ECONOMIC DEVELOPMENT & INSTITUTIONS

TANZANIA INSTITUTIONAL DIAGNOSTIC WP18/TID03

CHAPTER 3: POLITICS AND BUSINESS

Sam Wangwe

DAIMA Associates

With discussion by

Hazel Gray

University of Edinburgh

September 2018

1 Introduction

The relationship between government, or more generally the political elite, and the business world, in particular 'big business', is a key determinant of development. A government may want to pursue policies that favour some specific activity, exploit some comparative advantage, generate both employment and foreign currency, and lead to a satisfactory rate of growth. However, in a market economy, business interest has no reason to be automatically aligned with such views. Then a kind of game takes place between business and the political elite, by which one side tries to impose its views on the other side. One polar case is when the former (business) has captured the latter (political elite) through sheer corruption. The development of the country then depends on the interest of incumbent big firms, which has no reason to automatically coincide with that of the national community. The other polar case is that of a neutral government whose action is primarily in the national interest and its actions primarily limited to providing a favourable environment, or 'business climate', including, presumably, transparent regulation rules, to all producers irrespective of their size or influence.

The real world is more complex, exhibiting competition within the business elite for gaining support from politicians, and competition among politicians for accessing, or maintaining themselves in, power. The latter may go through the vote but also through power struggles within political parties. The strategy of politicians in power may also be to attract the support of the public by ostensibly staying away from business influence, thus getting close to the 'neutral' polar case mentioned above. These relationships are examined in this chapter in the context of Tanzania.

The state–business relationships in Tanzania have been changing over time and this chapter sets out to make a contribution to the interpretation and understanding of these changes. The extent to which the government was effective in its intervention and the extent to which it had roots in the society (‘embeddedness’) and the power to impose its own will on the private sector and the rest of the society needs to be examined. In this context, this chapter addresses the kinds of developments that influenced the extent to which the state and politics were able to impose a vision that is compatible with underlying social and economic forces. In addition, it addresses the extent to which the state became a vehicle for furthering the interests of powerful sections of business as opposed to furthering national interests.

The nature of the prevailing ideology about development has been an important factor in influencing the political economy surrounding Tanzania’s development. Since independence in 1961, the economic development of Tanzania went through four stages of very different nature, and a fifth stage is in the making. In order to capture the characteristics and influence of these stages, this chapter takes a historical perspective. In this regard, it is organised in five sections representing four periods and attempting some speculation on what kind of equilibrium is likely to emerge in, or be associated with, the fifth period. However, prior to addressing the five periods, after this introduction, the theoretical framework and methodology that has guided the rest of this chapter is presented in Section 2. This is followed by sections that coincide with the five periods. Section 3 examines the first period from independence to the Arusha Declaration (1961–66), and represents the initial conditions that largely set the stage for the Arusha Declaration of 1967. Section 4 examines the second period, from the Arusha Declaration to the economic crisis (1967–85). During this period, the policy framework was essentially addressing the socioeconomic challenges as seen in the initial post-independence period. Section 5 addresses relationships in the third period (1986–95), which is characterised by policy reforms that primarily changed the relationship between politics and business. In this period (1986–95), Tanzania was implementing a series of economic recovery programmes primarily determined by the international financial institutions. Section 6 examines the politics–business relations during the fourth period (1996–2015). This period is essentially characterised by initiatives taken by the government to consolidate reforms and define its own development agenda, in which the integration of business with politics was progressively institutionalised, while in an informal setting corruption was going on between sections of business and sections of the political elite. Since the fifth-phase government came into office in November 2015, the relationship between politics and business has changed considerably, although it may be too early to discern the characteristics of equilibrium that is emerging. The changes in this period are examined in Section 7, which identifies the signs of the country showing the will to make a substantial shift from the prevailing equilibrium and adopt a new equilibrium, which is still in the making. Finally, Section 8 brings together these developments in politics and business relations into a conclusion.

2 Theoretical framework and methodology

This analysis of politics and business aims to contribute to an understanding of how positive institutional change can be achieved, as well as to the design of an ‘institutional diagnostic’ tool that would permit policymakers to identify weak institutional areas that constrain development and appropriate directions for reform. The ‘institutional diagnostic’ tool focuses on the institutional (formal and informal rules of the game) weaknesses possibly responsible for binding economic constraints. It is expected to enhance the understanding of a body of evidence and insights into what practicable actions produce institutional changes that improve economic outcomes, increase growth, and enhance industrialisation for socioeconomic transformation.

The theoretical framework that is adopted in this chapter will enable a better understanding of what is at stake in terms of institutions and what action should be taken, if politically feasible. The theoretical framework adopts a political economy analysis that is dynamic, representing interests of various groups that may also change over time. The framework puts the lessons from experience in context and takes into consideration changes in the political economy. The analysis of the political economy will bring out the relation between politics and business over time, with analytical interpretation of ideological evolution and socioeconomic development with special reference to the context of promoting industrialisation. The relations among politics, business, and institutions will be traced from independence onwards, in terms of the institutionalisation of political power within the ruling party, and the changing distribution of power among groups of classes within the state and groups within business.

The theoretical framework that is adopted here considers the alternatives between a state that negotiates with the business sector to get the best for the public while satisfying constraints inherent to business, and a state that is 'captured' by a business elite and makes decisions that are in the interest of that business group rather than of the public. The latter case may manifest a kind of capture equilibrium. The capture equilibrium may occur when a group of big firms with some converging interests hold the government or the political elite 'captive' through providing 'political goods or services' (campaign financing, job creation in constituencies, income addition, etc.). This situation would make the state take decisions in the interest of big business most of the time, while often partially converging with public interest by justifying that such decisions favour employment, the interests of the poor such as the promise of affordable prices of imports brought in by traders (who may be the majority), or some other public economic goal by allowing some big companies to pursue their interests. What they do not say is the kind of advantage they grant at the same time to those companies and the kind of benefit they themselves get in the process. This equilibrium situation permits some firms to make more profit and politicians (or their parties) may maintain themselves in power as they will increase their probability of gaining political capital and winning the next election, while accessing resources for personal gain. The existence of competition among the business elite would give more freedom to the government in choosing what is best for the country while making personal gain. At a certain level of corruption, the state may even create its own channels of accumulating wealth through private business, which may not necessarily be big business, but it may be convenient for the government to accumulate wealth through such business. The state identifies the business entity to work with in order to syphon public resources. The selected business entity may be prominent or otherwise, provided it has the trust of the political players. The real situation of the state may lie in between the two extremes of a 'free' and a 'captured' state. It is likely to vacillate between these extremes over time, and this equilibrium is likely to be maintained until it is disrupted.

One source of disruption could originate from exposing the relationships and deals, making them public knowledge. Thus, the media is one institution that could disrupt that equilibrium by exposing the deals, provided they are not controlled themselves by the business or the political elite! Civil society organisations may also play this role of disrupting the equilibrium, as could opposition parties or other organised social groups. However, depending on the degree and nature of capture of the political elite by business, it is quite possible the political elite could find it difficult to act, especially if those who are supposed to take action to rectify the situation are the ones who are being exposed. Captured by business links, and by the structure of political power within the dominant party, the political elite may find it difficult to make decisions, as the inclination to maintain the *status quo* may be overwhelming. This is a case of the presence of transparency without accountability.

Another source of disruption of the equilibrium could originate from the dynamics of changes in the overall economic context, such as changes in foreign prices, technological change, and various changing business opportunities, making some businesses lose while others gain over time, or some political factions gain while others lose power over time. What would be observed in that case would be a particular equilibrium, which could be modified due to some exogenous change in the distribution of political power or in business opportunities. This could be the rise up of the opposition against the historically dominant party, or simply the personal will of a president, given the considerable power granted to the president by the constitution. Exposure such as that caused by the media and other players in the civil society can modify the relative power of some politicians or conflicts within the political elite, making it possible for one side to denounce the corruption of the other side even when they themselves may be engaging in corruption.

Another view of the relationship between business and politics, through which state capture may be manifested, is the concept of rent and rent management. The capture view and the equilibrium distribution of 'rents' are two ways of describing the same thing. In a seminal discussion of rents and rent-seeking, Khan (2000a) distinguishes between different types of rents. Some of these are value-reducing, and some value-enhancing, and some can be either depending on context. The manner in which economic rents are managed and oriented towards the short- or long-term horizon is important in influencing the extent to which rents may be value-enhancing. There are several types of rents, for example monopoly rents, natural resource rents, rent-like transfers, Schumpeterian rents, rents for learning, and rents for monitoring and management. Access to these rents by businesses can be politically driven, influenced by the relations between politics and business. Political decisions may transfer rents to business groups through direct transfers of assets or funds such as foreign aid, the transfer of publicly owned assets through privatisation or allocation of land, transfer of subsidies such as through utilities, or transfers in the form of election spending, and various forms of corruption can be influenced by the behaviour of the political elite (Cooksey and Kelsall, 2011). The extent to which rents are value-enhancing is determined in part by the extent to which benefits go to the general prosperity of the private sector, or are reinvested locally for the good of the economy. Management of rents and the degree of centralisation can influence the benefits accruing to business as a community and the time horizon of its outlook.

The methodology that has been adopted in this chapter has followed the nature of the business–state relationship and its evolution through the history of that relationship in Tanzania since independence. This methodology has been preferred in order to take fully into account the dynamics of the relationship. The information that has been used has been collected through a desk review of the relevant literature and personal interviews with selected political and business leaders.

3 The early independence period: 1961–66

3.1 The situation at independence

The early independence period from 1961 inherited effects of the colonial period, whereby local development initiatives had been interrupted, and accumulation processes had been countered by colonial government policymaking processes. This period inherited the colonial creation of social differentiation and compartmentalisation of society along racial lines (Rweyemamu, 1973). Europeans in business and the civil service were on top, followed by Asians in trade, industry, and commercial agriculture, and at the bottom of the ladder were Africans. These classes were reinforced by economic and social discrimination. This situation was consolidated through discrimination in the issuance of business licences along racial lines, which had become institutionalised. The task of the newly independent government was to try to redress this discrimination in the issuance of business and trade licences.

3.2 Origins of the position of Asians

The origins of Asian business can be traced to the beginning of the 20th century. Immigration of Asians, also referred to as British Asian subjects, began when some came to east Africa to construct the East African Railways, and others to start a network of commerce in the region (Mkapa, 2005). Those who were in trade had connections with the commercially active on the Swahili coast. Those who were engaged in internal trade were largely active in buying crops (maize, paddy, cassava, millet, sunflower seeds, groundnuts, beeswax, and honey) from peasants and selling manufactured goods (textiles and garments, soap, cooking oil) in return. Over time some of them turned commercial capital into industrial capital, mainly through agricultural processing such as rice and flour milling, oil processing, and soap. In the struggle for independence, Mwalimu Nyerere’s visionary leadership took on board supportive Asians and Europeans.

3.3 Development initiatives in early post-independence period

On gaining independence in 1961, Tanzania was a poor agricultural economy, with small mining and commercial sectors, and an expanding state bureaucracy assisted by foreign aid and loans. The guiding policy framework in the early post-independence period emanated from the World Bank and Arthur D. Little reports of 1961, which emphasised private sector development without questioning or specifying the ownership and product mix. The policy and strategy arising from these reports was expressed in the Three Year Development Plan (1961–63) and the First Five Year Development Plan (1964–69). The two plans essentially left the economy in the hands of the private sector, which was largely foreign, relying on foreign aid and foreign direct investment (FDI). These development plans were geared to gradual growth by building on the basic structures of the colonial economy, encouraging agricultural modernisation, and stimulating private investment in industry and commerce.

The ownership structure of industry during the first years of independence remained primarily the outcome of colonial restrictions that had reserved certain industrial activities for British firms and inhibitions to indigenous investors were removed (Silver, 1984). Industrial policy was geared to basic import-substitution industrialisation, with support to protected industry via tariffs (thereby creating rents, which were either of 'learning' or 'monopoly' character). There was little incentive to encourage learning and the infant industries did not grow to maturity as expected. This resulted in learning rents turning into monopoly rents. Members of parliament lacked personal power bases (Bienen, 1970), a phenomenon that was reinforced by tight vetting of candidates and election regulations prohibiting use of private funds in campaigns (Barker and Saul, 1974). In the industrial sphere, a mini-industrial investment boom that began around 1955 continued until the mid-1960s. The main investors were east African Asians (the Chandes, Madhvanis, and Chandarias), settlers, traders, and multinationals. These groups were attracted to Tanzania because they were uncertain about political stability in Kenya and Uganda, about the future of the east African common market, and because the government gave them the right signals. These investments were probably as much as Tanzania could expect, and the period should be viewed as reasonably successful in terms of creating value-enhancing economic rents (Cooksey and Kelsall, 2011).

The investment programme that was proposed in the early 1960s was building on the inherited structure from the colonial period and was expected to be implemented through the encouragement of local and foreign private investment. The accent here was on using foreign capital to solve what was seen as the problem of scarcity of capital. In spite of all the incentives provided for in the Foreign Investment Protection Act of 1963, the response from the private sector fell below expectations. In addition, the absence of any significant local entrepreneurial class posed a problem of how to gain local control of the development process.

During this period, the country was very rural, with about 95% of the population residing in rural areas, where poverty was rampant largely due to low productivity in agriculture. Efforts towards agricultural transformation in the absence of a significant business class in agriculture started with various initiatives and programmes to support agriculture productivity growth and rural transformation. In the first five years of independence, the government adopted the Transformation Approach on the recommendation of the World Bank (World Bank, 1961). This approach involved moving some of the farmers from their traditional villages to new villages or settlement schemes to fast-track introduction of agricultural transformation, on the assumption that the smallholder farmers were poor because of lack of capital and technology. The rationale for the transformation approach was to transform agriculture by introducing the technical, social, and legal systems that allow the use of modern agricultural techniques meant to achieve high productivity, based on investment of capital (Bank of Tanzania, 1982, p. 76). The assumption was that a business class could be created in agriculture driven by technology. The improvement approach based on demonstration effects from progressive farmers also did not yield the expected outcomes, due to lack of participation from the peasants themselves. This approach to agricultural transformation failed on the grounds of the cost of replicating it in the country (Cliffe and Cunningham, 1973).

3.4 Continued concern over social and economic differentiation

Clearly, in the early 1960s, little was done to cultivate a healthy relationship between politics and business, since business was dominated by foreigners and alien Tanzanians. This kind of domination had political sensitivities after independence. In the absence of any significant local (African) entrepreneurial class, reliance on free market and private sector led development was risking continuation and even consolidation of distorted economic and social structures. This situation posed the political problem of how to gain local control of the development process. These initial conditions in the early post-independence period exhibited social and economic differentiation in the business sector and political concerns over the control of business by non-Africans. This situation continued to influence relations between politics and business into the subsequent periods.

These considerations influenced the timing and content of the Arusha Declaration. The Arusha Declaration was a decisive factor in disrupting the equilibrium that had essentially persisted in the early post-independence period.

4 The Arusha Declaration: business and politics relations (1967–85)

4.1 The Arusha Declaration response

The Arusha Declaration in 1967 was a response to the challenges of the early post-independence period. The Declaration made an ideological shift and enunciated the principles of socialism and self-reliance to address concerns about the initial conditions at independence. In the theoretical framework of this paper, the Arusha Declaration represents a disruption of the equilibrium that was prevailing in the early independence period. Enshrined in the Arusha Declaration was the concept of people-centred development, which became a running theme through the post-independence Nyerere period. This concept was interpreted broadly to include social and economic liberation with human dignity, equality and freedom of the individual, equality of opportunity across all races, and commitment to reduce income and wealth differentials in society. Implementation of the Arusha Declaration started with nationalisation of the major means of production at that time, such as large industries, commercial farms, banks, and large wholesale and retail trade establishments. One consequence of the Arusha Declaration was the change in the ownership pattern whereby the major means of production were nationalised and most major subsequent investments were made in the public enterprises. This situation led to the emergence of a public business through parastatal sector development. The nationalisations soon devolved into a three-tiered structure of parastatal investment banks, holding companies for productive enterprises, and the enterprises themselves. The Arusha Declaration precipitated and shaped the different type of relationship between politics and business that followed.

4.2 Emerging public sector business leaders

In order to curb the growing relationships between politics and business, the Arusha Declaration introduced a Leadership Code that prohibited politicians and public servants from engaging in private business as shareholders or directors. In anticipation of building a socialist society, the leadership code prevented leaders (politicians and public servants) from engaging in capitalist businesses, thereby curbing the practices of capitalist accumulation that had started to emerge in the business and politics relationships. The appointees to leadership positions in the parastatal business sector fell into three groups of managerial staff. The first group was appointed from the category of politicians: mainly nationalist organisers in the struggle for independence, such as George Kahama and Paul Bomani, who had organised farmers in the independence struggle through cooperatives in the Lake Region in Kagera and Mwanza, respectively. The second group were young, educated Africans. Most of these young managers were sent to study abroad, mainly at the Arthur D. Little School for training professional managers and Williams College, both in the US. Although qualified, they had little experience. Therefore, they were subjected to learning by doing and gaining experience running large-scale operations on the job. The third group was expatriates who were engaged to fill positions for which Tanzanians were not available.

The appointments of top managerial staff favoured consideration of ‘political commitment, ideological orientation and patriotic pretensions’, rather than training or professional competence (Cooksey and Kelsall, 2011). This is one indication that the choices that were made about management and mode of operation were more driven by politics than value-maximisation. The interaction between politics and business changed with the adherence to state control of major means of production. The Arusha Declaration influenced the relationship between politics and business and within business it changed the power relation between industrialists and traders. The emphasis was on industrial investments with very little left of trade outside the State Trading Corporation. Imports were controlled, as was foreign exchange. Allocation of foreign exchange, import licences, and credit favoured the parastatal business sector.

4.3 Initiatives to promote indigenous business sector

Initiatives were taken to try to move the business sector from being predominantly foreign and non-indigenous Tanzanian owned, towards increasingly indigenous private business owned. In this context, the most important initiative was to promote small businesses to support empowerment of the majority of the indigenous entrepreneurs. In order to ensure that small businesses were supported to engage in industry and to spread out to the whole country, in 1966 the government established the National Small Industries Corporation (NSIC) under the National Development Corporation (NDC). In 1973 the NSIC was hived off from NDC and transformed into a Small Industries Development Organisation (SIDO), with a vision of being a leading business support organisation in Tanzania, providing quality services efficiently and effectively in a business-like manner that would unlock potential for the growth and competitiveness of small and medium enterprises (SMEs) in rural as well as urban areas.

The central purpose and role of SIDO was to create and sustain an indigenous entrepreneurial base through promotion and support to SMEs by providing them with business development services and specific financial services on demand. The strategy that was adopted was to facilitate capacity building and capacity development of small enterprises through technology development, transfer and provision of technical services, training, consultancy and extension services, marketing and information technology programmes, and financial advisory and credit services. For over a decade following its establishment, SIDO played an important role in facilitating growth of the small-industry subsector and operated within the framework of a centrally planned and state-controlled economy. However, the foreign and non-indigenous Tanzanian private sector industry continued to dominate the scene of industrialisation.

4.4 Initiatives to promote parastatal sector business

The parastatal business sector was the real hope for changing the dominance of non-indigenous private sector business by facilitating the expansion of the parastatal sector. It is for this reason that parastatal sector expansion was accelerated through a series of favours in resource allocation. Favours took the form of import licences, foreign exchange allocations, credit allocation, and human resource allocations. The emerging new equilibrium in the relationship between politics and business in the new environment was manifested through new institutions such as parastatals, villagisation, import licensing, foreign exchange controls, credit control, and price controls. Protection through tariffs and other means was negotiated between investors and the government rather than through a cohesive industrial strategy (Rweyemamu, 1979), a situation that ensured that rents were accessed. These institutions provided rents to the parastatal business sector. The types of rents available to industrial parastatals included direct state subsidies, access to finance directly from state-owned commercial banks, foreign concessional financing by donors for specific projects, and rents originating from tariffs and exchange rate policy (Bigsten and Danielson, 2001). Price controls based on the cost-plus principle guaranteed rents for the parastatal business enterprises.

The politics of the extension of state control was increasingly vested in an expanding group of party, bureaucratic, and management officials (Shivji, 1976). However, some of the private businesses developed relations (formal and informal) with the state. It is important to understand these relations, how they changed over time into the liberalisation era, and their implications for privatisation, institutional reform, and corruption. The foreign private sector players were incorporated into nationalised companies as managers, through management agreements, as suppliers of equipment, and as minority shareholders.

4.5 Public–private business relations

In pursuit of national unity, during this phase the space for key stakeholders to articulate their interests was curtailed. Private sector business was not organised and did not have a forum for dialogue except the various chambers of commerce. However, private investment continued to grow as parastatal investments were increasing.

The question is to what extent the political elite promoted the domestic business sector. The NDC was mandated by the government to set up large-scale industrial enterprises with the state holding majority shares. In practice, the minority shareholder acted as supplier of equipment and provider of management and technical advice. Choice of technology for the projects was left to the foreign partner as the Tanzanian state had little access to global information on the sources and comparative costs of technology (Barker *et al*., 1986). Most of the directly productive parastatals were turnkey projects engaging foreign partners and expatriate management. Rather than engaging in joint ventures with the domestic business sector, the parastatals often engaged foreign-owned companies in joint ventures in consideration of supply of technology, equipment, and management. The speed to show results induced NDC to set up enterprises in the shortest possible time. It is for this reason that NDC was quite happy with turnkey projects offered by the foreign partner (Barker *et al*., 1986). The large number of joint ventures with foreign capital weakened the state control in industry and overreliance on expatriates and foreign technical assistance left little space for building up technological expertise among nationals.

The preference for foreign partnership on the grounds of technology transfer and technical assistance meant that the potential of partnership with the domestic (Tanzanian or east African) private sector was not fully harnessed. In this regard, Barker *et al*. (1986) have examined the production processes of enterprises established by the east African Asian capital and concluded that they stood a better chance of achieving sustainable accumulation because they obtained their profits through simpler management organisation, using equipment closely tailored to their needs, with relatively low capital costs and low maintenance requirements, which was more amenable to local manufacture and maintenance. The implication is that the assumption by government that local entrepreneurship was not available to provide technical assistance to parastatals and therefore led to reliance on foreign technical advice and management agreements may not have been correct in all cases. The reasons may have been political, considering that the dominance of non-indigenous private business and racial inequalities had been a major concern in the post-independence period.

The relatively large local private business sector did not enter into joint ventures with parastatals except in a few cases, such as the LONRO-controlled Mwananchi Tractor and Vehicle Assembling Company Limited (MTAVA) (a tractor and vehicle assembly plant set up in 1965), where the shares were 50% LONRO, 23% Cooperative Union of Tanzania, 23% Mwananchi Development Corporation (the economic wing of Tanganyika African National Union (TANU), the ruling political party) and 4% Barclays. By 1975, the structure had basically remained the same, except NDC had taken over the shares of Mwananchi Development Corporation. The parastatals were not only government owned but also took shares of the ruling party lines of business. The line of business between government and the ruling party (TANU) was basically blurred, presumably because at that time the political environment was that of a single party regime.

Mwalimu J.K. Nyerere appointed some Asian businesspeople to the boards of parastatals. For instance, J.K. Chande from the Asian business sector was appointed chair of the board of the National Museum and also joined the board of the Tanzania Electric Supply Company (TANESCO). His milling business was nationalised along with others in 1967, he was made general manager of the National Milling Corporation (NMC) until 1975, and he continued to be a member of parastatal boards for many years.

4.6 Performance of parastatal businesses

The rapid investments carried out by parastatal enterprises resulted in increasing burden on the budget and foreign aid dependence as the performance of the parastatal business sector deteriorated. Parastatal performance has been shown by several researchers to be weak. Coulson (1979) examined several parastatal projects (e.g. fertiliser and bakery projects) and found their performance weak, riddled with bureaucracy and inefficiency. Productivity in parastatals was found to be low (Barker *et al*.,1986; Clark, 1978; Shao, 1978). Clark (1978) found that large parastatals had low profit rates, at only a quarter of the profit rates of smaller companies in 1971. Shao (1978) found that output per employee was higher in Asian-run enterprises (e.g. textiles, grain milling, and saw mills) than in parastatals. Although labour productivity grew up to 1973, mainly as a result of rapid capital investment, this growth could not be sustained (Szirmai and Lapperre, 2001). Most interestingly, employment in industry increased nearly three-fold over the same period – an indication of falling labour productivity (Bank of Tanzania, 1982, p. 114). Jedruszek (1979) found that productivity in industry declined by 14% between 1967 and 1977. Manufacturing productivity was below average over the period despite large capital investments. Jedruszek suggested that productivity was low because managers had no incentive to control production costs and promote efficiency and productivity while workers exercised their rights and not their responsibilities.

The weak performance of the parastatal enterprises can be interpreted as reflecting limited technological learning, a process that was inhibited by several factors: first, management agreements between government and foreign companies meant that top management was predominantly foreign. For instance, in their survey Barker *et al*. (1986) found that threequarters of top management in parastatals was foreign. Tanzanian management was found to be less experienced and mainly occupying positions of general manager and personnel manager rather than technical and production management. The foreign managerial staff were skilled and experienced but found it difficult to initiate adaptations to Tanzanian conditions. Second, graduate education emphasised theoretical and administrative knowledge and training was largely for administration. The exception was the Faculty of Engineering, which turned out its first graduates in 1977. Skill development at middle and lower levels was weak, with few opportunities for advancement through in-plant training, or training in other local institutes or abroad. The technical colleges were relatively theoretical and skilled workers accumulated some skills in repair and maintenance but not innovation, design, and manufacture. The strong technical division of labour between mental and manual labour was not conducive for effective technological learning and productivity increase.

From the end of the 1970s, the state tried to reduce the growing cost of subsidisation through a rationalisation programme that involved splitting up existing parastatals into smaller units and attempting to cut down on the overall number of parastatals. These initiatives were largely subverted from within as managers made deals with supportive politicians and bureaucrats within line ministries to expand by establishing new subsidiary parastatals, starting new branches or new areas of activities (Mukandala, 1988).

Poor productivity and lack of financial control led to widespread losses. By 1985, 165 of 354 parastatals had net losses; in output–labour ratio, private firms out-competed parastatals by a factor of two (Bryceson, 1993, p. 17). The government promised that it would close down loss-making parastatals, and yet this was politically difficult. The government continued to grant them bank overdrafts. Between 1973 and 1982, bank lending to agricultural marketing parastatals grew from 31 to 61% of total lending (Bryceson, 1993, p. 21). Although parastatals were supposed to make profits, in reality they were subject to a variety of political directives, among which profit-worthiness was not a prime concern. In 1983 a government commission recommended the liquidation of poorly performing parastatals, together with other cost-cutting measures (Bryceson, 1993, p. 23).

4.7 Political elite–parastatal–private business relations

Politicians and employees began to plunder the parastatal sector partly through the manner in which parastatal businesses related to private businesses. While parastatal businesses were favoured in terms of allocation of resources, the private sector enterprises positioned themselves to access some of these resources through the black market. Dealings in the black market trade earned rents for many private operators. The central leadership group around President Nyerere remained committed to a long-term socialist vision and industrialisation, but rent management increasingly became beyond their control. ‘At all levels of staff, parastatal resources were being used for personal gain. Corruption emerged and grew in allocating parastatal goods and services. Public vehicles were utilised for private business. Funds were misappropriated or embezzled and records were falsified. A large proportion of the parastatal business sector had accounts permanently in arrears and unprofessional practices on the part of staff were smoke screened’ (Bryceson, 1993, p. 21).

Despite the apparent formal political centralisation of power endowed by the dominance of party institutions within the state, the managers of parastatals were able to maintain their hold on state-created industrial rents even when their performance was poor. Managers of parastatals were very much part of the cohesive intermediate class group that ran the single ruling party, TANU[1] (Mukandala, 1988; Shivji, 1976). However, the party was not able to discipline this group as it was able to make coalitions with supportive bureaucrats and politicians, especially ministers, to maintain rents despite poor performance (Gray, 2013).

J.K. Chande (2005) suggested that his experience in running NMC showed that income and wages policy and sometimes the erratic price interventions (e.g. putting a cap on the price of rice for NMC) negated the market forces, precipitating damaging effects. Interference by ministers and lumping unrelated economic activities in one parastatal company, e.g. bread with wine, complicated the management of parastatals even further. Observing how most parastatals were run, J.K. Chande notes that there were not enough entrepreneurs willing to work in the parastatal system, which was dominated by the cautious, doctrinaire and anti-enterprise line driven by innate suspicion of the market and mistrust of any deals that seemed to be yielding rapid profit. Many business people (Africans and Asians) fell victim to the practice of privileging political doctrine over sound economics and business (Chande, 2005). The economy was not geared to making surplus.

4.8 Decentralisation of management of rents and loss of political control

The stable and inclusive coalition within the ruling party gave the overall appearance of strength, but central control over the constituent parts was actually quite weak. Parastatal managers increasingly engaged in illegal activities to bolster their falling incomes and racketeering in the form of trading goods illegally at high prices based on their monopoly status (Gray, 2013). There were clear signs of loss of control and legitimacy as the shortage of goods was threatening erosion of political support. The shortage of goods was becoming severe.

Rents management became increasingly decentralised as strategies of survival and self-enrichment were being entrenched, to the extent that the National Economic Survival Programme of 1981–82 was popularly known as the 'Personal Economic Survival Programme'. The decentralisation of management of rents took various forms of corruption, usually involving collusion between parastatal managers, the political elite, and traders (Tripp, 1997). By the mid-1980s, the political consensus on industrial policy slowly consolidated around the conclusion that state-led industrialisation was under threat from corruption, market distortions, and the absence of appropriate incentives to encourage reaping of learning rents or Schumpeterian rents. Industrialisation efforts were further frustrated by failures in agricultural production and low productivity in manufacturing' (Coulson, 1982, pp. 194–195; see also Svendsen, 1986).

Some political leaders were outspoken in their condemnation of these activities but were relatively powerless to stop them (Maliyamkono and Bagachwa, 1990). Initially it was diagnosed that shortages were caused primarily by hoarding by private traders. In 1983,

[1] TANU of the Tanzania mainland was united with the Afro-Shirazi party (ASP) of Zanzibar to form the Chama Cha Mapinduzi (CCM) party in 1977.

Operation Economic Saboteur, championed by Edward Sokoine, the popular prime minister, led to the imprisonment of thousands of Tanzanian-Asian shopkeepers, but did not affect those who had links to the party (Maliyamkono and Bagachwa, 1990). The difficulties that were exhibited in the crackdown and the failure to stop shortages of goods in the market influenced the decision by government to adopt partial trade liberalisation in 1984. Under the government's own-funds import scheme, businesses were allowed to use their own foreign exchange, no questions asked, for importing certain categories of goods, which went a long way to ease some of the economy's crippling shortages. The shift towards liberalisation culminated in the adoption of the International Monetary Fund (IMF)-sponsored structural adjustment programme (SAP) in 1986. The adoption of SAP marked the formal abandonment of the socialist strategy in industrialisation.

In 1985 Julius Nyerere stepped down as president and was succeeded by Ali Hassan Mwinyi, who as president of Zanzibar already enjoyed a reputation as an economic reformer. His election paved the way for a deal with the IMF, a new policy direction, and an evolution in the main types of rent creation and rent-seeking. The shift was made by the Mwinyi government and endorsed by the ruling party with Mwalimu Nyerere as chairman. The shift was essentially in reaction to an acute economic crisis and the conditionalities of the IMF and the donor community. This marked the beginning of the equilibrium disruption that had prevailed during the 1967–85 period. The emergence of a new equilibrium was in the making.

5 Policy reforms: opening up space for business 1986–95

5.1 Reforms as response to the crisis

Generally, the reform and structural adjustment programmes period (1986–95) started with the first generation of reforms essentially focusing on 'getting prices right'. Macroeconomic policy reforms included reforms in trade policy, exchange rate devaluation, removal of price controls, and removal of subsidies. The adoption of SAPs was perceived as a defeat of Ujamaa ideology, marking the shift towards a more market-oriented and private sector led economy. The SAP policy package aimed to promote efficiency in the productive sectors.

The second generation of reforms focused on the country's institutional framework for managing development in the context of the market. Emphasis was placed on the institutional framework conditions of public service reform and privatisation that were deemed necessary to support and facilitate the efficient working of the market.

Public service reforms took place partly against the backdrop of maladministration and partly as a result of political patronage having contributed to the bloating of the civil service (URT, 2004). Public service reforms had the objective of organisational restructuring, reviewing the management of civil servants, improving the conditions of service, and improving their attitude towards providing greater support to the private sector.

5.2 Privatisation and politics–business relations

An important component of reform was divestiture of public enterprises. Privatisation was conceived as an opportunity to get rid of the burden of parastatals on the budget and to strengthen the private sector. The privatisation programme involved the transfer of assets from the public sector to the private sector. However, the pace of reform was extremely slow (Tripp, 1997, p. 91). Parastatal managers fought with reformers in the government to keep them (the parastatals) under state control (Fischer and Kappel, 2005). However, the soft budget constraint was tightened up (Bigsten and Danielson, 2001, p. 72), and many enterprises were divested. The fiscal deficit declined 'substantially and rapidly' after 1988 (Bigsten and Danielson, 2001, p. 33). However, in the majority of cases parastatals lost their dominance.

Some parastatals, such as the General Agricultural Export Corporation, were simply wound up. Others, including Tanzania Breweries and Williamson Diamonds, became joint ventures with the private sector. Some of these did very well after privatisation, e.g. the sale of NMC to Bakhresa and the acquisition of Minjingu Fertiliser factory and salt mines by Mac Group.

Debates in the Tanzania Chamber of Commerce, Industry and Agriculture, which was predominantly indigenous, warned against changing ownership in some parastatals in the direction of joint ventures with foreign firms. Such outcry could be an expression of patriotism, but it is also quite likely that the existence of some parastatals benefited the private sector, e.g. by operating as a weak competitor by selling inputs at low prices.

A few companies saw management or employee buy-outs, such as Katani Ltd in the sisal industry. In these cases, former managers became owners without paying a fair price, e.g. Katani Ltd. This can be seen as the price of facilitating the development of indigenous entrepreneurs. This approach was one way of promoting ownership by the former managerial group. It may have been an opportunity to reward and promote those few with experience and the knowhow to run the enterprises. In fact, it was a way of deploying the pool of industrial managers who could use their experience of the industrial process and their political power within the state to manage the industrial activities as private sector operations.

The privatisation programme provided for support to domestic indigenous private sector development. In response, an initiative was taken in the early 1990s to form a Privatisation Trust, which would take care of the interests of indigenous Tanzanians in the privatisation exercise. However, in practice, the Trust was not provided with adequate funding and so it was not operationalised. Although indigenous manufacturing did expand after liberalisation in very small-scale manufacturing, as pointed out by Tripp (1997), this was not an outcome of privatisation. The privatisation process did not promote indigenous entrepreneurs in medium- and large-scale manufacturing. Asians and Arabs secured most of the gains, while a small African business class of traders was also beginning to emerge (Tripp, 1997; Havnevik, 1993). The opportunity created to benefit indigenous domestic private sector development was not harnessed as expected to address the imbalances that had precipitated the Arusha Declaration. This was a missed opportunity of promoting indigenous capitalism. In fact, in some cases privatisation returned most of the medium- to large-scale industrial activities.

A considerable number of the privatised manufacturing firms were actually sold back to their pre-nationalisation owners (Waigama, 2008). For instance, Aluminium Africa, which produced roofing sheets, was sold back to Chandaria Group (Kenya), which had been the former owner (Gibbon, 1999). The fact that the privatisation process reinforced the ownership of non-indigenous and foreign capital suggests that the concerns that had led to the Arusha Declaration were not addressed in the privatisation process.

The choice was sometimes between granting ownership to local owners and selling the enterprises to higher bidders who were foreigners or other local alien groups in society. The latter group won the bids most of the time as the Privatisation Trust was not funded adequately to facilitate indigenous Tanzanian owners. The bidding process was decided on the basis of politics, with various factions of the political elite supporting bidders who had sought their support. The possibility of corruption cannot be ruled out even if concrete evidence is not available.

5.3 The balance between industrialists and traders

For years, government subsidies and the opportunities for selling in a controlled market afflicted by acute shortages had been a major source of rents, which some state managers were keen to preserve. Those rents were increasingly threatened since most of the parastatals that survived faced increased competition. The commercial sector was to a large extent let loose during the Mwinyi era, the result of his policy of permissiveness, or '*ruksa*'. Many formerly outlawed activities were made licit by the reforms, but that did not necessarily lead to a decrease in smuggling. But critics argued that the measures were stimulating importers to earn easy foreign exchange by smuggling prohibited exports such as minerals and wildlife products (Tripp, 1997). Whatever the truth of the matter, the Mwinyi era was a period in which traders (importers and exporters) made large profits. Traders were in a more favourable position compared with industrialists and other long-term investors. Some enterprises abandoned industrial production and were turned into godowns for traded goods. For instance, Tanzania Shoe Company was turned into a godown for stocking imports, including imports of shoes. This is a manifestation of the response to the influence of trade liberalisation on the balance between traders and industrialists. The trade liberalisation favoured traders and importers in particular at the expense of industrialists. The surge in the import/GDP ratio, which reached almost 50% in the early 1990s, is a manifestation of this imbalance (Bourguignon, 2018).

The implications for industrialisation deserve to be reflected upon. An implicit assumption of economic reforms and industrial restructuring was that enterprise-level inefficiencies are a reflection of distorted or inappropriate macroeconomic policies. It was suggested that if appropriate adjustments could be put in place at macro level, enterprises would receive the right signals through the market. In response to these signals, enterprises would restructure appropriately (World Bank, 1981, 1987). Various industrial studies have revealed that restructuring the industrial sector entails much more than macroeconomic management. Studies of the industrial sectors in several African countries (UNIDO, 1988, 1990) have confirmed that the problems of industry cover all levels (macro, sectoral, and plant) and all aspects of performance, including economic, financial, managerial, technical, and marketing. In his study of the performance of the Tanzanian textile sector, Peter de Valk has demonstrated that performance of enterprises is determined not only by macroeconomic factors but also by international factors, sectoral policies, and characteristics at firm level, and that all these levels interact in a complex way (Valk, 1992).

However, in Tanzania proactive trade liberalisation was so rapid that the assumption that economic reforms and industrial restructuring would occur at enterprise level did not hold. Although much inefficiency may have been a reflection of distorted or inappropriate macroeconomic policies, macroeconomic stabilisation was not sufficient to enable enterprises to respond and adjust accordingly. Instead, many enterprises closed. This phenomenon has been known as deindustrialisation. However, the experiences of Vietnam, for instance, show that it is possible to undergo reform without experiencing low growth and deindustrialisation. Having introduced reforms in 1986 – the same year as Tanzania adopted the SAP package – Vietnam's annual rate of GDP growth over the period 1990 to 2000 was 7.9%, which was exceeded only by China's 10.6% (Thoburn *et al*., 2007). The main challenge is that the political elite did not balance appropriately the interests of industrialisation and trade. Trade was favoured, while industry experienced deindustrialisation.

5.4 Political elite engagement in business

Many members of the political elite had been running private businesses on the sly for years, circumventing the leadership code under the Arusha Declaration. However, in 1991 this was legitimised by the Zanzibar Resolution, which overturned the Arusha Declaration's Leadership Code (Gibbon, 1995, p. 14). Those with political connections fell over themselves to acquire land, the assets of former parastatals, and seats on private enterprise boards, and to generally use their public positions to make private gains in any way they could. The political elite engagement in business became more significant during this period, with political positions being increasingly associated with corruption and leadership positions becoming costly to seek because of the money involved (Gibbon, 1995, p. 13). In fact, the use of money increasingly became an important factor in ascending to political leadership positions.

This period witnessed more open participation of the private business sector in the policymaking process. The private sector revived their representation in the form of specific trade and industry associations. However, the associations were still weak and most of the business deals were arranged and negotiated between individual businesses and the political elite. Big corruption scandals, especially those associated with natural resource rents, emerged on a wide scale. The Mwinyi era witnessed unprecedented scandals. In the most notorious instance, improper discretionary tax exemptions originating in the Ministry of Finance in 1993–94 led to a large fiscal deficit and the freezing of much foreign aid (Bigsten and Danielson, 2001, p. 20). There were equally massive abuses of a government import financing 'counterpart funds' scheme. Another example was the notorious so-called 'Loliondogate' scandal, which concerned the lease to an Arab general of a crucial section of the Ngorongoro game reserve for hunting (Gibbon, 1995, p. 16). But there were many others. The outbreak of the aforementioned tax exemptions scandal in the Treasury and misuse of import support funds suggested that even the Treasury was not successfully centrally controlled. It is in the context of these new heights of corruption that the use of the anti-corruption campaign slogan by the CCM presidential candidate in 1995, Benjamin Mkapa, was attractive.

6 Initiatives to consolidate reforms and define the development agenda, 1996–2015

6.1 Long-term development agenda revisited

The fourth period consisted of consolidating reforms and (re-)establishing a developmental state in the context of a full market economy. Growth had been fast at the beginning of the socialist period. After a long period of crisis and adjustment, it returned to its post-independence level, and fluctuated at 6–7% over the next15 years or so.

From the mid-1990s the government started to rethink the short-term recovery programmes and decided to revert back to addressing the long-term development agenda. The Sustainable Industrial Development Policy (SIDP 2020) (1996–2020) and Vision 2025 (1999–2025) were formulated in this spirit. The 25-year SIDP 2020 was designed to initiate the process of structural transformation through industrialisation and enhancing sustainable development of the industrial sector. It would formally recognise the private sector as the main vehicle for making direct investments in the sector, while the government would provide an enabling environment and make public investments that crowd in (invite) private sector investments. The main contents of SIDP 2020 were later subsumed in the development of Vision 2025 (now Tanzania Development Vision (TDV) 2025), the main guide to national development frameworks in Tanzania, envisioned as a middle-income country with a strong, diversified, and competitive economy.

According to Vision 2025, the private sector was expected to be given greater space in development, with special attention to empowering the relatively weak indigenous private sector. The disadvantaged position of the majority of the indigenous population and other vulnerable groups in society was to be addressed through economic empowerment by undertaking affirmative action programmes to empower these groups. It is in this context that the national economic empowerment policy was formulated in 2004.

What is striking, however, is that despite the formulation of SIDP 2020 and Vision 2025 envisioning the realisation of a semi-industrial economy by 2025, growth during this period relied relatively less on industrialisation than during the socialist period. Growth in this period was driven more by construction, telecommunications, and trade, than by industrialisation. Although slowly increasing, the GDP share of manufacturing today has not changed much since the late 1970s. This is an issue of concern, as the present long-run development plans of Tanzania are expected to rely heavily on substantial progress in labour-intensive industrialisation.

6.2 Industrialisation and politics–business relations

This raises the issue of the obstacles to industrialisation. First, there is an inadequate business climate – weak infrastructure, cumbersome administration, and corruption – which prevents entrepreneurs developing manufacturing and other long-term investments. The informal relations between the political elite and some big businesses undermine efforts to achieve a generalised improvement in the investment climate. The business elite is attracted by other activities, such as trade, that are more amenable to negotiation of taxes paid, and in which the payback period is relatively short. More generally, the imbalance between industrialisation and trade has continued to favour trade. Experience has shown that imports of some agricultural products based on low tariffs, such as rice and sugar, make local production less profitable and prevent long-term investments that are required to realise the development of the domestic agroindustry. In short, the Tanzanian economy has done rather well since the turn of the century, but it could do better, in particular by giving more weight to industrialisation, possibly in connection with the agroindustry.

The question is whether the obstacles to moving in that direction can be found in pure government failures, i.e. wrong allocation of public investments and low state capacity, or in the lack of appetite of local entrepreneurs and the lack of attractiveness of Tanzania to foreign investors. In this regard, the argument developed in the introductory chapter (by Francois Bourguignon) that transport, communication, and construction cannot be powerful engines of growth because their growth depends on the domestic demand side of the economy is relevant here. There is a need to develop the tradable sectors, like industry and agriculture. Agriculture, for instance, would produce raw materials for industry as well as exports to earn foreign exchange needed for industrialisation.

The Agricultural Sector Development Strategy (ASDS) was developed in 2001 in order to address the constraints/challenges facing the sector in a holistic manner[2]. The vision of the ASDS is to have an agricultural sector that by the year 2025 is *'modernised, commercial, highly productive, utilises natural resources in an overall sustainable manner and acts as an effective basis for inter sectoral linkages'***.** Commercialising the predominant smallholder agricultural subsector and accelerating its growth rate are critical in achieving the noble goal of pulling the majority of the rural poor out of abject poverty. The question remains as to what kind of business–politics relation is more likely to result in the development of these productive sectors.

It is also possible that there is an issue of competitiveness in the Tanzanian manufacturing sector and the kind of support that should be provided by the government given to promote competitive manufacturing. The challenge is to avoid the pitfalls of the 1970s where parastatal enterprises were overprotected and did not grow into competitive enterprises. The kind of protection and support that is needed will need government policy to strike a balance between support and pressure to build the capacity of the manufacturing enterprises to compete.

Successful development needs to have the right political base that influences implementation of the developmental policies. The relative power of groups within the private sector, such as between traders and industrialists, has continued to favour traders. Tariffs to protect domestic industry are in place and are generally sufficient during this phase. However, effectiveness in implementation continues to be low, largely due to corruption, and tax assessment continues to be characterised by corruption, extortion, and arbitrariness (Investment Advisory Service, 2006, pp. 101–102).

[2] The ASDS covers crops and livestock production and immediate agribusiness-related activities, but excludes fisheries, forestry, and hunting.

A survey of 50 large industrial companies found that 29 had their origin in the domestic private sector, while 21 firms were set up by foreign firms and/or the government (Sutton and Olomi, 2012).

A number of firms that had been involved primarily in trading activities during the socialist period bought up industrial parastatals. The survey by Sutton and Olomi (2012) found that, out of 50 large enterprises, 12 were trading ventures that had shifted to industry, having used the capital accumulated in trade to finance industrial enterprises. It also found that they had benefited from transferring a well-functioning medium-sized organisation (organisational capability) and access to markets and knowledge about markets. The likes of Bakhresa and Mohammed Enterprises belong to this category. This process of transforming commercial capital to industrial capital is a positive sign towards industrialisation. Mohammed Enterprises, which is active in textiles, beverages, edible oils and soap, agro-processing, grain milling, food, bicycles, energy, and petroleum, was founded as a trading company. The firm's move from trading to industrial processing came in 1998, when it established several businesses in agribusiness and manufacturing. The trading division remains the largest business within the group, dealing with the import of over 20 industrial and consumer commodities. The Murzah Group started as a trading activity and from 1997 diversified into industry, establishing an oil manufacturing plant and producing cooking oil and soap for the local market. The plant operation draws on technological expertise from Alfa Laval (an Indian firm), supported by technology from Tetra Laval (of Sweden). Motisun Holdings, which has interests in steel and assembly, engineering, plastics, paints, beverages, hotels, and real estate, originated as a trading enterprise in the 1970s and diversified into manufacturing. MM Integrated Steel Mills Ltd has entered into a joint venture agreement with the National Development Company Ltd for mining of iron ore and coal, with forward integration into sponge iron in southern Tanzania, with a view to making Tanzania only the third country in Africa to produce its own iron ore.

The privatisation process of the 1980s and 1990s facilitated the rise of industrialisation through the private sector. For example, Mohammed Enterprises expanded its manufacturing activities by buying up industrial parastatal assets. Bakhresa grew from a small firm in the 1970s, acquired NMC and diversified around food processing. In 1988, the government decided to sell a flour mill (NMC) as part of its privatisation programme. The enterprise invested in more modern technology, raised the mill's capacity from 50 metric tons (mt) per day to 240 mt per day, and has continued to diversify into other industries such as bottled water in 1988 and fruit juices in 2006. Mac Group, which had started as a trading company before independence, diversified into industry in 1976 and continued to expand and diversify (Sutton and Olomi, 2012). It benefited from the privatisation of the salt mines and Minjingu mines, but kept on investing to stay competitive. Tanzania Breweries, which had been nationalised in 1967, was privatised in 1993 with 50% sold by the government to SAB Miller Africa, and 5% sold to the International Finance Corporation. Since then it has been modernised and expanded.

There are industries that started before independence, were not nationalised, and have continued to expand until now. For instance, Sumaria Group began as a small general trading business in Kenya in the 1940s, extended to Tanzania in 1957, and continued to expand, starting with plastics and diversifying into other industries through the period. Since 1975 the company has established or acquired some 25 companies in the areas of plastics, pharmaceuticals, clearing and forwarding, food processing, edible oils, soaps, cement, wheat flour, confectionery, textiles, real estate, soft drinks, dairy, and sisal. It has grown into a widely diversified multinational firm in the process (Sutton and Olomi, 2012). Sumaria Group aims at world-class manufacturing and service standards by developing strategic partnerships with leading regional firms.

There are cases where industrialisation through cooperatives has been a viable option. For instance, Tanzania Instant Coffee Company was established by the government, and from 1966 to December 1982 foreign experts appointed under a management agency contract manned the factory. Since 1982 the company has been managed by Tanzanians. In 2005 the ownership was diversified, with the majority ownership changing hands from the government to Kagera Cooperative Union, which has a 54% share. Other shareholders include Karagwe District Cooperative Union, Tanzania Federation of Cooperatives, the government, and the firm's employees (Sutton and Olomi, 2012). The company operates the only instant coffee factory in East and Central Africa, for which it has won international awards on several occasions. A key milestone was the organic certification of its products. Another cooperative enterprise is Tanga Fresh, which is a leading dairy foods company created through a Dutch–Tanzanian bilateral programme. It began in smallholder dairy extension services in 1985, leading to the formation of the Tanga Dairies Cooperative Union (TDCU) made of 13 primary societies. In 1996 a group of Dutch farmers entered into a joint venture with the TDCU to establish Tanga Fresh, which began in 1997 with a modest processing factory and continued to expand and diversify beyond fresh milk and fermented milk into plain and flavoured yoghurt, mozzarella cheese, butter, and ghee (Sutton and Olomi, 2012).

Promising industrialisation initiatives have taken place. The question is whether they are likely to continue and be sustainable. The shift in the pattern of industrial ownership from state to the private sector did not insulate industrial subsidisation from the types of corruption that were seen to have hampered industrialisation under socialism. The manner in which the formal and informal relationship between the political elite and business evolves will be determinant. During this phase the persistence of corruption is likely to have reduced the speed of industrialisation, and, unless it is checked, implementation of the industrialisation agenda is likely to be hampered.

6.3 Formalisation of state–private sector relationships

Liberalisation heralded the development of more open relationships between domestic capital and the state. The resurgence of the private sector was accompanied by a gradual inclusion of business people within the formal framework of the ruling party. Formal institutions linking the private sector and the state were established, such as the Tanzania National Business Council (TNBC), constituting both private sector and government officials and chaired by the president.

The engagement of business people in politics was enhanced by formalisation of the Zanzibar Resolution of removing the leadership code, and one response to it was the increasing number of CCM members coming from the private sector (Mmuya, 1998). The informal relations that had been constructed between state and capital through clientelist relations towards the end of the socialist period grew stronger. The implication is that corruption became increasingly apparent in this consolidation period. In his campaign, Benjamin William Mkapa promised to fight corruption. In 1995, President William Mkapa was elected and by January 1996 he appointed a Presidential Commission against Corruption to assess the state of corruption in the country. The commission, better known as the Warioba Commission, produced the Warioba Report in November 1996. In its analysis, the report distinguished grand corruption and petty corruption and areas/environments where corruption was occurring. The report also revealed the mechanisms (e.g. regulations and procedures) that facilitated corruption. Despite the commission's findings, numerous cases of grand corruption came to light over this period and were reported in the media. These were indicative of the close informal relations between the political elite and key business figures (Gray and Khan, 2010).

6.4 Politics of indigenous and non-indigenous business

An issue that was not resolved by privatisation was the political economy concern relating to the dominance of non-indigenous Tanzanians in the industrialisation process, an issue that had contributed to the timing and content of the Arusha Declaration. By 2002, Asian capital accounted for around 26% of all manufacturing firms (Chandra *et al*., 2007). Out of the 50 large enterprises that were surveyed by Sutton and Olomi (2012), only one, Bonite Bottlers, was found to be owned by an indigenous Tanzanian (Reginald Mengi). Bonite Bottlers is part of the IPP group of companies and produces Kilimanjaro Drinking Water, the leading bottled water in Tanzania. The IPP group has diversified into other areas, such as mining and the media sector.

The difficulties of imposing discipline on the political elite's rent-seeking networks seem to be insurmountable. Mushtaq Khan has recently argued that the ruling party, CCM, does not take advantage of its favourable political stability and strong organisational capacity to pursue a broad-based capitalist growth strategy because of the weakness of African capitalists. The more capable capitalists in Tanzania were, and remain, of Asian, Arab, or European origin, and, he argues, placing them at the centre of a growth strategy would be politically contentious. So far capable Africans have been more interested in capturing political rents and rents from investments in real estate and short-term earning services than creating industrial ones. While single deals with short-term pay-offs are possible, 'a long-term relationship between individual capitalists and political patrons is necessary for black African capitalists to emerge and grow' (Khan, 2010, p. 125). As a possible solution, Khan has advocated creating an active industrial policy for an indigenous business class.

6.5 Politics and foreign business relations

Foreign direct investment (FDI) into industry expanded under liberalisation. By 2008, the manufacturing sector accounted for around 21% of total FDI in stock. In addition, FDI in the mining sector accounted for around 28% of total FDI. However, the ability of the state to manage FDI has been limited. As a result, FDI has added little to new industrial capabilities and its contribution to manufactured exports has been even less successful (Bank of Tanzania, 2009). Industrial deepening did not happen through invitation of FDI, as had been envisaged. This may be explained by the fact that FDI came predominantly to firms where capabilities had already been established during the previous period of state-led industrialisation, rather than to establish new industrial activities. The explanation for this outcome could be two-fold. First, FDI was invited for its promise to bring in capital with no specific strategic requirement for technology transfer and technological capability building. Second, FDI was not strategically invited into priority sectors where technological capability building was most needed. In the absence of strategic policies to guide FDI into technological capacity-building activities, FDI caught the low-hanging fruits and had no incentives to invest in more technologically oriented sectors.

Promotion of industrial exports has been expressed in the form of Export Processing Zones (EPZs). However, industrialisation under EPZs faced challenges of implementation. After the first zones had been established, the total number of firms operating inside the physical EPZs remained very low. A World Bank survey of EPZs in Africa identified that the clearance times within Tanzanian EPZs were actually worse than for manufacturing firms outside EPZs (Farole, 2011). Another challenge associated with developing industrial exports through EPZs is the management and implementation of incentives provided to ensure that firms in EPZs are fulfilling their export requirements.

6.6 Corruption: informal politics–business relationships

Corruption can also be an inhibiting factor in industrialisation, especially in changing the relationship between industrialists and traders in favour of industrialists. Corruption in Tanzania has been widespread and can be broken down into the categories of looting, and predation and rent-seeking.

6.6.1 Looting involving government monies

Looting involves the *theft* of government monies. Two examples are presented here for illustration purposes: the External Payments Arrears (EPA) account and the Tegeta Escrow Account (TEA). The EPA[3] scandal dates back to the 2005/06 financial year, when a lump sum worth TZS (Tanzania shilling) 133 billion (USD116 million) was misappropriated to 22 account(s) of companies by the Bank of Tanzania and this concern was raised by the international auditors (Deloitte and Touche) in September 2006. The anomaly occurred between May 2005 and March 2006 (around election time) from the EPA account. The recipients of EPA money were mostly bogus companies set up for the purpose of emptying the EPA, an old commercial debt facility transferred from the Ministry of Finance to the Bank of Tanzania. When the case was exposed and pressure built up, the governor of the Bank of Tanzania was sacked by President Kikwete. Several Bank of Tanzania officials and EPA recipients from the business community were arrested and charged. An unusual aspect of EPA is that it was claimed that large amounts of money had been returned to the government under an informal amnesty agreement (Cooksey and Kelsall, 2011). This is a case of transparency without accountability.

The second case, TEA, demonstrates that, apart from looting public funds, one effect of corruption is that it undermines implementation of the officially declared development

[3] The EPA account was originally set up by the government to help service balance of payments, whereby local importers would pay into the account in local currency, after which foreign service providers would then be paid back by the Bank of Tanzania in foreign currency. However, due to poor foreign currency reserves in the 1980s and 1990s, the debt within the account accumulated, leading to efforts under a scheme known as ‘Debt Buyback’ – which involved some debt cancellations. Despite these efforts, unscrupulous officials and businesses were able to take advantage of one of the plans devised to reduce the account debt, under which a creditor could endorse debt repayment to a third party. (Reported in *Daily News*, a government newspaper in Tanzania.)

agenda and policy. The agreement to build a gas pipeline and power station according to the energy policy was pitched to compete with the independent power plant (IPTL), which was not consistent with the national energy policy. Some sections within the political elite argued against IPTL on the grounds that the gas project (Songas), which was consistent with the energy policy, was already in the pipeline. This faction argued that IPTL used the wrong technology not consistent with the energy policy, constituted excess capacity, and was highly overpriced. Despite this opposition, IPTL obtained government agreements, tax exemptions, and other requirements in record time.

When details of the deal were leaked out by the mass media there was a public outcry, and President Mkapa took steps to allow the contract to go to international arbitration. The tribunal found that the project was significantly overpriced, but evidence of bribery – which, if proved, would have invalidated the contract – was not presented in time to influence the tribunal's ruling that the Power Purchasing Agreement should proceed, with a reduced tariff. Both IPTL and the natural gas agreement were finally signed on the same day in 1999. Thus, Tanzania was burdened (belatedly) with the cost of two projects when it only needed one, and entered into an agreement that directly contradicted the 'least-cost' policy option. TANESCO's subsequent financial difficulties have required bailouts from the government and an 'emergency' power project loan.

When a dispute arose as to the level of capacity charges that IPTL was charging TANESCO, it was agreed that the funds arising from the charges should be kept in a special account (TEA) pending settlement of the dispute. TEA had been opened in 2006 when IPTL was liquidated and bought by Pan Africa Power Ltd (PAP). However, by the time the International Centre for the Settlement of Investment Disputes made its decision in favour of the claim by TANESCO that IPTL had overcharged TANESCO, the funds in the TEA had been transferred to the PAP account that had claimed to have bought IPTL.

Top political leadership claimed that the funds were private and not public funds. Although the president praised the Parliamentary Public Accounts Committee (PAC) for standing against evil, and sacked some key players in the saga, he still went on to claim that the funds were private money. To the contrary, some sections of the political elite argued that the funds were public money.

The businessman who was used to facilitate this huge loss, Harbinder Singh Sethi, was hardly a significant businessman in Tanzania before the scandal, although he had been a key player in facilitating deals with the political elite in Kenya and South Africa and has been a player in real estate in New York (Policy Forum, 2014). This is an indication that his skills in facilitating deals and the trust he had with sections of the political elite had a proven record and were possibly more important than his prominence or performance as a businessman. This is the case of a businessman who was 'created' out of trust to play the role of syphoning public funds to the pockets of sections of the political elite in collaboration with a section of the business community. It indicates that Tanzania has not yet developed inclusive political institutions that can constrain the appropriation of public resources by the ruling elite (Policy Forum, 2014). This case demonstrates the presence of transparency without accountability.

6.6.2 Predation and rent-seeking

A slightly different but equally lucrative area of corruption can be called ‘predation’. Logging and hunting are good examples. In the first, undervaluation and non-taxation of forest products in Tanzania lead to huge revenue losses. An estimated 90–95% of potential revenue from the forest sector is lost to illegal logging. Fishing and hunting licensing and regulation are other sources of major natural resource rents that are captured by officials and private business actors. In a recent case, forensic auditors concluded that the Ministry of Natural Resources and Tourism had misused half of the Norwegian-funded Management of Natural Resources Programme, worth about USD50 million over 10 years. In an unprecedented move, the Norwegian government requested the government of Tanzania to return the missing money. The government challenged the audit findings, ‘errors’ were discovered in the report, and Norway eventually agreed to the reimbursement of a token amount (Jansen, 2009).

Predation also occurs in the field of procurement, which accounts for around one-third of all government expenditure. Procurement creates rents when the government procures goods or services from the private business sector at either inflated price or inferior quality. Sometimes, officials and politicians operate on both sides of the deal, and intermediaries broker the deals.

6.7 Transparency without accountability and erosion of credibility of the ruling party

During this period, institutionalisation of transparency was enhanced and institutions of governance were created, but accountability challenges persisted. While macroeconomic management continued to be consolidated, management of government expenditures and off-budget resources permitted a large share of the rents to be appropriated as corruption, primitive accumulation, or patronage spending (Cooksey and Kelsall, 2011). Indeed, a lack of discipline with respect to grand corruption, and a failure to think strategically about the long-term interests of the economy, was quite apparent. This situation is not consistent with the successful implementation of a long-term development agenda and industrialisation in particular. The opaque relationship between politics and business aimed at maximising the profits of the latter became more transparent, but the top political leadership did not support accountability wholeheartedly.

The several cases of corruption, the exposure that followed, and the little action that was taken eroded the popularity of CCM, the ruling party. For example, Twaweza’s ‘Sauti za Wananchi’ surveys indicate a drop in approval of the performance of public leaders, with the president’s approval ratings falling from 45% in 2012 to 31% in 2014, and similar or more dramatic falls in the approval ratings of the prime minister, MPs, and village/street chairpersons and councillors. In fact, the situation threatened the chances of CCM winning the next elections in 2015. This erosion of popularity of the ruling party was felt even inside the CCM. This situation is demonstrated by four developments. First, the TEA saga resulted in the PAC (with majority CCM members) putting pressure on the Executive. Although the Executive was not willing to be held accountable, a few members of the Executive were sacrificed through sackings and forced resignations. Second, in the elections of councillors in 2014, the TEA scandal and other corruption incidents were widely used to discredit CCM as a corrupt party. CCM lost more seats that any time before. Third, during the screening of CCM presidential candidates in 2015, corruption became an important consideration for decisions within CCM. Although reasons for disqualification of some prominent candidates were not given explicitly, it is widely believed that this was due to corruption. Fourth, the CCM presidential candidate, Dr John Magufuli, made anti-corruption a main campaign slogan. In his campaigns he emphasised more what he would do to fight corruption that what CCM would do about it. The opposition candidate Edward Lowasa, who had crossed from CCM, was silent on corruption in his campaigns, possibly due to the fact that he had resigned as prime minister in 2006 on allegations of corruption, which had an effect on how the electorate was perceiving him[4]. These developments all marked the waning of the kind of relation between business and politics that had prevailed for three decades. That equilibrium was coming to an end and a disruption was imminent, either by CCM losing the elections or by CCM making decisive changes internally. The latter option was taken.

7 Fifth-phase government: fighting corruption and changing relationships between politics and business

The fifth-phase government under President John Pombe Magufuli has distinguished itself with a high level of commitment to fighting corruption, putting off unnecessary government expenditure, and promising to pursue long-term development and industrialisation in particular. The foregoing analysis has shown that, although the political elite monopolises the main forms of rent creation, rent management within the political system is decentralised and not effectively coordinated by a single individual or group at the apex of the state. The result is damaging to the effective implementation of a long-term development agenda. Throughout the 1960s and 1970s, Julius Nyerere took great pains to centralise rent management, using a variety of means, including his own charisma and personal authority and the powers of the president as per the constitution. However, the collapse of the formal economy in the late 1970s disrupted that equilibrium. Since then, the following three governments under Mwinyi, Mkapa, and Kikwete have not been sufficiently daring to restore that system. The fifth-phase government, led by President John Pombe Magufuli from November 2015, has shown the beginnings of disrupting the equilibrium that has prevailed for three decades.

However, it takes considerable personal authority and time to disrupt that equilibrium and establish a new system. The fact that the current president has not been an insider in CCM, the ruling party, may be an advantage. In one of his speeches to the business community, President Magufuli challenged the business sector's members by pointing out that he had not been brought to power by their money, a situation that is very different from how his predecessor had come to office. At the same time, his lukewarm relationship with business leaders is a problem, because he needs them. In this regard, his recent statements in the TNBC meetings of May 2017 and March 2018 have had a conciliatory tone, expressing recognition of the role of the private sector in development and the willingness of government to support private sector development.

[4] A few months before he crossed from CCM to the Chadema party, the Chadema Party leadership had branded him as corrupt and had placed his name on the list of shame. This information was widely known as it was put in the media..

The ascendance of President Magufuli and his campaign slogan against corruption was influenced by the falling popularity of CCM because of the corruption scandals that were exposed, but little accountability followed. He has an opportunity to influence the manner in which the political elite interacts with business to take advantage of favourable political stability and the strong organisational capacity of CCM, to pursue a broad-based development strategy. He has the opportunity to pursue a more active industrial policy that could support industrialists and rectify the bias in favour of traders. His concern over economic empowerment of the vulnerable groups in society could form the basis for promoting indigenous Tanzanian industrialists, an issue of major concern in the initial conditions at independence and as reiterated in Vision 2025 in 1999 and in the National Economic Empowerment Policy of 2004. The concerns over this issue are real and have not gone away.

President Magufuli has demonstrated the will and reputation to impose a new discipline in CCM, by going over the heads of the party and engaging directly with the masses. This enhances the chances of taking a new direction towards an inclusive development strategy. Apparently he is a product of the realisation by the high political elite of the CCM that the situation of low credibility and legitimacy of CCM in the eyes of the majority towards the end of the Kikwete era was unsustainable. It is in this context that organs like the Central Committee of the party did not approve names of presidential aspirants who had a record of corruption.

The fifth-phase government is showing that there is an opportunity to address collective action problems within CCM, short-termism driven by periodic elections, and corruption in elections. If this happens successfully, there is a chance of facilitating the development of an anti-corruption regime that could develop a long-term transformative development strategy through industrialisation and of being able to implement it. These long-term development concerns including industrialisation were pillars during the 1967–85 period. There are signs that under the leadership of President Magufuli several elements of these pillars have a good chance of being revived. First, President Magufuli is restructuring the ruling party to be inclusive of the peasants and workers and not a club of the rich. The ruling party has been urged to address the problems facing the people. Second, fighting corruption and restoring discipline in the party and government has been given priority. Third, the president has put emphasis on hard work as a main contributor to development and self-reliance. Fourth, he has made it a high priority to cut down unnecessary government expenditure and uphold value for money. Fifth, he has put emphasis on the prudent use of natural resources for the development and benefit of the people. This is a fight against scooping rents through corruption and other ways.

In this regard, implementing a long-term development agenda and industrialisation in particular, two challenges need to be stressed. First, leadership operates in an institutional environment and the political structure of CCM needs to reform in order to cope with this requirement of long-term development and transformation. The institutional structure will need to be addressed to ensure that the set of rules, organisations, and norms that constrain the behaviour of the political elite and citizens of Tanzania is aligned with the interests of the country as a whole, rather than the interests of the particular groups in which power is vested in both politics and business. This implies seizing the opportunity to explain, discuss strategies, and promote ownership of the development agenda and strategy among the key actors. Second, good leadership needs to be sustained over a long period of time, as it has been in the case of countries such as China, Korea, Indonesia, Malaysia, and Singapore, which have undergone transformation over decades. Tanzania would require at least two or three decades to realise meaningful socioeconomic transformation through industrialisation. The Growth Commission led by Michael Spence (World Bank, 2008) took stock of the state of theoretical and empirical knowledge on economic growth with a view to drawing implications for policy for the current and future policymakers. On the role of leaders in successful development, the report concluded that leadership could be the main determinant of success. Fast, sustained growth requires a long-term commitment by a country's political leaders, a commitment pursued with patience, perseverance, and pragmatism. Successful cases share an increasingly capable, credible, and committed government. Good and visionary leadership has to communicate the chosen development goals to the public, and convince people that the future rewards are worth the effort and sacrifice.

8 Conclusion

The analysis of politics and business has shown that there are weak institutional areas that constrain development and appropriate directions for long-term development through industrialisation. The political economy analysis that has been adopted in this study has demonstrated its dynamism in the sense of representing interests of various groups that have been changing over time. This framework has put the lessons from experience in context and has brought out the relation between politics and business over time. It has been shown that, in the first two phases (1961–85), the state was able to relate to business with a view to getting the best for the public, while satisfying constraints inherent to business. However, the equilibrium that had prevailed through this period was disrupted in the following two phases. During the second and third phases, the relationship between politics and business changed quite substantially. It gave space for a business elite to negotiate with sections of the political elite in ways that resulted in decisions in the interest of that business group with benefits to the respective sections of the political elite. This equilibrium situation permitted some firms to make more profit and politicians (or their parties) to maintain themselves in power. At a certain level of corruption, the state could even create its own channels of accumulating wealth through private business, which may not have necessarily been big business but were convenient and trusted. These confident businesses facilitated the accumulation of wealth by opening channels for syphoning public resources. This equilibrium prevailed in the third phase and was consolidated in the fourth phase. The fifth phase, led by President Magufuli, is disrupting the equilibrium. The source of this disruption is simply the personal will of the president, given the considerable power granted to him by the constitution.

The analysis has also shown that the political elite monopolises the main forms of rent creation and rent management. These were centralised within the political system and not effectively coordinated in the first and second phases, thereby degenerating into a decentralised rent management system in the following two phases. Throughout the 1960s and 1970s, Julius Nyerere took great pains to centralise rent management, using a variety of means, including his own charisma and personal authority and the powers of the president as per the constitution. However, the collapse of the formal economy in the late 1970s disrupted that equilibrium. Since then, the political leadership in the third and fourth phase restored that centralised system of rents. Although the long-term development agenda was defined during this period (1996–2015), its implementation faced considerable challenges arising from the nature of the politics and business relations. The institutional arrangements that were put in place during the fourth phase (1996-2015), such as PAC, the Controller and Auditor General, and the Prevention and Combating of Corruption Bureau, enhanced transparency. It has been shown that transparency improved but accountability fell short. It indicates that during that phase Tanzania did not develop inclusive political institutions or a strong top leader who could constrain the appropriation of public resources by the ruling elite. The fifth-phase government led by President John Pombe Magufuli from November 2015 has shown the beginnings of disrupting the equilibrium that has prevailed for three decades.

The question of whether the relationship between politics and business is likely to facilitate improvement of the investment climate and create conditions for capital accumulation and industrialisation continues to be relevant to the feasibility of the implementation of long-term plans and transformation through industrialisation. Throughout the 1960s and 1970s Julius Nyerere centralised rent management and implementation of the long-term development agenda was taking shape. However, this situation was reversed in the following phases. The fifth-phase government under President Magufuli is reversing decentralised rents towards centralisation, and channels of syphoning rents for personal gain are being closed.

A key criterion, it seems to us, is that the high political elite of the CCM should recognise that the current situation emulating short-termism is unsustainable. Organs like the Central Committee of the party could then conceivably be used as monitoring mechanisms for mutual discipline of the elite, helping steer rent-seeking into more developmental areas. When introducing the Arusha Declaration in 1967, President Nyerere and Chairman of the ruling party TANU asked the question as to whether the existing TANU internal political structure then was capable of implementing the Arusha Declaration. He argued for reform of the party in order to cope with the demands of the Declaration. A similar question is relevant today in a different context. The question is whether the current internal political structure of CCM is capable of disciplining the elite and steering rent-seeking towards a truly developmental state that can facilitate capital accumulation and industrialisation. This chapter has shown that the business and politics relations are important determinants of the investment climate and national policies that are crucial factors in driving capital accumulation and industrialisation.

The fifth-phase government under President Magufuli has taken initiatives to disrupt the equilibrium constructed on the tradition of inaction from the top political leadership when it comes to corruption. President Magufuli has demonstrated a sense of new discipline in CCM and government, discipline in expenditure management, fighting corruption with vigour, staying above capture by sections of the business community, and declaring commitment to industrialisation. The challenge is to address the institutional environment and political structure of CCM, which needs reform in order to cope with this requirement of long-term development and transformation and ensure the promotion of broad ownership of the development agenda and strategy among the key actors. It may be too early to conclude whether the relations between politics and business will be able to facilitate capital accumulation and industrialisation. It will depend on how the internal power structure within CCM plays out.

Leadership is essentially a team effort involving multiple players with complementary roles, all behind a clearly defined development agenda. While individual leaders can make a significant difference in transforming the institutional structures and their outcomes, there is a need to reflect further on how to nurture leadership and its team effort, both within each phase and across phases.

References

Bank of Tanzania (BOT). 1982. *Tanzania: Twenty Years of Independence (1961-1981). A Review of Political and Economic Performance*. Bank of Tanzania, Dar es Salaam.

Barker, C.E., Bhagavan, M.R., Mitschke-Collande, P.V., and Wield, D.V. (1986) *African Industrialisation: Technology and Change in Tanzania*, Gower Publishing Co.

Bigsten, Arne, and Anders Danielson. 2001. *Is the Ugly Duckling Finally Growing Up?, A report for the OECD project "Emerging Africa"* No. 120. Uppsala: Nordiska Afrikainstitutet.

Bryceson, Deborah Fahy, 1993, *Liberalizing Tanzania's Food Trade*. London: James Currey

Chande, J.K. (2005) *A Knight in Africa: Journey from Bukene*, Penumbra Press.

Cliffe, L. and Cunningham, G.L. (1973) *'Ideology, organisation and the settlement experience in Tanzania'*, in Cliffe, J.S. and Saul, L. (eds), Socialism in Tanzania Vol. 2, East African Publishing House, Nairobi.

Clark, W. Edmund: *Socialist Development and Public Investment in Tanzania, 1964-73.* University of Toronto Press, London, 1978.

Cooksey, B. and Kelsall, T. (2011) '*The political economy of the investment climate in Tanzania',* Africa Power and Politics series no.1, Overseas Development Institute, London.

Coulson, Andrew. 1979. *The Automated Bread Factory. In African Socialism in Practice: The Tanzanian Experience*, edited by A. Coulson. Nottingham: Spokesman.

Coulson, A. (ed.) (1979) *African Socialism in Practice*, Spokesman, Nottingham.

Farole, Thomas. 2011. *Special Economic Zones in Africa: Comparing Performance and Learning from Global Experience*, Directions in Development: Trade. Washington: World Bank.

Gibbon, Peter (ed.) (1995): *Liberalised Development in Tanzania* (Uppsala: Nordiska Afrikainstitutet)

Gray, Hazel and M.H Khan. 2010 '*Good Governance and Growth in Africa: What can we learn from Tanzania?'* in The Political Economy of Africa Edited by Vishnu Padayachee. London: Routledge

Gray, Hazel 2013. *'Industrial Policy and the Political Settlement in Tanzania: Aspects of Continuity and Change Since Independence'*, Review of African Political Economy, 40:136, 185.

Havnevik, Kjell (1993): *Tanzania: the limits to development from above* (Uppsala: Nordiska Afrikainstitutet)

Jedruszek, J. (1978) *'Development in employment and productivity in Tanzania, 1967–77'*, Economic Research Bureau, University of Dar es Salaam.

Khan, Mushtaq H. *Political Settlements and the Governance of Growth-Enhancing Institutions*, Versi0on of July 2010.

Maliyamkono, T. Luta, and Mboya Bagachwa. 1990. *The Second Economy in Tanzania*. London: J Currey.

Mkapa, B. (2005) '*Foreword',* in Chande, J.K. A Knight in Africa: Journey from Bukene, Penumbra Press.

Mukandala, Rwekaza Sympho. 1988. *The Political Economy of Parastatal Enterprise in Tanzania and Botswana*, University of California, Berkley, Berkley.

Mmuya, Max. 1998. *Tanzania Political Reform in Eclipse: Crisis and Cleavages in Political Parties*. . Dar

Policy Forum. Tanzania Governance Review 2014: *The Year of "Escrow*".

Root, H.L. (2006) C*apital and Collusion: The Political Logic of Global Economic Development*, Princeton University Press, Princeton, NJ.

Rweyemamu, J.F. *Underdevelopment and Industrialization in Tanzania. A study of perverse capitalist industrial development,* Oxford University Press, 1973.

Rweyemamu, Justinian F. 1979. *The Historical and Institutional Setting of Tanzanian Industry. In Papers on the Political Economy of Tanzania*, edited by K. Kim, R. Mabele and M. Schulthesis. Nairobi: Heinemann Educational Books Ltd.

Shao, J.R. (1978) '*Some features of Tanzanian manufacturing industry'*, MA dissertation, University of Dar es Salaam.

Shivji, Issa. 1976. *Class Struggles in Tanzania*. London: Heinemann Educational Books Ltd.

Sutton, John and Donath Olomi, 2012. *An Enterprise Map of Tanzania*. London: International Growth Centre.

Svendsen, K.E. (1986) '*The Creation of Macro-economic Imbalances and a Structural Crisis'* in J. Boesen, K. Havnevik and R. Odgaard (eds.) Tanzania: Crisis and Struggle for Survival. Uppsala: Scandinavian Institute for African Studies.

Sirmai, Adam and Paul Lapperre. *The Industrial Experience in Tanzania*. Palgrave Macmillan. Basingstoke Hampshird and New York. 2001.

Thoburn, J., K. Sutherland and T. H. Nguyen. 2007. "*Globalisation and Restructuring in the Textiles Sector on Households in Vietnam: Impacts on Households*." Journal of the Asia Pacific Economy 12(3): 345-366.

Thoburn, J.T. *Vietnam as a Role Model for Development*. Research Paper No. 2009/30. UNU-WIDER, Helsinki, 2009.

Tripp, Aili Mari (1997): *Changing the rules: the politics of liberalization and the urban informal economy in Tanzania* (Berkeley: University of California Press).

Valk, de Peter (1992), *A General Framework for Evaluating the Performance of Textile.Enterprises in LDCs : with Application to Tanzania under Structural Adjustment*. Academish Proefschrift. Institute of Social Studies, Den Haag.

World Bank (1961) '*The economic development of Tanganyika'*, Johns Hopkins University, Baltimore, MD.

World Bank. *Accelerated Development in Sub-Saharan Africa: An Agenda for Action*. Washington D.C. 1981.

World Bank (1987), *Industrial Development in Tanzania : An Agenda for Industrial Recovery*.

World Bank (2008) 'The growth report: strategies for sustained growth and inclusive development', Commission on Growth and Development.

Discussion of 'Politics and Business in Tanzania'

Introduction

This chapter is a timely contribution to debates on economic development in Tanzania, both for reasons that are specific to Tanzania and because of the rethinking about frameworks for understanding state–business relations that is going on in international policy circles. For a country with ambitious plans for industrialisation, understanding the dynamics of state–business relations over time is critical in order to shed light on key political economy constraints on effective policymaking and implementation. Research on the relationship between politics and business in Tanzania is relatively sparse. On one level this is unsurprising, given that the size and importance of formal businesses to the economy overall is low as a proportion of total output and as a proportion of total employment. Nevertheless, the role of big business in influencing the effectiveness of policies of economic development has implications that go beyond the relatively small number of firms that make up the formal business sector, permeating every aspect of economic activity. Research has also been hampered by the surprisingly common idea that state–business relations emerged out of a *tabula rasa* after market reforms from the mid-1980s. In fact, relations between some key private sector businesses and politicians have much deeper roots and extend across the period of socialist economic policy of the 1970s. The regional scale of many of Tanzania's largest businesses also often goes unexamined.

A further constraint is that institutional approaches for understanding these relations have been mainly developed in the context of industrialised countries that bear little resemblance to Tanzania. Professor Wangwe's chapter breaks through some of these constraints with an analysis that reaches beyond standard analysis of the institutional constraints on economic development. In particular, the paper does an excellent job of highlighting the historical roots of today's industrialists and in emphasising the links within parts of the ruling party to sections of the business community. The paper is also very useful in providing unique insights into Tanzania's most recent phase in the evolution of state–business relations under President Magafuli and makes concrete suggestions about the internal governance mechanisms of CCM that go beyond the standard policy recommendations of development partners. The comments that follow address some areas that I think merit further reflection.

Theoretical framework

The theoretical starting point of this paper is that politicians and business interact along a spectrum between a state that negotiates with business and produces a win-win of public benefits and a situation of state capture. Where the state is captured, interests of the state have converged with a set of narrow aims of big business to maintain their size and profitability. The framework assumes that politicians will systematically favour the interests of large firms because they provide specific material or political benefits – such as campaign finance, job creation, and lower prices for products. Thus, an equilibrium can emerge between political and economic actors that will lead to poorer economic performance over time. This is in contrast to the counterfactual of an 'uncaptured' state that can incentivise and discipline big business in the best interests of sustainable economic development. State capture is manifested in the way that institutions operate and in the type and effectiveness of economic policies adopted by the state. The characteristics of state–business relations can therefore mainly be read by examining the evolution of institutions and policies.

The idea of the captured state has become very influential in explaining the political economies of African countries. It became particularly popular in South Africa, where the debates over Jacob Zuma and the influence of the Gupta family were presented as an archetypal case of state capture. Lofchie (2014) also adopts a state capture lens to understanding Tanzania's political economy. However, the concept has some limitations when applied as a framework for understanding state–business relations in Tanzania. This is because state capture is a rather blunt tool for understanding certain aspects of Tanzania's political economy, in particular the fissures within the ruling party that shaped the outcome of a number of areas of policymaking in the 2000s and 2010s. In Tanzania the ruling party and bureaucracy was significantly fragmented both horizontally, within the elite, and vertically, with significant differences in the nature of state–business relations at different levels within the ruling party and across the country. As set out in Professor Wangwe's paper and elsewhere (Gray 2015, 2018), in the 2000s some groups within the ruling party had very close relations with parts of the business sector, but the other issue that needs to be emphasised is that others within the ruling party strongly opposed these links. Thus, the successes and failures of various economic policies were a result of both the close relations between certain factions within the ruling party and the opposition from other factions for more open support towards these same groups within the private sector. For example, while one factor in the lack of impact of the EPZ programme in the early years of its operation was the problems in effectively enforcing export quotas, the scheme was also hampered by a lack of sufficient investment in the scheme in the first place. This led to delays in vital infrastructure and insufficient learning rents to allow domestic firms that were quite far from achieving international competitiveness from acquiring the technologies and skills that could have allowed them to break into global export markets. An important reason for this is the limited political saliency of providing transparent industrial policy rents to a group of mainly Tanzanian-Asian industrialists. Thus, a nuanced approach to the idea of capture is needed; one that can explain why the state in Tanzania has exhibited hostility and suspicion towards the private sector, while at the same time explaining clientelist relations between factions of the ruling party and segments of the private sector.

Accumulation outside market institutions

Economic institutions in Tanzania have gone through a profound transformation since the 1980s with the process of economic liberalisation. In thinking about the nature of state–business relations in Tanzania, it is also important to recognise the fact that interactions between the state and the private sector were occurring within a context of enormous institutional transformation. Key institutions of a market economy, including an array of institutions setting rules and standards for market-based interaction and discipline, were hardly operational for much of the period under scrutiny – accounting frameworks, financial sector regulation, competition regulation, commercial courts etc. were in a phase of construction for much of the last 30 years. This meant that significant areas of economic activity and accumulation were occurring with minimal effective regulation. Within this institutional hiatus, personalised and clientelistic relations may actually have played an important role in facilitating the path of firm growth and diversification, rather than causing a blockage on economic development. This is not to say that clientelist state–business relations are sufficient or desirable for economic development, but that, in Tanzania's recent economic history, economic success and failure has occurred within a context of personalised relationships between business and the state. Much of the accumulation that went on in Tanzania in the era of high growth occurred outside formal market processes. These forms of 'primitive' accumulation exacerbated social differentiation but also generated new economic actors as well as enriching existing powerful elites.

This observation also suggests that we need to be cautious about explaining changes in state–business relations through a chronology of policy changes. There were clearly very important policy shifts, as set out in the paper, but these did not immediately filter through to changes in state–business relations. This is because the distribution of power between different social groups and networks tends to be more enduring than institutions and policy frameworks. In many of the approaches to state–business relations, there is an explicit or implicit assumption that groups that hold power will be able to influence the structure of formal institutions and policy frameworks over time (in the work of Acemoglu and Robinson (2012), and in Douglass North's last works (2009, 2012)). It is assumed that where the distribution of benefits provided by institutions and policies is not in line with the distribution of power, powerful groups will push for institutional changes that benefit them. However, where such groups hold limited popular legitimacy, their influence over the path of institutional development and policy approaches can be quite marginal. This disjuncture between the pattern of benefits produced by institutions and the actual distribution of power can be sustained over long periods of time where informal networks and redistributions that occur outside institutional rules meet the demands of powerful groups.

This observation is particularly important for understanding state–business relations in Tanzania. Significant sections of the private sector hold limited public legitimacy in Tanzania as a result of the influence of socialist ideology, but also because of the racial structuring of the economy that was established during the colonial period. This means that it has often been difficult for the state to create effective and open policies to support the domestic private sector. At the same time, many of the industrialists who held significant informal influence over the implementation of economic and trade policy have held power informally across the policy eras, and despite the approaches to constraining the growth of the private sector in the 1960s and 1970s. This is important for understanding the challenges that face President Magafuli in supporting the development of a private sector that has limited public legitimacy, and also helps to explain the growing influence of state and party-owned enterprises working within the private sector.

State–business relations at different scales

One of the key points stressed in the paper is the importance of the Tanzanian-Asian business class in the private sector in Tanzania. The paper does a very good job in outlining the historical origins of this group of Tanzanian-Asian large businesses that have played a key role in industry and trade since independence. An historical perspective is important in explaining the tenacity of their businesses in the face of significant policy shifts. The chapter emphasises the clientelistic relations between certain Tanzanian-Asian industrialists and the ruling party in the 2000s that were identified in a number of grand corruption cases that occurred in the era. In the chapter, these close clientelist relations are described as being a cause of policy failure. However, as explained in the previous section, despite the wealth and economic power of this group, it is a group that has held quite limited political legitimacy and this lack of political legitimacy has also shaped the way that economic policies have been implemented over time. This is the reason why, despite the economic importance of this group of firms, there has been little policy discussion on how to include this group positively into Tanzania's vision of economic development. Large firms can play an important role in sustainable economic development, particularly in terms of their role in enhancing domestic technological capabilities through research and development, and can play a key role in expanding employment. Economies where large firms are owned by minority groups face a particular political economy challenge. However, there are examples of countries that have successfully included large businesses into their development vision. For example, in Malaysia the ruling party was able to negotiate a relatively successful distribution of rents and incomes between the Chinese-Malay business sector and the state. The challenge is to create policies and targeted rents that overcome market failure and address collective action problems, while at the same time disciplining rent recipients in order to ensure effective use of policy rents. Solutions to this challenge may not come from sweeping institutional reforms but from a more targeted agenda of support and monitoring of firms. In Tanzania, targeted industrial policy and competitions policy could help to tie large firms into a more productive path of economic development, but this would need to be accompanied by a politically viable strategy underpinned by building a more inclusive constituency in support of industrialisation through linking social, industrial, and economic policy more closely.

The other approach would be to invest much more heavily in SMEs and engage in a more radical transformation of the ownership structure of the industrial sector. It should be noted, however, that this has been on the agenda of the ruling party for many years (including in the 1996 industrial policy) with minimal success (Gray 2018). This is partly because the scale of investment and support that would be needed to really develop the SME sector in Tanzania has not been recognised or addressed in existing policy mechanisms. A starting point would be to develop industrial policies that were more explicitly differentiated in terms of the size of target firms, allowing for strategies that addressed the different needs and power of large, medium, and small firms. In contrast, the recent response to these political challenges of supporting domestic industrialists has been a return to the development of state- and party-owned firms (Jacob and Pedersen, 2018). This has become an important part of President Magafuli's strategy to overcome the previous links between factions of the ruling party and large firms in the private sector that have been important in supporting the ruling party. If these state and party firms are successful, this could shift the nature of state–business relations in important ways over the next decade.

Grand corruption

Professor Wangwe's chapter outlines a number of grand corruption cases that have become pivotal to understanding the 'black box' of state–business relations in the 2000s. These cases provide the evidence of close clientelist relations between the ruling party and powerful private sector actors (Gray, 2015; Aminzade, 2014). While these cases clearly led to a number of very poor deals for the country, there are a set of complex economic consequences of such deals that need further analysis. For example, grand corruption often relates to strategies of forging political stability between elites. Focusing on the role of particular individuals rather than the structural drivers of such types of corruption can be misleading. I explain some of these wider implications in Gray (2015). At the end of that article I argued that it would be possible for CCM to clamp down on the networks that underpinned these particular corruption deals in the short term, where there are shifts in the distribution of power, but that successful anti-corruption agendas can be attached to many different kinds of political and economic strategies. This appears to be the case with President Magufuli, whose anti-corruption agenda has been attached to a political and economic agenda that is very different from the ‘good governance’ and liberal economic approach advocated by development partners. He has been initially successful in clamping down on particular networks and in centralising power within the ruling party. Short-term reduction in corruption is much easier to achieve than long-term shifts as these also depend on changing the distribution of political and economic power over time. The success of his strategy therefore depends on how successful the ruling party is at building up new economic power bases or in re-forging relationships with powerful economic actors in ways that allow both for support to domestic industries and for effective monitoring and disciplining of firms receiving industrial policy rents.

The way forward

Tanzania has returned to a more active approach to industrial and economic strategy, but to be effective this needs to go hand in hand with an analysis of the changing relationships between the state and the private sector. These relations are dynamic, but they also have deep roots that do not necessarily change with the announcement of new policy agendas. Research on state–business relations in Tanzania has focused on the long-standing and complex relations between Tanzanian-Asian businesses and the ruling party. A neglected aspect of these relationships is the regional scale at which many of these firms operate and hold power. At the same time, the influence and role of state and ruling party firms has not yet received sufficient attention and should be a major area of research going forward. Such analysis should be grounded in a detailed understanding of the structure of Tanzania’s economy and in histories of particular firms and sectors.

Understanding state–business relations requires an analytical lens that goes beyond the codified rules to examine the deeper relations and distributions of power that shape how institutions actually work. Professor Wangwe’s chapter has highlighted the informal and clientelist relations that were key in the 2000s and 2010s, and he ends with some suggestions about the need for internal changes within the ruling party. The current strategy on clamping down on clientelistic state–business relations focuses on changing the internal balance of power within the ruling party by shifting the composition of the Central Committee and building up loyalty to the president through selection processes. It is clear that this strategy has been quite successful in shifting the internal distribution of power within the ruling party from a fragmented equilibrium towards a more centralised and hierarchical control under the president. A number of institutional theories discussed in this Chapter suggest that centralisation is necessary to generate a long-term approach to developing the economy. However, I would argue that the success of such a strategy cannot be taken forgranted. It requires effective internal feedback mechanisms between different parts of the state about the successes and failures of different policy choices. It also raises challenging questions about the fact that centralisation of power can consolidate behind oppressive political agendas. Further, it is not the case that economic success will necessarily generate more inclusive politics in the foreseeable future. Thus, both the long-term economic and political outcomes of a strategy of centralization remain uncertain.

Bibliography

Acemoglu, Daron and J A Robinson 2012. Why Nations Fail: The Origins of power, prosperity and poverty, London: Profile.

Aminzade, Ronald, 2014. Race, nation and citizenship in post-colonial Africa: The case of Tanzania Cambridge University Press: Cambridge

Gray, Hazel and M.H Khan. 2010 'Good Governance and Growth in Africa: What can we learn from Tanzania?' in The Political Economy of Africa Edited by Vishnu Padayachee. London: Routledge

Gray, Hazel 2013. 'Industrial Policy and the Political Settlement in Tanzania: Aspects of Continuity and Change Since Independence', Review of African Political Economy, 40:136, 185

Gray, Hazel. 2015. 'The Political Economy of Grand Corruption in Tanzania' African Affairs, 114: 456, 382

Gray, Hazel 2018 Turbulence and Order in Economic Develoment. Oxford: Oxford University Press

Jacob, Thabit and R. Pedersen (2018) 'New resource nationalism? Continuity and change in Tanzania's extractive industries' The Extractive Industries and Society, 5, 2, 287-292

Lofchie Michael (2014) The political economy of Tanzania: Decline and recovery Philadelphia, PA: University of Pennsylvania Press, Philadelphia, PA, 2014;

North, D., J. Wallis and B. Weingast (2009) Violence and Social Orders: A Conceptual Framework for Interpreting Recorded Human History. New York: Cambridge University Press.

North, D., J. Wallis, S. Webb and B. Weingast (2012) In the Shadow of Violence: Politics, Eonomics and the Problems of Development. Cambridge: Cambridge University Press.