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Non-Agricultural Market Access in the EAC

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ABSTRACT

The key objective of this policy brief is to underline issues of interests regarding Non-Agricultural Market Access (NAMA) negotiations, with a distinctive focus on:

- *Identification of non-agricultural products that are of particular export interest to Tanzania; and the implication of the NAMA negotiations upon further liberalisation;*
- *Identification of non-agricultural sector supported in Tanzania and the implication of the NAMA negotiations upon further liberalisation;*
- *Challenges faced by leading industrial players (exporters and importers of non-agricultural products) in Tanzania; and*
- *Discussion on trade interests and issues to be emphasised during NAMA negotiations*

INTRODUCTION

Increased participation in the world economy has been one of the major development challenges facing Africa for many years. Although in the past seven years, exports have increased at a pace of 20%, unfair trade policies and practices have been making it difficult for the exports of African countries to enter markets in developed countries. High tariffs on industrial goods have also been adversely affecting African countries, making it difficult for them to diversify their economies despite the opening-up of developed-country markets.

Following a number of conferences on NAMA negotiations in Cancun and Hong Kong, WTO members have unanimously agreed to adopt a Swiss formula, which is considered to be transparent, simple to apply, efficient, and which will ascertain equity and predictability. However, members are still debating on the appropriate coefficient to use between developed and developing countries, despite the 2008 modality to use a "simple Swiss" formula with separate coefficients for developed or for developing country members.

For African countries, Tanzania in particular, an increase in negotiation leverage on market access is a crucial one. As outlined in 2008 modalities, least developed countries (LDCs) such as Tanzania are exempt from tariff reductions, and there are special provisions for these countries and developing economies that will allow them to retain higher average tariffs and greater flexibility on how they structure their tariff schedules. However, the LDCs will contribute to the negotiations by significantly increasing the number of bindings and reducing "the water" (the difference between bound rates and those actually applied).

Objectives

The key objective of this note is to underline issues of interests regarding Non-Agricultural Market Access

(NAMA) negotiations, with a distinctive focus on:

i. Identification of non-agricultural products that are of particular export interest to Tanzania; and the implication of the NAMA negotiations upon further liberalisation;
ii. Identification of non-agricultural sector supported in Tanzania and the implication of the NAMA negotiations upon further liberalisation and
iii. Challenges faced by leading industrial players (exporters and importers of non-agricultural products) in Tanzania

Discussion on trade interests and issues to be emphasised during NAMA negotiations

This note's methodology placed emphasis on fact finding and testing of hypotheses through inclusive consultation with national stakeholders; the private sector in particular. This was done through field visits, phone calls, electronic communications and surveys.

Status of Industrialization in Tanzania

The current level of industrialization is traced from 1995 when industrial development became a focus of the development agenda. Since then, many improvements have been observed within the industrial sector, including a steady increase in the physical volume of manufacturing at an average rate of 7.1% between 2000 and 2004, and 8.6% during the years 2005 and 2011. Moreover, output growth in manufacturing over the past few years has been increasing by a 7% average rate until 2013. Presently, the sector has more than 750 large industrial establishments, the majority of which are manufacturing firms with the general industrial structure consisting of processing industries (43%), manufacturing industries (53%) and assembling industries (4%).

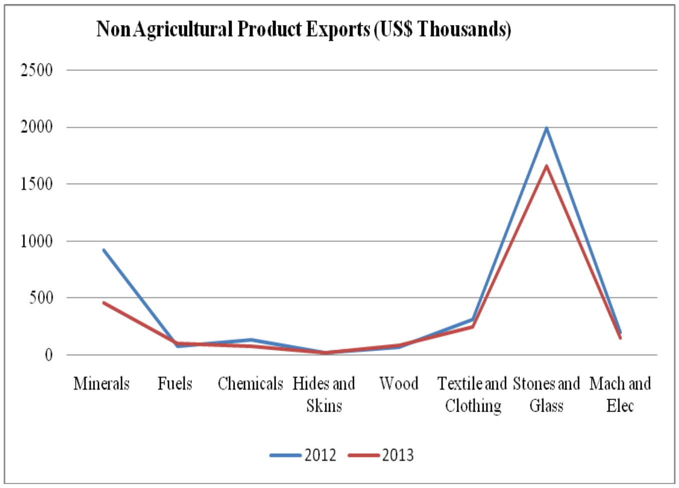
However, overall remarks suggest that the country's level of industrialization is still at a low level. The key issue is that Tanzania has a lot of potential to industrialize as it is endowed with ample amount of natural resource reserves, good arable land for agriculture production and vibrant young labour force eager to work. Nevertheless, the main challenge existing in the country is the mere fact that most of these resources are still being exported in their raw form and value addition on the local products is absolutely minimal.

Similarly, Tanzania's manufacturing sector is not widely diversified, which makes it vulnerable to variations in production and commodity prices. Several changes in the past have mandated over-exposure to international competition, attributed partly to a relaxation in trade restrictions.

With the market access interest for manufactured goods in international markets, and as outlined in the Tanzania Development Vision 2025, the industrial sector has been assigned the specific role of transforming Tanzania from an agricultural to semi-industrialized economy. To this effect the government has developed several policies that include the Sustainable Industrial Development Policy, the SMEs Development Policy and the National Trade Policy. It has also introduced various implementation strategies, including the establishment of the Export Processing Zone (EPZ) scheme.
In this regard, as NAMA negotiations are concerned, Duty Free Quota Free (DFQF) market access for Tanzania's products in developed and developing countries is important since a full operational DFQF prevents substantial erosion of the country's comparative export advantage.

Share of Exports and Imports

Figure 1: Non Agricultural Product Exports (US$ Thousands)



Source: WITS (2014).

Tanzania experienced a drop in its gold exports by almost 20% in 2012 following a decline in commodity prices on international markets. This also affected the overall performance of exports in 2013 and 2014 particularly on gold and traditional exports. By the end of 2013/2014 fiscal year, total exports were 4,412,548 USD, a significant drop from 5,547,229 USD in 2012/2013, but with an increase in overall imports from 11,715,589 USD in 2012/2013 to 12,525,411 USD in 2013/2014.

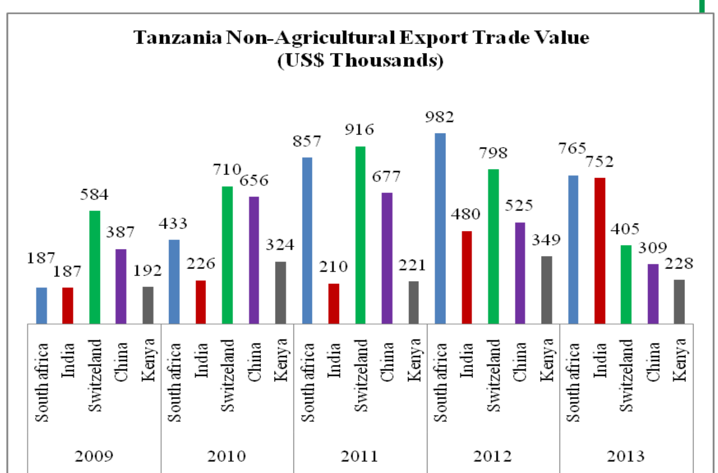
As suggested from the figure 1 below, the share exports of mineral goods dropped significantly from 915 USD in 2012 to 457 USD in 2013. Similarly, Stone and glass products which have the highest share also dropped from 1991 USD in 2012 to 1655 USD in 2013. There was however, an increase in the share of exports on products like fuels, wood and hides and skins

Currently, out of the Tanzania's total exports, the share of exports of non-agricultural products is 69.5%, equivalent to 2,819,408 USD, while out of the total imports non-agricultural products comprise a share of 91.9%, equal to 11,507,120 USD. The country's leading exports (non-agricultural products) are stone and glass (38%), minerals (10%), and textile and clothing (6%). Its leading imports are fuels (39%), machines and electronics (12%), transportation (11%) and metals (9%).

Trading Partners

Since the last decade, countries of the European Union have been the major sources of Tanzanian imports. Their importance has been declining considerably as the importance of Asian and African countries have increased. Similarly, with the changing product structure of exports, the geography of Tanzania's trade has also changed. Most importantly, this reflects the emergence of stones and glass as significant sources of exports, accounting for a current large share of the country's non-agricultural trade with China, India, Switzerland and South Africa. Other partners include Japan, the United Kingdom, the United Arab Emirates and the Democratic Republic of Congo.

Figure 2: Tanzania Non-Agricultural Export Trade Value (US$ Thousands)



Source: WITS (2014)

Challenges Faced by Importers and Exporters

The following challenges were recorded from interviewed stakeholders from the public and private sectors, academia and civil societies.

Firstly, most of the country's traders (both importers and exporters) are not informed about the general rules of the trading system. This makes it rather difficult to access foreign markets in the developed countries due to the numerous preferential treatments found in these countries especially on issues regarding safety and environmental standards.

It is very important for countries to benefit from technical assistance through participation in standard-setting bodies, as well as by meeting existing standards. This, in turn, will increase traders' awareness of the general rules of the game, but, more specifically, of ongoing NAMA negotiations.

Likewise, a new kind of protectionism, traditionally called non-tariff protectionism, tends to be increasingly present. Tanzanian traders are especially vulnerable to such 'new protectionism,' particularly with regard to product and safety standards, rules of origin, labor and environmental standards, and anti-dumping legislation. With such NTBs put in place, a small merchant downtown Dar es Salaam who may be sculpturing simple crafts like the famous *"Makonde Crafts"*, will surely not be able to export his goods unless he follows all these regulations and certifications put in these protected countries. In order to reduce this kind of new protectionism, negotiations on non-tariff barriers should be conducted along with those on tariff reductions in the negotiating group on non-agricultural market access (NAMA).

Another challenge facing Tanzanian traders and manufacturers is unfair competition from products produced abroad. Manufacturers in Tanzania have pointed out that imported products come with more competitive lower prices while they are of lower or equal standards to those produced in Tanzania. In addressing this challenge, a fair playing field for both local and imported products should be established by assessing costs and benefits of products equally to the level of development of the country concerned.

Interests in Line with NAMA Negotiations

As Tanzania Reaffirms the need to conduct the WTO negotiations in a transparent and all-inclusive manner and the need to maintain the centrality of development outcomes from the Doha Development Round, it also underlines the following interests:

Offensive interests

- Tanzania has increased trade in manufactured goods especially on textile and clothing products. NAMA represents an opportunity for pursuing a further liberalization of their key markets. It is the interest of the country to see removal of tariff peaks, escalation and NTBs in existent and potential export markets
- Tanzania will prioritize any formula or approach of tariff reduction in line with S&DT or less than full reciprocity it sees appropriate to allow the country to pursue industrial policy, employment creation and diversification.
- Tanzania as a member of the African group also considers that the additional flexibilities for developing countries enshrined in paragraph 8 of the July 2004 NAMA framework are independent of the tariff formula, as such if decides not to use the flexibilities provided for in paragraph 8 of Annex B of the July framework, will be allowed 5 additional points in the coefficient in the application of the tariff reduction formula.
- Developing countries which are able to do so should also extend duty free and quota free market access to Tanzanian products

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