

INDUSTRIALIZATION FOR INCLUSIVE DEVELOPMENT IN TANZANIA- LESSONS FROM EXPERIENCE

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- State Led Import Substitution Industrialization 1967-85
- Industrial development under structural adjustment programmes and associated policy reforms (1986-95)
- Industrial development under renewed development agenda 1996 and after
- Lessons and Issues for the Way Forward

BACKGROUND AND CONTEXT

- **The phases of industrial development**
 - industrial development under initial conditions (1961-1966),
 - state-led import substitution industrialisation (1967-1985),
 - Industrial development under structural adjustment programmes and associated policy reforms (1986-95)
 - Industrial development under renewed development agenda 1996 and after

BACKGROUND AND CONTEXT-2

■ Key messages

- Historically, the path of industrialization for inclusive development that been associated with improvements in human development through rising wages and employment as well as increasing the pool of resources available to the state through taxation to invest in social policies and collective goods. This has not been consistently in view of changing policies towards industrialization;
- Concerns in the initial period (lop sided industrial structure, social and economic differentiation and technological dependence) have not gone away:
- The renewed focus on industrialization calls for a careful consideration of the space for inclusivity within Tanzania's development vision and development plans drawing lessons from experience (consistent pursuit, competitiveness, agricultural and rural transformation, politics),

THE EARLY PERIOD 1961-67

■ Initial Conditions and Initiatives 1961-66

- The relationships that were established between the colonial master and the colonized Tanzania precluded attainment of self-generating and self-sustaining growth within their institutional setting
 - restrict accumulation,
 - Restricting expansion of the internal market and
 - Restricting labour absorbing capacity of the economy
- Lopsided structure of the economy serving interests of the colonial economies: export of raw materials and production of luxury consumer goods
- Plantation system in agriculture, reserve areas for supply of labour, social differentiation and regional inequalities
- Social differentiation and compartmentalization of society along racial lines in production and social provision.

THE EARLY PERIOD 1961-67 (2)

- The Three Year Development Plan (1961-63) and the First Five Year Plan (1964-69) did not interrogate the structure of the economy and the associated relationships..
- The main argument made by Rweyemamu (1973) is that the historical pattern of capitalist growth does not and cannot repeat itself because the process of growth of classical capitalist economies itself has changed fundamentally the very conditions that spawned it.
- Technological dependence by failing to develop skills, knowledge , facilities and organization that could spur further technological development
- Concerns: lop sided structure of the economy, social and economic differentiation, poverty, ignorance and disease.

STATE LED IMPORT SUBSTITUTION INDUSTRIALIZATION 1967-85

- In 1967 the Arusha Declaration charted the principles of socialism and self-reliance
- Ideological shift to socialism and self reliance: collective ownership of major means of production through nationalization and reliance on local resource- case for people centred development which guided the industrialization strategy
- Agricultural and rural transformation: Villagization perceived as good for production including village and rural industrialization and social provision.
- The basic industry strategy: structural and self reliance, basic needs and structural change together. Promoting convergence of demand and needs.
- Education for self reliance: contained economic and social perspective together

STATE LED IMPORT SUBSTITUTION INDUSTRIALIZATION 1967-85 (2)

■ Challenges emerged

- The environment thwarted competitiveness
 - was protective through import licensing, exchange controls and price controls based on the cost-plus principle.
- Lagging agriculture and Foreign exchange constraints
- Low levels of capacity utilisation in industry
- Technology transfer and development was limited

INDUSTRIAL DEVELOPMENT UNDER SAPS, 1986-95

- After a long debate (1981-86) with the international financial institutions (IFIs) SAPs were adopted
- objective of restoring economic stability and accelerating structural reforms
- Policy Reforms: SAPs- 1986-95
 - Separation of social and economic policy: addressing economic policy first.
 - Concerns over social policy omission – led to adoption of ESAP (1989-92) but social dimension as an add on.
- Trade liberalization was adopted presumably to force enterprises to compete with imports.
 - Closure of many industries- premature deindustrialization (by 1990, 22 out of 24 textile factories had closed)
 - Technologically shallowing
 - Two implications of deindustrialization

INDUSTRIAL DEVELOPMENT UNDER SAPS, 1986-95 (2)

- Premature deindustrialization of this type is likely to have severe negative effects on long-term growth,
 - Little had been achieved in terms of benefits of industrialization: lacking the technology, **skills**, and market access to compete higher up the value chain with the more developed countries.
 - Losses of share and market positioning in the context of changing international market structure, fixed capital, networks both in input sourcing and output markets, skills, tacit knowledge, and the other institutional qualities that are built up over.
- Privatisation:
 - Not strategic: rushed conditionalities with little ownership.
 - Context of private sector development not clarified
 - Short-term budget concerns rather rather than long term structural change

INDUSTRIAL DEVELOPMENT UNDER RENEWED DEVELOPMENT AGENDA 1996 AND AFTER

- In 1996, a 25 year Sustainable Industrial Development Policy for Tanzania (SIDP2020) was formulated.
 - priority to employment creation, economic transformation, and equitable development achieving a balance between import substitution and export orientation.
- Visions 2025
 - inclusive growth,
 - middle income country with transformation of agriculture and industrialization as well as high human development
 - Build a strong and competitive economy
 - Education: emphasis on creativity innovativeness and
- EPZ to attract and promote investments for an export-led industrialisation,

INDUSTRIAL DEVELOPMENT UNDER RENEWED DEVELOPMENT AGENDA 1996 AND AFTER

(2)

- The Integrated Industrial Development Strategy 2025 (June 2010) to provide concrete strategies to implement SIDP 2020 and build a competitive industry
 - improving existing development corridors- concentrated infrastructure development
 - promoting agriculture-led industrialization
 - industrial village concept whereby opportunities are created for the growth of micro and small enterprises.
- The strategy targeted six sub-sectors: Agro-processing, Textiles, Leather, Fertilizer and chemicals, Light machinery and Iron and steel.

LESSONS AND ISSUES FOR THE WAY FORWARD

- Lessons from history suggest that the path to industrialization has not been consistent and has lacked continuity
 - Case for mainstream industrialization in national development agenda (Vision 2025, SFYP, sectoral policies, Export Development Strategy and STI, FDI, development corridors, regional development strategy, positioning in the region, EPZ , PPP) all to be a coherent package, consistent and supportive of each other.
 - Guiding principle is critically important for realizing industrialization for inclusive development:
 - People centred development guided industrialization in the 1970s.

LESSONS AND ISSUES FOR THE WAY FORWARD (2)

- **Industrialization with competitiveness (lessons before and after SAPs)**
 - Trade policy for industrialization
 - industrialization facilitates trade, and trade also facilitates industrialization
 - Trade policy to promote industrial development and technological upgrading.
 - Industrialization to facilitate positioning in the national, regional and global value chains -promoting value addition through processing and manufacturing. .
 - increasing role of services; from trade in products to trade in tasks and activities and promote the increasing role of services in the process.
 - trade negotiations to consistently give priority to industrialization

LESSONS AND ISSUES FOR THE WAY FORWARD (3)

- Technology development and growing industrial complexity was not only arrested but there a reversal characterized by industrial shallowing e.g. in textiles (producing gray material instead of printed products).
 - Facilitating development of firm level capabilities and capacity to compete
 - Industrial parks
 - Investment in R&D infrastructure
 - FDI to be strategic
 - Before SAPs: Foreign investors participated through management agreements and as suppliers of equipment for industries.
 - After SAPs: FDI as how many dollars worth.
 - Now go for strategic FDI for technology.
 - Investment in human resources (education plus specialized training and industrial experience) especially STI
 - Investment in ICT

LESSONS AND ISSUES FOR THE WAY FORWARD (4)

- Transformation through industrialization in an agricultural and rural economy to driven largely by agricultural and resource-based products
 - upgrading in the context of resource based industrialization
 - case for agricultural transformation to drive industrialisation
 - transforming the rural economy (agriculture and non-agricultural economy)
 - what approach to transformation of the rural economy-lessons from pilots and case studies.
 - The strategy is to use industrial policy to improve productivity and competitiveness in labour-intensive and low-tech MSMEs to gradually diversify and upgrade into higher productivity and technologically upgraded enterprises.

LESSONS AND ISSUES FOR THE WAY FORWARD (5)

- **Industrialization is primarily a political project:**
 - Identifying and managing winners and losers e.g. traders and industrialists.
 - **Level and Pattern of Public investments:**
 - **Setting up the institutional framework for strategic investments and Implementation**
 - The experience of East Asia shows that the importance of industrial policy was partly reflected in the power vested in the ministries and other institutions responsible for industry.
 - Encourage public-private dialogue with a view to facilitating design interventions.
 - initiate national industrial policy experimentation and learning processes:
 - Build industrial policy management capabilities among key actors primarily through learning by doing.

**Thank you for
your attention**