Opportunities and Risks in Liberalising Trade in Services in Tanzania

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With an underdeveloped services sector, inadequate regulatory framework and low capacity for trade negotiations, Tanzania faces a daunting task to make correct policy decisions in order to take advantage of the GATS. Nevertheless, the impact of WTO-led market opening will be cushioned by the fact that Tanzania has already undertaken substantial unilateral services liberalisation under the banner of economic reforms.

Services are the single largest contributor to Tanzania’s gross domestic product (GDP) after agriculture. For example, between 1988 and 2002, services contributed about 40 percent of GDP with a growth rate of about 4.3 percent per annum. Services also rank second in employment generation after agriculture with a share of about 16 percent of total employment. However, the sector has not performed well in international trade relative to goods exports, and has attracted only 30 percent of foreign direct investment (FDI) stock in 1999–2002. Exports and imports of services in the past decade have contributed less than half of the value of total exports and imports. Tourism holds the largest share of GDP (16 percent during 1988–2002 period) and the largest share of international trade (import and export share of 16.9 percent and 29.8 percent between 1997 and 2003). It also ranked second after public services in the contribution to wage employment (13.1 percent in 2001).

Regulatory Framework for Services Sectors in Tanzania

Tanzania’s services sector is characterised by an inadequate regulatory and institutional framework, and the regulations already in place need further restructuring. The sectors themselves are so underdeveloped that they cannot compete in the world economy. It was only in the late 1980s that economic management shifted towards a private sector-led economy, and a few years thereafter it was recognised that there was a need to develop the capacity to regulate the market as many players were now engaged in economic management in a liberalised economy. Most of these regulatory institutions were created in the 1990s.

Tanzania in the Request-Offer Negotiating Process

The main participants in the GATS negotiations in Tanzania are small sections of the private and public sectors. Only a few ministries, government agencies and private organisations participate in the negotiations because of the work they are doing. As a result, a large part of the public and private sectors is still not aware of the GATS negotiations. The problem of low participation is compounded by the fact that understanding of the GATS Agreements is very weak within both the public and private sectors. The effective implementation of GATS commitments by Tanzania continues to be hampered by insufficient knowledge of trade policy issues particularly on the part of the private sector, as well as a lack of analytical and negotiation skills, legal expertise, strategic concerns and financial resources.

Tanzania has so far not issued any offers that would expand its GATS commitments beyond the tourism sector. However, the country is in the process of preparing these offers. Among the requests that the Tanzania has received – but has not yet responded to – are those from the European Commission (EC), Australia, China and Japan. The European Commission’s request is the most comprehensive in terms of sector coverage; it covers professional services, business services, transport, telecommunications, environmental and financial services, tourism and movement of natural persons. The Japanese request covers professional services, construction and related engineering services, transport services, and horizontal issues (acquisition of land and infrastructure services). Australia and China each presented a single-sector proposal on professional services and engineering services respectively.

Tanzania’s Negotiating Strategy

Tanzania’s negotiating strategy is based on (i) the use of its national development agenda; (ii) the use of development policy spaces as provided by the LDC modalities on GATS negotiations; (iii) the strength of a particular services sector in terms of performance in international trade; (iv) government-identified lead and priority sectors for foreign direct investment; and (v) building partnerships with other developing countries.

The national development agenda highlights the country’s priorities and is defined in various policy papers including the National Poverty Eradication Strategy (NPES), which sets out objectives for poverty eradication efforts through 2010; the Vision 2025, which is the long term national vision of economic and social objectives; the Tanzania Assistance Strategy (TAS), which provides the framework for improving aid co-ordination and enhancing ownership of development processes; and the Poverty Reduction Strategy Paper (PRSP) – a medium-term strategy of poverty reduction developed in the context of the enhanced Highly Indebted Poor Countries (HIPC) initiative. Furthermore, Tanzania has committed itself to the UN Millennium Development Goals.

With regard to using the development policy spaces provided by the LDC modalities, it should be recognised that Tanzania’s services sector is still in its infancy. Constraints facing the industry abound, including poor infrastructure, level of human resource development, poor state of technology (and an inability to upgrade) and lack of capital due to an immature financial sector. Due to these constraints, the private sector is too weak to face the challenges of liberalisation and globalisation. Thus, the general strategy for the development of the services sector is rather protective.

Among the strategies that can make use of the LDCs modalities is imposing limitations on foreign services suppliers in order to give time for the government to implement necessary reform measures. These measures in-
Development Co-operation and the Services Sector

The importance of donor support in facilitating services negotiating processes is significant. Currently, only the Joint Integrated Technical Assistance Program (JITAP), which is financed by UNCTAD and WTO, has been involved in building capacity in trade negotiations, whereas the World Bank and the IMF have focused on improving the necessary institutional framework. However, co-ordination of these efforts has been less efficient in identifying key strategic policies that would ensure increased benefits from service liberalisation and negotiations on trade in services.

The importance of donor support to developing the institutional framework for services is also significant. Tanzania particularly needs assistance to strengthen institutional reforms and good governance. Donor support in these areas has been massive. As liberalisation advances, there will be a need for new regulations to address public policy concerns and to reform regulatory institutions in particular sectors. Tanzania has also received considerable support from donors to build capacity for trade negotiations. The support has been mostly directed to the priority sectors identified in the PRSP.3 However, financial support to infrastructure services remains limited.

There is a clear benefit in Tanzania’s taking advantage of regional integration initiatives to develop the service sector. Pooling resources from member countries in the respective regional blocs can tackle some of the problems. Certain services can be provided across the border and hence take advantage of regional integration. Member countries can also pool capacity for negotiations and encourage intra-regional liberalisation and cross-border flow of investment supportive of their needs. Such services include transport and communication infrastructure, utilities (electricity, gas and water) and inland waterways. Development of these sub-sectors can have a bonus impact on the economy by boosting growth of other sectors and ensuring the efficient functioning of the economy. The problem with regionalisation in African countries is the existence of overlapping (memberships in) regional blocs. Co-ordination and harmonisation of various initiatives at the regional levels to develop the services sector is imperative.

Conclusion

Tanzania lacks negotiating capacity and has a low level of awareness or involvement of the private sector in trade negotiations, as well as an underdeveloped services sector. Faced with these problems the government has adopted a defensive strategy to the GATS negotiations requiring more time and seeking recognition of autonomous liberalisation. However, Tanzania still has a potential to benefit from GATS commitments in sectors such as tourism, transport, telecommunications and financial services. Commitments to WTO Members should be geared towards increasing the competitive strength of domestic investors. At the multilateral level, support should also be extended to the establishment of a fair and efficient regulatory and institutional framework that can accommodate the disadvantaged position (and solicit increased support for capacity-building) of least-developed countries such as Tanzania.

ENDNOTES

1 Tanzania is a least-developed country (LDC) with a population of 34.5 million and a per capita GDP of US$270 in 2002. Its economy depends substantially on agriculture, especially for traditional export crops (coffee, cotton, tobacco, cashew nuts, tea and sisal). 2 Modalities for the Special Treatment for Least-developed Country Members in the Negotiations on Trade in Services, adopted by the Special Session of the Council for Trade in Services on 3 September 2003.
3 It should be noted that the approach for Poverty Reduction Strategy (PRS) has changed from sector-based in the first PRS to outcome-based in the second. Recognising the importance of growth in poverty reduction, the second PRS focuses on employment generation, private sector development and trade performance objectives. In contrast, the first PRS prioritised social sector services provision (especially health and education).

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Sustainable Development Impacts of Trade in Services

Interviews with local firms revealed that the telecommunications sector had a high potential impact on sustainable development based on employment generation, technology transfer and economic efficiency criteria. However, there is a need to address infrastructure problems, such as utilities and roads so that trade in other sectors, such as tourism and transport, can utilise its potential to contribute to sustainable development.