, academia and international and local NGOs, each of which has different types of expertise and interests. In Tanzania, CSOs can be categorized into policy advocacy organizations; organizations supporting self-help groups (including retailers); academic and research organizations; business support providers and cooperatives. Some of them represent the interests of social groups, which are directly affected by poverty. These include among others, rural poor, urban poor, women, children, and orphans.

The main capacity constraints in public and private institutions and CSOs include lack of analytical skills, legal expertise, strategic skills, negotiating skills and financial resources.

Note also that the Poverty Reduction Strategy Paper which is a medium term strategy determining budgetary allocations, is also formulated through the same stakeholders. This is through consultation with the private sector, civil society and donors, including National and Zonal Workshops. The Vice Presidents' Office coordinates the PRSP under an Inter-Ministerial Committee. The Poverty Monitoring System monitors and evaluates its impact, involving government, CSOs and donors.

4.0 LINKING TRADE, DEVELOPMENT AND POVERTY

An important issue in the effect of trade on poverty for developing countries such as Tanzania is not only about the extent in which trade policy has impacted on poverty, but identifying the link through which trade can impact on poverty. In the context of Tanzania, our argument follows the discussion by Booth and Kweka (2004), that trade will impact on poverty reduction in as much as the following preconditions are fulfilled: (i) the poor are able to participate in the production of tradable goods and services, (ii) there exists international opportunities for trade, (iii) and internal barriers to production and exchange of tradable are substantially reduced. However, before going into the discussion of the linkage between trade and poverty reduction, it is important to analyse the status of poverty in Tanzania. Note also that the first PRS was sector based, where priority sectors were identified in 2000-2003, and these include some broad trade objectives under the agricultural heading, but the PRSP did not explicitly recognise trade as an instrument of poverty reduction. However, in its second phase, the PRS has shifted from sector-based to outcome-based approach, in which broad outcomes are identified, and for which all sectors are supposed to identify strategies for meeting those outcomes. In this second PRS, trade is more explicitly covered and recognised as an important aspect of the strategy (see Section 4.4.).

4.1 Trends in Poverty Status

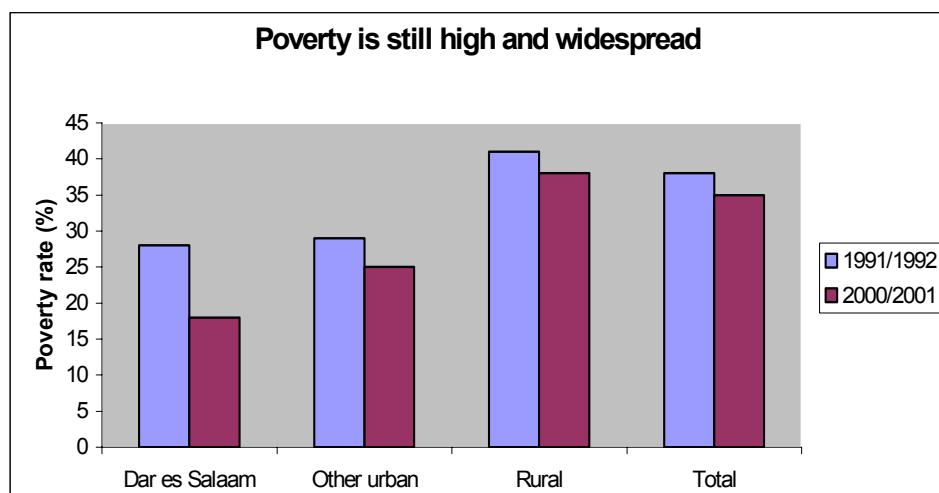
According to the various Poverty reduction strategy review reports, there has been little progress achieved in poverty reduction, though the prospects for substantial decline in poverty are still considered feasible. Currently, the government has reviewed its poverty reduction strategy to emphasize the growth and employment aspects. However, Tanzania will have to sustain the economic growth rates which it has attained in recent years or surpass it if it is to achieve the poverty reduction target stipulated in the National Strategy for the Reduction of Poverty (NSGRP) of halving poverty by 2015.

According to the census and the results of the 2000/01 Household Budget Survey, around 11 million Tanzanians are below official poverty lines, indicating that they have insufficient income to meeting their basic human needs. This represents about 36 per cent of the national population. The most important point to observe is that poverty remains an overwhelmingly rural phenomenon – as when the last comparable survey was undertaken, about 87 per cent of both the poor and the extremely poor live in rural areas. Less than 3 per cent live in Dar es Salaam (NBS, 2002: 81). The more challenging rural poverty stood at 39% (URT, 2003). Also, according to the household budget survey 2000/01 basic poverty stood at 36% while food poverty stood at 19 percent. According to Figure 3, it seems poverty has declined in urban centres, especially in Dar es Salaam, from about 28%t in 1991/92 to 18% in 2000/01. In rural areas poverty shows no signs of abating, remaining above 35 percent between the two periods.

Another basic feature of the profile of poverty is captured by the occupation of the household head and the household's main source of cash income. About 40 per cent of individuals in households whose head is in farming, livestock or fishing are poor, compared with 36 per cent overall. And, because agricultural occupations are so common, 81 per cent of the poor are in such households. Amongst households depending on agriculture, livestock or fishing, those whose principal source of income is livestock are most likely to be poor (59 per cent) and those that rely principally on food crops come next (41 per cent), followed by those whose principal source of cash income is cash crops (39 per cent) (ibid: 90-91).

Furthermore, Table 7 indicates that Tanzania's poverty indicators are higher than for the average of low-income countries and in most cases worse than in Ghana, Kenya and Uganda. Although per capita income increased modestly between 1991 and 2004 but is still one of the lowest in the region. Life expectancy at birth, for example, has decline from about 54 years in the 1990's to 48 years in 2004 – in part due to the HIV/AIDS pandemic.

Figure 3: Share of people below the poverty line³ in urban and rural areas



Source: Based on Tanzania Household Budget Survey 1991/92 and 2000/01

Table 7: Poverty indicators for Tanzania and comparable economies

| Poverty and Social Indicators | Tanzania | Ghana | Kenya | Uganda | Sub-Saharan Africa | Low Income countries |
|--|----------|---------|---------|---------|--------------------|----------------------|
| GDP Per Capita and PPP (US\$) in 2003 | 610.6 | 1,450.0 | 1,034.8 | 1,470.9 | 1,860.0 | 1,370.0 |
| Infant mortality (per 1,000 live births, 2001) | 165 | 100 | 122 | 124 | 171 | 121 |
| Child malnutrition (percent of children under 5, 2001) | 29 | 25 | 22 | 23 | | |
| Access to safe water (percent of population, 2000) | 68 | 73 | 57 | 52 | 58 | 76 |
| Primary completion rate (2001, %) | 60 | 64 | 63 | 65 | 57 | 68 |

Sources: Adopted from World Bank (2004); World Development Indicators (2004)

4.2 Conceptual Framework of the Linkage between Trade and Poverty Reduction

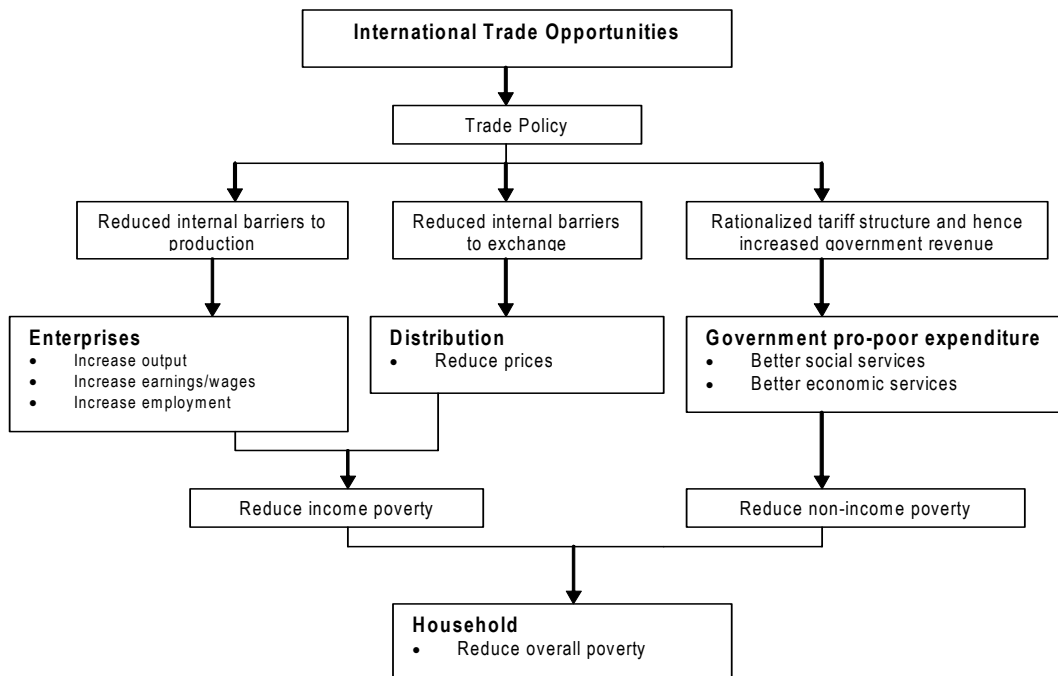
The starting point is rather conclusive that international trade is crucial for poverty reduction. Recent studies (see Conway, 2004; te Velde, Page and Morrissey, 2004; and Winters 2000) have simplified these links by focusing on three channels that trade and trade policy can directly impact on households: namely through enterprise/sector (profits, wages and employment); distribution (border price and hence cheap imported products); and government – how government revenue from international trade affects pro-poor expenditures. We extend this framework first to emphasise the complementary conditions through which trade can impact on poverty, and secondly, to distinguish the impact of trade policy on *income* versus *non-income* poverty. We assume that the policy objective of trade policy is increase income opportunities that are necessary in the fight

³ Defined as people living below US\$ 1 per day.

against poverty. However, this is only effective if the poor participate in the production and consumption of tradable goods and services. For the poor households that do not, trade policy can still impact on their welfare by affecting the price of the goods and services consumed, but also indirectly by the effect of trade policy on government revenue that is used to finance pro-poor expenditures (e.g. provision of public goods or intervention aimed at improving the living standards of the poor).

These links are shown in Figure 4, where arrows show flow of effect of trade policy to poverty reduction through three channels: firms (income from wage and profits: i.e. factor markets); distribution (price effect of traded goods) and government (pro-poor expenditure from tax revenue effects). These channels can affect poverty upon fulfilling several complementary conditions.

Figure 4: Conceptual Framework on the Linkage Between Trade and Poverty Reduction



First, the international trade opportunities are assumed to impact on poor through the national trade policy which effect distribution of such opportunities through its various (policy and non-policy) instruments (e.g. tariff, export promotion, non-tariff barriers and regulation of international trade). Second, the effectiveness of trade policy in delivering these opportunities will therefore depend on the extent to which internal barriers to production and exchange (e.g. infrastructure problems, competition policy, excessive taxation, tariff barriers and other supply constraints) have been addressed. These barriers affect the way and extent to which firms will respond to market opportunities, the cost of distribution and consequently the government revenue⁴.

Finally, the three institutions will impact on poverty by responding to trade opportunity in different ways. As a result of increased export and import opportunities, enterprise will provide more jobs, but also recoup profits

⁴ If tariff or taxes are exorbitant, firms will evade tax or will not grow, thus limiting tax base hence tax revenue.

both of which will increase income of households therefore reducing income poverty. Efficiency in distribution of traded and non-traded goods and services (e.g. lower transaction costs and better trade facilitation services such as infrastructure) will reduce prices of such goods and services to the advantage of consumer thereby increasing welfare through consumer surplus. Low tariff and trade taxes will enhance tax compliance and increase demand thereby widening tax base that is assumed to generate more tax revenue than before liberalisation. Increased tax revenue will afford the government more pro-poor expenditure such as better social services (including health and education) and provision of public goods and specific poverty reduction interventions all of which will benefit the poor especially by increasing their quality of life and access to services. Description of the way each of the three channels applies on the Tanzanian economy follows.

4.3 Linkage between Trade and Poverty Reduction: Evidence from Tanzania

This section draws heavily on the previous study on linking trade to poverty reduction in Tanzania, conducted by David Booth and Josaphat Kweka in 2004 as part of the Tanzania's Trade and Poverty Programme for the Government of Tanzania, as well as draft report on DTIS and CEM (See World Bank 2005a and 2005b respectively).

4.3.1 What Kind of Economic Growth that would Reduce Poverty in Tanzania?

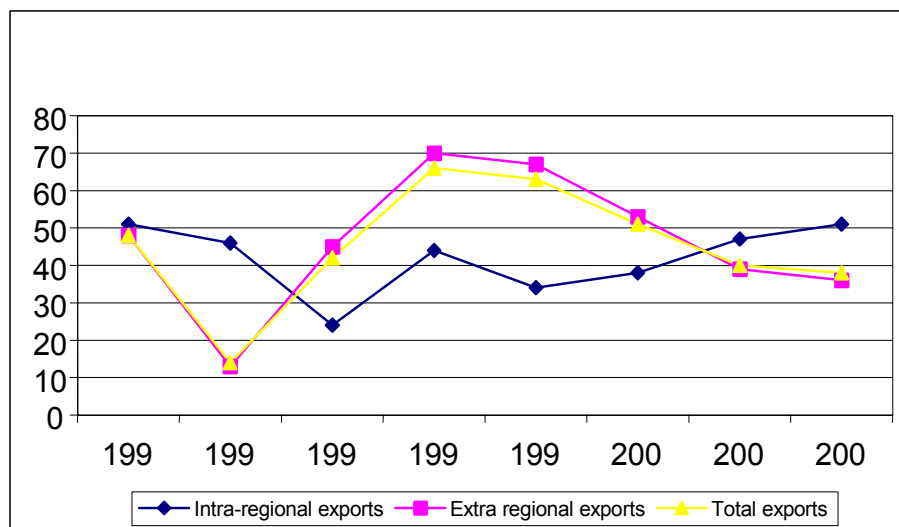
Some kinds of economic growth reduce poverty much faster than others. If trade is important for growth, and growth is important for poverty reduction, it is logical that promotion of trade that is significantly linked to poverty is bonus in that it will increase growth and reduce poverty simultaneously. That is, the concern of economic policy should be that the *structure* of growth is as important as the *rate*. In Tanzania, growth that is agriculturally based is far more likely to reduce poverty than growth that is not; so that promotion of agriculture trade is imperative (Amani, 2005). Based on the evidence from the DTIS (see World Bank 2005a), the country economic memorandum for Tanzania by the World Bank shows that, households that are involved in export-oriented sectors (cash crops, tourism, fish and mining) have lower poverty rates.

Tanzania's agricultural sector employs about 85 per cent of the national labour force and accounted for about 48 per cent of Gross Domestic Product during 1997-2001. It contributes about 64 per cent of the income of the best-off 20 per cent of the population, but as much as 90 per cent for the poorest 20 per cent. The rate of growth in agriculture is therefore not only a key determinant of overall growth in the economy, but critical for the poorest households in particular (IFAD, 2002: 4). World Bank country analysis for Tanzania agrees with this proposition, suggesting that, because of where the poor live, income growth in rural areas is approximately four times as efficient in reducing poverty incidence as growth in towns. For the same reason, growth in the capital is even less efficient as a factor in poverty reduction than growth in smaller towns (World Bank, 1996: 77).

The greatest potential for agricultural growth lies in production for export (World Bank, 2005b), not only the traditional export but also food crops that has good market prospects in other countries of the region (Kweka and Mboya, 2004). However, production of foodstuffs for national consumption is constrained by the small size of the market and the slow growth of effective demand, whereas export markets are not limited in the same way. This does not exclude the expansion of internal trade as a source of growth and poverty reduction, but means that it would be unwise to rely only on this source. Tanzania's established export crops are widely grown by smallholder producers in many of the country's regions. However, the centrality of agricultural export growth to national development and poverty reduction is more important than these arguments suggest. Note

that recent trend shows that Tanzania's agricultural exports have been increasing in the regional markets relative to the non-regional market (See Figure 5), which also points out the role of regional integration on poverty reduction.

Figure 5: Share of Agriculture in the Value of Exports (1995-2002)



Source: Kweka and Mboya (2004)

Another important argument arises from the evidence on the poverty-reducing multiplier effects from export agriculture. The World Bank/IFPRI study confirmed the finding of earlier research that export agriculture has major linkages to the non-farm sector – mainly because of the way it generates demand for consumption goods and services in the surrounding economy, and thus employment or income-generation opportunities for others. Spin-off benefits of this sort are 80 per cent for export agriculture, compared with only 20 per cent for urban light manufacturing. Even *urban* non-farm incomes benefit more from linkage effects from export agriculture than from increased income from manufacturing. The reason is probably that the first-round benefits are more widely shared in agriculture.

These are not the only kind of linkages that are important from the point of view of the development of an integrated national economy, and thus to poverty reduction, in the long run. Service sectors such as tourism have been found to have stronger *inter*-sector linkages and multiplier effects than traditional sectors of agriculture and manufacturing. For instance, the growth of international tourism has significant effects on the food processing, and beverage and retail trade sub-sectors. In contrast, the low level of agricultural processing and the country's weak manufacturing base limit potential linkage effects in the traditional sectors (Kweka, Morrissey and Blake, 2003: 345, 347). However, Kweka *et al's* (ibid) study is not inconsistent with the IFPRI/World Bank results, insofar as it too finds strong within-sector multiplier effects for agriculture, especially in respect of employment.

4.3.2 Why hasn't Growth or Trade reduced Poverty in Tanzania?

It does not appear from the best available data that income poverty has significantly reduced over the past decade. This is the central finding of the Poverty and Human Development Report 2002, produced by the Research and Analysis Working Group of the Poverty Monitoring System based on the 2000/01 household survey (URT, 2002; NBS, 2002). There are signs that income inequality has been growing, and indications

that an earlier trend of improvement in infant and under-five mortality was reversed in the 1990s (URT, 2002: 7, 26).

The PHDR poses, as a central issue, the observation that changes in levels of poverty do not seem to reflect the country's good macro-economic performance in the 1990s. The authors argue that this raises questions about the macro-micro linkages for poverty reduction in Tanzania. The fact that higher GDP growth has been achieved is important. A further acceleration of overall growth will be necessary before substantial effects may reasonably be expected. However, in the context of Tanzania, it will be entirely wrong to attribute lack of substantial progress in poverty reduction to the reforms that have been implemented for nearly two decades now. On the contrary, we argue that these reforms set as necessary foundation for sustained growth, which in turn will be better placed to reduce poverty than in the current initial phase.

At the same time, the structure of the recent growth is a crucial matter. The main driving forces of the increased rate growth have been mining and services, not agriculture. Yet, as we have just seen, it is in agriculture and closely related activities that the bulk of the poor gain their living, and where the poverty reducing linkages are strongest. The major agricultural crops have played a declining relative role, where both internal and external conditions have been unfavourable. For instance, as shown in Appendix 2, the price per tonne of all major traditional export crops declined between 1995-2003 except for tea and tobacco that remained fairly flat. The decline in price was also associated with decline in volume of production except for tea whose production has increased consistently, and tobacco that revived after a notable fall between 2000 and 2001.

As noted earlier, export of minerals surged to constitute nearly 40 per cent of the value of goods exports in 2004. At the same time, total exports of goods declined relative to services, especially tourism, with services earnings reaching between 43 and 48 per cent of total export earnings in recent years (Wuyts, 2003). Little is known about the distributional consequences of the kinds of investments in mining and tourism that have been booming in Tanzania, but it seems likely that even though they may have other important benefits for national development, and thus for long-run poverty-reduction possibilities, neither have particularly strong poverty-reduction elasticities in the short run owing to their susceptibility to capital flight and weak employment generation capacities.

Available studies agree that Tanzania's crop exports have done worse than expected and much worse than those of comparable national export economies such as those of Ethiopia, Kenya and Uganda. This suggests one of the reasons for the observed lack of change in poverty indicators over the period. More seriously, it suggests that substantial poverty reduction will continue to elude Tanzanians unless and until steps are taken to address the factors responsible.

4.3.3 Distribution Evidence – The Role of Infrastructure and Transaction Costs on Prices

Despite the fact that trade and specifically trade policy has enabled the reduction of border prices, Tanzanian consumers especially in the remote areas where poverty mostly prevails, have failed to benefit from the reduced prices because of high transport costs resulting from bad road network and inefficient ports. According to Kweka, (2004), the larger share of transport costs in Tanzania is attributable to the international transport costs (72 percent). This implies that international trade can only benefit the poor Tanzanians given the reduction of these costs. Tanzania has done commendable efforts to address the transport costs problems. For example, investment in the transport infrastructure is considered one of the priority areas in the

Poverty Reduction Strategies (PRS1 and PRS2). As a result the share of infrastructure expenditure (mostly donor-financed) has surged, partly explaining the construction boom. In addition, Tanzania is currently subsidizing transportation of agricultural inputs (especially fertilizers) to the biggest grain producing regions in the southern part of Tanzania.

Findings from Booth and Kweka, (2004) show that the poor can also benefit from trade liberalization if the transaction costs are lowered. The rural poor in Tanzania are affected by trade policy whenever it changes the prices of the outputs they produce, relative to the prices of the goods and services they purchase as inputs or for consumption. They will benefit from trade liberalisation generally; from the removal of export taxes on their outputs; from the lowering of foreign trade barriers; from widely available quality certification services; and from action against monopolies and cartels in agricultural distribution and processing within Tanzania. The urban poor may be differently placed. If employed in export industries they will be helped by trade liberalisation, but if employed in import-competing activities they could be hurt by it. All Tanzania's poor will benefit from low or zero tariffs on consumer goods of special interest to them.

4.3.4 Trade Tax Revenue and Government Pro-poor Expenditure Evidence

Akin to many developing countries, Tanzania has a high dependence on international trade taxes i.e., taxes on imports. For example since in 2001, Tanzania's trade tax revenue contributed about 40 percent of total revenues excluding grants (World Bank, 2004). This implies that international trade tax revenue have more or less similar impact on budget expenditure to that of donors' financial support (grants and concessional loans) which the country heavily relies on. The latter are expected to contribute about 41 percent of the total national budget in the year 2005/2006.

On the export side, Tanzania has made great stride in rationalising export taxation by abolishing nearly all export taxes except a few royalties that are associated with exploitation of natural resources or measures to discourage export of raw materials that can be used internally to generate higher export value. This includes an export tax of 15 percent on raw hides and skins to assist the struggling domestic tanning and leather industry; and the Fisheries Department that collects royalties on fish exports (rates of which are set at 6 percent of fob-value, but rather charged at US\$ 0.20 per kilogram than on an *ad valorem* basis in an attempt to reduce evasion through under-invoicing). Finally, there is royalty on export of minerals charged as 3 percent of gross value for most of the minerals except for diamond that is charged 5 percent. The major public concern in Tanzania is that the companies may be under invoicing to avoid paying larger sum, complaints that exacerbate the claim that mining has had less or no impact on poverty reduction.

On the expenditure side, substantial share of the 2005/06 budget has been allocated for implementing the PRS2 (i.e., "MKUKUTA") priorities under the three clusters: growth and reduction of income poverty, improved quality of life and social well-being, and good governance and accountability. Furthermore, relatively adequate resources have been allocated to economic and social services with a view to ring fencing the achievements of the first Poverty Reduction Strategy (PRS). Leading sectors in terms of resource allocation included in the 2005/06 Budget are Works, Health, Education, Agriculture, and Water. According to Ulanga, (2005), Tanzania has outstripped many African countries on the absolute amounts of resources expended for poverty reduction purposes. If you compare 23 African countries that have reached HIPC relief decision points in Africa, it is only Ethiopia that has exceeded Tanzania on poverty reducing expenditure. Given the significant amount of international trade revenue, coupled with significant amount of poverty reduction budget allocation, it is clear, that trade is still an important factor for poverty reduction from the government revenue perspective.

4.4 Policy Response on Trade and Poverty

The foregoing discussion has indicated that in Tanzania there is huge potential for trade-led growth and reduction of poverty, but this potential is being under-utilised (Booth and Kweka, 2004). Clearly, two different but related issues are worth reiterating. First, Trade performance especially export response has not lived up to the promises of the trade liberalisation. Second, the impact of trade policy on poverty reduction has been less significant than expected. Trade policy literature has mostly been pre-occupied by the former issue, where supply-side constraints have largely featured to explain low level of export response in LDCs despite the generous trade liberalisation implemented by these countries. Emphasis on the later issue has occurred in the recent years but the debate is still unsettled.

In Tanzanian context, we presume the main policy challenge is how to increase export response, which, according to the above outlined conceptual framework, can subsequently reduce income poverty through additional employment and income generated. For this to happen, the complementary conditions identified earlier need to be met. In fact the government has been thriving in the last decade and continue to address these with some successes in two respects. First, by continuing its pace of implementing reforms (establishment of the BEST program, formation of Private Sector Development Strategy, Privatisation of basic Utilities and Civil service reforms).

Secondly, as noted earlier, the government has formulated credible Poverty Reduction Strategies (PRS), currently in its second phase (i.e. NSGRP or MKUKUTA). The NSGRP incorporates various strategies for fostering trade-led growth. Trade policy and trade development is incorporated in various cluster strategies; six specifically refer to trade and/or exports. These include such policy statements as:

- Make trade more inclusive through facilitating expansion of a wide range of enterprises especially SMEs in exporting activities;
- Promote trade and advocate for fair and inclusive globalization; build capacity to provide trade services to tap into global production, outsourcing and marketing networks, enhance export guarantee mechanism;
- Build human capacity in trade negotiations; harmonize standards and improve customs procedures; enhance on-going initiatives on increasing access for women to local, regional and global markets;
- Strive to reduce deficit in the current account of the balance of payments (increase exports substantially in relation to imports with a view to reducing aid dependency and debt);
- Encourage public-private sector partnership to invest in business training, export and domestic marketing. Also, training in quality assurance and establish modern quality-testing centres and laboratories;
- Upgrade and develop new capabilities in order to maintain the growth of domestic markets and exports and promote specialization in dynamic exports and encourage increased competitiveness.

The Ministry responsible for Economic Growth and Planning plays the lead role in incorporating NSGRP priorities into the Medium-Term Plan and the Annual Budget. And the Ministry of Finance (MOF) has emphasised spending ministries demonstrate the link between their in-house budget activities and NSGRP

clusters as a condition for acceptable budget submission. This implies that, trade development will attract fiscal resources to the extent trade policy concerns are reflected in the NSGRP. In the NSGRP, the section dealing with MIT indicates several activities relating to trade policy and development, with the majority of activities focusing on developing the SME sector. MOF is working on a matrix, the Performance Assessment Framework (PAF) linked to the multi-donor budget support facilities: Poverty Reduction Budget Support (PRBS) and the Poverty Reduction Strategy Credit (PRSC).

For these strategies to effectively result into poverty reducing trade, we recommend the government to focus intervention on those aspects that can both raise export response and at the same time boost the capacity of the poor to participate in poverty reduction. For instance, provision of extension services, training and input supply (to facilitate entry into the production of quality exportable farm produce), investment in infrastructure (to enhance price competitiveness and efficiency in distribution), supporting establishment of large scale commercial farming (that will provide job to the surplus unskilled labour), and promotion of export markets (through export guarantee scheme, support market search and provision of incentive to SME exporters).

In conclusion, we emphasise the fact that markets alone cannot deliver growth that will at the same time reduce poverty, hence a need to have PRS. Macroeconomic performance and their associated reforms can only provide foundation to (but alone cannot) address practical constraints at the grass root level (microeconomic challenges). Similarly, trade and growth cannot address poverty automatically. Mechanisms and action need to be put in place to complement market forces in co-enhancing growth and poverty reduction.

4.5 Suggested Sectors and Issues of Case Studies

As noted in section 1, one of the key outcomes of this paper is to identify sectors to be covered in two detailed case studies of sectors that have respectively benefited from trade liberalisation from those that have not. The case studies will examine, based on stakeholders perception, what it takes to benefit (or not to) from trade liberalisation. The key issue that we do not address here is how we go about identifying such sectors for case studies. However, tentatively we use information from the analysis of export contribution and performance of different export sectors to export growth before and after the major economic reforms that were associated with significant trade liberalisation to identify such sectors.

One general point that should be noted at this juncture is that, the impact of trade liberalization in Tanzania like in many developing countries has been negative on import competing industries mostly manufacturing, and positive in export industries especially non-traditional exports. In this case, we suggest two industries: textiles and fisheries, which have been losers and winners respectively. Fisheries because of its expansion in exports, and textiles because of the substantial decline in output particularly in mid 1990s relative to high imports of textiles.

4.5.1 Textile Industries

With trade liberalization, Tanzania succumbed to import surges and dumping of used or second-hand clothes and other goods of inferior quality. Consequently, 90% of Tanzania's textile mills that used to employ mostly the poor (majority being women) closed down as a result of liberalization. Nevertheless, the textile sector display strong export orientation in terms of the share of domestic output that is sold abroad but also it has high effective rates of protection. Export potential of the sector basically arise from the large share of export

sales to industrialized country markets under preferential access conditions including AGOA (US market) and EBA (European market). Textiles made up about one-fifth of all dutiable exports from Tanzania to the U.S. in 2002–2003. In addition, some types of textiles can be produced competitively using labour-intensive technologies, so Tanzania could potentially have a comparative advantage. These include Tanning and dying (batik) that has recently mushroomed in the country, and which have potential for exports in the regional (especially Kenya and Uganda) as well as the US markets.

Despite these potentials, the sector suffers a number of constraints, including *inter alia*, lack of modernization of technologies, diversification of products (integrated mills), low level of quality of the raw materials. Other limitations include low level of capitalization of the plants, unfavourable competition resulting from import and the high cost of production.

4.5.2 Fisheries Industries

Fish and fish products are an important export for Tanzania. In 2003, fish exports made up 15 percent of the country's total merchandise exports, and ranking it the second largest export after gold. The fisheries industry in Tanzania has been positively affected by liberalization of the economy, which started way back in 1986. Between 1990 and 2003, fish exports rose 20 times, from US\$8.1m in 1990, to US\$154m in 2003. There is strong world market for the two main Tanzanian fish exports: Nile Perch and shrimps, for which world demand continues to exceed world supply. The comparative advantage of Tanzania in fish comes from its very rich fish resources. The fisheries industry also plays an important role in poverty alleviation in the country given the participation of artisan fishers whose catch account for around 99 percent of the nation's total fish catch.

The constraints faced by the sector include lack of reliable airfreight and lack of cold storage facility at Mwanza. In addition, escalating taxes is a major factor with respect to plans to extend the fish supply chain into new value-adding areas. The industry has become subjected to cesses, fees and taxes imposed by several levels of government, thereby eroding the competitive advantage of Tanzania's fish processors vis-à-vis Kenya's.

5.0 CONCLUSION

One clear conclusion emerging from the best available data and literature is that trade liberalisation or trade performance has not led to significant poverty reduction in Tanzania. Several questions arise from this conclusion. First, is it that trade has not impacted on growth or it that growth has not impacted on poverty reduction? Second, is trade linked to poverty reduction? In other words, is Tanzanian trade poverty-reducing? And, finally, why? This paper provides background information for the Tanzanian case study of a 4-year (2005-2008) CUTS project whose aim is to examine the link between Trade, Development and Poverty. In the paper, we have attempted to highlight on the above asked questions using the best available secondary data and literature.

Available evidence and data show that Tanzania has implemented significant trade policy reforms, including massive trade liberalisation (tariff reduction and rationalisation), abolishing export and related nuisance taxes, reducing none-tariff barriers and improving or simplifying export and import procedures including trade facilitation services. Tanzania has also implemented a wide range of policy reforms that are also complementary to trade policy performance (e.g. macroeconomic stabilisation, restructuring and privatisation, institutional reforms and private sector development etc.) A number of policies on several sectors have been formulated. As a result of these reforms, Tanzania has achieved impressive growth rates in the last decade and has attained credibility to the Donor community.

However, the important issue for Tanzania is not so much about whether trade liberalisation has led to poverty reduction, but how can Tanzania increase its trade performance to sustaining her economic growth. Clearly, even where trade is closely linked to poverty reduction, low level of competitiveness and productivity in the traded sector will demean any poverty reducing trade strategy. Despite the significant trade policy reforms, increase in trade performance for Tanzania has only been modest less diversified. It is the high time that policy interventions be made to boost competitiveness of Tanzania's trade and promote export orientation of the economy in parallel to the notable poverty reduction strategies.

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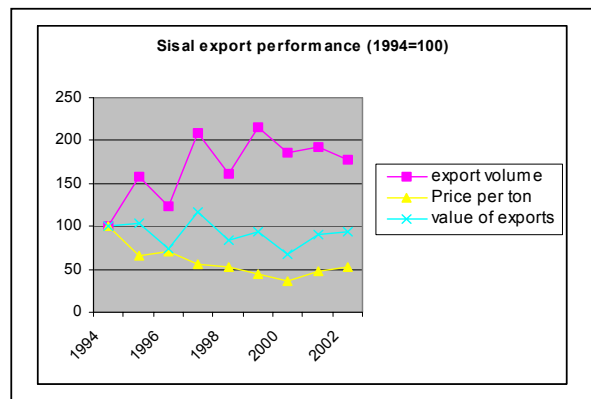
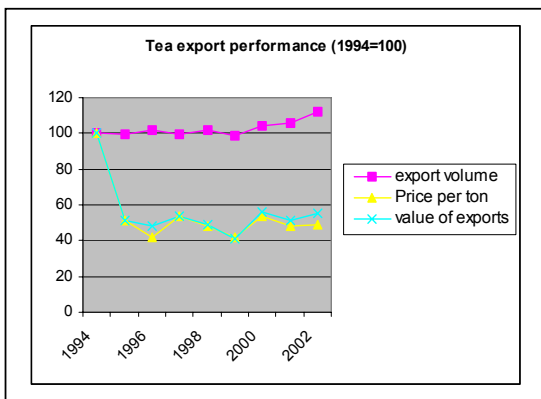
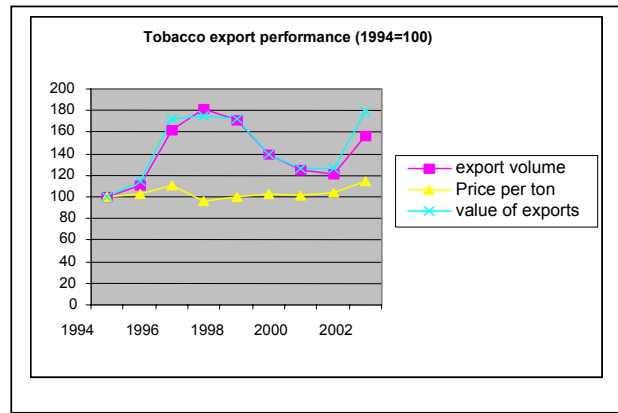
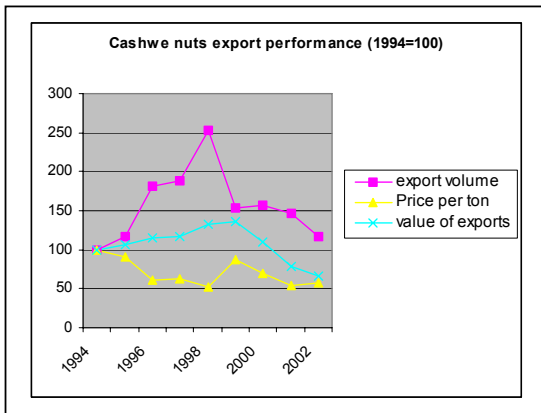
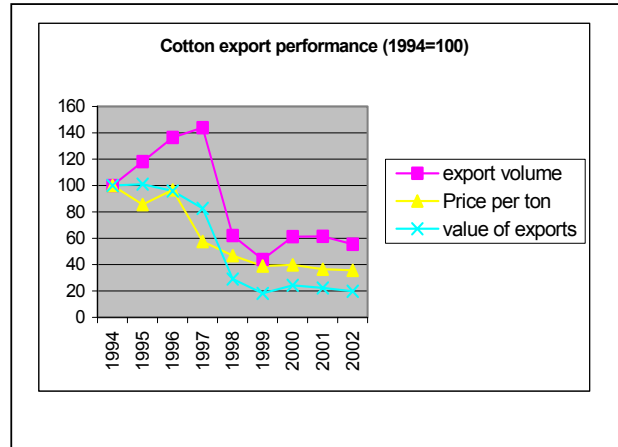
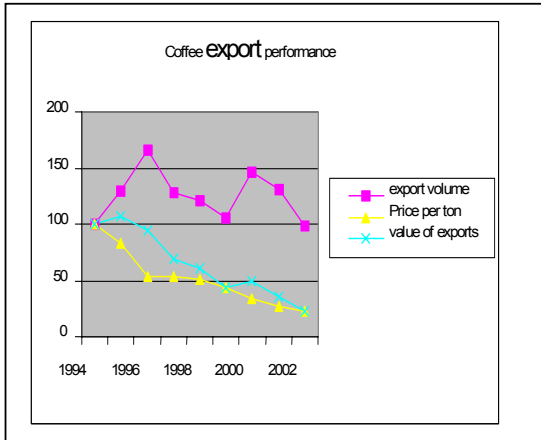
APPENDICES

Appendix 1: Tanzania Competitive Index Ranking Relative to African Countries

| Country | Tanzania | Kenya | South Africa | Uganda |
|---|----------|-------|--------------|--------|
| Growth Competitiveness Index Rank | 69 | 83 | 42 | 80 |
| Macroeconomic Environment Index Rank | 76 | 77 | 40 | 71 |
| Macroeconomic Sub Index Rank | 79 | 60 | 41 | 58 |
| Government Waste Sub Index Rank | 43 | 77 | 37 | 60 |
| Country Credit Sub Index Rank | 83 | 82 | 40 | 85 |
| Public Institutions Index Rank | 59 | 92 | 43 | 84 |
| Contracts and Law Sub Index Rank | 46 | 80 | 40 | 73 |
| Corruption Sub Index Rank | 73 | 95 | 48 | 93 |
| Technology Index Rank | 81 | 74 | 40 | 77 |
| Innovation Sub Index Rank | 90 | 84 | 58 | 86 |
| Information and Communications Tech. Sub Index Rank | 90 | 86 | 44 | 89 |
| Technology Transfer Sub Index Rank (Out of 77 non-core innovators) | 23 | 17 | 3 | 22 |

Source: IMF Country Report 2004

Appendix 2: Export Performance for Major Crops (1994-2002)



Source: Computed using Data from the Economic Survey (various years).

Appendix 3: MFN Tariffs and Tanzania's Exports, 2003

| Region or Country | Product | Simple Average Tariff (%) | Weighted Average Tariff (%) | Value of Exports (\$000) | Value in duty-free lines (\$000) | Share of Total Exports | Share of duty-free lines in exports |
|-----------------------------|------------------------|---------------------------|-----------------------------|--------------------------|----------------------------------|------------------------|-------------------------------------|
| World | All Products | 9.8 | 4.8 | 1,017,182 | 631,359 | | |
| | Agriculture | 10.3 | 8.6 | 259,428 | 117,224 | | |
| | Textiles and Clothing | 15.2 | 11.4 | 13,967 | 38 | | |
| OECD | All Products to OECD | 5.3 | 3.7 | 840,947 | 577,154 | 82.7% | 68.6% |
| | Agriculture | 7.7 | 7.1 | 177,961 | 91,496 | 17.5% | 51.4% |
| | Textiles and Clothing | 9.4 | 8.8 | 8,770 | 37 | 0.9% | 0.4% |
| <i>of which:</i> | | | | | | | |
| EU | All Products to EU | 4.9 | 3.2 | 689,634 | 465,305 | 67.8% | 67.5% |
| | Agriculture | 5.8 | 2.1 | 120,176 | 53,275 | 11.8% | 44.3% |
| | Textiles and Clothing | 8.7 | 10.4 | 4,528 | - | 0.4% | |
| Japan | All Products to Japan | 2.4 | 0.3 | 99,826 | 92,415 | 9.8% | 92.6% |
| | Agriculture | 2.6 | 0.3 | 29,048 | 27,705 | 2.9% | 95.4% |
| | Textiles and Clothing | 4.8 | 0.8 | 1,571 | - | 0.2% | |
| U.S. | All Products to U.S. | 3.4 | 2.7 | 25,386 | 13,849 | 2.5% | 54.6% |
| | Agriculture | 1.8 | 0.5 | 9,009 | 7,510 | 0.9% | 83.4% |
| | Textiles and Clothing | 8.6 | 11.4 | 2,063 | - | 0.2% | |
| COMESA (All) | All Products to COMESA | 13.5 | 12.3 | 76,877 | 3,808 | 7.6% | 5.0% |
| | Agriculture | 14.6 | 11.2 | 25,106 | 1,167 | 2.5% | 4.6% |
| | Textiles and Clothing | 18.0 | 17.0 | 2,896 | 0 | 0.3% | 0.0% |
| SADC (All) | All Products to SADC | 17.3 | 13.4 | 17,502 | 503 | 1.7% | 2.9% |
| | Agriculture | 14.8 | 7.3 | 6,350 | 0 | 0.6% | 0.0% |
| | Textiles and Clothing | 22.5 | 22.7 | 1,267 | 0 | 0.1% | 0.0% |
| India (2001 data) | All Products to India | 31.5 | 32.0 | 76,729 | 37 | 7.5% | 0.0% |
| | Agriculture | 34.1 | 31.8 | 57,162 | 37 | 5.6% | 0.1% |
| | Textiles and Clothing | 27.5 | 22.0 | 14 | 0 | 0.0% | 0.0% |
| China | All Products to China | 7.9 | 11.8 | 27,567 | 16,590 | 2.7% | 60.2% |
| | Agriculture | 15.4 | 35.0 | 8,981 | 0 | 0.9% | 0.0% |
| | Textiles and Clothing | 6.0 | 6.0 | 96 | 0 | 0.0% | 0.0% |

Source: Adopted from World Bank (2005a) that was based on WITS calculations using tariff data from the UNCTAD Trains database and trade from the UN COMTRADE database. "World" includes only 2003 data; the most recent Indian tariff and trade data come from 2001.

Notes: Tariffs on non-traded products are excluded; SADC and COMESA include all members, including countries that are in both (for example, Zambia) regardless of participation in trade liberalization protocols. All export values are based on mirror statistics, that is, reports by the importing countries.