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Public policy making and the rise and fall of the Tanzanian manufacturing sector

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Public Policy Making and the Rise and Fall of the Tanzanian Manufacturing Sector

M.SC thesis

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Summary

In this thesis we set out to determine which changes occur in government policy affecting the Tanzanian manufacturing sector between 1961 and 1994. To this end a classification is devised which clusters policy instruments by four general aspects of industrial strategies in Less Developed Countries (LDCs). The aspects used are the industrial trade orientation, the degree of direct regulatory control, the relative roles attributed to the public and private sector, and the level of dependency on foreign finance, be it in the form of private investments or foreign aid (table 1.3). All four aspects have their own orientation, reflecting the use of a combination of policy instruments. When, at a certain moment in time, the government decides to introduce new policy instruments, or for that matter, decides to refrain from the further use of particular policy instruments, a shift in the orientation of one or more of the aspects of the industrial strategy can be detected. Such a shift marks a change in public policy affecting the manufacturing sector. From that moment onwards the manufacturing sector faces a new policy climate.

Application of this research instrument to the Tanzanian case results in the distinction of five periods of different policy affecting the manufacturing sector between 1961 and 1994 (table 2.16). Initially import substitution through foreign investments is encouraged. In 1967 the policy climate changes, resulting in the encouragement of a publicly owned import substituting sector, in which (foreign) private investment is ruled out. In the following policy period, commencing in 1973, a high degree of direct regulatory control is imposed, whilst a high level of dependence on foreign aid is used to replace the private investments. This situation remains unaltered until 1984, the year in which trade liberalization commences, resulting in partial decontrol, and the shift away from an import substitution strategy. Between 1990 and 1994 the final policy period occurs. This policy period is characterized by further decontrol, a shift away from the predominant emphasis of the public sector in the industrial strategy, and decreased reliance on foreign aid.

Apart from determining the changes taking place in public policy affecting the Tanzanian manufacturing sector, we are also interested in the manner in which the changes in policy affect industrial development between 1961 and 1994. It is therefore that two approaches to policy evaluation are devised. The first approach takes the policy periods discussed above as point of departure (fig.3.5). Together with a number of policy instruments which are not used to distinguish policy periods, and the macro-economic situation prevailing between 1961 and 1994, the policy periods are related to trends in manufacturing development (which are presented in chapter 4). Additionally a second approach is used which takes the effects policy instruments have on the supply and demand side of an enterprise as the basis for evaluation (table 3.2).

Using these two approaches it becomes evident that public policy has been of crucial importance to the development of the Tanzanian manufacturing sector. Although the start is promising, from 1967 onwards the changes in policy climate have affect manufacturing performance adversely. This is caused by the fact that the policy climates prevailing between 1967 and 1980 stimulate the establishment of an oversized and increasingly less efficient sector which is not in accordance with the resources present within the country. The macro-economic crisis of the early 80s reveals this underlying weakness, and sends the manufacturing sector straight into a crisis from which it is still attempting to recover today. In this respect the policy responses to the crisis initially seem conducive to industrial rehabilitation (1984-1990), but further changes in policy (1990-1994) are accompanied by new constraints to industrial development, which, along with unsolved problems regarding poor infrastructural provisions and a lack of skilled managers and technical manpower, result in further deindustrialization of the country.

Preface

When night fell you could usually find us on top of the roof. The city to our left, a vast stretch of the greenest of trees to our right. In between, many miles of fertile mashamba [fields], intersected by the road upon which the charcoal carriers pushed their bicycles along. The same road which connected this place of tranquillity and reflection to the seemingly chaotic world we got to know by the name of Dar es Salaam. As shadows grew longer, the daily attempts to come to terms with a world which was both simpler and more confused intensified. The people and their cultures, the economy, the beauty of the country, up to this day all are above comprehension.

Nevertheless, it has proven possible to be a part of this world. Not in the role of a native Tanzanian, and neither as an expatriate, but as a participant who has the luxury to observe and experience the many sides to life in Tanzania. Both the endless discussions with the Tanzanians in the dala-dala and the Tuesday night football game with Dutch, Danish and Finish development workers have become cherished memories. And so have those hours spent on top of the roof in Mbagala, during which we also took a shy glance at the future. Spouses to be were dreamt up, and our international career opportunities, believe me, need be discussed no further. Irrespective of the years to come though, the six months in Tanzania are amongst the most valuable months of my life.

Since most of us do not live Thoreau's life on the border of Walden pond,¹ it would be sheer arrogance not to acknowledge that what we accomplish is to a large extent the merit of the people that surround us. It is therefore that I wish to extend my deepest feelings of gratitude to those people that have been of importance to me during the past year. In Tanzania the people at the Ministry of Industries and Trade deserve a warm word of appreciation. Above all I would like to thank Mr. Chilumanga, my field supervisor, for putting up with my "Western" nature. Naturally his marriage advice should not go unmentioned either, and I assure him that one day I will return to Tanzania to marry a Masai-woman of inconceivable length. Additionally, Mr. Nyiti deserves my thanks for the kind interest he took in me, and also for teaching me a number of Swahili one-liners which proved to be of great use during my further stay in Tanzania. Finally, the secretaries at the Ministry, who literally took me by the hand, should be reassured in that they have not passed from my memory yet.

Back in the Netherlands the staff of Technology Development Sciences at the Eindhoven University of Technology should be complimented on the manner in which they have guided me towards the completion of this thesis. Paul Lapperre and Eddy Szirmai deserve a special word of gratitude for their devotion to my cause. Eddy Szirmai, who lives the busy life of a professor, because he has voluntarily provided me with valuable comments on the thesis to be, and apart from that, also treated me to a memorable day in Mikumi National Park. Paul Lapperre, who seems to live an even busier life as demagogue amongst scientists, should be thanked for his inspiring comments and his tantalizing anecdotes, which have made life in front of the computer a great deal more bearable. Above all though, it is Paul who I wish to thank for his general concern for my well-being throughout the past two years.

Once on the topic of my well-being, it is inevitable to mention my family, whose presence I happily and gratefully experienced even when we were continents apart. Finally, I wish to express my sincerest feelings of friendship to the people who have spent those remarkable hours on top of the roof with me. To them I am especially indebted for being "family" whilst there was no family to turn to. To them I am also grateful for the many moments of joy we experienced together, for the loud laughs which echoed through the house, travelled over the fields and still quiver somewhere along the roads upon which the charcoal carriers push their bicycles along.

¹ Thoreau, H.D., *Walden* (London: The Everyman Library, 1995: First published in 1910). In this book Thoreau describes the years he has spent living on the shore of Walden Pond, during which he lives in almost complete solitude, earning his living by the labour of his own hands.

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Introduction

Within the faculty of Technology Management at the Eindhoven University of Technology, the research group Technology Development Sciences has undertaken, and is in fact still undertaking, research activities which give insight in the Tanzanian industrialization process. A considerable number of studies have taken the industrial enterprise as the focus of their analysis. In doing so it has proven to be inevitable to take variables other than enterprise specific variables into account when attempting to understand the performance of these enterprises. Examples are the weather conditions, the world market situation, the cultures of the actors involved, and the government policy affecting the manufacturing sector. In Tanzania, where a predominantly government led development process is pursued since 1967, the importance of government policy as an explanatory variable for manufacturing development is beyond doubt.

Knowing this, the need for a comprehensive overview of government policy affecting the manufacturing sector becomes apparent. This M.SC thesis takes the need for such a study as the point of departure, and focuses both on the policy affecting the Tanzanian manufacturing sector, as well as on the effects of this policy on the Tanzanian industrialization process from the early years of independence (1961) up to the situation prevailing in 1994. Accordingly two research questions are formulated:

- 1. Which changes occur in government policy making affecting the Tanzanian manufacturing sector between 1961 and 1994?*
- 2. How have these changes in policy affected the development of the manufacturing sector during this period?*

These questions are dealt with in parts I, II and III of the thesis. Part I provides a theoretical framework (chapter 1) which allows us to become familiar with the various aspect of public policy making. From this theoretical framework a research instrument is deduced which makes it possible to detect changes in policy affecting the manufacturing sector. The research instrument is applied to the Tanzanian case (chapter 2) resulting in an overview of five periods of different policy, and thus, in an answer to the first research question.

In the second part of this thesis the evaluation approaches and additional data necessary to answer the second research question are presented. The evaluation approaches are deduced from four basic approaches to evaluation, combined with an overview of the policy instruments affecting individual enterprises (chapter 3). The data necessary to apply the approaches are given in the fourth chapter, meaning that trends in manufacturing growth, structural change, investment, efficiency and the role of the public sector are discussed. It is then possible to answer the second research question. This will be done in the third part of the thesis, in which the evaluation approaches are used to establish the relationship between the policy periods and the trends in manufacturing development (chapter 5). Additionally there is a chapter "afterthoughts" (chapter 6), in which a discussion of the methods and data used is accompanied by a discussion concerning the conclusions drawn in the fifth chapter of the thesis. Following this discussion recommendations are made for the improvement of the study, the possible use of the study to policy makers and scientists, and the implications of the study for future policy affecting the manufacturing sector in Tanzania.¹

¹ Thus, the third part of the thesis embodies what is usually referred to as the conclusions, discussion and recommendations.

Part I

"Show me the way..."

Papa Wemba, Emotion

1. Public policy making: a theoretical framework

1.1 Introduction

The theoretical framework presented in the first part of this thesis provides the theoretical basis for the classification and analysis of the results of the research activities, which have been undertaken to answer the first research question. From this body of theory a classification method is deduced which allows for a systematic analysis of the changes in government policy making affecting the Tanzanian manufacturing sector. In order to arrive at this classification method a detailed review of the process of public policy making, consisting of policy formulation and implementation, is imperative. Since government policy formulation and implementation varies widely amongst countries, the role the state wishes to assume in the economic development process will also have to be taken into account. Given the focus of this study the emphasis is on developing countries.

1.2 The role of the state in economic development

Throughout the last 50 years the role the state assumes regarding economic development varies greatly within and amongst countries. In general two possible policy orientations of the state are distinguished, dirigisme and laissez faire. Dirigisme involves active participation of the policy makers in the development process, whilst laissez faire assumes a passive role of the state in this respect. The latter policy orientation implies the choice in favour of the invisible hand of the markets, and is in essence non-interventionistic. Dirigisme on the other hand does imply interventionism, which takes place through the visible hand of the government, and can be either market replacing or market augmenting.¹

In practice fully market replacing dirigisme and total laissez faire policy are hypothetical situations, they are the two ends of a scale. States are classified on this scale as tending either to a more interventionistic or a more non-interventionistic approach. Developing countries in the 1950s, 1960s and 1970s show the tendency to opt for the latter. The economic crisis of the 1920s and the 1930s in the more laissez faire oriented industrialized countries, and the resulting scepticism regarding this approach, are amongst the reasons why this becomes a fact. Doubt of the market's ability to achieve optimal results for a country as a whole, sets the scene for the state as a change agent in the economic development process. In this context governments are said to have the responsibility to correct for, or eliminate market failures,² acting on behalf of the public interest.

Other reasons for the choice of a state interventionistic approach are to be sought in the emergence of the structuralist school in Latin America, the seemingly inspiring developments in the Soviet Union, and in the African context, the reluctance to use similar development strategies to the ones adopted by the former oppressors.³ Thus, the benign role the state is envisioned to play, is not only based on the economic experience of developed and developing countries, it is also influenced by more ideological choices of the governments of developing countries.

¹ Greenaway, D., Milner, C., *Trade and industrial policy in developing countries: A manual of policy analysis* (London: Macmillan Press, 1993, p.56-58).

² Market failures which are relevant for developing countries are existing monopoly power, a lack of socially desirable goods, incomplete markets, macro-economic imbalances and the prevalence of poverty and inequality. Stiglitz, T.E., *Economics of the public sector* (New York: Norton&Co, 1986, p.90).

³ These last two reasons are given by Lal, D., *Nationalism, socialism and planning: Influential ideas in the South* (in World Development: Vol.13: No.6, 1985, p.749-759).

The view on the role of the state in economic development changes throughout the late 70s and early 80s. Empirical studies show that developing countries are doing far from as well as had been expected. Consequently the ability of the state to stimulate economic development is questioned. As Evans puts it, "experience during subsequent decades undercut the state's image of the preeminent change agent, generating instead a mirror image of the state as the principle obstacle to development."⁴

This new view of the role of the state in developing countries portrays the government as a producer, the consumer of the governments product being the voter. In a one party situation, typical for many developing countries, a monopoly situation is created, in which the producer, the government, maximises revenue collection instead of providing social welfare. It fails to provide a satisfying amount of collective goods whilst it enhances corruption. The state is envisioned to be a "predator", a characterization which applies specifically to developing countries which have adopted a market replacing interventionist strategy, and in which a rapidly expanding public sector prevails.⁵

In accordance with the changing view on the role of the state, the actual role of the state changes. The problem of the state as an obstacle to economic development is thought to be overcome by a shift away from market replacing dirigisme towards a market led economy. In developing countries this shift is emphasized during the largest part of the 80s. However, nowadays there is what Killick calls a "partial rehabilitation of the state". This is the result of the recognition that the desire to limit the role of the state in the economic development to an absolute minimum is a "reaction too far".⁶ There is a role for the state in the economic development process of a developing country, but it is neither a market replacing interventionistic nor a laissez faire role.

The changes in the role of the state mentioned above, occur in a large number of developing countries. However, no country is expected to fit this development pattern exactly. Some countries still experience a great deal of market replacing state interventionism, whilst others have always been characterized by a state which attempts to allocate economic resources by intervening in price mechanisms. What we have discussed above is a generalization of the main trends observed concerning the role of the state in developing countries. Regarding the differences in the role of the state Thirlwall makes an important point. He suggests that "it is the political system and the ideology of those in power that ultimately determine the type of economic organization."⁷

Thus, the role a state assumes in the economic development process has to be deduced from country specific characteristics of government policy. Gulhati proposes four criteria which explain economic policy on the African continent. First, he points out the effects of political trends on economic policy formulation. In the African case, the character of the rulers is deemed crucial within this context. Social stratification in terms of class, ethnicity and regional loyalties is the second criterium he proposes. Third, the importance of donors and investors is taken into account, and finally, he draws attention to the size and quality of the civil service, pointing out their influence on policy decisions and implementation.⁸

⁴ Evans, P., *The state as problem and solution: Predation, embedded autonomy, and structural change* in Roberts, B.R., Cushing, R.G., Wood, C., *The sociology of development: Volume II* (Aldershot: Elgar reference collection, 1995, p.319).

⁵ The Tanzanian government can also be seen as a predator. Lal, D., *The political economy of industrialisation in primary product exporting economies: Some cautionary tales* in Lal, D., *The repressed economy: Causes, consequences, reform* (Vermont: Edward Elgar Publishing Company, 1993, p.41-57).

⁶ Killick, T., *A reaction too far: Economic theory and the role of the state in developing countries* (London: Overseas Development Institute, 1990, p.18-32).

⁷ Thirlwall, A.P., *Growth and development: With special reference to developing economies* (London: MacMillan Press, 1994, p.173).

⁸ Gulhati, R., *Who makes economic policy in Africa and how?* (in World Development: Vol.18: No.8, 1990, p.1148). In the Tanzanian case the ruler throughout the 60s up to the mid 80s is Nyerere, a prophetic ruler. The policy circle is small, consisting of the president, his advisors and public sector officials. Donor influence is large and bureaucracy is a constraint to development.

Obviously the role of the state in economic development can vary considerably between countries. Moreover, it can also vary considerably within a country over a given period of time. This is illustrated by the general shift away from dirigisme in developing countries throughout the late 70s and the 80s. All in all, there is evidence that the state plays an important role in the economic development process of a developing country, be it by intervening in the economy, or by refraining from such interventionistic policies. In the following paragraphs the various aspects of policy formulation and implementation will be discussed, the ways in which states influence economic development are elaborated upon.

1.3 Policy formulation

Government intervention in economic development implies the formulation of a development plan. In order to arrive at such a plan the political views of the government have to be translated into objectives relating to the future economic developments of the country. Once these are chosen, policy makers have to identify a strategy which will allow them to attain the objectives. In broad lines, these are the crucial elements of a development plan. Plans may differ considerably though. Some plans apply to the economy as a whole, and are based on a more or less formalized macro-economic model.⁹ Other plans only refer to the making of a program of public expenditure or the setting of sectoral production targets.¹⁰ Furthermore the time coverage of development plans varies. For instance, a medium-term five year plan document may be incorporated in a long-term twenty year development plan, and can also occasionally be supplemented by annual plans.

In this study a development plan is taken to be the embodiment of the process of policy formulation. It should include at least objectives and strategies, irrespective of the time coverage or the application to the number of sectors of the economy. Before moving on to a detailed description of objectives and strategies, let us ponder for a moment upon the meaning of these keywords. Objectives, or goals, represent the direction in which the development process is desired to evolve, the quantifications of these objectives are called targets. Strategies are the means by which the government wishes to attain the objectives. They should not be confused with policy instruments, which are the tools with which the strategies are implemented.

The economic objectives most commonly mentioned in developing countries are an increase in per capita income, a high level of employment, relative price stability, the elimination of poverty, shifts in income distribution, a favourable balance of payments situation and a diversified and self-reliant economy.¹¹ Industry is one of the economic sectors within a country, and as such industry can contribute to the attainment of economic and social objectives. It is therefore that on average industrial objectives are in close accordance with the economic and national objectives. Some examples of industrial objectives are a rising contribution in GDP, employment creation in industry and an increase in manufactured exports.

As explained above the identification of objectives is followed by the choice of an economic and industrial strategy. At a national economic level this implies that policy makers have to decide whether they will assume an active, passive or defensive approach to economic development. Active, in this sense, signifies government anticipation of problems and opportunities, and implementation of policies which will induce or support the desired developments. The choice for a passive strategy means that the government does recognize the desirability of the development, but that it chooses to

⁹ Killick, T., *The possibilities of development planning* (in Oxford economic papers: Vol.41: No.3, 1976, p.161-166).

¹⁰ United Nations Department of Economic Affairs, *Measures for the economic development of underdeveloped countries* (New York: United Nations Department of Economic Affairs, 1951, p.63).

¹¹ Todaro, M.P., *Economic development in the Third World* (New York: Longman, 1991, p.523-524).

play a less active role. The defensive option, finally, tries to slow down the development process by implementing policies which reduce the social costs of change.

This choice is one of the two elements of the choice for a national economic strategy. The other element of the choice for a strategy concerns the degree to which the government wishes the economy to integrate into the world system of trade and payments.¹² In this case the choice to be made is whether production should be directed at the home market (closed-economy approach) or at the world market (open-economy approach). Note that this is usually not a choice between either of the two extremes, but a choice for the degree up to which production is either directed at the home market or at the world market.

An open- or closed-economy strategy implies the choice for an industrial trade strategy. Closed-economies are characterized by import substitution industrialization, allowing domestic industry to supply markets which have previously been served by imports. In such a case the export sector is penalised relative to the sector producing for the domestic market. In an open-economy there is no bias against the export sector, either because the bias is overcome using subsidies, or because there are no government incentives which stimulate the adoption of one strategy above the other. The industrialization strategy applied in an open-economy is called export oriented industrialization.¹³

Apart from the adoption of an industrial trade strategy, Weiss draws attention to three other aspects of industrial strategy in developing countries. The first aspect concerns the degree to which governments use direct controls to influence the allocation of resources within industry and between industry and other sectors. The level of dependency on foreign investments to supply foreign exchange and technological innovations is also mentioned in this respect. Finally, the relative roles attributed to the public and private sector in industrial programmes is considered to be an aspect of industrial strategy choice.¹⁴

Regarding the relation between the relative roles attributed to the private and public sector and the use of controls, White distinguishes three types of developmental states (prior to 1984, the year in which the article is published). The first type, the capitalist state, is characterized by the appearance of the state as an entrepreneur, influencing private investors using both direct and indirect controls. In the second type of state, the intermediate regime, the power of private capital is severely limited, whilst the state expands the public manufacturing sector. Using socialist labels the state class emerges as the dominant actor in industrialization, handling in its own interest. In the state socialist regime, the third type of developmental state distinguished by White, there is no role for private investors. The state is supposed to act on behalf of public interest, using direct controls to attain planned objectives.¹⁵

It is shown above that the choice for an economic and industrial strategy involves a number of fundamental choices. According to Shapiro and Taylor, ideally a government takes seven initial conditions into consideration when deciding upon an industrial strategy. These are the country size, the degree of internal and external orientation (which is already mentioned as one of the fundamental choices), labour skills, the fiscal and managerial capacity of the state, the actual industrial capacity (the

¹² Killick, T., *Principles of policy for the adaptive economy: Working paper No.32* (London: Overseas Development Institute, 1989, p.9-13). Killick mentions these choices in relation to economic adjustment. We will use the choices with respect to any form of development planning.

¹³ Weiss, J., *Industry in developing countries: Theory, policy and evidence* (New York: Croon Helm, 1988, p.28).

¹⁴ *Ibid.* (p.42-76). Regarding the level of foreign dependency Weiss refers to the role of Trans National Corporations (TNCs). In the case of Tanzania it will also be necessary to take the role of donors into account. For that reason foreign dependency is not limited to the role of TNCs only.

¹⁵ White, G., *Developmental states and socialist industrialization in the Third World* (in the *Journal of Development Studies*: Vol.21: No.1, 1984, p.102-103). White classifies Tanzania as an intermediate regime prior to 1984.

"industrial heritage"), together with the productivity growth and the countries access to technology.¹⁶ However, we must not forget that this is an ideal situation, and that the fundamental strategy choices mentioned earlier are generalizations for a large number of countries. Thus in practice, a government of a developing country might not take all of these initial conditions and aspects of strategy choice into consideration.

Furthermore, the objectives mentioned in development plans do not always reflect the objectives the rulers have in mind. As Todaro points out, planning is sometimes used to increase government support and stimulate national integration.¹⁷ He also emphasizes that planning will assure higher levels of foreign aid. Planners are encouraged to set (irrealistically) high objectives in order to gain support from the local and the international community. Together with the degree up to which initial conditions are taken into account, and the degree up to which the aspects of strategy choice are covered, the resulting choice of economic and industrial strategy may be far from desirable for both the government and the people they represent. Taking these cautionary remarks concerning policy formulation into account, we will proceed to review the next step in the process of public policy making, the manner in which a government implements the chosen strategy.

1.4 Policy implementation

Policies are shaped by the objectives and strategies a government decides upon. When the objectives have been defined, and the strategy chosen, policy makers are left to implement the strategy using the tools which are available to them, the policy instruments. Table 1.1 gives an overview of the most commonly mentioned economic policy instruments:

Table 1.1

Classification of policy instruments	
Classification area	Policy instruments
I. Trade policy	Import tariffs, import quotas, foreign exchange controls, export taxes, export subsidies, foreign exchange rates.
II. Monetary policy	Money supply, interest rate, credit controls.
III. Fiscal policy	a. Taxes: corporate income, personal income, payroll, property, sales and purchases tax. b. Government expenditure: infrastructure, direct investment in production, marketing or service enterprises (creation of parastatals), government services and research activities.
IV. Labour policy	Minimum wage laws, public sector wage policy, legislation concerning working conditions, fringe benefits and social security, immigration and emigration quota, labour training.
V. Other direct regulatory controls	Enterprise licensing and registration, monopoly privileges, land allocation and tenure, zoning, consumer price and producer price controls, confinement.
VI. Foreign investment policy	Foreign investment incentives and disincentives, requests for foreign aid and loans.

Sources: Haggblade, S., Liedholm, C., Mead, D.C., *The effect of policy and policy reforms on non-agricultural enterprises and employment in developing countries: A review of past experiences* in Stewart, F., Thomas, H., Wilde, T., de, *The other policy* (London: Intermediate Technology Publications, 1990, p.63); Chenery, H.B., *Development policies and programmes* (in Economic Bulletin for Latin America: Vol.3: No.1, 1958, p.55-60); Killick, T., *Policy economics* (London: Heineman, 1981, p.38) Note: This classification is neither exclusive nor the only possibility which can come to mind. It does however incorporate those policy instruments which are of interest to us.

¹⁶ Shapiro, H., Taylor, L., *The state and industrial strategy* (in World Development: Vol.18: No.6, 1990, p.869).

¹⁷ Todaro, M.P., *Economic development in the Third World* (New York: Longman, 1991, p.506-508).

Trade policy is probably the most widely discussed area of public policy formulation and implementation mentioned in table 1.1. Reasons are that it is directly linked to the choice a government makes regarding economic strategy (as shown in the preceding paragraph), and that the effects of trade policy on development are a topic of intense debate throughout the past 40 years. The policy instruments mentioned in the table allow a government to achieve an incentive climate which is skewed either in the direction of production for the home market or production for the world market.

Import tariffs induce a percentual increase in the price of imported products. They are most commonly used to stimulate production for the home market. By raising the price of imports, the producers of import competing products are protected from world market competitors, whose products have become more expensive on the local market. This results in a shift of resources to the protected sector. As Corden points out the "protection is relative", highly protected producers within a sector are more protected than those producers who are less protected (this is not the case in a situation where a uniform tariff system is installed), and a protected sector is favoured above an unprotected sector (manufacturing versus agriculture for instance).¹⁸

Import quotas have the same protective effect as import tariffs. Import quotas are quantitative restrictions (QRs) on the amounts of products which are allowed to be imported. This restriction in imported products on the local market gives the producers of import competing products a larger share in local demand. Exchange controls also ration the amount of imports which enter on the local market. In such a situation import licenses are used to allocate the desired foreign exchange, which in times of foreign exchange shortages, can lead to the favouring of one productive activity above the other, and thus be an instrument with which the productive structure of a country can be influenced.

Similar to the import tariffs, import quotas and exchange controls protect the domestic suppliers relative to the export sector. Exporters are also discouraged by export taxes, raising the price of their products on the world market, and thus affecting their competitive position. Export subsidies on the other hand stimulate production of exportable goods, by raising the price an exporter receives for his products. There is a price tag attached to the use of this policy instrument though. Export subsidies are a cost to the government, whilst export taxes and import tariffs serve to augment government revenue collection.¹⁹ Specifically in developing countries the implications of this last point should not be overlooked, as the view on the state as a maximizer of government revenue (discussed in paragraph 1.2) demonstrates.

However, there is a possibility for governments to stimulate export oriented production, even if instruments are used which bias production in favour of the home market. Production for exports is also effected by the exchange rate. Devaluation of the exchange rate implies a decline in price of the exportable goods on the world market, making a country's exporters more competitive, and thus stimulating the production of tradeable goods. Appreciation of the exchange rate has the opposite effect on the producers of tradeable goods, resulting in a disincentive for outward oriented production.

The second classification area mentioned in table 1.1 is monetary policy. In general the purpose of such policy is to expand economic activity in times of unemployment and surplus capacity, and to contract that activity in times of excess demand and inflation. The money supply and the interest rate are means by which this can be realized in developed countries. However, the monetary situation in developing countries differs considerably from that in developed countries, rendering the use of these policy instruments for the purpose of regulating economic activity quite useless. In the

¹⁸ Corden, W.M., *Trade policies* in Cody, J., Hughes, H., Wall, D., *Policies for industrial progress in developing countries* (Oxford: Oxford University Press, 1980, p.39-54). The elaboration on the other trade policy instruments is also based on Corden.

¹⁹ The relationship between prices (effected by tariffs and subsidies) and production, consumption, trade and government revenues is discussed in Cody, J., Kitchen, R., Weiss, J., *Policy design and price reform in developing countries: Guidelines with special reference to industry* (New York: Harvester Wheatsheaf, 1990, p.9-15).

words of McKinnon, developing countries face a "repressed financial system".²⁰ The formal credit market is heavily taxed and highly distorted, the latter as a result of preferential credit allocation and preferential interest rates. It is only accessible for large scale urban entrepreneurs. Farmers and rural and small scale entrepreneurs have to face the unorganized credit market, where interest rates exceed the formal market interest rates. In such a repressed financial system the relation between higher interest rates and investments, and the relation between increased money supply and a rising supply of goods and services should not be taken for granted. Inflation is usually the logical consequence.

Fiscal policy is the following classification area distinguished in the table. Taxation, naturally, has the primary role of generating government revenue. But taxes can also be used by policy makers to alter prices, and thus influence consumption and production patterns. An overview and description of the major taxes is given by Lim.²¹ Along with taxes, fiscal policy also consists of government expenditures. Through her expenditures, the government directly engages in production, marketing or the provision of services, in developing countries often through the creation of parastatals. Furthermore, the government provides the infrastructural setting necessary for economic development, and may also perform research activities, this together with other services, such as the regulation of law and order.

The fourth classification area distinguished is labour policy, and is mainly concerned with the way in which the government can directly influence the price and availability of labour. Minimum wage laws and public sector wage policies are examples of policy instruments which allow for changes in the price of labour. Legislation concerning working conditions, fringe benefits and social security allowances also influence labour prices. The availability of labour is influenced by prohibitions on workers entering or leaving the country using emigration and immigration quota. The availability of a desired amount of skilled labourers can be regulated by setting up training programmes.

The areas of policy instrument classification discussed above are areas which can clearly be distinguished from one another. There are however a number of policy instruments of interest to us, which can not be classified by one of these four areas of policy implementation. The category other direct regulatory controls includes the largest number of the policy instruments not yet classified. Policy instruments which enhance direct regulatory control are those policy instruments which allow resources to be allocated and prices to be set without making use of the price mechanism. Examples of direct regulatory controls in the areas already discussed are foreign exchange controls and minimum wage laws.

Other direct regulatory controls are the use of enterprise licensing and registration, the granting of monopoly privileges, land allocation and tenure and zoning. These policy instruments enable the government to stimulate the establishment of certain kinds of enterprises by creating favourable settlement conditions. Enterprise licensing and monopoly privileges are also used to discourage the establishment of enterprises which are not in accordance with the governments strategy, private enterprises for instance. Furthermore the government can directly regulate internal trade by setting producer and consumer prices, and confining trade to a limited number of traders. In such a case the government is most likely the main trader.

The final area of classification is an area which deserves special attention in developing countries. Foreign private investments are either stimulated using fiscal policy or direct regulatory controls, or discouraged using legislative regulation and prohibitions. More important, in many developing countries, the request for foreign loans and grants, are a welcome source of foreign exchange. Together private foreign investment and foreign loans and grants can augment the financial resources available to such a country considerably.

²⁰ McKinnon, R.I., *Financial policies* in Cody, J., Hughes, H., Wall, D., *Policies for industrial progress in developing countries* (Oxford: Oxford University Press, 1980, p.93-95).

²¹ Lim, D., *Taxation policies* in Cody, J., Hughes, H., Wall, D., *Policies for industrial progress in developing countries* (Oxford: Oxford University Press, 1980, p.159-162).

The policy instruments mentioned above are classified by their general relevance for the economy. Their relevance for a particular sector, which in our case is of course the manufacturing sector, is not clear yet. We will therefore proceed by establishing which policy instruments influence industry. The most widely cited classification of policy instruments affecting the manufacturing sector is the classification by Donges.²² Killick has augmented this classification by introducing a number of additional entries. The result is presented in the following table:

Table 1.2

Classification of policy instruments effecting the manufacturing sector	
<i>Area of intervention</i>	<i>Policy instruments used</i>
Production and marketing	Industrial licensing, regulation of restrictive business practices, tax incentives to particular industries, provision of land, creation of industrial estates, provision of power, water, roadways, communications and other infrastructure, price controls, national planning, development and regulation of public enterprises and joint ventures, environmental regulations.
Employment and other factor markets	Minimum wage legislation, labour training schemes, restrictions on use of foreign labour, interest rate and credit controls, capital subsidies, tax benefits for business income.
Foreign investment	Prohibition of private foreign investment, requirement for domestic majority ownership, constraints on profit remittances and capital repatriation, exclusion of foreign investment from key industries, direct subsidies and tax incentives for foreign investment.
Technology	Patent laws, research and development support, regulation of TNCs and technology agreements.
Imports	Import licensing, quotas and prohibitions, import tariffs, multiple exchange rates.
Exports	Export licensing, taxes and customs duties on exports, income tax and custom duty concessions for export earnings, export credit, foreign exchange earnings retention schemes, multiple exchange rates, export processing zones, market assistance schemes.

Source: Killick, T., *Markets and governments in agricultural and industrial adjustment: Working paper No.34* (London: Overseas Development Institute, 1990, p.33). Note: Based on Donges and augmented by additional entries.

Other classifications of policy instruments affecting industry are also possible. Chandra for instance, has devised a classification which takes the role the state plays in the manufacturing process as a starting point.²³ He makes a distinction between the facilitative, regulative and directly productive role the government can assume. The facilitative role implies the provision of an overall environment conducive to industrialization, using for instance infrastructure, tax concessions, protection and subsidies as policy instruments. Regulation of the industrial sector is established through legislation, and is done in the interest of society. Direct production, finally, is undertaken in several ways. Production through government departments, state owned enterprises, joint ventures and commercial enterprises in which the state holds minority shares, are amongst the options.

Comparison of the industrial policy classifications and the general classification (table 1.1) leads to two important conclusions regarding the use of macro-economic policy instruments with regard to the manufacturing sector. First, macro-economic policy instruments can be used to implement industrial strategies, and second, policy instruments used in relation to other sectors of the economy

²² Donges, J.B., *A comparative survey of industrialisation policies in fifteen semi-industrial countries* (in *Weltwirtschaftliches Archiv*: Vol.112: No.4, 1976, p.626-659), cited for instance by Kirkpatrick, C.H., Lee, N., Nixon, F.I., *Industrial structure and policy in less developed countries* (London: Allen and Unwin, 1984, p.195).

²³ Chandra, R., *Industrialization and development in the Third World* (London: Routledge, 1992, p.93-99).

also influence the manufacturing sector. In other words, policy implementation through macro-economic policy instruments is a complex matter, involving many possible combinations of instruments and many, sometimes conflicting, objectives. This is illustrated for example by an increased taxation of fuel. Such a taxation will have a positive effect on the balance of payments, since fuel imports are expected to drop, but a decline in the availability of fuel is expected to affect the process of industrialization negatively (an undesirable effect in this case), thus leading to conflicting objectives if this policy instrument were to be used.²⁴

The complexity of policy implementation reaches further than a choice of policy instruments. Implementation of policy which is in accordance with the development objectives, is also inhibited by unclear and unstable development objectives, the desire of governments to remain in power and the unstable economic situation in developing countries.²⁵ This is further aggravated by the possibility for bureaucrats to "turn policies around" whilst implementing them, either because the objectives leave much room for own interpretation, or simply because those who implement the policies are not capable of doing so.²⁶ Consequently, it will not come as a surprise that major gaps can appear between objectives, set down in policy documents, and policy reality, as reflected by the use of policy instruments.

1.5 The research instrument

In the preceding paragraphs of this chapter the various aspects of public policy making are explained regarding both the economy in general and the manufacturing sector specifically. The question that arises when devising the research instruments is, how this theoretical body can be used to answer the first research question. Recalling that we wish to distinguish the changes in government policy which are relevant for the Tanzanian manufacturing sector between 1961 and 1994, there are two possible ways in which this can be achieved. The first option is to look at the changes in objectives and strategies. The second option is to study the changes in the use of policy instruments.

A classification of the governments objectives and chosen strategy, based on the policy documents which cover the period, will result in an overview of what is desired to happen between 1961 and 1994. As pointed out in the previous paragraph though, major gaps are likely to appear between the policies formulated and the policies implemented. It is therefore that we choose not to use this first option when determining which policies have affected the manufacturing sector. (However, the reader can turn to Appendix A for an overview of planned objectives and strategies.)

Instead, we will look at the policy instruments used during the years of interest. The advantage of this option is that we can be certain that these instruments have affected the manufacturing sector in one way or another. As can be deduced from tables 1.1 and 1.2, we are likely to encounter a large number of policy instruments, making it necessary to cluster the policy instruments if we wish to clearly distinguish changes in government policy regarding the manufacturing sector. This clustering is done using the four aspects of industrial strategy mentioned in paragraph 1.3. The industrial trade strategy, the degree of direct regulatory control, the relative roles attributed to the private and the public sector, and the level of dependency on foreign finance are used as classification criteria. Thus a classification instrument is devised which clusters the policy instruments according to their relevance for the manufacturing sector. In Table 1.3 on the following page this classification, which will be referred to as the policy instrument classification, is presented:

²⁴ Killick has devised a table in which the effects of the use of policy instruments on target variables is illustrated. Killick, T., *Principles of policy for the adaptive economy: Working paper No.32* (London: Overseas Development Institute, 1989, p.26-27).

²⁵ Killick, T., *The possibilities of development planning* (in Oxford Economic Papers: Vol.41: No.3, 1976, p.177).

²⁶ Gulhati, R., *Who makes economic policy in Africa and how?* (in World Development: Vol.18: No.8, 1990, p.1154-1155).

Table 1.3

Classification of policy instruments according to general aspects of industrial strategy choice		
<i>Aspect of industrial strategy</i>	<i>Orientation</i>	<i>Policy instruments</i>
I. Industrial trade strategy	a. Import substitution	a. Import tariffs, licensing, quotas, prohibitions, exchange rate appreciation, export taxes, export licensing, and export duties.
	b. Export promotion	b. Tax concessions, export credits, foreign exchange retention schemes, subsidies, EPZs, exchange rate depreciation.
II. Degree of direct regulatory control, which varies from a low to a high level of control in the following areas:	a. International trade	a. Import and export licensing, import quotas and prohibitions, foreign exchange allocation and exchange rate controls.
	b. Monetary sector	b. Interest rate control, credit allocation, money supply.
	c. Labour	c. Minimum wage legislation, immigration and emigration quota, legislation regarding working conditions and fringe benefits.
	d. Ownership	d. Industrial licensing, creation of parastatals, legislation regarding private foreign investment.
	e. Prices and internal trade	e. Producer and consumer price controls, confinement.
III. Relative roles attributed to the private and public sector	a. Private sector	a. Investment incentives (taxes, monopoly privileges, subsidies), land allocation and tenure.
	b. Public sector	b. Industrial licensing, public enterprise investment, parastatal organizations, regulation regarding joint ventures, preferable allocation of resources, prohibitions of private investments.
IV. Level of dependency on foreign finance (TNCs and foreign aid)	a. Increased dependence	a. Subsidies and tax incentives for foreign investors, monopoly privileges, request for foreign aid.
	b. Decreased dependence	b. Prohibition of private foreign investment, requirement for domestic majority, constraints on profit remittances and capital repatriation, exclusion from key industries, regulation of TNCs.

Sources: Tables 1.1 and 1.2.

With this classification changes in policy affecting the manufacturing sector can be detected by observing shifts in the orientation of the classification criteria. For example, in a country where an import substitution oriented industrial strategy prevails, the government depreciates the exchange rate, introduces export subsidies and abolishes import quotas. A shift towards export oriented industrialization is initiated. Similar shifts can be detected for all the four classification criteria. Thus, when the simultaneous use of a number of policy instruments leads to a shift in an aspect of the industrial strategy, we can conclude that a change in government policy affecting the manufacturing sector has taken place. In this manner we are able to distinguish a number of policy periods over time, during which the use of policy instruments reflects a particular combination of the aspects of industrial strategy.

The reader will have noticed that a number of policy instruments are not classified. These are the provision of power, water, railways, communication and other infrastructural measures, labour training schemes and research and development support. It is impossible to classify these instruments using the classification criteria. Although these policy instruments do affect the manufacturing sector, they will not be used to detect changes in industrial strategy. In the Tanzanian case there is most certainly a justification for this choice, since little or no change in the use of these policy instruments occurs throughout the period of interest.

The research instrument presented in this paragraph is not the only possibility to detect changes in government policy using policy instruments. Table 1.2 would also serve for such a purpose. The advantage of our classification is, however, that we use aspects of industrial strategy in developing countries to cluster the policy instruments. Using these classification criteria it is more likely to detect

changes in the simultaneous use of policy instruments, since the criteria are part of a strategy, a means by which a change in a particular direction is stimulated by using policy instruments. Moreover, and this is the most important argument in favour of this classification, the effects of government policy on development have been widely discussed in terms of trade strategy, the use of direct controls, the roles attributed to the private and public sector and the dependence on foreign finance. Therefore, this classification allows us to use economic studies, based on the experience of developing countries with comparable strategies, when evaluating the effects of government policy on the manufacturing sector. As such this research instrument is the link between the two research questions.

1.6 Conclusion

As shown in this chapter, a government of a developing country has the opportunity to influence economic development. The manner in which the state wishes to do so is reflected by the role it assumes, be it predominantly *laissez faire*, predominantly interventionistic, or through a more even mix of both approaches. Any degree of interventionism is accompanied by the formulation of a development plan, which embodies objectives and a desired strategy. Implementation of the plan is possible using economic policy instruments. These are tools which allow governments to influence the sectors of the economy and the economy as a whole. The use of policy instruments, however, is a complex matter, because the instruments affect different areas of the economy simultaneously. Along with country related problems concerning policy implementation, this can lead to considerable discrepancies between chosen objectives and strategy and the implemented policy.

In order to answer the first research question the theoretical body is used to construct a research instrument. There are two options which result in an overview of government policy affecting the Tanzanian manufacturing sector. The first option is to focus on the economic and industrial strategy set down in development plans. This would result in a classification of desired objectives and planned strategies. As discussed in paragraph 1.4, considerable discrepancies between plans and implemented policy may occur though, leaving us in doubt if the changes in policy mentioned in the plans have actually taken place. Thus, we choose for the second option, which is to deduce the actual industrial strategy implemented in Tanzania, by classifying the policy instruments by four general aspects of industrial strategies in developing countries. In the following chapter this classification, the policy instrument classification, is presented.

2. Public policy affecting the Tanzanian manufacturing sector

2.1 Introduction

In this chapter changes in government policy making regarding the manufacturing sector in Tanzania are examined. As explained in paragraph 1.5, this is done by clustering policy instruments using four general aspects of industrial strategy in developing countries. With these four classification criteria it is possible to distinguish different policy periods according to a shift in orientation of one or more of the classification criteria. Such changes in orientation result in changes in what we will call the policy climate. This is the industrial strategy which is deduced from the policy instruments used throughout the policy period. In other words, every policy period is characterized by a policy climate which is specific for that period, and differs in at least one aspect of industrial strategy from the previous policy period distinguished.

Since this study covers the years 1961 up to 1994, the first policy period commences in 1961. This is the year of independence, the initial situation against which the future use of policy instruments is compared. We will assume that prior to 1961 no industrial strategy prevails in the English colony, an assumption which is justified by the fact that industrialization is largely neglected during the colonial era. There are no controls, there is no preference for an import substitution or export oriented industrial trade strategy, neither private nor public enterprises are specifically encouraged and the dependence on foreign finance is neither enhanced nor diminished. How this situation changes in the years to come, is shown in the following paragraphs.

2.2 First stage import substitution through foreign investments (1961-1967)

At independence the government intends to stimulate economic growth by encouraging foreign investments in the manufacturing sector, supposedly resulting in first stage import substitution and increased manufacturing for exports. Regarding the encouragement of foreign investors, a number of policy instruments are put to use by the government. The most important policy instrument to attract foreign investors is undoubtedly the granting of tariff protection, protecting the newly established industries from foreign competition by raising the price of competitive imports relative to locally produced goods. There is evidence that foreign investors obtain the tariff protection by bargaining with the government. Table 2.1 shows how imposed tariffs correspond with the establishment of foreign owned enterprises in Tanzania.

Table 2.1

Tariff protection and import substitution industrialization				
<i>Date</i>	<i>Amount of tariff</i>	<i>Product</i>	<i>Firm established</i>	<i>Established in:</i>
1961	22 per cent	textiles (yam)	Tasini Textiles	1961
1962	44/- lb.	cigarettes	British American	1961
1963	-/70 per sq. yd.	blankets	Blanket manufacturer	1962
1963	33 per cent	paints	Leyland paints	1963
1964	40 per cent	clothing	Kamyn industries	1965
1965	33.3 per cent	aluminium products	Aluminium Africa	1964
1965	30 per cent	polyethylene	Tiper	1966
1965	37.5 per cent	radios	Philips electronics	1965
1966	30 per cent	coffee extracts	Instant coffee	1966
1966	40 per cent	cotton piece goods	Mwanza Textiles	1966

Source: Rweyemamu, J.F., *Underdevelopment and industrialisation in Tanzania: A study of perverse capitalist industrial development* (London: Oxford University Press, 1973, p.131).

Using the Kenyan input-output table, Rweyemamu has calculated the effects of the tariff protection in terms of the effective rates of protection (ERPs) of various industries. The effective rate of protection indicates the value added a producer can obtain by producing for the local market, in comparison to the value added which would have been produced at world market prices (also see Appendix B, in which the meaning of the ERP as an indicator is briefly reviewed). Assuming that the input-output structure of the Kenyan and Tanzanian economy is similar, the 1966 nominal tariff structure in Tanzania renders the ERPs which are presented in table 2.2:

Table 2.2

Nominal and effective protection in the manufacturing sector (1966)		
<i>Industry</i>	<i>Nominal protection (%)</i>	<i>Effective rate of protection (%)</i>
Tobacco	234	528
Matches	87	395
Paints	37.5	394
Bicycle tyres and tubes	36	270
Textiles	73	269
Cosmetics	75	265
Dairy produce	37.5	216
Sugar refining	84	193
Beer	103	187
Canned fruits and vegetables	37.5	184
Biscuits	28	166
Soap	27.5	151
Clothing	60	144
Tanning and leather	30	130
Footwear	43	123
Metal products	25	95
Radio assembly	50	95
Furniture and fixtures	30	58
Glass products	50	51
Coffee processing	40	42.5
Paper and paper products	12.5	26
Cement	7.5	12.1
Pharmaceutical products	0	0
Printing and publishing	1	-1
Soft drinks	16	-23

Source: Rweyemamu, J.F., *Underdevelopment and industrialisation in Tanzania: A study of perverse capitalist industrial development* (London: Oxford University Press, 1973, p.134).

From this table it becomes evident that on average producers of consumer goods receive the most protection. Effective protection rates for consumer goods vary from 528% for tobacco to 123% for footwear. The ERPs for most consumer goods are situated within this range. There are, however, exceptions in the form of coffee processing (42.5%) and the manufacturing of soft drinks (-23%). Effective rates of protection for intermediate and capital goods vary from close to 0% up to 95%, suggesting that overall protection of the manufacturing sector is in accordance with the strategy of first stage import substitution in consumer goods.

Apart from providing tariff protection the government also tries to encourage foreign investors by guaranteeing that compensation will be paid for enterprises which are nationalized in the future. This is set down in the Foreign Investment Act of 1963. Furthermore, the government provides land for the creation of industrial estates, and publishes investment opportunities to keep potential investors informed. Along with the introduction of the First Five Year Plan two other policy instruments are introduced, which are also used to encourage foreign investments:

accelerated depreciation allowances and guarantees for the repatriation of capital.¹ A final policy instrument used to stimulate private investors, is the granting of monopoly or near monopoly power, which according to Coulson forms "a condition without which the multinationals in particular would not invest."²

Along with tariff protection the government gives an extra incentive to the process of import substitution by making use of import controls. Import licenses are used to restrict importers to importing only if domestic products are unable to satisfy local demand. In 1968 240 groups of products demand application for an import license, of which 20% is not being produced in Tanzania. Import quotas are also used, mainly for Balance of Payments and industrial protection purposes, resulting in an increasing advantage for local producers.³

During this policy period the exchange rate is not used to stimulate an import substitution or export oriented industrial trade strategy. Between 1961 and 1967 the government also refrains from using monetary policy instruments. Fiscal policy instruments, however, are used in the form of the introduction of a progressive taxation system in 1962,⁴ which in addition to rising wages and the introduction of welfare benefits such as severance pay, employment security provisions, fringe benefits, annual benefits and provident fund contribution, cause a significant rise in the average wages in industry.⁵ As can be deduced from table B.1 in appendix B, average wages in manufacturing exceed average wages in the economy as a whole. Using table 1.3, the policy instruments mentioned in this paragraph are classified below:

Table 2.3

Orientations and policy instruments used during the first policy period (1961-1967)		
<i>Aspect of industrial strategy</i>	<i>Orientation</i>	<i>Policy instruments</i>
I. Industrial trade strategy	a. Import substitution	a. Import tariffs, import licenses, import quotas.
II. Low degree of direct regulatory control in the areas of:	a. International trade	a. Import quotas, import licenses.
	c. Labour	c. Legislation regarding working conditions and fringe benefits.
III. Relative roles attributed to the private and public sector	a. Private sector	a. Investment incentives: accelerated depreciation, monopoly privileges, tariff protection, land allocation, guarantees in case of nationalization.
IV. Level of dependency on foreign finance (TNCs and foreign aid)	a. Increased dependence	a. Incentives for foreign investors: monopoly privileges, guarantees for repatriation of capital, other incentives mentioned under III.

¹ Wangwe, S.M., Bagachwa, M.S.D., *Impact of policies on technological choice and development in Tanzanian industry* in Stewart, F., Thomas, H., Wilde, T., de, *The other policy* (London: Intermediate Technology Publications, 1990, p.192).

² Coulson, A., *Tanzania: A political economy* (Oxford: Clarendon Press, 1982, p.173).

³ Ndulu, B.J., Semboja, J.J., *Trade and industrialization in Tanzania: A review of experiences and issues* in Helleiner, G.K., *Trade policy and industrialization in turbulent times* (London: Routledge, 1994, p.538-539).

⁴ Another fiscal policy instrument which is put to use is the development levy, which is introduced in 1965. This levy is a tax on export crops and personal incomes.

⁵ Rweyemamu, J.F., *Underdevelopment and industrialisation in Tanzania: A study of perverse capitalist industrial development* (London: Oxford University Press, 1973, p.44-53).

Table b.3 gives a comprehensive overview of the orientations of the policy climate which prevails between 1961 and 1967. As shown in the table the policy instruments create an import substituting manufacturing climate, which is characterized by a low degree of direct regulatory control, and depends highly on private investment from abroad.

2.3 Nationalization and self-reliance (1967-1973)

The implementation of the Arusha declaration puts an end to the reliance on private foreign investors to perpetuate development. Tanzania, and consequently the Tanzanian manufacturing sector, is envisioned to become self-reliant. Foreign dependency is ruled out as a key element of the development strategy, causing a significant change in policy climate as opposed to the foregoing policy period. The other reason why this policy period differs from the period before 1967, is the choice for a nationalized economy, implying a manufacturing sector in which publicly owned enterprises prevail.

In order to establish a publicly owned economy the government decides to nationalize the major means of production.⁶ Within the manufacturing sector the government acquires 60% of the shares in seven industrial firms: Kilimanjaro Breweries, Tanzania Breweries, British American Tobacco, Bata Shoe Company, Tanzania Metal Box Company, Tanganyika Extract Company and Tanzania Portland Cement Company.⁷ Further nationalization of the manufacturing sector takes place in subsequent years, as can be deduced from the rising public sector shares in manufacturing value added, gross fixed capital formation in manufacturing and manufacturing employment (table 4.6). The public sector industrial enterprises, often referred to as parastatal enterprises, are to be developed through the National Development Corporation (NDC), which has to expand very fast between 1967 and 1968, in order to keep pace with the nationalization process.⁸ Along with the expansion in size, the public sector becomes increasingly complex, demanding a rationalization of the public sector activities along sectoral lines.

State control of the manufacturing sector is facilitated by the introduction of an industrial licensing procedure under the National Industries (licensing and registration) Act of 1967.⁹ This policy instrument obliges all industrial investors to apply for an industrial license. Maliyamkono and Bagachwa give a description of the cumbersome procedure which accompanies the acquisition of a license. First a company has to be registered by the Company Registration Office, who approves or disapproves the company's name. Once the company's name has been approved, the application for the license is to be filed at the urban authority in question. This application has to be approved by the Land Officer, the Health Officer, the Ward Political Vetting, the District Council/Ministry/Urban Authority, the Trade Officer and the Principal Assessor. In the case of full approval, the license is to be paid at the Urban/District Authority. It is then lodged by the Trade Officer; the number is related to the ward, who issues the allocated premises. Finally the National Provident Office demands registration related to the employers liability for national insurance.¹⁰

⁶ The major means of production are land, forests, minerals, water, oil and electricity, news media, communications, banking and insurance, export-import trade, wholesale trade and the major industries. The major industries are considered to be iron and steel, machine-tool, automobile, cement, fertilizer and textile production, and all other big factories on which the population depends.

⁷ Rweyemamu, J.F., *Underdevelopment and industrialisation in Tanzania: A study of perverse capitalist industrial development* (London: Oxford University Press, 1973, p.59).

⁸ Skarstein, R., Wangwe, S.M., *Industrial development in Tanzania: Some critical issues* (Dar es Salaam: Tanzanian Publishing House, 1986, p.17).

⁹ Musonda, F.M., *Development strategy and manufactured exports in Tanzania* (Lund: Lund University Press, 1992, p.72).

¹⁰ Maliyamkono, T.L., Bagachwa, M.S.D., *The second economy in Tanzania* (London: James Curry, 1990, p.xvi-xvii).

From 1967 onwards investment is centrally controlled. New state investments are directed at larger projects such as petroleum refining and fertilizer manufacturing. Regarding investments in new projects, the government encourages foreign investors to take part in joint ventures, with itself as the major partner. In such a manner the government uses external funds for its own purposes, which is a major difference in comparison to the preceding policy period, in which private foreign capital was relied on to stimulate industrial development. Thus, it is safe to conclude that dependency on private foreign finance is substantially reduced. However, according to Barker, Baghavan, Mitschke-Collande and Wield "the weakness of state control in industry is shown by the large number of joint ventures with foreign capital, whilst this has tended to smother East African Asian capital."¹¹ Reliance on foreign capital is not ruled out.

Whilst the reliance on foreign private capital from TNCs is significantly reduced since 1967, the beginning of the 70s marks the emergence of a new form of dependency on foreign capital, now in the form of loans and grants from donors. The prevailing donors are China, the World Bank, the Nordic countries, the United States, Canada, the Federal Republic of Germany and the Netherlands. According to the World Bank, Tanzania was "exceptionally fortunate regarding both the volume and terms of the funding received during the early 70s." During these years approximately 4% of capital expenditures in manufacturing are financed through foreign aid.¹²

Along with the nationalization of the manufacturing sector the first signs of direct government control through policy instruments other than nationalization and industrial licensing can be discerned. In 1967 the export-import firms are nationalized, exports and imports are confined to the State Trading Corporation (STC). The nationalization of internal wholesale trade follows suit in 1971, burdening the STC with the former responsibility of 400 private importers, 400 private wholesalers and approximately 4000 sub-wholesalers. The consequence for the manufacturing enterprises is, that they have to sell specified goods to and purchase their inputs from the STC. As we shall see in the following paragraph STC is reorganized in 1973 in order to perform more efficiently.

Together with the emergence of a confinement system, a modest price control system is introduced, another policy instrument used to enforce government control over the economy. In 1967 the National Price Control Advisory Board is established, in order to regulate consumer prices. Amongst the price controlled items are rice, wheat flour, sembe, bread, khanga, grey sheeting, beer, matches, sugar, beans, jute bags and sisal bags.¹³ In comparison to the number of items which will be price controlled from 1973 onwards, it is safe to conclude that the establishment of the price controls between 1967 and 1973 will hardly have effected the manufacturing sector. The government will assume total control of the sector in the following policy period, a criteria used to distinguish the following policy period from this policy period.

The shift to a publicly owned manufacturing sector, the decrease in dependence on private foreign capital and the increase in the use of direct regulatory controls are the changes which distinguish the policy climate during this policy period, from the policy climate prevailing during the previous policy period. There is no change in the orientation of the industrial trade strategy. However, there is a change in the policy instruments which stimulate this strategy. Apart from import tariffs and import quotas, which protect manufacturers producing for the domestic market, the exchange rate also comes to influence the orientation of the industrial trade strategy.

¹¹ Barker, C.E., Baghavan, M.R., Mitschke-Collande, P.V., Wield, D.V., *African industrialisation: technology and change in Tanzania* (Vermont: Gower, 1986, p.101-186).

¹² World Bank, *Tanzania: An agenda for industrial recovery: Rep. no. 6357-TA: Vol.I* (Washington: World Bank, 1987, p.69, p.74).

¹³ Maliyamkano, T.L., Bagachwa, M.S.D., *The second economy in Tanzania* (London: James Curry, 1990, p.84-85).

The Tanzanian Shilling (Tzs) is introduced in 1966. During this policy period the government pursues a policy of nominal exchange rate rigidity. Minor devaluations occur in 1971 (7.9% against the US\$) and in 1973 (10.0% against the gold standard), but the effects of these devaluations on the exchange rate as expressed by the number of Shillings per US\$ are negligible. During the 1960s this is no problem, since the inflation rate of Tanzania's trading partners is similar to the inflation rate measured in Tanzania. From the early 70s onwards, the inflation rate rises rapidly though, causing the exchange rate to become increasingly overvalued.¹⁴

Table 2.8, which is presented in the following paragraph, shows that this is indeed the case. The real exchange rate (RER), which is calculated taking the United States of America as trading partner, appreciates considerably during this period. The index, which is defined to drop in case of real exchange rate appreciation, drops from 90.24 in 1967 to 71.14 in 1972. (See Appendix B for an elaboration on the RER as an indicator of nominal exchange rate rigidity). Consequently, the price of manufactured exports produced in Tanzania rises in terms of world market prices, causing the country to lose competitiveness in international markets. This is clearly a disincentive for the production for exports, and an extra incentive for production for the home market. Together with this policy instrument, the policy instruments used during this policy period are presented in the following table:

Table 2.4

Orientations and policy instruments used during the second policy period (1967-1973)		
<i>Aspect of industrial strategy</i>	<i>Orientation</i>	<i>Policy instruments</i>
I. Industrial trade strategy	a. Import substitution	a. Import tariffs, import licenses, import quotas, exchange rate appreciation.
II. Rising degree of direct regulatory control in the areas of:	a. International trade	a. Import quotas, import quotas, exchange rate rigidity, Import-export confinement.
	c. Labour	c. Legislation regarding working conditions and fringe benefits.
	d. Ownership	d. Industrial licensing, creation of parastatals.
	e. prices and internal trade	e. Confinement of internal trade.
III. Relative roles attributed to the private and public sector	b. Public sector	b. Industrial licensing, creation of parastatals, regulation regarding joint ventures (majority ownership).
IV. Level of dependency on foreign finance (TNCs and foreign aid)	a. Increased dependence	a. Foreign aid: request for foreign loans and grants.
	b. Decreased dependence	b. TNCs: requirement for domestic majority ownership.

2.4 Dependence on foreign aid and a high degree of direct government control (1973-1984)

In the years 1971 and 1972 Tanzania experiences the first Balance of Payments crisis. As a result foreign exchange has to be rationed through a system of foreign exchange allocation. Rising prices and further deterioration of the internal and external balance in the economy stimulate the adoption of other policy instruments which enforce the level of direct government control in the manufacturing sector. During this policy period it becomes evident that the government is assuming a high level of direct control in industry and the economy as a whole. This is the first criterium

¹⁴ Lipumba, N., *Exchange rate policy in Tanzania* (in Tanzania Economic Trends: Vol.3: No.4, 1991, p.26).

which is used to distinguish this policy period from the foregoing policy period. The significant increase in dependence on foreign capital, this time in the form of foreign aid also forces us to conclude that a change in policy climate has taken place.

From 1973 onwards protection of the manufacturing sector is no longer provided by the tariff barrier and the system of import licensing used during the first and second policy period. A new system of import licensing is introduced which, together with a system of administrative allocation, serves to allocate foreign exchange. The legal basis for this system of foreign exchange allocation is provided by the Import Control Ordinance of 1952, which is amended for the purpose of foreign exchange allocation by the Finance Act of 1973.¹⁵ The allocation of the licenses involves a very cumbersome procedure which can more than a year. Up to 1983 almost all licenses issued become actual imports. From 1983 onwards however, the administrative allocation by the Bank of Tanzania becomes equally important in the process of foreign exchange allocation. This can be explained by the ever increasing discrepancy between the demand for and the availability of foreign exchange in Tanzania.

The allocation of import licenses for consumer imports is considered on a firm by firm basis by the Directorate of Import Licensing in the Bank of Tanzania.¹⁶ Competitive imports are only allocated foreign exchange once it has been proven that they serve to overcome a supply or quality constraint within the country. All other imports are classified according to their end use, their local content, whether they are "essential" commodities and whether they serve export industries. These criteria are not very useful to make sound decisions though. According to the World Bank "aside from the broad development strategy guidelines, the actual allocation of total import licenses between sectors is in large measure the result of a bargaining process at the sub-committee level, which in practice takes into consideration past import patterns, the need to alleviate perceived short-term crisis and particular representations. In this process, the political strength of the various ministries and the size of existing installed capacity in the sector - and its import dependency - also play an important role."¹⁷

Having received an import license, an importer has to apply to the National Bank of Commerce (NBC) for a letter of credit. All the letters of credit are reviewed weekly by the Advisory Committee on Imports within the Bank of Tanzania. Provided that enough foreign exchange is available, the importer can count on a confirmation of the letter of credit, and the foreign exchange is allocated. With regard to industry the allocation system described above "has been driven by the objective of supporting fiscal revenue earners (...) and keeping most existing enterprises alive, on the one hand, and by particular pressures, representations and ad-hoc decisions on the other."¹⁸

Table 2.5 gives an indication of the foreign exchange availability within the Tanzanian economy between 1977 and 1984. In 1977 50% of the total number of requests for foreign exchange result in the allocation of the requested amount. By the beginning of the 80s this percentage has dropped to slightly more than 30%. Importers of petroleum have generally been able to count on the largest share of rewarded requests. Regarding the percentage of rewarded requests

¹⁵ Musonda, F.M., *Development strategy and manufactured exports in Tanzania* (Lund: Lund University Press, 1992, p.38-40).

¹⁶ This firm by firm basis allocation particularly applies to consumer imports. Capital imports are financed with the use of loans and grants, whilst the foreign exchange required for imports of petrol, medicines, food grains and defense needs has already been set aside by the Directorate of Import Licensing in the Bank of Tanzania. Note that the definition of consumer imports does not correspond to the consumer goods definition based on the ISIC 3-digit breakdown used in other parts of this thesis..

¹⁷ World Bank, *Tanzania: An agenda for industrial recovery: Rep. no. 6357-TA: Vol.1* (Washington: World Bank, 1987, p.17-18).

¹⁸ *Ibid.* (p.18).

of imports of raw materials, spare parts and machinery for the economy as a whole, and the manufacturing sector specifically, the trend is unmistakably of a downward nature. In 1982 less than 10% of the requested foreign exchange is allocated to importers of such goods. From January to June 1984 no foreign exchange is allocated to importers of raw materials for the manufacturing sector.

Table 2.5

Allocation of foreign exchange (percentage of requests rewarded)								
<i>Requested item/year</i>	1977	1978	1979	1980	1981	1982	1983	1984
Industrial raw materials	43	52	24	14	17	16	n.a.	n.a.
Raw materials for manufacturing*	59.4	51.4	22	41.4	13.6	11.2	14.7	0
Petroleum	100	100	93	71	67	89	n.a.	n.a.
Machinery (new)	26	23	0.9	0.1	7	3	n.a.	n.a.
Spares	44	43	14	17	20	1	n.a.	n.a.
Machinery&spares for manufacturing*	29.3	29.1	11.6	15.5	0.1	4.8	10.9	16.4
Transport	37	35	13.3	10.3	8	2	n.a.	n.a.
<i>Total allocated</i>	50	52	38	32	31	33	n.a.	n.a.

Sources: Data without an asterisk are from: World Bank, *Tanzania: Country Economic Memorandum: Rep. no. 5019-TA* (Washington: World Bank, 1984, p.68); data marked with an asterisk(*) are from: Mbelle, A.V.Y., *Foreign exchange allocation and industrial development: A study of Tanzania* (Kallered: Kompendietryckeriet, 1988, p.61). Notes: The 1984 data concern the January-June period; n.a.=not available.

Regarding the allocation of foreign exchange within the manufacturing sector the World Bank presents a detailed study revealing a stunning result. Taking a sample of 48 firms, representing 118 industrial activities, which account for 50% of the total gross output in manufacturing in 1984, the World Bank has calculated the short-run Domestic Resource Costs (short-run DRCs) of these activities (see Appendix B for an elaboration on the DRC methodology). By ranking the activities in three groups, relatively efficient (short-run DRC<1), relatively inefficient (1<short-run DRC<infinite) and extremely inefficient (DRC=infinite, the activity is producing negative value added at world prices) and calculating the total amount of foreign exchange which has been allocated to the manufacturers of these three kinds of activities from 1982 up to 1985, one is forced to conclude that a random allocation of foreign exchange would have been of more benefit to the sector. The data are reproduced in the following table:

Table 2.6

Administrative allocation of foreign exchange to 48 manufacturing firms from 1982 up to 1985 (Values in US\$ millions)								
<i>Activity's efficiency</i> ¹	<i>Relatively efficient</i> (DRC<1)		<i>Relatively inefficient</i> (DRC>1)		<i>Extremely inefficient</i> (DRC=infinite)		<i>Total</i>	
Number of activities	41	(35%)	33	(28%)	44	(37%)	118	(100%)
Gross output in 1984 ²	\$92.9	(46%)	\$52.8	(26%)	\$55.2	(27%)	\$200.9	(100%)
Allocation of forex ³	\$75.6	(26%)	\$72.1	(24%)	\$148.6	(50%)	\$296.4	(100%)

Source: World Bank, *Tanzania: An agenda for industrial recovery: Rep. no. 6357-TA: Vol. I* (Washington: World Bank, 1987, p.53). Notes: (1) Activity's efficiency is measured by the short-run DRC. The extremely inefficient activities (DRC=infinite) are excluded from the relatively inefficient column. (2) Output is measured at world prices. (3) Allocated from 1982 up to 1985.

The relatively inefficient and extremely inefficient activities receive 74% of the foreign exchange, of which the activities producing negative value added at world prices, receive the largest share (50% of the total amount of foreign exchange allocated). Obviously foreign exchange allocation does not benefit the sector in this way.

With the beginning of the oil crisis, resulting in the deterioration of the Balance of Payments in 1974, the availability of foreign exchange is further reduced, demanding more stringent import controls. A short relaxation of these controls is possible during the coffee boom of 1977, but from 1978 onwards the balance of payments deteriorates further, leading to an acute shortage of foreign exchange throughout the largest part of the 80s.¹⁹ Accordingly import licensing is an extremely important policy instrument, allowing for a high level of direct control over the import dependent manufacturing sector.

The government augments the degree of direct control over the manufacturing sector with the introduction of a full scale price control system under the Price Control Act of 1973. The reason for the introduction of the price controls is to "determine reasonable price structures on a national basis and to provide for their orderly variation when necessary" on the one hand, and "to ensure that prices of goods and services in Tanganyika are compatible with and conform to the principles of socialism and the political and social aspirations of the people" on the other hand.²⁰ In short the price controls are established to limit the monopoly power of domestic producers, but to also guarantee satisfactory financial profitability for these producers. Using a cost-plus pricing method for locally manufactured products the National Price Commission (NPC), the government body in charge of the price controls, allows for a 30% pre-tax rate of return on assets. The profit margin depends on the turnover rate of the product. Local manufacturers submit their production cost structure to the NPC, which reviews prices at least once a year. The price of imported goods is set using a percentage margin, which is calculated over the cost structure presented by the importer.²¹ From table 2.7 the trend in the number of price controlled products can be deduced:

Table 2.7

The number of price controlled items (groups of products) and separate products									
Controls/year	1973	1978	1979	1982	1983	1986	1987	1988	1991
Total nr. of items	n.a.	n.a.	325	72	56	21	22	12	2
- locally produced	n.a.	n.a.	154	54	50	21	22	n.a.	n.a.
- imported	n.a.	n.a.	175	18	6	0	0	n.a.	n.a.
Total nr. of products	1000	2500	1031	333	225	107	83	n.a.	n.a.
- locally produced	n.a.	n.a.	456	241	216	107	83	n.a.	n.a.
- imported	n.a.	n.a.	575	92	9	0	0	n.a.	n.a.

Sources: 1973 and 1978 data from: World Bank, *Tanzania: Country economic memorandum: Rep. no 5019-TA* (Washington: World Bank, 1984, p.31); 1979, 1982, 1983, 1986, 1987 and 1988 data from: Kiondo, A., *The nature of economic reforms* in Campbell, H., Stein, H., *The IMF and Tanzania: The dynamics of liberalisation* (Harare: Southern Africa Political Series Trusts, 1991, p.35); 1991 data from World Bank, *Tanzania: Economic report: Towards sustainable development in the 1990s: Rep. no. 9352-TA: Vol.1* (Washington: World Bank, 1991, p.92). Notes: Items are groups of separate products; n.a.=not available.

¹⁹ Causes of the further deterioration of the balance of payments can be found in the dissolution of the East African Community in 1977, the second oil crisis, the War with Uganda in 1979, severe droughts and the deteriorating terms of trade.

²⁰ Mongi, J.F.K., *The development of price control in Tanzania* in Rwegasira, K.S.P., Kannevorff, L.A., *Inflation in Tanzania* (Dar es Salaam: Institute of Finance Management, 1980, p.101).

²¹ Maliyamkono, T.L., Bagachwa, M.S.D., *The second economy in Tanzania* (London: James Curry, 1990, p.84-86).

In 1973 1,000 products are initially subjected to price controls. This amount increases to approximately 2,500 price controlled products in 1978, the peak year. Price decontrol starts in 1979 when 1031 products, of which 456 are locally produced and 575 are imported, remain price controlled. In 1980 a government directive is issued which requires the NPC to reduce the number of price controlled products.²² Accordingly the number of price controlled products drops further to 216 locally produced products and 9 imported products in 1983, equalling 56 items, or groups of products.²³ Up to 1985 almost all consumer goods, a significant number of agricultural intermediate inputs and various construction materials, such as iron sheets, rolled steel and cement, are price controlled.

Apart from foreign exchange allocation and price control the government uses confinement as yet another policy instrument to ensure a high degree of direct control over the manufacturing sector. As described in the foregoing paragraph trade is confined to the State Trading Corporation (STC). In order to perform more effectively STC is decentralized and reorganized in 1973. The task of STC is taken over by six parastatal importing companies and 18 Regional Trading Corporations (RTCs). The RTCs are managed by the Board of Internal Trade (BIT) within the Ministry of Industries and Trade. Up to 1980 there is no legal basis for this system of confinement. In 1980 the Regulation of Trade Act is issued, which becomes operational in 1982. A list of 52 confined items is published. This corresponds to the confinement of 103 locally produced products and all imported products. Along with the list of confined items, the legal traders of the items are also set down in the Act.²⁴

Up to 1984 wholesale (and a part of retail) trade is confined to the parastatal organizations mentioned above, meaning that industries are obliged to sell goods to the National and Regional Trading Companies. Furthermore, industries have to turn to designated parastatals for the acquisition of desired inputs. According to the World Bank this "has been associated with poor service, lack of payments to suppliers and high marketing costs. Parastatal companies have not been successful in developing adequate marketing strategies and have often been unresponsive to consumer demand."²⁵

The three policy instruments mentioned above not only allow for increased control over the manufacturing sector. They also allow the government to provide protection to the locally based industries. Import licensing (which is associated with foreign exchange allocation) restricts competitive imports from entering the country, whilst the price controls and the confinement system alter the prices and the distribution possibilities of local products relative to imported products. As such the import substitution climate which has prevailed throughout the first two policy periods, is continued with the use of policy instruments other than the tariffs and the former system of import licensing. As pointed out in paragraph 2.3, another policy instrument which is of importance for maintaining the import substitution climate is the exchange rate.

²² United Republic of Tanzania, *Speech by the Hon. Lt. Col. A.S. Muncho (MP): Minister for Trade of the session of the National Assembly for 1982/83* (Dar es Salaam: Government Printer, 1983, p.31).

²³ The World Bank also gives data for these years, counting the number of price controlled items and products per budget year. For 1982/83 a total of 372 products are recorded, for 1983/84 235, corresponding to 56 items, which is in accordance with table x.5, and for 1984/85 184 products, equalling 47 items. World Bank, *Tanzania: An agenda for industrial recovery: Rep. no. 6357-TA: Vol. I* (Washington: World Bank, 1987, p.21).

²⁴ United Republic of Tanzania, *The Regulation of Trade Act 1980: no.18 of 1980* (Dar es Salaam: Tanzanian Gazette Supplement, 1980, p.2-7 of the act).

²⁵ World Bank, *Tanzania: An agenda for industrial recovery: Rep. no. 6357-TA: Vol.I* (Washington: World Bank, 1987, p.22).

Up to 1979 the policy of exchange rate rigidity is continued. A slight devaluation takes place in 1975, when the Shilling is devaluated by 15% against the SD. However, on the 20th of January 1979 the peg of the shilling is shifted to a currency basket representing Tanzania's main trading partners. At the same time the shilling is devaluated by 10% against the SD. On the 8th of March 1982 another devaluation of 10% occurs, now against the dollar, followed by a devaluation of 20% on the 6th of June 1983 against a basket of currencies. In 1984, on the 15th of June a further devaluation by 20% takes place against the dollar.

Despite these devaluations, the shilling is overvalued since the beginning of the 70s. In 1975 the ratio of the parallel and the official exchange rate amounts to a temporary peak of 3.03, implying considerable overvaluation. The late 70s show a slight decline in the ratio, but the beginning of the 80s marks is characterized by the most impressive overvaluation recorded in Tanzania. In 1984 the ratio of the parallel market and official exchange rate equals 4.42, followed by the peak year of 1985, in which the ratio rises to 7.58. These data are calculated comparing five different sources. Along with the real exchange rate, the results are presented in the following table:

Table 2.8

Official and parallel foreign exchange rates (Tzs per US\$) and the real exchange rate (1966=100)					
Year	Official exchange rate ¹	Parallel market rate ²	Ratio ³	Premium ⁴	Real exchange rate ⁵
1967	7.14	8.68	1.22	21.6	90.24
1968	7.14	8.25	1.16	15.5	76.77
1969	7.14	9.10	1.27	27.5	68.23
1970	7.14	10.45	1.46	46.4	69.58
1971	7.14	15.00	2.10	110.1	70.02
1972	7.14	15.40	2.16	115.7	71.14
1973	6.90	13.45	1.95	94.9	74.68
1974	7.14	14.00	1.96	96.1	78.21
1975	8.26	25.00	3.03	202.7	70.86
1976	8.32	20.40	2.45	145.2	74.78
1977	7.96	15.15	1.90	90.3	72.27
1978	7.41	11.75	1.59	58.6	68.01
1979	8.22	13.50	1.64	64.2	70.33
1980	7.96	23.80	2.90	190.3	59.60
1981	8.18	26.00	3.12	212.2	51.54
1982	9.52	30.90	3.24	224.3	47.57
1983	12.46	39.80	3.19	219.4	46.14
1984	18.40	80.00	4.42	341.7	42.16
1985	16.50	125.00	7.58	657.6	41.88
1986	51.72	160.00	3.09	209.4	60.01
1987	83.72	180.00	2.15	115.0	87.97
1988	125.00	210.00	1.68	68.0	103.82
1989	192.30	245.08	1.27	27.4	131.00
1990	196.60	309.08	1.57	57.2	148.70
1991	233.90	384.58	1.64	64.4	n.a.
1992	335.00	422.92	1.26	26.2	n.a.
1993	479.87	506.23	1.05	5.49	n.a.
1994	523.45	560.07	1.07	7.00	n.a.

Sources: (a) Lofchie, M., *Tanzania's economic recovery* (in Current History: May edition, 1988, p.212); (b) Musonda, F.M., *Development strategy and manufactured exports in Tanzania* (Lund: Lund University Press, 1992, p.130); (c) Maliyamkono, T.L., Bagachwa, M.S.D., *The second economy in Tanzania* (London: James Curry, 1990, p.158); (d) Bank of Tanzania, *Economic and operations report* (Dar es Salaam: Bank of Tanzania, 1995, p.84); (e) Tanzania Economic Trends, *Statistical appendix: Monthly average exchange rates in Tanzania 1989-1993* in (Tanzania Economic Trends: Vol.7, no.1-2, 1994, p.88); (f) Semboja, J.J., Mbelle, A.V.Y.: Economic Research Bureau of the University of Dar es Salaam, calculations made for an article which is yet to be published. Notes: (1) 1967-1981 from (a); 1982-1994 from (d); (2) 1967-1979 from (a); 1980-1983 average of (a) and (c); 1984-1988 average of (a) and (b); 1989-1992 from (e); 1993-1994 data are Bureau de Change rates from (d) raised by 5% which is the average difference between parallel and Bureau rates for January-June 1993; (3) Parallel rate/official rate; (4) ((parallel rate - official rate)/official rate)*100%; (5) From (f), $RER=(E(t)/E(b))*(P(d)/P(US))$, see Appendix B for further elaboration on the RER.

The overvalued exchange rate raises the price of Tanzanian exports in terms of the currencies of the trading partners. Consequently the competitive position of Tanzanian exporters is weakened. This notion is supported by the appreciation of the real exchange rate, which declines from an index of 78.21 in 1974 to 42.16 in 1984. Such an appreciation implies an increasing disincentive for export oriented production. Thus, the exchange rate serves as a policy instrument to keep the import substitution climate in tact. Furthermore, the overvalued exchange rate provides protection on imported inputs relative to a situation in which manufacturers would have to have imported at world market prices. Since this protection is on non-competitive imports, the overvaluation of the exchange rate increases effective rates of protection considerably. This can be deduced from table 2.9, in which the protective effects of the quantitative restrictions and the exchange rate are quantified for the year 1984:

Table 2.9

Protection of industry in 1984 compared to protection of industry in 1966 (in%)				
<i>Subsector</i>	<i>ERP (1984)</i>	<i>Subsector Sample</i>	<i>ERP (1966)</i>	<i>ERP (1984)</i>
Food products	53	Canned fruits and vegetables	184	335
Beverages and tobacco	172	Soft drinks	-23	5
		Beer	187	1300
		Tobacco	528	317
Textiles	811	Textiles	269	240
		Sisal and jute bags	1	inf
Tanneries and leather	inf	Tanning and leather	130	inf
		Footwear	123	inf
Plastics and pharmaceuticals	1762	Pharmaceutical products	0	2952
		Soap	151	5258
Chemicals and fertilizers	inf			
Rubber, glass, wood, paper and cement	309	Tyres and tubes	270	59
		Glass products	31	424
		Paper products	26	6682
		Cement	12	101
Iron, steel and metal products	3780	Metal products	95	inf
Machinery and transport equipment	1347			
<i>Sectoral average</i>	470	<i>Sample average</i>	134	526

Sources: The subsector and subsector sample ERPs for 1984 are taken from: World Bank, *Tanzania: An agenda for industrial recovery: Rep. no. 6357-TA: Vol. I* (Washington: World Bank, 1987, p.48, p.65); subsector sample ERPs for 1966 are taken from table 2.2. Note: inf=infinite, signifying an infinitely high value added at domestic prices in proportion to the value added which would have been produced at world prices.

In 1984 the overall protection of the manufacturing sector is expressed by the sectoral average ERP of 470%. The sectoral distribution suggests that the manufacturers of intermediate and capital goods receive the most protection. Comparison with the prevailing situation of protection in 1966 is possible when samples are taken from the manufacturing subsectors. By comparing the sample averages it becomes apparent that protection has increased from an ERP of 134% in 1966 to an ERP of 526% in 1984. Of the fifteen samples, twelve show an increase in protection, of which eight have achieved an ERP exceeding 1000%. The only unprotected activity is the manufacturing of soft drinks. Producers of tobacco, textiles and tyres and tubes have experienced a decrease in protection between 1966 and 1984.

As shown above the highest degree of protection is shifted from the manufacturers of consumer goods to the manufacturers of intermediate and capital goods. This is in accordance with the objectives of the Basic Industrial Strategy (BIS) described in Appendix A. Manufacturing of intermediate and capital goods usually requires more capital intensive production techniques than

the production of consumer goods. During this policy period there are a number of other policy instruments which also tend to encourage the establishment of capital intensive production techniques, most assuredly with regard to the public sector. The role of foreign aid as a policy instrument becomes apparent within this context. From 1975 onwards over one third of the capital expenditures is financed with the use of foreign aid.

Most of the aid is given in the form of donor-tied capital intensive industrial projects. The Swedish government for example, finances pulp and paper and farm implements. The Netherlands directs aid flows at sisal spinning projects, whilst the Danish government assumes an active role in the establishment of cement and sugar projects. The World Bank takes part in pulp and paper, shoes, textiles, tobacco and cashewnut processing projects. Suppliers of foreign aid directly or indirectly approve the industrial import substitution strategy of Tanzania.²⁶

Since Tanzania is not in the position to generate the financial resources for the industrial expansion initiated in 1976, it has to rely on foreign aid to achieve the objectives set forth in the BIS. Apart from the financial dependence, the capital intensive donor-tied projects also induce technological dependence. Donors provide the necessary technological knowledge to establish capital intensive production techniques. When aid levels start dropping in the early 80s industry can still count on a considerable share of foreign aid. Moreover during the late 70s and early 80s government expenditure in manufacturing, construction and mining rises to a peak, as is shown in Appendix B, table B.2.

Expenditure on industry, defined as to include the manufacturing, construction and mining sector, rises sharply from the budget year 1976/77 onwards. The budget year 1979/80 records industries highest share in total expenditure, equalling 9.7%. From 1986/87 onwards industries share in total expenditure declines to the shares recorded before 1976/77, varying roughly between 1% and 3%. A considerable share of these government expenditures are externally financed, as shown in table B.2 of Appendix B. Taking this into account, the magnitude of foreign dependency to perpetuate industrial development becomes apparent.

The establishment of capital intensive production techniques is also encouraged by the real interest rate, which has turned negative in 1972 and remains negative throughout the policy period. In 1984 the lowest level of the real interest rate is recorded, as can be deduced from Appendix B, table B.3. This subsidy on capital can be explained by a policy of interest rate rigidity on the one hand, and high levels of inflation on the other hand. Inflation in turn is strongly effected by the rapid monetary expansion taking place throughout the period (46.9% in 1979), which is necessary to finance the expansion of government borrowing.²⁷ Inflation levels and monetary expansion (measured as M2) are also presented in table B.3 of Appendix B.

Furthermore, there are differences between the interest rates for the public, private and foreign controlled sector, generally favouring the public sector. Public enterprises are also favoured regarding the allocation of credit, which is interdependent with the system of foreign exchange allocation described at the beginning of this paragraph, and consequently, serves to ensure the survival of existing large scale publicly owned firms. In the words of Henley and Assaf, "until the adoption of the ERP in June 1986 the private sector is crowded out of official thinking, access to loan capital and foreign exchange allocations."²⁸

²⁶ World Bank, *Tanzania: An agenda for industrial recovery: Rep. no. 6357-TA: Vol.1* (Washington: World Bank, 1987, p.74-75).

²⁷ An increase in the money supply combined with a declining productivity trend as has been prevailing since the end of the 70s, is bound to push prices up. Maliyamkono, T.L., Bagachwa, M.S.D., *The second economy in Tanzania* (London: James Curry, 1990, p.18).

²⁸ Henley, J.S., Assaf, G.B., *Privatization in an African context: The case of the United Republic of Tanzania* (in United Nations Industrial Development Organisation: Industry and development: No.32, 1993, p.55).

As shown in this paragraph the policy instruments used by the government between 1973 and 1984 allow for a high level of control of industry on the one hand, and increase the reliance on foreign capital and know how on the other hand. The resulting import substitution climate is characterized by a high level of protection, stimulating production for the domestic market. Consequently production for the export market is discouraged. There are, however, a number of policy instruments the government introduces in the early 80s to encourage foreign exchange earnings by stimulating production for the export markets, as shown in the overview of this policy period presented in the following table:

Table 2.10

Orientations and policy instruments used during the third policy period (1973-1984)		
<i>Aspect of industrial strategy</i>	<i>Orientation</i>	<i>Policy instruments</i>
I. Industrial trade strategy	a. Import substitution	a. Import licenses, exchange rate appreciation.
	b. Export promotion	b. General retention scheme, export rebate scheme, presidential award.
II. High degree of direct regulatory control in the areas of:	a. International trade	a. Import licenses, exchange rate rigidity, Import-export confinement, foreign exchange allocation.
	b. Monetary sector	b. Interest rate rigidity, credit allocation, expansion of money supply.
	c. Labour	c. Legislation regarding working conditions and fringe benefits.
	d. Ownership	d. Industrial licensing, creation of parastatals.
	e. Prices and internal trade	e. Price controls, confinement of internal trade.
III. Relative roles attributed to the private and public sector	b. Public sector	b. Industrial licensing, creation of parastatals, regulation regarding joint ventures (majority ownership), preferential allocation of resources.
IV. Level of dependency on foreign finance (TNCs and foreign aid)	a. Increased dependence	a. Foreign aid: request for foreign loans and grants.
	b. Decreased dependence	b. TNCs: requirement for domestic majority ownership.

In 1981 the export rebate scheme (ERS) is introduced, which is to serve as an export subsidy on manufactured and horticultural goods, compensating for duty and sales tax on imported inputs. It is also a compensation for the loss exporters incur by complying to world market prices, as opposed to the profits they could have made on the highly protected domestic market. A study of the Board of External Trade (BET) reveals that between 1982/83 and 1984/85 exports of sisal products, textiles, leather, radios and horticultural products are stimulated by the ERS.²⁹

Together with the ERS, the presidential award is introduced as a non financial export incentive. This award is presented to the exporter with the best export performance, giving the winner the right to preferential treatment regarding the acquisition of scarce resources. As an export incentive, the effect of this award is negligible. The most effective export incentive is undoubtedly the General Retention Scheme of 1983, which allows exporters to retain from 10% up to 100% of the foreign exchange they earn for the purpose of importing inputs. On average however, the schemes are not very effective, since they lack the desired degree of comprehensiveness to stimulate the export sector adequately.

²⁹ Board of External Trade, *Ten years of the board of external trade: 1979-1989* (Dar es Salaam: Tanzania Litho Ltd., 1989, p.17).

2.5 Decontrol and the shift away from import substitution industrialization (1984-1990)

The crisis years of the early 80s demand a shift in economic strategy. Consequently the government starts liberalizing the economy. This is done by allowing the use of unofficial foreign exchange for imports under the own-funds import scheme, the introduction of the Open General License, exchange rate depreciation and deconfinement and price decontrol. As a result the government gives up the high degree of control over the manufacturing sector and the economy as a whole. In this respect this policy period differs from the preceding policy period. The liberalisation also puts an end to the high level of protection manufacturers receive. From 1984 onwards manufacturers face more and more competition from abroad. A shift from an import substitution industrialization to an export oriented industrialization strategy is initiated, the second reason why this policy period differs from the preceding policy period.

In June 1984 the first step towards the liberalization of trade is made when the Own-Funds Import Scheme is introduced. The scheme encourages Tanzanian citizens to make use of any foreign exchange, other than the foreign exchange available from the official sources, to fund their own imports.³⁰ Foreign exchange is obtained from relatives and friends, accounts abroad, parallel market proceeds, remittances and direct investments. The license is administered without any accompanying procedure. Furthermore, the own-funds imports are not subject to price controls or confinement, so in this respect they form a true liberalization of trade. This liberalization is only partial though, since not all goods are allowed to be imported using an own-funds license.

During the year of introduction of the scheme, imports of intermediate and capital goods form 76% of the total own-funds imports. By 1986 consumer goods account for 44% of the imports. However, the demand for own-funds industrial inputs is low due to the high prices prevailing at the parallel market exchange rates. The magnitude of the use of own funds imports can be deduced from the foreign exchange windows presented in table b.11. From July to December 1984 own-funds imports account for 19.4% of the total foreign exchange used for imports. In 1986 the share of own-funds imports in total imports has risen to 37.2%, and stabilizes around 35% during 1987 and 1988. From 1989 onwards the share of own-funds imports declines slightly due to the introduction of the Open General License (OGL).

The introduction of this license in February 1988 forms the first liberalization of imports funded with official foreign exchange resources. In the preceding policy period foreign exchange is allocated administratively, and up to the introduction of the OGL no change occurs regarding this allocation mechanism. However, from 1988 onwards the government sets aside a portion of the official foreign exchange for high priority overall import categories. The foreign exchange, which is provided by the World Bank and other donors, is allocated on a non-administrative and automatic basis.³¹

An importer obtains foreign exchange through the OGL by adhering to the conditions for utilization (having legal business premises, observing the minimum limit, observing the red-list of forbidden imports, paying the 100% cash cover up front). According to de Valk advantages of the license are less bureaucratic procedures and guaranteed utilization once the license has been approved.³² The increasing importance of the use of the license is illustrated in table 2.11:

³⁰ Bank of Tanzania, *Economic and operations report* (Dar es Salaam: Bank of Tanzania, 1988, p.34).

³¹ World Bank, *Tanzania: Economic Report: Towards sustainable development in the 1990s: Rep. no. 9352-TA: Vol.1* (Washington: World Bank, 1991, p.90).

³² Valk, P., de, *A general framework for evaluating the performance of LDCs textile enterprises: With an application to Tanzania under structural adjustment* (Den Haag: Institute of Social Studies, 1992, p.191).

Table 2.11

The magnitude of foreign exchange windows (in %)							
Year	Free resources ¹	Own funds ²	Export retention	Loans & grants	Import support	OGL ³	Barter
1984	35.3	19.4	-	33.4	6.7	-	5.2
1986	26.1	37.2	0.1	27.6	8.2	-	0.8
1987	32.5	34.6	0.2	23.6	8.2	-	0.9
1988	18.6	35.0	0.4	33.5	9.2	2.7	0.6
1989	29.1	26.3	1.1	23.0	11.1	9.1	0.3
1990	22.3	26.1	n.a.	24.3	9.1	18.0	0.2
1991	13.7	28.7	4.6	20.8	4.8	27.0	0.4
1992	*	27.3	n.a.	22.2	2.6	47.4	0.5

Source: Lipumba, N.H.I., Mbelle, A.V.Y., *Policy making for economic growth and poverty elimination in a pluralistic political system in Tanzania: An overview* in Bagachwa, M.S.D., Mbelle, A.V.Y., *Economic policy under a multiparty system in Tanzania* (Dar es Salaam: Dar es Salaam University Press, 1993, p.103). Notes:(1) The asterisk (*) indicates that the 1992 figure is included under the OGL; (2) The 1984 figure covers the months July-December; (3) The 1988 figure covers the months February - December, the 1992 figure includes the free resources; n.a.=not available.

Other official sources of foreign exchange used between 1984 and 1992 are the free resources managed by the Bank of Tanzania, import support managed by the Treasury, loans and grants also managed by the Treasury, the export retention scheme managed by the Bank of Tanzania and the Board of External Trade and the barter arrangements. The magnitude of these windows can be deduced from table 2.11. Free resources, which are export proceeds resulting from the sale of goods and services abroad, decline from a share of 35.3% of total imports in 1984 to a share of 13.7% in 1991. (Commodity) Import support consists of free-quota allocations by the Treasury, and commodity aid targeted at specific enterprises or sectors.³³ Between 1984 and 1990 it accounts for 6.7% up to 11.1% of total imports, but from 1991 onwards this share declines steadily. Loans and grants, both in the form of multilateral and bilateral project assistance are a major source of foreign exchange up to 1988. From 1989 onwards the importance of loans and grants is diminished somewhat. Export retention and barter arrangements contribute marginally to the availability of foreign exchange for imports. As can be deduced from the table, government direct control is substantially reduced in this area from 1984 onwards. This is illustrated by the fact that in 1991 own-funds imports and imports under the OGL account for 55.7% of all imports.

Decontrol is not limited to foreign exchange allocation only. As pointed out above one of the characteristics of the own-funds import scheme is, that the imports are not subjected to price controls or confinement. According to the World Bank this results in "a de facto sanctioning by the government of a sizeable liberalized window, and helps to dismantle the elaborate system of quantitative restrictions (QRs). The own-funds import policy exposes the industrial sector virtually overnight to a trade regime in which levels of protection have fallen dramatically. Average levels of effective protection for industry decline from about 500% in early 1984 to about 150% in 1985, and some firms become effectively disprotected."³⁴

Simultaneously the government keeps reducing the list of price controlled products. Table 2.6, presented in the preceding paragraph, shows that the number of price controlled products drops to 107 separate products in 1986. This compares to 21 items. In 1988 the number of price controlled items amounts to no more than 12 items, and by 1991 the only price controlled items are petroleum products and fertilizers. These items are also the only two items which remain

³³ White, H., *Import support aid: Experiences from Tanzania and Zambia* (in Development Policy Review: Vol.13, 1995, p.43).

³⁴ World Bank, *Tanzania: Economic Report: Towards sustainable development in the 1990s: Rep. no. 9352-TA: Vol.I* (Washington: World Bank, 1991, p.90).

confined in 1991.³⁵ In 1989 the system of confinement is almost entirely abolished for all firms and products. Between 1986 and 1989 a great number of exemptions were already granted. Given these data, it becomes apparent that decontrol of the economy by the elimination of quantitative restrictions takes place during this policy period.³⁶ This implies a significant reduction in the levels of effective protection.

Levels of protection are further reduced by the devaluation of the exchange rate. From 1986 onwards continuous adjustments of the nominal exchange rate take place. In 1988 the rate of adjustment is slowed down somewhat during the beginning of the year, but from the end of 1988 up to the end of 1989 the shilling is depreciated further. This can be deduced from table b.8. In terms of the overvaluation of the shilling, the ratio of the parallel and official exchange rate drops from a peak of 7.58 in 1985 to 1.58 in 1989. Consequently the prices of inputs rise, and the protection on inputs is reduced. The effects of the devaluations and the reductions in the use of direct controls, such as the import licenses and the price controls, can be estimated by calculating the ERPs which would prevail if tariffs were the only protective measure. In such a case, for the year 1986 the ERPs are as shown below:

Table 2.12

Nominal and effective rates of protection in manufacturing in 1986 compared to effective rates of protection in 1984			
Subsector	NRP (1986) ¹	ERP (1984) ²	ERP (1986)
Food products	29.8	53	65.1
Beverages and tobacco	65.6	172	83.8
Textiles and apparel	43.8	84	55.4
Tanneries and leather	28.7	inf	41.3
Plastics and pharmaceuticals	26.8	1762	45.4
Chemicals and fertilizers	8.2	inf	1.6
Non metallic mineral products, wood and printing	19.8	309	27.9
Iron, steel and metal products	24.1	3780	28.1
Machinery and transport equipment	22.3	1347	25.0

Sources: 1986 data from Ndulu, B.J., Lyakurw, W., Semboja, J.J., Chaligha, A., *Import tariff study - Tanzania* (Dar es Salaam: Unpublished report to the Ministry of Finance, 1987); 1984 data from table 2.8. Notes: (1) NRP = Nominal Rate of Protection; (2) ERP = Effective Rate of Protection; inf=infinite.

The ERPs presented in table 2.12 are the ERPs which would prevail in 1986, if and only if all quantitative restrictions had been removed and the ratio of the parallel to the official exchange rate had declined to one. This situation does not occur until the beginning of the 90s, in the most favourable case in 1989. Therefore the 1986 ERPs which do take the quantitative restrictions and the overvalued exchange rate into account, are expected to exceed the ERPs presented in the table. The ERPs presented in the table most likely resemble ERPs for the year 1989 onwards, assuming that tariff structure remains unaltered. In that case we can deduce that between 1984 and 1989 the effective rates of protection drop considerably. Moreover, a shift in protection from the manufacturers of intermediate and capital goods to the manufacturers of consumer goods occurs. The producers of beverages and tobacco receive most protection (83.8%), whilst the manufacturers of chemicals and fertilizers have to be content with an ERP of 1.6%.

³⁵ Since these items are importable through own-funds and the OGL the effect of these controls is negligible.

³⁶ Direct government control is not totally ruled out during this policy period, since the industrial licensing procedures remain unchanged and the banking system is still publicly owned, and used to finance public enterprises at controlled interest rates. This situation will change during the final policy period distinguished between 1961 and 1994.

However, the tariff structure does change between 1986 and 1989. In 1988 the relatively complex tariff structure of 18 different rates ranging from 15% to 200% is substituted for a more comprehensive division in seven tariff categories ranging from 0% to 100%. The highest tariffs apply to luxury and semi-luxury goods, 100% and 60% respectively. Imports of consumer goods and general foodstuffs are subjected to a tariff of 40%, 25% tariff on intermediate goods and spare parts, 20% tariff on capital goods, 15% tariff on vital industrial and mining machinery and plants, whilst imports of basic and essential items are exempted from tariffs.³⁷ In the 1990/91 Finance Bill the number of tariff rates is further reduced to five categories. The ad valorem rates are 0%, 20%, 30%, 40% and 60%.³⁸ Given these changes in the tariff structure one would expect the ERPs presented in table 2.12 to be higher than the ERPs which prevail from 1989 onwards.

For some manufacturing subsectors trade liberalization, combined with the reliance on a tariff structure for protection, results in a situation of minimal protection. This is caused by the numerous tax exemptions which importers receive, together with the widespread tax evasions which occur, and which are now widely acknowledged. Alas the study undertaken by the World Bank and the Tanzanian government on this topic is as yet classified information. However, in the following paragraph we will use a document prepared by the Textile Manufacturers Association, which gives an indication of the degree of tax evasions for that policy period.

Regarding tax exemptions, we do have statistical material at our disposal. A measure for the exemption of taxes in the form of preferential rates and duty-free arrangements, is the implicit tariff: the collected amount of tariffs divided by the total amount of imports. Table B.4 presented in Appendix B shows that implicit tariff rate has been very low as early as 1976. On average between 1976 and 1987 the attainable collection rate for consumer goods is 60%. Intermediate goods are usually subjected to a tariff of 20%, which is similar to the duty raised on capital goods, although for the latter tariffs as high as 100% might apply. Comparison of the attainable rates and the collection rates shows that exemptions are highest for consumer goods and capital goods. Collection rates vary between a half and a third of the attainable rates. Prior to 1988 collection rates on intermediate goods are on average higher than half of the attainable tariff collection. From 1988 onwards collection rates for all imports decline as a result of the rationalization of the tariff system. In 1990 the implicit tariff rate reaches a low of 6.1%, the lowest collection rate recorded in the history of Tanzania.

As argued above the import substitution climate which has prevailed since 1961 is changing into a manufacturing climate in which production for the home market is rapidly becoming less profitable. Consequently a shift towards export oriented industrialization climate is taking place. This is confirmed by the changes in the real exchange rate. In 1985 the index reaches its lowest point, followed by continuous depreciation of the real exchange rate in the years to come. In 1988 the index compares to the base year (1966), and in 1990 an index of 148.70 is recorded. These depreciations are obviously an incentive for the production for the external market.

This shift towards an export oriented industrialization strategy is given an extra incentive by the various measures introduced by the government to promote exports. The export rebate scheme (ERS), which is described in the foregoing paragraph, still exists in 1985, but it is abolished in 1986 because Tanzania has agreed with the IMF to abolish all subsidies. The other export incentive which was introduced during the previous policy period is the General Retention Scheme (GRS). In 1986 a new retention scheme is introduced as an attempt to stimulate foreign exchange earnings, by allowing retention of foreign exchange for the acquisition of inputs and consumer goods. Producers of non-traditional export products are granted a 50% retention rate, whilst exporters of traditional

³⁷ Musonda, F.M., *Development strategy and manufactured exports in Tanzania* (Lund: Lund University Press, 1992, p.58).

³⁸ World Bank, *Tanzania: Economic report: Towards sustainable development in the 1990s: Rep. no. 9352-TA: Vol.1* (Washington: World Bank, 1991, p.91).

export products can count on a 10% retention rate. The retention rates are reduced somewhat in 1989, but raised to the original level again in 1990. Table 2.11 gives an indication of the use of the scheme as a source of foreign exchange.

The Seed Capital Revolving Scheme (SCRS) of 1985 also uses foreign exchange as a stimulus for exporters. Under this scheme an exporter is provided foreign exchange when starting production aimed at the export market (a 100% cash cover is to be paid up front). A producer can also expect the allocation of foreign exchange necessary to export the final product. Once started the enterprise retains the amount of foreign exchange it needs to finance the imported inputs. Between 1985 and 1989 the number of manufacturers which benefit from the scheme rises from 18 to 51.³⁹ Another incentive is the introduction of the commodity exchange programmes (CEPs). In 1987 six of these programmes are used to obtain raw materials and spare parts from abroad, by exchanging Tanzanian export products for these goods. Finally the export duty drawback scheme (DDS) of 1988 needs to be mentioned. This scheme compensates for the anti-export bias which originates from the import duties exporters have to pay, in order to acquire their inputs from abroad. It is established for the manufacturers of exports in particular.⁴⁰

Apart from the shift in the industrialization strategy and the decrease in the use of direct control of the manufacturing sector, no significant changes occur in the policy climate. Regarding the level of foreign dependency, there is actually an increase in total external assistance from 1986 onwards. This can be deduced from the following table:

Table 2.13

External assistance to Tanzania (in mln US\$), and external assistance to the industrial sector in Tanzania (in mln US\$ and as a %)					
Year	Total external assistance	Assistance to industry ¹	Ratio (%) ²	Technical assistance to industry ³	Ratio (%) ⁴
1986	670.1	52.6	7.8	25.9	49.3
1987	814.9	81.8	10.0	25.0	30.6
1988	905.5	112.1	12.4	24.8	22.0
1989	905.0	224.6	24.8	26.0	11.6
1990	956.2	163.5	17.1	14.8	9.0
1991	1059.9	171.7	16.2	29.8	17.4
1992	1112.7	109.0	9.8	32.2	29.5
1993	905.4	48.9	5.4	8.1	16.5
1994	895.0	10.7	1.2	3.2	30.0

Source: United Nations Development Programme, *Development cooperation report Tanzania: Various issues*. Notes: (1) For the years 1989-1994 industry includes manufacturing, construction and mining, for the years 1986-1988 industry also includes the energy sector; (2) Assistance to industry as a percentage of total external assistance; (3) Technical assistance is defined as activities undertaken to promote economic and social development and well-being by enhancing human and institutional capacities through the transfer, adoption, mobilization and utilization of skills and technology; (4) Technical assistance to industry as a percentage of assistance to industry.

Between 1986 and 1990 total external assistance to Tanzania rises from 670.1 mln. US\$ to 956.2 mln. US\$. Furthermore, as Szirmai shows, the share of foreign aid in GDP rises considerably from 7.0% in 1985 to 37.9% in 1991.⁴¹ These data imply that for the country as a whole foreign aid is becoming increasingly important during this policy period.

³⁹ Ndulu, B.J., Semboja, J.J., *The development of manufacturing for export in Tanzania: Experience, policy and prospects* in Helleiner, G.K., *Manufacturing for export in the developing world: Problems and possibilities* (London: Routledge, 1995, p.199).

⁴⁰ Mbatia, K.S., *Constraints to the growth of non-traditional exports: incentive schemes* (in Tanzania Economic Trends: Vol.5, No. 3-4, 1993, p.57).

⁴¹ Szirmai, A., *Ontwikkelingslanden: Dynamiek en stagnatie* (Groningen: Wolters-Noordhoff, 1994, p.478).

This is also the case for the industrial sector. The highest share of aid allocated to industry is recorded in 1989. A total of 224.6 mln. US\$ is distributed between the manufacturing, mining and construction sector. Taking into account that historically speaking the manufacturing sector has received high levels of aid, it is reasonable to conclude that the bulk of this sum goes to the manufacturing sector. The aid given to industry shows a shift away from technical assistance (49.3% of assistance to industry in 1986 as compared to 9.0% in 1990) in favour of capital assistance. In short, a shift from a mix of technology and financial transfers to almost solely financial transfers occurs between 1986 and 1990.

There is evidence that the increase in foreign aid is partially used to finance ongoing production of the large and inefficient parastatal enterprises.⁴² The predominance of these parastatal enterprises is also enhanced by the continued lending of the government owned banking sector. Since the rationing of foreign exchange has seized to be the bottleneck during the second half of the 80s, administrative allocation of credit becomes the binding constraint. According to the World Bank "the financial sector has continued to lend to ailing firms, particularly parastatals, many of which are in serious arrears." In fact "the public manufacturing sector (...) draws about 70% of the total loans to the industrial sector."⁴³ Furthermore the public sector is favoured regarding reliefs from duties and sales tax, most certainly concerning distressed parastatals. It is therefore safe to conclude that between 1984 and 1990 no change has occurred in the governments choice for a predominantly publicly owned manufacturing sector. This change will take place in the final policy period distinguished between 1961 and 1994. This paragraph is concluded with an overview of the policy climate affecting the manufacturing sector prevailing between 1984 and 1990:

Table 2.14

Orientations and policy instruments used during the fourth policy period (1984-1990)		
<i>Aspect of industrial strategy</i>	<i>Orientation</i>	<i>Policy instruments</i>
I. Industrial trade strategy	a. Import substitution	a. Import licenses, import tariffs.
	b. Export promotion	b. Real exchange rate depreciation, general retention scheme, seed capital revolving scheme, commodity exchange programmes, duty drawback scheme, exemptions & evasions.
II. Considerable degree of direct regulatory control in the areas of:	a. International trade	a. Import licenses, partial foreign exchange allocation.
	b. Monetary sector	b. Interest rate rigidity, credit allocation, expansion of money supply.
	c. Labour	c. Legislation regarding working conditions and fringe benefits.
	d. Ownership	d. Industrial licensing, creation of parastatals.
III. Relative roles attributed to the private and public sector	b. Public sector	b. Industrial licensing, creation of parastatals, regulation regarding joint ventures (majority ownership), preferential allocation of resources.
IV. Level of dependency on foreign finance (TNCs and foreign aid)	a. Increased dependence	a. Foreign aid: request for foreign loans and grants.
	b. Decreased dependence	b. TNCs: requirement for domestic majority ownership.

⁴² This explains why an increase in foreign assistance is not accompanied by an increase in the return on foreign financed investments. Agrawal, N., Ahmed, Z., Mered, M., Nord, R., *Structural adjustment, economic performance, and aid dependency in Tanzania: Policy research working paper WPS1204* (Washington: World Bank, 1993, p.27).

⁴³ World Bank, *Tanzania: Economic report: Towards sustainable development in the 1990s: Rep. no. 9352-TA: Vol.1* (Washington: World Bank, 1991, p.95-96).

2.6 Continued liberalization, the shift away from the predominance of the public sector and decreasing dependence on foreign aid (1990-1994)

The final policy period distinguished between 1961 and 1994 is characterized by a shift away from the predominance of the public sector in the industrial strategy, together with a decreasing dependence on foreign aid. The changes in the policy climate concerning these criteria are accompanied by continued liberalization, a trend which is set in the preceding policy period. Accordingly the high degree of direct government control of the manufacturing sector comes to an end when the banking system is liberalized and the foreign exchange act is adopted. Furthermore, the shift towards an export oriented industrialization strategy is still encouraged by continued depreciation of the exchange rate, the use of export incentives and the large scale of import duties and tax exemptions and evasions.

In 1990 the government passes the National Investment (Promotion and Protection) Act (NIA). This act initiates the shift away from the predominance of the public sector, a predominance which has been encouraged during previous policy periods by favourable foreign exchange and credit allocation, very low (negative real) interest rates, and all sorts of tax exemptions. The private sector, which has been discouraged since the Arusha Declaration, is once again officially recognized as being of importance to the manufacturing sector. According to Tanzania Economic Trends, this is one of the reasons why the NIA differs from any foregoing post Arusha Declaration investment policies. Other reasons are that constitutional safeguards from expropriation and guarantees against nationalization without compensation are given. Moreover, the NIA offers a package of investment incentives (for foreign and domestic investors), including a five year corporate tax holiday, customs duty exemptions and 50% retention of foreign exchange. Finally, the NIA distinguishes itself by the establishment of an institutional investment framework, the Investment Promotion Center.⁴⁴

The priority areas for investment in manufacturing industries are set down to be animal feed processing, agro-based industries, beverages, tobacco, textiles, leather goods, steel and metal engineering, cement and ceramics, electrical and electronic engineering, printing and publishing, pharmaceuticals, fish processing and canning, fish nets, packing, general processing, bottles and glass ware, paints and automotive engineering industries. Some manufacturing areas are designated to be controlled areas: areas dominated by the public sector. These areas concern iron and steel production, machine tool manufacture and chemical and pesticides production.⁴⁵ In 1992 and 1994 the Act is amended to allow for slight expansions of the incentive package, and alterations of the requirements respectively.⁴⁶

Along with the stimulation of the private sector, the government sets out to reform the parastatal sector. The legal basis is provided by the Public Corporations Act of 1992 which is drawn up "to make better provisions for the establishment, management and streamlining of public corporations..."⁴⁷ The act is amended in the same year to allow for detailed provisions made for the establishment of the Presidential Parastatal Sector Reform Commission. The Parastatal Sector

⁴⁴ Tanzania Economic Trends, *National investment promotion policy* (in Tanzania Economic Trends: Vol.3, no.1-2, 1990, p.56).

⁴⁵ United Republic of Tanzania, *National Investment (Protection and Promotion) Act: No.10 of 1990* (Dar es Salaam: The President's Office - Planning Commission, 1990, p.34-39).

⁴⁶ United Republic of Tanzania, *National Investment (Protection and Promotion) (Amendment) Act: No.10 of 1992* (Dar es Salaam: Tanzanian Gazette Supplement, 1992, p.3-4 of the act) and United Republic of Tanzania, *Finance Act 1994: No.16 of 1994* (Dar es Salaam: Tanzanian Gazette Supplement, 1994, p.15 of the act).

⁴⁷ United Republic of Tanzania, *Public Corporations Act: No.2 of 1992* (Dar es Salaam: Tanzanian Gazette Supplement, 1992, p.1 of the act).

Reform Commission is empowered "to decide which enterprises should be retained, which enterprises should be privatized and which should be wound up."⁴⁸ In 1993 the Public Corporations Act is again amended in order to make further provisions regarding the accountability of parastatals for the Parastatal Sector Reform Commission. As a recently published review of the 1994 action plan shows, up to the 1st of January 1995, 40 parastatal companies affiliated with the Ministry of Industries and Trade are divested, of which six are either closed or liquidated (In total there are approximately 170 parastatal enterprises in the manufacturing sector).⁴⁹

The shift away from the predominance of public enterprises is also stimulated by the adoption of the Banking and Financial Institutions Act of 1991. This Act allows for the establishment of commercial banks, meaning that the years of a publicly controlled banking system have come to an end. The consequence for the parastatals is, that they can no longer count on credit allocation without prior determination of credit worthiness, since the banking system is to be based on commercial principles.⁵⁰ This is reflected by the maximum real interest rate for medium- and long-term loans, which remains positive in real terms from 1991 onwards (see Appendix B, table B.3). Knowing that the new limiting constraint for parastatals has become the availability of credit, the impact of this reform becomes apparent.

Apart from the liberalization of the financial sector further liberalization takes place in other policy areas. In 1992 for instance, the Foreign Exchange Act is passed by the parliament, prompting the establishment of "Bureaux de Change" in Tanzania. The Bureaux are allowed to sell and buy foreign exchange at freely determined rates, reflecting the interaction of demand and availability of foreign exchange in a free market situation. It is obvious that this policy measure leads to the liberalization of the foreign exchange market. Continued liberalization of trade occurs due to the further deconfinement and price decontrol, resulting in a decrease to two price controlled and confined items in 1991, as has been pointed in the foregoing paragraph. Another encouragement for the liberalization of trade is provided by the Fair Trade Practices Act of 1994. This act is adopted to encourage competition in the economy by prohibiting restrictive trade practices and regulating monopolies and concentrations of economic power and prices.⁵¹

A liberal economic climate is also encouraged by the continued adjustments of the exchange rate. The depreciations result in a decline of the parallel market premium from 64.4% in 1991 to 7.0% in 1994. In 1993 a parallel market premium of 5.5% is recorded, compared to 26.2% in 1992, implying that from 1993 onwards the exchange rate is no longer considered overvalued. Naturally the exchange rate and the last confined and price controlled goods no longer protect the manufacturing sector. Protection from foreign competition can only be provided through the tariff system, which was already performing poorly in this respect during the previous policy period.

A document prepared by the Textile Manufacturers Association of Tanzania shows that this situation has not changed for the best during this policy period.⁵² Low tariff collection rates, on average 5.0%, persists up to the budget year 1993/94. This is unmistakable proof of the large scale

⁴⁸ Operations Review Unit of the Ministry of Foreign Affairs, *Tanzania: Evaluation of the Netherlands Development Programme with Tanzania: 1970-1992* (The Hague: Ministry of Foreign Affairs, 1994, p.55).

⁴⁹ United Republic of Tanzania, *Parastatal Sector Reform Commission: 1994 review and action plan for 1995 and beyond* (Dar es Salaam: Parastatal Sector Reform Commission, 1995, p.60-61).

⁵⁰ Bank of Tanzania, *Economic and operations report* (Dar es Salaam: Bank of Tanzania, 1992, p.44-51).

⁵¹ United Republic of Tanzania, *Fair Trade Practices Act: No.4 of 1994* (Dar es Salaam: Tanzanian Gazette Supplement, 1994, p.1 of the act).

⁵² The Textile Manufacturers Association of Tanzania, *The impact of practices of fiscal policies in Tanzania* (Dar es Salaam: mimeo, 1994, p.8).

of import duty exemption. Regarding the evasion of excise and sales taxes by importers the document also presents striking data. Assuming that on average 80% of the consumer goods on shop shelves is imported, and taking into account that tax levels are highest for consumer goods, one would expect the share of excise and sales tax paid by importers to exceed the share paid by traders of local products.

Yet government data (from the appropriation to the accounts) show that traders of local products are paying 79.7% of total excise taxes throughout 1989/90. This share rises to 89.6% in 1993/94. The same pattern is discerned concerning sales tax payments. Throughout the budget year 1989/90 70.3% of the total collected sales tax is paid by traders of local products. Initially this share drops slightly, but rises to 85.4% during the 1993/94 budget year, again implying tax evasions.⁵³ The overall effect of these evasions is that traders of local products pay a larger tax share than importers. On average importers pay around 42% of all taxes, which combined with the dominant share of imports in the local market, implies a considerable subsidy on imported goods, by lowering their price relative to local products. The tariff system barely protects local manufacturers,⁵⁴ whilst the tax collection system as a whole exposes them to severe competition.

On average these low levels of protection and this severe competition from tax evading importers certainly does not encourage production for the home market more than production for the world market. The shift towards an export oriented industrialization strategy is also encouraged by continued devaluation of the exchange rate, and by the use of export incentives, many of which have been discussed in the foregoing paragraph, and are still used during this policy period. Additionally the Bank of Tanzania introduces the Export Credit Guarantee Scheme (ECGS) in 1990, a scheme which is designed to encourage pre- and post-shipment credit provision to exporters of non-traditional exports. The provision of credits allows the exporters to procure raw materials and other inputs for production.⁵⁵ Under the National Investment (Protection and Promotion) Act (NIA) another export incentive is introduced in 1990, since the NIA allows for 50% retention of the net foreign exchange earnings.⁵⁶

Having discussed the shift away from a predominantly publicly owned manufacturing sector, and the continued liberalization of the economic environment, we have yet to elaborate on the final criterium used to distinguish this policy period from the foregoing policy period: the decreasing dependence on foreign aid. Although the total aid to Tanzania does not drop dramatically between 1990 and 1994 (it actually peaks in 1992 with 1112.7 mln. US\$: see table b.13), the assistance to industry as a share of the total amount of external assistance declines steadily from 1990 onwards. In 1990 this share amounts to 17.1%, it drops to 9.8% in 1992, and hits rock-bottom in 1994, when the share amounts to no more than 1.2% or 10.7 mln US\$. Reasons for this decline should be sought in the reform of the parastatal sector, along with the lack of investments in new projects. Given these data it is safe to conclude that foreign aid does not play a significant role in determining developments in the manufacturing sector by the end of this policy period. The orientations of the industrial strategy and the accompanying policy instruments used are summarized in table 2.15 on the following page.

⁵³ The tax loopholes which are generally used are transit trade, the Zanzibar route, smuggling, duty free shops, bonded warehouses, tax exemptions and false declaration.

⁵⁴ This is further aggravated by continued rationalization of the tariff structure in 1992/93. The pre-1992/93 custom duty rates are replaced by duty rates of 0%, 10%, 20% and 30%. Moreover the six excise duty rates prevailing are reduced to a single rate of 20%. Bagachwa, M.S.D., *A comment on the 1992/93 government budget* (in Tanzania Economic Trends: Vol.5: No.1-2, 1992, p.57).

⁵⁵ Mbatia, K.S., *Constraints to the growth of non-traditional exports: Incentive schemes* (in Tanzania Economic Trends: Vol.5, No.3-4, 1993, p.57).

⁵⁶ Ndulu, B.J., Semboja, J.J., *The development of manufacturing for export in Tanzania: Experience, policy and prospects* in Helleiner, G.K., *Manufacturing for export in the developing world: Problems and possibilities* (London: Routledge, 1995, p.200).

Table 2.15

Orientations and policy instruments used during the fifth policy period (1990-1994)		
<i>Aspect of industrial strategy</i>	<i>Orientation</i>	<i>Policy instruments</i>
I. Industrial trade strategy	a. Import substitution	a. Import licenses, import tariffs.
	b. Export promotion	b. Real exchange rate depreciation, general retention scheme, seed capital revolving scheme, commodity exchange programmes, duty drawback scheme, export credit guarantee scheme, tax exemptions & evasions.
II. Low degree of direct regulatory control in the areas of:	a. International trade	a. Import licenses, partial foreign exchange allocation.
	d. Ownership	d. Industrial licensing.
III. Relative roles attributed to the private and public sector	a. Private sector	a. Guarantees against nationalization, investment incentives (e.g. tax holidays and duty exemptions), parastatal reform.
	b. Public sector	b. Industrial licensing, reservation of certain areas for public sector.
IV. Level of dependency on foreign finance (TNCs and foreign aid)	a. Increased dependence	a. TNCs: investment incentives (see IIIa).

2.7 Conclusion

In the preceding paragraphs changes in government policy are distinguished using general aspects of industrial policy formulation to cluster policy instruments. As a result, between 1961 and 1994, five periods of policy are discerned regarding the Tanzanian manufacturing sector. Tables 2.3, 2.4, 2.10, 2.14 and 2.15 give an overview of the policy instruments used during each policy period. The resulting orientation of the classification criteria is also presented in these tables. A combination of the orientations gives an overview of the changes in industrial strategy, as deduced from the policy instruments used between 1961 and 1994:

Table 2.16

An overview of the policy periods affecting the manufacturing sector					
<i>Aspect of industrial strategy</i>	<i>1961-1967</i>	<i>1967-1973</i>	<i>1973-1984</i>	<i>1984-1990</i>	<i>1990-1994</i>
Import substitution (IS)/ Export promotion (EP)	IS	IS	IS	IS->EP	EP
Degree of direct control (low/moderate/high)	Low	Moderate	High	Moderate	Low
Private ownership (priv.)/ Public ownership (publ.)	Priv.	Publ.	Publ.	Publ.	Publ.->Priv.
Level of dependency on foreign aid and investments (low/moderate/high)	High (inv.)	Moderate (inv.-> aid)	High (aid)	High (aid)	Moderate (aid-> inv.)

Sources: Tables 2.3, 2.4, 2.10, 2.14 and 2.15. Note: An arrow (->) marks a shift from one aspect to another.

During the first policy period, foreign investments and import substitution are encouraged. In 1967 the policy climate changes, the dependency on foreign capital is reduced, whilst public ownership is stimulated. The import substitution climate remains unaltered though. During this policy period the first signs of the use of direct controls can be distinguished, together with the beginning dependence on foreign aid. High levels of direct control and a high level of dependence on foreign aid are criteria which are used to distinguish the following policy period which starts in 1973 and ends in 1984.

From 1984 onwards there is a shift away from the stimulation of an import substitution industrial trade strategy in the policy climate, combined with decreased control of the manufacturing sector. The situation of encouragement of the public sector and the dependence on foreign aid remains unaltered until 1990. In this year the final policy period commences, which is characterized by a continued shift towards an export oriented industrialization strategy, encouragement of the private sector and discouragement of the public sector, decreased dependency on foreign aid and the choice for the use of markets instead of direct controls.

Part II

*"We're trying for something,
That's already found us."*

Jim Morrison, An American prayer

3. Policy evaluation: a theoretical framework

3.1 Introduction

The second theoretical framework of this thesis presents the theoretical body which is necessary to determine how government policy has affected the development of the manufacturing sector in Tanzania. In other words, the tools are devised with which a relationship between the use of policy instruments and the performance of the manufacturing sector can be established. These tools are usually referred to as evaluation approaches, and it is therefore, that this chapter starts off by presenting four approaches which are designed for the purpose of policy evaluation. The applicability of these approaches to our specific case are discussed, eventually resulting in the formulation of two approaches to evaluation which combine the theory presented in this chapter with the theory presented in the first part of this thesis.

3.2 Approaches to policy evaluation

Any form of evaluation is characterized by the underlying, though often not explicitly mentioned assumption, that a change in a phenomenon leads, or can lead, to a change in another phenomenon. Evaluation deals with causes and consequences which are linked to one another by a causal effect. To think in terms of a causal effect is to think in terms of a change in a phenomenon, the cause, which result in a change in another phenomenon, the consequence.¹ On the topic of policy evaluation, the cause is the implemented policy instrument or combination of policy instruments. The consequence is the change in the phenomenon, the variable, which is intended to be affected by the implementation of the policy instrument or combination of policy instruments (taken together as the implementation of policy).

A report by the Dutch Ministry of Finance presents four basic approaches to policy evaluation.² All four approaches are ex-post evaluations, meaning that the evaluation is performed after the policy is implemented. The choice for one of the four evaluation approaches depends partly on the availability of objectives with which outcomes can be compared. Another criterium for the choice of an evaluation approach is, whether information can be obtained regarding the situation which would have prevailed if the policy had not been implemented. If that is indeed the case, a with-without approach can be adopted. If this is not the case, there is no other option than to choose for a before-after approach. In table 3.1 the approaches are classified according to these criteria:

Table 3.1

Classification of policy evaluation approaches		
	<i>Before-after approach</i>	<i>With-without approach</i>
<i>No specified objectives</i>	Situation research	Effect research
<i>Objectives are specified</i>	Goal attainment research	Effectivity research

¹ Verschuren, P.J.M., *Structurele modellen tussen theorie en praktijk* (Utrecht: Uitgeverij het Spectrum, 1991, p.10-11, p.29).

² Nederlands Ministerie van Financiën, *Heeft beleid effect? Vier benaderingen voor evaluatie van bestaand beleid* (Denhaag: Ministerie van Financiën, 1984, p.5-73).

The first approach mentioned in table 3.1, situation research, is one of the most commonly used evaluation approaches. The basic assumption underlying this approach is, that any changes in the affected variable can be attributed solely to the implementation of the policy affecting this variable.³ No attempt is made to give an answer to the question whether the change could also have been caused by phenomena other than the implemented policy. In figure 3.1 a schematic presentation of situation research is shown.

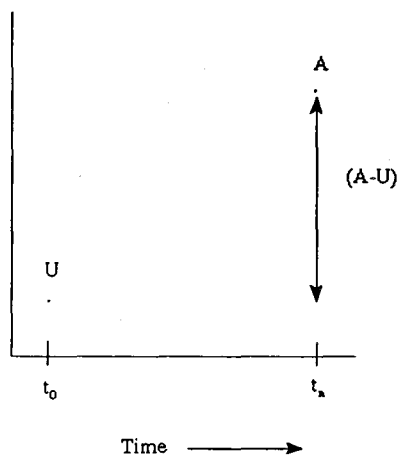


Fig. 3.1: Situation research

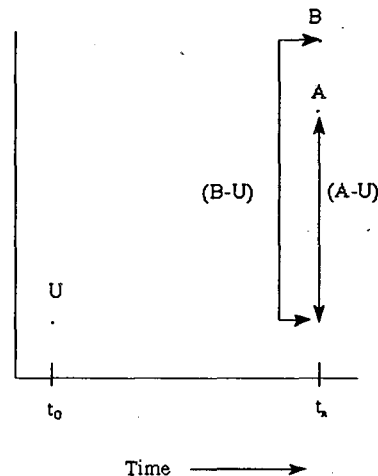


Fig. 3.2: Goal attainment research

Between t_0 and t_n (the evaluation period), the effect the policy has on the target variable is equal to the difference between A and U. In order to use this approach A and U are sufficient to deduce the effect of the policy. It is however recommendable to use wider time-series to obtain a better impression of the situation prevailing before and after the implementation of the policy. Nevertheless the fact remains that no explanation other than the implementation of the policy is offered for the change (A-U) in figure 3.1. In reality the variables affected by policies are usually sensitive to other influences. Examples are weather conditions, political changes and trends on the world market. The absence of the incorporation of such influences when determining the effect of a policy, is a very serious limitation to the applicability of the approach.

Another disadvantage of situation research is the lacking comparison of the presumed effect with a reference point. This disadvantage is overcome when goal attainment research, the second approach mentioned in table 3.1, is used. Goal attainment research can only be used if objectives are specified,⁴ allowing the researcher to confront the result of the use of the policy instrument with these objectives. In figure 3.2 goal attainment research is illustrated. The actual effect which is achieved between t_0 and t_n equals the difference between A and U (similar to situation research, since both approaches are characterized by a before-after approach). The actual effect (A-U) is compared to the desired effect, the difference between the initial situation (U) and the objective set (B). The ratio of the actual effect and the desired effect is an indicator of the degree up to which the objective is

³ Note that implementation of policy and the abolishment of policy allow for the same use of evaluation approaches.

⁴ When performing goal attainment research it is important to take a critical look at the objectives mentioned by policy makers. These objectives may be unrealistically high or unnecessarily low, a point which is also made in paragraph 1.3.

attained. However, no account is given of the degree up to which the policy is responsible for the degree of attainment of the objective, and as such it copes with the same limitation to applicability as situation research does.

Only when with-without evaluation approaches are used, does the possibility arise to indicate the extent up to which a policy is responsible for a change in a variable. The change in such a variable is not attributed solely to the implementation of a policy, the extent of the effect of the implementation of a policy is deduced by comparing the actual change with the change which would have prevailed if a policy had not been put to use. Effect research, the third evaluation approach mentioned in table 3.1, incorporates the with-without approach by using forecasting techniques, such as linear extrapolation or mathematical models,⁵ to obtain an impression of the situation which would have prevailed, if a policy had not been implemented. In figure 3.3 this situation is presented by point C at t_1 :

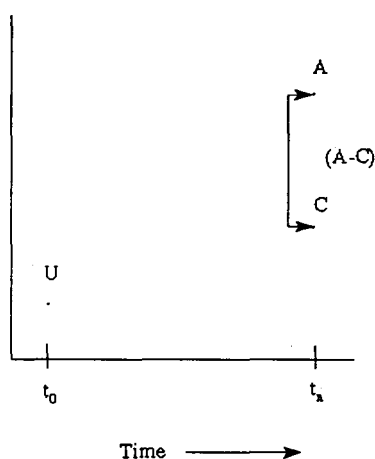


Fig. 3.3: Effect research

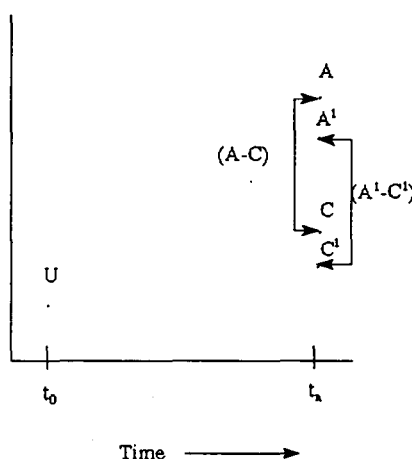


Fig.3.4: Effectivity research

The actual effect of the implementation of the policy is reflected by the difference between A, the change in the presumably effected variable, and C, the predicted situation if the policy had not been implemented.

Effectivity research is the other with-without approach mentioned in table 3.1. Unlike effect research, effectivity research does take objectives into account. These objectives are formulated as being the desired effect of a policy, and are to be predicted using ex-ante evaluation methods. In most evaluation studies researchers refrain from the use of this approach because ex-ante evaluation requires a great deal of expertise and time. If, however, ex-ante evaluation has been performed, the actual effect (A-C) can be compared to the predicted effect (A¹-C¹),⁶ both presented schematically in figure 3.4. The effectivity of the implementation of the policy instrument is then defined to be the ratio of the actual effect and the predicted effect.

⁵ An overview of forecasting techniques is given by Doom, J., van, Vught, V., van, *Forecastingstechnieken: Methoden en technieken van het toekomstvoorspellen* (Assen: Van Gorcum, 1978).

⁶ Because the ex-ante prediction of the situation which would have prevailed without the use of the policy instrument (C¹) is performed at a different moment in time than the ex-post prediction of the situation which would have prevailed without the use of the policy instrument (C), these two predictions can differ considerably.

Above four approaches to policy evaluation are discussed. All four approaches are used to determine the effect of the implementation of a policy. Situation research and goal attainment research are characterized by a before-after approach, meaning that any change in the presumably affected variable is attributed to the introduction of a policy. With-without approaches do not make use of this assumption. Effect research and effectivity research both incorporate predictions of the situation which would have prevailed if a policy had not been introduced, thus leaving room for the influence of variables other than the implemented policy. In terms of validity the with-without approach is preferred above the before-after approach when evaluating the effects of policies in a complex area, the manufacturing sector of a country for example. At times it may not be possible to adopt such an approach though. Regarding effectivity research the reason is obvious: it is extremely unlikely to encounter ex-ante policy evaluations. The best option is then to use effect research. This may also prove to be difficult if data series are not sufficient to perform trend extrapolations, or if the assumption that developments in areas other than the affected area persist, proves to be ungrounded. Alas the latter is often more rule than exception when performing economic policy evaluation in developing countries.

Consequently, the question which arises is, if we have to confine ourselves to a before-after approach, forcing us to assume that developments in the manufacturing sector in Tanzania should be attributed solely to changes in policy. The answer to this question is no, we have yet another option. By explaining how policy instruments and other influences are related to developments in the manufacturing sector, we can obtain an impression of the degree up to which public policy affects industry in Tanzania between 1961 and 1994. Such a shift in focus from what the effect of a policy is, to how a policy has affected developments, resembles a shift which takes place regarding the evaluation of social programmes in the late 70s and early 80s. The emerging evaluation approach is called comprehensive evaluation, and deals both with the question how and to what extent policy affects the variable in question.⁷ The black box separating policy on the one hand and developments on the other hand is opened, allowing insight in the manner in which policy, together with other influences, leads to developments in, in our case, the manufacturing sector.

3.3 Evaluating policy effects on the manufacturing sector: two approaches

As discussed in the foregoing paragraph, in our case evaluation aims at offering an explanation how government policy affects development in the manufacturing sector. The four evaluation approaches presented by the Dutch Ministry of Finance can be used to indicate the extent up to which this is the case. That is, if ex-ante evaluations are at hand and there are little or no changes other than policy changes affecting the manufacturing sector. In the Tanzanian context this is highly unlikely, making it necessary to resort to another approach. By asking ourselves how policy affects manufacturing, we can incorporate other influences than policy effects into the evaluation study, resulting in an answer both to the questions how and up to which extent government policy has affected the manufacturing sector. At our disposal are two approaches which open up the blackbox separating policy instruments (mentioned in chapter 2) from manufacturing development.

The first approach takes the results of the policy instrument classification as starting point. In paragraph 1.5 mention is made of the fact that the classification of the policy instruments is based on criteria which are typical for government industrial policy prevailing in developing countries. Moreover, the effects of government policy on manufacturing development have been widely discussed in terms of trade strategy, the use of direct controls, the roles attributed to the private and the public sector and the dependence on foreign finance. Thus, we concluded, the policy instrument classification

⁷ Rossi, P.H., Wright, J.D., *Evaluation research: An assessment* (in Annual Review of Sociology: No.10, 1984, p.331, p.348). Regarding the comprehensive evaluation of a social program a list of criteria is presented which characterize such an evaluation approach. This is not of importance to us, it is the idea that counts.

input (supply side) markets and their output (demand side) markets. In their words, "policy instruments cumulate and interact to form a system of incentives to which entrepreneurs respond."⁹ In table 3.2 an overview is given of the policy instruments which affect input and output markets of an enterprise:

Table 3.2

Policy instruments affecting input and output markets of an enterprise	
<i>Input markets (supply side)</i>	<i>Output markets (demand side)</i>
<p>I. Policy instruments affecting the price and availability of raw materials and capital and intermediate inputs:</p> <ul style="list-style-type: none"> a. Interest rates and credit allocation b. Foreign exchange rates and credit foreign exchange controls c. import duties, quotas and licenses. d. capital based taxes and subsidies e. Price control and confinement f. Infrastructural provisions <p>II. Policy instruments affecting the price and availability of labour:</p> <ul style="list-style-type: none"> a. Labour legislation including minimum wage laws b. Public sector wages c. Policies towards unions d. labour-based taxes e. Immigration and emigration quota f. Labour training schemes <p>III. Direct regulatory policy instruments affecting the possibility to use and the relative profitability of different production techniques:</p> <ul style="list-style-type: none"> a. Enterprise licensing and legislation b. Monopoly privileges c. Zoning d. Project tied foreign aid e. Research and development support 	<p>I. Policy instruments affecting demand for domestic products through the price and availability of competitive traded goods:</p> <ul style="list-style-type: none"> a. Protection through import duties, quotas and licenses. b. Exchange rates c. Export taxes and subsidies d. Export processing zones e. Export credits and retention schemes f. Infrastructural provisions. <p>II. Policy instruments affecting demand through sectoral (e.g. agriculture versus manufacturing) and vertical income distribution:</p> <ul style="list-style-type: none"> a. Differential structure of protection and output pricing b. Different (export) taxation c. Differential credit and foreign exchange rates and access d. Differential expenditures on services and infrastructure <p>III. Policy instruments affecting demand through prices and trading possibilities:</p> <ul style="list-style-type: none"> a. price controls for finished products b. confinement

Source: Based on Haggblade, S., Liedholm, C., Mead, C., *The effect of policy and policy reforms on non-agricultural enterprises and employment in developing countries: A review of past experiences*, in Stewart, F., Thomas, H., Wilde, T., de, *The other policy* (London: Intermediate Technology Publications, 1990, p.64) and augmented using table 1.3.

On the supply side a distinction is made between policy instruments affecting the price and availability of raw materials, intermediate inputs and capital inputs (I), and labour (II). Apart from these two categories a third category is introduced, listing policy instruments which directly regulate the possibility to use and the relative profitability of production techniques (III). Industrial licensing and monopoly privileges for example, limits the number of possible entrepreneurs using a certain production technique, and also make the production technique more profitable to use relative to other production techniques which are not accompanied by restrictions on competition.

Policy instruments affecting the demand side of an enterprise influence the price and availability of competitive traded goods (I), the income distribution of the consumers of the enterprises products (II), and the prices and trading possibilities of the products (III). Combined with the policy instruments affecting the supply side, these policy instruments affect an enterprises performance as indicated for example by output levels, efficiency and production for exports. By performing a number of case studies at the enterprise level, it is possible to gain insight in the manner in which separate

⁹ Haggblade, S., Liedholm, C., Mead, C., *The effect of policy and policy reforms on non-agricultural enterprises and employment in developing countries: A review of past experiences*, in Stewart, F., Thomas, H., Wilde, T., de, *The other policy* (London: Intermediate Technology Publications, 1990, p.63-65).

policy instruments have influenced manufacturing development at a micro-economic level in Tanzania. Furthermore, aggregation of the approach to the manufacturing sector as a whole gives an explanation for the reasons why a policy instrument, or a combination of policy instruments, affects manufacturing performance. It is therefore that this approach is complementary to the policy instrument classification approach, allowing us to gain more insight in the separate influences of policy instruments. Also note that the second approach incorporates the unclassified policy instruments, integrating the effects of the policy instruments mentioned in the policy instrument classification with these static policy instruments.

3.4 Conclusion

This chapter is concerned with the manner in which policy instruments can be related to the development of the Tanzanian manufacturing sector between 1961 and 1994. For this purpose two approaches are devised which allow us to understand how and up to which extent this is the case. The first approach takes the clusters of policy instruments presented in chapter 2 as the basis for evaluation. The policy periods are to be related to performance indicators using economic studies which focus on the effects of similar policies in other developing countries. Apart from the policy instruments presented in the policy instrument classification, the effects of the static (non-classified) policy instruments also have to be taken into account. At a macro-economic level a number of indicators will be reviewed which reflect changes in overall development of the country, making it possible to relate manufacturing development to overall development too. Finally other influences which directly affect the manufacturing sector are to be discussed when necessary.

Complementary to this approach, a second approach is presented which evaluates the effects of separate policy instruments on manufacturing performance. This approach relates the use of policy instruments to changes in the supply and demand side of an enterprise. This can be shown for the case of a specific enterprise, but the approach can also give valuable insights in the manner in which policy instruments affect the whole manufacturing sector. It is then assumed that the sector behaves as one single enterprise, or in other words, the effects of policy instruments on separate enterprises are aggregated to a sectoral level. Together with the first evaluation approach, this approach is used in chapter 5 to evaluate how government policy has affected manufacturing development in the Tanzanian case. In the following chapter the performance indicators necessary to perform the evaluation are presented.

4. Manufacturing development in Tanzania

4.1 Introduction

This chapter gives an overview of the trends in manufacturing development in Tanzania between 1961 and 1994. The indicators of development are chosen in such a way, that they reflect the effects of changes in the policy climate. Relevant indicators are the growth rate of the manufacturing sector, the contribution of the sector to the economy as a whole, the structural changes which occur over time, data on investment and efficiency, and data which reflect the role of the public sector.

4.2 Growth

The most widely used indicator of growth is the change in value added generated within a sector during a period of one year. In the manufacturing sector growth is expressed as the annual change in manufacturing value added (MVA), which is also referred to as the MVA growth rate:

Table 4.1

Growth trends in the manufacturing sector (in constant 1976 prices)					
Year	GDP (in mln. Tzs)	MVA (in mln. Tzs) ¹	GDP growth rate (%)	MVA growth rate (%)	MVA/GDP (%)
1964	12,511	1,040	n.a.	n.a.	8.3
1965	12,821	1,177	2.5	13.2	9.2
1966	14,544	1,386	13.4	17.8	9.5
1967	15,145	1,542	4.1	11.3	10.2
1968	15,939	1,655	5.2	7.3	10.4
1969	16,301	1,814	2.3	9.6	11.1
1970	16,945	1,890	4.0	4.2	11.2
1971	17,542	2,070	3.5	9.5	11.8
1972	18,644	2,244	6.3	8.4	12.0
1973	19,167	2,344	2.8	4.5	12.2
1974	19,411	2,376	1.3	1.4	12.2
1975	20,407	2,384	5.1	0.3	11.7
1976	21,652	2,811	6.1	17.9	13.0
1977	21,739	2,641	0.4	-6.0	12.1
1978	22,202	2,730	2.1	3.4	12.3
1979	22,739	2,821	2.4	3.3	12.4
1980	23,419	2,683	3.0	-4.9	11.5
1981	23,301	2,382	-0.5	-11.2	10.2
1982	23,439	2,304	0.6	-3.3	9.8
1983	22,882	2,103	-2.4	-8.7	9.2
1984	23,656	2,159	3.4	2.7	9.1
1985	24,742	2,075	4.6	-3.9	8.4
1986	25,210	1,991	1.9	-4.0	7.9
1987	26,453	2,081	4.9	4.5	7.9
1988	27,527	2,228	4.0	7.1	8.1
1989	28,626	2,399	4.1	7.7	8.4
1990	29,904	2,338	4.5	-2.5	7.8
1991	31,609	2,607	5.7	11.5	8.2
1992	32,724	2,719	3.5	4.3	8.3
1993	34,088	2,755	4.2	2.1	8.1
1994	35,125	2,669	3.0	-3.8	7.6

Sources: (a) United Republic of Tanzania, *National accounts of Tanzania: 1976-1994* (Dar es Salaam: Bureau of Statistics, 1995, p.9-11); (b) United Republic of Tanzania, *Revised national accounts of Tanzania: 1976-1990* (Dar es Salaam: Bureau of Statistics, 1995, p.7); (c) United Republic of Tanzania, *Selected statistical series: 1951-1992* (Dar es Salaam: Bureau of Statistics, 1995, p.21-22). Note: (1) All value added data include depreciation, and are thus gross value added data; n.a.=not available.

As table 4.1 illustrates, the growth rate of manufacturing value added in constant 1976 prices shows a declining trend from 1966 onwards. Up to 1967 the MVA growth rate exceeds 10%, followed by a period of growth at roughly half that rate between 1968 and 1979. In 1980 the first year of a series of four years of continuous decline is recorded. In 1984 there is a slight revival of the sector, followed by two more years of negative growth. From 1987 to 1994 positive growth rates predominate once again, although negative growth rates are still recorded in 1990 and 1994.

Comparison of the rates of growth of Manufacturing Value Added (MVA) and Gross Domestic Product (GDP) shows how the manufacturing sector has grown relative to the other sectors of the economy. If MVA growth rates exceed GDP growth rates, the contribution of the manufacturing sector to the economy as a whole rises. This is expressed by the ratio of MVA to GDP, which rises from 8.3% to 13.0% between 1964 and 1976, implying a considerable rate of industrialization during that period. During the late 70s this process of industrialization comes to a halt, followed by almost continuous deindustrialization up to 1994. In that year the contribution of the manufacturing sector to the economy as a whole has declined to 7.6%, placing Tanzania 30 years back in time.

4.3 Import substitution, export promotion and changes in production structure

Import substitution is measured by recording changes in the share of domestically produced manufactured goods in the total supply. The total (manufactured) supply is defined as the sum of manufactured imports and domestically manufactured goods (produced for the domestic market and for exports). As such the degree up to which imports are replaced by locally manufactured products is calculated. Table 4.2 shows the trend in import substitution between 1961 and 1990:

Table 4.2

Import substitution in manufacturing (shares of the total manufactured supply in %)						
Year	Total manufactured supply ¹			Domestic production/Total manufactured supply ²		
	Domestic market	Exports	Imports	Consumer	Intermediate	Capital
1961	29.6	8.2	62.2	50.0	25.7	16.4
1965	36.0	7.8	56.2	59.5	32.1	16.6
1971	35.4	10.5	54.1	75.6	33.8	15.3
1973	42.5	6.4	51.1	72.2	39.8	21.4
1976	52.6	7.6	39.8	83.5	54.0	22.3
1977	50.7	6.3	43.1	81.3	50.7	21.1
1978	48.6	4.4	47.0	83.9	46.9	17.8
1979	50.3	6.1	43.7	87.4	54.6	20.9
1980	50.9	6.6	42.5	81.2	55.2	24.3
1981	54.4	7.0	38.7	86.9	59.5	23.7
1982	53.3	5.4	41.3	83.7	55.9	22.3
1983	57.4	5.8	36.8	87.1	56.2	28.0
1984	58.6	5.7	36.3	87.4	58.6	23.7
1985	61.0	3.9	35.1	85.8	59.7	32.0
1986	52.4	4.6	43.0	79.0	54.3	32.8
1987	44.8	6.2	48.9	81.0	49.9	18.5
1988	35.7	9.6	54.7	75.6	41.5	14.9
1989	50.0	7.9	42.2	86.9	50.7	29.4
1990	46.6	8.5	44.9	89.4	47.1	27.7

Sources: 1961-1973 data from World Bank, *Tanzania: An agenda for industrial recovery: Rep. no. 6357-TA: Vol.II* (Washington: World Bank, 1987, p.110-111); 1976-1990 data calculated from United Republic of Tanzania, *Revised national accounts of Tanzania: 1976-1990* (Dar es Salaam: Bureau of Statistics, 1995, p.40-54). Notes: (1) The total manufactured supply consists of goods manufactured for the domestic market, exports and imports. The shares are a percentage of the total manufactured supply; (2) Domestic production (for exports and domestic market) as a share of the total manufactured supply is calculated for consumer, intermediate and capital goods separately.

The share of production for the domestic market in the total manufactured supply rises steadily from 1961 onwards. In 1961 this share equals 29.6%. By 1976 52.6% of the total manufactured supply is produced for the domestic market. This share drops until 1978, after which it rises again up to 1985, followed by a steep decline to 35.7% in 1988, and recovering to approximately 50% during the last years of the 80s. These data allow us to conclude that import substitution has taken place from 1961 up to 1976, and 1979 up to 1985, together with the years 1989 and 1990. Trends in the ratio of domestic production and the total supply of consumer, intermediate and capital goods¹ make it clear that import substitution largely takes place in the consumer and intermediate goods sector. Capital goods are largely obtained from abroad.

Table 4.2 also presents data on the export performance of the manufacturing sector. As can be deduced from the table, exports have never formed a considerable share of the total manufactured supply. Between 1961 and 1980 they fluctuate between 5% and 10%. From 1982 onwards the shares are exceptionally low: in 1985 only 3.9% of the total manufactured supply is produced for exports. By the end of the 80s this share has risen somewhat, in 1988 a share of 9.6% is recorded. As a percentage of total exports, a similar increase in export performance during the late 80s becomes apparent. Prior to 1987 the share of manufactured exports in total exports fluctuates between 15% and 23%. In 1987 this share rises modestly to 24.8%, followed by a boost to 35.4% in 1988. In 1989 and 1990 shares of respectively 35.7% and 37.4% are recorded (Appendix C, table C.1).

Apart from structural changes occurring in the relative amounts of imports and goods produced for the domestic and external market, structural changes also occur in the relative importance of industrial sectors for the production of gross output and value added. In table 4.3 the shares of consumer, intermediate and capital goods in manufacturing output and value added are presented:

Table 4.3

Structural changes in output and value added in manufacturing (in %) ¹						
Year	Gross output			Value added		
	Consumer	Intermediate	Capital	Consumer	Intermediate	Capital
1965	71.4	23.5	1.3	56.2	39.6	2.7
1969	62.1	25.7	9.2	59.2	30.0	10.1
1973	57.2	31.7	8.8	58.9	33.1	6.9
1977	50.8	34.6	11.2	54.9	36.0	6.5
1978	54.1	32.8	11.9	52.9	37.8	7.6
1979	51.3	35.8	11.7	53.5	37.7	8.1
1980	52.4	34.5	11.7	53.6	37.8	7.9
1981	52.1	36.0	10.9	49.8	42.6	6.8
1982	54.3	33.5	11.1	52.6	37.3	9.3
1983	54.1	34.8	10.2	54.4	37.0	7.8
1984	51.1	40.0	8.2	53.8	37.9	7.7
1985	50.5	38.9	9.9	51.8	37.6	10.0
1986	44.6	41.9	12.8	39.9	48.6	11.1
1987	46.1	44.5	9.0	41.4	50.1	8.2
1988	48.9	43.0	7.8	47.4	45.4	6.9
1989	49.9	40.6	8.7	49.6	41.3	7.8
1990	50.8	38.3	10.3	54.0	38.6	6.5

Sources: 1965-1977 data from World Bank, *Tanzania: An agenda for industrial recovery: Rep. no. 6357-TA: Vol.II* (Washington: World Bank, 1987, p.90, p.92); 1978-1990 data from United Republic of Tanzania, *Statistical abstract: Various issues*. Both sources use the United Republic of Tanzania, *Survey of industrial production: Various issues*. Note: (1) Firms with 10 or more employees.

¹ The definitions for consumer, intermediate and capital goods used for calculations are, unless explicitly mentioned otherwise, as follows: consumer goods: ISIC 311-322 and ISIC 324; intermediate goods: ISIC 323 and ISIC 331-381; capital goods: ISIC 382-384. ISIC 390 covers all other manufactures not classified else where.

Concerning gross output, clearly the most remarkable changes occur between 1965 and 1977. In 1965 consumer goods account for 71.4% of total output, intermediate goods for 23.5%, whilst a mere 1.3% of total output consists of capital goods. In 1977 this distribution has changed in favour of intermediate and capital goods, now accounting for respectively 34.6% and 11.2% of gross output in manufacturing. This situation remains largely unchanged until 1986, when the share of consumer goods drops below 50% for the first time in the history of Tanzania. By the end of the 80s this share recovers somewhat, resulting in a 50.8 - 38.3 - 10.3 distribution in 1990.

A similar pattern can be discerned for the contribution of the sectors to manufacturing value added (MVA). In 1965 56.2% of total value added is produced in the consumer goods sector, 39.6% in the intermediate goods sector, and 2.7% in the capital goods sector. Up to 1985 the only significant change occurs in the share of the capital goods sector, which rises to an average of 8 to 9%. From 1986 to 1988 intermediate goods acquire a dominant share in the production of value added, resulting in a decline in the share of consumer goods. In 1989 and 1990 this situation is again reversed ending in a 54.0 - 38.6 - 6.5 distribution, a distribution which resembles the situation in 1965 to a frightening extent. (Also see table C.2 in Appendix C for an ISIC 2-digit breakdown of sectoral MVA)

Unfortunately comparable data on gross output and value added do not carry on in to the 90s. The only information at hand regarding production in these years is the *Industrial commodities report* which presents data on the output of most industries for the production years 1986 up to 1994.² In Appendix C a summary table of the report is presented. The striking conclusion to be drawn from the table is that real output levels in 1994 are equal to real output levels in 1985, the base year. In other words, although real output rises between 1987 and 1991, the decline in production which takes place between 1992 and 1994 is sufficiently large to bring output levels back to the initial situation in 1985. Hence, in terms of stepping up the production of real output, little or no development is achieved between 1985 and 1994.

4.4 Investments

Investments in manufacturing are defined as the yearly additions to buildings, other works and equipment. This definition of investments is also referred to as gross fixed capital formation (GFCF). Since GFCF is given in current prices, the ratio of GFCF to value added is a better indication for the changes in investments than growth rates. This ratio also makes it possible to compare the level of investments in the economy as a whole to the level of investments in the manufacturing sector. By calculating the ratio of manufacturing GFCF and GFCF in the economy as a whole, periods of unusually high investment levels in manufacturing can be detected. The results of our calculations are presented in table 4.4 on the following page. One glance at the table tells us that an investment boom has occurred in manufacturing from 1976 up to 1979. Both the ratio of manufacturing GFCF to MVA and the ratio of manufacturing GFCF to total GFCF show steep increases. In 1980 manufacturing investment as a ratio of total investment drops significantly, and fluctuates between 20% and 27% for the remaining years.

Remarkable is the fact that manufacturing investment as a ratio of MVA has the tendency to rise to percentages of 135.5% in 1987, and 120.4% in 1990. This becomes even more remarkable when the ratio GFCF/GDP is taken into account. Investments in the economy as a whole do not exceed 42.5% of GDP between 1980 and 1994. Consequently one is forced to conclude that resources are shifted away from other sectors to the manufacturing sector. Furthermore, given the high ratios of manufacturing GFCF to MVA, it is very likely that the inflow of resources from other sectors is accompanied by an inflow of resources from abroad. Altogether it becomes evident from table 4.4 that

² United Republic of Tanzania, *Industrial commodities: Quarterly report 1995:3* (Dar es Salaam: Bureau of Statistics: Forthcoming, 1996, p.24-30).

Table 4.4

Investments ¹ in manufacturing compared to investments in the economy as a whole (in %)			
Year	GFCF/GDP	Manufacturing GFCF/MVA	Man. GFCF/GFCF
1966	15.1	29.1	15.6
1967	18.9	32.6	14.4
1968	18.4	33.0	16.0
1969	16.3	21.6	13.1
1970	22.9	38.5	17.0
1971	26.8	33.7	13.4
1972	23.6	22.6	10.9
1973	22.6	24.4	11.8
1974	21.6	31.9	15.6
1975	20.8	35.9	18.0
1976 ²	29.0	59.3	26.0
1977	29.4	87.0	37.2
1978	33.8	90.6	36.7
1979	33.6	99.7	36.9
1980	33.1	62.9	22.7
1981	28.6	64.8	22.7
1982	26.0	84.0	27.9
1983	19.3	56.4	22.2
1984	20.2	54.8	21.6
1985	19.0	64.8	26.5
1986	27.3	73.5	20.5
1987	40.6	135.5	27.7
1988	37.2	123.0	21.3
1989	32.0	81.8	22.9
1990	42.5	120.4	25.6
1991	30.0	90.3	23.7
1992	32.8	96.0	23.5
1993	31.6	93.2	24.0
1994	30.2	96.6	24.4

Sources: (a) United Republic of Tanzania, *National accounts of Tanzania*: Various issues; (b) United Republic of Tanzania, *Revised national accounts of Tanzania: 1976-1990* (Dar es Salaam: Bureau of Statistics, 1995, p.7, p.18). Notes: (1) Investment, or Gross Fixed Capital Formation (GFCF), is defined as the yearly additions to buildings, other works (land improvement, roads and bridges, water supply and other) and transport and other equipment and machinery; (2) There is a break in the series in 1976 due to a revision of the national accounts.

since 1976, investment levels in the manufacturing sector are impressive to say the least, most assuredly when they are compared to investment levels in the economy as a whole. Clearly a great deal of effort is made to prompt further industrialization in Tanzania.

4.5 Efficiency

Despite the investment boom that occurs during the late 70s, no significant increases in the growth of the manufacturing sector take place in subsequent years (see table 4.1). In fact, from 1980 onwards negative growth rates are recorded. Consequently the efficiency of the investments, defined as the MVA growth rate divided by the ratio of manufacturing GFCF and MVA, drops, and becomes negative throughout the early and mid 80s. This is also demonstrated by the trend in the incremental capital output ratio (ICOR).³ Similar to the efficiency of investments, the ICOR relates additions to

³ See for instance Skarstein, R., Wangwe, S.M., *Industrial development in Tanzania: Some critical issues* (Dar es Salaam: Tanzanian Publishing House, 1986, p.206) and Musonda, F.M., *Development strategy and manufactured exports in Tanzania* (Lund: Lund University Press, 1992, p.93). The ICOR is defined as manufacturing fixed capital formation, three years moving averages lagged one year, divided by the incremental value added, three years moving averages.

the capital stock to increases in real value added in the manufacturing sector, with this difference that three year moving averages are used. Between 1972 and 1979 the manufacturing ICOR rises considerably, implying that every year higher levels of investment are necessary to attain the same level of growth. From 1979 onwards the ICOR becomes negative, indicating that any additions to the capital stock in the manufacturing sector are accompanied by a reduction in real value added. This situation prevails up to 1988, when the first positive, albeit extremely sharp, ICOR is recorded since nine years.

The reason why increased investment is not accompanied by increased growth can only be understood when taking the trends in manufacturing efficiency into consideration.⁴ In table 4.6 trends in several efficiency indicators of the Tanzanian manufacturing sector, including capacity utilization rates, are presented:

Table 4.5

Efficiency indicators of the manufacturing sector (in enterprises employing 10 or more persons)			
Year	Capacity utilization ¹ (%)	Value added/Output ² (%)	Value added/Employee ³ (1978=100)
1976	53	n.a.	n.a.
1977	n.a.	31.5	n.a.
1978	n.a.	30.8	100
1979	n.a.	29.2	105
1980	31	28.0	93
1981	n.a.	30.0	88
1982	29	29.0	81
1983	28	28.3	80
1984	25	26.1	88
1985	25	24.7	76
1986	27	22.8	64
1987	30	25.4	76
1988	29	21.9	58
1989	32	17.8	50
1990	32	16.6	41
1991	36	n.a.	n.a.
1992	38	n.a.	n.a.
1993	38	n.a.	n.a.
1994	37	n.a.	n.a.

Sources: (a) World Bank, *Tanzania: An agenda for industrial recovery: Rep. no. 6357-TA: Vol.I&II* (Washington: World Bank, 1987, Vol.I: p.5, Vol.II: p.94); (b) Maliyamkono, T.L., Bagachwa, M.S.D., *The second economy in Tanzania* (London: James Curry, 1990, p.154); (c) United Republic of Tanzania, *Economic Survey 1994* (Dar es Salaam: Bureau of Statistics, 1995, p.141); (d) United Republic of Tanzania: *Statistical abstract: Various issues*; (e) Sources mentioned below table 4.1. Notes: (1) Compiled comparing (a) and (b) for the period 1976-1987, and adjusting the 1988-1994 unweighed averages of 20 products from (c) to the 1987 data from (b); (2) 1977 data from (a), 1978-1990 data from (d); (3) Data from (d) and deflated to obtain 1976 constant prices by calculating the implicit deflator using (e); n.a.=not available.

Table 4.5 shows that capacity utilization rates drop considerably between 1976 and 1985. In 1976 it is estimated that a little more than half of the installed capacity is utilized (which is a conservative estimate, estimations of 70% are also mentioned). In 1980 this rate has dropped to 31%, and continues to drop to a low of 25% in 1985. In that year only a quarter of the installed capacity in the manufacturing sector is utilized. From 1986 onwards a rising trend in the use of the installed capacity can be discerned, resulting in an estimated rate of utilization of slightly less than 40% during the early 90s (again these are conservative estimates, 45-50% capacity utilization in the early 90s is not unthinkable either).

⁴ As Skarstein and Wangwe conclude, "such an extremely adverse development of the ICOR can only be due to a dramatic fall in the rate of capacity utilization." Skarstein, R., Wangwe, S.M., *Industrial development in Tanzania: Some critical issues* (Dar es Salaam: Tanzanian Publishing House, 1986, p.205).

The other efficiency indicators show a comparable trend in declining efficiency of the manufacturing sector throughout the late 70s and 80s. After 1981 the trend in the ratio of value added to gross output declines steadily. During the late 70s this ratio averages around 30%. By 1985 it has dropped to 24.7%, and in 1990 a ratio of value added to gross output of 16.6% is recorded. This implies that within ten years it has become necessary to double the output to obtain the same amount of value added. Furthermore, the amount of value added produced per employee decreases significantly between 1979 and 1990. Over this period the index drops from 105 to 41. As these efficiency indicators show, between 1976 and 1990 it takes increasingly more employees, capacity and units of output to produce the same amount of value added in enterprises employing ten or more persons, although a slow recovery of capacity utilization is discerned from 1986 onwards.

4.6 The public sector

Developments in the public manufacturing sector are reviewed using three indicators: the contribution to MVA, the share in investments and the share in the number of persons engaged in manufacturing. These data are presented in the following table:

Table 4.6

Indicators of manufacturing public sector developments (in %)			
Year	Share in MVA	Share in GFCF	Share in persons engaged
1966	5	12.7	9.1
1967	14	34.0	12.7
1968	18	21.1	17.1
1969	22	37.3	23.4
1970	26	63.7	26.3
1971	29	55.3	40.4
1972	33	49.7	38.2
1973	30.0	49.4	38.4
1974	26.3	33.7	41.0
1975	25.6	31.8	39.3
1976	29.7	28.8*	40.3
1977	25.0	13.3*	42.2
1978	26.2	9.0*	39.7 ¹
1979	31.8	6.7*	55.0
1980	33.8	29.3*	51.1
1981	46.5	9.6*	49.9
1982	50.8	25.2	54.3
1983	37.0	34.9	52.9
1984	42.1	27.9	58.4
1985	45.8	35.8	48.2
1986	57.9	28.2	47.1
1987	33.6	24.2	46.7
1988	29.2	14.2	51.0
1989	14.1	18.5	50.5
1990	51.0	9.8	51.6
1991	37.9	12.6	n.a.
1992	39.9	6.5	n.a.

Sources: Data on parastatals from United Republic of Tanzania, *Analysis of parastatal accounts*: Various issues; 1966-1972 value added data from Skarstein, R., Wangwe, S.M., *Industrial development in Tanzania: Some critical issues* (Dar es Salaam: Tanzanian Publishing House, 1986); MVA and GFCF data from tables 4.1 and 4.5; Persons engaged in manufacturing from United Republic of Tanzania, *Economic Survey*: Various issues and United Republic of Tanzania, *Statistical abstract*: Various issues. Notes: The data marked with an asterisk (*) allow for considerable debate (see footnote nr.5); (1) Break in the series due to the appearance of the 1978 Industrial Census, all data prior to 1978 are corrected for this break by multiplying with 1.2 (the increase in persons engaged due to the appearance of the census) to make the series consistent; n.a.=not available.

It is evident that since 1966 the public manufacturing sector has been expanding at a considerable pace. The contribution to MVA rises from 5% in 1966 to 33% in 1972, fluctuates between 25% and 30% from 1973 up to 1978, and from 1979 onwards rises further to levels of 50.8% in 1982 and 57.9% in 1986. The first rise in public sector MVA coincides with an investment boom. In 1966 12.7% of Gross Fixed Capital Formation (GFCF) takes place in the public sector. By 1970 this share has risen to 63.7%, the peak year of investment in parastatals. This peak is followed by increasingly lower investment levels.⁵

The number of persons engaged in the public manufacturing sector, expressed as a share of the total number of persons engaged in manufacturing, is a more stable indicator of the development of the sector.⁶ The share rises almost constantly from 11.0% in 1966 to 58.4% in 1984, drops slightly from 1985 to 1987, and stabilizes around 51% during the late 80s. However, this trend is somewhat biased by the fact that parastatals can not simply rid themselves of a surplus of labour, since they have employment maximization objectives. It is therefore not surprising that the level of engagement in the public sector rises to a peak during the crisis years. Nevertheless this trend, along with the trend in public sector MVA and GFCF, illustrates that since 1966 the importance of the public sector has been ever increasing, and that it is still considerable during the late 80s.

4.7 Conclusion

As shown in this chapter manufacturing development in terms of growth, import substitution and production structure shows a favourable trend from independence up to the mid 70s. From the late 70s onwards this trend is reversed, resulting in a process of virtually continuous deindustrialization. Little changes in import substitution and production structure occur since then. Investment levels after 1975 exceed investment levels prior to 1975 considerably though. Given the negative growth trend it is inevitable that these investments are accompanied by a decrease in efficiency. The public sector, finally, becomes of ever increasing importance to the production of manufacturing value added and the engagement of persons within the sector. In the following chapter explanations for these trends in manufacturing development are offered, by comparing them to the different policy climates the sector faces between 1961 and 1994.

⁵ The investment level during the period 1975-1981 is surprisingly low, most assuredly because during these years the BIS is launched. If these data are correct, the BIS is financed almost solely by private investors. Given the policy climate at the time this is highly unlikely. One would expect the new investments to be directed at the parastatal sector, not at the private sector. Thus we are of the opinion that the investment data presented in table 4.7 for this period do not reflect the 'actual' investment level in the public manufacturing sector, a notion which is supported by a break in the series in public and total manufacturing GFCF in 1976.

⁶ Persons engaged is an approximation of persons employed. It includes employees as well as working proprietors and unpaid family workers. Excluded are directors and ex-employees receiving pension. The data presented in the table refer to establishments employing ten or more persons, this in contrast to MVA and GFCF shares, which refer to the whole manufacturing sector.

Part III

*"If you ask three economists the same question,
you get five different answers."*

Andrew, a rather cynical expatriate

5. The effects of the policy periods on manufacturing development

5.1 Introduction

Chapter 2 deals with the changes in the policy climate affecting the Tanzanian manufacturing sector between 1961 and 1994. In the preceding chapter manufacturing development in Tanzania is reviewed. This chapter relates government policy to manufacturing development using the evaluation approaches presented in chapter 3. Consequently, in this chapter, how and the extent up to which government policy affects manufacturing development is discussed. To this end trends in the macro-economic situation are analyzed, resulting in a synthesis of the policy periods and changes in the macro-economic situation. Thus, a classification is devised which should explain changes in development trends of the manufacturing sector. Using international comparative and country specific studies, explanations are offered for the reasons why policy climate's do, or do not, affect manufacturing development. In order to illustrate the effects of the policies at an enterprise level, a number of case studies are discussed. Combined with the analysis based on the sectoral studies this enables us to draw conclusions regarding the role of government policy in the developments in the manufacturing sector.

5.2 Synthesis of policy periods and trends in the macro-economic situation

Trends in the macro-economic situation are reviewed using the data presented in table 5.1 on the following page. Up to the mid 70s the macro-economic situation is relatively stable.¹ In 1974-1975 Tanzania suffers the first balance of payments crisis. This is expressed by the sudden increase in the current account deficit, rising from 6.5% in 1973 to 14.3% in 1974, and by the short inflation peak accompanying the deterioration of the balance of payments. Due to government policy measures and the coffee boom of 1977 Tanzania manages to stabilize the external balance.² As a consequence the current account deficit drops to 1.3% of GDP in 1976 and 2.3% of GDP in 1977, and the import restrictions put in place as a response to the crisis are relaxed somewhat.

However, in 1978 the current account deficit increases substantially to 12.7% of GDP, and this time the deficit remains of a serious nature. Reasons why the balance of payments deteriorates further are the dissolution of the East African Community in 1977, the second oil crisis, the war with Uganda in 1979, severe droughts and the deteriorating terms of trade. Inflation rates are on the rise again from 1978 onwards. In 1980 an inflation rate of 30.3% is recorded, a rate which is more rule than exception during the following one and a half decades. Following the balance of payments problems (increased foreign exchange shortages), economic growth comes to a halt in 1981. Negative real rates of growth of -0.5% in 1981 and -2.4% in 1983 are experienced. Tanzania is faced with shortages of all kinds, including basic consumer goods, intermediate goods and capital goods.

The overall economic crisis persists up to 1984, the year in which the own-funds imports scheme is introduced (described in paragraph 2.4). Further liberalization of the economy is accompanied by positive real growth rates in subsequent years, but also by increased indebtedness (the external debt equals 240.9% of GDP in 1993) related to high levels of foreign aid inflow. These levels had dropped considerably between 1982 and 1985 due to the disagreement with the IMF concerning exchange rate adjustment, but are on the rise again since 1986 (see table 5.1).

¹ Facilitated by what Ndulu refers to as a "relatively benign" external environment during the first decade of independence in Tanzania. Ndulu, B.J., *Tanzania's economic development: Lessons from the experience and challenges for the future* (Paper written for the International Conference on Development Challenges and Strategies for Tanzania: An Agenda for the 21st Century, 1993, p.2).

² For an analysis of the responses to the 1974-1975 balance of payments crisis see Green, R.H., Rwegasira, D.G., Arkadie, B., van, *Economic shocks and national policy making: Tanzania in the 1970s* (The Hague: Institute of Social Studies, 1980, p.23-p.99).

Table 5.1

Indicators of the macro-economic situation						
Year	GDP growth rate ¹ (%)	Inflation ² (%)	Curr. acc./GDP ³ (%)	Terms of Trade ⁴	Debt/GDP ⁵ (%)	Aid p.c. ⁶
1970	4.0	3.1	-3.1	n.a.	n.a.	n.a.
1971	3.5	5.0	-8.0	n.a.	n.a.	n.a.
1972	6.3	7.6	-4.6	n.a.	n.a.	n.a.
1973	2.8	10.6	-6.5	145.7	34.2	18.1
1974	1.3	18.4	-14.3	173.6	43.1	18.5
1975	5.1	27.0	-9.5	142.0	48.3	30.2
1976	6.1	6.9	-1.3	151.7	56.2	29.7
1977	0.4	11.4	-2.3	182.0	60.5	33.2
1978	2.1	6.6	-12.7	151.9	62.2	33.5
1979	2.4	12.9	-8.8	138.7	64.3	42.0
1980	3.0	30.3	-11.4	142.0	65.0	42.9
1981	-0.5	25.7	-7.7	129.0	58.3	44.7
1982	0.6	28.9	-8.7	127.1	55.4	37.5
1983	-2.4	27.1	-5.5	128.0	64.1	29.1
1984	3.4	36.1	-7.4	131.0	77.2	25.4
1985	4.6	33.3	-6.6	126.1	74.0	21.0
1986	1.9	32.4	-8.1	140.5	123.6	27.6
1987	4.9	30.0	-16.1	100.0	211.4	33.5
1988	4.0	31.2	-11.6	107.2	188.0	34.9
1989	4.1	30.4	-10.5	103.2	171.1	30.9
1990	4.5	35.9	-12.5	92.6	202.1	28.4
1991	5.7	28.8	-11.9	93.8	188.5	n.a.
1992	3.5	21.9	-12.2	84.7	210.9	n.a.
1993	4.2	25.2	-12.8	n.a.	240.9	n.a.
1994	3.0	34.1	n.a.	n.a.	n.a.	n.a.

Sources: (a) Table 4.1; (b) Table B.3 in Appendix B; (c) World Bank, *World Tables 1995* (Baltimore: John Hopkins University Press, 1995, p.658-659); (d) World Bank, *World Tables 1980* (Baltimore: John Hopkins University Press, 1980, p.357); (e) Hyden, G., Karlstrom, B., *Structural adjustment as a policy process: The case of Tanzania* (in World Development: Vol.21: No.9, 1993, p.1398). Notes: (1) From (a); (2) From (b); (3) Current account balance of the Balance of Payments from (c) and (d); (4) From (c), 1987=100; (5) From (c); (6) From (e), aid per capita in 1983 US\$ constant prices; n.a.=not available.

Changes in trends in the indicators of the macro-economic situation discussed above allow us to conclude that prior to the mid 70s the manufacturing sector operates in a relatively stable macro-economic climate. The mid and late 70s show the first signs of external and internal economic imbalance. In 1980 Tanzania experiences a severe economic crisis which lasts until 1984. From the mid 80s onwards at a macro-economic level growth rates are on the rise. However, as the current account deficit and inflation rates show, the Tanzanian economy is still characterized by external and internal imbalances well into the 90s.

If we call to mind the overview of the policy periods affecting the manufacturing sector presented in paragraph 2.7, it becomes apparent that an additional period of analysis is to be introduced if changes in the macro-economic situation are to be taken into account when evaluating the effects of the policy periods. Obviously this is the period 1980-1984, the years in which the country faces an overall economic crisis. Although government policy affecting the manufacturing sector does not change throughout these years, the macro-economic situation changes to such an extent that it is inevitable to make this distinction. Thus, there are six periods of evaluation. These periods cover the years 1961-1967, 1968-1973, 1974-1979, 1980-1984, 1985-1990 and 1991-1994,³ and are each characterized by a different combination of aspects of industrial strategy and general economic situation prevailing. This is presented schematically in table 5.2 on the following page:

³ We refrain from using overlapping years since these periods are to be compared to data series. It is assumed that implemented policy usually takes a year before having noticeable effects, although, and this must be noted, this period may be significantly longer.

Table 5.2

Schematic presentation of the periods of evaluation						
Characteristics	1961-1967	1968-1973	1974-1979	1980-1984	1985-1990	1991-1994
Industrial strategy	IS, Low degree of control, Private sector, High dep. on for. investment	IS, Moderate degree of control, Public sector, Mod. dep. on for. inv. and aid	IS, High degree of control, Public sector, High dep. on aid.	IS, High degree of control, Public sector, High dep. on aid.	IS->EP, Moderate degree of control, Public sector, High dep. on aid	EP, Low degree of control, Public ->Private sector, Moderate dep. on aid and inv
Macro-economic situation	Relatively stable	Relatively stable	First signs of imbalance	Crisis	In- and external imbalances	In- and external imbalances
MVA annual average growth rate	14.0%*	7.2%	3.5%	-5.3%	2.4%	0.8%

Notes: The industrial strategy is taken from table 2.16; The annual average growth rates of MVA are calculated from table 4.1 using the following formula: $((MVA(n)/MVA(m))^{1/(n-m)} - 1) * 100$, with (n-m) equal to the difference between the last and first year of the period; The asterisk (*) indicates that the growth rate is calculated for the period 1964-1967, and not for the period 1961-1967.

To enhance the consistency of the analysis the six evaluation periods are discussed in four separate paragraphs, in which the periods are related to the trends in manufacturing development using international comparative studies along with country specific studies. The international comparative studies draw from the experience of developing countries, often including Tanzania, regarding the effects of policies on manufacturing. A distinction is made between studies that focus on the effects of policy packages characterized by import substitution, high degrees of direct control, the predominance of the public sector and high levels of aid, and studies that focus on the effects of the so called structural adjustment policies. The first set of studies is used to explain how the policy periods between 1967 and 1979 set the scene for the crisis occurring between 1980 and 1984. The reasons why the crisis in manufacturing development takes place during this period is also explained within this context. The second set of studies, the structural adjustment studies, is used to comprehend the effects of the policy periods prevailing between 1985 and 1994. We start off though, by evaluating the first policy period, which occurs between 1961 and 1967.

5.3 A promising start (1961-1967)

The first policy period related to manufacturing development is characterized by the creation of an import substitution climate and the stimulation of private foreign investments. Between 1961 and 1967 there is no doubt about the fact that foreign investments are forthcoming, and that import substitution is taking place. As table 4.2 shows, between 1961 and 1965 the share of imports in the total manufactured supply drops from 62.2% to 56.6%, whilst the share of production for the domestic market rises from 29.6% to 36.0%. Import substitution largely occurs in consumer and intermediate goods, the share of domestic production in the total manufactured supply of capital goods does not change significantly. Furthermore, the rate of change in import substituting production for the domestic market is higher in the consumer goods sector than in the intermediate goods sector. This is very much in accordance with the 1966 structure of the effective rates of protection presented in table 2.2. Thus, it is reasonable to conclude that in these years the protection of consumer goods industries stimulates import substitution in primary commodity processing, also referred to as first stage import substitution.

As pointed out above, the investments necessary to carry out this change in the structure of the manufacturing sector are designated to be made by private foreign investors. The various investment incentives (including tariff protection) offered to these investors are not without effect. In 1965 only 32% of the industrial firms are owned solely by Tanzanians, and as Perkins emphasizes, "many of [the new firms established] after 1961 are owned by Trans National Corporations (TNCs), or their Kenyan subsidiaries."⁴ The prevalence of the various investment incentives allows the foreign investors to maintain former export markets or establish new market links under favourable conditions. Although foreign investments are forthcoming, the level of the investments does not quite live up to the expectations the government had when creating this policy climate though. On this issue the government declares that "external finance came forward at a lower rate than foreseen in the [First Five Year] plan."⁵

Having established that the policy climate which prevails between 1961 and 1967 does indeed result in (first stage) import substitution through foreign investments, and knowing that the macro-economic climate is relatively stable throughout the period, we have yet only to look at possible other effects on the manufacturing sector before drawing conclusions about the effects of government policy on the manufacturing sector. Other effects on the sector arise from the negotiations between Tanzania and the other partner states of the East African Community. These negotiations are undertaken to correct the imbalance in industrial investment which is favouring Kenya at that time. Consequently, in 1964, Tanzania is allocated the sole right to the manufacturing of radios, motor tires and tubes, aluminium foil, circles and plain sheets for the East African Market.⁶ Kenya however, does not ratify the agreement, making this exclusive right of production a temporary occasion. Nevertheless the negotiations do prompt the establishment of the industries mentioned above.⁷

Combined, the policy climate and the negotiations with the partner states of the East African Community result in an increase in investments in industry. Investment levels in the manufacturing sector, as indicated by Gross Fixed Capital Formation divided by value added, are roughly double the investment level in the economy as a whole in 1966 and 1967 (table 4.4). Resources are directed at the industrial sector, resulting in impressive growth rates in 1965, 1966 and 1967 of respectively 13.2%, 17.8% and 11.3% (table 4.1). Since these growth rates exceed GDP growth rates, the relative contribution of the manufacturing sector to the economy as a whole increases during these years.

We should not forget, however, that these developments are to be compared to the initial situation in 1961, when the manufacturing sector is at a very low stage of development. Given this low level of development, it is not surprising that new investments result in impressive growth figures. Moreover, investments are largely being undertaken in first stage import substituting activities. It is widely acknowledged that first stage import substitution is relatively easy to undertake, most assuredly when high tariff barriers are imposed to protect infant industries from foreign competitors. Nevertheless the growth rates recorded are impressive, and should be understood in the context of the favourable investment climate for foreign investors, combined with the import substituting strategy pursued and the negotiations with the partner states of the East African Community.

⁴ Perkins, F.C., *Technology choice, industrialisation and development experiences in Tanzania* (in *Journal of Development Studies*: Vol.19: No.2, 1983, p.215).

⁵ United Republic of Tanzania, *Second Five Year Plan for social and economic development (1969-1974): Volume I: General analysis* (Dar es Salaam: Government Printer, 1969, p.1).

⁶ Gulhati, R., Sekhar, U., *Industrial strategy for late starters: The experience of Kenya, Tanzania and Zambia* (in *World Development*: Vol.10: No.11, 1982, p.951).

⁷ Skarstein, R., Wangwe, S.M., *Industrial development in Tanzania: Some critical issues* (Dar es Salaam: Tanzanian Publishing House, 1986, p.5-6).

5.4 Setting the scene for the crisis (1968-1979)

In this paragraph it is argued that the changes in policy climate which occur between the formulation of the Arusha declaration (December 1967) and the start of the macro-economic crisis in 1979, set the scene for the crisis in the manufacturing sector, which commences in 1980. Thus, whilst the effects of the changes in policy are notable throughout the period 1968-1979, the full implication of their prevalence becomes apparent from 1980 onwards. The line of reasoning presented in this chapter draws from the experience of other developing countries with similar policies. Effects of such policies are discussed for what Krueger calls a "typical LDC",⁸ and are then related to policies which are specific for the Tanzanian case. This is facilitated by the use of country specific studies.

The first change in policy climate concerns the relative roles attributed to the public and the private sector. Private investment is ruled out as an aspect of the industrial development strategy from 1967 onwards. Industrial development is to be perpetuated by a publicly owned manufacturing sector. That the previously privately owned sector is indeed being changed into a publicly dominated sector can be deduced from table 4.6. The share of public enterprises in manufacturing value added rises from 5% in 1966 to 33% in 1973. Throughout these years investments in industry are undertaken to nationalize TNCs, either by taking over completely or by establishing joint-ventures in which the state holds a majority share. Additional investments are undertaken to expand manufacturing capacity, and thus gain ever higher degrees of control over the sector. The peak year of investment is in 1970 when the share of public sector investments in total industrial investment amounts to 63.7%. Thereafter investments in the public manufacturing sector are no longer undertaken at such a pace, since, as the World Bank puts it, "little is left to nationalize, fewer joint ventures are established and domestic and foreign investments become increasingly difficult to mobilize."⁹ Nevertheless, as the trend in the share of persons engaged in the public sector shows, the sector keeps growing between 1973 and 1979.

The rapid increase of the responsibilities of the public sector, typical for a great many developing countries during the 60s, 70s and early 80s, is accompanied by an ever increasing scepticism regarding the merits of such policy. Whilst large shares of investment are directed at public enterprises, the output of these enterprises does not rise accordingly. Moreover, instead of generating revenue for the state, the parastatals require annual net transfers from their government to remain operational. This leads analysts to conclude that, in general, parastatals are inefficient, and that they place unnecessary pressure on the government budgets.¹⁰ Reasons why parastatals tend to use resources inefficiently are manifold. According to Gulhati and Sekhar, in Sub-Saharan Africa a predominant reason for this inefficiency can be found in an "acute scarcity of skilled managers, administrators and technicians."¹¹

In Tanzania, where investments in parastatals are concentrated in the manufacturing sector,¹² the increasing inefficiency of the parastatal sector in general, and the public industrial sector specifically is no secret. A domestic resource cost (DRC) study undertaken for the year 1984 shows that 78% of the industrial parastatals are producing inefficiently (DRC>1), and that 54% is producing

⁸ Krueger, A.O., *Economic policy reform in developing countries: The Kuznets memorial lectures at the Economic Growth Center, Yale University* (Oxford: Blackwell Publishers, 1992, p.9-46). A LDC is a Less Developed Country.

⁹ World Bank, *Parastatals in Tanzania: Towards a reform program: Rep. no. 7100-TA* (Washington: World Bank, 1988, p.4).

¹⁰ Krueger, A.O., *Economic policy reform in developing countries: The Kuznets memorial lectures at the Economic Growth Center, Yale University* (Oxford: Blackwell Publishers, 1992, p.24-28).

¹¹ Gulhati, R., Sekhar, U., *Industrial strategy for late starters: The experience of Kenya, Tanzania and Zambia* (in World Development: Vol.10: No.11, 1982, p.957).

¹² World Bank, *Parastatals in Tanzania: Towards a reform program: Rep. no. 7100-TA* (Washington: World Bank, 1988, p.11).

at infinitely high domestic resource costs.¹³ One of the reasons why the parastatals produce so inefficiently is, as mentioned above, closely connected to a lack of skilled managers, administrators and technicians. This situation is worsened during the implementation of the Basic Industrial Strategy (BIS), when investments are largely directed at the creation of additional industrial capacity. Thus, the investment boom (see table 4.4) increases the strain on the understaffed managerial class.

The investment boom of the late 70s also results in an increasingly complex structure of the manufacturing sector, in which capital intensive large scale enterprises prevail. The establishment of such enterprises, mainly in the intermediate and capital goods subsectors, is enhanced by the increased dependence on foreign aid, one of the other changes in the policy climate from 1967 onwards. Regarding the establishment of new parastatals, the increased dependency on foreign aid becomes evident: "In many cases it appears that the government approves the establishment of new parastatals (...) merely because a foreign equipment supplier or TNC is willing to implement (and in most cases operate) the project, and to provide equity capital, commercial credit or a soft loan through the aid programme of its home country."¹⁴ As discussed in paragraph 2.4, due to donor preference, the donor-tied investments in industry result in the establishment of capital intensive enterprises, which are very import intensive.

Controls of interest rates and nominal exchange rate rigidity also stimulates the choice for the capital intensive production techniques through the subsidization of capital. Consequently, as a result of the changes in the policy climate the manufacturing sector is becoming increasingly less compatible with the resources present within the country. The capacity expansion is not accompanied by the necessary increase in human capacity. Neither is the expansion in capacity accompanied by an increase in the availability of foreign exchange. In fact foreign exchange is scarce from the early 70s onwards. Given this combination of a lack of resources and an expansion of capacity, it is not surprising that efficiency levels drop in the public sector, and in the manufacturing sector as a whole.

This is further aggravated by the high degree of direct controls the sector faces from 1973 onwards. In a "typical LDC" the imposition of these controls results in further decreases in efficiency. Reasons are that the imposition of direct controls leads to corruption and increased lobbying activities, since the difference between continued production and closing down an enterprise comes to rely on obtaining concessions from the government. Therefore, entrepreneurs and parastatal managers "spend their time escorting their papers through government offices."¹⁵ This, instead of trying to find solutions to the constraints that hamper production. In the Tanzanian parastatals this phenomenon is indeed observed: "It [the use of regulatory controls] has encouraged managers to focus their efforts on seeking additional import allocations and permissions to charge higher prices rather than on efforts to control costs, search for new markets and improved technologies."¹⁶

Furthermore, the use of controls allows for preferential treatment of the public sector. In paragraph 2.4 it is argued that this is also the case for the Tanzanian manufacturing sector. Thus, as a result of the controls the most inefficient enterprises are allocated the larger part of the scarce resources. It is inevitable that efficiency levels drop accordingly. Moreover, the imposition of the controls allows for high degrees of protection. Trade and price controls, along with the overvalued exchange rate protect both the private and the public sector against foreign competition. Table 2.9

¹³ Ibid. (p.18). Compared to 11% of the private sector firms producing at infinitely high domestic resource costs, and 72% of the private enterprises producing at $DRC > 1$. In paragraph 2.4 mention is also made of this DRC-study.

¹⁴ Perkins, F.C., *Technology choice, industrialisation and development experiences in Tanzania* (in Journal of Development Studies: Vol.19: No.2, 1983, p.217).

¹⁵ Krueger, A.O., *Economic policy reform in developing countries: The Kuznets memorial lectures at the Economic Growth Center, Yale University* (Oxford: Blackwell Publishers, 1992, p.31).

¹⁶ World Bank, *Parastatals in Tanzania: Towards a reform program: Rep. no. 7100-TA* (Washington: World Bank, 1988, p.22).

shows to what an extent effective rates of protection have risen for the manufacturers of intermediate and capital goods. Such excessive rates of protection are generally linked to declining industrial performance and loss of efficiency,¹⁷ and a strong disincentive for export oriented production. Regarding the continued import substitution which is being pursued, Meier states that in LDCs this "entails production that is increasingly high cost and less economic, [and causes] the ICOR [to] increase."¹⁸ A trend which is also observed in Tanzania (see paragraph 4.5).

As argued above the changes in policy climate which occur between 1968 and 1979 result in an oversized and inefficient sector. According to conservative estimates only 51% of the industrial capacity is used in 1976, and the capacity utilization rates drop even further between 1977 and 1980. Consequently, the investment boom which marks the implementation of the BIS is not accompanied by the expected rates of growth. In fact, growth rates decline from 1968 onwards. For the period 1968-1973 the annual average growth rate equals 7.2%, and after the imposition of the high degree of control the growth rate drops further to an annual average of 3.8% between 1974 and 1979.

Disappointingly, also is the fact that the process of import substitution comes to a halt during the mid 70s (table 4.2), and is actually reversed somewhat between 1977 and 1979 due to the high import intensiveness of the BIS. Furthermore, there are no significant changes in the production structure during the mid and late 70s (table 4.3), which is an even greater disappointment considering the investments taking place in and the protection granted to the intermediate and capital goods subsectors. This alone illustrates the inefficiency of the expansion of the sector. Moreover, together with the imposed regulatory regime the investment boom accompanying the BIS undermines the relied upon foreign exchange generation by the agricultural sector, since as Wuyts argues, the investments push up food price levels relative to export crop prices, causing farmers to shift from the production of cash crops to subsistence crops.¹⁹ Taking this scala of adverse effects of the changes in policy climate into account, it becomes evident that a highly vulnerable manufacturing sector is established by the government between 1968 and 1979.

5.5 The crisis (1980-1984)

As explained in the foregoing paragraph, between 1968 and 1979 a manufacturing sector is created which is increasingly less in accordance with the domestic resources available at the time. Growth rates of the sector decline, albeit that a real average growth rate of manufacturing value added is maintained. Given the complexity and import intensiveness of the sector though, manufacturing enterprises have become increasingly vulnerable to changes in the macro-economic climate. This vulnerability is exposed during the general economic crisis of the early 80s, when the foreign exchange scarcity imposes serious constraints on the availability of imports to sustain production levels.

Table 2.5 shows the extent up to which requests for foreign exchange are rewarded between 1980 and 1984. Regarding imports of raw materials, machinery and spare parts for manufacturing, a declining trend in the percentage of rewarded requests is observed. 1982 is the year of largest import starvation, when in the manufacturing sector, only 11.2% of the requests for raw materials, and 4.8% of the requests for machinery and spare parts are rewarded. Inevitably this lack of inputs is a serious constraint to production. Studies by Wangwe and Mbelle confirm this. Both for the year 1979 and the

¹⁷ Page Jr., J.M., *The pursuit of industrial growth: Policy Initiatives and economic consequences* in Scott, M., Lal, D., *Public policy and economic development: Essays in honour of Ian Little* (Oxford: Clarendon Press, 1990, p.117-118).

¹⁸ Meier, G.M., *Trade policy and development* in Scott, M., Lal, D., *Public policy and economic development: Essays in honour of Ian Little* (Oxford: Clarendon Press, 1990, p.157).

¹⁹ Wuyts, M., *Accumulation, industrialization and the peasantry: A reinterpretation of the Tanzanian experience: Working paper series no.166* (The Hague: Institute of Social Studies, 1994, p.34).

year 1982 foreign exchange shortages are reported to be the first and foremost production constraint.²⁰ Knowing that the foreign exchange made available to the manufacturing sector is largely allocated to the most inefficient (public) enterprises (table 2.6), it is not surprising that the import dependent manufacturing sector finds itself in a crisis situation during these years.

That the system of foreign exchange allocation is harmful to the development of the sector is undeniable. However, if we ponder for a moment upon the causes of the foreign exchange shortage, it becomes apparent that this policy instrument is not the only policy instrument causing this production constraint. As pointed out in paragraph 5.2 there are a number of external reasons why the balance of payments deteriorates. Additionally, there are several other reasons for the deterioration of the balance of payments, and these reasons are closely related to the policy climate affecting the manufacturing sector from 1967 onwards.

An empirical study by Balassa shows that in inward-oriented LDCs the pursuance of an import substituting strategy has a negative effect on foreign exchange savings for the period 1979-1981.²¹ On the one hand the demand for foreign exchange is augmented by an overvalued exchange rate and the import intensiveness of the production techniques used. On the other hand the supply of foreign exchange is decreased by the high levels of protection of industry, which discourage production for exports within the manufacturing sector and within the agricultural sector. This aggravates the situation of foreign exchange scarcity.

Both in terms of import-intensiveness and manufacturing protection Tanzania fits the description. In the foregoing paragraph it is pointed out that the import intensiveness is stimulated by the reliance on the inflow of foreign aid and the high degree of direct control. In paragraph 2.4 it is argued that the high protection levels are created by the import licensing scheme, price controls, confinement and an overvalued exchange rate. Furthermore, due to exchange rate rigidity the real exchange rate appreciates considerably between 1980 and 1984 (table 2.8), providing an extra disincentive for the production for exports. This implies that the foreign exchange scarcity the country faces is partially the result of the policy climate affecting the manufacturing sector. The system of foreign exchange allocation, as a separate policy instrument, is to be held responsible for the inadequate distribution of the scarce foreign exchange to and within the manufacturing sector.

The 1982 study by Mbelle lists five more production constraints in the following order of priority: interruptions in water supply, interruptions in electricity supply, problems in firms supplying inputs, lack of supervisory and technical manpower and a lack of labour discipline.²² From this list we can deduce that the unclassified policy instruments (paragraph 3.3) are indeed of importance to developments in the manufacturing sector. Both a lack of supervisory and technical manpower and inadequate electricity and water supply are listed above. These unclassified policy instruments, previously referred to as infrastructural provisions and labour training schemes, are instruments in the sense that they affect manufacturing development, because they are inadequately used within the context of the growing complexity of the sector. In other words, the investment boom in the sector should have been accompanied by the necessary investments in infrastructure and in education

²⁰ Wangwe, S.M., *Capacity utilization and capacity creation in manufacturing in Tanzania with special reference to the engineering sector* (Dar es Salaam: Unpublished Ph.D thesis, 1979), Mbelle, A., *Capacity utilization under foreign exchange constraint: The case of selected industrial linkages in Tanzania* (Dar es Salaam, Unpublished MA thesis, 1982) quoted in Valk, P., de, *A general framework for evaluating the performance of textile enterprises in LDCs: With an application to Tanzania under structural adjustment* (The Hague: Institute of Social Studies, 1992, p.238).

²¹ Balassa, B., *Adjustment policies in developing countries: A reassessment* (in *World Development*: Vol.12: No.9, 1984, p.971).

²² Lack of labour discipline is a problem ever since the issuing of the Mwongozo guidelines in 1971, when parastatal managers are forced to apply socialist approaches to management. Weaver, J.H., Kronemer, A., *Tanzanian and African socialism* (in *World Development*: Vol.9: No.9/10, 1981, p.845).

programs for managers and technical personnel.²³ Since this is not the case, the neglect of the use of these policy instruments has come to affect manufacturing development adversely.²⁴

Lack of foreign exchange, inadequate infrastructural provisions, and a lack of skilled managers and technical manpower all affect the manufacturing sector through the supply side of enterprises (see table 3.2). The latter two supply constraints are impossible to overcome at a short notice. However, regarding the acquisition of raw materials, intermediate goods and capital goods, managers have another option than to depend on the highly regulated supplies through the foreign exchange allocation system and the confinement system. They can also resort to the second economy, which is flourishing during the crisis years, and is estimated at 30%-39% of nominal GDP by the early 80s.²⁵ For the manufacturing sector the appearance of parallel and black market activities are especially note worthy throughout these years.

Such activities are undertaken to evade expensive, complex and time consuming controls and to obtain higher profits by adhering to parallel market clearing prices, which are higher than controlled prices due to the scarcity of all kinds of products. Regarding the acquisition of supplies, the first reason mentioned is of crucial importance. Inputs can be obtained on the parallel market, making it possible for enterprises to evade the confinement system, which, as pointed out in paragraph 2.4, is more of a curse than a blessing to manufacturers. It is also possible to evade the foreign exchange allocation system, either by buying foreign exchange on the parallel market, or by over-invoicing imports and under-invoicing exports. Over-invoicing and under-invoicing both result in a residual of foreign exchange for the enterprise, in the first case because more foreign exchange is obtained than strictly necessary to import the products for which the application is made, in the second case because a share of the foreign exchange earned is not handed over to the authorities.²⁶ The residual of foreign exchange is then used to acquire (illegally) imported inputs from abroad.

The emergence of a second economy in the manufacturing sector is one of the combined effects of the policy climate and the macro-economic crisis. Above all, the combination of a high degree of regulation and a scarcity of consumer, intermediate and capital goods can be held responsible for this phenomenon. As argued above, the scarcity of such goods can in turn be partially attributed to the effects of the policy climate on industries supply and demand of foreign exchange. Whilst the dependence on foreign aid and the introduction of capital subsidizing controls stimulates import-intensive investments, the high degree of industrial protection, specific for continued import substitution, discourages production for the export market in the manufacturing as well as in the agricultural sector. Along with the negative impacts of the external effects (paragraph 5.2), this explains the foreign exchange scarcity.

Through the allocation system little foreign exchange is made available for imports of manufacturing inputs, and the bulk of the inputs that are made available are allocated to the most

²³ This is also discussed in relation to the inefficiency of the parastatal sector in the previous paragraph. There are yet two other reasons for parastatal inefficiency which are to be mentioned: the absence of a regulatory system that rewards and punished on the basis of performance, and the absence of an authority to implement structural changes. World Bank, *Parastatals in Tanzania: Towards a reform program: Rep. no. 7100-TA* (Washington: World Bank, 1988, p.v-vi).

²⁴ Table B.2 in Appendix B shows that the expenditures on infrastructure as a share of total government expenditures are declining from the budget year 1972/73 onwards. This declining trend comes to a temporary halt in the budget year 1989/90.

²⁵ The second economy is broadly defined to include all economic activities which are not captured by official national accounts statistics. It consists of informal, parallel and black market activities. The difference between parallel and black market activities is, that parallel market activities involve illegal production and trade of goods which are legal in themselves, but which are forbidden due to regulations such as price controls and confinement, whilst black market activities are illegal and strictly forbidden by government statutes. Bagachwa, M.S.D., *Estimates of informal, parallel and black market activities in Tanzania* (Dar es Salaam, Paper written for the International Conference on Development Challenges and Strategies for Tanzania: An Agenda for the 21st Century, 1993, p.2-4).

²⁶ Maliyamkono, T.L., Bagachwa, M.S.D., *The second economy in Tanzania* (London: James Curry, 1990, p.83-108).

inefficient enterprises. Paradoxically, the potentially more efficient industrial enterprises have the greatest trouble acquiring inputs to utilize their installed capacity. Taking into account the general inefficiency of the sector (see paragraph 5.4), and other production constraints which are also closely connected to the policy climate prevailing, capacity utilization rates are bound to drop. And indeed between 1976 and 1984 the capacity utilization rate of the manufacturing sector declines from 51% to 25% (table 4.5). Hence, the annual average growth rate of real manufacturing value added turns negative and becomes -5.3% between 1980 and 1984 (table 5.2). Again no significant changes occur in the production structure, and the import substitution taking place (table 4.2) is to be attributed to the import controls and the foreign exchange scarcity rather than to an increase in production for the domestic market. Thus, the conclusion to be drawn from this paragraph is, that due to the interaction of government policy and external effects, production levels in the manufacturing sector deteriorate.

5.6 Responses to the crisis (1985-1994)

Changes in policy climate from 1986 onwards should be understood within the context of the compliance to the structural adjustment programmes proposed by the IMF and the World Bank. Such adjustment programmes are launched in a considerable number of LDCs to overcome the crisis of the early 80s.²⁷ To this end the IMF offers stabilisation loans aimed at overcoming the balance of payments crisis, whilst the World Bank offers structural adjustment loans (SALs) to help reform the underlying structure of the economy. Both forms of loans are conditional in the sense that they have to be accompanied by policy reforms in the recipient country.²⁸ For the manufacturing sector of an LDC the effects of policy reforms which accompany SALs are of special interest, since these policy reforms aim at liberalizing the markets ("getting prices right") and reforming the public sector.²⁹

Alas, up to this day little consensus is achieved regarding the effects of the SALs. Lensink gives an overview of the various studies undertaken on this topic. The only conclusion to be drawn is, that "most studies suggest that adjustment programmes have a positive effect on the growth of GDP."³⁰ Effects on other variables such as exports, imports, investment, inflation and savings are positive in one study, and negative in another study. These variations in outcome seem to be related to the differences in the required policy reforms and the degree of implementation of these reforms of specific countries,³¹ together with the methodological approaches used.

Furthermore, little or no attention is paid to the effects on industry. A 1994 World Bank study forms an exception to this rule, and notes a small but positive effect of reform programmes on industrial development. Caution is required here though, since the study "seems to have based its faith

²⁷ When attempting to fully understand the origin of structural adjustment, apart from the need for these programmes in developing countries, the context of the international institutions and the development in economic thought also have to be taken into account. Demery, L., *Structural adjustment: Its origins, rationale and achievements* in Comia, G.A., Helleiner, G.K., *From adjustment to development in Africa: Conflict, controversy, convergence, consensus* (London: MacMillan Press, 1994, p.26).

²⁸ According to Greenaway and Morissey the disbursement of SAL funds works through the carrot and stick mechanism. The carrot is the fund, the stick is the threat made by the World Bank to call a halt to further funding if the conditions of policy reform are not met. Greenaway, D., Morissey, O., *Structural adjustment and liberalisation in developing countries: What lessons have we learned?* (in *Kyklos*: Vol.46, 1993, p.242-243).

²⁹ Toye, J., *Structural adjustment: Context, assumptions, origin and diversity* in Hoeven, R., van der Kraaij, F., van der, *Structural adjustment and beyond in Sub-Saharan Africa* (The Hague: Ministry of Foreign Affairs, 1994, p.23-26).

³⁰ Lensink, R., *Structural adjustment in Sub-Saharan Africa* (London: Longman, 1996, p.106).

³¹ Bates and Krueger conclude that for eight country studies the difference between proposed and implemented reforms results from the political-economic factors that influence implementation (a point which is also stressed in paragraph 1.3 and 1.4 of this thesis). Bates, R.H., Krueger, O.A., *Generalizations arising from the country studies* in Bates, R.H., Krueger, A.O., *Political and economic interactions in economic policy reform: Evidence from eight countries* (Oxford: Blackwell Publishers, 1993, p.460).

in the positive effect of the policy adjustments it considers desirable rather than on concrete empirical outcome."³² The inconclusiveness of these studies in general, and the neglect of the manufacturing sector specifically, forces us to resort to country specific studies, which, whenever possible, can be combined with studies focusing on the effects of certain aspects of the adjustment process such as privatization and trade liberalization.

In paragraph 2.5 it is pointed out that trade liberalization commences in 1984 with the introduction of the own-funds imports scheme (which is not an element of the structural adjustment programmes). As discussed, the imports are to be made at parallel market rates, raising the price of own-funds imports to officially allocated imports with a factor 7.58 in 1985 (table 2.8). Such price rises are unacceptable for many manufacturers, who refrain from acquiring the much desired imports through the scheme. This is confirmed by the trend in the import substitution indicator used in table 4.2. In 1985 only 35.1% of the total manufactured supply is obtained from abroad, the lowest share recorded between 1961 and 1990. Furthermore, the share of domestic production in the total manufactured supply of intermediate and capital goods peaks in this year (table 4.2).

However, with the continued nominal devaluations of the exchange rate the parallel market premium drops (the difference between parallel and nominal exchange rates is reduced), and the own-funds import scheme becomes more attractive to manufacturers, who also seem to have discovered that they can use foreign exchange from under-invoiced exports for the importation of their inputs.³³ In 1987 the share of imports in total manufactured supply has risen to 48.9%, and reaches a peak of 54.7% in 1988, the year in which the Open General License is introduced. In that year the shares of imports of capital and consumer goods reach levels which have not been attained since 1971. Hence, the introduction of the OGL and the own-funds import scheme puts an end to the foreign exchange scarcity as the first and foremost production constraint to manufacturing development.

Moreover, the inflow of imports under the own-funds imports scheme and the OGL lowers effective protection rates of industry considerably (paragraph 2.5). Price decontrol, deconfinement, tax exemptions and evasions, and nominal and real exchange rate depreciation in subsequent years lower the effective rates of protection even further, leading to a shift away from a policy climate in which import substitution is stimulated, to a policy climate in which production for exports is not discouraged any longer. This shift in policy climate results in an actual shift in favour of export-oriented production as is illustrated by the sudden increase of manufactured exports in total exports from 1987 onwards (table C.1, Appendix C). In 1990 this share (37.4%) has almost doubled in comparison to the share recorded in 1986 (19.1%). The share of exports in the total manufactured supply also rises, reaching a peak of 9.6% in 1988, as opposed to 3.9% in 1985.

It is often argued that trade liberalization as described above is to be accompanied by an increase in efficiency of the use of inputs necessary for production. In the words of Michalopoulos, "trade liberalization results in the contraction of inefficient sectors and the expansion of new, efficient ones,"³⁴ since domestic producers are forced to comply to international performance standards. As Kirckpatrick and Maharaja point out though, there is little empirical evidence supporting this

³² The World Bank study in question is World Bank, *Adjustment in Africa: Reforms, results, and the road ahead* (Oxford: Oxford University Press, 1994), discussed in Lensink, R., *Structural adjustment in Sub-Saharan Africa* (London: Longman, 1996, p.97-101, p.108).

³³ Bagachwa estimates that in 1988 unrecorded (under-invoiced) exports can finance 82.5% of the own-funds imports, and he considers it very likely that a large part of these under-invoiced exports are indeed used for this purpose. Bagachwa, M.S.D., *Estimates of informal, parallel and black market activities in Tanzania* (Dar es Salaam: Paper written for the International Conference on Development Challenges and Strategies for Tanzania: An Agenda for the 21st Century, 1993, p.12).

³⁴ Michalopoulos, C., *World Bank programs for adjustment and growth* in Corbo, V., Goldstein, M., Khan, M., *Growth-oriented adjustment programs* (Washington: World Bank, 1987, p.24).

hypothesis.³⁵ Developments in the Tanzanian manufacturing sector since 1985 do not support the hypothesis either. A World Bank study states that the extremely inefficient firms which survived during the glory days of the protectionist regime still manage to survive despite the liberalization of in- and external trade.³⁶

This is closely linked to the continued preferential treatment of the public sector, which is still stimulated by the government during the policy period prevailing between 1984 and 1990. In 1989 55.5% of the industrial parastatals are operating at a loss,³⁷ but despite this troublesome figure the public manufacturing sector is relieved from duties and sales tax, is allocated foreign exchange on favourable terms (through import support) and can count on the bulk of available (subsidized) credit from the banking institutions. The control over the monetary sector allows for the latter form of protection granted to the public sector (also see below).

With the shift away from the predominance of the public sector, due to specific stimulation of the private sector and parastatal reform on the one hand, and liberalization of the banking system on the other hand, the days of misallocation of resources to the inefficient public sector draw to an end. These changes are characteristic for the final policy period distinguished. The changes in policy climate result in the privatization or closing down of 40 parastatals in 1994 (paragraph 2.6). It is difficult to assess the impact of this reform though, other than that in the long run in Sub-Saharan Africa, privatization seems to be accompanied by "changes (...) in terms of managerial attitudes, and a greater perception of operating autonomy [which] will gradually be translated into efficiency gains and increased profitability."³⁸ It is unlikely that such effects take place at such a short notice in Tanzania though. A similar point can be made regarding the effects of the stimulation of the (foreign) private sector.

What has effected both the private and the public manufacturing sector is the liberalization of the banking system. From 1991 onwards uncredit-worthy manufacturers are no longer allocated credit, which particularly for the public sector, imposes a serious problem. Furthermore, as illustrated in table B.3 (Appendix B), the interest rates are lifted above inflation levels (which are high due to internal imbalance of the economy). Hence, the price of working capital rises. Furthermore banks are reluctant to raise bank overdrafts, whilst exchange rate depreciation augments the price of inputs. This leads to the erosion of (real) working capital, and consequently credit becomes the new production constraint.

Above the effects of changes in incentives for the manufacturing sector, following from the changes in industrial trade strategy, the degree of direct controls used, and the relative roles attributed to the public and the private sector are discussed. As Helleiner points out though, "industrial development hinges, in any case, upon local capabilities and appropriate supporting institutions no less than on incentives; and, in Sub-Saharan Africa these have been typically lacking."³⁹ A lack of local capabilities refers to a shortage of managerial and technical manpower, whilst a lack of appropriate supporting institutions emphasizes the inadequate provision of research and development support, and infrastructure.

³⁵ Kirkpatrick, C., Maharaja, J., *The effect of trade liberalization on industrial-sector productivity performance in developing countries* in Fontaine, J.M., *Foreign trade reforms and development strategy* (London: Routledge, 1992, p.106).

³⁶ World Bank, *Tanzania: Economic report: Towards sustainable development in the 1990s: Rep. no. 9352-TA* (Washington: World Bank, 1991, p.95-96).

³⁷ Ibid. (p.39).

³⁸ Adam, C., *Privatization and structural adjustment in Africa* in Geest, W., van der, *Negotiating structural adjustment in Africa* (London: James Curry, 1994, p.142).

³⁹ Helleiner, G.K., *From adjustment to development in Sub-Saharan Africa: Consensus and continuing conflict* in Comia, G.A., Helleiner, G.K., *From adjustment to development in Africa: Conflict, controversy, convergence, consensus* (London: McMillan Press, 1994, p. 17-18).

In the foregoing paragraph we concluded that in Tanzania there is a lack of local capabilities and supporting institutions, and that the neglect of the adequate use of these policy instruments forms a production constraint during the early 80s. This situation does not change from the mid 80s onwards. In a discussion paper, drawn up for the formulation of the new industrial strategy in Tanzania, it is noted that overcoming the lack of managerial and technical capacity is a challenge to be faced if industrial progress is to be achieved. Furthermore, it is acknowledged that the manufacturing sector is affected by a transport and communications bottleneck.⁴⁰ Taken together, the neglect of the adequate use of these policy instruments is associated with production inefficiencies.

These inefficiencies, together with the inefficiencies arising from the continued stimulation of the public sector, form a serious constraint to the recovery of the manufacturing sector. If we also take effects of the "unfair" competition, due to import duty and sales tax exemptions and evasions into account, it becomes increasingly hard to believe that manufacturers are facing an environment conducive to industrialization. The lack of credit and the high nominal interest rates, associated with the internal imbalance of the economy, form the new constraint to the acquisition of inputs. This is a result of the decontrol of the financial sector from 1991 onwards. There is now a lack of credit to acquire the foreign exchange readily available. Finally, the availability of inputs is also reduced from 1990 onwards due to a decrease of foreign assistance given to the manufacturing sector (table 2.13).

Thus, it appears that the policy climate prevailing between 1984 and 1990 is characterized by changes which initially seem conducive to industrialization, but that further changes in the policy climate occurring between 1990 and 1994, along with the continued internal imbalance of the economy, reveal the underlying weaknesses of the manufacturing sector. Production indices for instance rise from 1986 to 1990, but between 1991 and 1994 real production returns to the 1985 level. A similar trend is observed when comparing annual average MVA growth rates for these two periods. Between

1985 and 1990 the annual average MVA growth rate rises to 2.4%, but between 1991 and 1994 it drops again to 0.8% (table 5.2). Although on average the MVA growth rates turn positive, the GDP growth rates exceed MVA growth rates, resulting in further deindustrialization (table 4.1). In 1994 the ratio of MVA to GDP equals 7.6%, an all-time low. Knowing that during this period investment levels in the manufacturing sector are excessive when compared to the MVA produced (table 4.4), the poor performance of the manufacturing sector becomes extremely disappointing.⁴¹

5.7 The case studies

In the foregoing paragraphs the changes in public policy are related to trends in manufacturing development at a sectoral level. The manner in which policy instruments influence industrial performance is discussed elaborately. By performing an additional number of case studies, it is possible to illustrate the effects of these policy instruments on specific enterprises. The case studies consist of structured interviews with key-persons within an enterprise,⁴² taking the classification of the

⁴⁰ United Republic of Tanzania, *Industrial development policy (1995-2020): Revised zero draft* (Dar es Salaam, Technical Committee on Formulation of Industrial Development Strategy and Policy, 1996, p.20-22).

⁴¹ Furthermore, capacity utilization rates pick up slowly. In 1994 a mere 37% of total capacity is used (table 4.5). Other efficiency indicators show that in enterprises employing ten or more persons it takes increasingly more output and employees to attain the same level of value added. Taking into account that output levels increase at a slow pace, if they increase at all, it becomes apparent that larger manufacturing enterprises are producing a smaller share of MVA annually. This is confirmed by the 1991 informal sector survey, which shows that the informal manufacturing sector produces an MVA which is 144.1% of the formal sectors MVA. United Republic of Tanzania, *National informal sector survey 1991* (Dar es Salaam: Bureau of Statistics, 1993, p.I-14).

⁴² In a structured interview the interviewer uses a detailed schedule with open and closed questions. Miller, D.C., *Handbook of research design and social measurement* (London: Sage Publications, 1991, p.160-161).

policy instruments affecting the demand and supply side of an enterprise presented in table 3.2 as the basis for the interview. Appendix D contains the interview, along with a data sheet of production and capacity utilization rates of the cases, allowing us to obtain an impression of the developments within these enterprises. Before discussing the cases, which cover the time period 1975-1994, it is necessary to point out that the selection of enterprises does not allow for generalization,⁴³ the case studies are used for the purpose of illustration. A final remark is made regarding the protection of the enterprises up to the mid 80s. Up to then, all enterprises are protected from foreign competition by the policy instruments mentioned in paragraph 2.4, and it is therefore needless to point this out over and over again in the remaining part of this paragraph. The case studies:

The *Tanzanian Cigarette Company (TCC)* is an enterprise which fares reasonably well throughout the past twenty years. Established in 1961, and fully nationalized between 1967 and 1975, TCC is one of the main revenue earners for the government within the manufacturing sector. Between 1975 and 1994 it enjoys a monopoly position, it does not have to comply to price controls, and neither is it affected by confinement since they have an own distribution network at their disposal. Furthermore TCC does not depend on a bank overdraft. In fact, the only policy instruments affecting the supply side of the enterprise are the foreign exchange allocation system (1981-1989), and devaluations of the exchange rate (1986-1994). The latter pushes up prices of imported inputs, whilst the former constrains the availability of these imported inputs (all inputs other than leaf tobacco need to be obtained from abroad). A combination of the use of free resources administered by the Bank of Tanzania, export retention, the OGL and suppliers credits help preventing capacity utilization rates from dropping below 50%. Nevertheless the scarcity of foreign exchange causes production levels to decline considerably between 1983 and 1987.

Another manufacturing enterprise which is affected solely by exchange rate depreciation and foreign exchange allocation is the *Matsushita Electric Company (National Panasonic)*, a foreign owned battery manufacturer which is established in 1967. Between 1981 and 1987 the company suffers from the supply constraint caused by the foreign exchange scarcity. It responds to the problem by using the free resources managed by the Bank of Tanzania and the import support scheme managed by the Treasury. Additionally it relies on suppliers credit obtained from the parent company in Japan. Apart from the policy instruments affecting the supply side, there are also a number of policy instruments affecting the demand side. The removal of import quotas has led to a reduced market share from 1985 onwards. Furthermore, tax exemptions and evasions result in "unfair" competition from imported (low quality) batteries during the late 80s and early 90s. Despite this loss in market share the declining trend in production is reversed from 1987 onwards though.⁴⁴

Aluminium Africa (ALAF), an aluminium and steel manufacturing company established in 1961, is affected to a larger extent by the policy periods prevailing between 1975 and 1994. This monopoly, which is nationalized in 1973, when the government acquires 60% of the shares, depends for 90% on imported inputs. As a result the insufficient amount of foreign exchange allocated through the allocation mechanism affects enterprise performance (late 70s-80s). The free resources from the Bank of Tanzania, export retention and import support are used to ensure continued production at roughly half of the installed capacity. With the introduction of the bureaux de change, the supply constraint would have been solved, were it not that exchange rate depreciation (1987-1994) erodes the bank overdraft provided by the National Bank of Commerce (NBC). NBC is reluctant to adjust the overdraft to the rising price of the imported inputs. Furthermore up to 1990, the prices set by the

⁴³ The enterprises are selected using the following criteria: Established between 1961 and 1967; More than 500 employees (large scale); trends in 2-digit ISIC Value Added (C.2 in Appendix C); trends in Effective Rates of Protection of the (2-digit ISIC) sector; capacity utilization rates and ownership structure.

⁴⁴ Deduced from Veer, T., van der, *Productivity of a Tanzanian battery factory: The case of Matsushita Electric* (Eindhoven: Unpublished M.SC thesis, 1996, p.29).

National Price Commission (NPC) through the price control system are too low to replace the stocks. Yet another supply constraint is the unreliable electricity supply, which causes frequent production stoppages. On the demand side of the enterprise infrastructural provisions, now in the form of transport problems cause the enterprise to incur losses. Finally the effects of trade liberalization and import duty and sales tax evasion are to be noted. As in the foregoing case, both trade liberalization and tax evasion cause the enterprise to lose a share of their market. Taken together the effects of the various policy instruments are illustrated by the varying positive and negative developments that are booked in output increase and in capacity utilization.

The last case study discussed is the most shocking example of the manner in which government policy can affect an enterprise's performance. It concerns a textile manufacturing enterprise, *Mwanza Textiles (Mwatex)*, which is established in 1968 and publicly owned from 1974 onwards. In 1978 the enterprise expands its capacity, and initially has problems operating the new machines. This explains the low capacity utilization rate recorded in 1979. However, from 1980 onwards production and capacity utilization virtually collapse, and neither recovers again, resulting in the closing down of the enterprise in 1995. Reasons for the collapse are to be sought in the effects of the policy climate on the supply side of the enterprise. The foreign exchange shortage of the 80s alone has a devastating impact on the enterprise, since it is an importer of all inputs other than cotton. Through import support, the free resources and loans from overseas Mwatex attempts to overcome this problem. The situation is further aggravated by the price controls (1980-1990), which do not allow for the coverage of the production costs. Confinement by the RTCs makes it impossible for the enterprise to obtain a good impression of the market, and the poor infrastructural provisions (electricity and water, 1978-1989) are the cause of frequent production stoppages. As a result of these policy instruments the financial performance of the enterprise is poor, and due to the indebtedness of the enterprise the liberalized banks no longer consider Mwatex credit worthy from 1991 onwards. The overdraft is not raised, despite the devaluations taking place, causing the working capital to erode rapidly between 1987 and 1994. Hence, the enterprise can not acquire the necessary inputs for production, forcing it to operate at less than 25% of its capacity between 1982 and 1990.

As explained at the beginning of this paragraph, the case-studies do not allow for generalization. Nevertheless the case studies do allow for a micro-economic underpinning of the evaluation of the policy effects on manufacturing development presented in the foregoing paragraphs of this chapter. For example, it becomes evident from the cases that the foreign exchange scarcity is accompanied by production decreases in the enterprises, due to a lack of inputs. Another example is the effect of the financial liberalization combined with the exchange rate depreciation, which in the case of ALAF and Mwatex leads to the erosion of the bank overdraft they depend on to perpetuate production. That TCC and Matsushita Electric Company are not affected by this combination of policy instruments illustrates that every enterprise is affected in a different way by the changes in policy. Much depends on the characteristics of the enterprises, if they depend on a bank overdraft to acquire their inputs for example. Other characteristics are the manner in which the enterprises are managed, the technology they use, if they are privately or publicly owned and the part of the country they are located in. Such characteristics also need to be taken into account when evaluating the effects of policy on enterprises, and this is yet another reason why comparison of the cases does not allow for generalization. This discussion is continued in paragraph 6.2, and recommendations to improve the case studies are made in paragraph 6.3.

5.8 Conclusion

The conclusion to be drawn from this chapter is, that from the early years of independence onwards, public policy has influenced manufacturing development in Tanzania to a large extent. Initially the import substitution climate created for foreign investors results in impressive growth rates

of MVA, a performance trend which is enhanced by the favourable developments within the East African Community. With the signing of the Arusha declaration in 1967 the policy climate changes considerably over the next 17 years. This change in policy climate is not conducive to industrial development, since it results in the establishment of an oversized and inefficiently operating manufacturing sector, which is increasingly less in accordance with the resources present within the country. Consequently the annual average MVA growth rates drop. First to 7.2% between 1968 and 1973, and then to 3.5% between 1974 and 1979.

The macro-economic crisis of the early 80s, partially the consequence of the policy climate affecting the manufacturing sector, exposes the vulnerability of the sector to the foreign exchange constraint typical for these years (also see the case studies). Combined with the continued inefficiency of the sector, attributable to the rigidity in policy climate at the time, the MVA growth rate becomes negative, averaging -5.3% annually between 1980 and 1984. Policy responses aimed at liberalizing the economy initially allow for a modest revival of the manufacturing sector, in which production is partially shifted towards the export market. However, further decontrol and the shift away from the choice for a publicly owned sector exposes the manufacturing sector to new constraints to development. Hence, the annual average growth rate of MVA, which has risen to 2.4% between 1985 and 1990 drops again, now to 0.8% between 1991 and 1994. Given the excessive investment efforts made from 1976 onwards, these developments are sad to say the least.

6. Afterthoughts: discussion and recommendations

6.1 Introduction

The choice of the methods used, and the conclusions which are drawn from the gathered data are not free from debate. Neither are the gathered data beyond doubt, and it is therefore that the first part of the afterthoughts is concerned with the discussion surrounding these data, conclusions and choices of method. This discussion allows us to suggest improvements to the study, which brings us to the recommendations, the second part of the afterthoughts. Apart from recommendations regarding an improved approach to the research questions, recommendations regarding the future applicability of the methods used in this study are made for policy makers and researchers. Finally, the opportunity to suggest future changes in government policy affecting the Tanzanian manufacturing sector is grasped with both hands. Within this context we will also develop some thoughts on the topic of the role of the state in economic development, allowing us to make a contribution to the discussion with which this thesis commences (paragraph 1.2).

6.2 Discussion

Regarding the first part of the thesis discussion is possible concerning the policy instrument classification and the policy instruments identified as being of importance to the Tanzanian manufacturing sector. As pointed out in paragraph 1.5, the policy instrument classification which is devised is not the only possibility to detect changes in public policy. For instance, a classification in which the unclassified policy instruments are incorporated is possible. Furthermore, additional aspects of an industrial strategy could be incorporated, such as the relative roles attributed to small and large scale enterprises. This would also entail the introduction of an additional number of policy instruments in tables 1.1, 1.2 and 1.3, since it is our opinion that the policy instruments presented in paragraph 1.4 do not give an exclusive overview of all the policy instruments available to a government.

Neither do we presume, that all policy instruments affecting manufacturing development in Tanzania between 1961 and 1994, are identified. More attention could have been paid to policy instruments designed to promote small scale manufacturing enterprises. Additionally, our scope could have been widened to policy instruments which are relevant at a supra-national scale, trade agreements for example. Nevertheless, the policy instrument classification presented in table 1.3 has proven to be of use when identifying changes in public policy affecting the Tanzanian manufacturing sector, and in our opinion the crucial policy instruments are identified and discussed. The critical remarks made here are merely indicative for small changes which might occur in the policy climate when these additional aspects are taken into account.

Of greater importance is the discussion which accompanies the data series presented in the fourth chapter of the thesis. The national accounts data used to construct tables 4.1, 4.2, and 4.4 are based on the revised national accounts of 1995. As such these data series are improvements on the old national account series in the sense that the second economy (31% of GDP in 1991) is incorporated, and that a revision of the gross fixed capital formation series has resulted in more accurate series, which prove to be substantially higher than formerly believed.¹ It is, however, questionable if the revision solves all the problems caused by the two weaknesses from which the national accounts suffer. According to Bagachwa these two weaknesses are the incomplete coverage and the inaccurate

¹ This revision of the gross fixed capital formation series applies to the 1976-1985 period. Stäglin, R., Komba, J.M., *Revised national accounts of Tanzania: Data on the expenditure side 1976-1985: Results of the national accounts project in Tanzania implemented on behalf of the Statistical Office of the European Communities* (Dar es Salaam: Bureau of Statistics, 1992, p.25).

estimates of the activities covered, caused by accounting conventions, chance, oversight, the accessibility of the accounting activities and deliberate misreporting.² Although partly overcome by the incorporation of estimates of second economy activities, a number of these accounting problems continue to prevail, and as such (revised) national accounts data are to be treated with some reservation.

Moreover, the revision of the national accounts further widens the break in the 1966-1994 statistical series, a break which is already prevailing due to the difference between data based on the 1966 input-output table and data based on the 1976 input-output table of Tanzania. Particularly with regard to gross fixed capital formation (table 4.4) this results in series which, apart from differing in magnitude, also show a different trend. In an article in *Tanzania Economic Trends* it is shown that the ratio of GFCF to GDP declines between 1976 and 1977 when using the 1966-series, whilst the ratio of GFCF to GDP rises when observing the 1976-series for the same two year.³ This problem is also encountered when devising the manufacturing GFCF to MVA trend for the period 1966-1994. Even the yearly analysis of parastatal accounts (used in table 4.6) seems to cope with this problem, which is surprising because these data are gathered with a questionnaire.⁴ Time-series based on the yearly industrial surveys (used in table 4.3 and 4.5), on the other hand, are not accompanied by such problems, albeit that the industrial census of 1978 causes a break in the series due to a more extensive coverage of the sector in subsequent years. The message is clear though: the data presented in the fourth chapter of this thesis are most assuredly not free from debate, both in magnitude and in trend.⁵

Finally, the evaluation of the effects of the policy periods on manufacturing development demands some critical afterthought. Above it is pointed out that little attention is paid to small scale enterprises in the first part of the thesis. In chapter 5 this is also the case. The focus is again on larger scale (public) enterprises. Such a focus is justified in the light of the line of argument though, since it is through the larger scale enterprises that public policy influences manufacturing development in Tanzania the most. This brings us to the international comparative studies used, which show a similar bias in favour of the larger scale (public) enterprises when evaluating the effects of policy on manufacturing performance. On the one hand the use of these studies widens the analytical scope because we can benefit from the experience of other developing countries when attempting to explain the effects of policy in the Tanzanian case. But on the other hand we should be careful not to simply project the generalizations of several country studies on the Tanzanian case, the so called pit-fall of the parrot-effect. This pitfall is largely side stepped by using the country specific studies, which however, and this must be noted, might also suffer from a similar shortcoming.

An attempt to overcome these problems is made by performing the case studies. The micro-economic underpinning of the effects of policy on sectoral trends is, in our opinion, the best option to expose the effects of public policy on the manufacturing sector of a specific country. The manner in which we have done so for the Tanzanian case demands a number of critical remarks though. First, the number of enterprises observed, along with the way in which these enterprises are chosen, does not allow for generalization. Second, it is doubtful whether the interviews have led to a full understanding of the policy effects on the enterprises, and finally, the data obtained from the enterprises are indicative of trends in general performance rather than that they allow for a financial

² Bagachwa, M.S.D., *Estimates of informal parallel and black market activities in Tanzania* (Dar es Salaam: Paper written for the International Conference on Challenges and Strategies for Tanzania: An Agenda for the 21st Century, 1993, p.1).

³ Tanzania Economic Trends, *Trends in capital formation: The importance of capital formation* (in Tanzania Economic Trends: Vol.1: No.2, 1988, p.35).

⁴ In paragraph 4.6 some attention is already paid to the unlikelihood of the data which express the public share in manufacturing gross fixed capital formation for the period 1976-1981.

⁵ At this very moment another student is determining the extent up to which the national accounts data and the industrial sector data are reliable, and how these time-series can be improved to resemble the actual trends which have prevailed.

analysis of the policy effects. Thus, whilst the outcome of case studies can be of considerable importance to the evaluation of public policy, the case studies, as performed in this manner, can only be used for an illustrative purpose.

6.3 Recommendations

The discussion concerning the methods used, the data gathered and the manner in which the conclusions are drawn allow us to make recommendations for the improvement of the study presented in this thesis. Regarding the methodology applied in order to answer the first research question, recommendations for improvement focus on the incorporation of public policy affecting small scale enterprises, including the informal manufacturing sector. In the Tanzanian case, this involves the analysis of policy instruments such as the projects developed by SIDO (Small-scale Industrial Development Organization), and the credit facilities and the infrastructural provisions made available to these enterprises. Furthermore, the incorporation of infrastructural provisions, along with the other unclassified policy instruments, in the policy instrument classification is recommendable. Most assuredly if this methodology is to be applied to other countries in which changes in the use of these policy instruments do occur.

Recommendations for the improvement of the data-series apply to the aggregation level of the data, rather than to the quality of the time-series used in this study. We refrain from suggestions for the improvement of the quality of these time series because we lack the necessary studies which are imperative to gain insight in this complex topic. However, at this very moment Menno Prins, a fellow Technology Development Sciences student is determining the quality of the national accounts data, with a special emphasis on manufacturing data-series. Depending on the outcome of his research, it will be possible to draw conclusions regarding the correctness of the trends presented in this study within half a year. Nevertheless, even at this stage recommendations are possible for the improved use of data-series. In our opinion this study would benefit from the incorporation of disaggregated data (3 to 4 digit ISIC-level) for manufacturing value added, gross output, gross fixed capital formation and employment, both in the public and private sector, enabling us to relate changes in resource flows, and their impact on performance, to changes in policy affecting particular sectors of industry. On the topic of changes in effective rates of protection (ERPs) for example, it would then be possible to determine if such changes are indeed accompanied by changes in resource flows and performance.

The evaluation of the effects of the policy periods, finally, would benefit from more detailed international comparative studies on the topic of public policy affecting manufacturing development, as well as from more detailed country specific studies relating to the effects of government policy on manufacturing development in Tanzania. The latter is possible by performing sub-sectoral studies using an approach similar to the one adopted in this thesis. This can be done by using sub-sectoral time-series along with case studies which allow for generalization to a sub-sectoral level. Using the interview presented in Appendix D, a qualitative overview of policy instruments affecting an enterprise can be obtained. If the interview is accompanied by the acquisition of quantitative data regarding for example foreign exchange allocation, credit allocation and tax burden a more detailed impression of the effects of specific policy instruments becomes possible. Additionally, variables other than policy instruments need to be identified when a full understanding of trends in an enterprises performance is desired. In all these respects the use of case studies for evaluation purposes can be improved.

As pointed out above the evaluation of the effects of public policy on the manufacturing sector would also benefit from more detailed international comparative studies. A means by which this could be achieved is to apply the methodology used in this thesis to countries other than Tanzania, starting for instance with a number of countries in Sub-Saharan Africa. It is therefore that we recommend that studies similar to this study be carried out in other developing countries. These studies are to include case studies which satisfy the requirements formulated above. Thus, comparison of the effects of

changes in policy on manufacturing development in different countries becomes possible, allowing each separate study to benefit from the conclusions arising from such comparison. This in turn, will (hopefully) result in a methodology which is applicable to all developing countries, being of use to both development scientists and policy makers.

This also raises the question if the methods used in this thesis should result in a recommendation for policy makers in Tanzania (and in other LDCs) to adopt similar methods when evaluating the effects of future policy. In our opinion it is both recommendable to keep track of developments in manufacturing performance in countries with similar policy changes, and to perform evaluation studies within the country. At an aggregated level this imposes a problem, since, depending on the source used, statistical data lag today's developments by a number of years. For instance, the 1991 industrial survey of production, which will include aggregated and disaggregated data concerning industrial output, value added, employment and investments for the year 1991, is not yet available. A better option is to select key enterprises from every ISIC 2-digit subsector, and annually perform case studies at these enterprises. The interview will allow for a qualitative impression of the effects of policy instruments, and if quantitative data on output, value added, employment and investments are obtained, the effects can be related to trends in the performance of these enterprises. Thus, up to date information is available to policy makers, allowing them to respond more adequately to trends in manufacturing development.

As suggested above, future policy recommendations can follow from evaluation studies to be performed by, or on behalf of the Tanzanian government. Similarly, this study allows for recommendations regarding future policy affecting the Tanzanian manufacturing sector. The shortcomings of the policy climate prevailing between 1990 and 1994 are to serve as the point of departure for these recommendations, leading us directly to the problems encountered with the banking system. The scarcity of long-term loans and working capital, combined with the high price of credit caused by the high nominal interest rates, is a serious constraint to the acquisition of inputs. Concerning the scarcity of credit, little can be done other than maintaining positive real interest rates, which encourage savings and result in efficient allocation of the scarce resource.⁶ Unfortunately real interest rates imply high nominal interest rates in a country with high inflation levels. Thus, lowering nominal interest rates to reduce the price of credit will only be possible if inflation rates drop. Consequently, it is recommended that monetary policy in general is aimed at lowering inflation levels by reducing the money supply growth, which in turn would undoubtedly ask for further cut-backs in government expenditure (fiscal policy).

Albeit that further cut-backs in government expenditure in general are desirable, intensified investments in infrastructure, research and development support and labour training schemes are among the prerequisites for future industrial development in Tanzania. Regarding infrastructure an upgrading of the transport and communications facilities is recommendable, along with an extension of these facilities to enterprises which would operate at significantly higher profit levels once this has been achieved. Furthermore, the bureaucratic obstacles to the acquisition of imported inputs, such as the delays in the ports, need to be removed. Labour training schemes are to be set up after it is determined where the bottle-necks are, and research and development support is to be directed at enhancing technological innovation in general, and stimulating manufacturing activities in which Tanzania can obtain a comparative advantage specifically.

The attempts to overcome the supply constraints mentioned above need to be accompanied by policies which stimulate manufacturing development through the demand side of the sector. First and foremost this involves the eradication of the "unfair" competition caused by the tax exemption and evasion which accompanies the inflow of manufactured imports. Stringent controls at the border are recommendable to this end. On the topic of "fair" competition, it is advisable to stimulate investments

⁶ There is another option, which would involve preferential interest rates for and preferential credit allocation to the manufacturing sector. Since this has been accompanied by inefficient use of resources in the past, this option does not seem recommendable though.

in areas in which monopolies still prevail. This can be accomplished by taking policy measures which further stimulate private investment in these areas (see paragraph 2.6 for a number of possibilities). Continued privatization of the public sector is also recommendable in this respect, which in combination with new private investment will eventually result in a more efficient and competitive manufacturing sector.

Having discussed policy measures to overcome contemporary constraints to manufacturing development, we have still to ponder upon the desired structure of the sector to be stimulated in future. As shown in tables 4.3 and C.1 (in Appendix C), both in terms of value added and exports the consumer goods sector dominates Tanzanian industry in 1990. Within the consumer goods sector it is particularly the food, beverages and tobacco producers who predominate (see table C.2, Appendix C). In our opinion this predominance of food, beverages and tobacco production should be further stimulated in future, since it is in this area that Tanzania has a comparative advantage. The country is richly endowed with natural resources, has had the most experience with consumer goods manufacturing, and above all, the manufacturers of food, beverages and tobacco have been producing efficiently at a relatively low protection level during those years when protection levels were extremely high. Other activities which encourage manufacturers to use the resources the country possesses are also to be stimulated, including labour-intensive production techniques.

When discussing labour-intensive production techniques it is inevitable to point out the importance of small scale and informal sector manufacturing enterprises for the use of labour as abundant production factor. Such enterprises are to be stimulated in future by arranging credit facilities, tax exemptions, training programmes and infrastructural provisions conducive to their growth. The manufacturers producing for the export market deserve similar incentives. They are to be stimulated to operate in a competitive environment in which they have a comparative advantage, which at this stage of industrial development implies that the manufacturers of consumer goods, above all, are to be encouraged to face the world market. In other sectors those (public) enterprises still producing inefficiently should be closed down as soon as possible, unless they can be expected to operate efficiently within a short period of time. In our opinion the criterium should be, that if an enterprise produces at higher costs than it would take to import a similar product, it should be closed down. There is an exception though. Enterprises which have commenced production in the near past, or which are about to be set up in sectors which are to be of strategic importance to the country, should be able to count on a limited period of protection, either by exempting them from taxes or imposing import duties on competitive products from abroad.

These recommendations for future policy in Tanzania have, and this may have gone unnoticed, brought us back to the discussion with which this thesis commences. In paragraph 1.2 the changes in the role of the state in economic development are reviewed. It is pointed out that contemporary scholars are of the opinion that there is a role for the state in the economic, and consequently in the industrial development process of a LDC. What this role is exactly is as yet not clear, but that it is neither fully market replacing nor completely *laissez faire* is obvious. The future role we have attributed to the Tanzanian government gives direction to this discussion. In our opinion manufacturing development in Tanzania benefits most from a government which is market friendly. In such a case the government augments the markets by providing services which are conducive to industrial development, and encourages investments which are crucial to future development of the manufacturing sector. It attempts to refrain from the use of controls, preferring intervention through the markets. The invisible hand of the markets is guided by the visible arm of the state.⁷

⁷ Paraphrasing Streeten, P.P., *Thinking about development: Raffaele Mattioli lectures* (Cambridge: Cambridge University Press, 1995, p.203).

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Appendices

Appendix A: The policy document classification

A.1 Introduction

The policy document classification gives an overview of the objectives and development strategies the government of Tanzania intends to pursue between 1961 and 1994. These objectives and development strategies are set down in policy documents which cover overall economic development, along with sector specific development objectives and strategies. The relevant policy documents can be grouped into four categories, starting with the post independence documents. These documents are followed by the post Arusha declaration documents, which in turn are followed by the crisis year documents. The final set of documents are the economic recovery documents which take us up to the year 1994. In the paragraphs to come the documents typical of a period will be discussed, taking the economic as well as the industrial objectives and strategies into account.

A.2 The post independence documents: the Three Year Development Plan and the First Five Year Plan

The period from independence to the Arusha declaration can be characterized by one main objective: economic growth. This objective is embodied in the Three Year Development Plan (TYDP: 1961-1964), a plan which sets out to lay foundations for a more rapid growth of the economy. The plan is drawn up by the outgoing colonial administration, but the plan is never implemented.¹ In the words of Rweyemamu, "The Three Year Development Plan was really a colonial hangover."² Knowing this, there is not much point in reviewing the objectives mentioned in the plan. The TYDP has nothing to do with the government of Tanganyika.

In 1964 the government publishes the First Five Year Plan (FFYP:1964-1969). The plan is drafted by a team of French economists, who use the French indicative planning method. Growth and investment targets are thought to be achieved by co-operation of the private and public sector. The growth and investment objectives mentioned in the plan are long term, and are very much in accordance with the First Long Term Perspective Program (FLTTP:1964-1981). One of the main objectives is to raise per capita income from Tzs 392 in 1962 to Tzs 586 in 1970, and raise it further to over the Tzs 900 in 1980. The aim is to achieve an overall economic growth rate of 6.7% per annum. Furthermore, self-sufficiency in manpower in all economic fields and at all professional levels is considered an important target. On the subject of employment, an increase in wage earners from 340,000 in 1962 to 800,000 in 1980 is desired.³ The manufacturing sector is to play an important role in the attainment of the objectives, the contribution of manufacturing to GDP is to be raised to 7.5% in 1970 and 13.3% in 1980. This coincides with a targeted annual average growth rate of 14.8%.⁴

After independence industrialization is designated to evolve along two main fronts. Further processing of local crops for exports is combined with an import substitution development strategy,

¹ Valk, P., de, *A general framework for evaluating the performance of LDCs textile enterprises: With an application to Tanzania under structural adjustment* (Den Haag: Institute of Social Studies, 1992, p.164).

² Rweyemamu, J.F., *Underdevelopment and industrialisation in Tanzania: A study of perverse capitalist industrial development* (London: Oxford University Press, 1973, p.48).

³ Ibid. (p.49)

⁴ United Republic of Tanzania, *Second Five Year Plan for economic and social development: 1969-1974: Volume I: General Analysis* (Dar es Salaam: Government Printer, 1969, p.xiii).

concentrating on relatively easy first stage import substitution in consumer goods. The World Bank and a report by Arthur D. Little inspire the Tanganyikan government to pursue this strategy.⁵ Investments are to be made in projects which yield quick and high returns, thus promoting industrial and consequently overall economic growth. Of the capital necessary to carry out these investments, 52% is thought to be provided by private foreign investors. In total it is assumed that the private sector will provide 75% (Tzs 888 million) of the capital investments. The government will provide the remaining part (Tzs 292 million), of which 78% is to be financed externally.

A.3 The post Arusha declaration documents: the Second Five Year Plan and the Third Five Year Plan

In 1967 the government of Tanzania, led by president Julius Nyerere, decides upon a new development strategy, culminating in the Arusha declaration. The two principles on which the strategy is based are socialism and self-reliance. Socialism, in this context, is related to the historical experience of Africa, not to the Marxist concept of socialism, which results from a struggle of the classes. In the words of Weaver and Kronemer, "Nyerere argued, that Africans do not need to fight each other in order to reach socialism."⁶ Pre-colonial Africa provides the basis for Nyerere's socialism, since it consisted of villages in which everyone worked, in which the needs of every member of society were met and where communal ownership of the means of production prevailed. It is Nyerere's desire to reverse the capitalist trend set by the colonial oppressors, and return to the times of "true African socialism."

According to Wangwe and Skarstein socialism is defined to imply "the eradication of exploitation of man by man, the consolidation of democracy and the ownership of the major means of production and exchange by peasants and workers."⁷ The major means of production include land, forest, minerals, water, oil and electricity, news media, communications, banking and insurance, export-import trade, wholesale trade and major industries.⁸ The other principle, self-reliance, implies the use of local efforts and resources to perpetuate development. In terms of objectives this boils down to the attainment of "effective state control of the major means of production; the absence of exploitation; a society with egalitarian income structure and one where absolute poverty has been eradicated; participatory decision making and a situation where workers have effective control over the nation's socialized resources",⁹ combined with minimal dependence on foreign financing and technology. In many respects these objectives differ from the objectives set in the FFYP.

The Second Five Year Plan (SFYP: 1969-1974) is the first policy document which is structured along the principles of socialism and self-reliance. Three other principles are also incorporated: ujamaa,¹⁰ economic and social transformation and African economic integration. The

⁵ Little, A.D., *Tanganyika industrial development* (Dar es Salaam, 1961); International Bank of Reconstruction and Development, *Economic development of Tanganyika* (Baltimore: John Hopkins Press, 1961).

⁶ Weaver, J.H., Kronemer, A., *Tanzanian and African socialism* (in *World Development*: Vol.9: No.9-10, 1981, p.842).

⁷ Wangwe, S.M., Skarstein, R., *Industrial development in Tanzania: Some critical issues* (Dar es Salaam: Tanzanian Publishing House, 1986, p.6).

⁸ The major industries are considered to be iron and steel, machine-tool, automobile, cement, fertilizer and textile production, and all other big factories on which a large portion of the population depended.

⁹ Musonda, F.M., *Development strategy and manufactured exports in Tanzania* (Lund: Lund University Press, 1992, p.65).

¹⁰ Ujamaa (literally familyhood) is incorporated in the plan as the emphasis on the development of forms of economic activity which encourage collective and co-operative efforts and avoid wide differences of wealth and income.

targeted economic growth in the SFYP does not differ much from that in the FFYP, a 6.5% annual average growth rate of GDP is desired over the plan period.¹¹ No annual average growth rate is specified for the manufacturing sector. Within industry employment is expected to rise to 60,000 persons by 1974. This is to be achieved by directing 88% of the new investments at the public sector, which in turn is to account for 84% of output and employment.

Although the main thrust of the development strategy is in the agricultural sector, the development of the manufacturing sector is considered important for the future development of the country.¹² The strategies which are to be pursued during the plan period are the promotion of resource based industries, continued import substitution (including local production of intermediate and capital goods) and the establishment of export oriented industries directed at production for the East African market. The establishment of industries which are to produce low-cost construction materials is also considered to be an element of the industrial strategy. In line with the rejection of the capitalist development model, the investments in industry are to take place in the parastatal sector. Control over the economy as a whole is to be achieved by nationalization of the banking sector, import and export trade and the milling companies. Clearly these elements of an economic and industrial strategy are in close accordance with the Arusha declaration.

In 1974 the SFYP draws to an end. This plan is not immediately followed by the Third Five Year Plan (TFYP: 1976-1981), due to some projects which still have to be finished under the SFYP, and the difficult economic situation prevailing at that time. The main objectives of the TFYP, which is implemented in 1976, are in accordance with the two preceding five year plans. Additionally in the directly productive sector "self sufficiency in food requirements by 1981 and proper and efficient utilization of [...] natural resources" is deemed important.¹³ Regarding economic infrastructure, science and technical education, water and electricity provision for industry, and the development of transport and communications services are emphasized. In terms of growth rates, the annual average growth rate of GDP is targeted to be 6.0% over the plan period.

The desired growth rate of industry is equal to 9.3% per annum. The plans for the manufacturing sector are structured along the Long Term Industrial Strategy (LTIS: 1975-1995), which is also known as the Basic Industrial Strategy (BIS: 1975-1995). In fact the TFYP is the first national economic policy document in which the BIS is incorporated. The goals of the BIS are to restructure the industrial sector, to improve capacity utilisation, to increase efficiency and capacity utilisation in existing industries, to expand employment and provide training opportunities for employees and to decentralize industries to regions.¹⁴

This is to be achieved by establishing export-oriented industries to earn foreign exchange, together with the establishment of industries to produce consumer and capital goods for the domestic market. Amongst these industries, the basic industries, such as iron and steel, coal, chemicals and construction manufacturing are particularly emphasized. Furthermore industries and workshops for the production of spare parts manufacture and tools are deemed necessary to enhance self-reliance and provide an efficient home market base for the iron and steel industry. Concerning decentralization, the establishment of small scale industries is mentioned. Implementation of new projects will be through the parastatal organisations, and the use of loans and grant is encouraged whenever possible. Moreover,

¹¹ United Republic of Tanzania, *Second Five Year Plan for social and economic development: 1969-1974: Volume I: General Analysis* (Dar es Salaam: Government Printer, 1969, p.2).

¹² Although industrial development is considered important, it is also recognised that the country does not have the necessary financial assets nor the technical know-how to achieve rapid industrialisation which would be of benefit to all Tanzanians. Therefore the emphasis is on agriculture as the cornerstone of national development for the population as a whole.

¹³ United Republic of Tanzania, *Third Five Year Plan for economic and social development (1976-1981): Volume I: General perspective* (Dar es Salaam: Government Printer, 1976, p.5).

¹⁴ *Ibid.* (p.43).

the industrial strategy mentioned above is to be supported by the expansion of research consultancy and technology transfer. In table A.1 the specific targets for the manufacturing sector are presented:

Table A.1

Long term development goals for the manufacturing sector			
	1974	1980	1995
MVA (mln. T.shs)	1,266	2,532	8,216
Employment (thousands of people)	80	130	330
Structural changes, share in MVA (%):			
- Food beverages and tobacco	32.0	29.1	21.2
- Textile, leather and sisal	21.0	21.5	18.7
- Wood and paper	11.5	10.6	9.9
- Chemicals	16.2	18.0	16.3
- Iron and steel and iron-based industries	15.3	14.8	30.3
- Non-metal products	4.0	6.0	3.6
Structural changes, share of MVA from (%):			
- Exports	4.4	5.9	2.5
- Products from mainly imported inputs	48.5	45.8	14.8
- Products from mainly local inputs	47.2	48.3	82.8

Source: United Republic of Tanzania, *Third Five Year Plan for economic and social development: Volume I: General perspective* (Dar es Salaam: Government Printer, 1976, p.44).

Table A.1 shows that MVA and employment are expected to grow rapidly during the plan period. This growth will be accompanied by structural changes in the manufacturing sector. The predominance of consumer goods is planned to be reduced whilst production of iron, steel and iron-based industries is expected to contribute 30.3% of MVA in 1995. Another remarkable shift which is designated to take place, is the increase in the production of goods which are made using mainly local inputs. In 1995 82.8% of total MVA is planned to be produced using these local inputs, an objective which clearly reflects the objective of self-reliance. Ultimately the BIS tries to secure the objectives set in the Arusha declaration. Industries which can cater for the basic needs of the people by using local raw materials are emphasized. The planned results are reduced external dependence and increased internal linkages, eventually leading to a self-sustaining economy.

A.4 The crisis year documents: the National Economic Survival Programmes and the Structural Adjustment Programme

In 1981 the Second Long Term Perspective Plan (SLTPP: 1981-2000) is presented, which should have resulted in another series of five year plans, but the prevailing economic situation forces the government to set this plan aside. Instead the National Economic Survival Programme (NESP: 1981-1982) is launched. The programme consists of six objectives of which the increase in foreign exchange earnings, together with the greater care in the utilization of the foreign exchange, is deemed most important. Other objectives are the elimination of the food shortage problem, government current expenditure control, proper incentives to farmers and workers and an enhancement of the countries capacity for self-reliance.¹⁵

¹⁵ United Republic of Tanzania. *The National Economic Survival Programme* (Dar es Salaam: Government Printer, 1982, p.3-5).

The NESP can best be described in the words of Stein, who characterizes it as "a clear reassertion of the directive approach aimed at mobilising the export and agricultural sector toward specific production targets through a strict allocation (at least in theory) of scarce resources."¹⁶ The production targets mentioned in the NESP are ambitious to say the least. Exports of cigarettes for example, are targeted to increase by 243% in 1981 and 289% in 1982 compared to the export of cigarettes in 1979. The targeted exports of cement are even more astonishing. By 1981 the exports of cements are planned to increase by 1653% compared to 1979. In 1982 exports are targeted to exceed the 1979 exports by 612%. Given the declining economic environment at the time, such export targets are somewhat unrealistic.

Between 1980 and 1986 continued negotiations are being held between the Tanzanian government and the IMF. Upto 1982 these negotiations lead to nothing, forcing Tanzania to face the prevailing economic situation without the help of the IMF. As such the NESP can also be seen as a response to the failing negotiations, and the accompanying decrease in foreign aid. In 1982 a policy document is prepared, which is designated to lead to an agreement with the IMF, and is known as the Structural Adjustment Programme (SAP: 1982-1985). The main objectives of the SAP are to reduce inflation by adjusting the government budget, to achieve balance of payments adjustment to alleviate the foreign exchange scarcity and the consequent domestic production capacity underutilization, to achieve an increase in the productivity of parastatal enterprises and to maintain the equity in income distribution as well as the provision of social services and other basic needs to the majority of the population.¹⁷ For the industrial sector this means that measures will be adopted that increase the efficiency of industry and promote industrial exports. The industrial objectives mentioned in the SAP are, to:

- "(a) increase the supply to the domestic market of basic consumer goods for the urban and rural sector, inputs for agriculture, and incentive goods to encourage cash crops production;
- (b) reduce the import content of industrial production;
- (c) generate a much higher level of industrial exports;
- (d) minimise demands on the balance of payments for the expansion of industrial activity;
- (e) maximise revenue generating potential from incremental production."¹⁸

Resources are to be directed to the rehabilitation and completion of on-going projects and utilization of existing industrial capacities. Only projects which can generate foreign exchange by producing for the export market form an exception to this policy measure. External support is encouraged as part of the overall strategy.¹⁹

¹⁶ Stein, H., *Economic policy and the IMF in Tanzania: Conditionality, conflict and convergence* in Campbell, H, Stein, H., *The IMF and Tanzania: The dynamics of liberalisation* (Harare: Southern Africa Political Economy Series Trusts, 1991, p.93).

¹⁷ The United Republic of Tanzania, *Structural Adjustment Programme for Tanzania* (Dar es Salaam: Government Printer, 1982, p.2).

¹⁸ Ibid. (p.24).

¹⁹ Ibid. (p.26).

A.5 The economic recovery documents: the Economic Recovery Programme, the Economic and Social Action Programme

The path set out by the Structural Adjustment Programme (SAP: 1982-1985) eventually leads to an agreement with the IMF, which in turn results in the launching of the Economic Recovery Programme (ERP I: 1986-1989). ERP I is a planned continuation of the structural adjustment effort. The plan is characterized by the following objectives:

- “(i) to increase the output of food and export crops through appropriate incentives for production, improving marketing structures, and increasing the resources available to agriculture;
- (ii) to rehabilitate the physical infrastructure of the country in support of the directly productive activities;
- (iii) to increase capacity utilization in industry through the allocation of scarce foreign exchange to priority sectors and firms;
- (iv) to restore the internal and external balances by pursuing prudent fiscal, monetary and trade policies.”²⁰

An annual average growth rate of 4-5% is targeted throughout the plan period, which is to result in a growth in per capita income of 1-2%. Furthermore a reduction in the rate of inflation from 30% to 10% is desired. The Balance of Payments position is to be strengthened by increasing reserves and increasing export earnings by 16% per annum. Regarding the manufacturing sector the target of an increase in capacity utilization rates from 20-30% in 1985 to 60-70% in 1989 is set.²¹

ERP I is specific about the foreign exchange allocation necessary to achieve this increase in capacity utilization in the manufacturing sector. The foreign exchange will serve to import spare parts and components together with comprehensive repairs and replacements. It will be allocated only to efficient and high-priority enterprises, such as enterprises which increase the availability of scarce consumer goods, increase the supply of intermediate inputs and raw materials, generate net export earnings or generate additional public revenue.

A critical note on the comprehensiveness of the plan is necessary, even at this stage. According to Wagao the objectives contradict one another in terms of the policies to be pursued. In his words, “ERP revealed [...] the contradiction between the need to stabilise the economy, a need which requires the shrinking of credit and money supply, and the goal of recovering positive growth rates in output, a goal which entails the opposite approach in precisely the same areas.”²²

ERP I is followed by the Economic and Social Action Programme (ESAP: 1989-1992) which incorporates the implementation of ERP II. The second ERP is in many respects a continuation of ERP I. Policies mentioned are along the same line. The objectives also agree with one another to a large extent, as can be deduced from the following list of economic objectives:

²⁰ The United Republic of Tanzania, *Programme for Economic Recovery* (Dar es Salaam: Government Printer, 1986, p.14).

²¹ The United Republic of Tanzania, *The Economic and Social Action Programme* (Dar es Salaam: Government Printer, 1989, p.3-4). Except for the objective of capacity utilization increase, these quantified objectives are not mentioned in ERP I.

²² Wagao, J.H.W., *Adjustment policies in Tanzania: 1981-9: The impact on growth, structure and human welfare* in Cornia, G.A., Hoesen, R., van der, Mkandawire, T., *Africa's recovery in the 1990s: From stagnation and adjustment to human development* (New York: St. Martin's Press, 1992, p.107).

- "(a) to increase domestic production of food and exports;
- (b) to restore efficiency in the mobilization and the utilization of domestic resources;
- (c) to rehabilitate the physical infrastructure, in particular transport and communications in support of directly productive activities;
- (d) to restore internal and external balances by pursuing appropriate fiscal, monetary and trade policies;
- (e) to reduce the rate of domestic inflation from about 28% in 1988/89 to below 10% in 1991/92;
- (f) to revamp the industrial sector [through the efficient use of foreign exchange.]"²³

Just as in the preceding programme the targeted average growth rate equals 5% per annum, again resulting in a 2% per annum rise in per capita income. For the manufacturing sector the growth target for the output in real terms is set at 6% per annum. Similar to ERP I, the foreign exchange allocation to the manufacturing sector is planned to be directed to especially emphasized industries. Examples are industries which produce for exports, use raw materials, produce basic and essential requirements for the population and increase capacity utilization. Furthermore, "joint ventures and the role of the private sector will be encouraged."²⁴

A.6 Conclusion

The periods of similar policy distinguished in the development plans show a shift in economic and industrial objectives from growth to socialism and self-reliance, to foreign exchange earning, to internal and external stabilization. For the industrial sector these objectives are thought to be achieved by the strategies which are presented schematically in table A.2. The elements of the strategy are grouped with the criteria used to cluster the policy instruments in chapter B of the main text. This allows the reader to compare the classification resulting from the use of policy documents and the classification resulting from the use of policy instruments (presented in table b.16). Note that there are both differences in the length of the policy periods, and in the elements of which form the industrial strategy characteristic for a policy period.

Table A.2

An overview of the policy periods affecting the manufacturing sector deduced from policy documents				
<i>Aspect of industrial strategy</i>	<i>1961-1969</i>	<i>1969-1981</i>	<i>1981-1986</i>	<i>1986-1994</i>
Import substitution (IS)/ Export promotion (EP)	IS&EP	IS&EP	EP	EP
Degree of direct control (low/moderate/high)	Low	Moderate	High	Moderate
Private ownership (priv.)/ Public ownership (publ.)	Priv.	Publ.	Publ.	Publ.&Priv.
Level of dependency on foreign aid and investments (low/moderate/high)	High (inv.)	? (aid)	? (aid)	? (aid)

²³ The United Republic of Tanzania, *The Economic and Social Action Programme* (Dar es Salaam: Government Programme, 1989, p.10).

²⁴ Ibid. (p.23-25).

Appendix B: Additions to chapter 2

Elaboration on selected indicators of the use of policy instruments:

ERP: the effective rate of protection. The ERP indicates the value added an entrepreneur can obtain by producing for the local market, as compared to the value added which would be produced at world market prices. It is a measure for the protective effects of policy instruments such as tariffs, overvalued exchange rates and price controls. The ERP is defined as follows:

$$ERP = \frac{VA \text{ (domestic prices)}}{VA \text{ (world market prices)}} - 1$$

Thus, a positive ERP indicates that it is more profitable to produce for the domestic market, whilst a negative value of the ERP indicates that it is more profitable to produce for the world market.

RER: the real exchange rate. The RER is a measure for changes in the price of a country's exports products expressed in world market prices. Changes are caused by differences between the country's inflation levels and world market price rises, and by changes in the nominal exchange rate. An appreciation of the real exchange rate indicates a disincentive for the production for the export markets, since the export products have become more expensive in terms of world market prices, resulting in a loss of competitiveness. The formula:

$$RER = \frac{E(t) * P(d)}{E(b) * P(w)}$$

E(t) is the nominal exchange rate in year t. E(b) is the nominal exchange rate for a base year, in our case the year 1966, which is used to index the series presented in table 2.8. The ratio of P(d) to P(w) is a measure for the difference in price increases on the local and on the world market. Instead of defining the nominal exchange rate as the value of the local currency expressed in terms of a basket of currencies, the nominal exchange rate used in this thesis is expressed as the value of the local currency in terms of the US dollar. Consequently P(w) is chosen to be the inflation recorded in the United States of America. Furthermore, the index is defined in such a way that a drop in the index signifies an appreciation of the real exchange rate.

DRC: the domestic resource cost. The DRC is a measure for the cost of the domestic resources that are necessary to save or earn one unit of foreign exchange by producing a unit of value added at world market prices. In this thesis we use the short-run DRC, defined as the labour cost divided by the value added at world prices. A DRC smaller than one indicates that the labour costs accompanying an industrial activity do not exceed the world market price of the value added produced. The activity is successful in saving (or earning) foreign exchange for the country. If a DRC larger than one is recorded, this is not the case. The labour costs made exceed the value added at world market prices, implying that the country is better off by importing a similar product for domestic consumption, since the costs to import the product are smaller than the costs to produce the product locally. Infinitely high DRCs, finally, result from activities which result in the production of negative value added at world prices, and indicates that there is no benefit of saving a unit of foreign exchange what so ever.

Table B.1

Monthly wages in respective and 1970 year values for manufacturing and the economy as a whole (Tzs/month)						
Year	Respective year values			1970 values		
	Manufacturing average ¹	Tanzania average ²	Minimum ³	Manufacturing average ⁴	Tanzania average ⁵	Minimum ⁶
1965	288	234	150	327	266	170
1966	315	265	150	346	291	165
1967	370	288	150	394	306	160
1968	370	304	150	381	313	155
1969	380	316	170	392	326	175
1970	383	343	170	383	343	170
1971	401	357	170	378	337	160
1972	464	366	240	403	318	209
1973	487	421	240	383	331	189
1974	563	619	380	337	371	204
1975	613	632	380	253	261	157
1976	627	654	380	209	218	127
1977	645	681	380	182	193	108
1978	655	701	380	160	171	93
1979	745	765	380	174	179	89
1980	802	822	480	160	164	96
1981	849	875	600	130	134	92
1982	893	1047	600	112	131	75
1983	1016	1087	600	91	110	61
1984	1271	1115	810	88	96	70
1985	1553	n.a.	810	75	n.a.	70
1986	1514	n.a.	1045	63	n.a.	43
1987	1953	n.a.	1370	65	n.a.	45
1988	2076	n.a.	1645	53	n.a.	42
1989	4210	n.a.	2075	82	n.a.	41
1990	4931	n.a.	2500	73	n.a.	37

Sources: (a) United Republic of Tanzania, *Statistical Abstract*: Various issues; (b) United Republic of Tanzania, *Economic Survey*: Various issues; (c) United Republic of Tanzania, *Selected statistical series: 1951-1992* (Dar es Salaam: Bureau of Statistics, 1995, p.12). Notes: (1) Total manufacturing wages divided by the number of employees in the manufacturing sector, 1965 up to 1977 data are calculated from (b), 1978 up to 1990 data are calculated from (a); (2) Average monthly wage for the Tanzanian economy, from (c); (3) Minimum wage for the Tanzanian economy, from (c); (4) 1970 values are calculated by dividing the average monthly wages for respective years by the DSM wage earners index (1970=100) presented in (c); (5) From (c); (6) From (c); n.a.=not available.

Table B.2

Indicators of government expenditure (in %)				
Budget year	Growth rate ¹	Expenditure on industry ²	Expenditure on infrastructure ³	Externally financed ⁴
1965/66	n.a.	0.6	13.0	35.1
1966/67	14.0	1.4	16.8	26.7
1967/68	17.0	1.2	15.9	24.4
1968/69	16.8	1.1	21.6	26.7
1969/70	29.8	2.0	16.4	20.0
1970/71	15.1	1.9	17.2	30.4
1971/72	4.5	1.6	20.2	40.6
1972/73	23.8	2.2	19.7	34.0
1973/74	39.1	1.7	16.3	29.3
1974/75	39.7	4.1	14.5	46.7
1975/76	-3.5	1.9	15.0	45.8
1976/77	33.1	7.4	12.0	43.2
1977/78	25.6	8.3	11.7	39.3
1978/79	30.3	6.7	13.5	52.1
1979/80	10.8	9.7	12.1	44.8
1980/81	2.0	9.1	13.0	39.3
1981/82	25.4	8.4	11.7	34.6
1982/83	4.7	7.3	10.8	42.1
1983/84	11.3	7.0	9.4	23.5
1984/85	22.8	5.5	10.1	27.6
1985/86	16.2	4.2	9.5	32.4
1986/87	50.6	2.8	6.5	36.1
1987/88	59.0	2.5	7.7	54.4
1988/89	50.7	2.1	6.9	60.9
1989/90	12.8	2.0	19.0	71.8
1990/91	66.0	3.0	10.9	47.6
1991/92	8.8	1.8	8.6	36.8
1992/93	49.6	1.6	14.0	44.0
1993/94	21.3	2.1	14.7	n.a.
1994/95	25.9	1.2	19.2	n.a.

Sources: United Republic of Tanzania, *Economic Survey*: Various issues; compared with World Bank, *Tanzania: Public expenditure review: Rep. no. 7559-TA: Volume III* (Washington: World Bank, 1989, p.55). Notes: (1) Government expenditure includes both recurrent and development expenditures; (2) Expenditure on industry includes expenditure on mining, manufacturing and construction, and is presented as a percentage of total government expenditure; (3) Expenditure on infrastructure includes expenditure on water, electricity, roads, bridges, inland and coastal waterways and other transport and communication provisions. (4) External finance of the development budget; n.a.= not available.

Table B.3

Indicators of monetary policy instruments (all in %)						
Year	I.R. (min) ¹	I.R. (max) ²	Inflation ³	R.I.R. (min) ⁴	R.I.R. (max) ⁵	M2 ⁶
1968	6.5	10.0	4.4	2.0	5.4	23.7
1969	6.5	10.0	2.1	4.3	7.7	15.1
1970	6.5	10.0	3.1	3.3	6.7	12.1
1971	6.5	10.0	5.0	1.4	4.8	18.0
1972	6.5	10.0	7.6	-1.0	2.2	18.2
1973	5.0	10.0	10.6	-5.1	-0.5	17.8
1974	5.0	10.0	18.4	-11.3	-7.1	18.2
1975	6.0	10.0	27.0	-16.5	-13.4	22.1
1976	6.0	10.5	6.9	-0.8	3.4	24.5
1977	5.0	11.0	11.4	-5.7	-0.4	25.1
1978	5.0	11.0	6.6	-1.5	4.1	20.1
1979	5.0	11.0	12.9	-7.0	-1.7	46.9
1980	5.0	11.0	30.3	-19.4	-14.8	26.7
1981	4.0	12.0	25.7	-17.3	-10.9	18.1
1982	5.0	13.5	28.9	-18.5	-11.9	19.5
1983	9.0	13.5	27.1	-14.2	-10.7	17.8
1984	9.0	13.5	36.1	-19.9	-16.6	3.7
1985	11.0	16.0	33.3	-16.7	-13.0	30.3
1986	11.0	16.0	32.4	-16.2	-12.4	27.9
1987	19.0	29.0	30.0	-8.5	-0.8	29.0
1988	19.0	29.0	31.2	-9.3	-1.7	31.7
1989	21.0	31.0	30.4	-7.2	0.5	35.1
1990	21.0	31.0	35.9	-11.0	-3.6	28.5
1991	21.0	31.0	28.8	-6.1	1.7	42.1
1992	29.0	31.0	21.9	5.8	7.5	38.5
1993	21.0	39.0	25.2	-3.4	11.0	28.8
1994	24.0	39.0	34.1	-7.5	3.7	31.9

Sources: (a) Bank of Tanzania, *Economic and operations report*: Various issues; (b) World Bank, *World Tables*: Various issues; Notes: (1) The minimum interest rate for a medium and long term loan, from (a); (2) The maximum interest rate for a medium and long term loan, from (a); (3) Percentual change over the previous period of the National Consumer Price Index, from (a); (4) Real interest rate calculated with the minimum i.r.: $((1+i.r.)/(1+i))-1$, i =inflation; (5) Real interest rate calculated with the maximum interest rate; (6) Percentual change over the previous period of the broad money supply M2 (currency in circulation outside banks, demand deposits, time deposits and saving deposits), calculated from (b).

Table B.4

Import duty collection rates for manufactured imports (%)				
Year	Consumer goods	Intermediate goods	Capital goods	Total
1976	15.4	8.3	6.0	8.6
1977	18.9	9.8	8.3	10.8
1978	21.0	16.5	7.3	12.4
1979	20.2	13.0	6.3	10.0
1980	17.0	10.5	7.6	10.2
1981	21.2	8.5	6.6	9.0
1982	20.2	9.3	9.2	10.9
1983	22.4	11.7	7.6	11.3
1984	24.8	11.1	8.4	11.7
1985	23.8	12.3	8.4	12.4
1986	24.3	7.8	6.8	9.8
1987	28.2	8.7	5.9	9.4
1988	25.3	7.8	6.6	9.6
1989	23.5	8.0	5.8	8.4
1990	19.6	6.7	4.0	6.1

Source: United Republic of Tanzania, *Revised national accounts of Tanzania: 1976-1990* (Dar es Salaam: Bureau of Statistics, 1995, p.40-54). Note: The collection rate is calculated by dividing import duties by imports.

Appendix C: Additions to chapter 4

Table C.1

Manufactured exports (all in %)				
Year	Man. exports/ Total exports ¹	Consumer ²	Intermediate	Capital
1976	16.7	58.5	35.2	5.0
1977	15.6	58.1	33.0	7.8
1978	17.2	69.3	24.9	5.1
1979	21.1	63.7	28.8	6.7
1980	20.8	63.1	30.3	5.1
1981	21.4	71.9	18.6	8.7
1982	22.0	69.2	21.8	7.8
1983	23.0	65.1	22.7	11.3
1984	22.2	57.8	33.8	6.6
1985	20.4	48.2	41.6	8.5
1986	19.1	72.6	25.0	2.3
1987	24.8	64.4	32.1	3.4
1988	35.4	71.1	27.5	1.3
1989	35.7	72.1	25.9	1.9
1990	37.4	68.1	30.8	1.0

Source: United Republic of Tanzania, *Revised national accounts of Tanzania: 1976-1990* (Dar es Salaam: Bureau of Statistics, 1995, p.40-54). Notes: (1) Ratio of manufactured to total exports; (2) Consumer, intermediate and capital exports as a percentage of total manufactured exports.

Table C.2

Contribution of sectors (ISIC 2-digit) to the production of manufacturing value added (in %) ¹									
Year	31	32	33	34	35	36	37	38	39
1966	42.5	25.5	7.4	4.2	8.3	2.3	5.7	3.5	1.0
1967	34.6	24.8	7.2	4.4	15.2	5.0	4.8	2.7	1.7
1968	43.5	19.4	6.2	4.1	12.6	4.5	4.1	4.5	1.2
1969	38.4	21.1	5.6	3.9	11.6	4.4	4.3	10.1	0.6
1970	39.0	26.4	6.8	3.8	10.5	3.9	4.2	4.9	0.5
1971	41.0	24.8	4.2	4.1	11.6	3.7	1.9	8.0	0.7
1972	36.4	24.7	3.1	3.5	13.8	4.6	2.5	9.9	1.6
1973	34.5	26.5	3.6	4.8	13.2	3.4	3.2	9.8	1.1
1974	31.9	22.5	2.7	6.4	19.7	3.1	2.8	9.5	1.3
1975	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
1976	37.1	25.5	2.2	5.0	14.4	1.0	3.6	9.0	1.9
1977	22.1	23.2	2.7	4.9	19.0	1.1	3.4	9.6	2.6
1978	23.7	30.5	3.3	6.5	11.9	3.3	7.5	11.5	1.7
1979	24.7	30.0	4.0	6.0	14.6	3.1	3.4	13.5	0.7
1980	21.9	33.7	3.6	6.3	15.3	3.3	1.7	13.6	0.7
1981	23.4	27.6	4.4	5.9	20.4	3.9	3.0	10.6	0.8
1982	34.9	19.4	3.1	5.5	17.0	4.3	0.5	14.5	0.7
1983	30.5	25.2	2.3	6.1	13.4	4.9	3.1	13.8	0.8
1984	32.3	22.8	2.6	7.7	16.0	1.7	3.3	13.3	0.5
1985	33.3	19.9	3.1	7.0	15.6	1.5	3.7	15.5	0.6
1986	25.0	15.2	4.3	5.9	20.6	7.7	4.2	16.7	0.5
1987	25.2	16.7	3.2	5.0	26.6	6.2	4.4	12.6	0.3
1988	30.2	18.1	3.2	5.7	21.9	5.7	3.5	11.6	0.3
1989	42.2	7.9	4.2	6.3	17.3	5.0	4.5	11.5	1.1
1990	51.4	2.8	4.6	7.4	16.0	3.2	4.3	9.4	0.9

Sources: 1966-1974 and 1976-1977 data from Bank of Tanzania, *Tanzania: Twenty years of independence: 1961-1981* (Dar es Salaam: Bank of Tanzania, 1981, p.116); 1978-1990 data from United Republic of Tanzania, *Statistical abstract*: Various issues; both sources use United Republic of Tanzania, *Industrial survey of production*: Various issues. Notes: (1) Firms with 10 or more employees; n.a.=not available.

Table C.3

3-digit ISIC classification of indices of industrial production (1985=100)										
Activity	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995*
311	88	86	98	106	86	103	95	81	70	69
312	89	83	83	82	84	84	90	98	105	197
314	102	103	103	111	132	140	128	150	139	112
31	91	88	94	98	92	102	98	98	94	123
321	117	146	167	159	159	142	147	148	125	161
323	75	73	54	51	48	33	26	7	1	1
324	87	43	43	35	34	27	15	7	7	18
32	112	132	150	142	142	126	129	128	108	141
331	125	171	184	189	213	163	135	106	88	76
341	160	251	228	245	192	163	129	249	160	147
351	97	66	54	72	71	69	37	31	27	20
352	100	119	119	122	145	154	135	142	141	208
353	93	92	109	104	83	90	92	88	87	99
355	117	162	161	177	175	156	134	150	148	124
356	107	107	92	146	193	190	239	216	394	181
35	97	100	109	110	102	106	101	100	103	115
36	117	127	142	144	163	235	163	176	154	182
37	57	85	71	100	102	94	99	112	92	63
381	115	175	127	169	195	173	195	60	40	16
382	130	142	89	53	39	46	39	48	58	52
383	94	105	111	117	99	127	134	133	111	130
384	74	69	69	93	124	93	35	10	23	0
38	97	119	102	123	134	128	118	67	59	49
39	110	79	69	72	83	81	7	12	18	21
3	97	107	115	117	114	117	110	110	100	119

Source: United Republic of Tanzania, *Industrial commodities: Quarterly report 1995:3* (Dar es Salaam: Bureau of Statistics: Forthcoming, 1996, p.24-30). Notes: The 1995 data, marked with an asterisk (*), concern the third quarter of 1995, and are compared to the third quarter of 1985, which is equal to 100. The 1995 data should not be compared to the other data presented in this table. Furthermore not all sectors are covered, namely garment manufacturing, furniture making, printing and publishing and the manufacturing of pharmaceutical products.

Appendix D: The case studies

This appendix includes the data sheet (table D.1) of the trends in output and capacity utilization of TCC, ALAF and MWATEX. The interview used to establish which policy instruments affected the enterprises is also included, and is presented on the following page. Furthermore, a short elaboration on the choice of the enterprises follows.

The sectoral contributions to MVA at a 2-digit ISIC level are taken as the point of departure for the selection of the enterprises (table C.2, Appendix C). Comparison of fluctuations, or a lack of fluctuations, in the contribution to MVA of the 2-digit sectors to the changes in the developments of the effective rates of protection (table 2.2, table 2.9 and table 2.12), and the trends in capacity utilization for the period 1984-1994,¹ result in the choice for four sectors of interest: the food, beverages and tobacco sector (ISIC 31), the textiles and leather sector (ISIC 32), the iron and steel sector (ISIC 37) and the metal products, machinery and transport sector (ISIC 38). Using an additional two criteria, the date of establishment (between 1961 and 1967), and the size of the enterprise (500 or more employees) an enterprise is chosen for each sector of interest. To this end the 1989 industrial census is used.²

Table D.1

Data sheet for TCC, ALAF and MWATEX						
Year	TCC		ALAF		MWATEX	
	Output ¹	Cap.ut.	Output ²	Cap.ut.	Output ³	Cap.ut.
1974	3.6	n.a.	38,946	n.a.	22.6	90.4
1975	3.6	n.a.	37,299	n.a.	22.4	89.6
1976	3.6	77	38,646	n.a.	20.3	81.2
1977	4.0	68	43,953	n.a.	16.5	66.0
1978	4.2	90	50,913	51	14.4	57.6
1979	4.3	88	50,157	49	21.5	56.6
1980	5.0	89	37,382	n.a.	16.1	42.4
1981	4.0	71	30,891	43	16.6	43.7
1982	4.7	80	40,027	50	4.3	11.3
1983	3.8	64	43,456	55	4.9	12.9
1984	3.5	61	42,464	52	8.1	21.3
1985	2.8	53	45,850	49	8.6	22.6
1986	2.7	55	34,285	n.a.	5.6	14.7
1987	2.5	57	n.a.	n.a.	3.1	8.2
1988	2.7	56	33,504	n.a.	1.6	4.2
1989	3.0	60	41,016	51	3.9	10.3
1990	3.8	75	43,546	38	2.7	7.1
1991	3.8	77	44,758	n.a.	n.a.	n.a.
1992	3.8	76	49,505	n.a.	n.a.	n.a.
1993	3.9	79	42,760	n.a.	n.a.	n.a.
1994	3.5	75	45,527	n.a.	n.a.	n.a.

Sources: Data are obtained from the respective enterprises. Notes: (1) In billions of cigarettes; (2) In millions of tonnes of steel; (3) In millions of metres of textiles; n.a.=not available.

¹ From United Republic of Tanzania, *Economic survey 1994* (Dar es Salaam: Bureau of Statistics, 1995, p.141).

² United Republic of Tanzania, *Industrial Census 1989: Vol.I&II: Directory of industries* (Dar es Salaam: Bureau of Statistics, 1992).

Interview

As a student of the department of International Technological Development Sciences at the Eindhoven University of Technology, I am performing graduation research on the topic of industry and policy making in Tanzania. I am particularly interested in the effects government policies have on the manufacturing sector. This interview will contribute to my research by ascertaining to which degree policy instruments affect individual industrial enterprises.

Before we move on to the main part of the interview, I would like to obtain some information about this enterprise, and indeed about yourself. The personal facts will be treated as extremely confidential.

I. Facts about the enterprise

1. To which industrial sector (ISIC classification, 4 digits) does the enterprise belong?

..... ISIC code: 3...

2. What was the first year of production?

19..

3. Is the enterprise privately, publicly or partly privately and partly publicly owned at present?

- | | |
|--|------------------|
| <input type="radio"/> Publicly owned | Go to question 5 |
| <input type="radio"/> Privately owned | Go to question 4 |
| <input type="radio"/> Partly privately and partly publicly owned | Go to question 4 |
| <input type="radio"/> Dk/ws | Go to question 5 |

4. Has the private capital been supplied by foreign, local or a combination of foreign and local investors?

- Foreign investors
- Local investors
- Foreign and local investors
- Dk/ws

5. Has this always been the case?

- | | |
|-----------------------------|------------------|
| <input type="radio"/> yes | Go to question 7 |
| <input type="radio"/> no | Go to question 6 |
| <input type="radio"/> Dk/ws | Go to question 7 |

6. When did this (these) change(s) take place, and what exactly were these changes?

19.. ..
19.. ..

7. Is the enterprise an exporter of manufactured goods?

- yes
- no
- Dk/ws Go to question 9

8. Has this always been the case?

- yes
- no
- Dk/ws

If the answer to question 7 is no and the answer to question 8 is yes all questions concerning exports can be omitted.

9. Does the enterprise depend on imports in order to sustain production?

- yes
- no
- Dk/ws Go to the next section

10. Has this always been the case?

- yes
- no
- Dk/ws

If the answer to question 9 is no and the answer to question 10 is yes all questions concerning imports can be omitted.

II. Facts about the respondent

1. What is your name?

.....

2. What is your position within the enterprise?

.....

3. How many years have you been working for the enterprise?

.....

4. Has this always been in the current position?

- yes Go to question 6
- no

5. Which other positions have you held within the enterprise during which periods?

..... 19.. - 19..
..... 19.. - 19..

6. How many people have held your current position before you?

.....

We have arrived at the main part of the interview. In this part of the interview I will make an inventory of the policy instruments which have affected the enterprise by making a distinction between policy instruments which affect the supply and demand side of the enterprise. In theory, on the supply side the price and availability of capital, labour and other inputs are affected, together with the relative profitability of production techniques.

Each question will deal with a separate policy instrument. You are asked to answer whether a policy instrument has indeed affected your enterprise, and if this is the case, to give an indication from when to when, and how the policy instrument has affected your enterprise. For example: Has foreign exchange allocation affected the availability of material inputs? Answer: Yes, from 1973 up to 1986, by raising the availability of capital. If you feel that anything is being overlooked during the interview, please do not hesitate to say so.

SUPPLY SIDE

III. Policy instruments affecting the price and availability of capital and other inputs

In this case I consider capital to be all tangible investment goods which an enterprise needs to operate. Examples are the machinery and the building. Other inputs refer to other material inputs which are also necessary to operate. Examples are raw materials and prefabricated inputs. The effects on capital and other inputs will be considered simultaneously as the effects on the material inputs of the enterprise. The government can use policy instruments which influence both the price and availability of the material inputs required. Let us commence with policy instruments which influence the price of these material inputs.

The interest rate is a policy instrument which the government can use to vary the price of material inputs, since it affects the price an enterprise has to pay in order to obtain credits from a bank, which in turn are used to purchase material inputs. A low interest rate combined with high levels of inflation lowers the price of material inputs in comparison to a situation with high interest rates and low levels of inflation.

1. Have changes in the interest rate affected the price of material inputs for the enterprise?

- no Go to the next question
 Dk/ws Go to the next question
 yes In which periods did changes in the interest rate affect the price of material inputs, and how did it affect the price of these goods?
- | | | |
|-------------|-----------------------------|-----------------------------------|
| 19.. - 19.. | <input type="radio"/> lower | <input type="radio"/> raise price |
| 19.. - 19.. | <input type="radio"/> lower | <input type="radio"/> raise price |
| 19.. - 19.. | <input type="radio"/> lower | <input type="radio"/> raise price |

(If the enterprise does not import material inputs, go to question 4.)

The price of imported material inputs is affected by the exchange rate. An overvalued exchange rate lowers the price of imported goods in terms of the local currency, whilst depreciation of the exchange rate raises the price of imported goods in terms of the local currency.

2. Have changes in the exchange rate affected the price of material inputs for the enterprise?

- no Go to the next question
 Dk/ws Go to the next question
 yes In which periods did changes in the exchange rate affect the price of material inputs, and how did it affect the price of these goods?
- | | | |
|-------------|-----------------------------|-----------------------------------|
| 19.. - 19.. | <input type="radio"/> lower | <input type="radio"/> raise price |
| 19.. - 19.. | <input type="radio"/> lower | <input type="radio"/> raise price |
| 19.. - 19.. | <input type="radio"/> lower | <input type="radio"/> raise price |

Import duties, also known as tariffs, affect the price of imported material inputs too. Tariffs change the price of imports relative to other imports.

3. Have changes in the tariff structure affected the price of imported material inputs?

- no Go to the next question
- Dk/ws Go to the next question
- yes In which periods did changes in the tariff structure affect the price of material inputs, and how did it affect the price of these goods?

- | | | |
|-------------|-----------------------------|-----------------------------------|
| 19.. - 19.. | <input type="radio"/> lower | <input type="radio"/> raise price |
| 19.. - 19.. | <input type="radio"/> lower | <input type="radio"/> raise price |
| 19.. - 19.. | <input type="radio"/> lower | <input type="radio"/> raise price |

A government might also use a system of confinement and price controls to affect the price of domestic and imported material inputs. In such a case domestic and foreign trade is limited to a few trading corporations who can set the prices a producer has to pay for his material inputs.

4. Have policies of confinement and price control affected the price of domestically obtained material inputs?

- no Go to the next question
- Dk/ws Go to the next question
- yes In which periods did policies of confinement and price control affect the price of these goods, and how did they affect the price of these goods?

- | | | |
|-------------|-----------------------------|-----------------------------------|
| 19.. - 19.. | <input type="radio"/> lower | <input type="radio"/> raise price |
| 19.. - 19.. | <input type="radio"/> lower | <input type="radio"/> raise price |
| 19.. - 19.. | <input type="radio"/> lower | <input type="radio"/> raise price |

Could you explain in some detail how the price of locally obtained material inputs was influenced by these policy instruments?

.....
.....
.....

(The following question may also be omitted if the enterprise does not import any goods.)

5. Have policies of confinement and price control affected the price of imported material inputs?

- no Go to the next question
- Dk/ws Go to the next question
- yes In which periods did policies of confinement and price control affect the price of these goods, and how did it affect the price of these goods?

- | | | |
|-------------|-----------------------------|-----------------------------------|
| 19.. - 19.. | <input type="radio"/> lower | <input type="radio"/> raise price |
| 19.. - 19.. | <input type="radio"/> lower | <input type="radio"/> raise price |
| 19.. - 19.. | <input type="radio"/> lower | <input type="radio"/> raise price |

Could you explain in some detail how the price of imported material inputs was influenced by these policy instruments?

.....
.....
.....

One policy instrument specifically affecting the price of capital is the use of capital-based taxes or the exemption from these taxes in the form of tax holidays and accelerated depreciation.

6. Have capital-based taxes or the exemption from these taxes affected the price of capital for the enterprise?

- no Go to the next question
- Dk/ws Go to the next question
- yes How and during which periods did capital-based taxes or the exemption from these taxes affect the price of capital goods?
 - 19.. - 19.. lower raise price
 - 19.. - 19.. lower raise price
 - 19.. - 19.. lower raise price

Let us turn now to the availability of material inputs for your enterprise. The allocation of credits in the form of loans to enterprises can be affected by the government by administering regulations which apply to the central bank and private banks. In such a case some enterprises can count on loans whilst other enterprises are excluded from loans.

7. How has credit been allocated to this enterprise during the period that this enterprise has been set up and has been operative?

.....

.....

.....

8. Has the allocation of credit affected the availability of material inputs for the enterprise?

- no Go to the next question
- Dk/ws Go to the next question
- yes How and during which periods did credit allocation affect the availability of these goods?
 - 19.. - 19.. lower raise availability
 - 19.. - 19.. lower raise availability
 - 19.. - 19.. lower raise availability

(The following two questions can be omitted if the enterprise does not obtain inputs from abroad.)

The availability of imported material inputs can be affected by import quotas imposed by the government. Import quotas are physical restrictions on the inflow of imports, which in other words, means as much as that the amount of imports of a certain good is restricted.

9. Have import quotas affected the availability of imported material inputs?

- no Go to the next question
- Dk/ws Go to the next question
- yes How and during which periods did import quotas affect the availability of these goods?

- | | | |
|-------------|-----------------------------|--|
| 19.. - 19.. | <input type="radio"/> lower | <input type="radio"/> raise availability |
| 19.. - 19.. | <input type="radio"/> lower | <input type="radio"/> raise availability |
| 19.. - 19.. | <input type="radio"/> lower | <input type="radio"/> raise availability |

The availability of imports is also affected by foreign exchange controls. Foreign exchange controls are restrictions on the amount of foreign exchange an enterprise can obtain to import inputs.

10. Which of the following possibilities has been used to obtain foreign exchange, and when have these possibilities been used?

- | | | | |
|--|-------------|-----|-------------|
| <input type="radio"/> Free resources managed by the BoT | 19.. - 19.. | and | 19.. - 19.. |
| <input type="radio"/> Own funds (Private) | 19.. - 19.. | and | 19.. - 19.. |
| <input type="radio"/> Export retention (BoT/BET) | 19.. - 19.. | and | 19.. - 19.. |
| <input type="radio"/> Loans and grants managed by the Treasury | 19.. - 19.. | and | 19.. - 19.. |
| <input type="radio"/> Import Support (Treasury) | 19.. - 19.. | and | 19.. - 19.. |
| <input type="radio"/> Open General License (BoT) | 19.. - 19.. | and | 19.. - 19.. |
| <input type="radio"/> Foreign exchange bureaux | 19.. - 19.. | and | 19.. - 19.. |
| <input type="radio"/> General Retention Scheme | 19.. - 19.. | and | 19.. - 19.. |

11. Are there any other ways in which the enterprise has obtained foreign exchange which have not been mentioned above?

.....

.....

.....

12. Have foreign exchange allocations affected the availability of imported material inputs for the enterprise?

- no Go to the next question
- Dk/ws Go to the next question
- yes How and during which periods did foreign exchange allocation affect the availability of these goods?

- | | | |
|-------------|-----------------------------|--|
| 19.. - 19.. | <input type="radio"/> lower | <input type="radio"/> raise availability |
| 19.. - 19.. | <input type="radio"/> lower | <input type="radio"/> raise availability |
| 19.. - 19.. | <input type="radio"/> lower | <input type="radio"/> raise availability |

Yet another policy instrument effecting the availability of both domestic and imported material inputs is the state of the infrastructure provided by the government. In this case infrastructure includes roads, bridges, ports and storing facilities, in short all the provisions made by the government to facilitate transportation of material inputs.

13. Has the state of infrastructural provisions affected the availability of local material inputs?

- no Go to the next question
- Dk/ws Go to the next question
- yes How and during which periods did the state of the infrastructural provisions affect the availability of these goods?
 - 19.. - 19.. lower raise availability
 - 19.. - 19.. lower raise availability
 - 19.. - 19.. lower raise availability

(The following question can be omitted if the enterprise does not import material inputs)

14. Has the state of infrastructural provisions affected the availability of imported material inputs?

- no Go to the next question
- Dk/ws Go to the next question
- yes How and during which periods did the state of the infrastructural provisions affect the availability of these imported goods?
 - 19.. - 19.. lower raise availability
 - 19.. - 19.. lower raise availability
 - 19.. - 19.. lower raise availability

15. Do you think that a policy instrument has been left out which might have affected the price or availability of material inputs for this enterprise?

- no Go to the next question
- Dk/ws Go to the next question
- yes Which policy instrument are you referring to, and how has it affected the price and availability of material inputs?
.....
.....
.....

16. Can you think of any other causes for changes in the price and availability of material inputs?

- no Go to the next section
- Dk/ws Go to the next section
- yes What are they and when did they occur?
.....
.....
.....

IV. Policy instruments affecting the price of labour

Governments have policy instruments at their disposal with which they can influence the price of labour. One of the most common policy instruments is the minimum wage law, a law which is used to guarantee a minimum income for the employees, and to slow down inflation by controlling domestic consumption. Consequently it can lower or raise the price of labour for an enterprise.

1. Have changes in the minimum wage law affected the price of labour for the enterprise?

- no Go to the next question
 Dk/ws Go to the next question
 yes How and during which periods have changes in the minimum wage law affected the price of labour?

19.. - 19.. lower raise price
19.. - 19.. lower raise price
19.. - 19.. lower raise price

Apart from the minimum wage law the government can also use other forms of labour legislation, regarding for example working conditions, fringe benefits and social security.

2. Has other labour legislation affected the price of labour for the enterprise?

- no Go to the next question
 Dk/ws Go to the next question
 yes How and during which periods has other labour legislation affected the price of labour?

19.. - 19.. lower raise price
19.. - 19.. lower raise price
19.. - 19.. lower raise price

Government policies towards unions also affect the price of labour, since labour unions in turn can influence the wage levels, working conditions, fringe benefits and social security.

3. Have policies towards labour unions affected the price of labour for the enterprise?

- no Go to the next question
 Dk/ws Go to the next question
 yes How and during which periods have policies towards unions affected the price of labour?

19.. - 19.. lower raise price
19.. - 19.. lower raise price
19.. - 19.. lower raise price

Finally, labour based taxes, such as income taxes, influence the price of labour.

4. Have labour based taxes affected the price of labour for the enterprise?

- no Go to the next question
 Dk/ws Go to the next question
 yes How and during which periods have labour based taxes affected the price of labour?

19.. - 19.. lower raise price
19.. - 19.. lower raise price
19.. - 19.. lower raise price

The price of labour is effected indirectly by government policy if the education level of potential local employees is insufficient to perform certain skilled tasks within the enterprise. In such a case specialists have to be contracted from abroad, who are generally more expensive than locally recruited personnel.

5. Has the enterprise ever had to contract specialized employees from abroad due to a lack of skilled domestic employees?

- no Go to the next question
 - Dk/ws Go to the next question
 - yes When has this been the case and how has this affected the price of labour?
- 19.. - 19.. lower raise price
 19.. - 19.. lower raise price
 19.. - 19.. lower raise price

6. Do you think that a policy instrument has been left out which might have affected the price of labour for this enterprise?

- no Go to the next question
 - Dk/ws Go to the next question
 - yes Which policy instrument are you referring to, and how has it affected the price of labour?
-
-
-

7. Can you think of any other causes for changes in the price of labour?

- no Go to the next section
 - Dk/ws Go to the next section
 - yes What are they and when did they occur?
-
-
-

V. Policy instruments affecting the choice of goods to be produced and production techniques to be used.

There are a number of policy instruments which affect the relative profitability of different producers and the use of different production techniques. Consequently entrepreneurs favour the manufacturing of one product or the use of one production technique above another. The choice of the product to be manufactured or the choice of technology used is thus influenced. In certain cases entrepreneurs are limited or excluded with regard to certain sectors, as is the case with industrial licensing, when defined in terms of an entry agreement. In such a case licenses are used to reserve certain industrial activities for the public sector, or to limit the number of producers within one industrial subsector.

1. Has industrial licensing affected the choice of products to be manufactured when the initial investments were being considered?

- no Go to the next question
- Dk/ws Go to the next question
- yes How and when has this affected the choice of products which were to be manufactured?

.....
.....
.....

Another policy instrument which affects the choice of products to be manufactured is the granting of monopoly privileges. At times this is included in a license, but we will regard it as a separate policy instrument in this case. Monopoly privileges allow a producer to satisfy the demand of a market without experiencing competition from other enterprises, usually resulting in higher profits than would have been made in the case of two or more producers satisfying the demands of the same market.

2. Have monopoly privileges affected the choice of products to be manufactured when the initial investments were being considered?

- no Go to the next question
- Dk/ws Go to the next question
- yes How and when has this affected the choice of products which were to be manufactured?

.....
.....
.....

A government can also set up an industrial zone which is accessible to the manufacturers of certain products. This zone might include the provision of land, water, electricity and transportation facilities, thus encouraging the establishment of an industry, which might otherwise not have been established.

3. Has zoning affected the choice of products to be manufactured when the initial investments were being considered?

- no Go to the next question
- Dk/ws Go to the next question
- yes How and when has this affected the choice of products which were to be manufactured?

.....
.....
.....

A policy instrument which affects the choice of production technique is the request for foreign aid, since the provision of foreign aid is often tied to the demand that the production techniques used must be obtained from the aid offering country.

4. Have investments in the enterprise been carried out with the help of foreign aid?

- no Go to the next question
- Dk/ws Go to the next question
- yes Has this affected the choice of production techniques used. If so, when and how has this occurred?

.....
.....
.....

Governments can also use investment incentives such as tax reductions, granted tariff protection and subsidies to influence the use of certain production techniques.

5. Have investment incentives affected the choice of production techniques?

- no Go to the next question
- Dk/ws Go to the next question
- yes Has this affected the choice of production techniques used. If so, when and how has this occurred?

.....
.....
.....

6. Do you think that a policy instrument has been left out which might have affected the choice of products to be manufactured and the production techniques with which these products were to be manufactured?

- no Go to the next question
- Dk/ws Go to the next question
- yes Which policy instrument are you referring to, and how has it affected these choices?

.....
.....
.....

7. Can you think of any other causes which have influenced the choice of production techniques and products to be manufactured?

- no Go to the next section
- Dk/ws Go to the next section
- yes What are they and when did they occur?

.....
.....
.....

We have come to the end of the inventarisation of the policy effects on the input side of the enterprise. Let us turn now to the output side.

DEMAND SIDE

In theory the demand side of an enterprise can also be influenced by policy instruments. This side of the enterprise relates to the demand for the products the enterprise manufactures. Both local and foreign demand can be affected by government policies.

VI. Policy instruments affecting local demand

Some policy instruments affect the demand for an enterprises products through the price of competitive goods which are imported from abroad. Tariffs on imported goods for instance, raise the price of imported goods relative to domestically produced goods. If the imposed tariff causes the price of the imported goods to rise above the locally produced goods, consumers will be inclined to buy domestically produced goods, thus causing a change in demand for local manufacturers.

1. Has the demand for your products been affected by imposed tariffs on competitive imported products?

- No Go to the next question
- Dk/ws Go to the next question
- Yes When and how did tariffs on competitive imported goods affect the demand for your products?

- | | | |
|-------------|-----------------------------|------------------------------------|
| 19.. - 19.. | <input type="radio"/> lower | <input type="radio"/> raise demand |
| 19.. - 19.. | <input type="radio"/> lower | <input type="radio"/> raise demand |
| 19.. - 19.. | <input type="radio"/> lower | <input type="radio"/> raise demand |

A government might also impose import quotas on imported goods, limiting the supply of competitive imported goods, and thus, at an unaltered local demand level, raise the demand of locally produced goods.

2. Has the demand for your products been affected by import quotas on competitive imported products?

- No Go to the next question
- Dk/ws Go to the next question
- Yes When and how did import quotas on competitive imported goods affect the demand for your products?

- | | | |
|-------------|-----------------------------|------------------------------------|
| 19.. - 19.. | <input type="radio"/> lower | <input type="radio"/> raise demand |
| 19.. - 19.. | <input type="radio"/> lower | <input type="radio"/> raise demand |
| 19.. - 19.. | <input type="radio"/> lower | <input type="radio"/> raise demand |

Depending on the price of competitive imported goods and the demand elasticity of the local market, that is, the way in which demand changes along with changing prices, price controls of consumer prices can also affect local demand.

3. Have price controls of consumer prices affected the demand for your products?

- No Go to the next question
- Dk/ws Go to the next question
- Yes When and how did price controls of consumer goods affect the demand for your products?
 - 19.. - 19.. lower raise demand
 - 19.. - 19.. lower raise demand
 - 19.. - 19.. lower raise demand

Could you explain in some detail how the demand for your products was influenced by these policy instruments?

.....
.....
.....

Infrastructural provisions made by the government can influence the demand for an enterprises products by either enlarging or reducing the size of the market, depending on the number of people who can be supplied through the existing infrastructure.

4. Have the infrastructural provisions made by the government affected the local demand for your products?

- No Go to the next question
- Dk/ws Go to the next question
- Yes When and how did changes in the infrastructural provisions affect the demand for your products?
 - 19.. - 19.. lower raise demand
 - 19.. - 19.. lower raise demand
 - 19.. - 19.. lower raise demand

Local demand can also be influenced by the way in which government policies affect the income levels of potential consumers of your product. Examples are the wage levels and taxation.

5. Have government policies regarding the income levels of potential consumers of your products affected the local demand for your products?

- No Go to the next question
- Dk/ws Go to the next question
- Yes When and how did these policies affect the demand for your products?
 - 19.. - 19.. lower raise demand
 - 19.. - 19.. lower raise demand
 - 19.. - 19.. lower raise demand

2. Have export taxes affected the foreign demand for your products?

- No Go to the next question
- Dk/ws Go to the next question
- Yes When and how did export taxes affect the foreign demand for your products?
 - 19.. - 19.. lower raise demand
 - 19.. - 19.. lower raise demand
 - 19.. - 19.. lower raise demand

The opposite of export taxes are export subsidies, a policy instrument which lowers the world market price of an exportable good, thus affecting foreign demand.

3. Have export subsidies affected the foreign demand for your products?

- No Go to the next question
- Dk/ws Go to the next question
- Yes When and how did export subsidies affect the foreign demand for your products?
 - 19.. - 19.. lower raise demand
 - 19.. - 19.. lower raise demand
 - 19.. - 19.. lower raise demand

Could you explain in some detail how the foreign demand for your products was influenced by export subsidies?

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Similar to infrastructural provisions made by the government which influence the demand for an enterprises products by either enlarging or reducing the size of the local market, infrastructural provisions also affect the foreign demand by either enlarging or reducing the size of the market.

4. Have the infrastructural provisions made by the government affected the foreign demand for your products?

- No Go to the next question
- Dk/ws Go to the next question
- Yes When and how did changes in the infrastructural provisions affect the demand for your products?
 - 19.. - 19.. lower raise demand
 - 19.. - 19.. lower raise demand
 - 19.. - 19.. lower raise demand

5. Do you think that a policy instrument has been left out which might have affected the foreign demand for your products?

- no Go to the next question
- Dk/ws Go to the next question
- yes Which policy instrument are you referring to, and how and when has it affected the local demand for your products?
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6. Can you think of any other causes which have influenced the foreign demand for your products?

- no Go to the next section
- Dk/ws Go to the next section
- yes What are they and when did they occur?
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We have come to the end of the interview. I would like to thank you for your time and your patience.