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EXTERNAL ECONOMIC FACTORS OF THE DEVELOPMENT OF TANZANIA

Summary: The problem considered in paper is globalization, which has many components, but the component which is more relevant to Tanzania is economic globalization, particularly the international trade aspect of economic globalization. Globalization has made the world more closely than before and has thus resulted in increased demand for goods and services across the world in areas where demand of some goods and services did not previously exist or was very low. Such increased demand has opened market opportunities for a country like Tanzania which has goods and services to export as well as having demand for goods in which it does not have a comparative advantage. Article confirms that economically Tanzania is influenced by globalization.

Keywords: market opportunities, globalization, external trade.

JEL Classification: F10, F63.

Introduction

Tanzania through the National Strategy for Growth and Reduction of Poverty (MKUKUTA) has been trying hard to focus on poverty reduction and country's development agenda. The NSGRP is informed by the aspirations of the Tanzania Development Vision 2025 [s.a.] for high and shared growth, high quality livelihood, peace, stability and unity, good governance high quality education and international competitiveness. Vision 2025 lays out the long term development goals and perspectives against which the strategy for poverty alleviation (NPES) was formulated. The TAS is the result of a mutually felt need by the Government of Tanzania and its international partners for a comprehensive develop-

ment agenda, around which issues pertaining to ongoing activities can be regularly discussed and assessed. As such, the TAS covers all the development areas that have characteristically been supported by the international partners, both within and outside the framework of the central Government budget. It is hoped that the TAS will provide a useful framework for organizing periodic consultations and dialogue among all development partners. The PRSP is an integral part of the HIPC process, focusing mainly on poverty alleviation, and budget to a relatively hard (Central Government) budget constrains, starting financial year 2000/2001. Nevertheless, the PRSP encompasses poverty-oriented extra-budget-ary activities, various non-financial considerations that have an important bearing on poverty reduction [Tanzania Development Vision 2025, s.a.]. Research methods are based mainly on selection of chosen branches of economy of Tanzania analyzed with methods of simple comparisons.

It is committed to the Millennium Development Goals (MDGS), as internationally agreed target for reducing poverty, hunger, disease, illiteracy, environmental degradation and discrimination against women by 2015. It strive to widen the space for country ownership and effective participation of civil society, private sector development and commitment to regional and other international initiatives for social and economic development.

1. External trade and investment

International businesses and investment has been one of the important catalyst for development in Tanzania, which has also been the source of growth in GDP.

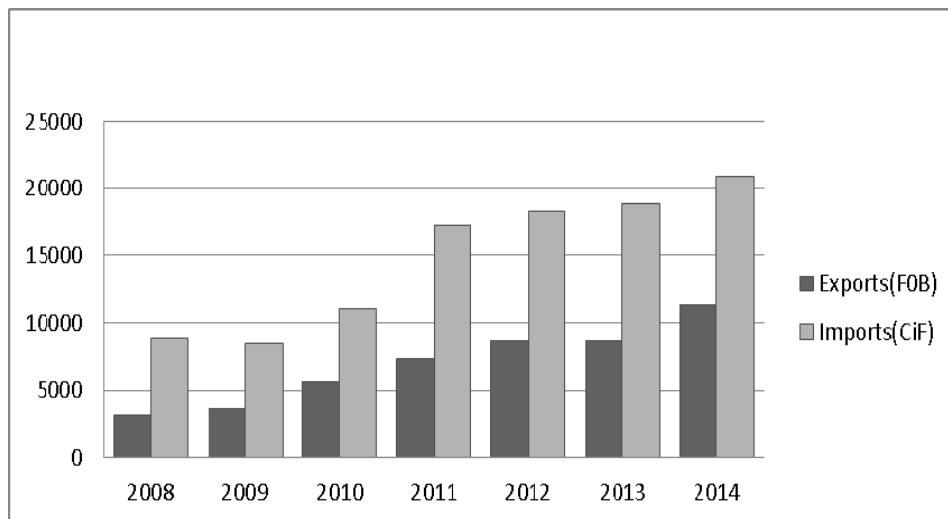
The Government of Tanzania (GOT) generally has a favorable attitude toward foreign direct investment (FDI) and has had considerable success in attracting FDI. Tanzania attracted \$1.87 billion of FDI inflows in 2013, a 72% increase from the previous year and the highest in the East Africa region. The UN Conference on Trade and Development's UNCTAD 2014 World Investment Report listed a total of \$12.72 billion of FDI stock currently in Tanzania [UNCTAD, 2014].

Tanzania's history of political stability has encouraged foreign direct investment. The government has committed itself to improve the investment climate including redrawing tax codes, floating the exchange rate, licensing foreign banks, and creating an investment promotion center to cut red tape. Tanzania has mineral resources and a largely untapped tourism sector, which might make it a viable market for foreign investment. The stock market capitalization of listed

companies in Tanzania was valued at \$588 million in 2005 by the World Bank. In this case as analyzed above external trade covers almost all economic sectors but what we have to focus here are those trade which contribute much to Tanzania economic as people take material from Tanzania and sell them to other countries where by Tanzanians traders gain foreign currency that will automatically rise our economic situation [National Bureau of Statistics, 2012].

Tanzania is a rapidly growing emerging market; it ranks among the 20 fastest growing economies in the world. The country has exhibited a GDP growth rate of around 7% for past 5 years and it is predicted by the IMF and World Bank to continue this rapid growth for the next decade [National Bureau of Statistics, 2012]. Over the past two decades, it has been transformed from a centrally planned economy to a market oriented system through successful implementation free-market orientated reforms. The Government has encouraged private sector led growth through restoration of market forces and less Government intervention in commercial activities. Overall, the reforms have resulted in positive growth trends and impressive macroeconomic indicators with inflation rates falling from 27.4% in 1995 to about 9% in 2012 [National Bureau of Statistics, 2012]. The recent discovery of large quantities of natural gas on the east coast, and the interest that investors have shown in this field, is a positive sign of rapid advancement of the economy. Recent reforms are intended to improve infrastructures and private sector growth through Public-Private Partnership.

Figure 1. International trade of Tanzania (bilion Tzs)



Source: National Bureau of Statistics [2012].

2. Foreign aid

Foreign aid is the voluntary transfer of funds from richer to poorer countries, known as ‘aid’ or ‘foreign aid’, has a crucial role to play in the development of backward economies and in humanitarian relief. On the other hand, foreign aid help in creating quantifiable and time bound targets for poverty reduction, the Millennium Development Goals (MDGs) offer a framework for assessing whether aid is achieving this purpose.

2.1. History of development aid to Tanzania

Tanzania has for many years been characterized as the ‘darling’ of the international donor community. It is one of the African countries south of the Sahara that has received the most in development aid during the last 40 years, with close to 40% of the current 2008/09 budget being funded by outside donors. Tanzania has generally had warm relations with China and the Scandinavian countries as they gave considerable economic assistance during the 1960s and 1970s [Ministry of Finance, 2014]. The United Kingdom and Germany have also sustained relatively close ties with the country. However, since Tanzania implemented new economic reforms in the 1990s, it has become a favorite of especially the US and Japan. During the 1970s aid flows rose from US\$ 2.3 billion to \$7 billion during the 1980s and to US\$ 7.8 billion during 1990-1997. Aid in Tanzania finances debt relief, balance of payments support, direct budget support, project financing and sector basket funding. Out of these, project financing is declining while more emphasis is put on general budget support and basket funding. Below are illustrated the numbers for total Overseas Development Assistance (ODA) for Tanzania by aid modality.)

Table 1. Development aid to Tanzania

Type of modality	2003/04	2003/05	2003/06	2003/07	2003/08
General Budget Support (GBS)	279.04	458.61	393.01	501.28	698.83
Basket Funds	168.44	80.96	320.88	253.51	136.76
Project Funds	385.86	269.06	604.60	421.79	526.87
Total Disbursements	833.34	808.62	1,318.49	1,176.58	1,362.46

Source: Ministry of Finance [2014].

Tanzanians heavily dependent on aid receipts to over \$1 billion annually to offset a severe balance of payments deficit. However, Tanzania is among top 10

ODA receipts by recipient USD millions, net disbursements in 2008 was 2331 million which is equal to 5% deb.

In order for Tanzania to achieve the Millennium Development Goal the amount of money required to be allocated should be the same amount is indicated in Table 1. This is because, with all effort made by richer countries, Tanzania still need holistic development approach sound policies and centered good governance in making sure country reaches time bound MDGs in 2015.

2.2. Foreign Aid Contributions Towards the National Budget

Tanzania's budget for financial year 2010/11 was 11.6 trillion Tanzania shillings. This amount comprised both revenue to be collected internally (8.33 trillion Tanzania shillings) and foreign aid (3.27 trillion Tanzania Shillings). On the whole foreign aid makes up a total of 28.2% of the year national budget. This is a significant contribution as it implies that close to one third of the governments priorities cannot be met without foreign aid contributions. This shows the extent to which our national budget is dependent on foreign aid. Table 2 shows the extent the national budget has been dependent on foreign aid over the past four years.

Table 2. National budget of Tanzania

Financial Year Domestic	Revenue (000,000)	Foreign Aid	Overall Budget
2007/08	3,518,000	2,549,000	6,067,000
2008/09	4,786,595	2,429,535	7,216,130
2009/10	6,331,737	3,181,948	9,513,685
2010/11	8,335,004	3,274,553	11,609,557

Source: Ministry of Finance [2014].

3. The impact of globalization on the economy of Tanzania

Globalization has many components, but the component which is more relevant to Tanzania is economic globalization particularly the international trade aspect of economic globalization. International trade is important because globalization has made the world more closely than before and has thus resulted in increased demand for goods and services across the world in areas where demand of some goods and services did not previously exist or was very low. Such increased demand has opened market opportunities for a country like Tanzania which has goods and services to export as well as having demand for goods in which it does not have a comparative advantage. Globalization has thus created

a potential for expansion of trade in order to meet the ever growing world demand for goods and services and trade is thus the bet a venue of through which Tanzania can benefit as long as it pursues a policy path that enables it to cope and benefit in a globalized world. Tanzania's Effective Participation in Trade Tanzania's export composition has shifted from traditional products such as coffee, cotton, sisal, tea and tobacco to non-traditional exports dominated by minerals and tourism while non-traditional agricultural exports, particularly vegetable products, cut flowers and live animals, fish exports are also rising. Tanzania's trade performance in the last decade is characterized by non-traditional exports increasingly occupy a significant share of total exports. The main markets for a large proportion of Tanzania's merchandises exports are industrialized countries. Tanzania exports to Africa are very low but stable with half of these exports going to neighboring EAC countries. Tanzania trade relationships with other countries in Sub-Saharan African countries have intensified in recent years, both in terms of the volume of trade and scope of traded goods with exports and imports both increasing significantly.

Tanzania has taken advantage of globalization by increasing its volume of trade in the world mainly to the EU, EAC, SADC and other African countries. Of these trade groups, Tanzania has a trade surplus with only the EAC which has been rising over the last couple of years due to exports growing faster than imports. There is a big trade deficit with SADC especially South Africa while there is a slight trade surplus with the other SADC countries excluding South Africa. Tanzania has a small trade deficit with the other African countries although volumes of trade are low while the trade deficit with the EU has been getting worse over the past couple of years from a position of a significant trade surplus. There is huge unexploited potential niche market which Tanzanian has both comparative and competitive advantage. There is increasingly export market (supermarkets in Europe and elsewhere mostly buying to satisfy customers throughout the year. Tanzania has favorable climate and available water favoring production of high valued crops for exports such as vegetables, flowers, and fruits and therefore diversifying the exports earnings. Currently consumer trend is towards food that is health (organic), convenient (easy – to make), ethically sound (fair trade), environmental friendly (air mile) into which Tanzania can produce and supply to the world market.

In the context of MTS, Tanzania is active and effective participant; it leads LDC group on various issues and adheres to several agreements. The country has been reviewing its National Trade policy and notifying WTO as required. However, under trade policy instrument Tanzania as an LDC is supposed to

widen its binding coverage. So far it is bound by 13.5 percent of all Tanzania's tariff lines. To comply with the Doha Development Agenda (DDA), Tanzania has to bind at least up to 50% of its tariff lines. This means it has to rise its binding coverage by 36.5%. Other measures include the Non-Tariff Measures (NTM) to ascertain the country's degree of protectionism, promote transparency and trade predictability. Within the framework of regional integration arrangements, Tanzania is engaged in two regional trade agreements (RTAs), the Southern African Development Community (SADC) and the East African Co-operation (EAC) Agreement. Under EAC CU there number of issues under implementation and negotiation on EAC common market is underway. EAC CM protocol is ready and the responsible committees under secretariat are finalizing the supporting appendices. EAC also allows each country to negotiate new bilateral trade agreements, subject to notification to the other members. However, in practice, overlapping membership poses certain difficulties to the EAC countries, mainly because of differences in, inter alia, origin criteria, and intra – regional trade liberalization scenarios under the agreements. 105 Under SADC Tanzania and other members are finalizing preparations for SADC Custom union negotiations. Negotiations for SADC CU are anticipated to follow after a summit meeting scheduled for August 2010. It is envisaged a four band tariff structure will be used and the common Tariff nomenclature is complete. Deeper integration of SADC FTA to CU would partly address the problem of overlapping membership and if all COMESA implements the same thereafter, then this complication will be a thing of the past.

Conclusions

From the mid 1980s Tanzania moved away steadily from the model of a socialist state controlled economy towards a market based, private sector led economy. The systematic and gradual reduction of different barriers and obstacles to trade, such as bureaucratic formalities, advance authorization, administrative controls and supervision, have made a significant contribution to facilitating foreign trade. Privatization efforts are under way in a number of sub-sectors including telecommunications, insurance and financial services. The Government now sees the private sector as the engine of growth for the economy and aims to encourage the emergence of a strong private sector, capable of creating jobs and wealth as well as the major source of government revenue [UNCTAD, 2014].

The development strategy for Tanzania is based on export-led growth in a few key sectors – fish products, horticulture, textiles/clothing and spices – taking advantage of its LDC status at the WTO, and of the opportunities available to it under preferential treaties with the US and the EU as well as its regional trade agreements. Foreign direct investment (FDI) is expected to play an important role in Tanzania's development, and the government has a liberal investment policy in nearly all sectors of the economy.

Financial Year Domestic presented in the paper indicates stable and even development of Tanzania which has consistent policy which is independent from main policy movements in globalized world.

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ZEWNEĘTRZNE CZYNNIKI EKONOMICZNE ROZWOJU TANZANII

Streszczenie: W artykule rozważana jest globalizacja mająca wiele składników, ale składnikiem, który jest bardziej związany z Tanzanią, jest globalizacja gospodarcza, a w szczególności międzynarodowy aspekt globalizacji gospodarki. Globalizacja zbliżyła świat i przyczyniła się w ten sposób do zwiększenia popytu na dobra i usługi na całym świecie w obszarach, w których popyt na niektóre dobra i usługi nie istniał wcześniej lub był bardzo niski. Taki wzrost popytu stworzył rynkowe możliwości dla kraju takiego jak Tanzania, który eksportuje towary i usługi, a także ma popyt na towary, w których nie ma przewagi komparatywnej. Artykuł potwierdza, że ekonomicznie Tanzania jest pod wpływem globalizacji.

Słowa kluczowe: możliwości rynkowe, globalizacja, handel zagraniczny.