

Facing the Challenges of Growth in Tanzania

**Opportunities, Constraints and Strategic
Directions**

Benno J. Ndulu

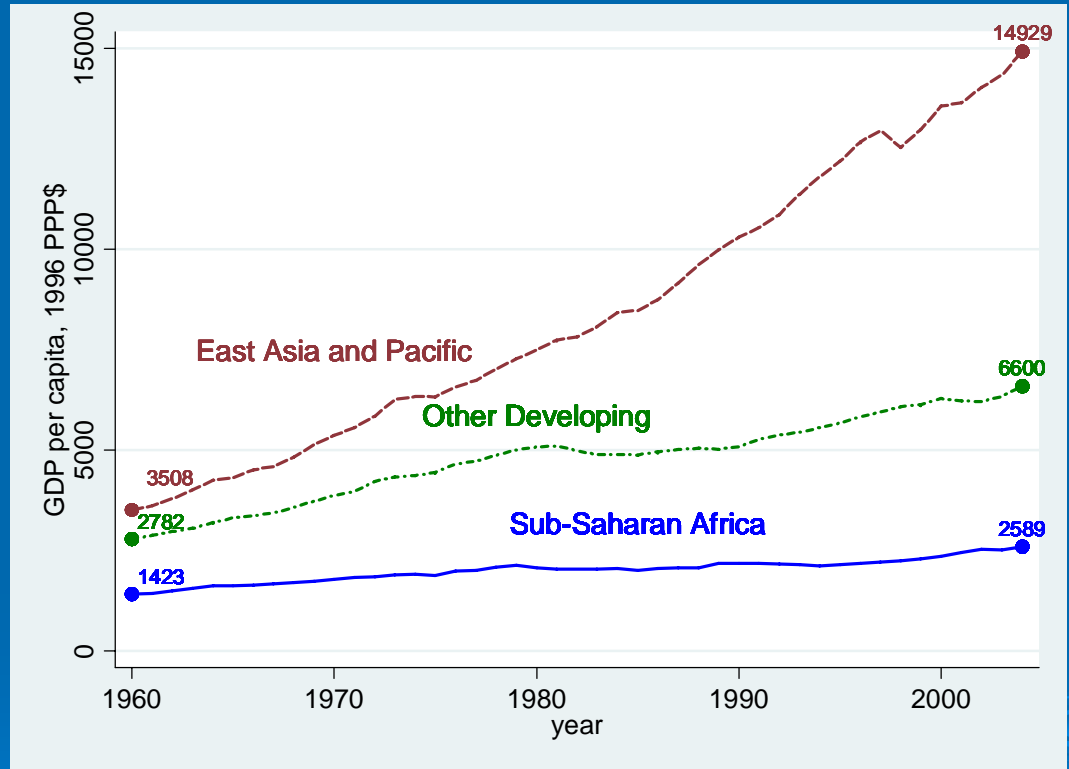
The background of the slide is a solid blue color. In the lower half, there are several decorative elements consisting of concentric circles, resembling ripples in water. These circles are centered at different points and vary in size and opacity, creating a subtle pattern.

Key Questions

- **The period from 1960 to 2000 was one of remarkable growth and transformation in the world economy and Tanzania largely missed out on it.**
- **Why did most of Sub-Saharan Africa incl TZ fail to develop over most of this period?**
- **What can we learn from those small economies in Africa that succeeded ?**
- **What will it take to sustain the acceleration of growth since the mid-1990s?**

Income Divergence – SSA Vs OTHERS 1960-2004

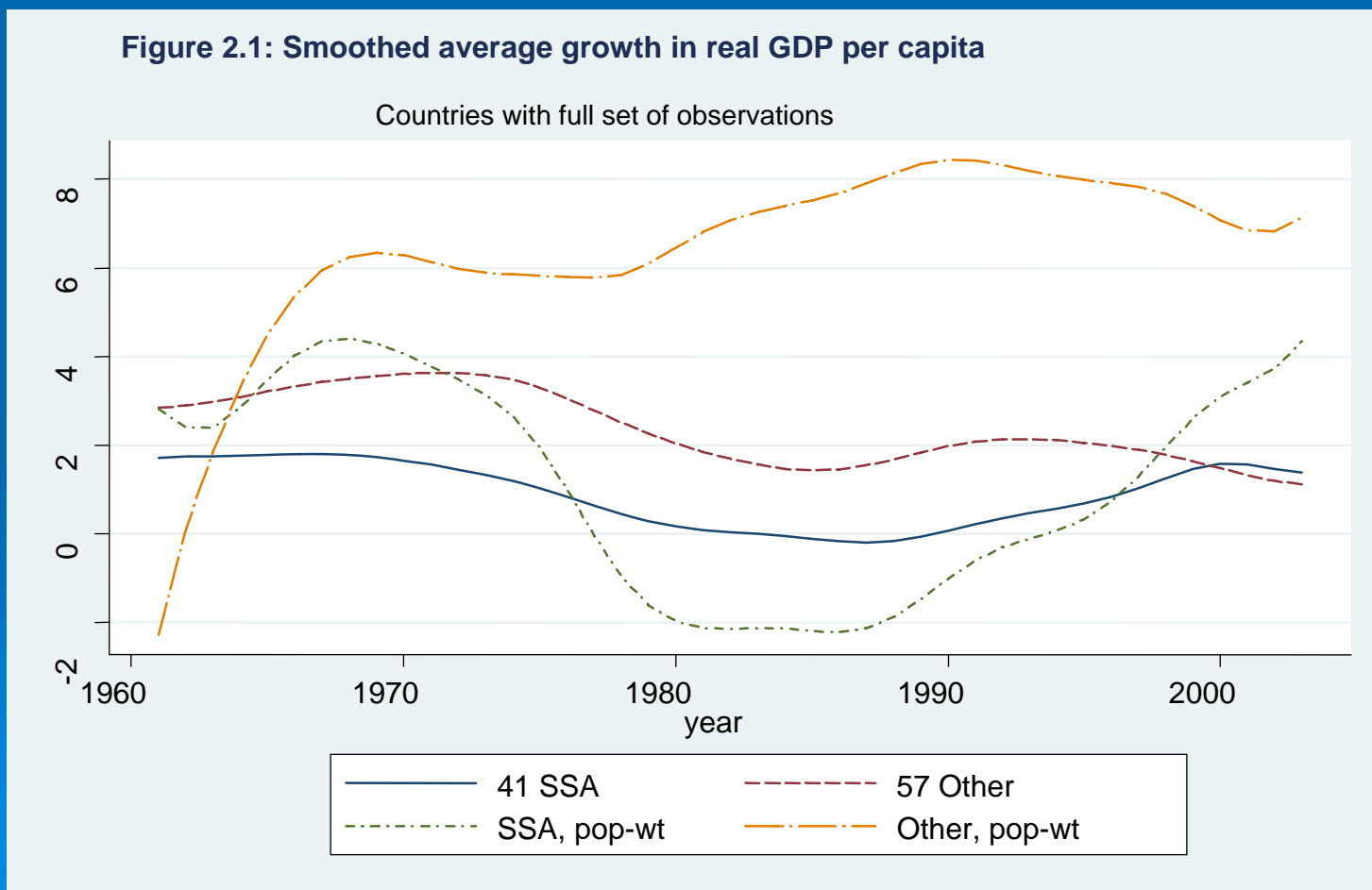
- Even after adjusting for differences in purchasing power
 - p.c. income, was about half that of EAP in 1960
 - by the end of the 20th century, it was less than one-fifth of EAP
- The difference due to mainly Growth
 - – SS Africa grew erratically at avg 0.5%
 - Other dev'ping regions grew steadily at avg 2.5%



Data source: The World Bank WDI database.
Note: GDP per capita in 1996 international dollars

African Countries – Missed out on two decades of global growth

Growth Path 1960-2004



Same Endowments - Different Paths - Different Outcomes



- Cote d'Ivoire and Mauritius are both coastal and resource poor countries
- pursued very different development paths
- with very different outcomes.

- Zambia and Botswana are both landlocked and resource rich
- Pursued different approaches to managing resource rents
- To very different results

Six Key Conclusions from 45 Years of African Growth experience

(i) African countries growth experience is extremely varied and episodic –

- ◆ large countries (DRC, Nigeria, Ethiopia, Sudan) grown more slowly
- ◆ extreme instability of growth for most countries - esp. resource –rich
- ◆ suggests focus on large countries for spillovers (e.g Southern Africa) and management of responses to shocks

(ii) slower productivity growth more sharply distinguishes African growth from other regions

- Same level of investment generates 1/3 to 1/2 of growth in Asia
- Look beyond conditions for raising investment levels

(iii) policy and governance matters a great deal for growth –

- accounts for between 25% and 50% of growth difference with other regions
- The policy and governance gap with other regions has narrowed but it is still very significant

Lessons Continued

(iv) Disadvantages from geography and resource curse accounts for one third of the gap of growth with LDCs

- 40% of Africans live in land-locked countries
- 90% of SSA exposed to Tropical disease burden
- Fragmentation – 48 small economies with small markets – average GDP \$3 billion; with 4 neighbors on average
- More than a third of SSA countries subject to the potential resource curse

(v) Trading partners' growth important for African growth-

- Importance of export-led growth
- focus on competitiveness;
- and reducing barriers to trade (esp. behind the border constraints)

(vi) Age dependence a big drag on growth –

- More mouths to feed than hands to cook
- fiscal and private spending burden (and impact on saving)
- Suggests speeding up demographic transition

Diverse endowments present different options for export-led growth

➤ **Manufactured Export-led growth**

- the Asian model for coastal countries

➤ **Natural resource-based equitable growth**

- the Botswana model for resource-rich exporting countries.

➤ **Natural resource-based agricultural export diversification and industrialization**

- The Chilean model of agribusiness and the Malaysian model of agro industrialized export

➤ **Labor export and high value service sector for landlocked** – the Indian model

Tanzania's Economy Has Radically Changed in terms of

(a) *Structure*

(b) *Sources of Growth*

(c) *Sources of Exports*

(a) Structurally

➤ *New National Accounts Statistics (2001 prices)*

	1998	2006
<i>Agriculture</i>	30.3	25.4
<i>Mfg & Construction</i>	16.7	20.5
<i>Services</i>	45.2	46.9

(b) Sources of Economic Growth

Leading Sectors in Growth

2001-2006 - Tanzania

Mining and Quarrying	15.9%
➤ Manufacturing	8.2%
➤ Construction	11.0%
➤ Transport & Communications	8.0%
➤ Financial Services	9.7%

(c) Contributions to Exports

	1998	2007
Traditional Exports	30.8%	8.5%
Non traditional Exports	69.2%	91.5%
<i>Tourism</i>	<i>34.5%</i>	<i>27.8%</i>
<i>Transportation</i>	<i>3.6%</i>	<i>8.9%</i>
<i>Manuf Products</i>	<i>3.1%</i>	<i>8.3%</i>
<i>Gold</i>	<i>0.3%</i>	<i>21.1%</i>

TANZANIA: VALUE OF EXPORTS OF GOODS AND SERVICES 1998 - 2007 *(in millions USD)*

ITEM	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Traditional Exports	356.3	301.2	292.8	231.1	206.1	220.5	297.8	354.5	267.1	317.6
Non-Traditional Exports	801.1	900.6	1,068.2	1,535.6	1,693.6	1,943.4	2,315.0	2,590.4	3,004.3	3,418.5
o/w Tourism	399.0	463.7	376.7	615.1	635.0	646.5	746.0	823.6	950.2	1,037.1
Transportation	41.8	53.7	56.8	105.9	117.1	138.9	183.0	222.9	343.7	331.9
Manufactured Products	35.7	30.1	43.4	56.2	65.9	83.8	110.1	156.1	195.8	309.2
Gold	3.0	34.8	112.7	254.1	341.1	502.8	629.9	655.1	786.4	788.2
Total Exports	1,157.4	1,201.8	1,361.0	1,766.7	1,899.7	2,163.9	2,612.7	2,944.9	3,271.5	3,736.1

Source: Bank of Tanzania

Where We Are.....

- *Economy is estimated to have Grown at **7.3 percent (2007)***
- *Leading Sectors in Growth*
 - ***Communication (19.8 Percent)***
 - ***Mining (14.0 Percent)***
 - ***Financial Services (12.0 Percent)***
 - ***Construction (9.7 Percent)***

Critical areas of action

The Four Big “I”s

- **Investment climate**
 - focus on reducing indirect costs and risks
 - Target both foreign and local investors & investment areas
- **Infrastructure: a “Big Push” in investment and Efficiency**
 - Particular attention to the geographical disadvantages
 - A Regional approach - coordination for cost effectiveness
- **Innovation for increasing productivity**
 - Skills – tertiary education- and ICT key for competitiveness
- **Institutional capacity**
 - Contract enforcement; enhanced public scrutiny ; revenue transparency in mining; country-driven anti-corruption

6 Key messages for the Future

- **(i) First a message of hope: the development challenges Tanzania faces are daunting but not insurmountable.**
 - Asia's and even African successes instructive;
 - advantage of late starters
- **(ii) Tanzania will have to shape her own destiny – and this includes all Tanzanians wherever they are in the world.**
 - taking the lead but more importantly to be creative, bold and decisive
 - make this an inclusive undertaking across all stakeholders.
- **(iii) Unorthodox approaches can engender results – See East Asian experiences.**
 - Greater focus on government errors of omission (what governments have not done to spur development) and not only commission

Key Messages CONT'D

- **(iv) Leadership has a defining role in achieving success – putting a huge weight on how leaders are chosen and more importantly how they are held accountable for results.**
- **(v) Need for collective action to spur good reputation, agglomeration economies and provide regional public goods**

(vi) Reaching for Deeper Pockets

- Domestic Resource Mobilization
 - Savings
 - Local loan syndications
 - IPOs
- Prudent commercial borrowing by the public sector
 - Sovereign bonds
- Cashing in on the growing remittances
 - \$40 billion estimated remittance flows into and within Africa annually

2 Key Messages to Development Partners

(i) More and better aid

- help meet the ambitious MDG agenda and fulfill the promises of support
- Look for innovative approaches to leverage public-private partnerships.

(ii) Help Engender a supportive global trading environment

Get both DOHA and WTO talks back on rails

In Conclusion...

- Each country situation is unique and requires specific analysis of constraints and opportunities.
- But can learn from similarities for *strategic directions*.
- Emphasis is on *energizing private investment* in the short to medium run and
- *fostering efficiency and competitiveness* as preconditions for export-led growth.
- International Support – ODA and conducive trading environment key complements to African drive to growth