

## Chapter 16

# Industrialization in Tanzania: A Window of Entrepreneurial Opportunity

**Nyanjige Mbembela Mayala**

*Moshi Co-Operative University, Tanzania*

### ABSTRACT

*This chapter acknowledges the undeniable fact that the manufacturing sector plays a key role in the growth of any economy, and it is from this sector that Tanzania can catch up with the rest of the world. The stagnant contribution share of the manufacturing sector is linked with implementation lags on ambitious, uncoordinated plans and slow transforming economic structure, which is dominated by agriculture and competition from low priced manufactured import from Asian economies. Shifting the labor force from agriculture to manufacturing remains the best option for the country to enhance efforts towards industrialization, thus increasing the overall productivity. On the other hand, entrepreneurship and policies have a multifaceted nature and linkages with other areas, such as education and skills development, technology and innovation, finance and capacity building. Multiple new types of financial instruments can contribute to diversifying the financial solutions available to Tanzanian entrepreneurs in the process of industrialization.*

### INTRODUCTION

Different authors of economic development around the world have indicated that, industrialization has a vibrant role to play in that effect. Same argument of industrialization is said to be vital in supporting Tanzania to raise economic growth and development (URT, 2016). Productive expansion is the major purpose for making use of new technology to manufacturing and the most important source of technological innovation. It creates new skills and a work attitude, catalyses institutional change and fosters cutting-edge entrepreneurship. It serves as a means of modernizing the export structure and creating the base for sustained export growth, in conjunction with higher wages. Increased industrialization helps create the employment that poor economies like Tanzania need as they release surplus labour from agriculture by stimulating the improvement of modern services. For that reason, industrialization has long been, and stays, the most powerful engine of structural change and modernization. Indeed, developed world has

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undergone an extended period of industrialization before they reached levels of high income earnings and structural transformation of their economies that could support the development of modern services.

The chronic failure of Tanzanian industries to grow and compete has engendered deep pessimism about its prospects, especially as the context for industrialization is changing. International competition is intensifying with liberalization and globalization. Competition is taking new forms, driven through fast technical change and the emergence of international production networks, issues that require more advanced entry levels of competencies and abilities even for simple production are rising rapidly. Not only is industrialization in Tanzania becomes marginalized to the dynamics of the worldwide economic system, it indicates little signs of a dynamic technological response to the new demanding situations. This is despite the fact that access to world technology flows is now less difficult that is observed through capital and skills flowing throughout national boundaries more readily to tap local markets and to set up sites for global production.

It is not that the Tanzanian economic system isn't always open to Foreign Direct Investments (FDI) and technology inflows. The country has liberalized noticeably in current years. Even as the process continues to be incomplete, the actual problem appears to be that liberalization has now not inspired an aggressive response because of a loss of receptive capabilities. Few industries have upgraded their technologies or invested in advanced production technologies. There are few signs of technological processes in Tanzanian industries, even of absorbing new technology. Manufacturing sector is conspicuous by way of its structure of production that remains characterized by low value-added primary products. Global production chains and networks have largely bypassed Tanzania.

Tanzania's weak industrial performance appears to reflect deep problems in economic structure. If this is so, policymakers must address the underlying structural issues. Other countries have faced such problems in the recent past and overcome them to different degrees, some with dramatic success. There is no reason why Tanzania should not attempt to do the same; even modest success would be better than its current marginalization. The country must shed the growing pessimism regarding its ability to industrialize at all, and improve its investment climate. At the same time, it must simultaneously strive to overcome its structural problems, which are largely related to factor markets.

Structural problems in industrial development have a variety of causes. Some arise from past government policies that misdirected resource allocation, for instance into inefficient parastatal enterprises. Others arise from the market and institutional failures that characterize developing countries, like lack of skills or technical knowledge, entrepreneurial weaknesses, and widespread externalities. The institutions that help enterprises overcome these problems in advanced countries are absent in poor ones, and even when they exist in name, they are often ineffective, with low capabilities, poor motivation and very weak links with enterprises. Based on lessons drawn from implementation of Five Year Development Plan (FYDP 1) and The National Poverty Reduction Strategy II as well as lessons from successful comparable countries' industrialization experiences as well as assessment of Tanzania's comparative advantages; industrialization has been identified and brought forward as an intervention for economic growth and development. Industrialization that is envisaged in FYDP II focuses on realizing the country's aspirations, and is anchored on current and future drivers of the economy; fostering innovation and technological adaptation; and strategically repositioning the country to maximize gains on the global and regional economic dynamics. In addition, industrial sector is believed to be in line with realization of goals articulated in Tanzania Development Vision 2025, particularly that of propelling Tanzania to a semi-industrialized middle-income country by 2025. This criterion implies that the selected intervention should have large impact on set targets, especially on economic growth, employment creation through

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