



## Findings

The more complex industries within the electrical equipment and machinery, as well as rubber and plastic sectors, are key to accumulate new knowledge in Tanzania.

Tanzania has many complementary capabilities to industries within the agro-processing and wood-metal sectors. They are sectors, which are associated with high job creation.

The lower-complexity industries may entail higher employment gains.

There are large export revenue opportunities in promoting regional trade relations.

For more, see the DERG working paper 02-2020: "Merchandise export diversification strategy for Tanzania – promoting inclusive growth, economic complexity and structural change"

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# Export diversification, structural transformation and inclusive growth in Tanzania

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Few developing countries have improved prosperity without undergoing a process of industrialisation. With the global value chain revolution, industrialisation became easier. However, because many low-income countries continue to do mainly simple tasks, such as assembling components, they do not build institutions, know-how or consumer markets to maintain and develop complex industries. As such, these low-income countries need an approach focusing on how to develop collective learning, diversify the domestic productive capabilities and create globally competitive industries. Collaborative work between researchers at DERG and the University of Dar es Salaam suggest an innovative method to identify industries in Tanzania, which can accumulate such new knowledge and diversify the economy.

Tanzania has a large, growing youthful labour force and a large negative trade balance, and despite strong economic growth in the last two decades, this progress has not served the poorest to the extent desirable. As a result, Tanzania's industrial diversification strategy should meet three criteria; accumulate new knowledge, promote employment and increase export revenue. Applying a supply-side network method to map Tanzania's economic structure and productive know-how in combination with a demand-side model to identify which products Tanzania can expect to export in greatest volumes, enables identification of new products that are not only feasible to advance given Tanzania's current know-how but also profitable to target given their export potential.

## Policy recommendations

Our research suggests that Tanzania should pursue a two-pronged industrialization strategy that on the one hand takes advantage of existing capabilities to grow less complex labour intensive industries and on the other creates new capabilities for entering into more complex sectors. More specifically:

1. **Accumulation of know-how** is found to be highest in industries of higher complexity. However, the labour force in Tanzania does not yet possess the capabilities needed for development of complex industries. To move successfully into sectors of high complexity will therefore require large investments in education and infrastructure as well as a significant inflow of FDI. We identify industries of high complexity within the sectors of metal, electrical equipment and machinery, as well as plastic and rubber production. To accumulate new knowledge, these sectors, which are associated with a large prospective scope for learning spillovers, should be emphasized in Tanzania's upcoming development plans.
2. **Employment creation** is a prime policy priority. We find a negative correlation between complexity and labour intensity, suggesting that industries associated with lower complexity entail greater job creation. Such industries are in particular located in the agro-processing and wood-metal sectors. Product diffusion into these industries will generate few new capabilities yet may create more employment. Moreover, they are more closely in line with existing capabilities. It is therefore important from an employment perspective to focus industrial policies on these sectors too, adding that increased employment is critical for people's livelihoods.
3. **Regional trade relations** should be promoted further, as Tanzania has large opportunities to market target products in the regional Free Trade Areas, especially the East African Community (EAC). Many of the identified target products can generate large export revenues for Tanzania in the future.