INDIA AND CHINA: OPPORTUNITIES AND CHALLENGES FOR TANZANIA'S ECONOMIC PROSPERITY

By Dr. Hoseana Bohela Lunogelo and Solomon Baregu

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LIST OF ABBREVIATIONS AND ACRONYMS

AGOA	African Growth and Opportunity Act
FDI	Foreign Direct Investment
FPC	Foreign Private Capital
GDP	Gross Domestic Product
GDP PPP	Gross Domestic Product- Purchasing Power Parity
IMF	International Monetary Fund
MOP	Margin of Preference
OECD	Organization for Economic Co-operation and Development
TIC	Tanzania Investment Centre
UNWTO	United Nations World Trade Organization

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1.0 INTRODUCTION

Globalization can be defined as "the process through which an increasingly free flow of ideas, people, goods, services and capital leading to the integration of economies and societies" (Köhler, H. 2002) takes place. The globalization phenomenon has manifested through changes in international trade patterns, movement of people and flow of capital. The integration of rapidly growing emerging economies into global economic system, as witnessed by China and India, has been among the most evident features of the phenomenon in recent years. The growing presence of China and India in international investment and trade provides a real opportunity for trade and economic growth for least developed economies, especially in Africa South of the Sahara. The history of relations between these two growing economies with Africa dates back to 15th century during Admiral Zheng's visit to Eastern Africa.

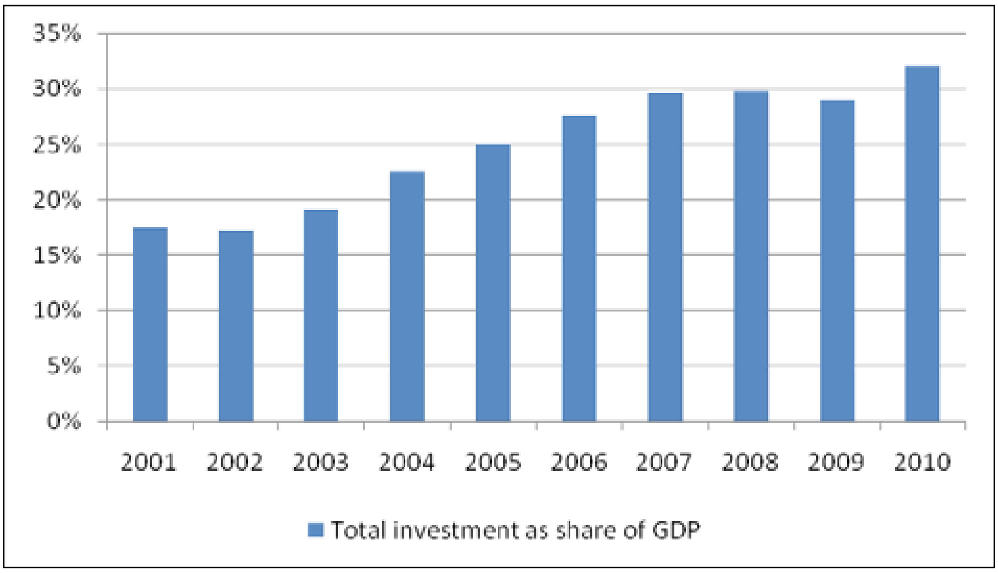
Since the beginning of the 21st century, China and India have shown growing competition to gain dominance on the African market. During this period, they have increased provision of cheaper imports to Africa, new cost effective investments and low cost technology. The trade relationship of these two emerging powers with Africa has also grown, with Sino-Africa trade reaching US$ 120 billion by 2009 from US$ 20 billion in 2001. India-Africa trade reached US$30 billion by 2008, from just around US$ 914 million in early 1990's (Mawdsley and McCann, 2011).

The evident increase in Chinese and Indian activities and interest in Africa has resulted into questions and worries amongst some development scholars and observers, They particularly wonder whether the world is set to, or is already experiencing a second round of "Scramble and Partition" of Africa. This paper examines the relationship between Tanzania on one hand, and respectively China and India on the other side, with a view to understanding the nature and character of the relationship, and how Africa stands to gain from it. The paper starts by looking at the investment climate in Tanzania, before examining corresponding responses from the two emerging economies of China and India.

1.1 Tanzania's Investment Climate

Liberalization of Tanzania's economy began in the early years of 1990s through a series of market reforms that included privatization and macro-economic stabilization. In the process of market reforms, substantial improvement was made on the monetary policies such as proper valuation of the currency, liberalization of the trade regime, and removal of price control systems, to mention just a few. From 1997 the investment climate in Tanzania started to take a new direction after the Tanzania Investment Centre (TIC) was established as one stop centre for investment in the country. This resulted in a rapid increase in Foreign Private Capital (FPC) coming into the country, 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. Figure-1 shows that the increasing trend has generally been stable over a long period.

Figure 1: Trend of Tanzania's Investments as a share of GDP 2001-2010



Source: International Monetary Fund, World Economic Outlook Database, October 2012

Inspite of such achievements, some constraints on investment in Tanzania have persisted. These include for instance bureaucracy, corruption, slow pace of legal reforms, unreliability of power, and high tariffs as well as inadequate physical infrastructure (Moshi and Mtui, 2008).

This paper thus examines the potential benefits and opportunities that can be exploited by Africa, more particularly in Tanzania, and the various challenges that Tanzania should be aware of and whose impact requires special means to reduce or mitigate.

1.2 Structure of the Paper

The paper aims to answer the following two main questions:

- Given the increasing interest of China and India to Tanzania, what are the opportunities that Tanzania's private sector can exploit in the country's benefit?
- What are the challenges to Tanzania in its relationship with China and India?

In this respect, the second chapter reflects on the historical economic performance of India and China and the potential for influencing Tanzania's future economic growth. The aim is to examine how the growing middle class consumers in Tanzania shape the demand pattern and how the country can exploit such a situation so as to meet the demand. The analysis of India and Chinese imports would also be made in comparison with Tanzania's export performance.

The third chapter aims to analyse the challenges and potential threat of China's and India's exports to Tanzania , their investments in Tanzania's economy, and the impact thereon, with particular focus on the growing unemployment problem in the country. The fourth and last chapter provides conclusion and some policy recommendations on the discussed issues.

2.0 OPPORTUNITIES FOR TANZANIA'S PRIVATE SECTOR

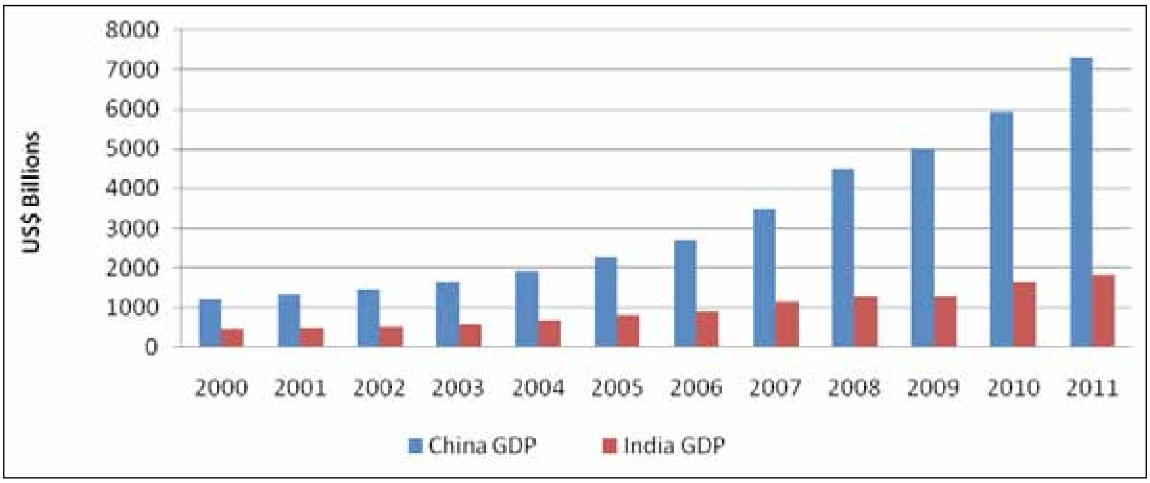
2.1 The Rise and Economic Growth of India and China

It is claimed that in the 18th and 19th Centuries, China and India had controlled over 44 percent of the world's GDP[1] . However this dominance declined in the 20th Century to around 16.88 percent between 1995 and 2003[2]. It is now projected that by 2030, these two powers may control more than 40 percent of the world GDP once again.

Deng Xiaoping of China (1970s) and Narasimha Rao and Manmohan Singh of India (1990s) are accredited for being the main craftsmen behind the great economic reforms that took place in these two countries. These reforms have resulted in annual average growth rates of China and India between 2006-2011 reaching around 10.6 percent and 8.2 percent, respectively. Their GDP performances have also been experiencing a positive and promising trend within the last decade (see figure 2).

The recent agricultural land reform in China and the *Bharat Nirman* plan in India that aimed at distributing the wealth realized from economic growth, resulted in huge reduction of poverty in both countries; such that the number of rural households in extreme poverty has been at unprecedented low levels since 1985, despite challenges in widening income disparity. The lower middle class has grown and is expected to be one of the main largest income groups in the rural areas.

Figure 2: China and India GDP 2000-2011

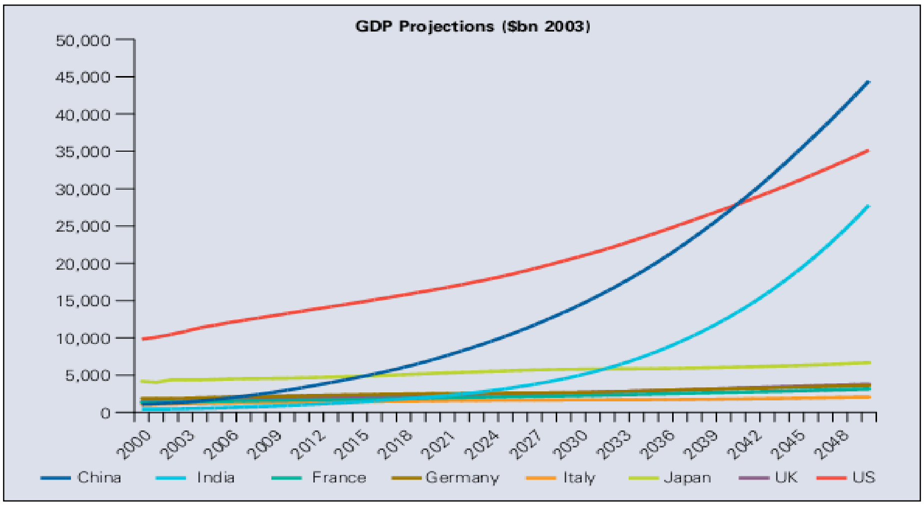


Source: Source: IMF, World Economic Outlook database, October 2012

This trend in growth of both China and India is most likely to continue. Goldman Sachs (2003) is among the authors who predicted China being the second largest world economy by 2016 and India overtaking Japan by 2036 (Mawson, D., et al, 2009) (see figure 3).

1 Roy, S., 2012, "China and India, the Emerging Giants, and African Economic Prospects", Global Policy Essay, July 2012
2 ibid

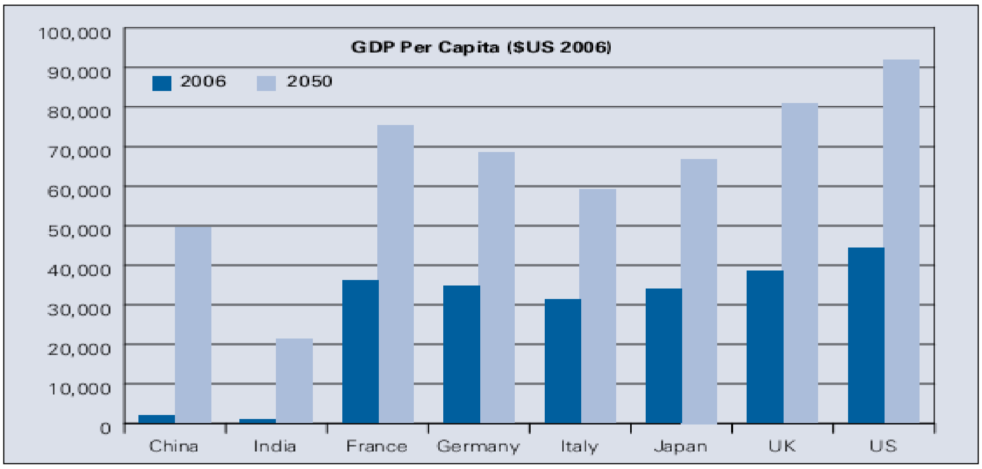
Figure 3: Projected GDP



Source: Mawson, D., et al, 2009

Nevertheless, however high their projected GDPs will be, the per capita incomes of China and India are envisaged to be relatively low in comparison with advanced economies. It is projected that by 2050 China's per capita GDP would be half of that of US and India being further lower than half (figure 4).

Figure 4: Projected Per Capita GDP

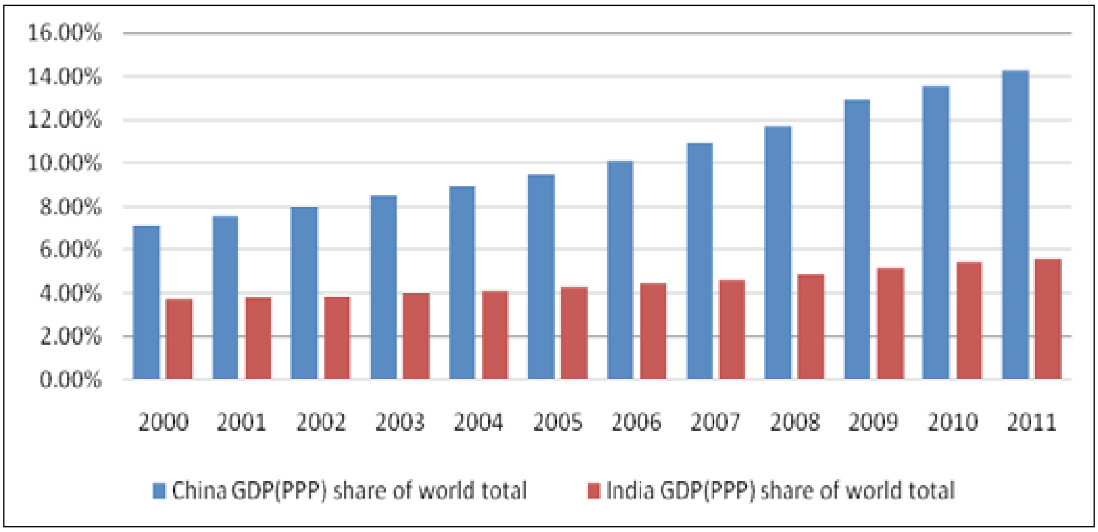


Source: Mawson, D., et al, 2009

2.2 The Emergence of the Middle Class and Their Role in Tourism

The rise and growth of the middle class in China and India signify a change in spending pattern in the next twenty years, being fueled by rising incomes and expanding urban populations. Coming from a history situation of poor provision of health and pensions, as well as having underdeveloped financial markets, the economic growth somehow motivated their people to increase their savings rate. As a result, the GDP (PPP) of these countries in the last decade has been increasing, China experiencing a higher increasing than that of India (see figure 5). In this sense, it is estimated that aggregate consumption in India and China will be four times higher in 2025, making them the fifth and third largest consumer markets in the world.

Figure 5: China and India's GDP (PPP) as Share of the World Total



Source: IMF, World Economic Outlook database, 2012

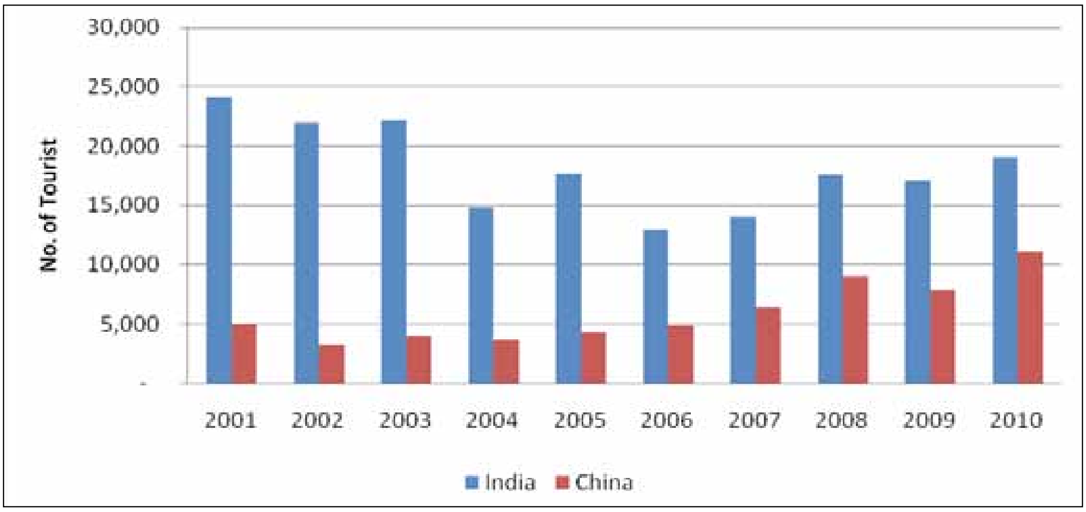
2.3 Increasing number of Chinese and Indian tourists

Given the rising consumption levels in these countries as cited above, it is expected that the number of Chinese and Indian tourists visiting other countries is expected to increase due to the change in attitude. By 2005, it was reported that Africa had accommodated more than 110,000 Chinese tourists, with the World Tourism Organization predicting that China is to be the world's largest tourist market by 2020. In 2010, China was ranked the third country in spending on international tourism with expenditure worth US$ 55 billion, overtaking the United Kingdom with US$ 49 billion (UNWTO, 2011).

According to the UNWTO report (2011), Tanzania has been among the few countries in Sub-Sahara and East Africa to perform above average in attracting tourists within the past 3 years. This is a promising performance by the country. With the emergence of the middle class from the Asian giants, it is more likely that Tanzania would be in a better position to tap such opportunities.

The trend however shows that India has been providing more international tourists to Tanzania compared to China (figure 6), a trend that may well be associated with the large number of Indian Diasporas in Tanzania compared to China. There is also the relatively low cost of air travel between Tanzania and India; and lack of awareness of Tanzania as a tourist destination among the Chinese

Figure 6: Trend of Indian and Chinese Tourist arrivals in Tanzania 2001-2010



Source: Tourism Statistical Bulletin (2012) and authors own calculations

2.4 Trade

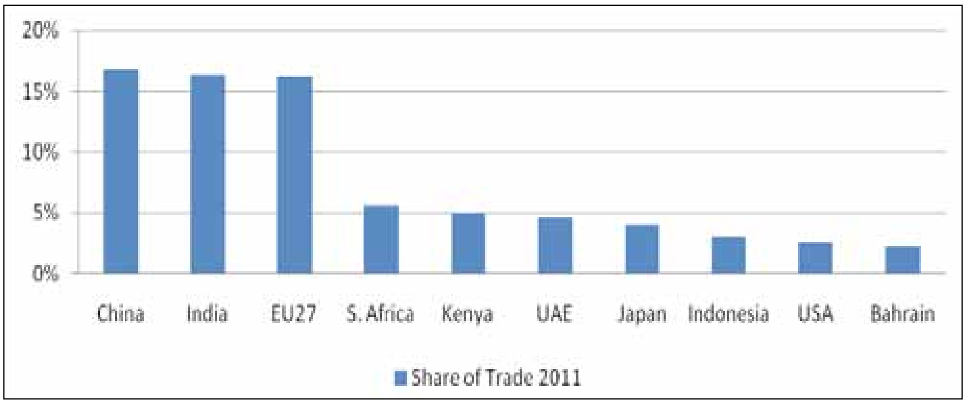
The total trade value between Tanzania and the two emerging powers has been increasing in the past decade. In principle, Tanzania has a trade deficit with the two countries despite the increase in trade with them (see figure 7). The exports to India comprise a range of commodities, including: cashew nuts, pulses, ores and metal scrap, gemstones, cloves and other spices, tanning/dyeing and coloring materials, non-ferrous metals, essential oil and cosmetic preparators, leather, dry seafood, raw leather, log, coarse copper and wooden handcrafts. Tanzania's imports from India include commodities such as: processed foodstuff, vehicles, textiles, light industrial products, chemical products, mechanical equipment, electric appliances, steel, mineral fuels, oils, pharmaceuticals, yarn, apparel and clothing, plastic products including synthetic polymers, inorganic/organic/agro-chemicals, rubber items including tyres, cotton fabrics, only to mention a few.

Figure 7: Trend of Indo-Tanzania Trade 2005-2012

Source: India High Commission to Tanzania and TRA, 2012

In this context, by 2011 India became the leading import partner to Tanzania having 18.7 percent share of total imports followed by China with 17.3 percent. During the same period, China was the second Tanzania's export partner, after the EU, with a share of 14.3 percent; India being the fourth with a share of 7.8 percent. Overall, China and India are the two leading trading partners for Tanzania with a share of 16.7 percent and 16.3 percent respectively (see figure 8). This demonstrates the potential that exists for Tanzania to improve its trade with the two countries.

Figure 8: Share of Trade Partners with Tanzania, 2011

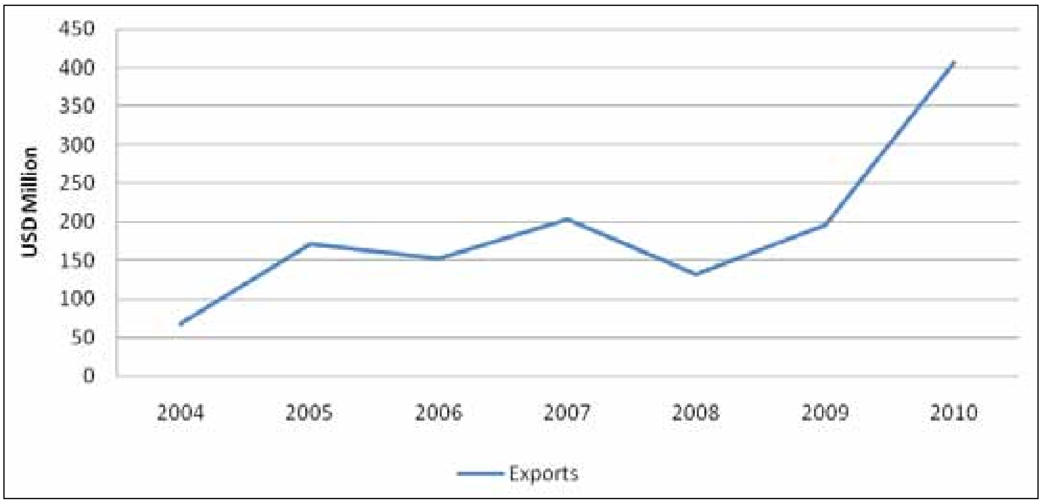


Source: OECD, 2011

2.5 The Preferential Market Access

The positive trade performance with these emerging nations may well be associated with the preferential market access devised by the governments of these countries for the African LDCs. This was made public at 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. The overall economic value of these is around US$ 10 million per year[3] (see table 1). As a result, Tanzania's exports to China have grown 496.6 percent from 2004 to 2010 (see figure 9). The trend has been on the rise, except for the 2007/08 hiccup caused by the global financial crisis.

Figure 9: Trend of Value of Exports to China (2004-2010)



Source: UNCOMTRADE and Ministry of Industry and Trade

3 Edinger, H., Herman, H., and Jansson, J., 2008, "New Impulses from the South: China's Engagement of Africa", Centre for Chinese Studies (CCS), Stellenbosch University Stellenbosch, South Africa, May 2008.

Under the WTO Hong Kong Ministerial Mandate of 2005, India has resorted to provide unilateral duty-free tariff preferential market access to LDCs exports (table 1). The scheme provides customs duty free on 85 percent of India's total tariff lines, 9 percent tariff lines available on preferential market access as per Margin of Preference (MOP). Thus, this scheme's preferential market access tariff lines covers around 93 percent of global exports of all LDCs, that includes important products from Africa such as cocoa, cotton, cashew nuts, aluminum ores, copper ores and cane sugar.

Table 1: Most Valuable Preferences for China

Product	HS8 Code	Margin of Preference (%)	Estimated annual Value of Preference (US$)	Exporters
Sesamum/ Sesame seeds	12074090	10	4,695,623	Djibouti, Eritrea, Ethiopia, Mali, Mozambique, Niger, Senegal, Somalia, Sudan, Tanzania, Togo, Uganda
Copper cathodes	74031100	2	1,334,359	Democratic Republic of Congo, Tanzania, Zambia
Octopus	3075900	17	1,066,201	Guinea, Mauritania, Mozambique, Senegal, Tanzania
Unrefined Copper	74020000	2	376,161	Democratic Republic of Congo, Tanzania, Zambia
Goat skin leather	41062100	14	353,211	Eritrea, Ethiopia, Rwanda, Senegal, Somalia, Sudan, Tanzania, Uganda
Cocoa beans	18010000	8	151,299	Ethiopia, Guinea, Sierra Leone, Tanzania, Togo, Uganda
Sheep or Lamb skin leather	41051010	14	150,262	Ethiopia, Mauritania, Sudan, Tanzania, Uganda

Source: China Customs Data and Centre of Chinese Studies

1.6 FDI Inflows

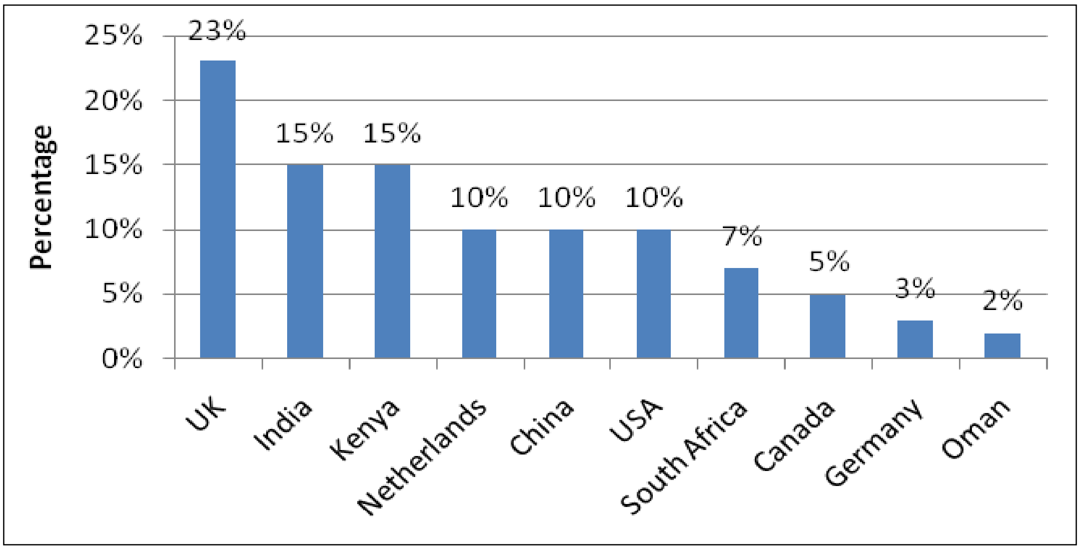
While the FDI world outward stock of the 7 major industrial fell, China and India's positions steadily increased, with China reaching the 5th position compared to India's 31st as of 2008 (Morrissey, O. and Zgovu, E., 2011). As of 2008, India's investment in Africa was around USD 3 billion, where that of China was USD 8 billion. It is worth noting that Sino-Indo-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.

The increasing FDI outflow of these two economies is largely due to their huge needs for natural resources in view of their growing economies. A good example is the pledge made by China in 2008 to invest up to USD 4 billion in Nigeria in return for oil rights. A similar offer was made to Angola during the same period, with a concessional loan to be repaid later in oil. India has also been making investments in Africa, and particularly in energy-intensive mining and mineral processing such as copper mining in Zambia, iron ore in Liberia and mining and steel manufacturing in Nigeria.

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 by India is the support provided by the state-owned infrastructure and engineering companies RITES and IRCON in Africa's rail and road development.

As proof of the increased investments by these two emerging powers, India and China are ranked respectively as the second and fifth top foreign investors in Tanzania, having a combined share of 35 percent of the total foreign investments in the country (see figure 10). An interview with the Chinese Ambassador to Tanzania, Mr. Lu Youqing[4], revealed that by the end of 2010 there were not less than 300 Chinese companies registered in Tanzania, with total registration capital of about 868 million US dollars.

Figure 10: Leading Countries Investing in Tanzania 2005-2011



Source: Tanzania Investment Centre

The Chinese ambassador to Tanzania stated that by 2012 the aggregate investments of the Chinese companies in Tanzania had reached US$ 1 billion (TanzaniaInvest.com), making China the second behind the UK. However, this level of investment is certainly lower that what has been invested in other countries, whose relationship with China came later compared to that with Tanzania. It is not very clear why China appeared to have adopted a slow attitude towards Tanzania, leaving investment opportunities to other countries in sectors such as gold mining and gas exploration.

4 Interview was conducted by Mlimani TV

3.0 CHALLENGES AND POTENTIAL THREATS

The engagement of Tanzania with these two emerging powers, though seen as an opportunity for growth, faces some challenges and missed opportunities to cement economic ties with them.

To enhance its economic prospects, Tanzania needs to intensify its relationship with India and China. The following are some of the challenges:

i. De-Industrialization of Tanzanian Infant Industries:

The importation of manufactured goods while exporting raw materials creates an unfavourable environment to the infant industries in Tanzania. This is amongst the most common economic challenge which Tanzania needs to consider seriously as it continues to sthregthen its relationship with India and 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.

ii. Cheap and Counterfeit goods:

A study by Mashindano et al (1997)[5] 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 competion.

iii. Local Labour displacement:

Once the local infant industries collapse due to the increased cheap imports from India and China, those who were employed in those industries lose their employnet accordingly. This may lead to disharmony and social unrest amongst the people, which would further aggravate poverty to the country.

iv. Unequal Playing field:

The governments of India and China provide huge support to some strategic industries of which Tanzania 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 upto 20th January, 1956[6]. 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. With such affordable loans and other subsidies provided to Indian industries and firms, it becomes very difficult for Tanzania processed goods to compete with them.

5 Mashindano, O; et al. (2007), "Effects of Counterfeit Goods on the Tanzanian Economy: The case of manufacturing Sector, Mimeo, Dar Es Salaam.

6 http://cultural.maharashtra.gov.in/english/gazetteer/KOLHAPUR/finan_aid_agri.html

v. Strict rules of origin:

It has been seen that the rules of origin especially from China are viewed to be stricter than those from AGOA, specifying that at least 40 percent of value of goods must be added in the exporting country compared to the 35 percent from AGOA (Edinger, H., Herman, H., and Jansson, J., 2008). This implies that, although the Chinese and Indian traders come and open operations in Tanzania, it is very difficult for Tanzanians not only to operate in these countries but also it is very difficult to export processed commodities due to the Non-tariff barriers and other technical barriers to trade that exists in these countries.

Some Unexploited Opportunities

1. The foremost intervention that Tanzania should undertake is to have a comprehensive plan on what it wants from its engagement with China and India. This is important in informing strategic engagement facilities planned to assist Tanzania's private sector and state enterprises in their bid to penetrate the Indian and Chinese markets.

2. The massive engagement by Chinese and Indian companies in different fields, including engineering, should ideally provide a fertile low cost learning ground for building local capacity of Tanzania's manpower. This will require specially tailored policies, like encouraging internship and partnership between Tanzania and Chinese and Indian firms.

3. The rich list of items eligible for preferential tariffs offers a unique opportunity for the development of commodity value chains in Tanzania. Unfortunately, the country has not done enough to create awareness among its people on the business opportunities available in these countries.

4.0 CONCLUDING REMARKS

It is not a secret that the models devised and used by India and China to achieve great economic growth in the last two decades are to be highly commended. Lessons from these two models cannot be replicated elsewhere, but they can well be adapted by developing countries like Tanzania. The specific lessons need to be utilized by discerning what would best suite the prevailing situation in Tanzania. Such lessons may be specific industrial and trade policy measures, institutional changes, means of attracting and harnessing FDIs so that they have effective impact on the development of the country, and enhancing bargaining power with other major donors (Moshi, H.P.B., and Mtui, J.M., 2008).

It is clear that, experiences from China and India on attaining development may provide a good ground for African developing countries to inquire from the development partners, to provide wider policy space than the current situation. The high dependence on donors reduces the width of policy space to most of the African states, including Tanzania. As the aid from Western countries is often tied with a lot of transaction costs, strong ideological 'hidden' agenda becomes a part of this aid with aim of shaping policy decisions and processes[7].

With the proof China and India's continuous GDP growth and being considered as among the influential global-governance actors, it is pivotal for Tanzania and other African countries to devise specific strategies for dealing with these two emerging powers. These strategies should see to it that trade, FDI and Aid from India and China are all effectively exploited so as support the set goals of reducing poverty and attaining strong economic growth.

As this study has just extracted some few lessons from various Indo-China Africa relations studies, it would be very important for a country study be conducted to have an in-depth analysis of the economic impact that results from the Indo and Sino- Africa relations with specific case of Tanzania.

7 Moshi, H.P.B., and Mtui, J.M., 2008

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Objectives:
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