

Attracting New Foreign Direct Investments to Tanzania

Honest Prosper Ngowi

Institute of Development Management, Mzumbe Tanzania

About the Author. *Mr. Ngowi is a lecturer in Economics at the Institute of Development Management (IDM) Mzumbe, Tanzania. He is currently pursuing a Ph.D. in Economics at the Norwegian School of Economics and Business Administration (NHH).*

Abstract. The paper has two major objectives. First, I will critically evaluate the impact of foreign direct investment (FDI) on economic development in Tanzania. I will then propose some ways for Tanzania to attract more FDI. A relatively short literature review on the potential of FDI in host economies is presented and then data on FDI in Tanzania are presented. This data is based on secondary source research and information that I collected on more than 20 foreign firms in 13 sectors of Tanzanian economy. The main conclusion is that although FDI is still in its infancy in Tanzania, it has played and still has the potential to play a substantial positive role in the development of the country. It becomes natural to propose that more FDIs have to be attracted in the country. Some ways that Tanzania can attract more FDI is then presented as a natural extension of the first objective.

Introduction

Foreign Direct Investment (FDI) is made to acquire a lasting interest in a foreign enterprise with the purpose of having an effective voice in its management (Bjorvatn 2000). It is a business investment in another country, which often takes the form of setting up local production facilities or the purchase of an existing business (Rutherford 1992: 178; 1995: 178-179). It is normally undertaken by multinational enterprises (MNEs)¹. FDI has grown greatly both in relations to trade and in absolute terms during the last two decades or so. The growth is one of the most striking signs of globalization.

One of the most important questions that should be addressed is the impact of FDI on host economies. Key actors in these economies need to know what they are gaining or likely to gain – if at all - from this economic phenomenon. Answers to this question may

¹ Also known as Transnational Corporations (TNCs) or simply multinationals. In this work the terms will be used interchangeably unless otherwise specified.

have many far-reaching policy implications for the betterment of the host economies.

Scholars like Dunning (1994), Blomstrøm and Koko (1997) Røvik and Frøyen (1997), Ayiku (1995), Bos et al (1974), Kaira and Ogolen (1993), Blomstrøm and Koko (1994) Eriksson (1990) and ILO (1981) have made studied the impact of FDI in host economies. To the best of my knowledge² there are no recent studies on the impact of FDI in Tanzania. Although Kaira and Ogolen (1993) did examine FDI in Tanzania, they limited themselves to five Norwegian companies. This limitation gives a rather partial picture of this process. This paper seeks to complement and move beyond the Kaira/Ogolen study, with the goal of generating more scholarly interest in this important topic for Tanzania.

Methodology

This study is based on secondary and primary source data. Primary source data was collected by a questionnaire mailed to relevant authorities in

² Based on a search for “foreign direct investment” in the BIBSYS database.

Tanzania, including: Tanzania Investment Centre (TIC); National Bureau of Statistics; Bank of Tanzania (BOT); Parastatal Sector Reform Commission (PSRC); Tanzania Chamber of Commerce, Industry and Agriculture (CCIA); Confederation of Tanzania Industries (CTI); Organization of Tanzanian Trade Unions (OTTU); and International Labour Organization (ILO). The use of mailed questionnaire for collection of primary data was chosen due to its relative low cost compared to telephone interviews or physically traveling from Norway (where the author lives) to Tanzania to conduct a face to face interviews with the appropriate authorities. In addition to this survey, a wide array of secondary source materials were also systematically identified and consulted for this research.

Literature Review

The literature addresses the positive and negative potential of FDI in host economies. In the interest of brevity, some examples will be briefly mentioned. For detailed discussions of the roles see the references cited earlier, along with a recent article by this author (Ngowi (001c).

Some of the attributes of FDI include: direct and indirect jobs/employment creation; technology transfer through contractual agreements, training and that embodied in capital goods exported to foreign affiliates; superior skills, knowledge, management techniques, ability to organize and integrate production across countries and to establish marketing networks; capital formation; market access; clean technologies and modern environmental management systems; out competing inefficient local firms; and the crowding-in local firms if TNCs strike up strong linkages with domestic suppliers, subcontractors and institutions.

The negative factors include: MNEs' strong bargaining power towards host economies' governments; possibility to inhibit local technological development when local competitors are too far behind MNEs' ready-made technologies; inferior practice of environmental protection so as to escape the costs of environmental restrictions at home; and the crowding out infant domestic industries. FDI can

raise concentration levels within an economy, which may result in an abuse of market power. In addition, profit repatriation and the import of capital and intermediate goods may also affect balance of payments negatively.

FDI Project Overview

854 FDI projects were approved by TIC³ between 1990 and September 2000 – a total of 683 (79.98%) were executed. According to TIC, UNIDO and UNDP survey findings; approximately 80% of the approved projects actually do take off. Out of the 854 projects, 332 or 38.9% were foreign projects and 522 joint venture projects. Figures for the period 1980 – 1990 were not available.

FDI in Tanzania: A Quantitative Overview

The Inflow of FDI Into Tanzania (in billions of US\$ for selected years)

1985 – 1995 ⁴	(0.023)
1996	(0.149)
1997	(0.158)
1998	(0.172)
1999	(0.183)

FDI Stock (in billion US\$)

1985	(0.091)
1990	(0.093)
1995	(0.325)
1998	(0.804)
1999	(0.987)

Values of Mergers and Acquisitions (M&A) (sales in millions of US\$)

1995	(1.9)
1996	(17.0)
1997	(1.4)
1998	(23.2.)

³ TIC was formed by a new Investment Act no. 26 of 1997 to replace the Investment Promotion Centre (IPC). IPC had the responsibility to promote, approve, monitor and facilitate FDI flows into the country.

⁴ Annual average.

FDI Stock as a Percentage of GDP

1985 (1.3)
1990 (2.2)
1995 (7.0)
1998 (9.9)

FDI flows as a Percentage of Gross Fixed Capital Formation 1985 -1995⁵ (2.1)

1996 (13.9)
1997 (14.0)
1998 (13.8)

Source: Country Fact Sheet Accompanying World Investment Report 2000.

Top Ten FDI Countries of Origin (approximate number of projects in brackets)

United Kingdom (325)
United States of America (194)
South Africa (142)
Kenya (109)
China (90)
Canada (87)
Germany (47)
Netherlands (43)
Italy (38)
India (32)

**Geographic Distribution*

Dar-es Salaam (515)
Arusha (145)
Tanga (69)
Mwanza (63)
Kilimanjaro (23)
Mara (9)
Iringa (9)
Morogoro (8)
Mbeya (5)
Pwani (5)
Dodoma (2)
Ruvuma (2)

***Sectoral Distribution of FDI Projects* (bold case show the number of the projects; italicized numbers show monetary value of the same in millions of Tanzanian shillings)

Manufacturing (**355**: 176,514.9)
Tourism (**122**: 225,146.4)
Agriculture (**91**: 185,236.1)
Natural Resources (**52**: 812,671.9)
Petroleum and Mining (**48**: 787,398.8)
Transportation (**47**: 87,103.8)
Construction (**46**: 80,025.2)
Financial Institutions (**25**: 585.3)
Telecommunications (**11**: 238,325.6)
Human Resource (**3**: 77,448.6), computer (**3**: 65,199.4) and energy (**1**: 26,968.4)

*[estimates are based on unpublished data census by TIC, BOT and the National Bureau of Statistics (NBS)]

**[figures are based on approved investments and not actual ones]

Source: Questionnaire data collected by the author.

⁵ Annual average.

FDI in Tanzania: A Qualitative Overview

Among the factors that have been responsible for the observed FDI inflows into Tanzania include the ongoing reforms in the country generally and the privatization of former state-owned enterprises in particular. The globalization phenomenon might also have forced some MNEs to look for production sites

abroad, among them Tanzania. FDI inflow into the country, however, is far from satisfactory. Inadequate FDI determinants in the country are among the factors that have been responsible for this unsatisfactory performance. Ngowi (2001b) presents some discussion of the inadequate FDI determinants in Tanzania.

The data presented in this section represents the 1990 to 2001 time period. It is to be noted that FDI is still in its infancy in Tanzania, with minimal activity before 1985 (Ngowi 2001b). Due to the relative infancy of FDI in Tanzania, it can be difficult to properly determine its role in the economy so far. Some (if not most) FDI projects are still in the development phase. It should be noted that one foreign firm might play a number of roles in Tanzania. This research does not purport to capture all of the firms studied in this work.

The Benefits of FDI

Capital Formation: According to the “Country Fact Sheet” that accompanied the *World Investment Report 2000*⁶, FDI has contributed to some extent in the capital formation process in the country. FDI has also played a positive role in increasing the gross domestic product (GDP) of Tanzania. Looking at the FDI stocks in Tanzania as a percentage of gross domestic product corroborates this assertion.

Government Revenue: FDI can increase government revenue in the host economies. However, it can be difficult to determine this magnitude with accuracy in Tanzania. This is because, according to BOT⁷, the development of a system to capture some information on FDI in Tanzania is still ongoing. The author develops some criteria to prove that FDI has increased government revenue in the country. These include figures on M&A (sales) that appear above. It is assumed by the author that these are sales of parastatals, mainly to foreign investors because most Tanzanians lack the capital needed to buy them.

Some other sources give various figures for revenues raised by Tanzania from the ongoing privatization process. Gibbon (1999:1) puts the figure, as of the end of 1996, at US\$ 126 million, and as of June 1998 the numbers ranged from US\$ 237.3 million to US\$ 252.8 million. It should be noted that not all privatizations included FDI. Gibbon (1999:1)

⁶ The fact sheet can be found at the following URL:

<http://www.unctad.org/en/pub/ps4wir00fs.en.htm>

⁷ In responding to my questionnaire on how much revenue has the government accrued from FDI.

argues that 35 privatizations involved sales of parastatals to Tanzanian nationals, with an average value of US\$ 0.8 million. See Gibbon (1999) for more details about revenues raised by the privatization process in Tanzania.

Job Creation: Figures from Tanzania Investment Centre⁸ show different numbers of total employment for 13 sectors between September 1990 and September 2000. The different sectors and total employment created (in brackets) are: agriculture and livestock development (41,934); natural resources (23,908); tourism (21,353); manufacturing (111,066); petroleum and mining (8,981); construction (8,843); transportation (6,983); services (9,035); computer (46); financial institutions (1,320); telecommunication (1,395); energy (90) and human resources (368). This adds to 235,322 jobs. The figures have to be interpreted with care because they are estimates for approved, not executed, projects and some projects are locally owned.

Basing on the BOT’s response to the author’s questionnaire it is estimated that approximately 156,867 Tanzanians were employed in different FDI projects for the period from 1990 to 2000. As seen in the figures from the various sources, it may be difficult to establish the actual number of Tanzanians employed in FDI projects. The estimate is likely to be based on the job creation capacity of the approved projects. However, one can see a clear trend showing that FDI has contributed positively to job creation in Tanzania. This is desirable keeping in mind that by April 2000, according to the Minister of State in Vice President’s office (Environment and Poverty Eradication), Tanzania’s unemployment rate was at its highest level on record with 33.8% of youth without jobs. The unemployment problem is escalating at a threatening pace in the society, especially in urban areas.

Spillover Effects: Evidence of spillover effects (externalities) played by FDI in Tanzania can be drawn from the Kahama Mining Corporation Ltd

⁸ Posted by BOT to the author as an attachment to the replied questionnaire.

(KMCL). This gold processing company at Bulyanhulu⁹ made it possible for people living around the area to reap some social and economical benefits. For example, KMCL initiated a US\$ 5.48 million housing loan scheme to construct over 800 modern houses at subsidized costs in Bulyanhulu ward. According to KMCL (*The Financial Times*, January 31, 2001) the scheme will change the bad housing situation in the area. This scheme follows a water supply project through a 47km long pipeline and a 130km extension of the national grid from Shinyanga to the mine. The mine needs only a quarter of the 150 MVA per year. The rest is made available for the surrounding community's domestic and economic use. A US\$ 3.4 million water project avails clean water throughout the day to over 30,000 people in the surrounding villages. According to KMCL, agricultural and small/micro business development, roads, schools and clinics have also received substantial attention and resources from the company.

Tanzania Electricity Supply Company (TANESCO) dedicated US\$ 15.35 million to a power grid extension project. The benefit to TANESCO is an example of the linkage effect of FDI with the rest of the economy.

The Ashanti Gold Mining Company (AGMC) has also produced some positive externalities in Tanzania. According to *The Guardian* (June 4th, 2001), the company has used about 1.6 billion shillings for various development projects in Geita District, Mwanza Region since it started operations in the area in 2000. For example it has completed upgrading a 76-kilometre road. It has financed the construction of water wells; the building of dispensaries, the rehabilitation of the designated district hospital, as well as building a dozen of classrooms in six primary schools.

Geita Gold Mine (GGM) has produced similar externalities to AGMC in Geita District. GGM dona-

⁹ The Bulyanhulu mine is a US\$ 480 million investment in purchase and construction. It has an ore body 1.2km deep and 1.4km long with a width of 2 meters. KMCL can produce up to 400,000 ounces of gold per annum at US\$ 120 per ounce. At full capacity the mine will employ 1261 workers, 1088 of whom (86.2%) will be Tanzanians.

ted computers with hi-tech software to the University of Dar es Salaam's Geology Department, and a Toyota Land Cruiser vehicle to a Tanzanian women's organization. It also supports orphans of AIDS victims. The Equal Opportunities Trust Fund has benefited from the mine's philanthropy with 16 million shillings. It has also established a micro-finance credit scheme with financing base of 40 million shillings. GGM has contracted most of its jobs to local companies, with over 90 local firms regularly doing business with the company in different operations.

Tanzania Breweries Limited (TBL) has also played major role in supporting local communities in Tanzania. For example it donated 4 million shillings for the construction of mortuary at Monduli District Hospital (*Arusha Times*, March 17th – 23rd, 2001). According to *The Guardian* (March 22nd, 2001), TBL has spent over 26 million shillings on water projects for local communities. It is assisting government efforts to provide fresh water for communities in Dar es Salaam (water pipelines at Benjamini Mkapa Primary School); Kilimanjaro (water pipelines in Kiraracha, Rau and Mawela villages) and Lindi (four boreholes in Tippo village) regions. TBL has also donated 3.9 million shillings for the construction of toilets for pupils at Mavurunza Primary School in Dar es Salaam. At the school 20 pit latrines replaced eight dilapidated ones serving 1,778 pupils and teachers. This is likely to have a positive effect on the health of these teachers and students at the school. According to the *Sunday Observer*, the Buguruni School for the Deaf, (May 20th, 2001) received approximately 3 million shillings from TBL's Community First Trust Fund, which has used over seven billion shillings on various community development projects since its inception in 1998.

Externalities produced by the Australia's Golden Pride (Resolute (T) Ltd) include health and education facilities provided to local communities. (*The Guardian* March 23rd, 2001). British Petroleum (BP) has donated 3 million shillings to the Arusha Regional Education Trust Fund (AREF FUND) to support Maasai girls who cannot afford to meet their

education requirements (*The Guardian* June 1st, 2001).

The Williamson Diamonds of South Africa has been supporting Shinyanga Secondary School since 1997. For example it has been supplying free electricity and water to the school; it has renovated a computer room a cost of 7.6 million shillings and provided over 600 chairs and desks. The school has received five computers and two printers worth 10 million shillings from the company.

Training Programs: FDI projects have been credited with the training of local staff. The Standard Chartered Bank is reported to have set aside approximately 200 million Tshs for training efforts in 2000. This training program was designed to provide local staff with the expertise necessary to work without the supervision of expatriates. The Bank employs approximately 180 staff and 10 expatriates, who currently hold positions that cannot be taken by Tanzanians due to lack of professional skills.

By the end of 2000, it was expected that Tanzanians would replace four out of the ten expatriates as a result of the training program. According to the Bank, almost all top positions in the Bank have already been reallocated to local staff. The Moshi, Mwanza and Dar-es-Salaam offices are supervised by local staff (PST Monday, 29 May 2000).

Introduction of Modern Technologies: The evidence of FDI's introduction of modern and advanced technologies in Tanzania can be taken from the case of the Netherlands-based company, Canon Europa. In conjunction with MIFF Office Solutions of Tanzania, it launched the first colour fax machine in the country in June 2000. It will offer professional training to local staff to ensure the smooth provision of office equipment to information technology users. Out of the 2 billion US\$ to be used on financing R&D among staff members of the company and its local partners in Africa, some will be used in Tanzania.

The merger between Tanzania's Simba Plastic Company Limited (SPCL) and the South African DPI-International (*The Business Times*: July 20th –

26th, 2001) provides evidence of FDI's role in increasing capital size and production capacity of local firms. The deal brought together an investment of about US\$2.6 million (Tshs. 2.08 billion). Before the merger, SPCL was unable to produce conduit electrical (between 1.9 cm internal diameter and 2.5 cm diameter) and high density polythene (1.9 to 7.6 cm diameter pipes). The new installed capacity will enable production of more than 30 cm pipes.

Telephone Telecommunications: FDI in the telecommunication sector in Tanzania¹⁰ has played a substantial role in reducing communications problems in the country. The introduction of cellular phones in the country¹¹ by such foreign companies like MIC Tanzania Limited (MOBITEL), Vodacom Tanzania Limited (VODACOM), Tritel Tanzania Limited and Zantel has facilitated access to mobile telecommunications capacity in agriculturally productive areas. This increased capacity is likely to actively assist in developing economic expansion into secondary and tertiary industries within and between regions, while improving overall, nationwide communication capacity.

According to *The Express* (January 11 – 17, 2000), MOBITEL provided services in 13 regions¹² in the country, most of them enjoying GSM services as of January 2001.¹³ The company has also built road coverage between Arusha and Moshi, and expects to do the same between Dar es salaam and Chalinze.

¹⁰ For the first six months of 2000, the sector has been leading in attracting multi-billion shillings in investments, with a total investment in the sector standing at Tshs 431.047 billion out of the total amount of Tshs 565.438 billion (76.2%) invested in all other sectors of the economy. (*Business Times*, 9 October 2000)

¹¹ About 250,000 Tanzanians now use mobile phones, and this number is rapidly increasing (Pan African News, March 05, 2001)

¹² *Financial Times* (March 07 – 13, 2001) reports that MOBITEL is the first company to provide mobile telecommunications services in Musoma and it estimates that the company covers 15 regions.

¹³ These include Dar es Salaam, Zanzibar, Tanga, Arusha, Moshi, Mwanza, Shinyanga, Iringa, Dodoma, Morogoro, Pemba, Bukoba, Mbeya and Mwanui.

MOBITEL has stated its commitment to rural development, and it plans to reach rural areas through tele-centres when all urban areas are covered.

Such services, *inter-alia*, have the potential to stimulate the production and marketing of agricultural products from all regions of the country.

MOBITEL has also introduced low-tariff call box services in the country. It launched *Simu Poa*¹⁴ call box services with tariffs reduced by 50% on 22nd January 2001. The main objective was to make telecommunication services available to everybody, by making them more affordable and accessible. The company repaired old call boxes, after taking over the Adesemi Network Company, so that they can offer quality services according to international standards. (*The Guardian*, January 23, 2001).

VODACOM¹⁵ is planning to provide telephone service in areas of the country that are without coverage. The company provided service in Dar es Salaam, Morogoro, Tanga, Kilimanjaro, and Arusha regions as of January 2001, and it has plans to expand to the Lake Zone.

The recent privatization of the only landline phone company, Tanzania Telecommunications Company Limited (TTCL)¹⁶, is expected to increase telephone access coverage. According to Pan African News (March 05, 2001), the company plans to increase telephone access from the current tele-density of one telephone per 1000 inhabitants to a density of six telephones per 100 inhabitants in the next 20 years.

¹⁴ *Simu Poa* is a new brand name for MOBITEL's new call box services.

¹⁵ It entered the country in 2000 and by January 2001 it had 100 base stations and was planning to increase them to 200 up to October 2001 (*The Express*, January 11 – 17, 2001)

¹⁶ A tender to privatize TTCL was launched by the government at the end of June 1999. Among the bidders who were pre-qualified include Detecon, MSI, Indian consortium of Mahanagar, Telephone Nigam Limited (MTNL), Telecommunications Consultants India Limited (TCIL), Videsh Sancha Nigam Limited (VSNL), Mauritius Telecom, MTN of South Africa, Sasktel of Canada and Vodacom of South Africa. (TOMRIC AGENCY, September 27, 2000)

The German and Dutch Consortium Detecon/MSI was planning to take over the TTCL in the early 2001 to revamp its operations and accelerate development of the sector¹⁷. According to Tomric Agency (September 27, 2000), the consortium committed itself to increase the number of connections from the present 162,000 to 800,000 in a four-year period, an increase of 393.8%. The consortium is already operating telecommunications networks in 13 African countries and is expected to bring its regional experience to Tanzania. With such a move, the country is expected to benefit following better services, *inter-alia*, which the consortium has committed to provide.

Internet Access: the company Africa Online has positively impacted Internet access in Tanzania¹. This company has worked to keep the Internet and e-mail services fees lower by using state of the art technology equipment, which is efficient, durable and reliable. The regional experience of the company is likely to benefit Tanzanian consumers in terms of quality service and increased access.

Increased Internet access has tremendous market potential in the country. In response to this opportunity, some local firms, such as the Tanzania Post Corporation (TPC), have decided to introduce their own Internet cafes. Sending an airmail letter to the United States costs 500 Tshs. The same amount of money could be used to send more than five letters to the same destination by e-mail.

A joint MOBITEL/Cyber Twiga venture has enabled them to provide cheap Internet services in all the regions it serves. Through its dialup into the company's new gateway in Mbeya and other regions, its clients can save up to Tshs. 279 per minute. (*The Express*, February 15 – 21, 2001). MOBITEL has also made it possible for Tanzania to get up to date information technology. Its everyday.com brand in Tanzania offers powerful suite of access and online products hence broadband (wireless) access, Internet set-top boxes, a free web-based E-mail service and

¹⁷ The Tanzanian government officially handed over TTCL to the consortium on 5th of March 2001 (Pan African News, March 05, 2001).

local dialup gateways in remote areas. All these FDI activities in the telecommunication sector in Tanzania are likely to play a positive role in bridging/reducing/removing the digital divide in Tanzania.

Financial Services: Some foreign financial institutions have contributed positively in the Tanzanian economy. They have introduced more competitive, advanced, modern, convenient, global and diversified financial services compared to the past. Citibank Tanzania for example, provides full scale corporate and investment banking products, including correspondent banking services, cash management for domestic and international transactions and corporate finance. According to *The Business Times* (October 06 – 12, 2000), Stanbic Bank Tanzania's objective is to provide quality services to the whole of the country. In Mbeya, for example, it wanted to provide its services there as part of its contribution to rapid economic growth in the area.¹⁸ According to the Bank, staff is locally recruited, services are tailor-made to accommodate the needs of the local community, and operations of the branch will incorporate the latest state-of-the art technology.

Barclays Bank Tanzania is planning to offer a wide variety of corporate and personalized banking services, and it will introduce Automated Teller Machines (ATMs¹⁹), which will be accessible to its customers and Visa and Mastercard holders.

The services provided by these financial institutions represent an increase in available services, and the increased competition in this sector should ultimately be to the advantage of consumers, especially in terms of reducing congestion in local banks²⁰.

¹⁸ Mbeya town is situated in a major economic activity breeding area, and along a major trading route between Tanzania and neighbouring countries.

¹⁹ By February 2001, Standard Chartered Bank (T) Ltd – a pioneer of ATM technology in Tanzania's banking history, had six ATMs in various towns in Tanzania, three of them in Dar-es-Salaam (*The Express*, February 15 – 21, 2001).

²⁰ Cases are heard of where people have to wait for hours in a queue in such local banks as the former National Bank of Commerce (NBC) to get services.

Experience of the Regional Market: In July 2000 a French company – CFAO – acquired 100% of one of Tanzania's leading car dealers -DT Dobie & Co. (T) Ltd. (*The Business Times*, October 06 – 12, 2000). CFAO is present in 27 other African countries, thus providing the Tanzanian market with regional expertise.

Increase Agricultural Production: Cooperation between local and foreign firms is expected to be of mutual benefit to parties involved. According to the Pan African News Agency (PANA, September 27, 2000), Tanzania's Tanganyika Sugar Plantation Company (TPC) is to benefit from technical cooperation with the Sucriere de la Reunion from the French island of La Reunion and the Deep River Beau Champ Ltd. of Mauritius. Sucriere is planning to supply sugar to Tanzanians through local production. Its effort will be concentrated in the agricultural field, with an improvement in the productivity and quality of sugar cane. TPC produces 73 tons of sugar per hectare of land. According to Sucriere, this could be raised to 120 tons per hectare with irrigation. TPC crushes 110 tones of canes per hour, but it should be able to crush 180 tones per hour when it receives the technical know-how from Sucriere.

Transforming Losses into Profits: FDIs have played positive role in turning loss-making local firms into profit-making ones, and providing the management expertise necessary to do this. Tanzania Oxygen Limited (TOL) (*Business Times*, October 06 – 12, 2000) suffered a Tshs 1.762 billion loss in 1999. Between January and June 2000 it lost 14.203 million Tshs. Much of the loss accrued from low sales, low working capital, fines and taxes and high interest from unpaid loans. The British Oxygen Company in Kenya (BOC-Kenya) has been identified as a strategic investor to buy 60% of TOL shares so as lessen its financial problems. It is expected to turn TOL from a loss-making company to a profit making one in 12 months, and in 30 months it is projected that BOC will provide dividends to shareholders for the first time. In early 2000, the company was interested in assembling their diesel engines for

industrial, agricultural and marine applications in Tanzania. The goal was to use local input in the production process (*The Express*, March 1, 2000).

International Linkages with the Local Economy:

Some intermediate products from FDI projects are often sold as inputs in the country. FDI projects also purchase inputs from local firms. Such possibilities include the high potential for the beer industry (TBL) to have both backward and forward linkages. The industry in Tanzania stimulates agricultural production of barley for local breweries and export. It also stimulates the packaging, transport, sales and distribution industries at the retail level. FDI in the edible oil industry in Tanzania has the potential of linkage effects in that it supports oil-seed farming, oil processing and the use of its by-product in the manufacture of animal feeds. It is expected that all these linkages – and others will have a trickle down effect on the Tanzanian economy. Local-content requirement for FDI projects in Tanzania would most likely increase these linkages.

FDI involvement in the Mchuchuma coal power plant in Iringa region will most likely contribute towards energy provision in Tanzania. An Agreement of Intent (AoI) to construct a 400-MW coal power plant was signed between the Government of Tanzania (Ministry of Works and the National Development Corporation – NDC) and South African investors (Siemens, Cinergy Global Power and Grinaker-LTA) in July 2001. The 600 million US\$ project is expected to unlock the Mtwara corridor's economic potential. It will also benefit Iringa, Ruvuma, Mtwara, Lindi, Mbeya, Rukwa and parts of Coastal and Morogoro regions. The power produced from Mchuchuma is expected to benefit neighboring countries of Malawi, Zambia and Zimbabwe, thereby stimulating regional economic growth.

Attraction of Additional FDI: FDI projects already present in Tanzania have also played and still have the potential to play an increasing role in attracting more FDI inflows. Initial FDI presence often improves the investment climate in the country.

Examples here would include FDI involvement in the development of the local infrastructure, and its role in developing the financial sector.

It should be noted that full development-impact of FDI may depend on, *inter-alia*, the dynamics of skill and technology transfer by MNEs: how much upgrading of local capabilities takes place over time, and how far local linkages deepen and how closely affiliates integrate themselves in the local learning system through research and development (R&D).

The extent to which the country may benefit more from FDI inflows may depend on its level of economic development; policies; how well it bargains with foreign investors on among other things, incentives; size and global experience of involved MNEs and the size of specific FDI projects. Sometimes the government may face trade-offs between different long-term or short-term FDI impact and its development objectives.

The Drawbacks of FDI in Tanzania

Community Conflict: A conflict between Maasai and the United Arab Emirates-based game-hunting firm Ortello Business Company Limited recently emerged. In 2000, the company was accused of the wanton destruction of the environment when it erected permanent structures in Loliondo Game Controlled Area. For example, the company constructed a three-kilometer airstrip right on the route used by animals during the annual migrations from Serengeti National Park to Maasai Mara in Kenya. It also built a mansion at the top of Masie-ndilo Hill, and a warehouse at the source of River Olosai. The destruction of local vegetation in order to clear the land for construction has led to dwindling prides of lions, leopards, cheetahs and birds in Loliondo. It was also alleged that Ortello Company was forcing the Maasai to convert into Islam.

The conflict between African Gem Resources (AFGEM) of South Africa and the local community at Mererani and Naisingai villages in Simanjiro, Arusha is more evidence of conflicts caused by FDI in Tanzania. Small local tanzanite miners claim that the company has been engaging in unfair business practices. These practices include cutthroat tactics to

crowd out local dealers. AFGEM is also accused of unfair marketing practices including labeling/branding the stones in a bid to isolate local miners in the international market. Due to labeling, locals would be unable to sell the stones without seeking the AFGEM label (Information based on several Pan African News Agency reports – Dakar Senegal).

AFGEM is also accused of causing environmental destruction. It has cut down trees around Mererani, setting the stage for massive soil erosion. The destroyed trees include the famous for age-old trees known locally as *mingungachuma*. The conflict at Mererani has been so intense that there was exchange of deadly bullets between small scale miners and the AFGEM guards (*Mtanzania* April 14th 2001). The Mererani AFGEM factory was bombed on the Easter 2001 weekend (*The African* April 17th, 2001). Despite of the conflicts caused by AFGEM, the company can potentially increase Tanzania's earnings from tanzanite export. It is committed to formalize tanzanite business and stabilize this unique industry (Tanzania is the only source of tanzanite in the world).

There has also been conflict between the African Fishing Company of Ireland and the local community in Rufiji River Delta (*The East African* March 12th – 18th, 2001). Some 35,000 villagers were to be evicted from the area so as to pave way for the 100,000 hectare, US\$ 200 million project. Together with international environmentalist, they opposed the project. The environmentalists fear that 53,000 hectare of mangrove forest cover that serve as breeding ground for prawns and other aquatic creatures would be devastated as a result of the project.

Discriminatory Practices: Some FDI projects have also been accused of promoting racial and gender segregation. For example, the Sheraton (now Royal Palm); Sea Cliff and New Africa hotels have been accused of denying entrance to unaccompanied Tanzanian (black) women, while their Indian and European counterparts have not been stopped at the entrance (*The Sunday Observer* May 27th, 2001).

Unethical Practices: Some FDI projects have been cited for tax evasion, the importation of junk spares, cheap and sub-standard industrial parts; the use of expired chemicals and obsolete machines; and producing low-quality industrial goods in the country. In addition, there have been accusations of unfair labour practices, such as limiting employee freedom to start/join trade union branches, perpetuating harsh working conditions, racial insults, abusive language and victimization of female staff members (*The Guardian* July 18th, 2001).

Profit Repatriation: Another potentially negative role that can be played by FDI in Tanzania is on the area of profit repatriation. According to the 1997 Investment Act FDI is allowed to unconditionally repatriate profits and dividends, loan servicing payments, remittance of proceeds if a business is liquidated and emoluments and other benefits paid to foreign personnel (Price Water House Coopers 1999:97). The author's questionnaire tried to collect data from BOT on how much profit has been repatriated from Tanzania by FDIs. The answer to the question is expected to be available after a report by BOT *et al* on FDI is finalized and released in 2001.

Despite these drawbacks, overall, FDI has played a positive role in Tanzania. The country stands to gain much from current and future FDI projects in it and from more FDI inflows. It should then make efforts to retain the investors who play positive roles in the country. At the same time it should attract more FDIs into its economy. Tanzania can attract more FDI inflows in different ways. Some of the ways are suggested in the following section.

Strategies for Attracting FDI to Tanzania

Different countries may attract FDI in different ways. Some play very active roles (for example some small countries that are unknown in the investors' community). Others may not need to play an active role for a marginal increase in FDI inflows. Large countries like China, where the potential market is colossal, can easily attract market-

seeking FDI in comparison to African countries like Tanzania.

Tanzania needs to play a very active role in attracting more FDI. This is because Tanzania is still in the process of developing an enabling environment for FDI. Globalization of the world economy makes it necessary for Tanzania to play this active role, because if it does not do so these investments will go elsewhere. Clearly, globalization is making national boundaries less important for MNEs' international production of goods and services. Tanzania needs to be a part of this process.

To attract more resource/asset-seeking FDIs, Tanzania has to provide raw materials; low-cost disciplined unskilled and skilled labour; technological, innovative and other created assets (like brand names); and good technical and physical infrastructure – both traditional ones like ports, roads and telecommunications and nontraditional ones like the Internet – needed by investors. National infrastructure should be of superior quality compared to those of its competitors for FDI inflows.

For marketing-seeking FDIs, Tanzania has to provide large market size and per capita income, market growth possibilities and access to regional and global markets.

To attract more efficiency-seeking FDIs, Tanzania needs to provide resources, assets and inputs at relatively low costs – adjusted for labour productivity; low cost of interacting with government (administrative and bureaucratic costs); membership in regional integration arrangements conducive to the establishment of regional corporate networks. Therefore, Tanzania should become/remain an active member of appropriate regional integration organizations like the East African Community (EAC) and the Southern African Development Community (SADC). Membership in regional integration organizations is essential in this context for the promotion of cross-country or inter-country trade and for the mobility of factor services, thus increasing the size of unified market. Common external tariffs force non-members to enter the market through FDI rather than through trade. See Ngowi (2001a) and Collins

(1998) for a detailed explanation of the role of regional integration in attracting FDI.

Tanzania should continue to provide different kinds of incentives to attract more FDI. The incentives include tax incentives; employment of expatriates and profit repatriation. The incentives should not neutralize the potential benefits that FDIs are expected to bring in Tanzania. Therefore it is important to select who qualifies for these incentives (Ngowi 2000).

The economic and structural reforms that are going on in Tanzania should create, maintain, and improve the investment-friendly environment in the country. Tanzania should implement reform in a way that creates a more enabling environment for businesses, thereby attracting more FDI. These elements of reforms include relaxation of entry restrictions in various sectors; deregulation in various industries; privatization; independence of the central bank; elimination of import licensing; removal of foreign exchange, exchange rate and interest rate controls and easing of controls over mergers and acquisitions (M & As²¹). Tanzania is in a process of implementing some of these far-reaching reforms.

Tanzania needs more flexibility and adaptability in its economy. Flexibility and adaptability are essential for competitiveness. Constant and positive changes in Tanzania to reflect the economic, social, political and technological realities of time are necessary. The need to have change-orientation in the population in general and among the leaders in particular has not been more necessary in the past than now. Competition-enhancing policies that lead to greater efficiency, productivity, dynamism and flexibility in goods and services markets should be formulated, evaluated and reviewed regularly. Such policies should aim at, *inter-alia* creating solid economic fundamentals that are essential for attracting more FDIs.

Tanzania should train its labour force in the application of high technologies. This is because most FDI is likely to use modern, up to date and state of the art technology and operate in knowledge-

²¹ According to World Investment Report 2000, M&As has been the major FDI entry mode recently.

driven sectors. Therefore, the capability of the country to apply the existing high technologies, rather than producing them is likely to increase the attractiveness of the country for more FDIs.

Policies affecting investments in Tanzania, directly or indirectly, should be reliable; accessible; consistent; predictable and up to date in order to increase the credibility of the government among potential investors and those already in the country. The government should avoid any possible opportunistic behaviour that might scare away potential and actual investors. Ngowi (2001d)²² identifies and discusses some of these behaviours.

Tanzania should avoid a long, bureaucratic, nontransparent, discriminatory and corrupt process in dealing with investors. What is needed is a relatively short and transparent process undertaken in a truly one-stop shop. Investors should be able to undertake almost all the issues connected to initiation and implementation of their projects in the country in a single office.

Among other things, the government of Tanzania should concentrate in keeping its house in order in terms of assuring that rule of law, peace and tranquility exist in the country. Political, religious or ethnic conflicts should be avoided and not tolerated.

The country should optimally exploit the competencies of both internal and external experts on FDI and related fields in order to attract more FDI. For example, experts in the academic and consultancy fields, both private and public, should be used optimally in seminars; conferences; debates; lectures; consultancies and publications on FDI and related topics. Among the ways to make most out of these experts is for the Tanzanian government and its development partners to sponsor research on, *inter alia*, the attraction of more FDIs.

Tanzanian citizens need to be provided with the knowledge of the positive impact of FDI on the development of the country. The knowledge can possibly abolish or reduce possible blind/ignorant protests against foreign ownership of the Tanzanian economy. Educational institutions and the media too

can be properly employed to inform the general public about the positive roles of FDI in the development of the country.

There should be a forum where investors can freely and confidently air their views on different issues connected with their investments in Tanzania. The views should be seriously taken into account and dealt with accordingly by appropriate authorities. This can help in creation and maintaining investment-friendly environment in the country.

In a bid to attract more FDI inflows into Tanzania, the country may consider to establish "Invest in Tanzania Committee." This should consist of a team of experts on FDI and related fields. It should concentrate on attracting more FDI into the country. It may be charged with the duties of marketing the country for FDI, follow up potential investors, and facilitate their decisions to invest in the country. The committee may also be charged with duties to propose approaches to increase the quantity and quality of FDI inflows into the country.

Tanzanian government and its development partners should encourage and promote initiatives to build up solid relations between local and foreign investors. Both potential and actual investors should be provided with all the support they need to reach informed location decisions, especially in areas with the highest – but as yet unexpressed potentials for development. This will most likely increase FDI inflows into the country.

Tanzania should provide a complete range of basic and specialist services to investors throughout the set-up phase, from initial contacts to the post-investment period. Among the services that should be provided include information on: the various regions of the country; the performance of the economy; the legislative and judicial framework of reference, with particular emphasis on economic and commercial issues; tax and customs provisions; labour market; local development agencies, trade associations and local chambers of commerce.

Also to be provided are some support services to investors. These include partner scouting at the local level; local back-up services such as cutting red tape with institutions and local authorities for licenses and

²² This is a forthcoming publication in *The Journal of Development Management*.

permits; links with bodies involved in research and technological innovations; identification of investment sites; facilitation of contact with local development agencies, trade associations and chambers of commerce; after-care service for investors already operating in the country like problem-solving services through meeting with company management to monitor problems and progress.

Another important way for Tanzania to attract more FDI inflows is by marketing the country for FDI. This means that it has to make its investment opportunities, procedures and environment, *inter alia*, known to both potential and actual investors. It has to build and advertise a more positive image of the country as a favourable investment location.

Tanzania is not sufficiently known abroad and it therefore needs to do a better job marketing itself. In a Commonwealth Investors Conference in Tanzania in September 2001, Baroness Lynda Chalker argued, "Tanzania should better advertise her strength in European capitals and investment centers." This is because promotional activities for the country's potentials have not reached many potential investors and the business community at large. Having done all that is needed to create a conducive investment climate in the country, Tanzania will need to market itself as a favourable and competitive investment location.

Marketing a country for FDI inflows is necessitated by the fact that in the ever-globalizing world economy competition for FDI inflows is a global affair. Almost all countries are competing for limited FDI inflows from MNEs. If a country does not market itself for FDIs it is likely that it will be by passed by those that do.

Tanzania can market itself for FDI by the use of different networks of industrial consultants. It can also use foreigners in different ways to market herself. For example, in its proposed Export Processing Zones (EPZs)²³, it can use foreign managers to manage the zones.

²³ Together with the creation of Spatial Development Initiatives (SDI), EPZs – proposed to be created in Dar es Salaam, Arusha, Mwanza, Bukoba, Kigoma, Mtwara and Tanga – are geared

These managers, according to Wells (1999:8) have a strong incentive to find investors if their returns are based on rents and fees from the firms that manufacture in the zones. Zone managers from home countries of investors often have contacts with those firms and can easily reach them to present the advantages they offer, thereby marketing the host country. Investors are likely to feel more comfortable with zones run by their own nations. Tanzania can also borrow officials from more competitive investment promotion agencies abroad to help the domestic capacities in various issues.

Tanzania can market itself in different ways. Among these include issuing of publications and visiting appropriate potential investors. The marketing activities should take place both in pre-investment, investment implementation and post-investment periods. Marketing can take place both at home and abroad. Tanzania needs to establish several offices abroad for marketing purposes. It should also make use of the cyberspace; international television channels, magazines and newspapers to market herself.

A survey done by the author shows that Tanzania has not been very active in exploiting the possibilities above to market itself²⁴. Appropriate web sites, private and public, foreign²⁵ and domestic, can be

towards attracting large capital investments in agriculture, mining, tourism and exploitation of forest and marine resources in boosting exports for economic growth.

²⁴ For example TIC had no a web site of its own as of January 2000 and no advertisement of Tanzania's investment opportunities in *The Economist* magazine's issues for 2001 (up to and including the September 15th – 21st, 2001 issue). No advertisement appeared on CNN for that period either, despite of the fact that such investment opportunities like the once famous Kilimanjaro Hotel have remained "sleeping giants" for sometimes due to lack of investors, among other things. The Tanzanian national web site www.tanzania.go.tz was not in place before the end of May 2001 and in another web site www.tzonline.org the only marketing activity that appeared there as of 7th February 2001 was a 1999 report on investment opportunities in forestry and beekeeping by the ministry of natural resources and tourism.

²⁵ For example UNIDO posted profiles of 24 Tanzanian enterprises on its web site in search for joint venture partnerships worldwide. This attracted, among others, Indian investors seeking to establish joint venture projects in Tanzania.

used to market the country for FDIs after proper arrangements.

Tanzania has to put forward as many arguments as possible to convince investors that the country is excellent as an investment location. Among the arguments that should be put forward is Tanzania's membership and accession to different regional and sub-regional economic groupings; its membership to various international agreements and institutions concerned with FDI – like the World Intellectual Property Organization (WIPO), the Convention Establishing the Multilateral Investment Guarantee Agency (MIGA), the Convention on the Recognition and Enforcement of Foreign Arbitral Awards and the Convention on the Settlement of Investment Disputes between States and Nationals of other States. It should also include in its arguments the fact that big MNEs like the Standard Chartered Bank, Barclays, Mobitel, Tritel and the like are already present in the country.

Tanzania should update its arguments in marketing the country so as to reflect the new and better realities of time unfolding in the country. The arguments presented by TIC (1998:9) reveal that the country has not exhausted all the benefits it enjoys as an attractive investment location. The only arguments put forward are: abundant natural wealth – including an excellent geographical location (six land locked countries have access to Tanzanian ports); arable land; excellent tourist attractions (Ngorongoro, Serengeti, Kilimanjaro and the spice islands of Zanzibar); natural resources; a sizeable domestic and sub-regional markets; a wide local raw material supply base, inexpensive labour; political stability and a suitable market policy orientation.

Tanzania can learn from arguments presented by various countries. The author has surveyed and collected a number of arguments from various countries. Due to space limitation and the depth of the arguments, they will not be presented here ²⁶.

²⁶ For example for arguments put forward by the UK visit www.invest.uk.com ; for Japanese arguments visit <http://www.hero.or.jp/his> or <http://www.hero.or.jp/hi-guide>; for

It does not mean that Tanzania has to copy these arguments. Authorities concerned with attracting more FDI inflows into the country should identify what kinds of arguments are put forward and where appropriate create them. The arguments show also what it takes for a country to be attractive as an investment location.

Tanzania should participate in exchange of information, experience and lessons with other countries in matters concerned with attraction of FDIs. For example TIC or other appropriate authorities may establish contacts with various investment promotion centers/agencies towards this end. This may increase the knowledge of these authorities on how to attract more FDI.

Opportunities offered by the international community in helping countries to attract more FDIs must be exploited in an optimal way by Tanzania. Such opportunities include the various services provided by the United Nations Conference on Trade and Development (UNCTAD); United Nations Industrial Development Organization (UNIDO); World Bank Group's Foreign Investment Advisory Service (FIAS) and those offered by the business community at large.

Tanzania should establish/maintain strong links with agencies in the Organization of Economic Cooperation and Development (OECD) countries and exploit opportunities they offer. The agencies offer different services, seminars, conferences, and meetings with relevant policy and decision makers on, *inter alia*, attraction of FDI inflows. For example, the OECD helps developing countries develop their own capacity to attract FDI. (OECD 1993). It helps these countries to build and improve investment promotion programs in various ways. Among the ways include sending consultants and other experts; paying for services of advertising FDI promotion agencies; polling groups or public relations (PR) firms to help these agencies evaluate or publicize their programs.

Italian arguments see www.sviluppoitalia.it . Indian arguments are found in *The Economist* (April 21, 2001: 17) while Austrian ones are present in *The Economist* (May 26th-June 1st, 2001:45) and at <http://www.aba.gv.at>

Cooperation with the international community may help Tanzania attract more FDI. The community may encourage and facilitate investors' efforts to invest in Tanzania. For example OECD countries' governments may sponsor investment insurance in the country. They may also offer equity, loans, various information and promotion programs to investors from their countries aiming at investing in Tanzania. These actions may increase the return or reduce the risk of investing in Tanzania, thereby making it more attractive to investors.

Others in the international community that might assist Tanzania's efforts to attract more FDIs include its various development partners like the donor community at large. The official development assistance (ODA) they give can be very helpful in creating investment-friendly environment in the country. For example, they may be crucial in developing, maintaining and upgrading infrastructure. The cancellation of the Tanzanian external debt by the international community may have similar effects like those of ODA in as far as attraction of FDIs in concerned.

Summary

The work has presented evidence for positive role that FDI can play in Tanzania. It has also presented a number of ways in which Tanzania can attract more FDI inflows. The evidence presented covers 13 sectors of Tanzanian economy and more than 20 foreign firms.

The positive role of FDI cited in this work, include, *inter-alia*, increased capital formation and production capacity; GDP; government revenue export volume; job creation; training of local staff; introduction of modern, state-of-the art technology; improved telecommunications thereby bridging/reducing the digital divide; regional experience and the presence of firms; improved, competitive, advanced and global financial services; cooperation between local and foreign firms; turning loss-making firms into profit making ones; and linkage effects between FDI projects and the rest of the economy. In addition, a number of positive externalities/spillover effects have been documented in this work. These

include housing schemes; water and electricity supplies; construction or repair of roads, schools, classrooms, clinics, hospitals, dispensaries, toilets and mortuaries; digging of boreholes and water wells; donation of computers, cars, chairs, desks and cash.

The negative impact of FDI in Tanzania documented in this work include: conflicts with local communities; environmental destruction; the crowding out local firm; racial and gender segregation and discrimination; tax evasion; the import of undesirable items; unfair labour standards; and profit repatriation.

Among the ways suggested in this work for Tanzania to attract more FDI inflows include provision relatively cheap skilled and unskilled labour, good technical and physical infrastructure, incentives; membership in regional groupings; continue with economic and structural reforms; flexibility and structural adaptability of the economy; proper treatment of investors; rule of law; marketing the country for FDIs; educating the population on FDI roles in the economy; creation of "Invest in Tanzania Committee"; making most out of experts on FDI and related fields and exploiting possibilities offered by the international community.

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