Thesis for the Master Degree of International Area Studies

A Comparative Analysis on Special Economic Zones: The Case of Korea and Tanzania

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Abstract

Special Economic Zones (SEZs) are taken to be the second-best solution that triggers rapid economic growth and development. They have emerged as a popular strategy adopted by various countries, particularly developing countries, to increase trade competitiveness. SEZs are also believed to attract huge foreign investment (FDI), domestic investment, generate employments, promote export activities and transfer technology. Through the establishment of economic zones, South Korea's export activities, industrial sectors and economy in general grew at a very fast rate. This paper evaluates strategies and policies that were used in establishment of the economic zones in South Korea. The paper also analyzes the initial conditions that were present before and after the establishment of these zones. The study traces the historical background of Korea's Masan FTZ (1970-2011) and Tanzania's Benjamin William Mkapa SEZ (2006-20011). A comparative case study is employed to analyze the initial conditions in both countries and subsequently draw lessons that may be applied to develop Tanzanian's SEZs. The role of SEZs is unsustainable; however the benefits derived from it are not worthy to be disregarded.

***Key words**: Special Economic Zones, Economic development, South Korea, Tanzania*

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Abbreviations

AGOA	African Growth and Opportunity Act
AFZA	African Free Zone Association
BMW-SEZ	Benjamin William Mkapa Special Economic Zones
CAMARTEC	Centre for Agriculture and Mechanization Rural Technology
COMESA	Common Market of Eastern and Southern Africa
EAC	East African Community
ECOWAS	Economic Community of West African States
EDZ	Economic Development Zones
EOI	Export-oriented Industrialization
EPZ	Export Processing Zones
EPZA	Export Processing Zones Authority
FDI	Foreign Direct Investment
FEZ	Free Economic Zones
FTZ	Free Trade Zones
GOT	Government of Tanzania
ISI	Import-substitution Industrialization
KITA	Korea International Trade Association
KOTRA	Korea Trade Promotion Corporation
MEPZ	Masan Export Processing Zones
MFTZ	Masan Free Trade Zones
MNE	Multinational Enterprises
NDC	National Development Corporation
NIC	Newly Industrializing Economies
SADC	Southern African Development Community
SAP	Structural Adjustment Program
SEZ	Special Economic Zones
SSA	Sub-Saharan Africa
TANTRADE	Tanzania and Trade Development Authority
TATEDO	Tanzania Tradition Energy Development Environment Organization
TEMDO	Tanzania Engineering and Manufacturing Design organization

TIC	Tanzania Investment Centre
TIRDO	Tanzania Industrial Research and Development Center
TDTC	Technology Development and Transfer Centre
UNCTAD	United Nations Conference on Trade and Development
UNIDO	United Nations Industrial Development Organization
WEPZA	World Economic Processing Zones Association

1. INTRODUCTION

In May, 2011, an African Free Zones Association (AFZA)[1] convention was held in Tanzania. Delegates from different African countries attended the convention to share knowledge and experience on Free Economic zones (FEZs). The convention was supported by the World Bank Group and private sectors, with the objective of reforming the zones operations and with the hope that it will push the African countries toward achieving the Millennium Development Goals (MDGS)[2]. These countries were to learn the best practices and acquire an understanding of market opportunities provided by intra-African trade. The convention provided an opportunity for many African countries to network with Free Zones Developers and operators both from within and without Africa.

The current Prime Minister of Tanzania, Hon. Mizengo Pinda, in his keynote speech on AFZA stated that many Free Economic Zones in Africa are still operating below their capacities and are yet to position themselves in their host economies as engines of economic and social transformation. Some of the things that have contributed to poor performance of the Free Economic Zones, that the Prime Minister mentioned are; lack of support by the host government, lack of vision in the implementation of the schemes, insufficient funds for financing infrastructure development within zones and non-identification of priority areas (Joseph, 2011).

[1] AFZA is an international non-governmental organization established to promote Africa's competitiveness and foster rapid economic growth through Free Zones schemes. The Association comprises of all types of investment promotion such as Export Processing Zones (EPZ), Special Economic Zones (SEZ), Free Trade Zones (FTZs) and Industrial Development ones (IDZs).

[2] It is a global development agenda which was made at the United National Millennium Summit, September 2000. World leaders gathered and agreed to set a time frame for measurable goals and targets to combat poverty, hunger, diseases, illiteracy, environmental degradation and gender inequality. It includes a number of goals for development and poverty eradication to be achieved by 2015.

The Minister went further sharing the view of other African leaders attending the convention that SEZs can act as a tool to fast track economic development if their needs are appropriately addressed. These needs include establishing essential infrastructure: water, electricity, roads and warehouses. In agreement with Hon. Mizengo Pinda's statement was Mr. Thomas Farole, a World Bank official on International Trade Department. In his speech, he said that, the reason why the development of SEZs in Africa should be encouraged is because of the potential they have of addressing issues such as poor infrastructure and lack of employment (Joseph, 2011).

Mr. Thomas Farole further pointed out on a number of things that the African continent as a whole need to do to attain successful development of the zones such as; improvement of the utilities, ports and road connections, development of infrastructure, proper management of zones through stronger and more consistent government policy support. According to him, there is a need for better understanding of the factors that contribute to sustainable success of SEZs establishment (Karega, 2011).

The recognition by many countries of the importance of Special Economic Zones (SEZs) has led many developing countries to employ different approaches that would help them improve on their economic zones. The recent trend of Asian countries chasing land and resources in African countries for investment has also prompted many African countries to undergo reforms on how to develop their zones, with the aim of attracting much foreign investment. Foreign investment is known or believed to bring about many other benefits for the citizenry.

Most of the existing literatures on SEZs mention their potential in creating employment, developing skills & knowledge, and improving infrastructure in the host countries (Madani, 1999 and World Bank, 1992). Korea had been keen on establishing her zones and as a result became a financial, logistic, and business hub of Northeast Asia.

This research attempts to study economic zones established in Korea and highlight the strategies and policies used and the challenges encountered during their establishment. The paper seeks to analyze initial conditions and government policies used. Tanzania, being one of the countries that is still grappling with the issue of zone development can thus draw some useful lessons from Korean experience.

1.1 Reasons for Establishment of the Zones

SEZs have proved to be the second-best approach towards developing the economy of the country (Farole, 2010). They are regarded as trade development tools, whose goal is to promote rapid economic growth by using tax and business incentives to attract foreign exchange, spur employment and boost the development of improved technologies and infrastructure (Singh, 2011). SEZs are used by many countries to improve and uplift their economies. At the same time, it has become one of the most interesting paradigms as researchers believe that it can be used as a catalyst towards raising countries' wealth.

These Special Economic Zones (SEZs) are demarcated geographic areas contained within countries' national boundaries where the rules of business are different from those that prevail in the national territory. These rules principally deal with investment conditions, international trade, customs, and taxation; whereby the zone is given a more liberal and effective business environment than that of the national territory (FIAS, 008).

"SEZ" covers a broad range of more specific zone types such as Export Processing Zones (EPZ), Free Trade Zones (FTZ), Free Economic Zones (FEZ), Industrial parks, and others. EPZ and FTZ are self-contained industrial sites which are established for the export of manufactured goods. Attractive incentives are usually offered to investors such as lower level of import restrictions; less restrictive labor requirements; liberal tax, ownership and foreign exchange regulations (Madani, 1999). Industrial parks also fall under this category of SEZs since they are areas usually planned for the purpose of industrial development. Their aim is also to attract new businesses by providing an integrated infrastructure in one location.

Having known the potential positive impacts that can be derived and brought out in the economy through establishment of these SEZs, many countries, both developing and developed countries, are in the process of establishing, maintaining, developing and/or upgrading their zones to attract as much foreign and domestic investment as possible. Their governments have made commendable efforts to boost development of the zones by having some attractive incentives such as reduction of taxes and tariffs to lure as many investors as possible.

SEZs have a long-established role in international trade. Prior to the 1970s, most zones were found in industrialized countries; but after this period, there has been a massive growth in SEZs in developing countries. East Asia was leading followed by Latin America then by

Central and Eastern Europe, Central Asia, the Middle East, North Africa (World Bank, 2008) and now Sub-Saharan Africa respectively.

The trend shows that in 1986 there were 176 zones in 47 countries (FIAS 2007). By 2003, the number grew to approximately more than 3000 zones in 135 countries worldwide, employing more than 68 million people and producing more than $500 billion in trade-related, value-added activities (World Bank 2008). They tend to bring economic growth and development through increased exports, foreign exchange earnings, and employment.

Korea in the 1970s was very poor and was in the process of transforming its economy from the tragedy that had befallen it as a result of the Korean War in the 1950s. Korea decided to find ways to improve its industrial sector by attracting many foreign investors and also established economic zones in the country as a way to boost up economic growth and export activities. It is always advantageous if a country does more of export activities than import activities.

Korea's rapid and successful development of these zones poses a great challenge to developing countries, Tanzania being one of them. Korea, through its SEZs, was able to remove the country from poverty, improve its export activities, generate employment for its people, obtain great technological advances and thus boost her economy. Korea has now become a business hub where many foreign investors rush to invest.

Korea used unique strategies to develop its economy and the economic zones in general. It had objectives to attain when it decided to establish the zones which are quite similar to the ones for Tanzania and other developing countries. Examples being; to expand and improve export activities through the zones, to generate employment, to attract foreign investments and most generally to eradicate poverty.

Tanzania should borrow a leaf from the Korean experience and apply to its strategy (Mini-Tiger Plan, 2020)[3] in removing the country from poverty. Tanzania should also follow the successful path of Asian Miracle by starting to develop SEZs in the most promising sectors and areas. Currently, Tanzanian government is struggling to get rid of poverty, generate employment and boost its economy. This situation can be likened to the case of Korea in the 1970s when Korea was in the early process of development.

This research chooses Korea – one of the countries in East Asia, as a model for analyzing SEZs owing to its miraculous economic development in different sectors, and in this regards the SEZs performance. The research compares the initial conditions for both countries – Korea and Tanzania, before the establishment of the economic zones and thereafter, the trend of development. The initial conditions for Korea in 1970s are seen to be different from the ones in Tanzania. Using comparative analysis, the researcher then suggests measures Tanzania can adopt in order to attain successful development of its zones and as a result boost its economy.

[3] The Mini-Tiger Plan 2020 was passed by the Tanzanian government to attain the Millennium goal towards getting rid of poverty. It aimed to fast-track economic growth and poverty reduction.

1.2 Overview of the Special Economic Zones Establishment in Korea

Like many developing countries, Korea implemented export-oriented growth strategies to promote industrialization in the first half of the 1960s (Yoon, 2010). The strategy to have Export Processing Zones (EPZs) offered a variety of advantages, including a gateway to the international community, lower operational costs, reduced political risk among others. During the 1970s, some Asian economies successfully used EPZs to expand exports of their manufactured goods. These EPZs attracted a wide range of firms with majority foreign equity-control and technological collaborations.

Korea used two strategies called Export-Oriented Industrialization strategy (EOI) and Import Substitution Industrial strategy (ISI). EOI was integrated with (ISI)[4] so that they could reinforce each other and collectively expand the opportunities of export activities within the country (Brawley, 2005). EOI strategy introduced certain economic policies such as lowering of currency which made exports appear cheaper to foreign consumers. Korea liberalized its trade relations, though not wholly, by reducing tariffs on certain items making it easier to import goods.

Late in the 1960's, Korea developed interest in the establishment of EPZs with the objective of attracting foreign capital and technology. This together with the abundant supply of labor favored the development of export-oriented pattern of industrialization. This was influenced by the apparent success of the free trade conditions existing in Hong Kong and Singapore then.

[4] This was the kind of strategy used by many developing countries as a form of protectionism. It is based with a premise that a country should attempt to reduce its foreign dependency through the local production of industrialized products.

The city of Masan was chosen as the first area for the establishment of these zones. Masan was chosen because of its closeness to Busan city and its good connection to the highway, its harbor facilities, its proximity to Japanese port and lastly, the labor surplus condition that existed then. The zone was considered to have the most important role in promoting export-led industrialization and in fostering linkages with industries in coastal areas such as Busan, Pohang and Ulsan (Oh, 1993).

Korea, around the 1970s, while in the process of adapting export-led industrialization strategy, had some favorable initial conditions. These initial conditions included; good geographical location; abundance of labor force; good government policies such as export promotion policies; EOI strategy; fully prioritizing comparative-advantage industries; presence and support from governmental institutions such as KOTRA; presence of R&D centers; government support through credit allocation to selected industries; respect to market system; trade protection; export subsidization; relatively stable political system; accumulation of human capital and good infrastructure. These initial conditions together with other government strategies were used to aid in economic development. In this sense, this paper suggests that favorable initial conditions together with proper government strategies for the economic zones will have a positive impact on a country's economic development.

1.3 Overview of the Special Economic Zones Establishment in Tanzania

The Government of Tanzania (GOT) has favorable attitude towards foreign direct investment (FDI) and has made significant efforts to encourage foreign investments. According to the United Nations Conference on Trade and Development (UNCTAD) World Investment Report

2007, Tanzania had the highest inflows of FDI in East Africa region in 2006. There are no restrictions on foreign exchange and foreign investors are not denied opportunities to invest. GOT has lent its support to an open investment regime, mobilization of private capital initiatives (PCI), and further liberalization of the financial sector in line with the World Bank's recommendations (U.S. Department of State, 2008).

The strategy to develop Economic zones was derived from the national strategy program[5] that was instituted in 2005 to reduce poverty level and help in economic growth of the country. It is through this program that the plan for the establishment of the zone in 2006 was reached whereby the first zone was launched and instituted at Mabibo External District named Benjamin William Mkapa Special Economic Zones (BWM-SEZ).

The government together with an institution dealing with investment called the Tanzania Investment Centre (TIC)[6] has promoted investment in different countries such as the United Kingdom, Australia, Germany, Indonesia, Sweden, Italy, Japan, South Korea, Malaysia, Egypt, China, and Iran. It passed a law in 2006 to establish SEZs to boost investments in the light industry, agro-processing industry, and agriculture sectors. Other institutions established to work hand in hand with the government of Tanzania in matters of investment promotions include Tanzania and Trade Development Authority (TanTrade)[7], Tanzania Trade Center-

[5] The program called "The National Strategy for the Growth of the country and Reduction of Poverty" (NSGRP) was put into force in with a vision in 2020 to attain high development as agreed in MDGs.

[6] It was established in 1997. It is the primary agency of the government to coordinate, encourage, promote and facilitate investment in Tanzania and to advise the government on investment related matters. TIC is currently the institution operating a 'one-stop shop' for all local and foreign investors so as to expedite facilitation of investment.

[7] It is a government institution established in 1978 to spearhead Tanzania's Export endeavors. It dedicates to establish global business partnership through organizing and managing international and specialized trade fairs, solo exhibitions, product and market research, prospect development, trade missions, buyers-seller meetings and

London[8] and the Export Processing Zones Authority (EPZA)[9].

The interest to establish economic zones came about after seeing the success achieved by some Asian countries and other developed nations. Tanzania aims at achieving the same but not just by merely following the same strategy but analyzing the model and deriving suitable measures to apply in its environment.

GOT thought of establishing what is called Economic Development Zones (EDZ). Here, they merge EPZs and SEZs to develop an integrated investment promotion scheme and they try to adopt the latest proven business models of economic zones which incorporate social, economic and logistic activities into one zone (Meru, 2010). These EDZs are referred to as industrial areas that tend to focus on assembly and manufacturing of intermediate imports and on producing exports aimed primarily, but not exclusively, for foreign markets.

1.4 Research Objective

Korea is one of the countries known to have achieved a rapid economic growth. It is a country that is also known to have made tremendous progress in its zones establishment. For these reasons, the paper uses the case of Korea as a model to be used by other developing countries in developing their zones. Analysis and comparison of the initial conditions for Tanzania and Korea before and during the establishment of their zones is done. The research studies and tries to see whether some lessons can be drawn from the Korean experience and

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contact marketing programs.

[8] It was established in 1989 with the goal to promote trade, tourism and investment as well as providing economic and commercial related services and information.

[9] It was established in 2006 with the objective to coordinate, facilitate and promote investments in export processing zones.

applied by Tanzania, a country that is still in the early stages of establishing and expanding its zones. The research reviews policies used to maintain the zones and also highlights the challenges encountered. By focusing on these two cases, this paper suggests ways Tanzania may adopt in order to attain successful development of its zones and thus benefit economically.

The objective of this study is to acquire the differences that arise after comparison and then recommend suitable ones to be applied by Tanzania taking other factors into consideration. The theoretical contribution to the literature of this paper lies on the initial conditions together with government strategies resulting in economic development.

1.5 Research Question

This paper focuses on the following research questions: First, what are the factors that lead to the successful development of Korean Economic Zones? What lessons can be drawn from the Korean experiences? Second, what actions can be put into account to make the economic zones of other nations like Tanzania a success?

1.6 Research Organization

The paper is organized into six chapters. The first section gives an overview of Korean and Tanzanian economic zones. Chapter Two offers an in-depth outlook of the Literature Review. History of EPZs is briefly stated in this section and key terminologies defined. Contradicting views on SEZs are also highlighted here. Chapter three discusses the methodology used in the study. Chapter Four and Chapter Five identifies lessons learned from the experiences of

Korean and Tanzanian economic zones. The paper aims at highlighting any similarities and differences from the two countries. In essence, in the last part of these two chapters, the researcher aims at highlighting the factors that help in the development of the economic zones. The last part of Chapter five shows the feasibility of implementing some policies used in Korean to develop Tanzanian EPZs. Lastly, Chapter Six concludes the whole research and offers recommendations and/or directions for future research.

2. LITERATURE REVIEW

This Chapter covers a review of literature on Special Economic Zones (SEZs) phenomena. Different theories such as modernization theory, dependency theory and world system are also discussed here. The chapter concludes by stating the importance of having favorable initial conditions and government policies for the establishment of the economic zones.

The first SEZ - Shenzhen SEZ, was officially established in China in 1980 and it was named after Shenzhen city. China reaped a lot of benefits from Shenzhen SEZ and this made her to shift from low technology to high technology. China went on to even adapt an open door policy with the aim of attracting foreign investment.

The modern phenomenon of EPZ was born in Ireland in 1959 at Shannon International Airport. The zone in Ireland was named Shannon Free Zone and it offered investors secure access to European markets, attractive tax benefits and subsidized rent and facilities (FIAS, 2008). The success of the first EPZ in Ireland during the first year after its establishment surpassed all expectations. Nearly 440 jobs were created. Ten years later, the zone employed 4,750 people, giving a new lease of life to the airport, whose staff grew from 1,250 in 1960 to 2,200 in 1975. By 1970, not more than ten countries had set up EPZs. In Asia, the first EPZ was created in Kandla, near Bombay in India. Sixteen years later, that is by 1986, EPZs were nearly 175, and they were spread across fifty countries. Since then, EPZs have spread to nearly half of the world's countries, mainly the Third World countries (Marhoz and Szymanski, 1996).

As East Asian economies began to transition from import substitution-based industrialization to Export-oriented industrialization in the early 1960's (Haggard *et al*, 1991), they also began to establish EPZ's to encourage the growth of their domestic export producing markets (Yuan and Eden, 1992). Eventually, Latin American economies also followed suit (Bennet and Sharpe, 1979) as their economies faced severe balance of payments crisis which, in some cases, also led to political crisis (Krueger, 1993). African countries are now on the road to establish EPZs and thus are considered to be among the last to move toward outward-oriented approaches.

The Newly Industrializing Economies' (NICs)[10] experience of EPZs when they were still under the process of industrialization act as a good model for developing countries like the ones in Africa. Export of their manufactured goods shot up through EPZs (Radelet, 1999). Chen (2001) and Arce-Alpizar *et al*, (2005) stated that a good example can be drawn from the Asian 'tiger economies' such as Korea, Singapore, Hong Kong, Taiwan and Malaysia during the 1970s and 1980s and in China since the early 1990s. A research conducted by The World Bank (1992) found that the most successful EPZs (where success was measured in terms of employment, occupation rates, export levels, value added, and FDI inflows) were in Asia, the Dominican Republic and Jamaica. The same research states that majority of the zones throughout the world function below expectation.

Three decades of zone development experience suggests that the failure or success of zones is linked to its policy and incentives framework, where it is located, and how it is developed and

[10] These were the four countries: Hong Kong (China), Republic of Korea, Singapore, and Taiwan Province of China.

managed (FIAS, 2008). Presence of uncompetitive policies such as reliance on tax holidays, rigid performance requirements, poor labor policies and practices tend to act as obstacles for success of the zones. General policies that are usually provided in SEZs programs include equal treatment of investors (same benefits to foreign and local investors); provision of incentives for private zones developers to facilitate private entry into zone development; relaxation of minimum export requirements in line with the WTO frameworks; and allowing zones developers and others to supply utility services (telecommunications, water/sewerage, power) to tenants of SEZ estates by treating them as indirect exporters.

This background presents a viable model of SEZs and one that Tanzania and other developing countries can use to establish their zones for fast tracking the industrial development agenda.

2.1 Classical Theories

There are a quite a number of theories that try to explain about economic development. The first of these theories that I will mention is the modernization theory. Modernization theory is a syndrome of social changes linked with industrialization. Once set in motion, it tends to penetrate all aspects of life, bringing occupational specialization, urbanization, rising educational levels, rising life expectancy, and rapid economic growth (Inglehart and Welzel, 2009).

Mouton (2001) tried to elaborate on the transformation which may take place when a traditional or pre-modern society changes to an extent that new form of technological organization or social characteristics of advanced society appears. Building upon Mouton's theory, Lawrence Harrison (1985), a modernization theorist, believed that great transformation in one society could be achieved after following the footsteps of those who become modernized.

It is observed that back in the 1960s and 1970s, political economists started to notice rapid economic development in different countries in East Asia. At that time, failure of modernization theory became more visible and the idea of dependency theory was developed at the beginning of the 1960s. The idea of dependency theory became the most popular approach to economic development studies. According to Graff and Venter (2001), underdevelopment occurs through the exploitation of third world countries by the developed world. With this fact, other scholars argued that if a poor country would want to develop rapidly and equitably, the country must be prepared to close itself off from most foreign economic influences (Chirot, 1977 and Moulder, 1977).

Peter Evans (1979) believe that poor nations are trapped in a cycle of structural dependency by the richer nations due to their need for infusion of foreign capital and access to external markets making it impossible for them to pursue their own economic and human development agendas. Nevertheless, it turns out that dependency theorists like Barrett and Whyte (1982) were wrong. Since not all developing countries remained poor as a result of dependency. Countries such as Korea, Singapore, Hong Kong, and Taiwan are recorded historically to have had large rates of dependency on foreign aid, foreign trade and interdependence with transnational corporations but still experienced high economic development.

Current studies on development strategies have been developed looking at various approaches governments of different countries pursue in order to boost their economies. In the 1970s, most researchers conducted studies on different approaches toward accelerating economic development such as Import-substitution Industrialization (ISI) and Export-oriented Industrialization (EOI) and the sequence of policies over time that allowed these countries of East Asia to grow while countries in Latin America and Africa were not growing. What these scholars discovered was that countries in East Asia used a different type of development strategy and that is why they were successful, while countries, like those in Latin America, were not successful because they used a different strategy, and that is why they failed (Dargin, 2010).

East Asia governments pursued policies such as export-oriented industrialization (EOI) strategy to attract FDI. They also utilized the labor surplus available through the establishment of the EPZ to help them realize industrialization (Lee, 2003). EOI is believed to contribute to better performance than import-substituting industrialization (ISI) (Balassa, 1978). Korea started using the EOI strategy for developing its industrial sectors in the 1970s. The aim at this time was to reconstruct its country which had suffered a big blow due to the cold war and the Korean War (1950s). Many foreign countries such as the U.S, Japan, and some European countries developed interest to invest in Korea then. Additionally, Korea, together with other East Asian countries such as Japan and Taiwan, had strong and consistent commitments to industrialization whereby each of them formed cooperative government-business relationships and pushed forward economic development by using selective industrial policies (Whittaker *et al.*, 2007).

In the midst of devising ways to boost their economies, these East Asian countries, led by Taiwan, thought of establishing economic zones as a strategy to boost their economies. Their success made other developing countries follow suit with the hope of also boosting their economies and generating export activities. This led to a more intense study of SEZs; how they fit into the overall strategy for economic development that these East Asian countries pursued.

2.2 Positive Views Regarding the Establishment of SEZ

Development of Economic zones has become a popular trend in many countries. Haywood (2000) in his paper stated that "Indeed, the zones concept is so powerful, that more and more countries are recognizing a new paradigm of Free zones." Likewise, other authors see EPZs as a source of increasing export activities (Rhee and Belot, 1990)[11].

According to the neoclassical theory in statistical perspective, SEZs are distortionary trade instruments which distort trade patterns, promote unfair competition between domestic and SEZ firms, drain government revenue, and, if the rest of the economy is not liberalized they remain production enclaves with little economic contribution. It is argued that SEZs are useful only when the government uses them as a vehicle to further economy wide reforms. Their role should therefore be transitory, facilitating the transition of an economy from import substituting regime to free trade regime with minimal government intervention (Madani, 1999).

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[11] In their research, they found that with the entry of several foreign firms that may come as the result of creation or presence of EPZ, it may improve industrial sectors.

Many countries looked at the paradigm of economic zones as a way of generating economic growth in a country, whereby they thought of different measures and approaches of attaining economic development and raising their country's economy. From the Asian countries' experience, establishment of the zones was mostly used to generate export-oriented industrialization, to provide market opportunities for domestic products and to increase the flow of foreign investment into the country.

Generally, SEZs promote quick economic growth (Halim, 2008). Key indicators of economic growth are; increased flow of FDI, growth in export-oriented production, and growth in GDP. Countries like China, Korea, Indonesia, and Singapore showed a rapid growth of GDP after the establishment of the zones. They are designed to be mutually beneficial agreements in which the host country gains increase in employment rate, exports, and an increase in demand for locally procured inputs. SEZs also enable investing firms to gain access to relatively cheap inputs especially labor and other economic incentives (Curran *et al,* 2009).

Spinanger (1984) who also studied a number of cases in Asia, including Masan EPZ analyzed and identified the benefits that arise out of the establishment of the zones. He stated that the zones bring two forms of benefits; static and dynamic benefits. By static, SEZs benefits are achieved through economies of scale, government services, improved infrastructure, employment generation and flow of foreign exchange. Dynamic benefits occur through encouragement of important conditions that accelerates industrialization by way of linkages such as technological transfer and skills.

Chaudhuri (1994) stated in his studies that the most successful countries in employment generation from SEZs were found in Asia, Korea being one of them. China, Vietnam, Bangladesh, and Sri Lanka also emerge as successful demonstrators of SEZs effects on employment. Countries from Africa include Madagascar, Tunisia, and Egypt (Aggarwal, 2007).

Additionally, for successful performance of SEZs, there should be emphasis on several factors such as investment climate, wages, incentives, locations, managements and market access. For example, investment climate tends to describe risks, opportunities, and transaction costs involved in investing in and operating a business and they tend to determine export outcomes both indirectly through FDI impacts and directly through the way they shape opportunities and constraints of domestic producers (Falore, 2010).

There are number of factors that lead to the success of SEZs such as good location, agglomeration in form of linkages with domestic economy, government and institutional support, and factors of production (Dhingra and *et al*, 2002). A study on the potential determinants of SEZs revealed geographical location as the most important factor (Chen, 1996; Barrel and Pain, 1999; Cheng and Kwan, 2000).

According to the Confederation of Indian Industry, SEZs' ability to attract investment and promote export competitiveness is directly related to location of the zone, surrounding infrastructure, quality of governance towards and within the zone, and incentives packages offered by government. Zones located near urban centers provide foreign companies with labor inputs, better utilities, and allow for more spillovers into the domestic economy (Shah, 2008) and Aggarwal (2004).

It is further affirmed that for SEZs to be very beneficial to various aspects of human development, it would be important to create linkages between the domestic economy and the zones. Efforts should be made to ensure such linkages are acquired even with outside links (Singh, 2011).

2.3 Negative Views Regarding Establishment of SEZ

In spite of the advocates of SEZs alleging that the zones act as engines of growth and motivate industrialization and economic development as a whole, experiences drawn from Asian countries are not uniform enough to come to this general conclusion. The literature review reveals that some countries benefit from these zones and other do not (Halim, 2008). SEZs play only a limited role in national economic development because they have only limited linkages with the domestic economy and limited technology transfer (Kreye, 1987).

Additionally, other authors argue that the distribution of SEZs is highly uneven across the economic sectors leading to inconsistent growth of economic activities in the host country. Again, these SEZs are based on free market, liberalization policies, and privatization. Therefore, since foreign investment in these zones depends largely on global market demands and the world economy which tend to be volatile, these SEZs can be unsustainable (Halim, 2008).

A number of factors are considered to contribute to the failure of the EPZs development. These include excessive bureaucracy involving different institutions in the country, inadequate competitiveness, poor reputation of the local workforce, unnecessary long delays in attaining permit and rigid and constraining labor regulations (Centre Français du Commerce Extérieur 2001).

In a research conducted by World Bank, 6 African countries were compared with 4 Asian countries in terms of their SEZs performance. The measure of success in terms of static outcome (generating employment, foreign investment, and export) was analyzed where it was found that African zones showed low level of investment and exports, and their employment creation was limited (Farole, 2011). In terms of dynamic outcome (technology transfer and integration with domestic economy), none of the African countries showed positive signs for the same.

Firms that want to enter foreign countries ought to undergo the process of learning. For a firm to stay competitive, it has to invest in skill development and technology (Lall, 1998). This shows that huge capital is involved to establish the economic zones. Acemoglu, *et al.* (2002) pointed out that two types of learning are relevant for economic growth: (a) adaptation of existing technologies; and (b) innovation to create new technologies. In the early stages of development process, the kind of learning that matters most is adaptation of existing technologies. This type of learning is costly.

Again, SEZs play a big role of laying the foundation for trade, research and development, and social economic growth. The zones form test fields by opening an economy and using ways of integrating into the world economy. If there is no serious investment and subsequent efforts by the government to have them advance, they are doomed to fail (Madani, 1999).

Other previous researches hold that, SEZs hinder economic growth in the country. A country should collecting tax revenue for infrastructure and the like. Economic zones deprive the country an opportunity to acquire revenue as most countries exempt the foreign investors from paying tax in a bid to attract FDI (Fujita *et al*. 1999). In addition, other drawbacks may come about as a result of SEZs such as environmental degradation, revenue loss, and land acquisition. For instance, as was evident in India, an argument was put forward against SEZs stating that they may lead to large-scale land acquisition by developers and this in turn displaces farmers who end up having no alternative place to farm (Ramachandraiah, 2011).

The extent of spillovers depends on the technology gap between local and foreign firms. Spillovers can possibly occur where domestic firms have a level of technology similar to that of the Multinational Enterprises (MNEs) and where market conditions encourage competition. But these conditions are not often met by many SEZs/EPZs in developing countries (Kokko, 1992)

2.4 Summary

SEZs promote and offer potential advantages to countries through domestic and foreign direct investment. A broad number of literatures have been written on FDI's role in transferring knowledge and technology in different sectors but now SEZs which have emerged help accelerate and contribute transfusion and diffusion of technology and knowledge to domestic industries. This paper seeks to highlight the factors that contribute to successful development of the zones. The paper tries to observe whether these factors were applied in the case of Korea and if necessary encourage Tanzania and other developing countries to utilize them.

SEZs contribution to a host country if not favored by the initial conditions may not bring much profit. Their impact increase when good government policies are in place with favorable initial conditions. Previous literature on SEZs failed to draw a clear connection between initial conditions, development strategies, and (positive or negative) economic outcomes. This paper aims at filling in this gap. The paper also attempts to offer a theoretical template from which to draw tentative conclusions about what works and what does not. This shows my theoretical contribution to the literature on establishment of SEZs as the key to generating economic development.

Most developing countries that are on the run to establish SEZs, strive to have in place some favorable conditions such as good environmental incentives; quality infrastructure around the zones both soft (e.g. schools, health services) and hard (roads, water); quality governance of the zones; stable and low cost electricity and abundant land for SEZs developments (Shah, 2008). These countries, examples being India and Laos, have the knowledge that, the presence of favorable initial conditions increase the chances of foreign investors coming to invest in the SEZs and this will have a positive impact on the country’s economy.

A research conducted by World Bank on South Asia's SEZs, highlighted the importance of zones' location to its economic success and ability to generate linkages in the form of employment generation (Shah, 2008). In one of the zones established in Bangladesh; there were some constraints such as poor geographical location and poor infrastructure, which made the zone not to achieve economic success. Sri Lanka as an island nation has numerous advantages. These advantages include attractive sea lanes, trade routes and large markets for India, East Asia, East Africa and the Middle East. The country can export goods to a diverse range of markets surrounding it. Favorable initial conditions and good government policies will probably bring about success.

3. RESEARCH DESIGN AND METHOD

3.1 Introduction

This chapter describes the research design and method. Methodology refers to the framework for doing research within which data collection occurs, while a research method is a means of collecting data (Yin 1994). For this case, qualitative research was employed. It is seen as the best method for the study's purposes, whereas interviewing and document review are the most realistic and viable methods for the study's data collection. This chapter is divided into the following parts: 1) qualitative research design; 2) time frame and method of data evaluation; 3) data collection; 4) validity and reliability; and 5) summary of research methodology.

One of the approaches often used in qualitative research is case study method (Yin, 1989). Case studies are widely used in organizational studies such as social sciences, industrial relations, economic development and anthropology (Hartley 1994). Such studies consist of detailed investigation of one or more organizations, or groups within organizations providing an analysis of the context and processes involved in the phenomenon under study.

Case studies have become a common research strategy and its scope of methodology in different papers has been limited to provide readers a detailed and comprehensive view of the decisions taken in particular studies. But on the other hand, studies from Yin 1989; Hartley 1994; and Stake 1984 have been positive about this methodology. The strength of this method is that it tackles contemporary phenomena in real-life contexts; hence, I believe that this method together with the quantitative method will provide an ample synopsis of this case study.

To address the objective of this research, the researcher uses a case study research strategy that supports the exploratory and descriptive nature of the research. This chapter discusses the overall study design and the study's data collection and data analysis activities used to collect sufficient data to answer the research questions. The chapter further highlights the method used for analyzing the data and limitations faced by the researcher.

3.2 Qualitative Research Design (Method)

3.2.1 Case Study

Case studies are tailor-made for exploring new processes or behaviors or ones that are little understood (Hartley 1994). The approach is usually constructed to respond to '*how'* and '*why'* questions about a contemporary set of events (Leonard-Barton 1990). Many researchers have stated that there are some types of information that are hard to collect or glean by other means other than through employing a qualitative approach for example, case studies (Sykes 1990).

The studies that are used in this research show how a country was able to achieve success in the development of the zones, identifying the factors to the success and what incentives, if any, were used to attract foreign firms in the zones. Again, it shows the economic performance of the zones in terms of trade, production and employment.

3.2.2 Qualitative Design

Qualitative research design is the best approach used for exploratory or descriptive research that tries to uncover what lies deeply in the complexity and process of any little-known phenomenon by conveying the interaction of context, setting, and the participants' frames of reference (Marshall and Rossman, 1999). The focus of the research is to analyze the strategies, factors and economic policies used to achieve success of the zones and actions to be taken. The research uses the Korean experience because it showed a rapid successful achievement in the establishment of the economic zones. Korean situation in the early 70s can be likened to the situation of many developing countries presently thus its experience can act as a good model.

Additionally, the qualitative research allows the researcher to examine a phenomenon in which a large number of relevant variables have yet to be identified. This study serves as one of the first academic attempts to analyze different experiences of establishing of the economic zones in Korea and checking what lessons would be applied in the other developing countries like Tanzania. This research also employed quantitative research method. Data on the amount of FDI inflows, the number of foreign companies in the zones and amount of employment generated as a result of establishment of the economic zones was collected and analyzed.

3.3 Time Frame and Method of Data Evaluation

The goal of the used case studies and interviews was to assess and analyze the period between the establishments of the zones, that is from 1970 to 2011 in the case of the Masan FTZ, and from 2006 to 2011 in the case of the Tanzania SEZ; Benjamin William Mkapa Special Economic Zones (BWM-SEZ). The research aimed at collecting information about the strategies used and the factors and/or policies employed to achieve success; and last but not least identifying the initial conditions before and after the establishment of the zones.

The information was evaluated by interpretational analysis, which has been defined as "…a process of closer examination of case studies data in order to find constructs, themes, and patterns" (Winegardner, 2004). Data was collected and analyzed using Excel tables and Word documents.

Yin (1989) and Stake (1994) suggest the importance of setting the boundaries of a case or what is to be considered part of the case. Yin suggested in one example that specific time boundaries need to define the beginning and the end of the case. Whereas Stake claimed that binding a case study is part of conceptualizing the object of study.

3.4 Data Collection

The study involves semi-structured interviews with responsible people in the sector of EPZs and/or FEZs in Korea and Tanzania. The source of data is mainly secondary and it includes books and journals, official organization websites, internet sources, and the semi-structured interviews in SEZs.

Semi-structured and in-depth interviews as observed by McMillan and Schumacher (2001) were applied for the collection of qualitative data from EPZs officials both in Korea and Tanzania. Hence, information about the SEZs establishment, success and failure (if any) encountered, number of firms, and employees available since the establishment, FDI acquired from SEZs establishment and the number of exports acquired was acquired.

The interview was preferably conducted with the goal to ensure a wide understanding on how the zones were established and maintained to achieve a successful economic performance. Information from the conducted interviews sheds additional highlights on answers derived from the first research question. The type of interview used was semi-structured. Patton (1990) characterizes such interviews as a 'general interview guide approach" in contrast with the "informal conversational interview" and the "standardized open-ended interview."

A series of interview guides that summarize a set of questions and issues was developed by the researcher. While the topic of development of zones was discussed commonly in all interviews, the researcher framed specific general questions appropriate to obtain information. "Thus the interviewer remains free to build a conversational style but with the focus on a particular subject that has been predetermined" (Patton, 1990).

The interviews were conducted on October, 2011 with one of the members in FEZs in Korea (Busan-Jinhae FEZ), Ms. Hye-Kyeong Park who is a Project Manager in Tourism and Leisure Department in the Zone, Korea and Mr. Lameck Borega who is Investor Facilitation Officer in EPZA, together with Mr. Lamau Mpolo who is an Investor Facilitation Manager, the latter two officials are both from Tanzania. The interviews were well conducted, recorded into writing and transcribed into Microsoft word. During the interview, some semi-structured questions were posed to the interviewees to obtain information regarding the strategies, policies, and challenges faced in the establishment of the economic zones.

From the interview, it appeared that the most basic factor that it is required before establishment of the zones is a suitable geographical location where the zones will be established. For instance, a place where there are many complex industries and where foreign investors will benefits from various sources through the companies already established in the location. The personnel from both case studies attest to the fact that presence of good initial conditions together with government policy lead to not only success and good performance of the zones but also to the economic growth of the country.

Talking about the challenges they face, Tanzanian personnel stated that one of the major challenges the country faces is poor infrastructure whereas his Korean counterpart mentioned lack of land as a major barrier. "Using artificial land to construct the zones is a costly venture", she said.

Information regarding SEZs and EPZs were collected also through books and journal articles published by different researchers and academicians. The information collected from these sources is safe to a certain extent as they are published only after a peer-review process (Sapsford and Jupp, 2006). To mention a few, there are several books referred to such as 'Special Economic zones in Africa: Comparing Performance and Learning from Global Experience' by Farole Thomas and 'Case Study Research' by Robert Yin. In terms of journal, there are a few to mention '*Objectives and Impact of Economic Activity Zones: Some Evidence from Korea'* Journal of Review of World Politics, by Dean Spinanger; '*The Role of Export Processing Zones for Host Countries and Multinational: A Mutually Beneficial Relationship?*' International Trade Journal by McIntyre *et al.*; *'Export and Economic Growth:*

Further Evidence' Journal of Development Economics by Bela Balassa and '*Korean's Economic Development: Lessons and Suggestions for Developing Countries'* Korean Social Science Journal by Ilho Yoo.

In research, apart from books and journals, the web grants access to a wide range of other publications that could be difficult to obtain. For instance, government sites consist of large amounts of information and articles on a wide range of topics such as local and national research reports, legislation, policy documents, official documents, and published administrative statistics (Sapsford and Jupp, 2006). Newspaper articles, reports, and other media reports were accessed through www.ippmedia.com.

Some of the websites used include[12]:

Ministry of Strategy and Finance	http://english.mosf.go.kr
Ministry of Foreign Affairs and Trade	http://www.mofat.go.kr
Ministry of Knowledge Economy	http://www.mke.go.kr
Masan Free Trade Zones (MFTZ)	http://www.ftz.go.kr
The United Republic of Tanzania Export Processing Zones Authority	http://www.epza.co.tz

There are various international organizations that are concerned with the development of SEZs such as World Economic Processing Zones Association (WEPZA), World Trade Organization, International Monetary Fund, World Bank Group, International Trade Centre

[12] List of some of the website used during research.

and UNCTAD. Many projects and research have been conducted by these organizations such as one titled "Special Economic Zones in Africa' by Thomas Farole which was conducted by the World Bank in 2010. He carried out research on the African context to analyze what are the possible factors that could lead to the successful performance of the zones.

The World Bank collaborates with different governments to establish zones by supporting and granting funds.[13] I also relied upon various information regarding economic zones for my research from the international organizations.

3.5 Validity and Reliability

Data collected was interpreted according to the research questions and literature reviews. The reliability, validity, and generalizability of the findings were determined. Qualitative reliability indicates that the researcher's approach is consistent across different research and different projects and qualitative validity means that the researcher checks for the accuracy of the findings by employing certain procedures (Gibbs, 2007). Validity is one of the strength of qualitative research, and it is based on determining whether the findings are accurate from the standpoint of the researcher, the participant, or the reader (Creswell and Miller, 2000).

The information obtained from interviews was supported by other secondary sources of data, that is, through journals, the internet, and books. In addition, the quantitative method was used to support the information gathered. Seale (1999) named this technique as triangulation, meaning that weaknesses arising in obtaining information from one interview can be

[13] Evidence was seen from Bangladesh where by its Investment Climate Advisory Services collaborated with the World Bank towards establishing a modern and competitive economic zone regime.

supplemented by a second source or third strong source. This would mean getting other information from more than one single source of information. Researchers such as Seale (1999) and others like McMillan and Schumacher (2006) agreed that triangulation is typically a strategy for improving the validity and reliability of research or evaluation of findings.

3.6 Summary of Research Method

This chapter detailed the method used for the research. Methodologically, the researcher depended on the documented evidence (secondary data) as the primary source of data for obtaining findings and conclusions. The method was used to trace the historical background from the establishment of the zone and observe what strategies were used for establishment to attain successful performance of the zone. Analysis is then done on the possible factors that may be applicable to the Tanzanian case and any other developing countries wishing to regard the Korean case as a model.

In summary, usage of both qualitative and quantitative research methods corresponded well with the interdisciplinary nature of the research title and usage of information collected from different sources, like in the organizations about the Masan FTZ and Busan-Jinhae FEZ. The following chapters highlight explicitly the historical framework of establishment of the zones in each case study; the success and/or failure, if any, after establishment of the zones and the findings derived from the Korean experience in establishment of the zones. The paper then ends by giving an analysis of what can be applicable in Tanzania for successful achievement and performance of its SEZs.

4. CASE STUDY: KOREA

4.1 KOREAN EXPERIENCE AND POLICIES USED IN SPECIAL ECONOMIC **ZONES**

4.1.1 Historical Background of the Zone Establishment 1970-2011

During the late 1960s, Korea developed an interest in establishing EPZs with the aim to attract as much foreign capital and technology as possible. It started to establish good infrastructure and came up with policies for economic development of the country. These engendered benefits to the country via the supply of foreign exchange, remuneration of factors of production and important impulses for the industrialization process (Spinanger, 1984).

Many developing countries, since the 1960s, more specifically Korea, started implementing export-oriented growth strategies, that is, customs-free manufacturing, to promote industrialization. Initially, the country was agricultural based and later on, the government decided to adopt the EOI strategy to promote industrialization in the country. It is from that point on that the establishment of EPZs was thought as an instrument towards attracting FDI, accelerating export activities, and improving the industrial sector. The EPZs strategy offered a variety of advantages including a gateway to the international community and lower operational costs.

A number of government institutions worked hand in hand with the government towards promoting and increasing export activities and as search helping the country to transform into an industrialized economic hub. These institutions helped towards representing the country's interest internationally, supported the country's business community through research, training and networking. Their major role was to develop domestic markets, help to open doors for Korean markets and foreign companies, assist exporters with marketing activities and attract foreign investment to Korea. These institutions were such as Korea Trade-Investment Promotion Agency (KOTRA) and Korea International Trade Association (KITA).

With the aim of expanding and improving export activities, Masan city was chosen to be the city where the first economic zone would be situated and it was named Masan EPZ, but currently, it is known as Masan Free Trade Zone (FTZ). The decision to establish the zones came after the Economic Planning Board in January, 1969 announced its aim of attracting foreign investment in labor-intensive, high value added manufacturing activities. With this, it aimed to expand employment, promote foreign exchange earnings through exports, and improve technological knowledge among local firms through technology transfer. The idea to establish the zones was also triggered by the success of the free trade zones conditions existing at that time in Hong Kong and Singapore. Many Asian countries experience rapid and sustained growth towards development of such zones. But the zones in Korea were restructured in 2000 and considered to be a runaway success.[14]

A number of incentives were structured to entice businesses to engage in export activities. Special funds were made available to enable small firms enter into international business so that they could acquire a wide range of techniques and share information and experiences through giving lots of tax benefits to the foreign firms that were coming to invest in the

[14] In 2007, FDI capital in the zone was US$128 million out of a total investment of US$217 million. Employment stood at 7,500 and exports at US$3.2 billion, with export value per worker nearly US$500,000. The zone contributed 10 percent of the country's trade surplus, and zone enterprises purchased US$1.6 billion from the national economy.

country. From a historical perspective, in 1964, there was 80% reduction of tax on exports. Then later on, by 1982, tax benefits were offered to function-oriented sectors that dealt with research and development (R&D) and this went up until 2005 (Mah, 2010).

Regarding the EPZs that were established towards the end of the 1970s in Asia, only a few matured after passing through a formative period. Among the successful ones were South Korea and Taiwan EPZs, which were established in the mid-1960s and early 1970s. By 1975, there were about 105 firms in which 75 were Japanese-owned, 22 were Japanese-Korean joint ventures, 6 U.S-Korean joint ventures and one firm each from Italy and West Germany (Takeo, 1977). This helped several domestic firms to raise their share of investment through foreign firms that were present in this zone. Again, tracing the origin between Masan and Iri[15] EPZs, Masan EPZs were predominantly suited for its establishment due to the geographical proximity.

From 1974 to 1979, exports from Masan EPZs represented 4% of South Korea's total export (Xei, 2000). However between 1973 and the early 1980s, the contribution of these zones in terms of export and industrial outputs appeared far less impressive due to the oil crisis that occurred in 1973. By 1985, manufactured goods exports from the SEZs amounted to only 2.9% of the country's total manufacturing exports (Johansson and Nikson, 1997) Then, the president strongly supported the EOI to be applied to the economy and rescue the economy from the crisis.

The foreign investment in Masan as a share of the total foreign investment declined from

[15] It was also among the first EPZ that were established, but regarding the original historical background, more than a half of the enterprises in the zone were locally owned.

22.3% in 1972-1976 to 3.2% in 1977-1981 (calculated from KOTRA, 1990). Moreover since its establishment until the 1990s, more than 80% of the enterprises present in Masan were wholly foreign-owned. 76% of total investment in Masan was of Japanese origin while 16.2% accounted for local investors (Oh, 1993). This event occurred following the lead of U.S firms, where the Japanese firms [Sanyo (1970) and NEC (1970)] entered a joint venture with Korean firms. Since the beginning of the 1970s, many Japanese firms producing parts had established subsidiaries in the Masan Export Processing Zones (MEPZs) (Wang, 2002).

Additionally from the historical perspective, Korea followed the steps of Japan in the utilization of industrial policies. Policy instruments were similar to those used in Japan. It is seen that after the colonization of Korea by Japan, Japan drove a modern blend of industrial capitalism into a feudal agrarian society. It built an extensive infrastructure of roads, railroads, ports, electrical power and government buildings that facilitated the modernization of Korea's economy (U.S Library of Congress). This is just one of the initial conditions that were present during the time of transforming Korea into an industrialized country. Another one was the influence of the U.S who opened their market for Korea and gave lots of aid since at that time Korea was still recovering and reconstructing its economy from the Korean War in the 1950s. The government of Korea also played a big role by making use of some policy instruments to enforce particular industrial estate development within the zones.

One point to be noted is that, in the whole process of establishing these EPZs in the country, Korea went through three stages of evolution, such as in the first stage in 1970, FEZ of EPZ variety were established; in 2000, duty free zones of FTZs variety and the last stage in 2003, FEZ of comprehensive SEZ variety were established in which momentarily, all varieties of SEZ operate (Aggarwal, 2009). Table 1 below shows kinds of incentives that the MFTZs offered as incentives.

Table 1: Incentives Applied in MFTZ

1) Free rent to factory sites and standard factory building which provides industry support service more than USD 1 million
2) Extended tax reductions and exemptions such as income tax, corporate tax, acquisition tax and registration tax
3) Extended tax free status on the imported materials in cases for construction, facility maintenance, and raw materials
4) Extended value added tax and one-stop service system
5) Foreign investors were allowed to work outside of the FTZ
6) Foreign investors allowed carrying products, machinery, and equipment outside the FTZ

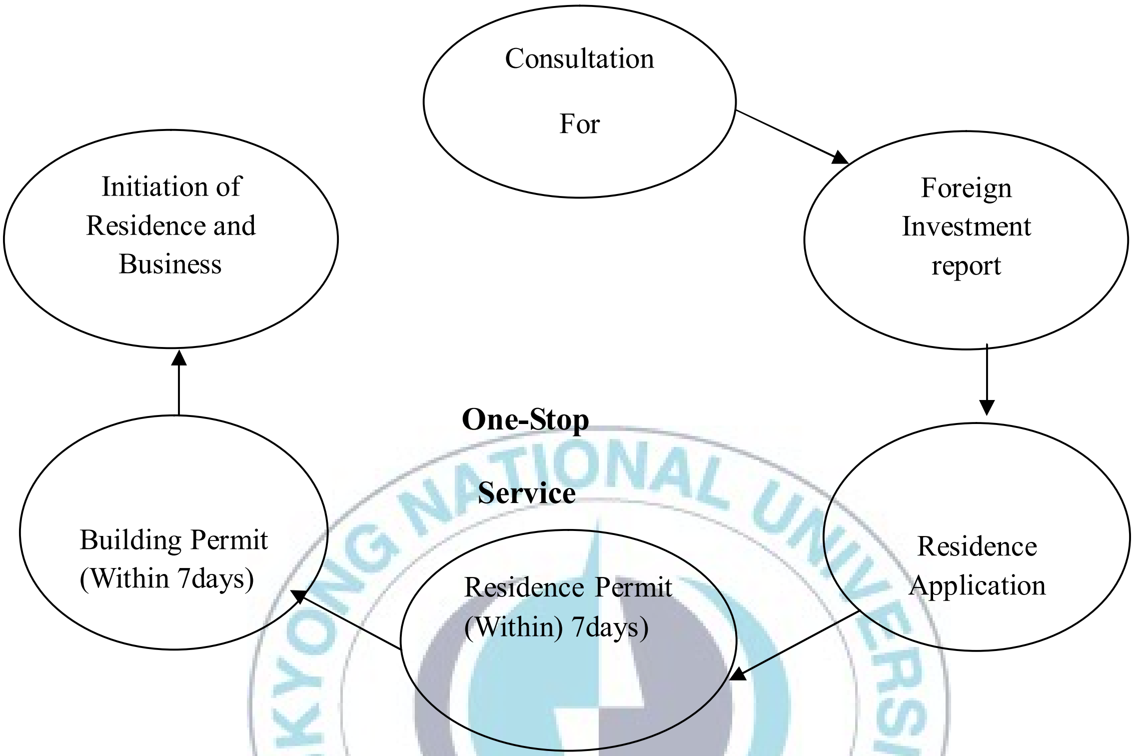
Source: Author

4.2 Statistical Analysis on the Development of the Zones

Since the establishment of the zone, there have been a number of achievements and successes. Domestic and foreign investment has accelerated employment and boosted the export activities in the zones. There have been different kinds of projects that have been conducted, such as a regional structure advancement project of 2009 that was made with the aim of greatly improving corporate productivity and imports and exports, and contributing to resident firms' successful businesses.

One of the things that Korea had established within the zone that enabled achievement of good performance and success was the presence of one-stop service. The one-stop service provided assistance to foreign investors in the economic zones. The figure below shows some of the one-stop service's function.

Figure 1: One-Stop Service Diagram



Source: Author

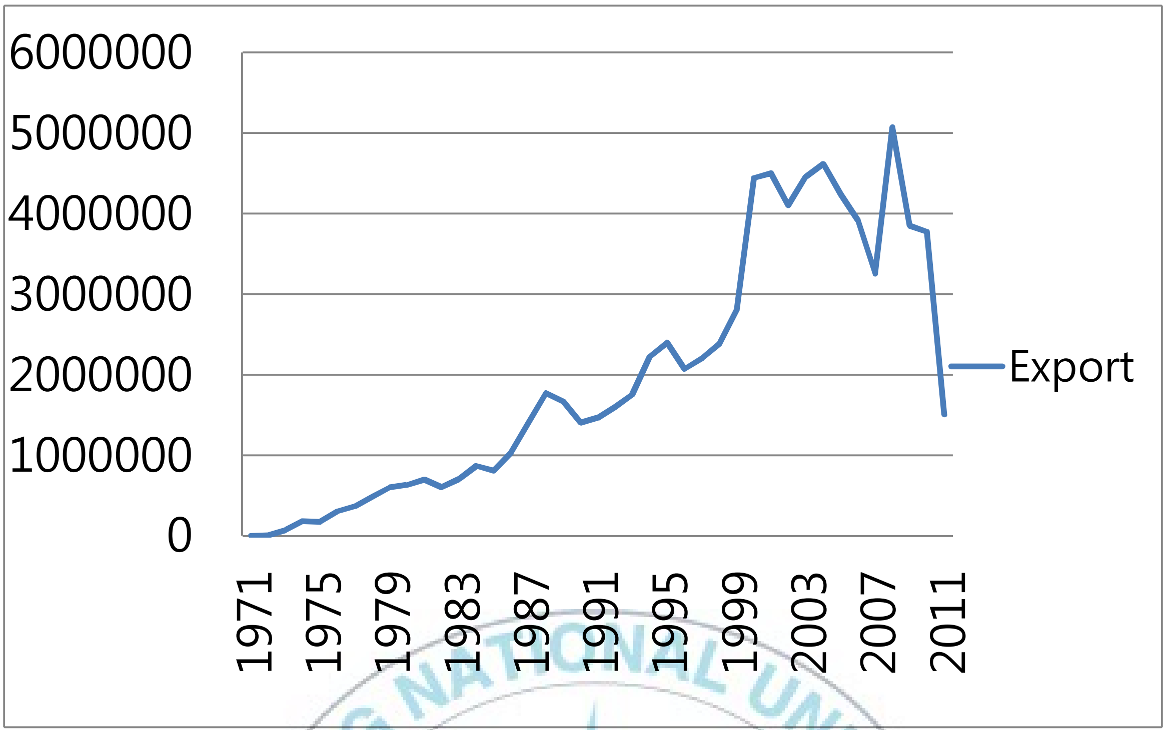
The MFTZ offers such one-stop administrative service and incentives so that resident companies can start their business inexpensively and fast as possible. Those services offer such things as affordable rent of plant/ground, rent exemption for foreign-invested companies, and tax benefits for foreign-invested companies. Additionally, the one-stop service offers VAT exemption, withhold of taxation for imports, permission of offshore business, and exemption of the resident allotment.

The following table shows the investment, employment trend, and number of companies that have been established in the Masan EPZs since 1970 to 2011. From the onset of establishment until now, there has been establishment of high-tech industrial complex where multinational companies including Nokia and Sony, as well as over 90 domestic and foreign firms, are in the MFTZ. About 50 foreign-invested companies of the Netherlands, Japan, Finland, Singapore and many more are residents in the zones. There are approximately 90 domestic manufacturing companies while about 70 firms support their export, logistics, customs clearance, and financial activities.

Again, the current MTFZ manufacturers who are present in the zones make no less than 200 products including semiconductors, digital cameras, cellular phones, AV devices, and auto parts. Electronic and electric products account for 95% of the total exports. (Masan Free Trade Zones, www.mftz.mke.go.kr)

Additionally, in terms of investment, the current total investment amounts to approximately 230 million USD. A great number of foreign companies, such as U.S, Japan, Finland, and the Netherlands about 150 million USD (65%) while about 80 million USD has been invested by South Korean natives (Masan Free Trade Zones, www.mftz.mke.go.kr). The annual exports, starting from 1972, were from 10 million USD and had increased to 1billion in 1986, 2.8 billion USD in 1999, and more than 4 billion USD since 2000.The following table 2 shows the trend of exports from 1971 to 2010.

Table 2: Amount (in USD) exported from MFTZ, 1971 to 2011



Source: Masan Free Trade Zone[16]

MFTZ was able to generate employment; it approximately reached the rate of 7,500 employees by 2011. 7,000 of them are skilled manufacturing workers and the rest are professionals in logistics, custom clearance, and financial services. (Masan Free Trade Zones, www.mftz.mke.go.kr) Not only were jobs created, but also there were changes in the work environment and opportunities for the training of workers after the zones were established. The labor force in the zone reached its highest level in 1987 when the number reached 36, 411. In 1990 and 1991, the number dropped to 19,616 due to the adverse economic conditions on both the domestic and international levels at that time. Factory automation was another factor that contributed towards the decline in the number of employment (Oh, 1993). The following table 3 shows basic information obtained from Masan Free Trade Zone.

[16] http://www.ftz.go.kr/kor/Morgue/Total/totalYear.jsp

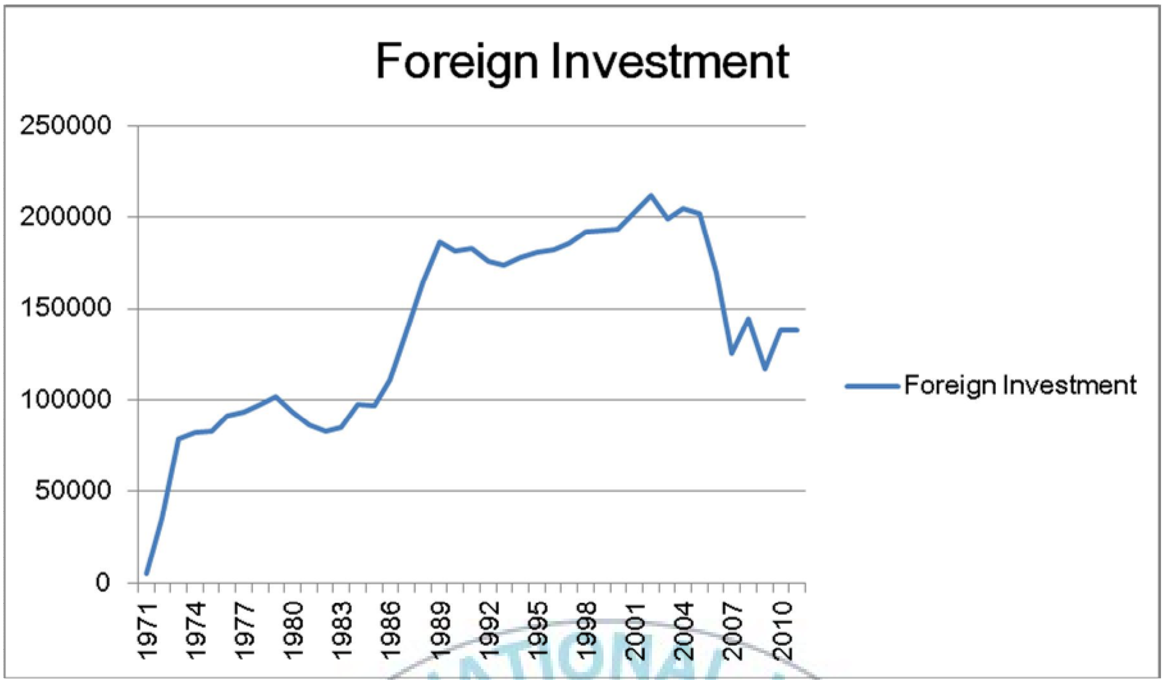
Table 3: Extract from Masan Free Trade, 1971 to 2011

YEAR	INVESTMENT (1000 US)				EXPORT (1000US$)	EMPLOYMENT (No.)	NUMBER OF COMPANIES
	DOMESTIC INVESTMENT	FOREIGN INVESTMENT (%)		TOTAL			
1971	383	4869	93	5252	857	383	22
1972	1,1977	34,918	95	36,895	9,739	7,106	70
1973	4,048	78,784	95	82,832	70,374	7,106	115
1974	6,731	82,172	92	88,903	181,547	20,822	110
1975	6,185	82,810	93	88,995	174,803	22,586	105
1976	6,626	91,413	93	98,039	303,001	29,953	99
1977	10,454	93,472	90	103, 926	367,918	30,719	99
1978	14,582	97,366	87	111,948	484,789	30,960	97
1979	13,026	101,570	88	115,008	600,558	31,153	94
1980	19,748	93,136	83	112,884	628,100	28,532	88
1981	31,095	86,140	73	117,236	696,341	28,016	89
1982	33,332	82,889	71	116,221	601,342	26,012	83
1983	33,368	84,812	72	118,180	706,537	30,989	83
1984	30,504	97,667	76	128,171	878,601	33,858	79
1985	29,453	96,739	77	125,892	809,319	28,983	79
1986	28,134	111,032	80	139,166	1,033,397	34,883	76
1987	26,318	137,336	84	163,655	1,399,485	36,411	75
1988	31,959	164,551	84	196,510	1,769,203	32,990	75
1989	31,828	186,177	85	218,005	1,666,689	23,076	70
1990	34,464	181,353	84	215,817	1,405,374	19,616	72
1991	35,147	182,812	84	217,959	1,463,388	19,616	71
1992	32,494	176,149	84	208,643	1,600,143	16,216	68
1993	33,302	173,820	84	207,123	1,754,193	15,397	71
1994	50,934	178,210	78	229,144	2,220,905	16,137	76
1995	54,270	181,035	77	235,306	2,400,929	14,736	73
1996	57,522	182,502	76	240,023	2,068,784	12,492	74
1997	57,019	181,495	77	242,514	2,201,332	14,682	75
1998	57,273	191,949	77	249,222	2,378,100	13,049	78
1999	56,359	192,598	77	240,957	2,799,021	12,850	77
2000	57,683	193,676	77	251,359	4,442,141	14,415	78
2001	55,255	202,390	79	257,645	4,503,445	11,995	77
2002	59,125	211,398	78	270,523	4,101,891	12,011	79
2003	60,320	199,253	77	259,573	4,459,881	11,306	78
2004	58,892	205,027	78	263,919	4,617,777	9,021	76
2005	76,531	201,800	73	278,331	4,241,018	8,665	74
2006	74,286	169,939	70	244,225	3,914,166	7,298	79
2007	88,585	125,471	59	214,056	3,256,000	7,046	88
2008	83,718	144,317	63	228,035	5,072,176	5,936	94
2009	78,858	116,850	60	195,708	3,850,454	8,200	95
2010	77,,378	137,897	64	215,275	3,774,318	8,085	94
2011.03	76,822	137,839	64	214,661	1,006,132	7,682	94

Source: Administration Agency of Masan Free Trade Zone[17]

Table 4: MFTZ Foreign Investment from 1971 to 2011

[17] http://www.ftz.go.kr/Morgue/Total/totalYear.jsp



Source: Administration Agency of Masan Free Trade Zone[18]

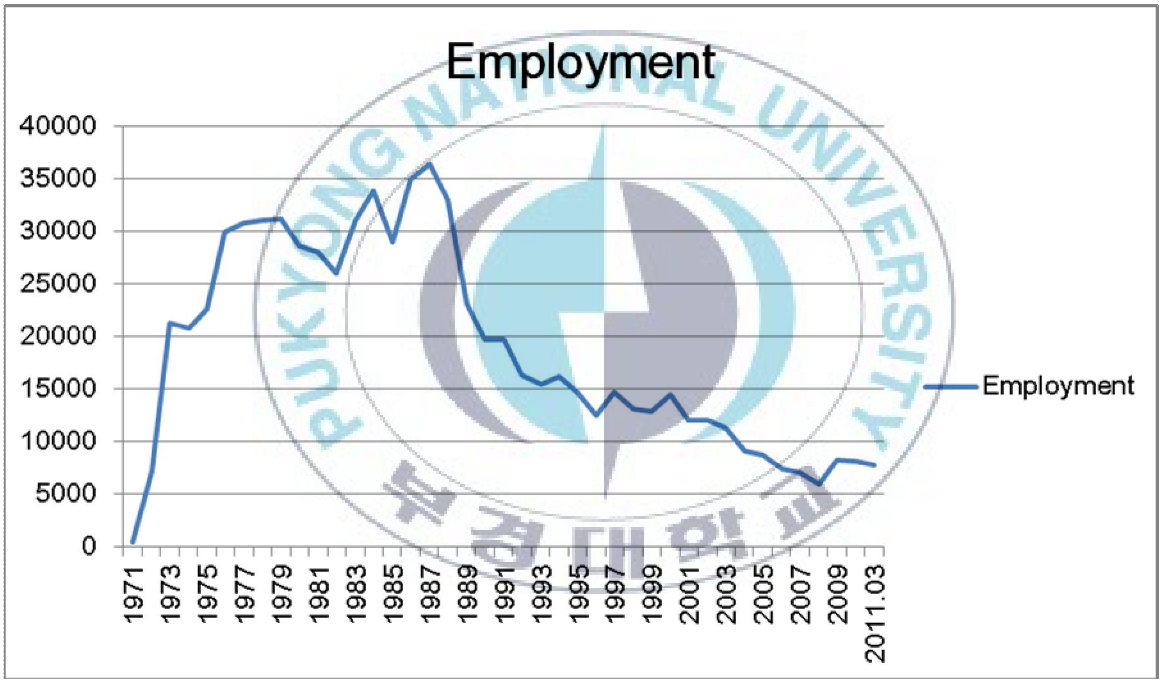
Analyzing the trend of foreign investment on Table 4 (above), we can see that it peaked in 2002 and continued to decline from 2005 to 2007, since at first the Korean government started attracting foreign investment by enacting measures to enhance foreign investment. By 2002, FDI inflows rose to approximately ten times more than what was expected. The amount of money acquired from FDI inflows was approximately 270million. The government at this time strengthened its competition policy and even allowed non-Koreans to own land and real property. This trend declined during Roh Moo-hyun's government (2003-2008) due to his ambivalent attitude towards foreign investment.

After his term and the inauguration of current President of Korea, Lee Myung-Bak in 2008, the trend was reversed, as seen in the graph below (U.S Department of State, 2010). Furthermore, the global financial crisis that occurred in 2007 contributed to the decreasing

[18] http://www.ftz.go.kr/kor/Morgue/Total/totalYear.jsp

trend of foreign investment in Korea ever since it registered its high point in 2005. Despite that, Korea has been doing a lot towards increasing the number of investors in its country. With an attractive investment destination rich in advanced IT environment, creativity, good infrastructure, strategic regional location, strong government support, and world-class multinational companies, it has increased its potential in attracting many foreign investors to the country.

Table 5: MFTZ Employment from 1971 to 2011



Source: Administration Agency of Masan Free Trade Zone[19]

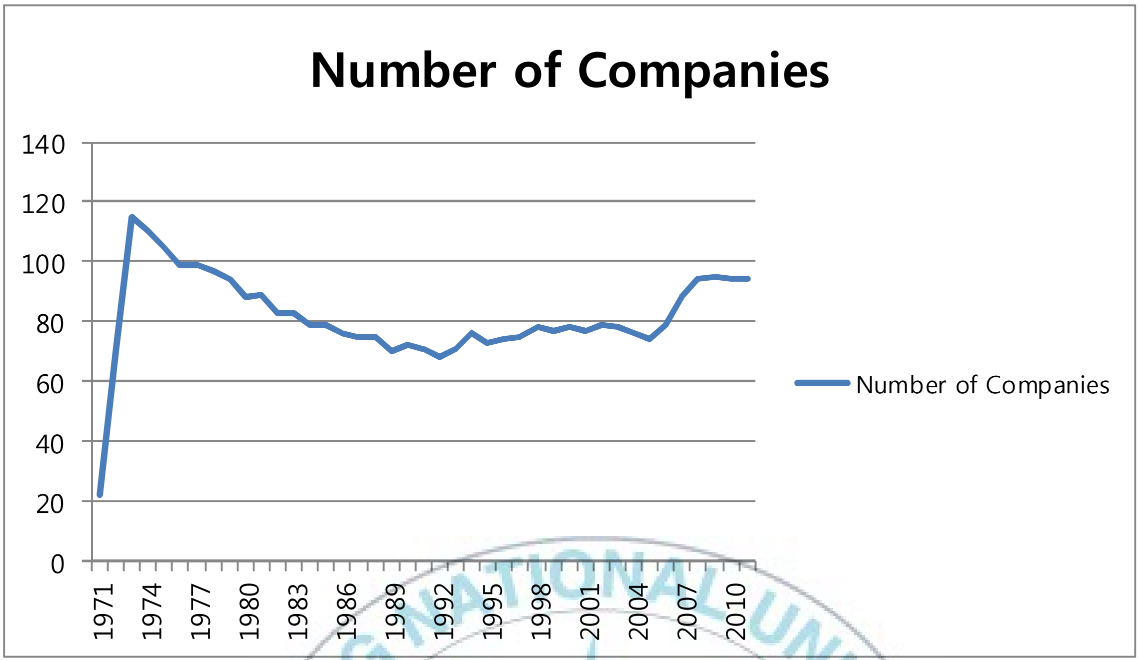
Table 5 shows that in the early years of the MFTZ establishment (from 1970 to late 1980s) the trend shows a sharp increase in the number of employments generated. But from 1989 to date, the graph shows there has been a steady decline in the rate of employment. This was

[19] http://www.ftz.go.kr/kor/Morgue/Total/totalYear.jsp

attributed to a massive worker resistance led by a young female who caused a rapid increase of wages in the late 1980s (Murayama and Yokota, 2008).

In addition, the rise of capital and technology production in the zone displaced quite a number of female workers who were employed in labor-intensive industries. Hence, the steady general decline occurred due to the industrial upgrading, which required skilled labor, heavy capital-intensive materials and shifts in manufacturing labor productivity and capital intensity. But with the decline that has lasted for about 20 years, MFTZ regarded the steady labor decline as a positive phenomenon since it reflect the economy's move from labor-intensive light industries to technology-intensive electric and electronic sectors although, MFTZ since 2000 has been doing efforts to reverse the trend (Park, 2008).

Table 6: Number of Companies in MFTZ from 1971 to 2011



Source: Administration Agency of Masan Free Trade Zone

Table 6 shows the number of companies which were established since the establishment of SEZs to date i.e. 2011. The graph shows, there was a drastic increase in the number of companies from the year 1970 to 1972. This was the first time when the zones were established and many companies invested in the zone. Thereafter, the number of companies has remained steadily constant from the year 1973 to 2011.

Table 7 shows the industries in MFTZ and the actual export development progress in particular from 1971 to 1980. This illustrates the role **the economic zones played** toward accelerating development of some sectors even the ones that were considered to be very weak.

Table 7: MFTZ Actual Development Progress by Category

(Unit: $)

	Electronic	Equipment	Metal	Textile	Shoes	Others	Total
1971	825 (96.4%)	0 (0.0%)	0 (0.0%)	9 (1.1%)	0 (0.0%)	22 (2.6%)	856 (100.0%)
1972	6,980 (71.7%)	0 (0.0%)	36 (0.4%)	747 (7.7%)	1,793 (18.4%)	183 (1.9%)	9,739 (100.0%)
1973	45,411 (64.5%)	742 (1.1%)	5,833 (8.3%)	3,761 (5.3%)	6,223 (8.8%)	8,404 (11.9%)	70,374 (100.0%)
1974	98,345 (54.2%)	4,944 (2.7%)	41,704 (23.0%)	6,472 (3.6%)	14,837 (8.2%)	15,245 (8.4%)	181,547 (100.0%)
1975	93,364 (53.4%)	6,963 (4.0%)	29,320 (16.8%)	8,424 (4.8%)	8,044 (4.6%)	28,688 (16.4%)	174,803 (100.0%)
1976	174,688 (57.7%)	14,177 (4.7%)	40,019 (13.2%)	11,881 (3.9%)	23,124 (7.6%)	39,111 (12.9%)	303,000 (100.0%)
1977	191, 529 (52.1%)	27,123 (7.4%)	43,853 (11.9%)	124,234 (3.9%)	27,274 (7.4%)	63,905 (17.4%)	367,918 (100.0%)
1978	275,193 (56.8%)	29,419 (6.1%)	61,244 (12.6%)	16,237 (3.3%)	36,214 (7.5%)	66, 481 (13.7%)	484,788 (100.0%)
1979	360,323 (60.0%)	41,697 (6.9%)	66,637 (11.1%)	16,373 (2.7%)	36,809 (6.1%)	78,719 (13.1%)	600,558 (100.0%)
1980	394,775 (62,9%)	79,957 (12.7%)	51,126 (8.1%)	11,696 (1.9%)	38,303 (6.1%)	52,243 (8.3%)	628,100 (100.0%)

Source: Ministry of Trade and Industry-Masan FTZ Administration Office (1997)

In the mid-1960s and early 1970s, rapid growth occurred across the world where great industrialization development occurred. Primarily, it occurred through ISI, but other countries like Korea exercised the EOI but not in all sectors. Korea as a country came up with a development strategy to address the country's economic problems in the early 1960s when it had a large, cohesive and well-motivated labor force with a high educational level.[20]

[20] Korea people placed a high value on education since during 1960s the illiteracy rate was very low and the education expenditure reached a level that seemed almost excessive. (See Lee, 1992 in "Economic Growth and Human Development in the Republic of Korea, 1945-1992") Occasional Paper 24

In these strategies, EOI was used for production of goods in the overseas market and ISI was for domestic markets. The strategies usually depend on the degree of emphasis attached in serving one set of market rather than another (Colman, 1994).

Generally, the country had a number of principles that it followed which respected the market system imposed. For instance, industries that had comparative advantage were promoted, letting the market conditions select specific industries that the government ought to support. This is because the government used to intervene in some sectors or areas and support some firms that seemed to be showing good progress. For instance, back in the 1960s, in order to support export activities, the Bank of Korea enacted relevant financial regulations and began to offer exporters preferential financial treatment (Yoo, 2008). Also, the government used to transfer some resources from less productive industries to more productive industries so that they could grow much faster.

For economic growth and welfare improvement of a national economy, Outward Orientation (OO), that is export-led strategy, should dominate Import Substitution (IS) (Mah, 2010). It was observed that the rapid economic growth performance of the East Asian countries showed that the OO strategy was superior to the IS strategy. The outcome of using such a strategy is the improvement of the export activities. This can also be applied to Tanzania since once a country's export activities are greater than import activities it brings a surplus to the balance of payment and definitely boosts the economic growth of the country.

Hence, various strategies can be used as those that were applied in the case of Korea, such as investing in education, encouraging investments in the manufacturing sectors as a means of expanding the economic base and reducing reliance on agriculture, and promoting or encouraging different institutions by putting emphasis on effectiveness and efficiency of their works to develop the economic zones as a whole.

There were a number of policies that were used during the time of seeking to develop export activities such as duty drawback schemes[21] long-term subsidized loans (national investment fund), and policy loans which acted as a strategy that benefited the big industries like manufacturing sectors to access and enjoy preferential capital. The country's government specified kind of industries that needed special attention, such as shipbuilding, steel, machinery, and electronics and expanded monetary policy and reduced export incentives.

Additionally, there were a number of factors that generally led to the economic success of Korea, such as strong political leadership and institutional building like having well-prepared planning and administrative support. Korea had a consistent growth-oriented economic policy like industry-oriented development strategy that went through out the economic growth plan project and even had risk-sharing between government, financial institutions and business enterprises (Bark, 2006).

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[21] It was used by the Korean Government as a measure of Export Policy to reduce costs of export products produced. Duty drawback schemes are usually used in highly protected economies as means to provide exporters of manufactured goods with imported inputs at world prices and thus increasing their profitability, while maintaining the protection for domestic industries that compete with imports.

With the eagerness to catch up with other developed countries, Korea worked hard to achieve the best in every sector they thought they were good at, like electronic and ship building sectors. It invested in education and human capital due to the need for labor force at that time and there were relatively uncorrupt government officials who would ensure that different plans, projects and reforms were carried out and policies adhered-to to the letter for the welfare of the country.

4.3 Challenges Faced in the Development of the Zone

Generally, the country had a number of challenges that it faced during establishment of the zones. These were such as lack of sufficient skilled labor, insufficient natural resources and huge costs in development of the land for investments. This is because the country is a mountainous.

Another identifiable challenge that Korea faced during its economic structuring of industries was collusion that occurred as between the government and the chaebols. For instance, during the time of export promotion in the country, Korea used to receive a number of policy loans in which a preferential rate was forwarded to the chaebols. But the same time, due to interventionist policy of the Korean government, it is observed that during 1980s, the government had decided to reduce the policy loans and restrictions on the managerial autonomy of the commercial banks, with the ultimate goal to privatization (Mah, 2010).

At the initial stage during attraction of foreign investment in the zones, Korean firms faced some difficulties in technology absorption. Some foreign firms that had unique technological advancement used to protect their knowledge carefully and did not allow access to their technological secrets. This was to avoid high competition that may have arisen at that time. During the period of rapid economic growth, the Korean government provided tax and financial incentives and established export-promoting organizations. As, the result of Export policies, export values rose significantly. From the early 1980s, the government changed the policy direction from direct subsidization of selective industries and firms towards function-oriented support such as general support from R&D activities. The transition from the Labor-intensive (LI) to the Heavy Chemical Industry (HCI) and then to technology-intensive industries led to higher value-added industrial structure and contributed to economic growth. This rapid growth caused some structural and financial problems. That is, the accumulated non-performing loans of commercial banks became one of the causes of the economic crisis in 1998 (Mah, 2010).

Additionally, industrialization brought about excessive concentration of industries and population in some cities. This was accompanied by problems such as housing shortages, lack of educational facilities and poor public services (Harvie and Lee, 2003). People moved from rural areas to urban areas in search of employment and good life style. The economic zones were crowded areas.

There was a rush for investment. For one to invest, proper planning is mandatory. For the case of Korea, during HCI drive, many investments were made without sufficient analysis of their viability and impact upon the overall economy. This resulted to many overlapping investments and also poor performance (Harvie and Lee, 2003).

The focus on a few strategic industries like electron and electricity industry, shipbuilding and others sectors was seen to be a good strategy but it also had its drawbacks. It brought about enormous economic inefficiency in the mentioned industries (Harvie and Lee, 2003).

The socialization of bankruptcy risk led to inefficiency, sectoral imbalances, weakened corporate financial structure and rising foreign debt (Lee, 1996). According to Lee, he stated that Korean government together with other institutions like banks were ready to take risks in order to promote industrializations.

During the early 1970s at the time of the first oil crisis, lots of companies especially foreign firms pulled out, employment rate reduced and other firms had to retrench their staff. At that time, the Korean government was not so much concerned with the conditions of the companies that were already established in the zones. All they did was to concentrate on the original idea of covering a wider area of the zones as per the plan (Lee, 2008).

Generally, it can be stated that, despite all the challenges Korea faced during establishment of their zones, it should be known that during 1970s, development of such zones played an important role towards developing the country's economy. The country as a whole needed so much economic development and remove themselves from the vulnerable conditions it had at that time. But currently, these economic zones do not play a greater role towards development of the country's economy. It does not matter to the Korean's economic development and the society at large.

5. CASE STUDY: TANZANIA

5.1 TANZANIAN EXPERIENCE AND POLICIES USED IN SPECIAL ECONOMIC ZONES

5.1.1 Historical Background of the Zone Establishment 2006-2011

Currently, many African countries are turning eastward to Asian countries such as Korea, China, Japan, Singapore, Taiwan, Malaysia and India. They are looking for models that they can use to develop. They are in the hunt for better mixture of policies that can be used for the achievement of economic growth. Many African leaders have encouraged the pursuit for lessons on how to go about developing their economies from some Asian countries owing to the success that the Asian countries have displayed. For instance, Professor Ji Hong Kim from Korea was invited to a lecture[22] titled "Lesson from Asia: The Experience of Korea" where he stated that Africa needed to adopt an outward-oriented strategy and export promotion policy to overcome its small domestic market size and increase foreign exchange. Pinda[23] however, advises that Tanzania, in her quest for the models from the Asian countries, should ensure compatibility with the Tanzanian environment.

Presently, the government is trying hard to encourage the expansion of EPZ through giving support in form of funds to the Export Processing Zones Authority (EPZA). The EPZs are the most common type of SEZ in Sub-Saharan Africa (SSA) because many of the value-added products produced in the SSA are destined for markets in more developed countries (Boyenge, 2007).

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[22] The lecture was conducted in the Africa Economic Conference that was held in Tunis and Tunisia on August 2011. Accessed at http://www.afrol.com/articles/22953 on August 16, 2011

[23] Mr. Mizengo Pinda, the Prime Minister of Tanzania

This kind of motivation towards establishment of EPZs/SEZs is linked to the increasing acceptance of “globalization” and neoliberal policies across the region. Most SSA countries are leaning towards export-led growth, and structural adjustment programs (SAPs) in a bid to becoming internationally “competitive.” Most of these governments regard establishment of the zones as a suitable strategy to find a position in the global economy. The World Bank regards the introduction of EPZs as a signal of a country’s departure from ISI towards an EOI economy (World Bank, 2011).

These host governments set rules and regulations normally for SEZs operating in their country, often through the passage of legislation. The management of the zones can be public, private, or partnership (private and public) and can take the form of an autonomous government authority or corporation, a specialized department within a ministry, or zone-specific management boards (Curran *et al,* 2009). Of the 114 SEZs in SSA (except for single-factory zones), 65 are privately operated while the remaining 49 are publicly managed. Privately managed SEZs are on the rise because they overshadow the public ones in terms of performance (World Bank, 2008).

In 2006, the government of Tanzania (GOT) decided to establish the Benjamin William Mkapa Special Economic Zones (BMWSEZ) as a world class industrial park for export activities. It was developed under the strategy known as “The Tanzania Mini-Tiger Plan 2020” to accelerate growth by adopting the Asian economic development model.

Prior to the establishment of BWM-SEZ, the EPZ program was launched in 2002 after the passing of the EPZ Act in parliament. This was initially under the support of the National Development Corporation (NDC) and later on it shifted to the Ministry of Trade and Industry. This program was launched with the goal to contribute to the Mini-Tiger economic strategy for 2020. It was among the structural and economic reforms of the country for poverty alleviation. In 2006, the government enacted SEZ Act under the coordination of the Ministry of Planning, Economy, and Empowerment. This is also the period when the first SEZ (BMW-SEZ) was established.

Previously, the EPZ and SEZ programs were operating under the same authority which caused conflicting and confusing environment for potential investors (Farole, 2011). The problem ceased after the two programs were combined and put under the management EPZA after its establishment. There are about 6 industrial parks already established and 19 other zones that stand on their own (Meru, 2010). Those industrial parks are Millennium Business Park, Hifadhi EPZ, BWM-SEZ, Kisongo EPZ, Kamal Industrial Estate EPZ, and Global Industrial Park.

Other institutions apart from EPZA such as TanTrade and Tanzania Trade Centre were established prior EPZA establishment by the GOT with the goal to coordinates, manage and promote trade and investment in the country. These institutions have been working hand in hand with the government to try to transform the country into industrialization and be equipped with high technology in different sectors and foreign investment attractions.

The motivation to have and establish these kinds of zones was borrowed from other developing countries. Tanzania decided to establish economic zones after observing and analyzing the potential benefits that arise from them. Establishment of zones serves as a strategy to boost the economy. Additionally, Tanzania thought of establishing the zones so as to widen market access. Again, Tanzania had the goal to create between 2-3 million new employments by the year 2020 by attracting FDI and promoting EPZ exports (Tanzania Mini-Tiger Plan 2020, 2004).

Tanzania's main trading partners are the EU, China, India, neighboring Southern African Development Community (SADC) and East African Community (EAC) countries. Tanzania's exports to the US are dominated by agricultural commodities, minerals and textiles while imports from the US include wheat, agricultural/transport equipments, chemicals, used clothes and machinery. In this fact, GOT's Export Processing Zones Authority (EPZA) encouraged Greenfield investments in agriculture, light industry and agro-processing sectors. EPZA prompted EPZ to attract investments in agricultural value added processing, textile and electronics.

Currently, these zones have been established in 14 regions and they cover an area of approximately 500 to 9000 hectors. There are about 87 firms that are established in the EPZs and currently, the government has invited service providers to cater for investors who operate in the zones since those firms require services such as banking, insurance, and IT (Trade Invest Africa, 2011). Among the 87 firms, 44 are infrastructure developers and 43 are manufacturers. Manufacturing businesses vary from agro-processing, lapidary (gold, diamonds, gemstones and tanzanite), and manufacturing of packaging materials to construction and agricultural equipment. Others manufacturing business are such as textile and garments, leather processing, electrical and electronic appliances, wood products and information and communication technology (ICT) industries.

5.2 Statistical Analysis on the Development of the Zones

It is stated that among the first proximate measures of success of an SEZ's establishment is the investment it attracts (Farole, 2011). Since without investment there will be no possibility of realizing structural economic benefits. Neither will be employment nor export activities generation. Data on the part of investment is limited as far as the Tanzanian case is concerned. Tanzania's SEZs are approximately 69 percent locally controlled and about 31 percent foreign-controlled. The following table shows the total SEZ FDI stock and SEZ FDI per capita from 2000-2008 USD (dollars).

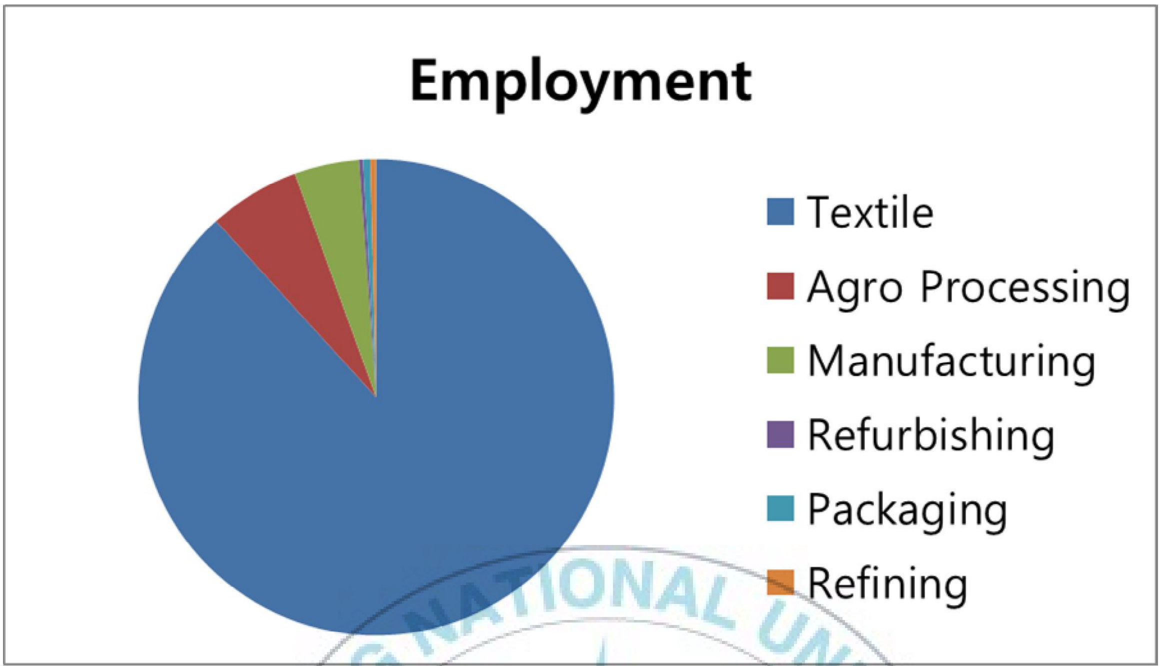
Table 8: Tanzania SEZ FDI stock and SEZ FDI per capita 2000-2008

	Total SEZ FDI Stock (2008) (US$)	SEZ FDI per capital (2000-2008) US$	SEZ FDI as % of total national FDI (2000-2008)
TANZANIA	210	5	18

Source: Export Processing Zones Authority, EPZA, 2010

There are 87 companies established in Tanzania's economic zones. Tanzania does not have a long history of EPZ and this would explain the reason why there are only few companies at the moment. The figure below shows employment rate in different sectors in the Export Processing Zones (EPZ).

Figure 2: Employment rate with different category of Sectors in Tanzania's EPZ



Source: Export Processing Zones Authority, EPZA, 2010

The table below shows employment generated in the SEZ from 2006- 2010.

Table 9: Tanzanian' SEZ number of employment from 2006 to 2010

Source: Export Processing Zones Authority, EPZA, 2010

The number of employment increased but at a slower rate in the early years after the establishment of EPZ. Nonetheless, in 2010, the rate rose drastically leading to an increase in GDP. This can be attributed to the new foreign investment that has been established which has caused about 61 percent increase in foreign investment. Available records showed no change in 2008 and 2009 employment figure.

The economic contribution remains insignificant in terms of the size of investment, employment created and value and volume of exports. Export and investment were stated to have reached USD 250$ and USD 350$ respectively by 2010 (Available data from Tanzania-EPZA, 2011).

Incentives offered by the EPZA led to attraction of investors. Good investment environment coupled with streamlined conditions such as lower operating cost and higher efficiency for production and management as well as other investment incentives led to the achievement (Mpolo, EPZA)[2]. Still with the goal of increasing the number of foreign investors to Tanzania, the Special Economic Zones Act (SEZ) was enacted in 2006. This legislation led to categorization of the SEZ incentives into three groups. The three categories are infrastructure development (Category A), investors producing for the sale into the custom territory (category B) and investors producing for the export market (category C). The categories are shown in the following table:

Table 10: Tanzanian's SEZs Incentives Categories

Category A	Category B
1) VAT exemption on utilities charges 2) Exemption on taxes and levies charged by Local Government Authorities 3) Duty and VAT exemption on; ● Raw Material ● Capital goods ● Administrative vehicles, firefighting and the like 4) 10 years Corporate Tax Holiday 5) 10 years Withholding Tax holiday 6) Exception from pre-shipment or destination inspection requirement	1) Unconditional transferability of profits, dividends and loyalties 2) One-stop-service center by EPZA for set up, facilitation, and aftercare (work permits, labor relations, customs) 3) Operation under one license issued by EPZ Authority 4) On-site customs documentation and inspection 5) Visa at point of entry to key personnel 6) Exception from pre-shipment or destination inspection requirement 7) Remission of custom duty, VAT, and other taxes on raw material and goods of capital nature relating to production in the zone

Category C

Category C
1) VAT exemption on Utilities charges and wharfage 2) Exemption from taxes and levies imposed by the Local Government Authorities on products produced in EPZs 3) Remission of custom duty, VAT and other taxes on raw materials and goods of capital nature relates to production in zone 4) One-stop-service center in the zone 5) On site customs inspections in the zones 6) 10 years Corporate Tax Holiday 7) 10 years Withholding Tax holiday 8) Lower port charges compared to other cargo box rates (for EPZs) 9) Accessing the export credit guarantee scheme (EPZs)

The government through the EPZA[24] has merged EPZ and SEZ believing that together, they will not only increase efficiency and reduce operational costs, but also increase the number of investors. The zones were established with a vision to increase economic growth in the country and boost the export-led industrialization sector and also create employment. In 2006, at the onset of the establishment SEZs, the capital invested was about 10 millions, but by 2010, the amount rose to more than 600million (Meru, 2010).

5.3 Challenges Faced in the Development of the Zone

Tanzania is still faced with many kinds of setbacks and problems for attracting FDI. These include weak infrastructure and associated poor services; poor human resources and skills for the modern market economy; limited availability of machinery, energy, and power for all sectors (use of machinery and energy and power is very limited in all sectors); poor productivity and limited economic activities in nearly all sectors, except in gold mines; presence of limited volumes of marketable products for domestic and international markets; and the like.

With the establishment of the economic zones, normally, there should be some outcomes or benefits as the result of it. From a research conducted by a World Bank researcher (Farole, 2011) it was observed that generally, African zone programs on SEZ illustrate a relatively high contribution to national FDI inflows notwithstanding the low absolute levels of investment in the SEZs. The problem that zones established in Africa mostly faces is lack of a

[24] An authority was established in 2002 responsible for the promotion of Tanzania's Economic Zones as investment destinations, development of infrastructure, issuance of EPZ/SEZ investors and provision of business facilitation services to EPZ/SEZ investors.

good investment (business) environment overall rather than a failure of the zones programs. A good business environment is a kind of environment that tends to attract foreign investors, who are comfortable with their investment, and have no problems such as too much cost in production due to such things as power and water supply or communication links.

Additionally, there are a number of challenges that they face on the part of SEZ and EPZ programs. There is an inadequacy of EPZ physical infrastructure; that is, not having well serviced land and many factory buildings. This is also because the country's economy is heavily dependent on agriculture, which remains vulnerable to climatic conditions (Tanzania Country Review, 2011). Industries present in the country consist mainly of agricultural products and light consumer goods processing. All in all, these industries face the problems of poor infrastructure such as bad roads and inadequate power supply.

Furthermore, due to the commencement of the EAC Common Market[25], the zones are exposed to many challenges such as high competition among the countries forming the EAC. There are possibilities of the formation of spaghetti bowl[26] as many countries within the region are members of different regional economic communities, like the Economic Community of West African States (ECOWAS), Southern African Development Community (SADC), and Common Market of Eastern and Southern Africa (COMESA).

[25] The East African Community is a community of five countries in East Africa: Tanzania, Kenya, Uganda, Burundi and Rwanda. The common market came into force in 2010, which turned the region into a domestic market.

[26] It is a theory stated by Aggrawal Bwaghati, stating that once many countries enter into agreements, the state of trade between them may create a tangled mess of restrictions and regulations ultimately disrupt rather than promoting free trade as between them.

But on the other hand, countries within the community hope to receive many benefits from different investments that will be increased and from laws made on EPZ. For instance, under the agreement made in EAC, all sales in any country in the community are considered local. For an investor who will be looking to invest in the regional market, the local market sales restrictions (in Kenya and Tanzania) will make SEZs less attractive (Farole, 2011). This is due to the fact that many investors like to have access to both local and regional markets when they are operating in the zones.

Other challenges that EPZ face include things such as insufficient and/or erratic supply of utilities like water and power together with inadequate funds to run EPZ operations and to finance infrastructure development. This is a huge concern for not only Tanzania's Economic zones, but all economic zones in Africa. Most of the economic zones established are still operating below capacity to be even called engines of economic and social transformation of the country. It is also observed that fewer firms have been registered in the zones areas with others pulling out. For instance a company called NIDA textiles, a Pakistan textile company that invested in the EPZ area, pulled out due to lack of justifiable competitiveness of incentives in the EPZ over those offered in non-EPZ sectors. (Domician, 2009)

In addition, the presence of delays and inefficiencies in clearance of imported and exported goods during export and import activities operated with different companies in the zones has been among the challenges that hinder successful performance of the zones. This is mostly due to problems such as bureaucracies or corruption that are exercised both in the zones and in the port, example being administrative constraints existing at the port of Dar Es Salaam.

Inadequate supply of human capital (highly skilled labor) contributes towards improper running of the zone. There are not many local experts that are available in the EPZs. Evidence obtained indicated that EPZ firms have continued to rely on foreigners and employ many foreigners, especially for advanced technology-related skills, which are lacking in the domestic market. Only low and medium potential skills are sourced from various institutions found in Tanzania (Domician, 2009).

Other reasons that contribute to the bad performances of the economic zones are; the lack of the political will by governments and lack of vision among the people (Daily News, 2011). This hinders advancement of economic performance since there is no strong enthusiasm within the people to strive for the best, get rid of poverty, and be competitive among other countries. The country is in possession of many resources but it does not acquire great advantages or benefits. Therefore, various Tanzanian's problems and challenges can be summarized as in the following table 10.

Table 11: Tanzanian's SEZ Problem and Challenges

1) Lack of a good investment environment.
2) Inadequacy of EPZ physical infrastructure including serviced land and factory buildings for leasing to potential investors i.e. EPZ developers and operators
3) High competition arising from the commencement of EAC Common Market
4) Erratic supply of utilities such as water, energy, electricity, power, telecommunications and transport links (roads, railways, airports and ports)
5) Inadequate funds to run EPZ operations, financing infrastructure development and inappropriate technologies, for example, absence of a one-stop service centre
6) Lack of political will by the government and lack of vision among the people
7) Inefficiencies/delays during clearance of imported and exported goods, for example due to administrative constraints at the port of Dar es Salaam

5.4 Feasibility of Korean Model Application to Tanzania

It is observed that the economic conditions that existed in the early sixties in Korea are and/or possess some similarities to those of Tanzania. Korea's population at that time was growing at an annual rate of 3% accompanied by widespread unemployment. Per capita GNP in 1961 was US$ 82 and the annual export amounted to about US$43 million and the nation was in a chronic balance of payment deficit since its independence in 1948. Whereas for Tanzania, 1961, it was the time at which it got its independence and it had almost nothing and was under a communal type of ownership. It's per capita GNP then was also less than 1,000 USD.

Economic policies of a country are major determinants of economic growth. Korean policy makers adopted the interventionist approaches during 1960s and 1970s regarding foreign investment. Examples of intervention are such as credit allocation, which fuelled rapid industrialization in the 1960s and 1970s (Harvie and Lee, 2003) or in resources allocation, GOT could look at it and see any possibilities of following the same strategy. For instance the government could find a way to intervene and ensure that the country benefits from the industrial sectors, which mostly have been privatized and liberalized.

Some of the factors that led to Korea's success were; involvement of proper government support and guidance, innovative local entrepreneurship, and diligent labor force, which maximized business opportunities. This could be a good example for Tanzania to really be conscious and serious to support all the activities for the best.

In addition, there should be some aims and goals to achieve the best as other developed country's economic statuses are. For example in the case of Korea, it was a strategic interest of the United States. Also at that time, the U.S. being a developed country, made a move by opening its market to Korea and there was free access to the U.S. market and it was said that it contributed to the country's rapid economic growth. Then, with this fact, Tanzania is currently securing chances and opportunities to access outside markets like through The African Growth and Opportunity Act (AGOA)[27] which enables it to access market through trade and investment.

After observation of various cases including the one for Korea, one thing that was pursued towards ensuring good performance and success in the zones was to choose a particular sector to concentrate upon and ensuring the best from it. It is seen from the Korean case that they engaged mostly in making electronic materials, shipbuilding and the like and they achieved the best out of it. This could be applied to Tanzania. The SEZs established in 2006 (Case of Tanzania), would be better off if they prioritized in a few sectors such as agriculture, agro-processing, natural resources, and light industrial sectors to maximize benefits.

Korean strategy to take risk in promoting Heavy and Chemical Industries (HCI) to secure international competitiveness and adopt the export-led strategy could be interpreted as; A country may choose to take risks in a field or sector in which it wishes to concentrate upon and this may bring good results as it happened for Korea. For the Tanzanian case, this may be

[27] AGOA was signed by the U.S. and Sub-Saharan countries to expand U.S. trade and investment to Sub-Saharan countries, to stimulate economic growth and promote high-level dialogue on trade and investment -related issues, encourage economic integration, and facilitate sub-Saharan Africa's integration into the global economy.

a difficult challenge and risk to take since it is not well endowed with advanced technology together with experts on HCI.

Additionally, strategic location, being one of the factors that is regarded as an initial condition that was present in the Korean case because of its proximity to the Busan port and Japan (that time, the main foreign influence in the country), helped to attract much investment in the zones established. The same can apply to the Tanzanian case; its strategic location and trade agreements have created market opportunities for investors. These include preferential trade agreements with the United States like AGOA, the European Union, and Japan as well as regional trade agreements with neighboring countries like East African Community (EAC) and Southern African Development Countries (SADC). Hence good results and performance may be achieved through the establishment of the zones as a result of favorable initial condition present in the country.

Korea was a seen as a good location to foreign investors such as The U.S, Japan and other foreign countries with the mission to invest abroad. Good location means low wages, easy market access, good infrastructure, large market size that offers greater opportunities to realize economic of scale, and geographical proximity between the host country and the investing countries (Zhang, 2000). On geographical proximity, it reduces informational and managerial uncertainty, lowers monitoring and transportation costs, and reduces the exposure of multinational to risk, theoretically the more the geographical distance between the home and the host country, the less the FDI (Grosse and Trevino, 1996). By applying the geographical proximity factor on Korea, during 1970s, the country was a good place to invest since foreign investors like Japan could access the good market environment present as that time, such as labor surplus. According to Savada and Shaw (1990), Korea, as a colony of Japan (1910-1945), Japan played an important role in Korea's economic development. By the end of the colonial period, Japan built extensive infrastructure such as rail roads, government buildings, ports and electric power. However, most of the infrastructures were destroyed during Korean War. Tanzania can be regarded as a 'good' location due to its abundant labor surplus present, natural resources, low wages and raw materials. These attract many foreign investors in the country.

Some of the initial conditions that ought to be present before establishment of the economic zones are things like international port and airport. Additionally, there should be at least some big industries around the area where the economic zones will be established to gain competitive advantages. These will help in cost savings when supplying materials; easy way to do export and import activities; good environment such as providing foreign educational institutions and medical services and infrastructure. Tanzania need to find out its strongest point, extend its industries largely for example the mining sector due to the natural resources availability or in its agricultural sector due to rich of arable land so as to attract many FDI in the future. These are one of the major information that were acquired from the interview conducted in October at the Busan-Jihnae FEZ, Korea.

Many economic zones program tend to fail when the government just establishes the zones and leaves the zones to operate on their own. The government needs to ensure that those zones' programs are integrated in a broader economic policy framework of the country

(Farole, 2011). One of the reasons from failure of the zone program is failure in not giving support to domestic investment or promote links, trading, and upgrading of the zone. Hence, to ensure good performance, it is required to have clear strategic integration of the program and for the government to intervene and play a leading role ensuring good results are derived from the zone.

Moreover, there has been one stop-shop service that was established for providing necessary assistance, licenses and approvals. These are situated in the zones and they function to monitor what is best for the zone. This kind of service has been established in both cases, that is Korea and Tanzania that is, after it saw the importance and the role it plays towards improving performance in the zones.

To ensure the quality of the products produced in the zone, Korea placed technical expert officials in local suppliers to upgrade the quality of product produced. This was evident after the percentage of locally used inputs grew from 3 percent to 44 percent in 1971 when the zone was first formed (Stein, 2008). Through this approach, it helped them to increase local inputs and encouraged local export purchase in the zones which not only attracted foreign companies in the zones, but also helped to accelerate competition among domestic (local) investment. Hence through this way, Tanzania could improve and follow the example towards first solving the problem of having insufficient number of local experts by recruiting them or training a number of locals to be experts so that in the future they could make use of them in the zone areas.

Therefore, the most important things for economic success to be observed are the presence of good government policies together with some initial conditions. This was witnessed through the Korean experience on SEZ's establishment. The secret behind such success was application and implementation of good government policies, optimal business environment and investment in education especially in Engineering, science and R&D fields (This was also mentioned in the interview held on economic zones).

It should be understood that all countries will have initial conditions when establishing SEZs, nevertheless, for better performance, favorable initial conditions and good government policies are necessary. It should also be noted that with time, other favorable conditions tend to be generated for continual success of the zones. For instance, geographical proximity with other countries around the country in which the zones are established can act as an initial condition. Later on, during the process of SEZs establishment, more other conditions could be generated such as quality infrastructure within and around the zones. Tanzania can look at its present initial conditions and work well on its government SEZ policies to achieve great success its economy. However the country has lots to accomplish so as to achieve successful development in both its economic zones and economy as a whole.

The following table illustrates the similarities and difference present in both cases that is Korea and Tanzania including the initial conditions and policies present between Korea and Tanzania before establishment of SEZs.

Table 12: Similarities and Difference in Korea and Tanzania EPZs

	Korea	**Tanzania**
A. Differences	1. Good government support and good administrative system 2. Awareness of EPZ is largely advertised in the country. 3. Prioritize comparative sectors 4. Strong enthusiasm towards development of the zones, political will and good vision towards establishment and best achievement of zones performance. 5. Placement of technical experts in local suppliers to upgrade the quality of products sold to the zone companies. 6. Established its first EPZ in 1970s created approx. 9.5percent of GDP 7. Over 7,000 employment created in MFTZ 8. Export turnover; over 4 Billion 9. Number of companies created in MFTZ; 94 10. Total investment; over 230 million (only from MFTZ)	1. No good government support or administrative system. 2. Little public awareness regarding EPZs. 3. Concentrated on the use of local materials such as textiles and garments, leather processing and manufacturing, the lapidary industry, electrical and electronic appliances and ICT to maximize its efficiency in performance. 4. Lack of political will and vision towards ensuring good performance and success 5. Insufficient technical experts in zones 6. Established EPZs in 2006 created approx. 28 percent of GDP 7. Over 10,500 employment created 8. Export turnover; over 250 millions 9. Number of Companies created; 87 10. Total investment; over 569 million US Dollars

<table>
<tr>
<td>B. Initial Conditions and Policies</td>
<td>1. Domestic oriented (protected their domestic companies)
2. Large investments were made during and after Japanese colonial rule.
3. Invested on labor-intensive and high value added manufacturing activities.
4. Pursued EOI
5. Availability of Labor
6. Pursued Duty Draw back schemes</td>
<td>1. Foreign-oriented (Based on privatization of their local companies)
2. Pursued free market approach and enhanced private sector participation in the national economy.
3. Endowed with natural resources and large piece of land</td>
</tr>
<tr>
<td colspan="3">Similarities both in Korea and Tanzania
1. Shared the same goals and objectives towards establishment of the zones.
2. Presence of one-stop shop service.
3. Similar incentives applied in establishment and maintenance of the zone.
4. Faced the same problem in establishment of the zones, such as infrastructure costs.
5. Both at the early stage of establishment of the zones were having access to the international market. For example, Korea to the U.S. market and Tanzania through African Growth and Opportunity Act (AGOA)
6. Both had priority sectors that they wanted to invest in and improve upon such as electronic and shipbuilding for Korea and light industry, agro-processing and agriculture sectors for Tanzania.
7. Both have authorities that are responsible for establishment and management of the zones, for instance, EPZA in Tanzania and MFTZ in Korea.

Initial Conditions and Policies
1. For both countries, agriculture was the predominant industry at the onset.
2. Called for Trade Liberalization during the early stage of development i.e. 1960s and 1970s
3. Both before SEZs establishment, received foreign aid from different countries
4. Both had a good investment environment. That is, Korea had good infrastructure present to attract much investment, was stable politically and had a labor surplus to reduce the cost of production and Tanzania was also stable politically, free from labor disputes and rich in natural resources enough for foreign attractions, good soil, and climate that offered favorable conditions for many kinds of agricultural produce, and related processing.
5. Both carried out successful economic and structural reforms to improve economic performance and sustain growth.
6. Both had favorable strategic locations before and after establishment of EPZs</td>
</tr>
</table>

7. Existence of some governmental institutions. E.g. For Korea; KOTRA and for Tanzania; TIC and TanTrade
8. Both pursued economic and financial policies that are friendly to business and attractive to foreign capital.

A summary of a comparative analysis shows interesting results on various aspects for both case studies;

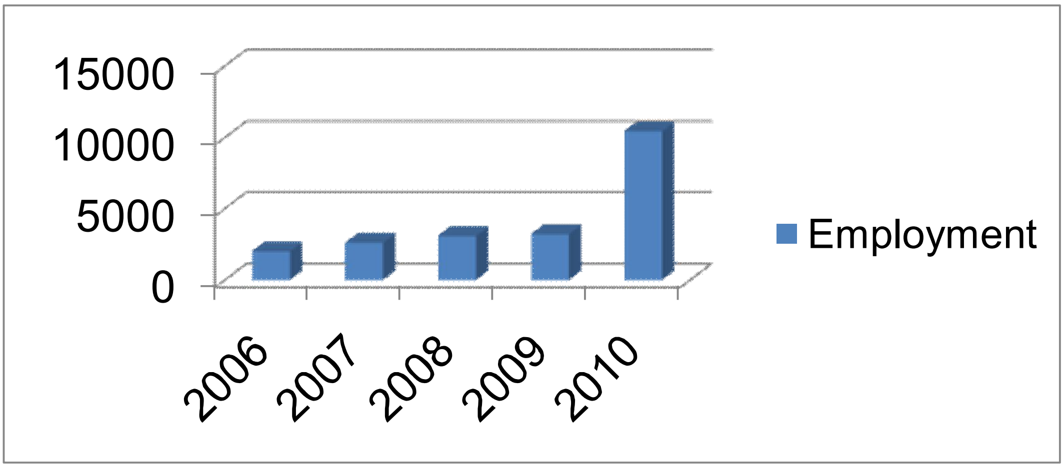
Korea generated over 4 Billion of export turnover and Tanzania on the other hand, generated over 250 millions. On the aspect of employment; Korea SEZs- when they established the zones, it generated a great number of employments but later on the rate of employment decreased due to technology advancement.

Table: Employment Rate in MFTZ 1970-2011

Source: Administration Agency of Masan Free Trade Zone (Ref. pg54)

However as for Tanzania, SEZs has shown a different outlook by a sharp increase in the year 2010, showing how much benefit is derived from the zones establishment. By the year 2010, it had created over 10,500 employments opportunities, pushing the country towards its goal of poverty alleviation and development.

Table: Employment rate in Tanzania EPZs 2006-2010



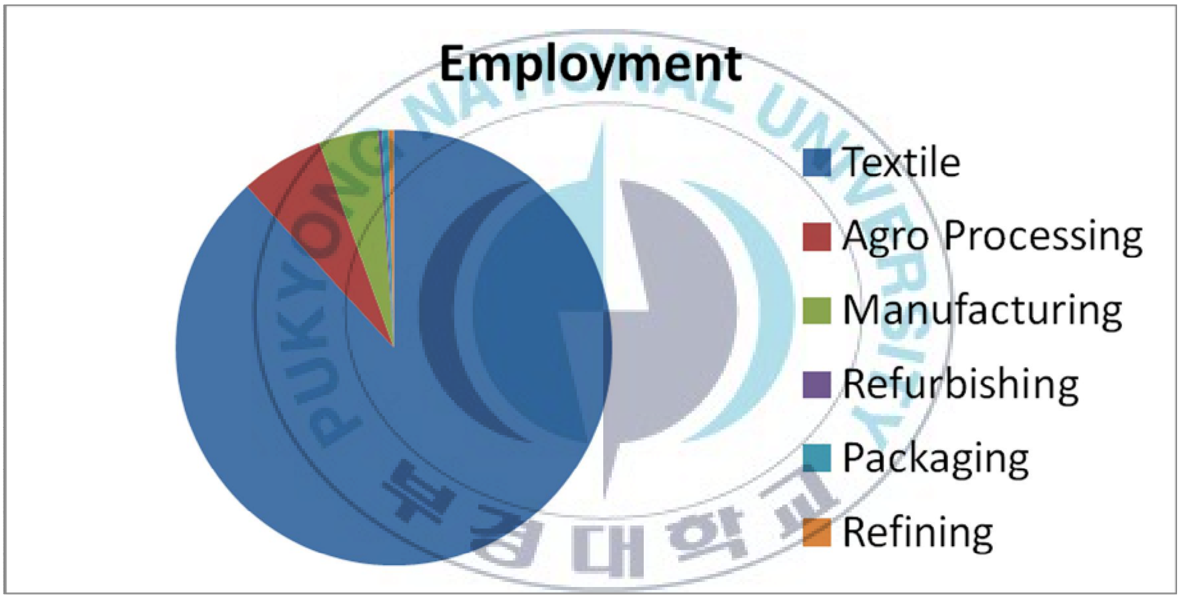
Source: Export Processing Zones Authority, EPZA, 2010 (Ref. pg68)

The increase in the number of employment has led to 61 percent increase in the foreign investment and rise of GDP in the country. 28 percent of GDP is acquired from EPZs development.

Number of companies established in the zones; Korea showed greater number due to its long period of establishment of the zones (1970-2011), totaling 94 companies (from MFTZ) from the latest statistics whereas for Tanzania, the latest statistics showed around 85 companies have been established in different zones.

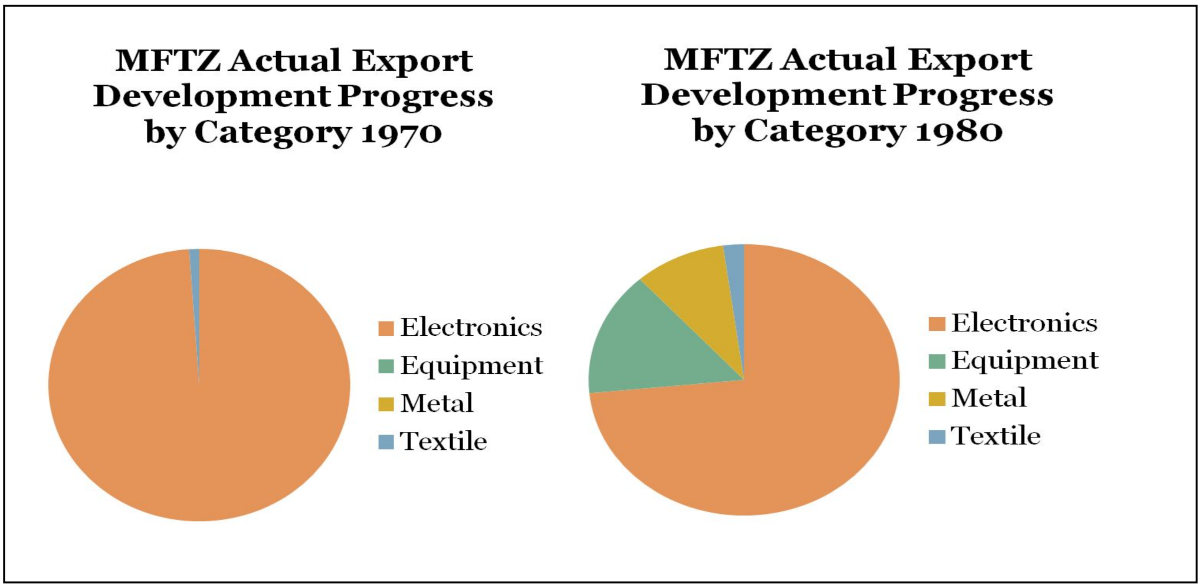
The overall expanding of the foreign investment in Tanzania achieved approximately US$ 50 by May, 2009 (Domician, 2009). But according to the country's expectation on the sum to be acquired from foreign investment has not yet been attained. For the case of Korea, it has acquired a total of 230 millions of foreign investment, as the results of the zones (from MFTZ). With the assistance of foreign investment on the establishment of the zones, it showed great improvement in number of sectors. For instance, it was observed after establishment of the zones in Korea, sectors such as Equipment and Metal grew very much after a period of ten years (1970-1980) but with the Electronic sectors showing a higher ratio. For Tanzania, among all sectors existing, Textile shows a higher ratio than other sectors in its expansion as the result of EPZs establishment. The below figure shows the sectors established in Tanzania, and the transition period of the sectors in 1970 to 1980 in the case of Korea;

Figure 2: Employment rate with different category of Sectors in Tanzania's EPZ[28]



Source: Export Process Zones Authority (EPZA)

Figure 3: Masan Free Trade Zones Actual Export Development by Category in 1970 and 1980



6. CONCLUSION

This chapter provides the conclusion of the study and some recommendation for the development of the economic zones following the Korean experience.

Export Processing Zones (EPZs) played an important role in the promotion of exports oriented industrialization and technological progress in Korea. EPZs brought about regional development as a result of increased employment opportunities and other social benefits. A closer look at Masan EPZ shows that a number of benefits were achieved, examples being creation of employment, technological transfer and increase in export.

Masan EPZ is however considered to have failed since it did not achieve all its original goals and objectives like targeted number of employment and targeted FDI inflow. The reason behind its failure was resistance of laborers and worsened international economic environment at that time (Lee, 2008). However, the economic significance of these economic zones in Korea faded over the years as the country's economy grew (Oh, 1993). Nonetheless, Korea's economic zones brought about substantial economic development in the country. Other economic zones that were developed like Korea Free Trade Zones, Busan-Jihnae Free Economic Zones, and Incheon Free Trade Zones are considered to have been successful.

SEZs remain a key feature of many other East Asian economies, and new zones continue to be established in many parts of the region (Richardson, 2004). Korean model of economic development can be useful for developing countries like Tanzania. Tanzania could apply some strategies and use as many incentives as possible to stimulate the economy of the country, and improve its export activities and industrial sectors since currently the only sector that is active is the manufacturing sector which at the same time is still not doing well. Nonetheless, Tanzania should keep in mind that sometimes, it may be hard to achieve the targeted goals like for the case of Masan EPZ.

Developing countries like Tanzania would need to be aware of the possible benefits to expect from SEZs. Consideration of the limited impacts of EPZs should also be known with respect to technology transfer, employment, and foreign investment. Cost and benefits analysis must be dynamic, extending over the life of the SEZs/EPZs and should not be treated in isolation, but rather as part of a complete government industrial policy (McIntyre *et al*, 1996).

Moreover, through observation of various SEZs established in Korea, an important factor that should be kept in mind is the geographical location where the zones are situated. Tanzania should capitalize on its 'good' location. The country is located at the Indian Ocean border and the country is in regional agreement with different blocs in the African continent. Many foreign firms would want to access market opportunities but Tanzania should not depend only on the foreign investors who come from very far in terms of geographical location. Tanzania should also concentrate on its relationship with its regional neighboring countries like Kenya, Uganda, and Burundi that it has made agreements with to improve trade and investment and other bordering countries like DRC Congo and Zambia. Through different regional agreements made, there are potential firms that can access the market in the country. Examples of these regional blocs are the East African Community (EAC) and Southern African Development Communities (SADC).

A common factor that was also present in the case of Korea was the existence of an adaptable and disciplined labor force. These were some of the initial conditions present in Korea at that time (during the 1960s). Tanzania needs to have that anxiety so as to get rid of poverty and dependence on external aid and decide to deal efficiently with the problem. The enthusiasm and anxiety to work hard may yield better results as far as development is concerned.

Tanzania also needs to invest and put more emphasis in the field of research and development (R&D) and education sector as Korea did, most especially in textile, agro-processing and manufacturing sectors. Currently, there are few number of local research institutions such as Technology Development and Transfer Centre (TDTC), Centre for Agriculture and Mechanization Rural Technology (CAMARTEC), Tanzania Industrial Research and Development Center (TIRDO), Tanzania Tradition Energy Development Environment Organization (TATEDO) and Tanzania Engineering and Manufacturing Design organization (TEMDO).

Tanzania has not attained sufficient initial conditions to develop its zones like Korea during the early stages of zone establishment. Tanzania should work hard and expand her strongest sector largely for future attraction of foreign investors. There should be a concerted effort from the government and the citizens. People should work with great enthusiasm and mind-sets full of ambition to develop like other developed countries.

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