Briefing

Tanzania and the African Continental Free Trade Area

Possible impacts, policy priorities and scoping of future support

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Series

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Contents

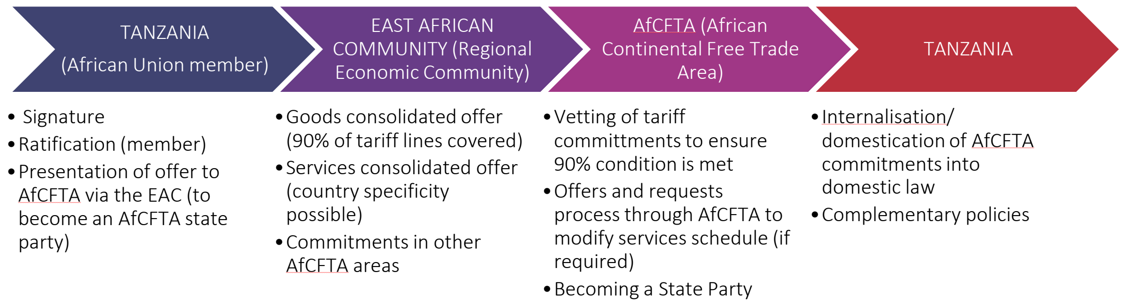
Acronyms

AfCFTA	African Continental Free Trade Area
ASIP	Annual Survey of Industrial Production
AU	African Union
AUC	African Union Commission
BoT	Bank of Tanzania
CTI	Confederation of Tanzanian Industries
DRC	Democratic Republic of Congo
EAC	East African Community
FCDO	UK Foreign, Commonwealth and Development Office
GATS	General Agreement on Trade in Services
GIZ	Deutsche Gesellschaft für Internationale Zusammenarbeit
MIT	Ministry of Industry and Trade (Tanzania)
SADC	Southern African Development Community
SITA	Supporting Investment and Trade in Africa
TAHA	Tanzania Horticulture Association
TCCIA	Tanzania Chamber of Commerce, Industry and Agriculture
TFA	Trade Facilitation Agreement
TMEA	TradeMark East Africa
TPSF	Tanzania Private Sector Foundation
TRAINS	Trade Analysis Information System
TRALAC	Trade Law Centre
TRIPS	Trade-related Aspects of Intellectual Property Rights
UNCTAD	United Nations Conference on Trade and Development
UNECA	United Nations Economic Commission for Africa
WTO	World Trade Organisation

Executive summary

The African Continental Free Trade Area (AfCFTA) entered into force in May 2019. Intra-African trading under AfCFTA officially began in January 2021, and on 9 September 2021 the Minister of Industry and Trade, Kitila Mkumbo, announced that the Tanzanian parliament had ratified the agreement and is now a State Party. However, the accession process has not been completed. As one of the African Union (AU) member states negotiating the agreement through the East African Community (EAC) customs union, Tanzania is working with the other EAC Partner States to finalise the schedule of commitments to the AfCFTA Secretariat regarding tariffs and services. AfCFTA negotiations in a range of trade-related areas are proceeding alongside this. Figure ES1 summarises the overall process.

Figure ES1: AfCFTA negotiation and implementation process for Tanzania

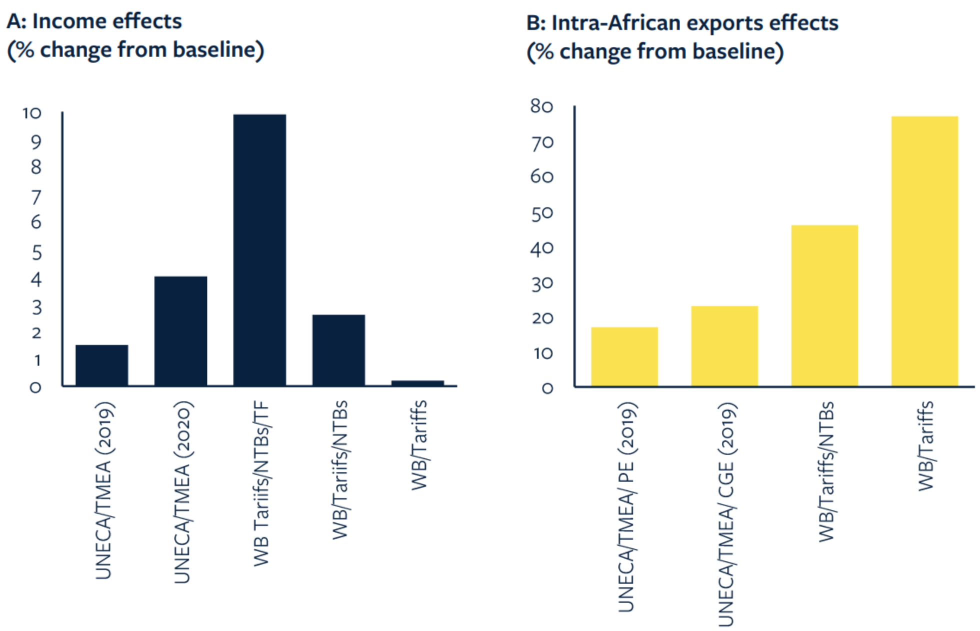


Source: Authors' compilation

So far, some 88% of goods tariff lines have been decided for the consolidated offer by the EAC to the AfCFTA Secretariat. The cotton, textiles, apparel, edible oil and automotive sectors are excluded. The offer for services is yet to be finalised, and is likely to be country-specific, while the level of liberalisation will be between what is offered under the General Agreement on Trade in Services (GATS) and the EAC. There have been interactions between the EAC and AfCFTA secretariats on both goods and services offers. Negotiations on investment are still pending and will form part of the negotiations under phase 2, along with competition policy, intellectual property rights and digital trade.

A range of modelling studies examine the possible impact of the implementation of AfCFTA, depending on the type and depth of liberalisation (full or partial, and narrow or deep), and make implicit assumptions about supply responses and the capacity of import-competing industries. These studies suggest that the implementation of the AfCFTA may increase Tanzania's intra-African exports by between 17% and 77%, depending on the liberalisation strategies; Tanzania's intra-African imports could increase by between 1% and 103%; and Tanzanian national income could increase by between 0.2% and 9.9%, as summarised in Figure ES2. Increases in trade (both exports and imports) will be concentrated in the agriculture and manufacturing sectors, with the main partners located in the Southern African region. Products for which Tanzania has a comparative advantage in African markets include glass, wood, sisal, electrical equipment, vegetables, hides/skins, minerals and textiles. In addition, trends in the manufacturing production shows that Tanzania has potential for exports of wheat, cereal, oilseeds, soap, paper, glass, and petroleum products; and would see increased imports of sugar, dairy and chemical products, electronics, metals, vehicles and textiles.

Figure ES2: Possible impacts of implementing AfCFTA on Tanzania's income (A) and exports to Africa (B)



Notes: UN Economic Commission for Africa (UNECA)/TradeMark East Africa (TMEA) (2019) simulates tariff liberalisation across Africa (using the standard CGE model); UNECA/TMEA (2020) simulates tariff liberalisation across Africa (using the Mirage model); the World Bank simulation assumes tariff liberalisation, tariff and non-tariff barrier liberalisation, and tariff/non-tariff barrier (NTB) liberalisation and implementation of the trade facilitation agreement.

Source: Various modelling studies

Stakeholder consultations reveal a lack of awareness of the AfCFTA, which may slow the implementation process. People in the private sector in Tanzania are worried about high costs of doing business that could affect their competitiveness and loss of market share. High non-tariff barriers restrict intra-African trade by adding substantial costs. This study identified seven key concerns with respect to the AfCFTA:

1. Low level of awareness of the AfCFTA.
2. High cost of doing business (cost of production) for Tanzanian producers, owing to:
    a. cost of shipping
    b. unpredictable policy and regulatory measures
    c. informality
    d. cross-border constraints.
3. Low production capacity.
4. Low negotiation capacity, both at the regional (EAC) and country levels.
5. Addressing non-tariff barriers (including related to Covid-19).

6. Compensating for the loss of tax revenue because of tariff reduction under the AfCFTA.
7. Impact of the AfCFTA on relative prices and poverty.

Future government action and donor support need to address these concerns. Support is needed for the preparation of an implementation strategy to identify key sectors, opportunities and challenges (UNDP will be working with the Tanzanian government on an implementation strategy). A range of complementary policies will be needed to support Tanzania's implementation of AfCFTA commitments, including around phase 1 issues. Capacity-building and technical assistance are also required for phase 2 negotiations. Table ES1 proposes a range of support measures to tackle each of the seven concerns identified above.

Table ES1: AfCFTA implementation needs in Tanzania: Summary of stakeholder views

Trade issue	AfCFTA negotiations	AfCFTA implementation	
		Support AfCFTA implementation directly	**Complementary measures to support implementation**
AfCFTA Phase 1		Supporting national implementation strategy Awareness-raising and translation of commitments into domestic (e.g. customs) laws Political economy analysis	Addressing tariff revenue loss (e.g. AfCFTA adjustment fund) Raising supply capacity and quality standards Business environment reforms Addressing Covid-19 Value chain analysis and capacity-building
AfCFTA Phase 2	Supporting negotiators in phase 2 issues, which are new for Tanzania	Supporting national implementation strategy Political economy analysis	Supporting investment law

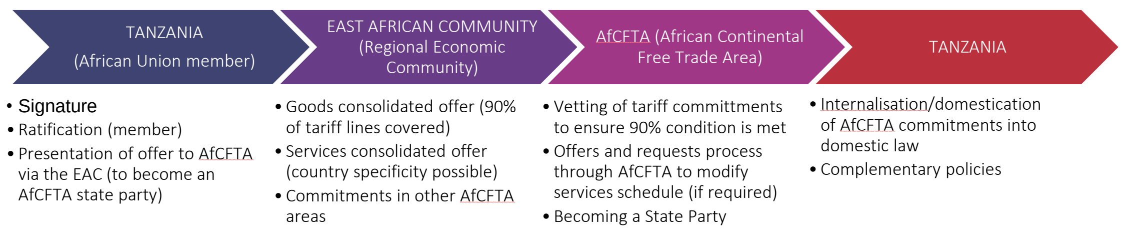
1. Introduction

The African Continental Free Trade Agreement (AfCFTA) entered into force in May 2019, with intra-African trading under it beginning 1 January 2021. On 9 September 2021, Minister of Industry and Trade Kitila Mkumbo announced that the Tanzanian parliament had ratified the AfCFTA. This followed a period where Tanzania had been a hesitant player in international trade and investment. This more active position forms part of a more open stance by the government towards (foreign) investors and multilateralism. Out of 55 African Union (AU) members, Tanzania is the 42nd country to sign and ratify the AfCFTA. However, this process has not finished. As one of the partner states negotiating the agreement through the EAC bloc, Tanzania still needs to finalise its schedule of commitments to the AfCFTA regarding tariffs and services, with AfCFTA negotiations proceeding alongside this (see Figure 1). Tanzania will also need to deposit the required instruments of ratification with the AfCFTA secretariat.

This briefing reviews how far Tanzania has come in the AfCFTA negotiation and implementation process, considers the possible impact of implementing the AfCFTA and suggests a range of measures to help with implementation and promote more beneficial impacts. It identifies key priorities and needs for Tanzania in the negotiation and implementation of the AfCFTA for possible support from the UK Foreign, Commonwealth and Development Office (FCDO), through donor support programmes such as Supporting Investment and Trade in Africa (SITA). The analysis underpinning this briefing draws on in-country consultations with agencies and organisations in the public and private sector in Dodoma, Dar-es-Salaam and Arusha (details available on request), and secondary data and literature reviews. Appendix 1 includes relevant data on Tanzania's performance and role in intra-African trade.

The briefing is structured as follows. Section 2 discusses Tanzania's commitments under the AfCFTA, which are negotiated through the EAC. Section 3 reviews the expected impacts on the basis of a small set of impact studies. Section 4 concludes by identifying challenges and measures that can support Tanzania in the implementation of the AfCFTA.

Figure 1: AfCFTA negotiation and implementation process for Tanzania



Source: Authors' compilation

2. Tanzania's commitments under the AfCFTA

Member States of the AfCFTA make commitments in a range of areas. Negotiations follow two phases. Phase 1 includes trade in goods, Rules of Origin, trade in services, non-tariff barriers (NTBs), trade facilitation and the Dispute Settlement Mechanism. Several issues have been concluded to a large extent. Phase 2 covers issues such as investment, competition and intellectual property, as well as digital trade, where negotiations have not been concluded.

2.1 **AfCFTA Phase 1 commitments**

Phase 1 is organised around three protocols:

- Protocol on Trade in Goods
- Protocol on Trade in Services
- Protocol on Rules and Procedures on the Settlement of Disputes.

Each protocol contains annexes addressing specific aspects.

2.1.1 Protocol on Trade in Goods

The Protocol on Trade in Goods involves the following aspects, each addressed in specific annexes:

- Schedules of Tariffs Concessions
- Rules of Origin
- Customs Cooperation and Mutual Administrative Assistance
- Trade Facilitation
- Non-Tariff Barriers
- Technical Barriers to Trade
- Sanitary and Phytosanitary Measures
- Transit
- Trade Remedies.

African countries that ratify the AfCFTA need to eliminate tariffs on 90% of the goods traded. Least developed countries (LDCs) are expected to undertake this over a 10-year period, while non-LDCs are expected to do so over five years. A further 7% of tariff lines of products that are deemed sensitive according to the thresholds and modalities for liberalisation defined in the AfCFTA (wheat flour, sugar, edible oils and leather) will be liberalised over 13 years for LDCs and 10 years for non-LDCs. This leaves 3% of tariff lines excluded from liberalisation, mostly agricultural products, textiles and vehicles. This list will be regularly reviewed and updated.

The operationalisation of the AfCFTA involves five instruments:

- Rules of Origin, which regulate whether products originate from African countries and are therefore subject to lower tariffs;
- an online portal for tariff negotiations;
- an online mechanism for monitoring, reporting and elimination of non-tariff barriers;
- a pan-African payment and settlement system (launched at the end of September 2021); and
- the African Trade Observatory, with up-to-date and reliable trade data.

Only a handful of countries have translated Trade in Goods commitments into changes in customs arrangements. By March 2021, these included Cameroon, Egypt, Ghana and South Africa (we do not have a more recent update). There also still needs to be agreement on Rules of Origin (RoO) provisions for more than 11% of tariff lines. This means that most intra-African trade is not being conducted under AfCFTA rules. Many countries still need to translate commitments into domestic law to enhance implementation and ensure more effective participation in the continental market. So even if Tanzania's tariff offer has been submitted and accepted, a further barrier to effective implementation is to translate the tariff offer into customs procedures (in the EAC Common External Tariff applied by Tanzania at its borders).

Consultations with the Ministry of Industry and Trade (MIT) confirm that Tanzania has almost finalised Phase 1 of the AfCFTA negotiation. The country has submitted tariff offers and a schedule of commitments on services to the EAC secretariat for consolidation and convergence analysis. It should be noted that Tanzania is negotiating the AfCFTA across the EAC bloc, alongside other EAC partner states (excluding South Sudan, which is not a member of the World Trade Organization (WTO)). Tanzania held up progress at the EAC level for some time and has argued that it needs a national implementation strategy to finalise its goods and services offers. The EAC has yet to finalise its goods and services schedules, although there have been interactions between the EAC and AfCFTA secretariats.

In-country preparations for the offers have been led by the MIT, the mandated technical lead Ministry, and the Ministry of Foreign Affairs (the main coordinating government institution), and have involved the Ministry of Finance and Planning (for fiscal aspects) and the Ministry of Agriculture (the main sector ministry). Other sector ministries have been brought in on a case-by-case basis. Discussions have also involved the private sector through the main umbrella organisations, including the Confederation of Tanzanian Industries (CTI) and Tanzania Private Sector Foundation (TPSF).

Further discussions with the EAC secretariat have confirmed the status of tariff offers so far, noting that:

- The consolidated tariff offers so far will gradually constitute about 88% against the required threshold of 90% liberalisation of 5,688 tariff lines over the next 10 years (the EAC tariff offers are available on request).
- The cotton, textiles, apparel, edible oil and automotive sectors have been excluded, according to the latest update. These sectors form part of outstanding issues in negotiations.
- Overall, the secretariat is happy with progress so far, noting that the current focus of negotiations is on achieving the remaining 2–3%.
- Tanzania's ratification of the agreement is a notable milestone that makes the EAC region eligible to trade under the AfCFTA regime, provided RoO are concluded.

Consultations have shown that, although considerable progress has been made on phase 1 issues, RoO are still a challenge given the outstanding issues around the automotive, sugar, textile and apparel sectors, along with those in edible oils, where negotiations are still ongoing. So far, the EAC has achieved 80% of tariff offers with agreed rules, but the remaining 20% of tariff lines accounts for a significant share of trade (imports) into the region. More generally, failure to agree on RoO will inhibit trade under the AfCFTA scheme even if State Parties have liberalised a particular sector or product. Primarily this is because the RoO set the modality for defining the origin of a product, making it eligible for preferential treatment under the agreement. This means that any product receiving tariff-free treatment under AfCFTA may do so only if it originates in an African country. This condition may be difficult to satisfy if there are strict rules of origin. It is also the case that many of the inputs into these products are imported from outside the region.

2.1.2 Protocol on Trade in Services

The Protocol on Trade in Services includes the following annexes:

- a schedule of specific commitments;
- MFN exceptions;
- Air Transport Services;
- a list of priority sectors; and
- a framework document on regulatory cooperation.

Under the services protocol, each member must provide a schedule of specific commitments for services liberalisation in five sectors:

- business services;
- communication services;
- financial services;
- tourism; and
- travel and transport.

There is discussion on whether energy services should be added to this list.

According to the guidelines and modalities of the negotiations, a positive General Agreement on Trades in Services (GATS)-plus approach will be adopted. This implies that, for each sector and subsector, every member will list any derogation from market access and national treatment for each individual mode of supply.

Tanzania has committed to liberalising only one major sector under WTO GATS: tourism and travel-related services. Under the EAC, Tanzania is committed to liberalising 46 service sub-sectors, while it has proposed to liberalise a further 32 sectors under the Revised Schedules of Commitments on the Progressive Liberalization of Service (EAC/SCTIFI/35/Directive 20). Tanzania has yet to submit an initial offer for the AfCFTA, even though most EAC members have submitted a preliminary offer. However, the EAC customs union does not cover services. This means that members do not need a common agenda to liberalise trade in services with third parties. Although services liberalisation by Tanzania is not mandatory under the EAC agreement, it would be useful to submit an offer to the AfCFTA secretariat to be included in the continent-wide move to liberalise intra-African trade in services.

2.1.3 Dispute Settlement Mechanism

Article 20 of the AfCFTA establishes a Dispute Settlement Mechanism to settle disputes arising between member states. This follows the institutional structure of the WTO (Trade Law Centre (TRALAC), 2020) and, according to the protocol on Rules and Procedures on the Settlement on Disputes, comprises the following annexes:

- Working Procedures of the Panel
- Expert Review
- Code of Conduct for Arbitrators and Panellists.

The mechanism will cover issues chiefly related to NTBs. NTBs are known to be a challenge to effectively harnessing the market benefits of trade liberalisation. Ad hoc and temporary non-tariff measures may be imposed by one country against another, limiting or inhibiting trade under the free trade area. Recent trade rows between Kenya and Tanzania are cases in point: Kenya has refused entry of Tanzanian cereals into the Kenyan market, based on Tanzania's failure to comply with aflatoxin standards.[1] In 2020, in the context of Covid-19, the Tanzanian authorities responded to Kenya's decision to restrict movement across the Kenya–Tanzania border by forbidding entry to all vehicles and individuals from Kenya. Even if a product is offered tariff-free treatment, imposition of standards may hamper trade.

2.2 **AfCFTA Phase 2 commitments**

Phase 2 issues originally included the investment protocol, competition policy and Intellectual Property Rights (IPRs). Digital Trade, including e-commerce, was originally scheduled to be negotiated as part of phase 3. However, the Covid-19 pandemic has been helping to prioritise digital trade negotiations as a phase 2 issue. Negotiations are expected to finish by September 2022. There is recognition within the secretariat that this deadline is ambitious, but only member states can change it, meaning any alterations will require further consultation.

[1] Aflatoxin is a naturally occurring toxin produced by the fungus Aspergillus flavus.

2.2.1 Investment protocol

The investment protocol replaces existing bilateral investment treaties between members, and is expected to be a model for negotiations with non-African countries. Investment protocol negotiations will involve:

- discussions on introducing elements of investment facilitation and promotion;
- additional processes (e.g. mediation) in relation to the Dispute Settlement Mechanism
- relying less on Investor-State Dispute Settlement (ISDS); and
- the potential introduction of limitations to ISDS use, such as the right to regulate and the use of local courts.

Negotiations on the investment protocol are advanced, but it is unclear whether the end-2021 deadline for their conclusion will be met.

2.2.2 Intellectual Property Rights

The IPRs protocol aims to develop a unified approach, bringing together the different treatments that IPRs receive in the respective Regional Economic Communities (RECs) and member states. The protocol will provide instruments for cooperation in the fight against counterfeited and pirated goods and help with the registration of trademarks. It will also offer technical assistance in relation to compliance with major global IPR agreements and the registration and protection of geographic indicators and denomination of origin.

2.2.3 Competition policy

The competition policy protocol aims to build on existing arrangements in RECs. This involves interpretations and harmonisation of a wide range of agreements involving different levels of depth. Negotiations are difficult because of varying levels of preparedness of state members in relation to the existence of domestic competition laws and authorities that are based on different civil law systems (Gachuiri, 2020).

2.2.4 Digital Trade

Negotiations on the digital trade protocol will include e-commerce topics such as market access, rules and regulations (e.g. digital protection), facilitation (e.g. electronic authentication) and enabling clauses. It will also include topics centred on the treatment of data, such as localisation and transfer. Such negotiations are complicated, given that these issues are currently treated differently across Africa and even within the same REC (Banga et al., 2021). Moreover, in many member countries, there are no strategies, policies or institutions to deal with these issues. While the AfCFTA handles negotiations, significant parts of continental digital trade policy remain within the AU Commission (AUC). Our discussions with the AUC suggest they are designing industrial and transformation policies complementary to AfCFTA.

3. Possible impacts and challenges of AfCFTA implementation

This section discusses the possible impacts of the AfCFTA by reviewing a number of modelling studies (Section 3.1) and summarising consultations (Section 3.2). Section 3.3 highlights a number of challenges associated with the implementation of the AfCFTA.

3.1 **Review of modelling studies**

Modelling studies provide a sense of the effects of policy measures, such as the implementation of the AfCFTA. Different modelling studies usually yield different results, depending on assumptions and model specifications, and hence it is important to examine the body of evidence, rather than a single study. Various studies analyse the impact of the agreement on Tanzania. The existing literature on the quantitative impact of the agreement on the Tanzanian economy analyses results from partial equilibrium (PE) models, as well as simulations, using computable general equilibrium (CGE) models, which incorporate scenarios ranging from partial to total elimination (full liberalisation) of tariff and non-tariff barriers. Global Trade Analysis Project (GTAP) modelling, a form of general equilibrium modelling, covers aspects of bilateral trade flows, production and consumption patterns, as well as the intermediate use of goods and services. However, different modelling techniques on the impact of trade liberalisation might yield different results due to variations in assumptions and the choice of variables. These modelling studies are reviewed below, and in Table 1.

Table 1: Simulation results for the impact of the AfCFTA on the Tanzanian economy

Author: empirical model	Impact on Tanzania's trade with rest of Africa/intra-African trade	Overall net trade effect	Sectors gaining (exports/imports)	Top five trading partners benefitting	Macroeconomic impact	Top gaining/losing domestic sectors
UNECA and TMEA (2019): Partial equilibrium analysis	Increase in exports of $172 million (17% as compared to base year 2014)	Trade creation will be greater than trade diversion by ++$8 million	Exports: agriculture and manufacturing sectors (soap, paper, glass and wheat)	Exports: DRC, Mozambique, Ethiopia, Egypt and Zimbabwe	-	
	Increase in imports of $14 million (1% compared to base year 2014)					

UNECA and TMEA (2019): GTAP model using full liberalisation	Boost exports by $323 million (23% as compared to base year 2014)		Exports: vegetable oils, tobacco, chemical products and textiles	Exports: South central Africa (DRC, Angola), Central Africa, Ethiopia, Benin	1.5% rise in GDP as compared to base year 2014	Gain: vegetable oils and fats, chemical products, rubber and plastics
	Boost imports by $663 million		Imports: sugar, chemical products, electrical equipment, metal products and motor vehicles	Imports: South Africa, Egypt, Zambia and Mozambique		Loss: sugar, dairy products and paper products
UNECA and TMEA (2020): Partial equilibrium analysis of East African Community	Increase in exports of $172 million (17% as compared to base year 2014)			Exports (East Africa): DRC, Zambia, South Africa and Mozambique		
	Increase in imports of $14 million (1% compared to base year 2014)			Imports (East Africa): DRC, Ethiopia		
UNECA and TMEA (2020): CGE analysis	Increase in exports for East Africa of $1.1 billion (16% compared to base year 2014)		Exports (East Africa): processed food, textiles and clothing, light manufacturing		1.5% rise in GDP compared to base year 2014	Gain (East Africa): textiles, processed foods, ferrous metals, electrical equipment, vegetable oils, chemical products, rubber and plastics Gain (Tanzania alone): pharmaceuticals
UNECA and TMEA (2020): MIRAGE Model	Increase in exports of 23–32% as compared to base year 2011		Exports: agricultural and food products		4% increase in GDP compared to base year 2011	
Shinyekwa et al., 2020	Negative trade effect of $5.7 million	Trade diversion will be greater than trade creation; trade creation will				

		reduce under the AfCFTA				
World Bank (2020): CGE modelling including tariffs, NTBs and TFA	Gain in total exports by 32.4% compared to base year 2014 Under AfCFTA, liberalisation of tariffs and NTBs will increase intra-African exports by 46% Under AfCFTA liberalisation only of tariffs, intra-African export will rise by 77% as compared to base year 2014				AfCFTA with tariff and NTB liberalisation, along with the implementation of TFA, will raise real income by 9.9% and lift 6.3 million out of moderate poverty	
	Gain in total imports by 52.1% compared to base year 2014 Under AfCFTA, liberalisation of tariffs and NTBs will increase intra-African imports by 32% Under AfCFTA liberalisation only of tariffs, intra-African imports will rise by 103% compared to base year 2014				Agriculture will employ 50.4% of workforce by 2035	

Source: Authors' review of modelling studies

One study from 2019 by UNECA and the TMEA uses both PE and CGE modelling techniques to provide a comprehensive assessment of the impact of the AfCFTA on Tanzania. For instance, it utilises the partial-equilibrium WITS-SMART model that estimates the impact of the agreement, assuming full liberalisation of all products and excluding protected or sensitive products.[2] It also uses trade flows from the United

[2] For the model, a full liberalisation scenario was used and no special products were excluded. Full liberalisation is an extreme simulation because it is unlikely to occur under AfCFTA, but it is the best option in the absence of complete information on which sectors will be excluded under the final offers presented by countries like Tanzania.

The PE simulation gives the magnitude of the direct effect of the change in trade policy without considering sectoral market interactions. CGE models consider second-round effects such as impacts from cross-industry interactions. However, they rely on an assumption that there will be infinite export supply, automatic responses from exporting firms without a time-lag, a lack of competition from import-competing firms in the case of a rise in imports, and exclusion of the capacity and infrastructure that will be required to boost exports.

Both PE and CGE models also exclude the trade in services that forms an integral part of trade from East Africa and Tanzania; moreover, a large proportion of intra-African trade is in the form of informal cross-border trade, which is also excluded from these simulation exercises. A large part of this trade is goes unnoticed and is not recorded by official statistics. These are also excluded from simulation exercises.

Nations International Trade Statistics Database (COMTRADE) and data on tariffs from the United Nations Conference on Trade and Development (UNCTAD) Trade Analysis Information System (TRAINS), with 2014 as the base year. The analysis points to a gain in intra-African trade of $172 million due to the agreement. This increase would be concentrated in the agricultural and manufacturing sectors, including products such as wheat, cereals, oilseed, soap, paper, glass, petroleum products and vehicles. The main destination markets for these additional exports would be the Democratic Republic of Congo (DRC), which will attract 85.9% of all additional exports as a result of the agreement, followed by Mozambique (10%) and Ethiopia (1.2%). This may be an over-estimation as trade could be restricted by poor infrastructure connectivity and the presence of non-tariff barriers. The study is based on a number of assumptions, and as a result the findings could be skewed.[4]

As a direct consequence of the agreement, Tanzania is also likely to experience a simultaneous rise in imports from regional partners, including Djibouti (35%, compared to the base year of 2014), DRC (32%), Madagascar (25%) and Ethiopia (21%). Any new trade agreement that changes relative preferences is likely to lead to both trade creation and trade diversion.[3] The PE simulation results from UNECA and TMEA (2019) suggest that the impact of the AfCFTA in Tanzania will lead to trade creation worth $11 million and trade diversion worth $3 million. It therefore seems that the net trade effect will be trade creating (and not diverting).

Another set of results based on CGE modelling techniques (UNECA and TMEA, 2019) uses the GTAP model, assuming full liberalisation, with the underlying data referring to a 2014 baseline. According to the results, Tanzania will experience a rise in gross domestic product (GDP) of 1.5% (compared to 2014). This will be led by an increase in utilisation of existing capacity in various industries, including vegetable oils and fats, chemical products, rubber and plastics, textiles and metal products. Conversely, sugar and dairy industries are likely to suffer a 34% and 15% drop respectively, perhaps due to increased competition under the agreement; this result is corroborated by another simulation study for the EAC (UNECA and TMEA, 2020). The increase in domestic production could boost intra-African exports of vegetable oils, beverages and chemical products from Tanzania by $323 million, especially to South-Central Africa, Central Africa and the rest of East Africa. These simulation results also suggest that Tanzania will see a rise in imports from within the continent, with South Africa being the largest contributor, followed by Egypt, other Southern African Development Community (SADC) members- Zambia, Mozambique, and Nigeria. An increase in trade with South Africa was also on the agenda during a presidential meeting in 2019 that reaffirmed the need to strengthen bilateral ties with Tanzania in the energy, mining, tourism, education and healthcare sectors during the implementation of the AfCFTA (TRALAC, 2019).

Finally, non-tariff measures that restrict intra-African trade are also not included in the simulation exercise. Additionally, there is a slight difference between the results obtained by the PE and CGE because of the level of aggregation of the products: the PE model uses SITC three-digit level, while the GTAP uses a higher level of aggregation.

[3] The resulting tariff preferences from an FTA are likely to increase trade between members (trade creation), but they can also lead them to substitute imports previously sourced from non-members for within PTA products (trade diversion). Trade creation improves welfare for members, while trade diversion has a negative impact on the welfare of non-members through lower market access, and on members through reduced tariff revenue. The net welfare effect of an FTA, therefore, depends on which of these two forces dominates (Mattoo et al., 2019).

Imports of sugar will register the highest percentage increase under the liberalisation scenario. However, the effects may not occur in reality. This is because sugar is expected to remain protected from liberalisation under EAC trade arrangements, with sugar likely to be a sensitive product under the AfCFTA negotiations as well. Even under the EAC arrangement, and despite its exclusion from the common external tariff (CET), imports of sugar (as well as dairy and cereals) have increased (UNECA and TMEA, 2020; Shinyekwa and Katunze, 2016).

The sugar industry in East Africa has faced issues over the years in terms of performance monitoring, hoarding, price fluctuation and importation.[4] Tanzania continues to face a shortage of sugar and has imported large quantities, as have other countries in the region, including Kenya. This is due to inadequate investment in sugar production; as a result, the government has been actively seeking foreign investment in the sector. The government has also waived a 15% tax on sugar imports to improve the business environment in the country.[5] It is possible that, under the AfCFTA, Tanzania will be able to import cheaper sugar from South Africa or Eswatini, both of which are large sugar exporters. However, it remains to be seen whether trade in sugar will be liberalised under the AfCFTA.[6]

The CGE results also suggest that imports of chemical products, electronics, metals, vehicles and textiles by Tanzania will increase as a result of the AfCFTA, especially from the SADC region (UNECA and TMEA, 2019). Given that the results are similar in terms of product baskets for prospective exports as well as imports, there is a clear possibility of an increase in intra-industry trade that could perhaps contribute to the development of regional value chains – especially in textiles for Tanzania – that could involve many SMEs.

The simulations also find significant welfare effects. It is predicted that tariff reductions under the AfCFTA will lead to welfare gains worth $880 million for consumers due to the availability of a wider variety of cheap goods. Tariff reductions will also be beneficial for producers due to economies of scale, access to imported inputs and scope for greater specialisation, albeit with significant loss in revenue (fiscal cost) as high as 1.3% of total government revenue or 6% of overall tariff revenue. Short-term revenue losses would mean a redistribution of income from the government to consumers and producers. UNECA and TMEA (2019) warn that the simulation results may be an underestimation of the actual impact due to further gains arising from progressive elimination of NTBs, the emergence of new sectors and trade in services.

Another simulation exercise to estimate the impact of the AfCFTA on the EAC (UNECA and TMEA, 2020[7]) corroborates previous results. It suggests that the AfCFTA will boost production in the pharmaceutical sector in Tanzania, which could reduce its dependence on imported medicines and drugs, as well as attracting greater investment in the sector. Output from the pharmaceutical sector is likely to increase

[4] More information at https://www.clydeco.com/en/insights/2020/08/legal-amendments-affecting-the-sugar-industry-in-t. Similar issues were also faced by the domestic poultry industry, which wanted to see a ban on imports of and illegal trading in chicken, as well as by the textiles industry, which wanted a ban on imports of second-hand clothing to protect local manufacturing.
[5] More information at https://www.tanzaniainvest.com/sugar
[6] Even if sugar is liberalised under the AfCFTA, there will still be issues connected to rules of origin and which tariff lines are to be liberalised.
[7] This is an extension of the UNECA and TME (2019) study and covers the analysis for all of East Africa.

by 3.2% through AfCFTA (compared to base year 2014), and overall imports could drop by $3 million. The study also undertakes a dynamic CGE simulation called MIRAGE.[8] This adds a time dimension, inasmuch as it accepts that agreements take time to be implemented, and that, in turn, it takes time for the impact to be realised.

Through their GTAP and GIDD simulations, World Bank (2020) also predicts that, by 2035, Tanzania stands to gain more than other countries in the region from a reduction in NTBs related to competition and technical barriers to trade, along with sanitary and phytosanitary requirements that reduce the domestic cost of compliance with foreign standards and regulations. For instance, Tanzania's trade-weighted NTBs could decline drastically, from about 60% in 2020 to less than 40% in 2035 (under the AfCFTA). Moreover, intra-African trade will also increase, with exports rising by 77% compared to the baseline scenario and imports rising by 103%. With the implementation of the Trade Facilitation Agreement along with the AfCFTA, Tanzania could see a reduction in trade costs of 10%, along with rises in real income of 9.9%. Total exports could increase by 32.4% and imports by 52.1% in 2035, relative to the base year (World Bank, 2020).

One study indicates there could be unfavourable results. Shinyekwa et al. (2020), using partial equilibrium SMART-WITS simulations,[9] estimates there could be a negative trade effect of $5.7 million (trade diversion leading to high-cost and less efficient imports), a tariff revenue loss of $5.4 million (3.7%) and an overall welfare loss of $3.1 million for Tanzania as a result of the agreement. Such results are linked to the observation that the EAC (including Tanzania) does not depend much on the rest of Africa (RoA) as it imports 80% of the total from extra-African partners. The study assumes that, after the implementation of the AfCFTA, RoA may still not import exports originating in EAC/Tanzania as it lacks competitiveness in those products and would perhaps fail to raise supply sufficiently. Moreover, the EAC chiefly exports commodities that will not be readily bought by RoA in the short run. This means that trade liberalisation under the AfCFTA will lead to an overall loss for the Tanzanian economy. To counter this, the study recommends building capacity in products imported from the rest of the world (excluding Africa) and boosting intra-African trade through trade facilitation and the adoption of international standards, thereby attracting productive investment and diversifying trade to produce high-value-added goods and services, as well as increasing competitiveness by reducing unit costs of production (Shinyekwa et al., 2020).

Figure 2[10] summarises the results from the modelling studies, suggesting that, overall, the impact of the AfCFTA on Tanzanian and intra-African exports is expected to be mainly positive:

[8] This model uses data from 2011 rather than 2014 (standard GTAP database). This model is superior to the standard GTAP simulation model as it considers that 90% of tariffs will be deemed non-sensitive and liberalised early on. For the remaining 10% some will be sensitive products to be liberalised over a longer timeframe, while others will be on the excluded list and will be exempted from tariff reduction. This model is therefore closer to reality.

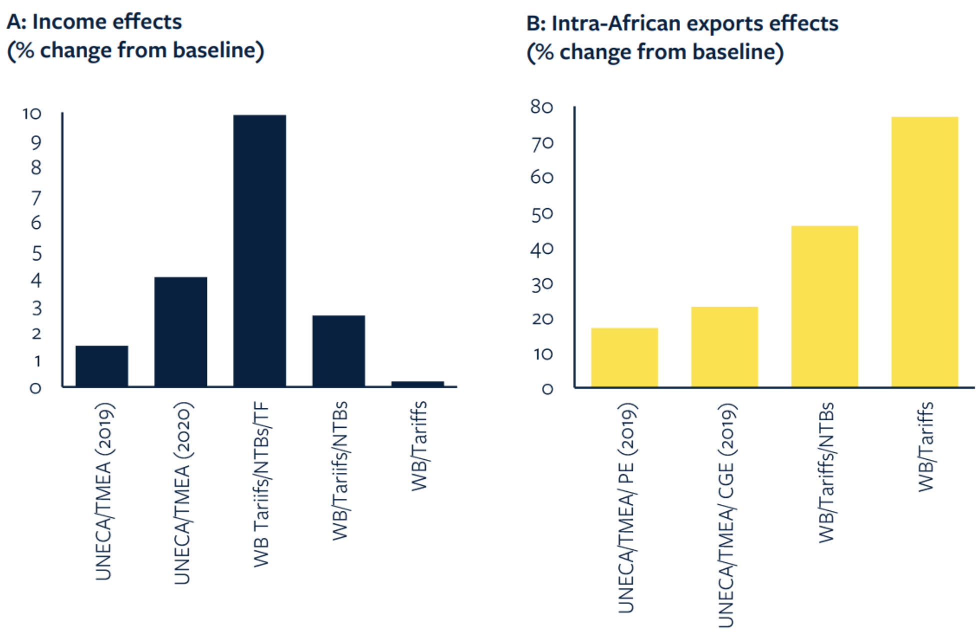
[9] This study uses MFN tariffs as pre-AfCFTA tariffs and the new tariff rates proposed by Kenya given that the other EAC parties did not have complete lists of offers at the time of the study.

[10] The modelling study by Shinyekwa et al. (2020) has not been included as it only reports net welfare and total trade effects for the impact of import liberalisation under the AfCFTA.

- Tanzanian national income is expected to increase by between 0.2% and 9.9% depending on the type of scenario chosen by the study, namely implementation of the AfCFTA with only tariff liberalisation, with NTB liberalisation and with the implementation of the TFA.
- Intra-African exports are expected to increase by between 17% and 77% depending on the model (PE/CGE) and scenario chosen for the analysis (AfCFTA implementation/removal of tariffs and NTBs under the AfCFTA).
- Exporting sectors such as agriculture, food processing, soap, textiles, chemicals, paper and glass are expected to gain (across modelling studies).
- Intra-African exports are expected to increase to DRC, Mozambique, Ethiopia, Egypt and Zimbabwe (across modelling studies).

Given the qualitatively similar results across the different methodologies used, these findings are robust. However, they may not precisely describe what may happen in reality. This depends crucially on the extent of liberalisation and complementary action to support exporters and competing import producers.

Figure 2: Possible impacts of implementing AfCFTA on Tanzania's income (A) and exports to Africa (B)



Notes: UNECA/TMEA (2019) simulates tariff liberalisation across Africa (using the standard CGE model); UNECA/TMEA (2020) simulates tariff liberalisation across Africa (using the Mirage model); the World Bank simulations assume tariff liberalisation, tariff and non-tariff barrier liberalisation, tariff/NTB liberalisation, and implementation of the Trade Facilitation Agreement.

3.2 **Possible winners and losers**

Each country has a distinct set of priority sectors in the AfCFTA reflecting their respective national interests and structures. Ideally, identification of the sectors that benefit versus those that lose from the AfCFTA should be derived from comprehensive analysis. Nonetheless, in the case of Tanzania, and for the purposes of this briefing, our consultations have aimed to explore the sectors or products that are commonly considered to be priorities for Tanzania's competitiveness, both in the general context and with respect to specific products with high potential for exports on the continent. While some of those we consulted have shown a clear understanding of such sectors, others have emphasised the need for a systematic way of identifying them, including a framework for such identification. The views of stakeholders indicate that the potential for Tanzania's competitiveness in the African market is likely to be driven by three types of activities:

1. Manufacturing where the main raw material is locally available/produced, such as ceramics and tiles, cement, paper products and gypsum boards.

2. Agricultural and food products that require minimum (low) processing costs, such as fresh fruit and vegetables (e.g. avocados, bananas, onions, oranges, watermelon, carrots and tomatoes), cereals (e.g. rice, maize, beans and pulses), hides and skins, cloves, bottled water, grapes and cashew nuts.

3. Products and service areas where Tanzania has already built competitive strength, such as bed nets and packaging materials, garments, cigarettes/tobacco, iron and steel, plastics, pharmaceuticals, tourism, sanitary pads and baby diapers and toothpaste.

This list is only for illustrative purposes and focuses on products/sectors for the African market. However, a rapid review of secondary sources identifies products/sectors where Tanzania has competitive advantage relative to the RoA. This analysis has been conducted using the Relative Comparative Advantage (RCA) index. The results are summarised in Table 2. Products where Tanzania has a comparative advantage in African markets include glass, wood, sisal, electrical equipment, vegetables, hides/skins, minerals, textiles, limestone, edible oil and paper.

There is also potential for Tanzania to expand a range of services across the continent (e.g. through two modes of supply: commercial presence and movement of people). Tanzanian service exports (proxied by service imports) across various categories are very low and, in most categories, the share is zero. Services with the highest potential (i.e. a share greater than 1%) include travel and transport; other business services; insurance and pension services; telecommunications; computer and information services; government goods and services not included elsewhere; and financial services.

Table 2: Tanzania's 25 products with highest Revealed Comparative Advantage relative to the rest of Africa

Code	Product	RCA (Tanzania to Rest of Africa)
'7004	Sheets of glass	494.9
'4405	Wood wool and wood flour	439.3
'5607	Twine, cordage, ropes and cables	133.6
'9303	Firearms and similar devices	122.6
'0712	Dried vegetables	120.5
'6803	Worked slate and articles	111.6
'6304	Articles for interior furnishing	98.8
'4302	Tanned or dressed fur-skins	69.7
'2616	Precious metal ores and concentrates	66.8
'5310	Woven fabrics (a)	56.5
'4705	Wood pulp	51.6
'2521	Limestone flux, limestone and other calcareous stone	48.5
'0506	Bones and horn-cores	46.0
'2609	Tin ores and concentrates	44.7
'5514	Woven fabrics (b)	38.7
'4504	Agglomerated cork	38.0
'9002	Lenses, prisms, mirrors and other optical elements	35.2
'6208	Women's or girls' singlets	34.8
'0710	Vegetables, uncooked or cooked	31.9
'1105	Flour, meal, food powder	30.8
'5303	Jute and other textile bast fibres	29.4
'1002	Rye	27.9
'9111	Cases for wristwatches	26.1
'1518	Animal or vegetable fats and oils and their fractions	25.8
'4804	Uncoated kraft paper and paperboard	25.3

Source: Calculated based on International Trade Centre (ITC) TradeMap Data (2021)

We have not undertaken extensive analysis of countries with the lowest RCA in exporting to African markets, though consultations suggest they are likely to include sectors such as sugar, edible oil, wheat, meat and dairy. Tanzania is likely to protect these by not removing tariffs as provided for in the AfCFTA. While these sectors are sensitive, it is yet to be officially concluded whether they will be liberalised under category A (90% of tariff lines, after 10 years for LDCs), considered sensitive (category B, 7% for 13 years) or excluded from liberalisation altogether (category C, 3%). And even if the items within these sectors become Category A or B products, countries need to agree on rules of origin. Specific sensitivities may relate to specific tariff lines rather than the entire sector.

A complementary strategy would be to liberalise the products under category A or B but to support import-competing firms through innovation, upgrading and quality improvements. Policies for achieving this have yet to be worked out in detail (and go beyond the scope of this briefing), but could provide a promising route going forward and should be part of the national AfCFTA implementation strategy. We discuss some of these issues below.

3.3 **Key challenges identified regarding AfCFTA implementation**

Stakeholders mentioned a number of issues, ranging from the general to specific challenges faced by specific groups. The first and largest challenge cited by almost all stakeholders has been a low level of awareness of the AfCFTA. This is considered a key risk because, if left unaddressed, the expected players will fail to plan or take the actions necessary for implementing it, limiting Tanzania's effective participation and benefits of the AfCFTA. This has been confirmed by the TPSF in a recent sensitisation workshop in Songwe/Mbeya. Most of the participants stated that they had not been informed about the AfCFTA, although they were curious to understand it. Similar results were reported through the consultation with GIZ.

The second challenge is the relatively high cost of doing business (cost of production) for Tanzanian producers, especially compared to other countries in the East Africa region and compared to some of the major players on the continent. This has been a major concern for the private/business sector in Tanzania, where the relatively high costs of utilities (power, water and transport) and regulatory charges that reduce the competitiveness of Tanzanian products have been key. CTI is concerned that the high cost of production makes Tanzanian products less competitive, leading to a loss in their existing market shares and failure to penetrate the new markets emerging from the AfCFTA.

The private sector is also concerned about the following additional issues:

1. The cost of shipping in Tanzania renders exporters less competitive, even in areas where Tanzania has an edge in this regard. In particular, the wharfage cost in Dar port is charged at 1.6% of the free on board (FOB) value, while other countries/ports' charges are based on volume/weight or on container size (20ft or 40ft). CTI reports that one of its members is losing competitiveness in the South African market because of these additional shipping costs.
2. Unpredictable policy and regulatory measures. The Tanzanian government occasionally introduces regulatory or tariff changes without consideration of the adverse impact on industrial competitiveness. One example given by A to Z Textile Mills is the increase in duty for imported cotton yarn in the 2021 budget, from 10% in the EAC CET to 25% – a decision taken without consulting manufacturers. Another challenge, mentioned by the Tanzania Horticulture Association (TAHA), is the recently introduced 2% withholding tax for off-farm produce sold to the market, which is raising significant concerns for most companies in the agriculture business.
3. Most producers operate informally: the majority (80%) of enterprises. This makes it difficult for critical actors such as farmers to participate effectively in exploring market opportunities or at the least value stage of the value chain.

4. There are cross-border issues, with unpredictable practices faced by cross-border traders/suppliers. Such bottlenecks vary in terms of the extent of delays and additional requirements (e.g. NTBs), among other inefficiencies. This may become a major stumbling block in realising AfCFTA market advantage.

The third main challenge is the low level of production capacity. This is a key concern both for government ministries and the private sector. Although the challenge is more acute for Small and Medium sized Enterprises (SMEs) and the farming sector, it has also been reported (by CTI) that large-scale manufacturers have limited production capacity for several reasons, including finance, raw materials and technology upgrading. Discussions with CTI have revealed that members (manufacturers) produce at 50% capacity utilisation on average. They further argue that the priority for the nation should be enhancing capacity to produce, rather than only on capacity to export. This is essential given the critical role of farmers and SMEs in supplying large-scale processors. However, discussions highlight that most farmers and SMEs are unable to meet quality standards, or are unaware of market requirements.

The fourth challenge is the low level of negotiation capacity, both at the regional (EAC) and country levels. This is reflected by both the small number of officials staffing the FTA negotiations and their competency to handle technical issues. The EAC Secretariat has been extremely slow in refilling vacant posts despite repeated requests. For instance, there are only two staff at the Secretariat handling the negotiations. Another challenge is the lack of technical insight into some of the new sectors for Tanzania, such as oil and gas; the mining of nickel, for instance, is a recent activity where local Tanzanian officials do not have expertise. There is also a notable need for capacity-building in relation to communication companies.

Phase 2 issues are relatively new and quite technical, including on Trade Related Intellectual Property Rights (TRIPS) and with regard to competition policy, where Tanzania does not have sufficient expertise. In most cases, the same few people work on all the negotiations, where there should ideally be an expert in each subject negotiation (e.g. competition, TRIPs, investment, safeguards, agriculture, trade in services and market access). Most of these gaps call for capacity-building support. In terms of negotiation capacity, there is a challenge around accessing information, as most trade documents are not yet ready.

The fifth challenge relates to NTBs. This is most notable in road infrastructure, as existing roads have been modelled on the basis of trade with the rest of the world (via access to seaports) and not for trade within Africa. This is a huge concern to exporters in trading across the continent, as the shipping costs are onerous and there are no direct shipping lines from East to West Africa. For example, according to the Chief Executive Officer of A to Z Textile Mills, the cost of shipping a container from East to West Africa is $4,500 and takes four weeks, compared to the $2,000 and two weeks it takes to ship the same container between East Africa and China. This makes East African exporters less competitive compared to North Africa for West African markets and vice-versa. To put this challenge in a global perspective, it takes five days to ship between Egypt and the European Union, and 15 days between Egypt and the US. Another notable barrier is language, given the fact that African countries have four distinct official languages namely: English, French, Arabic and Portuguese. This also affects labelling, which is one of the trade requirements.

The sixth challenge is finding a way to mitigate or compensate for the loss in tax revenue because of tariff reduction under the AfCFTA.[11] The AfCFTA Adjustment facility is critical in addressing the adverse effect on tax revenue. However, studies have found that the overall impact of import liberalisation will be mitigated in the medium term due to the existence of an 'exclusion list' (including the 3% of protected goods) that generates the bulk of tariff revenue for Tanzania. WDI data suggests taxes on international trade comprised 7.7% of total government revenue in Tanzania in 2017–2018,[12] and 10.5% in sub-Saharan Africa. This means that the impact of liberalisation on tariff revenues for Tanzania would be minimal (Maliszewska et al., 2019). However, further modelling studies and empirical analyses of this issue are required to determine the likely impact and identify ways to reduce any losses.

A final challenge is addressing the impact of the AfCFTA on relative prices and, in turn, on poverty. One study shows that 6.3 million people could be lifted out of poverty thanks to a boost in domestic consumption as a direct consequence of trade openness, due to implementation of the agreement (Maliszewska et al., 2019). A related challenge will be assessing the impact on women's labour. The same study suggests that the agreement will increase output in industries with a high number of women workers, leading to a rise in their relative wages by 0.07%, provided their employment is supported by complementary reforms covering labour mobility and equality of opportunity. However, a question remains as to how to integrate women in the implementation of the AfCFTA through capacity-building and sensitisation activities.

The overall implementation of the AfCFTA will depend on how the Tanzanian government and supporting organisations address the issues highlighted above. The ratification of the agreement is likely to mean a boost in trade and investment for Tanzania, and may be an opportunity for increased trade-related technical assistance from donors that will support not just the government but also the exporting firms. However, the government will need to find ways to compensate for the losses incurred by import-competing firms and tariff revenue agencies.

4. Supporting Tanzania's negotiations and implementation of AfCFTA provisions

Tanzania is one of the last countries to ratify the AfCFTA, making its needs seem overwhelming. A great deal must be done to assess the background, undertake

[11] For example, Egypt is an important source of imports and tariff revenue for Tanzania. After the implementation of the AfCFTA, tariff revenue from Egyptian imports will be zero (except in the case of excluded or sensitive products).
[12] Customs revenues constitute around 40% of all revenues from trade taxes (including VAT) (EAC, 2019).

sensitisation and identify priorities. We identify a number of priorities for further government action and donor support.

The **first** priority is the preparation of a National Implementation Strategy for Tanzania. UNDP is taking this forward with the government.[13] This will:

- identify priority sectors, along with key opportunities and how to maximise these and minimise negative consequences;
- determine risks and how to mitigate them;
- recommend policy, legal, regulatory and institutional reform; and
- prepare the activity matrix (work plan).

Kenya and Rwanda have prepared national implementation strategies, while Tanzania is in the process of doing so.

Several (donor-funded) studies could be considered to complement the implementation strategy. One would be to examine the dynamic impact of liberalisation – along with the AfCFTA – on productivity and competitiveness at the firm level, especially considering the role of SMEs in driving industrialisation. This would help move the debate beyond initial concerns about the impacts of cheaper imports to whether the AfCFTA could be used to help Tanzania become more productive and access regional/continental markets for processed/manufactured goods further up the productivity/value-added ladder.

The UNECA analysis employs both partial and general equilibrium modelling (GTAP) techniques. However, additional analysis may be required. First, a static model has been used to measure the impacts to be distributed across five to 15 years and beyond. A better and more robust approach for CGE in this instance would be to use a recursive dynamic general equilibrium model. Second, it may be critical to interrogate whether the sensitive goods basket is modelled in the analysis (which would increase the reliability of estimates of the impact across sectors).

Models do not normally cover the impact of integration on Foreign Direct Investment (FDI), both within Africa or from outside. It therefore may be useful to explore in more detail how African integration can drive FDI from outside the region. For example, Te Velde and Bezemer (2006) argue that UK FDI responds positively to deeper trade and investment rules within a region. A key question that other ongoing research in this area aims to address is what AfCFTA provisions if UK investors like to see.

The **second** priority should be capacity-building on phase 2 issues. It should be noted that phase 2 issues are new areas for international trade negotiations, especially for Tanzania, so it is unlikely that there will be sufficient technical knowledge and capacity to support the country in the negotiations.

[13] Institutions such as UNECA and UNDP have offered support. The government of Tanzania has yet to develop a national AfCFTA implementation strategy. The UNDP project has recruited a consultant who can help in the analysis of the impact of AfCFTA and the implementation strategy. The UNDP and WTO are supporting MIT to develop the AfCFTA implementation plan through a phased series of work: 1) goods and services, 2) investment, 3) e-commerce. They have also been asked to support awareness-raising, capacity-building for negotiations and policy harmonisation.

In the context of phase 1 and 2 implementation issues, it may also be important to undertake a political economy analysis. The AfCFTA covers very different issues and Tanzania's interest in moving towards more integration is recent. This begs a number of questions. First, how likely is it that this more favourable stance towards liberalisation will be sustained and carried forward? We are seeing initial momentum towards integration[14] and willingness to finalise tariff and services offers, but Tanzania is also pushing to formulate an implementation strategy before going much further in terms of finalising offers and validating the EAC's AfCFTA's strategy.

Additionally, Tanzania has been slower than other EAC countries in adopting greater integration, and it is possible that some protectionist tendencies will remain around sensitive products. The country is likely to continue excluding certain products from liberalisation and keep them on the sensitive list. Products such as garments, sugar and edible oil are likely to remain protected. However, Tanzania is likely to be more progressive within service sectors under the AfCFTA, going beyond GATS commitments which have been very shallow, but it will not go as far as the EAC schedule. Finally, some phase 2 issues are new, and it seems unlikely that Tanzania wants to progress significantly on all of them at the same time. Moreover, it lags in terms of digital readiness to adopt phase 2 issues. For instance, it performs worse than the rest of Africa on the adoption of technology and the availability of technological infrastructure, as well as firms' and individuals' access to technology.[15] However, there is a need for further analysis of readiness for engaging in digital trade negotiations.

The **third** priority is awareness-raising. Most activities by development partners have focused on this, along with sensitisation. These have included workshops (conducted and planned) supported by GiZ and TMEA, as well as by the Tanzanian Chamber of Commerce, Industry and Agriculture (TCCIA), which has recently entered into a memorandum of understanding (MoU) for agreement with the AfCFTA secretariat to support awareness-raising and sensitisation of Tanzania's business community. The TCCIA is mandated to issue certificates of origin to Tanzania traders. In addition to the general priority accorded to awareness-raising, private sector umbrella organisations have shared specific plans for requesting funding. In particular:

- TPSF is keen to prepare a much more comprehensive programme of sensitisation and capacity-building to improve coordination across the private sector, by establishing an AfCFTA forum as a platform for providing feedback to it.
- TAHA is keen to conduct market intelligence and prepare mini-business plans on key horticultural value chains as part of planned initiatives to support the preparedness of TAHA members and the private sector to tap into opportunities arising from the AfCFTA.

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[14] The trade relationship between Kenya and Tanzania is rapidly improving after the visit of the Tanzanian president to Kenya. For more information see: Tanzania's exports to Kenya double to $182 million in six months - The East African

[15] This analysis is based on Cisco's Digital Readiness Index 2019 (https://www.cisco.com/c/m/en_us/about/corporate-social-responsibility/research-resources/digital-readiness-index.html#/country/TZA) and the Network Readiness Index 2020 (https://networkreadinessindex.org/wp-content/uploads/2020/11/NRI-2020-V8_28-11-2020.pdf).

- CTI has requested funds for a baseline study to determine the potential for its members to gain from the AfCFTA.

A **fourth** priority is the need to support overarching business environment reforms, including measures to reduce the cost of production, increase access to credit and cheap raw materials, raise productive and export capacities, and promote the upgrading of technology and improve access to digital technologies (especially for SMEs). Other complementary policies include a supportive industrial and FDI policy to promote the industrial activity of exporters and import-competing firms, a labour policy that addresses mobility across sectors (which is likely to occur due to liberalisation that will create 'winners' and 'losers'), and a fiscal policy to address losses.

A rapid review of the main emerging risks and challenges on AfCFTA implementation highlights the Covid-19 pandemic and the nascent nature of the private sector in Africa. The pandemic presents a challenge to realising the aspirations of the AfCFTA. Indeed, countries have turned their attention to containing the spread of the virus, given the imminent risk that the outbreak might further shrink Africa's production capacity in the short to medium term, and that demand might also fall due to consumers having less to spend.

Hence, a **fifth** priority is to address the challenges posed by the pandemic. For example, in the case of Tanzania, a study for TPSF by Talanta International shows that economic growth declined from 7% in 2019 to 4.8% in 2020. The impact stemmed from actions taken by Tanzania's largest trading partners in response to the pandemic. These included closing borders, suspending international flights and implementing lockdowns. The TPSF study shows that the next largest impact by firms is decline in sales. This is followed by travel restrictions, difficulty getting raw materials and absence from work due to illness. In the specific areas of production and sales, firms have reported an estimated average decline of 36% and 44% respectively. Nonetheless, recent media and official reports in Tanzania indicate that the economy is gradually recovering from the impact of the pandemic, with several economic sectors showing signs of rebounding. For instance, figures from the Bank of Tanzania (BoT) show that the import bill has increased by $129.5 million from $627.6 million in 2020 to $757.1 million in 2021. These positive trends imply a need for accelerated efforts to build resilience and return the economy to a growth trajectory.

To contain the impact of the pandemic on the economy, countries are putting recovery measures in place. African countries have used structural policies to help Micro, Small and Medium Enterprises (MSMEs) adopt new working methods and (digital) technologies, and find new markets and sales channels to continue operations under the prevailing containment measures. These policies aim to address urgent short-term challenges, such as the introduction of teleworking, but also contribute to strengthening the resilience of MSMEs in a more structural way, and supporting their further growth (Zeidy, 2021). In light of these measures, there is an urgent need to accelerate implementation of the AfCFTA for the country to bolster the trade with its regional partners.

The **sixth** priority addresses the current status of the private sector, which may result in limited responsiveness to the opportunities brought about by the AfCFTA. The success of the AfCFTA will significantly depend on private sector participation. However, despite their anticipated roles, studies show that the private sector's involvement in FTAs is minimal or non-existent, particularly for SMEs (Grumiller et al., 2018). In Tanzania, the private sector is dominated by informal businesses. The 2012 National Baseline Survey of Micro, Small and Medium Enterprises estimates that four out of five private sector workers are informal, often with inadequate access to support services and decent work opportunities. The majority of private sector actors are unable to adequately respond to market demand through prices and quality, restricting their participation in domestic and international markets. According to Annual Survey of Industrial Production (ASIP)[1] data, the proportion of Tanzanian firms participating in international trade averages 17.3%. SMEs' participation rates are lower, averaging 11.3%. Some of the most common challenges firms face in expanding into regional, preferential and international markets include inadequate supply capacity and an inability to meet quality standards.

As a **seventh** priority, Tanzania could map donor instruments onto perceived challenges. For example, the level of actual liberalisation will result in a loss of tariff revenue, however small. To what extent can the AfCFTA adjustment fund cover these? There are also significant remaining competitiveness issues, and donor funds from the World Bank, TMEA and others can be used to address these.

Table 3 summarises the priority actions discussed in the previous section. We structure the identification of Tanzania's implementation gaps around negotiation and implementation of phase 1 and phase 2 issues, leading to a 2x2 matrix. Implementation support can be further disaggregated around direct support (e.g. translation of AfCFTA commitments into domestic law) and complementary support (e.g. measures to mitigate the negative and enhance the positive effects).

Table 3: AfCFTA implementation needs in Tanzania: Summary of stakeholder views

Trade issue	AfCFTA negotiations	AfCFTA implementation	
		Support AfCFTA implementation directly	**Complementary measures to support implementation**
AfCFTA Phase 1		Supporting national implementation strategy Awareness-raising and translation of commitments into domestic (e.g. customs) laws Political economy analysis	Addressing tariff revenue loss (e.g. AfCFTA adjustment fund) Raising supply capacity and quality standards Business environment reforms Addressing Covid-19 Value chain analysis and capacity-building
AfCFTA Phase 2	Supporting negotiators in phase 2 issues, which are new for Tanzania	Supporting national implementation strategy Political economy analysis	Supporting investment law

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Appendix 1 Background data relevant to Tanzania

This appendix provides general background statistics related to Tanzania's trade and investment, based on previous SITA scoping analysis. 0 provides weighted applied average tariff rates (Most Favoured Nation). MFN rates vary significantly across African countries, averaging 13%, with the highest at 30% in Lesotho and the lowest at 1.4% in Mauritius. South-East Asian countries have an average MFN of 7.5% (World Bank, 2021b). Tanzania is slightly below the African average at 10.3%.

Table 4 Average tariffs across the continent

Country	Tariff rate, MFN, weighted mean (%)	Country	Tariff rate, MFN, weighted mean (%)	Country	Tariff rate, MFN, weighted mean (%)
Algeria	13.59	Eswatini	45.38	Namibia	11.1
Angola	6.52	Ethiopia	12.16	Niger	14.35
Benin	11.93	Gabon	14.94	Nigeria	8.63
Botswana	10.62	Gambia	18.11	Rwanda	14.88
Burkina Faso	11.97	Ghana	10.53	Sao Tome and Principe	9.97
Burundi	15.81	Guinea	12.32	Senegal	9.72
Cabo Verde	11.55	Guinea-Bissau	15.19	Seychelles	22.68
Cameroon	15.7	Kenya	13.35	Sierra Leone	10.31
Central African Republic	17.52	Lesotho	30.04	Somalia	..
Chad	16.36	Liberia	9.56	South Africa	9.39
Comoros	4.59	Libya	..	South Sudan	..
Congo, Dem. Rep.	10.83	Madagascar	10.11	Sudan	..
Congo, Rep.	15.76	Malawi	9.01	Tanzania	10.29
Côte d'Ivoire	8.24	Mali	12.85	Togo	12.53
Djibouti	..	Mauritania	8.03	Tunisia	9.35
Egypt	17.88	Mauritius	1.42	Uganda	11.98
Equatorial Guinea	..	Morocco	10.45	Zambia	7.44
Eritrea	..	Mozambique	7.38	Zimbabwe	10.62

Note: Data is for 2019 or the last year available.
Source: World Bank, 2021a

The share of intra-African exports as a ratio of total exports has been around 18% on average for the last decade. However, this masks differences among countries (see the first two columns of 0), as intra-African trade in each country's total trade varies between 0% and 91%. For Tanzania, this is 27%, which is above the African average of 18%. Tanzania's share in total intra-African exports is 2.3%. The top five countries accounting for most intra-continental trade in terms of value are South Africa (32%), Nigeria (10%), DRC (8%), Egypt (6%) and Kenya and Zimbabwe (3%).

Table 5 Intra- and extra-African trade, 2020

Countries	Share of intra-African exports in total country exports	Share of intra-African exports in total intra-continental exports	Share of extra-African exports in total extra-continental exports
Average	18%	2%	2%
Median	10%	0%	1%
Algeria	4%	1.20%	6.41%
Angola	1%	0.22%	7.16%
Benin	15%	0.20%	0.23%
Botswana	17%	1.18%	1.13%
Burkina Faso	9%	0.61%	1.28%
Burundi	38%	0.10%	0.03%
Cabo Verde	1%	0.00%	0.03%
Cameroon	1%	0.10%	1.27%
Central African Republic	6%	0.01%	0.03%
Chad	0%	0.01%	0.47%
Comoros	10%	0.00%	0.01%
Congo	11%	0.87%	1.42%
Congo, Dem. Rep.	34%	7.92%	2.96%
Côte d'Ivoire	8%	1.46%	3.47%
Djibouti	28%	0.10%	0.05%
Egypt	14%	6.25%	7.32%
Equatorial Guinea	0%	0.02%	0.98%
Eritrea	0%	0.00%	0.12%
Eswatini	91%	2.63%	0.05%
Ethiopia	21%	0.87%	0.64%
Gabon	1%	0.07%	1.64%
Gambia	86%	0.04%	0.00%
Ghana	9%	1.69%	3.51%
Guinea	1%	0.09%	1.67%
Guinea-Bissau	5%	0.01%	0.04%
Kenya	38%	3.75%	1.19%
Lesotho	35%	0.47%	0.17%
Liberia	2%	0.03%	0.31%
Libya	1%	0.08%	2.67%
Madagascar	7%	0.21%	0.58%
Malawi	34%	0.44%	0.16%
Mali	3%	0.12%	0.66%
Mauritania	8%	0.38%	0.86%
Mauritius	25%	0.64%	0.37%
Morocco	8%	3.69%	8.11%
Mozambique	28%	1.58%	0.80%
Namibia	33%	2.95%	1.16%
Niger	25%	0.50%	0.30%
Nigeria	19%	10.4%	8.61%

Rwanda	11%	0.06%	0.10%
Sao Tome and Principe	2%	0.00%	0.01%
Senegal	43%	2.77%	0.71%
Seychelles	2%	0.01%	0.11%
Sierra Leone	2%	0.02%	0.17%
Somalia	8%	0.02%	0.04%
South Africa	23%	32.5%	21.0%
South Sudan	11%	0.14%	0.22%
Sudan	9%	0.32%	0.63%
Tanzania	27%	2.33%	1.21%
Togo	44%	0.99%	0.24%
Tunisia	4%	0.95%	4.27%
Uganda	34%	2.33%	0.87%
Zambia	21%	2.70%	1.96%
Zimbabwe	55%	3.97%	0.63%

Source: ITC, 2021

Tanzania features among countries that have a competition legislation in place and lies in the middle of the pack in terms of the number of bilateral investment treaties signed by an African country.

Table 6 Competition and investment policy, by country

Country	National competition legislation	National competition authority	Number of BITS	Number of African BITs
Algeria	Yes	Yes	42	10
Angola	Yes	No	5	1
Benin	No	No	9	3
Botswana	Yes	Yes	5	0
Burkina Faso	Yes	Yes	9	3
Burundi	Yes	No	5	1
Cabo Verde	Yes	No	7	0
Cameroon	Yes	Yes	15	5
Central African Republic	No	No	4	2
Chad	No	No	8	4
Comoros	Yes	No	4	2
Congo	No	No	6	0
Congo, Dom. Rep.	Yes	Yes	9	2
Côte d’Ivoire	Yes	Yes	10	2
Djibouti	Yes	No	5	1
Egypt	Yes	Yes	109	29
Equatorial Guinea	No	No	6	3
Eritrea	No	No	3	0
Eswatini	Yes	Yes	3	1
Ethiopia	Yes	Yes	29	7
Gabon	No	No	15	3
The Gambia	Yes	Yes	5	1
Ghana	No	No	23	8
Guinea	No	No	13	6
Guinea Bissau	No	No	1	0

Kenya	Yes	Yes	9	1
Lesotho	Draft	No	3	0
Liberia	Yes	Yes	4	0
Libya	No	No	30	6
Madagascar	Yes	Yes	11	2
Malawi	Yes	Yes	5	1
Mali	Yes	No	8	4
Mauritania	No	No	12	4
Mauritius	Yes	Yes	38	17
Morocco	Yes	Yes	67	16
Mozambique	Yes	No	17	4
Namibia	Yes	Yes	9	0
Niger	Draft	No	5	3
Nigeria	Yes	Yes	19	4
Rwanda	Yes	No	6	2
Sao Tome and Principe	No	No	1	0
Senegal	Yes	Yes	23	6
Seychelles	Yes	Yes	3	1
Sierra Leone	No	No	3	0
Somalia	No	No	2	1
South Africa	Yes	Yes	49	20
Sudan	Yes	No	24	7
South Sudan	No	No	0	0
Tanzania	**Yes**	**Yes**	**16**	**2**
Togo	Draft	No	4	1
Uganda	Draft	No	59	15
Western Sahara	No	No	11	3
Zambia	Yes	Yes	9	2
Zimbabwe	Yes	Yes	22	3

Source: ODI SITA

Country-level implementation strategies are important entry points into exploring country-level support for AfCFTA negotiations and implementation. UNECA collaborates with the AUC and the AfCFTA Secretariat, along with other UN agencies such as UNCTAD, UNDP, ITC and IOM. It mainly obtains financial support from the EU and Canada's GAC. Through these collaborations, UNECA is currently working with more than 40 countries and four RECs to support them to draft the *AfCFTA implementation strategies* guidelines. Around 25 countries and four RECs are at various stages in developing their AfCFTA national strategies (AfCFTA NS) and regional strategies (AFCFTA RS), while 15 countries had validated their AfCFTA NS as of the end of September 2021 (see Table 7). Support for Tanzania's AfCFTA implementation strategies is at the inception phase.

Table 7 Status of interventions, UNECA's support to AU Member States and development of AfCFTA implementation strategies

AfCFTA implementation strategies work at the inception phase	AfCFTA implementation strategies work at the drafting/consultation phase	AfCFTA implementation strategies validated, with implementation ongoing or to start soon
Countries: Benin, Central African Republic, Equatorial Guinea, Eswatini, Guinea-Bissau, Liberia, Cabo Verde, Sao Tome and Principe, Seychelles, Somalia, Sudan, South Sudan, Tanzania **RECs**: ECCAS	**Countries**: Algeria, Burundi, Botswana, Chad, Comoros, Djibouti, Mozambique, Nigeria, Namibia, Rwanda, Mauritius, Tunisia **RECs: EAC,** ECOWAS and IGAD	**Countries**: Burkina Faso, Cameroon, Côte d'Ivoire, DRC, Guinea, Malawi, Mauritania, Niger, Senegal, Sierra Leone, Gambia, Kenya, Togo, Zambia, Zimbabwe

Source: UNECA

A SITA scoping study has identified which countries could be crucial in rolling out implementation. We have constructed an index to help select these focus countries that could leverage a large shift given their regional weight. Figure 3 provides a ranking based on a composite index that encompasses several dimensions of AfCFTA potential at the country level:

- Regional economic integration, as a measure of connectivity and movement of people, goods and services by country, using the Africa Regional Integration Index data for 2019 (African Development Bank (AfDB), AU and UNECA, 2020).

- Size of economy measured as GDP in 2020 to reflect each country's economic importance (World Bank, 2021a).

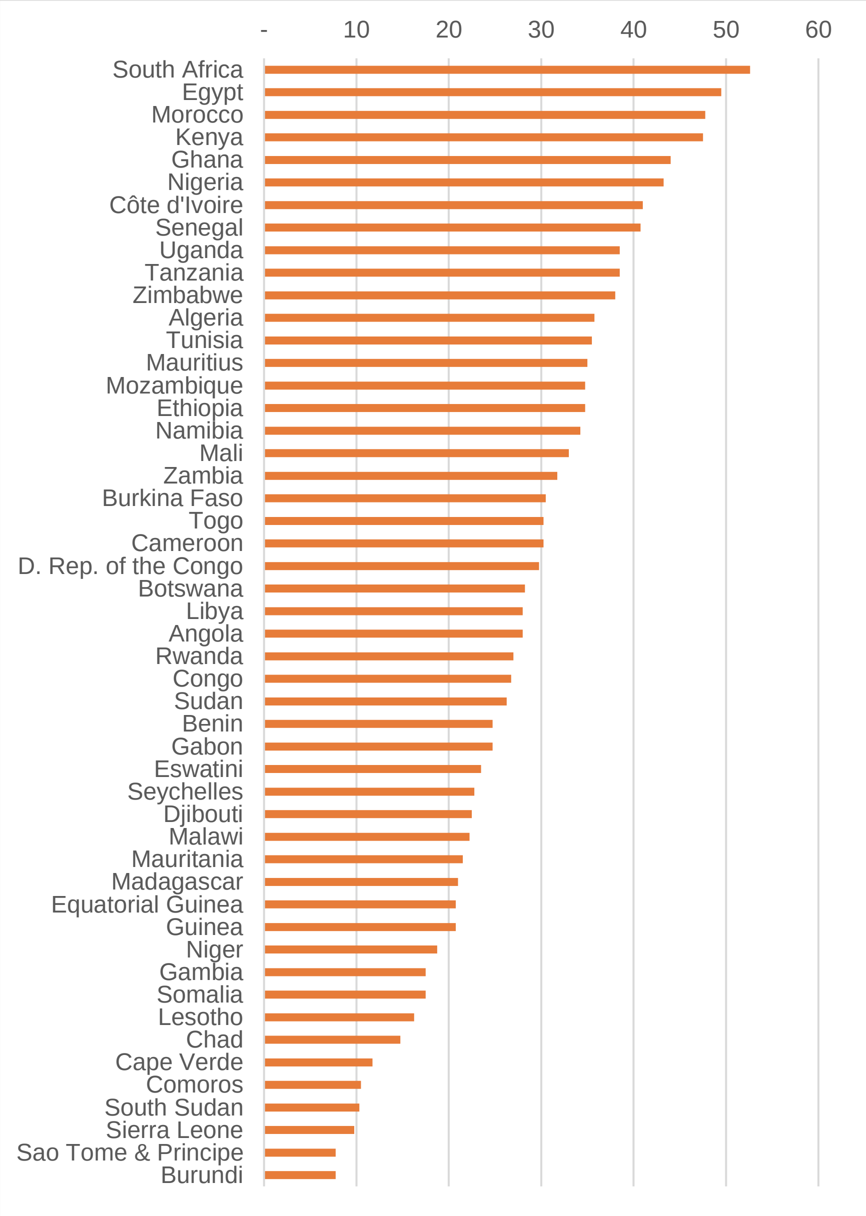
- Weight in intra-African trade, as a reflection of a country's relative importance as a trade partner on the continent at present, using the sum of imports and exports by country in 2020 (ITC, 2021).

- Weight of extra-African trade in 2020, as a reflection of a country's relative global trade reach (ITC, 2021).

- Weight in trade with the UK in 2020, as the UK gives a fresh impetus to the Global Britain agenda, including the country's relevance to the UK as a trade partner (ITC, 2021).

Countries have been ranked according to their performance in each dimension. The score in 0 sums rankings across all dimensions, with equal weight. The data suggests that countries such as South Africa, Egypt, Ghana, Kenya, Morocco and Nigeria are likely to be key drivers in AfCFTA given their greater level of integration of trade and their potential influence as regional players. Tanzania is tenth on the list, indicating that it too has significance.

Figure 3 Relative ranking of countries' integration in continental trade and potential as key leaders in AfCFTA implementation



Source: ADB, AU and UNECA, 2020; ITC, 2021; World Bank, 2021a