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REPOA Brief

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Harnessing Tanzania's Services Trade for Structural Transformation

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Key Messages

Tanzania has a strong service export performance and strategic position in regional trade. This highlight the need for boosting service sector competitiveness and deepening integration into global value chains for sustainable and inclusive growth.

Unlocking the full potential of the service sector requires diversifying exports, enhancing infrastructure, promoting regional connectivity, fostering cross-sector linkages, and investing in digital infrastructure and workforce skills.

Striking a balance between increasing Foreign Value-Added content of service exports to connect with GVCs and raising Domestic Value-Added content to strengthen domestic linkages and jobs is critical for sustainable growth and transformation.

Introduction

The service sector has become a key driver of Tanzania's economic growth and structural transformation. Services are used as intermediate inputs into the production process and play a significant role in facilitating firms' integration into Global Value Chains (GVCs). As a result, a dynamic and competitive services sector enhances productivity, strengthens industrial performance, and fosters inclusive growth. The role of services in international trade has increased more than that of goods, especially in developing countries (Mashayekhi & Antunes, 2017; World Bank & WTO, 2023). Between 2005 and 2022, commercial service exports from the least developed economies increased by more than 300%, while those of other developing economies grew by more than 250% (World Bank & WTO, 2023). Global development in international trade indicates that, while merchandise trade has experienced a structural slowdown for almost four decades, trade in services has been more dynamic (UNCTAD, 2024).

Services are often domestically produced and then exported indirectly as components of other goods or services at the final stages of the value chain or exported as a final good. In this way, they link different stages of value chains and enable GVCs to emerge. Services like transport, logistics, information, and communication services have partly driven the international fragmentation of production. However, despite the increased role of services in GVCs, there is limited empirical evidence on the contribution of services trade to GVCs and their broader implication for structural transformation, particularly for developing countries like Tanzania.

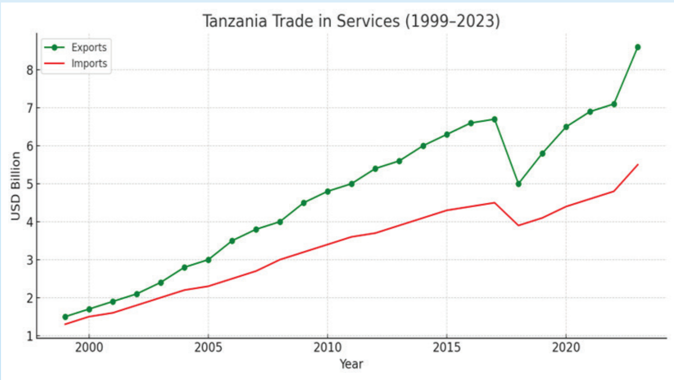
Therefore, this brief presents key findings from a study that investigated the impact of changes in the composition of services and trade sub-sectors on economic growth and transformation in Tanzania. Specifically, it offers a picture of Tanzania's services trade profile and analyse the contribution of services trade to GVCs through decomposition of value added in exports by its origin using the 2015 and 2019 Tanzania input-output tables.

Findings

Tanzania’s Services Trade Overview

In Tanzania, service exports reached a record TZS 14,973 billion (USD 6.3 billion) in 2023, marking a 36.7% increase from 2022 (Figure 1). Tanzania has maintained a services trade surplus since 2001, primarily driven by exports in travel and transportation. While imports have also risen, export growth continues to outpace them. Travel and transportation dominate, accounting for over 86% of the total service exports in 2023.

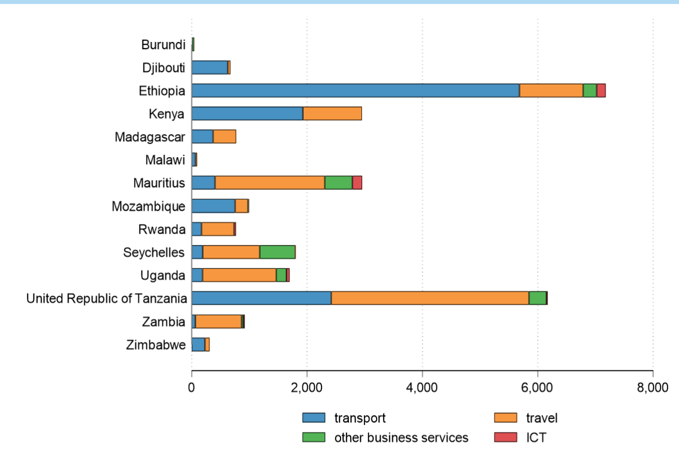
Figure 1: Evolution of Trade in Services 1999 – 2023



Source: *Bank of Tanzania*

Tanzania's service exports in the transportation and travel sectors surpass those of most of its Eastern African neighbours. While Ethiopia led the region in transportation exports in 2023, Tanzania dominated in travel exports during the same year. This performance highlights the tourism-focused travel industry's potential to drive Tanzania's overall economic and export growth.

Figure 2: Services exports by category for selected Eastern African countries, 2023



Source: *UNCTAD statistics*

Notes: For some countries, data for 2023 for other business services and ICT sectors are not reported.

Tanzania's primary service export markets have remained stable, led by the United States, China, and Switzerland. Recently, Hong Kong has emerged as a new top 10 destination, replacing the Netherlands.

A significant portion of Tanzania's service exports comes from its role as a transport gateway for its six landlocked neighbors: Burundi, Rwanda, Uganda, the DRC, Zambia, and Malawi. These countries rely on Tanzania's transport network to access global markets. This regional dependence highlights the need for Tanzania to streamline cross-border trade and improve port efficiency to boost its export competitiveness. Overall, developing the service sector offers a high-potential path towards achieving long-term economic resilience and sustainable development.

Role of Services in Value Chains: Decomposition of value added in exports

The integration of services like finance, logistics, and ICT is crucial for the efficiency of global production systems, which are increasingly structured around Global Value Chains (GVCs) (Coto-Millán et al., 2016; Hess et al., 2006).

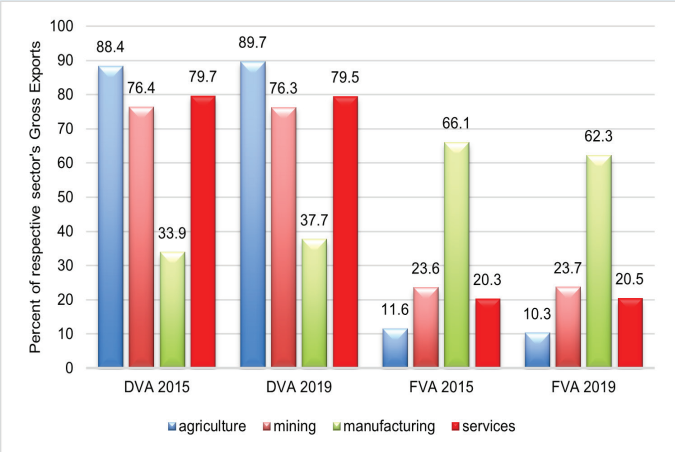
GVCs describe the complete sequence of activities from design and production to marketing and support that are required to bring a product or service to market, with these activities spread across different countries (Coto-Millán et al., 2016; Hess et al., 2006). This fragmentation of production has given rise to complex global networks. For developing countries, participating in these GVCs presents a new challenge. To measure the benefits, one must look beyond simple export values and instead calculate the domestic and foreign value-added created by both manufacturing and service sectors within a country's exports.

Domestic value-added (DVA) content of exports by a service industry in a country (in this case, Tanzania) to the world represents the exported value added that has been generated anywhere in the domestic economy.

Foreign value-added (FVA) content of gross exports captures the value of imported intermediate goods and services that are embodied in a domestic industry’s exports.

Our findings show that Tanzania’s exports depend more on domestic value added (DVA) than on imported (foreign) value added (FVA) for both goods and services. From 2015 to 2019, DVA in mining and service exports slightly declined, similar to trends in many developing countries, suggesting potential for greater production fragmentation (Banga, 2014; Kee & Tang, 2016). In contrast, agriculture and manufacturing exports recorded rising DVA over the same period, driven by stronger domestic linkages and reduced reliance on imported inputs (Figure 3). For example, the dominant agri-food processing industry in manufacturing relies mainly on locally sourced raw materials, thereby increasing the domestic content of exports (Mazungunye & Punt, 2022; URT, 2010).

Figure 3: Domestic and Foreign value added of gross exports by Sector

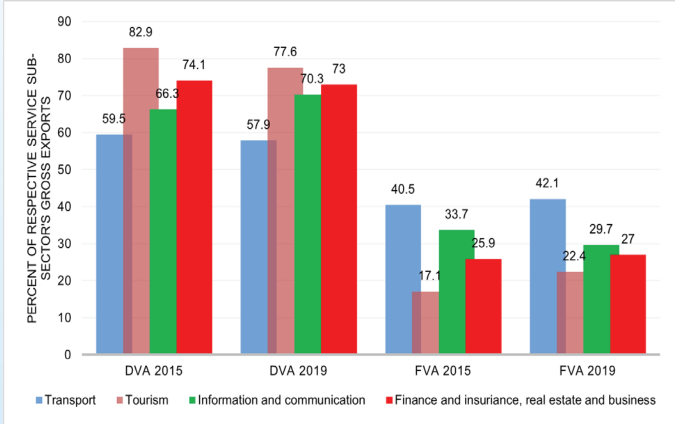


Source: *Authors' computation using 2015 and 2019 Tanzania I-O tables*

Service sub-sectors broadly mirror the overall services sector with some differences (Figure 4). Tourism exports recorded the highest DVA content, 82.9% in 2015 and 77.6% in 2019, reflecting its strong reliance on local labour and resources. As a labour-intensive sector employing over 1.4 million people, many of them women, tourism's high DVA content is closely tied to domestic employment (World Bank, 2021). In contrast, transportation exports had the lowest DVA content, 59.5% in 2015 and 57.9% in 2019, due to their heavy dependence on imported capital goods and skilled labour. This sector includes road, rail, air, water, pipelines, and auxiliary services such as postal and courier operations. Significant investment in transport infrastructure, combined with a relatively underdeveloped domestic construction industry, has reinforced this reliance on foreign inputs, particularly in capital- and technology-intensive modes like maritime, railway, and air transport (AfDB, 2013).

Over time, DVA in transport, tourism, finance, and business services exports declined slightly, while it increased in information and communication services. This trend reflects greater dependence on foreign inputs in the former sectors and deeper integration into global value chains.

Figure 4: Domestic and Foreign value added of gross exports by Service sub-sectors



Source: *Authors' computation using 2015 and 2019 Tanzania I-O tables*

Conclusion

Like many developing countries, Tanzania aims to diversify exports beyond primary products, strengthen global competitiveness, and expand manufactured and service exports. Such a shift can reallocate resources toward higher-productivity sectors, driving structural transformation. However, integration into global value chains (GVCs) often reduces the share of domestic value added (DVA) in exports, as seen in Tanzania's agriculture and manufacturing sectors between 2015 and 2019. While lower DVA and higher foreign value added (FVA) can displace local input suppliers and affect employment, imported inputs can enhance competitiveness when domestic alternatives are less efficient. Striking a balance between increasing FVA to connect with GVCs and raising DVA to strengthen domestic linkages and jobs is therefore critical for sustainable growth and transformation.

To achieve such a balance and to further harness the expanding services trade for inclusive economic growth and structural transformation, it is recommended that policy actions should aim at:

- Diversifying service exports by investing in ICT, financial, and professional services.
- Strengthening infrastructure and local industrial capacity to reduce import dependence in transport-related sectors.
- Promoting tourism beyond traditional markets by expanding marketing and improving services.
- Enhancing regional integration by upgrading transport corridors and border infrastructure.
- Encouraging linkages between services and other sectors (e.g., agriculture, manufacturing) through targeted incentives and SME support.
- Investing in digital infrastructure and skills to grow high-DVA service sectors such as computer and information services and foster value chains integration.

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