

## Participation in regional and global value chains can enhance productive capacity for industrial and trade expansion

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	Key messages
Importance	➤ The effective participation in regional and global value chains will enhance domestic productive capacities and in turn, sustain economic growth;
Challenges	<ul style="list-style-type: none"> <li>➤ Tanzania is still experiencing low productive capacities and slow in transforming the structure of its economy;</li> <li>➤ Tanzanian firms have not participated effectively in the Regional and Global Value Chains;</li> <li>➤ Trade in services in Tanzania is still constrained by infrastructure and skills gap.</li> </ul>
Advantages	<ul style="list-style-type: none"> <li>➤ Blessed with human resource growth potential and abundant natural resources, the latter including sizable arable land, forests, fisheries, minerals, rich biodiversity, and wildlife resources;</li> <li>➤ Occupies a strategic geographical location as a major seaport hub in East Africa and has borders with three non-EAC States—Malawi, Mozambique and Zambia—in addition to the 5 EAC States.</li> </ul>

### Objectives and Coverage

Objectives	➤ To explore and understand the <b>best practice cases and the underlying opportunities and constraints for enhancing the expansion of productive capacities;</b>
	➤ To explore the significance of effective participation in regional and global value chains in enhancing domestic productive capacities;
	➤ To explore and understand the value added for policymakers of a focus on enhancing productive capacities through effective participation in the regional and global value chains.
Coverage	The analytical framework of productive capacity for industrial and trade expansion involves:
	✓ <b>The processes for developing productive capacities,</b>
	✓ <b>The productivity frontiers – GVCs and RVCs,</b>
	✓ <b>The significance of trade in services in facilitating productivity growth,</b>
	✓ <b>The value addition for policy makers,</b>
	✓ <b>The comparative and analytical use of the productive capacity indices.</b>

Baseline definitions on productive capacities and productivity growth from the relevant multilateral agencies:

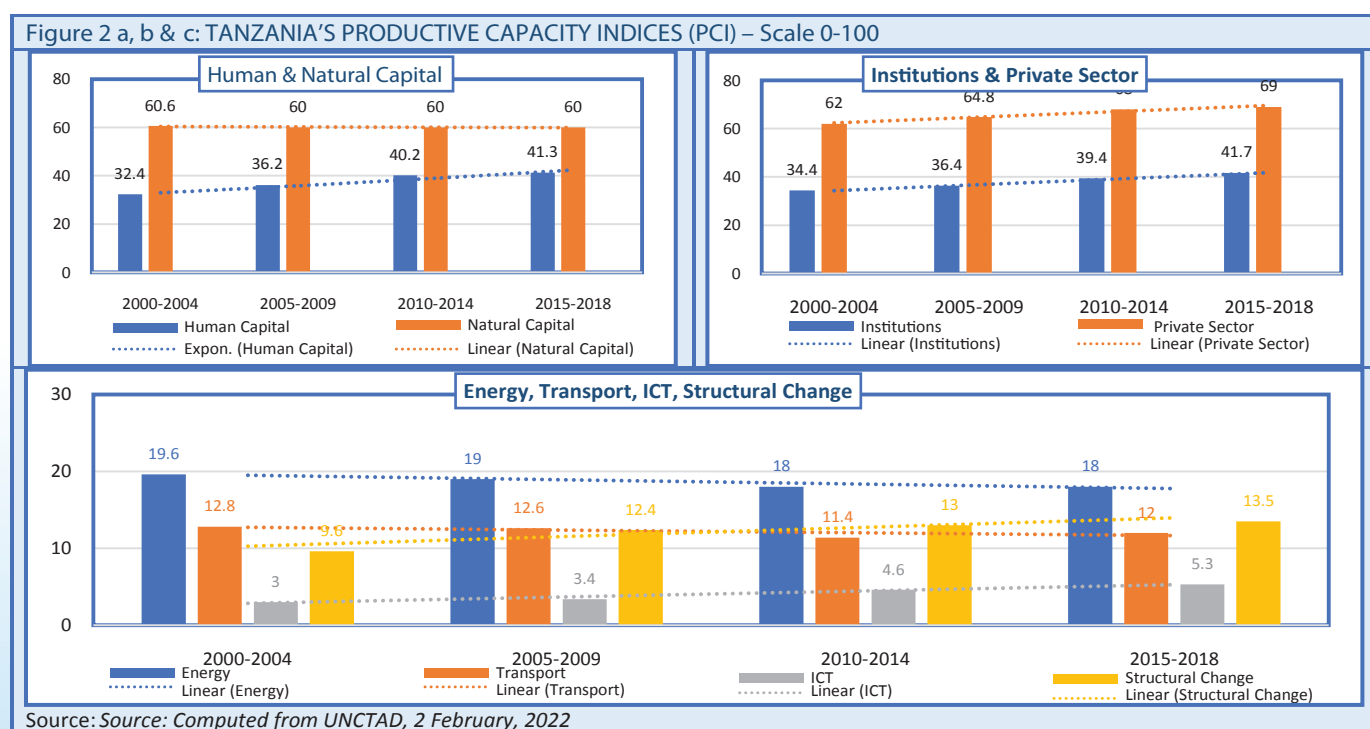
Baseline Definitions – Productive Capacities and Productivity Growth	
UNCTAD	Defines productive capacities as <i>the productive resources, entrepreneurial capabilities and production linkages which together determine the capacity of a country to produce goods and services and enable it to grow and develop</i>
NEPAD	Defines productive capacity as <i>the ability to produce goods that meet the quality requirements of present markets and to upgrade in order to tap future markets—to ensure a sustainable participation in the new global production system based on production networks.</i>
World Bank	Defines productivity growth as <i>the key driver of sustainable income growth and poverty reduction—the efficiency with which societies combine their people, resources, and tools—and is the central driver of the development process.</i>
UNIDO	Defines productivity as <i>the ability to transform inputs into outputs—a key to poverty reduction as it generates skilled jobs which are sources of income and social participation.</i>
OECD	Productivity is considered a key source of economic growth and competitiveness

### THE COMPARATIVE ANALYSIS OF PRODUCTIVE CAPACITIES INDEX (PCI)

UNCTAD (2020) developed and launched the Productive Capacities Index (PCI) to enable policymakers and researchers to assess the status of productive capacities development in their respective economies and provide support to the design and implementation of economic policies. The PCI has eight core components: human capital, natural capital, energy, transport, information, and communications technology (ICT), institutions, private sector, and structural change.

Based on the overall PCI scores, Tanzania has made modest progress in the development of productive capacities in the past two decades, with its overall score increasing from 19.55 in 2000 to 22.58 in 2010 and 24.22 in 2018. Comparative PCI scores with selected African countries indicate that Tanzania has relatively low level of development of productive capacities. In 2018, its score was 24.22 compared to 34.05 for South Africa and 37.39 for Mauritius, but more positive compared to the three EAC States (Kenya, Uganda and Rwanda) and Ethiopia—with the evolution of the eight components presented in Table 1 below. As for Tanzania, the following observations can also be made from Figures 1a to c below.

- i. The most significant progress made between 2000 and 2018 were in the areas of human capital and institutions.
- ii. In terms of rates of change, the most significant improvements were in ICT and structural change.
- iii. Positive improvements were also observed in the private sector.
- iv. The scores for natural capital, energy and transport have been flat or stable over the years with no major changes.



	Tanzania (annual ave. 2000-2018)	GAP relative					
		To Mauritius	To South Africa	To Kenya	To Uganda	To Rwanda	To Ethiopia
Overall PCI	22.22	-12.26	-9.91	0.52	-10.08	0.12	2.82
Human capital	37.32	-11.32	-8.30	2.72	2.82	1.22	6.72
Natural capital	59.98	8.36	-4.72	5.98	-3.32	-1.92	-4.66
Energy	18.76	-11.53	-10.14	2.16	0.96	3.76	2.33
Transport	12.30	-7.57	-1.90	1.60	1.60	-2.70	3.93
ICT	3.99	-6.9	-3.84	-0.51	-0.11	0.09	0.44
Institutions	37.86	-34.74	-20.81	-0.05	-3.55	-8.05	3.83
Private Sector	65.77	-19.49	-15.48	-6.13	0.27	2.37	-1.74
----- Good Performance				----- Inadequate performance			

The analysis indicates that Tanzania has made some progress in the development of productive capacities in the past two decades but that its level of development of productive capacities is relatively low compared to what is observed in middle income and high-income African countries.

The table shows that except for natural capital, where Tanzania does better than Mauritius, in the other components of the index Tanzania has important gaps relative to the two comparator countries--South Africa and Mauritius. The most significant gaps are observed in institutions and the private sector. But there are also substantial gaps in energy, structural change, and human capital.

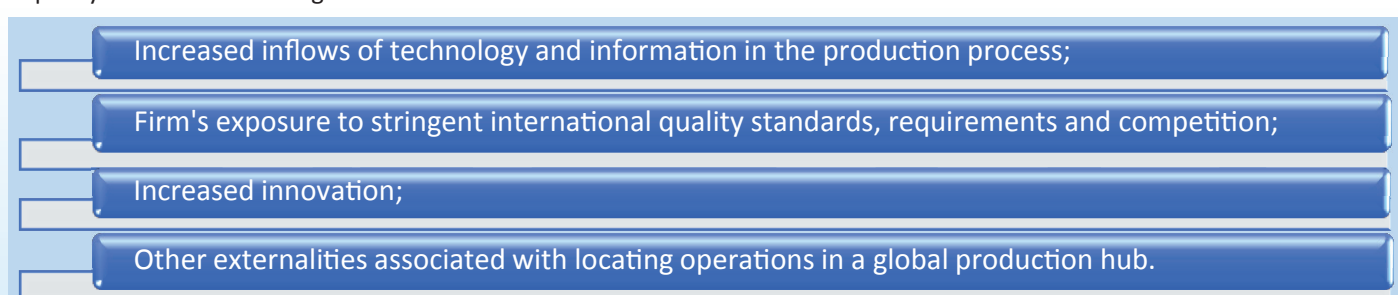
## PROCESSES OF DEVELOPING PRODUCTIVITY CAPACITIES FOR INDUSTRIAL AND TRADE EXPANSION

Productive capacities develop within a country through four closely interrelated processes: capital accumulation, technological progress, management and structural change.

Capital accumulation	<ul style="list-style-type: none"> <li>• The process of increasing capital stocks of various kinds through investment.</li> </ul>
Technological progress	<ul style="list-style-type: none"> <li>•1. The process of introducing new goods and services, new or improved methods, equipment or skills to produce goods and services;</li> <li>•2. New and improved forms of organizing production through innovation.</li> </ul>
Management	<ul style="list-style-type: none"> <li>•1. The application of knowledge in production;</li> <li>•2. The organization of labour and optimization of resource use to achieve maximum efficiency.</li> </ul>
Structural change	<ul style="list-style-type: none"> <li>•1. The change in the inter- and intra-sectoral composition of production;</li> <li>•2. The pattern of inter- and intra-sectoral linkages and the linkages amongst enterprises.</li> </ul>

## TOWARDS THE PRODUCTIVITY FRONTIER—THE PROMISE OF GVCs & RVCs PARTICIPATION

Higher global value chains (GVCs) and regional value chains (RVCs) participation, associated with increased imports and exports of intermediate goods, provides positive spill-overs to the economy. Higher GVC and RVC participation, associated with increased imports and exports of intermediate goods, provides positive spill-overs to the economy. The positive impacts are found to be stronger for countries that are further from the productivity frontier. Participation in GVCs and RVCs may boost the productive capacity of local firms through several channels:

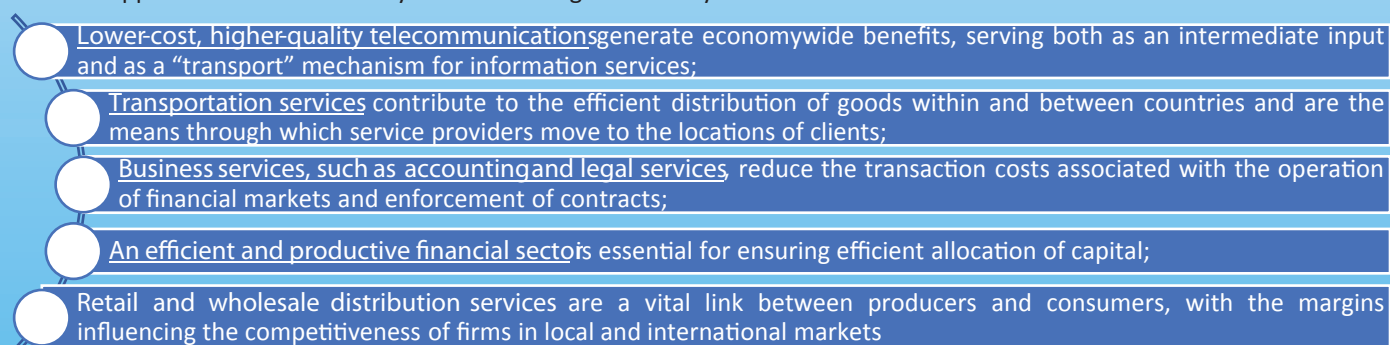


Several countries—Lesotho, Eswatini (formerly Swaziland), Tanzania, and Mauritius (in that order)—have the region's largest shares of foreign value added (imported goods used to produce intermediate or final goods for export) in light of their relatively large shares of imports for exporting textile and apparel products. These and several other countries have succeeded in joining textile manufacturing GVCs because of the preferential trade access—mainly the AGOA—that is exclusive to Sub-Saharan African countries. More recently, several East African economies (including Ethiopia, Kenya, and Tanzania) have raised their GVC participation in agro-industries and manufacturing exports—signalling the potential of GVCs for other economies in the region.

Promotion of GVC and RVC participation is, therefore, a policy that Tanzania and other developing countries' policy makers should consider as an instrument for enhancing productive capacities through capital accumulation, technology diffusion, and expansive access to high income global markets. These are essential for the success of any export-led growth strategy.

## THE PROMISE OF TRADE IN SERVICES IN STRENGTHENING VALUE CHAIN PARTICIPATION

Services are essential intermediaries in facilitating transactions and businesses, and integrating producers and consumers through regional and global value chains, in addition to serving as inputs in the production process. Services such as finance, transportation, energy, telecommunications, legal counsel, and distribution also foster productivity in manufacturing, goods trade and the overall economy—and, in doing so, improve a country's competitiveness and economic status relative to the rest of the world. Services also provide a mechanism for diffusing production innovations and technology spill-overs. The competitiveness of manufacturing firms relies in part on access to low-cost, high quality producer services—telecommunications, transportation, and distribution services—as well as on financial intermediation. Services are thus a vital input into goods trade. Moreover, such services support the overall economy in the following several ways:



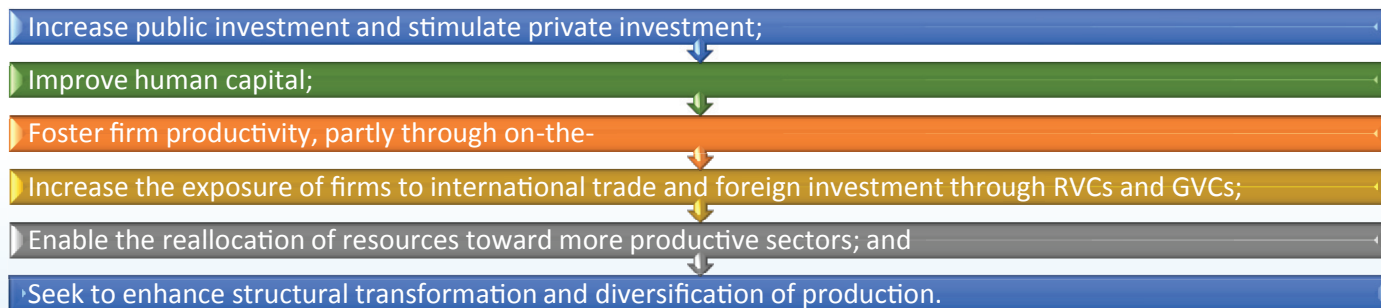
In sum, the ability of firms to effectively participate in the RVCs and GVCs also depends on their access to telecommunications, transportation, financial services, and other business services such as accounting and legal services. Not to mention that, conversely, high-cost, low-quality services act as a tax on the business community and especially the exporters. Services are thus a vital input into goods trade.

## THE VALUE ADDED FOR POLICYMAKERS OF A FOCUS ON ENHANCING PRODUCTIVE CAPACITIES

### Importance of productive capacities for policy makers

- Provides a better understanding of how to sustainably promote and accelerate economic growth--how to start it, to sustain it, and how to accelerate it;
- Provides a better understanding of the links between economic growth and poverty reduction;
- Provides a better understanding on why some form of economic growth are linked to productivity growth in key sectors and trade expansion than others;
- Provides a better understanding on how to ensure that sustained enhancement of productive capacities contributes to industrial and trade expansion--through RVCs and GVCs--, and poverty reduction.

Governments seeking to sustainably enhance the growth of productivity capacities can:



### Policy priorities would be four-fold:

- Aim to stimulate private and public investment for key infrastructure and services, and improve human capital;
- Design and ensure a growth-friendly macroeconomic and institutional environment;
- Sustain participation in RVCs and GVCs to improve management, partly through the diffusion of good practices;
- Implement targeted industrial policy to promote productivity growth at the firm level, by ensuring that enterprises are appropriately integrated into regional and global value chains.

## CONCLUSION AND POLICY RECOMMENDATION

The enhancement of productive capacities of a country constitutes a potentiality for industrial and trade expansion and effective participation in the regional and global value chains. Productive resources, entrepreneurial capabilities and production linkages are created and transformed over time through, inter alia, the country's effective participation in the RVCs and GVCs. As this occurs sustainably, the productivity capacities of an economy are also sustainably enhanced, thus making economic growth, industrial and trade expansion possible and sustainable.

It is recommended that this framework of analysis is adapted to inform policy analysts, private sector practitioners, and decision makers in public institutions responsible for promoting economic growth, industrial development, investments, trade expansion, and private sector development. It is the ability these actors to address the various constraints to productivity growth that Tanzania can sustain its growth momentum, realize its development potential, and achieve significant poverty reduction.

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