Full-length Research Paper

Analysis of multinational corporations (MNCS) stock in Tanzania

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Accepted 30 July, 2012

Expectation of the Tanzania development vision 2025 is a quest for sustainable development both social and economical. Investment from multinational corporations (MNCs) aims at fostering this development target. This paper aims making an analysis how MNCs stock in Tanzania leads to economic growth, efficiency on employment and effectiveness on technology transfer. With secondary methodology the study found there is insignificance ratio of MNCs stock and economic growth. The efficiency of MNCs on employment is not much in relation to the number of job seekers in the market and lastly the findings shows that effectiveness of technology transfer is much better however not as much as was expected. In general MNCs in Tanzania has not yet transmitted the development vision despite there being only 14 years to reach the 2025 year target.

Keywords: Sustainable development, employment and effectiveness, economic growth

INTRODUCTION

The United Republic of Tanzania is fast becoming a multi-national corporation (MNC) front runner in Africa. As market reforms reached critical mass, Tanzania received $1 billion of investment inflows during the 1995-2000 period compared to only $90 million during the preceding six years. This is a commendable performance for one of the least developed countries in the world which an economy that was centrally planned and closed to multi-national corporations not so long ago. Tanzania is still a new entrant in attracting the multi-national corporations (MNCs) field. Improvements in the investment framework are recent and institutions for FDI promotion are new. The multi-national corporations (MNCs) so far have trickled into such sectors as mining, banking, insurance, manufacturing, consultancy, construction, hotels and others. In this regard Tanzania is considered to have succeeded in attracting multi-national corporations (Burhan, Ahmad: 2010).

The main objective of the study is to examine the stock of MNCs in Tanzania in relation to efficiency and effectiveness on economic development. To attain the above objective the study has the following sub-objective:-

a. To measure stock of MNCs in comparison on economic development growth.
b. To analyze the efficiency of MNCs in employment and spillover effects
c. To analyze effectiveness of MNCs in social economy

LITERATURE AND DISCUSSION

Economic Development

Economic Growth refers to the growth of real output of a nation over time. It is usually measured in terms of an increase in real Gross National Product (GNP) or Gross Domestic Product (GDP) over time or an increase in income per head over time. FDIs are said to be engines of economic growth because they have great potential to increase a country’s GDP thereby contributing positively to poverty reduction and development in general, ceteris paribus.
Efficiency of Multinational Corporations Stock

Efficiency can be described as the extent to which money as investment (capital) is well used for the intended task or purpose thus production of commodities. It is often used with the specific gloss of relaying the capability of a specific application of effort to produce a specific outcome effectively with minimum amount or quantity of waste, expense, or unnecessary effort. “Efficiency” has widely varying meanings in different disciplines, in this study efficiency of MNCs stock is ability of foreign enterprises in host countries to provide quantitative output of employment. It is argued that investment made by MNCs plays a key role in expanding jobs and offering opportunities for given a population in host countries. This is essential for raising incomes and reducing poverty but also more importantly for creating a more inclusive, balance and peaceful country (Steven m. sheffrin; 2003).

Efficiency of MNCs stock as a quantitative output of employment can be seen on; wages; foreign affiliates generally pay higher wages than domestic firms do in similar activities. The difference is more marked in industries that demand higher levels of skills, technology and marketing and in export-oriented activities that need to ensure consistent quality and timely delivery. Job security; Foreign affiliates tend to offer greater job security because of their size, competitive strength and need for a stable workforce (SONGAS, KTM, and Aluminum Africa). However, “footloose” investment attracted by low wages may move to other countries so jobs may be insecure over the medium term (defunct Trust Bank and Greenland Bank). Working condition In foreign affiliates working conditions are generally better than in local firms. In particular, large and visible Transnational National Corporations (TNCs) tend to comply with local and international standards and even with the labour standards in their home countries (Unilever Tea Tanzania). And skills FDI often has to upgrade employee skills by investing in training so as to meet their quality standards. Sometimes TNCs react to the availability of skills by raising the technological content of their investments, contributing to further learning and skill creation.

Based on this back ground the study hypotheses that: There is direct relation between effectiveness of Multinational stock and quantitative output of MNCs stock of employment.

Effectiveness of MNCs stock

Effectiveness can be defined as capability of producing an effect either a desired or specific one. In management discipline, effectiveness relates to getting the right things done. Peter Drucker (2006) reminds us that effectiveness is an important discipline which “can be learned and must be earned.” In this study MNCs Effectiveness can be defined as the quantitative effect produced by multination enterprises in host countries in form of spillover or technology transfer to other sectors in the economy.

Investment from MNCs is greatly accredited as a source of new technologies, knowledge and innovation and other intangible assets to capital deficient developing countries. Tambunan (2003) points out that the ultimate impact of investment in the economy depends not only on the performance of foreign firms, but also on the diffusion of new technologies, innovations, knowledge, new best practices and other intangible assets from FDI to local firms throughout the country. In principle the diffusion of all these intangible assets should lead to increased effectiveness of MNCs stock. In general, the quantitative effect of MNCs stock can be transferred in several ways, including:-

i. Purchase of exports from developed countries,
ii. Importation of capital goods embodying improved technology,
iii. Technology licensing by developed countries to firms in developing countries thus allowing acquisition of knowledge, and
iv. Employment of expatriates from developed countries that would transmit knowledge to developing countries.

Apart from the above channels, experience shows that investment from MNCs remains the most effective mode of transferring knowledge and best practices to developing countries. This is because MNCs embodies and integrates technological elements from various methods (Tambunan op cit, Klein et al 2000). Similarly, Borenzstein et al (1998), Batra and Tan (2000) Foreign firms turned out to be more efficient compared with their local counterparts by virtue of the investment undertaken in skill development and new technology compared with local firms. Basing on this back ground the study hypotheses that: There is direct relation between effectiveness of MNCs stock and ability of MNCs to produce spillover over effect and transfer of technology.

METHODOLOGY

The study of MNC stock in Tanzania uses a descriptive design to answer the question of “what” and “how”. The main purpose of using this design is to make the description of the state of affairs as it exists. This means that the design will give the actual picture of MNC stock in relation to efficiency and effectiveness in Tanzania. Descriptive studies are not only restricted to fact finding, but may often result in the formulation of important principles of knowledge and solutions to significant...
problems. They are more than just a collection of data; they involve measurement, classification, analysis, comparison and interpretation of data (Kerlinger 1969). (Forcess and Richer 1973).

The secondary data from Tanzania Investment Centre
Scholarly J. Bus. Admin. 3

Figure 1. Real GDP Growths and Investment 1965-2004

Source: Based on Bureau of statistics and bank of tanzania statistic (various years)

and Bank of Tanzania were in this study. The paper identifies three variables for analysis, economic development, efficiency and effectiveness.

RESULTS AND DISCUSSION

MNCs Stock and Economic Growth

Tanzania’s shows that investment and growth hardly seem to correlate on the period of 1980-83, when the investment ratio as percentage of GDP averaged 24.6 percent coincides with the lowest growth that averaged only 0.3 percent. Similarly, between 1991-94 Tanzania achieved an investment ratio of 25.8 percent average growth of GDP was only 1.6 percent. In disparity, an investment ratio that averaged 16.5 percent achieved a growth of 3.8 percent was experienced between 1960 and1979. Similarly, an investment that averaged 16.8 percent between 1995 and 2002 coincides with a growth of 4.5 percent.

As shown on figure 1. Correlation between output growth and capital growth was insignificant. The R^2 was only 0.10, indicating that capital growth explains only 10 percent of the variation in growth of output. In conclusion Tanzania lacks a correlation between investment from MNCs and growth. (Devarajan, Easterly, and Pack 1999).

The apparently insignificance of investment has not achieved high growth rates is explained with low productivity and inefficiency. Devarajan, et al. (1999) found that there is low productivity of investment. Value-added in manufacturing sustained a 39 percent decline between 1975 and 1990. According to the study, the main reasons for low productivity were lack of complementary human skills needed to use complex capital gainfully. As observed by Elbadawi, Ndulu, and Ndung’u (1997) and Jaspersen et al. (1995) they demonstrate that productivity of FDI is higher in countries with a higher educational attainment. In our case with secondary education, it can be verified that the interaction between FDI and secondary educational attainment is statistically significant in explaining growth, while the interaction with primary education is insignificant. With lowest level of secondary education in the world which is about 6 percent of the relevant school age population could be an explanation of the slower growth rate.

Inefficiency can be observed from the incremental capital-output ratio (ICOR), which is obtained by dividing the ratio of investment as a percentage of GDP with real economic growth (real GDP growth). The smaller the ICOR is, the more efficient the investment. In this regards Tanzania has high ICOR compared with other developing countries.
As shown in Table 1, outputs per worker increased by 0.7 percent per year over the period 1960-98. Increases in capital per worker contributed 0.4 percent per year, while education per worker contributed only 0.1 percent. The remaining 0.3 percent of annual growth is attributed to the residual, total factor productivity growth. Notice that there is a large decline in total factor productivity between 1960 and 1990. From a high 1.2 percent between 1960-70, it fell to 0.3 percent per year between 1970-80 and turned negative between 1980-90. This happened despite an increasing level of investment during this period. The empirical evidence suggests that productivity of public sector investment and industrial capacity utilisation rates were too low to sustain high levels of growth. More generally, the lack of complementary investment (presumably due to adverse initial conditions typical in low income countries such as Tanzania) and especially in service sectors and required skills (that facilitate efficient utilisation of resources) have exacerbated the high ICOR. The observation made above shows that during 1960-70 increases in total factor productivity were the main driving force behind the relatively high economic growth—contributing 1.2 percentage points to overall annual growth. However, after 1970, total factor productivity began to decline, turning negative between 1980-90. The main reasons for declining productivity (Pritchett 1999)

Efficient of MNCs Stock

Investments by MNCs that lead to employment generation are essential for reducing of income poverty. MNCs investment approved in Tanzania between 1990 and 2004, was believed to create over 463,703 new jobs would in the economy. This is an average of about 33,122 new jobs annually for a period of 14 years. But this figure is negligible when compared with the existing demand for formal employment which estimated to be 700,000 new job seekers enter the labour market annually in search of employment. This figure is negligible. (Poverty and Human Development Report (2003) and the SME policy (2002) report that about 700,000 new job seekers enter the labour market annually in search of employment. Table 2 shows actual investment created employment between 2001 and 2004.

Frankly speaking projects approved by TIC on the whole can be expected to generate about 5 percent of the country’s annual employment requirements. This in essence is an optimistic outlook in part because the actual jobs created by all investments approved by TIC are lower than the estimated potential out-turn because some approved investment projects either never started or started but ended up employing fewer personnel than it had been projected.

A reason can be explained on the low MNCs contribution to employment generation is that major

### Table 1. Investment and Growth in Tanzania Investment Ratio

<table>
<thead>
<tr>
<th>Year</th>
<th>Investment ratio (% of GDP)</th>
<th>GDP growth (%)</th>
<th>ICOR</th>
</tr>
</thead>
<tbody>
<tr>
<td>1965-73</td>
<td>20.8</td>
<td>5.2</td>
<td>4.0</td>
</tr>
<tr>
<td>1974-79</td>
<td>20.6</td>
<td>2.5</td>
<td>8.2</td>
</tr>
<tr>
<td>1980-85</td>
<td>16.4</td>
<td>1.1</td>
<td>14.9</td>
</tr>
<tr>
<td>1980-90</td>
<td>27.7</td>
<td>3.9</td>
<td>7.1</td>
</tr>
<tr>
<td>1990-95</td>
<td>24.6</td>
<td>2.5</td>
<td>9.8</td>
</tr>
<tr>
<td>1995-2000</td>
<td>16.0</td>
<td>4.1</td>
<td>3.9</td>
</tr>
<tr>
<td>2000-2004</td>
<td>17.6</td>
<td>5.6</td>
<td>3.2</td>
</tr>
</tbody>
</table>


### Table 2. MNCs Investment and Employment In Tanzania 2001-2004

<table>
<thead>
<tr>
<th>Gender</th>
<th>Foreigners</th>
<th>Tanzania</th>
<th>Grand Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Management</td>
<td>Non-Management</td>
<td>Management</td>
</tr>
<tr>
<td>Female</td>
<td>184</td>
<td>66</td>
<td>4</td>
</tr>
<tr>
<td>Male</td>
<td>1657</td>
<td>759</td>
<td>38</td>
</tr>
<tr>
<td>Total</td>
<td>1841</td>
<td>825</td>
<td>42</td>
</tr>
</tbody>
</table>
Investment projects in Tanzania have favoured capital-intensive techniques, especially in the mining, construction and banking sectors. Figure 2 illustrates employment generation by industrial category for the period of 2001-2003.

The data shows that mining and finance with the highest capital intensity have the lowest employment generation – about 1 percent each. Agriculture and fishing have the highest employment effect although less than 7 percent of all investments have gone to these sectors.

Effectiveness of MNCs Stock

During the 1960s up to early 1990 technology transfer in Tanzania both tangible and intangible has been weak. This because Tanzania’s efforts aimed at improving her low technological base was hampered by its almost closed nature of the socialist economy (UNCTAD, 2001). Significant liberalisation of the economy thereafter triggered considerable MNCs that has opened doors to acquisition of modern technology.

The effectiveness of MNCs stock on technology transfer can be seen on various sectors, for example in the mining sector there are a number of cases related to technology transfer. For example, between 2000 and 2003, Afgem (a South African Mining Company) invested about US$ 20 million in Tanzanite fields in Merelani. The company managed to pioneer a branding and certification process for its germ quality Tanzanite production. Another example relates to leasing mining equipment. Dalnick Metal Ltd leases mining equipment to small and medium scale miners. This technology, apart from increasing productivity, has facilitated the manufacture of spare parts within the country – thus enhancing technological skills in the mining sector. Mobela Gems Limited provides another example of technological transfer is on the joint venture between local and foreign investors (50:50% share split) started operations in 1999 cutting, polishing, shaping and selling gemstones. The foreign partners have managed to train local employees in gemstone processing, and the company now exports quality gemstones to India, North Korea, USA and Thailand.

In the cement sector quality has improved through the injection of foreign investment partnerships. Wazo Hill cement factory has eliminated the dust that in the past polluted the environment. Tanga Cement invested US$ 12 million for improving operational efficiency, reducing costs and maintaining high and consistent product quality. In addition, the company has introduced "just-in-time" production systems that are more efficient. Mbeya Cement has also improved product quality to remain competitive. In the manufacturing sector, Seaunguk Trading Company’s processing and fruit-canning plant is exemplary. The company processes and cans fruit for export and the local market. The company has transferred fruit production technology to small-scale farmers who now supply fruit of a uniform size and
quality. Similarly there appears to be considerable spillover of tyre retreading activities ushered in by Tredcor (T) Ltd. The production of sign boards and outdoor advertising facilities pioneered by Afrigavix Ltd. and Global Outdoor Systems Ltd appear to be emulated by many other local producers. Linlan (T) Ltd has introduced production of confectioneries, sweets and cool drink powder technology in Tanzania that has a high chance of being emulated by others in this category.

Although less than 7 percent of FDI has gone into agriculture, the investment made so far appears to impact on agricultural development through technological transfer. For example, the International Chemical Products Ltd that acquired Mufindi Pyrethrum Extraction Plant in 1997 has introduced new technology in pyrethrum flower production and facilitated training of local staff to improve quality. Another example is Wonder Foods Tanzania Ltd. The company established a new agro-processing plant to pack market and distribute milk powder in the country. In order to ensure good quality and hygienic conditions, the company has helped local milk producers acquire the technology for raising high producing milk cows and equipment for hygienic sanitary storage and transportation. In 1998, the company expanded its operations into tea processing, blending, packaging and distribution. Small-scale farmers cultivating tea have benefited from new cultivation techniques extended by Golden Leaf Growers Co. Ltd that grows flue-cured tobacco. Vaso Agro Ventures, a joint venture between local and foreign investors (25:75% share split) started operations in 2003 growing flowers, cutting flowers and growing fresh beans, largely for the export market. The company conducts seminars to out growers on vegetable production, growing flowers and simple bookkeeping and accounting. The simple technology transferred to out growers has enabled the producers to use less water in production and supply to the company of uniform quality products that are competitive in the international market. Perhaps the largest impact has been in telecommunication. Since its establishment in Tanzania, Vodacom – a mobile operator company has invested about US$142 million. This company, together with Celtel, Mobitel and TTCL has revolutionized telecommunication linkages in the country.

CONCLUSION

The paper observed that the stock of MNCs in relation with economic growth is very low, that’s to say much of the investment found from MNCs are still required to

REFERENCES


