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No PB 03/2025 July 2025

REPOA Brief

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Deepening Tanzania's Service Sector Integration into Global Value Chains

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Key Messages

- Domestic value-added constitutes 96 percent of Tanzania's exports, with foreign value-added at only 4 percent.
- The overall Global Value Chain (GVC) participation index is just 2.5, far below the Sub-Saharan Africa (SSA) average of 4.7.
- Tanzania's exports to SSA are dominated by services, led by other transport (10 percent), accommodation and food services (5.5 percent), and air transport (2.4 percent).
- High-value service inputs (ICT, finance, professional services) are only minimally embedded in exports, while transport, trade, and business services supply most of the indirect domestic value-added.

Introduction

Tanzania has sustained relatively high economic growth, but structural transformation remains limited. Manufacturing's share of GDP fell from 11.4% in 1972 to 7.8% in 2021, while employment shifted toward low-productivity informal services that add little value, constraining technological upgrading and export competitiveness.

National plans and policy recognise commercial services, but often focus on manufacturing and non-tradable sectors, overlooking "servicification" component of manufacturing, agriculture and other sectors. Services like design, logistics, finance, and IT are increasingly vital to goods competitiveness and value creation across global value chains (GVCs).

Over the past two decades, the expansion of GVCs has widened the gap between gross exports and domestic value-added, particularly in African economies. This divergence reduces the net contribution of trade to national income growth (AUC/OECD, 2022). To address this, policy & strategies must pivot from maximising export volumes to maximizing value creation, strengthening input competitiveness, especially within the service economy, and advancing regulatory reforms to upgrade Tanzania's role in regional and global markets.

To assess Tanzania's participation in GVCs, primarily through its services sector, the research applied a multi-stage analytical approach. This involves the use of multi-country Social Accounting Matrices derived from Input-Output tables provided by the Global Trade Analysis Project (GTAP Africa3). The GTAP database has been widely and effectively used in previous research to analyse GVC structures and their influence on recent global trade dynamics, as highlighted in studies by international organisations such as UNECA.

BOX 1

There are two key forms of participation in global value chains (GVCs): **backward** and **forward** participation.

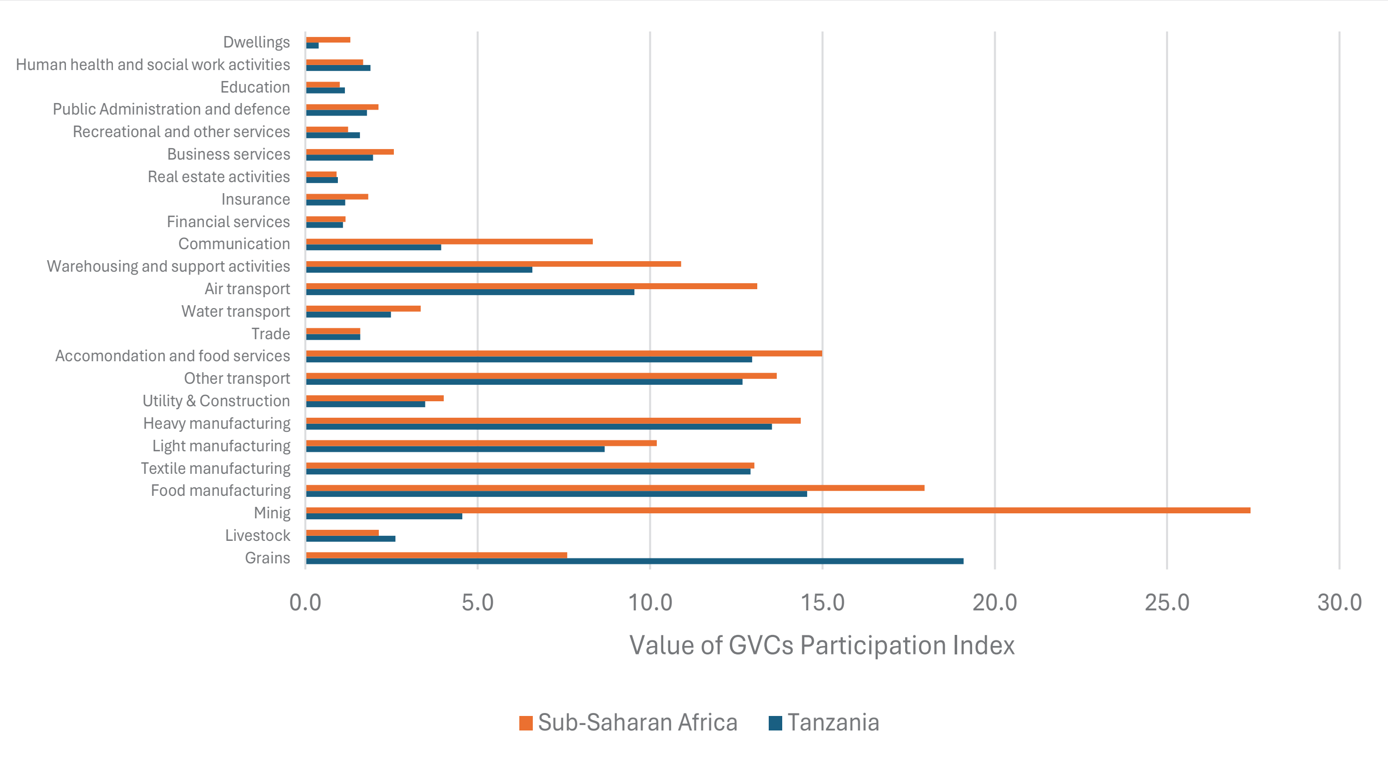
Backward GVC participation refers to the incorporation of foreign inputs - such as imported software, logistics services, or machinery - into the production of goods that Tanzania exports. For instance, horticulture exporters in Tanzania often rely on imported cold chain logistics and digital tracking technologies to meet international quality standards.

Forward GVC participation measures the extent to which Tanzanian domestic services and inputs are embedded in exports from other countries. A clear example is Tanzania's ports and transport corridors, which facilitate trade for neighbouring landlocked countries, thereby integrating Tanzanian value into their export products.

Findings: Tanzania's participation in the Global Value Chains

Tanzania's GVCs participation index stands at 2.5 on average, one of the lowest in Sub-Saharan Africa. This means that only 2.5% of the domestic factor content is used in exports that are further re-exported by direct importers, highlighting minimal integration into global production networks. Critically, several key service sectors show extremely weak performance in GVCs' participation (see *Figure 1*): Finance and insurance services: 1.1; Education services: 1.2; and Dwellings (real estate activities): 0.4. These figures reflect deep structural constraints in leveraging service industries for international trade and economic diversification. The data also point to a disconnect between domestic production and global market opportunities, particularly within the growing and strategically essential services economy.

Figure 1. GVC participation index for Tanzania and Sub-Saharan Africa, by industry, percent, 2017



Source: Authors' calculation based on GTAP-Africa

Service Sector Contributions to Upstream and Downstream Industries: Emphasizing Global Value Chain Integration

Services exert a profound influence on downstream sectors in GVCs - that is, the segments of production that occur closer to the final consumer. Whether managing logistics, financing trade transactions, ensuring regulatory compliance, enabling communication, or driving innovation, services act as vital enablers of efficiency, agility, and competitiveness. A powerful feature of the TiVA framework is its ability to capture this through indicators like Indirect Domestic Value Added[1] in exports. This metric highlights the contribution of upstream industries, particularly service providers, to the exports of other sectors, even if they do not export directly.

Box 2

Trade in Value Added (TiVA) is an approach to measuring international trade that focuses on the value added by each country in the production of goods and services that are traded internationally. Unlike traditional trade statistics, which count the full value of exports and imports (even if much of that value comes from other countries), TiVA helps reveal who actually contributes what in global trade.

TiVA reveals whether countries are upstream (e.g., raw materials, design, high-tech components) or downstream (e.g., assembly, packaging) in the supply chain.

For example, Tanzania exports cashew nuts in raw form, mainly to India for processing. Thus, foreign value added (FVA) is very high, since the processing (shelling, packaging) occurs abroad. Tanzania's domestic value added (DVA) is limited to raw production activities—cultivation and harvesting.

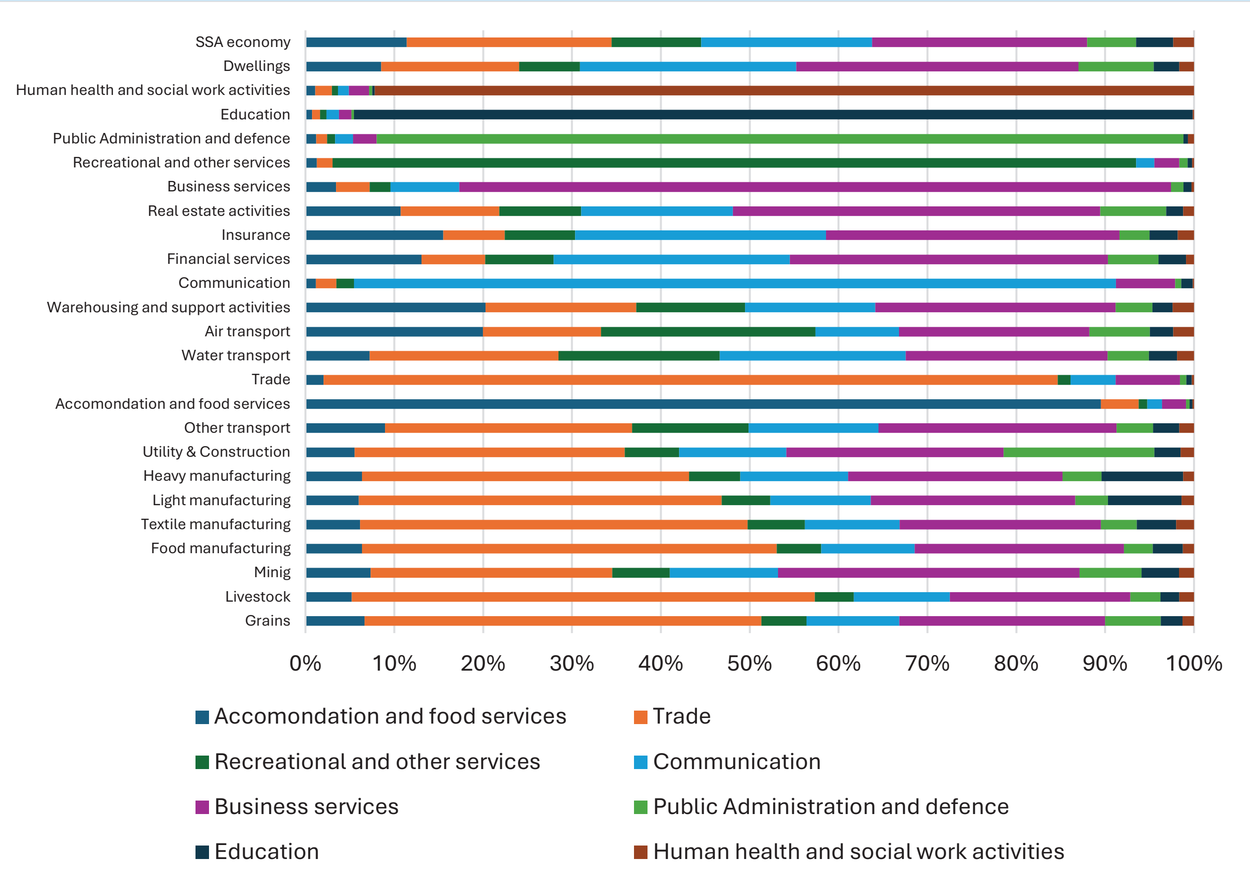
[1]According to the OECD Trade in Value Added (TiVA) indicators, domestic value-added in exports can be broken down into:
- Direct DVA: Value-added generated by the exporting industry itself.
- Indirect DVA: Value-added contributed by upstream domestic industries supplying intermediate goods or services to exporters.

Most industries in Tanzania rely heavily on **transportation services**. Goods-intensive sectors, such as grains, manufacturing, mining, and road transport, contribute more than 70% of their transport-service linkages. Likewise, service exports, such as communication and business services, rely on road transport to move inputs, including equipment.

Financial services are vital for downstream sectors, offering capital access, risk management, and cross-border transaction support. They help businesses manage cash flow, invest in technology, and access credit to sustain operations during growth or downturns. In Tanzania, 83% of financial services' value added is consumed domestically, while 17% is embedded in other countries' exports.

Trade and business services in Tanzania also play a vital role in stimulating demand across various downstream industries, including agriculture, manufacturing, water, and transport (*Figure 2*). This demand-driven effect supports local production and contributes to broader economic growth, primarily through domestic value chains. However, other high-value services, such as communication, education, health, and social work activities, exhibit low indirect domestic value-added across downstream industries. This suggests limited use of these services as inputs in the production of exports, indicating that structural barriers continue to hinder their integration into the economy's export base.

Figure 2. Composition of indirect domestic value added in exports of trade and business services, by industry, percent, 2017



Source: Authors' calculation based on GTAP-Africa

Enhancing Tanzania's GVC Integration: Leveraging Forward Linkages and Strengthening Backward Connections

Tanzania is one of the least integrated countries in Global Value Chains (GVCs), with strong forward linkages but limited backward linkages, constraining its competitiveness. Forward participation is led by grains (18.3%), accommodation and food services (12.2%), and transport services (11.7%). Backward participation is just 1% of GDP, well below Africa's average (2.1%) and Southern Africa's (4.3%). Sectors with higher backward linkages—such as food processing (6.8%), textiles (10.9%), light manufacturing (6.6%), heavy manufacturing (7.9%), air transport (6.6%), and warehousing (4.5%)—offer potential entry points to deepen integration through greater use of imported intermediate inputs. Although high domestic value in exports shows some self-reliance, it also reflects limited access to quality intermediate goods, restricting technological learning, innovation, and productivity gains. Strengthening backward linkages through better access to imported inputs, investment in value-adding industries, and improved infrastructure is crucial to enhancing Tanzania's competitiveness and GVC participation.

Policy Recommendations

To fully harness the transformative potential of services in Tanzania's economic development, strategic reforms are needed to strengthen their integration into global value chains (GVCs). Tanzania should liberalize services trade and regulation by simplifying rules and removing tariff and non-tariff barriers in key sectors such as ICT, finance, logistics, and professional services, while promoting competition and aligning policies with regional frameworks like the AfCFTA. Expanding digital and transport infrastructure, including broadband networks, data centres, mobile connectivity, and multimodal transport corridors, would facilitate digital trade, improve service delivery, and enhance regional market access.

Strengthening human capital through aligned higher education, vocational training, public-private initiatives, apprenticeships, and benchmarking against advanced markets will improve labour market readiness and service-sector productivity. Promoting innovation and linkages within the sector by supporting startups and SMEs, incentivizing bundled service offerings, and fostering co-location with manufacturing will enhance value creation. Finally, mainstreaming services into trade, industrial, and investment policies, coordinated by a cross-ministerial task force and guided by a national development model centred on services, will boost Tanzania's competitiveness in regional and global value chains.

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