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School of Public Administration and Management, Mzumbe University
P.O. Box 2, Mzumbe Morogoro, Tanzania
Tel. +255 023 2604380/1/3/4, Fax +255 023 2604382/2600671
E-mail: cepole@mzumbe.ac.tz; Website: www.mzumbe.ac.tz

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CONTENTS

Re-Structuring Tanzania's Investment Climate for Industrialization: Reflections from Industrialization Strategies in Malaysia

Honest Prosper Ngowi[1]

Abstract

The paper engages to analyse the industrialization process in Malaysia and possible lessons that Tanzania can learn in its new industrialization move. The focus is on the industrialization strategies adopted by Malaysia from 1957 and Tanzania's new industrialization move by the fifth phase government that came to office in 2015. Specifically the paper attempts to draw lessons related to investment climate in Tanzania from Malaysia's industrialization strategies. Various industrialization strategies adopted by Malaysia over years are outlined followed by Tanzania's new industrialization move. Then implications of Malaysia's strategies for Tanzania's new industrialization move are discussed in the context of investment climate for industrialization in general and Import Substitution Industrialization (ISI) and Export Oriented Industrialization (EOI) in particular. Several policy options for Tanzania to attain successful ISI and EOI are outlined as well.

Keywords: Industrialization, Investment Climate, Import Substitution Industrialization, Export Oriented Industrialization, Malaysia, Tanzania

[1]Honest Prosper Ngowi is an associate Professor of Economics, Mzumbe University. He is also currently serving at a capacity of College Principal, Mzumbe University - Dar es Salaam Campus College

Introduction

Among the key indicators of economic development of a country is its level of industrialization. It stands to improve living standards measured by quantity and quality of goods and services consumed. Countries consciously adopt industrialization strategies for economic development purposes (Brisbane, 1980). Pass *et al*. (2000) describe the term industrialization to imply the extensive development of organized economic activity for the purpose of manufacture. It is characterized by inter alia transformation of a primarily agrarian economy into a more specialized, capital – as opposed to labour – intensive economy. It took the form of Industrial Revolution in Western Europe and North America in the 18th and 19th centuries.

Elsewhere in the economic and business literature (see Bishop, 2009 for example), industrialization is described as the process in which a country transforms itself from a basically agricultural society into one based on manufacturing of goods and services. Whereas manual labor is more often than not replaced by mechanized and automated high tech-mass production, craftsmen are replaced by assembly lines. Industrialization is associated with the growth and development of urbanization.

Classification of industries

Industries have been classified into various types of industries. In adopting industrialization strategies, countries including Tanzania have to make informed choices as to which class and typology(ies) of industry they want to venture in, reasons for the choices and the many and far-reaching implications for the same. According to Sutton and Olomi (2012), based on value addition and tangibility there are three broad types of industries including; primary industries, secondary industries and tertiary industries. Primary industries are very simple involving processing of raw materials to give input goods for secondary industries. According to Chandler, Hikino and Chandler (2009) their value addition is minimal and are usually material oriented. They include coal mining and washing, oil-refining, flour milling, metal smelting, stone crushing etc. Secondary industries are very complex and diversified. They take inputs from primary industries and add significant value to them in different processing stages. According to Becattini, Bellandi, and De Propris (2014), their value additions are so significant that they may have a locational preference in favour of market. Secondary industries may be divided into heavy, light and footloose industries.

Heavy industries are identified by nature of their bulky product, very high capital inputs or units (Nof, Wilhelm and Warnecke, 2012). They include heavy chemical and machinery, locomotive, shipbuilding, heavy electrical industries etc. Light industries are less capital intensive and more inclined to consumer products that are lighter in weight, require less power, less polluting and can be established in small areas (Becattini, Bellandi, and De Propris, op cit). According to Ederington, Levinson and

Minier (2005), footloose industries remain indifferent with locational aspects of plant. Their products have very high value addition and smaller in size. Transportation cost is therefore only a small fraction of total cost. They usually require a very small production space, usually less polluting but require highly skilled workers. Examples include watch, camera, diamond cutting, precision electronics, etc. Tertiary industries on their part are not related to production process. They are basically trade and services providing. According to Kira and He (2012), their scale of operation is so large that it is regarded as an industry. They include banking, insurance and consultancy industry industries.

Potential benefits of industrialization

Discussions on industrialization are very important for various reasons. Among these are the many and diverse potential benefits of industrialization in the development process. They include but are not limited to potentials for direct and indirect jobs and therefore incomes creation and improved standards of living. Industrialization also poses potentials for foreign exchange earnings through exports and foreign exchange saving through imports substitution. It can also generate government revenues from related taxes and none tax charges. It stands to develop other sectors of the economy through inter-sectoral linkages via both backward and forward linkages that can trigger development of many other sectors through providing them with markets as well as supplying these sectors with factor inputs both intermediate and finished. As a country we should not dwell on the potentials only but should make concrete moves to actualize the potentials.

According to Brisbane (1980) industrialization can be beneficial for developing countries for many reasons. They include reducing their vulnerable dependence; speeding up their economic growth process; modernizing the economy through spill over or externalities effects; creating direct and indirect employment and generating foreign currency through export and saving the same through import substitution with the results of reducing balance of payment (BoP) problems.

Industrialization Strategies in Malaysia

This part of the paper dwells on industrialization strategies in Malaysia. About 40 years after independence, Malaysia adopted two economic policies and two industrialization strategies that were influential in the country's journey towards industrialization. These are Import Substitution Industrialization (ISI) and Export-Oriented Industrialization (EOI). The key to the achievement of the ISI and EOI strategies was the 'Malaysia Incorporated' policy, introduced in 1983, which cemented on public-private sector relationships (Okposin et al, 2005). The resulting partnership between the public and private sectors re-imagined the business environment in the 1980s and 1990s. The Malaysian government prioritize export-oriented firms that are more knowledge-intensive than production-intensive, so as to transform the country's manufacturing in the direction of high-tech and knowledge-based industries.

Phases of Industrialization Strategies

The industrial strategy adopted since independence can be classified into six phases. (Noor, 1999, Ariffin, 2000 and MITI (1996)). These phases are outlined in what follows.

First Phase: The Pre-independence Period (prior to 1957)

The economy of colonial Malaya was based almost entirely on the primary sector, which comprised of agriculture and mining. Primary industries generated 45.7% of gross domestic product (GDP) and 61.3% of employment (Lim, 1994, Okposin et al, 2005). Multinational Corporations (MNCs) subsidiaries of the time belonged to the British Empire and were engaged in the production of rubber and tin. The manufacturing sector contributed only marginally to the Malayan economy (Okposin et al, 2005). Only 10% of the workforce and 11% of the economy were involved in the manufacturing sector at that time period (Von der Mehden and Troner, 2007).

Second Phase: Import Substitution Industrial (ISI) Strategy

After independence in 1957, ISI strategy was incorporated under three five-year economic development plans. These are the first, second and third Malaya plans (1956-60; 1961-65 and 1966-70 consecutively). The ISI industries were mainly instituted to cater for the domestic market. A predominant feature of the policy was its directed weight towards promotion of industrial development via the private sector, but also Foreign Direct Investment (FDI) was given a pivotal role in the process while importing technologies from industrialized countries. Firms possessed technological capabilities together with skilled labor as well as research and development facilities.

ISI is a trade and economic policy which advocates replacing imports with domestic production. It is based on the premise that a country should attempt to reduce its foreign dependency through the local production of industrial. It may make local economies self-sufficient. It is linked with inward oriented economic development strategy. It focuses on promoting domestic production of previously imported goods to foster industrialization. ISI has its origins in the writings of List (1841). List wrote about his theories of productive forces and outlined what is known as the infant industry argument. It is a trade protectionism economic rationale that argues that nascent industries usually do not have the economies of scale that older industries from other countries have. They therefore need to be protected until they can attain stability and significant economies of scale.

In theory, ISI was expected to incorporate three main stages. These are domestic production of previously imported simple nondurable consumer goods; the extension of domestic production to a wider range of consumer durables and more-complex manufactured products and export of manufactured goods and continued industrial diversification. According to Shmitz (1984), economic argument for ISI and temporary isolation is that it would bring about rapid development within an economy.

The theoretical foundation for deliberate, government-promoted ISI emerged from critiques of the international division of labour, in which less-developed countries largely exported primary products and imported finished manufactured goods from Europe and the United States. In the 1950s, critics such as Argentine economist Raúl Prebisch claimed that this division of labour would ensure continued poverty for primary-product producers. Prebisch and others argued that developing countries must promote industrialization through practices that encourage domestic manufacturing. Promotion policies involved both protection of infant industries for imports and incentives to encourage capital and technology imports. Tariffs were often used in addition to exchange controls, exchange-rate manipulation and import licenses for particular products necessary for manufacturing. Key to the implementation of the policies was an alignment that emerged between three actors in these societies: the government, including state-owned firms; domestic private enterprises; and transnational corporations (TNCs).

This “triple alliance” involved government investment in intermediate and capital-goods sectors to support industrial expansion, domestic production of import substitutes, and TNC production of high-tech goods needed for manufacturing that could not yet be produced domestically. For Liang (2009) ISI can be for production of both goods that were imported and those not imported before. According to Kruger (1978) and Ray and Sten (2012) ISI purpose is to create ability to have industries that can feed the domestic market.

Ray and Sten (ibid) argued that a country has three options on ISI. They include import investment goods and raw materials to produce consumer goods; import capital goods to make investment goods which in turn produce consumer goods; and thirdly to make intermediate goods and develop domestic raw materials supplies and finally make capital goods to make capital goods. Countries with poor technologies and lack of appropriate strategies for building industrial development have failed with ISI model. For Kruger (1978) and Tik (2010) ISI is a domestic demand driven model of industrialization. Private and public organizations must take efforts on establishing industries in a country based on the demand driven pressure. Tik (2010) posits that Malaysia’s economy adopted demand driven industrial model dominated with private consumption to promote industrial development. According to Sanderatne (2011) ISI is often complemented with state-led economic development through nationalization, subsidization of vital industries and agriculture. Such regimes are characterized by highly protectionist trade policies. All major developed countries used interventionist economic policies to promote industrialization and protected industries until they had reached a level of development when they were able to compete in the global market.

Third Phase: Export-Oriented Industrial (EOI) Strategy

This took place from 1968 to 1980. It saw the enlargement of the industrial base and encouragement of exports. Import of capital equipment and machinery (under ISI) was continued on a more selective basis. The strategy was heavily dependent on foreign inputs. FDI was encouraged through the Investment Incentive Act of 1968 (Kanapathy, 1997). There was also establishment of an Export Processing Zone (EPZ) and restriction of labour unionization to attract MNCs looking for low-cost production sites. EOI is also called export substitution industrialization (ESI), export led industrialization (ELI) or export-led growth. It is a trade and economic policy aiming to speed up industrialization process of a country by exporting goods for which the nation has a comparative advantage.

EOI is industrialization model that promotes countries to embark on export economy by establishing industries that produce for export (Jin, 2009). A country has to be competitive in the international market. Jin (ibid) argues that countries are compelled to adopt the most advanced production and management techniques, employing high skilled human capital and engage in research and development (R&D) if EOI is to be a success. For John (2012) when countries have realized production for domestic market through ISI for example, they need to develop strategies for export in order to gain advantages in foreign market.

It requires countries to open up their domestic markets to foreign competition in return to getting access to international markets. It requires well functioning and well integrated and complementary legal, policy and regulatory frameworks on investment, tariff, trade, exchange rate, infant industry protection, competition, export promotion and others. Government intervention can also play a key role in making EOI effective for economic development.

Fourth Phase: Import Substitution Industrial (ISI) Strategy II

In early 1980s, Malaysian government embarked on a heavy industries program. As the second phase of the ISI strategy, it forecasted better linkages with the local economy, mainly from the utilization of natural resources. The phase began in 1981 with the inauguration of the fourth Malaysia plan (1981-1985). The paramount strategy was heavy industries. To attain its heavy-industry objectives, the government created tariff protection in the form of import duties on priority items, as well as protection through price control, import restrictions, duty exemptions and other investment incentives under 'pioneer' status.

Fifth Phase: Export-Oriented Industrialization (EOI) Strategy II

The Industrial Master Plan (IMP) 1 (1986-1995) was launched in 1986 (MITI, 1986). It provided the framework for the development of the manufacturing sector and the long-term plan for the development of specific sector and policy measures for the period 1986-1995. IMP1 focused on technology and stressed the importance of science, technology and human resource development in supporting the industrialization process. IMP2 was a continuation strategy of IMP1. It concentrated on creating an integrated industrial development with manufacturing at the forefront. It aimed at a transition from labor- to knowledge-intensive industries and develop the manufacturing sector to a global market capability.

Sixth Phase: Knowledge Economy Industrialization

For a service-led economy, Malaysia elevated information technology and multimedia industries as the new sources of economic growth (Okposin et al, 2005). In 1996 the National Information Technology Agenda was launched to offer the framework for the coordinated and integrated development of skills and infrastructure as well as information technology-based applications. Multimedia Super Corridor (MSC) was formulated as a catalyst to enlarge the information technology and multimedia industries. As a result, the government was keen on attracting EOI firms that were knowledge-intensive than production-intensive, in order to form a knowledge-based economy.

New strategies and approaches to industrial competitiveness

Apart from the above strategies, Malaysia has adopted several approaches to industrial competitiveness. These are outlined in what follows.

Manufacturing ++ strategy and approaches to industrial dynamism

This is an intergrated and co-ordinated approach to industrial development. It strengthens on complete integration of manufacturing operations via value chain to effect industrial linkages and boost productivity and competitiveness. It constitutes changing the industrial structure from the predominance of basic assembly and production operations into more upstream activities. The activities include research, design and production development as well as downstream activities including distribution and marketing. The strategy rather than moving along the value chain, it shifts the value chain upwards through productivity growth.

Promotion of new growth sectors

Malaysia is almost post-industrializing and planning towards service-led economy. Manufacturing is projected to maintain a considerable role after the structural transformation. It seems to have reached optimum growth level. New policy initiatives to diversify into high value added services industries have been introduced.

Lessons for Tanzania From Malaysia's Industrialization Strategies

This part of the paper dwells on the lessons that Tanzania can learn from Malaysia's industrialization strategies. It is to be noted that there are many and huge differences between the two countries in many aspects including culture, tradition, political, economic, technological environment and many other aspects.

Among other things, the ability of stakeholders (such as the government and private sector) to learn and adapt industrialization strategies to local conditions depends highly on the character of local institutions, social organization and prevailing global environment in many spheres. The spheres include politics, economy, trade, technology and many others. This implies among other things that Tanzania has to selectively pick lessons from Malaysia, adapt and localize them within the country's settings, local contexts and situation on the ground. It is to be noted that there is no 'one size fits all' approach to industrialization. However, there are rooms to learn from several countries to avoid re-inventing the will. Given the situation of industrialization in Tanzania, the country can better and more appropriately learn from two major strategies from Malaysia. These are ISI and EOI. Before dwelling on the lessons, a brief description of Tanzania's industrialization is outlined in what follows.

Industrialization in Tanzania

Among the main economic projects of Tanzania's fifth phase government is industrialization. This is not a new move as such. There have been several industrialization efforts since independence. Detailed descriptions of industrialization efforts in Tanzania have been documented widely. These include but are not limited to the works of Kim (1966)[1]. According to Kim (ibid), at independence in 1961, Tanzania had a very low level of industrialization. It was the least industrialized of the three East African Common Market partners. Its development strategy placed emphasis on agricultural development.

[1] Kim, K. S (1996), Issues and perspectives in Tanzanian industrial development –with special reference to the role of SADCC. Working Paper #87 - December 1966. The Helen Kellogg Institute For International Studies

Industrial production was primarily oriented towards agro-processing and light manufacturing without internal linkages to domestic raw materials.

Kim (ibid) further informs that Tanzania's first, comprehensive industrialization effort began with the First Five Year Plan in 1964. While continuing with an emphasis on the agricultural sector, the Plan called for an ambitious industrialization program that was to rely on private foreign and domestic investment for expansion of local ISI. Incentive schemes to induce investments included tax holidays, accelerated depreciations, tax rebates, guarantees for repatriation of capital, and tariff protection. With the adoption of the Arusha Declaration in 1967, the Government set a new course in industrialization strategy consistent with Tanzanian socialism and self-reliance *(Ujamaa*). The Declaration stipulated two principles that must be adopted in the future industrial plan. Firstly, the future strategy should not be significantly dependent on foreign investment; and secondly private ownership of industry must gradually be substituted by state ownership in the form of parastatal corporations. The Arusha Declaration did not stipulate any action plans.

It was in the Second Five Year Plan which began in 1969 that the strategy was spelled out in detail. While calling for continuous process of transferring the means of production to the state, the plan prescribed a restructuring of industry, placing priorities on the production of simple import-substitution manufactures, intermediate and capital goods, and agro-industry based products for export. Also emphasis was placed on the promotion of labor-intensive, small-scale firms and the decentralization of industry, where this was considered economically appropriate. The progress in industrial restructuring in subsequent years was very slow. In 1974, the government laid down for the Third Five Year Plan more drastic measures for structural changes in the direction of self-reliance. Efforts for industrialization would be aimed at the processing of agricultural products and import substitution of basic industries. These are those that would promote Tanzania's capacity to be self-reliant in industrial production as well as those that would fulfill the basic needs of human life for the majority of Tanzanians. For the latter category, the industries would include those producing such necessities as food, shelter and clothing. Self-reliance in the context of industrial restructuring was to be interpreted as an economic independence.

Tanzanian industry depends heavily on intermediate and capital goods imports. The industries producing these goods were considered not only as the cornerstone of the country's industrial structure upon which other branches of industry could be developed, but also as exerting important linkage effects in generating economy-wide employment. The strategy thus sought development of this branch of industry through import substitution. From the late 1970s, Tanzania began to be affected by a series of economic malaises of external origins: First, the war with Uganda; the second global oil crisis, the world price of coffee, which is Tanzania's main export product, declined. Tanzania had to put on hold further implementation of its industrialization strategy, as the government sought adjustment by cutting imports and per capita expenditure by 50 percent. There were virtually no expansionary capital budget increases.

The recurrent budgets had to be drastically reduced. With the rapid increase in external debt and arrears, and largely in response to increased pressures from the International Monetary Fund (IMF), the government decided to reverse the earlier strategy of overprotecting industry, and instituted new measures to support agriculture by increasing agricultural producer prices by 30-35 percent in 1983/84, at the same time giving the economy a more export-oriented structure. Export incentives included devaluations of the shilling, the scheme for export retention and, most importantly, that for own funds imports. In the mid 1980, there were major and far-reaching reforms in the management of the economy. These included major liberalizations and privatization of the economy. Almost all sectors of the economy including the industrial sector were liberalized. Among other things the former state owned enterprises (SOEs) were privatized. Over time there have been various efforts to industrialize including statements in the Development Vision 2025 and Sustainable Industries Development Strategy (SIDP) 1996 – 2020. It is seen therefore that the current (2016) industrialization move in Tanzania is not a new one.

Fifth Phase Government Industrialization Move

Debates and plans on Tanzania’s fifth phase government economic future revolve around the axis of industrialization. This is the main economic project for the fifth phase government. The industrialization move has been captured in various documents. These include but are not limited to the ruling party’s 2015 election manifesto; President Magufuli’s maiden speech in the Parliament on 20th November 2015; in the second Five Years Development Plan (FYDP II) 2016/17 – 2021/22), annual plans 2016/17 and 2017/18 as well as the 2016/17 and 2017/18 national budget and budget for the Ministry of Industry, Trade and Investments (MITI) inter alia.

Industrialization in CCM Manifesto

Among other things, the manifesto aims to accomplish and implement Sustainable Industrial Development Programme (SIDP) Phase Three covering the time period 2010–2020. It also aims to attain industrial sector contribution in Vision 2025, increase industrial sector GDP contribution from 9.9% in 2013 to 15% in 2020 and to have 40% of employment in the country coming from industrial sector by 2020. The manifesto also talks about mobilizing the private sector to invest in middle and large industries as well as protecting them against foreign industries. Whereas protectionisms may be a good argument for infant domestic industries that cannot withstand competition, it can be a raw deal to consumers by way of reducing their consumption menu. Furthermore, protecting inefficient industries that are not likely to grow is bad economics. Furthermore, protectionism in the globalized world of the World Trade Organization and possibilities of retaliations need to be re-thought.

Industrialization in President's speech

In President Magufuli's speech in the Parliament on 20th November 2015 the word industrialization appears about 35 times covering five out of 48 pages or 10.4% of the volume of his speech. The speech (page 19) insisted on the type of industries that the fifth phase government is aiming at. These are mass employment-creating industries; industries for domestic mass consumption goods and industries for export goods.

Industrialization in the FYDP

The Second Five Years Development Plan (FYDP II) that was unveiled in the Parliament in the last week of April 2016 is focusing on industrialization. Its theme is 'Nurturing Industrialization for Economic Transformation and Human Development'.

Malaysia's Lessons for Tanzania: The Case of Investment Climate for ISI and EOI

This part of the paper is on Malaysia's lessons for Tanzania's industrialization with a focus on investment climate for ISI and EOI. Each of these strategies has implications to Tanzania's industrialization move in general and in the context of investment climate in particular. It is important to note and ensure that ISI is based on domestic demand driven pressure. Also it is important to promote industrial development via the private sector route both local and foreign.

Industrial FDIs for example are important in importing technologies from industrialized countries. It is important then to have policy, legal and regulatory frameworks that will make technology transfer possible. Technological capabilities, skilled labour and research and development facilities are very important too. Technology transfer calls for inter alia, capabilities of local firms to absorb the technology in question. The importance of science, technology and human resource development in supporting the industrialization process cannot be overemphasized. Investment and business climate to attract and retain investors in these undertakings is very important. See Diyamet, Ngowi and Mutambala (2012) on local technological capabilities. It is to be noted that countries with poor technologies have failed with ISI model.

For skilled labour force, it implies that Tanzania has to ensure availability of the needed quantity and quality of skills and talents amongst its labour force. These include both hard and soft skills as documented in inter alia, several of the 20 World Bank's Doing Business Reports (see for example here for the 2018 report http://www.doingbusiness.org/) and Tanzania Private Sector Foundation (TPSF) business leaders' perceptions of investment climate in Tanzania (see for example here http://tpsftz.org/wp-content/uploads/2016/10/BLP-Report-2015-2.pdf).

Tanzania has options to make in its ISI strategy. It can opt for domestic production of previously imported simple nondurable consumer goods; extension of domestic production to a wider range of consumer durables and more-complex manufactured products. The first option seems to be more realistic given Tanzania's real situation on the ground in the industrialization stage space. Apart from the above, ISI gives a country like Tanzania other options. These are importing investment goods and raw materials to produce consumer goods domestically; importing capital goods to make investment goods to produce consumer goods; and thirdly making intermediate goods and develop domestic raw materials supplies and finally make capital goods to make capital goods. In this context of importing factors of production it worth noting that although ISI is meant to relieve the balance of payments as it brings about less reliance on world trade, on a dissimilarity effect it can bring short term increase in importation of machinery a, spare parts and raw materials. This may cause an increase in domestic prices. All these options imply having good investment and business climate to attract and retain investors both local and foreign.

Tanzania may have to design policies for protection of infant industries from imports and offer fiscal and non fiscal incentives to encourage capital and technology imports. It may have to use tariff and none tariff barriers (NTBs). ISI may be complemented with state-led economic development subsidization of vital industries, agriculture and other closely related sectors. Some protectionist trade policies may be necessary. However, this has to be within the accepted international trade policies and regulations such as those under the WTO. ISI's protective measures may create distortions in capital appropriation and prevent Tanzania pursuing its comparative advantage in international trade which is agricultural production. Although Malaysia used exchange controls and exchange-rate manipulation this is not recommended in Tanzania given the liberalization of the sector. Exchange control may constitute negative investment climate.

Malaysia's triple alliance in industrialization involved government investment in intermediate and capital-goods sectors to support industrial expansion, domestic production of import substitutes and TNCs production of high-tech goods needed for manufacturing that could not yet be produced domestically. In today's Tanzania context government investment in actual production and ownership of intermediate and capital goods is not recommended. What is recommended is for the government to put in place the needed business environment by way of legal, policy and regulatory frameworks needed by private sector to undertake the needed investments. The business environment will include but not be limited to fiscal and monetary issues, hard and soft infrastructure, utilities, skills and talents in the labour force, policy predictability, lack of corruption and unnecessary bureaucracy etc.

ISI calls for industries that can meet the demands of the domestic market in the needed quantity and quality based on consumers' tastes and preferences. In order to produce the needed quantity and quality that will be able to compete with imports, attractive and friendly business environment is necessary to attract and retain producers of the needed industrial goods. Tanzania is a net importer economy. Data from WTO (2015) shows that for 2014 the ratio of imports to exports was approximately 3:1. Implementing ISI policies would mean that Tanzania would have to build sustainable industries that produce majority of the commodities it is importing. This has major and far-reaching implications on business and investment climate needed to attract and retain investors that would produce domestically all these imports.

ISI strategy calls for very good inter-sectoral linkages in the context of inputs-output model. This is because industrial sector is linked with many other sectors including agriculture, transport, education, finance, infrastructure, utilities etc. Therefore it calls for good investment and business climate in virtually all sectors not just the industrial one. Borrowing from UNCTAD (2012), Tanzania must create strategies and policies characteristic of its sectoral and resource priorities, environmental challenges, initial conditions and domestic capabilities. Attention should directed towards efficient, sustainable resource use in energy, industry and agriculture. It should consider industrialization strategies, identify priority sectors to focus on the short, medium and long terms. It should also identify key enablers to initiate and maintain industrial development in general and through ISI and EOI strategies in particular.

Tanzania should speed up industrialization process by exporting goods for which it has a comparative advantage. It has to open up its domestic market to foreign competition in return to getting access to international markets through EOI. This is important in avoiding trade wars in shapes and names of retaliation. It may also be important in complying with WTO and other rules of free trade. Opening up for imports however will pose challenges for implementation of ISI. Conducive investment climate along its many and diverse variables is very important in ensuring domestic competitiveness that is needed for ISI amidst the necessary environment of opening up for competition from imports. As is the case for ISI, EOI calls for complementary policies in relation to investment, tariffs, trade, exchange rate and others. All these should be friendly to investors.

For successful EOI, Tanzania has to be competitive in the international market including adopting the most advanced production and management techniques, employing high skilled human capital and engaging in R&D. For all these to happen, good investment and business climate is necessary. Among others, well functioning, integrated and complementary legal, policy and regulatory frameworks on investment, tariff, trade, exchange rate, infant industry protection, competition, export promotion and others are important. Government intervention can also play a key role in making EOI effective for economic development. However, the intervention has to be very carefully calculated and only to correct market failures.

Conclusion and Policy Implications

Based on the issues raised in the paper, it is seen that Malaysia has successfully embarked on industrialization even before its 1957 independence. It has adopted many and varied industrialization strategies. Key among these are ISI and EOI strategies. They have made it possible for this country to be a successful industrial economy and indeed move on to post industrialization stage of knowledge economy. Being relatively similar to Tanzania and coming from more or less similar initial position, Tanzania has a number of lessons to learn in its industrialization move under the fifth phase government as outlined in the paper.

Recommendations

Tanzania has a lot to learn from Malaysia's industrialization strategies in general and its ISI and EOI in particular. The paper recommends learning not only on the industrialization strategies but also on the implications of these strategies for Tanzania's investment and business climate. Successful ISI and EOI in Malaysia were a function of many variables. Among there are investment climate and business environment. These made it possible to attract and retain foreign and local investors of various sizes in the industrial and related sectors. The same is needed in Tanzania. Business environment and investment climate in forms of friendly and attractive legal, policy and regulatory frameworks are highly recommended if Tanzania is to achieve its industrialization goals in general and through ISI and EOI in particular.

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