

REPOA Brief



Accelerating Industrial Transformation for Structural Change in Tanzania

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Key Messages

Manufacturing remains small, contributing approximately 7.3 per cent of GDP and 3.3 per cent of employment, well below the 20 per cent GDP threshold and 10 per cent employment share associated with successful industrialisation.

Frequent regulatory changes, export restrictions, and tax uncertainties raise risks and deter long-term investment in capital and technological upgrades.

Weak links between industry and agriculture hinder structural transformation, as processors face unreliable input supplies and farmers lack incentives to supply the industry, thereby hindering value chain development.

Private sector involvement in select value chains can promote upgrading and productivity when firms coordinate, meet quality standards, and target export markets.

Industrial budget allocations that fall well below recommended benchmarks for comparable economies can indicate weak policy prioritisation relative to stated development or industrialisation goals.

Introduction

Over successive development plans, Tanzania has set ambitious industrial targets, emphasising manufacturing and agro-processing as key drivers of employment, export diversification, and economic resilience. These targets reflect a long-standing understanding that industrialisation is essential for moving the economy onto a higher-productivity, higher-income path. In standard models of structural transformation, expanding manufacturing is expected to absorb labour released from agriculture, promote technological learning, and generate sustained productivity growth (Lewis 1954; Gollin 2014). However, Tanzania's industrial trajectory has diverged from these expectations.

Despite consistent policy focus, industrial results have remained modest and uneven. Manufacturing contributes only about 7.3 per cent of GDP (Ministry of Finance, 2024/25)—well below the 20 per cent threshold typical of successful industrialising economies—and 3.3 per cent of total employment (NBS, 2023). Labour productivity in the sector remains low by international standards at approximately USD 2,439 per worker in PPP terms (World Bank), and manufactured goods account for only about 12 per cent of total merchandise exports, indicating limited upgrading and weak export competitiveness (Bank of Tanzania, 2025). In absolute terms, manufactured exports grew from approximately USD 300 million (2006) to USD 600 million (2022), but this growth was outpaced by mineral export expansion (Bank of Tanzania, 2023).

A growing body of literature argues that structural transformation is driven not solely by market mechanisms but also by state capacity, human capital, institutional quality, and political economy dynamics (Rodrik et al., 2016; Osei et al., 2022). This policy note examines how political incentives, institutional frameworks, and economic systems have shaped Tanzania's industrial transformation. The analysis is structured around four political-economy dimensions—interests, incentives, power relations, and ideational frameworks—which together explain why repeated industrial strategies have had limited success in upgrading and creating employment.

Methodology

The study employs a mixed-methods approach. A structured review of industrial, agricultural, and trade policies was conducted to evaluate policy coherence and consistency over time. Secondary data were used to analyse sectoral employment and productivity using a shift-share decomposition framework (McMillan et al., 2014), distinguishing within-sector productivity gains from structural-change effects. Primary data were collected through ten key informant interviews (KIIs) with policymakers, private-sector representatives, and development partners—including officials from EPZA and TISEZA—offering insights into implementation processes, coordination challenges, and political incentives. The study adhered to REPOA's institutional research ethics protocols. Evidence from all sources was triangulated using a structured analytical comparison, with KII insights connected explicitly to quantitative indicators.

Key Findings

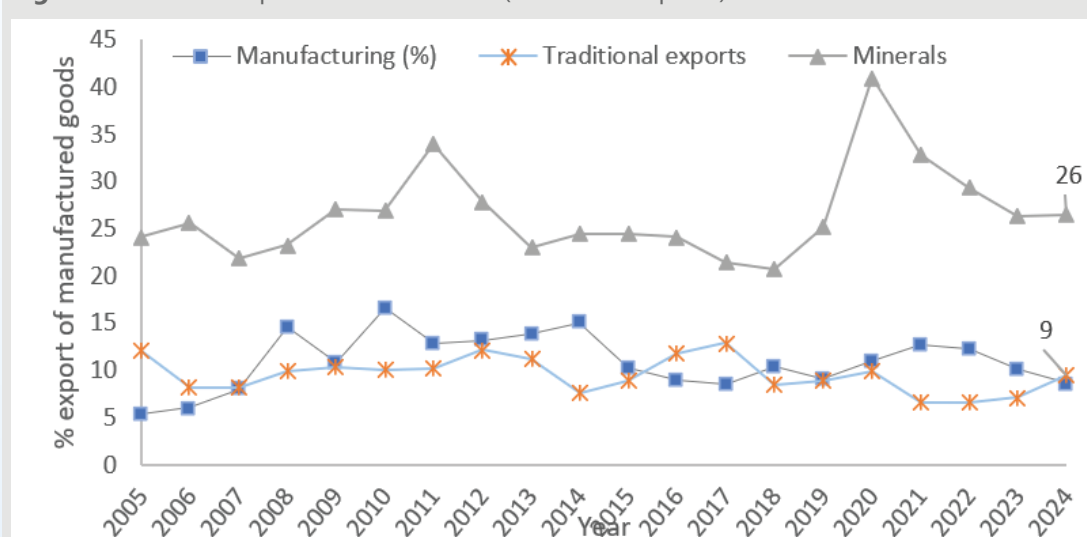
Tanzania's industrial policies have undergone repeated shifts to accommodate changing economic conditions and development priorities, yet there has been no institutional learning. Tanzania's industrial policies have undergone repeated shifts reflecting changing economic conditions and development priorities—from import substitution under the Three-Year and First Five-Year Plans, through state-led industrialisation under the Arusha Declaration, to market liberalisation under structural adjustment, and more recently to SIDP, FYDPs, and Agenda 10/30. Each reform cycle introduced new priorities without building on the institutional learning of its predecessor. The ideational instability created by this—shifting between paradigms without evaluating what worked—undermined the credibility of industrial commitments and discouraged the long-horizon investment that manufacturing requires. EPZs, established in 2002 with generous fiscal incentives, attracted limited investment partly because they were not embedded in a wider industrial ecosystem of skills, supplier networks, and reliable utilities. Key informants from EPZA and TISEZA identified inadequate on-site infrastructure and inconsistent regulatory enforcement—not the fiscal package—as the primary barriers to investment.

The manufacturing sector remains small, with industrialisation failing to generate jobs or enhance productivity. The manufacturing sector contributes only about 7.3 per cent of GDP, well below the 20 per cent threshold generally linked to successful industrialisation. Labour productivity in industry is low, and investment in research and development remains under 1 per cent of industrial GDP, limiting technological progress (see Table 1).

Dimension	Indicator	Tanzania (Latest)	Benchmark	Source
Structure	Manufacturing (% GDP)	7.3% (2024)	>20%	Ministry of Finance (2024/25)
Employment	Manufacturing (% total employment)	3.3% (2023)	>10%	NBS (2023); AfDB (2024)
Productivity	Labour productivity (USD/worker, PPP)	USD 2,439 (2015)	>USD 10,000	World Bank
Technology	R&D spending (% industrial GDP)	0.51% (2013)	≥ 1%	The Global Economy
Trade	Medium/high-tech exports (% total)	18.4% (2022)	>40%	World Bank / UNIDO
Policy	Industrial budget allocation	0.42% (2025/26)	3–5% (UNIDO)	Ministry of Finance (2025/26)

The composition of exports further highlights the limited sophistication of Tanzania's industrial base, with manufactured products making up less than 12 per cent of total exports. In absolute terms, manufactured exports grew from approximately USD 300 million in 2006 to USD 600 million in 2022—real growth, but substantially below regional peers and well below the export diversification targets in Vision 2025 and FYDP III.

Figure 1: Share of exported merchandise (% of total exports)



Source: The Bank of Tanzania

Weak links between industry and agriculture hinder structural transformation.

emphasise that industrial policy remains poorly aligned with agricultural, trade, and infrastructure strategies. As a result, supply of raw materials, processing capacity, and export promotion develop separately rather than collectively.

The productivity decomposition analysis (Table 2) illustrates the consequences. While structural change—the reallocation of labour from lower- to higher-productivity sectors—was the primary driver of labour productivity growth between 2006 and 2014, from 2014 to 2021 it contributed negatively, with all productivity gains originating from within-sector improvements. Services, rather than manufacturing, drove reallocation during the first period; after 2014, even services became a drag. This confirms a pattern of premature deindustrialisation—structural change driven by low-productivity services rather than manufacturing-led transformation (Rodrik, 2016).

Table 1: Decomposition of Labour Productivity Growth by Sector

Sector	2006–2014			2014–2021		
	Structural change	Within sector productivity	Total	Structural change	Within sector productivity	Total
Agriculture	-0.43	1.09	0.66	0.11	0.71	0.82
Industry	1.01	0.11	1.12	0.54	1.52	2.06
Services	1.87	0.06	1.93	-1.18	2.72	1.54
Total economy	2.45	1.26	3.71	-0.53	4.95	4.42

Source: The Bank of Tanzania

Furthermore, the lack of an effective coordination mechanism between ministries hampers synergies among sectors and reduces the developmental impact of public investment.

Policy volatility and investment uncertainty (Incentive dimension). Frequent changes in export regulations, tax regimes, and licensing requirements create a highly uncertain environment for investment. Agro-processing already accounts for the largest share of formal manufacturing output and employment, making it the most immediate platform for industrial expansion. Rising urban demand for processed foods and regional market opportunities offer potential for job creation, technological learning, and export growth.

The political-economy mechanism here is the interest's dimension: actors who benefit from discretionary control over export licences and market access have incentives to maintain regulatory opacity. This creates a systematic bias toward short-term revenue extraction over the investment climate required for long-term industrial upgrading. Industrial upgrading depends on irreversible investments in machinery, technology, and skills—investments that require predictable rules over multi-year horizons that Tanzania's current policy environment does not reliably provide (Osei et al., 2022).

Weak market institutions and business environment. Core institutions supporting the market remain underdeveloped. Contract enforcement is weak, quality standards are inconsistently applied, logistics systems are costly, and access to long-term finance is limited. These weaknesses expose firms to unreliable input supplies and volatile demand, hindering scale economies and discouraging learning-by-doing. High regulatory burdens and fragmented oversight further increase transaction costs and reinforce informality.

The World Bank Enterprise Survey (2023) documents that Tanzanian manufacturing firms spend significantly more senior management time on regulatory compliance than regional comparators, and that access to electricity, finance, and skilled labour are consistently ranked as top binding constraints. These findings reinforce the KII evidence that the business environment operates as a structural barrier to firm-level upgrading, independent of sectoral policy design.

Recent public investment in ports, roads, energy, and industrial zones has reduced transaction costs and improved connectivity. While coverage remains uneven, these investments lower entry barriers for manufacturing and enhance the viability of geographically dispersed value chains.

Structural transformation is limited by the exclusion of farmers and small enterprises from both policy development and access to finance (Power dimension). Results from KIIs reveal that farmers and small producers remain marginal participants in policy formulation—reflecting the power dimension of political-economy dynamics. Decision-making is top-down, leading to interventions that do not reflect local production realities, constraints, and incentives. This weakens policy legitimacy and reduces compliance, especially in market and regulatory reforms that rely on local trust and cooperation. Simultaneously, limited access to finance—high interest rates, strict collateral requirements, and bank risk aversion towards agriculture—restricts farmers, agro-processors, and SMEs from investing in mechanisation, irrigation, value addition, and industrial upgrading.

Selective private sector dynamism in a few value chains demonstrates that upgrading and productivity growth are possible under the right institutional and market conditions. Sectors such as horticulture and, more selectively, cashew processing demonstrate that learning, quality enhancement, and competitiveness can arise when coordination mechanisms operate effectively, quality and phytosanitary standards are enforced, and firms target export markets. The horticulture case is particularly instructive: export earnings grew from USD 30.8 million (2010) to USD 507 million (2024), reflecting a 16-fold increase driven by institutional coordination through TAHA, public investment in cold-chain infrastructure, and credible standards enforcement (Bank of Tanzania, 2025). The sector supports approximately 4.5 million livelihoods—22 per cent of agricultural employment and 9 per cent of the national workforce.

Although these successes remain limited to a few sectors, they showcase the potential for broader manufacturing-led structural change if similar institutional arrangements and incentive structures can be expanded and adapted.

Conclusion and recommendation

Tanzania's industrial transformation has not been hindered by a lack of policy ambition, but by persistent gaps between industrial goals and the political and institutional conditions required to achieve them. The key mechanisms—as identified through the integrated analysis of KII insights, decomposition evidence, and policy review—are: (i) incentive misalignment between short-term political pressures and long-term investment signals; (ii) power fragmentation across institutional actors with overlapping mandates; and (iii) ideational instability that prevents institutional learning across policy cycles. The main policy challenge is not to craft new industrial strategies but to stabilise incentives, strengthen institutions, and systematically broaden the institutional frameworks that have facilitated upgrading in a few successful sectors.

Below are key recommendations to accelerate transformation efforts.

Establish a stable and learning-oriented industrial policy framework. Tanzania's industrial history shows repeated shifts, without sustained institutional learning or continuity. These cycles have weakened credibility and discouraged long-term investment. A stable industrial framework should therefore be legally anchored and shielded from frequent political reversal, with clear priority sectors and time-bound objectives. Equally

important is embedding monitoring and evaluation (M&E) as a core function of industrial policy, so that strategies evolve based on evidence and feedback rather than being abandoned.

Industrial policy credibility can be enhanced by tying sectoral support to measurable performance milestones—such as employment creation, export certification, and productivity improvements—rather than to flat fiscal transfers. This performance-conditionality design, adapted from East Asian industrial policy experience (Evans, 1995), would align incentives between the state and firms while maintaining policy coherence across electoral cycles.

Shift from Protection and Subsidies to Productivity and Capability Building. Past industrialisation efforts relied heavily on price controls, import licensing, and exchange-rate distortions, which constrained access to inputs and raised costs. Later liberalisation reduced these distortions but did not build firm-level capabilities. Policy support should now focus on reducing production costs and strengthening productive capacity through reliable power, transport, industrial skills, standards institutions, and technology upgrading. Rather than broad incentives or tariff protection, support should target learning, innovation, and efficiency in selected manufacturing and agro-processing activities with export and employment potential.

Deepen domestic and regional market integration. Tanzania's manufacturing sector has remained small partly because firms have been insulated from competition within limited domestic markets and lacked scale. Regional integration and urbanisation now offer opportunities to address this issue. Industrial policy should therefore focus on regional and export markets rather than inward-looking import substitution. This involves aligning trade, logistics, and industrial strategies so that firms can access inputs competitively and reach larger markets. Agro-processing presents a natural entry point but must be organised to ensure a steady supply of raw materials without undermining domestic manufacturing through uncoordinated export liberalisation. Deepening EAC trade integration, harmonising sanitary and phytosanitary standards across the region, and investing in regional logistics infrastructure would improve the competitiveness of Tanzanian manufacturers in export markets where scale matters.

Reduce structural costs through infrastructure and institutional reform. High production costs, driven by power shortages, fragmented transport networks, regulatory burdens, and weak market institutions, have persistently undermined competitiveness. Public investment in roads, ports, power, and industrial zones must be complemented by reforms to contract enforcement, quality standards, and logistics systems. Streamlining licensing, inspections, and tax administration would lower transaction costs and reduce informality.

Build skills, technology, and innovation systems. Manufacturing's strategic role lies in technological learning and diffusion, yet Tanzania has underinvested in research and development, technical skills, and innovation systems across all phases of industrial policy. Industrial transformation requires aligning Technical and Vocational Education and Training (TVET) and higher education with industrial demand, supporting applied research and industrial problem-solving, and incentivising firms to adopt new technologies. Increasing

R&D investment from the current 0.51 per cent of industrial GDP to at least 1 per cent—the minimum benchmark for industrialising economies—should be a measurable medium-term target (The Global Economy, 2013; Dabla-Norris et al., 2013).

Prioritise implementation capacity and political commitment. Across different policy reforms, the weakest link has been implementation: well-designed strategies have been undermined by limited resources, weak coordination, and shifting political priorities. Strengthening industrial transformation, therefore, requires building bureaucratic capacity, ensuring predictable financing for priority programmes, and maintaining political commitment over long horizons. Clear institutional mandates, stable funding, and performance monitoring are necessary to prevent industrial policy from becoming a succession of disconnected plans.

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