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By Vinaye Ancharaz, Paolo Ghisu and Nicholas Frank, ICTSD

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## LIST OF ACRONYMS AND ABBREVIATIONS

| | |
|---|---|
| DFTP | Duty-Free Tariff Preference |
| EAC | East African Community |
| EBA | Everything-but-Arms |
| FDI | Foreign Direct Investment |
| GDP | Gross Domestic Product |
| HDI | Human Development Index |
| LDCs | Least Developed Countries |
| LOC | Line of Credit |
| MFN | Most Favoured Nation |
| MOP | Margin of Preference |
| NSGRP | National Strategy for Growth and Reduction of Poverty |
| NTB | Non-tariff Barrier |
| RoO | Rules of Origin |
| SSA | Sub-Saharan Africa |
| TAHA | Tanzania Horticultural Association |
| TANEXA | Tanzania Exporters Association |
| TIC | Tanzania Investment Centre |
| UAE | United Arab Emirates |
| WTO | World Trade Organization |

## FOREWORD

It has long been recognised that, if trade can contribute to economic development, then trade preferences granted to developing countries' exports can be a potent means of achieving that goal. This was the rationale for the Generalized System of Preferences (GSP) when it was launched in 1971. There has been a constant call since then to improve upon the GSP and to provide more meaningful preferences to the least developed countries (LDCs). Over time, new schemes have emerged. Several of these schemes combine trade preferences with aid and technical assistance to ensure that preferences are effectively utilized. The evidence by and large suggests that those countries that have made optimal use of trade preferences have seen their exports increase significantly, boosting economic growth and reducing poverty.

While trade preference schemes have become more inclusive over the years, and rules of origin less onerous, the demand for improved preferences has not waned. Partly in response to this demand, WTO members, at the 2005 Ministerial Conference in Hong Kong, agreed that: "Developed-country members shall, and developing-country Members declaring themselves in a position to do so should, provide duty-free and quota-free (DFQF) market access on a lasting basis, for all products originating from all LDCs by 2008..." (emphasis added).

India was the first among the emerging economies to propose a duty-free market access scheme for LDCs following the Hong Kong Ministerial Declaration of 2005. The duty-free trade preference (DFTP) scheme, launched in August 2008, initially offered preferential tariffs on 94 percent of Indian tariff lines. A revision to the scheme in April 2014 extended duty treatment to 98 percent of tariff lines; yet it continues to exclude several products of export interest to LDCs. While the revised scheme goes in the direction of ICTSD's recommendations, the remaining exclusions point to some disconnect between the scheme's intent and its actual impact.

Little is known about the effectiveness of the recent initiatives by emerging economies, such as India and China, arguably because it is too early to assess their impact. In the case of the Indian scheme, however, more than five years after its launch, it is useful to take stock of how it has affected LDC exports, identify potential impediments and propose remedial measures for enhancing the scheme's effectiveness. This is the motivation behind this paper, and five other papers in a project that examines how India's engagement with LDCs – especially African LDCs – can be strengthened through trade relations and technological collaboration with a view to supporting growth and structural transformation in Africa's poorest economies.

In future work, ICTSD intends to apply the methodology used in this project to a thorough analysis of the Chinese trade preference initiative. The scheme, launched in January 2008, initially provided DFQF market access on select products to 33 African LDCs enjoying diplomatic ties with China; it was expanded in terms of product coverage and extended to all LDCs in July 2010.

At a time of little progress on the duty-free quota-free market access proposition of the Hong Kong Ministerial – other than the decision being reiterated in Bali in December 2013 –, the analysis and findings of this paper suggest that, not only should the major developing countries that have yet to come up with a trade preference scheme for LDCs do so in earnest, but those that already offer such preferences – both developed and developing countries – should reassess their schemes with a view to enhancing their effectiveness.

**Ricardo Meléndez-Ortiz**
Chief Executive, ICTSD

# 1. INTRODUCTION

Although under international trade rules the most-favoured-nation (MFN) clause disallows discriminatory practices such as preferential treatment to products based on the exporting country, there is a general exception under a World Trade Organization (WTO) law that allows Members to grant trade preferences to developing countries, especially the Least Developed Countries (LDCs), to enable them to integrate with the world economy and reap the developmental benefits of increased trade.

As an LDC, Tanzania receives unilateral preferential market access under the Generalized System of Preferences from a number of countries, including Australia, Canada, China, the EU, India, Japan, Korea and the US.

The number of countries providing duty-free, quota-free market access to the LDCs increased after members of the WTO at the 2005 Hong Kong Ministerial Conference agreed that developed countries, and those developing countries able to do so, should provide duty- and quota-free market access to products originating from the LDCs. While developing country members are not legally obligated to commit themselves to the decision, some of them such as Turkey, China, and India have voluntarily offered preferential treatment to exports from the LDCs in recent years. All developed countries were providing duty-free, quota-free market access before 2005. However, exceptions in country coverage; sensitive products (exclusion lists); complex rules of origin; and pervasive non-tariff barriers (NTBs) exist in the various schemes and continue to pose problems for LDC exporters.

India became one of the first developing countries to introduce preferential access to LDC exports in 2008. Open to all LDCs, the scheme provided preferential market access on 94 percent of Indian tariff lines when it became fully operational in October 2012. A revision to the scheme in April 2014 extended duty concession to 98 percent of tariff lines. This study critically assesses the implementation of the scheme and its impact on Tanzania's exports. It looks at the country's most competitive exports to the world relative to its top exports to India; the performance of the country's preferential exports; and the relevance of the scheme in relation to its competitive exports. It is worth emphasizing that the change in the DFTP scheme does not affect the analysis contained in this paper, which was completed before the Government of India started disseminating the new scheme - in August 2014. This is because the change occurred outside the period of our analysis (typically 2004-2012). The study also considers whether the Tanzanian export community is sufficiently aware of the Indian scheme and whether exporters are actually taking advantage of it. Finally, the study examines how India's relations with Tanzania in such areas as investment, technological collaboration, technical assistance, and aid are helping—or could help—to strengthen its export capacity to India.

The following section gives an overview of Tanzania's economy and its trade profile, focusing on its exports to the world. Section two characterizes Tanzania's economic relations with India and provides a short description of the latter's Duty-Free Tariff Preference (DFTP) scheme in relation to the exports of LDCs. Section three relates the architecture of the scheme with Tanzania's exports and gauges the effects of the DFTP through an analysis of the country's exports to India before and after the scheme. This quantitative analysis is complemented by the results of a series of interviews with key Tanzanian and Indian stakeholders, which are presented in section four. Section five examines how Tanzania's relations with India in such areas as investment, technological collaboration, technical assistance, and Aid for Trade could help it strengthen its export capacity and increase its exports, including to India. The concluding section provides some recommendations and policy options to deepen India's engagement with Tanzania and enhance the effectiveness of the DFTP scheme.

# 2. GENERAL BACKGROUND

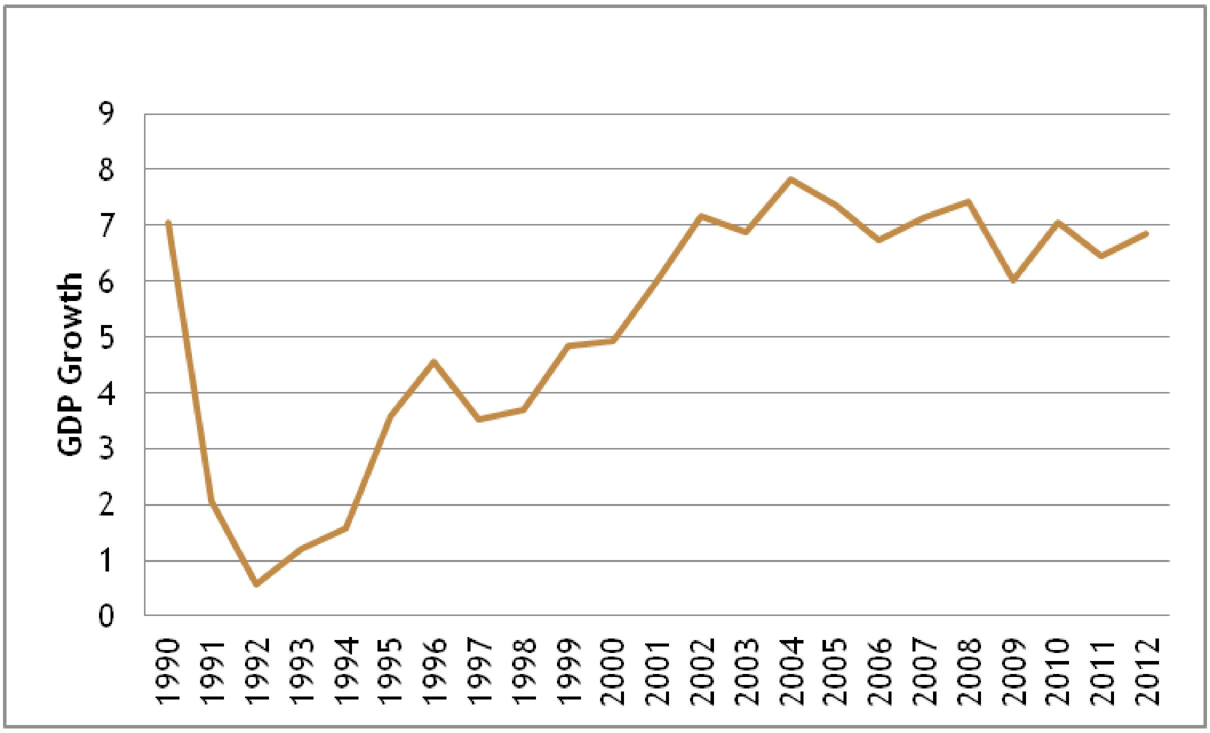
## 2.1 Overview of the Tanzanian Economy

The United Republic of Tanzania, which encompasses mainland Tanzania and Zanzibar, has a land area of approximately 945,000 square kilometres, of which roughly 46 per cent is arable. The capital is Dodoma, while Dar es Salaam is the country's business and commercial hub. Tanzania's population was 44.9 million in 2012, and it is both rapidly growing (at around 3 percent per annum) and youthful (50.1 percent are under the age of 17). A majority of the people (70.4 percent) continue to live and work in rural areas.[1]

The country has achieved impressive economic growth since the mid-1990s, and the growth rate has fluctuated at around 7 percent in the last few years (Figure 1). The growth pattern has been characterized by relatively stable public debt and low levels of inflation, although high fuel and food prices have recently added to inflation. Gross Domestic Product (GDP) growth dropped slightly — to 6 percent — in 2009 but recovered to an average of 7 percent in the following years, suggesting that the economy was quite resilient to the world financial crisis.[2] Since 2005, the primary drivers of growth have been exports, private consumption and gross capital formation (mainly public investment). In terms of economic sectors, much of the GDP growth came from retail and repairs;[3] transport and communication; manufacturing; construction; and real estate.[4]

Despite enviable GDP growth rates and increasing exports, Tanzania remains an LDC with a per capita GDP of only USD 609 (2012), an average life expectancy of 58.9 years, and mean years of schooling for adults of only 5.1 years. According to the 2013 Human Development Index (HDI), the country was ranked 152 among 187 countries. With an index at 0.476, it is only marginally ahead, by 0.001, of the sub-Saharan average and significantly below the world average (0.694). That said, the country's overall HDI position has improved since 2006 (0.401), and 2013 marked the first time it beat the regional average.[5]

**Figure 1. Tanzania GDP Growth** (constant prices)




*Source: World Bank Development Indicators (2013).*

Like many LDCs, Tanzania suffers from a number of structural constraints, including, but not limited to, a lack of infrastructure; low levels of human and physical capital; endemic corruption; an anaemic judiciary; and an overreliance on donor funding. The World Bank's "Doing Business" Report (2014) reinforces this point, ranking Tanzania 145 out of 189 economies for ease of doing business, below the level of its regional partners, such as Rwanda (32), Kenya (129), Uganda (132), and Burundi (140).[6]

In an attempt to tackle Tanzania's myriad economic problems, the government embarked on a market liberalization and macroeconomic reform programme in the early 1990s. The reform programme laid a greater emphasis on utilizing trade and regional integration as tools for generating export earnings; GDP growth; and employment.

Given the move towards market liberalization and regional integration, it is not surprising that the country is a member of the East African Community (EAC) and the Southern African Development Community (SADC), as well as the Regional Integration Facilitation Forum (RIFF). It was also a member of the Common Market for Eastern and Southern Africa (COMESA), but withdrew in 2000.

The Tanzanian economy, like that of many LDCs, is highly dependent on the agricultural sector for employment; GDP growth; and export earnings; although this has been on the decline. Agriculture accounts for 75 percent of rural household incomes, a third of merchandise exports, and 23.4 percent of GDP (2011).[7] The manufacturing sector, which continues to be dominated by agri-processing, accounts for 10.2 percent of GDP (2011), but it remains small because of a variety of structural constraints, including poor infrastructure and high production costs. The service sector accounts for approximately 47.2 percent of GDP (2011) and is the dominant sector in the economy.[8] The primary service subsectors include trade and repairs, tourism, real estate and public administration. Tourism plays a particularly important role, accounting for roughly 28 percent of foreign exchange earnings and nearly 11 per cent of total employment.[9]

## 2.2 Tanzania's Trade Profile

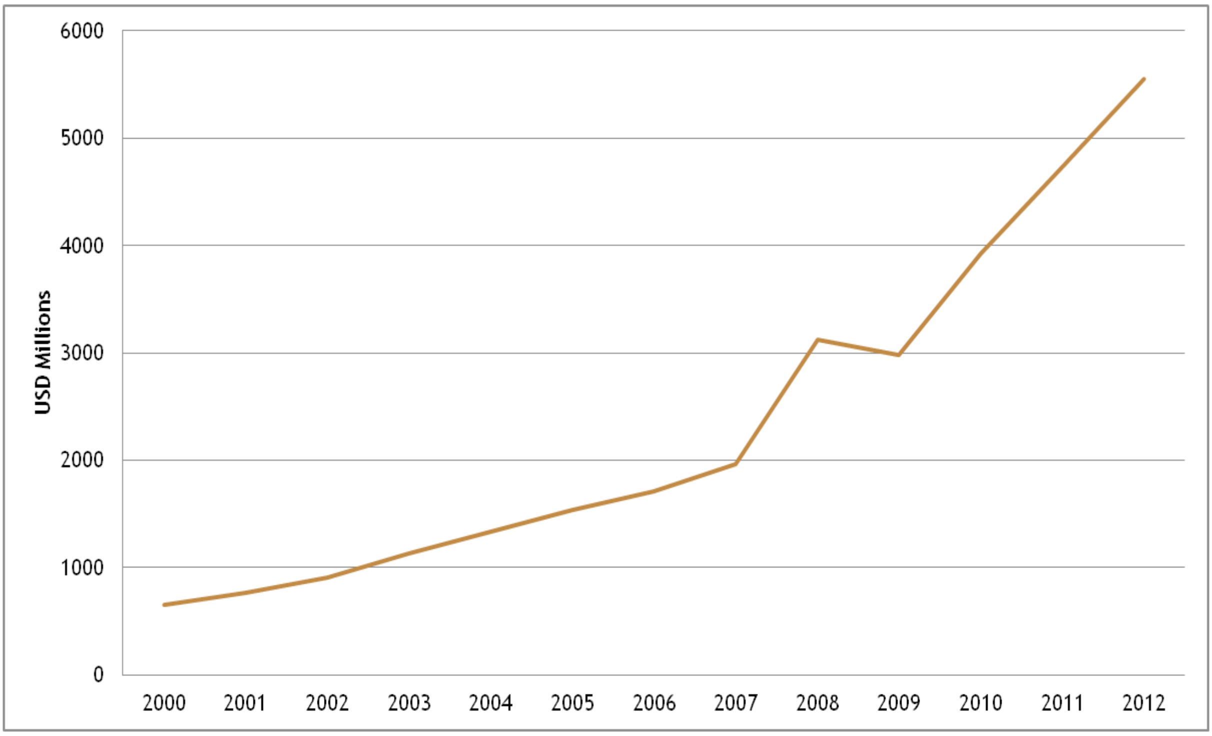
In recent years, Tanzania's exports have demonstrated remarkable growth rates. But there was a sharp decline in 2009, with exports falling by 4 percent compared to the peak growth rate of 59 percent in the previous year. However, exports rebounded quickly in the aftermath of the financial crisis, with growth leaping to 31 percent in 2010, but tapering off to 17 percent by the end of 2012.[10]

Between 2000 and 2012, exports increased more than sevenfold from USD 655.8 million to USD 5.5 billion (Figure 2). This increase was primarily driven by sizeable increases in non-traditional exports such as gold, machinery, minerals, and cut flowers.[11] The shift away from traditional agricultural exports (tea, coffee, tobacco) indicates that the export basket has become more diversified. However, the economy is still heavily reliant on a limited number of export products, primarily of food and vegetable products. Gold exports remain a crucial earner of foreign exchange and continue to account for roughly a third of the country's exports.

The remarkable growth of exports of vegetable and food products (Table 1) — an increase of 285 percent and 156 percent respectively between 2006 and 2012 — coincided partly with the global commodities boom, which lasted until 2008. The global financial crisis saw commodity prices fall precipitously, with food prices falling by as much as 29 per cent.[12] This fall in world trade was reflected in Tanzanian exports of food and vegetable products, among others, which experienced significant drops in value. However, by 2010, partly driven by demand from emerging economies such as India and China, global food and raw agricultural product prices had recovered. Benefiting from this recovery, the country's exports of food and vegetable products increased progressively to an all-time high in 2012.

With an export value of USD 1,991.8 million in 2012, stone and glass was the largest macro export category. Despite a recent decline in its share, it still accounted for nearly 35 percent of total exports in 2012 (Table 1). Minerals exports totalled USD 915 million in 2012 and its share in total exports increased by almost 6 percentage points since 2006. The growing demand from emerging economies contributed to the rapid export growth of these products.

**Figure 2. Tanzania's Global Exports, 2000-2012**




*Note: HS 1996 was used for the period 2000-2004 because of the unavailability of data in HS 2002 for the selected period.*

*Source: UN Comtrade (2013).*

**Table 1. Tanzania's Global Product Exports in 2000, 2006, and 2012**

| | 2000 | | 2006 | | 2012 | |
|---|---|---|---|---|---|---|
| Product | Value (in USD million, current prices) | Share of total exports | Value (in USD million, current prices) | Share of total exports | Value (in USD million, current prices) | Share of total exports |
| Animal | 82.2 | 12.5% | 200.6 | 11.7% | 128.3 | 2.3% |
| Vegetable | 247.6 | 37.8% | 268.6 | 15.7% | 1033.3 | 18.6% |
| Food | 50.7 | 7.7% | 140.4 | 8.2% | 358.9 | 6.5% |
| Minerals | 4.2 | 0.6% | 181.2 | 10.6% | 915.0 | 16.5% |
| Fuels | 0.7 | 0.1% | 2.5 | 0.1% | 69.8 | 1.3% |
| Chemicals | 5.3 | 0.8% | 49.7 | 2.9% | 128.1 | 2.3% |
| Plastics/Rubber | 2.5 | 0.4% | 11.8 | 0.7% | 51.6 | 0.9% |
| Hides/Skins | 7.7 | 1.2% | 12.0 | 0.7% | 16.8 | 0.3% |
| Wood | 5.1 | 0.8% | 21.1 | 1.2% | 62.2 | 1.1% |
| Textiles/ Clothing | 55.9 | 8.5% | 115.9 | 6.8% | 307.8 | 5.5% |
| Footwear | 0.9 | 0.1% | 3.7 | 0.2% | 2.9 | 0.1% |

Table 1. *Continued*

| | | | | | | |
|---|---|---|---|---|---|---|
| **Stone/Glass (including gold and precious metals)** | 181.4 | 27.7% | 653.5 | 38.2% | 1991.8 | 35.9% |
| **Metals** | 2.1 | 0.3% | 25.0 | 1.5% | 98.9 | 1.8% |
| **Machinery/ Electrical** | 9.0 | 1.4% | 12.1 | 0.7% | 196.5 | 3.5% |
| **Transport** | 0.1 | 0.0% | 10.5 | 0.6% | 74.0 | 1.3% |
| **Miscellaneous** | 0.5 | 0.1% | 2.8 | 0.2% | 111.4 | 2.0% |
| **Total Exports** | **655.8** | | **1,711.3** | | **5,547.2** | |

*Note: HS 1996 was utilized because of the unavailability of data in HS 2002. HS 2002 was employed for 2006 and 2012.*
*Source: Authors' calculations based on UN Comtrade (2013).*

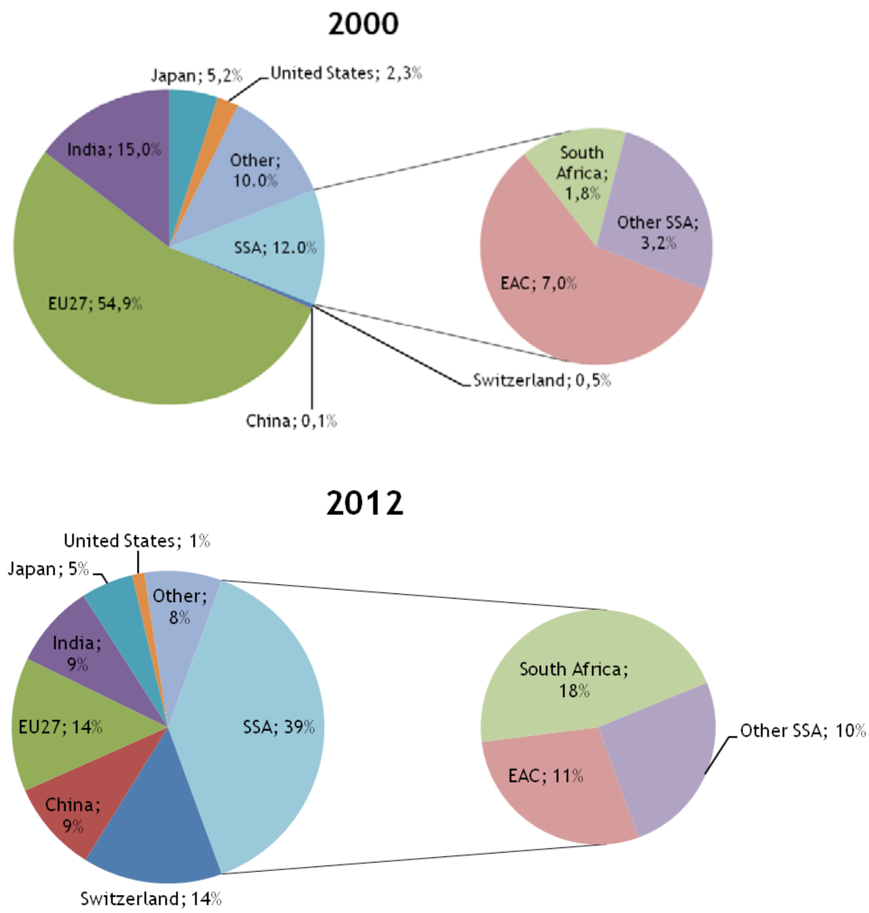
Recently, Sub-Saharan Africa (SSA) has emerged as the single largest export market for Tanzania, surpassing the EU (Figure 3). Tanzania's exports to SSA increased from a paltry USD 79 million in 2000 to USD 496 million in 2006 and to USD 2,145 million in 2012. SSA's share of total Tanzanian exports increased from roughly 12 percent in 2000 to 39 percent in 2012. South Africa, the single largest export destination for Tanzania in SSA, accounted for less than USD 12 million worth of its exports in 2000. This increased to USD 983 million in 2012, taking South Africa's share to 18 percent. The bulk of Tanzania's exports to South Africa consisted of non-monetary gold.[13] Exports to its regional partners in the EAC (Burundi, Kenya, Rwanda and Uganda) also increased from USD 46 million in 2000 to USD 613 million in 2012. Exports to the EAC included paper and textiles; fertilizers; electrical and mechanical equipment; cereals; and oil-related products.

Exports to the EU, however, as a share of total Tanzanian exports, fell, despite increasing in value from USD 360 million (2000) to USD 766 million in 2012., Exports to Switzerland grew from less than USD 3 million in 2000 to USD 799 million in 2012, and were primarily composed of precious metals and stones (including gold and Tanzanite).[14] Exports to OECD countries outside the EU were rather small, but increased in value. As a whole, the share of developed countries in Tanzania's exports slumped from 52 percent in 2000 to 41 percent in 2012, and this trend looks set to continue.[15]

Emerging countries absorbed an increasing share of Tanzania's exports since 2000. Exports to China increased from less than USD 1 million in 2000 to USD 525 million in 2012. Exports to India increased, less rapidly though, from USD 98 million in 2000 to USD 481 million in 2012, driven largely by gold exports.

The changing dynamics of Tanzania's exports underscores the growing importance of non-traditional trade partners, such as the BRICS (Brazil, Russia, India, China, and South Africa) countries. Well-designed trade preference schemes for LDCs by these countries could help strengthen current trends and encourage African LDCs, such as Tanzania, to export a greater variety of products, including higher value-added processed products.

**Figure 3. Direction of Exports in 2000 and 2012**

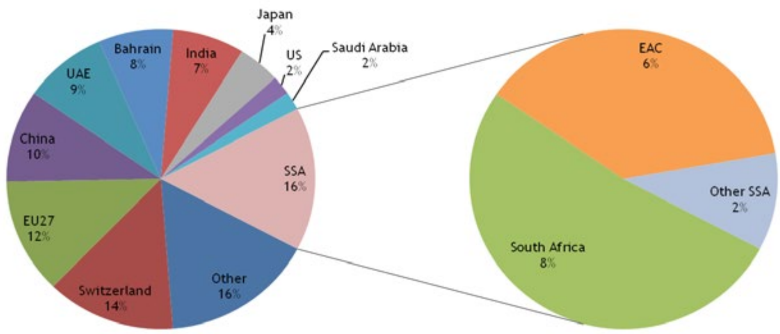



*Source: UN Comtrade (2013).*

Tanzania has a trade deficit, which increased over the last decade. Its trade balance is largely the result of the economy's traditional deficit in merchandise trade, which has been exacerbated by increases in prices of imported fuels and food.[16] However, in 2012, the trade deficit was roughly USD 4.4 billion, which was an improvement over the 2011 figure of USD 4.7 billion. Export volumes of traditional cash crops; manufactured goods; and fish products helped improve the trade balance and the current account.[17]

Switzerland was Tanzania's single main source of imports in 2012 (Figure 4). Since 2000, imports from Switzerland grew from less than USD 11 million to more than USD 1.5 billon in 2012, mainly fertilizers; refined petroleum; and petroleum products. Imports from SSA, particularly from South Africa and Tanzania's regional partners in the EAC (Burundi, Kenya, Rwanda, and Uganda), increased from less than USD 300 million in 2000 to USD 1.8 billion in 2012. Imports from other developing regions also increased significantly. Imports from the Gulf states, particularly from Bahrain (USD 915 million in 2012) and the United Arab Emirates (USD 1.02 billion in 2012), were driven largely by petroleum products, which is unsurprising considering the rapid growth of the Tanzanian economy over the decade. China and India also increased their exports to Tanzania significantly. In 2012 they accounted respectively for 10 percent (USD 1.16 billion in 2012) and 8 percent (USD 880 million) of Tanzania's imports. Other important sources of imports were the EU (USD 1.4 billion in 2012), Japan (USD 520 million in 2012), and the US (USD 239 million in 2012).

**Figure 4. Tanzania's Sources of Imports in 2012**




*Source : UN Comtrade (2013).*

# 3. TANZANIA AND INDIA: PARTNERS IN TRADE

### 3.1. Overview of Tanzania-India Relations

Tanzania's ties with India have traditionally been close and cooperative. It is home to a sizeable community of Indian origin that plays an important role in the economy. Starting in the 1960s and continuing into the 1980s, the relationship between the two countries was driven by a shared commitment to anticolonialism and antiracism. From the 1990s, the relationship has been pragmatic and focused on economic engagement and development. Various bilateral agreements have been signed by the two countries. These include,[18]

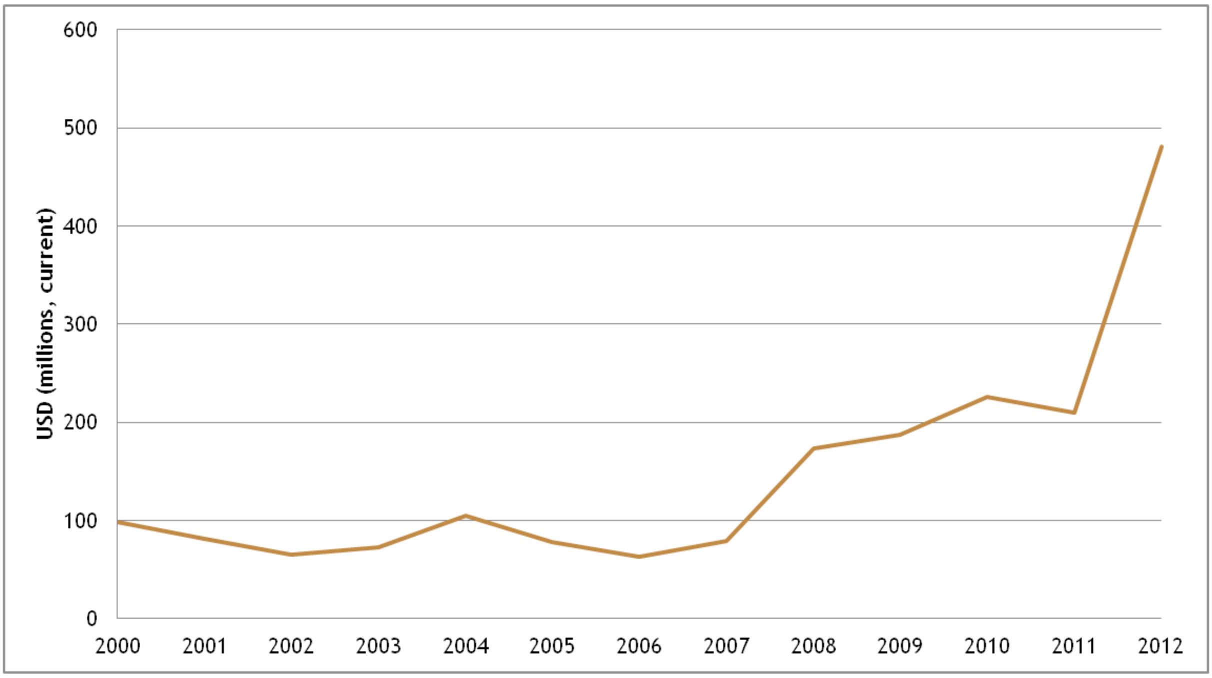
- Agreement on Friendship and Technical, Economic and Scientific Cooperation (28 January 1966)
- MOU on Technical Cooperation in the field of Posts and Telecommunications (12 December 1996)
- Agreement on the Establishment of Joint Business Council (25 June 1997)
- MOU on Cooperation in the field of Agriculture and Allied Sectors (16 December 2002)
- Agreement in the field of Health and Medicine (16 December 2002)
- MOU on Exchange Programme on Cooperation in the field of Education (27 April 2003)
- MOU on Defence Cooperation (1 October 2003)
- Agreement on Waiving Tanzania's Outstanding Loans (14 September 2004)
- Agreement on Cooperation in Information and Technology Services (14 September 2004)
- MOU on Preliminary Joint Venture Agreement (28 May 2011)
- Joint Action Plan between National Small Industries Corporation (NSIC) and Small Industries Development Organization (SIDO) (28 May 2011)
- Letter of Intent (LOI) of Cooperation in Mining and Steel Sectors (6 April 2013)

### 3.2. Tanzania-India Trade: Exports, Imports, and Deficits

Tanzanian exports to India grew substantially from USD 98.4 million in 2000 to more than USD 480 million in 2012, an overall increase of more than 380 percent. In 2012 India absorbed nearly 9 percent of Tanzania's exports, more than the combined share of all LDCs.[19] These exports are concentrated in two product groups — vegetable products, and stone and glass (primarily gold) — which together made up over 85 percent of its exports to India in 2012 (Section 4). Exports of food products, and textile and clothing also increased in value and share.

Imports from India increased tenfold since 2000, from approximately USD 82 million in 2000 to more than USD 880 million, although India's share of total Tanzanian imports has increased only marginally. The growth of Indian imports was led by increased sales of pharmaceuticals; flat-rolled iron and non-alloyed steel; refined sugar products; and heavy rolling stock (railway-related goods). With imports increasing faster than exports, Tanzania's bilateral deficit vis-à-vis India has worsened. The deficit was approximately USD 400 million in 2012, representing 9 percent of the country's overall trade deficit and 11 percent of the current account deficit.

**Figure 5. Tanzanian Exports to India, 2000-2012**




*Note: HS 1996 was used for the period 2000-2004 because of the unavailability of data in HS 2002 for the selected period.*
*Source: UN Comtrade (2013).*

## 4. INDIA'S DFTP AND TANZANIAN EXPORTS

### 4.1. Preferences for LDCs: India's DFTP Scheme

India became the first emerging economy to announce a tariff preference scheme for the LDCs - at the India-Africa Forum Summit in April 2008. Before its revision in April 2014, the scheme offered duty-free market access to LDC exports on 85 percent of India's tariff lines; a further 9 percent of tariff lines attracted a margin of preference while the remaining 6 percent were excluded. The revised scheme extends trade preferences to 98% of tariff lines. The exclusion product list has been considerably shortened - from 326 products to 97; yet the scheme continues to exclude some products of key export interest to LDCs.

The analysis in this section is based on the pre-April 2014 version of the DFTP scheme since it was completed before the new scheme was disseminated. However, since the analysis uses data up to 2012, it remains unaffected by the changes in the scheme.

We have summarized the main changes in the DFTP scheme in Box 1. As far as Tanzania is concerned, it is important to point out that 5 of the 9 excluded products among Tanzania's top 30 exports have now been fully liberalized. These include most vegetable products except cashew nuts (shelled), oil cake of sunflower seeds, and sesame seeds. These three products account for over half of exclusion-product exports to India in recent years.

**Box 1. The Revised DFTP Scheme**

On April 1, 2014, the Government of India published in the Gazette of India a notification that brought further amendments to the DFTP scheme announced on August 13, 2008. The notification includes two tables that are meant to replace the corresponding lists of preference products (that is, products on which lower-than-MFN tariffs are applied) and excluded products in the original notification. Both lists are significantly shorter than their original versions. With these changes, the DFTP scheme will now effectively provide duty treatment to about 98 percent of tariff lines, up from 85 percent initially.

The number of tariff lines in the exclusion list has shrunk from 326 to 97; the new MOP list features 114 tariff lines compared to 468 originally. This means that 229 products have been moved out of the exclusion list. The majority of them now enjoy duty-free status; only a few products – notably fresh tomatoes, almonds (shelled) and walnuts – have been shifted from the exclusion list to the "positive list" with a margin of preference (MOP) of 25 percent. Among the products that have been fully liberalized are rice, maize, most fruits and vegetables (except fresh apples and onions), and waste and scrap of most metals (except copper).

Nevertheless, the new scheme continues to exclude a number of products of key export interest to LDCs, especially African LDCs. These include milk and cream (with sugar), whole milk powder, some fruits and vegetables (e.g. apples and onions), cashew nuts, coffee, tea, some spices and oilseeds (e.g. linseed, sesame), wheat flour, beer, wine and spirits, tobacco and cigarettes, and copper and related products (e.g. bars, rods, cathodes, waste and scrap).

Finally, while over 350 tariff lines from the MOP list are now 100 percent duty-free, it appears that both the exclusion list and the positive list feature products that were not there initially. While this could be a statistical anomaly (we notice, for example, that many of these products are at the 8-digit HS level instead of the traditional 6-digit level), we suspect that some tariff lines from the duty-free list may now be subject to tariffs, or excluded altogether. Further analysis is needed to confirm if this is indeed the case.

*Source: Authors' analysis based on information on the changes to the DFTP scheme published in the Government of India gazette. Available at http://www.cbec.gov.in/customs/cs-act/notifications/notfns-2014/cs-tarr2014/cs08-2014.htm.*

Vegetable products constitute 41 percent of the items in the exclusion list and represent 25.8 percent of the value of total exports of such products from beneficiary LDCs. The second largest category of products in the exclusion list are "base metals and articles" (17 percent of exclusion products), followed by prepared food products, and tobacco (16 per cent). Chemical and allied products, which only make up 6 per cent of tariff lines in the exclusion list, constitute a significant 44 per cent of the value of exports of exclusion products from beneficiary LDCs.[20] The exclusion list includes various products in which Tanzania has comparative advantage.

After contextualizing Tanzania's export patterns to India, the following sections examine recent trends in Tanzania's exports to India in the pre- and post-DFTP period to assess the impact of the DFTP scheme.

### 4.2. Gold, Vegetables, and Other Exports to India

Between 2000 and 2012, the composition of Tanzania's exports to India became more diversified, although exports remained heavily dependent on gold, and vegetable products. Exports of vegetable products increased by 207 percent. It was one of the key drivers of Tanzanian exports, accounting for 53 percent of total exports (2012), although, as a share of exports, they fell from more than 83 per cent in 2000. Stone/glass exports, about 90 percent of which is gold, increased 45-fold from USD 3.5 million in 2006 to USD 157 million in 2012, increasing their share of total exports to over one-third. This increase was partly due to significant increases in gold prices (the spot price of gold has varied by as much as USD 1,000).[21] Combined, vegetable products and stone/glass (including gold and other precious minerals) accounted for more than 85 percent of Tanzania's total exports to India.

When Tanzania's global trade (Table 1) is juxtaposed with its trade with India at the macro level (Table 2), several significant differences stand out. Broadly, Tanzania's exports to India were clustered around two product areas (vegetable and gold exports), while Tanzania's global exports were clustered around three areas (vegetables, gold, and minerals). In both cases gold exports made up more than 30 per cent of total exports (2012). However, Tanzania's global exports were less concentrated on vegetable exports (18.6 per cent of total exports in 2012) than its exports to India (53 percent of total exports in 2012). Mineral exports accounted for 16.5 per cent (2012) of total global exports, while mineral exports to India accounted for less than 1 percent of total exports.

**Table 2. Composition of Tanzanian Exports to India, 2000, 2006 and 2012**

| Product | 2000 (in USD million, current prices) | Share of total exports | 2006 (in USD million, current prices) | Share of total exports | 2012 (in USD million, current prices) | Share of total exports |
|---|---|---|---|---|---|---|
| **Animal Products** | 0.1 | 0.09% | 0.33 | 0.52% | 0.08 | 0.02% |
| **Vegetable Products** | 83.1 | 84.44% | 49.96 | 79.54% | 254.87 | 53.03% |
| **Food Products** | 0.1 | 0.06% | 0.08 | 0.12% | 14.06 | 2.92% |
| **Minerals** | 0.0 | 0.02% | 0.01 | 0.02% | 0.35 | 0.07% |
| **Fuels** | - | | - | | - | |
| **Chemicals** | 1.0 | 1.06% | 1.46 | 2.33% | 2.11 | 0.44% |
| **Plastics/Rubber** | - | | 0.01 | 0.02% | 0.43 | 0.09% |
| **Hides/Skins** | 0.1 | 0.09% | 0.56 | 0.89% | 0.62 | 0.13% |
| **Wood** | 0.1 | 0.13% | 3.22 | 5.13% | 12.51 | 2.60% |
| **Textiles/Clothing** | 6.4 | 6.48% | 2.10 | 3.34% | 33.78 | 7.03% |

Table 2. *Continued*

| | | | | | | |
|---|---|---|---|---|---|---|
| **Footwear** | - | | - | | - | |
| **Stone/Glass** | 7.4 | 7.54% | 3.48 | 5.54% | 156.62 | 32.59% |
| **Metals** | 0.1 | 0.11% | 1.52 | 2.41% | 3.68 | 0.76% |
| **Machinery/ Electrical** | - | | 0.05 | 0.09% | 1.39 | 0.29% |
| **Transport** | - | | 0.01 | 0.01% | 0.09 | 0.02% |
| **Miscellaneous** | - | | 0.02 | 0.03% | 0.05 | 0.01% |
| **Total** | **98.4** | | **62.81** | | **480.64** | |

*Source: Authors' calculations based on UN Comtrade (2013).*

Having broadly outlined the changes in the composition of Tanzanian exports to India at the macro-level, the paper will now examine and analyse the trends in the composition of Tanzanian exports at the six-digit level in the pre-DFTP and post-DFTP periods. Since direct data for 2004 is unavailable in HS 2002, and in the interest of maintaining a uniform and consistent HS classification across the period of analysis, the review period for the pre-DFTP analysis is three years (2005–07), while the post-DFTP review period is four years (2009–12). Since much of the analysis is based on averages rather than data from a specific year, the impact of the different review periods should be minimal.

The rest of the paper is structured in the following manner: the next section presents an analysis of export trends to India under the DFTP scheme. This part of the analysis is based on secondary data from the UN Comtrade database. The following section complements the data analysis by assessing the implementation of the DFTP on the basis of primary information obtained during the authors' fieldwork in Tanzania, where they interviewed key public and private sector stakeholders. Section six will review other key components of Tanzania-India relations that support Tanzanian exports such as Foreign Direct Investment (FDI) from India; technological collaboration; technical assistance; and aid. The last section will conclude our major findings and provide recommendations and policy options that would lead to greater inclusiveness in the DFTP scheme and further the interests of greater Tanzania-India trade and economic relations.

## 4.3. Tanzania Exports to India under the DFTP: Increasing Trends but Limited Impact

### 4.3.1. Tanzanian exports to India

Like many LDCs, Tanzania's exports, which have diversified in recent years, remain concentrated around a limited number of product lines. Therefore, the analysis of exports to India has been limited to the country's top 30 exports. On average, these products accounted for roughly 90 percent of exports in the pre-DFTP period, and more than 95 percent in the post-DFTP period.

Table 3 provides the average exports of Tanzania's top 30 exports to India and compares the growth rates of exclusion, Margin of Preference (MOP), and duty-free products between the post- and pre-DFTP periods. When aggregated, the export growth of duty-free products (635 percent) was significantly higher than that of exclusion products (257 percent) and MOP products (194 percent). The relatively high growth rate for exclusion products could be due to the very low base value of exports (USD 4.4 million).

Similarly, from the shares of the various product groups between the pre- and post-DFTP periods (Annex 1), it is clear that duty-free products have increased their share of Tanzania's total average exports (by almost 23 percent), while the share of exclusion products fell by 1.5 percent, and the share of MOP products fell by almost 15.6 percent.

A worry is that the number of duty-free products in Tanzania's top 30 exports (Annex 1) to India decreased, as did the number of MOP products during the post-DFTP period. This could cast some doubt on the efficacy of the scheme in stimulating exports of duty-free and MOP products to India as one would expect to see the number of duty-free and MOP lines increasing at the expense of exclusion products. Notwithstanding this, the share of duty-free products and their growth rate have shown impressive results.

**Table 3. Tanzanian Exports to India by Classification**

| Product Classification | Average Exports (pre-DFTP, USD million) | Share of Total Exports | Average Exports (post-DFTP, USD million) | Share of total exports | Growth Rate |
|---|---|---|---|---|---|
| Exclusion | 4.4 | 6.0% | 15.6 | 4.1% | 257% |
| MOP | 31.5 | 43.4% | 92.7 | 24.5% | 194% |
| Duty Free | 36.8 | 50.6% | 270.1 | 71.4% | 635% |
| **Total** | **72.6** | | **378.4** | | **421%** |

*Source: Authors' calculations based on UN Comtrade (2013).*

4.3.2. Comparing export trends to India and to the world

A comparison of Tanzania's exports to India and the world between the pre- and post-DFTP periods should give an indication of whether or not India has become a more attractive destination for Tanzanian exports.

Table 4 details the performance of the three categories of exports (duty free, MOP, and exclusion) to India and the world between the pre- and post-DFTP periods. Post-DFTP, India increased its share of Tanzania's global MOP exports to 31.8 percent, from 15.2 percent in the pre-DFTP period. In the post-DFTP period, India accounted for a little less than a third of Tanzania's global MOP exports. India's share of Tanzania's global exports of duty free and exclusion products also increased, although to a lesser extent. In the post-DFTP period, India accounted for 3 percent of Tanzania's total exclusion product exports and 10.6 percent of its global duty-free exports.

**Table 4. Tanzania's Global Exports and Exports to India of Top 30 Products**

| | Exclusion Products | MOP Products | Duty Free Products | Total Exports |
|---|---|---|---|---|
| **Tanzanian Exports to India (USD million)** | | | | |
| **Pre-DFTP** | 4.4 | 31.5 | 36.8 | 72.6 |
| **Post-DFTP** | 15.6 | 92.7 | 270.1 | 378.4 |
| **Tanzanian Exports to the World (USD million)** | | | | |
| **Pre-DFTP** | 296.7 | 206.8 | 933.9 | 1,437.3 |
| **Post-DFTP** | 512.2 | 291.7 | 2,537.9 | 3,341.7 |
| **Tanzanian Exports to India as a Share of Exports to the World** | | | | |
| **Pre-DFTP** | 1.5% | 15.2% | 3.9% | 5.05% |
| **Post-DFTP** | 3.0% | 31.8% | 10.6% | 11.3% |
| **Pre-/Post-DFTP Difference** | **1.6%** | **16.6%** | **6.7%** | **6.3%** |

*Source: Authors' calculations based on UN Comtrade (2013).*

The following section compares the trends in exclusion, MOP, and duty-free products that Tanzania exports to India and the world at the HS 6 digit level to look at changes in their composition. A detailed breakdown of these findings can found in Annex 2. The results of this analysis should be treated with caution since, in certain cases, they are dependent on very low base values, where small changes, either positive or negative, generate a large percentage change, distorting the overall analysis. Tanzania's top global exports in the post-DFTP period were gold; cashews; cotton; copper waste and scrap; sesasum seeds; peas; and precious stones. Broadly, exports of duty-free products to India have performed better than global duty-free exports. While the performance of products varies within classification categories, exports of duty-free products (those of significant export value such as in-shell cashews; precious stones; and wood products) to India appear to have generally outperformed Tanzania's global exports of those same products. Exports of those duty-free products to India, such as synthetic tanning substances and chicory roots, which failed to keep pace with Tanzania's global exports, were of limited commercial value.

Although data on exports of gold to India during the pre-DFTP period are not available, Tanzania's gold exports to India have surged, and India has become an important destination for Tanzanian gold. In 2012, gold exports to India accounted for 18.5 percent of the country's global gold exports.

As in the case of duty-free products, exports of MOP products to India, with a few exceptions (guar seeds, and certain species of peas), outperformed Tanzania's global MOP exports. For certain products of export interest and significant value to Tanzania, such as peas, and guar seeds, the MOP remains low (10 percent). Further liberalization by India on these tariff lines could boost Tanzanian exports.

Three products (sesasum seeds; shelled cashews; and copper waste and scrap) accounted for roughly 80 per cent of its global exports of exclusion products. Tanzania's global exports of both sesasum seeds and copper waste and scrap outperformed exports to India, while the growth rate of global exports of shelled cashews trailed that of cashew exports to India. While the expansion of the DFTP scheme would broadly benefit Tanzania, the inclusion of the aforementioned products could substantially improve Tanzania's exports to India. Remarkably, these products are maintained on the exclusion list even under the revised scheme.

**4.4. Evaluating the DFTP's Inclusiveness**

One of the aims of preferential schemes such as the DFTP is to encourage the exports of LDCs in products in which they are competitive. One way of evaluating the effectiveness of the DFTP scheme is to examine the extent to which products of export interest to Tanzania are excluded by the scheme.

Among the top 30 export items, duty-free products accounted for 57 percent of average global exports post-DFTP, and MOP products made up a further 6.7 percent (Annex 3). This indicates that the scheme is inclusive enough, with around two-thirds of Tanzania's top export products receiving some kind of preferential tariff treatment. Goods excluded from the scheme accounted for approximately 11.5 percent of Tanzania's global average exports and more than USD 510 million in value.[22] Certain excluded products, such as shelled cashews; coffee; and tobacco products are of key export importance to Tanzania, and the scheme's impact would be greater if they were moved out of the exclusion list. Regrettably, these products continue to be excluded in the new scheme.

A comparison of the country's top 30 exports to India and its top 30 exports to the world reveals that ten products (peas; in-shell cashews; shelled cashews; cloves; sesasum seeds; cocoa beans; cotton; precious stones; and gold) are exported to both destinations. Of these ten, two are on the exclusion list (shelled cashews and sesasum seeds); five (peas of the *Pisum sativum* variety, cocoa beans, uncarded and carded cotton, and cloves) are MOP products; and three (in-shell cashews, precious stones, and gold) are duty-free products. Further liberalization of tariffs on products with low margins of preference as well as contraction of the exclusion list would benefit Tanzania as these products have high commercial value. In the case of cashews, where raw cashew nuts enjoy duty-free access but shelled cashews are excluded, the Indian scheme perpetuates African LDCs' low degree of industrialization by denying them opportunities for value-added processing. Therefore, the scheme should also address any instance of tariff escalation to help the structural transformation of the LDCs.

## 4.5. Indian Import Demand and Tanzanian Exports

Comparing Tanzania's top 30 exports to the world (in the post-DFTP period) to Indian global imports will show whether or not demand exists in India for Tanzanian exports. Tanzania's top 30 global export products account for roughly 14.4 percent of India's global import products, which appears to indicate that there is Indian demand for Tanzanian exports, though small. Indian demand for Tanzanian goods, however, remains concentrated around a few products. A breakdown of the 14.4 percent share suggests that the bulk (11 percent) of Indian imports from Tanzania is made up of gold, with liquid natural gas, and copper ores and concentrates accounting for an additional 1.2 percent each (Annex 4). Some of Tanzania's traditional exports, such as cashews, account for just 0.2 percent of India's average global imports. This suggests that there is limited Indian demand for Tanzanian exports, apart from a very few niche products.

In order to further investigate Tanzania's export complementarity with India, we constructed an export complementarity index based on the following equation:

$$EPI = 100[1 - \Sigma_k|x_k - m_k|/2],$$

where $x_k$ is the share of product $k$ in the exporting country's global exports, while $m_k$ represents the share of product $k$ in the importing country's global imports.

The index is inspired by the trade complementarity index (TCI) that has been widely used in assessing the potential for trade among partners in a regional bloc. Our formula, however, focuses on one country's (Tanzania's) potential to export to another country (India) based on the import needs of the latter. In its current construct, therefore, the index is an export potential index (EPI), and it is in this sense that we use it in our analysis. Our EPI is easier to implement than the standard TCI since it less data-demanding. We compute it at the HS 6-digit level across Tanzania's tariff lines.

The EPI ranges between zero and 100. An index score of 100 would indicate that perfect complementarity exists between the two countries, and a score of zero would show that there is no export complementarity (that is, Indian demand for Tanzania's imports does not exist). Tanzania's index score of 23.04, which is well below the cut-off point of 50, confirms that there is limited potential for Tanzania to export to India.

# 5. OTHER FACTORS DETERMINING THE EFFECTS OF THE DFTP: PRIMARY DATA–BASED EVIDENCE

It is difficult to assess the effects of the DFTP scheme on Tanzania's exports. Many factors affect the volume, value and structure of Tanzania's trade with India. As suggested earlier, for example, much of Tanzania's recent exports to India consist of gold, the value of which has been inflated by soaring world prices. It is important to control for these exogenous factors bearing on Tanzania-India trade to isolate the impact of the scheme on Tanzania's exports. This can be done by means of econometric analysis. Unfortunately, the period after the entry into force of the DFTP scheme is too short for such analysis. The post-DFTP period is also too short to allow the full effects of the scheme to play out. Also, neither the Comtrade data that we used in our analysis nor customs data from India distinguishes between those Tanzanian exports that occur under the scheme and those that take place on an MFN basis. This leaves us little choice other than to assume that all of Tanzania's exports in the post-DFTP period happened under the scheme. This assumption is not borne out by the evidence from the ground: our fieldwork suggests that the Tanzania Chamber of Commerce, which has sole authority to issue preferential certificates of origin, has, until now, issued none in respect of the Indian DFTP scheme!

The above analysis of the impact of the scheme based on a statistical examination of pre- and post-DFTP export values is subject to these caveats.

It would appear that the scheme has had a positive but limited impact on stimulating Tanzania's exports to India. In the post-DFTP period, Tanzania's top-30 export products to India increased by an impressive 421 percent, as indicated in Table 3 above. Moreover, this growth was driven by duty-free products, which accounted for over 70 per cent of the top 30 exports to India. Exports of duty-free products grew by 635 percent in the post-DFTP period.

The post-DFTP trends suggest that India has become a more attractive destination for Tanzanian exports. India, which accounted for only 4 percent of Tanzania's global exports in 2006, was among the largest export destinations by 2012, accounting for 9 percent of Tanzania's total exports. As indicated in Tables 3 and 4 above, the increase in India's share is mainly attributed to the export of preference products.

These trends are encouraging and would suggest that the DFTP scheme has had positive effects in stimulating the export of preference products to India. Our fieldwork in Tanzania, however, prevents us from making such a positive assessment. Interviews with local stakeholders reveal that several factors have limited the utilization of Indian tariff preferences and its eventual impact on exports.[23]

### 5.1. Trade Policy and Export Strategy

The Government of Tanzania has a key role to play in strengthening the country's productive capacities and promoting exports to India and to the world. In order to strengthen and ensure sustainable economic growth, Tanzania adopted its second National Strategy for Growth and Reduction of Poverty (NSGRP) in 2010 and the Tanzania Five Year Development Plan (2011/12-2015/16). The two documents serve to implement the Tanzania Development Vision 2025, which aims at transforming Tanzania into a middle-income country by 2025. These documents recognize international trade as being crucial to Tanzania's economic growth and development. For instance, the NSGRP embraces several of the priorities defined in the Diagnostic Trade Integration Study elaborated under the Enhanced Integrated Framework.

However, the mainstreaming of trade within the country's development policies appears to be procedural rather than substantial. Tanzania's current trade policy is not well articulated and the country does not have a strategy to implement it. The interviews conducted during our fieldwork revealed that many stakeholders in the public and private sector are not fully aware of Tanzania's trade policy or strategy, and to a lesser extent, its implementation.

The lack of attention given to trade and exports is apparent in other ways. For instance, the resources at the disposal of export promotion agencies such as the Tanzania Exporters Association (TANEXA) are modest. Indeed, these agencies are often severely understaffed and lack the capacity to efficiently promote exports and provide technical and marketing assistance to exporters.

Given this context, export market diversification towards new destinations such as India and other emerging economies is not a key priority for the Government of Tanzania, and no export-support institution was active in seeking or promoting new markets. Most of the initiatives seek to boost exports regionally or with other traditional partners such as South Africa and Europe. Some effort has been made to promote exports in the Gulf states through the Tanzania trade office in Dubai. The government has yet to actively promote exports in more remote destinations such as Asia.

The lack of policy focus on exports beyond the region and on export diversification — both in terms of products and markets — is at odds with Tanzania's Trade Integration Strategy 2009-2013, which clearly identifies increased trade as a key development objective.

Finally, no sectoral strategy for some key export sectors, including horticulture, leather, and food products, or strategy for the development of small and medium enterprises per se has been adopted or implemented by the government. This is a serious policy blunder, and it is inconsistent with the goal of supporting the development of the private sector. Therefore, the drive to enhance the competitiveness of key sectors is either missing or has been left to private initiatives and sector organizations, which often face major capacity constraints. This poses an important challenge for penetration into the Indian market, or the global economy.

### 5.2. Awareness and Understanding of the Functioning of the DFTP scheme

Interviews with key stakeholders during field visits in Dar es Salaam suggest that public officials, policymakers, and the exporter community are, by and large, unaware of the existence of the scheme, much less its finer details. Consequently, Tanzanian exporters are unable to benefit from the scheme in products where significant tariff concessions are available.

Information about the DFTP scheme is obstructed by bureaucratic delays and poor inter-agency communication. For example, when Tanzania was admitted into the DFTP scheme, the Ministry of Foreign Affairs did not effectively communicate it to the Ministry of Industry and Trade and other relevant ministries, and from there to exporter associations and related organizations, and ultimately, the exporters. This partly explains why, almost six years after the launch of the scheme, key stakeholders are poorly informed of the opportunities offered by it.

The interviews also show significant gaps in information flow between the Indian and Tanzanian authorities. For instance, the Tanzania Chamber of Commerce, Industry and Agriculture (TCCIA), which is responsible for issuing certificates of origin, expected the Indian High Commission in Dar es Salaam to inform the Chamber about the details of the scheme and the issuance of certificates of origin. India, on the other hand, had assumed that LDCs would seek and diffuse information themselves, and did not take further steps in promoting the scheme.

The Government of India believes that it has done its part by launching a trade preference scheme for the LDCs, and that the onus is now on Tanzania and other LDCs to take advantage of the tariff preferences provided. But if India is serious about its declared intent to help LDCs achieve sustainable development through trade, it should not hesitate to publicize the scheme more effectively. This can be done by the Indian High Commissions through existing channels at no extra cost. For instance, the Indian High Commission in Dar es Salaam releases a monthly newsletter, but only recently has this newsletter started advertising the DFTP scheme.

Tanzania is not an exceptional case. Interviews in Uganda revealed similar problems. Therefore, a lack of information about the DFTP scheme and its operationalization may undermine the scheme's impact in LDCs.

### 5.3. Rules of Origin

In order to be eligible for tariff preferences, exports must comply with Rules of Origin (RoO) defined by the DFTP scheme.[24] While these rules are relatively clear and simple, they can constitute an important barrier to trade. Survey data suggests that obtaining a certificate of origin is probably the most burdensome NTB that African firms exporting to India face.[25] Tanzania is no exception.

According to the TCCIA, at the time of our fieldwork in February 2014, not a single preferential certificate of origin to India had been issued since the DFTP scheme came into effect in 2008. During our fieldwork in Uganda, we found similar results. Although Uganda joined the scheme in 2008, the first certificate of origin was issued in 2012 (Ancharaz et al. 2014).

From the information we gathered in Dar es Salaam, this situation is due to a combination of factors. Some exporters may not want to export under the DFTP scheme, since obtaining certificates of origin may not be worth the hassle if the margin of preference is very small. They probably prefer exporting without using the preferences provided under the scheme. But the main problem is the lack of awareness and understanding of the operationalization of the scheme among the export community, both at the firm and institutional level. Our interviews revealed that exporting firms as well as private sector organizations, such as the Tanzania Horticultural Association or the Agricultural Council of Tanzania, are ignorant about the DFTP scheme. It was only at the end of 2012 that an exporter approached the TCCIA for a DFTP certificate of origin. But the Chamber was unaware of the information required to export under the DFTP scheme. At the time of our visit in February 2014, this situation persisted.

This would imply that after almost six years since the launch of the scheme, Tanzania's exports to India still take place at the less favourable MFN rates and not at preferential tariffs provided under the scheme. This situation could change if existing information gaps are bridged, for which the Indian and Tanzanian authorities must cooperate to promote the scheme in Tanzania. The Government of India must engage more proactively with its African partners if it genuinely wants the scheme to make an impact on trade and development in the target countries.

### 5.4. Design and Coverage of the DFTP Scheme

The DFTP scheme is limited by its design. The exclusion of products that Tanzania and other LDCs are most competitive in is inconsistent with the objective of helping these countries increase their exports to India. Before the revision of the DFTP scheme in April 2014, the exclusion list constituted 6 percent of Indian tariff lines, but, in value terms, excluded products made up 15 percent of post-DFTP global exports by LDCs. The share of exclusion products in the total exports of individual countries ranges from 0.1 percent (Lesotho) to 82.4 percent (Burundi) (Ancharaz et al., 2014). In the case of Tanzania, exclusion products represent 32.6 percent of its global exports[26] and include products such as coffee, tobacco, sesame seeds, tea, cashew nuts (shelled) and copper scrap and waste — some of Tanzania's key exports. These products remain excluded in the revised scheme.

Further analysis shows that the MOP on a number of duty-free products is rather low. For example, the MFN rate is 0 percent on cotton and industrial diamonds, 2.5 percent on aluminium and copper ores, and 10 percent on readymade garments. This means that the scheme confers little material advantage compared to the MFN regime. Therefore, some beneficiary LDCs may prefer exporting to India outside the duty-free scheme since the additional cost of complying with the scheme may not justify the marginal benefit. In Tanzania, for instance, this appears to be the case with the export of gold and precious stones, which made up about one-third of Tanzania's exports to India in 2012. The MFN tariff for precious stone products is at 10 percent.

Moreover, there is evidence of escalation in the tariff structure for various products. For example, while copper ore and unflower seeds are admitted free of duty, scrap and waste of copper and oil cake of sunflower seeds are excluded. The undesirable consequence of such tariff escalation is that it fosters the exports of low value-added products at the expense of processed or semi-processed items. This can undermine prospects of industrialization for Tanzania and other LDCs.

The most striking example for Tanzania is the differential tariffs applied to raw and shelled cashew nuts and processed cashews. While the former gets duty-free treatment, shelled cashew nuts are excluded altogether, presumably to protect India's large cashew processing industry. This has deprived Tanzania real opportunities to develop higher value-added activities around cashew processing, as stressed by the Agricultural Council of Tanzania, TANEXA, the Ministry of Industry and Trade as well as other institutions during the interviews. Box 2 further analyses the situation of the cashew nut industry in Tanzania in the context of the DFTP scheme.

**Box 2. The Tanzanian Cashew Industry**

Tanzanian cashews are much in demand because of their superior size and quality. In a good year, with favourable climactic conditions, Tanzania can produce up to 20 percent of total African cashew production and 10 per cent of global production. Despite this, the cashew sector remains underdeveloped, with very low levels of value addition. Only 40 percent of cashews are processed domestically and sold either domestically or exported; the remaining 60 percent of cashews are exported in unprocessed form (UNIDO, 2011). It is estimated that between 2008 and 2012, Tanzania forfeited approximately USD 551 million in value addition by exporting raw in-shell cashews rather than processing them domestically (Agricultural Council of Tanzania et al.). A number of factors explain the lack of competitiveness and underdevelopment of the cashew sector, including an overregulated and burdensome business environment; a lack of technical expertise; outdated processing equipment and machinery; inadequate access to finance; and high cost of inputs and services.

In the post-DFTP period, more than 90 percent of Tanzania's raw cashew exports were shipped to India for further processing and value addition. It is estimated that more than 30,000 jobs could be created if 100,000 metric tonnes of raw cashews were processed domestically using existing facilities. The reasons why Tanzania exports the vast majority of its raw cashews to India are due, at least in part, to the agricultural support policies of the Indian government. Indian cashew processors receive a 5 percent subsidy from the Indian government to stimulate local Indian employment (UNIDO 2011). At the higher price generated by the subsidy, Tanzanian cashew processors, who all sell raw cashews, have an incentive to increase sales of raw cashews rather than go through the hassle of processing operations which are capital- and time-intensive, and costly. Tanzanian processed cashews are uncompetitive internationally because of high processing costs. Tanzanian firms cannot compete with Indian cashew processors. The architecture of the DFTP scheme — in particular, the fact that raw cashews are admitted duty-free whereas shelled cashews are excluded altogether — exacerbates the competitive pressures on the Tanzanian cashew processing industry.

Apart from doing away with its subsidy to domestic cashew processors, an unlikely proposition, India can do much to assist Tanzanian cashew producers, as highlighted by the interviewees in Dar es Salaam. Some suggestions include providing duty-free access to processed cashews; providing technical and financial assistance in the development of less capital-intensive processing facilities, something that India has considerable experience in; enhancing the skills of workers involved in the cashew processing sector; and assisting in the development of proposed cashew export processing zones. These measures alone will not solve the problems that Tanzanian cashew producers face, but they will help catalyse cashew processing, with significant gains in value addition and employment.

### 5.5. Productive or Export Capacity

During the interviews, stakeholders such as the Agricultural Council of Tanzania (ACT), the Tanzania Horticultural Association (TAHA) and TANEXA said that even if the DTFP scheme offered full preferential access for Tanzania exports, the country would probably not be able to supply India's large market because of the limited production capacity and limited competitiveness of its private sector. Moreover, TAHA stressed the fact that India and Tanzania are direct competitors for various products where Tanzania has a comparative advantage, particularly in agriculture. Yet, India can produce these products more cheaply and on a larger scale. In our view, however, such thinking suffers from reverse causality. Prospects of supplying a large export market should, in theory, encourage firms to expand and become more competitive. Where this is not the case, other and more severe export supply constraints may be at work, including constraints at the level of the firm itself.

In this context, India can do much to enhance the productive capacity of Tanzania's export sector through aid, investment and technological collaboration. India is a leading investor in Africa among the emerging economies, and is also quite active in Tanzania. India's increasing FDI can be a conduit for technology transfer and knowledge spillovers, and play an important role in the structural transformation of the Tanzanian and other African economies. As such, India's efforts are commendable, but more could be done. The next section will deal with the role of Indian aid and investment in Tanzania and their possible effects in enhancing the country's productive and export capacities.

## 6. INDIAN AID AND INVESTMENT

In order to situate Indian investment and aid in Tanzania in the broader SSA context, Indian investment in the region is examined at first. The following section briefly looks at Tanzania's inward FDI flows to provide some perspective on the importance of investment in general, and Indian investment in particular, for the Tanzanian economy. With an emphasis on those projects that have either improved Tanzania's supply-side or productive capacity, the final section examines a number of Indian investment and aid schemes in Tanzania.

### 6.1. Indian Investment in Sub-Saharan Africa

The rise of emerging economies and the growing demand for natural resources to feed economic growth back home have led to a dramatic increase in both trade and investment between Africa and its emerging partners, such as China and India. Indian investment in Africa has been directed towards a number of sectors, including energy, chemicals, telecom, metals and ores, agriculture, infrastructure, and computer services.[27]

In contrast to Chinese investment in the region, which is characterized by numerous state-owned enterprises (SOEs) and a high level of vertical integration, Indian investment in Africa tends to be private in nature. Although it may be facilitated by government, Indian investment tends to source inputs locally, and places a much greater emphasis on integration into the local labour market.[28]

Because Indian firms, on average, are less vertically integrated than their Chinese counterparts — that is, they are far less reliant on Indian suppliers — they have a greater propensity to secure inputs from local markets, which stimulates local productive capacity. Furthermore, due in part to India's economically engaged diaspora community and English as a common language across much of east and southern Africa, Indian firms are more likely to develop commercial relationships with local private entities in the region as shown by their much larger local sales than those of comparable Chinese firms (which tend to deal with government agencies rather than the private sector). Indian firms are also far more likely to employ local people, and relations between Indian firms and local employees have not been marred by the types of disputes that Chinese investment activities have engendered.[29] Of course, this is a sweeping generalization of both Indian and Chinese investment patterns in SSA, and exceptions to the points made do exist. That said, the Indian approach to investment, particularly its comfort with locally sourced inputs, is of great importance to African countries and has the potential to address some of the supply-side bottlenecks that plague many SSA countries and limit their export potential.

### 6.2. FDI and Tanzania

UNCTAD statistics show that Tanzania managed to attract significant FDI between 2000 and 2012, notwithstanding a contraction in 2009 due to the effects of the global financial crisis (Table 5).[30] Of the USD 6.3 billion in FDI flows that East Africa attracted in 2012, Tanzania accounted for USD 1.7 billion, significantly more than any other East African country apart from Uganda, which attracted a comparable amount.[31] As a percentage of GDP, the FDI stock has increased reflecting the increased importance of FDI in the economy. In parallel, domestic investment (or gross fixed capital formation) increased from USD 1.7 billion in 2000 to approximately USD 11 billion in 2012 and has shown double-digit growth in recent years. The high level of investment activity, domestic and foreign, testifies to the increased dynamism of the Tanzanian economy, which has registered an average real growth of 6.9 percent per year over the decade ending 2013, well above the Africa average.

**Table 5. Foreign Direct Investment in Tanzania (USD million)**

| | 2000-2005* | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 |
|---|---|---|---|---|---|---|---|---|
| FDI inflows | 451.9 | 403.0 | 581.5 | 1383.3 | 952.6 | 1,813.3 | 1,229.4 | 1,706.0 |
| FDI inflows (% of gross fixed capital formation) | 19.2 | 10.1 | 11.6 | 22.3 | 15.4 | 24.6 | 15.6 | n.a. |
| FDI inward stock | 3,428.5 | 4,827.2 | 5,950.1 | 6,941.5 | 8,066.3 | 8,762.2 | 9,278.1 | 10,984.1 |
| FDI inward stock (% of GDP) | 28.5 | 32.8 | 34.4 | 32.5 | 36.6 | 37.1 | 38.1 | 38.2 |

*Source: UNCTAD Statistics (2013).*

**Table 6. Gross Fixed Capital Formation in Tanzania**

| | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Gross fixed capital formation (% of GDP) | 16.4 | 17.0 | 16.8 | 18.8 | 22.2 | 24.7 | 27.2 | 29.2 | 29.4 | 28.4 | 31.5 | 36.1 | 38.8 |
| Gross fixed capital formation (annual % growth) | 5.9 | 12.0 | 7.9 | 14.0 | 10.4 | 18.7 | 16.0 | 14.5 | 7.8 | 10.1 | 10.2 | 31.4 | 11.3 |
| Gross fixed capital formation (current USD, billion) | 1.67 | 1.77 | 1.81 | 2.19 | 2.84 | 3.49 | 3.90 | 4.91 | 6.08 | 6.08 | 7.22 | 8.61 | 10.96 |

*Source: World Bank databank (2013).*

Tanzania remains heavily dependent on FDI flows from a limited number of countries. The UK, Canada, and South Africa accounted for, on average, 71.5 percent of total FDI inflows between 2008 and 2011. According to the Tanzania Investment Centre (TIC), this mimicked investment patterns prior to 2008 indicating that, in general, Tanzania has not been able to diversify its sources of FDI and is thus highly vulnerable to external shocks originating in those countries.

The TIC has noted that in order to mitigate external risk Tanzania must diversify its sources of FDI and look to other sources, particularly in Asia.[32]

### 6.3. Indian Investment and Aid in Tanzania

While small in relation to FDI stocks from Tanzania's primary investors, India's FDI stocks in Tanzania have steadily increased from USD 49.2 million in 2009 to USD 71.01 million in 2011. While India's FDI stock is small in relation to Tanzania's largest investors — South Africa (USD 2.2 billion), the UK (USD 1.3 billion), and Canada (USD 1.08 billion) — it is roughly the same size as that of the US (USD 72.2 million) and larger than those of Germany and China (USD 50.9 million and USD 48.7 million respectively) as at the end of 2011. India's economic engagement with Tanzania is notable with more than USD 1.8 billion of cumulative investment registered between 1990 and 2012. Furthermore, according to the Indian High Commission, USD 497 million has been invested by Indian firms in various Export

Processing Zones (EPZs) in the country. While Indian FDI flows to Tanzania remain comparatively small, a high number of all registered investment projects (15 percent) have originated from India. In comparison, the UK, with its historical linkages and significant FDI flows to Tanzania, also accounted for the same number of registered projects, while the Netherlands, China, and the US accounted for 10 percent.[33] Indian investment has been channelled into similar sectors as Indian investment in the rest of SSA, namely telecom, pharmaceuticals, various natural resource sectors (including agriculture), infrastructure, and banking.

Indian investment in Tanzania is comparably limited and the positive effects of Indian investment should not be overstated. At its current level, it appears to be too small to make a tangible impact on the productive capacity of the Tanzanian economy. That said, further Indian investment in the economy, on a significantly larger scale, does have the potential to diversify Tanzania's sources of FDI, bring much needed capital to capital-intensive extractive industries and to more consumer-orientated sectors, and boost employment.

Indian investment in Tanzania, which can be termed both market- and resource-seeking, has been directed towards not only infrastructure, much of it needed for the extraction of minerals; agricultural goods; and natural gas; but also in more consumer-orientated sectors such as pharmaceuticals; mobile telecommunications; and banking and insurance. While certainly not all Indian investment has improved, or has the potential to improve, Tanzanian export performance, it has contributed positively to the Tanzanian economy. The combination of productivity-boosting investment, on a significantly larger scale, and increased market access opportunities offered through the DFTP scheme, especially if the scheme's architecture is revised to take into account those products of importance to Tanzania, can offer a two-pronged approach, or at the very least a starting point, for improving Tanzania's export performance.

Tanzania, like many LDCs, is faced with the problem of inadequate infrastructure, which hobbles its productive capabilities. Indian firms have been involved in a number of infrastructure-related investments that have aided in addressing constraints. Kalpataru Power Transmission Ltd., an Indian power-generation and transmission company, was responsible for the laying of new transmission lines worth approximately USD 10 million between Zanzibar and Dar es Salaam, two of Tanzania's most important commercial hubs. Similarly, the Kamal Group has developed a 279-acre EPZ and has plans to develop a dry port outside Dar es Salaam.

Indian firms, like many others, have invested in heavily extractive industries such as gold mining, natural gas, and, to a limited extent, agriculture. The recent discovery of offshore natural gas reserves has attracted interest from India's Oil and Natural Gas Corporation and GAIL India Ltd., while Larsen & Toubro Ltd., an Indian-registered company, constructed a gas-processing plant and pipeline valued at USD 100 million. Perhaps more importantly, Indian firms have also invested in upgrading Tanzania's raw material processing facilities. India's largest iron ore miner, the National Mineral Development Corporation, is in the process of establishing a gold processing plant to complement its gold mining activities in Tanzania.[34] The Kamal Group, in addition to its mining operations, is developing a steel mill, anticipated to be the largest in East Africa, which will have a projected capacity of 700,000 tonnes a year.[35] Investments in processing facilities have the potential to boost employment and move Tanzanian products up the value chain, something of critical importance to an economy that is still heavily reliant on the primary sector.

In addition to investments in supply-side enhancing areas such as infrastructure and natural resource processing, Indian firms seeking new markets have established a strong presence in more consumer-related industries such as mobile telecommunications, banking, insurance, and pharmaceuticals. Bharti Airtel, now Tanzania's second largest mobile provider, is estimated to have invested USD 150 million in Tanzania and has stated that one of its primary goals is to increase mobile access in rural areas.

Empirical research suggests that enhanced mobile phone coverage and utilization have improved, at least to a certain extent, both agricultural and labour market efficiency as well as welfare in some sub-Saharan countries.[36] Smaller Indian firms have also invested in Tanzania with positive results. For example, Wintech Elevators was recently ranked in the top 100 mid-sized companies in Tanzania.[37] Though investments of this nature do not directly impact export capacity they do have the potential to improve domestic productive capacity and boost local employment.

Over the last decade and a half, India has provided Tanzania with significant developmental assistance. The provision of two Lines of Credit (LOCs), valued at USD 40 million and USD 36.56 million, respectively, for the purchase of agricultural equipment and trucks is particularly noteworthy and helps address the woeful level of mechanization of the Tanzanian agricultural sector. The agricultural sector, which the majority of Tanzanians depend on for their livelihoods, is estimated to have two tractors per 1,000 hectares, which is well below the international average of 19.7 tractors per 1,000 hectares.[38] Improvements in agricultural yields resulting from increased mechanization would improve the welfare of Tanzanians and could boost the export capacity of Tanzanian agricultural exporters. Another Indian LOC, valued at USD 178.125 million, was announced in 2012 for the development of water supply projects in Dar es Salaam and the surrounding areas. The various projects are expected to increase the capacity of the Upper Ruvu plant, one of the primary sources of water for the commercial capital, from 82,000 cubic metres a day to 196,000 cubic metres a day.[39] Indian assistance in scaling up water supply for Tanzania's rapidly urbanising population is of critical importance to the economic and social welfare of its people. Tanzanians living in urban areas without access to piped water pay as much as four times more than those who have connections to reliable water services.

Apart from financial support, India continues to play a role in providing technical assistance. India's National Small Industries Corporation (NSIC) has provided assistance to Tanzania's Small Industry Development Organization (SIDO), the primary purpose of which is to develop small and medium enterprises in Tanzania through the provision of various business development and financial services. Similarly, India has established two IT/communication projects: the Pan African e-Network Project, and the Centre for Excellence in ICT (information and communication technology) in order to aid in the training of IT professionals in Tanzania. Tanzania is also one of the major recipients of Indian educational assistance. In addition to providing scholarships, the Indian government, through the Indian Technical and Economic Cooperation programme, has provided 250 places for Tanzanian students in 2013, and the Vigyan Educational Foundation, based in Bangalore, established the International Medical and Technological University (ITMU), the first of its kind, in Tanzania.[40]

# 7. CONCLUDING REMARKS AND RECOMMENDATIONS

## 7.1. Summary of Findings

Over the last 15 years, Tanzania's trade with India has grown remarkably, both in terms of exports and imports. Exports to India have increased rapidly, especially after 2007, from USD 100 million in 2000 to USD 481 million in 2012. However, the export basket remains concentrated on agricultural goods, particularly raw cashew nuts, and gold, even though there have been some recent signs of diversification. Meanwhile, Tanzania's imports from India have increased tenfold since 2000 to USD 880 million in 2012. These trends have resulted in a widening bilateral trade deficit in India's favour. India alone accounted for 9 percent of Tanzania's overall trade deficit in 2012.

By looking at the changes in the scale and composition of Tanzanian exports to India, this paper assesses the effects of India's DFTP scheme. Assuming that Tanzania's exports to India have indeed taken place under the DFTP scheme and not under the less favourable MFN regime, data analysis suggests that the scheme has had a positive but limited impact. In the post-DFTP period, Tanzania's top 30 export products to India increased by an impressive 421 percent. Primarily, duty-free products, which account for about 71 percent of the top 30 exports to India, drove the growth. In fact, in the post-DFTP period, the export of duty-free products increased by 635 percent.

In the last few years, India has become a more attractive destination for Tanzanian exports. India, which accounted for only 4 percent of Tanzania's global exports in 2006, was among the largest export destinations, accounting for 9 percent of Tanzania's total exports by 2012. Data clearly shows that this is largely because of the export of preference products.

Moreover, Tanzania's current export basket is well-covered by the scheme. Many of its major exports such as gold and in-shell cashews are duty-free under the scheme, while a number of important agricultural goods, such as peas, cocoa, and cotton, receive preferential rates. The relative complementarity between Tanzania's export basket and the scheme's architecture suggests that if the scheme were to be fully utilized by Tanzanian exporters, the country's exports to India will increase. Nonetheless, a number of products of significant export importance do not receive preferential access to the Indian market. In fact, exclusion products made up 32.6 percent of Tanzania's global exports: products such as coffee, tobacco, sesame seeds, tea, and processed cashew nuts, which are important exports from Tanzania, are excluded from tariff preferences.

The analysis also reveals that there is escalation in the tariff structure for products such as steel and some iron products, copper and aluminium scrap and waste, and phosphates. The most striking example for Tanzania is the differential in tariffs applied to raw and shelled cashew nuts, and processed cashews. While raw cashews enjoy duty-free treatment, shelled cashew nuts are excluded from preferential treatment altogether. Both the government and private sector institutions such as TANEXA, ACT and TAHA lamented that this practice deprives Tanzania of real opportunities to develop and export processed and higher value-added cashew nuts. More generally, tariff escalation encourages the exports of low-value added products at the expense of processed or semi-processed items.

It is also important to note that Indian demand for Tanzanian exports remains concentrated on a few products (i.e. gold, copper ores, and natural gas). Also, globally competitive Tanzanian exports, such as cashews, account for as little as 0.2 percent of Indian global imports demand. Nonetheless, recent growth in exports to India, particularly the doubling of exports from 2006 to 2012, implies that there is sufficient demand in the Indian market, especially for niche products such as semi-precious and precious stones.

The analysis proposed in this paper, therefore, would indicate that the DFTP scheme has had positive but limited effects in stimulating the export of preference products to India. However, our fieldwork in Tanzania offers a nuanced perspective. Interviews with local stakeholders suggest that several factors have limited the utilization of the Indian tariff preferences, which inevitably affects exports.

As demonstrated in Section 5, in-country interviews revealed a lack of awareness of the scheme among Tanzanian exporters, exporter associations, and public institutions. This has negatively affected the utilization of tariff concessions under the DFTP scheme. At the time of our interview in February 2014, the Tanzania Chamber of Commerce, Industry and Agriculture revealed that no preferential certificate of origin to India had been issued since the DFTP came into effect in 2008. This would imply that almost six years after the launch of the scheme, exports to India continue to receive less favourable MFN rates and not preferential tariffs specified under the DFTP.

Moreover, despite trade being formally mainstreamed in Tanzania's development plans through initiatives such as the NSGRP and the Tanzania Five Year Development Plan (2011/12–2015/16), the country's current trade policy is not well articulated. It also does not have a strategy to implement it. Not surprisingly, the diversification of exports towards new market destinations such as India and other emerging economies is not a key priority for the government. From the interviews, it would appear that the country is not doing much to take advantage of the opportunities offered by the DFTP scheme.

Likewise, interviewees indicated that both the private sector and. to a certain extent, public institutions do not view India as a viable market due to the limited productive capacity and experience with exporting and marketing in India.

In the light of this context, India can help enhance the productive capacity of Tanzania's export sector through aid, investment and technological collaboration. Like trade, Indian investment in Tanzania has increased over the last decade, but it remains low in comparison to investment from Tanzania's traditional investors such as South Africa, Canada, and the UK. While Indian investment to Tanzania is relatively limited, Indian firms have invested in a range of sectors and industries including infrastructure, resource extraction, processing, telecommunications, and banking. Further investment could play a positive role in the development and upgrading of the Tanzanian economy.

In addition, India continues to play an increasingly important role as a development partner by providing financial and technical assistance. The provision of LOCs for the purchase of agricultural equipment and upgrading water supply projects has addressed the lack of mechanization of the Tanzanian agricultural sector and improved the supply of clean water to Tanzania's commercial capital. Similar financial assistance would be helpful in addressing many of the country's basic economic and social challenges.

### 7.2. Policy Recommendations

Primary data indicate that even though exports to India have increased significantly in recent years, the effects of the DFTP scheme have been limited. In order to improve the effectiveness of the scheme, a number of concrete actions and policy changes by the Indian and Tanzanian governments may be required.

Improving the level of awareness of the scheme among stakeholders would probably be the first step. Our interviews clearly revealed that the limited awareness among stakeholders, particularly in the private sector, is a major obstacle to the utilization of the scheme. Bridging the existing information divide requires constant and effective communication between Delhi and Dodoma, and within Tanzania, between the government and other relevant stakeholders. In particular, it would be crucial to empower Tanzania's export promotion agencies so that they could improve information sharing with exporting firms and provide export-oriented information intelligence to facilitate trading with India.

Similarly, the Government of India also has an important role to play. If India is serious about its declared intent to help LDCs achieve sustainable development through trade, it should publicize the scheme more effectively and more widely. This can be done by the Indian High Commissions through existing channels at no extra cost. For instance, the Indian High Commission in Dar es Salaam releases a monthly newsletter, which only recently started regularly advertising the DFTP scheme.

Another way to improve the effectiveness of the DFTP is by improving the architecture of the scheme. Five years after the launch of the scheme, the Government of India published a revised DFTP scheme, extending preference coverage to 98 percent of tariff lines. This change is welcome but it is not enough - especially for Tanzania, which sees its key exports - coffee, cashew nuts, and sesame seeds, for example - still on the exclusion list. It appears that India has liberalized all but the most sensitive tariff lines. But these are precisely the products in which LDCs are known to be competitive. The new scheme, therefore, affects LDCs differentially. To the extent that excluded products such as coffee, tea, some vegetables, spices and oilseeds, and copper products, are exported mainly by African LDCs, the scheme may be biased against these countries.

Simulation results suggest that global welfare and welfare of African LDCs would increase by USD 561 million and USD 1,201 million, respectively, if India moved to a 100 percent duty-free quota-free regime. The loss to India would be only USD 171 million, which, in any case, might be compensated by the resulting dynamic gains from liberalization over the long term (National Council of Applied Economic Research, 2014). It is not clear whether the recent revision to the scheme was motivated by an evaluation of the scheme, or whether it was done under political-conomy pressures. What is clear, however, is that the Government of India missed a real opportunity to impact Africa's development. But it is never too late, and perhaps now, with a reform-minded government in place, the time is right to undertake a rigorous evaluation of the DFTP scheme and to make appropriate adjustments.

In addition to enhancing the coverage of the DFTP scheme, India can contribute much to build the productive capacity of Tanzania and other African economies through aid, investment and technological collaboration. India is already a leading investor in Africa among the emerging economies. Indian FDI can be a conduit for technology transfer and knowledge spillovers, and can, therefore, play an important role in the structural transformation of African LDCs. As such, greater flows of Indian FDI to Tanzania and other African economies are desirable.

But all this will have limited effects if the Government of Tanzania does not enhance its trade policy. The government has a key role to play in promoting exports. Fundamentally, this starts with clearly defining an export policy in addition to establishing a strategy for its implementation. Unfortunately, trade policy is currently not well articulated, and institutions responsible for implementing it have limited resources and are generally understaffed. But if the government is serious about promoting development through trade, enhancing its trade policy and implementing it should be a key priority.

In conclusion, the increased market access opportunities offered by the scheme can only be meaningfully utilized by Tanzanian exporters if they are aware of it; their products are not excluded by it; they have the export capacity to take advantage of it; and the government helps in promoting Tanzanian exports through solid trade policies and export strategies.

## ENDNOTES

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2 World Bank Development Indicators; http://databank.worldbank.org (2013).

3 Retail and repairs are service subsectors. Repairs relate to the repair of personal and household goods, motor vehicles, motorcycles.

4 World Trade Organization, Trade Policy Review Tanzania (2012).

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9 World Travel and Tourism Council data, in *Tanzania Review 2011/2012*.

10 Authors' calculations based on Comtrade data (2014).

11 Exports of machinery consist of boring and sinking machinery, which is used in mining and water generation; electric shovels; power generators; and non-electrical machinery (such as winches).

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19 World Trade Organization. "Market Access for Products and Services of Export Interest to Least Developed Countries"; http://www.wto.org/english/news_e/news12_e/devel_10oct12_e.htm.

20 Kallummal, Murali, et al. 2013. *Utilising India's Duty Free Preference Scheme for LDCs: Analysis of the Trade Trends*, Center for WTO Studies, New Delhi.

21 World Gold Council; http://www.gold.org/download/value/stats/statistics/xls/gold_prices.xls (2013).

22 It should be noted that the shares of duty-free, MOP, and exclusion products do not sum up to 100. This is because their respective shares were calculated using total average exports as opposed to the total of the top 30 exports. The shares were calculated as such because Tanzania's top 30 exports to the world account for roughly 75 percent of total exports, and a calculation based on the total of the top 30 exports would be inflated.

23 A list of institutions and organizations interviewed during the fieldwork in Tanzania is provided in Annex 3.

24 Under the DFTP, to be eligible for tariff preferences, products need to simultaneously satisfy the following conditions: at least 30 percent domestic value addition; a change in tariff heading; the final process of manufacture is performed within the territory of the exporting BCs. Moreover, cumulation is allowed only with inputs from India and not with other parts of the world.

25 International Trade Centre, country surveys on non-tariff measures. The survey includes specific information on non-tariff measures faced by LDCs and Tanzanian firms exporting to India.

26 International Trade Centre, country surveys on non-tariff measures.

27 India-Africa: South-South Trade and Investment for Development, World Trade Organization (WTO) and the Confederation of Indian Industry (CII). July 2013; http://www.wto.org/english/tratop_e/devel_e/a4t_e/global_review13prog_e/india_africa_report.pdf.

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41 Tur/Arhar are a variety of pea.

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# ANNEX I. CLASSIFICATION OF TANZANIA'S TOP 30 EXPORTS TO INDIA

**Table A. Exclusion Products Among Tanzania's Top 30 Exports to India (Pre and Post DFTP)**

| Pre-DFTP (2005-2007) | | | | Post-DFTP (2009-2012) | | | |
|---|---|---|---|---|---|---|---|
| Product Code | Product Description | Average (in USD million, current) | Percentage share of total average exports | Product Code | Product Description | Average (in USD million, current) | Percentage share of total average exports |
| 071029 | Frozen vegetable (other) | 1.83 | 2.3% | 230630 | Oil-cake (of sunflower seeds) | 4.83 | 1.2% |
| 120740 | Sesasum seeds | 0.98 | 1.2% | 100890 | Cereals (other) | 2.97 | 0.7% |
| 130120 | Gum Arabic | 0.40 | 0.5% | 080132 | Cashew (shelled) | 1.56 | 0.4% |
| 100890 | Cereals (other) | 0.38 | 0.5% | 120600 | Sunflower seeds | 1.27 | 0.3% |
| 090111 | Coffee, not roasted, not decaffeinated | 0.27 | 0.3% | 120220 | Groundnuts (shelled) | 1.15 | 0.3% |
| 080211 | Almonds fresh or dried in shell | 0.26 | 0.3% | 071290 | Dried vegetables | 1.04 | 0.3% |
| 080132 | Cashew nuts (shelled) | 0.24 | 0.3% | 071029 | Frozen vegetable (other) | 1.01 | 0.3% |
| **Total (of average)** | | 4.36 | 5.4% | 740400 | Copper waste and scrap | 0.99 | 0.2% |
| | | | | 120740 | Sesamus Seeds | 0.77 | 0.2% |
| | | | | **Total (of average)** | | 15.57 | 3.9% |

*Source: Authors' calculations based on UN Comtrade (2013).*

**Table B. MOP Products among Tanzania's top 30 exports to India (Pre and Post DFTP)**

| Pre-DFTP (2005-2007) | | | | Post-DFTP (2009-2012) | | | |
|---|---|---|---|---|---|---|---|
| Product Code | Product Description | Average (in USD million, current) | Percentage share of total average exports | Product Code | Product Description | Average (in USD million, current) | Percentage share of total average exports |
| 071310 | Peas (Pisum Sativum) | 16.80 | 20.8% | 071310 | Peas (Pisum Sativum) | 40.74 | 10.3% |
| 071320 | Chickpeas (Garbanzos) Beans | 5.17 | 6.4% | 071390 | Tur/Arhar | 15.75 | 4.0% |
| 071390 | Tur/Arhar | 2.95 | 3.6% | 071320 | Chickpeas (Garbanzos) Beans | 10.33 | 2.6% |
| 071339 | Guar seeds | 1.87 | 2.3% | 071339 | Guar seeds | 2.81 | 0.7% |
| 070810 | Peas | 0.93 | 1.2% | 070810 | Peas | 0.66 | 0.2% |
| 071331 | Beans | 0.54 | 0.7% | 180100 | Cocoa beans, whole or broken, raw or roasted | 0.66 | 0.2% |
| 071332 | Small red (Adzuki) beans (Phaseolus or Vegna angularis) | 0.31 | 0.4% | 520100 | Cotton, not carded or combed | 13.45 | 3.4% |
| 520100 | Cotton, not carded or combed | 1.74 | 2.1% | 520300 | Cotton, carded or combed | 2.25 | 0.6% |
| 520300 | Cotton, carded or combed | 0.33 | 0.4% | 090700 | Cloves | 6.07 | 1.5% |
| 090700 | Cloves | 0.85 | 1.0% | Total (of average) | | 92.73 | 23.4% |
| Total (of average) | | 31.50 | 39% | | | | |

*Source: Authors' calculations based on UN Comtrade (2013).*

**Table C. Duty-Free Products Among Tanzania's Top 30 Exports to India (Pre and Post DFTP)**

| Pre-DFTP (2005-2007) | | | | Post-DFTP (2009-2012) | | | |
|---|---|---|---|---|---|---|---|
| Product Code | Product Description | Average (in USD million, current) | Percentage share of total average exports | Product Code | Product Description | Average (in USD million, current) | Percentage share of total average exports |
| 080131 | Cashews (in shell) | 24.04 | 29.71% | 710812 | Gold (unwrought) | 141.92 | 35.85% |
| 710310 | Precious stones (other than diamonds) and semiprecious stones | 6.11 | 7.55% | 080131 | Cashews (in shell) | 98.63 | 24.91% |
| 440349 | Wood in the rough (other) | 2.41 | 2.98% | 710310 | Precious stones (other than diamonds) and semiprecious stones | 10.77 | 2.72% |
| 320210 | Synthetic Organic Tanning Substances | 1.32 | 1.63% | 440729 | Wood sawn or chipped (other) | 10.28 | 2.60% |
| 121299 | Vegetable products (Chicory roots, tuber of Koyaku, etc.) | 0.44 | 0.54% | 440799 | Wood sawn or chipped (maple) | 1.92 | 0.48% |
| 530410 | Sisal and Other Textile Fibres of the Genus Agave (raw) | 0.37 | 0.45% | 121190 | Vegetable products (Chicory roots, tuber of Koyaku, etc.) | 1.46 | 0.37% |
| 780110 | Refined lead | 0.35 | 0.43% | 320120 | Synthetic Organic Tanning Substances | 1.11 | 0.28% |
| 121190 | Plants of a kind used for perfumery, pharmacy, insecticidal purpose (fresh or dried) | 0.33 | 0.40% | 440399 | Wood in the rough (other) | 0.94 | 0.24% |
| 551341 | Printed Fabrics of Polyester Staple Fibres, Mixed Cotton, Plain Weave | 0.32 | 0.40% | 530310 | Jute and Other Textile Bast Fibres, Raw or Retted | 0.92 | 0.23% |
| 440121 | Fuel wood (coniferous) | 0.28 | 0.35% | 860210 | Diesel-electric locomotives | 0.77 | 0.20% |

Table C. *Continued*

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| 410390 | Raw Hides and Skins, Fresh or Preserved (other) | 0.28 | 0.35% | 850433 | Transformers (other) | 0.72 | 0.18% |
| 480421 | Unbleached uncoated kraft paper | 0.27 | 0.33% | 710399 | Precious stones (other than diamonds) and semiprecious stones (other) | 0.63 | 0.16% |
| 080121 | Cashews, coconuts, Brazil nuts (in shell) | 0.26 | 0.32% | **Total (of average)** | | **270.07** | **68.21%** |
| **Total (of average)** | | **36.76** | **45.43%** | | | | |

*Source: Authors' calculations based on UN Comtrade (2013).*

## ANNEX II. TANZANIAN EXPORTS TO INDIA AND THE WORLD OF TOP 30 EXPORTS TO INDIA

| Product Code | Product Description | DFTP Status | Pre-DFTP Average Export to India (USD million) | Post-DFTP Average Export to India (USD million) | Growth Post DFTP/Pre DFTP (%) | Pre-DFTP Average Export to World (USD million) | Post-DFTP Average Export to World (USD million) | Growth Post DFTP/Pre DFTP (%) |
|---|---|---|---|---|---|---|---|---|
| **230630** | Oil-cake of sunflower seeds | Exclusion | 0.0 | 4.8 | N/A | 0.1 | 18.2 | 19,647% |
| **100890** | Cereals (other) | Exclusion | 0.4 | 3.0 | 673% | 0.6 | 3.8 | 557% |
| **080132** | Cashew (shelled) | Exclusion | 0.2 | 1.6 | 543% | 14.6 | 21.2 | 46% |
| **120600** | Sunflower seeds | Exclusion | 0.0 | 1.3 | N/A | 0.4 | 0.5 | 18% |
| **120220** | Groundnuts (shelled) | Exclusion | 0.2 | 1.2 | 550% | 2.0 | 5.0 | 153% |
| **071290** | Dried vegetables | Exclusion | 1.8 | 1.0 | -43% | 0.8 | 0.9 | 9% |
| **071029** | Frozen vegetables (other) | Exclusion | 1.8 | 1.0 | -45% | 0.8 | 0.9 | 9% |
| **740400** | Copper waste and scrap | Exclusion | 70.2 | 1.0 | -99% | 3.9 | 43.5 | 1,019% |
| **120740** | Sesasum seeds | Exclusion | 1.0 | 0.8 | -22% | 18.7 | 66.9 | 257% |
| **071310** | Peas (Pisum Sativum) | MOP 10% | 16.8 | 40.7 | 142% | 18.9 | 43.1 | 128% |
| **071390** | Tur/Arhar[41] | MOP 10% | 2.9 | 15.8 | 434% | 3.4 | 18.2 | 428% |
| **071320** | Chickpeas (Garbanzos) Beans | MOP 10% | 5.2 | 10.3 | 100% | 7.0 | 12.4 | 78% |
| **071339** | Guar seeds | MOP 10% | 1.9 | 2.8 | 50% | 2.9 | 5.2 | 82% |
| **070810** | Peas | MOP 10% | 0.9 | 0.7 | -30% | 1.7 | 2.3 | 31% |
| **180100** | Cocoa beans, whole or broken, raw or roasted | MOP 29% | 0.1 | 0.7 | 365% | 9.9 | 20.5 | 107% |
| **520100** | Cotton, not carded or combed | MOP 50% | 1.7 | 13.5 | 675% | 51.6 | 85.4 | 65% |
| **520300** | Cotton, carded or combed | MOP 50% | 0.3 | 2.3 | 583% | 27.1 | 20.5 | -25% |
| **090700** | Cloves | MOP 90% | 0.8 | 6.1 | 616% | 8.4 | 22.8 | 172% |
| **710812** | Gold (unwrought) | Duty-Free | 0.0 | 141.9 | N/A | 443.0 | 765.3 | 73% |
| **080131** | Cashews (in shell) | Duty-Free | 24.0 | 98.6 | 310% | 26.5 | 103.7 | 292% |
| **710310** | Precious stones (other than diamonds) and semiprecious stones | Duty-Free | 6.1 | 10.8 | 76% | 26.7 | 28.7 | 7% |

*Continued*

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| **440729** | Wood sawn or chipped (other) | Duty-Free | 0.1 | 10.3 | 7094% | 5.4 | 15.9 | 194% |
| **440799** | Wood sawn or chipped (maple) | Duty-Free | 0.0 | 1.9 | 14446% | 0.5 | 3.1 | 499% |
| **121190** | Vegetable products (Chicory roots, tuber of Koyaku, etc.) | Duty-Free | 0.4 | 1.5 | 234% | 1.1 | 7.3 | 589% |
| **320120** | Synthetic Organic Tanning Substances | Duty-Free | 0.2 | 1.1 | 494% | 0.2 | 1.7 | 779% |
| **440399** | Wood in the rough (other) | Duty-Free | 0.0 | 0.9 | N/A | 0.0 | 1.1 | 15,404% |
| **530310** | Jute and Other Textile Bast Fibres, Raw or Retted | Duty-Free | 0.0 | 0.9 | N/A | 0.1 | 10.1 | 6,900% |
| **860210** | Diesel-electric locomotives | Duty-Free | 0.0 | 0.8 | N/A | 0.000097 | 0.6 | 657,015% |
| **850433** | Transformers (other) | Duty-Free | 0.0 | 0.7 | N/A | 1.2 | 1.6 | 30% |
| **710399** | Precious stones (other than diamonds) and semiprecious stones (other) | Duty-Free | 6.1 | 0.6 | -90% | 26.7 | 28.7 | 7% |

*Source: Authors' calculations based on UN Comtrade (2013).*

## ANNEX III. TANZANIAN TOP 30 GLOBAL EXPORTS (2009–2012)

| Product Code | Product Description | DFTP Status | Average Post DFTP (USD million) | Share of Total Average Exports |
|---|---|---|---|---|
| **090111** | Coffee, not roasted, not decaffeinated | Exclusion | 132.4 | 3.0% |
| **240120** | Tobacco partly or wholly stemmed or stripped | Exclusion | 118.9 | 2.7% |
| **120740** | Sesame Seeds | Exclusion | 66.9 | 1.5% |
| **090240** | Black tea (fermented) and other partly fermented tea (other) | Exclusion | 53.7 | 1.2% |
| **740400** | Copper waste and scrap | Exclusion | 43.5 | 1.0% |
| **110100** | Wheat and meslin flour | Exclusion | 35.3 | 0.8% |
| **271111** | Liquid natural gas | Exclusion | 22.0 | 0.5% |
| **080132** | Cashews (shelled) | Exclusion | 21.2 | 0.5% |
| **230630** | Oil-cake of sunflower seeds | Exclusion | 18.2 | 0.4% |
| **071310** | Peas (Pisum Sativum) | MOP (10%) | 43.1 | 1.0% |
| **030420** | Hilsa (frozen fillet) | MOP (100%) | 60.6 | 1.4% |
| **520100** | Cotton, not carded or combed | MOP (50%) | 85.4 | 1.9% |
| **071390** | Tur/Arhar | MOP 10% | 18.2 | 0.4% |
| **060310** | Cut flowers – fresh | MOP 25% | 20.7 | 0.5% |
| **180100** | Cocoa beans, whole or broken, raw or roasted | MOP 29% | 20.5 | 0.5% |
| **520300** | Cotton, carded or combed | MOP 50% | 20.5 | 0.5% |
| **090700** | Cloves | MOP 90% | 22.8 | 0.5% |
| **710812** | Gold (in other unwrought forms) | Duty Free | 765.3 | 17.2% |
| **710813** | Gold (in semi-manufactured forms) | Duty Free | 576.1 | 12.9% |
| **261690** | Precious metal ores and concentrates (other) | Duty Free | 480.4 | 10.8% |
| **260200** | Manganese ores and concentrates | Duty Free | 306.0 | 6.9% |
| **080131** | Cashews, Coconuts, Brazil nuts (in shell) | Duty Free | 103.7 | 2.3% |
| **260300** | Copper ores and concentrates | Duty Free | 82.2 | 1.8% |
| **630491** | Furnishing articles, knitted or crocheted (other) | Duty Free | 62.8 | 1.4% |
| **030410** | Fresh or chilled: Tilapia | Duty Free | 43.8 | 1.0% |
| **710310** | Unworked precious stones (other than diamonds) and semiprecious stones | Duty Free | 28.7 | 0.6% |
| **843143** | Parts of boring or sinking machinery | Duty Free | 24.8 | 0.6% |
| **851671** | Coffee or tea makers | Duty Free | 23.4 | 0.5% |
| **060210** | Unrooted cuttings and slips (live plants) | Duty Free | 20.9 | 0.5% |
| **252329** | Portland cement | Duty Free | 20.0 | 0.4% |
| **Total** | | | **3342** | **74.8%** |

*Source: Authors' calculations based on UN Comtrade (2013).*

## ANNEX IV. TANZANIA TOP 30 GLOBAL EXPORTS AND INDIAN IMPORTS (2009–2012)

| Product Code | Product Description | DFTP Status | Indian Imports Post-DFTP (USD million) | Share of Total Average Imports (%) |
|---|---|---|---|---|
| **710812** | Gold (in other unwrought forms) | Duty Free | 39,865.1 | 10.4% |
| **271111** | Liquid natural gas | Exclusion | 4,721.4 | 1.2% |
| **260300** | Copper Ores and Concentrates | Duty Free | 4,436.9 | 1.2% |
| **710813** | Gold (in semi-manufactured forms) | Duty Free | 2,136.8 | 0.6% |
| **080131** | Cashews, Coconuts, Brazil nuts (in shell) | Duty Free | 794.8 | 0.2% |
| **740400** | Copper waste and scrap | Exclusion | 740.2 | 0.2% |
| **071310** | Peas (Pisum Sativum) | MOP (10%) | 630.7 | 0.2% |
| **071390** | Tur/Arhar | MOP 10% | 359.6 | 0.1% |
| **260200** | Manganese ores and concentrates | Duty Free | 346.1 | 0.1% |
| **843143** | Parts of Boring or Sinking Machinery | Duty Free | 305.9 | 0.1% |
| **520100** | Cotton, not carded or combed | MOP (50%) | 249.4 | 0.1% |
| **710310** | Unworked precious stones (other than diamonds) and semiprecious stones | Duty Free | 186.9 | <0.1% |
| **090111** | Coffee, not roasted, not decaffeinated | Exclusion | 82.8 | <0.1% |
| **090700** | Cloves | MOP 90% | 63.2 | <0.1% |
| **252329** | Portland cement | Duty Free | 51.8 | <0.1% |
| **180100** | Cocoa beans, whole or broken, raw or roasted | MOP 29% | 50.7 | <0.1% |
| **090240** | Black tea (fermented) and other partly fermented tea (other) | Exclusion | 42.6 | <0.1% |
| **240120** | Tobacco partly or wholly stemmed or stripped | Exclusion | 12.9 | <0.1% |
| **120740** | Sesasum seeds | Exclusion | 9.1 | <0.1% |
| **080132** | Cashews (shelled) | Exclusion | 8.2 | <0.1% |
| **851671** | Coffee or Tea Makers | Duty Free | 6.6 | <0.1% |
| **230630** | Oil-cake of sunflower seeds | Exclusion | 4.9 | <0.1% |
| **261690** | Precious metal ores and concentrates (other) | Duty Free | 4.0 | <0.1% |
| **030420** | Hilsa (frozen fillet) | MOP (100%) | 1.5 | <0.1% |
| **060310** | Cut flowers – fresh | MOP 25% | 1.2 | <0.1% |
| **110100** | Wheat and meslin flour | Exclusion | 1.1 | <0.1% |
| **630491** | Furnishing Articles, Knitted or Crocheted (other) | Duty Free | 0.6 | <0.1% |
| **520300** | Cotton, carded or combed | MOP 50% | 0.5 | <0.1% |
| **060210** | Unrooted cuttings and slips (live plants) | Duty Free | 0.1 | <0.1% |
| **030410** | Fresh or chilled: Tilapia (Tilapiinae) | Duty Free | 0.1 | <0.1% |
| **Total** | | | **55,115.5** | **14.4%** |

*Source: Authors' calculations based on UN Comtrade (2013).*

## ANNEX V. LIST OF INSTITUTIONS AND ORGANIZATIONS INTERVIEWED

1. Agricultural Council of Tanzania
2. High Commission of India in Dar es Salaam
3. Ministry of Industry and Trade of Tanzania
4. Tanzania Chamber of Commerce, Industry and Agriculture
5. Tanzania Exporters Association
6. Tanzania Horticultural Association
7. Tanzania Trade Development Authority

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