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Politics and Business

An Ambiguous Relationship

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I 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 example 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. Another example is that of a neutral government whose action is primarily in the national interest, with its actions primarily limited to providing a favourable environment, or 'business climate', including, presumably, transparent regulation rules for 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 take place through voting 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 case mentioned earlier. These relationships are examined in this chapter in the context of Tanzania.

State–business relationships in Tanzania have been changing over time, and this chapter sets out to make a contribution to the interpretation and

https://doi.org/10.1017/9781009285803.008 Published online by Cambridge University Press

understanding of these changes. The extent to which the government has been effective in its intervention and the extent to which it had roots in 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 and sixth stages were not completed yet at the time of writing. In order to capture the characteristics and influence of these stages, this chapter takes a historical perspective. In this regard, it is organised in six sections representing four periods and attempting some speculation on what kind of equilibrium is likely to emerge in, or be associated with, the fifth- and sixth-phase governments. However, prior to addressing the six periods, after this introduction, the theoretical framework and methodology that has guided the rest of this chapter is presented in Section II. This is followed by sections that coincide with the six periods. Section III examines the first period from independence to the Arusha Declaration (1961–6) and represents the initial conditions that largely set the stage for the Arusha Declaration of 1967. Section IV 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 V addresses relationships in the third period (1986–95), which is characterised by policy reforms that changed the relationship between politics and business. In this period, Tanzania was implementing a series of economic recovery programmes primarily determined by the international financial institutions. Section VI examines politics–business relations during the fourth period (1996–2015). This 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 the period was rather short (up to March 2021), it may be necessary to preliminarily discern the characteristics of the equilibrium that was emerging. The changes in this period are examined in Section VII, which identifies the signs that the country was showing the will to make a substantial shift from the prevailing equilibrium and adopt a new one, which was still in the making. Section VIII discusses the sixth-phase government under President

Samia Suluhu Hassan from March 2021. Although she has not been president long enough to make conclusive statements, there have been notable changes in policies on several fronts that point in the direction of improving politics–business relations. Finally, Section IX brings together these developments in politics and business relations into a conclusion.

II 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. This institutional diagnostic tool focuses on the institutional (formal and informal rules of the game) weaknesses possibly responsible for economic constraints. It is expected to enhance the understanding of a body of evidence and provide 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 the 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 relationship between politics and business over time, with analytical interpretation of ideological evolution and socioeconomic development and special reference to the context of promoting industrialisation. The relations among politics, business, and institutions is 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. This 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 makes 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 through allowing some big companies to pursue their interests. What they do not make clear is the kind of advantages they grant at the same time to those companies and the kind of benefits they themselves get in the process. This equilibrium situation permits some firms to make more profit, while politicians (or their parties) may maintain themselves in power as they increase their probability of gaining political capital and winning the next election, as well as accessing resources for personal gain. The existence of competition among the business elite gives more freedom to the government in choosing what is best for the country. However, in cases where corruption prevails, the choice of what is best for the country may be distorted. At a certain level of corruption, the state may even create its own channels for accumulating personal 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 a business entity to work with in order to syphon public resources. The selected business may be prominent or otherwise, provided it has the trust of the political players. The state's real situation 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 by exposing deals, provided they are not controlled themselves by the business or the political elite. Civil society organisations may also play this role, as can 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 development, and various changing business opportunities, making some businesses lose while others gain over time, or some political factions gain while others lose power. What would be observed in that case would be a particular equilibrium, which could be modified owing to some exogenous change in the distribution of political power or business opportunities. This could be the rising 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 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 (2010) 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 follows 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.

III THE EARLY INDEPENDENCE PERIOD, 1961–1966

A 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 at the 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.

B Origins of the Position of Asians

The origins of Asian business can be traced to the beginning of the twentieth 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, and 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.

C Development Initiatives in the 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 (1961–3) and the First Five Year Development Plan (1964–9). The two plans essentially left the economy in the hands of the private sector, which was largely foreign (non-indigenous), 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 barriers 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 in 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 built 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 per cent of the population residing in rural areas, where poverty was rampant largely owing 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 a transformation approach on the recommendation of the World Bank (World Bank, 1961). This involved moving some of the farmers from their traditional villages to new villages or settlement schemes to fast-track the introduction of agricultural transformation, on the assumption that 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, owing to a lack of participation from the peasants themselves. This approach to agricultural transformation failed because of the cost of replicating it in the country (Cliffe and Cunningham, 1973).

https://doi.org/10.1017/9781009285803.008 Published online by Cambridge University Press

D 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 the free market and private sector-led development was risking the 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. This was a decisive factor in disrupting the equilibrium that had essentially persisted in the early post-independence period.

IV THE ARUSHA DECLARATION: BUSINESS AND POLITICS RELATIONS, 1967–1985

A The Arusha Declaration Response

The Arusha Declaration in 1967 was a response to the challenges of the early post-independence period. It 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 chapter, 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 was the change in the ownership pattern whereby the major means of production were nationalised, and most major subsequent investments were made in 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.

B 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. It was hoped that this move would curb 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 United States. 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, p. 17). 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 the major means of production.

C 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 the 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-sized 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 of 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. The impact on indigenous private sector development was at best quite modest is not insignificant. However, among the private businesses that were either not nationalised or were established after the nationalisation phase of 1967–8 was over, the foreign and non-indigenous Tanzanian private sector continued to dominate the industrialisation scene.

D 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 ruling 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.

E 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 desire to show results quickly 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 state control in industry, and over-reliance on expatriates and foreign technical assistance left little space for building up technological expertise among nationals and in the process the domestic private sector was not promoted.

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 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 MTAVA (a vehicle assembly plant set up in 1965), where the shares were 50 per cent LONRO, 23 per cent Cooperative Union of Tanzania, 23 per cent Mwananchi Development Corporation (the economic wing of TANU, the ruling political party), and 4 per cent Barclays. In 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 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.

F Performance of Parastatal Businesses

The rapid investments carried out by parastatal enterprises resulted in an 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 (Shao, 1978; Barker et al., 1986). Clark (1978) finds that large parastatals had low profit rates, at only a quarter of the profit rates of smaller private companies in 1971. Shao (1978) finds that output per employee was higher in Asian-run enterprises (e.g. textiles, grain milling, and sawmills) 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 threefold over the same period – an indication of falling labour productivity (Bank of Tanzania, 1982, p. 114). Jedruszek (1979) finds that productivity in industry declined by 14 per cent between 1967 and 1977. Manufacturing productivity was below average over the period despite large capital investments. Jedruszek suggests 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 three-quarters of top

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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 became 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 per cent 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).

G 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 was increasingly beyond their control.

https://doi.org/10.1017/9781009285803.008 Published online by Cambridge University Press

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. Systems of performance management and accountability were weak. Managers of parastatals were very much part of the cohesive intermediate class group that ran the single ruling party, TANU (Shivji, 1976; Mukandala, 1988).[1] 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) suggests 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, such as bread with wine, complicated the management of parastatals even further. Observing how most parastatals were run, 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 businesspeople (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.

H 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.

By the mid-1980s, the political consensus on industrial policy slowly consolidated around the conclusion that state-led industrialisation was under threat

[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.

https://doi.org/10.1017/9781009285803.008 Published online by Cambridge University Press

from weak performance and accountability systems, 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. 194–5; 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, 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 structural adjustment programme (SAP) sponsored by the International Monetary Fund (IMF) in 1986. The adoption of the 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. It 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.

V POLICY REFORMS: OPENING UP SPACE FOR BUSINESS, 1986–1995

A Reforms as Response to the Crisis

Generally, the reform and SAP 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. 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.

B 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, examples being the sale of NMC to Bakhresa and the acquisition of the Minjingu Fertiliser factory and salt mines by Mac Group.

Debates in the Tanzania Chamber of Commerce, Industry and Agriculture, which were 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 – by operating as a weak competitor by selling inputs at low prices, for example.

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. This can be seen as the price of facilitating the development of indigenous entrepreneurs. The 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. It was actually 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 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 the necessary 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. Tanzanians of Asian and Arab origin secured most of the gains, while a small African business class of traders was also beginning to emerge (Havnevik, 1993; Tripp, 1997). 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. Indeed, 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.

C 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 legal by the reforms, but that did not necessarily lead to a decrease in smuggling. Critics argued that the measures were

https://doi.org/10.1017/9781009285803.008 Published online by Cambridge University Press

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 than industrialists and other long-term investors. Some enterprises abandoned industrial production and were turned into godowns (warehouses) for traded goods. For instance, the Tanzania Shoe Company was turned into a godown for stocking imports, including 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 per cent in the early 1990s, is a manifestation of this imbalance (Bourguignon, Chapter 2, this volume).

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 experience of Vietnam, for instance, shows that it is possible to undergo reform without experiencing low growth and deindustrialisation. Having introduced reforms in 1986 – the same year Tanzania adopted the SAP package – Vietnam's annual rate of GDP growth over the period 1990–2000 was 7.9 per cent, which was exceeded only by China's 10.6 per cent (Thoburn, 2013). The main challenge is that the Tanzanian political elite did not balance appropriately the interests of industrialisation and trade. Trade was favoured, while industry experienced deindustrialisation.

D 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, this was legitimised in 1991 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 in political elections and the peasants and workers representation progressively being squeezed as it was becoming costly to seek votes for political leadership positions because of the increased amounts of money involved in campaigns (Gibbon, 1995, p. 13). 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 its representation in the form of specific trade and industry associations. However, these 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 1993–4 led to a large fiscal deficit and the freezing of much foreign aid (Bigsten and Danielsson, 2001, p. 20). There were equally massive abuses of a government import financing a 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 to the electorate.

VI INITIATIVES TO CONSOLIDATE REFORMS AND DEFINE THE DEVELOPMENT AGENDA, 1996–2015

A 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 has been fluctuating at around 6–7 per cent since 2000.

From the mid-1990s, the government started to rethink the short-term recovery programmes and decided to revert to addressing the long-term development agenda. The Sustainable Industrial Development Policy (SIDP, 2020), spanning 1996–2020, and Tanzania Development Vision 2025, spanning 2000–2025, were formulated in this spirit. The twenty-five-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 investments that crowd in (invite) private sector investments. The main contents of SIDP 2020 were later subsumed in the development of 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 TDV 2025, the private sector was 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 and Strategy were formulated in 2004.

What is striking, however, is that despite the formulation of SIDP 2020 and TDV 2025 envisioning the realisation of a semi-industrial economy by 2020/2025, growth during this period relied relatively less on industrialisation than during the socialist period in the 1970s. Growth in the post-1996 period was driven more by construction, telecommunications, and trade than by industrialisation. Although slowly increasing, the GDP share of manufacturing 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.

B Industrialisation and Politics–Business Relations

This raises the issue of the obstacles to industrialisation. 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, consistent with the election cycles. 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 agroindustry.

The question is whether the obstacles to moving in that direction can be found in pure government failures, that is, 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 earlier in this volume (Chapter 2) 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. There is a need to develop the tradable sectors, such as 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 '*modernized, commercial, highly productive, utilizes natural resources in an overall sustainable manner and acts as an effective basis for inter sectoral linkages*' (URT, 2001, 32). 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 by the government given the bad experience with the parastatals, or the suspicion that the private sector will divert that support for its own use.

Successful development needs to have the right political base to influence implementation of the developmental policies. The relative power of groups within the private sector, such as 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 because of corruption, and tax assessment continues to be characterised by corruption, extortion, and arbitrariness.

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

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

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, 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 twenty 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 per cent sold by the government to SAB Miller Africa and 5 per cent 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 twenty-five 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 per cent 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 thirteen 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.

C 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 businesspeople 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 businesspeople in politics was enhanced by formalisation of the Zanzibar Resolution (1991) by 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. Known as the Warioba Commission, this 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).

D 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, Tanzanian Asian capital accounted for around 26 per cent of all manufacturing firms (Chandra et al., 2008). Out of the fifty 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 payoffs 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 advocates formulating an active industrial policy for an indigenous business class. In the 1970s and 1980s, SIDO nurtured indigenous industrialists into relatively successful enterprises such as Northern Electrical Industries. These indigenous industrialists emerged from targeted potential industrialists who were supported with capital, training, technology and markets. The successes that were recorded suggest that a proactive empowerment programme stands a chance of supporting and nurturing indigenous industrialists.

E Politics and Foreign Business Relations

FDI into industry expanded under liberalisation. By 2008, the manufacturing sector accounted for around 21 per cent of total FDI in stock. In addition, FDI in the mining sector accounted for around 28 per cent of total FDI. However, the ability of the state to manage FDI has been limited. As a result, it 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 inviting 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 twofold. 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 fruit and had no incentive 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 has 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.

F 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.

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 scandal dates back to the 2005/6 financial year,[3] when a lump sum worth TZS (Tanzanian shilling) 133 billion (USD 116 million) was misappropriated to twenty-two company accounts by the Bank of Tanzania, and a 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 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 (Independent Power Tanzania Ltd, 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),

[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, owing 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.)

which was consistent with the energy policy, was already in the pipeline. This faction argued that IPTL used technology that was 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 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. On the contrary, some sections of the political elite argued that the funds were public money.

The businessman who facilitated 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 from 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' by 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.

2 *Predation and Rent-Seeking*

A slightly different but equally lucrative area of corruption can be referred to as predation. Logging and hunting are good examples. In the first, undervaluation and non-taxation of forest products in Tanzania led to huge revenue losses. An estimated 90 to 95 per cent 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 USD 50 million over ten 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 an inflated price or inferior quality. Sometimes, officials and politicians operate on both sides of the deal, and intermediaries broker the deals.

G Transparency without Accountability and Erosion of the Ruling Party's Credibility

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 was quite apparent. This situation is not consistent with 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' (Twaweza's 'Voice of the Citizenry') surveys indicate a drop in approval of the performance of public leaders, with the president's approval ratings falling from 45 per cent in 2012 to 31 per cent in 2014, and similar or more dramatic falls in the approval ratings of the prime minister, MPs, and village/street chairpersons and councillors. The situation even threatened the chances of CCM winning the next elections in 2015.

This erosion in popularity of the ruling party was felt by party members. 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 than ever 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 because of corruption. Fourth, the CCM presidential candidate, Dr John Magufuli, made anti-corruption a main campaign slogan. In his campaigns, he emphasised what he would do to fight corruption rather than what CCM would do about it. The opposition candidate Edward Lowasa, who had crossed from CCM to Chadema, was silent on corruption in his campaigns, possibly because 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 relationship 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.

VII FIFTH-PHASE GOVERNMENT: FIGHTING CORRUPTION AND CHANGING RELATIONSHIPS BETWEEN POLITICS AND BUSINESS

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.[5] 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 to March 2021,

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

[5] Some of the arguments in this section have been supported by Shivji (2021).

showed the beginnings of disrupting the equilibrium that has prevailed for three decades, distinguished itself with a high level of commitment to fighting corruption, putting off unnecessary government expenditure, and announcing the intention to industrialise Tanzania.

However, it takes considerable personal authority and time to disrupt that equilibrium and establish a new system. The fact that President Magufuli had not been an insider in CCM, the ruling party, and had campaigned on the anti-corruption ticket may have been an advantage. In one of his speeches to the business community, he challenged the sector's members by pointing out that he had not been brought to power by their money, a situation that was very different from how his predecessor had come to office. At the same time, his lukewarm relationship with business leaders was a problem, because he needed them. In this regard, his statements in the TNBC meetings of May 2017 and March 2018 had mixed messages. On the one hand, he expressed a conciliatory tone, expressing recognition of the role of the private sector in development and the willingness of government to support private sector development. On the other hand he pointed out on several occasions how members of the private sector had engaged in acts of corruption and other malpractices. This perception of the private sector prevailed during this phase. The discussions in the TNBC were not particularly constructive. In fact there were no more TNBC meetings after 2018 although TNBC is supposed to meet the president twice a year. This was a sign of deteriorating relations between the president and the business community.

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 had been exposed, but little accountability followed. Magufuli had an opportunity to influence the manner in which the political elite interacted with business to take advantage of favourable political stability and the strong organisational capacity of CCM, to pursue a broad-based development strategy driven by the private sector. He had 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 have formed the basis for promoting indigenous Tanzanian industrialists and inclusive industrialisation, an issue of major concern in the initial conditions at independence and as reiterated in TDV 2025 and in the National Economic Empowerment Policy of 2004. The concerns over these issues were (and are) real and have not gone away. However, during this phase, public investment was preferred to private investment to the detriment of the latter. It was common for public investments to crowd out the private sector. Activities that were earlier being performed by the private sector were transferred to the public sector such as insurance to National Insurance Corporation and construction to Tanzania Building Agency and JKT. The orientation was to encourage public sector institutions to procure their products and services from other public sector institutions. The private sector was accorded low priority. Private businesses faced harassment from the Tanzania Revenue Authority (TRA) and what came to be known as the Tax Task Force consisting of TRA, police, security and Prevention and Combating Corruption Bureau (PCCB) officials. The list of unbailable offences under the notorious Money Laundering Act was extended to cover even such offences as tax evasion and business-related offences. Closure of bank accounts was generously applied to business based on all kinds of demands from revenue authorities. The president's harsh interventions against the private sector prevented pursuit of a broad-based development strategy driven by the private sector.

President Magufuli 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 in his own terms. This enhanced the chances of taking a new direction towards an inclusive development strategy. The fifth-phase government showed that there is an opportunity to address collective action problems within CCM, short-termism driven by periodic elections, and corruption in elections. If this had happened successfully, there was a chance of facilitating the development of an anti-corruption regime that could create a long-term transformative development strategy through industrialisation. These long-term development concerns, including industrialisation, were pillars during the 1967–85 period. There were signs that under the leadership of President Magufuli several elements of these pillars had a good chance of being revived. However, the president's unrelenting industrialisation drive gave jobless youth little relief as it hardly dented unemployment figures. His idea of industrialisation lacked consistency, coherence and was not guided by clear policy and strategy. It did not show consistency with a broad vision of building a nationally integrated economy in which industry, agriculture, and services would be mutually reinforcing. Agriculture received little attention and private investment in the economy faced hostility from the Magufuli government. Major emphasis was placed on investments in infrastructure. This presented an opportunity for facilitating private investment, provided other business environment conditions were put in place.

Implementation of a long-term development agenda and industrialisation in particular faced two challenges. First, the institutional environment and the political structure of CCM needed to reform in order to cope with this requirement of long-term development and transformation. As president and chairman of the ruling party, Magufuli did not institutionalise the party and make it fit for the task. CCM was not structured for political mobilisation that addressed the set of rules, organisations, and norms that would constrain the behaviour of the political elite and make them accountable to the citizens of Tanzania. The ruling party did not seize the opportunity to explain, discuss strategies, and promote ownership of the development agenda and strategy among the key actors. Second, the president put emphasis on hard work as a main contributor to development and self-reliance, but this was not accompanied by capacity building and incentives. Instead, salaries and promotions of public servants were frozen for his presidency as priority was accorded to public investments in large infrastructures. Public service performance management and the associated incentives were not institutionalised. Public service support for businesses deteriorated and the business climate weakened, as indicated by declining rankings reported by the World Bank.

The fifth-phase government put emphasis on the prudent use of natural resources for the development and benefit of the people. This was a fight against scooping rents through corruption and other ways. It is in this context that a progressive piece of legislation called Natural Wealth and Resources (Permanent Sovereignty) Act was passed in 2017 recognising the sovereign ownership of the people of natural resources. However, there was little space for private investment in general and little appreciation of private investment, either FDI or private domestic investment. A notable attack on FDI was the taking on of the multinational gold company Barrick when the president stopped containers full of mineral sand from being exported by Acacia, a subsidiary of Barrick, for smelting. He formed a local team of experts to investigate the mineral content of the sand. Simultaneously, the Tanzania Revenue Authority slapped on the company a huge bill of unpaid taxes amounting to USD 190 billion. Eventually the parties struck a deal under which Barrick would pay USD 300 million in settlement of the tax dispute and give Tanzania a 16 per cent stake in a new company, Twiga Minerals, which would operate Barrick's three mines. This may have appeared as victory, but there are two challenges here. First, the message that the saga sent to other private investors was negative, leading to the risk of scaring away investors and reducing the credibility of contracts that the government entered into with them. Second, the process of negotiating with investors of this kind was not institutionalised. The local team that was formed to negotiate was not followed by creation of the local human and institutional capacity to carry out negotiations with private investors on a continuous basis.

The earlier Kikwete administration, which had promoted transparency with little accountability, shifted towards a higher level of accountability with reduced transparency. However, accountability of the top leader to the constitution and to the people he was leading was reduced while subordinates became accountable to one person at the top with little institutionalisation. Magufuli did not make himself accountable to the business community and ruled by fiat, legitimising his approach by material measures in the interest of the downtrodden or oppressed (called *wanyonge* in Tanzania) to the detriment of private investment and private business in general. Autonomous institutions of democracy such as parliament and the judiciary were stripped of their content so they existed in name only, going through the rituals of elections, law-making, and judicial decision making, which means little in practice. In terms of relations between politics and business, this situation introduced little transparency and a low level of certainty in the policies that influenced business decisions.

In conclusion, while it is appreciated that corruption declined and investment in infrastructure increased, economic prosperity suffered. Too much attention went to infrastructure and little went to boost the economy of private sector actors. Agriculture and participation in the global value chain was not accorded priority although the livelihoods of over 60 per cent of the populations is derived from agriculture, and public investment often crowded out private investment. The regime was not friendly to business and the private sector development that the third-phase government under Mkapa had started and was built further by the fourth phase government under President Kikwete. The private sector suffered in the hands of the fifth-phase government. Lack of participation in public affairs made people unhappy and dissatisfied, and they could not hold their government accountable. Business with other countries and international relations deteriorated. Weak institutions for holding the leadership accountable were the main cause of this situation. It has been argued that this underlines the risks of viewing leaders through rose-tinted glasses: Charismatic individuals can claim the reformer's mantle, but giving them too much credence before structural reforms are implemented sells democracy short and increases the risk of authoritarian relapse (Cheseman et al, 2021).

VIII SIXTH-PHASE GOVERNMENT LED BY PRESIDENT SAMIA SULUHU HASSAN, MARCH 2021 TO DATE

Magufuli died on 17 March 2021, and Samia Suluhu Hassan was sworn in as the new president of the sixth-phase government. Although she has not been president long enough for conclusions to be drawn, there have been notable changes in policies on several fronts.

First, freedom of the media and freedom of speech have been an immediate change from the Magufuli regime. Print and electronic media are operating freely and some of those that had been closed have been reopened. This is positive for transparency. Second, there is freedom for opposition parties and President Samia has openly spoken in favour of bringing unity and peace between CCM and the opposition parties.

Third, the relationship with the business sector has improved, one indicator being the resumption of dialogue between government and the private sector in the TNBC. Within 100 days in office, President Samia chaired a TNBC meeting, meetings that had not been held since 2018. Since then TNBC has been holding meetings twice a year. President Samia has also met sections of the business community on several occasions. In her state visits to other countries (Uganda, Kenya, Rwanda, Burundi, and the United States), she has taken members of the business community with her. All these are positive signs that the relationship between politics and business are likely to improve under President Samia.

Fourth, President Samia has liberalised several policies to make them business friendly. She is more liberal politically and economically and more friendly

https://doi.org/10.1017/9781009285803.008 Published online by Cambridge University Press

to the outside world, from neighbours in the region to Western governments. She is already opening up to the outside world. She has paid state visits to Uganda, Kenya, Burundi, Rwanda, and the US. She has mended relations with the World Bank and IMF.

Fifth, President Samia has demonstrated that observance of the rule of law is being restored. Several businesspeople who had been arrested and remained in custody without being charged and those who had been charged falsely for money laundering have been released. Those who had been close to Magufuli and broken the law with impunity have been taken to court and charged. A former District Commissioner for Hai District who was breaking the law with impunity, claiming that he was doing so under the orders of Magufuli, was jailed in October 2021. Cyprian Musiba, whose media house was known for defaming and relentlessly humiliating former leaders, has now been taken to court; two recent cases have been won and he has been fined heavily. His media house is not functioning anymore. Upholding the rule of law is likely to enhance the certainty of the environment in which business operates.

Finally, there are encouraging indications that the business climate is improving. The policies and procedures for issuing permits to investors have eased and permits for foreign experts have been made more liberal and efficient. Investors are assisted more efficiently in terms of time. The TRA has been instructed to act with fairness and promote compliance with competence instead of force. More processes for handling investors have been digitalised and delays have been reduced.

IX CONCLUSION

This analysis of politics and business relations 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 (1961–67 and 1967–85), 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 phases. During the third and fourth phases (1986–95 and 1996–2015), 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 business groups that also benefited respective sections of the political elite. This equilibrium 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 for accumulating wealth through private business, which may not necessarily have been big business but were convenient and trusted. These confident businesses facilitated the accumulation of wealth by opening channels for syphoning off public resources. This equilibrium prevailed in the third phase and was consolidated in the fourth phase. The fifth phase, led by President Magufuli, showed signs of disrupting the situation. The source of this disruption was simply the personal will of the president, given the considerable power granted to him by the constitution. However, the change was not institutionalised, and in many ways business was disrupted.

One major lesson to draw from all regimes is that although the ruling party has not changed since Independence, the polity in Tanzania remains fragile, institutions remain weak, and the masses are disorganised. Therefore, the polity in Tanzania is vulnerable and amenable to the rise of individuals who are able to make changes that are not institutionalised. Under the circumstances, organisation-building and institution building remains foremost in the design and implementation of the long term development agenda.

The analysis has also shown that the political elite has the opportunity of monopolising 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. In the fifth phase, Magufuli tried to reverse the decentralised rent management system to a centralised rent management system. 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 governments 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 PCCB, enhanced transparency. It has been shown that transparency improved but accountability fell short. It indicates that during this 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 showed the beginnings of disrupting the equilibrium that had prevailed for three decades. However, this was done by weakening institutions. This factor, however, makes it relatively easy for President Samia to make several reversals within a short time.

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.

Throughout the 1960s and 1970s, President Julius Nyerere centralised rent management and implementation of the long-term development agenda took shape. However, this situation was reversed in the following phases. The fifth-phase government under President Magufuli attempted to reverse decentralised rents towards centralisation, and channels of syphoning rents for personal gain were curtailed. However, preoccupation with the drive towards personal rule and the further weakening of institutions undermined the implementation of a long-term development agenda.

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 such as 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 the chairman of the ruling party TANU asked the question as to whether the existing TANU internal political structure was capable of implementing the Arusha Declaration. Nyerere 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. It 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 took initiatives to disrupt the equilibrium constructed on the tradition of inaction from the top political leadership when it comes to corruption. President Magufuli 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, though without coherence and consistency. The challenge continued to be a move in the direction of personal rule and the weakening of institutions. The relations between politics and business in the fifth phase government were so tense and businesses were disrupted to the extent that they could not effectively facilitate capital accumulation and industrialisation. This is the task that President Samia Suluhu Hassan has to grapple with. It will depend on how the internal power structure within CCM plays out.

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, its report concluded that leadership could be the main determinant of success. Fast, sustained growth requires a long-term commitment by a country's political leadership, 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. 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.