

Example of essay on tanzania macroeconomic policy

[Business](#), [Marketing](#)



Location

Introduction

Economists argue that macroeconomic policies are put in place to strike a state of balance in the monetary sector of an economy. This is achieved through a combination of fiscal, monetary and exchange rate policies. To attain this, policy makers get charged with the responsibility of devising appropriate policy mix and establishing efficient policy instruments to spearhead the entire macroeconomic policy formulation exercise. Usually, economists experiment with various policy mixes until they achieve the best suited policy mix to match the various factors of economy. These policies need regular review and revision to keep up with the changing trends in the global economy and dynamism. To counter these complications calls for well managed institutions in the implementation of formulated policies .

It is ideal for a country to develop autonomy in the development of its macroeconomic policies. This way, a country has full control of its policy and institutions. There are a number of factors, however, both domestic and international that affect, to a large extent, development of autonomy as far as macroeconomic policy formulation is concerned. This work therefore attempts to look at various factors that affect development of autonomy in macroeconomic policy formulation in the Republic of Tanzania. Formulated policies are in line with the Tanzania's Development Vision of 2025.

Being in the category of developing nations in the Sub Saharan Africa, most of these factors look similar since these countries tend to share similar challenges. As a result, much need to be done to realize autonomy. The

following factors affect development of autonomy in macroeconomic policy formulation.

International Factors

Globalisation and Liberalisation

Globalisation entails both the free flow of assets, resources and goods across national borders. This comes along with emergence of organizational structures meant to manage the growing network of international transactions and economic activities. With globalisation, financial institutions and firms carry out their activities beyond their national borders. Factors of production, financial assets, and economic goods flow freely in a global economy. With globalisation, Tanzania's domestic market merges with the global market. Globalisation calls for dynamic policies and strategies that take advantage of available opportunities. Trade development benefits a lot from globalisation in opening avenues to accessing the world market.

Globalisation also converts current comparative advantages into sources of competition due to free flow of factors of production, information assets, and investment resources. Tanzania faces a challenge of competing favourably with other countries on the global market.

Trade liberalisation refers to the gradual removal of trade restrictions through removal of Non-tariff barriers and reduction of tariffs. This promotes trade and healthy competition within and outside the economy. Trade liberalisation brings a wide range of advantages such as high quality products, enhanced domestic productivity, low prices among others leading to improved consumer welfare. Tanzania in this case has stiff challenge of promoting

competitiveness of domestic entrepreneurs and firms.

Tanzania is characterised by low technology, poor infrastructure, inadequate physical and human capital that hinder supply and delivery capacity. This makes it tricky for Tanzania to benefit substantially from globalisation and trade liberalisation. Data from the national accounts survey regarding investment reveal that out of the 729 firms the private sector owned 643, the public owned 72 while the remaining 14 were a mixture. The nationals own 549 establishments, foreign 121 investments and the joint ventures add up to 59. This clearly reveals that the foreigners possess fairly good control of investment sector and trade subsequently. The main challenge in this case is to address the drawbacks hindering Tanzania's active participation and integration in global economy.

Globalisation and trade liberalisation demand that a country produces high quality products that meet the standards of the international market. This way, a given nation remains viable in the world market. This factor calls for greater consideration when formulating macroeconomic policies. The world market comes up with conditions that every member must adhere to in order to compete at this level. Tanzanian government in formulating its policies needs to keep this into consideration and come up with policies that are in line with the set conditions. In doing this, Tanzania does not enjoy autonomy in formulation of its macroeconomic policies. An example of the present conditions, for instance, is the quota system that dictates the quantity of coffee to be delivered to the world market.

Foreign Aid

Being a developing nation, Tanzania cannot finance its budget fully and thus depends on foreign aid from the developed nations and International Monetary Organisations. These aids are released as grants to assist the Tanzanian government meet its budget target. A report released in 2008 revealed that the revenue collected within Tanzania finances only about 60% of the budget. This means that the rest is financed by the grants from developed countries dubbed as development partners.

Some of the institutions that provide the aid are The World Bank, International Monetary Fund, and The US government among others. These grants usually get directed to financing development projects such as infrastructure development like road construction and poverty eradication through sustainable agriculture. This is because about eighty percent of the population relies on agriculture.

This foreign aid on the other hand comes along with conditions pegged to them. Such conditions require the state to trade with a specified partner denying it the freedom of choice as to who to trade with. In most cases, the grant provider is the one to enjoy monopoly of trading with this country. This, therefore, denies Tanzania its macroeconomic policy formulation autonomy. The grant providers' demands need to be considered when formulating policies.

Energy Crisis

Wide ranging causes of energy crisis such as political instability in oil producing and exporting countries and sour relationship with the World's

superpower bring about devastating effects on the policy formulation of Tanzania. Tanzania relies heavily on petroleum products as a source of energy that drives most sectors of economy. Most, if not all, local industries use oil in their operations as a source of energy. With inconsistent supply of this product due to shortages, the cost of production goes high leading to abnormal pricing of commodities.

As a result, Tanzanian government gets charged with the responsibility of regular review of policies on energy to keep updated with the dynamic changes in the global energy sector. In so doing, Tanzania lacks autonomy in development of policies governing energy instead it requires to review them regularly. Continued energy crisis leads to high cost of living and reduces economic growth substantially. It is only political stability in oil producing and exporting countries that can guarantee stable and consistent oil supply.

Technological Innovation

Technology, no doubt, has transformed the universe greatly in the last fifteen years or so. This has eased communication and access to information globally. Global rules governing technology need adherence by everyone. Tanzania is slowly transforming and embracing technology and there is need to incorporate technological policies into macroeconomic policies and make them functional.

Technology eases communication globally and fosters trade through marketing. The internet, for instance, is a superb platform for marketing and even selling of products. Tanzania therefore needs to fast track technology embracing in order to compete favourably in the global market.

The policy makers of Tanzania have a task of reviewing policies on regular basis to cope with these dynamics globally. In so doing, Tanzania adheres to what the globe has decided and has no room for autonomy. Despite being a sovereign state Tanzania is not going to enjoy autonomy in policy formulation any soon, unless it achieves economic actualization.

Technological innovation enables one view and follows what is going on at the international market from the comfort of their houses. Indeed technology makes our world a village.

Domestic Factors

Natural and Human Resources

For any given nation, natural and human resources play a major role in the growth of its economy. These two factors when well utilised guarantee economic stability that helps a country easily attain autonomy in formulating its macroeconomic policies. This is possible because the economy funds itself from within. Developing nations, however, have most of the natural resources as agricultural based merged with few minerals. Agricultural products earn little cash on the international market leaving the producing country with a deficit in its budget. Tanzania depends on agriculture to provide about eighty percent of its GDP with main export crops being coffee, cashew nuts, cloves, and cotton. In addition to this, the agricultural sector is subjected to environmental factors and adverse weather conditions affect the performance of these crops. This does not guarantee of consistent income from time to time as it's thrive is environmental based.

National Accounts data evaluating economic growth in the first quarter of the

year 2012 reveal increase in the Real Gross Domestic Prices to 7.1% from 6.1% in the first quarter of 2011. In absolute terms, the quarterly GDP stood at 4,220,535 million shillings in 2012 compared to 3,940,261 million shillings in 2011. This attributes to increased mineral production and flourishing agricultural products. Improved trade led to high savings from citizens and subsequent increased investment. If this trend continues, then Tanzania is in the right direction towards attaining economic autonomy.

Human resources, on the other hand, provide labour force needed to drive the economy. Starting from the informal sector to the formal sector, human resources come in handy to implement various strategies and policies in varied sectors of the economy. To attain autonomy, a country needs to be self sufficient in labour force that is well skilled to formulate sound policies that drive the economy ahead. Tanzania still has a problem in attaining a reliable labour force. Most of the labour available is unskilled and thus causing a need to seek expertise labour from developed countries. The policies formulated therefore need amendments from time to time to cater for the demands of foreign hired expertise .

Political Stability and Good Governance

Political stability and good governance are very essential if any country is to enjoy economic autonomy. The two set preconditions for operation of government machinery. Good governance ensures respect to the rule of law that fosters peace and tranquillity within an economy. This ensures economic justice for all and well functioning institutions to implement various macroeconomic policies formulated. Peace brought about by good

governance attracts investment that plays a major role in contributing to the economic thrive of a given nation. Good governance also ensures equality before the law, individual liberty, and security of invested property. Good governance calls for transparency and predictability in public decision making cases. It is only after achieving political stability through promotion of democracy to respect the people's voices that a country can start enjoying autonomy in its policy formulation.

Tanzania scores well in maintaining political stability as there is varied on-going socio-economic changes aimed at incorporating more public participation in national issues. This is with the goal of arriving at solutions that reflect the people's will. The only major undoing is presence of weak institutions intended to implement these changes. The government is working on a strategy aimed at sensitizing citizens in the public and private sectors to actively get involved in matters of good governance. Once this is achieved, Tanzania can enjoy autonomy in formulating its macroeconomic policies.

Human Skills Development

The aspect of human capital takes a central stage in matters of production. In developing countries, human development focus is put on education, health, sound nutrition and cushion from economic vulnerability. The determinant factor in human skill development is access to formal education. High level of access to formal education for majority of the population and access to good training in various sectors of the economy are prerequisites for successful economic regime.

Experience from Newly Industrializing Countries reveals that economic transformation process is possible through quality universal primary education, greater than 25 per cent enrolment ratios in secondary schools and about 10 per cent enrolment ratio in tertiary and university education. Statistical data for Tanzania reveal that the enrolment ratio is very low for secondary education standing at about 6 per cent. This is the worst enrolment in Sub Saharan Africa so far. This revelation indicates the quantity of work needing accomplishment in the realisation of development vision of 2025. Skill development performance and extension services are below expectation in key areas such as agriculture, tourism and small scale mining .

Access to quality education also improves the living standards and awareness of major happenings in the world. This has far reaching benefits that include reduced demographic transition and reduced dependency ratio. Education and skill acquisition arms citizens with job skills that enable access to better jobs to a larger population. This decreases the dependency ratio and expands the economy's GDP. Citizens hence have enough cash to spare aside in terms of savings. Enhanced savings encourage citizens to inject back into the economy in form of investment. This grows the economy faster.

In response to this, the Tanzanian government plans to raise primary education enrolment ratio to 80 per cent by 2015 and also increase transition rate from primary to secondary from 15% in 1998 to 30% in 2015 . Emphasis is put in business education training and entrepreneurship across the education system. In terms of training, the Tanzanian government plans

to shift from traditional farming methods to training in line with irrigation and mechanised agriculture.

Quality education addresses the devastating effects that HIV/AIDS cause to the economy and how to combat this menace.

Successful consideration and implementation of human skill development by Tanzanian government guarantees far reaching benefits to the entire economy. Reliable human work force ensures consistency in the production sector. This in turn helps the government towards attaining autonomy in formulation of its macroeconomic policies.

Legal and Regulatory Framework

Legal and regulatory framework of a country plays a vital role in promoting the economic growth of that country. The government gets charged with the responsibility credible legal and regulatory institutions that ensure the country's economy is protected from external forces. Legal rules need establishment to protect and promote local industries from the stiff competition of the world market. This includes limiting importation of products that are produced locally in order to promote the local industries to grow.

In spite of the economic reforms sustained since the mid-eighties in Tanzania, residual impediments still exist leading to high transaction costs. This discourages both local and foreign investors from utilising the potential resources available leading to a shrinking economy. Legal reforms need implementation that lower transaction costs, improve efficiency and enhance

business compliance. The ultimate goal of the legal and regulatory framework is to protect the interest consumers.

Summary and Conclusion

In summary, a number of factors affect the development of autonomy in establishment of macroeconomic policies in Tanzania. These factors are both domestic and international in nature and need appropriate address to realize autonomy. The domestic factors observed include; natural and human resources, political stability and good governance, human skills development and legal and regulatory framework. International factors include; globalisation and liberalisation, foreign aid, global energy crisis and technological innovation. All the above factors show a clear relationship of investment, savings and trade gap within the Tanzanian economy. Close analysis of these factors is essential in order to come up with the best suited policy mix to stimulate economic growth in Tanzania. This calls for sound institutions to implement the formulated policies.

Reference List

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