

The background features several large, overlapping, curved shapes in shades of purple, green, and blue. Scattered throughout are numerous small, yellow, triangular shapes, some pointing towards the center and others pointing outwards, creating a dynamic and abstract pattern.

Drivers of Industrial Competitiveness in Tanzania: A capability and sectoral approach

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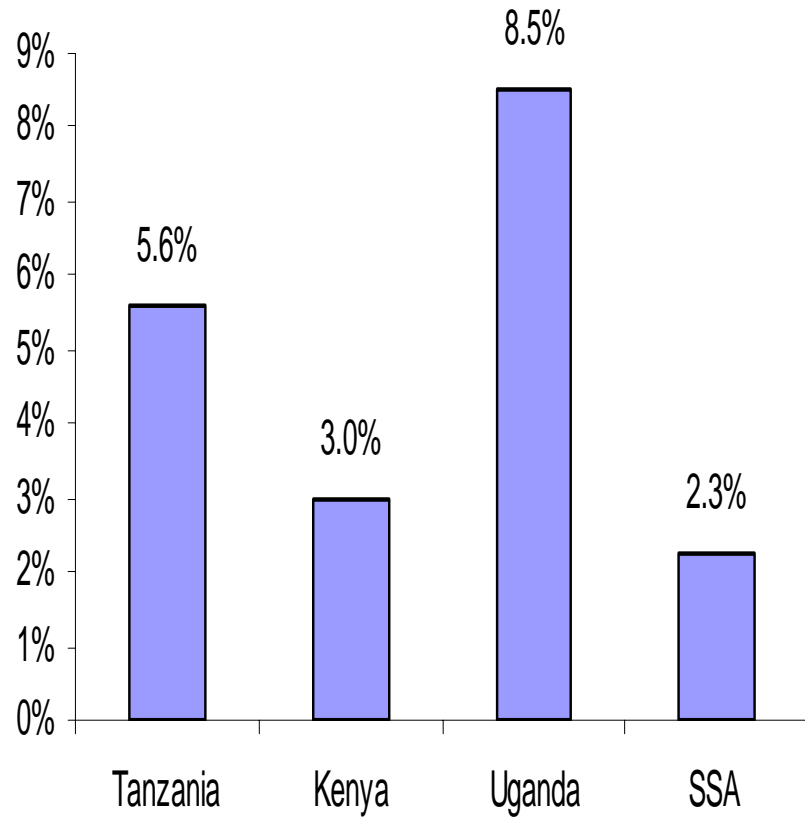
UNCTAD, Expert Meeting on Programmes and
Policies for Technology Development and Mastery of
Foreign Investment
16-18 July 2003

Overview of Tanzania's manufacturing sector

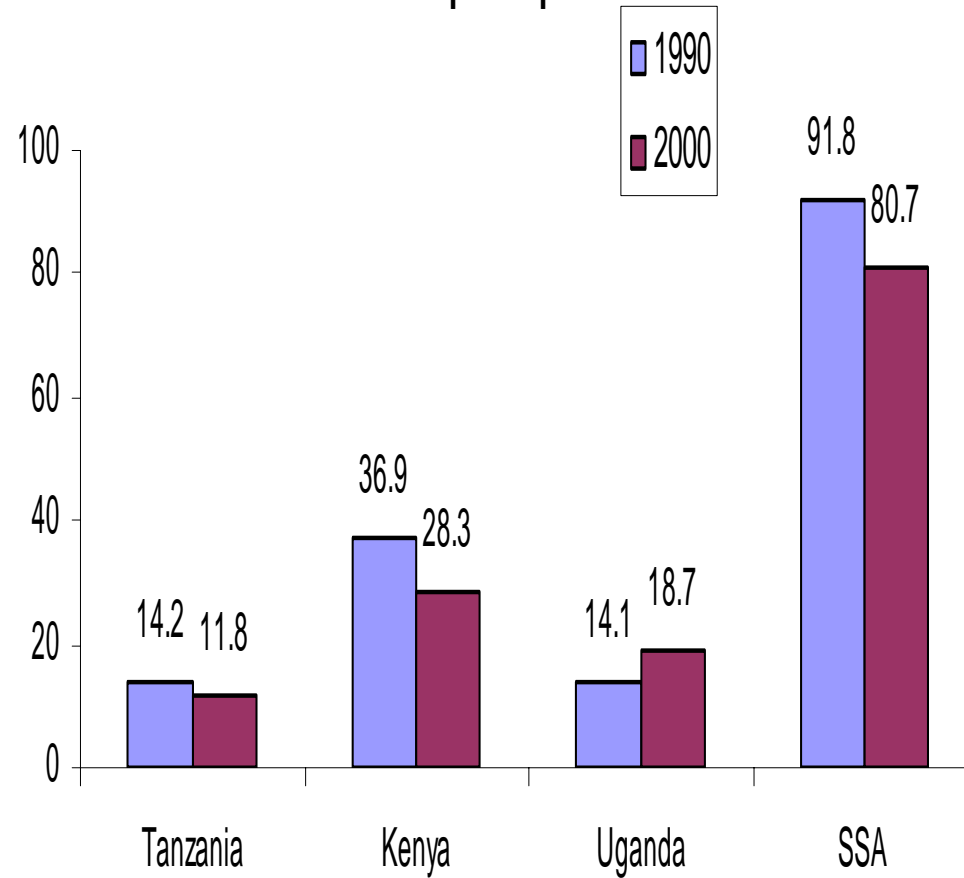
- Context:
 - Achieved macro-economic stability (control of inflation, reduction of deficit, etc)
 - Strong presence of international organisations. Yet, most emphasise health and education programmes.
- MVA as % to GDP has declined from already low 9.2% in 1990 to 7.5% in 2000
- Main industries are processed foods (account for 53% of industrial input and employs 30% of manufacturing employment), beverages and tobacco.
- Industrial activity concentrated in Dar, Arusha and Kilimanjaro areas
- Overrepresentation of family-owned microenterprises (5 or less employees) in manufacturing

MVA growth and capacity

MVA Annual Growth rate 1990-2000

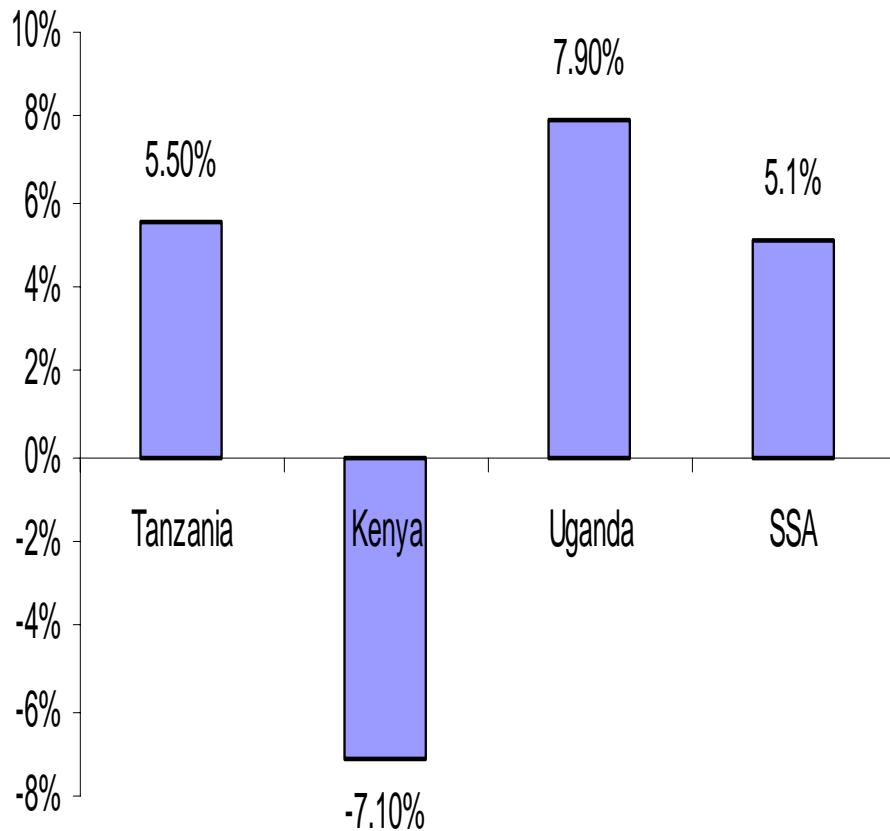


MVA per capita

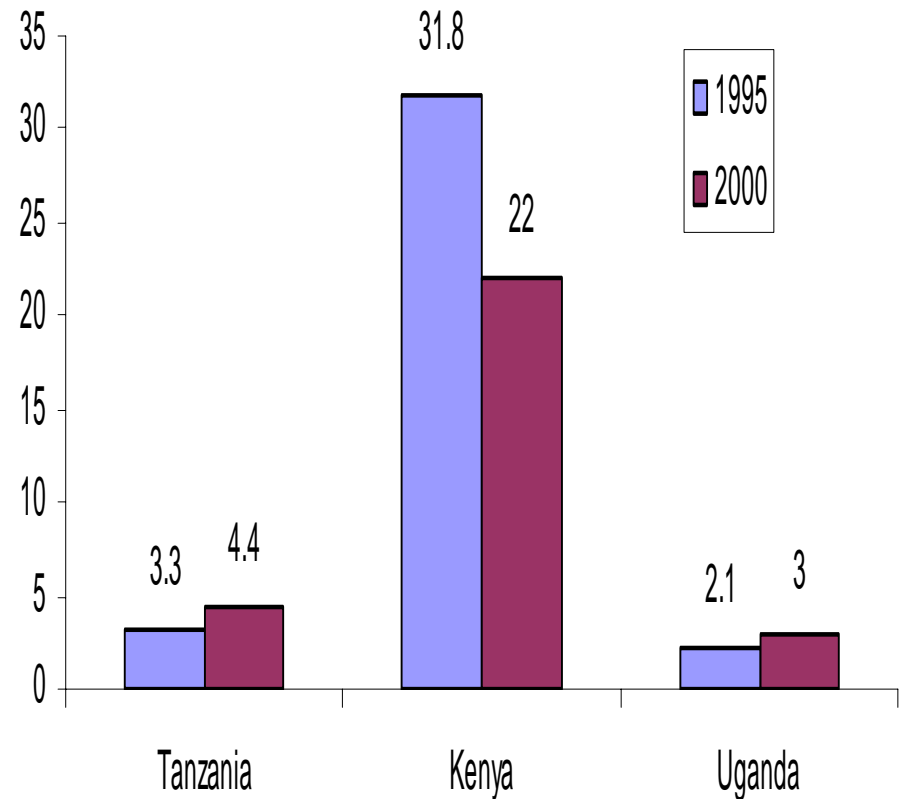


Manufactured export growth and capacity

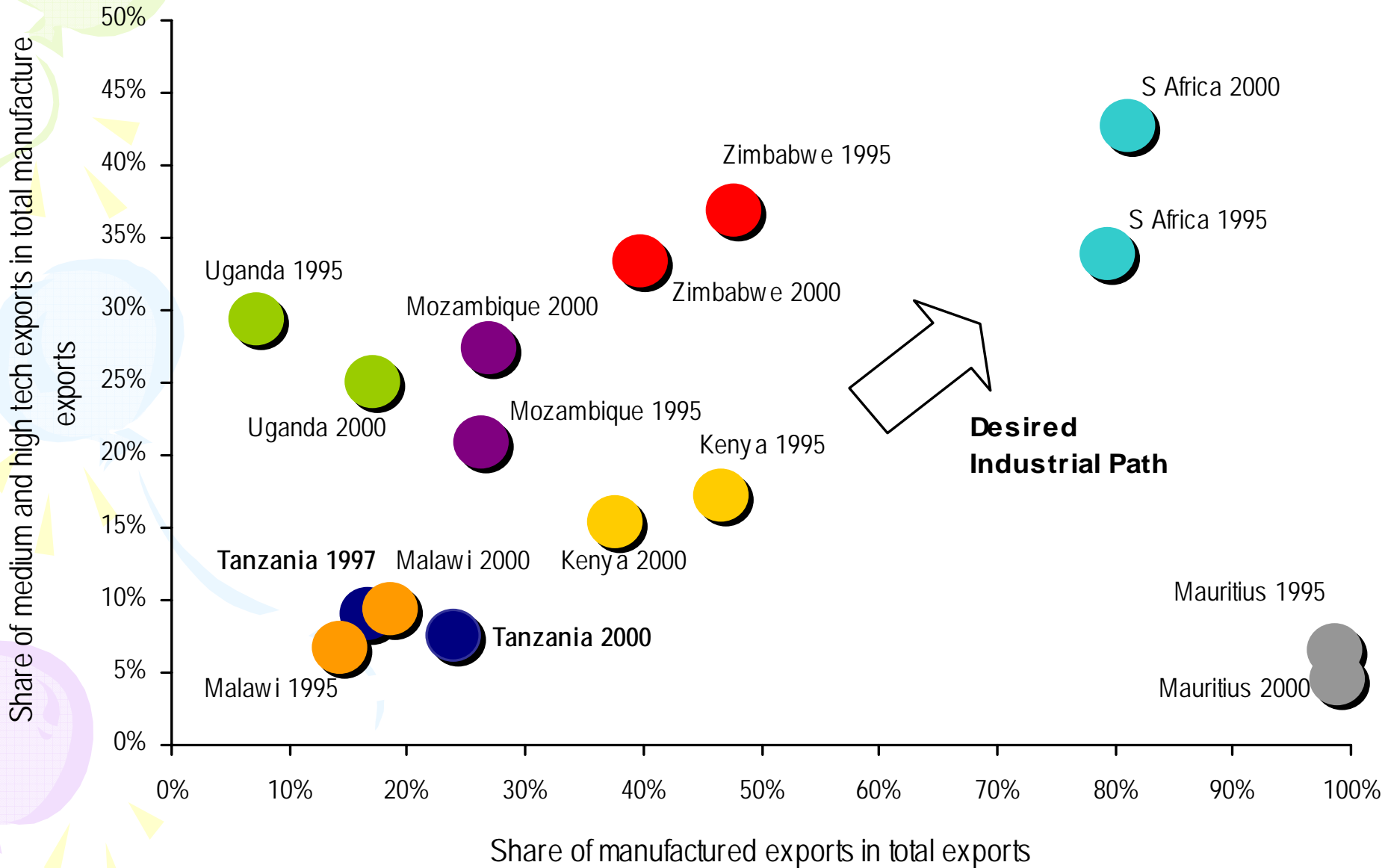
Annual growth rate in manufactured exports 1995-2000



Manufactured exports per capita 1995 2000

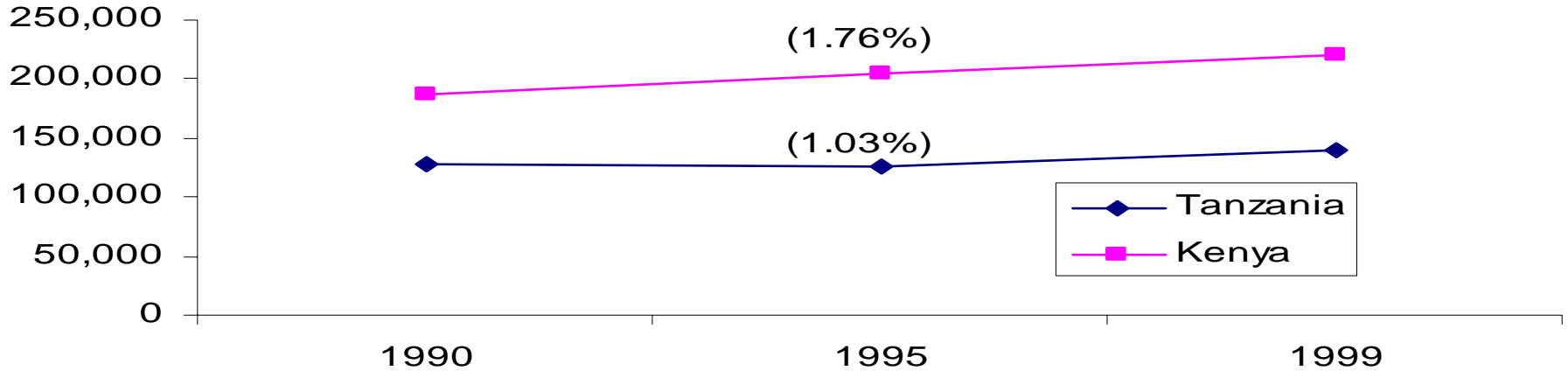


The desired path: technological upgrading

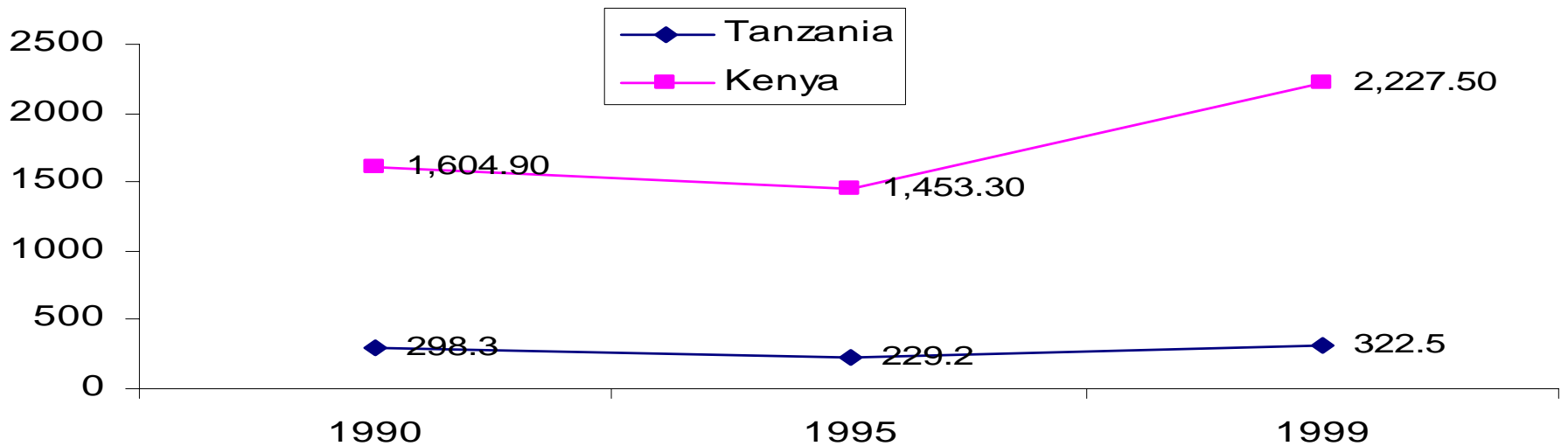


The social dimension of competitiveness

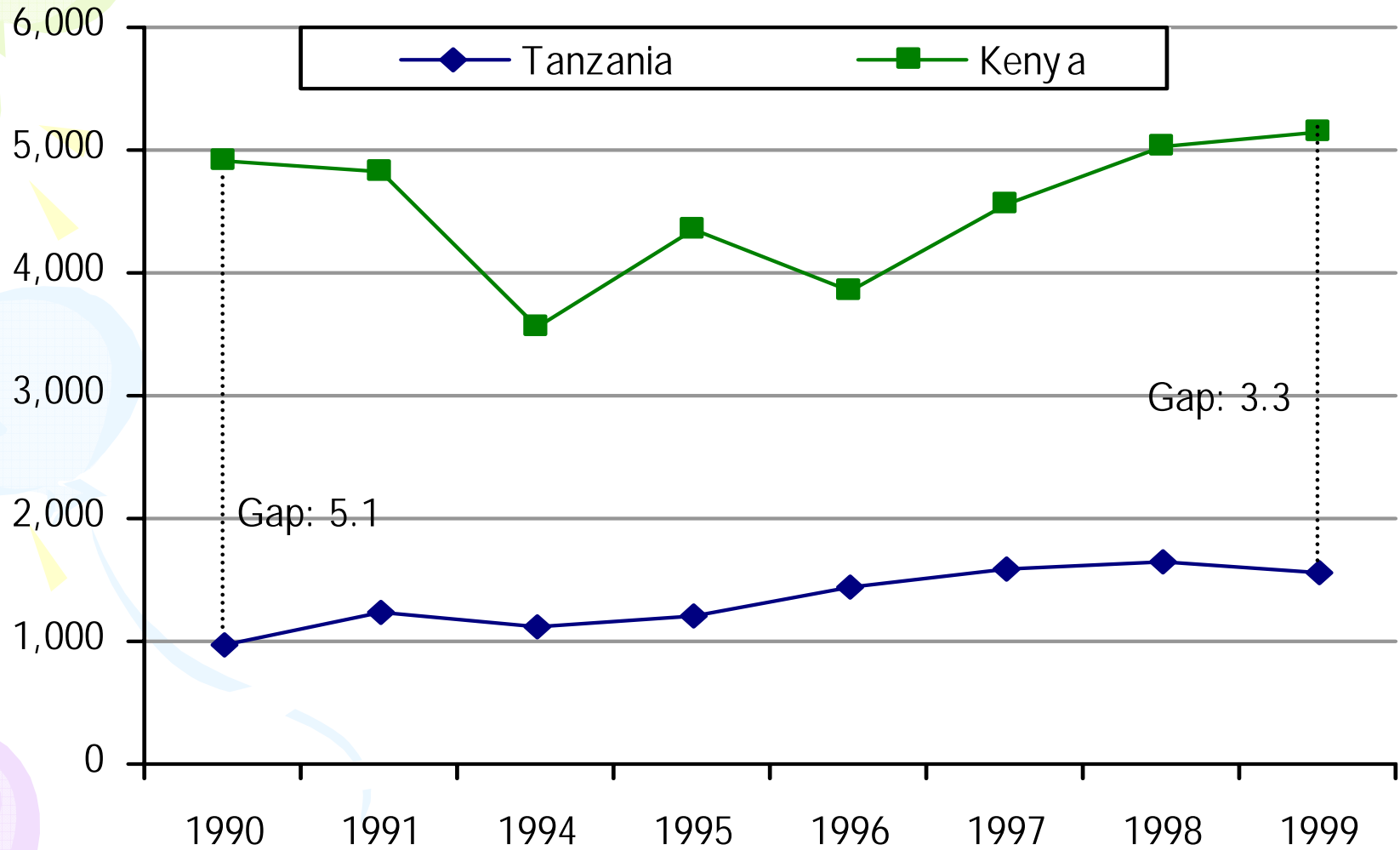
Manufacturing employment 1990-1999
Annual growth rate in brackets



Annual manufacturing wages (US\$)



The productivity gap in manufacturing



Source: UNIDO, Industrial Statistics 2002

Economic Arguments for Tanzania's underperformance in manufacturing

- **Argument 1:**

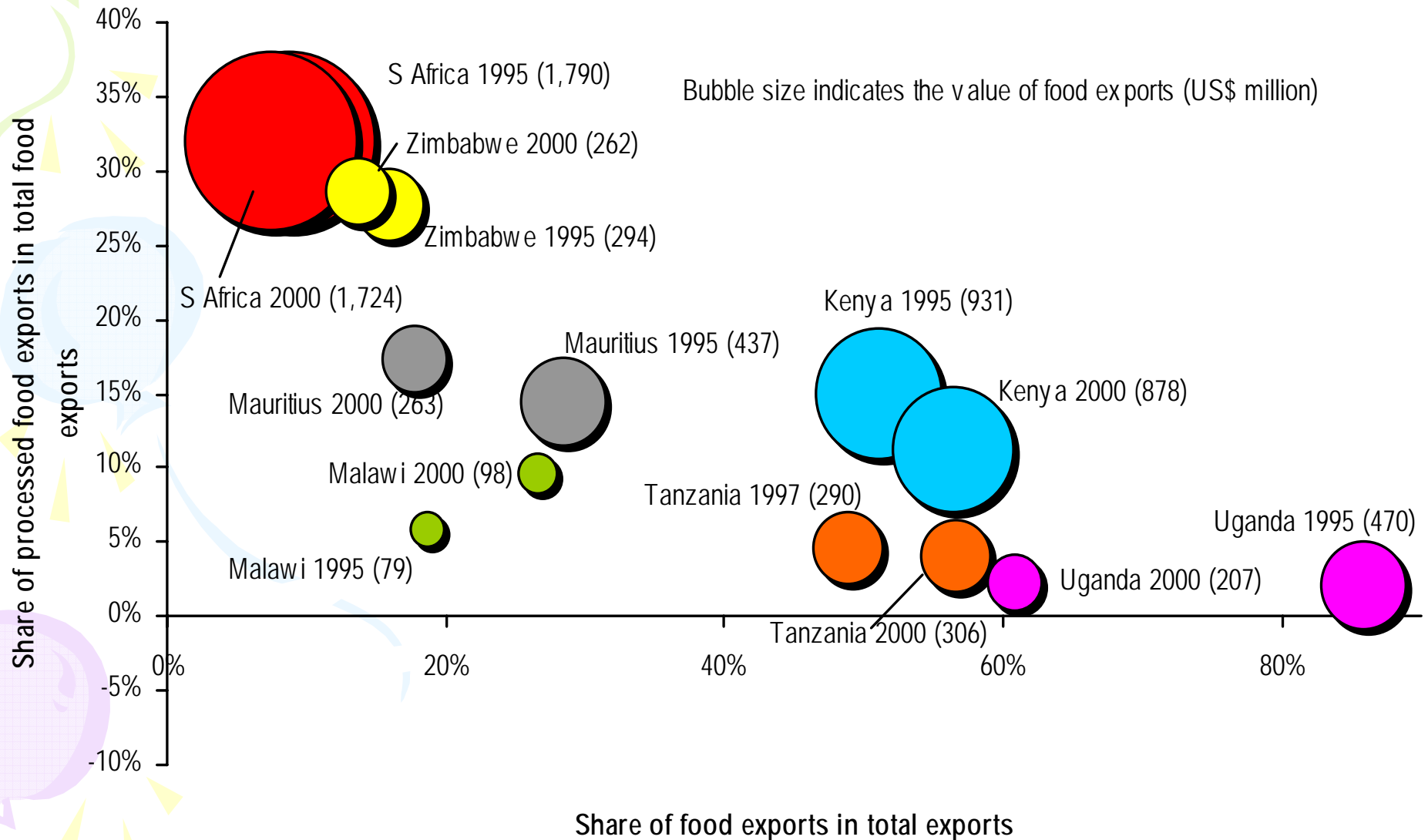
- Tanzania's private sector does not have the capabilities (i.e. skills, technology) to take advantage of sectors of comparative advantage (e.g. agro-processing industries)

- **Evidence:**

- The inability to transform agricultural inputs in basic agro-processed products has led to post harvest losses of around 25%-40% in the fruit and fish industries
- Tanzania has a positive trade balance in unprocessed food exports and a negative trade balance in processed food exports

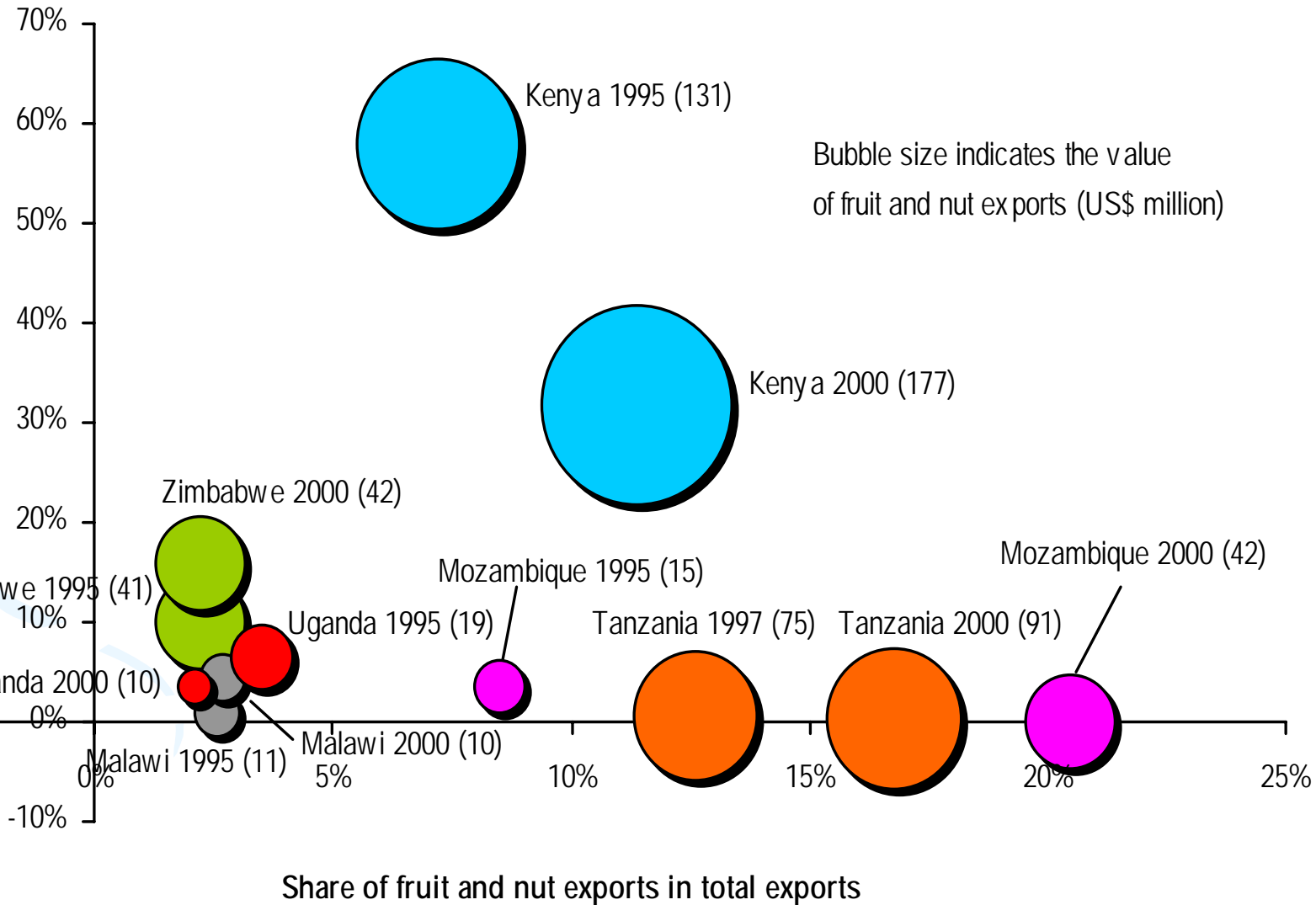
Capacity and upgrading in the food industry

Figure. Changes in the share of food exports in total exports and in the share of processed food exports in total food exports for Tanzania and other African countries, 1995-2000

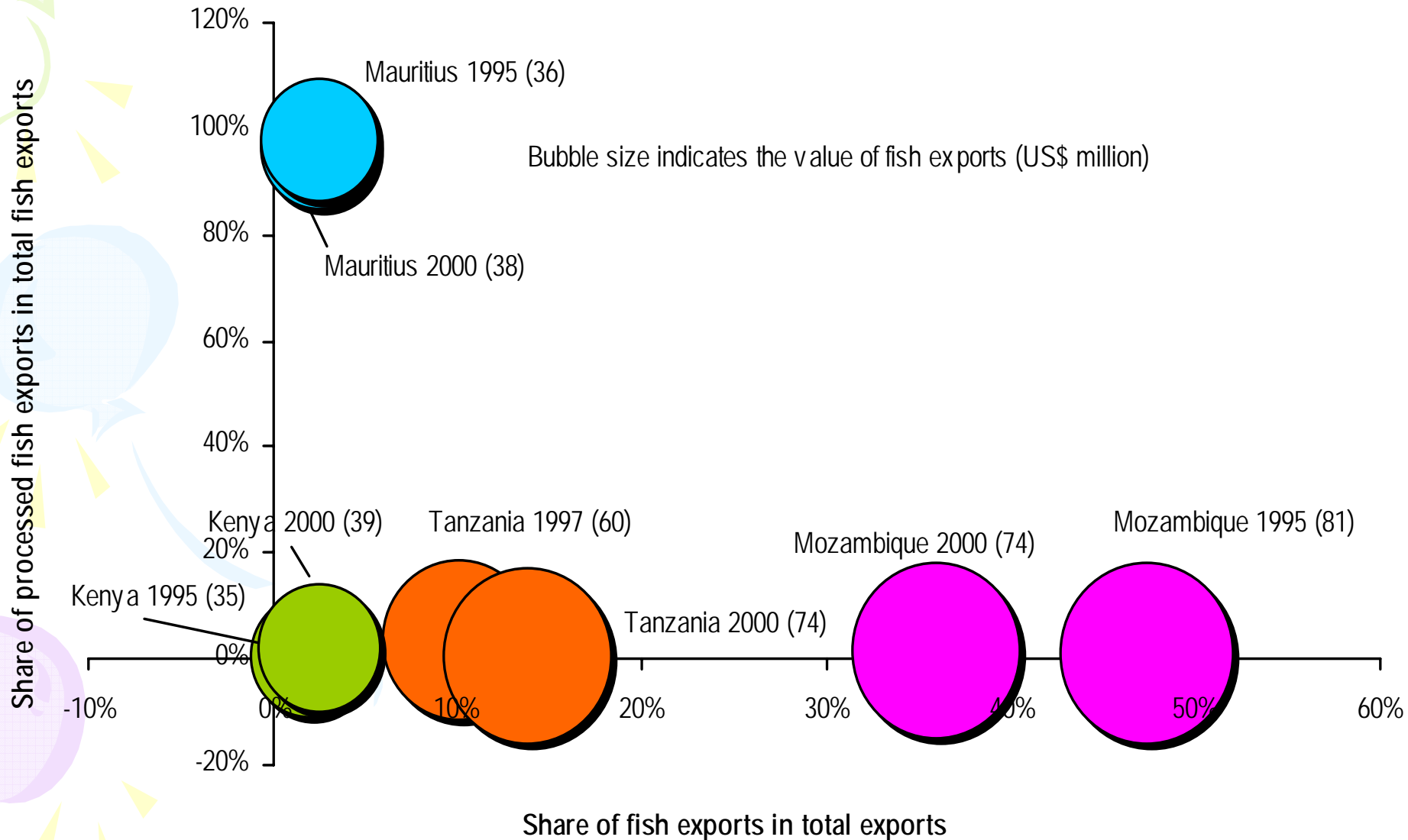


Capacity and upgrading in the fruit industry

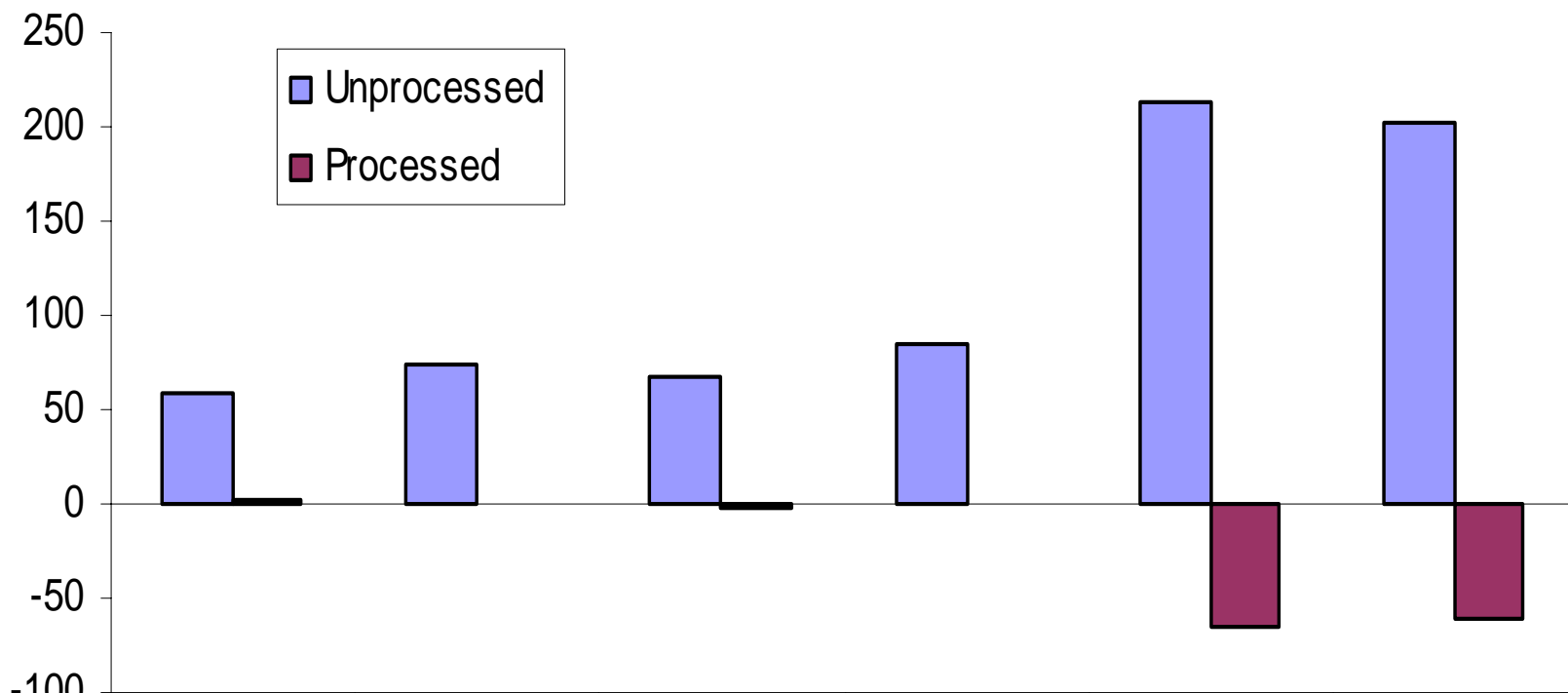
Share of processed fruit and nut exports in total fruit and nut exports



Capacity and upgrading in the fish industry



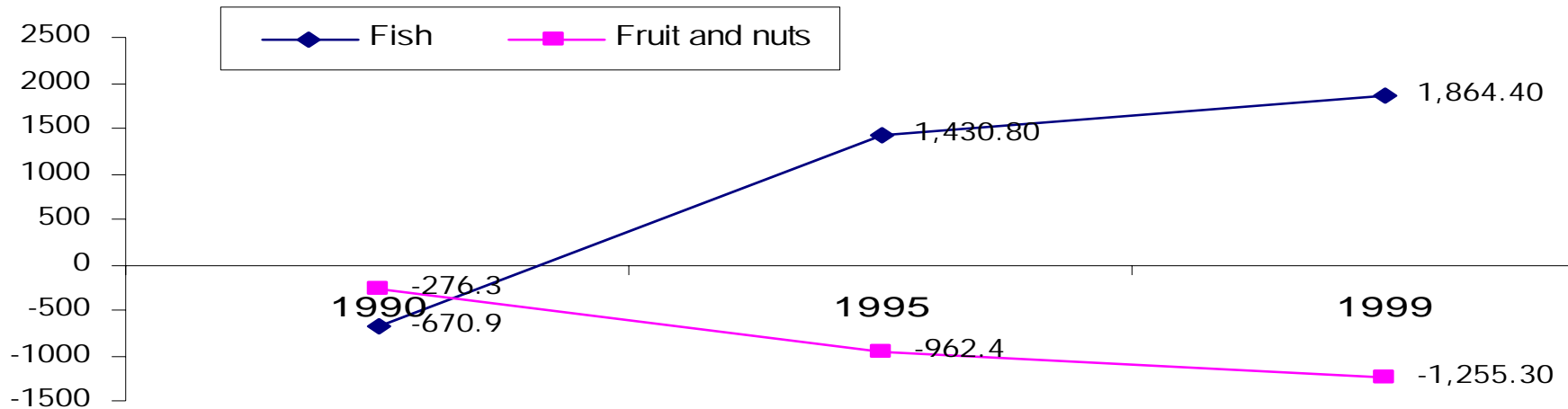
Tanzania's trade balance for selected food industries (US\$ million 1995, 2000)



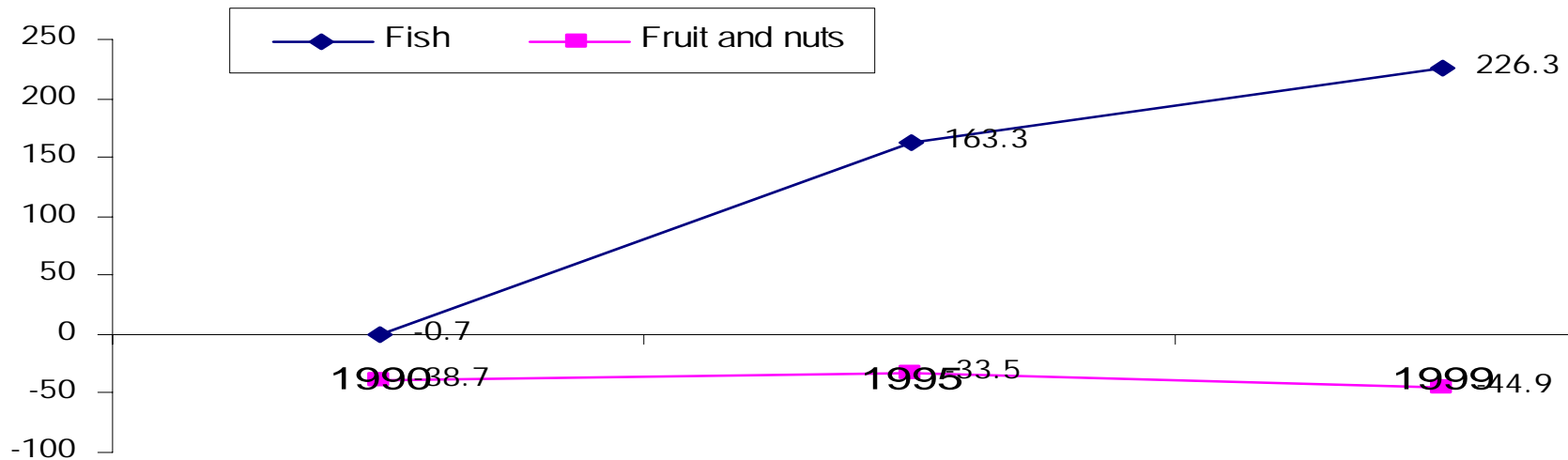
| | 1995 | 2000 | 1995 | 2000 | 1995 | 2000 |
|---------------|------|------|----------------|------|------------|-------|
| | Fish | | Fruit and nuts | | Total food | |
| ■ Unprocessed | 57.7 | 73.9 | 66.9 | 85.6 | 214.1 | 202.3 |
| ■ Processed | 2.3 | 0.5 | -1.1 | -0.7 | -64.6 | -61.2 |

Differentials in productivity and wages for the Fish and fruit industries (US\$)

Productivity differentials, US\$ (relative to average productivity in manufacturing)

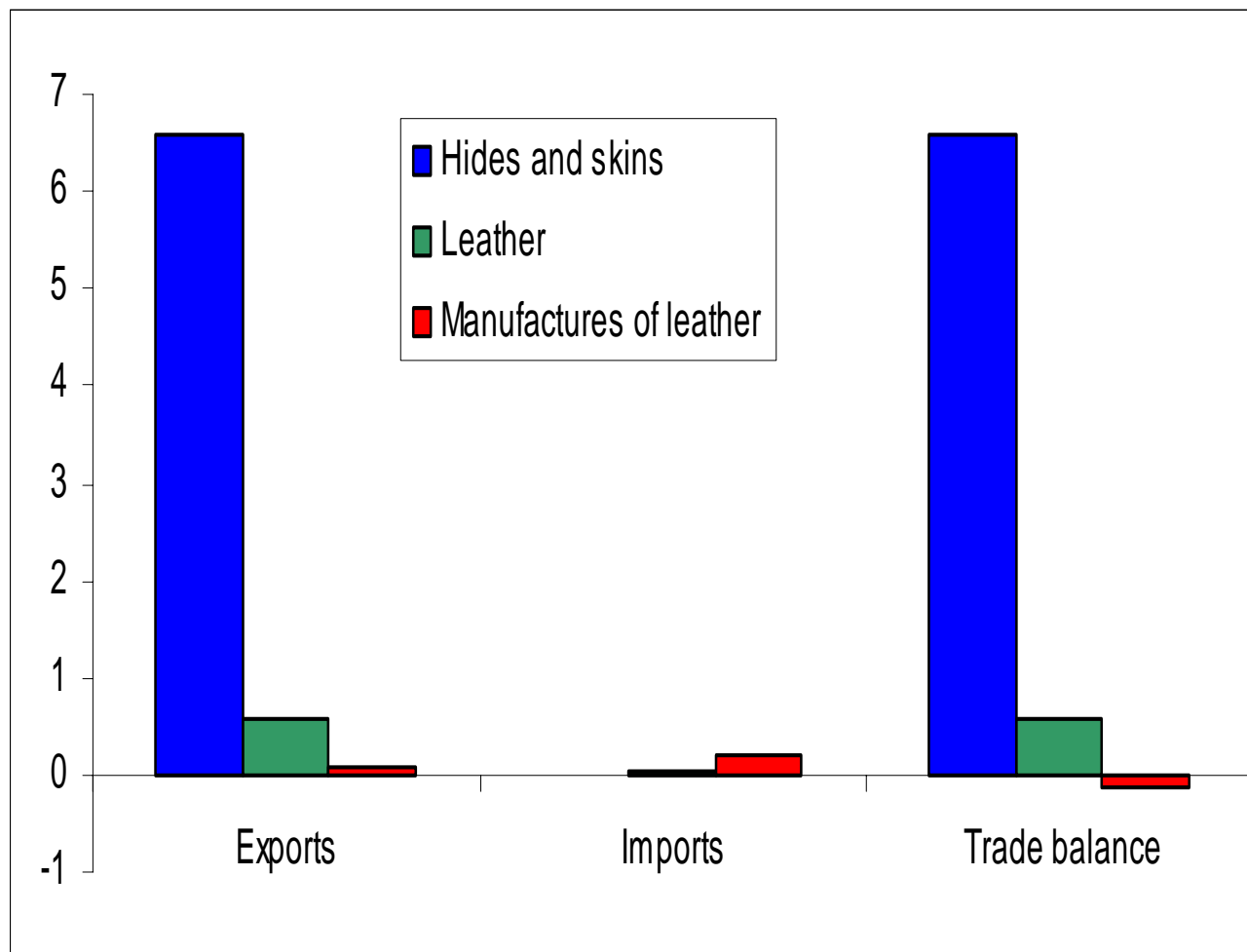


Wage differentials, US\$ (relative to average wages in manufacturing)



The leather value chain and Tanzania's performance (US\$ million, 2000)

VALUE ADDED





Economic Arguments for Tanzania's underperformance in manufacturing

- **Argument 2:**

- Trade liberalisation and regional integration has not triggered industrial growth.

- **Evidence:**

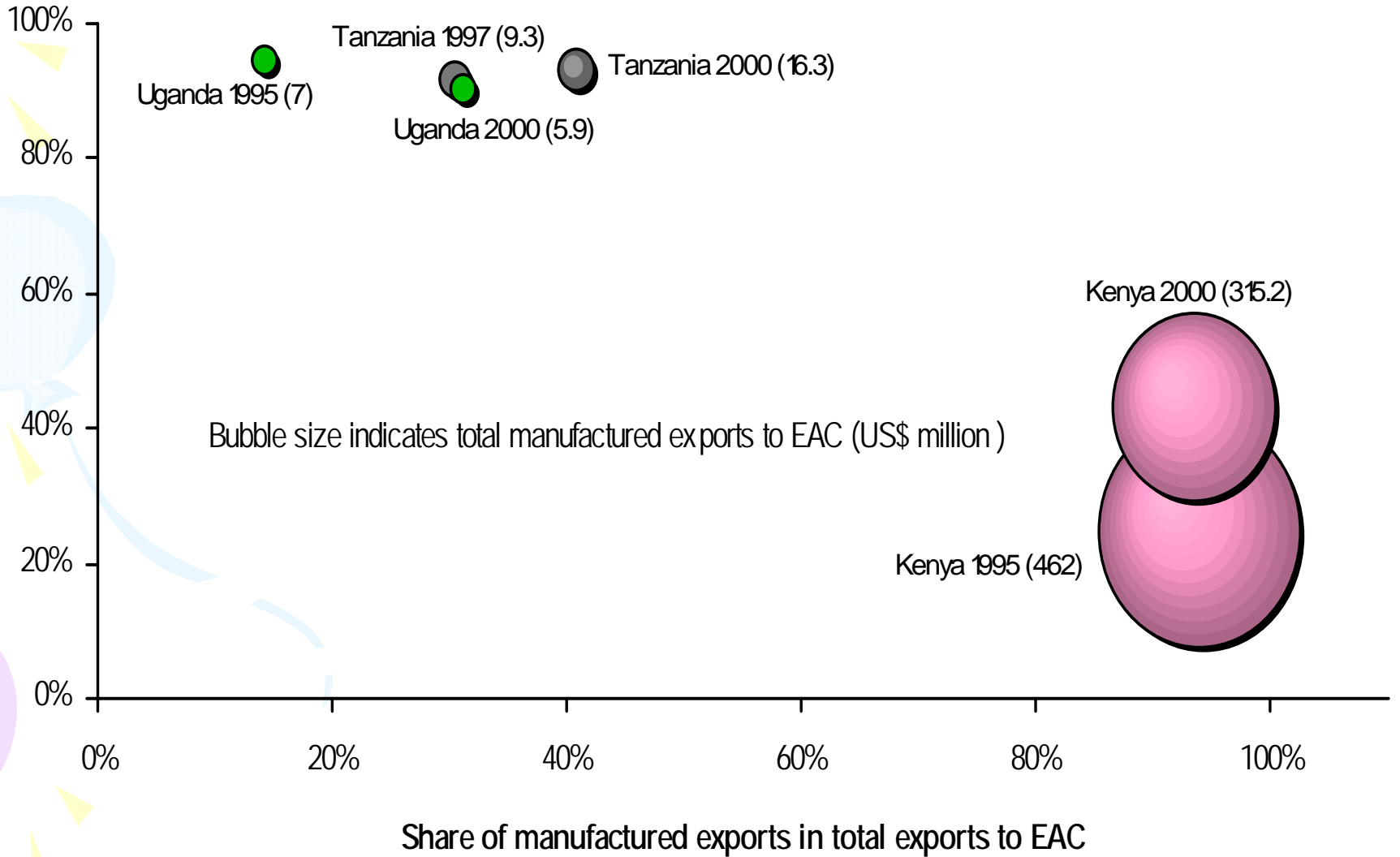
- Manufactured export performance in EAC and SADC has been disappointing.

- More worrying, trade agreements have reinforced Tanzania's role as exporter of primary and very low added manufactures. This is more significant in SADC given the differences in the sophistication and maturity of members' manufacturing sectors.

Manufactured export performance in EAC

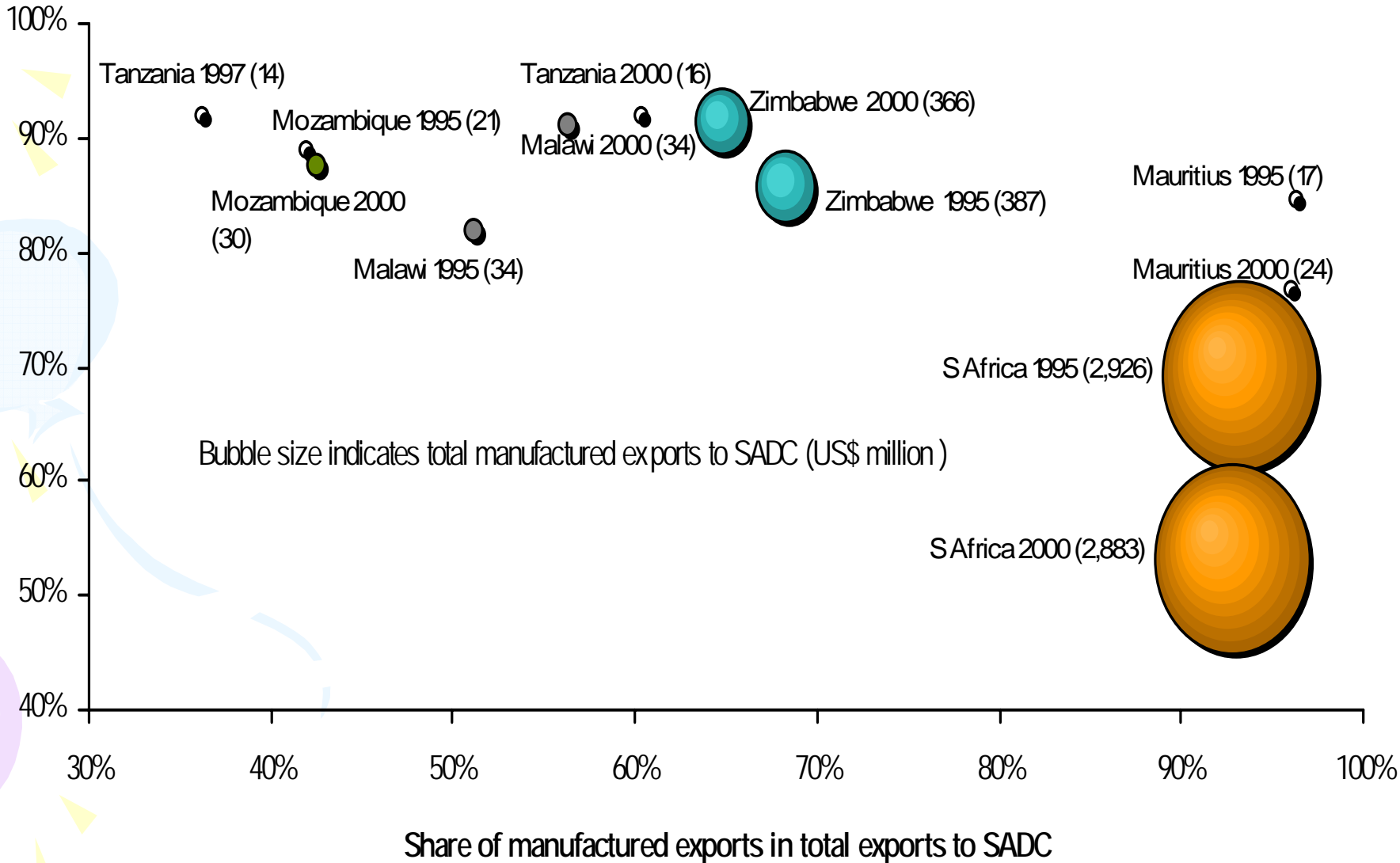
Share of manufactured imports in total imports from EAC

EAC

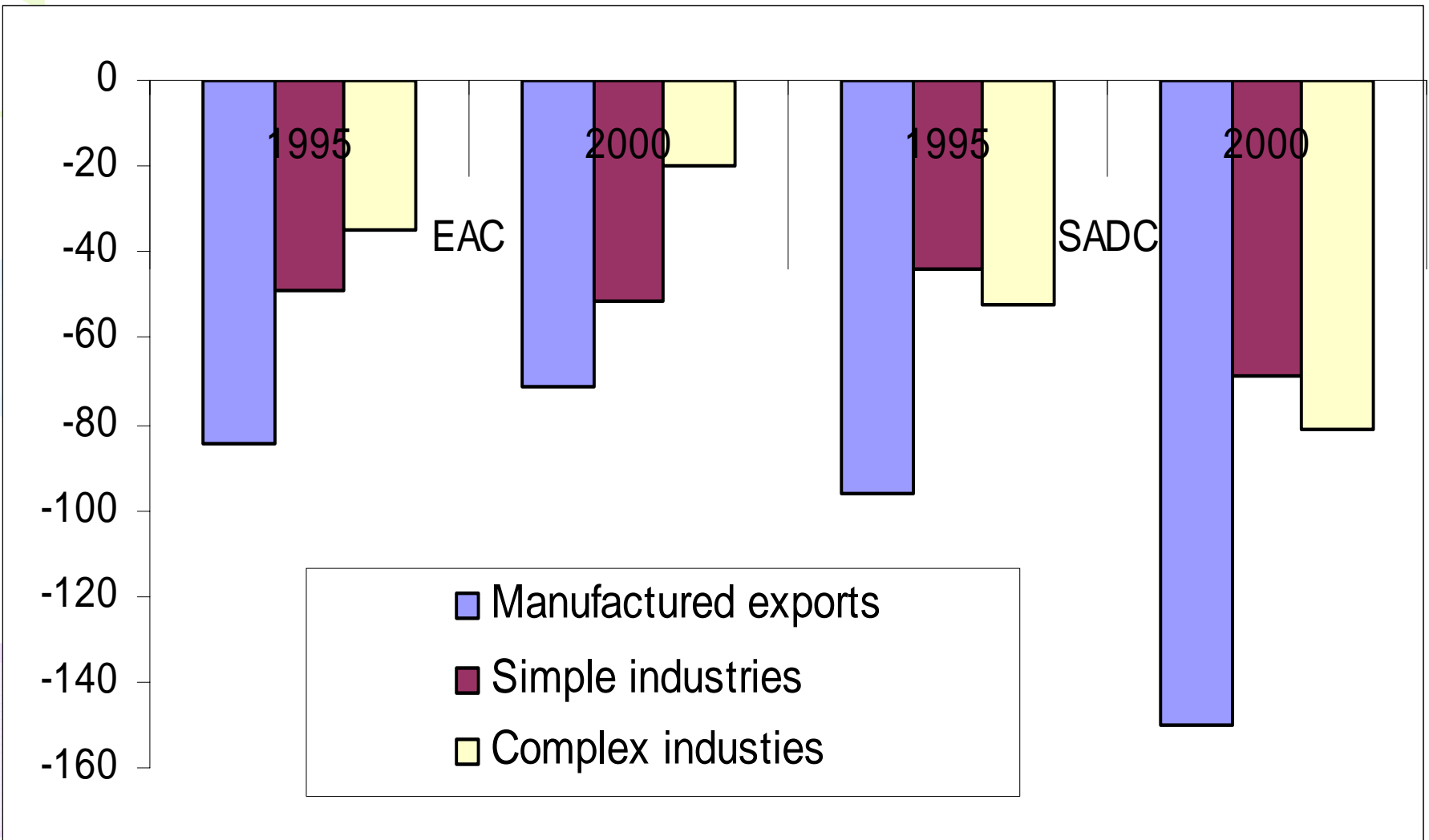


Manufactured export performance in SADC

Share of manufactured imports in total imports from SADC

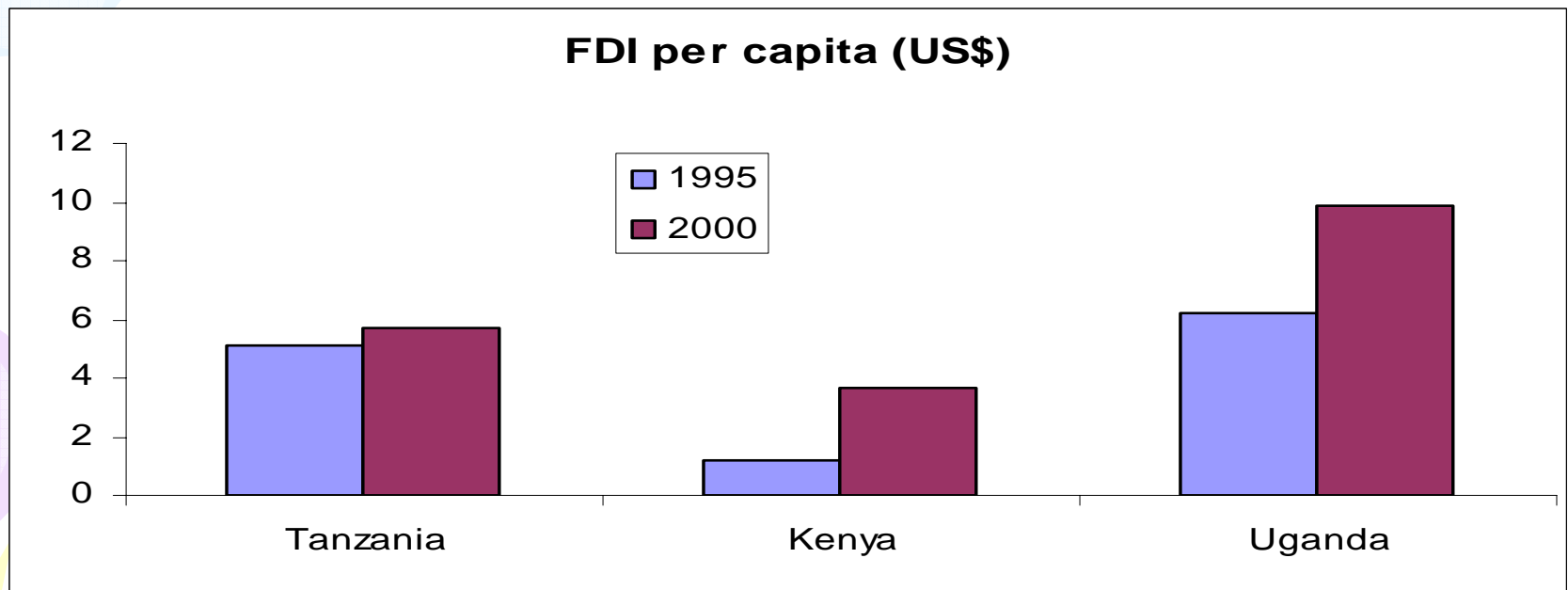


Tanzania's trade balance in EAC and SADC markets (1995, 2000)



Economic Arguments for Tanzania's underperformance in manufacturing

- **Argument 3:**
 - Tanzania's manufacturing has not plugged into global production systems, hence not benefiting from technology transfer
- **Evidence:**
 - FDI inflows remain very low (US\$ 193 million in 2000)
 - Most FDI inflows in the country have not targeted the manufacturing sector (only 2-3%)



Economic Arguments for Tanzania's underperformance in manufacturing

- **Argument 4:**
 - Tanzania lacks the dynamic technology-based SMEs that undertake innovation and demand highly qualified staff.
- **Evidence:**
 - Tanzania counts with few growth-oriented SMEs (which are often run by non-Africans) and many survivalist microenterprises.
 - R&D financed by productive enterprises is nil.

**THIS DOES NOT MAKE TANZANIA
DIFFERENT FROM MOST COUNTRIES
IN SUB-SAHARAN AFRICA**

IMPLICATIONS FOR POLICY: WHERE CAN AFRICAN COUNTRIES START?

1. Defining a country's INDUSTRIAL VISION (short, medium and long term goals), based on an thorough industrial assessment using benchmarking exercises to:

- Find major bottlenecks to industrial activity**
- Find competitive strengths to be exploited (e.g. low wages, high skill level)**
- Identify sectors with growth potential ('picking winners')**

BUT WHY IS AN INDUSTRIAL VISION SO IMPORTANT?

- a) It helps developing countries define the kind of technology and skills to be developed, and FDI to be attracted**
- b) Capability building is faster and more cost-effective**

IMPLICATIONS FOR POLICY: WHERE CAN AFRICAN COUNTRIES START?

2. Design & implementation of POLICY TOOLS to achieve the industrial vision

- **Industrial policy**

Licensing and other requirements; competition policy; ownership policy; corporate tax rates

- **Technology policy**

Technology licensing; tax regime for R&D activities; technology finance; technology institutes- industrial sector linkages; IPR regime

- **Trade policy**

Restrictions (tariff bands and average tariff rates); customs administration (efficiency and speed); access to world-price inputs for export activity; export taxes or incentives

- **FDI policy**

Restriction on investment; costs of entry and doing business (legal & bureaucratic barriers); special incentives for investors

CAN SUCCESSFUL EAST ASIAN POLICIES BE REPLICATED IN AFRICA?

- They can but success is unlikely to occur as the international context has changed:
 - Competition is much tougher today
 - There are new rules of the game (e.g. WTO)and SSA's capability base is lower than EA's in the past
- For SSA, it is therefore better to learn from **PRINCIPLES** rather than particular **POLICIES**
 - EXPORT ORIENTATION (CONSENSUS)
 - ROLE OF THE GOVERNMENT ON COMPETITIVENESS (MORE CONTROVERSIAL)