

**ECONOMIC REFORMS AND THE BUSINESS CLIMATE IN
TANZANIA: SPEECH BY HON. DR. JUMA NGASONGWA, MP,
MINISTER FOR INDUSTRY AND TRADE AT THE REGIONAL
CONFERENCE ON COMPETITION POLICY, COMPETITIVENESS
AND INVESTMENT IN A GLOBAL ECONOMY**

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Honourable Chairperson,

Your Excellencies Ambassadors and High Commissioners,

Distinguished Guests,

Ladies and Gentlemen.

I take this opportunity to express my sincere appreciation for the honour of delivering the keynote address on this august occasion. This is an opportunity to contribute to the debate on a subject of keen interest to developing countries and even more so to Least Developed Countries (LDCs) like Tanzania.

I also wish to acknowledge the honour bestowed upon Tanzania as host for this Conference and I would like to start by expressing our appreciation to the organisers of this conference: the World Bank, UNCTAD and the European Union for this opportunity.

For those coming from countries other than Tanzania I wish to extend to them our warm welcome to Dar es Salaam and Tanzania. This city is also

known as the Heaven of Peace and I hope you will enjoy your stay in our country. Please feel at home.

When I received the invitation to share our thinking at the Ministry of Industry and Trade with you, I was personally delighted for two reasons. In the first place, because I felt that the three issues that comprise the title of this conference, that is, **the concept of competitiveness, the role of competition policy** in building a national competitiveness framework and the **responsiveness of international investments** towards an attractive national investment platform are issues that we have been grappling with, in Tanzania, in the course of pursuing the goal of achieving the higher rates of economic growth. I need not add that such growth is critical if we are to realise the Millennium Development Goals as well as national objectives on poverty eradication. This conference gives many of us in Tanzania the chance to listen to the ideas and views of others and share their experiences in finding answers to the questions that we have had to deal with in seeking higher investment flows.

In the second place, Tanzania, like all developing countries, has initiated many measures towards the objective of building an enabling economic environment that is conducive to increasing foreign direct investment (FDI) flows. Yet, though the response has been encouraging, FDI has not been channelled to the sectors that matter for the poverty reduction goals, nor has the level of inflows risen to dramatic heights in those sectors that have benefited so far. It is my hope that your discussions will generate the ideas that will provide answers to these concerns and tell us what else we need to do so as to cross the threshold that will enhance the inflow of FDI

As you may have noted, the theme of this conference is built on three inter-related concepts that have certain policy implications at the national level. I find competitiveness as being the core sub-theme. Without doubt, the concept of competitiveness is the key issue underpinning successful integration of developing economies in the global economy.

Competitiveness is basically the outcome of two factors: (1) good policies at the national level; and (2) the creativity and innovation of firms. Through better and simpler regulations governments can and do reduce the costs that firms have to bear in complying with necessary regulations. Governments also do provide certain common services and public goods, such as socio-economic infrastructure and skills development, that lay the foundation for efficiency and higher productivity in economic undertakings, that makes it easier for firms to focus their resources and energy on innovation. On their part, firms can and do, through technological innovation, find ways and means to produce better products with less resources and deliver those products to the market in a more efficient and rapid manner, and at lower cost.

The major lesson that we in Tanzania have learned on competitiveness is the need for the Government and the private sector to work hand in hand, each addressing the issues that fall under its domain, in a common drive to build a more competitive economy. We have started and we still have a long way to go. The establishment of Tanzania National Business Council and the ongoing work under the various committees of the Investors Round Tables bears testimony to this realisation and the desire to move ahead quickly to develop the urge for competitiveness within the private sector while the Government strives forward in creating the platform that makes this

ambition easier to realise and sustain. In short, competitiveness is very important, because active participation in the global economy primarily depends on the competitiveness of firms at the national and international levels, and this requires joint efforts on the part of the government and of the private sector in addressing the underlying factors.

From a different perspective, competitiveness is the outcome of entrepreneurship in a mature market economy where the flow of information is critical in discouraging concentration of power. Free entry and exit from the market is a basic factor for competitiveness. In most developing countries, information flow is still a major constraint that undermines the emergence of strong markets. Building a competitive economy in a developing country environment, where various features of market imperfection are the norm, depends on the existence of institutions that support the efficient functioning of markets. Such institutions include the body of rules, norms and practices that comprise of competition law and policy. In a nutshell, the environment that is necessary for competitiveness has to be nurtured and stimulated through regulatory institutional tools that include Competition Law and Policy.

Currently, Tanzania has already introduced independent, transparent and accountable institutions to protect and regulate, where necessary, market processes in the economy. This process is being implemented at the moment on the basis of several legislations such as the Fair Competition Act, 2003; the Energy and Water Utilities Regulatory Authority Act, 2001 (EWURA); the Surface and Marine Transport Regulatory Authority Act 2001 (SUMATRA); the Tanzania Civil Aviation Regulatory Authority Act, 2003; and the Tanzania Communication Regulatory Authority Act, 2003. I am

sure you will hear more about our progress and problems on this endeavour in the course of this conference.

Other reforms include those which have led to the establishment of the Commercial Court as a Division of the Tanzania High Court to deal with commercial disputes in an effort to provide easier access to justice for businessmen and women, and speedy and timely adjudication of cases; the establishment of the Industrial Court as a Division of the Tanzania High Court for litigation of labour disputes; and the establishment of the Land Court as a Division of the Tanzania High Court to deal with land disputes in a timely manner. All these reforms aim at providing a conducive climate for investment and economic development.

The programme for Business Environment Strengthening for Tanzania (BEST) was formulated in the year 2001 with the broad objective of enhancing growth, minimising transaction costs and reducing poverty. Specific objectives of the BEST programme are to reduce the burden on business by removing and/or abolishing as many unnecessary procedural and administrative barriers as possible and to improve the quality of services provided by the Government to the private sector. The establishment of the Consumer Consultative Councils is another effort to strengthen public-private partnerships and encourage and nurture dialogue between the public and private sectors.

Whereas it is important to regulate markets to ensure efficiency in certain conditions, it is also important that such regulation remains confined to the necessary and are not a source of unnecessary costs that negate the overriding goal of competitiveness and tends to make FDI shy away.

This brings us to the third concept, that is the nature and forms of FDI. Surprisingly, FDI is not a homogenous concept as one would like to think at first glance. The nature and type of FDI, considered from the perspective of the objectives of investors, determine the impact that the flow would have on a host developing country. Depending on whether FDI is seeking access to the resources of host nations, such as raw materials and cheap labour or seeking access to markets, determines the nature of FDI that we receive in developing countries. Thus, we find that resource-and-market-seeking FDI hardly leads to the diffusion of technology and export drive that most developing countries would like to achieve from increasing FDI flows. Yet, it is export-oriented investments that will enable LDCs, like Tanzania, make use of the market access opportunities that are emerging from the process of liberalisation of international trade through the multilateral trading system. These include "Everything But Arms" of the European Union [EBA], the US African Growth and Opportunity Act (2000) [AGOA] and the Japanese Generalised Preferential System (GPS); not to mention free trade areas and common markets which are being established by regional trading groupings such as the East African Customs Union and SADC.

This brings us to the fourth and central concept upon which the whole theme of this conference revolves: **that of globalisation**. The term globalisation is not a new one. It has been part of the international economic agenda for a long time and did receive some prominence in the political sphere since the 1970s. However, it moved to centre-stage only in the 1990s consequent to tremendous advances in technological developments. Globalisation has received a tremendous boost from technological transformation in the areas of information technology through the digitisation of sound and image. It

has been uplifted by similar developments in communication technology based on innovations that led to use of fibre-optics and broad-band transmission of information.

Suddenly, these developments have shifted the mode of international trade flows from the movement of goods across borders to movement of services and factors of production across borders. Associated results include the emergence of human capital underpinning the increasing importance of trade in services over trade flows based on movement of goods. It is this shift from physical movement of goods across borders towards movement of financial assets, information and human capital across borders that has spurred the prominence to FDI as a major tool for the expansion of international trade in the global economy in the 21st Century.

Today's global economy is increasingly becoming a global village that knows no national borders. Effective integration of national economies into the global economy is probably the only way to ensure that developing countries are able to share more equitably its benefits.

For LDCs, like Tanzania, and indeed other developing countries, this process can be hastened through higher FDI flows. However, it would have to be FDI flows that not only seek to exploit local and regional markets or to exploit our natural resources, but that will also seek to enable us to exploit the market access opportunities emerging from Tanzania's participation in the multilateral trade system. In this regard it is imperative to underpin the significance and the leading role of the productive sectors of the economy. Today's world trade is dominated by the flow of industrial goods and products. A country can only participate meaningfully in world trade, if it

can produce industrial goods of commensurate quality and quantity. An export-led economy is essentially an industry-based economy. This is the major rationale of the Tanzania Government to establish the export processing zones programme as a means to fast-track the industrialisation process.

Even with globalisation, the phenomenon of the nation state remains a reality. Whereas borders in terms of the flow of goods and services may be falling away, they remain firmly in place when it comes to movement of natural persons. From yet a different perspective, financial flows defy the norms of stability and we have witnessed the melting-down of emerging economies largely through the volatility of financial flows across borders. So there are negative aspects related to globalisation that the world is yet to find an answer for. This points at gaps on policy making at the international level.

Without doubt, developing countries have responded to the call for better policies at the national level. The question that remains, and which I expect this conference to address, is whether there has been matching policy goodwill at the international level. Have we found adequate answers, at the international level, for the concerns that relate to the nature and flow of FDI relative to the objectives of developing economies? Have we found suitable answers to the issues of volatility of financial flows that had such a profound effect on the Asian tigers during the second half of the 1990s?

I need not remind this august audience of the importance of bearing at the fore of our minds the noble goals of poverty eradication and other human development-oriented goals that are embodied in the Millennium Development Goals as well as national socio-economic objectives of the

developing countries, and more so for the LDCs that include Tanzania. I reiterate the premise that there is little or no contention that economic growth is a critical factor in efforts to alleviate poverty. However, such growth has to be in sectors in which the majority including the poor do participate and therefore can share in the results. Growth has to be broad based. What are the chances of stimulating FDI participation in economic activities that induce broad-based growth?

It is in this regard that we need to examine further the issue of competitiveness in a global economy and the need for measures, at the international level, that could influence the movement of FDI in the right direction in the context of stimulating the right kinds of investment for growth and poverty reduction.

This Regional Conference on Competition and Competitiveness in a Global Economy can help us by trying to find and provide answers to some of the foregoing questions. We are hopeful that such answers will enable us move forward towards instituting measures that will enable us participate more effectively in the global economy, share in its benefits and achieve our cherished national goals, including the MDGs within the envisaged timeframe.

I would, therefore, wish that your deliberations will tackle some of the more formidable policy issues that we have to continue to grapple with, particularly those pertaining to the international level. With this hope in mind, once again, I would like to thank the World Bank Group and UNCTAD in cooperation with European Commission for giving us this opportunity. It is on this note, that I hope and pray that you have fruitful

deliberations based on useful exchange of country experiences and that the outcome of these deliberations will enable the region surmount existing problems and move on towards higher economic growth and achievement of the fundamental goal of human development through a more positive role for Foreign Direct Investments.

Distinguished Guests, Ladies and Gentlemen, I wish you fruitful deliberations.

THANK YOU.