LSE Research: Tanzania's industrial policy since independence

LSE's Hazel Gray explores Tanzania's experience of industrial policy since independence through the concept of political settlement in paper entitled Industrial policy and the political settlement in Tanzania: aspects of continuity and change since independence.

1996 is often presented as a turning point for Tanzania. After an economic downturn that started in the late 1970s and continued for most of the 1980s, the manufacturing sector finally returned to growth. The liberalisation process that occurred in Tanzania is credited with releasing the constraints on manufacturing through privatisation, liberalisation of prices, reducing market distortions and corruption and encouraging foreign investment in the sector.

General Tyre East Africa was one company that struggled after liberalisation

However, what credit can liberalisation really take for the return to growth in manufacturing? That's one of the questions Hazel Gray considers in her paper, Industrial policy and the political settlement in Tanzania: aspects of continuity and change since independence.

Following the Arusha Declaration of 1967 in which the country's first President Julius Nyerere laid out his vision for self-reliance, many industries were nationalised and new industrial parastatals created. Nevertheless, half of all industry remained in private hands during the socialist period and Nyerere argued that a private sector was also necessary for economic growth to occur. By the mid-1970s, however, the growth within the sector that had been achieved in the first few years of independence began to slow down.

Productivity in many of the industrial parastatals started to drop around the mid-1970s mainly because of chronic underutilisation of their capacity. For example, some textile mills were operating at less than 10% of their capacity by the mid-1980s. As a result, many of these parastatals became more dependent on government subsidies as their profits dwindled.

Corruption and substandard management are often seen as the main reasons for the poor performance in Tanzania's industrial sector. As a new nation with limited experience in the sector, industrialisation was also constrained by a shortage of resources, skills, poor infrastructure and foreign exchange limitations. A deeper explanation of the failures of Tanzania's industrial policy under socialism however relates to the mismatch between the formal policy incentives and the underlying political settlement. The concept of the political settlement reflects the combination of formal institutions and distribution of power in society. The article argues that features of the political settlement related to the distribution of power within the institutions of the ruling party and the relationship between the state and the private sector shaped the effectiveness with which the state could manage industrial policy.

The main problem with Tanzania's liberalisation programme is that by focusing on rolling back the state, it failed to address these deeper constraints on effective industrial policy. Despite an initial period of liberalisation in the 1980s, the industrial sector continued to shrink. It was only in 1996, that the trend was finally reversed but Tanzania's industry remained small and concentrated in low productivity activities with limited diversification. The Sustainable Industries Development Policy 1996-2020 articulated a desire to attract foreign investment into industry as well as expand indigenously owned industrial sector through the promotion of small and medium industrial activities. These aims would be achieved through a limited set of state interventions focused on privatisation, encouraging foreign direct investment (FDI) and promoting manufactured exports.

There was an expectation that privatisation would see industrial assets used more efficiently with less scope for corruption between state officials. The reality was that the same sort of difficulties in managing industrial policy rents that hampered the effectiveness of industrial policy under socialism continued to exist post 1996. One example was the General Tyre East Africa Ltd in which Continental AG gained a 24% stake in the 1990s. By 2005, despite promises to revive production, the company's performance continued to be very poor. A government loan of US$10million was earmarked to purchase raw material and restart production. Six years later, production at the plant had still not been revived and auditors found that the loan had been squandered by management.

The government went to great lengths to attract FDI to the country. Ownership restrictions and performance requirements and restrictions on the repatriation of profits were removed. By 2008, the manufacturing sector accounted for 21% of total FDI stock – this was the major reason for the return to growth in manufacturing by the end of the 1990s. Yet the flow of foreign money was only partly related to the country's new fiscal incentives under liberalisation. Other more enduring aspects of Tanzania's political settlement were also important. For example, investors were strongly influenced by Tanzania's political stability which was the legacy of the centralisation of political power within the ruling party during the socialist era.

Similarly, some of the problems of mismanagement of industrial policy rents continued under liberalisation. Despite setting up several incentive schemes including the Export Processing Zones (EPZs) (which sought to attract investors into manufacturing by offering tax incentives and subsidised infrastructure and to impose some compulsion on improving productivity through requirements to sell in international markets) to promote manufacturing exports, these had minimal impact. However, the EPZ programme was poorly enforced echoing earlier failures in industrial policy management under socialism where parastatal managers and others were able to evade fulfilling some of the requirements attached to state subsidies for industrial development.

Whereas the failures of state intervention pre-1996 has tended to be the main focus of criticism, it is clear that the industrial policy under structural adjustment failed to address the critical political challenges to bringing about a more rapid and sustainable process of industrialisation.

Read the full paper by Hazel Gray.

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