Africa - China Economic Relations:
The Tanzanian Case on Investment and Trade

By

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1.0 Introduction

China rise as a global economic power house continues to generate interest, concerns and attention of a variety of stakeholders, ranging from the academic, policy-makers, politicians, media, to investors. China's unprecedented and sustained economic growth, since the reforms of the 1980s, has leapfrogged to become a key player in the global economy in the early twenty first century. Indeed, China's GDP has grown at over 9 percent per annum over the past two decades and a half. It is predicted that (Chow, 2010) China will become the largest economy in the world by 2020, thus overtaking the GDP of USA. The main drivers of China's economic growth are; high-skilled, relatively cheap and disciplined quality and abundant human capital, a set of effectively functioning market institutions, a high rate of capital accumulation, high absorption capacity of technology, coupled with the culture of savings, hard work and modesty. These drivers in turn have made it possible for the country to attract massive foreign investment.

China's increased competitiveness and its enhanced presence in the world market (in terms of "Made in China" commodities) is having a major impact on both Africa in general and Sub-Saharan Africa (SSA) in particular, where China's presence has become quite conspicuous. Indeed, since the establishment of the 'Forum for Chinese African Cooperation' (FOCAC) in 2000, China has become one of the most significant actors on the African continent. In this regard, China has consistently doubled its financing commitment to Africa during the past three FOCAC meetings from USD 5 billion in 2006 to USD 10 billion in 2009 and USD 20 billion in 2012. Likewise, Sino-Africa trade volume has increased from USD 20 billion in 2001 to USD 120 billion in 2009. In this regard, China is already Africa's third most important trade partner, after the USA and France.

At the country level, Tanzania's bilateral trade with China reached USD 3.7 billion in 2013, an increase of 49 percent over the previous year. In the same vein, Chinese foreign investment in the country peaked at USD 2.5 billion in 2013. Currently, there are over 500 Chinese companies investing in Tanzania.

Apart from China being Africa's largest trading partner and investor, there is another dimension of the relationship that of development aid. This has been in terms of human resource building, technical assistance to a variety of sectors including building of stadiums and conference halls, just to mention a few. The purposes of this paper is therefore to analyse more deeply this emerging relationship between African countries with China, with a view to identifying the opportunities and challenges embodied in the relationship, while recommending the type of strategy (ies) which Africa should adopt in order to ensure the economic and social relationship between the two parties are mutually beneficial. In the sense that they address Africa's quest for poverty alleviation, enhanced productivity, industrialization, employment creation and diversified production and export base.

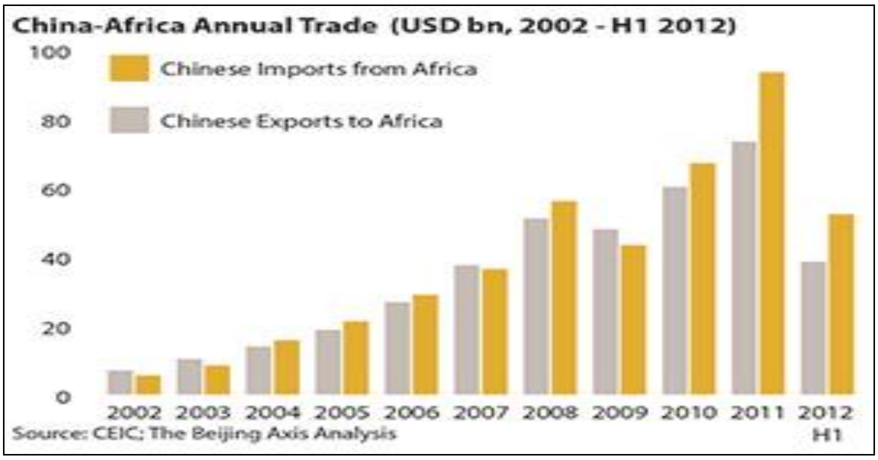
The rest of the paper is organised as follows. The next section analyses the general trends of Sino-Africa cooperation in terms of trade, FDI and development aid. Section three focuses on the Tanzanian case study. Issues of opportunities and challenges are discussed in section four, and also making proposals on how African should capitalize on the unfolding opportunities and address the challenges, with a view to realise Africa's development agenda. The last section concludes the study, while chatting the way forward.

2.0 Sino-Africa Cooperation in Terms of Trade, FDI and Development Aid

Trade

This is most relevant for the trade channels, where between China and Africa, trade increased from USD6.5 billion in 1999 to USD106.8 billion at the end of 2008, surpassing the USD100 billion trade mark two years earlier than anticipated. Chinese imports from Africa was about USD 50 billion in 2012, while exports to were around USD 40 billion during the same year (Figure 1). More recent data show that Africa-China trade has been growing at about 20 per cent per year since 2000. In this regard, as at 2015, total trade between the two blocs amounted to USD 188 billion (McKinsey, 2017).

Figure 1: China-Africa Annual Trade



FDI

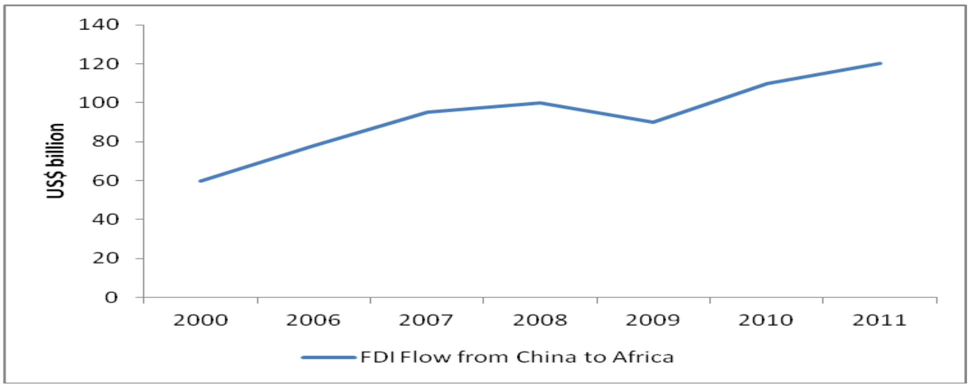
The FDI world outward stock of the 7 major industrial fell, China's positions steadily increased, reaching the 5th position as of 2008 (Lunogelo and Baregu, 2013). As of 2008, China's investment in Africa was around USD 8 billion. It is worth noting that Sino-African investments are strongly facilitated by the state-supported private sector companies and development banks, such as the Export-Import Bank (Exim) of China and the China Development Bank.

Although the main investment thrust has been in the energy sector, recently there has been a tremendous interest in investment towards the improvement of the infrastructure system in Africa. A good example of infrastructure investments made recently include: Maputo international Airport project in Mozambique (2010-2012) funded by a concessional loan of USD 75 million from the Chinese Government; the Addis Ababa-Djibouti Railway project –

which is 756 km long electrified railway was completed in 2016 and funded by a USD 3.4 million loan from the China Export-Import Bank; and the Mombasa-Kigali Railway project in East Africa, which seeks to construct 2,935km long-high speed standard gauge railway line at a total cost of USD 13.5 billion. The Mombasa- Nairobi portion is already completed and the rest should to be completed by 2018. Other mega projects are in Ethiopia (6,000MW USD 4.1 billion Grand Renaissance Dam), and in Uganda (600MW USD 2.2 billion Karuma Hydropower Plant).

Thus, there is agreement among those who follow China-Africa relations that state-owned (10%) and private Chinese companies ((90%) have become major investors in Africa over the past 10 years. Even Chinese individuals are investing small amounts in enterprises ranging from restaurants to acupuncture clinics. It is possible that in the past several years, China was the single largest bilateral source of annual foreign direct investment (FDI) in Africa's 54 countries. Thus, FDI from China to Africa increased tremendously form 2000. The FDI increased from USD 60 billion in 2000 to USD 100 and 120 billion in 2008 and 2011, respectively (Figure 2). In the past decade, data shows that FDI has been growing at a very high annual rate of 40 per cent.

Figure 2: FDI Inflows from China to Africa 2000-2011



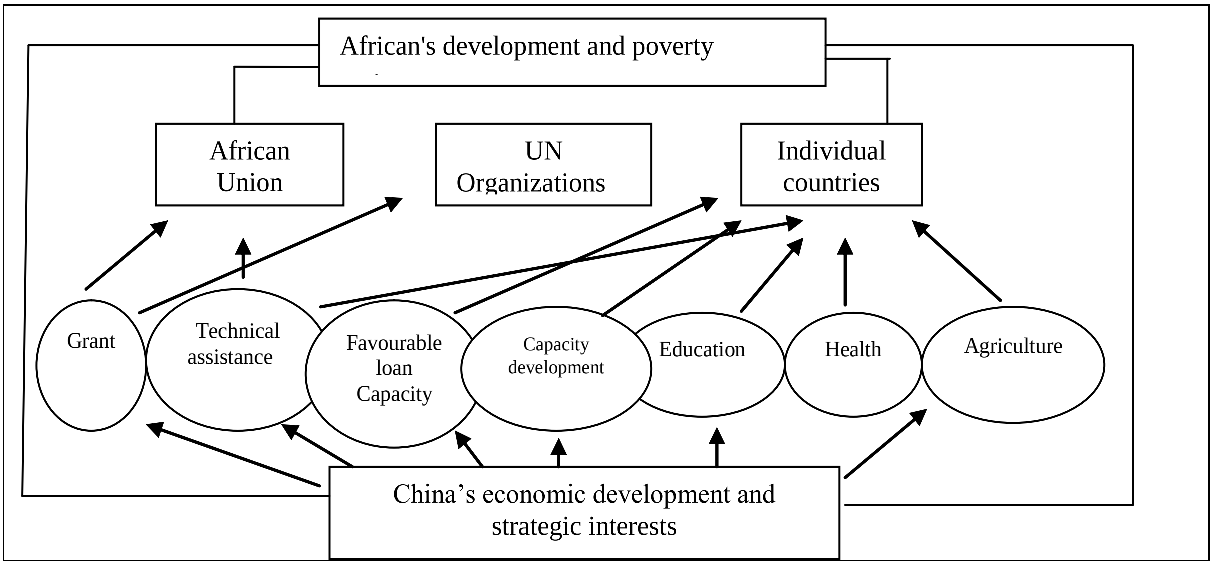
Source: UNCTADStat, 2013.

Development Aid

China-Africa relations are also evident through aid flows. These consists of grants zero-interest loans, debt relief, and concessional, as well as preferential exports credits, market-rate export buyers' credit and commercial loans from Chinese banks. China also provides equity funds that assist Chinese companies investing in Africa through China-Africa Development Fund. This is a fund to on-lend up to USD one billion to African small and medium enterprises (SMEs) through local African banks (Brautgam, 2012).

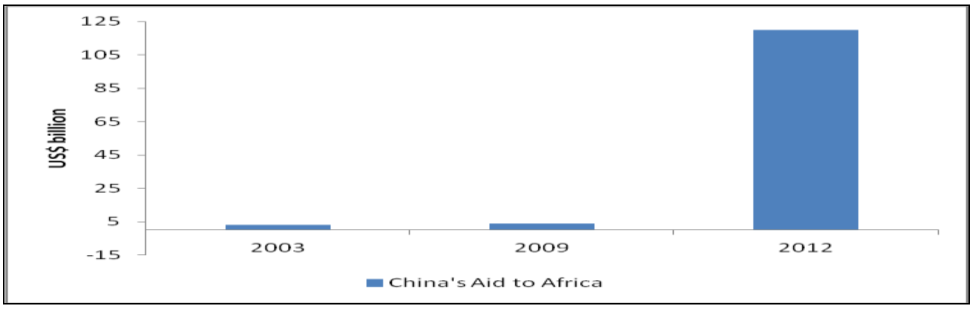
The development aid flows are underpinned by the Chinese government "Eight Principles for Economic Aid and Technical Assistance to other Countries". These principles emphasize, among others, issues of equality and mutual benefit, respect of sovereignty, empowering recipient countries to be self-reliant, project must yield quick results, provision of requisite equipment and materials by the donor country, provisional of technical assistance to the recipient and non-discriminatory status for local and Chinese experts. Figure 3 portrays Chinese aid strategy.

Figure 3: China's Aid Strategy and Modality



In the context of the above, for the fiscal year 2009 alone nearly half (46.7 percent) estimated at USD 1.4 billion of Chinese aid was committed to Africa (State Council, 2011). It increased to around US$ 120 billion by 2012 (Figure 4). All countries in Sub-Saharan Africa with which Beijing has diplomatic ties received aid from China. The beneficiaries of aid are a variety of sectors. They range from cultural and sporting projects, infrastructure construction, medical and educational support (doctors and teachers) to capacity building through training programmes, including disaster relief assistance (Wang, 2009). This broadly based aid clearly shows that it is directed towards broader strategic objectives of socio-economic development of the recipient countries.

Figure 4: Trend of China's foreign Aid to Africa



There are four main potential advantages of Chinese aid to Africa. Firstly, and more targeted to important sectors like infrastructure, with high socio-economic development potential of the recipient countries. Secondly, aid disbursements are efficient because of less bureaucracy. Thirdly, there are a few, if any, conditions attached to provision of aid. Fourthly, provides a policy space for recipient countries to secure better terms from other donor countries, thus enhancing their bargaining power.

3.0 The Tanzanian Case Study

3.1 Trade

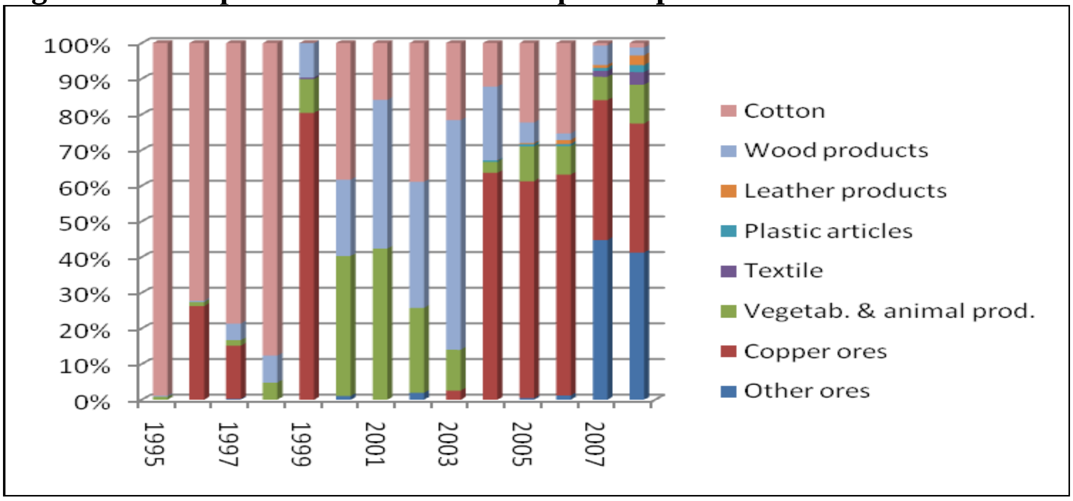
The total trade value between China and Tanzania has been growing in the past decade. China's exports to Tanzania comprise largely of manufactured goods; electrical appliances, garments and vehicles. As illustrated in the graph below, the composition of China's exports to Tanzania has remained largely unchanged although trade volumes have increased substantially. China is largely importing ores (mainly copper and precious metal ores, but also smaller quantities of niobium, tantalum, vanadium, zirconium and manganese), vegetable- and animal products from Tanzania. As trade volumes have increased, the share of cotton in China's imports from Tanzania has decreased drastically. Since 2004, ores have dominated the Chinese import profile. Tanzania has a trade deficit with China despite the increase in trade between the two countries.

Tanzania exports to China portrayed a mixed trend. The export value increased from USD22.8 million in 2008 to USD 668.5 million in 2011, it declined to USD307.6 million 2013, and then reversed upwards to USD 683.9 million in 2014 (Figure 5a). Figure 5b shows the composition of Tanzania's exports to China. Indeed, data from other sources do indicate that total trade between the two countries stood at USD 3.7 billion in 2013.

Figure 5a: Trend of the Exports Value to China (2008-2014)

Source: Bank of Tanzania

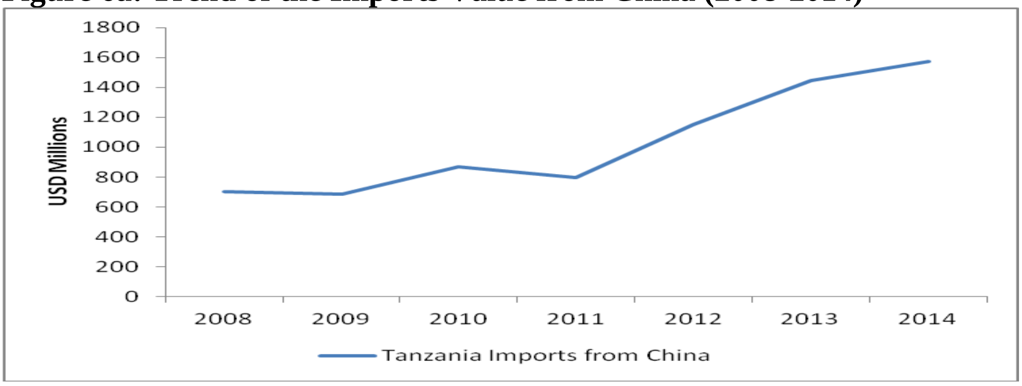
Figure 5b: Composition of Tanzania's top-20 exports to China 1995-2008



Source: World Trade Atlas data, CCS analysis

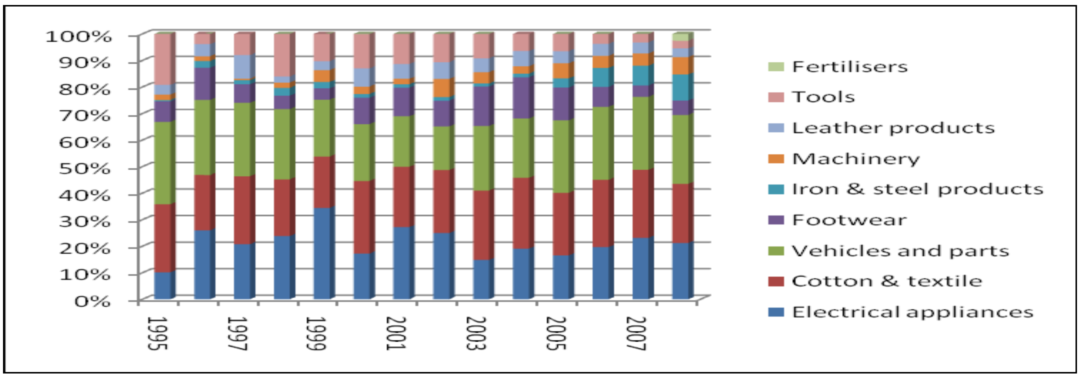
Unlike exports, the value of Tanzania's imports from China indicated a strong upward trend, it more than doubled from USD 703.1 million in 2008 to USD 1,571.1 million in 2014 (Figure 6a). Figure 6b shows the composition of Tanzania's imports from China.

Figure 6a: Trend of the Imports Value from China (2008-2014)



Source: Bank of Tanzania

Figure 6b: Composition of Tanzania's top-20 imports from China 1995-2008



Source: World Trade Atlas data, CCS analysis

Figure 6c: Imports from China (2015)

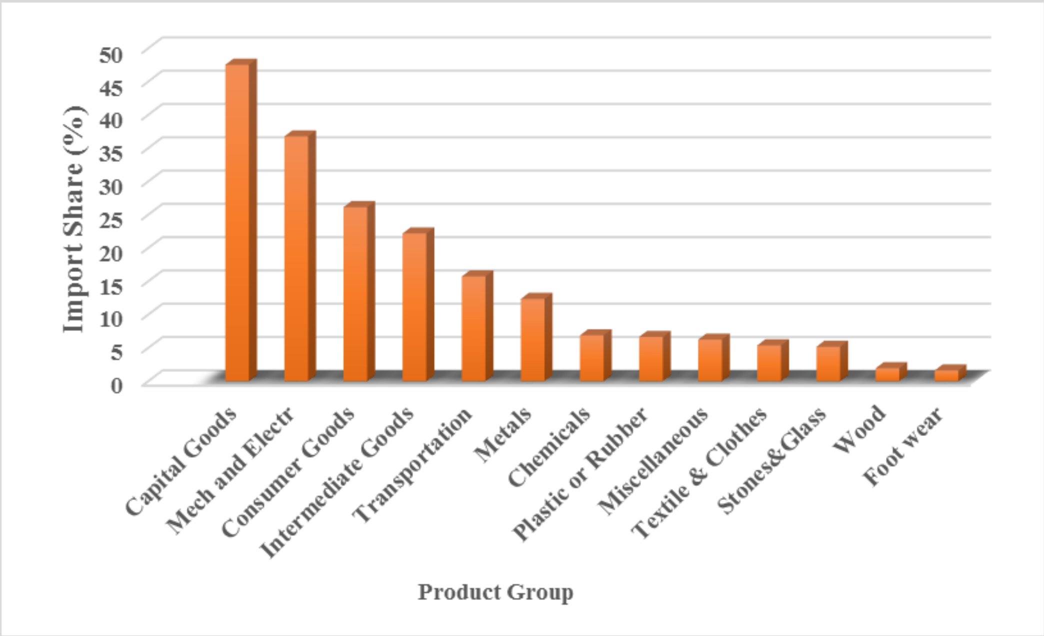
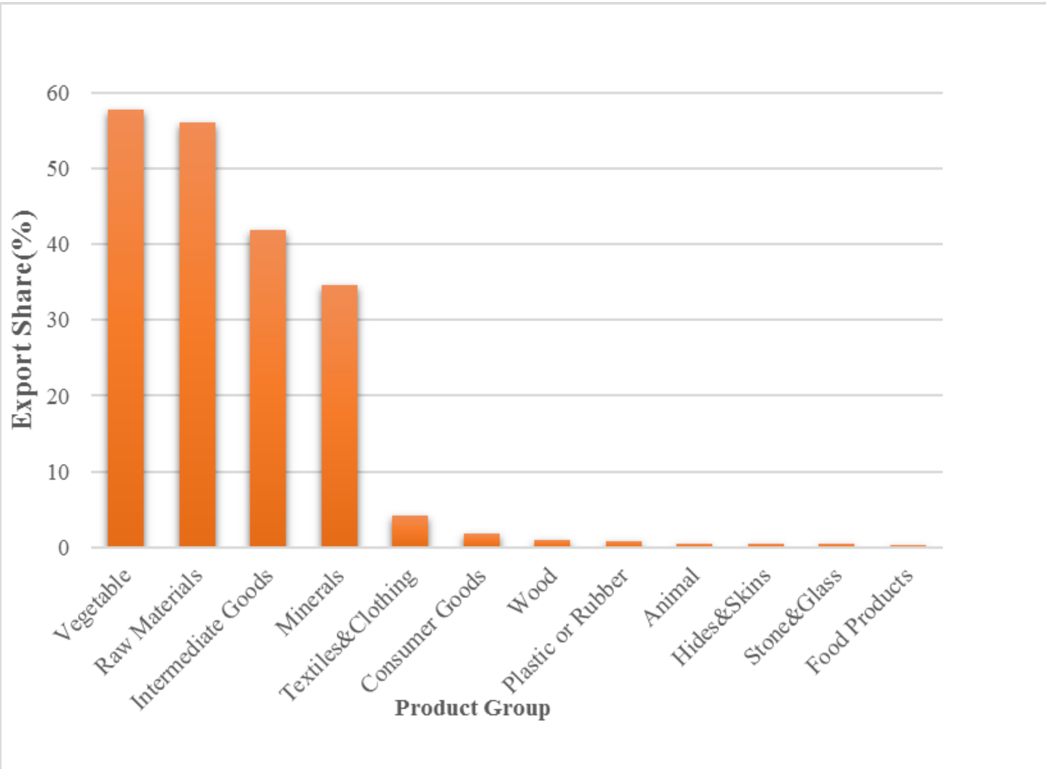
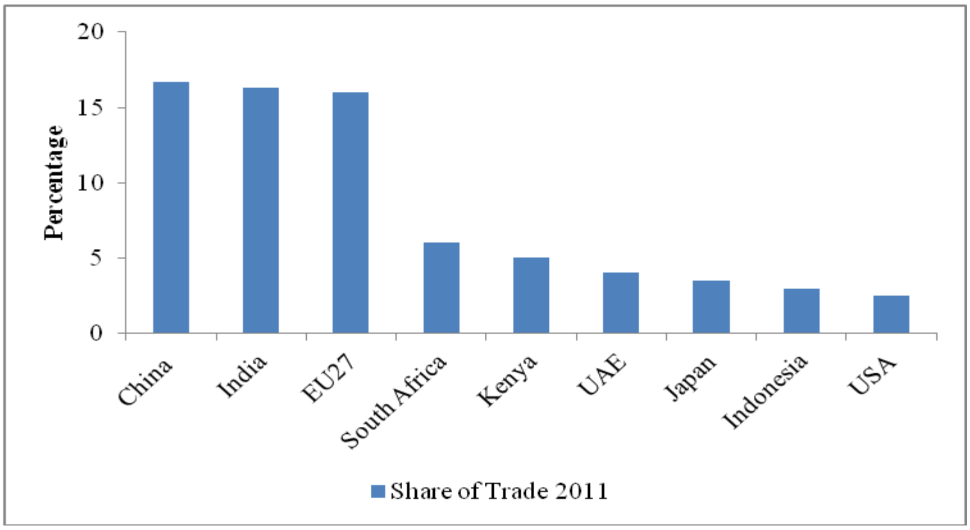


Figure 6d: Exports to China (2015)



By 2014 China became the second import partner to Tanzania having 13.1 per cent, behind India which had 15.4 per cent share of total imports. During the same period, China was the second Tanzania's export partner, after India, with a share of 14.1 percent. Overall, China is leading trading partners for Tanzania with a share of 16.7 percent, (Figure 7) followed by India and EU with 16.3 and 16.2 percent, respectively (Lunogelo and Baregu 2013). This demonstrates the potential that exists for Tanzania to improve its trade with China.

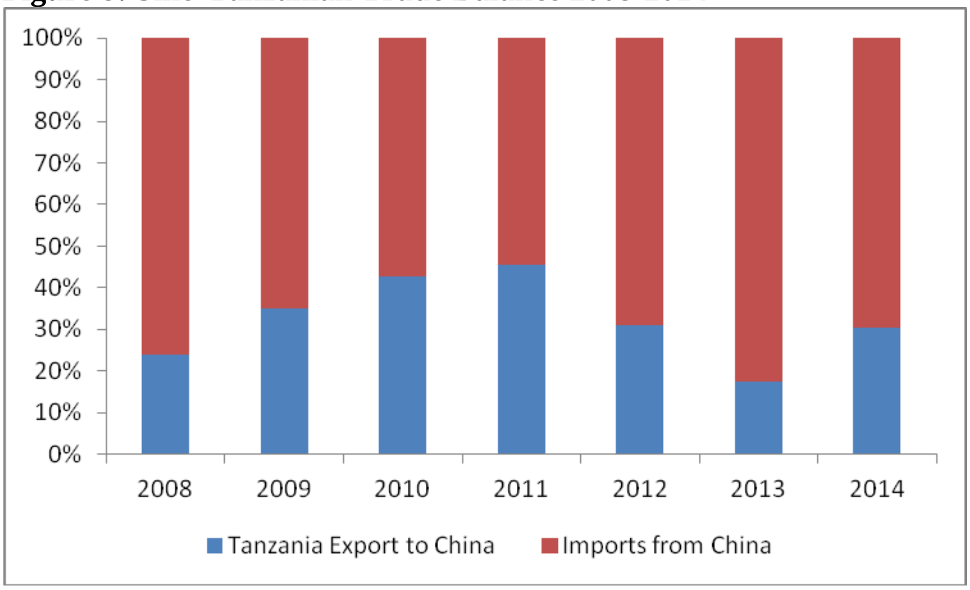
Figure 7: Share of Trade Partners with Tanzania, 2011



Source: OECD, 2011

However, the trade balances have been worsening (Tanzania is the net importer) as the trade volume between the two countries increased (Figure 8). Whereas China's exports to Tanzania generate USD 3.1 billion, the latter's exports earn USD 600 million.

Figure 8: Sino-Tanzanian Trade Balance 2008-2014



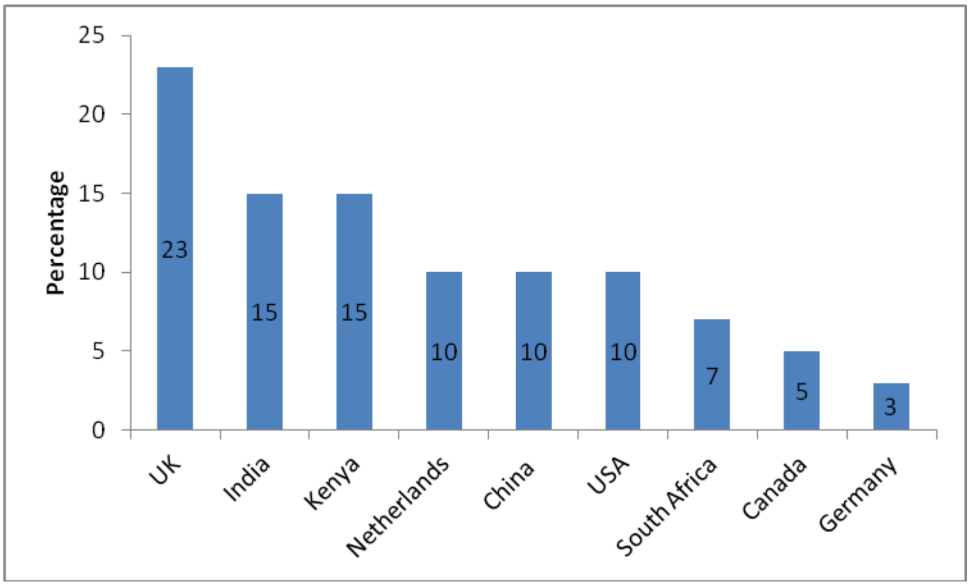
The positive trade performance with Tanzania may well be associated with the preferential market access devised by the government of China for the African countries through the third Forum for China-Africa Cooperation (FOCAC) summit in 2006, where China committed itself to double the list of duty-free items (440) from African LDCs which receive preferential treatment by China, a condition that was applicable to 30 countries on the continent. As a result, Tanzania's exports to China have grown 496.6 percent from 2004 to 2010 (Figure 2). The trend has been on the rise, except for the 2007/08 slump caused by the global financial crisis.

3.2 FDI Inflows

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 (Moshi and Mtui, 2008).

As proof of the increased investment, China is ranked fifth top foreign investors in Tanzania, having a combined share of 35 percent of the total foreign investments in the country (Figure 9). By the end of 2010 there was not less than 300 Chinese companies registered in Tanzania, with total registration capital of about 868 million US dollars and by 2012 the aggregate investments of the Chinese companies in Tanzania had reached USD 1 billion, making China the second behind the UK. However, this level of investment is certainly lower than what has been invested in other countries, (Lunogelo and Baregu, 2013).

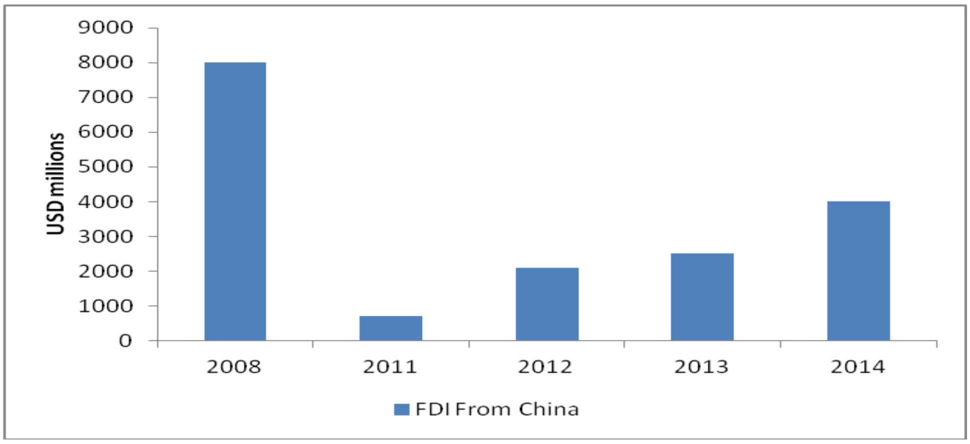
Figure 9: Leading Countries Investing in Tanzania 2005-2011



In 2013, Tanzania Investment Centre registered more than 522 Chinese projects with a combined value of more than USD 2.5 billion. The projects were expected to create 150,000 jobs. China has also announced it will focus on three key sectors for investment: industrialization, aviation - mainly the cash-strapped Air Tanzania Corporation - and infrastructure, especially railways and ports. These sectors are seen as vital for boosting Tanzania's economy. Investment is expected to also target manufacturing, agro-processing, construction and information and communication technology. We have seen a number of projects undertaken by Chinese companies, such as the Nyerere Bridge, the National ICT Backbone Broadband Network, the Ceramic factory and Steel plant, just to mention a few.

Although China trailed Britain as the largest source of investment to Tanzania in 2013, it has become the East African country's leading trade partner, with about USD3.7 billion in business. Figure 10 shows FDI flows from China to Tanzania only. It was USD 8 billion in 2008, declined to US4 0.7 billion in 2011, then reversed to USD 2.5 and 4 billion in 2013 and 2014, respectively.

Figure 10: FDI from China to Tanzania Selected Years



3.3 Development Aid

China has provided Tanzania with financing towards a number of development projects over the years, mainly within the areas of agriculture and manufacturing. Following extensive liberalization and privatization programmes in both China and Tanzania, Chinese aid gradually changed through the 1990s from bilateral aid and economic and technical assistance, to the more flexible use of Chinese loans. These have focused on key industries such as textiles and agriculture dispersed by the then Chinese Ministry of Foreign Relations and Trade (MOFERT).

Since 1968, China regularly dispatches medical teams from Shandong Province to Tanzania. To date approximately 1000 medical workers have been sent to the country. Since FOCAC 2006, three agricultural experts have also been dispatched to Tanzania. Moreover, three primary schools have been donated as part of the FOCAC commitments and are to be constructed in Zanzibar and in the Kiteto and Bagamoyo councils respectively. Tanzania is also to receive a hospital specialising in cardiology, as requested by the Tanzanian government. An anti-malaria research centre donated by China is also to be housed at the hospital.

In terms of educational assistance, it can be noted that around 600 Tanzanian students have studied in China since bilateral relations were established. In 2008 alone, more than 70 Tanzanian students were selected to pursue studies at Chinese universities.

In July 2001, China agreed to partial debt cancellation for Tanzania. According to bilateral agreements, the Chinese government agreed to exempt Tanzania from the obligations of paying back 15 batches of interest-free loans to the value of USD 19.2 million which had matured by the 31st December 1999.

During President Hu Jintao's latest visit to Tanzania in February 2009, a donation of USD 22 million was made and a USD 56 million, 60,000 seat sports stadium financed by the Chinese government was inaugurated.

In the recent past, Chinese aid has been directed to establishing Special Economic Zones (SZEs) in Bagamoyo and Kigoma through construction of the two ports. The former port is estimated to cost about USD 2 billion (Jansson, et.al. 2009). These projects are part of a wider framework of industrial development cooperation between the two countries, which was signed in 2015, aiming at, among others, modernization and commercialization of primary production activities, establishment of industrial parks, enhancement of human skills and enterprise development, facilitation of technological transfer and development of innovation capacity, and development of logistics clusters at marine ports, dry-ports and border posts (URT, 2015)

4.0 Challenges and Opportunities

The engagement with China provides both challenges and opportunities to Tanzania. In this section an attempt is made to discuss a sample of them.

4.1 The Challenges

(i) *Delayed Structural Transformation of African Economies:* The trade relationship between Africa and China is that of exporting raw materials from former and importing manufactured goods from the latter. If this pattern of trade were continuing, this will lock African countries into specializing in primary commodities, crimping the strong productivity gains needed to sustain high growth, and sharpening socio-economic inequalities, sidelining some people from the benefits of cooperation (UNECA, 2013).

(ii) *De-Industrialization of African Infant Industries:* The importation of manufactured goods while exporting raw materials creates an unfavourable environment to the infant industries. This is amongst the most common economic challenge which Tanzania needs to consider seriously as it continues to strengthen its relationship with China. The main risk involves the threat of imports that could lead to fall in demand for locally produced goods and services in the country.

(iii) *Cheap and Counterfeit goods*: A study by Mashindano et al., (1997) and Moshi, (2010) revealed, that among Tanzania's the imports, China is the leading in counterfeit goods, followed by India, United Arab Emirates and Kenya. These counterfeit goods affect the economy through loss of government revenues, loss of employment and decline of domestic industries due to unfair competition.

(iv) *Local Labour displacement:* Once the local infant industries collapse due to the increased cheap imports from China, those who were employed in those industries lose their employment accordingly. This may lead to disharmony and social unrest amongst the people, which would further aggravate poverty to the country.

(v) *Unequal Playing field:* The government of China provide huge support to some strategic industries of which Africa also tends to gain. For instance, the Indian government provided financial assistance to its industries under the Bombay State-Aid to Small Scale and Cottage Industries 1935, as amended up to 20th January, 1956 (Mashindano, et al., 2007 and Moshi, 2010). With such amendments, the interest rates compounded per annum were brought down from 5 percent to 3 percent to encourage development of small-scale and cottage industries. Likewise, Chinese state-owned enterprises are bigger in size and receive a lot of support from their government. This being the case, they tend to outcompete local enterprises in the areas of energy and infrastructure.

(vi) Failure to domesticate the Chinese model of special economic zones (SEZs). The adopted modality has been the one driven by AGOA Initiative, which is highly centralized and enclave, contrary to the former which tends to be more flexible, decentralized and with strong linkages to the rest of the economy. The adopted model has not only been bureaucratized investment decisions, but has also diluted the ownership of the initiative at regional and district level. This being the case, it is no wonder the designated SEZs in the regions and districts lack the requisite infrastructure and are faced with encumbrances, such as outstanding compensations to the former land owners.

4.2 Opportunities

(i) Tanzania is part and parcel of Africa- China cooperation platforms, ranging from FOCAC, CAFTF, to Belt and Road Initiative. Indeed, in some of these initiatives the country has been accorded preferential treatment. It is high time we were to exploit these opportunities fully by playing a proactive role. The best way to do this is to have a clear strategic posture toward China by emulating the examples of South Africa and Ethiopia. Such a posture will not only go a long way in reducing bureaucratic red tape in execution of investment projects, but also open new avenues for mobilization of investments from provisional governments in China.

(ii)The industrial development cooperation between Tanzania and China is well aligned with Tanzania's socio-economic agenda as stipulated in the Vision 2025 and Second Five Year Development Plan (2016/17-2020/21). This being the case, it is high time that a joint team were to be constituted, tasked with the role of putting in place an implementation program.

(iii) The rich menu of items eligible for preferential tariffs, over 90, offers a unique opportunity for the development of commodity value chains in Tanzania. Unfortunately, we have not done enough to create awareness among our people on the business opportunities available in China.

(iv) The investment and trade relations between the two countries provide opportunities for Tanzanians to learn from the Chinese socio-cultural traits of saving, hard work and modesty, as critical ingredients for socio-economic development and poverty alleviation.

5.0 Concluding Remarks

The cooperation between Africa and China has gained momentum and triggered much interest in the recent past. This is because China is playing an increasingly prominent role in global trade, investment, finance, and development aid to the extent that "Made in China" is becoming a household name; an indication of a deepened engagement between these societies.

Likewise, in the last decade or so Tanzania has witnessed enhanced trade, investment and aid with China. In terms of trade, whereas exports to China have been in terms natural unprocessed commodities, the imports were basically processed and manufactured goods. This has not only ushered in a widening trade balance, but also undermined the country's transformation process; a situation President Magufuli is more than eager to change through the industrialization drive. On the investment side, the country has seen a diversified investment portfolio in a number of sectors; ranging from manufacturing, agriculture, to infrastructure in its wider context in terms of construction of energy facilities, roads, bridges, etc. In the same vein, development aid has been increasing and highly diversified; across education, health services, sports and conference avenues, including peace and security.

Indeed, the cooperation between the two countries has both challenges and opportunities. Whereas the former range from trade imbalances, delayed structural change, to skewed playing field, the latter are those embedded in China- Africa platforms which are yet to be grasped effectively by Tanzania, although they are critical in addressing the country's socio-economic development agenda. Consequently, in order for Tanzania to adequately tap the existing and unfolding opportunities, it needs to craft a clear strategy for engagement with China as a way hastening implementation of signed agreements, while aligning the national development strategies with the requisite Chinese initiatives. Surely, it is only through such a proactive stance that a win –win partnership between the two countries can be nurtured, consolidated and sustained.

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