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The Trade Performance under AGOA and Cotonou Initiatives: The Case of Tanzania

The Africa Growth and Opportunity Act (AGOA) intends to replace the Generalised System of Preferences (GSP) and will be directing trade between Africa and the United States until September 2008. Many African countries were made eligible for AGOA benefits since its inception in 2000.

The European Union (EU) and Africa, Caribbean and Pacific (ACP) countries (excluding South Africa), also signed a new partnership agreement in Cotonou, Benin, replacing the Lome IV Convention, on 23rd June 2000. Under the Cotonou Agreement, the EU has agreed to expand trade and investment with 77 ACP countries. The Cotonou Agreement is a 20-year-old accord, under which the nature of cooperation between the EU and ACP countries are guided by Economic Partnership Arrangements (EPAs).

This paper discusses the challenges and opportunities under AGOA and Cotonou trade arrangements for Tanzania and other African countries. Taken as a whole, these trade arrangements do not always perform or allow rational actions and choices to guarantee mutual cooperation and benefits or pay-off from their trade market players. This implies that rules of the game and the strategies adopted or negotiated are irrational, not pure but rather mixed with physical constraints and biased towards exclusive interests as embodied in such trade arrangements.

1. Introduction

Tanzania attained independence in 1961. Since then, Tanzania has undergone more than three political regimes. Political reforms have been simultaneously implemented together with economic reforms. The first political regime (1961-1966) concentrated much on uprooting some colonial interests, deprivations and destitution from the country. Initially, the Tanzania Government followed a largely mixed economic strategy up to 1967. The second political regime (1967-1985) organised systems based on the principles of socialism and self-reliance. Also, in this regime, the National Economic Survival Programme (NESP, 1981/82) and the Structural Adjustment Programme (SAP,1982/83-1984/85) were implem-ented. Thus, Tanzania recorded economic growth, stability, and development, which later stagnated and eroded substantially due to crisis. The third political regime covered the period, which started in late-1985 through 1995.

This regime adopted the Economic Recovery Programme (ERP, 1986/87-1988/89), Economic-Social Action Programme (ESAP, 1989/90-1991/92) and Three-Year Rolling Plan and Forward Budget (RPFB, 1993/1994 fiscal year). This regime, *inter alia*, shifted the monopoly from the malfunctioning public sector to market forces. The private sector was legitimately allowed to contribute to economic growth. However, many failures, challenges, and problems persisted and thus, necessitated adoption of new reforms.

The fourth political economic regime has taken the leadership power since 1995 unto today. This regime has organised a system, which is market oriented, thus implementing various macroeconomic stability policies, including fiscal and monetary measures. All these political and economic reforms were pursued in order to tackle the crises Tanzania was suffering from.

1.1 Economic Responses

The important element of the reforms was to take cognisance of effective macroeconomic management. Various economic reforms led to the performance of various indicators. They include:

- GDP growth rates with rising trend at an average of 4.4 percent from 1990 through 2001;
- GDP per capita stands at an annual average of US$ 206 and increases at a rate of 1.6 percent per annum;
- Rate of inflation has been decreasing steadily and currently stands at 4.4 percent;
- Current Account Balance (average deficit of US$ 661mn per annum) has been fluctuating but growing at an average rate of 3 percent annually;

- Rate of FDI inflows (average US$106mn per annum) has been fluctuating, but increasing at an annual rate of 50 percent, with lower rate compared to the fall of 1990s;
- Foreign reserve has been fluctuating and stands at an annual average of 13 weeks worth of imports but on an average increasing at a rate of 20 percent;
- Services, as percentage of export have been at an average of 35 percent, but declining at a rate of six percent; and
- Average private gross fixed capital formation/GDP ratio stands at an annual average of 72 percent, but growing at a rate of one percent per annum.

1.2 AGOA and EU-ACP trade arrangements

1.2.1 Africa Growth Opportunity Act (AGOA)

AGOA is the trade initiative, which intends to replace the Generalised System of Preferences or GSP that has been and will be directing trade between Africa and USA until September 2008. Many African countries were made eligible for AGOA benefits in the year 2000, based on the following AGOA conditions:

- Development of the market based economy;
- Elimination of barriers to US trade and investment;
- Protection of intellectual property;
- Adoption of policies to reduce poverty;
- Protection of human rights and workers' rights;
- Elimination of child labour practices; and
- Disengagement in activities that undermine US national security or foreign policy interests.

For instance, given its strong reform commitment and performance records, Tanzania was made eligible since October 2000. Also, Tanzania qualified for its preferential treatment for apparel and textiles on 14th February 2001 – after the enactment and coming into force of Customs (Exports) Regulations, 2001. Interpretation and implementation of AGOA in Tanzania, *inter alia*, is governed by Customs (Exports) Regulations of 2001. Commissioner of Customs and Excise of Tanzania Revenue Authority (TRA) is the custodian of the regulations.

It is also important to note that Tanzania has numerous products with a ready market in the US. Tanzania Chamber of Commerce, Industry and Agriculture (TCCIA), for example, has identified at least 40 local products that can be readily exported to the US under AGOA arrangements. This, however, suggests that the country's products are unable to penetrate the US market.

1.2.2 EU-ACP Cotonou Agreement

The EU and ACP countries (excluding South Africa) signed a new partnership agreement on 23rd June, 2000 in Cotonou, Benin, replacing the Lome IV Convention. Under the June 2000 Cotonou Agreement, the EU has agreed to open up trade with 77 African, Caribbean and Pacific (ACP) countries. The ACP countries, including East African Community (EAC) countries, are signatory to the Cotonou agreements. Thus, EAC has access to the EU market for most of its products on non-reciprocal terms, i.e. without opening up markets for EU producers.

The Cotonou Agreement is a 20-year-old accord, under which the Lome trade terms will be extended at least by 2008-end. The main features of the Lome Conventions include:

- Equal partnership;
- Aid and trade;
- Commodities export proceeds;
- Specific protocols on sugar, beef and veal, bananas and rum;
- Mutual obligations, for instance, on human rights and structural adjustment; and
- Joint administration and dialogue.

The Cotonou Agreement specifies arrangements for negotiating how to replace the existing non-reciprocal preferential regime with the WTO-compatible (reciprocal) Economic Partnership Agreements (EPAs) after 2008.

Table 1: Cotonou Agreement Time-frame

Time-frame	Action	Conditions
February -Sept. 2002	Preparation for Negotiations	• Lome trade terms maintained if granted waiver by the WTO.
September 2002-December 2007	EU-ACP negotiations	• Lome trade terms maintained if granted waiver by the WTO; and • If granted, waiver on Lome trade terms expires on 31st December 2007.
January 2008-2020	Implementation of Economic Partnership Agreements (EPAs)	• ACP signatories of EPAs to open their markets to EU imports, leading to reciprocal free trade between the EU and ACP states; • LDCs, which do not sign EPAs, keep Lome trade terms; and • Non-LDCs that do not sign EPAs, get GSP.
From 2020	Reciprocal EPAs	• EU-ACP FTA for signatories of EPAs.

2. Performance under AGOA EU-ACP

It has been indicated that both AGOA and the Cotonou EU-ACP trade frameworks have extended their former trade arrangements until 2008. This implies that most of the trade movements are still governed by the GSP (US-Africa) and Lome Convention IV (for EU-ACP) regimes.The perfor- mance of trade has been outstanding under AGOA and EU-ACP regimes. The annual trade data, along with macro economic indicators and growth rates of the countries indicate that the AGOA and EU-ACP trade agreements provide the lucrative chance for the local production and marketing among the ACP countries, EU, and USA.

The terms of trade (TOT) is one of the key indicators of the external shocks. Comparative analysis shows that the TOT between Tanzania and the US has been below that of UK (247), some EU countries (136) and Japan (83.4). This implies that trade with Japan and the EU countries brings more favourable TOT, and hence, more wealth to Tanzania than the US. (see table 2)

Some of the important findings are as follows:

2.1 SSA countries and AGOA

2.1.1 Swaziland is a leading country to benefit from the AGOA trade arrangement.

2.1.2 Countries like Seychelles, Cape Verde and Benin have declined from this trade arrangement;

2.1.3 Countries such as Uganda, Zambia, Niger and Rwanda have registered poor performances under the AGOA regime;

2.1.4 Mauritius is a country which successfully started trade under AGOA; and

2.1.5 There are several SSA countries which are trading with USA but not through AGOA. They include Angola, Equatorial Guinea, Congo DR, Zimbabwe, Liberia, Comoros, Chad, Burkina Faso, Togo, Djibouti, Central African Republic, Burundi, The Gambia, Sao Tome and Principe, Sudan, Eriteria, Somalia and Guinea Bissau.

2.2 Tanzania and the USA

Tanzania accounts for about three percent of the annual export trade and four percent of annual import trade with USA. Among other AGOA African countries, Tanzania is ranked 22nd out of 48 SSA countries trading with USA under AGOA and GSP and other trade arrangements. Tanzania has registered third rank in terms of growth of trade under AGOA arrangement and 26th in GSP, and 43rd contributor to year to date (YTD) from all SSA countries to USA. To achieve third rank is an indicator of full commitment to AGOA.

Overall, Tanzania has assumed a rank of 32nd just below SA, which is ranked 31st. Within the EAC context, Kenya and Uganda are far ahead of it: while Uganda is ranked 18th, Kenya stands at 19th.

2.3 Tanzania and EU

Table 2 summarises the evolution of the Lome Conventions. Generally, they have been wider in coverage and provided for largest financial aid and political dialogue framework for North-South cooperation (ESRF, 2002).

The overall performance of the Lome Conventions are highlighted as follows:

- They offered the most generous European trade arrangement to the developing countries, including Tanzania. In practice, however, it was evolved into a complex tool with too many objectives, instruments and procedures. These resulted into delays, bureaucratisation, reduced efficiency and questionable development impact;
- They promoted and diversified ACP countries' exports in their favour for growth and development. However, despite preferential access to the EU markets, ACPs' export performance had deteriorated over two decades, as its share of the EU market declined from 6.7 percent in 1976 to three percent in 1998;
- Lome Conventions were "incompatible" with the international trade rules and, thus, abolished its trade barriers within the multilateral frameworks (GATT, then WTO); and
- They granted (tariff and non-tariff) non-reciprocal preferences to an increasing number of new privileged trade partners.

Table 2: Terms of Trade

TERMS OF TRADE	1996	1997	1998	1999	2000	2001	Average
UK Alone	116.47	110.36	177.35	266.93	501.09	461.65	247.69
SOME EU COUNTRIES	113.71	118.52	87.87	103.94	210.69	217.45	136.03
US	128.93	111.61	43.34	49.73	71.18	63.78	81.22
JAPAN	134.65	134.64	57.80	40.95	39.94	75.57	83.37
ROW	136.09	136.94	90.41	80.04	64.66	61.09	95.60
TOTAL TRADE	128.03	129.05	85.36	80.30	97.56	102.89	103.31

Source: Bank of Tanzania, Economic Bulletin for Quarter Ended December 31, 2001.

3. Challenges for Trade Policy

In order to promote trade benefits through multilateral and bilateral trade initiatives, including AGOA and EU-ACP, several challenges addressing mutual trade issues should be taken into account. The overall outcome of the trade negotiations should be reflected in the expanded market access. Some challenges are discussed hereunder:

3.1 Specific challenges under EU-ACP

3.1.1 Reductions in External Tariff

Over a period of time, there has been a decreasing trend in trade tariffs. For instance, the reductions in external tariff will result into reduced customs revenue and cause transitional unemployment and idle capacity in industries due to competition from the EU in the Tanzanian and East African Market.

3.1.2 Total Factor Productivity (TFP)

Theoretically, initiatives like AGOA and EU-ACP with capital intensive trade have the potential to create substantial welfare gains through dynamic increase in the TFP and higher levels of investment. However, such benefits are only attainable in the long run and are a function of many other macro-economic adjustments and intellectual property rights frameworks. The benefits are unlikely to offset the loss in revenue.

3.1.3 Implementation Framework

The countries differ in their levels of economic development. This implies that there will be front-load (those who will open their markets faster), mild-load and the back-load in terms of time frame, pace of tariff reduction and coverage. However, it is difficult to establish respective and conclusive evidences without research.

3.1.4 Increased Competition

AGOA and EU-ACP will lead to increased competition in the EAC region and Tanzania, in particular. However, the concern regarding non-tariff measures impends the movement of cargo by land transport among the EAC countries. This signifies a potential recipe for failure in EAC. This might unfairly displace exports from other countries and depress international prices.

3.1.5 Complicated Trade Relations

Tanzania is a member of the EAC, SADC, EU-ACP and WTO trade initiatives. That is, it has access to world markets for most of its products on non-reciprocal terms. However, lack of harmonisation among these trade arrangements would complicate the situation by different trade treatments. For instance, the situation may result in unnecessary changes from non-reciprocal to reciprocal treatments.

3.1.6 Negotiation Capacities, Information and Data

The ACP countries are poorly informed compared to their counterparts – the EU trade partners. The EU and its countries individually conduct a lot of research activities and are, thus, well equipped with sharp and relatively realistic analytical tools. This is mainly reflected in their capacity and capability to prepare most of the negotiation tools, including trade protocols, preferences and other instruments.

3.1.7 Abolition of STABEX and SYSMIN

The economies of EAC, including Tanzania, are mainly dependent on agricultural commodity and mineral export earnings. The EU-ACP established the system for stabilising earnings from exports of primary commodities (STABEX) and the system for stabilising earnings from mineral imports (SYSMIN) schemes to help stabilise export receipts on agricultural and mining commodities, respectively. Thus, abolition of STABEX and SYSMIN financing facilities will cause the countries heavily dependent on agricultural and mining resources to suffer from exports losses. This implies that Tanzania and other EAC countries will no longer enjoy such a shock-absorbing mechanism.

3.1.8 Ongoing EU Reform

The EU is in the process of changing its economic, trade and political priorities. This may result in setting new agreements with terms and conditions different from the existing ones and, thus, negatively affect the ACP trade partners. For instance, Brazil and Australia (world's biggest sugar exporters) have lodged a complaint against the EU's subsidies, with the WTO. This may result in repealing the Sugar Protocol.

Table 3: Evolution of Europe-ACP Partnership During the Past 40 Years

Year	Event	No. of Countries		EDF Amount in Euro mn
		ACP	European	
1957	Association System			569.4
1963	Yaounde 1 Convention	18	6	730.4
1969	Yaounde II Convention	18	6	887.3
1975	Lome 1 Convention	46	9	3053.3
1980	Lome II Convention	58	9	4207
1985	Lome III Convention	65	10	7882.6
1990	Lome IV Convention	68	12	11583.0
1995	Lome IV BIS Convention	70	15	13151.1
2000	Cotonou Agreement	77	15	14300

Source: Cotonou Agreement, 2000.

3.2 Impact under AGOA

Up to date, Tanzania's exports to the US market still remain insignificant. There are many reasons, most of them based on historical performance, which hold back or discourage entry into such a trade:

3.2.1 Low Competitiveness and Participation

The findings show that imports to Tanzania (preferred imports) from USA increased by about three percent as a result of AGOA. However, low competitiveness, as reflected by various intra- and inter-trade indicators and high costs, will continue to be a stumbling block. Further, most of the issues raised above indicate that AGOA has not been a partnership trade arrangement as there was little African involvement in its preparation.

3.2.2 Short Time-Frame

The time-frame set by AGOA is too short (eight years). For instance, it will be almost impossible for Tanzania and other SSA countries to develop the needed infrastructure, so as to maximise their benefits from the AGOA trade arrangement.

3.2.3 Low Intra-Industry Trade (IIT)

The value of exports between Tanzania and USA in intra-industry trade is 53.6 percent of the total trade. This indicates high linkage, which exists among the sectors in the trade arrangement between the countries.

Looking at the taxes, the IIT has contributed about Tanzanian Shillings (Tshs) 6.2bn (64.4 percent) of total import taxes (Tshs9.2bn), collected through trade between USA and Tanzania. This implies that only 35.6 percent was collected through IIT. Also, further analysis of the figures indicates that there is a high correlation between IIT taxes (64.5 percent) and IIT trade (53.4 percent). This implies that IIT has contributed relatively higher taxes compared to inter-trade.

Commodity-wise, IIT is mostly performed in precious stones, sheet piling iron or steel, live animals and live poultry.

3.2.4 Cumbersome Legal Instruments/Requirements

Tanzania exporters find the rules cumbersome and restrictive. The following aspects are highlighted as not supportive:

Under the rules, among others, exporters or producers, who wish to export to USA, are required to apply for a *visa*[1] for any goods originating in Tanzania. The application shall be made to the Commissioner of Customs and Excise of Tanzania Revenue Authority (TRA). The rules also provide that if any person intends to produce textiles and apparel, he will have to register with the Commissioner for Custom and Excise of TRA before commencing production. The producers are further required to notify the Commissioner about commencing production as well as when production ceases.

Further, under the regulations, if any exporter fails to comply with the rules, he will have committed an offence and will be liable to a fine not exceeding Tshs 50mn or three times the value of the goods involved – whichever is greater – and/or imprisonment for a period of not exceeding three years or both. The TRA Commissioner can, in addition to any penalty, order that the convicted person be not allowed to export goods not only under AGOA preferences, but also under any other preferential trade agreement entered into by the Government of Tanzania. Any goods subjected to trans-shipment using false documents can also be subjected to forfeiture {Rule 13(4)}. All these, apart from consuming time, may expose exporters to unnecessary risks and harassment in the future.

Also, the Tanzania Chamber of Commerce, Industry, and Agriculture (TCCIA), being accredited as the sole issuer of certificates of origin, has institutional weaknesses, which render it ineffective.

Similarly, producers and exporters of articles for the AGOA market are required to maintain complete records of the production and export of their articles, including materials used in the production, place of production, number and identification of the types of machinery used in the process and the number of workers employed in the production for at least five years.

As mentioned earlier, Tanzania did not qualify for the textiles and apparel provisions of AGOA until February 2002. Thus, it can be argued that the delay to put in place the AGOA legislation is a reason for the country's insignificant records of its exports to USA. These requirements are seen as restrictive, and exporters do not believe these can be accepted easily.

3.3 Challenges under both AGOA and EU-ACP

3.3.1 Globalisation[2]

The globalising world has increasingly been abolishing the trade preferences in favour of developed countries. For example, FDI has become a special hidden trade preference allowing developed countries to pursue duty-free exports to the developing countries, including Tanzania. Also, through the real foreign direct investment (FDI), less developed countries will have no beneficial trade in the near future, and thus, it will render any trade agreements or EPAs between less and developed countries as unjustifiable. The empirical example is reflected in the values of currencies; in this case, the Tshs is weak in USA while the US$ is regarded as one of the strongest.

3.3.2 Low Rate of Income and Growth

In many sub-Saharan countries, the markets are unattractive for investment due to low rate of income and growth in such economies. Also, they have a tiny and dispersed population, where the majority of people are dependent for their livelihood on subsistence agriculture, supplemented, in some cases, by migratory labour.

3.3.3 The Paradox

Despite the fact that the developing countries are facing various overwhelming constraints, both potential markets (underdeveloped and developed countries) cannot forgo the quality aspects of the products. Thus, both producers and consumers should honour the quality as well as the price aspects. That is, high quality products should fetch high prices, regardless of the producers' geographical location. This would pre-empt the current hypothesis that "developed markets require high (maximum) quality products from LDCs at low (minimum) price". If the prices offered by the world market could not afford the cost incurred by producers, then such a market is restricting or limiting trade. Offering high prices on LDCs' exports would eventually result in improved high quality products worldwide.

4. Conclusions

This paper has discussed the AGOA and EU-ACP trade arrangements for the African countries, USA and EU countries. Taken as a whole, the discussed trade arrangements do not perform or allow rational actions and choices to guarantee mutual cooperation and benefits or pay-offs from their trade market players. This implies that rules of the game and the strategies adopted or negotiated are irrational, not pure but rather mixed with physical constraints and biased for exclusive interests as embodied in such trade arrangements. Thus, it is difficult for a country like Tanzania to use trade initiatives like AGOA to improve export trade and earn significant revenues.

Deliberate measures against all the hindrances mentioned above should be designed and implemented as early as possible. For instance, USA in consultation with SSA countries should carry out reforms in AGOA to develop a comprehensive trade policy and strategy, which is more participatory, with greater advocacy and public education on content and issues at stake in various trade negotiations, of which Africa is a participant.

Negotiation is always time consuming, and thus, it may result in a biased social choice, as social cost is higher than social benefits in the long run. One would look at EPA negotiation strategies from the point of view of Tanzania as well as EAC as a group. The key instruments to be employed include tariff-based instruments, non-tariff measures, trade defence mechanism, trade development instruments and international trade policy instruments.

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1. A *visa* is a stamp by the Government of the United Republic of Tanzania issued for any goods for export purposes, originating from Tanzania. It authorises the shipment of the goods, bears a description of the goods and certifies the country of origin. See Second Schedule, Customs (Exports) Regulations 2001.

2. Globalisation includes free cross-border movement of investment assets, information and people, and trade liberalisation. This highlights free movement of goods and services across borders.

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