

# **The Challenges of the Economic Partnership Agreements in Tanzania**

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March 2007

## Table of Contents

Table of Contents .....	2
Foreword.....	3
1.0 Introduction: The Objectives of this Booklet.....	4
1.1 Introduction.....	5
1.2 Coverage.....	6
1.3 Objectives and Principles.....	7
1.3.1 Reciprocity.....	7
1.3.2 Strengthening ACP Regional Integration.....	7
1.3.3 Poverty Reduction.....	7
2.0 Tanzania's External Trade and the Challenges Facing the Country in the EPA Negotiations .....	9
2.1 Introduction.....	9
2.1.1 The Structure of the Economy Matters in World Trade .....	9
2.2 The Structure of Tanzania's Trade.....	11
2.2.1 Tanzania's Exports .....	11
2.2.2 Tanzania's Imports.....	13
2.3 Tanzania's Balance of Payments .....	15
2.4 EU Trade with Tanzania .....	27
3.0 The EPA Negotiations: The Challenges.....	29
3.1 Introduction.....	29
3.2 The Integration of LDCs, in the World Economy.....	29
3.2.1 The Link with Poverty Eradication .....	29
3.2.2 The Importance of Enhancing Tanzania's Capacity in International Trade .....	30
3.2.3 Regional Integration .....	30
3.2.4 Trade Creation and not Trade Diversion.....	31
3.2.5 Market Access.....	31
3.3 Negotiating Strategy .....	33
3.3.1 Configuration of Negotiating Group .....	33
3.3.2 Coordination in the African Group.....	33
3.3.3 Defensive and Offensive List of Commodities .....	34
3.3.4 Is there no Reciprocity on Tanzania's Part? .....	34
3.3.5 Safeguard Measures.....	35
3.3.6 Economic Cooperation .....	35
4. Summary and Conclusion .....	36
Acronyms .....	41
Bibliography .....	42

## Foreword

The Economic Partnership Agreements (EPAs) can be a key force for sustainable development. They can promote economic growth, reduce poverty, foster development or protect environment. But they can also have negative economic and social impacts, notably when the preparation of the domestic regulatory framework is inadequate or not implemented effectively.

This is the second book of the series on the Cotonou Treaty and the Economic Partnership Agreements between the EU and ACP countries. Unlike the former two books which have been somehow general in analyzing the basic issues in EU –ACP cooperation, this book is specific to Tanzania and therefore drawing the practical experience on challenges facing the ACP countries. Although the examples are drawn from Tanzania, yet such experience can be applied to other developing countries within the ACP.

*The Challenges facing Tanzania in the EU-ACP Trade Negotiations on Economic Partnership Agreements (EPAs)* can be a useful document to all social-political institutions in Tanzania like the Government officials from the Ministries of Trade, Industries and Marketing, Finance, Agriculture, Natural Resources and Tourism, the Parliamentary, Non State Actors, research and academic institutions.

Apart from hard copies, you can as well download the soft copy through our website <http://tanzania.fes-international.de/> .

Dear reader, thank you for your interest. I hope you will find the book useful.



Reinhold Einloft  
**Resident Director**

## **1.0 Introduction: The Objectives of this Booklet**

In an effort to contribute to a meaningful and fruitful participation of Non State Actors i.e. the private sector, trade unions civil society etc—in the dialogue on and subsequent implementation, monitoring and evaluation of the Cotonou Agreement, the Friedrich-Ebert-Stiftung (FES) has undertaken to publish a series of booklets designed to provide the basic and necessary information on the Cotonou Agreement to the general public. In the first general introductory booklet titled “ Finding Your Way through the Cotonou Agreement” by Sylvia Hangen-Riad it was explained that the Cotonou Agreement is founded on three basic pillars namely a strong political dimension, a development cooperation component and the Economic Partnership Agreements Negotiations which mainly deal with future trade arrangements between the EU and the ACP countries concerned.

The second booklet edited by Friedrich-Ebert-Stiftung Tanzania, titled appropriately “ Understanding of the Economic Cooperation under the Cotonou Agreement” explains the content of the second pillar.

The present booklet aims at exploring further the EU-ACP trade arrangement under the Cotonou Agreement and especially elaborating on the negotiations on the Economic Partnership Agreements between the two groups of countries (the EU and the ACP group).

Following this introduction, the first section of the present booklet is devoted to a brief discussion of the main Trade Provisions of the Cotonou Agreement especially the objectives and principles of these provisions. Section 2 presents a short account of the structure of Tanzania’s trade in general and Tanzania’s trade with the EU in particular. This is important to take into account as it provides the actual Tanzanian economic context within which these negotiations will take place. Section 3 presents the main issues and challenges facing Tanzania in the negotiations given the

objectives and principles of the trade provisions of the Cotonou Agreement on the one hand and the trade realities facing Tanzanian on the other hand. Section 4 sums up the strategies to be followed in the negotiations and Section 5 presents the summary and conclusions of this booklet.

## **Section 1.0 Objectives Principles and Institutional Set up**

### **1.1 Introduction**

In the booklet by Hangen-Riad (2004) referred to above the history of the EU-ACP cooperation arrangements was traced back to 1957 when the EU then called the EEC was founded with the signing of the Treaty of Rome. At this point only the French colonies were linked to the EEC and when the former became independent the Yaoundé Convention was signed to take into account this political fact. The admission of Great Britain to the EEC in 1973 paved the association of former British colonies with the EEC. This expansion necessitated the signing of what Hangen-Riad called " a new generation" of conventions under Lomé (Lomé I, 1975-80, Lomé II 1980-85 Lomé III 1985-90 and Lomé IV 1990-2000) between the EEC/EU and the ACP.

The newness of the Lomé Convention with respect to the trade relations between ACP and EU compared to the earlier agreement lay in the adoption of the principle of non-reciprocity rules governing trade between the two sides. Before the Cotonou Agreement non-reciprocity was the accepted rule while the Cotonou Agreement reintroduced reciprocity as the principle governing EU-ACP trade relations. The EU claims that non-reciprocal preferences failed to achieve their desired goal of increasing the flow of ACP exports to the EU. In stead, it is argued that ACP exports that were given preferential access to the EU market declined in relative terms when compared with similar exports from Latin America and Asia. Many experts from ACP countries, this author included, disagree. While it is a statistical fact that for the ACP

as a whole this relative decline happened *despite* of the preferences it was not *because* of the preferences that this happened.

It can be shown that for some ACP countries where the preferences were substantial, their exports to EU increased more significantly than similar exports from Latin America and Asia. Secondly the formalities involved in claiming the benefits associated with the preferences in some cases are too complicated to exporters to put in their claims and therefore some exporters from ACP countries decided to export like exporters from non-beneficiary countries. Lastly, shortly after Lomé I, developing countries not associated with the EU mounted strong complaints about being discriminated by the EU. The latter caved in and started negotiating preferences with other countries outside the ACP block thus watering down the relative benefits of these preferences.

## **1.2 Coverage**

The trade provisions of the Cotonou Agreement are enumerated under Part 3 Title II, Articles 34 to 54 under the heading of Economic and Trade Cooperation and are also set in a number of detailed Annexes and Protocols of the Agreement.

In short the provisions of the Cotonou Agreement can be summarized as follows:

- Objectives and principles related to ACP-EU economic and trade cooperation
- The general trade arrangements to be applied during the transition or preparatory period i.e. 2000-07 during which the EPA negotiations will be under way.
- The commodity protocols e.g. the sugar protocol
- The procedures and modalities of the EPA negotiations
- Institutional and joint consultative trade arrangements
- Commitments for joint consultations and cooperation in international fora e.g. in the WTO

- Negotiations related to trade in services and trade related areas.

### **1.3 Objectives and Principles**

Under the Cotonou Agreement, the basic aim of ACP-EU economic and trade cooperation is “fostering the smooth and gradual integration of the ACP states into the World economy” .

#### **1.3.1 Reciprocity**

This is done in conformity with the WTO rules. The most important WTO rule is the principle of reciprocity which means that the results of trade negotiations emanate from mutual concessions. That is to receive concessions from other countries a negotiating country such as Tanzania, must give concessions to the other countries. While the WTO rules allow the creation of regional integration and cooperation among its members, the rules specifically point out such cooperation shall be purely based on reciprocity. That is why the EU applied for permission to grant temporary non-reciprocity preferences to the ACP. In view of the fact that some of the ACP countries are LDCs, the non-reciprocity provisions should continue under the Cotonou Agreement.

#### **1.3.2 Strengthening ACP Regional Integration**

The other principle governing the negotiations and implementation of EPAs is that the latter will contribute to the strengthening of economic integration in the ACP countries rather than contribute to their destruction or weakening.

#### **1.3.3 Poverty Reduction**

It is pointed out in Hangen-Riad, the main avenue through which the ACP countries will be helped by the EU to integrate into the world economy will be through the negotiations and subsequent implementation of EPAs which “aim to create reciprocity, through the establishment of preferential trade areas (PTAs) which

conform to the rules of the World Trade Organizations (WTO) and build on regional integration processes in the APC countries.

The same can be said about EPAs and economic development on the ACP side. In the ACP Mandate agreed upon by all ACP countries it was emphasized that the ACP-EU partnership is centered on establishing a comprehensive framework for promoting “ economic development, the reduction and eventual eradication of poverty and the smooth and gradual integration of ACP states into the world economy” . The EU mandate on the other hand while mentioning this developmental aspect of EPAs puts more emphasis on the dismantling of the ACP-EU trade barriers – the trade liberalization aspect. The challenge for Tanzania and other ACP countries is to maintain this trade-development balance perspective in their negotiations.

Tanzania as a least developed country enjoyed a number of “ privileges” along with other LDCs, with respect to trade and other economic relations under the Lomé Conventions. In 2001 the EU approved the Everything But Arms initiative (EBA) which allows duty free access into the EU for all products from LDCs, except arms munitions and at least for a transitional period, sugar, bananas and rice. However since the EU prefers to negotiate with groups of countries rather than individual countries Tanzania and other LDCs may lose their EBA preferences since the LDCs will have to abide by the EPA agreement reached by the EU and their respective negotiating groups. This is a real possibility and has actually happened in the case of the LDCs in SACU where the EU reached a partnership arrangement separately with South Africa whose provisions became binding to all SACU members including the LDCs. Tanzania along with the other LDCs in the ACP group must fight to keep this EBA provision in whatever sub-regional grouping it may negotiate in.

## **2.0 Tanzania's External Trade and the Challenges Facing the Country in the EPA Negotiations**

### **2.1 Introduction**

By any definition Tanzania is a very poor country. According to the Human Development Index Tanzania is ranked 162 in a list of 177 countries. The GDP is an important component of the Human Development Index. Trade or the exportation and importation of goods to and from other countries can contribute to the domestic production of goods and services.

The GDP (Gross Domestic Product) measures total production in an economy. The general rule is that the higher the GDP the better off the country is and the more the ability it has to participate in trade.

Let us take a simple example to illustrate this general rule: In 2005 the USA one of the largest economies in the world had a GDP amounting to USD 12,487.200 billion. Uganda one of the smallest economies in the world had a GDP amounting to only 8.306 billion USD. The Uganda economy is even smaller than that of Tanzania. Of course for comparison purpose it is better to use GDP per capita to rank the strength of economies in the world. However in general, the absolute size of an economy as measured by its GDP is a fair reflection of its economic strength. A large economy in terms of GDP is likely to have more exports than a country with a smaller GDP.

#### **2.1.1 The Structure of the Economy Matters in World Trade**

To understand the performance a given individual country in world trade we have to look more closely at the structure of that country's economy including the structure of its total trade i.e. its exports and imports. It is these details that can help us to better understand the trade performance of any given country. For illustrative purpose structural details about the

**Table 1: The Structure of Trade as % of GDP**

	Imports of goods and services		Exports of goods and services		Primary exports		Manufactured Exports		High-technology exports	
	1990	2004	1990	2004	1990	2004	1990	2004	1990	2004
Norway	34	30	40	44	67	77	32	19	12	18
USA	11	14	10	10	21	14	75	82	34	32
Malaysia	72	100	75	121	46	23	54	76	38	55
South Africa	19	27	24	27	"	42	"	58	"	6
Uganda	19	28	7	14	"	85	"	15	"	13
Kenya	31	32	26	26	70	79	30	21	4	3
Tanzania,	37	29	13	19	"	80	"	20	"	2

Source: Human Development Report, UNDP, Table 5 pg.8 (2005)

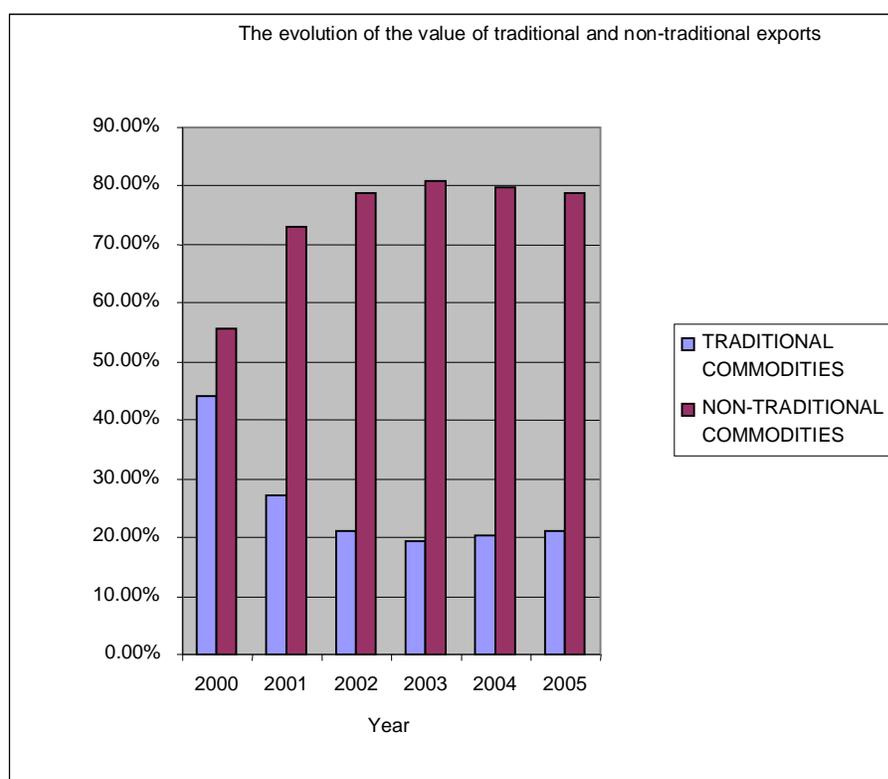
external trade of five countries are shown in Table 1 with a comparison for 1990 and 2004. The first two details relate to the percentage of imports of goods and services to total GDP and the percentage of exports to total GDP. These two indicators show the relative importance of exports and imports to a country's economy. While generally bigger developed economies have higher ratios of exports and imports to GDP one must bear in mind the absolute magnitude. Developed countries can afford to depend less on exports and imports because their production can be more self reliant. However for developing countries a higher ratio of foreign trade (exports and imports) to GDP is a good sign. More exports mean a bigger ability to import industrial inputs and capital goods with which to industrialize. Industrialization enables a country to change the structure of her exports from reliance on primary exports (e.g. minerals, forestry products, fish etc-) to manufactured exports and especially to what have come to be known as high-technology exports like computers and other products with a high intensity of research and development. As can be seen in Table 1 developing countries export mostly raw material primary exports (Kenya – 70-79%), (Tanzania 80%) (Uganda 85%) relatively fewer manufactured exports (Kenya 30-21%), Tanzania (20%), Uganda (15%) and hardly any high technology exports.

## 2.2 The Structure of Tanzania's Trade

### 2.2.1 Tanzania's Exports

A country's trade pattern and performance depends on the production structure of that country's economy. Tanzania's exports consist mainly of primary commodities namely agricultural raw materials and minerals. Traditionally agricultural commodities notably coffee, cotton tobacco, sisal, cashew nuts and tea contributed the bulk of Mainland Tanzania's export earnings. Mainland Tanzania's export economy is more diversified than that of Zanzibar which depends heavily on cloves as a source of export earnings. In recent years beginning with the nineties the relative contribution of traditional exports has declined considerably as shown on Figure 1. Two items - minerals and to a less extent manufactured goods gained importance as sources of export earnings. This is shown in detail in Table 2. The other non-traditional exports include fish and forestry products.

**Diagram 1: The Evolution of Tanzania of Trade**



Source: Constructed by the author from Table 19, Economic Survey 2005 p.57

Table 2. Traditional and non-traditional exports.

Values in million US \$

COMMODITIES	2000	%	2001	%	2002	%	2003	%	2004	%	2005	%
<b>Traditional</b>												
Coffee	83.7	12.62	57.1	6.77	35.22	3.6	49.8	4.3	49.8	3.38	74.3	4.43
Cotton	38	5.73	33.7	3.96	28.63	2.92	41.3	3.57	74.6	5.06	111.5	6.65
Sisal	5.6	0.84	6.7	0.79	6.55	0.67	6.8	0.59	7.2	0.49	7.3	0.44
Tea	32.7	4.93	29	3.45	29.6	3.02	25	2.16	30.1	2.04	25.6	1.53
Tobacco	38.4	5.79	35.7	4.19	55.52	5.67	46	3.97	57.6	3.91	80.8	4.82
Cashew nuts	84.4	12.73	56.6	6.65	46.59	4.76	44.2	3.82	68.1	4.62	46.6	2.78
Cloves	10	1.51	19.3	1.44	3.96	0.4	10.3	0.89	10.3	0.7	8.5	0.51
<b>Sub-total</b>	<b>292.8</b>	<b>44.14</b>	<b>231.1</b>	<b>27.14</b>	<b>206.07</b>	<b>21.03</b>	<b>223.4</b>	<b>19.29</b>	<b>297.7</b>	<b>20.21</b>	<b>354.6</b>	<b>21.15</b>
<b>Non-traditional</b>												
Petroleum products	0	0	0	0	0	0	0	0	0	0	0	0
Minerals	178.2	26.87	302.23	35.5	383.8	39.18	491.6	42.45	680.2	46.17	711.3	42.43
Manufactured goods	43.4	6.54	56.16	6.6	65.9	6.73	83.5	7.21	110.1	7.47	156.1	9.31
Other exports	148.8	22.45	261.9	30.76	323.9	33.06	359.7	31.06	385.1	26.14	454.4	27.11
<b>Sub-total</b>	<b>370.5</b>	<b>55.86</b>	<b>620.29</b>	<b>72.86</b>	<b>773.6</b>	<b>78.96</b>	<b>934.8</b>	<b>80.71</b>	<b>1175.4</b>	<b>79.79</b>	<b>1321.8</b>	<b>78.85</b>
<b>GRAND TOTAL</b>	<b>663.3</b>	<b>100</b>	<b>851.39</b>	<b>100</b>	<b>979.67</b>	<b>99.96</b>	<b>1158.2</b>	<b>100</b>	<b>1473.1</b>	<b>100</b>	<b>1676.4</b>	<b>100</b>
<b>Note: some may not add up to 100% due to rounding off errors.</b>												

Source: The Annual Economic Survey 2005, Table No. 19 p.57

It can be seen from Table 2 that despite the slight improvement, manufactured goods still form a very small part of Tanzania's exports although they have somehow gained in importance. Tanzania is therefore still an underdeveloped economy whose external sector is still dominated by the exportation of commodities with manufactured goods and especially high technology goods accounting for very little of her export earnings.

### **2.2.2 Tanzania's Imports**

Tanzania's composition of imports is depicted in Table 3 where these imports are divided into three main categories of capital goods (consisting of Transport equipment, building and construction equipment and Machinery), intermediate goods like oil, fertilizers and industrial inputs and consumer goods which include food products, and all other consumer goods. Ideally as a developing country Tanzania should concentrate on importing capital goods which it needs to improve her economic infrastructure and to expand its manufacturing sector. Unfortunately the country is forced to spend her meager resources to import food and other consumer goods as shown in Table 3 below.

**VALUE COMPOSITION OF IMPORTS 1986-2005**

Table No. 3

Year	Consumer goods %		Intermediate goods %		Capital goods %		Total Shs. Million	%**
1986	8014	20.04	13058	32.66	18899	47.28	39971	100
1987	13180	16.69	23819	30.17	41948	53.13	78947	100
1988	29841	23.12	55284	42.83	43950	34.05	129075	100
1989	34779	18.14	60176	31.38	96804	50.48	191759	100
1990*	18783	8.12	116277	50.27	96223	41.6	231283	100
1991	62000	22.84	69710	25.68	139668	51.46	271378	100
1992	101641	25.88	94233	23.99	196791	50.12	392665	100
1993	194604	36.59	107481	20.21	229657	43.19	531742	100
1994	247076	37.08	128544	19.29	290638	43.62	666258	100
1995	201347	26.12	294224	38.17	275207	35.71	770778	100
1996	182340	25.95	267600	38.09	252501	35.95	702441	100
1997	301018	42.8	203418	28.9	198670	28.3	703106	100
1998	441024	48.6	155225	17.1	311244	34.3	907494	100
1999	503868	47.47	197271	18.58	360225	33.94	1061363	100
2000	401612	37.58	222399	20.82	444427	41.59	1068438	100
2001	405139	30.99	336252	25.72	565740	43.28	1307131	100
2002	456176	31	375241	25.5	640118	43.5	1471535	100
2003	601100	29.39	663580	32.45	780107	38.15	2044787	100
2004	905686	32.96	790251	28.76	1051470	38.27	2747407	100
2005	937348	28.3	1032906	31.19	1341431	40.51	3311685	100

\* commencing 1990, the value of imports is quoted at F.O.B prices ( previously quoted at C.I.F prices )

\*Others may not add up to 100% due to rounding off errors.

Source: Bank of Tanzania

### **2.3 Tanzania's Balance of Payments**

The balance of payments is the record of a country's economic transactions between that country and the rest of the world for a given period usually for a given year. While the record as a whole must balance, the individual items in that record need not balance.

The summary of the state of Tanzania's external sector is given in the government's *Economic Survey* published annually just before the budget session of parliament. The examination of the state and performance of the external sector is treated in an entire chapter of that survey. Apart from analyzing the country's exports and imports of goods the chapter also discusses the outcome of the other items of the balance of payments in terms of the balance of services, the balance of various receipts and payments (incomes balance) and current transfers which all sum up to the balance on current account.

The balance of payments of Tanzania for the period 1996 to 2004 is depicted in appendix table 1A. It can be seen from this table that the deficit in the Goods Balance has generally increased from -448.8 USD million in 1996 to -866.6 USD million in 2004. That is Tanzania imported goods that exceeded the goods it exported by 448.8 USD million in 1996 and that in 2004, the value of goods imported exceeded the value of exports by 866.6 USD million (see appendix table 1A).

Because of improvement of tourism in particular, Tanzania has been recording a surplus in the service account. Thus if we add the goods balance and the services balance the deficit recorded in the goods balance is reduced somewhat.

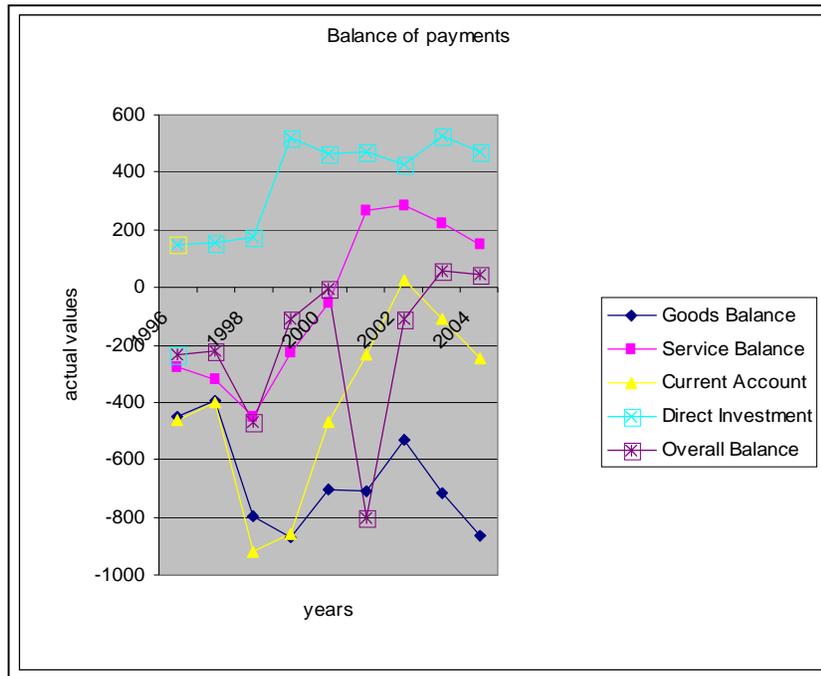
The income balance has always been in a deficit because the incomes we pay to foreigners in terms of interest charges and salaries to foreigners has always exceeded the incomes Tanzania residents have received from foreigners.

So after the improvement brought about by the surplus in the services sector the over-all deficit increased because of the deficit on the incomes account. The current transfers have always been in surplus because Tanzania receives budgetary and other annual financial support from donor countries and others. If we add these surplus transfers, the deficit we have decreases. However except for one year in 2002 these inflows have not been enough to close the current account gap between receipts/income and payments. So our current account has usually been in deficit.

Because of the good performance on the receipts side in the (Capital Account payment of financial assets and direct investment) inflows have exceeded outflows in the Capital Account.

Nevertheless when we add up everything, having taken errors and omissions into consideration, because of the initial big deficit on the goods balance, the overall balance has most of the time been in deficit as shown in Appendix Table IA. Diagram 2 depicts the movement in the various items of the Balance of payments.

Diagram 2 shows the trends in the balance of payments



Source: Constructed by author from Appendix Table p38 of this booklet

The chapter also discusses the trends in selected regional and bilateral trade that is it examines Tanzania's position *vis-à-vis* her main trading partners individually or as trading blocks. This discussion is summed up with a presentation of a table showing the balance of trade between Tanzania and the main regional economic groupings to which the country belongs for the period 1997-2005. This table is reproduced as Table 4 below.

Table 4. Balance of Trade between Tanzania and Regional Economic Groupings, 1997 – 2005

Regional/Year	1997	1998	1999	2000	2001	2002	2003	2004	2005p
EU	-113.7	-254	-177.4	31.3	52.8	118.6	-210.5	176.7	3.9
SADC	-117.64	-164.7	-182.5	-176	-200.6	143.6	-233.7	-213.4	-103.2
EAC	-73.2	-75.5	-75.4	-58.3	63.9	-57.1	-35.6	-42.4	-64

Source: The Economic Survey 2005 Table 3.1 p.50

It can be observed from Table 4 that Tanzania's trading relations with bilateral trade partners and with trade groupings is generally poor with Tanzania being on the

losing side i.e. Tanzania's balance of trade with all her three main trading blocks was in deficit. If we divide the period shown in Table 4 into two periods: 1997-2000 and 2001-2005, we note that the first period was much worse than the second one. This period shows the lingering effects of a long period of poor economic performance which began towards the end of the 70's. The second period shows discernible improvement in the balance of trade and therefore a testimony of overall improvement in the economy. In the first period with the exception of a small surplus in the trade with the EU in one year, deficits were generally the order of the day for Tanzania's trade with her major trading partners including the EU.

To clarify the relationship between Tanzania's merchandise trade and the country's status and performance within the country's main trading blocks we reproduce information from the *Tanzania Trade Diagnostic Study*. This is reproduced here as Table 5.

Table 5 shows Tanzania's total trade (Exports + Imports), Exports and Imports for selected years (1997, 2000 and 2003) all expressed as percentages of GDP. The table then gives net-exports (deficits or surpluses) also expressed as percentages of GDP.

The Table is divided into four parts each part representing a category of exports and imports. The first part concerns trade in all goods (i.e. exports and imports, to and from:

- (a) The world
- (b) Africa (the four sub regions and the rest of Africa)
- (c) Rest of the World

The second part concerns the category of exports and imports related to agriculture, food beverages and tobacco from (a) (b) and (c) as above.

The third part concerns the category of exports and imports related to minerals, and base metals also from and to (a), (b) and (c).

And finally the fourth part concerns exports and imports of industrial manufactured goods to and from (a) (b) and (c).

Table 5 is shown below.

Table Structure of Tanzania's Merchandise Trade within the Region													
( percent of gross domestic product )													
	Total trade			Exports			Imports			Net- Exports			
	1997	2000	2003	1997	2000	2003	1997	2000	2003	1997	2000	2003	
All goods													
World	22.2	21.5	33.1	7.5	7.2	11.8	14.7	14.3	21.3	-7.2	-7.1	-9.5	
Africa	4	3.7	7.3	1.1	0.9	2.7	2.9	2.8	4.6	-1.8	-1.9	-1.8	
EAC	1.7	1.1	2.5	0.4	0.4	1.3	1.3	0.7	1.2	-0.9	-0.3	0.1	
SADC only	1.5	1.8	3.4	0.1	0.1	0.4	1.4	1.7	3	-1.3	-1.6	-2.6	
SADC & COMESA	0.6	0.5	1	0.4	0.2	0.8	0.2	0.3	0.2	0.3	-0.1	0.6	
COMESA only	0.2	0.2	0.3	0.2	0.1	0.2	0	0.1	0.1	0.1	0	0.1	
Other Africa	0	0.1	0.2	0	0.1	0.1	0	0	0.1	0	0	0	
Rest of World	18.2	17.8	25.8	6.4	6.3	9.1	11.8	11.5	16.7	-3.6	-3.2	-5.8	
Agriculture, foods, beverages and tobacco													
World	9.5	7.3	8.1	6.6	4.7	5.2	2.9	2.6	2.9	3.6	2.1	2.3	
Africa	1.4	1.1	1.9	0.8	0.5	1.5	0.6	0.6	0.4	0.2	-0.1	1.1	
EAC	0.5	0.4	1.1	0.3	0.3	1	0.2	0.1	0.1	0.1	0.1	0.9	
SADC only	0.4	0.3	0.3	0.1	0	0.1	0.3	0.3	0.2	-0.2	-0.1	-0.1	
SADC & COMESA	0.3	0.3	0.3	0.3	0.1	0.3	0	0.2	0	0.3	-0.1	0.3	
COMESA only	0.1	0	0.1	0.1	0	0.1	0	0	0	0.1	0	0.1	
Other Africa	0	0.1	0.1	0	0.1	0.1	0	0	0	0	0.1	0.1	
Rest of World	8.1	6.2	6.2	5.8	4.2	3.7	2.3	2	2.5	2.1	3.2	2.2	
Minerals and base metals													
World	1	2.2	6.1	0	1.3	5	1	0.9	1.1	-1	0.4	3.9	
Africa	0.4	0.3	0.8	0	0.1	0.3	0.4	0.2	0.5	-0.3	-0.1	-0.1	
EAC	0.2	0.1	0.2	0	0	0.1	0.2	0.1	0.1	-0.2	-0.1	0	
SADC only	0.1	0.2	0.6	0	0.1	0.2	0.1	0.1	0.4	-0.1	-0.1	-0.1	
SADC & COMESA	0	0	0	0	0	0	0	0	0	0	0	0	
COMESA only	0	0	0	0	0	0	0	0	0	0	0	0	
Other Africa	0	0	0	0	0	0	0	0	0	0	0	0	
Rest of World	0.6	1.9	5.3	0	1.2	4.7	0.6	0.7	0.6	0.2	-0.3	4.1	
Industrial Manufacturing *													
World	11.6	12.1	18.9	0.9	1.3	1.6	10.7	10.8	17.3	-9.8	-9.6	-15.7	
Africa	2.3	2.4	4.6	0.3	0.4	0.9	2	2	3.7	-1.7	-1.7	-2.9	
EAC	0.9	0.7	1.2	0.1	0.2	0.2	0.8	0.5	1	-0.7	-0.4	-0.7	
SADC only	0.9	1.3	2.5	0	0	0.1	0.9	1.3	2.4	-0.9	-1.3	-2.3	
SADC & COMESA	0.2	0.2	0.5	0.1	0.1	0.4	0.1	0.1	0.1	0	0	0.3	
COMESA only	0.1	0	0.2	0.1	0	0.1	0	0	0.1	0	0	0	
Other Africa	0	0	0.1	0	0	0	0	0	0.1	0	0	0	
Rest of World	9.3	9.7	14.3	0.6	0.9	0.7	8.7	8.8	13.6	-6.5	-6.2	-10	

Note: EAC trading partners are Kenya and Uganda; "SADC only" refers to Botswana, Lesotho, Mozambique and RSA; "SADC & COMESA" is the group comprising Angola, DRC, Namibia, Malawi, Mauritius, Seychelles Swaziland, Zambia and Zimbabwe; and "COMESA only" consists of Burundi, Comoros, Djibouti, Egypt, Eritrea Ethiopia, Madagascar, Rwanda and Sudan

\* Industrial manufacturing refers to all manufacturing sectors except food, beverages and tobacco and base metals ( ISIC rev. 2 codes 31 and 37 )

Source: Reproduced from Tanzania

Some brief interpretations are in order to help us understand this important table. All total goods (exports and imports) accounted for 22.2 percentage of GDP in 1997 and fell to 21.5 percentage in 2000 but rose fairly sharply in 2003 to 33.1 percent.

When total trade is decomposed into exports and imports we note that total exports to the world accounted for 7.5 percent of the country's GDP while Tanzania imported goods equivalent to 14.7 percent of GDP leaving a 7.2 percent deficit in terms of the country's GDP in 1997. In 2000 the share of exports in GDP declined to 7.2 per cent and the share of imports also declined slightly to 14.3. In 2003 exports increased to double digit percentage points. However imports accounted for even a much bigger share of GDP increasing their share from 14.3 to 21.3 and hence the deficit increased to 9.5 percent of GDP.

With regard to trade between Tanzania and Africa we note that for all goods Tanzania's participation is very small with total trade between Tanzania and African countries accounting for less than 2 per cent of GDP. Moreover as with the world, Tanzania trade with all African countries put together was in deficit during all the selected years with this deficit as a percentage of GDP having stagnated at around - 1.85 percent of GDP. With regard to trade with the major sub-regional groups in Africa while there is improvement with some groups, Tanzania's balance of trade is generally in deficit.

Thus in 2003 for the first time in many years Tanzania recorded a small surplus in her trade with the EAC. It should be noted that this was because of the surplus with Uganda. The trade transactions with Kenya have been in deficit for a long time although it should be noted that the trade imbalance with Kenya has been on the decline. Indeed it is this decline in the trade deficit with Kenya and the continuing surplus with Uganda that led to the net surplus recorded in the EAC in 2003.

Mainly because of South Africa, Tanzania has a considerable deficit in the SADC. It can be argued that Tanzania's declining deficit with Kenya can be explained by the growing deficit with South Africa.

Sections 2 to 4 break down the first section which covers all sectors into three main sectors of Agriculture Food, Beverages and Tobacco, Minerals and Base Metals and Industrial Manufacturing. We note the following about the sectoral structure about Tanzania's trade.

(a) Even globally there is no doubt that Tanzania has a comparative advantage in the agriculture sector. It recorded surpluses for all the three years selected. However there is no steady increase in the contribution of this sector of trade to GDP. There is still an unexploited potential to increase exports in this sector and therefore enhance Tanzania's status in world trade.

(b) Minerals and base metals are acquiring importance as one of Tanzania's main source of export earnings. They constitute the most important contributor to foreign exchange and account for the highest contribution from GDP derived from merchandise trade. However, like agricultural products they add little to Tanzania's trade with other African countries. Furthermore minerals are not considered as being dynamic exports.

(c) Tanzania's trade in manufacturing constitutes the country's weakest link in world trade as can clearly be seen in section four of Table 5. It is in this sector that Tanzania has a deficit with almost every trading partner except few groups of countries (i) SADC and COMESA, (ii) COMESA only and (iii) other Africa. For these countries for some of the years Tanzania even recorded surpluses. However these countries trade with Tanzania is insignificantly small. The issue is not so much that Tanzania has no markets in other countries in the manufacturing sector. The truth of the matter is that Tanzania has very little to export in this sector. The answer is increased investment in manufacturing in order to produce more exportables. The

agricultural sector also needs investment to enable it to exploit its export potential more fully. EPAs must help Tanzania to increase her exports and in particular help Tanzania to trade in manufactured exports, if EPAs are to fulfill the objective of integrating Tanzania and other LDCs in the world economy.

In Table 6 we present a more detailed view of Tanzania's structure of merchandise trade in the world. Table 6 gives the Balance of Trade between Tanzania and the rest of the world with details for major trading blocks and individual countries. This Table is derived from Tables 2A and 3A in Appendix I. In this Table the rest of the world is presented in greater details specifying trade with EU, African countries American countries and other countries. Within these groupings important individual countries, are singled out. It should be noted that in Table 6 the data is presented in million USD. The deficits and surpluses are therefore easier to follow than those in the previous table which are in terms of percentage of GDP. On the basis of Table 6 we note the following further points.

- (a) The data presented in Table 6 generally corroborate the findings based on Table 5 However it should be noted Tanzania data from different sources are notoriously contradictory at times!

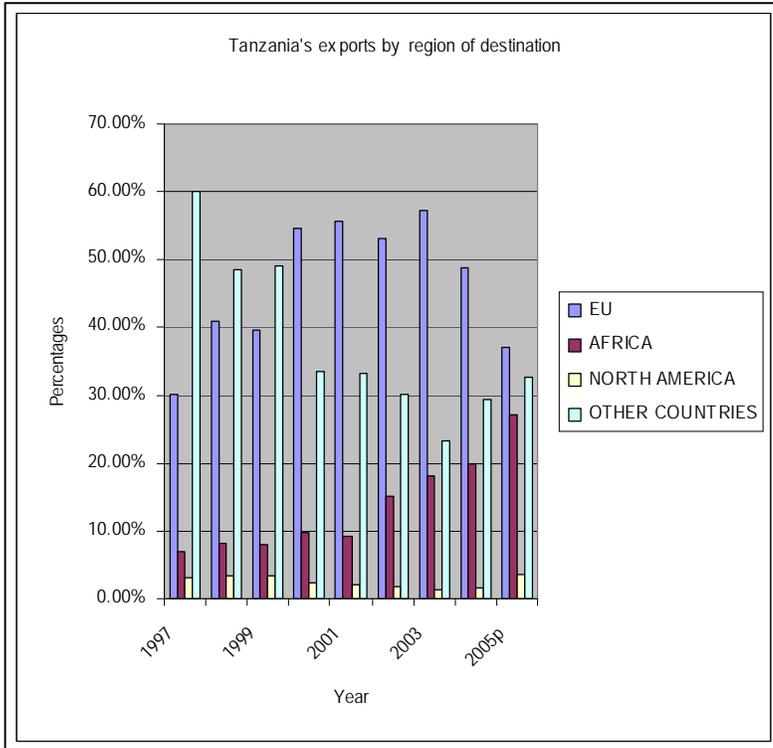
**Table 6: Tanzania Balance of Trade by Major Regions**

Country/Region	1997	1998	1999	2000	2001	2002	2003	2004	2005p
EU	140.6	273.4	198.4	17.5	42.5	110.3	210.5	176.8	3.9
<b>Africa</b>									
<b>Southern African Development Community (SADC)</b>									
South Africa	-88.1	124.4	164.2	162.3	194.7	172.3	269.1	216.6	-114.4
Zambia	-15	-13.3	-4.5	2.3	3.7	13.1	15.7	0.7	4.8
Swaziland	-9	-0.78	-12.5	-12.9	-12.7	-15.6	-12.2	-14.4	-17.9
Zimbabwe	-4.73	-14.6	-5.6	-4.5	-3	-2	-1.2	-0.3	-0.1
Mozambique	-2.5	-0.09	0.6	1.4	1	1.6	1.3	1.8	4.5
DRC	1.6	0.22	3.6	0	5.2	15.4	21.9	9.3	12.1
Other SADC						16.3	19.9	6.1	7.8
<b>Total SADC</b>	117.6	164.7	182.5	-176	200.6	143.6	233.7	213.3	-103.2
<b>East African Community (EAC)</b>									
Kenya	-82.9	-79.8	-74.1	-61.2	-58	-59.9	-37.6	-46.4	-79
Uganda	9.7	4.2	-1.3	2.9	-5.9	2.8	2.1	4.1	15
<b>Total EAC</b>	-73.2	-75.5	-75.4	-58.3	-63.9	-57.1	-35.5	-42.3	-64
Other African	4.3	0.4	3.4	4.7	6	13.9	4.4	-23.2	12.4
<b>Total African</b>	186.5	239.8	254.5	229.6	258.4	186.8	264.8	278.9	-154.8
<b>North American Countries</b>									
USA	-31.2	-68.5	-81.3	-43.7	-50.2	-77.9	-58.4	-64.4	-83.4
Canada	-10.8	-16	-26.1	-31.8	-22.7	-16.3	-17.9	-34.9	3.9
Other American	-15.5	-38.9	-37.9	-24.5	-7.9	-12.4	-30.2	-30	-43
<b>Total American</b>	-57.5	123.3	145.2	100.1	-80.7	106.6	106.5	129.3	-122.5
<b>Other countries</b>									
India	-11	25	18.2	9.7	-5.3	-42.6	-98.4	115.4	-23.9
Japan	-14	-85.5	134.3	108.1	-82.2	-42.4	-81.7	116.3	-131.4
UAE	-88.5	-52.9	-44.3	-50.7	-99.4	-82.8	131.4	167.2	-161.4
Others	145.1	0.2	-63.3	183.3	393.3	339.8	-417	446.8	-347.9

Source: calculated from Table 3.2 and 3.3, Economic Survey 2005 pg. 51 and 52,

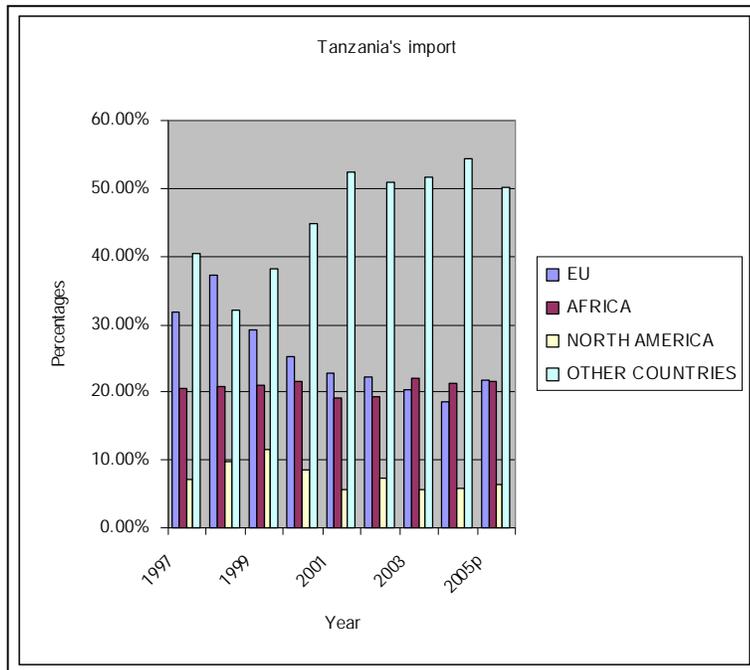
While the EU has continued to be the most important market for Tanzania's exports (see diagram 3) it has become less important as a source of Tanzania's imports. Other countries notably Japan, India, China and many others are competing strongly with the EU in Tanzania's markets (see diagram 4). This is also true with respect to the EU and the markets of other ACP countries. EPA is therefore the EU's answer to the problem of maintaining ACP markets in its hold in the face of fierce competition from other trading blocks and individual countries. This is important for Tanzania and other ACP countries to bear in mind in the EPA negotiations with Europe.

**Diagram 3: Trend in Tanzania's Direction of Exports**



Source: Table 3.2 Economic Survey 2005 p.51

**Diagram 4: Trend in Tanzania's Source of Imports**



Source: Table 3.3 Economic Survey 2005, p.52

The trade imbalance with South Africa is reaching alarming proportions. However we should point out again, this is due to Tanzania's poor capacity to produce manufactured goods in particularly and as a consequence, its inability to increase its exports not only to South Africa but to most other places. As can be seen in Table 6 in SADC it is only the DRC that is a net importer from Tanzania (i.e. Tanzania has a surplus in the goods balance with that country). For all the other SADC countries Tanzania has had deficits in the merchandise trade with them for most of the time. If the deficits are declining it is because some of these countries have their own other problems (e.g. war in DRC and adverse economic conditions in Zimbabwe), rather than Tanzania's improved export performance.

## 2.4 EU Trade with Tanzania

In Table 5 Tanzania's exports and imports were categorized into three groups – agricultural food, beverages and tobacco (in short agricultural commodities) (b) Minerals and Base Metals and (c) Industrial Manufactures. In that Table Tanzania exports to the EU and Tanzania imports from EU were concealed in the category referred to as "the rest of the world". Because Tanzania trade links with African countries are very small the rest of the world appeared to dominate Tanzania's external trade. We know that this dominance of the "rest of the world" in Tanzania's trade is mainly explained by the dominance of EU's trade with Tanzania. This is confirmed in appendix table 2A which shows the value of exports by destination and appendix table 3A which shows the value of Tanzania imports by country or trading block of origin.

With regard to exports two categories dominate Tanzania's exports globally – minerals and agricultural products. Generally these are also the categories that dominate Tanzania's exports to the EU. Taking Tanzania's exports to the EU in 2003 as an example, it is seen that Tanzania's exports amounted to USD 654.9 million out of a total of USD 1129.2 million exports to the world. That is to say EU accounted for 58.0 percent of Tanzania's exports. The top twenty commodities amounted to USD 646,971,219 million as shown in Table 7 Minerals alone earned Tanzania USD 450, 153,034 million and they were the number one export to the EU accounting for 57.5 percent of Tanzania's exports to the EU. Fish came second and brought in USD 61,104,007 million of export earnings. The next 10 commodities after minerals were all agriculturally related (If we take the FAO definition that includes fish other marine products, forestry products including honey and timber, as part of agriculture).

It is clear from table 7 that, out of the top 20 commodities exported by Tanzania to Europe industrial manufactures do not account for much of Tanzania's exports to EU.

**Table 7. TANZANIA'S EXPORTS TO EU BY DOUBLE DIGITS IN 2003 BY TOP 20 ITEMS**

<b>S/N</b>	<b>HS CODE</b>	<b>DESCRIPTION</b>	<b>FOB Value ( USD )</b>
1	71	NATURAL/CULTURED PEARLS, PREC STONES & METALS, COIN ETC.	450,153,034
2	3	FISH & CRUSTACEAN, MOLLUSC & OTHER AQUATIC INVERTEBRATE	64,104,007
3	9	COFFE, TEA, MATE AND SPICES	35,134,997
4	24	TOBACCO AND MANUFACTURED TOBACCO SUBSTITUTES	34,666,945
5	6	LIVE TREE & OTHER PLANT; BULB, ROOT; CUT FLOWERS ETC	12,255,859
6	7	EDIBLE VEGETABLES AND CERTAIN ROOTS AND TUBERS	9,522,208
7	17	SUGARS AND SUGAR CONFECTIONERY	8,424,775
8	18	COCOA AND COCOA PREPARATIONS	7,033,781
9	52	COTTON	6,037,216
10	53	OTHER VEGETABLES TEXTILES FIBRES; PAPER YARN & WOVEN FAB	3,961,570
11	61	ART OF APPAREL & CLOTHING ACCESS, KNITTED OR CROCHETED	3,012,979
12	12	OIL SEED, OLEAGI FRUITS; MISCELL GRAIN, SEED, FRUIT ETC	2,950,340
13	8	EDIBLE FRUIT AND NUTS; PEEL OF CITRUS FRUIT OR MELONS	1,905,528
14	5	PRODUCTS OF ANIMAL ORIGIN, NES OR INCLUDED	1,858,588
15	56	WADDING, FELT & NONWOVEN; YARNS; TWINE, CORDAGE, ETC	1,219,895
16	44	WOOD AND ARTICLES OF WOOD; WOOD CHARCOAL	1,213,002
17	60	KNITTED OR CROCHETED FABRICS	1,018,509
18	70	GLASS AND GLASSWARE	973,432
19	4	DAIRY PROD; BIRDS' EGGS; NATURAL HONEY; EDIBLE PROD NES OTHER MADE UP TEXTILE ARTICLES; SEYS; WORN CLOTHING	762,939
20	63	ETC	761,615
		<b>TOTAL</b>	<b>646,971,219</b>

Source: Tanzania Revenue Authority (TRA) files

### **3.0 The EPA Negotiations: The Challenges**

#### **3.1 Introduction**

The proceeding sections have set the necessary background for a discussion of the challenges facing Tanzania in the EPA negotiations. These challenges are related to, on one hand, the principles of EPAs and on the other hand, the socio-economic realities including the trade aspects, facing Tanzania.

#### **3.2 The Integration of LDCs, in the World Economy**

The first challenge relates to the interpretation of the objectives and principles behind EU-ACP economic and trade cooperation. The Cotonou Agreement states that the aim of the ACP-EU economic and trade cooperation to repeat the earlier quotation is *“fostering the smooth and gradual integration of the ACP states into the World economy”* (emphasis added). Tanzania we pointed out in Section 2, is a small underdeveloped economy with a lop-sided economic structure which is dependent on agriculture and other raw materials in terms of both production and trade. Most people in Tanzania and other LDCs live in abject poverty. There is a link between this poverty and the dependency on commodity exports by LDCs. (See UNCTAD 2003).

##### **3.2.1 The Link with Poverty Eradication**

The “integration” of Tanzania into the World Economy must go hand in hand with poverty eradication in Tanzania and other LDCs. The eradication of poverty as part of the strategy to integrate developing ACP countries under EPA is mentioned in some documents and pronouncements by EU participants in the negotiations. However, greater emphasis seems to be put on the reciprocal elimination of ACP-EU trade barriers. But even the WTO has accepted exceptions to the rule by giving LDCs more time before they are required to abide by certain liberalization provisions that

require immediate conformity other members. Tanzania and other LDCs must therefore fight to ensure that they are given ample time to adjust before being asked to fully reciprocate. An element of asymmetry must be built in making these changes with LDCs reducing their tariffs at a slower rate than the EU.

Indeed the above objective talks about a "smooth" and "gradual" integration of ACP countries into the world economy. The EPA negotiations are expected to end by December 2007 when the new trade and economic relations are expected to become operational. How gradual have these negotiations been? Given that only few months remain before EPAs are implemented, it appears that this "smooth" and "gradual" integration is not being observed.

The first phase negotiations were conducted at an all EU-ACP level and were launched in September 2002 but by the time a report was issued no agreement was reached on the issues discussed and therefore the anticipated all ACP-EU agreement was never reached and it was decided to continue these ACP-EU level negotiations parallel with the phase II negotiations which are being held at the regional/sub-regional level.

### **3.2.2 The Importance of Enhancing Tanzania's Capacity in International Trade**

From section two it was seen that Tanzania is faced by a big trade imbalance between exports and imports such that the main issue at present is not so much the lack of access to markets but rather it is the small capacity to produce and export. For Tanzania the developmental objectives of EPA are more important than the trade objective of lowering barriers to trade.

### **3.2.3 Regional Integration**

EPAs are expected to complement and supplement the economic benefits arising out of regional integration and not to undermine them. Tanzania is involved in a

number of integration schemes notably with the other two EAC countries and with SADC. These integration schemes are still young and delicate based as they are on trade among small and weak economies. EPAs must therefore as stated in the Cotonou agreement seek to support these regional initiatives. If inter-regional exports in Africa are forced to compete with EU exports to Africa, trade among African states in some commodities like chicken milk and other food consumer goods would be adversely affected even to the extent of being wiped out.

### **3.2.4 Trade Creation and not Trade Diversion**

A related issue is the impact of tariff reduction on Tanzania's trade with other countries not linked to the Cotonou Agreement especially other third world countries. Let us give an example of India. EPA will make EU's imports to Tanzania cheaper than India's imports. This means that EPA arrangements will result into trade diversion rather than trade creation that is EU's imports will replace India's imports into the Tanzania market because without the EPA liberalization, Indian imports were cheaper than EU imports. Tanzania's consumers will now be forced to consume the more expensive EU goods which have been made cheaper by the discriminating tariff reduction in favor of the EU. This is likely to be the case where the tariff is high. Since Tanzania needs to negotiate for a reduction of tariffs for her exports to some of these other countries notably China and India, the negotiations will prove more difficult in view of some of these trade diverting results from EPA Tanzania and other ACP countries may have to consider some lowering of their tariffs with respect to other countries like China and India simultaneously with the reduction of tariffs under the EPA negotiations.

### **3.2.5 Market Access**

While most Tanzanian exports do not face access problems in European markets a few exports nevertheless directly or indirectly face problems. These problems appear in the following form

(a) Tariff Peaks or particularly high tariffs constrain Tanzania's export entry to other countries. For example fruit and vegetable juices which attract *ad valorem* tariffs as high as 34 per cent.

(b) Escalation of tariffs – some high tariffs are related to the degree of processing of a commodity where higher tariffs are imposed on more processed forms. For example the EU has no tariffs on raw coffee that has neither been roasted nor decaffeinated, but it imposes MFN tariffs of 7.5 per cent on roasted coffee, 8.3 per cent on decaffeinated and 11 per cent on coffee that is both roasted and decaffeinated. (*Diagnostic Trade Integrating Study: 40*).

(c) Rules of Origin: when countries in trading blocks liberalize access to one another's markets they usually put conditions about the origins of the commodities that can benefit from this preferential liberalization. The idea is to ensure that commodities made outside the preferential trading areas do not benefit from the preferences. Thus one of the rules of origin may state that the percentage of imported inputs going into the making of the commodity must not exceed a certain level otherwise the commodity loses its originating status. However some rules of origin amount to non-tariff barriers pure and simple, and therefore negate or reduce the preferential benefit in a trading arrangement. In the Lomé Convention for example to benefit from the preferential treatment on fish fished from waters of ACP countries, the fish had to be transported to an EU country in a ship registered in the EU or the ACP countries otherwise the fish lost its originating status! (The fish becomes Japanese just because it was carried from Tanzanian waters in a Japanese ship)!

Tanzania along with others in the ACP must negotiate for the removal of rules that appear to impose disguised barriers to the flow of ACP-EU trade. Many rules of origin must be simplified so as to encourage Tanzanian and other ACP exporters to use them. As it is traders in Tanzania find them so cumbersome that they give up their entitlement to apply for the reduction in tariff.

One way of dealing with the problem of rules of origin is to use the of inputs from developing. That is inputs imported from other ACPs or even better still developing countries can be added up in order to meet rules of origin requirements.

### **3.3 Negotiating Strategy**

The main issue to bear in mind is that EPA negotiations must safeguard Tanzania's interests as an LDC and must contribute to Tanzania's poverty alleviation strategy which is a precondition for Tanzania's integration in the world economy.

#### **3.3.1 Configuration of Negotiating Group**

The EU prefers to negotiate EPA with groups rather than individual countries. The idea is to build up Customs Unions among the ACP countries that become economically integrated with the EU. It would have been better if these groups existed before the EPA negotiations. As it is they are being formed for the EPA negotiations while at the same time some countries also continue to be members in several economic groups. Thus Tanzania is a member of SADC and the EAC but is negotiating EPA with only some of the SADAC countries. Kenya and Uganda who are in EAC are negotiating EPA with some COMESA members in the ESA group. South Africa is in SACU and SADC but is not in any EPA negotiations because it has its own separate deal with the EU. Ideally Tanzania should negotiate together with Kenya and Uganda in the EAC as the three are already a Customs Union with a common external tariff. It would be easier to negotiate mutual tariff reductions between the EAC and the EU.

#### **3.3.2 Coordination in the African Group**

Coordination among African countries will help to facilitate these negotiations so as to ensure that internal economic problems do not get into the EPA negotiations with the EU.

### **3.3.3 Defensive and Offensive List of Commodities**

To guard against the possibilities that sensitive sectors in Tanzania are not overwhelmed to the extent of going out of production, Tanzania must either backload their liberalization in EPA or leave them out in the negotiations altogether. This should apply to cereals, livestock and livestock products (e.g. milk, chicken etc). These commodities are produced mostly by poor peasant producers using poor technology. If they are exposed to open competition with EU producers, these products will simply be replaced by EU products. This will worsen poverty among peasant producers. Hence the negotiations on these products must be delayed or be completely kept out of the EPA negotiations.

On the other hand Tanzania must identify the commodities that it must sell more in EU markets. These include processed agricultural materials and industrial products made by small and medium scale enterprises. This will promote poverty eradication while enhancing Tanzania's integration in the world economy.

The asymmetric liberalization of trade between EU and ACP countries will also help to ensure that other ACP countries receive preference over EU products in Tanzania markets.

### **3.3.4 Is there no Reciprocity on Tanzania's Part?**

The question may be asked what will Tanzania and other ACP countries offer in return? Tanzania and the other EAC partners have decided to remove all duties on machinery and other capital goods including industrial inputs. That is these items are zero-rated. It is true this is offered to imports from all origins. But this also applies to the EBA provision which applies to all LDCs. The point is, this offer entails sacrificing revenue on the part the EAC countries. Tanzania can choose to liberalize tariffs on some consumer goods imported from the EU by stages – front-loading some and back-loading others over an agreed period, all this with the purpose of

safeguarding the industrialization of the country while at the same time ensuring the gradual but smooth integration of the country and other ACP countries in the world economy.

### **3.3.5 Safeguard Measures**

During the Lomé Conventions when the EU used to give non-reciprocal tariff concessions to the ACP group, there was a safeguard clause that allowed the EU country concerned to reimpose part or the full tariff that had been given if it could show that the concession had somehow. For example if the EU country concerned could show a loss of jobs in the economy because of the closure of some or all the factories making a commodity or commodities being imported from the APC. This safeguard clause must also be put in EPAs to safeguard the APC economies from economic harmful effects resulting from EPA related liberalization.

### **3.3.6 Economic Cooperation**

It was explained in the second booklet that the EU has not yet firmed up in terms of amounts, the aid and other financial details under Cotonou. However, if EPAs are to help contribute to the integration of Tanzania and other LDCs into the world economy a lot of financial and technical assistance will be needed in order for this noble objective to be realized. Otherwise EPAs will remain nothing but dreams!

#### **4. Summary and Conclusion**

The present booklet aims at exploring the EU-ACP trade arrangements under the Cotonou Agreement. The discussion centers on the negotiations on the Economic Partnership Agreements between the two groups of countries. The discussion is done in the context of Tanzania's peculiar economic conditions emphasizing on the challenging issues that Tanzania negotiators will face during the negotiations.

The presentation begins with a discussion of the principles and objectives of the Cotonou Agreement. The most important issue is that while EPAs aim at integrating LDCs like Tanzania into the world economy EPAs must also assist these countries to eradicate poverty. In their negotiations Tanzania and other negotiators must emphasize the developmental objectives of these EPAs above the trade objective of reciprocal trade liberalization. EPAs must also contribute to the enhancement of regional cooperation efforts in APC countries.

The second section of the booklet explains in details the Balance of Payment Problems of Tanzania. The country cannot produce enough exports to meet its needs for imported goods. The structure of trade is dominated by agricultural commodities and minerals whose supply has tended to grow sluggishly. The solution to the Balance of Payments problem lies in increased investment particularly in manufacturing in order to increase exports. At present Tanzania's trade with most countries is in deficit. Tanzania performance in SADC, EAC and EU is poor. The little improvement in the trade with EU has been more because imports from other countries and areas have increased more than imports from EU. The overall Balance of Payments for Tanzania therefore remains precarious.

Tanzania has some market access problems with the EU. These need to be addressed in the EPA negotiations through coordination with other ACP countries and especially with other African nations. Tanzania needs to identify its offensive

and defensive list of commodities. The offensive commodities are the exports that Tanzania must sell more into the EU. The defensive commodities are the commodities that Tanzania will try to keep out of the EPA negotiations. This will help in the industrialization of the country and will also safeguard tax revenue.

**Appendix Table 1A Tanzania's Balance of Payments**  
(Values in million USD)

	1996	1997	1998	1999	2000	2001	2002	2003	2004
<b>Goods Balance</b>	-448.8	395.4	-793.6	-872.1	-704.3	-709	-531.7	-717.4	-866.6
Exports(fob)	763.8	752.6	588.5	543.3	663.3	851.3	979.6	1261.1	1473.1
Imports(fob)	1212.6	1148	1382.1	1415.4	1367.6	1560.3	1511.3	1933.5	2339.7
<b>Services Balance</b>	-278.8	317.8	-450	-225.3	-52.2	264.9	287.6	222.1	151.9
Receipts	537.1	482.4	538.8	622	643.8	914.6	920.1	947.8	1117.4
Payments	815.9	800.2	988.8	847.3	696	649.7	632.5	725.7	965.5
<b>Income</b>	-72	121.8	-105	-99.3	-103.9	-188.5	-150.2	-162.6	-177.8
Receipts	41.5	43	44.4	49	50.4	55.3	67.9	87.1	81.8
Payments	113.5	164.8	149.4	148.3	154.3	243.8	218.1	249.7	259.6
<b>Current Transfers</b>	338.4	431.5	427.3	336.6	390.8	399.5	420.6	546.9	646.1
.Inflows	370.7	499.2	454.2	445.6	463.7	469.5	472.9	609.9	711.1
Government	236	433.6	421	411.4	427.8	418.4	427.7	543.3	641.7
Other sectors	134.7	65.6	33.2	34.2	35.9	51.1	45.2	66.6	69.4
.Outflows	32.3	67.7	26.9	109	72.9	70	52.3	63	65
<b>Current Account</b>	-461.2	403.5	-921.3	-860.1	-469.6	-233.1	26.3	-111	-246.4
<b>Capital Transfers</b>	191	270.9	252.4	270.6	330.4	361.5	355.4	358.2	293.6
Inflows	191	270.9	252.4	270.6	330.4	361.5	355.4	358.2	293.6
Outflows	0	0	0	0	0	0	0	0	0
<b>Financial Account</b>	0.3	236.2	510.5	613.3	572.5	-353.7	191.6	257.3	382.8
Direct Investment	148.5	157.8	172.2	516.7	463.4	467.2	429.8	526.8	469.9
Portfolio Investment	0	0	0	0	0	8.2	2.2	2.7	2.4
Other Investment	-148.2	78.4	338.3	96.6	109.1	-829.1	-240.4	-272.2	-89.5
<b>Errors and Omissions</b>	38.8	323.5	-313.3	-132.7	-439.5	-580	-681.6	-449.6	-386.6
<b>Overall Balance</b>	-231.2	219.9	-471.7	-108.9	-6.2	-805.3	-108.3	54.9	43.4
<b>Financing</b>	231.2	219.9	471.7	108.9	6.2	805.3	108.3	54.9	-43.4

Source:: Economic Survey, Table 24, p.67

**Appendix table 2A, Tanzania's export by region of destination**  
( values in million USD)

Country/Region	1997	1998	1999	2000	2001	2002	2003	2004	2005p
EU	226.5	241.2	214.7	362.1	432.2	479.9	644.9	654.1	619.6
<b>AFRICA</b>									
<b>SADC</b>									
South Africa	7.9	6.3	6.6	12.1	8.7	16.5	37.3	113.8	275.4
Zimbabwe								1.2	1.6
Zambia	10	3.7	2.8	4.7	5.5	17.4	17.7	6.8	8.7
Mozambique	2.6	0.1	0.7	1.5	1.4	1.6	2.2	3.4	6.5
DRC	1.8	5	3.7	0.1	5.4	15.8	22.6	10.1	12.6
Swaziland								2.8	0.6
Other SADC						20.3	24.7	13.8	16.9
<b>Total SADC</b>	<b>22.3</b>	<b>15.1</b>	<b>13.8</b>	<b>18.4</b>	<b>21</b>	<b>71.6</b>	<b>94.5</b>	<b>151.9</b>	<b>322.3</b>
<b>EAC</b>									
Kenya	12.8	26	21	32.2	38.1	35.3	78.3	83.7	76.3
Uganda	11.6	6.5	4.7	8.5	5.5	5.5	10.3	11.7	20.1
<b>Total EAC</b>	<b>24.4</b>	<b>32.5</b>	<b>25.7</b>	<b>40.7</b>	<b>43.6</b>	<b>40.8</b>	<b>88.6</b>	<b>95.4</b>	<b>96.4</b>
Other African	4.5	0.5	3.5	4.7	6.2	22.9	22.2	20	34.7
<b>Total African</b>	<b>51.2</b>	<b>48.1</b>	<b>43</b>	<b>63.8</b>	<b>70.8</b>	<b>135.3</b>	<b>205.3</b>	<b>267.3</b>	<b>453.4</b>
<b>AMERICAN</b>									
USA	21.4	12.8	18	15.2	15.1	13.5	11.3	13.7	16.5
Canada	1.7	0.7	0.6	0.5	0.5	1.4	1.7	4.8	39.2
Other American						1.3	2.7	2.6	3.7
<b>Total American</b>	<b>23.1</b>	<b>13.5</b>	<b>18.6</b>	<b>15.7</b>	<b>15.6</b>	<b>16.2</b>	<b>15.7</b>	<b>21.1</b>	<b>59.4</b>
<b>Other countries</b>									
Japan	60	45.5	43.9	34.2	68.5	96.3	88.2	64.3	68.7
UAE	5	6.8	6.7	6.3	9.6	14.4	15.4	17.5	33.7
Hong Kong	18.2	5	7.8	8.8	8.7	11.2	9.9	12.3	9.6
India	66.5	114.8	112.8	98.5	82.2	64.2	69.6	100.7	63.2
Others	302	113.6	95.8	73.9	88.6	85	79.9	197.6	371.5
<b>Sub-total</b>	<b>451.7</b>	<b>285.7</b>	<b>267</b>	<b>221.7</b>	<b>257.6</b>	<b>271.1</b>	<b>263</b>	<b>392.4</b>	<b>546.7</b>
<b>GRAND TOTAL</b>	<b>752.5</b>	<b>588.5</b>	<b>543.2</b>	<b>663.2</b>	<b>776.4</b>	<b>902.5</b>	<b>1129.2</b>	<b>1335</b>	<b>1676.3</b>

Source:: Economic Survey, 2005, Table 3.2 p.51

p= provisional

Appendix Table 3A, Tanzania's imports by region of origin

(values in million USD)

Country/Region	1997	1998	1999	2000	2001	2002	2003	2004	2005p
<b>EU</b>	367.1	514.6	413.1	344.6	389.7	369.6	434.4	477.3	615.7
<b>AFRICA</b>									
<b>SADC</b>									
South Africa	96	130.7	170.8	174.4	203.4	188.8	306.4	330.4	389.8
Zimbabwe	4.73	14.6	5.6	4.5	3	2	1.2	1.5	1.7
Zambia	25	17	7.3	2.4	1.8	4.3	2	6.1	3.9
Mozambique	5.1	5.5	0.1	0.1	0.4	0	0.9	1.6	2
DRC	0.2	0.5	0.1	0.1	0.2	0.4	0.7	0.8	0.5
Swaziland	9	11.5	12.5	12.9	12.7	15.6	12.2	17.2	18.5
Other SADC						4	4.8	7.7	9.1
<b>Total SADC</b>	<b>139.9</b>	<b>179.8</b>	<b>196.3</b>	<b>194.4</b>	<b>221.6</b>	<b>215.2</b>	<b>328.2</b>	<b>365.2</b>	<b>425.5</b>
<b>EAC</b>									
Kenya	95.7	105.8	95.1	93.4	96.1	95.2	115.9	130.1	155.3
Uganda	1.9	2.3	6	5.6	11.4	2.7	8.2	7.6	5.1
<b>Total EAC</b>	<b>97.6</b>	<b>108</b>	<b>101.1</b>	<b>99</b>	<b>107.5</b>	<b>97.9</b>	<b>124.1</b>	<b>137.7</b>	<b>160.4</b>
Other African	0.2	0.1	0.1	0	0.2	9	17.8	43.2	22.3
<b>Total African</b>	<b>237.7</b>	<b>287.9</b>	<b>297.5</b>	<b>293.4</b>	<b>329.2</b>	<b>322.1</b>	<b>470.1</b>	<b>546.2</b>	<b>608.2</b>
<b>AMERICAN</b>									
USA	52.6	81.3	99.3	58.9	65.3	91.4	69.7	78.1	99.9
Canada	12.5	16.7	26.7	32.3	23.2	17.7	19.6	39.7	35.3
Other American	15.5	38.9	37.9	24.5	7.9	13.7	32.9	32.6	46.7
<b>Total American</b>	<b>80.6</b>	<b>136.8</b>	<b>163.8</b>	<b>115.8</b>	<b>96.3</b>	<b>122.8</b>	<b>122.2</b>	<b>150.4</b>	<b>181.9</b>
<b>Other countries</b>									
Japan	74	131	178.2	142.3	150.7	138.7	169.9	180.6	200.1
UAE	93.5	59.7	51	57	109	97.2	146.8	184.7	195.1
China	61.5	48.8	58	68	70.6	79	116.7	171.4	217.4
India	77.5	89.8	94.6	88.8	87.5	106.8	168	216.1	87.1
Others	156.9	113.4	159.1	257.2	481.9	424.8	496.9	644.4	719.4
<b>Sub-total</b>	<b>463.4</b>	<b>442.7</b>	<b>540.9</b>	<b>613.3</b>	<b>899.7</b>	<b>846.5</b>	<b>1098</b>	<b>1397</b>	<b>1419</b>
<b>GRAND TOTAL</b>	<b>1149</b>	<b>1382</b>	<b>1416</b>	<b>1367</b>	<b>1715</b>	<b>1661</b>	<b>2125</b>	<b>2571</b>	<b>2825</b>

Source: Economic Survey, 2005, Table 3.3. p.52

p= provisional

## **Acronyms**

ACP	African Caribbean and Pacific
COMESA	Common Market for Eastern and Southern Africa
DRC	Democratic Republic of Congo
EAC	East African Community
EBA	Everything But Arms
EEC	European Economic Community
EPA	Economic Partnership Agreement
EU	European Union
FAO	Food and Agriculture Organization
FES	Friedrich-Ebert-Stiftung
GDP	Gross Domestic Product
LDC	Less developed Country
MFN	Most favored Nation
PTA	Preference Trade Agreement
SACU	Southern African Customs Union
SADC	Southern African Development Community
UAE	United Arab Emirates
UNCTAD	United Nations Conference on Trade and Development
USD	US Dollar
WTO	World Trade Organization

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FES Website: [www.fes.de](http://www.fes.de)