

# Is the Current Booming Growth in Africa worth Celebrating? Some Evidence from Tanzania

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# Outline of the Presentation

- Introduction
- Growth and Poverty
- Some evidence from Tanzania
- Some proposed workable strategies

# Introduction

- The interest of any well-meaning government is to ensure decent living for all its citizens.
- Consequently for most poor countries economic policy focus has largely been on poverty alleviation.
- For the above reason, any course that can reduce poverty is worth the celebration.

# Growth and Poverty

- Modalities to reduce poverty have been debated, and are still the center of the debate – both in policy and academic arena.
- One very important center of this debate is growth of economies.
- It is now universally accepted that economic growth is a necessary condition for poverty alleviation.
- It brings about an increase in incomes, which, in turn, pushes people out of poverty (Kraay, 2002).

# Growth and Poverty Cont..

- However, for many, growth is a necessary but not sufficient condition for poverty reduction.
- Osmani (2003), for example, argues that there is no invariant relationship between the rate of growth and the rate of poverty reduction.
- i.e. faster growth is not always accompanied by a faster rate of poverty reduction, just as slower growth does not always entail slower rates of poverty reduction

# Growth and Poverty Cont..

- There are three factors that affect the incomes of the poor (Osmani, 2003):
  - the growth (a necessary condition).
  - extent to which growth enhances the employment potential, including for the poorest.
  - extent to which the poor are able to integrate into economic processes.

# Growth and Poverty Cont..



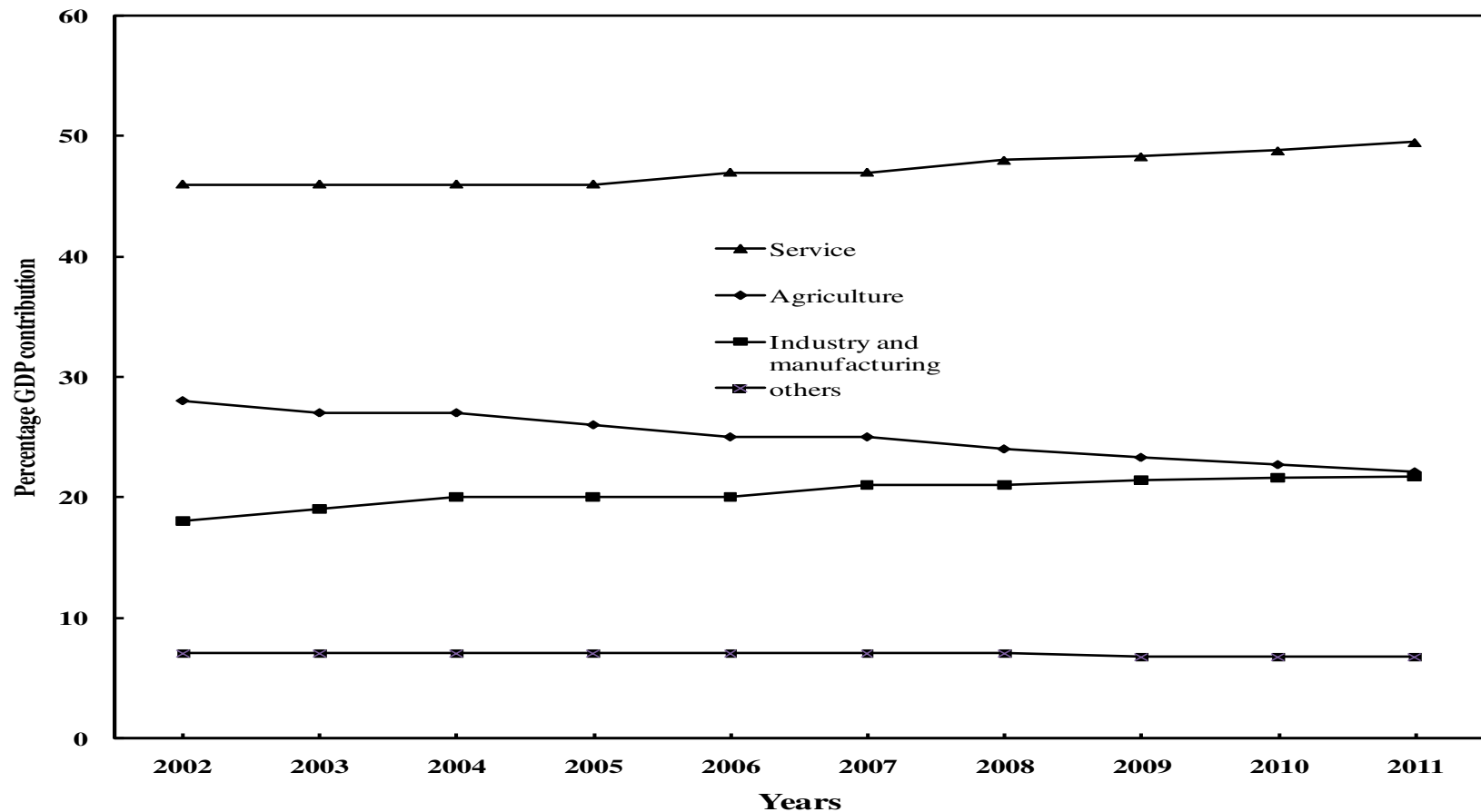
- **First factor fulfilled:** According IMF focrecast, 7 of the 10 fastest growing economies are in Africa: ( Ethiopia (8.1% ), Mozambique (7.7% ), Tanzania (7.2% ), DR Congo (7%) , Ghana (7% ), Zambia (6.9%) and Nigeria (6.8%) .
- The World Bank recently released its semi-annual “Global Economic Prospects ”that indicate among the 29 fastest growing economies, 16 are in Africa, including all the above countries.
- But is the above growth worth celebrating? That is, are the second and third criteria also fulfilled?

# Growth and Poverty Cont..

- Sustainable and poverty reducing growth will ultimately depend on structural transformation, which is the movement of resources from low productivity to high productivity employment;
- The normal trend is from agriculture, manufacturing and then service.
- Transformation starts with the modernization of agriculture, which is essential in facilitating a dynamic transformation from an agricultural to a modern industrial society. As economies move up the ladder of development, services sectors would gain importance.



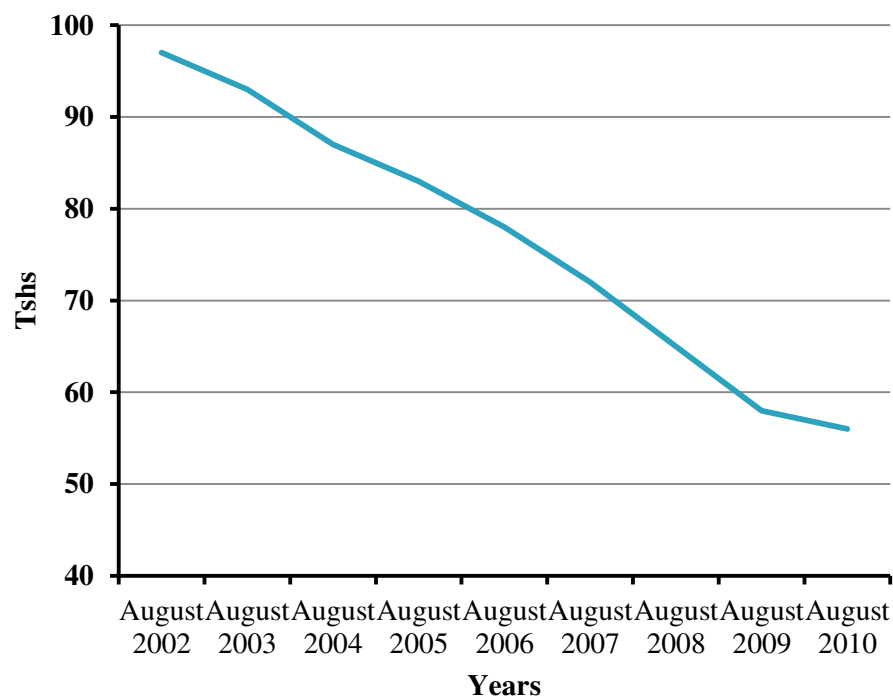
# Looking Beyond Aggregate GDP: Some Evidence from Tanzania



Source: URT (2011)

# Looking Beyond Aggregate GDP: Some Evidence from Tanzania

## Trend in Purchasing Power of Tanzanians ■



Source: NBS (2010)

# Looking Beyond Aggregate GDP: Some Evidence from Tanzania cont..

- The figures indicate Tanzania has become prematurely service oriented, without productivity increase in agriculture and manufacturing, and standard of living is falling.
- If normal trend is followed, service orientation of economies tend to be accompanied by high income, and high quality of life. This is not the case for Tanzania .

# Looking Beyond Aggregate GDP: Why is Normal Trend in Transformation Important

- The transformation process which follow the standard pattern is considered superior because along with raising productivity and standard of living, also comes institutional, organizational and cultural changes which make the society as a whole to be more **capable, productive, innovative and peaceful** (Singh, 2006).

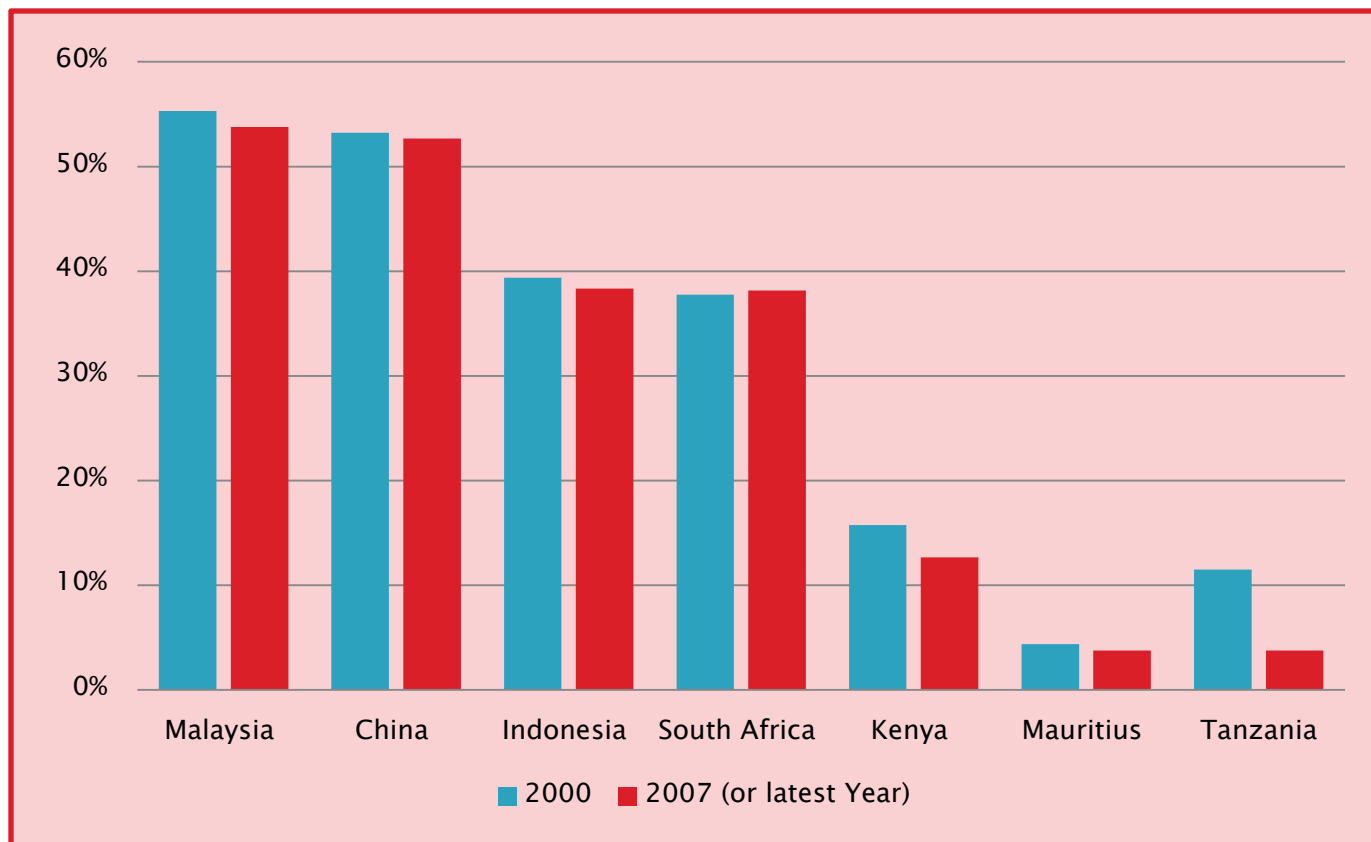
# Looking Beyond Aggregate GDP: Structural transformation and importance of the manufacturing sector.



- A large body of empirical evidence demonstrates that the manufacturing sector must play a key role in a country's economic development if wealth and jobs are to be created.
- Manufacturing has a 'pull effect' on other sectors of the economy. The development of the manufacturing sector stimulates demand for more and better services: banking, insurance, communication and transport, and further job creation.

# Looking Beyond Aggregate GDP: Some Evidence from Tanzania Cont..

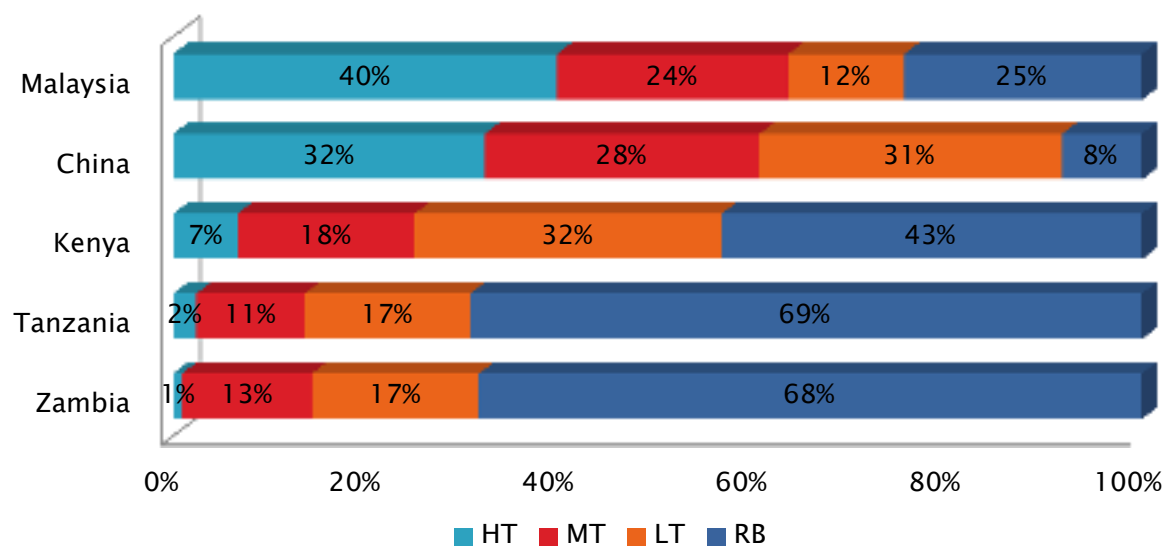
Share of medium and high-tech MVA in total Manufacturing Value Added.



Source: UNIDO INDSTAT

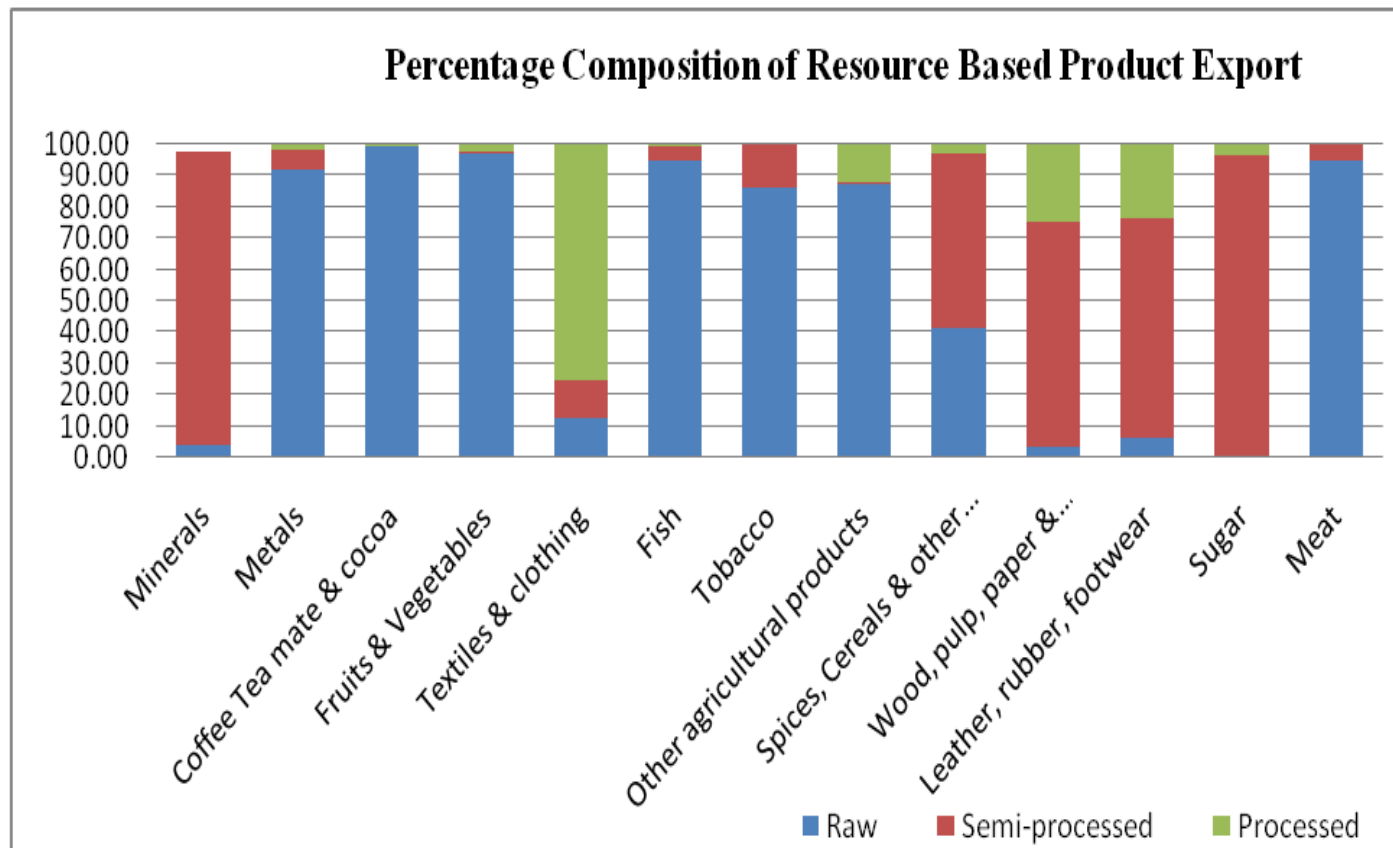
# Looking Beyond Aggregate GDP: Some Evidence from Tanzania cont..

## Structure of Exports by Technology Classification for Tanzania and Comparators



Source: Tanzania Industrial Competitiveness Report, 2012

# Looking Beyond Aggregate GDP: Some Evidence from Tanzania cont..



**Source:** Source: Tanzania Industrial Competitiveness Report, 2012



# Looking Beyond Aggregate GDP: Some Evidence from Tanzania



- From above figures we note that Tanzanian seems to be de-industrializing as share of MVA in medium and high tech is falling rather than increasing.
- The manufacturing sector is dominated by resource based sector, with very low or no value addition, and therefore very limited employment potential.
- In conclusion, the current GDP growth for Tanzania is not worth celebrating – some interventions are in order.

# Proposed workable strategy for Tanzania

- In the short term, promote investment in low tech and labour intensive sectors.
- Sectors to promote must fulfill the following two conditions:
  - 1) the sector must create employment opportunities for the poor, e.g. agro-based industries.
  - 2) Development of the sector must be sustainable, meaning that the sector needs to be competitive at least in the long term.

# Proposed workable strategy for Tanzania Cont...

- As wages rise and the economy become more competitive, the country can gradually move into medium and high tech production (structural transformation within the sector)
- How can the above be made to happen?
  - Movement from emerging systems of innovation to a more mature system –What does literature on systems of innovation tell us? ( **A conceptual challenge**).

# Proposed workable strategy for Tanzania Cont...

- In the medium term, build investment capabilities around resource based industries– moving up the value chain e.g. mineral processing, and build supply chain around this.
- The above will link the sector to rest of the economy and will generate substantial jobs.



# Asante sana kwa kusikiliza