



Poverty Reduction and Economic Management
The World Bank

Policy Note

■ **Tanzania:**
**Towards a Trade and Competitiveness Strategy to Propel
Growth**

November 19, 2007

This note is a technical document of the Staff of the World Bank, financed by the Multi-Donor Trust Fund on Trade and Development (MDTF-TD), and does not represent an official position of the World Bank or of its Executive Board. All comments and correspondences can be addressed to Josaphat Kweka (jkweka@worldbank.org), and Paul Brenton (pbrenton@worldbank.org).

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1. Objective and Motivation: *Working Towards a Comprehensive Strategy on Trade and Competitiveness*

Trade has played a significant role in the growth performance of Tanzania in the last decade. The challenge for Tanzania is how to sustain fast growth over a long period. A strong trade performance will be essential to achieving this goal. It is therefore imperative for the Government to mainstream trade into its national strategy for growth and reduction of poverty – popularly known as MKUKUTA.

This policy note seeks to delineate the key components of a trade and competitiveness strategy for Tanzania. The objective is to provide a strategic framework and direction that would allow the country to exploit opportunities from the evolving trends in the global economy.

The note is intended as an input to the Government of Tanzania's ongoing initiatives to enhance implementation of the national trade policy. Tanzania has an elaborate (albeit dated) national trade policy (2003). Furthermore, the Government has recently taken an important step (in June 2007) by approving the Diagnostic Trade Integration Study (DTIS) to indicate willingness to implement its recommendations for addressing the constraints limiting Tanzania's integration in the global economy. Progress is being made to prepare implementation programme. However, a clear strategy tightly linked to the new realities of international trade for guiding implementation is not yet in place. The motivation underlying this note is to provide a top down view of the strategic direction for guiding implementation of the policy and the various trade initiatives (especially the current DTIS processes).

Once a clear strategy is in place, it is easier to mobilize support from the World Bank and other Development Partners for realizing its objectives. In addition to the resources under the Integrated Framework (IF) that would scale up operation on the ground, the World Bank envisages using funding under the Multi Donor Trade Trust Fund (MDTTF) to scale up its support to the trade agenda in Tanzania through its analytical and advisory policy work.

The note is structured into four sections. Following this introduction, section 2 sets out the background and context within which the elements of the strategy are drawn. Section 3 delineates the key elements of the strategy and proposes strategic priorities for their implementation. Finally, section 4 identifies possible areas of further support by the World Bank through its technical assistance and analytical work in collaboration with other Development Partners.

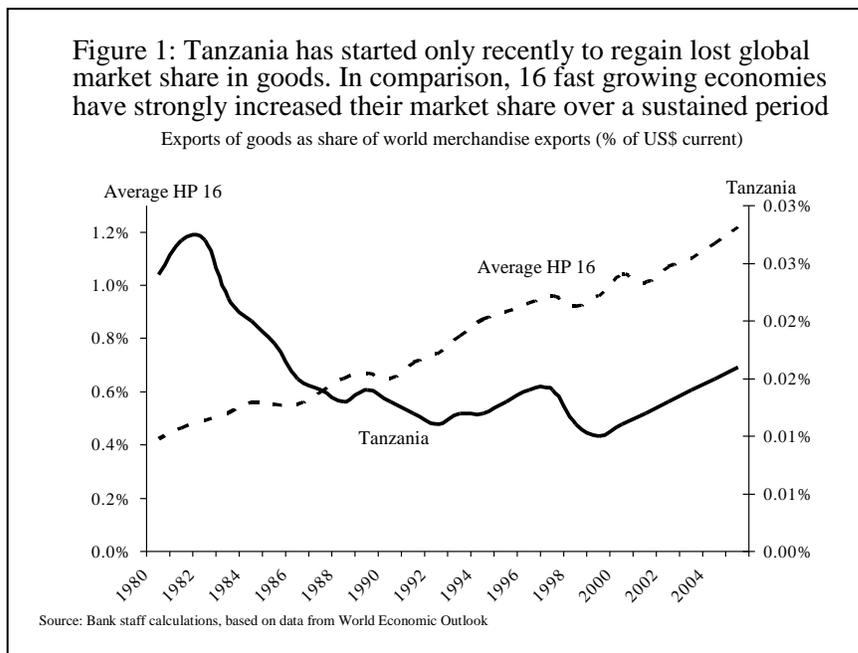
2. Background and Context: *The Globalization bandwagon is passing close by*

The trade objective in Tanzania is two fold: how to sustain and increase the recent economic growth, and how to the exploit opportunities of the global economy. The global economy is offering new opportunities to countries such as Tanzania to use trade to drive high and sustained growth, whilst introducing additional challenges:

- rapid growth of large developing countries such as China, India and Brazil opening up new dynamic market opportunities;
- intense new competition emanating from these economies;
- explosive growth of services trade, creating new opportunities and offering new avenues for diversification away from primary commodities;
- increasing importance of domestic institutions, policies and infrastructure in affecting productivity (including capacity to carry out strategic function and implement policies) and the ability of a country's firms to compete in the international market.

Message 1. *Whilst Tanzania's trade competitiveness has been improving there remains enormous potential to further increase exports and more effectively integrate into the global economy.*

Figure 1 shows that the share of Tanzania in the global goods market, initially small at the start of the 1980s, experienced a rapid decline in the 1980s, with a leveling off in the 1990s and a recent recovery since 2000, although it is still just around half of the level of 25 years ago.



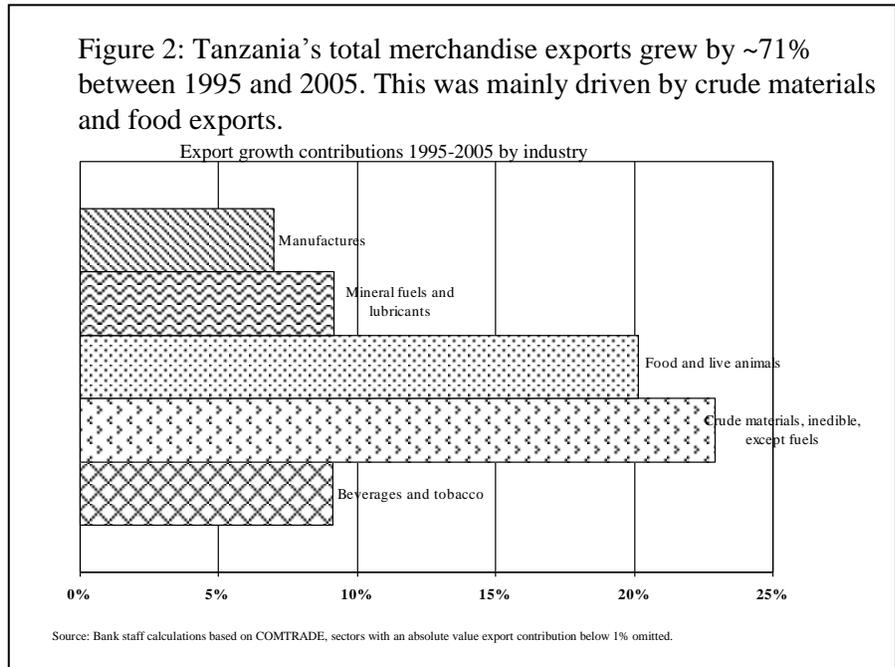
The figure compares the performance of Tanzania with the average of a group of 16 fast growing countries¹. These countries form a relevant comparator group for Tanzania as it is the performance of these countries that Tanzania will have to replicate to achieve bold growth and poverty

¹ This group contains non-oil exporting countries that have grown at an average annual rate of growth of 4.5 per cent of more over the past 25 years. The averages are unweighted so that country size does not influence the measure. The sixteen countries are Botswana, Sri Lanka, Chile, Indonesia, Pakistan, Mauritius, Uganda, Burkina Faso, India, Thailand, Malaysia, Taiwan, Cambodia, Singapore, Korea, Rep., and China.

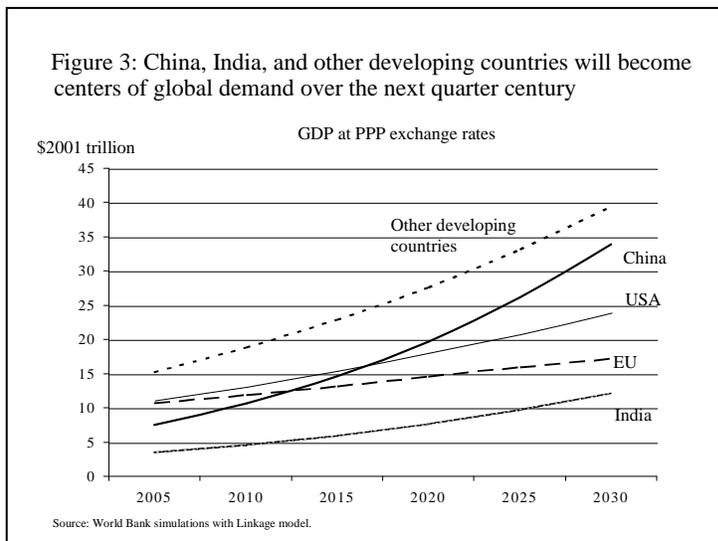
reduction targets. The contrast in performance over the past 25 years is stark, with a rapidly rising share of global exports (a 3-fold increase over the past 25 years) fuelling their sustained growth. Despite the recent increase, the role played by trade in the economy of Tanzania is much less than that of the average of the high performing countries, where the ratio of trade to GDP is more than double that of Tanzania.

As figure 2 shows, Tanzania's merchandise export growth over the last decade has mainly been driven by crude materials and food products, respectively contributing 23% and 20% to total export growth of 71% between 1985 and 2005. In 2005, these two industries respectively accounted for 30% and 41% of total merchandise exports. Beverages and tobacco, one of Tanzania's traditional export crops, also contributed

significantly to overall export growth (9%). Manufactures too contributed substantially to overall export growth (7%), but their share in Tanzania's export portfolio is still relatively small, accounting for only 15% of total exports in 2005.



Message 2. *The rising importance of developing countries in the global economy offers new sources of demand, but also more competition.*



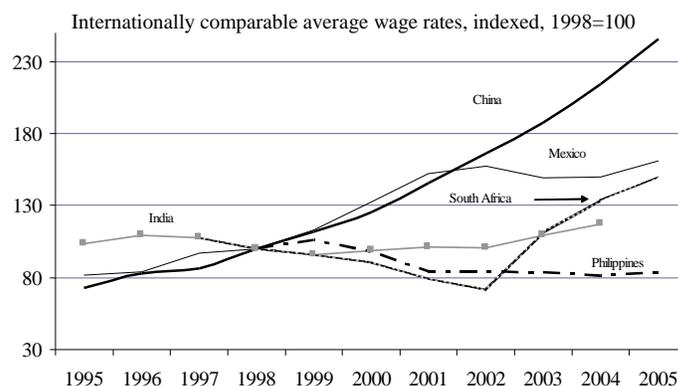
The pace of global integration is likely to intensify and will be powered increasingly by developing countries. Developing countries, once considered the periphery of the global economy, will become main drivers. The share of developing countries in global output will increase steadily and China's output - in purchasing power parity terms - is expected to exceed that of the European

Union and that of the United States sometime shortly after 2015 (Figure 3). Global trade in goods and services, growing faster than output, is likely to rise more than threefold to \$27 trillion in 2030. Roughly half that increase will come through developing countries, with their share in global exports rising from 32% now to 45% in 2030.

The surge of India and China, and other large emerging countries, as major players in the global economy brings important challenges for developing countries. The sheer size of China and India may preclude the diversification of the poorest countries into manufactures and so close of a route to growth and development (Cline, 2006). However, what matters is whether the wage gap with China is greater than the difference in productivity. Least developed countries in Africa like Tanzania that have lower wages than China and India, will be able to compete in the global market if levels of productivity are close to those in India and China. A key challenge for policy makers is thus to ensure that domestic resources are channeled to the most productive activities, those that are internationally competitive. This requires an overall incentive framework that ensures that land, labor, capital and technology are used by a) sectors in which the country has a long-term capacity to compete and b) to the most productive firms within sectors. The incentive framework needs to be understood in a holistic way that goes far beyond industrial policies such as the provision of support to exporters or particular industries. A thorough analysis of the incentive framework will also have to evaluate tariffs, taxes, regulations, and issues of bureaucratic efficiency that affect actual and potential exporters in their business decisions. For example, it is important to understand the impact of a heavy concentration of regulatory burdens on traditional export goods. Reforms that overcome general disincentives will often be more effective in terms of export growth and competitiveness than narrowly focused industrial policies. Thus, a clear understanding of how trade, tax, the business environment and labor market policies interact to affect investment, output and trade decisions is a crucial first step to improve the overall incentive framework. Within this it is important to identify policy constraints that have created obstacles that leave resources bottled-up in low productivity sectors and to define clear strategies for their removal.

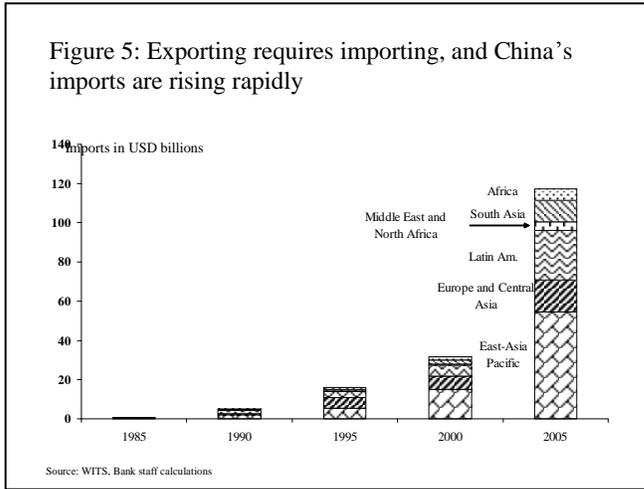
As the global demand for Chinese manufactured products increases, dollar denominated wages in China will tend to increase, through higher wage demands from Chinese workers and from the inevitable additional pressure on the Yuan to rise. There is evidence that this process has already begun (Figure 4). Thus, on the supply

Figure 4: China's surging growth means rising wages – creating opportunities for low wage countries



Source: Global Economic Prospects 2007

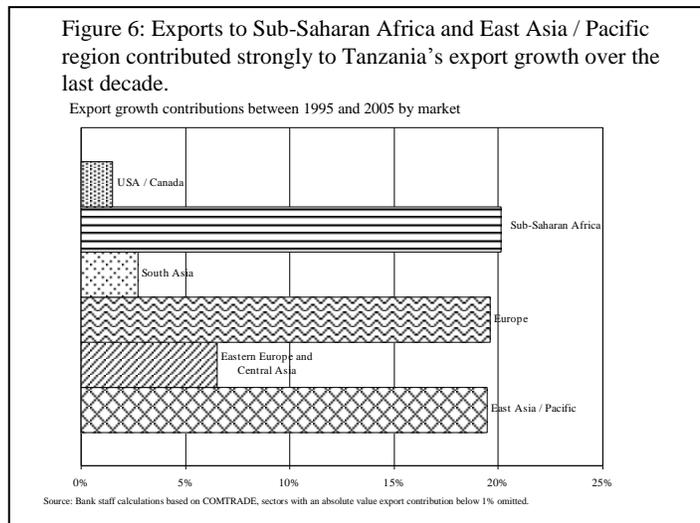
side, the global trends will not preclude the lowest income countries from being able to export low skilled labor intensive products.



On the demand side, the entry of these large economic entities into the global market offers enormous opportunities. Demand in Asia, and primarily in India and China, has been the main source of the accelerated growth of African exports since 1990 and the growth of such exports has intensified in the 2000s. Indeed, China's imports from Africa in 2005 were higher than its total imports in 1990 (Figure 5). With current growth, incomes in China are doubling every 8 years.

Hence, there will be substantial further opportunities for raising exports to Asia in the coming decades. However, it is important to recognize that China and India's growth will also present formidable competition pressure for these countries in the global marketplace.

Although Europe is still Tanzania's main export destination, exports to Sub-Saharan Africa and the East Asia / Pacific region have risen strongly in importance. Figure 6 shows that over the last decade, exports to Sub-Saharan Africa and the East Asia / Pacific region contributed about as much to Tanzania's export growth as Europe.



Export composition also varies by region (see Figure 7). East Asia is mainly a market for raw materials like copper ore and cotton, while Europe mainly imports fish, tobacco and coffee from Tanzania. Exports to other Sub-Saharan countries mainly consist of apparel, some other manufactures and gemstones (most of which are sold to South Africa for further processing and re-exportation).

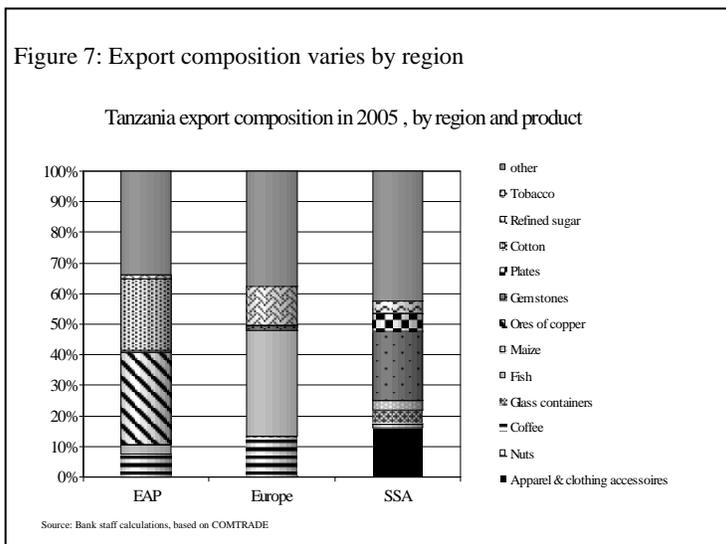
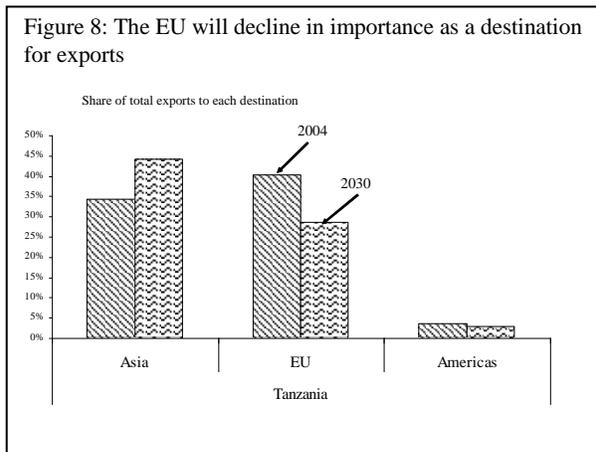


Figure 8 illustrates what this trend could imply for the future. Using a very simple simulation based on the gravity model and scenarios of growth in the different regions drawn from Global Economic Prospects 2007 we show that the importance of China and other East Asian countries as a destination for Tanzania's exports should increase substantially over the next 25 years². The main adjustment that takes place is a relative reduction in the share of exports to Europe.



Nevertheless, the European market will remain important, and it will continue to offer a very important test for African companies wanting to be globally competitive. The Economic Partnership Agreements (EPAs) currently being negotiated between the EU and ACP

countries offer Tanzania and her regional partners an opportunity to push forward with trade and competitiveness reforms. However, if the agreement is narrowly focused on bilateral trade and does not address the key constraints to global competitiveness then they will fail to assist the ACP countries in exploiting new opportunities in the global market.

Message 3. *The nature of international trade is undergoing radical changes, with a segmentation of supply chains, and a fast rise of services exports*

Radical changes are taking place in the structure of international trade, with a dramatic segmentation of international supply chains in the production of manufactured goods and also services. In the classic conception, international trade is the exchange of complete goods and services across national boundaries. Countries gain from specialization in particular sectors of the economy, such as textiles and steel. Within firms, gains are had from higher productivity, that is, by allowing workers to specialize. In the past, effective coordination of these efforts, and the combination of tasks to produce a product, required proximity. Communication required physical presence, and the transportation of intermediate inputs was slow and costly. Specialization led to geographic concentration of production. International trade occurred if customers lived in another country.

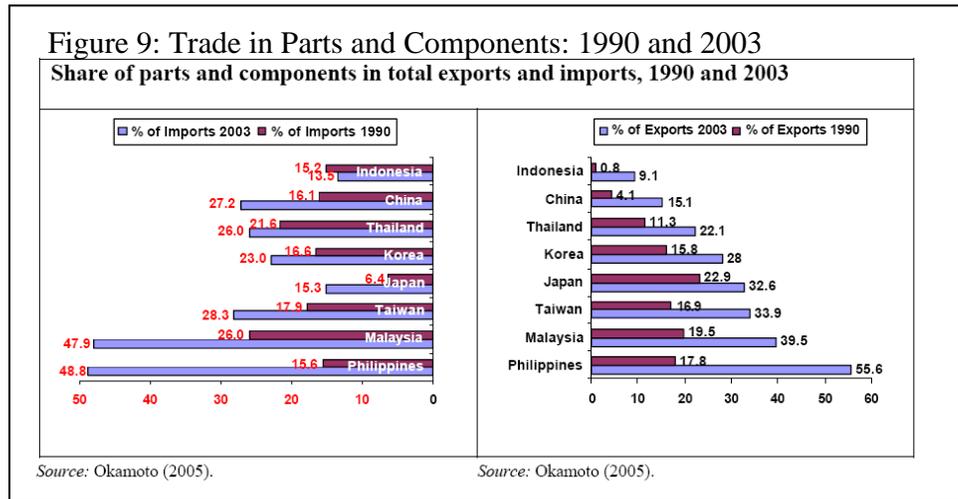
However, the nature of production has changed. Revolutions in transport and communications technologies have led to enormous reductions in cost, allowing tasks to be separated in time and space, and weakening the link between specialization and geographic concentration. Instructions and information can be effectively conveyed over long distances, and intermediate inputs can be transported quickly and much more cheaply than before. Thus, increasingly it is tasks in addition to final goods and services that are exchanged across national boundaries, resulting in global production networks of

² The growth rates for each region are based on simple projections of average performance over the past 15 years. The approach is based on simply applying the coefficients on exporter and importer GDP from a standard gravity model to the changes in income over the next 25 years.

activity in a wide range of sectors. In this new global economy there are additional gains from specialization, as firms take advantage of differences in the cost of labor and skills across countries to allocate tasks internationally.

An outcome of these changes is the growing importance of trade in intermediate goods, with world trade in parts and components increasing from \$400 billion in 1992 to over \$1 trillion in 2003. This has been particularly apparent in East Asia, the most dynamic part of the world economy. As shown in Figure 9, trade in parts and components has grown

much more rapidly than trade in final goods. In industries with the highest scale economies, like electrical machinery, trade in parts and components accounts for 80% of total exports of this sector. Firm-level surveys in a sample of five low and



middle-income countries in East Asia suggest that outsourcing is almost forty percent more prevalent than in the rest of the world.

In this new global environment, interventions that target particular sectors will be ineffective relative to initiatives to provide an environment that supports activities and tasks. This entails greater emphasis on a business environment that facilitates the entry and exit of firms across all sectors and policies, infrastructure and regulations that support the free flow and low cost of imported inputs (whether physical or information) to which domestic workers can contribute their tasks. What matters is the quality of roads, ports, telecommunications, and electricity together with relatively low tariffs on imported inputs and effective regulation of key backbone services. Countries that are unable to provide access to these critical services inputs at competitive global prices will find it much harder to integrate into global production chains.

Given its strategic geographic position in East Africa and on the Indian Ocean, and relatively low labor costs, Tanzania needs to carefully explore the potential to link up with the global production chains originating in Asia and in the Middle-East. This would allow the country to diversify into manufacturing and start benefiting from the technological spill-over associated with the sector.

Table 1: Growth rate of Trade in Services (% annual increase)
Services exports

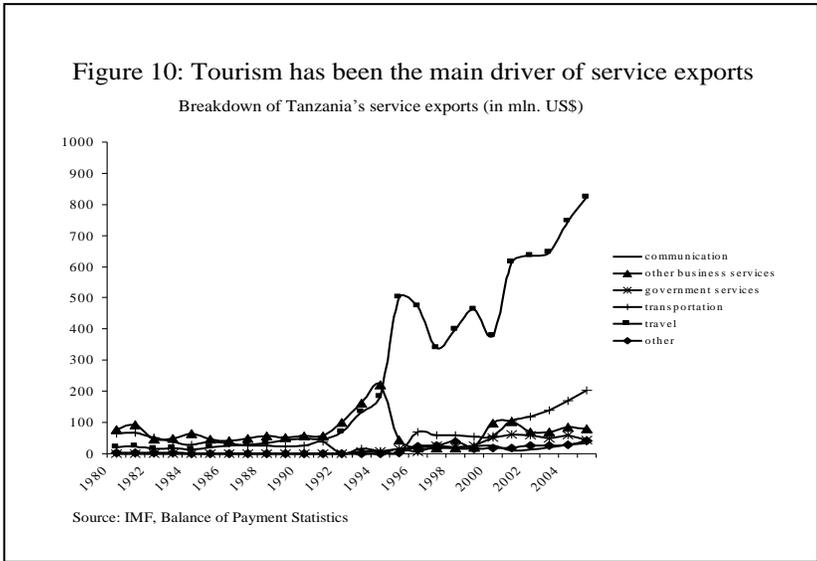
	1995	2003
World	7%	18%
North America	10%	11%
Europe	5%	17%
Africa	9%	20%
Tanzania	6%	25%
Asia	9%	27%

Source: Calculated from WTO statistics

The explosive growth of services trade has been the other major change in the composition of international trade creating new opportunities and offering new avenues for diversification away from primary commodities. For example, as shown in Table 1, global export of services grew from 7% per annum in 1995 to over 18% in 2003, with most

of the growth happening in low income countries of Africa and Asia. However, significant share of the services export is dominated by industrial countries, that is Europe (40%) and North America (35%), followed by Asia (16%) and Latin America (6%), while Africa shares about 2%.

Figure 10 shows that Tanzania has been very successful in expanding service exports over the last decade. This has mainly been driven by travel services, namely tourism. Tourist arrivals in Tanzania have grown above world average, increasing its world share in tourist arrivals from 0.05% in 1995 to 0.07% in 2004 (Bank staff calculations based on data from UN World Tourism Organization).



A second important factor in increasing service exports was transport, which is a largely an effect of increasing international trade. Thus, transport service exports can be expected to benefit substantially from further openness to trade and the implementation of a comprehensive trade strategy.

3. Suggested strategic priorities: Developing a Trade Strategy to Exploit Opportunities in the Global Market.

Given the changing global economy, countries wishing to use trade to drive growth need to identify the competitive advantages that they possess and the main constraints that they face in exploiting those advantages. The critical issue is how policies can be designed to support the private sector realize these opportunities, both in removing constraints and in supporting export development and efficient import competition.

What opportunities does the world economy offer Tanzania?

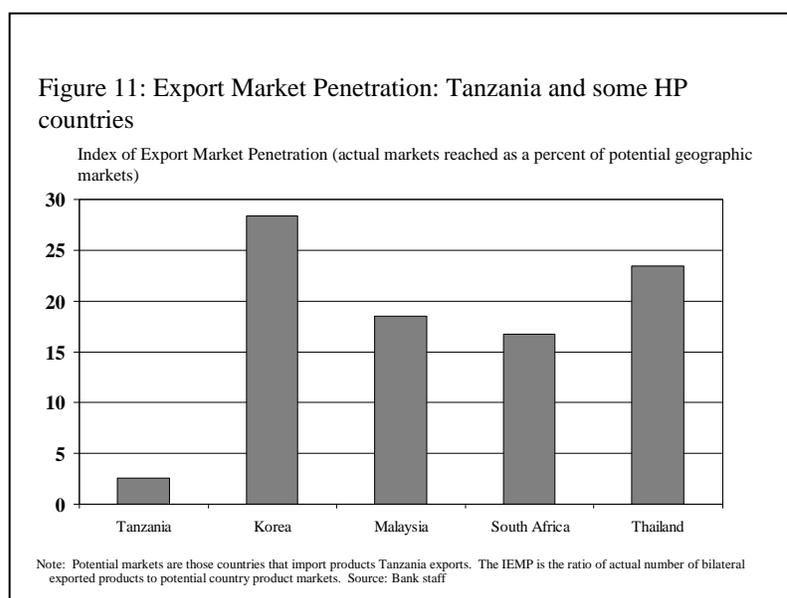
- Large opportunities remain for diversifying the destination of existing export products and services towards the new fast growing markets.
- Integrating into global production networks offers untapped potential for export diversification in terms of new export products.
- Lower costs of, and improved access to, services, are critical to support increasing competitiveness in the global market and services offer new opportunities as an export growth center for Tanzania.

Three levels of action are necessary– hence the need for coordinated approach:

- **National level/unilateral:** Drive internal competitiveness by ensuring that the structure of incentives namely tariffs, taxes, labor and other regulations encourage private investors to move resources into the most productive activities, by improving access to critical inputs at competitive prices, and by developing effective and pro-active policies to support exporters in accessing new markets
- **Regional level:** deepen market access and strengthen regional trade-related institutions (services, customs, ports, trade-related standards) as a launching pad to higher international competitiveness
- **International level/multilateral level:** Seek broad improvements in market access to fast developing markets (in coordination with EAC regional partners). Adhere to commitments on beneficial internal binding agreements such as the WTO Information Technology Agreement.

Priority 1: Expanding existing exports to new and dynamic export markets

The analysis above suggests that new export markets are most likely to be found in the fast-growing regions of East Asia, South Asia and Middle-East. In the short term, strong export growth is more likely to come from reaching new geographic markets with existing exports as well as increasing volumes to existing markets.³



In this latter regard, there is enormous scope for Tanzania to do better to exploit existing export opportunities. Figure 11 shows the extent to which Tanzanian exports are reaching markets that are currently importing the products exported by Tanzania. Tanzania is

recognition of the fact that value current commodity export. In action (except for depletable domestic value addition in the

medium to long term.

performing poorly relative to other countries and there is enormous scope for increasing exports of existing products to new markets.

Comparing Tanzania with South Korea, see Table 2, shows that Korea exports around twice as many products as Tanzania, but has more than 20 times as many bilateral export relationships from the products that it exports. Hence Korea has been much more successful in expanding the range of markets to which it exports the products that it produces.

Table 2: Export market penetration - a comparison of Tanzania and Korea				
	Number of products exported in 2004	Actual number of export relationships in 2004	Potential number of export relationships in 2004	Export market penetration
Tanzania	1305	3215	122548	2.62
Korea	2930	66983	237584	28.19
Ratio	44.54	4.80	51.58	

What is required to improve performance in exploiting these market opportunities? Tanzanian trade statistics reveal a large number of dropouts where a specific product is no longer exported to a specific market. Apparently, Tanzanian exporters

often have difficulties to stay in a market that they have already accessed. Among reasons mentioned by Tanzanian firms for these dropouts were difficulties in complying with quality standards and a lack of information about export markets that forced companies to rely on a trial and error approach in finding new markets. The Government plan to establish a national trade information system that would link suppliers and consumers globally can make a big difference.

Four main operational recommendations to diversify geographically existing exports

- The first concerns the role and impact of Tanzania’s export promotion agency, the Board of External Trade (BET). The services provided by the BET, mainly the organization of trade fairs, are seen as inadequate by the private sector. A fundamental reappraisal of the BET, which has been suggested by the DTIS, should thus be a priority issue for implementation with full political will.
- The second issue is the need for more effective support for exporters in raising quality and satisfying the standards of overseas markets and the requirements of global buyers. Most important aspect of such support is development of national quality and standard infrastructure (such as laboratories), quality certification and packaging activities.

- Third, given Tanzania’s strong comparative advantage in agriculture, implement systematic review of taxation and regulation of agricultural exports⁴, with a view to guillotine inappropriate, redundant or ineffective regulations, and significantly reduce taxation of key agricultural crops (current revenues from these taxes are only around 5% of taxes on imports)
- Finally, aggressively pursue opportunities to improve access to overseas markets especially by effectively supporting market facilitation measures for products which Tanzania has a proven comparative advantage. While Tanzania already has good access to some of the biggest OECD markets, it still faces stiff tariffs in some of the fastest growing Asian markets (Table 3). Nevertheless, driven by the logic of South – South trade, these emerging markets (in Asia/Latin America) remain potentially more important and with higher returns than the traditional EU/US markets. Furthermore, to widen and deepen market access, Tanzania needs to develop a sound negotiating strategy that takes full account of the potentials and risks inherent to the current round of multilateral (WTO) negotiations, and fully exploit its export potential in bilateral and regional trade negotiations.

Table 3: Duties on key agricultural products exported by Tanzania - 2005

		India	China	Brazil	Korea	Thailand	Saudi Arabia	Turkey
Cashews	unshelled	30	20 (10)*	10	8 (0)*	40	5	30
	shelled	30	10	10	8 (0)*	40	5	30
Coffee	unroasted	100	8 (0)*	10	2 (0)*	40	0	13 (11)*
	roasted	100	15	10	8	40	0	13 (11)*
Tea		100	15	10	40	60	0	145
Dried peas		50	5	10	27	30	5	9
Dried beans		30	7	10	27	30	5	9

*) Preferential rate for Africa

Priority 2: Integrating into global production networks offers untapped potential for export diversification

The trends in the global economy suggest that markets in Asia and the Middle-East will grow very fast, while their ability to remain competitive in the production of low-wage manufacturing will be eroded. At the same time, regional markets in Africa are also expected to expand. Tanzania’s geographic position, as a hub in Eastern Africa, and a large coast on the Indian Ocean, provide the potential for low transport cost and synergies coming from agglomeration effects.

To develop a competitive manufacturing system, highly integrated into global production chains, Tanzania will need to improve its infrastructure and logistics systems, provide an

⁴ After review in 1998 Korea eliminated 48.8% of its total of 11,125 regulations and revised another 21.7%. The regulatory burden was lowered by an estimated 4.4% of GDP – employment rose sharply.

attractive environment for Foreign Direct Investment, as well as develop incentives (taxation, tariff and regulations) that encourages investment in production activities.

Four main operational recommendations to support integration into the global market.

- Review the structure of incentives (tariffs, taxes, labor and other regulations), to ensure that it encourages private investors to move resources into internationally competitive activities. On tariff, this includes reviewing tariffs on intermediate goods and other critical imported inputs as part of EAC tariff review. Also in the short-term, review and improve effectiveness of the duty-drawback scheme.
- Negotiate non-restrictive rules of origin in the EPA agreement with the EU to remove the current constraint on Tanzanian firms participating in global chains and receiving preferential access to the EU market. Negotiate better terms under AGOA especially less restrictive rules of origin, and explore opportunities to use preferential access to the US to attract more processing activities, and in particular in the clothing sector.
- Consider joining the WTO Information Technology Agreement. Tanzania officially has a ‘zero tariff’ policy for ICT products in place, but the definition of what falls under this category is quite narrow. Removing tariffs on a broader range of ICT imports would be consistent with enhancing the role of ICT in the Tanzanian economy. One way to proceed would be for Tanzania to join the WTO Information Technology Agreement. There are currently no LDC members of this agreement. Of course, Tanzania would have to discuss this issue with the other EAC members and push for the EAC to join.
- Develop Export Processing Zones (EPZ), according to good international practices. Today, the traditional economic zone policy that focused on cost competitiveness by providing a package of incentives such as import and export duties exemptions, tax holidays, etc. has shifted to providing more efficient infrastructure and logistical services, embedded in the existing supply structure in the local economy. Successful parks are implemented in public private partnership, with public provision of land and access services and private sector management and private sector on site investment.

Priority 3: Lower costs of, and improved access to, services, are critical to support increasing competitiveness in the global market and services offer new opportunities as an export growth center for Tanzania.

Of great importance in today's globalised economy is for domestic firms to have access to efficiently produced backbone services which are critical inputs to production and trade. Services industries are particularly sensitive to ICT services, as service components, like design or research, are transported through the global telecommunications network that no longer prices according to distance.

Three main operational recommendations regarding services, competitiveness and exports

- Lowering the costs of backbone services, especially electricity, water and ICT. The higher energy cost for firms derives more from the unreliability of power supply than from the level of electricity tariffs. Tanzania needs to take all the necessary measures to improve the reliability of its electricity and water supply. On ICT, Tanzania is now at the stage where it needs to build a national ICT backbone connected to the new sub-marine EASSY cable. It is important that the ICT backbone infrastructure is built at least cost and that there is effective competition at both wholesale and retail level to ensure efficient management and low costs services to users. There are concerns that plans currently being considered by government for the ICT backbone infrastructure do not meet these requirements.
- Devise and implement a national logistics master plan for international trade that provides efficient and low cost logistics services and effective competition between the various transport corridors and different transport modes (sea, road, rail and air). Assess measures necessary for Tanzania to exploit its location advantage as a transit hub for East, Central and Southern African countries.
- In view of exploring potentials for services export, review the taxation of services exports, in particular VAT rules, and assess implications of GATS commitments for potential service export sectors. A careful identification of service export sectors is necessary since the effects on the economy (or export performance) and implications of GATS commitments may vary from one sector and mode of supply to another. Assessment of the potential effects should inform the negotiations. The Government may subsequently prioritize capacity building for service trade negotiations specific to a particular service sector.

4. Potential areas of World Bank support and next steps

The World Bank is ready to support the GoT in formulating a holistic approach towards trade, growth and development and in implementing a comprehensive strategy towards global competitiveness. Based on this policy note, three key areas are suggested for cooperation between the Bank and the government in pushing forward with implementing appropriate policy measures to deal with the range of constraints identified in previous diagnostic and analytical work:

1. Work with the government to assess the consistency of the domestic incentive framework with an export growth strategy. This would entail a review of the structure of incentives (tariffs, taxes, labor and other regulations), to ensure that it encourages private investors to move resources into internationally competitive activities – and remove obstacles that prevent the release of those resources now bottled up in low productivity sectors. Overall, this requires a careful analysis to ensure that land, labour, capital and technology are moving to a) sectors in which the country has a long-term capacity to compete and b) to the most productive firms within sectors. In turn, this necessitates a clear understanding of how trade, tax, the business environment and labor market policies interact to affect investment, output and trade decisions. A key objective would be to build, and then leave for use by the government, simple analytical tools that assist policy makers in Tanzania in assessing current tax policies and the economic impacts of reforms to the incentive system.

2. Provide analytical support to the government on key competitiveness issues through a series of policy notes. This work would target priority issues defined in the DTIS and other diagnostic work and would focus on assisting implementation of appropriate policy responses. This would include

- *Trade in agriculture:* review the impediments to the expansion of trade in agriculture goods, both regionally and internationally and recommend appropriate policies to remove the key constraints. For immediate analysis would be the export taxes on key agricultural products such as cashews. In the regional dimension, the analysis will take into account some practical recommendations from an on-going World Bank project on grain trade (cross border trade harmonization) in EAC.
- *Trade in services:* review the constraints on backbone services that are constraining competitiveness including market access restrictions and regulatory weaknesses. Look at opportunities and impediments to the expansion in trade in services, looking both at traditional services, like tourism, and IT-based services. This builds on two an on-going World Bank projects: one on tourism industry linkages, and another on labor mobility in EAC.
- *National Logistics/infrastructure study:* The World Bank has funded various initiatives on transport and infrastructure projects, including those for enhancing efficiency of transport and logistics services along regional transport corridors. This study would review the various transport sub-sectors to examine the

consistency of different master plans to ensure that Tanzania is developing effective transport and logistics infrastructure that can leverage its geographic position to make it a important hub in the Indian ocean.

- *Market access strategy:* assess the options that are open to Tanzania to improve its access in international markets, either through international or bilateral and regional agreements, and identify effective bargaining strategies. The World Bank is already providing technical assistance (TA) and analytical support in this area, including work on customs reforms, the AGOA policy note and TA for the EAC secretariat focusing on EAC Integration strategy and option for EPA configuration.

3. Identify with the government, most effective complementary policies to support trade. There is a clear challenge for Tanzania to reduce trade transactions costs, such as those related to border crossing times and export market development. World Bank practical assistance could take a two-pronged approach in this area:

- The Bank could support customs reform by providing the authorities with a self-assessment tool. This tool has been developed in the context of the Trade Facilitation negotiations of the Doha Round and makes it possible to identify remaining constraints to efficient border clearance, as well as to benchmark the performance of different elements of the clearance process against the experience in comparator countries. It would thereby provide an excellent platform for interaction between the government, the private sector, and the World Bank on progress with customs reform and modernization.
- The Bank could cooperate with the government in enhancing the effectiveness and efficiency of export promotion in Tanzania and in developing an export support framework. This would involve an assessment of untapped potentials in export markets, such as those for agri-food products. The analysis would be focused on a limited number of products and address four central competitiveness concerns, notably (a) the ability to meet quality standards in overseas markets; (b) the availability of marketing information to prospective exporters; (c) the supply of services to support product and business development; and (d) the functioning of communications between public and private entities involved in trade.

In a number of these areas it will be important to carefully link the advice being given to the government with regional policy discussions and ongoing analytical work at the regional level. This is particularly pertinent for a number of aspects of the incentive system, including tariffs, taxes and tax incentives, as well as issues relating to the regulation of services, infrastructure and trade logistics including customs. The objective will be to ensure consistent advice at the country and the regional level and to exploit regional and cross-border synergies.