Journal of the Geographical Association of Tanzania, Vol. 32, 2007:71-88

Industrial Development and Structural Change of the Economy of Tanzania

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Abstract

The structural change of the economy which the government pronounced in the long-term Basic Industries Plan (1975–1995), and substantiated in the long-term Perspective Plan (1980–2000) posed both challenges and prospects for the role of industrial sector in economic and social development of the country. The prominence of the basic industries strategy was reflected in the role it was planned to play in developing the capital goods industries, especially the metals engineering sub-sector. The sub-sector was planned to provide capacity for technological innovation thereby facilitating productivity growth and adaptation of technology to Tanzanian environment and factor availability. The study findings in this article show that the basic industries strategy which was intended to contribute to the structural change of the economy was constrained with various factors. The structure change was hardly realized.

Introduction

The economic structure in most developing countries, including Tanzania, is characterized by the dominance of the primary sector. The dominance of the primary sector in the economy is widely regarded as one of the indicators of underdevelopment. Structural change of the economy is a progressive shift of emphasis from primary sector to secondary sector. In advanced countries, a shift from primary sector such as agriculture to a manufacturing sector is evidenced by progressive increases of the share of manufacturing sector in the GDP. Kuznets (1986) points out that in Japan, for instance, the share of agricultural sector in the economy declined from 72% in the 1870s to 31% in the 1930s. In Canada, the share of agricultural sector in the economy dropped from 50% in 1879 to 20% in the 1920s.

Further, the structural change of the economy can be reflected in a network of inter-sectoral flows. Some sectors can be suppliers of inputs to other sectors in the economy. These developments may lead to effective network of backward and forward linkages, which may ultimately lead to structural change of the economy. The majority of developing countries

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lack efficient network of inter-sectoral flows. This is easily observed in their input-output tables which display limited inter-dependence among the productive sectors. Large shares of output in the developing countries are aimed at satisfying either final demand or export markets.

Structural change of the economy can further imply diversified trading partners and export. A reliance on primary exports is viewed as unfavourable because of unstable export prices, low income elasticities of demand, and unpredictable natural phenomena such as weather. The problem becomes worse when a country relies heavily on a single country or region for international trade. Any change in the currency, e.g., devaluation of the trading partner, can drastically affect the local currency of the host country. The succeeding sections discuss briefly the industrial structure of Tanzania at independence.

Tanzania's Industrial Structure at Independence (1961)

The structure of industrial sector at independence was, to a large extent, quite rudimentary. It was characterized by: (i) primary processing establishments mainly for export market; and (ii) simple consumer manufacturing establishments for the urban elite. The primary processing establishments consisted of activities such as cotton ginning, coffee hulling, sisal decorticating, tobacco curing, wattle extract, and vegetable oil processing. The simple consumer goods industries consisted of cigarettes, textiles, footwear, soap making, meat canning and beverages bottling.

In terms of ownership, these establishments were privately owned by transnational co-operations (TNCs) such as the British-American Tobacco Company (BAT Co. Ltd.), Coca-Cola Company, BATA Shoe Company Ltd., etc. In a few cases, a limited number of establishments were owned by Tanzanians of Asian origin. The manufacturing employment was around 20,000 workers out of a population of 10 million people. The share of manufacturing sector in the gross domestic product was less than 5%.

The factors for the low level of industrial sector of Tanzania have been summarized by Rweyemamu (1974). First, among the three East African countries (Tanzania, Kenya, and Uganda) Tanzania lacked a reliable capitalist social class that could invest in industrial activities in the country. Second, among the three countries, Kenya was a British settlers' colony per excellence. As a result, the socio-economic infrastructure was much more developed in Kenya than in the other two partner states. Tanzania was a mere trust territory with little economic importance to Britain. Tanzania's economy had been mould to suit the needs of German

market. Britain was also in dilemma about the status of Tanzania (Tanganyika) which was entrusted to it by the League of Nations after the defeat of Germany in WWI (1918). Germany was, on many occasions, threatening to regain her lost territories. On the other hand, the British settlers in Kenya were well-established. They acted as pressure groups to attract foreign investments into Kenya from Britain. Third, the common external tariff policy for the three countries resulted into a reinforcement of more industrial concentration in Kenya than in Tanzania and Uganda. Table 1 illustrates the sectoral shares in the gross domestic product of the three East African countries by 1962.

Table 1: Sectoral Shares in the Gross Domestic Product in East Africa, 1962

	Kenya		Tanzania		Uganda		E. Africa	
Economic Activity	£m	%	£m	%	£m	%	£m	%
Agriculture	39.6	22.0	48.5	39.4	46.4	43.0	134.5	32.8
Manufacturing	23.0	12.8	8.5	6.9	9.8	9.1	41.4	10.0
Mining & quarrying	0.8	0.4	6.8	5.5	2.6	2.2	10.2	2.5
Construction	6.8	3.8	8.0	6.5	3.9	3.7	18.7	3.6
Transport Communication Electricity & Water	25.2	14.0	15.7	12.7	8.3	7.7	49.2	11.9
Commerce & Finance	42.4	23.5	12.4	10.1	18.1	16.8	72.9	17.7
Government Services	42.4	15.6	17.3	14.0	7.3	6.7	52.6	12.8
Others	28.0	7.9	6.0	4.9	11.5	10.8	31.7	7.7

Source: Pearson (1969)

Table 1 shows that in 1962 Kenya's agricultural sector's share in the gross domestic product (GDP) was 22.0%, which was far much less than that of Tanzania (39.4%) and Uganda (43.0%). At the same time, the share of manufacturing sector in the GDP was 12.8% for Kenya, 6.9% for Tanzania, and 9.1% for Uganda. This structure implies that Kenya was relatively more industrialized than its partner states. On the basis of that structure the government of Tanzania resolved thus:

> The main structural need is to shift from the dominance of primary exports to pre-export processing of agricultural products or other manufactured products for export (URT, 1976).

This paper investigates the extent to which the structural shift of the economy has been implemented. From 1961 to-date a considerable time has elapsed, and that one would expect some structural changes to have occurred in the economy. To start with, the paper revisits the import substitution industrialization strategy which Tanzania adopted in the 1960s.

Import Substitution Industrial Strategy and the Structural Change of the Economy

Tanzania's early endeavours towards industrial development and structural change of the economy started, in earnest, with the Three Year Development Plan (1961–1964), and later with a comprehensive First Five Year Development Plan (1964–1969). The adoption of the strategy was prompted primarily by the escalating import dependence of light consumer goods resulting into contracting foreign exchange earnings. At the same time, the government aimed at diversifying the economy. The government employed various policy tools to implement the import substitution strategy. These included tariffs, quotas, subsidies, foreign exchange controls, and non-tariff barriers. Table 2 shows Tanzania's composition of imports. As Table 2 shows, the import of manufactured goods (SITC (5–8)) occupied a considerable part of Tanzania's import bill. The ratio of manufactured goods import bill to total import bill varied between 92.9% (1961) and 78.9% (1970), with the exception of the year (1969) when the ratio was high as 99.1%.

Table 2: Tanzania's commodity composition of imports 1961–1970 (Tsh mill)

SITC	Description	1961	1962	1963	1964	1965	1966	1967	1968	1969	1970
0	Food and live imports	68.0	59.2	50.0	52.9	70.9	103.1	81.1	105.2	418.2	175.9
1	Beverage & tobacco	4.0	4.0	2.0	8.1	6.0	10.0	9.1	8.3	14.8	18.5
2	Crude materials	20.0	18.1	40.0	10.0	10.1	10.1	10.2	18.4	27.4	31.5
3	Oil & lubricants	48.0	75.1	51.5	50.1	26.8	84.2	107.7	137.6	173.9	193.3
4	Vegetable & fats	6.0	n.a	7.3	6.9	8.1	12.0	7.9	8.2	22.9	29.1
5	Chemical and fertilizers	36.0	34.6	38.0	64.0	79.8	93.9	84.9	115.8	165.1	204.5
6	Manufactured goods	346.0	357.6	218.0	340.0	282.5	449.5	424.2	465.2	447.4	629.1
7	Machine and transport equipments	164.0	199.3	282.0	264.0	337.0	418.2	471.1	531.7	513.7	800.1
8	Miscellaneous manufactured goods	58.0	47.1	58.0	473.0	493.8	513.9	4319	443.3	122.3	151.9
9	Other commodities	0.9	0.9	0.9	0.9	1.4	1.4	2.3	5.2	22.8	19. 0
	Total.	**650.0**	**796.3**	**644.0**	**262.0**	**1410.0**	**1694.1**	**1637.6**	**1833.7**	**1710.1**	**2263.1**

The import bill of primary commodities (SITC (0– 4)) ranged between 7.1% (1961) and 21.1% (1970). The import structure confirms the contention that a bulk of Tanzania's foreign exchange during the period of import substitution industrialization strategy was used to import industrial machines and intermediate goods. The import bill of these machines worsened the balance of payment position.

The question of which industries should be given priority during the import substitution industrialization period has been addressed by many development economists. Writing about technological transfer from industrialized to developing countries, Todaro and Park (1989) argued that so long as developing countries had no control over the speed and direction of technological change and goals of industrial growth which they want to achieve, it would be hard to attain them. Therefore, they recommended the creation of domestic capital goods industries in which production would be geared to their own long-run technological requirements. They argue that these domestic capital goods industries should aim at generating local production capacities. They dismiss the contention that the machinery industry was too capital intensive for developing countries to embark on.

In our view, we are inclined to defend their contention. If Tanzania could afford a petroleum refining and cement industries, the question is why not the iron and steel industries? Once a steel industry is established, the machinery producing industries would be a logical sequence. It is the absence of locally produced machines and equipment that are the major source of most of the present balance of payment constraints, and the persistent dependence on primary sector.

Mahalanobis (1963) presented a more thorough theoretical analysis when he analyzed and presented a four-sector model for India. In his model, he placed emphasis on heavy industries with an eye on long-term economic growth. He argued that the ultimate objective of a developing country should not be economic growth per-se, but economic independence and real control of the whole economy. This, he contended, could be attained only if a country established its own capital goods industry that could produce machines for the production of other goods. He believed that this was the only way to have an effective import substitution industrialization strategy.

Briefly stated, the aim should not merely be to substitute imports with local production but to systematically effect and stimulate changes in the economy for future economic development. If a developing country has, for instance, iron ore and coal deposits which are economically exploitable, it is one thing for that country to import machines and technology to produce steel locally using its raw materials, and quite another for it to use its foreign exchange to import steel rolls, and a steel plant as the case has been with Tanzania's Tanga steel plant. Although Tanzania is endowed with abundant deposits of iron ore and coal in the south and southwest parts of the country it still imports steel rolls.

Apart from the implicit selection of industrial priorities during the import substitution period, further difficulties might arise especially in the choice of trade regime. Usually explicit policy, guided by priority industries, is imperative. Experience demonstrates that the lack of protection of infant industries from competition nips in the bud such infant industries, leading to a frustrated and stagnant industrial sector. On the other hand, excessive protection of such industries fosters inefficiency and stifles entrepreneurial initiative. The subsequent section discusses industrial development and economic structural change in the post-Arusha period.

Industrial Development in the Post-Arusha Declaration Period

After political independence the government of Tanzania was anxious to promote socio-economic development in the country. But the lack of capital, unwillingness to rely on foreign capital, coupled with the underlying distrust of market mechanism, led the government to chart out the Arusha Declaration in 1967. The principles of socialism and self-reliance were enunciated basics of the Declaration. The major means of production, which by then were own by transnational corporations, were nationalized and placed under public sector control. The change in ownership of enterprises was assumed to lay a firm foundation for industrial development and structural change of the economy as a whole.

However, it was later realized that the Arusha Declaration had not sufficiently addressed the complexity and dynamic character of policies and incentives necessary to drive the development process. The strategy was overtly based on state control of the commanding heights of the economy, i.e., the major means of production, exchange, and distribution.

Although Tanzania was more egalitarian than some of its immediate neighbours because of the Arusha Declaration, the sustainability of that achievement was increasingly eroded by the chronic balance of payment crisis, and the prolonged severe economic recession. The Declaration fell short of addressing explicitly the question of altering the structure of the industrial sector so that it could lead to sustainable structural change of the economy. Table 3 shows the trends of industrial production (value added) and employment in the period 1970–1980. Table 3 indicates that in 1975, for instance, employment increased by 4.7% but value added (production) decreased by 5%, and labour productivity dropped by 9.3%. In 1978 employment increased by as much as 21.1% while production decreased by 5.4%, and labour productivity dropped by 15.9%. In 1980 employment increased by 8.7% despite a dramatic fall in production and productivity by 17.3% and 24.0% correspondingly.

Table 3: The trends of Industrial Production and Employment 1970-1980 (1966 prices)

Year	Value added (Tsh million)	Rate of growth of value added	Employment (000)	Rate of growth of employment	Value added per employee	Rate of growth of value added/ employee
1970	484.8	12.6	48.3	-0.2	10037	12.8
1971	532.2	9.8	50.5	4.6	10539	5.0
1972	599.6	12.7	54.7	8.3	10962	4.0
1973	644.4	7.5	63.4	15.9	10164	-7.3
1974	702.4	9.0	70.0	10.4	10034	-1.3
1975	667.1	-5.0	73.3	4.7	9101	-9.3
1976	794.6	19.1	78.1	6.6	10174	11.8
1977	860.7	8.3	84.2	7.8	10222	0.5
1978	812.0	-5.4	94.4	12.1	8602	-15.9
1979	815.4	0.4	104.8	11.0	7781	-9.5
1980	674.0	-17.3	113.9	8.7	5917	-24.0

Source: Ministry of Finance (1983)

As such, employment increased independently of actual production. The growth of employment in industrial sector outstripped the growth of output, implying inefficient performance of the industrial sector.

Apart from comparison between production and productivity, comparison can also be made between total and industrial investment as Table 4 shows.

Table 4: Trends in Total and Industrial Investment 1970 – 1980 ***(1966 Prices)***

Year	Total investment (million Tsh)	Industrial Investment (million Tsh)	Industrial Investment as % of age of total investment
1970	1656	281	17.0
1971	1198	268	13.5
1972	1687	185	11.0
1973	1725	204	11.8
1974	1779	277	15.6
1975	1638	294	17.9
1976	1957	520	26.6
1977	1935	719	37.2
1978	2122	779	36.7
1979	2607	962	36.9
1980	2131	781	33.8

Source: *World Development Vol. II No. 6, June 1984.*

Table 4 demonstrates that the industrial sector was increasingly being allocated with more resources than other sectors (total investments) in the

economy. For instance, between 1970 and 1980, industrial investment was increasing by an average annual growth rate of 10.8%, while the overall national total investment was increasing at an average annual growth rate of 2.6%.

These developments can be interpreted that investments in new and expanded production capacities occurred at an increasingly high rate in the 1970s. The rate of employment was also increasing in large numbers to match with the expanding production capacities. In other words, the rate of growth in employment was closely linked to the expansion of production capacities.

But the additional production capacities were not fully utilized. Production stagnated or even decelerated due to various factors. Inadequate foreign exchange allocated to the industrial sector to import the necessary inputs was one of the most attendant factors that militated against industrial development. Table 5 depicts the outlays of foreign exchange allocated to industrial sector as percentage of the requested amount.

Table 5: Foreign Exchange Allocation to Industrial Sector as a Percentage of Requested Amount

Year	Raw Materials	Machines, spares equipment	Total
1970	48.5	39.3	58.5
1971	47.4	28.1	48.6
1972	51.3	27.6	52.1
1973	53.5	18.7	53.8
1974	58.2	17.9	47.2
1975	52.3	21.3	48.8
1976	49.1	23.8	35.6
1977	59.4	29.3	55.8
1978	51.4	29.1	48.9
1979	22.0	11.6	21.2
1980	25.0	8.0	23.6

Source: UNIDO (1983)

The additional production capacities constructed by high level investments in the industrial sector required increasing imports of industrial machines, intermediate goods, raw materials, components and spare parts. These requirements were to be financed by Tanzania's export earnings, which were declining. As Table 5 shows, the actual share of foreign exchange allocation to the amount requested by the industrial sector was progressively decreasing from 1970 to 1980.

In response to the crisis, the government initiated the National Economic Survival Programme (1981–1982). The main objectives of the programme included the pursuit of aggressive export drive to increase the much needed foreign exchange. Impetus was also given to agricultural sector to grow drought resistant crops such as millet, cassava, etc., to bridge the food deficit gap and save foreign exchange on food imports so that the money saved could be used to import industrial inputs and other necessities.

The second attempt of the government to address the economic difficulties was through the Structural Adjustment Programme (SAP (1982–1985)). The objectives of SAP on the industrial sector component were to: (i) increase the domestic supply of basic consumer goods; (ii) generate high industrial output (production) for export; (iii) minimize demands on the balance of payment for industrial expansion; and (iv) focus on the rehabilitation of existing industries.

In other words, SAP recognized the priority of industrial rehabilitation over setting up new factories. The industries to be rehabilitated were in the sub-sectors of food, beverages, tobacco, textile, leather, chemicals, construction (cement), and metal products. At a more general level, SAP aimed at restructuring the economic activities through the provision of incentives to producers, rationalizing government spending, improving industrial capacity utilization, and raising labour productivity.

Industrial Development and the Structural Adjustment Programme

In general, the economic performance in the immediate post-structural adjustment programme displayed mixed results. The programme made some positive contributions to the recovery of the economy through reforms in agricultural marketing institutions, tariffs and exchange rate reforms, investment regimes, the restructuring of parastatal organizations, and reforms in the financial sector.

But with regard to the industrial sector, especially the industrial rehabilitation programme, the SAP had not made much positive contribution for the following reasons. First, no attempt was made to assess the long-term economic viability of the enterprises to be rehabilitated. The data for rehabilitation requirements were based on estimates prepared by each plant's management with regard to physical plant, equipment repair, and replacement. The implication of this on foreign exchange saving was also not explicitly addressed. Many of the selected enterprises for rehabilitation were not likely to become competitive in the foreseeable future.

Second, the financial allocations for rehabilitation were heavily biased towards large-scale enterprises many of which were not viable even under better general conditions. There were many small and medium enterprises, which were quite efficient and viable for rehabilitation, but were not attended.

Third, the actual figures of financial requirements for rehabilitation were questionable. The reliance on firms' management for the estimates seemed to have inflated the needs for physical inputs. More importantly, the concentration of rehabilitation proposals on improving physical equipment implied very narrow conceptualization of what was really required to restore existing plants to reasonable operational standards of efficiency.

Enterprises should have not only been provided with physical rehabilitation requirements but also with the technical, organizational, managerial and training inputs necessary for efficient operation of the enterprises. Briefly, the overall rehabilitation requirements should have been carefully evaluated against the overall resources requirement in other sectors of the economy.

It was amidst economic recession, but with a modest economic growth, that Tanzania launched a long-term basic industrial plan (1975–1995).

The Long-Term Basic Industries Strategy (1975–1995)

As pointed out above, the structure of manufacturing sector prior to 1970s was dominated by simple consumer goods and agricultural processing firms for export. The Basic Industries Strategy was formulated and adopted in 1975. Several features distinguished the Basic Industrial Strategy, which Tanzania had adopted previously.

First, the Basic Industries Strategy emphasized the establishment of capital goods industries, especially the metals engineering sub-sector. Second, the strategy emphasized the utilization of local resources as far as possible to enhance backward and forward linkages which could lead to structural change of the economy.

The long-term plans are normally far reaching and implemented stage by stage. These stages are represented by five-year plans, which are also adjusted to the long-term objectives. Within the five-year plans there are annual plans that are intended to pinpoint and put in place the tasks envisaged in the five-year and long-term plans according to the prevailing conditions. To avoid concentration of industries into a few centres, the government divided country into industrial zones as shown in Table 6.

Table 6: Tanzania's Industrial Zones (1976 – 1981)

Zone Designation	Regions in Respective Zones
Eastern:	Dar es Salaam, Coast & Morogoro
Northern:	Tanga, Kilimanjaro & Arusha
Lake	Kagera, Mara, Mwanza & Shinyanga
South-Eastern	Mtwara, Lindi & Ruvuma
Central	Dodoma, Singida, Tabora & Kigoma
South-Western	Iringa, Mbeya & Rukwa

Source: *The Third Five Year Development Plan: 1976 – 1981 (1982)*

Industrial development depends, to a large extent on the provision of basic infrastructure, industrial sites, efficient transport, water, and energy. The division of the country into industrial zones was also intended to enhance infrastructural development in the regions, and structural change of the economy. Table 7 shows the projected structural changes in the economy.

Table 7: The Projected Structural Changes of the BIS (1975–1995)

1. Structural Changes:	1974	1980	1995
(a) Percentage share of value added:			
• Iron and steel industries	15.3	14.8	30.3
• Chemical industries	16.2	18.0	16.3
• Food, beverages & tobacco industries	32.0	29.1	21.2
• Wood & paper industries	11.5	10.6	9.9
• Non-metal industries	4.0	6.0	3.6
• Textile & Leather industries	21.0	21.5	18.7
Total	**100.0**	**100.0**	**100.0**
(b) Percentage Share of value added from	(c)	(d)	(e)
• Export Products	4.4	5.9	2.5
• Products from imported inputs	48.4	45.8	14.8
• Products from local inputs	47.2	48.3	82.7
Total	**100.0**	**100.0**	**100.0**
2. Industrial growth			
(a) (i) Value added (Mill.Tsh)	1,266	2,533	8,216
(ii) Annual growth (%)	-	11.9	9.2
(b) (i) Employment ('000 people)	80	130	400
(ii) Employment growth p.a. (%)	-	9.0	8.0

Source: *Third Five Year Plan for Economic & Social Development (1982)*

As it can be noted from Table 7, the production capacity of the iron-based industries was planned to increase considerably, from 15.3% of value-added to over 30% during the long-term period. The iron and steel industry was planned to feed the metal fabricating and engineering industries such as UFI, ALAF complex, the bicycle plant at Mwenge, and the Mbeya Farm Implement Factory. The chemical industry was planned to provide inputs to agricultural sector in the form of fertilizers and insecticides.

In terms of broad inter-sectoral linkages, the agricultural sector was projected to provide raw material inputs to agro-based industries and food to industrial workers. Both agricultural and manufacturing sectors were planned to develop harmoniously to avoid input and supply bottlenecks.

Another notable feature of the basic industries strategy is that the projected value added for industrial products using local inputs was to increase from 47.2% (1974) to over 80% (1995). On the other hand, the value-added for industrial products using imported inputs was planned to decrease from 48.4% (1974) to 14.8% (1995).

The total industrial value added was projected to increase from Tsh 1,266m (1974) to Tsh 2,352m (1980), and would hit a mark of Tsh 8,216m by (1995). The implied growth rate was 9.2% per annum from 1980 to 1995. Furthermore, the government's determination to structural change of the economy was also envisaged in the long-term perspective plan (1980–2000). The projected growth rates of various sectors were as summarized in Table 8.

Table 8: Tanzania's Projected Gross Domestic Product (1980–2000) (1980 Prices)

Sector	1980		2000		% of Growth per annum
	Tsh Mill	% of GDP	Tsh Mill	% of GDP	
Agriculture & natural resources	21,294	50.3	49,425	30.0	4.3
Mining	212	0.5	4,898	3.0	17.0
Manufacturing	4,022	9.5	30.824	19.0	10.6
Electricity & water	339	0.8	3,270	2.0	12.0
Transport and communication	2,709	6.4	14,701	9.0	8.9
Construction	1,270	3.0	9,876	6.0	10.8
Commerce	4,995	11.8	19,694	12.0	7.1
Finance	2,921	6.9	11,517	7.0	7.1
Administration & other services	4,572	10.8	19,284	12.0	7.3
Total	**42,334**	**100.0**	**163,489**	**100.0**	**7.0**

Source: *United Republic of Tanzania, the long-term Perspective Plan (1980-2000), 1981:31.*

Table 8 illustrates the government's commitment to the structural change of the economy by projecting to reduce the share of agriculture and natural resources in the gross domestic product (GDP). The share of agriculture and natural resources was projected to decline from 50.3% in 1980 to 30.0% by the year 2000. On the other hand, the share of manufacturing sector in the GDP was projected to rise from 9.5% in 1980 to 19.0% by the year 2000.

In support of the government's commitment to the economic structural change, the banking system directed more of its credits to the manufacturing than to agricultural sector. Table 9 shows the sectoral credit structure in the 1990s.

As can be seen from Table, about 8.4% of the total credits (1990) were allocated to the agricultural sector against 22.7% allocated to manufacturing and mining sectors. In 1994, credits to agricultural sector increased by a mere 0.6% to 9.0%, while credits increased to 26.8% in the manufacturing and mining sectors.

Table 9: Commercial Banks' Sectoral Credit Structure (%)

Economic activities	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
Agriculture	8.4	9.6	7.7	6.6	9.0	8.1	11.7	7.5	7.5	6.0
Manufacturing & Mining	22.7	21.0	19.0	18.7	26.8	21.2	25.2	23.6	23.1	26.4
Transportation	2.4	2.2	2.5	3.9	3.9	1.0	5.9	8.1	9.1	12.7
Tourism	0.8	1.0	2.2	1.0	0.8	0.7	1.4	0.9	0.8	0.9
Marketing of Agr. Produce	31.4	36.6	24.6	25.2	26.0	19.7	6.0	1.4	2.6	2.0
Export of Agric. Produce	1.3	1.4	3.3	2.3	3.4	2.0	2.4	1.7	0.8	0.7
Public Administration	7.3	5.1	5.8	9.7	3.6	5.0	5.3	2.8	2.0	3.6
Trade in capital goods	0.3	0.3	1.1	0.9	1.0	0.0	0.0	0.2	0.0	0.0
All trade	20.6	11.9	22.3	22.6	20.0	18.0	15.0	23.6	26.0	24.8
Specified Financial Institutions	1.1	1.4	2.8	2.9	0.8	1.4	2.3	3.4	2.3	3.1
Other	3.7	9.5	8.7	5.3	4.7	22.1	24.8	26.9	24.6	19.8

Source: *The Planning Commission, Economic Survey, 2000 Dar es Salaam*

For the period under consideration, credit allocation to the agricultural sector decreased from 8.4% (1990) to 6.0% (1999). But credits to manufacturing and mining sectors increased from 22.7% (1990) to 26.4% (1999). However, these credits were only in local currency, which could not be used to import the much-needed industrial inputs such as intermediate goods.

What has emerged from the foregoing discussion is that the goal of structural change of the economy was hardly realized. The World Bank (1989) points out that price of imported inputs rose steadily from 10.8% (1979) to 24.5% (1988) as the country relied on self-reliance through maximum mobilization of local resources. This trend implies that most of the industrial inputs did not originate from the domestic economy.

The anticipated success of SAP reforms hinged on the assumption that foreign capital inflow would be forthcoming. But because this was not the case, the effectiveness of those reforms was seriously crippled by the low level of import capacity, which was progressively decreasing as shown in Table 5. Inflation continued to run at 30% per annum. Shortages of both consumer goods and foodstuff were also rampant.

By the mid-1980s it was becoming clear that Tanzania's restrictive external trade policies and the consequent decline in exports were seriously undermining the economic performance, particularly the industrial sector. To address these issues, the government launched the Economic Recovery Programme (ERP) (1986–1989).

Industrial Development and the Economic Recovery Programme

One of the objectives of the Economic Recovery Programme was to increase the profitability of cash crops by introducing multiple marketing channels, and allowing farmers to receive a higher share of the proceeds from export sales than before. The government attempted to restructure the marketing boards to improve efficiency. But that goal did not occur until in 1994 when regulations were issued to allow private sector competition in marketing and processing of cash crops.

The gradual recovery in Tanzania's exports, because of the ERP, led the government to a steady relaxation of foreign exchange constraints; and facilitated the liberalization of imports. An important step was the 1986 rationalization of import tariff rates, which reduced the trade-weighted average tariff rate from 35 to 23. The reduction in the tariff burden was complemented by two key liberalization measures. The first was the introduction of an *'open general license system'*, under which import licenses were provided to eligible importers. The second measure was the creation of the 'own fund' facility. Under this facility import licenses were issued to importers who used their own foreign exchange holdings to pay for specified imports. Therefore, the government adopted a fully-fledged economic liberalization towards the beginning of the 1990s to attract the inflow of foreign resources for industrial investment, and for investment in other sectors of the economy. We should note here, however, that economic liberalization in countries like Tanzania should be carefully exercised. Economic (trade) liberalization and industrial development in countries like Tanzania should go beyond neo-classical economics of *laissez-faire* government. We still support the view that the role of the government in economic development is quite important.

Experience demonstrates that governments in the Far East and South East Asia have been the driving forces for the rapid industrial growth and economic development registered in those countries. In South Korea, for instance, the government co-operates with industrialists, bankers, and farmers in deliberating over economic investment projects. The economic plans are extensively discussed by both the government and the private sector before they are endorsed for implementation.

In Japan, the government intervenes in the economy to set sectoral priorities, mobilize resources to hasten economic development, protect and nurture infant industries, and also regulate the flow of technology into and out of Japan. In Thailand, the government has established a joint public and private sector committee under the chairmanship of the Prime Minister. The committee co-ordinates dialogue on socio-economic plans between the government and the public before the plans become operational.

As such, although Tanzania has relaxed trade restrictions and privatized state-owned enterprises, the government should not detach itself from monitoring the performance of the enterprises. Here, the contention that the government should intervene in the economy should not be confused with the pursuance of a centrally planned economy that are commonly associated with socialist economies. Our concern is that, at this stage of industrial development, market forces should not be allowed to take their own course. They should be harnessed and spurred on, and it should be the responsibility of the government to map out a general field for the market forces to play.

Conclusion

The implementation of the Basic Industries Strategy was limited by resource constraints for investment and infrastructural support. Capacity utilization, which was as high as 74% in 1975, dropped drastically to 20% during the period. Various reforms such as SAP, ERP, etc., which were implemented to restore the sector' capacity utilization could not achieve to the expected results.

The government launched a long-term industrial plan (1996–2020) called Sustainable Industrial Development Policy (SIDP). Among its policy objectives were human development, economic transformation, contribution to external balance, and equitable development. Closely related to the sustainable industrial development policy, the government undertook industrial sector survey/competitiveness in the context of the integrated industrial development programme. The main objective of the industrial sector survey was on key actions required to improve the competitiveness of Tanzania's industries.

A sustainable competitive industry requires a sound capital goods industry, especially the engineering sub-sector, which was succinctly addressed in the Basic Industries Strategy. There is a need to re-examine and adopt the Basic Industries Strategy again. Basic industries such as those producing industrial machines, metal and woodworking machines, farming equipment are *sine qua non* for a sound industrial development necessary for a competitive, industry and structural change of the economy in the country.

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