Factors Driving Industrialisation through Export Processing Zone Model: Tanzanian Experience

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Abstract

This study aimed to establish factors for successful industrialization for a country like Tanzania. Specifically, this study sought to understand how industrialization can effectively be implemented in a developing country like Tanzania. The study employed a qualitative descriptive approach. Semi-structured face-to-face interviews were used to obtain data and data was analysed using thematic content analysis. The findings of the study revealed that engagement of the private sector in the development of the industrial sector, recognition of the political buy-in and support are decisive factors for industrialization, prioritizing the industrial sector in the budget allocation process, active engagement of other players from the industrial economy in the process of industrializing the country, and ensuring consistency and stability of policies. This study adds onto the lack of literature on the aspect under focus. Much has been debated in the literature about approaches to industrialization as well as what constitutes good industrial policy. However, this study extends the discussion by exploring factors for successful industrial policy for a developing country like Tanzania.

Keywords: *Industrialisation, Export Processing Zone model, Tanzanian, Success, Industrial Policy*

1.0 INTRODUCTION

There are various perspectives and strategies regarding how industrialization may be initiated and sustained as well as differing opinions on the role that governments should play in the industrialization process. Ideally, countries industrialise through two main approaches: import substitution and export-led strategies. Many countries have established, and continue to establish, Export Processing Zones (EPZs) as a strategy to boost their industrial sector under export-led approach. EPZs were key industrialization tools used by the Asian Tigers (Taiwan, South Korea, Hong Kong and Singapore) and the Tiger Cubs (Indonesia, Malaysia, Thailand, and the Philippines), which contributed to their success (Alarakhia, 2012). As a result of the achievements of these Asian economies, EPZs are now being promoted as an economic policy model to accelerate industrialization in developing countries including Tanzania (Klak, 1998; Farole, 2010). These EPZs are viewed as a fast and effective way to accelerate industrialization. By attracting Foreign Direct Investment (FDI) that might not otherwise materialize, EPZs are expected to boost exports, generate employment, and increase the host's foreign exchange earnings. Several studies and reports support this view (e.g., World Bank, 1992; Madani, 1999; Milberg and Amengual, 2008; FIAS, 2008; Farole, 2010; Farole and Akinci, 2011; Vastveit, 2013; Zeng, 2021) that EPZs have the potential to accelerate economic development.

However, not every country has industrialised by using the EPZ model (Zeng, 2021). Although the success of the East Asian countries is frequently mentioned as a proof that EPZs can drive positive economic outcomes, not all countries have experienced the same success with the EPZ model. While EPZs have effectively contributed to addressing economic growth and development in some parts of the world, their success has not been uniform (World Bank, 1992; Virgill, 2009). The positive outcomes realized in East Asia and parts of Latin America have been challenging to replicate in other regions, particularly in Sub Saharan Africa (SSA) (FIAS, 2008; Farole, 2010; Farole and Akinci,2011; Mugano, 2021). Nevertheless, a country should consider adopting the EPZ model as a strategic tool, because when properly designed and implemented they offer a practical, target oriented approach to stimulate industrialisation.

To date, despite the widespread adoption of export-led industrialization policies (such as the use of EPZs) in SSA countries since the 1990s, none of these countries has successfully transitioned to being recognized as newly industrialized economies (Mamo, 2024; Goodburn et al., 2024). When evaluated against the common policy objectives used to justify their establishment such as promoting industrialization, (Gibbon *et al.*, 2008), most

EPZs in SSA, (including Tanzania) have not met their full potential. These EPZs are underperforming compared to those in Asia and Latin America (Farole, 2010; Farole and Akinci, 2011; Vastveit, 2013). Specifically, they have not effectively attracted FDI or significantly stimulated exports, despite offering generous tax incentives (Iyoha, 2005; Engman *et al.*, 2007; Farole, 2010). Furthermore, many of these EPZs have created fewer jobs than expected (Boyenge, 2007; Stein, 2012). The expected benefits of EPZs in SSA – such as strong connections with the domestic economy (backward linkages) (Farole, 2011); and technology transfers and spillovers, have not occurred as anticipated (Baissac, 2003; Gibbon et al., 2008; Virgill, 2009). In view of the shortcomings just described, the effectiveness of EPZs as a tool for industrializing the SSA region is seen as likely to fail (Farole, 2010; Singh and Singh, 2022). Studies generally attribute this underperformance to a combination of poor policy implementation, the lack of technological upgrading, and poor linkages to local economies (Mamo, 2024; Goodburn et al., 2024).

As noted previously in this section and elsewhere in this report, while it is believed that EPZs are seen as an industrial policy tool that can promote industrialization, primarily by boosting exports, diversifying domestic industries, and creating large-scale employment, there is evidence (e.g., Zeng, 2021) suggesting that creating and implementing an effective industrial policy is difficult, particularly in developing countries. That is why it is fair to conclude that the effectiveness of the industrial policy can be explained by the context and implementation. There has been extensive debate in the literature regarding different approaches to industrialization and what constitutes good industrial policy. Several factors make EPZs attractive, including technological capability, political and macroeconomic stability, availability of labour, low regulatory risk, and a supportive business environment, to mention a few. According to Zeng (2021), these factors are also important in persuading foreign investors and encourage them make positive investment decisions.

There is an adage that says, “one size does not fit all”. Similarly, it can be safely argued that the establishment of EPZs is not a perfect solution for every economy. Countries need to be cautious when considering EPZs, because each one has its own unique conditions. Thus, any lessons or strategies from other countries should be modified to fit the specific needs and circumstances of the individual country.

Based on the lessons learned from the Asian Tigers and Tiger Cubs, and above-mentioned success stories from the literature, there is inadequate contextualized, evidence-based understanding of why EPZs in SSA have consistently

underperformed compared to their counterparts. This study focuses on understanding how industrialization can be successfully implemented in a developing economy, like Tanzania, which began its efforts with the creation of Special Economic Zones (SEZs) in 2002 and later intensified them through the establishment of the Export Processing Zone Authority (EPZA) in 2006. The findings of this study have significant implications for the Tanzanian government, that aims to become a semi-industrialized nation by 2025. The results could help to improve the current EPZ model or suggest alternative strategies.

2.0 LITERATURE REVIEW

2.1 The Concept of Industrial Policy and its Justification

The review aimed at providing important insights on how an industrial policy can effectively be implemented in a developing context like Tanzania. This study adopted a broad and inclusive definition of industrial policy proposed by Warwick (2013) as it provides a broader picture of what the concept encompasses when applied across countries in the developing world. In view of this, industrialization policy refers to a strategic approach involving a set of specific policies aimed at advancing a developing economy to a higher level of economic development. This is achieved through boosting the growth and expansion of the manufacturing sector within that economy.

The way people have understood or justified industrial policy has changed over time, particularly since the post-war period (Warwick, 2013). A number of studies have reviewed the historical evolution of industrial policy thinking over time and come up with the evolution of rationales (Naudé, 2010 as cited in Warwick, 2013). Possible rationales for industrial policies are summarized in Table 6.

Table 6: Development of Theory and Practice of Industrial Policy

Period	*Possible reason for the evolution of industrial policy*
From 1940 to 1969	- *Industrialisation is essential for a country's development* - *Without intervention, market failures, which are common in developing countries, would hinder industrialization from occurring automatically* - *Industrial policy is crucial, especially measures like protection of infant industries, government ownership and government co-ordination*
From 1970 to 1999	- *Practical challenges of implementing industrial policy are significant, with government failures seen as more harmful than market failures. Industrial policy often leads to waste and rent-seeking behaviour.* - *Economic development and industrialization require trade liberalisation (exports), privatisation, attracting FDI, macroeconomic stability, and minimum government intervention* - *This perspective dominated during the Washington consensus era, particularly after the debt crisis of the 1980s the widespread adjustment programmes adoption of structure*
From 2000 onwards	- *Both market and government failures exist* - *The focus should be on 'how' industrial policy is implemented, rather than 'why' it is needed* - *Institutional setting is important, though designing effective policy can be difficult* - *Industrial policy requires flexibility to practice* - *Different views on how much to challenge comparative advantage exist, but not the principle* - *Industrial policy should prioritize innovation and technological upgrading* - *They key objective of industrial policy should be promoting national innovation systems*

Source: Based on Warwick, 2013; Oqubay, 2020; and Zeng, 2021

From Table 1, the reasons which triggered development of EPZ as a policy tool to fast-track industrialization in developing countries are summarized in the second block of the matrix. Studies indicate that methods that government use to implement industrial policies – known as industrial policy instruments – generally reflect a certain viewpoint about why industrial policy is needed e.g., fostering innovation, supporting certain industries etc., (Warwick, 2013; UNCTAD, 2016). The popular industrial policy instruments available to low-income countries include EPZs and SEZs.

Evidence indicates that designing and implementing a successful industrial policy is a challenging task especially in developing countries. Although industrial policy has been effective in promoting economic growth in some nations and during certain times, it has also resulted to failures in other situations (Warwick, 2013; Naudé and Krugell, 2007; UNCTAD, 2016). Industrial policy should seek to promote structural change: from agriculture to labour-intensive or resource-based manufacturing at an early stage of industrialization; through

upgrading and diversification in manufacturing at a later stage; and through technological innovation at an advanced stage (UNIDO, 2013). Several studies (e.g. Rodrik, 2008; Naudé and Krugell, 2007; Warwick, 2013; UNCTAD, 2016) have identified three important elements that governments should include during the design stage to improve the chances of successful implementation. The first element is embeddedness, which refers to the need for government to be closely connected with firms to reduce information asymmetry.

The second is design element and it emphasizes that effective industrial policy must encourage firms to invest, anticipating a certain rate of returns from that investment, while also eliminating under-performing projects, firms, and investments. This requires policies need to have clear criteria for success, along with tools like conditionality (setting terms for support), regular programme reviews, monitoring, and assessments to ensure only effective investments continue to receive support. The third element is accountability. The studies emphasize the need for governments to define who is accountable for both success and failure in the implementation of industrial policy and ensure transparency in tracking the results.

2.2 Approaches to Industrialization

The topic of industrial policy has seen a notable rise in interest among policymakers and researchers, and it has gained prominence in the mainstream economic discourse (Oqubay, 2020; Singh and Singh, 2022). To contextualize this phenomenon, and specifically understand why industrial policies have succeeded in some countries and during certain periods, and failed in others, it is important to review two common industrialization strategies used by developing countries: Import Substitution Industrialization (ISI) and Export Led Industrialization (ELI). By examining these strategies, we can better understand the context in which EPZ emerged as a policy tool to promote industrialization.

Before the 1980s, many developing economies adopted the ISI as their development strategy (Krugman and Obstfeld, 2006). In general, ISI refers to a policy aimed at reducing reliance on imported goods by promoting the production of those goods within the domestic market (Bruton, 1970). This strategy, based on the theory of infant industry protection (Oqubay, 2020), was designed to help newly established industries grow by limiting competition from imports, with the goal of achieving self-sustained industrialization.

The failure of import substitution strategy to achieve the goals of industrialization in many developing countries contrasted with the remarkable economic success of the Asian Tigers, led to a shift in development strategy

from the 1980s onwards (Shihab, 1995; Krugman and Obstfeld, 2006; Virgill, 2009; Alarakhia, 2012; Krugman et al., 2012; Vastveit, 2013). Countries began to favour export-led growth as an alternative, inspired by the success of the Asian Tigers, who adopted this strategy from the 1960s. Export-led industrialization focuses on liberalizing trade, promoting labour-intensive industries that produce goods for export, and attracting foreign capital in the export sector (Linnemann et al., 1987). Implementation of the EPZ is one of the facets of export-led industrialization strategy.

Advocates of the industrial policy and industrialization (e.g., UNCTAD, 2016; Oqubay, 2020) promote the synchronization of ELI and ISI as a strategic approach that developing economies should consider for robust and accelerated industrial growth. Evidence has it that successful latecomer to industrialization, such as China, have effectively combined these two strategies to achieve rapid development.

3.0 METHODOLOGY

A qualitative approach is very useful when researchers want to obtain information concerning the status of a phenomena for questions like how and what. For this reason, the present study adopted a qualitative descriptive approach.

Series of semi-structured face-to-face interviews were conducted to obtain data. An interview guide containing a set of questions for the selected respondents was developed in advance. The length of interviews depended on the level of saturation. On average the interviews lasted between 60 and 90 minutes. The population for this study consisted of the following respondent categories: managers of firms operating within EPZ; government officials working at the EPZA, and key stakeholders from private sector associations.

Eleven interviews were conducted. According to Guest *et al.*, (2013) many studies that used non-probabilistic sample sizes, saturation of data occurred between six to 12 interviews. In this regard, the sample size for this study is adequate. Three interviews were conducted with EPZA officials: the Director of Planning and Development and two Investment Facilitation Managers. Also, seven interviews were conducted with TCCIA executives. The respondents were chosen based on their roles and experience. One further interview was conducted with a former board member who had served at both TPSF and CTI.

The study analysed interview data using content and thematic analyses. The analyses were guided by the most widely used six steps for conducting content

and thematic analyses by Braun and Clarke (2006). The transcripts were read repeatedly to be familiar with the depth and breadth of the content and categories and sub-categories were developed to get a sense of the whole. Finally, themes representing issues that cut across and that represent participants lived experiences were developed. The quotations were included to provide important cut-pieces of evidence and lend fresh voices and perspectives to the report. The field notes have been maintained as a reflective diary for enhancement of reliability of the data.

4.0 FINDINGS AND DISCUSSION

In this section the findings on the factors for successful industrial policy for a developing country like Tanzania are presented and discussed.

4.1 Factors for Successful Industrialization

The study sought to ascertain factors for successful industrialization from the perspective of a developing country like Tanzania. This section presents the findings from content analyses of interviews:

4.1.1 State of Physical Infrastructure

All the participants interviewed agreed that access to good physical infrastructure is a key factor for the success of EPZs. The reasons behind their arguments were that physical infrastructure, such as reliable electricity, directly affects the operational efficiency, attractiveness to investors, and global competitiveness of these zones. This finding supports the research by Zeng (2021), who argues that EPZs, as an industrial policy tool, are designed to fill gaps in industrial infrastructure, such as power, water, gas, waste management, and telecommunications. The author further asserts that EPZs are intended to fix ineffective regulatory and business systems that prevent industries to grow together in one area. The literature (e.g., Mugano, 2021; Zeng, 2021) suggests that adequate physical infrastructure includes selecting the right location, having good transport links (ports, roads, and airports), and providing reliable utilities (such as water, electricity, and internet connectivity). Putting it differently, for EPZs to succeed, they must be strategically located with efficient connections. According to Mugano (2021), one reason African EPZs have not been as successful as those in the Asian Tigers and Tiger Cubs is that they did not solve these infrastructural challenges. Interview respondents revealed that the institution in charge of managing EPZ activities in Tanzania, the EPZA, has been operating under budgetary constraints for a long time. Because of this, it has been so challenging for them to provide the necessary infrastructure required by investors. As one respondent was quoted saying:

> "*From year 2006 the Authority has been working toward accomplishing its mandated role but with inadequate financial resources due to either non-disbursement of approved development funds or inadequate funds allocated and approved for development expenditure".*

4.1.2 Promotion of EPZ Programme

Aggressive promotion efforts of EPZ programmes at national and international level is one of the crucial factors for the successful implementation of the EPZ model. Aggressive promotion programmes have better chances of improving the awareness of the activities done by the EPZ, leading to revenue generation through sales of the output produced to the rest of the world and even creation of ready markets to the local suppliers of the raw materials.

The interview revealed that EPZA has been receiving insufficient funds to market programmes at their disposal leading to lack of information to connect local suppliers of raw materials with the investors under the EPZ umbrella. Aggressive promotion efforts will improve backward linkages between EPZ investors and potential local suppliers. Backward Linkages enhance suppliers of raw materials to emulate technology and the international market for their materials. One respondent argued that:

> *"Among Tanzanians, very few are aware of the so called EPZ scheme with intention of creating backward linkages to enhance local entrepreneurs to emulate technology and market linkages from foreign companies that have high capital and advanced technology."*

The interview with one of the EPZA personnel showed that the EPZA in collaboration with other government agencies promoting investment in Tanzania should come together and launch aggressive promotion efforts of EPZs programmes at local and international level to improve Tanzania's image, especially on what is produced and exported by Tanzania's EPZ firms and regarding the existing local potential suppliers of various materials and/or services required in EPZs operations. For the EPZ model to be successful in Tanzania, cost effective and aggressive promotion efforts such as sponsorship through sports and games could be adopted to hasten the industrialisation of Tanzania through this model. Another respondent from EPZA noted:

> *"Advertising only in our website is not enough if we want better results from EPZ model. We must collaborate with other government agencies and international agencies to promote and invite the potential investors to come invest in Tanzania."*

This calls for the establishment of a business information centre where all information regarding what is produced in Tanzania's EPZ firms, what kind of raw materials are readily available in Tanzania and the address of the possible

suppliers of such raw materials are well analysed and presented. Having a well-established business information centre will speed up the industrialization process in Tanzania.

4.1.3 Collaboration between Agencies

Tanzania's EPZ programme has the potential of capitalizing on the country's strategic geographical location as a regional gateway for imports and exports, political stability, economic partnership agreements, and multilateral trade agreements. However, the EPZ programme is by and large still plagued by lack of clear framework for investment facilitation between the EPZA and other regulatory agencies in the country. This situation poses a potential threat to effectively exploit the available opportunities and the future sustainable growth and development of the EPZA.

During interviews with EPZ firms' respondents, it was revealed that non-synchronization of activities of various government authorities in the course of discharging their duties is among the challenges they face. These services were supposed to be offered under the One Stop Service Centre at the EPZA's offices in Dar es Salaam, but the practice is different. The problem of non-synchronization or conflicting/overlapping powers between authorities curtails smooth operations of EPZA as well as those of individual investors in Tanzania. During the friction between various government agencies, and between the agencies and investors, both the investor and the government become affected. The investor may end up terminating the project at initial stages, or in the mid of operation, while the government misses the income and other benefits that would accrue by virtue of the investor's existence.

These findings corroborate the views of Mugano (2021) on the importance of collaboration between agencies for effective implementation of EPZs. The author points out that the effectiveness can be achieved through various channels including pooling of resources, streamlined regulatory processes, reduction of bureaucracy, and coordinated efforts.

4.1.4 Political Buy-in and Government Commitment

From a policy setting, industrial development in Tanzania can be grouped into five distinct policy periods: 1961–9, 1969–81, 1981–6, 1986–95, and 1995 to date. It has been a common phenomenon to see policy priorities shifting when there is a change in political regime in the country. The current government's regime development agenda, however, has brought industrial development back to be one of the top policy priorities hence presenting an opportunity for the

EPZA to address bottlenecks that it was facing, particularly that of infrastructure development.

Most interviewees in this study, however, were sceptical of the commitment of EPZA and other regulatory authorities in exploiting the present regime's political buy-in. This position is aptly summarized by a quote from an interviewee working at TCCIA:

> *"When there is political buy-in among politicians and consistency in government priorities and support to the long-term strategies, Tanzania will be able tap so many benefits from its industrialization agenda. But when we recall what happened after change of regime in relation to investment projects like Bagamoyo dry harbour or Star-city dry harbour in Morogoro or Tanzamaji in Kigoma we don't understand what is going on with efforts to improve the investment environment. These were investment projects with huge potential in our economy, but they are nowhere to be seen today in an economic lens."*

Arguing along the same line, another interviewee had this to say:

> *"EPZA is not playing its part properly given the tone of the current political regime. The Authority neither solves problems that investors face under EPZ scheme nor attracts foreign investors to come and invest. They are just seated in their offices with no clue of what is going on on the ground. Had it been that EPZA is empowered financially, the dry harbour project in Morogoro could have been operational by this time".*

The views above clearly suggest that political will and support is a decisive factor for industrialization in the country. The findings above reveal that institutional inertia and lack of proactive engagement by EPZA are undermining the current government's momentum in support of industrialisation. This suggests a disconnect between political commitment at the top and execution capacity at the implementation level. These views support the assertion by Zeng (2021) who argues that the prime objective of EPZs is to overcome certain market failures and government coordination failures to create a conducive legal and business environment. Accordingly, EPZs should be built on solid business demand and not be manipulated by political motives. Consistent with Mugano (2021), it was further learnt from the interviews that genuine commitment from the government, is one of the major success factors for any EPZs establishment and development.

4.1.5 Engagement of the private sector

There has been laxity in the implementation of the Sustainable Industrial Development Policy (SIDP) of 1996. The policy, among other things, aimed at putting in place short-term and long-term strategies to elevate the country's industrial level to middle income status by 2020, by letting the private sector take the lead in industrial development.

The foregoing argument aligns well with the interviews results, which indicate that the involvement of the private sector with the government – in some form of joint ventures aimed at accelerating industrial development and driving economic growth – is not receiving the attention it deserves. According to the findings, this could explain why Tanzania's industrial sector remains underdeveloped and stagnant, yet to realize its full potential. In other words, although there are significant opportunities for the Tanzanian private sector growth through EPZs, its role in industrialization continues to be minimal. To address this issue, the interviewees recommended that the government take deliberate actions and focus on creating enabling conditions for the private sector to thrive. These efforts should include fostering a business-friendly environment, ensuring fair trade practices, promoting transparency, and encouraging open trade policies (see also Zeng, 2021). If implemented, these measures could help boost the involvement of the private sector and drive industrial growth.

Another recommendation from respondents was that the government should engage the private sector in infrastructure development through Public Private Partnerships (PPP). This view is supported by Zeng (2021) who highlighted the success of launching the world's first Digital Free Trade Zone (DFTZ) in Malaysia in 2017, through a partnership with Alibaba and other private corporations. The goal was to address inadequate funding and facilitate the entry of Small and Medium Enterprises (SMEs) into the e-commerce market by creating a conducive business environment. Additionally, the aim was to leverage private sector partners to assist with planning, management, and the provision of certain infrastructure and service.

4.1.6 Interventionist Strategies

As stated earlier, Tanzania established the EPZA in 2006, with the goal of industrializing its economy through EPZs. However, unlike other countries, Tanzania has not adopted an active, interventionist strategy to drive industrialization. Instead, the government's role has remained guided by neoliberal thinking (Alarakhia, 2012). Researchers like Zeng (2021), argue against focusing mainly on fiscal incentives such as tax holidays, which they consider as unfair. Zeng (2021) advocates for using EPZs as a testing ground for policy and regulatory reforms towards more market-driven liberalization. According to the author, successful zones in many East Asian economies, such as the Shenzhen SEZ in China, ensure that benefits are distributed broadly economy-wide. Features such as One-Stop-Shop facilities and ongoing support, are effective and appealing to investors.

5.0 CONCLUSION AND RECOMMENDATIONS

The study aimed at analysing the specific contextual factors that influence the performance of Tanzania's EPZ as a model to promote industrialisation. Our results show that whereas the EPZ strategy is conceptually sound and rooted in successful global practices, its implementation in Tanzania has faced significant challenges. Although many of these factors seem to stem from insufficient funding and policy design issues, they are also closely tied to institutional and coordination challenges.

Specifically, the key factors critical for the success of the EPZs in Tanzania include poor physical infrastructure mainly to persistent inadequate funding which limits its operational efficiency and discourages investors, and lack of aggressive promotion. Others are fragmented institutional coordination where agencies are working in silos, insufficient exploitation of political buy-in, and minimal private sector engagement. While many of these problems are known in the available literature, this study makes a context-specific contribution by documenting how these barriers manifest in the Tanzanian case, despite nearly two decades of EPZ promotion under EPZA.

To address these contextual factors, some of which tend to persist, the study recommends determined engagement of the private sector in promoting the industrial sector especially for infrastructure financing and management; recognition of the political buy-in and support as a decisive factor for industrialization. Further, prioritizing the industrial sector in the budget allocation process; active engagement of other players from the industrial economy in the process of industrializing the country, and ensuring consistency and stability of policies through inter-agency policy harmonization.

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