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## Industrial policy and the political settlement in Tanzania

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# Industrial Policy and the Political Settlement in Tanzania



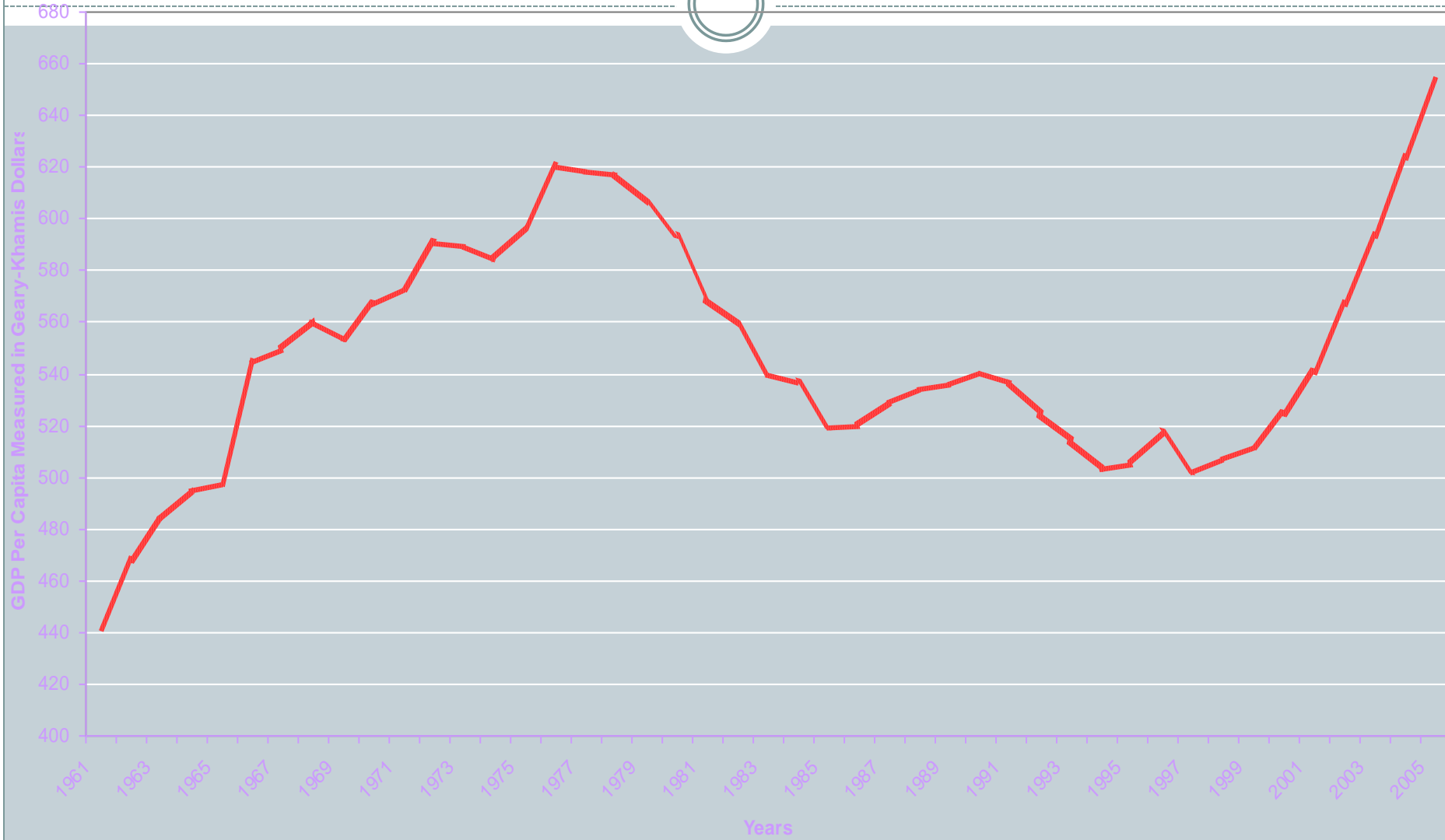
TANZANIA RESEARCH NETWORK

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# Tanzania GDP Per Capita 1961 - 2005



# Sectoral Growth in Tanzania Under Liberalisation



- Source Utz (2007)

Type of Economic Activity	Average annual growth rate		
	1990 – 94	1995 - 99	2000-05
Agriculture	3.1	3.6	4.8
Industry	2.0	5.4	9.0
Services	1.9	3.8	6.1

# Components of Industrial Growth



Source: World Bank (2007)

Type of Economic Activity	Average annual growth rate		
	1990 – 94	1995 - 99	2000-05
Industry	2.0	5.4	9.0
Mining and quarrying	11.8	14.8	15.2
Manufacturing	0.4	4.6	7.3
Electricity and water	4.0	5.7	4.4
Construction	2.2	3.5	10.3

# Theoretical Approaches to Explaining Manufacturing Success in Tanzania



- Neo-liberal – removal of constraints on markets led to a return to comparative advantage – role of the state is to support markets
- Developmental state – ability of the state to incentivise and discipline industrialists. State institutions are centralised to take long term decisions and implement mechanisms for disciplining rent recipients
- Political Settlement – combination of institutions and distribution of power

# Political Economy of 'Third World Socialism'



- Nature and extent of the revolution or political struggle that brought the socialist party to power.
- The extent to which the dominant class groups were able to consolidate their political power within the party state and create a centralised authority structure within the state.
- the extent to which formal institutions were created to give political voice to the workers and peasants that they claimed to represent, albeit that these institutions were often very weak or were subverted.
- extent to which this commitment to constructing socialism actually led to a change in the distribution of economic power away from the existing capitalist and emerging capitalist classes.

# Industrial Policy 1961 - 1967



Established an industrial sector from a very low base –

- industry grew rapidly with import substitution and protection, led by industries.
- Also there was diversification of the industrial base - Tanganyika's first five textile mills were established between 1961 and 1968.
- Expanding the role of Tanzanian-Asians in industry.



# Industrial Policy under Ujamaa



- Attempt to radically restructure of economic power by limiting the expansion of domestic and international capital.
- nationalisation of segments of existing industries
- creation new industrial parastatals.
- Basic Industrial Strategy of 1975 – meet the demands for manufactured goods through local production

# Relations between State and Private Manufacturing Under Ujamaa



- the extent to which nationalisation changed the ownership structure of industry was in many ways quite limited.
- half of all industry remained in private hands throughout the period
- many of the new parastatal investments were undertaken as joint ventures between the state and the private sector
- In other cases, the previous owners stayed on as managers under the new ownership structure.

# Relations between State and Private Manufacturing Under Ujamaa



- Political tensions – some Asian Tanzanian members of parliament but also policies often framed in anti-Tanzanian Asian language.
- 1970s – periods of heightened tension – nationalisation of houses.
- Informal relations between private sector traders and parastatal officials also constructed through racketeering
- The period of constraints on private sector accumulation were short and not well enforced – Hartmann argues that we see the ‘rise and rise’ of capital.

# Fixed Capital Formation by the Public and Private Sectors 1961 – 1998

Year	Public Sector			Total Public Sector	Private Sector
	Central Government	Non-profit Bodies	Parastatals		
1961	41.7	-	3.7	45.4	54.6
1965	18.9	8.4	4.3	31.6	68.4
1970	22.4	7.0	34.5	63.8	36.2
1975	23.8	7.2	31.0	62.0	38.0
1980	23.7	0.5	15.2	39.5	60.5
1985	11.4	0.8	22.8	34.9	65.1
1989	3.9	0.3	55.1	60.2	39.8
1990	3.4	0.2	36.9	40.6	59.4
1995	4.0	12.8	0.5	17.2	82.8
1996	2.6	18.0	0.5	21.1	78.9
1997	3.7	15.6	0.5	19.9	80.1
1998	15.5	3.4	3.5	22.4	77.6

Source: (World Bank 2002)

# Crisis in Industry



- Many constraints similar to other poor countries attempting rapid industrialization in the 1970s (oil crisis, shortage of foreign exchange)
- Capital investment expanded in industry but productivity fell dramatically - Very low level of capacity utilization.
- The expansion of subsidies coupled with falling productivity – little scope for control of parastatal managers
- Conflicts between managers and workers – CCM initially supported unions but then reversed its policy and restricted labour activism.

# Industrial Policy Under Liberalisation



- FDI promotion through fiscal incentives
- Privatisation
- Schemes to support the expansion of manufactured exports
- Policy called for indigenous manufacturing to be supported

# Expansion of FDI into Manufacturing



- Credibility of fiscal incentives for investors was strongly influenced by Tanzania's reputation for political stability in the eyes of foreign investors.
- Privatisation also brought in large flows of FDI – largely into low value added firms targeting the domestic markets and it was these firms that led to a return to growth in manufacturing after 1996.
- Legacies of state building and industrial investments from the ujamaa period important in explaining FDI expansion.

# Expansion of the Private Sector



- There was a rapid growth in the private manufacturing sector.
- The number of manufacturing firms owned by Africans had also expanded to around 44% but this was largely in small and micro enterprises.
- Official policy was to support indigenous manufacturing firms.
- By 2002, Tanzanian Asian's owned around 30% of all manufacturing firms but these were overwhelmingly medium to large scale industrial activities rather than the micro industries.
- 70 large manufacturing firms dominate manufacturing output and exports
- Inclusion of private sector within CCM ruling elite



# Changing Relations Between State and Private Sector Industrialists



- Gradual inclusion of business people within the formal framework of the ruling party.
- Hostility towards Asian capital was exhibited in the public debate about 'uzawa' (indigenisation) across the period.
- Open support by the state to the accumulation strategies of non-indigenous capital was sometimes politically difficult – very slow start to EPZ programme.

# Constraints on Industrial Policy Under Liberalisation



- EPZs implemented as ‘stand alone’ programme – more difficult to enforce performance standards.
- Corruption in import support schemes.
- Corruption in finance to privatized firms

# Conclusion



- Pace of industrialisation has been influenced by the extent to which the state has supported capitalist accumulation strategies in industry.
- particularistic nature of the relationship between domestic capitalists and the CCM led to fragmented support to individual industrialists
- Support to technological learning limited and unsuccessful – mainly resource based manufacturing.
- The ‘success’ story actually represents a return to the longer run growth of the manufacturing sector since independence.