

The importance of tanzania joining international trade economics essay



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The world has become dynamic which forces countries around the world to trade interchangeably. As any other country, Tanzania has seen the importance of joining international Trade by identifying ways and means of navigating through a viable and steady path towards competitive export-led growth for the realisation of the goal of poverty eradication.

In order for Tanzania to grow it needed to increasingly engage in the global trading system and draw benefits from inclusive globalization, in particular higher economic growth and poverty reduction.

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1. 0 Introduction

Tanzania is situated on the east coast of Africa. Tanzania which includes the islands of Zanzibar and Pemba became independent in 1961 with a per capita GNP of US\$ 210 the economy is essentially dependent on agriculture. Tanzania is one of the world's least developed countries.

From independence in 1961 Tanzania followed a socialist model of economic development. This essentially non-market approach resulted in the nationalization of businesses and industries and the collectivization of agriculture. Over time the failures of this strategy became apparent as the economy stagnated and suffered significant setbacks.

Since 1985 Tanzania has implemented a series of economic reforms but progress has been inconsistent. However since 1995 the pace of reform has accelerated and Tanzania has focused on macroeconomic stabilization and fiscal reform supported by international financial institutions.

Tanzania's economic performance was expected to remain strong in 2008. GDP growth for 2008 was estimated at 7.5 per cent, up from 7.2 per cent in 2007 and an improvement between 2002-2006 period when the economy grew by an average of 6.0 per cent. Recent growth has mainly been attributed to construction, tourism and mining. Economic reforms have been key growth drivers and have transformed the economy from a relatively controlled one to one that is liberalized and market-driven.

Inflation has remained in single digits and averaged 5.0 per cent per annum from 2000-2006 but shot up in 2008 and is expected to edge over 9 per cent in 2008, as a result of the globally high food and fuel prices. The current account deficit was forecast to stay at about 13 percent of GDP due to higher imports as a result of strong economic activities and a construction boom.

Tanzania's main trading partners are the European Union, Japan, India, and Kenya. Tanzania's exports are primarily agricultural commodities such as

Coffee

Cashew nuts

Tobacco

Cotton constituting the largest sectors

Imported products are as follow

Machinery

Transportation equipment

Industrial raw materials

Consumer goods constitute the major portion.

Because of the decrease in agricultural production during the past few years, attributable to climatic conditions, food and foodstuffs imports have increased sharply. Tanzania is a net importer of services.

Dar es Salaam is the commercial capital and major sea port for Tanzania Mainland and it serves neighboring land-locked countries of Malawi, Zambia, Burundi, Rwanda, and Uganda, as well as Eastern DRC. Other sea ports include Zanzibar, Tanga, and Mtwara. Because of its geographical and location advantage, Dar es Salaam Port presents itself as the gateway into East and Central Africa. Furthermore, this renders Tanzania as a logical investment destination for investors.

This indicates clearly that Tanzania can participate well in trade activities by integrating with other African Countries.

2. 0 Statement of the Problem

Tanzania Integration with Africa – Trade Policy Framework

3. 0 Objectives of the Study

The objectives of the study are as follows:

To indicate how Tanzania can integrate with African countries to be able to facilitate International Trade.

To determine the major issues that can be improved to make Tanzania becoming the web of Africa in International Trade.

African Trade Policy Framework

Country firms are supposed to compete based on static comparative advantages, and free trade maximizes both national and international welfare. Perfect competition is assumed, market failures do not exist, and trade serves no other purpose other than that of efficient exchange of goods and services to maximize individual and collective welfare. In this world, the pattern of trade would be determined entirely by comparative costs whereby the most efficient producers would supply the world's requirements and the market mechanism would be the sole determinant of prices. If free trade economists ruled the world, there would be no trade policy. This is because autonomous trade liberalization is unequivocally good for the liberalizing country leading ultimately to global free trade. In this world there would be no trade treaties, not trade negotiations and no World Trade Organization.

Economic history shows that governments everywhere generally create and maintain distortions in the pattern of trade for reasons they consider more valid than the economists' sole criterion of efficiency. Since the Second World War, trade policy has increasingly been dispersed at four major levels:

By national governments

Commodity-based cartels

Regional blocks

Multilateral institutions

Often the politics of policy designs pulls in opposite directions. For example, while the multilateral arrangements (various General Agreements on Trade and Tariffs, GATT; and the recent World Trade Organization, WTO, rules) as well as the prescriptions under the Structural Adjustment Programmes (SAP) by the World Bank and the IMF push hard towards free trade regimes, national politics often opts for protectionism. While multilateral rules via WTO encourage “negotiated but complete liberalization,” regional and national pressures are towards preferential and selective liberalization. What often emerges as the trade policies for individual countries are often the result of a balance (contestation) of power among the competing power blocks – domestic politics due to interest group pressure versus external demands tied to external obligations to regional arrangements and international institutions. The policy content, in recognition of the tension, tries to marry both the economic and political arguments.

Trade policy in Africa has been no exception to these tensions between economics and politics. Though with differences in scope and intensity, trade policies in most African countries have generally followed a discernible pattern marked by the prevalence of restrictions on trade.

Tanzania Trade Policy Framework

Policy is a statement of intent for achieving an objective. Deliberate statement aimed at achieving specific objective policies are formulated by the Government in order to provide a guideline in attaining certain objectives for the benefit of the people

VISION, MISSION AND OBJECTIVES OF TRADE POLICY

This trade policy responds to and builds upon the internal economic reforms that have been under implementation since the mid 1980s, and to unfolding events in the international economic scene.

These developments call for a systematic and consistent approach in the application and use of trade policy instruments in the process of building a competitive economy and striving for higher rates of growth. From the internal perspective, the policy draws upon the primary goal of the National Development Vision 2025, emphasising on poverty reduction and its ultimate eradication. In order to address the problem of poverty, it is necessary to attain and sustain a minimum GDP growth rate of 7% which in turn requires a minimum rate of 14% for trade growth.

This highlights the importance of the international dimension in trade expansion strategies. Hence, from the international perspective, the policy draws upon unfolding changes in the MTS and emerging opportunities which can contribute immensely to the process of attaining and sustaining the high rates of economic growth that underpin strategies for poverty eradication.

3. 1 TRADE POLICY VISION

The role of the trade sector towards the realization of the national goal of poverty eradication will be attained through the structural transformation of the economy and enhanced productivity that will in turn contribute to the process of international competitiveness and lead to rapid economic growth.

Vision is:

“... to transform the economy from a supply constrained one into a competitive export-led entity responsive to enhanced domestic integration and wider participation in the global economy through national trade liberalization”.

3. 2 MISSION

Trade is not an end in itself but a means for achieving higher welfare to society, than would be possible without trade. The function of the trade sector, therefore, is to integrate the Tanzanian economy into the global economy through trade. This entails structural transformation of the national economy, and product/market diversification. Indeed, to sustain an economic growth rate above the 7% necessary for the achievement of the goals of National Development Vision 2025 depends on developing a modern export-led economy. High volumes of exports are necessary to achieve the goals of Vision 2025. Sustaining a high growth rate is a necessary but not sufficient condition for poverty eradication. Growth has to be complemented by broad-based equal opportunity of access to the primary assets of production – land, education and finance – for such growth to be translated into poverty eradication. The mission of the trade sector is therefore to: “...stimulate the development and growth of trade through enhancing competitiveness aiming at rapid socio-economic development.”

OBJECTIVES

In accordance with the National Development Vision 2025, the goal of trade policy is that of raising efficiency and widening linkages in domestic

production and building a diversified competitive export sector as the means of stimulating higher rates of growth and development. Five specific objectives emanate from and reflect this goal.

The first specific objective is to stimulate a process of trade development as the means of triggering higher performance and capacity to withstand intensifying competition within the domestic market. This includes the establishment of improved physical market-place infrastructure and stimulating dissemination of market information and increasing access to the market.

The second objective involves economic transformation towards an integrated, diversified and competitive entity capable of participating effectively in the MTS.

The third objective entails the stimulation and encouragement of value-adding activities on primary exports as a means of increasing national earnings and income flows even on the basis of existing output levels.

Fourth is the stimulation of investment flows into export oriented areas in which Tanzania has comparative advantages as a strategy for inducing the introduction of technology and innovation into production systems as the basis for economic competitiveness.

The fifth objective is the attainment and maintenance of long-term current account balance and balance of payments through effective utilization of complementarities in regional and international trading arrangements as a

means of increasing exports combined with initiatives for higher efficiency in the utilization of imports.

The ultimate target is to enhance income generation and the people's meaning power at the grass-roots level as the key to poverty reduction in fulfillment of the fundamental human right of equal opportunity for all citizens as enshrined in the constitution of the United Republic of Tanzania.

CONSTRAINTS AND CHALLENGES FOR TRADE POLICY

Tanzania's trade performance within a shrinking domestic market, in an increasingly liberalising economy that is converging with a deepening global market, is a source of concern. The essence of impediments against the growth and expansion of Tanzanian trade flow lies in " supply-side constraints." The success of the envisaged trade development strategies depends on prioritising the implementation of measures addressing the totality of supply-side constraints.

These constraints extend across the entire commodity/product value chains from production through processing and delivery to the consumer and encompass the full range of supporting services involved

From the perspective of globalisation the same constraints assume the feature of two fundamental requirements: the need for raising the private sector's capacity to compete; and ensuring that benefits from the unfolding opportunities are accessible to broader segments of the society.

Successful resolution of these demanding multidimensional constraints depends on prior determination of fundamental premises underpinning the development of production capacities including increasing access to the means of production and inherent challenges.

The major fundamental premises and challenges include: establishing and sustaining an enabling business environment; development of hard and soft infrastructure; building capacity for market supporting institutions; creating the internal ability to participate in and influence changes in the world trading system; and promotion of private sector development in the context of supply-side capacity.

ENABLING POLICY ENVIRONMENT

The fundamental role of government is in providing the enabling policy environment that will facilitate the private sector in becoming the engine of economic activity and growth through efficiency and better performance.

The Tanzanian Government is already implementing a policy entailing its withdrawal from direct involvement in economic activity to facilitate channelling of its resources in the conventional area of establishing and maintaining a conducive and enabling policy environment.

Four categories of measures are involved in the process of creating an enabling environment: good governance; stability of the macro-economic framework; legal and regulatory framework reforms; and efficient economic regulation and competition policy.

Good Governance

Constraints and Challenges

Good governance is a pre-condition for development entailing the existence of a combination of tangible and intangible attributes and functions of the government machinery. The intangible attributes refer to the well functioning of the state coupled with the institutional capacity to: maintain peace, law and order; create an atmosphere of tranquillity and confidence for investment; ensure individual liberty and equality before the law; ensure security of property and fair delivery of commercial justice; and provide adequate checks and balances in the exercise of power including transparency and predictability in public decision-making.

For example the ongoing socio-political and economic reforms including broadening popular participation of the people in economic and political processes, and entrenching security of people are intended to enhance good governance. Likewise, major public and private sector investments in social and physical infrastructure aim at strengthening the capacity for efficient delivery of services necessary for competitive economic activities. However, its efficiency is hampered by a weak institutional framework for enforcement and execution.

Strategy

The Government is continuing with the implementation of measures aimed at strengthening its capacity to maintain good governance as its cardinal mandate including promotion of self-regulation through introduction of codes of conduct. Other measures will include extensive public awareness

campaigns and moral persuasion targeting public and private sector active involvement and participation in good governance.

Macro-economic Policy Environment

Constraints and Challenges

One of the prerogatives for attaining and sustaining high rates of economic growth is the establishment of an attractive, stable and predictable macro-economic environment for increased flow of investment and trade. This rests on the implementation of appropriate monetary and fiscal policies such as lowering and controlling inflation and the stabilization of interest and exchange rate. Also it requires increased liberalisation of the operations of the financial, commodity and labour markets. In the sociopolitical sphere the observance of good governance, maintenance of peace, the rule of law and enhanced efficiency in the delivery of goods and services are of paramount importance.

Strategy

The Government will continue with the implementation of measures aimed at sustaining a conducive macroeconomic policy environment in its entirety as the basic condition for stimulating economic growth through increased investment and trade expansion.

The Government will continue to strengthen its institutional and supervisory capacity for this purpose. This entails building a national consensus on the direction of fundamental macro economic policy variables combined with a

deliberate change in the culture of government service towards increasing responsiveness to the needs of the business community.

Legal and Regulatory Framework

Constraints and Challenges

The establishment of an enabling business environment entails a process of continuous adjustment of the legal and regulatory framework impacting on the performance of the business sector. Despite economic reforms sustained since the mid-eighties, there are still residual impediments that lead to high transaction costs. This discourages the inflow of foreign and domestic investment and hinders efficient trade sector performance. The envisaged legal and regulatory reforms seek to lower transaction costs, enhance business compliance and improve efficiency and competitiveness.

The ultimate objective of legal and regulatory reforms is to protect the interests of consumers through enhancing the capacity of government institutions to perform their regulatory functions efficiently and by maintaining regulations only where they are necessary for this objective.

Strategy

The Government is expediting measures to stimulate international competitiveness through:

(a) Reduction of unnecessary bureaucratic procedures that lead to high transaction costs for the business sector;

(b) Facilitating and encouraging the development of private sector capacity to participate more effectively in the process of better regulation through public-private sector partnerships and improved advocacy.

(c) Expediting the establishment of market-supporting institutions in the area of better regulation to ensure co-ordinated legal and regulatory reforms and improvement of commercial justice delivery.

Economic Regulation and Competition Policy

Constraints and Challenges

Competition policy addresses the problem of concentration of economic power that can arise from market imperfections, monopolistic behavior in economic activities and consequent restrictive business practices.

Restrictive business practices primarily affect the consumer through either higher prices and unacceptable quality standards or limitations on the availability of goods and services.

Competition policy aims at perpetuating freedom of trade, freedom of choice and access to markets. Competition law is a component of competition policy prohibiting firms from engaging in anti-competitive behavior and abuse of dominant market position. The ultimate objective of economic regulation and competition policy is to protect the consumer through control of monopoly behavior on the part of producers.

Tanzania has enacted three laws to govern competition and regulation of economic activity: the Fair Trade Practices Act of 1994; the Energy and Water Utilities Regulatory Act

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(EWURA) of 2001 and the Surface and Marine Transport Regulatory Act (SUMATRA) of 2001. The SUMATRA Act also amends the Fair Trade Practices Act to establish the Fair Competition Commission (FCC) in place of the Fair Trade Practices Bureau. The mandate of these Acts is limited to the regulation of natural monopolies in the utilities and communications sectors and does not cover activities in the social and economic sectors.

Strategy

The Government is expediting the implementation of Competition law under the co-ordination of the FCC and related regulatory institutions and promotes consumer protection through broad-based public awareness on consumer's rights and obligations.

Human Skills Development

Constraints and Challenges

The concept of human capital as a major factor of production is increasingly assuming importance. The development of human capital from the perspective of developing economies entails focusing on four factors: basic nutrition, education, health and protection against economic vulnerability.

The level of access to formal education and technical skills in leading sectors is the determinant factor in human skills development. A relatively high level of education to a large segment of the population and good training in the different aspects of the economic environment and the trade development function are the prerequisites for a successful trade regime. The experience of the Newly Industrializing Countries (NICs) shows that the process of economic transformation was underlined by quality universal primary

education, enrolment ratios higher than 25 per cent in secondary education and an average of 10 per cent enrolment ratio in tertiary and university education.

Data for Tanzania indicates the magnitude of the task involved in the education sector in terms of raising the scope and outreach of secondary and university education to levels necessary for the realization of the goals of Vision 2025. For instance, at 6% the ratio of secondary school enrolment is the lowest in SSA. Performance in skills development and extension services has also remained below expectations and requirements with respect to production practices in key sectors particularly agriculture, tourism and small-scale mining.

The level of skills is relatively low compared to other regional economies due to low enrolment ratios in formal education at the secondary and tertiary levels and curtailed training in production and value-adding activities for workers in key economic sectors. The pace of economic transformation in Tanzania depends on the rate at which society can absorb and assimilate modern production skills and technologies in areas where the nation has advantages in resource endowments.

The importance of education and skills is crucial to the perception of technology as they

encompassing better production and delivery techniques and practices rather than mechanization. At the sametime the legal framework prevailing in the labour sector contributes to the pace of development of an adequate pool of skilled labour. Existing labour laws retain the tendencies of a
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command economy characterized by lack of flexibility in hiring practices and over-protection of employees, and limited linkage between performance and remuneration.

The daunting task of expansion of the outreach of the education sector in Tanzania is highly constrained by the implications of demographic features including the concept of demographic transition and the incidence of HIV/AIDs. Demographic transition refers to the rate of change of the rates of birth and death. The essence of the concept is that developing countries experience rapid population growth and changes in its dependency ratio. While the death rate has been declining, the rate of birth has been rising resulting in the increase in the dependency ratio.

HIV/AIDS has become a major health problem as well as a serious impediment to socio-economic development through its impact in the reduction of the active labour force, in particular the human capital that underpins economic transformation, higher productivity and competitiveness.

Strategies

Education:

With respect to education, the Government had planned to raise primary education enrolment ratio to 85% by the end of 2002 and increase the rate of transition from primary to secondary education from 15% prevailing since 1998 to 20% by 2003. Emphasis had been placed on training in business education and entrepreneurship at various levels of the education system.

This thrust and tempo will be maintained in the medium and long term as a strategy to bridge the gap in the outreach of the national education system.

Training:

With regard to skills development and production techniques top priority will be accorded to extension services for agronomic and animal husbandry practices in agriculture where the highest potential for growth based on wide linkages across sectors prevail. This will include promotion of irrigation based on traditional and modern practices and mechanized farming as far as possible. The Government will also initiate measures to introduce better packaging and delivery practices in direct response to market expectations and demands. The Government will take measures to contribute to market linkage programmes that aim at stimulating trade development through product and market diversification based on introduction of new product and new processes for value-adding activities.

Labour laws:

The Government is reviewing prevailing labour laws and regulations to induce the evolution of labour practices that conform to market practices that link merit, efficiency and productivity to rewards and flexibility in employment to reflect the principles of free entry and exit into industry. Labour law reforms will adhere to obligations from the International Labour Organisation. The Government will implement social sector policies aimed at the development of human capital through creation of a large pool of trained and trainable labour force as the base of structural transformation of the economy.

HIV/AIDS: The government will implement a broad-based strategy of raising awareness on the scourge of HIV/AIDS and the incidence of demographic transition and encourage change in social behavioral patterns. Towards this end, emphasis will be placed on the instruments of moral persuasion and social responsibility based on accountability and self-determination rather than laxity and social permissiveness as the key to stimulating change in cultural patterns, attitudes and habits.

Finally increasing accessibility to income generating activities for socially vulnerable groups will be one of the pillars to address the problem.

Private Sector Development:

The private sector is now formally recognized and accepted as the producer of goods and lead provider of services for the domestic and export markets and consequently the leading employer and primary vehicle for poverty eradication. The thrust of socio-economic reforms undertaken since 1995 highlights the determination to build a vibrant private sector for this purpose.

Strategy

The Government is developing a Private Sector Development Strategy (PSDS) to ensure broad-based and inclusive participation in production and trade and will expedite its adoption and implementation. The strategy entails the establishment of an enabling business environment through better regulation; increased private sector access to capital including “ titled-land,” education, skills and entrepreneurship as well as provision of business support services in management, production and marketing.

Institutional Capacity Building

Institutional capacity building amongst the key public and private sector stakeholders in the trade policy process is the key to successful implementation. Performance in public institutions, including the Ministry of Industry and Trade (MIT) and its supporting agencies, and in business sector associations that serve the private sector, such as the Tanzania Private Sector Foundation (TPSF), Confederation of Tanzania Industry (CTI) and Tanzania Chamber of Commerce, Industry and Agriculture (TCCIA), reflects major cultural and operational weaknesses, often associated with the “mind-set.” These include lack of proactive initiative in identifying and addressing problems, low analytical capacity, low commitment to work and poor coordination. There is evidence of lack of appropriate experience to amend or repeal obsolete laws and make better and simpler regulations to facilitate enforcement on the part of the public sector, and lack of analytical capacity to advocate for requisite change on the part of the private sector.

Strategy

The Government will undertake capacity building needs assessment to identify institutional complementarities and gaps. Priority will be accorded to private sector capacity for analysis and advocacy in influencing policy formulation and implementation. Twinning of indigenous institutions with overseas counterparts will be explored and utilized to facilitate rapid movement along the learning curve.

Transformation of Production Capacity

Agriculture remains the backbone of the Tanzanian economy with over 80 per cent of the population dependent on this sector. It remains a source of employment to 75 per cent of the population, contributing 50 per cent to GDP and about 70 per cent of export earnings. Leaving the economy dependent on traditional agriculture, which in turn is dependent on the whims of nature and fluctuating terms of trade, makes the path of development unstable and unpredictable. Success of this trade strategy in the context of the goal of Vision 2025 depends on strategies for the transformation of agriculture.

The revival of the agricultural sector is constrained by lack of support to facilitate technology diffusion for modern agronomic practices to raise productivity and slow response by foreign investment culminating in stagnation in the development of the private sector and agribusiness.

Specific constraints include: limited access to extension services, inputs and credit facilities necessary to stimulate product diversification; weak market linkages due to poor infrastructure; and lack of market knowledge and information necessary to facilitate market diversification.

There is need to modernize production practices in the designated lead sectors of mining and tourism and other priority sectors such as industry and transit trade. Such modernization depends on application of modern technology on the national resource base. Enhancing competitive value-adding capacity in these sectors is the key to transformation of economic activity.

Strategy

The Government will prioritise measures for agricultural transformation through implementing the Agricultural Sector Development Strategy (ASDS) of 2001. One priority aspect is to ensure a net-inflow of resources into the sector to facilitate transformation of production technologies through wider research and dissemination of research results and better extension services. The government will also encourage investments in commercial farming and agro-processing industries as growth poles of the sector through out-grower and contract farming schemes and other market linkage relationships.

Other measures include the promotion of industrialization through investment in Export Processing Zones (EPZs) and Industrial Parks. The Government will also encourage the channelling of investment resources to non-traditional sectors, in particular