



(RESEARCH ARTICLE)



Assessment of performance of Special Economic Zone (SEZ) in making Tanzania the export-oriented country: Case study in Benjamini William Mkapa Special Economic Zone

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Abstract

Tanzania's strategic geographical positioning, with its lake and sea ports, airports, and border gateways, makes it a key player in international trade, enabling vital economic activities such as importation, exportation, and transshipment. It is easier to make SEZ as the major engine of Tanzanian Exports all over the world if we understand the performance and other challenges which made it difficult to happen. However, various researches and other writings did not target to explore how SEZ could be the main engine of making Tanzania Export Oriented Country. The main Objective of this quantitative and qualitative study was to explore the ability of SEZ project over the normal industrialization and exportation out of SEZ by making assessment on its performance in five years from 2019 to 2023. Data were generated through structured questionnaires and research question guard lines sheet for interviewed respondents and analyzed by using SPSS software and Advance Microsoft Excel. The analysis revealed the following, the exportation under SEZ showed positive in trend, every year there was increase in quantities of products to be exported, although of this encouraged findings the researcher found the type of product mostly exported was raw materials about seventy percent only thirty percent was exportation of manufactured goods which is unhealthy to the economy. Also researcher discovered there is high rate of inflow of Foreign Direct Investment (FDI), and the main reason of this inflow discovered there is natural geographical positioning which Tanzania endowed by God like natural resources, ocean and lake, all these the government added value by developing production, communication and transportation infrastructures to the project. Another finding was the introduction of other incentives where by even in other countries the Foreign Investors could get, these types of incentives did not show the uniqueness of competitive to opponent countries. Also there was low participation of domestic industries in the project of SEZ due to presence of unclear incentives to export in regional countries like SADC, EAC, and COMESA. The findings suggested that, there should be insisting the value addition and not to export raw materials, to review the other incentives to be competitive to opponents countries with the same interest to attract investors, to assist and develop domestic Small and Medium Enterprises to SEZ project to wards adaptation of technology and increase of employment and to conquer the regional markets and other globally markets.

Keywords: Export Processing Zones; Special Economic Zones; Value Additional, Foreign Direct Investment (FDI); Export Oriented Economy; Transfer Of Technology; Small Scale Enterprises (SME).

1. Introduction

Special Economic Zones (SEZs) are economic zone that aim to promote economic development and attract foreign investment by providing certain incentives and benefits to businesses UNCTAD (2018).

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Purpose of an SEZ is to encourage international trade by creating designated areas where businesses can import raw materials, manufacture goods and export the finished products with the advantages of tax incentives as companies operating in SEZs often enjoy tax breaks or reduced tax rates, making it more cost effective for them to do business. Likewise investors can get customs benefits as simplified customs procedures and reduced tariffs on imported raw materials help in lowering production costs, but EPZA did all these procedures very careful to avoid risks in business as described more by M.Wood (2022), infrastructure support as government usually should invest and develop within SEZs to attract businesses and ensure smooth operations as clarified from the EPZA website <https://www.epza.go.tz> accessed on 25 Feb 2024.

The county of export oriented can play a significant role in facilitating and improving maritime trade, these countries mostly focus on producing goods for export to international markets, making maritime transport essential for moving the products to consumers worldwide and this type of mode of transport is harmonized by regulatory authority TASAC from its web page <https://www.tasac.go.tz> accessed on 13 March 2024, often prioritize the development of strong maritime infrastructure, efficient ports, and streamlined logistics processes to ensure their exports reach global markets efficiently and competitively.

The statement still being export oriented can boost economic growth by expanding a country market reach beyond its borders, exporting goods and services to a global customer base can increase revenue and create jobs Economic Survey Report (2024), thus from the EPZA website of <https://www.epza.go.tz> accessed on 20 January 2024 welcome note of the Director General Mr. Charles Jackson Itembe explained that “*The interlinked development model of SEZ which incorporates transport and logistics clusters will be applied in the development of Special Economic Zones in Mtwara, Tanga, Mwanza, and Kigoma, with the overall objective to provide value chain and trade linkages to regional and international markets*”. This part of welcome note showed the targeted areas with the availability of sea ports and lake ports to connect with other global and regional countries, this plan boost performance of SEZ as Tanzania depend on it to meet the Target of becoming industrialization country as explained from Tanzania Development Vision 2025 M. Mandalu et al (2018).

2. Methodology

Structured questionnaires administered to a sample of key stakeholders involved in SEZs, including government officials, zone managers, investors, and employees. The surveys designed to collect quantitative data of economic indicators contributed by SEZ, policy effectiveness, and competitiveness enhancement.

In depth interviews conducted with selected key informants, these respondents asked explorative questions to provide qualitative data to answer the hypothesize questions, more so the study utilize documentary reviews in collecting relevant data and depict the documentary method as the technique used to categorize, investigate, and interpret written documents from both private and public sectors.

Relevant documents including policy documents as insisted J.Kweka (2018) in policy monitoring to support industrialization, reports and zone performance records, analyzed and provided historical context as additional data for the study.

The sampling frame in this report is comprehensive list of all SEZs registered and recognized by the Tanzanian government. This list served as the basis for selecting specific zones for inclusion in the study.

Non probability sampling method where by convenience sampling employed to ensure representation from several respondents. This approach helped to capture the diversity of respondents after stratifying them to the identity groups like employees of the investors, employees of the authorities, TRA custom employee, investors within located geographical area.

According to H. Rwegoshora (2014) “since it is not possible to involve all the community members in the process, it is necessary to have a representative sample in order to capture the diversity of the community views.” In this research the sample size determined based on statistical considerations to ensure that the study results are statistically significant and representative of the entire population of SEZs thus Slovin’s equation with confidence level of 95% to calculate the sample size used, according to targeted population of 277 captured after first survey, I used sample size of 164 and sample size distribution are as follows, investors 39 respondents, EPZA 30 respondents, Investors’ employees 89, and financial institutions 7 which made grand total of sample size 164.

3. Results and discussion

The results and findings of this research are organized into three main groups. The first group addresses the economic impacts contributed by EPZ and SEZ, with data primarily sourced from Tanzania Revenue Authority (TRA) secondary data and interviews conducted to Tanzania Revenue Authority (TRA) employees. This section explored the trends and extent of these economic contributions. The second group focused on the assessment of the strengths of available investment attractions under EPZ and SEZ. This group relies mostly on qualitative data collected through interviews, using guided questions to evaluate the attractiveness of these zones to investors. The third group examines other performance factors related to the project, utilizing cross-tabulation to evaluate the collected data and identify relationships among variables that influence the overall performance of EPZ and SEZ.

Additionally, there is a group dedicated to hypothesis testing, which followed the findings outlined above. This section assessed the statistical significance of the observed data, providing a deeper understanding of the economic impacts and investment strengths associated with SEZ, ultimately helping to evaluate the zones' effectiveness in promoting Tanzania as an export-oriented economy.

3.1. Demographic and characteristics of the respondents

3.1.1. TRA Customs employees

Data collected from TRA Customs, suspense and ICD offices through secondary sources and interviews provides a comprehensive understanding of customs and ICD operations

3.1.2. Investors' Representatives employees

Analyzing data collected from investors' representatives at the management level, it's essential to consider how their insights might impact the interpretation of the data quality, from that it is enough to say in the data collected from investors' representatives at the management level is generally of high quality due to their expertise and alignment with organizational goals.

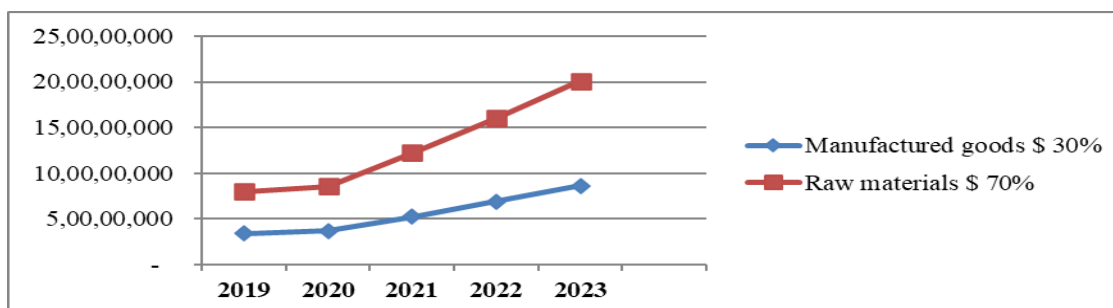
3.1.3. EPZ Authority employees

Data collected from the EPZ authority through interviews is generally of high quality due to the authoritative knowledge and detailed insights provided by the representative interviews offer rich, contextual information that enhances understanding of the EPZ's operations and regulations

3.1.4. EPZ normal employees

The data on EPZ normal employees shows a predominantly young workforce with many employees in the early stages of their careers. Most employees have relatively short job tenures, indicating a focus on entry level roles and possibly high turnover.

3.2. Export under EPZ and SEZ



Source: Tanzania Revenue Authority Custom Department

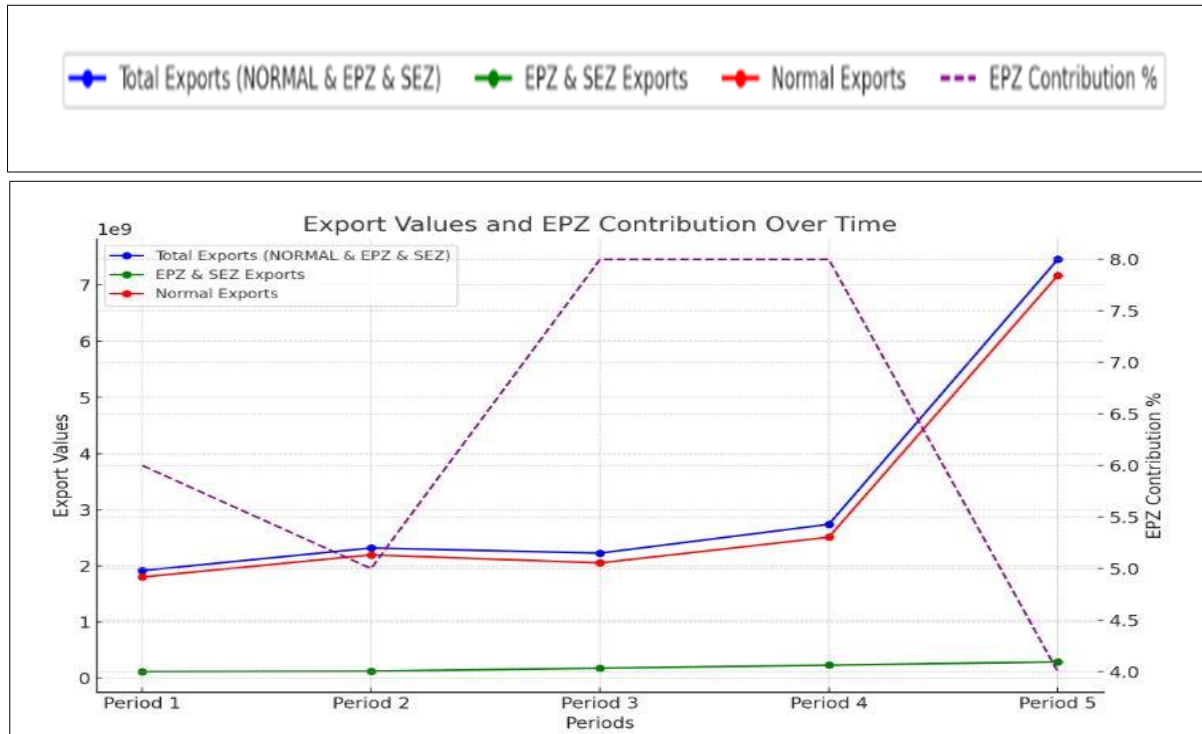
Figure 1 Graph to represent Export under EPZ and SEZ from 2019 to 2023

The data shows a positive trend in the growth of exports under EPZ and SEZ, with a significant bias towards raw materials. While this indicates a robust primary sector, it also underscores the need for a strategic shift towards value added manufacturing. By implementing policies that encourage value addition, Tanzania can better harness the

potential of its natural resources, create more employment opportunities, and develop a more resilient and valuable export oriented economy through deciding of adding value to raw materials before exporting.

3.3. Export values and EPZ contributions over time

While the EPZ & SEZ projects are growing and contributing to Tanzania exports, their current share of the total export market remains modest. For Tanzania to become a more export oriented country there may need to be a concerted effort to boost the performance of these zones. This could involve increasing investments in infrastructure, enhancing policy incentives, and ensuring that businesses in these zones have access to global markets. Additionally, maintaining a focus on growing normal exports while expanding EPZ & SEZ exports is crucial for balanced and sustainable economic growth.



Source: Tanzania Revenue Authority Custom Department

Figure 2 Graph Export Values in Tsh to represent EPZ contributions Over time

The green line specifically represents the export values from SEZ. The graph shows a consistent increase in SEZ exports over the periods, although the growth is not as steep as the total exports. This indicates that while SEZ exports are growing, they still represent a smaller fraction of the total export values.

3.3.1. EPZ Contribution Percentage

The purple dashed line shows the percentage contribution of EPZ exports to the country total export values. This percentage fluctuates between 4% and 8%, indicating that while EPZ exports are growing, their share of total exports varies. Notably, the percentage drops in the final period despite an absolute increase in SEZ exports, suggesting a faster growth in normal exports during that time.

3.4. The investment attraction aspect of the project

In an extensive interview with representatives of investors operating within Tanzania's Export Processing Zones (EPZ), several critical challenges impacting the market structure for products produced under EPZ regimes were highlighted. One key issue identified is the competition between EPZ and non EPZ industries when accessing regional markets such as the East African Community (EAC), Southern African Development Community (SADC), and Common Market for Eastern and Southern Africa (COMESA).

According to the representatives, a significant point of contention arises from the fact that normal industries, not under the EPZA (Export Processing Zones Authority) umbrella, can also export their products to these regional markets

without incurring import and export duties. This is made possible through the issuance of a certificate of origin, which grants these goods preferential treatment. As a result, the supposed advantage of being part of the EPZ, such as tax free incentives on exports, becomes less attractive. This situation diminishes the incentive for investors to participate in EPZ projects, especially when they can achieve similar benefits outside the EPZ framework.

This competitive parity has led to a relatively low number of domestic investors engaging in EPZ projects, as indicated by the data analysis. The expectation was that EPZs would provide a significant competitive edge due to tax benefits and streamlined processes. However, the reality has been somewhat different, particularly in markets where non EPZ products also enjoy tax advantages, other challenges of Tanzania EPZ and SEP discovered by (ECA, 2018).

Moreover, while EPZ investors benefit from tax free incentives on exportation, they encounter challenges with import duties; the tax free status applies primarily to exports directed towards markets with specific agreements, such as the African Growth and Opportunity Act (AGOA).

AGOA is an initiative by the United States that allows Sub Saharan African countries to export certain products to the U.S. duty free, aiming to stimulate economic development in these countries. However, this benefit is limited and contingent on the target market's trade agreements with Tanzania.

The interview highlighted that despite the presence of these incentives, the complexity and limited scope of tariff free agreements diminish the attractiveness of the EPZ framework. Investors expressed a need for broader and more advantageous trade agreements, as well as enhanced local support for industries operating within the EPZs, to truly leverage the potential benefits of these zones.

Additionally, there is a call for a clearer differentiation between the benefits available to EPZ and non EPZ industries to enhance the unique value proposition of the EPZ model in attracting both domestic and international investors.

The challenges identified by EPZ investors' representatives, if not addressed, could significantly diminish the performance and effectiveness of Export Processing Zones (EPZ) and Special Economic Zones (SEZ) in Tanzania.

Harnessing Tanzania Natural and Strategic Advantages for attracting FDI

Through interview with investors representatives with the questions of “though there are many challenges why don't you regret to invest in Tanzania?”

The answer was Tanzania's natural attractions and strategic locations are powerful assets that significantly enhance its appeal as an investment destination. Despite perceptions that the country's investment incentives may not stand out compared to those of other regional competitors, Tanzania's unique geographic and infrastructural advantages play a critical role in attracting investors. The country's access to the Indian Ocean through major sea ports, such as the Port of Dar es Salaam, and key international airports, provides vital infrastructure for the efficient movement of goods and raw materials. This connectivity not only facilitates international trade but also makes Tanzania an ideal base for businesses seeking cost effective transportation solutions.

Furthermore, Tanzania's geographical position as a gateway to several landlocked countries, including Zambia, Malawi, Burundi, Rwanda, and Uganda, offers investors unparalleled access to a broader regional market. The efficient transportation links within Tanzania enable it to serve as a logistical hub for these neighboring markets, providing businesses with a competitive edge in reaching a larger consumer base.

The relationship between Tanzania's natural advantages and the observed data from investor interviews reveals that while the majority of respondents view the country's incentives as comparable to those offered by other regional nations, Tanzania's strategic location and infrastructure can significantly offset the need for exceptionally generous incentives. The ease with which goods and materials can be transported due to the country's well developed ports and airports is a crucial factor that can be as compelling to investors as financial incentives.

Moreover, the strong confidence among respondents in Tanzania's ability to adapt and address challenges indicates a responsive regulatory environment that appeals to investors. This flexibility, combined with the country's inherent logistical advantages, makes Tanzania a highly attractive destination for investment.

Tanzania's God endowed attributes, such as its natural resources, favourable geographical location, and climate, offer a competitive edge that other countries may find difficult to replicate. These intrinsic benefits provide long term

operational advantages, such as reduced transportation costs and reliable access to key markets, which can often outweigh purely financial incentives.

To capitalize on these strengths, Tanzania can further enhance its investment strategy by continuing to improve its port and airport infrastructure, ensuring they remain competitive and capable of handling growing trade volumes. Complementing these natural advantages with slightly enhanced investment incentives targeted at industries that benefit most from the country's strategic location, such as logistics, manufacturing, and export oriented sectors, can make Tanzania even more appealing to investors.

Effective promotion and communication of Tanzania's unique geographic and infrastructural benefits are also essential. By highlighting the ease of access to regional markets and the efficiency of its transportation infrastructure, the government and investment promotion agencies can attract investors who are looking for logistical advantages that extend beyond financial incentives.

Tanzania's natural and strategic advantages, including its ports and access to regional markets, significantly bolster its attractiveness as an investment destination. These factors, combined with a flexible and responsive investment climate, offer substantial operational benefits that can compensate for any perceived limitations in the country's financial incentives. By leveraging these strengths, Tanzania can continue to attract and retain both foreign and domestic investors as the major target of free zones as explained by A. Kinyondo 2016, , solidifying its position as a key player in the regional and global economy.

3.5. Other findings which used to measure the performances of sez from the field sources

3.5.1. Domestic buying of raw materials together with quality of raw materials

Table 1 Cross tabulation

Domestic buying of raw materials * quality of raw materials					
Count					
		Quality of Raw Materials			Total
		Low quality	Average	Good quality	
Domestic Buying of raw Materials	From Local supplier direct to production areas	2	0	2	4
	agents collect raw materials from local suppliers	2	0	2	4
	Both of them	12	4	16	32
Total		16	4	20	40

Source: Field data

However, several challenges hinder the optimal performance of Tanzania's SEZs. A notable issue is the quality of raw materials. The data shows a considerable proportion of raw materials sourced domestically are of low quality, which impacts production efficiency and overall competitiveness. The variability in raw material quality, whether procured directly from local suppliers or through agents, poses a significant challenge for investors, as it affects the consistency and quality of the final products.

3.5.2. Protection of intellectually property and type of technologies invested

The analysis highlights several factors that enhance the performance of Tanzania's SEZs. The strong confidence in IP protection encourages investments in advanced technologies, which are essential for technology transfer and economic development. Furthermore, the country's ability to adapt and address challenges effectively is accessed positively by investors, indicating a responsive regulatory environment that supports investment.

Table 2 Cross tabulation table

Protection of Intellectually Property * Type of Technologies Invested					
Count					
		TYPE OF TECHNOLOGIES INVESTED			Total
		Normal and modern technology	Latest and unique need to be protected by Intellectually Property Rights	Both of them	
Protection of intellectually property	Intellectually property is well protected in the country	8	12	16	36
	Not sure that if intellectually properties will be well protected	2	2	0	4
Total		10	14	16	40

Source: Field data

3.5.3. Type of investors Verses type of technologies invested

Table 3 Cross tabulation table

Type of investor * type of technologies invested					
Count					
		TYPE OF TECHNOLOGIES INVESTED			Total
		Normal and modern technology	Latest and unique need to be protected by Intellectually Property Rights	Both of them	
Type of Investor	FDI	9	14	15	38
	Domestic	1	0	1	2
Total		10	14	16	40

Source: Field data

The overwhelming majority of investors express satisfaction with their decision to invest in Tanzania's SEZs, reflecting a positive sentiment towards the investment environment. The high level of confidence in the protection of intellectual property rights (IPR) among those investing in advanced technologies further supports this satisfaction, suggesting that a secure IP environment is a key factor in attracting high tech investments.

3.6. Hypothesis

Based on whole data analyses and presentations above, here are the answers to the hypothesis tests:

- Ho: The trends of economic impacts contributed by SEZ will not be positive on average.
- H1: The trends of economic impacts contributed by SEZ will be positive on average.

Decision: The data indicates that the trends of economic impacts contributed by SEZ have been largely positive. The strong confidence among investors, the significant potential for technology transfer, and the substantial involvement of advanced technologies suggest that the economic impacts are indeed positive. Therefore, we reject the null hypothesis (Ho) and accept the alternative hypothesis (H1), concluding that the trends of economic impacts contributed by EPZ and SEZ are positive on average.

- Ho: The economic impacts contributed SEZ are in a low level over normal exportation.
- H1: The economic impacts contributed by SEZ are in a high level over normal exportation.

Decision: The data indicates that the contribution of SEZ to economic impacts is low compared to normal exportation. Therefore, we accept the null hypothesis (Ho) and reject the alternative hypothesis (H1), concluding that the economic impacts contributed by EPZ and SEZ are indeed at a low level over normal exportation.

- Ho: The available investment attractions of SEZ are not strong enough to contest with competitors.
- H1: The available investment attractions of SEZ are strong enough to contest with competitors.

Decision: The data suggests that Tanzania's SEZ offer competitive investment attractions, including strategic geographical advantages, effective incentives, and a responsive regulatory environment. While there is room for improvement, particularly in differentiating Tanzania's incentives from those of regional competitors, the overall attractiveness of these zones is strong. Therefore, we reject the null hypothesis (Ho) and accept the alternative hypothesis (H1), concluding that the available investment attractions of EPZ and SEZ are strong enough to contest with competitors.

4. Conclusion

The data analyzed provided a comprehensive overview of their performance, highlighting both their achievements and the challenges they face in positioning Tanzania as an export oriented country.

The data reveals that Tanzania's EPZs and SEZs predominantly attract Foreign Direct Investment (FDI), with FDI constituting 95% of the total investments, the overwhelming majority of investors express satisfaction with their decision to invest in Tanzania's EPZs, reflecting a positive sentiment towards the investment environment.

Tanzania's strategic geographic location and well developed infrastructure, including major sea ports and international airports, provide significant logistical advantages. These natural and infrastructural benefits enhance the efficiency of goods and raw material movement, making Tanzania an attractive base for businesses engaged in international trade. Despite perceptions that Tanzania's investment incentives are comparable to those offered by regional competitors; the country's unique logistical advantages play a crucial role in offsetting the need for exceptionally generous incentives.

Also the data and insights disclose that while Tanzania's Special Economic Zones (SEZ) are contributing positively to the country's export growth, their impact remains limited compared to the broader economy. The steady increase in exports from these zones reflects the effectiveness of supportive policies, yet their overall contribution to national exports is modest. Challenges such as competition from non SEZ industries, limited domestic investment, and reliance on fluctuating international trade agreements hinder the full realization of their potential. To transform these zones into true engines of economic growth, Tanzania must focus on enhancing policy incentives, improving infrastructure, and promoting value addition as it was done by Nigeria country in cassava agricultural raw materials by Otekunrin et al (2020). Addressing these issues is essential for the country's journey towards a more industrialized and export oriented economy.

Additionally, while Tanzania's incentives for investors are seen as competitive, they are not perceived as significantly superior to those offered by neighboring countries. This indicates that there is room for improvement in distinguishing Tanzania's incentive offerings to make them more attractive to investors.

Areas for further researches

- Barriers to Domestic Participation

Investigating the barriers that prevent local firms from participating more actively in SEZs and developing strategies to enhance domestic involvement

- Comparative Analysis with Other Regions

Conducting a comparative analysis of Tanzania's SEZs with those in other African or global regions to identify best practices and areas for improvement.

Compliance with ethical standards

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Disclosure of conflict of interest

No conflict of interest to be disclosed.

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