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Trade Policy and Trade Performance



This chapter outlines aggregate trends in export performance since the earlier Diagnostic Trade Integration Study (DTIS) 2005, comparing Tanzania with its regional partners, and focusing on intraregional trade. This is followed by a discussion of trade policy focusing on Tanzania's existing trade agreements prior to describing the structure of nominal protection, which measures the price-raising impact of tariffs under the general tariff, and other duties that are applied. This is followed by a summary of the trend in Tanzania's trade costs with regional partners using the new World Bank trade costs database, before discussing recent findings on the relationships between trade and poverty. Finally, the chapter concludes with recommendations aimed at reducing the policy bias against exports.

The overview of Tanzania's trade performance is based on the United Nations Comtrade data and draws on the recent World Bank report "Uncovering Drivers for Growth and Diversification of Tanzania's Exports and Exporters." The DTIS documents the changes in both the commodity composition and the geographical direction of imports and exports.

"The share of traditional and nontraditional exports was broadly constant from 2010 to 2015. With the rapid increase in exports from the mining sector, the share of traditional exports (tea, coffee, cotton, tobacco, cloves, and cashew) declined from a peak of 60 percent in 1998 to 21 percent in 2003."

The 2005 DTIS review of export performance, over the period 1990–2003, identified tourism and gold exports as the major growth sectors. In 2003, tourism and gold were the largest and second largest items, respectively. Over the same period, nontraditional merchandise exports increased much more rapidly than the traditional agricultural exports and, by 2003, accounted for 80 percent of total merchandise exports. Nontraditional exports included gold, fish and fish products, and horticulture exports. Throughout the period 1990–2003, most of Tanzania's exports were destined for developed industrial economies with the European Union (EU) accounting for over 60 percent and Japan 10 percent.

India and China accounted for 9.9 and 2.6 percent, respectively. Virtually all of Tanzania's metal ore exports were destined for Japan, while cotton, cashew nuts, and vegetables went to India. Although regional exports to Kenya, Malawi, and Zambia remained modest—accounting, in aggregate, for 9.2 percent of total exports in 2003—their share had more than doubled since 1990.

The share of traditional and nontraditional exports was broadly constant from 2010 to 2015. With the rapid increase in exports from the mining sector, the share of traditional exports (tea, coffee, cotton, tobacco, cloves, and cashew) declined from a peak of 60 percent in 1998 to 21 percent in 2003. According to a report by the Bank of Tanzania (BOT 2016), traditional exports declined further to just above 15 percent in fiscal 2012 after which they increased to 18.5 percent in fiscal 2015. The report also found that the decline in the price of gold resulted in a decline in the total value of nontraditional exports (minerals, manufacturing, floriculture, horticulture, and fish) over the period fiscal 2012 to fiscal 2014. The decline in gold receipts were offset by increased revenue from travel services, primarily tourism, which exceeded US\$2 billion in fiscal 2015 (BOT 2016).

General Duty Schedules and Tariffs

Tanzania is a founding member of the World Trade Organization (WTO), the East African Community (EAC), and the Southern African Development Community (SADC). Tanzania plays an active role at the WTO, regularly submitting notifications to the Technical Barriers to Trade committee and participating in the least-developed countries (LDCs); African; and African, Caribbean, and Pacific groups. Tanzania served as the LDC focal point on the Trade Facilitation negotiations prior to the agreement. On the continent, Tanzania is implementing the EAC Customs Union, the SADC Free Trade Area, and is actively participating in the negotiations for the EAC-Common Market for Eastern and Southern Africa (COMESA)-SADC Tripartite Free Trade Area. It participates in the United States-EAC Trade and Investment Framework Agreement and has concluded (but not signed) the EAC-EU Economic Partnership Agreement.

Tanzania has applied the EAC common external tariff (CET) since 2005 on all most-favored-nation imports. (Table 3.1 shows Tanzania's tariff structure.) The EAC's

CET has three bands of zero percent on raw materials and capital goods, 10 percent on intermediate goods, and 25 percent on final goods. Tariffs on a small number of sensitive products (61 tariff lines) are higher than 25 percent and thus do not comply with the three-tier structure of the CET. Agricultural products account for the majority of sensitive items and include milk (60 percent), wheat (35 percent), corn (50 percent), rice (75 percent or US\$345 per metric ton), and sugar (100 percent or US\$ 460 per metric ton). Some manufacturing products like cement (35 percent), primary cells and batteries (35 percent), matches (50 percent), and Khanga, Kikoi, and Kitenge fabrics (50 percent) are also included in the sensitive list. In 2010, after a five-year transitional period to allow for tariff adjustment in some countries, imports among EAC members were fully liberalized.

The tariff structure has not changed much since the adoption of the CET in 2005 with the exemption of the sensitive products. Tanzania's tariff schedule has 5,437 tariff lines with the vast majority of them falling in one of the three standard CET rates: 37 percent of tariff lines pay zero duties, 21 percent pay a 10 percent tariff, and 40 percent pay a 25 percent duty. About one percent of tariff lines are part of the sensitive list and pay tariffs above 25 percent. In the WTO, Tanzania bound 13.5 percent of tariffs at 120 percent, comprising all agricultural products (as defined by the WTO) and one-tenth of one percent of nonagricultural products also at 120 percent.

Table 3.2 shows the most-favored-nation rates minimum and maximum tariffs and standard deviation by the main sectors. The animal and vegetable products and

TABLE 3.1: Tanzania's Tariff Structure

No. of tariff lines	CET (%)	% of tariff lines
2,011	0	36.90
1,170	10	21.50
2,194	25	40.40
13	35	0.20
1	40	0.02
19	50	0.35
16	60	0.29
4	75	0.07
9	100	0.17
Total = 5,437		

Source: Derived from World Integrated Trade Solution.

Note: CET = Common External Tariff.

TABLE 3.2: Sector Groups Ex Ante Most-Favored-Nations Tariffs

HS code	Sector	%	Min.	Max	STD
01-05	Animal products	25.5	0	60	9.16
06-15	Vegetable products	19.2	0	75	11.52
16-24	Foodstuffs	23.7	0	100	14.58
25-26	Minerals	4.1	0	25	7.02
27	Mineral fuels	5.8	0	25	7.65
28-38	Chemicals	2.9	0	40	7.25
39-40	Plastic and rubber	10.6	0	25	9.90
41-43	Hides and skins	14.1	0	25	7.95
44-49	Wood	13.2	0	25	10.25
50-63	Textiles and clothing	20.8	0	50	9.24
64-67	Footwear	21.9	0	25	8.20
68-71	Stone and glass	18.6	0	25	9.11
72-83	Metals	9.6	0	35	9.08
84-85	Machinery and electrical	6.1	0	35	8.86
86-89	Transport equipment	6.9	0	25	9.86
90-98	Miscellaneous	14.7	0	25	11.36

Source: Derived from World Integrated Trade Solution.

Note: HS = Harmonized System.

foodstuffs sectors contain the highest maximum tariffs and have the highest standard deviation. This reflects the high level of tariff protection provided to the sugar, corn, wheat, milk and rice sectors.

High tariffs charged on some goods risk reducing the competitiveness of downstream industries or the incentives for domestic production. For instance, sugar—which is a key input for many food products like baked goods, fruit juices, carbonated drinks, preserved fruits, among others—attracts a very high tariff (100 percent or US\$ 460 per metric ton) that could impact the competitiveness of industries that use it as an input. Although usually duties for sugar imported by industrial users are reduced under the Duty Remission Scheme, it seems that only a few firms benefit from the scheme (25 firms in 2014) as the process to apply or lobby for inclusion in the scheme might be beyond the resources of many small- and medium-sized firms. Similarly, tariffs on textiles inputs that range from 10 to 25 percent might reduce the prospects of developing a domestic apparel industry which has proven a good way of generating jobs in other African countries.

Tariff Policy and the Use of Rebates

Tanzania has multiple schemes offering import duty remission for exporters. Export promotion programs include duty drawback, manufacturing under bond,

export processing zones (EPZs), and special economic zones (SEZs). All of these have different incentives and minimum export requirements apply under all three schemes. Under the duty drawback scheme, duties charged on imported inputs used for producing goods for export (or for transfer to an EPZ) are refunded. The manufacturing under bond scheme provides for the exemption of all duties and taxes on imports of capital requirement and inputs used in the manufacture of exports and is designed for companies producing solely for the export market.

The Export Processing Zone Authority (EPZA) was launched in 2006 to manage and implement the EPZ and SEZ schemes. The legislation was modified in 2011 by the Economic Zones Laws Act, which provides for a wide range of fiscal incentives including the remission of customs duty, value-added tax, and other taxes on raw materials and capital goods used in the EPZ. Provision was also made for providing lower port charges (relative to the cargo box rate) and firms were permitted to sell up to 20 percent of their goods to the domestic market. The EPZA incentives are only available to new investors. To date, six industrial parks have been designated.¹ Investments are concentrated in agriprocessing, light engineering, apparel production, and mineral processing, with exports destined for the United States (under the African Growth and Opportunity Act), the EU (under the Cotonou Agreement), South Africa (under SADC), and India (most-favored nation).

Duty rebates and remission are widespread. In fiscal 2014, trade taxes accounted for 15.5 percent of total tax revenue. The average statutory (ex ante) import tariff weighted by imports was estimated at 7.85 percent in 2005 and 6.54 percent in 2015. An earlier study estimated the collection rate in 2014 at approximately 4 percent (Cunningham and others 2015). The difference between the ex ante rate and the ex post rate is explained by the widespread use of rebates.

Incentive Regime

The escalating tariff structure and the widespread use of rebates creates a large dispersion in protection levels. For those firms using largely imported inputs, with relatively low domestic value added, the ability to obtain duty rebates creates substantial incentives to sell into the EAC market rather than to produce for export. While

the nominal rate of protection (as measured by the price raising effect of the tariff) may be relatively modest in most cases (10 or 25 percent), the effective rate of protection provided to a firm may be much higher. The effective rate of protection measures the combined effect of price distortions (caused by tariffs) on both the inputs and the outputs. It measures the proportion by which a firm's value added at domestic prices differs from that would be realized if the prices of its products and inputs were not distorted through tariffs. Positive effective rates of protection indicate that domestic industries can operate with a higher level of value added that would be the case with lower tariffs. This increases domestic profitability and/or permits reduced levels of efficiency which limits future expansion into potential export markets. Even relatively modest tariff rates (10 percent) can generate significant effective protection in the domestic market. A simple example is shown in box 3.1.

Activities with high levels of protection will grow at a lower rate, and create fewer jobs than sectors with lower rates of effective protection. Lowering tariffs on both inputs and outputs, including final products, will significantly reduce the effective rate of protection and moving towards a more uniform tariff, through gradually phasing out some of the tariff peaks (defined by the WTO as all tariffs exceeding 15 percent) will reduce the dispersion of effective rates.

Export Duties

Tanzania levies an export tax on three items, raw hides and skins, cashew nuts, and wet blue leather. The rate of export duty on raw hides and skins is 80 percent or US\$0.25 per kilogram, whichever is larger. This policy aims to ensure the 7 privately owned tanneries can access their raw materials at low prices. The export tax serves to reduce the prices paid to farmers and discourages the production of higher-quality hides and skins. The export tax should be reduced with the aim of being phased out as tanneries upgrade their equipment and increase their competitiveness (Dinh and others 2013). There is a 10 percent export tax on wet blue leather aimed at encouraging the domestic leather processing industry. This measure depresses the profitability of the tanneries as most of the tanneries only process to the wet blue stage. The export tax on cashew nuts also has the unintended effect of depressing the prices paid to smallholders and farmers. The revenue collected from

taxing exports accounted for 0.18 percent of total tax collected in 2012.

Regional Integration

Tanzania is implementing the EAC Customs Union CET with exceptions for selected agricultural commodities (wheat and corn, processed pulses, wheat flour, olive oil), iron and steel structures, grinding and cutting machinery, and vehicles.

BOX 3.1: Example of Effective Rate of Protection

A food-processing factory, employing 75 persons, produces cooking oil for the domestic market. Its main input is the bulk import of sunflower oil, which enters duty free. Other inputs, such as bottles, containers, and packaging materials and consumables, are conservatively assumed to be purchased at world prices, as are nontraded goods, such as electricity, water, and security charges. The total value of all inputs accounts for 70 percent of the total value of the ex-factory price of the cooking oil. Sunflower cooking oil is protected in the domestic market with a tariff of 20 percent.

The firm produces 3 million liters of oil at US\$2 per liter per year in domestic prices. Assuming all production is sold domestically, this generates an annual turnover of US\$6 million. At world prices, 70 percent by value is either imported or sourced locally. With a zero tariff on the inputs, the firm pays 0.7 of the total sales at world prices, which is 0.7[(US\$6 million (0.83))] for all its inputs, US\$3.499 million. Assuming it sells all its production domestically at US\$6 million, it then realizes domestic value added of US\$2.501 million which is shared between employees (labor) and the owners (returns on capital). However, if the firm were to sell its product overseas, it would have to sell at world prices (US\$1.67 per liter) because other countries also protect their domestic cooking oil production with a 20 percent tariff. Therefore, any sales outside the East African Community would only realize 83 percent of the price achieved in Tanzania. Assuming the firm were to sell all its production overseas, its total revenue would decline to US\$4.998 million. Although it would have a positive value added, it would be reduced significantly to 16.5c per liter relative to producing for sale in the domestic market where value added would be 83.1c per liter. The firm would try and expand its domestic production before entering foreign markets as the former is much more profitable. If the firm could sell duty free (though Southern African Development Community tariff preferences) into neighboring markets, which were also protected by a tariff on the final product, this would also be more profitable than selling to the world market.

Under these assumptions, value added on sales in the domestic market is more than double the value added on sales in the foreign market. The effective rate of protection is 125 percent.

On the EAC Common Market Scorecard, Tanzania scores the lowest on trade, but has registered the most improvement between 2013 and 2015. Tanzania is not yet complying with the directive that customs authorities issue the Certificates of Origin, and nonrecognition of the certificates by border officials remains a problem. The EAC Scorecard lists four persistent nontariff barriers: lack of harmonization of working hours for customs, lack of coordination among institutions involved in testing, lack of harmonization of road user charges, and various monetary charges levied on the export of milk. EAC partner states have designated 58 goods as 'sensitive', which renders them eligible to declare tariffs above the EAC maximum CET of 25 percent.

The SADC Free Trade Area removed most tariffs by 2012, however, restrictive rules of origin on key agricultural and labor-intensive sectors continue to limit the potential for trade creation. The SADC has advanced towards a fully-fledged free-trade area (FTA), which was launched in 2008, and aimed to attain maximum tariff liberalization in 2012. In 2011, audit of the FTA observed a tripling of intra-SADC trade in the last decade, although exports were noted to be mainly coming from South Africa. The SADC Regional Economic Integration Support program has ambitious plans that include a common market by 2015, a monetary union by 2016, and a single currency by 2018. However, increased cooperation is more likely in specific sectors, particularly energy and transport. There are relatively advanced plans for member countries to link their power grids to help to create a regional power pool, and further proposals to develop cross-country infrastructure projects are also expected.

The SADC FTA aims to facilitate the movement of goods through regulatory and administrative measures. These include, harmonized customs procedures and customs classifications; increased custom cooperation; reduced costs by introducing a single, standardized document (single administrative document) for customs clearance throughout the region and establishing One-Stop Border Posts (OSBPs). For example, the OSBPs in Tanzania and the Democratic Republic of Congo is close to completion; however, it remains to be analyzed whether they are achieving their objectives.

As a member of both the EAC and SADC, Tanzania may have a special role to advance regional integration

through the Tripartite. Following the SADC-COMESA-EAC Tripartite Summit held in June 2011 in Johannesburg, there are ongoing attempts for instituting the Tripartite FTA negotiations. This DTIS review will inform the in-depth analyses regarding the priority barriers to trade in goods, especially nontariff measures, the top barriers to trade in services, the main improvements in trade facilitation and business environment, and the necessary capacity building activities. This DTIS update aims to identify specific actions that will reduce trade costs and deepen economic integration in the region.

Barriers to deepening regional integration in East Africa are mostly at the policy level, and there is a disconnect between commitments made under regional agreements and implementation on the ground. Numerous studies have been carried out on regional integration issues in terms of trade and transport. One of the most recurring findings of these studies is that the barriers to regional integration in the subregion are not just physical, but that there are a number of institutional barriers currently impeding integration efforts. The costs to address these barriers, given the necessary political will and commitment, are modest compared to some of the other investments required, but the potential benefits are significant. In the EAC, one significant institutional impediment is the lack of coordination and complementarity between the trade and transport policies of the various states. Countries have committed themselves to developing harmonized and complementary policies, however, these commitments generally remain on paper only, while each state still approaches policy development as a domestic exercise, reflecting only national priorities (Mousley and others 2014).

There is scope for complementarity between the DTIS update and ongoing and pipeline regional integration projects in East Africa. For instance, a project of the World Bank, aims to support EAC countries, including Tanzania, to eliminate barriers to regional trade in goods and services, covers similar regional integration issues as this DTIS update. The DTIS has identified a range of constraints holding back increasing regional and international trade. The World Bank project will focus on removing nontariff barriers (such as unnecessary requirements and fees), simplifying regulations and procedures and applying them in a transparent and predictable way, and improving access to information and new technologies.

Trade Performance

This section provides an overview of Tanzania's recent trade performance. Beginning with a summary of Tanzania's trade openness in comparison with its regional partners, prior to discussing the evolving geographical direction of imports and exports and the changing commodity composition since 2005. The review of trade performance over the past decade is based on the commodity composition of trade at the Harmonized System (HS) 6-digit level from the United Nations Comtrade database.² There is considerable anecdotal evidence that trade flows are consistently underreported at borders and trade statistics risk providing an incomplete picture of the actual trade flows, particularly for trade with neighboring countries. In order to shed light on one aspect of this underreported trade, this DTIS update examined mirror trade data for EAC intra-regional trade as imports from the EAC were compared with partner exports.

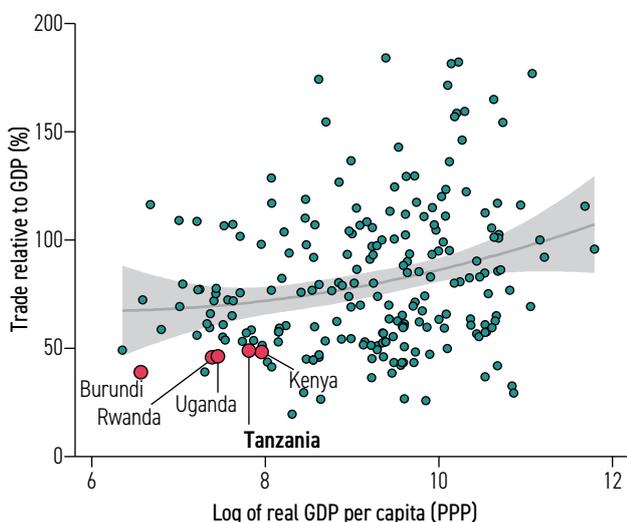
Although Tanzania became more open to trade over the last decade, its openness is still below the level expected of a country at its per capita income. Tanzania's total trade openness has improved modestly over the last decade, rising from an average of 44 percent in fiscal 2005 to an average of 48.6 percent in fiscal 2015. As a result, Tanzania is the most open economy in the EAC, slightly more open than Kenya (47.9 percent), Uganda (46.1 percent), Rwanda (45.8 percent), and Burundi (38.5

percent). However, Tanzania is still below the trend line suggesting that its openness to trade is below the level suggested by its per capita income (figure 3.1).

The world market share of Tanzania's goods and services exports doubled over the last decade, although it started from a small base. Tanzania saw an increase in its world market share of goods and services exports from 0.02 percent to 0.04 percent between 2004 and 2014 (figure 3.2). Among its EAC peers, Tanzania showed the third highest compound annual growth rate of 6.2 percent, compared to Uganda (9.5 percent), Rwanda (9.3 percent), Kenya (1.1 percent), and Burundi (6.1 percent).

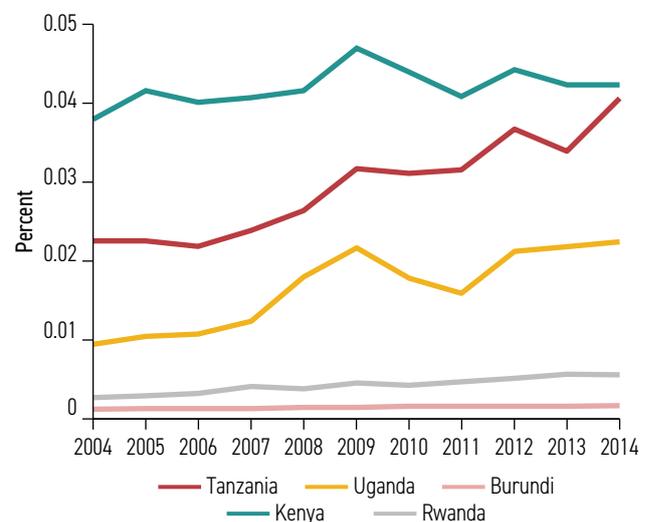
Tanzania remains dependent on agriculture and minerals exports, which accounted for a combined 80 percent of total exports on average between 2005 and 2015. Mineral exports increased rapidly between 2005 and 2012 as a result of the high prices fetched by the most important mineral export in the country (gold) and declined afterwards as a consequence of the dip in international prices. Agricultural exports grew at modest rates during the first part of the last decade (7.4 percent annualized rate between 2005 and 2011), but growth accelerated considerably between 2012 and 2015 (20.8 percent annualized rate). Manufacturing exports remained below 20 percent during the last decade, with very little changes in participation in total exports and the possible exemption of a small uptick in textiles and apparel exports towards the end of this period.

FIGURE 3.1: Openness to Trade, 2014–15

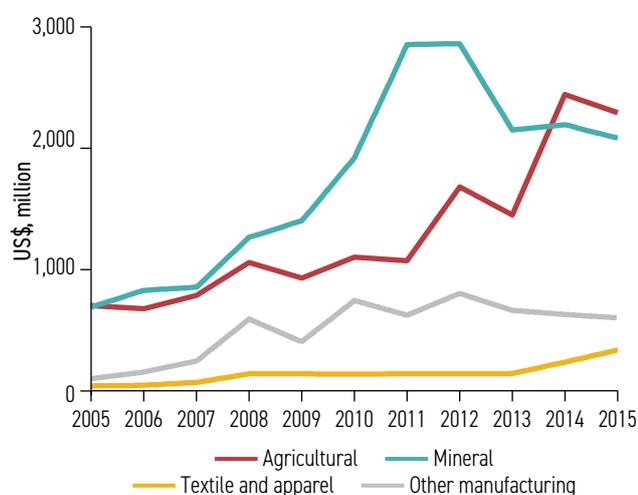


Source: Derived from World Bank World Development Indicators.

FIGURE 3.2: Share in World Exports of Goods and Services, 2004–14



Source: Derived from World Bank World Development Indicators.

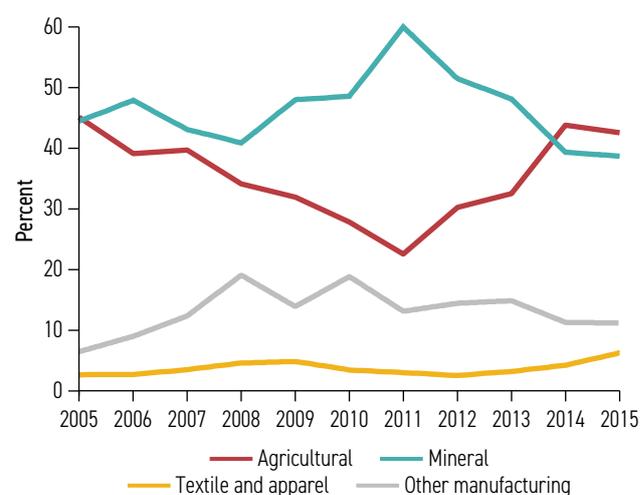
FIGURE 3.3: Exports by Sector, US\$ million, 2005–15

Source: Derived from United Nations Comtrade.

Overall, although the relative shares of agricultural and mineral exports diverged during part of the last decade, they both accounted for similar shares of total exports between 2005 and 2015 (about 40 percent).

The performance of mineral exports was closely linked to the price of gold in international markets. Because gold represented between 90 and 95 percent of mineral exports over the last decade, the growth of sectoral exports closely followed the price developments of this product: when gold prices increased sharply between 2005 and 2012, exports of gold recorded their best performance, and when the price declined after 2012, exports declined as well (although at a less steep pace thanks to increased production). Besides gold, Tanzania also exported some industrial ores (mainly copper and manganese), limestone, diamonds, and other gems during the last decade. Exports of tanzanite fluctuated between US\$10 million and US\$35 million during the decade.

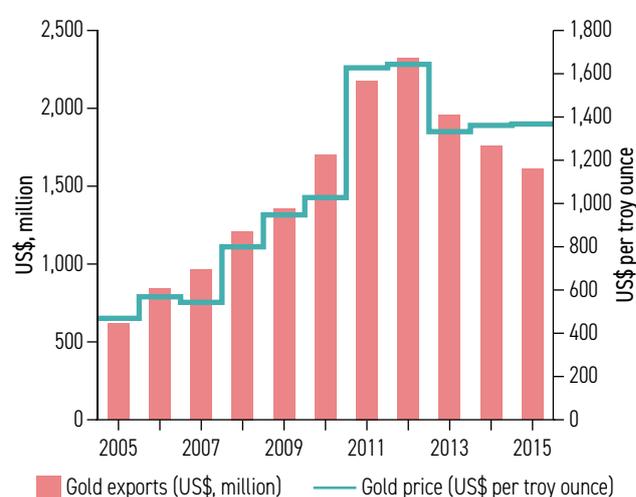
The majority of the growth recorded by agricultural exports was due to increasing imports from India and Asian countries (mainly China and Japan). The Association of South East Asian Nations+3 countries (26 percent) and India (28 percent) accounted for more than half of the growth of agricultural exports between 2005 and 2015. Although regional trade increased its relative importance in agricultural exports, it only accounted for 16 percent of agricultural export growth during this period (6 percent to the EAC, 7 percent to the SADC, and 3 percent to the rest of Africa). In terms of overall

FIGURE 3.4: Share of Total Exports by Sector, 2005–15

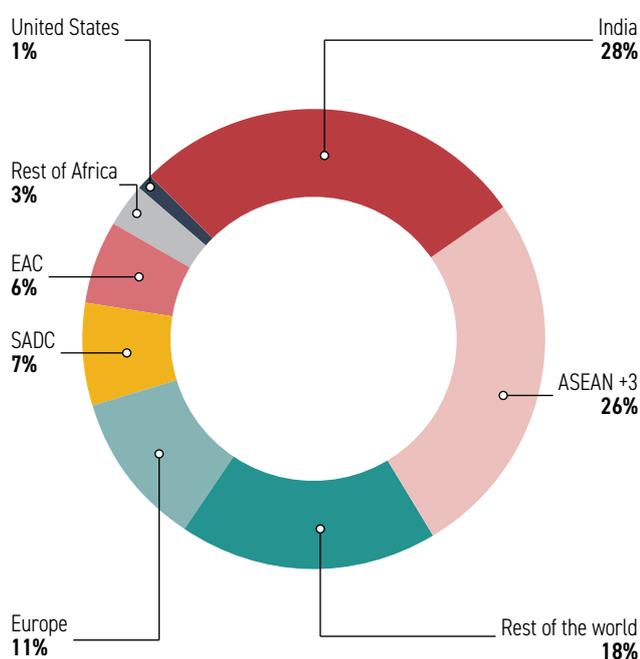
Source: Derived from United Nations Comtrade.

growth of agricultural exports, the intensive margin (exports of old products to old regions) accounted for 43 percent of total growth, the introduction of old products to new regions accounted for another 36 percent, while the contribution of new products was modest between 2005 and 2015 (21 percent).

Exports to India increased significantly over the last decade, replacing Europe as the most important destination for Tanzania's exports over the last decade. Exports to India grew from US\$78 million to US\$1,149 million between 2005 and 2015, with export growth accelerating in the second part of the decade (23.7 percent annual growth between 2005 and 2010 compared to 38.4 percent between 2010 and 2015). Exports to Europe grew

FIGURE 3.5: Gold exports and price, 2005–15

Source: Derived from United Nations Comtrade.

FIGURE 3.6: Growth Decomposition in Agricultural Exports, 2005–15

Source: Derived from COMTRADE data on WITS

Note: ASEAN+3 = Association of South East Asian Nations plus China, Japan, and the Korea, Rep.

at lower rates during this period (16.3 percent between 2005 and 2010 and -8.4 percent between 2010 and 2015), which translated in a loss of relative export shares. Regional exports also decelerated in the second part of this period, with exports to the EAC growing at only 3 percent between 2010 and 2015 after growing at 34.8 percent in the previous five-year period, while exports to the SADC countries grew more slowly in the latter period (10.7 percent and 8 percent, respectively) (table 3.3).

Tanzania has a well-diversified basket of agricultural exports, including cereals, seeds, fruits, vegetables and fish. Table 3.4 shows Tanzania's top 20 exported products at the HS 6-digit level and the main destinations for those products in 2015. Although the export basket seems well diversified in terms of agricultural products, manufacturing products are largely missing from this table. In terms of destinations, it is worth highlighting that no regional group or country dominates the importation of more than three or four of these products which reflects in good diversification of destination markets as well.

TABLE 3.3: Tanzanian Exports, by Main Destination, US\$ million, 2005–15

	Value (US\$ million)			Total exports (%)			Annual growth	
	2005	2010	2015	2005	2010	2015	2005–10	2010–15
India	78	226	1,149	5.1	5.8	21.6	23.7	38.4
EAC	112	494	574	7.3	12.7	10.8	34.6	3.0
Kenya	80	306	443	5.2	7.8	8.3	30.6	7.7
Uganda	21	48	50	1.4	1.2	0.9	18.3	0.8
Burundi	8	53	39	0.5	1.4	0.7	46.9	-5.7
Rwanda	3	87	41	0.2	2.2	0.8	94.3	-14.0
SADC	317	528	777	20.6	13.5	14.6	10.7	8.0
South Africa	292	431	675	19.0	11.0	12.7	8.1	9.4
Congo, Dem. Rep.	13	141	198	0.9	3.6	3.7	60.2	7.1
Zambia	9	55	44	0.6	1.4	0.8	44.5	-4.4
Mozambique	7	18	19	0.5	0.5	0.4	20.5	0.6
Europe	568	1,209	778	36.9	31.0	14.6	16.3	-8.4
Germany	78	139	226	5.1	3.6	4.2	12.3	10.2
Switzerland	146	710	154	9.5	18.2	2.9	37.2	-26.3
Belgium	37	95	149	2.4	2.4	2.8	20.9	9.4
ASEAN+3	241	985	967	15.7	25.2	18.2	32.5	-0.4
China	99	657	562	6.4	16.8	10.6	46.1	-3.0
Japan	72	216	230	4.7	5.5	4.3	24.5	1.3
Vietnam	3	43	70	0.2	1.1	1.3	65.8	10.6
Rest of Africa	34	258	399	2.2	6.6	7.5	49.9	9.1
United States	18	48	51	1.2	1.2	1.0	21.9	1.1
Rest of the world	169	158	625	11.0	4.0	11.7	-1.3	31.7

Source: Derived from COMTRADE data on WITS.

Notes: ASEAN+3 = Association of South East Asian Nations plus China, Japan, and the Republic of Korea; EAC = East African Community; SADC = Southern Africa Development Community.

BOX 3.2: Intra-Regional EAC Trade Mirror Trade Data

In principle, transit trade through countries should not be included in the imports and exports data, and exports from Country A to Country B should be equivalent to imports to Country B from Country A. In practice, it is reasonable to expect some differences in cases where the borders operate completely independent and also for delays which may result in the same products being classified into different time periods by the two countries. Further exports are usually valued as free on board (FOB) which reflects the ex-factory sale price, while imports are valued with the costs of the carriage, insurance, and freight (FOB). In the case of the East African Community (EAC), which operates a Common External Tariff, each country's Revenue Authority records imports on intra-EAC trade as they are responsible for levying value-added tax (VAT) on most products. The Revenue Authority also has a responsibility to record the value of exports, however, except for a very small number of products (hides and skins, cashew nuts) there are no export taxes. Given the mandates of the respective revenue authorities there is an incentive to accurately record imports.

Using import data reported by each of the EAC countries and then comparing the mirror data (exports from the originating country) highlights large disparities. Kenya, Tanzania, and Uganda all record significantly larger exports to EAC countries than is reflected in the mirror import data. The ports of Mombasa and Dar es Salaam serve as major entry points for the hinterland economies of Rwanda and Uganda. Goods destined for Rwanda from Kenya also transit through

Uganda. Goods destined for neighboring economies outside the EAC, including the Democratic Republic of Congo also transit through Tanzania and Rwanda.

In 2013, approximately US\$555 million were recorded as exports by Kenya (US\$234 million), Tanzania (US\$262 million), and Uganda (US\$142 million) to other EAC economies that were not matched by the corresponding import data.

Exports from Tanzania to Kenya and Uganda are much higher than the corresponding imports, by US\$93 million (41 percent difference) and US\$66.5 million and US\$45.3 million, respectively. This may reflect exports that should have been classified as in transit to a third country via Mombasa (or through Uganda to Rwanda or the Democratic Republic of Congo), or perhaps products that were informally exported from Tanzania to avoid export permits (required for all agricultural products), or were destined for the domestic Kenyan or Ugandan markets, and importers declared lower values to reduce their VAT payments.

Tanzania sourced 3.2 percent of its total imports in 2013 from the EAC, and exported 9.6 percent of total exports. While Kenya sourced only 2 percent of its imports from the EAC, intra-regional exports accounted for 22.9 percent of the total.

Source: Derived from United Nations Comtrade data.

TABLE 3.4: Tanzania's Top 20 Exported Products, 2015

HS-6 code	Product description	US\$ million	Africa	ASEAN	EAC	Europe	India	SADC	ROW
710812	Gold in unwrought forms non-monetary	1,431	-	0.0	0.0	9.7	37.7	46.0	6.5
261690	Precious metal ores and concentrate	469	-	76.0	-	23.0	1.0	0.0	0.0
230230	Bran, sharps, and other residues of wheat	263	-	2.3	0.0	-	-	-	97.7
80130	Cashew nuts, fresh or dried	251	-	17.4	0.0	0.2	79.3	0.1	3.0
151550	Sesame oil and fractions	219	-	100.0	-	-	0.0	-	0.0
240120	Tobacco, partly or wholly stemmed/s	213	1.0	8.2	-	85.9	-	0.4	4.6
560729	Twine, cordage, ropes, cables of sisal or other textile fibres of the genus agave	172	-	0.7	98.2	0.6	0.0	0.1	0.4
71390	Dried leguminous vegetables, shelled	171	-	2.0	-	1.0	92.3	0.2	4.4
90111	Coffee, not roasted or decaffeinate	155	1.6	32.9	0.1	43.3	-	2.5	19.6
120740	Sesamum seeds	130	-	99.9	-	-	0.1	-	0.0
271000	Petroleum oils, etc., (excluding crude)	101	0.3	0.0	11.2	0.0	-	3.8	84.8
30490	Frozen fish meat (excluding fillets)	96	0.0	21.6	2.1	52.9	-	0.0	23.3
30232	Fresh or chilled yellowfin tunas	66	-	-	-	-	100.0	-	0.0
720410	Waste and scrap, cast iron	63	-	0.3	0.0	1.8	97.7	-	0.1
240220	Cigarettes containing tobacco	47	-	-	0.0	87.1	-	12.9	0.0
90240	Black tea (fermented) and partly fermented	45	0.1	1.0	43.2	25.5	0.2	5.3	24.7
530310	Jute, etc. (excluding flax, hemp, and ramie)	40	8.1	28.2	40.2	5.0	3.3	0.1	15.1
30420	Frozen fish fillets	40	-	18.4	1.3	56.2	-	0.0	24.2
71310	Dried peas, shelled	37	-	-	0.0	-	97.6	0.5	1.9
701090	Glass; (not ampoules), used for the conveyance or packing of goods	36	7.6	-	50.6	7.5	0.0	34.2	0.0

Source: Derived from United Nations Comtrade database.

Notes: ASEAN = Association of South East Asian Nations; EAC = East African Community; HS = Harmonized System; SADC = Southern Africa Development Community; ROW = rest of the world.

Trade in Services

Tanzania is missing out on the global services revolution. Tanzania, along with Kenya and Uganda, is active in exporting services relative to manufactured exports. Comparing the scale of services relative to the export of goods, Tanzania is lagging behind countries such as Mauritius, which seems to have taken advantage of the global services revolution and export services such as communications, international call centers, and finance. In Mauritius, the average ratio of services exports relative to goods exports increased by 66 percent during fiscal 2006 to 2013 period. Table 3.5 shows the scale of services exports relative to goods exports for countries in the EAC and SADC groups. It suggests that the scale of services exports relative to goods exports for Tanzania declined over the last few years since the earlier DTIS. This contrasts to most EAC and a few SADC countries in the region that are taking advantage of innovations in services technology to integrate into the global and regional economies.

Tanzania's value of per capita services exports has nearly doubled since 2006, while per capita goods exports have increased two and half times, largely

reflecting increased mining and extractives, manufacturing, and agricultural products (table 3.5). However, in comparison to countries such as Kenya, Botswana, Mauritius, Namibia, Seychelles, and South Africa, Tanzania's per capita services exports is low. Similarly, goods exported per capita appear to be very low when Tanzania is compared with most of the SADC countries, except Madagascar and Malawi.

Tanzania's compound annual growth rate in goods and services exports increased from 15 percent in 2005 to 18 percent in 2013 (figure 3.7). Among the regional comparator countries, Tanzania's export growth in the goods sector, although not exemplary, is not amongst the lowest. Over the same period, since the 2005 DTIS, Tanzania's exports in the goods sector grew by an average of 15 percent per year, while its imports grew by an average of 18 percent per year. Comparatively, exports of Rwanda, Zambia, and the Democratic Republic of Congo have grown by an average of over 20 percent per year between 2005 and 2013.

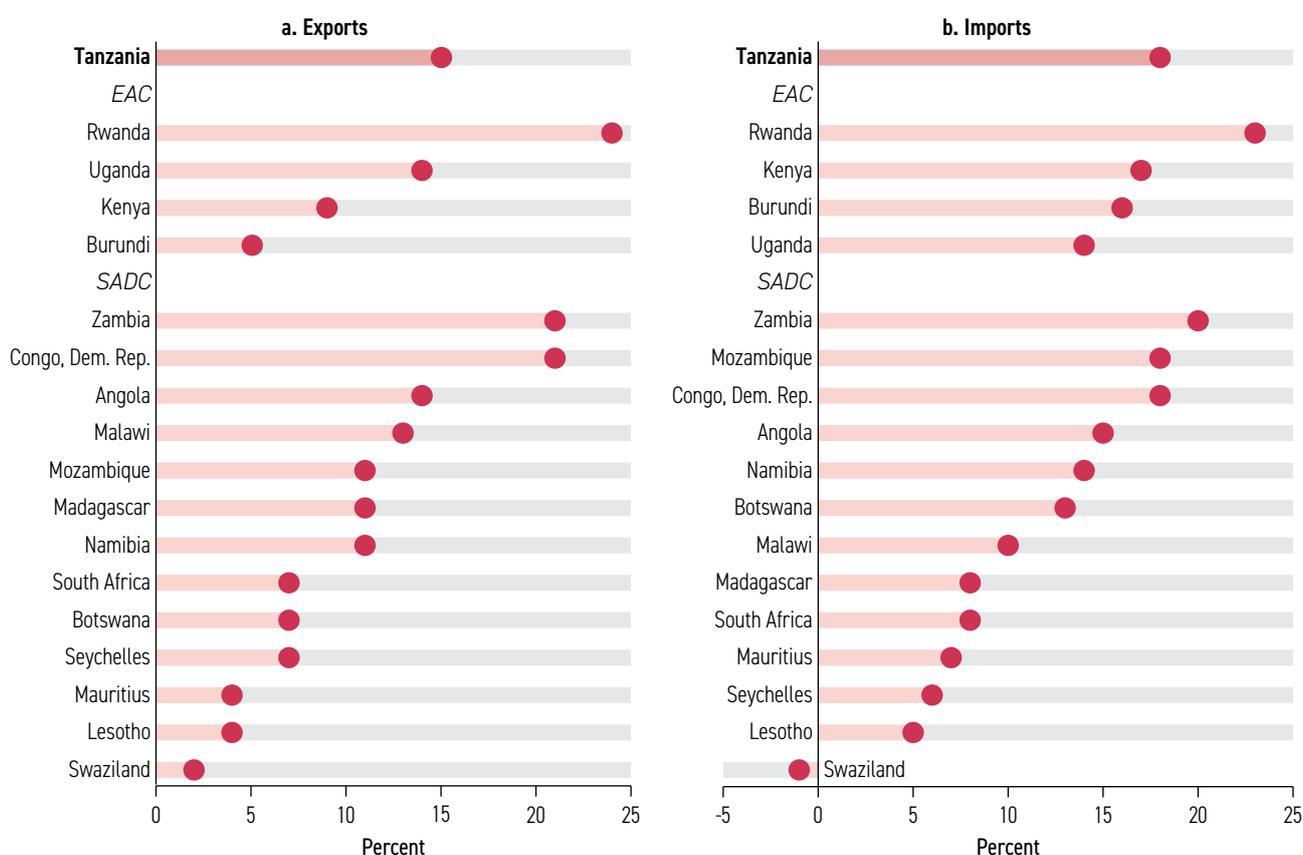
Tanzania is a net exporter of services and this has been growing over time, largely driven by the growth of the tourism sector.

TABLE 3.5: Tanzania's Goods and Services Exports to the EAC and SADC, US\$ millions/thousands per capita

	Services and goods exports		Services exports per capita		Goods exports per capita	
	FY2006	FY2013	FY2006	FY2013	FY2006	FY2013
Tanzania	77	54	35	62	46	115
<i>EAC</i>						
Burundi	58	107	4	11	8	11
Kenya	62	79	59	113	96	143
Rwanda	124	72	18	40	14	56
Uganda	49	78	18	60	38	76
<i>SADC</i>						
Angola	3	2	49	49	1,659	3,297
Botswana	18	6	425	200	2,377	3,383
Lesotho	5	7	19	32	350	441
Madagascar	65	76	32	57	48	76
Mozambique	18	27	17	43	97	156
Mauritius	74	124	1,336	2,711	1,814	2,194
Malawi	11	9	5	7	48	81
Namibia	20	22	230	439	1,155	1,968
Swaziland	15	13	216	191	1,423	1,527
Seychelles	104	84	4,777	5,160	4,589	6,141
South Africa	20	17	261	327	1,283	1,868
Congo, Dem. Rep.	15	3	7	4	47	147
Zambia	9	5	22	37	265	699

Source: Derived from World Bank World Development Indicators.

Notes: EAC = East African Community; SADC = Southern African Development Community.

FIGURE 3.7: Compound Annual Growth Rate in Services Exports, 2005–13

Source: Derived from World Bank World Development Indicators.

Notes: Kenya and Malawi's compound annual growth rate is calculated for the period between 2005 and 2012 due to nonavailability of data for 2013; EAC = East African Community; SADC = Southern African Development Community.

Characteristics of Exporters in Tanzania³

Export growth can be differentiated by the extensive margin, which refers to growth from new products or new destinations (or both), and the intensive margin, which refers to increases of existing exports to existing destinations. Brenton and Newfarmer (2007) applied this growth decomposition to global bilateral trade flow data for the period between 1995 and 2004. For low-income economies in Sub-Saharan Africa, the extensive and intensive margins accounted for 57 and 43 percent of the growth, respectively. This implies that there is significant scope for further expansion through product and market diversification.

Almost two-thirds of Tanzania's export growth in the period 2000–10 came from the extensive margin. This growth was almost equally split between exporting new products to existing markets and existing products to new markets. There were virtually no new products exported to new markets. The growth in the extensive

margin is particularly strong for manufacturing exports. This is primarily agricultural inputs (fertilizer) and agribusiness selling to regional markets including the EAC, Eastern Democratic Republic of Congo, and SADC. Approximately 70 percent of aggregate growth in manufacturing exports were destined for regional markets in the EAC and SADC. Over the period 2005–10, Asian markets accounted for 30.1 percent of the overall growth in manufacturing exports. The expansion of exports to regional and Asian economies accounted for two-thirds of total exports growth during the same period. Reforms in agricultural marketing stimulated larger increases in the exports of tobacco, coffee, and cashew to existing markets. Table 3.6 shows Tanzania's leading products' destination, by growth margin.

Exports from Tanzania are destined for relatively few countries and consist of a relatively small number of products. The index of export market penetration is defined as the ratio of the actual number of bilateral trade flows to potential bilateral trade flows. In 2014,

Tanzania's exports to its top five partners (India, South Africa, China, Kenya, and Democratic Republic of Congo) accounted for almost 60 percent of total exports by value. Out of exports to 155 countries in 2014, only 77 countries recorded values of US\$1 million or larger. In 2005, Tanzania exported to 135 countries, with only 54 countries having values larger than US\$1 million. Exports of minerals and precious metals and vegetables are destined for a small number of countries, with 10 countries accounting for 98 and 79 percent of total exports, respectively.

Exporters are more likely to be larger, longer established, and foreign owned. In 2006, the World Bank's Enterprise Surveys reported that regular exporters were larger than the average company, had been established longer, and had a higher probability of being either fully or partially foreign owned.

Trade Costs

Trade costs may be defined broadly as the difference between the producers' export price from one country and the price to consumers in the country of destination. This gap between export and import prices may be explained by a wide range of factors, including transport costs, border-related barriers (tariffs, charges, and regulatory compliance costs), retail and wholesale distribution costs, currency barriers, language differences, information costs, and security barriers. In their comprehensive review of the literature on trade costs, Anderson and Van Wincoop (2004) reported a figure of 170 percent ad valorem for trade costs for a developed country. Extensive further work over the past decade using the gravity model of trade sought to quantify the relative importance of the different factors comprising trade costs. Arvis and others (2013) used a more 'top down' approach⁴ to identify trade costs by focusing on actual production and trade data between countries. The World Bank collected information on trade flows and production data from 178 countries and developed a database of trade costs. Data is available for Tanzania and its major trading partners. This data disaggregates trade costs into two broad sectors, agriculture and manufacturing, as well as providing the aggregate costs.⁵ The trade costs are measured in ad valorem equivalents as the price raising effect of borders relative to domestic production between two countries.⁶

TABLE 3.6: Leading Products: Destination, by Growth Margin

Product category	Destination
Existing products to current destination	
Gold	Switzerland, South Africa
Tobacco	Germany, Belgium, Russian Federation, Poland
Petroleum	South Africa
Cotton	Indonesia, Thailand
Textile	Kenya
Sesame seeds	Japan
Coffee	Japan, United States, Russian Federation
Cashew	India
Wheat flour	Congo, Dem. Rep.
Fish	United Arab Emirates
New products to current destination	
Natural gas	Kenya
Fertilizer	Rwanda
Coffee/Tea-makers	Kenya
Boring Machines	Congo, Dem. Rep.
Diammonium phosphate	Kenya, Congo, Dem. Rep.
Urea	Kenya, Rwanda, Congo, Dem. Rep.
Paper	Kenya, India
Sesame Oil	China, Japan
New destination of existing products	
Tobacco	Morocco
Cotton	Morocco
Textiles	Liberia

Source: World Bank 2013.

The database shows that trade costs, are much higher for developing countries than for developed economies. Secondly many developing economies have reduced their trade costs although at a slower rate than for the OECD economies. The rapidly growing economies of East Asia and the Pacific registered much larger declines in trade costs than economies in Africa. When trade costs were broken down into the different factors trade facilitation and logistics and 'behind the border' regulatory measures were found to be particularly significant. Indeed, the costs of maritime transport connectivity and logistics performance taken together is larger than geographical distance in determining trade costs. The significant of regulatory measures highlights the importance of improving regulatory efficiency for promoting international competitiveness and export diversification.

Data on trade costs is available for Tanzania's bilateral trade with 83 countries, accounting for more than 95

percent of total exports over the period 2005–13. During the period 2005–13, Tanzania's average bilateral trade costs (shown in figure 3.8) registered a modest decline from approximately 310 to 275 percent. Tanzania's 10-largest export partners in 2013, accounting for almost three-quarters of total exports, had, on average, broadly constant trade costs at 150 percent.

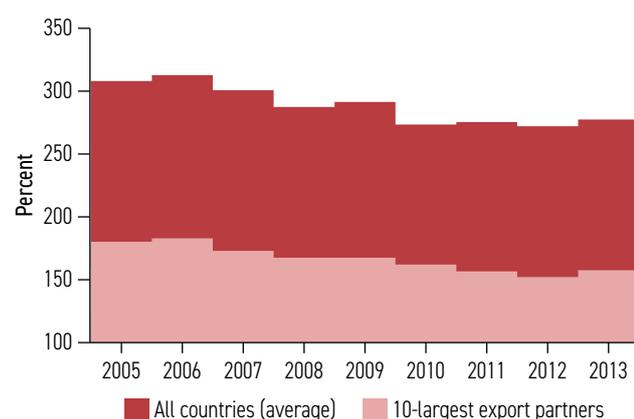
When bilateral trade costs are shown (figure 3.9) for individual trading partners, both within the region and extra-regionally, there are wide variations. Further, several regional countries, including the Democratic Republic of Congo and Burundi, record higher trade costs than external trade partners on other continents. South Africa and Kenya have some of the lowest bilateral trade costs with Tanzania, although it is noticeable

that there has been limited change over the past decade. Bilateral trade costs with India have declined 58 percent through the period 2005–13, and India's share of Tanzania's trade increased significantly.

Tanzania's trade costs with neighboring countries recorded the largest reductions over the period 2005–13 (figure 3.10). Bilateral trade costs with Rwanda declined by almost 150 percent and by 90 percent with Mozambique. Although trade costs with Burundi remained high they declined by almost 50 percent. These are positive results and highlight the potential opportunities for significantly increasing regional trade, albeit from a relatively low base, by removing bottlenecks that previously crowded out bilateral trade.

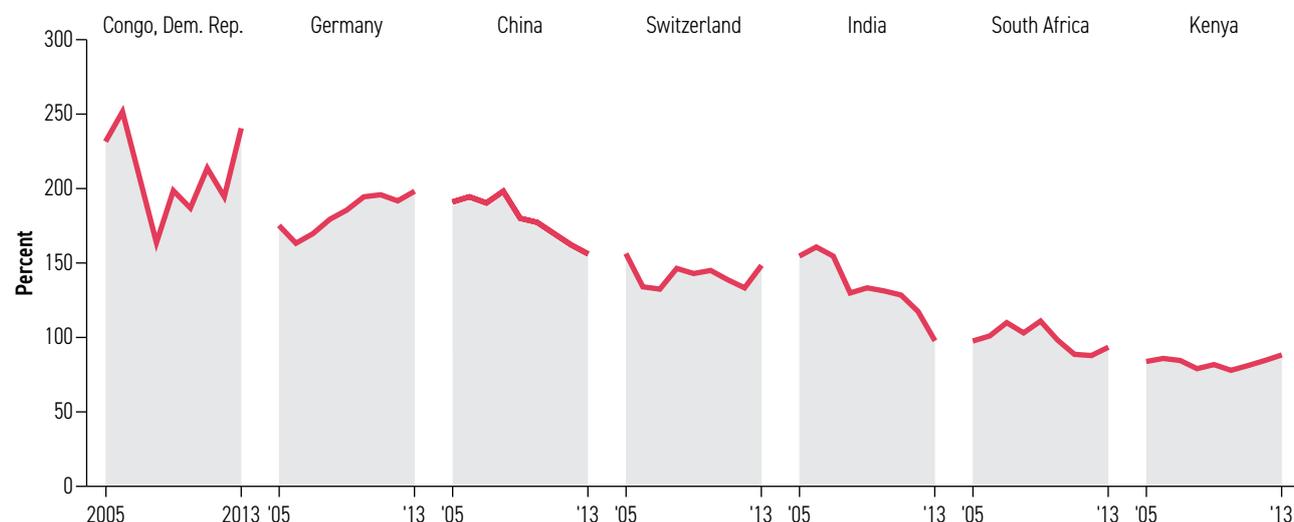
Breaking out the trade costs between the agricultural sector (figure 3.11) and manufacturing (figure 3.12) highlights the 'thickness' of borders for agricultural trade within East Africa. With the geographical factors remaining constant since these costs are largely determined by exogenous factors such as the geographical distance, language, membership to the EAC or SADC. The difference in trade costs results from endogenous trade costs, including, tariffs, nontariff measures, and logistics performance. While bilateral manufacturing trade costs for Rwanda and Burundi declined significantly to be closer to Uganda's trade costs, agricultural trade costs within the EAC were more variable and were almost twice as high with Kenya, Uganda, and Burundi all recording above 150 percent in 2013.

FIGURE 3.8: Progress on Reducing Trade Costs, 2005–13



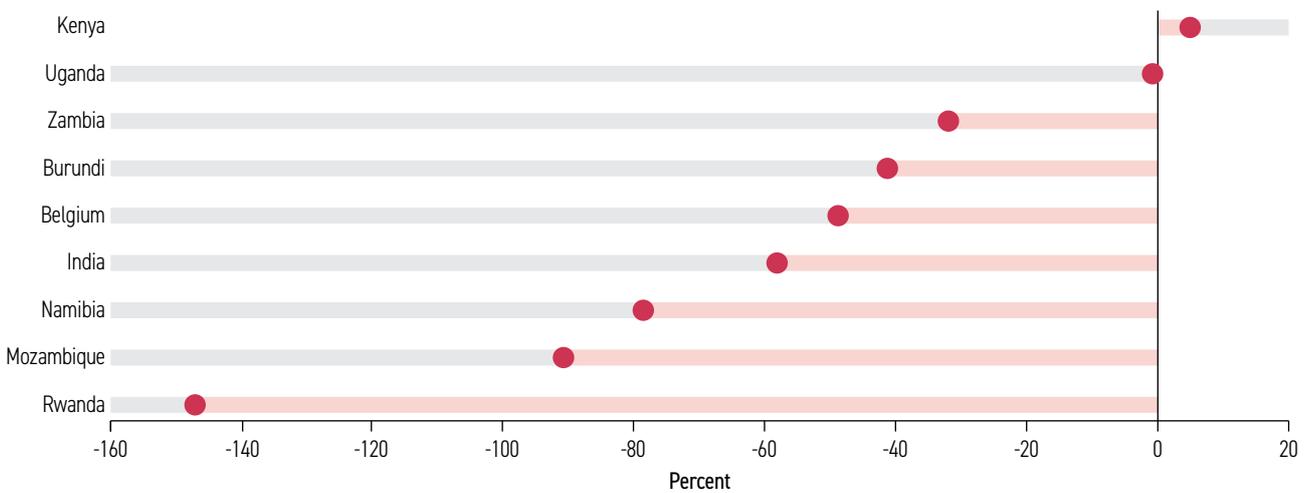
Source: Derived from World Bank Trade Costs database.

FIGURE 3.9: Bilateral Trade Costs with Major Trading Partners, 2005–13



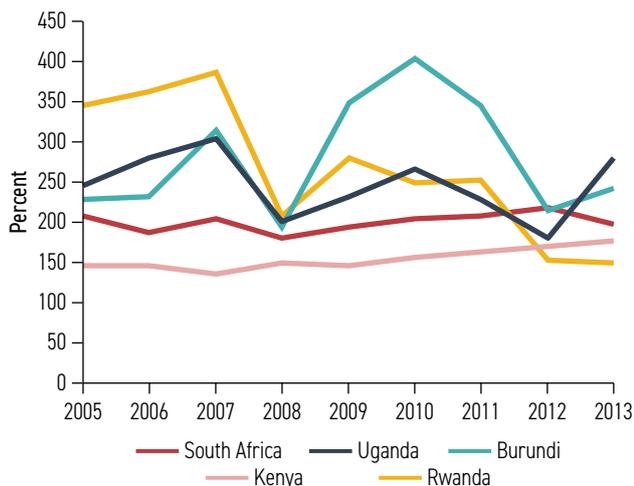
Source: Derived from World Bank Trade Costs Database.

FIGURE 3.10: Change in Bilateral Trade Costs, 2005-13



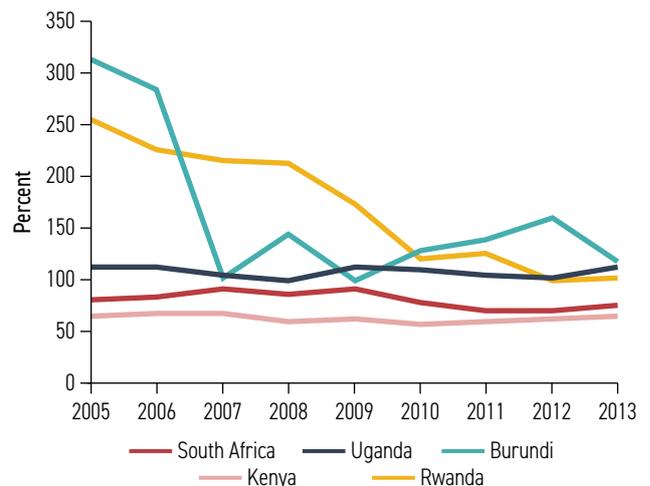
Source: Derived from World Bank Trade Costs database.

FIGURE 3.11: Bilateral Trade Costs, Agriculture, 2005-13



Source: Derived from World Bank Trade Costs Database.

FIGURE 3.12: Bilateral Trade Costs, Manufacturing, 2005-13



Source: Derived from World Bank Trade Costs Database.

Recommendations

Reduce the very high tariff peaks. The existing sensitive sectors with tariff peaks above the EAC CET maximum tariff of 25 percent range from 35–100 percent should be phased out. The existing tariff policies result in an incentive structure that discourages expanding production for exports, encourages production for the domestic market, and results in higher prices for basic foodstuffs, which reduces living standards and has a disproportionate negative impact on the poorest groups.

Reduce the maximum CET to 15 percent. Reducing the number of EAC CET tariff bands to two, zero, and 15 percent would considerably reduce the anti-export

bias of the existing CET. Reducing trade taxation, while Tanzania (and other EAC economies) face serious revenue challenges and budget deficits, requires coordinating any external tariff reform with broader tax reform. This would also need to be coordinated with all the EAC partners.

Phase out export taxation. Export taxes and export bans are aimed at encouraging additional domestic value added. In all cases, export taxes have the unintended result of ensuring the domestic supplier receives a lower price for their products. Promoting links and additional value added would be better served through reducing trade costs.

Notes

1. Hifadhi (Dar es Salaam), Millennium Business Park EPZ (Dar es Salaam), Kisongo (Arusha), Kamal Industrial Park SEZ (Bagamoyo), Global Industrial Park SEZ (Dar es Salaam), and Benjamin William Mkapa SEZ (Dar es Salaam).

2. The trade data was downloaded from the World Integrated Trade Solutions website <http://wits.worldbank.org/>.

3. This section is based on Yoshino and others (2013).

4. Following the inverse form of the gravity model as developed by Novy, Dennis (2013) Gravity redux: measuring international trade costs with panel data, *Economic Inquiry*, Vol. 51 (1).

5. The World Bank-United Nations Economic and Social Commission for Asia and the Pacific Trade Cost database can be accessed at <http://databank.worldbank.org/data/reports.aspx?source=escap-world-bank-international-trade-costs>.

6. There are challenges with the accuracy of the underlying data, namely the extent to which net exports take account of reexports and the data on the value of products produced and sold domestically. Furthermore, it is assumed that the intra-sectoral elasticity of substitution remains constant across the economy, countries, and over time. Given the data challenges and the necessary simplifications required to operationalize the model, the data must be considered illustrative rather than representing precise measurements.

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