STIPRO

POLICY BRIEF

TANZANIA ACHIEVEMENT OF LOWER MIDDLE INCOME STATUS:

WHY WE MUST NOT CELEBRATE AS YET

APRIL. 2021

BITRINA DIYAMETT

SCIENCE, TECHNOLOGY AND INNOVATION POLICY RESEARCH ORGANIZATION

SUMMARY

Tanzania has been declared to have moved from low to lower middle income country as from 2020. While this is a laudable achievement, given the low contribution of the manufacturing sector to the GDP and lack of the science, technology and innovation (STI) strategy to support the growth of this sector, further movement to the higher and equitable level of income can seriously be hampered, or even a possibility of a country slipping back to the previous, lowest level of income. To prevent this situation, this brief proposes a number of steps that should immediately be taken, including aligning industrial strategy with the STI strategy, and support of start-ups on agro-processing and other value adding ventures such as those in minerals and other natural resources – using latest technology available

INTRODUCTION

Tanzania having achieved the Gross National Income (GNI) per capita of 1, 036 USD, has recently been placed in the lower middle income category – moving up one step from the lowest level. It is a good move, worth applauding, but before we do too much of applauding we need to critically examine what this means, especially regarding the potential for further upward movement and 'real' and sustainable socio-economic development. The objective of this brief is to raise some important conceptual and practical issues surrounding this subject, with the aim to explain what it means by achieving a given income status that is consistent with "real development", which I here define as increasing and equitable incomes of individuals in a country which are sustainable over long period of time. I specifically underline "increasing and sustainable", because it does not make sense to be developed today and tomorrow you are poor. Sustainable development, in the words of United Nations General Assembly (when proclaiming the Sustainable Development Goals), means – among others – ending poverty and hunger everywhere and to create conditions for sustainable and inclusive economic growth, shared prosperity and decent work for all, among others

The focus of the brief is on the current national debate, where some people are celebrating and others criticizing the lower middle income status the country recently achieved. The aim is to bring on board the debate, empirical evidence and deeper analysis of the situation

WHAT DOES IT MEAN TO BE IN A LOWER MIDDLE INCOME CATEGORY?

The World Bank classifies the world's economies into four income groups — high, upper-middle, lower-middle, and low. The classification is based on Gross National Income (GNI) per capita, and is updated each year on July 1st. According to the latest update (2020), following are the income levels for the four categories: low-income countries (LIC) are those with a GNI per capita of 1,035 USD or less in 2019; lower middle-income countries (LMIC) are those with a GNI per capita income of between 1,036 USD and 4,045USD; upper middle-income countries (UMIC) are those with a GNI per capita between 4,046 USD and 12,535 USD; high-income countries (HIC) are those with a GNI per capita of 12,536 USD or more. Given the above, Tanzania – as from 2020 – became deserving of lower-middle-income status.

GNI PER CAPITA INCOME EXPLAINED

Before we can explain the GNI per capita, there is need to explain three terminologies that are related to the GNI: Gross Domestic Product (GDP), Gross National Product (GNP) and GDP per Capita. These are terminologies frequently used in the discussion on growth and development, and are more familiar than the GNI.
While GDP measures the value of goods and services produced within a country's borders, by citizens and non-citizens alike, GNP measures the value of goods and services produced by only a country's citizens – both domestically and abroad. From these, one can calculate per capita income from both the GDP and GNP. In very simple term, per capita income of a country is calculated by dividing the total value of GDP or GNP in monitory terms by number of people in that country; GNI is derived from GNP. It should be understood that this value is only an average, because in reality not everyone get the same amount. In a very unequal society, the value can be contributed by the income of only few that have very high incomes in a country. In short, the average annual income of 1036 USD that took Tanzania to the lower middle income status, does not mean that every Tanzanian (or at least the majority) is now earning that amount per year, and this means a lot when it comes to real development. For real development to happen, this value must be growing sustainably, and inclusive of the majority of people in the country – including the very poor.

GROWTH, INCOMES, INDUSTRIALIZATION, AND REAL DEVELOPMENT

According to Osmani (2003), three factors affect the incomes of the poor in growing economies. The first is the growth factor (a necessary condition) which is the rate at which the production potential of the economy expands; and the higher this rate than that of the population growth, the better. The second is the elasticity factor which is the extent to which growth enhances employment potential – it must be borne in mind that income comes from productive employment. Third is the integratability factor, which is the extent to which the poor are able to integrate into economic processes in such a way that when growth occurs and the employment potential expands, they can take advantage of the improving quality and quantity of employment. For this reason, for real and sustainable development to occur the growth must come from sectors that are inherently employment generating. The experience of those countries that are now in the HIC category tells us this sector is no other than the industrial sector, specifically, the manufacturing. Manufacturing is about value addition; it is any business that uses components, parts or raw materials to make finished goods. This sector is part of the industrial sector (in national accounts), with other sub-sectors being mining and construction.
In making reference to building capabilities of the manufacturing sector the concept of industrialization is usually used, and countries with high manufacturing capabilities are termed as industrialized.

THE IMPORTANCE OF THE MANUFACTURING SECTOR IN DEVELOPMENT

The process of industrialization has commonly been discussed in development in the context of structural transformation, where countries move from low to high knowledge content and employment rich sectors, thereby increasing opportunities for decent employment and raised income for the masses in countries. For countries that had agriculture to start with, the process starts with productivity increase in agriculture and a move towards the dominance of the manufacturing sector, especially the agro-processing – to start with (Timmer,2007). Manufacturing sector is also important for sustainable growth and development for the following major reasons: 1) It enables countries to export more and therefore have positive balance of payment: Bulk of world export is on manufactured goods (for instance in 2010 was about 70%). 2) The price of manufactured goods tends to be higher and more stable than that of commodities, and therefore stable and sustainable growth. 3) In terms of employment, no sector in an economy is as employment generating as the manufacturing sector: The development of the manufacturing sector, apart from its huge potential for employment, stimulates demand for more and better services, including banking, insurance, communication and transport, which leads to further job creation (USA, 2009). Moreover, manufacturing sector is the basis for deepening the technological and innovation capabilities for other sectors such as those in high-end service sectors (UNECA, 2016). For this reason meaningful movement of any country towards higher levels of income must be linked to the improvement of its manufacturing sector. Tanzania actually realized this fact when the country made manufacturing sector to be central in her development vision – Vision, 2025, which states that Tanzania will be a middle income and a semi-industrialized country with a substantial manufacturing sector comparable to typical middle-income countries by 2025 (URT, 2000). This amount – according to Linnermann et al. (1987) – should be around 23%.

TECHNOLOGICAL CAPABILITIES ARE CRITICAL COMPONENT OF INDUSTRIALIZATION

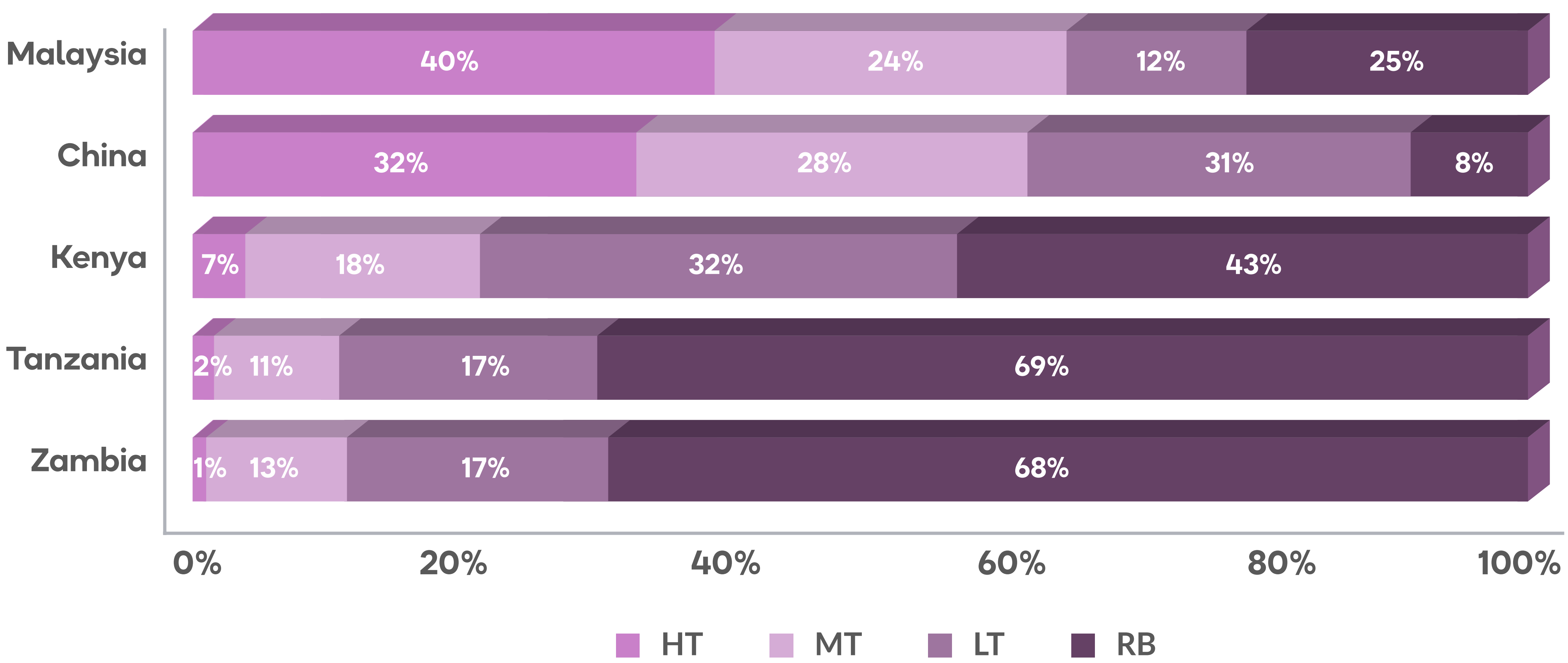
As indicated in the definition (movement from low to high knowledge contents sectors), central to the process of structural transformation towards industrialization is obviously capabilities in science, technology and innovation (STI) – this has been the case throughout history of development, it is even more so during this era of globalization and rapid technological change. Relationship between STI and stable growth of economies has been a subject of research ever since the first industrial revolution in the 19th century and it has been proved beyond reasonable doubt that sustainable and inclusive growth, and thereby increasing per capita income, is impossible without investments in STI. Building STI capabilities is what enabled the Four Asian Tigers (South Korea, Hong Kong, Singapore and Taiwan) to quickly catch up with technologically able and rich countries of the North. These countries used the strategy of closely coordinating STI strategies and industrial policies; the example of Korea as explained in OECD Dev (2012), is especially telling on this. Another good and more recent example is Malaysia: towards structural transformation that was successfully implemented, Malaysian government implemented a variety of innovative programmes that were aimed at increasing productivity and diversifying sources of income with the use of STI. Since poor households were mostly in the agriculture sector, the focus was on providing them with the support and opportunities to be involved in modern farming and in processing of agricultural products, as well as non-farm or off-farm activities that generated additional employment; central to this was capability building in STI (The Government of Malaysia, 1991).

Specific to poor countries such as Tanzania, UNCTAD (2014) in their LDCs report, 2014, clearly stated that central to the sustainable growth and development of these countries is capabilities in STI that can drive the development of new products, processes, organizational methods and markets. The government of Tanzania also recognizes the central role of STI in industrialization as it explicitly state – in vision 2025 - that the said transformation is only possible if it is buttressed by a strong national science, technology and innovation system.

TANZANIAN CURRENT SITUATION AND IMPLICATIONS FOR SUSTAINABLE DEVELOPMENT

As alluded to in the introductory part, Tanzania having achieved the GNI per capita of 1, 036 USD has recently been placed in the lower middle income category. In this section we look deeper into this figure – basically where it is coming from and the state of national STI capabilities that accompanies it, and what this means for achieving higher income levels and sustainable development of the country.

Tanzania is one of those African countries that have been growing steadily. Between 2013 and 2018, its average GDP growth (6.5 percent) was behind only Ethiopia (9.5 percent) and Rwanda (6.7 percent). It was also among the least volatile economies in the region, after Mauritius and Kenya. The country's growth through the first three quarters of 2019 was 6.9 percent - close to the official rate of 7.0 percent (World Bank Group, 2020). According to the same source, this Growth was led by nonmanufacturing industry, notably mining and construction, transport, communication, and financial services, which are not so rich in employment and in no way can close the employment gap that currently exist in the country. For instance, despite some 800,000 to 1,000,000 of graduates entering the labour market in Tanzania every year, on average the economy creates only about 250,000 jobs a year (Kakengi, 2019), further underpinning the dire need – as a country – to quickly move into a serious industrialization agenda.
Available information on the contribution of the manufacturing sector to GDP, is by far below the expected value for the middle income status that can provide massive employment (at least 23%); and worse still, it seems to be in the decline. For instance, according to Kweka (2018) the Tanzanian share of manufacturing to GDP declined from 7.6% in 2011 to 5.1% in 2016. This situation is even more worrying if one looks deeper in to the structure of the sector- in comparison with other well performing countries, as indicated in the figure below.



Source: URT and UNIDO: TICR 2012

The above figure indicates technology and knowledge intensity of the Tanzanian manufacturing sector – in comparison with other countries. As indicated in the figure, Tanzania and Zambia (the poorest of all the countries indicated), has a negligible (2% and 1%) use of high technology (HT) and medium technology (MT) (11% and 13%) in their manufacturing. A sadder part of this picture, is the fact that, even for the low technology (LT) that should easily be accessible, the countries are not doing well – they makes only 17%, with bulk of the sector being resource based; for Tanzania this makes 69%, with very little value addition.

It is important to note that, the above statistics are a bit too old to support arguments made in 2021. But this is yet another sad story about our country - inadequate production of appropriate and consistent information and knowledge that could support right decision making, including policy. Nonetheless, the information paints a rough picture of how things are today- especially given the fact that Tanzania is still among the countries that are at the bottom of technological capabilities worldwide, and there is no – as yet – a clear strategy that has been put in place to align STI and industrial policies that should have changed the above picture. If this situation is not immediately addressed, there is a danger of the country going back to LIC status. Historically, there have been 23 cases in the past 10 years of countries slipping back from MIC status to LIC, or from HIC status to MIC (Battaile, W., 2020). According to the same source, reasons for this are several, but most the important is heavy reliance on natural resource.

CONCLUSIONS AND POLICY RECOMMENDATIONS

Tanzania has recently reached a lower middle income status; however, given the current condition and policy environment surrounding the manufacturing sector that is expected to help the country sustainably increase its broadly shared growth, this status might stagnate, or even redressed and therefore note worth celebrating as yet. In order for the country to maintain this status and forge ahead and reach semi-industrialized and middle income status as stipulated in Vision 2025, the following needs to be immediately done:

1. Closely align and coordinate industrial policy with STI policies.

2. In addition to policies on building technology and innovation capabilities of the existing manufacturing firms, support start-ups on agro-processing and other value adding ventures such as those in minerals and other natural resources – using latest technology available. This will help to enlarge the low tech sector and generate massive employment that is desperately needed.

3. Align the education and training programs with employment and technology needs of the country.

4. There is need to review trade and investment policies: attract foreign direct investments that are inherently employment generating and new knowledge enhancing. This should be buttressed by strategic protectionism.

5. Closely coordinate agricultural and industrial policies so that there is close linkage between the agricultural and the industrial sectors. Example is the formation and support to the agro-industrial complexes and innovative clusters around major commodities.

REFERENCES

Battaile, W. (2020), What does Tanzania's move to lower-middle income status mean? World Bank Blogs:

https://blogs.worldbank.org/africacan/what-does-tanzanias-move-lower-middle-income-status-mean

Kweka,J. (2018), Monitoring policies to support industrialization in Tanzania: An update and policy recommendations. SUPPORTING ECONOMIC TRANSFORMATION

Linnemann, H., van Dijck, P. & Verbruggen, H. (1987), Export-oriented industrialization in developing countries.Council for Asian Manpower Studies, Manila: Singapore University Press

Malaysia, Government of. (1991), The Sixth Malaysia Plan, 1991-95. Economic Planning Unit, Prime Minister's Department, Kuala Lumpur

Kakengi, V. (2019), Does obtaining a lot of schooling guarantee a quick transition to employment? Evidence from TVET graduates in Tanzania. REPOA Policy brief; PB No. 8/2019 June, 2019

OECD Development Center (2012), Industrial Policy and Territorial Development: Lessons from Korea

Osmani, S. (2003), Exploring the Employment Nexus: Topics in Employment and Poverty. A Report prepared for the Task Force on the Joint ILO-UNDP Programme on Employment and Poverty. ILOUNDP: Geneva and New York.

Timmer, P. (2007), The Structural Transformation and the Changing Role of Agriculture in Economic Development. Wendt Lecture, American Enterprise Institute

UNECA (2016), Transformative Industrial Policy for Africa

UNCTAD (2014), The Least Developed Countries Report 2014: Growth with structural transformation: A post-2015 development agenda

World Bank Group (2020), Tanzania Economic Updates: Addressing the impact of covid-19 with a special section on the role of ICT

URT and UNIDO. (2012), Tanzania Industrial Competitiveness Report 2012. MIT and POPC

URT (2000), Tanzania's Development Vision, Vision 2025

CONTACTS

For more information on this brief, contact:

Regent Estate St. Mikocheni A, Plot No:351

P.O.Box 75027, Dar es Salaam
+255 (22) 2774699

info@stipro.or.tz
www.stipro.or.tz