A STUDY ON IMPACT OF FOREIGN DIRECT INVESTMENT ON MANUFACTURING INDUSTRIES IN TANZANIA

By

MATONYA, Jordan Charles

THESIS

Submitted to

KDI School of Public Policy and Management

In Partial Fulfillment of the Requirements

For the Degree of

MASTER OF DEVELOPMENT POLICY

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Approval as of May, 2017

ACKNOWLEDGEMENTS

Although pursuing Master's Degree requires Individual efforts, but I would like to take this opportunity number of individuals and Institutions for their ample support throughout my course. It should be noted that all those who are mentioned here are not responsible for any inaccuracy, error or omission that remain on the author's part. I thank the management of KDI School of Public Policy and Management through Global Ambassador Scholarship for the one year scholarship that assures attainment of this Diploma. Second, am indebted to my employer President Office, Planning Commission for permitting my study leave and other administrative assistance. Third, I would like to thank my POS team which was under Prof. Lee, Seung Joo (Supervisor) and Prof. Park, Hun Joo (second supervisor) for their proficient supervision, comment and criticism and complements which entirely made the completion of this study. Lastly, am gratefully to the management of TCC and TBL for availing and informing this study with some important data that spearheaded the completion of this work.

TABLE OF CONTENTS

LIST OF ABBREVIATION

EAC East African Community

BOT Bank of Tanzania

FDI Foreign Direct Investment

EU European Union

FEs Foreign Entrepreneurs

GDP Gross Domestic Product

IC - Implementation Committee

IPA - Investment Promotion Agency

IMP - Investment Monitoring Platform

ISIC - International Standard Industrial Classification

JVs - Joint Ventures

LDC - Less Developed Country

LTPP - Long Term Perspective Plan

MIT - Ministry of Industry and Trade

NBS - National Bureau of Statistics

OECD - Organization for Economic CO-operation and Development

POPC - Presidents Office, Planning Commission

R&D - Research and Development

SADC - Southern African Development Community

SSA - Sub-Saharan Africa

TBL **-** Tanzania Breweries Limited

TCC **-** Tanzania Cigarette Company

TFP - Total Factor Productivity

TCCIA - Tanzania Chamber of Commerce, Industry and Agriculture

TIC - Tanzania Investment Centre

TNCs - Transnational Corporations

UNCTAD - United Nations Conference on Trade and Development

UNIDO - United Nations Industrial Development Organization

URT - United Republic of Tanzania

DEDICATION

All praise and honor belongs to Almighty God. I dedicate this work to my parents (Upendo and Charles Matonya) whom tirelessly support and encouraged me throughout the journey of education. My wife and children (Wise, Wesley and Wendy) for patients and tolerance for the time I was away from them.

ABSTRACT

A STUDY ON IMPACT OF FOREIGN DIRECT INVESTMENT ON MANUFACTURING INDUSTRIES IN TANZANIA

Investment on Industries has been the centre core activity of many developing countries including Tanzania. Due to lack of capital, technology and managerial expertise Foreign Direct Investment has been opted as the best model to foster development of industrial sector. In recent years the government of Tanzania through privatization and building of trust to investors has started to witness much commitment on investment.

This study intended to assess the effectiveness of Foreign Direct Investment (FDI) on promoting the development of manufacturing industries in Tanzania. The study employs the case study method where two manufacturing industries were involved. In addition, a bunch of secondary data from previous studies and government document was used to inform and get the picture of the study problem.

Findings have shown that FDI had an influence and important role to Tanzania economy. Manufacturing industries in Tanzania today have a strong platform to play as compared to few years before privatization and those can be seen as fruits of FDI initiatives in the country. Lastly, this study recommends that, for real impact of FDI to be manifested to workers there is needs to enhance manufacturing sector objectives that will fit with current situation of investment in Tanzania.

By

Jordan Charles Matonya

CHAPTER ONE

1.0 INTRODUCTION

1.1 Background of Information

It is generally recognized that Industries act as an engine of the economy by raising income of the nations, creating employment and improving other sectors of the economy. According to UNIDO **"**manufacturing can be catalytic in transforming the economic structure of agrarian societies. In fact, the very concept of economic development is intrinsically linked to the changes in the structure of economic activity that takes place as countries become richer" (UNIDO 2013). Industrial development in Tanzania gained momentum immediately after Independence in 1961 followed by the Arusha Declaration in 1967 which among other thing strengthen the State capacity in the ownership of means of production.

In the late 1980's Tanzania embarked into free market economy which permitted private to take a lead on investments not only in Tanzania but also from all around the world something that helped to build the economy (Muganda 2004). However, following a decade of stable macro-economic policies, regional integration and privatization Tanzania's Industrial sector remains stagnant. Industrial sector's share of GDP stayed at 9.5 percent between 2000 and 2010 (URT 2007).

In the light of that, government implements number of economic reforms which promote and attract investment from within and outside the country something that lead to privatization of many state owned industries. In addition, establishment of the Tanzania Investment Centre (TIC) in the year 1997 with mandate to facilitate investment in the country and assurance of security were some of initiative taken to attract FDI (TIC, BOT & NBS 2009).

Moreover, for a clear and consistent development path, Tanzania launched Long Term Perspective Plan (LTPP 2011/2012 -2025/26) in 2011 to implement Tanzania Development Vision 2025 with the focus to turn the country into a middle income economy by 2025. Specifically within the government will cement the need of the using industrial sector to promote its economic development. "Intensified industrial development and promotion for structural change-Light manufacturing and resource based strategic industries" (LTPP 2011).

UNCTAD (2014) pointed out that Global FDI flows rose by 9 percent in 2013 to $1.45 trillion, up from $1.33 trillion in 2012.This occurred despite some challenges in International investments triggered by the shift in market towards an earlier tapering of quantitative easing in the United States. In East Africa FDI flows have increasing by 11 per cent, to $6.8 billion in 2014 as compared to $6.1 billion in 2013.

Table 1: FDI Inflows in East Africa Region and Countries Economy 2009-2014(US$ million)

REGION/COUNTRY	FDI INFLOWS YEARLY					
	2009	**2010**	**2011**	**2012**	**2013**	**2014**
East Africa	3903	4520	4779	5473	6127	6794
Kenya	115	178	335	259	505	989
Uganda	842	544	894	1 205	1 096	1 147
Tanzania	953	1813	1229	1800	2131	2142

Source: UNCTAD 2015

Tanzania remained the region's highest recipient of FDI with $2.14 billion recorded in 2014, up from $2.13 billion in 2013 (see table 1). Uganda and the United Republic of Tanzania maintained relatively high inflows, thanks to the development of gas and mineral sectors. With gas discoveries in Southern part of Tanzania helped the country to be the leading FDI destination in the East African Community where by big companies like, Ophir Energy Plc, BG Group and ExxonMobil, Statoil of Norway discovered more than 45 trillion cubic feet of gas.

Gas discoveries in recent years in Tanzania made the sector to receive USD 618 million in 2012 as compared to USD 1.0 in 2008. Manufacturing sector continued to be one of the prominent receivers of FDI with USD 563 million in 2012 behind mining and quarrying sector which received USD 889.3 million (see table 2). The pattern of inflows on manufacturing shows improvement as the amount rose from USD 277.6 million in 2008 to USD 563 million in 2012 and this has been contributed among other thing by improved investment environment in the sector by government.

Table 2: Flows of FDI by Economic Activity, 2008 – 2012 (USD Million)

	INFLOWS				
	2008	**2009**	**2010**	**2011**	**2012**
Mining and Quarrying	669.8	385.1	909.9	406.5	889.3
Manufacturing	277.6	214.5	157.1	217.3	563.7
Accommodation	129.7	35.9	21.1	165.6	5.4
Finance and Insurance	81.7	95.9	95.5	121.1	148.1
Information and Communication	127.6	185.1	83.5	-98.3	-420.1
Electricity and gas	1.0	2.1	290.5	209.4	618.3
Wholesale and Retail trade	21.1	-16.9	36.9	114.5	35.2
Agriculture	21.2	29	22.9	31.4	11.2
Construction	-3.7	14.9	-23.5	30.7	-28.1

Source: TIC, BOT & NBS 2013

It is evident that government of Tanzania in attracting FDI has made a vital role and that the presence of foreign companies improves the productivity of domestic companies (TIC 2014). Tanzania Investment Centre (TIC) registered more than 2,076 between 1995 and 2004 among which 55.3 percent were foreign investments. There is a noticeable rise of FDI inflows in Tanzania in recent years as compared in 20 years ago. Total FDI inflows exceeded $10.1 billion during the period 2009–2014 as compared to a total of $2.4 billion during the period 1995–2004 and with a total of only $90 million in the period 1990–1995 (TIC 2009 & UNCTAD 2014).

From 2010 -2012 TIC registered a total of 869 projects worth of $19.7 billion and among which 205 projects (23.5%) were owed by foreign investors, 195 projects (22.5%) were joint ventures and 469 projects (54%) were owned by Tanzanians (Economic survey 2012).The pattern of projects registered by TIC in recent years seems to take a different pattern of encouraging more partnership between local and foreign investors as compared investment era in 1990's.

1.2 Statement of the Problem

"After decades of macro-economic stability policies, trade liberalization and regional integration, and despite improvements in the 2000s, the performance of Tanzania's manufacturing sector remains unimpressive" (UNIDO, MIT, POPC 2012). Hinh, Monga, Morisset & Kweka (2013) also argued that manufacturing, which has been the main vehicle throughout the world to achieve this transformation, has remained stunted in its growth in Tanzania.

Despite that stagnation, it is widely recognized that government has been putting efforts by including private sector to revive manufacturing industries. UNIDO, MIT, POPC (2012) in their report commented that, industrial development has recently taken centre stage in the policy debate in Tanzania. The adoption of the Long Term Perspective Plan (2011/12-2025/26), which advocates for industry to drive the socio - economic transformation envisioned in the Tanzania Development Vision 2025, and the Integrated Industrial Development Strategy (2011-2025), confirms that the government conceives industrial development as the catalyst to transform the economy, generate sustainable growth and reduce poverty. Wange et al. (2014) have also debated that from the mid-1990s the policy stance showed indications of bringing the question of industrial progress back to the development agenda in the context of market orientation and private sector-led development.

"Government adopted a National Investment Promotion Policy and enacted the National Investment Promotion and Protection Act of 1990 to enhance the investment climate" (Muganda 2004). BOT, TIC & NBS (2013) opined in Tanzania Investment Report that "periodic publications of the findings of the survey of foreign private investments have shown that there was an increase in Foreign Direct Investment (FDI) inflows into the country in recent years". World Bank (2006) highlights and applauds the set of FDI development very aptly and says, "Tanzania is one of Africa's best performing countries in terms of GDP growth and attracting foreign direct investment". On the other hand, REPOA (2012) responding to these development brought by FDI but having some doubts on its contribution on the economy stated that “however, the extent to which FDI is contributing to economic transformation (and poverty reduction) is an open question”.

Previous researches indicate mixed results on identifying the contribution of FDI in host economies. Blomstrom, Lipsey, & Zejan (1994); Balasubramanyam et al. (1996); & Nunnenkamp & Spatz (2004) have different claims presented as follow:

> FDI affects the gross domestic product (GDP) per capita of the host economy which is strongly related to the FDI to GDP ratio. Likewise, export oriented countries as compared to import oriented countries; and assumption that countries with high income are likely to benefit from FDI inflows.

Accordingly, Caves (1996: 237) "the relationship between a LDC's stock of foreign investment and its subsequent economic growth is a matter on which we totally lack trustworthy conclusions”.

Despite diversified views from previous studies there is a need to look into sector specific and see whether FDI inflow has led to changes on Tanzania’s manufacturing industries. In that essence, this research will concentrate on various issues concerning FDIs in Tanzania.

1.3 Objectives of the Study

1.3.1 General Objective

The main objective of this study is to assess the effectiveness of Foreign Direct Investment (FDI) on promoting the development of manufacturing industries in Tanzania. In doing so, focus will be put on two aspects: FDI inflows on manufacturing industries in Tanzania in light of contribution specifically on production (technological competence) and provision of decent works (in terms of wages and working conditions).

1.3.2 Specific Objectives

i. To examine the contribution of FDI in terms of building technical capacities of workers

ii. To assess the social living conditions of the workers of manufacturing industries with FDI

1.3.3 Research Questions

This research carried out under the guidance of the following research questions:

i. To what extent FDI enhance technical skills of workers in manufacturing industries in Tanzania?

ii. Are living conditions of workers in manufacturing industries improved with FDI?

1.3.4 Hypothesis (or Claim)

i. FDI enhanced technical experience of manufacturing industries workers in Tanzania.

ii. Living conditions of workers in manufacturing industries improved.

1.4 Significance of the Study

The findings of this research will reveal the number of new FDI oriented industries in Tanzania and their contribution to the economic development. Role of FDI towards industrial development as the country embarks into a middle income economy it is of great importance. Thus, it will be realized that the way we engage in attracting investment from other country is worthwhile or not depending the outcomes of this research.

1.5 Limitations of the Study

FDIs flow around the world and in a very different way and styles. Tanzania has many sectors that receive FDI in different magnitude and volumes but this study will focus on manufacturing sector development. This was due to the fact that time is limited and availability of data as many of them treated in a confidential manner.

CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

Tanzania, in the same way like other developing countries, continued to attract Foreign Direct Investment (FDI) inflows by implementing a number of policies that will improve its investment climate. However, contribution of FDI in economic sectors like manufacturing remains an open question. In this section brief definitions of the key terms (FDI and Manufacturing Industries) will be given. After that, a theoretical review that focuses on issues of FDI and an empirical review related to the study are discussed.

2.1 Foreign Direct Investment

FDI has turn to be one of the external finance for many developing countries and seen to play a major role in bringing together nations to engage into trade and investment. In many cases where FDI policy frameworks are observed, they tend to promote economic growth, stabilization of financial systems and societal development. The sense of completion brought by FDI activities in the market, which is caused by improvement of technology that lower costs, invites many investors from different parts of the world to join and enjoy the economies of scale (OECD 2008).

Krugman & Obstfeld (2008) described FDI as international capital flows whereby a firm in one country generates or initiates a subsidiary in another country. Diyamett & Mutambla (2014) view FDI initiatives in a broad perspective, which has been recognized as a global phenomenon for promoting economic development of countries and this is due to the fact that resources are limited specifically on capital and technology. FDI role in today’s view has become an important cradle of new innovations in technology from one country to another as technical change has been well pronounced.

In 1970's the amount of FDI received in developing countries did not exceed $10 billion however, profound changes has been noticeable in many developing nations as the percent of FDI flows have increased year after year and in 1999 reach to $208 billion. This investment is achieved or accomplished mostly through mergers and acquisitions. In the case of traditional manufacturing, this has been the primary mechanism for investment and it has been heretofore very efficient (Barry & Graham 2004). On the other hand, (Graham & Krugman 1993) argued that an influx of FDI towards developing countries were the results of three things that changes in taxation pattern, changes in exchange rate rates that lead to fluctuations in cost of capital and determined changes in tax policy. There are huge disparities across regions among developing countries in terms of value of FDI received since 1970's due to emerge of some countries successfully in attracting FDI for export markets regardless of their market size. Asian developing countries receive highest total values of FDI, followed by Latin American and Caribbean countries, whereas for African countries in comparatively terms receive very little FDI (Velde 2006).

2.2 Manufacturing in Tanzania

Industrial development has been at the centre of the Tanzania economic development since post-independence era. It was anticipated by policy makers to be the engine of Tanzania economy by changing the country's economy from low to high productivity with a vibrant economy, linked with sustained income growth. However, after passing through different stages like: mixed economy (1961-66), state-led import substitution industrialization (1967-85), de-industrialization based on structural adjustment programmes (SAPs) and policy reforms (1986-

95) and promotion of industrialization for economic transformation (1995 to date) these reform have made some noticeable performance in the sector. Nevertheless, the contribution of manufacturing sector in the economy (GDP and its growth rate) has remained relatively low for the past decade (Wangwe et al. 2004).

Tanzanian manufacturing industries are not well-developed and despite recognition of the sector as an engine for economic growth, the country has been curbed with different challenges in recent years as demonstrated in the Tanzania Economic Survey of 2007 as follows:

> Tanzania's manufacturing sector has been transformed over time, reflecting changes in national policies, varying domestic demands and the world market dynamics. Importance of the manufacturing sector to the national economy has varied across different periods since independence. However, in the recent years its contribution to the national income and hence its importance has been on the rise. Industrial structure, policy, output composition and magnitude have experienced notable changes over time (URT 2007).

Tanzania's major manufacturing industries among others include agro - food processing, cement, oil refining and beverages. Also the sector involves tobacco products, textiles, apparel, paints, glass, plastics, chemicals and pharmaceuticals and metals processing and wood. Despite the prevailing challenges surrounding the sector, still it remains one of the significant contributors to the economy as the most reliable sources of government revenue in terms of import sales on both corporate and income taxes (URT 2014).

2.3 Theoretical Framework of the Study

The existence of FDI in many scholars' views is a result of emergence of globalization that led to the initiation of Multinational Corporations. As a result, many theories have been developed to explain the movement of capital from one country to another.

One of the famous theories that explain FDI is based on perfect competition; if there is free movement of capital from an investing country to a host country, the marginal productivity of capital tended to be similar in the two countries. The theory explains that the investing country's productivity will become low without harming the national income and this is due to the fact that in the long term the investing country will get higher income from its investment abroad (Caves 1971). However, this theory believes in capital flow from developed countries to developing countries alone, something that has changed completely today, as we have developing countries investing in developed countries as well.

Hymer (1976) developed a theory based on industrial organization approach that international firms are exposed to foreign exchange risks and have to compete with local industries, which are at advantageous due to their shared values, language, legal issues and consumer's preference. However, due to market imperfection, technological dominance is the key advantage as it facilitates the development of new products with new features. In addition, businesses are in a position to take advantage of their market influence to earn profits by investing at large scale abroad. In contrast, Robock & Simmond (1983) opposed this theory by the views that having firm's specific advantages is not sufficient criteria for it to survive in the market. Exporting or licensing can be a good way of doing business without investing abroad.

FDI has also been explained as based on the theory of International trade (product cycle theory). Helpman, Melitz &Yeaple (2003) claimed that the emerging of FDI in recent years and growth in productivity of multinational firms has improved the structure of international trade. FDI has become in favour of many countries compared to International trade. Latorre (2008) argued that FDI emerged as a way of controlling the danger of losing markets as products matured and the need for cheaper factor costs in the world competitive markets. His argument was based on three stages of the "Product Life Cycle Theory." At the initial stage, innovation of new products is the focus, and the products are sold in places with the relative high incomes and skilfulness. Secondly is the maturity stage whereby demand for the product is enormous and prices are quite low, the thing which motivates a firm to widen its market internationally. At the last stage, the firm develops its own brand into a more standardized way, and production technique becomes renowned, which allows investment to move to any place in the world where costs are at the lowest possible level.

However, Nayak & Choudhury (2014) concerning the Product Life Cycle Theory were critical of the view of how long the firm should wait until they get profitable amount to commence FDI, rather than insisting on export or by licensing a foreign firm to produce its products. The theory is silent and major on ability of foreign market to grow and become large enough to sustain local production from which FDI will occur.

2.4 Empirical Review

2.4.1 FDI Contribution to Host Economies

There have been mixed results of macroeconomic studies on FDI and spillover effect to the host country's economic sectors in general. Many previous researches found some positive relationships between FDI and economic sectors' growth, but their results should not always be significant. Kim (2014) attempted to indicate the impact of the absorptive capacity so as to encounter negative results from FDI to the host country. The absorptive capacity has to ensure that positive spillovers from FDI exceed the negative one. The study also showed that firms have to develop the absorptive capacity (R&D and export participation as important for firms) as it was evident those without tend to suffer more. He uses data from South Korean manufacturing industries in a nearby period of 2006–2009 and includes enterprises which have 50 or more workers, together with a capital of 0.3 billion Korean Won and above in a year. The study found that firm's absorptive capacity such as R&D and export activity plays a significant role in mitigating the negative forward spillovers from FDI. However, there is no clear sign of positive productivity effects brought by FDI but rather found some negative effects as number of firm that could take advantage of R&D and export activity were insignificant.

Other studies have stressed on the importance of host country features in accepting the absorption of benefits from FDI's effects. Balasubramanyam, Salisu & Sapsford (1996) observe the link between trade strategy, FDI and growth in developing countries which either concentrated in export promoting against those with import substituting policies. This study found that the roles FDI have in developing countries are characterized by differing trade policy regime. Export promoting countries tend to encourage neutrality policy, free market, and competition, which provide an ideal environment for FDI to nurture economic sectors' development in the host countries unlike those countries which promote import substitutes.

Blomstrom, Lipsey & Zejan (1994) examined the impact of FDI to higher income developing countries as compared to lower income countries. They found that "inflows of direct investment were an important influence on growth rates for higher income developing countries, but not for lower income ones." On the other hand, Nunnenkamp & Spatz (2004) opined that positive trend of FDI in developing economies is not something that should be celebrated by all countries as it varies from one country to another. Host countries with favourable conditions like high GDP per capita, better education, strong institutional setup, and fair trading systems tend to be characterized by higher total FDI stocks with consequent growth. Taking Institution setup this study specifies that favourable institutional conditions assist positive growth of FDI, regardless of the fact that FDI was developed in technologically advanced or less advanced industries. On the other hand, unfavourable institutional conditional tend to have two effects that is few advantages will be receive as a result of FDI in manufacturing industries and lacks of positive growth effects as a result of such conditions. It is therefore, host countries should not just take the favourable conditions for granted rather focus on other advantageous they can grab from FDI initiatives in their countries.

2.4.2 Empirical Review on Tanzania in Relation to FDI

Little has been studied on contribution of FDI on manufacturing sectors in Tanzania. Of the few, Senkuku & Gharleghi (2015) consider the factors influencing FDI inflow in Tanzania using a pool of variables from Tanzania Investment Centre (TIC) that also include a survey of 300 respondents and use the regression model to analyze their results. The study indicated that there is no relationship among government terms and regulations with the inflow of FDI in Tanzania. However, this study reveals that shortage of technology and infrastructure are among other things that attract more FDI in the country. Moreover, an abundant natural resource was highlighted to be one of the vital factor that influence investors to invest in Tanzania.

Beyond technology and rich natural resources, Rutaihwa & Simwela (2012) studied on the impact of FDI in mining sector to Tanzania Export Capacity. They employ econometric analysis (Ordinary Least Square techniques for regression analysis) in order to evaluate the effects using the data drawn from different documents of industries within and outside the country. The results of this study show that total exports performance (on mining sector) of Tanzania to other parts of the world has been insignificant, meaning that contribution of FDI in mining sector has been very low. The relationship between FDI in mining and Tanzania export performance according to this study was statistically insignificant indicating that benefits from mining investment did not payback within the period it was anticipated.

Nyamkweli (2012) view FDI initiatives in Tanzania in relation to poverty alleviation specifically in mining industry. The idea of economic growth supported by mining boom with a narrow scope at national level while the majority in rural communities are directly affected by the operation was at the centre of his study. Mining resources are exploited for the benefit of foreigners companies and not for the country, this study assess issues like revenue, employment, mining legislation reforms and their relationship to the living conditions of the communities. This study found that gold mining in Tanzania is of great importance in terms of investment, technology transfer and export revenue. On the other hand, gold mining which received a remarkable FDI, fails to promote growth, poverty reduction and pose environmental degradations.

Brian & Rajneesh (2003) emphasizes on the issue of FDI through acquisitions and implications for technological upgrading in industrial activities. They applied the case study approach to analyze the role of privatization on the industrial landscape of Tanzania. The conception of technological upgrading lays on the issue of FDI development/spillover in the country. The study finding reveals that FDI though by acquisitions resulted to technological transfer and industrial upgrading within the acquired firms. On the other hand, there are some cases where technological upgrading has occurred despite of the inherent capability structures within acquired firms. Additionally, absorptive capabilities within firms prior to acquisition also determine technological and knowledge upgrading. Insights on the issue of technology transfer aspects of FDI through acquisitions and the way it relates to knowledge and production on various firms in Tanzania is the subject that needs further research.

Furthermore, Rutaihwa (2013) on FDI spillover in Tanzania manufacturing sector opined that there is positive correlation between labour productivity and horizontal and vertical spillover; skilled labour, economies of scale and capital intensity. Specifically study on horizontal technological spillover (intra –industry) depicted out that there is high benefits gained to manufacturing industries as a result of new technology from foreign countries in Tanzania. However, there was negative relationship on vertical technological spillover (inter –industry) implying that domestic firms selling to or supplying from foreign companies they did not benefited.

Moreover, on technological capabilities in least developed countries (the case of Tanzania manufacturing sector), Diyamett & Mutambla (2014) argued that FDI impacts are not automatic. The study finds that contribution to local technological capability building was very low as very few firms indicated their sources of knowledge for technological capabilities were gained as a result of FDI initiatives in the country. The technological capacity of Tanzania local firms is one of the obstacles towards absorption of the new technology brought by FDI leave aside other investment conditions. However, this is contrary towards what De Mello (1997) commented that in most cases FDI signifies a "combination of capital, stock, know-how and technology".

Similarly, there are those who strongly believe the inflow of FDI and their activities do not help the country's economic sectors to grow. (Ngowi 2012) opined that FDI in Tanzania is in its relative initial stages. It is a new concept in the country which had a socialist direction until recent years. Kabelwa (2006) reach similar conclusion that data on FDI is still a challenge and an active policies are required to attract FDI and made it works for development of Tanzania. However, BOT, TIC & NBS (2013) in Tanzania Investment Report 2013 shows improvement on various economic sectors in Tanzania like mining and quarrying, and electricity and gas, other sectors including manufacturing maintain their growth, though not in a huge margin.

2.5 Identified Literature/Research Gap

In light of the review above especially on various studies conducted in Tanzania, reaffirms my motivation to assess the impact of FDI on manufacturing industries. It is clear that much of the literature on FDI in Tanzania focuses on new emerging sectors like mining, tourism and gas while those on manufacturing have not look on social economic aspect of employment and technology which this thesis addresses. The focus has mostly been on FDI inflow without looking at the changes to the specific sectors. There is a need of contributing to this body of knowledge through undertaking researches and further studies. Thus, this study departs from the existing body of literature by contributing new thinking with regard to the impact of FDI.

CHAPTER THREE

RESEARCH METHODOLOGY

3.0 Introduction on Research Methodology

This chapter discusses the methodology used in this study. It explains the methods of data collection, analysis and presentation.

3.1 Data Collection

The research will use a qualitative methodology to review information on past reports and studies done by Government specifically Tanzania Investment Centre (TIC), National Bureau of Statistics (NBS) and Bank of Tanzania. Additionally, previous researchers and international Organization reports and documentation from two selected manufacturing industries (Tanzania Breweries Limited (TBL) and Tanzania Cigarette Company (TCC) will be collected to demonstrate the role of FDIs on manufacturing industries in Tanzania. These two manufacturing industries selected have demonstrated resilience and image of FDI operations in the country.

Based on the purpose, this research study was design with a focus on describing the situation of manufacturing industries development trend despite the existence of FDI in the country. Investigating what happened and clarifying the situation using secondary information will be as a vital part of this study and necessary in order to answer the research questions posed.

3.2 Data Analysis/Review

Data analysis will start with reviewing of collected information so as to have a clear picture of different scenario on FDI inflows, editing to detect and correct errors will base on the review. The study will observe the trend of FDIs directed to manufacturing industries with the intention of realizing its potential. Furthermore, a case study method will be applied by reviewing information from two manufacturing industries (Tanzania Breweries Limited (TBL) and Tanzania Cigarette Company (TCC).

Apart from aggregate data from recognized institutions this study in establishing its course focuses also into case study method. Case study review given the limitations of time and availability of primary data was thought to be the good way that could represent the view on the impact of FDI in manufacturing industries in Tanzania. Yin (1984) depicted out importance of case studies method especially when the question understudy focus on a current/present occurrence of an event. George & Bennett (2005) argues that in whatever form they may look or interpreted still case studies, models and statistical methods are corresponding to one another without conflicting to their user. In their view case study should establish a clear and genuinely comparative of the circumstance understudy. Three important characters that a case study must have are: identification of class of event that will be studied; distinct research objective and way to reach those objective must be key in selection of the case; and provision of variables that are theoretically interest in the way they can be describe for easy understanding and effect outcomes.

Tanzania Breweries Limited (TBL) and Tanzania Cigarette Company (TCC) were both owned by the government of Tanzania until early 1990's were they were privatized to the foreign firms. Government still owned few shares in both companies and they continue to produce local products as well as new introduced products depending on the decisions of their managements. Despite of being transformed from their poor conditions when they went through privatization, these two companies are seen as local Tanzanian companies in the perspective of their business. Therefore, this study intends to review different articles which in relation to their involvement as part of FDI activities in Tanzania as they represent a picture of the case understudy. Moreover, the collected information from both aggregate data and the case studies will be presented using tables and graphs in the discussion of the results.

CHAPTER FOUR

STUDY FINDINGS AND ANALYSIS

4.0 Introduction on Study Findings and Analysis

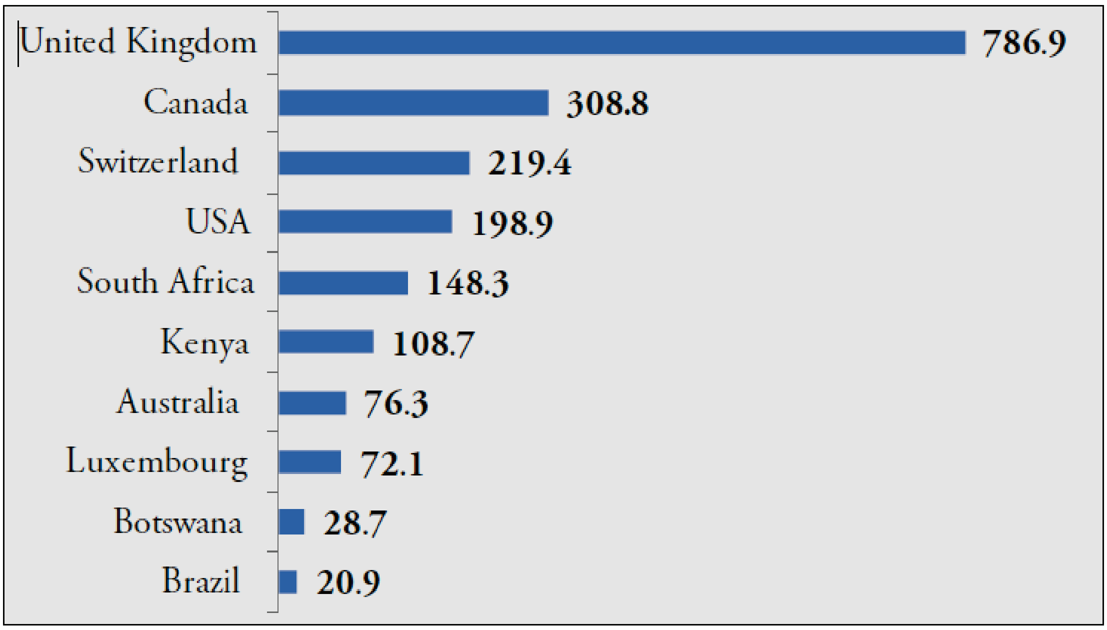
This chapter presents research results, findings and the discussion of data that has been analyzed in the study. The study was concerned with two research questions: One that relates to what extent FDI enhance technical skills of workers in manufacturing industries in Tanzania, i.e. building their capacity through knowledge transfer. Second question focus on living conditions of workers in manufacturing industries improved as a result of FDI initiatives. This study propose that with FDI activities in manufacturing industries working conditions and wages issues were to be improved, hence more realization of FDI in the country.

4.1 Overview of FDI in Tanzania

In Lima, Peru 2013, UNIDO reaffirm one of its mandates to support industrial and sustainable development especially those in developing countries to fully grasp the benefits of globalization. Globalization was one among issues given a priority and focus was on the volume and quality of FDI inflows in developing countries. Information of investment areas and the way they are portrayed have a great impact to investors as they need sound policy, attractive investment environment and assurance of resources to take decisions to invest with the intention of uplift the firm/industries to the next levels of productivity and technology. Inconsistent of information raise the risk perception and operation costs and might hinder investors to increase the volume of their activities in developing countries (UNIDO 2014).

However, since the early 1990's Tanzania has been at the fore front in advertising and promoting investment around the world. The establishment of the Tanzania Investment centre (TIC) in 1997 and the establishment of Investment act of 1997 provide platform that allowed investors from different part of the world to have direct access with various information regarding investment junctures in Tanzania. BOT, NBS & TIC (2013) describe ten countries with massive FDI inflow namely United Kingdom, the USA, Canada, South Africa, Switzerland, Kenya, Luxemburg, Brazil, and Botswana. Investments inflows were towards mining and quarrying, manufacturing, information and communication activities finance and insurance, wholesale and currently electricity and gas.

Figure 4.1: Top Ten Source Countries of FDI Flows, 2012 (USD Millions)



Source: BOT, NBS & TIC (2013)

Figure 4.1 indicate that almost 80 percent of total FDI inflows in 2012 came from four developed countries (United Kingdom, Canada, Switzerland and the USA) and this was due to the new discoveries areas of investment like electricity and gas. South Africa which was in second position in 2011 became the fifth in 2012 even though continued to invest more on mining and quarrying and manufacturing sector.

FDI are financed in most cases through reinvestment of earnings, equity and investment fund shares, and loans from parties. Tanzania FDI finance mechanism is concentrated on reinvestment of earnings and equity and investment fund shares as evidently described in 2012 inflows. The increase in FDI activities is a sign of investors' trust to the business environment and economy in general (BOT, NBS & TIC 2013). Additionally, looking closely into investor's curiosity to invest in Tanzania, it is clear that the pattern for their investment focuses more on export products, market oriented products, services and utilities.

4.2 Contribution of FDI on Other Economic Sectors in view of Manufacturing Sector

4.2.1 Mining Sector

Mining sector in Tanzania has been contributing to the economy through increase in export, paying to the government taxes, royalties and duties. It is the leading receiver of FDI inflows for the past decade with massive capital directed towards gold mining activities (URT 2012). Major companies in the mining sector are owned by foreign firms like African Barick Gold, Williamson Diamonds Limited (WDL) and AngloGold Ashanti. However, there are several medium scale companies and small miner's companies which are working in different mineral deposit areas (URT 2014). Minerals found in Tanzania among others include diamonds, coal, silver, copper, gold, uranium, and nickel and Tanzanite gemstone. BOT NBS &TIC (2013) argued that mining sector for the past decade has been in a forefront in attracting FDI and thus made it to be effective.

As a result of huge investment made in mining sector by foreign firms the path for technology transfer and workers condition in general view has been improved. ICMM (2009) on the issue of introduction of new technology they argued that modern mining due to use of high capital intensity it is not expected to generate huge contribution to local employment levels. Mining companies report construction employment reaching 6,600 workers in 2009 and in 2010 reach around 12,000 workers due to commencement in operational works in new mines. On the side of wage bill which was connected with direct employment reached to a total of more than US$200m per annum in the construction stage and exceeds US$100m during the operational life of the mines. Therefore, this trend indicates relationship between FDI in Tanzania and improving of sector specific the thing which can be observed in the manufacturing sector.

4.2.2 Gas and Oil Sector

Tanzania is well blessed with natural resources among them being natural gas and oil in the shore of the Indian Ocean at Songosongo, Mnazi bay and Mkuranga in Coast Region. URT (2014) indicated that discoveries of these resources have attracted a number of foreign companies to invest exploration activities for oil and gas in the country. Like mining sector, Gas and Oil sector in 2008 received the amount of $1.0 billion but a dramatic change occurred in less than five year and in 2014 received amount of $618.3 billion something that is promising to the sector's development (BOT NBS &TIC 2013). In 2012 the government signed three (3) contracts on exploration and production of natural gas. Also activities for drilling of gas and oil wells both off and onshore were intensified using the foreign firms (URT 2012).

It should be noted that gas and oil sector are still new player in Tanzania economic sectors but with a short period of time they have demonstrated number of success. It is one of the good examples of how foreign companies can effectively operate with few crushes with the government and the community by using the “Production Sharing Agreements (PSA)”. This agreement explains the right and obligations of both parties to the agreement and has binding ramification as any other contract (Magai & Velázquez 2011). Thus, apart from promising benefits on the side of employment creation, working condition, wages and technological capacity to workers this sector demonstrates the best model which can be copied with manufacturing sector in Tanzania.

4.3 Case Studies

I. Tanzania Breweries Limited

Tanzania Breweries Limited (TBL) is among the oldest indigenous proudly brewing company founded in 1930 (once known as Tanganyika Breweries). In 1992 Tanzania Breweries Limited was privatized to the South Africa Breweries (SAB Miller Africa) following the country decision to attract foreign capitals. The headquarters are in Dar es Salaam and have branches in Arusha, Mbeya, Mwanza, and Moshi. In 2013 the company record 76% market share in comparison to other brewing company. TBL is listed in the Dar es Salaam Stock Exchange (DSE) as one of the local company that has been successfully over the past decade.

Like many privatized companies in developing countries the journey toward success was not smooth and it involved a lot of sacrifices like incompetent and out-dated production systems, retrenchment of workers, dilapidation of equipment and machinery, foreign exchange problems and low quality products. However, due to massive injection of foreign capital in 1993 the company witnessed dramatic changes. For instance, in terms of production the company has increased from 4.2 million cases of beer in 1993 to 8.6 million cases in 2015, capacity utilization also rose and there has been brand development that goes hand in hand with quality products. Additionally, though some workers were reduced due to introduction of the new technology, the current employee benefits and remuneration is perceived to be at good standard (this study will look into it). Moreover, TBL continues to be one of the sources for the government revenue and also the company involves itself in a number of social corporate activities to assist communities around the country.

In expanding its business, TBL purchase raw materials like barley from the local farmers and thus improves their lives. The company has been engaging with other local manufacturing industries which they supply their product and enhance the backward linkages of FDI like KIOO Glass Ltd (engaged in glass manufacturing), Carnaud Metal Box (engaged in crown Corks), Simba Plastics (engage in plastic crates) and Tanzania Printers (engage in labels). Thus, this indicates a kind of company that received FDI and has a turnaround impact not only to the investors but to the manufacturing sector of the country as whole (SABMiller & TBL 2016).

On the issues of working relation, TBL has ensured that relationship among workers and management are in a good position in many years to come. A strong healthy connection remains to prevail between workers trade union and management the thing which assures few misunderstanding. In that the company allows fair and opportunity to its employer and the people seeking for their service as production continues without any harm. This relation provide a room even to those who want to join the company to access employment positions without favouritism and even promotions are channelled to the best and suitable personnel. In 2015 the number of employee stands at 1,868 whereby 255 were female and 1,613 male, this includes all branches and headquarter. Additionally, the company adheres on the issue of social security funds of which two pension funds like National Social Security Fund (NSSF) and Parastatal Pension Fund (PPF) where many employees have joined (SABMiller & TBL 2015).

II. Tanzania Cigarette Company

Tanzania Cigarette Company (TCC) was established in 1961 and was owned by the government until it was privatized in 1995 to an American company by the name of RJ Reynolds which acquired 51 percent shares. In 1999 the RJ Reynolds sold its shares to Japan Tobacco Inc (JTI). In 2000 JTI manage to raise its shares up to 75% and made it majority owner of the company. The company still manufactures variety of local and foreign brands of cigarettes which are sold inside and outside the country. Currently, TCC was registered at the Dar es Salaam Stock Exchange and the company continue to mold itself into different changes economically that Tanzania has gone through with the focus of its values of open enterprising and challenging (TCC 2012).

TCC's have backward linkage effect not only to other manufacturing industries but also indirectly funding over 100,000 tobacco growers and around 2,500 business partners. The company has its headquarters in Dar es Salaam and branch offices in different regions. TCC before privatization was incurring losses following outdated technology which did not compete with neighbouring countries, over employment and poor management capacity. On the other hand, labour force shrinks from about 800 employees during privatization period to 600 employees (TCC 2012).

TCC have maintained good relationship between workers and management to allow harmonious environment for the company to grow. TCC has a well defined contribution plan to pay for contributions administered pension which is mandatory. Moreover, the company a special programme for medical insurance scheme to employees including 5 dependents. The company also has a signed voluntary agreement with Trade Union to bring harmonized working conditions to workers and management. Promotion opportunities at TCC are provided regardless of marital status, gender, tribe, disability and religion instead hardworking experience and academic background are vital to any position. In 2013, the company spent more than four hundred million shillings in trainings of its staff to strengthen their skills, knowledge, attitude and character. According to TCC training manual it explicitly committed to have progressive trainings to curter for the demands of the current changes in business.

4.3.1 Enhancing Technical Skills of Workers on Manufacturing Industries in Tanzania

One of the key elements in many host countries is the change that can be brought by FDI and in this case we focus on technical capacity of the workers in manufacturing industries. It should be noted that government of Tanzania made efforts not only in attracting FDI but also to set policies, rules and regulations that facilitate local manufacturing industries to embrace technical skills from foreign companies and increases the productivity. The prevailing literatures have indicated that policies to sustain growth path of the Tanzania economy made the impact of free market economy (through privatization policy).

It is suggested that FDI through taking ownership of local manufacturing industries (acquisitions) resulted into improving of technology especially when firms learn by doing (Portelli & Narula, 2003). In Tanzania manufacturing industries have develop a base for technology due to existence of FDI and workers in different industries have manage to cope with the changes in technical skills in their working area. However, it is important to look the development of technological capacity of workers in the level of trainings they receive in their industries and evaluate if they assist them not only in their working area. UNIDO (2014) commented that, training and education is vital towards realization of the industries development in the country and hence improved the sector at large. Investor's survey indicates that firms with FDI (foreign firms) provide more training to their workers as compares to domestic firms. However, table 4.3 indicate how manufacturing industries spend less than primary and tertiary sector combine something which does not provide a good indication for growth of the sector.

Table 4.3: Training Expenditures (employee, by sector, ownership and technology) USD

	Domestic firm	Foreign firm
Primary sector	91	144
High-tech manufacturing	79	38
Medium-tech manufacturing	43	52
Low-tech manufacturing	27	31
Tertiary sector (including Utilities, Construction)*	340	...

Source: TIC (2014)

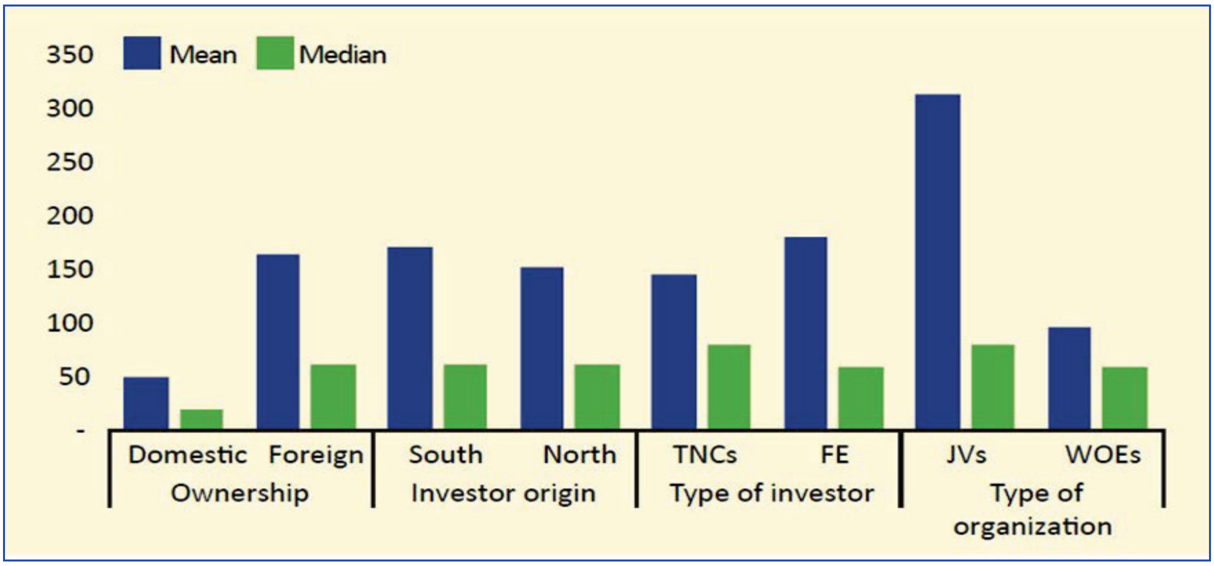
In TBL it is evidently that operations in Dar es Salaam plants, Arusha and Mwanza are supervised by local Tanzania managers as a way to transfer knowledge in their industry. TBL also has a programme that aim at helping not only its technical staff but also young professionals to obtain industrial skills through technical training skills. TBL provides its support on the area of electrical installation with collaboration with Vocational Education and Training Authority (VETA) under a project that looks to improve the quality of vocation training. Additionally, TBL in 2016 conducted a total of 700 learning sessions using a combination of instructor-led and e-learning or blended programs to improve skills of its workers and in turn provide a room for staffs skills progression. On the side of TCC all of the technical operations are supervised also by

Tanzanian managers. These managers are responsible in the course of their works to transfer skills to the new employees and field students from vocational institutes attached in their duty post.

4.3.2 Workers Condition in Manufacturing Industries with FDI

One of the areas that many literatures do not focus their attention is on the workers conditions in manufacturing industries that receive FDI. Despite the fact that almost large percent of manufacturing industries that received FDI embarks on retrenchment of some workers due to introduction of new machine but those who remains in these industries there working conditions is still an open question. On the other hand, UNIDO (2014) depicted through the TIC report that on relative the number of employee’s in foreign firms is larger as compared to that of domestic firm. In the same trail that supports the argument of dominance of FDI in Tanzania (figure 4.3) indicate also firms in the form of Joint Venture (JVs) and Transnational Corporations (TNC) employ in a big number as compared to Foreign Enterprises s and foreign wholly owned enterprises.

Figure 4.3: Distribution of Employment by Investor and Number of Employees



Source: TIC 2014

In 2015, TCC registered a profit of gross profits of TZS 179.0 billion and a net profit of TZS 65.7 billion and grew its market share by 0.4%, even at a time of high competition from within and imported tobacco goods. Looking from that profitability and a good history it has since injecting of foreign funds it is quite clears that workers contribution was a paramount ingredient these achievements. According to TCC Annual report 2015 these results could not have been attained as they are, if not because of committed highly engaged workforce. In a global employee engagement survey conducted by an International parent company in 2015, TCC scored 86% compared to 80% achieved in the same kind of survey in 2012. The survey area of focus was on working environment, the way TCC do business and ownership of the business unit.

Despite TBL massive investment that focused to the modernization of plant and equipment to improve the state of the art of the brewing industry and upgrading its plants in Dar es Salaam as well as the constructing of new production facilities in Mwanza and Arusha regions does not abandoned the welfare of workers. SABMiller & TBL (2016) entails that in during the course of industrial upgrading, the essence for absorptive capability especially of human capital is vital. Knowledge and technology were having a special form of being transferred from one group of workers and that need concomitant development in human resource. Therefore, TBL provide a room for its human resource to grow and far most to own shares in the company the requirement that is mandatory and agreed by the majority of workers for their own financial benefits.

CHAPTER FIVE

CONCLUSION AND RECOMMENDATIONS

5.0 Introduction to Conclusion and Recommendations

This chapter presents the study's conclusion and recommendations for the Foreign Direct Investment in Tanzania.

5.1 Conclusion

Manufacturing Industries continues to play a vital role in development of Tanzania especially with the initiatives taken by the government to allow FDI operations. The sector is ranked in third place as recipient of FDI (behind quarrying and mining; and electricity and gas sectors) and account for a large part of foreign exchange. In 2015, manufacturing industries contribute to the economy by 25% and that path is envisaged to grow as the countries stress on industrialization as the path to the middle economy by 2025.

This study has offered information on the situation of manufacturing industries in Tanzania and the trend of FDI in general. Assessment of FDI in two selected cases has shown significant impact of foreign capital on the once government owned industries which were not well managed especially on technical areas and workers conditions. Literature analysis conducted also confirms about what has been observed in some of the secondary data gathered in this review.

Generally, based on the two case studies selected and reviewed, there is clear impact of FDI on manufacturing industry in Tanzania. However, this positive effect of FDI on manufacturing industries could be intensified for predictable years to come with better inclusion of local experts on issues of technical, entrepreneurs to supply their skills to industries and development of schemes for workers social conditions. Government has to strengthen its position on manufacturing industries by creating conducive investment environment for the prevailing industries and the new ones by setting not only good policy but providing solutions to some existing challenges industries face in their daily operations.

5.2 Recommendations

5.2.1 Technical Competence

In order to attract significant FDI inflows, Tanzania should enhance its competitiveness by pursuing the reforms of its investment legal framework. To this end, various actions have to be considered, among which reforming the corporate tax system is a priority. The indirect tax system has already undergone an important improvement with the introduction of the value added tax. This measure should smooth the progression of private economic activities, in particular exports, and encourage a better integration of the country into the EAC. Nevertheless, the complexity and the burden of corporate income taxes hinder the further development of economic activities. The corporate tax system needs to be simplified and fiscal administration strengthened. Furthermore, following the elimination of fiscal incentives in the Investment Code, a reform of the Tax Code seems to be necessary to ensure consistency between the two.

5.2.2 Improving Working Conditions to march with new developments of Industries

Tanzania's entry into the EAC opens up major economic opportunities for investors that could be better exploited if the legal framework were modernized and harmonized with regional initiatives. The customs system, for example, has experienced a clear improvement with the adoption of the new Customs Code in 2007. However, progress still needs to be made in order to modernize the system of customs duties and to harmonize them with those of the EAC, notably with the adoption of the common external tariff. Moreover, capacity-building for customs officers is required as well as, in the medium term, reinforcing the computerization of the customs system.

It would also be important to harmonize the free zone regime with those of other EAC members. In principle, it constitutes the main investment incentive regime but it is non-transparent and not used in practice. In this context, it would be advisable to identify a way to link the strategic plan of free zone promotion with infrastructure development and FDI attraction, and to integrate the production of the Tanzanian zone with other EAC free zones.

Some general parts of the legal framework also need to be harmonized with other EAC countries, including competition policy, corporate taxation, regulation of capital account transactions, and liberalisation of trade in services, environmental protection and regulation of intellectual property rights. In the area of land rights, the elimination of the clause of reciprocity as well as a special facility to allow the registration of property deeds related to companies under the free zone regime could be considered.

5.2.3 Consolidation of Government Initiatives

To carry out an FDI promotion and facilitation strategy aimed at stimulating economic growth efficiently, Tanzania needs to strengthen its institutions. In fact, it has been a recurrent finding of the Investment Policy Review (IPR) that the country too often lacks human and financial resources, as well as technical and managerial capacities. The government should encourage more training and capacity-building programmes for different parts of public administration with the active support of the international donor community.

Among the measures most urgently needed is setting up a one stop centre investment promotion agency which will deal directly with all issues patterning investment. Due to strong international competition for FDI, the government has got TIC which is responsible for attracting investors within and those from other countries including FDI promotion and facilitation. However, there is a need to strengthen TIC to become a one stop for all issues regarding investment and facilitate new and existing industries to strive in the business. This is of particular importance for economic development as its role is not limited to FDI attraction but extends to ensuring that its impact on development is beneficial and sustainable.

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