Industrial Manufacturing and Trade Development in Tanzania

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Introduction

The paper addresses the performance of manufacturing and trade sector and the factors that inhibit sustainable growth of the sector. It is organized around six sections. Section I presents the features of industrial manufacturing sub-sector in Tanzania. Section II provides an overview of the aggregate performance of industrial manufacturing. Section III examines employment and investment trends. Section IV dwells on trade performance and development. Section V underlines briefly, the educational system and tertiary training of Tanzania as a source of industrial manpower. Section VI recapitulates the paper and charts out the way forward.

I

In the 1970s and 1980s Tanzania developed a manufacturing industrial structure that was characterized by two features: first, industries that were intended to manufacture basic commodities to cater for the needs of the majority of the people; second, industries that were to produce intermediate goods to form a linkage between basic and capital goods (large-scale) industries.

Large-scale industries were to be implemented at the Central Government level while industries (small-scale and medium enterprises) for the basic needs were to be implemented at regional and district levels. The mandate to initiate industrial projects at regional and district levels fell directly on the district development corporations (DDCs), co-operative groups and on individuals. The small and medium enterprises were supported by the Small Industrial Development Organization (SIDO) which was formed in 1973 for that purpose.

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The organization (SIDO) was formed to encourage the local people to establish small-scale and medium enterprises. It was charged with the functions of consultancy, training, production management and imparting marketing skills. Through SIDO, industrial estates were established in almost all regional centres in the country. The centres were planned to become a nucleus from where manufacturing industries would expand in the regions. They manufactured a variety of products such as castings, forgings, spare parts, hand tools, nails, bolts and nuts.

However, the small-scale and medium enterprises could not fare well due to regulatory bottlenecks that prevailed during the era of administrative allocation of resources that favored large-scale firms. The financial institutions also tended to avoid extending credits to small-scale enterprises due to apparently high incidences of default.

On the other hand, large-scale enterprises continued to have access to resources of financial institutions. The large-scale enterprises were intended to raise efficiency by enhancing inter-and intra-sectoral linkages in the economy. They were expected to increase the share of investment and generate employment opportunities leading to structural change in the economy in general. The succeeding section provides an aggregate overview of the performance of industrial manufacturing.

II

The aggregate performance of industrial manufacturing grew rapidly between the mid-1970s and on the on-set of economic crisis in the early 1980s. Firms appeared generally unresponsive to market signals. Capital goods prices remained constant in terms of final products although real wages dropped. Nevertheless the fall in relative prices of labour did not encourage more labour-intensive industrial investments nor did firms reduce the number of workers. Table 1 shows an aggregate overview of the industrial performance (1987—1995).

Table 1: An Aggregate Overview of The Performance of Industrial Manufacturing

		Absolute Amount			Share Total (%)			Increases 1987-1995	
		1987	1991	1995	1987	1991	1995	Absoulute	Share
I	Value Added (T.shs. Million)							Amount	Total (%)
a	Consumer Goods	124.3	281.6	538.4	56.3	59.2	58.9	414.1	59.7
	Food and Food Products	80.4	125.7	208.5	36.4	26.4	22.8	128.1	18.5
	Non-food Products	43.9	155.9	329.9	19.9	32.8	36.1	286.0	41.3
	Textile and Clothing *	18.5	88.3	194.4	8.4	18.6	21.3	175.9	25.4
b	Intermediate Goods	87.6	142.7	302.8	39.6	30.0	33.1	215.2	31.0
	Basic Chemicals, non-edibe oils	4.8	30.6	58.0	37.4	8.6	26.8	53.2	7.7
	Petroleum Products	n.a.	n.a.	n.a.	2.2	21.4	6.3	n.a.	n.a.
c	Capital Goods	6.0	48.2	63.3	4.1	10.8	8.0	57.3	8.3
	Other Manufacturing	3.1	2.9	9.8	n.a.	n.a.	n.a.	2.2	0.3
	Total Manufacturing (Value Added)	221.0	475.4	914.3	100.0	100.0	100.0	693.3	100.0
II	Employment (thousands)								
a	Consumer Goods	19.0	31.0	43.6	67.8	71.4	68.8	24.6	69.7
	Food and Food Products	9.4	11.9	16.1	33.5	27.3	25.5	6.7	19.0
	Non-food Products	9.6	19.1	27.4	34.3	44.0	43.3	7.8	50.4
	Textile and Clothing *	5.4	14.7	19.6	19.2	22.9	30.9	14.2	40.2
b	Intermediate Goods	8.1	10.2	16.1	28.9	23.6	25.4	8.0	22.7
	Basic Chemicals, non-edibe oils								
	Petroleum Products	0.3	0.6	1.2	1.1	1.4	1.9	0.9	2.5
c	Capital Goods	0.6	1.4	2.9	2.0	3.1	4.6	2.3	6.5
	Other Manufacturing	0.4	0.8	0.8	1.4	1.9	1.2	0.4	1.1
	Total Manufacturing (Employment)	28.1	43.4	63.4	100.0	100.0	100.0	35.3	100.0

N.B: (i) n.a = Not available
(ii) * = Not included in absolute amount

Source: Computed from Ntaional Bureau of Statistics data, various industrial production surveys.

In 1995 (Table 1) almost 60 (59.7) percent of value added and nearly 70 (69.7) percent of employment in large-scale manufacturing industries originated from the consumer goods industries. Even more striking, the share of consumer goods increased only marginally during the (1987—1995) period; 59.7 percent of the increase in value added and 69.7 percent of the increase in employment came from the consumer goods industries.

The slight increase in the overall share of consumer goods production masks some important changes in relative contribution of particular industries. The contribution of food and non-food products declined from 36.4 percent of value added in 1987 to 22.8 percent in 1995, while non-food consumer goods nearly doubled as a proportion of total value added from 19.9 percent in 1987 to 36.1 percent in 1995. Textiles and clothing production accounted for much of the latter increase.

In fact, textiles and clothing accounted for 25.4 percent of the total increase in large-scale manufacturing industries value added and 40.2 percent of increased employment (1987 to1995). A different pattern emerges from the trends of gross output as shown

in (Table 2).

Table 2: Structure of Gross Output in Manufacturing Industries 1987 - 1995

Industries \ Output	Gross output (T.shs milion)			Share of total (percent)			Value added / Gross output (percent)		
	1987	1991	1995	1987	1991	1995	1987	1991	1995
Consumer goods	779.1	963.7	1741.2	57.5	55.0	48.6	16.0	29.2	30.9
Textiles and Clothing	263.0	228.3	538.4	19.4	13.0	15.0	7.0	38.7	36.1
Intermediate goods	256.0	391.8	996.4	18.9	22.4	27.8	34.2	36.4	30.4
Capital goods	14.3	140.2	269.3	1.1	8.0	7.5	42.0	34.4	23.5
Other maanufacturing	42.2	26.8	38.4	3.1	1.6	1.1	7.3	10.8	25.5
Total manufacturing	1354.6	1750.8	3583.7	100.0	100.0	100.0	20.2	27.2	25.5

Source: As Table 1.

As table 2 shows, consumer goods production declined from 57.5 percent (1987) to 48.6 percent (1995). The share of producer goods industries in total gross output rose from 20 percent (1987) to over 30 percent (1995). This is in contrast with the trends in value added pointed out in (Table 1) in which the share of consumer goods production actually increased slightly between 1987 (56.3%) and 1995 (58.9%).

The contrast is due to changes in the proportion of value added in gross output. The consumer goods industries in 1987 were predominantly low value added industries. The ratio of value added to output was only 16 percent (Tables 1 & 2). It increased remarkably to 30.9 percent in 1995 due to the change in textiles and clothing production away from low value cotton ginning to high value added spinning and weaving.

In the producer goods industrial sub-sector, the ratio of value added to gross output was initially high (34.6%) in 1987 for intermediate and capital goods taken together. But the ratio decreased to 28.9 percent in 1995. The decrease was due to the growth of relatively lower value added producer goods industries.

The overall ratio of value added to gross output rose from 20.2 percent (1987) to 27.2 percent (1991) and to 25.5 percent (1995). This relatively low share of value added in gross output reflects the continued predominance of industries involved in simple processing of raw or semi-finished materials. More specifically, Table 3 illustrates the growth trends in manufacturing value added between 1996 and 2005.

Table 3: Growth Trends in Manufacturing Industries Value Added 1996-2005

Year \ Growth	GDP T.shs. Million	Manuf. Value Added T.shs. Million	Manuf. share in GDP (%)	GDPAnnual Growth Rate (%)	Manuf. Annual Growth Rate (%)
1996	1,401,711	111,894	8.0	4.2	4.8
1997	1,448,090	117,489	8.1	3.3	5.0
1998	1,505,827	126,887	8.4	4.0	8.0
1999	1,577,292	131,491	8.3	4.7	3.6
2000	1,654,319	137,809	8.3	4.9	4.7
2001	1,749,358	144,647	8.3	5.7	4.9
2002	1,857,175	156,219	8.4	6.2	8.0
2003	1,962,432	169,653	8.6	5.7	8.6
2004	2,094,516	184,218	8.8	6.7	8.6
2005	2,237,079	200,797	9.0	6.8	9.0

Source: BOT, Economic Operations and Bulletins 2005

The rate of growth of value added in manufacturing industries has been more rapid than the rate of economic growth as a whole with the exception of years 1999 (3.6%), 2000 (4.7) and 2001 (4.9%). In 2005, manufacturing sector registered 9.0percent growth compared to 8.6 percent (2004). The increase in the growth rate was attributed to increased production of cement, beverages and textiles, BOT (2005). However, although the rate of growth in manufacturing sector almost doubled between 1996 and 2005, its share to the GDP was almost static. It ranged between 8.0 percent (1996) and 9.0 percent (2005) implying an average share of 8.4 percent annually.

On the other hand, the economic performance, in general, continued to display a growth momentum of 6.8 percent (2005) compared to 6.7 percent (2004) and 5.7 percent (2003) compared to 6.7 percent (2004) and 5.7 percent (2003). This trend suggests that, sectors other than manufacturing ones have been contributing much more to the GDP than the manufacturing sector. The outstanding achievement in the growth is a reflection of the effects of the on-going economic reforms undertaken by the Government since the 1990s. The reforms range from privatization of state assets to trade liberalization and the pursuance of prudent fiscal and monetary policies.

However, the sector also experienced several obstacles arising from an increase in oil prices and regular power cuts. In the last quarter of 2005, these obstacles impacted negatively on the industrial production and product prices. At the same time, the continued importation of sub-standard products into the local market poses unfair competition with the local industries. Table 4 depicts the shares of selected

Table 4: The Share of Manufacturing Sub-sector in Total Manufacturing Value Added (percent)

Activities	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Food, Beverage and Tobacco	34.6	43.5	38.4	39.0	41.0	36.4	34.5	31.9	37.1	21.2
Textiles and Leathered Products	24.8	19.4	21.1	26.4	24.8	24.7	26.5	22.5	25.5	23.2
Wood and Wood Products	7.2	6.2	5.6	6.8	4.2	3.1	3.6	2.7	2.2	2.7
Paper and Paper Products	4.4	4.1	3.9	3.8	4.1	3.5	4.8	6.4	5.0	4.9
Chemicals and Rubber Products	15.2	12.6	11.6	10.5	11.6	13.8	13.2	19.7	14.4	19.0
Non-metallic Mineral Products	5.0	4.5	4.5	3.9	3.7	4.6	3.4	3.1	1.0	1.1
Basic Metal Industries	4.4	4.1	4.3	4.2	1.9	2.5	3.2	2.8	3.6	3.4
Fabricated Metal Products	2.7	4.5	10.1	4.9	8.0	9.9	9.8	9.5	9.0	9.6
Other Manuf. Sub-sectors	1.7	1.2	0.6	0.5	0.7	1.6	1.1	1.3	1.9	2.6

Source: Computed from URT, Economic Survey, 2005

manufacturing sub-sectors in the manufacturing sector.

Looking closely into the categories of manufacturing industries (Table 4), food processing and textiles have maintained dominant positions in their shares in total manufacturing sector. Wood and wood products manufacturing declined its share from 7.2 percent (1996) to 2.7 percent (2005) partly because of problems associated with log supply. Manufacturing of paper and paper products increased, raising its share from 4.4 percent (1996) to 6.4 percent (2003).

Chemicals and related products manufacturing was fluctuating with an upward trend. The fluctuations were mainly due to the balance of payment situation in view of the relatively high import content of fertilizer which is the largest component of the industry (MIT, 2003). The manufacturing of non-metallic mineral products sub-sector continued with its share of (5.0-3.1) percent over the (1996-2003) period. But the share drastically declined to 1.0 percent and 1.1 percent in 2004 and 2005 respectively. The decline reflects the production problems faced in cement factories especially with irregular power supply.

The share of basic metal industries has been fluctuating in a downward trend from 4.4 percent (1996) to 3.4 percent (2005). Expansion of this sub-sector has been slow and capacity utilization has fluctuated widely. However, a dramatic increase in manufacturing of fabricated metals, machinery and equipment increased their share from 2.7 percent (1996) to 9.6 percent (2005). It is from this sub-sector that most of the capital goods manufacturing takes place.

A cursory glance, at the backward and forward linkages, indicates that there has been a considerable increase in that direction. The iron and steel sub-sector manufactures billets for steel products which are used as inputs or intermediate goods

in the metal working factories. These factories manufacture component, equipment and spare parts which are necessary for other factories such as those which manufacture agricultural machines such as ploughs and hand hoes.

The fact that the country (Tanzania) is well endowed with iron ore (Liganga) and coal reserves (Mchuchuma) has meant that there is a great potential for backward and forward linkages in the engineering industry. The linkage can lead to increased job opportunities and economic expansion as a whole. The forthcoming section examines industrial employment and investment trends.

III Trends of Industrial Employment and Investment

The growth of industrial employment has, in general, been higher than the rate of growth of total employment in the economy. On average, the rate of growth of industrial employment has been increasing at the rate of 7.6 percent compared to 4.4 percent the rate at which total employment has been growing from 1996 to 2005. Table 5 shows the trend of growth of industrial employment.

Table 5: Trends of Growth of Industrial Employment 1996-2005

year	Total Wage Employment	Industrial Employment	Industrial Labour (%) Total Employment	Annual Growth Rate of Total Employment (%)	Annual Growth Rate of Industrial Employment (%)
1996	375,635	48,314	12.9	2.1	11.3
1997	392,770	53,516	13.6	4.6	10.8
1998	405,713	62,118	15.3	3.3	16.1
1999	472,505	63,355	13.4	16.5	2.0
2000	484,341	69,664	14.4	2.5	10.0
2001	498,732	78,301	15.6	3.8	12.4
2002	499,925	78,490	15.7	0.2	0.2
2003	512,828	80,514	15.7	2.6	3.0
2004	526,491	83,712	15.9	2.7	4.0
2005	554,456	88,713	16.0	5.3	6.0

Source: URT, Economic Survey 2006

As it can be seen from table 5, industrial labour force constitutes, on average, about 15 percent of the total wage employment. Its rate of growth has been fluctuating rather broadly ranging from 16.1 percent (1998) to 0.2 percent (2002). The fluctuations can be explained mainly by the fact that the bulk of employees are recruited when new factories are completed or expanded. On the basis of this observation, industrial sector plays a minimal role in labour absorption process. Closely

related to industrial employment, table 6 shows the trends in industrial investment.

Table 6: Industrial Investment Trends 1995-2005 (T.sh. Million)

year	Total Investment	Industrial Investment	Annual Growth Total Investment	Annual Growth Industrial Investment	Indus. Invest. (%) Total Investment
1995	1144	151	−10.0	−12.6	13.2
1996	1656	281	44.8	86.1	17.0
1997	1981	268	19.6	−4.6	13.5
1998	1687	185	−14.8	−31.0	11.0
1999	1725	204	2.3	10.3	11.8
2000	1779	277	3.1	35.8	15.6
2001	1638	301	−7.9	8.7	18.4
2002	1957	454	19.5	50.8	23.2
2003	1933	469	−1.1	3.3	24.2
2004	2022	492	4.5	4.9	24.3
2005	2458	595	21.6	20.9	24.2

Source: MIT, Industrial Investment and Performance Report 2005

Industrial investment more than tripled while total investment doubled over the same period (1995−2005). However, although an upward investment trend is clear in either cases, it is also obvious that considerable fluctuations of industrial investment with annual growth rate were evident. While industrial investment tripled during the (1995−2005) period, value added almost doubled. This is an indication that capital was not being used efficiently. In fact, this is one of the factors which prompted the Government to embark on massive privatization of state-owned assets.

In support of Government efforts in economic development programmes, financial institutions have been extending loans (credits) to various sectors in the economy. Table 7 shows commercial banks sectoral lending.

Table 7: Commercial Banks ' Sectral Lending (1996-2005) (percent)

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Agriculture	7.9	8.3	6.2	5.9	6.2	7.1	12.7	12.1	12.1	12.9
Manufacturing and Mining	29.4	24.8	27.3	28.7	29.7	30.6	28.0	27.0	27.0	22.9
Public Administration	4.5	5.6	3.9	3.0	2.2	2.2	1.8	1.4	1.4	1.4
Construction	2.5	3.5	2.6	2.4	2.8	4.2	5.0	5.1	5.1	4.5
Transport and Communication	5.3	7.0	10.0	14.2	9.5	9.2	9.8	11.8	11.8	8.6
Tourism	0.7	1.4	1.1	1.2	2.2	1.1	2.5	2.3	2.3	2.8
Agr. Co-operative and marketing	5.5	4.0	1.8	2.0	0.9	0.4	n.a	n.a	n.a	n.a
Trade, Hotels and Restaurants	21.2	18.3	24.8	24.5	27.1	26.6	26.6	25.0	25.0	24.1
Other Services*	23.0	27.1	22.3	18.1	19.4	18.6	13.6	15.3	15.3	22.8

*Include Electricity and Water

Source: BOT, Economic Operation and Bulletins 2005

In 1996, about 29 percent of the total commercial banks ' credits went to manufacturing and mining sector. Electricity, water and other services sector was the second recipient 23.0 percent, followed by trade, hotels and restaurants 21.2 percent. In 2001, the commercial banks increased their credits to the manufacturing and mining sector to over 30.6 percent followed by trade, hotels and restaurants to about 27 percent. In fact, for the entire period under review, the manufacturing and mining sector received more attention than other sectors from both the Government financial institutions in resource allocation.

Judging from the trend of resource allocation, in favour of industrial sector at the expense of other sectors, one would expect, the industrial sector to perform better than other sectors commensurate with the high resource allocations from the Government and financial institutions. Table 8 (a) (b) illustrates sectoral performance in terms of annual growth rates of real GDP and their contribution.

Table 8(a)(b): Annual Growth Rate of Real GDP by Sectors and their Contributions. (at 1992 Prices)

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
(a) Annual Growth Rates of Real GDP (%)										
Agriculture	3.9	2.4	1.9	4.1	3.4	5.5	5.0	4.0	5.8	5.2
Manufacturing	4.8	5.0	8.0	3.6	4.8	5.0	8.0	8.6	8.6	9.0
Mining and Quarrying	9.6	17.1	27.4	9.1	13.9	13.5	15.0	18.0	15.4	15.7
Electoricity and Water	11.1	2.2	5.5	3.9	5.9	3.0	3.1	4.9	4.5	5.1
Construction	7.6	8.2	9.9	8.7	8.4	8.7	11.0	11.0	10.8	11.9
Transport and communication	1.1	4.9	6.2	5.8	6.1	6.3	6.4	5.0	6.0	6.4
Trade, Hotel and Restaurants	3.5	5.0	4.7	5.8	6.5	6.7	7.0	6.5	7.8	8.2
Financial and Business services	0.4	7.7	5.6	4.1	4.7	3.3	4.8	4.4	4.8	5.3
Public Administration	1.6	3.2	2.7	3.5	3.6	3.5	4.1	4.1	4.3	5.1
Total GDP (At Factor Cost)	4.2	3.3	4.0	4.7	4.9	5.7	6.2	5.7	6.7	6.8
(b) GDP Sectoral Shares (%)										
Agriculture	50.5	50.2	49.1	48.9	48.1	48.0	47.5	46.7	46.3	45.6
Manufacturing	8.0	8.1	8.4	8.3	8.3	8.3	8.4	8.6	8.8	9.0
Mining and Quarrying	1.5	1.7	2.0	2.1	2.3	2.5	2.7	3.0	3.2	3.5
Electoricity and Water	1.7	1.7	1.7	1.7	1.7	1.7	1.6	1.6	1.6	1.6
Construction	3.9	4.1	4.3	4.5	4.6	4.8	5.0	5.2	5.4	5.7
Transport and communication	5.1	5.2	5.3	5.4	5.4	5.4	5.4	5.5	5.4	5.4
Trade, Hotel and Restaurants	15.6	15.8	15.9	16.1	16.4	16.5	16.6	16.8	16.9	17.2
Financial and Business services	9.9	10.3	10.5	10.4	10.4	10.2	10.0	9.9	9.7	9.6
Public Administration	8.0	8.0	7.9	7.6	7.7	7.5	7.3	7.2	7.1	7.0
Total GDP (At Factor Cost)	4.2	5.1	5.1	5.0	4.9	4.9	45.0	4.5	4.4	4.6

Source: Computed from BOT, Annual Reports and Bulletins (various issues)

During the year 2005, almost all major sectors of the economy registered higher rates of growth than the year 2004 except for agriculture which grew at a rate of 5.2

percent compared to 5.8 percent in 2004 (Table 8a). Low growth rate of agricultural sector was mainly due to drought in the last quarter of 2005 and inadequate allocation of resources to the sector.

In our viewpoint, drought will continue to affect agricultural development unless deliberate measures are taken by the policy-makers to embark on agricultural irrigation leading to what is referred to as green revolution. After that stage, industrial development producing and equipment for agricultural sector, can safely be embarked on. Agro-based industries can be assured of raw materials from agricultural sector. Increased agricultural productivity in the rural areas can certainly lead to surplus labour shifting to agro-based industries and to those industries manufacturing agricultural equipment.

However, although agriculture seems to be neglected in terms of resource allocation compared to manufacturing sector (Table 7), it continues to dominate the scene as an undisputable sector in sectoral contribution to the GDP (Table 8 (b)). For the entire period (1996—2005), the share of agriculture in the gross domestic product (GDP) was higher than the shares of other sectors.

The performance of manufacturing sector which contributes an average of almost 8.6 percent to the gross domestic product (GDP), has grown at an average rate of 6.5 percent for the period under study (1996—2005). The growth performance of the manufacturing sector started in the mid-1990s with the commencement of the structural reforms accompanied with the introduction of incentive packages, increase of capital and establishment of new industries under the export processing zones. Increased demand for locally produced goods and expansion in provision of financial services contributed to good performance of the manufacturing sector.

However, the sustainability of manufacturing sector's good performance is affected by the continued importation of sub-standard and second hand goods into the local market. The sub-standard and second hand goods continued to militate against fair competition in the domestic market (MIT, 2003).

On that ground, we tend to support Michael,E.P.(1990) who argues in support of some protection of industries at the factor-driven and investment-driven stages of competitive advantage. At the factor driven stage, the source of competitiveness is solely drawn from basic production factors such as natural resources, cheap labour,

etc. It is contended that in factor driven economies, industries compete using relatively cheap and unsophisticated technologies. Therefore, these economies are sensitive to world economic cycles and exchange rates which drive demand and relative prices.

On the other hand, the investment stage is characterized by the ability of a country's industry to absorb and improve the technology. Countries like Argentine, Brazil, Mexico and Asian NIEs are at the investment-driven stage of competitive advantage. At this stage, foreign technology and methods are mastered by local enterprises which begin to develop their own technology refinements including their own product models. Michael. E.P (1990) points out that few countries have succeeded to move from factor-driven to investment national competitiveness. In fact, the main reason for this sluggishness centres on poor factor creation beyond the traditional factor conditions: natural resources and cheap labour.

The main factors which, in fact, bedevil most developing countries including Tanzania are capital accumulation through savings, human resources up-grading through on the job training, research and development particularly at company levels. Besides, capital accumulation and human resources up-grading, work motivation and search for better technologies are other factors.

Bearing in mind the state of economies at the factor-driven stages of competitive advantage, we tend to support the view of some protection. But, the general views orchestrated principally by international financial institutions such the World Bank and the International Monetary Fund (IMF) postulate that protection of local industries is dysfunctional to developing economies because it hampers the overall national productivity. The thrust of such argument is that national competitive advantage would not be fully reflected in rising productivity unless governments pursue trade policies which expose local industries to international competition.

But there are also views contending that governments have great direct influence on national competitive advantage at the factor-driven and investment-driven stages and that protection is one of the instruments governments can use. Michael.E.P, though a staunch critic of protection policies argues positively that tools, at the disposal of a government, " such as capital, subsidies and temporary protection are most powerful at factor-driven and investment-driven stages in a nation's competitive development ". In his view and I quote him " protection of infant industry can be

effective in nations lacking well established competitors in an industry in which strong foreign rivals are present. By delaying entry of foreign competitors, a number of domestic rivals can be established and trigger the self-reinforcing process of national competitive advantage.

The logical conclusion is that governments ' policies on protection should reflect on one hand, the objective reality of the nation's stage of competitive advantage and the state of local industries, on the other. In other words, there are no hard and fast rules against protection policy. Unfortunately, industrial and trade policies which address considerations such as those advocated by authors like Michael. E. P are yet to take a stable and a coherent shape in Tanzania's industrial sector. The task before the policy-makers is to clearly identify the underlying characteristics of national competitive advantage in order to develop appropriate policies.

Another view which is also supported by the World Bank and IMF is that the linkage of local industries ' protection to the overall effects of macroeconomic structural adjustment is untenable. It is argued that the advocacy of protection as a means of providing a breathing space to industries to adjust is invariably diverted at delaying instead of prodding the process of restructuring towards competitive leverage.

But the problem with this view is that, it does not provide viable alternatives as to how local industries can adjust to an environment characterized by factors such as credit squeeze, high interest rate, increased cost of servicing foreign debts, etc. It is rather unrealistic to expect industries to adjust, suddenly pay debts including other obligations and still expect them to be competitive. The logic of breathing space seems to be relevant in this context and should be supported. Closely related to trends in industrial employment and investment is trade performance and industrial development.

IV

Tanzania's quest for export trade in industrial products in order to improve its capacity to import and resolve its trade deficits has been a subject of concern for a long time. The country maintained a surplus balance of trade up to 1979. A leap in export earnings was also registered in 1994. It resulted from the implementation of

trade liberalization measures and charges in Volume and prices of three major export crops: coffee, cotton and tobacco. The export earnings from the three crops peaked in 1996. Since then, export performance has not shown consistent improvement. This trend suggests, the economy is yet to become competitive in the global market. Table 9 shows Tanzania's external trade and import coverage ratio.

Table 9: Tanzania's External Trade and Import Coverage Ratio (T.shs. Million)

year	Trade Volume	Export Volume	Import Volume	Coverage Rate
1996	1,157,773	455,419	702,354	0.65
1997	1,172,655	459,549	713,106	0.64
1998	1,299,299	391,805	907,494	0.43
1999	1,546,252	455,656	1,090,596	0.42
2000	1,625,757	531,119	1,094,698	0.49
2001	2,115,933	746,742	1,369,194	0.55
2002	2,335,014	874,067	1,460,947	0.59
2003	3,186,123	1,174,784	2,011,339	0.58
2004	4,145,866	1,448,589	2,697,277	0.54
2005	5,143,880	1,753,126	3,390,754	0.52
2006	6,337,152	1,785,501	4,551,651	0.39

Source: BOT,Annual Report 2005/06

It is evident from table 9, that external trade performance is characterized by a persistent erosion of import coverage. In 1996, import coverage ratio was 0.65. The ratio was 0.49 in 2000 reaching a coverage of 0.39 in 2006.

The import volume increased by almost 60 percent between 1996 and 2000 while over the same period export volume grew by almost 17 percent. Between 2004 and 2006 import volume increased by about 70 percent (68.7%) while export increased by just one third of the import volume. Based on the study of Export Development Committee (2006), three categories of constraints militate against the performance of the country's exports in spite of the existing potential. First, the supply-side constraints, encompassing low capacity for the production and delivery of goods and services; second, constraints related to inefficient trade support services and the third constraint is concerned with low capacity for effective participation in the multilateral trading systems.

During the year ending June 2006, Tanzania's import bill went up by 25.8 percent to

US$3,437 million following an increase in imports of capital goods, intermediate goods and consumer goods. Much of the increase was registered in intermediate goods category which went up by US$1361 million largely because of the increase in importation of oil and other industrial inputs.

The fast increase in oil import is largely explained by the persistent increase in oil prices in the world market. During the period (2005/06), the price of refined oil increased from an average of US$550 per ton in July 2005 to an average of US$674 per ton in 2006 (BOT, 2005/06:29).

The import bill on capital goods went up mainly due to a surge in import of transport equipment, building and construction machineries. Expansion of construction activities led to the increase in the importation of building equipment. Machinery imports that account for about 45 percent of total capital imports were directed to the mining, communication and manufacturing sectors.

But the country's export sector is still overwhelmed with traditional exports with agricultural products accounting for about two thirds of total exports. Consequently, a large portion of export basket is vulnerable to vagaries of weather and adverse variations in world commodity prices.

On domestic front, two conflicting sets of views emerged since the inception of import trade liberalization policy. Industrialists have supported import liberalization policy. But they have also raised their concern on the so called own-funded imports. The own-funded importers flood the local market with substandard imported goods through massive customs' tax evasion leading to distorted local market competition. The concern of local market distortion through flooding it with substandard commodities has also been echoed by the Tanzania Bureau of Standard (TBS) who have pointed out thus;

> We have noted with great concern that the Tanzania market has been flooded with substandard imported batteries (dry cells) which are not certified by T.B.S. Substandard batteries have short life span and can destroy the electronic equipment through leakage. In accordance with the Standards Act, 1975 it is illegal for any person to import, distribute / sell the batteries unless they comply with the Tanzania Standard (TZS) 143: 1981. The brand of the batteries with countries of origin in brackets are: ABC (Indonesia), Bell &

> Yarico (China) and Novino (India). Consumers are advised to refrain from buying batteries which are not certificated by TBS to ensure safety of their electronic equipment.
>
> " Director, (TBS) ", in BOT, Tanzania Investment Report, 2001:30

At this point, it may be proper for the Government to resort to trade defense instruments some of which are safeguards, subsidies & countervailing duties, anti-dumping legislations, etc to ensure fair competition of local manufacturing industries with imported commodities in compliance with the WTO Agreements on safeguards.

Safeguards are measures an importing country can take to restrict imports if it is established that increases in imports are causing injury to domestic industry. According to WTO Agreement on safeguards, " if a sub-sector of a domestic industry of a country suffers from injury or there is a threat of injury from imports, measures for safeguarding that sector can be taken by the importing country. " Import restraint measures may be in the form of raised tariffs above the set levels or quantitative restrictions on imports.

Generally, the process for safeguard action is triggered by an industry that is vigilant on the flow of imports. When an industry considers that it needs safeguard action and the required pre-conditions are satisfied, it may ask the Government to start the process of action. Safeguards are intended for use in the public interest and have time limit. They are applied only to the extent necessary to contain or remedy serious injury and facilitate adjustment. Application of safeguard measures in Tanzania will, in fact, be in line with its WTO commitments of ensuring free and fair competition.

Further, a subsidy is a measure that confers some benefits to producers and exporters. It exists where a public body or government provides a financial contribution (grants, loans or equity). During the pre-WTO era, it was the conventional instrument for stimulating production for export in developing economies. Some countries provided domestic producers and exporters with subsidies to increase and diversify their products and exports, promote technological development and enhance competitiveness in the domestic and international markets.

However, it is also argued that a subsidy is an unfair instrument because it impedes

competitiveness of prospective exports from other countries and distorts local production. In order to guard against such unfair practices, clear rules and procedures have been laid down in the WTO system on granting subsidies and action against some of them.

Tanzania has no export subsidy scheme in place to date. But there is a provision under WTO for use of subsidies in special cases. It is imperative for Tanzania to investigate this instrument further and its potential in stimulating exports as shown in table 9.

Anti-dumping legislation is another defense mechanism at the disposal of a country against unfair competition. Currently, such legislation is not in place. Dumping, which occurs when a country/company exports a product at a price lower than the price it normally charges for the same product in its local market, distorts trade and undermines local industries ' competitiveness.

WTO prescribes action against dumping which affects competition. The Agreement provides details on how the existence of dumping and the margin of dumping can be determined. To invoke action against dumping, the invoking country should determine whether or not dumping exists, its margin, the level of threat or material injury to local industry and the causal link between the dumping and the injury.

The remedial measure against dumping is the imposition of an anti-dumping duty. Tanzania is moving ahead with further liberalization of its import regime yet there is no law on anti-dumping and the incidence of dumping is on the increase. There is a need for the country to legislate against dumping and create effective capacity for its implementation in both pubic and private sectors.

Tanzania agro-processing industries are situated in proximity to significant markets or to international shipping facilities. However, there have been incidences of large quantities of agricultural raw materials that are not collected and delivered on time to the agro-processing plants due to unreliable infrastructure that link the sources of these raw materials to the processing plants and ultimately to the markets.

The cost of electricity presents also a formidable impediment to seasonal producers. The electricity bills are based on peak consumption and represent a significant increase in transaction costs for the manufacturers. Further, extension services are either inadequately developed or far from the processing activities, a situation that

leads to items such as packaging materials, preservations, etc, being shipped from Dar-es-Salaam or from neighboring countries. Suitable cold storage facilities and cold transport chains are lacking, thereby limiting processing activities to bottling, canning and similar preservation methods. But the high value added export opportunities reside in the fresh cold packaging and shipment of processed foods.

The textile and leather sub-sectors are constrained by inadequate demand for their products. Critical successes of these industries are economies of scale, quality and access to sufficiently large markets. It can be stressed that the market of Tanzania should be sufficient to maintain a moderately sized industry especially with access to cotton and other inputs.

The structure of demand is characterized by unsophisticated subsistence type of needs. Consequently, the levels of market differentiation and saturation are also low. Private consumption expenditure is growing fast with a record of real growth of 6.6 percent between 2001 and 2004 (UNIDO, 2004).

In this vein, there is a need for local market expansion and a creation of an export culture. There is also a need to clamp down on unofficial and illegal trade to pave the way for competitive infant industries development. Firm strategy and structure can influence an industry to be competitive. The firm strategy and structure can be pursued through cluster cooperation especially within the supply chain. The strategy can greatly contribute to the improved utilization of domestic market opportunities and ensure that producers can source and supply the required products with the right price, quality and time as required by the market.

Firms ' strategies, in Tanzania, are characterized by the presence of Government officials in the boards of directors of companies. This is one of the ways through which the Government can address individual company's problems and contribute towards a competitive industrial development. The subsequent section looks at tertiary training and industrial development.

V

In Tanzania, educational system is in the order of 7-4-2-3 years, that is, Primary School Level, Secondary School Ordinary Level, Secondary School Advanced Level and University Level in that order of ascendancy. The end of every educational level is

marked with the beginning of tertiary training.

Tertiary training is a form of learning whereby the uses and the means of training are intimately interlinked. This is because tertiary training tends to prepare individuals to be more innovative, more job-oriented and they score higher in personal initiative than in theoretical academic knowledge.

Primary education in Tanzania is viewed as a complete package in itself rather than as a means of creaming off the academically brilliant pupils to join secondary education. Primary education is intended to provide the pupils with knowledge as a tool to enable them play a vital role in productive activities such as in small and medium enterprises in their respective communities.

At the end of the seventh year, the pupils sit for primary school final examination at national level after which tertiary / vocational or industrial manpower training starts as pointed out below:

> " The most prominent vocational education and training includes vocational training centres, Folk Development Colleges, Technical Secondary Schools and Private Vocational Schools. Admission requirements to formal and non-formal vocational education and training centres range from primary school leavers to anybody with subsequent level of education and wishing to acquire requisite skills. "
>
> URT, Education and Training Policy, 1995.

Specifically, tertiary training of industrial manpower can be viewed at three levels: Artisan, Technician and professional levels. Artisan are the most important group of workers in the production process. They implement the production programmes prepared by engineers. Artisans must be capable to communicate with workers in other categories. They have to know the engineering drawings and the basic principles of planning and job organization.

Artisans are trained in Post-Primary Technical Centres, Technical Secondary Schools (Ordinary Level), Folk Development Colleges (FDCs), Vocational Training Institutes and in Prison Rehabilitation Centres.

The Post-Primary Technical Centres admit pupils who have completed seven years of primary school education. They stay in Technical Centres for two years. The main

objective of Technical Centres is to provide employable skills to pupils who are not selected to proceed with secondary school education. At the end of the two-year period, they sit for GradeIII. Trade Test which is administered by the Vocational Education and Training Authority (VETA).

Apart from Post-Primary Technical Centres, there are Technical Secondary Schools (Ordinary Level) under the diversified Secondary Schools Programme. The schools impart technical education to students that can enable them join labour market immediately after completing studies. The programme is designed to make technical education complete in itself instead of being a stepping stone for higher education.

Folk Development Colleges (FDCs) are another category of institutions which train artisans. The colleges are under the Ministry of Community Development, Gender Affairs and Children. They were introduced in the 1970s as adult education post-literacy institutions. They organize courses which cater for the needs of small scale manufacturing ventures. The courses cover a broad range of trades such as electrical installations, auto mechanics, plumber, home-economics and carpentry.

Further, technical education for artisans is administrated by the Ministry of Home Affairs to prisoners. The policy of the Government of Tanzania with regard to prisoners is that such people must be rehabilitated and reformed. They are taught various trades. The trades include masonry, brick-making, automechanics, carpet-making, black-smithery and construction activities. Experience shows that some of the ex-prisoners become quite productive artisans after serving their prison terms.

The Ministry of Education and Vocational Training is another institution which trains youths to become artisans through the Vocational Education and Training Authority (VETA). The Authority is also empowered to establish vocational education training centres in the country to meet the needs for formal and informal sectors.

The Vocational Education and Training Authority ensures that the system of training is based on demand. Up to now, the Authority administers about 50 vocational education and training centres in Mainland Tanzania, (VETA, 1997). The Authority Administers three categories of Trade Tests: Grade I Test which corresponds to highly skilled workers; Grade II Test that corresponds to skilled workers and GradeIII Test which is equivalent to semi-skilled workers.

The aim of the Government is to mobilize as many artisans as possible in order to minimize the constraint of technical manpower in manufacturing enterprises. Technician level is another category of industrial manpower that is important in manufacturing firms. Technicians are usually intermediaries between engineers and other workers. The primary task of a technician is to communicate the manufacturing programmes from the engineers to the workers. A technician is expected to instruct other workers technical terms and demonstrate to them how to operate the equipments and the uses of various instruments. In other words, technicians function as foremen / supervisors in manufacturing firms.

After three years of training in Technical Colleges, the trainees are awarded certificates which are equivalent to Full Technician Certificates (F.T.C). Engineers are another category of technical personnel at a professional level in manufacturing firms. Engineers are expected to carry out engineering designs and structures, inspect and test construction equipment. They are expected to locate mechanical defects in the plant and supervise maintenance and repair of the plants.

In particular, an engineer must know how to design a product, organize production and instruct his technicians involved in the production processes. A new product has to suit not only customers ' needs but also it must fit into the given factory set up. Organization of production can only be studied on a shop floor. Technical imagination and creativity can only emanate from the shop floor experience.

Without experience on the shop floor as an integrated part of education, an engineer cannot do his / her job satisfactorily. He / she must have practical knowledge of materials, machines, tools and technical processes. This leads us to the recapitulation of the paper and the way forward.

VI

The conclusion emerging from the paper hinges on industrial policy, trade and industrial manpower development. Industrial policy should focus on prioritization and targeting industries producing intermediate and capital goods. Specific mention has been made of iron and steel industry as well as coal mining industry. The development of metallurgical industry is the sine qua non for the accelerated industrialization of Tanzania because the industry has tremendous potential to the development of the

agro-based industries.

The paper contends that policy instruments (tools) which can impact on industrial growth, development and competitiveness should be reviewed and promoted. The responsible institutions should work closely to create the right policy environment for sustainable industrial development. Policy co-ordination among different stakeholders should be emphasized for industrial development.

The paper notes that because policy development is an interactive process involving key stakeholders in the pubic and private sectors, the Government should encourage the establishment of the public-private consultative mechanism. This partnership (mechanism) also augurs well for good governance. Good governance recognizes and respects workers ' rights and duties. It ensures that workers are independent, united, prosperous and that they have their rights and responsibilities in an enterprise. Good governance promotes unity between workers and management.

The paper stresses further that an ultimate objective of an industrial policy should be that of competitive industrial growth through productivity, efficiency profitability and sustainability. To date, industrial sustainability is hampered by high import propensity level. Local industries do not only compete against cheap and substandard imports but also production is inherently dependent on imported intermediate and capita goods.

With respect to trade development, the prioritization of trade policy is necessary to ensure maximum growth in trade flows. Trade policy has to emphasize the development of a competitive economy, capable of promoting export development. Tanzania ś major constraints affecting its trade performance include limited production capacity, low competitiveness and weak trade promotion stance. The criterion for trade policy prioritization should be determined against this background.

Analysis of trade policy tools (instruments) from this perspective highlights a few tools that, I think, have to be accorded priority in the course of trade policy implementation. The tools include one, investment promotion; two, tariffs & taxes; three export processing zones; four, standards and quality; five, subsidies; six, export development and promotion; seven, preferential treatment and eight, rules of origin.

To maximize the positive effects on trade sector, these tools must complement each other. For instance, tariffs could be used for protection while taxation should be used

for generation of Government revenue. In the course of policy implementation, the priority objectives should be accorded to instruments addressing the perceived binding constraints related to supply and delivery capacity. In this regard, the promotion of investment in sectors and sub-sectors with high export potential should be the guiding instruments.

Simultaneously, tariffs and taxation policies should be implemented in such a manner as to avoid discouragement of investments in areas where Tanzania has comparative advantages. Priority has to be accorded also to export development combined with promotion linked to exploitation of preferential treatment in Regional Trading Arrangements (RTAs) and in Multilateral Trade System (MTS). It is also important to address the issues of substandards that often militate against Tanzania's exports to markets of industrialized countries.

Besides the use of tariffs as the conventional major trade policy instrument the listing or ranking and prioritization process highlights the importance of addressing supply-side issues and constraints. This is evident in the high ranking given to instruments related to production and delivery capacity, investment promotion and export promotion zones.

Promotion of investments and exports entails efforts towards the provision of reliable and cost-effective socio-economic infrastructure. For Tanzania, deliberate efforts have to be made towards the provision of reliable and affordable utility services, improved transport network in terms of all weather roads, efficient communications and storage facilities.

The essence of bringing about export trade-led growth is the adoption of a strategy that takes into consideration prioritization of sectoral development which ensures that sectoral policies reflect these priorities over a given time span. In view of the importance of the agricultural sector, emphasis has to be placed on the sector's policies and their impact on trade and on the relationship with other sectors. The formulation of the private sector development strategy (PSDS) is quite ideal as a link to all sectoral policies.

The objective of sectoral policies should be to establish competitive supply capacity in areas where the economy has comparative advantages. Sectoral policies should aim at removing sectoral obstacles that obstruct competitive supply capacities from the

stage of production to delivery stage. Productive sectoral policies perform a direct function through the stimulation of supply capacity. Infrastructural sectoral policies play the role of facilitating delivery while the social sector ensures the availability of trained and trainable pool of health manpower to meet the demands of the productive sectors.

The need for measures to integrate Tanzania's economy into the global economy through trade policy depends on the success to increase the volume of domestic trade as a stepping-stone towards higher performance in export process. The stimulation of competitiveness should start with high efficiency relative to regional markets as a necessary route to international competitiveness. The key lies in the conversion of prevailing comparative advantages to national comparative platforms.

Sectoral prioritization should also entail identification of important economic and social sectors and the linkage between them. In fact, the sectors that feature in any strategy on trade development include education and heath in social sectors while agriculture, manufacturing, mining, fishery, forestry, and tourism feature most in the productive sector.

The status of social sector that's education and health lags behind productive sector in terms of resource allocation. It is important that the Government channels adequate resources in the social sector for the purpose of creating human capital critical to industrial and trade development.

With respect to skilled manpower, industrial operators argue that the shortage of skills from artisan to managerial levels is one of the most attendant constraints contributing to poor performance of their manufacturing enterprises in Tanzania. In our view however, the shortage of such skills emanates from within the enterprises themselves rather than from the educational system of the country.

It has been pointed elsewhere above that, the educational structure of Tanzania provides for tertiary training after every educational level in the educational structure. Tertiary training institutions are the major source from which various sectors in the economy draw their manpower. Tertiary training institutions are, in fact, not necessarily industrial-specific.

In my view, it is up to the industrial operators to design appropriate on the-job-training programmes which are more specific to their enterprises, train and retrain

their workers accordingly. The shortage of skilled industrial manpower prevailing in many manufacturing enterprises is also a result of lack of long-term employment system coupled with reasonable remunerations and other incentives such as health insurances. Skills are normally acquired and accumulated within enterprises rather than outside the enterprises.

A survey on human resources development conducted by UNIDO (2001) in Tanzania is instructive on this point. It was found out that in the basic metal industrial sub-sector, lack of technically skilled labour was a major constraint. In the textiles clothing and footwear industrial sub-sector, low work ethics and apathy contributed more to poor performance than most of the other factors. In the fabricated metals, machinery and equipment manufacturing sub-sector, autocratic management style was reflected in lack of accountability and transparency contributed greatly to poor performance in the sub-sector.

These revelations provide a clear evidence that the problems affecting the performance of manufacturing enterprises are not similar across the sectors. The solution to the problems therefore, must primarily be sought from within the individual enterprises (companies). Even the type of in-company (on-the-job) training programmes must reflect the problems which affect constantly the company concerned.

The policy-makers should urge individual enterprises/companies to design in-company training programmes which are more relevant to the problems affecting the performance of their enterprises rather than depending on the tertiary training with which most of their employees are equipped.

A caution is, further, in order here on export processing zones as tools for export promotion, technology transfer and employment generation. Van A. Heedren (1999) alerts the host countries of the export processing zones that the majority of the foreign companies operating in the Zones are subsidiaries of Transnational Corporations (TNCs) with head offices abroad. He argues that the subsidiaries are not enthusiastic enough to effect transfer of technology into the Zones as it is mostly the assembly stage of production and light industries manufacturing activities that are relocated in the zones. R&D and technology oriented pre-assembly stages of production are carried out in the industrialized countries. He cautions that there is no

scope for forward linkages because the entire output is meant for export, neither is there any scope for backward linkages because most of the capital goods, raw materials and other related inputs are imported.

In fact, most of the export processing zones in Tanzania are engaged in textiles and apparels manufacturing, BOT (2004/05: 76). But the export market for textiles and apparels is quite problematic. Until the conclusion of the GATT 1994 Accord, trade in textiles and apparels was outside the scope of GATT and was subject to bilateral negotiations between industrialized importing countries and the exporting countries especially the developing countries including Tanzania (Velayudham, 2000: 47).

But the industrialized countries which constitute a potential market for the textiles and apparels from the developing countries decided to fix annual quotas for the import of the textiles and apparels into their markets and thus restricted export of textiles and apparels from developing countries. This restriction is known as Multi-Fibre Arrangement (MFA). It has been widely used by industrialized countries to protect their textile and clothing industries.

The developing countries have been demanding the scrapping off this arrangement (MFA) so that they could have a niche in those markets for their textile and apparel products in order to earn foreign exchange, but the demand has produced endless negotiations. Ironically, textile and apparel manufacturing is one of the sub-sectors being encouraged in the export processing zones in Tanzania.

In my viewpoint, there is a need for a more broad-based export-generating strategy that would enhance backward and forward linkages to the rest of the economy and earn foreign exchange for the country.

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