EXPORT SECTOR PERFORMANCE AND THE PROSPECTS FOR POVERTY REDUCTION IN TANZANIA: ISSUES AND POLICY REFLECTIONS

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Abstract: This paper analyses prospects of utilizing export trade as a strategy for poverty reduction in a small but open economy like that of Tanzania. Akin to other low income countries that are dependent on agriculture for both food and export earnings, the paper critically examines the strengths and constraints of using traditional and non-traditional exports for generation of pro-poor growth and poverty reduction. The paper advocates for policy interventions that would enable countries like Tanzania to systematically move away from subsistence production towards the production of high value tradable export goods and improve terms of global trade.

INTRODUCTION

Agricultural trade has dominated Tanzania's export sector since the 1960s. Due to this importance it is plausible to urgue that the sector, if well developed, modernized and improves its productivity, offers real prospects for poverty reduction in the country. This assessment is in line with other studies (eg. Fafcharps, Teal *et.al*, 2001) which found that at least for Sub-Saharan Africa (SSA), there is a positive linkage between poverty and agricultural productivity. The study points at various channels through which increases in physical agricultural productivity will lead to a reduction in poverty. There is ample evidence pointing to the direction that for each point gained in growth of agricultural output induces a reduction in the number of people living on or below 1 US $ a day by between 0.6 and 1.2 percent. It is claimed further that no other economic activity in SSA produces the same benefits to the poor while providing affordable food (USAID, 2004).

In Tanzania, as is true of most other SSA countries, agriculture is the mainstay of the economy. The sector generates over 40 per cent of the country's Gross Domestic Product (GDP) and accounts for over 60 per cent of the country's employment and over 50% of export earnings. Agriculture sector is of particular importance to the rural based population in terms of employment and income generation and supply of food crops (URT, 2003). It is critically important to formulate policies and strategies aimed at the improvement of the agricultural sector in general and the export sector which is dependent on agriculture in particular to enable it to address the widespread poverty problem in Tanzania. As Table 1 reveals, the poverty problem is more widespread in the rural areas. In Tanzania poverty in basically a rural phenomenon (See Table 1).

As table 1 reveals, the incidence of poverty is highest in rural areas. In 2000/01 for example, 39 per cent of the rural population was categorized as poor. A significant per centage (38.7) the rural population was also characterized as poor in terms of lacking basic needs. Moreover, as Table 1 shows rural areas tend to have the largest poverty gap.

The main objective of this paper is to discuss, albeit briefly alternative policy interventions that Tanzania can deploy to attain sufficiently high rate of economic growth capable of inflicting a notable dent on poverty.

Faced with this poverty situation and an economy that is dependent on agriculture, the formidable task becomes that of inducing a sufficient growth and productivity in the sector for it to have any significant impact on poverty

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Table 1: *Incidence and Depth of Poverty in Tanzania*

	Dar es Salaam		Other Urban Areas		Rural Areas		Mainland Tanzania	
	91/92	2000	91/92	2000	91/2	2000	91/92	2000
Head Count								
Food Poverty	13.6	7.5	15.0	13.2	23.1	20.4	21.6	18.7
Basic Needs	28.1	17.6	28.7	25.8	40.8	38.7	38.6	35.7
Poverty Gap								
Food Poverty	3.2	1.5	3.5	3.5	6.5	5.1	5.9	4.6
Basic Needs	7.5	4.1	8.1	7.7	12.7	11.5	11.8	10.5

Source: NBS (2002) *Household Budget Survey* p.8

Apart from the foregoing introduction, the paper has three other sections. In part two, trends in Tanzania's external sector are analysed in the light of the performance of traditional and non-traditional exports. In part three some policy reflections for enhancing agricultural productivity and marketing are presented with a view to proposing strategies for poverty reduction especially in rural areas. Finally in part four, some concluding remarks are made.

TRENDS AND PERFORMANCE OF TRADITIONAL AND NON-TRADITIONAL EXPORTS

Traditional exports have played a key role in Tanzania's export sector during the 1960s up to the late 90s. During the 1960s and much of the 70s for example, sisal exports generated substantial foreign exchange earnings for the country. Other traditional exports which have played an important role in the generation of foreign exchange for Tanzania during the 1993-2003 period are coffee, cotton, tea, tobacco, and cashewnuts (Table 2).

The performance of non-traditional exports (Table 2) was, in broad terms, not as encouraging as that of traditional exports especially during the 70s and early 80s. This is partially explained by the fact that government policies of the time favoured the export of traditional exports. The exchange rate policies of the period largely discouraged exports of manufactured goods. It was until the adoption of trade liberalization policies in the mid 80s that the country saw an upsurge of non-traditional exports (Bol, 1995). Incentive packages including the foreign exchange "retention schemes" allowed exporters of non-traditional commodities to retain a certain percentage of the export earnings generated for the importation of goods from abroad. Much of the surge in non-traditional exports noted after the adoption of trade liberalization measures during the early 90s is attributable to such incentives.

In 1993 the total value of non-traditional exports was US $ 31.3m and increased to US $ 41.4m in 1994. By 1997, the value of non-traditional exports had reached US $ 107.4 m which was equal to the value of traditional exports.

The performance of the export sector in Tanzania as depicted in Table 2 is such that after 1999 the value of non-traditional exports has tended to out-weight that of non-traditional exports mainly due a surge in the value of mineral exports (BOT, 2003).

The performance of traditional exports has been negatively influenced by global decline in prices. A study conducted by USAID (2004) reveals that the average prices of nearly all basic foodstuffs have declined since the peak reached in the mid 1990s to levels not seen for more than fifteen years. For example the prices of agricultural commodities such as cotton and

Table 2: *Performance of Tanzania's Export Sector: 1993-2003 (US $ m)*

Commodity		January - March									
		1993	*1994*	*1995*	*1996*	*1997*	*1998*	*1999*	*2000*	*2001*	*2002*	*2003p*
A: Traditional exports :												
COFFEE:	Value	19.6	13.4	12.7	22.1	16.4	18.4	27.3	30.2	25.6	12.8	20.1
	Volume	30.4	26.7	44.9	47.3	37.7	36.4	11.6	16.6	19.8	13.1	16.0
	Unit Price	1,548.5	1,995.5	3,538.2	2,146.9	2,299.8	1,983.9	2,364.7	1,819.3	1,291.8	973.3	1,253.0
COTTON:	Value	21.3	21.9	19.3	16.0	25.7	13.2	5.2	6.2	5.2	4.4	11.8
	Volume	28.0	36.9	28.6	27.1	37.3	20.8	3.7	6.2	4.8	4.6	13.2
	Unit Price	1,313.2	1,685.4	1,481.8	1,688.3	1,453.1	1,576.8	1,411.4	993.8	1,074.6	967.2	888.8
SISAL:	Value	0.8	0.0	4.8	2.5	3.1	2.6	1.9	1.5	1.8	1.6	1.5
	Volume	0.5	0.0	2.8	1.5	1.9	1.4	3.3	3.6	3.7	3.4	3.0
	Unit Price	575.0	0.0	592.1	588.9	632.8	544.9	562.6	424.3	486.7	484.3	499.9
TEA:	Value	7.5	5.2	8.6	6.4	5.7	7.7	6.3	9.9	11.2	8.2	8.3
	Volume	17.1	9.1	9.3	6.4	7.0	14.2	5.5	7.4	8.1	6.7	7.0
	Unit Price	2,273.3	1,740.4	1,087.6	1,001.6	1,212.9	1,852.6	1,151.2	1,351.9	1,378.5	1,219.2	1,173.5
TOBACCO:	Value	5.1	5.4	6.2	5.3	1.4	3.0	20.0	17.9	13.6	17.9	8.1
	Volume	8.4	5.4	10.0	10.0	3.0	5.6	10.2	8.7	7.6	8.9	4.5
	Unit Price	1,647.1	1,000.0	1,612.6	1,894.1	2,198.5	1,877.8	1,967.3	2,070.4	1,796.8	2,015.7	1,794.6
CASHEWNUTS:	Value	9.4	2.4	34.4	49.2	55.4	34.0	10.6	29.2	23.9	5.2	2.9
	Volume	10.8	2.5	28.4	43.0	35.6	28.0	14.3	30.2	37.7	8.8	4.9
	Unit Price	1,148.9	1,041.7	825.0	873.4	642.6	824.0	739.4	965.9	633.1	590.4	598.0
CLOVES:	Value							0.2	0.1	0.5	0.2	3.4
	Volume							0.2	0.03	0.2	0.0	1.5
	Unit Price							1,010.67	3,473.75	2,929.84	5,560.2	2,207.0
Sub Total		**63.7**	**48.3**	**85.9**	**101.5**	**107.6**	**78.9**	**71.6**	**95.1**	**81.8**	**50.2**	**55.9**
B. Non-Traditional:												
	Petroleum Products	0.6	2.2	4.3	4.9	2.0	2.7	2.4	na	na	na	na
	Minerals	9.7	4.3	14.2	12.4	13.9	32.0	7.0	32.9	61.1	81.2	101.4
	Manufactured Goods	13.0	19.2	18.7	19.0	40.7	17.9	7.8	5.5	11.3	11.9	14.9
	Others Exports	8.0	15.7	33.7	43.1	50.8	25.2	29.5	37.9	39.9	48.3	70.9
Sub Total		**31.3**	**41.4**	**70.8**	**79.4**	**107.4**	**77.7**	**46.7**	**76.3**	**112.3**	**141.4**	**187.2**
Grand Total		**95.0**	**89.7**	**156.7**	**180.9**	**215.0**	**156.6**	**118.3**	**171.3**	**194.1**	**191.6**	**243.1**

Notes: Prior to July 1997 export figures were obtained from CD3 forms processed through Customs Dept, Crop Boards, Ministry of Minerals, TPDC and staff estimates.

Source: Bank of Tanzania

Table 2: *Performance of Tanzania's Export Sector: 1993-2003 (US $ m)*

Commodity		January - March									
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COTTON:	Value	21.3	21.9	19.3	16.0	25.7	13.2	5.2	6.2	5.2	4.4	11.8
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SISAL:	Value	0.8	0.0	4.8	2.5	3.1	2.6	1.9	1.5	1.8	1.6	1.5
	Volume	0.5	0.0	2.8	1.5	1.9	1.4	3.3	3.6	3.7	3.4	3.0
	Unit Price	575.0	0.0	592.1	588.9	632.8	544.9	562.6	424.3	486.7	484.3	499.9
TEA:	Value	7.5	5.2	8.6	6.4	5.7	7.7	6.3	9.9	11.2	8.2	8.3
	Volume	17.1	9.1	9.3	6.4	7.0	14.2	5.5	7.4	8.1	6.7	7.0
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Sub Total		**63.7**	**48.3**	**85.9**	**101.5**	**107.6**	**78.9**	**71.6**	**95.1**	**81.8**	**50.2**	**55.9**
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	Petroleum Products	0.6	2.2	4.3	4.9	2.0	2.7	2.4	na	na	na	na
	Minerals	9.7	4.3	14.2	12.4	13.9	32.0	7.0	32.9	61.1	81.2	101.4
	Manufactured Goods	13.0	19.2	18.7	19.0	40.7	17.9	7.8	5.5	11.3	11.9	14.9
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Grand Total		**95.0**	**89.7**	**156.7**	**180.9**	**215.0**	**156.6**	**118.3**	**171.3**	**194.1**	**191.6**	**243.1**

Notes: Prior to July 1997 export figures were obtained from CD3 forms processed through Customs Dept, Crop Boards, Ministry of Minerals, TPDC and staff estimates.

Source: Bank of Tanzania

Table 3: *World Market Prices for Selected Agricultural and Mineral Based Commodities 1997-2002*

Commodity	*Unit Price*	*1997*	*1998*	*1999*	*2000*	*2001*	*2002*	*Change 1997-2002 (%)*
Coffee (Arabica)	US $/kg	4.10	2.90	2.30	1.90	1.40	1.34	-67.3
Cotton (Index)	US $/Kg	1.74	1.44	1.20	1.30	1.10	1.02	-41.4
Sisal (UG Grade)	US$/ton	777.00	820.50	691.50	630.80	699.20	670.00	-13.8
Tea	US$/kg	2.40	2.40	1.80	1.90	1.50	1.49	-37.9
Gold	US $/troy ounce	331.20	294.30	278.80	279.00	271.00	310.00	-6.4

Notes: Last column worked by author on the basis of data provided

Source: BOT (2004).

coffee have suffered extremely low prices. In the past, this was exacerbated by over-supply of these commodities. Currently however, supply-side constraints have assisted to reverse the down-ward trend in the prices of such products. Table 3 shows world market prices for some selected agricultural and mineral based commodities in Tanzania.

The trend depicted in Table 3 shows that all of the agricultural and mineral based commodities have experienced significant negative price declines in international markets between 1997 and 2002. Comparing the prices of the selected commodities for 1997 and 2002 it is noticed for example that coffee prices have declined by over 67 per cent while cotton prices have declined by over 41 per cent. Sisal and tea prices have similarly declined by 13.8 and 37.9 per cent respectively.

Falling prices for agricultural commodities have serious poverty reduction implications on economies like those of Tanzania. One of such consequences is felt in strinking incomes to peasants and, with it, increased incidence of poverty and may even complicate their food security situation (Kapunda and Mjema, 2004).

The performance of non-traditional commodities in Tanzania has been enhanced mainly by the upsurge in the mineral sector especially gold exports (BOT, 2004). Other studies (URT, 2004) have attributed this up turn in non-traditional exports to good performance of fish and fish products and similar good performance registered in horticultural products. Although the mineral sector has contributed significantly to government tax revenue and to economic development at large, the sector tends to concentrate income to a few and hence the sector's impact on addressing poverty is more indirect through government expenditure plans the directly through incomes and employment to the poor. The only exception is in small scale artisanal mining which employs a considerable number of Tanzanians and is hence categorized as pro-poor.

Besides falling prices for traditional and non-traditional commodities there is yet another fundamental constraint facing such products. This is the market access issue whereby most agricultural products including those produced by Tanzania face increasing tariff and non-tariff barriers in developed markets compared to other non-agricultural products. Quantitative and other forms of trade protectionism as practiced by most developed countries 'force' economies like those of Tanzania to concentrate on the production and export of raw materials which fetch relatively low value in international markets. Barriers of cascading tariffs help to ensure that economies like those of Tanzania and their peasants are not benefiting as they should have in the absence of tariffs from processing their agricultural based commodities. The other issue which has drawn considerable debate in international trade relates to agricultural subsidies extended to farmers in the developed world. While institutions including the World Trade Organization (WTO) and the Food and Agricultural Organization (FAO) believe that subsidies are "market distorting" they are justified in the developed world using various explanations ranging from the fact that such countries "can afford" to extend the subsidies to their farmers to the special role that some commodities have played in the development process of such these countries. The net effect of subsidies on products like sugar beet, wheat, beef and dairy products is to depress the prices of these prices in the domestic market to the extent that rander similar products from developing countries including Tanzania to be price uncompetitive in developed world markets.

Related to the subsidy issue which is a quantities trade barriers, developed economies often supplement it by putting additional non-tariff restrictions such as compliance to stipulated health standards and packaging requirements which are difficult.

The existence of subsidies extended to producers in developed countries and various forms of trade restrictions imposed on agricultural products limit the competitiveness of agricultural products from the developing world and deny them the income they need to address the poverty situation existing in their countries.

TOWARDS A PRO-POOR AGRICULTURE SECTOR GROWTH

In the introduction section the importance of agriculture was stated in terms of its contribution to Tanzania's GDP, employment and income generation and in terms of food supply to the rural and urban based population. The sector was also viewed as important in the generation foreign exchange. This importance notwithstanding, the sectoral growth and its productivity is not sufficient to induce a large enough impact capable of reducing poverty especially in the rural areas where majority of Tanzanians live.

This section proposes poverty–reducing policy interventions with a view to promote not only domestic markets but also regional and global markets. The proposed policy interventions have to take into account the existing features of Tanzania's agricultural sector which are summarized in Table 4.

Table 4: *Selected Features of Agriculture Sector in Tanzania*

Land Resource (million ha.)	Tanzania
Total land	95.5
Arable land	44.0
Range land	50.0
Land under livestock	24.0
Tsetse infested area	26.0
Cultivated land	10.1
Area suitable for irrigation	29.4
Area under irrigation	0.2
Land under medium and large-scale farming	1.5
Per capita landholding (hectare per head)	0.1
Livestock Population (million)	
Cattle	15.6
Goats	10.7
Sheep	3.5
Poultry (chicken)	27.0

Source: URT, Agricultural Sector Development Strategy, October, 2001.

According to Table 4, over 46% of Tanzanias total land estimated at 95.5 million hactres is arable. Over 60 per cent of the total land is range land. Only a small proportion (10%) of the total land is under cultivation is mainly dominated by small holder farmers. The per capita land holding is estimated 0.1 hectres.

While there is a large potential for irrigation only 0.2 million hactres are currently under irrigation out of a total of 29.4 million hactres of land suitable for irrigation. The land that is currently under medium and large scale farming is estimated to be 1.5 million hactres. Currently the country has a variety of cash, food and livestock products which offer a large potential for exports.

The focus of these policy interventions is naturally to improve small scale farming which characterize the dominant agricultural typology in Tanzania and where poverty is currently widespread (NBS, 2002). The development of small scale farming has to proceed in tandem with different variants of commercial farming due the potential of large scale farming to contribute to economic growth, employment and generation of foreign exchange. The development of commercial farming carries with it an additional advantage of attracting foreign direct investment (FDI) which is an important strategy for the integration of a country's agriculture into the global trading system and enhancement of agricultural sector competitiveness.

Transition From Non Tradable to a Tradable Agricultural Sector

Available data tend to suggest that in Tanzania as well as in other agricultural dependent economies a large proportion of the population is still on subsistence agriculture. This tendency to rely on natural resources for livelihoods is a major cause of rural poverty (Cord, 2002). Dependency on natural resources for livelihoods makes the rural community vulnerable to climatic fluctuations, price volatility and macroeconomic policy shifts like exchange rate, interest rate changes.

An important step towards the transition from subsistence to a vibrant tradable agriculture sector is the provision of appropriate infrastructure (roads, water, energy and communications infrastructure in the rural areas. Various studies including those by Cord (2002) have re-emphasized the importance of improving infrastructure in the rural areas since it stimulates economic growth and reduce the risks associated with reliance on the subsistence sector. The improvement communications infrastructure in particular facilities and strengthens the participation of the poor in domestic markets which, in turn, helps to improve their incomes. Furthermore, the improvement of transport and telecommunication services is an important strategy for promoting communication and information flow between communities and with urban centres. In addition, the availability of a well serviced transport services may assist stabilize agricultural prices.

The Technology Issue

In its current state of technology in which the traditional hand hoe is the dominant agricultural implement it is difficult for the sector to adequately address the existing poverty stance. The sector requires technological change as well as improvements in agricultural and livestock extension services. Fortunately the government of Tanzania has noted the importance of technological change and extension services (URT, 2002). How fast, well coordinated and low widespread will the policy intervensions be in the sector remains to be seen.

Direct Support to Poor Farmers

Experience gained in other countries (eg. Malawi Nigeria and Bangladesh) tend to suggest that a well targeted and coordinated programme aimed at assisting poor farmers is capable of improving their production capacity and hence per capita incomes. Studies show that though expensive to operate, direct interventions may be the most appropriate strategy for sustainable growth and in enhancing domestic, regional and international markets.

The Agribusiness Factor

The importance of agribusiness in promoting agricultural exports, income and employment generation and contribution to the national economy has been acknowledged in various government documents. The role of the private sector in the promotion of agribusiness has also been noted. The fundamental aspect in the promotion of agribusiness is to ensure that the proportion of these programmes are in line with government policy and the institutional and regulatory framework. If well developed, supported and integrated into Tanzania's export sector development strategy, agribusiness has a potential to promote the country's agricultural trade both in the domestic, regional and international markets.

Promotion of High Value NTEs

Tanzania has a large basket of potential non-traditional exports (NTEs) which could be promoted and supported to break into regional and international markets (Table 5).

The crusade against poverty in general and rural poverty in particular could have been enhanced through the intensive cultivation and export of commodities such as maize, beans, wheat flower, a range of root crops, rice and vegetables which have demonstrated a high capacity for breaking into markets in Kenya and Uganda. Fortunately these are crops in which poor farmers can be involved and stand to benefit in terms of employment and income generation. Commodities including fish and fish products and cut flowers have demonstrated a substantial ability to penetrate into regional and global markets. The support to small scale fishing in matters relating to both capital and technical assistance where fish processing, packaging and preservation is concerned is needed.

Table 5: *Selected NTEs with Capacity to Penetrate EAC Markets*

Commodity	Value** (US$'000)
Maize	3,090
Beans	4,033
Fish	67,303
Wheat Flour	3,302
Root crops	1,533
Rice	4,771
Vegetables	27
Bananas	78
Fruit***	19
Groundnuts	36
Maize meal	45
Livestock	123

Source: Ackello-Ogutu and Echessah (1998) p. 19

Notes ** Value based on Informal Cross Border Trade (ICBT)

*** Fruit includes citrus, pineapples, plums and passion fruit

In the same vein the country has a favourable climatic and agricultural conditions which favour the cultivation of both vegetables and fruits including oranges and pineapples. Support is needed for the development of these commodities to a level where they can be marketed locally and abroad for the benefit of farmers.

CONCLUSION

Tanzania agriculture possesses the physical, human, and technological potential necessary for a foundation for broad-based economic growth. The paper has lighted areas in which pro-poor agricultural growth can significantly assist to reduce poverty in Tanzania. Currently however, this potential is not being utilized for the benefit of the poor. There are cases of products including coffee where exports have not generated the expected high incomes to farmers due to the combined effects of falling prices in international markets and falling quantum of coffee exports. The paper has addressed and emphasized the importance of encouraging the cultivation and export of high value products to markets in the developed world.

Tanzania farming livelihoods could be much improved if developed nations reduced domestic subsidies and all nations reduced tariff protections on imported processed agriculture products. Unfortunately however, Tanzania and countries that are dependent on agriculture do not control the agenda nor the means and pace of implementation of the WTO Agreement on Agriculture. Tanzania and other countries in its position have to continue with negotiations aimed at improving agricultural exports under the existing framework of the WTO, there is much that can be done domestically to achieve a pro-poor growth.

Tanzania can and do determine the implement its own policies of pro-poor agricultural development, with some assistance from the international community. By following sound principles of inclusive agricultural development Tanzania can achieve its development objectives while lobbying for a more open and less distorting multilateral trading environment. The international community can help provide the means for both of these objectives for example, facilitating investment in economic and social infrastructure in rural areas. The other strategy is to assist countries like Tanzania with capacity building activities in farm production, marketing, export development, and trade. Finally it is critically important for Tanzania to adopt more outward-looking approach to the multilateral trading system through policy dialogue on domestic, global, and regional forums that will eventually lead to reform of farm subsidies and tariff protection in developed countries.

The poverty stance in Tanzania could be substantially reduce if these policy interventions are implemented in a coordinated and focused in the agriculture sector in general and the export sector in particular.

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