THE UNIVERSITY OF HULL

Export Processing Zones (EPZs) in Tanzania: Impact and influencing factors

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By

Joseph Simon Kiria

Master of Science

Glasgow Caledonian University 2000

Advanced Diploma in Certified Accountancy

Mzumbe University 1995

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DEDICATION

I dedicate this work to my wife Flaviana, son Reagan, and daughters, Hellen and Glory. Thank you for your patience, encouragement and understanding.

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LIST OF ABBREVIATIONS

AGOA	-	African Growth and Opportunity Act
ADB	-	African Development Bank
ASEAN	-	Association of Southeast Asian Nations
BOT	-	Bank of Tanzania
CAG	-	Controller and Auditor General
CIT	-	Corporate Income Tax
EAC	-	East African Community
ECOWAS	-	Economic Community of West African States
EDZ	-	Economic Development Zone
ELI	-	Export Led Industrialization
EPZ	-	Export Processing Zones
EPZA	-	Export Processing Zones Authority
ESRF	-	Economic and Social Research Foundation
EU	-	European Union
FAO	-	Food and Agriculture Organization
FDI	-	Foreign Direct Investment
FIAS	-	Foreign Investment Advisory Service
FTZs	-	FreeTrade Zones
GATT	-	General Agreement on Tariffs and Trade

GDP	-	Gross Domestic Product
ICRG	-	International Country Risk Guide
IFHR	-	International Federation for Human Rights
IFIs	-	International Financial Institutions
ILO	-	International Labour Organization
IMF	-	International Monetary Fund
IPR	-	Intellectual Property Rights
ISI	-	Import Substitution Industrialization
KHRC	-	Kenya Human Rights Commission
LaRRI	-	Labour Resource and Research Institute
LDCs	-	Less Developed Countries
MENA	-	Middle East and North Africa
MFA	-	Multi-Fibre Agreement
MNCs	-	Multinational Corporations
MNEs	-	Multinational Entreprises
NBS	-	National Bureau of Statistics
NEG	-	New Economic Geography
NGOs	-	Non-governmental Organizations
NIC	-	Newly Industrializing Countries
NIE	-	New Institutional Economics

OECD	-	Organisation for Economic Co-operation and Development
PEDC	-	Private Enterprise Development in Low Income Countries
PER	-	Public Expenditure Review
R&D	-	Research and Development
SADC	-	Southern African Development Community
SAPs	-	Structural Adjustment Programmes
SEZ	-	Special Economic Zones
SSA	-	Sub Saharan Africa
TIC	-	Tanzania Investment Centre
TIRR	-	Tanzania Investment Review Report
TNCs	-	Transnational Corporations
TPSF	-	Tanzania Private Sector Foundation
TRA	-	Tanzania Revenue Authority
TRALAC	-	Trade Law Centre for Southern Africa
UN	-	United Nations
UNCTAD	-	United Nations Conference on Trade and Development
UNCTC	-	United Nations Centre on Transnational Corporations
UNIDO	-	United Nations Industrial Development Organization
UNU-WIDER	-	United Nations University World Institute for Development Economics Research
URT	-	United Republic of Tanzania

US $	-	United States dollar
VAT	-	Value Added Tax
WGIs	-	Worldwide Governance Indicators
WIR	-	World Investment Report
WTO	-	World Trade Organization

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ABSTRACT

This thesis is an attempt to understand the impact of, and factors influencing the outcomes of EPZs in a latecomer context, using Tanzania as a case study. Also, it aims to understand why governments in developing context preserve tax incentives. The analysis in this study works within the context of neoliberal theoretical thinking, and employs multiple research methods, in which, multiple sources of data namely document analysis, questionnaire, semi-structured interviews and direct observation are used. The study first examines the factors which might have hindered Tanzanian EPZ initiative from replicating East Asian success. The results demonstrate that the failure is associated to country's political and institutional factors relevant in determining strategic planning and implementation of a successful EPZ. The factors include inadequate knowledge about crucial aspects of EPZ development and management, vested interests and conflicting interests between bureaucracies, use of EPZ as a tool for corruption and rent seeking, prevalent anti-FDI sentiment, and adoption of single factory scheme .

The second part explores the impact of governance on investors' decisions to locate in an EPZ. The results demonstrate that a relationship exists between level of governance in host country and the flow of FDI in EPZs. The results support the perception that poor governance deters FDI inflows.

The last part of the study examines why the use of tax incentives in the Tanzanian EPZ program has remained politically popular and whether there is a rent seeking motive in its application. It also explores whether investors' location decisions would change if no tax holidays were offered in EPZs. The findings demonstrate that tax incentives have often been motivated by political rather than economic considerations, resulting into rent seeking behaviour. The findings revealed presence of too much political influence of vested interests in the design and implementation of tax incentives policy. The results also demonstrate that absence of tax holidays in EPZs would not result in to disincentive to invest.

CHAPTER 1: INTRODUCTION

1.1 Background information and study rationale

Many countries are introducing or have introduced Export Processing Zones (EPZs) as a means of developing the industrial sector. EPZs were one of the main tools of industrialization utilized by the Asian Tigers (Taiwan, South Korea, Hong Kong and Singapore) and the Tiger Cubs (Indonesia, Malaysia, Thailand, and the Philippines) (Alarakhia, 2012). As a result of the Asian Tigers success and the widespread acceptance of a neoliberal view of the development process across developing countries in 1980s, EPZs are now being promoted as an economic policy model to accelerate industrialization in many developing countries including Sub-Saharan Africa (SSA) (Klak, 1998; Farole, 2010; Alarakhia, 2012). A neoliberal view of the development process holds that a market-led economy is necessarily better than a government-led economy in terms of development, that is, a more liberalized economy will promote more economic growth and development (Brown, 2003; Lubliner, 2006; Saadatmand & Choquette, 2012). This neoliberal view requires deregulation and expansion of market economy by undertaking different market-friendly policies (Walton & Seddon, 1994; Haque, 1999). These policies are evident in the main neoliberal features, which include among others, the liberalization of trade and investment by reducing import tariffs, subsidizing export-led production, attracting foreign investors, and exempting foreign companies from taxes and labour codes (Walton & Seddon, 1994; Haque, 1999).

While already widely used in Asia in the 1970s and 1980s, over the past few decades EPZs have proliferated considerably in Sub Saharan Africa following the increasing acceptance of neoliberal economic policy reforms introduced by the International Monetary Fund (IMF) and the World Bank (Chudnovsky & López, 1999; Haque, 1999, 2004; Bond, 2005; Engman et al., 2007; Boyenge, 2007; Gibbon et al., 2008; Virgill, 2009; Emeagwali, 2011; Heidhues & Obare, 2011; Saadatmand & Choquette, 2012; Siddiqui, 2012, 2014; Stein, 2012; Vastveit, 2013; Moberg, 2015; UNCTAD, 2015a; Yeboah, 2016). Many African countries are now trying to emulate the industrialization successes of the Asian countries by implementing EPZ strategies. Sub-Saharan Africa had over 90 EPZs in 2006 (Boyenge, 2007). More recent comprehensive data has not been collected, however no doubt this number has increased significantly since then (Alarakhia, 2012).

Based on neoliberal logics on which late EPZs are found, these zones are meant to attract foreign direct investment (FDI) (Teeple, 2000; Bond, 2005). It is claimed that with neoliberal policies inflow of capital (FDI) by multinational enterprises (MNEs) would dramatically increase and would be able to create growth and jobs. It is also claimed that these foreign investors would not only bring technology, management skills and knowledge to the manufacturing sectors alone, but would also lead towards spillovers, which would ultimately improve the skills and technology of the domestic firms (Siddiqui, 2014). Thus, these EPZs have been seen as a quick and efficient means to accelerate industrialization through attracting FDI that would otherwise not materialize and, as such, promote exports, generate employment, and enhance the host country's foreign exchange earnings (World Bank, 1992; Madani, 1999; Milberg & Amengual, 2008; FIAS, 2008; Farole, 2010; Farole & Akinci, 2011; Vastveit, 2013). The long-term rationale of EPZs is that the FDI which they aim to facilitate has the potential to promote backward linkages and diffusion of technology and skills. Therefore, in the long run they are preferred by virtue of FDI's ability to create much-needed transfers of skills and technology, fostering local spin-offs, increasing knowledge of how to enter the global market, and improving access to international distribution channels. These potential gains are often used to justify the substantial amount of money and tax incentives needed to establish and promote EPZs (Wu, 2009; Stein, 2012; Vastveit, 2013).

However, not every country has seen positive outcomes as a result of EPZs despite the fact that the success of the East Asian countries has been consistently used as evidence that the EPZ model can produce these results. In spite of their potential, popularity and high optimism by host governments, some EPZs have not seemed to make much difference (Farole, 2011; Alarakhia, 2012; Moberg, 2015). The experience throughout the world shows that while EPZs have been effective in addressing economic growth and development objectives, they have not been uniformly successful (World Bank, 1992, 1998; Virgill, 2009). Various studies such as FIAS (2008), Farole (2010, 2011), Farole & Akinci (2011) observe that EPZs' outcomes realized in East Asia and in part of Latin America have been difficult to emulate, particularly in SSA context.

The general conclusion in the literature is that poor outcomes from EPZs have been prominent in Sub Saharan Africa (SSA) countries which adopted EPZs much later than in other regions, most EPZs being initiated only in the 1990s and 2000s (Baissac, 2003; Engman et al., 2007; Gibbon et al., 2008). Evaluated against common policy objectives often used to justify their establishment (Gibbon et al 2008), most African (SSA) EPZs are not fulfilling their potential and are underperforming compared with the Asian and Latin American EPZs (Farole, 2010, 2011; Farole & Akinci, 2011;Vastveit, 2013). Their potential to promote FDI inflows and stimulate exports has not effectively materialized (Iyoha, 2005; Farole, 2010, 2011). Generous tax incentives common in SSA EPZs have not necessarily led to an increase in FDI (Engman et al., 2007). Many have generated few jobs (Boyenge, 2007; Stein, 2012). The expected backward linkages with the domestic economy is limited (Farole, 2011); and the anticipated technology transfers and spillovers have also not occurred (Baissac, 2003; Gibbon et al., 2008; Virggill, 2009).

Moreover, when evaluated against typical stages, initial growth patterns and progressions along EPZ life cycle path (Omar & Stoever, 2008), EPZs in SSA countries have made limited progress. Despite that many EPZs share a common life cycle (Amirahmadi & Wu, 1995) particularly the initial growth patterns (Omar & Stoever, 2008), similar patterns do not appear to exist in most African EPZs (Farole, 2010). Limited volume of FDI at the start of the programs, relatively intensive participation of local firms in EPZs from the onset, and lack of concentration around traditional export processing activities (i.e. either textile or electronics) are just some of the unexpected trends (Farole, 2010). According to Farole (2010), Sub Saharan Africa EPZs are failing to move to the exponential growth trajectory that usually occurs somewhere between the fifth and tenth year of operations. Rather than taking that direction, it appears that SSA EPZs may have already peaked and are beginning to experience slowing growth and stagnation. As such, SSA EPZs have shifted permanently and prematurely to a low growth path. They have simply failed to take-off and, as such, their role as a policy tool to industrialize the region is doomed to fail (Farole, 2010).

Overall, despite the dominance of the export-led growth and its widespread implementation through EPZs in SSA, no significant industrial development has resulted from it. While timing may partly explain this trend, none of the SSA countries have emerged as newly industrializing since the 1990s when widespread implementation of the neoliberal policies took place. Although the Asian Tigers have been used as success stories of export-led growth policies leading to industrialization, there has been a general failure of the export-led growth and EPZ policies always promoted by neoliberals to lead to significant industrialization elsewhere especially in SSA (Alarakhia, 2012). This then poses the general question of whether neoliberal development strategy which encourages establishment of EPZs is indeed the best way for developing countries in SSA to industrialize. Against this background, it is doubtful whether EPZs designed purely along neoliberal policies can be effective in addressing the industrialization goal they are purportedly designed to promote (Harrison, 2004)

Like many other developing countries, Tanzania has been compelled through International Financial Institutions (IFIs) and bilateral and multilateral donors to liberalize its economy and deregulate its markets throughout the 1980s and being reliant on export oriented FDI for industrialization as part of its commitment to neoliberal reforms (Alarakhia, 2012). With the vision to industrialize through an export led strategy (as in the case of Asian Tigers) in mind, and also to show compliance to the neoliberal economic policies (reforms), the Tanzanian government in 2002 adopted the concept of EPZ as a policy option for export-oriented industrialization and economic development following the enactment of the EPZ Act in the same year. Even though influenced by the pressure from the IFIs to accept neoliberal reforms, the underlying idea was to emulate the successes of Asian countries that have attained rapid industrialization through EPZs. The EPZ Act was followed by the National Trade Policy of 2003 which laid out how EPZs would enhance industrialization. In 2006 the EPZ Act was streamlined into the newly established Special Economic Zones (SEZ) Act, and an Export Processing Zones Authority (EPZA) was established to oversee the implementation of the EPZ Act. Although the Tanzanian EPZ program effectively took off after the amendment of the EPZ Act in 2006 and the setting up of the EPZA to oversee the EPZ program, the idea and discussions about setting up EPZ in Tanzania began as early as 1996.

Basically, the Tanzanian EPZ program has its background in the goals envisaged in ‘Tanzania Development Vision 2025’ formulated in 1995. The Development Vision 2025 set out the long term development goals and perspectives according to different strategies for economic growth and poverty eradication were formulated. The EPZ program is one such strategy implemented as part of the country's vision 2025 that envisions fostering development and fighting poverty through semi-industrialization strategies, using the Asian Model of export-oriented development. It is envisioned that through the establishment of EPZs, Tanzania will replicate the strategies of the Asian Tigers (Hong Kong, Taiwan, South Korea and Singapore) to achieve an equivalent level of industrialization by 2025 (URT, 2003; Alarakhia, 2012).

Despite the efforts and aspirations to emulate Asian successes, Tanzanian EPZ initiative has not achieved pronounced outcomes to date. Contrary to the claim made by the neoliberal policies, investment and employment in, and exports from the EPZs have been extremely low, and also the claimed technology diffusion and knowledge spillovers are non-existent. Although the neoliberal theoretical model assumes that linkage effect and developments will occur "automatically" as market mechanisms are allowed to operate freely, the Tanzania's EPZ experience shows that these have not occurred to an appreciable extent.

According to official EPZA annual performance reports (URT, 2012), only 58 operational companies existed over the 2006/2007-2011/2012 period. Out of these, 27 companies (46 per cent) were wholly foreign owned while 8 companies (14 per cent) were joint ventures between Tanzanian and foreign owners. The remaining 23 companies (40 per cent) were wholly locally owned. Additional analysis of the available empirical evidence (e.g. ESRF, 2015) and official reports and databases (e.g. URT, 2012; UNIDO & TIC, 2013) show that, the total realized investment projects to EPZs (i.e. 58) is equivalent to 1.4 per cent of the total investment projects (foreign and domestic) realized countywise during the 2006-2011 period while realized foreign projects in EPZs during the same period is around 0.6 percent. The overly small number in absolute terms and percentage of foreign companies invested in EPZs during the first six-year period signifies that the EPZ program failed to make significant breakthrough in attracting FDI from the onset.

The effect of small scale operations in EPZs is clearly reflected in the value of investment, exports and jobs created. During the first six-year period, total investment in Tanzanian EPZs was valued at US$ 792.2 million. This is even lower than the amount of FDI inflows recorded countrywide during the single year of 2009 (US $953 million) and is estimated at around 10 per cent of total FDI inflows to the country during the 2006-2012 period (UNCTAD, 2013a, 2014a, 2015b, 2016a). However, as previously noted, a considerable share of the EPZ investors actually came from locally-based companies, so the contribution of the EPZ program to the country's FDI is considerably less than 10 per cent over this period.

Moreover, according to the Tanzania Investment Review Report 2013 (TIRR, 2013) (jointly produced by the Bank of Tanzania (BOT), the National Bureau of Statistics (NBS) and the Tanzania Investment Centre (TIC)), FDI inflows have changed little in the past two decades, implying that even if the EPZs attract foreign investors, they are not making a significant difference to the national FDI stock (BOT/NBS/TIC, 2013). The Tanzania investor survey report (UNIDO, 2014) and UNCTAD World Investment Reports (WIR) (UNCTAD, 2014a, 2015b, 2016a) confirm these results. This then implies that the use of an EPZ strategy to attract FDI is failing.

Empirical data on exports generally shows that over the first six-year period of EPZ's operation, EPZ's share of exports made up approximately 8 per cent of total Tanzania exports (Alarakhia, 2012). The hoped-for large scale employment creation has not emerged as a result of EPZs. From 2006 until mid-2012, jobs created in EPZs were 16,105 (EPZA, 2012) which is equivalent to 4 per cent of all jobs created over the same period by all FDI located countrywide (TIC, 2013). However, empirical analysis (Alarakhia, 2012) shows that more than 8,000 of these jobs are in a single locally owned company. This implies that foreign invested enterprises in EPZs employ less than 50 per cent of EPZ workers in Tanzania and less than 4 per cent of workers employed by foreign companies in the rest of the economy.

From the performance just described, it is clear that as in many other developing countries in SSA and elsewhere, the Tanzanian EPZ program is doomed to fail in its efforts and aspirations to emulate the industrialization successes of the Asian countries. It is clear that with less than 10 years remaining to 2025, it is difficult for the EPZ to realize the aspirations articulated in the Tanzania Development Vision 2025.

Given that Tanzania was latecomer in the implementation of EPZs, it was a great opportunity for Tanzania to develop an EPZ model that would take into consideration lessons learned from other country's experiences. Theoretically, as the Tanzanian government had the same goals as Asian Tigers in adopting EPZs, one might not expect EPZ performance to show much difference (Yuan & Eden, 1992).

Different reasons have been advanced in the literature to explain why there are variations in EPZ performance across countries and regions. Some explanations often concern the quality of the infrastructure and EPZ administration, location, timing and zone size (Yuan and Eden, 1992; Pradeep & Pradeep, 2008; Farole & Akinci, 2011; Moberg, 2015). Proximity to international ports, a pool of semi-skilled labour ready to accept relatively low wages, and a generous package of fiscal incentives are other cited basic requirements for a successful EPZ (Yuan & Eden, 1992; Moberg, 2015). Some studies associate failure in African EPZs to the inability to establish a high quality investment environment (Farole, 2011); bad timing or, more specifically, a missed window of opportunity; a fundamental competitiveness problem; and weak planning and implementation; and poor governance (Watson, 2001; Engman et al., 2007; Farole, 2010; Zeng, 2014, 2015).

Some studies (e.g. Wade, 1990; Haque, 1999; Lubliner, 2006; Amsden, 2003; Heidhues & Obare, 2011; Alarakhia, 2012; Siddiqui, 2012, 2014) view the failure as a sign of increasingly apparent failure of neoliberal policies (as a new development process) to promote economic growth and development. A general consensus from these studies is that EPZs have failed to generate desired results when implemented from a neoliberal perspective that requires the government to play a minimum role. Neoliberal logics place emphasis on maximizing the role of the market and reducing the intervention role of the government (Walton & Seddon, 1994; Haque, 1999). While neoliberal logics stress on market led industrialization, it is widely agreed that the export-led industrialization in East Asian countries was largely state led rather than market led (Siddiqui, 2014).

In the view of the international Financial Institutions (IFIs), the failure of recent generation of EPZs to generate desired results is not owed to adoption of neoliberal policies and structure adjustment along which late EPZs are based, rather it is due to poor governance. According to the claim made by the IFIs, the failure is associated to flawed governance that severely impeded the implementation of these policies in poor countries (Saadatmand & Choquette, 2012). Chapter 5 of this study explores in detail, whether and to what extent this concern is empirically justifiable.

Few studies have explored the reasons for the slow progress in Tanzanian EPZ (e.g. Domician, 2009; Farole, 2010; Tuomi, 2012; Alarakhia, 2012). However, the conclusion drawn from these studies is generalized across both schemes despite the fact that these are two separate schemes with differing goals and targets. Unfortunately, due to definition problem the two concepts have been applied interchangeably in these studies. As such, performance data used in their analyses are collected from companies operating in the two schemes. In addition, Domician's (2009) study was conducted to analyze EPZ performance during the first three years. The three-year period is considerably short to unveil any significant impact. However, the study identifies that the programme remains largely ineffective and inefficient due to heavy hard and soft infrastructural challenges as well as the existing burden of the fiscal incentive regime. A comparative study by Farole (2010) on EPZ performance between African countries (Tanzania included) and selected non African countries (Asian and Latin America) lacked adequate data because by the time of the study, the Tanzanian EPZ program has only been in existence three years. Tuomi (2012) conducted a case study of Tanzanian SEZ (although in the analysis, EPZ data were also included) and find that the presence of two competing economic zones, EPZ and SEZ created a confusing situation for potential investors. Lack of clear strategic planning was also identified as hindering the outcomes.

The present study recognizes that there may be many different explanations of EPZ success or failure. There are a variety of economic, social, political, technological, cultural, etc reasons why the EPZ initiative may prove to be less useful as a policy tool of industrial upgrading and development than has previously been argued in the literature. An EPZ may simply be relevant in different contexts at different levels of development (Farole, 2011). As a result, the reasons for the success or failure of an EPZ are context based, and as such, may differ from one country to another and from time to time. For the same reasoning, our understanding of why the Tanzanian EPZ has failed to emulate Asian Tigers success remains limited. This thesis is an attempt to explain this gap.

This study is also interested in understanding whether and the extent to which recent focus on governance has influenced an investor's decision to locate in an EPZ in Tanzania. Over the last two decades, good governance has emerged as the new sine qua non for international investors and for loans and official assistance providers (Arndt, 2009; Knoll & Zloczysti, 2011). A number of factors have contributed to the growth of interest in the quality of governance. According to Arndt (2009) (see also Arndt & Oman, 2006), one factor at play is the impressive growth of foreign direct investment (FDI) in developing countries over the last two decades. Competition among developing countries to attract FDI has also increased considerably during the same period, giving added impetus to this trend.

The failure of development policy reforms in the 1980s and 1990s is another reason. In the early 1980s, a policy framework known as the Structural Adjustment Programs (SAPs) was launched by the International Financial Institutions (IFIs) to create the necessary institutional and policy conditions for economic growth and hence to propel development in poor countries. It is claimed that, after a decade from their implementation, these SAPs which were purely found in neoliberal logics (and were further accelerated by the Washington Consensus, discussed elsewhere in this document) were largely failure (Nur, 2015). In the view of the IFIs, the failure of SAPs to generate economic growth was solely due to bad governance in low-income countries. Since then, bad governance has been identified as the principal factor responsible for slow or lack of development in low-income countries, especially African countries. It was in reaction to this failed agenda that the notion of good governance was conceived.

Moreover, the importance of governance is explained by the work of Douglas North and the New Institutional Economics, which have credibly confirmed the importance of governance for the success of the country in terms of its long-term economic growth, improvement of human welfare and societal development. Arndt (2009) observes that North's work created a new awareness of the importance of politics in economic development.

For the donors, good governance is used in the aid-allocation process and is now a key criterion in determining the eligibility of a prospective and, or existing recipient of grants, loans or development funds (Arndt, 2009; ESRF, 2014). As observed in Knoll & Zloczysti's (2011) study, some donors use good governance as an explicit and strict requirement for the eligibility of aid to developing countries.

Knoll & Zloczysti (2011) observe that the demand to quantify the governance concept along with the development of perception-based governance indicators has grown considerably in recent years. The most well known and therefore widely used indicators are the World Bank Worldwide Governance Indicators (WGIs) (Arndt, 2010; Gray & Khan, 2010; Thomas, 2010; Kaufmann et al., 2015). The components of governance according to World Bank include voice and accountability, political stability and absence of violence, government effectiveness, regulatory quality, rule of law, and control of corruption (Kaufmann et al., 1999, 2010, 2015).

Given the increasing awareness on the importance of governance, and the subsequent introduction of governance indicators, the literature has accordingly been renewed by focusing on the quality of domestic governance as a key explanation of cross-country differences in economic growth rates; and a relationship between governance and FDI inflows has been abundantly analyzed and discussed (see for example, Anghel, 2005; Acemoglu et al., 2005; Bénassy-Quéré et al., 2007; Daude & Stein, 2007; Ali et al., 2008; Bissoon, 2011; Bayraktar, 2015). Another strand of literature has focused on the validity, robustness and appropriateness of developed perception-based indicators for making investment and aid-allocation decisions (see for example, Thomas, 2010; Knoll & Zloczysti, 2011).

What remains to be explored, however, is how the growth of interest in the quality of governance influences FDI inflows into EPZs. As noted above, one reason for interest in good governance in developing countries in recent years is the growth of FDI in developing countries and the ensuing competition. For the same reasoning, expansion of EPZs in SSA account for increased interest in good governance in developing countries. This is especially true given that competition for FDI tends to intensify as more countries establish EPZs. This thesis attempts to understand whether, and to what extent, this growth of attention to the quality of governance in developing countries is evident in location choice and finally to the underperformance of recent EPZs.

Of the general debate that has emerged on whether governance matters in attracting FDI, is salient for three reasons at least. One is the historically notorious governance record in most SSA countries. The World Bank Worldwide Governance Indicators place the vast majority of African countries in the bottom 50th percentile of their six dimensions of governance, implying that Africa perform worse in terms of governance than any other part of the world (Kaufmann & Kraay, 2008; Gray & Khan, 2010; Kaufman et al., 2008,2010, 2015). Whether this is reflected in the current EPZ performance in the region remains unclear. The second factor concerns the increased commitment of governments in SSA countries to establishing EPZs notwithstanding their disappointing performance. Finally one of the advantages an EPZ promises to offer to investors is the streamlined governance within EPZs. Whether and the extent to which investment location choice of these investors is influenced by the overall governance level of a country is not adequately studied. Accordingly, given increased international investors' interest in the quality of governance in host countries the question is naturally raised as whether and to what extent the increased importance of governance has influenced investor's location choice.

Another issue this study attempts to address is related to the persistence of tax incentives in EPZs. Concerns about the performance of African EPZs are not limited to how they conform to their claimed objectives only. The discussion touches on every possible aspect of EPZs and the issue of tax incentives is more generally an ongoing agenda (IMF/OECD/UN & World Bank, 2011; IMF, 2015).

The neoliberal approach to taxation as a tool to attract FDI is widely questioned in the literature and has been a subject of intense debate even by its advocates (i.e. the World Bank and IMF). One of the pro-market policy options underlying neoliberal idea requires liberalization of trade and investment by reducing import tariffs, and exempting foreign companies from taxes. Perhaps this is one of the most debatable prescriptions of neoliberal policies. Although it has long been claimed that the tax incentives in EPZs are ineffective in attracting investors, yet as inducement for investing within the EPZs, and most important as a theory of neoliberal economics, governments in developing countries generally allow an initial period (i.e. tax holiday) within which firms in EPZs are exempted for almost all domestic taxes (Farole, 2011; Alarakhia, 2012). Many developing countries' policymakers seem unaware or pay no attention to studies (including studies funded by the World Bank) that show that tax incentives have been less effective in attracting FDI, and a review of the same has been recommended by the IFIs which previously supported the idea.

The use of tax incentives to promote EPZs in SSA has been of some concern to many, primarily because of some evidence of deteriorating countries' tax bases with little demonstrable benefit in terms of increased investment (Hadari, 1990; Cleeve, 2008; Klemm & Parys, 2009; 2012; IMF/OECD/UN & World Bank, 2011; Gauthier, 2012; James, 2013b; IMF, 2008, 2015).

Like many other SSA countries, Tanzania offers generous tax incentives under the EPZ scheme, to attract FDI. However, the incentives have resulted in heated debate in the country and the international arena, with some critics claiming that the package is a waste of potential government earnings for the country's social and economic development.

The World Bank's expenditure review of 2006 asked the government of Tanzania to reconsider the tax breaks in the EPZ legislation on the grounds that tax exemptions and loopholes, tax fraud, as well as reduction of tax revenue could proliferate, thereby jeopardizing the country's fiscal position without necessarily generating the anticipated level of investment (World Bank, 2006). Neither the World Bank concerns nor the issues raised by domestic observers have led to significant revisions to date.

In its annual Public Expenditure Review (PER) report, the World Bank (2011) observed and recommended that, although the country has been closing the gap between potential and observed tax revenue, further attention should be given to exemptions and tax avoidance. According to the report, the overall level of exemptions declined to 2.2 per cent of GDP in 2009/2010 (from 4.6 per cent reported in 2005/2006), but still remained significantly higher compared to those reported in neighbouring countries of Kenya (1 per cent of GDP) and Uganda (0.4 per cent of GDP).

A report commissioned by Norwegian Church Aid to establish the magnitude of tax revenue losses in Tanzania estimates that Tanzania, one of the poorest countries in the world is losing around US $ 1 billion in tax revenue annually mostly through tax incentives, tax evasion and capital flight (Curtis et al., 2012). Part of this amount represents losses caused by tax incentives offered under EPZ scheme although the study does not systematically indicate the amount.

Recently, the Tanzania's Controller and Auditor General (CAG) annual reports have shown considerable concern on the need for the government to revise its tax incentives regime. The CAG report for 2010/2011 indicates that tax exemptions might have been on the rise in 2010/2011 up by 40 per cent and reaching 2.9 per cent of GDP. Subsequent CAG reports (2011/2012 up to 2012/2013) and the Tanzania Revenue Authority (TRA) have both criticised the government's tax incentives regime as unsustainable (Kulaba, 2015).

Despite these concerns, the government has been somewhat reluctant to implement the recommendations, claiming that the tax incentives offered in the EPZs are necessary to attract foreign investors. However, Curtis et al. (2012) challenge the government's claim given value of FDI generated in EPZs. According to Curtis's et al Tanzania has lost more revenue from tax incentives given to corporations in the last three years (preceding the year of their report) than it has received in total foreign investment since the EPZs were established in 2002.

However, this study recognizes few steps so far taken by the government to date even though it questions the approach used in identifying the beneficiaries of tax exemptions. According to the World Bank's Public Expenditure Review (PER) of 2011 (World Bank, 2011) the government agreed to control the amount of tax exemptions with a target of 1 per cent of GDP by 2015. The review reports that the Tanzania Revenue Authority has started to review the scope of the exemptions. Although the government has taken these measures, its commitment is questioned. One limitation in this attempt is that the review process has not started with the beneficiaries of tax exemptions frequently thought that they would have invested even without tax incentives (e.g. businesses in EPZs and mining) and it is unclear how far the government is prepared to go. Instead, the scapegoat has been religious institutions (exemptions granted to schools and hospitals owned by churches) and other non-governmental organizations (NGOs).

Companies investing in EPZs continue to benefit on tax incentives as an EPZ scheme is still built on a generous incentives structure which, however, has a potential to undermine the EPZ program's contribution to Tanzania's revenue collection (Kulaba, 2015). For example, while the Tanzanian EPZ scheme provides for exemption from corporation tax (tax holidays) and withholding tax on rent, dividend and interest for ten years, the industries established in EPZs are described as ‘foot loose’ industries whose sustainability does not go beyond the lifespan of the exemptions and tax breaks. Yet, government maintains this kind of incentives to attract foreign investors into EPZs.

It is not yet clear why the Tanzanian and other SSA governments lack enthusiasm on rationalizing their tax incentives despite the increasing resistance from international financial institutions such as the World Bank, IMF, African Development Bank (ADB), the donor community at large, NGOs, academicians, development activists, and different domestic stakeholders.

The apparent reluctance of the government to implement the recommended review give rise to different questions and interpretations. Arguably, a half-hearted attempt gives rise to major questions as to whether the tax incentives offered to EPZ investors serve as a rent seeking tool. This thesis attempts to provide an answer to this question.

Much has been written in the literature about the ineffectiveness of taxation in attracting FDI but less has been done to find out why the use of this policy tool has remained politically popular in the countries practising them despite the fact that the matter has been the subject of domestic and international attention. This thesis aims to explain this gap. Also, in order to capture investors’ perspectives on the matter, the study analyzes if the new foreign investment would have materialized in EPZs if no or lower tax incentives were offered.

In sum, this study aims to address three main issues. First, it examines the reasons the Asian EPZ model has not worked in Tanzania. Secondly, it examines the influence of the recent increase of interest on governance quality in the location decision in EPZs. Finally, it examines why tax incentives persist in EPZs. In particular, it examines why the use of tax incentives in the Tanzanian EPZ program has remained politically popular and whether there is a rent seeking motive in its application. To explore these issues, the following questions are addressed.

1.2 Research questions

This study addresses the following questions:

1. How effective has the EPZ initiative been in Tanzania?
2. Why has the Asian EPZ model not been successful in Tanzania? What are the obstacles?
3. To what extent has the recent focus on governance influenced investors' decisions to locate in an EPZ in Tanzania?
4. Why has the use of tax incentives as a policy tool to attract FDI in Tanzanian EPZ remained politically attractive? Would investors' location decisions change if no tax incentives were offered in Tanzanian EPZs?

1.3 Significance of the study

From the onset of the EPZ program in Tanzania, there have been concerns as to whether the initiative will benefit the country. Perhaps that is why the initiative, at that time, was neither recommended nor supported by the World Bank despite the support of the idea and financial support to some other SSA countries. The advice of the World Bank was based on the outcomes of feasibility study which showed that it would require a huge amount of money to have a modern EPZ, the amount which bank felt that Tanzania could not afford. The concern about the impact of EPZ initiative is still raised to date. Tanzanian EPZ is an interesting case to study because its experience of performance trend and impact to date may highlight the weaknesses of the EPZ models implemented in the SSA to date.

The Tanzanian EPZ model has been in existence for nearly eleven years now. It is a reasonable time to ask whether this model, which aims to emulate the Asian Tigers achievements has been a success. This study observes that there has been some limited success of Tanzanian EPZ model. The Tanzanian EPZs did not accomplish any objectives clearly, and most importantly have not made any noticeable progress towards the aim of industrializing through emulating Asian Tigers success. There are however no sufficient reviews or studies to explore the reasons for this. A few existing studies (e.g. Domician, 2009; Farole, 2010; Alarakhia, 2012; Kinyondo, 2016) suffer from data limitation and their conclusions reflect a combined position of EPZ and SEZ schemes in the country. In addition, these studies tend to identify the problems without further analysis of the reasons for their existence and persistence.

As a latecomer, there was a great opportunity for Tanzania to develop an EPZ model that would take into consideration lessons learned from other countries' experiences in order to ensure success. However, this has not happened. It is imperative to investigate factors which have hindered Tanzania from taking the lessons successfully.

Moreover, the reasons why Asian EPZ successes are difficult to replicate in other developing countries are often generalized across all SSA countries without consideration of any particular context. This is a considerable oversight in these studies for the following reasons. Firstly, each country has its own specific economic endowments and each has its own history of economic and political development. Secondly, the adoption of EPZs as an industrialization strategy was made by individual countries at different points of time in the development and proliferation of EPZs among developing countries (Murayama & Yokota, 2008). Therefore, even if SSA countries share some common features, generalizing the reasons for the underperformance of their EPZs is misleading.

In light of this deficiency, this thesis aims to provide contextualized evidence for the unresolved question of why some EPZ operating countries fail while others succeed. The evidence is based on Tanzania, as a latecomer to the implementation of EPZs. In particular, the findings of the study will contribute to the existing knowledge by providing additional insights relevant to the understanding of why some EPZ operating countries have done better than others in achieving greater outcomes while others do not. The findings will thus contribute to the understanding of why Asian countries successes are difficult to replicate elsewhere.

In addition, the findings provide evidence that EPZ policy makers require to evaluate the success of the EPZ initiative. The analysis may well help identify the necessary government intervention for effective working of EPZ or even thinking of an alternative to current EPZ model.

Also, the findings of the study contribute to the body of knowledge regarding the influence of governance on the decision to locate FDI in EPZs, given the recent growth of interest on governance as a determinant of FDI flows in developing countries. Previously, investment location decisions were largely determined by traditional incentives such as quality infrastructure, cheap labour and generous tax incentives.

Moreover, the study's contribution extends the literature on the use of tax incentives to attract FDI. Although discussion of tax incentives has produced a large volume of scholarly literature, there are still significant gaps. The ongoing discussion of the need to review, rationalize and reduce some tax incentives available to EPZ investors and the behaviour of the government towards the issue (for example, the manner and speed at which governments respond on the issue) reflects this. Despite this, the existing literature focuses to a large extent on whether tax incentives encourage FDI inflows, including the analysis of their costs and benefits without any particular attention on why the use of tax incentives has remained politically popular in some countries. More research would be valuable to examine why developing countries in SSA in general and Tanzania in particular are failing to implement the recommended review successfully. The generous tax incentives in Tanzanian EPZs have not resulted in significant FDI inflows; yet for reasons not clear government retains them. In particular, there is a need for additional research to explore the reasons for this trend. This thesis seeks to make a contribution to the existing literature by exploring why the use of tax incentives has remained popular particularly in latecomers to the implementation of EPZs.

In this way, the analysis provides important additions to the existing knowledge base regarding why developing countries in SSA are increasing their use of investment tax incentives to attract FDI. This is especially relevant today in view of the recent views that developing countries' governments use EPZs and tax incentives for rent seeking motives. The discussion of the findings is also expected to improve the awareness on the part of the government and the ruling party in particular as regards the rationality of its current decision and position on tax incentives in EPZs. The findings are thus expected to help shape government's reasoning towards use of tax incentives.

1.4 Thesis outline

In Chapter 2, an overview of the main strands of literature which are critical to the research questions of this thesis is discussed. First, the literature on the impact of EPZ as a development tool is presented. This section traces the evolution of an EPZ as a strategy to promote industrialization through export oriented growth strategy, with a focus on adoption of export-led growth and EPZ strategy as tenets of neoliberal economic policies. Then the rationale for establishing EPZ is discussed. As there are many EPZ typologies, it was important to precisely define the concept of EPZ. Potential benefits to both investors and host country are presented. Some shortcomings of an EPZ are also discussed. A review of the impact of EPZ in a host economy, including assessment of the factors influencing success or failure of an EPZ initiative is conducted. Successful East Asian cases are referred. Common obstacles to the success of EPZ globally are identified. As the study intended to understand why Asian EPZ has not worked in Africa and particularly in Tanzania, obstacles to the success of EPZs in SSA were presented. Second, the literature on relationships between governance and FDI inflows is outlined, including neoliberal views on the concept of governance. In particular, the definition of governance and the six components of governance developed by Kaufmann et al are presented; and the existing views on the effect of these components on the investors' location choice and on the FDI inflows are discussed. Lastly, a literature on impact of tax incentives on FDI flows is presented. This section explored why tax incentives are particularly considered inefficient and ineffective, and why tax incentives are politically attractive. The effect of tax holiday on investors' location choice was also examined. This was particularly because tax holiday is widely used in SSA countries, yet is the most challenged one.

The study design and methodology is presented in Chapter 3. In this chapter, design and methodological issues including the study's paradigm and philosophical assumptions, research strategy, data sources and collection procedures are outlined. Also, the procedure adopted to ensure the quality of the study and adherence to ethical issues are presented.

Chapters 4 through 6 are the empirical analysis chapters. Chapter 4 explores how effective has the EPZ initiative been in Tanzania; and why has the Asian EPZ model not been successful in Tanzania. In particular it explores the obstacles to the impact of EPZ in the specific context of Tanzania. In addition to the theoretical flaws in the neoliberal principles, findings from this chapter suggest that the persistent failure in SSA countries to replicate Asian success is associated to country's political and institutional factors relevant in determining strategic planning and implementation of a successful EPZ.

Chapter 5 sought to determine whether and to what extent the recent focus on governance has influenced investor's decisions to locate in an EPZ in Tanzania. The results of this chapter show that the six components of governance developed by Kaufmann et al on behalf of the World Bank do influence foreign investors' decisions to locate in an EPZ of a particular host country. Chapter 6 explored why the use of tax incentives in Tanzanian EPZ program has remained politically popular and whether there is rent seeking motive on its application. Further to this, it explored whether investors' location decisions would change if no tax holidays were offered in Tanzanian EPZ. The findings suggest that tax incentives are used as rent seeking tools. The results also suggest that removing tax holiday from the list of tax incentives available to companies in EPZs would not result into disincentive to invest.

In Chapter 7, the major contributions of this study are summarised, the policy conclusions are drawn, the limitations of this study are identified and some avenues for future research are presented.

CHAPTER 2: LITERATURE REVIEW

2.1 An overview of industrialization and evolution of EPZ strategy

This section reviews the literature on the two broad strategies of industrialization commonly pursued by developing countries in quest for development: Import Substitution Industrialization (ISI) and Export Led Industrialization (ELI). Most of the history of industrialization in developing countries, especially after the World War II has been studied under these strategies (Karunaratne, 1980; Schmitz, 1984; Liang, 1993; Shihab, 1995; Pahariya, 2008; Anh, 2009; Carbaugh, 2011; Mendes et al., 2014). Most importantly, these strategies are examined in order to locate and understand the theoretical context within which an EPZ strategy, which is the subject of this study, emerged. In particular, a review is first devoted to providing an overview of ISI, and then analysing the shift from ISI to the export-led growth and development of EPZs under the neoliberal regime. As will be discussed later in this chapter, several developing countries including Tanzania have attempted to industrialize through an export-led growth and EPZ strategy which are basically the tenets of neoliberal economic policies. In the next section, a review of ISI as the early development strategy is presented.

2.1.1 Import substitution strategy

Import substituting (or substitution) industrialization was adopted by many developing countries (both low and middle-income countries) as their development strategy before the 1980s (Krugman & Obstfeld, 2006). In general, import substituting refers to a policy that replaces the importation of the commodity by the production in the domestic market (Bruton, 1970). The import substituting was conceived with the idea of encouraging infant industry growth and self-sustained industrialization by limiting competing imports. The policy was often motivated by the belief that poor newly independent countries would be exploited by advanced rich countries through international trade and financial markets (Krugman & Obstfeld, 2006). The import substituting policy was particularly justified by the infant industry argument which contends that industries in their infancy stage should be protected until they grow up and are strong enough to resist competition (Krugman & Obstfeld, 2006). According to this argument, industries in which developing countries may have a potential comparative advantage cannot initially compete with well-established industries in developed countries. Therefore, to get the newly established industries (infant industries) started and establish themselves competitively, governments should, for the time being support these industries until they have grown strong sufficient to compete with developed countries (Bruton (1998; Krugman & Obstfeld, 2006).

The interest on import substitution industrialization was further strengthened by the argument that substitution of domestic production for imports offers opportunity for ready market and, as such, it is one avenue whereby a country can find a ready market for one of its own industries (Shihab, 1995). According to Singer (1999), developing countries would find it initially easier to produce for an existing and known domestic market than for an unidentified international market. Protection of the competing imports was also seen as one way to prevent money from leaving the local economy. By producing locally what had been previously imported, would therefore save foreign exchange, thereby retaining capital within the country (Basu, 2005).

Also, the import substituting policy was further justified by the arguments that industrialized countries went through a similar stage of import substitution in which investment in industry was directed to replace imports. Experience shows that all major developed countries used ISI policies to promote industrialization and protected industries until they were able to compete in the global market[1] (Bruton, 1989).

In addition to the principal economic argument i.e. a temporary protection would bring about rapid industrialization, and hence, rapid development, the adoption of this strategy was politically justified by the desire for greater self-reliance and independence (Karunaratne, 1980).

The typical policy instruments supporting import substitution strategy, as recommended by Prebisch (1959) included tariff barriers and quota restrictions on certain imported commodities, subsidized government loans, exchange controls, inflated exchange rates-

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[1] See also Baer (1972) and Chang (2003). All countries that have industrialized after the United Kingdom

their extent varying from country to country (Burton, 1998; Alarakhia, 2012). Also, a shortage for import was deliberately created through quota restrictions, in order to induce production and consumption of domestic products.

According to literature (e.g. Karunaratne, 1980; Schmitz, 1984; Jayanthakumaran, 2000; Krugman & Obstfeld, 2006; Sanderatne, 2011; Mukherjee, 2012), despite considerable achievements experienced in terms of growth of industrial output and structural changes by early 1970s, import substitution was subjected to a number of criticisms regarding its implementation and outcome. Vastveit (2013) notice that, for the reasons of these inefficiencies, ISI policies which were designed to develop domestic industry did not enable most developing countries to catch up with industrialized countries as previously predicted by the underlying economic theory. The main criticisms, as summarized in a number of studies (e.g Jayanthkumaran, 2000; Krugman & Obstfeld, 2006; Sanderatne, 2011; Mukherjee, 2012) are as follows. After an initial period of growth, ISI lost momentum as further import substitution became increasingly more difficult, and the capacity to export became a constraint on growth. Import substitution industrialization has typically created a highly protected, inefficient manufacturing sector, in which a market is shared by a limited number of producers, with considerable underutilization of capacity, dependent capital-intensive technology with low potential for job creation (Mukherjee, 2012). Domestic prices were raised and exports became less competitive due to trade protection and overvalued exchange rates. As a result, countries practising ISI were unable to export a sufficient amount to buy the imports they needed. The faster the economy grew, the more it needed imports; but exports could not keep up with the speed of imports and so countries ran out of foreign currency (Sanderatne, 2011). Import substitution is further criticised on ground that the process has been pursued at the expense of agricultural sector, along with a strong bias against exports of both primary and manufactured goods (Wiśniewska, 2007; Muchlinski, 2011; Mukherjee, 2012). For most countries, exports did not considerably change from the traditional unprocessed agricultural products (Alarakhia, 2012). It is also claimed that risk for rent-seeking activities given exchange controls and protections was higher (Krueger, 1974; Jayanthkumaran, 2000; Palley, 2011).

In addition, the infant industry argument, which was the basis for ISI strategy, was questioned on several grounds: it may be wasteful to support industries now that will have a comparative advantage in the future; with protection, infant industries may never "grow up" or become competitive; and there is no justification for government intervention unless there is a market failure that prevents the private sector from investing in the infant industry (Jayanthkumaran, 2000; Krugman & Obstfeld, 2006).

The limited success of import substitution policies resulted in a change in policies, and several developing countries' policies became increasingly liberalized from the mid-1980s. Developing countries were advised to pursue an outward-looking strategy with particular focus to export promotion in order to achieve rapid economic growth and development (Virgill, 2009; Krugman et al., 2012). In what follows, is a review of the literature on the neoliberal theory and export-led industrialization (or export-led growth) strategy and EPZs as some of its main features which in principle replaced ISI strategy.

2.1.2 From import substitution to the development of an export-led growth strategy in the neoliberal regime

The disappointing record of import substitution in achieving the goals of industrialization in many developing countries while spectacular economic growth and development were reported from the four Asian Tigers' economies which had pursued an alternative strategy from the 1960s led to a shift towards export led growth as an alternative development strategy from the 1980s onwards (Krugman, 1995; Shihab, 1995; Krugman & Obstfeld, 2006;Virgill, 2009; Alarakhia, 2012; Krugman et al., 2012; Vastveit, 2013). Further to the influence from the outstanding performance of the four Asian Tigers, this development was inextricably linked to the increasing acceptance of neoliberal policies across developing countries in Latin America and Sub Saharan Africa (SSA) beginning 1980s. As such, the rationale for adopting export led growth strategy in SSA draws both from the demonstration effect of the four Asian tigers, and from the theory, i.e. neoliberal theoretical precepts (Lall, 1994; Kaplinsky & Morris, 2008; Palley, 2011). The neoliberal view of the development process evolved over the 1980s, drawing mainly upon evidence from East Asia, and driven by a shift in mainstream economics and political perceptions in the leading developed countries, (Lall, 1994). From a political perception, these ideas were incorporated into mainstream policy dialogue at the global level in the 1980s by two key political leaders, Margaret Thatcher (UK) and Ronald Reagan (USA) who when rose in power in 1979 and 1980 respectively, implemented much of the neoliberal agenda (Alarakhia, 2012; Siddiqui, 2012; Mann, 2013).

In the view of the International Financial Institutions (IFIs) and the supporters of the neoliberal ideologies mentioned above, the failure of the Import Substitution Industrialization (ISI) strategy to bring about development was not due to the oil shocks of the 1973 and the subsequent debt crises as often claimed but rather due to an inherent flaw in the ISI approach. The ISI approach required a number of what neoliberals call market distorting interventions such as tariffs, import licences, exchange controls, and inflated exchange rates (Burton, 1998).

Following this new theoretical stance and the influence from key political leaders, combined with the influence of IFIs, there was a shift towards the adoption of neoliberal economic policies across the world, although the degree and extent to which this occurred varied from region to region and between countries (Steans, 2006). Conceptually, neoliberalism has been described in the literature differently as an ideology, philosophy, doctrine, assertion and a theory but in all these definitions it is commonly assumed that growth and development will arise from conventional monetary and fiscal policy, liberalization and privatization of economies (Stein, 2014). Despite multiple definitions in the literature, one of the most prominent common features of neo-liberal thinking is its emphasis on maximizing the role of the market and minimizing the interventionist role of the state (Haque, 1999; Bond, 2005; Lubliner, 2006; Saadatmand & Choquette, 2012; Lopes, 2012; Stein, 2014; Yeboah, 2016). According to the neoliberal thinking, undistorted markets are what trigger successful industrialization. Hence, the governments must be neutral allowing their countries to specialize in accordance with their comparative advantage (Stein, 1995; Bond, 2005). In general, the neoliberalism is an ideological position based on strong beliefs in the promotion of the economic growth and development by following the principles of free market and open competition, limited state intervention, rational utility-maximization, and comparative advantage in free trade (Haque, 1999). Thus, the central policy prescriptions in the neoliberal regime include a reduction in the role of the state by privatizing and contracting out government enterprises and services; the weakening of the state's economic management by deregulating controls over pricing, marketing, investment, and finance; and the liberalization of trade and investment by reducing import tariffs, subsidizing export-led production, attracting foreign investors, and exempting foreign companies from taxes and labour codes (Haque, 1999).

As such, neoliberals strongly believe in the principle of comparative advantage and free trade, while opposing protectionist policies for domestic industry and tying economic growth more closely to export expansion (Haque, 1999). These beliefs in comparative advantage and market principles, a minimalist state, and economic growth are evident in and expressed through concrete policy preferences such as the privatization of state enterprises, deregulation of state controls, liberalization of trade, elimination of import restrictions, encouragement of foreign investment, withdrawal of subsidies, and reduction of welfare programs (Stein, 2014). Neoliberal theory holds that a market-led economy is necessarily better than a government-led economy in terms of development. From the neoliberal theoretical view, market is compelled through competition to efficiently distribute capital, goods, and services, throughout the world compared to the government. Due to this competition, multinational corporations search the world for cheap, efficient labour, throughout the world offering employment to those people who would otherwise be worse off economically (Stein, 2014). They also provide potential for countries to raise the output of their exports, thereby allowing for an increase in gross domestic product. For these reasons, proponents of neoliberal reform recommend reducing barriers to foreign investment, especially foreign direct investment (FDI), through for example, the reduction of taxation on foreign companies, among other means (Lubliner, 2006).

It is worth noting that the idea of neoliberalism in SSA countries was initially implemented through Structural Adjustment Programs (SAPs) and subsequently reinforced by Washington Consensus (Haque, 1999; Bond, 2005). The neoliberal foundation of these SAPs is visible in their central policy prescriptions, including a reduction in the role of the state by privatizing and contracting out government enterprises and services; the weakening of the state's economic management by deregulating controls over pricing, marketing, investment, and finance; and the liberalization of trade and investment by reducing import tariffs, subsidizing export-led production, attracting foreign investors, and exempting foreign companies from taxes and labour codes (Haque, 1999). The Washington Consensus, which came into existence in 1989 employed many features and principles that were inextricably linked to neoliberalism. Specific policy recommendations within the Washington Consensus include a set of ten recommendations namely fiscal discipline; redirecting public expenditure; tax reform; financial liberalization; adoption of a single, competitive exchange rate; trade liberalization; elimination of barriers to foreign direct investment; privatization of state owned enterprises; deregulation of market entry and competition; and secure property rights (Naim 2000; Bond, 2005; Lopes, 2012).

One important and perhaps most debatable aspect of neoliberal policies relevant to the present study is the encouragement and creation of export processing zones (EPZs), discussed in the following section.

2.1.2.1 Development of EPZs in the neoliberal regime

Neoliberalism places emphasis on the deregulation of markets, particularly labour markets (achieved by weakening the influence of organized labour) and export-led growth strategies in generating economic growth and development (Steans, 2006). The export-led strategy, also used synonymously to outward oriented strategy or export-led industrialization strategy in the literature is intended to speed up the industrialization process of a country through exporting goods for which the country has a comparative advantage (Rahman, 2014). Export-led growth implies opening domestic markets to foreign competition in exchange for market access to other countries. Reduced tariff barriers, less control of the state, open market and government support for exporting sector are the key features of the export-led strategy. Export-led growth strategy in the neoliberal regime was accelerated by the Washington Consensus (discussed in section 2.1.2), and the international institutions such as the World Bank, IMF, and the World Trade Organization (WTO) work in favour of such a trade strategy as a fundamental pursuit of developed countries (Rahman, 2014). The focus of IMF strategies in the 1980s and 1990s was export-led growth combined with 'structural adjustment' mentioned previously (refer to section 2.1.2), hence, during this period developing countries were encouraged to follow this route, and the commitment to adopt this strategy became a condition to receive loans or aid from the International Financial Institutions (IFIs). The idea behind this is that producing for export increases efficiency and efficiency in labour leads to an increase in productivity (Steans, 2006; Rahman, 2014).

The shift to export-led growth strategies and policies to attract inward investment led to the setting up of Export Processing Zones (EPZs) in many developing countries including SSA region. As a tenet of export-led growth strategy, EPZs emerged from confluence of three factors: massive foreign exchange shortfalls[2], the search by international investors for cost-saving components in manufacturing, and the spread of neoliberal ideas that encourage open economies, foreign investment, and diversification of exports (Williamson, 1990, 1993). Therefore, it is the falling output from and demand for traditional primary product exports and foreign debts caused the crises that inspired EPZ development. As a tenet of neoliberal prescriptions, governments of developing countries were required to set aside territory (i.e. EPZs) specifically for the use of factories producing goods for the global markets (Steans, 2006). In this context establishment of EPZs was considered as a sign of the governments' adherence to the neoliberal philosophy of export-led growth strategy which International Financial Institutions and bilateral and multilateral donors support (Shamsie, 2009; Lacsamana, 2015).

Therefore, theoretically the concept of EPZ is strongly grounded in the export-led growth theory which assumes that producing for the export market can serve as an effective engine of economic growth (Quaicoe et al., 2017). This is mainly because the EPZ concept seeks to influence investors, especially foreign investors to locate in the zones or elsewhere in the economy (in case the country operates single factory EPZ scheme like Tanzania) to take advantage of favourable investment climate together with vastly generous tax and non-fiscal incentives in order to produce mainly for export in the hope that the domestic economy will benefit greatly by producing for the unlimited world market (Quaicoe et al., 2017). Similarly, Murayama & Yokota (2008) argued that the EPZs provide connecting links in the strategy of export promotion: firstly, they become a conduit whereby foreign capital could search for unexploited suppliers of cheap labour and enable the host country to connect to export markets; and second, the EPZ denotes a traditional policy stance in between import substitution and export-oriented industrialization. According to Murayama & Yokota (2008), the enclave nature

[2] Countries which operated ISI strategy experienced foreign exchange earnings shortage while East Asian countries which pursued alternative development strategies i.e. export-led growth and EPZ, flourished.

of the EPZs was considered as a middle ground enabling countries to draw benefits from integration into the international economy through liberalization and deregulation. For the same reasons, the EPZ model is attractive to IFIs and bilateral and multilateral donors, and hence, widely promoted because it conforms to their strongly held neoliberal assumptions that integration into global markets is associated to economic advancement and that trade and FDI lead to economic development (Shamsie, 2009).

Although policy instruments to promote export led growth strategy are not necessarily limited to EPZs (see for example, Karunaratne, 1980; Houck, 1991; Kokko, 2002; Weiss, 2005; Manu, 2009; Nimgaonkar, 2009; Mah, 2010; Belloc & Di Maio, 2011), EPZs have emerged as the main policy instrument for implementing the export-led growth strategy promoted under the neoliberal economic policies (Karunaratne, 1980; Amirahmadi & Wu, 1995; Virgill, 2009). Amirahmadi & Wu (1995), ILO (1998), Jayanthakumaran (2003), and UNIDO (2015) highlight that the EPZs have been an important component of several countries' export-led growth strategy and is possibly the most common mechanism in which export-led growth strategy has been implemented.

Nevertheless, despite the widespread adoption of the EPZ strategy in developing countries, some studies have shown that the implementation of EPZs under their current formulation, in which this strategy is implemented as a tenet of, and in line with neoliberal prescriptions will not promote the kind of industrial transformation that they are allegedly designed to promote due to some theoretical weaknesses inherent in the export-led growth strategy (Amsden, 2001; Alarakhia, 2012; Stein, 2012). This issue is, however, debatable and the debate persists. In what follows, theoretical difficulties on the application of export-led growth strategy and an EPZ as its policy instrument are reviewed.

2.1.2.2 Inherent theoretical flaws in the export-led growth strategy implemented under the neoliberal prescriptions

This section is devoted to analysing inherent theoretical difficulties which may impede the effectiveness of export-led growth strategy promoted under the current development strategy-neoliberalism. Export-led growth strategy is not without criticisms, potential risks and challenges. Despite the powerful arguments in its favour, export-led growth strategy has been criticised in the literature for its inherent inefficiencies that may hinder the achievements of the stated goals (Linnenmann et al., 1987; Palley, 2003; Inotai, 2013). As this study tries to understand why some countries have been successful with export-oriented industrialization strategy (with particular focus to EPZ strategy) while others have not, it is imperative to call attention to some challenges of such a strategy but without jeopardizing the supporting arguments. In addition to providing a balanced picture, it may as well provide useful insights on why some countries have failed to industrialize through EPZs.

The basis of criticisms centre around the economic and political implications of the policies needed to stimulate manufactured exports; the technological characteristics of the production processes in the export sector and the quality of employment generated in this sector; potential for the "race to the bottom" and related undesirable impact; the limited effect of such a strategy on creation of foreign exchange and employment; the budgetary implication; and the footloose nature of export activities the export-oriented strategy promotes (Linnenmann et al., 1987; Palley, 2003; Gkagka & Zarotiadis, 2011; Inotai, 2013). The Asian financial crisis that affected much of East Asia in 1997 and the global financial crisis of 2007-2008 have also challenged the utility of this strategy in recent times (Kokko, 2002; Nimgaonkar, 2009; Canuto et al., 2010; Hernandez & Razmi, 2011; Palley, 2011; Lim, 2014; Hsu, 2016). Some of these issues are also discussed elsewhere in this document.

It is argued that manufactured exports which export oriented industrialization strategy is designed to promote can be generated in low-wage economies only pursuing specific policies, i.e.by liberalizing the trade and investment regime or by creating a separate export enclaves that are specifically designed to attract foreign investment such as EPZs (Linnemann et al., 1987).

Moreover, it is claimed that (e.g. Palley, 2003) export led growth policy suffers from an inherent fallacy of composition whereby one country's attempts to improve domestic demand by increasing exports results in a reduction of domestic demand in the country it is exporting to (also discussed in 2.3.5.1). These countries compete with one and other to capture market share in the developed countries, and the problem of export led growth therefore manifests itself in the form of "export displacement." Developing countries are commonly placed in a rivalries situation against each other, and when one country manages to increase its exports it often does so by crowding out the exports of another developing country. This is the fallacy of composition as it applies to the developing world. Viewed in this light, export-led development may work when adopted by one or even a few countries, but it takes on a zero-sum dimension when all adopt the strategy (Palley, 2003)

As the success of export-led strategy is crucially determined by the level of competitiveness of the respective country (Inotai, 2013), export led growth strategy may, further to the export-displacement problem, lead to the “race to the bottom” (Palley, 2003). The argument implicated in the race to the bottom concept is that, in order to gain competitive advantage in international markets developing countries are forced to compete aggressively against each other across various measures, including offering overgenerous tax incentives and regulated work conditions (Palley, 2003). For example, it has been common that in order to attract foreign firms to take part in export oriented industrialization, developing countries especially non-competitive Sub Saharan Africa countries are forced to offer a favourable investment incentives, which turns out to be unfavourable for the government budget and for labour conditions (Linnemann et al., 1987; Inotai, 2013).

Further criticisms point to the over-dependency of export-oriented industrialization policies on foreign firms, external markets and externally designed trade and investment policies. Essentially, the structure and volume of production are highly determined by factors beyond the control of domestic decision makers (Linnemann et al., 1987). Also, export oriented industrialization may increase developing countries’ dependence on imported technology and restrain development of domestic technology capacity (Mukherjee, 2012). It is noted that, in the neoliberal approach to EPZs (EPZ is an important component or tool of export-led growth strategy) the main focus has been shifted from developing local industries to attracting FDI for industrial development. In this context, investment incentives in terms of, for instance, the access to working capital, tax incentives and duty drawbacks aimed at inducing these foreign investors act like subsidies leading to a loss of capital from the country (Amsden, 2001; Alarakhia, 2012).

Moreover, while the EPZs have lot of potential to earn foreign exchange for the balance of trade this has not been the common experience in most developing countries mainly because the neoliberal approach requires that there is no control on the mobility of capital (Amirahmadi & Wu, 1995; Alarakhia, 2012). Therefore as the companies in EPZS are foreign companies operating in a neoliberal environment, these companies have full privileges to repatriate all their earnings and profits out of the host economy therefore there is little or no contribution to the balance of payment challenges the country may be facing.

Another criticism concerns the quality of technology transferred. The pattern of specialization that results from an export-oriented industrialization strategy is at the lower end of the technology continuum. The nature of comparative advantage in developing countries and the nature of export activities performed explain this. Comparative advantage in developing countries is based on unlimited supply of unskilled labour and low-wage labour. Specialization is in labour-intensive and/or standardized production process. The contribution to the creation of a skilled labour force and to technological development is thus limited since such production is mainly a kind of non-complex assembly activity that is process-specific and routine-like. Possibilities for upgrading and shifting the comparative advantage towards more skill- and capital-intensive sectors are considered to be limited (Linnemann et al., 1987). There is ample evidence that the export-led growth pattern has remained on a low value added level of specialization and the respective economy has become the hostage of an increasingly outdated and less competitive production structure. Also, it seems that potentiality of export led growth strategy is limited to static effects instead of generating dynamic effect of competition as well (Zhelev & Tzanov, 2012). According to Inotai, (2013), this is a special problem if several countries compete with each other with similar comparative advantage, i.e. low-wage products.

It is also claimed that export-led growth, especially when implemented through export-processing zones (EPZs), leads to shallow development with weak linkages into the rest of the economy (Palley, 2003). This is explained by the argument that the open trade policy or export-enclave policy such as EPZs, specifically designed to stimulate manufactured export, particularly export-oriented FDI results in footloose export activities, dependent on imports of capital goods and intermediate inputs to be simply processed or assembled in order to qualify for an exemption on import duty and Value Added Tax (VAT). As a tenet of the neoliberal economic policies, the establishment of EPZs will encourage local industries to manufacture and provide inputs to EPZ firms; however it must be noted that the import intensive nature of EPZ production limits the potential of outsourcing to the local economy (Amirahmadi & Wu, 1995). Indeed, such an export sector has very few linkages with other manufacturing as well as with the rest of the economy (Linnemann et al., 1987). Footloose firms can easily shift activities to a different location if felt that investment climate is no longer in their favour.

Sustainability of export led growth is also constrained due to potential resistance and movements against trade liberalization among nationals addressing openness, liberalization, foreign ownership (FDI), international institutions (e.g. the World Bank and IMF) as having negative development and a real threat to national sovereignty (World Bank, 1992; Inotai, 2013) . According to Inotai (2013), it is this artificially generated social attitude, based on "freedom fighting" that may question the sustainability of export led growth than the trade deficit or different perceptions of gains and losses.

The contribution of export led growth on reducing unemployment is also challenged. According to Mukherjee (2012), although Asian tigers experienced almost full employment, for the most of developing countries the growth of manufacturing exports is unlikely to reduce unemployment satisfactorily as manufacturing exports constitute a small portion of total manufacturing production. A further discussion about the obstacles and conceptual limitations of the EPZ is presented in sub-sections 2.3.2 and 2.3.3 of this Chapter.

2.2 A review of the rationale and impact of Export Processing Zones

A first sub-section of this section provides a definition and a few typologies of EPZs. It also discusses the key differences between EPZ and other typologies. The rationale of establishing EPZs is presented in the second and third subsections, in which, the major goals of countries who establish them are discussed. In particular, potential benefits of EPZs to investors and host countries are reviewed respectively. A fourth sub-section discusses some evaluation criteria used to define success or failure of an EPZ. The last sub-section presents an overview of success of the EPZs worldwide. Here the actual experiences of EPZs in terms of meeting claimed objectives are reviewed.

2.2.1 Definition and typology of EPZs

Different names have been adopted by different countries throughout the world to denote their EPZs or similar zones. The common terminologies that have been used include "industrial free zone" and "export free zone" in Ireland, "duty free export processing zone" and "free export zone" in South Korea, "free zone" in the United Arab Emirates, "export processing zone" in the Philippines and SSA countries, "special economic zone" in China, "investment promotion zone" in Sri Lanka, "foreign trade zone" in India, "industrial development zones" in South Africa and "maquiladoras" in Mexico. Another frequent reference is "free trade zones" (Kusago & Tzannatos, 1998).

Although each of these concepts evolved to address differing objectives, markets, and activities, references to some of these terminologies, such as special economic zones, free zones, free trade zones and EPZ are used interchangeably in different countries. Similarly, when discussing about EPZs, a wide variety of these terminologies are often used interchangeably through most of the literature (Madani, 1999; Engman et al., 2007; Stein, 2012). Supporters to this grouping (e.g. Johansson, 1994) contend that the general concept of all these terminologies is basically the same. This section defines and differentiates some common typologies of zones. This is important given the extent of imprecision in the use of the EPZ concept in the literature (Stein, 2012). Also, the distinction is crucially important given that Tanzania operates traditional fenced-in EPZs along single factory EPZs and SEZ and is considering introducing a free port zone following recent discovery of deep sea oil and gas around Mtwara port. The definitions of selected types of zones are given next.

2.2.1.1 Export processing zones

Frequently cited definitions of EPZs are distinguished from the rest of the types of zones through their universal features which include references to "geographic or fenced in areas" and "free trade conditions" to attract "export-oriented manufacturers" (Engman et al., 2007). Frequently cited definitions of EPZs include the following.

UNCTC and ILO (1988) view EPZ as an industrial estate which constitutes a free trade enclave in which foreign firms producing mainly for export enjoy from certain fiscal and financial incentives. This definition emphasizes on attracting foreign firms for export purpose. This constitutes economic rationale for establishing EPZs.

World Bank (1992:7) defines an EPZ in terms of its size and enclave nature, stating that "an export processing zones is a fenced-in industrial estate, about10 to 300 hectares in size, producing for export in a free trade conditions and liberal regulations." ICFTU (1996) describes an EPZ within the array of demarcated industrial zone; free trade enclave outside a country's normal customs and trading systems; export targeting production; and availability of tax and other financial and non-financial incentives to foreign enterprises.

McIntyre et al. (1996:436) describe an EPZ as "a territorial or economic enclave in which goods may be imported, stored, repacked, manufactured, and reshipped with a reduction in duties and/or minimal intervention by customs officials". Another universally agreed EPZ definition is Madani's definition which comprehends an EPZ as "a fenced-in industrial estate specialising in manufacturing for exports that offer firms free trade conditions and a liberal regulatory environment" (Madani, 1999:5).

The definition presented by ILO (2003) underline the industrial nature of EPZs, presence of special incentives, intention of attracting FDI, and value addition before export. According to the recent World Bank definition, EPZs are industrial estates offering special incentives and facilities for manufacturing and related activities aimed mostly at export markets (FIAS, 2008).

Engman et al. (2007:11) define EPZs from a policy perspective as "a government policy to promote exports of goods and/or services by offering a more competitive business environment through provision of special incentives including in particular tariff exemptions to inputs either in a geographically defined area or through a specification process". This definition reflects both traditional "fenced-in" zones (industrial parks) and single factory EPZs (single factory units or stand-alone).

Although in their descriptions these definitions frequently refer to "industrial estates", "fenced-in industrial estates", "economic enclaves" and "geographically demarcated area", in practice the concept of the EPZ has also broadened in ways that have overcome the physically closed nature of the enclave. Currently, single-factory EPZs, also known as single factory units or stand alone are also counted as EPZs by ILO (Engman et al., 2007; Murayama & Yokota, 2008; FIAS, 2008; Stein, 2012; Farole, 2010). These are single firm units operating as if they were EPZs (FIAS, 2008). Thus, they are usually enacted and governed by the EPZ Act, hence, assigned the status of EPZ firms. They are generally not restricted to any specific area in a country; the EPZ Act provides incentives to these individual enterprises regardless of location; factories do not have to locate within a designated zone to receive incentives and privileges (FIAS, 2008; Farole, 2010). In Hong Kong, Singapore, Mauritius, Madagascar, Mexico and Fiji, EPZs have been extended to the entire territory and, as such, represent typical examples of countries relying exclusively on a single factory scheme (UNCTC & ILO, 1988, 2003; Boyenge, 2003; 2007; FIAS, 2008). Other countries such as Costa Rica, the United States, Sri Lanka and most SSA countries including Tanzania, Ghana, Senegal, and Kenya allow both industrial estate-style zones and single factory designations (FIAS, 2008; Farole, 2010). In China, EPZs (SEZs) have been extended to "entire cities and regions" (UNCTC & ILO, 1988).

Also, some countries have adopted a more flexible stance with regards to the activities carried out in EPZs and allow extension from earlier assembly and simple traditional processing to high-tech science parks, logistics centres and even tourist resorts (Murayama & Yokota, 2008). Moreover, whereas these definitions insist that the production in EPZs is exclusively for export, modern EPZs often have more flexible rules with regard to export restrictions (Engman et al., 2007). Some countries have adopted a more flexible stance with regards to such sales and allow some percent of the EPZ production to be sold on the domestic market after appropriate import tariffs on the final goods are paid. For instance, Dominican Republic allows up to 20 percent of the EPZ products into its domestic market while Mexico lets 20-40 percent in domestic market (Madani, 1999). Tanzanian EPZ law allow for domestic sale to a maximum of 20 per cent of gross exports.

In addition, these definitions highlight that EPZs provide liberal and flexible policy environments to attract foreign investment. While in some countries EPZ firms can be domestic, foreign or joint ventures, FDI is generally the target. This is especially true given the importance of FDI in facilitating export-oriented growth, and also the fact that investment climates in most developing countries are not friendly to investors, in particular to the establishment of export industries (Farole, 2010). Accordingly, business policies and regulations needed to be streamlined in the EPZs with a view of creating investment climate favourable to the development of export industries with foreign participation. Moreover, multinational corporations are often targeted in EPZs because of their potentiality to offer access to market information, distributional channels, and international marketing skills that are not available to domestic firms (Virgill, 2009).

2.2.1.2 Free Trade Zones (FTZs)

Free trade zones are described as small, fenced-in, duty-free areas, offering warehousing, storage, and distribution facilities for trade, trans-shipment, and re-export operations, located in most ports of entry around the world (FIAS, 2008).

They are spatially defined areas, often next to a port where unrestricted trade is permitted with the rest of the world. Merchandise may be moved in and out of the FTZs free of customs, stored in warehouses for varying periods and repackaged as necessary. Goods imported into the host country pay the requisite duty. FTZs provide rapid delivery opportunities while removing the interest costs of custom payments (Engman et al., 2007).

A crucial difference between free trade zone (FTZ) and an EPZ is that, while both are created by a special customs regime, the FTZ aims mainly at the encouragement of free trade in finished products and commodities, while the EPZ is specifically concerned with encouraging export-oriented manufacturing investment (Muchlinski, 2011). This is, however, not to suggest that aspects of a free trade zone cannot coexist with an EPZ.

2.2.1.3 Free ports

Free ports on the other hand are generally a much broader concept and typically encompass much larger areas. They accommodate all types of activities, including tourism and retail sales, permit people to reside on site, and provide a much broader set of incentives and benefits (FIAS, 2008).

2.2.1.4 Special Economic Zones

Special Economic Zones (SEZs) is a generic term encompassing many of the features found in other types of zones such as EPZs, free trade zones and free ports. SEZ investors usually enjoy many of the benefits of firms in EPZs, but also have features which differ from other zones including a diversity of economic activities that have drawn foreign investment into agriculture, manufacturing, construction, communications, trade, catering, housing, public utilities and other services like finance and tourism (Stein, 2012). The differences between EPZs and SEZs are summarized in Table 2-1.

Table 2-1: Differences between EPZ and SEZ

EPZ	SEZ
Exclusively manufacturing for export	Covers a wide range of allowable activities, i.e. involves investment in all sectors
FDI is the main target	Focus on attracting both, FDI and domestic investment
Export at least 80% of the products	For both export and local market
Can be single factory unit (stand alone)	Business must locate in the zone (industrial park)

For the purposes of this study, a more inclusive definition of EPZs will be adopted as the Tanzanian EPZ regime allows both industrial parks-style EPZs and single factory units. Also, the EPZ regime in Tanzania targets both, foreign and local investors. This definition will include traditional "fenced-in" EPZs and/or accompany operating as single factory unit, intended to attract both local and foreign investors. The definition excludes SEZs, and free trade zones.

2.2.2 Neoliberal view on the rationale for the development of EPZs

Creation of EPZs is intended to make an otherwise unattractive countrywide location attractive (Yücer & Siroën, 2016). Due to limited resources and implementation capacity, developing countries often cannot create the business environment, or build enabling infrastructure nationwide all at once (Zeng, 2016). This makes targeted interventions or a pilot approach necessary. It is presumed that EPZs are able to create a better business environment in a geographically limited area, through a more liberal legal and regulatory framework, efficient public services, and better infrastructure within the zone, including better roads, power, water, and wastewater treatment (Zeng, 2016). Specifically, EPZs aim to overcome barriers that deter investment in the wider economy, including unfavourable policies, poor governance, inadequate infrastructure, and problems related to the access to land (Farole, 2010). Farole (2010:9) summarize policy and an infrastructure rationale for developing an EPZ as follows. First, EPZs are designed to overcome serviced land and infrastructure constraints that may hinder investment in the national economy by providing investors access to long-term leases, prebuilt factory shells, and reliable utilities (electricity, water, telecommunications). Second, EPZs normally aim to improve the overall administrative environment[3], particularly with regard to the procedures required to register a business, acquire the licenses required to operate, obtain visas and work permits, and access key services like utilities and construction. This is often facilitated through the establishment of "single window" or "one-stop shop" services, whereby the zone authority will be a single point of contact to arrange the delivery of these administrative services through coordination with the relevant government agencies. Finally, another important component of the administrative services offered in zones is a privileged and accelerated customs administration. Such services often involve the stationing of customs officers inside the zone (or the factory in case of a single factory unit) to offer on-site clearance in order to speed up import and export procedures. It is usually also combined with a range of other advantages, including the ability to move and hold goods in bond as well as the removal of financial requirements for bonded and duty-free inputs. The basic rationale is that by removing some critical binding constraints to economic growth, EPZ policies create incentives for firms and investors that might not otherwise be attracted (Rodrik, 2004; Zeng, 2016). Some studies such as FIAS (2008) argue that "infrastructure rationale" is

[3]Administratively, most EPZs attempt to protect investors from direct interaction with the countrywide bureaucracy by setting up "one-stop-shop" services, whereby the EPZ administration plays a central role in coordinating all regulatory requisites between the investors and the various government ministries and agencies (Farole, 2010).

one of the most important driving forces behind EPZ establishment in infrastructure-poor countries.

In addition to the enhanced infrastructure, streamlined customs and administrative controls and procedures, studies such as Madani (1999), FIAS (2008), Lang (2010) Farole (2010) and UNCTAD (2015) have also identified that the typical EPZ policy package includes import and export duty exemptions, liberal foreign exchange policies, and tax holidays—all aimed to improve an investment's competitiveness and reduce business entry and operating costs. Compared with firms in the rest of the economy, EPZ firms benefit from a variety of incentives aimed at attracting investors. They usually benefit from duty-free (sometimes unlimited) imports of raw materials, intermediate input and capital goods necessary for the production of exports. They are also exempted from paying Value Added Tax (VAT) on the same imports. In addition, liberal and relatively long-term tax holidays are given to the EPZ firms. They are particularly exempted from paying corporate tax and withholding tax on dividends, interests and rent for a specified period, in most cases, ten years. In addition, foreign firms in EPZs are allowed to unconditional repatriation of profits, dividends, royalties, and capital in hard currencies. Foreign exchange controls are relaxed whereby investors have the right to keep and manage foreign currency. It is also common for the government to subsidize utilities and rental rates for the lease of land and buildings. Also, labour laws are more flexible for the firms in EPZs than in the domestic markets (Yuan & Eden, 1992; World Bank, 1992; Madani, 1999; Farole, 2010). Some studies such as Lang (2010) reveal that some governments or export processing zones' operators may also provide assistance for education and training or direct financial subsidies to firms operating within EPZs based on their performance.

2.2.3 Potential benefits of EPZs to the host country

As part of the core tenets of the neoliberal economics, the shift to export-led growth strategy and policies to attract foreign direct investment required developing countries to set up EPZs. The neoliberal theory encourages EPZs for a number of reasons which are discussed in the following sub-sections. Whereas the preceding section has addressed the advantages that EPZs offer to the investors, the current section looks onto the potential benefits to the host country. It addresses the crucial question-why might a country wish to establish an EPZ. A framework proposed by Gibbon et al. (2008) for assessing the impact of EPZs is used. According to Gibbon et al. (2008), it is advisable to review the impact or benefits of EPZs based on the main policy objectives often used to justify their establishment. The potential benefits of EPZs are often divided between the immediate benefits or direct impact (also known as static gains) and the long-term benefits or indirect impact (dynamic gains) (Papadopoulos & Malhorta, 2007; Milberg & Amengual, 2008; Farole, 2010; Warr, & Menon, 2015). The immediate benefits from EPZs include FDI generation, employment creation, and increasing and diversifying exports (refer to sub-sections 2.2.3.1 to 2.2.3.4 for detailed discussions). Indirectly, an EPZ contribute to the diffusion of technologies, know-how and skills. This latter contribution entails impact created to the host economy through transfer of technology, skills upgrading, and through linkages with the host economy. This indicates that EPZ's indirect contribution (i.e. dynamic gains or outcomes) occurs through spillover and linkage effects (Milberg & Amengual, 2008). These policy objectives are also sources of possible indicators by which to measure success or effectiveness of an EPZ (FIAS, 2008; Gibbon et al., 2008; Farole, 2010). In what follows, is a detailed discussion of the EPZ's potential benefits as claimed under neoliberal theoretical view.

2.2.3.1 Attracting FDI

Following adoption of the neoliberal economic reforms, most developing countries eliminated the restrictions and regulations which were in place on FDI in the ISI regime and now, under export-led growth strategy are welcoming and competing to attract FDI (Chudnovsky & López, 1999). EPZs provide an important link in this and the advocates of neoliberal logics often argue that attracting investments that would otherwise not materialize is the foremost objective when establishing EPZs (Gibbon et al., 2008; Milberg & Amengual, 2008; Vastveit, 2013). As such, the thinking behind why EPZs are established on an economy rests generally on the idea that EPZs are potential in attracting FDI and its anticipated benefits. Developing countries establish EPZs anticipating that they will attract export oriented FDI that otherwise would not have been possible (Milberg & Amengual, 2008; Sawkut et al., 2009). In the absence of domestic capital and expertise in non-primary export sectors in most developing countries, attracting FDI in EPZs is therefore a necessary first step on the way to generating desired growth levels in the economy (Gibbon et al., 2008). An inflow of

FDI not only increases investment in the country, but foreign investors are also expected to bring skilled labour and the technology needed for production. Thus, the long-term logic of EPZs is that foreign investments have the ability to create much-needed transfers of skills and technology, fostering local spin-offs, increasing knowledge of how to enter the global market, and improving access to international distribution channels (Vastveit, 2013).

Literature (e.g. Vastveit, 2013) demonstrates that in distorted, low income countries lacking industrial capability like those found in Sub-Saharan Africa, FDI which EPZs aim to facilitate is expected to initiate export-led industrialization by accumulating knowledge to the country. FDI involves the inflow of capital and is often associated with the transfer of expertise and technology that would not otherwise be available in the host economy (Virgill, 2009). FDI, then, can potentially affect economic growth by increasing productivity within an economy and increasing and improving the quality of both physical and human capital needed to stimulate industrialization (Virgill, 2009). An inflow of FDI, hence, both reduces the gap between domestic savings and the desired level of investment in the host country, and the gap in knowledge between developing and developed countries (Vastveit, 2013).

As an addition to the foregoing arguments, the promotion of FDI is usually part of a neoliberal policy regime on the belief that more foreign control of productive assets will have spillover effects in the host country. The proponents of neoliberalism idea argue that as developing countries usually have limited access to capital, technology and skills, an important function of FDI is to provide capital for economic development to these countries. Further to this, it is anticipated that attracting FDI (through multinational corporations) to the host countries will provide domestic firms with access to global marketing and distribution channels (Seeraj, 2008).

Despite the potentials claimed on behalf of FDI, the role of FDI and the actual long term effect of FDI on EPZs are still debated in the literature. The arguments against long term potential of FDI primarily focus on the risk host countries may experience if they become heavily dependent on FDI. It is frequently argued that EPZs attract mostly short-term, ‘footloose’ FDI (Vastveit, 2013). These are not tied to a location and can easily relocate if better conditions appear elsewhere. That is, they can react almost immediately to unfavourable investment climate in the host country and shift their production facilities or parts thereof to another country if the present investment environment changes to their disadvantage (Caves, 1996; Gorg & Strobl, 2003).

According to Gorg & Strobl (2003), the assumption of multinationals being inherently footloose is based on the nature of multinationals, as only production processes that are easily transferable between countries can profitably be located abroad. This makes it easier for MNCs to move production from one host country to another than it is for the average local firm in the host country to relocate production (Gorg & Strobl, 2003). This is a major challenge for introducing FDI focused EPZs as countries are forced to continually compete with each other resulting always to the 'race to the bottom' where countries try to reduce the cost of production in their EPZs in an effort to make them more attractive (Amirahmadi & Wu, 1995). Moreover, given the footloose nature of these investments, the possibility of long term benefits to materialize is low as it requires substantial length of time for them to occur.

2.2.3.2 Foreign exchange earnings potential

Foreign exchange earnings represent one of the main benefits expected from an EPZ (Madani, 1999; Lang, 2010). Generation and improvement of the host economy's foreign currency earnings base is thus frequently cited as a major objective behind establishment of an EPZ (Gibbon et al., 2008). This is expected to occur primarily from increased exports but may also come indirectly from the initial FDI injected to domestic activities such as construction and acquisition of machinery and equipment. The foreign exchange earnings are then expected to improve the balance of payments position, thereby relaxing probable macroeconomic constraints (Gibbon et al., 2008).

Despite the fact that the EPZs have lot of potential to earn foreign exchange for the balance of payment this experience has not been widespread in most developing countries (Warr, 1989; Amirahmadi & Wu, 1995; ILO, 1998; Madani, 1999; Alarakhia, 2012; Vastveit, 2013). The reason for this is that, as the neoliberal approach to export-led growth and EPZ strategy requires no control on the repatriation of earnings and profits out of the host country, there is little or no contribution to the balance of payment (Amirahmadi & Wu, 1995; Alarakhia, 2012). This phenomenon was also revealed in the theoretical difficulties on the application of export-led growth strategy discussed previously in section 2.1.2.2. It is often argued that EPZs contribute little or no foreign exchange earnings as most EPZ firms are international manufacturing firms that tend to buy few local goods, instead import most of their raw materials and then export the finished goods, as such, the end result is often that the net foreign exchange earnings is much lower than originally expected (Warr, 1989). In addition, when these EPZ firms are foreign firms, profits are repatriated out of EPZ host countries, hence the earning potential is further reduced (Alarakhia, 2012). This is especially true when EPZ firms are foreign based firms because EPZ incentives normally provide for full repatriation of profits (Vastveit, 2013).

With the current trend where EPZs essentially focus on attracting FDI, the problem is likely to persist. Developing countries are struggling to attract FDI as the major type of investment in EPZs as these foreign firms will bring with them advanced technology and know-how that will contribute to the diversification of the industrial sector. Domestic firms are less preferred because they lack these potentials. Therefore as the foreign companies invested in EPZs have full privileges to repatriate all their earnings and profits out of the host economy, there is little or no contribution to the balance of trade constraints the country may be facing (Alarakhia, 2012).

Accordingly, heavy reliance on foreign investors in EPZs is unlikely to maximize the foreign exchange earnings potential; as such a balance between domestic and foreign investors in EPZs is recommended as this will retain foreign exchange earnings generated by domestic firms (Jayanthakumaran, 2003).

2.2.3.3 Diversification of export base

Export growth and diversification is another important consideration when establishing EPZs from the point of view of risk mitigation, particularly as regards reducing dependency on primary commodities which can be subject to significant global price volatility (Gibbon et al., 2008). With the introduction of EPZs governments expect to shift away from reliant on unprocessed agricultural products based economy to an economy reliant on (industrial) manufactured goods that have higher and more stable global market prices and are not vulnerable to weather conditions (Alarakhia, 2012).

However, experience has shown that EPZs often tend to be dominated by just a few industries. Textiles and electronics have historically been the dominant sectors within EPZs (Jenkins et al., 1998; Madani, 1999; Jauch, 2006; Adala, 2008; Burgaud & Farole, 2011; Engman, 2011; Vastveit, 2013) although such trend is absent in most African EPZs (Farole, 2010). Agro processing and 'other manufacturing' activities are dominant in African EPZs. Some EPZs also produce for a single market making the country highly susceptible to changes in market access and preferences (ILO, 1998). Moreover, some EPZs especially in SSA depend on exploiting specific foreign market opportunities accessed through donor programs like the AGOA (Africa Growth and Opportunity Act) and the phased out Multi-Fibre Agreement (MFA).

2.2.3.4 Job creation

The reduction of unemployment is considered one of the primary goals and one of the most important contributions of any EPZ to the host economy, especially where urban unemployment or informal sector activity is high (Gibbon et al., 2008). These EPZs are intended to provide large scale employment in labour surplus countries (Kusago & Tzannatos, 1998). Thus with EPZs it is expected that a large number of jobs will be created; those employed will be provided with income (wages and salaries); the government will get some revenue from tax on employment income; and the employees will have the opportunity to develop their industrial skills.

However the issue within the discussion on employment in EPZs concerns the quality of the jobs being provided and the potential for skills upgrading (Madani, 1999; Alarakhia, 2012). Most activities performed by local employees in EPZs are low-tech and do not require any soft skills relevant for the development of industrial sector. Moreover, although EPZs have created jobs and absorbed surplus labour in some host countries, employment in EPZs constitute only a small fraction of the labour force in these countries. For instance, Madani (1999) noticed that, in the Philippines in 1997 EPZs employed nearly 183,709 workers. According to Madani (1999), even though this number was impressive, it only represented 0.59 percent of the 30.88 million in the labour force that year. Moreover, contrary to the expectation that EPZs were established to address widespread male unemployment in many of the developing countries, majority of the jobs in the EPZs are held by female employees (Madani, 1999).

Potential tax revenue from employment in EPZs is limited as most EPZs pay minimum salary usually exempted from taxation.

2.2.3.5 Technology and skills transfers

Frequently cited indirect potential benefits of the EPZs concern the diffusion of technologies, know-how and skills from the foreign companies in the zones to the domestic companies. Transfer of technology from EPZ firms to the local economy can be embodied in physical assets such as machinery or intangible assets namely patent rights (Gibbon et al., 2008). In particular, FDI in EPZs are expected to engender transfer of technology to domestic firms and upgrading the skills to local workers. In turn these may improve productivity by generating positive spillovers for the domestic economy, such as creating workforce trained in modern manufacturing that can subsequently be employed by domestic firms (Gibbon et al., 2008).

The expected knowledge would be transferred through human capital only if skills acquisition and transfer take place. As FDI by multinationals in EPZs demand relatively skilled labour in the host country, they are likely to upgrade the existing local labour through training. The training is considered effective if it affects all levels (from lower to management levels), and most important, when labour movement (labour turnover) is high. Labour movement or turnover (or transfer) is when a trained or high skilled employee, usually trained at managerial level move from a foreign firm in EPZ to local firm either in EPZ or outside EPZ, or open own firm (Jenkins et al., 1998). In this way, managerial knowledge and labour skills will diffuse to domestic firms when recruited labour especially for the positions in the management, professional tasks, research and development leave the foreign firms in the EPZs and join or establish local firms (Jenkins et al., 1998; Madani, 1999; Alarakhia, 2012). However, experience from various studies (see for example, Madani, 1999; Engman et al., 2007; Milberg & Amengual, 2008; Virgill, 2009; Farole, 2010, 2011; Vastveit, 2013) show that, although skills transfer has occurred, it has not been an across the board phenomenon. Factors which have hindered the effective transfer of technology include the following. First, activities in EPZs for the most part are labour intensive, dominated by low-tech manufacturing and assembly firms with limited access to advanced technology which requires sophisticated skills (Madani, 1999). EPZs' production processes tend to be simple in order to make the most of cheap labour in the host countries. The implication is that there is little knowledge involved to be transferred as EPZ activities are commonly labour intensive (Baldoz et al., 2001; Alarakhia, 2012).

Second, while studies, such as Fosfuri et al. (2001) support that the chances for technology transfers to occur are generally high when on-the job training takes a general focus rather than being specific, and when the absorptive capacity of the domestic firms is high, training offered in EPZs is often limited to a specific task and not easily transferable, or applicable in the domestic economy context (LaRRI, 2000).

Third, skills upgrading is also limited as foreign investors in the EPZs often prefer using their own nationals in managerial and technical positions, possibly to avoid the costs of training and to maintain greater flexibility to locate production (Jauch & Keet, 1996). Training on management and advanced technical skills tend to only happen on a small scale, with little effect on the improvement on skill levels (Kusago & Tzannatos, 1998). In addition, Research and Development (R & D) activities are likely to be retained within foreign companies' home countries when FDI is located to countries with low-cost labour. While most transnational corporations (TNCs) and multinational corporations (MNCs) which locate FDI in developing countries do conduct R & D activities, this research is commonly conducted in the home country. Therefore, the effect of R & D activities does not commonly impact the local host economy (Amirahmadi & Wu, 1995; Alarakhia, 2012). Warr (1989) noticed that foreign firms keep R & D activities and high-tech production processes at home in order to protect their high-tech secrets. This limits the transfer of advanced technical skills to the developing country (Wu, 2009).

However, according to some studies (e.g.Vastveit, 2013), some EPZ operating countries other than the Asian Tigers have benefited from the diffusion of know-how and skills transfer from the foreign companies in the EPZs. For example, it is argued that the substantial growth in apparel production in Bangladesh in the 1980s was embedded in knowledge leakages from South Korean investors. According to this finding, local workers learned how to produce textiles at a low cost, and how to enter the world market. It is further informed that, workers trained by South Korean investors ultimately set up their own apparel-export firms, contributing to significant growth in manufacturing (Easterly, 2002; Vastveit, 2013). Transfer of knowledge also had substantial effect on domestic firms engaged in textile industry in Mauritius, contributing to an increase in manufacturing and economic growth in the country (Vastveit, 2013). Accordingly, the governments in the developing countries should aim to expand the opportunities and the capacity of domestic firms to learn from EPZ firms (Warr, 1989; Liu, 2008; Omar & Stoever, 2008). Productivity from spillovers from FDI depends on the extent, durability, and quality of linkages between foreign investors and the domestic economy (Vastveit, 2013; Winkler, 2013).

2.2.3.6 Establishment of backward linkages with local economy

Another potential way in which the EPZs are intended to benefit the host economy is through the establishment of backward linkages between the firms within the EPZs and those in the local economy (Alarakhia, 2012). By attracting foreign firms in the host economy, EPZs may stimulate domestic primary producing-activities through backward linkages created by the processing activities of EPZs (Din, 1994; Madani, 1999; Engman et al., 2007; Gibbon et al., 2008; Farole, 2011; Vastveit, 2013). Generally, backward linkages refer to the inter-industry transactions and relationships between foreign subsidiary and local suppliers in the host economy that have the potential for spillover effect (Blomström & Kokko, 1998; Scott-Kennel, 2007). For EPZs, backward linkages refer to the use of local raw materials and intermediate goods by the EPZ firms (Alarakhia, 2012; Vastveit, 2013).

The theoretical EPZ models (e.g. Din, 1994) suggest that under certain conditions, the establishment of EPZs will encourage local industries to manufacture and provide inputs. That is, expected backward linkages can stimulate the production of intermediate inputs in the local economy, which in turn, increase national income and welfare (Din, 1994). However, it is frequently argued that the import intensive nature of EPZ production limits the development of backward linkages (Amirahmadi & Wu, 1995; Alarakhia, 2012; Vastveit, 2013). In absence of import ‘restrictions’, the potential for outsourcing from the local economy is low given that EPZ imports are duty-free. In trying to realize the linkage, some governments often impose a limit on import to ensure that a certain proportion of local content is present in the total materials used in the EPZ production.

In addition to stimulating intermediate-input-producing sectors, backward linkages may serve as a conduit for the transfer of technology, acquisition of knowledge, demonstration effects, and other potential FDI spillovers (Jenkins & Arce, 2016). Blomström & Kokko (1998) describe FDI spillovers[4] as a broad category that encompasses many productivity spillovers occurring through various indirect sources. These are the outcomes or impact in terms of productivity or efficiency benefits to the host country's local firms due to changes or effects brought by foreign presence in the local economy (Blomström & Kokko, 1998; Smarzynska, 2002). The FDI literature provides that backward linkages might create spillovers through several mechanisms but most potential is when FDI enterprises provide training and technical assistance to their local suppliers and subcontractors (Blomström & Kokko, 1998; Smarzynska, 2002; Kugler, 2006). In particular, this may happen when foreign investors transfer knowledge directly to local suppliers; set higher requirements; and trained employees move to the local suppliers. The implications of this literature are highly relevant for EPZs since one of the EPZs' primary objectives is to attract FDI and foreign firms' operations are expected to account for a large fraction of EPZ activity (Jenkins & Arce, 2016).

Foreign firms often have stricter requirements regarding product quality, delivery times, and offering prices. These requirements often demand productivity increases, knowledge acquisition, and technology upgrading in domestic producers and suppliers of inputs to foreign firms in EPZs (UNCTAD, 2006; Jenkins & Arce, 2016). As a result of this, foreign presence in EPZs can potentially improve the productivity of domestic firms since prospective local producers of intermediate inputs will be required to upgrade quality, improve efficiency, adopt new technologies, and reduce costs and delivery times in order to become suppliers of inputs and services to firms in EPZs (UNCTAD, 2006).

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[4]Entry and presence of MNC affiliates through FDI may bring effects or changes that are likely to cause various types of spillovers that may lead to productivity gain in local firms (Blomström & Kokko, 1998). FDI spillover effects, or spillover impact encompass effects related to presence of linkages, technology diffusion and transfer, competition, and skills acquisition and transfer. FDI spillovers are described as the outcomes from foreign firms' activities and the simultaneous adjustment of domestic firms' behaviour (see Blomström & Kokko, 1998; Kugler, 2006).

Although backward linkages between EPZ firms and domestic suppliers have taken place, its level and extent is enormously variable and, zone and country specific (Madani, 1999). It is often argued that this is one of the areas where the EPZs have fallen far short of expectations (Madani, 1999; Virgill, 2009**)**. There might be several factors which have contributed to the ineffectiveness of EPZs in creating backward linkages but frequently cited factors include import intensive EPZs' operations encouraged by duty-free incentive; weak or non-existent physical infrastructure; domestic firms' lack of absorption capacity; inability of local suppliers to deliver high-quality goods and services at internationally competitive prices; and the changing industrial composition of the EPZ. The trade policies of the foreign firms' home countries, encouraging use of their own raw materials and intermediate goods, is also seen as limiting the creation of backward linkages in the host country (Madani, 1999; Engman et al., 2007; Milberg & Amengual, 2008; Vastveit, 2013; Jenkins, 2006; Jenkins & Arce, 2016).

2.2.4 Defining success and effectiveness of an EPZ

Whether an EPZ initiative has been effective, some evaluation criteria to measure the contribution that EPZs have made to the host country are needed. According to Gibbon et al. (2008), a framework for thinking about the effectiveness and impact of EPZs as a policy instrument is based on the policy objectives often used to justify their establishment. As noted in section 2.2.3, these policy objectives are sources of key indicators by which to measure success or effectiveness of an EPZ (FIAS, 2008; Gibbon et al., 2008; Farole, 2010). The proximate measure of success of an EPZ program is the investment it attracts (Farole, 2010). Developing countries establish EPZs anticipating that they will attract export oriented FDI that otherwise would not have been possible without EPZs (Milberg & Amengual, 2008; Sawkut et al., 2009). Investments within the EPZs are therefore critical for the EPZ initiative to be able to create any impact on the host economy. Success or failure of the EPZ initiative is primarily determined by its ability to attract investments and by its effects on exports and employment. The extent to which sourcing by EPZ firms is done locally is also a critical factor in determining their contribution to host country economic performance (Din, 1994; Jenkins, 2006; Gibbon et al., 2008). Improved human capital and productivity through knowledge and technology transfers are furthermore of interest (Vastveit, 2013). While most studies concentrate on these economic measures of performance and impact of EPZs, in certain studies such as ILO (1998, 2008); Engman et al. (2007), and Milberg & Amengual (2008) success of EPZs is also defined in terms of quality of jobs created and the working conditions in EPZs. Hence, in this study, success or effectiveness of an EPZ initiative is viewed in terms of economic impact as defined above and, as it is reflected under section 2.2.3. Thus, success or effectiveness is taken to mean the extent to which the EPZ initiative stimulates investment, generate employment and export, enhances transfer of technology and knowledge, and fosters development of backward linkages.

2.2.5 The overview of success of the EPZs worldwide

This section provides a global overview on how successful EPZs have been as a whole in meeting its objectives. The review addresses four major issues related to economic impact of EPZs: has the EPZs attracted a sufficient investment especially foreign investment? Has that investment created the desired employment effect? Has the investment expanded exports and increased foreign exchange earnings? Finally, has the investment (through EPZs) brought about broader dynamic consequences which are expected to occur through spillover and linkage effects?. As introduced in section 2.2.2, the neoliberal approach to EPZ claim that adoption of export-led growth strategy, implemented through establishment of EPZ would result into these benefits. The economic performance and impact of EPZs in developing countries have been evaluated in numerous studies (FIAS, 2008). As might be expected from these various studies, the impact of the EPZs on the local economy worldwide is quite mixed with some countries quite successful and others still struggling (ILO, 2008; Lang, 2010; Farole, 2011; Zeng, 2015). Further to this, Farole (2011) demonstrates that while many EPZs have failed to meet their objectives satisfactorily, there are a number of examples of EPZs contributing considerably to the generation of foreign direct investment (FDI), exports, and employment, and in playing a role in industrialization and upgrading. Most of these successful EPZs are mainly in East Asia (e.g. the four Asian Tigers, China, and the Tiger cubs)[5] but also are concentrated in some Latin American countries (e.g. the

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[5] Tiger cubs refer to the four Southeast Asian economies of Indonesia, Malaysia, Thailand, and the Philippines.

Dominican Republic, Costa Rica, and Mexico). The consensus in the literature is that, with exception of Mauritius, the EPZs in SSA have generally underperformed against almost all their objectives (Farole, 2011; Baissac, 2011).

On a global basis, the impact of EPZs appears to be relatively small, but it has been growing rapidly during the past two decades. Evidence suggests that, for both, low and middle income EPZ countries, EPZs can play a particularly substantial role in terms of generating investment and exports, although their employment effect is moderate (Farole, 2011). Available evidence (e.g. Jayanthakumaran, 2003; UNCTAD, 2003; Engman et al. 2007; FIAS, 2008; Farole, 2011) shows that while EPZs may account for a relatively small share of total investment in large countries, in some countries they have been very effective in attracting investment. According to UNCTAD (2003), in the Philippines, for example, the share of annual FDI accounted for by EPZs operations increased tremendously to over 81 percent in 2000 from 30 percent recorded in 1997. In Bangladesh, about one-third of FDI inflows in 2000 were registered in EPZs (UNCTAD, 2003). In Mexico, the share of FDI flows going to the country's maquiladora (Mexican EPZ typology) increased to 23 percent in 2000 from 6 percent registered in 1994 (Sadni-Jallab & Blanco de Arma, 2002; FIAS, 2008; Farole, 2011). Estimates show that national level SEZs in China account for more than 46 percent of cumulative FDI (Zeng, 2016). Nonetheless, in many other countries, EPZs have played a marginal role in attracting sufficient amount of FDI and most investment is of domestic ownership (FIAS, 2008; Farole, 2010).

Employment generation is widely recognized as one of the key objectives for EPZ development (ILO, 1998; FIAS, 2008). EPZs are viewed as highly effective tools for generating jobs especially in labour-surplus countries with an urgent need for employment creation (Madani, 1999; ILO, 1998, 2008). By virtue of this recognition, frequently the number of jobs created is used as a major indicator of the success of an EPZ strategy (ILO, 1998). However, experience suggests that the direct employment effect of EPZs is minimal. In most countries, EPZs are not a major source of direct employment (FIAS, 2008; Lang, 2010). Direct employment refers to the number of jobs created within the EPZs (Dowla, 1997; Lang, 2010).

While there are some exceptional cases where EPZs have made an important contribution to absorbing large-scale unemployment, the overall global picture on the number of jobs created within the EPZs is not particularly encouraging (ILO, 2008; Lang, 2010; Farole, 2011). The number of jobs created in most EPZs is often less than expected by host governments and supporting organizations such as the World Bank (Gibbon et al., 2008; Lang, 2010). According to ILO (2008) report, in most cases jobs created in EPZs do not represent a significant percentage of total employment in a country. It is estimated that EPZs account for less than 3 per cent of total employment in most individual countries and less than 1 percent of the global workforce (FIAS, 2008; ILO, 2008; Lang, 2010).

While the direct employment effect of EPZs (i.e. the number of jobs created within the EPZs) on average is marginal, the indirect employment effects can be quite considerable (Dowla, 1997; FIAS, 2008; Lang, 2010). The concept of indirect employment effect applies to the number of jobs (or activities) created outside the EPZs, but as a result of the presence of the EPZs (Lang, 2010). The indirect employment effect is expressed as auxiliary employment opportunities generated in sectors of the economy affected by the operations of the EPZs including transportation, shipping, packaging, insurance etc (Aggarwal, 2007). The analyses of the ratio of indirect to direct employment in different countries (e.g. Mauritius, Madagascar, Honduras, Bangladesh) suggest that EPZs have an employment multiplier of around 2, meaning that for every single direct job created in an EPZ, 2 other jobs are generated in the rest of economy (ILO, 2003; Cling et al., 2004; FIAS, 2008; Kingombe & te Velde, 2015). It appears therefore EPZ is a good source of indirect employment for many people outside the zones who provide materials and services to the EPZ firms (Dowla, 1997). In this regard, while EPZs do not provide a definite answer to unemployment problem, they are nevertheless a viable source of job creation (Engman et al., 2007; Lang, 2010).

Despite the overall marginal role that EPZ play in employment creation, as already mentioned there are exceptional cases where EPZs appear to address the problem of unemployment. In certain countries, EPZs have proved highly effective in this regard (ILO, 1998; FIAS, 2008). As might be expected, Asia is leading as far as employment impact of EPZs is concerned (Palit & Bhattacharjee, 2008; FIAS, 2008).

In terms of contribution to export performance, EPZs account for a significant share of manufactured exports in most regions (Table 2-2a)[6] which is contrary to the relatively minimal role that EPZs have played in terms of employment generation (FIAS, 2008; Lang, 2010, Farole, 2011). Evidence (refer to Table 2-2a) show that exports through the EPZs constituted about 8 percent of global exports of manufactured goods in countries with EPZ programmes in 2003, and about 40 percent in 2005 (Engman et al., 2007; FIAS, 2008). Attention is necessary here regarding the availability of the most recent data on export performance. While many studies on EPZs exist, it is only in the 2007 International Labour Organization (lLO), through Boyenge (2007) made an attempt to compile various reports on EPZs into a comprehensive global database on EPZs containing country-level data on employment, investment, and exports of EPZs, which provides a useful baseline against which to examine the patterns of growth of these EPZs (Flanagan & Khor, 2013). So far, as Zeng (2016) notes the major source of information on the zones' global impact is ILO's EPZ study by Boyenge (2007). For the same reason, Tables 2-2a is based on the same source. Table 2-2b complement these findings.

There are many examples of EPZs which have significantly contributed to the overall exports of their countries, and it is estimated that nearly 20 per cent of total exports in goods and services in these countries are from EPZs (FIAS, 2008). Evidence from East Asian economies supports the important role of EPZs in host countries' exports (FIAS, 2008; Farole, 2011). In 2005, for example, EPZs dominated the exports of many developing countries in Asia and Pacific (e.g. Pakistan, 50 percent; Sri Lanka, 67 percent ; Bangladesh, 75 percent; the Philippines, 78 percent), Latin America (e.g. Dominican Republic, 77 percent; Nicaragua, 79 percent), Middle East and North Africa-MENA (e.g. Bahrain, 69 per cent; Morocco, 61 percent). A remarkable export performance trend (EPZ exports as a percentage of total manufacturing exports) was also observed in some SSA countries: Ghana (22 percent); Mauritius (34 percent); and Madagascar (80 percent) (FIAS, 2008; Farole, 2011; Kingombe & te Velde, 2015).

[6] The sample includes only a selected number of countries

EPZs are expected to contribute to export development, not only in terms of accelerating export growth, but also through export diversification, which is of particular important to poorer developing countries reliant on the export of primary products. Experience suggests that EPZs have also played a leading role in diversifying exports in most countries (FIAS, 2008).

Table 2-2a[7]: Impact of EPZs on exports by region

Region	EPZ exports (US$ million)		Proportion (in %) of total exports of manufactured goods	
	2003	2005	2003	2005
Global	177.7	851,032	8.3	40.8
Asia and Pacific	84.5	510,666	11.0	41.0
Americas	44.0	72,636	5.3	39.0
Central and East Europe and Central Asia	14.5	89,666	6.8	38.7
Middle East and North Africa	28.7	169,459	16.7	36.4
Sub-Saharan Africa	2.4	8,605	19.5	48.7

Sources : Engman et al., (2007:26) ; FIAS (2008:36) ;Kingombe & te Velde (2015).

[7] So far, this is the most recent information available from the reliable EPZ database, i.e. ILO.

Table 2-2b[8] : Impact of EPZs on exports for selected countries and years (%)

Country	EPZ exports as share of manufactured exports (%)			
	2002	**2006**	**2009**	**2010**
Philippines	87	60	87	-
Bangladesh	60	75.6	-	172
Sri Lanka	33	38	-	-
Dominican Republic	80	80	-	-
Nicaragua				90
Kenya*	6	9	7	7
Lesotho**		78	52	-

Source : ILO (2003) ; Boyenge (2007) ; Vastveit (2013) Kingombe & te Velde (2015). (*) EPZs exports as share of total exports, rounded to the nearest number. (**) 2005 and 2008 respectively.

When the success of EPZs is evaluated against long term measures of success (that is, establishment of backward linkages, and the transfer of technology and skills) the results are also mixed and disappointing relative to the static benefits (i.e. investment, employment, and export impact of EPZs) evaluated previously (ILO, 1998; Lang, 2010). There is clearly extensive evidence on the role played by EPZs in facilitating backward linkage, technological diffusion and inter-firm learning effects in the East Asian newly industrialized economies, especially the Republic of Korea/South Korea and Taiwan. Considerable industrial upgrading is also evident in the electronics sector located mainly within EPZs in Malaysia and the Philippines (FIAS, 2008). Experience shows that backward linkages have been greater in countries where a solid industrial base existed prior to the establishment of the EPZs (Madani, 1999). Contrary to the neoliberal theoretical prescription that these linkages will happen 'automatically' given that market mechanisms are allowed to work free, the experience of most latecomers to the implementation of EPZs shows that these have not certainly realized.

There is ample evidence that in many other cases, these dynamic benefits have not occurred to an appreciable extent (Gibbon et al., 2008; Lang, 2010). ILO's (1998) study

[8] Selection of countries and years are subject to the availability of data

shows that very few countries have managed to create the backward linkages necessary to achieve a wider economic impact. According to ILO (1998), activities in most EPZs have remained largely processing and assembly operations based on imported components, with very few local materials, goods and services necessary for the development of backward linkages. Few countries have succeeded in skills upgrading. Experience suggests that skill levels in most EPZ workforces have not improved as would be expected (FIAS, 2008). Evidence from surveys did not find noteworthy differences between EPZ and non-EPZ-based export-oriented firms in terms of technology transfer and linkages (UNCTAD, 2002; FIAS, 2008). In such cases, it is argued that recent generations of EPZs are seen to create employment and foreign exchange revenues, but rarely linkages occur to the same extent as in the NICs of East Asia (Schrank, 2001).

Certain assessments (e.g. ILO, 1998; Madani, 1999; Jenkins, 2006; Engman et al., 2007; Gibbon et al., 2008; Milberg & Amengual, 2008; Farole, 2011; Vastveit, 2013) attempt to make some general points to explain why EPZs seem to have had little impact on developing backward linkages, and on fostering technology and knowledge transfer. A consensus emerging from these studies suggest that the ability of EPZs and the FDI attracted there to generate desired dynamic outcomes has been limited for the following reasons.

It is commonly argued that (e.g. Engman et al., 2007) incentive structure in EPZs limits formation of backward linkages as investors are allowed to import all their production inputs duty-free. In such case, and in absence of local content regulations, and given the possibility that needed raw materials may be absent in the local market, one would not expect foreign firms in EPZs to procure from local sources. Local inputs may lack the necessary quality for products that are sold on global markets, but also supply reliability and competitive pricing of domestic inputs may be a problem. Potential for backward linkage through subcontracting is also limited because often local firms do not have the technology capacity to provide the inputs required by the foreign firms in EPZs (Engman et al., 2007). In such case, it is argued that the absence of linkage and spillover effect in domestic economy as a result of EPZ operations is due to the lack of indigenous absorptive capacity necessary for absorbing technology. The ability of FDI and EPZs to generate linkages with domestic firms is therefore limited by a country's absorptive capacity.

Also, the lack of technological spillovers to the domestic economy result from the fact that most EPZ production is low-skill intensive. It seems that potential for technology and skills transfer is limited because most investors in EPZs are small firms which engage only on simple processing tasks.

Absence of backward linkage and spillover effect is also connected to the footloose nature of EPZ firms (Madani, 1999; Naughton, 2007; OECD, 2014). EPZs initially attract footloose investors in such sectors as garments and electronics assembly because of the low wages and easy conditions for moving goods in and out (Naughton, 2007). This is one of the major criticisms of EPZs-that they attract short-term, footloose investments (Rolfe et al., 2004). By relieving tax on profits, EPZs tend to attract highly internationally mobile labour intensive activities. Given their ability to adjust rapidly in response to changing external investment conditions (i.e. the footloose nature), these investors tend to move out soon as the tax benefits (tax holidays) expire (Tuomi, 2012; OECD, 2014). As they are unwilling to remain in the country when the tax benefits (specifically tax holidays) or other conducive environment cease, they are unlikely to form any long-term binding relationship with domestic entrepreneurs. Also, for the same reason they are unlikely to invest in staff skills upgrading. Thus, footloose investors which EPZs attract have little effect on the national economy and to the sustainable development (Jauch, 2003).

In sum, the global experiences have revealed that backward linkages, technology transfer and skills upgrading do not happen by default as prescribed by the neoliberal economic theory. Instead, most successful countries have had to establish certain regulating mechanisms in the policy framework to ensure these claimed benefits of EPZs occur. The Asian Tigers recognized these linkage and spillover effect would not happen by default and as such intervened by introducing specific and targeted measures to ensure that technology transfer and local skills development actually occurred (Alarakhia, 2012).

2.3 A review of factors influencing success or failure of an EPZ

This section addresses the question - what determines the success or failure of an EPZ?. The answer to this question will help the understanding of why the successful East Asian EPZ model has failed to work in SSA and Tanzania in particular. Most important, the review identifies obstacles to the success of EPZs in SSA.

2.3.1 What determines success or failure of an EPZ?

Before moving to analysis of this question (i.e. what determines success or failure of an EPZ), a brief introduction about the concept of the investment climate is needed. The investment climate refers to the risks, opportunities, and transaction costs involved in investing in and doing business in a particular location (Farole, 2011). Foreign firms' decisions about where to invest, how much to invest, and how to operate are based directly or indirectly on the perceived and experienced investment climate in the host country, including access to finance, availability and reliability of infrastructure, the availability of sufficient labour at competitive prices, the regulatory environment, taxation, corruption, and the wider policy environment (Farole, 2011). The investment climate is a complex phenomenon determined by a complex interface between laws, policies, and their implementation (Farole, 2011). Based on this logic, the success or failure of an EPZ initiative depends on a wide range of factors (Carikci, 1989; Yuan & Eden, 1992; Amirahmadi & Wu, 1995; Watson, 2001; Aggarwal, 2005, 2015; FIAS, 2008; Gibbon et al., 2008; Farole, 2010, 2011; Gum, 2014; Chun Sun et al., 2016) and is usually not attributed to a single factor or a few factors alone. Rather, it is a combination of factors, often interrelated, which determines success or failure (Carikci, 1989). It is also empirically proven that some of these factors have more influence than others (Aggarwal, 2005; Farole, 2011). These factors are explored next.

The experience of EPZ development and the economic impacts worldwide suggest that the success or failure of an EPZ as an export-oriented (export-led) strategy is linked to international environment in the context of global trade and the FDI pattern at the time an EPZ is established (i.e. timing), its location and how they are developed and managed, quality of infrastructure, policy and incentive framework, and the overall quality of EPZ management and administration. Success or failure is also determined by other domestic conditions, including the level of economic development, the role and the strength of the government, the extent to which EPZ policy is strategically integrated into industrial policy, the presence of agglomeration economies, countrywide investment climate factors and political stability (Yuan & Eden, 1992; Amirahmadi & Wu, 1995; Aggarwal, 2005, 2015; FIAS, 2008; Farole, 2010, 2011; Stein, 2012).

The international environment at the time an EPZ is established and developed is either an opportunity for, or an obstacle to the zones' success (Yuan & Eden, 1992; Amirahmadi & Wu, 1995; Farole, 2011). As one of the main purposes of establishing EPZs is to combine foreign capital with relatively cheap labour to manufacture goods for export, a favourable international environment characterized by fast growing world trade and a high volume of FDI flows into developing countries has a positive effect on EPZ development. Hence, the larger the growth in world trade and the availability of FDI at the time EPZ is launched, the more successful an EPZ initiative will be (Yuan & Eden, 1992; Amirahmadi & Wu, 1995; Gibbon et al., 2008; Farole, 2011).

Also important is the availability of quality physical infrastructure, facilities and services, including construction of suitable factory spaces for rent, suitable transport facilities (major ports, good roads, and an international airports), utilities as well complementary facilities (World Bank, 1992; FIAS, 2008; Farole, 2011). The performance of an EPZ initiative is enhanced when a zone is encouraged to compete based on facilitation, facilities, and services rather than on the provision of tax incentives (FIAS, 2008). This is particularly because the use of liberal tax incentives to compensate for other comparative disadvantages such as poor location or insufficient infrastructural facilities is unsuccessful in terms of overall EPZ performance, due in large part to the increasing application of investment tax incentives across developing countries' EPZs in recent years (FIAS, 2008). According to Farole (2011) the quality of infrastructure is strongly associated with EPZ success, while incentives have no measurable effect. Infrastructure here refers to physical and social infrastructure within the EPZ as well as physical infrastructure external to the EPZs. Social infrastructure within EPZ includes residential houses, schools, hospitals and recreation amenities. Road and other infrastructure connections to the EPZ site (i.e. infrastructure external to EPZ), including port facilities, also determine the success of an EPZ. Experience drawn from the vast literature suggests that the performance of EPZs has been substantially handicapped in locations where these infrastructures are insufficiently provided

(Amirahmadi & Wu, 1995; Farole, 2010; Vasveit, 2013). In this context, for an EPZ to have a significant impact on FDI, in addition to providing quality physical infrastructure, domestic factors of production, in particular electricity, water and fuel (and labour) must be sufficiently available and competitively priced (Gibbon et al., 2008).

The success or failure of an EPZ initiative is also linked to where they are located, and how they are developed and managed (FIAS, 2008). Location, design, and development practices often count as opportunities and constraints in exploiting the full potential of EPZs. Locating EPZs near urban, developed area or within industrial area is likely to be an important success factor. This satisfies the labour needs of firms, ensures more accessible and uninterrupted utilities, better service and allow for more spillovers (Aggarwal, 2005). The success of the EPZ is crucially influenced by the availability of cheap and disciplined labour (Aggarwal, 2005). Literature (e.g. Gibbon et al., 2008) holds that the outstanding performance of many EPZs in Asian countries have been facilitated, in part by the availability of low and semi-skilled labour that have enabled wages to remain low. Moreover, if EPZs are located near ports or airports, they are expected to be more attractive than other industrial sites and are likely to show better export performance (Yuan & Eden, 1992; Aggarwal, 2005). Studies show that developing an EPZ can be costly and ineffective if located in a remote, isolated, and underdeveloped area (Yuan & Eden, 1992; Aggarwal, 2005; FIAS, 2008; Farole, 2011). In addition, poorly designed EPZs may lead to overcrowding, and/or may be underutilized (especially when the zone is over-developed much ahead of investor demand) (FIAS, 2008). Inadequate coordination and the lack of effective partnerships between private zone developers and governments in terms of infrastructure provisions are also contributing factors. Moreover, subsidies on land, building leases, and rents are among the most significant factors contributing to the underperformance of some EPZs (FIAS, 2008). Many publicly developed and managed EPZs do not operate on commercial basis (cost-recovery approach), leading to a drain on government budgets. This problem is exacerbated if utility services are also subsidized. Experience suggests that management of EPZ is improved, and therefore the probability of success, when EPZs are operated on a cost-recovery rather than subsidized basis, preferably by private sector (FIAS, 2008).

Efficient administration is another factor which determines the success of an EPZ. The literature highlight that a streamlined, prompt and efficient bureaucracy and custom controls in all stages of the creation and running of an EPZ are crucial to its performance (Agarwal, 2005). Efficiency greatly influences the attractiveness of a zone to foreign investors and its eventual performance. Governments should therefore aim to improve the overall administrative environment, particularly regarding the procedures required to register a business, to acquire the operating licences, to obtain visas and work permits, and to access key services like utilities and construction; and to speed up import and export inspection procedures (FIAS, 2008; Farole, 2010). The institution charged with regulating the operations of EPZs also contributes to the success or failure of an EPZ initiative (FIAS, 2008). Stein (2012) argued that the success of an EPZ is dependent on the ability of the overseeing authority to act efficiently and independently to ensure harmonization of aims. This requires the authority to have full autonomy, adequate funding, and the powers over other government ministries (FIAS, 2008).

The success of a zone also depends on zone specific characteristics such as its size and the concentration of economic activities (Aggarwal, 2005, 2015). It is generally believed that only a large EPZ can generate economic activity on a reasonable scale (Aggarwal, 2005, 2015). In a small EPZ, the requisite infrastructure and services cannot be provided efficiently nor can multiple large scale economic activities be promoted. The size of the EPZ is therefore expected to influence its success (Aggarwal, 2005). In addition, a cluster approach suggests that highly concentrated zones are more likely to succeed. External economies of scale and other advantages of a cluster help the operating firms reduce costs and acquire competitive advantages. Thus the lower the extent of diversification of the zones in a country, the greater the advantages that firms can reap from the clusters (Aggarwal, 2015).

Also, important to EPZ success or failure are country specific factors such as the level of development, countrywide investment (business) climate and competitiveness (Aggarwal, 2005; Farole, 2011). The level of development (e.g. measured by GDP, quality of life etc) reflects the investment climate in a country and may be crucial in determining the success of the EPZ. In addition, the wider national investment climate and competitiveness, including the national infrastructure, administrative, and governance environment, are also strongly correlated with EPZ outcomes. Results from surveys underscore the importance of the national investment climate, arguing that the success of EPZs is closely linked to the competitiveness of the national economy. Farole (2011) observed strong correlations between EPZ outcomes and measures of national competitiveness and the national investment environment. Issues of state capacity and governance are of critical importance (Farole, 2011). As EPZ firms also need to interact with the rest of domestic economy, it is expected that the quality of governance both within and outside EPZs will influence EPZ outcomes. Political stability is another important country specific factor influencing the success or failure of an EPZ initiative (Carikci, 1989; Gum, 2014). The general political thinking and institutional structure of the government can affect openness to FDI and its flexibility in adjusting to change in international environment (Yuan & Eden, 1992).

Furthermore, in order to have a broader impact on the economy, EPZs must be strategically implemented as part of industrial policy (Baissac, 2011; Stein, 2012). These studies argue that one of the main differences between the successful and sustainable EPZs of East Asia and those that have either failed to take off or have become stagnant enclaves in SSA is the degree to which they have been integrated into the broader industrial policy of the country. In some countries, EPZs have generally failed to play a catalytic role in part because they have been separated from the wider industrial policy of the country (Baissac, 2011). Experience suggests that, in most cases, EPZ programs are often left to operate on their own, with little effort to promote links between EPZ firms and domestic firms, training, and upgrading. Therefore, exploiting the potential of EPZs requires strategic integration of this initiative along with the government playing a prominent role in enabling the impact of the EPZs (Baissac, 2011).

In order for the factors mentioned above to influence the performance of an EPZ, government needs to exercise its role well. The government (state) is instrumental not only in setting EPZ objectives but also in formulating policies that shape EPZ development. It can affect zone performance by setting realistic and clear objectives, formulating specific policies to achieve these goals, and revising policies in response to changing international and domestic situations. A more flexible government can adapt to changing international and domestic conditions and to the needs of investors in the EPZs; and such flexibility is likely to improve the performance impact of the EPZs

(Yuan & Eden, 1992). In such cases, it is argued that active intervention of the government in facilitating the provision of incentives, streamlined administration and management, appropriate site selection, infrastructure building, and adequate investment promotion is a key determinant of zones success (Amirahmadi & Wu, 1995).

2.3.2 Common obstacles to the success of EPZs

The often mentioned obstacles faced by EPZs are considered to occur mainly during the implementation phase of development: poor location, insufficient infrastructure, bureaucratic administration, and economic setup costs (Amirahmadi and Wu 1995). FIAS (2008:5) summarizes the most common obstacles to success of EPZs as follows: poor site locations, necessitating huge capital expenditures; uncompetitive policies notably reliance on tax holidays, rigid performance requirements, and poor labour policies and practices; poor zone development practices namely inappropriately designed or over-designed facilities, inadequate maintenance and promotion practices; subsidized rent and other services, e.g. utilities; cumbersome bureaucratic procedures and controls; inadequate administrative structures or too many bodies involved in zone administration; and weak coordination between private developers and governments in infrastructure provision. In addition, poor planning, restrictions on land ownership, and excessive documentary requirements often undermine effectiveness of an EPZ (Engman et al., 2007). It is said that these obstacles are the outcomes of the mistakes commonly made in connection with the EPZs (Johansson & Nilsson, 1997). It is widely argued that, the common mistake at the root of many of these obstacles to optimal zone performance is a lack of effective coordination, both in terms of the parties involved and various physical and procedural aspects of the zone itself (FIAS, 2008). Incorporating regional development objectives into the EPZ investment decision is another common mistake identified in the literature (Johansson & Nilsson, 1997). Key causes of failure or poor performance on the policy side have been the delays in formulation of required policies, an overregulated and rigid regulatory environment, and inappropriate laws and regulations (World Bank, 1992).

2.3.3 Conceptual limitations of the EPZ strategy

While country-specific conditions, implementation problems, and external forces can partially account as obstacles to the success of EPZs, several major conceptual pitfalls in the EPZ strategy have precluded the complete effectiveness of the zones. These include EPZ's enclave and reactive nature to the industrial relocation of firms from developed countries, external orientation, contradicting effect of fiscal incentives, and limited impact in the absence of a regional policy (Amirahmadi & Wu, 1995). These pitfalls are explored next.

The effectiveness of EPZs has been considerably obstructed by an inadequate conceptualization of the EPZ strategy. According to Amirahmadi and Wu (1995), for an EPZ to bring significant impact must be viewed at the intersection of three well designed sectoral policies namely free trade zones (export promotion), industrial policy and a growth center strategy. For an EPZ initiative to be successful, it has to be used as part of a broader industrial policy where it is not an end in itself but a component of the broader strategy to industrialize the country (Stein, 2012). Industrial policy generally refers to the conscious state intervention to transform the structure of industry to enhance the developmental competitiveness of an economy (Stein, 2012). Also, EPZs must be used as part of a wider growth centre strategy of the nation, which refers to the actions of government in channelling development resources and efforts to a few favoured places outside EPZs (Jayanthakumaran, 2016). However, many host governments emphasize only the export-promotion aspect and ignore the other two functions. Consequently, the establishment of an EPZ in many developing countries become an isolated effort to promote manufactured exports as a reaction to the industrial relocation of firms from developed countries. In such cases, the enclave nature of EPZs is intensified, and the relationship between EPZs and the rest of the country appears to be secondary. In rare cases are EPZs connected with an overall industrial policy and used as an integral part of the larger effort for national and regional development (Amirahmadi & Wu, 1995). This conceptual misunderstanding has resulted into further derivative conceptual drawbacks.

Amirahmadi & Wu (1995:844) summarizes main derivative conceptual pitfalls which develop from this conceptual misunderstanding as follows. First, the very enclave nature of many zones has impeded the establishment of linkages and integration with domestic economic sectors (Amirahmadi & Wu, 1995; Jayanthakumaran, 2016). The extent to which an EPZ resembles an enclave depends on the trade regime in the host country. Successful zones in Taiwan and South Korea may not be considered as enclaves, while EPZs in most developing countries are certainly still enclaves (Amirahmadi & Wu, 1995). Because of their outward processing nature, EPZ products respond more to the demands and technical specifications of outside markets and are less interested with local development. Domestically produced input in many cases cannot meet the quality requirements and are not priced competitively. Firms in the zones thus tend to rely on imported materials and components from their own global networks, which are usually of higher quality, a tendency that largely precludes the creation of backward linkages with the local economy.

Except in rather advanced developing countries that have succeeded in their outward-oriented strategies such as South Korea and Taiwan, significant backward links from exports rarely develop in EPZs. EPZs tend to become enclaves without much linkage with the local economy (Zeng, 2015). An enclave is typically necessary to insulate EPZ firms from high costs, poor quality materials, and the defects of the poor economy wide policy environment. The East Asian economies gradually developed backward linkages as they extended equal-footing policies to firms outside EPZs and developed the capacity to produce inputs to be used by EPZ firms (World Bank, 1992).

Under the enclave model of EPZ, all the foreign exchange generated by the activities of the EPZ has no direct impact on the welfare of the host economy (Jayanthkumaran, 2016). Foreign investors are allowed unconditionally to repatriate profits and capital. Moreover, it is uncertain that host economy will benefit from technology transfer directly, mainly because firms in EPZs are isolated from the host economy, with few raw materials and capital equipment being supplied by domestic firms (Jayanthakumaran, 2016).

Second, creation of these zones as a reaction to the relocation of firms for cost reduction implies that manufacturing activities are low-end and labour-intensive. Most manufacturing activities in EPZs are characterized by assembly operations and simple processing, as a result, little complex technology transfer takes place. In addition, R &

D activities are usually kept in the home countries of MNCs to protect their competitive edge. Therefore, EPZs have not been able to access advanced technology.

Third, experience has shown that only a few large MNCs have moved in to the zones and this indicates that these firms are probably less motivated by competitive incentives offered by these zones. A unique feature of EPZ investment is that very few large MNCs have invested. Small foreign investors invest in EPZs mainly to take advantage of the availability of a cheap and disciplined labour force. Because of the very short term nature of employment in EPZ industries and low skill level required for processing operations, these firms lack incentive to make substantial investment in training production workers, whose later turnover can, in fact, stimulate the establishment of local businesses. Training of management staff is also very limited since many EPZ firms rely on expatriate personnel in management posts as a means of maintaining control.

2.3.4 Factors which contributed to the success of EPZs in East Asia

EPZs are larger and more widespread in East Asia than in other regions (Jenkins et al., 1998). It is also evident that, by almost any measure of success, many of the most successful EPZs in the world are established in Asia, especially South Korea, Taiwan and China (Jenkins et al., 1998; Stein, 2012). EPZs in these countries (South Korea and Taiwan) are the most instructive, as many have undergone through all relevant phases of the EPZ life cycle (ILO, 1996). Understanding the factors which contributed to the success of Asian EPZ model of industrialization may help explain why it has been difficult for this model to work effectively elsewhere. There exist different kinds of explanations to support why Asian Tigers were successful in industrializing through EPZs. Yuan & Eden (1992) attribute the success of EPZs in Taiwan and South Korea to three interrelated but conceptually distinct factors, namely the international environment, domestic conditions, and the role of the state. They argue that one of the significant factors is associated to the favourable trade and investment environment in the 1960s and 1970s, when the Asian Tigers took off. EPZs in Taiwan and South Korea were established in the 1960s and early 1970s when the first wave of global industrial restructuring was taking place. During this period, a new international division of labour[9] was created as multinational corporations in labour-intensive processing activities began to shift production in low wage developing countries to reduce production costs[10]. Taiwan and South Korea were among the first developing countries to establish EPZs to take advantage of this change in the international environment. There were few other countries with EPZs so they faced little direct competition. This was also a decade when world trade experienced a tremendous growth, reporting an annual growth rate of 8.5 per cent compared to the annual growth rate of 4 per cent reported in subsequent period[11]. It is therefore argued that the international environment represented a window of opportunity for Taiwan and South Korea. Nevertheless, the international environment cannot be the decisive factor in explaining the spectacular success of EPZs in these countries.

However, favourable international environment alone is only a contributing factor, not a determining one. Therefore, favourable domestic conditions in terms of location, infrastructure, labour costs, and level of economic development count as a second success factor (Yuan & Eden, 1992). Both Taiwan and South Korea established their EPZs either in, or close to their major port cities where basic infrastructure was already in place. An abundance of low-cost, relatively skilled labour was readily available. Both countries had already achieved a measure of economic growth by the late1950s so that labour-intensive industries were relatively well developed, making it possible for EPZ firms to establish linkages with domestic producers. With help from EPZ firms in quality control, domestic producers were able to supply an increasing percentage of

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[9]Refers to a trend in which factories in industrialized countries close down to open up their business in low-wage countries. Production is moved from regions with strong labour unions and extensive labour rights to regions with high unemployment and practically no protection for workers (Fröbel et al., 1978,1980; Hutchinson, 2004; Svensson, 2006)

[10]Industrialization and the subsequent rise in costs of production factors in Japan has led to the outsourcing of labour intensive production stages to other countries in the region. This trend has led to the emergence of the Newly Industrialized Countries (NICs), namely Hong Kong, South Korea, Singapore, and Taiwan (ILO, 1996).

[11] After 1973, world trade annual growth rate slowed down to 4 percent and by 1980 had dropped to 1 per cent (Yuan & Eden, 1992).

zone inputs. Moreover, Taiwan and South Korea were natural sites for Japanese FDI where the psychic distance was low.

The EPZ performance in these countries was further influenced by the ability of the governments to set clear and achievable objectives, formulate specific policies to achieve these goals, and timely revision of policies in response to changing international and domestic environment in order to increase the contribution of the EPZs to economic growth. A number of government regulations or special policy measures were used to encourage exports and induce EPZ companies to engage in domestic sourcing in order to create linkages with the domestic economy. For example in South Korea, EPZ companies were required by regulation to produce a value-added equivalent to quarter of the free on board price of the respective exported commodity. Local suppliers and subcontractors were given technical assistance by zone administration. In Taiwan, under government guidance, personnel from firms in EPZs were placed at potential suppliers factories to offer advice in production methods, and quality control. As a result of this effort the domestic value added in EPZs in South Korea increased to 52.2 percent in 1979 from 27.8 percent in 1971. In Taiwan, local supplies accounted for 46 percent of total imports in 1979, up from 8 percent in 1969 (Jenkins et al., 1998).

According to Song (2012), latecomers did not quickly catch up with East Asia because of the 'first-mover advantage' and long term accumulation of experience, skills and social capital (education) in the East Asian region. Thus, strong education base is a key success factor in these countries. Certain studies such as Nel (1994), Rodrik (1994), Weiss (2005), and Mukherjee (2012) also attribute the success in EPZs to the education base in these countries. It is argued that having a relatively well trained and educated labour force was a critical element in the rapid export growth of these economies. One of the major initial advantages of the NICs was their comparatively high education standards. Rodrick (1994) provides convincing evidence that relative to their income levels, both the first and second tier NICs had high education attainment in 1960.

According to Stein (2012), the key to the success in Taiwan and South Korea has been the ability to successfully link and implement EPZs as part of a broader industrial policy. In these countries, EPZs have been part of a broader industrial policy where EPZs are not an end in themselves but a component of the broader strategy to transforming institutions to improve developmental competitiveness and industrialize the country. EPZS were designed with an institutional focus relative to the industrial policy priorities of the country. Unlike many other EPZs in other parts of the world, the EPZs in Taiwan and South Korea were not mere enclaves with both significant backward linkages and technology transfer.

Amsdem (2001) and Alarakhia (2012) present an alternative picture, arguing that Asian Tiger countries did not use EPZs as testing grounds for neoliberal economic policies but rather EPZs were implemented to enable the country to export products and earn the necessary foreign exchange required for their balance of trade payments without compromising their local industries and market. Thus their EPZ model was using export led industrialization strategy to develop domestic economy (Alarakhia, 2012). Alarakhia (2012) argues that most of Asian countries who have been successful in developing their industrial sectors through the utilization of EPZs did not implement the neoliberal mode of EPZs. In contrast to the later generation in which EPZs were introduced as part of the Structural Adjustment Programs (SAPs) these countries utilized export led industrialization approach with a strong protection of the domestic industries with many similarities to the import substitution policy. In many less successful countries, EPZs were initially introduced as part of the SAPs and most implementing governments see them as islands where pure neoliberal policies must be implemented, thus restricting the range of interventions that can be implemented (Amsden, 2001; Alarakhia, 2012). Successful countries in East Asia have used policies that actively establish domestic linkages, which are then able to provide a large share of the intermediate inputs from domestic production; consequently a larger share of output will go into further domestic production or consumption, and a larger share of its exports is comprised of domestic value-added. The essential problem with the dominant neoliberal model of EPZ promotion is that it prohibits government from using such policies to develop such linkages (Rowden, 2009).

2.3.5 Obstacles to the success of EPZs in Sub Saharan Africa

In sub-Saharan Africa, the available evidence suggests that its experience with EPZs has been relatively poor, except a few countries such as Mauritius, Madagascar, Lesotho, and Kenya (Farole, 2011; Zeng, 2014). In many other SSA countries, EPZs appear to be struggling. Why might African EPZs be different? What explains the relative failure of African EPZ programs? These are the key issues this section attempt to address. Experience suggests that EPZs in SSA are struggling for a variety of reasons, and the key challenges include poor regulatory and institutional framework, lack of effective strategic planning, weak governance and implementation capacity, and inadequate infrastructure (Watson, 2001; Baissac, 2011; Farole, 20011; Zeng, 2014, 2015). These factors are broadly explored in the following sections. The subsections are not necessarily arranged in a particular order of importance.

2.3.5.1 Bad timing, widespread competition, and the fallacy of composition problem

The timing of the launch of the EPZs in Africa in the context of global trade and investment trends is a possible explanation for why EPZ programs in SSA have been less successful to date (Farole, 2010, 2011; Vastveit, 2013). Africa has been a relative latecomer to the use of EPZs, and part of the reason for the failure of African EPZs may therefore simply be poor timing (Newman & Page, 2017). Many of the historical successful EPZs in East Asia, Latin America and Mauritius (the only notable case in Africa) were established in the 1970s, when there were few competitors (Yuan & Eden, 1992; Vastveit, 2013). By contrast, the majority of the EPZs in SSA, with the exception of those in Senegal, Lesotho and Mauritius have been established relatively recently, most of them during the 1990s and early 2000s (see Table 2-3) when competition between the EPZ countries to attract investors was much higher (Farole & Moberg, 2014; Newman & Page, 2017). There are concerns that EPZs in SSA may have been too late to benefit from radical globalization of manufacturing that proliferated during the 1980s and the 1990s (Farole, 2010, 2011). It is also said that, African EPZs have been enforced during and after the rise of Asian competitors as a manufacturing superpower, and the subsequent structural shift in trade and FDI patterns. As such, the level and nature of competition for FDI targeted through EPZ is a significant factor that may impede the speed and scale of growth potential for African EPZs (Farole, 2010).

Arguably, the net benefit from operating an EPZ program may decline with the increase in the number of countries operating similar zones, making use of similar comparative advantage (Vastveit, 2013). According to Kaplinsky (1993), there are some potential fallacy of composition problems that could occur if too many countries produce the same types of labour intensive goods. In this regard the potential fallacy of composition problems generally implies that countries may experience a competitive disadvantage if a number of countries attempt to exploit their unskilled labour by attracting labour-intensive production at the same time (Vastveit, 2013). Since cheap, unskilled labour is the major attraction for foreign investors in EPZs, then EPZs may not be beneficial when established concurrently by a large number of developing countries (Kaplinsky, 1993; Johansson & Nilsson, 1997). Gibbon et al. (2008) find that the widespread use of EPZs across the developing countries suffers from a typical fallacy of composition problem. They argue that if only a few countries have EPZs then their investment conditions may be more attractive than their peers. However, as more countries establish EPZs, the advantage of having an EPZ diminishes. Where fallacy of composition problem exists, only those who are able to command considerable economies of scale (e.g. by compensating lower price through increased production) will sustain (Kaplinsky, 2005). According to Gibbon et al. (2008) and Wu (2009) recently there is greater competition than ever in end markets for the manufactured products typically exported from traditional EPZs to the extent that it is no longer beneficial to establish EPZs that mainly rely on low-cost labour as its comparative advantage. Arguably, the fallacy of composition problem compromises the future of EPZ investment.

Table 2-3: Overview of Sub Saharan Africa EPZs by decade of establishment

1970s	Liberia, Senegal, Mauritius, Lesotho
1980s	Djibouti, Togo
1990s	Burundi, Cameroon, Cape Verde, Equatorial Guinea, Ghana, Kenya, Madagascar, Malawi, Mozambique, Namibia, Nigeria, Rwanda, Seychelles, Sudan, Uganda, Zimbabwe
2000s	Botswana, Democratic Republic of Congo (DRC), Eritrea, Ethiopia, Gabon, Gambia, Mali, Mauritania, South Africa, **Tanzania**, Zambia

Source: Farole (2011:68); Vastveit (2013:30); Zeng (2015:10)

2.3.5.2 Inadequate infrastructure

Inadequate infrastructure including lack of serviced and appropriately located land, transport infrastructure to and from the zones, pre-built factory buildings, and reliable, low-cost utilities is well-documented as a major factor that discourages investment especially FDI inflows in EPZs located in SSA (Watson, 2001; Farole, 2010, 2011; Page, 2012; Whitfield et al., 2015; Abotsi, 2016; World Bank, 2017). Such problems may appear to stem from inadequate funding, and/or weak capacity deeply rooted in poor governance (Farole &Moberg, 2014). Despite the strong relationship that appears to exist between infrastructure quality and the levels of investment, exports, and employment in EPZs, infrastructure within the EPZs in SSA has not been adequate to attract global investors (Farole, 2011; Page, 2012). Scattered evidence regarding productivity in Africa gathered in World Bank (2008) and in Page (2012) underscore infrastructure deficiencies as a major obstacle to enhanced competitiveness in the region. According to this finding, there is a gap of at least 20-percentage point between Sub Saharan Africa and the rest of the low income countries on almost all major infrastructure measures. Although in most cases physical infrastructure within African EPZs is more attractive than in the overall national economy, the improvements are not sufficiently attractive to export-oriented investors with global alternatives (Farole, 2011).

The land acquisition process in designated areas for EPZ development is challenging and problematic in many African countries (Frole, 2011; Ofodile, 2013; Farole & Moberg, 2014, 2017; Whitfield et al., 2015; Zeng 2015; Newman & Page, 2017). Problems related to titles, registration, protests from the local community, inadequate compensation and resettlement practices, and insufficient budget often restrain the process. There are widespread concerns that large scale acquisition of land for EPZ development may not be desirable as this would result in agricultural land grabbing on account of huge land requirement for such project (Lakshmanan, 2009). As most African countries have a comparative advantage in agriculture, there is growing concern that large-scale land acquisition of farmlands for EPZ development in Africa could seriously threaten and ultimately destroy millions of lives (Ofodile, 2013; Farole & Moberg, 2014). Sometimes the land is acquired without appropriate compensation to those previously using or occupying it, leading to movement against land transfer for

EPZ development (Farole & Moberg, 2014). According to Zeng (2015), in several EPZs, governments promised to provide the compensation in the case of land acquisition and resettlement, however, these promises were not or only partially fulfilled, which obstructs further development of the EPZs. It is also noted that designation of land for EPZ purpose tends to raise its value substantially worsening already limited financial resources (Farole & Moberg, 2014).

Newman & Page (2017) find that a significant delay in land allocation and local resistance eventually led to an investor removing their business from the Gambia. Nigerian government has also encountered protests from local communities over land compensation and resettlement on EPZ projects (Farole & Moberg, 2014). Whitfield et al. (2015) find that the Export Processing Zones Authority (EPZA) in Tanzania had difficulties acquiring sufficient land for designated EPZ activity mainly due to limited funding the authority received from the government. As a consequence, and as authority would like to attract as many firms in EPZs as possible, potential EPZ investors willing to invest outside industrial estates (enclaves) were allowed to do so, through single factory EPZ scheme. Because limitations associated to the availability of land are widespread in many SSA countries, they prefer this arrangement which generally favours local investors, and possibly this explains why some EPZs in SSA are dominated by local investors (Farole, 2010). The current study argues that, this arrangement only provides a temporary relief on the government. Thus it should be discouraged as there are serious detrimental effects including reduced speed and aggressiveness of the government in mobilizing funds to support expansion of EPZ. Also, as potential foreign investors may not have own industrial factories in the host country, the arrangement put them at the disadvantage, thereby reducing the chances of FDI participation in EPZs. Also, this happens despite the fact that the FDI is the primary focus while creating an EPZ. All these circumstances combined inevitably cause delays and poor outcomes in African EPZ initiatives.

In addition to land problem, inadequate space also curtails EPZ expansion. In Kenya, for example, inadequate rental space hindered the effort to increase production for the export market and distorted the EPZ plan to employ additional 2000 employees (Masese, 2014). Moreover, much of Africa’s transport infrastructure is in a poor condition (Watson, 2001, Farole, 2010), resulting in to higher transportation costs.

Utility costs are relatively high, and electricity supply is often unreliable (Watson, 2001; Farole, 2010, 2011; Vastveit, 2013). While a reliable electricity supply especially in industries that require a steady supply of electricity is associated with higher productivity and higher levels of FDI, African countries have persistently faced major electricity shortages with a number of power outages which tend to render many firms less efficient in their production operations (Abotsi, 2016; World Bank, 2017). According to Newman & Page (2017), in a month electricity is unavailable in African EPZs for about 44 hours compared with only four hours in non-African EPZs. Evidence in Abotsi (2016) shows that power generation capacity in SSA countries is lower than that of any other region in the world and capacity growth has also deteriorated. The study also finds that the frequency of power outages typically experienced in a month has a negative and significant impact on foreign ownership of firms in SSA. Whitfield et al. (2015) find that electricity in Tanzania was two times more expensive compared to Vietnam, and the rate of interruption in Vietnam measured in terms of the percentage of time off the grid is one third of the trend experienced in Tanzania. Because electricity serves as an important factor of production in most manufacturing activities, the supply and pricing of electricity may have adversely affected the competitiveness of EPZs in SSA in attracting sufficient and competitive investors (Farole, 2010). As mentioned, evidence point to the limited funding for the EPZ initiative as the immediate explanations for why African EPZs are often plagued with the same infrastructural problems that limit investment in zones. The potential for EPZ program to extend quality infrastructure environment to all its investors is extremely limited due to budgetary constraints and poor governance. Compared with other regions, Africa has been inactive in mobilizing the private sector for the provision and financing of infrastructure (Farole, 2010; Whitfield et al., 2015).

2.3.5.3 Comparative disadvantage in labour

EPZs were designed to attract investment by enabling countries to better exploit a key source of comparative advantage – low-cost labour – which was otherwise underutilised because of low levels of domestic investment and barriers (regulatory, infrastructure, etc.) preventing FDI (Farole, 2011). It is well established that African EPZs are not globally competitive as platforms for processing activities due to the comparative disadvantage in labour (Watson, 2001; Farole, 2010; Gondwe, 2012; Vastveit, 2013).

Most investment in EPZ programs is primarily efficiency seeking. And for most traditional export processing activity (i.e. efficiency seeking investment), the primary determinant of competitiveness is labour cost and productivity (Farole, 2010). While EPZ investors tend to prefer low labour costs, it is often argued that wages in African countries' manufacturing industry are higher, thereby reducing the firms' competitiveness in the global market (Clarke, 2012; Vastveit, 2013). A comparative analysis of per unit labour cost as an indication of competitiveness in labour substantiates this claim. Evidence based on this analysis has shown that all countries in Africa have a disadvantage relative to China (Ramachandran et al., 2009). In addition to cost item, it is often claimed that the quality of labour in SSA is quite low (Watson, 2001; Gondwe, 2012). The work force is unskilled, which is connected to low productivity. The skills gap poses a major constraint to industrial development in Africa (FIAS, 2008). Not only that Africa's skills gap with the rest of the word is larger and growing, but also the workforce in Africa is perceived to be unfamiliar to the discipline of production factories: culturally they are less sensitive to quality control, keeping standards, and meeting deadlines (Watson, 2001; World Bank, 2008; Page, 2012). The relative competitiveness of most African EPZs is therefore reduced given the relatively high labour costs, low levels of skilled labour and productivity and the perceived effect of culture. Therefore, in the absence of comparative advantage in labour-intensive traditional export processing activities, it is not surprising that African EPZs have been less successful in attracting investment and its benefits (Farole, 2010).

2.3.5.4 Inefficient zones management and administration

EPZs have a much higher probability of success when there is solid management of the design, establishment, and the operations of the EPZ (Watson, 2001). The poor performance of most EPZ programs in SSA can also be traced to weak government bodies established to develop and operate zones, and to regulate zone activity. In many countries, zone authorities lack necessary powers and autonomy and are underfunded or poorly managed. Still others lack control over their budgets and have restrictive civil service limitations on remuneration and employment conditions (FIAS, 2008).

Although it is clear that the management of EPZs must be responsive to the needs of the entrepreneurs who will set up businesses in the EPZs, literature (e.g. Watson, 2001) indicates that too often in Africa, EPZs have been designed and run by bureaucrats who have no experience with what it takes to run a business. According to this literature, EPZs are overdesigned, raising costs and leading to the need for government subsidies. Delays are common, leading to losses for the businesses. Service levels reflect those practiced outside EPZs, again leading to hindrance and losses for the businesses (Watson, 2001).

In addition, a cost of doing business in SSA is high (Page, 2012). World Bank (2017) noted that, SSA region has consistently remained the least in terms of business-friendly regulations. For example the World Bank find that it takes 60 days on average to transfer property in a country located in SSA region, compared to only 22 days for the same transaction in high income countries. According to Page (2012) the cost of doing business in Africa is on average, 20-40 % above for other developing countries. In 2011, for example, Africa's average rank (moving from 1 as the best country-level investment to 183 as the worst) was 137 in the *World Bank's Doing Business Indicators* (Page, 2012). According to ease of doing business ranking (benchmarked to June 2016) only 5 countries (including Mauritius, the outstanding EPZ case in SSA) out of more than 40 SSA countries positioned between 32 and 100 in the *World Bank's Doing Business Indicators.*

2.3.5.5 Inadequate knowledge

Inefficient zone administration and management is in part due to lack of sufficient knowledge relevant in running EPZs. Even with the best of intentions and fully-aligned incentives, the success of EPZ initiative is inhibited by the problem of inadequate knowledge (Farole & Moberg, 2014). Government officials responsible in EPZ policy and implementation issues face knowledge gaps on several crucial aspects of EPZ development and management, including their location, their industry focus, and the combination of essential factors that will attract investors (Farole & Moberg, 2014). As a result, EPZ policies often end up targeting the wrong industries, thereby excluding crucial investors in industries that have growth potential in the country (Farole 2011). Rather than making a thorough analysis of costs and benefits, possibly due to inadequate knowledge, to justify the case for the benefits of an EPZ (i.e. why should an EPZ be established) governments often refer to previous successful EPZ cases (reference is frequently made to some Asian countries such as Taiwan, South Korea, China, Malaysia etc) and assume that models that worked in one country are replicable elsewhere (Farole & Moberg, 2014).

As Farole & Moberg (2014, 2017) explain, many knowledge failures were predictable in SSA. The study contends that the knowledge gaps often resulted from a failure of authorities to plan properly at the outsets. One problem related to inadequate knowledge was the failure to recognize the implications of the expiration of the Multi-Fiber Arrangement. A serious knowledge gap is expressed also in the design and implementation of tax incentive schemes for EPZs. The EPZ policymakers cannot determine the real costs and benefits of the EPZ initiative. Unable to assess whether these investments would have come about even without tax incentives, they tend to underestimate the cost of tax expenditures relative to the direct benefits in terms of investments and jobs. One outcome of this shortcoming is, SSA is possibly the only place where tax breaks (holidays) get easily renewed, and where firms are allowed to shut down and reopen under another name in order to continue enjoying tax breaks (Farole & Moberg, 2014).

2.3.5.6 Partial response to the obstacles

It is commonly argued that the establishment of a successful EPZ program requires addressing all or most of the obstacles simultaneously rather than removing one or some of the obstacles (Watson, 2001; Aggarwal, 2005). According to Watson (2001), this factor is largely responsible for the failure of most African countries to develop successful EPZs.

Watson (2001) highlight that the investors who are successful on an EPZ have the ability to master a number of skills: production technology, management, labour relations, access to markets, finance. The author (p.11) adds that “not only that, but the investor must master them all at once, for failure in any one area will lead to failure of the investment project as a whole”. The same notion is true for a country wishing to establish a successful EPZ. Watson (2001:11) observed that “the country must master the creation of a pro-business environment, the provision of infrastructure and services, international marketing, investor relations and master them all at the same time”. Therefore, from this perspective the limiting factor “is not skilled labour or adequate infrastructure; it is the management of the socio-politico-economic process of bringing about coordinated change in a way that is forward-looking" (Watson, 2001:11).

2.3.5.7 Lack of vision, consensus, concerted action, and continuity

African countries have had problems in expressing a clear vision, building a consensus around it, moving to concerted action, and providing continuity in incentives, infrastructure and services (Watson, 2001). According to Watson (2001), to develop a successful EPZ program, a host country must have a clear vision of where it is going and what it wants to do. Watson (2001) observes that in each of the four Asian Tigers, the vision was clear, resolutely pro-business, export-oriented, and aimed at a well-defined market. In contrast, many SSA countries have tried to establish EPZs in situations where there is no clear vision of where the economy is going. Similarly, if there is not a solid consensus of where the country is going and what it intends to do, there is a high risk that critical elements will not be put in place and the program will fail. Some African countries have articulated clear vision, but progress has been difficult due to lack of a consensus around the vision (Watson, 2001). Consensus building was at the core of successful countries in Asia. The fundamental point is that moving forward before a consensus has been achieved is useless. Another important aspect is concerted action. It seems too obvious that to be successful requires action, yet many EPZ programs in SSA have failed to deliver expected outcomes because of failure to act with regard to certain elements of the program. This may be because of the failure related to lack of vision and consensus discussed above. The experience indicate that, in contrast with some EPZs in Africa where land could not be made available for the development of EPZs for a year or more, where the electricity connection is installed far behind schedule, or where EPZs end up operating in the absence of a proper legal framework, actions to establish EPZs in successful countries took place in advance, involving a large number of actors (Watson, 2001).

There is also a concern that lack of concerted effort to provide continuity in incentives, infrastructure, services, and the business environment constrain most African EPZs in attracting substantial FDI. It is often argued that many African governments make too-frequent shifts in policy, reducing investors' confidence that favourable EPZ policies will persist, and that continuity is needed (Watson, 2001; Stein; 2012; Vastveit, 2013).

Watson (2001) shows that existing and prospective investors have expressed concern not only that African governments would not maintain the package of incentives, infrastructure, and services but that they would erode the package.

Summarizing the above, failure to take advantage of the opportunities related to the development of EPZs in African countries is related to failure in articulating a vision of the country's development, building national consensus around this vision, taking concerted action to enforce the elements of the vision, and ensuring continuity of the package of incentives, infrastructure and services offered (Watson, 2001).

2.3.5.8 The effect of preferential or guaranteed market access

Reliance on temporary trade preferences, particularly guaranteed market access such as Multi-Fibre Arrangement (MFA) and the US African Growth and Opportunity Act (AGOA) and inability to effectively respond to changing competitiveness in the garment sector, particularly when these time bound trade preferences come to an end, and/or when the rule of origin change is another obstacle to the performance of EPZs and particularly a major source of export stagnation and employment losses in Sub Saharan Africa EPZ (Jayanthakumaran, 2000; Stein, 2012; Farole, 2010, 2011; Kingombe & te Velde, 2015). The argument here is that most products from EPZs in SSA have been concentrated in textile and clothing production and much of this production has been induced by promises of special access to foreign markets (Stein, 2012; Kingombe & te Velde, 2015). In order to allow SSA countries compete on a better footing with Asian competitors in markets for garments and clothing, G20 countries often offer specially enhanced market access concessions (Gibbon et al., 2008; Kingombe & te Velde, 2015). The MFA and AGOA are particularly cases in point.

Historical context of MFA and AGOA is useful here in order to improve understanding of their claimed effect. The textiles and clothing industry in developing countries has historically been subjected to extensive use of quotas by the major importing countries (Ernst et al., 2005; Gopalan & Shanmugam, 2010; Vastveit, 2013). Between 1974 and 2005, these countries were subjected to such quota regulations through the MFA. The aim was to protect the textile and apparel industry in the US and Europe by allowing them to adjust to the significant increase in textile and apparel products from low-cost countries. In 1974, Canada, the US, and the European Community entered into the Multi-Fibre Arrangement, which allowed Western countries to set limits, or quotas, on the amount of foreign-made garments they would allow into their borders. The rationale of the arrangement was based on the argument that developing countries had a comparative advantage in the global garment industry due to low labour costs and an abundance of raw materials, particularly cotton. The arrangement therefore imposed quota restrictions on over 73 developing countries, with the aim of providing the developed countries an opportunity to "catch up" (Ernst et al., 2005; Naumann, 2006). The Least Developed Countries (LDCs) were exempted from the regulations and several countries benefited from a surge of textile and apparel production, as production was moved to these countries to take advantage of the quotas (Vastveit, 2013). The MFA departed from the basic General Agreement on Tariffs and Trade (GATT) rules, as a result, was terminated in 1994, but the quotas were continued and managed by the World Trade Organisation (WTO) with the understanding that they would be phased out by early 2005 (WTO, 2013).

The AGOA was initiated in 2000, and aims to offer selected SSA countries duty-free and quota-free access to the US market for certain goods. Countries have to meet government and human rights requirements to be eligible for AGOA benefits, and to take measures to improve the rule of law, human rights, and labour standards (AGOA, 2013; Vastveit, 2013).

For textile and apparel exports it is required that fabric used in production must be made in either the US or in an African country for the finished goods to be eligible for AGOA. The rules of origin are to ensure that goods are not merely routed through eligible countries, but contribute to employment and the intended economic effect in the countries. In order to give less developed African countries (relative to other African countries) opportunity to develop local capability in terms of providing raw and intermediate materials, AGOA distinguishes between two groups of African countries: less developed countries (LDCs) in Sub Saharan Africa (SSA) and other SSA countries. Countries categorised as LDC[12], were initially exempted from the rule of origin (i.e.

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[12] Based on World Bank data and classification, these are countries with a 1998 per capita GNP less than 1,500 dollars. These were initially exempted from the rule of origin, or given a third country fabric

were allowed to source fabric from non-African countries/non-AGOA countries) through the end of 2004, and was later extended to 2012 and then to 2015[13] (AGOA, 2013; Vastveit, 2013). Thus, these LDCs countries enjoy a special privilege which gives them eligibility to export apparel to the US, even if the fabric came from another country. This so-called third country fabric provision was further extended until 2015 and largely explains why large garment exporters, for example, from Asia countries would want to invest in EPZs located in SSA-AGOA member countries. Production in SSA's EPZs provides them with an access to the US market that they might otherwise not have particularly under the now expired MFA that set the quota for Asian importers (IFHR & KHRC, 2008). In contrast, countries not labelled LDCs based on AGOA's categorization are required to abide to the rule of origin. Recent data show that only three countries, namely South Africa, Gabon, and the Seychelles are not categorised as LDCs, and hence are not exempted from the rule of origin (Vastveit, 2013). In September 2015, the AGOA was renewed for an additional 10-year taking its end to 2025.

The relatively liberal rules of the origin under the AGOA encouraged final assembly operations in clothing manufacturing in countries such as Kenya, Lesotho, and Mauritius in early 2000s (Page, 2012). The AGOA has thus been critical in attracting and maintaining investors, and in keeping the levels of exports and employment in SSA's EPZs after the expiration of the MFA in early 2005 although concentrates only within textile and apparel exports, and in a few countries, namely Kenya, Mauritius, Madagascar, and Lesotho (Collier & Venables, 2007). Cling et al. (2005) find that access to large markets in Madagascar, which was made possible through the AGOA, was one of the main factors that contributed considerably to the EPZ policies being relatively successful in the country. After the introduction of the AGOA in Namibia, jobs created in Namibian EPZ increased significantly from 400 in 1999 to 10,000 in 2004 mainly due to presence of a large investment by a Malaysian textile company

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provision, through the end of 2004, and allowed to source fabric from non-African countries. The third party fabric provision was later extended to 2012 and then to 2015 (AGOA, 2013; Vastveit, 2013).

[13] The extension of AGOA up to 2019 is contingent on a successful conclusion to the WTO Doha Development Agenda Round of Negotiations before the end of 2015 (AGOA, 2013; Vastveit, 2013).

named Ramatex, which invested in the country in order to take advantage of AGOA (LaRRI, 2000; Engman et al., 2007). Similarly in Kenya and Lesotho, the EPZ programs only gained impetus after the signing of the AGOA (IFHR & KHRC, 2008; Engman et al., 2007; Farole, 2010). Indeed, the AGOA has been a major factor in the development of the EPZ textile industry in Kenya (IFHR & KHRC, 2008).

It is evident that the EPZs in some AGOA signatories mentioned above have largely benefited from the market prospects presented by the tariff and quota advantages granted by the US under the AGOA and its predecessor, MFA. However, it is argued that the benefits are only short term and unsustainable due to the temporary nature of the preference markets offered by these trade agreements. These preference systems tend to be time bound and beneficiary countries need to be satisfactorily flexible to respond and adapt to changes in trade preferences rule (Kingombe & te Velde, 2015). When preferential tariffs and other trade regulations are changed, the value of EPZ benefits may be reduced. Experience from Kenya can illustrate this point. The period before 30 September 2012 Kenyan EPZ has depended on imports from non-African countries especially Asian countries such as India, Bangladesh, China and Malaysia for their fabric supply. After September 2012, Kenyan textile and apparel companies needed to source raw materials such as cotton and yarn locally to qualify for duty-free imports in to USA. This led to some textile manufacturers considering to relocate elsewhere, one reason being the problem associated with getting competitive materials from local sources. According to Cling et al. (2007) EPZs targeted on garment manufacturing alone cannot be considered as being placed at the core of development and employment policies in Africa after the end of the MFA quotas. Kingombe & te Velde (2015) noted that Mauritius, Madagascar and Kenya have already suffered declines for this reason in recent years. Value added in Madagascan EPZs dropped 5 per cent in 2010. The export oriented apparel in Kenya achieved rapid growth between 2000 and 2004 due to improved access to the US market under the AGOA but subsequently dropped, mainly due to delays in negotiating extension. With effect from September 2012, AGOA required textile and apparel companies in EPZs in countries categorized as LDCs to source raw materials (fabric) locally in order to qualify for duty-free import in to the US market, a condition that most SSA AGOA beneficiaries are unlikely to satisfy. This calls for a need for SSA countries to ensure that their EPZs are able to attract investors who are not heavily dependent on such temporary trade preferences.

Similar situation was experienced in case of MFA. Jayanthakumaran (2003) finds a strong association between the growth of EPZs and the Multi-Fibre Arrangement (MFA), and anticipated lower rates of return and a threat to the existing and prospective EPZs in event of abolishing the MFA. Before the quotas set by MFA were phased out in January 2005 the MFA contributed fairly to reducing the competition SSA countries faced from competitors from Asian countries (McCormick et al, 2006; Vastveit, 2013). In this regard, the end of the MFA had a significant consequence on garment sector exports in SSA (Farole, 2010). The end of MFA, accompanied by the increased competition from Asian export manufacturers has resulted in a decline in assembled apparel from Africa since 2006 (Farole, 2011; Page, 2012). Thus, for EPZ programs reliant on the garment sector, and particularly on time bound preferential markets such as MFA, the impact has been indeed significant. According to Farole (2010), deteriorating competitiveness in the aftermath of the MFA is a well-established reason in support of export stagnation and employment losses since 2005 in Kenya and Lesotho. While the EPZ programmes in some non-African countries have experienced rapid growth in exports and employment, programs in Lesotho and Kenya have suffered. In Lesotho, since then exports are substantially down (by 25 per cent) and, although managed to maintain employment level since 2006, at least 8,000 jobs have been lost since the end of MFA. In Kenya, job losses in the EPZs as a consequence of MFA phase out are close to 10,000 (Farole, 2010). The number of EPZ companies in Kenya declined from 74 registered in 2004, to 68 in 2005, signifying the impact of MFA (IFHR & KHRC, 2008). It is said that Tanzania was unlucky as its EPZ programme was introduced just as the MFA was being wound up (Jayanthakumaran, 2003; Woolfrey, 2013). According to this finding, the result was that the Tanzanian EPZ program initially had commitment from a substantial number of garment manufacturers, almost all of whom ultimately decided against investing in the country and/or have closed down. Equally, at the time Kenya faced great pressure from garment companies which threatened to relocate as the specific advantage Kenyan EPZ could provide in relation to MFA was no longer available (IFHR & KHRC (2008). Against above background, studies such as Stein (2012) associate the failure of EPZs in SSA to the over-dependence on the temporary market access arguing that, the problem arises as many EPZs in SSA have been motivated by aid agencies with promises of special access to foreign markets which have turned out to be limited particularly after the expiration of the MFA. Page (2012) has made similar observation arguing that as investors continuously seek new locations for task-based activities in response to changing costs and incentives, success in attracting and retaining trade in tasks is by no means guaranteed. Task based activities or trade in task mentioned here generally refer to task based production governed by MFA and AGOA rules.

2.3.5.9 The limitation of single factory EPZ scheme

It is also argued that the role of EPZs in determining the location of FDI is quite limited as many SSA EPZ programs are characterized largely by single-factory units (Murayama & Yokota, 2008; Farole, 2010; Kingombe & te Velde, 2015). Farole (2010, 2011) find that one of the reasons African EPZs may be restricted in the improvements they are able to make is that many of the African EPZ programs involve a large number of single factory units. Despite the claim that the infrastructure rationale is one of the most important driving forces behind EPZ development in infrastructure-poor countries, yet many of the African EPZ programs (e.g. Tanzania, Ghana, and Senegal) involve a large number of single factory units (FIAS, 2008; Farole, 2010). Practically, where single-factory units proliferate it is particularly difficult to extend a quality infrastructure environment and privileged customs clearance services to all investors. Addressing investment climate challenges (e.g. ensuring reliable infrastructure, providing on-site clearance, and offering one-stop service) to a dispersed number of companies throughout the country is costly in terms of financial resources, time and capacity of EPZ administrators, and is often ineffective (Farole, 2010). This dependence on single factory units is possibly one of the reasons why African EPZ programs have attracted a low number of foreign investors, major reason being that foreign investors tend to favour access to quality infrastructure and agglomerations (Vastveit, 2013).

Experience from East Asian countries and also from African countries that perform better (relative to other SSA countries) such as Lesotho and Kenya shows that EPZs in these countries are predominantly enclaves (industrial estates or parks), most making use of pre-built factory buildings inside the zones (Farole, 2010). Existing as an enclave (industrial estate) of substantial size in which several firms are clustered has important economic and social implications (Murayama & Yokota, 2008). There are benefits associated with comparative advantages of clustering relative to single factory EPZ scheme. It is argued that clustering of firms within an EPZ stimulates agglomeration economies while single factory schemes do not lead to such advantage (Kingombe & te Velde, 2015). Locating firms on an EPZ, rather than having them scattered around, can facilitate the development of an effective labour pool. It is argued that, such localization tends to create a more industrial atmosphere that helps to build good labour conducts and workplace discipline and culture through demonstration and imitation (Watson, 2001). Also, by locating within an EPZ industrial park (estate), training programs can be pooled leading to further economies of scale. Having many firms in close proximity tends to create competition for workers and managers, and also engenders interactions and collaborations between firms (Watson, 2001; Newman & Page, 2017).While single-factory EPZ scheme which has been adopted widely in Africa including in Ghana, Senegal, and Tanzania can be effective in some circumstances, they also allow an EPZ program to encompass large numbers of investors without adequate consideration for the fiscal and technology transfer impact of domestic firms encouraged into the EPZ regime trough single factory scheme (Farole & Moberg (2014).

2.3.5.10 Location of the EPZs

The competitiveness of the EPZ program is equally determined by the location of EPZs within the country. Poor location is one of the main reasons given in the literature for failure of zone programmes (Vastveit, 2013). In Africa, the location of EPZs is too often determined by political rather than commercial or economic considerations (Engman et al., 2007; Farole, 2011). In this regard, and despite long-standing evidence to the contrary, EPZs are also used as a regional development tool designed to generate investment and employment in remote areas typically characterized by low levels of economic activity (World Bank, 1992; Engman et al., 2007; FIAS, 2008; Farole, 2011; Farole & Moberg, 2014). The result is a fragmentation of focus and limited fiscal resources across numerous EPZs across a country, most of which never take off (Farole & Moberg, 2014, 2017). According to Farole (2011) most African countries have located at least one EPZ in a lagging or remote area, but few have done enough to address the infrastructural challenges, labor skills, and supply access these remote places lack. Previous research shows that using EPZs as a regional development tool aimed at creating investment and employment has often turned out ineffective as developing an EPZ in a remote location tends to require relatively high investments in infrastructure (Engman et al., 2007). The cost of developing necessary infrastructure in the remote area is even higher if no prior infrastructure exists there, than if a well-developed area is opted. Moreover, easy access to skilled labour in under-developed areas is often limited (Kusago &Tzannatos, 1998; Jayanthakumaran, 2003). For these reasons, EPZs used as a tool to create investment and employment in less developed and more remote areas have rarely been effective (Vastveit, 2013; Farole & Moberg, 2014). These findings offer an important lesson to latecomers: when choosing a location for an EPZ, EPZ planners should bear in mind that the economic benefits will be most readily available if it is located close to well-developed areas, usually urban centres where necessary infrastructure, utilities, support services, and ports facilities are often present or it is economical to establish. Engman et al. (2007) highlight that this is particularly significant if the country is less experienced in the establishment and management of EPZs.

2.3.5.11 The increasing role of agglomeration (cluster)

It is commonly argued that the basic idea behind establishing an EPZ in developing countries is to facilitate cluster development or agglomeration of manufacturing activity (Woolfrey, 2013; Zeng, 2015; Koffi, 2016; Newman & Page, 2017). The development of EPZs is often motivated by an attempt to exploit the agglomeration benefits that emerge from the concentration of industrial activities close to one another (Woolfrey, 2013). In this connection, agglomeration is often considered as one of the key drivers of industrial location in EPZs (Page, 2012; Woolfrey, 2013). Agglomeration economies are productivity gains that emerge from concentration of economic activity particularly when firms locate near one another. These benefits can result from localization[14], which commonly means productivity spillovers from locating in close geographic proximity to other producers producing similar products or those operating in the same value chain (Newman & Page, 2017). Possible sources of productivity gains (spillovers) include a dense labour market, information and knowledge spillovers, the ability to share common overheads and services (e.g. utilities), and the opportunity to monitor

[14] They can also result from urbanization, which generally refers to spillovers associated with locating in an area with more economic activity, commonly urban areas (Newman & Page, 2017).

customers and competitors more closely (Page, 2012). Thus, the desire to reduce costs of transporting goods, people and ideas explains why firms prefer to cluster together (Newman & Page, 2017). It is argued that transportation costs are relatively decreased when firms are located near to their suppliers or customers. Also, employees with skills relevant to a particular sector or activity will tend pool in areas where employment in that sector or activity is high. Likewise, firms will be induced to locate in areas where there are a large number of workforces with skills appropriate to their industry. Finally, knowledge spillovers, in particular informal exchanges of ideas between workers and entrepreneurs, are more likely when firms are geographically close to one another (Newman & Page, 2017).

Because of the productivity gains that agglomerations offer, investors prefer countries in which manufacturing is highly concentrated in industrial clusters, indicating that foreign investors favour agglomerations and the existence of external economies of scale (Page, 2012; Vastveit, 2013). Hence, countries with relatively low levels of manufacturing have a disadvantage to other countries where that sector is more developed (Vastveit, 2013). This is possibly one of the reasons why African EPZs have failed to attract significant number of foreign investors. It is generally argued that, individual prospective investors (firms) have less incentive, and therefore, unlikely to locate in a new or less clustered industrial area unless a significant number of similar firms can be induced to locate at the same time (Page, 2012; Newman & Page, 2017). Hence, as large-scale, modern industrial agglomerations are missing in most African (SSA) EPZs, it is very difficult for these EPZs to attract new investment and also more difficult for existing few firms to compete and breakthrough into global market (Page, 2012). Therefore, failure of African EPZs to leverage economies of scale as evident by small scale operations is closely associated with the inability to facilitate agglomerations. By concentrating infrastructure and ensuring attractive business climate, EPZs can facilitate the development of agglomerations that may help overcome minimum size threshold and start to leverage economies of scale that would not otherwise be possible in absence of agglomeration (Collier & Page, 2009; Baissac, 2011; Farole, 2011; Wolfrey, 2013)

2.3.5.12 Coordination problems

Failure in many African EPZs to offer a quality investment environment including better infrastructure and better regulatory services in zones among others has in many cases been due to coordination failures among various government institutions required to create a favourable investment climate in EPZ (Farole & Moberg, 2014, 2017; Newman & Page, 2017). Coordination failures in some African countries, for example, have led to the creation of inefficient multiple, overlapping economic zones programs. The evidence based on experiences from Nigeria, Tanzania, and Ethiopia gathered in Farole & Moberg (2014, 2017), Kinyondo et al. (2016) and Newman & Page (2017) is instructive here. In Nigeria, four years after the establishment of the first EPZ authority, an Oil & Gas Free Zone was further established to manage almost similar activities. This created conflict of interest especially over which of the two authorities had the power over a number of important activities crossing over the two authorities. According to Farole & Moberg (2014) and Newman & Page (2017), Tanzania experience similar coordination challenge as it maintains two competing zones programs (EPZ and SEZ). Although they are both coordinated by the Export Processing Zones Authority (EPZA), EPZ and SEZ in Tanzania report to two separate ministries. Whereas EPZ's affairs were reported to the Ministry of Trade and Industry, SEZ reports wer channelled to the Ministry of Planning, Economy and Empowerment (Farole & Moberg, 2014; Kinyondo et al., 2016; Newman & Page, 2017). According to Farole & Moberg (2014, 2017), maintaining two competing programs and the reporting modality just described in Tanzania not only caused internal policy confusion and competing interest thereby making coordination task more challenging, but also it worsened already limited government budget and sent conflicting signals to the existing and potential investors. Although Tanzanian government eventually enacted the Economic Zones Law of 2011 to merge the EPZ and SEZ programs and therefore to eliminate the problems associated with programs duplicity, the detrimental effects of maintaining two competing programs and the delays to harmonize were already significant and widespread and largely explains the small scale operation (low investment level) in the EPZ (Kinyondo et al., 2016; Newman & Page, 2017). Farole & Moberg (2014) argue that, although having multiple economic zones programs is not necessarily problematic so long as there is effective management and communication, the case is not compelling in the African context as this happens in the absence of design and coordination, often leading to misunderstanding and uncertainty to the investors. Newman & Page (2017) report similar experience in Ethiopia as municipal managed zones and national managed industrial parks begin to compete for investors.

It is further argued that the most common coordination problems occur in the implementation of various aspects of EPZ program, including administration of tax exemptions (Farole & Moberg, 2014; Whitfield et al., 2015; Newman & Page, 2017). This is particularly because at the implementation, different institutions with differing objectives and incentives are required to work toward a common goal. Farole & Moberg (2014) find that poor coordination and lack of alignment of objectives and incentives between institutions responsible with fiscal issues and the autonomous authority responsible in promoting EPZ activity has significantly contributed to the poor outcomes in African EPZs. In Nigeria, for example, disputes between customs and EPZ program (including similar economic zones programs) has existed for more than a decade, with customs refusing to enforce certain important provisions of the EPZ Act (Farole & Moberg, 2014). Whitfield et al. (2015) find similar conflict between the Tanzania Revenue Authority (TRA) and the EPZA whereby lack of harmonization between tax laws and EPZ law has deterred investment flows in EPZs. They find that while EPZA wanted to grant tax exemptions to EPZ firms as prescribed in EPZ Act, the TRA insist on taxing these firms according to the tax law on the argument that the exemption provision is missing in the tax and customs laws. The conflict between these two authorities explain why customs clearing unexpectedly takes much longer time for Tanzanian EPZ companies than for non-EPZ companies. According to Whitfield et al. (2015), the customs clearing time for imports to Tanzanian EPZ companies was three weeks compared to one week for other companies outside EPZ.

Coordination problem is also common between public and private sector in many African EPZ contexts (Farole & Moberg, 2014). According to Farole & Moberg, (2014) this is particularly because in many African EPZ programs government plays dual role. The government develops and at the same time regulate, as a result, its interests tend to be in conflict with private sectors facilitators without considering the broader national interests. In such circumstance, the chances for conflicts of interest to develop are very high. They find that in Lesotho, the public developer of EPZ industrial park is also responsible for promoting, regulating, and in the administration of the licensing function. Misalignment in the expectations of the private sector developers and government in Ghana and Ethiopia, for example, contributed to delays in EPZ development for years (Farole & Moberg, 2014). The public provision of land and factory shells at subsidized prices has in many cases undermined private sector provision of infrastructural facilities, and has resulted in serious shortage of rental space thereby acting as a major obstacle to the flow of FDI in EPZs (Farole & Moberg, 2014). In successful EPZs, policymakers often work closely with the private sector to develop zone policy according to the changing needs (Farole, 2011).

2.3.5.13 The challenge of political stability, rent seeking and corruption

The process by which governments are selected and replaced in Africa, and the extent to which public power is exercised for private gain have also contributed to underperformance in African EPZ programs (Watson, 2001; Agéno, 2004; Sachs et al., 2004; Gibbon et al., 2008; Vastveit, 2013; Whitfield et al., 2015). Collier (2007) and Gibbon et al. (2008) attribute the failure of EPZs in SSA countries to the aspects of conflicts and poor governance rooted in the idea of poverty traps. They argue that poorest countries are characterized by at least one of four-national level poverty traps, namely conflict, poor governance, natural resources 'curse', and being landlocked with bad neighbours. The idea, which is also supported by Sachs et al. (2004) and Poverty Report 2008-09 is that poor governance, combined with civil conflict, has resulted in a highly constrained business environment in the region. Political unrest and volatility have affected FDI within Sub Saharan Africa (Asiedu, 2002). As a result, the flow of FDI to SSA is often impeded by the perception that investing in SSA region is risky (Asiedu, 2002; Sachs et al., 2004). The Poverty Report 2008-09 unveils that there has been a withdrawal of private investment from the most productive sectors in the Solomon Island thus contributing to low economic growth rate. Therefore, the impression to investors that the continent is suffering from governance crisis is unquestionable given apparent examples of severe poor governance, for example in Zimbabwe, and widespread war and violence across SSA countries including the Democratic Republic of Congo (DRC), Liberia, Sierra Leone, and Sudan (Sachs et al., 2004). Foreign investment in Togo and in the Democratic Republic of Congo (DRC) were considerably affected by political unrest in the early 1990s (in DRC situation is still worse) (Madani, 1999).

In some SSA countries (e.g. Kenya, Mozambique, Namibia, and South Africa), influence of political opposition parties (and also the civil society organizations and the media) have been critical of EPZ policies, signifying a lack of consensus and resolute action with possibly harmful effect on investments (LaRRI, 2000; Vastveit, 2013). A report by UNCTAD (2013b) indicates that the growth momentum in Kenya was strong in 2005 through 2007, but this pace was interrupted in 2008 shortly after a severe political crisis that happened in 2007 election. Also, a political crisis in Mozambique in 2000, after a presidential election, also had a severe effect on investment and production levels within the EPZs, and a considerable number (nearly 70 per cent) of workers in the EPZs lost jobs (ILO, 2003; Cling et al., 2005; Vastveit, 2013).

The literature on the business climate factors spot out political stability as one of the significant non-policy factors influencing decision to locate FDI (Darley, 2012; Anyanwu, 2017). According to Darley (2012), a political risk in a country has a negative impact on FDI inflows. Olatunji & Shahid (2015) find that FDI flows to SSA countries unaffected by conflict and political instability exceed those with crisis. Additional recent evidence show that political instabilities in many African countries are forcing Chinese companies to choose factory locations in those host countries that are politically stable and friendly to them (Ozawa, 2016).

In addition to the obstruction caused by the political unrest and volatility, too often money has to change hands to push up things done or to get the services provided (Watson, 2001). Bribes to low-level bureaucrats and payments to fix things done all add to the cost of doing business and reduce competitiveness in the region (Watson, 2001). A highly corrupt bureaucracy operates as a tax on production activities, thereby discouraging production and effort (Agéno, 2004). It is often argued that corruption is one of the greatest obstacles to conducting business in Africa (Anyanwu, 2006; Darley, 2012). According to Khalil & Dahou (2009) corruption is widespread across Africa and is on the top of the list of reasons mentioned by transnational companies to justify why they would not invest in Africa. Some studies such as Stein (2012) and Vastveit (2013) highlight that African customs and other government bodies have been at times corrupt. This is consistent to Watson’s (2001) previous finding that corruption is widespread, and often unfaithful customs officials extract their own ‘taxes’ in ports.

The problem of corruption is not limited to lower level civil servants only. High-level government officials are all too frequently condemned of extracting money for personal gains including supporting ruling political party (“party funds") as a price of doing business (Watson, 2001; Whitfield et al., 2015). In Ghana, for example, some of the obstacles to FDI inflow include bribery and corruption, which are deep-rooted in the political and socioeconomic systems (Mmieh & Owusu-Frimpong, 2004). Therkildsen, & Bourgouin (2012) and Whitfield et al. (20015) report presence of exchange of money and rents in the existing close relationship between ruling party and businesspersons (big investors) in Tanzania. According to Whitfield et al. (2015), since competitive elections began in 1995 following introduction of multi-party system, ruling party needed more financing to maintain ruling coalition in the context of multi-party elections. The ruling party’s need for political financing to facilitate elections gained impetus after 1992, when one-party rule was effectively abolished and the subsidies for the party were reduced. As a result, the ruling party elites developed financing imperative that drove these elites to seek funds from private businesspersons, as well as to use their position in public office to generate wealth through political corruption or starting their own businesses. It is said that government bureaucrats in government agencies particularly Tanzania Revenue Authority (TRA) and the Export Processing Zones Authority (EPZA) are also engaged in rent-seeking in ways that undermined the enforcement of the requirement for EPZ firms to export 80 percent of their production in order to qualify for tax and non-tax incentives offered under EPZ initiative (Whitfield et al., 2015). It seems that access to tax exemptions and rewarding contracts for EPZ firms in Tanzania was sometimes exchanged for rents to involved bureaucrats and sometimes for contributions to the financing of the ruling party (Whitfield et al., 2015; Cooksey, 2016). Based on the Whitfield’s et al. (2015) evidence, the volume of tax exemptions through the zone initiatives (both EPZ and SEZ) and the Tanzania Investment Centre (TIC) (responsible in coordinating and facilitating investment in sectors other than in EPZ and SEZ) varies with the election cycle and peaks around election years. In addition, this exchange of access for financial contributions and rents to bureaucrats made it possible for firms within the zones to reap immediate benefit by diverting part of their production onto the local markets while still enjoying tax breaks. According to Whitfield et al. (2015), enforcing the export requirement also would have reduced the number of firms qualifying for access to the zones and thus reduced the rent opportunities of bureaucrats who controlled access. According to this findings presented here, it seems that maintaining good relations with the ruling party (which has existed in power for more than 50 years) is an important factor for success in business, adding to the challenges of doing business in Tanzania.

Arguably, negative perceptions about Africa are a major cause of underinvestment (Darley, 2012). As noted, the negative perception may be attributed, in part, to failure to maintain political stability, and on the other part, due to perceived and evidence of incidences of corruption and rent seeking (World Bank, 2005a; Darley, 2012). Maintaining political stability in Africa is a challenge to the extent that political instability is rampant across Africa and serves to undermine efforts to attract FDI to the region (World Bank, 2005a; Dupasquire & Osakwe, 2006; Cleeve, 2008; Darley, 2012). In addition, corruption remains a powerful deterrent (Darley, 2012). As a consequence, a country located in SSA will receive less FDI by virtue of its geographic location (Asiedu, 2002).

2.3.5.14 Neoliberal perspectives and interpretations of EPZs

It is argued that, in contrast to the experiences of successful countries in Asia, African EPZ initiatives have been constrained by the anti-industrial policy sentiments rooted in World Bank imposed strategies and in the flawed conceptualization of EPZs by the international financial institutions (Stein, 2012). According to Stein (2012), the World Bank’s conception of EPZs rests into their neoliberal framework and is seen as a proxy to neoliberal trade reform, rather than as an extension of industrial policy. A statement made in Madani (1999:7), a famous World Bank’s publication that “an EPZ is not a first best policy choice; the best policy is one of overall liberalization of the economy” clearly illustrate this. In many of the successful countries, EPZs have been part of a broader industrial policy where EPZs are a component of the broader strategy to transforming institutions to improve developmental competitiveness and industrialize the country (Stein, 2012). The state has had to play a pivotal role in fine-tuning and tailoring the EPZ programme, in a wide variety of ways, to protect and support infant domestic industries and to ensure that the benefits of having FDI materialize, i.e. bringing about rapid industrialization (Siddiqui, 2014). In contrast, in less successful countries in SSA, EPZs are commonly viewed as enclave, often detached from the broader industrial policy strategy of the country. EPZs in Africa have generally had weak backward linkages because they have not been designed with an institutional focus relative to the industrial policy priorities of the country (Stein, 2012).

For the EPZ initiative to achieve desired outcomes, it needs to be seen as a strategy embracing export promotion, industrial policy, and growth centre. Host governments should thus plan the development of EPZs under an overall national industrialization policy (Amirahmadi & Wu, 1995; Stein, 2012).

Moreover, neoliberal approach to EPZs insist on a uniform view as if all situations were the same, thus assuming that industrial policy should be the same for any country (Lopes, 2012). As part of neoliberal prescription, EPZs were presented as universal, similarly applicable in the context of all developing countries. In this regard where the merits of "context" are ignored, the claimed benefits are doubtful. There is evidence that even in countries where EPZs have led to development outcomes, the strategies and policies involved were not universally applied, instead were context specific (Stein, 1995). For example, strategies and policies put in place in Taiwan were not necessarily copied exactly in South Korea or to any other East Asian country, instead a considerable importance was given to specific context in the country in question.

Table 2-4: Summary of key issues examined to explore Research Question 2

Topic examined	Findings
Evolution of development strategies in developing countries after the World War II	Two broad strategies of industrialization: Import substitution (IS) strategy grounded on infant industry theory (prior to 1980s); and export-led growth (ELG) strategy influenced by neoliberal ideology which believe on the comparative advantage and free market principles (beginning early 1980s). ELG strategy used by the Asian Tiger economies was centred on the role of the state as opposed to free market.
Rationale of EPZ initiative	Both policy and infrastructure rationale: To overcome barriers that deter investment in the wider economy, including unfavourable policies, poor governance, inadequate infrastructure and problems related to the access of land (Farole, 2010; Zeng, 2016). Potential benefits to the host country include attracting incremental FDI; employment generation; earning foreign currency; accelerating growth of overall economy through backward linkages; and supporting technological spillovers (Gibbon et al., 2008; Milberg & Amengual, 2008; Virgill,2009; Farole,2010).
Criticisms of EPZs	Encourage footloose FDI; the nature of FDI in the neoliberal context do not allow earnings generated to remain in the country; intensive nature of EPZ import always encouraged by exemption on import duty limit the development of backward linkages needed for domestic industrial development; low potential for skills upgrading as most EPZ activity involves low technology; potential tax revenue is limited due to exemptions and low salaries (Amirahmadi & Wu, 1995; Wu,2009; Alarakhia, 2012; Vastveit, 2013).
Factors influencing success or failure of an EPZ-global experience	It is a combination of factors, including international environment in the context of global trade and the FDI; location; quality of infrastructure; policy and incentive framework; overall quality of EPZ management and administration. The success on the implementation of these factors depends on how the government plays its

	intervention role well (Yuan & Eden, 1992; Amirahmadi & Wu, 1995; FIAS, 2008; Farole, 2011).
Theoretical analysis on why Asian EPZ model has not worked elsewhere, e.g. in SSA context	Successes in Asian Tigers were a result of a high degree of regulation and direction when using EPZs with the government playing a very active role in industrial development. In contrast, late EPZ initiatives were introduced under the tenet of neoliberal policies (implemented through SAPs) that require governments to deregulate their markets and liberalize their economies, in which case, similar government interventions exercised in Asian Tigers are not allowed under recent generation of EPZs. This would suggest that, it will be very difficult to realize EPZ's impact to the same extent as in East Asian countries (or even close to) because the two EPZ models are fundamentally different (i.e. intervention versus unregulated market) (Amsden, 2001; Alarakhia, 2012).
Contextual obstacles to the success of EPZs in SSA	Bad timing (e.g. Farole, 2010, 2011; Newman & Page, 2017); inadequate infrastructure (e.g. Watson, 2001; Farole, 2010, 2011; Page, 2012; World Bank, 2017); comparative disadvantage in labour (Watson, 2001); inefficient zones management and administration (Watson, 2001; FIAS, 2008); inadequate knowledge (Farole & Moberg, 2014, 2017); phased approach to addressing obstacles (Watson,2001; Aggarwal, 2005); lack of vision, consensus, concerted action, and continuity (Watson, 2001); reliance on temporary guaranteed market access such as MFA and AGOA (Stein,2012; Kingombe & te Velde, 2015); prevalence of single factory EPZ scheme (Murayama& Yokota, 2008; Farole,2010; Kingombe & te Velde, 2015); poor location (Engman et al., 2007; Farole, 2011); influence of agglomeration (Page, 2012; Woolfrey, 2013; Newman & Page, 2017); coordination problem (Watson, 2001; Farole & Moberg, 2014, 2017; Newman & Page,2017); use of EPZs as rent seeking tool (Gibbon et al., 2008; Vastveit, 2013; Whitfield et al., 2015); and neoliberal perspectives and interpretations of EPZs by its advocates (Stein, 2012).

2.4 Literature review on the effect of governance on FDI flows

Literature review in this part seeks to examine how governance affects investment location decision. Specifically, it seeks to find out to what extent investor's decision to locate in an EPZ is influenced by the governance. The review concentrates on World Bank's Worldwide Governance dimensions developed by Kaufmann et al. (1999), namely voice and accountability, political stability and absence of violence and/or terrorism, government effectiveness, regulatory quality, rule of law, and control of corruption. As mentioned in the introductory Chapter, World Bank's Worldwide Governance dimensions are the most well known and widely used in determining the quality of governance in developing countries (Arndt, 2010; Gray & Khan, 2010; Thomas, 2010; Kaufmann et al., 2015).

2.4.1 Defining governance

Kaufmann et al. (2010:4) define governance as "the traditions and institutions by which authority in a country is exercised. This includes three aspects: the process by which governments are selected, monitored and replaced; the capacity of the government to effectively formulate and implement sound policies; and the respect of citizens and the state for the institutions that govern economic and social interactions among them". Kaufmann et al. (2010) developed two measures (also referred as dimensions) of governance which correspond to each of these three aspects, which gave rise to six dimensions of governance.

The first of these dimensions is the voice and accountability, which refers to the perceptions of the extent to which a country's citizens are able to participate in selecting their government, as well as freedom of expression, freedom of association, and a free media. The second dimension is political stability and absence of violence/terrorism, which captures perceptions of the likelihood that government will be destabilized or overthrown by unconstitutional or violent means, including politically motivated violence and terrorism. These two dimensions are associated to the first aspect of governance identified above, that is, the process by which governments are selected, monitored, and replaced.

The third dimension of governance refers to government effectiveness. Government effectiveness is captured through the quality of public services, the quality of the civil service and the degree of its independence from political pressures, the quality of policy formulation and implementation, and the credibility of the government's commitment to such policies. The ability of the government to formulate and implement sound policies and regulations that permit and promote private sector development reflect regulatory quality in the host country, which leads to the fourth dimension of governance. Government effectiveness and regulatory quality indicate the extent to which good governance is exercised in host country in terms of the capacity of the government to effectively formulate and implement sound policies.

The extent citizens and the state respect the institutions that govern economic and social interactions among them is determined by the last two dimensions of governance, namely rule of law and control of corruption. Rule of law refer to the extent to which agents have confidence in and abide by the rule of society, and in particular the quality of contract enforcement, property rights, the police, and the court, as well as the likelihood of crime and violence. Control of corruption is concerned with the extent to which public power is exercised for private gain, including both petty and grand forms of corruption, as well as "capture" of the state by elites and private interest.

2.4.2 The effects of governance on FDI flows

2.4.2.1 Theoretical overview

There is an extensive literature on the determinants of FDI flows to developing countries. However, most of this literature (before the mid-1990s) focused more on the economic determinants of FDI that influenced FDI location decision, such as size of the domestic market, availability of raw materials and cheap labour, quality of physical infrastructure, and resource endowments. Macroeconomic factors such as GDP growth rate, inflation, interest rate, and external debt and also business facilitation factors particularly provision of fiscal incentives have also been identified in this literature as key determinants of FDI flows (Wernick et al., 2009; Wernick et al., 2014). Degree of openness of the domestic economy to external trade is also considered vital for FDI. These longstanding determinants of FDI flows to developing countries have been extensively studied and emphasized in existing literature (Addison & Heshmati, 2003;

Heshmati & Davis, 2007). In cases where determinant factors related to governance and institutional quality such as political, regulatory, bureaucratic and judicial environment of host countries were considered in the literature, they were most often considered secondary (Wernick et al., 2009). The perception about the importance of governance environment in host country as a key investment determinant began to change in the 1990s. There exist different explanations in the literature why governance has experienced renaissance in recent years. This shift was caused by the growing theoretical and empirical support that factors such as the levels of corruption, burdensome bureaucracy, unstable political environment, prudent laws and regulations, the transparency of justice systems and the extent to which property rights are protected and contracts enforced were in fact closely linked to FDI flows to developing countries (North, 1990; UNCTAD, 2003; Anghel, 2005; Wernick et al., 2009).

According to Arndt (2009), the renewed interest on the governance was particularly a result of four developments. First is the increase in international investments. FDI in developing countries has become important for international investors in order to serve local markets, global markets or the investors' home markets. As a consequence of increased international investments, governance in developing countries has gained interest. Second, the end of the cold war ended the ideological war between market economy and communism. Developing assistance is not any longer used to support anti-communist regimes or to reduce communist sympathies in developing countries. Third, growing perceptions that many policy reforms in developing countries failed during the 1980s is an explanation for the growth of interest in governance. The fourth reason is connected to the new insights developed by Douglas North and the New Institutional Economics which demonstrates the importance of countries' systems of governance.

The economic rationale of the theory of institutions set forth by North (1990) is that apart from the traditional macro-economic factors such as inflation, GDP growth, exchange rates, life expectancy, and human capital, among others, formal institutions such as constitutions, prudential laws and regulations, taxation, insurance and government policies as well as informal norms of behaviour like traditions, habits and customs affect the perception and willingness of investors to commit to FDI in a country (North, 1990; Mengistu & Adhikary, 2011). The argument is that institutions affect activities through transaction and production costs: as good institutions help to lower transaction costs, they also tend to increase profitability and economic activity (North, 1990, 1991).

Governance in the host country that provides assurance for economic freedom is capable of providing the growth-enhancing incentives for several reasons: they promote a high return on investment through an independent legal system and the protection of private property, they foster a dynamic economy in which a large amount of business can take place and in which competition between different actors occurs because regulations and government enterprises are few; they facilitate predictable and rational decision making through a low and stable inflation rate; and they promote the flow of trade and capital investment to where preference satisfaction and returns are the highest (Johansson, 2001; Mengistu, 2014). The governance in a host country would help to define its investment environment, and therefore creates favourable business conditions for economic growth (Globerman & Shapiro, 2002).

Anghel (2005) highlight that burdensome bureaucracy, more restrictive performance requirements, unstable political situation or economic instability surely would make a potential host country less attractive to FDI. In addition, low protection of property rights over physical capital or profits could be a severe obstacle to investment. The study further claims that a high degree of corruption and a slow bureaucracy can delay the distribution of permits and licenses, slowing down the process of investing in a country. No investor is interested to invest in a country where institutional loopholes encourage corruption, red tape increases the transaction cost of investment, and where the government can expropriate investments (Alemu & Bishnu, 2011). Country that fail to establish good governance environment effectively would be faced with very high costs in market transactions and, consequently, would be unable to support private initiatives, investments, and economic development (Zhuang et al., 2010).

Bénassy-Quéré et al. (2007) identify three reasons why institutional quality (used synonymous to good governance) matters for FDI. First, by raising productivity prospects, good governance may attract foreign investors. Secondly, poor institutions, for instance the presence of corruption, can bring additional costs to FDI. Lastly, due to high sunk costs, FDI is especially vulnerable to any form of uncertainty, including uncertainty arising from inefficient government, policy reversal, or weak enforcement of property rights of the legal system in general. Daude & Stein (2007) argue that by increasing the cost of doing business, poor institutions might have similar effect to taxation. Also, imperfect enforcement of contracts might increase uncertainty regarding future returns and therefore have a negative effect on the level of investment. Additionally, corruption may deter investment by increasing uncertainty and the cost of doing business as investors need to bribe officials in order to push things going (Daude & Stein, 2007). Ideally, no investor is interested in locating in a country where the governance and institutional environments provide loopholes which encourage corruption, red tape, high transaction costs, and where the protection of private investment property from government expropriation is low (Mengistu & Adhikary, 2011). The existing notion derived from this theoretical perspective is that all countries should pursue higher governance quality to attract more FDI because countries with good governance environments tend to attract more FDI (Anghel, 2005; Li, 2005). However, recent literature (e.g. Miller, 2014) have challenged this notion, arguing that different investor home countries evaluate host country's governance environment differently, and they have demonstrated that this evaluation is particularly influenced by the difference between the governance background of the two countries.

In sum, in the view of IFIs, the failure to bring about desired outcomes in developing countries was associated to poor governance. Hence, the concept of governance came to prominence at the same time as the rise of neoliberalism (Ives, 2015). It is highlighted that although the renewed interest on governance has its background on the policy recommendations embedded in the Washington Consensus, the theoretical foundation underlying the concept of governance is inextricably linked to the neoliberalism (Bond, 2005; Lopes, 2012). In addition to the usual neoliberal policy prescriptions (see 2.1.2 for these) under which the Washington Consensus falls, government transparency and investor guarantees (usually accompanied by bilateral investment protection agreements) are also prescribed in the list for countries wishing to attract FDI (Seeraj, 2008). Specific policy recommendations within the Washington Consensus include, among others, such objectives as improving institutions, and reducing corruption. Regarding improvement of the institutions, the institutional foundations of the market economy had to be established or strengthened or both, and this included dismantling of the state bureaucratic procedures and reducing corruption. Further to this, the Consensus also advocated securing property rights for foreigners in developing countries (Lubliner, 2006; Todaro & Smith, 2006).

2.4.2.2 Empirical evidence

The evidence on the effect of host country's governance on FDI flows is somewhat inconclusive. There are variations among different dimensions of governance studied. Some have shown strong positive relationship while others have not. Conclusion related to corruption is at best mixed. The empirical findings discussed in sub-sections 2.4.2.2.1 through 2.4.2.2.6 are also summarized in Appendix 1.

2.4.2.2.1 Empirical views on the effect of voice and accountability on FDI flows

In empirical literature, some studies have captured the impact of voice and accountability on FDI flows while others have failed to establish expected relationship. Stasavage (2002) finds that FDI flows is strongly related to the presence of political checks and balances. The findings of the study concludes that shifting from an authoritarian political system characterized by few checks and balances to a political system where multiple checks and balances exist (i.e. where executive and legislature are monitored by separate parties) would, in the long-term, result into an increase of 16 percent in private investment. Using different methodology, Harms & Ursprung (2002), and Busse (2004) find that MNCs are more likely to be attracted to democratic countries. In contrast, evidence from studies such as Gani (2007), Mengistu & Adhikary (2011) and Jadhav (2012) do not reveal a positive relationship between FDI flows and voice and accountability. Using a sample of countries from Asia and Latin America, Gani (2007) report that voice and accountability has the expected positive sign but statistically insignificant. Mengistu & Adhikary (2011) did not find evidence to support a relationship between voice and accountability and FDI inflows in 15 Asian countries. They argue that, perhaps this is due to the fact that not all democratic governments maintain good governance and not all autocratic countries have poor governance system.

2.4.2.2.2 Empirical views on the effect of political stability and the absence of violence

Political stability is necessary if markets are to work effectively in allocating resources and building confidence of investors and other economic agents in undertaking long-term investment. Political stability in the host country is very important because foreign firms are unlikely to invest their capital in areas of high political risks. Presumably foreign investors would like to invest in countries with political stability to ensure the continuity of policies by government (Yerrabati, 2014; Hawkes & Yerrabati, 2015). Experience shows that almost all fast growing East Asian countries have maintained political stability during the key development years and such a political stability has indeed enabled governments in East Asia to turn their long-term plans into reality (Mengistu & Adhikary, 2011; Megistu, 2014). Although mixed results are reported, there is, however, more studies which report that political stability are positively correlated with FDI flows (Anghel, 2005; Gani, 2007; Naudé & Krugell, 2007; Mengistu & Adhikary, 2011; Asiedu, 2013; Fiodendji, 2013; Wernick et al., 2014). Anghel (2005) report that unstable political situation or economic instability would make the host country less attractive for any type of FDI. FDI inflows are greatest in countries that have less political risk (Clarke & Logan, 2008). Political instability has negative impact on FDI inflows (Kyereboah-Coleman & Agyire-Tettey, 2008). According to Mengistu & Adhikary (2011), political stability and absence of violence has played a crucial role in stimulating FDI inflows in Asian countries. Asiedu (2013) finds that likelihood of crime and violence facilitates (deter) FDI inflows in Africa. Wernick et al. (2014) report that political stability has a direct effect on FDI flows to countries without abundant natural resources in Africa. FDI flows in countries rich in natural resources is less influenced by the level of political stability. Jadhav (2012) and Gangi &Abdulrazak (2012) do not find any real impact of political stability on FDI inflows. Wheeler & Mody (1992) found that bureaucratic red tape, political instability, corruption and quality of the legal system, has no significant influence in determining the location of US foreign affiliates.

2.4.2.2.3 Empirical views on the effect of government effectiveness

Government effectiveness refers to the quality of public services and credibility of government's commitment towards the policies. It reflects the state's capacity to formulate and implement sound policies. This indicates the freedom and quality of public and civil services and the quality of the government to formulate policies and implement them.

Baniak et al. (2005) find that the time requirements and the complexity of bureaucratic procedures influence the expected utility from profit, thereby affecting the results of FDI location decisions in some transition economies. Rammal & Zurbruegg (2006) show that ineffective investment regulations such as price controls and excessive regulation in foreign trade and business development have an adverse effect upon intra-ASEAN FDI and were important factors in explaining the downward trend observed in Association of Southeast Asian Nations (ASEAN) FDI flows at the time. Bénassy-Quéré et al. (2007) endorse that FDI flows is highly dependent on the level of bureaucracy in the host country. In search for causal relationships between FDI flows in Africa and the ranking according to WGIs, Gangi &Abdulrazak (2012) find that government effectiveness in a whole has a positive impact on FDI flows. Government effectiveness has been found to be a powerful factor in explaining FDI inflows to East Asian countries (Mengistu & Adhikary, 2011; Mengistu, 2014). Their findings suggest that successful East Asian economies have attracted huge amount of FDI in their respective countries because they have consistently improved government regulatory effectiveness and governance practices in relation to FDI.

2.4.2.2.4 Empirical views on the effect of regulatory quality

Regulatory quality measures market-friendly policies such as price controls or inadequate bank supervision as well as other efforts to relieve excessive regulations in areas of foreign trade and business development (Mengistu & Adhikary, 2011). Naudé & Krugell (2007) establish a strong relationship between FDI flows and the regulatory burden in host country. Despite expectation that regulatory quality would have positive relation with inward FDI, Mengistu & Adhikary (2011) find that regulatory factors have no significant influence on the FDI inflows to Asian countries included in their study.

Similarly, Gangi & Abdulrazak (2012) do not find the positive relationship between the regulatory quality and FDI inflows to African countries.

2.4.2.2.5 Empirical views on the influence of rule of law

This indicates the quality of contract enforcement as well as the likelihood of crime and violence. Rule of law in broad terms includes: an effective, impartial and transparent legal system that protects property and individual rights; public institutions that are stable, credible and honest; and government policies that favour free and open markets. These conditions encourage FDI and presumably private domestic investment as well, by protecting privately held assets from arbitrary direct or indirect appropriation. Globerman & Shapiro (2003) find that the location and amount of the United States' FDI flows to countries from the period 1995 to 1997 were significantly determined by the quality of host country's legislation, regulation, and legal system. Javorcik (2004) examined the effect of country's Intellectual Property Right (IPR) protection system on the composition of FDI for a group of transition economies in Eastern Europe and the former Soviet Union. The results indicate that weak IPR protection has a negative effect on FDI in technology-intensive sectors. Using sectorally disaggregated FDI data and a large sample of host countries, Nunnenkamp & Spatz (2004) examined the linkage between IPR and FDI and report that stronger IPR protection played a critical role in attracting FDI. Baniak et al. (2005) find that legal stability is crucial for stimulating FDI inflows, and increasing transparency regarding the legal framework of a country influences FDI decisions. Naudé & Krugell (2007) support this finding and highlight that the rule of law strongly determines FDI decisions. Also critical to FDI decisions is the presence of participatory, transparent, and accountable governance systems that promote and enforce the rule of law in the host country (UNCTAD, 2008). Mengistu & Adhikary's (2011) empirical results based on Asian economies reveal that the rule of law is also among important dimension of good governance that plays a positive role in facilitating FDI inflows to a host economy. The implication is that an effective, impartial and transparent legal system that protects property and individual rights and public institutions that are stable and credible encourage foreign investors to undertake long-term investment, but also increase domestic investment. Similarly, Gangi &Abdulrazak (2012) and Asiedu (2013) find that rule of law have a positive impact on FDI flows to African countries.

2.4.2.2.6 Empirical views on the impact of corruption

The influence of corruption on the FDI flows is studied in several studies, and there is an emerging consensus that presence of corruption in host country prevents FDI inflows (Wei, 2001; Habib & Zurawicki, 2002; Zhao & Du, 2003;Voyer & Beamish, 2004; Aizenman & Spiegel, 2006; Kersan-Skabic & Orlic, 2007; Ali-Sadig, 2009; Kinda, 2010; Mengist & Adhikary, 2011; Ferreira et al., 2013). These studies generally relate corruption to the added costs of doing business in highly corrupt countries. However, the empirical and even theoretical evidence on the effect of corruption on FDI decisions is inconclusive (Ferreira et al., 2013). Not all the empirical evidence available in the existing literature lead to the conclusion that corruption deters FDI flows. Other studies report that corruption may hold a positive effect on FDI flows. It is argued that corruption could act as “grease” especially in those countries where institutions are weak or have not been fully established, and regulation is either excessive or ineffective, i.e. in presence of weak regulatory environment (Cuervo-Cazurra, 2006; Quazi, 2014; Quazi et al., 2014). In these circumstances, corruption may speed up transactions by overcoming institutional inefficiencies (Ferreira et al., 2013). Thus, the rationale for the positive effects of corruption on FDI is that corruption may contribute to eliminate excess bureaucracy. When institutions are weak, the legal system doesn’t work effectively. In this case, the regulatory burden in the hands of bureaucrats acts as a rent seeking tool working through red tape and other harassment tools. Egger & Winner (2005) used data from 73 countries (both developing and developed) to confirm that corruption is a stimulus for some kinds of FDI. Similarly, Wu (2006) confirmed that investors from countries with high corruption find host-country corruption less of an impediment to FDI. Recently, using data from 30 SSA countries, Ezeoha & Cattaneo (2011) concluded that corruption serves as a “helping hand” in the flow of FDI to the region. Other recent studies such as Quazi (2014) and Quazi et al. (2014) also support the positive relationship between FDI inflows and the presence of corruption. Using data from 53 African countries, they find that corruption facilitate FDI inflows to Africa by acting as a helping hand or "grease" in the presence of a weak regulatory environment. Some studies, such as Wheeler & Mody (1992), Henisz (2000), Gangi & Abdulrazak (2012) do not find any relation between level of corruption and FDI flows.

2.5 A review of effectiveness of, and factors contributing to the persistence of tax incentives

This part of the literature seeks to provide an overview of the effectiveness of tax incentives as a policy tool to attract FDI. The review focuses on addressing Question 4 of the study which seeks to find out relevant theoretical and empirical evidence to support why is the use of tax incentives as a policy tool to attract FDI in Tanzanian EPZ has remained politically attractive? Would the investors' location decision change if no or lower taxes were offered in Tanzanian EPZ?

2.5.1 Definition of tax incentives

A key feature of any definition of tax incentives is the preferential treatment of particular tax payers relative to others. Tax incentives are special provisions in the tax laws which allow an exclusion from income, a higher-than usual deduction or special deduction, a tax credit, or a reduction in the tax rate. In effect, it provides the taxpayer with a subsidy without having to go through the tax collection and budgetary dispensing process (Matziorinis, 1980). Bolnick (2004:1-4) describe tax incentives as "fiscal measures that are used to attract local or foreign investment capital to certain economic activities or particular areas in a country". Through tax incentives, governments try to reallocate or attract domestic and foreign capital using selective tax incentives that give a more favourable tax treatment to certain economic activities (Van Parys & Klemm, 2010).

2.5.2 Types of tax incentives

Investment tax incentives generally take the form of direct or indirect taxes (World Bank, 2013). Incentives through direct taxes target the tax rate as well as capital recovery of invested amounts, and typically include temporary exemptions on corporate income taxes (tax holiday), preferential tax rates/reduced tax rates, accelerated depreciation, investment allowance, and tax deductions through investment tax credit (Bolnick, 2004; Easson, 2004; Klemm, 2009; Van Parys and Klemm, 2010; World Bank, 2013). Tax incentives through indirect taxes are usually done by exempting certain inputs from import tariffs, excises and VAT (Klemm, 2009; World Bank, 2013). Indirect tax incentives are either partial or full exemptions from import duties, and/or

Value Added Tax (VAT) on raw materials and capital goods purchased by qualified firms. Tax incentives can also take a form of financing incentives, which is provided through reductions in tax rates applying to providers of funds, for instance, reduced withholding taxes on dividends and interest (Klemm, 2009).

Although the intention of all these types of incentives is the same-to provide relief on the business investment through reduction of the tax burden, a brief account on some of these is necessary as they have different cost, revenue, and administrative implications. When preferential tax rates are used to induce investors, a rate below normal Corporate Income Tax (CIT) rate is applied to designated sectors, such as manufacturing or agriculture; or to activities with particular characteristics, such as a listing on the stock exchange; or to selected beneficiaries based on discretionary screening criteria (Bolnick, 2004). This type of incentives is under heavy criticisms. It is argued that, revenue loss can be much larger than it appears because this measure encourages aggressive tax planning arrangements by companies engaged in multiple businesses. Also, the administration of multiple tax rates may be complex especially in determining qualifying businesses. In addition, the tax benefit is likely to be redundant due to the fact that tax relief provided by this incentive goes to the most profitable activities, presumably the ones that least need a special incentive to be commercially viable. It is often argued that directing incentives to selected sectors/activities even when they have a low rate of return reduces overall productivity of the economy, unless the designated sectors, on the whole, yield substantial positive externalities or dynamic benefits (Bolnick, 2004; Easson, 2004).

A tax holiday is a preferential tax treatment that grants complete exemptions (a zero rate) from paying tax on profits within a limited duration. Tax holiday is a well-known tax incentive specified for newly established companies. Under this incentive, new investors will be exempted from any form of income tax during a specified period (Fahmi, 2012). It is a temporary exemption of a new firm or investment from certain specified taxes, typically corporate income tax (James, 2009). Sometimes administrative requirements are also waived, notably the need to file tax returns (Klemm, 2009). Probably this is the most criticized type of incentives (World Bank, 2006; Gibbon et al., 2008). Limitations of tax holidays are further discussed in section 2.5.6.

Investment allowances are incentives that allow certain percentages of the initial costs of plant and equipment to be written off immediately as expenses in the current period, in addition to the normal 'accounting' depreciation allowances. Compared with tax holidays, these incentives are much better targeting instruments for promoting particular types of investments, and their revenue costs are much more transparent and easier to control. Although they may have little value to an investment that would show large tax losses in early years, investment allowance is a type of tax incentive that is most amenable to both effective targeting and transparent administration (Bolnick, 2004; Njeru, 2012; Njeru & Ndimitu, 2015). Investment tax credit offers incentive in the manner similar to an initial capital allowance (included within investment allowances discussed above) if the CIT rate is uniform. It provides specified percentages of investment costs that could be deducted from CIT liabilities (Easson, 2004).

Typical tax incentives in EPZs include tax holidays and duty-free imports of capital goods and raw materials import duty, and exemption on VAT on purchases used for the purpose of production for export. The burden of VAT is also eliminated by zero rating export sales. As incentive for investing within the EPZs and as a tenet of neoliberal economics, governments commonly grant an initial period (i.e. tax holiday) within which the corporation, either local or foreign, is exempted for almost all domestic taxes (Alarakhia, 2012). Tax holidays cover exemptions from corporate income tax, withholding taxes on dividends and interests for a specified period, usually between 5-10 years depending on a country. Also, in some countries, EPZ investors are exempted from paying Local Government Authority's taxes and levies (World Bank, 1992 Njeru, 2012; Njeru & Ndimitu, 2015).

2.5.3 Why government introduces and preserves tax incentives?

This section provides an overview of the motivations for granting tax incentives. It seeks to provide evidence to support why granting tax incentives is an attractive strategy in some developing countries. Convincing economic justifications for granting tax incentives are rare (Easson, 2004; Goorman, 2005). Justification for the use of tax incentives aimed to attract FDI rests on certain arguments founded on neoliberal prescriptions, some of which are challenged by the literature discussed in sub-sections 2.5.4 to 2.5.6. By enhancing higher rate of returns on investment, tax incentives translate directly in to greater incentives for more investment. Therefore, it is argued that if properly designed and implemented, tax incentives are a useful tool in attracting investments that would not have been made without the provision of tax benefits (Zolt, 2015). Thus, such tax incentives are considered desirable, in that without government intervention the level of FDI will be sub-optimal (Zee et al., 2002; Margalioth, 2003; Easson, 2004; Zolt, 2015). Use of tax incentives is also justified by positive externalities arising from investments generated. It is also argued that tax incentives are relatively easy to target and fine tune to suit other policy objectives such as job creation, regional development, and upgrading of the workforce. Moreover, introducing investment tax incentives is an indication of openness to private investment, and can signal a country's commitment to facilitating investment. It also markets the country as a favourable investment location (Bolnick, 2004).

Another popular justification for the use of tax incentives rest on the well-known argument that, they are necessary for responding to tax competition from other jurisdictions (Bolnick, 2004; Klemm, 2009). When other countries compete for the same investment through tax incentives (i.e. tax competition), a rational decision would be to match the tax incentives (Bolnick, 2004). In a global economy with high mobility capital, the effective tax rate on capital has to be low in order to remain attractive to investors (Edwards & Veronique de Rugy, 2002; Klemm, 2009). Tax competition is particularly associated to the wide use of tax incentives in developing countries (Zodrow & Mieszkowski, 1986; Bolnick, 2004; Wilson & Wildasin, 2004; OECD, 2007; Klemm, 2009).

As previously discussed under the core theories of neoliberalism (e.g. section 2.1.2) neoliberal logics rests on the role of the market, as achieved by means of privatization, liberalization and deregulation (Haque, 1999). Liberalization of trade and investment by reducing import tariffs, and exempting foreign companies from taxes is one such neoliberal principles and policies relevant to the discussion under the current heading. World Bank highlighted that government incentives for export promotion such as tax exemptions were particularly useful and since then this kind of intervention has been a part of EPZ strategies in developing countries (World Bank, 1993). For this reasoning and the arguments just presented above, developing countries wishing to attract FDI are urged by the IFIs and bilateral and multilateral donors as part of neoliberal policy prescriptions to offer tax breaks and the governments of these countries usually abide to this neoliberal prescription in the hope that MNCs will locate in their countries (Haque, 1999; Seeraj, 2008). Neoliberal approach to taxation moreover argues that taxes should be kept as low as possible since they distort resource allocation (Teeple, 2000).

Another common argument for the use of tax incentives is that tax incentives may compensate for other deficiencies in the overall investment climate, thereby, enticing investors who would otherwise not consider investing because of the infrastructural and governance problems prevalent in these countries (Bolnick, 2004; FIAS, 2008; Farole, 2010). This argument is common in SSA countries. Tax incentives is also justified by the indirect revenue impact, in that increased investment may also increase government budget indirectly through increased tax revenues received from employees, suppliers, and consumers (Bolnick, 2004; Zolt, 2015).

It is also argued that tax incentives offer political advantages over other types of government action available to stimulate investment such as direct expenditure and, as such, it is not surprising that governments often opt for tax incentives (Bolnick, 2004; Zolt, 2015). These studies argue that the cost of tax incentives is less visible than that of investment promotion policies that involve explicit cash outflows; tax incentives do not require an actual expenditure of funds by the government, while some alternatives do, such as the provision of subsidies to investors. According to Sanchez-Ugarte (1995), tax incentives simplify the transfer of resources since an actual disbursement is not involved nor does the normal budgetary process control them. It is also much easier to provide tax benefits than to correct deficiencies in, for example, the legal system or to improve the infrastructure in a country (Zolt, 2015). Most tax incentives are granted for investment since these types of incentives are less difficult to apply (Sanchez-Ugarte, 1995). As Bolnick (2004) explains, although these arguments are rarely articulated out openly, there is no doubt that they contribute to the political attraction of tax incentives in some developing countries compared to alternatives that have a direct budgetary impact, such as infrastructure development for EPZs.

Finally, another main argument for investment tax incentives is that they have been successfully used in a number of countries. Experience from countries such as Ireland, Mauritius, Malaysia, and Cost Rica demonstrates that tax incentives can work (Bolnick, 2004).

2.5.4 Main arguments against tax incentives

Despite their widespread use, and the theoretical justification just described in previous section, the usefulness of tax incentives is often challenged in the literature (IMF, 2008). Even though the granting of tax incentives might be economically rational under certain circumstances, this policy presents severe shortcomings. Tax incentives often have more harmful side effects than the market inefficiencies they attempt to correct (Sanchez-Ugarte, 1995). Granting tax incentives clearly entails different costs. In considering the main arguments against tax incentives, it may be useful to analyse four broad types of costs which are caused by tax incentives: revenue costs; distortionary effects, i.e. distortions between investments granted incentives and those without incentives; administrative resources required to administer them; and the social costs of corruption and/or rent-seeking activities connected with abuse of tax incentive provisions (opportunities for corruption and rent seeking behaviour).

2.5.4.1 Revenue loss

Neoliberal approach to taxation and FDI requires lower tax rates for businesses (i.e. exempting foreign companies from import duties and taxes) in order to compete with other countries for foreign investment and to prevent losing foreign investment to competitors (Haque, 1999; Bond, 2005). This tendency in turn results into a loss in government revenue as shown in the following arguments. The tax revenue losses from tax incentives come from two primary sources: first, forgone revenue from projects that would have been undertaken even if the investor did not receive any tax incentives; and, second, lost revenue from investors and activities that improperly claim incentives or shift income from related taxable firms to those firms qualifying for favourable tax treatment (Zolt, 2015).

There are different ways, through which tax incentives do cause a loss of revenue. Foremost, forgone revenue from projects that would have been undertaken even if the investor did not receive any tax incentives. Ideally, the objective of granting tax incentives would be to offer tax incentives only to those investors who would invest elsewhere but invest to the country for the tax incentives. Therefore, a tax incentive is redundant, or unnecessary, when it does not considerably affect the investment decision. Offering tax incentives to those investors whose decisions to invest are not affected by the proposed tax benefit just results in a transfer to the investor from the host government without any gain (Zolt, 2015). Availability of tax incentives to fundamentally viable investment projects would simply represent a free gift from the government to either the investor or, to the treasury of investors' home countries (Bolnick, 2004). Also a tax incentive is partially redundant and a portion of it is a revenue loss to the host government when the benefit package is more generous than necessary (Bolnick, 2004). However, in either case it is very challenging to determine those investments that would not have been undertaken without tax incentives. In practice, it is very difficult to establish whether a given tax incentives is necessary, redundant, or partially redundant (Bolnick, 2004; Zolt, 2015).

Tax incentives may also contribute to a loss of revenue if investor originates from a country which its tax system taxes worldwide income upon repatriation, subject to a tax credit for the tax liability attributable to the host country. Under this arrangement, a tax incentive in the host country or a tax rate below that in the investor's home country is simply offset by additional tax payable in the investor's source country. In such case, the tax incentive may have no effect on the investment decision (Bolnick, 2004; Njeru, 2012; Njeru & Ndimitu, 2015).

Tax incentives also contribute to indirect revenue costs where, for example, goods from a company operating in an EPZ leak to the domestic economy (e.g. through smuggling), which then reduces the income of domestic competitors. Indirect revenue losses also arise where companies which enjoy tax benefits bid away skilled labour and raw materials from local firms who pay full tax (Bolnick, 2004).

Other revenue leakages occur through abusive tax planning. Tax incentives often create opportunities for businesses to engage in aggressive tax planning. Tax planning involves careful application of the various provisions of the tax laws to structure one's affairs in order to defer, reduce or even eliminate the amount of tax payable to the government without breaking the tax law (Mgammal & Ku Ismail, 2015). Through tax planning, well-intended tax incentives can be converted into a revenue loss. For example, when a tax holiday period is about to expire, an existing company can close down all of its operations and establish a new company that qualifies for a full tax holiday which is usually available to only new firms. Also, in a related party transactions income may be shifted from a taxable companies within a corporate group to a related one in a tax favoured country. Transfer pricing on purchases and sales (i.e. the price at which the goods or services are transferred or sold between subsidiaries within a corporate group) constitutes an important channel of tax planning (Bolnick, 2004).

2.5.4.2 Distortionary effect of tax incentives

Perhaps the main theoretical objection on the use of tax incentives rests on the argument that tax incentives create distortions (Zee et al., 2002; Bolnick, 2004; Easson, 2004; Zolt, 2015). According to this literature, the distortionary effects of tax incentives are of two types: first, business decisions of firms are distorted; and, second, competition between firms is also distorted. In some cases, investment decisions are made that would not have been made without being encouraged through tax incentives, resulting in an inefficient allocation of resources. Thus, tax incentives interfere with the normal working of the market. Zolt, (2015:15) observes that in such case, "the tax incentives will cause allocation of resources that may result in too much investment in certain activities or too little investment in other non-tax favoured areas". In addition, where tax incentives is not among the most important factors influencing firm's location behaviour, offering tax incentives is a wastage because the firm is rewarded for doing what it had intended to do (Easson, 2004).

As mentioned, another distortion caused by tax incentives arises from the competition between those firms that qualify for tax incentives and those that do not (Easson, 2003). Tax incentives create differences in effective tax rates and thus distortions in allocation of investment between activities that are subsidized and those that are not (World Bank, 2008). Tax incentives distort resource allocation as some activities are encouraged over others not because they are necessarily more economically productive, but simply because they have been granted tax benefits (Easson, 2004; Zee et al., 2002). In this case, tax incentives create inequality since they benefit some investors only (Easson, 2004). Further critics challenge tax incentives on the ground that are not based on investors' performances, as a result poor performing companies benefit along with better performing (ILO, 1998). It is further argued that, such distortionary effect would also arise wherever tax incentives are incorrectly granted to investment with no positive externalities (Njeru, 2012; Njeru & Ndimitu, 2015). Use of tax incentives may also give rise to unintended distortions outside the scope discussed above, including the following. Investors may not wish to remain in the country once their tax holidays end, and they may arrange to come back as new investors in order to qualify for the tax advantage. Too often, tax incentives are endorsed without sufficient consideration to their potential harmful effects (Easson, 2004).

2.5.4.3 Impact on administration-enforcement and compliance costs

Tax incentives are difficult to administer and sometimes open to abuse (Zee et al., 2002; Easson, 2004). There are administrative resources related to enforcement of the tax rules and compliance. The level of enforcement and compliance costs is dependent on the complexity of the tax incentive regime (Zolt, 2015). Thus, enforcement and compliance costs may be enormous given multitudes of tax incentive schemes to be administered by a tax authority in a country (IMF, 2008). Tax administrators may spend most of their time monitoring and regulating incentives although it is also difficult to get revenue authorities committed to spending resources to monitor tax incentive schemes (IMF, 2014). In most cases, revenue authorities seek to use their limited administrative resources to improve tax collection, so it is not surprising that they sometimes fail to grant genuine exemptions on qualified firms (Zolt, 2015).

2.5.4.4 Opportunities for corruption and rent seeking actions

The view that some fiscal measures give rise to economic rents and induce rent-seeking behaviour on the part of economic agents, thereby leading to economic inefficiency has become increasingly popular in the literature (Sanchez-Ugarte, 1995). Tax incentives represent one of the primary cases of rent-inducing fiscal measures (Sanchez-Ugarte, 1995).

Rent seeking occurs when the free market is not working efficiently as intended due to some limitations. These limitations tend to create opportunities for some groups of market actors to benefit from the limitations (Krueger, 1974). In the perspective of rent-seeking literature, rent is defined as an undeserved reward sought through a quest for privilege (Hillman & Ursprung, 2015). From this definition, rent seeking is the quest for privileged benefits from government (Hillman, 2013; Aidt, 2016). The seeking of rents benefits individual but social loss is incurred because resources are used in unproductive distributive quests (Hillman & Ursprung, 2015). The terms rent seeking and corruptions are often used interchangeably in the literature although it is clearly possible to have rent seeking without corruption (Aidt, 2016). Rent seeking can be but is not necessarily accompanied by corruption (Hillman & Ursprung, 2015). Rent seeking may also take other forms such as bribery, smuggling, and black markets (Krueger, 1974).

There is a growing concern in the literature that granting of tax incentives creates opportunity for corruption and socially unproductive rent seeking activities (Zee et al., 2002; Njeru, 2012; Njeru & Ndimitu, 2015). Several studies have expressed concerns on the potential for rent seeking behaviour. According to Sanchez-Ugarte (1995), tax incentives have often been motivated by political rather than economic factors, generating rent seeking actions by economic agents. IMF (2008) is also concerned that tax incentives could result in rent seeking and other undesirable activities. OECD (2013) point to the administrative discretion in the management of tax incentives as seriously contributing to the risk of corruption and rent seeking. International experience gathered through IMF (2014) indicates that tax incentives create inefficiency and inequalities through socially destructive rent seeking behaviour by prospective applicants**.**

The literature demonstrate that, the opportunity for corruption and rent seeking is much greater for tax incentives regimes where officials have much discretion in determining which investors receive favourable treatment. The potential for abuse is also high where no clear guidelines exist for qualification and in countries where level of transparency is low (IMF, 2014; Zolt, 2015). Experience indicates that tax incentives score poorly in terms of transparency and accountability in most low income countries (Bolnick, 2004; Masters, 2006). The existence of corruption and other rent-seeking behaviour associated with the granting of tax incentives can be a major obstacle to foreign investment in a country (Zolt, 2015).

2.5.5 Effectiveness of tax incentives

The arguments discussed in previous section (2.5.4) are further supported by ample empirical evidence which mostly confirm that tax incentives are not an important factor in attracting foreign investment (IMF, 2008). There is a well established consensus that tax incentives often play only a minor role in FDI location decisions. A wide range of factors including labour costs, labour skills, proximity to strategic markets and the general institutional and business environment including corruption, have been identified as important (Gibbon et al., 2008). Though justifiable in some circumstances, tax incentives are still regarded as essentially undesirable (Easson, 2004).

Recent investor survey studies have consistently reported that redundancy ratio is relatively high. The higher redundancy ratio implies that, the number of firms which would have invested without tax incentives is by far higher than those who would have not invested without tax incentives (James, 2013a; 2013b; Mwachinga, 2013). Results of investor motivation survey conducted in East African Countries (Mwachinga, 2013), Mozambique (Bolnick, 2009), Malawi (Nsiku, 2013) and a wide range of developing countries including 7 Sub Saharan Africa countries (James, 2013a;2013b) indicate that most investors surveyed would have located their investments in the host countries even without tax incentives. UNIDO's (2011) investor survey report for Africa which surveyed 7000 firms in 19 countries finds that tax incentives ranked 11th out of 12 location factors considered important in location decision. Also, the World Bank (2005b) found that among 40 factors taken into account by firms as important while determining investment location, tax incentives were not even among the top 16 factors in the Caribbean region.

Van Parys & James (2010) used econometrics techniques to investigate to what extent tax incentives are effective in attracting investment in 12 SSA Franc zone countries. They find no strong positive relationship between tax holidays and investment; instead, increasing number of legal guarantees for foreign investors and reducing the complexity of the tax system helps to attract investment.

In a review of various literature on the influence of taxes on FDI, Tavares-Lehmann et al. (2015) found that, although taxes are an important factor influencing investment location decision, they are in all possibilities not the main driver of the decision. Rather, taxes only play a marginal role compared to other determinants of FDI inflows. Taxation plays a role in affecting multinationals' location decisions, but it is not equally important in all decisions (Devereux, 2006). Although all factors affecting investment process seem equally important, taxes are not among the top three factors influencing investment location decision (Ernst & Young, 2010).

One key consideration why developing countries in Sub Saharan Africa offer generous tax incentives is to compensate for the inefficient broader investment climate (Bolnick, 2004). However, empirical evidence has failed to confirm this claim. For many developing countries, tax incentives do not effectively counterbalance unattractive investment climate conditions such as poor infrastructure, macroeconomic instability, and weak governance (James, 2009, 2010, 2013a). A lower tax burden cannot compensate for a generally weak or unattractive FDI environment (OECD, 2008). Wells et al. (2001) highlight that tax incentives will generally neither make up for serious deficiencies in the investment climate nor generate the desired externalities. Rolfe & White (1999) noted that even where tax incentives appear to have small effect on FDI (as in the case of industrialized countries), tax holidays and import duty exemptions are unlikely to attract FDI if non-tax factors are not conducive. Non-tax factors are discussed in sub-section 2.5.7

Having observed that tax incentives rarely have any effect on FDI, it may be useful to examine more the reasons why tax incentives tend to be ineffective. As concluded by Sanchez-Ugarte (1995)[15], tax incentives have been ineffective and inefficient for the following reasons. First, too many objectives have been pursued through tax incentives reducing the effect of any one of these objectives. Most developing countries especially in SSA region tend to use tax incentives for a wide range of reasons, resulting in a very limited impact on any one of the intended objectives. Second, tax incentives have often been motivated by political rather than economic considerations, resulting into rent seeking behaviour by economic agents. There is too much political influence of vested interests in the design of tax incentives policy. Third, tax incentives are often granted to correct market distortions especially to counteract the effects of macro policies.

[15] See also Zee et al., (2002) and Easson (2004).

Experience indicates that there has always been inadequate relationship (mismatch) between the intended objective and the tax incentive employed. For instance, tax incentives intended to encourage exports were given when the exchange rate experienced a significant appreciation. Finally, the granting of tax incentives has been uneven and unpredictable, so it is unlikely that they have affected the investment behaviour or planning of the targeted investors.

However, the available empirical evidence does not disprove that under certain circumstances, well targeted investment tax incentives could be a factor influencing investment location decision. Neither does it infer that investors would not ask for the tax incentives they could get from host country (Basu & Krishna, 2002; IMF, 2008). Nevertheless, in the end, tax incentives rarely appear to be the most important factor in determining investment decisions (IMF, 2008).

2.5.6 Why are tax holidays an ineffective incentives in EPZs?

A tax holiday is a preferential tax rate with a limited duration. Tax holidays are generally available for up to 10 years although rarely can go up to 25 years (Tuomi, 2012). Tax holidays are the most popular among developing countries in SSA (Njeru, 2012). Tax holidays have the apparent advantage of simplicity for both the enterprise and the tax authorities (Zolt, 2015). They are favoured because they are relatively easier to administer; and they protect qualified investors against complex tax laws, burdensome tax regulations, and corrupt tax administrations (Zee et al, 2002).

It is commonly argued that granting tax holidays (whether to attract investment in the EPZs or in non EPZ sector) is particularly an ineffective way of promoting investment. Among the reasons why tax holidays are considered ineffective, the following need to be highlighted. Tax holidays are tailored to abusive tax planning to shelter income from other operations of a parent company. That is, encourage income shifting from non-tax-exempt enterprises to tax-exempt companies through transfer pricing of inter-company transactions (Gibbon et al., 2008; IMF, 2014). It bias the allocation of resources toward the favoured sectors, and tend to favour investments with a short-term time horizon, and easy to shut down, as well as projects with low capital intensity and low debt costs, which are more likely to generate taxable income during the years covered by the holiday (Bolnick, 2004). Tax exemptions do not benefit investors from many OECD countries that tax income on a global basis, unless a "tax sparing" agreement is in place (Gibbon et al., 2008). Tax sparing occurs when the tax system in investor's country allowed spared foreign taxes of its resident company to be used as tax credit home (Udompol, 2007). Thus, a provision where a country applies a tax credit against taxes owed on foreign income that is equivalent to the tax exemption provided by the foreign country. Companies that are not profitable in the early years of operation, or companies from countries which apply a foreign tax credit to reduce the home country's tax on the foreign source of income, would not benefit from income tax holidays (IMF, 2008). This holiday scheme is also criticised in that have minimum backward linkages to the economy (IMF, 2014). Also, there are several cases where companies just invest to take advantage of a tax holiday and then shut down at the end of the holiday period.

There is a concern that tax holidays are particularly inappropriate for promoting investment in EPZs (IMF, 2008, 2014). Export oriented foreign companies such as those in EPZs are typically efficiency seeking FDI whose motivations are to take advantage of differences in the availability and cost of traditional factor endowments in different countries; and to exploit the economies of scale and scope and differences in consumer tastes and supply capabilities (Dunning, 1993). In this case, reduction in transaction and production costs is the key motive. Tax incentives granted to firms in EPZs offer two kinds of relief: relief of transaction taxes (customs duties and indirect taxes, i.e. VAT) and income tax relief (tax holidays). However, it should be noted that the tax holidays are not naturally connected to EPZs. The objective of transaction tax relief is to minimize transaction costs (cost of production) related to exports. The provision of income tax holidays (e.g. exemption of taxes on profits) cannot be justified by this objective and the motivations of FDI in EPZs just explained above, as it has little to do with costs of production (IMF, 2008; 2014).

In addition to the argument that EPZs inherently attract short term footloose investments (e.g. apparel and assembly), the tax holidays themselves are also structured to attract footloose firms, with major savings upfront (due to grace period enjoyed in early years) and then sudden increase to high rates at the end of the tax holiday (Rolfe et al., 2004).

2.5.7 Non-tax factors influencing investment decisions

Zolt (2015:9) summarizes several non-tax factors which play role in the investment location decisions, including consistent and stable macroeconomic and fiscal policy; political stability; adequate physical, financial, legal and institutional infrastructure; effective, transparent and accountable public administration; skilled labour force and flexible labour code governing employer and employee relations; availability of adequate dispute resolution mechanisms; foreign exchange rules and the ability to repatriate profits; language and cultural conditions; factor and product markets —size and efficiency.

2.6 Summary

In summary, this Chapter analysed the main strands of literature which comprise the core theories of this thesis. The first part reviewed a literature on the industrial strategies that have been commonly used by developing countries to achieve economic growth and development. Initially, a literature on the evolution and influencing factors on the adoption of import substitution strategy as the early development strategy was reviewed, and the reasons for its abandonment were analysed. The analysis of the shift from import substitution strategy to an export-led growth strategy in the neoliberal economic policy regime was outlined and a review on why this latter strategy was preferred was also presented. Subsequently, the emergence of EPZs as a tenet of neoliberal thinking implemented through export-led growth strategy which neoliberal economic policies prescribe was reviewed. A review was also done of theoretical difficulties on the application of export-led growth strategy and an EPZ as its policy instrument.

A literature on the rationale and impact of EPZs was outlined next. In this section, different typologies of EPZs were outlined, differences between them and common definitions clearly identified, and the definition relevant for the present study decided. In addition to exploring why the targeted intervention through EPZs is beneficial to investors, a critical review of the benefits of EPZs to host country was also conducted in this section. In this later issue, literature review has examined EPZs in terms of their ability to attract FDI, create employment, generate exports, develop backward linkage, and foster transfer of technology. The analysis of the benefits of EPZs to the host country was necessarily a comparative one-in which case, the expected benefits and the shortfalls of setting up an EPZ were analysed simultaneous. This kind of analysis was useful in that it shaped understanding on why the supposed theoretical claims may not exist, and therefore identify possible intervention relevant in addressing the situation. Further to this kind of analysis, a review was done of the claimed benefits of EPZs as well as the experiences from other countries where EPZs have been implemented. A particular attention was given to understanding how failures were addressed in successful countries.

A review of literature was further extended to analyse the factors influencing success or failure of an EPZ. In particular, determinants of success or failure of an EPZ, common obstacles to the success of EPZs and conceptual limitations of the EPZ strategy were reviewed. Also, factors which contributed to the success of the EPZs in East Asia as well as the obstacles to the success of the late EPZs in SSA implemented from the neoliberal theoretical perspective were critically analysed.

The other substantial part of the review concentrated on the effect of governance on FDI inflows. In particular, conceptual definition of the governance as proposed by the World Bank was outlined, followed by the theoretical analysis on the development of the concept of governance. This theoretical analysis has also briefly reviewed some key features of neoliberal precepts with respect to governance. A review was also done on the empirical evidence available on the influence of the six dimensions of governance namely voice and accountability, political stability and the absence of violence, government effectiveness, regulatory quality, rule of law, and control of corruption on the FDI inflows into EPZs.

Finally, a review of effectiveness of, and factors contributing to the persistence of tax incentives in late EPZ countries was carried out. The aim of the review was to find out the theoretical and empirical evidence to support why the use of tax incentives as a policy tool to attract FDI in Tanzanian EPZ has remained politically attractive. In this analysis, the researcher was also interested in determining whether investors' location decision would change if no tax holidays were offered to attract FDI in Tanzanian EPZ. A review concentrated on why government introduces and preserves the tax incentives i.e. theoretical justification for granting tax incentives, in which neoliberal approach to taxation was also analysed. This section has also briefly reviewed theoretical objections on the use of tax incentives; effectiveness of tax incentives as evident from survey studies; and why is the tax holidays ineffective incentives in EPZs. This was particularly because tax holiday is widely used in SSA countries, yet is the most challenged one. Non-tax factors relevant in influencing investment decisions in EPZs were also introduced in the review. This was particularly because in order to assess country's competitiveness as a prospective EPZ site, a variety of factors must be taken into account even though each of them has a differing impact on the location decision.

It has been shown through this literature review that, most developing countries have historically moved from ISI to export-led growth strategies promoted through neoliberal views mainly due to the external pressures from the IFIs resulting from debt crisis associated with inherent flaws in ISI strategy. However, the utilization of export-led growth and EPZs strategies derived from the neoliberal theories has failed to promote significant industrialization in developing countries which poses a question on whether it is a useful strategy for developing countries in SSA. In a neoliberal context, when investors are foreigners, foreign exchange earnings are repatriated away from the country in which EPZ is located. Likewise, the expectation of EPZs to create backward linkages is rarely met because the import intensive nature of EPZs discourages the formation of linkages between EPZs and the rest of the economy. EPZ manufacturers obtain their production inputs more cheaply from international suppliers than from the local market because these supplies are always exempted from the import duty. Moreover, the jobs provided by EPZs contribute little to the skills upgrading because most EPZ jobs are in low skill industries.

The literature review on the successful factors in Asian countries and obstacles to SSA countries has indicated that, latecomers to the implementation of EPZs have seen little success because they have implemented this model from a neoliberal approach. The neoliberal approach recommends that the benefits of EPZs will result automatically through market forces, and for this logic government intervention is discouraged if governments want these benefits to be realized. In contrast, the experience from the successful countries in Asia has shown that benefits only occur when governments intervene with strong policies that target specific outcomes. The review also offered other context specific factors relevant to the particular failure in SSA.

Although inconclusive, the literature review on the influence of governance on the inflows of FDI into EPZs generally suggests that the six dimensions of governance developed by the World Bank namely voice and accountability, political stability and absence of violence/terrorism, government effectiveness, regulatory quality, rule of law, and control of corruption play important role although not to the same extent. The implication of this review is that the low level of FDI in EPZs in low income countries where the governance is problematic is potentially explained by the poor governance as always predicted by neoliberal theory.

A review of the theoretical arguments for and against the case of tax incentives as well as the available empirical evidence suggests that policy makers in developing countries preserve tax incentives for personal gains and rent seeking motives. Review has also shown that rationalizing tax incentives would not result into disincentives to invest in EPZs.

CHAPTER 3: STUDY DESIGN AND METHODOLOGY

3.1 Introduction

This chapter discusses the overall study design and methodology highlighting philosophical assumptions underpinning the study, and the study's data collection and analysis activities. The chapter explains methodological issues including the research strategy and data sources and collection procedures used in the study. The chapter also reflects on the validity and reliability of the study.

The structure and rationale of study design and methodology in this study is guided by the research 'onion' developed in Saunders et al. (2009) which highlights that it is important for a researcher to indicate a research's philosophy, approach, strategies, and techniques for data collection and analysis. A researcher is also expected to indicate whether the study is cross-sectional or longitudinal; and the choice made in terms of mixed methods, mono method or multi method.

3.2 Research philosophy

A research philosophy is the belief about the way in which data about a phenomenon should be gathered, analyzed and used (Guba, 1990; Saunders et al., 2009). It is important that researcher acknowledges the adopted philosophy because these assumptions underpin the research strategy and the methods chosen as part of that strategy (Saunders et al., 2009). The philosophical assumptions underpinning this study come from both, positivist and interpretivist traditions. In this context, this study includes both, quantitative and qualitative methods (Creswell, 2009). Studies (e.g. Creswell, 2009; Teddlie & Tashakkori, 2009) acknowledge that neither quantitative nor qualitative methods and data collection procedures are sufficient by themselves to understand the research problem, highlighting that there are many right ways to approach research, not only one right way. Studies such as Saunders et al. (2009) and Teddlie & Tashakkori (2009) suggest further that it is more appropriate for the researcher in a particular study to think of the philosophy adopted as a continuum. For the same reason quantitative and qualitative research methods, procedures and paradigm characteristics were combined in this study.

When a positivist position is assumed, the researcher is considered independent from the research, so s/he cannot influence the observations, variables, measurements, facts and statistics because there is but one reality that is apprehendable, identifiable and measurable (Ponterotto, 2005). The epistemological position in positivism assumes that the researcher can study research participants without influencing them. In contrast, interpretivists believe that social reality is constructed. For interpretivists, generalizability is a less important issue than understanding the actual conditions behind the reality. In this study, interpretivists' views were followed to allow the researcher to understand the research problem from the point of view of those who live the phenomenon.

3.3 Justification of research design and approach in this study

Research design is the framework or plan used to guide a study in collecting and analyzing data (Curchill, 2001). Creswell (2009) identifies three types of research designs: qualitative, quantitative, and mixed methods research. In some literature, the expressions 'research designs' (Creswell, 2009), 'research approaches' (Creswell, 2009; Teddlie & Tashakkori, 2009) and 'research communities' (Teddlie & Tashakkori, 2009) are used interchangeably. By combining philosophical views from the two dominant research paradigms (positivism and interpretivism), the present study has adopted the mixed methods research design.

The study involved collecting data from multiple sources, using different methods (document analysis, an open and closed end questionnaire (Appendix 2), semi-structured interviews and direct observation). Understanding evolved through the research process and data collection and analysis activity informed subsequent data collection and analysis activities.

Mixed research strategy has the overall advantage that when used in combination, quantitative and qualitative methods complement each other and provide a more complete picture of the research problem (Teddlie & Tashakkori, 2009). The resulting combination, for instance, allows the discovery of something that would have been missed if only a quantitative or qualitative approach has been used, or explores in detail trends which could not be communicated through questionnaire results. In the present study, observation was used to complement and discover missed evidence. The multi-method approach of data collection maximizes the range of information available to the researcher, improves the trustworthiness of the data, and provides the basis for triangulation between data sources. Each data source and collection technique had particular advantages and disadvantages, and the use of a combination of data sources also provided a mechanism to gain different perspectives, and direct experience.

3.4 Data and methodology

3.4.1 The population

A study population comprises all units of analysis about which researcher wishes to make inquiries in order to reach specific conclusions (Welman et al., 2005). Defining a population entails specifying the unit of inquiry or sampling frame from which a sample will be obtained, the geographical location, and the temporal boundaries of the population (Neuman, 2000).

The study's population included the following categories of respondents: the managers and employees of EPZ firms; government officials working at the Exports Processing Zones Authority (EPZA), the institution charged with EPZ operations; and other key stakeholders/informants, particularly private sector associations, development activists/human rights activists and experts in international business including an economic analyst who is also a university professor and a columnist. These were the relevant sources of primary data needed to explore the research questions; and by including different data sources, the researcher gained a better understanding about the problem, thereby, providing valid and reliable empirical evidence.

As almost all research questions in one way or another sought to obtain investors' views, the managers of the firms in EPZs were considered an important source of information. Three managers from the EPZA, including the Chief Executive Director were selected to participate in the study due to their role in the development, administration and management of EPZs. All EPZ issues in the country are coordinated through this authority, which has full autonomy. Therefore, given the role and autonomy of the EPZA, its managers' views largely represent government's view. Private sector association was included by virtue of its role and experience as a platform to foster the dialogue between the Tanzanian private sector including local entrepreneurs and the government and the fact that introduction of market economy policies provided flexibility for the private sector to lead the economy (the interviewees' profile is presented in Table 3-1).

3.4.2 Justification of non probability sampling procedure in this study

In mixed methods, sampling involves combining well-established qualitative and quantitative techniques in creative ways to answer research questions posed by mixed methods research designs (Teddlie & Yu 2007). This study adopted a non-probability sampling strategy using purposive and snowballing techniques which enabled the researcher to select cases and participants who would serve the purpose of the study and answer the research questions. The main rationale for adopting these non-probability sampling techniques in this study is attributable to a number of factors.

Firstly, purposeful sampling is based on informational and not statistical considerations. Thus its purpose is to maximize information, not to facilitate generalisation (Lincoln & Guba, 1985). Unlike the various sampling techniques used in probability sampling, the aim of purposive sampling is not to generate a sample with the intention of making statistical inferences to the population of interest but rather is to focus on particular characteristics of a population that are of interest, and which will best enable researcher to answer research questions. The present study has the goal to provide new insights that can later be followed up with further research.

Secondly, a purposive approach is well-suited to small scale, in-depth studies (Ritchie et al., 2003). Purposive sampling is extremely useful, particularly when the research question seeks an in-depth investigation of a small population or when a researcher is performing a preliminary exploratory study (Schutt, 2006). The population in the present study is fairly small as there are relatively few EPZ firms in Tanzania.

It is recognized that snowball sampling is often used to find participants not easily accessible to researchers through other sampling strategies (Mack et al., 2005). This type of sampling is often used with very small samples, such as a case study, or if there is a need to choose well-informed participants (Neuman, 2000). With the snowballing technique, the sample is formed as a referral in which each participant is asked to suggest other people who could potentially take-part in the study. When this method is adopted, the researcher approaches the new participant using the name of the nominator as a reference in order to increase credibility.

3.4.3 Sample selection for the questionnaire

For the purpose of the questionnaire, managers of local and foreign firms (including single factory units) were the subject of inquiry. Total population sampling was considered appropriate, given the small study population. The target population was identified with the help of an EPZA official responsible in maintaining EPZ companies' database. A list of all registered firms with all relevant details including contact persons, permanent address and location, e-mail address, mobile phone numbers, ownership of the firm, type of activity, and the year of registration was obtained from the Export Processing Zones Authority's (EPZA) database. A cumulative list, from July 2006/June 2007 to July 2013/June 2014 (a twelve months financial year starts 1st July) revealed a total of 95 registered companies. With assistance from the EPZA official, active firms were identified from the list, and the number reduced to 87. Excluded firms were either out of operation, still under construction, or did not have sufficient data. Therefore, all 87 firms formed the study sample size.

It was recognised through the office of the investment facilitation manager and the research department at the EPZA that getting access to EPZ firms was very difficult. Most EPZ companies hesitate to accept researchers if they are not channelled through the EPZA office, or by a person known to them. In an attempt to encourage EPZ firms' managers participation in the study, the researcher asked EPZA officials who are directly and frequently involved in dealing with investors if they could help get access to them and this technique was successful. Therefore, having identified the list, and prior to approaching the participants personally, an EPZA official known to all firms' contact persons was requested to introduce the researcher to the participants. This briefing made them aware of the researcher, research requirements and the data collection process. After initial contact by EPZA official, and before drafting an official consent letter, the contact persons were then approached by the researcher using their mobile phone numbers and requested to participate in the research. This was done immediately after the introduction made by EPZA official, and this person was used as a reference to increase the credibility. All contacted persons agreed to participate.

3.4.4 Sampling procedure for the interviewees

For the purpose of interview, a purposive sampling approach was used to identify interviewees. Researcher used personal judgement to select respondents that will best answer the research questions and meet the research objectives (Saunders et al., 2003). Guidelines for selecting a purposive sample, as identified by Rubin& Rubin (1995) were followed in this study: respondents were selected on the basis of their knowledge of the issue under investigation, a willingness to participate and representation in the form of the range of points of view.

Purposive and snowball sampling techniques were used to identify samples from government officials. Initially, the researcher was introduced by a colleague to a senior employee in one of the early companies registered in the first industrial park in the country. After the introduction, this employee was asked if he could help in the research and then suggest other potential participants. He agreed to take part and he also nominated three EPZA officials who, according to him, were potentially useful due to their vast knowledge and experience of the topic accumulated by virtue of their duties. These were the Investment Facilitation Manager and two Investment Facilitation Officers. Also, these individuals nominated other potential interviewees, including the Executive Director for private sector association. The other informants were selected by the researcher by virtue of their experience.

A snowballing technique was also used to recruit employees with potential for the study. Managers of some EPZ firms were selected purposively and asked to nominate employees who could provide experience of the labour movement. Once an employee was identified, s/he was requested to propose another potential participant.

3.4.5 Data collection procedure and methods

3.4.5.1 Use of triangulation in this study

Triangulation approach to data collection was used in this study. According to triangulation approach, primary data are collected from different sources, using a variety of methods (Wilson, 2010). Although different types of triangulation exist (Easterby-Smith et al. 1991), the concept of triangulation in this study designates a conscious combination of qualitative and quantitative methodology, the use of a wide range of individuals and the use of multiple methods of data collection with a view to increasing the reliability of the evidence.

By combining methods in the same study, the researcher can partially overcome the deficiencies that flow from one method (Denzin, 1989). Another advantage of designing multi-method research lies in the potential for enhancement of the validity of the study findings. Polit & Hungler (1999), for example, demonstrated that a researcher can be much more confident about the validity of the findings when they are supported by multiple and complementary types of data. As this study was intended to reveal more about the phenomenon from the existing literature and from other documentation as well as from government and investors' perspectives, the use of both methodological and data triangulation gave a more comprehensive picture of the problem.

Strauss (1987) cited in Wilson (2010) provides reasons to support a triangulation approach to data collection, arguing that studies that use only one method are more vulnerable to errors linked to that particular method (e.g. loaded interview questions or biased or untrue responses) whereas studies that use multiple methods, in which different types of data are collected, provide cross-data validity checks.

3.4.5.2 Documentary review

Although traditional methods of data collection such as questionnaires, in-depth interviews and observation have been tried and tested, they are neither the only ones available nor are they always useful. The use of documentary sources in research can be as good as and sometimes even more cost effective than these other methods (Mogalakwe, 2006).

Document analysis (documentary review) is used as a tool for obtaining relevant documentary evidence to support and validate facts stated in a study, especially during a literature review. While reviewing the literature and other documents, the analysis involves analytic reading and review of written material including published statistics to allow the researcher to synthesize relevant information that can be considered as facts to answer individual research questions.

A document is normally produced for specific purposes other than those of the research but it can be used by the researcher for cognitive purposes (Corbetta, 2003). According to Corbetta (2003), the most important use of evidence from the document analysis, especially in case studies, is to corroborate and augment evidence from other sources. Major sources of documentary evidence include public records, the media, newspapers and gazettes, biography, minutes of meetings, reports and blue prints, visual documents, other publications and journal articles. Where it is not the only data collection technique used, documentary evidence is required in order to determine what is known already and what new data is required (Corbetta, 2003).

As noted, the use of documentary information in this study was primarily supported by the claim that analysis of documents can help the researcher develop understanding and discover insights relevant to the research problem (Merriam, 1998). Document analysis was very critical in answering the Research Question 1, which examined how effective has the EPZ initiative been in Tanzania (although it was also relevant to the rest of questions), in part because assessing the effectiveness of an EPZ requires published quantitative performance indicators. Documentary review was a relevant method to investigate typical quantitative performance data for this question mainly because this kind of information is easily available in the form of public reports, minutes of meetings and other secondary sources including published performance statistics.

For the Research Question 1, a number of sources ranging from the official national reports to international organization sources were reviewed. A key criterion for selection of a source and the documents was the authority to establish credibility of the document. A second criterion was the document’s relevance to the development and performance of EPZs in Tanzania. The strategy for collecting data through documentary review was to identify relevant documents and to record information from those documents. Three main sources used were various national official reports; the world development indicators’ database; and UNCTAD’s annual World Investment Reports (WIRs). Nearly 50 documents including Tanzanian government’s published performance reports on EPZs, EPZA audited reports and the minutes of meetings, economic surveys, national accounts data, central bank’s annual reports, Tanzania’s Investment Review Reports (TIRR), and the UNCTAD’s World Investment Reports were carefully selected from these sources and critically analysed.

It should be stressed that the secondary data especially quantitative performance data used in the first research question is largely limited to data maintained in the EPZA database. Such documents and analyses were of critical importance in evaluating whether Tanzanian EPZ initiative has been effective in stimulating investment, generating employment and exports. For Question 3 of the research, an important data base reviewed was the World Bank's Worldwide Governance Indicators (WGIs). For Question 4, EPZ act, regulations, and annual performance reports were reviewed.

3.4.5.3 Questionnaire

The questionnaire was relevant because of the need to collect opinion data and views from respondents. The intention was not only to corroborate documentary evidence but also to address issues in the research question which could not be explored through documentary review. Documentary review would not reveal much about, for instance, whether and to what extent technology transfer has taken place through spillover and linkage effects. Also, analysis of documents was considered an inappropriate method to evaluate the level and quality of basic infrastructure for the sake of reliability of the information. Reliance on direct beneficiaries, that is, evidence based on views and perceptions of EPZ investors provides more assurance of the reliability of the data.

The decision to use a questionnaire was partly influenced by the amount of time and energy participants are willing to give relative to interview. When making an informal approach to the targeted participants to ask their consent to take part in the study, it became apparent that more participants were ready to participate if they were able to respond to a simple and short survey. The majority appeared uncomfortable with the interview method mainly for the reason of time. This experience was initially informed to the researcher by some officials from the research department and the Office of Investment Facilitation at the EPZA. Therefore, in addition to any other advantage, the method was adopted because participants appeared more comfortable when the data collection process involved this instrument especially a self-administered questionnaire.

3.4.5.3.1 Development of the questionnaire

A self-administered questionnaire (Appendix 2) was developed by the researcher and designed specifically to be completed by a respondent without intervention of the researcher. In order to ensure that the questions in the questionnaire represent the topic being measured, an in-depth literature survey was conducted. The development of the questionnaire was therefore informed by the literature review discussed in Chapter 2 and the research problem introduced in Chapter 1.

Multiple questioning techniques were used. A questioning technique involving both open and closed questions was used for questionnaire items related to the Research Question 1. Questions requiring open ended responses were included to explore questions requiring explanations and to discover unanticipated findings. Closed questions were preferred because they are considered easier and quicker for respondents to answer, but it is also generally easier to analyze the data.

Questionnaire item related to the Research Question 3 was designed to obtain investors' perceptions about the influence of governance on the decision to locate. These items were informed by extensive review of literature conducted in Chapter 2. The questionnaire used 5-point ordered response options, with a score of 1 for 'no influence' and 5 for 'very much influence'

Rank order questions were used for the part of the questionnaire related to the likely effect of abolishing tax holidays from the investment incentives in EPZs (Question 4). To minimize risk of bias in response, approaches recommended in James (2009) were adapted with modifications. James (2009) maintains that an alternative approach to assess the importance or influence of tax incentives is to ask investors to rank those tax incentives they consider mattered when they decided to invest in certain location. According to James (2009), the order will reflect their relative importance. The advantage of this technique is that it provides nuanced information from different investors. Also, well designed survey questions make it possible to identify investors for whom a particular tax incentive, for instance a tax holiday, was critical to the location decision.

The questionnaire aimed to address this question (i.e. Question 4) comprised two parts. In the first part, respondents were required to rank an existing list of typical tax incentives offered in EPZs. To avoid 'yes' bias in the response, the level of influence on the location decision was anchored to five ordered response options (in which, 1 indicates that the tax incentive highly influenced the decision, and 5 means that the investor was less sensitive to the incentive mentioned). Alternatively, the options can be interpreted as most influential (1) and least influential (5) on the investment location decision. This approach was preferred over the other rank order variations (e.g. ranking the top, say three best choices etc) because this classic ranking allows participants choose a rank for each item from a list of possible ranks. This looks more appealing because for each item respondent may possibly have a different feeling. Also, this is a useful way of minimizing "order bias" which tends to manifest itself in rank order questions. When respondents are required to rank straight from an existing list by indicating his/her choice by numbers such as 1st choice, 2nd choice etc, items towards the top of the list tend to get rated higher. Questionnaire items (the six typical tax incentives in EPZs) were also randomized to ensure that the most popular tax incentives such as tax holidays, exemptions from VAT and import duty do not appear leading in the list to negate the bias we have just noted above.

The second part of the questionnaire for Question 4 asked respondents to express their level of agreement on whether they would have invested without a tax holiday. The intention was to determine the likely effect of abolishing tax holidays from tax incentives in EPZ. Respondents were asked to indicate their level of agreement (with a score of 1 for 'strongly agree' and 5 for 'strongly disagree') with the following statements: (1) I would have invested even if a tax holiday was not provided; (2) I would have not invested without a tax holiday.

Effort was made to ensure validity of the questionnaire. For each major research question, multiple items were used to explore the entire issue rather than focusing narrowly on the subject. This was one useful way to ensure validity; the other was to conduct a pilot study. The questionnaire was tested on a few people (discussed in section 3.4.5.3.2) in order to ensure that it measured what it was intended to measure.

The questionnaire was in English. For those foreign national respondents who could not read and write English language, an interpreter (usually an employee of the respondent's company) was requested to read and write their answers for them.

As part of ethical considerations, a covering letter with a description of the purpose, justification and importance of the study was attached to the questionnaire. Through this letter, respondents were assured of their confidentiality and requested to take part in the study.

3.4.5.3.2 Pre-testing the questionnaire

Before embarking on actual data collection, the questionnaire, including the covering letter was tested on a few people to make sure that the instrument meets the objectives of the research and adequately answers the research questions. The decision to pre-test the questionnaire was highly influenced by two factors: firstly, the instrument was newly developed by the researcher, hence, neither tried nor tested anywhere; and secondly, it is designed as a self administered questionnaire. Consequently, as this instrument was never tested before, it was important to ensure its quality through pre-testing. Also, pre-testing was considered useful because a self-administered questionnaire is completed without ongoing interactions and interventions from the researcher, which suggests that special care must be taken to ensure proper wording and formatting of the instructions.

The purpose of pre-testing and specific issues that were observed included the adequacy of the instructions and the ability to comprehend these instructions; understanding of the questionnaire items, the terms used, the sequence of questions and the flow of statements; the format including the layout; length of the questionnaire, that is, the time taken to complete the questionnaire; the willingness and ability of respondents to answer the questions; the response rate, and other comments by respondents. As this was a self-administered questionnaire, the researcher concentrated on proper wording and formatting of the instructions. The overall aim was, however, to ensure that the questionnaire items accurately addressed the research questions. There was an additional objective of deciding between competing methods of data collection, that is, questionnaire and interview.

A combination of pre-testing methods was used in this study. The approach adopted first was to give the questionnaire as an interview, asking for clarification of answers and clarifying questions and emerging issues along the way. In this phase, three interviews were conducted. Two respondents were recruited randomly from the target population. The third respondent was not part of the target population and this was selected purposefully on the basis of the respondent’s experience of EPZ issues. This respondent was a consultant engineer with vast experience from previous engagements on investment projects and currently serving as a consultant engineer in an EPZ company.

Next, the questionnaire was piloted under operational conditions which adopted a self-administered questionnaire mode. Respondent debriefings and analysis of item non-response rates were selected to test the questionnaire. The primary purpose of respondent debriefings was to determine whether concepts and questions were understood as intended and to identify unnecessary questions, to find out whether additional questions and options were needed, and to identify confusing questions. Analysis of item non-response rates was aimed at determining the level of response and subsequently at finding out the reasons for the resulting response rate.

In this phase, self-administered questionnaires were distributed in person to 7 respondents. Out of these, 3 were from the target population and 4 were experienced employees in selected EPZs' companies working as a senior human resource officer, a production manager, a finance manager and an operational manager. This last one played a dual role, including interpretation of the local and English language to the owner of the company. The respondents were left to complete the questionnaire without intervention by the researcher. Debriefing questions were then developed and these were informed by the ideas from the interview phase and were asked after the questionnaire was completed. All respondents involved in the pre-testing were not included in the actual data collection. Also, the results of the pilot study are not included in the findings.

Following the pre-test, instructions for some questions were modified, a few poorly structured items were identified and modified, and some missing options were included and confusing ones were dropped. Confusing layout was changed and some questions with very low response rate were re-designed and replaced to maximize the response rate.

In some questions, missing options were added while in others, options were either deleted or replaced. The option 'average' was introduced on the evaluation of the level and quality of basic infrastructure and the excellent option was dropped. The term 'off-job training' was dropped because it appeared confusing and less clear, and 'technical training' introduced. All options on the training duration were replaced by new options. Instructions on some questions (e.g. sector type and type of activity) were modified. Use of matrix layout on a question about the level of technological capability appeared confusing but also sensitive. This was modified into simple multiple choice questions. Although respondents were left to complete the instrument at their convenience before the debriefing session, none of the respondents complained about the length of the time taken to complete the questionnaire.

Questions related to skills transfer through movement of workers, had a low response rate compared to others. Consequently, as one of the additional objectives of the pilot study was to decide between methods, it was decided to re-design and retain these questions but to collect additional evidence during actual data collection by interviewing some few purposefully selected participants. Improvements were also made on the aspects studied under each individual aspect of governance.

It is worth noting that, the revisions made did not affect the research objectives and questions, and the instruments and the resulting responses appeared to have the ability to address these questions.

3.4.5.3.3 Distribution and collection of questionnaire

In total, eighty seven (87) questionnaires were printed and distributed in person to all active companies. Distribution in person was possible because most of companies are concentrated in one region, the capital city. Two research assistants were used. The leave-and-pick up method was used in distributing and collecting the questionnaire. This technique allowed the researcher to leave the self-administered questionnaire at the respondent's office and to pick it up as directed by the respondent. Participants were informed that questionnaires would be collected in person, and some participants agreed to inform the researcher by mobile phone and e-mail upon completion. Few participants completed the questionnaire in one day, but most participants requested time and agreed to complete the questionnaire within a week. However, the majority did not observe this time frame. It was recognised that although all approached persons agreed to participate, not all honoured their promises. Therefore, in addition to physical follow up, call-backs were made until either the completed questionnaire was obtained or the respondent failed to respond.

As a result of the follow up, 74 questionnaires were collected. This was equivalent to 85 percent of the questionnaires distributed. A 'push' from the Investment Facilitation Office contributed a lot to this high response rate. Thirteen (13) participants did not respond because this was one of many such requests, or because they were out of the country for most of the time.

3.4.5.4 Semi-structured interviews

A series of interviews was conducted, in addition to document analysis, the literature review and the questionnaire in order to explore Questions 2, 3 and 4 in detail. In some cases, the information obtained through a questionnaire might be similar to that obtained by an interview, but questionnaire can lack depth (Burns & Grove, 1999). The results of questionnaires can be inconclusive, either because of the low response rate, misunderstanding of the questions, or an inability to communicate the pattern discerned. Personal interviews have the advantage over the questionnaire and document analysis in that interviews, especially semi-structured interviews, gives the researcher the opportunity to probe for more detailed information. An interview was therefore an appropriate method to explore not only the second question, but also the third and fourth questions because the respondents can answer how and why questions rather than give a brief view or trend about the phenomenon studied. Interviews can provide insights that are not available, for instance, through a questionnaire and are most suitable when seeking rich data that illuminates individuals' experiences and attitudes. For this study, semi-structured interviews were aimed at studying issues which could not be explored in detail by using questionnaires and the documentary evidence. Interviews, however, are very time consuming to conduct and analyse.

3.4.5.4.1 Development of the interview protocol

An interview protocol with a list of questions for each category of participants was developed in advance. The interview protocols were pre-tested to ensure that the interview questions accurately addressed the research questions. Specific attention was directed to the amount of time it would take to conduct the interview, the clarity of concepts and questions, wording issues, the ordering of the questions, and the relevance of the questions.

The interview protocol for managers of firms in EPZ was pilot-tested on two participants, purposefully selected from those who had completed the questionnaire in the first phase of the pilot-study. As a result, additional probing questions were developed. The interview protocol for EPZA officials was pilot-tested on one respondent, a legal officer who was nominated by the manager contacted initially by the researcher. As a result slight remarks were incorporated in the protocol. The interview protocol for employees was not pilot-tested, but a spontaneous probing approach was used to elicit immediate clarification during the actual interview. The interview questions for other key informants were distributed and tested through colleagues from the School of Business and the Faculty of Law at the University where the researcher is employed.

3.4.5.4.2 Interview data collection

First, it was important to understand the government's experience of the obstacles to the performance of EPZs given that the government has a major role to play in the performance of EPZs. It was therefore, decided to conduct semi-structured interview with EPZA officials to explore their views about why Tanzanian EPZs have failed to emulate the success of the Asian EPZ model, with particular focus on obstacles to the impact of EPZ initiative. Three interviews were conducted for this purpose. The participants were selected on the basis of their positions and experience, and most important, the extent of their direct involvement in EPZ management. Chief Executive Director to the Export Processing Zones' Authority (EPZA) was contacted personally. Fortunately, this was the first appointee to the authority and he has been in that position from the inception of the EPZ program to the date of the interview. The aim of the interview was explained briefly and he agreed to participate. Based on his experience of the topic, he proposed other two participants. These were the managers directly involved in the day-to-day investment activities of the firms operating in EPZs. All the interviewees possessed diverse experience of the research question. The same interviewees were also involved in the interview for Question 4 of the study to explore why tax incentives are politically attractive.

Secondly, interviews were conducted with the managers of firms operating in EPZs to explore their perceptions of their motivational factors for investment in EPZs, their level of satisfaction in relation to the investment climate and the major challenges they face. It is hoped that answering these questions may provide evidence to support why variation exist in outcomes between East Asian and SSA EPZs. Firms' managers were also interviewed in relation to the third and fourth research questions.

Thirdly, interviews were conducted with three other key informants. These were the experienced persons, two of them heading and working in popular Non-governmental organizations (NGOs) in the country. These were the Chief Executive Director of Tanzania Private Sector Foundation (TPSF), the Director of Research on Growth and Development working at a Policy Research for Development (REPOA), and the third one was an economic analyst in the television and a columnist. Lastly, following low response rates on some items of the questionnaire especially the question on the movement of workers, employees were interviewed to gain more understanding of the issue. While pre-testing the questionnaire, it was discovered that managers of EPZ firms have limited experience of the issue of movement of workers. It was therefore decided to contact some experienced employees. A manager of a targeted firm was approached, and asked to propose someone who he would be knowledgeable on the issue. There was not difficulty as most of these managers were also involved in the questionnaire. In addition to exploring experiences of labour movement, the interview was also used to confirm some findings obtained through the questionnaire and from other respondents, e.g. information on the skills upgrading, and the type of work and technology involved.

Except for the interviews with employees, all interviews lasted between 45-60 minutes. Interviews with employees were relatively short and lasted between 15-20 minutes. Although it is generally best to tape-record interviews where permission is granted, if tape-recording is impossible, it is advisable for a note taker to be present during the interview. Most EPZ firms involved in the study did not allow tape-recording of the conversation. As for EPZA managers, permission was granted but the facilities for recording were poor. Therefore, methods of collecting data from interviews included, in addition to tape recording, note taking during the interview and preparation of interview summaries immediately after the interview was over. To overcome the difficulty of conducting an interview and taking notes simultaneously, two note-takers were involved. These were final year undergraduate students who were working at EPZA as interns. One was approaching to the end of a one year internship and the other was in his sixth month. These individuals were proposed by the Investment Facilitation Manager to support the researcher and were therefore initially involved in the questionnaire phase, by helping to locate the EPZ firms, distributing the questionnaire and also by introducing the researcher to the participants. They also had some useful knowledge of the research topic because of their experience at the research department and the Investment Facilitation Office. They were carefully instructed on how to take notes from the respondents. The researcher was also involved in taking handwritten notes throughout the interviews and the notes from all note takers were harmonized at the end of each interview. The note takers were given a token for the assignment. Summary of the interviews was prepared immediately after each interview session was completed

In all interviews, the questions asked were open-ended, in some cases followed by debriefing questions. At the end of the interviews with managers of EPZ firms and the government executives responsible in the management of the zones, permission was asked to conduct direct observation around (discussed in section 3.4.5.5). All interviewees were thanked and were assured confidentiality. Table 3-1 provides categories of persons interviewed.

Table 3-1: Categories and experience of persons interviewed

Interviewee	Role, position, experience
Chief Executive Director, EPZA	He has been the head of the Authority since 2006.
Investment Facilitation Manager, EPZA	He has been in that post since 2006.
Investment Facilitation Officer, EPZA	He has been in that post since 2008.
Chief Executive Director, TPSF	Tanzania Private Sector Foundation (TPSF) was incorporated in 1988 as a company limited by guarantee, which is also in the list of NGOs. Its aim is to promote private sector-led social and economic development in Tanzania. It aims to promote creation of conducive business environment.
Director of Research	REPOA-Policy Research for Development was formed in 1994 as a

on Growth and Development, REPOA	non-governmental organization (NGO) involved in research and capacity building on issues related to poverty reduction and pro-poor growth.
Economic analyst and columnist	Economic analyst in different local and international media, including popular program 'Voice of America Africa in perspective' by Voice of America. A Professor in economics, and a board member to a number of companies. He was engaged by his capacity as analyst in FDI matters.
Managers of EPZ companies	
Employees of EPZ companies	

For the interview related to the Research Question 3 on the impact of governance, 5 managers of foreign owned firms in EPZs were selected. In order to get rich and in-depth data, efforts were made to include as much variation in views as possible. To accomplish this, the interviewees were distinguished by sector of activity. This decomposition was necessary to find out whether the extent to which governance influence location decisions is related with the type of sector. Therefore, one interviewee was selected from each of the five sectors invested in EPZs: textile/garment, agro-processing, other manufacturing, assembly and mineral processing.

3.4.5.5 Direct observation

Certainly, visiting the field to collect data through methods such as interviews created an opportunity to make direct observations (Yin, 2003). Using the interview and also distribution of the questionnaire in person helped the researcher to undertake a walk-through direct observation as a source of data. Direct observation technique is prompted by some of the advantages presented in the literature (.g. Patton, 2002): to understand and capture the setting; to discover things to which respondents have not drawn attention; to explore critical issues that respondents were reluctant to share in an interview; to obtain experience of the phenomenon; and to obtain information from natural setting. In this study, direct observation was also prompted by these advantages. Specifically, direct observation in this study aimed at exploring data related to the level and quality of physical infrastructure; expansion of EPZ activity; types of activity; types of technology; and levels of employment and other patterns. For example, observation data was useful in confirming evidence obtained through documents analysis, e.g. whether the investment climate inside the zones in terms of physical infrastructure was substantially better than what was available outside.

There is a tendency for respondents (e.g. government officials) to overstate their interest and therefore to create the impression of being very conscious of issues related to the improvement of the investment environment inside the zones. Therefore, respondents may tend to give answers which may not be accurate but are considered agreeable from the business and political standpoint. Accordingly, the researcher decided through observation, to complement evidence obtained from documentary review, questionnaires and interviews.

The approach adopted while observing was to take notes in a note book. When observing, it was especially important to separate observations from pre-conceived ideas already generated by the earlier data collection methods or the researcher's feelings as this could bias the observation results. This was handled in a columnar note book in which separate columns were kept for recording what was directly observed and what was revealed through other methods or what the observer interprets.

3.5 Data analysis

The data collection activities resulted in the accumulation of a large amount of both quantitative and qualitative data. Data collected were in a number of forms: summaries of documents; questionnaire responses; detailed notes of the interviews; and field notes from the observation. Some data management procedures to manage the various types of data were put in place before analysis of the data.

The methods used to analyze data depend on the approach used to collect the information (secondary or primary research; quantitative or qualitative research; or combination of research approach) and the type of research instrument used to collect the primary data. Data from various instruments were organized according to its relevance in addressing a particular aspect of the research question, and salient points relevant to the question were then summarized (Cohen et al., 2007). A descriptive method of analysis was used to describe the results obtained from the analysis of the documents and questionnaire responses and to provide a summary of what was collected without making a statement of whether the results were statistically significant. Qualitative information was summarized into themes.

3.5.1 Analysis of documentary evidence

There are several ways of approaching documentary evidence but the present study adopted analytical reading and review of written material, content analysis and quantitative analysis. Various documents reviewed were read carefully, and the findings relevant to research question were organized and summarized. Documentary review resulted in a diversified range of data including text data and quantitative data. It is emphasized here that, further to review of secondary source documents, documentary review involved literature review, as a preliminary step, to gain theoretical and empirical understanding of the problem.

Use of Microsoft Excel was considered sufficient to compute relevant analyses. Forms of tabular presentation were mainly used to analyze and present quantitative data. Frequencies and percentages were prepared from the quantitative data. The aim of the study was not to generate statistical inferences to generalize the results and, as such, sophisticated statistical measures were not employed in analyzing the results.

Content analysis of the qualitative data attempted to identify ideas which explain why EPZ outcomes might be different. Analysis focused upon relationships within texts, and its relationship to other texts. Subsequently, an attempt was made to link the findings to the results revealed through questionnaires, interviews and observation.

3.5.2 Analysis of the questionnaire

Analysis of the questionnaire involved editing and coding the data, inputting data into the Microsoft Excel, and carrying out the basic analysis to generate the relevant insights. Before data entry, data were checked for completeness, errors, omission and uniformity. Completed questionnaires were edited to eliminate invalid responses. All questions requiring pre-defined responses were coded accordingly to allow the researcher to enter the data into Excel for analysis. Nominal questions requiring respondents to ‘check all options that apply’ were coded differently from the ones requiring respondents to specify only one option. Background questions, which essentially required open statement, were also coded.

Before performing the basic analysis, data entered into the Excel were verified against the original questionnaire to ensure the correctness of the entries. Exploratory data analysis approach which emphasises the importance of using data to guide choices of analytical techniques (see Saunders et al., 2009) was considered useful for exploring and presenting data in this study. The nature and type of data analysis to be performed was therefore, guided by the research objective, question and the type of response that was required for each questionnaire item. Most questionnaire items for the first research question consisted of nominal scale questions and a few ordinal questions. Questions on governance and the influence of tax holidays on investment location decisions were mainly Likert items while a question on the investors’ preferences on tax incentives required rank ordered data.

A Likert scale question is an ‘attitude question’ that seeks to determine a respondent’s attitude towards a particular subject. Literature on Likert scale (e.g. Uebersax, 2006; Wilson, 2010) generally acknowledge that this is a very useful question type when researcher needs to get an overall measurement of feeling or response around a particular topic, opinion, or experience and to also collect specific data on factors that contribute to that feeling. When designing the questionnaire, three typical concepts which emerge when talking about Likert scales were distinguished prudently. Distinct features of Likert scale (also known as Likert scale or summated scale; Likert item; and Likert-type item) were considered. The adoption of Likert items and the distinction of the concepts in this study were important because the instrument was intended to produce ordinal data.

To analyze questionnaire data, some computing was necessary. Although there are many types of quantitative analysis, the most common calculations performed in this study involved frequency distribution. This was based on the view that typical analyses for nominal and ordinal questions include frequency distributions and proportions. The frequency distribution provided clues regarding the frequency of responses, thereby gaining an insight into the level of consensus in responses. The open-ended statements were analysed for content and some general insights were compiled.

Analyses were undertaken using Microsoft Excel and the tables generated. In some instances, the analysis was performed manually. The aspects that were most important in the analysis were the specific values, frequency distribution, trends over time, percentages and proportions. For the Research Question 4, the questionnaire responses were analysed through two useful descriptive statistics: frequency counts were used to show how many participants gave each item each ranking, and the mean was calculated to indicate the average ranking each item received. For the type of ranking used in the study, the most important number is the mean. The mean indicates the average ranking each item received. Because ‘1’ is the highest ranking, the item with the lowest mean is the one that was ranked most highly.

3.5.3 Analysis of interview data

Transcription of the recorded interviews was guided by the rule that, only the portions of the interview that were relevant to the research question were summarized. For the type of inquiry undertaken in this study, it was not necessary to do a verbatim transcription of everything spoken by the interviewees. Transcription from recorded interviews and the notes from non-recorded (un-taped) interviews were analysed through repeated re-reading of them. Interview data were organized in order to group the responses according to a particular aspect of the research question. Although a rule of thumb to follow in the content analysis was to use frequency counts to identify words of potential interest (Stemler, 2001), the study adopted a contextualized approach which allowed analysis of the responses for received and content meanings and compiled some general insights. This kind of analysis made it possible to gain understanding of views and perspectives in each interview response. During the analysis, each interview response was focused while considering the purpose of the interview to help make sense of and organize the data in themes.

3.5.4 Analysis of observation data

Observation notes were organized in a way to corroborate some findings revealed from the documentary review, questionnaires and the interview with EPZA managers. From the organized notes, some findings from other methods of data collection were further confirmed.

3.6 Validity and reliability of the study

A fundamental concern in any research study is to incorporate appropriate mechanisms that assure the researcher and the reader of the quality of the research, its process and its findings. The assumptions and characteristics of a mixed research paradigm suggest a set of criteria for establishing quality. In the present section, the steps and the procedure the researcher employed to ensure the trustworthiness and quality of the findings are described.

This study adopted a triangulation approach to data collection to increase validity and reliability. Triangulation is a strategy that can be used to strengthen the confidence of the research findings. The researcher used multiple sources of data and several methods of data collection. Data were gathered from different sources and using different methods. Thus, the two types of triangulation used were data triangulation, the process which allowed the use of a variety of data sources (e.g. primary data were collected from different sources including different key informants) and methodological triangulation, where both quantitative and qualitative methods of data collection were used. Methodological triangulation involved use of multiple methods (documentary review, questionnaires, semi-structured interviews and observation) to collect data. Reliance on primary research methods such as questionnaire, observation and semi structured interviews provided an important assurance for the credibility of the data.

Triangulating data sources and collection techniques supported a holistic perspective on a phenomenon; directed the researcher to corroborating evidence; assisted in data triangulation; and it was an effective way to overcome the weaknesses of each method used (Gray, 2004). For example, while collecting data through questionnaires and interviews, researcher had an opportunity to make direct observations to confirm or explore some issues not addressed through the other methods.

To ensure trustworthiness of the documentary evidence, quality control criteria for handling documentary sources, as formulated by Scott (1990), were observed carefully. Accordingly, to ensure that the document consulted was genuine and has integrity, only documents obtained from reliable sources were reviewed. Reliability of public documents was evident from the methodology section of the reports. The documents were also reviewed while considering that the rationale for analysing documentary evidence is to gain an understanding of the meaning and actual significance of what the document contains (Scottt, 1990). Regarding whether the documentary evidence was clear and comprehensible, the face value of the documentary evidence was related to the context in which the documents were produced in order to assess the meaning of the text as a whole, thereby enhancing interpretative understanding.

The quality of questionnaire and interview protocol as primary data collection instruments was ensured through pre-testing in order to assess their ability to collect the desired data. Participants in the pilot study were not included in the sample used during actual data collection. Representation for the purpose of questionnaire was assured by adopting total population sampling. This was possible due to the small study population.

The purposeful and snowballing sampling techniques were another procedure employed to ensure authority of the data, thereby improving the quality of the data. Purposeful and snowballing sampling methods enabled the researcher to include individuals in the sample who had credible authority by virtue of their roles or position. Moreover, the decision to use note takers during the interviews, instead of relying solely on the researcher's own notes ensured the quality of the interview data.

Finally, to provide accountability of how the research was carried out so as to enable readers to follow the process by which data were collected and analysed, the researcher documented data collection and analysis activities, clearly indicating the sources of data, collection methods, data management and its preparation, and analysis throughout the study.

3.7 Ethical consideration

This study was guided by ethical principles for research with human participants set out by Hull University Business School. In complying with the ethical procedures, all relevant documents including proforma for staff and students beginning a research project and the consent form were completed prior to data collection activity.

3.8 Summary

In summary, this chapter provided a detailed description of the study's research design and methodology. The chapter set out the research methodology of the study and described the research design, population, sample, data collection instruments and analysis methods, and ethical consideration. The research design and methodologies adopted in this study were primarily influenced by the pragmatic conception that understanding the research problem is enhanced when explored through multiple research methods. For this reason, mixed methods research design was employed to explore the research questions presented in Chapter 1. As a consequence of choosing this design, quantitative and qualitative data, methods, methodologies, and paradigms (i.e. positivism and interpretivism philosophical assumptions) were combined in this study. Data and method triangulation in which multiple sources of data and research instruments were used to augment and/or validate findings generated from one source. In addition to documentary review, three primary data-collection methods were employed, including questionnaire, semi-structured interview and observation. The credibility of the findings and the study as a whole was ensured through source and method triangulation, and also through pre-testing the primary research instruments.

Documentary research including a review of relevant documents and literature was used to find out how effective the Tanzanian EPZ has been in attracting investment, creating employment and generating exports. Questionnaire was used to explore the extent the initiative has been effective in terms of creating linkage and spillover effects (dynamic outcomes), and for this purpose total population sampling was considered appropriate, given the small study target population. The obstacles to the success of EPZs initiative were explored through semi-structured interviews. Questionnaires were also used to explore opinions from foreign investors regarding whether and to what extent their decisions to locate in the country were influenced by governance factors, then these responses were further explored and confirmed through five interviews. Reasons why tax incentives persist were explored through interview (with purposefully selected interviewees) and the investors' perceptions on whether they would still invest even in absence of tax holidays were explored through questionnaires.

Tables were mainly used to analyse and present evidence from document analysis and questionnaire responses. Frequencies and percentages showing number of respondents answering each question in the questionnaire were prepared from the analysis. For questionnaires where items were rated along the scale 'most influential' to 'least influential' and along 'strong agree' to 'strong disagree' responses (i.e. responses to attitude statements), mean values (average scores, i.e. the numerical indicator for the sample) were also calculated to show the average ranking each item received. Response from open ended questions in the questionnaire were read carefully and grouped in to respective categories of themes. Interview responses were analysed for the content, in which emerging themes were compared and grouped under the predefined themes. As content analysis requires themes or common ideas that might emerge in the analysis to be defined in advance and then look for them in the data one has collected, analysis of interviewees' responses in this study was performed in the same way, involving grouping these responses into categories that bring together similar ideas, concepts, or themes. During data collection, there were no serious ethical issues worth reporting.

CHAPTER 4: FACTORS AFFECTING THE EFFECTIVENESS OF THE EXPORT PROCESSING ZONES IN TANZANIA

4.1 Introduction

This chapter aims to answer the first and second research questions introduced in Chapter 1: (1) How effective has the EPZ initiative been in Tanzania?, and (2) Why has the Asian EPZ model not been successful in Tanzania? What are the obstacles to success? In evaluating whether and the extent to which the EPZ initiative has been effective, the definition of effectiveness presented in sub-section 2.2.4 of Chapter 2 is used. From this definition, the success or effectiveness of an EPZ initiative is taken to mean the extent to which it stimulates investment, generates employment and exports, and promotes backward linkages and the diffusion of technology and skills. In the analysis, tangible benchmark measures such as the level of investment, employment and export are used to obtain an indication of the EPZ's effectiveness. Additionally, in order to gain an impression of an EPZ's overall effectiveness, relevant indicators for assessing whether backward linkages exist and whether knowledge transfer has taken place are analysed. This included identifying mechanisms through which linkage and spillover effects from the technology transfer are diffused to the domestic economy.

Two data collection methods, namely documents review and questionnaire, were employed separately to explore the first research question. Relevant documents and literature were reviewed to determine how effective the Tanzanian EPZ has been in attracting investment, creating employment and generating exports. Relevant information obtained through document analysis included the number of operational EPZs, existing zone setups and the number of firms attracted to Tanzanian EPZs. The assessment of the effectiveness of EPZs in generating static benefits (i.e. attracting investment, employment creation and exports generation) is made difficult for a number of reasons but it is useful to take note of a few important limitations. There is lack of empirical data on EPZ performance. Many SSA countries, Tanzania included, do not provide timely or accurate data, even for relevant measures such as EPZ investment levels, employment, and exports. As Gibbons et al. (2008) point out, even where some data is provided in respect of these measures, these often refer to 'expected' outcomes which often diverge significantly from actual results. In addressing for this problem, this study has had to rely on the Export Processing Zones Authority's (EPZA) audited

Annual Report. Audited Annual Reports present true and fair views of the affairs of the audited firms, and thus can be relied upon. At the time of data collection for this study, the most recent audited Annual Report was for the year 2011/2012. Another limitation to the present study is that the evaluation performed in this study is limited to firm level data. It was difficult to determine what impact the establishment of EPZs has on the country's total investment, employment and exports. This is because National Bureau of Statistics (NBS) which is responsible for compiling national accounts only report aggregate data without further analysis of the EPZs' direct contribution to, for example, the country's total exports. However, where possible attempts were made to compare the relative performance of EPZs (in terms of investment, employment and exports) against indicators from other sources such as UNCTAD world investment reports. Another problem which arose in this study relates to the difficulty in obtaining separate data for foreign investors in EPZs regarding the value of investment, exports and jobs created. The Export Processing Zones Authority (EPZA) do not maintain separate performance reports for foreign and local companies showing, for example, investment and employment levels attained by each of these categories of ownership. Table 4-1 presents the quantitative indicators of effectiveness of an EPZ, obtained from documents analysis. Questionnaires were used to explore how effective Tanzanian EPZ initiative has been in promoting backward linkages and transfer of technology and knowledge. The existence of backward linkages and spillover effects were investigated through their transmission mechanisms from EPZ firms to domestic firms. The questionnaire results are presented in Tables 4-3 through 4-13.

The literature review indicates that provision of better infrastructure relative to what is available in the rest of the domestic economy and to what is provided by the competitors is one of the major driving forces behind EPZ development in infrastructure-poor countries. From the investors' perspective, an EPZ is effective if it offers an attractive investment climate, including quality infrastructure. Foreign firms' location decisions about where to invest are based directly or indirectly on the perceived and experienced investment climate in the host country, including such factors as availability and reliability of infrastructure. As such, this is one of the indicators of effective EPZ from the investors' perspective. Throughout the literature, as established in Chapter 2, inadequate infrastructure is taken as a major factor discouraging FDI flows to EPZs in SSA. Investors were therefore asked to evaluate the quality of physical infrastructure. Most important aspects of infrastructure evaluated were the availability of serviced land, availability of pre-built factory buildings, reliable and low cost utilities, efficient road transport, and port facilities. The analysis is summarized in section 4.2.3 and Appendix 3.

The Research Question 2 was first explored through review of EPZ experience in relevant Asian Tigers' case studies and through semi-structured interviews. Factors responsible for the success of two Asian countries, namely Taiwan and South Korea were analysed, and obstacles to SSA EPZs were also analysed. Semi-structured interviews were then used to explore the obstacles to the success of Tanzanian EPZ initiative.

4.2 Results on the effectiveness of Tanzanian EPZ initiative

4.2.1 Effectiveness in stimulating investment, employment and exports

The results presented in this section attempt to address how effective the Tanzanian EPZ initiative has been in attracting investment, creating employment and generating exports. Tanzania adopted the EPZ scheme (under the supervision of the EPZA) in 2006. Since then, 5 designated EPZs have been established in different locations. These EPZs include the Hifadhi and Millennium Business Park, located in Dar es Salaam; the Kamal Industrial Park and Global Industrial Park, located in Coast region (close to Dar es Salaam), and the Kisongo EPZ located upcountry in Arusha region. Out of these, 2 EPZs are privately developed and owned industrial parks. These are the Kamal Industrial Park and the Global Industrial Park. At the end of 2011/2012, the number of companies in operation in these 5 EPZs stood at 31. In addition, there were 27 companies operating as single factory units, located outside these EPZs but operating as if they were EPZs. In total, there were 58 operational companies under the EPZ initiative by 2011/2012. By 2013/2014, the number of companies (local and foreign) in the 5 EPZs increased to 40. The number of single factory units also increased to 47. At this date, total wholly foreign companies within the 5 EPZs stood at 25; local companies within EPZs stood at 11; and there were 4 joint ventures (local and foreign) in these EPZs. In addition, there were 23 foreign companies and 15 local companies operating as single factory units. Single factory units under joint venture arrangements stood at 9. In total, there were 87 companies operating under the EPZ initiative by 2013/2014.

Cumulative investment in all 5 EPZs and single factory units stood at US$ 792.2 million by the end of the financial year 2011/2012 (Table 4-1). This includes both local and foreign investment as the EPZA does not maintain separate reports based on ownership. However, from this figure it is apparent that even though the vision that led to the introduction of the EPZ initiative was to attract FDI, the Tanzanian EPZ initiative has been relatively unsuccessful in attracting FDI. Compared to FDI inflows to Tanzania (all sectors) from 2008-2013 (Table 4-2), it appears that the contribution of EPZ initiative to the country's FDI inflows is insignificant.

As noted in the literature review, job creation is one of the key indicators to assess the impact of EPZ initiative. Data on the employment impact of EPZs in Tanzania in Table 4-1 shows that, at the end of 2011/2012, about 16,105 people were employed in all 5 EPZs and single factory units. Like the investment figure, this also combines both employment created through foreign and local companies. This is only equivalent to 4 per cent of all jobs created over the same period by all FDI in the country. This confirmed previous research which showed that EPZs do not play a substantial role in overall employment in most African countries. However, it was revealed during the interviews that, the actual employment figure might be higher due to indirect jobs created outside zones. This phenomenon had also been observed in the literature, whereby EPZs have proven more effective in generating indirect than direct jobs. As can be appreciated from Table 4-1, the export impact of EPZs is less impressive.

Table 4-1: Investment, export and employment growth pattern in EPZs

Year	**Investment (USD Million)**	**Growth (%)**	**Export (USD Million)**	**Growth (%)**	**Number of jobs**	**Growth (%)**
June 2012	792.2	22	440.2	23	16,105	19
June 2011	650	16	357	19	13,500	35
June 2010	560	164	300	154	10,000	33
June 2009	212	51	118	174	7,500	92
June 2008	140	59	43	53	3,900	94
June 2007	88		28		2,010	

Source: EPZA Annual performance report; growth rate based on researcher's calculation.

Table 4-2: FDI inflows to Tanzania from 2008-2013 (USD million)

Year	2008	2009	2010	2011	2012	2013
FDI inflows (USD million)	1,383	953	1,813	1,229	1,800	1,872

Source: Various UNCTAD World Investment Reports

The findings indicate that the EPZ initiative has had limited success so far. The value of actual investment, the number of jobs created and the value of exports are rather small and do not indicate that the EPZ initiative has been effective.

4.2.2 Effectiveness in promoting backward linkages and the transfer of technology and knowledge

This section sets out the results of the questionnaire that sought to answer the first research question. The questionnaires were distributed and collected between September 2013 and March 2014. During this period, the number of EPZ firms increased from 58 reported in 2011/2012 to 87. As indicated in Chapter 3, the target population for the first question of the study was all EPZ companies. Eighty seven (87) questionnaires were therefore administered to all companies within the 5 EPZs and those operating as single factory units. As demonstrated in Chapter 2, single factory units are companies assigned EPZ status but are free to locate anywhere in the country. Usable questionnaires were 74, although varied after correcting for missing values.

Analysis of the response rate is first presented, followed by analysis of sample characteristics and basic information. Finally, a discussion of these findings and their linkages to the existing literature and research in order to ascertain whether this new data supports the existing findings follows.

4.2.2.1 Analysis of questionnaire response rate

As shown in Chapter 3, the total number of questionnaires distributed was 87. A total of 74 usable questionnaires were received, leading to an impressive overall response rate of 85.1 percent. The analysis of response rate was firstly performed based on the number of respondents in each broad category in the sample: age, set up, and ownership (Table 4-3). Then, the overall response rate was calculated based on the total number of questionnaire completed and returned by all categories. The researcher was unable to analyze the reasons for overall non response rate of 14.9 percent as he didn't officially receive any reason for not responding although some participants initially showed concern that it is time consuming. However, 14.9 percent is statistically a very low non-response rate.

Analysis of missing value for each item of the received questionnaire was performed in order to establish the usable questionnaires for each item. Following this analysis, 66 questionnaires (89 percent) were considered usable for analysing the labour turnover rate within EPZ firms; 53 questionnaires (71.6 percent) of the returned questionnaires were fully completed in respect to movement of workers to local firms outside EPZs, and 57 questionnaires (77 percent) were satisfactory regarding employment of workers with previous experience of EPZ activity. Due to missing data, detailed investigation of skills upgrading was further conducted during the interview.

Table 4-3: Response rate analysis

Sample characteristics	Target population	Number of firms	Responses	Non-response	Response rate (%)
Age:					
≥ 5 years	12	12	9	3	75.0
≥ 3 years;< 5 years	22	22	14	8	63.6
< 3 years	53	53	51	2	96.2
Total	**87**	**87**	**74**	**13**	**85.1**
Set up:					
Firms in designated EPZs	40	40	33	7	82.5
Single factory units	47	47	41	6	87.2
Total	**87**	**87**	**74**	**13**	**85.1**
Ownership:					
Foreign firms in designated EPZs	25	25	18	7	72.0
Foreign single factory units	23	23	22	1	95.6
Local firms in designated EPZs	11	11	11	0	100.0
Local single factory units	15	15	12	3	80.0
Joint venture in designated EPZs	4	4	4	0	100.0
Joint venture single factory units	9	9	7	2	77.8
Total	**87**	**87**	**74**	**13**	**85.1**

4.2.2.2 Sample characteristics and basic information

4.2.2.2.1 Age of the firms

There are a number of factors at the firm level that can affect the potential of individual companies in EPZs to forge backward linkages in the domestic economy. One such firm-level variable commonly believed to affect the propensity of foreign firms to purchase domestic inputs is the age of the firm. According to the 'vintage' effect hypothesis put forward by O'Farrell & O'Loughlin (1981), earlier established firms gain experience of using local suppliers, and can make use of them more intensively. As the propensity of EPZ firms to purchase local inputs is likely to increase with the firms' experience in the host economy (Jenkins & Arce, 2016), it was relevant to know the age distribution of the research sample. The literature review demonstrated that each additional year of local operating experience increase the local content ratio by 0.6 percentage points (Moran, 2011). The question collected data on firm's age, and grouped continuous data into three unequal-width age groups (i.e. less than 3 years; 3 years old but less than 5 years; and older than 5 years). For this analysis, the most important aspects were the specific number and percentage of respondents in each age category and so Table 4-4 was constructed.

Table 4-4: Age of the firms

Age group	Frequency	Percent
5 years old, and above	9	12.2
3 years and above but less than 5 years	14	18.9
Less than 3 years	51	68.9
Total	**74**	**100.0**

As can be appreciated from Table 4-4, 68 percent of the firms surveyed are less than 3 years old, and about 31 percent of the sample have existed for 3 years and above, which would suggest that there are fewer chances for forging linkage with domestic firms (this is further evident in section 4.2.2.3). Only 9 firms (12.2 percent) are aged 5 years or above.

4.2.2.2.2 EPZ setups

This factor is useful, insofar as the effectiveness of the EPZ initiative in fostering backward linkages is dependent on whether firms are located inside or outside industrial parks. The literature review illustrates that one of the reasons African EPZs may be restricted in the improvements they are able to make is that many African EPZ programs involve a large number of single factory units. Throughout the literature, as demonstrated in Chapter 2 of this study, it is understood that where single-factory units proliferate it is particularly difficult to extend a quality infrastructure environment and privileged customs clearance services to all investors. It is also revealed that linkages with the domestic economy may depend on whether EPZ firms are located inside industrial estates or are located anywhere in the domestic territory. Most successful EPZ countries such as South Korea and Taiwan have a “closed” EPZ regime where firms can locate their operations only in industrial parks specifically developed for that purpose (Jenkins, 2006). The results in Table 4-5 reflect that there are more EPZ firms operating as single factory units in Tanzanian EPZ program. Single factory units account for about 55 percent of total firms operating under the EPZ initiative. This would suggest that with a higher proportion of single factory units, the propensity of EPZ firms to transfer knowledge to the domestic firms through linkage effect would be limited.

Table 4-5: Types of zone setups

Set up:	**Frequency**	**Percent**
Firms in designated EPZs	33	44.6
Single factory units	41	55.4
Total	**74**	**100.0**

4.2.2.2.3 EPZ firms by ownership and country of origin

Another firm-specific variable that might affect the degree of backward linkages formation is whether the firm is local or foreign-owned. In particular, foreign-owned firms may have a higher propensity to import intermediates from abroad. Tables 4-6 and 4-7 summarize the source of investment in EPZs, including the extent to which companies investing in the EPZs (either inside industrial parks or outside as a single factory unit) are foreign or locally controlled, and the source countries (regions) of foreign investors respectively. The results (refer to Table 4-6) show that more than half (about 54 percent) of the companies investing in the Tanzanian EPZ initiative are wholly foreign owned, and nearly 15 percent of total EPZ firms were foreign firms operating in partnership with local firms. There is also a moderate share of local ownership in EPZs, whereby 31 percent of all operating firms are locally controlled (refer Table 4-7). The higher portion of foreign ownership in EPZs suggests a lower propensity to purchase inputs from the domestic markets.

Table 4-6: Ownership type

Category	Number of firms	Percent
Wholly Foreign	40	54.1
Local	23	31.1
Joint venture-local and foreign	11	14.8
Total	**74**	**100.0**

Table 4-7 shows that almost 50 percent of foreign firms in Tanzanian EPZ are from two major investor source countries, namely India and China, with India accounting for about 27 percent of all foreign firms operating under the EPZ program, and China for 22 percent of EPZ firms. The rest of the firms (51 percent) are from a wide range of source countries with little concentration to a particular region or country as an investment platform. For example, 9 firms have their origins in 6 European countries whereas 6 firms are from 4 different Middle East countries. Interestingly, the results show that there is only one company from one of the Asian Tigers economies (South Korea) despite the fact that the vision that led to the introduction of the EPZ initiative was to replicate the successes of the Asian Tigers.

Table 4-7: Country of origin

Source country	Number of firms	Percent
East Asia (China, 12; South Korea, 1; Japan, 1)	14	26.0
South Asia (India, 15; Pakistan, 3)	18	33.3
South East Asia(Thailand)	1	1.8
Middle East	6	11.1
Europe	9	16.6
North America	3	5.6
Africa-Sub Sahara	3	5.6
Total	**54***	**100.0**

*The number do not add up to 51(i.e. 40 Wholly foreign + 11 JV-local/foreign) because 3 Joint venture firms between some Asian countries and Europe/North America appear in both regions.

4.2.2.2.4 Industry distribution of EPZ firms-investments by sector

Since industries differ with respect to their usage of intermediates in production, it is expected that backward linkages will vary across industries. Table 4-8 summarizes investment by sector in Tanzanian EPZs. The results in Table 4-8 show that the EPZ activity is dominated by dispersed activities clustered under ‘other manufacturing’ (29.8 percent) and agro-processing based industries (28.4 percent). Compared to the textile/garments industry which constitutes about 10 percent of total EPZ firms, 'other manufacturing' and agro-processing are almost three times bigger (refer Table 4-8). Although the first firms to be registered in zones were textile based (Table 4-9), this industry was shortly surpassed by 'other manufacturing' and agro-processing industries. There were 2-3 times as many 'other manufacturing' and agro-processing firms than textile companies in the zones during the first 5 years. The higher proportion of agro-processing activity in EPZs would suggest a higher propensity to purchase raw materials from the domestic market by EPZ companies. The global pattern of industrial composition in EPZs indicates that two sectors, namely garments and electronics dominate EPZ activity, but Tanzania is different.

Table 4-8: Industry distribution of EPZ firms

Industry	Number	Percent
Other manufacturing	22	29.8
Agro-processing	21	28.4
Mineral processing	12	16.2
Textile/garments	8	10.8
Light assembly	8	10.8
Electronic/electrics	3	4.0
Total	**74**	**100.0**

Table 4-9: Dominant industries - first 5 years

Year	Number of firms		
	Other manufacturing	Agro-processing	Textiles
1			2
2	1		
3	1	2	1
4	2		
5	3	1	
Total	**7**	**3**	**3**

4.2.2.2.5 Level of technology and characteristics of industry

The level of technology and the characteristics of industry influence linkages. The dominance of labour intensive activities with limited technological content suggests limited technology transfer from EPZs to the domestic economy. In order to get an impression of the potential for anticipated technology transfer, respondents were asked to indicate the level of technological capability of their firms. For this question, the most important aspect was the proportion of basic or low-tech firms in zones. The results show that, almost all EPZ firms operating in Tanzanian EPZ are basic firms. As can be seen from the responses in Table 4-10, about 93 percent of the firms are low technology firms involving simple assembly, suggesting low possibility for the development of backward linkages. Since investment in EPZs is concentrated in only low technology labour intensive firms, the potential for technology and knowledge transfer is very limited.

Table 4-10: Firms' level of technology

Level	Number	Percent
Basic/low tech	69	93.2
Intermediate/medium	3	4.1
Advanced/high tech	2	2.7
Total	**74**	**100**

4.2.2.3 Backward linkage through purchase of raw materials and subcontracting relationships

As noted above, the purpose of the questionnaire was to investigate the existence of linkage and spillover effects and their transmission mechanisms from EPZ firms to domestic firms. The aim was to determine whether and the extent to which Tanzanian EPZs have been effective in promoting backward linkages. Literature has shown that backward linkages exist when there is the purchase of inputs from the domestic markets and subcontracting by EPZ enterprises. Thus, backward linkage is created when local firms supply raw materials, intermediate inputs, or services to the firms in EPZ. Three aspects were explored in order to determine the presence of, and the extent of backward linkage: sourcing patterns, other relationships with local suppliers, and import regulation. In order to gain an impression of the development of backward linkages, respondents (EPZ firms) were asked to indicate their input sources, the type of production inputs, and the extent of local content in the production. They were also required to report whether they assist local suppliers and whether there are any import restrictions. Respondents were also required to report their views on why they import production input. The discussion in the literature review illustrated that the potential for backward linkage formation is dependent on the import intensive nature of EPZ production (Amirahmadi & Wu, 1995; Jenkins, 2006; Alarakhia, 2012; Vastveit, 2013). The literature review has also demonstrated that in the absence of import 'restrictions', the potential for outsourcing from the local economy is low given that EPZ imports are duty-free.

Table 4-11summarize information about sourcing patterns, other relationships with local suppliers, and import regulation in the Tanzanian EPZ regime. Specifically, respondents were asked about their sources and type of production inputs (including whether subcontracting relationships existed), the extent of local content in their production; and whether they provide any kind of assistance to local suppliers and whether there are any import restrictions. Results show that the majority of firms in EPZs (85.1 percent) have a direct relationship with the domestic economy in terms of sourcing production inputs from local suppliers. Only a small proportion (14.8 per cent) of respondents reported that they imported all their inputs. This was expected given the high rate of agro-processing activity in EPZs. Raw materials largely dominate local content (73 per cent) and about 30 percent source packaging materials from local suppliers. None of the respondents reported subcontracting relationships or any other linkage relationships. The absence of subcontracting relationship was expected. As noted in the literature review, even though linkages through subcontracting (i.e. outprocessing) are not ruled out for EPZs, empirical evidence does not suggest any such activities (Kusago &Tzannatos, 1998). Jayanthakumaran (2003) demonstrated that low level of industrialization in the domestic economy and import-based manufacturing in EPZs hinder subcontracting. Further analysis on the extent of the usage of imported materials by firms in EPZs with both local and import contents indicates that about 50 per cent of the firms do not often rely on imports.

In addition, the results indicate that the majority (82.2 per cent) of EPZ firms are free from import restrictions. Only a small proportion, usually agro based firms, are subjected to import restrictions. These firms are basically involved in processing pulse-based products. The raw materials for this type of activity are locally sufficient. Furthermore, only a few firms (about 13 per cent) provided assistance to their suppliers, especially in the aspect of quality control.

Table 4-11: Existence of backward linkage and its transmission mechanisms

Item	N	Category[Yes]	Category[No]
Extent of local sourcing	74	63(85.15%)	11(14.8%)
Sourcing of direct raw material from local suppliers	63	46(73.0%)	17(27.0%)
Sourcing packaging materials from local suppliers	63	19(30.2%)	44(69.8%)
Subcontracting relationship	63	0(00.0%)	63(100.0%)
Other linkage relationship	62	0(00.0%)	62(100.0%)

Total import restrictions	73	13(17.8%)	60(82.2%)
Assistance to local suppliers	63	8(12.7%)	55(87.3%)
Often usage of import[if both sources are used]	63	31(49.2%)	-
Less often usage of import [if both sources are used]	63	32(50.8%)	-

Respondents were also required to explain why they imported inputs; the type/s of import restrictions they faced; and the kind of assistance provided to local suppliers. The analysis indicates that 11 firms (14.8 percent) use imported materials entirely because the type of production input needed is not locally available. Almost all firms which often use imported material reported the unavailability of quality inputs locally as the major reason. Prices were referred to by only a small proportion of respondents. Overall, analysis indicates that the decision to use imported input is generally based on availability and quality issues.

Further analysis indicates that import limitations on the raw materials are dependent on the type of activity. Four levels of import limitations were revealed: firms which are prohibited from importing; firms which are allowed to import not more than 20 percent of total production input; firms for whom their import content should not exceed 50 percent of total production inputs; and those firms for whom their imports are limited to 80 percent of total materials used in production. As the government wants to promote the agriculture sector, firms engaged in certain agro-processing activities are not allowed to import raw materials. EPZ firms which entirely depend on cereal and pulse products as raw materials are 100 per cent prohibited from importing such products. Other sectors are allowed to import up to 100 percent of total production inputs (e.g. assembly/light engineering firms and computer assembling).

4.2.2.4 Transfer of knowledge

4.2.2.4.1 Knowledge transfer through training and learning by doing

Effectiveness of the EPZ initiative was also assessed through the extent to which transfer of knowledge from EPZ firms to domestic firms has taken place. In order to ascertain whether skills upgrading exists, respondents were asked to indicate the preferred level of skills in their operations and whether they offer training. The literature review illustrated that the presence of training programs serves to indicate how a previously unskilled labour force have become semi-skilled and skilled through training and learning-by-doing. The literature review points out that the expected knowledge would be transferred through human capital only if skills acquisition and transfer take place. In this way, managerial knowledge and labour skills will spread to the local population when recruited labour, especially for the positions in management, professional tasks, research and development, leave the foreign firms in the EPZs and join or establish local firms (Jenkins et al., 1998; Madani, 1999; Alarakhia, 2012). To explore whether this has taken place, respondents were asked to indicate their experience of the movement of workers, between EPZ firms, and then, from EPZ firms to local firms. Data on the level of technology in EPZ firms was used to assess the potential for the diffusion of technology.

As can be seen from Table 4-12, all EPZ firms surveyed provide training to employees at various levels and through different methods. Almost all firms (about 96 percent) provide the basic skills needed to perform the basic job, mostly production floor activities; 55.4 percent provide technical and skills training mostly specialized in operating the machines; 55.4 percent provide training in advanced production skills. There are limited training opportunities at the supervisory and managerial level (8 percent) and research and development skills (16.2 per cent).

Table 4-12: Training type, method, and duration

Category	**Frequency**				
Type of training	Basic 71(95.9%)	Technical 41(55.4%)	Advanced 41(55.4%)	Management 6(8.1%)	R&D 12(16.2%)
Training method	On job 72(97.2%)	College 18(24.3%)	Seminars, exhibitions, workshops 5(6.7%)	Overseas 5(6.7%)	
Training duration	1 week 5(6.75%)	Above 1week but less than a month 2(2.7%)	1 month 39(52.7%)	1-3 months 52(70.2%)	Above 3 months 16(27.6%)

Most firms conduct on-job training (97.2 percent) and have a moderate training duration of 1 month (about 53 percent) and 1 to 3 months (70 percent). A minority of firms (24 percent) offer internal college scholarships mostly above 3 months (27.6 percent). A few firms (6.7 percent) provide overseas training programs.

Overall, analysis indicates that training has taken place in all EPZ firms. As can be appreciated from the preceding analysis, EPZ employees mainly benefit from basic skills through on-the-job training. Training duration, on average, is between 1 and 3 months. These results are consistent with previous research, as demonstrated in the literature review, which contends that most EPZ production processes are low tech, which require few industrial skills. Hence, the learning process is not necessarily extended beyond basic learning and training. Previous observations that EPZ workers acquire the necessary expertise to perform specific job during the first few years of their employment, usually the first few months, finds some support in the present study.

4.2.2.4.2 **Skills transfer through movement of workers**

Given that the movement of workers from EPZ firms to domestic firms is a necessary condition for effective diffusion of skills, respondents were asked to express their experience on the movement of trained EPZ workers between EPZ firms and most important, from EPZ firms to local firms. The literature review revealed that the skills acquired through on-the-job training and learning-by-doing are said to diffuse or transfer to the domestic economy if there is labour movement. Skills transfer through labour movement occurs when trained or high skilled employees move from a foreign invested firms to locally controlled firm or open (start) own firms.

Table 4-13 shows that about 15 percent of the EPZ firms have experienced movement of workers within themselves, and the tendency is not often. A moderate number of firms (60.6 percent) did not have knowledge of whether such movement has taken place. Only around 5 percent of EPZ firms have experienced movement of workers to domestic firms outside EPZs. Perhaps the limited scope for movement of labour is due to how long Tanzanian EPZ program has existed (the Tanzanian EPZ program was effectively initiated on 2006). About 17 percent of EPZ firms have hired workers with previous experience of EPZ activity. These are former EPZ employees who were fired from previous employment, or have left for the reasons of poor remuneration and working conditions. The literature review and the interviews revealed that the rate of firing workers in EPZs is very high. Partly, this is because it is easier to get replacement given that the nature of EPZ activities do not require specialized knowledge.

Table 4-13: Labour turnover rates

Category	Between EPZ firms	From EPZ firms to non EPZ local firms	Previous EPZ experience
Yes	10(15.1%)	3(5.5%)	10(17.5%)
No	16(24.2%)	9(16.7%)	21(36.8%)
Don't know	40(60.6%)	41(75.9%)	26(45.6%)
TOTAL	**66(100%)**	**53(100%)**	**57(100%)**

4.2.3 Quality of infrastructure

This question required categorical data, and the most important aspect was the proportion of respondents in each category which eventually indicated the degree of satisfaction or dissatisfaction about the level and quality of infrastructure. The most important aspects of infrastructure evaluated were the availability of serviced land; the availability of pre-built factory buildings; reliable and low cost utilities; and efficient road transport, and port facilities.

The results on the quality of basic infrastructure are mixed (refer to Appendix 3). About 59.4 per cent of investors surveyed have access to serviced land but at varying degrees of satisfaction. A moderate proportion of respondents (33.3 per cent) were not satisfied with the extent serviced land is made available to investors. Two striking features worth mentioning as for the availability and quality of pre build factory units: about 42 per cent of responses revealed above average performance; and about 22 percent revealed poor levels of satisfaction. Generally, the level of satisfaction is to the extent of 62.5 percent while 32.5 percent of investors are not satisfied about this important aspect of the basic infrastructure.

Availability of reliable and low cost electricity is rated poorly by the majority of respondents. About 38 percent of respondents have rated this important aspect of infrastructure very poor whereas more than half of respondents (around 60 per cent) rated it 'poor'. Access to efficient road infrastructure between zones' firms (whether within or outside enclaves) and the domestic economy is rated average by the majority of respondents (about 68 per cent). According to the investors' evaluation, port facilities are the most inefficient of all the infrastructure facilities assessed (the other one is electricity, as noted above). Port facilities (sea ports) were rated poor by almost all respondents (very poor, 43.7 per cent; poor, 54.9 per cent) signifying that investors were not satisfied with the level of facilities and services at the sea ports. Railway facilities were rated as very poor by almost all respondents.

Observation results confirmed some of the questionnaire findings: frequent power cuts; small industrial sheds; and inefficient road access to widely dispersed single factory units.

In summary, in all aspects analysed (that is, the stimulation of investment, the creation of employment, the increase of exports, the promotion of backward linkages and the transfer of technology and knowledge), the Tanzanian EPZ initiative has been of limited success. The amount of actual investment, the number of jobs created, and exports generated are rather small and do not justify the view that the EPZ initiative is a success.

4.3 Why has the Asian EPZ model not been successful in Tanzania? What are the obstacles?

4.3.1 Secondary results

As noted in the review of literature and documentation, there are competing approaches to how industrialization may be initiated and sustained as well as to the role of government intervention in this process. On the one hand, some have contended that the government should be limited to establishing a system in which imports are limited and local industries are developed in their place (import substitution approach). On the other hand, others have argued that the government should not intervene in this process at all, but rather leave the process to market forces for industrialization to occur naturally (i.e. neoliberal approach). In addition, others maintain that the government needs to play an interventionist and directive role to control and guide investments while fostering and developing industries for a strong industrial sector to develop in the economy (i.e. interventionist approach). The success or failure of a country to industrialize is then determined by the approach adopted.

Potential EPZ benefits only occur when governments intervene with strong policies that target specific outcomes. Further to this, literature review demonstrated that successes in Asian Tigers were a result of a high degree of regulation and direction when using EPZs with the government playing a very active role in industrial development. In contrast, late EPZ initiatives were initially introduced as Structural Adjustment Programs (SAPs) (derived from neoliberal theories) that require governments to deregulate their markets and liberalize their economies. In this case, government interventions similar to that in Asian Tigers were not allowed in the recent generation of EPZs.

Discussion in the literature regarding obstacles to the success of EPZs in SSA demonstrated that most EPZs in SSA countries have failed to attract significant investment, promote exports, and create sustainable employment opportunities due to factors such as poor infrastructure particularly the availability of serviced and appropriately located land, transport infrastructure to and from the zones, pre-built factory buildings, and reliable, low-cost utilities. The timing of the launch of the EPZ programs and the lack of skilled workers and unfavourable labour unit costs further hamper SSA's competitiveness in labour-intensive industries, which typically have located within EPZs across developing countries globally. While East Asia's success was driven in part by an unprecedented era of globalization underpinned by the emergence of global manufacturing production networks, most African countries launched their EPZs much later when competition between the EPZ countries to attract foreign investors was much higher. The literature has also revealed that African EPZs are not globally competitive as platforms for processing activities due to the comparative disadvantage in labour. The relatively low level of agglomeration of manufacturing activity in African EPZs also explains the low level of foreign investors in African EPZs.

The perceived risk of investing in SSA zones is relatively high, due to frequent policy changes and the political and economic instability in some countries. Uncertainties linked to continued preferential market access also have a significant negative impact on the level of investments within the SSA EPZs, especially in labour-intensive industries where SSA competitiveness is comparatively low. The process by which governments are selected and replaced in Africa and the extent to which public and political power is exercised for personal gain have also contributed to underperformance in African EPZ programs. Where SSA's EPZs have attracted investment, they have generally had weak backward linkages because they have not been designed with an institutional focus relative to the industrial policy priorities of the country.

In Africa, the location of EPZs is too often determined by political rather than economic considerations. Despite widespread global experience where EPZs located in remote areas have rarely been effective, African EPZ policymakers still use EPZ policy as a tool to bring development to remote areas. Further to this, literature has established that, one of the reasons African EPZs may be restricted in the improvements they are able to make is that many of the African EPZ programs involve a large number of single factory units. Addressing investment climate challenges to a dispersed number of companies throughout the country is costly in terms of financial resources, time and capacity of EPZ administration, and is often ineffective.

The problem arises as many EPZs in SSA have been motivated by promises of special access to foreign markets which have turned out to be limited. African countries have had problems in expressing a clear vision, building a consensus around it, moving to concerted action, and providing continuity in incentives, infrastructure and services. Failure of most African countries to develop successful EPZs is also attributable to the tendency of addressing only a few and ‘easier’ obstacles. While establishment of a successful EPZ requires removing all obstacles simultaneously, African countries tend to remove only one or a few obstacles only. Most important, failure of EPZs in Africa is attributed to the knowledge gap. Analysis and discussion of the primary results follows.

4.3.2 Primary/interview results

4.3.2.1 Inadequate infrastructure

Small scale activity in the program is explained by the limited capacity of existing EPZ industrial parks. Illustrating this experience, the Investment Facilitation Manager at the EPZA acknowledged that, sometimes the authority is urged to decline some investment applications due to lack of industrial sheds. Further to this, analysis of the interview revealed that sometimes the authority is forced to approve applications and allocate investors to a site still under construction, especially when investors are willing to wait or agree to complete industrial sheds, subject to off-setting cost from the rent. Several cases of applicants who paid in advance to reserve position or start operations in an EPZ industrial park where industrial sheds are still in construction were reported. This obstacle was also revealed during the literature review, whereby Masese (2014) demonstrated that in Kenya, inadequate rental space hindered efforts to increase production for the export market and distorted the EPZ plan to employ additional 2000 employees, thereby deterring EPZ expansion.

Concern about the inadequate infrastructure is evidenced in the interviews, as illustrated by one interviewee:

> *We want the government to come up with a conducive business environment. That is all. The business environment we are talking about here is infrastructure. Let's start with electricity, electricity is a problem. Government needs to improve the supply of this important energy by investing in energy infrastructure, so that private sector can participate efficiently. There is a problem on the part of port, the port is running inefficiently, which results in to additional costs of doing business* (Chief Executive Director, Tanzania Private Sector Foundation-TPSF).

The view that deficiencies in the infrastructure is the major factor hindering the impact of EPZ initiative is also evidenced in the interview with a manager of an EPZ company, who said:

> *There are serious delays at the port which affects importation. Congestion and lack of awareness by many clearing agents on the clearance procedures and privileges for EPZ firms delay importation but also timely delivery of manufactured exports to our customers abroad. I have seen the same problem at Mombasa port [Kenya]*(Manager, foreign firm).

All interviewees mentioned port congestion as a persistent and serious problem which adds to the cost of doing business in Tanzania. Interviews demonstrated that the effects of port inefficiencies, for example, congestion caused by limited capacity extend to investors irrespective of whether the investor has preferential treatment. Similar finding was also revealed through questionnaire responses as evident in section 4.2.3 and in Appendix 3. Analysis of the questionnaire revealed that sea port facilities are the most inefficient among all the infrastructure facilities. This analysis also supports previous research on the investment climate in Sub Saharan Africa (e.g. Farole, 2010) which showed that many African countries suffer from serious port related delays which undermine the custom's privileges entitled by law to EPZ firms.

In this study, as with other studies (e.g. Watson, 2001; Farole, 2010; Zeng, 2015; Farole & Moberg, 2017) the reasons for inadequate infrastructure include problem in land availability; inadequate funding; delays in releasing funds; poor planning associated with overambitious expansion; low level of private sector participation in providing infrastructural facilities; high dependence on fiscal incentives to compensate for poor infrastructure; and the presence of decentralized industrial locations. As noted in the literature review, the land acquisition process in designated areas for EPZ development is challenging and problematic in many African countries particularly because most African countries have a comparative advantage in agriculture. Interviews with all three EPZA managers illustrated that the transfer of land for EPZ development is often difficult given the importance of the agricultural sector in Tanzania. The interviews indicated that the government's ambition to develop and expand EPZs is constrained because it is regarded as a threat to the rural population depending on agriculture. As a result, conflicts frequently arise when the issue of land transfer for the construction of EPZ infrastructure is introduced by the government. Describing his experience regarding widespread resistance against land transfer for construction of EPZ industrial parks, a manager in EPZA explained that, on the one hand, communities consider EPZs a good idea especially from the employment perspective, but a threat on the other hand due to large land transfer from the majority of rural poor. The interview revealed that given that about 80 per cent of the population in Tanzania depends on agriculture, and that Tanzania is one of the low income countries characterized by a fast growing rural population, land availability for EPZ activity is problematic.

The results of this study extend the existing literature by suggesting that realizing EPZ impact is constrained because the government is struggling to optimize the advantages of both agriculture and the EPZ initiative concurrently. As demonstrated during the interviews, the implementation of '*KILIMO KWANZA'* (i.e. 'agriculture first') initiative introduced in the second half of 2000s to transform the agriculture sector reflects how policies centred on agriculture in a poor country such as Tanzania, where the majority of people depend on agriculture for their livelihood, may impede the impact of the EPZ initiative. The *KILIMO KWANZA* initiative is among several other initiatives introduced since independence aimed at improving the performance of the agriculture sector in the country. The implementation of *KILIMO KWANZA* initiative in Tanzania means more land for agricultural activities, which creates competition for land available for EPZ expansion throughout the country.

Interviews revealed spontaneously that land transfer, whether for EPZ activity or for investment projects elsewhere in the economy, has led to serious social unrest. At the centre of the violence, as illustrated during the interview, traditional land owners claim their primary rights to land for their livelihood and, as such, challenge the legitimacy of the government’s decision to acquire their land for different purpose. To the majority grassroots, land transfer especially for foreign investment is perceived as grabbing, and as benefiting only a few government officials and not the community at large as claimed. According to the results of this study, land owners believe that corruption and rent seeking motives are behind the transfer of land for EPZ activity, which sometimes happens without proper compensation. Further to this analysis, it was also revealed that due to lack of awareness and funds, infringed people very rarely claim their rights from the court. Where such claims are made, the judicial process is very slow which encourages violence acts against investors. Interviewees reported incidences of life sacrifices in some regions where villagers were trying to defend their land rights. A reference was made to violent acts targeting large scale investors in agriculture and mining as portraying a bad image to prospective EPZ investors, and thereby, contributing to only a few investors in EPZ program.

Interviews with the EPZA officials referred to incidences where the government had to step back from land acquisition and either reconsider the land policy or wait for court proceedings. Unfortunately, the judicial process is slow which again weakens the process of acquiring land. All these events have implications for the image of the investment climate in the country, hence, crippling the process of attracting foreign investors to the zones. Illustrating tenseness of the situation, one of the interviewees (the EPZA’s Investment Facilitation Manager) referred to recent resistance against the transfer of 200 hectares of land for expansion of a port along Coast region as part of improvement to a newly proposed industrial park.

Further to this, interviews demonstrated that expansion in some regions is slow due to dishonest habits whereby genuine compensation or rehabilitation is made but beneficiaries do not evacuate promptly, and in some instance, refuse completely causing unnecessary delays to investment projects. An interview with the development activist illustrated that although government plays the overall role in acquiring lands for EPZs, the process of consultation and participation with people in the earmarked area for EPZ development is weak, and lacks transparency; in some cases only village leaders are consulted. Expressing the reason for slow growth in EPZ expansion, he said:

> *Land has been generally acquired by the government using revised land law in favour of foreign investment and with little or delayed compensation for the victims. As the villagers do not participate fully from the beginning and due to unfair compensation, often conflicts arise which jeopardize the process. As a result there are substantial delays before the process of land transfer is successfully completed* (Director of Research on Growth and Development-REPOA).

The results support previous research (e.g. Lakshmanan, 2009; Ofodile, 2013; Farole & Moberg, 2014, 2017) which showed that slow expansion in EPZ activity is due to inadequate land compensation and resettlement practices. Adding to this theme, Zeng (2015) also observed that in several EPZs, governments promised to provide the compensation in the case of land acquisition and resettlement. However, these promises were not or only partially fulfilled, which obstructs further development of the EPZs.

Pressure from human rights activists and political opposition parties is also reported to weaken the process of land transfer for EPZ/SEZ expansion. These two groups are against forceful land acquisition without proper compensation, as illustrated by one interviewee:

> *It is the same throughout the world. The process faces challenges because whether forcibly or procedurally acquired, human rights activists and now supported by opposition parties describe it from the human rights infringement perspective."* (Chief Executive Director, EPZA).

This view demonstrates that the process of acquiring land for EPZ site development is bureaucratic and faces stiff resistance from land owners, human rights activists and from opposition political parties. This is not only the case for EPZ development but is common practice throughout the country. These results augment existing literature, by arguing that land disputes reflect relations in a given social-political context, which has a bearing on investment environment.

As noted in the literature review, government officials responsible for EPZ policy and implementation issues in Africa face knowledge gaps in several crucial aspects of EPZ development and management, including their location, and the combination of essential factors that will attract investors (Farole & Moberg, 2014, 2017). This is evidenced in the present study, as demonstrated in the following case. Based on what government calls 'experience from other countries', areas initially set for EPZ development were considered very small and inadequate for EPZ needs. As such, there was an urgent need to adopt a 'satellite towns' approach which allows for broader, modern EPZ facilities, including basic infrastructural facilities like pre-built factory buildings, road infrastructure within zones, electricity, water and telecommunications. As a result, 17 regions were identified for phase one in which areas averaging 2000 hectares were identified and included in the 'land use plans' for EPZ activity. Interviewees felt that the trend of the government development budget is incompatible with this scale of expansion. Attempting to implement EPZ activity in all regions simultaneously (within the first 5 years) is against the gradual or progressive expansion which FIAS (2008) recommends as best practice for EPZ expansion.

The interviews with EPZA managers demonstrated that, although other factors may exist, lack of funds is the key factor that explains why the government has failed to provide basic infrastructural facilities, especially serviced land, pre-built factory units and reliable electricity and water. Interviews demonstrated that most planned activities are not implemented as large funds are needed to maintain existing ones and develop the new ones. The high dependence of the government development budget on donor funds was reported by interviewees as a major budgetary constraint which limits development activities, including financing of EPZ activity. As such, zones are mainly run by public funds, in which the government is urged to support economic zones' activities using local sources which are largely limited. The impact of the absence of the streamlined participation of the private sector through public private partnership in the development of EPZs, especially in the aspect of providing basic infrastructure, is clear in the slow growth. As illustrated during the interviews, as in the case of other publicly developed and managed economic zones, the government finances EPZ development and management activity on a subsidized basis rather than business-like basis, and this has implication for the sustainability of funds and the projects in question. As demonstrated in the literature review, over the past few decades, the involvement of the private sector in the development and management of the EPZs is highly promoted. Previous research (e.g. FIAS, 2008) demonstrated that foreign investors would prefer zones that are developed and managed on a completely private basis. In the absence of this possibility, the public/private partnership model of zone development and management is considered ideal due to the benefits of leveraging scarce public resources. In either case, what is clearly important is development and management of EPZs on a business-like basis on the ground that subsidized rates unnecessarily erode the limited government budget. Previous studies (e.g. FIAS, 2008) indicated that public sector managed EPZs in other countries have failed in large part because they were not run on a self-sustaining basis.

The interviews demonstrated that the government is reluctant to engage the private sector in the development and management of EPZs for the reasons that social costs and the benefits of the EPZs are likely to be disregarded because the private sector is driven by the profit motive. This finding extends the existing literature in this regard. Illustrating this case, the Investment Facilitation Manager revealed that it is much more expensive to rent industrial sheds within a privately managed EPZ industrial park than in the public one.

4.3.2.2 Dependence on specific market access opportunities

The literature review showed that many African EPZs have experienced poor performance because of reliance on temporary trade preferences, particularly guaranteed market access such as the Multi-Fibre Arrangement (MFA) and the US African Growth and Opportunity Act (AGOA) and an inability to effectively respond to changing competitiveness in the garment sector, particularly when these time-bound trade preferences came to an end, and/or when the rules of origin change. Tanzania as a signatory of the MFA, which expired in early 2005, and a member to AGOA has also suffered the consequences. The interview with the EPZA Executive Director confirmed this. This interview shows that Tanzania's EPZ program was launched during the period when the MFA was about to expire. As a result, a considerable number of investors committed to invest in the EPZ program to optimize the opportunities offered by the MFA, decided to change their earlier investment decisions. This was also observed in previous research by Jayanthakumaran (2003) and Woolfrey (2013), who showed that that Tanzania was unlucky as its EPZ program was introduced just as the MFA was being wound up. These findings suggest that dependence on preferential market access, uncertainty regarding the continuation of such access and a lack of alternative market platform are important sources of variations in EPZs outcomes and helps explain the low level of investment experienced in Tanzania's EPZ program.

4.3.2.3 Intensifying global and regional competition to attract FDI

The results of this study reveal that growing competition from the increasing number of countries with EPZs in the past two decades is another source of the low level of investment in Tanzania's EPZ program. Describing this experience, the EPZA Executive Director said that only 1 percent of global FDI is available for all African countries and the major portion of this goes to North African countries and South Africa. This means that, the rest of the countries, which are many in number, scramble for the remaining share, mainly through tax competition.

This finding matches what has been confirmed in the literature. The literature review has indicated that the timing of the launch of EPZs in Africa in the context of global trade and investment trends is a possible explanation of why EPZ programs in SSA have been less successful to date. The majority of the EPZs in SSA have been established relatively recently, when competition between the EPZ countries to attract investors has been intense. There is a general consensus in the literature, as demonstrated in Chapter 2, that the net benefit from operating an EPZ program may decline with the increase in the number of countries operating similar zones, making use of similar comparative advantage. According to this view, there are some potential fallacy of composition problems that could occur if too many countries produce the same types of labour intensive goods. Thus, countries may experience a competitive disadvantage if a number of countries attempt to exploit their unskilled labour by attracting labour-intensive production at the same time.

4.3.2.4 Over-reliance on fiscal incentives based competition strategy

Contrary to the government's perception of the strength of fiscal incentives, the foreign firms' investors interviewed reported availability of on-site facilities, notably factory buildings, reliable electricity and water, and efficient road infrastructure to and from zones, and improved port facilities as the things they prefer most. This finding illustrates that, although African countries offer generous tax incentives to attract investors to EPZs, the low level of FDI observed in EPZ program is due to the failure to provide improved physical infrastructure relative to that offered by competitors, rather than by failure to provide tax incentives. As such, the results of this study confirm the claim raised in the literature review which argues that no matter how well-designed or attractively packaged, fiscal incentives cannot compensate for physical infrastructural deficiencies. This could be explained by the evidence that Tanzania is among countries offering generous tax incentives, yet their influence is rather insignificant as substantiated by the low level of investing firms in EPZs.

Excluding the EPZA director and managers, the rest of the interviewees urged the government to consider shifting its strategy for attracting EPZ investors from fiscal incentives to setting up efficient and effective production and economic infrastructure, as well as putting in place reliable business facilitation services. One of these interviewees emphasized that, despite the government persistently using tax incentives as a strategy to attract FDI into EPZs, the fact remains that efficient physical infrastructural facilities and services are superior to tax incentives. This was clearly observed in the literature. The discussion of common obstacles to the success of EPZs, as illustrated in Chapter 2, has established that among the most common obstacles to success of EPZs are uncompetitive policies, notably reliance on tax holidays. Further to this, the literature review has shown that the performance of the EPZ initiative is enhanced when a zone is encouraged to compete based on facilitation, facilities, and services rather than on the provision of tax incentives (Farole, 2010). This is particularly because the use of liberal tax incentives to compensate for other comparative disadvantages such as poor location or insufficient infrastructural facilities is unsuccessful in terms of overall EPZ performance, due in large part to the increasing application of investment tax incentives across developing countries' EPZs in recent years. The overall view is shared by Watson (2001), who observed that African failure to attract sufficient FDI in EPZs is due to poor planning rather than to lack of tax incentives.

4.3.2.5 Coordination problem

The literature review has shown that failure in many African EPZs to offer a quality investment environment, including better infrastructure and better regulatory services in zones, has in many cases been due to coordination failures among government institutions required to create a favourable investment climate in EPZs (Farole & Moberg, 2017). The literature review has shown that coordination failures in some African countries, for example, have led to the creation of inefficient, multiple, overlapping economic zone programs. The analysis of the interview data in this study confirms this argument. It has been revealed that delayed decisions to merge EPZ and SEZ schemes and establish the Economic Development Zone (EDZ) has contributed to the underperformance of EPZ initiatives. This is explained by the fact that EPZ program is not run as a subset of SEZs, rather that the two programs are run as separate initiatives which result in conflicts and duplication. Almost all EPZA officials and firms' managers interviewed felt that merging the two schemes would remove existing confusion due to overlapping jurisdictions and would also result in the efficient utilisation of available scarce resources under one authority, leading to realization of desired outcomes. Analysis of the interviews shows that the concept of EDZ and the draft EDZ Act (enacted 2009) was tentatively accepted by the Cabinet, and the decision to postpone it was largely brought about by the President's influence.

4.3.2.6 Conflicting interests between bureaucracies

The literature review illustrates that many African EPZs have seen poor performance because of conflicting interests across official institutions. Studies such as Farole & Moberg (2014, 2017) demonstrated that a conflict of interests between bureaucracies often hamper EPZ outcomes in SSA. The results of this study support this, by demonstrating that the Tanzania Revenue Authority (TRA) is often reluctant to grant tax exemptions to qualifying EPZ companies. This resulted in the relocation of 9 investors to neighbouring countries. According to the interview, the impact of the EPZ initiative is impeded because a conflict of interests exists between the TRA and the EPZA. On the one hand, the TRA tries to maximize the tax revenues collected (especially when the authority is under pressure to meet targets), on the other hand, the EPZA tries to live up its promise of offering tax incentives to companies investing in EPZ program. Interviews with EPZA managers illustrated that, often Tanzania Revenue Authority deliberately relies on loopholes arising from vague or missing provisions to build their argument.

Further to this, the Chief Executive Director (EPZA) acknowledged that the creation of EPZs and SEZs as two separate legal entities to function as economic zones but under the supervision of different ministries and distinct regulatory schemes (although both coordinated by the EPZA) is the outcome of conflicting interests between bureaucrats in which the two ministries involved sought access to the resources, power and other benefits connected with these programs. All three interviewees from the EPZA admitted that there was no clear economic justification for creating separate economic zones other than political considerations. The interviews demonstrated that the environment in which these two schemes have been established and operate tends to damage the effectiveness of the EPZ initiative more than the SEZ initiative.

4.3.2.7 Strong anti FDI policy sentiment

4.3.2.7.1 Perceived public perception on foreign investment due to unmatched growth performance

As noted in the literature, the attitude and perception of people in the host country has implications for the level of FDI inflows in the country. Inotai (2013) argued that the sustainability of export-led growth, implemented through the EPZ initiative is constrained due to potential resistance and movements against trade liberalization and foreign ownership (FDI) among nationals on the grounds that they have limited impact on the economy and pose a real threat to national sovereignty. The analysis of interview data supports this literature by showing that there are varied perceptions of foreign investment from different groups in society but in general foreign investors are not perceived in friendly terms by local entrepreneurs and the majority of the poor. Based on the past experience of large investments in the mining sector, there is a general belief among the grassroots that the impact of foreign investment is trivial and to an extent the undesired effects are greater than the benefits. Illustrating this experience, one interviewee reported that, the feeling among the grassroots is that it is only a certain cadre of people, especially government executives, who benefit most from the foreign investment. Local entrepreneurs, through the local investors association, feel discriminated against and often blame government for not empowering them. A few have presented themselves as capable of making similar or even bigger investments than foreign investors, but government has shown little trust or no interest. Members of Parliament, especially from the opposition parties, often complain of the low contribution in terms of financial return from most of these investments. Government is often blamed for signing investment contracts negligently, often linked to corrupt practice and/or weakness in contract law, which in the end benefit investors alone. Further analysis of interview data illustrates that, the idea of foreign investment is often perceived as a threat to land and habitats rights, the environment, human rights of workers and to the surrounding community, endowed natural resources, and is a source of vast income inequality and corruption among government officials at various stages of investment approval. Thus the feelings and reactions of society against foreign investors have had an effect on the decisions of existing and prospective investors in EPZ activity.

4.3.2.7.2 Claim for sovereignty and strong movement toward local ownership

Re-emerging 'Africanization' and 'Tanzanization' moves among local entrepreneurs and the general public were mentioned as one of the factors which discouraged foreign investment inflow. The tendency for local entrepreneurs through their platforms to claim rights to 'own and manage locally available resources through investment opportunities' under the umbrella of sovereignty was reported as an important factor which explains the low level of investment in EPZ activity. The analysis of interview data illustrated that the argument often raised by local entrepreneurs is that they should be given first priority to lead the economy. This perception discourages the participation of foreign investors not only in EPZ activity but also in other sectors. On the one hand, dialogue between local entrepreneurs' representatives and government result in delays and/or disapproval of investment projects. On the other hand, foreign investors feel discriminated against which resulted in the small scale of foreign investment. One interviewee said:

> *Foreign investors are often perceived as intruders, and they are very concerned on this issue. To show that they are not happy, they participate rarely in meetings conducted by private sector platforms despite that they are members"*(Investment Facilitation Manager, EPZA).

According to this interviewee, the debate and dialogue between local traders and investor platforms and the government have created a bad impression, portraying an unfriendly investment environment to foreign investors. The inability to secure a higher degree of national/local ownership in most big investments has been one of the main sources of controversy arising in relation to anti FDI sentiment.

This finding matches previous research, as established in the literature review (e.g. World Bank, 1992; Inotai, 2013), that sustainability of export led growth is constrained due to potential resistance by nationals to trade liberalization, foreign ownership (FDI), and international institutions and their perceived threats to development and national sovereignty.

4.3.2.8 Corruption and rent seeking

The temptation to endorse foreign investment projects for personal gain, political pay offs, and other corrupt practices was mentioned spontaneously by other key informants (non EPZA interviewees) as a significant reason for anti-foreign investment policy. Interviews demonstrated that the presence of attractive investment opportunities in the country has trapped the government in a political system that diverts the FDI policy to special interests and economically unproductive purposes and decisions. One interviewee spelt out that it is safer not to undergo any investment project if there is uncertainty of a win-win situation. "After all, in our case the resources which tempt these investors are not perishable. Let's keep on what our father of nation, the first President said, 'due to our ignorance on these issues, these people [foreign investors] are likely to make huge profit on our own minerals and leave us with caves; no need of rushing, let's wait until we develop sufficient capacity to handle this type of activities'.......” (Economic analyst).The same perception exists regarding foreign investment regardless of the sector, and this has equally affected the scale of investment in EPZ activity.

The concern raised in this interview is consistent with several arguments raised in the literature in connection to use of EPZ for personal gain. Literature has argued that the self-interest of policy makers and policy executives often conflict with their assumed goal of maximizing social welfare. Further to this, literature contends that while assumptions of rational self-interest may produce optimal policies in the market place, in politics they can lead to corruption and other forms of rent-seeking. Farole & Moberg (2014, 2017) showed that officials may, for instance, use policies to enrich themselves both financially and politically at the expense of the economy as a whole. This view is shared by Farole (2011) who revealed that there have also been many instances where board members of EPZ authorities pursue their own political and business interests in the EPZs by influencing EPZ regulations in ways that do not benefit the program as a whole.

4.3.3 Emerging and consequences of political multi-party system

On the political front, the consequence of multi-party politics in Tanzania is fundamental to the performance of foreign investment in EPZs. Multi-party politics in Tanzania is a relatively new phenomenon which coincided with the adoption of the EPZ policy. Multi party politics have placed great pressure on the ruling party, especially on FDI policy which has been challenged by the opposition parties, thereby affecting the scale of investment in the country. The influence of multi-party politics in Tanzania on investment decisions is noticeable as illustrated by one interviewee:

> *Although Tanzania has not experienced political instability before, nobody[foreign investor] is certain of political environment in these days due to the way multi-party politics system has been perceived and works in the country."*(Chief Executive Director, EPZA).

Another interviewee, a foreign firm manager made a similar comment:

Opposition parties have strange policies, yet they are gaining popularity over ruling party, they are relying on the ignorance of the people to mislead community about foreign investment in order to implement their policies including winning election. I always wonder what will happen if they will win the election."(Manager, foreign EPZ firm).

This could be explained by the fact noted during the interview that even without prior signs of violence, most foreign investors temporarily evacuate the country during elections. This has happened in all three previous elections under the multi-party system. Interviewees were, however, unsure whether similar situation existed in the era of single party. However, anecdotal evidence suggests that businesspeople were very confident of the politics of Tanzania before the era of multi-party system.

Political consequences also had an impact on the motivation behind the establishment of EPZ. While the EPZs primarily focused on attracting FDI as a way of promoting industrialization through export-led policies, some interviewees reported that the underlying motivation seems to have been twisted toward political aims. As noted during the interview with TPSF's executive director, given the escalating unemployment level in the country, the government tended to pay more attention to the goal of creating employment for what almost all interviewees felt was a strategy to gain political acceptance. Untimely expansion of the EPZ project throughout the country was also perceived to have political texture.

The findings of this study clearly support the existing literature by confirming that the processes by which governments are selected and replaced in some African countries, and the extent to which public power is exercised for private gain, obstruct the impact of EPZ programs. This conclusion is shared in previous studies such as Watson (2001), Agéno (2004), Sachs et al. (2004), Gibbon et al. (2008), Vastveit, (2013) and Whitfield et al. (2015). LaRRI, (2000), ILO (2003), Cling et al. (2005), and Vastveit, (2013) reported that influence of political opposition parties has been critical of EPZ policies in some SSA countries.

4.3.4 Effect of privatization

The interviews demonstrated that the timing and mode of privatization contributed to the retardation of growth in industry sector, subsequently affecting the outcomes of EPZ initiatives. The interview with EPZA managers showed that the adoption and implementation of privatization policy by 1992, in part frustrated the formation of strong local industries which would subsequently provide the base for EPZ schemes to flourish. Interviews reported that the way privatization was implemented resulted in to 'death' of local industries which could be developed to enhance the impact of EPZs. Privatization in Tanzania involved the sale and change of purpose of factory buildings and warehouses which were previously (before privatization) used as industrial estates. The literature review showed that the EPZ initiative tends to do better in countries which, prior to the establishment of EPZ had strong industrial base.

4.4 Summary

In summary, this chapter first analysed the effectiveness of the EPZ initiative in Tanzania. The most effective way to approach this was through review of relevant documents (e.g. official government EPZ's performance reports) in which quantitative performance indicators in terms of investment, employment and export performance were analysed with a view of discerning performance trend relevant in assessing the effectiveness of EPZ initiative from quantitative standpoint. In addition to this approach, through the questionnaire the mechanisms through which linkage and spillover effects (i.e. the dynamic or qualitative outcomes of EPZ initiative) from the technology transfer are diffused to the domestic economy were identified. The intent was to understand whether backward linkages exist and whether knowledge transfer has taken place as claimed. The findings indicate that, in all measures of effectiveness analysed (that is, the stimulation of investment, the creation of employment, the increase of exports, the promotion of backward linkages and the transfer of technology and knowledge), the Tanzanian EPZ initiative has been of limited success. The reasons for this were investigated in the other section of the chapter.

The second part of the chapter sought to analyse the reasons the Asian EPZ model has not worked in Tanzania. This analysis was committed to explore answers to the following questions: Why has the Asian EPZ model not been successful in Tanzania?

What are the obstacles to success?.To do this, initially a survey of the different streams of the literature was conducted and the common themes amongst them identified. The relevant literature surveyed included a review of factors influencing success or failure of EPZ/determinants of success or failure of an EPZ, common obstacles to the success of EPZs/conceptual limitations of the EPZ strategy, successful factors in East Asia, and obstacles to the success of EPZs in Sub Saharan Africa. Then, through a comparison with this literature, interpretations and conclusions were drawn from the analysis and discussion of the findings obtained from the interview.

The overall theme emerging from an examination of the literature on why has the Asian EPZ model not been successful in Tanzania is that, contrary to the neoliberal theoretical claim that free market and little intervention by the state would result into quick industrialization, successes in Asian Tigers were a result of a high degree of regulation and direction when using EPZs with the government playing a very active role in industrial development. The interventions through various industrial policy measures aimed at specific outcomes were a key part of EPZs in Asian Tigers. The literature has shown that the EPZ strategies introduced recently in developing countries are being brought in under the neoliberal approach that requires the government to withdraw completely from direct economic activity and allow the natural market forces to operate. As a result of this, these EPZs have failed to contribute to the industrial development of a country when implemented from a neoliberal perspective. Whereas as a tenet of neoliberal prescriptions, export-led growth strategy and EPZs have been implemented in a uniform way as if situations in all developing countries were the same, a review of literature on the experiences of successful countries have shown that successful export-led growth policies are context specific. For the same reasons, while the vision was to follow the success path of the Asian Tigers, the Tanzanian EPZ initiative has generally failed because its EPZ has emerged as the neoliberal model implemented under the neoliberal policies.

Analysis of context specific factors which act as obstacles to the success of Tanzanian EPZ showed that although most of these obstacles may appear to originate from inadequate funding common in low income countries, they are largely attributed to failure to learn about crucial aspects of EPZ development and management, vested interests and conflicting interests between bureaucracies, use of EPZ as a tool for corruption and rent seeking, prevalent anti-FDI sentiment in the region, and the wide use of single factory scheme.

CHAPTER 5: THE IMPACT OF GOVERNANCE ON FDI INFLOWS INTO EXPORT PROCESSING ZONES

5.1 Introduction

The aim of this Chapter is to address the Research Question 3 introduced in Chapter 1 which seeks to determine the extent to which the recent focus on governance has influenced investors' decisions to locate in an EPZ in Tanzania. The World Bank regularly publish various measures of good governance in specific categories like voice and accountability, political stability, government effectiveness, corruption, rule of law, and the quality of regulation, as well as broader indicators such as the ease of doing business. It is argued that these measures receive wide publicity and affect the attitudes of foreign investors to the desirability of investing in the countries surveyed. As a result, the focus of research has now been shifted to examine the effect of governance on FDI inflows. As governance in many low income countries, especially in the SSA region is seriously defective, it is imperative to understand how governance affects investors' location decisions. This chapter provides analysis and discussion of the findings on the impact of the six dimensions of good governance estimated and updated by Kaufmann et al. (1999, 2013) on FDI inflows into EPZs. The question was first explored through the questionnaire and followed by 5 interviews with foreign firms' managers. A total of 61 EPZ firms with a foreign component were asked to respond to this part of the questionnaire. A total of 46 usable questionnaires were received, which is equivalent to an overall response rate of 75.4 per cent. The results are summarized in Table 5-1and Table 5-2.

5.2 The questionnaire results

5.2.1 Voice and accountability

Three aspects identified in Kaufmann et al., (1999, 2013) namely, the extent to which citizens participate in selecting the government, freedom of expression, freedom of association and freedom of expression of the media are used to assess the influence of voice and accountability on the location of FDI in EPZs (refer to Table 5-1). The analysis of these variables allows the study to capture foreign investors' perceptions about the influence of the level of democracy in a country on the location decision.

From the analysis in Table 5-1, results indicate that decisions to locate in EPZs are influenced by foreign investors' perception of the voice and accountability in a host country. Around 54 percent of the sample of foreign investors indicates average influence (somewhat influential) while about 32 percent of the sample indicates above average influence (very influential) with regard to the process by which governments are selected. A similar picture emerges when the influence of freedom of association and expression is analyzed. Many foreign investors' location decisions are on average influenced by the extent of freedom of association and expression (N = 28, 60.8%), while around 21 percent provides evidence that this aspect of governance has a very important effect (very influential) on the location of FDI. Interestingly, just over half of the foreign investors in the sample (N =25, 54.3%) indicate below average influence (slightly influential) with regard to the effect of free media on the location of FDI. Two extremes emerge with regard to the extent of free media. While around 4 per cent of the foreign investors feel that free media is unimportant (not at all influential) on the decision to locate, this aspect of governance is considered very influential by 15 per cent of the respondents. The remaining foreign investors who responded to this question (i.e. N = 12, 26.1%) reported average influence, that is, their decisions to locate in an EPZ was somewhat influenced by the extent of freedom of expression of the media in the host country.

5.2.2 Political stability and absence of violence/terrorism

Relevant aspects of governance with regard to political stability and the absence of violence/terrorism in this study included the likelihood of political instability as a result of politically related violence (political unrest) and terrorism as well as how far political opposition operates within the multi-party political system. Most respondents (Table 5-1) generally rate all these cases important. About 58 per cent of the foreign investors in the sample indicate that, to some extent, the presence of political violence influences the location of FDI in EPZs. Most respondents (N = 30, 65.2%) have shown that the probability of terrorist acts greatly influences the location of FDI. A moderate number, just below half the respondents (N = 20, 43.5%) indicates that the political ideology of a country, in particular the presence of a multi-party political system and the manner in which political opposition works within the political system has an average effect (somewhat influential) on the location decision. This last variable appears to play a bigger role in influencing location decisions in only 34 per cent of the surveyed foreign investors. Interestingly, of the three aspects of political stability examined, it seems that majority of respondents are more sensitive to terrorism.

5.2.3 Government effectiveness

The quality of public service provision, the independence of public officers from political interference, and the level of bureaucracy in the country were included in analysis of the influence of government effectiveness on the decisions about where to invest. More than half of the respondents (N = 25, 54.3%) expressed an opinion which suggests that government effectiveness in terms of efficiency in various government authorities and offices in delivering services has a significant influence on the FDI location decision (Table 5-1). Similarly, a moderate number (N =21, 45.6%) indicates that quality of the civil service, in particular its independence from political pressure, is a very important factor that influences the location of foreign investment. Foreign investors do not feel that quality of the civil service and its independence from political influences is either unimportant factor or is slightly influential in the determination of investment location decision. Interesting findings emerge with regard to the influence of the quality of bureaucracy. It seems that, to many foreign investors, the decision to locate in EPZ is greatly influenced by the level of bureaucracy experienced in the host country. About 60 per cent of respondents rated the level of bureaucracy as very influential whereas around 15.2 per cent considered it as extremely influential. Overall, investors' perceptions seem to suggest that government effectiveness has a very important effect on foreign investors' location decision.

5.2.4 Regulatory quality

In order to provide evidence on the influence of regulatory quality on the location of FDI, investors' perceptions of the ability of government to formulate and implement sound policies and regulations are used. It seems that regulatory quality greatly influences the location of FDI in EPZs (Table 5-1). Many respondents (N = 30, 65.2%) indicated that regulatory quality was a very influential factor in deciding where to locate. Further, results indicate that around 10 per cent (N = 5) of foreign investors are extremely influenced by the quality of policies and regulations. Only 4 per cent of foreign investors in EPZs appear to have been slightly influenced by the ability of government to formulate and implement sound policies and regulations whereas 10 per cent provides evidence that supports average influence (somewhat influential).

5.2.5 Rule of law

This aspect of governance captures the perceptions of the extent to which agents have confidence in and abide by the rules of the society. In order to gain an impression of the influence of the rule of law on the decisions to locate, quality of contract enforcement, confidence in the degree of property rights protection, independence of police and judiciary, and the likelihood of crime and violence are used as indicators of the rule of law. Results in Table 5-1 provide strong support for the importance of the quality of contract enforcement, property rights protection and the extent of occurrence of crime and violence. Just over half of the foreign investors (58 per cent) were greatly influenced by the quality of contract enforcement. Interestingly, protection of property rights and the occurrences of crime and violence appear to have great influence on the location decision of FDI of most foreign investors (76 per cent). To an extent results with regard to the effectiveness of the police and judiciary are mixed, although the general tendency is towards above average influence. Almost half of respondents (around 48 per cent) feel that their location decisions were crucially influenced by the quality of police and judiciary. About 40 per cent of respondents were somewhat influenced by this aspect whereas around 10 per cent report below average influence. Only 4 per cent of foreign investors appear not to have been influenced in their location decision by the extent of effectiveness of the police and judiciary.

Interesting findings emerge with regard to the influence of the presence of crime and violence, and to an extent with regard to property rights protection. As can be appreciated in Table 5-1, almost all foreign investors indicate that effectiveness and/or independence of police and the judiciary had much influence on their location decisions. In this regard, no respondents indicated either average or below average influence. A similar picture emerges in relation to property rights protection whereby it appears to have average influence and above.

5.2.6 Control of corruption

The analysis of the extent to which public power is exercised for private gain, including both petty and grand forms of corruption, influences the location of FDI has produced interesting opposing views. How common it is for firms to have to pay additional irregular payments in the form of bribes to get things done appears to have an important and/or very important effect on the location of FDI (refer to Table 5-1). About 30 per cent of respondents report that this aspect of corruption greatly determined their location decisions and has an average influence for about 43 per cent of foreign investors. In contrast, the frequency of corruption by government executives and elected leaders surprisingly has a below average influence (slightly influential) on the location decisions of more than half of the surveyed foreign investors. Just over half of the sample of foreign investors (around 54 per cent) expressed an opinion which suggests that the extent of corruption at this level only has a slight influence on the decision to locate. Around 40 per cent of respondents feel that this has an average influence (somewhat influential) whereas the remaining foreign investors (8 per cent) find it not at all influential on their location decisions.

Table 5-1: Degree to which governance influence FDI location decision in EPZs

	No influence			Very much influence		NA
	Not at all influential	Slightly influential	Somewhat influential	Very influential	Extremely influential	
Extent to which a country's citizens are able to participate in selecting their government.	0(0%)	4(8.7%)	25(54.3%)	15(32.6%)	0(0%)	2(4.3%)
Extent of freedom of expression and association	0(0%)	5(10.9%)	28(60.8%)	10(21.7%)	0(0%)	3(6.5%)
Extent of freedom of expression of the media	2(4.3%)	25(54.3%)	12(26.1%)	7(15.2%)	0(0%)	0(0%)
The likelihood that the government will be destabilized through politically motivated violence	0(0%)	10(21.7%)	27(58.7%)	5(10.8%)	0(0%)	4(8.6%)
The likelihood of political instability through terrorism	0(0%)	1(2.2%)	10(21.7%)	30(65.2%)	5(10.8%)	0(0%)
Extent political opposition operates within the political system	0(0%)	10(21.7%)	20(43.5%)	16(34.8%)	0(0%)	0(0%)
Quality of public services/effectiveness in delivery of public services	0(0%)	2(4.3%)	19(41.3%)	25(54.3%)	0(0%)	0(0%)
Quality of civil service and its independence from political pressure	0(0%)	0(0%)	24(52.1%)	21(45.6%)	1(2.2%)	0(0%)
Quality of bureaucracy/the amount of red tape likely to be encountered	0(0%)	0(0%)	11(23.9%)	28(60.8%)	7(15.2%)	0(0%)
Ability of the government to formulate and implement sound policies and regulations	0(0%)	2(4.3%)	5(10.8%)	30(65.2%)	5(10.8%)	4(8.7%)
Quality of contract enforcement	0(0%)	7(15.2%)	12(26.1%)	27(58.7%)	0(0%)	0(0%)
Extent of protection of property rights	0(0%)	0(0%)	10(21.7%)	35(76.1%)	1(2.2)	0(0%)
Effectiveness and/or independence of police and judiciary	2(4.3%)	5(10.8%)	17(36.9%)	22(47.8%)	0(0%)	0(0%)
Likelihood of crime and violence	0(0%)	0(0%)	0(0%)	35(76.1%)	10(21.7%)	1(2.2)
Extent to which illegal payments are generally expected at lower levels of government in the form of bribes	0(0%)	12(26.1%)	20(43.5%)	14(30.4%)	0(0%)	0(0%)
Extent to which high government officials are likely to demand special payments	4(8.7%)	25(54.3%)	17(36.9%)	0 (0%)	0(0%)	0(0%)

No further fully worked out framework was used to provide insights concerning what aspect of governance affect foreign investors' location decision more. Instead, it was decided to look at the combined number of respondents (and their proportions) under the last three response options (somewhat influential through extremely influential). This simple aggregate analysis was considered a convenient approach in determining the order of importance given that almost each of the six dimensions of governance indicators are disaggregated into a number of variables.

The aggregate analysis indicates that although all six dimensions of governance have important effect on the location of FDI in EPZs, they do not influence location decisions to the same extent. The results (refer to Table 5-2) indicate that government effectiveness (98.5%), rule of law (91%), regulatory quality (86.8%), political stability and absence of violence/terrorism (81.8%), voice and accountability (70.2%) and control of corruption (55%) are the most important dimensions of governance affecting investors' decisions to locate.

Table 5-2: Dimensions of governance that matter more to foreign investors

	Somewhat influential	Very influential	Extremely influential	Total	Average (%)
Measures of the voice and accountability					70.2
Extent to which a country's citizens are able to participate in selecting their government.	25(54.3%)	15(32.6%)	0(0%)	40(86.9%)	
Extent of freedom of expression and association	28(60.8%)	10(21.7%)	0(0%)	38(82.5%)	
Extent of freedom of expression of the media	12(26.1%)	7(15.2%)	0(0%)	19(41.3%)	
Measures of political stability and absence of violence/terrorism					81.8
The likelihood that the government will be destabilized through politically motivated violence	27(58.7%)	5(10.8%)	0(0%)	32(69.5%)	
The likelihood of political instability through terrorism	10(21.7%)	30(65.2%)	5(10.8%)	45(97.7%)	
Extent political opposition operates within the political system	20(43.5%)	16(34.8%)	0(0%)	36(78.3%)	
Measures of government effectiveness					98.5
Quality of public services/effectiveness in delivery of public services	19(41.3%)	25(54.3%)	0(0%)	44(95.6%)	
Quality of civil service and its independence from political pressure	24(52.1%)	21(45.6%)	1(2.2%)	46(100%)	
Quality of bureaucracy/the amount of red tape likely to be encountered	11(23.9%)	28(60.8%)	7(15.2%)	46(100%)	
Measures of regulatory quality					86.8
Government's ability to formulate/implement sound policies/regulations	5(10.8%)	30(65.2%)	5(10.8%)	40(86.8%)	
Measures of rule of law					91
Quality of contract enforcement	12(26.1%)	27(58.7%)	0(0%)	39(84.8%)	
Extent of protection of property rights	10(21.7%)	35(76.1%)	1(2.2)	46(100%)	
Effectiveness and/or independence of police and judiciary	17(36.9%)	22(47.8%)	0(0%)	39(84.7%)	
Likelihood of crime and violence	0(0%)	35(76.1%)	10(21.7%)	45(97.8%)	
Measures of control of corruption					55
Extent to which illegal payments are generally expected at lower levels of government in the form of bribes	20(43.5%)	14(30.4%)	0(0%)	34(73.9%)	
Extent to which high government officials are likely to demand special payments	17(36.9%)	0 (0 %)	0 (0 %)	17 (36.9 %)	

5.3 Interview results

The analysis of each interviewee response and across all five interviewees confirms most of the findings presented in the analysis of the questionnaire in Table 5-1and Table 5-2. Almost similar perception emerged from four interviewees. Generally, these four interviewees agree that the quality of the six dimensions of governance have influence on the firms' location decision although not to the same extent. In contrast, one interviewee differed considerably. To this manager, the most important factors were availability and quality of raw materials, basic infrastructural facilities and exemptions from VAT and import duties. The individual interviews are summarized next.

Manager 1

This is a manager of a wholly foreign owned labour intensive textile company from China engaged in manufacturing of high quality garments for export, targeting mainly the Africa Growth and Opportunity Act (AGOA) market. He has been with the company since its inception in 2011 in the position of the chief manager. The company is located within the EPZ industrial park. He is less fluent in English language as well as in Kiswahili (Tanzania's national language). Therefore, where necessary, the questions and interpretation were channelled through the production manager, another non-Tanzanian resident (he is from Ghana) trained in the Chinese language.

On the survey, the response by this manager rated between somewhat (average) and very influential response options. He reports that his company considered the quality of governance when deciding where to locate and this was achieved through looking at the host country's ranking according to various indices of the quality of institutions, experience from contacts with businesses located in Tanzania and, sometimes, through the Tanzania embassy in their country.

This interview reveals that the company was more attentive to the aspects of governance with a greater impact on the labour environment, especially labour laws and regulations. This is perhaps because of the nature of labour intensiveness of the operations. It became apparent that aspects of governance that have to do with labour policies and regulations are critically evaluated as these may have an effect on the availability and reliability of labour market. Illustrating this point, the interviewee said:

> *It does not appear reasonable to consider labour availability in terms of the size, skills and cost while ignoring labour laws and regulations* (Manager 1).

Specifically, the interviewee emphasized that the company is particularly sensitive to the governance issues regarding human rights protection, the presence of and frequency of labour related riots, the extent of demonstration and movement by labour, freedom of association and expression through labour organizations and through human rights association, as well as political stability.

Therefore, from the perspective of the six dimensions of governance the analysis suggests that the aspects aggregated under voice and accountability and political stability and the absence of violence/terrorism greatly influence location decisions by foreign investors targeting the textile/garments sector. Similar consideration is given with regard to the ability of government to formulate and implement sound policies and regulations. The interview provides interesting explanations to support why voice and accountability, and political stability and absence of violence/terrorism in a host country are considered influential when deciding where to locate. There is a feeling that liberal freedom of association and expression, by for example, media, human rights activists, especially in countries in which the attitude of the society toward foreign investors is unfriendly, may act against foreign investors' interests. For instance, as noted by this manager, prior assessment of the level of aggressiveness or freedom in claiming labour rights, and presence of the restrictive labour laws and rules is very important as these issues hinder performance of the investing company.

Surprisingly, it became apparent that the sensitivity of foreign investors to voice and accountability is due to the fact that a high level of democracy is likely to exert pressure on the government with regard to different FDI policies, thereby constraining executives from discharging their responsibilities. For example, effective governance institutions which allow freedom of association, and a free political system, which accommodates both ruling and opposition parties, may prevent the host government from offering fiscal incentives to foreign investors. Similarly, wide political participation (as a result of a multi-party political system) reduces the foreign investors' freedom in the host country. Investors are generally less interested in entering a country with high political instability, as such, evaluation of existence of various political occurrences, including demonstrations, strikes, labour movements, media and political assassinations and similar occurrences is important.

Manager 2

This is a managing director of a food processing company manufacturing pulse products. The company is a wholly foreign owned company established in 2009. The country of origin is India. It depends almost 100 per cent on local suppliers of raw material, which largely constitute agriculture materials, particularly from the pulse family.

This manager differed considerably from the other four managers. He does not seem to support conclusively the influence of governance on a firm's location decision. It became apparent that in the questionnaire, three aspects of governance namely freedom of expression of the media, effectiveness of police and the judiciary and extent of involvement of high government officials in corruption were rated not at all influential whereas the remaining aspects slightly influenced the location decision. If a decision to locate is not adequately based on evaluation of the quality of governance in the host country, this would suggest that there are other more important criteria. The interview revealed that the availability of basic factors of production including raw materials and labour, and the quality of physical infrastructure, including reliable utilities, were accorded primary consideration compared to governance issues.

Describing why consideration of aspects of governance is less important, the interviewee stated that:

> *A perception among EPZ investors all over the world is that EPZ is a one stop service centre, therefore, being a one stop service centre implies simplified rules and procedures within the centre, and a minimum subjection to the existing, if any, countrywide problematic governance* (Manager 2).

The interviewee feels that as an EPZ is conventionally insulated from the broader institutional context of the country, such governance and institutional factors should have a minimum effect on the location decision. Furthermore, it became apparent that the protective and regulated EPZ environment somewhat provides assurance of minimum interactions with aspects of the governance in the rest of the economy. It was revealed, through the analysis of some probes that the perceived nature of EPZs as liberal and insulated from the rest of the domestic economy precludes objective evaluation of the quality of governance countrywide.

The interesting finding emerged with regard to why political stability and the absence of violence/terrorism would have limited influence on the FDI location decision. Based on the experience of one of his friends who invested in a politically unstable country, the interviewee highlighted that when there is political violence or civil war, some risk averse potential investors hesitate to invest, and less daring investors disinvest which then creates investment opportunities for a few enterprising investors. On the one hand, this situation exerts pressure on the government to ensure that security measures to protect foreign investors are in place while on the other hand competition for FDI is lowered, giving more chances to risk takers only. Expressing why political instability has limited influence on the location decision, the interviewee simply said:

> *There is some convincing evidence of big investment in politically unstable countries. I have a friend who owns similar business like mine in Zimbabwe and I know some investors who have tried their fortune by investing in oil and gas projects in South Sudan* (Manager, 2).

The two countries quoted have a long history of political instability, yet have attracted some investment. Suppression of freedom of expression and association and lack of free political participation exacerbate political violence in Zimbabwe whereas terrorism threatens stability in South Sudan.

This demonstrates that the political climate in a country, including the introduction of a multi-party political system in African countries, the way governments are selected, monitored and replaced and to extent civil wars can be less important determinants of location decisions, especially if the host country is naturally endowed with extractive natural resources and/or if the investor is largely motivated by unique raw materials abundant in a particular country.

Manager 3

This is a manager of one of the oldest EPZ companies (established in 2007). His area of responsibility is production in which he has vast experience. The company manufactures candles for export as well as for local market and is located within an EPZ enclave. The company is wholly foreign owned and is of Indian origin.

This interview demonstrated that the effect or influence of all six aspects of governance on the location decision is comparable to that of the infrastructure quality and tax incentives. The interviewee indicated that the critical role of governance is due to the fact that it greatly determines the outcomes of EPZs and hence, the eventual performance of individual firms in EPZs. Further, the interview revealed that while assessing country’s competitiveness as a prospective EPZ site, it is incomplete to focus evaluation on the investment climate factors to readily quantifiable factors and characteristics such as physical infrastructure, labour conditions and cost, availability of raw materials and natural resource endowments alone. The interviewee emphasized the influence of more subjective factors such as the administrative simplicity of the regulatory and legal framework, and the favourable political climate especially for the purpose of determining a country’s competitiveness as a prospective EPZ site. The interviewee used his own previous experience which has shown that a combination of these factors is necessary to attract foreign investors to an EPZ. Specifically, the interviewee’s experience shows that the lack of one of these factors in the host country has hindered some EPZ programs from the start. It is on the basis of this experience and the connection to the ultimate performance of the locating firms the aspects of governance appear to affect the decision to locate in EPZ.

From the practical point of view, the analysis suggests even if an EPZ is said to insulate EPZ firms from the rest of the economy, the influence of aspects of governance on the location decision derives from the fact that EPZ firms cannot be detached completely from the broader governance and institutional context of the country**.** This reflects Aggarwal’s (2005) findings, which showed that the quality of governance both within and outside an EPZ influences the location decision since the EPZ firms needs not only to interact with the EPZ administration but also with the rest of the domestic economy. This interviewee emphasize that knowledge about the governance environment in the host country is critical to the ultimate performance of the firms locating in EPZs. The findings of this study support existing literature by showing that the location decision takes into account the fact that an EPZ may have favourable basic factors of production, especially large supplies of low cost labour and raw materials, but may be an uncompetitive site for investment due to governance limitations.

Manager 4

Interviewee 4 was a manager of a Pakistan's company involved in the assembly/renovation of imported used cars. It started operations in 2009 and operates through single factory licensing (a stand alone factory unit). This interviewee highlighted the importance of the quality of policies and regulations; efficiency of customs administration; access to imported inputs free of tariffs and duties; and the overall administrative environment. The interviewee also identified property rights protection, quality of bureaucracy at the port, and the extent corruption detracts the business environment for foreign investors as aspect of governance that matters most for foreign investors.

The interview demonstrated that, whereas the influence of government effectiveness, regulatory quality, rule of law and control of corruption is highly appreciated, the influence of voice and accountability and political stability and absence of violence/terrorism is somewhat limited. Further to this, the interview revealed that the influence of these aspects of governance on the location decision is comparable to that of tax incentives and greater than the influence of physical infrastructure. The interviewee added that the extent to which the EPZ policy framework allows a variety of different EPZ set ups, in particular single factory units, and the policies, laws and regulations related to access to land are also particularly important when considering where to locate.

Manager 5

Interviewee 5 is a manager of a wholly foreign-owned joint venture subsidiary (America-Canada and South Korea) involved in mineral processing (copper leaching).

The company was registered in 2010 and is housed in an EPZ industrial park, but planning to quit and operate as a stand alone because of higher rental charges.

This interview revealed that firm's location decision is particularly influenced by aspects of regulatory quality and effectiveness and/or efficiency in the aspects of rule of law. The interviewee highlighted that too restrictive policies and excessive regulations may, for example, constrain availability and cost of the minerals, and access to land.

In addition, the likelihood of political instability through terrorism, the extent of protection of property rights and the likelihood of crime and violence were mentioned during the interview as the most influential aspects when deciding where to locate. Concerning consideration accorded to the government effectiveness, the interview illustrated that this has limited influence because of the assurance that the EPZ is delineated area from the rest of the economy. Hence, it is not expected to encounter greater bureaucracy.

5.4 Discussion

The results of this study supports most previous research by showing that the aspects of good governance developed by Kaufmann et al namely voice and accountability, political stability and absence of violence/terrorism, government effectiveness, regulatory quality, rule of law, and control of corruption do influence FDI location decisions in EPZs. However, these dimensions do not influence location decision to the same extent.

The analysis of data on voice and accountability reveals an unexpected trend with regard to the influence of free media. While it was expected that liberal (or excessive) freedom of expression by the media would cause nuisance to investors, more than half of foreign investors feel that the extent of free media has a below average influence when deciding where to locate. A follow up interview on this response revealed that foreign investors are less interested in this because most media deal with petty issues which have less impact on them. It became apparent that only a few media deal with critical issues which have a direct effect on investors. Reporters on environmental matters were particularly mentioned.

In relation to the political stability and absence of violence/terrorism, it seems that foreign investors are particularly sensitive to terrorism and the manner in which multi-party politics works. This was expected, given the recent growing trend of terrorist acts, and also the low level of democracy in the election process which is becoming a phenomenon in most African countries. Thus, is not surprising given the uncertainty surrounding most elections in low income countries.

With regard to government effectiveness, the analysis suggests that most investors' location decisions consider the level of bureaucracy of the host country. Possibly this is because burdensome bureaucracy is a source of many other inefficiencies, resulting in low productivity. Excessive bureaucracy may, for example, result into corruption.

The results of the interviews showed that the possibility of confiscation is high in countries where poor enforcement of contracts is weak. As a consequence, investors tend to pay attention to the host country's experience regarding protection of property rights. In addition, the interviews revealed that the attitude of people toward foreign investors in some African countries explains why the extent of crime and violence is crucially important when deciding where to locate. A perception exists that many African countries are phobic about foreigners. In this regard, some African countries in which criminal conducts are high were mentioned including South Africa. It is however, interesting to note that anecdotal evidence reports South Africa as the leading recipient of FDI among SSA countries.

The analysis of data suggests that investors are more sensitive to the frequency of low level corruption (bribes) compared to grand corruption. This is surprising due to the fact that EPZ investors largely deal with EPZA administration. It became apparent that where corruption involves senior government officials, there is a win-win situation: each party benefits and in most cases it is investors who benefit most. Government executives and legislature may, for example, be corrupted to accept unqualified investment, or to offer unnecessarily generous tax incentives. By contrast, low level officers are largely corrupted to make things move fast. As such, there is no apparent tangible compensation for the money given out as bribe. This information was not asked for, rather came out spontaneously during the interview.

Notwithstanding the few exceptions noted above, the results of this study support the perception that countries with good governance environments tend to attract more foreign direct investment and that poor governance deter FDI inflows (e.g. Dunning 1998; Globberman & Shapiro, 2002, 2003; Blonigen, 2005; Meyer & Peng, 2005; Bénassy-Quéré et al., 2007). The results confirm most previous empirical research summarized in Chapter 2, which generally found that almost all the six components of good governance greatly influence FDI location decisions. Also, these results reflect the reality that many Sub Sahara African countries, Tanzania included, in which late EPZ programs are mostly found have secured only a small share of global FDI because of their inability to enhance the governance environment.

CHAPTER 6: WHY DO TAX INCENTIVES PERSIST?

6.1 Introduction

This Chapter aims to address the Research Question 4 posed in the introductory Chapter of this study. Drawing on the literature on the justification of tax incentives, including arguments against tax incentives discussed in Chapter 2, and on the methodology outlined in Chapter 3, the present chapter aims to answer why the use of tax incentives in the Tanzanian EPZ program has remained politically popular and whether there is a rent seeking motive in its application. Further to this, the Chapter aims to explain whether investors' location decisions would change if no tax holidays were offered in Tanzanian EPZs. Specifically, this latter part of the question seeks to find out whether and the extent to which the abolition of tax holidays from the investment incentives in EPZs would affect the investment location behaviour. As introduced in Chapter 1, although standard international tax policy advice cautions against the use of tax incentives for investment, many developing countries especially in SSA region continue to operate or introduce them. Many other observers including donor community, NGOs, academicians, development activists, and different domestic stakeholders have often found tax incentives to be ineffective, inefficient and associated with abuse and corruption. As a result, they have frequently advised countries to remove some of them (especially tax holidays) or to revise them in order to improve their design, transparency and administrative efficiency. Yet, this advice has often had limited impact. Almost all developing countries use tax incentives. Therefore, the main concern in this chapter has been to examine the reasons for the apparent reluctance of governments to revise the tax incentives as advised.

To explore this question, a literature review was first conducted, including a review of literature on the theoretical and empirical justifications of why governments introduce and preserve tax incentives; the effectiveness of tax incentives in attracting FDI, and how effective tax holidays are in attracting FDI. In addition, literature on non-tax factors influencing investment location decisions was surveyed. The first part of the question (i.e. why the use of tax incentives is politically attractive) was further investigated through six interviews as identified in Chapter 3 of this study (refer to Table 3-1).The part of the question that sought to find out whether tax incentives in EPZs are used for rent seeking motives was mainly explored through non-EPZA informants, as these have no vested interest. The second part of the question, which sought to determine whether investors' location decisions would change in the absence of tax incentives was explored through questionnaires. As local firms are also encouraged to participate in EPZ activity, these questionnaires were aimed to secure views from the managers of both local and foreign companies invested in EPZs and through single factory units. In the first part of the question, views from the government officials are first presented and discussed, and then views from other key informants specified in Table 3-1 are presented. Then, common views are sought from both groups. In the second part, questionnaire results are first presented, followed by discussion.

6.2 Why use of tax incentives is politically popular? Government perspectives

The analysis of each interview and across three interviews yielded six main reasons related to why the use of tax incentives is popular in EPZs. In addition, four other reasons were identified. As described in Chapter 3, the interviewees were the government officials responsible in the administration and management of EPZs. The key informant was the Chief Executive Director of the EPZA. Two other managers, namely the Investment Facilitation Manager and an Investment Facilitation Officer were also interviewed to corroborate and augment the results. The presentation, analyses and discussion of these findings follows.

6.2.1 The claim that tax incentives drain government revenues is flawed

The first questions in the first part of the interview were about the validity of the claims that tax incentives are ineffective in attracting investment and simply represent a loss to the government revenues. Specifically, all three interviewees were asked to verify the overwhelming claim that tax incentives constitute a loss to government revenue. This was a necessary question as it could lead to further exploration of the reasons for the desirability of tax incentives. All three interviewees agreed that they are aware of different published research that argues that tax incentives are a loss to government revenue. The interviewees are also aware that these arguments have attracted debate from intellectual and different stakeholders. However, all three interviewees disagreed with the claim that tax incentives are simply a loss to government revenue. Part of the explanations why it may not be correct to make a general conclusion that tax incentives are draining government revenue is that the analytical basis from which the conclusion is drawn ignores the fact that, in a country which seems to be increasingly exhibiting high unemployment rate, no valid claim can be made that tax incentives are just a loss to the government revenue without considering the quantitative job creation effect of the investment.

The interviews relate pressure from growing unemployment to the attraction of tax incentives. Tax incentives persist in response to government's perception that such strategy has a greater ability to stimulate job growth. The comment made by one interviewee captures the opinions expressed by others, "there is no valid claim that tax incentives have been totally ineffective in attracting additional investment as long as from the little investment so far attracted, the community benefit in terms of employment" (Investment Facilitation Manager). To the extent that unemployment is rampant in SSA countries, the governments in these countries often tend to judge EPZ's achievement in terms of the extent that investment addresses the problem of employment, at least from the quantitative point of view.

The respondents' views that tax incentives do not constitute loss of government revenue reflect what some studies anticipated. According to Holland & Vann (1998), one reason countries enact tax incentives, despite their drawbacks, is that some politicians or their advisors may simply disagree with the analysis presented in the literature regarding the costs associated with tax incentives. The IMF/OECD/UN &World Bank's (2015) report reflects the result of the present study by showing that it might also be that observers (i.e. those arguing against tax incentives) have underestimated the benefits that incentives have generated. The literature review demonstrated that tax incentives are relatively easy to target and fine tune to suit other policy objectives such as job creation; and the use of tax incentives is often justified by positive externalities arising from the investments generated. The findings also reflect previous research, which has showed that supporters of tax incentives rationalize claimed revenue losses by arguing that ensuing net social benefits from the technology transfer and jobs created will improve the welfare of citizens.

6.2.2 Motives to stay competitive

In this study, as with others (e.g. Holland & Vann, 1998; Bolnick, 2004; Klemm, 2009; IMF/OECD/UN &World Bank, 2015; Zolt, 2015), competition is a strong reason, with countries introducing and preserving tax incentives despite their drawbacks. The motive to remain competitive was a major reason for retaining tax incentives identified during interviews with all three participants in this study. The interviews demonstrated that failure to offer tax incentives is more risky and costly than offering these incentives so long as other countries with which Tanzania competes for FDI, including countries with better infrastructure and governance, offer similar tax incentives.

Interviews illustrated that reliance on the use of tax incentives for investment is inevitable in a globalized world, characterized by growing flows of trade and investment, where international investors are free to locate in any country. Further to the idea of "staying competitive" globally, the interviews demonstrated that as SSA countries share common disincentives to invest, offering tax incentives serves as a tool to enable these countries to compete against each other within the region on an equal footing. The analysis of interviews showed that tax incentives confer a relevant competitive edge where the broader investment climate is generally poor across countries, and the competition for FDI is stiff, as in the case of SSA. Furthermore, interviews demonstrated that the government is aggressive in maintaining tax incentives as a response to the increasing economic integration within the region. As economic integration manifests itself across the SSA region, strong competition for investment in EPZs through tax incentives ensues between members of regional trade groups, notably the Economic Community of West African States (ECOWAS), the Southern African Development Community (SADC) and the East African Community (EAC) while individual countries within these trading blocs simultaneously compete against each other for a large share of FDI inflows (Investment Facilitation Manager, EPZA). Tanzania is a signatory of the EAC and SADC. The Chief Executive Director to EPZA notes that, given trends in global FDI whereby only a small share goes to SSA region, and the fact that the broader investment climate is generally inefficient across the region, tax incentives confer a necessary competitive edge in the regional economic community.

The results of this study support and augment existing literature by showing that one reason governments use tax incentives is to respond to growing competition across developing countries. As argued in the Literature Review, tax incentives are necessary for responding to tax competition from other jurisdictions (Bolnick, 2004; Klemm, 2009). The results support the IMF/OECD/UN &World Bank's (2015) findings which show that the proliferation of incentives is largely a manifestation of international tax competition. The literature review illustrated that when other countries compete for the same investment through tax incentives, a rational decision would be to match the tax incentives in order to remain attractive to investors. The reasoning to emulate behaviour of neighbouring countries is reflected in a number of studies, including Anderson & Wassmer (1995), and recently the IMF (2014) and Moreno-Dodson (2015), which showed that tax incentives are offered by governments to emulate the behaviour of neighbouring countries. In the same vein, the literature illustrates that the decision about whether and the extent to which tax incentives should be offered to induce investment will be determined by the behaviour of the leader and neighbouring countries.

The findings of this interview confirm the claim that tax competition is particularly associated with the wide use of tax incentives in developing countries. Thus, developing countries tend to use tax incentives for investment if their competitors also do the same. This study supports and adds to the findings of Holland & Vann (1998), who showed the reason policymakers offer tax incentives is that they are necessary to maintain their countries competitive position vis-à-vis neighbouring countries. Their findings confirm that countries sometimes introduce tax incentives to keep up with other countries in competing for international investment. Recently, a report to the G-20 Development Working Group by the IMF/OECD/UN &World Bank (2015) identified tax competition with other countries as contributing to the observed reluctance to scale down tax incentives in low income countries. This report demonstrates that much of the pressure to offer incentives stems from an awareness of those offered by other countries. Moreover, the findings of the present study supports the conclusion of Zolt (2015), who deduced that tax incentives are all about tax competition, that is, how can a country attract investment that otherwise would have gone to a different region or country.

The findings that developing countries offer tax incentives to compete at global level, regional levels support the literature, which argues that for export platforms, the competition will be among countries that have similar comparative advantages. As such, the competition for investment may be global, among countries in a particular region, or even among states within a particular country (Zolt, 2015).

The results are also consistent with Edwards & Veronique de Rugy (2002) and Moore (2007) regarding the use of tax incentives as a reaction to globalization pressure. Edwards & Veronique de Rugy (2002) reported that globalization has created pressure, and one of the effects of this pressure is the difficulty of sustaining high tax rates in this new economic environment. Moore's (2007) findings illustrate that one of the forces shaping tax policy in many countries is the need to maintain competitive tax system in an increasing globalized economy. Hence, tax incentives persist because globalization has made it increasingly easy for mobile capital to minimize and avoid taxes by simply and flexibly relocating to a jurisdiction with more favourable tax treatment (Moore, 2007).

The results of this study also support previous research regarding the relationship between the attraction of tax incentives and increasing economic integration (Edwards & Veronique de Rugy, 2002; Hansson & Olosdotter, 2003). Edwards & Veronique de Rugy (2002) demonstrated that as economic integration increases, investors gain greater freedom to take advantage of foreign economic opportunities. In turn, this freedom creates pressure on the part of regional blocs' members to agree to a tax harmonization scheme, usually the one which favours a low duty and tax environment in order to remain competitive against other regional trade communities. In Hansson & Olosdotter's (2003) study, the motive to lower corporate tax rates was attributed to increased economic integration. The results also reflect the findings of Wasylenko (1981), Wolman (1988), and Bartik (1992) regarding preference for tax incentives as a strong factor influencing investment location decisions at an intra-regional level. The literature review showed that when an EPZ in a Sub-Saharan Africa country competes for investment with more economically successful industrialized countries, these industrialized countries can win the large share even without tax incentives because they have more locational advantages, including better infrastructure and good governance, suggesting that tax incentives have a greater impact on firm location decisions at an intra-regional level than at an inter-regional level (Wasylenko, 1981; Wolman, 1988).

These findings are consistent with Bartik's (1992) research, which showed that within a region, tax incentives may play a more decisive role in investment locational decisions.

6.2.3 Pressure from investors

Analysis of the three interviews shows that governments retain tax incentives in response to pressure from investors. Two sources of pressure were identified, namely investors' perception of tax incentives and the perceived investors' relocation behaviour. The interviews illustrated that investors often take the offering of tax incentives as a given. According to the interview, one of the most often asked questions during investment promotion campaigns relates to the tax benefits available to investors and how they compare with those of neighbouring countries. Faith in the influence of tax incentives on investment location persists given that many enquiries tend to focus on tax incentives in almost every investment promotion campaign through which the EPZ program is advertised.

The finding that potential investors often ask whether and the extent to which tax incentives are included in the investment incentives package does not reconcile with numerous investor survey studies (e.g. Van Parys & James, 2010; James, 2013a, 2013b; Tavares-Lehmann et al., 2015) which have showed that investors are less sensitive to tax incentives. Possibly, the difference is due to the experience of investors regarding the host country's investment climate: survey evidence is based on operating investors compared to the evidence obtained through prospective investors who have less knowledge about the host country. All interviewees indicated awareness of different survey results, which claim that most investors would invest even without tax incentives. However, as one interviewee notes, government works against the survey results because it is in a dilemma about what will happen in case tax incentives are not promised. Therefore, the most convenient way to escape this dilemma is to promise tax incentives without considering whether and the extent to which they will have an influence on the initial location decisions.

Another possible explanation for the discrepancy may be drawn from the discussion in the literature, which showed that, whether or not the tax incentives influence investors' location decisions, investors will not stop from asking for this kind of incentive (Basu & Krishna, 2002; IMF, 2008). Previous research places foreign investors' behaviour and characteristics at the centre of the problem. These foreign investors play different governments against each other to gain the best possible tax benefits, even if their investment location decisions are not necessarily being influenced by tax benefits.

Investor pressure also emanates from the footloose nature of EPZ investors. The interviews demonstrated that tax incentives are persistently employed in response to the relocation behaviour of EPZ firms, especially given the ease with which they can relocate elsewhere when they feel that they will enjoy more favourable tax benefits. The observation made by one interviewee illustrates this point. The interviewee revealed that nine EPZ companies relocated to neighbouring countries simply because the Tanzania Revenue Authority (TRA) failed to grant on import duty and VAT exemptions as articulated in the EPZ Act (Chief Executive Director, EPZA). Another interviewee held a similar view, arguing that pressure on the government is high given that today, most export oriented investment are footloose and in the absence of investment tax incentives in EPZs, can easily re-locate into another country (Investment Facilitation Manager, EPZA). Governments preserve tax incentives because it has been proved that the lack of tax incentives has encouraged firms to leave or threaten to leave (Chief Executive Director, EPZA)

The results of this study corroborate previous research regarding relationship between popularity of tax incentives in EPZ and the footloose nature of EPZ investment (Linnenmann et al., 1987; Holland & Vann, 1998; Palley, 2003; Tuomi, 2012; OECD, 2014; Kulaba, 2015). The evidence from these studies report that the export-oriented strategy implemented through EPZ promotes footloose export activities, often driven by cheap labour and tax incentives (Linnenmann et al., 1987; Palley, 2003). The literature review showed that the sustainability of footloose industries established in EPZs cannot go beyond the lifespan of the tax exemptions (Kulaba, 2015). In addition, given their ability to adjust quickly in case of changes in external investment climate conditions (i.e. footloose), these investors tend to move out as soon as the tax benefits (tax holidays) expire (Tuomi, 2012; OECD, 2014). Some countries may therefore feel under pressure from footloose investors who threaten to locate investment elsewhere if they are not given concessions (Holland & Vann, 1998). However, no clear explanations were given to support the low level of the so called “footloose investment” in Tanzanian EPZ initiative which confers generous tax incentives.

6.2.4 Budgetary implications of tax incentives-tax incentives are viewed as costless

Another factor that contributes to the political attraction of tax incentives in Tanzanian EPZ initiative is that their use has no direct or immediate budgetary impact. The interviews demonstrated that the use of tax incentives serves the government well when operating in a budgetary constrained environment. Given persistent large budgetary deficits, and the actual fiscal effect of tax incentives on the current budget, it is more convenient to rely on tax incentives, as they do not seem to affect the current budget (Chief Executive Director, EPZA). There is a thinking among interviewees that government money is in fact not lost if tax incentives are used compared to other measures which require immediate funds, for instance, to finance physical infrastructure. It became apparent that given overambitious EPZ expansion plans and the urgent demand for FDI, the government finds itself unable to put in place all relevant consideration for successful EPZ development mainly due to lack of sufficient funds. As a result, in order to accelerate the process of attracting investment, the government is compelled to use tax incentives as a short-term measure to circumvent the budgetary deficit problem. Based on the interviews, the use of tax incentives is therefore a preferred fiscal tool because it does not involve direct cash outflows from the current budget.

This supports the conclusions of Sanchez-Ugarte (1995), Holland & Vann (1998), Bolnick (2004), Chen (2015), and Zolt (2015), who showed similar perspectives on the costless nature of tax incentives as contributing to its political attraction. Governments prefer tax incentives because it is possible to provide the investor with a subsidy without having to go through the tax collection and budgetary dispensing process (Matziorinis, 1980). Arguing from a pragmatic point of view, Hadari (1990) indicated that it is easier for host countries with large budgetary deficits to sacrifice potential future tax revenue to out-of-pocket expenditures, even if such an attitude is economically wrong. In instances of business failures, the study argues, no government money is lost if tax incentives are used instead of direct government expenditure. The results are also consistent with Holland & Vann (1998), who reported that tax incentives are at least something over which the government has control and which they can enact relatively easily and quickly. Further to this, alternatives to tax incentives may also involve the expenditure of funds, and tax incentives may be seen as a politically easier alternative, since alternatives involving actual expenditure may undergo scrutiny. The results also reflect the findings of Bolnick (2004) and Zolt (2015), which illustrated that tax incentives are politically attractive because they offer a political advantage over other government action available to stimulate investment. The findings from these studies clearly suggest that tax incentives are a preferred method of attracting investment because the cost of tax incentives is less visible than that of investment promotion policies that involve explicit cash outflows whereas tax incentives do not require actual expenditure of funds by the government. Tax incentives simplify the transfer of resources since an actual disbursement is not involved nor does the normal budgetary process control them, hence, they are simple to apply (Sanchez-Ugarte, 1995). Recently, Chen (2015) has shown that tax incentives are politically attractive because they appear to be costless fiscal tools with no immediate effect on current budgets, but also because their use does not tie hands of the politician in power as they are outside the normal budgetary procedure.

6.2.5 Proliferation and prevalence of single factory EPZ scheme

During the interviews, it became apparent that the potential for EPZ programs to extend a quality infrastructure environment to all its investors is extremely limited when the program is largely dominated by single factory operators. The interviews demonstrated that the prevalence of single factory units contributes to the political attraction of tax incentives. The government is reluctant to remove or revise some tax incentives in EPZ programs because the programs involve a large number of single factory units. Investment Facilitation Manager reported that, in the absence of tax incentives, the business investment environment in which single factory units operate would not be much different from the rest of the domestic economy. The other two interviewees held similar views, arguing that where the single factory EPZ scheme is common in EPZ programs, the program risks losing its attractiveness given that the EPZ concept is essentially attractive because of its potential to address the infrastructural problem within a designated area. This finding matches the existing view in the literature, which argues that tax incentives are necessary in order to enhance competitiveness in the presence of inadequate infrastructure. Similarly, the findings reflect the existing views that the concept of EPZ is attractive because it is much easier to resolve the problems of infrastructure and governance on a limited geographical area than it is to resolve it countrywide (Farole, 2010).

6.2.6 Alternative to inadequate infrastructure

Interviewees were asked to verify the existing claim that in countries where poor infrastructure and weak governance predominate, tax incentives are offered in order to offset these disadvantages. This particular question was posed to Chief Executive Director, EPZA. He confirmed this claim. Literature argues that one key reason developing countries in Sub Saharan Africa offer generous tax incentives is to compensate for the inefficient broader investment climate (Bolnick, 2004). For many developing countries, however, tax incentives do not effectively counterbalance unattractive investment climate conditions such as poor infrastructure, macroeconomic instability, and weak governance (James, 2009, 2010, 2013a). A lower tax burden cannot compensate for a generally weak or unattractive FDI environment (OECD, 2008). This conclusion is shared by other studies such as Wells et al. (2001), who emphasized that tax incentives will generally neither make up for serious deficiencies in the investment climate nor generate the desired externalities. Rolfe & White (1999) noted that even where tax incentives appear to have a small effect on FDI (as in the case of industrialized countries), tax holidays and import duty exemptions are unlikely to attract FDI if non-tax factors are not conducive. Holland & Vann (1998) advised if the reasons for offering tax incentives are to offset other disadvantages facing investors, the appropriate solution is to reform the existing laws that create the problems and to build the necessary administrative capacities and infrastructure.

6.2.7 Small investors which EPZ initiative target are sensitive to tax incentives

It became apparent that none of the few existing subsidiaries of the globally known MNCs in the country have invested in EPZs. One interviewee notes that only a very few such subsidiaries are found and almost all of them are in the mining sector. This pattern of preference suggests that large MNCs tend not to be attracted to countries with the least economic potential, but when they are, they tend to target their investments in extractive industries. It is apparent that the government recognizes that the generous tax incentives offered in EPZs have been disregarded by MNCs given that the business investment environment in SSA countries is naturally unfavourable to large MNCs, but it continues to offer them with a view to attracting alternative investors. In particular, the analyses have shown that, late EPZs tend to target smaller investors including local firms, which have shown to be more sensitive to tax incentives.

The above corroborates previous research, including that of Amirahmadi & Wu (1995) who noted that a peculiarity with EPZs is that very few large multinational corporations have invested in them. The study noted that most Asian EPZs, although offering very competitive tax incentives, attracted mostly small firms. Furthermore, experience worldwide has shown that EPZs tend to attract small investors who wish to maximize the use of cheap labour and tax incentives. In Kenya, for example, the research revealed that some tax incentives particularly tax holidays are very important for smaller investors, and especially for local firms (Republic of Kenya, 1990).

6.2.8 Other reasons

Further to these findings, the interviews provided support for four other reasons reflected in previous research. The longstanding image of a bad policy environment in Sub Saharan Africa countries was mentioned as an additional factor contributing to the attractiveness of tax incentives. This reflects perceptions in previous research, which observed that introducing investment tax incentives is an indication of openness to private investment, and can signal a country's commitment to facilitating investment. It also markets the country as a favourable investment location (Bolnick, 2004). Moreover, interviews revealed that claims made against the use of tax incentives overlook the fact that this strategy has not failed everywhere. This support the argument presented in the literature review that tax incentives have been successfully used in a number of countries. Experience from successful countries such as Ireland, Mauritius, Malaysia, and Cost Rica demonstrates that tax incentives can work (Bolnick, 2004).

A perception exists among the three interviewees that an aggressive call for a review of tax incentives is not made because of strong evidence that tax incentives are ineffective. Rather, they are deliberate attempts by donors to discourage an ever increasing budgetary dependency on donors' support, which is a common phenomenon in SSA countries. In addition, in this study, as with other previous research (e.g. Wasylenko, 1981; Wolman, 1988) tax incentives are politically attractive as a symbolic and often political gesture, suggesting that the government offers tax incentives as a symbol of goodwill. In this study, offering tax incentives was said to be of great importance as a strategy to maintain previous and, or existing relationship with the investor's home country. The interviews identified the main relationships in terms of donor support, long-standing trade partnerships, and diplomatic relationships between Tanzania and the home country. However, the fact that the donor community is concerned about the pattern of tax incentives and the budgetary position in poor countries contradicts this finding. Interviewees were not able to provide a clear explanation for this inconsistency although one interviewee said that most often donors are not transparent in matters in which they have a direct stake.

6.3 Views from other key informants outside EPZA

In addition to exploring their views on why the use of tax incentives is politically attractive, this particular group of interviewees was used to explore whether there is a rent-seeking motive in the use of tax incentives. Interviewees were asked their opinions about the reasoning for the continued use of tax incentives in late EPZs despite the advice to review them. Then, where possible the interviewees were asked to give their evaluations of the government perspectives presented above. The analysis of the interview data from this group has produced interesting opposing views. By contrast, the analysis attributes the persistence of tax incentives to institutional and governance constraints. The interviewees agreed that, in seeking an explanation for the continuation of tax incentives in late EPZs, the institutional and governance environment within which late EPZ adapters operate plays an important role. The analysis of each interview and across the interviews in this category resulted in the following reasons for government's reluctance to review tax incentives as advised, and whether there is a rent seeking motive.

6.3.1 Weak enforcement mechanisms

The lack of effective codes of conduct which fix guidelines against harmful tax competition practices, particularly to deal with tax incentives was mentioned as contributing to the increasing trend toward the use of tax incentives. One of the interviewees notes that the difficulty in reviewing, rationalising, and reducing tax incentives is due to the lack of an effective enforcement mechanism needed to cease the current provisions of tax incentives so that additional unjustified tax incentives are not introduced. The interviews demonstrated that the existing enforcement mechanism is weak on a number of issues: for example, it does not compel executives and legislatures to undertake tax expenditure analyses to better and prudently assess the offering of tax incentives. Also, it does not promote greater transparency. This is perhaps best expressed by one of the informants who said:

> *Government may be reluctant to provide annually during the budget process a tax expenditure analysis which clearly shows not only the beneficiaries of such tax incentives but more important the cost to the government of those tax incentives due to lack of strictly working code of conduct to discourage continuation of tax incentives. This code of conduct may impose guidelines on the minimum discretion power that a Minister may exercise, and also make it mandatory to adhere to high transparency standards* (Chief Executive Director, TPSF).

6.3.2 Weakness on the current budget practices and procedure

During the analysis of the data, the continuation of tax incentives was apparently related to the current legislative budget practices and procedures. The interviewees agreed that the manner in which legislative budget practices and procedure are conducted is another constraint on the ability of the government to better review tax incentives because with tax incentives the tax expenditure entailed are not accounted for nor reported in the regular parliamentary budgetary procedure. Stated quite simply, one of the informants put it:

> *Tax incentives are preferred because of the possibilities of being outside the budget and non transparent* (Economic analyst).

The result that stands out here is that it is unlikely for the government to stand against tax incentives given widespread low level of transparency, and the evidence that the government is not obliged to submit tax expenditure entailed in the tax incentives to parliament for detailed debate and scrutiny. Interviews demonstrated that the current practice places the onus on Ministers whereby the process of granting tax incentives involves the exercise of discretionary powers by respective Ministers without necessarily undergoing regular parliamentary budgetary procedure. As such, those involved are not tied up. The analysis of the interview indicates that the weakness of this mechanism protect the executives and legislatures from being held accountable.

The findings reflected in sections 6.3.1 and 6.3.2 corroborate reasons previously reported by the first group of interviewees on the budgetary implications of tax incentives, and also reflect previous research, which demonstrated that the use of tax incentives is preferred because it does not tie hands of the politicians in power. With tax incentives, the extent of their cost is not accounted for nor reported in the regular parliamentary budgetary procedure. As such, the political costs of expenditure are lowered when compared to the political costs of budgetary expenditure, which are subjected yearly to parliamentary debate and public scrutiny (Matziorinis, 1980). Previous research indicated that the government continues to rely upon tax measures in spite of its ineffectiveness because it is easily concealed from public scrutiny and therefore have low political costs (Matziorinis, 1980). Tax incentives are politically preferred due to the ease of use since an actual payment is not involved nor does the normal budgetary process control them (Sanchez-Ugarte, 1995). Being outside the normal budgetary procedure, implies less scrutiny, as a result politicians in power are less tied (Chen, 2015).

6.3.3 Lack of transparency

Through the analysis of the three interviews, it became apparent that attempts to limit use of tax incentives in late EPZs are bound to fail due to the persistent low level of transparency. One of the interviewees, the Chief Executive Officer to the private sector association, notes that a lack of transparency on the part of government executives and legislatures involved in the process has long prevented open scrutiny of the extent of tax incentives. The other two interviewees held similar views, adding that most governments in Sub Saharan Africa countries inadequately address the review process as long as transparency and also government accountability are unpopular in these countries. This suggests that the persistence of tax incentives is a result of bad governance. This is because bad governance practices such as a widespread low level of transparency are against practical assessment of tax incentives. The literature has shown that any attempt to review tax incentives may yield poor results where governance is poor (Chen, 2015).

6.3.4 Loopholes connected to lack of open criteria for granting tax incentives

The interviews demonstrated that the advice to review tax incentives will not be implemented soon so long as there are no open criteria for granting tax incentives. All three interviewees reported that the current practice ignores the importance of conducting open public debate with regards to tax expenditure analysis. Instead, many tax incentives involve the exercise of discretionary powers by Ministers. The interviewees felt that the government through its Ministers is unwilling to surrender its discretionary power given the possibility of abusing this power for personal gain.

6.3.5 Government is perceived as corrupted

Moreover, the results show that government is reluctant to implement calls for tax incentives to be reviewed and reduced because the government is perceived as corrupted. It became apparent that government is unwilling to revise tax incentives as advised because of the possibility of gaining from corrupt practice. One of the interviewees notes the connection between lack of transparency and the possibility for corruption and for rent seeking behaviour. Another noted that tax incentives are preferred given high possibility of abuse. The interviews demonstrated that as the administration of tax incentives is often abused, there are also loopholes to gain from corrupt and rent seeking. According to the interviews, presence of this gain suggests why government is unwilling to implement the proposed review.

The evidence of corruption and rent seeking motives reflect well in the following case as one interviewee presents it. This case refers to one of the recent parliamentary sessions in which a bill related to well paid investment in natural gas that has been discovered recently in large scale in the country was tabled and discussed. This expert revealed that, claims existed that some members of parliament were bribed in order to make sure that the bill is passed despite several contractual weaknesses on it. Notably, unclear terms of contract with regards to royalty and whether it is rational to grant generous tax incentives to such economically viable project were the most integral issues in the debate.

Furthermore, it became apparent that similar situation has been experienced in the past and it has been common to mining sector, where some high government officials and some members of parliament have been alleged of corruption to make sure that questionable business investments are approved despite resistance from, for example, few members of parliament from the opposition party, human rights and development activists. Although this case relates to mining, it can be used to reflect the situation in EPZs where tax incentives are granted on the similar manner.

6.3.6 Involvement of government executives and legislatures in doing business

The analysis of the interview data suggests that ever-increasing involvement of politicians in well-paid businesses explains why government is dragging its feet on reducing tax incentives. Involvement of executives and legislatures in businesses that qualify for tax incentives has been identified as a major constraint on the revision of tax incentives. The interviews revealed that participation of politicians in businesses has become trendy due to lack of formal laws and regulations that restrict politicians from participating in business. One of these interviewees notes that recent trend in growing involvement of politicians in business is the outcome of trade liberalization, in particular a shift to a free market economy which dropped some useful laws, rules and regulations governing and influencing leadership ethics. In particular, following introduction of trade liberalization reforms in late 1980s there have been major abuses, in particular violation of fundamental leadership ethics in the past two decades. Interview revealed that, a shift to free market economy resulted in to misuse of ethical guidelines previously stipulated in Arusha Declaration. Arusha Declaration is a political manifesto announced in 1967, six years after the independence as an important strategy by then to ensure that local investors would be able to take command of the economy. All the three informants demonstrated that not all the contents of Arusha Declaration were unsuitable for private sector development although some were intentionally abolished as they introduced stringent bans to unfaithful leaders.

A perception exist among these interviewees that tax incentives will never die so long as currently politically elected leaders including government executives and members of parliament are not banned by any formal law from doing business. The interviews revealed that by virtue of their positions and the role in the process, there is a greater possibility for a conflict of interest to arise in absence of clear provisions, for example, provided in the country's constitution.

To analyze this further, one interviewee gave an example of a large and the only coal mine in the country which was privatized, but surprisingly to the incumbent president and his family. A reference was also made to a case in which Ministers and permanent secretaries for ministry of finance and ministry of energy and minerals were charged and some prosecuted for granting tax exemptions without due care. The charge against these persons was connected to corruption and rent seeking motives.

The results of this study (sections 6.3.3 to 6.3.6), as with others (e.g Sanchez-Ugarte, 1995; Abramovsky et al. 2014; Whitfield et al. 2015; Zolt, 2015; Cooksey, 2016) clearly suggest that the apparent reluctance of the governments especially in SSA countries to revise tax incentives as advised is because politicians in power work for their best self-interests. To put it differently, in some countries, the use of tax incentives in EPZs is motivated by rent seeking and corruption actions. The results support and augment previous studies which have showed that there is a positive relationship between the use of tax incentives and rent seeking actions. The findings of this study reflect a growing concern in the literature that granting of tax incentives creates opportunity for corruption and socially unproductive rent seeking activities (Zee et al., 2002; Njeru, 2012; Njeru & Ndimitu, 2012). Sanchez-Ugarte's (1995) previous research established that tax incentives represent one of the primary cases of rent-inducing fiscal measures. The work of Sanchez-Ugarte (1995) indicates that tax incentives have often been motivated by political rather than economic factors, generating rent seeking actions by economic agents. Reference to IMF (2008) shows that tax incentives could result in rent seeking and other undesirable activities. OECD (2013) has drawn attention to the fact that administrative discretion in the management of tax incentives seriously contribute to the risk of corruption and rent seeking. Abramovsky et al. (2014) reported that the use of tax incentives is prone to rent-seeking and corruption, particularly for countries with weak administrative capacity. Similarly, Moreno-Dodson (2015) demonstrated that the process of competition for FDI through tax incentives tends to engender lack of policy transparency which creates significant possibilities for corruption and for rent-seeking behaviour more broadly, which can in turn be highly detrimental to the sound policy making process. In the same vein, Chen (2015) reported that tax incentives can be a pure play of politics and even intentional bad governance.

The discussion in the literature review has established that the opportunity for corruption and rent seeking is much greater for tax incentives regimes where officials have much discretion in determining which investors receive favourable treatment. The potential for abuse is also high where no clear guidelines exist for qualification and in countries where level of transparency is low (IMF, 2014; Zolt, 2015). The results of the present study support and augment these findings by showing that involvement of executives and legislatures in businesses contributes further to the political attraction of tax incentives.

The view that tax incentives have often been motivated by political rather than economic considerations, resulting into rent seeking behaviour by economic agents, and also the findings that there is too much political influence of vested interests in the design of tax incentives policy manifest in recent studies in Tanzania. In their study regarding interpretation of the political economy of development in Tanzania, Whitfield et al. (2015) reported that access to tax exemptions for zone firms was sometimes exchanged for rents to involved bureaucrats and sometimes for contributions to political financing. Their results indicated that the volume of tax exemptions through the EPZ and SEZ initiatives and the Tanzania Investment Centre (TIC) tend to vary with the election cycle and peaks around election years. They revealed that the ruling party's need for political financing to pay for elections campaigns increased rapidly after the introduction of multi-party political system in 1992, which led to the reduction of state subsidies for the party. However, their study did not clearly indicate the mechanisms used to convert tax exemptions into liquid cash needed to finance campaigns. Further to this, their findings claimed that good relationship with the ruling party seems to be an important factor for success in business. They claimed that exchange of money and rents are of increasing importance in the relationship. Similar findings emerged in a study of Cooksey (2016), who showed that during election in Tanzania, an unknown amount of money intended to finance ruling party flows informally from major Asian-Tanzanians (and other) businesses, in exchange for tax exemptions, lucrative contracts and other market-distorting mechanisms.

6.3.7 Lack of political will, commitment

Through the analysis of the interview data, it became apparent that government often makes pledges about reviewing and harmonizing various provisions of tax exemptions but such pledges have not yet materialized due to lack of political will and commitment to do so. Interviewee cites several budget speeches in which various Ministers for Finance have agreed to minimize tax exemptions but in the end none of the promises has been fulfilled. The interview revealed that from time to time through its budget speeches, the government has committed itself to long list of measures to remove tax incentives. So far only very limited steps have been taken despite these impressive commitments. The interviewees observed that, in various budget speeches, for example, the government already agreed to undertake a comprehensive review of existing tax incentives but this has not happened. The fact that these commitments and deadlines have continually been missed suggests that the government lacks true political will to implement the commitments. The IMF/OECD/UN &World Bank's (2015) previous research demonstrated that the common reluctance to scale back tax incentives may reflect political inertia. The report indicated that review of tax incentives requires political commitment and an effective worldwide enforcement mechanism, which is often lacking. The results of present study corroborate and augment these findings by showing that once tax incentives are provided, they are politically difficult to remove. Experience from the Tanzania Revenue Authority (TRA) official expressed through one of the interviewees illustrates this point. The interviewee revealed that tax incentives could be usefully scaled down, however, the authority (TRA) had run in to political difficulties when attempting to limit tax incentives.

6.3.8 Government may be unwilling to surrender its tax sovereignty

The data suggest that while coordinated approach to providing tax incentives within the region and within the regional trade blocs is highly recommended, the same is unpopular among governments due to the fear of losing tax sovereignty. For example, it became apparent that several calls and commitments to harmonize investment tax incentives in five East African Community (EAC) countries have not happened. It seems that fear to lose tax sovereignty is the reason why these EAC countries are lagging behind on implementing the already agreed measures. This supports Cooksey'

(2016) study, which examined the reasons for the reluctance of the government of Tanzania to commit whole-heartedly to EAC customs union, promising free trade within the EAC, and the common external tariffs, presenting a common set of graded tariffs on non-EAC imports. The study revealed that Tanzanian commitments to the EAC are opposed by specific sectoral interests that feel threatened by competition. Tanzanian politicians and companies actively defend their interests in the face of perceived threats from East African Community members (Cooksey, 2016).

6.3.9 Fear to pay compensation

This study augment previous research by showing that fear to pay compensation is one reason which explains the reluctance of the EPZ policymakers to remove tax incentives. The data suggest that the weakness in the human resource capacity especially the lack of enough competent human resource to analyze and negotiate prudently on the investment incentives contracts contributes to the persistence of tax incentives. The interviews clearly indicated that the outcome of poor negotiation skills has always been poor enforceability of investment contract. Government has signed long term investment contracts, offering not less than 10 years tax holidays. Interviews further demonstrated that government is reluctant to implement the review of tax incentives because it is not prepared to bear the consequences of poorly signed contracts, including payment of huge compensation. In such situation, ‘do not take action’, as illustrated by Chief Executive Director (TPSF), seems to be the best option to the government. Through the interview, it became apparent that contracts provide, among other rights huge compensation in case government fails to discharge obligations. Therefore, government seems to pay more attention on the possible financial consequences that might arise in the course of review or abolition of existing tax incentives.

6.4 Whether investors’ location decisions would change if income tax holiday is not part of investment incentives in an EPZ

Another question addressed in this Chapter aimed to answer whether investors’ location decisions would change if no or lower taxes were offered in Tanzanian EPZ. The specific focus was on the extent to which abolition of tax holidays from the investment incentives in EPZs would affect the investment location behaviour. The interest on the tax holidays was particularly because of growing concern that tax holidays are inappropriate for promoting investment in EPZs. Export oriented FDI in EPZs are efficiency seeking, driven more by relief in transaction costs, including relief in transaction taxes (i.e. indirect taxes and duties) rather than income tax relief. In order to examine the likely effect in case a tax holiday in EPZs would be abolished, 87 questionnaires were distributed to all active companies operating within designated EPZs and those operating as single factory units. A total of 74 questionnaires, equivalent to 85 per cent of total distributed questionnaires were returned. Out of these returned questionnaires, 65 questionnaires that is equivalent to 87 per cent of received questionnaires were found usable after correcting for missing and non response items. The findings of this study clearly support and augment previous research by showing that investors would still invest in EPZ even if income tax holidays were not offered. In contrast, almost no investors would invest in absence of duty free imports and exemptions on VAT.

6.4.1 Results on the effect of abolishing tax holiday from EPZ incentives

Table 6-1 provides investors' responses concerning how each of the tax incentives available in EPZ influenced decision to locate. This frequency table summarizes number of investors relative to their preferences for each tax incentive. Table 6-2 presents descriptive statistics, in particular mean response for each tax incentive in EPZ.

Table 6-1: Degree to which typical tax incentives in EPZ influences location decision

	1-most influential	2	3	4	5-least influential
Exemption from withholding tax on dividends	5(7.7%)	8(12.3%)	17(26.1%)	25(38.5%)	10(15.4%)
Exemptions from local government authorities taxes	10(15.4%)	12(18.5%)	23(35.4%)	15(23.1%)	5(7.7%)
Exemption from corporate income tax(tax holidays)	5(7.7%)	12(18.5%)	15(23.1%)	21(32.3%)	12(18.5%)
Exemption from withholding tax on interest	4(6.1%)	7(10.8%)	13(20.0%)	31(47.7%)	10(15.4%)
VAT exemption	25(38.5%)	23(35.4%)	10(15.4%)	5(7.7%)	2(3.1%)
Exemption on import duty	31(47.7%)	27(41.5%)	5(7.7%)	2(3.1%)	0(0%)

As can be appreciated from Table 6-1, tax holiday is less important on the location decision. Only about 26 per cent (7.7 per cent, most influential; 18.5 per cent, somewhat influential) indicated that tax holiday influenced their decision to invest in EPZs. By contrast, majority of respondents indicate that, tax incentives that most attracted them were the exemption from paying import duty and value added tax (VAT). In aggregate, about 89 per cent of respondents indicated that exemption on import duty was most important relative to other tax incentives offered in EPZs. Next in the order of importance is the exemption on VAT; about 73 per cent of respondents consider exemption from paying VAT as an important tax incentive influencing location decision.

Table 6-2: Descriptive statistics - Mean value

Typical tax incentives	1	2	3	4	5	Responses	Mean
Exemption from withholding tax on dividends	5	8	17	25	10	65	3.42
Exemptions from local government authorities taxes	10	12	23	15	5	65	2.89
Exemption from corporate income tax(tax holidays)	5	12	15	21	12	65	3.35
Exemption from withholding tax on interest	4	7	13	31	10	65	3.55
VAT exemption	25	23	10	5	2	65	2.01
Exemption on import duty	31	27	5	2	0	65	1.66

According to the rule previously established in methodology chapter, the most important value or number while reporting rank ordered data is the mean; and the item that ranks most high is the one which scores the lowest mean. Based on these criteria, the results in Table 6-2 indicate that tax holidays appear fourth on the order of importance. Tax holiday scored a mean value of 3.35 compared to 1.66 for exemption on import duty and 2.01 for exemption from VAT. Unexpectedly, less popular incentives like exemptions from local government authorities' taxes and levies ranked higher than tax holiday (mean, 2.89). Frequency analysis (refer Table 6-1) revealed similar results. Almost half of respondents (47.7%) indicated that exemption on import duty on raw materials and capital goods is the most preferred type of tax incentives available in EPZs. Roughly equal number of respondents (41.5%) indicated that exemption from VAT is the next most preferred tax incentive as an incentive to invest in EPZs. Comparatively, only a small number of respondents (7.7%) feel that tax holidays is the most important tax incentive that influence the decision to locate in EPZs.

Table 6-3 provides results with regard to the extent to which abolition of tax holidays appear to affect the investment location behaviour, in particular degree to which investors would invest in absence of tax holidays. The results show that abolition of tax incentives in EPZs has little effect on the location behaviour. About 84 per cent of respondents have expressed agreement opinion (strongly agree, 50.8 per cent; somewhat agree, 33.8 per cent) that they would have invested even if tax holiday was not provided in EPZ program. By contrast, very few respondents (about 7 per cent) have expressed agreement opinion on the view that they would have not invested in EPZs without tax holiday.

Table 6-3: Degree to which investors would invest in EPZ without tax holiday

	Strongly agree(1)	**Somewhat agree(2)**	**Neither agree nor disagree(3)**	**Somewhat disagree(4)**	**Strongly disagree (5)**
I would have invested even if tax holiday was not provided	33(50.8%)	22(33.8%)	8(12.3%)	2(3.1%)	0(0%)
I would have not invested without tax holiday	2(3.1%)	3(4.6%)	18(27.7%)	27(41.5%)	15(23.1%)

Table 6-4 provides descriptive statistics on mean value with regard to degree to which investors would invest in EPZ without tax holiday. As it can be seen from Table 6-4, the results indicate lowest mean value with regard to the statement that investors would have invested in EPZ even if tax holiday was not provided. The lowest mean value of 1.67 suggests that investors in EPZs were less sensitive to tax holiday while making decision to locate in the country's EPZ.

Table 6-4: Descriptive statistics: Mean value

	(1)	**(2)**	**(3)**	**(4)**	**(5)**	**Responses**	**Mean**
I would have invested even if tax holiday was not provided	33	22	8	2	0	65	1.67
I would have not invested without tax holiday	2	3	18	27	15	65	3.77

6.5 Discussion

With regard to the effect of abolishing tax holiday from investment incentives in EPZs, the results mainly confirm most previous research. The results suggest that if the advice to remove tax incentives, in particular corporate income tax holidays granted mainly to attract FDI in EPZs is implemented would not result in to disincentive to invest in EPZs.

Throughout the analysis it became apparent that tax holidays do not have much influence on the decision to locate in EPZs. Most investors have indicated that they would have invested even if tax holiday was not provided. Investors themselves indicated that they are mainly influenced by exemptions from paying VAT and exemptions from paying import duty on raw materials and capital goods and not corporate income tax holidays.

These findings are consistent with the existing theoretical evidence and extensive empirical research on the topic which generally illustrate that corporate income tax holiday is unnecessary in the location decisions. Previous research (e.g Botman et al., 2008; James, 2013a; 2013b; Mwachinga, 2013) have reported consistently that tax holidays create redundancy. This means that tax holidays are provided for activities that would have been undertaken even without this incentive. In particular, these previous studies support the findings of this study that almost all investors surveyed would have invested even without tax holidays.

The possible explanation why investors would invest in EPZs even without tax holidays can be that the underlying motive for efficiency seeking FDI such as FDI in EPZs is to reduce transaction costs. Efficiency seeking FDI are highly motivated by host country's factors of production that represent important proportion of the production costs or cost of doing business (Farole, 2010). It seems that it would be difficult for investors to locate without certain tax incentives, in particular exemptions on VAT and import duty as these have a direct reduction effect on the production costs. In contrast, tax holiday appears to have less influence on the initial decision to invest because ideally its ultimate effect is on retained profits and not on the production costs. This implies that, while it has proved to have little effect on the disincentive to invest, tax holiday may be an important factor for the purpose of encouraging long term stay of firms in EPZs.

CHAPTER 7: CONCLUSIONS AND RECOMMENDATIONS

7.1 Conclusions and recommendations

This study has been structured upon three empirical studies. The first study, which is presented and discussed in Chapter 4 examined why Asian EPZ model has not worked in Tanzania. In particular, this chapter examined the factors which might have hindered Tanzanian EPZ initiative from replicating Asian Tigers' success. This chapter was particularly important because despite the fact that African countries are latecomers to EPZ initiative, and therefore have had opportunity to gain from global experience and expertise, failures persist and most often are plagued with the same obstacles from time to time. Chapter 5 explored the impact of governance on investors' decisions to locate in an EPZ. Finally, Chapter 6, the last of the empirical chapters of this study, examined why use of tax incentives in Tanzanian EPZ program has remained politically popular and whether there is rent seeking motive on its application. Further to this, the chapter sought to explain whether investors' location decisions would change if tax holidays were not offered in Tanzanian EPZ. These questions were particularly important given apparent reluctance of Tanzanian government to review tax incentives as recommended by different observers, including International Financial Institutions such as the World Bank and IMF.

The results of Chapter 4 established that the failure to replicate Asian Tigers' success draws both from the theory and the contextual factors. The EPZ initiative in Tanzania has failed to achieve its desired development goals because like other developing countries Tanzania has implemented the EPZ model promoted under a neoliberal approach which, as part of its principles, require governments not to distort the market with interventions. Contrary to the Asian Tigers EPZ model where the governments played a very active role in regulating and directing when using EPZs, Tanzanian EPZ initiative has emerged under a neoliberal approach implementing the neoliberal policies. The interventions through various industrial policy measures aimed at specific outcomes were a key part of EPZs in Asian Tigers. The EPZ strategies introduced recently in developing countries are being brought in under the neoliberal approach that requires the government to withdraw completely from direct economic activity and allow the natural market forces to operate. As a result of this, these EPZs have failed to contribute to the industrial development of a country when implemented from a neoliberal perspective.

Whereas as a tenet of neoliberal prescriptions, export-led growth strategy and EPZs have been implemented in a uniform way as if situations in all developing countries were the same, the analysis drawing from the experiences of successful countries have shown that successful export-led growth policies are context specific. For the same reasons, while the vision was to follow the success path of the Asian Tigers, the Tanzanian EPZ initiative has generally failed because its EPZ has emerged as the neoliberal model implemented under the neoliberal policies. To sum up the theoretical concern, with the implementation of the EPZs within the neoliberal orientation, Tanzanian EPZ initiative will not match the Asian Tigers success because neoliberal policies do not allow the government to play an active interventionist role in controlling and guiding the foreign investment nor developing the domestic industrial sector.

Analysis of context specific factors which act as obstacles to the success of Tanzanian EPZ showed that although most of these obstacles may appear to originate from budgetary problem common in low income countries, they are closely related to inadequate knowledge about crucial aspects of EPZ development and management, vested interests and conflicting interests between bureaucracies, use of EPZ as a tool for corruption and rent seeking, prevalent anti-FDI sentiment, and adoption of single factory scheme.

This research has demonstrated that EPZ is doomed to fail when designed and implemented without sufficient knowledge regarding crucial aspects of EPZ development and management, including knowledge about importance and implications of gradual expansion as opposed to overambitious expansion, thorough justification of the benefits of EPZ initiative compared to available alternatives, and implications of implementing multiple regimes both functioning as economic zones. This has also been observed in the previous research, and this study further confirmed its existence. The research also illustrated that optimizing EPZ’s impact is restricted when there are conflicting interests across official public institutions involved in the design, administration and management of EPZ. The impact of EPZ initiative is also hampered where vested political interests and corruption and rent seeking motives proliferate. It was established from this research that the same impact achieved in Asian Tigers is limited in Tanzania (and SSA in general) because EPZ is often used for political purpose.

The results of this study extend the existing literature by showing that realizing the impact of EPZ will be constrained when the government is trying to optimize the advantages of both agriculture and EPZ initiative concurrently. The study has proved that where such practice exists, neither of the initiative will succeed. The findings also revealed that maintaining multiple competing economic zones regimes, which offer similar investment incentives to investors would reduce the effectiveness of one over the other, in particular EPZ insofar as the potential market for EPZ companies is limited relative to SEZ market. In addition, it was clear from this research that attitude and perception of people in the host country about foreign investors may deter FDI inflows in that country. This phenomenon had also been observed in the literature. It was also clear from the findings that, single factory scheme is inefficient and ineffective way of attracting investment. It is inefficient because it is costly in terms of financial resources, time and capacity of EPZ administrators to service dispersed companies throughout the country. It is ineffective because its impact on FDI is less spectacular. This study has also observed that the impact of EPZ is reduced to minimal where political multi-party system in a host country is a relatively new phenomenon.

Based on the above findings with respect to flaws in the neoliberal approach, a mediation model to industrialization is proposed which can take advantage of both an export orientation while allowing the state to regulate and intervene in the industrialization process.

It is also recommended that it is more effective to operate few EPZs given budgetary constraints rather than introducing EPZs almost throughout the country. A phased approach focusing on the geographic areas with a comparative advantage is recommended. Also, as SEZ is a preferred choice to most investors, and also the fact that EPZ has proved ineffective, it is advised to maintain one regime only, SEZ in this case. In particular government should analyse the benefits of both, SEZs and EPZs, and find out a feasible way on how might optimize advantages of both initiatives concurrently. Alternatively, one should be dropped. Finally, political constrains are key factors to the effectiveness of an EPZ, therefore, government should wholly-hearted commit to address them.

Using the World Bank's six dimensions of governance developed by Kaufmann et al, Chapter 5 explored the impact of governance on investors' decisions to locate in an EPZ. As expected, the results demonstrated that even though EPZ assures investors liberal investment climate, yet a relationship exists between level of governance in host country and the flow of FDI in EPZs. However, these dimensions do not influence location decision to the same extent. It was established from the research that foreign investors are more sensitive, at varying degrees to five dimensions of governance established by Kaufmann et al. namely political stability and absence of violence/terrorism, government effectiveness, regulatory quality, rule of law, and control of corruption. It is recommended that government should not take for granted that once EPZs are constructed investors will just flow in. Governance environment at the country level equally influence investment location decision just as governance within zones. Countries that are successful in attracting FDI in their EPZs are also among those that best meet the requirements for good governance.

The results of Chapter 6 demonstrated that tax incentives are politically attractive because other alternatives available to stimulate investment involve actual transfer of resources, and requires parliamentary approval which may delay the process. In which case, government prefer tax incentives because it is something which they have control and which they can endorse relatively easily and quickly. Government prefer tax incentives because it is possible to provide the investor with a subsidy without having to go through the tax collection and budgetary dispensing process. This view had also been observed in the literature; however the present study further confirmed its existence, and especially so in a latecomer EPZ context. The results also revealed that, developing countries tend to use tax incentives for investment if their competitors also use the same. The use of tax incentives is a preferred method to maintain countries' competitive position against neighbouring countries. These results support and extend the literature by showing that use of tax incentives is politically preferred because it has proved to work at an intra-regional level. The study has also demonstrated that there is stronger political motive to use tax incentives for investment in a country with high unemployment rate.

Concerning whether there is rent seeking motive on the use of tax incentives, the findings of the study clearly demonstrated that tax incentives have often been motivated by political rather than economic considerations, resulting into rent seeking behaviour. The findings revealed presence of too much political influence of vested interests in the design and implementation of tax incentives policy. These results fully concur with their literature, and extend the exiting literature to take account of the fact that the rent seeking motive surrounding use of tax incentives is magnified when government executives and legislatures are unrestricted from doing business. Regarding whether investors' location decisions would change if no tax holidays were offered in Tanzanian EPZ, the results clearly demonstrated that removing corporate income tax holidays aimed to attract investors in EPZs would not result in to disincentive to invest in EPZs.

Based on these findings, and also the evidence of relatively low level of investment in EPZs, it is clear that tax incentives alone cannot work effectively to attract investment. Improved infrastructure including competitive utility costs, and improving governance are more important factors. Also, this study highlight that tax holidays are redundant, hence, should be removed. This study calls for the government actions that pay more attention on modern, well functioning infrastructure. Drawing from the evidence that modern infrastructure can, in fact, acts as a powerful attraction to investors, this study calls for the need to improving zone's physical infrastructure in order to increase the chances of attracting investment on a real long-term basis.

7.2 Limitations and avenues for future research

While this study makes a number of contributions, it is not without limitations. First, the study was carried out using a single country case only while in fact there are many other late EPZ programs in sub Saharan Africa (SSA) region. This may limit the extent to which the results of this study may be generalized across latecomers in SSA. Therefore, future research should consider including more EPZ programs from other countries within the region.

The findings in Chapter 4 pointed out that enacting EPZs and SEZs concurrently is not economically justifiable. Further case studies would be useful to examine whether and to what extent SEZ is globally competitive than EPZ. The analysis on Chapter 5 is based on worldwide dimensions of governance developed by Kaufman et al. This analysis could be improved however by including different variables from different datasets. Furthermore, the study could further be improved if the FDI inflows in a number of African countries were analysed against countries' rankings based on Worldwide Governance Indicators (WGI).

There are two limitations on the findings of the chapter 6. Asking investors to rank the relative importance of tax incentives on the location decision without benchmarking against non-tax factors which may well have influence on the location decision limits the extent to which the tax holiday is critical or less critical relative to other broader investment climate factors. Although efforts were made while designing the questionnaire to ensure that this was clearly reflected in the instructions, additional research is needed to study the influence of tax incentives on the location decision in EPZs relative to other non tax factors. Second, a small number of interviewees in this inquiry limits the extent to which views presented are representative. Other key informants not included may have provided diversified views. Still, our interview findings are valid and representative from the fact that the tax issues pertaining to EPZs are strategically and administratively positioned in one office, the EPZA. Nevertheless, further research is recommended which will conduct more interviews on the problem.

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APPENDICES

Appendix 1: Empirical evidence on the impact of governance on FDI flows in SSA

Study	Objective, indicators of governance studied, and methodology	Findings
Globerman and Shapiro (2002)	Used six governance indicators estimated by Kaufmann *et al.,* (1999), to measure effects of political risk, institutional and legal environment (summarized as governance infrastructure) on both FDI inflows and outflows for a broad sample of developed and developing countries.	Governance infrastructure of a country indicates the quality of its investment environment, and thus creates favourable conditions for attracting FDI. Governance infrastructure is an important determinant of both FDI inflows and outflows.
Asiedu (2004)	Three measures of institutional quality (corruption, the rule of law and bureaucratic quality) were used to analyze why Africa's share of FDI continues to decline. Data were obtained from the International Country Risk Guide (ICRG) published by Political Risk Services (PRS), available at www.prsgroup.com	Inefficient institutions as measured by corruption, weak enforcement of contracts and a large bureaucracy deter foreign investment. Agree with previous findings from Asiedu and Villamil, 2000; Wei, 2000; Gastanaga *et al.,* 1998; Campos *et al.,* 1999. Previously, based on 22 SSA countries, Asiedu (2002) found that the effectiveness of institutions, political stability and the low level of corruption encourage private capital inflows.
Anghel(2005)	Test the argument that countries whose governments are	Different aspects of the quality of institutions from a

	highly ranked according to various indices of the quality of institutions tend to do better in attracting FDI. Cross-section data analysis, least-squares and instrumental variables estimation were used. Employed two different data sets of indicators of institutional quality- Kaufmann et al., (2004) and La Porta et al., (1999).	country (corruption, protection of property rights, policies related to opening a business and maintaining it, etc.) are almost always significant.
Busse and Hefeker(2005, 2007)	Examined a much wider range of indicators for political risk-the influences of government stability, socio-economic conditions, investment profile, internal and external conflict, corruption, military in politics, religious tensions, law and order, ethnic tensions, democratic accountability, and the quality of bureaucracy in order to identify the relative importance of these indicators for FDI inflows. Used data sample of 83 developing countries covering 1984 to 2003.	Government stability, internal and external conflict, corruption and ethnic tensions, law and order, democratic accountability of government, and quality of bureaucracy are highly significant determinants of FDI.
Dupasquier and Osakwe (2005, 2006)	Summarize the reasons for Africa's poor FDI record, based on an overview of the empirical determinants of FDI to Africa in order to identify needed actions and strategies.	Political and macroeconomic instability, low growth, weak infrastructure, poor governance, inhospitable regulatory environments, and ill-conceived investment promotion strategies, are identified as responsible for

		the poor FDI record in SSA. Image building through an increase in political stability, as well as in the protection of property rights and the rule of law; and promoting good governance were recommended.
Bénassy-Quéré *et al.,*(2007)	Studied role of governance infrastructure; used wide range of existing database for governance indicators; used gravity equation for bilateral FDI stocks; Institutional Profiles database constructed by the French Ministry of Finance network in 52 foreign countries for Year 2001; proximate variables in other existing databases; panel data estimation.	Public efficiency in a broad sense of tax systems, easiness to create a company, lack of corruption, transparency, contract law, security of property rights, efficiency of justice and prudential standards greatly influence inward FDI.
Busse and Hefeker (2007)	Explore the linkages among political risk, institutions, and FDI inflows for a data sample of 83 developing countries covering 1984 to 2003. Identified indicators that matter most for the activities of MNEs.	Government stability, internal and external conflict, corruption and ethnic tensions, law and order, democratic accountability of government, and quality of bureaucracy are highly significant determinants of foreign investment inflows.
Daude and Stein(2007)	Wide set of institutional variables developed by Kaufmann *et al.*(1999) to explore the importance of institutional variables in determining location of FDI; what	While better institutions have overall a positive and economically significant effect on FDI, some institutional aspects matter more than other. Especially, the

	dimensions of the quality of governance institutions affect foreign investors' location decisions more. Used bilateral FDI stocks around the world.	unpredictability of laws, regulations and policies, excessive regulatory burden, government instability and lack of commitment play a major role in deterring FDI.
Ali *et al.,*(2008)	Role of institutions in determining FDI location; using a large panel data to explore: How robust are institutions as a determinant of FDI? What is the relative importance of institutions compared to other determinants of FDI? Which institutional aspect matters most for FDI flows? Are institutions equally important for all types of FDI?	Impact of institutions on FDI is comparable to that of macroeconomic stability and greater than the impact of taxation and infrastructure quality; property rights is the institutional aspect that matters most for foreign investors; and institutions do not matter for FDI in the primary sector, but they have a significant impact on FDI in manufacturing and to a greater extent on FDI in services.
Moreira(2009)	Overall analysis of studies that focus on Africa and examine the various factors that attract or impede FDI flow. Articles reviewed were from economic journals found in the Econlit database, January 1969- May 2007.Ten recent studies were surveyed.	Several surveyed studies have found that FDI in developing countries is affected negatively by economic and political instability.
Seyoum (2009)	Examined relationship between the quality of formal institutions and inward FDI. Used large number of countries-developed, developing, and transition	Strong formal institutions influence FDI flows. The quality of formal institutions is as strong a determinant of FDI as other variables such as market size, trade orientation, or

	economies.OLS regression model.	economic growth.
UNIDO (2009)	Used factor analysis to examine factors influencing FDI decisions in relation to location factors in SSA.	Foreign firms are primarily concerned with political economy in SSA that ensures a sound investment climate and transparent legal framework.
Walsh & Yu (2010)	Dataset of emerging and developed economies which breaks down FDI flows into primary, secondary and tertiary sector investments,	Secondary and tertiary investments are both affected but differently by country's institutional factors such as judicial independence. Agree with Ali *et al.,*(2008).
Bissoon (2011)	Empirical analysis of 45 developing countries in the African, Latin American and Asian regions aimed at emphasising the role and/or quality of institutions (Control of corruption, better rule of law, political stability and better freedom of expression of the media).	Quality of some institutions in the host country has an enormous impact on inward FDI. However, as the different institutional indicators are complementary to each other, their combined effect is found to reinforce the level of FDI inflows to the host country.
Anyanwu (2012)	Explored why do FDI inflows go where they do in African countries. Cross-country regression; predicted FDI inflows as a function of control of corruption, regulatory quality and the rule of law.	Prevalence of the rule of law increases FDI inflows; and higher FDI goes where foreign aid also goes.
Gangi *et al* (2012)	Examined the causal relationship between World Bank's worldwide six governance indicators and FDI flows to African countries.	Voice and accountability, government effectiveness and the rule of law have a positive impact on FDI flows to African countries. In contrast, political stability,

		regulatory quality and control of corruption have no real impact on FDI flows to Africa.
Asiedu(2013)	Analyzed interaction between FDI, natural resources and institutions in African countries; used Kaufman's *et al.,* (2012) six indicators of governance.	Quality of contract enforcement, property rights, the police, and the courts, as well as the likelihood of crime and violence facilitate FDI inflows.
Fiodendji (2013)	Whether countries whose governments are highly ranked according to various indices of the quality of institutions tend to do better in attracting FDI. Different econometric techniques; cross-section data; 30 SSA countries.	Corruption, law and order, government stability, profile of investment, internal and external conflicts are almost always significant. FDI inflows significantly rise as the institutions' quality become better.
Quazi(2014);Quazi et al., 2014)	Test whether the empirical evidence supports the grabbing hand or helping hand hypothesis of corruption for the sample of 53 African countries.	Results support the hypothesis. In addition, they find that government effectiveness affect FDI significantly.
Wernick et al., (2014)	Whether countries with strong institutions attract proportionally greater levels of FDI than those with weaker institutions; used World Bank's Worldwide six indicators of governance and institutional quality (Kaufmann *et al.,* 1999). Multiple regression models to test relationship between governance scores of a sample of 53 African countries and FDI inflows.	Quality of political institutions has a direct impact on FDI flows to countries without abundant natural resources such as oil or natural gas. On the contrary, the positive effect of institutional quality is not present in countries rich in these natural resources

Olatunji and Shahid(2015)	Examined some theoretical perspectives on the factors driving FDI inflows into SSA based on recent trends.	FDI flows to SSA countries unaffected by conflict and political instability exceed those with political crisis. Political stability is however, a necessary, though not a sufficient condition to ensure access to large FDI flows. All around the world, political and macroeconomic stability has been the key to attracting FDI.

Appendix 2: Questionnaire

Dear respondent,

My name is Joseph Kiria and I am a PhD (Management) student at Hull University Business School. I am conducting a research on the Export Processing Zones (EPZs) in Tanzania. This study contributes to the understanding of factors influencing the performance of EPZs in a latecomer context. Using data from Tanzania, this research aims to address three objectives namely the reasons the Asian EPZ model has not worked in Tanzania; the influence of the recent increase of interest on governance quality in the location decision in EPZs; and why the use of tax incentives in the Tanzanian EPZ program has remained politically popular and whether there is a rent seeking motive in its application. Therefore, I am inviting you to participate in this study.

The questionnaire should not take you longer to complete, and includes questions on:

- the background of your company;
- level and quality of basic physical infrastructure in EPZs and outside EPZs;
- type of activity (sector of operation) and level of technology;
- type of relationship with local firms outside EPZs;
- types of labour and level of skills needed, training program, labour movement;
- factors you consider most important in selecting an investment location (in deciding to invest in an EPZ);
- to what extent governance influenced your location decision;
- which tax incentives matter most in your location decision; and
- whether you would invest without tax holidays.

I'm sure that you will agree that this is an important piece of research. The advantages of taking part in this study are as follows:

- it will contribute to research that carries regional significance especially Sub Sahara Africa region;

- it will improve our understanding of the reasons EPZ initiatives in latecomer countries in Sub Sahara Africa, and Tanzania in particular have failed to replicate Asian outcomes.

I can assure you that all data collected in this study will be treated in strictest of confidence.

I would therefore be grateful if you could please complete the questionnaire. The completed questionnaire will be collected in person. Alternatively, if you would like to complete an electronic version, please email me at the address: jkiria@mzumbe.ac.tz. In case of any inquiry about the questionnaire, you may contact me through the telephone number +255 657 78 61 82.

Yours sincerely,

Joseph Kiria

PhD (Management) student

Hull University

Background information

1.1 Company name..

1.2 Age of the firm..

1.3 Set up(tick):EPZ industrial park......................Stand alone................................

1.4 Reason for locating as stand alone...

1.5 When (year) operations started...

1.6 Ownership (tick):Foreign; joint venture with foreign partner; wholly local

1.7 Country of origin..

Basic infrastructure

This part of the questionnaire relates to the level of quality of basic infrastructure facilities and services available in the EPZ program. Please indicate, by ticking in the box under your appropriate choice, how you feel about the level of quality for each of the following aspects of physical infrastructure.

	Very poor	Poor	Fair	Good	Very good
2.1 Availability of serviced land					
2.2 Access to long term lease					
2.3 Access to pre-build factory buildings					
2.4 Access to utilities-electricity					
2.5 Access to utilities-water					
2.6 Roads infrastructure					
2.7 Seaport infrastructure					
2.8 Airport infrastructure					
2.9 Rail infrastructure					

Type of firm and level of technology

The questions in this part of the questionnaire relate to sector and type of activity in your operations.

3.1 Indicate the type of your firm by ticking the appropriate sector or industry

a) Textile
b) Manufacturing
c) Assembly
d) Engineering
e) Agro processing
f) Others (specify)..

3.2 Indicate the type of activity involved in your operations [tick one only]

a) Replicate designs; introduce minor innovations to the product
b) Introduce new designs for manufacturing; develop new prototype; maintain quality control

c) R&D activities; development of entirely new products; research on new materials and products

3.3 Indicate the process/processes undergone in your activity/activities [tick only one]

a) Assemble components and final goods; introduce minor changes to process technology
b) Manufacture components; introduce automation process
c) Perform own designing and manufacturing; introduce major improvements to the machine; develop new equipment

Linkage relationship

The questions in this part of the questionnaire relate to your sourcing pattern and relationship with local firms outside EPZs.

4.1 Do you source production inputs from local suppliers?

a) YES
b) NO

4.2 If the answer in 4.1 is YES, tick the type of input supplied or any other relationship

a) Raw materials
b) Packaging materials
c) Subcontracting relationship
d) Other relationship (specify)...

4.3 Indicate to what extent do you use imported production inputs

a) Always
b) Often
c) Not often

4.4 If you do not source production inputs from the local sources, what might be the key reasons?...…..

4.5 Are there any import restrictions as to the amount to be imported versus amount sourced locally?

a) YES
b) NO

4.6 If the answer in 4.5 is YES, then state the restrictions..

4.7 Do you provide any kind of assistance, support or facilitation to your local suppliers?

a) Yes
b) No

4.8 If your answer in 4.7 is YES, please specify..

Skills upgrading

The questions in this part of the questionnaire relate to type of labour and skills in your firm, training program and experience on the movement of workers between firms.

5.1 Which level of skills do you prefer in your production activity?

a) Skilled labour
b) Semiskilled labour
c) Unskilled labour
d) Others (specify)..

5.2 Tick reason(s) why do you prefer the above type of labour and skills

a) Availability
b) Cheap
c) Possess the minimum skills required to do the job
d) Others (specify)..

5.3 Is the type of labour and skills you desire adequately available?

a) Yes
b) No

5.4 Do you have a training program?

a) Yes
b) No

5.5 Which type of training or skills do you offer?(select from the following list)

a) Basic knowledge required for routine operations
b) Technical knowledge to operate the machine/equipment
c) Advanced production skills

d) Research skills

e) Management skills

f) Others

(specify)...

5.6 Indicate your method of conducting training(you may have more than one option)

a) On the job training

b) External courses through seminars, workshops, exhibitions etc

c) Overseas training

d) Others,

specify..

5.7 If training is provided, what is the duration of training?

a) Maximum 1 week

b) Between 2 to 3 weeks

c) 1 month

d) Between 1 and 3 months

e) More than 3 months

5.8 Have you experienced movement of workers from your company to any other EPZ company?

a) Yes

b) No

c) Don't know

5.9 If the answer in 5.8 is YES, how often is the movement?

a) Very often

b) Often

c) Not often

5.10 Have you experienced movement of workers from your company to local firms outside EPZs?

a) Yes

b) No

c) Don't know

5.11 If the answer in 5.10 is YES, how often?

a) Very often

b) Often

c) Not often

5.12 Do you have employees who have previously worked in EPZ firm?

a) Yes

b) No

c) Not known

5.13 If the answer in 5.12 is YES, how often has this happened?

a) Very often

b) Often

c) Less often

Influence of governance on the location decisions

The questions in this part relate to influence of governance on your location decision.

6.1 The questions in this part relate to dimensions of governance that have an influence on your decision to invest. Circle the number that best represents your opinion from 1(no influence) to 5 (very much influence) to what extent the following aspects of governance influenced your location decision. (*Scale: 1 = not influential at all, 2 = slightly influential, 3 = somewhat influential, 4 = very influential, 5 = extremely influential, please tick the box if not applicable.*

Degree to which worldwide governance indicators influence FDI location decision in EPZs

	No influence			Very much influence		NA
	Not at all influential	Slightly influential	Somewhat influential	Very influential	Extremely influential	
Extent to which a country's citizens are able to participate in selecting their government.	1	2	3	4	5	NA
Extent of freedom of expression and association	1	2	3	4	5	NA
Extent of freedom of expression of the media	1	2	3	4	5	NA
The likelihood that the government will be destabilized through politically motivated violence	1	2	3	4	5	NA
The likelihood of political instability through terrorism	1	2	3	4	5	NA
Extent political opposition operates within the political system	1	2	3	4	5	NA
Quality of public services/effectiveness in delivery of public services	1	2	3	4	5	NA
Quality of civil service and its independence from political pressure	1	2	3	4	5	NA
Quality of bureaucracy/the amount of red tape likely to be encountered	1	2	3	4	5	NA
Ability of the government to formulate and implement sound policies and regulations	1	2	3	4	5	NA

Quality of contract enforcement	1	2	3	4	5	NA
Extent of protection of property rights	1	2	3	4	5	NA
Effectiveness and/or independence of police and judiciary	1	2	3	4	5	NA
Likelihood of crime and violence	1	2	3	4	5	NA
Extent to which illegal payments are generally expected at lower levels of government in the form of bribes	1	2	3	4	5	NA
Extent to which high government officials are likely to demand special payments	1	2	3	4	5	NA

This part of questionnaire relate to your opinion concerning how each of the tax incentives available in EPZ influenced your decision to locate, and whether you would have invested without tax holiday.

7.1 Circle the number that best represents your opinion from 1(most influence) to 5 (least influential) to what extent the following tax incentives influenced your decision to locate in EPZs.

	1 (most influential)	**2**	**3**	**4**	**5 (least influential)**
Exemption from withholding tax on dividends					
Exemptions from local government authorities taxes and levies					
Exemption from corporate income tax(tax holidays)					
Exemption from withholding tax on interest					
Exemption from Value added tax					
Exemption on import duty on raw materials and capital goods					

7.2 Circle the number that best represents your opinion from 1(Strongly agree) to 5 (Strongly disagree) regarding the extent to which you would invest in EPZ without tax holiday.

Degree to which investors would invest in EPZ without tax holiday

	Strongly agree(1)	**Somewhat agree(2)**	**Neither agree nor disagree(3)**	**Somewhat disagree(4)**	**Strongly disagree(5)**
I would have invested even if tax holiday was not provided					
I would have not invested without tax holiday					

Appendix 3: Investors' evaluation on the quality of physical infrastructure

	n	Very poor	Poor	Average	Good	Very good	Missing	NA
Availability of serviced land	74	0(0%)	22(29.7%)	12(16.2%)	30(40.5%)	2(2.7%)	0(0%)	8(10.8%)
	66	**0(0%)**	**22(33.3%)**	**12(18.2%)**	**30(45.4%)**	**2(3%)**		
Access to long term lease	74	0(0%)	1(1.3%)	5(6.7%)	44(59.4%)	16(21.6%)	0(0%)	8(10.8%)
	66	**0(0%)**	**1(1.5%)**	**5(7.6%)**	**44(66.7%)**	**16(24.2%)**		
Availability of pre build factory units	74	14(18.9%)	10(13.5%)	10(13.5%)	27(36.5%)	3(4.1%)	1(1.3%)	9(12.2%)
	64	**14(21.9%)**	**10(15.6%)**	**10(15.6%)**	**27(42.2%)**	**3(4.7%)**		
Reliable and low cost electricity	74	0(0%)	28(37.8%)	44(59.5%)	1(1.3%)	0(0%)	0(0%)	1(1.3%)
	73	**0(0%)**	**28(38.4%)**	**44(60.3%)**	**1(1.4%)**	**0(0%)**		
	74	28(37.8%)	44(59.5%)	1(1.3%)	0(0%)	0(0%)	0(0%)	1(1.3%)
	73	**28(38.4%)**	**44(60.3%)**	**1(1.4%)**	**0(0%)**			
Reliable water	74	1(1.3%)	21(28.4%)	38(51.3%)	10(13.5%)	0(0%)	1(1.3%)	3(4.1%)
	70	**1(1.4%)**	**21(30%)**	**38(54.3%)**	**10(14.3%)**	**0(0%)**		
Access to efficient transport-general	74	0(0%)	19(25.7%)	50(67.5%)	5(6.7%)	0(0%)	0(0%)	0(0%)
	74	**0(0%)**	**19(25.7%)**	**50(67.5%)**	**5(6.7%)**	**0(0%)**		
Road infrastructure	74	1(1.3%)	18(24.3%)	50(67.5%)	3(4.1%)	1(1.3%)	1(1.3%)	0(0%)
	73	**1(1.4%)**	**18(24.6%)**	**50(68.5%)**	**3(4.1%)**	**1(1.4%)**		
Sea port infrastructure	74	0(0%)	0(0%)	31(41.9%)	39(52.7%)	1(1.3%)	1(1.3%)	2(2.7%)
	71	**0(0%)**	**0(0%)**	**31(43.7%)**	**39(54.9%)**	**1(1.4%)**		
	74	31(41.9%)	39(52.7%)	1 (1.3%)	0(0%)	0(0%)	1(1.3%)	2(2.7%)
	71	**31(43.7%)**	**39(54.9%)**	**1(1.4%)**	**0(0%)**	**0(0%)**		
Airport	74	0(0%)	0(0%)	33(44.6%)	40(54.1%)	0(0%)	1(1.3%)	0(0%)
	73	**0(0%)**	**0(0%)**	**33(45.2%)**	**40(54.8%)**	**0(0%)**		
Railway	74	58(78.4%)	9(12.2%)	1(1.3%)	0(0%)	0(0%)	1(1.3%)	5(6.7%)
	68	**58(85.3%)**	**9(13.2%)**	**1(1.5%)**	**0(0%)**	**0(0%)**		