SAPS AND TRENDS OF INDUSTRIAL TRADE IN TANZANIA

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Abstract

For more than a decade now a number of Sub-Saharan Africa (SSA) countries have, willingly (or otherwise) accepted to implement Structural Adjustment Programmes (SAPs) as a response to serious economic imbalances that have dominated the economic atmosphere of the region since the late 1970s. Apart from declines in real Gross Domestic Product (GDP), rising inflation and chronic balance of payment deficits, the economic situation in the region worsened in the first half of the 1980s and most countries in the sub-region were compelled to undertake reforms with the view to address the cited economic problems.

This paper attempts to analyse the impact of the reforms in a specific SSA country (namely Tanzania) and limits its analysis to the impact of SAPs on industrial trade of the country. The main conclusion from this analysis is that SAPs have produced rather mixed results in this sector and a number of tasks still lie ahead before the full potential of the sector is realized.

Introduction

Since the early 1980s Structural Adjustment Programmes (SAPs) have almost become a fact of life and subsequently massive devaluations, change of producer prices, trade liberalization, privatisation of the state owned sector and institutional reforms (CDR, 1995) have been undertaken. Such measures are aimed at stabilization of a country's external and internal balances and the promotion of economic growth (World Bank, 1994).

The measures adopted in Tanzania during the SAP period are thus an attempt to revamp the country's economy which started to deteriorate in the late 1970s. The external (e.g. deteriorating terms of trade, oil crisis, collapse of the East African Community, etc) and internal (e.g. neglect of agriculture, unsuccessful industrial policies, over-valued exchange rate, etc.) causes of the economic crisis have been well documented (Lipumba et al, 1984, Maliyamkono and Bagachwa, 1990). In the effort to contain the crisis two "home grown"

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SAPs i.e. the National Economic Survival Programme (NESP, 1981-82) and the Structural Adjustment Programme (SAP, 1983-85) were initiated in the early 1980s but both, for different reasons, failed to reverse the crisis. The reasons for their failure have also been well documented (Maliyamkono and Bagachwa, 1990).

As the economic crisis lingered on, the Government of Tanzania was forced to adopt a three year, far-reaching Economic Recovery Programme (ERP1 1986-1989) followed by a sister programme, the Economic and Social Adjustment Programme (ERP11 1989-1992). In both programmes the World Bank and the International Monetary Fund were instrumental in the preparation and actual financing of the programmes.

The main objective of both ERP1 and ERP11 was to reverse the deteriorating trend of the economy and to put it (the economy) on the right footing where a gradual attainment of sustained growth in real incomes and output in all sectors of the economy was anticipated.

This paper attempts to analyse the trends of industrial trade and to try to see to what extent improvement my have been recorded as a result of implementing SAPs. The industrial trade deserve attention for, literature has it that generally trade and industrial policies in Africa (including Tanzania) had, before the reforms, been too inward looking, interventionist and oblivious to needs of efficiency (Lall et al, 1992). In addition, it has been argued that the sectors have experienced high levels of indiscriminate protection that has tended to impede competition and growth and, in no marginal way, contributed to the crisis which African countries including Tanzania faced (Lall et al, 1992).

After this introduction the rest of the paper is organized as follows. In Section Two the paper deals with some conceptual issues related to economic adjustment. In section Three, the pre- and post industrial trade development in Tanzania is traced generally and with specific focus on case studies of selected firms in the country. In Section Four, the paper attempts to provide some plausible explanations for the results (success or failure) of the adoption of the reforms. Finally, in Section Five, by way of a look ahead, the paper deals with new perspectives for industrial trade in Tanzania.

2.   The Theoretical Analysis for Restoring Equilibrium

It has generally been observed that uniform policy prescription as imbedded in SAPs, have been given to various different African countries facing

economic disequilibrium. The uniformity of the policy prescriptions has something to do with the fundamental similarities of the imbalances facing them.

Countries are compelled to undertake structural adjustment programmes when they are in (economic) disequilibrium situations. The assumption is that a policy variable, or a combination of them, if correctly implemented, could help to restore equilibrium. The basic but powerful conceptual framework in analysing the adjustment process is that of a free market where, for it to be in equilibrium, aggregate demand must always equal aggregate supply (Varian, 1993). If this condition is not fulfilled the market is said to be in an off-equilibrium situation where distortions emerge.

This analysis is also relevant to a country facing an internal and external imbalances, a position which closely depicts Tanzania's pre-reform situation (Lipumba et al 1984). Faced with such imbalances the country in question is required to undertake measures aimed at correcting the "off-equilibrium" balance of payments position and the internal disequilibrium situation.

The economic imbalances that existed in Tanzania during the pre-reform period and which were relevant to the industry and trade sectors were linked to, inter alia, (i) long term disequilibrium in the external sector as the volume of imports into the country far exceeded that of exports (ii) deterioration of terms of trade where, for example, the 1980 export earnings had only 57 per cent of the purchasing power they had in 1973 (iii) overvaluation of the Tanzania Shilling relative to major conventional currencies (iv) under utilization of capacity caused partly by shortage of imported inputs and (v) over-protection of domestic industries (Lane, 1984). Various studies such as those by Hyuha (1985), Lipumba (1990), Ndulu (1991) and Musonda (1992) to mention but a few, have analysed in detail the Tanzanian economic imbalances especially in the industry and trade sectors.

3.   Trends of Industrial Exports and Imports in Tanzania

Before analysing the trend of the industrial trade during the post reform period the paper discusses first, albeit briefly, the trend and performance of the sector in the period preceding the reforms.

3.1   The Pre-Reform performance up to 1986

With the exception of few years during the 1960s, Tanzania's balance of payment situation with the rest of the world (row) was mainly a record of

deficits. Studies by Lane (1984), Lipumba et al (1984) for example cite factors like the unfavourable terms of trade and the declining quantum (volume) of exports as being the causal factors for deficits. Yet others (e.g. Musonda, 1992) noted that even the prolonged over-valuation of the country's currency (the shilling) contributed in discouraging exports from Tanzania. Another factor was the lack of clear manufactured export promotion policy during the 1970 and early 1980s and the bias against exports produced by the import substitution industrialization strategy of that era.

The balance between manufactured imports and manufactured export earnings show that the former has, since the early 1970s, exceeded the latter. Between 1978 and 1980 for example the gap between manufactured imports and manufactured exports earnings was to the order of Tshs. 84.9m i.e more than four times the 1970 gap. Although in 1984 this gap contracted slightly it was still large compared to what it was in 1970.

Even after the adoption of ERPs there is a noticeable fluctuating trend in the deficit between expenditure on manufactured imports and manufactured export earnings. In fact it is safe to conclude that the introduction of the re-forms has not succeeded in reducing the trade gap between these categories of manufactured goods. The higher manufactured import levels have been made possible by the availability of other sources of foreign exchange (e.g. donor support funds) rather than from export earning proceeds from manufactured exports.

The observed negative balance in the industrial trade contributed to the crisis situation in the early 1980s (Bagachwa and Maliyamkono, 1990). Thus in 1985 a year before the adoption of ERP 1 for instance, Tanzania's overall balance of payments position was - 6893.6 mill. shillings as contrasted from the positive balance or trade surplus recorded in the early 1960s up to 1967 (Hanak, 1992).

The persistence of the economic crisis combined with pressures from the International Monetary Fund (IMF) and the donor community forced Tanzania, in 1986 to devalue the shilling and to undertake a three year (1986-1989) far reaching Economic Recovery Programme (ERP1) which was followed by the Economic and Social Action Programme (ESAP or ERP11) that covered the 1989/90 - 1991/92 period. Both programmes had broad and specific objectives and had donor support unlike the earlier SAP and NESP which as noted above failed.

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·The overall objectives of the ERPs with respect to industrial trade are well stipulated in ERP1 and ERP11, however restoration of sustainable internal and external balance is quite important. More specifically in this case the ERPs intended to:

(i)   raise the export earnings by an average of 16 per cent per year over the programme period, for instance to obtain export earnings of USD 400 million in 1986/87, USD 419 million in 1987/88 and USD 452 million in 1988/89.

(ii)   increase imports as per import requirements estimated at USD 1205 million for 1986/87, US $1235 million for 1987/88 and USD 1300 million for 1988/89. In the case of the manufacturing sector in particular minimum import requirements were USD 148.4 million, USD 151.7 million and USD 157.7 million for the 1986/87, 1987/88 and 1988/89 periods, respectively (ERP11 pp 3-4).

To achieve these targets it was essential for the government to undertake far reaching reforms in the direction of liberalization of industrial trade. As a more efficient industrial sector was envisaged, policy makers expected that production would expand and export opportunities increase. The business climate had to be improved and a restructuring of the industrial public enterprises made. The following sub-section discusses, albeit briefly, the reform policies that were specifically aimed at improving industrial trade performance.

3.2   Reform Policies and Intended Impact on Industrial Trade

3.2.1   Devaluation of Currency

One of the effects of maintaining an overvalued currency is to distort the domestic prices of exportable. A devaluation of currency makes the domestic price of exportable more attractive to foreigners but discourages imports by raising the price of importable. The "rule of the thumb" is the Marshall-Lerner condition. If this condition hold a currency devaluation may improve country's balance of payments.

In 1986, the government of Tanzania accepted to devalue the shilling from a nominal exchange rate of Tsh 17 per 1 USD in April 1986 to Tshs 40 per ·1 USD 8 in June 1986. Successive devaluations followed thereafter and in December 1993 the exchange rate had reached Tshs 480 to 1 USD. This move

notwithstanding, todate Tanzania's (deficit) balance of payment situation has been somehow elusive to correct.

3.2.2. Own-funded Imports Scheme

This scheme was introduced in 1984 and allowed importers with own sources of foreign exchange to import a specified range of commodities. The measure was aimed at dealing with the shortage of goods in the country. Whereas in 1988 imports made through this scheme accounted for nearly 40 per cent of the total imports, this share was, in 1992 estimated to be one third of total imports.

3.2.3 Open General Licence (OGL) Facility

This programs was co-funded by the World Bank and other bilateral donors and became operative in February 1988 and had a list of goods which could be imported without administrative allocation of foreign exchange. In 1991 and 1992 the list of goods to be imported under this facility was expanded.

3.2.4 Other Export Incentives

(a) The export retention scheme

This scheme was introduced in 1986 and allowed traditional and non-traditional exporters to retain a certain percentage of the export earnings for purposes of importation of key inputs necessary to sustain their operations.

(b) Duty draw-back scheme

Introduced in 1988, the duty draw-back scheme aimed at providing duty refunds for imported inputs used in the production of exportable. However, administrative bottlenecks and under funding in government budget has limited the effectiveness of this scheme.

(c) Additional measures

In addition to the above mentioned measures the government has undertaken a substantial reduction in tariff since 1988.

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During the 1992/93 budget for instance, the maximum tariff was reduced to 40 per cent. Sales tax has also been reduced and range between 0 and 30 per cent. Along with these policies the government has undertaken a determined effort to deregulate prices and markets. By 1992 it was only the prices of petroleum products, fertilizers and sugar which were in the control list.

After discussing the objectives of ERP1 and 11 and the various methods which were designed to achieve the objectives, a stage has now been set for the assessment of performance of reform measures in so far as they apply to the industrial trade. Like in other studies (e.g. World Bank 1994) this paper uses some selected indicators for this assessment.

4.   Industrial Trade Performance During Reform Period

4.1   Performance of the Manufacturing Sub-sector

Table 1:   Trends of Real GDP growth and share of Manufacturing in Total GDP in Tanzania (1976 prices)

Period	Total GDP (Average Growth)	Manufacturing GDP (Average Growth)	Share of Manufacturing in Total GDP
	%	%	%
1965-70	5.7	8.8	8.5
1970-76	5.1	6.7	9.8
1976-79	1.8	2.3	11.7
1980-85	1.0	(4.9)	9.7
1985-89	3.9	4.3	8.2
1970-90	4.3	4.1	9.1

Source: Calculated from Economic Survey (various)

The average growth rate of manufacturing GDP recovered by more than 185 period to 4.3 per cent recorded during the period of ERP1 (1986-89). The average growth rate of the same sub-sector was 4.1 per cent during the

time of ERP II (1990-93) which was higher than the corresponding rates both in the crisis period (1980-85) and the immediate pre-crisis period (1976-79).

In comparison to the growth in real GDP, Table 1 shows that, on average, during ERP 1, the growth in real manufacturing GDP was higher (4.3 per cent) than that for the real total GDP (3.9 per cent). During the 1976-79 period real growth in manufacturing GDP was 2.3 per cent but declined to - 4.9 per cent in the crisis period (1980-85). The manufacturing sector was, in comparison to the other sectors, hit most by the 1980-85 crisis but managed to register a faster recovery that most other sectors during ERP1.

When assessed separately, the achievements of the reforms introduced by ERP1 and ERP1I produced a somehow mixed result as far as the manufacturing GDP is concerned. One notices for example a positive growth in real manufacturing GDP during ERP1 which could not be fully sustained during ERP 1I. Furthermore, the average growth in real manufacturing GDP of 4.3 and 4.1 per cent recorded during the respective ERPs are obviously higher than the -4.9 per cent growth in this sub-sector in the crisis (1980-85) period but fall short of the targeted real growth in the sub-sector of 6 per cent in the 1988/89 - 1992/93 period.

4.2   Capacity Utilization and Labour Productivity Variations

Some recent studies (Husain and Farugee, 1994) observe that the capacity utilization in the manufacturing sub-sector in Tanzania had risen to 75 per cent by 1975 but drastically fell to only 25 per cent ten years later in 1985. During the crisis period in particular and due to severe shortage of important imported inputs capacity utilization in the sub-sector averaged between 20 to 30 per cent only. The ERP1 reforms particularly those that enabled the importation of spare parts and other inputs in the sub-sector managed to improve capacity utilization rates in the manufacturing sector to between 30 to 40 per cent. The recovery trend continued in the ERP 11 when capacity utilization in the sub-sector increased to 38.7, 38.5 and 48.0 per cent in 1991, 1992 and 1993 respectively.

In any case, even if the reforms managed to improve capacity utilization in the sub-sector, the attained rates fall short of the ERP target which was expected to reach 60 percent by 1989.

The achievement in terms of improving labour productivity was also rather mixed during the ERP era. For instance the value added per employee

in the manufacturing sector improved from Tshs. 18.2 thousands per employee to Tshs. 20.9 thousands in 1989 before falling in 1990 to Tshs 19.5 thousands and recovering again in 1991 to Tshs 21.3 thousands. These levels of labour productivity were in general lower than the levels for some years during the crisis period and lower than the levels for pre 1982 period. The achievement is thus less than what was desired by the ERP i.e. that which aimed at improving labour productivity.

4.3   Trends of the Manufactured Exports

Another area which made a substantial recovery as a result of the introduction of the reforms was in the manufactured exports whose average annual growth (Table 2) during the 1980-85 period was -15.1 per cent.

Table 2:   Trends of Exports and Share (%) in Total Exports in Tanzania

Period	Total Exports (Average Growth %)	Non-Traditional Exports (Average Growth %)	Manufac- tured Exports (Average Growth %)	Share of Manufac- tures in Non-Traditional Exports (%)	Share of Manufac- tures in Total Exports (%)
1966-70	4.8	-	5.9	-	7.8
1970-76	12.9	-	10.0	-	8.4
1976-79	6.9	-	64.8	-	11.0
1980-85	-9.2	-	-15.1	-	11.3
1986-89	7.8	20.9	30.3	51.8	19.5
1990-93	5.4	3.8	-6.8	42.0	19.0

Source: Calculated from Bank of Tanzania (various issues) and Economic Survey (various issues).

In the ERP 1 period (1986-89) the average annual growth of the manufactured exports increased to 30.3 per cent. This rate was higher compared for example to the 7.8 and 20.9 per cent average annual growth rates for the total and overall non-traditional exports respectively

This somewhat impressive performance could unfortunately not be sustained in the ERP11 era as the average annual growth of the manufactured exports dropped to -6.8 per cent.

As a result of the substantial recovery of the manufactured exports during ERP 1 manufactured export earnings rose to USD 91.4 m in 1989 from a level of USD 32.8 m recorded in 1985. By 1992 export earnings from manufactured exports tipped off to USD 64.2 m which was still twice higher than the levels of 1985 but only about 64 per cent of the 1979 export export earnings from.

When the entire period of the two ERPs is assessed in terms of the performance of the manufactured exports records show that its annual growth average was 11.8 per cent while the average annual growth of total exports was only 6.6 per cent. Both falls short of the projected 16 per cent growth rate during the entire ERP period.

4.4   The Balance of Payments Position and External Trade Cover Rates

Despite the adaptation of the reforms, restoration of an equilibrium in Tanzania's balance of payment has been an elusive task. This is because despite some progress made in increasing exports the level of imports also increased faster. For example, export earnings increased from USD 326.6 m in 1985-86 to USD 354.0m in 1986/87 and to USD 362m in 1987/88. In 1988/89 export earnings were USD 394m. These achievements were, however, below the ERP targets which envisaged that export earnings would increase to USD 400m, USD 419m and USD 452m in 1986/87, 1987/88, 1988/89 during ERP 1 (ERP11 p. 4).

The efforts to increase export earnings notwithstanding, it has been a hard task to bridge the gap between export earnings and expenditure on imports as Table 3 indicates.

Table 3: External Trade Cover Rates (Exports/Imports) in Tanzania (%)

Year	%	Year	%
1961	105.1	1977	73.3
1962	108.7	1978	41.7
1963	130.0	1979	49.6
1964	139.9	1980	46.8
1965	104.9	1981	49.2
1966	110.7	1982	40.2
1967	105.8	1983	48.0
1968	93.6	1984	45.9
1969	104.9	1985	36.4
1970	81.5	1986	35.0
1971	72.3	1987	30.7
1972	79.1	1988	31.9
1973	74.2	1989	33.7
1974	53.6	1990	28.2
1975	48.5	1991	24.5
1976	75.8	1992	27.6

Source: Computed from various government statistics series.

Thus overall the implementation of ERP reform policies have not succeeded completely in restoring and bringing a sustainable external equilibrium. The falling trend of export/import ratios in Table 3 confirms this.

In Table 3 export earnings are substantially lower than imports. Thus, exports finance only a small proportion of the imports. For instance, during the crisis period total exports could only finance about 40 per cent of the imports having fallen from the 60 per cent corresponding import financing capacity during the pre-crisis period (1976-79). During the ERP era the respective capacity fell to about 35 per cent.

The manufactured export earnings which could finance about 9 and 8 per cent of the imports during the 1976-79 and 1980-85 periods, respectively, increased its import financing capacity to about 14 per cent during the ERP era. This is partly a reflection of the improved manufactured export performance. However, these import financing capacities are still very low compared for example to the import needs of the industries. This is n important area which the government of Tanzania should focus more with the view to

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find ways of dealing effectively with the problems which contribute to the persistence of these deficits in the overall balance of payments or in the imbalances in the industrial trade.

5.   The Challenges to Consolidate Industrial-Trade Gains from ERPs

The adoption of the economic reform measures in Tanzania since 1986 has, as discussed in this paper, not succeed in completely restoring a sustainable external equilibrium. In the industry and trade sector which was the main focus of this paper, a similar trend is observed.

In this section, this paper analyses in brief the future of the reforms in Tanzania in relationship to how the problems contributing to the failure to restore equilibrium can be confronted.

5.1   The Challenges

5.1.1   The Elusive Equilibrium in Balance of Payments

Despite the initial success recorded in the promotion of exports during ERPs, Tanzania's overall balance of payments has continued to be in deficits. The level of imports has, by far, exceeded that of exports. This invites questions such as to (i) whether further devaluations of the Shilling will correct this imbalance or (ii) import controls will not have profound negative repercussions to the economy. In short, the reforms have not been able to restore equilibrium in the external sector and here the government still faces a tricky balancing act in using devaluation as an instrument of restoration of this sector.

5.1.2   Exports Promotion Bottlenecks

The export incentives introduced by the reforms notwithstanding, the volume and value of Tanzanians exports has not performed well. The problems which have continued to impair export growth include (i) infrastructural problems (ii) lack of managerial and marketing skills (iii) procedural (bureaucratic) delays, for instance, in export licensing and (iv) lack of financial support to exporters.

In some studies (Bol, 1994, Ngogo, 1993, Mbatia, 1993, Bagachwa, 1993, etc) the initial success made in the promotion of non-traditional exports was linked to the desire by exporters to get foreign exchange through the retention scheme incentive. With the relaxation of the foreign exchange markets,

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exporters whose target was just to get foreign exchange do not find it necessary to export in order to realise their goals for, an individual can get foreign exchange through the various Bureau de Changes. This is also true of the manufacturing firms which entered the export market essentially for purposes of acquiring foreign exchange.

5.1.3 Poor Implementation of Incentives

The existing export incentives appear to be inadequate and poorly implemented. At times the incentives have not been complementing each other. For instance, the duty draw back scheme and the seed capital revolving scheme do not entitle exporters and automatic access to export credit and the duty draw back scheme in particular, does not serve "indirect" exporters such as manufacturers of export packaging materials, yarn or fabrics for textile or garment manufacturing or suppliers of accessories and other domestic inputs needed for export production. There are still several loopholes arising from trade liberalization which allows for under-collection of taxes on imports, thus reinforcing the budgetary problem as well as the overall anti-export biasses.

Finally, apart from the problems such as inadequate supply of water, electricity, etc which contribute to poor industrial production efficiency and low capacity utilization, it is also noted that Tanzania does not have an effective export trade policy. All these noted problems reduces the chances for maximizing the potential for increased manufactured exports and the competitiveness in the foreign markets.

5.2 Policy Options

The momentum in recovery of industrial production efficiency and manufactured export promotion which started during ERP1 era needs to be upheld and further be consolidated and improved. Concerted and coordinated efforts and policies are thus required to deal with some of the noted problems which have been impeding further achievements especially during the ERP II era. It is, for instance suggested that;

(i)   there should be a systematic removal of the policy distortions and physical impediments which create anti-export biases. For instance, taxes on imports should be collected fully. Exporting firms should be assured to get a certain portion of domestically produced raw materials.

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(ii)   reform management should be made more efficient by stream-
lining export documentation and procedures. For instance
export registration and licenses could be removed and custom
processes be speeded up.

(iii)   the non-governmental organizations (NGOs) should be encour-
aged to help in the provision of technical and managerial as-
sistance as well as information on marketing opportunities.

(iv)   indirect exporters should also be allowed to enjoy the export
incentives.

(v)   factors contributing directly to capacity utilization and pro-
ductivity like water, electricity, raw materials and spare parts
should be made adequately available.

(vii)   the supportive research and development and financial insti-
tutions should be strengthened so that they can play a more
active role in assisting the specific local exporting firms espe-
cially with respect to credit availability, production technol-
ogy, standards, packaging and quality products. These are es-
sential if a firm is to be competitive in foreign markets. So far
the ERPs have not adequately considered these issues.

(viii)   there is a need to have an effective export trade policy which
could and aggressively promote manufactured exports and re-
duce some existing anti-export biases.

5.3   Concluding Remarks

In general there has been some improvement in the overall policy en-
vironment in Tanzania since the country embarked on reform programmes in
1986. For instance, there has been a significant shift away from the highly
controlled and restrictive industrial trade regime to a relatively more liberal-
ized regime with an increased role of the market.

The reform measures have addressed several distortions which con-
tributed substantially to the pre-reform crisis. Thus, for instance, the foreign
exchange overvaluation has been reduced drastically through successive cur-
rency devaluations. The prohibitive tariff rates and quantitative restrictions of
imports have also been substantially reduced. Similarly, the prices and mar-

kets have been deregulated and some export incentive schemes have been instituted. The financial sector related reforms have increased the availability of foreign exchange.

However, the overall impact or outcome in the industrial trade has not been completely satisfactory. Despite the increased availability of foreign exchange and improved industrial production efficiency, sustenance in increased manufactured exports failed during ERP 11. The reforms have also managed to increase both imports of manufactures as well as industrial input imports, e.g. machinery, intermediate inputs and raw materials.

Apart from the failure to sustain the achievements, the reforms have so far failed to meet, except for imports, the various targets set in the reform measures and the balance of payments position continues to worsen. Given the girm future for increasing export earnings from traditional and non traditional exports and also the potential shown by manufactured exports which forms a larger part of the non-traditional exports (see Table 2) it is important that the above noted problems should be dealt with so that manufactured exports is further promoted and the balance of payment problems are eased.

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