The Impact of Globalisation on Tanzania's Labour Market: Evidence from the Manufacturing Sector

By

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A paper prepared for a Policy Dialogue for Accelerating Growth and Poverty Reduction in Tanzania, held at the Conference hall, ESRF, on July 28th, 2005.

List of Abbreviations

COMESA	*Common Market for Eastern and Southern Africa*
CSAE	*Centre for the Study of African Economies*
EAC	*East African Community*
ERP	*Economic Recovery Programme*
ESAP	*Economic and Social Action Programme*
ESRF	*Economic and Social Research Foundation*
FDI	*Foreign Direct Investment*
GDP	*Gross Domestic Product*
ILFS	*Integrated Labour Force Survey*
IMF	*International Monetary Fund*
IPC	*Investment Promotion Centre*
ITC	*International Trade Centre*
IUOE	*International Union of Operating Engineers*
NBER	*National Bureau of Economic Research*
NOTU	*National Organisation of Trade Unions*
OGL	*Open General License*
QRs	*Quantitative Restrictions*
RPED	*Regional Programme on Enterprise Development*
TIC	*Tanzania Investment Centre*
TMES	*Tanzania Manufacturing Enterprise Survey*
TTCL	*Tanzania Telecommunications Company Limited*
UNCTAD	*United Nations Conference on Trade and Development*
UNIDO	*United Nations Industrial Development Organisation*
URT	*United Republic of Tanzania*
VAT	*Value Added Tax*

1. *Introduction*

This paper derives from a study that was commissioned by the ESRF, under the "Globalisation and East Africa Project". The study investigated the ways in which globalisation, specifically, the economic reforms pursued by the Tanzanian government and the presence of foreign and exporting firms, have impacted on the labour market. The aim of this paper is to present the key findings from that study, as well as to discuss some emerging policy issues. As such, this paper does not contain detailed discussions of the theoretical basis and methodology of the study. Interested readers can refer to the research report for such details.[1]

The key findings that I discuss from the research report pertain to the following questions:

- What has been the impact of trade liberalisation, investment reforms and privatisation, and public sector reforms on employment?
- Do foreign-owned and exporting firms pay higher wages than locally owned firms?
- Do foreign-owned and exporting firms employ more workers than locally owned firms?
- To what extent do workers feel secure in their jobs?

2. *The Context*

The Tanzanian economy has over the years, witnessed a rapid integration of its economy to the rest of the world, through a process widely called *globalisation*. *Globalisation* can be defined as the process of increasing economic, political, social and cultural integration, whereby influences beyond national boundaries have a crucial impact constraining and influencing all aspects of national well-being. The interaction is seen in form of increased flow of goods, ideas and services, increased flow of capital, and migration of people (see ESRF, 2002).

A number of factors have been driving the globalisation process. These are technological advances, trade and investment liberalisation, internationalisation of business activity, and human migration (ESRF, 2002;

[1]Mkenda (2005a).

Stiglitz, 2002). For the purpose of this study, we will focus on *economic* globalisation, defined as the closer integration of countries through trade and capital movements, aided by liberalisation policies.

Tanzania's integration with the rest of the world can be seen through one of the key economic indicators of globalisation, which is capital flows.[2] Figure A1 in the appendix shows an increasing trend in the amount of FDI inflows and inward stock to Tanzania from 1970 to 2003. The figure illustrates that Tanzania has attracted an increasing amount of foreign investment, although at a global level, the amount is a small share.

Like other developing countries, the level of integration of the Tanzanian economy with the rest of the world has been aided by the structural adjustment policies. The Tanzanian government has been undertaking structural adjustment reforms under the tutelage of the IMF/World Bank since the mid 1980s, although the tempo of liberalisation and structural adjustment only picked up from the mid 1990s. The reforms that have been undertaken such as trade liberalisation, privatisation of state-owned enterprises, public sector reforms and encouragement of foreign direct investment (FDI) by liberalisation of investment laws and markets, have impacted on the labour market in terms of employment and earnings. An understanding of the ways in which employment and earnings have been affected is therefore important. This is because the extent to which people are able to generate income from employment has implications on welfare in general and poverty in particular.

3. *The Impact of Trade Liberalisation, Investment Reforms and Privatisation, and Public Sector Reforms on Employment*

What has been the impact of trade liberalisation, investment reforms and privatisation, and public sector reforms on employment?

[2] Other indicators are; the amount of aid inflows, the percentage of trade in GDP, the convergence of domestic prices and world prices, the number of international tourists, incoming and outgoing international telephone calls, transfer payments and receipts, the number of Internet users, Internet hosts, and secure servers (see Foreign Policy Magazine, 2001, http://www.foreignpolicy.com/issue_janfeb_2001/atkearneywtkm.html, and Mkenda, 2002b).

3.1 Trade Liberalisation[3]

The main trade reforms that Tanzania has undertaken are tabulated in Table A1 in the appendix. The exchange rate reforms dealt with the over-valued Tanzania Shilling which constrained the competitiveness of exports. Trade reform is also evident from the measures undertaken on quantitative restrictions (QRs) on imported goods, improving incentives to exporters, such as duty drawback schemes, removal of export duties, and eliminating the need to obtain licenses. The structure of tariffs was rationalised and their levels reduced, as the trend shows in Table 1.

Table 1: Average Tariff Rates for Tanzania, Selected Years, 1982-99

	1982	1986	1987	1988	1989	1990	1992	1993	1994	1995	1996	1997	1999
Unweighted (%)	23.9	32.1	-	29.8	28.1	29.7	33.0	27.5	27.5	24.5	24.4	21.8	16.1

Source: World Bank, (2001), International Trade and Development Database.

For Tanzania, the *textile sector* felt the brunt of trade liberalisation. Although the sector faced numerous problems over the years including mismanagement, poor and out-dated technology, high operating costs such as high power tariffs, it also faced competition from sub-standard imports due to low import tariffs. The sub-standard imports in turn led to labour redundancies as textile firms closed, and capacities lay idle. For example, in the early 1980s at the height of its operation, there were 35 textile firms, which dropped to just 2 in 1996. However, currently, a number of textile firms have been privatized, and have resumed operation after modernizing their mills, and also, new mills have been established (ITC, 2005).

3.2 Investment Reforms and Privatisation

After years of following a socialist model of economic development that was ushered in through the Arusha Declaration, the government of Tanzania embarked on market reforms from the mid 1980s. Although the reforms proceeded slowly to begin with, there was a marked improvement in the pace in the 1990s. Part of the reforms were those pertaining to investment policies so as to attract foreign investment. The process of reforms regarding investment began with an investment code that was introduced in June 1990, though not successful due to a weak response from the private sector. Then the New Investment Policy of Tanzania was ushered in 1996, which led to the Investment Act of 1997. The

[3] This section draws on Mkenda (2002a).

Investment Act, among other things, established the Tanzania Investment Centre (TIC), identified investment priorities, introduced a new company registration process, and determined investment incentives and investors' rights (UNCTAD, 2002; Mashindano, 2004). There are other specific measures that have been undertaken to attract foreign private investment, and these are widely documented (see UNCTAD, 2002). The response to the incentives that the government put in place is evident from the FDI inflows (Figure A1 in the appendix), which show a dramatic increase in FDI inflows after 1997.

Another policy that helped to increase the level of FDI inflows was the privatisation of former parastatals, which was meant to sale off loss making companies, and to take care of the fiscal burden that was created by loss making companies. Thus far, Tanzania's privatisation programme has been hailed as a success and a major source of FDI inflows due to the confidence that it has created among investors (UNCTAD, 2002). Between 1993 and 2002, 265 enterprises, an equivalent of two-thirds of the firms that were earmarked for privatisation, were privatised.[4]

How has FDI and privatisation impacted on employment in Tanzania? Figure 1 shows the trend in the total number of investment projects approved by the TIC (these include both new and old ones for expansion or rehabilitation), and the amount of employment created by the projects. Figure A2 in the appendix further shows the structure of ownership of the projects. In general, the projects and employment created peaked in the year 2000, after a slight dip in 1999. Thereafter, there was a drop, and the trend started going up. The prospects for new investment coming to Tanzania as forecasted by, for example UNIDO, are bright. As such, the increase in private investment, both local and foreign, will have a positive impact on the employment level.

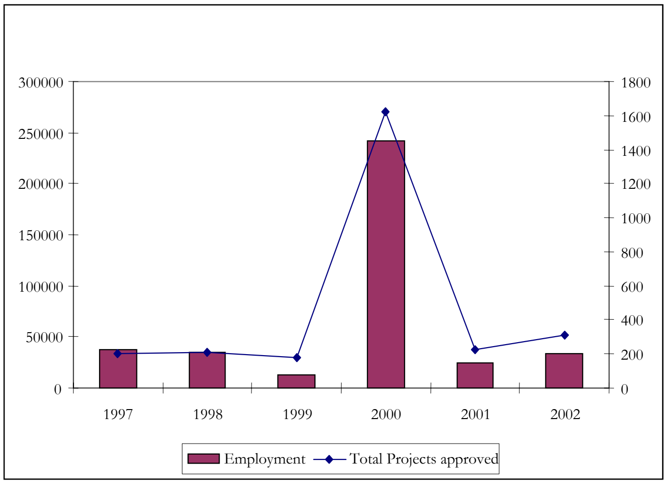
While the approved projects are having a positive impact in terms of employment creation, the downside involving retrenchments arising from privatised parastatals are counteracting some of the positive effects. For example, the Tanzania Telecommunications Company Ltd (TTCL) was chosen to be the first utility company to be privatised when it was decided, in 1996, that utilities would be included in the enterprises to be privatised.[5] In 1998, the company employed just over 4,688 workers. But between June 1998 and

[4] However, according to UNCTAD (2002), in spite of the good progress in privatisation, a number of issues need to be addressed, and some of these are; the utilities need to be privatised rapidly for improvement of services and reduction of costs, and privatisation has to be matched by policies to deal with redundancies and retrenchments.

[5] *TTCL* was partially privatised through the sale of 35 percent of its shares to consortium of *MSI* of the Netherlands and Detecon of Germany. Further shares are planned to be sold, with the Government intending to retain just 36 percent of the shares (http://www.psrctz.com/Main_Index.htm).

October 1999, TTCL reduced the number of employees to 3,720, through attrition, restrictions on new employment, and early retirement. Further, in 1998, it was recommended that a staff reduction of 1,659 employees be undertaken. This illustrates the job losses that can ensue due to privatisation.

Figure 1: Employment and Total Projects Approved By the Tanzania Investment Centre, 1997-2002



Source: URT (2003), Economic Survey 2002, Government Printer.

3.3 Public Sector Reforms

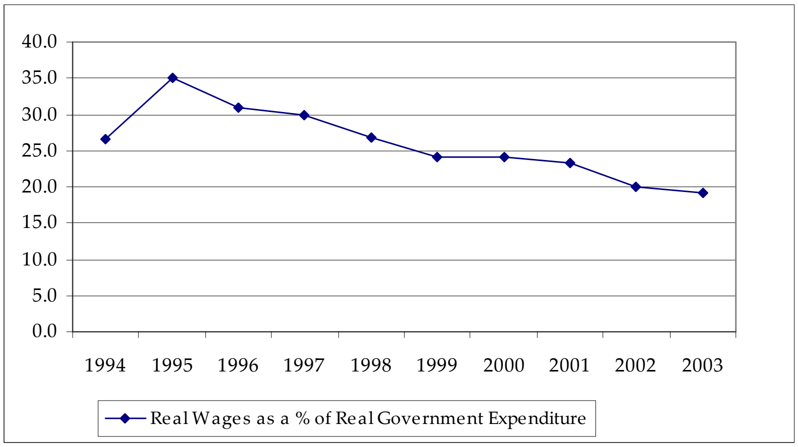
The reforms that the government embarked on from the mid 1980s were meant to cut public expenditure in order to manage the public debt, and they included reducing employment to make it conform to a smaller government, to provide civil servants with incentives, which meant increasing their salaries and skills, and improving management and accountability in the public service (see Lienert, 1998).[6]

The trend of real government wages and salaries as a proportion of real total government expenditure, from the mid 1990s to 2004, is shown in Figure 2. The observation that the reforms began in earnest after 1995, is evident from the trend. It shows that real wages as a percentage of government expenditure has been declining steadily from 1995. This declining trend can be explained by the retrenchments as the government streamlined its civil service. For example, between 1993 and 1998, it is reported that the government retrenched a total of 63,000 civil servants as part of its Civil Service Reform Programme

[6] Lienert (1998) discusses some first-generation and second-generation reforms undertaken in the civil service reforms in Africa. Refer to this article for details.

(Blomquist, 2002). This partly explains the halving of public sector employment from 5 percent to 2.5 percent between 1990/91 and 2002/01 (Table A2 in the appendix), owing to public service reforms.

Figure 2: Real Wages as a Percentage of Real Total Government Expenditure



Source: Based on figures from the Ministry of Finance.

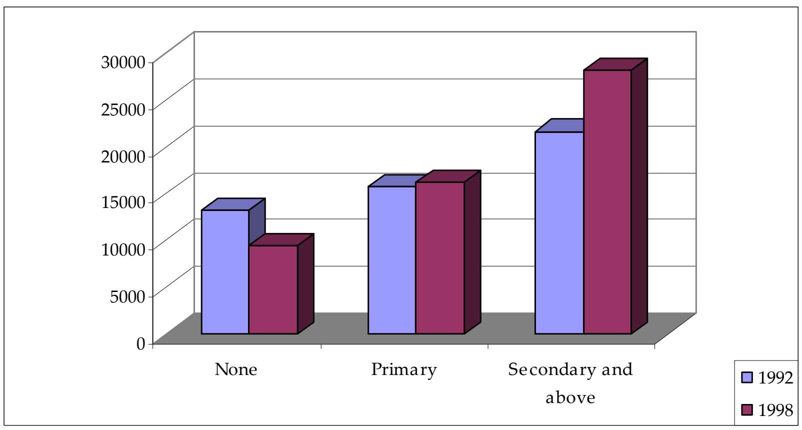
The effect of privatisation and public sector reforms is also best illustrated from the data from the Integrated Labour Force Survey (ILFS), in Table A2 in the appendix. It is notable that the percentage of people working in the public sector was halved from 5 percent in 1990 to 2.5 percent in 2000, that of people employed in the government sector declined, from 3 percent to 2 percent, as well as those employed in the parastatal sector, from 1.7 percent to 0.5 percent. However, unlike the public, parastatal and government sectors, Table A2 shows that in the private sector, the percentage of people employed increased; in the formal sector, the percentage increased from 3 percent to 5 percent.

4. *Do Foreign Firms and Exporting Firms Pay Higher Wages than Locally Owned Firms? Evidence from Survey Data*

The wages that workers get from their jobs play a key role in not only enhancing efficiency, but also in providing incentives for doing their work. If wages are too low, more often than not, workers will put in minimum effort as they reserve the other effort for moonlighting activities. What has been the trend of real wages of workers in the sampled firms in Tanzania's manufacturing sector? How do the real wages compare across workers' education levels, as well as between foreign and local firms, and exporting and non-exporting firms?

Figure 3 shows the level of mean monthly wages of all workers in manufacturing by education level, and it also shows the trend. It shows that workers with more education have higher mean monthly wages, and that the mean wages of workers with no education fell between 1992 and 1998, and those of workers with primary education and secondary education and above increased between 1992 and 1998. The largest increase in mean wages was that of workers with secondary school education and above. Table A3 in the appendix provides *z*-test statistics for the difference in the mean monthly wages for the different levels of education.

Figure 3: Real Mean Wages of all Workers By Education



Studies have found that foreign firms tend to pay higher wages to their workers than local firms (see for example, the extensive review of studies by Brown *et al*, 2003). Figure 4, which shows the mean monthly wages by foreign and local firms by education level (the significance of the difference in mean monthly wages is indicated by the *z*-test statistics in Table A4 in the appendix), shows that indeed this is the case for Tanzania. It shows that the mean monthly wages of foreign firms are higher than those of local firms for all levels of education for both years except for those with no education in 1992. The differences in mean wages of foreign and local firms indicate that having foreign firms in an economy is in general, not a bad idea after all.

Figure 5 further gives mean monthly wages for exporting and non-exporting firms (see Table A5 in the appendix for *z*-test statistics). It shows that workers with primary and secondary and above education levels in exporting firms have higher mean monthly wages than those in non-exporting firms with the same level of education. Workers with no education in non-exporting firms have higher mean monthly wages than those in exporting firms.

Figure 4: Real Mean Wages of Workers in Foreign and Local Firms By Education

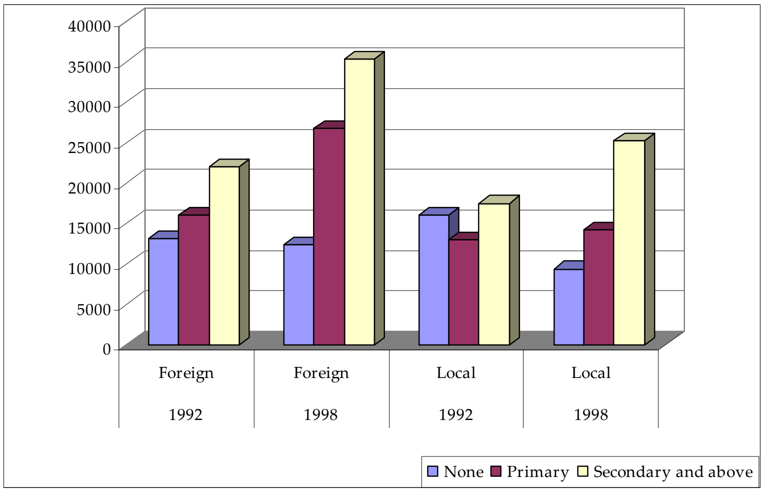
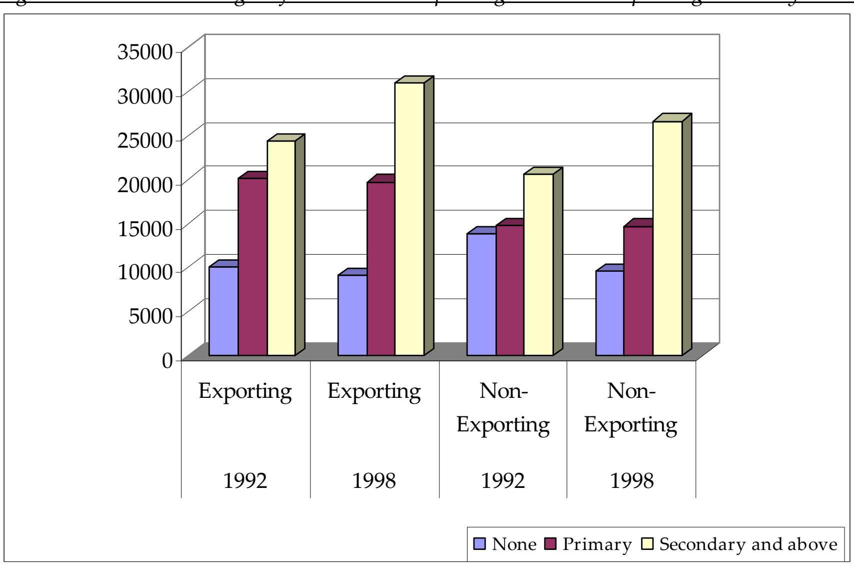


Figure 5: Real Mean Wages of Workers in Exporting and Non-Exporting Firms By Education



Overall, the results of the structure of mean monthly wages among sampled workers in Tanzania's manufacturing sector between 1992 and 1998 consistently show that workers with less education earn less than those with more education. The implication is that with globalisation, less skilled workers are less remunerated, and hence are likely to remain poor. Thus, just as other studies have found, the influx of foreign firms is actually beneficial to more skilled workers, who get higher wages than less skilled workers. Therefore, while the influx of foreign firms is good for educated workers in Tanzania, globalisation is not good for the less educated ones. The influx of more foreign owned firms is thus likely to widen income inequality among workers in Tanzania, if efforts are not made to improve the education of the less educated workforce.

5. *Do Foreign Firms and Exporting Firms Employ More Workers than Locally Owned Firms? Evdience from Survey Data*

The trend of mean employment is given in Figure 6, and it shows that mean employment fell dramatically from 1992 to 1996 within the sampled firms. It continued falling in 1997, and thereafter, there was an increase, albeit at a much lower level than the 1992 level.

Figure 6: Trend in Mean Employees for Both Waves, 1991-1998

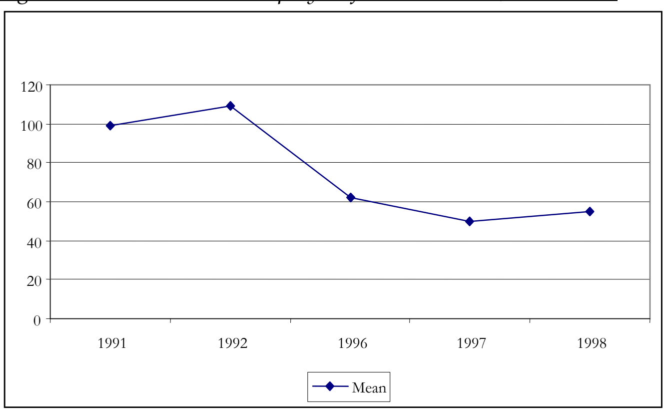


Figure 7 plots the mean number of employees by non-exporting and exporting firms. Both categories of firms experienced a decline in employment between 1992 and 1998. Although exporting firms experienced a larger decline in employment, on average they employ more workers than non-exporting firms.

Figure 8 graphs the mean number of employees by foreign and local firms. Foreign firms are defined as those with a 50 percent or more foreign ownership, and it follows that locally owned ones are those with less than 50 percent foreign ownership (see Manda, 2002). It is interesting to note here that among the sampled firms, the number of foreign firms increased between 1992 and 1998, and so did the number of workers employed. Locally owned firms on the other hand declined, and they also faced a fall in the number of workers employed. In terms of average number of workers employed, the foreign firms employed more in 1998. This can be probably be explained by the large size of foreign firms. The increase in the number of foreign owned firms from a mere 6 (of the sampled firms) in 1992 to 21 in 1998 indicates an increase in privatisation of parastatals, and also the conducive climate of foreign investment created by the investment reforms.

Figure 7: Mean of Employees by Exporting and Non-Exporting Firms

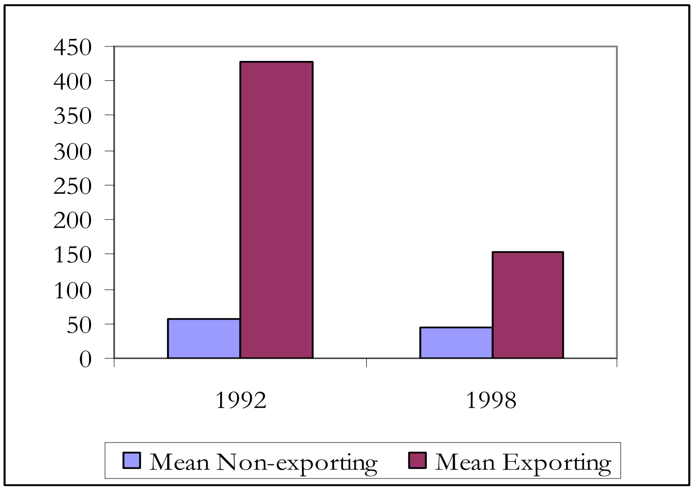
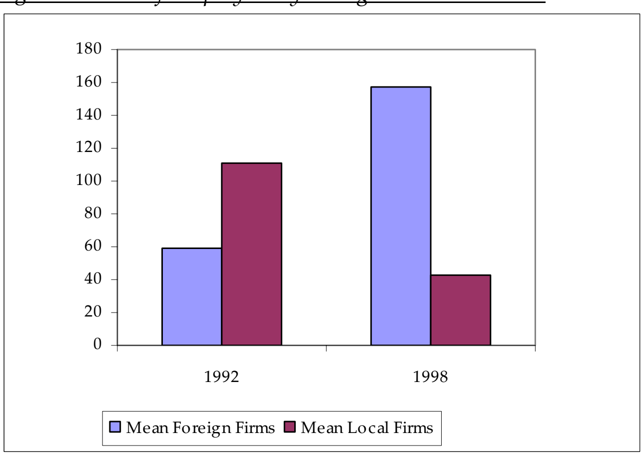


Figure 8: *Mean of Employees by Foreign and Local Firms*



6. *The Determinants of Wages in Tanzania's Manufacturing Sector: Results From Regression Analysis*

Although the results from survey data indicate that foreign owned firms offer higher mean wages to workers than local firms, it is important to control for other factors that affect wages. For example, it could be that workers in foreign firms have more years of experience than those in local firms, and hence earn more. In such a case, it would be folly to conclude that foreign ownership (rather than the superior experience of the worker) is the cause of better wages. To assess the impact of foreign ownership on pay, one needs to control for all other factors, such as experience, education level, location of the firm, firm size, gender and so on, that may influence the wage rate. Regression analysis provides a framework for controlling other determining factors so that a focus can be directed at the factor of interest.

Regression analysis of the determinants of the wage rate (or earning rate) is therefore used here to assess the impact of globalisation on workers' pay. Globalisation in this context is taken to mean the degree of foreign ownership of a firm. Another aspect of globalisation that is assessed is the extent to which a firm exports its products. These two aspects do not in any way fully define economic globalisation; other aspects such as imports, foreign workers and so on are also relevant. However, exports and foreign ownership are two of the most visible and perhaps even the most important aspects of globalisation. This, together with the fact that data for analyzing the impact of exports and foreign ownerships on workers' pay is readily available from the TMES data set, explain the decision to focus on exports and foreign ownership of firms in analysing the impact of globalisation on the wage rate.

The model for investigating the impact of globalisation on earnings is based on the basic approach for investigating the determinants of wages/earnings and is heavily informed by the human capital theory (see Berndt, 1991; Söderbom *et al*, 2004; Manda, 2002; and Lipsey and Sjőholm, 2001), and it is given in the appendix (Table A6), together with the definition of variables used, and descriptive statisitcs of the data.

Table 2 gives the estimation results. The estimation results are based on data from the TMES, and thus it relates to the year 1998. The results with respect to human capital variables are as expected; earnings increase with age, but at a decreasing rate; male workers tend to be paid higher than female *ceteris peribus*; educational attainment above primary level leads to better pay; earnings increase with experience; and the size of the firm has a positive impact on earnings. The result with regards to gender suggests the presence of gender-based wage discrimination in the manufacturing sector of Tanzania (see Mkenda, 2005b, forthcoming). Further, except for Morogoro, firms located outside Dar es Salaam either pay an amount that is not significantly different from that paid by firms in Dar es Salaam (that is, Arusha and Tanga vs. Dar es Salaam), or, tend to pay less than firms located in Dar es Salaam (that is, Mwanza vs. Dar es Salaam). It is puzzling that firms located in Morogoro seem to pay workers significantly more than firms located in Dar es Salaam, given that Dar es Salaam is larger and offers a great deal of scale economies.

Table 2: Estimation Results

VARIABLE	COEFFICIENT	T-STATISTIC
Age	0.03727	3.55***
Age^2	-0.00040	-3.07***
Gender	0.12824	2.37***
Secondary & above	0.47093	10.49***
Years of Experience	0.01905	5.56***
Size of firm	0.00064	8.35***
Degree of Foreign Ownership	0.00335	4.13***
Exporting to Africa	0.00435	1.80*
Export to Non-Africa	-0.00211	-1.72
Morogoro	0.26513	3.21***
Tanga	-0.04935	-0.92
Arusha	0.07150	0.95
Mwanza	-0.16696	-2.80***
Constant	9.38691	47.17***
Number of Observations	748	
F(13,734)	34.60	
R-Squared	0.38	
Adj. R-Squared	0.37	

Note: [1]The dependent variable is the log of total monthly earnings.
****Significant at 1percent; **Significant at 5 percent; *Significant at 10 percent.*

With regards to globalisation variables, the results show that there is a positive relationship between the degree of foreign ownership and workers' earnings. It means that the higher the percentage of foreign ownership in a firm, the higher the monthly earnings of the workers. The coefficient is significant at 1 percent. This result is similar to those found in other studies in developing countries, for example, Indonesia (Lipsey and Sjöholm, 2001), Mexico (Ibarrarán, 2002), and Kenya (Manda, 2002).

Another interesting finding regarding globalisation is that the more firms export to other African countries, the higher the earnings to workers (and the coefficient is significant at 10 percent), while for those exporting to non-African countries, there is a negative effect on earnings, and the coefficient is not significant. It is puzzling why exports to non-African countries do not lead to better pay to workers as compared to exports to African countries. It is instructive to note that Tanzania's exports of manufactured goods to non-African countries is insignificant, and thus this result is not based on a sample of sufficient size.

The important finding here is that globalisation, defined either as the degree of foreign ownership of firms or the extent to which firms export their final product, leads to an increase in the earnings of the workers. While this may not be enough to allay all fears against the impact of globalisation on the labour market (one needs to also look at aspects such as job security), it at least means that one cannot use low labour pay as an argument against globalisation. Moreover, for those in the developed countries voicing opposition against globalisation as leading to the mushrooming of sweat shops in developing countries (Brown *et al*, 2003), the finding here shows that globalisation actually increases the earnings of workers, rather than the other way round.

It is however important also to take note of the fact that low educated workers do not earn more on account of globalisation. The poor are the ones with less education in the country, and thus globalisation does not contribute to the increase in their welfare in terms of earnings from formal employment. At the very least therefore, globalisation does not seem to lead to poverty reduction to uneducated and less educated workers, and it increases income inequality in the labour market. While this is not a desirable outcome, it has its good side in that it increases returns to education and thus creates an incentive for individuals to invest in education. The government needs to step in and expand opportunities for education so that globalisation can benefit more people.

7. *To What Extent Do Workers Feel Secure in Their Jobs?*

Three proxies to examine the impact of globalisation on workers' job security, namely the degree of unionisation, the number of workers laid off, and increasing prevalence of casual workers.

7.1 Degree of Unionisation

Unions serve an important function of being a voice of representation for the workers. Unions also serve to see to it that employers adhere to safety regulations and standards for employees, and they also participate in drafting labour contracts and conditions of service. Also, when state-owned companies are sold off, unions can press for advance notice of lay offs or negotiate for an alternative package that can prevent or reduce the numbers to be laid off, such as early retirement or an attrition plan (see IUOE, 2002). Research also shows that unions are instrumental in collective bargaining. For example, in United States, union workers earn 26 percent more than non-union workers, and they are more likely than their non-union counterparts to receive health care and pension benefits (IUOE, 2002). Given the the important role that unions play, the degree of unionisation of the workforce can be used as a proxy of the extent of job security of workers.

It has been observed that in sub-Saharan Africa structural adjustment has had a negative impact on the degree of unionisation (Van Der Geest and Wignaraja, 1999). This observation is based on scanty data due to an absence of comprehensive data. For example, in Uganda, it is noted that membership of the National Organisation of Trade Unions (NOTU) decreased by 60 percent between 1987 and 1995, followed by a weakening of its financial position. What has been the case in Tanzania?

Table 3 shows that the number of firms reporting non-membership of their workforce to a trade union increased between 1992 and 1998. For example, in 1992, no firm indicated that their workforce did not belong to a labour union. However, by 1998, 134 firms reported that none of their workforce belonged to labour union. At the other extreme, the number of firms reporting a 100 percent unionisation in their workforce dropped from 59 to 31.

Table 3: Trend in Union Membership

Percentage of workforce in Union	1992 Number of firms	1998 Number of firms
0	0	134
10-50	6	11
60-99	26	10
100	59	31

The reduction in the unionisation of the workforce during a period of adjustment is a negative outcome, and indicates an increase in job insecurity. This is because during liberalisation, issues such as employers being reluctant to adhere to safety regulations due to the profit drive become more prevalent. Such issues require strong unions that are well informed and able to participate in formulating safety standards for the workers. Liberalisation also affects labour contracts and conditions of service (see Ssemogerere, 1999), which call for unionisation of the workforce so that they can have a voice and representation in such crucial employment issues.

7.2 Number of Workers Laid Off

Lay offs are a source of insecurity among workers because of the persistent fear that it creates among workers of being the next one to lose a job. The fear of losing a job tends to be greater with privatisation, and increased flow of FDI, as more often than not, the new owners trim employment levels. The influx of foreign investors who buy off state-owned firms also bring fear of job losses to workers as either some come with new technology that renders some workers jobless, or they merely slash off the workforce to minimise costs. However, if the workforce is unionised, as indicated in the previous sub-section, the union can press for advance notice of lay offs or negotiate for an alternative package that would prevent or reduce the numbers to be laid off, such as early retirement or an attrition plan (see IUOE, 2002). Clearly then, workers without unions are likely to be insecure under such conditions.

Table 4 shows that the number of workers laid off in 1992 was quite high, and thereafter it fell, and then picked up again. The number of lay offs in 1992 is indicative of firms undergoing adjustments, due to say privatisation, new owners (local or foreign) who need to streamline their workforce.

Table 4: Labour Activity

	1992	1996	1997	1998
No. workers you laid off	1804	60	346	357
No. workers resigned	145			
No. workers absconded	550	8	69	103
No. workers retired	169	1	45	75
No. workers died	62	3	8	34
Left due to illness		1	3	12

The number of resignations and those absconding can also indicate the degree of turnover in the firm. If the trend is increasing, it can indicate high job insecurity among workers. In 1992, there were a number of resignations, and quite a number of workers absconded (Table 4). The firms also retired a number of workers. The number of workers who absconded and retired did fall after 1996, but picked up thereafter.

Besides the fear of lay offs, the workers' feelings of insecurity is not helped by the high rate of unemployment. The Integrated Labour Force Survey found that the overall unemployment rate increased from 3.6 percent in 1990 to 5.1 percent in 2000, with urban unemployment rate increasing from 10.4 percent in 1990 to 14.8 percent in 2000! (Table A2 in the appendix).

There are obvious costs from losing one's job, which include loss of income, anxiety of ever finding a job again, a fall in earnings after finding a new job, and, especially for those who cannot get jobs in the formal sector, a severe drop income as they get integrated in the informal sector. The increasing percentage of households in informal sector activities attest to the instability in the formal job market; it was found that the percentage of urban households engaged in informal sector activities increased from 42 percent in 1990 to 61 percent in 2000/01 (ILFS, 2002; Table A2).

7.3 Increasing Prevalence of Casual Workers

Globalisation has put pressure on firms to increase competitiveness, and this puts pressure on employers to undertake cost reduction measures to lower costs and increase profits. The cost reduction is more often than not, directed at variable costs, and the key one being labour. Thus, employers would want to have less costly severance benefits, and focus instead on core operations and leaner structures, and downsizing. In order to reduce some of the separation costs, they reduce the number of permanent workers, and employ more casual or part-time workers, who by definition, do not usually participate in private pension and benefit plans. The need to use more casual workers is also often dictated by the need to meet short and medium term fluctuations in demand (see Eaton, 2001).

While the use of casual workers can help firms to minimise costs, it however makes workers to feel insecure in their jobs. This is because workers know that they can be dispensed with at any time, and because of this, workers may abscond or leave without notification to look for more secure jobs. Their dedication to work can also be affected. Thus, one way of indicating how secure workers feel in their jobs is to examine whether the use of more casual and part-time workers has increased or not in Tanzania's labour market.

Table 5 shows the changing structure of employment in some sampled firms of Tanzania's manufacturing sector. It shows that the mean number of full-time workers declined between 1992 and 1998. Another remarkable feature is the existence of full-time casual workers in 1998, a category that did not exist in 1992. It shows an increase in the use of this type of labour, and as alluded to above, perhaps as a cost-

Table 5: Employment by Type

	RPED			TMES		
	1992			1998		
	Employment	No. of Obs.	Mean	Employment	No. of Obs.	Mean
Full-time permanent	20014	217	92.2	8245	187	44.1
Full-time casual	-	-	-	2166	157	13.8
Part-time	3674	N	16.9	158	104	1.5
Total	23688			10569		

saving measure for firms in terms of fewer benefits that are paid out to them (see also Manda, 2002, for the case of Kenya). Table 5 also shows that the number of part-time workers declined between 1992 and

1998. Employment in the sampled firms has thus shifted to having more full-time casual workers and less part-time workers.

Thus, the three proxies of job security indicate that workers in Tanzania's labour market have become more insecure in their jobs. The decrease in union membership means that they are increasingly lacking a voice and representation, and the number of workers laid off brings forth an increasing fear of when their time will come. Furthermore, the use of more casual workers means that they can easily be done away with, and they do not enjoy benefits that permanent workers get. These results should be considered preliminary as there is a need to undertake an econometric study to compare whether workers in foreign firms are more insecure compared to those in locally owned firms. This will be done in a separate paper.

8. Some Policy Issues

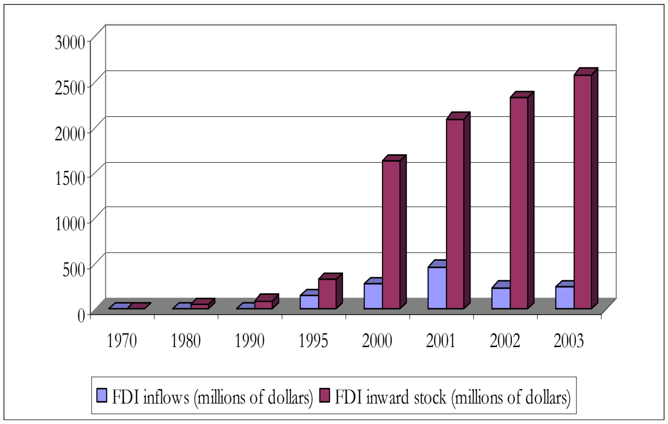
Some policy debates emerge from the study that basically address this question; how can Tanzania benefit from globalisation, specifically, from the presence of more foreign-owned and exporting firms? First and foremost, the study has found that foreign-owned and exporting firms pay higher wages to more educated workers. What is the challenge here? What this implies for Tanzania is that there is a need to invest in educating her key resource, and that is, her people. This is one way in which globalisation can help to reduce poverty – since it creates an incentive to invest in education. The government therefore needs to step in and expand opportunities for education. It is through investing in education that Tanzania will not only ensure that in the long run, income inequality will narrow among the workforce, but also, it will ensure that Tanzania will be able to compete in the ever technologically advancing world market.

The second policy issue relates to job insecurity. While it is understandable that when privatisation is in full force, job losses are inevitable. However, what is worrying is the decreasing trend in unionisation in Tanzania's manufacturing sector. It cannot be overemphasised that unions play a key role in the workers' job environment, and this becomes even more important when the economy is being dominated by private firms. When private entrepreneurs take over companies, they are often tempted to make short-cuts in for example, safety measures. Without unions, such a situation can disadvantage workers while profits are reaped. There is a need therefore to educate workers about the need to belong to unions, and to encourage them to be members, not as political tools, but as a voice of representation.

The third policy issue relates to the finding that foreign firms and exporting firms employ more people than locally owned firms. In other words, foreign investment creates employment, which helps people to earn a living, and hence helping to reduce poverty. Once again, this is a positive outcome of globalisation which shows that having foreign firms in our economy is not a bad idea at all. The good response of foreign investors is no doubt due to the conducive investment climate prevailing in the country. However, the challenge is, while foreign firms have their positive effects on the economy, shouldn't the government be encouraging local people to own firms? Does Tanzania envisage herself to be dominated by foreign firms?

Appendix

Figure A1: Tanzania's FDI Inflows and Inward Stock, 1970-2003



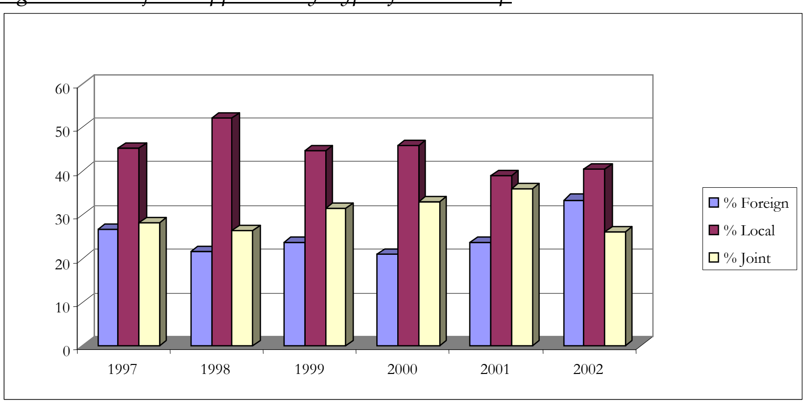
Note:

FDI Inflows *presents a non-resident direct investment in Tanzania; it comprises capital provided (either directly or through other related enterprises) by a foreign direct investor to a FDI enterprise, or capital received by a foreign direct investor from a FDI enterprise. FDI includes the three following components: equity capital, reinvested earnings and intra-company loans.*

Inward Stock *is the value of the share of their capital and reserves (including retained profits) attributable to the parent enterprise, plus the net indebtedness of affiliates to the parent enterprises.*

Source: *UNCTAD Database*

Figure A2: Projects Approved By Type of Ownership



Source: URT (2003), Economic Survey 2002, Government Printer.

Table A1: Tanzania's Trade Policy Reforms – 1980s to 2001

Policies	*Period and Implementation*
[1] Exchange Controls	• 1984: Policy of own-funded imports began – in effect created multiple exchange rates. • 1986: Economic Recovery Programme (*ERP*) launched with the following objectives regarding exchange rate policy: liberalising the exchange rate, unifying the official and parallel rates, and establishing a market-determined rate. • 1988-90: *OGL* system introduced, and Own Funds Facility created. • 1992: Most foreign exchange restrictions were abolished and bureaux were legalised. • 1993: The foreign exchange market was fully liberalised.
[2] Tariffs and Duties	• 1985: Import duties and sales tax rates were reduced. • 1986: Tax reductions and rationalisations were embodied in the *ERP* following *IMF*/World Bank recommendations; export retention scheme for non-traditional exports was increased to 100%. • 1988: Tariffs rationalised from 50 rates to 6 rates, with a maximum of 75% reduced to 60%: Tariff exemptions were reduced; Duty drawback scheme introduced for exporters. • 1989: Economic and Social Action Programme (*ESAP*) launched, as predecessor to ERP, continues momentum of *ERP*, hence range and level of tariffs reduced further; specific taxes changed to ad valorem. Sales tax rationalised to 6 rates. • Early 1990s: The reforms stalled somewhat, but *COMESA* and *EAC* commitments helped to revive them. Tariff structure of 8 rates, with a maximum of 60%. • 1993: Licenses for all imports and exports were abolished. • 1994: Maximum tariff reduced to 50%; Surrender requirements on traditional exports abolished except on coffee (June), but by December, abolishment extended to coffee. • 1996: Tanzania Revenue Authority established. • 1996/1997: 7 tariff bands were in existence, with a maximum rate at 40% (0,5,10,20,25,30,40); Customs tariffs were harmonised with Zanzibar, on selected items. • 1997: 20% VAT introduced. • 1997/98: Tariff bands reduced to 5, with maximum at 30% (0,5,10,20,30); COMESA tariff preference suspended. • 1998: *COMESA* tariff reintroduced. • 1998/99: Export duty on traditional exports discontinued; tax exemptions allowed under Investment Act were streamlined. • September 2000: Pulls out of *COMESA*.
[3] Quantitative Controls	Pre-1988: all imports were controlled by *QRs*, through import licensing and foreign exchange licensing. • 1988: *OGL* introduced, based on positive list system. • 1989: Policy of confinement (wholesale trade for all imported goods was restricted to parastatals) dismantled. • 1992: Replacement of positive list with negative list, and system expanded. • 1993: Further expansion of list, reducing rationing of imports. • 1999: All export restrictions removed.

Source: Mkenda (2002a).

Table A2: Employment Characteristics, 1990/91 and 2000/01

	1990/91	2000/01
% of Persons Working in:		
Public Sector	5	2.5
Government Sector	3	2
Parastatal Sector	1.7	0.5
Private Formal Sector	3	5
Private Informal Sector	8.3	8.8
Agricultural Sector	84	81
Unemployment Rate	3.6	5.1
Urban Unemployment Rate	10.6	14.8
% Urban Households in Informal Sector Activities	42	61
% Rural Households in Informal Sector Activities	21	27

Source: NBS, (2002), Integrated Labour Force Survey 2000/01: Key Findings, Ministry of Labour, Youth Development and Sports.

*Table A3: Real Mean Wages of all Workers By Education**

	1992	*z-test*	*1998*	*z-test*	*% Change, (1992-1998)*
None	13234.75	-1.48[1] -5.82[2]***	9490.33	-6.51[1]*** -6.35[2]***	-28.29
Primary	15769.40	-4.49[3]***	16238.85	-3.93[3]***	2.98
Secondary and above	21711.63		28289.23		30.30

*Note: *1992=100; [1]No education versus primary; [2]No education versus secondary;[3]Primary versus secondary. ***Significant at 1%; **Significant at 5%; *Significant at 10%.*[7]

Table A4: Real Mean Wages of Workers in Foreign and Local Firms By Education

	1992		*z-test*[1]	*1998*		*z-test*[1]
	Foreign	Local		Foreign	Local	
None	13089.21	16000.00	-	12385.78	9378.97	-
Primary	15970.95	13003.16	2.69***	26754.74	14223.10	4.86***
Secondary and above	21978.77	17481.88	1.99**	35262.74	25245.5	1.86**

*Note:[1]Test of significance between foreign and local firms at relevant level of education. Where the z-test is not reported indicates that the sample was too small to make the test meaningful. ***Significant at 1%; **Significant at 5%; *Significant at 10%.*

Table A5: Real Mean Wages of Workers in Exporting and Non-Exporting Firms By Education

	1992		*z-test*[1]	*1998*		*z-test*[1]
	Exporting	Non-Exporting		Exporting	Non-Exporting	
None	10042.50	13789.09	-	9117.31	9596.91	-
Primary	20079.92	14706.32	3.59***	19681.60	14647.70	2.77***
Secondary and above	24322.46	20541.91	1.67*	30979.09	26608.10	0.82

Note: [1]Test of significance between foreign and local firms at relevant level of education. Where the z-test is not reported indicates that the sample was too small to make the test meaningful.

Table A6: Model used, Definition of Variables and Descriptive Statisitcs

Model and Definition of Variables Used:

lnE = f(Highest educational qualification attained, Experience of Worker, Age of Worker, Gender, Size of firm, Location of firm, Degree of foreign ownership, Percentage of output exported)

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[7] The *z*-test statistic indicates whether there is no significant difference between the means in the two samples. The *z*-test statistic is calculated as follows:

$$z = \frac{(\overline{X}_1 - \overline{X}_2)}{\sqrt{\frac{s_1^2}{n_1} + \frac{s_2^2}{n_2}}}$$

, where s is the standard deviation of the sample, $\overline{X}_1$ and $\overline{X}_2$ are the sample means from the two samples, and n_1 and n_2 are the sample sizes (see Aczel, 1993).

where,

lnE	Log of total monthly earnings of workers. It includes the current pay before taxes plus allowances
Highest educational qualification attained	Highest level of educational qualification attained by the worker. A dummy variable is used to capture those with a secondary or more educational level
Experience of Worker	Number of years of work experience of the worker before working for the firm
Age of Worker	age in years of a worker
Location	Where the firm is located, ie., Dar es Salaam, Morogoro, Tanga, Arusha, and Mwanza. Dummy variables are used here where Dar es Salaam is used as a control dummy
Gender	Dummy variable for Male (= 1) is used with Female (= 0) used as control
Size of firm	Number of employees employed by the firm
Degree of foreign ownership	Percentage of foreign ownership in the firm. It ranges from 0 to 100 percent
Percentage of output exported	Percentage of output that is exported by the firm to either African or Non-African countries separately

Table 8: Descriptive Statistics of the Data:

VARIABLE	*OBS.*	*MEAN*	*STD. DEV.*	*MIN*	*MAX*
lnE	889	10.60	0.67	8.29	14.60
Age	928	34.82	10.89	15	79
Age^2	928	1331.21	871.19	225	6241
Gender	947	0.82		0	1
Secondary & above	947	0.30	6	0	1
Years of Experience	902	3.84	6.40	0	50
Size of firm	909	83.51	239.74	1	2100
Degree of Foreign Ownership	919	11.17	27.70	0	100
Exporting to Africa	826	2.38	8.20	0	70
Export to Non-Africa	814	4.65	18.20	0	100
Morogoro	947	0.06		0	1
Tanga	947	0.18		0	1
Arusha	947	0.12		0	1
Mwanza	947	0.11		0	1
Dar es Salaam	947	0.48			

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