

CIEDR 2018
The International Scientific and Practical Conference
"Contemporary Issues of Economic Development of Russia:
Challenges and Opportunities"

RUSSIA AND TANZANIA: BILATERAL TRADE RELATION
ANALYSIS

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Abstract

The article analyzes the development of trade relations between Russia and Tanzania in 2010-2017, defining the Tanzania's contribution to Russia's foreign trade, the dynamics and commodity structure of mutual export and import of the two countries, the degree of intensity of trade relations, factors hindering the development of trade, and perspective directions of diversification of bilateral trade and economic relations. The assessment of promising sectors of the economy for the development of mutually beneficial trade with Russia is carried out using the Tanzania Social Accounting Matrix, according to which export and import-oriented sectors and its subsectors were identified, including the analysis of the main factors of production contributing to the formation of their gross value added. An insufficient level of capital utilization in the industrial sector of the Tanzanian economy explains the low degree of industrialization of the leading branches of industry and high share of imports in trade operations. The commodity structure of Russian-Tanzanian exports and imports by types and certain categories of priority goods, as well as product groups, which characterize the highest rates of growth and decrease in the trade turnover between the countries in 2015-2017 are revealed. According to the results of the analysis, there is a mutually beneficial trade and economic strategic cooperation between Russia and Tanzania, which involves optimizing the commodity-specific structure of trade, increasing Russia's investment activity in the extractive industries, chemical industry, agriculture, engineering, etc., as well as in the field of educational, transport, tourist and other services in Tanzania.

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Keywords: Bilateral trade, export, import, index of intensity trade, Russia, social accounting matrix for Tanzania.



1. Introduction

Economic relations between Russia (as the successor of the USSR) and Tanzania were established at the diplomatic level between the USSR and Tanganyika in 1961, after the independence of the latter from Great Britain. In the framework of implementing the provisions of the Trade Agreement (of August 14, 1961) and the Agreement on Economic and Technical Cooperation (of May 26, 1966), the countries carried out mutual export-import trade operations; the USSR actively participated in the development of the Tanzanian national economy, mainly its agricultural sector and construction industry, conducted geological exploration of solid minerals, oil, etc. After the collapse of the Soviet Union, from the economic point of view the African continent in general, and Tanzania, in particular, were lost to Russia which ceded this niche to China and Western countries.

For modern Russia, which is presently under Western economic sanctions, the increase in bilateral trade and economic cooperation with Tanzania is becoming an important direction of diversification of foreign economic activity which, as a result, could reduce its risks; herewith, there are good prerequisites for such cooperation. It should be noted that in the last ten years there has been a steady economic development of Tanzania: the country's annual growth rate averages 7%, that is 4.4% higher than the average figure for sub-Saharan Africa (AEO, 2017); it allows speaking about Tanzania as the country with the fastest growing economy in this region of the world.

2. Problem Statement

Objective reality stimulates Russia to develop new geographic niches of its economic presence in the world market and, in particular, it encourages considering Tanzania¹ as one of the most important long-term trade and economic partners in East Africa.

In 2017, the foreign trade turnover between the countries amounted to \$ 204.095 million (hereinafter – mil.), which, for example, is 3.5 times higher than the same indicator in 2006 (Foreign Trade of Russia). Despite the significant positive dynamics of Tanzania's share in Russia's foreign trade operations in 2010-2017, the country's contribution to Russian foreign trade for a number of objective reasons (geographical distance between the two countries, different scales, level of development, sectoral structure of economies, etc.) remains insignificant: in 2017, by share in the trade turnover of Russia, Tanzania ranked 101st, in export – 90th, in import – 93rd (Table 01).

Table 01. Tanzania's share and place in Russia's foreign trade operations (Russian Foreign Trade, 2018)

Year	Tanzania's share					
	In the foreign trade turnover of Russia		Export of Russia		Import of Russia	
	Share	Place	Share	Place	Share	Place
2010	0.0144%	112	0.0123%	103	0.0180%	93
2017	0.0339%	101	0.0420%	90	0.0212%	93

¹ The name of the country "Tanzania" is a combination of the names of the two former colonies that were included into it, i.e. Tanganyika and Zanzibar.

Thus, in accordance with the indicated problem of the article the following research questions were identified.

3. Research Questions

3.1. What are the main directions of development of trade relations between Russia and Tanzania in terms of the sectoral structure of the economy of Tanzania?

3.2. What are the dynamics, product structure and intensity of foreign trade operations between Russia and Tanzania?

3.3. What factors hinder the development of trade between Russia and Tanzania?

3.4. What are the promising directions for diversifying bilateral trade and economic relations between Russia and Tanzania?

4. Purpose of the Study

The purpose of the study presented in this article is to analyze the development of foreign trade relations between Russia and Tanzania in 2010-2017 and identify the priority areas for long-term bilateral economic and trade cooperation.

5. Research Methods

5.1. Identify priority sectors (and types of products) for the further development of Tanzania's trade relations with Russia based on the use of the Social Accounting Matrix (hereinafter – SAM) developed (Randriamamonjy & Thurlow, 2017) and adapted (Maskaeva, Mmasa, Lema, & Msafiri, 2018). The matrix is a quantitative model of the sectoral structure of the economy of Tanzania as of the year 2015, generated by cash flows from economic operations and transfers.

5.2. Analyze foreign trade operations between Russia and Tanzania in the dynamics (2010-2017) by the chain method, as well as structurally (by main types of products).

5.3. Assess the level of development of trade between Russia and Tanzania based on the calculation of the trade intensity index (in dynamics), which allows comparing the trade turnover between the two countries with the volume of these countries' trade with the rest of the world.

5.4. Study the problems and opportunities for the development of mutually beneficial bilateral trade and economic relations between Russia and Tanzania based on analysis, generalization and synthesis of relevant information presented in the sources accessible for researchers.

6. Findings

To determine the promising industries of mutually beneficial trade between Tanzania and Russia, SAM was used, reflecting the results of the economic development of Tanzania in 2015 (for more details, see (Maskaeva et al., 2018).

The agricultural sector has been the backbone of the Tanzanian economy since the country's independence. It provides employment to more than 75% of the population and makes up about 30.3% of

total GDP, including 17.2% of crop production (corn, rice, beans, fruits, etc.), 6.9% of livestock production (cattle, raw milk, small ruminants, poultry, etc.), 6.1% - for forestry and fishing. The service sector accounts for 44.4% of Tanzania's total GDP. The "Hotel services and public catering" industry accounts for only 1.2% of the country's total GDP, but more than 20% of the country's total foreign income in the GDP structure belongs to this industry of the economy (Sulle & Banka, 2017).

The industrial sector forms 25.3% of Tanzania's total GDP, of which more than 15% is in the construction industry and 2.4% in the mining sector, which includes the extraction of metals (iron ore, gold, copper, nickel, silver, cobalt), minerals (tanzanite, diamond, garnet, ruby, soda ash, sand, gravel), as well as fuel minerals (uranium, coal, fuel and gas). At the same time, the lack of self-sufficiency in Tanzania's main consumer goods, the dependence of its industry on the import of raw materials and other material resources, as well as investment factors determine the high degree of localization of the country from foreign trade and, above all, from imports.

According to the data presented in Table 02, the bulk of Tanzania's imports are in the industrial sector (75.1%). The country mainly imports chemicals (40.1%), electrical equipment, vehicles and components (18.6%), metal products (6.1%) and paper, leather and wood products (4.3%). The share of imports of agricultural products in the total volume of imports into the country is small (1.9%), it is focused on wheat (1.6%). Tanzania mainly exports wood (16.3%), coal, lignite (8.4%), soft drinks and tobacco products (4.4%), processed fats, oils, fruits and vegetables (4.1%), paper, fiber and leather goods (3.2%). The share of agricultural products in the export structure is 11.2% with a focus on the export of beans, oils, fruits, cocoa, coffee and tobacco. The share of exports of services is 37.9%, the main sectors in international trade operations in Tanzania are transport services and catering and hotel business.

Table 02. The structure of the foreign trade of Tanzania and the share of production factors in the value added of products².

Sectors of the economy (and products)	Export, %	Import, %	Share in the value added, %		
			Labor (labor intensity)	Capital (capital intensity)	Land
Agriculture	28.4	1.9	37.4	32.9	29.7
Wheat, Barley	0.1	1.6	19.9	37.3	42.9
Beans	2.7	0.01	37.0	23.0	40.0
Oil seed	1.9	0.01	34.2	31.3	34.4
Fruits, nuts	2.9	0.03	36.0	24.8	39.2
Cocoa, coffee, tobacco	1.4	0.04	45.4	32.7	22.0
Wood	16.3	0.1	11.0	89.0	
Industry	33.7	75.1	23.9	76.1	
Coal, lignite, and other minerals	8.4	0.2	17.5	82.5	
Processed fats, vegetables, fruits	4.1	1.6	18.2	81.8	
Soft drinks, tobacco products	4.4	0.3	62.2	37.8	
Paper, leather and wood products	3.2	4.3	63.1	36.9	
Chemicals, including oil, fertilizers	2.8	40.1	41.5	58.5	

² Modified SAM of Tanzania includes 55 industries and 56 types of products. Table 0.2 presents a fragmentary sectoral structure of the country's foreign trade, namely, industries with a share in exports and / or imports, > 1.

and pesticides					
Metals, metal products	1.3	6.1	23.8	76.2	
Electrical equipment, machinery, vehicles and transport equipment	3.9	18.6	7.4	92.6	
Services	37.9	22.9	62.2	37.8	
Transport	10.8	9.3	41.5	58.5	
Hotel services, public catering	22.1	10.4	53.7	46.3	

Note: Authors' calculations based on Modified 2015 SAM for Tanzania.

A special place in the analysis of the structure of international trade takes the assessment of the needs of sectors and subsectors of the economy in capital and labor. The agricultural sector of the economy of Tanzania as a whole has an even distribution in the use of all factors of production in value added: namely, labor - 37.4%, capital - 32.9%, land - 29.7%. The industrial sector is more capital-intensive (76.1%), but also import-oriented, since the leading sectors of the economy that produce soft drinks, tobacco products, paper, leather products, etc., are more intensive in the use of hired labor than capital. This indicates a low level of industrialization of industrial sectors and explains the high share of imports in trade operations. The service sector is more intensive in the use of labor (62.2%) than capital (37.8%).

Thus, indicators of the economic structure of Tanzania illustrate the dependence of its economy on foreign trade, it could be explained by the country's relative isolation from world markets. Tanzania has rich natural and climatic resources, the use of which in production activities, focused on the export of ready products, can make it possible to achieve success in the implementation of the National Development Strategy of the country.

In 2017, the trade turnover between Russia and Tanzania amounted to \$ 204.095 mil.; of them, Russian exports to Tanzania account for \$ 149.831 mil (73.41% of trade), and Russia's imports from Tanzania - \$ 54.264 mil (26.59% of goods turnover). In general, for the period 2010-2017, the trade turnover between the countries increased 2.26 times (especially active growth was identified in 2011 and 2017); including export - 3.06 times, import - 1.32 times; in this connection, the share of exports has significantly increased in the structure of trade. The trade surplus in 2017 was \$ 95.567 mil; compared to 2010, the surplus increased 12.27 times (by \$ 87.776 mil) (Table 03).

Table 03. Main indicators of foreign trade activity between Russia and Tanzania

Indicator	2010	2011	2012	2013	2014	2015	2016	2017	
Turnover	Mil \$.	90.161	152.457	112.861	168.263	154.160	138.809	127.696	204.095
	Annual growth rate	-	69.09%	-25.97%	49.09%	-8.38%	-9.96%	-8.01%	59.83%
Export from Russia to Tanzania	Mil \$.	48.976	102.548	60.700	100.049	103.788	91.416	79.147	149.831
	Turnover share	0.54	0.67	0.54	0.59	0.67	0.66	0.62	0.73
	Annual growth rate	-	109.4%	-40.8%	64.8%	3.7%	-11.9%	-13.4%	89.3%

Import to Russia from Tanzania	Mil \$.	41.185	49.909	52.161	68.214	50.372	47.392	48.549	54.264
	Turnover share	0.46	0.33	0.46	0.41	0.33	0.34	0.38	0.27
	Annual growth rate	-	21.2%	4.5%	30.8%	-26.2%	-1.3%	-2.3%	11.8%
Trade balance, Mil \$.		7.791	52.639	8.539	31.835	53.416	44.024	30.598	95.567

Note: Calculated acc. (Foreign trade of Russia)

In the structure of Russia’s exports to Tanzania, the main share of supply steadily falls on the following types of goods (Table 04).

Table 04. Structure of Russia’s exports to Tanzania

Codes of commodity nomenclature of foreign export activities (hereinafter – code)	Types of goods	2015	2017
01-24	Food products and agricultural raw materials	74.3%	82.4%
28-40	Chemical industry products	7.8%	13.2%
25-27	Mineral products	2.8%	1.6%
84-90	Machinery, equipment and vehicles	3.8%	1.4%
44-49	Wood and pulp and paper products	5.1%	1.2%
72-83	Metals and products from them	5.9%	0.3%
	Other	0.2%	0.02%

Note: Calculated acc. (Foreign trade of Russia)

Russia supplies Tanzania mainly with cereals (81.87% of total exports to Tanzania in 2017), fertilizers (12.54%), mineral fuels, oil and distillates, bituminous substances, mineral waxes (1.39%).

The largest gains in Russian exports to Tanzania in 2017 compared to 2015 were recorded for the following product groups:

- cereals (code 10) – \$ 55 785 812 (83.61%);
- fertilizers (code 31) – \$11 707 887 (in 2.65 times);
- electrical machines and equipment, their parts; sound recording and reproducing apparatus, apparatus for recording and reproducing a television image and sound, their parts and accessories (code 85) – \$1 503 112 (in 39.7 times);
- products of inorganic chemistry; inorganic or organic compounds of precious metals, rare-earth metals, radioactive elements or isotopes (code 28) – \$ 705 937 (in 8.35 times).

The largest decline in Russian exports to Tanzania in 2017 compared to 2015 was recorded for the following product groups:

- aluminum and its products (code 76) – \$ 3 757 207 (91.29%);
- paper and cardboard; paper pulp products, paper or paperboard (code 48) – \$ 2 740 516 (61.34%);
- means of land transport, other than railway or tram rolling stock, and parts and accessories thereof (code 87) – \$ 2 416 800 (100%);
- alcohol, soft drinks and vinegar (code 22) – \$ 589 020 (50.65%);
- ferrous metals (code 72) – \$ 1 237 425 (100%);
- salt, sulfur; soils and stone; plastering materials, lime and cement (code 25) – \$ 408 878 (62,47%);
- optical, photographic, cinematographic, measuring, control, precision, medical or surgical instruments and apparatus; parts and accessories thereof (code 90) – \$ 329 672 (52.14%).

The analysis of Tanzania’s SAM and the structural study of Russian export operations in Tanzania suggests that the overall structure of Russian exports to Tanzania corresponds to the import requirements of that country and the structure of global exports to Tanzania (in terms of chemical products, machinery, equipment and vehicles, wheat).

In the structure of Russia’s imports from Tanzania, the almost absolute share of deliveries falls on food products and agricultural raw materials (Table 05).

Table 05. Structure of Russia’s exports to Tanzania

Codes of CN FEA	Goods	2015	2017
01-24	Food products and agricultural raw materials	99.95%	100.0%
	Others	0.05%	0.00%

Note: Calculated acc. (Foreign trade of Russia)

Russia exports from Tanzania mainly tobacco and industrial tobacco substitutes (69.71% of total imports from Tanzania in 2017), coffee, tea, mate, or Paraguayan tea, and spices (21.86%), oil seeds and fruits; other seeds, fruits and grains; medicinal plants and plants for technical purposes; straw and fodder (7.47%). The largest gains in Russian imports from Tanzania in 2017 compared to 2015 were recorded for the following product groups:

- oil seeds and fruits; other seeds, fruits and grains; medicinal plants and plants for technical purposes; straw and fodder (code 12) – \$ 1 654 255 (85.04%);
- tobacco and industrial tobacco substitutes (code 24) – \$ 127 782 (0.38%).

The largest decline in Russian imports from Tanzania in 2017 compared to 2015 was recorded for the following product groups:

- edible fruits and nuts; peel of citrus fruits and melons (code 8) – \$ 1 191 711 (30.74%);
- coffee, tea, mate, or Paraguayan tea, and spices (code 9) – \$ 787 885 (6.96%).

Combining the results of the analysis of Tanzania SAM and the study of Russian import operations from Tanzania suggests that the commodity structure of Russian imports from Tanzania, in general, corresponds to the sectoral structure of the economy of this country and the structure of its total exports to other countries, namely, in its share of agricultural products (mainly tobacco, oils, coffee, tea, etc.).

To assess the degree of mutual integration of trade in Russia and Tanzania, a trade intensity index (Tij) was calculated using the formula (0.1):

$$T_{ij} = (X_{ij} * (M_w - M_i)) / (X_i * M_j) \quad (0.1),$$

where X_{ij} – export of the country i to the country j; M_w – total world imports; M_i – total imports of the country i; X_i – total exports of the country i; M_j – total imports of the country j.

This index compares the trade turnover between the two countries with the volume of their trade with the rest of the world, i.e. allows determining how the overall level of openness of countries and the level of their mutual trade correlate. The value of the trade intensity index varies from 0 to infinity. In this case, the critical point is 1: if the value of the index is larger than 1, then trade relations between countries can be called intensive; if the value of the indicator is less than 1, then the interest of these countries in mutual trade is at a fairly low level relative to their interaction with the rest of the outside world.

Baseline data (in millions of dollars) and the results of calculations of the index of trade intensity (Tij) between Russia and Tanzania in 2010-2017 are presented in Tables 06 and 07.

Table 06. Indices of the intensity of trade in Russia and Tanzania (on the part of Russia)

Year	Export from Russia to Tanzania (Xij)	Total world imports (Mw)	Total import of Russia (Mi)	Total export of Russia (Xi)	Total import of Tanzania (Mj)	Tij
2010	48.976	18398000.000	228912.000	397068.000	8012.873	0.280
2011	102.548	21837000.000	305760.000	516718.000	11184.220	0.382
2012	60.700	22138000.000	317263.000	524735.000	11715.589	0.215
2013	100.049	22746000.000	314967.000	527266.000	12525.411	0.340
2014	103.788	23255000.000	285982.000	496944.000	12691.109	0.378
2015	91.416	20743000.000	182678.000	343597.000	14705.968	0.372
2016	79.147	20392000.000	182262.000	285491.000	7876.086	0.711
2017	149.831	22454000.000	226966.000	357083.000	7765.411	1.201

Note: Calculated acc. (Foreign trade of Russia, United Nations, The World Bank, 2011-2018)

Table 07. Indices of the intensity of trade in Russia and Tanzania (on the part of Tanzania)

Year	Export of Tanzania from Russia (Xij)	Total world imports (Mw)	Total import of Tanzania (Mi)	Total export of Tanzania (Xi)	Total import of Russia (Mj)	Tij
2010	41.185	18398000.000	8012.873	4050.546	228912.000	0.817
2011	49.909	21837000.000	11184.220	4734.959	305760.000	0.752

2012	52.161	22138000.000	11715.589	5547.229	317263.000	0.656
2013	68.214	22746000.000	12525.411	4412.548	314967.000	1.116
2014	50.372	23255000.000	12691.109	5704.653	285982.000	0.718
2015	47.392	20743000.000	14705.968	5854.230	182678.000	0.919
2016	48.549	20392000.000	7876.086	4741.924	182262.000	1.145
2017	54.264	22454000.000	7765.411	4178.109	226966.000	1.284

Note: Calculated acc. (Foreign trade of Russia, 2011-2018, United Nations, 2011-2018, World Bank, 2011-2018)

Thus, for the period 2010-2017, intensity indices of mutual trade flows of the two countries increased significantly (for Russia - in 4.3 times, for Tanzania - in 1.6 times); at the same time, both for Russia (for the first time in 2017) and for Tanzania (in 2013 and in 2016-2017), they are estimated to be slightly more critical (1), i.e., despite the objective constraints development, both countries are gradually becoming priority partners for each other, increasing their export potential and diversifying export baskets, thereby increasing the mutually beneficial trade.

Despite the revealed positive dynamics of the main indicators of export-import operations between Russia and Tanzania, it is possible to identify (for objective reasons) quite serious obstacles that stand in the way of further development of bilateral foreign trade relations between countries, namely:

- high transaction cost for foreign trade operations (up to 40% of the price of certain types of products), including transport and logistics costs;
- high rates of import duties, which increase the cost of certain types of products for the importer several times and make them less competitive in its domestic market;
- insufficient investment activity and diversification of economies of both countries, in connection with which their bilateral foreign trade is characterized by a mutual inefficient commodity-specific structure, when most of the exports are cereals (81.87% of Russia's total exports to Tanzania in 2017), and imports - tobacco and industrial tobacco substitutes (69.71% of Russia's total imports from Tanzania in 2017).

Another important point should be taken into consideration: according to expert data, the delivery of 1 ton of cargo to Russia from Tanzania is about seven times more expensive than from Great Britain, where world exchanges and markets for goods produced in Africa are concentrated. At the same time, purchases of Russian goods in London fall into the statistics not of Russian-Tanzanian, but of Russian-British trade. A result of this distortion of reality is a low awareness of potential trading partners of Russia and Tanzania about the scale and possibilities of mutually beneficial cooperation, of Russian buyers - about the assortment and quality of Tanzanian goods, of the state - about the real contribution of countries to each other's economy and prospects for further development. In our opinion, it would be necessary to calculate the foreign trade turnover of goods in the statistics of the country that is the geographical homeland of their origin.

One should note the Russia's interest in the development and diversification of long-term economic cooperation with Tanzania, both in regards to further increase of the volume of mutual export-

import operations, and to implementation of investment projects in various sectors of the economy, as well as commercial initiatives is aimed at developing infrastructure, educational, transport, tourism, and other services in Tanzania.

In particular, the following strategic directions of mutually beneficial cooperation are considered as priority:

- Optimization of the commodity-specific structure of bilateral trade by increasing the proportion of machinery and high-tech products (equipment in the field of energy, mining, specialized vehicles, aircraft, etc.) in exports from Russia, organic fruits and vegetables, recycled wood and fish products - in exports from Tanzania. In particular, the civil aviation and civil aircraft industry could become the driver of industrial cooperation between two countries: the Russian side is interested in promoting the Sukhoi Superjet 100 short-haul passenger aircraft, MS-21 short-medium passenger airliners and Russian-made helicopters to the Tanzania market.
- The increase in the volume of tourist flow from Russia to Tanzania. Tanzania is becoming one of the most promising areas of outbound tourism for Russia: the number of tourists from Russia to Tanzania is increasing annually by 50%. Travelers come to observe the life of amazing animals and birds, butterflies in their natural environment, nature reserves and national parks. Tourists are attracted to Tanzania by the tropical climate, the white beaches of the Indian Ocean with its rich underwater world, educational tours in Dodoma and Dar es Salaam, mountain hikes to Africa's highest mountain peak, the sleeping Kilimanjaro volcano, to the largest lakes in Africa - Victoria and Tanganyika. If we consider that the direct flight between Moscow and Zanzibar takes about 9 hours, Tanzania could be an alternative tourist route for Russian tourists, a substitute to Cuba, Thailand, the Dominican Islands, etc.
- Activation of joint mining activities in Tanzania. Currently, a number of major projects are being implemented in Tanzania with the participation of Russian capital and the use of Russian scientific and technical capabilities: in particular, the project of integrated development of one of the world's largest deposits of platinum group metals "Darvendale", the development of the "Mkuzhu River" uranium deposit.

In addition, under current discussion are the prospects for cooperation between the two countries in the sphere of modern engineering, transport and social infrastructure facilities in Tanzania, developing the shipbuilding industry, the automotive and special engineering industry, the chemical industry, the pharmaceutical industry, the agro-industrial complex, the housing industry, military-technical cooperation, etc.

7. Conclusion

In conclusion, one should note that today, in the conditions of tough economic sanctions, Russia should use all opportunities to develop mutually beneficial areas of cooperation with the countries of South-East Africa, including Tanzania, with a willingness to work with an eye to the distant future - for decades to come. The fact is that Tanzania has a huge untapped potential - in terms of human resources

(cheap labor that can make the country a powerful production base), in terms of natural resources (in particular, natural gas, the projected reserves of which, taking into account the shelf, are in the hundreds billion cubic meters, as well as uranium, gold, phosphates, diamonds, nickel, etc.), as well as in terms of a potential market. According to the International Monetary Fund, the economy of Tanzania is already one of the 20 fastest growing economies in the world (in 2018, it is projected to grow by 6.9%) (AEO, 2017).

The expansion of bilateral economic cooperation between Russia and Tanzania will make it possible to increase the competitiveness of the economies of both countries, ensuring the implementation of regional and sectoral interests. In order to switch to a new model of interaction, the efforts of both countries should be directed to the elimination of existing foreign trade barriers, improvement of trade legislation, development of transport infrastructure, creation of joint logistics centers, etc.

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