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Tanzanian infrastructure development and the role of China: the case of Bagamoyo Port

Since the mid-2000s, the strong presence of Chinese actors in the construction sector in Africa shifted the continent's development agenda to increasingly focus on infrastructure. The reluctance of traditional aid donors to extend further funding to African countries, has left a void in the construction sector, which has contributed to Chinese actor's increasing commitment to unlock potential and create new opportunities. China's engagement has invigorated interest in the infrastructure sector and positioned it on a new competitive trajectory on the continent. China's engagement in Africa's infrastructure development has gained momentum along with its Belt and Road Initiative (BRI). This game changing initiative has the potential to drive Africa's socio-economic development and structural transformation. However, this policy brief argues, through an examination of China's role in Tanzania's Bagamoyo port development, that the success of the developments depend on the proper management of risks, uncertainties, and the complexity of the policy making process by the host governments, rather than Chinese contractors or finance institutions.

Background

East Africa, located in the central latitudes of the Indian Ocean and offering maritime access to the Middle East, the Red Sea and inland access to southern and central Africa, has become an increasingly attractive region for the development of port and hinterland infrastructure. China's share in the financing resources of the construction sector - ports, road, rail, airport and industrial zone infrastructure in the region has increased.

The recent infrastructure boom in Tanzania has brought hope for change in the economic landscape of the country, facilitating intra-regional trade and movement. The construction sector in Tanzania contributed 15.1 per cent to its GDP in 2016 (12.5 per cent to its GDP in 2014) and will be the main driver of growth in the future. This has attracted various actors and has led to a high degree of competition in the sector. The increasing participation of various actors, including Chinese, has undoubtedly created more policy space for the Tanzanian government to select better partners and options for Tanzania's development path.

Main Actors

Whilst Tanzania has received unprecedented external financial assistance for infrastructure development, the Tanzanian government has become a major source of financing, for example, for the fiscal year 2016–2017, the government allocated 25.4 per cent of its total budget for infrastructure development (transport) projects. Even though Tanzania's macro-economic performance has remained relatively stable, sustaining an average of seven per cent economic growth over the last decade, fiscal constraint is one of the largest challenges to meet the demand for key infrastructure. The Magufuli administration (2015-present) has actively sought various sources of finance, which has resulted in many traditional and emerging partners coming to the fore.

For these multi-phase projects, the availability of funding is the most pertinent issue. International financial institutions, including the World Bank Group's International Finance Corporation (IFC), are helping to mobilise private investment in Africa. While these actors, namely, the World Bank, African Development Bank

(AfDB), and the European Bank for Reconstruction and Development, are extremely active in Asia, the emerging development banks initiated by China such as the Silk Road Fund, the New Development Bank (NDB) and Asian Infrastructure Investment Bank, can complement the existing global multilateral financial framework. Tanzania's President Magufuli asked for support from the NDB while he visited South Africa in May 2017. These emerging multilateral banks can open up markets for investors, which in turn will contribute to encouraging Chinese enterprises to keep the highest standards of efficiency and technical competence.

In addition to the above, various other international finance streams are available, including the Japan International Cooperation Agency (JICA), the Japan Infrastructure Initiative and India's North-South Transport Corridor. Indian financing and technical assistance for Tanzanian infrastructure has been conducive to Indian engineering and construction companies making a foray into the country. Germany, the Netherlands and South Africa, have also been major players in the construction sector in Tanzania. Dutch and Italian companies are particularly dominant in port development. While the involvement of international construction firms in the sector contributed to expertise, development finance institutions such as the AfDB have played a central role in mobilising resources and providing technical assistance. The United Kingdom's Department for International Development (DFID) has a long history of engagement with Tanzania and currently provides US\$ 20 million per annum for infrastructure projects, most of which is disbursed to relatively small and medium-sized projects. Among emerging partners, Turkey, Oman and Morocco have rapidly expanded their influence in the sector.

Chinese actors are also key players in the many stages of infrastructure development. In 2017, the two governments signed three agreements including the construction of a building for the Ministry of Foreign Affairs and East African Co-operation. Chinese actors, China Railway Construction Engineering Group (CRCEG), China Railway Major Bridge Group (CRMBG) and Beijing Construction Engineering Group are at the forefront of a number of projects across Tanzania. China is currently involved in the re-vitalisation of the Tanzania-Zambia Railway (TAZARA) railway, a classic example reflecting the long-lasting relationship between China and Tanzania, through capital injection and technical assistance. The China Export-Import Bank (EXIM) Bank will provide a US\$ 7.6 billion loan to build a new standard-gauge railway linking Dar es Salaam with cities in central and western Tanzania. In 2016 China and Tanzania signed an agreement involving US\$ 6.8 billion for the construction of the 2,561 km standard gauge railway connecting the port of Dar es Salaam to Rwanda and Burundi.

Rationale for the development of Bagamoyo Port

Maritime transport accounts for more than 90 per cent of Africa's international trade. Nevertheless, poor port infrastructure and management have limited the continent's potential to make the most of its opportunities. In 2016, Africa's ports took up only 4 per cent of global container traffic. Given Tanzania's long Indian Ocean coastline, port development forms one of the top priorities of Tanzania's National Five Year Development Plan (2016/17-2020/21). Ports will be the main gateway into the land-locked neighbouring states of Burundi, Rwanda, Zambia, Malawi and the DRC.

Despite Dar es Salaam Port being responsible for approximately 95 per cent of Tanzania's coastal port traffic in 2016, the capacity of the port has not yet increased. According to the 2014 World Bank Report, inefficiencies at Dar es Salaam port cost Tanzania and its neighbouring countries up to US\$ 2.6 billion a year, which subsequently became the rationale for the upgrade and construction of new ports. The Tanzania Ports Authority signed a US\$ 154 million contract with China Harbour Engineering Company (CHEC) to expand the Dar es Salaam port in June, 2017.

The construction of a new port in Bagamoyo, approximately 75 km from the city of Dar es Salaam, can be understood in the context of Tanzania's ambition to become the maritime hub of East Africa. The Bagamoyo project entails the Bagamoyo SEZ, the sea transport network connecting the area with emerging global markets (the Middle East, China, India and East Asia), and railway, road and air transport networks enabling Bagamoyo to connect with land locked markets, as well as with inland domestic markets. With a population of 55 million, Tanzania represents a large domestic market for manufacturers.

BOX 1. White Elephant Projects

While East Africa has experienced a massive surge of investment, more than US\$ 27 billion in construction projects, inadequate planning at the initial stage runs the risk of producing white elephant projects. One potential example of this is the construction of a new Ministry of Foreign Affairs building in Dar es Salaam by a Chinese company. The Tanzanian government has long planned to relocate its capital from Dar es Salaam to Dodoma to balance regional development – a pledge recently re-affirmed by President Magufuli who wants to shift capitals by 2019. In addition to an inability to position programmes and projects within long term plans, various stakeholders highlighted unrealistic expectations with regard to timing and scope, delayed approvals, changes in policy and lack of integration between and within different levels of government to which delays can be attributed.

Furthermore, the African Continental Free Trade Area will enable manufacturers in Tanzania to access the markets beyond the region. Under the catch phrase of “Transforming Tanzania into a semi industrialized country by 2025”, the government envisages that the contribution of manufacturing to the national economy will reach a minimum of 40 per cent of GDP during the forecast period.

In March 2013 a US\$ 10 billion project for the construction of a new port at Bagamoyo was signed during Chinese President Xi Jinping’s visit. The blueprint stated that Bagamoyo would be the largest port in Africa, with a planned cargo capacity of 20 million containers per year. Despite high expectations, the project has, until recently, been at a standstill. China Merchants Holdings International based in Hong Kong and the Oman State General Reserve Fund will start the actual construction process in 2018. Upon completion, it will accommodate 190 industries, which can attract other business ventures, including tourist hotels and other tourism services. The projected date for completion and detailed phases have not yet been released.

Challenges

Competition at national and regional levels

Avoiding duplication of infrastructure development projects and programmes at both state and regional levels has become an issue for Tanzania and its neighbouring countries. Upon completion, it is inevitable that the new port in Bagamoyo will lead to competition between existing major ports such as Dar es Salaam, Tanga and Mtwara at national level. Additionally, regional competition will be another concern, particularly with neighbouring Kenya, which is positioning itself as the shipping leader in East Africa through its upgraded port in Mombasa and the development of Lamu port, part of the LAPSET (Lamu-South Sudan Ethiopia) corridor. The competition could complicate regional integration in East Africa leading to higher costs and lower volumes of traffic.

Mega-projects as part of long-term development goals

Infrastructure is intended to support a country's long-term socio-economic development. Bagamoyo port is often described as a legacy project of former Tanzanian president Jakaya Kikwete, who saw the development of his home town of Bagamoyo as an avenue for mobilising political support. As the current Magufuli administration does not share the interests of his predecessor, the Bagamoyo project has not been a top priority for the current administration. That is clearly a resource constraint. President Magufuli has rather vowed to eradicate corruption and redirected expenditure to other areas such as manufacturing, agriculture and tourism. Political leaders’ strong ethnic ties and their implications for the flow of development assistance in Africa have often been blamed for the decreasing effectiveness of development assistance.

Local supply chain network development

African governments are increasingly strengthening local procurement regulations. While Magufuli’s reforms also extend to local empowerment through local procurement, external partners are frustrated with the poor quality of the supply chain network. The localisation of government procurement could be used as a stepping stone, which enables firms to gain the necessary experience that makes it easier for them to get involved in the mega infrastructure projects in the country and the region more broadly. However, chronic shortages and high prices of materials (machinery and equipment, cement, and steel) clog up the supply chain flow and are responsible for project schedule delays. Shortages of skilled labour could also be a significant challenge for firms operating in Bagamoyo.

Even though Tanzania has launched industrialisation drives, for example, by establishing Special Economic Zones, the lack of strong linkages with local industries (i.e. supply chain network) have hampered these efforts. In Bagamoyo, projects are planned to be completed in various stages, the large population, most of whom are unskilled, currently rely on small-scale farming/fishing activities or tourism. In order to mitigate this challenge, a shift from low-skilled to semi-skilled and skilled labour within the workforce in the region during the project implementation phase would be required.

BOX 2. Soft Infrastructure

While hard infrastructure projects are underway, the significance of soft infrastructure development should also receive attention. This issue can be discussed in line with China’s BRI, the aim of which is to create an inclusive form of globalisation affording opportunities to all participating states, including the landlocked and geographically disadvantaged corridor countries. It is important for hinterland states to improve border infrastructure so as to reduce trade costs incurred when crossing borders in the region. One of the initiatives in this context is the One-Stop Border Post (OSBP) programme run by various actors including TradeMark East Africa (TEMA). Currently, (TMEA) has run 13 OSBPs across East Africa. Various bilateral donors also support similar programmes. In this regard, China should actively partake in building soft infrastructure by sharing its know-how and experience. Since the 2000s, major Chinese ports such as Shanghai, Ningbo, Hong Kong and Qingdao have grown tremendously, and this accomplishment is largely due to the series of institutional reforms. The recent policy directions on port developments in China are integrated into the BRI. For these ports to become a success, continuous engagement and learning from China is crucial.

Managing donor relationships

Lack of communication was an additional problem identified by external donors involved in infrastructure development projects in Tanzania. This is the case with Tanzania's Dar es Salaam Port, where the national government retains control over container terminal operations and has not interacted in a co-operative spirit with private operators and other actors.

Major donors such as DFID and UNDP point to the difficulty of communicating with key stakeholders at the ministerial as well as institutional level. The country now supports a number of transnational corridor programmes, which requires coordination with various stakeholders. This coordination will ensure that stakeholders in the various sectors are effectively engaged and involved in the implementation of programmes, strategies and action plans.

Political conditions attached to economic assistance from the Global North have faced strong resistance from the Tanzanian government. China has become an alternative development partner to Tanzania, despite the relationship being equally tenuous. While the previous Tanzanian administrations had a close relationship with China, enjoying a subsequent financial windfall, the current government has attempted to avoid relying on a single external actor. One example was the absence of President Magufuli at the FOCAC summit in 2015 and 2018 (he was represented by the Prime Minister). Tanzania has presently avoided being trapped in a cycle of dependency. However, Tanzania needs to cultivate subtle and balanced relationships with its external partners, China included, which could have serious implications for fiscal accounts.

Corruption

President Magufuli came into power in 2015, and has since instituted a strong anti-corruption drive. His internal reform has gained wide support among the public, which hopes for the eradication of corruption in all levels of society. The construction industry in Tanzania is perceived as one of the most corrupt sectors of the economy. Corruption levels remain high, decreasing the transparency of the tendering process. This has led to delays in the implementation of other projects. Since the Bagamoyo project has regained momentum, concerns regarding corruption have resurfaced, with irregularities in obtaining contracts, bypassing parliament, and lack of transparency in the bidding process being only a few.

Concluding Remarks

Tanzania's insufficient and often poor-quality infrastructure has been a major constraint to further economic growth. The new development of Bagamoyo port was intended to create long term

socio-economic development in Tanzania. Future prospects of linkages between the new infrastructure facilities and the manufacturing sector will account for a significant share of the country's GDP in future. The commitment of Chinese actors and other traditional and emerging partners to the construction sector has the potential to create new opportunities. In order to reap this, Tanzania should take decisive steps towards the achievement of domestic political economic transformation and regional integration along with infrastructure development.

For China, the BRI and other infrastructure projects in which it is involved, offer a vision for development and poverty alleviation across the Global South. China's international infrastructure projects are inextricably bound to a set of values which it wishes to project. These include not only a 'shared destiny', articulated through mutual assistance and co-operation, but also an intolerance toward corruption and a growing commitment toward sustainable development.

Recommendations

1. Infrastructure development should be approached within the broader social context of Tanzania, such as the development of human resources and links with local communities which have the potential to sustain the project in the long term. The success of new infrastructure (and other) developments depends on the proper management of risks, uncertainties, and the complexity of the policy making process by the host governments rather than Chinese/foreign contractors or finance institutions.
2. Infrastructure development should be positioned within the objectives of broader regional integration. Competition has emerged, not only at an intra-state level, but also internationally between Kenya and Tanzania, both of which are vying to possess the busiest port in East Africa. While competition between the ports in the region remains fierce, various forms of cooperation and coordination, such as appropriate institutional arrangements, should be developed. The area of soft infrastructure is where Chinese actors can contribute by sharing their own experience (i.e. Chinese policy that was designed to coordinate major ports and minor ports, 2000 of which are densely concentrated along China's southern coastline).



Dr Yejoo Kim



Dr Nuša Tukić

Contact Us

Centre for Chinese Studies
Stellenbosch University
Private Bag X1
Matieland 7602
South Africa

Tel: +27 21 808 2840
Fax: +27 21 808 2841
Email: ccsinfo@sun.ac.za
Web: www.sun.ac.za/ccs
Twitter: [CCS_STELL](https://twitter.com/CCS_STELL)

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