4

Potential Trade Effects

Trade effects or, more precisely, procurement-related actions which affect trade are quite often identified and considered from a narrow perspective, notably in the context of procurement actions which might have a discriminatory trade effect. This includes such things as domestic preferences, which provide a price or purchase[73] preference for goods and services that are produced domestically or contain a defined level of domestic content or use of domestic labour. Similar effects are also attributed to other mechanisms such as 'set-asides' which set aside all or a given percentage of contracts for regional or even national firms, effectively excluding foreign competition for those contracts. The same discriminatory effect may be sought through what is, in effect, a procurement ban, where international competition is requested (or permitted) only where there is insufficient domestic supply.

Some of these practices are employed in the sample countries. In Tanzania, for example, there are price preferences and conditions on the use of national contractors, as well as set-asides for Tanzanian companies. The Samoan Tenders Board also approves on a case-by-case basis a margin of preference for domestic manufactured goods and domestic works contractors. It is likely that many ACP member countries will maintain similar policies which seek to favour the domestic supply base, ostensibly with a view to protecting domestic industry. Such policies are therefore likely to feature prominently in any trade negotiations, if only because of their apparently explicit discriminatory effect.

Such practices are often justified on the basis that they assist domestic industry, although economic analyses suggest that the only effect is to increase its inefficiency and, where foreign competition is restricted, increase costs for the public purchaser. This was discussed in section 1.4 above, where it was also shown that that the economic consensus appears to be that the existence of, for example, price preferences (as the primary example of discriminatory procurement policies) actually has no effect on trade, i.e. does not reduce imports or increase domestic price, output or employment. While the political impact is significant (with politicians claiming the credit for 'saving' or protecting' domestic industry),[74] the trade effect appears negligible. That is not to say, however, that there is no effect. The negative effect of discriminatory policies is felt by the public purse, which may be forced to pay more than necessary for its purchases and which may, in the long run, be faced with the higher costs of an uncompetitive national industry.

There would appear to be wider consensus, on the other hand, that a sound domestic procurement system will lead to welfare benefits, mainly based on increased competition. To the extent that transparency provisions also encourage the elimination of supposed discriminatory procurement practices, they will also have a positive effect by increasing or facilitating competition (domestic and international). Removal of such discriminatory provisions is thus more about improving the national procurement system and the competitive process than it is about increasing trade. As a political statement, such discriminatory policies would undoubtedly fall foul of any market access negotiations, since they appear explicitly antithetical to free trade. They will thus figure highly in any trade negotiations and any negotiating position must take the existence of such policies into account. The economic reality, however, is that their elimination will improve the domestic procurement system even if it will at the same time facilitate the more political market access discussions.

Potential trade effects need to be considered at a more fundamental level and should take into account the benefits of both improved transparency of the domestic procurement system and the trade effects of market access conditions.

4.1 Statistical evidence of trade effects

In the same way that there is little hard statistical evidence in respect of the concrete savings to be made from having or introducing a sound and transparent domestic procurement system, there is also a lack of hard data relating to the actual trade effects created by membership of any international agreements which apply market access conditions in respect of procurement. There is a lack of analysis and information on the 'return on investment' to alternative types of procurement reforms, the role that international disciplines can and should play, and how such disciplines need to be complemented by national actions to ensure positive pay-offs.[75] What statistical analyses there are would seem to suggest that welfare benefits arise from increased competition in domestic markets resulting from improved TGP[76] rather than from cross-border trade.[77] These include efficiency and specialisation gains,[78] but the benefits of international competition are not only linked to better choices on the goods and services to be purchased; international competition also leads to internationalisation of the business community, better value goods and job creation.[79]

From the perspective of a party's negotiating position, therefore, it may well be that the primary benefits from entering into a procurement-related trade agreement will result from the inevitable precondition of attaining acceptable transparency of the national procurement system. The effort required to bring the country's procurement system 'up to speed' is more likely to bear fruit than the market access negotiations that follow. The benefits of acceding to market access conditions, while theoretically justified, have not been the subject of any statistical analysis. As noted above, this also applies to more obvious discriminatory procurement policies such as price preferences.

The existing studies which seek to identify the benefits to be gained from introducing TGP or improving existing procurement systems are invariably linked to the savings to be made based on the size of the procurement market at issue.[80] Those savings are considerable where procurement spend is significant. The latest comprehensive study on the value of procurement markets was conducted in 2002 by the OECD,[81] although the figures are based on 1998 statistics. While it is often difficult to isolate procurement spend from national budgets (where non-capital expenditure is usually subsumed within other categories of spend, including 'wages' and 'utilities'), the report employed the System of National Accounts (SNA) to compute the magnitude of procurement of goods and services by state bodies, not only in developed countries but also in 106 developing countries. Taking 106 developing countries together, the OECD study found that government purchases of goods and services in these economies accounted for approximately 5.1 per cent of their combined national outputs (the comparable figure for OECD member states was 7.9 per cent). The 106 developing countries' procurement markets amounted to only 13.9 per cent of total worldwide procurement spending in 1998.

These figures appear out of date, however. The European Commission, for example, puts the estimated total public procurement in the EU at about 16 per cent of the EU's GDP in 2002. Its importance varies significantly between member states, ranging from 11 to 20 per cent of GDP. Other authors also put the potential global figures higher[82] and estimate the value of, for example, the contestable procurement markets in ACP countries as equivalent to some 5–10 per cent of GDP. In Africa, the figure could be as high as 70 per cent.[83]

Nevertheless, the OECD report makes clear just how few developing countries have public procurement markets of any magnitude. Evenett and Hoekman[84] point out that only a few countries have procurement markets worth more than US$10 billion (South Africa, Brazil, China, Indonesia, Saudi Arabia and Russia) and that not many have procurement markets worth more than US$5 billion (Egypt, Morocco, Chile, Peru, Puerto Rico, Bangladesh, India, Israel, Kuwait, Malaysia, Singapore, Syria and United Arab Emirates). They go on to say that there appears little to suggest that the state procurement markets of much of the developing world are large enough to attract much attention from the trade officials in leading industrialised countries.

The studies seeking to identify the benefits to be gained from introducing TGP presuppose, however, not only that the procurement markets are large, but that they are large enough to be affected by international trade. It is, therefore, not just the size of the market that matters, but also its susceptibility to foreign competition. This, in turn, leads to a need to investigate in more detail the make-up of a national procurement market with a view to identifying what conditions of such a market are likely to be affected by foreign competition (and thus increased market access) and what effect such market access could potentially have on the domestic market.

Some of these issues were already raised in the context of the GPA negotiations discussed above, notably the issues surrounding the entity coverage in terms of the identity of the purchasing entities subject to the transparency provisions (whether central or regional/local and the position of sub-federal states) and the question of threshold values. The share of total procurement available to international competition is a function of many variables. In addition to the size distribution of contracts (smaller contracts tend not to be attractive to foreign firms) and the size of central government as compared to local or municipal governments, these include the share of government services that are 'contracted out' to the private sector and the share of expenditures financed through development assistance funds tied to sourcing goods and services from the donor country, as well as other variables.

As already stated, the potential trade effects will depend very largely on the individual situation of the negotiating party. Clearer predictions require an in-depth study of the country circumstances. The scope of this report is far more limited and while four countries have been selected for some preliminary assessment, the available information is far too limited (and often out of date) to allow any meaningful conclusions to be drawn. Research and the existing literature do, however, provide some basis from which to make this analysis. The following sections thus set out a framework within which the potential trade effects can be considered.

4.2 The potential effects

As explained in section 1.2, there is already likely to be interaction between domestic and international markets in most countries participating in trade negotiations. The question then is what will membership of a procurement-related trade agreement add to this. The very basis of this report is to distinguish between the transparency requirements of any trade agreement and the possible market access conditions; the potential trade effects will thus also be dependent on each of these two components. In practice, the effects will be a question of degree. Existing international competition produces trade effects in the domestic market. The trade effects of international competition will be augmented through increased transparency. They may be further consolidated through market access conditions. Where there are such conditions, the ability of the government to protect national industry will be more limited.

In terms of transparency, there would appear to be consensus (and some economic evidence) that a sound domestic procurement system will lead to welfare benefits, mainly based on increased competition. To the extent that the transparency provisions also encourage international competition (irrespective of any mandatory market access conditions), they will also have trade effects in the sense that they will facilitate the cross border provision of goods and services. This will present the national purchasing entity with a wider choice of products and prices and, where those are better than those offered on the domestic market, will commensurately improve the quality and reduce the prices of the purchases of the Government to the benefit of the public purse. This position is often challenged on the basis that there is no net economic benefit to national welfare because of the effect on the domestic industry which loses out (an argument which is often used to justify the application of domestic preference rules and the like). That challenge, however, finds little or no support in the economic literature (section 1.4 above). Wider effects will include a catalyst to the improvement of domestic industry which will now need to compete with foreign competition more effectively as well as to less obvious improvements such as the internationalisation of business community the creation of jobs to service to incoming foreign bidders. These will often need, for example, local dealerships or subsidiaries and, in the case of works contracts, will also often use local labour. As the European Commission found, increased regional co-operation in the field of procurement did not so much create more direct cross-border contract awards as encourage greater cross-border flows of capital and labour in the form of a local presence by foreign firms (bidders).[85]

In the case of market access, we saw in the context of the GPA negotiations in section 3 above that the key for the parties was to ensure that any agreement would bring trade advantages to all the parties and that these advantages would be of equivalent value. The idea was that each member would offer the other members equivalent access to its government procurement in proportion to its size and the size of the economy as a whole, so that the 'offers' did not need to be identical. The point was that during negotiations the parties would assess the relative value of the 'contribution' of the different parties and decide whether it was acceptable and what value they would offer in return. Clearly, therefore, the trade advantages to be gained were seen as part of a 'two way street', with each party expecting to get an equivalent or similar advantage. In concrete terms, this implied that country A assumed that its own bidders would benefit from access to the procurement markets of country B and that this meant it would be worth giving bidding bidders from country B access to its own procurement markets. This process did not take place in a vacuum, but was based on the assessment made by each party of the strengths and weaknesses of its own industries and markets, and its assessment of the reciprocal advantages on offer.

The potential trade effects must, therefore, be assessed from two perspectives: that of the domestic industry and that of the foreign competition. In the first place, it requires an assessment of the strengths of the domestic industry, since reciprocal market access would, in theory, present domestic industry with increased opportunities for export business. This in turn depends on what is produced by the domestic market and whether the country (or its industry) has a comparative advantage. Depending on the threshold values of the contracts which would be open for competition (again an issue raised in the GPA negotiations – see section 3.1 above), it is also necessary to enquire about the ability of national companies to compete for high value contracts. It may be that the capacity of the local firms in some industries is such that they will not be able to compete (no comparative advantage, insufficient technical or financial capacity). In those cases, the opening up of foreign procurement markets will be of little benefit to the national firms, which will not be in a position to compete for contracts abroad. This may be true in respect of some or all of the other members of the trade agreement and so it may be possible to take a differentiated view of the markets, as in the case of the GPA. Access to international markets and competition may, on the other hand, help local industries improve, enabling them ultimately to compete on international procurement markets.

The corollary to this, of course, is the increased opportunities given to foreign bidders to compete on the domestic market. This will again depend on the specific industry in question (this is again an issue for detailed negotiation) and on the value of contracts and size of markets. International bidders will not automatically be interested in other markets, particularly where they are small. Issues of geography, political situation, ease of doing business, language and currency convertibility will all play a part, as well as the perceived quality of the local public procurement system (i.e. its reputation for fairness). If foreign bidders are not interested, then granting them market access will not bring any trade benefits to the national (procurement) economy, since competition will not be increased.[86] Indeed, where local companies are unable to compete internationally and where foreign bidders are not interested in competing in that domestic market, it may be that market access conditions produce no trade effects at all.

Despite the *potential* trade effects, it should be recalled that the available statistical evidence (referred to above) suggests that the main effect of improved transparency rules (which come about as the result of trade negotiations which focus on procurement) are found in improving domestic competition. This does have a positive welfare effect; it is just not the expected effect when observers are expecting significant changes in trade flows.

4.3 How the effects may be conditioned

The above commentary makes clear that the primary effect of international agreements in the field of procurement which cover both transparency and market access is to be found in the domestic procurement system. All international economic organisations will, in the first instance, focus on the transparency (quality) level of the national system to determine whether, ultimately, market access conditions will be workable. If the system is deficient, the market access conditions will be unable to operate and thus bring the expected benefits to the parties. In those circumstances, membership negotiations are unlikely to proceed much further. A sound procurement system is the necessary precondition of membership; without it, none of the benefits referred to above are likely to be achieved – neither the expected trade benefits nor the benefits to national competition.

The transparency of the national system is only one part of the equation. Though not directly a focus of the formal discussions, there will also be a concern about the implementation of the national system, especially where that is newly developed. A system that looks good on paper does not necessarily translate into a good system in practice. As well as considering written implementing measures (e.g. bidding documents, formal procedures, guidance notes and manuals), it is also necessary to consider the level and quality of implementation at the level of the procuring entities. This will involve assessing the willingness of those entities to comply, whether or not there is corruption and the general capacity of the procuring entities to implement the legal framework. This also includes an assessment of systems of governance such as the internal checks and balances within the procuring entities and the process of internal and external audits. In terms of the sample countries considered in this report, Tanzania would appear to be well on the way to providing a sound national procurement system. Samoa also appears to have a good system on paper, although little is known currently about implementation. The available assessments for Nigeria indicate that there is a new improved Act in place, but that implementation is still lagging behind. Dominica seems to have a patchy legal framework and a poor record of implementation.

While not a benefit of the effects of membership, the negotiating process may itself bring about significant benefits to the aspiring members. To the extent that their national systems are not acceptable, they will benefit from detailed assessments of those systems which will enable them more easily to identify areas which are in need of improvement. In many cases, the potential trading parties will also provide technical and financial assistance to acceding parties to improve their systems. Moreover, the MDBs and other donors are generally keen to assist developing or reform countries in improving their national systems and they are more likely to do so when the country in question is contemplating joining a regional or international trade arrangement which concerns procurement. Negotiating parties may thus be able to exploit their position of procurement weakness by seeking additional assistance from their putative trading partners and donors in the development of their domestic procurement systems.

The establishment of a sound national procurement system is critical if any of the potential benefits are to be achieved. Where the system is not sound, where implementation is poor, where bribery is prevalent or where there is insufficient capacity within the procuring entities, membership of a procurement-related trade arrangement will not be an option because the potential benefits could not, in any event, be achieved. Where a country does possess a well-functioning transparent domestic procurement system, it would be possible to consider other potential trade effects. A proper assessment of these requires, however, detailed information and data on the country's procurement spend, procurement market and trade flows. What follows is only an indication of the factors that may need to be taken into account. The issues are clearly interdependent, but they are discussed separately here in order to retain clarity.

One of the first considerations will be the size of a country's public procurement market. As indicated above, this is often very difficult to assess, but in the EU, for example, it was estimated to be an average of 16 per cent of GDP in 2002. This represents a market with a value of some €1,500 billion. The GPA Secretariat[87] estimates that the adoption of the 1994 GPA led to a tenfold increase in the value of procurement subject to international competition under its rules, as compared to the approximate annual value, between 1990 and 1994, of US$30 billion of covered procurement under the Tokyo Round Agreement. It thus believes that the GPA members' procurement markets are currently worth in excess of US$300 billion. These are enormous markets and are very attractive to most bidders. Of course, a significant part of the EU market is also subsumed within the GPA market figures, i.e. that portion which exceeds the financial threshold values of the GPA and thus falls within the scope of the GPA. Indeed, most (but not all) developed countries with significant public procurement markets of their own are party to the GPA and most are also OECD member countries. It is estimated that OECD public procurement markets account for over 90 per cent of international procurement. That leaves something less than 10 per cent to be shared among the remaining countries. The OECD report estimates that the value of the procurement markets of the identified 106 developing countries (some of whom are OECD members) makes up only around 14 per cent of total international procurement.

The implication of this, as suggested by Evenett and Hoekman,[88] is that smaller procurement markets will be of less interest to trade officials in industrialised countries and, by extension, to their firms and bidders. The cost of doing business abroad is not negligible and businesses will become active in foreign markets only when the profit to be achieved outweighs the costs. The reality of international markets is, in any event, that many products are traded internationally without any direct intervention of foreign manufacturers. These operate through resellers, distributors and agents throughout the world. Their share of the domestic market, if they are present in this way, will not change whatever the state of the procurement system.[89] Equally, if construction companies and other services providers are interested in a particular market, they will generally penetrate that market by establishing local offices or subsidiaries,[90] without the need for bidding from abroad.[91] This is mostly because they will need local knowledge, local infrastructure and local labour to complete their projects and, as indicated above, this is something which is of direct benefit to the national economy.[92] As a result, in practice only specialised or bespoke products, big ticket items and sophisticated services will be the subject of direct bidding from abroad.[93] The likelihood that foreign bidders will be interested in bidding where they do not have a local presence will depend on a number of factors, including the location and geography of the market (how isolated it is and how expensive it will be to supply), the transport and insurance costs and other issues such as trading conditions (customs and tariffs, non-tariff barriers and ease of doing business). For small isolated markets, the difficulty may be not so much in protecting the domestic market as encouraging foreign bidders to supply at all.

The benefits to be gained from accession to international trade agreements will, therefore, in part depend on the size of the national economy and the procurement market. Large, easily accessible markets may attract more competition and benefits, whereas smaller inaccessible markets will do less well. This also is a reason why countries tend to enter into agreements with regional partners: it reduces concerns arising from isolation, transport costs and other costs of doing business. This is true of the EU, of many free trade areas such as NAFTA and APEC, and in the context of this report the sample countries. Tanzania, for example, is a member of the East African Community (EAC) and the South African Development Community (SADC), and is negotiating to rejoin the Common Market for Eastern and Southern Africa (COMESA). It is currently negotiating an EPA through SADC.[94] Similarly, Samoa is a member of the Pacific Islands Forum (PIF), the Pacific Island Countries Trade

Agreement (PICTA) and the Pacific Agreement on Closer Economic Relations (PACER). An EPA is being negotiated through PACER. It is not clear, however, whether regional arrangements are always beneficial. It has clearly been of benefit to the EU, where the creation of the single market has benefited its original members and encouraged newer members to develop in a way that allows them also to benefit. In less developed contexts, views seem to differ. In respect of Samoa, a paper prepared by the Asian Development Bank in 2007 commented on PICTA as follows: 'A trade agreement among small developing states, such as PICTA or the MSG, is unlikely to be welfare-enhancing. In fact, it is more likely to set back the promotion of free trade within the FICs because of the propensity for trade diversion and tariff and investment diversion to the more advanced states, resulting in income divergence and increased antagonism against free trade.'[95]

The first consideration in seeking to assess the likely trade effects of entering into negotiations will be to determine the size of the national market with a view to determining whether or not membership will attract foreign competition. This is not only a question of the overall size of the market, but also of its nature. As far as the domestic market is concerned, it is a question of determining what portion of the market would be available and/or of interest to foreign bidders. This includes a number of variables relating to the contracts that are open to international competition.

One issue is the extent of government purchases in a given market. In some countries, many services (for example, construction) will be provided in-house by government services and will not be outsourced. This limits the size of the procurement market, at least for routine contracts, although it probably suggests that major requirements will be outsourced where funds are available. Lack of funds also conditions the government's recourse to the market, so that the size of public procurement may be a reflection of the wealth of the nation. Countries in this position will often benefit from grants and loans from donors and the MDBs, which could suggest that their procurement markets would grow. However, there are significant procurement consequences related to such funded contracts. Where procurement is financed by a donor, it is also very often tied to the procurement of goods and services from the donor country.[96] Even if the domestic procurement system is open, the financed procurement will not be open.[97] This is not a major problem in the case of the World Bank, for example, whose aid has in any event now been untied, because the membership of the World Bank is so large. This is less true of the African Development Bank, however, which maintains tied aid in favour of a smaller number of countries. The EU also imposes tied aid in the case of its development budget, at least in relation to ACP countries,[98] so that all goods and services funded by the EU must originate either in the beneficiary country or in the EU. Where such funding exists, therefore, it may well be that a large proportion of the national procurement market will be excluded from any market access conditions. Of course, where a donor country is part of the relevant free trade arrangement, then this becomes less of an issue.

Even where there is, in theory, a sufficiently large procurement market, access to that market will also be determined by the public entities that are obliged to follow not only the national procurement system to the full, but also to grant access to foreign bidders. This became a sticking point in the early GPA negotiations (see section 3.1). There the issue began as one relating to the difference between federal and unitary systems and was expanded to cover the question of the degree of control[99] over regional, local or municipal governments. In both cases, the issue is to determine which of the entities are subject to the procurement rules. In some countries, only procurement at federal level is covered, leaving state procurement untouched. In unitary states, it could be that only central government is included, but not regional or local government. This could seriously affect the 'value' of the procurement market on offer, which is why it became so crucial in the GPA negotiations. Indeed, the whole structure of the negotiations and ultimate agreement became dependent on the value of the market represented by the identity of the procuring entities covered. That is why, as described in section 3, it became imperative to negotiate the various annexes which detailed the market access conditions by reference to the procuring entities themselves, i.e. central government entities (Group A), sub-central government entities (Group B) and 'other' entities such as public utilities (Group C), whose procurement policies are substantially controlled by, dependent on or influenced by[100] central, regional or local government.[101]

Connected issues concern the size of contracts and the application of financial thresholds. In respect of size, what will be of interest to foreign bidders will be contracts of a sufficiently large value to justify the costs of bidding. In most countries, there will be very many small value contracts and a smaller number of large value contracts. Quite often in the case of developing countries, large value contracts will also be funded by donors and MDBs, raising again the question of tied aid. Part of the transparency requirements of a procurement system will be to prevent the artificial splitting of contracts with a view to avoiding the use of competitive procedures, but this only becomes relevant where the contract is of a sufficiently high value at the outset to attract foreign competition. The size distribution of contracts was an issue raised in the context of the GPA negotiations, but this was in respect of the threshold values.

Most procurement systems at national level introduce the idea of financial thresholds to distinguish between contracts which merit award by way of open competition and those which are better awarded by other less competitive, and thus less expensive, methods. This is based on a cost-benefit analysis which recognises that competitive procedures bring price reductions, but that there is a cut-off point at which the cost of conducting the procedure does not exceed the expected price reductions. Some countries will also apply a financial threshold which distinguishes between open procedures that are open to national bidders (though international bidders may also participate) and those which must be opened to international competition. Although not apparently based on mathematical formula, such thresholds are designed to impose international competition at a level where international bidders are likely to be interested in bidding, i.e. where the costs of participating in the bidding procedure is outweighed by the prospect of turning a profit. These thresholds are often linked to the thresholds adopted, for the same purposes, by international organisations. These thresholds target large value contracts, which are most susceptible to international competition.

At international level, of course, there has been much debate as to the appropriate level of such thresholds. As explained above, the lower the threshold, the more contracts and entities are covered, and the higher the threshold, the fewer are covered. This was crucial in the GPA debate, since the level at which the threshold was set could affect the value of each party's 'contribution'. The GPA negotiators also recognised that a low threshold would cause a significant administrative burden on governments as a result of the large number of small value contracts undertaken by them on a daily basis. While it might have been expected that developing countries would favour larger contracts, thus avoiding competition from foreign bidders for lower value contracts, they actually favoured lower thresholds, since this would enhance their prospects of gaining access to the procurement markets of developed countries by enabling them to compete for the lower value and less sophisticated contracts. Their position was thus a recognition of the specificities of their own domestic markets, i.e. the capacity of their own firms and the market segments they were in.

A final consideration is the nature of the domestic market. For the purpose of identifying potential benefits to domestic industries, it is necessary to identify their strengths and capacities as well as the external markets in which they might seek to operate. The negotiating party would need to identify its comparative advantages and then to investigate the value of current trade flows. It is really only where the negotiating party has companies capable of exporting efficiently (i.e. producing good quality at acceptable prices) that its industry is likely to benefit directly from reciprocal market access conditions. This investigation would also indicate those areas which need to be negotiated most strongly, i.e. threshold levels, sector coverage, possible exemptions and reciprocity arrangements.

Tanzania provides a good example of the difficulties of making such an assessment. The country report (Annex IV) shows that the agricultural sector is the most important sector of production. Any agreement on procurement should thus be used to stimulate this sector and encourage local production. However, trade barriers in agriculture are still high worldwide and agricultural products have been excluded from most international agreements on procurement.[102] Food aid is also excluded from the OECD Recommendation on untying aid to least developed countries (LDCs) and heavily indebted poor countries (HIPCs). Trade agreements relating to procurement would thus seem not to be in the interests of Tanzania because the very sector in which it is strong is currently excluded from most such agreements.[103]

How then can the agricultural sector be stimulated by a procurement agreement? One possibility is to use negotiations on an international agreement on procurement to bargain for concessions with donors to untie food aid projects. Tanzania could allow the opening up of its procurement market on condition that developed country members of the international agreement untie their food aid projects. If donors untied their food aid projects Tanzanian producers could participate in the tenders to supply the food aid goods financed by donors. (Food aid continues to be tied in the great majority of cases despite the adoption of the OECD/DAC recommendation on untying aid to LDCs.) In the context of the GPA, La Chimia and Arrowsmith[104] have suggested that inserting a commitment to untie aid in the GPA could be a way to stimulate developing countries' participation. A similar approach could be taken for any international agreement on procurement concluded between a developed and a developing country. In the specific case of Tanzania, an agreement on procurement that includes a commitment to untie food aid could be extremely beneficial, since the agricultural sector is strong in Tanzania. It is reasonable to assume that Tanzanian producers would be able to take advantage of procurement opportunities in the agricultural sector and provide the aid goods.

This example illustrates both the difficulty of identifying and using the strengths of domestic industry in the context of trade negotiations and the need to conduct such an investigation on an industry by industry level. The likely benefits can only be ascertained when the country situation is fully appreciated.