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Trade Facilitation in EAC Customs Union: Its Achievement and Implementation in Tanzania

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Abstract
This study addresses trade facilitation in the East African Community Customs Union (EAC CU) by tracking the achievements and implementation using Tanzania as a case. The study uses descriptive research design and data for the study were mainly secondary data; unstructured interviews with key stakeholders complemented data for this study. The study found that as a result of implementation of trade facilitation initiatives, performance in trade, FDI inflows and trade taxes collection in all EAC countries have improved significantly. Tanzania performs better than other EAC countries in FDI inflows and contribution of export to the Gross Domestic Product (GDP). The study found a significant positive relationship between countries' trade facilitation and export performance. Facilitation was found to have no significant relationship on FDI flows. The major setbacks of trade facilitation are non-tariff barriers, transport infrastructure, inadequate human resources capacity, and low level of automation. Addressing these challenges will enhance EAC countries benefits from trade.
Keywords: trade facilitation performance, trade facilitation and logistics indicators, EAC Customs Union

1. Introduction

All countries in the world have Customs Administrations. In some countries, these Customs Administrations are independent whereas in other countries, Customs functions are integrated in other government departments like security, home affairs, immigration, and revenue authorities. This is because the perceived role of Customs Administration differs between countries. In developed countries the role of Customs can be seen more of protection and trade facilitation while in developing countries like Tanzania where import taxes are important chunk of budgetary resources the role of customs has included revenue collection through imposition of various duties and taxes[1] and hence Customs has expanded into the fiscal area. According to the Bank of Tanzania – (BOT 2013) taxes on imports accounts for about 26.7% of the country's total tax revenue collection in 2012. Likewise, Mirela and Marilena (2013) using an econometric analysis to assess the role of customs duties in the formation of budget revenues in Romania concluded that customs duties have a major impact on the country's budget revenues and their effects on revenue collection have a multiplier effect on the state budget revenues.

Likewise, Customs have a unique observation position. They are at the crossroads between trade, the economy, fiscal and budget issues, crime interdiction, environmental preoccupations, and transport, to name but a few. Customs all over the world are used to dealing with people across the border – so they are the first exposed to new products, activities, and even ideas. The Customs Administration cooperate far better with their foreign counterparts than any other border agency and have routine and non-judicial access to sensitive commercial information. As an observer of the movement of goods, Customs can provide reliable trade statistics, and match them against other countries' records. They can work out revenue projections and simulations. Customs also keep records of movements and the people who initiate them. All this can be used not only to secure revenue, but also to protect society. Traditionally, Customs has three major roles: to assess and collect revenue based on the characteristics of the goods[2]; to protect the country and the society by preventing smuggling; and to ensure that national legislation is applied to exported as well as imported goods[3].

In the recent years, the role of Customs in trade facilitation has received significant attention. Trade facilitation involves minimizing hurdles of doing trade between countries. Accordingly, Article VIII of GATT 1994 (Fees and Formalities connected with Importation and Exportation), in particular, paragraph 1(c) recognizes "the need for minimizing the incidence and complexity of import and export formalities and for decreasing and simplifying import and export documentation requirements". This goes with putting in place efficient risk management strategies in order that facilitation doesn't impair other roles of the Customs. WTO members consider the introduction of risk management techniques in Customs procedures as a means to expedite clearance of goods

[1] Import duty (tariff) is one of the oldest taxes in Tanzania since pre-independence period. Import duties are charged on both finished and semi-finished goods; exceptions are on exempt goods, prohibited and restricted goods and goods on transit. Customs may also collect revenue other than tariff revenue.

[2] The actual collection may be done through another system than Customs, but it is always based on the assessment notice prepared by Customs.

[3] http://web.worldbank.org/WBSITE/EXTERNAL/TOPICS/EXTTRANSPORT/EXTTLF/0,,contentMDK:2267704~menuPK:7327167~pagePK:210058~piPK:210062~theSitePK:515434,00.html

through a simplified release and clearance of goods. Expedited release of goods includes minimization of release time and reduction of documentation.

Customs work normally involves high volume of transactions; Customs Administrations therefore face the challenge of facilitating the movement of legitimate passengers and cargo while applying controls to detect Customs fraud and other offences. Customs Administrations find themselves increasingly under pressure from national governments and international organizations to facilitate the clearance of legitimate passengers and cargo while also responding to increase in transactional crime and terrorism. These competing interests mean that it is necessary to find a balance between facilitation and control.

Evaluating performance of Customs in trade facilitation is very crucial. Trade facilitation affects economic growth and development among the trading partners by improving volume of trade and reducing costs of trade. Tanzania being situated at the Indian Ocean coast while borders a number of landlocked countries, plays an important role on trade facilitation and socioeconomic development of the countries which uses her ports for clearance of goods; out of the five members of the EAC Customs Union, three are landlocked. Tanzania facilitates also clearance and transit of goods to a number of countries in SADC and COMESA regions. Quality of transport infrastructure and ports service is very important for ensuring efficiency in clearance and movement of goods. The OECD has developed a number of indicators for measuring trade facilitation performance. This study therefore makes use of these indicators to evaluate the performance of Tanzania in trade facilitation. The conceptual framework of this study builds on the US International Trade Committee (USITC 2012) schematic presentation of the benefits of trade facilitation (see Figure 1 below). The study is novel in approach in the way that it seeks to compare performance in trade, foreign direct investment and trade taxes with their causative – the facilitation activities.

2. Literature Review

2.1 Customs Administration in EAC Customs Union

Article X, GATT 1994 provides for publication of trade-related laws, regulations, rulings and agreements in a prompt and accessible manner; restraint from enforcing measures of general application prior to their publication; and administration of the above-mentioned laws, regulations, rulings and agreements in a uniform, impartial and reasonable manner. Accordingly, the administration of Customs functions in East African countries is governed through the East Africa Customs Management Act – EAC CMA (2004)[1] established by Article 39 of the Protocol for Establishment of the East African Customs Union of 2004. In all EAC Partner States customs is not a standalone department; for instance in Tanzania Customs is integral part of the Tanzania Revenue Authority and is assigned with annual revenue collection target like other taxation departments.

The East Africa Community Treaty[2] signed in 1999 provides for, *inter alia*, the establishment of East Africa Customs Union as a transitional stage to, and an integral part of the Community. The EAC Customs Administration includes; communication of customs and trade information among Partner States for purpose of prevention, investigation and suppression of customs offences; and the operation of a harmonized information system to facilitate the sharing of customs and trade information; trade facilitation; simplification, standardization and harmonization of trade information and documentation; harmonization of commodity description and coding system; prevention, investigation and suppression of customs offences; trade liberalization through eliminate all internal tariffs, establish common external tariffs and removal of non-tariff barriers; trade relates aspects such as rules of origin, anti-dumping measures, subsidies, countervailing and safeguard measures; export promotion schemes; special economic zones - freeports for the purpose of facilitating and promoting international trade and accelerating development within the Union; and exemption regime.

The implementation of the Customs Union has enabled economic growth in the Community through elimination of internal tariffs, elimination of all trade barrier, adopt common external tariff, implementation of customs reforms and modernization initiatives, and removal of charges of equivalent effect. As a result intra EAC trade has grown significantly. Exports to the region grew at an annual average of 16% between 2005 and 2007 while imports grew an annual average of 11.2% during the same period. Foreign direct flows into the region have almost tripled from US Dollars (USD) 692 million in 2002 to USD 1,763 million in 2007 (Mugisa *et al*. 2009). The application of the Common External Tariff (CET) in the Union has resulted into positive impact on trade and growth in the region; increased liberalization as average applied tariffs have come down in all Partner States, enhanced predictability for exporters and investors and increase in imports. Although divergent effects have been observed including reduced tariff for Kenya while for Uganda and Tanzania has led to increasing tariff, and increase in tariff dispersions from one product to another, across products within sectors, and across stages of production.

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1 EAC CMA (2004) is the main Customs Law of the EAC. Thus all Partner States apply this law on Customs administration.

2 Then the East African Customs Union was commenced with three countries of Kenya, Tanzania and Uganda on 1st January 2005. The same countries were the only members of the former Community which collapsed in 1977. Now the Community has five member countries after Burundi and Rwanda acceded to the EAC in July 2007.

Customs administration in EAC is not without challenges, the major setbacks to customs administration and growth is the fact that in the EAC there are non-tariff barriers, insufficient communication infrastructure and conflicting interests at national and regional levels - promotion of trade and investment against revenue maximization. Some initiatives, to mention but a few the recently established one stop border posts, Single Window System, ongoing transport infrastructure development, and continual efforts to eliminate non-tariff barriers are ought to ease the functions of Customs and escalate trade facilitation in the region.

2.2 Trade Facilitation in EAC Customs Union

In the EAC CU, as in many other countries, Customs plays an important role in international trade. Albeit more other institutions also play their role in international trade. Their activities may have positive and negative impact on trade performance and economic growth if are not well coordinated. Trade facilitation thus aims at harnessing measures that have positive impact on trade. Trade facilitation involves different actors to implement a set of rules, guidelines and procedures that promote trade rather than hampering it.

There are a number of definitions of trade facilitation used by different authors and different organizations. The United Nations Economic Commission for Europe (UNECE), for instance, defines it as a "comprehensive and integrated approach to reducing the complexity and costs of the trade transaction process, and ensuring that all these activities can take place in an efficient, transparent, and predictable manner, based on internationally accepted norms, standards and best practices". And the International Chamber of Commerce considers trade facilitation as relating to improvements in the efficiency of administrative and logistic steps associated with the international trade of goods. Cutting short the list of examples, it is important to stress that many of the various definitions refer to reducing the time and costs of the trade transaction process (Kafeero 2008). A WCO's conventional definition of trade facilitation is "simplification and harmonization of international trade procedures; where trade procedures are the activities, practices, and formalities involved in collecting, presenting, communicating and processing data required for the movement of goods in international trade".

Article 75 of the EAC Treaty (1999) establishing the EAC CU calling for trade facilitation. Article 6 of the EAC Protocol on establishment of the EAC CU stipulates initiatives for trade facilitation among Partner States; reduction of number and volume of trade documentation, adoption of common standards and documentation, coordination of trade facilitation and transport within the Community, periodic review of procedures, dissemination of trade information, establishment joint training programs on trade, and adoption of common external tariff. The instruments of trade facilitation in the Community includes: The Treaty, 1999; The Customs Union Protocol, 2004; Customs Management Act, 2004; various legal instruments relating to trade in goods such as Standardization, Quality Assurance, Metrology and Testing (SQMT) Act 2008; Instruments to addressing supply side constraints such as Tripartite Agreement on Road Transport, 2001.

Khaguli (2013) studied the impact of trade facilitation on eight border posts of the EAC countries, concluded that the implementation of trade facilitation measures in the EAC has seen the region being able to increase trade flows and boost economic growth. The OECD (2013) indicates that in some African countries revenue losses from inefficient border procedures are estimated to exceed 5% of GDP. These losses are associated largely with trade costs due to complex customs procedures. Automation is reported as one measure of reducing this cost and has a potential to reduce trade costs by as much as 2.9%.

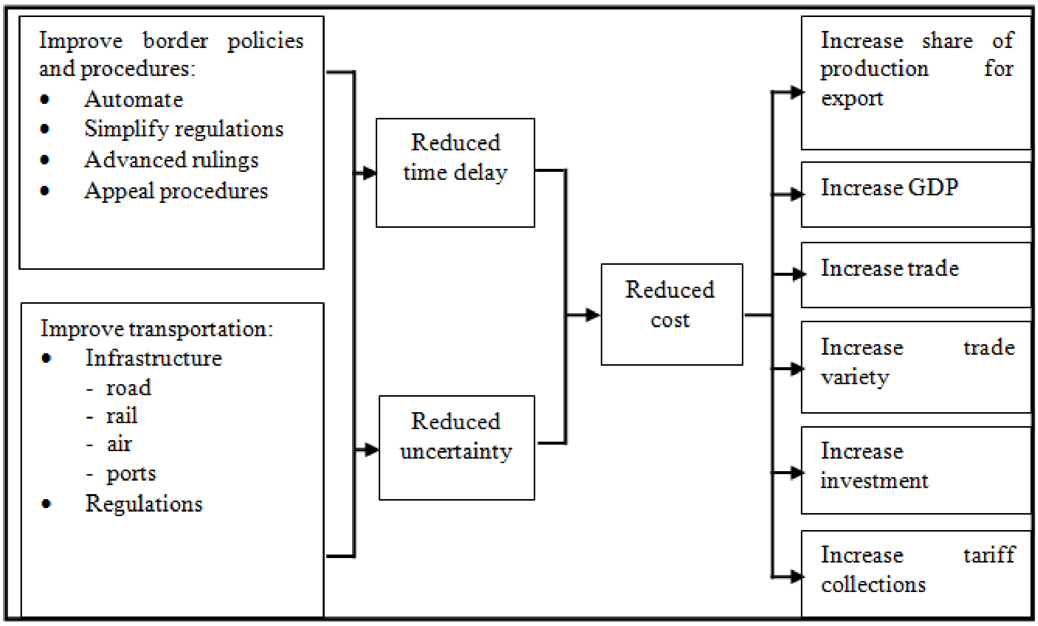

Figure 1: Potential benefits of Trade Facilitation

2.3 Indicators of Trade Facilitation Performance

OECD has developed a set of trade facilitation indicators that identify areas for action and enable the potential impact of reforms to be assessed. The OECD indicators cover the full spectrum of border procedures, from advance rulings to transit guarantees, for 133 countries across income levels, geographical regions and development stages. Estimates based on the indicators provide a basis for governments to prioritize trade facilitation actions and mobilize technical assistance and capacity-building efforts for developing countries in a more targeted way.

Performance in logistics is important for trade facilitation. Efficient logistics is instrumental to the performance of many of the trade facilitation indicators. The World Bank developed a set of indicators for measuring performance in trade logistics[1]. The Logistics Performance Indicator (LPI) is an interactive benchmarking tool created to help countries identify the challenges and opportunities they face in their performance on trade logistics and what they can do to improve their performance.

Table 1: Indicators of Trade Facilitation

Indicator	Description
Advance Rulings	Prior statements by the administration to requesting traders concerning the classification, origin, valuation method, etc., applied to specific goods at the time of importation; the rules and process applied to such statements.
Appeal Procedures	The possibility and modalities to appeal administrative decisions by border agencies.
Co-operation – External	Co-operation with neighbouring and third countries.
Co-operation – Internal	Co-operation between various border agencies of the country; control delegation to customs authorities.
Fees and Charges	Disciplines on the fees and charges imposed on imports and exports.
Formalities – Automation	Electronic exchange of data; automated border procedures; use of risk management.
Formalities – Documents	Simplification of trade documents; harmonization in accordance with international standards; acceptance of copies.
Formalities – Procedures	Streamlining of border controls; single submission points for all required documentation (single windows); post-clearance audits; authorized economic operators.
Governance and Impartiality	Customs structures and functions; accountability; ethics policy.
Information Availability	Publication of trade information, including on internet; enquiry points.
Involvement of the Trade Community	Consultations with traders.

Source: OECD[2]

Although both the OECD and the World Bank indicators provides useful insight into assessing performance in trade facilitation, the OECD indicators are useful for measuring the overall performance while the World Bank's LPIs are useful for evaluating performance in a day-to-day logistical operations.

2.4 ICT Development for Trade Facilitation in EAC CU

In the efforts to simplify goods clearance and reduce trade costs EAC countries have adopted several ICT systems for simplifying goods clearance. The systems have improved efficiency in clearance procedures by: expediting release time, uniform application of customs law, effective implementation of risk management, efficient revenue collection, effective data analysis and efficient production of trade statistics. These ICT systems have contributed a lot, for instance, by reducing the time for clearance and release. Electronic filing of customs documents has been introduced, document processing has been centralized in Kenya and Tanzania, and the level of transparency has generally increased (Kafeero 2008). For ease of exchange of information and implementation of the one border posts initiative adopting a single system by all countries would be ideal.

The establishment of Single Window System for all stakeholders has remained a challenge for automation of ICT in customs administration among the EAC Partner States. Kenya is the first country in EAC to establish a Single Window System known as "Kenya TradeNet". Tanzania has introduced Single Window System at Dar es Salaam Authority while concurrently Customs has adopted a new system called TANCIS (Tanzania Customs Integrated System) which replaces the Automated System for Customs Data (ASYCUDA++). These systems are

[1] See http://lpi.worldbank.org/international
[2] See http://www.oecd.org/tad/facilitation/indicators.htm#Sub-Saharan-Africa-TFI

expected to reduce dwell time at ports and improve the ease of doing business by providing working modules for relevant institutions that do not have adequate Management Information Systems. Rwanda and Uganda have migrated from ASYCUDA++ to ASYCUDA World while Burundi is still using ASYCUDA++. Electronic Cargo Tracking System is also in use in Tanzania to control movement of high risk goods by sending either controlled or real time monitoring of goods on transit.

The use of TANCIS[1] in Tanzania is expected to greatly improve the clearance process by providing one platform where all stakeholders involved in the importation and exportation of goods can exchange necessary information. Importers and exporters are expected to submit all the necessary documentation through the platform. Government agencies involved in the goods clearing process (like Tanzania Bureau of Standards, and Tanzania Food and Drugs Authority) can then process those documents and issue the necessary permits and clearances. Clearing agents have access to TANCIS from the comfort of their own offices as long as they have access to the internet. The system also links in other stakeholders like shipping lines and Tanzania Ports Authority to speed up the goods clearing process. Banks have also been linked up to facilitate quick payment of customs fees and duties. As a result of these efforts, the time from lodging of documents to issuance of Customs release orders at the Port of Dar es Salaam is expected to be reduced from 4 days to 1 day. Goods clearance time at the Port of Dar es Salaam is expected to be reduced from 5 days to 1 day for exported goods, and from 9 days to 5 days for imported goods.

A study by Tosevska-Trpcevska (2014) on the effects of the implementation of Single Window and simplified customs procedures in the Republic of Macedonia reported that companies evaluate positively the application of the Single Window for obtaining licenses and for tariff quota allocation. The greatest benefit realized by the users of the Single Window has been the savings in time and human resources; there was 66.16% reduction. All measured variables - average number of documents, signatures, hours, and financial costs - have been reduced compared to regular customs procedures. Further, the study reported that the reduction in time needed for one simplified customs procedure may have a significant influence on increasing trade and especially exports. Djankov *et al*. (2006) cited in Tosevska-Trpcevska (2014) estimated that a 10% saving in time in preparing to export may result in an increase in exports of 4%, and that each additional day that the goods are held pending clearance decreases trade by at least 1%.

2.5 Customs Risk Management for Trade Facilitation

A common characteristic of Customs work is the high volume of transactions and the impossibility of checking all of them. Customs Administrations therefore face the challenge of facilitating the movement of legitimate passengers and cargo while applying controls to detect Customs fraud and other offences. These competing interests mean that it is necessary to find a balance between facilitation and control.

Customs Administrations use risk analysis to determine which persons, goods, and means of transport should be examined and to what extent (WCO Revised Kyoto Convention, Standard 6.4.). Risk analysis and risk assessment are analytical processes that are used to determine which risks are the most serious and should have priority for being treated or having corrective action taken. Risk analysis involves a selection programme that makes use of risk profiles, which have been established in a process of risk analysis and assessment. Risk profiles encompass various indicators, such as; type of good, traders and their compliance records, value of goods and applicable duties, destination and origin countries, mode of transport and routes and are built based on characteristics displayed by unlawful consignments (or offending passengers).

WCO has developed various tools to assist its member countries in the establishment of profiles and the management of intelligence collection. The WCO Customs Enforcement Network (CEN) database can, for example, provide useful intelligence for the establishment of risk profiles. These profiles then drive inspection selectivity programmes, through which data declared are analyzed on the basis of the identified risk parameters and consignments, and depending on the selected risk level, goods and persons are routed through different channels of Customs control. Consignments and persons considered as 'low-risk' based on the risk profile attract minimal attention and intervention from Customs and can be processed quickly (WCO & UNCTAD 2008)[2]. TANCIS system for example is capable of identifying and categorizing risk level and use colour scheme to rank goods to be cleared as; Green Channel for immediate release without examination; Yellow Channel for those which needs documentary check; Red Channel for those which require physical examination on of goods and documents; and Blue Channel for examination at a later stage - post audit.

2.6 The Role of Customs Post-clearance Audit in Trade Facilitation

According to WCO and UNCTAD (2011)[3], post-clearance audit means audit-based Customs control performed

[1] See http://www.icfafrica.org/news/tra-and-icf-to-speed-up-goods-clearance-at-tanzania-borders

[2] UNCTAD Trust Fund on Trade Facilitation Negotiations Technical Note No. 12: Risk management in Customs procedures. Prepared by WCO and UNCTAD.

[3] UNCTAD Trust Fund for Trade Facilitation Negotiations Technical Note 5: Post-clearance audit. produced jointly by the World Customs Organization (WCO) and UNCTAD.

subsequent to the release of the cargo from Customs' custody. The purpose of such audits is to verify the accuracy and authenticity of declarations and cover the control of traders' commercial data, business systems, records and books. Such an audit can take place at the premises of the trader, and may take into account individual transactions, so-called "transaction-based" audit, or cover imports and/or exports undertaken over a certain period of time, so-called "company based" audit. Implementation of post-clearance audit is part of the risk management strategy. Post-clearance audits are often introduced in conjunction with the implementation of automated procedures in Customs operations. However, audit-based control can also be applied in a manual or semi-automated environment.

The WCO (2012)[1] guidelines for post-clearance audit stipulate the objectives of post-clearance audit as: to assure that Customs declarations have been completed in compliance with Customs requirements, via examination of a trader's systems, accounting records and premises; to verify that the amount of revenue legally due has been identified and paid; to facilitate international trade movements of the compliant trade sector; to ensure goods liable to specific import/export controls are properly declared, including prohibitions and restrictions, licenses, quota; to ensure conditions relating to specific approvals and authorizations are being observed, for example pre-authenticated transit documents, preferential origin/movement certificates, licenses, quota arrangements, Customs and excise warehouses and other simplified procedure arrangements.

Post-clearance audits can be conducted on a case-by-case basis, focusing on targeted operators, selected on the grounds of risk analysis of the commodity and the trader, or in a planned, regular way, set out in an annual audit programme. Furthermore, the audit could also be used as criteria to offer special treatment to certain economic operators. If well implemented, post-clearance audits are expected to facilitate reduced release time, saving storage fees as storage and warehouse fees as well as insurance costs for goods under storage will be reduced. Also it ensures a more efficient control since it can cover all Customs regimes – temporary importation, inward processing, duty-free zones, end-use tariff items – and therefore enhance Customs control over some of these regimes which could not be checked at the border.

Post-clearance audit can benefit from a broader picture of the transactions over a longer period of time. Details for comparison come from local or national databases and include information from each Customs declaration registered. By comparing prices and tariff headings for identical or similar commodities related to different companies, inconsistencies may indicate fraud. Similarly, comparison between countries of origin or different suppliers or pattern of intra-company trading may reveal false declarations. If the audit detects an incorrect declaration, the audit officer can ask for the correction of the declaration. This may entail an additional payment of duties or taxes by the trader and even raise Customs' revenues.

Customs audit has proved effective in facilitating trade and counteracting customs offenses in many countries and thereby improving customs and tax compliance. In Korea for example, a Customs Team detected violations such as tax evasions or false declarations, bringing in about USD 100 million in additional revenues in 2001, and approximately USD 480 million in 2004, which in return motivated importers to more carefully and accurately declare their goods (WTO 2005). Despite these potential benefits, post clearance audit has a number of challenges in developing countries. One of these challenges is availability of skilled labour. A report by Rajkarnikar (2007) on implementation of WTO Customs Valuation Agreement in Nepal, indicated that lack of trained manpower for audit purpose has significant impact on realizing result of post-clearance audit. The study concluded that Audit Manual is necessary to implement the post clearance audit.

2.7 Effects of Customs Corruption on Trade Facilitation

Ndonga (2013) highlighted that the problem of Customs corruption remains an issue of international concern that strongly affects many developing countries. Occurrences of routine, fraudulent and criminal corruption do not just impede customs efficiency but can further result in social and economic upheavals that will both hinder the development and threaten international security. Further, the study proposes introduction of single window system accompanied with other integrity measures in order to thoroughly eliminate corruption in Customs.

Customs clearance in EAC member countries is marred by corruption. In an effort to deal with corruption, the Government of Tanzania put in place the National Anti-Corruption Strategy (NACS) and sector-specific action plans for all ministries, independent government departments, executive agencies and local authorities. The Anti-Corruption Bill, commonly referred to as the Prevention and Combating of Corruption Bureau (PCCB) Act, became operational in 2007. Despite these efforts corruption in Customs is persistent. According to Transparency International and TradeMark East Africa's 2012 case study of East African trade corridors, Tanzania transport companies pay almost USD 13,000 a month in bribes to authorities like police and Customs officials to avoid unnecessary delays, harassment and payment of penalties[2]. According to the report by the U.S.

[1] Note: Guidelines are presented in two volumes; Volume 1 is primarily targeted at management level and is freely available, and volume 2 focuses on the operational aspects of PCA and is restricted to Customs administrations.

[2] See http://www.business-anti-corruption.com/country-profiles/sub-saharan-africa/tanzania/corruption-levels/customs-administration.aspx

Department of State – USDS (2013) foreign companies have identified petty corruption among Tanzanian Customs officers as an obstacle to investment in the country. Furthermore, there has been some decline in Tanzania's performance in regards to the time and cost of trading across borders. The report adds that companies and individuals consider the Customs Administration to be prone to corruption.

Lozbenko (2003) in "Fight against Corruption in the Sphere of Customs as a Trade Promoting Factor" reported that foreign economic activity is leading in terms of rates of growth of the number of offences in Russia. Further, Customs officers were also found guilty of acts of corruption. The report concluded that albeit the potential role Customs can play as a filter for cutting off illegal trade flows by exercising its control function, preventing corruption in the Customs system and foreign trade requires comprehensive, systematic and coordinated work of all international and regional organizations and national governments.

2.8 Transport Infrastructure and Trade Cost in EAC CU

Efficient transport infrastructure is another important factor for trade facilitation and performance of businesses. Shorter and more predictable transport times can cut costs, raise profits, and allow product diversification. Upgrading transportation infrastructure, including ports, railways, roads, and air transport, is crucial for increasing trade. As a result, dealers in a given product who cannot be sure when the next shipment will arrive, they must often spend more to keep extra supplies of the product in stock. This problem erodes the profits of businesses all over sub-Saharan Africa. Variability in transport times also discourages African businesses from exporting goods that are sensitive to delays, such as fresh horticultural products (USITC 2012).

The EAC Regional Transport Strategy (2011) indicates that the surface transport modes provide the main transport links with neighbouring countries and within the EAC. Most of the EAC countries are landlocked and depends on two major ports of Dar es Salaam (Tanzania) and Mombasa (Kenya). Unfortunately, the countries located at the coast are large thus coordinating infrastructure in one country is already a huge task and doing it across borders is even more difficult. Balistreri *et al*. (2014) categorized trade costs into three; costs that can be lowered by trade facilitation, non-tariff barriers, and the costs of business services. Balisteri emphasized that "there is substantial evidence that with the progressive global decline in tariffs over several decades, trade costs are a more significant barrier to trade than tariffs, especially in Sub-Saharan Africa". A recent report by IMF (2014) on "Regional Economic Outlook for Sub-Saharan Africa 2014" shows that most sub-Saharan African countries have made limited transport infrastructure development; as a result transport cost is very high. Transport and insurance costs represent an average of 30% of the value of exports whereas in landlocked countries like Rwanda, these costs may reach up to 50% of total exports value. No wonder then, that high transport costs, caused by whatever infrastructure deficiencies, delays, fees or procedures are encountered in the transit country, make the land leg of the shipping of goods to landlocked countries very costly and oblige the landlocked country to maintain high levels of inventory. For most landlocked countries, high transport costs remain the single most important obstacle to their equitable access to global markets and competition with other countries.

2.9 Challenges of Trade Facilitation

Trade facilitation has the potential to promote competitiveness and market integration. Moreover, trade facilitation can make multilateral trade liberalization an important tool for development in a system based on predictable rules, openness and lack of discrimination (Cosgrove-Sacks & Apostolov 2003).

Despite the potential and successes of trade facilitation there are also challenges of implementing trade facilitation in Africa. The obstacles to trade facilitation are not only many and varied, but they are also inter-related. This situation requires an integrated, cooperative response from the Government and the private sector. Buyonge and Kireeva (2008) highlighted some of these challenges which include the lack of a service attitude across all customs management levels, adversarial relationship between Customs and business, insufficient or inefficient supporting infrastructure, lack of a facilitation culture in other government departments, corruption and illicit trade. A holistic approach is thus needed to address trade facilitation as some of the impediments are cross-cutting and cannot be addressed by Customs alone.

3. Methodology

This study applies a descriptive approach to trace the performance of trade facilitation in EAC Customs Union. The study makes use of OECD's Trade Facilitation Indicators (TFI) as well as the World Bank's Logistics Performance Indicators (LPI) to evaluate the level of trade facilitation in the country and relate performance in TFI and LPI with actual performances in the EAC economies in terms of trade, FDI and trade taxes performance. Data for the study were collected from the World Bank, UNCTAD, WCO, OECD, EAC Secretariat, Tanzania Revenue Authority, Bank of Tanzania and other published statistics and documentation. Unstructured interviews

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with Customs officials and other stakeholders such as Customs agents[1] complemented information for the study. The study hypothesized that there is significant correlation between trade facilitation and exports as well as FDI inflow performance. In order to verify this hypothesis t-test was used to test significance of the correlation between trade facilitation score and performance in export and FDI. The test statistic t is computed as:

$$t = r_{xy}\sqrt{\frac{n-2}{1-r_{xy}^2}}$$

r is coefficient of correlation between x and y and is calculated as:

$$r_{xy} = \frac{Cov(x,y)}{\sigma_x\sigma_y} = \frac{\sum xy - n\bar{x}\bar{y}}{(n-1)S_xS_y}$$

where y is the sum of scores in trade facilitation indicators for each country, x represents performance measure (share of exports to GDP or net FDI to GDP) for each country, S_x and S_y are standard deviations of x and y.

4. Results and Discussion

4.1 Performance in Logistics

Performance in trade facilitation is evaluated using two separate indicators; logistics performance indicator and trade facilitation indicator. Performance in logistics for Tanzania shows significant improvements. Lead times to export and import have declined considerably between 2005 and 2013; results in Table 2 indicate a drop of lead time to export has reduced from 51 to 31 days during the same period. Further, the time taken to clear exports of the first 50 per cent has dropped from 11.2 to 3.16 days. This sharp increase in export lead time is likely to improve trade both intra region and with other countries outside EAC. Customs clearance improved in initial years from 2.07 in 2006 to 2.42 in 2012; a sharp drop thereafter to 2.17 in 2013 can be explained by inefficiency in offloading cargo; congestion of containers at the port was reported during the period.

Performance in trade and transport related infrastructure has almost been stagnant. Impressive performances are recorded in ease of arranging competitive shipment price and competency and quality of logistics service. The improvement in competence and quality of logistics service are largely attributed to on-going initiatives by Tanzania Freight Forwarders Association (TAFFA) and EAC on Customs training and the requirements of customs agents to undergo a specially EAC designed training on clearing and forwarding before registration to practice.

Table 2: Tanzania's Logistics Performance Indicators

Indicator	2005	2006	2007	2008	2009	2010	2011	2012	2013
Number of documents to export	8	6	6	6	6	6	7	7	7
Lead time to export [a]	30	24	24	24	24	24	18	18	18
Number of documents to import	13	7	7	7	7	7	10	11	11
Lead time to import [a]	51	30	30	31	31	31	24	31	31
Lead time to export – median case [a]		11.2	11.2		3.16	3.16			
Lead time to import – median case [a]		21.2	21.2		7.07	7.07			
Efficiency of customs clearance process [b]		2.07	2.07		2.42	2.42		2.17	
Quality of trade and transport related infrastructure [b]		2	2		2	2		2.4	
Easy of arranging competitive price shipment [b]		2.08	2.08		2.78	2.78		2.91	
Competency and quality of logistics service [b]		1.92	1.92		2.38	2.38		2.64	

Note: [a] data are measured in days, and [b] data are measured in scale (1 = low to 5 = high)
Source: World Bank Logistics Performance Indicator 2014

4.2 Performance in Trade Facilitation

Results in Table 3 indicate that most EAC countries are faring well in trade facilitation when compared with Sub-Saharan Africa and Low Income countries across a number of indicators. However, performance is far lower when benchmarked with a best practice country; Singapore (USAITC 2012). Tanzania is performing best compared to other EAC countries in terms of internal border agency cooperation and automation while Kenya is performing well than the rest of EAC countries on external border agency cooperation. Tanzania is not doing well compared with other EAC countries in terms of governance and impartiality. Governance issues such as corruption negatively affect trade facilitation and are associated with increased cost of doing business and

[1] Customs agents are persons licensed by the Commissioner for Customs to on behalf of the owner for transacting business relating to declaration and clearance of goods and baggage as per Section 145 of the CMA (2004).

reduced competitiveness. Rwanda and Uganda are doing best in information availability. Information availability increases transparency and thus counteracts poor governance issues such as corruption. Information availability also increases consistence of application of procedures, reduce transaction costs and improve fairness.
Further, results in Table 3 indicate that Tanzania is performing well in involvement of the trade community as compared to the rest of EAC countries. This has impact on instilling ownership and cooperation between the government and other stakeholders and hence smooth implementation of various policies that are aiming at improving trade and customs administration. Buyonge and Kireeva (2008) observed that most Customs Administrations find it difficult to sustain genuine dialogue with business, and the relationship is mutually antagonistic because compliance with customs laws and procedures is often involuntary.
The World Bank (2014)[1] report on ease of doing business ranked Tanzania at 139, Kenya at 159, Uganda 164, Burundi 175 and Rwanda 162 out of 189 economies on performance in trading across borders. This rank compares countries in terms of efficiency in export and import procedures by comparing documents, time and cost for exportation and importation. These ranks imply that EAC countries are not performing well compared to the rest of the world, calling for measures for further improvement in trade facilitation.

Table 3: Trade Facilitation Indicators

Indicator	Tanzania	Kenya	Uganda	Burundi	Rwanda	Sub – Saharan Africa	Low Income Countries
Information availability	1.6	1.4	1.9	0.2	2.0	1.4	1.3
Governance and impartiality	0.8	1.5	2.0	-	2.0	1.4	1.5
Border agency cooperation - internal	2.0	1.0	1.0	0.0	0.0	1.2	1.2
Border agency cooperation - external	-	2.0	-	2.0	-	1.6	1.6
Formalities – procedures	1.1	1.5	0.6	-	1.5	1.0	1.0
Formalities – automation	2.0	1.3	1.0	0.3	1.0	1.0	1.1
Formalities – documents	1.4	1.2	1.1	0.6	1.0	1.0	0.9
Fees and charges	0.0	0.7	1.0	-	-	1.1	1.0
Appeal procedures	1.5	1.3	1.5	0.0	0.8	1.2	1.1
Advance rulings	1.0	0.7	0.7	-	-	0.6	0.5
Involvement of trade community	1.0	0.2	0.0	0.0	-	0.8	0.7

Note: A score of 2 indicates the best performance. These data are rounded.
Source: OECD Trade Facilitation Indicators 2003[2]

4.3 Trade Performance

Trade growth has been recorded in all the EAC countries after commencement of the Customs Union. Results in Table 4 shows that the shares of exports to GDP for all EAC countries have increased between 2004 and 2013, except for Kenya where the share has declined from 23.1 to 19.5 during the period. Report by the BOT (2013) indicates that Tanzania's exports have increased from USD 616.6 million in 2004 to USD 2,557.9 million in 2012. The growth in exports is attributed to trade facilitation and increased production.
Despite this growth, the terms of trade for all EAC countries is not favourable. This is because these countries export mainly raw unprocessed products. The level of value addition is very little. In Tanzania for example, the BOT (2013) reported that in the year 2012 only 21.1% of exports earning was from manufactured goods. Minerals account for 68% of all exports and the rest is mainly crops and other non-traditional exports.

Table 4: Contribution of Export of Goods and Services to the GDP (in percent)

Country	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Tanzania	20.1	21.3	24.2	25.5	24.1	25.3	27.9	31.5	28.7	26.1
Kenya	23.1	24.8	22.9	21.9	22.7	20.0	22.3	23.0	21.9	19.5
Uganda	13.4	15.4	15.8	18.0	18.6	20.3	20.2	23.6	23.1	23.1
Burundi	7.0	8.2	7.3	7.3	9.5	6.7	8.9	9.5	8.7	7.4
Rwanda	9.6	9.5	11.9	11.8	14.9	11.5	11.1	14.2	13.9	15.4

Source: IMF (2014)

[1] See http://www.doingbusiness.org/custom-query
[2] See http://www.oecd.org/tad/facilitation/indicators.htm.

Intra EAC trade has also increased. Tanzania's trade with other EAC countries is summarized in Table 5. Results show that Tanzania's intra EAC exports have increased from USD 311.69 million in 2008 to USD 515.93 million in 2012. Imports from other EAC countries have also increased from USD 202.29 to USD 673.52 during the same period. Kenya is the leading of all EAC countries in terms of trade with Tanzania whereby about 64% of all Tanzania's intra EAC exports and 83% of intra EAC imports were with Kenya in 2012.

Table 5: Tanzania's Trade with other EAC Partner States (in Millions of USD)

Trade Flow	2008	2009	2010	2011	2012[p]
Tanzania's Trade with Kenya					
Export to Kenya	232.12	179.27	239.59	214.21	330.94
Import from Kenya	195.48	301.49	272.91	249.63	560.02
Tanzania's Trade with Uganda					
Export to Uganda	40.00	48.23	48.04	45.22	65.78
Import from Uganda	6.34	12.02	17.75	16.13	107.54
Tanzania's Trade with Burundi					
Export to Burundi	19.24	23.89	52.29	31.23	45.83
Import from Burundi	0.42	0.31	0.60	0.01	3.86
Tanzania's Trade with Rwanda					
Export to Rwanda	20.34	15.23	86.57	66.71	73.38
Import from Rwanda	0.05	0.02	1.40	1.26	2.10
Total Exports to EAC	**311.69**	**266.62**	**426.49**	**357.37**	**515.93**
Total Imports from EAC	**202.29**	**313.84**	**292.66**	**267.03**	**673.52**
Total Intra EAC Trade	**513.98**	**580.46**	**719.15**	**624.40**	**1,189.45**

[p] Provisional

Source: Bank of Tanzania Annual Report 2012/2013

The study also found a strong positive correlation between trade facilitation and export ($r = 0.914$ significant at $p = 0.05$). This shows that trade facilitation measures and exports performance are positively related. Countries thus have to improve trade facilitation if they are to increase their performance in trade.

4.4 Trade Taxes Revenue Performance

Performance of Tanzania in trade taxes collection in comparison with other taxes is presented in Table 6. Results indicate that contribution of import duty collection to the total tax revenue has increased from Tanzania Shillings (TZS) 572,806.2 million in 2003/04 to TZS 2,555,535.8 million in 2011/12. Although import duties have showed an increasing trend, their contribution to total tax revenue has declined from 42.7% in 2003/04 to 39.4% in 2011/12. The decline in share of import duty on total tax revenue can be explained by higher growth in income tax collection compared to import duty between 2008/09 and 2011/2012. During the period, income taxes grew by 82.9% while import duty grew by 73.2%. Increased exemptions and remissions on Customs is another reason for this decline in contribution of import duties. A report on per tax exemption in Tanzania by URT (2013) indicates that in the year 2011/12 total exemptions accounted for 4.4% of the GDP which is equivalent to 27.4% of total taxes collected. The large share of these exemptions is on Value Added Tax on deemed capital goods and Tanzania Investment Centre (TIC). Nearly 75% of all exemptions are granted on imported goods. Although these exemptions are granted for the reasons of, among others, to increase consumption of certain goods deemed to have direct benefit to society and also to stimulate economic growth which would lead to more tax revenue in the long run, legitimacy of some of these exemptions is doubted. For instance, a study by the Tanzania Episcopal Conference (TEC), National Muslim Council of Tanzania (BAKWATA) and Christian Council of Tanzania (CCT) in 2012 reported that the Tanzanian government is over generous to some foreign investors and sectors. Further, the study compared foregone tax revenue through tax incentives and its equivalent outlay for development activities and found that the country's sacrifice is immense, and calls for assessment of the eligibility and benefits derived out of some of these tax exemptions.

Table 6: Tax Revenue Performance in Tanzania (in Millions of TZS)

Year	Tax Revenue					Total Revenue
	Import Duty	VAT and Excise	Income Taxes	Other Taxes	Total Tax Revenue	
2003/04	572,806.2	325,609.6	366,680.5	123,288.2	1,340,139.0	1,459,302.0
2004/05	679,992.4	402,136.1	465,454.7	132,040.2	1,615,274.0	1,773,709.4
2005/06	819,800.5	478,395.4	581,234.8	136,954.0	1,946,432.6	2,124,843.7
2006/07	1,018,569.5	575,968.3	716,320.5	218,581.1	2,529,439.4	2,739,022.4
2007/08	1,278,882.5	730,048.5	974,312.1	385,727.7	3,358,381.8	3,653,605.2
2008/09	1,475,469.4	876,987.0	1,228,645.8	462,543.8	4,043,673.0	4,293,074.3
2009/10	1,660,253.6	934,063.2	1,334,019.7	499,497.2	4,427,833.7	4,661,540.3
2010/11	1,967,371.5	1,064,072.2	1,660,385.2	601,448.4	5,293,277.3	5,736,266.1
2011/12	2,555,535.8	1,336,916.4	2,246,783.7	341,241.8	6,480,477.8	7,221,408.6
2012/13^{p}	2,959,160.0	1,466,562.2	3,019,555.7	376,456.9	7,821,734.8	8,585,411.2

Note: ^{p} Provisional
Source: Bank of Tanzania Annual Report 2012/2013.

4.5 Foreign Direct Investment Flow

Foreign Direct Investment (FDI) continues to play a vital role of stimulating economic growth in EAC through increased investments, jobs creation, and increased exports. Since the beginning of the implementation of Customs Union the EAC has witnessed an increase in FDI flows. For example, Mugisa *et al*. (2009) compared FDI flow into EAC before and after Customs Union found that FDI flows have almost tripled between 2002 and 2007 from USD 692 million to USD 1,763 million respectively. These results indicate that trade facilitation as a result of Customs Union has been effective in attracting FDI flows into EAC.

Results in Table 7 shows that total FDI flow into EAC has persistently increased from USD 2,314 million in 2008 to USD 3,650 in 2013. Further, results shows that Tanzania is leading in FDI flows followed by Uganda. Tanzania's FDI flows in the year 2013 accounts for 51.3% while Uganda records 31.4% of all FDI flows into EAC. The URT (2012) reported that most of FDI flows in Tanzania are on extractive sectors (mining) and manufacturing which accounts for 33.1% and 17.7% respectively in 2011. According to a report by USDS (2013), the success of Tanzania in attracting FDI dwells on the government's favorable attitude toward foreign investment.

The URT (2012) report indicates that majority of FDI inflows to Tanzania comes from OEDC, followed by SADC and EAC. For a period between 2008 and 2011, FDI inflows from OECD averaged at USD 750.6 million, USD 549.9 million from SADC, and USD 68.7 million from EAC. South Africa and Kenya are leading African countries in terms of FDI flows into Tanzania.

The study found a positive correlation (r = 0.255) between FDI flow and trade facilitation, though statistically not significant at p = 0.05. This implies that factors other than those measured in trade facilitation are important in attracting FDI. Anyanwu (2011) indicated that, among other factors, natural resources endowment and market size plays a major role in attracting FDI in Africa. Since Tanzania is endowed in minerals and oil exploitation is ongoing in Uganda, and whereas these countries also have reasonably large population – a proxy of market size, it is not surprising that these countries were able to attract more FDI flows than the rest of EAC countries.

Table 7: FDI Flows into EAC from 2007 to 2013 (in Millions of USD)

Region/Economy	2008	2009	2010	2011	2012	2013
World	1,818,834	1,221,840	1,422,255	1,700,082	1,330,273	1,451,965
Developed Economies	1,032,385	618,596	703,474	880,406	516,664	565,626
Developing Economies	668,758	532,580	648,208	724,840	729,449	778,372
Africa	59,276	56,043	47,034	48,021	55,180	57,239
EAC	**2,314**	**2,034**	**2,578**	**2,567**	**3,425**	**3,650**
Tanzania	1,383 (4.9)	958 (4.9)	1,813 (4.4)	1,229 (5.4)	1,800 (6.0)	1,872 (5.9)
Kenya	96 (0.1)	115 (0.2)	178 (0.4)	335 (0.8)	259 (0.5)	514 (0.9)
Uganda	729 (4.5)	842 (5.1)	544 (3.1)	894 (4.9)	1,205 (5.7)	1,146 (5.1)
Burundi	4 (0.2)	0 (0.0)	1 (0.0)	3 (0.1)	1 (0.0)	7 (2.5)
Rwanda	102 (2.2)	119 (2.3)	42 (0.8)	106 (1.7)	160 (2.2)	111 (2.0)

Note: Figures in brackets represent percent of GDP
Source: UNCTAD World Investment Report 2014 and IMF (2014)

4.6 Challenges of Trade Facilitation

Non-tariff barriers (NTBs) are the major setback to trade facilitation. A report by EAC (2012b) on status of elimination of non-tariff barriers in EAC indicates that elimination of NTB is incomplete as there are old unresolved and new NTBs. Other challenges of trade facilitation include level of transport infrastructure which resulted in poor infrastructure that delays goods on transit and increased transport costs. Reliance on roads and low investment in railway has further increased trade costs due to low economies of scale on road transport. The One-Stop Border Post (OSBP) concept is still under developed. Customs and non-customs procedures are not harmonized and there is lack of legal mandate of the EAC secretariat to enforce trade facilitation instruments.

Likewise, there is low capacity both in terms of human and financial resources for effective implementation of trade facilitation. The financial support from donors for trade facilitation is very small.

Most EAC countries have multiple memberships within EAC, COMESA and SADC. Tanzania for instance has membership in all the three blocks. The objectives of these blocks are sometimes conflicting. There is inconsistency in sensitive products lists - excluded products from liberalization. Also non-compliance to Rules of Origin as a result of challenges of documentation and non-recognition of certificates of origin from other Partner States.

Integrity of implementing agencies has continued to pose significant challenges. Customs in EAC countries is implicated with a number of integrity issues such as corruption and fairness in assessment of duty for imported goods. As Customs is an important fiscal area in EAC, there is a challenge of balancing between trade facilitation and control. Capacity for Customs audit is very low which necessitate auditing of very few companies as a result unfaithful Companies takes advantage of this low capacity.

5. Conclusion and Recommendations

5.1 Conclusion

Implementation of trade facilitation initiatives in Tanzania has improved the country’s trade performance through increased exports. Increase in export is important for trade balance, creation of employment, and foreign exchange earnings. Since most of these exports are in raw form, there is a need to diversify exports through value addition and increase variety of exports. Diversification will ensure increased benefits from trade and sustainability of economic growth because raw products’ prices are often very volatile. Intra-EAC trade has also increased considerably since the beginning of implementation of trade facilitation initiatives. Increased intra-EAC trade improves welfare due to reduced cost of imports which would otherwise come from outside the region.

Trade facilitation initiatives also enabled increased flow of FDI into EAC. FDI are important for economic growth through creation of employment and increased production. FDI also have a technology spillover which have positive effect on productivity and increased competitiveness of local producers. This study found a positive relationship between trade performance indicators and FDI. However, this relationship was not statistically significant, implying that other factors have more effect on FDI flows. Therefore, in order to attract FDI, such factors like maintaining positive attitude towards foreign investments is very crucial. Most of FDI are on extractive sectors; there is need to make conducive environment for attracting FDI in other sectors that grow inclusively, like agriculture, manufacturing and tourism, so that the benefits of FDI can easily trickle down to the majority.

Collection of import duty also has improved considerably from the beginning of implementation of trade facilitation initiatives. However, its share to the total tax revenue is decreasing in recent years. There is a need to eliminate unnecessary exemptions on imported goods so as to enhance revenue collection, and hence improve domestic resources mobilization for sustainable development.

Trade facilitation initiatives implementation has also caused improvement in infrastructure, improved integrity in customs, and reduced trade cost. However, non-tariff barriers have remained a major setback to trade. Tanzania being a gateway and transit country to East and Central African region has a major role in improving trade facilitation in the region. Thus the country’s trade facilitation has potential to increase its benefits from trade as well as the rest of the region. There is a need for Tanzania to work together with other countries in the region in eliminating the existing barriers and where possible prevent emergence of new ones.

5.2 Recommendations

Trade facilitation in EAC must be enhanced further to enable the region participate in trade and maximize the benefits of trade through reduced cost of trade, improved competitiveness of businesses and improved welfare of the people. This study recommends elimination of non-tariff barriers to trade, increased investment in transport and port infrastructure, ensuring fully operationalization of One-Stop Border Posts (OSBP), establishing Single Window System in countries that have not adopted this system, enhancing integrity in Customs, enhancing efficiency in port operations, improving human resource capacity across all stakeholders involved, increasing awareness of benefits of trade facilitation among various stakeholders, and improving operations of Customs in the region.

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