

**Scoping Studies on China-Africa Economic Relations:
The Case of Tanzania**

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Abbreviations and Acronyms

AIDS	Acquired Immune Deficiency Syndrome
BRELA	Business Registration and Licensing Agency
EAC	East African Community
EU	European Union
FDI	Foreign Direct Investment
FPC	Foreign Private Capital
HIV	Human Immunodeficiency Virus
OECD	Organization for Economic Co-operation and Development
PLA	People's Liberation Army
PRC	People's Republic of China
SADC	Southern African Development Community
TAZARA	Tanzania Zambia Railway
TIC	Tanzania Investment Centre
UN	United Nations
UAE	United Arabs Emirates
URT	United Republic of Tanzania
UK	United Kingdom
US	United States
TRA	Tanzania Revenue Authority
TFDA	Tanzania Food and Drug Authority
TBS	Tanzania Bureau of Standards
CTI	Confederation of Tanzania Industries
NSGRP	National Strategy for Growth and Reduction of Poverty

1.0 Introduction

1.1 Background

Tanzania, unlike many other African countries, was highly state controlled economy in the pursuit of socialist objectives. As a result it had an inflexible socio-economic system that was characterized by monopolistic and heavily regulated production and service provision structures in all sectors of the economy. The country's rigid socio-economic system coupled with the war with Uganda and external shocks, during the late 1970s resulted in major macroeconomic imbalances, economic stagnation and a decline in per capita income that lasted over fifteen years. As GDP shrank, shortages of basic consumer goods appeared and agricultural exports collapsed (Treichel, 2005).

In the early 1990s, Tanzania gradually liberalized its economy and began pursuing market-oriented reforms. The main pillars of the reform program were: large scale privatization, liberalization of the economy and macro-economic stabilization. The program elements included a comprehensive package of policies which improved monetary control, substantially depreciated the overvalued exchange rate, liberalized the trade regime, removed most price controls, eased restrictions on the marketing of food crops, freed interest rates, and initiated a restructuring of the financial sector.

In 1996, these reforms were intensified, resulting in major progress in macro-economic stabilization and an acceleration of growth. Annual real growth since 1996 has averaged 5 percent (compared with less than 3 percent during 1990-95), while inflation declined to single digits in 1999 and to below 5 percent in 2002.

Investment Climate in Tanzania has improved significantly, especially after the establishment of Tanzania Investment Centre (TIC) in 1997 (one stop centre for investment in the country). Foreign Private capital (FPC) in Tanzania increased from only US\$ 2 billion in 1999 to about US\$ 6 billion in 2004, with Foreign Direct Investment (FDI) accounting for 85 percent of FPC. By 2004 OECD dominated FDI by country of origin accounted for 58 percent while the EAC and SADC block had 32 percent. However, some constraints on investment in Tanzania include: bureaucracy,

corruption, slow pace of legal reforms and government decision process, unreliability of power and high tariffs as well as inadequate physical infrastructure (Tanzania Investment Report, 2004).

1.2 Foreign Relations

In mid 1960s, the newly politically independent country, was caught up in a cross road during the cold war where the Eastern and Western politics dominated the world, each trying to influence the newly independent state. Tanzania's first President Julius K. Nyerere opted for the Non-Aligned Movement, an organization of countries considered themselves not formally aligned with or against any major power block.

During this period, Tanzanian policies had become more radical. On domestic policy the government opted for a socialist path of development, while on foreign policy emphasis was placed on spearheading the liberation of other Southern African countries which were yet to gain their political independence. These developments exacerbated the growing hostility between Tanzania and the West and led to the need to secure new sources of external assistance. Thus, the socio-economic and political relations between Tanzania and other countries like China developed rapidly partly due to Nyerere's desire to reduce the country's dependence on the West and to adopt a more non-aligned position in world affairs. It is precisely because of these changes in Tanzania's socio-economic policies, China became more willing to offer development aid (Bailey, 1975). This phenomenon also coincided with growth of the Cold War tensions between Moscow and Washington, where China remained independent and focused on other countries instead (Looy 2006).

The rest of the paper is organized as follows. Section two covers diplomatic and economic relations with China. Section three reviews the impact assessment of Sino-Tanzania cooperation arrangements, while section four concludes the paper.

2.0 Sino-Tanzania Cooperation Arrangements

Sino-Tanzania shares the common goals of seeking peace and development through: strengthened political and military exchanges, cooperation in areas like culture, education, health and economic ties. Indeed, as noted above one can realize that the cooperation between the two countries is informed by the fact that the two countries embraced similar key elements in their development models¹.

2.1 Diplomatic Relations:

China established diplomatic relations with Tanganyika and Zanzibar on December 9, 1961 and December 11, 1963 respectively. On April 26, 1964, when Tanganyika and Zanzibar were united and became Tanzania, the China established its diplomatic relations with the United Republic of Tanzania on the same day. Since the establishment of diplomatic relations, there has been long-term healthy and steady cooperation between the two countries. This is evidenced by the strong relationship between the Tanzanian First President J.K Nyerere and the Chinese government. President Nyerere visited China 13 times in his life time. There are a series of events that underpin diplomatic cooperation between the two countries, these include:

- In 1965, China and Tanzania signed "The Treaty of Friendship between the People's Republic of China (PRC) and the United Republic of Tanzania (URT)", and many other agreements on bilateral co-operation in the fields of economy, trade, military, culture and health were also signed between the two countries.
- Tanzania actively supported China's efforts to resume its United Nations (UN) membership. When the news that China regained its legitimate seat at the U.N. in 1971, were released the then Tanzanian representative to the U.N. Salim Ahamed Salim, who is now a retired secretary general of the African Union (former

¹ The idea of self reliance as advocated by the first president, Julius Nyerere and Ujamaa villages, which attempted to communalize the way of life and production of the peasantry have been inspired by the success of Chinese communes (the Chinese model of development). However, it is difficult to accurately trace the degree of influence of the Chinese model of development while many important policies pursued by the Chinese are not exclusive to China (Bailey, 1975).

Organization of African Unity), was too excited and couldn't help dancing at the U.N. assembly hall (People's Daily Online; Wednesday October 11, 2000).

- At the 26th General Assembly of the UN in 1971, Tanzania was among the sponsoring countries of the resolution supporting the restoration of all China's legitimate rights in the world body.
- In January 1998, China and Tanzania signed the Agreement between the Government of the PRC and the Government of the URT on the Establishment of Honorary Consulate by the United Republic of Tanzania in Hong Kong Special Administrative Region (SAR) of the People's Republic of China

Moreover, there have been frequent exchange of visits, deepening mutual understanding and promoting cooperation of mutual benefit. In October 2000, the third phase President of URT, Benjamin Mkapa, led a government delegation to participate in the 2000 ministerial meeting of the Forum on China-Africa Cooperation in Beijing, and made a speech at the opening ceremony. During the forum, Tanzania appreciated China's assistance, its independent foreign policy of peace and its experience on the reform and opening-up policy. The two countries committed themselves to intensify their cooperation in the fields of politics, economy, military, culture, etc.

2.2 Exchanges and Cooperation in the fields of Culture, Education, Health and Military Affairs

The two countries signed the Agreement between the Government of the People's Republic of China and the Government of the United Republic of Tanzania on Cultural Cooperation in 1962. Since 1960s, China began receiving Tanzanian students. By the year 2003 there were more than 80 Tanzanian students studying in China.

Since 1964, China has been sending medical teams to Tanzania and in 1967, the two countries signed the agreement on dispatching Chinese medical teams to Tanzania. By the year 2005, 990 doctor nurses from China (in 18 rotating batches) visited Tanzania

serving urban & rural residents. China is also cooperating with Tanzania in producing anti- malaria drugs by using herbal extracts and the Sino-Tanzanian cooperative research on HIV/AIDS cures. This project began in 1987, with Chinese medical specialists working in Tanzania for six rotating batches by now.

China and Tanzania began their military exchanges and cooperation in 1964. In 1970 the Chinese took over from the Canadians as the major supplier of military assistance, both equipment and training to the Tanzanian Army, navy and the air force. Through Chinese assistance, the construction of naval base in Dar es Salaam was completed in 1971 and the Air base in Ngerengere –Morogoro (near Dar es Salaam) was completed in 1974 (Bailey, 1975).

Chinese military officials who visited Tanzania include: Deputy Chief of General Staff of the People's Liberation Army (June 1974), Assistant Chief of General Staff of the PLA (August 1982), Commander of Chengdu Military Area (September 1989), Air Force Commander (February, 1992), State Councilor and Minister of National Defense (August 1994), Deputy Chief of General Staff of the PLA (May 1997), Deputy Director of the Office of Foreign Affairs of the Ministry of National Defense Sun Qixiang (1998), Deputy Director of the Office of Foreign Affairs of the Ministry of National Defense Zhang Bangdong (March, December 2000), General Li Ji'nai of the General Armament Department of the PLA (October 2000), Deputy Chief of General Staff of the PLA (May 2001), Chief of General Staff of the P.L.A (November 2001). Tanzanian military officials who visited China include: Commander of National Defense Forces (July 1964), Commander of the Zanzibar Army (August 1966), Minister of Defense and National Service (January 1973, March 1974) Minister of National Defense of the Office of the President (May 1985), Commander of National Defense Forces (May 1991), State Minister of Defense and National Service (October 1993), Minister of Defense and National Service (October 1997), Commander of National Defense Forces (March 1998), Minister of Defense and National Service (December 1999), Minister of the Training Department of National Defense Forces (September 2000), Managing Secretary of Ministry of Defense and National Service (September 2001), and Commander of National Defense Forces (August 2002).

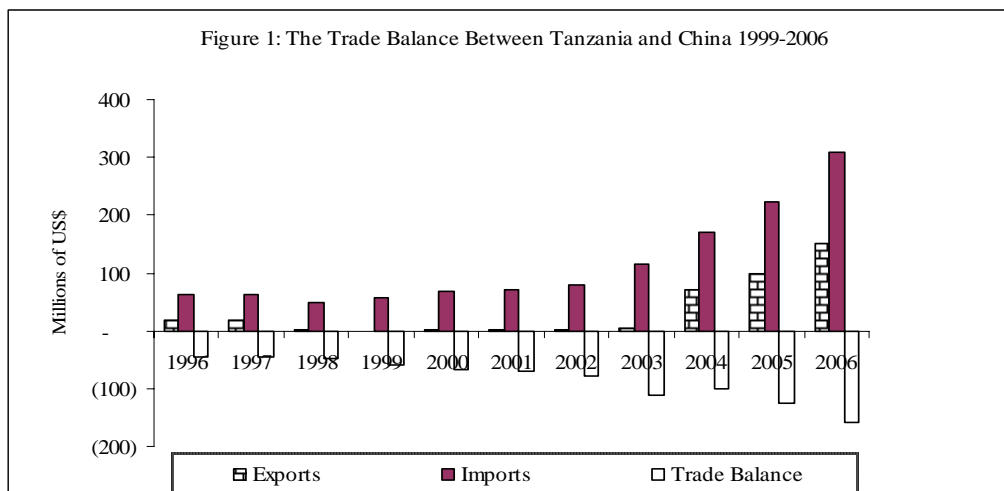
2.3 Economic, Trade, Aid and Technical Cooperation

The agreements signed under the umbrella of **economic, trade, aid and technical cooperation** between China and Tanzania include: The Agreement on Economic and Technical Cooperation between the PRC and the URT (June 1964); The Trade Agreement between the PRC and the URT (February 1965); The Agreement between the Government of the PRC, the Government of the URT and the Government of Republic of Zambia on the Construction of the Tanzania-Zambia Railway (September 1967); The Barter Trade Protocol between the People's Republic of China and the United Republic of Tanzania (March 1984); The Agreement between the Government of the People's Republic of China and the Government of the United Republic of Tanzania on the Establishment of a Joint Economic and Trade Commission (August 1985); The Framework Agreement between the Government of the People's Republic of China and the Government of the United Republic of Tanzania for the Provision of an Interest-Subsidized Preferential Credit by China to Tanzania was signed in 1996 and 1997.

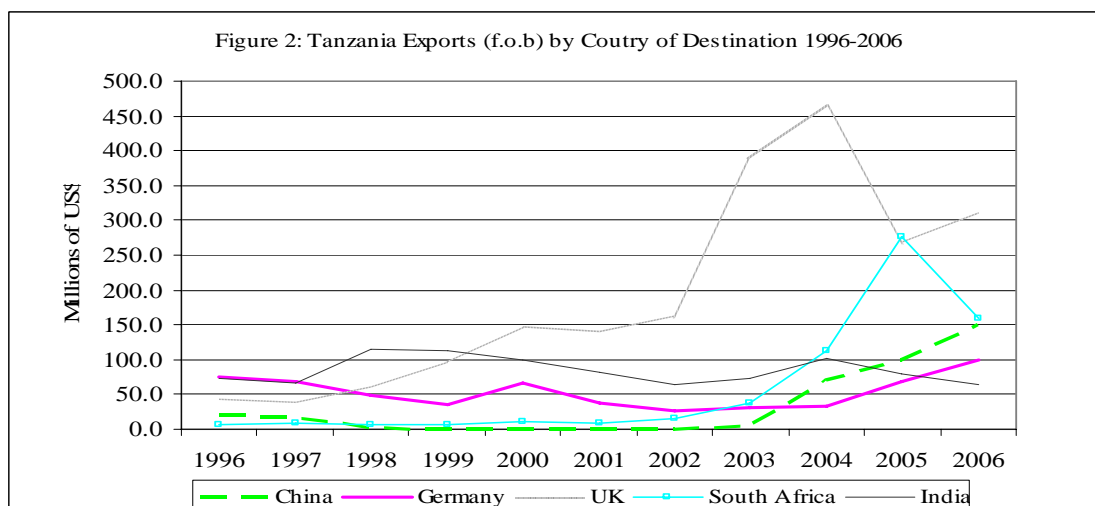
Trade

Generally, traditional export in Tanzania dominated the total exports until 1999 when the trend reversed in favor of non-traditional exports. Tanzania's main exports to China include dry seafood, raw leather, log, coarse copper and wooden handcrafts, while Tanzania's imports from China are mainly foodstuffs, vehicles, textiles, light industrial products, chemical products, mechanical equipment, electric appliances and steel.

The total trade value between China and Tanzania has been growing over time. China's total trade with Tanzania averaged US\$ 70 million during the period 1996-2002, mainly dominated by imports. However, since 2003 the trade between China and Tanzania improved tremendously; it grew at annual average rate of 59 percent from 2003 to 2006 making China one of Tanzania's major trading partners, others include United Kingdom, South Africa, India, Japan, Kenya and United Arabs Emirates. However, the trade balances has been worsening (Tanzania is the net importer) as the trade volume between the two countries increased (**Figure 1**).



Total exports to China averaged only US\$ 5.8 million during 1996-2002, but increased significantly to annual average of US\$ 64.3 million in 2003-2006 (**Figure 2**).



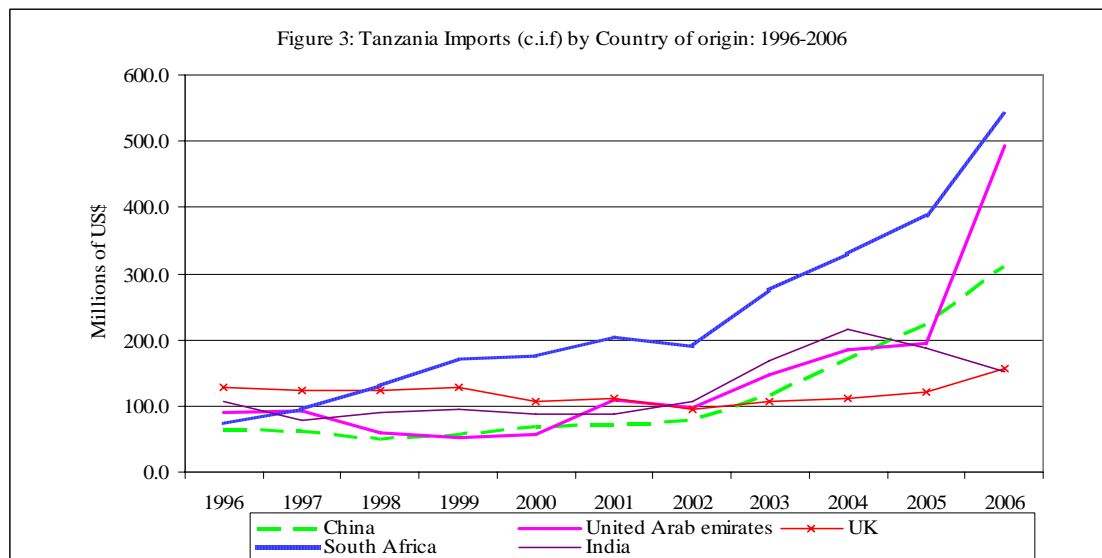
In year 2006 the exports to China was US\$ 150.34 million, which is about 9 percent of the total exports of US\$ 1,720.43 million (**Table 1**). Sector wise, crude materials except food/fuel dominated the exports to China (48.4%) followed by Food and live animals (about 2%).

Table 1: China's Share of Exports by Commodity groups (in millions of US\$)

Commodity Groups	China		Total exports by sectors	China share as a % of the total in 2006
	2005	2006	2006	
1 Food & Live animals	6.5	8.20	477.75	1.7
2 Beverages and Tobacco	0.5	0.95	120.64	0.8
3 Crude materials except food/fuel	69.44	140.16	289.30	48.4
4 Mineral fuel/lubricant		-	2.51	-
5 Animal/vegetable oil/fat/wax	0.12	-	9.98	-
6 Chemical products	0.2	0.47	45.79	1.0
7 Manufactured goods	22.0	0.49	741.16	0.1
8 Machinery Transport and other equipment		-	23.10	-
9 Other manufactured products		0.07	10.20	0.7
Total	98.72	150.34	1,720.43	8.7

Source: Tanzania Revenue Authority (TRA)

Tanzania's imports from China include: foodstuff, vehicles, textiles, light industrial products, chemical products, mechanical equipment, electric appliances and steel. Imports also portrayed an upward trend, averaged US\$ 80.8 million during 1996-2002 and increased to US\$ 205.2 million in 2003-2006 (**Figure 3**).



Total imports from China were US\$ 4,545.49 million during 2006, which is about 7 percent of Tanzania's total imports for that year (**Table 2**).

Table 2: China's Share of Imports by Commodity Groups (in millions of US\$)

Commodity Groups		China		Total exports by sectors 2006	China share as a % of the total in 2006
		2005	2006		
1	Food & Live animals	0.9	3.12	292.01	1.1
2	Beverages and Tobacco	0.2	0.05	26.98	0.2
3	Crude materials except food/fuel	0.2	1.29	79.86	1.6
4	Mineral fuel/lubricant	0.2	0.78	1,096.12	0.1
5	Animal/vegetable oil/fat/wax	0.6	0.02	223.03	0.0
6	Chemical products	23.3	24.96	494.38	5.0
7	Manufactured goods	95.3	124.92	777.45	16.1
8	Machinery/Transport and other equipment	89.9	125.55	1,420.40	8.8
9	Other manufactured products	12.3	29.43	135.26	21.8
Total		222.7	310.12	4,545.49	6.8

Source: Tanzania Revenue Authority (TRA)

We can obviously claim from the two figures on exports and imports, that the surge in Chinese trade started since 2003. In fact China is now Africa's third largest commercial partner after the United States and France and the second largest exporter to Africa after France (Looy, 2006).

Investment

Since the late 1970s, China has made major progress in economic reform and opening up. This in turn, offers new opportunities for the farther expansion and consolidation of the existing bilateral cooperation. Indeed, it needs to be recalled that, China-Tanzania bilateral relations started in the 1960s and has been developing rapidly in recent years. The recent Sino-Tanzanian joint ventures established in Tanzania include the transformed Friendship Textile Co. (URAFIKI), in 1996 into Tanzania-China Friendship Textile Corporate Ltd, where the Chinese government invested US\$ 5.5 million (51%) with enhanced profits and job creation. Chinese-Tanzania Joint Shipping Company is another joint venture (50% each) with capital of TZS 17.2 billion (US\$ 15.5 million). These serve as successful examples for mutually beneficial cooperation between the two countries.

By end 2006 there are more than 140 Chinese-companies registered with the TIC and BRELA, carrying out the business of labor contracts and services in Tanzania. Among

them, 3 are in agriculture –with investment of US\$ 49.33 million; 11 in manufacturing – investment of US\$ 54.12 million; 2 in solid mineral with US\$ 11 million; 1 in shipping with US\$ 5 million; 13 in construction – with investment of US\$ 12.4 million and 2 in telecommunications.

The official figures released by TIC² indicate that on aggregate the Chinese share of FDI to Tanzania stood at 2.4% of total FDI flow to Tanzania between 1990-2006. The manufacturing sector received the lion’s share of the total Chinese FDI, during the period, followed by agriculture and natural resources.

Table 3: The China’s share of FDI by Sector Between 1990-2006 (in millions of US\$)

Sectors		China	Total	China share as a % of the total
1	Agriculture	42.5	2,343.8	1.81
2	Construction	13.2	2,391.9	0.55
3	Manufacturing	318.8	5,636.6	5.66
4	Natural Resources	7.12	620.8	1.15
5	Transport	2.9	2,340.8	0.12
6	Service	3.25	1,064.8	0.31
7	Tourism	7.03	2,331.9	0.30
Total		405.8	16,730.6	2.43

Source: Tanzania Investment Centre (TIC)

According to table 3, China’s share of FDI remains low compared to traditional sources of FDI. The dominance of Chinese FDI in manufacturing, which is basically agro-based and in agriculture sector is in line with Chinese policies towards African Agriculture (2006) which intend to promote agricultural cooperation and exchanges with African nations at various levels, through multiple channels and in various forms. These channels and forms include land development, agricultural plantation, breeding technologies, food security, agricultural machinery and processing of agricultural and side-line products. Indeed, Chinese investments in these sectors in Tanzania seem to be well informed by this policy package.

² All companies, local and foreign, must be registered at the Business Registration and Licensing Agency (BRELA), while The Tanzania Investment Centre (TIC) has been registering and given the facilitative role to investors who are eligible for investment incentives while establishing business in Tanzania, thus not all companies are in TIC roster. Incentives in Tanzania are granted to holders of Certificate of Incentives issued by TIC. The qualifying threshold for foreign investors is US\$ 300,000 while Local investors face a threshold of US\$ 100, 000.

AID

China's relations and aid flows with African countries are longstanding and have evolved significantly over the past 30 years. After the 1955 Bandung Conference China pledged to support Liberation Movements and to gather support to isolate Taiwan (Taylor 1998). It is indeed extraordinary that China, being a developing country, had been able to offer substantial amounts of aid since 1960 and the more recent surge of Chinese assistance. Over the last few years, when China's economic and diplomatic presence in Africa has been significantly strengthened, its development assistance to African countries has become also more sophisticated and developmental even if "China's growing aid programme appears to be closely related to its need for traded commodities" (Kaplinsky et al. 2006).

Tanzania is China's largest aid recipient country in Africa. Since 1964, China has provided various kinds of assistance to Tanzania. The main Chinese-supported projects in Tanzania include: The Tanzania-Zambia Railway (TAZARA), where the agreement to build 1,860 km long railway line from Dar es Salaam to Kaprimposhi-Zambia, at the cost of US\$ 401 million for construction, the provision of locomotives and rolling stock was signed in 1967. It was interest free loan with grace period of five years repayable in 30 years, shared equally between the two countries. The project represented the China's largest single foreign aid and technical assistant commitment in the third world and the continent at the time (Yu, 1971; Bailey, 1975).

China has provided technical assistance to a number of sectors. These include: agriculture, mining, and social services which are beneficial to the people of Tanzania. Specific projects which benefited from such assistance include: the Mbarali Rice Farm (privatized 2006) and China Sisal Farm –offered an Asian insight on planting, harvesting and cashing in both grain and cash crops. The Wami-Chalinze and Dodoma water projects have been financed jointly by Tanzania and the Chinese government.

The most recent project financed by Chinese assistance is the construction of Tanzania National stadium in 2004. The modern 60,000-seater stadium, which was completed during the fourth quarter of 2007, was constructed at a total cost of US\$ 43.5 million, with 53 percent of the cost financed by the Government of Tanzania and 47 percent (US\$20.5 million) financed through a soft loan from China.

It is not always easy to get accurate and systematic figures of total debt from China to any country. This has also been one of the major constraints in getting data on debt from China to Tanzania. Nonetheless, we could only track part of debt which is captured by the Debt Department (Bank of Tanzania) Table 4.

Table 4. Chinese debt* by economic sectors in Tanzania (in millions of US\$)

Economic Sector	China	Debt**
	As at August 31 st 2006	2005/ 2006
Ground transport	46.1	869
Industrial Development	5.5	326.7
General	36.2	
Others	1.8	
Total	148.5	

Source: Bank of Tanzania (Debt Department), *only external loans are included **Disbursed debt by use of funds

3.0 Impact Assessment

There are several channels through which Chinese activities will affect the development process in Africa and Tanzania in particular. In the last Forum (2006) two documents were adopted by the participants: The Beijing Declaration as well as The Action plan 2007-2008. Both documents were unanimously hailed by the parties, 50 years after the commencement of diplomatic relations between China and Africa, as “historical milestones” and as a manifesto for “new kind of strategic partnership”. The agreements embodied in the documents include a comprehensive package of concrete investment and development and commitments on the part of the Chinese for the next three years, including favorable credits in the amount of three billion us dollars, preferential credit for the purchase of Chinese goods to the value of two billion us dollars, as well as the doubling of Chinese development aid by 2009. Further, within the framework of the second Chinese – African Entrepreneurs Conference, on the side line of the summit, a Chinese – African Chamber of Trade was set up and investment agreements with eleven

African States, in the amount of 1.9 billion us dollars, were concluded (Hofman et al, 2007).

In the context of the foregoing, it is clear that the main channels of impact are basically three: Trade, Foreign Direct Investment (FDI) and Aid. We are aware of other channels like: migration; governance and environment, however, for now we will focus the attention on the former category of impact assessment.

The trade, FDI and AID relationship between the two countries is based on a number of mutually beneficial factors. On the Tanzanian side, China is more acceptable because of its policy of non-interference in other states internal affairs. Therefore, loans or aid are not subjected to political conditions, as is often the case with the Western countries.

3.1 Trade

Chinese-Tanzania trade relations have seen a change in the trade composition between the two countries during 1996-2006. This change has also led to a realignment of trade relations with Tanzania's traditional trade partners. Between 1996-2002 Tanzania exports to China were insignificant, they averaged 2% of the total exports during the period, when compared to her main trading partners namely, United Kingdom (39%), India (35%), Germany (20%) and South Africa (4%). Exports share to China during 2003 -2006 picked up to an average 11%, while those of India and German dropped to 11% and 8% respectively, with UK (50%) and South Africa (20%) recording an improvement.

China did command over an average of 18% of the total imports during 2003-2006, which is an improvement from 13% during 1996-2002. The shares of other trading partners such as India and UK dropped to 16% and 11% from 19% and 23% respectively. Thus, from 2003 the Sino-Tanzania trade relation has grown quite strongly.

The trade relations between China and Tanzania have both direct and indirect impact on the economy of the latter. The direct impacts range from increased export volumes and

prices of certain raw materials, to availability of Chinese products which are accessible to a broad spectrum of consumers and thus improve their welfare. However, how such a phenomenon will impact on poverty remains controversial. Nonetheless, the growth of exports can impact positively in reducing poverty, if it translates into higher investment, higher capacity utilization, higher employment and expanded output. This will in turn result into an increase in per capita income.

Apart from what appears to be possible positive impacts, one should not lose sight of the fact that most of the imports from Tanzania to China are primary commodities, while exports from China are manufactured goods. This content and pattern of trade may have the possibility of locking in Tanzania specializing on primary commodities with its short term benefits and long-term problem. Further, the pressure on domestic manufactured goods through competition and the positive effect through supply of cheap producer goods may stifle or promote industrialization in the country. Furthermore, one of the effects of Chinese trade relations is the competitive effect which is a significant threat to Tanzanian producers and exporters, both in domestic market and third country market.

In a recent study (Mashindano, et al 2007) China tops the list of countries which exports counterfeit products to Tanzania. It is followed by India, U.A.E (Dubai) and Kenya. Counterfeit goods affect the economy in different ways. These include: loss of government revenue, loss of employment opportunities, health hazard (diseases and deaths), deepening of poverty, and unfair competition which tends to harm domestic manufacturing industry.

The government and various stakeholders have taken a number of measures to address the problem. The regulatory authorities, like the Tanzania Foods and Drugs Authority (TFDA), Tanzania Revenue Authority (TRA) and the Tanzania Bureau of Standards (TBS), and the manufacturers' association (CTI) have intensified advocacy efforts and scale-up campaigns against entry of sub-standard products in the local market. These efforts are being complimented by the initiatives to review laws and regulations which will empower the regulatory organs to more effectively curb the problem than the case is at present.

We sum up the trade section by putting emphasis on three dimensions of the impact (Qureshi and Wan 2006). First, the complementarity effects which is the growth of exports to China due to an increase in demand. Second, the international competitive effect, this refers to increased competition from China from exports in third markets. Third, the domestic competitive effect due to increase in competition from China in domestic markets. However, the threats include de-industrialization and counterfeit problems.

Foreign Direct Investment (FDI)

In analyzing the issue of FDI, especially in the African context it is important to focus on the motivation for the flows. These motivations fall into three broad categories namely; natural resource seeking. This categorization will in turn inform the kind of the likely impact. According to Goldstein et.al (2006) the likely impacts are through four channels: (i) direct competition for FDI (or what is commonly known as FDI crowding out by China); (2) indirect consequence of the rise in the price of commodities on FDI flows; (3) interest of Chinese multinationals to invest in Africa; and (4) opportunity for African FDI in China and India.

In discussing the crowding out effect, it is stressed that as much as FDI flow is geared toward resource extraction (resource seeking) and domestic market (market seeking); China does not pose a direct (and significant) threat to Africa. In relation to the more indirect channel, Goldstein (op.cit) argues that the commodity booms are at least partly fueled by Chinese and Indian demand, and are making Africa more attractive to “resource and raw-material-seeking” FDI.

Nevertheless, the long-term might hold a very different picture. The pace which China is changing the technological structure of its production and exports, rising costs of locating export oriented production, the recipient country’s proximity to European and Middle Eastern consumer markets and a host of other factors might help the recipients and thus Africa to become the next “goose” in the long run. Indeed, Asian countries are increasingly providing essential inputs (and components) to Africa’s growing

manufacturing sector most probably, its textile and apparel sectors and in some cases, its automobile sector (World Bank, 2004).

The World Bank study (2004) observes three possible forms of Asian investment in Africa: (i) investments aimed at supplying Asia with natural resources and processed raw materials; (ii) investments that target African domestic market which could get a boost via effective regional integration; and (iii) investments aimed at supplying the international markets such as EU and the US motivated mostly by low-labour costs plus favorable trade access given to African countries in those markets.

It should also be borne in mind that: First, it is highly unlikely that China diverts FDI that would have been coming to Africa. Second, the level of FDI from China is not only very small but also located in a few countries. Third, these flows from China are largely motivated by the desire to secure sources of energy and raw materials as well as the desire to exploit preferential markets which are accessible to African countries. In order to have deeper insights into the impact of FDI on the receiving countries, future studies need to focus on impact indicators like technology transfer, employment creation, and competitive-threat to local producers, as well as on locking African countries in primary commodity production and exporting sectors.

Some positive impacts of Chinese FDI to Tanzania include: (i) capital formation through availability of investible financial resources; (ii) Technology transfer, in the form of technology-embodied products such as machinery, equipment and tools, and technical skills such as management and organizational expertise, marketing etc.; (iii) Access to export markets e.g. Tanzania Friendship Textile Mills (URAFIKI) which is jointly owned by China and Tanzania, does export a significant proportion of its products; Enhanced local competition which increases the welfare of the people through product availability, quality improvement, and reduced prices; (iv) Employment and revenue generation, thus contributing to reduction of income poverty and boosting government budget. However it is argued that exemption given to investors in form of tax holidays often lead to loss of fiscal revenue. The fact that a number of Chinese projects are managed and operated by

Chinese workers raises concerns on the impact of such investments on unemployment reduction. All these issues demand further research before concrete conclusions can be drawn.

The likely negative implication of the above to Tanzania is that industrialization aspirations may not be realized or may have to be postponed and efficiency and market seeking FDI will continue to shun places in the short and medium-terms. This will be the case as long as China can keep its competitive edge in low technology industries, unless the preferential market access granted by developed countries (such as Every Thing But Arms and AGOA), and tariff jumping FDI and proximity to rich economies could overturn the cost disadvantages of countries in Africa.

Development Aid

The foregoing sections have clearly indicated that China has developed into a significant economic partner for Africa and Tanzania in particular. As a donor China has carefully aligned its foreign policy to its domestic development strategy. It is in this context that Chinese state controlled companies are encouraged to seek out exploration and supply contracts with countries that produce oil and gas, and aggressively courts the governments of those countries with diplomacy, trade deals, debt forgiveness and packages.

In sum, there are four main potential advantages with Chinese aid: 1) aid that is more targeted to important infrastructure projects with long maturity and long-term potential (no hurry for disbursements); 2) less bureaucracy and transaction costs; 3) more efficient low cost and faster; 4) more policy space (low conditionality) and increase in bargaining power vis-à-vis other donors. More importantly, here we argue that enhanced aid from China, and eventually other countries like India, may provide opportunities for broadening policy space for those governments that aim to redirect their policy frameworks towards the gradual establishment of development states or simply look for room for manoeuvre to design and implement policies that would not be supported by the Western Aid Consensus.

In the Tanzanian case, we have found out substantial amount of Chinese aid flows to a broad range of sectors like infrastructure, manufacturing, agriculture, and community services (water supply, playing grounds etc.). These being the case one can comfortably argue that China's aid does contribute significant to reduction of poverty in line with the Tanzania's National Strategy for Growth and Reduction of Poverty (NSGRP). However, the concerns on how this phenomenon of aid dependency tallies or contradicts the country's efforts to pursue a "self-reliant" development path need to be studied more deeply.

4.0 Concluding Remarks and Lessons Learned

The "Chinese Model" has a number of lessons which can be adapted to the Tanzanian environment. The idea here is not to replicate the model. Rather, the idea is to extract specific lessons from the Chinese experience that may be relevant to the common and at the same time diverse circumstances of many African countries. These lessons can range from institutional changes, to specific industrial and trade policy measures, to mechanisms of attracting and disciplining FDI with greater development potential, to devising more effective "reciprocal control mechanisms" between states and business, to enhancing bargaining power vis-à-vis other major donors (Oya, 2006).

One, China has displayed high and sustained high economic growth rate for over two decades. The economic growth has been driven by high investment growth, reaching more than 40 per cent of GDP. However, this impressive performance has been attained without adherence to the "Washington Consensus" doctrine. Indeed, policies in China differ fundamentally from those of the World Bank and IMF, and in spite of this, China has performed tremendous well. The main lesson to be learned here is that African states have to appreciate the fact that there is an alternative path to socio-economic development, contrary to the usual neo-liberal doctrine. Therefore, there is a need for African countries to learn more about the experiences of the Asian drivers and adapt some of the lessons to their own conditions.

Two, China's experiences of development provide a basis for African countries to demand, from the development partners, for more policy space than the case is at present. Policy space is understood as "room for maneuver" in policy making and therefore the range of different types of policies and policy options effectively available to government. We are of the opinion that the high dependence on donors has shrunk the policy space of most African governments. In other words much aid from Western donors does not only come with high transaction costs and sometimes significant tying. It also comes with a strong ideological agenda, which may vary across donors in terms of emphasis, but that can ultimately shape policy decisions and processes.

Chang (2006) is of the opinion that many developing countries, but most particularly in Africa, aid flows have become a vehicle for the shrinkage of policy space. This being the case, it is important for African countries to strengthen economic ties with the Asian drivers not only as a way of broadening the policy space, but also as a means for pressurizing Western countries to ease conditionality imposed on African governments.

Whatever the true interest lying behind China's intentions in 'helping' SSA countries with grants, extremely concessional loans and technical assistance in relevant domains, the fact is that its presence is providing an alternative to governments currently locked in tight conditionality frameworks with an enhanced aligned donor front of developed countries.

Three, China, including India, are developing into significant global-governance actors which are fundamentally changing the basic pattern of the world economy and politics. Indeed, the activities of these countries will have profound impact on the economies of African countries. To the fact that their impact, through channels of trade, FDI and Aid would be either positive or negative, it is important for African countries, as a bloc or individually, to craft a strategy for dealing or engaging with China. The main objective of such a strategy should be that of ensuring that China's trade, FDI and development aid potential is effectively exploited to support and complement growth and poverty reduction initiatives in the African countries.

The lessons drawn here have been extracted from broader studies which have analyzed the China-Africa relations. However, in order to assess their validity to the Tanzanian case it is important, therefore, to commission a country study which will look deeper into the impact of China on the country's economy with a view to devise a strategy which will enhance the benefits and reduce the risks to the national economy associated with China-Tanzania relations.

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