THE UNITED
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A Framework for a Tanzanian Growth Strategy

Produced by the Research and Analysis Working Group of the MKUKUTA Monitoring System,
Ministry of Planning, Economy and Empowerment

The average annual growth rate of 6% achieved by Tanzania since 2000 is high by historical comparisons with the 1980s and 1990s, yet it remains low in relation to the target of 8-10% needed to reduce income poverty to the levels set in the Development Vision 2025 and the Millennium Development Goals. The challenge is to accelerate and sustain growth. Countries that have focussed resources in carefully chosen growth drivers have achieved high economic growth and development. Generally Tanzania's growth performance has been poor for years, in part because of limited resources, but also because the country has chosen to spread its resources too thinly. Given our limited resources there is need for a clear direction for resource mobilisation and a concentration of efforts – Tanzania needs a well focused national growth strategy.

Rationale for a Growth Strategy

The rationale for a growth strategy is based on four factors:

First is the need for alignment and consistency of policies and strategies. For example, although the MKUKUTA and other social sector strategies aim to improve social service provision, specific elements to build human resources to support growth are weak. Without these, the indicators of social service provision may show good performance, yet the economy experiences scarcity of critical human resources in key growth areas.

Second is the need to focus on a number of select interventions which have synergies and complementarity, and could provide a sound reference framework for private sector activity, as well as bringing non-government stakeholders behind the growth effort.

Third, not all policies have the same pay-off in terms of job creation and poverty reduction. Since public policy is constrained by limited resources (human and financial) which require optimal allocation and sequencing, it is rational to focus on a limited number of growth drivers.

Fourth, the effectiveness of public policy in generating economic growth depends on the private sector's response. In Tanzania, where the local private sector is still developing, deliberate strategies are needed. Hands-on mentoring support to small and emerging businesses has been shown most effective, yet is unlikely to be possible if it is spread over many sectors of the economy simultaneously.

Developing a Growth Strategy

Development Vision 2025 provides the general direction to Tanzania's strategy for growth, but this should now be translated into practical links to available resources and markets. This should be done in two stages:

- identifying growth drivers, and
- determining enabling policies and resources for those drivers.

Comparative Versus Competitive Advantages

A sound choice of the growth drivers needs to be based on the analysis of Tanzania's comparative and competitive advantages. This recognises the fact that the country is part of the globe, both as a market and as a production centre.

Comparative advantage is the ability to produce and deliver goods and services to the market at lower cost than others. It is based on a combination of readily available natural resources that confer the cost advantage and a certain market (local and international) that absorbs the production.

Competitive advantage, by comparison, is not based on naturally available resources, but rather on elements of competitiveness such as productivity, quality, diversity and innovation.

Comparative advantages will determine the initial choices of growth drivers because competitive advantages, developed over time, depend on a level of technical and managerial expertise which is currently lacking in most sectors. It is logical that poor countries such as Tanzania need to focus first on their comparative advantage, while striving in the longer term to develop areas of competitive advantage.

Both comparative and competitive advantages need to be sufficiently large to make a real impact in terms of growth; internal markets alone are unlikely to support the scale for cost competitiveness. Therefore, consideration of markets must be global, including both internal and external; we need to market our comparative advantage well beyond our borders.

Tanzania's comparative advantages are derived from its natural resource base, namely its strategic location (for transport and logistics), geological resources (i.e. minerals), ecological conditions, biodiversity and landscape (for tourism).

Much of Tanzania's labour is low quality, and hence cheap labour cannot be a source of comparative advantage for the country. Tanzania once possessed a comparative advantage by producing a large range of agricultural outputs. However, much of this advantage has been subsequently lost through changes in global agricultural production and market parameters. In today's world, to have a comparative advantage in agriculture requires knowedge and innovation which Tanzania does not currently possess. Despite its extensive land and unskilled labour, Tanzania has lost ground in the global market over recent decades. This is a reminder that comparative advantage can be gained and lost. Similarly, the manufacturing sector requires a technically skilled labour force, which is currently unavailable in Tanzania and readily available in more competitive economies.

Matrix of Current and Future Comparative/Competitive Advantages for Tanzania

Current Advantages		Future Advantages	
Resource Advantage	**Potential Market**	**Resource Advantage**	**Potential Market**
Agricultural land	Domestic market	Agricultural land	Asia & Europe
Specific ecological conditions	Europe	Specific ecological conditions	Europe
Geological conditions	Europe & N/America	Geological conditions	Europe, N/America & Asia
Tourism resources	Europe & N/America	Tourism resources	N/America, Europe & Asia
Geographical position	East/South Africa	Geographical position	East/South Africa & Asia
		Competitive labour costs	Asia
		Logistics Hub	Asia and Africa
		Technology based manufacturing and services	Asia and Europe

Growth Drivers

Once the areas of comparative advantage have been identified a selection of growth drivers can then be made; these should be selected using the following criteria:

- Those which have the highest pay-off in terms of scale, job creation and poverty reduction.
- Those which have strong synergies and complementarity with each other, and with other sectors. Given limited resources and in order to achieve maximum impact and scale, growth drivers that reinforce each other and the rest of the economy should be given priority.

Thus, in the initial growth phase in Tanzania, it is more logical to give priority to growth drivers which use current resources and have the capacity to generate greater benefits for a larger population. However, as technical and managerial skills develop over the medium to long term, a competitive advantage could be gained not only through drivers selected for the initial phase, but also by bringing in new growth drivers and moving up the value chain.

Potential Growth Drivers for Tanzania

Potential Growth Driver	Comparative Advantage	Scale and Impact
Transport services for landlocked neighbours (Rwanda, Burundi, Congo, Zambia & Malawi)	Geographical position	Infrastructural development would have strong linkages to other activities and is strongly supportive of a broad-based enabling environment. It could also generate employment.
Tourism	Biodiversity and landscape	Could be developed with stronger linkages to local producers. It has proven employment potential in different parts of the country. Infrastructural developments would be supportive.
Horticulture	Ecological conditions	Quality standards are likely to require large investments. This sector may require time to achieve significant scale and impact
Mining	Geological conditions	Currently producing significant growth, and scale could be expanded. Yet deliberate linkages would need to be made with other sectors to exploit the sector's full employment potential.

Policy Implication 1:
Clustering of Investments – Growth Poles

The selection of growth drivers implied by this analysis leads to discussion about 'growth centres', or 'growth poles'. The concept advocates clustering of investments in specific geographical areas because scale and depth are key for increased growth and impact. That is, the size of the multiplier is determined by the scale of operations. In simple terms, smaller thinly spread investments and operations generate limited aggregate employment, income and spending, whilst conversely, large scale investments have a higher potential for generating local growth through spin-offs in terms of complementary services and businesses. Therefore countries can raise the multiplier by adopting a selective 'growth pole' policy. In the past there have been concerns about the equity implications, however this was based on the false assumption that opportunities follow people; history shows that the reverse is the case: people follow opportunities.

Policy Implication 2:
A Specific Enabling Environment:

Constraints faced by the selected growth drivers need to be specifically identified and addressed. This goes beyond the promotion of good macroeconomic environment, good governance, reduced cost of doing business and liberalisation. Strategies for an enabling environment need to reflect the requirements of the selected growth drivers. For example, there may be a need for selective protection or strategic choices of social services and investments (beyond basic provision) that reinforce the drivers of growth. In the latter case, a clear, proactive direction to skills development which relates to the growth drivers will be needed. The development of broad human resources through basic health and education is also essential to ensure a strong foundation for advanced skills development and people can take full advantage of emerging opportunities arising from economic growth.

Financing the growth agenda could be problematic because of Tanzania's high dependency on external resources. Differing perspectives will need to be addressed, given the focus of development partners on resourcing public services. The danger is that support for the development of a prioritised growth strategy driven by the private sector may be under resourced.

Policy Implication 3:
Ensuring Provision of Sound Analytical and Technical Inputs

This process must commence with sound analytic work which provides the basis for the choice of growth drivers. Although this work is technical, the knowledge required cannot be centred on a few individuals or a single organisation, it will be important to build an interactive process of solution searching. This differs from a consultative process which can be expensive and sometimes self-defeating if it is not analytically driven. It is highly desirable that this concept and the ensuing process has committed and strong political support, so as to discipline the process of developing a focused and consistent growth strategy in an analytically guided and credible way.

CONCLUSION

This framework for developing a growth strategy aims to initiate discussion, rather than draw conclusions. Substantial work will be needed to select growth drivers using the approach outlined here.

This proposed framework recognises that all sectors of the economy matter for growth; however, pioritisation will be vital, including that of public spending. In future the relationship between growth and social services must be mutually reinforcing and symbiotic. Choice of the right growth drivers as well as their success in generating growth, employment and incomes will depend on collaborative efforts among the players in the social and economic sectors. It is not the short term direct implications of the choice that matter; rather it is the medium and long term direct and indirect implications that determine the choice.

It is important to remind ourselves that comparative advantages can be gained and lost. Many countries strive not to loose what they have. Tanzania should do the same by making the right decisions now and allocating resources to implement them.

This brief is a summary of Chapter 9 of the 2007 Poverty and Human Development Report for Tanzania. The 2007 PHDR provides key information and data on national indicators, gives a framework for determining a strategic approach to growth, and also provides a new type of social sector analysis - illustrating the water sector's potential as an enabler for growth. There are further briefs concerning the 2007 PHDR:

Brief 1 summarises the status of MKUKUTA's Cluster I – Status of growth and poverty reduction
Brief 2 summarises the status of MKUKUTA's Cluster II – Improvement of quality of life and social well-being
Brief 4 illustrates the water sector's potential as an enabler for growth.

The 2007 PHDR and associated briefs are available in electronic copy, and printed reports can be obtained from:

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