TRADE, DEVELOPMENT AND POVERTY IN TANZANIA

When does trade reduce poverty, when doesn't it, and why? Key messages on trade and poverty linkages in Tanzania

Economic and Social Research Foundation (ESRF

CUTS International
Consumer Unit Trust Society (CUTS)

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List of Acronyms

ACP	Africa, Caribbean and Pacific
AGOA	African Growth and Opportunity Act
ASDS	Agriculture Sector Development Strategy
BMU	Beach Management Units
CBO	Community Based Organizations
CET	Common External Tariffs
COMESA	Common Market of Eastern and Southern Africa
CPI	Consumer Price Index
CSO	Civil Society Organizations
CUTS	Consumer Unit Trust Society
DfID	Department for International Development
DRC	Democratic Republic of Congo
DTIS	Diagnostic Trade Integration Study
EAC	East Africa Community
EBA	Everything But Arms
EPA	Economic Partnership Agreement
EPZ	Export Processing Zones
ESRF	Economic and Social Research Foundation
EU	European Union
FDI	Foreign Direct Investment
FTA	Free Trade Area
GDP	Gross Domestic Product
GSP	Generalized System of Preferences
HIPC	Highly Indebted Poor Countries
IF	Integrated Framework
ILO	International Labour Organization
IMF	International Monetary Fund
LVEMP	Lake Victoria Environmental Management Project
MCC	Millennium Challenge Account
MDAs	Ministries, Departments and Agencies
MDG	Millennium Development Goals
MKUKUTA	Mkakati wa Kukuza Uchumi na Kuondoa Umasikini
MKURABITA	Mpango wa Kurasimisha Rasilmali na Biashara za Wanyonge Tanzania
MTS	Multilateral Trade System
NBS	National Bureau of Statistics
NGO	Non Governmental Organizations
NSGPR	National Strategy for Growth and Poverty Reduction
NTB	Non Tariff Barriers
NTE	Non Traditional Exports
NTP	National Trade Policy
PPP	Public Private Partnership
PRBS	Poverty Reduction Budget Support
PRS	Poverty Reduction Strategy
PRSP	Poverty Reduction Strategy Paper
RTA	Regional Trade Agreements
SADC	Southern African Development Community
SME	Small and Medium Enterprises
SPS	Sanitary and Phyto-sanitary Measures
SSA	Sub Saharan Africa
TDP	Trade Development and Poverty
TNBC	Tanzania National Business Council
UNDP	United Nations Development Programme
URT	United Republic of Tanzania
USAID	United States Agency for International Development
WTO	World Trade Organization

1. Background on Trade, Development and Poverty (TDP) Project

Does it matter whether international trade impacts on poverty? Or it doesn't as long as there is favourable trade performance? If it does, then how does trade impact on poverty reduction? Are there linkages between the two? If so, where are the linkages, why and where aren't they?, what needs to be done to make the linkages more effective? These are complex questions which need answers to make policy and trade liberalisation useful and thus win public support.

Tanzania in collaboration with Development Partners have made several attempts to answer these questions by mainstreaming trade in poverty reduction strategies, and by undertaking initiatives such as the Integrated Framework (IF) and preparation of the Diagnostic Trade Integration Study. More generally, international community stepped up various commissions to address global trade and poverty related issues. These commissions include ILO's World Commission on Social Dimension on Globalisation, Blair's Africa Commission, UNDP's Millennium Development Goals (MDGs); and USAID's Millennium Challenge Account – MCC, among others).

Such emphasis on poverty reducing role of trade inspired the Consumer Unit Trust Society (CUTS) of India to establish a global research project to address the linkages between Trade, Development and Poverty reduction (hereafter referred to as TDP). The four year (2005—-2008) project covers 14 countries including Tanzania and two donors (The Netherlands and DfID). The project has two components: research and advocacy, where ESRF is implementing partner for Tanzania.

The research component includes an initiative to conduct country case

studies to inform on the linkages between trade and poverty reduction. The advocacy component is implemented through publications, policy dialogues and preparation of campaign (an advocacy) kit. This booklet serves the purpose of the campaign kit (hereinafter, "*the Kit*") for Tanzania. It has been designed to describe the complex relationship between trade and poverty using simple language and clear messages on trade-poverty linkage with popular and relevant illustrations. The messages cover four broad areas or questions as follows.

(i) Is macroeconomic and trade policy environment conducive for poverty reduction?

(ii) What is current status of poverty reduction and how can trade policy contribute in addressing the problem?

(iii) What are the conditions for effective linkage: where does it work, where doesn't it and why?

(iv) Textile and Fishery Case Studies: Any useful Lessons?

The first question contains two messages. One is that the achieved macroeconomic stability and growth in Tanzania is necessary but not sufficient for addressing trade-poverty linkages. More needs to be done to enhance effective participation of the poor in trade and related activities. The other message is that trade liberalization has both losers and winners.

The message for the second question is that reducing poverty is a monumental task in which a pro-poor trade could make a positive contribution. The third question identifies conditions for effective trade-poverty linkages; while the messages in the fourth one summarises evidences and lessons from two case studies: textiles and fisheries for strengthening the linkages.

The kit is structured as follows. After this section, section two describes the macroeconomic and trade policy environment, followed by a brief exposition of the level of poverty in Tanzania in section three. Section four outlines the conditions for trade to impact favourably on the poor (or for effective trade-poverty linkage) and how they apply to Tanzanian case. Finally section 5 presents key findings or issues from the two case studies (textiles and fisheries).

2. Is the Macroeconomic and Trade Policy Environment Important for Poverty Reduction?

2.1 Macroeconomic Policy Environment

Tanzanian economy, like other Sub-Sahara African (SSA) economies, is characterized by a large traditional rural sector and a small modern urban sector with agriculture accounting for about half of GDP, providing 85% of exports, and employing 80% of the work force. The manufacturing sector is small but contributes to less than 10 percent of GDP, while the service sector is thriving with impressive growth of tourism, banking, transport and communication, real estate and retail business.

It is not entirely clear, whether the low level of poverty reduction is due to lack of trickle down, inappropriate growth, irresponsiveness of the poor, or some combination of these factors.

After 1980's economic crisis, Tanzania embarked on serious economic and policy reforms to improve performance of the economy. The state withdrew from direct involvement in commercial and production activities in favour of the private sector. The government remained as facilitating agent and setting up conducive environment for smooth operations of the private sector. These reforms, intensified under the third-phase government, accelerated the country's economic growth. Since 2002, the economy had been growing at

about 5 percent per year, with 5 per cent inflation rate in 2000s, and stable interest and exchange rate regimes, and more sustained reduction in fiscal deficit (as % of GDP).

Policy environment also improved (after mid-1980s), attracting more aid and FDI, which boost up government budget and private sector and investment growth. However, although the government had put up elaborate policy frameworks for poverty reduction (Poverty Reduction Strategy Paper – PRSP), the level of poverty is still high.

The critical challenge ahead is how to effectively avail the benefits of growth to the poor. But it is not clear (from the literature or policy documents) whether the low level of poverty reduction is due to lack of trickle down, inappropriate growth, irresponsiveness of the poor, or some combination of these factors.

2.2 Trade Policy Regime

As part of the ongoing reforms that started in 1985 and heightened in early 1990s, the government adopted trade liberalization and opened the economy to the external markets for trade, investment and other forms of capital flows.

Tanzania has lowest average tariff compared to most SADC and COMESA countries

Trade policy has sought to promote exports (especially of manufacturing) and simplify export and import procedures, in the context of increasing economic growth and reduce poverty. The National Trade Policy of 2003 recognises trade openness as a prerequisite for economic development (URT, 2003). Such policies led to reduced import restrictions, liberalised foreign exchange transactions, and simplified tariff structure, among others.

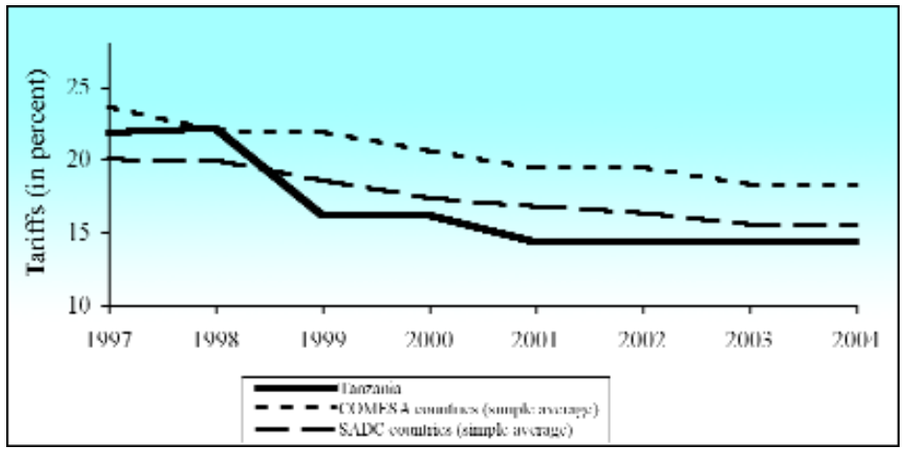
Under the current trade regime, capital goods and unprocessed material imports enjoy zero tariffs while most unfinished products are subject to a maximum of 25 percent tariff. The financial, telecommunication and transport sectors have been liberalised. But restrictions to imports do still exist in terms of licensing, minimum dutiable values and suspended duties, among others.

The performance of manufacturing sector is not impressive, and the country exports less than what is imported, resulting to increased trade deficit. Part of the problem is low level of competitiveness of the economy that renders exports less competitive.

The trade policy also emphasises regional integration and commitment to the Multilateral Trade System (MTS) as potential means to increase trade opportunities. Tanzania is a member of two regional blocs: The East African Community (EAC), and The Southern African Development Cooperation (SADC) established in 1999 and 1992 respectively. The three EAC partner states— Kenya, Tanzania and Uganda, have established a Customs Union whose protocol was signed on 2nd March 2004 and became operational in January 2005.

Tanzania changed its trade policy regime after the Custom Union came in force, and adopted EAC's Common External Tariff (CET), which saw the country lowering its average tariff from 13.8 to 12.3 per cent. In fact, Tanzania is one of the countries with lowest average tariff than many countries in the COMESA and SADC regional blocs (see figure 1).

Figure 1: Simple Average Tariff in Eastern and Southern Africa



Source: Adopted from World Bank's DTIS (2005) study.

2.3 Export Performance and Competitiveness

Tanzania's exports recorded significant growth since 1990s. But when compared to regional and global standards, the growth rate is still low. The country's exports grew by 8.6 percent on average between 1991 to 2004, with European Union being the major importer of Tanzania products.

Increasingly, regional partners are becoming potential markets for Tanzania. They include South Africa and Kenya, Malawi, Zambia, DRC and Uganda. Initially, Tanzania export composition included mainly traditional cash crops, but the trend has drastically shifted to non-traditional products (especially mining, fish, horticulture and tourism). The limited export performance is largely contributed by low level of entrepreneurship, productivity and competitiveness.

A one percent increase in the Developing Countries' share of world exports would lift 128 million people out of poverty.

3. What is the Current Status of Poverty Reduction and How Trade Policy can contribute in addressing the problem?

In a poor country like Tanzania, the main issue is not only the extent in which trade policy has reduced poverty, but identifying the link and conditions through which such impact can occur. From the literature, trade can positively impact on poverty reduction if the poor can effectively participate in the production of tradable goods and services. In addition the poor countries need preferential access to international trade opportunities (market access). And more importantly, the internal barriers in the production and exchange of exportable goods and services must be dismantled for trade to reduce poverty. However, before discussing the linkage between trade and poverty reduction, it is important to examine the status of poverty and poverty reduction in Tanzania.

Tanzania's poverty indicators are higher than for the average of low-income countries and in most cases worse than in Ghana, Kenya and Uganda.

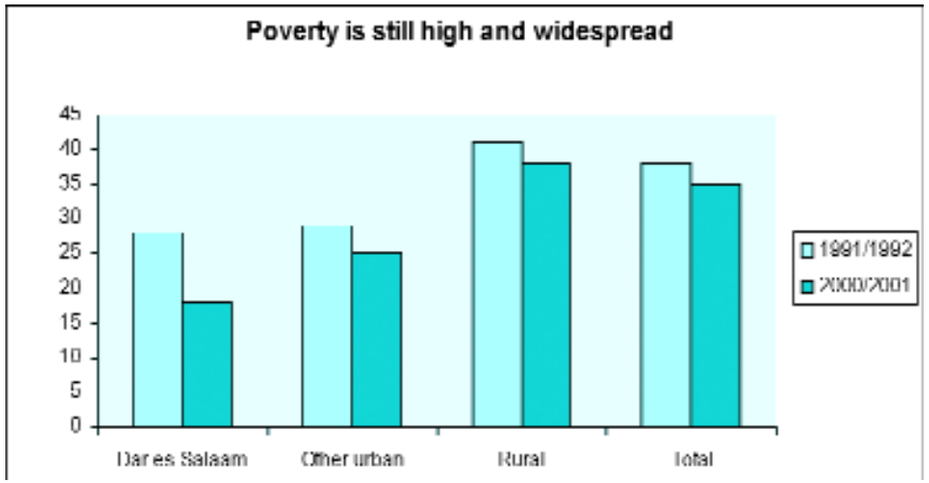
The first Poverty Reduction Strategy (PRS) implemented between 2000 – 2003, and which was sector based, focused on sectors that were considered more important for poverty reduction. These included most social sectors such as education and health, and rural infrastructure. Trade was not explicitly covered but represented in broad trade objectives under the agricultural heading. However, in its second phase, the PRS shifted from sector-based to outcome-based approach, which requires every sector to identify strategies for meeting those outcomes. The second PRS recognized trade as an important component of the strategy.

Despite these strategies, reports shows that poverty has not declined substantially, but prospects are there given the short period since these strategies were put in place. According to the recent Household Budget Survey, over 11 million Tanzanians live below poverty lines, 87 per cent of them in rural areas. This represents about 36 per cent of the national population. The level of poverty in Tanzania is higher if compared to the neighbouring Uganda and Kenya.

Poverty in Tanzania is overwhelmingly rural, with more than 11 million people below the poverty line. Addressing poverty can only be effective by addressing constraints in the rural areas

Widespread rural poverty is largely accelerated by low productivity/capacity, frequent drought and limited access farm inputs and markets. The massive rural-urban migration creates two problems simultaneously: depletes labour inputs that would have been used in agricultural production and at the same time add pressure of unemployment in the urban sector – thus aggravating urban poverty. About 650,000 people are seeking for formal employments annually, but the sector has the capacity to accommodate only 40, 000. Lack of a comprehensive social security (which cover formal sector only) systems to protect incomes amplifies poverty and vulnerability. Figure 2 shows that only in Dar es Salaam did the poverty level fall to some extent, but in rural and other urban areas, poverty reduction was insignificant.

Figure 2: Share of people below the poverty line in urban and rural areas



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

But how can trade contribute to reducing poverty?

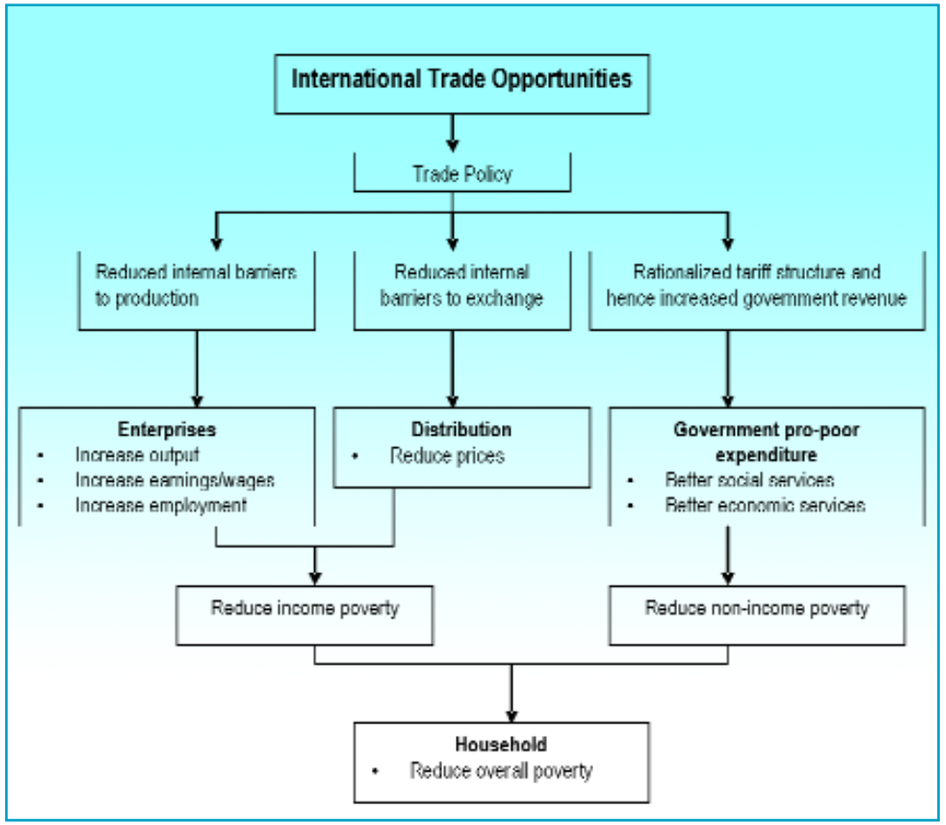
Trade can serve as essential tool in poverty reduction if we can identify the link and conditions through which such impact can occur or become more effective. The TDP project identified three important channels through which trade can reduce poverty. First, trade can impact on poverty through enterprises performance. That is, by enterprise earning profits (hence income to owners of capital), paying wages (income to owners of labour power) and increasing employment (reducing number of unemployed).

The second way trade can reduce poverty is through distribution efficiency. This happens when the transportation and communication infrastructure are improved to allow faster and wider transaction of goods and services with several benefits. Improving the distribution channels will help to increase market access and enable people to earn more income. Reduced prices consumer goods would increase the purchasing power by the poor and thus improve their living standards. Increasing range of consumer goods will improve people's welfare and adding opportunities for retail trade (self employment). These effects are likely to benefit more rural areas where majority of poor lives.

An important issue in the effects of trade on poverty for developing countries such as Tanzania is not only about the impact of trade on poverty but the link and conditions through which this impact can occur

Third and finally, trade can influence poverty through fiscal policy, i.e. the government revenue from trade may increase pro-poor expenditures, or the exemptions and subsidies to correct market failures or protect the poor affected by fluctuation of prices on the international market. In the fiscal channel, the government needs to direct more income it collects from the international trade in the form of tax, to poverty reduction interventions. Thus, effectiveness of this channel will largely depend on the government allocations to the poverty reduction. These links are shown by Figure 3 with arrows indicating flow of trade-poverty reduction effects.

Figure 3: Conceptual Framework on the Linkage between Trade and Pover



4. Conditions and Evidence for Effective Trade-Poverty Linkage

In development policy, promotion of international trade is considered as a means to reduce poverty, not an end in itself. Linkages between trade and economic growth, and economic growth and poverty reduction are well established in the literature, but there is insufficient practical evidence to prove the strength of this linkage.

The TDP project has come up with key messages on the linkage between trade and poverty reduction. In this section, the Kit presents these messages and outlines eleven conditions that will make trade-poverty linkage effective in Tanzania. Under each condition, the Kit outlines the key argument or findings from the TDP project, and issues to be addressed by various stakeholders regarding the existence of these linkages.

First condition: Thou shall embrace a pro-poor trade policy

Key message from the TDP project

Trade will impact favourably on trade if the design of trade policy is influenced by the strategic interventions for reducing poverty.

Recently, Tanzania registered impressive economic growth largely attributable to the economic reforms and liberalizations policies implemented since mid 1980s. For example, Tanzania's average GDP growth during 2000 – 2005 of 6% has been high, not only compared to the previous years but also in an international context. Associated with this performance is a significant growth of international trade, where growth of export and imports contributed about 60% of the average GDP growth

rate between 1990-2004. However, this performance has not translated into significant poverty reduction.

One way to enhance the impact of trade on poverty is promotion of exports in sectors that are labour intensive. Such sectors include textiles, fishery, horticulture and traditional crops. This is because labour is the major resources of the poor. In 1980s, for example, the textile sector was the largest employer employing about 37,000 people, and largest exporter of manufactured goods. Promotion of agricultural exports and related activities may reduce poverty if trade policy is well integrated with other sector policies.

Issues to be tackled

One of the major problems facing agriculture exports is low and unstable prices in international markets hence unstable and declining income to farmers. One solution to this would be to increase value addition in these

exports, but the big obstacles, amongst others, is high protection of developed countries' markets in form of technical barriers, but also the high subsidy offered to their farmers.

Domestic obstacles on production and exchange also need to be addressed. Setting good policies is not adequate. Part of the implementation problems arise from Government's lack of resources and commitment. In the case of commitment, a good example quoted in the World Bank's Diagnostic Trade Integration Study (DTIS) is the issue of EPZ in which there is obviously weak commitment. All in all, the government needs to continue supporting the agriculture exports despite it dismal performance by pursuing strategic interventions to improve performance, including policy coordination, extension services and special skills on such technical issues like trade negotiations.

Second condition: Thou shall take good care of employment-intensive sectors which are hurt by liberalisation

Key message from the TDP project

Since the effects of trade liberalisation do not discriminate between important sectors for poverty reduction, trade policy should focus support where the poor are adversely affected by trade liberalisation.

When trade liberalisation is undertaken in an economy, some sectors will win and others lose regardless of their importance on poverty reduction. Normally, trade liberalization shifts production towards sectors which the country has comparative/competitive0advantage (i.e., the ability to produce profitably) regardless of its other benefits to the economy.

Introduction of trade liberalization in Tanzania triggered a shift in exports from

traditional to non-traditional sector, which contribute significantly to economic growth. At times, sectors' contribution to growth may not lead to poverty reduction. The role of trade policy focuses on building competitiveness for growth and poverty reduction. This role can therefore best be achieved by supporting sectors that are labour-intensive, that is sectors employing more labour than capital (especially traditional export crops, textile, fishery, and horticulture), and by promoting value addition in the primary exports.

Issues to be addressed

The main issue is to explore opportunities to review some of the sectors by directly linking measures to attract foreign direct investments (FDI) to existing export market opportunities. A large of per cent of foreign capital have gone to mining sector, which has less impact on poverty reduction, compared to, for instance agriculture or manufacturing sector.

Third Condition: Thou shall not let thy domestic policies fight one another but serve one another's development objective

Key message from the TDP project

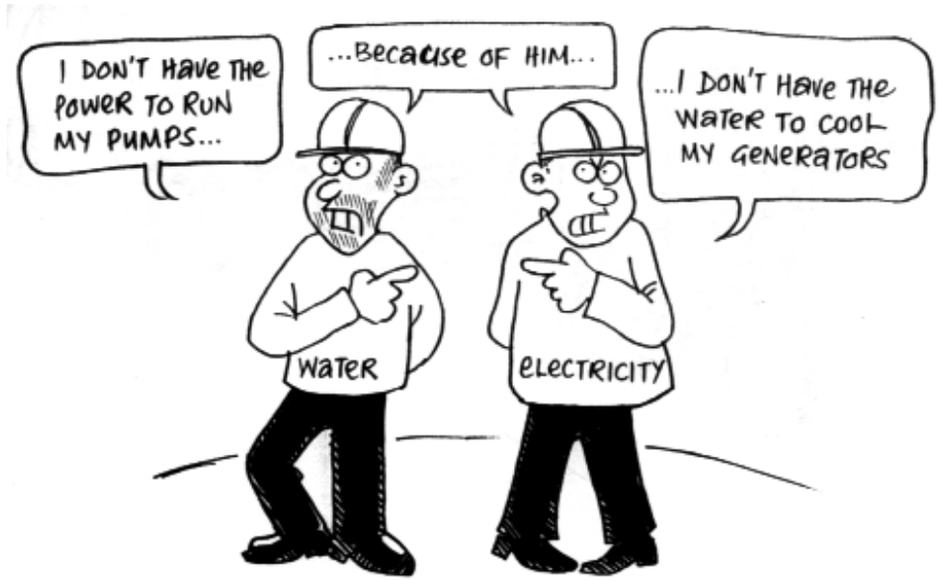
The role of trade in poverty reduction can become more effective if trade policy review and implementation consistently correspond with that of other complementary sectors.

As a common development policy objective, poverty reduction is considered a cross-cutting issue. Proper co-ordination of stakeholders and sectors is needed to link objectives of trade policy and poverty reduction. Basically, we have producing sectors (agriculture, manufacturing, tourism and mining), trade facilitation sectors (transport and communication, marketing, information etc.) and support institutions (banking, investment promotion, fiscal and monetary policies). Often, these sectors lack coordination, leading to inconsistency in the implementation of policies for various sectors.

For example, while the National Employment Policy encourages the development of rural off-farm employment, the Ministry of agriculture in its Agricultural Sector Development Strategy (ASDS) considers off-farm employment as a competitor for limited rural labour supply. Furthermore, trade liberalisation policy assumed existence of complementary policies to support private sector tape opportunities brought about by liberalisation, but that was not the case.

Issues to be addressed

The current effort to mainstream all the sectors policies in the National Strategy for Growth and Poverty Reduction (NSGPR) is commendable. However, actions are required to improve coordination to enhance consistency and effective implementation of policies in different sectors.



Fourth Condition: Seek ye first the Public-Private Partnership and everything else shall be given in surplus

Key message from the TDP project

What makes PPP work for the Nile Perch quality reassurance for export to the EU market that can't work in other sectors of similar importance need to be examined?

An inherent component of economic policy reform and trade liberalization policy is to rely on the private sector as an engine of growth leaving the government and its institutions as facilitating agents. This presupposes existence of smart partnership, which is vital for effective implementation of (including trade) policies, increasing productivity, and attaining growth for poverty reduction. One hand, for policy

objectives to be achieved, the government has to work closely with the private sector. On the other hand, the private sector can only flourish if the business operating environment, infrastructure and social order are in place; aspects which are influenced by policy formulation and implementation. It should also be appreciated that the private sector is the generator of tax revenues for government.

One of the best practices in PPP picked by the TDP project is the fisheries, where the government worked hand in hand with the private sector to make sure that the EU quality certification for Nile Perch exports to EU market is reinstated and maintained. Today, the fishery sector has been instrumental in moving many Tanzanians out of abject poverty, just because PPP worked effectively. An interesting question follows: what made the PPP work in the case of fishery quality certification that cannot work in other sectors?

Issues to be addressed

The main challenge is to establish an efficient public private interface. Existence of the Tanzania National Business Council (TNBC) is a good start. There is obvious need to widen participation in such bodies so as they are reflective of wider private sector (including domestic small scale) and also at Local government level. The government should address the low level of contract enforcement and predictability of regulations as part of the measures to improve business trust and the working environment.

Fifth Condition: Thou shall rectify thy labour market for it to serve thy poor people out of poverty

Key message from the TDP project

International trade presents ample opportunities for employment in expanding sectors but often the poor are ill equipped to tape. Improving bargaining power and skills for the poor is key for trade to reduce poverty.

One of the sure ways trade can impact favourably on poverty reduction is by generating employment. But employment can be generated more predictably and beneficially if the labour market (demand and supply of jobs, skills and labour) is functioning. As noted earlier, liberalisation expanded employment opportunities in competitive sectors, but contracted jobs in industries that closed or cut down production due to stiff competition posed by imported products. Currently, the government has reviewed its poverty reduction strategy and focus on growth and employment as drivers of poverty reduction. But some obstacles abound.

First, most of Tanzanians lack skills that are required by new or flourishing sectors. In post-liberalization period, for example, the textiles sector employed high skilled labour relative to the period before liberalisation. Second, trade unions have not been effective in ensuring workers welfare, especially those at lower skill levels. Weak labour unions and high taxes have resulted in the casualisation of labour and increased labour insecurity.

General increase in economic growth and investment opportunities

expanded informal sector and SME employment opportunities. Increased imports of cheap finished goods due to liberalisation provided self-employment opportunities to street hawkers.

Currently, the government has reviewed its poverty reduction strategy to emphasize the growth and employment aspects.

As a result of these factors, the size of informal sector and share of self-employment has increased tremendously following trade liberalisation. Apparently this expansion and informal sector employment has contributed immensely to poverty reduction at an individual and sector level. For instance, women trading on dried fish and Nile Perch punks for local consumption have made big changes in their lives, let alone the youth who drop from school to engage in fishing business and become rich. In textile, some of the poor who engage in selling second-hand clothes (*mitumba*) have made fortunes, and too many others have found lifetime employment.

Issues to be addressed

The challenges of formalising the informal sector are formidable. Initiatives to step up the Informal property formalisation program (MKURABITA) are a good start to facilitating formalization process. In addition, efforts to introduce the new labour law are commendable. However, trade unions need to be strengthened through involvement of non-state actors and capacity building initiatives. Furthermore, the government needs to improve skills of poor to help them cope with competitive labour market. Support to SMEs and off-farm business activities can contribute to reducing undue rural-urban migration and hence reducing rural poverty.

Sixth Condition: Thou shall promote value addition in thy productive activities

Key Messages form the TDP project

Adding value to exportable goods moves the poor further from poverty by connecting the poor closer to the world markets.

Obviously, value-added products fetch much higher prices than primary products in the world trade. But on one hand, developed countries' have introduced conditions (such as quality, product description etc.) which act as barriers (popularly known as non-tariff barriers - NTBs) to discourage importation of high value added products into their markets. On the other hand, there is a tall order of constraints that inhibit value – adding activities, such that sale of primary or processed products becomes cheaper option. These are none than the usual supply side constraints relating to infrastructure, finance, human resources and regulatory environment.

Issues to be addressed

To realize value addition, government and other development partners should work hand in hand in addressing the existing supply obstacles,

especially those related to policy implementation, direct capacity building support for accessing technology, finance and skills, and undertaking sunk cost of installing infrastructure and utilities. The current achievements in attracting foreign investment need to be sustained since foreign investors have an advantage in technology and skills.

Seventh Condition: Thou shall address, and not curse industrial organization agenda of the poor

Key messages from the TDP project

One of the important observations from the TDP case studies is that, the poor are often identified with the lower segments of the value chain, and thus have benefited marginally from the international trade opportunities. Since most poor lack skills and bargaining power, they are most vulnerable to trade liberalisation. Poor farmers earn less from their exports because of their inability to access market price information, and are further made vulnerable by the fact that their produce have no alternative use or competing buyers. In the case of fishers, for instance, lack of associations for fishermen have eroded their potential bargaining power, hence earn lower price than should.

Getting the poor stakeholder organised to pursue their common interests can improve their benefit from trade substantially.

Issues to be addressed

The challenge is how to make the market forces fair to all players from both poor and rich nations. It is important that such stakeholders as government or NGOs provide public education to inform smallholder farmers and businessmen about world market prices. Civil societies should sensitise the small farmers and business to organize themselves in associations.

Eighth Condition: Thou shall never ignore the role and struggle of a woman

Key messages from the TDP project

It is clear that a trade policy that ignores gender issues may be missing important opportunity to address poverty.

The urge to incorporate gender issues in strengthening trade-poverty linkages cannot be neglected, at least for three reasons. First, the level of poverty is higher amongst women compared to men. Women are paid less even for the same qualification, and they often work longer than men. It is also factual that, women constitute a larger share of unskilled workers, and are a less share of skilled and managerial/professional workers. Second, in most rural societies, women bear the brunt of agricultural production (in addition to their reproductive roles), while men do lighter jobs and are usually not obliged to do any work. Finally, given the fact that women perform most of the household (and productive) works, caring for family welfare, interventions that increase women's income

are likely to have wider and positive impact in raising family welfare. Clearly, this is consistent with the saying that: "if you educate a woman, you educate the whole family…"

Thus, by enhancing gender equality, trade policy stands better chance of reducing poverty by increasing ability of women to benefit from opportunities brought about by international trade.

In textiles and cotton growing regions, women are normally employed as casual labourers (usually constitute about 25 percent of casual labour) and due to the low wages they do not benefit from wage employment. In the fisheries sector, women prepare meals for fishermen and involved in fish hawking, where their businesses flourish as long as the fish export business grow.

Issues to be addressed

In reviewing the trade policy, stakeholders should consider and prioritise gender issues in order to enhance the linkage between trade and poverty. Furthermore, the design of complementary policies or interventions such as human resource development, access to finance or technology may be encourage women to improve the existing gender inequality and inequity.

Ninth Condition: Thou shall render thy fiscal policy a missile of poverty eradication

Key messages from the TDP Project

The use of fiscal resources from trade on poverty reduction demonstrates that increased trade performance is good for poverty reduction.

Trade liberalization has resulted in increased trade both exports and imports. Although imports increased faster than exports, it is beneficial in that the government generate tax revenues by charging duties on these imports. According to the DTIS study by the World Bank, Tanzania's import tax revenue contributed about 40 percent of total revenues since 2001 (excluding grants). The tax revenues obtained from imports can then be used on various poverty reduction interventions or sectors such as infrastructure and social services.

On the export side, Tanzania has abolished nearly all export taxes except a few royalties from the exploitation of natural resources (such as exports of fishery, hides and skins and mining). In terms of Government expenditure, Tanzania has outstripped many African countries on the absolute amounts of government expenditures on poverty reduction. As a result, Tanzania is one of the African countries that have qualified for debt relief. If we compare 23 African countries that have reached HIPC relief decision points in Africa, it is only Ethiopia that has exceeded Tanzania on poverty reducing expenditure.

Issues to be addressed

One of the most critical concerns of the business community in Tanzania is the level of taxation. These complaints exacerbate the claim that the government is not doing enough to nurture the growth of the private sector. However, it is hoped that the on-going preparation of the private sector development strategy will iron out some of these issues. Further, the government levies some royalties on some exports of natural resources such as mining and fishery to discourage depletion but also to collect revenue as one of the means through which the common citizens can benefit from these resources. In the case of fishery exports for instance, the exporting firms complain that the royalty denies them competitive edge over their East African competitors.

In the case of government spending, donor funding still dominates government budget, raising concern on the sustainability of government financing and hence poverty reduction strategies.

Tenth Condition: Thou shall develop road and other infrastructures, and transport services will be efficient and affordable

Key messages from the TDP Project

Transport and communication infrastructure are a blood capillary for trade to function, more so for availing the benefits of trade to the remote rural poor.

One of the many constraints in increasing trade performance is cost of exporting, including the administrative and transport costs. Fees and charges imposed at the border other than customs duty may act as disguised protection and add to

the cost of exporters. Excessively complex requirements and formalities may delay prompt delivery of goods and increase costs. Trade and specifically trade policy has enabled reduction of border prices. But most of Tanzanian consumers especially in rural areas where poverty level is extreme, have failed to benefit from the reduced prices because of high transport costs resulting from poor infrastructure networks.

Issues to be addressed

The government should commit more resources to infrastructure development, and facilitate effective participation of private sector in development and provision of transport infrastructures (through BOT, or BOOT). Generally, the effectiveness of trade policy in reducing poverty will depend on the extent to which internal barriers to production and exchange are addressed.

Eleventh Condition: It is thee the poor, and not thy neighbour, shall take first step to realise the problem of poverty and determine to seek solution

Key messages from the TDP Project

As noted earlier, unless the poor participate in poverty reduction interventions, the various strategies are less likely to succeed in bring about notable impacts. The poor can participate in two main ways. First and foremost, the poor has to realise the need to move out of poverty so that they can participate in various interventions aimed at reducing poverty. In other words, the poor need to be willing and determined to abhor poverty. Secondly for trade to be pro-poor, the trade policy may provide opportunities for the wider participation of the common people (especially in the rural areas) in the production of tradables.

Issues to be addressed:

Clearly, mass awareness of the level of poverty and existing poverty reduction strategies is an essential intervention for securing participation of the poor. Both State (MDAs) and Non-State actors (CSO, CBOs and NGOs) should collaborate to carry out such public education. First, to raise awareness on the level of poverty and how challenges for its reduction. Second, to inform about the various interventions (e.g. how pro-poor the trade policy is) underlying the national poverty reduction strategy, and the role of various agents including the poor themselves in making them effective. In this case, the poor will realise that they are part of the problem and solution.

5. Lessons from Textiles and Fishery Sub-sectors

Generally, the impact of trade liberalization in Tanzania like in many developing countries has been negative on import competing industries mostly manufacturing, and positive in (especially non-traditional) export industries. To demonstrate the different impacts of trade liberalisation (or broadly, trade policy) on poverty reduction, we examined two industries: a success story (gainers) and a failure case (losers) of trade liberalisation. The selected sectors are: fisheries (a success/gainers) case; and textiles (failure /losers) case.. Fisheries sector is selected because of its expansion in exports, while textiles sector is selected because of its substantial decline in output especially in the mid 1990s relative to high growth of imports.

5.1 Textile Industries

Clearly, one of the notable impacts of trade liberalization for many low income countries such as Tanzania is a significant surge in imports, which worsen the trade balance given the lesser growth of exports. In the case of the textile sector, there are instances of dumping of second-hand clothes and other products, thereby hurting the textile industry and increasing job losses (majority of which are women).

Nevertheless, the textile (including cotton) sector displays strong export orientation in terms of the share of domestic output that is sold abroad but also it has high effective rates of protection. Export potential of the sector basically arise from the large share of export sales to industrialized country markets under preferential access conditions including AGOA (US market) and EBA (European market). Textiles made up about one-fifth of all dutiable

exports from Tanzania to the U.S. in 2002–2003. In addition, some types of textiles can be produced competitively using labour-intensive technologies. These include Tanning and dying (batik) that has recently mushroomed in Tanzania and which enjoy favourable exports in the regional (Kenya and Uganda) markets.

Despite these potentials, the sector suffers a number of constraints, including inter alia, lack of modernization of technologies, diversification of products (integrated mills), unfavourable competition from cheaper imports and high cost of production (especially due to high taxes and transport costs). The points below summarise findings from a case study (focusing on value chain) of the textile sector, organised in order of different issues.

(i) Why a Textile Case Study?

Historically, textile was one of the strongest growth sectors in Tanzania, being one of the largest employer, third largest source of government revenue and exporter, and cotton was second most important export crop.

The sector is trade intensive with numerous value adding and trade concessions opportunities (long supply chain)
Typical failure case of trade liberalisation

(ii) Trade Liberalisation Performance in the Textile Sector

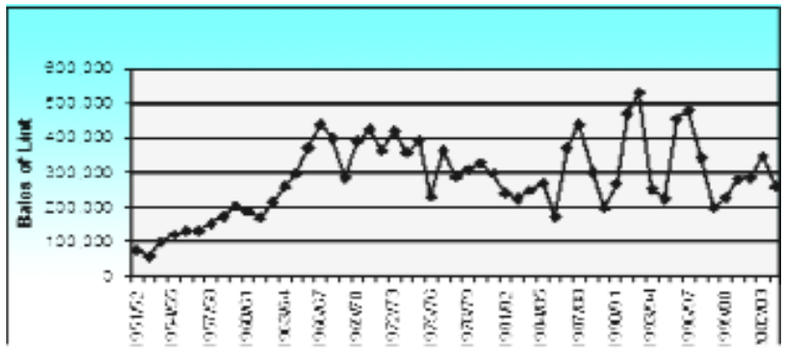
Textile is one of the most hit sectors by trade liberalization since net effects are generally negative.
There have not been effective complementary policies to support the ailing sector out of cut-throat competition, let alone the usual structural constraints.
Different actors in the value chain are affected differently or more/less than others depending on their position in supply chain.
Despite several trade initiatives, textile exports have worsened while imports surges more than ever before.

(iii) Trends in Production

Before 1990s, textile was one of the fast growing sectors with significant manufacturing value added. However, the sector growth slumped following trade liberalisation. Following the economic policy reforms, protection granted to the industry was removed. As a result, the sector was exposed to intense competition that led to notable decline in production and closure of some firms. Figures 4 and 5 respectively show that the trends in cotton production correspond to that of manufacturing industries – an indication that the cotton farmer and textile manufacturer (hence workers) are interlinked to one another. And, that their respective production levels declined to record levels between 1990 and 2000.

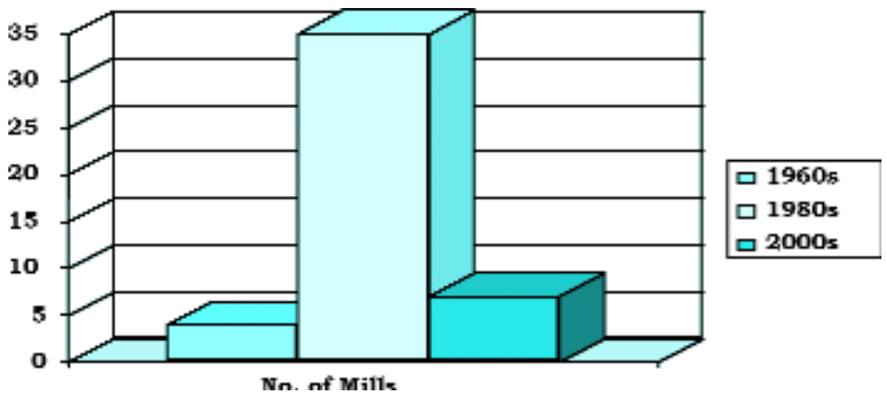
Decline in production has had notable effects on the labour markets in three particular respects. First, there is marked decrease in labour demand (low level of formal employment and wages) given cut in production of factory closures. Secondly, in the aftermath of liberalisation effects, production structure in the textile sector has become less labour intensive due to increased reliance on automated and computerised technology. Finally, the textile industry is characterised by frequent industrial disputes and labour unrests, indicating that industrial organisation issues are important in gauging the poverty reduction impacts. For instance, one of the frontiers AGOA-EPZ mill (Nida) recently closed down due to labour unrest.

Figure 4: Trend in Tanzania Cotton Production (1959/60 – 2002/03



Source: TCLSB and World Bank Commodity Price Data

Figure 5: Number of Textile Mills (1960s, 1980s and 2000s)



(iv) Cotton Marketing Channels and Producer Price

Although trade liberalisation required Government's withdrawal from commercial activities in favour of the private sector, the outcome in most cases in Tanzania has not been up to the expectation. Liberalisation replaced public with private monopoly, essentially cotton marketing is not competitive as there are few buyers (oligopolistic ginneries) after the collapse of cooperative unions.

The marketing channel from the farm to export market (see Figure 6) is long and cumbersome, indicating inefficiencies and high transaction costs that further lower farm gate price. Lack of effective regulation has led to low quality, lower price to farmers and hence low production. It is hoped that the forthcoming Agricultural Marketing Policy (AMP) will address the situation.

Producer price is too small a proportion of word (export) price – reflecting high production and transaction (including regulatory – e.g. Cotton Marketing Board's) costs. Furthermore, the effective price transmission mechanism between export and farm gate prices is limited. As shown in Figure 7, the constant prices imply that profitability has been declining given notable rise in input price.

Figure 6: Cotton Marketing Channels

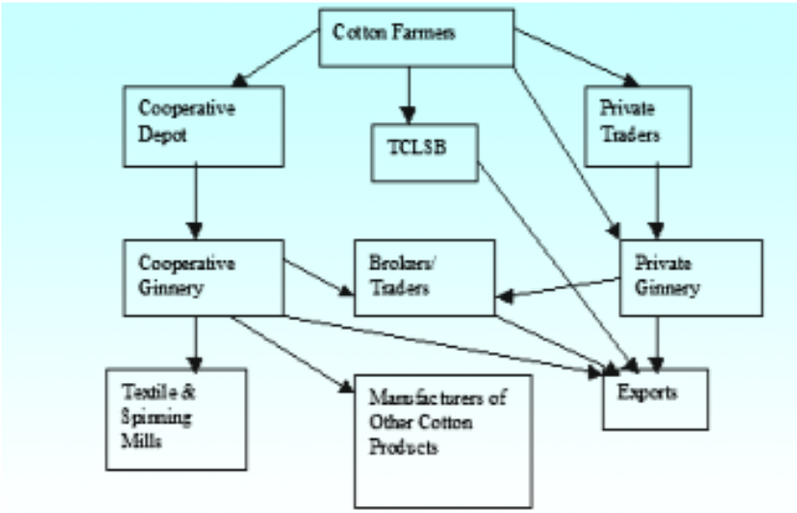
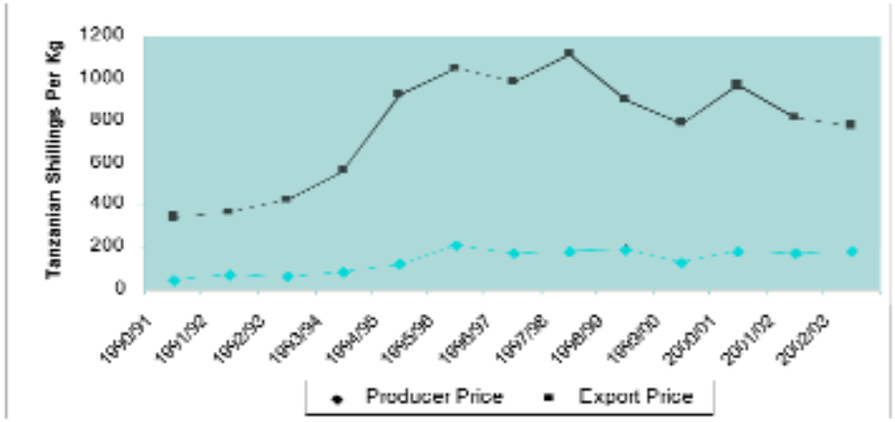


Figure 7: Producer and Export Price for Cotton



(v) Who are the Winners, and who are the Losers, Why?

Below we identify gainers and losers from trade liberalisation of the textile sector by examining how it has affected different agents in the supply chain. These agents include: cotton farmers, transporters, ginneries, textile factories, workers and the Government.

1. Cotton farmers

- Key player and bearer of sector policies, taxes and transaction costs in addition to the usual structural constraints.
- Linked in the chain by the Ginneries, Cooperatives and Government policies.
- They are net losers from liberalisation and victims of poverty

2. Transporters

- They pass prices to Ginneries, middle men, and factories
- Linked in the chain by Ginneries, Middlemen and factories
- Benefited from Liberalisation

3. Ginneries

- Most afflicted by quality and production
- Connects farmer to transporters, exporters, and factories
- Informants and market agents, they do pass prices to farmers and to exporters/factories
- Mostly benefited from trade liberalisation

4. Textile Mills/factories

- Bearers of structural and production constraints
- Victims and beneficiary of trade and investment policy
- Affected by production and transaction costs, part of which are passed to consumers and workers
- Linked to Ginneries and consumers (internal and external markets)
- LOSERS of Liberalisation and orphans of industrial policy

5. Workers

- Basic maker of value, affected by industrial and employment policy, factory practices and welfare programmes
- Usually fight a loosing battle in most industrial actions or complaints
- Linked in the chain by factories and labour laws
- Affected by production trends, production technology, and minimum wage policy unemployment
- NET LOSERS from the liberalisation of the sector

6. The Government

- The Government is policy maker and regulator of productive and commercial activities. As a result, if there are no good policies, there will be no production, and in turn no taxes, no welfare, and no poverty reduction
- The Government need to search for optimal policy balance between extent of protection (industry) and liberalisation (trade)
- Liberalisation is a good policy but a bad one if implemented carelessly or un-strategically
- Globalisation forces abound, the Government LOST the industry, hence tax/welfare
- EPZ/AGOA may help, need maximum commitment

(vi) Concluding Remarks

- Liberalisation has had severe impacts on textile workers and cotton farmers. However, in appraising the effects of liberalisation one ought to exercise a balanced view, since there is always the good thing about bad thing or bad thing about good thing. In any case, there are agents that have gained and others who have lost from liberalisation. The most critical impact has been the collapse of the textile sector, effects of which radiates across and become net loss to those without options.

- The recent trade preferences offered by AGOA, EBA, and GSP and the potential ones in the EPAs and various Regional Trade Arrangements (RTAs) provide huge prospects for the textile sector. But, their performance so far has not matched that of 1970s Tanzania.

- It is important to note, however, that the benefits of liberalisation won't occur automatically, and apparently require existence of complementary policies. But which are these? The list is tall, but priority includes infrastructure (including utilities), regulatory framework, extension services, access to finance, and favourable fiscal and industrial policies. It is also important to put in place an effective social safety nets especially to the vulnerable actors

5.2 Fisheries Sector

In this section we outline key findings/issues on the impact of trade liberalisation on the fishery sector and its role on poverty reduction in Tanzania. Firstly we explain why this sub sector was selected for our case studies. Secondly, we outline the broad/major outcomes of trade liberalisation in the sector. We then identify key findings and issues on trade and poverty linkages before finally concluding with some policy implications.

(i) Why a fishery case study

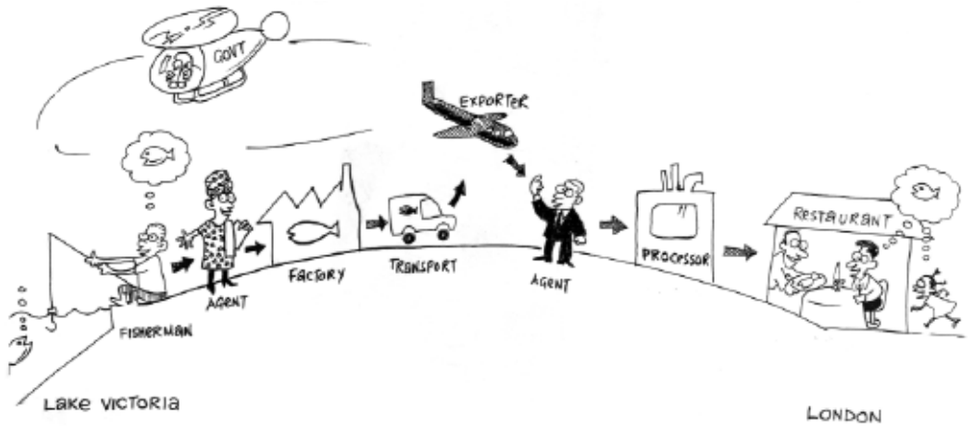
The importance of fishery sector in Tanzania cannot be overemphasised. The sector experienced fast growth in the last decade with increasing share of LDCs exports. Fishery in Tanzania is one of the top three foreign exchange earner after mining and tourism, and it is an important source of employment, food and livelihood to many people, especially those in the fishing communities. Thus, the sector is considered significantly pro-poor.

Policy challenge is how to sustain competitiveness and sustainability of supply.

(ii) Key Outcomes of Liberalisation in the Fishery Sector

There are various impact areas which are largely attributable to trade liberalisation, and have important effects on poverty reduction outlined below.

(a) Impressive performance between 1995 to 2005 as shown by some sector indicators (see Figure 8).



- Number of players (from 2 firms to 27)
- Export contribution (from almost none to 3rd largest)
- GDP contribution from almost none to over 10%
- Notable secondary (employment/output) multiplier effects

(b) Effective price incentive/transmission throughout the supply chain from world market to a poor fisherman

- Price increase following liberalisation

- Significant changes in welfare of fishers and related business
- Momentous increase in fishnets import as domestic supply is feeble;
- Policy support, with a shift from traditional to non-traditional exports, thus boosting fishery export from less than 5% in 1995 to about 15% of total exports;
- Shift from marine to freshwater (LV) fishery

(c) Strong PPP and CBO engagement on:

- Environment (sustainability concerns)
- Quality (market competitiveness)
- Poverty reduction (welfare impacts)

(d) Active collaboration of stakeholders (other than Industry):

- A good number of national and regional NGOs/CBOs in Lake Victoria
- Government collaboration with the World Bank to fund the LVEMP
- Development Partners environmental concerns in the Lake Victoria (notably World Bank, Netherlands and DANIDA etc)
- East Africa Community (EAC): harmonization of policies and interventions on sustainable management of fishery and the Lake
- Firms willingness to collaborate with the Government and abide by set regulations
- Exemplary Beach Management Units (BMUs) initiative

(iii) Main Issues for TDP in the Sector: Efficiency, Risks & Regulation

The following are main issues for enhancing trade-poverty linkages in the sector:

- Quality and standards. Fishery is an SPS-intensive export activity, requiring careful and effective quality control and procurement management, given the high risk of losing the hard earned market.

- Industrial organisation issues – there is obvious need for stakeholders to address cooperation among fish processors and agents in order to enhance collective bargaining, improve the role of agents and current distribution of earnings in the sector. According to the TDP study, lack of associations for fishermen and cooperation with factory agents has weakened bargaining power of the fishermen, hence limited their price response.

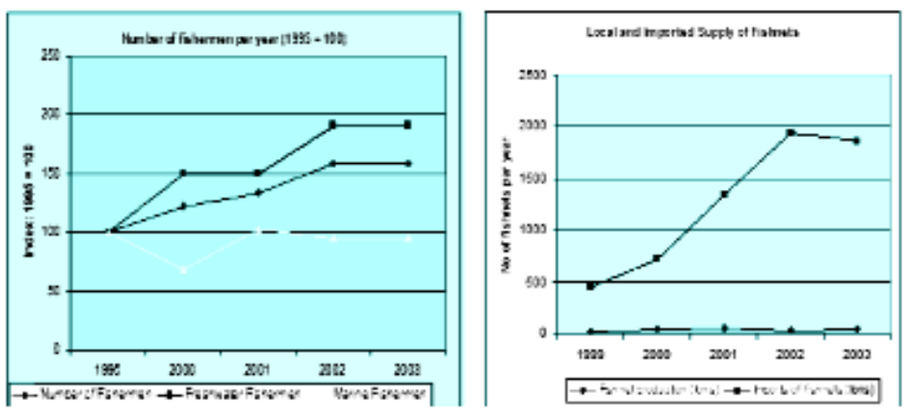
- Food security and sustainability concerns are key issues for consideration by investment or industrial policy in the Lake Victoria. The high demand for fish has exerted an undue pressure on fish stock. High price offered by fish processors have limited the extent of fish sold for domestic consumption, which in addition to general risks of stock depletion, threatens food security role of the fishery sector. The question is whether diversification into alternative income and industrial activities is feasible, and if so, to what extent? What are effects of additional factories – on fish stock, welfare of fishers?

- Liberalisation also has its general down side given a number of social concerns attributed to its impacts. Two are notable in the case of fishery sector and communities. First, the lucrative nature of fishing business has tempted many school pupils to drop out school and engage in the fishing activity in the hope of becoming rich quickly. In this regard, the flourishing fish business has raised the opportunity cost of schooling (in this narrow sense). Secondly, there are ample evidences showing increased violence (due to alcoholism), and HIV/AIDS victims (due to sexual abuse and womanisation) as many young businessmen and fishermen earn increased incomes from fishing. These effects compromise the beneficial impact of trade liberalisation on poverty.

- Gender-biased labour specialisation. The value chain in the case of fishery seems to position women at a relatively lower end of the value

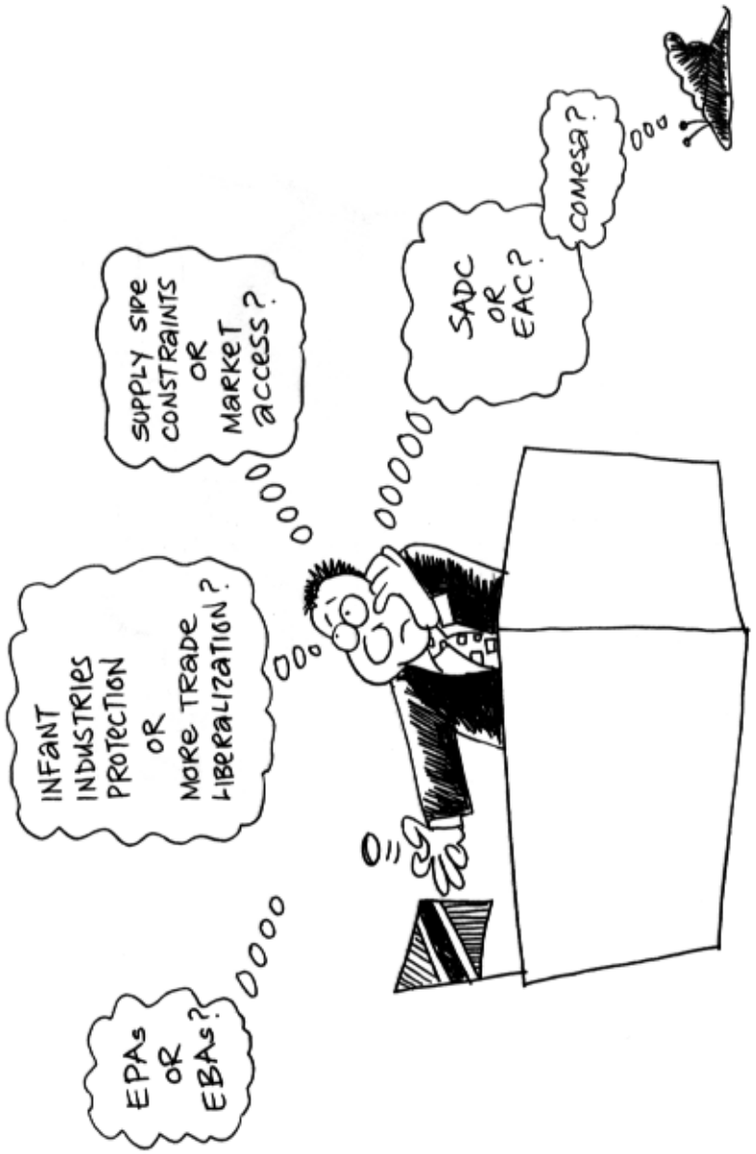
chain, thereby limiting the potential impact on poverty reduction.

Figure 8: Important trends in the Fishery sector



(iv) Concluding Remarks

At this stage, we can draw couple of conclusions and implications. Fishery presents a success story of trade liberalisation, and a demonstration case for government in enhancing the impact of liberalisation. The successes of the fishery sector should therefore be emulated to other sectors. Secondly, the output, employment (and tax revenue) impact have responded positively to the trade liberalisation opportunities, but some social ills have arose that need also to be addressed. Society, just like industries, should learn to adjust to the effects of trade liberalisation. More importantly, the food security and sustainability (including alternative value addition options) issues of Lake Victoria require urgent policy guidance and intervention in order to maintain the current achievements and mitigate potential risks. Finally, the trade-poverty linkages could be more effective if issues of industrial organizations are given due attention and support by various stakeholders in the fishery industry.



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