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No PB 16/2023 July 2023

REPOA Brief

REPOA Knowledge is Power

Harnessing the global 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 global economy.
Challenges	Tanzania is confronted with the daunting task of developing productive capacities sustainably and transforming the structure of its economy in the face of its rapid population growth and a rapidly changing global economic environment. It also encounters constraints on the use of trade and economic policy instruments to foster industrialization, sustained 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, is a member of three regional and continental trade and economic preferences.

Objectives and Coverage

Objectives	**To explore and understand the best practice cases and the underlying global 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, continental,and global drivers.
Coverage	This analytical framework of enhancing productive capacity for industrial and trade expansion provides:
	The EU market and business environment opportunities,
	The USA market and business environment opportunities,
	The Asian market and business environment opportunities,
	The BRICS market and business environment opportunities,
	The Middle East 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 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.
NEPAD	Defines productive capacity as the ability to produce goods that meet the quality requirements of present markets and to upgrade in order to tap future markets—to ensure a sustainable participation in the new global production system based on production networks
World Bank	Defines productivity growth as 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.
UNIDO	Defines productivity as 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.
OECD	Productivity is considered a key source of economic growth and competitiveness.

Harnessing the opportunities in the global markets

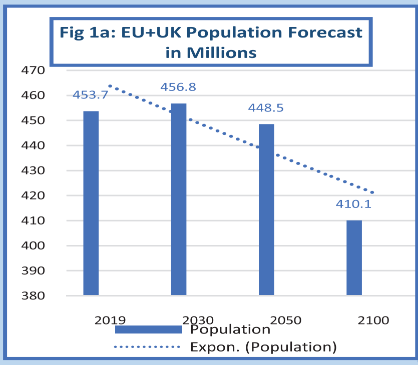
The raising of productive capacities in Tanzania is imperative as both a growth strategy and a response to the opportunities provided by the changing market configuration. The market for manufactured commodities or value-added commodities is expected to grow significantly over the next three decades 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 America, Asia, the BRICS, and the Middle East provides the largest opportunity. The various bilateral trade and investment agreements between Tanzania and regional trading blocs, continental trade, and business arrangements with the rest of the world provides the entry point into securing market access and tapping into the investment potentials emanating with 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 global markets.

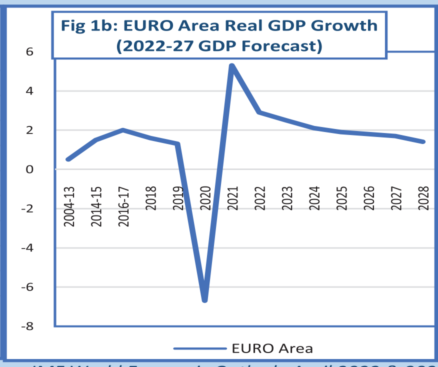
Global Market Expansion and Underlying Trade Agreements

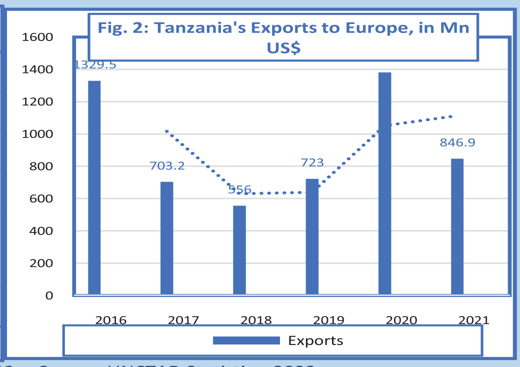
The EU + UK Target Markets

While the European population is projected to decline, its GDP growth rate is projected to remain steady after post-covid recovery, as shown in figures 1a and 1b, respectively. Figure 2 shows the tends in Tanzania's exports to Europe. Parallel to regional integration, African countries concluded and/or are negotiating trade agreements with EU countries: the Economic Partnership Agreements with the European Union, Africa-Europe Partnership, and the multilateral trade negotiations under the WTO.

Tanzania—as well as Burundi, DRC, Rwanda, Uganda, South Sudan (the six members of the EAC)—maintains a trade relationship with the EU under the Everything-But-Arms (EBA) scheme. The EBA removes tariffs and quotas for all imports of goods (except arms and ammunition), coming into the EU from the least developed countries (LDCs). The EU grants EBA status to countries listed as a Least Developed Countries (LDC) by the United Nations Committee for Development Policy. Through its Aid for Trade, the EU is also supporting the emergence of regional value chains and the reinforcement of the capacity of African producers to meet market standards.







Source: UN World Population Prospects 2019 *IMF World Economic Outlook, April 2022 & 2023* *Source: UNCTAD Statistics, 2022*

As Tanzania sustains a per capita GDP above $1045 it graduated from the LDC status, joining Kenya's lower-middle-income status. Kenya has so far been the only EAC member state that maintains a trade relationship with the EU under the ***Market Access Regulation (MAR)*** component of the Generalised Scheme of Preferences (GSP). The MAR provides duty-free and quota-free access to the EU market for products originating in the African, Caribbean and Pacific countries which:

- do not benefit from the EU's Everything-But-Arms (EBA) scheme.
- have concluded, but not yet ratified—in this case a Regional EPA—an EPA with the EU.

Under the MAR, countries benefit from

- duty-free and quota- free access to the EU market for products originating from eligible ACP countries;
- the MAR only covers goods not services.

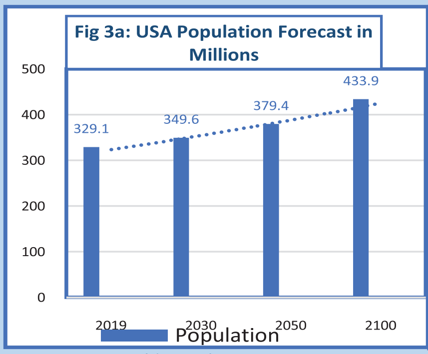
In the context of the EU-EAC EPA that remains unratified by four of the five EAC Members States that effectively participated in its negotiations—Tanzania, Uganda, Rwanda, and Burundi—Kenya has reached an agreement with the EU to move forward with exploring modalities for its implementation and its deepening.

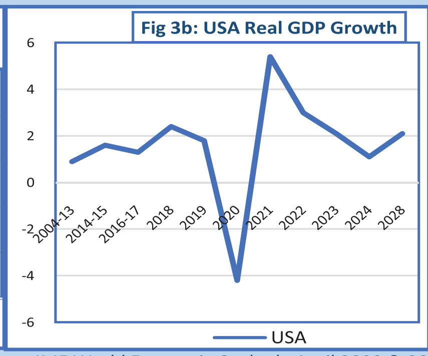
Areas of Cooperation under the EPA

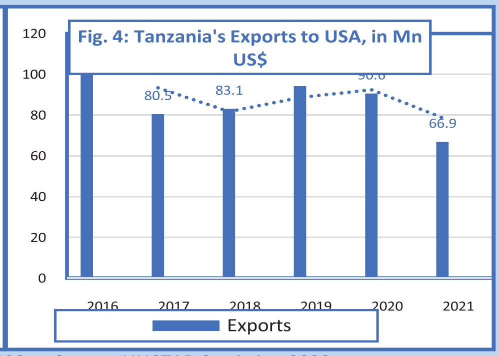
It is envisaged that the structured elimination of tariffs on imports originating from the EU will bear some welfare effects with respect to the postulated increase in consumers' surplus due to the reduced import product prices and welfare gains due to trade creation. The underlying estimates show that the EPA with the EU would generate US$6.4 million in consumers' surplus and US$1.7 million welfare gains from trade creation effects, a total welfare gains of US$8.1 million p.a. that represents 0.01% of Tanzania GDP in 2018. Products that are likely to bear the largest welfare gains are medicaments, oil seeds, rubber, and sugar.

The USA Target Market

Tanzania exporters and others from Sub-Saharan African Countries have for the past two decades benefited from the preferential access to the USA market under the market access African Growth and Opportunity Act (AGOA). Enacted in May 2000, AGOA is the cornerstone of U.S. economic engagement with the countries of sub-Saharan Africa. The agreement provides duty-free access to the U.S. market for eligible Sub Sahara African nations. In June 2015, the U.S government authorised AGOA for an additional 10 years. Tanzania was designated an "AGOA beneficiary" on the 2nd of October 2000. US market has a great potential for Tanzania exports, given its growing population as shown in figure 2a, and its estimated post-covid 19 recoveries in real GDP growth as shown in figure 2b. Tanzanian exports to the US market have not grown much, and declined between 2019 and 2021, as figure 4 illustrates.







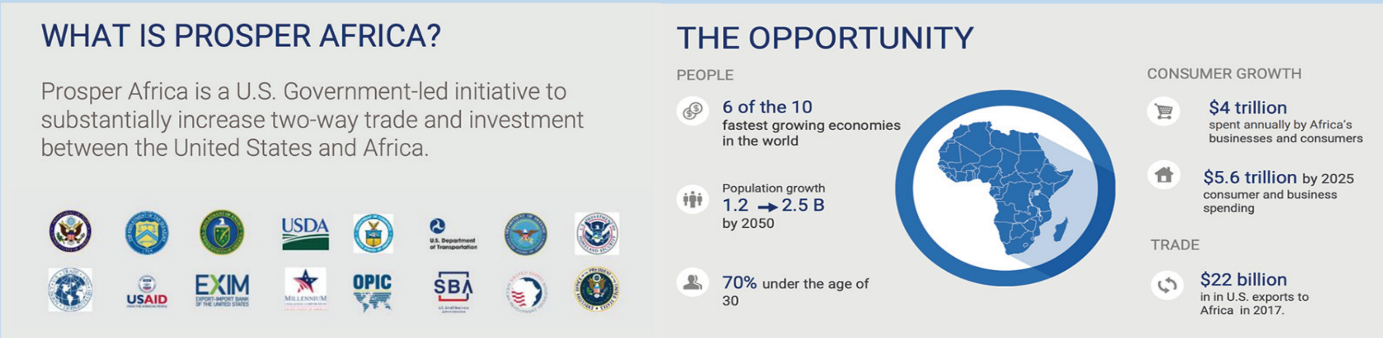
Source: UN World Population Prospects 2019 *IMF World Economic Outlook, April 2022 & 2023* *Source: UNCTAD Statistics, 2022*

Under AGOA, eligible countries can export products, including value-added manufactured items such as textiles to the United States duty-free. More specifically, it adds about 1,800 eligible product lines to the US Generalized System of Preferences, which already grants duty-free access for nearly 4,600 export products from developing countries to the USA. The AGOA further:

- Provides matchmaking facilities with potential partners,
- Help meeting international quality standards and certification requirements,
- Provides grants and financial assistance,
- Provides technical assistance (e.g. for business development, training on export requirements).

The US Government provides further support to increase trade and investment through initiatives like the Prosper Africa as summarized in figure 5a, and figure 5b that indicates the view of Prospect Africa on Africa's economy.

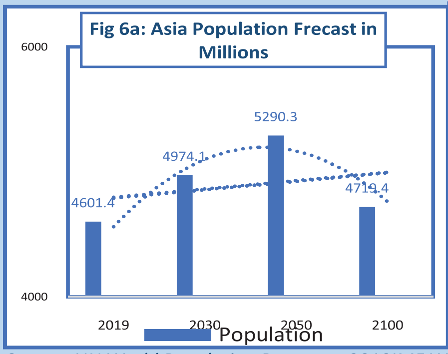
Fig 5 a & b: Prosper Africa -- A US Government Trade and Investment Initiative

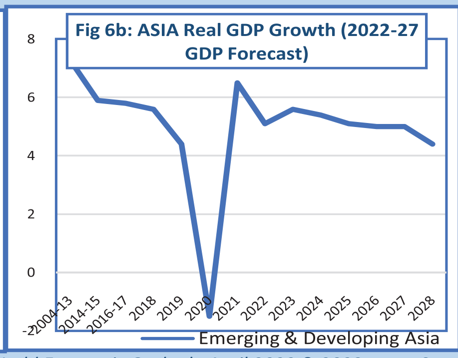


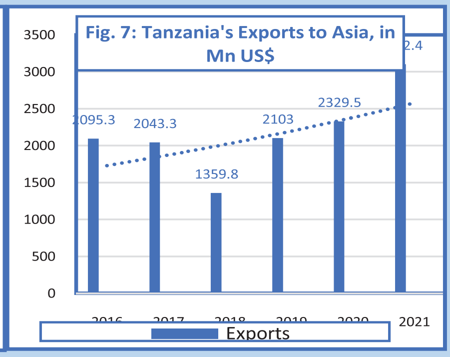
Source: Prosper Africa--A US Government Trade and Investment Initiative, 2022.

The Asian Target Market

During post-2004 period Africa has also developed several ground-breaking partnerships with the Emerging and Developing Asia that includes China, India, and the ASEAN 5 (Indonesia, Malaysia, Philippines, Thailand and Vietnam). During the same period, existing cooperation between Africa and its traditional Asian partners were re-defined, invigorated and strengthened. These include the China-Africa Forum, the TICAD process led by Japan, and Africa-India Partnership Forum.







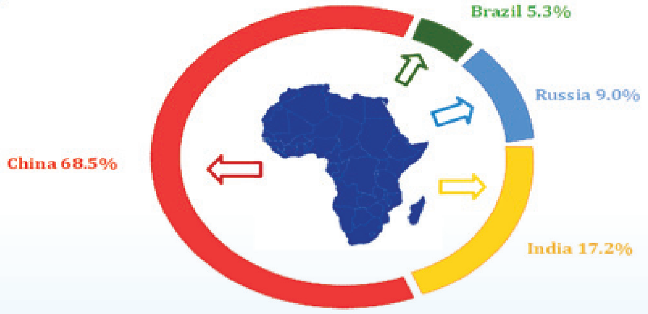
Source: UN World Population Prospects 2019IMF World Economic Outlook, April 2022 & 2023 *Source: UNCTAD Statistics, 2022*

Although the Asian population is projected to grow up to 2050 and decline thereafter, it is already relatively large as shown in figure 6a. Their economies are projected to grow by above 4% as figure 6b indicates. The share of Sub-Saharan African countries in Asian trade has increased rapidly, and for some African countries their key trading partners are increasingly becoming China, India, and Indonesia (although the traditional export destinations still account for a significant share). Figure 7 shows the trends in Tanzania's export growth to Asia. Furthermore, the growing middle class and increasing demand from East Asia (accompanied by rising relative wages there), along with the shifting structure of global value chains (GVCs,) may offer new economic opportunities for Africa. Tanzania and Ethiopia have been diversifying into light manufacturing GVCs. In addition to China, India has emerged as a leading trading partner of many African nations including Tanzania.

The BRICS Target Markets

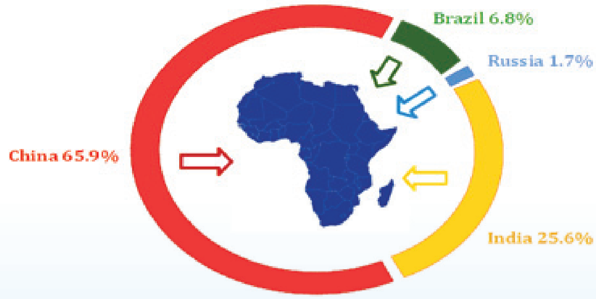
Brazil, Russia, India, China, and South Africa (BRICS) play a growing role in the world economy. This entity is deepening its engagement with African countries and has gained great success in their development in recent years. BRICS' attention to Africa is determined by the important role of African resource potential and also by the continent's growing influence in contemporary international relations. BRICS countries are now the largest trade partners of Africa (China has overtaken the US as Africa's first trade partner). Africa's trade with BRICS is growing faster than its trade with the traditional partners and Africa has become the main destination for BRICS' development aid. Figures 8a and 8b showsthe relative shares of Africa's exports and imports with BRICS countries. Investments from BRICS into Africa accounted for 25 per cent of Africa's inflows in 2012. BRICS countries widely use 'soft power', developing cultural, scientific, and humanitarian ties with Africa and take an active part in African conflicts resolution. Although there is a competition between BRICS' member countries in Africa, all of them contribute considerably to the African economics.

Figure 8a. Africa-BRICS trade, 2016-2021
Exports to BRIC countries



Source: *UNCTAD* Statistics, 2022

Figure 8b. Africa-BRICS trade, 2016-2021
Imports from BRIC countries



Source: *UNCTAD* Statistics, 2022

The Middle East + Turkey Target Markets

Formal relations between Africa and the Arab world were launched in March 1977 with the Cairo Summit in Egypt. Since then, trade relations have continued to grow overtime, although the share of exports relative to the traditional export destinations of Asia and BRICs is low. The Summit establishing the Africa-Turkey Partnership was held in Istanbul, Turkey, from 18-20 April 2008. The Summit adopted the Framework for Cooperation, which spelt out the areas of cooperation between the two parties. An Implementation Plan 2010-2014 was jointly developed that considered, among others, the strong bilateral relations between many African countries and Turkey.

Conclusion and policy recommendation

The enhancement of productive capacities of a country constitutes a potentiality for industrial and trade expansion and effective integration into the global economy. Productive resources, entrepreneurial capabilities and production linkages are created and transformed over time through, inter alia, the country's effective utilization of the global 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 global cooperation arrangements. It is the ability of these actors to take advantage of the inherent opportunities in global trade and investment, through various bilateral and multilateral arrangements. This will require concerted efforts to address the various constraints to productivity growth that can help Tanzania to sustain its growth momentum, realize its development potential, and achieve significant poverty reduction.

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