

**ECONOMIC AND SOCIAL RESEARCH FOUNDATION
(ESRF)**

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**TANZANIAN ECONOMY
THE LONG PATH TO DEVELOPMENT**

Dar Es Salaam, 2002

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Acknowledgement: The author is very grateful to Professor Brian Van Arkadie and Professor Hadari Amani for their very fruitful advice, comments and editing this paper.

Introduction

There has so far not been much awareness about the Tanzanian economy in Vietnam and vice versa. The purpose of the paper is, therefore, two fold. Firstly, it aims to provide Vietnamese readers with systematic and up-to-date information on the Tanzanian economy in order to promote attention and facilitate interest in the Tanzanian and other East African economies which are currently in the same process of industrialization as that of Vietnam and other Southeast Asian economies. Secondly, the paper will analyze the actual performance of the Tanzanian economy along with the causes of success and failure, and the lessons to be drawn there from, with an aim to promote the exchange of development experiences and the possibilities of economic cooperation between the two countries as well as other East African and Southeast Asian countries, which have started to open in recent years. In addition, some issues are raised which might contribute to the improvement of the performance of the Tanzanian economy.

I. Three phases of development since independence

Tanzania won its independence on December 9, 1961. Since then, its economy has been developed in three main phases, each being highly influenced by a President, so the phases coincide with the Presidential periods, though the economic policies may overlap in part from one phase to another. The *first phase* was from 1962 to 1985 under the leadership of the late President Mwalimu Julius Nyerere, who rendered a great service to the Tanzanian cause of national liberation and independence. This phase had been divided into two sub-periods with the first from 1962 to 1966 when the old pattern of the market economy continued from the pre-independent period, and the second from 1967 to 1985 when the economy was transformed to a new system basing on the principles of socialism and self-reliance which were defined in the Arusha Declaration (1967), emphasizing investments for social development to meet the "basic needs" of the people, to build the "public sector", i.e. the State sector, and to restructure the production sector. As a result, during the 1960s, Tanzania achieved relatively stable economic growth and satisfied its people's most basic needs. However, due to the over-concentration on social investments, in this phase some signs of economic imbalance and difficulty appeared, which became acute during the late 1970s when production stagnated and earlier achievements were eroded.

The country no longer had a sufficient material base to continue the provision of basic needs to the society. The discrepancy between needs and resource availability led to the deficits in the budget and the balance of payments, a widening gap between investment and savings, high rates of inflation, the excess of social consumption over production capacity, and eventually the social and economic crisis of the country as a whole.

The crisis became more and more acute due to the sharp fall in the prices of Tanzanian key exports in world markets, the collapse of the East African Community (EAC) in 1977 of which Tanzania was a member, and the Kagera War which adversely hit the economic development of the country. Internally, the top-down centralized management system restrained the initiatives from the local authorities, weakened the role of cooperatives and local councils, contained private economies, discouraged autonomy, and over relied on foreign aid, while there was a lack of incentive policies and measures to stimulate economic development. These factors caused a great discontent among the people, which turned into a strong pressure for reform in the early 1980s.

The reform marked the *second phase* of Tanzanian economic development (1985-1995) under the leadership of former President Ali Hassan Mwinyi. The reforms began with the Economic Recovery Program from 1986 with fundamental changes, such as the shift from the administratively centralized management system dominated by the public sector to a market oriented economy with the private sector playing the dominant role. The reform led to some positive results, the economy partly revived, which was reflected in the positive growth rates and the relative stability; but at the same time, many problems and challenges still remained such as the structural and institutional constraints on the economy; the insufficient reform of the public sector; the continuing deficits of the Government budget resulting from weak revenue generation; the poor balance of trade (the value of formal exports were equal to just 1/3 of imports); savings declined, while debts, speculation, inflation, hunger and poverty, and disease were on the rise.

Moreover, managerial capability and policy coordination were defective, the industrial policies were unclear, there was a lack of long-term strategies, the people became doubtful of the success of the reforms, the socio-economic situation of the country was still dismal, many old problems were not solved while new difficulties increasingly emerged!

The *third phase* began when President Benjamin W. Mkapa took power in 1995, and has gone on till today. Under this period, the reform has continued to be stepped up with new endeavors such as the redefinition of the role of the public sector, the adjustment of the role of the Government, the reform of the administrative system which includes re-formulating the relationship between the central and the local governments, and economic reform affecting sectors ranging from production to trade, services, and foreign economic relations.

Though the three phases link to the three Presidential periods which include both political and economic dimensions, the real changes in strategic economic development management took place in three particular periods of transformation from the first under the “control regime” during 1967-1985 to the second under various reforms which dismantled the “control regime” in 1985-1995, and the third ongoing process of developing a market economy since 1995 with the focus on sustained macroeconomic stability, restoration of fiscal discipline, and creation of an institutional base for supporting a transition to a market economy. These three periods of economic development are characterized by the two principal features, that is, the previous administratively-centralized-management system, and the current market-oriented economy in transition.

II. Reform programs

The economic reform in Tanzania traced back in fact to 1981, though substantially structural changes actually began from 1985. This reform process has been carried out through programs or plans such as the National Economic Survival Program (NESP, 1981/82), the Structural Adjustment Program (SAP, 1982/83-1984-85), the Economic Recovery Program (ERP, 1986/87-1988/89), the Economic-Social Action Program (ESAP, 1989/90-1991/92). Since the 1993/1994 fiscal year, Tanzania has shifted to a Three-Year Rolling Plan and Forward Budget (RPFB). The programs and plans executed during the reform course since 1981 have replaced the 5-year plans of the 1960-80 period.

Most of the economic plans and programs during the reform period are, whatever their names, virtually restructuring programs initiated by foreign donors, above all the World Bank and the International Monetary Fund, centering on two main areas, the adjustment of prices and the adjustment of

the role of the State in a market economy on the basis of the theoretical perceptions embodied in neo-liberalism or neo-classical economic doctrine.

As far as the price system is concerned, these programs have adhered to the perception of "setting the prices right" in a way that the prices reflect the actual supply and demand relationships on the market. Under the specific conditions of a developing country like Tanzania, this means that the prices should reflect the actual relative scarcities of the economy. The price referred to here are understood in its broad sense, which covers not just commodity prices, but also exchange rates and interest rates, the latter including both the deposit and the lending interest rates.

In Tanzania, adjustment policy focused intensively on the adjustment of *exchange rates* moving towards market determined rates. Implementing this policy, from 1986 to 1992, the Tanzanian Government had depreciated the Shilling by 90%, narrowing the gap between the official rate and the market rate from 800% to 30% (*Samuel M.Wangwe, Haji H.Semboja, Paula Tibandebage, 1998, p.1-6*). Measures taken from the early 1980s have included the adjustment of exchange rates to promote exports (export promotion schemes), the allowance to use own-funds to facilitate imports (own-funds facility), weekly auctions of foreign exchanges on the market (weekly forex auctions), development of the interbank forex market, and the opening of the stock market. The indexes of the weekly forex auctions on the market have so far shown a trend of depreciation of the Shilling as a result of the implementation of these measures. And this trend is on the right track of export promotion, as the depreciation of the local currency is assumed to be one of the effective measures to promote exports and reduce imports. However, exports have in fact increased not as fast as imports. The impact of adjustment of the exchange rates on the promotion of exports has not yet been sufficiently strong. The exchange rates still benefit the importers more than the producers and the exporters. And due to the underdevelopment of domestic production, almost all manufactured consumer goods are imported from abroad, thus setting consumer prices in the country at or above the level of world prices, given that import taxes are included.¹ As the consumer prices are so high while the income of most ordinary people is so low, they cannot afford to buy new consumer goods; thus second-hand goods are largely imported, from cars to clothes and other consumer goods. Then, the "second-hand" becomes "first-hand" that

¹ For instance, a short-sleeved shirt at the Shopper's Plaza, a medium-level supermarket in Dar-es-Salaam, cost 40,000 Shillings in late March 2002, equivalent to 42 USD (the then exchange rate being 950 Shs to the USD).

strangles domestic industries. A typical evidence of this is that the second-hand clothes have seriously undermined the cotton textile industry and led to the closing-down of a series of cotton producing and processing factories in Tanzania and Kenya during the last decade. The problem has become so serious that the Tanzanian Premier himself had to admit that "substandard goods" have damaged the competitiveness of Tanzanian industries (Guardian, April 29, 2002).

As with exchange rates and commodity prices, the interest rates of both lending and deposit are not properly set either. Deposit interest rates, for instance, are normally from 4 to 5 percent per year, lower than the inflation rate of 5 to 6 percent per year. These negative deposit interest rates are of no interest to the depositors who would find by the end of the day that they would lose money when they deposit at the bank due to the high inflation rate that cut off a part of their deposited capital. In the mean time, the lending interest rates are too high, about 21-22 percent per year, or 4 times over the deposit interest rates. This regime of interest rates not only fails to encourage domestic savings (one of the secrets of high growth of most Asian developing economies), but discourages investors, both domestic and foreign as well, for these investors will find it hard to get a profit after paying both high interests and high corporate taxes as much as 30 to 50 percent including value-added and other taxes.

All this is really a vicious circle without escape, *unless* different policies and measures are implemented with some determination, such as positive interest rates, along with certain timely subsidies and protection to encourage depositors and investors, and measures to assist *infant* "basic needs", consumer goods and export industries, which are necessary *priorities* at the initial stage of the industrialization process. These policies and measures are not in line with the current orthodox free market economic principles which call for the replacement of Government intervention by market forces, with a natural adjustment under the "truly" market price system. But the unsuccessful developments in Tanzania and elsewhere in Africa during the last several decades of reform under varying Structural Adjustment Programs (SAPs), which have followed almost precisely the current orthodox principles, have raised a fundamental question: ***have the SAPs really set prices right or wrong?***

In accordance with the current orthodox or neo-liberal economic principles, the prices that reflect market scarcities should be universally applied in every market economy, be it a developed or developing one, since such prices help reverse the distortions and misallocations of resources

mostly assumed as being made by Government interventions. This kind of *universal* doctrine like the IMF's policy of fiscal austerity, for instance, was once criticized by Joseph Stiglitz (2000) and others as providing the same medicine for every ailing nation, so it may be good for one, and not for the other. The principle of market price might be right in those economies where the markets were fully or nearly fully developed, and where the State should play a neutral role, particularly as a legal facilitator and a macro-economic management regulator, rather than a direct actor. However, in the actual life of the least developed and/or poorest countries like Tanzania that kind of policy of "setting the prices right" has made scarce resources so expensive that it turned them away from the most wanted channels, that is, the ordinary consumers and investors! That kind of price has misled the markets in which only a small group of rich people who, usually in these poor countries, makes up less than 10 percent of the population that can afford the high prices of scarcities, while the other much larger part of the population is excluded from such scarcities policy, hence limiting the markets or squeezing the demand of production. The main goal of high growth aimed at by SAPs is, in this case, not realized, the "setting prices right" principle is thus turned to be *wrong*, since it misallocates the scarcity resources to the less-wanted channels, in the majority's and the entire national perspectives, leading to serious imbalances in development which embraces, in the new concept of post-growth development, not just economic growth, but also social development, yet to mention of the latest perception of sustainable development which covers the protection of the environment as well. So though the "setting prices right" is true in principle and in the long run in the market economy, its performance turns out to be negative in the short run when the market is not yet fully developed as it excludes in practice the less able of their basic needs and the producers from increasing the supply of their goods. In those cases, some degree of assistance or subsidy are still needed. And if this idea is to be accepted, the price setting scheme should be used, in necessary short-term period of time, as one of the tools to support the poor and to develop the most crucial industries, thus raising both demand and supply, and as a result contributing to the reduction of scarcities. The approach here is therefore a *retreating* one, that is, as long as scarcity is reduced, subsidy will also be reduced accordingly.

With respect to the role of the State, Tanzania seems to have been rather active in the shift toward the market mechanism, quickly reducing the intervention of the State, while enhancing the private sector, moving toward a market economy in which the private sector is assumed to play the

dominant role. The reform of the public sector has been energetic, the State has stepped down from the direct economic activities, including the most essential areas such as production, distribution and marketing services. Liberalization and privatization policies and measures have been quickly adopted, including the sale of several large companies to foreigners, while there has been not much preparation, particularly that of managerial mechanism, personnel and social policies, as well as the necessary institutional and legal bases to meet the new requirements of the liberalized and privatized economy. Such a hasty move has in fact led to not-a-few social and economic problems, which have been criticized by the mass media, particularly those problems arising from the process of privatization of such large and nationally crucial companies as the TANESCO power corporation and others.

These moves may also lead to the loss of needed capacity through disinvestment or divestiture processes, instead of the building and the maturing of *infant* industries which have been and are to be set up, and very much in need of a “visible hand’s” care and raising, hence turning the current weak industrial base of the country to be more vulnerable in face of the fierce competition under the free market economy and the globalization process. The State is loosing its ground.

III. The Vision of 2025 and other future projections

With a view to further promote the economic development, the Tanzanian Government has put forth some orientations and projections for the country’s future development. The overwhelming and general projection is the plan for the country’s long-term development up to the year 2025 called the 2025 Vision worked out by various stakeholders with the Planning Commission as the coordinator, which was designed to turn Tanzania into an economic tiger with a targeted average annual GDP growth rate of 8 percent, and an average per-capita income of US\$2,000 by 2025, raising the share of the manufacturing industry from the present 7 percent to 20 percent by the year 2025.

Being included in the 2025 Vision are the Ten-Year National Poverty Eradication Strategy (NPES) and the medium-term Five Year Poverty Reduction Strategy (PRS) in which the 2001-2005 Five-Year Agricultural Sector Development Strategy (ASDS) was designed as a part of the PRS. At present, agriculture is the principal economic sector of Tanzania. It produces

over 50 percent of the GDP of the country, with roughly 80 percent of the total population of 30 million people who live in the countryside mainly depending on agriculture. In recent years agricultural products have accounted for 85 percent of total national exports.²

Tanzania possesses a large area of land, 945,087 km², of which 1 million hectares is possible to be irrigated for the purpose of agricultural development. However, there is so far only 162,500 hectares being irrigated. Farming methods are very backward, relying mostly on the traditional manual tools, particularly hand tools. Around 70 percent of the present cultivation is done with hand hoes, 20 percent with draught oxen, and 10 percent with tractors, the “green revolution” is something still far ahead or just a little adopted, as a result agricultural productivity is very low. To overcome this backwardness and to improve the living conditions of the people living in the countryside, the Tanzanian Government wishes to mobilize 213 billion Shillings (or US\$255 million) for the transformation and the development of agriculture, with an aim to attain an annual agricultural growth rate of 5 percent by 2005-2007. This amount of money is planned to be spent on the following investments: \$34.2 million for institutional strengthening, \$9.4 million for creating favorable conditions for farm-product trading, \$160.9 million for the enhancement of the supportive services in the public and the private sectors, \$42.5 million for the raising of the market efficiency of agricultural outputs and inputs, and \$8.3 million for the execution of agricultural planning in other related areas.

In line with the policies aiming to develop the manufacturing industry and foreign trade, to transform the economy toward the direction of increasing penetration into the world market and to meet the new requirements of the globalization and regionalization process, the Tanzanian Parliament has, on April 17, 2002, passed a new Act on the establishment of export-processing zones in order to create a channel for fast inducement of foreign investments into Tanzania.

Another important effort was joining with partners Kenya and Uganda in 1999 to revive the EAC, a regional body set up in 1967³ and dissolved ten years later, 1977, due to the disagreement among the member countries. The new East African Community aims to intensify the economic and political integration in the region oriented toward the building of (1) a customs union,

² This is changing with the rapid expansion of gold exports.

³ Replacing at that time a long-standing common market and extensive common service.

(2) a common market, and lastly (3) a monetary union proceeding to the founding of a political federation of East African nations.

IV. Actual performance, causes of success and failure, and prospects

1. The actual performance of the economy:

After 40 years of development since the 1960s, the Tanzanian economy, which has experienced a range of policies, plans and programs of development, reform and structural adjustment, seems to have made almost no advance and still contains numerous imbalances and difficulties, though some partial improvements were achieved. Thanks to the endeavors having been made during the last ten years of economic reform and structural adjustment, the Tanzanian economy achieved gradual growth, though not yet steady and stable: from 2.8% in 1991 down to 1.8% in 1992, 0.4% in 1993, then back up to 1.45% in 1994, 3.6% in 1995, 4.2% in 1996, 3.3% in 1997, 4.0% in 1998, 4.7% in 1999, 4.9% in 2000, and 5.6% in 2001, the first time ever in 10 years surpassing the bar of 5% per year (*See Table 1*). This trend of growth resulted first of all from the average annual growth rates of agriculture by 3.2% since 1985, in which food production grew by 3.5% and agricultural exports by 5.4%, and secondly from the industrial growth rates of 4.8% in 2000 and 5.8% in 2001.

In 2001, exports grew by 16%, imports by 12.5%; and forex reserves were equivalent to 5 months of imports. Inflation went down from 33% in 1993 to 6% in 2000 and 4.5% in February 2002. One set of official forecasts suggested that the Tanzanian economy is expected to go on improving and to attain higher growth in the coming years, as a result of the better policies and a stable socio-economic situation. The Government expects that the Tanzanian GDP will grow by 5.5% in 2002, 6% in 2003, and 7% by 2005 as targeted. To some degree therefore reform policies have been successful.

However, improvement for just one to two year(s) is not yet sufficient to reverse the whole period of stagnation in social and economic development which has protracted for 40 years since Tanzania's independence. The Tanzanian economy is still rated as one of the poorest and least developed economies in the world. In nearly thirty years from 1970 to 1998, Tanzania's real GDP per-capita income had, instead of increasing, declined by 0.2% per annum (CSAE, 2001, p.19). During the 1990s alone, Tanzania's real GDP per-capita dropped from US\$189 in 1990 to \$188 in 1999, though it was

slightly higher than the level of \$181 in 1988 (by 1995 constant price, Beatrice Mkenda, 2002, p.6). This was the result of the imbalance between the slow GDP growth and the fast population growth of 2.8% per year during the same period.

The Tanzanian economy is still essentially an agrarian economy with the share of agriculture in GDP rising from 48.7% in 1987 to 49.4% in 1998, while the share of industry dropped from 8.9% to 8.4% in the same period (S.M.Wangwe and B.V.Arkadie, 2000, p.8,29). Industrial establishments are few and backward, concentrating on the two main areas of farm-product processing and some consumer goods production.

Since 1999-2000, the mining industry, particularly gold production, has expanded. And in this year (2002) the new gas production industry has been started in the Rufiji delta. Most of the new FDI entering to the country have concentrated in these two new mining industries.

The other main form of inward investment involves the purchase of established businesses under the privatization program. This policy is quite contrast to that of most other developing countries, particularly those in Asia where localization has been one of the conditions for foreign investors to invest in their countries.

Should existing trends of FDI in mining industries be extended in association with the selling-off of the infant domestic State industries to foreigners under the privatization process, without the expansion of the manufacturing sector, the *new* position of Tanzania in the international division of labor will probably come back to that of the *old* colonial style, that is, returning Tanzania into a source of material supplies in exchange for industrial products from developed nations.

The prolonged and weak economic performance of the country associated with its poor social and human resource developments has ultimately affected negatively on the quality of life of the people which has been worsened year after year. The most obvious evidence of this is the shortening of the average life span which has constantly declined from 52 years at the height of the 1970s to 50.05 years in 1990, then 47.15 years in 1998, and currently 48 years old (M. Pigato, 2001, p.16)!

2. The causes of success and failure:

The overall reason behind this weak and prolonged economic performance is *the lack of a comprehensive, long-term and clear strategy of development, particularly a feasible industrialization strategy*, even though, as it was discussed earlier, numerous economic reforms and adjustment

programs and plans have successively been adopted. It is not fair to negatively judge these programs and plans, since they have played their positive role and served the society and the economy in the very critical periods without which the situation would have been worse. The problem is that since these programs and plans have usually been designed to solve the pressing problems at the time of crisis, they were often of short-term purpose, as implied in their very titles, named as “the survival”, “the basic needs”, “the rehabilitation”, or “the adjustment” programs.

Even the current new, long-term and medium-term attempts as the 2025 Vision, the NPES, the PRS and the ASDS seem not feasible, because they were probably designed based more on the policy makers’ ambitions rather on realistic judgments. For instance, the goal of raising the annual GDP growth rates to 8% from the present 3-5%, and the GDP per-capita to US\$2,000 by the year 2025 from the present \$188 will not be easy to achieve. To trace back throughout the whole period of reform of over 20 years since the 1980s, most obviously since 1987, one may find that Tanzania had only one year attained the GDP growth rate of over 6%, or to be more specific, 6.2% in 1990 (*Table 1*). This historical and practical fact illustrates that it would be too hard for a poor and resource-scarce country like Tanzania to strive for such a high and miraculous average annual growth rate of 8% and to increase the GDP per capita over 10 times in just 25 years, as it was projected in the 2025 Vision, without strong measures and huge additional physical investments, however fast the processes of liberalization and privatization are implemented.

The second major reason is that the economy has been *heavily dependent on foreign aid* while most of the aid focused on a social and political agenda and on the assistance of the Government budget, rather on economic development purposes; as a result it created a little impact on the economic growth, and even much less on the industrialization effort. *Table 2* shows foreign debts, at one point, were nearly double the total national income (179% of GDP in 1994); and although recent years saw a decline, they were still as much as 92% of GDP in 2000, and debt services in 1992 amounted to 40.4% of the total export value. Senior experts like Prof. S. M. Wangwe, H. H. Semboja and P. Tibandebage put forth an even higher figure of foreign debts, e.g. 285% of GDP in 1992, nearly three times as much as GDP (*Samuel M. Wangwe, Haji H. Semboja, Paula Tibandebage, 1998, p.4*). Debt relief will reduce this burden, but the underlying reasons why the debts were accumulated still operate. About 50% of budget spending came from foreign aid. It was pointed out in *Table 3* that during the six years from 1994

to 1999, the five largest items of aid were used to support the balance of payment, there was only one single year (1999) in which the amount of aid used to support the balance of payment was smaller than the aid reserved for an economic sector, i.e. agriculture. The management of aid has also been problematic, slack, non-transparent, and lacking effective accounting. In some years, as much as 50% (2001) and 70% (1989) of foreign aid were allotted outside of the budget channels, without going through the normal screening procedures (*Samuel M. Wangwe, Poverty Reduction, 2001*). And because of the high dependency on foreign aid, associated with the inadequate attention to domestic savings, trade and domestically funded investment, Tanzania has been unable to create her own engines of growth, and thus lacks internal development dynamism.

The domestic saving rate has been less than 15% of GDP, and before the recent mining boom, FDI was small. Real per-capita exports from 1970 to 1998 declined by 4.6% (CSAE 2001, p.17), total export value has been smaller than the total foreign aid (in 2000 exports attained US\$937 million, while in 1997 foreign aid amounted to \$963 million).

In 2000, foreign debts came up to \$6.8 billion (Internet sources). As foreign debts were too high to pay back, Tanzania had no other choice than to resort to the policy of debt exemption that the donors reserved for poorest countries with heavy debts (HIPC) for a settlement. Though the foreign debt problem is no longer acute since the HIPC relief late last year, the future basic solution to it still remains in question. In addition, domestic debts have also climbed up fast, amounting to 811 billion Shillings by the end of the first quarter of 2002, equivalent to a half of the GDP of around 1,600 billion Shillings (The African, April 17, 2002), making the problem even harder to be solved.

Currently, there has been debate in Tanzania about an "*aid exit strategy*" in a hope that the reduction or cut of aid would stimulate the internal efforts of development. However, it would not be so easy to do so for an economy facing such serious imbalances and shortages. A more feasible choice under the present conditions for Tanzania may not yet be an aid exit strategy, but rather *a strategy for a gradual exit from aid dependency*, in which foreign aid should not be reduced or cut off, instead it may even need to be increased. The new philosophy of aid should be relying on aid to reduce aid dependency, that is, to shift the focus of aid utilization from the present political and social or charity bias to the purpose of *economic growth first* through the promotion of exports, investments and savings, and the construction of infrastructure. An outstanding Japanese diplomat,

Ambassador Keitaro Sato, who is recognized to have made a great contribution to the establishment of a "development partnership" between Japan and Tanzania, and who directed the Japanese aid mainly to serve various areas of social and economic development such as "roads, electricity, infrastructure, health care, education, and agriculture, including irrigation", had, after a three-year term as Ambassador to Tanzania, to make a straight and frank recommendation that though the partnership was "excellent", it might better be ended, for the US\$100 million of Japanese aid (equivalent to 95 billion Shillings) to Tanzania each year would become a zero if Tanzania does not strive to stand on her own legs, but went on relying on foreign aid rather than developing trade, investment, domestic savings, and promoting education so as to create a high quality manpower and entrepreneurship necessary for the development of the country (The African and Daily News, April 23, 2002). Commenting on this recommendation, a Tanzanian journalist wrote that in order to deliver this message, the Japanese Ambassador, Mr. Sato, must have seen with his own eyes numerous Japanese aid projects in Tanzania which did not exert fruitful effects, and/or did not even maintain operation after construction, they had one after the other collapsed or deformed when the projects' aid money came to an end, as occurred with the case of the Regional Transport Companies under the National Transport Corporation (RETCO's), the giant Southern paper plant in Mufindi, Iringa, or the Tanzanian Fertilizer Company (The African, April 24, 2002).

The third reason is that when Tanzania shifted from its earlier centrally and administratively economic management system dominated by the public sector to the market economy dominated by the private sector, the State has conducted *fast liberalization and privatization programs without sufficient preparations of the necessary conditions* such as the formulation of a legal environment along with necessary social and economic institutions to match with the process of liberalization and privatization, leading to numerous defects and errors in economic management and performance, making it difficult to manage the speedy changes, hence worsening the socio-economic situation, instead of improving it. The consequence was that many serious social problems were not settled; a number of areas which were formerly given attention and developed well have deteriorated, particularly increasing poverty, the downgrading of the educational system, and the wide spread diseases, notably malaria and HIV/AIDS. At present, about 51% of the Tanzanian population live under the poverty line.

In 1999, Tanzania had about 1.3 million people who had contracted HIV/AIDS, accounting for 8% of all adults or the main workforce of 14 million people. The findings of a research work done by John T. Cuddington suggest that, without decisive action, AIDs may reduce Tanzanian GDP in the year 2010 by 15 to 25 percent in relation to a counterfactual no-AIDs scenario, and the per capita income levels are expected to fall by 0 to 10 percent by 2010, as a result of the roughly 20 percent smaller size of Tanzania's working age population by 2010, and the falling of the mean age of the working age population (15 to 64 years of age) from 32 years in 1985 to 28 years in 2020 with AIDs, compared to 31 to 31.5 years in 2020 without AIDs (John T. Cuddington, pp. 173, 176, 177).

Every year in the world, 1 million people die of malaria, of whom Africa, including Tanzania, accounted for 90%; and of every 5 children born in Africa, one died under 5 years of age because of malaria. Malaria is seen as one the biggest lethal diseases in Africa, and one of the principal causes to obstruct economic development and social progress in this region.

As far as education is concerned, pupils enrolled in primary schools declined from 69.7% in 1990 to 66% in 1999 (M. Pigato, 2001, p.16), with only 7-8% in secondary schools, 2-3% in post-secondary schools, and much less in universities. Tanzania now is rated as one of the countries having the lowest enrolment in the world of students in general and higher education (The African, April 22, 2002). That is the main factor that leads to a serious shortage of qualified manpower and skilled workers needed for the national development, particularly a workforce which is conversant with economics and technology.

Another issue is *inefficient foreign economic policies* which have brought Tanzania, in the words of Prof. Brian Van Arkadie, a long-experienced expert on the Tanzanian economy to a situation of "marginalisation" with respect to the global economy (Brian Van Arkadie, 2001). This is true because the important factors like exports, foreign investments and domestic savings which often play the role of engine of growth in other countries are very minimal in Tanzania, they make up only 14, 2.1, and 15 percent of GDP, respectively (*Table 4*), while the less important factor as aid makes up as much as 70 percent of GDP (\$6.8 billion of aid compared to \$9 billion GDP in 2000, current price). Foreign economic policies have not only contributed very little to the development of the national economy, they have , worse even, subjected the economy to the negative impacts from the globalization process, particularly the fall of the prices of Tanzanian major exports like coffee as a result of the world's increase in coffee supply, and

the rise of Tanzanian major imports' prices such as that of oil resulting from the rise of international terrorism and the turbulence in the Middle East. This is the main reason for the decline of Tanzanian export revenues and the increase of Tanzanian import bill in recent years, an important factor behind the loss of necessary resources leading to the restraining of Tanzania's ability for economic development. Because of the poor developments of foreign economic relations, of trade as well as the infrastructure, Tanzania has not been able to bring into play its large potential, and could not make full use of its available productive capacity; for instance, every year thousands of tons of fruit such as mangoes, pineapples and oranges are left rotten in their gardens due to the lack of transport means and market outlets. Orange alone could not be sold of around 600,000 tons each crop (Daily News, April 22, 2002); or in 2001, 40,000 tons out of 132,000 tons of cashewnuts produced was not sold (Business Times, April 19, 2002). At present, most of Tanzania's cashewnuts are exported in raw condition, and India is almost the sole country which imports Tanzanian cashewnuts for processing and re-export. When India can not take all the cashewnuts produced in Tanzania, there is an excess of raw nuts, for the domestic market is small, the processing facilities on which large sums were spent in the 1970s are mainly no longer operative, and the processing quality is low failing to meet the standards of export.

The *East African regional economic integration* has been restored and promoted in recent years, but as past experiences have shown, the integration is, deliberately, taking time to unfold, thus it is not yet able to help Tanzania in the intermediate future to overcome the negative impacts of globalization, yet to mention of the weak position of Tanzania in the regional linkage since the Tanzanian economy is less developed than the other two members in the East African Community (EAC), namely Kenya and Uganda. Though in the year 2000 Tanzania attained a higher growth rate of 5.1 percent compared to -0.2 percent of Kenya and 3.5 percent of Uganda, her GDP per capita of \$190.5 (1995 price) was lower than that of Kenya (\$328.2) and Uganda (\$348.0). Of the three EAC members, Tanzania has so far been mainly an importer rather than an exporter. For instance, during the period of 1996-1999, Kenya exported to Uganda and Tanzania US\$1.7 billion, while it imported from these two markets only US\$49 million (Wachira Kigotho, 2001).

So long as Tanzania is not able to develop its manufacturing industry, it will continue to suffer many losses in foreign economic relations; and this seems to be a hard job to overcome within a short period of time. Although

in April 2002, Tanzania ratified the new law on export-processing zones, but it will take time for these zones to complete their construction and to set up new manufacturing industries, yet to think of the build-up a whole manufacturing industry in the context of the present Tanzanian economy. Moreover, it seems Tanzania has not made sufficient efforts and not been ready for the establishment of one of the most essential sectors like this.

3. Future prospects:

Though Tanzanian economic performance has to some extent improved, conditions are not sufficient to ensure a long-term and sustainable development. The main actors in the economy, the State and the private entrepreneurs, have not yet defined and confirmed their proper roles and responsibilities. The State itself has sought to step down fast from the direct management over the economy through the policies of liberalization and privatization, to give up its leading role in economic development, and to quickly transfer the task of economic development to the private sector which is assumed to be the driving force playing the dominant role in the Tanzanian market economy, while the market is only poorly developed and the private sector itself is still at its infant age.

Most of the private business establishments are weak in every aspect, small in size, low in productivity, lack skilled labor, management experience, capital, technology, information, competitive capacity, and marketing know-how. As domestic private companies are small and weak, they are incapable of purchasing large State firms like TANESCO which have been or are to be privatized. These firms have been and will be sold to foreign investors, making the already thin, fragile and feeble national industry, the backbone and the mainstay of the economy, even more vulnerable.

The sectoral structure of the Tanzanian economy has not evolved from its backward condition. Agriculture continues to be the principal economic sector, while industry has not shown signs of a high growth. The socio-economic infrastructure from banking to water and electricity supply, roads and communication, health care and education, legal framework and business environment, all are poor and deficient. The rates of domestic savings, exports and foreign investments are low, while the dependency on foreign aid remains excessive.

The GDP per-capita income might at best be tripled or quadrupled from the present US\$188, but it is not very likely be US\$2,000 by the year 2025. The programs of reform and/or adjustment have, in the absence of a long-

term and strategic vision, can mostly be characterized as patch-work and opportunistic, swinging from one extreme to the other, from an excessive focus on the social and the "basic needs" during the 1960s and 1970s under the socialist point of view, to a neglect of social development and high concentration for "macro-structural adjustment" programs under the market perception in the early phases of structural adjustment (*Samuel M. Wangwe, Haji H. Semboja, Paula Tibandebage, 1998, p.10*).

Having pointed out the above problems, the author of this paper by no means intends to overstress the defects and weaknesses of the Tanzanian economy, but tries to get to the root and genuine causes which have been and are to be the main obstacles on the path of development of the country, so that we may find the way how to overcome them, to bring into play the available and potential comparative advantages of a country which is politically independent, cohesive and stable, but economically less developed. The present low labor costs, export crops and mineral reserves of the country could be utilized for the development of labor- and resource-intensive and export-oriented industries, while preparing conditions for the development of new potential specializations through the creation of educated and skilled manpower in the service of future and long-term development.

V. Possibilities of cooperation with Vietnam

Many African countries, including Tanzania, have previously known Vietnam and supported Vietnam in its protracted struggle for national liberation and independence, but are currently little aware of Vietnam's present efforts for national reconstruction, and have few economic contacts with Vietnam. However, Vietnam has in recent years started to extend her cooperation with some African countries in both political and economic areas, particularly trade. For instance, 5 years after democratic South Africa came into being, Vietnam established its Trade Bureau and in May 2000 its Embassy in South Africa. As a result, Vietnam's exports to South Africa grew by 60% in 2000 compared to that of 1999, opening a new cooperation phase between the two countries. In 2001 and 2002, trade relations between the two countries have continued to grow. Vietnam's exports to South Africa included agricultural products like rice, coffee, cashewnuts, pepper, processed foodstuffs, footwear, textile and garments, rubber, wooden products, fine-art handicrafts, tiles, industrial and household plastics, which

are consumed not only in South Africa, but also in some other African markets throughout Southern Africa (Nhan Dan daily, February 22, 2002).

In March 2002, the Vietnamese Trade Ministry sent a delegation to study the market opportunities in four African countries, namely Angola, South Africa, Mozambique, and Tanzania. In these countries, the delegation reached some agreements on the development of economic and commercial ties, particularly the trading of consumer goods and farm products, and cooperation in agricultural and rural development.

In Tanzania, the delegation reached some agreements on cooperation in several areas such as farm-product processing, vegetables, fruits, wet-rice cultivation, afforestation, irrigation, household stockbreeding, exchange of agricultural experts, and promotion of trade relations (Tuoi Tre TP HCM, April 9, 2002). However, the real economic relations between the two countries have been minimal; the two-way trade has reached less than US\$10 million, and most transactions were done through a third country.

Difficulties are numerous as the two economies are both under-developed and far apart with high transportation costs, while foreign exchange is tightly constrained. Room for cooperation has, anyway, already been found. Both countries having started their link through a third party, can proceed to more direct arrangements in possible areas such as barter trade in consumer goods, farm products, minerals, cooperation in agricultural production, farm-product processing, and manufacturing of consumer goods for home consumption and export. One example may be the exchange of raw cashew nuts for rice: Vietnam exports rice and needs to import about 100,000 tons of raw cashew nuts a year for processing and re-export, while Tanzania had an excess of 40,000 tons of cashew nuts in the year 2001.

Another example is the Vietnam-Senegal-FAO tripartite cooperation in agriculture which has been developed for over four years since 1997 and resulted in the improvement of 14 areas of agricultural development including food production, husbandry, fishery and others. The success of this South-South cooperation ~~is~~^{was} appreciated not only because it helped improve the development of local agriculture when the Vietnamese experts were there, but also because those areas of agriculture have continued to be developed after the Vietnamese experts left, for the know-how has been transferred the local people to do the job themselves. Having realized the betterment of this program, FAO has suggested to multiply this model of cooperation to other developing countries in Africa and Southeast Asia. To May, 2000 Vietnam had signed contracts to adopt this type of tripartite

cooperation with 14 countries, and is likely to extend the cooperation to the other 30 countries throughout the world. In order to carry out this task, Vietnam plans to send from 14,000 to 18,000 experts to these countries to do the job (Nhan Dan, 26 April 2002).

Vietnam has also sent a number of experts on education and health care to some African countries for a number of years and will continue to send more in the coming future as demand continue to increase. One of the areas I think would be considered is the combat against malaria in which Vietnam has both experiences and medicine.

To further promote this cooperation, there is a need of further study and exchange of information and greater efforts for collaboration of both countries.

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Table 1: Tanzania's GDP at 1992 prices

Year	GDP (Tshs Million)	Per Capita GDP (Tshs)	Per Capita GDP Growth (%)	Real GDP Growth (Annual Change %)	Share of agricultu- re in total GDP	Share of manufac- turing in total GDP	Per Capita GDP (USD)
1987	1,071,541	49,125	4.0	-	48.7	8.9	-
1988	1,119,017	49,553	0.9	4.4	47.7	8.7	181
1989	1,147,745	49,421	-0.3	2.6	48.3	9.0	182
1990	1,219,237	51,050	3.3	6.2	47.9	8.8	189
1991	1,253,132	51,021	-0.1	2.8	48.3	8.7	187
1992	1,275,916	50,514	-1.0	1.8	48.0	8.2	182
1993	1,281,007	49,315	-2.4	0.4	49.3	8.2	179
1994	1,298,942	48,625	-1.4	1.4	49.6	8.1	176
1995	1,345,247	48,987	0.7	3.6	50.7	7.9	177
1996	1,401,711	49,652	1.4	4.2	50.6	8.0	180
1997	1,448,089	49,898	0.5	3.3	50.1	8.1	182
1998	1,505,827	50,194	0.9	4.0	49.4	8.4	184
1999				4.7			188
2000				4.9			
2001				5.6*			
2002				5.5**			
2003				6%**			

*2001: Real GDP growth rates.

**2002 and 2003: Projected.

Source:

- Samuel M. Wangwe, Brian Van Arkadie, 2000, Pp. 2, 8, 29.
- Beatrice Kalinda Mkenda, 2002, Table 2.1, p. 6.
- The Guardian, Friday, 19 April 2002.

Table 2: Some Indicators of External Debt in Tanzania: 1986-2000

	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Total Debt (% of GNP)	-	-	122	128	161	151	143	156	179	141	114	97	95	98	92
Debt Service ratio (% of exports)	35.2	39.2	32.0	32.9	32.9	40.3	40.4	26.16	19.0	17.9	18.9	13.0	14.3	15.2	14.5
Concessional Debt (% of total)	52.9	49.7	53.1	54.2	53.8	54.5	57.5	59.0	60.1	59.8	60.5	70.9	71.2	72.5	69.0
Multilateral Debt (% of total)	26.2	26.8	24.9	30.9	33.0	34.4	35.6	36.7	37.7	39.1	41.0	42.1	43.1	48.3	49.8
Arrears (US \$ m)	531	766	845	1050	1215	1486	1518	1815	2090	2421	2532	1995	1820	1885	2022
Residual Debt (US \$ m)	657	59	385	77	185	7	348	58	9	0	33	761	NA	NA	NA

NA: Not available.

Source: G. D. Mjema, 2002, p. 87.

Table 3: Use of External Debt, Funds in Tanzania 1994-1999(%)

	1994	1995	1996	1997	1998	1999
BOP support	27.3	25.5	23.1	23.2	23.0	18.7
Transport	19.2	19.5	20.3	20.3	20.3	21.5
Agriculture	14.7	14.6	14.4	14.2	14.6	15.6
Energy and Mining	10.0	10.9	11.3	12.3	12.5	13.2
Industries	9.5	9.2	8.6	8.2	7.7	7.8
Social Welfare	3.2	3.7	3.9	4.3	4.4	4.9
Finance	3.1	2.9	2.8	2.6	3.3	3.7
Others	13.0	13.7	15.6	14.9	14.2	14.6

BOP: Balance of Payment.

Source: G. D. Mjema, 2002, p. 89.

Table 4: East African Countries' Selected Indicators, 2000

	Tanzania	Kenya	Uganda
Population (Million)	33.7	30.1	22.2
Labor Force (Million)	17.3	15.5	10.9
GDP at current prices (Mill \$)	9027.5	10357.0	6170.2
GDP at 1995 prices (Mill \$)	6418.6	9876.1	7728.0
GDP per capita (1995 prices \$)	190.5	328.2	348.0
GDP growth rate (annual)	5.1	-0.2	3.5
Structure of the Economy (per cent)			
Agriculture/GDP	45.1	19.9	42.5
Industry/GDP	15.8	18.7	19.1
Manufacturing/GDP	7.5	13.1	9.1
Services/GDP	39.1	61.3	38.4
Trade/GDP	37.9	62.1	35.9
Foreign Direct Investment Inflows/GDP	2.1	1.1	3.6
Exports of goods and services/GDP	14.7	26.5	10.1
Imports of goods and services/GDP	14.7	26.5	10.1

Source: -World Development Indicators, 2002 - CD ROM

-George Kabelwa: South African FDI into East Africa: The case of Tanzania, ESRF Globalisation and East Africa Project, Dar es Salaam, 2002, p. 23.