Tanzania

1. Introduction

Under the Mwinyi and Mkapa administrations of the 1980s, Tanzania undertook important economic reforms. Those reforms resulted in a steady movement away from the control regime that characterised the late President Nyerere's socialist rule. Freer markets for goods and services and greater flexibility for financial markets, foreign exchange and the labour market emerged. Tanzania's government, however, remained the overall regulator and facilitator of economic development although, for certain critical sectors, including health, education, water and sanitation, it played an active role in the provision of key physical infrastructure and in human development.

In 2005, the Tanzanian government committed itself to ensuring sustained and shared economic growth through pro-investment policies, job creation, export expansion, the development of value addition chains and the scaling-up of human capital development. The government acknowledged the need for improved productivity in its economy so that exports could be externally competitive and Tanzanian exporters could achieve expanded output, improved quality, export diversification and consolidation of their external markets and market shares. To achieve those objectives, a *National Trade Policy* (United Republic of Tanzania, 2003a) was developed and subsequently integrated into the country's second poverty reduction strategy, the *National Strategy for Growth and Reduction of Poverty* (United Republic of Tanzania, 2005a). Tanzania's trade policy envisions raised competitiveness and export-led growth. It enhances the capacity of the Tanzanian private sector to identify and exploit market access opportunities within the regional and global markets.

In the past five years, Tanzania's structure of exports has changed as the share of non-traditional exports (NTEs) to total exports increased. Continuing political stability, an improved investment climate and a governmental commitment to market-oriented reforms combined to attract large inflows of official donor assistance and foreign direct investment (FDI). About 40% of FDI was directed at the mining sector, while the balance went into the manufacturing, tourism and financial sectors.

2. Macroeconomic performance

2.1. GDP growth

Tanzania's real Gross Domestic Product (GDP) growth exceeded 5%, averaging at 5.4% per annum over 2001-2005. As is shown in Table 1, Tanzania's highest recorded growth was 6.8% in 2005.

In 2005-2006, Tanzania experienced two years of debilitating drought that led to a power crisis because the country relies heavily on hydro-power for its electricity. The power crisis resulted in higher production costs, particularly for its industrial sectors, while food production outputs dropped. Even when regular rains resumed, the continuing rise in the price of imported oil maintained pressure on domestic prices because the costs of production and transport continued to rise. Although inflation stayed within a single-digit range, averaging at 4.3% for 2001-2005, it rose in 2006 and provisional estimates put it at 6.2% for that year.

Table 1: GDP growth rate and inflation rate: 2001-2006

	2001	2002	2003	2004	2005	2006*
Change in GDP, at factor cost 1992 prices, %	5.7	6.2	5.7	6.7	6.8	6.2
Change in Consumer Price Index (inflation) %	5.2	4.5	3.5	4.1	4.4	6.2

*2006 figures are provisional estimates

Source: Bank of Tanzania (2007)

In terms of the economy's major sectors, Tanzania's industrial sectors recorded improvements, growing at an average rate of 9%, mainly due to increased public investment in infrastructure, compared to the growth rate of 5.4% recorded for 1995-1999. Over the period 2000-2005, the leading industrial sector was mining and quarrying with an average annual growth rate of 15.2%, followed by construction (10.3%), manufacturing (7.3%) and electricity and water (4.4%). Growth of services sectors was dominated by trade, hotels and restaurants (7.1%), transportation and communication (6%), social sectors of education (6.6%) and health (5.8%).

As Table 2 shows, the structure of the Tanzanian economy did not change much. Agriculture continued to be dominant in terms of its contributing share of total GDP. The services sectors' combined share was unchanged while there was only a slight gain for industry.

Table 2: Real GDP growth and shares of major sectors: 2000-2005

	Annual average growth rate (%)	Share of GDP (%)	
	2000-2005	2000	2005
Agriculture	4.8	48	46
Industry	9.0	17	20
Services	6.1	35	35
Overall GDP	6.2 (2001-2005)	100	100

Note: in the National Accounts, agriculture includes crops, livestock, forestry and hunting as well as fishing; industry covers mining and quarrying, manufacturing, electricity, water and construction; and services include trade, hotels and restaurants, transport and communication, financial and business and public administration.

Source: Utz (2008)

2.2. Monetary policy, interest rates and exchange rates

During the review period, Tanzania's monetary policy was aimed consistently at maintaining an appropriate level of liquidity, which permitted economic activity with low inflation and foreign reserves of not less than six months' worth of imports of goods and services.

As is shown in Table 3, Tanzania's monetary aggregates trended together over the period. Those are indicated in the table as M1, M2 and M3. M1 comprises currency in circulation and demand deposits; M2 comprises M1 and time deposits; and M3 is extended broad money including M2 plus net foreign assets. The latter is important for foreign exchange operations. Open market operations remain critical as a tool (supplemented by foreign exchange market operations) for influencing the effects of changes in net domestic assets and net foreign assets, respectively.

As the Tanzanian economy built up considerable excess liquidity, the Bank of Tanzania scaled up its sales of treasury bills, which were complemented by sales of foreign exchange and repurchase agreement transactions with the country's commercial banks.

Table 3: Selected macroeconomic aggregates: 2001-2006

	2001	2002	2003	2004	2005	2006*
Change in broad money (M3) %						
Change in broad money (M2) %	12.8	22.3	14.2	19.2	36.9	13.7
Change in broad money (M1) %	10.2	25.2	16.1	18.2	33.7	16.8
Total credit to GDP ratio %	7.6	8.8	8.7	8.5	9.4	12.0
Private sector credit as a total GDP ratio %	4.9	6.1	5.2	8.9	11.0	12.5
Private sector credit as total credit %	63.7	69.2	98.4	104.7	84.6	103.9
Reserve months of imports of goods and services	6.3	8.6	9.2	8.0	5.8	5.3

*2006 figures are provisional estimates

Source: Bank of Tanzania (2007)

Credit to the private sector increased, as is shown by the rising ratio of private sector credit-to-GDP ratio in Table 3. The trends observed for this ratio reflected improved access for the private sector to credit from the local banking system despite real constraints that persisted within the economy.

Foreign reserves measures, as reserve months of imports of goods and services, stayed above what is considered to be optimal, in other words of not less than six months, for 2001-2004. However, the measure declined in 2005 to 5.8 months and was expected to drop further to 5.3 in 2006, largely because of the rise in the importation of oil and food, the latter being due to the country's drought and energy crisis.

Tanzania's banking sector grew. Currently, there are more than 30 licensed banks in the country. However, the structure of the financial market was characterised by structural bottlenecks and legal and regulatory rigidities that distorted the competitive determination of the interest rate and the prices of various financial assets. A wide gap persisted between the lending and borrowing rates, as is evident in Table 4. The weighted average interest rate on local currency savings deposits increased marginally to 3.5% in 2005-2006 compared to 2.5% in 2004-2005.

Table 4: Trends in the interest rates: 1990-2005

	1999/00	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06
Average deposit rate as %	7.1	4.2	3.5	3.1	2.4	2.5	3.5
Average lending rate as %	22.1	19.6	16.4	15.7	14	14.4	14.9

Source: Bank of Tanzania (2007)

Given Tanzania's inflation rate of 5%-6%, savings deposit rates remained negative in real terms. Concerns about the interest rate spread but, as is evident in Table 4, average lending rates fell slowly. They are expected to fall further as the business environment improves, credit risks (to banks) fall and competition in the banking sector increases. Yet banking services remain concentrated largely in urban and peri-urban areas. The current agenda for the sector includes improving the working of the financial markets, developing new business models and lending technologies as well as bridging the rural-urban divide that exists in the access to savings and credit facilities.

Public preference for holding different types of monetary assets increasingly favoured foreign currency holdings, followed by demand deposits and currency in circulation. These preferences indirectly influenced the value of the Tanzanian shilling (Tsh) vis-à-vis foreign currencies, although movements in the nominal exchange rate were determined by other factors, such as the level and rates of growth in exports and imports, aid inflows and how these were managed at a macro level.

By 2004, Tanzania's exchange regime was classified as possessing 'independent float', which meant it had a market-determined rate and its official foreign exchange market interventions were aimed at moderating the rate of change and preventing undue fluctuations in the exchange rate (International Monetary Fund, 2004). For 2000-2005, the nominal exchange rate experienced continued depreciation, falling from the annual average of Tsh916.3 to the US dollar (US$1) to Tsh1,261.6 to US$1 in 2006.

Table 5 compares the period 2000-2005 to two previous five-year periods (1990-1995 and 1996-2000) and captures the continuous fall in the value of the Tanzanian shilling. The annual rates of depreciation of the nominal exchange rate show improvements in that the fluctuations were less pronounced for the review period than for 1996-2000.

Table 5: Changes in exchange rate measures (using period averages): 1981-2005

Measure	1990-1995	1996-2000	2001-2005
Annual average exchange rate (TSh/US$1) (period average)	424.56	682	1,019.94
Annual % change in exchange rate (period average)	23.9	8	6.9

* period with bureau de change rates

Sources: Bank of Tanzania (2007)[1]

2.3. Fiscal performance

Although Tanzania continued to implement a tight fiscal policy while trying to raise domestic and foreign revenues, the level of fiscal deficit rose during the review period. Table 6 shows Tanzania's total expenditure and total revenue as a percentage of GDP for the fiscal years 2000/01 to 2005/06. Total expenditure increased steadily while total revenue rose at a slower rate. The gap was financed by grants. The level of grants as a percentage of GDP is also shown in Table 6. The aggregate fiscal deficit before inclusion of grants was lower than the fiscal deficit after the inclusion of grants.

Table 6: Fiscal deficit as % of GDP: 2000 -2005

	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06
Total revenue	12.0	12.1	12.1	13.0	13.6	14.1
Total expenditure	17.0	17.6	19.8	22.0	25.0	26.3
Overall balance before grants	-5.3	-5.6	-7.7	-9.3	-11.3	-12.6
Grants	3.7	4.5	6.2	6.1	7.6	6.7
Overall balance after grants	-1.6	-1.1	-1.5	-3.2	-3.7	-5.6

Source: United Republic of Tanzania's Ministry of Finance and Economic Affairs data set (2007)

The widening fiscal deficit was attributed to Tanzania's expanding expenditures. In the past five years, the government implemented its poverty reduction strategies which demanded protection of the levels of spending on social service sectors while also setting aside more resources for productive sectors and hard infrastructure projects such as the building of roads, bridges, harbours, warehouses, storage facilities and buildings.

Overall, total revenue increased but was still too low when compared to the pace of total expenditure. Nevertheless, the revenue performance was variable for the different components, as shown in Table 7. Tax revenue was larger than non-tax revenues.[2] Tax revenue constituted the bulk of Tanzania's revenue and was dominated by value-added tax (VAT), which provided 5.6% of GDP in 2004 and 2005. The VAT on imports was higher than the VAT on domestic goods.

1 The Central Bank has applied stabilisation functions to the data, yet it is not easy to decipher all of the operations used by the Bank to limit the fluctuations observed at this level of analysis.

2 Non-tax revenues stand at slightly above 1% of GDP. The mining sector and other natural resources sub-sectors, such as fishing and wildlife, are key areas where there is potential for government to raise taxes.

Table 7: Summary of central government revenue (% of GDP): 1999-2006

	1999/00	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	06/07 est.
Total revenue	11.3	12.0	12.1	12.1	13.0	13.6	14.1	14.5
Tax revenue	10.1	10.7	10.9	11.0	11.9	12.4	12.9	13.4
Import duties	1.3	1.2	1.0	1.1	1.2	0.9	1.3	1.1
VAT	3.3	3.9	4.1	4.2	4.5	5.6	5.6	4.9
VAT on domestic goods and services (G&S)	1.6	1.6	1.7	1.7	2.1	2.2	2.3	2.4
VAT on imports	1.6	2.4	2.4	2.5	2.8	3.4	3.3	2.5
Excises	1.3	2.0	2.1	1.9	1.9	1.8	1.7	3.1
Excise on domestic G&S	1.0	0.9	0.8	0.8	0.8	0.8	0.9	1.0
Excise on imports	0.3	1.1	1.2	1.0	1.1	1.0	0.8	2.2
Income taxes	3.0	2.5	2.6	2.7	3.2	3.6	3.9	3.9
PAYE	1.1	1.2	1.4	1.3	1.6	1.8	1.9	1.9
Corporate	0.7	0.6	0.7	0.8	1.0	1.2	1.3	1.3
Other taxes net (including refunds)	1.3	1.1	1.1	1.1	1.1	1.0	0.4	0.4
Non-tax revenue	1.2	1.3	1.2	1.1	1.0	1.2	1.2	1.1

Source: United Republic of Tanzania's Ministry of Finance and Economic Affairs data set (2007)

Excise duties on imports accounted for nearly 1% of GDP and were slightly lower than the excises on domestic goods. Revenue from income taxes rose steadily: income taxes consisted of pay-as-you-earn (PAYE) and corporate taxes, both of which improved.

Efficiency gains resulted from improvements in Tanzania's customs and tax administration in general. For example, VAT and income tax were brought under one roof and modern information technologies, like e-filing of returns and the payment of taxes through banks, were used. These measures reduced the cost of tax compliance to tax payers. Tax payers spent less time and money on completing long, complicated tax returns or declaration forms. They spent less time in long queues and less time and money travelling between two or more offices in the course of processing or paying for a licence or other taxes. Measures were also put in place to tighten leakages, as was the case for the fuel levy, and to reduce the number and levels of tax exemptions.

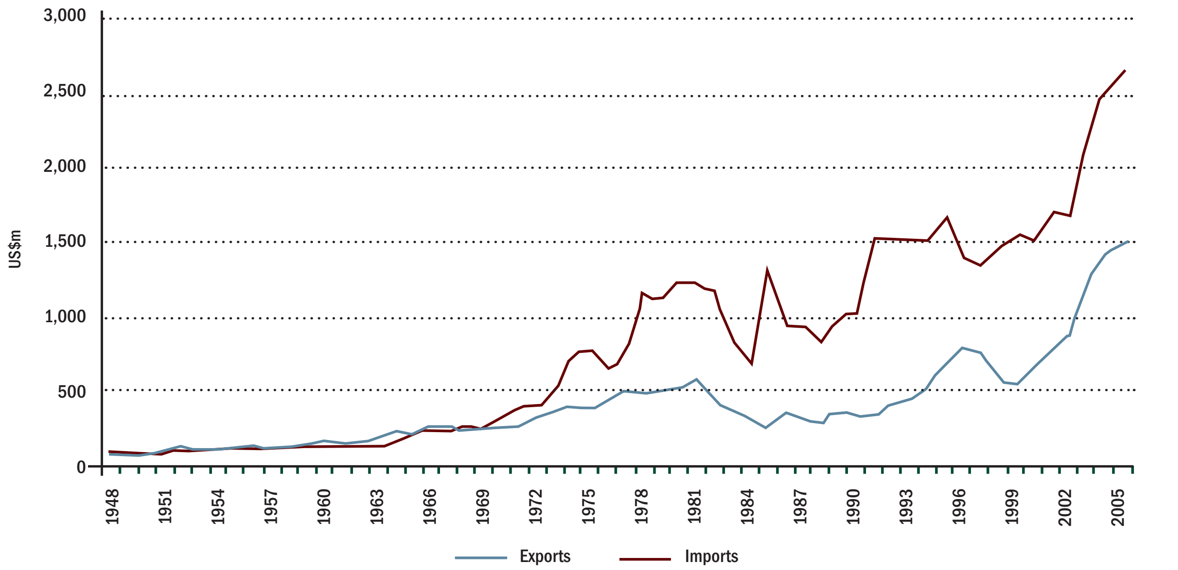
3. Trade performance

3.1 Export-import trade flows

Figure 1 illustrates the trends in Tanzanian's exports and imports for 1948-2005.

Both imports and exports grew as Tanzania's economy expanded over time. The figure shows that the trade deficit widened, especially from the late 1970s when the gap between exports and imports started to diverge and imports began exceeding the volumes of exports. Until 1970, the country experienced trade surpluses, albeit of narrow margins. In 2000-2005, there was a significant increase in Tanzania's exports. However, the negative balance of trade prevailed because imports also increased.

Figure 1: Historical trends in export and import trade: 1948-2005



Source: TIPS/AusAID Southern African Trade Database

Tanzania's exports continued to be dominated by primary products, such as crops and minerals. Importantly, during the review period, the prices of primary products were volatile on the world markets and domestic production was vulnerable to weather extremes and other supply constraints. The country attempted to diversify its exports by increasing its non-traditional exports, most notably of fish, food grains and horticultural products. The export sector was expected to strengthen as more structural bottlenecks were addressed as part of the effort to promote private sector competitiveness. However, high oil prices and the fast growth of the importation of intermediate and capital goods as well as the substantial import demand from government, which is linked to its infrastructural projects, will widen Tanzania's trade deficit.

Tanzania's imports were dominated by manufactured products. Over the period 2000-2005, manufactured imports consisted of capital goods, such as transport equipment, building and construction, and machinery, at a 39.9% share of total imports; intermediate goods, such as oil, fertilisers and industrial raw materials, at 28.1%; and consumer goods, such as food, foodstuffs and all other consumer goods, at 32.0%. The trends in the import categories are related to the growth in the mining and quarrying and construction sectors (reported as leading under sub-section 2.1 above), which rely on imported capital inputs as well as intermediate goods such as chemicals and oil. The agricultural sector also continued to rely on additional imported fertilisers. The food deficit that was associated with the drought could explain the high level of food imports. Provisional estimates for 2006 show that the imports of these goods declined to 27% (from the 32% observed over the Review period) when the weather and harvests improved.

Provisional estimates for 2006 indicated a reduction in the proportion of consumer goods imports, which fell to 27%, a substantial increase in the proportion of intermediate imports, rising to 39%, and a slight drop in the imports of capital goods (Bank of Tanzania, 2007). The 2006 estimates nevertheless are not sufficiently significant to indicate a departure from the trend dominance of share of imported capital and intermediate goods combined.

3.2. Export trends

3.2.1. Tanzania's top export partners

While the traditional destinations of Tanzanian's export trade were located in the developed world, particularly in western Europe, north America and Japan, in the last decade, Tanzania's export destinations have included new trading partners in east Asia, India, Africa and the Middle East. Hence, Tanzania has diversified its export market.

Table 8: Exports by partner country: 2000-2005

		Value (US$m)		Growth	% share
		2000	2005	2000-05	2005
#	**World**	670.8	1,529.3	17.9	**100.0**
1	South Africa	11.8	289.4	89.8	18.9
2	Switzerland	3.0	144.6	116.8	9.5
3	UK	147.5	130.8	-2.4	8.6
4	China	0.6	98.2	177.8	6.4
5	The Netherlands	45.9	97.7	16.3	6.4
6	Kenya	32.2	79.6	19.9	5.2
7	India	99.4	78.7	-4.6	5.1
8	Germany	60.8	77.4	5.0	5.1
9	Japan	34.3	71.5	15.8	4.7
10	Italy	9.0	39.9	34.5	2.6
11	Canada	0.5	39.2	136.4	2.6
12	Belgium	18.6	36.6	14.6	2.4
13	United Arab Emirates	6.3	35.3	41.3	2.3
14	Saudi Arabia	3.6	30.2	52.9	2.0
15	Uganda	8.6	20.6	19.3	1.3
16	Singapore	6.5	20.0	25.3	1.3
17	US	15.1	17.7	3.2	1.2
18	Gibraltar	0.8	16.8	84.5	1.1
19	Malaysia	3.1	16.1	38.9	1.1
20	DRC	5.0	13.2	21.6	0.9
	Selected countries				
24	Zambia	5.7	8.9	9.3	0.6
26	Malawi	7.7	8.0	0.7	0.5
29	Mozambique	1.5	7.2	36.1	0.5
36	Botswana	0.1	4.2	116.5	0.3

Source: TIPS/AusAID Southern African Trade Database

Tanzania's immediate policy question is how best to maintain and consolidate its market shares in these new destinations without losing its grip on its traditional markets.

Table 8 lists, in ranked order, Tanzania's trade partners on the basis of the value of trade in 2005. The table also provides the percentage shares for different countries relative to Tanzania's total exports for 2005, as well as the value of those exports in 2000 and 2005.

Table 8 shows that for 2000-2005 Tanzania's two largest export partners were South Africa and Switzerland. The United Kingdom (UK), China and the Netherlands were its next three largest partners.

Tanzania exported to South Africa minerals such as gold, Tanzanite, diamonds and rubies. Minerals accounted for more than 50% of Tanzania's non-traditional exports over the past five years.

Industrial diamonds, rubies, sapphires and emeralds were exported to the UK.

Tanzania continued to attract international interest in its mining sector. The major gold mining companies operating in Tanzania are Geita Gold Mining, owned by Anglo Gold Ashanti Limited (Ltd) (based in South Africa), Kahama Mining Corporation, with majority shares owned by Barrick Gold Corporation of Canada, another Canadian company, Placer Dome Gold Incorporated, the Australian company, Resolute Mining Ltd, and the state-owned Meremeta Ltd.

The major diamond company in Tanzania is Williamson Diamond Ltd; De Beers of South Africa is its major shareholder.

The main companies mining tanzanite are Tanzanite One Ltd, which is a South Africa company, Tanzanite Africa Ltd, which is owned by IPP Media Ltd, and Kilimanjaro Mines Ltd.

Investors took advantage of the country's attractive policy environment for foreign and domestic investment in the sector. There was, however, an ongoing policy and public demand for a review of the mining sector's laws and level of loyalties.

It was recognised that extraction of natural resources had a limit. It was also recognised that the Tanzanian government and its local entrepreneurs needed to harness FDI-borne technologies in order to develop local processing capacity for creating a value-addition economy.

3.2.2 Exports by section

Table 9 shows the composition of commodities exported from Tanzania in 2000-2005. The table also reveals the percentage share of those exports in 2000, again in 2005 and their compounded growth rates for that period.

Table 9: Exports by section

	Exports 2005 (US$m)		Growth	% share	
Exports by section	**2000**	**2005**	**2000-05**	**2000**	**2005**
S01: Animals and Animal Products	83.1	155.1	13.3	12.4	10.1
S02: Vegetable Products	250.5	261.4	0.9	37.3	17.1
S03: Fats and Oils (Animal or Vegetable)	2.4	6.1	20.0	0.4	0.4
S04: Prepared Foodstuffs, Beverages and Tobacco	53.3	168.5	25.9	8.0	11.0
S05: Mineral Products	4.9	107.4	85.5	0.7	7.0
S06: Chemical Products	5.4	17.0	25.8	0.8	1.1
S07: Plastics and Rubber	2.6	8.6	27.5	0.4	0.6
S08: Leather Products	7.8	8.6	2.1	1.2	0.6
S09: Wood Products	3.9	12.6	26.1	0.6	0.8
S10: Paper Products	1.3	3.6	23.3	0.2	0.2
S11: Textile Products	56.8	1,52.0	21.8	8.5	9.9
S12: Footwear & Headgear	3.6	1.3	- 18.3	0.5	0.1
S13: Stone, Cement and Glass Products	6.8	9.2	6.2	1.0	0.6
S14: Pearls & Precious Stones	176.5	579.1	26.8	26.3	37.9
S15: Metal Products	2.1	29.7	69.9	0.3	1.9
S16: Machinery	9.1	6.3	- 7.2	1.4	0.4
S17: Vehicles, Aircraft and Vessels	0.2	1.4	51.7	0.0	0.1
S18: Photographic accessories; Clocks; and Musical Instruments	0.2	0.3	6.4	0.0	0.0
S19: Arms and Ammunition	0.0	0.0	13.8	0.0	0.0
S20: Furniture, Toys and Other Products	0.3	1.0	23.3	0.1	0.1
S21: Works of Art & Antiques	0.0	0.2	76.0	0.0	0.0
Total trade	**670.8**	**1,529.3**	17.9	100.0	100.0
Concentration index	**0.2**	**0.2**	-2.4		

Source: TIPS/AusAID Southern African Trade Database

In 2000, Tanzania's largest export product was vegetable products, followed by pearls and precious stones. In 2005, pearls and precious stones overtook vegetables as the country's main export. However, in terms of growth rate for the period, the fastest growing exports were mineral products, with an 85% growth rate, although it was growth off of a small base of US$4.9 million in 2000.

The second fastest performer was metal products, which grew by 69.9%, yet it also was off of a small base of US$2.1m in 2000.

Other significant export products were prepared foodstuffs and textiles.

The recovery of the textiles industry was linked to the privatisation undertaken to overcome the effects of trade (especially import) liberalisation on the domestic industry. The market access provisions in the African Growth and Opportunity Act also contributed to the sector's recovery. There was also increasing interest in Tanzania's horticultural production sector.

3.2.3. Exports by chapter

Table 10 shows Tanzania's exports by chapter, ranking the products from highest to lowest, as a share of its total exports. The table also shows the growth levels for 2000-2005 across these various export products.

Table 10: Exports by chapter

		Exports (US$m)	Growth	% share
#	Top exports by Chapter	2005	2000-05	2005
1	H71: Pearls, precious stones	579	26.8	37.9
2	H03: Fish, crustaceans	150	14.7	9.8
3	H24: Tobacco and substitutes	133	26.7	8.7
4	H52: Cotton	116	23.9	7.6
5	H09: Coffee, tea, mate and spices	115	-1.7	7.5
6	H26: Ores, slag and ash	101	475.5	6.6
7	H08: Edible fruit & nuts	48	-10.9	3.2
8	H07: Edible vegetables, roots & tubers	39	48.2	2.6
9	H12: Oil seed, grain, seed	25	9.7	1.6
10	H06: Live trees, plants, cut flowers etc	16	10.1	1.0
11	H10: Cereals	14	33.0	0.9
12	H44: Wood and articles of wood	13	26.1	0.8
13	H72: Iron and steel	12	68.1	0.8
14	H63: Other made textile articles	12	88.0	0.8
15	H74: Copper and articles thereof	12	150.6	0.8
16	H17: Sugars and sugar confectionery	12	17.8	0.8
17	H70: Glass and glassware	9	5.6	0.6
18	H39: Plastics and articles thereof	9	43.9	0.6
19	H53: Vegetable textile fibres nes	8	6.4	0.6
20	H34: Soaps, lubricants, waxes	8	53.9	0.5
	Fastest growing Chapters			
1	H26: Ores, slag and ash	100.96	475.5	6.6
2	H59: Impregnated, coated or laminated textile fabric	0.51	282.3	0.0
3	H91: Clocks and watches and parts thereof	0.03	225.0	0.0
4	H65: Headgear and parts thereof	0.04	214.9	0.0
5	H45: Cork and articles of cork	0.01	192.7	0.0
6	H88: Aircraft, spacecraft, and parts thereof	0.35	153.9	0.0
7	H74: Copper and articles thereof	11.81	150.6	0.8
8	H78: Lead and articles thereof	0.45	124.4	0.0
9	H46: Manufactures of plaiting material, basketwork, etc.	0.02	113.2	0.0
10	H69: Ceramic products	0.04	95.3	0.0

Source: TIPS/AusAID Southern African Trade Database

Pearls and precious stones accounted for the largest share of total exports, recorded at 37.9%, followed by fish and crustaceans, with share of 9.8%, and tobacco and tobacco substitutes. Overall, the mining sector was the most important exporting sector because the sum of its products accounted for the largest share by value of the total exports[3].

[3] Tanzania has diverse mineral deposits. Its natural resources include precious minerals, such as gold, diamonds, tanzanite and rubies, as well as industrial minerals, such as iron, tin, copper, nickel, cobalt, lead, limestone, titanium, vanadium, uranium, phosphate and gypsum. Coal and natural gas deposits are also available.

There was a substantial gap between the share of pearls and precious stones compared to other, mainly agricultural, products which Tanzania traded with other markets.

These exports reflected the boom in the country's non-traditional exports, especially of gold and other minerals, food (cereals) and horticulture products. Most manufactured exports reflected the trade impact of FDI because many of those exporting firms were acquired by foreign investors.

The performance of the minerals sector continued to improve, contributing 3.5% to GDP in 2005 compared to 2.2% in 2000 (GDP at factor cost, 1992 prices) (Bank of Tanzania 2007: 31, Table 1.5). The Tanzanian government promoted value adding by encouraging gemstone cutting and gold polishing locally.

Facilitating smallholder mining by improving the legal and regulatory environment as well as providing education, credit and equipment to those smallholders were part of the effort to support value addition.

Production of gold, which dominates the country's mining sector, increased moderately to 48.2 tonnes from 48 tonnes in the preceding year. Significantly, several large gold mining projects exist or will be operationalised in the next few years, which will expand production further.

3.3 Import trends

3.3.1. Imports by partner country

Table 11 lists Tanzania's fastest growing import partners for 2000-2005, including the value of those imports for that period.

Tanzania sourced its imports from Bahrain, with a share of 15.5%, South Africa, with a share of 12.3%, China, with a share of 6.8% and Japan, with a share of 6.4%.

Other import partners from the SADC region were Swaziland, Mauritius, Zambia, Malawi, Mozambique and Zimbabwe, which had an import share of less than 1%.

Among the list of its 10 major sources of imports for 2005, Bahrain maintained the top position it had recorded in the 2000-2004 period (TIPS, 2006).

Oil was the main commodity imported from Bahrain and the United Arab Emirates, along with mineral products.

Tanzania imported Indian products such as cereals, chemicals and various types of machinery and equipment.

Table 11: Imports by partner country

		Value (US$m)		Growth	% share
		2000	2005	2000-06	2005
#	World	1,629.6	3,241.7	14.7	100.0
1	Bahrain	14.6	502.3	103.0	15.5
2	South Africa	162.6	400.0	19.7	12.3
3	China	66.7	221.5	27.1	6.8
4	Japan	141.5	208.0	8.0	6.4
5	United Arab Emirates	49.7	204.4	32.7	6.3
6	India	84.6	189.4	17.5	5.8
7	Kenya	91.3	173.0	13.6	5.3
8	United Kingdom	104.0	123.4	3.5	3.8
9	United States	57.6	102.0	12.1	3.1
10	Indonesia	41.2	90.8	17.1	2.8
11	France	22.2	90.4	32.5	2.8
12	Germany	49.9	88.8	12.2	2.7
13	Sweden	17.5	72.5	33.0	2.2
14	The Netherlands	29.5	68.5	18.3	2.1
15	Belgium	14.3	48.4	27.7	1.5
16	Australia	80.8	46.8	-10.4	1.4
17	Saudia Arabia	163.0	43.4	-23.3	1.3
18	Italy	35.5	40.9	2.9	1.3
19	Canada	32.4	36.4	2.4	1.1
20	South Korea	21.0	34.4	10.4	1.1
	Selected countries				
26	Swaziland	13.0	23.6	12.7	0.7
48	Mauritius	2.5	4.6	13.3	0.1
50	Zambia	2.4	4.5	13.0	0.1
52	Malawi	1.8	3.8	15.7	0.1
55	Mozambique	0.1	2.0	72.2	0.1
56	Zimbabwe	4.3	2.0	-14.6	0.1

Source: TIPS/AusAID Southern African Trade Database

From Japan, vehicles and vehicles parts were imported, while from China, computers, various electronics and heavy machinery were purchased. Rubber tyres, cord, thread and yarn – important inputs for Tanzania's textiles industry – as well as locomotives and railways parts, furniture, agricultural hand tools, ceramics and footwear were sourced from China.

From Kenya, Tanzania imported petroleum products, chemicals, pharmaceuticals, lubricants, washing agents, fertilisers and pesticides, as well as plastic and rubber products and various metals.

3.3.2. Imports by section

Table 12 shows the distribution of the major commodities that were imported into Tanzania and the percentage share of imports for 2000 and 2005, as well as the growth rates for the period 2000-2005.

Table 12: Imports by section

	Imports (US$m)		Growth	% share	
Imports by section	**2000**	**2005**	**2000-05**	**2000**	**2005**
S01: Animals and Animal Products	6.9	6.7	-0.5	0.4	0.2
S02: Vegetable Products	101.5	126.8	4.6	6.2	3.9
S03: Fats and Oils (Animal or Vegetable)	55.7	95.3	11.3	3.4	2.9
S04: Prepared Foodstuffs, Beverages and Tobacco	76.4	100.9	5.7	4.7	3.1
S05: Mineral Products	311.4	726.7	18.5	19.1	22.4
S06: Chemical Products	128.6	351.7	22.3	7.9	10.9
S07: Plastics and Rubber	84.7	239.3	23.1	5.2	7.4
S08: Leather Products	4.7	5.8	4.4	0.3	0.2
S09: Wood Products	3.5	8.6	19.7	0.2	0.3
S10: Paper Products	44.0	84.0	13.8	2.7	2.6
S11: Textile Products	82.3	101.1	4.2	5.0	3.1
S12: Footwear & Headgear	9.3	16.8	12.5	0.6	0.5
S13: Stone, Cement and Glass Products	18.3	38.5	16.1	1.1	1.2
S14: Pearls & Precious Stones	0.5	0.7	4.7	0.0	0.0
S15: Metal Products	128.6	284.5	17.2	7.9	8.8
S16: Machinery	324.5	633.5	14.3	19.9	19.5
S17: Vehicles, Aircraft and Vessels	203.9	341.7	10.9	12.5	10.5
S18: Photographic; Clocks; and Musical Instruments	23.0	41.1	12.4	1.4	1.3
S19: Arms and Ammunition	0.6	0.3	-12.4	0.0	0.0
S20: Furniture, Toys and Other Products	21.3	36.9	11.7	1.3	1.1
S21: Works of Art & Antiques	0.1	0.5	56.9	0.0	0.0
Total trade	**1,629.6**	**3,241.7**	**14.7**	**100.0**	**100.0**
Concentration index	**0.1181**	**0.13**	**2.57**		

Source: TIPS/AusAID Southern African Trade Database

In 2000, the largest import category was machinery; in 2005, it was mineral products.

Mineral products and machinery imports represented the largest import share from the world and the second largest share from South Africa in both 2000 and 2005. Specific products within the machinery category included electronic transformers, ballasts for discharging lamps or tubes, liquid dielectric transformers from India and China, electric accumulators for starting piston engines from Spain, electronic apparatus for line telephony or line telegraphy, such as line telephone sets with cordless hand sets, and telephone sets from India, China and Spain, as well as facsimile machinery from Japan, Belgium, Germany and the UK.

The second largest share of imports from the world was for mineral products. Those products had a 19.1% share of the total and included products like petroleum jelly, paraffin wax, petroleum bitumen and natural gases. These mineral products were imported from Kenya, Iran and the United Arab Emirates.

In 2005, the share of mineral products outstripped that of machinery. Mineral products took the leading share and in terms of actual magnitude were valued at US$726.7m, compared with US$633.5m for machinery products.

3.3.3. Imports by chapter

Table 13 identifies and ranks Tanzania's imports by chapter.

Mineral fuels and oils were top of the list, followed by nuclear reactors, boilers and machinery, with vehicles other than railway and tramway ones in third position. Tanzanian imports were mainly inputs into its industrial sectors and comprised of capital and intermediate goods.

Table 13: Imports by chapter

#	Top imports by Chapter	Imports 2005 (US$m)	Growth 2000-05	% share 2005
1	H27: Mineral fuels, oils	715	38.6	22.1
2	H84: Nuclear reactors, boilers, machinery	418	17.8	12.9
3	H87: Vehicles other than railway, tramway	323	19.0	10.0
4	H85: Electrical, electronic equipment	215	16.9	6.6
5	H39: Plastics and articles thereof	170	27.4	5.2
6	H72: Iron and steel	142	34.4	4.4
7	H30: Pharmaceutical products	106	18.7	3.3
8	H10: Cereals	103	20.9	3.2
9	H15: Animal,vegetable fats and oils	95	24.5	2.9
10	H73: Articles of iron or steel	84	15.0	2.6
11	H31: Fertilizers	72	37.7	2.2
12	H40: Rubber and articles thereof	70	27.6	2.1
13	H48: Paper & articles of paper	54	10.2	1.7
14	H38: Miscellaneous chemical products	41	20.6	1.3
15	H90: Optical, technical, medical apparatus	40	16.0	1.2
16	H63: Other textile articles, sets, worn clothing	36	1.4	1.1
17	H22: Beverages, spirits and vinegar	36	29.2	1.1
18	H28: Inorganic chemicals	36	10.8	1.1
19	H29: Organic chemicals	34	17.0	1.0
20	H17: Sugars and sugar confectionery	31	5.3	0.9
	Fastest growing Chapters			
1	H14: Vegetable plaiting materials	0.04	52.3	0.0
2	H97: Works of art and antiques	0.53	47.2	0.0
3	H69: Ceramic products	18.96	44.0	0.6
4	H27: Mineral fuels, oils	715.33	38.6	22.1
5	H31: Fertilizers	72.23	37.7	2.2
6	H81: Other base metals, cermets	0.14	36.6	0.0
7	H72: Iron and steel	141.91	34.4	4.4
8	H79: Zinc and articles thereof	7.88	33.9	0.2
9	H51: Wool, animal hair, horsehair	0.03	32.1	0.0
10	H53: Vegetable textile fibres	2.88	30.9	0.1

Source: TIPS/AusAID Southern African Trade Database

As shown in Table 13, the fastest growing imports were mineral fuels and oils, a trend which reflected the expansion of industrial activities such as manufacturing, mining and quarrying, construction and the production of electricity to supplement hydro-electric power.

The rises in the levels of imports of chemical and mineral products were linked to increased demands for inputs for key industrial activities, while the rise in importation of iron and steel was related to Tanzania's expanding construction industry. It suggested, too, that Tanzania's existing capacity to produce iron and steel was unable to cope with domestic demand. The same was the case for the demand for cement imports. In 2006, the government allowed the import of that product to meet local demand.

4. Focus on the commodity sector

4.1. Manufactured exports

It is possible to examine manufactured exports, where manufactured exports are defined as non-traditional exports, against Tanzania's aggregate merchandise exports.

Table 14 shows the trends in traditional and non-traditional exports and their respective average growth rates for the review period. As was noted previously, the growth in the value of non-traditional exports, averaging at 19%, outpaced that recorded for traditional exports, which averaged at 5.8%, for 2001-2006.

Table 14: Value of Tanzania's exports by type of commodity or group (US$m): 2001-2006*

	2001	2002	2003	2004	2005	2006	Ave. growth rate (value) %
Coffee	38.9	16.8	32.5	23.9	45.7	31.9	14.2
Cotton	6.9	5.1	18.7	10.4	29.4	37	80.9
Sisal	2.9	3.3	3.7	4	4	3.1	2.3
Tea	18.7	16	16	18.5	16.3	18.2	0.2
Tobacco	16.2	23.5	8.2	16.2	17.4	15.6	14.9
Cashewnuts	25.6	6.3	3.7	10.5	4	19.4	78.0
Cloves	0.6	0.2	5.9	5.2	1.4	2.4	554.0
Total traditional	**109.8**	**73.1**	**88.7**	**88.7**	**118.3**	**127.7**	**5.8**
Non-traditional							
Petroleum products	n/a						
Minerals	140.8	188	240.4	313.4	355.8	386.3	22.8
Manufactured goods	21.3	29.3	34.4	44.4	64.5	89.8	33.7
Other exports	119.5	138.3	168	167.1	205	205	11.9
Total non-traditional	**286.6**	**355.6**	**442.9**	**525.4**	**625.3**	**681.2**	**19.0**
Total (traditional + non-traditional)	**391.4**	**428.7**	**531.6**	**614.1**	**743.6**	**808.9**	**15.8**

* Growth rate calculated using simple moving averages. Note: Figures for 2006 are provisional. Source: Bank of Tanzania (2007)

Among Tanzania's non-traditional exports, manufactured exports rose fastest, at 33.7%, followed by mineral exports at 22.8%. In value terms, mineral exports topped the NTE list, followed by other exports which included mainly horticultural products.

Production data for selected industries revealed that, despite the power crisis of 2005, increased production was maintained by producers of biscuits and pasta, wheat flour, refined sugar, beer, cigarettes, textiles (although textiles dropped slightly in 2005), sisal ropes and twines, fishnet and products, plywood, pyrethrum extracts, paints, cement, rolled steel, iron sheets, aluminium sheet circles and dry cells and auto-batteries.

Leading performers included fish and fish products, paints and cement. The latter was linked to the expanding construction industry's demand because by late 2007, the government had allowed the importation of cement to cover domestic shortfalls.

Textiles production did not show strong growth. In thousand square metres, production rose from 73,566 in 2000 to 110,520 in 2005. However, the 2005 level was below that of the levels recorded for 2003 and 2004, at 126,900 and 127,520, respectively. The textiles sector's mediocre performance was partly attributed to the pressure from new and second-hand clothes imported into the country as local, privatised firms were in the process of recovering (Bank of Tanzania, 2007).

Production of fish and fish-related products, such as fishing gear,, expanded due to an increase in the demand within the EU market for fish from Lake Victoria. The sector also recovered from a ban imposed on it five years ago after certain health, environmental and sanitation concerns were raised.

4.2. Traditional exports

Over the period 2001-2006, the performance of traditional exports was variable. Tanzania's traditional exports, as shown in Table 15, were primarily agricultural products. In Table 15, some of Tanzania's key traditional export crops' average growth rates for volume and value are listed.

Table 15: Average growth rates in value and volumes of traditional export crops: 2001-2006

	Average growth rate (based on values data) % 2001-2006	Average growth (based on volumes data) % 2001-2006
Coffee	14.2	-2.5
Cotton	80.9	77.0
Sisal	2.3	-6.0
Tea	0.2	-0.2
Tobacco	14.9	13.1
Cashew nuts	78.0	98.0

Source: Bank of Tanzania (2007)

The data for volumes link performance to the level of production. The availability of inputs, poor infrastructure and variable weather conditions were some of the domestic factors which accounted for year-to-year changes in the volumes and quality of crops consigned for exporting. Quality was critical to the price and hence the value which a crop received on the export market. Variations in commodity prices on the world market, which are beyond the country's influence, were also a factor in explaining the observed fluctuations.

The increase in the volumes and value of coffee in 2005 were attributed to an increase in production in the country due to favourable weather conditions, the proper use of fertilisers and pesticides, and an increase in the coffee price on the world market. The price increase was associated with a drop in the global production of coffee because of storms that affected production in Latin America and the presence of drought conditions in Viet Nam.

Sisal is another of Tanzania's traditional exports. In 2005, the price of sisal increased slightly while export volumes decreased following a fall in production. Tanzania's tea exports were affected by a decrease in the average world market price and a decrease in both the production levels and the quality of tea produced by the country's producers.

The world average price of cashew nuts also fell and despite domestic problems related to the marketing of cashew nuts, domestic output rose.

5. Changes in trade and industrial policy

5.1. Trade policy regime

In the mid-1980s, Tanzania began gradually liberalising its trade and exchange rate policies with a view to adjusting the incentives to export. The tariff structure was simplified to fewer tariff categories or bands and maximum rates were reduced. The escalating tariff structure was maintained, with rates ranging from a zero rate for imported inputs, pharmaceutical products and capital goods while the highest rate was applied to final consumer goods. Table 16 summarises Tanzania's current trade regime.

The volumes and composition of exports and imports reflected a response to the country's tariff reforms even though the country's trade patterns were also affected by domestic supply constraints, most notably poor infrastructure, and the fiscal incentives designed to attract foreign and private investment.

Since the 1990s, Tanzania's trade policy was informed by a series of diagnostic studies and consultations that were rooted in the *Integrated Framework for Trade-Related Technical Assistance to Least*

Table 16: Current features of Tanzania's trade regime

Tariff structure	• Common External Tariff (CET) with exemptions on wheat (10% instead of 25%) and barley (0% instead of 10%) imports. • Overall average applied rate is 12.9%.
Other charges on imports	• Destination inspection fee of 1.2% of free on board (f.o.b.) value. • US$10 customs processing fee. • VAT of 20%
Preferential tariff given	• EAC members • SADC members
Duty and tax exemptions and concessions	• Allowed for two years on RDB palm oil (HS15).
Import prohibitions, restrictions and licensing	• Narcotic drugs, tear gas substances and subversive or pornographic materials or literature are prohibited. • Firearms and ammunitions (subject to permits in the Mainland and prohibited in Zanzibar). • Import permit needed for worked and unworked ivory, ozone-depleting substances, genetically modified products, non-indigenous species of fish, historical artefacts and endangered species of world flora and fauna.
VAT exemptions	• Food crops and livestock supplies (unprocessed), pesticides and fertilisers, health supplies and hospital equipment, educational services or equipment, veterinary supplies, books and newspapers, public transports services, housing and land, finance and insurance services, water (except bottled and canned), funeral services, petroleum products, agricultural implements, tourist services, postal supplies, fishing gear, aircraft, computers, printers and accessories, locally manufactured yarn, games of chance and supply of packing materials to registered milk processors or manufacturers.
Excise duties	• Specific rates on cigarettes, tobacco, wines, spirits, beer, soft drinks (including water) and petroleum products. • Ad valorem rates on mobile phone services (70%), saloon cars, station wagons and four-wheel drive vehicles with engine capacity exceeding 2,000 cc (10%), plastic shopping bags (120%) and luxury goods (e.g. cigars, hard drinks) (30%).
Export duty drawbacks	• Yes.
Export prohibitions, restriction and licensing	• White maize, rice, cereals, beans and unprocessed fish. • Charcoal. • Licences needed for the following product categories: forestry, fisheries, wildlife, minerals / gemstones, food or staple.
Export taxes	• Applied on raw cashew nuts. • A cess if 20% on raw hides and skins (a cess is a form of tax on agricultural produce where these could be crops or animal husbandry products)
Manufacturing under bond scheme	• Yes

Source: WTO (2006); TIPS (2006)

Developed Countries and which culminated in the *National Trade Policy* of 2003.[4] The policy seeks to transform the economy from a supply constrained one into a competitive export-led entity that is responsive to enhanced domestic integration and wider participation in the global economy (United Republic of Tanzania, 2003a). Various issues will be addressed through the national trade liberalisation process, including raising efficiency and linkages in domestic production, building a diversified and competitive export sector, raising the capacity of Tanzania to participate fully in the multilateral trading system, stimulating value added activities on primary exports and directing investments into export-oriented activities, among others.

[4] The Integrated Framework for Trade-Related Technical Assistance to least-developed countries (IF) is a multi-agency, multi-donor programme that assists the least developed countries to expand their participation in the global economy by enhancing their economic growth and poverty reduction strategies. The IF programme was first mandated by the WTO Singapore Ministerial Conference in December 1996. The participating agencies are the IMF, ITC, UNCTAD, UNDP, World Bank and the WTO. For more information refer to www.integratedframework.org [last accessed on 19/05/08].

5.2. Trade policy reform and regional trade arrangements

Tanzania is engaged in a number of regional and multilateral trade arrangements, each of which has a different schedule for trade liberalisation.

At a regional level, Kenya, Uganda and Tanzania, for instance, have moved towards regional integration despite a failed attempt that followed the collapse of the (first) East African Community (EAC) in 1977. It was a failure that exposed the risks that countries faced in their regional integration efforts. In July 2007, the EAC formally admitted two more neighbouring countries: Rwanda and Burundi. Negotiations of the East African Common Market are under way for 2010 and a Monetary Union is expected by 2012. There is, however, a need to evaluate progress at each stage of regional integration before moving on to the next level.

The main features of the EAC customs union in its present form include the following:

- The establishment and administration of a common external tariff (CET) on good and services;
- The elimination of trade barriers and non-trade barriers on goods and services produced within the EAC states, including common safety measures for regulating the importation of goods from third parties, such as the phyto-sanitary requirements and food standards;
- The harmonisation of customs rules and procedures, including documentation and a common coding and description of tradable goods using a common tariff nomenclature;
- A common valuation method for tradable goods for tax (duty) purposes on a common valuation system;
- A structure for collective administration of the customs union; and
- A common trade policy that guides the trading relationships with third countries or trading blocs outside the customs union, including guidelines for entering into preferential trading arrangements, such as FTAs, with third parties.[5]

Trade trends between Tanzania, Uganda and Kenya showed that they compared well with the trade trends between Tanzania and the SADC region, given that the SADC has more members than the EAC.

[5] EAC 2006, EAC 2005, http://www.eac.int/EAC_customs_U.htm [Last accessed 20/5/08].

Table 17: Trade balance between Tanzania and regional economic groupings (US$m): 2001-2005

Regional grouping	2001	2002	2003	2004p
EU	52.8	118.6	-210.5	176.7
SADC	-200.6	143.6	-233.7	-213.4
EAC	63.9	-57.1	-35.6	-42.3

Source: United Republic of Tanzania's Ministry of Finance and Economic Affairs (2005b)

Nevertheless, as is shown in Table 17, Tanzania's trade was greater with developed countries, especially those in the EU, than with other African countries.

Until 2000, Tanzania was a member of the COMESA. Besides being a member of the EAC, Tanzania is also a member of the SADC. Significantly, the EAC and SADC have different schedules of action for achieving full integration. The problem of belonging to more than one bloc confronts Tanzania and a number of other countries in the African region. Although each has essentially similar objectives, the costs of membership are not transferable.

Moreover, multiple memberships complicates the decision-making process and trade regime. Deciding on how the country benefits from its regional economic partnership arrangement (REPAs) or how it chooses a regional bloc through which it can best benefit are important considerations. A country also has to factor in the benefits involved in approaching either individually or as a bloc the opportunities available in the multilateral trading system.

At the time of writing this report, the EAC had initialled an interim REPA with the EU.

5.3. Trade policy and multilateral and other trade agreements

Although there are ongoing negotiations pertaining to intra-regional trade and regional economic partnerships, Tanzania recognised that its capacity had to be developed if it was to implement and participate effectively in various multilateral trade institutions, agreements and pertinent negotiations. Some of those included the WTO, the General Agreement on Trade in Services (GATS), and the agreements linked to Trade-related Intellectual Property Rights (TRIPs) and Trade-related Investment Measures (TRIMs), among others.

Tanzania pursued this by providing different levels of training for its key staff involved in these processes and negotiations. Analytical and policy-making skills were developed as well as the technical, legal, legislative and political competencies of the various national trade policy institutions so that they were enabled to interpret and implement the country's obligations and rights. The private sector was also drawn into these capacity building activities, particularly those relating to commodity specifications, international standards and quality controls as well as the regulations on the rules of origin.

Domestic supply constraints that prevented countries from adequately supplying the world markets, despite market access schemes such as the AGOA and the EBA initiative being in place had to be addressed and where possible, tackled jointly through a regional approach.

The World Bank recognised the need for external assistance to be made available to enable poor countries to participate more effectively within the global economy and the WTO processes (Page, 2002; World Bank, 2002). Advocates of 'aid for trade' wanted the WTO and multilateral processes to be characterised by increasing participation by and contribution from the world's poorest countries. It was further argued by those advocates that aid should target infrastructure and institutional development and build capacity so that the world's poorest countries could participate in the development and implementation of trade-related policies and trading rules. Further, national capacities for policy research and analysis had to be developed for those poor countries to identify their priorities and to analyse the costs and benefits of reforms and new, joint initiatives for intra-Africa trade and investment opportunities.

6. Conclusion

Over the past five years, Tanzania's trade performance has been affected by developments occurring on various fronts. Export diversification shifted Tanzania's exports towards non-traditional exports, yet its NTEs were dominated by minerals, while other non-traditional agricultural exports, particularly horticultural products and fish exports, also increased. Trade policy reforms created an attractive investment climate for domestic and foreign private investors. Through the formation of the Confederation of Tanzania Industries (CTI) and the Tanzania Private Sector Foundation (TPSF), the government accommodated private sector investors' views, for example, which helped to improve Tanzania's investment climate. However, more efforts and resources, including aid, are needed to develop the capacity of the country's private sector to grow, understand and seize opportunities in the international market place.

Imports also rose, largely to cater for the capital and intermediate inputs demanded by Tanzania's expanding mining and tourism sectors, as well as governmental spending on physical infrastructure projects. Whilst the country's import bill supports growth and investment capacity, its ability to finance the widening trade deficit will be dependent on future streams of income that would arise from greater employment creation and having an efficient revenue strategy.

Challenges remain, though as Tanzania's infrastructure, particularly in relation to its power, water supply, transport and telecommunications, is of a low quality yet of a high cost. Counterfeit goods have been dumped in the country and there is evidence of unfair competition in place. Weak managerial and marketing skills afflict many Tanzanian firms and even fewer Tanzanian firms have units or departments responsible for product and market research. This is compounded by general weak research capacity in the country.

There is also a lack of access to land while the poor have low skills, and little is spent on the development and education of the labour force. The cost of financing is a concern, too. Tanzania has low interest on savings but high borrowing rates, especially for micro-loans that are charged even higher rates. Bureaucracy, corruption and inadequate security of property and life are also present in the country and erode the potency of Tanzania's political stability and its ability to lure investments and tourists to the country.

It is clear that Tanzania needs to address such issues. Accelerated public investments are still required to address the problems of weak infrastructure, particularly in the country's energy, transport and information and communication technology (ICT) infrastructure, so that Tanzania's competitiveness profile can be raised and its growth and exports sustained and developed.

Governmental attention is also needed to ensure the operational efficiency of the country's trade-related institutions that are responsible for customs and tax administration and payment regimes, and to create a modern, efficient financial infrastructure in Tanzania.

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