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“Filling gaps and removing traps
for sustainable resource management”

Tariff Impact on Industrialisation Development in Tanzania: Evidence from Edible Oil Sub-Sector

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Abstract

The imposition of high tariff rates is considered as strategies to protect domestic producers, stimulate production and accelerate industrialisation in developing countries. Tanzania, among many developing countries, has a strong agricultural base and is in a verge of choosing which trade strategies will enable the country to attain among her population a high economic growth and develop her industrial potential. Therefore, the government has opted to implement a protectionism policy on the edible oil sector by gradually imposing 10 % tariffs in 2016/17 to 35 % in 2018/19 on both crude and refined edible oil with the aim of promoting domestic production. It is expected that the intervention will create more employment not only to the edible oil sub-sector but also to other sectors in the economy. This study assesses the impact of the imposed tariffs on edible oil in Tanzania using a recursive dynamic computable general equilibrium model (CGE) at the national level, dis-aggregating the edible oil sub-sector from the agricultural sector and other sectors and evaluates its multiplier effects in Tanzania's economy. Findings from this study show that tariff imposition has twofold outcomes; first, it incentivizes domestic producers to supply more due to rising in demand and prices for the commodities and eventually increase domestic production that suffices the material and quantities demanded by the agro-processing and other industries; second, such intervention erodes citizen welfare by limiting availability and access options to varieties of commodities that could make them better off in terms of prices, qualities, and quantities. protectionism policy when solely used as a solution for increasing domestic production to a sector that is not efficient in terms of productivity creates commodities supply deficit in the market, consequently, reduce consumers welfare. Therefore, for sustainability, and increase industrial competitiveness, it imperative for the government of Tanzania to promote policies and interventions that target increasing productivity to small, medium and large industries. Interventions that increase smallholder farmers productivity like the use of improved seed and other modern technologies that reduce costs of production are critical as commodities will be sold at a slightly competitive premium or same prices as imported commodities.

Keywords: Edible oil, industrialisation, recursive dynamic CGE model, tariff