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ECONOMIC GROWTH IN TANZANIA

Ladies and gentlemen,

I feel very honoured to have been invited to deliver the inaugural address at this symposium.

I am not an economist by profession, but as a “development practitioner” I should be able to say something useful about “economic growth”, since “development” and “economic growth” are to a very large extent overlapping notions.

Tanzania desperately needs economic growth. Now growth per annum is about 6%, not bad, certainly not compared to the past, but not enough. With a population growth of 2%, the growth per capita is 4%. Now per capita income is \$ 350 per year, at the current pace it will take 25 years to reach the middle income level of \$ 1000 per capita per year. That is too long. Growth should accelerate, and in my view *can* accelerate.

An additional problem is that that growth seems to accrue to a part of society only, I am told that the masses in the rural areas hardly benefit from it. So an additional challenge is to make sure that they benefit too.

But: HOW?

I must be modest, of course, I am not an economist, I am not a Tanzanian and my experience in this country is limited - 2,5 years only. So I beg for your indulgence in case you find my remarks too presumptuous. Be so kind to allow me to present some thoughts that could contribute to your discussions as experts.

On economic growth, economists have explained to me that according to the text books there are three decisive factors: *labour* (quantity and quality), *capital* (quantity and quality) and *technology*.

Quantity of labour does not seem to be the bottleneck here in Tanzania, in view of a high level of unemployment. Improving the *quality of labour* requires expenditure in education, health care and housing and living conditions, such as access to clean water and electricity. Although there is a lot of scope for critical remarks, we can say that Tanzania, with the assistance of its development partners, is achieving commendable and large-scale improvements in these areas. So I leave them aside, also since they are not directly linked to today's subject of discussion. An exception should perhaps be made, in the field of education, for *management skills*, of which in my view there is an enormous shortage in this country. Sometimes I think that that is a product of the leadership traditions here, which seems to be based on the principle “the boss is the – allmighty - boss” and the underlings have to obey, rather than trying to tap into the creativity and initiatives of every individual in an organisation. So I applaud all additional efforts in teaching management skills, including notably the skills needed to get the best out of the work force of a company or organisation.

Capital, in the sense of *quantity*, is often cited as a major constraint in developing countries. In my view, that is only partially true. Here in Tanzania for example we see that the banks have increasing amounts of money available, but have difficulties in finding suitable investment opportunities. Another problem is that investing in countries like Tanzania is seen, even by domestic stakeholders, as too risky or bringing a too low yield. Investment in other places often is more attractive.

On *quality of capital*, it is of importance to stress that according to research data, capital from abroad, FDI, is in a way of a higher quality. In the Netherlands e.g. the productivity of labour in foreign-owned companies is considerably higher than in Dutch-owned companies. Without going into details, I dare say that that must also be true here in Tanzania, particularly because foreign companies bring in technical and management skills that are not or hardly available in the country itself. Tanzania policies are correctly aimed at attracting as much foreign investment as possible.

Labour and capital. The third factor the books mention is *technology*. That is a difficult one, in any case for me. However, I see that modern technology can be available to Tanzania. See the example of the mobile telephones, where the country “frog-leaped” the stage of the land-line based system. Here again, promoting as much as possible foreign investment is the key, because that is where, in today’s circumstances, up-to-date technology has to come from.

So: many good reasons to attract foreign investment. One detail in this respect. In practice I see that this policy of attracting foreign investment is sometimes hampered by restrictive practices with regard to the admission of foreigners (labour permits). Sometimes it seems that the thinking in many quarters here is that by keeping foreigners out, jobs can be secured for Tanzanians. That is wrong. Those foreigners – and now I speak about skilled foreigners, technicians, managers, etc. - are brought in because locally there are no candidates for the job. Each skilled foreigner creates 40 jobs for Tanzanians, so I would say: if someone has diplomas and/or money and wants to come here, welcome him or her!

This tendency, that is to think that foreign employees “take away” jobs from the locals, could very well be an expression of a still primitive way of thinking about what an economy is, that is thinking about it in terms of a fixed amount of assets, such as oil and gas and gold and trees and fruits and jobs. Many people do not see that the economy is not about natural resources and physical assets, but about creating wealth, so to speak, out of nothing. A nice educational task for the economists in this room! (By the way: sometimes I have the impression that the intensive debates here in Tanzania about the mining sector equally reflect the popular fallacy that you can dig up wealth, instead of creating it. Of course, the proceeds of natural resources can help an economy - as is the case with natural gas in the Netherlands - but they do not constitute a decisive factor. If managed badly, they even have even a negative effect on the economy. That also occurred in my country, that is why, unfortunately, the economists still call that: the Dutch disease. Tanzanians, beware!

Let us look for our inspiration at some of the richest countries of the world, in Europe now amongst others Ireland, Switzerland and Finland. Or, to stay nearer to home (your home), look at Mauritius. From nature those countries got almost nothing, sometimes quite the contrary. But they created their own prosperity. Not at least by giving people space to do things. That is: doing away with vested interests, monopolies, all types of restrictions and traditions and practices dating back from the old days that hamper innovation, efficiency and sound business practices. That is not always easy, protecting those interests and the people

benefitting from them often seems the most logical course to follow (particularly from a politician's point of view). However, by protecting the few, the interests of many, many more are damaged. Said otherwise: growth is slowed down. Or as my number two in the embassy, an economist, always says: "it leads to sub-optimalization of economic processes".

The remedy in my view is more public discussion, more openness and more transparency, so that the public at large see the trade-offs that are made, and can judge if the decisions taken are in the interest of society as a whole or just in the interests of certain limited groups.

And following the line of thoughts that a growth-promoting policy should in many cases primarily be directed at taking away obstacles, the conclusion must be that economic growth is perhaps easier to achieve than one thinks: it is a question of the state NOT doing things, rather than pursuing activist and interventionist policies in the economic field. What in any case I would like to strongly discourage are policies that try to fence off certain parts of the economy from foreign involvement in order to reserve them for Tanzanian nationals. That is the wrong recipe. It looks as if such policies are in favour of Tanzanians, in practice however they lead to negative effects, including for employment, in other words: NOT to the desired growth. And the regulatory framework needed for such policies is inevitably complicated and prone to corruption and favouritism.

So active involvement in business activities by the state is certainly not the answer. What the state should do, however, is creating the *enabling environment* for businesses, big and small or even run by one individual, to flourish and prosper. That means: pursuing with much more energy and determination the core reforms that have, in principle, already been adopted but the implementation of which is far and far too slow, sometimes at a snail's pace. I mention the Legal Sector Reform - access to justice and the rule of law is crucial for a good business climate - as well as Local Government Reform, Public Finance Management Reform and Public Sector Reform - an efficient and honest government machinery is equally key to a conducive business climate and therefore to economic growth. And, last but not least: NACSAP-II, the National Anti-Corruption Strategy Action Plan number two. No silver bullet here, no magical solutions, no immediate remedy, but arduous and sustained hard work to put the public machinery in order. It goes without saying that political will, that is strong political leadership, is key here. I trust that the positive signs we have seen over the last months in the political landscape of this country will have their beneficial effects in these structural reform drives as well.

A state machinery in order: the reforms should also encompass a change in attitude by the civil servants in their relationship with the private sector. That relationship is now uneasy, there is no tradition of working together by civil servants and the private sector, the focus is too much of what the state can get out of the private sector, instead of on what the state can do for the private sector, to help it to play its role of engine of growth and creator of jobs, income and tax revenues.

An introductory statement about economic growth is not complete without addressing the issue of *growth sectors*: are there any sectors a growth policy should focus on? A note of caution first: I do not believe in the state as entrepreneur, so here as well the state should limit its role to facilitator. But it plays a role as provider of infrastructure. I myself tend to think that Tanzania's function as transit country for goods destined to the countries in its hinterland offers an important potential for economic growth, but perhaps I am biased because that transit role is a crucial element in the economy of my own home country. And another word

of caution: here as well doing away with red tape, bureaucratic hurdles or worse may be of higher importance than the physical infrastructure such as roads, ports and railways. Last year, I participated in an interesting conference about Aid for Trade, in which a World Bank representative explained that production costs in Tanzanian factories are NOT higher than in India or China. What makes Tanzania uncompetitive in world markets are the costs of bringing the goods produced from the factory gate to the outside world. Not only because of poor infrastructure, unintentioned inefficiencies or unavoidable red tape, but also because of all kind of dubious practices along the way. We were told that if you are in Europe and you want to buy something, then buy it in China. It will be delivered at your front door in half the time East African producers need. That has to change, of course. Tanzania has to link up with the globalized world economy and should be able to compete there.

Another sector that is always mentioned in discussions about economic growth is agriculture, particularly in view of the challenge I mentioned in the beginning of my statement: how to ensure that the benefits of economic growth reach the rural poor as well? But while recognizing the crucial importance of agriculture, I refrain from any opinion, since the experts – and I am not one of them – differ widely on what should be given emphasis in agro-policies: irrigation? credits? rural infrastructure? market access? fertilizer? modified seeds? combating post-harvest losses? agro-processing industries? I do not know.

But I need not know. Decisions are not up to me to say so, you, Tanzanians, should decide. In my view on the basis of a much wider debate on economic policies.

I take the liberty of proposing two measures that could stimulate that debate *and* could improve the quality of economic policies here in Tanzania (once again, taking the risk to be seen as presumptuous):

1. At government level, there is no visible “champion” for economic growth (or the private sector). Therefore, an economic core cabinet could be established, consisting of the four to six ministers most closely involved in economic policies. This group should meet regularly and come up with concrete proposals to improve the conditions for economic growth. These proposals should be made public and be subject of public debate, including debates in parliament.
2. The government could create a Council of Economic Advisors, consisting of the most prestigious economists of the country, to advise it (and the economic core cabinet) on economic policies to be pursued or proposed.

Ladies and gentlemen, in 1991 I heard Donald Kaberuka, then minister of finance of Rwanda and now president of the African Development Bank, saying: if we want to grow, we have to lower the *risks* of doing business in Africa and we have to lower the *costs* of doing business in Africa.

That is the best summary of any economic government policy I have ever heard.

Thank you.