



Harnessing the continental opportunities for enhancing productive capacities in Tanzania

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Key messages	
Importance	The development of productive capacities is important in enhancing Tanzania's sustained economic growth and effective integration into the continental and global economies.
Challenges	Tanzania is confronted with the daunting task of developing productive capacities and transforming the structure of its economy in the face of its rapid population growth and a rapidly changing continental and global economic environment. It also encounters constraints on the use of trade and economic policy instruments to foster industrialization, trade expansion and other national development goals.
Advantages	Blessed with human resource growth potential and abundant natural resources, the latter including sizable arable land, forests, fisheries, minerals, rich biodiversity, and wildlife resources. Occupies a strategic geographical location as a major seaport hub in East Africa and is a member of the trade and economic agreements for the EAC and SADC States, and the AfCFTA.

Objectives and Coverage

Objectives	To explore and understand the best practice cases and the underlying continental opportunities and constraints for enhancing the expansion of productive capacities in Tanzania.
	To explore the significance of developing productive capacities for economic growth and poverty reduction in Tanzania, and the underlying internal, regional, and continental drivers.
Coverage	This analytical framework of productive capacity for industrial and trade expansion provides:
	The internal market and business environment opportunities,
	The EAC market and business environment opportunities,
	The SADC and COMESA market and business environment opportunities,
	The continental market and business environment opportunities.

Baseline definitions on productive capacities and productivity growth from the relevant multilateral agencies:

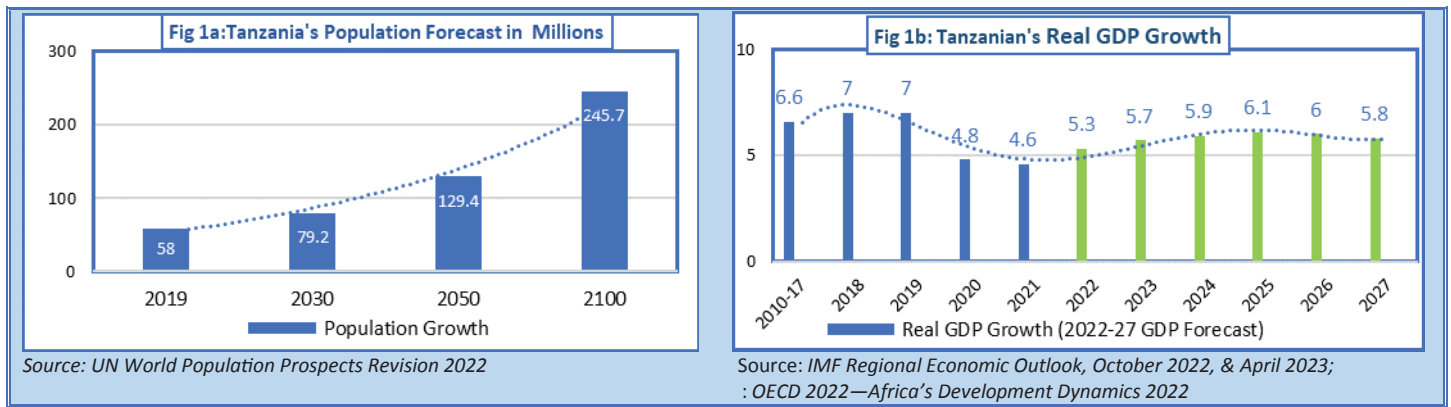
Baseline / Key Definitions – Productive Capacities / Productivity Growth	
UNCTAD	Defines productive capacities as <i>the productive resources, entrepreneurial capabilities and production linkages which together determine the capacity of a country to produce goods and services and enable it to grow and develop.</i>
NEPAD	Defines productive capacity as <i>the ability to produce goods that meet the quality requirements of present markets and to upgrade to tap future markets—to ensure a sustainable participation in the new global production system based on production networks.</i>
World Bank	Defines productivity growth as <i>the key driver of sustainable income growth and poverty reduction—the efficiency with which societies combine their people, resources, and tools—and is the central driver of the development process.</i>
UNIDO	Defines productivity as <i>the ability to transform inputs into outputs—a key to poverty reduction as it generates skilled jobs which are sources of income and social participation.</i>
OECD	Productivity is considered <i>a key source of economic growth and competitiveness.</i>

Harnessing the opportunities in the continental markets

The raising of productive capacities in Tanzania is imperative as both a growth strategy and a response to the opportunities provided by the changing market configuration. The market for manufactured commodities or value-added commodities is expected to grow significantly over the next three decades and beyond, driven by the projected population growth and projected GDP growth following the disturbances of covid-19 pandemic and the Russian-Ukraine conflict. Estimates of population growth in Tanzania, the EAC, SADC, COMESA and Africa provide the largest opportunity. The various bilateral trade and investment agreements between Tanzania and other countries and regional trading blocs, and continental trade and business arrangements provides the entry point into securing market access and tapping into the investment potentials emanating from the expected industrial and trade expansion. That notwithstanding, significant efforts and strategic industrial policy will be needed to enable Tanzania to harness the opportunities and the potentials availed by these trends in the continental markets.

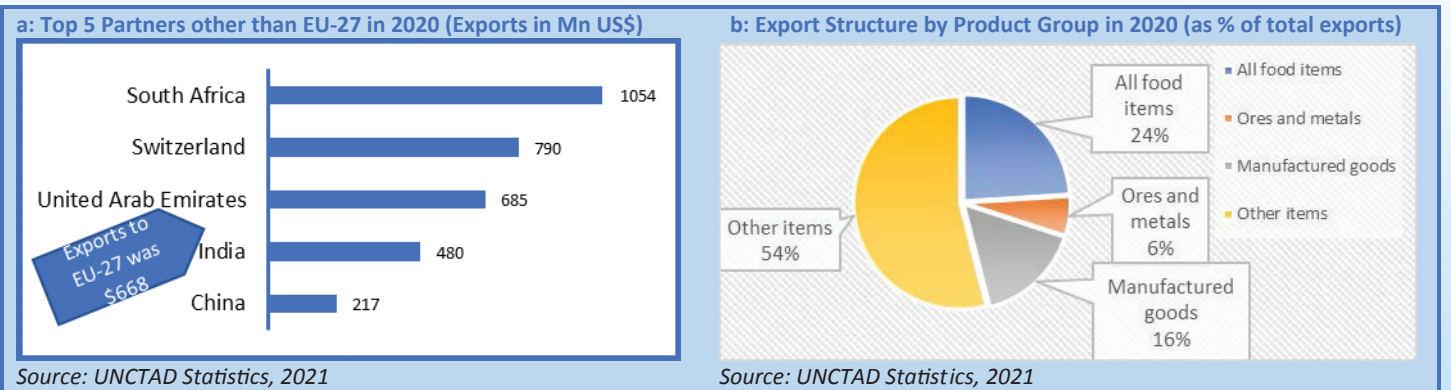
Internal Market Expansion and Underlying Business Environment

Prospects for the internal market expansion is evident both from the projected population expansion and the underlying demographic dividends—the doubling of the country's population over the next 25+ years; and the current and projected economic expansion as reflected in the country's GDP growth as per figures 1a and 1b below.



In contrast to many other countries and regions, Tanzania's working-age population (25 to 64 years)—the demographic dividend—is growing faster than any other age group, providing a valuable opportunity for accelerated productivity growth. In addition to the domestic market, the global and continental market is expected to grow further, such that Tanzania can expanding on the existing and new export markets. Figures 2a and 2b shows the top Tanzania's trading partners and the export structure, respectively. Capitalizing on this potential will require bold, transformative reforms mainly to ensure a growth-friendly business climate and greater private investment—both for productivity and trade expansion. These reforms have long been understood to be needed and include enhancing the contestability of markets, removing key bottlenecks (such as unreliable electricity, etc.), levelling the playing field between public and private firms, aligning the treatment of firms in the formal and informal sectors, reducing red tape, improving governance, and broadening financial inclusion.

Figure 2 a & b: Tanzania's Exports with Key Trading Partners Including the EU-27



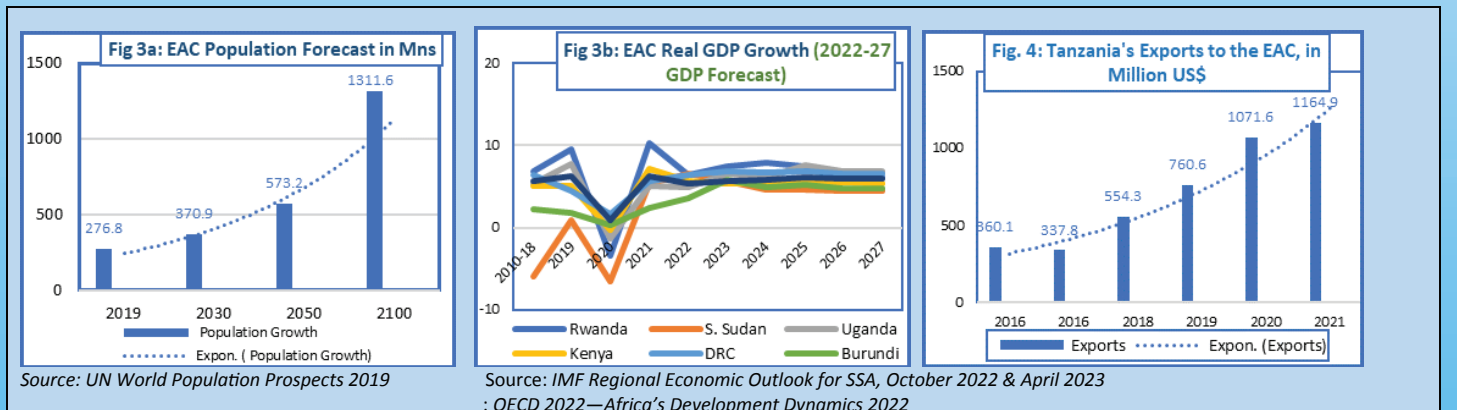
In addition, the 4th industrial revolution plus the global diffusion of digital technologies promises to create new opportunities for progress and inclusion, so digital reforms and infrastructure will help boost Tanzania's resilience and efficiency, expanding access to global markets, improving public service delivery, increasing transparency and accountability, and fostering the creation of new jobs.

Continental Market Expansion and Underlying Trade Agreements

Tanzania, like other countries in the region need to (a) optimize their access to leading world markets (such as the EU and the United States) and increase utilization rates for preference schemes; and (b) strategically diversify their market access (c) expand intra-African trade.

The EAC as a Target Market

Population expansion and the underlying demographic dividends—the doubling of the countries' population over the next 25+ years as shown in the figure 3a below; and the real GDP growth in real terms and forecast as shown in Fig 3b below provides significant target market. The export growth trend shown in Fig 4 below is indicative of this opportunity.



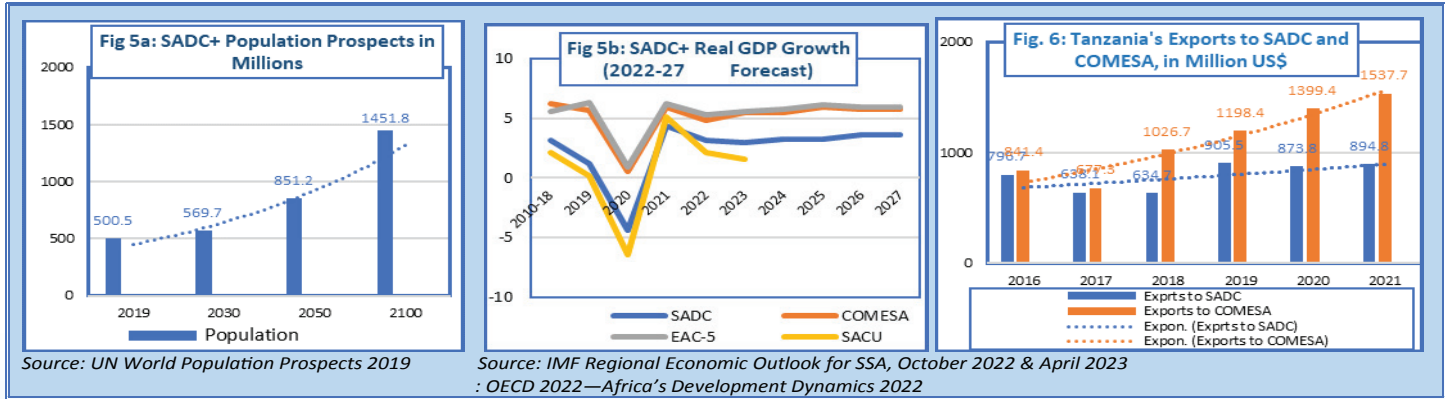
The EAC has regional integration milestones—the EAC Customs Union (in force since 2005), and the EAC Common Market (which has been in force since 2010). The EAC Partner States maintain a liberal stance towards the five Freedoms of Movement for all the factors of production and two Rights between themselves.

The Five+ Market Freedoms and Rights include:

<ul style="list-style-type: none"> ➤ Right of Establishment; ➤ Right of Residence; 	Free Movement of Goods	Free movement of Services
	Free Movement of Persons	Free movement of Capital
	Free Movement of Labour / Workers	

The SADC+ COMESA Target Market

Trade is fundamental to the economic development of the SADC and COMESA RECs and has broader benefits that support the process of Regional Integration in these communities. Figures 5a, 5b, and figure 6 shows the SADC’s estimated population growth, real GDP growth, and trends in Tanzania’s export to the region, respectively.



SADC’s key elements for consolidating its trade integration process includes, inter alia, the free trade agreement; initiatives to harmonize custom procedures and instruments; a law on a customs model to facilitate harmonization of national laws on customs; a nomenclature of common tariffs; and a review of rules of origin. The SADC consists of 16 members 12 of which are in the free trade area (FTA). The SADC FTA members are:

SADC FTA Members are	BOTSWANA	ESWATINI	MADAGASCAR	MALAWI
	MAURITIUS	MOZAMBIQUE	NAMIBIA	SEYCHELLES
	SOUTH AFRICA	TANZANIA	ZAMBIA	ZIMBABWE

The Democratic Republic of Congo and Comoros are yet to join the SADC FTA while Angola has recently submitted an offer to accede to the FTA. In 2019, intra-SADC FTA trade was 23 per cent of its total world trade, and 81% of its Africa trade. The SADC FTA mainly traded with the following African countries: Nigeria, Democratic Republic of Congo, Kenya, Angola, and Ghana.

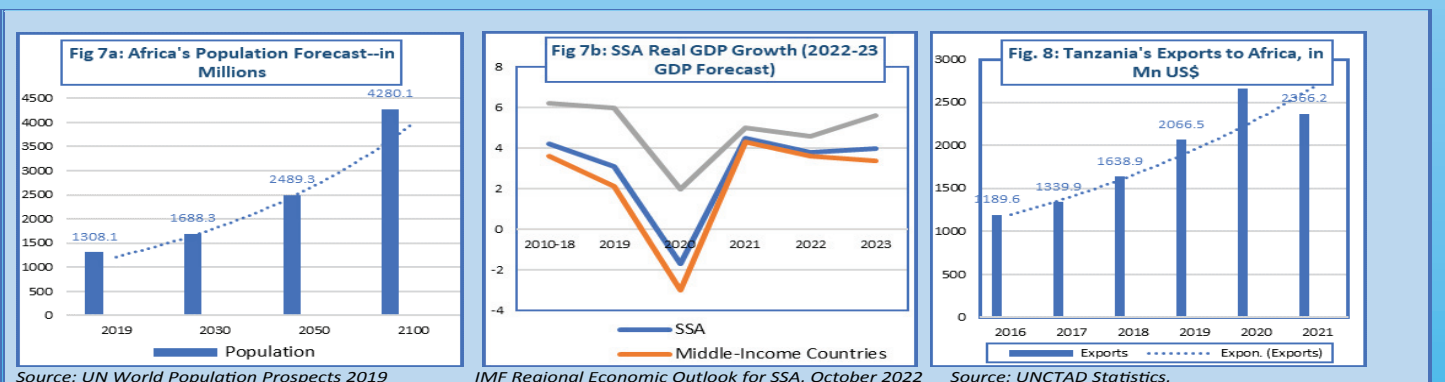
Tripartite Cooperation-- The main objective of the COMESA-EAC-SADC Tripartite is strengthening and deepening economic integration of the southern and eastern Africa region. This will be achieved through harmonisation of policies and programmes across the three RECs in the areas of trade, customs, and infrastructure development—based on the RECs “acquis”. Its Vision and Strategy has the following key pillars:

- Harmonisation and improvement of functionality of regional trading arrangements and programmes;
- Enhancement of trade facilitation to improve the flow of goods along regional transport corridors by lowering transit times and the cost of trading;
- Joint planning and implementation of infrastructure programmes;
- Free movement of business persons within the Tripartite region.

The African Target Market—the ACFTA

One of Africa’s most promising prospects stems from the new African Continental Free Trade Area, a potential market of 1.3 billion people, with a combined GDP of almost \$2½ trillion. The AfCFTA is in force since 30 May 2019. Ensuring the success of this trade-integration framework would not only reduce Africa’s vulnerability to global disruptions but will boost regional competition, attract foreign investment, and promote food security.

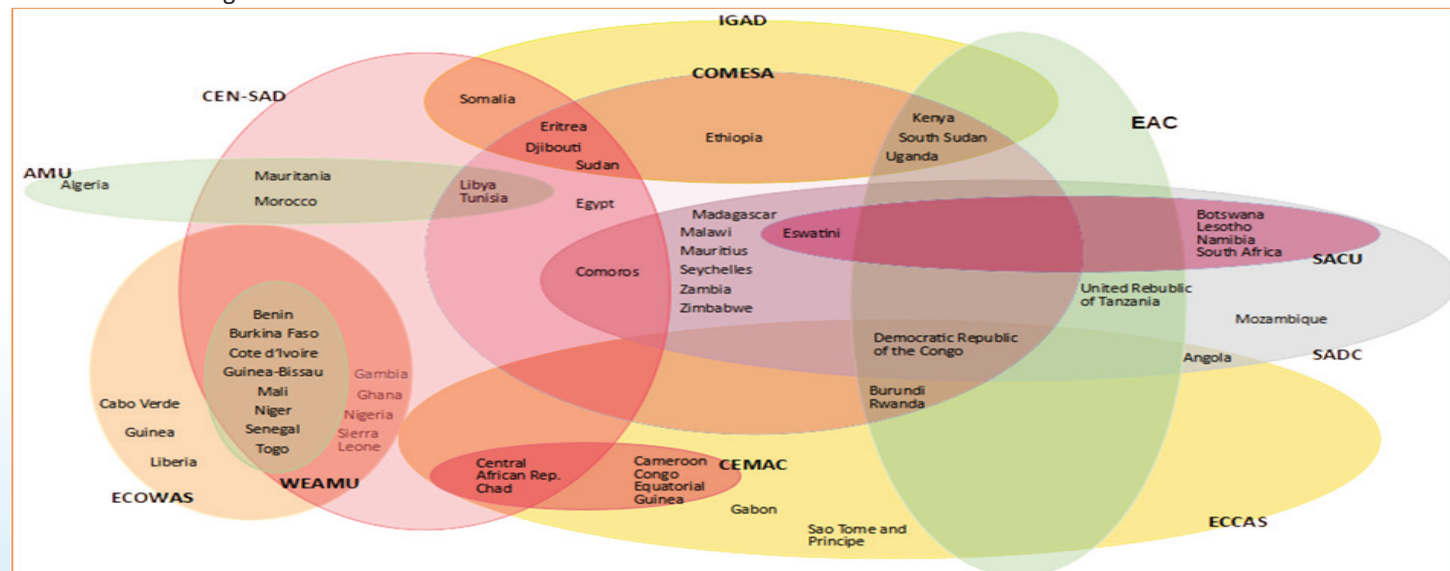
To that end, Africa has put into operation the largest FTA in the world, in terms of membership, and it is expected to change the trade and investment framework of countries in the region going forward. The AfCFTA is a member-driven Free Trade Area (FTA), not a Customs Union. Figures 7a, 7b, and 8 shows the projections of Africa’s population, real growth rates in SSA relative to group of countries, and a trend in Tanzania’s exports to Africa, respectively.



Regarding productivity enhancement, the approach to strengthening integration that is required for a successful AfCFTA should have four parts:

- improving physical integration,
- strengthening political cooperation,
- facilitating business integration, and
- intensive investment in the key areas of integration.

And it is important to note that the Regional Economic Communities (RECs) as shown in figure 9 will continue to function. Many REC FTAs are the building blocks of the AfCFTA.



Source: UNCTAD, updated.

Abbreviations: AMU—Arab Maghreb Union; CEN-SAD—Community of Sub-Saharan States; CEMAC—Economic and Monetary Community of Central Africa; COMESA—Common Market for Eastern and Southern Africa; EAC—East African Community; ECCAS—Economic Community of Central African States; ECOWAS—Economic Community of West African States; IGAD—Intergovernmental Authority on Development; SACU—Southern African Customs Union; SADC—Southern African Development Community; WAEMU—West African Economic and Monetary Union.

Conclusion and policy recommendation

The enhancement of productive capacities of a country constitutes a potentiality for effective integration into the continental and global economies. Productive resources, entrepreneurial capabilities and production linkages are created and transformed over time through, inter alia, the country's effective utilization of the regional and continental opportunities for enhancing the expansion of productive capacities for industrial and trade expansion. As this occurs, the productivity capacities of an economy are also sequentially enhanced, thus making economic growth and further industrial and trade expansion possible and sustainable.

It is recommended that this framework of analysis is adapted to inform policy analysts, private sector practitioners, and decision makers in public institutions responsible for promoting economic growth; investments, trade, and industrial development; private sector development; and regional cooperation arrangements. It is the ability of these actors to take advantage of the inherent opportunities within the continent and to addressing the various constraints to productivity growth that Tanzania can sustain its growth momentum, realize its development potential, and achieve significant poverty reduction.

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