Cementing the Future
- A Closer Look at FDI and Growth in Tanzania

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Abstract

Tanzania is one of the world’s poorest countries. But it has a lot to offer and in recent years both tourists and companies have realised this. This thesis focuses on the companies and takes a closer look at the growth performance and the inflow of Foreign Direct Investments (FDI) to Tanzania. By presenting a case on the cement industry in Tanzania the thesis also provide some insight in the mechanisms of FDI on a more practical level. The findings conclude that the FDI and growth have both increased extensively since the 1990’s, but I refrain from comments on the causality of this relationship. The economic reforms that the country underwent in the 1990’s are thought to have played a key role in the development of the country. From the case presented we draw the conclusion that a FDI can affect the value chain as well as the whole country in numerous ways.

Keywords: FDI; Economic Growth; Cement Industry; Value Chain; Tanzania
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1. Introduction

On August 8, 1966 His Excellency Mwalimu Julius Kambarage Nyerere, Father of the Nation and then President of the United Republic of Tanzania, watched how the first ever bag of cement produced inside Tanzania came out of the Tanzania Portland Cement Company (TPCC) factory just outside Dar es Salaam in Tanzania.

A lot have happened in Tanzania since then, but the factory on top of the Wazo Hill, majestically overlooking the clear blue Indian Ocean has endured and is today more productive than ever before.

For almost 42 years this factory has provided the Tanzanian market with a most vital product – cement. In many developing countries, the cement industry plays a vital and core role in the developing process. The cement creates infrastructure – and with 5 percent of the Tanzanian roads being paved, the infrastructural needs are enormous (NBS, 2006, p 12) – but the cement also brings jobs, development of supplying industries and human skills in its footsteps.

But this is not really a thesis about cement. Rather it is a thesis about growth. It is a thesis about economic reforms, and most importantly it is a thesis about Foreign Direct Investment (FDI). The cement only serves to provide an example and a setting for the thesis.

It just so happens that this particular cement factory was suffering from bad results and negative profit in the 1980’s. At that time Tanzania had a centrally planned economic policy and the TPCC was to a 100 percent owned by the Government of Tanzania. But as the country changed its economic policy towards a more market economic approach in the beginning of the 1990’s, things changed for the factory. As a consequence of the changes and in an attempt to improve the performance of the company a privatisation process of TPCC started, and in 1992 the companies Scancem International and Swedfund AB jointly bought approximately 26 percent of the company. This foreign-based joint initiative proved to be very successful and eventually the red numbers in TPCC’s Financial Statement turned into green, and the factory started flourishing. But is FDI always this successful? What were the reasons for this triumphant outcome? Does FDI even promote growth?
This thesis sets out on a journey to the East African pearl of Tanzania – much like I did when conducting the research for the study – to find the interconnections between FDI and economic growth. More specifically it digs deeper into the concept of FDI and tries to find linkages between growth and FDI. What are the underlying reasons for the recent economic growth performance and inflow of FDI to Tanzania, and how does a FDI affect a country on a micro-level?

To my help I have statistics on growth and FDI in Tanzania, but also the example above – TPCC. This example serves as a case study of a FDI on a micro-level and provides some useful insight in the effects of FDI by examining the value chain of the distribution of cement.

The thesis is disposed in the following way. First we present a brief overview of the existing theories on FDI and growth in section 2. Section 3 will then continue to highlight the recent trends in FDI and growth in Tanzania. Section 4 gets more practical and digs deeper into this by presenting the cement case presented above in more detail. We proceed in section 5 to discuss and analyse the results and the thesis is then topped off in section 6 with some summarising words and a conclusion. Enjoy.
2. Theoretical Approach

First of all we need to define what a Foreign Direct Investment (FDI) really is. FDI, according to Dunning (1970), involves equity ownership that is extended across national borders and that comes accompanied by a significant degree of managerial control. How much a “significant degree” actually is can be debated, but OECD (1999) benchmarks it and says that a FDI is established when the direct investor has acquired 10 percent or more of the ordinary shares or voting power of an enterprise abroad. However, DeMello (1997) argues that the definition of a FDI should be broader and also include non-equity cooperation in which a foreign firm supply a domestic firm with tangible as well as intangible assets. These assets come in the shape of collaboration concerning for example licensing, leasing, franchising, start-up and international production-sharing agreements. Joint ventures with a limited foreign equity participation, as well as R&D cooperation are also included in DeMello’s broader definition of FDI. So, as it seems FDI can be defined in different ways, but no matter the exact definition, let us continue and explore what possible benefits the host country can reap and how that would affect growth.

Jones and Wren (2006) explore this area and find a couple of interesting reasons why a country would want to attract FDI. Apart from the direct investment effects, such as employment, and output resulting in an income flow, the investments are thought to also generate more indirect effects, known as “spillovers”. These spillovers can in turn be divided into the four underlying transmission mechanisms that follow: 1) linkages between the investor and domestic firms, both forward linkages towards the purchaser and backward dittos towards the suppliers; 2) the movement of labour between domestic firms and the investment firm; 3) the imitation mechanism by domestic firms; 4) and the aspect of increased competition that forces the domestic companies to increase their efficiency (Jones & Wren, 2006, p. 72). These effects potentially affect the economic growth of the receiving country.

Theoretically, however, the effects of FDI on the receiving country are treated in a slightly different way. The effects differ in the recent growth models from their conventional counterparts. The conventional neo-classical model postulates that long-run growth can only be achieved from technological progress and labour force growth, both which are considered to be exogenous. FDI can thus, according to this theory, only affect growth in the short run.
because of diminishing return of capital in the long run. The host country of the investment would then in the long run return to its steady state, as if the FDI never had taken place. The end result would be a temporary effect on the economy, but it would be transient, and the FDI would leave no permanent impact on the economic growth. In this model, FDI-promoting policies would have no long-term effect on growth either. Any success of such policies would inevitably be short-lived.

If we expand a little on this and exemplify with a change in the saving rate in Solow’s exogenous growth model we will be able to observe this effect a little clearer.

Graph 1.

**Solow’s Exogenous Growth Model**

![Solow's Exogenous Growth Model](image)

Above in Graph 1 we observe the initial steady state in point A, where the \( sy \) curve intersects with the \( (n+d)k \) curve. The output per worker is denoted \( y_0 \) and the corresponding value of \( k \) is denoted \( k_0 \), which algebraically satisfies the condition

\[
sy = (n+d)k.
\]

At this point the saving rate thus equals the depreciation rate and the rate of the population growth. The steadiness of this state implies that \( k \) is constant, and with that comes that \( y \) and \( c \) – which is just what is left for consumption of the output per worker, or \((1-s)y\) – also remain
constant. The result is that the quantities of $y$, $c$ and $k$ do not grow in the steady state and the level of $Y$, $C$ and $K$ correspondingly grows with the population growth rate $n$ – which is given exogenously.

So, what happens if we increase the saving rate from $s$ to $s_1$? The explanation is pretty straightforward, if you increase your saving you will have less to consume, making the $sy$ curve shift upward to the blue line above, $s_1y$. However a higher saving rate makes the saving per worker higher than the population growth and the depreciation rate – thus leading to a capital accumulation. This will go on until we find a new steady state in the point B. At this point we can observe that the output per worker is higher than in the first situation, $y$ increase to $y_1$, however the capital per worker correspondingly increase to $k_1$. So, although it takes a temporarily increase in per capita growth to reach the new point B, once there the per capita growth will remain steady in the long run. But it is important to point out that we do have a long run effect of the GDP stock from this kind of behaviour (Barro & Sala-i-Martin, 1999).

If we instead relax the assumption that returns to capital are diminishing, see Barro & Sala-i-Martin (1999), we get quite a different result. The AK model that Barro & Sala-i-Martin presents assumes returns to capital to be non-diminishing. This assumption may seem unrealistic, but by making capital encompass human capital as well as knowledge and public infrastructure and so forth it becomes more plausible. In this model the short-run growth rate is equal to the long-run growth rate. This makes the determinants for long-run growth become the productivity of capital and the willingness to save. With this model we can see that FDI promotes economic growth in the long-run through a permanent knowledge transfer that comes with the FDI. If we, in the light of this, see FDI as a combination of know-how, capital stocks and technology we can see long-run effects on growth in different ways.

Transfer of know-how is expected to increase the existing stock of knowledge in the host country in two ways: Through skill acquisition and labour training, on one hand, and through the introduction of new and superior management and organisational practices, on the other hand. Capital accumulation is expected to be growth-enhancing by the introduction of new technologies and inputs in the production function of the host economy. New technologies are expected to stimulate productivity via the already mentioned spillovers to domestic firms. However, it is the externalities of the investment that prevents the decline of the marginal productivity of capital in the long-run. Even if diminishing returns exist in individual firms,
the externalities fill the gap between social and private rates of return on the investment. These mysterious externalities thus accounts for the non-declining returns that is so crucial for long-term growth. Technology and knowledge transfers are expected to be the most important mechanisms through which FDI promotes growth in the recipient country, due to the potentially greater externality effects than in the case of new inputs. But, as you can imagine, externalities are not that easy to measure, which makes the impact of FDI on growth less controversial in theory, than in reality (DeMello, 1997).

Furthermore, FDI has the advantage of not exposing the host country for the financial risk associated with the investment. Many developing countries, including Tanzania, are indebted and experience indicates that a high level of debt can jeopardise economic growth in the borrowing country. With FDI, however, this is not a problem since the country in itself takes no risk with the investment. If a particular project is unsuccessful, the host country has no obligation to pay interest or even repay principal – the investing company bears all the risk. The company may not earn profits, but the country is not affected and led to bankruptcy (Bengoa and Sanchez-Robles, 2003).

However, Buckley et al (2002) argues that economic and social factors in the host country should also be considered when looking at the extent to which FDI contributes to growth. Countries with open trade regimes, high technological levels and a high rate of savings would benefit from increased FDI to their economies. Necessary prerequisites for the host country to fully benefit from long-term capital flows, according to Bengoa and Sanchez-Robles (2003), are adequate human capital, sufficient infrastructure, liberalised markets and economic stability.

So, it seems as if FDI can indeed promote growth – at least in theory. However there is always the issue of causality; does FDI really promotes growth, or is it that growth in itself promotes FDI? It is beyond the scope of this thesis to analyse that relation further by conducting a full empirical study. But it is about time to proceed to the next section of the thesis and look at some real-world empirics.
3. Empirics

Although it is a common misperception, Tanzania never actually was a British colony. Germany however colonised the country in the 1880s through to 1919. After that the Brits took control over the area, but not as a colony but rather under a League of Nations mandate. Under British supervision Tanzania served as a military outpost during the World War II. It took all the way to 1961 before the country received its independence from the United Kingdom, under the name Tanganyika. In April 1964 Tanganyika united with Zanzibar and after a renaming process became the United Republic of Tanzania on October 29, 1964 (Nationalencyklopedin, 2008).

Guided by the firm hand of the president Julius Nyerere, Tanzania took its first steps as a sovereign nation. The country embarked on a development strategy based on a concept that Nyerere in the 1967 Arusha Declaration formulated as “socialism with self-reliance”. This declaration called for a change in the economic system, through what Nyerere called “Ujamaa” – his vision of socialism – and self-reliance in food production (Kanaan, 2000). So, by the late 1970s the country had a highly state-controlled economy with a stiff economic system that was heavily regulated and had a monopolistic production structure. As a consequence of this inflexible system, combined with other factors such as the Kagera war with Uganda and external chocks, Tanzania experienced severe blows to its economy in the late 1970s. Macroeconomic imbalances, a decline in per capita income and an economic stagnation followed in a spiral that lasted over 15 years (Treichel, 2005).

When the country in the early 1990s applied for loans from the International Monetary Fund (IMF) it also had to accept the fund’s Structural Adjustment Programmes (SAPs). The structural adjustment of the Tanzanian economy involved a gradual liberalisation and a pursuit of market oriented reforms. In this process the country dramatically slenderised its public sector – for example free health care and education were sacrificed and could no longer be provided by the government (Nationalencyklopedin, 2008). The reforms were intensified in 1996 and according to Treichel this triggered the economy to take a giant leap towards economical stability again. These reform-oriented policies were based on three pillars (Treichel, 2005):
• **Large-scale privatisation.** As mentioned privatisation was a key condition in Tanzania’s SAPs and in fact almost all state-owned companies have been privatised since 1992.

• **Liberalisation.** A gradual liberalisation in different sectors, such as agricultural prices and the exchange market, have taken place since 1992 as the Government of Tanzania more and more let go of the old policy of dominating economic activity.

• **Macroeconomic Stabilisation.** A tighten up of the country’s monetary and fiscal policies have proven successful in controlling and taming a high inflation, and the country have experienced a rapid decline in the inflation rates. In 1999 the inflation rate was down to a single digit from an annual average of over 35 percent in 1990-1995.

With this brief introduction to the Tanzanian economy and its more recent history we have a better understanding of the situation in the country, and the development leading up to the present situation. In the light of this it would be of interest to take a look at the development since the 1990s. In line with the focus of this thesis special attention will be focused on the economical growth and the inflow of FDI to Tanzania in section 3.1 and 3.2 respectively.

### 3.1 Growth

This section takes a look at the growth in Tanzania, and specifically the economic growth. Growth is measured in GDP and typically its annual inflation adjusted growth rate. This is the conventional way of measuring economic growth, and the way it is going to be measured in this thesis.

Treichel (2005) assemble numbers gathered from Tanzanian authorities and gets the following table of growth and inflation in Tanzania in 1990-2003.
Table 1.

**Growth and Inflation, 1990-2003**

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Real Growth</strong></td>
<td>2,7</td>
<td>4,8</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Sectoral components of GDP</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Agriculture</td>
<td>3,6</td>
<td>1,8</td>
<td>4,1</td>
<td>1,8</td>
</tr>
<tr>
<td>Industry</td>
<td>1,8</td>
<td>0,4</td>
<td>7</td>
<td>1,5</td>
</tr>
<tr>
<td>Mining</td>
<td>11,8</td>
<td>0,1</td>
<td>15,3</td>
<td>0,3</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>0,7</td>
<td>0,1</td>
<td>6</td>
<td>0,5</td>
</tr>
<tr>
<td>Electricity and water</td>
<td>4,4</td>
<td>0,1</td>
<td>4,9</td>
<td>0,1</td>
</tr>
<tr>
<td>Construction</td>
<td>0,7</td>
<td>0,2</td>
<td>6,7</td>
<td>0,6</td>
</tr>
<tr>
<td>Services</td>
<td>1,9</td>
<td>0,6</td>
<td>5,1</td>
<td>1,6</td>
</tr>
<tr>
<td>Trade, hotels, and restaurants</td>
<td>2,2</td>
<td>0,4</td>
<td>5,7</td>
<td>0,9</td>
</tr>
<tr>
<td>Transport and communications</td>
<td>4,1</td>
<td>0,2</td>
<td>5,2</td>
<td>0,3</td>
</tr>
<tr>
<td>Financial and business services</td>
<td>2</td>
<td>0,1</td>
<td>4,8</td>
<td>0,3</td>
</tr>
<tr>
<td>Public administration and other services</td>
<td>-1,5</td>
<td>0</td>
<td>3,2</td>
<td>0,1</td>
</tr>
<tr>
<td><strong>Inflation</strong></td>
<td>29,9</td>
<td>9,1</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Treichel (2005)

This table provides us with some interesting information. The average growth rate has almost doubled from 1990-1995 to 1996-2003. A closer look at the table’s sectoral division reveals that the biggest contributor to Tanzania’s growth performance is the agriculture, both in the period between 1990 and 1995, and thereafter. However, industry shows the biggest contributory increase between the two periods, from a 0.4 percent to 1.5 percent. Within this sector it is especially the manufacturing and the construction sectors that accounts for the increase. Mining, however, did not contribute significantly to higher growth, although the sector shows high sectoral growth rates. The electricity and water sector is rather anonymous in both periods, only contributing with 0.1 percent in each period.

The service sector also shows a good increase in its contribution to the total growth performance – a full percent increase actually, leaving it only marginally behind the industry sector. In this sector, the big winner is trade, hotels and the restaurant business. This sector managed to increase its contributions with 0.5 percent. The sector public administration and other services actually had a negative growth rate in 1990-1995, but reversed the trend and the average growth in the second half of the 1990s was positive.
The inflation rate shows a dramatic decrease between the two periods. From a high average of almost 30 percent to less than 10 percent in the second half of the 1990s – a drop in the average inflation of 20 percent. The underlying reasons for this quite remarkable decrease are many, but Threichel (2005) highlights improved monetary management via a new cash-management system that limited the central bank’s expenditure to its available revenue, tighter supervision of state-owned banks and the financial support from various donors that eliminated domestic financing requirements in the budget.

So, the country managed to almost double its growth rate in the 1990s, with a great contribution from the industry and the service sectors that showed an impressive increase in performance, at the same time as the inflation drastically tempered. But let us take a deeper look at the growth performance of Tanzania, and not settle for the average numbers above. In the following graph the annual percent change in GDP is shown. Let us also stretch the timeframe just a tad and include the 1980s and what is covered of the 2000s in the graph.

This graph is not very smooth and steady and indicates that the conclusions drawn from the average numbers above may not be so reliable after all. If we, for example, exclude the year 1990, since it obviously is an extreme observation in the period 1990-1995, the average
The growth rate for this period is only 1.82 percent, compared to 2.7 in table 1. That is almost one percent lower than indicated above. Also worth mentioning is that the GDP growth from 1980-1990 was 2.97 percent, which is higher than in the first half of the 1990s. The average growth rate for the whole period is 3.97 percent. So, although the growth rate fluctuates wildly during the 1980s, the average growth rate for the whole period measured is not bad at all. It also seems as if the fluctuations decrease after the low-point in 1992, and we can observe a rather steady increase in the growth rate from thereon.

The growth rates, however, does not say very much, well nothing really, about how the population of the country is doing. So, let us put a currency on the GDP and see how Tanzania is doing in actual level, instead of changes from year to year. We thus measure the GDP in per capita terms to get a better sense of the standard of living in Tanzania. Although GDP per capita is criticised and may not be an optimal tool for measuring standard of living, it gives a valuable indication of the state of the nation, and opens up for comparisons between countries since it also takes the size of the population into consideration. With a population of almost 40 million in 2006 (World Bank, 2007) the GDP per capita of Tanzania over time, measured in current prices and in US dollars for simplicity, looks something like this.

Graph 3.

GDP per capita, US dollars

Source: International Monetary Fund (2008)
A first observation that is worth noting is that the general level is really low, with a top of not even 390 US dollar and a bottom in 1994 with 156 US dollar per capita for the period. A quick comparison with a perhaps more familiar country, say Sweden, with a 2006 GDP per capita of 43,190 US dollars reinforces this observation. So, although the graphs and numbers indicate a positive trend with increasing growth rates, we must not forget that Tanzania is a really poor country. A second observation is that the 1982 GDP per capita is the graph’s maximum value and up to 2006 the numbers did not reach or surpass this level. But, the numbers have steadily increased since the period’s minimum value in 1994, and according to IMF estimations GDP per capita actually surpassed the 1982 level already in 2007 and will continue to grow with roughly 7-8 percent per annum (IMF, 2008).

The next section will take a look at the FDI coming into Tanzania, and this section will show some strong and quite prodigious results. So, without further a due let us continue and reveal these results.

### 3.2 FDI

As established earlier, a FDI is when equity ownership is extended across national borders and into a foreign country. It should also come with a significant degree of managerial control (Dunning, 1970). From there FDI can be further subdivided into four categories, according to the IMF’s Balance of Payment Model 5 (1993), depending on how the transfer is performed:

- **Foreign Direct Equity Investment**
- **Reinvested Earnings** (earnings from existing equity in the company that are reinvested, instead of expatriated out of the country)
- **Long-term intra-company loans** (money that comes in the shape of a loan from the parent company, or an affiliate company)
- **Short-term intra-company loans** (this category also includes supplier credits from related companies)
However, it is reasonable to start with the aggregate data, and leave the subdivided numbers for a while. The following graph shows the development of inward FDI stocks in Tanzania from 1980-2005.

This graph is pretty straightforward and almost self-explanatory. What it says is that Tanzania received almost no new FDI during the 1980s; the FDI stock remained almost constant. However, beginning in the 1990s, the FDI stocks start to increase, and after 1997 the stock has experienced a tremendous growth. This impressive increase in inward FDI coincides with the economic reforms that Tanzania performed during the 1990s. The almost non-existing inward of FDI in the years prior to the economic reforms, in turn, reflects the period of socialist governing of Tanzania with its self-reliance policy and heavy regulations where major commercial investments were owned by the state. Let us take a look at how this inward FDI is divided between different sectors. Table 2 shows the FDI stock divided into different industries for the four years 1998-2001, just to get an idea of where the investments are made.
Table 2.

FDI Stock by Industry, 1998-2001

<table>
<thead>
<tr>
<th>Sector</th>
<th>1998</th>
<th>1999</th>
<th>2000</th>
<th>2001</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>3386.3</td>
<td>2418.9</td>
<td>3038.3</td>
<td>3776.8</td>
</tr>
<tr>
<td>Primary</td>
<td>1347.1</td>
<td>971.9</td>
<td>1086.7</td>
<td>1309.3</td>
</tr>
<tr>
<td>Agriculture, hunting, forestry and fishing</td>
<td>210.7</td>
<td>154.1</td>
<td>272.5</td>
<td>252.4</td>
</tr>
<tr>
<td>Mining, quarrying and petroleum</td>
<td>1136.4</td>
<td>817.8</td>
<td>814.2</td>
<td>1056.9</td>
</tr>
<tr>
<td>Secondary</td>
<td>814.2</td>
<td>501.6</td>
<td>1031.9</td>
<td>1264.6</td>
</tr>
<tr>
<td>Food, beverages and tobacco</td>
<td>168.7</td>
<td>298.8</td>
<td>413.1</td>
<td></td>
</tr>
<tr>
<td>Chemicals and chemical products</td>
<td>31.8</td>
<td>154.4</td>
<td>162.7</td>
<td></td>
</tr>
<tr>
<td>Machinery and equipment</td>
<td>16.5</td>
<td>3.4</td>
<td></td>
<td>3.8</td>
</tr>
<tr>
<td>Other manufacturing</td>
<td>151.1</td>
<td>449.7</td>
<td>574</td>
<td></td>
</tr>
<tr>
<td>Unspecified secondary</td>
<td>814.2</td>
<td>133.5</td>
<td>125.6</td>
<td>111</td>
</tr>
<tr>
<td>Tertiary</td>
<td>1123.1</td>
<td>945.3</td>
<td>919.6</td>
<td>1201.7</td>
</tr>
<tr>
<td>Electricity, gas and water</td>
<td>70.7</td>
<td>37.1</td>
<td>36.7</td>
<td>127.4</td>
</tr>
<tr>
<td>Construction</td>
<td>186</td>
<td>136.9</td>
<td>79.2</td>
<td>100.5</td>
</tr>
<tr>
<td>Trade</td>
<td>503</td>
<td>165.7</td>
<td>102.9</td>
<td>93.4</td>
</tr>
<tr>
<td>Hotels and restaurants</td>
<td>352.4</td>
<td>275.1</td>
<td>306.9</td>
<td></td>
</tr>
<tr>
<td>Transport, storage and communications</td>
<td>95.5</td>
<td>50.2</td>
<td>145.4</td>
<td>284.8</td>
</tr>
<tr>
<td>Finance</td>
<td>132.5</td>
<td>172.5</td>
<td>177</td>
<td>179.7</td>
</tr>
<tr>
<td>Business activities</td>
<td>132.5</td>
<td>25</td>
<td>41.9</td>
<td>45.4</td>
</tr>
<tr>
<td>Education</td>
<td>0.4</td>
<td>1.1</td>
<td>1.2</td>
<td></td>
</tr>
<tr>
<td>Health and social services</td>
<td>1.4</td>
<td>53.6</td>
<td>54</td>
<td></td>
</tr>
<tr>
<td>Community, social and personal service activities</td>
<td>2.8</td>
<td>3.7</td>
<td>6.7</td>
<td>8.4</td>
</tr>
<tr>
<td>Unspecified</td>
<td>101.9</td>
<td>0.1</td>
<td>0.1</td>
<td>1.2</td>
</tr>
</tbody>
</table>

Source: UNCTAD (2006)

From this table we can deduce that the primary sector accounts for almost 40 percent of the total FDI stocks in 1998-2001, and that mining, quarrying and petroleum is the dominating attractor within the industry, with an average of over 80 percent of the FDI ration. The secondary and tertiary industries roughly accounted for 30 percent each, leaving the unspecified FDI stocks with a marginal share of less than 1 percent. Within the secondary industry, manufacturing accounts for almost 40 percent, and food, beverages and tobacco come in second with a circa 30 percent share of the FDI stocks to this industry. The FDI to the tertiary industry, also known as the service sector, is dominated by investments in the tourism sectors, with hotels and restaurants, and into the trade sector, with a 30 percent and a 20 percent share respectively.

Let us now turn back to the sub-division we made above and see how the FDI inflow to Tanzania is divided between the four different categories. From Graph 5 below we can see that on average between three years in the middle of the FDI inflow “boom”, foreign direct
equity investment is by far the biggest post, followed by short- and long-term loans, that both accounts for roughly 30 percent of the total FDI inflow. Retained earnings as a source of capital are very low and only represent 0.3 percent on average – which is an awfully small piece of the cake. A possible explanation to this slim cake diet is that many companies were at an initial stage of operation at this time, and the profit, if any, was being used to service the debts (Bank of Tanzania, 2004).

It could also be of interest to compare the FDI to the investment in fixed capital in the country, to get an idea of the importance of the FDI to the country. One way of measuring the investments in a country is via the Gross Fixed Capital Formation (GFCF). GFCF measures the aggregate net new investment in an economy. OECD (2001) defines GFCF in the following way: “Gross fixed capital formation is measured by the total value of a producer’s acquisitions, less disposals, of fixed assets during the accounting period plus certain additions to the value of non-produced assets (such as subsoil assets or major improvements in the quantity, quality or productivity of land) realised by the productive activity of institutional units.”
By compiling data on FDI from UNCTAD and GFCF from United Nations Statistics Division (UNSTATS) we can produce the following graph, showing how big part of the total new investment that the FDI flow accounts for.

![Graph 6: GFCF vs FDI flow](image)

The graph states that the amount of new investments in Tanzania has increased rather steeply since 1995. Although the inward FDI flow has started to increase from roughly the same period and accounted for almost 13 percent of the total GFCF in 2006, the domestic investments have also increased substantially from the middle of the 1990s.

But as the purpose of this thesis is to see whether we can find any connections between FDI and growth, it is suitable to try and combine both FDI and growth in the same graph. One way of doing this is to reuse two of the graphs we presented earlier, but harmonising them into one single graph. So, below in Graph 7 we have the GDP per capita graph squeezed into the FDI stocks graph. On the right hand side the FDI stocks is presented in billion US dollars, and on the left the GDP per capita is presented in US dollars. FDI stocks is presented in pink and GDP per capita in blue.
Although both graphs have been presented before, when looking at them together it becomes obvious that from the early 1990’s we have a simultaneous increase in both GDP per capita and FDI inflow. The GDP per capita have fluctuated considerably, while the FDI stocks have remained almost constant up to 1994, when the GDP start a rather steady climb. The FDI stocks also start to increase in 1994, but in a much slower pace, it takes all the way up to 1997 before the FDI starts to increase to a major extent. So, it seems as if 1994 represents a turning point for the GDP per capita growth in Tanzania, while 1997 is the starting point for an incredible growth in inward FDI stocks.

However, some started earlier than that. Swedfund and Scancem jointly entered Tanzania already in 1992 with their investment in the Tanzania Portland Cement Company. At that time the inflow of new FDI had been almost non-existent for two consecutive years, with 10,000 US dollars in total inward FDI flow (UNCTAD, 2006). The next section will present this investment as a case study.
4. Case: Tanzania Portland Cement Company

After this review of the situation on the macro level in Tanzania, let us turn back to the dear cement factory introduced already in the first pages of this thesis. Tanzania Portland Cement Company (TPCC) is one of a total of three cement factories in the country, working alongside each other. TPCC is the oldest of them, inaugurated the 8th of August 1966. It is also the biggest one of them, holding a domestic market share of approximately 41 percent. While TPCC is located in the outskirts of Dar es Salaam, which is by far the biggest city and consequently the biggest market in Tanzania, the other two factories – Mbeya Cement Company and Tanga Cement – are located in the western province of Mbeya and the province of Tanga in the north east part of Tanzania. All three of them are managed by non-Tanzanian companies. Mbeya Cement Company is driven and to a majority share owned by the French Lafarge Group. Tanga Cement is Swiss-owned via the company Holcim Limited. TPCC is today run by the HeidelbergCement Group, with its head office in Oslo, Norway. The sharp-eyed reader will now react with surprise and recall the introductory statement that Swedfund AB and Scancem International in 1992 jointly entered TPCC. What happened since then is that Scancem International in 1999 became a part of HeidelbergCement Group and Swedfund AB sold its shares to HeidelbergCement Group in 2005.

This section kicks off in 2005, a year which represents the exit and the end of Swedfund’s involvement in TPCC. The idea is to try and get a hunch of how a FDI can affect the receiving country – on a more concrete level. So, I went out there to explore the different actors involved in the cement business. I widened my perspective from just looking at the company, to include the forward value chain – the distributors and retailers of cement.

Inspiration for this comes from the British development organisation Oxfam and the international food and home care manufacturer Unilever who together carried out a case study in 2005 (Clay, 2005). The purpose of the study was to explore the links between international business and poverty reduction. The authors chose Unilever’s business in Indonesia for this purpose and estimate the employment linked to Unilever Indonesia’s business, as well as the distribution of the value generated along the value chain. The following sections reveal the estimates I found for the TPCC forward value chain. It is crucial to keep in mind that the findings are just rough estimates, and no exact truths. Further work is necessary to categorise
and allocate more accurately the precise numbers of employment and value generated along
the value chain. However, the findings provide a better understanding as to the extent to
which a FDI will affect the receiving country.

4.1 TPCC

Before we start, let us just briefly describe how to make cement – a rather intricate process as
it turns out. It is a process well worth learning, not only for the sake of good education, but
because it will prove important to estimate the gross margin for TPCC a little further down in
this section.

The raw materials for producing cement are three. It is the main ingredient, limestone, which
accounts for 90 percent of the final product. It is the red soil, an additive that accounts for
around 3 percent of the final product. And it is the gypsum, which is added in the proportion
of 7 percent of the final product.

The production process consists of five different activities. The first step is the quarrying,
where limestone is extracted through blasting. The limestone is then carried to a crushing
plant. Here the second stage of the production process takes place, the mixing of raw
materials and grinding. The limestone is mixed with the red soil in proportions of 95 percent
to 5 percent. This mixture is introduced into mills for further grinding into a fine powder. This
powder is known as raw mill. TPCC have the capacity to produce up to 2800 tons of this raw
mill in one day. The third part of the production process is the burning. At this part of the
process the raw mill enters a cement kiln, but on its way to the kiln the raw mill is preheated
in different stages up to a temperature of 330 degrees Celsius. Once in the cement kiln the raw
mill is heated up to the rather impressive heat of 1450 degrees Celsius, before it is rapidly
cooled down to around 100 degrees Celsius. In this burning process the raw mill is liquefied,
and after the cool down the raw mill has transformed into a material which is known as
clinker. This takes us to the fourth part of the production process, in which the gypsum is
added to the clinker and they are grinded together in a cement mill. The result of this is the
final product – cement. The cement is transported to storage in silos. The fifth and final part
of the production process is the packaging. At TPCC there are three different packaging
options available. The cement can be either packed into 50 kg bags, 150 kg bags, which are called big bags, or it can be pumped directly into a bulk tanker. However, a big majority of the cement is packed into the 50 kg bags, and the following sections will only look at this process (HeidelbergCement Group, 2006).

4.1.1 Value Generation

The first step in this investigation is to look at the value generated in TPCC. This is done by looking at the gross margin for the company. By using the definition adapted by Unilever and Oxfam we have that the gross margin is the total sales revenues minus the cost of sales. By using internal TPCC documents we can isolate the costs that should be deducted to obtain the gross margin. In this case these items consist of the variable costs in production as well as the cost for external services. That is, the buy-in of raw material for production, as well as services necessary for the production (e.g. security, canteen personnel, etc.). Converted into US dollars the gross margin for 2005 with this setup is 36 million US dollar\(^1\).

These 36 million US dollars are divided between different sectors within the company. As Graph 8 states the by far biggest sector is retained earnings that eats up 72 percent of the value generated within TPCC. It is interesting to note that staff costs only accounts for 5 percent of the value generated. Labour is cheap in Tanzania, and with a mere 5 percent of the value generated in the company, the incentives to streamline the amount of labour working at the company are not very high. That is not the section where you can save money.

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\(^1\) The official currency in Tanzania is the Tanzanian shilling (denoted TZS hereafter) and according to the CIA World Factbook (CIA, 2008) the US dollar equalled 1128.93 TZS in 2005.
4.1.2 Employment

As we have explained the production process at TPCC it becomes rather obvious that it takes quite a lot of people to run a place like this. Actually, 727 is the exact number for 2005. Let us take a closer look at this labour force and see what they do within the company.

First of all it is necessary to distinguish between full-time employees that are directly employed by TPCC, and the ones working at the grounds but who are employed by other companies that, in their turn, are contracted by TPCC. The first group consisted of 307 people in 2005. That is, 307 people were on average directly employed by TPCC during the year of 2005. Of these, almost 75 percent, or 225 people, were involved in the Technical Division, working with the actual production of cement and maintenance of the factory. The second largest post was Management with 42 employees. The 40 remaining people were distributed among the other core operational areas; Human Resources & Corporate Office (12 people), Finance – Accounting (10 people), Finance – Procurement (9 people) and Commercial – Marketing & Sales (9 people).
But for the company to function properly it also needs some services provided by specialised actors. These service providers are contracted by TPCC and the ones performing the job are thus not directly employed by TPCC, but they are nevertheless working on the property and without their job the company would not work efficiently. This workforce is called the indirect employment of TPCC. As of 2005 six different services were contracted by TPCC. The biggest player among these indirect employers was the security provider. They kept 178 people employed during the year, keeping the grounds safe and ensuring a safe and calm working environment for the staff. The second biggest service bought by TPCC was what goes under the name “casual labouring”. This term relates to the people hired on a weekly basis to perform mostly unqualified work such as cleaning the grounds, loading the cement trucks etc. In 2005 TPCC had on average 120 “casuals” working indirectly for them. The quarry is another outsourced activity that employed 84 people. The canteen, providing the staff with breakfast, lunch and dinner, employed 14 people. TPCC also bought cleaning service, keeping 17 people busy cleaning the facilities. Lastly the company has a small medical facility on the grounds that employed 7 people in 2005. Adding up the numbers we have an indirect workforce of 420 people.

So, combining the direct workforce with the indirect workforce we have a total of 727 employees that have their daily occupation within the TPCC grounds. However, only the 307 people directly employed by TPCC can count with the benefits provided by the company to its employees. These include the providing of housing, transport and education allowances. TPCC also fully cover the cost of medical consultation and treatment both for the employees and their registered dependants. Furthermore, since Swedfund and Scancem became majority owners in the company in 1998, TPCC has sponsored many special and general skill training activities for large groups of employees. The company has also joined the Academy Candidate Programme – a training program for middle level managerial cadre run by Scancem’s indirect owner, the HeidelbergCement Group. Via this program TPCC staff has undergone practical and managerial training as a preparation for future and eventual succession (HeidelbergCement Group, 2006).

Let us now turn our eyes and interest to the distribution of the TPCC cement. In the next section the matter of estimating the amount of labour involved and the value generated along the distribution chain will be assessed.
4.2 The Distribution Chain

We now shift our focus from what is going on within the TPCC grounds at Wazo Hill and instead follow the cement out of the factory and to the customers. This section will establish the distribution chain, and how the cement is sold and distributed. It will also estimate the amount of labour involved in this chain and give a figure of the value added in the distributors’ business.

The first step will be to distinguish the customers of TPCC. According to TPCC personnel there are two types of customers buying cement from them. First and foremost there are the distributors, which accounts for the biggest part of the sales. But, TPCC also sell cement directly to different infrastructure projects on contract basis. This share of the sales, for obvious reasons, varies with the situation in the country and how many new infrastructure projects are initiated. A rough estimate from the sales department is that 80 percent of the sales go to distributors and the remaining 20 percent go directly to different contracts. However, in 2005, the amount of sales to miscellaneous projects reached a 27.7 percent of the total sales. Although based in Dar es Salaam, TPCC sell cement for distribution in large parts of the country. A majority of the sales stay in the Dar es Salaam region, but as much as 30 percent of the sales go for distribution to various other parts of Tanzania, according to the sales department. The distributors of TPCC vary in size and location, but we can distinguish a total of 15 different distributing customers to the company. The list of distributors does not change very much, and TPCC have had the same 15 distributors since 2003.

During my stay in Tanzania I had the great fortune to meet four of these distributors personally. These four distributors were located in different regions of Dar es Salaam, and varied considerably in size and capacity – from TPCC’s biggest distributor to a small and reasonably new customer that had only been in business since 2003. Based on the interviews I conducted with these distributors the following results are obtained.
4.2.1 Value Generation

The price for the cement that leaves TPCC is unison for all distributors – 10950 TZS per bag of 50 kg cement. However, the price they sell the cement for varies with the distributors, among the interviewed in the interval from 11500 TZS to 12400 TZS per bag of 50 kg of cement. Although the discrepancy is rather big in the price they sell for, when asked for their net profit the distributors eliminate all such discrepancies. The profit per bag of cement, when all the costs associated with selling that particular bag is deducted, is roughly 100 TZS. Recalling the definition of the gross margin as the total sales revenues minus the cost of sales, we should try and get a picture of the value generated in the distribution channel. Unfortunately, the distributors I contacted could not give me a clear picture of this, but the answers I got indicates that a rough estimate, when extracting the cost of sales of the cement for the distributors, is a gross margin of 500 TZS per bag of cement.

So, if the gross margin in the distribution channel is 500 TZS per bag of 50 kg they sell it is rather easy to calculate the total value that is being added in the distribution chain. Multiplying 500 with 20 gives us a net profit per tonne of cement equal to 10,000 TZS. If we go back to the sales department’s figures of 2005 we find that the total amount of sales in 2005 was 570,963 tonnes of cement. However, only 76.3 percent of that cement was sold to distributors. The remaining 27.7 percent, if we recall what we said earlier, was sold directly to different projects on a contract basis. What is left of the sales is then 413,060 tonnes of cement. If we have a gross margin of 10,000 TZS per tonne of cement we get the gross margin for the entire distribution channel by multiplying the total amount of cement sold to distributors by that gross margin. The result is the staggering sum of 4.13 billion TZS. However, converted into US dollars the number is slightly less exciting – 3.66 million US dollar.

4.2.2 Employment

Calculating employment at this stage of the value chain gets tricky. For TPCC it was pretty straightforward, since it is a reasonable assumption that all activity they undertake is related to the production of cement. At this stage however, that is not the case.
Of the distributors I contacted, all of them had several different business activities within the company, although the distribution of cement can be said to have been their core activity. One notable exception was found though; the biggest distributor, Naikaiyoo Investment had the distribution of cement as its sole activity. The other interviewed distributors all had a cement block making facility running parallel with the distribution of cement. So, to find an estimate of the amount of labour involved in the distribution of cement it was crucial to find out how big proportion of the distributor’s business the actual distribution accounted for. It varied from 70 percent up to 100 percent, as explained with Naikaiyoo Investment above. Let us set Naikaiyoo Investment as an example to see what estimates we can derive.

In 2005 Naikaiyoo Investment bought 97,141 tonnes of cement from TPCC. That made them TPCC’s biggest customer that year, and also gave them a 23.5 percent share of the total amount of cement sold to distributors. So far so good, but how many people had Naikaiyoo Investment as their employer during that year? Spread over different business activities, we get the number 64 employees. If 64 people accounts for 23.5 percent of the distribution of cement then the whole distribution chain employs roughly 278 people. However, there are many reasons why this number is not very reliable. A reasonable assumption is that the number of drivers, for example, is analogous to the amount of cement a distributor handles. The same should typically hold for loaders of the cement. But, when it comes to management, for example, it is not obvious that the size of the management varies coherently with the amount of cement that goes through the company. So, if we look at a different distributor and try to estimate the total number of people employed in the distribution chain with regards to this distributor’s share of the sales and number of employees, will the numbers differ?

The VGK Company accounted for 9 percent of the total TPCC output to distributors in 2005. At the same time the company employed 34 people that year. Using these numbers we get a total of 378 people employed in the distribution chain. This number is quite a lot higher than what we estimated by looking at Naikaiyoo’s numbers. The real number of employees in the distribution chain is probably somewhere in between the two.
4.3 The Retailers

The last and final part of the forward value chain is the retailers – the people actually selling the cement to final customers. At this level the task of estimating numbers on value added and employment gets increasingly complex, since we are even further away from the source and the web of actors are even wider and more intricate. But let us first unravel the final piece of the puzzle – how the cement gets from the distributors to its final customers.

Basically there are two ways in which the cement is distributed to the retailers. Either the distributor transports it directly to the shop, or the cement is sold in depots owned by the distributor, which implies that the retailer has to arrange for the transportation of the cement to his shop. The retailers vary considerably in size and scope of business. I visited six different retailers, from a small wooden shed receiving less than 500 bags of 50 kg cement per month to a huge site with a capacity of over 8000 bags of cement per month. However, the bigger sites do not only limit themselves to selling cement, but also typically have a block making facility on the grounds, that accounts for some of their ration of cement from the distributors.

4.3.1 Value Generation

Let us now address the value generation among the retailers. According to my interviewees the price for which they buy the cement is 12000 TZS per bag of 50 kg. One notable exemption is the biggest retailer I met who reported that he bought the cement for as little as 11400 TZS per bag of 50 kg. The selling price varied among the retailers and also with the availability of cement. Prices mentioned varied in the interval between 11800 TZS and 15000 TZS per bag of 50 kg. However, Tanzania currently suffers from a cement shortage and when asked to give a price for the normal situation, with no shortage of cement, the selling price diminished dramatically to somewhere between 11800 to 13000 TZS per bag. The retailers thus increase the price with roughly 1000 TZS per bag, giving a gross margin that is well over that of the distributors.
For us to grasp the magnitude of the value generated in the retail end of the cement value chain we need to estimate how much of the cement that goes to making blocks. The biggest retailer I interviewed claimed that one third of his production could be referred to the actual retailing of cement, the rest was dedicated to block making. The smaller retailers I met dedicated 100 percent of their business to retailing cement. If we look at how many big and small customers, respectively, that the distributors have we can get an idea of how much cement is actually being retailed. Looking at the figures that I obtained from the distributors I find that some 70 percent of the sales to retailers hence can be referred to the selling of cement to final customers. 70 percent of the total output from the distributors equal almost 290,000 tonnes of cement. The gross margin in the retail end of the cement value chain is thus almost 5.8 billion TZS. This translates to roughly 5.1 million US dollar.

4.3.2 Employment

In this final section we will try to distinguish how much employment the cement industry creates in the retail end of the value chain. This task is most difficult and the estimates we will deduce will, at best, give an indication of the true numbers.

The retailers interviewed all give the same impression when it comes to employment – selling cement does not require very much labour. The smallest retailer I interviewed claimed she only had one employee working fulltime with the selling of cement. The biggest retailer had five people employed retailing cement. The rest all had two people employed dedicated to the selling of cement. Let us use this number to calculate the total employment in the retail channel. Then we need to find out the total number of retailers to proceed. The total number of retailers should typically equal the total number of customers to the distributors. We again set Naikaiyoo Investment as a proxy and use their numbers. Naikaiyoo Investment has roughly 280 customers of various sizes, and their share of the total cement distribution is 23.5 percent. This gives a total of 1190 customers to the distributors. If we instead look at the VGK Company, who claim to have 100 customers and accounts for 9 percent of the total cement distribution, the total number of customers to the distributors becomes 1106. The total number of employment created in the retail channel thus ends up to somewhere around 2000 people.
4.4 Estimated Employment and Distribution of Value Generated

It is probably a good idea to summarise all the information above and visualise the findings in a graph. Table 3 summarise the numbers and also shows each section’s relative importance in percent of the total employment and the value generated. These percentages are then used to draw Graph 9.

Table 3.

Estimates of the TPCC Forward Value Chain

<table>
<thead>
<tr>
<th></th>
<th>Employment</th>
<th>Value Generated</th>
<th>Employment (as %)</th>
<th>Value Generated (as %)</th>
</tr>
</thead>
<tbody>
<tr>
<td>TPCC</td>
<td>727</td>
<td>36</td>
<td>24</td>
<td>71</td>
</tr>
<tr>
<td>Taxes</td>
<td>*</td>
<td>6</td>
<td>*</td>
<td>12</td>
</tr>
<tr>
<td>Distribution Chain</td>
<td>330</td>
<td>3,7</td>
<td>11</td>
<td>7</td>
</tr>
<tr>
<td>Retail Channel</td>
<td>2000</td>
<td>5,1</td>
<td>65</td>
<td>10</td>
</tr>
<tr>
<td>Total</td>
<td>3057</td>
<td>50,8</td>
<td>100</td>
<td>100</td>
</tr>
</tbody>
</table>

Graph 9.

Estimates of the TPCC Forward Value Chain
It is time to stop and ask a few questions here. What is accomplished really? What kind of conclusions can be drawn from this material? Does the result have any wider implications in reference to the more general discussion above on FDI and growth?

Well, what Graph 9 states is that the retail channel employs by far the most people in the forward value chain. But at the same time, this section only represents 10 percent of the total value generated. TPCC on the other hand only represent one fourth of the total employment in the value chain, but as much as 71 percent of the total value is generated inside the cement factory. But TPCC is the key player in the value chain, and a reasonably big pick of the value should logically be referred to the company. What is interesting though is that almost 15 million US dollar are created and distributed to the distributors and retailers, and to the Tanzanian society as a whole via tax revenues. These entities share between them a value corresponding to half of what TPCC creates by making the cement. Moreover, the 6 million US dollar that TPCC in 2005 paid in tax to the Tanzanian Revenue Authority made them one of the 10 biggest tax payers in Tanzania (Karlsson, 2007).

The cement as it turns out affects and employs quite a lot of people outside the actual TPCC factory. However, there are two more cement factories in Tanzania. In a recent study by PricewaterhouseCoopers (PwC) they estimate the economic and social benefits of the whole cement industry in Tanzania. The results are to be taken with a great measure of caution, but it gives an idea of the stimulus a whole branch can have on a country, in a wider perspective. They find that the cement industry stimulates the Tanzanian economy with almost 100 million US dollar. Furthermore they estimate that the industry creates direct and indirect employment to an extent of more than 200,000 jobs. If you also include the induced employment (they estimate that one job in the construction industry gives rise to two further jobs elsewhere in the economy) the numbers gets almost astronomical when PwC estimate a total employment effect of more than 600,000 jobs (PricewaterhouseCoopers, 2007).
5. Analysis

These first couple of pages have identified growth numbers and FDI indicators for Tanzania, one after another. Then a case was presented unravelling the forward value chain of a Tanzanian cement company. Surely it would be a good idea to stop and discuss the results for a while. This section aims to analyse what have been presented and reach some useful conclusions from it all.

What are the results then, did FDI promote growth, did we distinguish any connections between FDI and growth, and how did a FDI affect the host country on a more practical level? Let us find out.

We found that Tanzania has experienced a steady increase in GDP per capita since 1994. The annual growth rates have been increasing since 1992, with the exception of the years 1996 and 1997 when they diminished slightly. Prior to this, the annual growth rates have fluctuated vividly and so the GDP per capita. With the 0 percent growth in 1982 and the negative growth in 1983 the GDP per capita started to decline. Can we explain the sudden change in the beginning of the 1990’s with an increase in incoming FDI to the country? Well, at a first glance it is tempting to draw this conclusion, because of the sharp increase in FDI stocks in the 1990s. But the “FDI boom” in Tanzania did not start until 1997. That leaves a couple of unexplained years of increased growth and GDP per capita, but with a still rather small increase in FDI stocks. So, what other factors can we distinguish that explains the sudden increase in GDP per capita and FDI in 1994 and 1997 respectively?

Recalling the contribution by Buckley et al (2002) on the importance of the economic and social factors in the host country when looking at the effects of FDI, we can see that empirical evidence to some extent supports this approach in the case of Tanzania. What happened in the beginning of the 1990s was that Tanzania reformed and opened up its economy. This economic reform was based on three pillars, namely large-scale privatisation, liberalisation and macroeconomic stability. These reform-based policies correspond quite well with the necessary prerequisites for a host country to fully benefit from FDI that Bengoa and Sanchez-Robles (2003) presents. Both liberalised markets and economic stability were key elements in this process of economical reform in Tanzania. But in its 1996 World Development Report,
the World Bank (1996) points out that liberalisation, privatisation and stabilisation are not sufficient to create a vibrant economy. For a long-term growth, strong and accountable institutions to support the reforms have to be present. Apart from effective means of law enforcement, which not very surprisingly is ranked as the most important institution for this matter, strong financial institutions are highlighted as crucial. This runner-up institution is worth looking into a little further.

Up to 1992 Tanzania only had three commercial banks, and they were all state owned. These three banks were supposed to provide financial services to the whole business sector. The quality of services provided by these banks were thus characterised by slow processing and long waiting times at the counter. In Dar es Salaam it could take as long as three weeks to get a clearance on a cheque, while the clearance time exceeded 45 days for the same procedure in more remote parts of the country. To solve this problem the barriers to entry by private and foreign banks were removed in 1992. The result was an increase in the number of commercial banks from the existing 3 to a total of 11 in 1994 and 16 in 1998. Suddenly you could get a clearance on a cheque in Dar es Salaam in only three days, and the waiting time was down to a week in the rural Tanzania. Treichel (2005) mentions this as an important reason for the increase in the inward FDI to Tanzania and also highlights the privatisation of banking services in 1995, and especially the privatisation of the National Bank of Commerce in 1997. The growth in this sector also increased considerably, from 2 percent annually in 1990-1995 to almost 5 percent in 1996-2003 according to Table 1.

As Graph 7 indicates, FDI and growth both experience an almost simultaneous increase in Tanzania. So, although we cannot distinguish whether FDI induced the increasing growth or vice versa with the information presented in this thesis we can conclude that there is a clear relation between the two.

Graph 6 shows that the net new investments have increased alongside the increase in inward FDI flow to Tanzania. Does this mean that FDI stimulates domestic investment? Well, that is nothing that this thesis will be able to answer, but the case presented shows that a FDI involves a lot of actors and generates quite a lot of value, outside the actual company. So, it is probably not that bold of a statement to say that FDI to a high degree affects the entire value chain of the investment. If, as in the case with TPCC, the FDI is successful then there will be a need to invest for the other actors involved in the value chain, thus creating domestic
investment. In fact, many of the interviewees pointed out this fact when I interviewed them. With the increased amount of cement coming into their business they felt the need to increase their own business.

The case also highlights the mechanisms of transfer of know-how via the training programmes for the employees at TPCC, as well as via the Academy Candidate Programme that TPCC is a part of. This, according to the theory, is expected to increase the stock of knowledge in the host country and thus contribute to the non-declining returns of capital that is so crucial for a FDI to be able to promote long-term growth.

A common critique of the FDI is that the foreign company does not look out for the greater good of the host country and repatriates all the earnings back to headquarters. In this way the FDI would not benefit the host country to the same extent (see for example Lal Das, 2003). Graph 5 also stated that only 0.3 percent of the FDI flow came from reinvested earnings. But, in the case of TPCC, as much as 72 percent of the value generated was kept in the company as retained earnings. This is due to the construction of a completely new production line at Wazo Hill that will enable TPCC to produce even more cement, cement that is crucial for the further development of Tanzania.

6. Conclusion

This thesis set out on a journey to Tanzania to take a closer look at the FDI and growth in this country. Specifically it tried to find underlying reasons for the recent economic growth performance and inflow of FDI, and also how a FDI affect a country on a more practical level.

As it turned out the GDP per capita has increased rather impressively beginning in 1994 and the annual growth rates have been increasing almost uninterrupt since 1992. Prior to this however the economic development of Tanzania did not look as good. The inflow of FDI also increased heavily in the 1990’s, but did not really start until 1997. So, although both growth and FDI have experienced an almost simultaneous increase in Tanzania, we cannot from what is presented in this thesis distinguish the causal relationship between the two. But, we can
conclude that there is a clear relationship between them. The economic reforms of the country in this period are thought to be a major cause behind this development.

Further, the estimates from the cement factory on Wazo Hill, although rather shaky, give an indication of the implications for the country as a whole. This particular investment has augmented the output from the factory giving rise to positive benefits along the whole value chain. The country has benefited from an increase in tax revenues from this important player in the Tanzanian economy. The distributors and retailers have been able to invest in their own business and increase its scope. The investment has also led to a transfer of know-how, which most probably has benefited the host country and its economic performance. In the case of TPCC the argument of repatriation of retained earnings falls, since the company is currently reinvesting a big share of its earnings to build a new production facility. So, we can conclude that this investment have led to many positive effects for the country, helping cementing the future for Tanzania.
7. Notes


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