

23RD ANNUAL RESEARCH WORKSHOP

Towards industrializing society by 2025:
why national competitiveness matters

CONCEPT NOTE

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BACKGROUND

Like many other Sub-Saharan African countries, Tanzania has recorded impressive economic growth in recent years. Over the past two decades until 2015, the economy grew at an average of over 6% a year. This economic growth rate has generated some gains in poverty reduction, from the headcount of 38.6% recorded in the 1991 Household Budget Survey (HBS) to 28.4 % recorded in the 2012 HBS. Growth has been accompanied by modest changes to the structure of the economy as well as some improvements in productivity. The share of agriculture in GDP has declined over time in response to an increase in the share of industry and services. In terms of exports, a marked shift has been recorded between traditional and non-traditional exports over the past 15 years. In 2000, traditional exports (mainly agricultural commodities) accounted for nearly 40% of total goods exports, but by 2015, traditional exports accounted for only 16.2% of exported goods. The increase in non-traditional exports has been driven, in part, by increases in mineral production (mainly gold) and manufactured goods. In 2000, mineral exports accounted for 40% of non-traditional exports, while manufacturing exports accounted for 9.8%. By 2015, the two represented 21% and 33% of non-traditional exports, respectively. It is important to note that, the value of mineral exports is subject to inherent volatility in international commodity prices, which has made the share of mineral exports in goods exports plummet from its highest peak of 60% in 2011 when gold prices were high, to 21% in 2015 following a drastic fall in gold prices.

The aforesaid economic growth and structural change, however, are not sufficient to propel inclusive development, which entails sustained reduction of poverty and inequality in line with the targets set in the National Development Vision 2025 and the Sustainable Development Goals (SDGs), particularly SDGs 1 (ending poverty in all its forms), 2 (ending hunger, achieve food security and improved nutrition, and sustainable agriculture, 9 (build resilient infrastructure, promote sustainable industrialization, and foster innovation), and 10 (reduced inequality within and among nations). The recent reversal in economic growth rates, which reflects the effects of slow global growth, including the decline of China's economic growth is likely to affect the pattern of Tanzania's structural change and impact on poverty and inequality.

According to the IMF's World Economic Outlook of April 2017, global growth rates contracted from 4.2% in 2011 to 3.1% in 2016 with global growth projected to grow modestly by 3.4% and 3.5% in 2017 and 2018, respectively. Despite the slowdown in the global economy, flows of Foreign Direct Investment (FDI) increased by 13% to US\$ 7.1 billion in East Africa (UNCTAD, 2017). In addition to being a key determinant of economic growth, FDI is also an indicator of the rate of return on capital in each place. Therefore, FDI reflects the attractiveness of a country to foreign investors—the quality of the economic environment for investment and for increasing productivity. The latter is referred to in development parlance as competitiveness. In contrast to the rest of the region, FDI flows to Tanzania have been declining since 2014. In 2016, the country's FDI stocks declined by 15% to US\$1.4 billion from US\$ 1.6 billion in the previous year. These observations are likely to undermine the country's growth prospects in the short run.

At present, Tanzania is ranked as the 116th competitive economy in the world, lagging its East African counterparts of Rwanda (52nd), Kenya (96th), Ethiopia (109th) and Uganda (113th)—in adding value to capital (WEO, 2017). Yet, Tanzania can reposition itself in the global marketplace, leveraging from its unique features to create competitive advantages. These include a geographically strategic location, an abundance of natural resources, political and social stability. Some efforts are currently underway to address the status quo including a US\$30 billion liquefied natural gas project, US\$10 billion port project, and a US\$7 billion railway upgrade. Yet the major challenge is how to systematically foster competitiveness for all factors of production and how these unique advantages can be harnessed to improve the competitiveness of the country, with reduced risk of exposures to global economic uncertainties and commodity price volatility. Indeed, this is the intended focus of Tanzania's next Five-Year Development Plan (2021/22-2025/26) aimed at "Realizing Competitiveness-led Export Growth" (URT, 2016).

The 23RD REPOA Annual Research Workshop

To unpack the aforementioned macro dynamics and the potential impact on Tanzania's economy and its aspirations set in the National Development Vision 2025, **the theme** of REPOA's 23rd Annual Research Workshop will be:

Towards industrializing society by 2025: why national competitiveness matters

The overall aim of the workshop is to provoke and promote policy dialogue and research on the importance of competitiveness in the transformation of the economy. This will include a closer look at competitiveness as a necessary process in leveraging Tanzania's comparative advantages; global value chains and options for strategic linkages to enhance competitiveness in agriculture and other sectors; and how Tanzania can further diversify and increase competitiveness in intra-regional and international trade. This workshop arrives at an important stage in the country's development, halfway through the implementation of the Long-Term Perspective Plan (LTPP), 2011/2012-2025/2026. This provides an opportunity to reflect on the progress of the LTPP, and shape the design of the 2021/22-2025/26 third five-year development plan.

The specific objective of the workshop is:

To provoke and promote policy dialogue and research on the role of competitiveness in economic transformation towards an industrial-driven and competitive economy aspired in the National Vision 2025.

Key questions to be explored will be:

- i. How has the Tanzania's economy transformed over the past two decades?
 - a. What factors have driven this transformation?
 - b. Where (sectors, activities, etc) are the pockets of competitiveness observed?
 - c. What lessons can be drawn from history to inform the present and future strategies for accelerating transformation?
- ii. How are changing demographics and gender dynamics affecting socio-economic transformation, and what policy actions should be put in place for realizing positive effects of those dynamics?

- iii. How can Tanzania leverage its comparative advantages in natural resources, geography, and labour (by demographic spread) to enhance the competitiveness of its economy?
 - a. What are the key constraints to a competitive economy, and what policy and institutional instruments are needed to address them in the context of the current global economic landscape and Tanzanian's growth trajectory?
 - b. What role can the state and private sectors play individually and collectively to enhancing competitiveness?

Proposed subthemes:

Along with the main theme of the workshop, dialogue will be structured to include important elements that derive from the process of structural transformation, which in themselves warrants special policy attention. The following three subthemes are proposed:

Sub-theme 1: Changing demographics and gender dynamics: implications for the desired structural transformation

Between 2002 and 2012, changes to the structure of the economy accounted for three-quarters of the growth in labour productivity (Ellis et al., 2017). These changes saw increases in private non-farm employment at the expense of farm employment. Yet, 88.6% of non-farm employment occurred in an informal sector (Diao, 2016) characterized by underemployment, skill deficiency, gender inequalities and social immobility. Skills transcend the formal schooling and include the entrepreneurial ability, motivation, work ethics etc. The demographics and gender dynamics, including sex, age, urbanization, migration of the active population, youth entry to the job market, school drop outs, and induced informality are all important elements in understanding the patterns of production, distribution and consumption, and how they are determinants of factor productivity and national competitiveness. Thus, the workshop will seek to explore, among other concerns, how to tackle the emerging challenges, and how the opportunities can be harnessed for effective linkages between key productive sectors of agriculture and industry, and for higher efficiency and labour productivity, both essential for a vibrant and competitive economy.

Sub-theme 2: Leveraging Comparative Advantages in Natural Resources, Geography, and Labour for Industrial Transformation Agriculture, forestry, fisheries, minerals, oil and gas together currently account for over a third of the gross domestic product (NBS, 2017). The transformation of agriculture remains key to transforming the wider economy given its linkages to value chains, declining contribution to GDP and large share of employment. Recent years have witnessed a hype about the prospective gas economy in Tanzania, following large offshore discoveries of natural gas. While natural gas has attracted massive inflows of FDIs and contributed to significant generation of electricity, its utilization is still far from optimal in transforming the economy. Already, the public is apprehensive about the sector's influence on corruption (Cappelen et.al, 2016). The Second Five Year Development Plan well recognizes comparative advantages provided by its geographical location that is favourable as a regional logistical hub, as well as a young growing population that offers substantial source of labour. Thus, the workshop will seek to explore the prospects and challenges of these leveraging on these comparative advantages for accelerating structural transformation and enhancing national competitiveness.

Sub-theme 3: The Business Environment and Factor Competitiveness as Magnets for Investments and Private Sector Development

Competitiveness directly concerns the quality of the economic environment for investment and production. Indirectly, competitiveness also relates to the existence and quality of productive institutions, state bureaucracy, and crucially the relationship between state and non-state actors, and the political economy underpinning the economic and social transformation. Tanzania has significantly improved its business environment over the past two decades. However, after years of various sector reforms aimed at strengthening the business environment, there remain challenges to doing business in the country. Among others, these include overregulation, institutional instability and coordination (UNCTAD, 2017). Further, the business environment has yet to demonstrate adaptability to externalities—for example, regional trade linkages—and technological changes characteristic of competitive environments. The workshop will thus discuss the best ways to confront those challenges to enhance economic efficiency and competitiveness.

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