

Working to Link Competition Policy and Industrial Policy in Tanzania

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Outline

- Background and context
- State led ISI
- Crisis and Policy Reforms
- Back to the Development and industry agenda
- Linking Competition and Industrial Policy: Implications and Way Forward

Background and context

- In the early 1960s emphasis was placed on growth with little attention to structural change or ownership
- The colonial pattern of import substitution was continued (largely processing and simple consumer goods).
- Foreign investment Protection Act of 1963 was designed to attract FDI to fill the capital gap.
- Response was not encouraging. In response the Arusha Declaration was formulated: socialism and self reliance

State-led Industrialization

- State led import substitution industrialization started with
 - Nationalization
 - Private investment discouraged
 - New industries established under state organizations
 - Foreign investors participated through management agreements and as suppliers of equipment for industries.

State-led Industrialization-2

- long term industrial strategy covering 20 years (1975-95)
 - structural change, employment,
 - self reliance
- Competition curtailed: cost-plus pricing, import licencing, industrial licencing, foreign exchange control, directed credit
- Protection did not induce industries to build capabilities to compete

Crisis and Policy Reforms

- The crisis of the early 1980s hit industry quite hard- capacity underutilization
 - shortage of foreign exchange
 - Shortage of intermediate inputs
- Macroeconomic reforms, privatization, trade liberalization led to
 - Market orientation and private sector led development
 - Trade liberalization permitted competition
 - Sudden
 - Too fast
 - Left little room for building the capacity to compete
 - Resulted in deindustrialization (by 1990 22 out of 24 textile factories had closed)
 - industrial shallowing

Back to development agenda and industry from mid-1990s

- SIDP 2020: The Sustainable Industrial Development Strategy 1996-2020 (1996), aims to enhance sustainable development of the industrial sector_ market and private sector development in the context of weak institutional reform
 - The private sector is recognized as the main vehicle for making direct investments in the sector while the government will provide an enabling environment.
 - The government may make direct investments in industries which the private sector may find not profitable to invest in activities of critical importance for overall development.

Back to development agenda and industry-2

- ▣ Weak competition policy and economic regulation.
- ▣ Fair Competition Act 2003
- ▣ FCC was formed only in 2003
- ▣ FCC Procedure Rules 2013

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Back to development agenda and industry-3

- Vision 2025 of 1999- Recognized the leading role of industry in transforming the economy. Tanzania to be a semi-industrialized country by 2025
- Integrated Industrial Development Strategy 2025 (June 2010)
 - To provide concrete strategies to implement SIDP 2020.
 - Build a competitive industry by putting in place a competitive business environment
 - Improving existing development corridors- concentrated infrastructure development
 - Promote agriculture-led industrialization
 - MVA to grow at 15% p.a.

Back to development agenda and industry-4

- Gateway port improvement for the region
- Economic Development Zone for growth and infrastructure development
- Industrial village concept
 - Create opportunity for MSMEs to grow
- Five Year Development Planning
 - First FYDP (2011/12-2015/16): Unleashing Tanzania's latent growth potentials.
 - Second FYDP (2016/17-2020/21) : Nurturing industrialisation for economic transformation and human development.

Linking Competition and Industrial Policy: Implications and Way Forward

- Based on current socioeconomic context and the changing environment
 - market,
 - private sector-led in the context of PPP
 - open regionalism,
 - Globalization and competitiveness.

Linking Competition and Industrial Polic: Implications and Way Forward-2

- Promoting competition
 - Creating a conducive business environment
 - Facilitating investment in infrastructure
 - EPZ/SEZ to fast track industrialization and trade performance
 - Addressing supply constraints: capacity to supply competitively
 - HR development
 - Investing in technology and innovations
 - Facilitating obtaining quality inputs at competitive prices
 - Building the discipline to export: meet quality standards, deadlines

Linking Competition and Industrial Policy: Implications and Way Forward-3

- Comparative advantages and competitive advantages
 - Comparative advantage: How to take advantage of resource endowments and where we are now and move up.
 - Competitive advantage:
 - How to create competitiveness which is not existing at the moment,
 - identify what it takes to create it,
- Investing in technology and innovations

Linking Competition and Industrial Policy: Implications and Way Forward-4

- **Historical experience** has shown that all the successful countries adopted some kind of industrial policies
- Industrial policy conceptualized as a policy that aims
 - to improve the competitiveness of domestic industry,
 - Industrial policy to be strategic and take long term view to transform the economy
 - to intensify the innovative drive, and
 - to make industry more knowledge intensive,
 - it is possible to ensure that it pursues the same objective as competition policy, namely the maximisation of consumer welfare.

Linking Competition and Industrial Policy: Implications and Way Forward-5

- Where and when industrial policy co-exists with competition policy, industrial policy should be respectful of sound competition principles in three respects:
 - industrial policy support to support market development:
 - The provision of generic capabilities can fit comfortably with competition policy and be completely non-distortionary e.g. avoiding to pick winners.
 - support for industrial policy and competition policy to facilitate fair competition
 - Finally, competition policy enforcers can espouse prioritisation principles in a way which supports strategic industrial and social policy objectives of government.

Thank you for
your attention