African Journal of International Affairs, Vol. 7, Nos. 1&2, 2004, pp. 167–180

(ISSN 0850-7902)

Reforms and Industrial Development and Trade in East Africa: The Case of Tanzania

Stephen M. Kapunda*

Abstract

The objective of this discussion is to critically examine the performance of the industrial and trade sectors in the context of the East African Community (EAC). It has been shown that the industrial performance has some direct impact on trade and that Tanzania's trade shares to EAC are still low. Furthermore, despite the recent impressive performance of the industrial sector, there are traditional and competitive challenges to the sector. The paper therefore concludes by providing policy recommendations.

Résumé

L'objectif de cette discussion est d'examiner sous un oeil critique les performances des secteurs de l'industrie et du commerce, dans le contexte de la Communauté Est-Africaine (CEA). Il a été démontré que la performance industrielle a un impact direct sur le commerce et que la part commerciale de la Tanzanie au sein de la CEA reste faible. En outre, malgré la récente bonne performance du secteur industriel, il subsiste d'anciens défis concurrents au niveau de ce secteur. Cet article conclut en fournissant des recommandations de politique publique.

Introduction

The pre-reform period in Tanzania was in the main guided by policies based on African Socialism (*Ujamaa*) in terms of the 1967 Arusha Declaration. Such strong ideological emphases were absent in the other East African Community Countries. The differences in ideology was

* Department of Economics, University of Dar-es-Salaam. Currently at Department of Economics, University of Botswana, Private Bag 0022, Gaborone, Botswana.

probably one of the factors which contributed to the disintegration of the East African Community in 1977.

The economic crisis of the early 1980s shook the region's economic performance, including industrial development and trade. In Tanzania, the impact was exacerbated by the aftermath of the war with Uganda – a short-term domestic phenomenon. This resulted in the decline in GDP, an acute shortage of goods and inputs, and an unsatisfactory performance of industrial and other productive sectors as discussed in the subsequent section. The first effort to manage the crises was the 1981 National Economic Survival Programme (NESP) followed by the 1982 Structural Adjustment Programme (SAP). Effective reforms, however, started in 1986 with a series of economic recovery measures guided by IMF/World Bank. These led to effective market reforms and privatisation.

The performance of the economy and the industrial sector in particular fluctuated with changing policies and crises. Industrial commodity trade also tended to follow the fluctuations.The objective of this article is to examine critically the industrial and trade sectors' performance in the context of EAC. The emphasis is on the period after the introduction of reform.

Market Reforms and Industrial Development in Tanzania

Background Information

The Tanzanian economy in the first 15 years of independence (1961-1976) was impressive in terms of economic growth. During the first six years the economy was largely guided by inherited policies. As noted in the introduction, between 1967 and 1985 the Tanzanian economy was essentially guided by the state. The first ten years of the period (1967-1976) saw a fairly satisfactory economy in terms of growth and provision of basic goods. During that period the economy grew by about 5.4 percent while the industrial sector grew by 6.5 percent. The policy emphasis on the provision of basic goods and services certainly paid off (Bagachwa 1992: 23). However, the period just prior to the effective reforms (1980-85) saw the economy grow by 1.2 percent while the industrial growth was almost negative throughout the years averaging -4.9

percent. This was essentially due to the early 1980s general crisis referred to in the Introduction.

Reforms and Industrial Performance

During the first Economic Recovery Programme (ERP I: 1986-1989) the real growth of the economy was 3.7 percent while that of narrowly defined industrial sector (manufacturing) was 2.7 percent. The average growth rate was about 3 percent during the 1986-1991 period while the industrial contribution to GDP averaged 9 percent. For details see Table 1.

Table 1: Industrial Sector's GDP and Employment Rates and Contribution to GDP (%).(1992 Prices)

Year	Overall GDP Growth	Industrial Sector to Growth	Contribution GDP	Employment Growth
1986	3.3	0.1	9.1	1.8
1987	3.9	4.1	9.2	-9.9
1988	4.2	3.1	9.1	0.4
1989	3.3	5.2	9.3	7.4
1990	3.6	4.1	9.2	2.5
1991	3.3	1.9	9.1	-1.3
1992	3.0	-4	8.6	3.5
1993	4.1	-0.6	8.6	0.1
1994	3.9	-0.2	8.4	3.3
1995	4.0	1.6	8.2	1
1996	4.2	4.8	8.3	-0.1
1997	3.3	5.7	8.1	2
1998	4.0	8.0	8.4	3.9
1999	4.5	3.6	8.3	5.5
2000	4.9	4.8	8.3	6.5
2001	5.7	5.0	8.3	6
2002	6.2*	8.0*	8.4*	10.3*

Source: United Republic of Tanzania (henceforth URT) *Economic Surveys* (various issues).
Note: * Provisional.

Capacity utilisation also increased in some industries from lower levels in 1985 to higher levels in 1991. Examples are textiles, cement, cigarettes, soft drinks, cooking oil, tyres and match boxes. (See Appendix, Table A). This was attributable mainly to the eased availability of raw materials and spare parts as a result of foreign exchange being more accessible during the recovery period. Another related factor was the rehabilitation of many industries, which became visible in 1989.

However, the growth rate became negative between 1992 and 1994. The contribution of the industrial sector to GDP declined from 9.1 percent (1991) to 8.6 percent (1992).

The official reasons for this trend include:

- unfair competition between domestically produced industrial products and imported products especially the case of textiles after introducing trade liberalisation. This was compounded by unfair competition resulting from cheap and untaxed (illegally) imported industrial products;
  government efforts to reduce government deficit and money supply (as reflected in recommendations based on structural adjustment);
- the migration of skilled/technical manpower from the public sector to newly established private enterprises where higher salaries and fringe benefits prevailed;
- declining effective demand for industrial goods due to the decrease in consumers' purchasing power;
- an increase in costs of production, especially the component relevant to public utilities (electricity, gas and water) and transport and communication; and
- frequent power interruptions, inadequate water supply, and unsatisfactory transport and communication services.

Some comments on these points are in order: The first three reasons can easily be related to the early impact of structural adjustment, or market reforms. The rest of the reasons were mainly internal. We may add the following reasons: misuse of funds and other properties; management problems; liquidity problems; delays in formalising proper foreign exchange applications due to bureaucratic procedures; inappropriate technology; and the low quality of industrial products (Kapunda 2000:6).

After 1994 industrial growth was positive. In fact, the average real growth was 5 percent despite the relatively low percentage contribution to GDP. In recent years both the economy's growth and industrial growth seem to be very impressive. The increase in production has been mainly a result of the rehabilitation of divested/privatised enterprises, the establishment of new industries, and an improvement in the supply of electricity and water (URT 2002:143, URT 2003:179). Industrial employment has been higher than before, largely as a result of an increase in private and informal enterprises and also in small scale and medium industrial firms. (URT 2003:179).

But it should be noted that a few industrial products have improved their market competitiveness. Products with remarkable sales performances include beer, cigarettes, soft drinks, bottled water, tyres and textiles. The increase in sales is mainly due to an increase in quality, a more efficient distribution system, and vigorous promotion and advertisement. Joint ventures and privatisation have also contributed positively in some cases, as with beer.

With regard to production costs and prices it is observed that they are still relatively high. Most of the industrial commodities are sold at higher prices than imports. This tends to discourage domestic production. Some of the reasons for high domestic prices include an increase in production costs including expensive imported inputs, high transaction costs, and a partially reformed tax structure regarding commodities.

Most industries produce consumer goods. The contribution of consumer goods industries to total industrial earnings was 57 percent in 1990, and it rose to 63 percent in 1998. In the same years the contribution of intermediate goods fell from 29 percent to 24 percent and that of capital goods declined from 14 percent to 13 percent. It is often argued that to realise economic independence, capital goods and intermediate goods industries play an increasing role in the economy. In the long run the two types of industries should overtake the consumer goods sector in terms of contributions to the economy. However, the case of Tanzania seems not to follow the trend. Part of the reason is that most (foreign) investors concentrate on consumer goods industries where they can make quick profits and where they can compete in the domestic markets too (in which the majority of consumers have low purchasing power). However, the old debate on a basic industry strategy should be revised. The government should encourage foreign investors to invest jointly with the public sector in intermediate and capital good industries and inputs like the Mchuchuma coal and Liganga iron ore, especially in the long run by providing effective incentives. This line of argument has recently been supported by the Ministry of Industry and Trade (URT 2002:16).

Reform Impact and Implications for Small Scale Industries and Informal Industrial Activities

Between the crisis of the early 1980s and the early 1990s, small scale industries and the informal sector have been growing at a commendable rate. This has also provided a growing share of jobs, output and income. Currently, nearly 60 percent of the urban labour force in mainland Tanzania is absorbed in the informal sector. A World Bank Survey revealed that output in most larger firms contracted, while output in smaller and medium sized firms expanded. More specifically, 60 percent of the smaller firms increased production while only 48 percent of the larger firms managed to do so (World Bank 1991).The impact of the reforms on the small industrial enterprises seems to have been mixed. Positive impact aspects include the following:

- import liberalisation has improved the supply of intermediate inputs and spare parts;
- domestic trade liberalisation has also made raw materials more freely available for small scale grain mills, oil, coffee and cashew nut processing and saw mills.

However, the following negative impact aspects need to be noted:

- the inflationary impact of devaluation increased prices of imported inputs;
- the volume of sales has decreased in some plants due to increases in prices of imported inputs and spare parts; and
- the closure of small plants, especially those which are very import-intensive or less competitive or both, as cheap imported products of high quality enter the domestic market.

It should be underlined that although most of the small-scale industries currently cannot face global market competition, they are still important in the domestic market since the internal demand is high. Furthermore, they generate employment even in rural and semi-rural areas. The record of a 10.3 percent rise in the employment rate in 2002 (see Table 1) is partly a result of increase in small and medium enterprises.

Industry and Trade

Impact of Industrial Performance on Trade

As noted in the Introduction, the trade in industrial goods tends to follow the fluctuation of the performance of the industrial sector and the economy in general. When the industrial and general economic performance was fairly satisfactory between 1961 and 1976 there was a reasonable provision of basic industrial goods for both the domestic and international markets. However, during the crisis in the 1980s there was a very acute shortage of locally produced industrial goods to trade with. Parallel markets dominated the economy (Kapunda *et al* 1988, 1990).

The negative industrial growth of 1992-1994, and the subsequent rise of the growth rates in later years influenced negatively the pattern of industrial contribution to total exports, as noted in Table 2. The industrial contribution to total exports rose from 16.0 percent in 1995 to 19.0 percent in 1998 despite the declining tendency of recent trends – with some improvement between 2001 and 2002.

Regional Trade

Tanzania is a member of both the East African community (EAC) and the Southern African Development Community (SADC). It also participates in global trade organisations like the World Trade Organisation (WTO), and has qualified in terms of the African Growth and Opportunity Act (AGOA).

Tanzania exports more goods and services to Kenya than previously, but it imports even more from that country resulting in a negative balance of trade. In fact the overall balance of trade is negative for the EAC, SADC and the rest of the world. However, Tanzania is mostly a net exporter to Uganda (Table 3). The volume of trade between Tanzania and the European Union (EU) is the greatest (Appendix Tables B and C).

The volume of trade between Tanzania and the EAC seems to be small given the great emphasis on EAC trade. In 2002, for example, Tanzania exported only 4.5 percent and imported about 5.9 percent of total volumes of trade from the EAC. Similar percentages for the SADC were respectively 5.6 and 12.8 in the same year. While Tanzania trades mostly with Kenya in the case of the EAC, its major trading partner in the SADC is South Africa.

Table 2: Industrial Growth and Contribution to Total Exports (Percentage)

Year	Sectoral Growth	Contribution to total Export	Contribution to Non-traditional Exports	Change in Industrial exports
1986	0.1	10.7	45.5	19.2
1987	4.1	17.8	43.1	16.1
1988	3.1	18.9	48.8	14.4
1989	5.2	21.2	51.4	18.9
1990	4.1	23.8	48.9	13.3
1991	1.9	19.4	43.7	-27.7
1992	-4.0	16.0	36.4	-8.7
1993	-0.6	11.8	28.4	-19
1994	-0.2	14.8	42.2	48.1
1995	1.6	16.0	36.5	41.9
1996	4.8	14.5	37.5	1.6
1997	5.7	17.0	35.1	-9.3
1998	8.0	19.0	15.4	-67.9
1999	3.6	12.0	12.4	-15.7
2000	4.8	6.5	11.6	43.2
2001	5.0	7.2	10.3	30.3
2002	8.0*	7.3*	9.5*	17.3*

Source: URT, *Economic Survey* (Various years)
Note: * Provisional.

Qualification in terms of the provisions of AGOA provides not only free access to US markets but also promotes opportunities for increased USA investment in a participating country. Already some textile industries like A-Z and Sunflag have taken advantage of the Act. In the year 2000, products worth US $1,642 million were sold in the US (URT 2003:42).

Table 3: Trade Between Tanzania, EAC and the Rest of the World (million US$)

Region/ Country		1997	1998	1999	2000	2001	2002*
Kenya	Exports	12.8	26.0	21.0	32.2	38.1	35.3
	Imports	95.7	105.8	95.1	93.4	96.1	95.2
	B/Trade	-82.9	-79.8	-74.1	-61.2	-58.0	-59.9
Uganda	Exports	11.6	6.5	4.7	8.5	5.5	5.5
	Imports	1.9	2.3	6.0	5.6	11.4	2.7
	B/Trade	9.7	4.2	-1.3	2.9	-5.9	2.8
EAC	Exports	24.4	32.5	25.7	40.7	43.6	40.8
	Imports	97.6	108	101.1	99.0	107.5	97.9
	B/Trade	-73.2	-75.5	-75.4	-58.3	-63.9	-57.1
SADC	Exports	22.3	15.1	13.8	18.4	21	51.3
	Imports	139.9	179.8	196.3	194.4	221.6	211.1
	B/Trade	-117.6	-164.7	-182.5	-176	-200.6	-159.8
Global	Exports	752.5	588.5	543.2	663.2	776.4	902.5
	Imports	1320.3	1588.7	1572.8	1533.9	1714.4	1658.4
	B/Trade	-567.8	-1000.2	-1029.6	-870.7	-938.0	-755.9

Source: Calculated from URT (2003) *Economic Survey* data.
Note: * Provisional. B/Trade - Balance of Trade.

Industrial Challenges and Prospects

The main challenges to the industrial sector include a set of traditional and competitive - oriented constraints. Examples of the former include limited capital, high electricity costs, high interest rates and high transport/transaction costs, especially in the regions (provinces) (URT 2002:7). Competitive-oriented constraints include stiff competition and unfair trade and dumping practices.

The expected trade reforms by the EAC, SADC, WTO and others require the industrial sector to produce products of high quality and at low cost in order to face the stiff competition from highly industrialised countries in SADC, WTO and other areas. Effort in improving the quality of industrial products and lowering production costs can be made. Some industries like beer, soft drinks, and cigarettes have already shown some progress in that direction. With regard to AGOA, Tanzania should continue to take advantage of opportunities provided by the Act in developing textiles and other industries.

At this stage a cautionary word is in order. While regional co-operation and integration and international organisations like WTO have some positive impact on trade, the special interests of individual countries need to be taken into consideration. These may include the need to assist weak competitor firms like small and medium enterprises in a country like Tanzania; the importance of inter-industrial linkages; the use of local inputs to ensure economic stability; and the need for some mechanism to control unfair competition and dumping practices (Kapunda 2003:13).

Conclusions and Recommendations

This chapter has indicated that there has been a significant improvement in the industrial sector performance in Tanzania during the reform period, especially in recent years. However, the sector is faced with traditional and competitive challenges. To improve the situation the following recommendations are advanced:

> First, Tanzania should raise its trade share with the EAC because of its proximity and similar competitive indices. This can be done by increasing industrial and other exports and thereby improving the balance of trade. In general, the country should participate more in the EAC Development Strategy.
>
> Second, despite the current regional and global emphasis on market reforms and private investment, the particular interests of individual countries should be respected as far as possible. This may involve a mixture of the visible hand of the state and the invisible hand of the markets in guiding the industrialisation process and trade. Specifically the Tanzania Government should attempt to:

(i) guide the industrial sector through an effective trade and competition policy centred on fair competition. The Policy should put special emphasis on industries of particular interest in the country like small and medium industries and strategic industries. Botswana, for instance, is taking such a programme seriously;

(ii) play a leading role in developing strategic intermediate and capital goods industries which have positive sectoral linkage benefits in the long run. This is essentially because private investors are normally interested in projects with a short pay back period. The recent position of the Ministry of Industry and Trade on joint ventures with foreign investors in developing the Mchuchuma coal and Liganga iron ore projects is commendable;

(iii) support projects which tend to lead to high quality products and low cost production. The support may involve transitory tax exemptions to encourage both citizens and foreigners;

(iv) support the reduction of costs in the sectors which are crucial to the industrial and other sectors of the economy such as transport and public utilities. In this case, the government of Tanzania should work closely with the other governments of the EAC where joint projects like those involving infrastructure are involved; and

(v) support industrial and skilled labour training and technological progress.

Third, domestic enterprises should exploit to the full the AGOA and other trade agreements; but should devise long-term competitive strategies that can enable them to weather the period after the expiration of such special opportunities.

Fourth, industrial investors should make a greater effort to compete directly, through raising product quality, efficiency, and productivity and maintaining minimum input costs.

Last, industrial investors should also compete indirectly. The small scale and medium enterprises, for instance, can compete successfully through niche marketing by identifying and occupying tightly defined segments of the market place, which they can service better than large firms. Traditional crafts and other labour intensive products can be exported to markets not tapped by global players. Although these recommendations are directed to Tanzania, they may be relevant to other EAC members and other African countries.

Bibliography

Bagachwa, M. S. D., 1992, 'Background, Evolution, Essence and Prospects of Current Economic Reforms in Tanzania', in Bagachwa, M. S . D., Mbelle, A. V. Y. and Van Arkadie, B. (eds.) *Market Reforms and Parastatal Restructuring in Tanzania*, Dar-es-Salaam, Economic Department and Economic Research Bureau, University of Dar-es-Salaam.

Kapunda, S.M., 2003, 'Industrial Development and Trade In Botswana', Paper presented at the Biennial Economic Society of South Africa Conference, Cape Town, 17-19 September.

Kapunda, S.M., 2000, 'Globalisation and Its Impact on Industrial Performance and Employment In Africa: The Case of Tanzania', Paper for OSSREA Sixth Congress, Dar-es-Salaam.

Kapunda, S. M, and Amani, H.K.R., 1990, 'Agricultural Market Reform in Tanzania', in Rukuni, M. (ed.) *Food Security Policies in the SADC Region,* Harare: University of Zimbabwe.
Kapunda, S.M., Amani, H.K.R., Lipumba, N.H.I. and Ndulu, B.J., 1988, 'Effects of Market Liberalisation on Food Security in Tanzania', in Rukuni, M. and Bernstein, R.H. (eds.) *Southern Africa: Food Security Policy Options*, Harare: University of Zimbabwe.
United Republic of Tanzania (URT), 2003, *The Economic Survey* 2002, Dar-es-Salaam: URT.
United Republic of Tanzania (URT), 2002, *The Economic Survey* 2001, Dar-es-Salaam: URT.
United Republic of Tanzania (URT), 2003. *Budget Speech: Ministry of Industry and Trade*, 2003/2004, Dar-es-Salaam: URT.
United Republic of Tanzania (URT), 2002, *Budget Speech: Ministry of Industry and Trade*, 2002/2003, Dar-es-Salaam: URT.
United Republic of Tanzania (URT), 1992, *Budget Speech: Ministry of Industry and Trade*, 1992/1993, Dar-es-Salaam: URT.
World Bank, 1991, *Tanzania Economic Report: Towards Sustainable Development In the 1999s*, Washington DC.: World Bank.

Appendix
Table A: Capacity Utilisation of Selected Industries in the 1980s and Early 1990s

Industries	1980	1985	1989	1990	1991
1. Textiles	46.6	22.3	22.9	29.0	30
2. Fertilizer	38	30.9	24.7	13.0	15
3. Leather	40	17.7	8.6	12	14
4. Cement	22.9	28.5	44.0	49	48
5. Cigarettes	80.3	47.5	58.5	66.0	68
6. Soft drinks	na	16.0	29.0	30.0	17
7. Beer	75	59.0	42.0	35.0	41
8. Iron	63	30.0	51.0	33	26
9. Cooking oil	na	13.0	42.0	18.6	32
10. Tyres	na	37	61.0	63.0	53
11. Match boxes	61	66	51.0	90.0	100

Source: (1) URT, *The Economic Survey* (various years). (2) URT (1992), Budget Speech, Ministry of Industry and Trade 1992/93. Note: na = not available

Table B: Tanzania's Exports to SADC and Elsewhere (million US $)

Region/Country	1997	1998	1999	2000	2001	2002*
SADC						
- South Africa	7.9	6.3	6.6	12.1	8.7	16.5
- Zambia	10.0	3.7	2.8	4.7	5.5	17.4
- Mozambique	2.6	0.1	0.7	1.5	1.4	1.6
- DRC	1.8	5.0	3.7	0.1	5.4	15.8
EAC	24.4	32.5	25.7	40.7	43.6	40.8
AFRICA	51.2	48.1	43.0	63.8	70.8	99.4
EUROPEAN UNION (EU)	226.5	241.2	214.7	362.1	432.2	473.7
USA	21.4	12.8	18.0	15.2	15.1	13.5
CANADA	1.7	0.7	0.6	0.5	0.5	1.4
ASIA	302.0	113.6	95.8	73.9	88.6	128.1

Source: URT 2003 *Economic Survey.*
Note: * Provisional

Table C: Tanzania's Imports to SADC and Elsewhere (million US $)

Region/country	1997	1998	1999	2000	2001	2002*
SADC						
- South Africa	96.0	130.7	170.8	174.4	2.03.4	188.8
- Zimbabwe	4.7	14.6	5.6	4.5	3.0	2
- Zambia	25	17.0	7.3	2.4	1.8	4.3
- Mozambique	5.1	5.5	0.1	0.1	0.4	0.1
- DRC	0.2	0.5	0.1	0.1	0.2	0.4
- Swaziland	9.0	11.5	12.5	12.9	12.7	15.6
EAC	97.6	108.1	101.1	99.0	107.5	97.9
AFRICA	237.7	287.9	297.5	293.4	329.2	309
EU	367.1	514.6	413.1	344.6	389.7	391.1
USA	52.6	813.0	99.3	58.9	65.3	91.4
CANADA	12.5	16.7	26.7	32.3	23.1	17.7
ASIA	328.3	320.2	316.7	424.1	481.5	419.6

Source: URT (2003) *Economic Survey.* Note: * Provisional.