



Patterns of Chinese investment, aid and trade in Tanzania

A briefing paper by the Centre for Chinese Studies

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**CENTRE FOR
CHINESE STUDIES**

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Cover picture of Tazara railway by Fiona Scott

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List of Acronyms

CCS	Centre for Chinese Studies
CREC	China Railway Engineering Corporation
FOCAC	Forum on China-Africa Cooperation
MOFERT	Ministry of Foreign Relations and Trade
NGO	Non-governmental organisation
SEZ	Special Economic Zone
TAZARA	Tanzania-Zambia Railway
TRALAC	Trade Law Centre for Southern Africa
US	United States

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1. Introduction

This briefing paper seeks to present an overview of Sino-Tanzanian relations and in particular identify the key actors of engagement. It draws on field research undertaken in Tanzania in 2009 as well as secondary data including newspaper articles, books and academic articles.

The aims of the paper are as follows:

- To provide a short overview of historical relations between China and Tanzania, briefly highlighting key aid, trade and investment features;
- To outline the views of Chinese investments held by representatives of governments, civil society (e.g. NGO, media, trade unions) and the private sector in Tanzania; and
- To outline existing evidence of the impact (positive and negative) of Chinese aid and investment on the Tanzanian economy, environment and people's livelihoods and wellbeing.

2. Sino-Tanzanian aid, trade and investment

China established diplomatic relations with Tanganyika and Zanzibar respectively as each state gained independence (in 1961 and 1963 respectively). As the two states were united on the 26th April 1964, China recognised Tanzania but similarly maintained diplomatic relations with both Zanzibar and the Tanzanian mainland. Bilateral relations have remained intact since 1964, and the two countries have undertaken extensive political, economic, military and cultural cooperation.¹ It is often argued that Tanzania is a strategically important partner for China given its location as an Indian Ocean gateway to mineral-rich southern Africa.²

As one of the major recipients of China's aid to Africa, Tanzania has received more than 100 cooperation projects and programs totalling over US\$ 2 billion since the early 1960s, although exact calculations are not available.³ The majority of earlier aid projects were undertaken in the form of turnkey projects, of which the most famous is the Tanzania-Zambia (TAZARA) railway linking Tanzania's Dar es Salaam with Zambia's Kapiri Mposhi in the Copper Belt. Tazara is one of the largest foreign aid projects China has ever undertaken, financed through an interest free loan of US\$ 500 million and built at the height of Cold War hostilities by the Chinese Railway Engineering Corporation (CREC) between 1970 and 1976.⁴

China has provided Tanzania with financing towards a number of other development projects over the years, mainly within the areas of agriculture and manufacturing.⁵ 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. In an interview with the CCS, the leader of the Chinese medical team noted that the Chinese medical workers often share their knowledge by teaching local Tanzanian health practitioners Chinese medicine.⁶

The Beijing Action Plan adopted after the FOCAC summit in 2006 included a number of commitments towards African countries, including a number of specific pledges to Tanzania.⁷ These pledges included an agricultural demonstration centre, which has not yet been constructed, although the site has been selected. 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 Bagamoya 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.⁸ Part of the FOCAC commitments was also a pledge to increase the number of African export items eligible for zero-tariff treatment in China to 466.

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.⁹

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 US\$ 19.2 million which had matured by the 31st December 1999. The debt relief accounted for one third of Tanzania's total debt owed to China in this period.¹⁰ During President Hu Jintao's latest visit to Tanzania in February 2009, a donation of US\$ 22 million was made and a US\$ 56 million, 60,000 seat sports stadium financed by the Chinese government was inaugurated.¹¹

In December 1997, the China Investment and Trade Promotion Centre was established in Dar es Salaam to provide assistance in linking businesses in the two countries. Foster *et al* notes that Chinese investors and contractors have been particularly successful in the road, water and agriculture sectors in Tanzania.¹² According to Burke and Corkin, more than 85 Chinese-funded enterprises are active in Tanzania, and the number of Chinese entrepreneurs active in services such as construction, health and restaurants are ever-growing.¹³ It was suggested by a Tanzanian government official in interviews with the CCS in March 2009 that around 90 percent of foreign construction firms presently operating in Tanzania are Chinese.¹⁴

In April 2008, Chinese President Hu Jintao and Tanzanian president Mr Jakaya Kikwete met and discussed the possibility of Chinese investment in a Special Economic Zone (SEZ) in Tanzania as a key initiative to stimulate trade and employment creation. In August 2008, two proposals were submitted to China Development Bank (CDB). The first proposal concerned the Mbegani-Bagamoyo SEZ that would be based 7 km south of Bagamoyo and 60 km north of Dar es Salaam. The Zone would include an international airport, a deep sea port and satellite communications equipment, and the total value of the investment would be an estimated US\$ 2 billion.

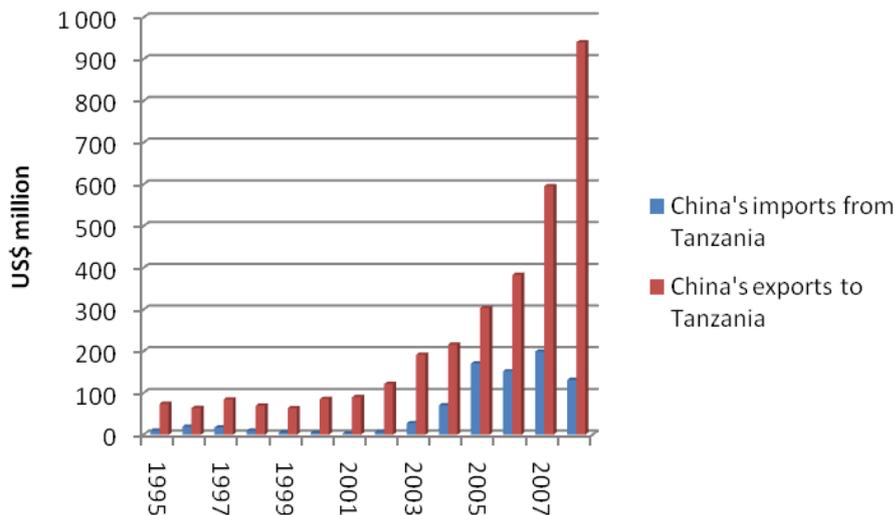
The second proposal concerns the establishment of an SEZ to be created in Kigoma, one of the busiest ports on Lake Tanganyika with a functioning railway connection and a direct link to the seaport

at Dar es Salaam. Road connections for Kigoma are poor however and the bay is suffering from silt caused by soil erosion. Improvement of the infrastructure conditions at Kigoma are expected to improve conditions for trade. However, at the time of writing, no decision has yet been made on either proposal.

2.1 Trade between China and Tanzania

It can be noted in the graph below that trade between China and Tanzania has increased rapidly over the last decade, particularly China's exports to Tanzania.

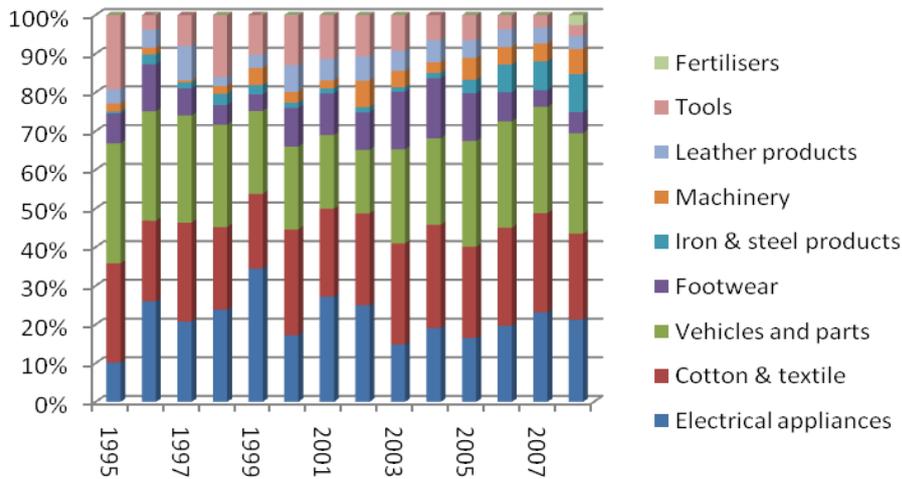
Figure 1: Sino-Tanzanian trade 1995-2008



Source: *World Trade Atlas data*

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.

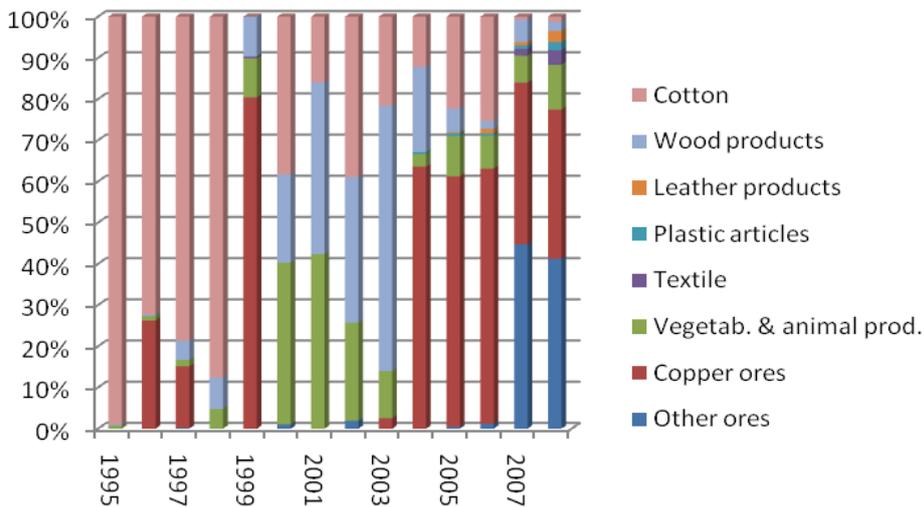
Figure 2: Composition of Tanzania's top-20 imports (HS4 level) from China 1995-2008



Source: World Trade Atlas data, CCS analysis¹⁵

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.

Figure 3: Composition of Tanzania's top-20 exports (HS4 level) to China 1995-2008



Source: World Trade Atlas, CCS analysis

3. Impact and perceptions of Sino-Tanzanian relations

The observations below emanate from field research conducted by the CCS in 2009. There was a strong perception among the respondents that Chinese activities in Tanzania are slanted towards trade rather than investment. It was argued that many Chinese economic actors in Tanzania obtain investment licences but continue to import Chinese goods into Tanzania rather than making actual investments. Some respondents believed that this could be a strategy to test the market before establishing manufacturing operations.

The Chinese community in Tanzania is generally perceived as a group of diligent people who work hard to meet objectives. As mentioned, they are predominantly traders and have shared much of their trading skills with the local population. Some Tanzanian traders have even started importing goods directly from China, thereby bypassing the resident Chinese importers. These Tanzanian economic actors import technology to help improve economies of scale and this has enabled some technology transfer.

Several Tanzanian government representatives argued that they welcome Chinese companies bidding for infrastructure projects as it broadens their range of prospective contractors and offers a cost effective alternative to Western companies.¹⁶

In terms of occupational safety, health standards and workers rights, research carried out by Burke and Corkin in 2006 indicate that local Tanzanians from construction companies, factories and smaller traders (restaurants, retailers etc) find that that due to the country's labour law obligations, Tanzanians were mostly paid sufficient wages by Chinese companies. The level of safety and health standards was also found to comply sufficiently with local labour laws. Although more training programmes in skills and technology were needed, local labourers were gaining on-the-job training, particularly in machine operation. They further note that Chinese companies active in Tanzania prefer using local workers where possible as they are more accessible and incur less cost than Chinese expatriate workers. Representatives from the Chinese companies argued that the main constraint to hiring more local labour is the lack of appropriate skills, knowledge and experience.¹⁷

Regarding the impact of Chinese development assistance, Tanzanian government representatives consulted by the CCS acknowledged that China has provided Tanzania with a great deal of assistance over the years. It was also recognised that follow-up support has been provided for these projects.

However, the respondents expressed that strengthened follow-up assistance in terms of maintenance and rehabilitation for existing Chinese development aid projects, for example the Tazara railway and the Urafiki textile mill, would be of great use to the country.

In terms of the FOCAC commitments made to Tanzania, it is difficult to quantify the developmental impact at this stage given that the projects are yet to be implemented. In terms of the zero-tariff treatment of 466 African export items, the measure is perceived to have had little impact on the Tanzanian economy. Respondents interviewed by the CCS in 2009 cited the case of coffee which continues to suffer a large number of non-tariff barriers when entering the China market. According to the respondents, more trade barriers were experienced in China in the areas of product-, health- and packaging standards, than is the case in terms of the customs and tariffs leveraged by the European Union.¹⁸

It was furthermore acknowledged by Tanzanian stakeholders in interviews with the CCS that a great deal has been done in terms of Sino-Tanzanian cultural exchanges, and Mandarin is currently being taught at the University of Dar es Salaam. However, it is perceived that increased cultural exchanges and knowledge of both Mandarin and Kiswahili would greatly increase understanding of both cultures and enable increased cooperation and integration between Chinese and Tanzanian communities.

In terms of the Chinese mode of engagement with Tanzanian stakeholders, several Tanzanian government officials noted that Chinese government and private sector representatives place importance on the President's office rather than the other levels of government including the relevant ministries. This was perceived by several respondents to be a challenge to effective engagement.

Moreover, Tanzanian civil society representatives argued that they have not managed to establish relationships with representatives of Chinese government and private companies in the country and that this is a challenge to engagement. The nature of relations between African civil society and Chinese stakeholders in Africa is discussed further in section 3.1 of the CCS paper "Recommendations for WWF's China-Africa work".

Endnotes

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- ¹¹ *BBC* (2009). "China's Hu grants aid to Tanzania". Published 15.02.2009, accessed 31.05.2009 from <http://news.bbc.co.uk/2/hi/asia-pacific/7891418.stm>
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¹⁴ Interview, 20.03.2009, Dar es Salaam.

¹⁵ The raw data, indicated in HS4 code, has in the analysis been grouped into categories according to product chapters and broader categories.

¹⁶ Burke and Corkin (2006). *Op. cit.* Page 56.

¹⁷ Burke and Corkin (2006). *Op. cit.*

¹⁸ See further in Jansson *et al* (2009). *Op. cit.*



Profile of the Centre for Chinese Studies

The Centre for Chinese Studies (CCS) is the first academic institution devoted to the study of China in Africa. The Centre promotes the exchange of knowledge, ideas and experiences between China and Africa.

As Africa's interaction with China increases, the need for greater analysis and understanding between our two regions and peoples grows. This involves evaluating China's developmental role in Africa that is felt in various capacities ranging from trade and investment to humanitarian assistance. The Centre conducts analysis of China-related research to stakeholders in Government, business, academia and NGO communities.

The Centre presents courses to academic and business audiences at Stellenbosch University and other local universities and plays host to visiting academics within the China Forum that provides a platform for discussion and debate on China-Africa related subjects. The CCS thus serves as the foremost knowledge bridge between China and the African continent.



Researcher profiles

Johanna Jansson is a Senior Analyst at the Centre for Chinese Studies, where she has been active in a number of projects researching Sino-African relations. In her capacity at the CCS, Johanna has carried out field research in Cameroon, China, the Democratic Republic of Congo, Gabon and Uganda. Johanna completed an academic exchange program in November 2008 as a Visiting Scholar at the Institute for West Asian and African Studies (IWAAS) within the Chinese Academy of Social Sciences (CASS) in Beijing.

Johanna holds a Master's Degree in Peace and Conflict Studies from Umeå University, Sweden, an Honours degree (cum laude) in Political Science from Stellenbosch University and a Bachelor Degree in Political Science from Lund University, Sweden. Prior to joining the CCS in 2007, Johanna worked for the Swedish Migration Board, the Swedish Correctional Services and for the Swedish Union of Civil Servants (ST). Johanna is a member of the Golden Key International Honour Society for Academic Excellence, is fluent in French, English and Swedish and conversant in IsiXhosa.

Christopher Burke is a Research Fellow at the Centre of Chinese Studies, Stellenbosch University, where he has worked on a number of projects examining the political, economic and social implications of China's engagement with Africa. His interests include issues relating to infrastructure, industrialization, private sector development, peace and security.

Christopher has spent eight years in Africa and almost 10 years in northeast Asia and has held numerous academic research positions at several academic institutions including: Faculty of Social Sciences, Makerere University, Uganda; the Centre for Defence Studies, School of Australian and International Studies, Deakin University, Australia; and the Institute for Far Eastern Studies, Kyungnam University, South Korea. Christopher has an M.A. in international relations from Yonsei University, South Korea, and a B.A. in sociology majoring in development studies from La Trobe University, Australia.

Tracy Hon is Projects Director at the Centre for Chinese Studies. Prior to joining the Centre, Tracy was employed by several blue chip corporate companies in roles of executive and general management, consulting and business analysis. She embarked on an extensive research project and based on her findings, she established a successful Chinese Educational and Cultural Exchange

Program between China and South Africa. The business won the Entrepreneurship Award from Liberty Life in 2004 and was later nominated for Entrepreneur of the Year by the University of Cape Town / Cape Argus.

Tracy has been a guest entrepreneur for UCT's MBA group at the Department of Innovation and Entrepreneurship. Tracy holds a MBA degree from Bond University, Australia, a BComm degree in Finance and ICT from Witwatersrand University, South Africa and a BMed degree in Biochemistry. She is fluent in English and conversant in Afrikaans and Cantonese.

