

**ECONOMIC AND SOCIAL RESEARCH FOUNDATION
(ESRF)**



TRADE DEVELOPMENT AND POVERTY (TDP)

**RESEARCHERS SMALL GROUP
MEETING REPORT**

ESRF CONFERENCE HALL

THURSDAY, 17TH APRIL 2008

ABBREVIATIONS AND ACRONYMS

AGOA	African Growth Opportunity Act
BMU(s)	Beach Management Unit(s)
CPL	Competition Policy and Law
CUTS-CITEE	Centre for International Trade Environment and Economics
CUPUE	Catch per Unit Effort
EAC	East African Community
EEZ	Exclusive Economic Zone
EU	European Union
EWURA	Energy and Water Utilities Regulatory Authority
FCA	Fair Competition Act
MITM	Ministry of Industries, Trade and Marketing
MNRT	Ministry of Natural Resources and Tourism
MSY	Maximum Sustainable Yield
NTP	National Trade Policy
NP	Nile Perch
NSGRP	National Strategy for Growth and Reduction of Poverty
OECD	Organisation for Economic Co-operation and Development
PMO-RALG	Prime Ministers Office – Local Governments and Regional Administration
PRSP(s)	Poverty Reduction Strategy Paper(s)
SACCOS	Saving and Credit Cooperative Society
SADC	Southern African Development Community
SUMATRA	Surface and Marine Transport Regulatory
TAFU	Tanzania Fishers Union
TCAA	Tanzania Civil Aviation Regulatory Authority
TCB	Tanzania Cotton Board
TCLSB	Tanzania Cotton Lint and Seed Board
TCMB	Tanzania Cotton Marketing Board
TCRA	Tanzania Communications Regulatory Authority
TDP	Trade, Development and Poverty Reduction Project
TShs	Tanzanian Shillings
UNCTAD	United Nations Conference on Trade and Development
URT	United Republic of Tanzania
USA	United States of America
WAWADA	Wavuvi Wadogo Wadogo Dar –es-Salaam (Organisation of Small Scale Fishers in Dar es Salaam)
WTO	World Trade Organization

1.0 INTRODUCTION

The Economic and Social Research Foundation (ESRF) is the implementing partner for Tanzania of an international research project called **'Trade, Development and Poverty'** (2005-2008) which involves 16 developing countries and is funded by the Centre for International Trade Environment and Economics (CUTS-CITEE) that is based in India and the United Kingdom. As an essential Advocacy Component of the TDP Project, ESRF organised a Researchers Small Group Meeting on 17th April 2008 at the ESRF Conference Hall. The Meeting gathered individual researchers and research institutions both in the public and private sector, Academia, Ministries, Development Partners, Media representatives and CSOs/ NGOs.

Mr. Aidan Eyakuze, the Meeting Chair, invited the participants and brought the meeting to order. He then went on to present the programme activities and welcomed Dr. Hosea Lunogelo, the ESRF Executive Director, to officially open the meeting. Dr. Lunogelo provided a brief introduction of the ESRF and welcomed the participants to what promised to be a knowledge learning session. He also shared the aim of the meeting and what was expected as the outputs of the meeting. Handing back to the Chairperson, he requested participants to introduce themselves - their names and organisations they were representing. The presenters were then welcomed to begin their presentations.

2.0 PRESENTATIONS

2.1 Background to the TDP Project

The project aimed at examining the linkages between Trade, Development and Poverty reduction in its two components - Research and Advocacy. Questions which were to be answered were (i) whether international trade impacted on poverty? If it did, how did it impact on poverty reduction? (ii) What and where the linkages were and what could be done to make the linkages more effective? These questions are answered in the TDP Campaign Kit, which was developed after the study on two local industries was conducted. The Kit also provides key messages as to what TDP requires for effective linkage between trade and poverty reduction in the country.

The impact of trade liberalisation in Tanzania like in many developing countries has been negative on import competing industries mostly manufacturing, and positive in export industries especially non-traditional exports. Two industries were selected: the textiles and fisheries industries, which have been losers and winners respectively - Fisheries because of its expansion in exports, and Textiles because of the substantial decline in output particularly in mid 1990s relative to high imports of textiles.

2.2. The Linkages between Trade, Development and Poverty Reduction: The Case Studies of the Fisheries Sub Sectors in Tanzania

The research was conducted in 2006 and some of the findings have been implemented. Dr. Lunogelo started his presentation by crediting the initial authors and implementers of the studies being presented could not be amongst the audience as they were now working with other institutions. He went on to say that the fisheries sector was a growing sector and a lot of changes had been noted since the research had been done. The Fisheries sector has significantly benefited from liberalisation and there had been observed rapid growth in international fish trade. Within Africa, the fisheries sector was a significant contributor to poverty reduction. Due to some disputes between seamen and ship owners delaying fishing trips, in 2006, the Fisheries sub-sector only grew by 5% compared to 7.3% in 2005. The study set out to see how workers at the bottom of the production chain are gaining from the sectors increased exposure to international trade through exports, and also explore factors constraining the fisheries sector and workers in the sector.

The paper highlights Key Outcomes of Trade Liberalisation in three segments:

- i. **Labour, Employment and Earnings** - Fisheries contribution to employment has increased employment or business in the form of production of fishing gear (boats, fishnet, etc) and an increase in the number of fish processing factories providing employment to local people. Kulindwa (World Bank 2001) and Jansen (World Bank 2005) argue that industrialisation of the sector has led to an increase in unemployment.
- ii. **Output Prices** – The fish sector operates under forces of demand and supply (the Govt. does not intervene). In the rainy season, fish prices are lower as supply is ample, and vice versa. Increasing trend in the output of fish though at individual level is declining as there are now an increased number of fishermen.
- iii. **Obstacles facing Traders** - Challenges hindering full exploitation of the potential for international fish trade are the high cost of utilities (water, electricity); weak infrastructure (road, railway) which leads to losses of the perishable product; high charges of fish royalties and lack of modern technology - Marine fisheries tend to use a type of fishing gear which has serious impact on the environment, and lack of modern technology for the fish processors leads to low value addition to fish products.

In summary, the presenter noted that in Tanzania, the Fisheries sector can be considered a winner of trade liberalisation as it had increased contribution in total export and increased Govt revenue, and improved livelihood of grassroots workers due to increased employment opportunities & increased prices of fish products. On the other hand, the contribution of the sector is hampered by ill-functioning markets and the fact that Grassroots workers were not taking full advantage of opportunities arising from the increased exposure of the sector to international trade. There were also issues of unsustainable fisheries management, and the fact that the fisheries resources were exploited using the principle of open access rather than

community based management, resulting in threatened food security and long term sustainability of fisheries sector is at stake.

2.3. The Linkages between Trade, Development and Poverty Reduction: The Case Studies of the Textile Sub Sectors in Tanzania

The overall objective of the studies was to analyze how the distributional impact of trade liberalisation had affected the sector in Tanzania, with focus on the labour market. Specifically, the study investigates how workers, who are at the bottom of a production process have been faring as a result of increasing exposure to international trade (either through exports or by facing imports) and what are the constraints that the sector (including its workers) is facing in order to mitigate adverse effects from increasing exposure to international trade.

The paper presents the impact of international trade as a combined outcome of three forces, namely: (i) the structural effects such as trade barriers, infrastructure, and institutional factors (ii) the labour demand effects, and (iii) the labour supply effects.

- i. **Structural effects** – Trade liberalization led to a change in composition of the economy and there was a significant shift in export structure, shift in employment from formal to informal sector, and a negative effect in urban wage employment. Institutional-wise, the number of private sector traders increased.
- ii. **Labour demand effects** – Trade liberalisation in the textile sector caused a marked decrease in formal employment (26.6% -13.1%) between 1991 and 1994, and the pattern changed from a permanent base to temporary. Many companies resorted to temporary employment. Constraints affecting the sectors included unreliable power supply and frequent breakdown of the outdated machinery;
- iii. **Labour supply effects** - The trend in labour income in the textile sub-sector declined relative to other manufacturing sectors despite the absolute increase.

The paper stresses that trade liberalisation and reforms cannot work as stand-alone policies or measures. Undertaking trade reforms and developing trade policies in isolation without the presence of mutually supportive policies will not bring about the full benefits resulting from liberalization. The impact of trade liberalisation and reforms depend on the policy environment and the complimentary policies shaping the situation of countries entering the trade liberalisation (Siphana, 2003). An unfortunate but consistent feature of trade liberalisation, which was also revealed by this study was that not everyone is automatically better off afterwards, at least in the short-term. Compensatory policies are very crucial in order to directly offset the adverse impact of trade liberalization (Winters, 2002), e.g. retaining and assistance in finding employment. Complementary policies on the other hand enhance flexibility of the markets, which reduces the cost of adjustments and facilitate the creation of markets that will benefit the poor. Such policies

include infrastructure support, development of markets (credit market), fiscal incentives and removal of rigidities in the labour market.

The study recommended three areas for policy intervention in order for the cotton and textile sector to benefit from international trade. These were (i) human and physical capital formation, (ii) strengthening of regulatory institutions, and (iii) effective implementation of various policies which are present.

2.4 Effectiveness and Potential Impact of Competition Policy and Law and Regulation to the Economy

Competition is defined as a process of rivalry between business enterprises for customers, occurring when market forces determine trading conditions. A fundamental characteristic of competition is a market economy that is flexible and dynamic, and the markets are responding to demand requirements - availability, lower prices, and higher quality.

The economic reforms that started in the mid-80s led to trade liberalisation measures including privatisation of state owned enterprises and consequently the dissolution of the price commission in 1993. The Government then enacted the Trade Practices Act of 1994, but due to shortcomings in the said law, as spotted during the start of implementation, the same was repealed and replaced with the Fair Competition Act, 2003. As with most developing countries, Competition Policy and Law is also new to Tanzania. From 1986 the Government of Tanzania embarked on a policy and legislation program whose main object was to liberalize the economy. The total effect of these Acts was to reduce direct government involvement in business, remove monopoly requirements in most of government sponsored corporations, protect private investments and create enabling environment for private firms' participation in the economy.

Since the introduction of the economic reforms, many programs have been undertaken towards developing a market led economy. The legal framework for protecting and promoting competition is sufficient as evidenced by the wide mandate contained in the functions of the Fair Competition Commission. The broad objective of the Competition Act is to promote efficiency in the economy and enhance the welfare of the people of Tanzania as a whole. Specific objectives of FCA are to (i) increase efficiency in the production, distribution and supply of goods and services; (ii) promote innovation; (iii) maximize the efficient allocation of resources and (iv) protect the consumers. A well designed and implemented competition policy promotes economic growth by ensuring better allocation of resources. The competition policy had roles to fulfil – (i) protecting the interests of consumers – this is the basic role of the competition policy. It protects consumers and industrial users from anti-competitive practices that raise prices and reduce output (WTO, 2004). (ii) An agent of trade (economic) policy – as Osakwe (2001) emphasises, in many cases, failures of trade liberalisation to generate sustained development and growth can be traced to a failure to introduce complementary domestic policy reforms. This can prevent countries from the potential gains from external liberalisation, by inhibiting an appropriate supply response.

The paper goes on to say that the competition law became an instrument for generating optimal outcomes by directly influencing market structure (e.g. merger control) – through the relationship between market structure, market conduct and market results. If prices increase as a result of market concentration, then mergers must be closely scrutinised.

The presenter ended his paper by noting that with Policy coherence, consistency and complementarity was important, as there was need for the competition policy to be an integral part of overall national policy framework.

3.0 PLENARY DISCUSSIONS

The chairperson began the discussions by posing a food-for-thought point to the audience about one of his studies conducted in East Africa where, with all the water bodies and fish exports, Tanzania had the lowest protein intake (largely through fish) followed by Kenya who got their intake through meats.

From the discussions that ensued, many of the participants expressed their support for trade liberalization and how it should be a positive process though it needed to be studied further so as to know and understand its functionality or contribution fully in the economy in order to be able to take full advantage of its benefits. Liberalisation could play a strong role in helping the private sector understand where the potential markets are and where more support needs to be provided in the local/ domestic industries to mitigate any risks.

Regarding the Textile industry, a factor that may have spiralled the deterioration of the sector was import dumping where cheap imports from European countries were unfair competition for locally produced goods. Even though the sector was said to be recovering, it was doing so by being capital intensive, resulting in the employment creation effect being very small amidst a country like Tanzania with a lot of labour. Another line of thought highlighted during the discussion was that perhaps it was not entirely trade liberalisation that was a core source of the failing industries. There may have been other existing problems within the industry and opening up the markets only hastened or exposed problems that eventually led to the demise of the sector. Bad administration and management of the companies were attributed as being top of the list. At the same time, there seemed to be a contradiction in policies. TCMB was exporting cotton as a raw material instead of adding value to it through production. The same cotton that was being exported was later on imported at a higher cost in the form of finished products. Local industries then started experiencing problems acquiring quality cotton as raw material since it was all being exported. Large local industries needed to be linked to large export markets to enable continuity effectively. For the sector to be able to compete globally, its actors need to be active participants in the global supply chain. Where the private sector companies are in the business, they need to be assisted in various means to meet the chain demands.

Trade liberalisation (TL) has had an impact on availability and management of natural resources, and judging from the fisheries sector, a negative impact. It is said that Lake Victoria is running

out of fish. The liberalisation process has not helped the poor reduce the poverty levels but has instead increased their burden. So the question posed was who exactly is capturing the value of the fisheries sector. The understanding gotten from the presentation was that retailers received a larger share of the value added process in the final product than the actual fishers who received the lowest returns. It was suggested that a study should be conducted to try to understand income redistribution through the whole production cycle – from fishing to final output. TL is said to redistribute the income share through production, meaning that, the increased income is to assist local producers upgrade their tools of services. But clearly that has not been happening. Aquaculture was proposed as a good way to continue production, add value and also get better redistribution effects. This would engage the local community more productively and perhaps counteract some of the negative effects especially on the natural resources management.

The difference between the Fisheries and Textile sectors is that Fisheries is extractive while the Textile sector is more based on factors like local availability of skilled labour, power and infrastructure. The local market for the textile industry is very small, so unless a good export market is identified, the sector will not be able to grow. An example was provided of Egypt, which instead of exporting as a raw product, produced garments for sale. Tanzania had not been able to fully access the vast US market under the African Growth Opportunity Act (AGOA) due to reasons including high freight charges by Tanzanian exporters, lack of loans to facilitate efficient movement of goods; inability to meet quality packaging requirement demands a high quality status, and needs information in line with the ones described by US catalogues. One member of the meeting raised this issue and suggested that Tanzania should try to recapture the AGOA missed opportunities and these can mostly be obtained if there is goodwill and leadership from the Government.

Regarding the Competition Policy and Law, the presenter clarified that the Fair Competition Commission (FCC) had not been set to limit entry or exit of actors in the economy but was there to ensure benefits were reaped by the society at large. FCC was not there to protect industries against each other but to protect the competition process and ensure there was no foul play. The Competition Policy also did not look at the kind of imports brought in as long as they were imported and brought into the country in a fair manner – with nothing being compromised deliberately.

A question was raised on how monitoring of the markets was conducted, did FCC check the market on a regular basis or did they wait until complaints from consumers or competitors were tabled before them? The presenter stated that the market was regularly monitored and if there were any complaints, investigations were conducted and once facts had been obtained, proper procedures and legal process were followed to ensure the law was adhered to and action was taken against perpetrators.

Another question was posed as to whether Competition was good for Trade, Development and Poverty reduction. The discussion supported the idea that competition was good as long as the players had been given an equal opportunity in the market. What was to understand was that competition killed inefficient industries.

4.0 WAY FORWARD

The meeting was in consensus that Tanzania needed to reactivate its Industrial Policy with the State providing support to the Private sector as this was the only feasible solution for the small private sector actors to actively participate in the global market. The state needed to exercise strong will in its support for this to happen. With the manufacturing sector, emphasis should be on investments that will add value to products for export. Non- trade exports were primarily extractive, e.g. gold, forestry, fisheries. There needed to be a firm policy stating the need to add value to raw material resources before export.

A question was posed as to whether all sectors of the economy had a negative experience like the textile sector. It was suggested that perhaps the sectors were already performing badly due to other factors and that liberalisation only tilted the boat further downhill. Trade liberalisation may not have been the cause of the decline in the performance of the sectors. That it only revealed the inefficiencies of the sector much faster. What were the other factors that may have led to the downfall of the sector as the sector had started performing badly even before the markets were opened up? It was discussed that the problem needs to be understood from a national point of view. The government had had full control of most of the sectors of the economy for many years. So perhaps effective management of the industries was difficult.

A common concern was also that more research should be conducted on Trade Liberalisation and its impact on poverty. This would be used to gauge what margin local producers were getting in the value chain in comparison with the middleman who buy the fish from them or the retailers.

5.0 CLOSING AND ACKNOWLEDGEMENT

Speaking after the discussions, the presenters and chairperson thanked participants for their contributions during the workshop, for their comments, queries and challenges. ESRF also expressed sincere gratitude to all participants for their response to the meeting invitation as well as their contributions.

Trade, Development and Poverty (TDP) in Tanzania Researchers Small Group Meeting
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April 17th 2008

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