Implications of the EU-EAC Economic Partnership Agreement (EPA) on EAC and Tanzanian Economies

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ACP	Africa Caribbean Pacific
AERC	African Economic Research Consortium
BC	Black Carbon
BRIC	Brazil, Russia, India and China
CARIFORUM	Caribbean Forum
CES	Constant Elasticity of Substitution
CET	Common External Tariffs
CF	Cubic Feet
CFTA	Continental Free Trade Area
CGE	Computable General Equilibrium
COMESA	Common Market for Eastern and Southern Africa
CTA	Cotton, Textile and Apparel
DB	Doing Business
DFQF	Duty Free Quota Free
EA	East Africa
EABC	East Africa Business Council
EAC	East African Community
EALA	East African Legislative Assembly
EBA	Everything But Arms
EC	European Commission
ECLAC	Economic Commission for Latin America and the Caribbean
ECOWAS	Economic Community of West African States
EDF	European Development Fund
EPA	Economic Partnership Agreement
EPZA	Export Processing Zones Authority
ESA,	Eastern and Southern Africa
EU	European Union
FAO	Food and Agriculture Organization
FDI	Foreign Direct Investment
FGD	Focus Group Discussion

FTA	Free Trade Area
FYDP	Five Year Development Plan
GDP	Gross Domestic Product
GEM	General Equilibrium Model
GNI	Gross National Income
GSP	Generalized System of Preferences
GTAP	Global Trade Analysis Project
HS	Harmonized System
ICT	Information Communication Technology
IMF	International Monetary Fund
IPOs	Initial Public Offerings
ITC	International Trade Center
LDC	Least Developed Country
LMnfcs	Light Manufactures
LNG	Liquid Natural Gas
MDAs	Ministries Departments and Agencies
MFN	Most Favoured Nation
MSME	Micro, Small and Medium Enterprise
MTAX	Import Tax
NGO	Non-Governmental Organisations
NMVOC	Non-Methane Volatile Organic Compounds
NSAs	Non-State Actors'
NTB	Non-Tax Barrier
NTM	Non-Tax Measure
PEM	Partial Equilibrium Modelling
PNG	Papua New Guinea
PTA	Preferential Trading Area
REC	Regional Economic Community
ROW	Rest of the World
RTAs	Regional Trade Agreements
SACU	Southern Africa Customs Union
SADC	Southern Africa Development Community

SAM	Social Accounting Matrix
SDG	Sustainable Development Goal
SEZs	Special Economic Zones
SIA	Sustainability Impact Assessment
SIDO	Small Industries Development Organisation
SME	Small and Medium Enterprise
SPS	Sanitary and Phytosanitary
SQMT	Standards Quality Metrology and Testing
SSA	Sub-Saharan Africa

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Executive Summary

This study seeks to highlight the implications of entering an EPA with the EU for the EAC in general and URT in particular to provide a strong basis for negotiation of the EPA. Thus, the overall objective of the study is to provide a comprehensive assessment of the costs and benefits to Tanzania of implementing the EPA with the EU to inform policy direction for Tanzania.

As of December 2020, 31 ACP countries were already implementing EPA, while others are at varying stages of negotiations or implementation. The EAC (including Tanzania) are currently engaging in internal consultations with a view to ensuring that they are involved in the EAC-EU EPA. Kenya and Rwanda signed the EPA in September 2016, and Kenya has ratified it. However, the EAC Heads of State, during the 21st Extra-Ordinary Summit in February 2021 endorsed some Partner States who wish to do so to move forward and conclude the EPA with the EU with a view to starting the EU-EAC-EPA implementation under the principle of variable geometry.

Through a triangulation of Partial Equilibrium Analysis (PEM), Computable General Equilibrium (CGE), and a Qualitative Assessment, the study finds that overall, the EPA with the EU will induce increased imports valued at US$117.0 million annually, based on 2018 Tanzania import data. The import changes, worth US$88.2 million (displaced from ROW) and US$3.3 million (displaced from EAC), will occur as a result of trade diversion and trade creation, respectively caused by the elimination of tariffs on non-sensitive product imports from the EU. Therefore, import increases due to EPA will largely be small, amounting to US$25.4 million (3.4%) increase over existing imports from the EU, equivalent to 0.04% of Tanzania GDP in 2018. The small import increase is explained by the fact that Tanzania imports very little (10-12%) from the EU compared to other sources. The import increases or import effects to be felt by Tanzania concern new imports induced by the change in tariff status to duty free. Notably, very few products have strong competing domestic production to have detrimental impacts in the local economy. One example is HS 151519: Vegetable oils, which is already identified as ‘sensitive products’ and are excluded from tariff liberalisation.

Tariff Revenue and Welfare Effects

Following liberalisation under the EPA, tariff revenues are estimated to decline by US$35.3 million or 18% on the basis of full application of the EAC CET over existing tariff revenues. Products with the largest individual tariff revenue losses are mainly the

same products with the largest new import increase from the EU (e.g., Bitumen, Petroleum oil and Machinery).

Elimination of tariffs on imports originating from the EU will bear some welfare effects in respect of increase in consumers' surplus due to the reduced import product prices and welfare gain due to trade creation. The estimates show that the EPA with the EU would generate US$6.4 million in consumers' surplus and US$1.7 million welfare gain from trade creation effects, giving a total welfare gain of US$8.1 million p.a. that represents 0.01% of Tanzania GDP in 2018. Products that are likely to bear the largest welfare gains from increases post-EPA are medicaments, oil seeds, rubber and sugars.

Macroeconomic impacts

The estimates show that EPA will affect GDPs negatively for most of the EAC countries. Tanzania's GDP is expected to decrease by 0.5% under the full liberalization assumption, mainly due to decreases in private and Government consumption. Households' income decreases albeit slightly. Interestingly, EPA appears to lead to relatively significant increase in investment (0.14%) and exports. The largest export growth is observed in heavy manufacturing, export of mineral products (precious minerals), as well as leather products; and the biggest decline in exports are observed in textiles, depicting significant increase in cheaper textile products from the EU. Some sectors will expand in production (hence exports) while other contract. For instance, sector that will experience production expansion include heavy manufacturing, construction, mining, and extraction, as well as transport and logistics activities compared to textiles and food processing in which production will decline. As noted earlier, import changes are not significant (both in volume and value). However, considering increase of intermediate imports at a cheaper price relative to the baseline, increased imports may lead to decrease in production costs and increase in export competitiveness under EPA. Furthermore, estimates show that liberalisation under EPA will lead to overall decrease in market prices in almost all sectors. While the estimates show potential for Tanzania to increase exports, the key issue is export capacity, especially for Farmers and SMEs. That is why the employment effects of EPA appear unfavourable, with negative effect on value added.

Overall, EPA has the potential to secure Tanzania's vision/entry to the middle-income status and support the FYDP-III. This will happen if there are efforts to support improved exports, and job creation through increased competitiveness. To minimise losses, there is a need to support farmers/SMEs to address supply side constraints through initiatives such as reduction in transport costs, trade infrastructure development, and on-farm support.

1.0 Introduction

1.1 Background

1.1.1 Country Macroeconomic Overview

The United Republic of Tanzania (URT)'s disposable income (gross national income, GNI) per capita averaged US$1,004 and grew by 3.2% annually during 2015-2019 (World Bank Development Indicators 2020). Nearly half of URT's population of 58.87 million persons live on less than US$1.90 a day. URT's economic structure is steadily transforming in the right direction away from agriculture (share falling from 71% in 2007-2010 to 66% during 2015-2019) to services (23%-to-27%) and industry (5.7%-to-6.6%). Based on the World Economic Forums Global Competitiveness Index, URT scores favourably above average on Macroeconomic management, revenue mobilisation, financial and fiscal policy; moderately on Business Environment, Trade & Ease of Doing Business; Property rights & Rule-based Governance; and Transparency, Accountability & Corruption in the public sector. Merchandise exports are dominated by agricultural products though manufactures increased their share from 25.7% during 2007-2010 to 37.7% during 2015-2019. URT's 'economic and environmental vulnerability' slid by one index point from 33 during 2011-2015 to 34 in 2016-2019. This is explained by increased share of agriculture, fisheries, and forestry in gross domestic product (GDP) and agricultural instability, remoteness from global trade markets, increased export concentration, inter alia. The COVID-19 pandemic has further weakened URT's invulnerability.

1.1.2 Negotiations for the EPA with the EU

The EAC (including Tanzania) has since 2002 been in negotiations with the European Union (EU) for a reciprocal economic partnership agreement (EPA) that is compatible with the World Trade Organization (WTO) rules. These negotiations were finalised on 16 October 2014 with an outcome of an EAC-EU Interim EPA. Under the EPA, the EU grants immediate duty-free and quota-free (DFQF) market access while ACP states are required to liberalize 'substantially all trade' over an extended phase considering their need to adjust their economies and trade capacities to trade effectively with the EU and in other trade agreements. The EPAs seek to promote ACP-EU trade, and ultimately contribute, through trade and investment, to sustainable development and poverty reduction. EPAs are "tailor-made" to suit specific regional circumstances, go beyond conventional free-trade agreements by focusing on ACP development and including co-operation and assistance to help ACP countries fully benefit from the agreements.

Kenya and Rwanda signed the EPA in September 2016, and Kenya has ratified it. Tanzania, Uganda, Burundi, and South Sudan are yet to sign the EAC-EU EPA. For the EPA to enter into force, all five EAC members need to sign and ratify the agreement.

This condition was set by EAC member states in an effort to preserve their customs union and their integration process – which the EU agreed to. South Sudan became the sixth member of the EAC in September 2016 but is yet to be part of EAC Customs Union or applying the EAC Common External Tariff – as the country is not a member of WTO. The European Commission submitted a proposal for conclusion, signature, and provisional application of the full EPA with the EAC to the Council in February 2016.

The URT is also involved in other trade negotiations including in the context of a Tripartite Free Trade Area (TFTA) agreement involving the EAC, SADC and COMESA. URT is also a member of SADC. The TFTA creates a market of more than 527 million people in 27 countries worth a combined GDP of $640 billion. Out of the 27-member states covered in the TFTA, only eight have ratified the TFTA: Burundi, Kenya, Rwanda, and Uganda in the EAC, Egypt, Botswana, Namibia, and South Africa. The URT is also involved in negotiations to establish and implement an African Continental Free Trade Area (AfCFTA) comprising of 55 African member states with a combined population of more than 1.2 billion people and US$3.5 trillion. UNECA estimates the AfCFTA will boost intra-African trade by 52.3%. The AfCFTA entered into force on 30 May 2019 and 31 countries including Kenya, Rwanda and Uganda have ratified it.

The URT is also party to the Trade and Investment Framework Agreement (TIFA) signed between the EAC and the USA. The TIFA seeks to expand and diversify bilateral trade and investment relationships by improving the climate for business between firms from both sides. The United Kingdom (UK) formerly ceases to apply EU trade laws and policies on 31 December 2020 following a vote in June-2016. The UK is negotiating continuity trade agreements with ACP states, proposing adoption of the EU EPAs with slight modifications. Kenya initialled a trade agreement with the UK while the rest of EAC partner states are looking to examine the issues more closely over the coming months.

1.2 Study Context

In all of the above, the URT is pursuing trade agreements with its trade partners in the quest to establish a strong foothold and effectively participate in global trade desired to support sustainable economic growth, development and poverty reduction. In this regard, the URT is guided by national and regional trade/development policy frameworks which recognise trade as the engine of growth, and active participation in regional and multilateral trade integration arrangements as the vehicle to achieving that goal. The trade agreements involve securing more favourable (preferential) and improved market access conditions for URT's exports over competitors while reciprocating access to the domestic market, compatible with the WTO trading rules.

Gaining preferential market access and reciprocating commitments entailing giving trade partners increased domestic market access means that there will be benefits and costs involved in trade agreements, and often these are not limited to trade but have ramifications felt throughout the economy and society/communities through forward and backward value chains. It is this recognition of this reality and the desire to guide the URT's positioning on how to proceed with further EPA negotiations with the EU that this project was commissioned. This project seeks to contribute to the understanding of the implications of EPA with EU on EAC countries with a particular focus on Tanzania.

This project is part of the broader programme initiative at REPOA to generate knowledge for understanding the constraints hampering trade reforms and their economic impacts, improve coordination and complementarity between the trade, industrial and transport policies of the various states and, ultimately, promote Tanzania's trade competitiveness and diversification for widening trading opportunities with the EU. The programme's intended beneficiaries include sector ministries, key public trade facilitation agencies, including revenue, port, as well as standards and testing authorities; trade promotion agencies; trade statistics organisations; private sector support institutions; and tradeThe relevance of the study is evident from the preceding context along with the objectives, purpose and expected results. URT through REPOA seeks to understand why, despite significant improvements of Tanzania's physical infrastructure such as roads, harbours, and energy, trade expansion and diversification constraints remain particularly with regard to institutional and regulatory framework, and what the implications of entering an EPA with the EU would be for the EAC in general and URT in particular to provide a strong basis for negotiation of the EPA. Hence the current study is highly relevant to URT.

1.3 Objectives of the Study

The overall objective of this study is to provide a comprehensive assessment of the costs and benefits to East African Community (EAC) partner states of implementing the Economic Partnership Agreement (EPA) with the European Union (EU) to inform policy direction for Tanzania. The specific objectives of this study are:

a) To conduct a sustainability impact assessment (SIA) of the EAC-EU EPA to enable an in-depth assessment of the potential economic, social, human rights and environmental effects of anticipated trade agreement between the EU and the EAC.

b) To assess the likely impact of EPA on SMEs (the 'SME test').

c) To examine specific subsectors, activities, products, vulnerable social groups and geographical areas that are most likely to be affected, either positively or negatively, by the outcome of EPA agreements.

d) To assess the likely effect of the agreement on welfare, paying particular attention to the likely impacts on consumer prices, quality, availability, choice and safety of goods/services, consumer identification, knowledge, and trust.

1.4 Approach and Methodology

Impacts of EPA are complex, involving multiple agents (individuals, institutions, governments) and sectors of the economy, depending on their levels of exposure to various provisions of the agreement. Furthermore, EPAs will produce both static and dynamic effects within and between the countries involved. The analysis of such arrangements (and their related policy instruments) requires an approach that considers both static and dynamic effects, thus capturing the forward and backward linkages among the different sectors and agents, changes in market, production, and consumption structures in the economy, as well as changes in prices. Further, the trade arrangements have implications on social, environmental, institutional frameworks, and human rights, which are core themes under the Sustainability Impact Assessment (SIA). All are considered and factored in to determine the overall costs and benefits of the EPA arrangement between EU and EAC countries, and in the particular case of Tanzania.

It is in this context that the current study uses multiple methodological approaches to conduct a SIA of EU-EAC EPA on Tanzania for two reasons. First is a need to capture the different dimensions of SIA – including both the quantitative and qualitative assessment of the impact of EPA on the economy. The second motivation is the complementarities in the use of different approaches given the relative strengths (advantages) and weaknesses (disadvantages) in using a particular analytical technique compared to another. In this case, our analytical framework is composed of three complementary approaches. First, the use of partial equilibrium model (PEM) to capture the static single country impact of EPAs. Second, is the use of general equilibrium models, the Computable General Equilibrium (CGE) modelling to capture the dynamic economy-wide impact of EPA. Third and finally, we use qualitative assessment by analysing information from stakeholder consultations (interviews) to examine issues that are not easily quantifiable (including stakeholder perceptions or policy discourses) in analysing the impact of EPA in an economy. For instance, one of the core themes under the Sustainability Impact Assessment (SIA) of EPA includes implications of EPA on social and environmental effects, institutional/policy frameworks, and human rights. Apparently, such issues are best analysed by using information from consultations with various stakeholders who are impacted differently by EPA or any other international trade agreements.

The rationale for use of the three complementary approaches arises from the challenge well noted in the literature that none of the three analytical techniques is self-sufficient in capturing the full impact of EPA let alone its SIA. For instance, the literature identifies

the strength in the use of PEM as the level of detail (six-digit HS tariff line) that is suitable for assessing the static analysis of short-term effects of a one-time change in one key parameter (trade, import tax revenue and welfare) effects of a country joining an FTA (including under EPAs). That is, one of the key advantages of the PEM is that it allows for analysis of the immediate impacts at a highly disaggregated product-level, which is critically important for policy analysis.

However, as noted by Grumiller et al., (2018), partial equilibrium models have the restrictive ability in analysis of wide effects of the economy relative to CGE models, including limitation to capture second-round or dynamic reverberations and ramifications in any sector. Assessment of such complex relationships requires an economy-wide modelling framework particularly a general equilibrium model (GEM), popularly known as Computable General Equilibrium (CGE) models. One of the popular applied in such analyses is the GTAP, which is a multi-product and multi-country CGE model. Despite its suitability, implementation of a CGE model is mainly hampered by lack of appropriate data – a challenge that limit inclusion of majority of African countries in the analysis (Karingi et al. 2005). Indeed, Milner et al. (2005) correctly point out that the database for CGEs lacks commodity detail to take account of the specific sensitive and special products of interest to both ACP countries and the EU in the context of EPAs, a challenge that renders CGEs less suitable compared to the PEMs.

Furthermore, to capture the qualitative aspects of SIA, we conducted stakeholder consultations with variety of actors in the target sectors/value chains. Generally, the analysis was undertaken by articulating information from stakeholder interviews based on the key thematic issues or questions. The consultations could be categorised into three major groups of stakeholders. First are policy actors, for which we consulted the key MDAs directly involved in trade policy making and enforcers of regulations that impact on trade or its outcomes. The second group are beneficiaries of international/regional trade agreements – mainly the primary producers, secondary processors and traders spanning two important stakeholders: farmers and SMEs in the selected sectors/value chains.

The third group are the supportive institutions/organisations whose primary functions is to undertake advocacy for policy and regulatory improvements for maximizing the benefits from development policies (including international trade agreements such as EPAs) or minimizing associated risks/effects in favour of specific beneficiaries or the economy at large. They mainly include the private sector institutions/organisations, sector/industry associations and civil society organisations and subject matter Experts. The scope and detailed description of the stakeholder consultations is shown in Annex C. Notably, given the limited resources and time, the field work covered only a manageable number of interviews in nine regions.

Therefore, our analytical strategy is to optimize the strengths of each of the three methodological approaches to complement the assessment of the impact of EU-EAC EPA on EAC economies and particularly for Tanzania. Clearly, our objective is to explore useful results and insights to best inform policy discourse. The technical details of each of the three methodological approaches are respectively described in Annex A, B and C.

1.5 Organisation of the Report

The report is presented in six chapters plus Annexes. Chapter 1 introduces the study, its objectives, methodological approaches, and context. Chapter 2 sets the analytical stage by undertaking a situational analysis of the trade and investment relations between Tanzania and the EU. Furthermore, the chapter reviews the literature to update on the critical issues and status of EPAs and provide an analytical context for underpinning the knowledge gap for the current study.

Chapters 3 to 5 are the main substantive chapters presenting results of the respective application of the partial equilibrium model, economy wide CGE model and the qualitative analysis (based on information from stakeholder consultations). Finally, chapter 6 concludes by highlighting key findings and policy implications.

2.0 EU Trade with Tanzania: A Situational Analysis and Literature Review

2.1 The EU Trade and Investment Relations with Tanzania

2.1.1 Trade and Development Policy Frameworks

There is general agreement in the literature that enhancing investment and international trade can promote economic growth and help support industrialization dream for developing countries. Indeed, the 2030 Agenda for Sustainable Development defines international trade as an engine for inclusive economic growth and poverty reduction, that contributes to the promotion of sustainable development. The adoption of Agenda 2030 commits UN member states to continue to promote meaningful trade liberalization over the next 15 years to help maximize the contribution of trade to the success of the sustainable development agenda. In this context, international trade is expected to play critical role in the implementation of the SDGs (UN, 2020).

At the core of sustainable development is the need to improve the living standards of people particularly the poor. This can happen if the economy grows to generate funds that can be used to fight poverty. This is why new generation investment policies have placed more emphasis on attaining inclusive growth and sustainable development (UNCTAD, 2021). Tanzania recognizes the role that can be played by international trade and investment in promoting growth and sustainable development through the FYDP II (2016/17 – 2020/21) and now FYDP III (2021/22 – 2025/26). FYDP II emphasizes that Tanzania can leverage her strategic geographical location as a place of physical intersection of the transport corridors which link the markets of the Tripartite EAC, SADC and COMESA regional economic groupings (URT, 2016). FYDP III emphasise the critical need for enhancing competitiveness in order to realize higher growth of exports, productivity and hence economic transformation.

Following, the Government of Tanzania (GoT) has embarked on a plethora of interventions to promote trade and investment including formulation of Special Economic Zones (SEZs), enhancing business environment, and participating in Regional Trade Agreements (RTAs). In the context of RTAs, Tanzania is involved in several trade negotiations including the Tripartite Free Trade Area (TFTA) agreement involving the EAC, SADC and COMESA. The TFTA creates a market of more than 527 million people in 27 countries worth a combined GDP of $640 billion. Tanzania is also involved in negotiations to establish and implement an African Continental Free Trade Area (AfCFTA) comprising of 55 African member states with a combined population of more than 1.2 billion people and US$3.5 trillion. UNECA estimates the AfCFTA will boost intra-African trade by 52.3% (Shinyekwa et al 2020).

Tanzania along with her EAC partners (except for South Sudan) finalised negotiations for an EPA with the EU in 2014. The EAC-EU contains an explicit development objective, which are reflected through (i) Trade rules that constitute a key contribution to the reform agenda and better business environment in the EAC Partner States, (ii) An asymmetry in the commitments to take into account the different level of development (for instance EAC liberalizes only 82.6% to protect some of the industries from competition from imported goods while EU liberalizes 100%); and (iii) The development assistance (mainly funding) which aims to help partner countries to increase production and supply capacity, fostering structural transformation and competitiveness of their economies, enhancing their economic diversification and by adding value, in order to promote sustainable development and support regional integration.

Under the EPA, the EU grants immediate duty-free and quota-free (DFQF) market access while ACP states are required to liberalize 'substantially all trade' over an extended phase considering their need to adjust their economies and trade capacities to trade effectively with the EU and in other trade agreements. The EPAs seek to promote ACP-EU trade, and ultimately contribute, through trade and investment to sustainable development and poverty reduction. EPAs are tailor-made to suit specific regional circumstances, go beyond conventional FTAs by focusing on ACP development and including co-operation and assistance to help ACP countries fully benefit from the agreements.

The negotiations for the regional (comprehensive) EPA were successfully concluded on 16 October 2014 and on 1 September 2016, Kenya and Rwanda signed the Agreement (between the EAC and the EU). All EU Member States and the EU also signed the Agreement. Apparently, other EAC countries lead by Tanzania have not (yet) signed the agreement due to some pending concerns. For instance, according to some anecdotal sources, Tanzania concerns hinges around three main issues.

First, EPA has weak (or no) commitment on development component beyond EDF. While EDF is an important source of development finance, Tanzania would need firm commitment that EPA will not curtail development finance. Second, in couple of areas, EPA appears to be limiting the policy space for pursuing alternative policies to support growth and transformation. For instance, *Article 12* is a stand still clause that limits Partners from imposing a new or amending tariff once removed; while *Article 15* on MFN erodes policy space and negotiating leverage to third parties, which is not a WTO requirement. A more specific concern in on agriculture subsidies where, according to *Article 68*, EU only commit to remove agriculture export subsidies but not EU imports competing products. In addition, Tanzania fears that EPA does not contain any article on protecting infant and strategic industries. In relation to this, statistics shows that EU is a major market for EAC primary exports rather than manufactured goods (see Tables

2.5 and 2.6) – this derails region's efforts to industrialize. Final issue is around legal aspects on *Articles 132, 135* and *141* on contracting Parties, whereas the EAC is considered as one group, the EU is flexible to commit at individual Member State. Another legal issue is the fact that EPA is subjected to Cotonou conditions including human rights, rule of law and democracy. These issues are largely considered as domestic issues, and so should be removed from the agreement.

Following the recent Brexit (UK exit from EU), new concerns have emerged regarding its impact on EAC-EU trade and EPA negotiations. Some studies have indicated that Brexit poses risks to EAC states in proceeding with EPA due to increased trade links between EAC states and the UK. For instance, it is estimated that in 2016, about 17 percent of EAC exports was destined to UK worth 0.4 billion Euro, most of which originated from Kenya (93 percent; 0.37 billion Euro). Following Brexit, there is high risk that the export market of EAC to EU will shrink by 17 percent, reducing the expected benefits of EPA to EAC (Gustafsson et al., 2017). Further, UK is the third largest contributor to European Development Fund (14 percent) after Germany and France, exit of which implies reduction in the funding envelope.

This chapter provides a situational analysis of the Trade and Investment in Tanzania. It examines trends in merchandise trade over the ten year (2010-2020) period and identifies the most important traded products by Tanzania generally and specifically with the EU in addition to describing the nature of trade between Tanzania and EU. In addition, it provides information about FDI in Tanzania, trends and some of the determinants. The report also provides information on EU investment in Tanzania including priority sectors and location. The analysis serves as the basis for identifying potential impacts of EAC-EU EPA to Tanzania.

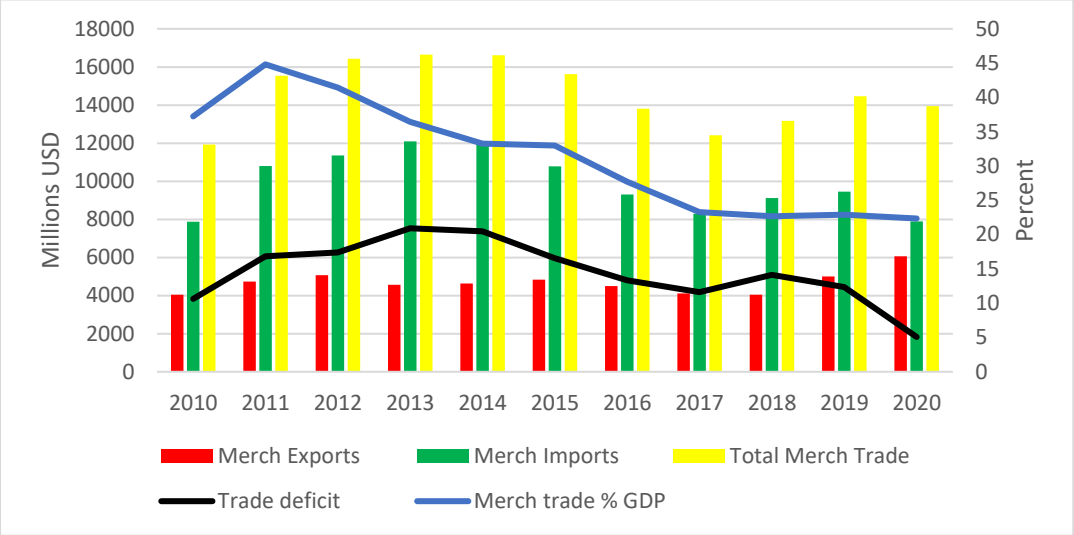
2.1.2 Trade between Tanzania and the European Union

Merchandise Trade in Tanzania

We begin by looking at total Tanzania merchandise trade (exports and imports of goods) performance between 2010 and 2020 as shown in Figure 2.1. The Figure shows that total merchandise trade in Tanzania increased from 11.9 billion USD to 14 billion USD during the 2010-2020 period. However, there had been a general decline in the value of trade between 2015 to 2018 and followed by a gradual rise since 2018. Merchandise imports explain a major part of the trends in total trade, as exports remained largely constant. Despite the increase in merchandise trade, Figure 2.1 shows that trade as share of GDP declined in the same period implying that GDP grew faster than total merchandise trade. Given the import dominance in Tanzania total merchandise trade, Tanzania trade balance remained to be in deficit throughout the period. However, it has been declining slightly since 2013 consistent with decline in imports. Further analysis of traded products is shown in Tables 2.1 and 2.2. Table 2.1

show that, Tanzania mainly imported finished and intermediate industrial goods. Major import commodities include agricultural machinery, implement and pesticides, industrial raw materials, machinery and transportation equipment, petroleum and petroleum products, construction materials, consumer goods, textiles and clothing, petroleum products etc. In terms of export products, Table 2.2 shows that Tanzania exports mainly raw materials. The principal export commodities include minerals (gold, gemstones, diamonds, coal etc.) and crops (coffee, cashew nuts, coconut, tobacco, and fruits).

Figure 2.1: Tanzania Merchandise Trade Performance (2010-2020)



***Source**: Authors' computation and compilation using* World Trade Organization, and World Bank GDP estimates (2020).

Table 2.1: Top 10 Products imported in Tanzania during 2010-2020 period[1]

Code	Product	Average (000 USD)
'2710	Petroleum oils	2,888,024
'8703	Motor cars	268,148
'3004	Medicaments	238,959
'1511	Palm oil	233,119
'1001	Wheat and meslin	210,538
'8704	Motor vehicles	193,894
'7208	Flat-rolled products of iron	175,188
'8701	Tractors	157,321
'8517	Telephone sets	148,792

[1] Based on average value of imported products for the 2010-2019 period

'4011	New pneumatic tyres	134,031

Source: *Authors' computation and compilation using* ITC Trade Map data (2021)

Table 2.2: Top 10 Tanzania Exported Products (2010-2020)

Code	Product	Average (000USD)
'7108	Gold	1,680,614.7
'2616	Precious-metal ores	318,747.0
'0801	Coconuts	269,328.9
'2401	Unmanufactured tobacco	183,937.0
'0901	Coffee, whether or not roasted	147,604.0
'0713	Dried leguminous vegetables	137,480.9
'1207	Other oil seeds	130,946.3
'0304	Fish fillets	112,946.3
'2602	Manganese ores	83,472.2
'5201	Cotton	54,669.1

Source*: Authors' computation and compilation using* ITC Trade Map data (2021)

Tanzania and EAC trade with EU

To what extent does Tanzania trade with the EU? We used ITC Trade Map data to identify top 10 supply markets of the products imported by Tanzania and added EU to examine the relative importance of EU. To create the ranks, we estimated Equation 1 then used resulting estimates (percentages) to rank the countries/regions.

$$x_i = \frac{Total\ exports\ of\ country\ or\ region\ i\ to\ Tanzania\ during\ 2010-2020}{Total\ Tanzania\ imports\ during\ 2008-2018} * 100 \ldots\ldots\ldots (1)$$

Where x_i is the share of country i's exports to Tanzania in the total Tanzania imports during the 2010-2020[2] period. The results are shown in Figure 2.2, in which the EU27 is shown as the 3rd largest supplier of Tanzania imports. The region supplied 11.5% of the total Tanzania imports behind China and India (15.7% and 13.5% respectively) during the 2010-2020 period. Based on 2020 data, EU exports to Tanzania were mostly composed of Tractors, Petroleum and Bituminous oil, human and animal blood and motor vehicles (for transport of goods)[3]. Out of the top 10 products imported by Tanzania during the 2010-2020 period, EU exports are more prevalent in the Telephone sets, Motor vehicles and Medicaments. Table 2.3 shows the top 10 products

[2] We ended in 2020 because regional level data in ITC Trade Map ends on the same year.

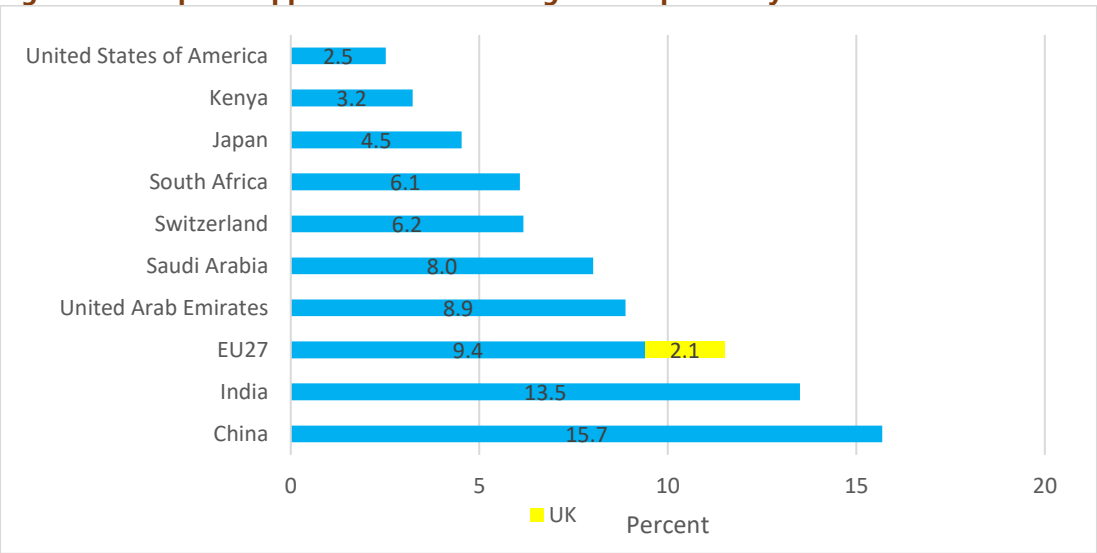
[3] See ITC Trade Map data: https://www.trademap.org/Bilateral_TS.aspx?nvpm=1%7c834%7c%7c%7c14719%7cTOTAL%7c%7c%7c4%7c1%7c1%7c1%7c2%7c1%7c1%7c1%7c1%7c1

imported by Tanzania from EU. From the list, six products (Tractors, Medicaments, Motor vehicles for transport of goods and people, Petroleum and Telephone sets also appear in the top 10 list of imported products in Tanzania (Table 2.1).

Following the last year *Brexit* and how important UK trade with Tanzania is, it was important to analyse the changes that would occur once we remove UK from EU (i.e., EU 27). It should be noted that post-BREXIT, Tanzania continues to trade with the UK under the same trade agreement as when it was a member of EU and therefore BREXIT is completely neutral to Tanzania and EAC. However, there will be a change in the structure of trade (by products and location) to reflect the change from Tanzania-EU 28 trade to Tanzania EU 27 and Tanzania-UK trades – which this section aims to show.

Figure 2.2 shows Tanzania's imports are heavily concentrated around the top 10 suppliers who collectively supply more than 80% of total Tanzania imports with the rest of the world supplying the remaining less than 20%. Further, it is observed that, removing UK from EU28 does not change the position of EU27 although its share in Tanzania imports decline to 9.4%. UK supplied 2.1% of total Tanzania imports and is ranked 11th. Table 2.4 shows top 10 products Tanzania imports from EU 27 and highlights the new products that have entered in the list and those that remained when Tanzania imports from EU 28 (see Table 2.3). Table 2.4 shows that once we remove UK from EU (i.e., EU 27), two new products emerge in the top 10 list, which are: turbojets and malt while the rest remain as in Table 2.3.

Figure 2.2: Top 10 Supplier Markets of the goods Imported by Tanzania 2010-2020



***Source**: Authors' computation and compilation using* ITC Trade Map data (2021)

Furthermore, it can be clearly observed that EU27 tractor exports to Tanzania (Table 2.4) is almost three times lower than EU28 (Table 2.3) highlighting the importance of UK as a supplier of tractors to Tanzania. In addition, products such as Motor Vehicles (HS 8703 and 8704) which were present in Table 2.3 disappeared in Table 2.4, again highlighting the importance of UK as a supplier of those products to Tanzania. Some of the top 10 products that Tanzania imports from EU27 are also present in the list of top 10 products imported by Tanzania from the world (Table 2.1). These include telephone sets, wheat and meslin, medicaments and tractors. Across each of these products, the share of Tanzania imports from EU27 in total Tanzania imports ranges from approximately 30% for telephone sets to 12% for medicaments. This highlights the importance of EU27 as a supplier of Tanzania's highest imported products.

Table 2.3: Top 10 products imported by Tanzania from EU (2010-2020)

Code	Product	Average (000 USD)
'8701	Tractors	74,399.9
'8517	Telephone sets	40,766.3
'8431	Parts suitable for use with the machinery	37,516.8
'3004	Medicaments	33,230.5
'3002	Blood (Hunam or Animal)	29,142.3
'8704	Motor vehicles	28,808.4
'1001	Wheat and meslin	26,598.8
'3105	Mineral or chemical fertilisers	25,745.2
'3302	Mixtures of odoriferous substances	25,233.9
'8703	Motor cars	23,796.9

***Source**: Authors' computation and compilation using* ITC Trade Map data (2021)

Table 2.4: Top 10 products Imported by Tanzania from EU 27 (2010-2020)

Code	Product	Average (000 USD)	Status
'8517	Telephone sets	37,001.8	Not new
'8431	Parts suitable for use with the machinery	31,379.6	Not new
'3004	Medicaments	30,397.9	Not New
'3002	Blood (Human or Animal)	28,669.7	Not new
'1001	Wheat and meslin	26,427.9	Not new
'8701	Tractors	26,115.3	Not new
'3105	Mineral or chemical fertilisers	25,535.3	Not new
'3302	Mixtures of odoriferous substances	24,901.4	Not new
'8411	Turbojets	21,406.3	New
'1107	Malt	19,645.6	New

***Source**: Authors' computation and compilation using* ITC Trade Map data (2021)

We then ranked the top 10 markets for Tanzania exports. To create the ranks, we estimated Equation 2 then used resulting estimates (percentages) to rank the countries.

$$y_i = \frac{Total\ country\ or\ region\ i\ imports\ from\ Tanzania\ during\ 2010-2020}{Total\ Tanzania\ exports\ during\ 2010-2020} * 100 \ldots\ldots\ldots (2)$$

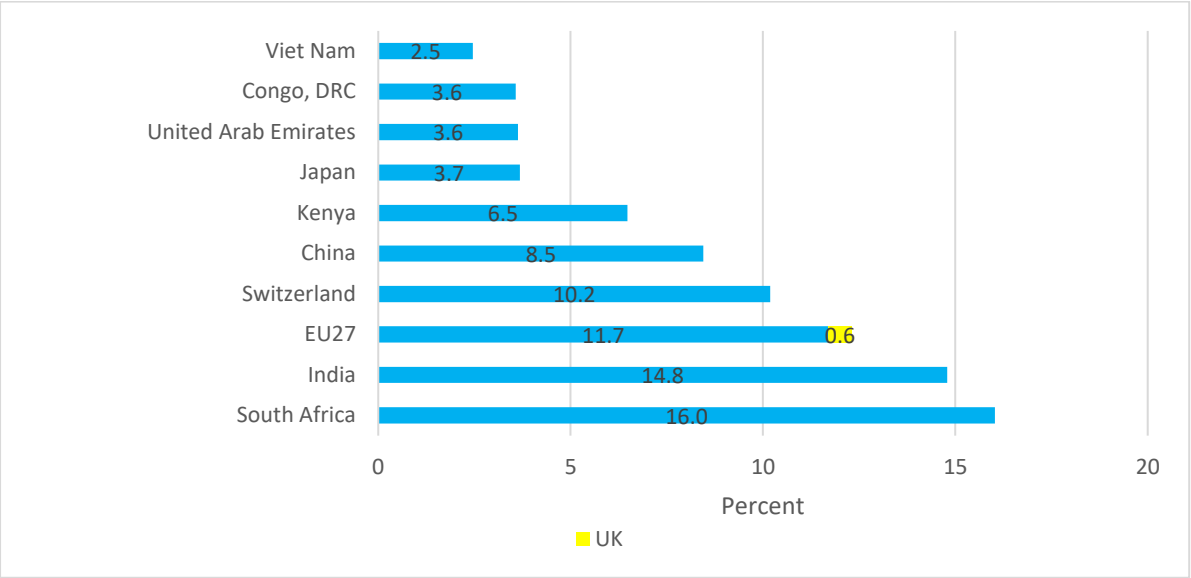
Where y_i is the share of Tanzania's exports to country or region i in total Tanzania exports during the 2010-2020[4] period. The results are shown in Figure 2.3. Like in the case of imports, Tanzania exports is highly concentrated among the top 10 markets who collectively consume 81% of total Tanzania exports while the rest consume the remaining 19%. Clearly, EU28 was the third highest destination of Tanzania exports, importing 12.3% of Tanzania total exports during 2010-2020 period. Thus, based on imports and export markets ranks, EU28 was an important trade partner for Tanzania albeit the recent dominance of China and India as the top trade partners (European Commission, 2017). On the other hand, the top 10 products that Tanzania exports to EU28 are shown in Tables 2.5 and 2.6.

Table 2.5 shows 5 of the top 10 products Tanzania exports to EU28 (Tobacco, Fish fillets, Manganese ores, Coffee and Precious metal ores) are also found in the overall top 10 Tanzania exports (see Table 2.2). Once we remove UK from EU28, only one new product emerges that is copper ores- while the rest remain as similar to when Tanzania exports to EU28. Thus, the product structure does not change as much with exports as with imports. Similarly, the reduction of export values to EU27 across all the top 10

[4] We ended in 2020 because regional level data in ITC Trade Map ends on the same year.

products is not as much as with the case of imports. This is consistent with the low UK market share in total Tanzania exports that is 0.6% (see Figure 2.3).

Figure 2.3: Top 10 Markets for Tanzania Exports 2010-2020



Source: Authors' computation and compilation using ITC Trade Map data (2021)

Table 2.5: Top 10 products exported by Tanzania to EU28 (2010-2020)

Code	Product	Average (000USD)
'2401	Unmanufactured tobacco	143,326.9
'2616	Precious-metal ores	89,532.5
'0304	Fish fillets	67,833.0
'0901	Coffee	63,142.0
'7102	Diamonds	26,598.1
'0602	Live plants	17,880.5
'2602	Manganese ores	15,748.4
'0902	Tea	13,467.9
'0603	Cut flowers	11,775.5
'1801	Cocoa beans	11,224.5

***Source**: Authors' computation and compilation using* ITC Trade Map data (2021)

Table 2.6: Top 10 products Exported by Tanzania to EU 27 (2010-2020)

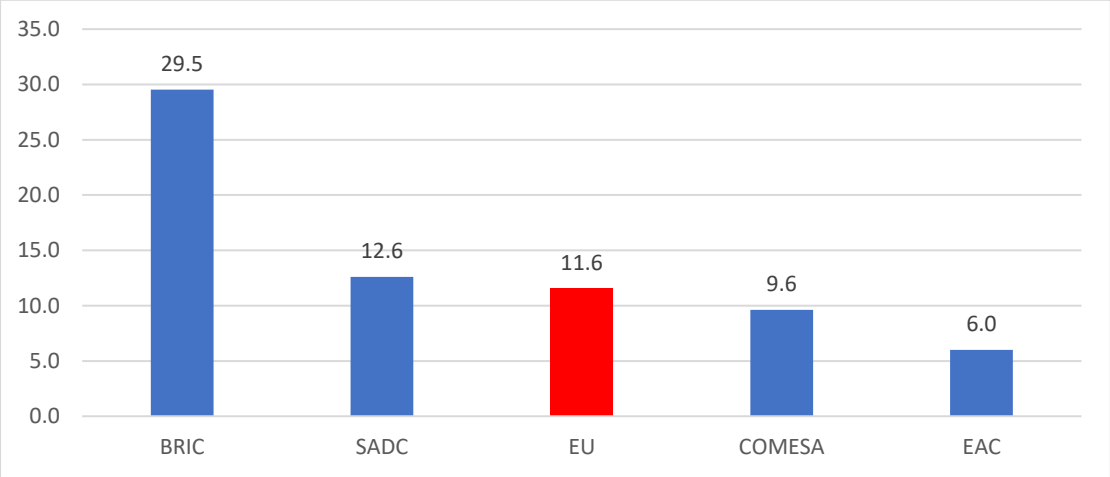
Code	Product	Average (000 USD)	Status
'2401	Unmanufactured tobacco	141,147.45	Not new
'2616	Precious-metal ores and concentrates	89,528.27	Not new
'0304	Fish fillets	67,824.00	Not new
'0901	Coffee	61,507.82	Not new
'7102	Diamonds	26,592.27	Not new
'0602	Live plants	17,877.64	Not new
'2602	Manganese ores	15,748.36	Not new

'1801	Cocoa beans	11,224.45	Not new
'0603	Cut flowers	10,877.00	Not New
'2603	Copper ores	10,338.45	New

***Source**: Authors' computation and compilation using* ITC Trade Map data (2021)

When we compare trade between Tanzania and EU28 and that between Tanzania and other regions (EAC, SADC, BRIC, and COMESA), we found that EU's share of trade (11.6%) in Tanzania is larger than that of EAC (6%) and COMESA (9.6%) but lower than BRIC (29.5%) and SADC (12.6%). BRIC's higher share can be explained by India and China who as mentioned before are major trade partners with Tanzania. Given that the study wants to identify the potential impacts of EAC-EU EPA on trade at regional level, it is important to explore the trade flows between EAC and EU. Table 2.7 shows top 10 products imported by EAC from EU. As it can be seen, they do not differ much with those that Tanzania imports from EU (see Table 2.3).

Figure 2.4: Share of a Region's Trade with Tanzania in Tanzania Total Trade (2010-2020)



***Source**: Authors' computation and compilation using* ITC Trade Map data (2021)

Table 2.7: Top 10 Products Imported by EAC from EU28 (2010-2020)

Code	Product	Average (000 USD)
'3004	Medicaments	221,826.45
'8701	Tractors	178,544.91
'8517	Petroleum	174,354.18
'2710	Telephone sets	140,329.27
'3002	Wheat and meslin	124,588.91
'1001	Blood (Human or Animal)	118,247.45
'8703	Motor vehicles for the transport of persons	109,243.36
'8471	Data processing machines	82,303.27
'8502	Electric generating sets	78,472.09
'8704	Motor vehicles for the transport of goods	72,875.27

***Source**: Authors' computation and compilation using* ITC Trade Map data (2021)

However, once we remove UK from the EU (see Table 2.8), motor vehicles and electric generating sets no longer appear in the top 10 list as in Table 2.7 – suggesting UK is an important supplier of those products to the EU. On the other hand, Table 2.9 shows EAC top 10 exports to EU28. Like in the case of imports, most of the products exported by EAC to EU28 (coffee, tea, unmanufactured tobacco, precious metal ores and fish fillets) are like those exported by Tanzania to EU28. On the other hand, when we remove UK from the EU (and compare with Table 2.9), one new product emerges in the top 10 products exported by EAC to EU that is Petroleum and bituminous material oils (see Table 2.10). The rest remain as before removing UK.

Table 2.8: Top 10 products Imported by EAC from EU27 (2010-2018)

Code	Product	Average (000USD)	Status
'3004	Medicaments	189,308.9	Not new
'8517	Petroleum oils	163,040.4	Not new
'2710	Telephone sets	129,035.1	Not new
'1001	Wheat and meslin	119,713.5	Not new
'3002	Human blood	116,427.7	Not new
'8701	Tractors	93,130.8	Not new
'8471	Data processing machines	65,787.9	Not new
'9018	Mixtures of odoriferous substances	64,100.2	New
'8422	Dishwashing machines	61,070.2	New
'3105	Instruments and appliances	57,338.8	New

***Source**: Authors' computation and compilation using* ITC Trade Map data (2021)

Table 2.9: Top 10 Products Exported by EAC to EU28 (2010-2020)

Code	Product	Average (000 USD)
'0901	Coffee	460,351.64
'0603	Cut flowers	419,104.00
'0902	Tea	201,903.27
'2401	Unmanufactured tobacco	177,783.27
'0304	Fish fillets	137,919.09
'0602	Live plants	112,966.45
'0708	Precious-metal ores	98,598.30
'2616	Leguminous vegetables	88,536.27
'0709	Other vegetables, fresh or chilled	68,384.00
'2008	Fruits	53,183.00

***Source**: Authors' computation and compilation using* ITC Trade Map data (2021)

Table 2.10: Top 10 products Exported by EAC to EU27 (2010-2020)

Code	Product	Average (000 USD)	Status
'0901	Coffee	432,422.36	Not new
'0603	Cut flowers	318,885.91	Not new
'2401	Unmanufactured tobacco	172,608.45	Not new
'0304	Fish fillets	137,859.45	Not new
'0602	Live plants	110,866.36	Not new
'2616	Precious-metal ores	98,593.70	Not new
'2008	Petroleum oils	49,386.64	New
'2710	Fruits	46,841.36	Not New
'0902	Tea	39,944.73	Not new
'0708	Leguminous vegetables	39,649.27	Not new

***Source**: Authors' computation and compilation using* ITC Trade Map data (2021)

2.1.3 Trade on the Selected Value Chains

Given the selected value chains for the study, it was important that we provide statistics on imports and exports of each selected value chain, namely cotton textile and apparel (CTA), leather, horticulture, rice, seaweed, and logistics. Figure 2.5 shows Tanzania imports and exports of Cotton, Textile and Apparel (CTA) products. Over the 2012-2020 period, Tanzania imports of CTA products increased, and this is due to improved access to foreign markets and the importation of cheap garments. On the other hand, Figure 2.5 shows Tanzania exports of CTA products declined over the same period. Figure 2.6 shows that both Tanzania exports and imports for Rice fell during the 2012-2020 period. Part of the reason for the decline in exports was Tanzania's ban on rice exports which was intended to enhance food security in the country. Figure 2.7 shows that, Tanzania imports very little quantity of leather while exports have been falling over 2012-2020 period. Figure 2.8 shows that Tanzania exports and imports very little value of seaweed. Figure 2.9 shows imports lower Horticulture products than her exports. Further, over the 2012-2020 period, Tanzania exports of Horticulture products have been rising. Table 2.11 shows trends in export and imports of the selected value chain products in Tanzania.

Table 2.11: Trends in exports and imports of the selected Value Chain Products (2010-2020)

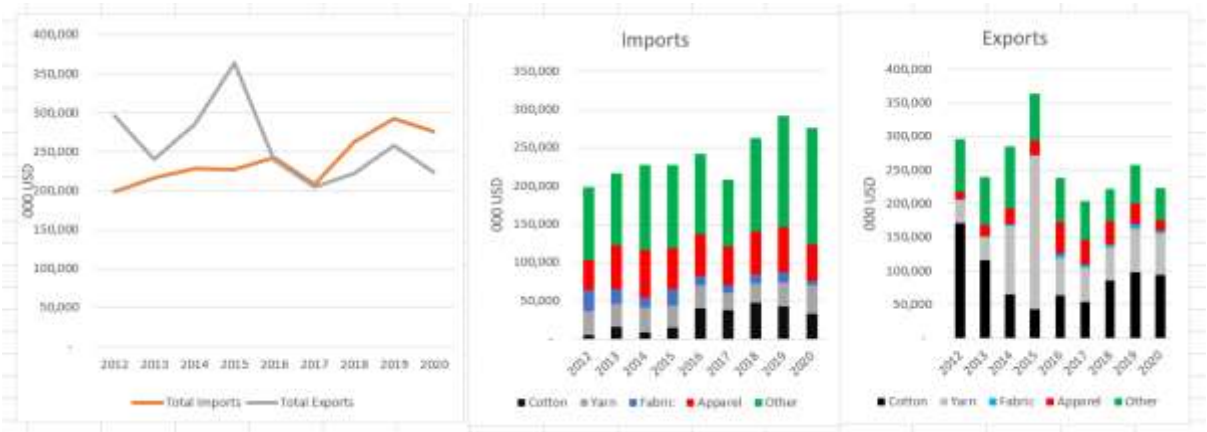
No.	Value chain	Trade intensity	Exports	Imports
1.	Cotton, Textile and Apparel (CTA)	High	Falling	Rising
2.	Rice	High	Falling until 2017, then rising	Falling until 2017, then slight rise

3.	Leather	Low (only export)	Falling with prospects to rise since 2017	Constant with prospects to rise since 2017
4.	Seaweed	Low (only export)	Falling until 2013, constant thereafter	Falling until 2013, constant thereafter
5.	Horticulture	Low (only export)	Rising	Very little, constant
6.	Logistics	Not Applicable	Not Applicable	Not Applicable

***Source**: Authors' computation and compilation using* ITC Trade Map data (2021)

Cotton, Textile and Apparel (CTA): Tanzania is the fourth largest global producer of organic cotton after Turkey, Syria and India and cotton is the second largest export crop in the country after coffee. This sector if promoted effectively has a very high potential to immensely contribute to the economy in terms of foreign earnings, jobs creation, incomes, and poverty reduction. Promotion of this sector will also encourage development of industries as Tanzania is moving towards industrialization. Figure 2.5 shows that, Tanzania exports of CTA products has been declining while, that of imports has been increasing. A significant share of imports originates from insufficient supply of quality yarn and fabric which forces firms to import inorder to produce quality apparel and remain competitive; and the Tanzanians' preference for foreign clothing (URT, 2018). The increasing imports of CTA products has had a negative effect on Tanzania CTA industry as local firms are unable to compete with cheap imported textile and apparel products (URT, 2018).

Figure 2.5: Tanzania Exports and Imports of CTA Products (000USD)



***Source**: Authors' computation and compilation using* ITC Trade Map data (2021)

Figure 2.5 also shows product composition of exports and imports. It can be observed that large portion of Tanzania CTA imports comes from apparel and other textiles (which mainly includes home textiles). It can also be observed that cotton imports have been increasing overtime, while yarn and fabric imports have been declining. Cotton exports are observed to decline in between 2012 and 2015 and then generally rise from thereon. Yarn exports have been increasing and attained very high value in 2015 – a main reason why CTA exports attained all time high during 2012-2018 period. Fabric exports constitute a very small share in all years highlighting the challenge of insufficient locally available quality fabric in Tanzania. Generally, it can also be observed that low value-added products (cotton, yarn, and fabric) constitute large share of exported CTA products.

Rice: Rice is the second most important food crop after maize, in terms of number of rural households it employs. Rice is increasingly becoming a commercial crop in Tanzania, providing food, employment, and income for people in both rural and urban areas. The rice industry impacts the livelihoods of about 2 million people (URT, 2019). The GoT considers rice-subsector a strategic priority for agricultural development given its potential for improving food security and income for large numbers of rural households. In Africa, the rate of increase in demand for rice is the fastest in the world because of population growth (4% per annum). The raising income levels and urbanization have increased consumer preference for rice relatively more than other food crops (URT, 2019).

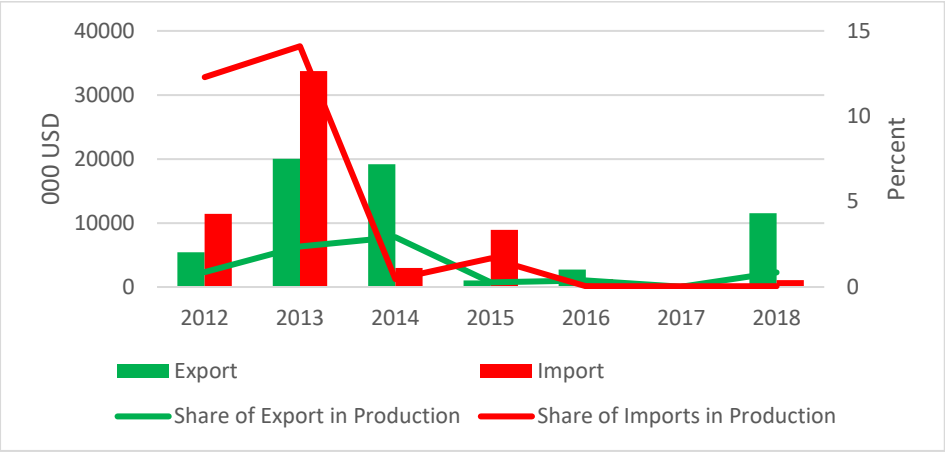
Tanzania exports and imports very low quantities of rice. Figure 2.6 shows that the share of rice exports in total production ranged between 0.01% and 2.9% while imports ranged between 0.04% and 12.3%. The low imported quantity of rice is partly a result of 75% import tariff on rice which has been in effect since 2005. A significant amount of rice trade occurs through informal channels which official data is unable to capture.

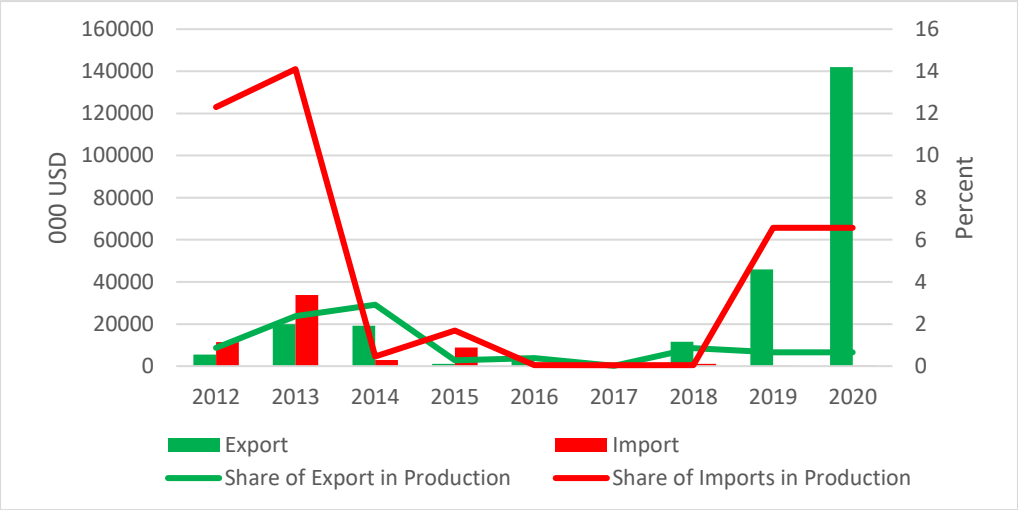
High import share observed in 2013 was used to cover low production in the preceding year which was caused by low rainfall (The East African, 2014). Tanzania regularly imports rice, primarily because the domestic wholesale price in all markets is significantly higher than the international price. Example, the lowest local prices are in Songea which is a rice surplus zone while the highest prices are in deficit zones such as in Dar (Wilson and Lewis, 2015).

Rice exports from Tanzania are an important supply source for neighbouring maize deficit markets in Eastern and Southern Africa, particularly during years of drought. Indeed, ITC Trade Map data on markets for Tanzania's rice exports shows that nearly all top 10 markets for rice originate from the Eastern or Southern African countries. These countries accounted for approximately 99% of total Tanzania rice exports. Significant rice export occurs mainly through informal, unregistered, and unregulated channels. Export bans are also used to influence rice marketing in Tanzania. This deters traders from seeking large export contracts and has in turn encouraged bribery and illegal trade (USDA, 2018).

Leather: The Food and Agriculture Organisation (FAO) (2020) notes that Tanzania has the second largest livestock production in Africa after Ethiopia with 27.4 million head of cattle, 18.4 million head of goats, and 7.8 million head of sheep in 2019. Despite such impressive production figures, the sector's export share in GDP is very small averaging 0.03% during the 2012-2018 period. A large share of export earnings come from raw hides and skins which on average constituted 77% of total export income with the remaining distributed between articles or leather (20%) and footwear (3%). This implies Tanzania exports mainly low value-added leather products. Tanzania's market share in leather exports in the African region is remarkably minimal. The country ranked 11th for hides and skins exports with a total value of US$1.2 million or 1.8% of total exports in 2019. South Africa became the largest hide and skin exporting country with a share of almost a third of Africa's market in 2019. In the export of articles of leather, Tanzania is ranked 25th in Africa behind Senegal and Mozambique. Tanzania ranked 19th in the export of footwear (upper leather) while Tunisia ranked 1st in export revenues both in articles of leathers and footwear with a share of 49% and 63% of total exports in the Africa region in 2019, respectively.

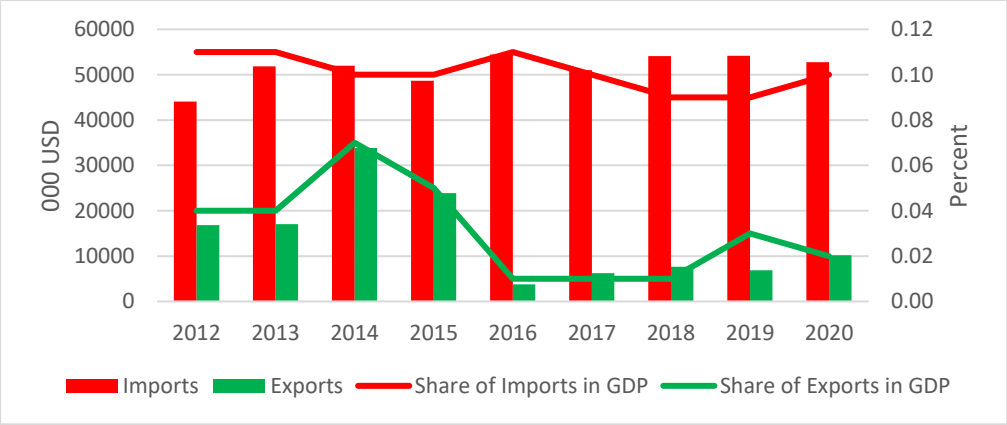
Figure 2.6: Tanzania Imports and Exports of Rice (000USD)





***Source**: Authors' computation and compilation using* ITC Trade Map data (2021)

Figure 2.7: Tanzania Exports and Imports of Leather (000USD)



***Source**: Authors' computation and compilation using* ITC Trade Map data (2021)

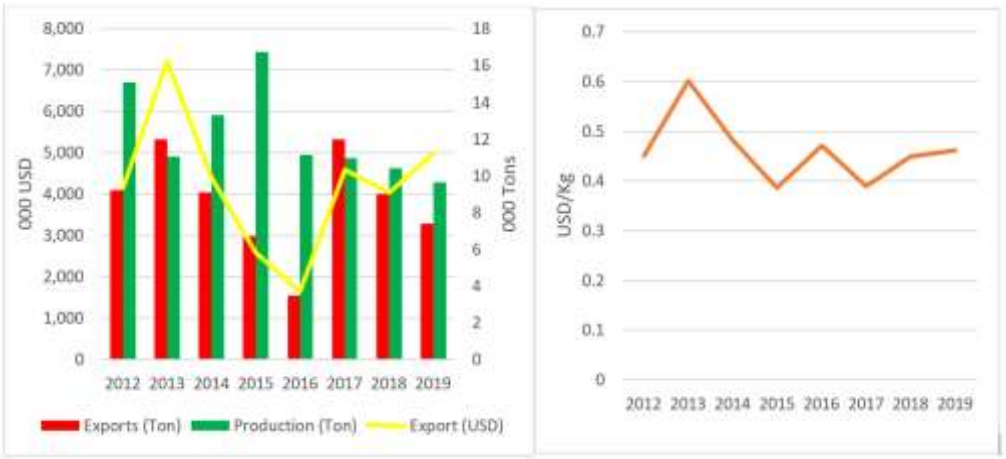
Footwear constitutes a major portion of Tanzania leather import bill. It averaged 74.4% of the total imported leather during the 2012-2018 period. This was followed by articles of leather (25.3%) and finally raw hides and skins (0.3%). The Tanzania footwear industry has a production capacity of 300,000 pairs per annum – which is significantly

short of the estimated footwear demand at 46.8 million pairs per annum (ITC, 2016). The gap between is filled by imports, mostly from China, Kenya, the United Arab Emirates, South Africa, and India. China and India are also important markets for raw hides and skins from Tanzania (ITC Trademap data, 2021). This implies raw materials originating from Tanzania are processed by China and India into finished products, then exported back to Tanzania. The GoT took several policies to improve the leather sector, one of which was through the application of export levy of 20% for raw hides and skins that began in 2003. This move aimed to reduce exported raw hides and skins. The levy was increased to 40% in 2007 but this triggered an increase in hides and raw skins smuggling to neighbouring countries, especially Kenya and Uganda. In 2012, export levy was increased to 90% of the free on-board value.

Seaweed: Seaweed is an important aquacultural sub sector in Tanzania, playing a significant role in the development of the blue economy particularly in Zanzibar where it employs nearly 26,000 people with almost 80 percent of them being women (Brugere et al., 2019). In Tanzania only two varieties are cultivated that is Cottoni and Spinosum. Cottoni is relatively less produced in Zanzibar albeit its relatively high value. This is because the variety thrives best in deep sea while the majority of farmers (who are women) cannot swim. On the other hand, the Spinosum variety thrives in shallow water and thus shares a larger quantity of production.

Figure 2.8 shows that the trend of Tanzania seaweed export fell during the 2012-2019 period. According to various releases of BoT annual reports, the fall in seaweed exports is caused by falling unit prices and falling exports. Unit price is observed to fall in between 2013 and 2019 while production also fell in between 2015 and 2019. Unit prices are observed to be generally low and averaged 0.46USD/Kg during the 2012-2019 period. This observation coincides with the findings from field survey on the seaweed value chain in Zanzibar where producers complained of the low seaweed price. This is because, Tanzania exports mainly raw seaweed with very little value addition. Further, respondents revealed that, there are no seaweed processing plants in the country because the investment required is very high and unaffordable to many producers. Tanzania imports very low seaweed. ITC Trademap reports zero imports in all years between 2012-2019.

Figure 2.8: Tanzania Exports and Imports of Seaweed (000USD)

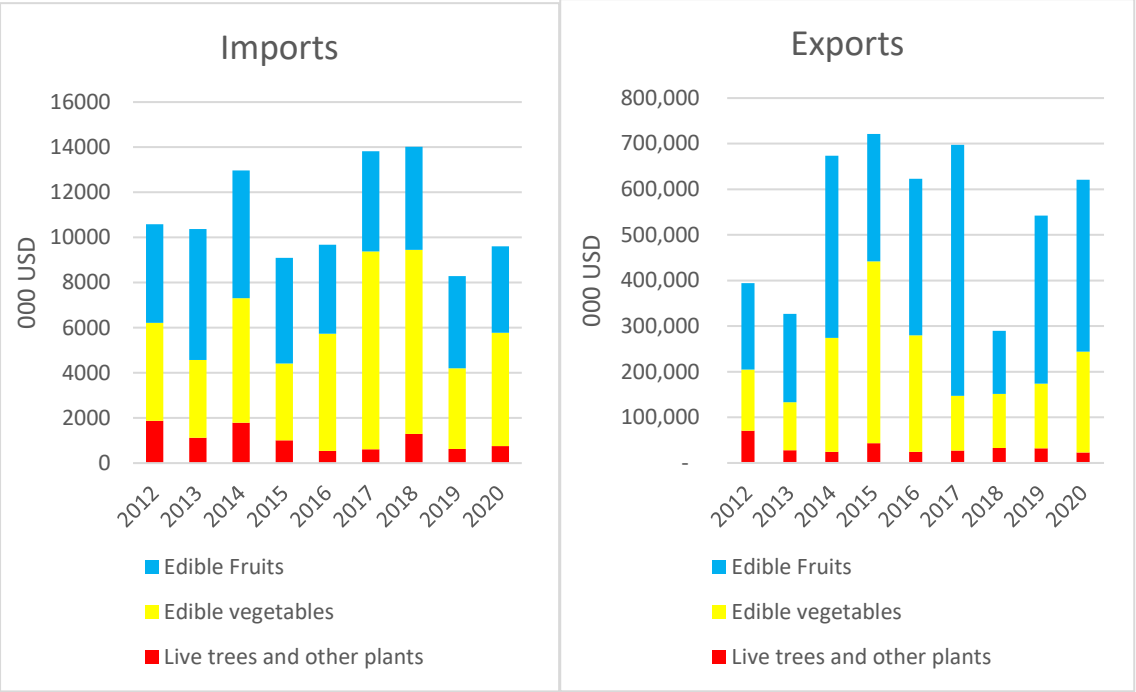


***Source**: BoT Annual Reports (various releases)*

Horticulture: Tanzania import bill for horticulture products is significantly lower than export receipts. This is partly because there is sufficient production to cover local demand. Indeed, according to FAOSTAT 2019 data, Tanzania is among the world's top 20 producers of fresh vegetables by volume accounting for 0.7% of global production. Notwithstanding such production trends, the country's positioning in vegetable export market is low mainly due to the current business arrangements where Tanzania exporting companies are subsidiaries to large companies often based in Kenya. The reliance on Kenyan large exporters of horticulture products arises mainly due to the logistic and supply chain management constraints limiting the direct and fuller utilization of exporting opportunities by the Tanzanian producers.

As shown in Figure 2.9, Tanzania receipts from horticulture products have shown a decreasing trend over time. Product disaggregation shows that, fruits accrue large share of export earnings (averaged 56% of total horticulture export earnings during the 2012-2020) followed by vegetables (36%) and finally trees and flowers (9%). Notably the sharp decline in horticulture exports in between 2017 and 2018 is attributed to fall in fruits exports due to decline in production. According to the Ministry of Agriculture data (see URT, 2020), fruits production fell from 5.2 million tons in 2017 to 3.7 million tons in 2018. Tanzania main trading partners for her exports of fruits, vegetables, and flowers. Most of these the exports are destined to partners come from Europe, and few in, Africa and Asia.

Figure 2.9: Tanzania Exports and Imports of Horticulture products



***Source**: Authors' computation and compilation using* ITC Trade Map data (2021)

Tanzania's horticulture exports face tariff escalation which discourages investments in processing operations for export. The pattern is that raw produce carries lower duties, other than potatoes and citrus—both produced in the EU, and processed fruit and vegetables face higher duties. Exports to the EU face Most Favoured Nations (MFN) duties that range from 0% on many fresh onions and tomatoes shipped to the EU market to 11.3% on dried vegetables, 13.9% on frozen vegetables, and 14% on tomato preparations. In contrast, the UAE charges low duties in the 0-5% range, with fresh (raw) products carrying no duty and processed products and spices facing 5% duties (Holtzman and Reichhuber, 2020). This challenge is also prevalent in other value chains. For instance, according to Fukase and Martin (2016), SSA agriculture exports face the following tariff escalation: paddy rice (1.2%) vs. processed rice (5.7%); oil seeds (7%) vs. vegetable oils and fats (8%); sugar cane and sugar beet (0.4%) vs. sugar (9.1%) etc. Evidence shows that tariff escalation in external markets poses substantial barriers for SSA's exports of processed agricultural products.

2.1.4 EU Investments Trends for Tanzania

General Trends in FDI for Tanzania

Investment is an important outcome of EAC-EU EPA. The development-cooperation chapter of the EPA contains commitments by both the European Union and the EU Member States individually to carry out development financing to support the implementation of this Agreement. This financial assistance is an essential part of making sure that the EPA will become an instrument to propel economic growth, attract investment and create jobs. Specifically, the EU funding targets to support (i)

Implementation of EAC Industrial development strategy including improving regulatory environment for SMEs; (ii) building R&D capacity and enhancing networking among government research labs, academia and financial institutions; (iii) promoting technology and innovation to foster structural transformation and industrial upgrading; (iv) facilitating technology transfer through regional and technology cooperation; and (v) promoting private sector development including supporting business friendly and inclusive national policies; strengthening productive processing and marketing capacities; increasing financial inclusion; enhancing access to finance for SMEs; and peer to peer learning between ACP countries (European Commission 2017). Clearly some of these areas will be key to attracting FDI and increasing local investment in EAC. In addition, Investment is covered as among Trade Related issues that will be negotiated once the Comprehensive EPA has been signed[5]

Tanzania is one of the most preferred destinations for foreign investment in Africa. It counts among the 10 biggest recipients of FDI in Africa and the first in EAC (WTO, 2019). According to UNCTAD's 2020 World Investment Report, the FDI inflow in Tanzania reached USD 1.1 billion in 2019 and showed an increase compared to the previous year (USD 1 billion). The current FDI stock was estimated at USD 21.8 billion in 2019. The mining sector, the oil and gas industry, as well as the primary agricultural products sector (coffee, cashew nuts and tobacco) draw most FDI. The country's primary investors are China, India, Kenya, United Kingdom, Mauritius, Oman, the United Arab Emirates, Canada, the United States, the Netherlands, South Africa, and Germany. In 2020, the COVID-19 pandemic negatively impacted FDI flows. According to UNCTAD's Global Investment Trends Monitor (UNCTAD, 2021), FDI flows to Sub-Saharan Africa decreased by 11% to an estimated USD 28 billion.

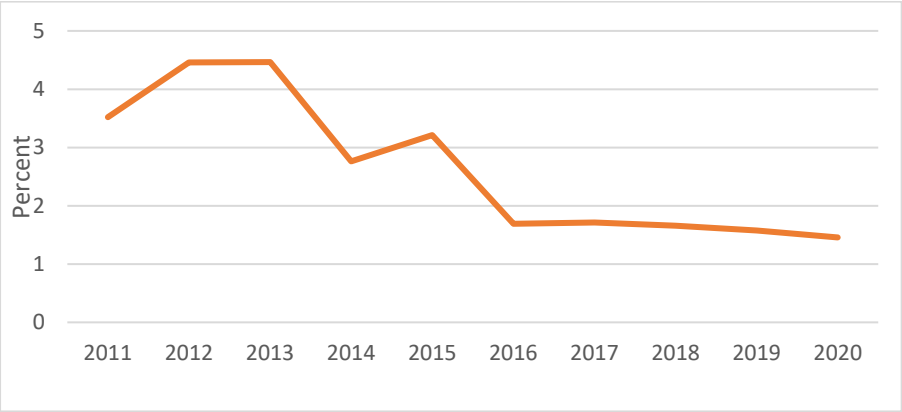
Figure 2.10 shows that Tanzania net FDI inflows have generally declined since 2013 albeit they have been improving very slowly since 2016. This is why the 2019 World Investment Report indicates that while FDI flows to Tanzania increased from USD 938 million in 2017 to USD 1.1 billion in 2018, they have not recovered to pre-2015 levels. Investors and potential investors note the biggest challenges to investment in Tanzania include difficulty in hiring foreign workers, reduced profits due to unfriendly and opaque tax policies, increased local content requirements, regulatory/policy instability, lack of trust between the GoT and the private sector, and mandatory initial public offerings (IPOs) in key industries. For instance, in 2017, Tanzania approved new regulations in the mining sector that allows the government to tear up and renegotiate mining contracts, partially nationalise mining companies, introduce higher royalties, enforce local beneficiation of minerals, and bring in strict local-content requirements,

[5] Other issues include Trade in Services, other Trade Related Issues namely, Competition Policy, Intellectual Property Rights, and Transparency in public procurement (see European Commission 2017).

which undermined investor confidence. In 2016, a large deposit of helium gas was discovered in Tanzania, but its exploration work was postponed (WTO, 2019). This is why the annual survey of mining and exploration companies conducted by Fraser Institute in 2017 found that Tanzania's investment attractiveness ranking dropped from 59th in 2016 to 78th in 2017 (Stedman and Green, 2018)[6]. However, the current Government administration has resolved to address these hurdles in lieu of the new Investment policy.

[6] https://www.fraserinstitute.org/sites/default/files/survey-of-mining-companies-2017.pdf

Figure 2.10: Net FDI Inflow in Tanzania (%GDP)



***Source**: Authors' computation and compilation using* UNCTAD STAT (2021)

The GoT is working hard to improve business environment and attract more investors both domestic and foreign. According to the Doing Business 2020 report published by the World Bank (see World Bank, 2020), Tanzania ranked 141st out of 190 countries, gaining three positions compared to the previous report. Indeed, investors are drawn to the country's commitment to implement sound macroeconomic policies, its efficient privatization program, and abundant natural resources. In May 2018, the government adopted the Blueprint for Regulatory Reforms to improve the business environment and attract more investors. The reforms, which were developed as a collaborative effort between the Ministry of Industry, Trade and Investment and the private sector, seek to improve the country's ease of doing business through regulatory reforms and to increase efficiency in dealing with the government and its regulatory authorities. The official implementation of the Business Environment Improvement Blueprint started on July 1, 2019, though there has been little tangible changes or advancements. A new Business Facilitation Act aimed at implementing key actions from the Blueprint is pending adoption by Parliament.

The Role of EU FDI in Tanzania

EU is an important contributor to FDI in Tanzania. The region contributed 112 million Euros to Tanzania FDI inflows in 2018 which was a decrease from 172.4 million Euros contributed in 2015. The large chunk of that FDI came from Netherlands (61 million Euros or 54%) while UK contributed 16.3 million Euros (14.5%). Indeed, during the 2015-2018 period, Netherlands shares of total EU FDI to Tanzania averaged at 66% while Germany, 17.7% and UK 13.2%.

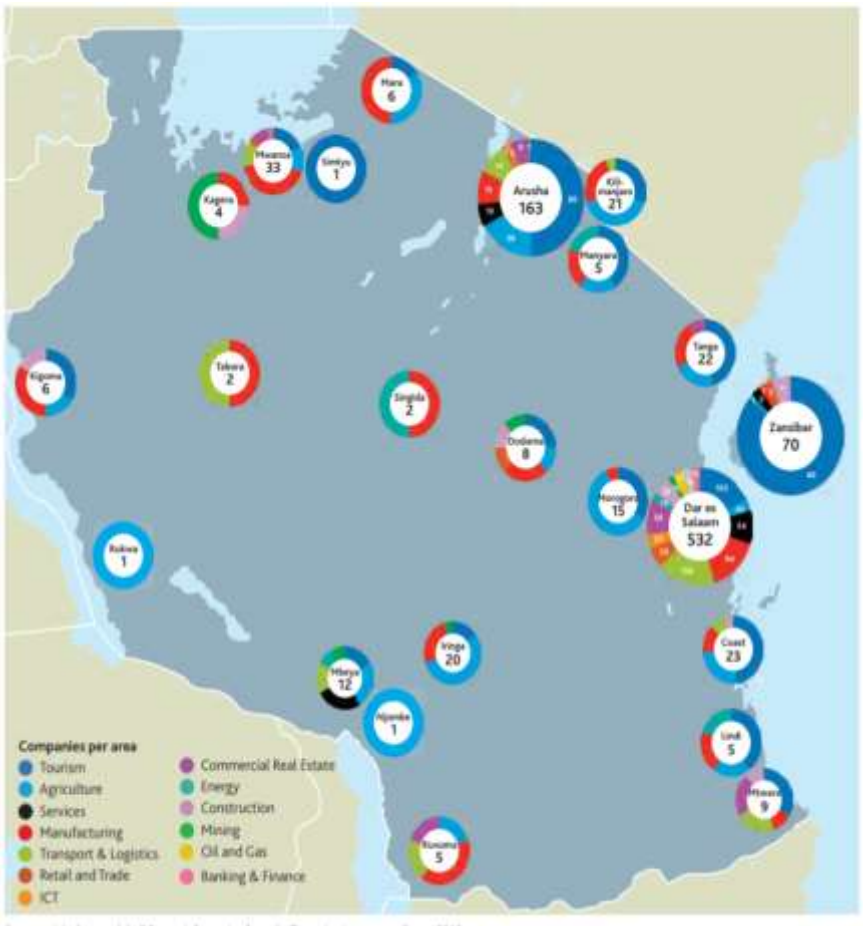
According to Elliot (2016) using data from Tanzania Investment Center (TIC), companies from different EU countries investing in Tanzania were mainly attracted in the following sectors: Mining, Financial Services, Energy, Agriculture, and ICT. The United Kingdom (U.K.) leads among EU countries with 544 companies registered with TIC. Italy is leading source of investment in Tourism, with many Italian companies

focusing on tourism-related ventures, particularly in Zanzibar. Investment from the Netherlands is also significant and is largely concentrated in agriculture and agro processing. Other are widely distributed at the sectoral level, including in manufacturing, services, and trade, energy, infrastructure, banking, retail, and logistics. Figure 2.11 shows locations of EU investments in Tanzania. In 2014, Tanzania had 137 foreign companies listed by TRA as Large Taxpayers. Out of that total, 55 companies or approximately 40% were of EU origin. Of all large taxpayers (domestic and foreign investors combined), the 55 EU companies registered as large taxpayers made up 23% of the total tax revenue (USD 813 million)[7], thus illustrating the substantial contribution made by EU companies to the Tanzanian tax base and economy.

In the agricultural sector, European firms are active across the different subsectors – mainly sugar (Kilombero Sugar Company), fertilizer and pesticides (Yara, Syngenta and Bayer Crop Science AG) (Elliot, 2016). In the mining sector, 61.6% of all gold production in the country came from European companies, with Acacia Mining and Shanta Gold as the leading firms. Total tax and royalty payments contributed by European gold mining companies to date are in excess of TZS 1 trillion. In the onshore oil and gas sector, the UK-based Songas and France-based Maurel & Prom. Songas transports gas from Songo Songo Island in Lindi region via a 225-kilometer pipeline to Dar es Salaam; while Maurel & Prom operates five wells in the Mnazi Bay gas field in Mtwara region that will deliver up to 130 million CF of gas per day to the Dar es Salaam region. In manufacturing industry in 2014, the dominant European firms include cement manufacturing (France-Swiss based Lafarge-Holcim and Germany-based Heidelberg Cement Group), and the beverage industry, where EU investors account for more than 90% of market share.

Figure 2.11: Location of EU Investment in Tanzania

[7] Direct taxes paid by foreign companies in Tanzania include corporate tax, employment tax on workers, skills development levy, excise tax for manufacturers, withholding tax, and Value Added Tax (VAT), which firms must collect from customers and pass through to TRA (Elliot, 2016)



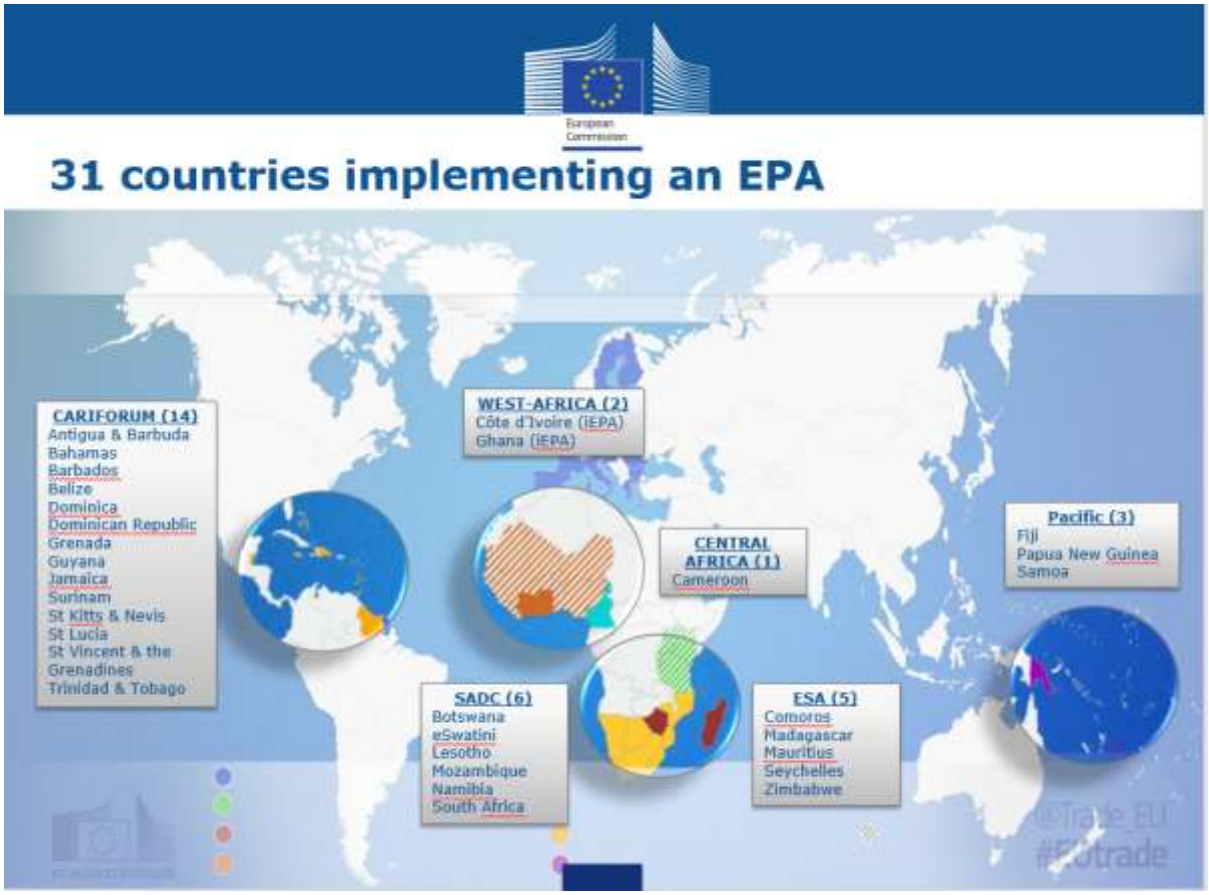
Source: *Elliot (2016)*

2.2 Literature Review on EPAs

Economic Partnership Agreement (EPA) between ACP countries and EU has been a subject of contention, primarily because of disputable benefits and implementation modalities that appear to have dramatically delayed conclusion of their negotiations. This chapter summarises the main issues arising from previous studies and collates the existing knowledge regarding the impact of EU-EAC EPA on EAC countries in general and for Tanzania in particular. Specific attention is devoted to the role of SMEs in EPAs, given the focus on inclusive and sustainability aspects of their impacts.

2.2.1 Implementation of EPAs: The Current Status and Future Prospects

The majority of ACP countries are either implementing an EPA or have concluded EPA negotiations with the EU: As of 2020, EPAs were already implemented in several ACP regions: including in the Caribbean; the Pacific (Fiji, Papua New Guinea and Samoa); in Eastern and Southern Africa (5—Comoros, Madagascar, Mauritius, Seychelles and Zimbabwe, the Comoros); in West Africa (Côte d'Ivoire, Ghana)); in Central Africa (Cameroon); in the SADC EPA group (6--Botswana, Eswatini, Lesotho, Mozambique, Namibia and South Africa). Overall, 31 ACP countries were already implementing an EPA in 20208.

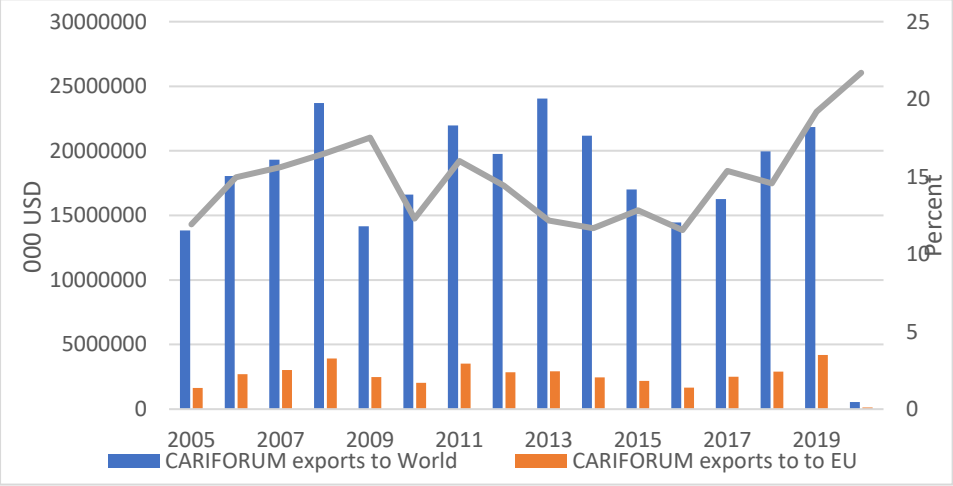


It is widely known that CARIFORUM region has already fully implemented the EPA and thus the region is a useful area for assessing the potential impacts of EPA. The CARIFORUM-EU EPA is the trade and development partnership (including an investment chapter) that was signed in 2008 by the 15 states of CARIFORUM and the EU's 28 countries. The aim is to make it easier for people and businesses from the two regions to invest in and trade with each other, and to spur development across the Caribbean (European Commission, 2018). In terms of actual impacts, Figure 2.12 shows trends of CARIFORUM exports before and after the EPA. CARIFORUM exports to the EU have fluctuated over the past decade. Export values to the EU after the EPA have, on average, been lower than in 2008 (before the EPA). EU's relative importance as export destination market also decreased as exports to the Rest of the World grew more rapidly. The fluctuations observed can be largely explained by change in oil prices. Nonetheless, Figure 2.12 shows that EU exports to CARIFORUM have shown little variation since 2008. After an initial increase in between 2008 and 2009, EU share of exports in total CARIFORUM imports declined throughout the 2010-2019 period except for 2012, 2016 and 2019 where there was a relative increase. Figure 2.13 shows CARIFORUM imports including from the EU.

Overall, the EU and CARIFORUM traded 8.1 USD billion in 2019, with 2.9 billion USD exported from CARIFORUM into the EU and 2.6 billion USD exported from the EU to CARIFORUM. The 2019 was the only year (after signing the EPA) which had higher total

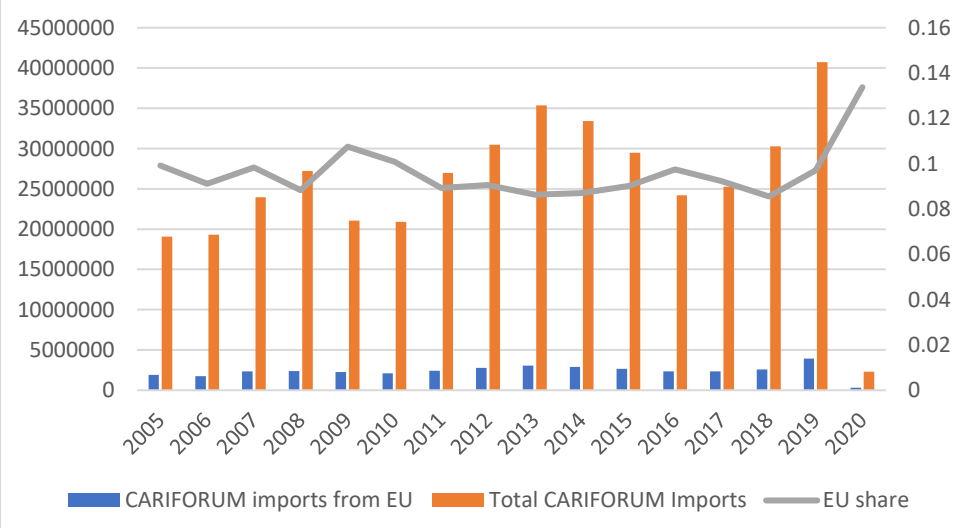
trade (see Figure 2.14). The average annual growth rate of CARIFORUM exports to the EU for the 2008-2019 (after the implementation of the EPA) was -3%, while the one for EU exports to CARIFORUM was 4%. As the CARIFORUM countries already had preferential access to the EU market prior to the EPA, the significant changes in the new trade agreement came included non-tariff barriers (NTBs). The EU, on the other hand, began facing reduced tariffs after the implementation of the EPA, which is reflected in the increases of EU exports to the region – especially notable in 2018 and 2019. The trade figures in 2020 are very low due to the impact of COVID-19 (see Figure 2.14). CARIFORUM-EU Trade Surplus started to decline after 2008 and has been negative for almost 6 of the 12 years after EPA implementation. trade surplus then increased throughout 2016-2018 period before declining slightly in 2019, and it turned negative in 2020.

Figure 2.12: CARIFORUM Exports (2005-2020)



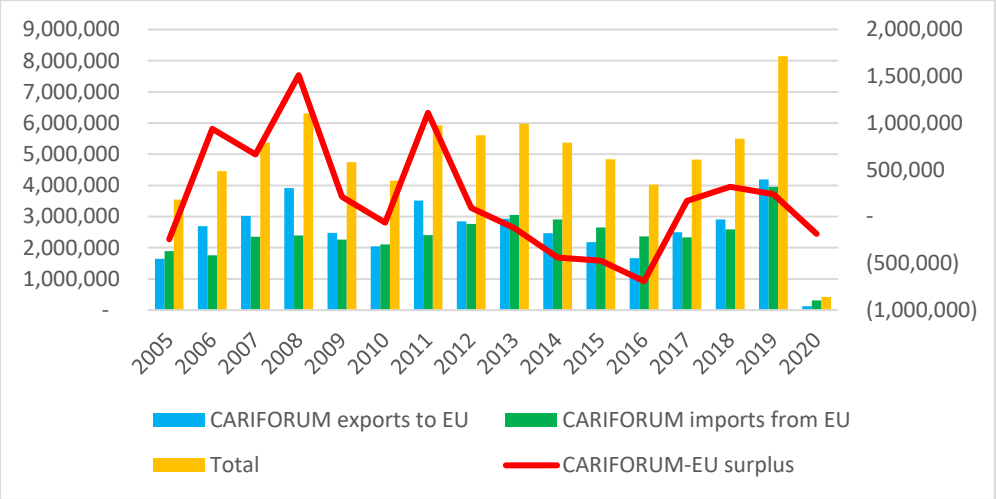
***Source**: Authors' computation and compilation using* ITC Trade Map data (2021)

Figure 2.13: CARIFORUM Imports (2005-2020)



***Source**: Authors' computation and compilation using* ITC Trade Map data (2021)

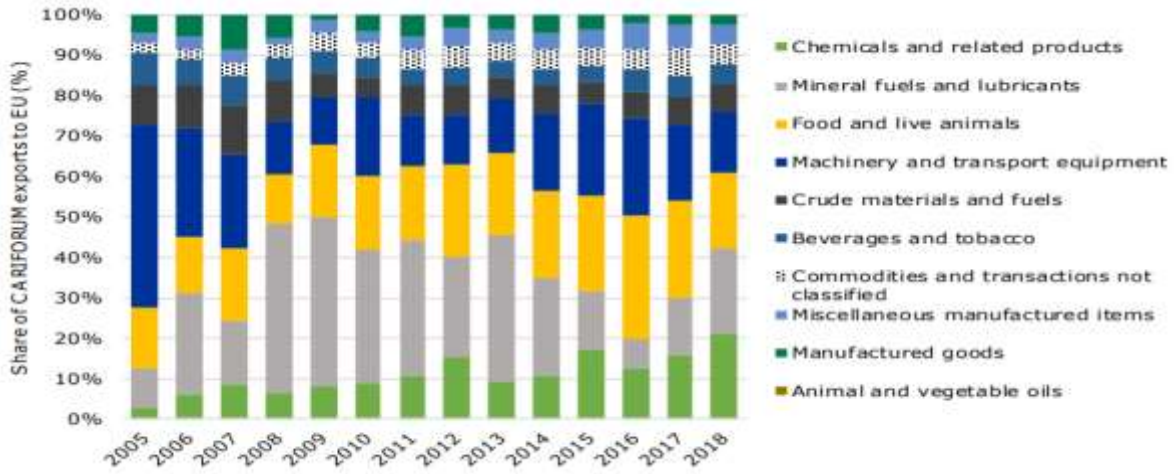
Figure 2.14: CARIFORUM-EU Trade Surplus (2005-2020)



***Source**: Authors' computation and compilation using* ITC Trade Map data (2021)

Generally, despite the trends in volume of trade experienced in the 12-year EU-CARIFORUM EPA, analysis shows a change in the structure and composition. CARIFORUM has become less reliant on exports of minerals and fuels to the EU and has registered a number of new (mainly manufactured) products trade flows to the EU over the course of the decade (see Figure 2.15). Growth has been the largest in export of chemicals and related products, food, and live animals. Looking more closely at these categories, the growth in chemical exports has been driven by growth in organic chemicals from Trinidad and Tobago. Regarding food and live animals, there has been a strong increase in fish and crustaceans (driven by Belize, Jamaica, and Suriname), fruits and nuts (driven mostly by the Dominican Republic) and cocoa and cocoa preparations (driven by the Dominican Republic) (European Commission, 2020).

Figure 2.15: Evolution of the composition of CARIFORUM Exports to EU (2005-2018)

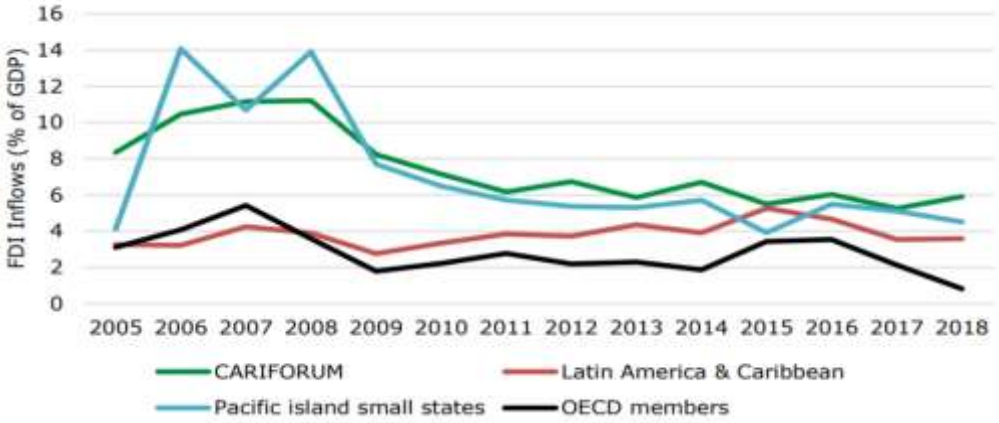


Source: *European Commission (2020)*

In terms of investment, FDI inflows in CARIFORUM have not gained more importance compared to the size of the economy (see Figure 2.16). These percentages were higher before the EPA implementation for both the aggregate of Caribbean small states and for the Dominican Republic. In terms of sectoral trends, tourism, real estate, and hotel construction as well as services represent the most prominent sectors. According to The Economic Commission for Latin America and the Caribbean (ECLAC), the largest FDI inflows as a per cent of GDP were seen in the service producing economies and were concentrated on the tourism sector or Citizenship by Investment programmes, especially in smaller islands such as Dominica and Saint Kitts and Nevis.

Some states, on the other hand, seem to be particularly well positioned in attracting resource seeking investors. This is the case for Suriname, where large mining investors such as Alcoa have been active in bauxite refining operations for the past several years. At the present time, the country's main FDI sector is gold mining, with several large players from the US and Australia implementing large gold deposit projects (European Commission, 2020). As of 2017, half of Suriname's export matrix was represented by gold and gold scraps, with the remaining 50% of exports being largely agricultural products and other minerals. EU Direct Investment abroad in CARIFORUM has risen rapidly in the 2013-2017 period (European Commission, 2020).

Figure 2.16: Net FDI Inflow (CARIFORUM vs Comparator Regions)



Source: *European Commission (2020)*

2.2.2 Key Issues Underlying Discourse on EPAs in the ACP Countries

In general, the overriding issue regarding EPAs is the extent to which the ACP countries are ready to accept them as viable option for promoting trade and development for their economies. Clearly, the literature postulate EPAs as complex agreements involving decisions on difficult issues that require a "give and take" understanding. As pointed out by Nilsson et al (2014), EAC LDCs did not have an immediate incentive to conclude the EPAs, since even without the preferential ACP-EU trade regime; they could still enjoy WTO-compliant duty-free, quota-free access to the EU market for their exports while applying taxes to imported products. By contrast, as the EPA is based on reciprocal treatment, LDCs would have to give up import taxes on most products and services, which would result in revenue losses. Evert (2018) notes that, LDCs have embraced export taxes to encourage the development of a domestic industry to add value to the export of raw materials or unprocessed (food) crops. On the contrary, the EU is strongly against export taxes (although they are allowable under the WTO) as they increase the prices of raw commodities needed by the EU market. Notably, the EU provides support mainly through the EU development budget and the European Development Fund (EDF), and they expect that the revenue loss will be 'modest'. However, one of the challenges has been to determine the precise amount of compensation needed by ACP countries for such losses and for how long, issues which require further research and data to assess.

Notably, the academic discourse has equally been divided, whereas some studies have supported EPAs as a symbol of beneficial development cooperation, while others have criticised their content that they are incompatible with development policies in SSA (Asche,2015). Proponents of EPA argues that EPAs can create new business opportunities, investments, and more competitive labour markets to facilitate the development in partner regions, while securing the future terms of trade and strengthen regional integration in Africa (European Commission, 2016c). LDCs enjoy

almost completely free market access to the EU under the Everything but Arms Agreement (EBA), while non-LDCs have to pay tariffs on exports under the EU's General System of Preferences (GSP). Therefore, the EPAs would on the one hand simplify the regional integration of groups containing LDCs and non-LDCs, and on the other hand safeguard free market access to the EU for all in the long run (even when countries graduate from the LDC status) as an incentive for new domestic and foreign investments (Schmieg, 2018). Indeed, the EPAs simplify the EU's Rules of Origin (RoO), as EPAs only require one production stage to claim the product's origin, as compared to two stages under the current EBA and GSP systems (Schmieg,2018).

The opponents of EPAs argue that the impact of EPAs on competitiveness of African value chains in undeterminable. For instance, according to Woolfrey and Bilal (2017), EPAs could contribute towards strengthening as well as threatening the competitiveness of some African value chains, or even prevent the development of nascent domestic and regional industries that are not yet able to compete with more developed EU industries. While trade defence instruments contained in the EPAs (such as bilateral safeguards) may be able to address some of the potentially negative impacts of increased competition on value chain, EPAs could also prevent African governments from using industrial policies such as export taxes to promote domestic production. EPAs are also likely to lead to decreased government revenue from import duties in certain African countries. If governments in these countries are unable to mobilise alternative sources of revenue, such as through other forms of taxation, this loss of import duty-derived revenue could have a negative impact on the provision of relevant public services, such as agricultural extension services (Bilal et al, 2012).

Despite the general view regarding acceptability of EPAs, the ACP (including Sub-Sahara African) countries have raised a number of key concerns regarding potential benefits and costs of EPA. Without any particular order, we highlight below some of the issues underlying the discourse on EPAs and its impact. First is the deleterious role of NTBs that impairs the full benefit of tariff liberalization – the core aspect of EPAs. Karugia (2009) identified some of the existing NTBs and quantify their impact on trade and welfare of EAC citizens. These include the Roadblock checks, bribes, and custom rules and procedures. The study found that a 50% reduction of the cost of NTBs, or their complete elimination would improve social welfare in EAC. Indeed, Okumu. (2010) confirmed that, several NTBs still exist in customs procedures despite the significant customs modernization initiatives in EAC, and a number of capacity building to enhance value chain development such as in fisheries and agriculture sector (Elisabeth, 2018). Clearly, some studies are region specific. Below we review studies done on EAC countries who agreed to negotiate an EPA with the EU as a block (EAC).

Annex E lists a sample of studies highlighting major findings for different countries or RECs. In general, the studies indicate that EPA the empirical evidence for or against the

EPA has been largely inconclusive as findings differ across countries. Rather than attempting to reconcile the different findings in EPA studies, we suggest the variation to be explained by the fact that, impacts of EPA are highly influenced by the prevailing economic structures and the relationship between the respective country and the EU. Furthermore, existing studies use different approaches and methodologies (mainly due to data availability). The methods range from partial analysis (Brenton et al., 2007; Bond, 2002; Zgovu and Kweka 2008; Lwanda, 2011), to general equilibrium and related trade simulation frameworks (Kone, 2008; Hammouda et al., 2007; Adriamananjara et al., 2009).

Overall, despite the variation in estimates across studies, a few qualitative conclusions are permissible. First, a much bigger number of studies show that EPA will have negative consequences on the economies of the ACP countries, notably decline in revenue, industrial competitiveness, and trade diversion (weaker regional integration). In addition, EPA has multiple impacts to different sectors (some positive, others negative). Impact on welfare is clearly inconclusive with some studies showing negative and others positive impacts. In either case, most studies indicate the net welfare effects are small, and could either be positive or negative depending on assumptions regarding domestic competition with EU imports, TD cost and treatment of sensitive products. Secondly, it is not evident that EPA will enhance or deter regional integration, primarily because some countries within a REC may be affected differently and face different incentives to sign EPA owing to the nature and strength of their economies. That is, decision by different countries within a REC may propel disintegration rather than enhance regional integration. Indeed, the difficulties of agreeing RECs are a reason why EPA negotiations have been so protracted (Bond, 2008). Finally, the complexities in comprehending and the consequent process for adopting EPA are likely to be compounded by the onset of BREXIT, whose impact is yet to be adequately studied.

2.2.3 Studies on the Impact of EPAs on EAC Countries

Using a partial equilibrium approach Karingi et al. (2005) examined the socio-economic impacts of EPA between the EU and African countries. The study found that there is full reciprocity (in terms of the level of employment and other macroeconomic aggregates) in EPA between the EU and African countries, though, very costly for Africa irrespective of how the issue is looked at. This implies that ordering policy reforms for African countries is essential to realize the success of the EPA. Such policy reforms include deepening intra-African trade. Similarly, using the simulations, the European Commission (2017) observed that the EPA will increase the GDP of all the EAC countries, though to a small extent (average by 0.3%) compared to a baseline (without

the EPA). Welfare is also expected to slightly increase. Kenya and Tanzania would benefit the most in terms of GDP.

De Melo and Regolo (2014) used customs data to estimate the revenue and welfare effects of an EPA for the EAC and the European Union (EU). The study found that revenue and welfare effects were rather small such that under the negotiated exception list, governments revenue would decline by 1.3 percent for Uganda and 0.8 percent for Rwanda whereas under no exceptions (full liberalization) would lead to losses of 2.5 percent and 3.3 percent respectively. This implies that negotiations that focused on a shallow exchange of market access result in negligible effects. Similarly, using the gravity model, Mwambe et al. (2019) analysed the impact of EPA on EAC trade with the EU for the period of 2000 to 2018. The study found that interim EPA did not benefit EAC countries. Burundi was badly affected whereas Tanzania and Kenya were positively impacted. On top of that, Grumiller et al. (2018) studied the economic and social effects of the EPA on selected African countries. Using simulations, the study found that the economic effects of trade liberalization for Africa are negative but mostly small such that it leads to 85,000 job losses in EAC. In line with that, Domician (2008) found that the EAC-EU EPA would result in job losses as producers cannot cope with competition of goods from EU. EPAs are estimated to bring losses in Government revenues of about 20 percent in Tanzania. Thus, EU should compensate by loosening restrictions on trade.

The reasons for these negative impacts of EPA between the EU and EAC can be explained by Ekeke (2017) who studied the potential effects of the EPA between the EU and Africa. The study raised two main concerns. Firstly, EPA supports exporting raw materials from the African countries while it permits high value-added goods from the EU to freely access the African markets. This will reduce the capacity of the African states from developing their indigenous value-adding processing industries. The second concern is that regarding the omission of tariffs on the high valued goods from the EU will reduce much revenue for governments in African countries. In line with that, Krapohl and Van Huut (2020) studied the different behaviour of African countries in the EPA negotiations with the EU. It was observed that EAC has been unable to create a coherent and stable EPA in trade negotiations with EU. This is partly because countries like Tanzania have already enjoyed privileged access to the European market without implementing the unpopular EPAs whereas Burundi and Uganda are relatively small, and their share of intraregional trade is slightly bigger than their trade with the EU. In addition to that, other factors explained in the literature include weak productive capacities in EAC, the global financial crisis which reduced global consumption demand, increased intra-EAC trade lower supply of goods for EU market and presence of Non-Tariff Barriers (NTBs) puts agricultural exports of EAC members at risk of losing out on free access to the EU market (Mwambe et al., 2019; JHC, 2020).

Previous studies on EAC have also focused on a particular country. For example, Ragolo and de Melao (2014) simulated the welfare and revenue effects of EPAs on Rwanda's economy. They determine that under the EPA, revenues on imports from the EU will decrease, forecasting a total revenue loss of about 37 per cent of initial revenues due to tariff elimination totalling USD 7.4 million. Rwanda's imports increase by 0.1 per cent due to the small reduction (3.3 per cent) in the average applied tariffs on all imports. Clearly, one of the key focus of EPAs is their ability to build capacity for SMEs to participate in trade. Below, we examine the extent at which this agenda has been reflected in EPA studies.

2.2.4 Participation and Role of SMEs in the EU-EAC EPA

As stated earlier, one of the core objectives of this study was to assess the implications of EU-EAC EPA on SMEs, in support of inclusiveness of EPA and to ensure more sustainable outcomes. However, despite their anticipated roles, studies show that private sectors involvement in EPAs is minimal or non-existence, let alone that of SMEs (Grumiller et al., 2018; Ramdoo & Walker, 2010). This reflects lack of understanding of EPA or lack of interest on the part of the private sector as they perceive EPA to be of little if any benefit to them (Grumiller et al., 2018; Mwange, 2014; Woolfrey & Bilal, 2017). Furthermore, although SMEs are one of the main beneficiaries of capacity building component of the development cooperation assistance underlying the EPA deals, the literature on SME development generally concludes that SMEs have little participation in international trade. The World Bank (2010) alludes to the limited structure of EAC economies, which are largely dominated by SMEs that have limited participation in International trade; and a small share of Large enterprises.

Based on the World Bank Enterprise Survey (2020) data, Table 2.12 shows the number of enterprises by private sector firms in all five EAC countries. Kenya has the highest number of large companies, while SMEs generally constitute the bulk of the domestic sector companies. These are also highly engaged in all productive sectors on the economy and therefore are significant in terms of the number of jobs they create. In 2006, the World Bank (2010) estimated that MSMEs accounted for 87 per cent of all enterprises in the region and on average contributed more than 70 per cent of non-agricultural employment in the region. Some studies have also posed a more positive picture, that EPAs can facilitate SMEs in terms of access to information and reduced tariffs together with the simplification of rules and provisions on investment, joint ventures, and other business relationships (Delegation of the European Union, 2020). More generally, in theory, EPAs could alter market access conditions, especially tariffs and rules of origin (Woolfrey & Bilal, 2017).

Table 2.12: Number of Enterprises in EAC by size (latest year)

Country	Year	Small (5-19 employees)	Medium (20-99 employees)	Large (100+ employees)	Domestically owned	Foreign owned	Exporters	Non-exporters
Tanzania	2013	514	219	80	721	44	59	622
Kenya	2018	441	374	186	855	142	153	844
Uganda	2013	487	209	66	648	108	64	669
Rwanda	2019	190	116	54	314	46	75	285
Burundi	2014	81	64	12	127	30	14	143

Source: *World Bank, Enterprise Survey, 2020.*

2.2.5 EAC-EU EPA and the Brexit

The EPA-EAC agreement considers EAC members (except South Sudan), the 28 individual members of EU, and the EU itself as the signatories of the agreement. A key question is to what extent the Brexit issue will weigh in to deter or hasten the agreement? Although no quantitative estimates conducted yet, Gustafsson et al., (2017) indicated that Brexit poses risks to EAC states in proceeding with EPA due to increased trade links between EAC states and the UK. For instance, it is estimated that in 2016, about 17 percent of EAC exports was destined to UK worth 0.4 billion Euro, most of which originated from Kenya (93 percent; 0.37 billion Euro). Following Brexit, there is high risk that, the export market of EAC to EU will shrink by 17 percent, reducing the expected benefits. Further, UK is the third largest contributor to EDF (14 percent share) after Germany and France, exit of which may reduce the basket of funding. And one of the key concerns for EAC is that the UK will not be able to extend the preferential trade arrangements to the bloc after its exit[8]. Overall, the empirical literature is scanty hence the existing evidence is insufficient to determine the impact of Brexit on the prevailing EU-ACP EPA for EAC countries. The main issue in previous studies is the concern by ACP countries that, the post Brexit EPA with EU should not compromise the trade relations with either EU or UK.

[8] Much of the EAC exports to the UK are facilitated under two preferential arrangements: the EU standard Generalized System of Preferences (EUGSP) and the EU GSP's Everything but Arms (EBA).

3.0 Trade, Tariff Revenue and Welfare Effects of EPA with the EU

3.1 Introduction

This section uses a partial equilibrium modelling framework in Milner et al (2005), Morrissey and Zgovu (2010), Zgovu and Kweka (2009) and Zgovu and Kweka (2019) to measure the static effects of Tanzania and the rest of the EAC Partner States implementing an EPA with the EU. The analytical framework of the static model used here is given in **Annex A**. Suffice to note that the static or partial equilibrium models of the kind used for analysis of trade, duty revenue and welfare effects of a country joining an FTA (including under EPAs) measure short-term effects of a one-time change in one key parameter, import tariffs. The model is not designed to capture second-round or dynamic reverberations and ramifications in any sector, effects which are more effectively captured in section four using an economy-wide modelling framework (CGE). Nonetheless, it is important to underline one of the advantages of the partial equilibrium model is that it allows for analysis of the immediate impacts at a highly disaggregated product-level, which is key for policy analysis.

The results reported in this section are on the implications of a one-time elimination of tariffs on imports originating from the EU if Tanzania, one of the EAC Partner States, were to sign the EPA with the EU. Estimation results for the other EAC Partner States will follow in the next draft.

3.2 Import Effects

Estimates of the import, tariff revenue and welfare effects of Tanzania implementing an EPA with the EU are reported in Tables 1, 2 and 3, respectively. The study investigates two main scenarios or cases of complete and incomplete (excluding sensitive products) liberalisation of import tariffs on products originating from the EU. For each scenario we attempt to focus on key imports where regional EAC Partner States, the EU and Rest of the world (ROW) supply 30%, 40% and 60% or greater of a given product. These margins are arbitrary but are set to isolate products of significant weight and importance. The main thrust of the analysis and interpretation though is on the unfiltered estimates.

With respect to import effects, it is estimated that the EPA with the EU will induce increased imports of non-sensitive product from the EU valued at US$117.0 million annually, based on 2018 Tanzania imports data. Of this amount, US$88.2 million will be non-sensitive product imports originally supplied by the rest of the world, US$3.3 million originally supplied by other EAC Partner States and the remainder US$25.4 million being the pure import increase from the EU due to the duty-free treatment given to imports originating from the EU under the terms and conditions of the EPA.

It is worth emphasizing that from Tanzania's perspective, the increase in its non-sensitive product imports as a result of the EPA with the EU is only US$25.4 million. The other import changes worth US$88.2 million (displaced from ROW) and US$3.3 million (displaced from EAC) are already happening, they are existing imports merely diverted from ROW and EAC to the EU as trade diversion and trade creation, respectively, because of the elimination of tariffs on non-sensitive product imports from the EU. The new non-sensitive product import increase of US$25.4 million, represents a small (3.4%) increase in existing imports from the EU, a very small 0.4% overall increase in Tanzania's total imports (new imports from the EU divided by total existing imports), and a very small proportion (0.04%) of Tanzania's GDP at 2018 prices. The displacement of non-sensitive product imports from the EAC and ROW are also very small, estimated at 2.9% and 1.5% over their 2018 baseline values. The distribution of the new non-sensitive product imports under the EPAs are US$4.2 million for raw material products, US$3.6 million for intermediate products (inputs), US$10.6 million (capital goods) and US$6.9 million for final consumer products, and all have negligible percentage increases over existing 2018 values ranging between 0.5% and 1.4%.

These small new import increases from the EU under the EPA are not surprising considering that the EU is not Tanzania's main source of imports. In fact, only 10.1% of 2018 total imports, and 10.7% of non-sensitive imports originated from the EU whereas the overwhelming share of 86%-88% originated from the rest of the world (China, the Middle East countries, India, amongst other countries), the remainder (3.6%-1.7%) being supplied by other EAC Partner States. Annex Table A1 (which will be part of a Table reporting results for all EAC Partner States in the next phase of the analyses) shows that, these initial bilateral trade conditions have a huge significance in the scale and scope of the implications of any new free trade area agreement. For example, an FTA with China would be several folds more consequential than an FTA with a country/region where there is existing limited bilateral trade.

The results described above are for non-sensitive products only, which is the realistic scenario that EAC Partner States like all other ACP states are expected by WTO guidelines to liberalise 'substantially all trade', not all trade. This qualification allows for ACP states to exclude a list of so-called sensitive products because of their national importance for domestic import-competing (industrial or agriculture, inter alia) production and value chains, employment, and other criteria. The other scenario is where all products are subject to tariff liberalisation, which is what the EU offers ACP states except for arms and ammunition. We have called this unrealistic for EAC Partner States as it is the case that they will maintain a list of sensitive products which will retain tariffs above zero for the foreseeable future for various national economic development interests including those alluded to already. The estimates of the effects of such an extreme position for EAC are reported only for perspective, and they show

that EAC Partner States would be in a different situation and one which is sometimes overemphasized ignoring the reality that sensitive products will be excluded from tariff liberalisation at least over a long period of time (25+ years, depending on the agreed liberalisation timeframes)[9]. The available list of sensitive products would cut new imports from the EU by 63%, from US$68.2 million if all tariffs were liberalised to US$25.4 million if sensitive products are excluded from tariff liberalisation.

The last three columns of Table 3.1 show estimates where only significant import shares are considered, and a similar pattern of results with reduced values is observed. The results afford an opportunity for sensitivity analysis. For example, the (arbitrary) choice of import products from the EU that account for more than 40% of the total product values reduces existing non-sensitive imports from the EU by more than half (54%, from US$738.087 million to US$335.889 million) and the size of new imports (from the EU) by 57% (from US$25.413 million) to US$10.879 million). This indicates the presence of a sizeable group of import products where the EU's share is small compared to other sources of Tanzania's imports (e.g., the rest of the world) in 2018.

The estimated partial equilibrium effects reported in above give a picture of what would likely happen if all non-sensitive products were liberalised overnight, with no grace period and gradual tariff reduction. Obviously, that again is unrealistic as tariffs on products declared as non-sensitive are reduced over a much longer extended period (some cases last over 25 years) to allow ACP states industries and sectors to adjust, inter alia. In other words, the annual import effects would be much lower (e.g., lower than US$25.4 million p.a. in the case of Tanzania using 2018 imports data) where tariff reduction is staggered over some period of time (years). During this transition time, ACP states avail of trade-related assistance provided by the EU under the EDF to support their trade capacity development. The list of most affected non-sensitive products is presented after interpretation of welfare effects.

3.3 Tariff Revenue Effects

The elimination of tariffs on imports originating from the EU will have the direct loss of existing tariff revenues on imports from the EU. When sensitive products are excluded, Tanzania will forgo all existing tariff revenue from the EU, here estimated at US$20.3 million on the basis of full application (no exemptions) of the EAC common external tariffs (CET) - see Table 3.2. The exact tariff revenue collections are not publicly

[9] While EPA does not allow for liberalizing the sensitive-excluded products, the estimation for such products was made to broaden perspectives regarding prevailing fear on the EPA liberalization (with the EU, UK). The aim to provide knowledge to policy Actors on the difference between the impact of liberalizing all trade and liberalizing substantially all trade, to emphasize the importance of carefully identifying the list of sensitive products to minimise the adverse impacts of tariff liberalisation under the EPAs. Clearly, we have labelled the results from 'full liberalisation' (where all tariffs are eliminated) as 'unrealistic' so as not to mislead the policy makers.

reported. There will also be tariff revenue losses on imports originating from the CET-paying rest of the world as import from this source will be displaced by duty-free imports from the EU. This is estimated at US$15.0 million, giving a total tariff revenue loss of US$US35.3 million, representing an overall decrease by 26% over existing (2018) estimated tariff revenues (assuming full application of the CET). Estimates of tariff revenue where all products are subject to tariff elimination with and without filtering significant import shares also reported in Table 3.2 and can be interpreted in the same manner. The list of non-sensitive products with some of the highest tariff revenue losses is presented after the discussion on welfare effects.

Tariff revenue loss of US$35.3 million could be recovered through increased export revenues as a result of expanding exports to the EU as well as from tax reform programmes that, following the global trends, diversify revenue sources away from dependence on trade taxation to more efficient domestic taxation by instruments such as value added tax (VAT) and expanded tax base arising from positive growth effects of the trade agreement.

3.4 Welfare Effects

Elimination of tariffs on imports originating from the EU will bear some welfare effects in respect of increase in consumers' surplus due to the reduced import product prices and welfare gain due to trade creation (displacement of some less efficiently produced regional imports vis-à-vis EU products). From the case of non-sensitive products, the study estimates that the EPA with the EU would generate US$6.4 million in consumers' surplus and US$1.7 million welfare gain from trade creation effects, giving a total welfare gain of US$8.1 million p.a. that represents 0.01% of Tanzania GDP in 2018 (see Table 3.3). A theoretical welfare loss due to trade diversion (displacement of some supposedly more efficiently produced products from the rest of the world vis-à-vis the EU) can also be estimated, which, based on the one-time elimination of tariffs on non-sensitive products would amount to US$90.4 million. Tariff elimination on non-sensitive product imports from the EU allows Tanzanians to buy cheaper (duty-free) products from the EU than from the rest of the world where substitution is possible. In terms of efficiency, it can be argued that the EU is one of the most efficient producers in the world so much so that the assumption that the rest of the world is more efficient than the EU would not hold true for many products. Hence, the supposedly welfare loss due to trade diversion should not only be treated with caution but at best theoretically be subject to empirical verification with reliable substitution elasticities, which are seldom available. The size of welfare gains is larger where all products are liberalised but smaller with filtration of products with smaller import shares.

3.5 Other Effects

It is important to bear in mind that the trade and welfare effects presented above consider the import side only. There are other impact areas such as Tanzania exports

to the EU that are an important dimension in measuring and understanding the implications of Tanzania signing an EPA with the EU. Increases in export revenues will positively contribute to macroeconomic aggregates including increased production, investment, jobs and employment, incomes, and welfare of residents of Tanzania. Estimation results from GTAP modelling in section four highlight these and other benefits for Tanzania.

3.6 EPA Effects at Product Level

At this juncture, it is useful to consider products that will be affected by new import increases from the EU (and not where there is mere substitution of source from the EAC and ROW to the EU), affected by significant tariff revenue and welfare gains. Information on such products is useful for policy makers to examine whether these products concern important domestic import-competing production and value chains and consider whether and how to respond to the new increases, bearing in mind that there is already a list of other products that have been categorised as 'sensitive' and remain unaffected by the EPA.

Due to limited space, we report results for top 50 products only to allow policy makers to select varying numbers of products to lookup as required. A select top-50 products with the largest new import increases is reported in Table 3.4; top-50 products with largest tariff revenue losses is in Table 3.5 and top-50 products with largest welfare gains are reported in Table 3.6.

From Table 3.4, the top-50 products likely to have the largest new import increases for Tanzania had a combined increased value estimated at US$19.1 million or 75% of total new import increase. It is remarkable that very few products (e.g., product ranked 19th, HS 151519: Vegetable oils; linseed oil and its fractions, other than crude, whether refined, but not chemically modified, US$320,817) can be said to have strong competing domestic production so as to have strong detrimental impacts in the local economy in Tanzania. This is not surprising considering that products of significant domestic or national interest have already been identified as 'sensitive products' and are excluded from tariff liberalisation as applied in these estimations. The majority of the products are capital-intensive manufacturing and involvement of extensive regional value chains in the EU. Products with the largest individual tariff revenue losses (Table 3.5) are mainly the same products with the largest new import increase from the EU. For example, some of the top-22 (from Table 3.4) products with the largest new import increases also feature in the top-20 products with the largest tariff revenue losses. This is not surprising considering that these individual products will enter Tanzania duty-free after the EPA although total tariff revenue losses on imports from the rest of the world will exceed tariff revenue losses on the much larger numbers of individual product imports from the EU.

In respect of products likely to bear the largest welfare gains from increases post-EPA, Table 3.6 shows that 50 products (total welfare gain estimate of US$6.0 million) will account for 94% of total welfare gain from eliminating tariffs on imports originating from the EU. It is interesting to note that except for a few products the majority are products scarcely and directly consumed by low income or poor households. The exceptions are products such as: medicaments (HS 300490) ranked 1st, oil seeds (HS 120721) ranked 10th, rubber of a kind used on motorcycles (HS 401140) ranked 11th, sugars (HS 170390) ranked 26th and 35th (HS 170310). The values of individual products also tend to be relatively small, smallest (the 50th) being US$9,990, the highest (ranked 1st) being US$2.1 million for medicaments.

3.7 Summary, Discussion, and Implications

3.7.1 Summary

This part of the study investigated the short-term/static implications of Tanzania implementing an EPA with the EU using well established partial equilibrium modelling (PEM) frameworks that have been used in many other similar EPA studies to inform EPA trade negotiations and eventual signing e.g., in the EAC, other ACP states of Fiji, Papua New Guinea, amongst others. As alluded to already, the PEM does not give a complete picture as to how all interlinked sectors react and the outcomes therefrom but is quite useful in informing certain aspects of the EPA implications which are handled in the next section using CGE models.

With those caveats in mind, the estimations for Tanzania show that import increases will largely be muted (US$25.4 million or 3.4% increase over existing imports from the EU, and 0.04% of Tanzania GDP in 2018) given the fact that Tanzania imports very little (10-12%) from the EU compared to other sources. Import increases or import effects to be felt by Tanzania really concern new imports induced by the change in tariff status to duty free. Diversions of imports from other EAC Partner States (US$3.3 million) and the rest of the world (US$88.2 million) to EU sources merely entail change of source of origin of already existing imports, and therefore should not be viewed as if they represent import growth in Tanzania. Tariff revenues are estimated (based on full application of the EAC CET) to decline overall by US$35.3 million or 18%, while welfare is estimated to increase by US$8.1 million or 0.01% of GDP. These are changes on the import side only, and yet Tanzania's exports to the EU will also likely expand. Combined with EDF funding for Tanzania's trade development capacity and FDI into Tanzania-based industries it will be seen that the negative impacts, which in large part concern products where Tanzania does not have comparative/competitive advantage, stand to be outweighed by the positive impacts.

3.7.2 Discussion and Implications

Tanzania will be allowed to liberalise tariffs on substantially all trade, but not all tariffs in accordance with WTO rules. In fact, like other ACP states, Tanzania will have an

elaborate length of time over which it will retain tariffs on a select range of tariff lines (products) that it considers as sensitive for various reasons (domestic industry protection and growth, employment, incomes, revenue, inter alia). During this elaborate length of time, Tanzania will have the opportunity to adjust all industries but more especially those industries that are likely to be affected by the FTA, being the industries producing products that compete with imports from the EU.

Fortunately, the analysis shows that, after excluding sensitive products, the most affected products for Tanzania are not the same products where Tanzania has a comparative and competitive advantage at regional and international level. In other words, import growths will concern a limited range of products which are both not sensitive and not locally produced to such a competitive level. If anything, Tanzanian businesses, and consumers are likely to benefit from buying and selling these products from cheaper (duty-free) sources than they are currently importing the same products from supposedly duty-paying sources in the rest of the world.

Adjustment for affected industries could mean investing more to increase efficiency and competitiveness or relocating to other opportunities e.g., exporting to the new markets under the FTA, inter alia. In doing this, Tanzania can count on the EDF to provide adjustment support (e.g., for institutional reforms, tax, and customs reforms, improve the business environment, others) and more importantly export capacity development under the EDF. There are success stories from ACP states that have benefited from the EDF and realised significant improvements and benefits from the EU's trade-related assistance (T-RA). A good example, apart from experiences in the EAC (Kenya), includes Papua New Guinea (PNG) where one of the Authors has first-hand experience of implementing the EU-funded T-RA for trade and supply-side capacity development. EU-TRA in PNG has supported institutional reforms and, more importantly, funding for developing Standards Quality Metrology and Testing (SQMT) hard and soft infrastructure to significantly improve the capacity of PNG exporters to meet requirements under non-tariff measures (NTMs) in international markets.

It is well documented in international trade literature that NTMs in today's global markets, and not tariffs, are the real bottleneck for export growth in developing countries. Tariffs have come down ever since the conclusion of the Uruguay Round of the WTO. In their place, NTMs have become a major source of trade barriers around the world. There is shortage of capacity to comply with NTMs among all EAC Partner States as seen in the ongoing search by the EAC for donor support to develop capacity in Standards Quality Metrology and Testing (SQMT).

Table 3.7 displays a wide range of NTMs applied by the EU, like other major trading countries and regions, on imports from other countries and regions regardless of whether the exporting country has a trade agreement with the EU or is a recipient of

EU GSPs based on latest available data from 2018. The data used here is for the EU (as region of principal interest), but other export destination markets have similar arrays of NTMs; Tanzania too applies its range of NTMs against imports from every other country. Products of export interest to Tanzania, like other EAC Partner States, face a number of SPS and Technical Barriers to Trade (TBT) compared to other products. For example, more than 90% of vegetable and food products were subject to SPS measures and about 99% subjected to TBT measures (compared to 57% of Minerals and 64% of Fuels). One of the main challenges with NTMs is when exporters do not have requisite capacity to comply with the requirements some of which are imposed/need to be met throughout the various stages and nodes of the value chain. The costs involved in complying with NTMs invariably inflate trade costs which undermine trade competitiveness which when exceeds critical margins disincentivize and curtail importation and exportation even where preferential tariff treatment is granted under the trade agreements.

Tanzania like other EAC Partner States needs support to develop its NTM-compliance capacities, and with that be well positioned to go out and effectively expand its exportation in regional and global value chains. The EPA with assured T-RA is well-positioned to support Tanzania to have a firm and lasting foothold in export markets as it fulfils its ambition to rise to the middle-income country status and beyond. T-RA and related gains are sometimes not adequately reflected and covered in quantitative modelling, meaning that such discussions should broaden to cover other aspects such as these when looking into concluding trade deals. Like PNG, Tanzania also has rich mineral resource endowments, access to vast fishery resources (the Indian Ocean, Lake Tanganyika and Lake Victoria) and nature reserves. Information available show that in the years that PNG has been a signatory of the EU EPA, EU foreign direct investment in PNG was €1.5 billion in 2018, with new outward investments of €52.0 million, in the mining and petroleum, construction, manufacturing, wholesale and retail sectors.[10] An EU company "Total" signed an agreement in April 2019 to invest around €13 billion in liquid natural gas (LNG). In addition, EU invested heavily in PNG fish processing sectors (factories and other facilities) leading to significant increases in the volume of production with capacity at 2,000 metric tons of fish per day.

Table 3.1: Summary import effects for Tanzania (US$)

[10] See https://trade.ec.europa.eu/doclib/docs/2020/october/tradoc_158988.pdf Accessed 25 April 2021.

	Unfiltered			Filtered (large imports values only)		
	Effects where only non-sensitive products are liberalised	Effects where All products are liberalised (unrealistic PEM case)	*% change due to excluding Sensitive Products*	Effects where only non-sensitive products are liberalised	Effects where All products are liberalised (unrealistic PEM case)	*% change due to excluding Sensitive Products*
Pre-FTA situation:						
(a). Existing imports from EU	738,086,787	865,389,476	*-15%*	335,888,612	386,817,063	*-13%*
(b). Existing imports from EAC	114,470,309	304,244,453	*-62%*	29,849,177	197,729,438	*-85%*
(c). Existing imports from ROW	6,022,345,457	7,383,385,003	*-18%*	5,788,868,774	7,069,420,804	*-18%*
(d). Total existing imports	**6,874,902,553**	**8,553,018,932**	*-20%*	**6,154,606,563**	**7,653,967,305**	*-20%*
Import-side change at the end of agreed liberalization period (25yrs), or if there was a one-time tariff liberalization episode:						
(e). Consumption effects (new imports from EU)	**25,412,872**	**68,242,046**	*-63%*	10,878,869	23,992,027	*-55%*
(f). Trade creation (displaced existing imports from EAC)	3,345,554	34,450,018	*-90%*	1,975,490	29,301,613	*-93%*
(g). Trade diversion (displaced existing imports from ROW)	88,246,039	383,061,762	*-77%*	84,371,113	362,504,366	*-77%*
(h). Total from EU (new + displaced existing imports)	**117,004,465**	**485,753,826**	*-76%*	**97,225,472**	**415,798,005**	*-77%*
Percentage changes:						
(i). New imports from EU ÷ existing imports from EU: (e)÷(a)	*3.4%*	*7.9%*		*3.2%*	*6.2%*	
(j). New imports from EU ÷ Total existing imports: (e)÷(d)	***0.4%***	***0.8%***		***0.2%***	***0.3%***	
(k). Displaced imports from EAC ÷ existing imports from EAC: (f)÷(b)	*2.9%*	*11.3%*		*6.6%*	*14.8%*	
(l). Displaced imports from ROW ÷ existing imports from ROW: (g)÷(c)	*1.5%*	*5.2%*		*1.5%*	*5.1%*	
(m). New imports from EU as % of GDP	***0.04%***	***0.12%***		***0.02%***	***0.04%***	
Import effects (new imports from EU) by product use:						
Intermediate goods	**3,611,235**	**11,398,280**	*-68%*	**1,790,553**	**7,489,049**	*-76%*
% increase over existing similar imports from EU	*1.6%*	*4.2%*		*1.2%*	*4.4%*	
% increase over existing total imports from EU	*0.5%*	*1.3%*		*0.5%*	*1.9%*	
Capital Goods	**10,647,086**	**12,408,193**	*-14%*	**3,609,320**	**3,640,948**	*-1%*
% increase over existing similar imports from EU	*2.9%*	*3.3%*		*2.7%*	*2.7%*	
% increase over existing total imports from EU	*1.4%*	*1.4%*		*1.1%*	*0.9%*	
Consumer products	**6,905,953**	**39,213,878**	*-82%*	**1,282,533**	**7,782,733**	*-84%*
% increase over existing similar imports from EU	*5.2%*	*18.1%*		*2.5%*	*10.1%*	
% increase over existing total imports from EU	*0.9%*	*4.5%*		*0.4%*	*2.0%*	
Raw material products	**4,248,598**	**5,221,695**	*-19%*	**4,196,464**	**5,079,297**	*-17%*
% increase over existing total imports from EU	*0.6%*	*0.6%*		*1.2%*	*1.3%*	

Source: *Authors, using 2018 imports data from UN COMTRADE.*

Table 3.2: Tariff revenue effects for Tanzania (US$)

	Tariff revenue on imports from EU	Tariff revenue on imports from ROW	Total
Scenario: Unfiltered results, all values considered:			
1. Analysis liberalizing non-sensitive products:			
(a). Pre-FTA tariff revenues (all tariffs applied)	20,297,910	173,217,698	**193,515,608**
(b). Tariff revenue impact	-20,297,910	-14,999,774	**-35,297,684**
(c). Percentage change: (b)÷(a)	*-100%*	*-9%*	*-18%*
2. Analysis liberalizing all products including sensitive products:			
(d). Pre-FTA tariff revenues (all tariffs applied)	56,796,122	565,943,790	**622,739,912**
(e). Impact where all products are duty free (unrealistic case)	-56,796,122	-102,302,955	**-159,099,077**
(f). Percentage change: (e)÷(d)	*-100%*	*-18%*	*-26%*
Scenario: Filtered results, only significant import values:			
3. Analysis liberalizing non-sensitive products:			
(g). Pre-FTA tariff revenues (all tariffs applied)	7,308,597	167,941,954	**175,250,552**
(h). Tariff revenue impact	-7,308,597	-14,498,725	**-21,807,322**
(i). Percentage change: (h)÷(g)	*-100%*	*-9%*	*-12%*
4. Analysis liberalizing all products including sensitive products:			
(j). Pre-FTA tariff revenues (all tariffs applied)	14,422,203	544,373,246	**558,795,449**
(k) Impact where all products are duty free (unrealistic case)	-14,422,203	-98,590,442	**-113,012,645**
(l). Percentage change: (k)÷(j)	*-100%*	*-18%*	*-20%*

Source: *Authors, using 2018 imports data from UN COMTRADE.*

Table 3.3: Welfare effects for Tanzania (US$)

	Unfiltered		Filtered (selected large imports values only)	
	Liberalizing non-sensitive products	Liberalizing all products (unrealistic case)	Liberalizing non-sensitive products	Liberalizing all products (unrealistic case)
Consumers' surplus gain	6,406,646	58,596,169	2,519,920	49,016,947
Associated with displaced regional imports	1,711,221	7,947,285	707,563	1,938,424
Net-welfare effects	**8,117,867**	**66,543,454**	**3,227,483**	**50,955,371**
As % of GDP	*0.01%*	*0.11%*	*0.01%*	*0.09%*
Associated with displaced ROW imports	-90,358,793	-308,547,634	-87,595,658	-296,834,233
Net-welfare effects with trade diversion	**-82,240,926**	**-242,004,180**	**-84,368,175**	**-245,878,862**
GDP (US$ current prices; WDI)	58,001,200,572			
As % of GDP	*-0.14%*	*-0.42%*	*-0.15%*	*-0.42%*

Source: *Authors, using 2018 imports data from UN COMTRADE.*

Table 3.4: Top-50 products (tariff lines) with largest new import increases from the EU

Rank	HS6	DESCRIPTION	New imports from EU
		All products	**25,412,872**
		Total value for top-50 products	**19,085,728**
		Value of top-50 as % of all products	*75%*
1	271490	Bitumen and asphalt, natural; asphaltites and asphaltic rock	3,300,681
2	381121	Lubricating oil additives; containing petroleum oils or oils obtained from bituminous min	1,111,027
3	300490	Medicaments; consisting of mixed or unmixed products n.e.c. in heading no. 3004, for the	898,656
4	480255	Uncoated paper and paperboard (not 4801 or 4803); printing, writing or graphic, 10% or le	757,008
5	843143	Boring or sinking machinery; parts of the machinery of item no. 8430.41 or 8430.41	745,974
6	030349	Fish; frozen, tuna, n.e.c. in item no. 0303.4, excluding fillets, fish meat of 0304, and edible f	676,641
7	842290	Machinery; parts of machinery of heading no. 8422	671,951
8	854419	Insulated electric conductors; winding wire, (of other than copper)	644,109
9	843149	Machinery; parts of machines handling earth, minerals or ores and n.e.c. in heading no. 8	573,490
10	300439	Medicaments; containing hormones (but not insulin), adrenal cortex hormones or antibio	518,853
11	848340	Gears and gearing; (not toothed wheels, chain sprockets and other transmission elements	450,376
12	840999	Engines; parts for internal combustion piston engines (excluding spark-ignition)	437,544
13	841480	Pumps and compressors; for air, vacuum or gas, n.e.c. in heading no. 8414	410,768
14	851762	Communication apparatus (excluding telephone sets or base stations); machines for the r	379,856
15	230990	Dog or cat food; (not put up for retail sale), used in animal feeding	371,860
16	870840	Vehicle parts; gear boxes and parts thereof	339,897
17	590700	Textile fabrics; otherwise impregnated, coated or covered, painted canvas being theatrica	338,858
18	848120	Valves; for oleohydraulic or pneumatic transmissions	327,960
19	151519	Vegetable oils; linseed oil and its fractions, other than crude, whether or not refined, but	320,817
20	847050	Cash registers	303,397
21	842123	Machinery; filtering or purifying machinery, oil or petrol filters for internal combustion en	300,109
22	721420	Iron or non-alloy steel; bars and rods, hot-rolled, hot-drawn or hot-extruded, containing i	287,490
23	841330	Pumps; fuel, lubricating or cooling medium pumps for internal combustion piston engines	276,105
24	820520	Tools, hand; hammers and sledge hammers	269,130
25	851770	Telephone sets and other apparatus for the transmission or reception of voice, images or	254,990
26	852380	Media n.e.c. in heading 8523, whether or not recorded, excluding products of Chapter 37	251,434
27	870899	Vehicle parts and accessories; n.e.c. in heading no. 8708	244,148
28	401693	Rubber; vulcanised (other than hard rubber), gaskets, washers and other seals, of non-ce	231,160
29	848180	Taps, cocks, valves and similar appliances; for pipes, boiler shells, tanks, vats or the like,	213,118
30	842199	Machinery; parts for filtering or purifying liquids or gases	200,721
31	401039	Rubber; vulcanised, conveyor or transmission belts or belting, n.e.c. in heading no. 4010	196,073
32	820713	Tools, interchangeable; rock drilling or earth boring tools, with working part of cermets, v	195,080
33	480592	Paper and paperboard; uncoated, weight more than 150g/m2 but less than 225 g/m2, in ro	194,339
34	848330	Bearing housings, not incorporating ball or roller bearings and plain shaft bearings	192,386
35	853710	Boards, panels, consoles, desks and other bases; for electric control or the distribution o	190,906
36	852352	Semiconductor media; smart cards, whether or not recorded, excluding products of Chap	163,437
37	030389	Fish; frozen, n.e.c. in heading 0303, excluding fillets, fish meat of 0304, and edible fish offa	157,239
38	680291	Marble, travertine and alabaster; articles thereof, (other than simply cut or sawn, with a fl	153,936
39	845090	Washing machines; parts for household or laundry-type	146,150
40	841319	Pumps; for liquids, fitted or designed to be fitted with a measuring device, other than pur	141,810
41	722540	Steel, alloy; flat-rolled, width 600mm or more, hot-rolled, not in coils	140,767
42	401012	Rubber; vulcanised, conveyor belts or belting, reinforced only with textile materials	137,556
43	848390	Transmission components; toothed wheels, chain sprockets and other transmission elem	134,294
44	843139	Machinery; parts of the machinery of heading no. 8428, (other than lifts, skip hoists or es	123,140
45	390690	Acrylic polymers; (other than polymethyl methacrylate), in primary forms	122,273
46	842131	Machinery; intake air filters for internal combustion engines	120,612
47	852580	Television cameras, digital cameras and video camera recorders	120,421
48	853929	Lamps; filament, (excluding ultra-violet or infra-red), n.e.c. in item no. 8539.2	116,862
49	850720	Electric accumulators; lead-acid, (other than for starting piston engines), including separa	115,441
50	732111	Cooking appliances and plate warmers; for gas fuel or for both gas and other fuels, of iro	114,879

Source: *Authors, using 2018 imports data from UN COMTRADE.*

Table 3.5: Top-50 products (tariff lines) with largest tariff revenue losses

	HS6	DESCRIPTION	Total REV impacts
		All products	**-35,296,762**
		Total value for top-50 products	**-21,507,403**
		Value of top-50 as % of all products	*61%*
1	300490	Medicaments; consisting of mixed or unmixed products n.e.c. in heading no. 3004, for the	-1,893,457
2	271119	Petroleum gases and other gaseous hydrocarbons; liquefied, n.e.c. in heading no. 2711	-1,357,183
3	480255	Uncoated paper and paperboard (not 4801 or 4803); printing, writing or graphic, 10% or le	-1,324,568
4	843143	Boring or sinking machinery; parts of the machinery of item no. 8430.41 or 8430.41	-880,218
5	381121	Lubricating oil additives; containing petroleum oils or oils obtained from bituminous mine	-848,005
6	854419	Insulated electric conductors; winding wire, (of other than copper)	-784,338
7	848340	Gears and gearing; (not toothed wheels, chain sprockets and other transmission elements	-767,416
8	843149	Machinery; parts of machines handling earth, minerals or ores and n.e.c. in heading no. 8	-761,973
9	230990	Dog or cat food; (not put up for retail sale), used in animal feeding	-678,492
10	850780	Electric accumulators; other than lead-acid, nickel-cadmium, nickel-iron, nickel-metal hydr	-624,335
11	870840	Vehicle parts; gear boxes and parts thereof	-597,711
12	841480	Pumps and compressors; for air, vacuum or gas, n.e.c. in heading no. 8414	-582,410
13	851762	Communication apparatus (excluding telephone sets or base stations); machines for the r	-523,491
14	854460	Insulated electric conductors; for a voltage exceeding 1000 volts	-515,839
15	840999	Engines; parts for internal combustion piston engines (excluding spark-ignition)	-502,764
16	851770	Telephone sets and other apparatus for the transmission or reception of voice, images or	-467,449
17	842290	Machinery; parts of machinery of heading no. 8422	-459,302
18	841510	Air conditioning machines; comprising a motor-driven fan and elements for changing the	-442,307
19	852871	Reception apparatus for television, whether or not incorporating radio-broadcast receiver	-415,620
20	847050	Cash registers	-392,159
21	721420	Iron or non-alloy steel; bars and rods, hot-rolled, hot-drawn or hot-extruded, containing i	-373,465
22	480592	Paper and paperboard; uncoated, weight more than 150g/m2 but less than 225 g/m2, in ro	-361,862
23	850720	Electric accumulators; lead-acid, (other than for starting piston engines), including separa	-354,181
24	870899	Vehicle parts and accessories; n.e.c. in heading no. 8708	-315,843
25	842123	Machinery; filtering or purifying machinery, oil or petrol filters for internal combustion en	-314,225
26	820713	Tools, interchangeable; rock drilling or earth boring tools, with working part of cermets, v	-282,368
27	848180	Taps, cocks, valves and similar appliances; for pipes, boiler shells, tanks, vats or the like,	-282,266
28	853710	Boards, panels, consoles, desks and other bases; for electric control or the distribution o	-273,540
29	852580	Television cameras, digital cameras and video camera recorders	-252,586
30	590700	Textile fabrics; otherwise impregnated, coated or covered, painted canvas being theatrica	-217,937
31	271490	Bitumen and asphalt, natural; asphaltites and asphaltic rock	-214,189
32	830140	Locks; (other than those for motor vehicles or furniture), (key, combination or electrically	-210,868
33	401693	Rubber; vulcanised (other than hard rubber), gaskets, washers and other seals, of non-ce	-203,134
34	392062	Plastics; plates, sheets, film, foil and strip (not self-adhesive), of poly(ethylene terephtha	-200,928
35	852910	Reception and transmission apparatus; aerials and aerial reflectors of all kinds and parts s	-200,926
36	841459	Fans; n.e.c. in item no. 8414.51	-195,847
37	848330	Bearing housings, not incorporating ball or roller bearings and plain shaft bearings	-195,594
38	732111	Cooking appliances and plate warmers; for gas fuel or for both gas and other fuels, of iro	-191,987
39	852872	Reception apparatus for television, whether or not incorporating radio-broadcast receiver	-189,206
40	841330	Pumps; fuel, lubricating or cooling medium pumps for internal combustion piston engines	-187,941
41	030354	Fish; frozen, mackerel (Scomber scombrus, Scomber australasicus, Scomber japonicus), e	-184,004
42	300439	Medicaments; containing hormones (but not insulin), adrenal cortex hormones or antibio	-176,915
43	481029	Paper and paperboard; coated with kaolin or other inorganic substances only, having mo	-175,282
44	120242	Ground-nuts; other than seed, not roasted or otherwise cooked, shelled, whether or not b	-172,404
45	852190	Video recording or reproducing apparatus; other than magnetic tape-type	-165,734
46	730300	Cast iron; tubes, pipes and hollow profiles	-162,337
47	390690	Acrylic polymers; (other than polymethyl methacrylate), in primary forms	-160,500
48	842131	Machinery; intake air filters for internal combustion engines	-158,987
49	852352	Semiconductor media; smart cards, whether or not recorded, excluding products of Chap	-157,528
50	760421	Aluminium; alloys, hollow profiles	-155,782

***Source**: Authors, using 2018 imports data from UN COMTRADE.*

Table 3.6: Top-50 products (tariff lines) with largest Welfare gains

	HS6	DESCRIPTION	CE Welfare gains
		All products	**6,406,529**
		Total value for top-50 products	**6,003,136**
		Value of top-50 as % of all products	*94%*
1	300490	Medicaments; consisting of mixed or unmixed products n.e.c. in heading no. 3004, for the	2,142,724
2	850720	Electric accumulators; lead-acid, (other than for starting piston engines), including separa	764,898
3	300439	Medicaments; containing hormones (but not insulin), adrenal cortex hormones or antibio	697,592
4	281121	Carbon dioxide	252,902
5	392049	Plastics; polymers of vinyl chloride, containing by weight, less than 6% of plasticisers; p	181,228
6	321519	Ink; for printing, other than black, whether or not concentrated or solid	179,550
7	551110	Yarn; (not sewing thread), of synthetic staple fibres, containing 85% or more by weight o	171,868
8	230990	Dog or cat food; (not put up for retail sale), used in animal feeding	89,775
9	730661	Iron or steel (excluding cast iron); tubes, pipes and hollow profiles (not seamless), welde	88,209
10	120721	Oil seeds; cotton seeds, seed, whether or not broken	86,666
11	401140	Rubber; new pneumatic tyres, of a kind used on motorcycles	82,598
12	731010	Tanks, casks, drums, cans, boxes and similar containers, for any material (excluding comp	79,786
13	940389	Furniture; of cane, osier, or similar materials (other than bamboo or rattan)	77,399
14	730630	Iron or non-alloy steel (excluding cast iron); tubes and pipes (not seamless), welded, of c	73,791
15	730439	Iron or non-alloy steel (excluding cast iron); seamless, (excluding cold-drawn or cold-roll	70,936
16	721069	Iron or non-alloy steel; flat-rolled, width 600mm or more, plated or coated with aluminium,	69,433
17	670490	Wigs, false beards, eyebrows and eyelashes, switches and the like and other articles n.e.	62,744
18	280700	Sulphuric acid; oleum	53,753
19	760410	Aluminium; (not alloyed), bars, rods and profiles	47,863
20	360200	Explosives, prepared; other than propellent powders	43,678
21	392340	Plastics; spools, cops, bobbins and similar supports, for the conveyance or packing of g	42,379
22	720927	Iron or non-alloy steel; (not in coils), flat-rolled, width 600mm or more, cold-rolled, of a th	41,831
23	520521	Cotton yarn; (not sewing thread), single, of combed fibres, 85% or more by weight of cot	39,582
24	120600	Oil seeds; sunflower seeds, whether or not broken	39,412
25	300420	Medicaments; containing antibiotics (other than penicillins, streptomycins or their deriva	39,246
26	170390	Sugars; molasses, from sugar beet, resulting from the extraction or refining of sugar	36,568
27	732310	Iron or steel; wool, pot scourers and scouring or polishing pads, gloves and the like	31,518
28	670419	False beards, eyebrows and eyelashes, switches and the like; of synthetic textile materials	30,918
29	721650	Iron or non-alloy steel; angles, shapes and sections, n.e.c. in heading no. 7216, hot-rolled	27,516
30	851718	Telephone sets n.e.c. in item no. 8517.1	26,686
31	441510	Wood; cases, boxes, crates, drums, similar packings and cable-drums	25,476
32	760611	Aluminium; plates, sheets and strip, thickness exceeding 0.2mm, (not alloyed), rectangula	24,276
33	731420	Iron or steel wire; grill, netting and fencing, welded at intersections, of wire with a maximu	23,623
34	721661	Iron or non-alloy steel; angles, shapes and sections, cold-formed or cold-finished, obtain	22,769
35	170310	Sugars; molasses, from sugar cane, resulting from the extraction or refining of sugar	21,864
36	853710	Boards, panels, consoles, desks and other bases; for electric control or the distribution o	21,240
37	740829	Copper; wire, of copper alloys (other than copper-zinc base alloys, copper-nickel base all	18,876
38	830790	Tubing; flexible, with or without fittings of base metal, other than those of iron or steel	17,937
39	730449	Steel, stainless; (excluding cold-drawn or cold-rolled), tubes pipes and hollow profiles of	16,851
40	720918	Iron or non-alloy steel; in coils, flat-rolled, width 600mm or more, cold-rolled, of a thickne	16,078
41	961900	Sanitary towels (pads) and tampons, napkins and napkin liners for babies and similar artic	15,284
42	760612	Aluminium; plates, sheets and strip, thickness exceeding 0.2mm, alloys, rectangular (inclu	14,825
43	730729	Steel, stainless; tube or pipe fittings, n.e.c. in item no. 7307.2	12,457
44	841480	Pumps and compressors; for air, vacuum or gas, n.e.c. in heading no. 8414	11,981
45	391990	Plastics; plates, sheets, film, foil, tape, strip, other flat shapes thereof, self-adhesive, othe	11,934
46	680510	Abrasive powder or grain; natural or artificial, on a base of woven textile fabric only, whe	11,886
47	761520	Aluminium; sanitary ware and parts thereof	11,116
48	721590	Iron or non-alloy steel; bars and rods, n.e.c. in chapter 72, n.e.c. in heading no. 7215	10,946
49	850780	Electric accumulators; other than lead-acid, nickel-cadmium, nickel-iron, nickel-metal hydr	10,679
50	730590	Iron or steel (excluding cast iron); tubes and pipes n.e.c. in heading no. 7305, having circ	9,990

Source: *Authors, using 2018 imports data from UN COMTRADE.*

Table 3.7: Share of products subject to Non-Tariff Measures (SPS and TBT only) for products entering the EU domestic markets as at 2018.

	Non-Tariff Measures applied	Animal	Vegetable	Food Products	Minerals	Fuels	Chemicals	Plastic or Rubber	Hides and Skins	Wood	Textiles & Clothing	Footwear	Stone and Glass	Metals	Mach and Elec	Transport ation	Miscellaneous
	Count:	*21*	*27*	*29*	*23*	*13*	*35*	*18*	*16*	*19*	*22*	9	15	18	16	11	23
	Overall:	**95.7**	**93.4**	**93.7**	**20**	**50**	**42.3**	**16.3**	**26.6**	**60.9**	**99.09**	**68.1**	**19.5**	**5.69**	**84**	**89.1**	**45.2**
	A-Sanitary and phytosanitary measures	99.7	94.9	91.5	9.52	2.56	31.1	37.9	42	42.6	4.52	--	19.7	18.1	7.91	--	1.69
1	A190-Prohibitions/restrictions of importsfor SPS reasons n.e.s.	0.93	58.2	11.9	0.95	2.56	0.77	--	--	11.1	0.25	--	--	--	--	--	0.28
2	A210-Tolerance limits for residues of or contamination by certain (non-microbiological) substances	99.4	78.7	73.5	0.95	--	2.56	--	33.3	--	2.26	--	--	--	--	--	0.85
3	A220-Restricted use of certain substances in foods and feeds and their contact materials	13.4	83	70.1	0.95	--	0.64	30.3	8.7	34.5	2.01	--	13.5	16.2	7.91	--	1.13
4	A310-Labelling requirements	84.5	86.1	90.5	0.95	--	1.53	1.9	--	2.13	--	--	8.29	5.33	7.91	--	0.56
5	A320-Marking requirements	8.7	33	11.9	--	--	0.64	--	--	--	--	--	--	--	--	--	--
6	A330-Packaging requirements	55.9	83.5	84.4	0.95	--	0.64	--	--	--	--	--	--	--	--	--	--
7	A410-Microbiological criteria of the final product	55.9	83.8	84.4	0.95	--	0.64	--	--	--	--	--	--	--	--	--	--
8	A630-Food and feed processing	32.3	86.1	77.3	0.95	--	2.56	--	33.3	--	2.26	--	--	--	--	--	0.28
10	A820-Testing requirement	91	4.55	31.8	--	--	1.92	--	--	--	--	--	--	--	--	--	--
11	A830-Certification requirement	99.7	59.7	30.3	0.95	2.56	2.3	1.9	33.3	13.2	2.51	--	8.29	5.33	7.91	--	1.69
12	A840-Inspection requirement	99.7	51.7	27.5	8.57	2.56	2.3	--	33.3	11.1	2.51	--	6.22	1.95	--	--	1.13
13	A850-Traceability requirements	87.9	78.1	84.4	0.95	--	2.56	--	33.3	--	2.26	--	--	--	--	--	0.28
14	A851-Origin of materials and parts	--	74.7	62.6	0.95	--	0.64	--	--	--	--	--	--	--	--	--	--
15	A859-Traceability requirements, n.e.s.	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--

Source: Authors, using 2018 imports data from UN COMTRADE.

3.8 Estimation Results for the Rest of EAC Partner States

Application of the partial equilibrium model to data from the rest of EAC Partner States yields imports effects reported in Table 3.7, tariff revenue effects in Table 3.8 and welfare effects in Table 3.9. The results in each case are interpreted in analogous manner as is the case with results for the case of Tanzania reported in the foregoing sub-sections.

3.8.1 Import Effects

Starting with pre-EPA imports, for all EAC Partner States the overwhelming bulk (77.4% in Rwanda to 87.6% in Tanzania) of imports originate from the rest of the world (other the EU); the EU only accounts for between 8.5% (Uganda) and 12.9% (Burundi). Intra-EAC trade is almost negligible for Kenya (1.1%) and Tanzania (1.7%), while Rwanda (12.1%), Uganda (8.5%) and Burundi (7.9%) have slightly larger shares of their imports originating from the EAC. Out of the intra-EAC total trade (US$975.489 million), Uganda (43.4%) is the largest buyer followed by Rwanda (25.6%). These initial conditions suggest EPA import effects are likely to be dominated by trade diversion from the rest of the world to the EU under EPA, other things remaining the same.

EPAs with the EU where the EAC Partner States exclude their sensitive products from tariff liberalisation will produce: consumption effects or new import increases over above what each EAC Partner State already imports from the EU reported in row (e), trade creation effects being replacement of existing EAC imports with imports from the EU) in row (f), and trade diversion being replacement of existing imports from the rest of the world with imports from the EU in row (g). The last two effects do not represent new import increases, rather a switch of sources of existing imports from the EAC and rest of the world to EU suppliers. These imports are already entering each EAC Partner State with or without the EPAs. Thus, the important measure of import increase is given by estimate of consumption or direct import effect, with estimates for the EAC Partner States given in row (e). Thus, new import increases form the EU under the EPA are likely to range from US$57.764 million (Kenya) to US$2.589 million (Burundi) corresponding to initial import situation. In terms of product types, the largest absolute value (US$10.647 million out of US$25.413 million) of the new imports from the EU for Tanzania will concern capital goods that the country needs to develop its production capacities. Capital goods will also be the largest component of new imports from the EU for Burundi, Kenya, and Uganda; the new imports in Rwanda will be dominated by consumer goods. Across the region, new capital goods imports will increase by between 2.9% (Tanzania and Kenya) and 3.7% (Burundi and Rwanda). Growth in imports of raw materials from the EU are estimated to be negligible, between 0.02% (Kenya) and 0.7% (Burundi) annually.

Overall, new import increases from the EU under EPAs will be relatively small. The new import increases represent import growth over existing imports from the EU ranging between 2.9% (Uganda) and 5% (Rwanda) and import growth in total imports ranging between 0.2% (Uganda) and 0.4% in Tanzania and Kenya. Further context is provided by the small relative shares of the new imports in GDP, estimated at 0.04% in Tanzania and Uganda; the highest being 0.11% for Rwanda and 0.09% for Kenya both Interim EPA signatories. The switch of sources of imports from other EAC Partner States and the rest of the world to the EU does not represent import growth or influx, as these imports involved in this switch are already entering the EAC Partner States with or without an EPA with the EU. This is important for policy and trade negotiations.

3.8.2 Tariff Revenue Effects

Table 3.8 reports tariff revenue losses in EAC Partner States on non-sensitive imports originating from the EU on both existing imports and imports diverted from the current tariff-paying rest of the world under the assumption of an overnight one-time tariff elimination. Under this unlikely scenario (which is often been used in these analyses), the estimated likely tariff revenue losses will range from US$3.345 million in Burundi to US$87.796 million in Kenya. The smaller economy of Rwanda (US$17.449 million) is estimated to lose close to the equivalent of 70% of tariff revenue losses in Uganda. The overall fall in tariff revenue is estimated at between 18% (Rwanda and Tanzania) and 23% (Burundi) of the total tariff revenue calculated on the assumption of full application of the EAC CET rates.

In practice, the potential EAC CET revenue is not realised due to exemptions/derogations, collection inefficiencies, inter alia, hence, the estimates of total tariff revenue reported in Table 3.8 are likely to be overstatement of the actual tariff revenue collections. Furthermore, import tariffs on non-sensitive imports will be reduced gradually over an extended period which might be 20-25 years depending on the agreed modalities. Thus, the estimates are only indicative of what might happen if EAC Partner States were to grant the EU instant duty-free access as much as the EU would grant EAC Partner States instant duty-free quota-free access to its domestic markets upon entry into force of an EPA. Tariff revenue losses can be minimised and addressed by shifting the emphasis from trade taxation to domestic taxation, e.g., by means of VAT (or evidence-based raising of VAT rates), and other tax reforms aimed at improving tax collection capacity and efficiency, inter alia. The EDF has been used in EPA countries to assist with such tax reforms.

3.8.3 Welfare Effects

Measuring net welfare as the sum of changes in consumers' surplus (direct consumption effects) and welfare gains deriving from more the displacement of intra-EAC imports by more efficiently produced EU imports (trade creation effects) yields net welfare increases for all EAC Partners states ranging between 0.01% (Tanzania) and

0.42% (Rwanda) of GDP. See Table 3.9. The largest absolute net welfare increases are estimated for Uganda (US$66.508 million) and Rwanda (US$43.191 million). Accounting for displacement of imports from the rest of the world by duty-free imports from the EU under the EPA results in net welfare losses ranging between 0.03% of GDP in Rwanda and 0.19% of GDP in Kenya, with the magnitudes of the effects being influenced by initial trade values and orientation between the EU and the rest of the world, inter alia. Relatively small economy Burundi has a relatively high share of imports originating from the EU; similarly, Kenya has the highest share of imports originating from the EU of all EAC Partner States. These factors make them susceptible to changes on import tariffs on products originating from the EU when tariffs are eliminated under the EPAs. Uganda's list of sensitive products seems to be effective in shielding it from adverse welfare effects as they significantly influence the net welfare increase estimated at US$1.307 million compared to net welfare loss of US$85.871 million if all products were subject to tariff elimination. The reverse is true for Burundi and Rwanda where exclusion of sensitive products is estimated to result in net welfare losses (US$2.906 million and US$2.869 million), but liberalisation of all products would result in net welfare gains (US$0.950 million and US$10.775 million), respectively. What this means is that the regional list of sensitive products has compromises that favour some countries (Tanzania, Kenya, and Uganda) whose net welfare outcome would be negative (loss), and disfavours others (Burundi and Rwanda) whose net welfare outcome would be positive (gain) without excluding sensitive products from tariff elimination.

4.0 Economywide Implications of EPA on Tanzania and the EAC

4.1 Introduction

This chapter presents the results from the economy-wide modelling of the implications of EPA on Tanzania and EAC countries using the GTAP framework. The 10th version of the GTAP model was used to conduct the simulations. The 10th version of GTAP database consists of bilateral trade data between EU and EAC countries (specifically Tanzania), transport data (including margins among countries and sectors), as well as tariffs for trading partners for various sectors. The database covers a total of 65 sectors and 121 countries (at times referred to as "regions"), which are aggregated into 10 sectors and 9 regions (see Annex 1). Simulations conducted reflect the actual tariff rates described under the EPA agreement[11], although variations to the model were employed to accommodate policy responses that compensate for revenue losses from eliminated tariffs. The model has also been modified to include air pollution and non-carbon dioxide emission data (available from GTAP).

Simulation results highlight overall unfavourable implications of EPA to Tanzania and EAC, under the first scenario where there is full liberalization. However, the negative impacts are appearing to decrease (by a substantial extent) when the losses in revenue are compensated by changes in consumption taxes (to be detailed in later drafts). We observe a loss in tariff revenues, GDP, an increase in exports (although moderately), compared to imports. Overall, we find a widening of trade balance. Several policy reforms will need to be developed and adopted to counter these negative effects. Environmental implications will as well be detailed in the later drafts of the analysis.

4.2 Aggregation of Regions and Sectors

Our analysis is based on GTAP 10 database, with updated national economic datasets, with 2014 as base year. Since the study's objective is to assess the impacts of EPA on EAC partner states, we disaggregate these countries to provide a detailed analysis for each separately, with particular attention given to Tanzania. We also aggregate the EPA countries (EU) into 1 region. Hence, countries in the GTAP model are described into 9 regions: EU Countries (without UK), UK, Tanzania, Uganda, Rwanda, Kenya, Rest of Africa, and Rest of the World. The EAC is broken down to reflect regional integration as well as the regional trading partners for Tanzania.

Factors are aggregated into 5 categories: (1) skilled labour, (2) unskilled labour, (3) capital, (4) land, and (5) natural resources. Full factor mobility[12] is allowed in the first

[11] Noting that Tanzania already enjoys Everything But Arms scheme with EU.

[12] In GTAP factors movement is restricted within countries (total endowment is defined to be country specific).

simulation, although variations (of elasticities) are made in the subsequent simulations to allow for observation of changes in sectoral allocations. Furthermore, the model includes 10 sectors aggregated as: rice, livestock, mining and extraction, processed food, textiles, light manufacturing, heavy manufacturing, utilities and construction, transport and logistics, and other services.

4.3 Basic Simulation

Our first and core simulation is described in Table 4.1 (full liberalization). With EPA, Tanzania is expected to reduce to zero, tariffs on 90% of industrial goods from the EU (non-agricultural goods from EU). The first simulation (*full liberalization*) involves removal of import tariffs (and tariff equivalents) between Tanzania (and EAC countries) and EU. The *full liberalization scenario* specifically assumes that Tanzania and EAC countries eliminate tariff on 90% of imports from the EU, while EU grants duty free access to products from Tanzania and EAC (while addressing the issues of sensitive products), which is currently the case under EBA scheme. For scenario 2 and 3, different closure rules are employed. For scenario 2, we allow for unemployment of factors (which is a case for many developing countries, especially for unskilled labour), while for scenario 3 we compensate for the loss in revenues through introduction of a new tax (tax reforms). The results for the second and third scenarios will be presented in later drafts of the report.

Table 4.1: Simulation scenarios

Scenario	Description
Full liberalization	90% tariff removal for EU products, and duty-free import into EU for products from EAC.
Scenario 2	We allow for unemployment (labour)
Scenario 3	Revenue loss from liberalization is compensated

***Source**: Authors' compilation.*

Under an assumption that implementation of EPA will allow for periodic adjustment of tariffs over a period of 10 years, until full liberalization, it is worth considering that impacts of full liberalization will be realized after 10 years from the start of implementation. Gehlhar (1998) argues that trade elasticities in the basic GTAP model are small to allow for an accurate projection of results over 10 years. To correct for this, we increase the Armington elasticities by 20% in the base model.

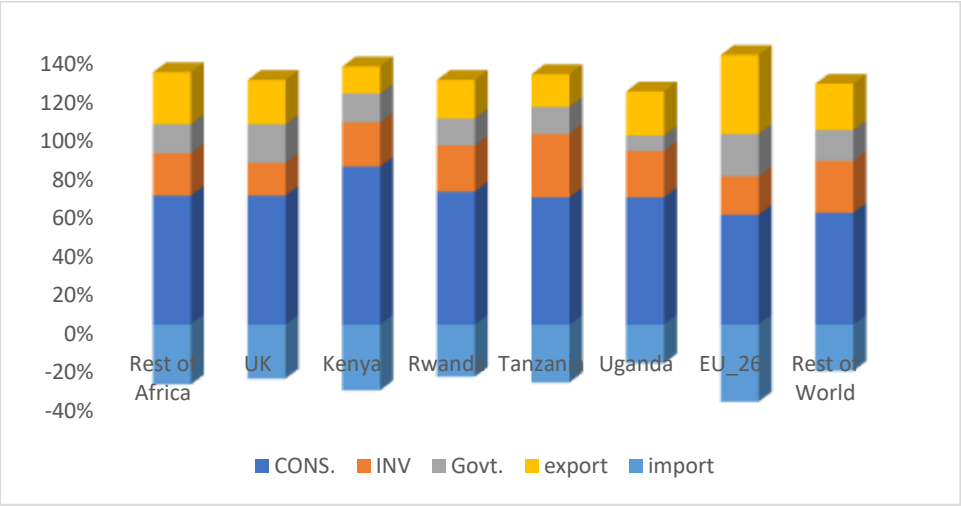
4.4 Simulation Results

4.4.1 The Structure of GDP at the Baseline by Regions

This section reports results from the first (basic) simulation. Results from other simulations (as well as environmental implications) will be presented in the later drafts. Since the structure of GDP varies across the GTAP regions, we firstly show the

composition of GDP for these regions at the baseline. As shown in Figure 4.1, the largest contributor to GDP for most countries is Private Consumption followed by imports. For instance, the share of consumption in GDP is 82% in UK and Kenya, and the lowest is EU (57%). In the case of imports, EU has the highest share of her GDP (40%) compared to 20% in Uganda (lowest) and 34% in Kenya. Countries also differ by the share of investment and trade in GDP – whereas for EAC countries, Tanzania has the largest share of investment in GDP (33%) compared to Kenya (23%), and disputably even much higher compared to EU or UK. EU 26 has the largest share of exports in its GDP (41%) compared to Kenya (14%) or Tanzania (17%). Government expenditure is highest in EU (22%) and smallest in Uganda (8%) and Tanzania (14%).

Figure 4.1: GDP structure for the GTAP regions

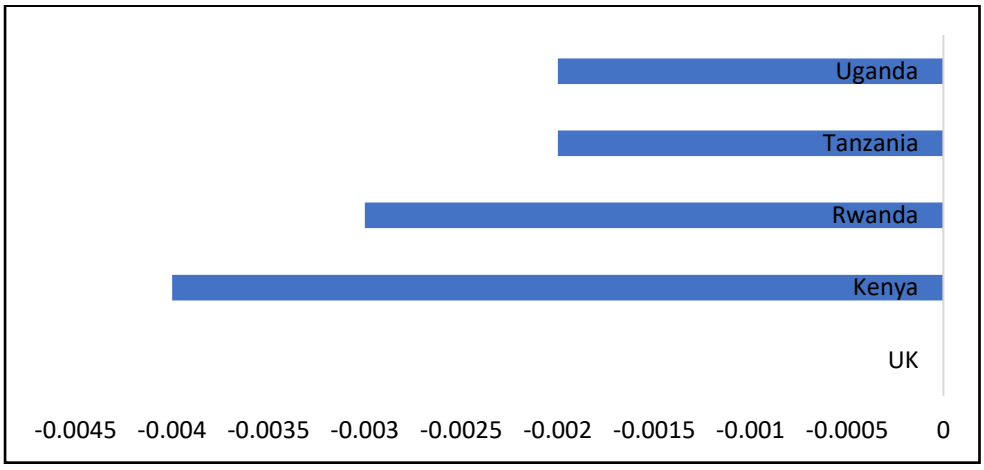


***Source**: Authors' computation and compilation.*

4.4.2 Loss in Government Revenue

Consistent with the findings in many other studies (Bilal and Roza, 2007; Dobelling, 2017), we find that tariff liberalization under EPA will result into significant loss of government revenues as shown in Figure 4.2. The ratio of import tax to GDP decreases for all EAC countries, with largest decreases in Kenya and Rwanda. Under scenario 3, revenue losses are minimised through compensation with introduction of consumption tax (further analysis to be presented in the later draft).

Figure 4.2: Change in import tax revenue as percentage of GDP



***Source**: Authors' computation and compilation.*

4.4.3 Changes in GDP, Consumption, Investment and Household Incomes

GDPs are affected negatively, especially in Kenya and Rwanda, with a shrink of 1.4% and 1.1% respectively. Tanzania's GDP is expected to decrease by 0.5% under the first scenario (full liberalization). As clearly shown in Table 4.2, consumption (largest contributor to GDP) decreases for all regions, especially in Kenya and Tanzania. Government consumption decreases by a larger extent than private consumption. We

also observe slight decreases in incomes of households, with Rwanda and Tanzania experiencing the largest decreases in the region. Introduction of tax that compensates for the revenue losses is seen to offset the observed GDP and consumption losses by a large extent (this will be discussed in later drafts). Interestingly, EPA appears to lead to dramatic increase in investment in Tanzania.

Table 4.2: Changes in GDP, Consumption, Investment and Household income

	GDP (%)	Gov. consumption (%)	Priv. consumption (%)	Investment (%)	HH income (%)
Tanzania	-0.53	-0.17	-0.16	0.14	-0.55
Kenya	-1.43	-0.5	-0.44	-0.17	-1.48
Uganda	-0.51	-0.05	-0.05	0.02	-0.52
Rwanda	-1.09	-0.14	-0.13	negl	-1.11
EU	0.01	negl	negl	0.01	0.01

Note: negl = the value is too small (negligible) to report.

***Source**: Authors' computation and compilation.*

4.4.4 Changes in Exports, Imports and Trade Balance

Results indicate deteriorating trade balance between Tanzania (as well as other EAC countries) with EU. It should be noted that, all the EAC countries already have a trade deficit with EU (under the baseline, see Annex D3), hence, the changes reported here reflects deeper trade balance deficit as imports increase faster than exports. Note that, the trade balance estimates are shown in terms of value (see Table 4.4). With liberalization, UK enjoys an increase in trade surplus with Tanzania and other EAC countries. Biggest losses in trade balance are observed in textiles and processed food. However, the sector showing largest positive change in trade balance is, arguably, heavy manufacturing and extraction (mining). Most likely it reflects exports of precious minerals rather than the mining equipment; compared to such sectors as processed food and textiles which appear to be the largest losers in EPA (see Table 4.3).

Table 4.3: Sectoral breakdown of changes in Trade Balance (Million USD)

	Kenya	Rwanda	Tanzania	Uganda	EU_26
Rice	15.31	-1.21	-4.48	-3	109.66
Leather and meat products	0.5	-0.39	2.65	-0.9	-20.81
Extraction	3.19	5.71	8.2	14.3	2.28
Processed food	-25.01	-6.79	-19.54	-13.49	117.31
Textiles	1.66	-8.85	-22.94	-28.57	249.61
Light manufacturing	-5.79	-0.36	-9.14	-3.84	-20.86
Heavy manufacturing	61.17	4.28	16.39	1.78	-197.28
Utilities	1.2	3.26	0.75	6.57	-31.12

	Kenya	Rwanda	Tanzania	Uganda	EU_26
Transport & logistics	42.04	1.86	5.39	4.37	-70.71
Other Services	63.33	4.12	11.99	13.82	-302.52

***Source**: Authors' computation and compilation.*

As noted earlier, exports are observed to increase in both volume and value (perhaps since most EAC countries already enjoy the EBA scheme with EU such that a change in tariff would not imply any change in terms of export potential). Kenya experiences the largest increase (about 4% of the baseline volume and about 3% of the baseline value), compared to Uganda or Tanzania. However, there are significant variations across sectors in export changes. The largest export growth is observed in heavy manufacturing including export of mineral products (precious minerals), as well as leather products. However, decline in exports are observed in textiles, depicting significant increase imports in cheaper textile products from the EU. Annex 1 and 2 detail aggregate changes in exports and imports by region and sector.

On the contrary, EPA appears to generate import surge in countries with lower growth in exports (led by Uganda), but import changes are rather modest for Tanzania (both in volume and value). More generally, with liberalization, consumers in Tanzania and other EAC countries can import more from the EU to the region. Increase in imports could be beneficial for Tanzania and region, as imports of intermediate goods also increases, and considering that they are imported at a cheaper price relative to the baseline, leading to decrease in production costs. Reduced production costs are beneficial in the long run, as Tanzania will be able to build her export competitiveness even for regions which do not have preferential treatment or agreements with EU. This is the reason we observe an increase in Tanzania's exports to the rest of the world and other African countries (Table 4.5). Furthermore, the results (see Annex D5) show the changes in market prices, where Tanzania experiences an overall decrease in market prices in almost all sectors.

The results in Table 4.5 implies that EPA will reduce Tanzania's trade with her EAC partner states while increasing exports to the EU and the Rest of Africa reflecting relatively more favourable terms of trade. EPA will have an overall positive impact on Tanzania's trade with the EU, and negative impact on trade with EAC partners. For instance, EPA leads to fall in exports across all regions except in EU and RoA in which Tanzania registers export growth. On the contrary, imports by Tanzania will increase across all regions except for Uganda and RoA where it experiences a fall (negative value). Despite these changes, as shown in Table 4.5, EPA leads to negative impact on the terms of trade – ToT (changes in the ratio of export prices to import prices). Note that the changes in ToT have implications on welfare (albeit small). That is, the ToT worsens in Kenya and Tanzania compared to other EAC countries. Further, Table 4.6 shows decreases in industrial outputs are observed for almost all countries in EAC, and

for most sectors. For instance, Tanzania experiences an increase in industrial production of heavy manufacturing goods (including), growth in utilities and construction sector, mining, and extraction, as well as transport and logistics. However, the largest decrease in industrial output is observed in textiles and food processing.

Table 4.4: Change in exports and imports

	Exports volume %	Export value (%)	Import volume %	Import value %	Trade Balance (Mil $)
Tanzania	1.12	0.8	0.55	0.51	-11[13]
Kenya	3.97	2.98	0.51	0.51	-158
Uganda	0.9	0.62	0.96	0.87	-9
Rwanda	1.44	1.06	0.83	0.71	2
EU	TBD	TBD	TBD	TBD	-164
UK	TBD	TBD	TBD	TBD	5

Note: TBD – To be determined (at later stage of the analysis).

***Source**: Authors' computation and compilation.*

[13] Considering that regions have a negative Trade balance in the base model, a negative value implies a widened deficit.

Table 4.5: Changes in the value of exports and imports for Tanzania (Million USD)

	Kenya	Rwanda	Uganda	EU	Rest of Africa
Exports from Tanzania to:	-46.1	-54.8	-59	18.2	17.1
Imports by Tanzania from:	22.6	13	-5.04	705	-28.2
Terms of Trade[14]	-0.94	-0.25	-0.19	0	-0.28 (Tanzania)

***Source**: Authors' computation and compilation.*

Table 4.6: Industry output of commodities in different regions (% change)

	RoA	UK	Kenya	Rwanda	Tanzania	Uganda	EU_26	RoW
Rice	-0.004	-0.02	-0.022	-0.14	-0.134	-0.032	0.056	-0.008
Leather	0.001	0.007	-0.254	-0.244	-0.053	-0.193	-0.004	0.001
Extraction	0.002	-0.001	0.344	0.516	0.357	0.277	-0.009	0
Food processing	-0.006	0.001	-0.259	-0.717	-0.327	-0.356	0.013	-0.001
Textiles	0.005	-0.011	0.23	-12.4	-1.62	-5.47	0.113	-0.015
Light Mfg.	-0.001	-0.002	0.247	-0.245	-0.199	-0.186	-0.001	0.001
Heavy Mfg.	0.003	0.001	1.45	0.891	0.865	0.211	-0.006	0.001
Utilities & construction	-0.001	-0.001	-0.075	0.259	0.116	0.104	0.002	0
Transport/logistics	0.003	0	0.821	0.359	0.477	0.4	-0.006	0.001
Other Services	0.001	0	-0.121	-0.001	-0.033	-0.074	-0.001	0

***Source**: Authors' computation and compilation.*

[14] These are money values, taken from the Equivalent variation in welfare calculation.

4.4.5 Changes in Value Added by Sector and Implications for Job Creation

One of the critical arguments put forward by opponents of EPA has been that the agreement poses risks to jobs, especially among the unskilled labour force (including farmers) and small industries. One way of looking at this is through the changes in value addition. We investigated EPA impact on value addition in Tanzania using the GTAP framework. The results are summarised in Table 4.7. Overall, the results show that, value addition in Tanzania decreases slightly (by -0.3%). Clearly, three sectors show positive impact of EPA on value addition – namely Mining/extraction, Heavy manufacturing and Transport/logistics services sector. We observe large negative changes (decline) in value addition for the textiles sector, as well as food processing, and rice farming. Indeed, these results imply that, EPA will have adverse impact on sectors with significant potential for job creation, and for which Tanzania has comparative advantage.

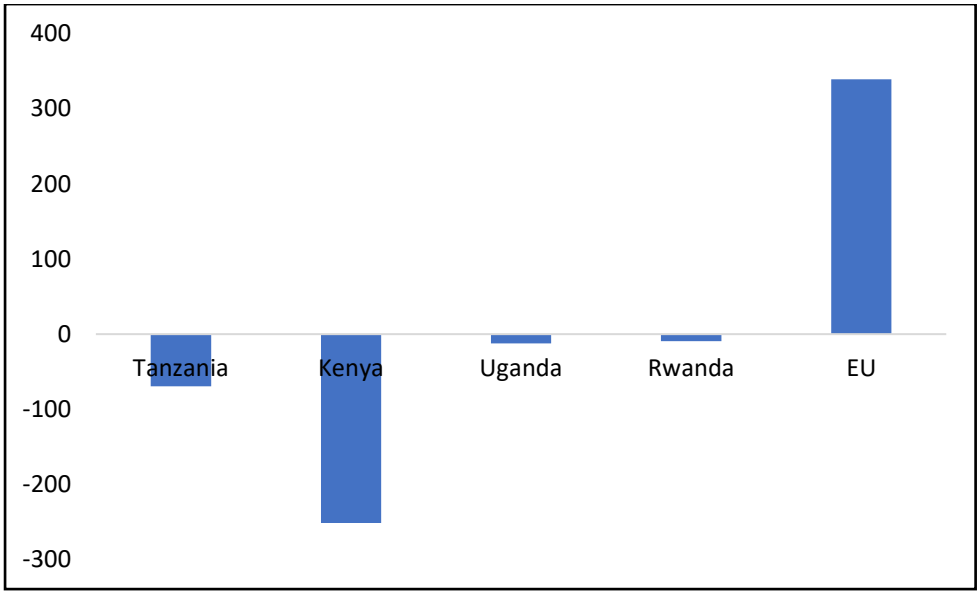
As shown in Table 4.5. the CGE results show that EPA will lead to positive impact on increased exports by Tanzania to EU and RoA (additional US$ 18.2 million and US$ 17.1 million respectively). While this implies that there is potential for Tanzania to increase exports, the key issue is export capacity, especially for Farmers and SMEs who have limited, if any, ability to switch to production for exports. Despite their limited ability, smallholder farmers and SMEs face significant challenges in meeting relevant standards for exports. In particular, such products as Textiles, food processing, and light manufacturing face strong competition as they have strong comparative advantages in the domestic market where they will be competing with the EU substitutes. Such changes will have significant adverse effects on job creation (see Tables 4.7 and 4.8). As shown in Table 4.9, EPA will lower employment of the factors (especially unskilled labour), and a decrease in return to to (especially unskilled) labour.

4.4.6 Changes in Welfare

In GTAP, welfare changes are calculated in terms of Equivalent Variation[15] (EV), which results from changes in allocative efficiency, changes in Terms of Trade, and changes in resources endowment. As shown in Figure 4.3, the estimates show the largest losses in welfare to be in Kenya and Tanzania (the two largest economies in East Africa). Worth noting is, total welfare losses for all countries slightly exceed the welfare gains in EU.

Figure 4.3: Welfare losses (Million USD)

[15] EV measures welfare in terms of money equivalent to the utility change following changes in prices.



***Source**: Authors' computation and compilation.*

Table 4.7: Change in value addition (%)

	Rice	Leather	Extraction	Food processing	Textiles	Light Mfg.	Heavy Mfg.	Utilities & constructio	Transport/ logistics	Other Services	Total
Land	-0.7%	-0.6%	0	0	0	0	0	0	0	0	-0.7%
Unskilled labour	-0.5%	-0.4%	0.1%	-0.6%	-2.1%	0.0%	0.8%	-0.1%	0.0%	-0.3%	-0.3%
Skilled labour	-0.4%	0.0%	0.2%	-0.6%	-1.6%	-0.6%	0.6%	-0.2%	0.3%	-0.3%	-0.3%
Capital	-0.4%	-0.3%	0.2%	-0.6%	-2.0%	-0.3%	0.6%	-0.2%	0.3%	-0.4%	-0.2%
Natural Resources	0	0	1.5%	0	0	0	0	0	0	0	1.5%
Total	-0.5%	-0.4%	0.3%	-0.6%	-2.0%	-0.4%	0.6%	-0.2%	0.3%	-0.3%	-0.3%

***Source**: Authors' computation and compilation.*

Table 4.8: Changes in domestic sales for each sector (%)

	Kenya	Rwanda	Tanzania	Uganda	EU_26
Rice	-0.59	-0.23	-0.24	-0.24	-0.02
Leather	-0.33	-0.1	-0.14	-0.23	0
Extraction	-0.35	-0.16	-0.01	-0.12	-0.01
Food processing	-0.33	-0.82	-0.54	-0.37	0
Textiles	-0.66	-13.04	-1.81	-6.12	0.03
Light Mfg.	-0.12	-0.56	-0.49	-0.37	0
Heavy Mfg.	0.96	0.43	-0.05	0.02	0
Utilities & construction	-0.09	0.04	0.11	0.01	0
Transport/logistics	0	-0.02	0.22	0.04	0
Other Services	-0.29	-0.12	-0.07	-0.16	0

***Source**: Authors' computation and compilation.*

Table 4.9: Return to factors (%)

	Kenya	Rwanda	Tanzania	Uganda
Land	-1.2	-1.41	-0.71	-0.57
Unskilled labour	-1.06	-0.92	-0.33	-0.42
Skilled labour	-1.08	-0.78	-0.3	-0.43
Capital	-1.07	-0.77	-0.23	-0.39

***Source**: Authors' computation and compilation.*

5.0 Stakeholders' Views on the Implications and Prospects for EPA

5.1 Objective and Rationale

The complexities in the negotiations for an Economic Partnership Agreement (EPA) between the European Union (EU) and the East African Community (EAC) calls for efforts to increase knowledge and awareness on the anticipated impact of the agreement on the economy. Given the likely variable information asymmetry among various stakeholders (public and private sector) in Tanzania, EAC and EU, it is important to collate views from industry and institutional actors on the expected benefits and costs to supplement any quantitative assessments. Firstly, increased knowledge of how different stakeholder view the benefits and costs will help allay fears of unknown impacts, thereby informing productive dialogue on how the country can maximize benefits (positive impacts) and minimize costs (negative impacts). Nonetheless, the views and perceptions of the impacts will depend on the awareness of EPA by the stakeholders.

Secondly, realization of any potential benefit or costs incurred as a result of implementing the EPA will be an increasing function of the supply response of the enterprises in different sectors to actively seek the opportunities presented by the EPA and participate in international trade. For the agreement to contribute to inclusive growth, participation of SMEs and other special groups such as women and youth need to be clarified, and challenges identified so that any measures to support them would be targeted to addressing specific constraints.

Finally, underlying the trade and economic aspects of the agreement are the associated social, cultural, diplomatic, and political aspects which together inform the three key components of EPA. Indeed, the architect of the EPA highly values the contributions of civil societies (none-state Actors) on such issues as gender, environmental impacts, social justice, and human rights.

This chapter reports findings from the survey and consultations made with the three groups of stakeholders: enterprises in six selected value chains (or sectors), the institutions including officials from different agencies in the public and private sectors, and civil society organizations. While each of these groups or sectors were asked different questions on the subject matter (survey instruments available upon request), our analysis of responses follows the broad themes for the study, and is presented in two main parts, namely: the Value chain (industry) perspectives; and the Institutional (policy) perspectives. The first part reports findings based on the responses of the enterprises (including SMEs) in the six value chains. The second part focuses on the responses of policy actors and advocates including views by the officials from relevant/selected public sector agencies (i.e., MDAs), the private sector (umbrella

organizations/sector associations) and the selected civil societies. Finally, the chapter concludes with some broad policy implications.

5.2 Value Chain Actors Perspectives

5.2.1 Description and Performance of the Selected value chains

Logistics and Transport Service

Logistics and transport service industry plays a significant role in facilitating international trade. Owing to the geographical position of Tanzania as a transit hub for its eight landlocked neighbours in East and Southern African region, the sector is of special and strategic importance to the country (BMI, 2016). Beyond the movements of goods and services between buyers and sellers, the transport and logistics value chain service industry involve different players such as clearing and forwarding agents, truck owners, regulators, and the public transport infrastructure centre their focus on the planning and efficiency of the transportation. The most common forms of transportations include trucks, ships, airplanes, and freight trains.

As a result of increased development spending, the GoT has been able to make several infrastructure improvements. Between 2015 and 2020, the GoT constructed 3,537.0 km of paved roads, and 82.6 km for decongesting traffic in urban areas. In 2017, Tanzania started the construction of a USD 7.6 billion Standard Gauge Railway (SGR) along the central corridor. In addition, Tanzania has three major seaports (Dar es Salaam, Tanga and Mtwara). The cargo handled by Dar es Salaam Port has increased by an average of 26,463 metric tonnes per annum, from 14.8 million tonnes in 2014/15 to 14.9 tonnes in 2018/19. The positive trend is attributed to the ongoing modernization, deliberate business environment reforms, deployment of new and modern cargo handling equipment as well as an increase in daily working hours at the port from 12 to 24 hours. The Government has also constructed the Kwala Dry Port in Pwani Region to decongest Dar es Salaam Port. The Tanga port has been under expansion that included dredging the quay to allow larger vessels to anchor. Its capacity has been increased by 700,000 tonnes to 1,200,000 tonnes per annum. The Port of Mtwara was expanded to increase its capacity from 400,000 to 750,000 tonnes. Following these interventions, Tanzania has seen improvement in her competitiveness ranking in the infrastructure pillar (see **Table 5.1**)

Table 5.1: Tanzania Rank in various Indicators of Infrastructure Pillar of GCI

Infrastructure Indicator	Rank in 2015	Rank in 2019
Quality of overall infrastructure	118	110
Quality of roads	112	51
Quality of electricity supply	125	101

Source: Schwab (2019) and WEF et al (2015)

Rice

Rice is the second most important food crop in Tanzania after maize. Official data indicates that an estimated 2.2 million metric tons of rice is produced annually, making Tanzania the biggest rice producing country in the region with an average yield of 2.2 tons per hectare (IRRI, 2021). More than 70 percent of rice production in the country originates from six leading regions of Shinyanga, Tabora, Mwanza, Mbeya, Rukwa and Morogoro. Other regions include Songwe, Katavi, Arusha, Kilimanjaro, Kigoma, Manyara, Iringa, Mara and Tanga. It is estimated that 20 per cent of all farmers in Tanzania are involved in rice production (FAO, 2015).

About 30% of the rice produced in the country is consumed by households, whereas the remainder is sold in the domestic and regional markets, with consumption being the highest in larger urban areas (Wilson and Lewis, 2015). The rice sub-sector has long been identified by the Government of Tanzania as a strategic priority for agricultural development due to its potential for improving food security and income for large numbers of rural households. In Africa, the rate of increase in demand for rice is the fastest in the world because of population growth (4% per annum). The raising income levels and urbanization have led to shifts in consumer preferences in favour of rice over other crops.

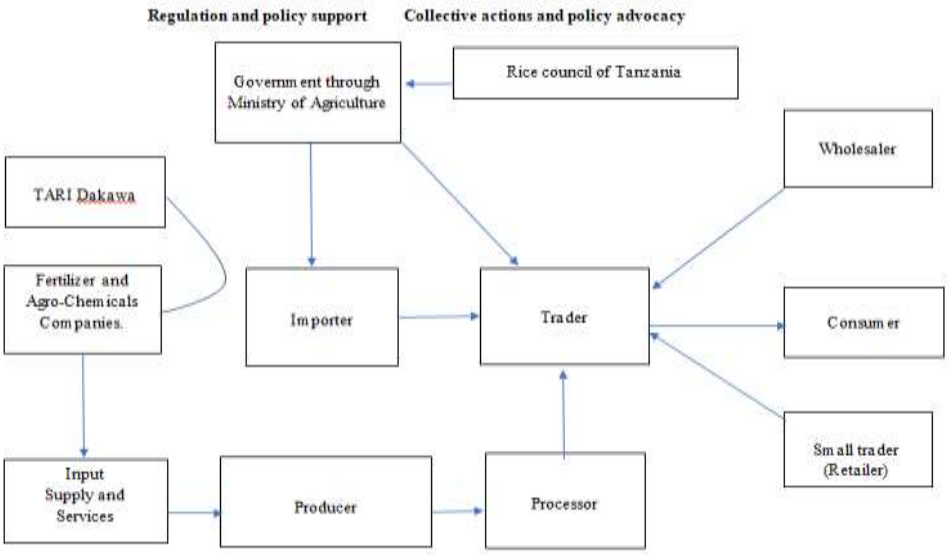
Majority of the rice farmers are women and make a significant contribution to food production, while men are more involved in processing and marketing. Women form 80% of the agricultural labour force in the rural areas. They play a major role in rice production in the country. They are highly involved in all aspects of rice value chain particularly planting, weeding, bird scaring, harvesting, processing, and trading. It has been observed that men are mostly involved in the land preparation.

According to FAOSTAT data, rice production fell during the 2010-2014 period. This was then followed by a period of increasing production trends during the 2015-2019 period, reaching 3.5 MT in production figures (in 2019). While area of land harvested and yield have been the most cited drivers of increasing rice production, the former factor is observed to contribute more than the latter (see Ngailo et al. 2016; Nasrin et al. 2015; Kilimo Trust 2014). Sector yields are low and ranged between 1.7 t/ha and 3.3 t/ha during the 2010-2019 period. The average yield (2.3 t/ha) was lower than that of Eastern Africa (2.7 t/ha), Southern Africa (2.8 t/ha) and Asia (4.7 t/ha). The factors leading to such low productivity levels include limited availability and accessibility to improved seed varieties, low use of fertilizers and pesticides, inadequate promotion of time and labour saving modern technologies including mechanization inputs, Inadequate irrigation infrastructures and water conservation technologies, weak marketing structures and inadequate access to financial services.

There are plenty of opportunities for rice development to flourish in Tanzania. There are abundant water resources for irrigation (ground water, rivers, and lakes) and

suitable land (21 million ha) for rice cultivation. There is a potential for increases in national and regional demand due to population growth, urbanization and increase in income. Seed production ventures and accredited seed certification systems (conventional and community based) exist to ensure that paddy farmers have access to quality seeds of improved rice varieties. Finally, mapping of stakeholders in rice value chains involves multiple horizontal and vertical links from the producer to the consumer. The rice chain involves primary producers, traders in paddy and milled rice, processors, wholesalers, retailers, and consumers. Figure 5.1 shows the rice value chain actors and how their functions relate.

Figure 5.1: Generalized Rice Value Chain in Tanzania



Source: *Authors' analysis.*

Leather

The Food and Agriculture Organisation (FAO 2020) notes that Tanzania has the second largest livestock production in Africa after Ethiopia. According to the 2020/21 Budget Speech of the Ministry of Livestock and Fisheries (URT, 2021), Tanzania had 32.4 million cattle, 21.29 million goats,5.65 million sheep, 83.28 million chickens, 2.14 million pigs and 657,389 donkeys during the 2019/20 financial year. This provides a considerable potential for the country to produce large quantities of hides and skins which can be processed to produce leather and leather products for domestic and export markets. The sub sector -sector generates income from domestic market and export earnings, and it is a source of employment. It is estimated that at least 1,000 people are directly employed by the leather industry.

The market structure of leather subsector is relatively competitive. This is because there are many actors. Price is determined by market forces (demand and supply) of final leather products, Government fiscal policy and the price volatility from the world market (URT, 2018). Market performance for hides and skins and their products in Tanzania is not yet efficient as it is constrained by the low quality of hides and skins produced and inefficient collection system. A major issue relating to the quality of hides and skin is the value lost through animal husbandry system and practices. These include spoilage, permanent marks made to animal skin during identification, poor slaughtering practices at the slaughterhouse, poor handling practices and the use of inferior technologies during the process of flaying and curing of skins. Flaying of the skins is usually carried out haphazardly because the primary focus is to obtain meat as opposed to presentation of the skin after slaughtering. This leads to scratches,

damaged surfaces, and uneven skin sizes. Although the potential (demand) is huge but still there are very few operational tanneries in Tanzania (URT, 2018).

There are approximately 40 MSMEs and two large enterprises involved in manufacturing of leather products and footwear accounting for all Tanzanian exports of finished leather. Some larger companies are also vertically integrated in the tanning sector. The footwear manufacturing sector was vibrant during the nationalization period but has not grown since then in view of the difficulty in sourcing local materials as inputs, large investments needed and severe competition from imports. Tanzania's footwear demand is estimated at 46.8 million pairs per annum. Production of footwear in Tanzania is limited and is estimated at 300,000 pairs per annum, leaving a huge market gap of 46.5 million (ITC, 2016). This gap is, to an extent, filled by imports.

Constraints to trade and marketing in the leather sub-sector include unfavourable policy environment to encourage trade investments; limited and quality of physical infrastructure and facilities (transport and communication) in rural remote areas; limited access to financing for trade; limited market development capacities of tanneries and leather product manufacturers; and low level of product market diversification due to insufficient trade information. Furthermore, low profitability of the industry is also a key challenge. The Government acknowledges that there are many constraints to the leather value chain as seen in the synthesis of the issues articulated in the hides and skins strategy (URT, 2016). The Strategy outlines measures to be taken by the Government in addressing them.

Apparently, leather provides a wide range of products such as shoes, garments, home and office items such as sofas, carpets, mats, etc. The main actors in the leather value chain include Small and Medium Enterprises (SMEs), traders, farmers, and the government. This is depicted in the Figure 5.2.

Figure 5.2: Leather Value Chain

***Source**: Morris (2015)*

Cotton, Textile and Apparel

Historically, the cotton, textiles, and apparel (CTA) sector has been a trigger of socio-economic development, mainly due to the industry's capacity to directly employ thousands of people but also because of the linkages it creates and its potential trigger effect on other industries. As a result, the Government of Tanzania has included the CTA among its list of key priority sectors envisioned to transform the economy and achieve higher levels of social and economic development. Indeed, the sector is envisioned to be a catalyst for achieving the core objectives of the Third Five Year Development Policy (FYDP-III) that focuses on promoting competitiveness and export led growth. The Tanzania CTA value chain has a variety of key players from cotton farmers, ginners and spinners to garment makers and sellers.

Cotton is one of Tanzania's top exporting crops. Over 70% of cotton produced is exported as lint. The largest importers of Tanzanian cotton lint include Bangladesh, India, Vietnam, Kenya, China, and Singapore. There is growing demand globally for organic cotton, which Tanzania is already engaged. Tanzania's textile sector comprises of several standalone spinning mills and several integrated businesses. The industry chiefly spins cotton yarns for woven and knitted fabric. Some fabric mills focus on making printed and woven women's khangas and kitenges, along with home textiles, dyed-yarn woven kikoi fabrics and bed linen. The bulk of these traditional fabrics are retailed in Tanzania, but some are exported to its neighbouring countries. The garment segment meanwhile is limited in terms of product variety and quality. Most goods are produced for export under preferential trade agreements. The small market that exists locally for Tanzanian garments is limited to mainly promotional clothing.

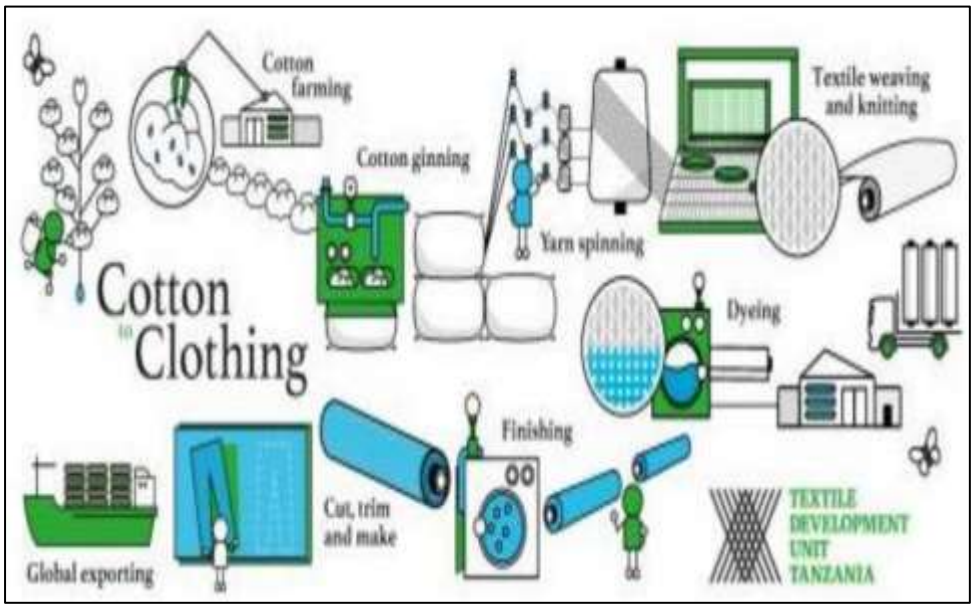
Cotton is among the important traditional cash crops in Tanzania which is currently being produced mainly by small-scale farmers. The cotton sector is a major source of employment and income in the country employing about 500,000 rural households. Production is primarily by smallholder farmers most of whom grow cotton on farms which are less than one hectare. The production of the crop has exhibited wide fluctuations over the past decade due to farmers' response to prices and weather variability. Tanzania Cotton Board Records show that total cotton production has ranged from about 350,000 tons in good years to hardly 100,000 tons of seed cotton during years with unfavourable weather.

Once the largest manufacturing sector in Tanzania, textiles and apparel production collapsed in the 1990s due to the economic liberalisation programme of the 1990's which exposed Tanzania's underinvested industries to global competition. The importation of second-hand clothes also gained momentum during this period, as consumers increasingly favoured the diverse range of low-cost clothes now available. Nevertheless, preferential trade agreements, particularly AGOA, as well as agreements with the Europe and South Africa served to bolster investment and job creation into

the 2000s. Currently, the textile and apparel industry has 9 operational factories and about a dozen SMEs.

As an overall picture the rate of adaptation to technological change by the textile industry in Tanzania has not kept to pace with the rest of the global players in China, India, Bangladesh, Ethiopia, Kenya, and Sri Lanka. The overall state of the sector machinery ranges from 10 to as much as 40 years. The Tanzania CTA value chain has a variety of key players from cotton farmers, ginners and spinners to garment makers and traders. Figure 5.3 shows the CTA value chain in Tanzania including the key activities along the value chain.

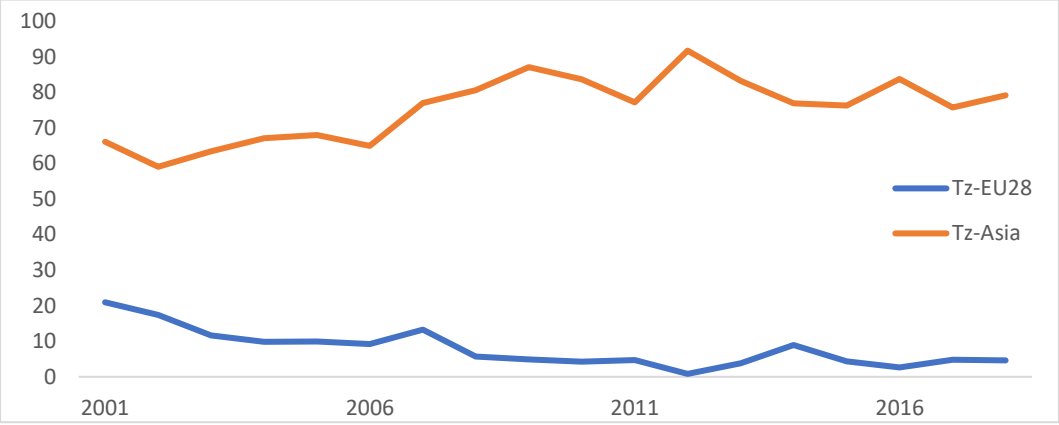
Figure 5.3: Cotton, Textile and Apparel Value Chain in Tanzania



Source: *Textile Development Unit (2021)*

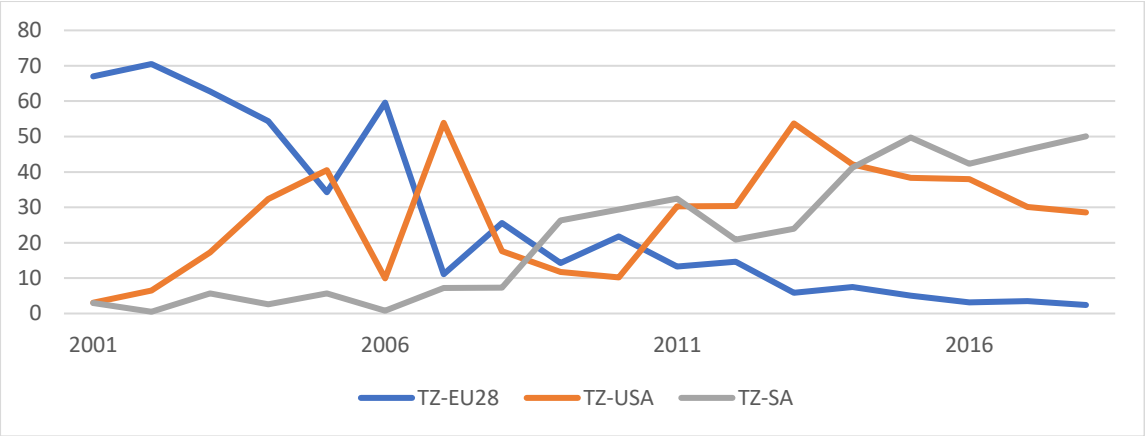
Another main challenge affecting performance of the value chains is their limited ability to engage in international trade especially, for advanced markets such as the EU. Figures 5.4 and 5.5 show Tanzania's exports of cotton and apparel respectively to the EU. As shown in Figure 4, cotton exports have mainly targeted the Asian market compared to the EU one. Indeed, the share of exports to the EU has been declining from 20% in 2001 to less than 5% in 2016, compared to that destined for Asian markets which increased from 60% to 80% respectively. In the case of Apparel, the US AGOA market has been the main driver of exports. However, exports to the US have been rather sporadic, with significant fall-rise scenario. Since 2010 its share has been increasing until in 2013 and began to fall again.

Figure 5.4: Share of Tanzania Cotton Exports to EU and Asia in Total Cotton Exports



Source: *ITC Trade Map Data (2021)*

Figure 5.5: Share of Tanzania Exports of Articles of apparel and clothing accessories to EU, South Africa and USA in Total Tanzania Exports



Source: *ITC Trade Map data (2021)*

Horticulture

Horticulture is an important agriculture sector in Tanzania. According to FAOSTAT 2019 data, Tanzania is among the world's top 20 producers of fresh vegetables by volume accounting for 0.7% of global production. Notwithstanding such production trends, the country's positioning in vegetable export market is low mainly due to the current business arrangements where Tanzania exporting companies are subsidiaries to large companies often based in Kenya. The reliance on Kenyan large exporters of horticulture products arises mainly to the logistic and supply chain management constraints limiting the direct and fuller utilization of exporting opportunities by the Tanzanian producers.

Tanzania Horticultural Association (TAHA, 2020) reports that, Tanzania's exports receipts of horticulture products have grown by more than ten folds from $64 million in 2004 to $779 million in 2019. The growth of the horticulture sector is 11% per annum while overall agriculture has a growth of 4% in Tanzania. The sector employs more than 450,000 people with 65 -70% being women. The country has a goal to increase exports to $3 billion by 2025. Tanzania has favourable conditions for being a major grower of fruits and vegetables. With its temperate and tropical climates as well as different altitudes and temperatures, it can grow a wide variety of fruits, vegetables, herbs, and spices. Tanzania also has a stable economy, strong political will, and competitive labour costs to support the horticulture industry.

Most horticulture producers are small farmers, often growing horticultural products often on an acre or less. Vegetable gardens near houses or compounds can be quite small and produce a range of vegetables for use by rural households. Majority of these small-scale farmers are not connected to regional or global markets and thus have limited opportunity to conduct export business themselves. Out-growers to horticultural marketing small and medium enterprises (SMEs) or larger commercial

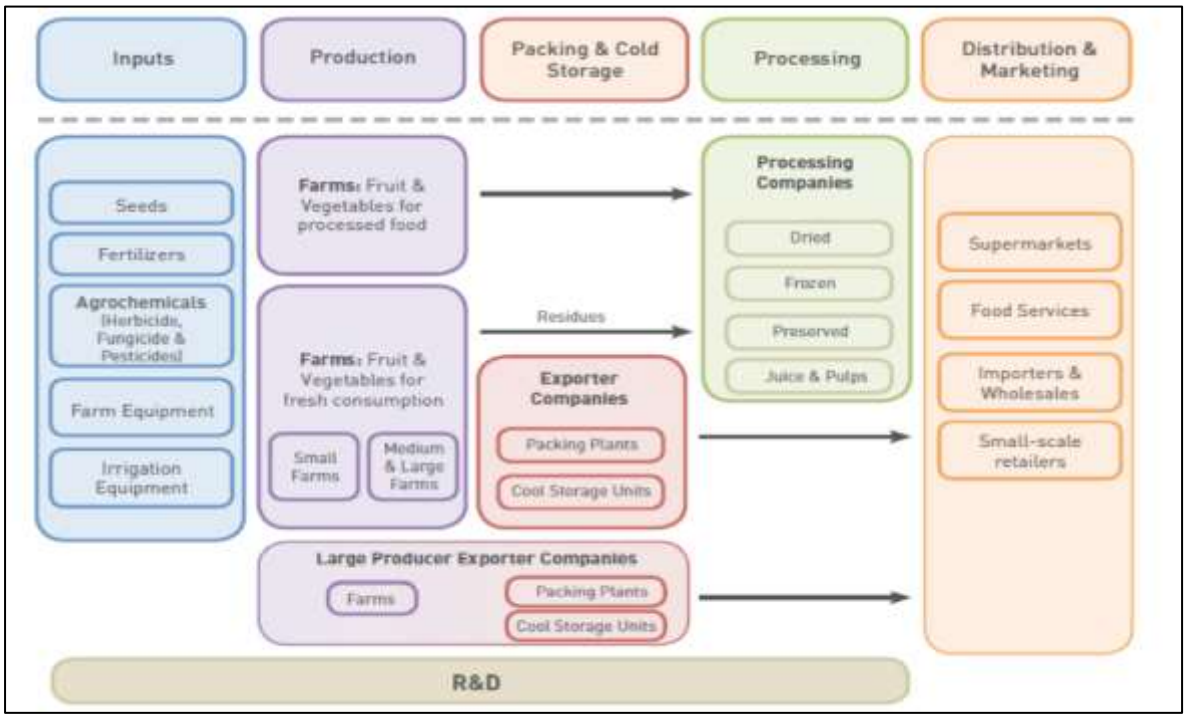
farms produce on larger farms, which can range from one to three hectares. Fruits can be cultivated on larger areas of 2 to 5 acres (Holtzman and Reichhuber, 2020).

Horticultural farmers face a number of challenges including low access to inputs (pesticides, farm implements and seed) due to their high costs (Msafiri and Mwombela, 2021; Holtzman and Reichhuber, 2020). Some inputs such as irrigation equipment, materials used to construct greenhouses, pipes and pumps to mention a few, can only be sourced outside Tanzania- and are subject to duties and Value Added Tax (VAT) which are relatively quite expensive for a common farmer. This reduces farmer input use and leads to other problems such as low productivity. The limited access to farm inputs is closely linked to limited access to finance. Small holder farmers do not have enough capital to buy quality farm inputs or adopt improved agriculture technologies and thus financial institutions are critical as they help address the low capital challenge. However, Msafiri and Mwombela (2021) notes that there is low linkage between horticulture farmers and financial institutions.

In addressing some of these challenges, the GoT has undertaken several reforms under the Blueprint initiative including the following: elimination or reduction of several taxes, duties, fees, and levies including (i) the removal of duties and VAT on cold storage equipment in 2019 (Finance Act of 2019); (ii) reduction of the unpopular district and municipal marketing cesses on food crops from 5% of the farm-gate price to 2-3% in 2017, for which it was made a one-time payment (i.e. not requiring multiple cesses when crossing multiple district lines); (iii) the removal of food security permit (only attainable in Dodoma) for each export shipment of food crop.

The largest part of the value chain (Figure 5.6) is small holder farmers (about 70 percent of the value chain) followed by processors (exporters of fresh produce). Some farmer groups are also doing small scale processing such as making juice and drying fruits using solar dryers (Ekka & Mjawa, 2020).

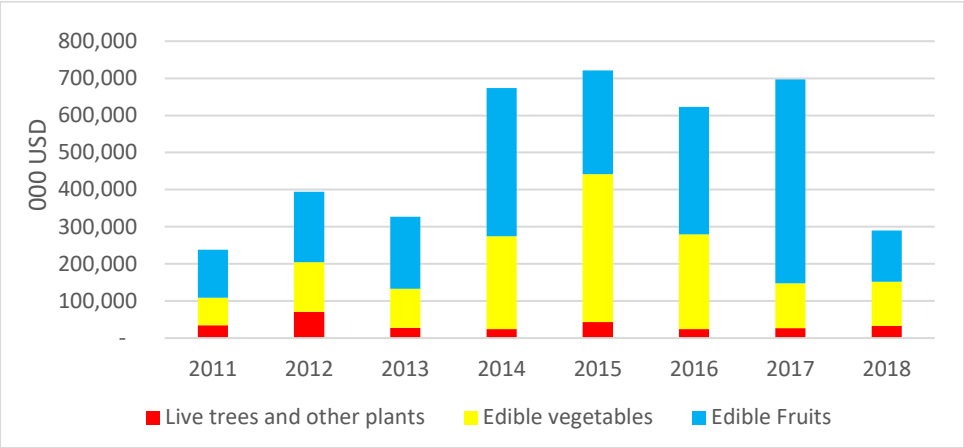
Figure 5.6: Horticulture Value Chain



Source: *Chisoro-Dube, Paremoer, Jahari & Kilama (2018).*

In general, fruits dominate the horticulture export receipts. As shown in Figure 5.7, fruits exports averaged 55% of total horticultural export earnings during 2011-2018, followed by vegetables (36%) and finally trees and flowers (9%).

Figure 5.7: Tanzania Annual Exports of Horticulture Products: 2011-2018



Source: *ITC TradeMap Data (2021)*

Seaweed

Seaweed is one of the largest cash crop industries that supports the livelihoods and employment of thousands in Zanzibar. The sector exports 9,663 tons of seaweed at a value of TZS 10.3 billion in 2019, representing approximately 21.3% of Zanzibar's total exports value and 34.3% of total cash crop export value. Despite accounting for less than 1% of total agricultural production, seaweed exports have averaged 11.7% of Zanzibar's merchandise exports over the past five years, representing a significant source of foreign exchange earnings. In 2019, seaweed was farmed in over 56 villages in Zanzibar and employed 12,903 farmers. About 80% of all seaweed farmers are women and 90% of seaweed production takes place in Pemba.

Seaweed farming has become an alternative source of income for coastal communities and often acts as a supplement to fishing for agriculture-based households. Several seaweed companies based in Zanzibar use contract farming to engage the small-scale farmers, by supplying them with farming inputs, and in return, the growers are obliged to sell all their products to the companies at an agreed fixed price.

There are 575 species of seaweed in the world today. In Tanzania only two varieties are cultivated, namely: *Cottoni* and *Spinosum*. *Cottoni* is relatively less produced in Zanzibar albeit it's relatively higher value. This is because the variety thrives best in deep sea while the majority of farmers (who are women) cannot swim. On the other hand, the *Spinosum* variety thrives in shallow water and thus shares a larger quantity of production. Indeed, production shares averaged 99.4% of total produced seaweed for Spinosum variety during 2015-2019 period while that of *Cottoni* averaged 0.6% in the same period.

Most males are not engaged in seaweed farming due to low prices of the seaweed, although men would produce more seaweed because they have more energy and time to conduct the activity. In addition, seaweed farmers have been able to use their

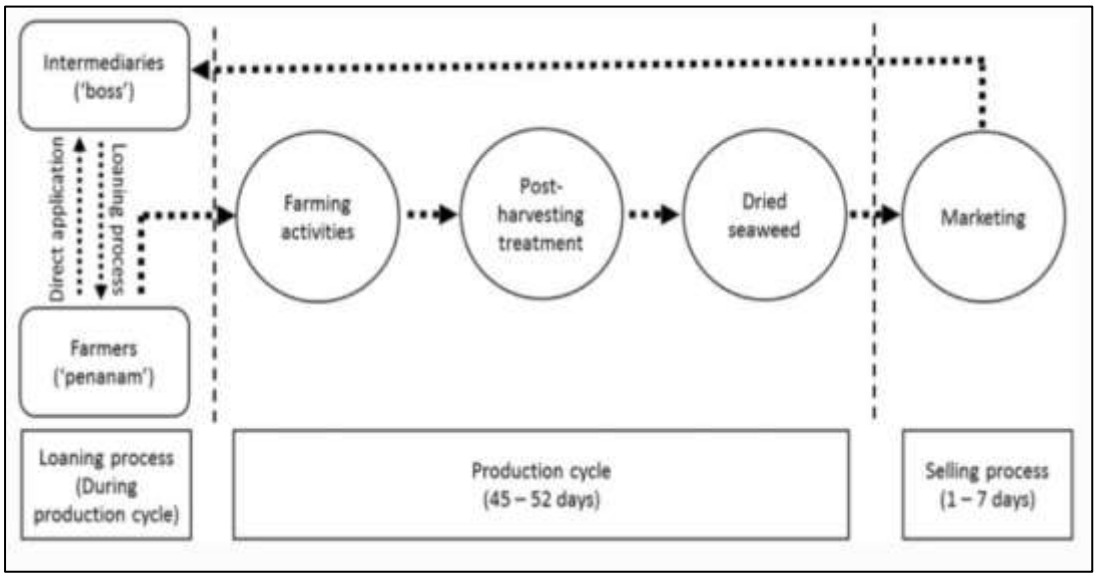
income to process the seaweed crop themselves and sell it as a value-added product. For example, since 2006, the Zanzibar Seaweed Cluster initiative (ZaSCI) trains farmers on how to make various seaweed value-added products, mainly food and cosmetics. ZaSCI has links with other stakeholders including the government, NGOs, UN bodies, academia, and other seaweed exporters to advance these value addition activities (Hassan and Othman 2019).

The economic benefits of seaweed production saw the Tanzanian industry grow steadily from 808 tonnes in dry weight (dw) in 1990 to 15,000 ton dw in 2012. Since 2012, however, the annual production declined to 10,000 t dw in 2018 (URT, 2019). This decline was attributed to a multitude of factors, including climate change-induced stress, which increased water temperatures in the hot season from below 30 °C in the 1990s to 38 °C in 2009 and was associated with disease outbreaks, such as "ice-ice" (Cottier-Cook et al. 2016). Coupled with the pressure of disease outbreaks, farmers have also faced the additional challenge of epiphytic filamentous algae (EFA) (Msuya and Porter 2014). Such epiphytes can wipe out the whole seaweed industry.

Despite accounting for less than 1% of total agricultural production in Zanzibar, seaweed exports have averaged 11.7% of Zanzibar's merchandise exports over the past five years, representing a significant source of foreign exchange earnings. In 2019, seaweed was farmed in over 56 villages in Zanzibar and employed 12,903 farmers. Seaweed farming has become an alternative source of income for coastal communities and often acts as a supplement to fishing or agriculture-based households. There are several seaweed companies (mainly exporters) based in Zanzibar which supply farming inputs, and in return, the growers are obliged to sell their products to the companies at a fixed price (URT, 2020).

Aside from support by exporters in the form of planting materials, boats and other farm related items, seaweed farmers get support from the government of Zanzibar which provides funding through projects that are based in its departments and ministries. The government has also helped farmers to start farmers' associations for Zanzibar (JUWAMWAZA) and Pemba (JUWAMPE) through which funding opportunities can be channelled. Small credits are obtained through the Savings and Credit Cooperative Societies (SACCOS) and Village Corporate Banks (VICOBA), systems that are formed by farmers purely to be used for financial purposes. Funding may come from the government through projects, NGOs, and associations, as well as contributions from members (Neish and Msuya, 2013). The Figure 5.8 shows the seaweed value chain.

Figure 5.8: Seaweed Value Chain



Source: *Nor et al. (2020).*

5.2.2 Challenges and Constraints in the Selected Value Chains

As per the interview questions, the challenges and constraints affecting the selected value chains can be broadly categorized into six areas, namely: production, markets and access to markets, customs, product quality control and standards, challenges related to logistics and challenges related to policy or business environment.

Production

Most of farmers in the selected value chains use crude tools such as hand hoes as most are either not aware of the modern farming techniques or are financially unable to access them. As a result, the production volume are much smaller quantities than potential, such that the resulting costs of production are extremely too high compared to the produce. Clearly, the shortage of raw materials or inputs aggravates the situation. In the case of Leather, the interviewed Actors reported that, due to the shortage of feeding grounds, the price of cattle has increased dramatically. Similar challenges are observed in the horticulture value chain where farmers complain of the high price of fertilizer. In general, expensive agricultural inputs, high incidence of post-harvest losses and lack of proper and adequate storage facilities were pointed as challenges that hinder the scale of production for most of the value chains.

Other challenges affecting production volume include the impact of changes in climatic conditions (most notably in rice and cotton sectors that rely heavily on rain fed agriculture). Most of the available raw materials (inputs) in different value chains are of poor quality, mainly due to lack of technical know-how and technical experts. The challenge was considered more acute in the case of leather industries where quality of skins is poor, mainly due to poor animal husbandry, low skills in skinning, unfavourable environment for slaughterhouses and poor handling. Notably, leather

industry is at infant stages in Tanzania, with limited availability of leather treatment and handling skills. In the case of horticulture, industry experts reported that, most of farmers do not know the appropriate ways of preparing seedling.

The challenge of post-harvest losses was also partly attributed to lack of storage facilities. Most of farmers keep their produce in their homes which are often insufficient for storage and may increase risk of fire and theft. Nonetheless, for some bulky produce as cotton, most farmers are unable to afford appropriate storage and harvesting equipment. In addition, perishable products such as fruits and vegetables require proper storage to minimize post-harvest losses (e.g., cold rooms for storing harvested avocados), for which many individual farmers cannot afford. Finally, cutting across many of the production related factors is the challenge of unreliable electricity. Electricity is very important in running of machines for SMEs and for farmers in irrigation. However, power is not yet accessible in some parts of the countryside.

Markets and Access to Markets

Different Actors in the different value chains acknowledge the importance of markets and access to markets as a critical enabler of productivity. Understandably, different sectors have different orientation for either local or export markets (or both). For rice, over 80 percent production is for local markets hence very low export intensity (FAOSTAT, 2019), compared to horticulture where the production is mainly targeted for export market. In either case, some sectors have failed to penetrate export markets mainly due to the difficulty in meeting quality standards. This challenge was reported by most of the respondents across all the value chains (except for the logistics services).

Overall, the EU standards are apparently much higher than say in the local or regional markets. For instance, EU require a lot of certifications when importing leather products from low income countries such as Tanzania; and in most cases they promote import of semi processed (Wet Blue) leather not finished products. Furthermore, a sector such as CTA demonstrates dualist structure where, cotton is exported raw, while the final products (Apparel) are imported ready-made – due to lack of local manufacturing.

Nonetheless, demand for Tanzanian leather appears to be less significant. According to the responses, some consumers for such products as shoes have turned to plastic and other synthetics owing to high price of leather. In addition, the market of Tanzanian leather has been affected by relatively cheap leather products from Kenya, India and China. Another challenge noted by the value chain actors is inadequate *knowledge/access to market information*. Some actors in the value chain especially farmers are not knowledgeable on ways to access export markets. Finally, a related challenge is price *volatility, especially for commodity exports such as cotton and seaweed. Indeed, some* Farmers and SMEs complain that the prices are low and volatile.

Customs and Taxes

Similar to the market access challenge, responses from the interviews indicate that most of actors in the selected value chains are not well informed about the customs issues. These among other reasons create fear among actors to engage in international trade. Another key issue identified by the Respondents is the challenge is the challenge of high import tariffs, which eventually make imports of raw materials, machinery, and spare parts more expensive, thereby pushing up the production costs. This is a critical challenge affecting competitiveness of producers, given the demand for such production inputs as chemicals, which feed the local industries including for exports. Alongside with this, value chain Actors complained about too many and high-rate taxes, some charged on exports of such commodities as leather and cashew nuts to discourage exports of raw goods. In the end, such taxes do more harm than good in promoting country's export competitiveness. For instance, according to one respondent, export tax on dry skins has doubled in the past five years from 40 to 80 percent, while the export levy for wet-blue that was imposed in 2015 is still 10%.

Another identified challenge is the difficulty in getting the export permit. One trader noted that, processing a permit to transport avocado or seedlings of avocadoes to other countries from Tanzania takes long and at times difficult to avail.

> *"We had an order for seedlings in Mwanza but failed to get permits. The letter of order has to go through the ministry and there should be a letter from the ministry stating that these seedlings have met the standards to export,"* an avocado trader.

Finally, there is still a challenge of bureaucracy. For instance, owner of an export-oriented company based in Arusha claimed to lose more than 15,000 USD in single trip due to perishing of some of his products because of a prolonged waiting time at the customs.

Product Quality Control and Standards

Product quality control and standards is one of the critical requirements for enterprises to access markets including the EU market opportunities. The survey included this theme as one of the key constraints faced by firms. Although the six value chains have apparent differences in quality and standards requirement, some common issues are worth highlighting.

First are difficulties facing primary producers in the selected value chains to meet the quality standards in international market. For instance, although the avocado value chain in Tanzania is growing fast, future prospects depend on the extent to which the large-scale processors are able to impart the quality control skills and enforce the standards among the small scale farmers to meet the international standards of quality avocados.

Apparently, most farmers are not aware of the requisite quality standards, and in addition, farmers do not know the specific GAPs to apply in the case of avocado farming for international markets (e.g., types of fertilizers and insecticides to use or the acceptable size of the fruit). In the case of rice, some farmers get tempted to add weight of rice to attract higher earnings per unit, thereby adulterating the rice quality standards. In part, this challenge arises due to weak recognition of quality as a determinant of premium price, which would have incentivized the farmers to observe standards.

Another challenge is inadequate or lack of laboratories to measure, grade and certify products. This challenge was identified by the leather industry actors but generally is applicable across various value chains. Clearly, the EU demands certificates from recognized independent agencies such as ISO with advanced laboratories and technologies to meet Leather standards. According to the Industry stakeholders, this is one of the reasons why they import most leather (raw materials) from China and India because the products are much cheaper, and it is easy to find quality check companies. However, imports from the EU are more expensive partly due to the high-quality products and there are fewer quality checks companies.

Thus, ability to achieve quality produce to meet the industry standards depends significantly on the farmers' ability to control diseases and pests. The interviewed producers also mentioned the challenge of diseases and pests which adversely affect quality of produce. As shown in Figure 5.9, Avocado farmers mentioned diseases or pests that cause the tree to die or deteriorate the quality of the fruits (some of the fruits develop scars as a result). In addition, other causes of quality and standards relates to harvesting techniques and care of the fruit, including the requirement not to touch the fruit as shown in the picture.

"Fungus is an issue and an insect famous as "kanitangaze" we do not know why it arises. Fruits have developed scars and customers do not take them," a farmer said.

Figure 5.9: Quality affected Avocado fruit

Source: *Survey done for this study (2021)*

Challenges Related to Logistics and Transport Services

Clearly, availability of logistics and transport services plays key role in enhancing development of a particular value chain. Notably, logistics services industry has unique differences from the rest of the value chains, and hence different nature of challenges. One of the main challenges observed by the interviewed industry stakeholders is the conflicting interest between the Regulator and Industry actors with respect to the role and functions of the newly established TASAC. As per its establishment, TASAC is both the Actor and Regulator, and has prohibited other players in the sector to engage in some of the activities they were doing before the legislation that was passed in 2019. The Industry Stakeholders consider this as an unfair treatment and noted that the industry is marred with inefficiency due to lack of competition.

The second reported challenge is frequent changes in the international trade facilitation systems between trading countries. For instance, some logistics companies in EAC use different trade facilitations systems that have different requirements, thus, results into delays in trading processes. The challenge is aggravated by the additional issue that different trading blocs use different customs transit regulations. As mentioned by the Industry Actors, another notorious cause of delays in cargo clearance is poor internet network connectivity due to weak infrastructure or poor management. In addition, the logistics and transport services sector has been significantly hit by the different measures taken by countries to control the deadly COVID-19 pandemic among the trading partners. Some countries practiced more restrictive measures (e.g., lockdowns) compared to others (e.g., Tanzania).

Thirdly, the road tall in some countries (DR Congo and Zambia) are considered too high, while Tanzania has too many police roadblocks compared to other countries, factors which contribute to increasing costs of doing business in the region. Finally,

the poor railway network implies overreliance on road transport by trucks, which means that the service providers and consumers have limited options on transport modes for freighting mass cargo, leading to inefficiency. Clearly, air transport appears to be too expensive to afford even for large firms. The shipment fees have also hiked, for instance, the shipment tariff between Dar and China increased from USD 1,500 in 2019 to USD 3,000 in 2020.

Challenges Related to Policy or Business Environment

The final set of challenges relates to the familiar investment climate and business environment constraints limiting full realization of trade and market opportunities in the selected value chains. Key issues include policy clarity and uncertainty with limited predictability of policies that affect businesses. One of the clear examples is the fact that each phase of Government administration has different policies and executes different priorities that affects businesses differently. The rice value chain is drastically affected by change of the Government policies regarding cereal exports and prices. In addition, the recent government policy of stamping/marking cows has led to the poor quality of leather due to such markings.

Most of the Respondents reported that their businesses are significantly affected by lack of access to affordable capital or credit. Although progress on the financial sector development has been generally impressive with Tanzania making significant strides in financial inclusion, the main limitation has been costly finance. Industry experts consider this to be a policy issue for the Bank of Tanzania to address, in addition to the possible innovation by the financial service providers.

Clearly, development of the selected value chains requires availability of capable human resources to provide the technical know-how and skills on the undertakings in the respective value chains. However, in almost all the surveyed value chains, the actors reported lack of skilled human resources and experts as key constraints. Another key challenge cutting across the six value chains is the multiplicity of Associations or Institutions involved in regulating the subject sectors, often with inadequate coordination. Finally, lack of access to affordable capital or credit is a recurrent challenge.

The interviewed actors across the value chains also identified weak (inadequate) logistics and transport infrastructure and services as one of the bottlenecks to improving business environment for catalysing progress in value chain development. The challenges include roads being impassable during the rain seasons, costly transport costs, lack of proper infrastructure at the ports or airports to support high value and perishable horticulture products such as flowers, fruits, and vegetables (including cold rooms and warehouses) and inadequate coordination between institutions that offer export permits and import certificates.

Although sea transport remains the most efficient way to transport goods between countries, the interviewed respondents complained of the recent increase in shipping tariffs, from USD 1500 to USD 3000 in 2019-202. The notable increase is partly a result of the shortage of ships in East Africa. Notably, although the operational efficiency of Dar es Salaam port has improved over time, still it takes a much longer period to clear goods than its neighbouring Mombasa ports. The Respondents are also concerned

about the newly introduced TASAC charges in Dar es Salaam port, contributing to weakening its competitiveness compared to other ports in the region.

Suggestions on the Ways to Overcome Challenges

The survey required the different value chain actors to suggest ways that may address the challenges facing them. A few commonly proposed challenges include the need to:

(a) Support frequent engagements between the government and actors in the different value chains to consider pragmatic solutions for addressing key business environment challenges.

(b) Promote and develop specific sector skills as a PPP between the Government and the private sector. In addition, various Agencies in the private, donor and civil society sector should consider providing training and capacity building services on various aspects of industry or business development

(c) Promote one stop center at the border and ports as one of the effective means to facilitate trade and lower production costs. Indeed, such trade facilitation initiatives should include measures to improve the country's transportation systems such as roads, railways and ports.

(d) Invest in GAPs including provision of necessary infrastructure (such as irrigation schemes) as well as access to equipment and technology and farm inputs (mainly seeds and fertilizer). Improve regulatory efficiency and coordination among Government institutions to reduce the effect of bureaucracies and multiplicity of agencies involved in managing Government functions across the value chain.

(e) Improving the business environment in the country, especially by reducing the number and level of taxes and fees charged to businesses, and adopting measures that will reduce the cost of borrowing to improve access to finance.

(f) Promote awareness and sensitization through capacity building to farmers and processors to adopt GAPs (e.g., pests and diseases controls) and comply with market required quality standards.

Overall, the six value chains differ significantly in terms of their development, performance, and potential for trade. Clearly, horticulture is most mature value chain compared to the rest, while Leather is the least developed. Notably, the performance of the selected value chains appears to be attributed to different factors. For example, the development of logistic and transport value chain is influenced by Tanzania's strategic geographical location, while the production performance of rice is due to the stable demand (Sage-el *et al.,* 2018). The performance and development of the horticulture value chain is mainly driven by the presence of international markets and high involvement of the private sector unlike the Government dominated rice and seaweed value chains, where the sector associations (particularly TAHA and MVIWATA)

has played key role in supporting smallholder's farmers and undertaking policy advocacy.

Some value chains (rice, CTA, and leather) have very low export performance also because of supply side constraints including difficulty in meeting the quality standards. Nonetheless, potential for exports still exists owing to such comparative advantages such as availability of cheap labours and raw materials. Furthermore, for most of the value chains, imports from the EU are insignificant. Most of processing industries imports machines, spare parts, and chemicals, mainly from Germany, Italy, and Turkey. For instance, Himo Tanneries imports machines from Turkey and chemicals from Germany, Woisso Original Products and Kilimanjaro Leather have installed machines from Italy and Germany that will be used to produce leather products such as shoes and handbags.

Unlike the direct trade route between Tanzania and Asia (particularly China), the trade route between Tanzania and EU goes through other EAC countries (mainly Kenya) for logistics connections. Other actors have diversified their export market following fall in price to leverage alternative consumers. For example, due to the fall of price of leather in the world market, some traders have identified alternative markets in West African Countries such as Nigeria and Ghana where raw hides and skins are consumed as edible food items.

5.2.3 Impact of the EU-EAC EPA on the Value Chains

Awareness of the EU-EAC EPA

In assessing the potential impact of the EAC-EU EPA, the survey firstly investigated the extent to which the target respondents are aware of or understand the EPA. The responses show that most of actors in the selected value chains are not aware about the EU-EAC EPA. However, some have heard about the EPA when it was discussed in the parliament an in the media. Most of the interviewed Actors expressed concern that the subject of the EPA has not been publicized to the private businesses. Indeed, some consider it to be more of a government-to government agenda with little if any relevance to the private sector. Nonetheless, most of the respondents know about the regional blocks, i.e., the EAC and SADC.

Positive Impact

Subsequently, after explaining what the EPA means or entails, the survey asked the respondents to provide their views on the positive or/and negative impact of the EPA. On the positive impact, some farmers hope that improved access to the EU market would enable them to export directly rather than passing through the middlemen, a challenge which they consider having adverse effect on their earnings (farm gate

prices). The impact of the EU-EAC EPA on the selected value chains can be broadly categorized into two groups: positive impact and negative impact.

> *"There will be no middle men. I am a farmer I will benefit if I have one to one interaction with buyer."* One of the farmers said.

In addition, most of actors in the selected value chains perceive that the EU-EAC EPA will increase quality and standards compliance capacity of their production as a result of increased competition from the EU exporters. Other benefits of EPA mentioned by the Respondents include increase in prices, increased access to knowledge and the technology, improved access to raw materials and general widening of the markets.

Negative Impact

On the negative impacts, the respondents fear that the EU-EAC economic partnership agreement may weaken or lead to collapse of the country manufacturing industry due to competition from the high technology industries from the European members and influx of the cheap commodities from Europe (especially those owned by SMEs). Furthermore, responses indicate that the EPA will increase risk of importing harmful products, and loss of Government revenue (reduced import taxes). Due to infancy in industrial sector, Tanzania will be much more of importer rather than exporter hence using significant amount of the foreign reserves to pay for the imports causing negative trade balance for the country. The Respondents properly attributed such effects to the fact that the EU-EAC EPA comes with no tariffs and quotas free when trading between the EU and the EAC states. Some respondents are concerned of food security impact since, due to high demand, farmers may sell almost all their produce with nothing left to eat.

Generally, although the EU-EAC EPA will expand the trade between the EAC member states with the EU countries, some Actors consider non-tariff barriers will increase to limit the benefits of the EPA to Tanzania. At the macroeconomic level, others are concerned with imported inflation in case some countries in the EU countries have inflation.

Impact of on SMEs

The survey examined the specific impact of EPA on SMEs given the inclusive growth aspect of the agreement. The survey asked a direct question to the Value Chain Actors: How and to what extent will the EPA affect SMEs in the respective value chain? Majority of responses show that, the EPA will affect SMEs to a large extent, both positively and negatively. The main suggested benefits are SMEs expanded market access to the EU market due to removal of tariffs and other barriers. Subsequently, expanded market will lead to other benefits such as growth of employment, access to advanced technology, and simplified import procedures. In addition, some Actors mentioned

improvement in quality and production of products produced by SMEs as a result of competition from the EU market.

On the negative side, responses show some reservations regarding the EU-EAC EPA to some SMEs. The main ones include the collapse of some SMEs that were already competitive in the domestic market due to competition with imported good with higher quality and lower price. More specifically, the low level of participation in the EU Market for some value chains where SMEs are disadvantaged in terms of technology or higher quality standards thresholds for which most of domestic industries have failed to acquire. This challenge was particularly mentioned by the Leather stakeholders. Despite of having certificates from TBS, leather products still need other lab tests that can't be performed in Tanzania, leading to the concern that it will limit participation of the SMEs in the international market.

Further, the EPA is anticipated to have little effects on the SMEs imports. This is because most interviewed SMEs do not import because of high transport costs and bulk purchase requirement by the foreign supplier country which most SMEs cannot afford to buy. In the case of textile value chain, the SMEs that can import revealed that they usually source their imports mainly from China and India. When asked why they prefer China and India than EU, they reported that the products from China and India are cheaper than those from EU.

Similarly, some actors see no benefits of the EU-EAC EPA on SMEs. For example, some Actors in the Textile industry noted that:

> "*.....there will be little or no benefit to the SMEs operating in the Cotton, textile and apparel sector, mainly because they cannot meet the market requirements in Europe. Our SMEs still produce unfinished and low-quality CTA products which are no longer needed in EU. Those EU based firms which used to demand our unfinished products for further processing have shifted to Asia because of relatively low costs of production there. Basically, our SMEs need capacity upgrading to enable them to make high quality finished gods which can be sold to EU,"* TCB Respondent.

On the contrary, the horticulture products such as avocados have high demand in the EU countries implying that when the EPA is in effect, their exports will increase significantly.

The above responses lead to a question: what are the factors affecting participation of SMEs in the international trade? Based on the responses from the interviewed value chain Actors, participation of SMEs in the international trade may be influenced by such factors as production capacity, compliance to quality standards, access to transport infrastructure, availability of qualified industrial workers, access to storage

facilities, price stability, and awareness of International Trade procedures such as foreign exchange matters, visa application, etc.

5.3 Institutional Actors Perspectives

As part of the survey, the study team conducted interviews with a number of Agencies and organizations within the public sector (government MDAs) and the private sector (especially umbrella organizations) to gather their views regarding the impact and status of EU-EPAs. The Government MDAs include the Ministries of: Finance and Planning, Agriculture, Livestock and Fisheries, Industry and Trade, Foreign Affairs and EAC. Other Government Agencies and Departments include TANTRADE, NEMC, SIDO and TIC. The private sector Agencies or umbrella organizations include: TNBC, TCCIA, TWCC, CTI, and the Civil Society Organizations include the Parliament, LHRC and TAMWA.

To meet the study objectives, the consultation with these agencies asked several questions, including (i) the trends, challenges, and prospects of the trade relationship between Tanzania and the EU; (ii) the status and key issues on the EU-EAC EPA negotiations; and (iii) the potential impact of the EU-EAC EPA on Tanzania. Responses around the three issues are analysed and presented below.

5.3.1 The Trade Relationship between Tanzania and the EU

According to the interviewed MDAs, the trade environment in Tanzania is relatively favourable and the general business environment is improving. The main factors underlying positive prospects for further improvement of trade and business environment in Tanzania include the huge public transport infrastructure investments (railways, roads, ports, border posts and air transport) plus power projects; the policies and laws that are favourable to facilitating regional integration and adoption and implementation of the Blueprint for business environment strengthening to reduce over regulation and bureaucracy in services delivery.

However, some thorny issues that compromise the prospects for better trade environment in Tanzania include challenges related to issuance of work permits, onerous compliance with myriad of regulatory bodies and complex taxation. Other constraints include policy issues affecting trade and investment in the country. These include land policy that makes it difficult for investors to access land, export taxes which are primarily used to discourage exports of such commodities as fish, leather, cashews etc., delays in the certification of certain product quality criteria and standards in Tanzania. Nonetheless, Tanzania has also made great progress in issues of local content policy, PPP policy, financial inclusion owing to major revolution in mobile money and the One Stop Boarder Post (OSBP) initiatives.

Despite the challenges, most of the Organisations interviewed consider the overall extent of trade between the EU and Tanzania as moderate. Currently Tanzania export

goods of over Euro 800 million values per annum and import goods of over Euro 500 million values per annum. In addition, EU is the main market for fishery products especially the Nile Perch fillets from Lake Victoria (contributing over 80% of fish and fishery products earnings in Tanzania). In this respect the issue is whether there are specific challenges affecting trade flows between Tanzania and EU. According to the Ministry for Foreign Affairs Tanzania and the EU hold regular dialogue on various issues of mutual interest for the aim of promoting favourable bilateral relationship and enhancing mutual understanding whenever any challenge arises. However, some insights from the consultations identified a number of other challenges affecting Tanzania and EU trade as explained by other governmental MDAs (most of these challenges are similar to those mentioned by the selected value chains).

These challenges include, first, the high quality and standards requirements in the EU markets that majority of our producers cannot attain. This is attributed by low level of technology and lack of required skills to produce products that can meet such standards. Given the agriculturally based economy, Tanzania is posed to face challenge of accessing EU market due to restriction imposed by EU through its Sanitary and Phytosanitary (SPS) law/requirements. Associated with the challenge of too high standards is the low level of production capacity that limit the ability of Tanzanian producers to supply the volume that would meet the demand of EU market, primarily caused by structural impediments such as inadequate access to affordable finance, hence inability to access appropriate technology and skills. Secondly, the high cost of flights and transport costs adds to competitive disadvantage of Tanzanian producers, coupled with weak logistics services – thus limiting trade volume between Tanzania and EU.

Another main challenge identified by the consulted organisations is weak negotiations capacity especially in the trade arrangement and supply contracts that compromises the potential benefit for Tanzania from the international trade. Finally, the global pandemic (COVID-19) has caused serious limitations to trade, due to travel ban and restrictions that has drastically lowered trade volume across the world.

Finally, given the importance of the regional trade, it is important to also highlight key challenges affecting trade at the regional (EAC) levels. The trade relation between Tanzania and other EAC member states also has its challenges. These challenges include relatively low level of institutional development at the regional level for facilitating businesses to access regional and international markets. The trade policies are promoted at the macro level with little if any initiatives on the ground to favour local business community in terms of exports and imports capacity enhancement or provision of trade incentives to local businesses.

In addition to institutional weaknesses, most responses highlighted existence of contradicting laws and regulations among EAC member states is a main source of non-tariff barriers to trade at the region level. This includes lack of harmonized quality standards through the national quality control institutions (i.e., KBS, TBS, UBS, RBS etc.). Indeed, other types of NTBs include abrupt policies or regulations that deter market access, including but not limited to export bans. Finally, lack of or underdevelopment of regional supply/value chain across member states limit the potential of the region to harnessing its trade potential including for increasing capacity to supply to the EU markets. Most producers and manufacturers across the EAC operate independently with less ability to harness synergies and business linkages for the betterment of the block.

5.3.2 Pending Issues on the EU-EAC EPA

Apparently, the EU-EAC EPA negotiations have dragged mainly on account of Tanzania's reservations on the agreement. Consultations with the Government Ministry of Foreign Affairs pointed at several pending issues for a successful conclusion of the agreement. These issues are listed as Annex B and briefly alluded below. First according to the Ministry Officials, Tanzania is concerned about the fact that EPA will have more economic cost than benefit to Tanzania. In particular, the Ministry is concerned that EPA will limit the trade policy space at the regional level, hence harm regional integration efforts. That is, the tariffs for the 648 out of 983 (66%) products produced locally in Tanzania will be brought down to zero under the EPA, thus jeopardizing the whole purpose of EAC Custom Union. In addition, Tanzania considers the Stand Still Clause (Art.12) as too limiting (i.e., no new customs duties shall be introduced, or existing duties increased "for all products subject to liberalisation").

Another concern for Tanzania is that the Agreement does not provide for effective mechanism for promoting industrial development in EAC and recommends the need for the Agreement to provide for adequate protection of infant and strategic industries should be provided. Other concerns include (i) article 140 on denunciation (need to protect the constitutional sovereignty of individual EAC Partner States in case it decides to leave EPA); (ii) development agenda ensuring sufficient commitment of resources to support EAC countries; (iii) Article 3 on Rendez-Vous (RDV) that compels EAC Partner States to start negotiations on issues which they have neither concluded negotiations on the regional or WTO level; (iv) Export subsidies and domestic support where Tanzania is of the view that the EU should make commitment to remove all forms of domestic and export support to their farmers that distorts market access for Tanzanian producers; and finally (v) the MFN treatment erodes the EAC's policy space and negotiating leverage with third parties.

Despite the concerns raising important issues for negotiations, it is not yet clear what the EU responses has been in terms of admitting such issues in the agreement or in

the negotiation process. Furthermore, the Government Ministries consulted reiterated that Tanzania is not against the EPA but is clear about the need for the Agreement to reflect these concerns in one way or another. Based on such conclusion, the study provides more knowledge and advice on potential impact of EPA, a subject that was also discussed with the Government Ministries and other Private sector and civil society organisations.

Generally, while the position and concerns of Tanzania in the EPA are clear, assessment of the process for negotiation has not been done to ascertain how efficient it has been. For instance, the interview with the private sector organizations and few CSOs indicated their involvement in EPA negotiations have been relatively low, and often with no preparedness. The organizations interviewed include the Confederation of Tanzania Industries (CTI), the Tanzania Chamber of Commerce, Industry and Agriculture (TCCIA), the Tanzania National Business Council (TNBC) and the Tanzania Women Chamber of Commerce (TWCC). It is on this basis they recommend that, going forward, the Government should widen and strengthen their engagement at national and regional levels instead of the current practice where the Government claims monopoly of ideas and plans on the agenda.

Finally, the study sought the views of the EAC regional organisations regarding the support being provided to enhance progress in concluding EPA negotiations, and what are the challenges faced. The study interviewed officials in the EAC Secretariat and the EABC. The officials noted that, the EU is supporting the Secretariat in critical areas of regional integration, including on customs cooperation, Trade, Agriculture, among others. In return, the EAC secretariat is also providing support to partner states by undertaking national consultations to comply with the summit directive. However, through the EABC, the private sector has been involved in the EU-EAC EPA negotiations and securing interests of businesses in the sectors. In providing such support, the EAC secretariat noted timely domestication of regional policies, low level of institutional and human capacities and stakeholder awareness as key challenges related to the implementation of EPAs. Other challenges include the delayed ratifications of EPAs in some of the partner states.

In addition to the support by the EAC secretariat, the EABC has also contributed to supporting Partner States by interpreting the EPA policies in Swahili to facilitate the common understanding among all members. Furthermore, the EABC and other regional umbrella organizations have conducted studies to identify high value agricultural sub-sectors for which the region has comparative advantage and capitalize on investments that can facilitate the shift to competitive advantage to maximize trade with the EU. Nonetheless, given the varying degree of ratification of EPAs, the EAC summit of heads of state has directed the Secretariat and Partner States to commence

engagements with the EU on the implementation the EU-EAC EPA under the principle of variable geometry.

Finally, the interview with officials inquired whether the EPA would accelerate or deter the pace of industrialization that is been pursued by almost all the EAC Partner States. The response show that, support to industrialization will only be effective if the development support pledged in EPA is available in a timely manner and in adequate for enhancing capacity building and in addressing supply side constraints. The officials in the two regional organizations appear more pragmatic regarding the infant industry argument. They noted that the trade remedies component of the EPA Agreement is sufficient in addressing the concern on infant industry protection and the shielding of vulnerable industries against import surges and unfair competition. The officials therefore recommended the urgency and need for the EAC to operationalize its trade remedies regime.

5.3.3 Impact of the EAC-EU EPA

Awareness of the EAC-EU EPA

The potential impact of the EU-EAC EPA on the economy of Tanzania are grouped into general impact on the economy and specific impact on groups (e.g., SMEs, women and youth) or products/sectors of interest to Tanzania and EU trade. Notably, unlike the Actors in the selected value chains, the Consultations with the Government and private institutions indicate they are aware of the EU-EAC EPA, except for some CSOs whose understanding of the subject matter appears low. Apparently, the responses confirm that the level of awareness is an increasing function of the extent to which the institution or group is involved on trade policy issues generally and/or more specifically on the EPA and regional integration issues. Unfortunately, the private sector involvement was very minimal in the negotiations of the EU-EAC EPA.

> *"Unfortunately, we didn't receive any responses from the Private sectors and CSOs on the consultations for EPA negotiations regardless of our close follow ups,"* a Ministry official noted.

Potential Benefits and Costs

Overall, the suggested potential benefits and costs from the EU-EAC EPA on the economy of Tanzania are broadly the same as those mentioned in the interviews with value chain actors. In particular, the MDAs emphasized the huge market for agricultural goods for Tanzania as one of the main benefits, including for vegetables, flowers, fruits, and fish. One Official specifically mentioned the London Metal Exchange (LME) market as a good market opportunity for such minerals like gold, silver, copper, iron, etc. Women and SMEs would also benefit from cultural ornaments and spices products. Furthermore, the trading with EU will facilitate access to reliable sources of imports,

some of which are needed as core raw materials or machinery for further production of goods for export and local markets.

In addition to the positive impacts, the Institutions were equally concerned of the potential negative impact of EPAs. These include surge of manufactured imports from the EU that will increase trade deficit, and which may compromise development of local industries. Another impact is the usual argument on the loss of Government tax revenues. The compensation mechanisms for Revenue loss stipulated in the EPA Agreement does not guarantee EAC Partner States to be adequately compensated for the loss that may come due to the implementation of the EPA and the proposed mechanism as per the Agreement is subject to stringent conditions and procedures that do not guarantee for revenue loss compensations.

The infant industry argument is reinforced by Tanzania's concern that the Agreement does not have concrete article that provides for adequate protection of infant and strategic industries. The exclusion list contains mainly farm products and other necessities which are not sophisticated products. A possibility of swapping products in and out of the exclusion list would have been appropriate for a policy space to cater for emerging products that were not envisaged during negotiations and industrial development in East Africa. As a result, the responses indicate potential losses of jobs owing to limited manufacturing activities. Much more broadly, the Government Officials noted the fact that EPA may limit further the trade policy space that would compromise ability of Tanzania to leverage other trade opportunities from other blocks/trade partners or policy flexibility to respond to unexpected circumstances.

Potential Impacts on SMEs

Three categories of impacts were interrogated in the interviews. First, consistent with the survey of the value chains, the study asked whether the officials anticipate specific impacts on SMEs. Clearly, there was no substantial impact suggested except for the general view that, the EPA will expand market opportunities for agricultural and other products that may benefit SMEs. Secondly, the interview asked the respondents on their view regarding impact on investment, particularly the Foreign Direct Investment (FDI) sector. Most officials noted that the FDI will be adversely affected because non-EU member states will find it difficult to come and invest in Tanzania due to the rules of the EAC-EU EPA treaty, given the fact that, Tanzania's foreign policy is neutral on such agreements.

Thirdly, the interview asked whether there are potential impacts on specific sectors or products. Almost all the interviewed officials noted that the EU-EAC EPA will have potential positive impact on agricultural products, and minerals. A few mentioned manufacturing products. Accordingly, the Agriculture sector is considered the main beneficiary of the expanded EU market due to EPA – thereby leading to positive impact

on job creation, growth, and value addition. Horticulture crops like fresh vegetables, natural flowers, semi-processed cooking oil, fruits (mainly Avocados), and fisheries products are likely to fetch bigger markets in EU.

Other products with high prospects for bigger market access in EU include livestock products (meat, leather, and leather products) and minerals. Furthermore, some officials noted that the EPA may lead to inflow of greenfield investment from EU to take advantage of the EAC market and cheap labour in Tanzania. Thus, some manufacturing products (especially agro-processed goods) will also be traded to the EU due to improvement of manufacturing and packaging technology basically due to adoption of technology from the EU, and access to raw materials available in Tanzania. This way, SMEs will have an extensive opportunity to increase production volume and export semi-processed products.

Note that, the above suggested beneficiary sectors/products are over and above the current traditional and non-traditional exports to the EU market are mainly minerals and traditional crops such as coffee, cotton, cashew nuts, fish fillets and horticulture products (flowers, avocado and vegetables).

Impact on Environment, Gender, Human rights, and Social Welfare

In addition to the economic, trade and sector specific issues, the consultations with the Organisations aimed at identifying impact of the EU-EAC EPA on non-economic issues including diplomatic relations, social, gender and environmental impacts. Such impacts are important as they influence the sustainability of the economic impacts. The responses are generally in line with common understanding of the impact of a trade agreement. To start with, almost all officials interviewed agreed to the hypothesis that the EU-EAC EPA will strengthen the diplomatic relations between Tanzania Notably, the improvement in diplomatic relationships is both the determinant and result of the economic relationship (i.e., the provision for preferential market access on a reciprocity basis) between the two trading Partners. As envisaged in the Agreement, the EPAs will bring about such other benefits as foreign aid and technical and cultural cooperation to an ACP country (i.e., Tanzania).

The key environmental issues identified as the impact of the Agreement are quite general. Most responses indicate that is, the Agreement impact on environment is likely to occur through the increased production and trade activities by (among other actors) the SMEs and manufacturing industries. Thus, the Officials suggested this to be a positive challenge that will enable the government in collaboration with environmental management council (NEMC) to protect the environment through such measures as reduction of pollution, deforestation, land degradation and climatic control policies. This implies that the agreement should focus on ensuring the sustainability of natural resources for enhancing sustainable development.

In the case of gender issues, responses indicate that the EU-EAC EPA will have a positive impact on gender. This may be a case as the EU-EAC EPA may result to increased participation of women (or women led enterprises) and youth in international trade. Specifically, the EU-EAC EPA is anticipated to mainstream gender issues and enhance gender policy reforms. That is, the agreement is likely to catalyse measures aimed strengthening and empowering women entrepreneurship, capacity building for SMEs and increased promotion of cross border trade. Furthermore, other officials suggested that the EU-EAC EPA will provide platform to expose all gender discriminatory laws and policies.

The EU-EAC EPA will accelerate provision of vital economic opportunities for youth; women and SMEs involved in the trade intensive value chains. Nonetheless, these groups are likely to suffer to the extent the Agreement leads to adverse/negative impacts especially in the labour and trade intensive value chains.

According to most officials interviewed, the impacts of the EU-EAC EPA on human rights depends much about the way Tanzania responds to the opportunities presented by the agreement rather than the agreement itself. In that perspective, the impact could be positive or negative. One official commented that:

> *"…the opening of EAC market to imports from the EU, if not based on the principles of social justice, could affect Tanzania's industrialization initiatives, considering the different levels of development amongst EAC member States,"* interviewed official.

That is, the responses indicate the opening up of markets to import various products from a competitive partner such as EU will deny ACP countries such as Tanzania the right to industrialize.

5.4 Assessment of the Specific Impact on SMEs

5.4.1 Overview

As noted earlier, assessment of stakeholder perspectives on EU-EAC EPA included a survey of enterprises and actors in six value chains including producers at different levels (e.g., farmers), traders, processors (including SMEs) and service providers. However, given their significant role in promoting inclusive growth and sustainable development, the survey paid particular attention on the potential impact of the EPA on SMEs along the value chains. The literature indicates that, although a number of studies exist that empirically analyse the trade impact of FTAs on enterprises, only a handful few have explored the impact of EPAs or FTAs specifically on SMEs. The general finding in the literature is that SMEs awareness and use of FTAs is very low. This is because information about FTAs does not reach them and when it does it is difficult for SMEs to understand them. Furthermore, SMEs participation in international trade is relatively low, thus failing to grab opportunities presented by an FTA. Nonetheless,

to address this knowledge gaps from existing empirical studies, we provided a specific analysis of the potential impacts of EU-EAC EPA on SMEs in Tanzania in two ways. First, we surveyed literature to find out specific provisions on SMEs in the EU-EAC EPA more specifically, or other FTAs involving EU.

Secondly, we conducted an empirical analysis of the impact of free trade areas (FTAs) or regional trade agreements (RTAs) on SMEs in using the Annual Survey of Industrial Production (ASIP) data on Tanzania covering 2008-2016. The analysis examined two key questions. First is to what extent do the Tanzanian SMEs utilize preferences in the FTAs or RTAs. And secondly, what is the role of preferences in the FTAs or RTAs in driving growth performance of SMEs. Notably, the ASIP data collects information on whether a firm has access to preferential/emerging markets particularly AGOA, EBA, BRICS and others.

5.4.2 Challenges on Participation of SMEs in International Trade

Using the ASIP data, we firstly present the results of descriptive analysis. The percentage share of SMEs participating in importing ranged between 4.9% and 14.2% of all SMEs while that of exporting SMEs ranged between 3% and 7.6% depending on the particular year. This is consistent with the SMEs development literature that points out that there is very little SMEs participation in international trade in Tanzania (Aikaeli, 2012, Oyen and Gedi, 2013, Lwesya, 2021). Some of the constrains limiting SMEs participation in international trade include international marketing related constraints and global competition such as lack of market information, low standard of products produced by the SMEs and high competition; supply side constraints including, poor physical infrastructures, unreliable utility and poor technology and innovation; unfriendly investment climate; and financial related constrains (ESRF, 2021, Lwesya, 2021). Furthermore, the data shows that, the most used channel for international trade among exporting SMEs[16] is direct exportation (194 SMEs), followed by other intermediary (52 SMEs), mother enterprise (41 SMEs) and finally other (9 SMEs). There were 151 SMEs that exported their goods but did not respond to the question on the channels through which they exported their goods.

In addition, the ASIP data also provides information on the challenges faced by SMEs in Tanzania. We assessed whether there is any statistically significant difference between the challenges faced by SMEs that participated in international trade compared to those that did not. To do this, we use two-sample test of proportions to find out whether SMEs that agree to a particular challenge differ across the two groups. The results show that the challenges that applied significantly more to SMEs that participate in international trade (that is were identified by a significantly higher proportion of SMEs that participated in trade than those that did not) include,

[16] We show results for exporting SMEs only because ASIP data does not provide information on importing channels used by firms.

complicated administrative procedures, shortage of qualified labour, foreign currency fluctuations, taxes, unfair competition, and uncompetitive economic environment.

Table 5.2: Two sample test for difference in Proportions across different Challenges

Variable	International=0	International=1	z value
High cost of production	74%	76%	-1.1
Inadequate technology	41%	24%	8.8**
Inadequate physical infrastructure	38%	36%	0.9
Complex procedures	15%	24%	-5.9**
Shortage of qualified labour	22%	27%	-2.8**
Foreign currency fluctuations	17%	56%	-23.5**
Insufficient production capacity	24%	17%	3.8**
Shortage of raw materials	41%	38%	1.4
Taxes	25%	30%	-3.1**
Impositions	8%	12%	-2.9**
Insufficient demand	29%	29%	-0.2
Unfair competition	30%	39%	-4.8**
Weak private sector support	19%	22%	-1.69
Environmental challenges	29%	18%	6.1**
HIV/AIDS	6.50%	5.30%	1.3
Uncompetitive environment	21%	29%	-4.7**
Inadequate financial services	33%	21%	6.3**
Availability of Industrial areas	16%	14%	1.3
Other	16%	14%	1.4

Note that if $|z|>1.96$, then there is a significant difference across the two groups at 5% level.
Source: Author's compilation based on ASIP data (2008-2016)

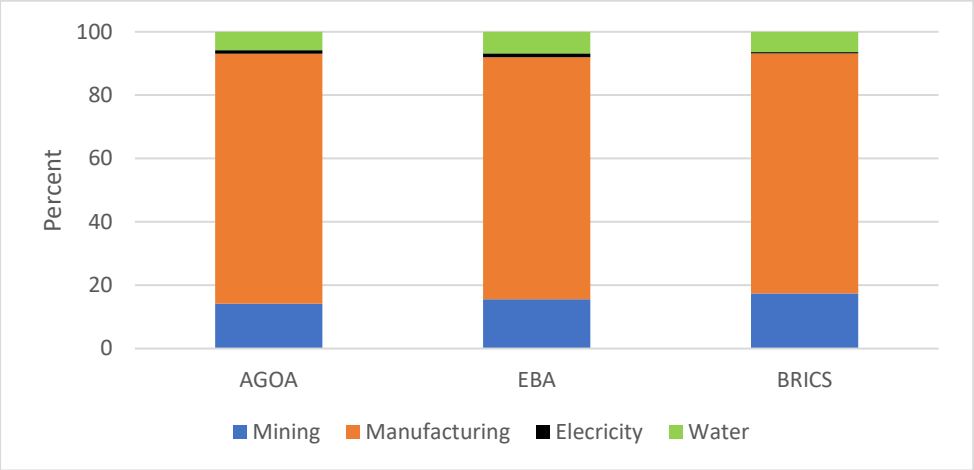
The challenges with significant difference across the two samples that apply more to the SMEs that do not participate in international trade include inadequate technology, insufficient production capacity, inadequate financial services, and environmental challenges. It is usually expected that SMEs that participate in international trade have high production capacity and have more opportunities to learn from their foreign partners and thus inadequate technology and production capacity will more likely apply less to them. In addition, SMEs that participate in international trade are more capable of accessing financial services and finding a good location to operate their business, therefore inadequate financial services and environmental challenges would apply less to them.

The ASIP data (2008-2016) provides information on awareness, importance, and application of RTAs by firms in Tanzania albeit only for 2015 and 2016[17]. Based on 2015

[17] This information was initially collected in 2015 and therefore is available for only two years.

and 2016 totals, 62.3% of SMEs were aware of RTAs such as COMESA, EAC and SADC. Out of those SMEs that were aware of RTAs, about a third (29.7%) noted that RTAs are not important; while 43.3% said that RTAs are important; and 27% revealed that RTAs very important. In terms of access, 1,957 SMEs (45.6% of all SMEs) had access to RTA while the remaining 2,333 SMEs (54.4%) did not. The proportion for large firms with access to RTAs was higher (72.8%) while those without access constituted 27.2%. Out of 1,957 SMEs that had access to RTAs, 49% used AGOA, 37.4% used BRICS, 35.8% used EBA and 44% used other agreements[18]. The largest number of SMEs with access to RTAs is in manufacturing (1,593 SMEs) followed by mining (260 SMEs), water (91 SMEs) and finally electricity (13 SMEs). Figure 3 shows the SMEs distribution across different RTAs by sector.

Figure 5.10: Distribution of SMEs across different RTAs by sector



Source: *Author analysis using ASIP data (2008-2016)*

Exporting SMEs also highlighted some of the bottlenecks that limit their expansion in regional, preferential/emerging, and international markets. We ranked those challenges based on the number of responses to each challenge as seen in Table 4. Indeed, it can be observed that inadequate supply capacity (across all markets), inability to meet quality standards, stringent SPS measures, and customs administrative processes were the most constraining challenges to SMEs in expanding to regional and international markets.

[18] Note that the percentage add up to more than 100 because some SMEs used more than one RTA.

Table 5.3: Challenges limiting SMEs Expansion to Global Markets

Regional Markets	Preferential Markets	International markets
Inadequate supply capacity	Inadequate supply capacity	Inadequate supply capacity
Customs and administrative entry processes	Stringent Sanitary and Phytosanitary	Customs and administrative entry processes
Stringent Sanitary and Phytosanitary	Inability to meet quality standards	Inability to meet quality standards
Inability to meet quality standards	Customs and administrative entry processes	Stringent Sanitary and Phytosanitary
Limited promotion	Low compliance to the market standards	Low compliance to the market standards
Tariffs	Inadequate capacity to exploit preferen	Tariffs
Other	Other	Inadequate capacity to exploit preferen
Low compliance to the market standards	Inability to meet delivery time	Other
Inadequate capacity to exploit preferen	Limited promotion	Inability to meet delivery time
Inability to meet delivery time	Tariffs	Limited promotion
Inadequate trade negotiation skills and	Inadequate trade negotiation skills and	Inadequate trade negotiation skills and

Source: Author analysis using ASIP data (2008-2016)

5.4.3 The Role of EPA on SMEs Performance

Subsequent to the descriptive analysis, we conducted an empirical analysis using a basic econometric methodology. Based on the ASIP survey data, we generated a dummy variable called *rta* which takes a value of 1 if a firm has access to any of the four preferential/emerging markets and 0 if the firm has no access to any of the four preferential/emerging markets. In this case, *rta* variable provides data on whether a firm trades using FTAs or not. The aim is to show whether or not access to FTA/RTA matter in determining the performance of SMEs. Following a general practice in the SME performance literature, we estimated the following equation (1):

$$Ln\, Y_{it} = \gamma + \sum_{i=1}^{n} \alpha rta_{it} + \sum_{i=1}^{n} \beta N_{it} + \varepsilon_{it} \quad \text{..... (1)}$$

Where Y_{it} is the indicator for SME performance (sales or employment); rta_{it} is a dummy variable for utilization of preferential/emerging market agreements (utilization); N_{it} is a vector of other determining factors of SMEs performance including association membership (association), providing training (train), foreign ownership (foreignown), operating below 80% capacity (capacity2), operating in SEZ (sez), private ownership (private), log of experience (lexper) and lk (log of capital); γ is the constant term; and ε_{it} is the random error term[19]. We estimate Equation 1 using Random Effects (RE) and Fixed Effects (FE) techniques by fiting Equation 2

$$y_{it} = \alpha + x_{it}\beta + v_i + \epsilon_{it} \quad \text{..... (2)}$$

Where y_{it} and x_{it} are the dependent and independent variables respectively
α and β are parameters and $v_i + \epsilon_{it}$ is the error term.

Note that v_i is the individual specific error term that differs between individuals while ϵ_{it} is the usual idiosyncratic error. If Equation 2 is true, then Equation 3 is also true. Subtracting Equation 3 from Equation 2, we obtain Equation 4. The use of OLS to

[19] The variables utilization, association, train, foreign own and private are dummies with values 0-no and 1-yes

estimate Equation 4 refers to *FE estimation* while the use of Equation 3 leads to what is known as *between estimation*. A combination of between and within estimation leads to *RE estimator* (Eq 5).

$\bar{y}_i = \alpha + \bar{x}_i\beta + v_i + \bar{\epsilon}_i$..... (3)
$(y_{it} - \bar{y}_i) = (x_{it} - \bar{x}_i)\beta + (\epsilon_{it} - \bar{\epsilon}_i)$..... (4)
$(y_{it} - \delta\bar{y}_i) = (1 - \delta)\alpha + (x_{it} - \delta\bar{x}_i)\beta + \{(1 - \delta)v_i + (\epsilon_{it} - \bar{\epsilon}_i)\}$..... (5)

The results of the panel regression on the determinants of SMEs performance are reported in Table 5. Note that SME performance is measured using employment and sales turnover indicators. These include Pooled OLS in columns 1 and 2, Random Effects (RE) results in columns 3 and 5; and Fixed Effects (FE) results in columns 4 and 6. The RE results (Table 6) show that use of FTAs/RTAs is associated with 5.9% increase in SMEs sales and 5.6% increase in number of SMEs employees. However, use of FE model eliminates significance of the RTA variable. Most of the explanatory dummy variables showed very little within variation during the two years of analysis in the panel since the firms with the particular characteristics are the same for the period, hence no change making FE estimation problematic. According to RE results, other variables that significantly influence SMEs growth performance include membership association, training and capacity utilization.

Table 12.4: Determinants of SME Performance

Variable	1 Pooled	2 Pooled	3 RE	4 FE	5 RE	6 FE
	lsales	lemp_all	lsales	lsales	lemp_all	lemp_all
rta	0.247**	0.105***	0.0589*	-0.310	0.0560**	0.0196
	(0.0901)	(0.0281)	(0.031)	(0.185)	(0.0189)	(0.0201)
association	0.629***	0.199***	0.598***	0.0577	0.172***	0.0285
	(0.0876)	(0.0296)	(0.105)	(0.267)	(0.0299)	(0.0309)
train	0.252**	0.144***	0.245**	0.0657	0.109***	0.0263
	(0.0886)	(0.0286)	(0.0922)	(0.170)	(0.0320)	(0.0515)
lK	0.421***	0.0812***	0.358***	0.0444	0.0502***	0.00415
	(0.0192)	(0.00583)	(0.0220)	(0.0331)	(0.00598)	(0.00910)
capacity2	-0.426***	-0.0704**	-0.362***	-0.0652	-0.0772**	-0.0592
	(0.0721)	(0.0246)	(0.0829)	(0.161)	(0.0242)	(0.0318)
sez	-0.0359	-0.128***	0.00512	-0.283	-0.0626	-0.0240
	(0.0970)	(0.0322)	(0.0997)	(0.178)	(0.0336)	(0.0369)
private	-0.458*	-0.184**	-0.312	-0.225	-0.0717	0.00411
	(0.205)	(0.0687)	(0.204)	(0.365)	(0.0593)	(0.0560)
foreignown	0.367***	0.327***	0.249***	0.711	0.336***	0.00195
	(0.179)	(0.0574)	(0.192)	(0.533)	(0.0670)	(0.0305)
lexper	0.0690*	0.0352**	0.103**	0.113	0.0252*	-0.0198
	(0.0324)	(0.0112)	(0.0352)	(0.0887)	(0.0126)	(0.0242)
2016.year	0.0168	-0.0260	0.0169	0.0188	-0.00358	0.00891
	(0.0663)	(0.0221)	(0.0463)	(0.0490)	(0.0104)	(0.0111)

Manufact	0.0612	-0.239***	-0.119		-0.224***	
	(0.155)	(0.0416)	(0.181)		(0.0619)	
Electricity	1.612*	0.204	1.664	Omitted	0.350	Omitted
	(0.668)	(0.545)	(0.852)		(0.575)	
Water	-0.238	-0.286**	-0.159		-0.128	
	(0.310)	(0.0867)	(0.347)		(0.105)	
_cons	1.374***	2.317***	1.875***	1.99***	2.511***	3.011***
	(0.363)	(0.113)	(0.408)	(0.516)	(0.125)	(0.113)
N	1763	1789	1763	1763	1789	1789
adj. R-sq	0.543	0.410	0.55	0.025	0.406	0.011
Standard errors in parentheses. * p<0.1; ** p<0.05; *** p<0.001						

Source: Author analysis using ASIP data (2008-2016).

5.5 Summary and Conclusion

This chapter has shown that, the main actors in the selected value chains were not aware of the EPA between the EU and the EAC, unlike the case of the interviewed organisations (MDAs and private sector umbrella organisation). Furthermore, the chapter identified several challenges limiting the ability of enterprises across the selected value chains to realize the potential benefits from international trade through the increased market access impact of the EU-EAC EPA. The challenges include lack of knowledge on markets, limited access to finance, inability to adopt the GAPs (e.g., pests and diseases controls, use of improved inputs), failure to adopt or meet recommended quality standards, policy uncertainty and varying application of regulations across different countries in the region.

Positive Impact of the EPA

The main potential positive impacts of EPA include expansion in market opportunities, access to production inputs of higher quality including raw materials, machinery and technology, and higher earnings from more competitive prices for agricultural commodities. In addition, the agreement is perceived as one of the most effective ways to enforce adoption and compliance to appropriate quality standards in production, thereby earning Tanzania a higher level of competitiveness.

Negative Impact of the EPA

The main potential negative impact includes collapse of local industries with its attendant economic consequences as a result of intense competition from higher quality imported EU products at lower price, unfavourable terms of trade due to widening trade deficit, and possible diversion of FDIs from a non-EU member states owing to the rules of the EAC-EU EPA treaty. In addition, some of the identified impacts may be considered as an opportunity for Tanzania to improve certain areas as a result of being subjected to the pressure to comply and abide by Agreement conditions. These include possible improvement on environmental management practices,

mainstreaming of gender, human rights and social justice and adoption/compliance to higher quality standards. Implementation of EPA may also create a more favourable environment for foreign investment.

Policy Issues

Finally, interview with Officials in different institutions raised a number of policy issues that need to be taken into account in the assessment of the positive or negative impact of EPAs. First is the need to ensure policy space for Tanzania to pursue her development agenda with or without the EPA. A number of issues were raised by the Officials pointing on the potential impact of shrinking trade and industrial policy space following the adoption of the Agreement. Cutting across those issues is the need for policy measures to minimize/address the potential negative impact of the agreement while maximizing its positive impacts (benefits) on the economy. Nonetheless, it was unclear from the interviews on whether or to what extent the Policy Actors are concerned about the Agreement's potential impact on the environmental, gender, human rights, or social justice. Another aspect is the concern that, EPA would inadvertently compromise achieved progress on EAC regional integration.

The second key issue from the interviews with public and private institutions is addressing identified "gaps" in the agreement so as to ensure comprehensiveness and consistency. Some of the gaps are presented in Annex B. It appears from the interviews that, addressing such gaps is one of the necessary conditions for Tanzania to ink the agreement, hoping they will be picked up in the current or future negotiations. In general, concerns by Tanzania include recommendation to ensure the provisions in the agreement are consistent with WTO (e.g., the application of the MFN principle). Finally, Tanzanian officials are also pushing for assured or/and augmented benefits from the EPA, some of which are already mutually reflected in the agreement. Most important of this is the development agenda ensuring sufficient commitment of resources to support EAC countries. According to the Officials, the language used in Article 102 on Development Cooperation is non-committal and does not guarantee EAC Partner States access to additional resources to finance the Region's development agenda or address EPA's adjustments costs, including revenue losses. In addition, Tanzania suggest EU to remove to all subsidies in addition to those in agriculture, which are considered to equally distort markets.

Impact on SMEs

Assessment of the impact of international/regional trade agreements on SMEs show that, while applicable provisions on SMEs in the FTAs/RTAs benefit SMEs as well as larger companies and multinationals, awareness on RTAs/FTAs are higher among large firms compared to SMEs. As a result, participation in international trade is much less for SMEs. Nonetheless, SMEs access to RTAs is significantly associated with higher

SMEs performance. The results imply the need for the Government and other Development Partners to increase awareness on EU-EAC EPA for the private sector including the SMEs. This should go hand in hand with efforts to improve the business environment, and measures to increase production capacity to enable SMEs participation in international trade.

Way Forward

In conclusion, while addressing the concerns and policy issues raised by various Officials as gaps in the agreement appears to be necessary matters for concluding the negotiations, it is not sufficient to ensure the EU-EAC EPA will bring forth the anticipated benefits to Tanzania. The efforts to advocate for a comprehensive, fair and consistent agreement should be matched or even preceded with solid measures and Government commitment to address the identified supply side constraints limiting active participation of different enterprises in international trade. Finally, whether the Government or EAC at large adopts the EPA or not, it is critical to prioritize/mainstream the contemporary sustainable development practices advocated by the EPA given its implications on future inflows of FDI or trade competitiveness. These include promotion of good governance, gender equality, environmental protection, human rights, and social justice.

6.0 Summary, Conclusions and Policy Implications

Summary of key findings

The study has analysed the impact of the EU-EAC EPA on Tanzania by using both quantitative as well as qualitative analyses, including insights from sampled stakeholders. The objective is to provide assessment of the costs and benefits to East African Community (EAC) partner states of implementing the Economic Partnership Agreement (EPA) with the European Union (EU) to inform policy direction for Tanzania. The assessment reviewed the trend and performance of trade between Tanzania and EU, examined the import, tax revenue and welfare effects of the trade liberalisation under the EPAs, and the overall macroeconomic implications. The study's findings are organised into three main sets.

First, the situational analysis reported trends in Trade and Investment flows to Tanzania, specifically looking at the trends in merchandise trade between Tanzania and EU over the 2009-2020 period. The findings showed that:

- Tanzania's bilateral trade with EU is an important trade partner for Tanzania, accounting for third largest source of imports (11.9%) after China and India; and roughly similarly a third largest destination of Tanzanian exports (12.7%)
- The Brexit impact on Tanzania –EU trade volume is minimal but may have much bigger effect at the EAC level since UK accounts for 17% of EAC (mostly Kenyan) exports.
- Trends in EU FDI into Tanzania has declined since 2015 but remain significant overall (€ 112 million Euros in 2018) mainly sourced from the Netherlands and the UK into Mining, Financial Services, Energy, Agriculture, and ICT.
- Tanzania needs to focus more on how EPA can be used to support economic transformation by producing high value-added exports to take advantage of the EU market rather than the current exports of raw materials and semi processed goods.

The second set of results reported the economic impact of EPA on Tanzania based on the quantitative analyses. They include the economy-wide impacts of EPA on selected macroeconomic variables such as GDP, Investment, and welfare, as well as impacts on the specific trade and related aspects such as imports, exports, tariffs revenue and implications on various sectors. In particular, the estimates showed that:

- Imports effects under the EPA liberalisation, import effects are minimal owing to the small share of imports sourced from EU.
- Tax revenue loss is significant (18% of the baseline value) coupled with decrease in welfare losses suggesting the need for compensatory mechanism including adjustment facility under EU-EAC EPA, or introduction of new taxes (consumption tax) or general expansion of tax bases.

- EPA will lead to increased exports to the EU, where some sectors are likely to gain significantly (e.g., mining products, manufactures and leather) and other lose from the EPA (food processing and textiles). While the estimates show potential for Tanzania to increase exports, the key issue is export capacity, especially for Farmers and SMEs
- The overall macroeconomic impacts are less favourable given fall in GDP, consumption, and welfare, despite general fall in price levels and significant increase in Investment.
- The results imply the need for leveraging resources from EDF/EPA to build capacity in the sectors with significant potential for export to the EU and overarching reforms to improve needed skills.

Finally, the third set of results reported results of stakeholder consultation on the implications and impact of EPA including some selected value chains and institutional actors. The views showed that:

- Majority of SMEs in the private sector value chains are less aware of the EPA compared to the public sector Institutional Actors but were keen to identify its likely positive and negative impacts.
- The positive impact of EPA refers to expanded market opportunities and access to inputs/raw materials, while the negative impacts are fears of the adverse impact of competition from import surge that can have adverse impact on local industries.
- Some impacts are identified as specific for particular groups/sectors, implying the need for segmented policy interventions in implementing EPAs. Such intervention mainly revolves around customised need for building capacity of SMEs and export-ready sectors.
- Addressing cross cutting issues such as environment, gender and human rights are considered important compliance that although not a priority.

Conclusions

The report concludes that, overall, the EPA has potential to secure Tanzania's vision/entry to the middle-income status and support the FYDP-III if there is positive interpretation regarding (the nature of) its impact and that Government implements key interventions. This is important since all the EAC countries envision improved exports, and support to job creation by promoting industrialization. For instance, for EPA to minimise losses, there is a need to support farmers/SMEs to address supply side constraints through initiatives such as reduction in transport costs, trade facilitating infrastructure development, and on-farm support. EPA is well positioned to support such initiatives through trade-related assistance, which Tanzania can draw from in addition to the EDF.

Recommendations

The study findings imply the need for the Government to take several interventions, in collaboration with other development Partners around four areas, namely the need to:

- Harness the adjustments needed to counter the adverse impact of EPA or galvanise the positive impacts.
- Sensitize and build capacity of key sectors/enterprises on EU-EAC EPA along the value chains with promising potential to take advantage of the EU market.
- Address the concerns of policy actors regarding policy issues or gaps identified in the EPA; and
- Undertake key reforms to improve business environment and investment climate for attracting further investment.

Adjustment for affected industries could mean investing more to increase efficiency and competitiveness or relocating to other opportunities e.g., exporting to the new markets under the FTA, inter alia. In doing this, Tanzania can count on the EDF to provide adjustment support (e.g., for institutional reforms, tax, and customs reforms, improve the business environment, others) and more importantly export capacity development under the EDF. There are success stories from ACP states that have benefited from the EDF and realised significant improvements and benefits from the EU's trade-related assistance (T-RA). A good example includes Papua New Guinea (PNG) that implemented the EU-funded T-RA for trade and supply-side capacity development. EU-TRA in PNG has supported institutional reforms and, more importantly, funding for developing Standards Quality Metrology and Testing (SQMT) hard and soft infrastructure to significantly improve the capacity of PNG exporters to meet requirements under non-tariff measures (NTMs) in international markets.

Furthermore, there is a need to advocate for measures and Government commitment to address the identified supply side constraints especially along the value chains with potential to take advantage of EU market. Tanzania needs support to develop its NTM-compliance capacities, and with that be well positioned to go out and effectively expand its exportation in regional and global value chains. The EPA with assured T-RA is well-positioned to support Tanzania to have a firm and lasting foothold in export markets as it fulfils its ambition to rise to the middle-income country status and beyond. These T-RA and investment flows benefits are seldom factored in the quantitative analyses.

The EPA provides opportunity for Tanzania to comply with or mainstream the contemporary sustainable development practices advocated by the EPA given its implications on future inflows of FDI or trade competitiveness. These include promotion of good governance, gender equality, environmental protection, human rights and social justice. Finally, addressing the concerns and policy issues raised by

various Officials as gaps in the agreement may help garner Government commitment in finalizing the EPA negotiation and provide assurance on the subsequent steps in its implementation.

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Annexes

Annex A: Analytical Framework of the Partial Equilibrium Model (PEM)

A1.1 Introduction

World Trade Organisation (WTO) rules[20] require parties to trade agreements to reciprocate trade preferences such as duty-free treatment covering substantially all trade. This requirement led to a fundamental change in the trade relations between the European Union and African, Caribbean and Pacific (ACP) states. Hitherto ACP states enjoyed duty-free market access in the EU countries without reciprocating the same to imports originating from EU countries, effectively granting ACP states a competitive market access advantage over competitors (including countries at the same stage development as ACP states) in the EU domestic markets. A new trade relationship termed "Economic Partnership Agreement" (EPA) has been negotiated since 2002 between the EU and groups of ACP states in the Caribbean Forum (CARIFORUM), Central Africa, Eastern and Southern Africa (ESA), East African Community (EAC), South African Development Community (SADC), West Africa and Pacific. Only CARIFORUM have since signed a full and comprehensive EPA with the EPA; the rest involve interim EPAs or none. EPAs entail the creation of FTAs, amongst other things.

Granting duty-free entry to affected imports originating from the EU while maintaining tariffs on imports from the rest of the world reduces (increases) the relative prices of EU (non-EU) goods, other things being equal. Where the EU already exports to the ACP states, EPA will lead to an increase in imports from the EU by ACP states. Consumers will benefit from the lower prices of EU imports as they will be able to buy more. This trade effect is unambiguously welfare-raising for ACP states. However, the consumers' gains come in part at the expense of the tariff revenues due to duty-free entry. Let us assume, not too unrealistically, that the regional (in this case EAC) producers are less efficient than the EU and the rest of the world (ROW) producers may be more efficient than EU producers. Thus, any source-substitution of imports by an EAC Partner States away from regional producers towards the EU will be resource-saving (welfare-raising) if it displaces ACP imports (and home production) in that partner state, and resource-costing (hence, welfare-lowering) if it displaces imports that previously came from the ROW whose relative price has arisen because of the EPA. Displaced imports from EAC sources will not involve any tariff revenue loss for EAC Partner States as no tariff was imposed before EPA. For imports shifted away from ROW to EU sources, there is no

[20] Article XXIV of the General Agreement on Tariffs and Trade (GATT).

ambiguity about the tariff revenue effect. It is negative (tariff revenue loss) because tariffed imports from ROW are replaced by tariff-free imports from the EU.

EPAs will produce both static and dynamic effects within and between the countries involved. The first-best modelling framework for this purpose is the general equilibrium model. One of the popular general equilibrium models applied in such analyses is the GTAP, which is a multi-product and multi-country CGE model. Owing to lack of appropriate data, however, the majority of African countries are not captured (Karingi et al. 2005). This means that within a regional trade bloc, there could be some countries whose information is lumped together as "rest of the bloc". Milner et al. (2005) correctly point out that the database for CGEs lacks commodity detail to take account of the specific sensitive and special products of interest to both ACP countries and the EU in the context of EPAs. The level of detail (six-digit HS tariff line) that this part of the study deals with renders CGEs unsuitable.

The partial equilibrium modelling (PEM) framework is less data-intensive and can capture effects on import, tariff revenue, and welfare at the product level, among others. The major shortcoming of the PEM is that they cannot measure the dynamic effects or second-round effects, such as interactions between sectors. This is captured by the CGE modelling in the other sections of the study. A couple of PE models have been used in empirical trade analyses – for example, the SMART model applied in Karingi et al (2005) and the modelling in Milner et al (2005), Morrissey and Zgovu (2010), Zgovu and Kweka (2009) and Zgovu and Kweka (2019). The models have the same Vinerian theoretical intuition. This study follows latter models, and we provide generalisations for the measurement of the effects and apply it to Tanzania and EAC non-sensitive products (where only substantially all trade is liberalised) and also to the unlikely scenario of full tariff liberalisation of all tariffs.

A1.2 The Model

The model examines the EPA effects for the case of a small home country, *j,* that is a member of an initial two-country Preferential Trading Area (PTA). Markets are assumed to be perfectly competitive, and country *j*'s domestically produced import substitutes are treated as perfect alternatives to imports. There is also perfect substitutability between imports from alternative outside sources (in this case the EU and the rest of the world). In this PTA, the partner country supplies *j* at increasing cost conditions, while the outside countries (the EU and ROW) supply using different constant cost technologies, with the ROW being the least-cost producer. Annex Figure A1 illustrates the impact of reciprocity.

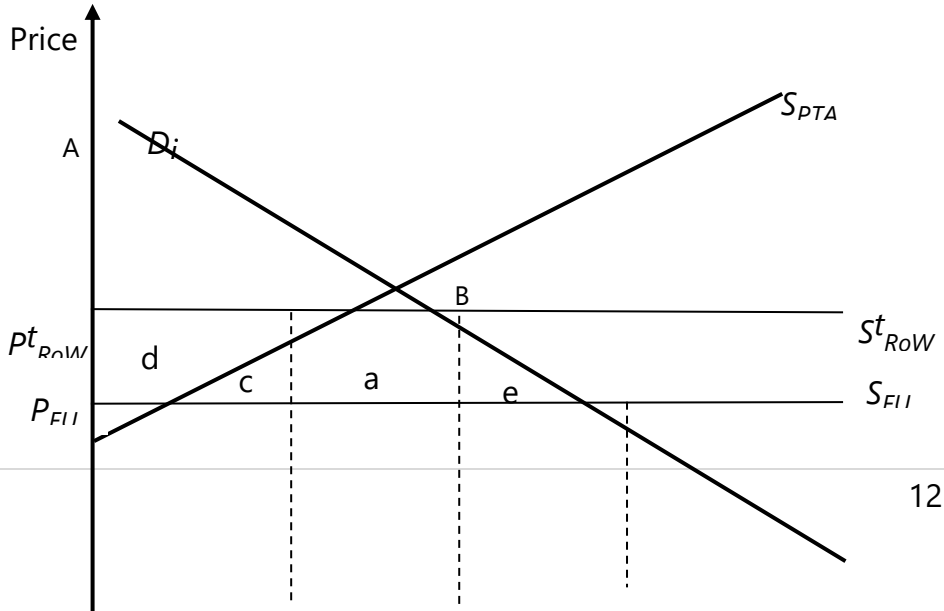
Line D_j represents country *j*'s demand for imports whereas line S_{PTA} represents PTA supplies (export) to country *j*. Free trade supply conditions for the ROW are

represented by S_{RoW}, while a free trade supply schedule for the EU lies anywhere above S_{RoW}. Prior to EPA country *j* imposes MFN tariff rates on imports from the EU and ROW. Thus,
$P^t_{EU} = P_{EU}(1 + t_{MFN})$ and $P^t_{ROW} = P_{ROW}(1 + t_{MFN})$. Initial cost conditions ensure that $P^t_{ROW} < P^t_{EU}$ (for expositional simplicity, we do not show P^t_{EU} in the graph). This price differential will bear both trade creating and trade diverting effects if country *j* adopted discriminatory "preferential" trade policies towards the EU. The relevant tariff-inclusive supply line is S^t_{RoW}, and the resulting total imports for country *j* is $0M_2$, being the sum of imports $0M_1$ from the PTA and M_1M_2 from the ROW. Country *j*'s supply capability is ruled for simplicity. We can therefore study welfare effects in country *j* using consumers' surplus with respect to the import demand schedule D_j given as area of the triangle ABP^t_{ROW} plus the tariff revenue on extra-regional imports, being $(a+b)$.

Assume country *j* and its PTA partners enter an EPA with the EU, in which imports from the EU enter the PTA duty-free. Imports from ROW continue to be subjected to import tariffs. Suppose the EPA reduces the price of imports from the EU to a level such as P_{EU} lying anywhere below P^t_{RoW} (but above free trade P_{RoW}). Post EPA, P_{EU} becomes the relevant supply line that allows total imports to expand from $0M_2$ to $0M_3$, and that comes from the EU only.

Total imports can be broken into three distinct components: the increase in import volume M_2M_3, which is a pure consumption expansion effect; M_1M_2 diverted from ROW; and $0M_1$ displaced from the PTA. In technical terms, $0M_1$ represents "trade creation" arising from the displacement of relatively inefficiently produced PTA goods by the relatively efficiently produced EU goods (although the EU is not the most efficient globally). M_1M_2 is "trade diversion" as it represents the volume of imports from the relatively inefficient EU producers displacing imports from the relatively efficient (least constant cost) ROW producers. This is diversion between extra-regional suppliers.

Annex Figure A1: Trade, revenue and welfare effects of an EPA



***Source**: Authors' compilation.*

At the price level P_{EU}, there is a resource loss equal to the potential maximum tariff revenue $(a+b)$ as imports from the EU enter duty-free. Trade creation brings about a global resource-saving effect given by area *c*, and relocation of producers' surplus (area *d*) in the PTA to consumers, both of which increase consumers' surplus by area $(c+d)$. Adding together the welfare-increasing expansion in consumers' surplus, pure consumption effect (area *e*) and trade creation, on the one hand, and welfare-decreasing trade diversion effects, that is, $(c+d+e-b)$, on the other hand, means that the net welfare effect is ambiguous, depending on the relative strengths of either force. The more efficient the EU, the smaller the trade diversion and hence the greater the probability of a welfare-improving EPA.

The import, tariff revenue, and welfare effects outlined above can be estimated as set out below. The consumption effect component of import effects can be measured using the elasticity of import demand function. In this case, the changes in the import prices are assumed to be caused by changes in *ad valorem* import tariffs:

$$\Delta M_{EU}^{C} = \left(\frac{-t_{MFN}}{1+t_{MFN}}\right).e_{M}^{D}.M_{n}^{EU} \quad (1)$$

where t_{MFN} is the MFN tariff rate imposed on imports from the EU in the present period *n*, e_M^D is elasticity of demand for imports, and M_n^{EU} is imports from the EU.

Import source substitution effects in an imperfect substitution framework can be measured as:

$$\Delta M^{k} = \left(\frac{-t_{MFN}}{1+t_{MFN}}\right).\sigma_{k}^{EU}.M_{n}^{k} \quad (2)$$

where $0 \leq \sigma_k^{EU} \leq 1$ is elasticity of substitution between imports from the EU and those from the PTA (*k*=PTA, in which case Equation 2 measures welfare-raising switching of imports from relatively less efficient suppliers from the PTA (EAC in this case) to more efficient suppliers from the EU) and from the rest of the world (*k* = ROW, where Equation 2 captures a welfare-lowering switch of source between relatively less

efficient EU and the relatively more efficient ROW)[21]. M^k is the quantity of imports from region *k*. Source substitution from the PTA or ROW implies that $\Delta M^k \leq 0$.

Applying Equation 2 requires information some of which like the source substitution elasticities is not readily available for particular countries and therefore would have to be 'guesstimated' or borrowed from elsewhere (Milner et al, 2005). For this or other reason, the SMART model used by WITS applies a fixed and high source substitution elasticity of 1.5 for all products and irrespective of import source. High substitutability between the EU and the ROW is quite reasonable at high levels of aggregation of extra-EAC sources.

Milner et al (2005) take a moderate level of source substitution by adopting a perfect substitution framework, which also partly avoids the problem of dealing with guestimates of source substitution elasticities. Where the world price level represents the lowest production cost technology the price of imports from the EU will lie above the world price level. Furthermore, starting from the initial state before the EPA where the tariff-inclusive prices of imports from the EU and the ROW are the products of a constant cost technology over the relevant range, then it is plausible that the EPA will reduce the price of EU imports over the price of ROW imports. The relative price fall will cause diversion of imports from ROW to EU sources; trade diversion is particularly critical where the ROW as the most efficient producers supplies the majority of a given product. That is, consumption of EU imports in EAC Partner States will increase at the expense of most efficiently produced ROW imports. Milner et al (2005) capture the apparent trade diversion with consumption effects in the perfect substitution framework by means of Equation 3:

$$\Delta M_{TD}^{C} = 0.5\left(\frac{t_{MFN}}{1+t_{MFN}}\right).e_{M}^{D}.M_{0}^{ROW} \qquad (3)$$

where for lack of information about where the price of EU imports may lie between world price level and tariff-inclusive price of imports from the ROW a halfway point (0.5) is assumed.

Pre-EPA there are sectors and products where intra-EAC trade dominates and/or compete with tariffed EU and ROW imports despite the EU and ROW having superior production technologies hence lower cost producers. The EPA exposes EAC producers to direct competition with lower cost producers of EU imports, resulting in creation of

[21] There can be high but not perfect substitution between goods from different sources because of differences in technology endowments and development, product differentiation, and market imperfections including imperfect price transmission. Allowing for less than perfect substitution in empirical work reduces the risk of bias. Milner et al. (2005) argue that one can assume perfect substitution given the large and diverse production structures of EU and ROW, competitive and product homogeneity in agriculture and primary products are appropriate, and where a high level of disaggregation is used in empirical analysis.

more trade and consumption of more efficiently produced EU imports that displaces less efficient EAC producers. The consumption effects in these instances can be estimated by Equation 4, thus:

$$\Delta M_{TC}^{C} = -0.5\left(\frac{t_{MFN}}{1+t_{MFN}}\right).e_{M}^{D}.M_{0}^{EAC} \quad (4)$$

The negatively (positively) signed outcome in Equation 3 (4) imply welfare loss (gain) because of the EPA changing from the initial positions in the concerned sectors where the ROW (EU) is the more efficient producer that the EU (EAC).

The total tariff revenue effect can be estimated as the summation of tariff revenue losses due to removal of tariffs on existing imports from the EU, and tariff revenue lost on imports shifted from the tariff-paying PTA and ROW sources to duty free EU sources. This can be represented as:

$$\Delta R = t_{MFN}.(-\Delta M_{EU}^{C} - \Delta M_{TD}^{C} + \Delta M_{TC}^{C}) \quad (5)$$

Welfare effects (ΔW) associated with the import and revenue effects are estimated using the expression:

$$\Delta W = t_{EU}^{MFN}(½.\Delta M_{EU}^{C} + \Delta M_{PTA} + \Delta M_{ROW}) \quad (6)$$

where the first term captures the welfare-raising effects of consumption effects stemming from cheaper duty-free prices. The second term measures the welfare-improving effects of import source substitution of the relatively inefficient preference-receiving regional partners with the relatively efficient EU producers. The last term captures the (theoretical) welfare-reducing effect of import source substitution of the least-cost producers from the rest of the world with the preference-receiving EU28 and EU27 producers.

Annex B: Quantitative Analysis using the General Equilibrium/ GTAP Framework

The *GTAP* Model

Generally, *GTAP* models have the following structure: (i) model functions: showing the functional forms of the economies, which can be modified to bring in various aspects of SIA, including environmental and social policy extensions, and (ii) SAM: which is the database for calibrating the model? *GTAP* 10 database will be used for this analysis, with the most recent database updates (i.e., 2014 as the base year). The *GTAP* model is built on neoclassical assumptions. It assumes utility maximization by households, subject to income generated (Cobb-Douglas Function), while production is represented as a nested Constant Elasticity of Substitution (CES) function, with constant returns to scale. Other key assumptions of the standard GTPA model, include (i) perfect competition (hence, a constant return to scale); (ii) imperfect substitution in goods and services between the home economy and those abroad and among different origins of economies (hence, Armington assumption); (iii) fixed labour, meaning that the model assumes full employment and no unemployment; and (iv) fixed total capital.

Annex Figure B1 shows the behavioural interactions among agents and sectors in the economy under the GTAP framework. From the figure, in producing, firms generate revenues by selling output to economic agents (including Rest of the World), where sales to ROW are exports (VXMD). Generated revenues from sales are spent on purchasing primary factors, intermediate inputs (domestically produced and imported from ROW, i.e., VIFA). Firms further pay consumption taxes on inputs (TAXES), including imported inputs. Import prices determine the source of imports for firms, which ultimately determine the optimal mix between imported and domestic goods for firms (Brockmeier, 1996). Note, firms combine these inputs using a Leontief function (i.e., in fixed proportions) to produce goods and services. Mathematical equations are documented in Hertel and Tsigas (1997).

In *GTAP*, trade is modelled using the Armington function, allowing for a proper distinction of imports according to their sources/origin. The function further assumes a Constant Elasticity of substitution (i.e., CES). The government spends its revenues on goods produced both locally and imported (VIPA and VIGA respectively), while also paying consumption taxes for these goods. Savings are represented as GLOBAL savings and are computed on global basis (both savings and investments). Savers face a common price for saving, allowing for zero profits at equilibrium. ROW derive their incomes from selling goods and services to private consumption (PRIVEXP), government and firms, and these revenues are then spent on goods from other countries (VXMD) and import taxes (MTAX), and export taxes paid when exporting to regional households (XTAX).

For our analysis, import taxes play a critical role in explain major trade agreements. In *GTAP* model, import taxes drive a gap between domestic price and *cif* price, hence, an ad valorem import tax (TMX) is calculated as ratio of *Value of Imports of commodity i from region s to region r, at Market prices, by Source (VIMS (i,s,r))* to the *Value of Imports of commodity i from region s to region r, World prices, by Source price (VIWS (i,s,r).* This ratio is greater than one. Import tax revenues are then calculated as;

$$MTAX(i,s,r) = VIMS(i,s,r) - VIWS(i,s,r)$$

Trade policy shocks have implications on the key *GTAP* equation, which is also a key macroeconomic equation, i.e., GDP identity. These shocks have implications on other variables such as Investment, trade flows, as well as consumption. The equation below reveals how various factors (including changes in imports and exports) affect GDP.

$$GDP(r) = \sum_{i \in TRAD} [VGA(i,r) + VPA(i,r)] + VOA(CGDS,r) + \sum_{i \in TRAD} \sum_{i \in REG} VXWD(i,r,s) + \sum_{i \in TRAD} VST(i,r) - \sum_{i \in TRAD} \sum_{i \in REG} VIWS(i,r,s)$$

where,

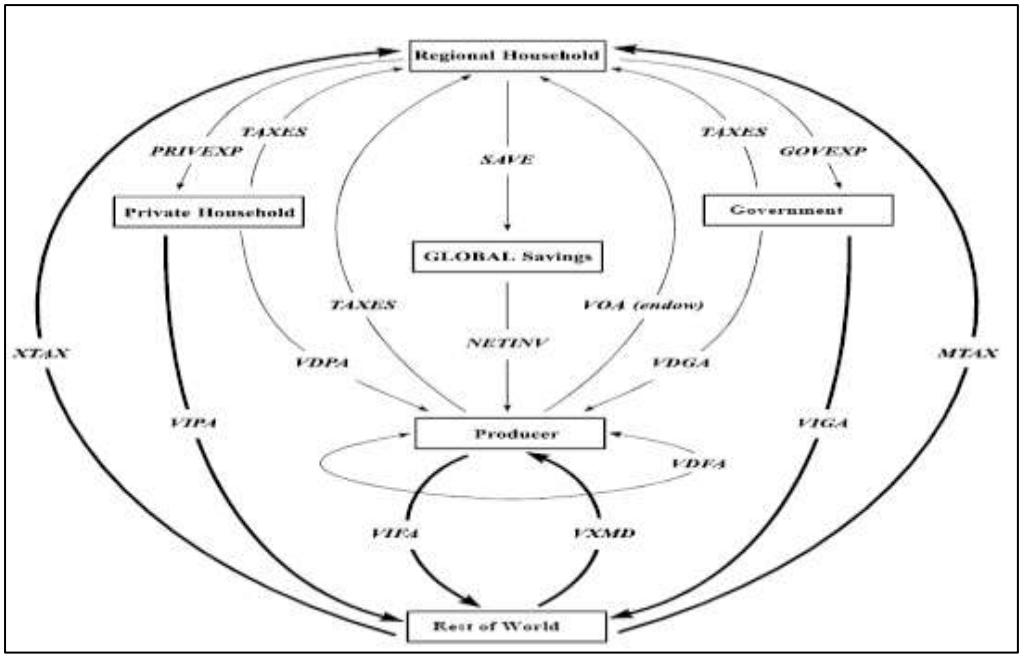
GDP is the sum of government expenditure on tradable commodities i in region r '$(VGA(i,r)$', value of expenditure by private households '$VPA(i,r)$', non-saving commodity'$VOA(CGDS,r)$', *sales to international transport sector*'$VST(i,r)$', less import values (c.i.f.) '$VIWS(i,r,s)$'. This structure follows the basic GDP accounting equation;

$$GDP = Consumption + investment + Government\ expenditure + (Exports - Imports)$$

$$GDP = C + I + G + (X - M)$$

A more detailed documentation of the equations and the linkage between variables, parameters, and sets in the *GTAP* model (such as trade variables, GDP, quantities, and prices) are found in Hertel and Tsigas (1997).

Annex Figure B1: Behavioural relationships among agents and sectors in *GTAP*



Source: *Brockmeier (1996)*

Note: VDPA (Value of Domestic Private Household Purchases, evaluated at Agents' prices); VDGA (Value of Domestic Government Purchases, evaluated at Agents' prices); VDFA (Value of Domestic Firm Purchases, evaluated at Agents' prices); VOA (Value of Output at Agents' prices).

The GTAP model involves multiple equations, all of which should be in equilibrium, i.e., ensuring demand and supply equalize in all markets. This brings in multiple closures in the model, including Government balance, factor market, and macroeconomic closures. (i) Government balance closure: In modelling the EPA, determining the impact on government revenues is core and critical, hence, the model will opt for a closure that fixes expenditures and allows government balance to change (flexible). (ii) Factor market closure explains a balance between supply and demand for factors. For this study, we propose a use of unemployment closure to allow for flexibility in supply of unskilled labor to meet demand for labor at fixed wage levels. (iii) Macroeconomic: We will use the closure where saving rates are fixed (hence, changes in income will trigger changes in savings). In this closure, investment is flexible, responding to changes in savings, with current account balance being endogenous.

Trade impacts from trade agreements is a key variable of interest to policy makers, i.e., impacts on trade, exports, current account, revenues, as well as overall trade welfare. This can be measured through trade creation and trade diversion effects. GTAP framework provides three ways through which trade creation and trade diversion effects can be mirrored. The first involves the decomposition of the demand for import equation, which disaggregates import commodities demand by source into two key components: (a) expansion (qim) and substitution terms (qxs). The expansion effect reflects trade creation impacts, while substitution between two sources reflects trade diversion. The second way through which trade creation and diversion can be captured in GTAP is in the use of allocative efficiency effects in the welfare decomposition. Increased trade/allocative efficiency in one country and a decrease in allocative efficiency in another country as a result of policy shocks from trade agreements reflects trade creation and trade diversion effects.

Measuring Impact of EPAs in the Context of SIA

Baseline choice for the model: The EPA impacts will be measured against the baseline scenario (counterfactual). The baseline of the model will be chosen and modified in such a way that it reflects the nature and current underlying economic structure of Tanzania, while considering whether movement of Tanzania from Low to Middle Income category alters its tariff structure within EPA. Should such changes (Income bracket changes) affect its tariff structure, then the core model will be modified to reflect new tariff arrangements between Tanzania and EU.

Simulation: Our simulations involved full liberalization, meaning total removal of ad valorem import tariff and tariff equivalents of bilateral NTBs between EU and EAC (Tanzania), thus mimicking the removal of import protections. In the first simulation, EU removes all import tariffs on EAC products, while EAC removes 90% of tariffs from EU. The follow-up scenarios will involve assessment of sector specific simulations,

where liberalization is full on manufacturing sectors, while tariffs on agriculture are removed by only 50% and vice versa (see UNCTAD, 2017) to reflect a policy mix where Tanzania prefers to protect certain sectors (e.g., agriculture or manufacturing) from competition.

In addition, other simulation scenarios will also be proposed based on the nature of agreement proposed between EU and EAC countries, as well as the role of the COVID-19 shock on the EU-EAC EPA agreement and its outcomes. Specifically, we will simulate the effects of the timing and duration of COVID-19 crisis on sector performance indicators. COVID-19 simulations have tended to focus on the pessimistic and optimistic end period of the pandemic, with pessimistic duration being the worst-case scenario. The COVID-19 shock presents direct impacts on the Economic (trade, output, household income, inter alia) and social themes (health), inter alia. Notably, we implement the standard GTAP model using RunGTAP, which combines both the model core codes in GEMPACK and database.

Impacts: The GTAP model will measure impacts by comparing the baseline and simulated scenarios, and provide implications on revenues (tariff revenues), trade flows (imports and exports), production structures, other trade effects (Terms of Trade, Trade creation, and trade diversion effects), welfare, GDP, price changes, factors use (and employment), investment flows, distribution of impacts among various agents (based on gender, education, income groups, etc.). Note that, the GTAP model will address some of the themes in SIA as shown in Annex Table B1.

Data Types and Sources

The 10th version of *GTAP* database consists of bilateral trade data between EU and EAC countries (specifically Tanzania), transport data (including margins among countries and sectors), as well as tariffs for trading partners for various sectors. The input output and SAM tables included in the *GTAP* database will serve as reference for calibrating the *GTAP* Model. The database is updated to reflect economic conditions in 2014 (i.e., SAM is updated to include elasticity, parameters, as well as variables reflecting scenario in 2014). *GTAP* data is collected from various sources, including.

- I-O/SAM tables which are aggregated in the *GTAP* database and contributed for from different sources, including FAO. *GTAP* 10 already contains these tables for the proposed regions of analysis in this study.
- Income taxes for various households, which is aggregated from IMF. The taxes database is included as part of *GTAP* database, with 2014 as the base year.
- Trade and bilateral trade flows (COMTRADE). *GTAP* database aggregates this dataset from COMTRADE. Data for 2014 will be used, to make it consistent with other variables (reflecting the 2014 base case scenario)

- Tariff and protection data from *MacMap* database, which are compiled by CEPII and ITC, and included in *GTAP* for assessment of policy implications related to changes in tariffs.
- Macroeconomic data (including GDPs, population, etc.) are taken from the World Bank Development Indicators.
- Energy data from the International Energy Agency is also included under *GTAP* database, for use in calibrating the model.
- The *GTAP* database also includes updated gas emissions (CO2) emissions, for measuring environmental impacts of policy changes.

The full documentation of *GTAP* database, required calibration of data and their sources for all regions is detailed in Aguiar et al., (2019). The database covers a total of 65 sectors and 121 countries (at times referred to as "regions"). All EAC countries are included in the *GTAP* database, with exception of South Sudan and Burundi, which are lumped together (i.e., not disaggregated individually). Further, most of the sectors of relevance to this analysis (including horticulture) are well disaggregated in the *GTAP* database. To respond to the objectives of the study, we propose the initial disaggregation of sectors and coverage of regions/countries respectively in Tables 2 and 3.

Annex Table B1: Update on the Analysis of key SIA variables in the CGE model

	SIA Themes	Indicators in the CGE model
1.	**ECONOMIC** -GDP, trade, investment changes, Household income, household consumption, Terms of Trade, sector outputs, government spending, labour market	-GDP, trade, investment changes, Household income, household consumption, Terms of Trade, sector outputs, government spending, labour market.
2.	**ENVIRONMENTAL** - Air and climate, land use, water, energy, transport.	Requires extension to CGE Models to capture: Air and climate, land use, water, energy, transport. Conventional CGE models as *GTAP* would capture changes in energy use, land use, water, etc.
3.	**SOCIAL** - Decent work, housing, education, health and public health, equity, security, population.	Education, health.
4.	**INSTITUTIONAL** -Institutional framework and capacity, governance, corruption, procurement, administration capacity in many respects	Administration.
5.	**HUMAN RIGHTS** -Privacy, standards of living, property, freedom of expression, culture. Etc.	Standard of living (welfare).

***Source**: Authors' compilation.*

Annex Table B2: Proposed sector disaggregation in *GTAP* model

Abbreviation	List of Sectors
AnAg	Animal agriculture, i.e., animal products not elsewhere classified (nec); raw milk; wool, silkworm cocoons; cattle etc.; meat; meat products, etc.
MainX	Tobacco, tea, cotton, cashew nut, coffee, etc.
Hortc	Horticulture commodities; vegetable, fruits, etc.
Other Crops	Paddy rice; wheat; cereal grains nec; oil seeds; crops nec; Sugar cane and beet
FoodP	Food products, i.e., vegetable oils and fats; dairy products; processed rice; food products nec; sugar; beverages, etc.
FuelMin	Fuels and minerals, i.e., coal; oil; gas; minerals nec
TexClo	Textiles and clothing, i.e., textiles; plant-based fibers, e.g., cotton; wearing apparel; leather products, etc.
HMnfcs	Heavy manufactures and metals, i.e., chemical, rubber and plastic products; paper products and publishing; wood products; petroleum, coal products; mineral products nec; metals; ferrous metals; metals nec; metal products, etc.
LMnfcs	Light manufactures, i.e., motor vehicles and parts; transport equipment nec; electronic equipment; machinery and equipment nec; forestry; fishing; manufactures nec
Transport	Transport nec, Water transport, Air transport
Trade	Trade goods, services trade
Edu	Education
Hht	Human health and social work activities
Svces	Services, i.e., electricity; gas manufacture, distribution; water; construction; communication; financial services nec; insurance; business services nec; recreation and other services; public administration, defence, dwellings

***Source**: Authors' compilation.*

Annex Table B3: Proposed coverage of regions/countries

Abbreviation	List of Regions/Countries	
EU	EU countries	
Bwa	Botswana	
Zaf	South Africa	
Xsc	Rest of SACU	
Moz	Mozambique	
Mwi	Malawi	SADC
Zmb	Zambia	

Zwe	Zimbabwe	
Ken	Kenya	
Rwa	Rwanda	
Uga	Uganda	EAC
Xec	Resto of EA (South Sudan, Burundi)	
Tza	Tanzania	
Xsd	Rest of SADC	
Mdg	Madagascar	
Nig	Nigeria	
Gha	Ghana	
Egy	Egypt	
Alg	Algeria	
Xdd	Rest of developed countries	
Xdg	Rest of developing countries	

***Source**: Authors' compilation.*

Annex C: Scope and Design of Stakeholder Consultations

Stakeholders Covered

As one of the critical components of the SIA, stakeholder consultations mainly complemented and validated the results from both quantitative analyses conducted using different analytical techniques. The consultations involved a number of stakeholders in the Public, Private and Civil society sectors and beneficiaries in the selected sectors. This annex outlines the scope, the tools and focus of the consultations. Annex Table C1 shows the detailed list of stakeholders, including the issues to be discussed, methodology of engagement and location.

Annex Table C1: Detailed list of Stakeholders for consultations

Stakeholder group	Particulars/Sample	Key issue(s)	Methodology	Location
Government MDAs	Ministry of Finance (in Tanzania and in Zanzibar)	EDF status and issues, Discussion on tax revenue implications	Meeting with Senior Officials (Direct Interviews)	Dodoma, Dar-es-Salaam and Zanzibar
	Ministry of Industry and Trade (in Tanzania and Zanzibar)	Trade impact: exports, import surge, Safeguard measure and SME implications		
	Ministry of Agriculture and Livestock	Impact of EAC-EU EPA on selected value chains (Leather, Seaweed, Rice, Horticulture, Cotton and Textile and Apparel)		
	Ministry of Foreign Affairs	View on relationship with EU and political cooperation		
	National Environment Management Council	Environment impact of EPA		
Businesses in selected value chains (Leather; Cotton Textile and Apparel; Horticulture; Seaweed; Rice; and Logistics)	Farmers, Processors, SMEs, Factories and Truck owners	Current challenges, improvement over the years, opportunities relating to EPA agreement	Direct Interviews	Pwani, Arusha, Njombe, Dar-es-Salaam, Simiyu, Morogoro and Zanzibar
Private sector organization	TPSF, TNBC, TCCIA, CTI, TWCC, PASS	Implication of EPA to exports, competitiveness and diversification	Focus Group Discussion	Dar-es-Salaam

Stakeholder group	Particulars/Sample	Key issue(s)	Methodology	Location
Parastatal Organizations	Investment Promotion: TIC, EPZA and TANTRADE	Implication of the trade agreement in the Management of trade and investment outcomes	Meeting with Senior Officials (Direct Interviews)	Dar-es-Salaam, Dodoma
	Organisations involved in the Management of economy: BoT, TRA, and NBS			
	MSMEs support: SIDO	Implication of EPA to MSMEs		
Sector specific organization	TAHA, LAT, TEGAMAT, TCA, TCB, TDU, TATOA, TAFFA, CCTTFA, ZSTC, ZRB, ZIPA, ZSFA, ZCCIA	Sector specific issues regarding EPA; implication of EPA to the sector	Meeting with Senior Officials (Direct Interviews)	Zanzibar, Arusha, Moshi and Dar-es-Salaam.
Human rights and Environmental related CSOs	LHRC, TGNP, ANSAF, TAMWA, TAYOA, TLS, TNRF, Policy Forum, and the Action Aid Tanzania	Implications relating to environment; human rights and vulnerable groups (youth and women)	Focus Group Discussions and Direct Interviews	Dar-es-Salaam, Dodoma and Arusha
Regional level organization	EALA; TMEA; EABC	Regional level implication (business diversification, SMEs, competitiveness and exports) of the EPA	Meeting with Senior Officials (Direct Interviews)	Arusha and Dar-es-Salaam

Source: *Authors' compilation.*

Tools and Content of the Consultations

This study will use the following tools for stakeholder consultations: One on One Interviews (direct contact), phone calls, and Focus Group Discussions (FGDs) depending on convenience of the Respondents, logistics and in recognition of the COVID-19 situations.

(i) One-on-One Interviews

One-on-One interviews were conducted for key informants who have vast knowledge on the topic such as relevant government officials in the selected MDAs, sector-specific and industry associations, SMEs, trade unions and think tanks. Interviews feed into all elements of the analysis including economic, social, environmental and human rights analysis. Phone interviews will be used for stakeholders who are far or those who choose not to meet physically due to COVID-19 precautions. For stakeholders located outside Tanzania, online platforms such as Zoom and WhatsApp was used. The report references the stakeholder consultation responses in a manner which protects

personal data and ensures maximum confidentiality of the availed information and anonymity under protection rules.

(ii) Focus Group Discussions

Focus Group Discussions (FGDs) were used where the study team needs to meet with a group of stakeholders together at a go. This tool was most applicable for stakeholder such as farmers, traders, and SME processors. Like the interviews, FGDs will be used to feed into all elements of the analysis including economic; social, environmental, and human rights aspects.

(iii) Workshops

The workshops will be organized later following the review of draft report to validate the study findings. The workshops will be used to raise awareness of EAC-EU EPA and to communicate findings on its potential impacts. Further, the workshops will also discuss sector specific issues and those relating to sustainability issues including human rights, social rights, and environmental impacts emanating from the analysis. In addition to the target stakeholders the workshop will draw participants from different sectors and wider stakeholder groups, considering the sectoral, social and geographical representation including interest groups etc. Where possible, the workshops will be live stream and publicised through social media channels. Notably, the workshop will be co-hosted by the relevant Government Ministry, REPOA and the EU delegations.

Questionnaire for guiding the consultations

Given space limitation and the extensive nature of different stakeholder groups that were consulted for different issues or aspects of the implications and prospects of the EU-EAC EPAs, these questionnaires will be available upon request. However, suffice it to note that the Annex Table C1 clarifies the main agenda or issue for the consultations with the respective stakeholders/stakeholder group. Nonetheless, it is important to clarify that, the survey is only representative to grasp the main actors and broad issues but is not a comprehensive coverage of all the stakeholders that influence, benefit, are affected or determine outcome of the EPAs. Furthermore, the views expressed in such consultations are not necessarily the formal opinion of the Government or the institution consulted but are meant to support the analytical needs for formal policy or other discourses.

Annex D: Detailed Results from the CGE Analysis

Annex Table D1: Aggregate Exports from Various Regions per Sectors

	Rest of Africa	UK	Kenya	Rwanda	Tanzania	Uganda	EU_26	Rest of World
Rice	-0.04	0.01	4.57	1.17	0.63	0.83	0.13	-0.04
Leather	0.01	0.03	5.79	-2.23	2.54	3.06	-0.02	0.01
Extraction	0	-0.01	5.73	0.67	1.31	0.6	-0.02	0
Food processing	-0.05	0	2.95	0.72	0.68	-0.25	0.04	-0.01
Textiles	0.01	-0.03	6.88	-1.27	-1.32	3.57	0.19	-0.04
Light Mfg.	-0.04	-0.01	3.77	4.61	0.87	1.32	0	0
Heavy Mfg.	0	0	3.93	5.46	2.04	1.21	-0.01	0
Utilities & construction	0.02	0	4.01	3.78	1.41	1.87	-0.03	0.01
Transport/logistics	0.01	0	2.67	2.82	0.76	1.44	-0.02	0.01
Other Services	0.02	0	4.09	3.3	1.16	1.61	-0.03	0.01

***Source**: Authors' computation and compilation.*

Annex Table D2: Aggregate Imports of Commodities to the Regions (% Change)

	Rest of Africa	UK	Kenya	Rwanda	Tanzania	Uganda	EU_26	Rest of World
Rice	0.01	0.02	3.39	2.09	1.24	3.53	0.03	0.01
Leather	-0.01	-0.01	9.59	-1.55	1.42	10.84	0.01	0
Extraction	0	0	1.12	0.97	0.01	0.87	0	0
Food processing	0	-0.01	2.78	2.5	1.75	4.62	0.01	0
Textiles	-0.01	0	0.67	8.43	0.79	14.45	0.03	0
Light Mfg.	-0.01	-0.01	0.07	0.13	0.18	0.43	0.01	0
Heavy Mfg.	-0.01	0	-0.31	-0.15	0.19	0.05	0	0
Utilities & construction	-0.01	0	-1.88	-1.45	-0.6	-1.13	0.01	0

Transport/logistics	0	0	-1.65	-0.13	-0.41	-0.7	0.01	0
Other Services	-0.01	0	-2.03	-0.44	-0.7	-0.76	0.01	0

***Source**: Authors' computation and compilation.*

Annex Table D3: Tanzania Trade Balance with EU (Base Model) (Million USD)

	Tanzania Exports to EU at Market Price	Tanzania Imports from EU at Market Price	Trade Balance
Rice	207	214	-7
Leather	43.2	43.3	-0.1
Extraction	280	313	-33
Food processing	320	331	-11
Textiles	36.4	49	-12.6
Light Mfg.	30.1	32.8	-2.7
Heavy Mfg.	47.7	54.7	-7
Utilities & construction	17.8	17.8	0
Transport/logistics	117	117	0
Other Services	230	230	0
Total	1329	1402	-73

***Source**: Authors' computation and compilation.*

Annex Table D4: Market Price Changes

	Rest of Africa	UK	Kenya	Rwanda	Tanzania	Uganda
Land	-0.02	-0.01	-1.2	-1.41	-0.71	-0.57
Unskilled labour	-0.01	0	-1.06	-0.92	-0.33	-0.42
Skilled labour	0	0	-1.08	-0.78	-0.3	-0.43
Capital	0	0	-1.07	-0.77	-0.23	-0.39
Natural Resources	0.01	-0.01	1.26	2.94	1.72	1.53
Rice	-0.01	0	-1.01	-0.95	-0.37	-0.51
Leather	0	0	-1.02	-0.89	-0.34	-0.45
Extraction	0	0	-0.52	-0.05	-0.11	-0.05

Food processing	0	0	-1.12	-0.89	-0.39	-0.52
Textiles	0	0	-1.03	-0.84	-0.35	-0.82
Light Mfg.	0	0	-0.9	-0.81	-0.28	-0.44
Heavy Mfg.	0	0	-0.81	-0.77	-0.29	-0.39
Utilities & construction	0	0	-0.87	-0.8	-0.3	-0.4
Transport/logistics	0	0	-0.87	-0.76	-0.34	-0.4
Other Services	0	0	-1.05	-0.85	-0.3	-0.42

***Source**: Authors' computation and compilation.*

Annex Table D5: Producer Expenditure on Intermediate Products (%)

	Rice	Leather	Extraction	Food Processing	Textiles	Light Mfg.	Heavy Mfg.	Utilities & Construction	Transport Logistics	Other Services	Total
Land	-0.7%	-0.6%	0	0	0	0	0	0	0	0	-0.7%
Unskilled labour	-0.5%	-0.4%	0.1%	-0.6%	-2.1%	0.0%	0.8%	-0.1%	0.0%	-0.3%	-0.3%
Skilled labour	-0.4%	0.0%	0.2%	-0.6%	-1.6%	-0.6%	0.6%	-0.2%	0.3%	-0.3%	-0.3%
Capital	-0.4%	-0.3%	0.2%	-0.6%	-2.0%	-0.3%	0.6%	-0.2%	0.3%	-0.4%	-0.2%
Natural Resources	0	0	1.5%	0	0	0	0	0	0	0	1.5%

Total	-0.5%	-0.4%	0.3%	-0.6%	-2.0%	-0.4%	0.6%	-0.2%	0.3%	-0.3%	-0.3%

***Source**: Authors' computation and compilation.*

Annex E: Summary of Existing Studies on the Impact of EPA

SNo.	Study	REC	Findings/Arguments
(a) Regional Economic Communities (RECs)			
1	Gustafsson et al., (2017)	EAC	Export market will shrink following Brexit, reducing the expected EPA benefits
2	Bouet et al., (2016)	West Africa	Decrease in tax revenue from -7.5 percent in Benin to -25.8 percent in Burkina Faso); and overall decline in welfare in West African countries except Burkina Faso and Ivory Coast
3	De Melo and Regolo (2014)	EAC	Revenue losses, welfare gains as well as producer and consumer gains are limited. EPA leads to significant increase in importation of intermediate and semi-processed goods
4	ITAQA (2012)	West Africa	Import duty revenues will decline by 8 percent due to EPA as trade deteriorates. Trade liberalization will not lead to increase in exports by West African countries
5	Lwanda (2011)	South Africa	EPA may hinder regional integration due to its failure to meet certain provisions in the WTO provisions
6	Fontagne et al., (2008)	ACP	EPA will lead to decrease in tariff revenue of between 70 to 80 percent in all six regions of the ACP (except for the Pacific region). However, there is increase in export of livestock, agro food and textiles to the EU as well as increase in import from EU between 20 and 40 percent (mostly in textiles, primary products, etc.)
7	Persson (2008)	ACP	EPA leads to trade facilitation, by reducing border crossing times, and in turn increasing trade performance. The study estimates that, a one-day delay reduction in border crossing time by the exporting country leads to a 1 percent increase in export, while a day reduction in border crossing by importing country would increase imports by 0.5 percent
8	Brenton et al., (2007)	SADC	Impacts depend on country policies and economic structures
9	Morrissey and Zgovu (2007)	ACP	The study finds significant welfare gains in more than half of the ACP countries following immediate "complete" elimination of tariffs on agricultural imports from EU but potential revenue losses are non-negligible
10	Karingi et al., (2005)	SSA	Decrease in production of natural resources, energy, and cotton for Sub Saharan Africa following the signing of EPA agreement. Decline in manufacturing activities (for heavy, medium, and low-tech industries), clothing, and textile under full reciprocity. Revenue losses of up to 32.5 million USD due to tariff removal for Tanzania. However, they found increase in clothing, textile, and agriculture production under FTA

SNo.	Study	REC	Findings/Arguments
11	Busses and Grobmann (2004)	West Africa	Static trade effects of EPA for some ECOWAS countries are relatively high, including increases in preferred imports from EU by 21 percent, and decline in government revenue by 4 to 9 percent in most of the West African countries. However, trade creation is larger than trade diversion in all the West African countries
12	McKay et al., (2000)	EAC	Tanzania and Uganda face declines in welfare following EPA but experience lower import prices amidst increased competition that leads to falling consumer prices
(b) Specific Country Studies			
13	Adenikinju and Bankole (2014)	Nigeria	Tax revenues decrease by 0.5% at the start and 5 percent at the end of liberalization, while GDP fall by 2%. Unemployment rises by 15%, while wages and consumption decrease. EPA will lead to trade diversion, hence lower regional integration
14	Mkenda and Hangi (2009)	Tanzania	Significant revenue losses of up to 14.6 billion TZS from products attracting 10 percent duty (by 2023), and 6.3 billion TZS for products attracting 25 percent duty (by 2023). Total loss from trade diversion amounts to 26.7 billion TZS.
15	Andriamananjara et al., (2009)	Nigeria	Overall, EPA leads to negative welfare effects
16	Kone (2008)	Ivory Coast	There will be net losses in revenue and de-industrialization due to EPA
17	ITAQA (2008)	Nigeria	EPA will lower trade integration due to trade diversion. Nigeria imports will reduce by 8.7 percent from Mali, by 5.7 percent from Niger, by 5 percent from Ghana, and by 4 percent from Ivory Coast. Revenue losses from customs duty would be about 3.2 billion Euro in the last year of the liberalization while Nigeria's investment decrease by 12 percent. Furthermore, GDP decrease by 1.8 percent at the end of liberalization period
18	Zgovu and Kweka (2008)	Tanzania and Malawi	Tanzania and Malawi record relatively small increases in total imports, although trade creation and trade diversion will occur. EPA will lead to a rise in Malawi's (Tanzania's) imports from the EU representing 3.4% (2.2%) of GDP; fall in tariff revenue by 26% (52%), and net welfare loss equivalent of 0.4% (0.2%) of GDP.
19	Hammouda et al., (2007)	Sudan	Domestic producers become less competitive as EPA favors foreign producers
20	Patel (2007)	Ghana	EPA would not lead to meaningful improvement in access to EU market for Ghana exporters. Instead, EPA will lead to loss in production, as tariff elimination entails exposing domestic

SNo.	Study	REC	Findings/Arguments
			producers to direct competition with EU firms. Liberalization lowers Ghana's government revenues
21	Milner et al., (2005)	Tanzania and Kenya	Revenue losses of up to TZS 36.9 billion for sectors with consumption effect, and up to 28.9 billion for sectors with trade diversion and consumption effects, coupled with decline in production. Kenya is the biggest loser (its manufacturing sector will be harmed more). However, there are consumer gains in both countries

***Source**: Authors' compilation.*

Annex F: List of People and Organisations met for the Study

S/no	Participant Name	Position and Affiliation	Stakeholder Group
1	Khamis Suleiman Mwalimu -Shibu	PS - Ministry of Finance and Planning	Government (Zanzibar)
2	Aunyisa Meena	DPP - Infrastructure	Ministry of Infrastructure Development
3	Obadiah M. Nyangiro	DPP - Agriculture	Ministry of Agriculture
4	Dr. Godwill Wanga	Executive Secretary, TNBC	Government (PPD)
5	Dr Said Seif Mzee	Managing Director- Zanzibar State Trading Corporation	Government (Zanzibar)
6	Khamis A. Shauri	Director of Trade- Ministry of Trade and Industry Development	Government (Zanzibar)
7	Jamila M Juma	Director- Ministry of Health, Social Welfare, Gender, and Children	Government (Zanzibar)
8	Francis Laurent Makusaro	Economist (Public Policy) Livestock	Ministry of Livestock and Fisheries
9	Gilbert Waigama	International Trade Policy Expert, TANTRADE	Government (private sector support agency)
10	Nebert Mapwele	Trade Economist, Research Planning and Project, TCCIA	Private sector umbrella organization

S/no	Participant Name	Position and Affiliation	Stakeholder Group
11	Rajabu Athumani	Membership Officer /Development studies, TWCC	Private sector umbrella organization
12	Shakanyi Wagora	Managing Director, WF Logistics	Truck owners
13	Rahim Dosa	CEO, Simera Company	Logistics value chain
14	Chris Gumbe	CEO and Group Managing Director, Teddy Juniors Company	Logistics value chain
15	Natai Costa	Financial officer, CCTTFA	Regional Organisations
16	Adrian R. Njau	Trade & Policy Advisor |East African Business Council (EABC)	Regional Organisations
17	Geoffrey Osoro	Trade Policy Advisor, East African Community (EAC)	Regional Organisations
18	Benjamini Lema	CEO, Arnold Benjamini Lema Transport	Logistics value chain
19	Charles Ndyetabula	Head, Weigh Bridge Unit, Coast region	Weigh Bridge Unit
20	Sophia Masinga	Owner Farmer	Smallholder Farmers
21	Elizabeth Mbeje	Owner Farmer	Smallholder Farmers
22	Grace W. Kanyuki	Owner Farmer	Traders
23	Omary R. Mtondolo	Owner Farmer	Traders
24	Willy Mwaseba	Owner Farmer	Traders
25	Twaibu Daudi	Owner Farmer	Smallholder Farmers
26	Buka Charles	Owner Farmer	Smallholder Farmers

S/no	Participant Name	Position and Affiliation	Stakeholder Group
27	Hilda Peter	Owner Trader	Traders
28	Maila Balongeje	Owner Processor	Processor
29	Hassan Libao	Owner Processor	Processor
30	Christopher Masolwa	Owner Manager	Processor
31	Chuki P. Luogo	Owner Manager	Processor
32	Franscis Muhuga	Owner Exporter	Traders
33	Joseph Kangile	Researcher	Industry Association
34	Tatu Mtila	Farmer	Smallholder Farmers
35	Esta Sulungu	Farmer	Smallholder Farmers
36	Jalala J. Mahenge	Farmer	Smallholder Farmers
37	Samson Msunga	Processor	Agro processors
38	Cosmas Kazileo	Farmer	Smallholder Farmers
39	Ali Aboud Mzee	CEO-BRAIN CGS	SME
40	Vuai Yahya Lada	ZIPA (DHRF)/Ministry of Finance	Government
41	Is-haka Oth. Ali	Academician- Minstry of Education	Academician
42	Juma O Abdalla	Chief Researcher	Government
43	Hafsa A Burhan	Ministry of agriculture, Irrigation and livestock	
44	Awena Ali Vuai	Kisiwa Panza	Producers Association/Groups
45	Nasriya Mohd Nassor	Director of Investment- Zanzibar Investment Promotion Agency	Government
46	Amina Bakari Vuai	Owner Farmer	Smallholder Farmers
47	Maulid Saleh Khamis	Owner Farmer	Smallholder Farmers

S/no	Participant Name	Position and Affiliation	Stakeholder Group
48	Khamis Ali Faki	Owner Farmer	Smallholder Farmers
49	Asha Saleh Hamad	Owner Farmer	Smallholder Farmers
50	Mgeni Faki Nasib	Owner Farmer	Smallholder Farmers
51	Mtumwa Hamad Bakar	Owner Farmer	Smallholder Farmers
52	Sada Saleh Hamad	Owner Farmer	Smallholder Farmers
53	Mariyam Juma Saleh	Owner Farmer	Smallholder Farmers
54	Time Makame Haji	Owner Farmer	Smallholder Farmers
55	Zainabu Mwali Kassi	Owner Farmer	Smallholder Farmers
56	Shaibu ali Faki	Owner Farmer	Smallholder Farmers
57	Salim Ali Faki	Owner Farmer	Smallholder Farmers
58	Shabani Ali Faki	Owner Farmer	Smallholder Farmers
59	Saidi Hamad Bakar	Owner Farmer	Smallholder Farmers
60	Time Hilali Hamad	Owner Farmer	Smallholder Farmers
61	Kombo Salim Hamad	Owner Farmer	Smallholder Farmers
62	Rajaab Lee	Zanzibar Seaweed Cluster	Processor
63	Sabas Woisso	MD, Himmo Tannaries	SMEs
64	Norbert Kiwangwa	Accountant, Moshi Leather	SMEs
65	Jonathan Mwita Maswi	Leather Trader	Traders
66	Kaft	MD, Melmoh Hides and Skins	Traders
67	Stanley Kimaro	Accountant, Woisso Original Product	SMEs
68	Fredrick Njoka	Public Relations and Marketing Officer, Kilimanjaro International Leather Industries Co. Ltd	SMEs

S/no	Participant Name	Position and Affiliation	Stakeholder Group
69	Fred Kibala	Executive Secretary, Leather Association of Tanzania (LAT)	Industry Associations
70	Meku Ngoberi	Represent Farmers	Smallholder Farmers
71	Luka Makunga	Represent Farmers	Smallholder Farmers
72	Temu Nyamire	Represent Farmers	Smallholder Farmers
73	Jonathan Mwita Maswi	Secretary, UWANGOTA	Industry Associations
74	Imran Hirji	Managing Director, Toto Junction	Traders
75	Irfan Khimji	Manager, K H Khimji's and Sons	Wholesaler and Retailer of Fabric and Garment
76	Noah Mwalusamba	Manager, Laylow Limited	Garment making SME
77	Ally Remtulah	CEO, Ally Remtullah	Fashion designer and cloth making
78	Kelvin Mlay	Strategic Planning Analyst, OpenSanit Company Limited	Garment making SME
79	George Albogast	Finance Manager, Cherry Garments and Solutions Limited	Garment making SME
80	Jeffrey Jessey	CEO, SPESHOZ Limited	Garment making SME
81	Eng. Thomas Mushi	Production and Technical Manager, Urafiki Textile Limited	Textile factory
82	Elias Ndama	Manager, Kilimanjaro Textile	Textile factory
83	Ludovick Mbasha	Managing Director- Mbasha Holding Ltd	Traders

S/no	Participant Name	Position and Affiliation	Stakeholder Group
84	Praxeda Roman	Sales and Export Manager	Textile Factory
85	Grace J. Laizer	CEO, Grace Classic Shop	Clothes Importers
86	Vailet Peter	CEO, Vailet Family Fashion Ltd.	Traders
87	Elisamia E. Masam	CEO, Masam and Son Ltd.	Traders
88	Sylivester Kazi	Export Manager- A to Z	Textile Factory
89	Yoga Sanga	Export Regional Manager- Vunja Bei Ltd.	Traders
90	Stephen Minja	Import and Sales Manager- Zanzibar Importers & exporters Ltd.	Traders
91	Robert Luzane	Senior Advisor, CTDP Program under Gatsby Africa	Sector support Agency
92	Adam Zuku	Executive Secretary, TEGAMAT	Sector/ Industry Association
93	Marco Mtunga	Director General, TCB	Sector support Agency
94	Geledi Mtero	Cotton Farmer	Smallholder Farmers
95	Augustine Malija	Cotton Farmer	Smallholder Farmers
96	Gregory Shawa	Cotton Farmer	Smallholder Farmers
97	Agape Nyanda	Cotton Farmer	Smallholder Farmers
98	Charles Mabula	Cotton Farmer	Smallholder Farmers
99	Grace Bituro	Cotton Farmer	Smallholder Farmers
100	Steven Mlimbila	Chairperson- TUONDOKE BUSSINESS GROUP	Industry Association

S/no	Participant Name	Position and Affiliation	Stakeholder Group
101	Humphrey Nziku	Son's Owner – Agent KUZA Company	Traders
102	Head of Team	TANZANICE	Traders
103	Yuda mtokoma	Owner Farmer	Smallholder Farmers
104	Rebeka Mwinuka	Owner Farmer	Smallholder Farmers
105	Aman Bimbiga	Owner Farmer	Smallholder Farmers
106	Sara Mligo	Owner Farmer	Smallholder Farmers
107	Manager	Shikamoo Parachichi	SME
108	Worker	Shikamoo Parachichi	Smallholder Farmers
109	Goodluck Mtweve	Assistant Manager-Serengeti Fresh	SME
110	Ndeoya Mungure	Industry Analyst	Industry Associations
111	Machel Tarimo	Business Owner	Homeveg
112	Yusuf Yusufali	Managing Director	Hortanzia (Exporter)
113	Doris Joseph	Business owner	SME/Processor
114	Joyce Singo	Chairman- Arusha Processing group	Industry Associations
115	Devotha Minja	Owner Farmer	Smallholder Farmers
116	Kenneth Kaaya	Owner Farmer	Smallholder Farmers
117	Ombeni Laizer	Owner Farmer	Smallholder Farmers
118	Alex Lomayani	Owner Farmer	Smallholder Farmers
119	Daniel Maina	Owner Farmer	Smallholder Farmers
120	Tumaini Zablon	Owner Farmer	Smallholder Farmers
121	Samwel Seth	Owner Farmer	Smallholder Farmers

***Source**: Authors' compilation.*

Annex G: Areas of Concern for Tanzania in the EPA with Annotated Response

The consultation with the Ministry of Foreign Affairs and EAC of the United Republic of Tanzania (URT) provided a very comprehensive review of the EU-EAC EPA through which the following key concerns were identified and shared with the team. To support the possible, follow up discussions, our study team made an annotated response (italics blue) under each of the issues.

(i) Increased Imports of EU Manufactured Goods

FTA between Tanzania and the EU is likely to have differing results on the flow of trade. In the different sectors including manufacturing, Tanzania and the EU are at different levels of productivity and efficiency. If not well managed implementation of EPA as it stands today, may result in increased influx of imports of the manufactured goods from the EU to Tanzania that can't be matched by exports from Tanzania to the EU.

The issue then is, in which manufactured goods does Tanzania have comparative advantage and will be in competition with similar goods imported from the EU under the EPA? Such products need to be identified, and Tanzania has the opportunity to classify them as 'sensitive' for purposes of excluding them from liberalization, or seek support for development/adjustment as necessary. Also, it is important to distinguish between increases in imports from the EU as a result of "Consumption effects" which represents import increases as they become cheaper than before due to tariff removal; and import increases as a result of 'trade creation' effects where removal of tariffs makes products originating from the EU ***relatively*** *cheaper than products already being imported from the EAC and the rest of the world. This is purely a change of origins, meaning that whether Tanzania signs or does not sign an EPA with the EU, these imports are already entering Tanzania from the other origins. So, the real change for Tanzania is the "consumption effects". Based on recent estimates, the direct import (or consumption) effects are estimated at US$25.4 million which represents 0.04% of GDP, and mostly these are products where Tanzania does not have comparative advantage. Note also that Tanzania will not be expected to eliminate tariffs on all products all at once. This process can take as long as 25 years of gradual tariff reductions.*

(ii) Government Revenue Loss:

General analysis done by Tanzania on the EPA text indicated that, despite the good intention of the EPA as enshrined in the Cotonou Agreement, the concluded EAC-EU EPA will have more economic cost than benefits to the EAC Partner States and Tanzania in particular. The costs will include significant revenue losses due to perpetual tariff cuts, undermining the EAC industrial development, frustrating the EAC integration process; and forgoing existing flexibilities provided under the WTO. The compensation mechanisms for Revenue loss stipulated in the EPA Agreement does not guarantee

EAC Partner States to be adequately compensated for the loss that may come due to the implementation of the EPA and the proposed mechanism as per the Agreement is subject to stringent conditions and procedures that do not guarantee for revenue loss compensations.

> *The issue of loss of duty revenues should mainly consider how much and what is the share of customs duty revenue on imports originating from the EU. Furthermore, it should consider the implicit taxation of a country's exports caused by its own customs duties, which has led many governments to reduce dependence on customs duty revenues and consider/shift emphasis to alternative revenue sources. The EU has provided support under interim EPAs for tax reforms aimed at improving efficiency in revenue generation and collection, amongst other objectives. The compensation mechanisms for Revenue loss is a matter for negotiation between parties where the EU may adjust to accommodate Tanzania's interests but will be aware of the implications of offering similar commitments in other agreements.*

(iii) The Exclusion List:

The Stand Still Clause states (Art.12) that no new customs duties shall be introduced, or existing duties increased – "for all products subject to liberalisation". It is therefore the sensitive products (exclusion list) are not subject to liberalisation within the EAC-EU EPA. The issue is on how the exclusion lists are essentially composed, in both substance and procedure. The exclusion list contains mainly farm products and other necessities which are not sophisticated products. The flexibility arising from this provision is thus limited to exactly such relatively simple products. A possibility of swapping products in and out of the exclusion list would have been appropriate for a policy space to cater for emerging products envisaged during negotiations and industrial development in East Africa.

> *The determination of what goes on the sensitive list is largely driven by each party for reasons that best fit its national export, industrial and other such interests. The issue of how many such products may be included in the sensitive list is an unresolved question at the WTO, including what constitutes "substantially all trade" The possibility of swapping products is also a matter for negotiation, with clear agreed guidelines on how this will be done.*

(iv) Strategic Industrial Development:

Industrialisation is now and in future a shared key agenda of the African Union and the EAC Partners states, as a vehicle of accelerating development and transforming African economies, and to bring prosperity to the people of Africa and East Africa in particular. In view of this, we have noted that there is no concrete article for protection of Infant and strategic industries. Article 50, on Bilateral Safeguards which is referred to as an article on protection of infant and strategic industries; does not effectively cover the

interest of EAC industrialization strategy. In addition, the Bilateral Safeguard measure referred to has a limitation in terms of time for its application. It fixes a time and once such time expires it pays no regard to whether there is still a need for its continued application. Tanzania therefore is of the view that adequate protection of infant and strategic industries should be provided, to suit the EAC's interests for industrialization. It is prudent therefore, under the Safeguard Measure Clause, to consider resolving the threat to industrial development by revising the time limit to align with the EAC Partner States' desire to have adequate time for protection of Infant and Strategic Industries. Tanzania desire is to see that the Safeguard Clause is applied at any time as will be needed; and as was agreed in the Agreement Establishing the African Continental Free Trade Area. (ACFTA)

Notably, the above are issues for negotiation with the EU. Tanzania can negotiate for flexibility in the application of Safeguards. The high import tariffs do not always provide effective protection. Note though that, Taxation of imports have empirically been shown to hinder export growth since such taxes are a disincentive to production of exports that use imported intermediate inputs. Tanzania may also opt to protect her infant industry through other instruments such as non-tariff measures (NTMs).

(v) Denunciation:

Article 140 as it is, does not allow EAC individual countries to exit from the EPA; however, the same Article allows the EU Party to decide to pull out individually as the UK has demonstrated in the BREXIT. It is imperative therefore to correct such anomaly, which infringes on the constitutional sovereignty of individual EAC Partner States prior to signing instead of waiting until it comes into force. The lesson we can draw from the on-going dialogue is that it is easier to reach consensus prior than after agreements have been signed**.** Tanzania therefore retrains with the view that Article 140 should be amended prior to coming into force of the Agreement.

This is also an issue for negotiation. The EU Treaty provides a mechanism for a member to leave EU membership, which the UK used it to leave. It would not make sense for the EU to refuse to grant the same provision to a party in an FTA. BREXIT gives Tanzania a strong case to argue for inclusion of this provision.

(vi) Development Agenda:

The EPA Development Agenda is crucial for EAC integration. The language used from Article 75 to Article 102 on Development Cooperation is non-committal and does not guarantee EAC Partner States access to additional resources to finance the Region's development agenda. There is need to rephrase the text to legally commit the EU to set aside and channel resources to address EPA Adjustments costs, including revenue losses and the EAC EPA Development matrix.

This is a matter for negotiation. Both sides (individual EAC Partner States and the EU) will need to demonstrate the short-term and long-term costs and benefits of the EPA and reach an agreement. While on this, it is also important to bear in mind that development assistance from one donor (e.g. the EU under EPAs), will also benefit the EAC in its major trade partners (e.g. in Asia and Middle East) that are non-EU.

(vii) The Rendez-vous:

Article 3 on Rendez-Vous (RDV) requires the Parties to conclude negotiations on Trade in Services and Trade related issues within five years from the date the Agreement enters into force. This compels the EAC Partner States to start negotiations on issues which they have neither concluded negotiations at the regional level nor have they concluded them at the WTO level. Even if the Parties are not compelled to agree on these issues during negotiations, still including them in the Agreement at the current stage has a great potential of causing and increasing deviations among Parties in future. We are of the view that this Clause should be deleted from the Agreement.

This is very true. There is no party that is compelled to agree to the issues raised above. And either party can and will maintain status quo if it is not ready to commit now or in the future. There is no time limit set for when one party is compelled to change its position, so there would be no pressure to do so. Its inclusion makes it easy to engage on the issues when the time is right without implying commitment to change position.

(ix) Export Subsidies and Domestic Support:

EU response on this issue is not comprehensive. In Article 68, the EU only commits to remove agriculture export subsidies to agricultural products destined to the EAC but does not consider other subsidies which equally distort markets and create barriers for EAC farmers to compete in the EU market. Furthermore, Article 68(2) provides that the prohibition of subsidies is temporal, not permanent. Therefore, it can be concluded that the current formulation which reads: *"This prohibition shall be reviewed by the EPA Council after 48 months,"* is redundant and contradicts WTO agreements. The Government of the United Republic of Tanzania is of the view that all forms of subsidies that distort markets should be considered since the interest of the EAC is to access the EU Market. EU, therefore, should make commitment to remove all forms of domestic and export support to their farmers.

The issues of export subsidies and domestic support are still running at the WTO. EU concessions to a large number of its trade partners including URT will be fashioned by the outcomes of multilateral conclusions on the issues. In the meantime, many other countries and regions have struck trade agreements with the EU, USA and such other global trading countries that apply export subsidies and domestic support.

Annex H: Survey Instruments

The main survey instrument was different sets of guiding questions. Based on the study objectives, different sets of questions were asked to different categories of stakeholders based on the thematic focus of the study as shown below.

Stakeholders	Theme and Questions
1. **Ministries:** Ministry of Industry and Trade (MIT); Zanzibar Ministry of Trade and Industry**;** Ministry of Agriculture and Livestock, Ministry of Transport and Communications. 2. **Public Organizations/Agencies:** Zanzibar State Trading Corporation, Tanzania Trade Development Authority (TANTRADE); Export Processing Zones Authority (EPZA), Tanzania Investment Centre (TIC); Bank of Tanzania (BoT) and National Bureau of Statistics (NBS) 3. **Private Sector Support Organisations:** Tanzania Chamber of Commerce, Industry and Agriculture (TCCIA); and Tanzania Exporters Association (TANEXA) 4. **Regional level organizations:** Trade Mark East Africa (TMEA) and East Africa Business Council (EABC) 5. **Members of Parliamentary Committee** on Industries and Trade	***Theme: Trade and Investment in Tanzania and Potential impact of EAC-EU EPA on Trade, Investment and SMEs:*** **Questions:** (a) What is your view regarding trade environment in Tanzania. Is it favorable to promoting regional and international trade? (b) What are the key policy issues impacting on trade performance (export or import or both) in Tanzania? trade (c) How important are the trade flows between Tanzania and EU? (d) Are the trade relations with EU improving overtime for Tanzania? What are the key issues and how is the Government addressing them? (e) How are the following stakeholders affected by Tanzania's trade relations with EAC? FARMERS, SMEs (processors), WOMEN/YOUTH cross border traders; (f) What are the current challenges affecting trade flows between Tanzania and EU? (g) What are the **current** opportunities for Tanzania in trading with the EU? (h) To what extent are you informed of the current status of the Economic Partnership Agreement (EPA) between EU and EAC? (i) What do you consider to be the **future** opportunities for Tanzania if signed and implement the EU-EAC EPA? PLEASE MENTION SPECIFIC TRADE, ECONOMIC OPPORTUNITIES (j) What do you consider to be the potential impacts (both positive and negatives) for Tanzania if implement the current EAC-EU EPA? (k) Are there specific impacts (positive or negative) on investment flows for Tanzania? Which sectors will

Stakeholders	Theme and Questions
6. **Others;** Academics and Researchers working on Trade and Regional Integration issues on Tanzania.	be most beneficial, and which will be most affected if Tanzania signs the EPA? (l) Are there specific impacts (positive or negative) on EAC regional integration? (m) What are your recommendations for improving the EU-EAC EPA negotiations or its outcomes
1. **Specific Ministries:** Ministry of Finance and Planning (MoFP) in Mainland and Zanzibar	***Theme: EDF status and issues, tax revenue implications; capacity of the customs authorities to properly apply preferential rules of origin applied in trade in goods with the EU*** **Questions:** (a) What is the current EDF status in terms of its utilization and what are the challenges affecting its full utilization? (b) What would be the potential tax revenue implication of EAC-EU EPA to Tanzania if Tanzania signs and implements it? (c) What should Tanzania do to minimize the anticipated negative tax revenue impact of the EPA? (d) Is the development aid and capacity building benefits of EPA sufficient to offset the revenue lose? Why? (e) To what extent has the technical assistance to improve trade capacity been utilized and helpful for Tanzania?
1. **Specific Ministries:** Ministry of EAC and Foreign Affairs	***Theme: Relationship with EU and political cooperation*** **Questions:** (a) How is the Tanzania relationship with EU? Are there any challenges? (b) In which areas does Tanzania and EU cooperate? (c) To what extent will the current relationship between EU and Tanzania help successful implementation of EAC-EU EPA? How? (d) If Tanzania opts to sign and implement the agreement, how will the current formulation of the EAC-EU EPA affect the economic and diplomatic relations between URT and EU? (e) What are your recommendations for how Tanzania can manage implementation of the EAC-EU EPA to

Stakeholders	Theme and Questions
	ensure positive outcome on the economy and international relations?
1. **Farmers/ Business Owners** from each value chain/sector 2. **SMEs:** from selected sectors/value chains (Horticulture, Rice, Leather, Seaweed and Logistics) and from other sectors (Cotton, Textile and Apparel, Coffee and Tobacco) 3. **SMEs Sector Support Organisations**: Small Industries Development Organization (SIDO); Tanzania Private Sector Foundation (TPSF); Confederation of Tanzania Industries (CTI); and Tanzania Entrepreneurship and Competitiveness Center (TECC)	***Theme: SMEs/Farmers/Trader's status, participation in international trade and impact of EAC-EU EPA*** **Questions:** (a) To what extent are SMEs participating in international trade in Tanzania? (b) What are the current challenges hindering SMEs participation in international trade? (c) To what extent are SMEs ready to utilize trade and investment opportunities arising from EAC and SADC regional integration? (d) Do you know or heard of the Economic Partnership Agreement (EPA) between EU and EAC? If not, which international trade agreements are you aware of, and how are you benefiting from it? (e) What are the potential costs and benefits for SMEs to participate in EAC-EU EPA? (f) What recommendations do you propose to improve SMEs readiness and capacity for utilizing opportunities arising from international trade agreements such as EAC-EU EPA? PLEASE BE SPECIFIC – WHAT ARE THE NEEDS AND HOW THESE COULD BEST BE DELIVERED TO SMEs **Specific Questions:** (a). Volume, value, and percentage of products (raw materials, inputs, final goods): (i) exported to the EU, UK, other countries, (ii) imported from the EU, UK, other countries; (iii) traded with other SMEs in the EAC and other RECs? (b). Specifically, what are the main challenges with customs, product quality control, testing, and others faced when exporting goods to the EU? PLEASE MENTION THE EU OR OTHER EROPEAN COUNTRY YOU HAVE EXPORTED TO BEFORE. (c). What are your recommendations for how these challenges could be resolved?
7. **Sector Associations and Private Sector Agencies**: Tanzania Horticulture Association (TAHA);	***Theme: Status of selected sectors/value chains (Horticulture, Rice, Leather, Cotton and Textile, Seaweed and Logistics) in Tanzania and the impact***

Stakeholders	Theme and Questions
Leather Association of Tanzania (LTA); Zanzibar Seaweed Farmers Association; Network of Farmer's Groups Tanzania (MVIWATA); Transporters Association (TATOA), Federation of Freight Forwarding Agencies (TAFFA); Central Corridor Transit Transport Facilitation Authority (CCTTFA); and Dar es Salaam Corridor Committee.	***of EAC-EU EPA on selected sectors/value chains in Tanzania*** **Questions:** (a) What is the current growth status and performance of the XXX sector from the value chain perspective? How has it evolved over time? *(b)* What are the current opportunities for growth and challenges affecting growth in the sector/value chains? *PLEASE MENTION THE SPECIFIC OPPORTUNITIES and CHALLENGES* (c) What has been the experience of the sectors with trading in the EAC Customs Union and Common Market, SADC, or other African countries? (d) To what extent is the current performance, opportunities or challenges been influenced by EAC regional integration or international trade agreement? (e) Do you know or heard of the Economic Partnership Agreement (EPA) between EU and EAC? If not, which international trade agreements are you aware of, and how are you benefiting from it? (f) To what extent are Tanzania's trade and investment relations with the EU important for your sector/value chain? MENTION SPECIFIC AREAS OF INTEREST (g) How could these opportunities be improved in the future? (h) Please comment on the capacity of the sectors to identify and take advantage of trade and investment opportunities arising from EAC Regional Integration or other Preferential Trade Agreements? What should be the role of Government, and what should be the role of private sector? (i) What are the challenges facing farmers in the sector/value chains? (j) What are the challenges facing SMEs (including producers and small-scale traders) in the sector/value chains? (k) How capable is the Transport and Logistics sector in facilitating trade between URT and EU?

Stakeholders	Theme and Questions
8. Public Agencies and CSOs/NGOs dealing with environmental, human rights and gender issues. 1. **Ministries:** Ministry of Home Affairs and Ministry of Constitutional and Legal Affairs 2. **Agencies:** Tanzania Women Chamber of Commerce (TWCC) 3. **CSOs:** NGO's focusing on Human Rights in Tanzania	***Theme: Potential Environmental, Gender, Human rights and other social Impact of EAC-EU EPA in Tanzania*** **Questions:** (a) What are the current environmental/ gender or human rights issues in Tanzania? (b) What is the potential environmental/gender/human rights impact caused by implementation of regional or international preferential trade agreements such as AGOA or EAC/SADC regional integration? (c) Do you know or heard of the Economic Partnership Agreement (EPA) between EU and EAC? If no, what preferential trade agreement are you aware of? (d) What are the potential environmental/gender/human rights and social impacts on Tanzania if she signs and implement the agreement? (e) Please comment on Tanzania's readiness and capacity to address the environmental/gender/human rights or other social impacts from the EAC-EU EPA (f) To what extent do you think the EAC-EU EPA will impact on the vulnerable groups if Tanzania decides to sign and implement it? (g) What specific group of society or sector is it most affected from implementation of such agreement? What policy measures should be deployed to minimize such impacts? (h) Can EAC-EU EPA help address some of the environmental/gender/human rights or other social challenges in Tanzania? How? (i) What are your recommendations for how Tanzania can manage implementation of the EAC-EU EPA to ensure positive outcome on sustainable development?