Country Update

Leveraging the WTO Trade Related Investment Measures (TRIMs) Agreement to Spur Industrialization

Provided by

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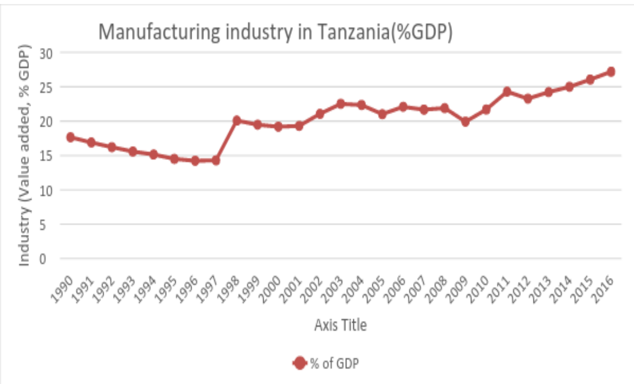
Introduction

In the history of Tanzania economy, industrialization promotion has been thought of as one of key factors in transforming Tanzania's society and making it less dependent economy. Effort towards promoting the manufacturing and industrial sectors in Tanzania is not a new phenomenon. It has been there since Tanzania gained its independence in 1961. Against this background, a number of non-trade related and trade related investment measures such as policies, strategies, and rules across different political regimes have been introduced purposely to foster the industrialization process. Thus, industrial sector remains as one of the key contributing sectors to the Tanzanian economy.

According to the collaborative work of UNU-WIDER and REPOA as reported by Page (2016) points out that Tanzania ranks among the leading stars of the '*African growth miracle*' among other miracle countries (i.e., Ghana, Kenya, Uganda and Rwanda). Page further indicates that on average, for the past two decades, Tanzania has annual growth of 5 - 7 percent of GDP, per capita GDP averaged between 2.5 – 3.5 % per year slightly above the average per capita growth of the entire sub-Saharan Africa. The report stresses that despite the struggle of the government in promoting industrialization, industry sector (such as manufacturing and agro-industry) has been to great extent not successful. The report further sheds light that albeit Tanzania aspires to achieve middle-income economy, the country suffers from a 'manufacturing deficit' at its current level of per capita income and diversification. However, the current Tanzania Economic Outlook (2017) projected economic growth to be steadily at 6.2% for the period between 2017 and 2026 (Tanzania Economic Outlook, 2017).This is a promising indicator for both foreign and local investors of which the government perfecting other enabling measures.

Efforts towards Industrialization

Unexpectedly, Tanzania registers an increasing growth in industrial sector; however, diversification is still not significant. The sectoral contribution to the national GDP has recently shown a persistent growth as it trends in the graph below. Notwithstanding, the Tanzania investment report of 2016, shows that industrial sector contributes around 25% to the country's GDP and experienced an average annual growth of 8% over the past five years. The industrial sector is made of manufacturing (53%), processing industries (43%) and assembling industries (4%). However, industrial growth in Tanzania has been at a slow pace, the marked growth revealed for the period from 2009 through 2014 represented an increase of 82%. This increase is translated by the manufacturing sector which appears centered on agro-processing industries whereas the sector consists of food processing (24%), textiles and clothing (10%), chemicals (8.5%) and others including beverages, leather and leather products, among others. Thus, the increase however seldom believed to be rooted from the available attractive trade related investment environment set by the government by means of good policies, strategies and rules without compromising the WTO TRIMs.



Source: World Bank (2017)

In light of the recent emphases in industrialization promotion backed by the current President of Tanzania, *Dr.John P.J.Magufuli*, it is becoming extremely difficult to ignore creating enabling environment for investors. This features on the ongoing policy improvement including the review of Sustainable Industrial Development Policy (SIDP) of 1996 and the Integrated Industrial Development (IIDS) that focuses on creating supportive environment for investment. Like in other EAC countries, Tanzania appreciates TRIMs in promoting private sector and the public to invest in industrial sector, especially manufacturing industries such as textiles and agro-processing industries as being implemented by the government. The second Five Years Development Plan (FYDPII) underscores and articulates areas of priorities for industrialization. This includes agricultural related investment such as agro-industries and manufacturing industries. The plan directs all the sub-national levels such as the local governments to identify and earmark areas for investments. The plans urge every local authority or district to have a land bank for either industrial parks, SMEs clusters or other investments such as agriculture. In this regard, the stylized facts in industrialization is translated from a number of promotion strategies and attractive policies. Among others, Tanzania through the National Development Corporation (NDC) has established Special Economic Processing Zones (SEZs) within designated zones (such as Benjamin Mkapa SEZ in Dar es Salaam and other areas identified for EPZs include Tanga, Mtwara, Kigoma, Mbeya and Kilimanjaro), Export Processing Zones (EPZs) (such as; Hifadhi- Ubungo Dar es Salaam, Kisongo-Arusha and Bagamoyo).

Currently, the government through the Ministry of Trade, Industries and Investment (MITI) is preparing a blueprint for simplifying trade and investment procedures. The aim is to reduce the cost of doing business such as harmonization of regulatory authorities, to have one stop center and removal of unnecessary licenses or fees, hence, furthering competitiveness of business environment for both local and foreign investors. *With this* *concern, many stakeholders presently appraise the government positively for undertaking regular dialogue between private sector and the government. The aim of this discourse is to chart the enhancers and bottlenecks on doing business and investing in Tanzania, as well as the hindrance of industrial growth. ''Interestingly, the President of Tanzania chairs the dialogue while the Tanzania Private Sector Foundation (TPSF) representative stands as a secretary. Additionally, the MITI established a help desk for investment and trade to investors or traders. This is a good indicator that attract and invites investors'' said representatives from Tanzania Chambers of Commerce, Industries and Agriculture (TCCIA) and Confederation of Tanzania Industries (CTI)*.

Impact of TRIMs on Industrial Growth

In Tanzania, industrial growth has been at the forefront since Tanzania gained independence in 1961, however, with varied legislations, strategies and policies over time. The country being a member of the EAC and WTO has formulated and adopted many enabling frameworks towards industrialization including opening up the economy, introduction of vision 2025 focusing on nurturing promotion of industrialization, introduction of tariffs and non-tariffs incentives. The sustainable development policy (SIDP) and its strategies namely integrated industrial development strategy (IIDS). This trade related investment facilitations aided the country especially private sectors to export and import at their own capacity level. Opening up the economy facilitated domestic and foreign investors to invest at their own scale.

Broadly, TRIMs appear to display both positive and negative attributes towards industrial growth in Tanzania. Many stakeholders argue for negative features by identifying that there is no guarantee that protection policy will foster industrial growth. For instance, in Tanzania such policy failed in the 1970s because of different reasons including laxity of individuals in doing work and less accountability. Currently, the existing strategies towards industrialization growth is somewhat unclear. There is a conflicting interest between policy and implementation. The direction of industrialization is more domesticated neglecting to attract more foreign investors to have technological trickle down effects which promotes competitive quality productions.

Alongside, stakeholders emphasize that there is no specific guide on how, which sector and where to industrialize. This is because similar manufacturing industries being clustered in the same area instead of being strategically allocated and abide by the nation priorities. Evidently, some industries manufacturing similar products are congested in the Coast region irrespective of the national priorities. Thus, there is no direct link between investment and the industrialization policy since the existing second Five Years Development Plan (FYDPII) which puts more emphasis on agro-industries.

However, on the positive side, TRIMs are considered as trade and investment enablers among investors in the context of industrial growth in Tanzania. The government had instituted tax incentives to investing in industrial sector by reducing corporate tax and removing VAT for capital goods imports. Additionally, TRIMs for the least developing countries such as Tanzania is vital. The available local content requirements favors growth of local industries and trade. For instance, in Tobacco industry through the local content supplies, the measures promote Tanzania Cigarette Company that is by introducing excise duties on imported brands, however in other EAC member countries such a measure is looked at as hampering their trade. The same consideration is on the local content in the gas and petroleum, however, the legislation is already in place but implementation is still underway.

Additionally, in boosting TRIMs efforts, government can use different additional dealings that are outside trade and investment policies as suggested by the stakeholders. This include:

- Knowledge capital investment:
- "*investing in knowledge capital built from within and outside, is one of the best ways to establish public specialized training centers such as vocational training centers that will provide individuals with apprenticeship in industrial knowledge and acquire knowledge from outside", said Representative from University of Dar es Salaam"*.
- Strategic understanding of which areas to compete for attracting foreign investors;
- Offering incentive packages to both domestic and foreign investors instead of segmenting the incentives according to class of investors. This can be either through tax exemption or removal of some Non-Tariffs Barriers(NTBs);
- Institute specific industry promotion such as fisheries and agro-industries through both primary and secondary value chains;
- *"The government should encourage investors to participate more in agriculture related investment such as agro-industries" said representatives from Agro-processors.*
- Harmonization of investment and trade procedures as well as regulatory bodies to have a simplified actions;
- Analysis of sources of raw materials for the industries in place is vital: this will facilitate understanding if raw materials come from within or outside Tanzania as well as helps to produce quality products that do not compromise the phytosanitary standards;
- In terms of trade and investment, government should reduce the cost of investing and doing business in Tanzania by simplifying procedures and harmonization of regulatory bodies such as TBS, TFDA and others. This will involve establishment of one stop center, ensuring sustainable supply of energy/power, and improving infrastructure;
- Promotion of agricultural production: this can be by encouraging value additions, protection of producers at local and global levels, increasing more agriculture experts and extension officers as well as encourage farmers to use of quality seeds;
- Investment fast tracking strategy: this will contribute to accelerate industrial growth by concentrating more on the national investment priorities as stipulated in the FYDPII and ensuring sustainable energy supply such as electricity;
- To increase capacity of local companies, either industrial investment or trade investment in order to meet international certification standard. Thus, local content can be in terms of employment of locals, supply of services such as food and raw materials.

Stakeholders' Perspectives

In spite of the roles of TRIMs in promoting manufacturing industries and trade, the clearly well-defined mechanisms to evaluate their influences are missing in the context of Tanzania. This is recognized as a lacuna that has existed for some years since Tanzania adopted the open economy to date. Apart from the missing monitoring mechanism, there is no national data portal, which facilitate provision of indicative information for assessing effects; instead, the government uses surveys and statistical measures to assess manufacturing industries, trade volumes and investment flows. Notwithstanding, the government also indirectly uses its established institutions and regulatory bodies such as TRA, TFDA, FCC, TanTrade to evaluate the impact of TRIMs. Experience shows that every ministry monitors impacts on its own especially on exports; there is no coordinated control and guide.

However, in absence of the instrument, that directly monitors the impact of TRIMs, Tanzania Business Council (TNBC) assesses the progress. Because of absence of a definite mechanism or coordinated mechanism to monitor impact of TRIMs in Tanzania, planning commissioner oversees all measures.

Since, now there is no clearly defined monitoring mechanism, it will be very unrealistic to gauge out the effectiveness of the mechanism. The necessary call to the government through the ministry of trade, industries and investment is to ensure availability of tacit information on trade and investment such as establishing a national trade and investment data portal. Having a data portal can easily facilitate monitoring of TRIMs impact. With no well-defined monitoring mechanism, a harmonized checking instrument within the regulatory bodies that involve private sector will be of help. Nonetheless, line Ministry should organize such a mechanism that will explicitly monitor progress, hence, training on undertaking monitoring and evaluation is necessary especially to the responsible officials.

Recommendations to EAC's Delegates to the WTO

- Each country has different level in terms of TRIMs but at the end of a day, EAC is to have a common market. ''However, reaching this need all country to have an economic convergence, so, in this regard, the delegates should consider reducing the NTBs and other taxes as abide by the WTO to foster industrial growth and trade competitiveness in the region and beyond, said MITI representative'', Mr. Mmasi;
- The EAC WTO delegates should consider trade liberalization as per country specific, time or blocks including EAC, SADC and COMESA;
- In addition, the delegates should call upon the WTO to oblige or respect the advices or requests made by the investment or trade blocks. Correspondingly, it will be good if the WTO considers the level of development of each country accordingly to their needs in promoting industries and capacity of each member countries, EAC in particular in relation to the TRIMs.

CUTS International, Geneva

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