

Transportation Costs, Food Markets, and Structural Transformation in Tanzania



In brief

- Tanzania has experienced impressive macroeconomic performance over the last twenty years. However, it has not experienced the structural transformation from a low-income agrarian economy into the semi-industrialized middle-income country envisaged by the government in their ‘Tanzania National Development Vision 2025’ plan.
- The majority of the population still lives in rural areas and engage in subsistence agriculture, while medium-sized ‘secondary cities’ (a feature of many successful middle-income countries) are yet to emerge as centers for economic activity.
- This project examines the ways in which high transportation costs influence the current structure of the Tanzanian economy and contribute to Tanzania’s slow sectoral transformation. At the border, high transportation costs are associated with deficiencies in port infrastructure as well as problems of logistics and management. Internally, transportation costs are very high both between Dar es Salaam and regional centres, and between farm and market, reflecting poor road infrastructure as well as possible non-competitive behaviour in the marketing and transportation sectors.
- This study develops an analytical modeling framework to explore channels through which policy-induced reductions in transportation costs change the spatial allocation of resources and spur the growth of secondary cities and the growth of non-agricultural economic activities that spur structural transformation.
- We explore how reductions in transportation costs might reduce the fraction of the labour force devoted to quasi-subsistence agricultural activities. We also consider how various interventions, such as investment in the rural road network, might affect the pace of urbanization and the growth of non-agricultural economic activities

Policy Motivation

Despite a fairly impressive macroeconomic performance over the last 20 years, Tanzania has not experienced the structural transformation required to turn it from a low-income agrarian economy into the semi-industrialized middle-income country envisaged in the government's *Tanzania National Development Vision 2025*. The overwhelming majority of the population still lives in rural areas and works in agriculture, predominantly depending for their livelihoods on farming small plots of land, where they primarily produce food for home consumption. At the same time, while urbanization has been rapid in and around the capital city, Dar es Salaam, medium-sized 'secondary cities', so much a feature of successful middle-income countries have yet to emerge as important centers of dynamic economic activity. Whilst many of the key constraints to growth are undoubtedly to do with problems within agriculture itself, attention is increasingly focused on the extent to which high transportation costs – affecting both domestic and international trade – contribute to Tanzania's slow structural transformation.

"[We] use a stylized model based on Tanzanian data to provide broad analytical insights into the structural linkages between transport costs and the spatial and sectoral of growth"

There is already a large and growing empirical literature on links between transport costs, infrastructure and growth. This project complements this empirical literature by developing an analytical modeling framework capable of exploring the channels through which policy-induced reductions in transportation costs change the spatial allocation of resources and spur the growth of secondary cities and the growth of non-agricultural economic activities that drive structural transformation.

Contribution and Policy Implications

The research does not generate specific empirical evidence but rather uses a stylized model based on Tanzanian data to provide broad analytical insights into the structural linkages between transport costs and the spatial and sectoral patterns of growth in an economy such as Tanzania.

The framework is thus best suited to support medium-term strategic planning on growth and the development of a strategic framework for public infrastructure investment programme.

Audience

Presidential Planning Commission, Ministry of Finance, Ministry of Agriculture, Government of Tanzania.

Policy Implications, Implementation and Dissemination

This research develops a framework for examining how the scale and structure of transport costs influence the spatial distribution of economic activity. The paper describes in some detail how economic structures might be expected to respond to

changes in response to a set of highly stylized policy experiments, but does not at this stage examine specific policy experiments measures. Specific policy implications and recommendations for implementation therefore do not emerge at this stage in the research programme.

Further Reading

To see the full working paper detailing the applied general equilibrium model in full, visit: <http://www.theigc.org/project/transportation-costs-food-markets-and-structural-transformation-in-tanzania/>

About the authors

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