Did Special Economic Zones (SEZs) Fail in Tanzania? Investment, Employment, and Exports

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KEY TAKEAWAYS

The government of Tanzania has established numerous Special Economic Zones (SEZs) and they are intent on expanding the scheme in the near future.

SEZs in Tanzania have failed to achieve their stated goals of boosting foreign investment, exports, and employment.

As part of the national Going-Out Program, in 2006 the Chinese Ministry of Commerce (MOFCOM) launched a scheme to establish SEZs overseas. The government of Tanzania, a long-standing and close ally of China in Africa expressed an interest in participating in the scheme. No Chinese company was interested in building a zone in Tanzania.

This lack of interest among Chinese companies was not about economic performance (the economy of Tanzania was booming), or about governance, natural resources, or international politics. The failure to win a tender was a comment on how Chinese companies perceived Tanzania's ability to develop and run SEZs effectively.

Executive Summary

Tanzania has established numerous Special Economic Zones (SEZs) and are intent on expanding the scheme in the near future. It is not clear whether these zones are fully operational, just exist on paper, or somewhere in-between. Better data is needed before we can think more carefully about the economic impact of the zones.

The government agency overseeing the economic zone programme in Tanzania, the Export Processing Zone Authority (EPZA), has no reliable publicly shared data on the number of firms located in economic zones.

Economic theory gives us good reason to think that SEZs should be associated with better economic performance. SEZs allow for the creation of locally better protected property rights and investor protection where national-level reforms are impossible, SEZs allow for the concentration of good infrastructure, and SEZs may allow the emergence of firm-level productivity gains through agglomeration externalities.

China set up four SEZs in 1980 which were regarded as a great success and by many as proof the theory could work. The Chinese SEZs experienced rapid growth, they inspired the creation of more SEZs in China, and they prompted national-level economic reform that led China away from state-socialism into market-globalism. Inspired by the China-model many African countries started setting up SEZs in the 1990s, and (including Tanzania) in the 2000s.

We can evaluate the impact of SEZs in Tanzania in three ways. First, the **immediate** impact on economic growth through investment, exports, and employment. Second, the contribution of SEZs to the **sustainability** of economic growth through promoting local industrialization and the adoption of new technologies. And third, the impact of SEZs on **national-level economic reform.** This policy brief focuses on the first of these three criteria and subsequent policy briefs will tackle the final two.

We lack any data on how much domestic investment has been spurred by the economic zones in Tanzania. The relatively small number of firms that have located in economic zones (and limited employment that they have created) suggests this was not a major contribution to national investment rates. We focus on the record of economic zones in attracting FDI, for which there is some, limited evidence available.

Economic zones in Tanzania have attracted minimal quantities of FDI, about $200 million per year between 2007 and 2019. FDI inflows into Tanzania have been falling since 2011.

Data on employment in SEZs is unreliable, but estimates suggest that SEZs were employing about 50,000 people by 2019, implying that Tanzania, between 2007 and 2019 was creating about 4,000 new SEZ jobs a year. By comparison, in 2019 there were 3,000,000 SEZ jobs in Vietnam.

There is little direct evidence on exports from SEZs in Tanzania. The most reliable recent survey evidence shows that by 2019 the 100 SEZ firms then operational, had exported a cumulative total of $1,800 million. The SEZ programme has not stimulated export growth from Tanzania. SEZ exports only accounted for about 2.5% of total Tanzanian exports. The rate of export growth from Tanzania has been slowing since 2002.

As part of the national Going-Out Program, in 2006 the Chinese Ministry of Commerce (MOFCOM) launched a scheme to establish SEZs overseas. More than 10 African governments asked to host cooperation zones, among which included the government of Tanzania, a long-standing and close ally of China in Africa. No Chinese company was interested in building a zone in Tanzania.

This lack of interest among Chinese companies was not about economic performance (the economy of Tanzania was booming), or about governance, natural resources, or international politics. The failure to win a tender was a comment on how Chinese companies perceived Tanzania's ability to develop and run SEZs effectively.

1. Special Economic Zones (SEZ) in Tanzania

A Special Economic Zones (SEZs) is defined as a, "spatially delimited area within an economy that functions with administrative, regulatory, and often fiscal regimes that are different (typically more liberal) than those of the domestic economy. Operating through a variety of different forms – such as export processing zones, economic processing zones, free zones, and foreign trade zones – SEZs aim to overcome barriers that hinder investment in the wider economy, including restrictive policies, poor governance, inadequate infrastructure and problematic access to land"[1].

There are three types of special economic zone in Tanzania. The Export Processing Zone (EPZ) requires that firms are undertaking new investment (they cannot just relocate from elsewhere in Tanzania), the firm has a minimum annual export turnover of $100,000 for local investors or $500,000 for foreign investors, and at least 80% of goods produced by the firm must be exported. The second is a Special Economic Zone (SEZ) which again requires that a firm be undertaking new investment, that investment is at least $100,000 for local investors and $500,000 for foreign investors, the investment must be located within a designated Special Economic Zone Park, and there is no export obligation. The third is a facility whereby a factory located anywhere in Tanzania, whose output is at least 80% being exported, can be designated as a standalone SEZ and receive the same incentives as any other SEZ firm.

The development of SEZs in Tanzania can be done by the government, by the private sector, or through various forms of Public Private Partnerships (PPP). The governance of SEZs is very varied in Tanzania, and includes SEZs established and owned by the central government, local government, and the private sector, all of whom then lease serviced (provided with water, power, transport links) land to investors setting up production facilities.

In Tanzania, the economic zones are overseen by the Export Processing Zone Authority (EPZA). The EPZA is an autonomous government agency established in 2006. The EPZA lists ten functions **https://www.epza.go.tz/pages/functions** that it is mandated to carry out; these activities are related to EPZA as **developer** such as acquiring land for investors, providing basic infrastructure in the EPZ (such as sewage, waste removal), assistance with wider government administration (company registration, obtaining visas and work permits, and getting promised tax incentives). These services are offered under the one-stop -shop service centre at the EPZA office in Dar es Salaam. EPZA provides **commercial assistance** to firms, and offers to identify potential suppliers and partners for joint ventures, and provide them information on investment opportunities and market information. EPZA acts as **promotor** of the SEZ scheme to potential investors both domestically and internationally. EPZA also acts as the **regulator** of the SEZ programme and issues the licenses for firms to operate in the SEZ/EPZ scheme and monitors the compliance of firms with those licenses.

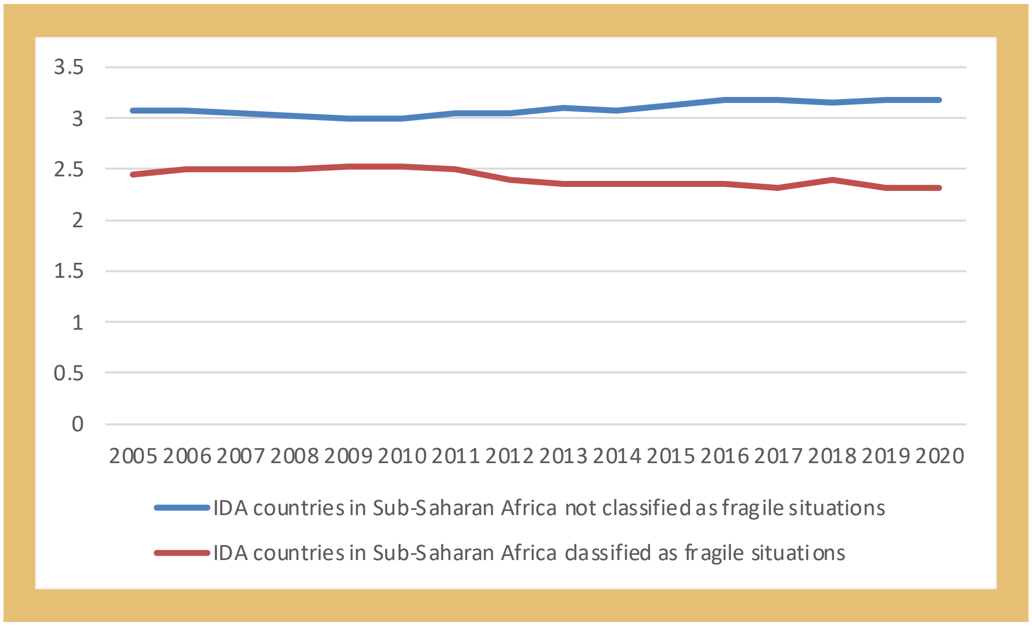
The EPZA currently lists 10 central government SEZs, 5 local government SEZs, and 11 private SEZs. The distinction between SEZs and EPZs, and the number of standalone EPZs is not clear from the EPZA website. A recent survey found that only four of these Benjamin William Mkapa SEZ, Hifadhi EPZ, Kamal Industrial Estate (partially), and Kisongo EPZ were operational at the time of writing, with the remainder still being at the development stage[2]. This more subdued outcome is supported by the EPZA Strategic Plan for 2019-20 to 2023-24, which aspired to have three SEZs developed by 2024. Beyond this the EPZA has significant ambitions to expand the program, and the strategic plan includes goals to have the development of five SEZs by local government and pension funds “influenced” by 2024 and the feasibility study and master plan for at least five SEZs carried out by 2024[3].

It is difficult to get detailed and reliable data on the operation of the zones, in particular the activities of firms located in the zones. For example, there is no reliable publicly shared data on how many firms operate in the various economic zones in Tanzania. One recent report estimated that 173 companies have been licensed as SEZ or EPZ firms., of these about 120 are operational, and the majority of those (80%) are single-factory units[4]. An impressive effort by academic researchers from the UK to undertake original fieldwork collected data on all companies operating in the scheme from its inception until 2021 (Andreoni et al, 2022). The survey found that from 2008 until 2019 the EPZA licensed 148 firms which have started operations and reported production for export in at least one year. By 2019 there was evidence that 100 companies were registered and in operation under the SEZ/EPZ scheme. Of these, 90% have a licence to operate manufacturing and industrial activities, while the others are in services and commerce. The survey also found that over the period 2008–2018, a total of 48 firms exited the scheme, with the number of exiting firms increasing after 2017. By March 2022, a year after President Samia Suluhu Hassan took office, the EPZA were reporting that 23 new firms had entered the scheme[5].

2. Why Establish a SEZ?

The first-best policy to boost domestic and foreign investment is to create national-level well-protected property rights and investor protection. Figure one shows that in Sub-Saharan Africa measures of property rights protection have stagnated since 2005.

Figure One: Property rights and rule-based governance rating (1=low to 6=high)[6]



National-level reform of investor rights and property rights in Sub-Saharan Africa has been undermined by elite interests (lack of property rights makes it easier to acquire the property of the politically disenfranchised at low-cost), overlapping property rights (some property is private and some held through customary or tribal laws), lack of government capacity, and stalled democratic progress (which makes it easier for elites to protect themselves). In Tanzania according to the Atlantic Council Freedom and Prosperity Index, '*Property Rights*[7]' were marginally lower in 2022 (51) than they were in 2015 (51.7). '*Investment Freedom*[8]' in 2022 (57.9) was lower than in 2010 (68.4). In 2020 according to the World Bank Doing Business Indicators Tanzania ranked (out of 190 countries) 162nd for starting a business, 149th in dealing with construction permits, 165th in paying, taxes, and 146th in registering property[9].

One means to overcome this constraint is through the creation of SEZs (spatially delimited areas that function with good property rights, investor protection, and better administration than the domestic economy). The declaration on the EPZA website makes it clear this is a motivation for the establishment of SEZs in Tanzania,

"To Initiate, Develop and Manage Operations of Special Economic Zones for the Creation of International Competitiveness for Sustainable Economic Growth."

Tanzania has poor quality infrastructure that undermines the ability of firms to produce, transport, and export goods and services efficiently and competitively. According to the 2019 Global Competitiveness Report published by the World Economic Forum, Tanzania ranked (out of 141 countries) 110th in transport infrastructure, 121st in utilities (electricity and water supply), and 133rd in ICT adoption[10]. Given budgetary, organisational, and capacity constraints in Tanzania, it is difficult to improve infrastructure for investors and exporters nation-wide. An SEZ will allow infrastructure construction and provision to be focused in one-location.

By attracting multiple firms to a specific geographic location, a SEZ may stimulate agglomeration externalities, or firm-level productivity gains. A cluster of similar firms will encourage the growth of specialist input suppliers, that reduce delivery times, lower inventory needs, and supply specialist inputs. Workers with specialist skills will have an incentive to re-locate to an area that offers multiple opportunities for employment. This will create a virtuous circle, as the presence of skilled workers will then encourage even more firms to re-locate to the area. This firm-worker dynamic permits better matching of workers to jobs. The informal exchange of ideas related to production methods, technology use, or management methods, between workers and firm-managers, are more likely when firms operate close together[11].

3. A Brief History of SEZs

SEZs a global history: SEZs are not a new idea, trade entrepots and free cities located on important trade routes, such as Gibraltar, Hamburg and Singapore have existed for hundreds of years. The first modern SEZ was established in Shannon, Ireland in 1959, and until the 1970s most SEZs were located in developed countries. During the 1970s East Asia and Latin America started establishing economic zones[12]. China set up four SEZs in 1980, which were regarded as a great success; they expanded, they inspired more SEZs in China, and they prompted national-level economic reform that led China away from state-socialism into market-globalism, ever since other countries have been trying to repeat the China mode. The number of SEZs globally has increased from an estimated 176 zones in 47 countries in 1986 to 3,500 zones in 130 countries in 2006, and to 5,400 zones across 145 countries in 2019, with 500 SEZs in the development pipeline[13].

SEZs an African history: several African countries launched SEZs in the 1970s, including Liberia in 1970, Mauritius in 1971, and Senegal in 1974. Inspired by the China success story, many more African countries launched economic zones in the 1990s (Ghana, Kenya, Malawi, Uganda, Zimbabwe) and 2000s (South Africa, Zambia, Tanzania)[14]. Some countries (Egypt, Ethiopia, South Africa, and Tanzania) are today expanding their SEZ program and others (DRC, Botswana, and Gabon) are launching new programs. The number of SEZs in Africa increased from 20 in 1990 to 237 in 2020. Currently 38 African countries have SEZs while more are planned elsewhere[15].

The vast majority of zones in Africa (90%) are multi-activity and the remainder (10%) target specific industries, such as Morocco's Casablanca Midparc Free Zone (aeronautics) and Ethiopia's Kilinto Industrial Park (pharmaceuticals)[16]. Most countries have zones that include agriculture related sectors such as agri-business, agro-processing, livestock and dairy products. Zones focused on high-end services sectors are less common, some examples include the East London IDZ in South Africa, and ITC and Biotechnology focused zones in Benin and Cote D'Ivoire[17].

SEZs a Tanzanian history: in the 15-years after 1990 Tanzania transitioned from a centralised-socialist to a market economy. Tanzania experienced rapid economic growth in the decade after the mid-1990s (around 6% p.a.) which was not translated, as hoped, into widespread improvements in well-being. The share of the population living below a 'Basic Needs Poverty Line' declined slowly, from 39% in 1990 to 33.5% in 2007. Economic growth was driven by mining, construction, and communications, and to a lesser extent by the financial sector and tourism. These sectors tended to generate jobs for the already well-educated and prosperous, and at most only a few low-paid jobs for the poorest. Economic growth did not lead to job-creating structural change. The share of manufacturing declined from 13% of GDP in the 1970s to around 10% in 2010. The failure to create job-hungry and export-oriented factors in electronics, textiles and other sectors left 70% of the labour force still working in traditional agriculture by 2010 and urban unemployment rates of 30%. In 2010 only 5% of the new entrants to the labour market found work in the formal-modern sectors[18].

In China SEZs drove the process of market-oriented reform, in Tanzania the motivation to create SEZs was a consequence of well-established market-oriented reform that needed to be made more inclusive. Against this backdrop the government of Tanzania enacted the EPZ Act in 2002 and established the Export Processing Zones Authority (EPZA) in 2006. In

2006 the government launched the SEZ programme as part of its 'Mini-Tiger Plan' to attract foreign and domestic investment. The SEZ scheme initially had a separate administrative body. A 2011 Economic Zones law unified the EPZ and SEZ schemes and gave oversight authority for both programs to the EPZA[19].

There are a range of incentives offered to investors in EPZs and SEZs. There is some distinction in incentives offered between the two, but generally they include exemption from VAT paid on raw materials and capital goods used in production, a 10-year holiday on corporate tax payments and payment of withholding tax on rent, dividends and interest. Other non-tax incentives include exemption from pre-shipment or destination inspection requirements, onsite customs inspection of goods in the EPZ, provision of business visa at the point of entry to key technical, management and training staff, entitlement to an initial automatic immigrant quota of up to five persons during the startup period, the provision of infrastructure within the zone, and unconditional transferability overseas in freely convertible currency of profits, dividends, loan repayments, and royalties (**www.epza.go.tz/services/epz-sez-licensing**).

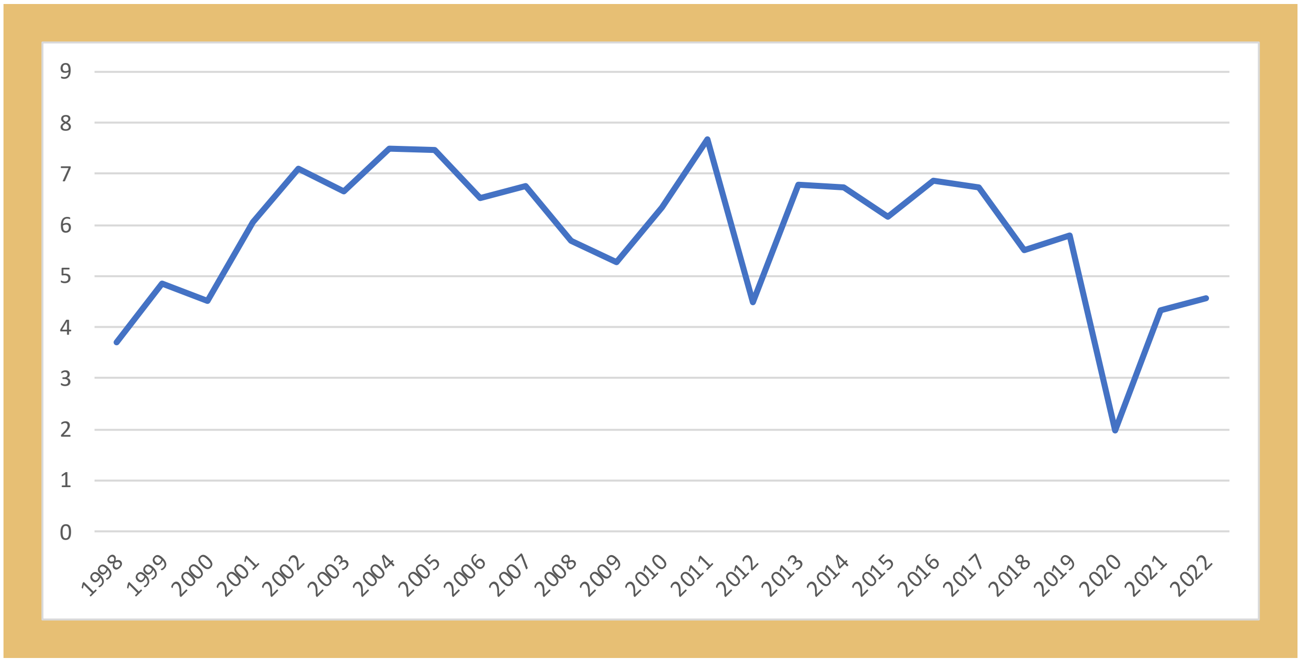
4. How Should we Judge the Performance of SEZs in Tanzania?

We can evaluate the impact of SEZs in Tanzania in three ways, first the **immediate** impact on economic growth through investment, exports, and employment, second the contribution of SEZs to the **sustainability** of economic growth through promoting local industrialization and the adoption of new technologies, and thirdly the impact of SEZs on **national-level economic reform**. This policy brief focuses on the first of those three criteria and subsequent policy briefs will tackle the other two.

The EPZA website lists seven objectives of SEZs in Tanzania. Three correspond to the **immediate** impact on economic growth, these are, 'Attract and promote investment for export-led industrialization', 'To create and expand foreign exchange earnings', and 'Create and increase employment and development of skilled labor'. Three correspond to 'the longer-term **sustainability** of economic growth, these are 'Attract and encourage the transfer of new technology', 'Foster linkages of the local economy with the international market', and 'Promote processing of local raw materials for export (value addition)'. The last is a more general aspiration that summarises all these impacts, and aims to 'enhance international competitiveness' (**https://www.epza.go.tz/pages/epza-objectives**).

Figure two shows that economic growth in Tanzania HAS been sustained at a rapid rate since the launch of the EPZ-SEZ programme in 2002 and the further consolidations of the programme in 2006 and 2011. Economic growth remained in a narrow band between 5 and 7% between 2002 and 2020. There was some interruption to economic growth during the 2020 Covid-19 crisis, but Tanzania remained resilient, avoided an economic recession, with growth falling to 2% in 2020, and growth then revived rapidly thereafter.

Figure Two: Economic Growth in Tanzania (%, per annum)[20]



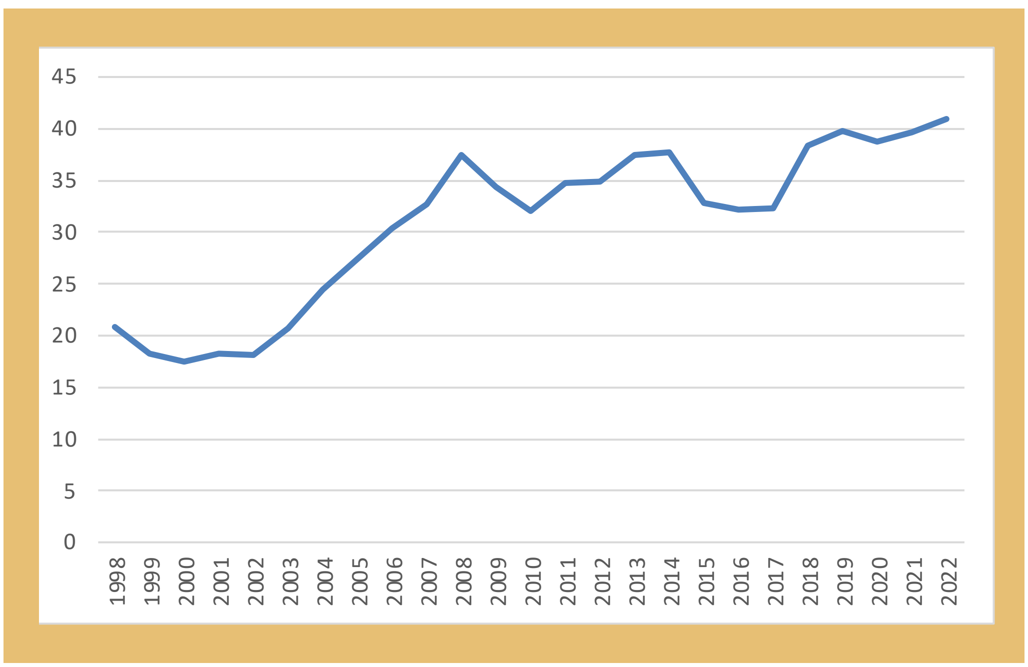
This section now asks, to what extent did the EPZ-SEZ program in Tanzania contribute to sustained economic growth after 2002 through boosting investment, exports, and employment?

The answers to this question should be seen in light of the difficulties in getting data that is both useful and reliable. EPZA data on the operational status, employment, and exports of firms located in economic zones has been called "contradictory, patchy and unreliable"[21]. This section uses data from a wider variety of sources, including fieldwork surveys and macroeconomic data from the World Bank, but focused on the economy of Tanzania rather than specifically the functioning of firms in economic zones.

4.1 Domestic and Foreign Direct Investment

Figure three shows that rapid economic growth in Tanzania after 2002 was investment-led. Investment increased rapidly from around 17% in 1999-2002 to around 35% of GDP between 2008 and 2022. This is an impressive level of investment by any global historical and contemporary standards. To what extent was this surge in investment explained by the EPZ-SEZ programme in Tanzania?

Figure Three: Gross capital formation (% of GDP) in Tanzania



Source: World Development Indicators (2024)

We lack any data on how much domestic investment has been spurred by the economic zones in Tanzania. The relatively small number of firms that have located in economic zones (and limited employment that they have created) suggests this was not a major contribution to national investment rates. Here we focus on the record of economic zones in attracting FDI, for which there is some, limited evidence available.

The World Bank carried out original surveys and case study research of SEZs in 2009 across six African countries (Ghana, Kenya, Lesotho, Nigeria, Senegal, and Tanzania) and two countries each in Latin America (Dominican Republic and Honduras) and Asia (Bangladesh and Vietnam)[22]. Table one shows that by 2008 Tanzania had accumulated only $210 million FDI in its economic zones, this total was negligible compared to the $2.6 billion in the Dominican Republic, $1.4 billion in Bangladesh, and almost $38 billion in Vietnam. Investment was also low in both Kenya and Nigeria, but higher in Ghana which had accumulated more than $2.8 billon, though almost all of this was in single-unit factories, not in the economic zones.

Table One: EPZ Investment Statistics[23]

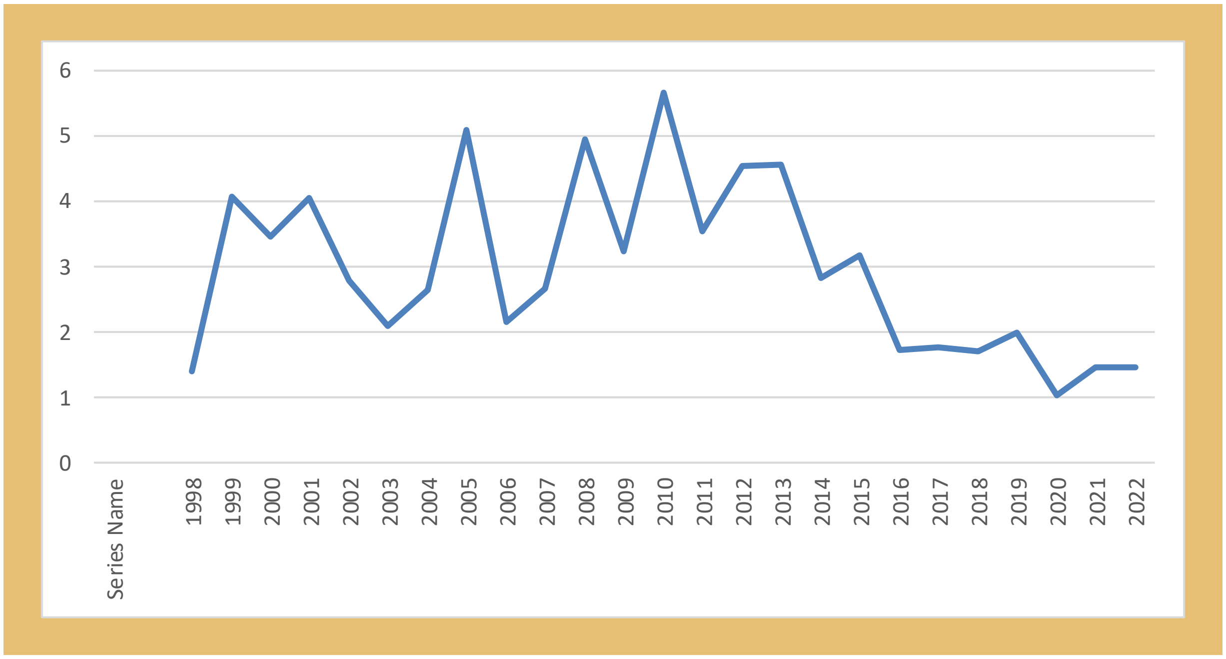
	FDI Statistics		
	Total EPZ FDI Stock (2008) $m	EPZ FDI per capita ($) (2000-08)	EPZ FDI as % of total national (2000-08)
Bangladesh	1,435	6	30
Dominican Republic	2,611	141	18
Vietnam	36,760	325	100
Ghana (Tema)	68	3	48
Ghana (single units)	2,806	120	
Kenya (EPZs)	162	6	20
Kenya (single units)	155		
Nigeria	na	<1	<1
Tanzania	210	5	18

Table One also shows that economic zones have been responsible for attracting a relatively large share of total FDI inflows, 18% in Tanzania, 20% in Kenya, and 48% in Ghana. This suggests that the failure to attract FDI into these African countries may be due to national-level factors rather than to the failure of the zones themselves.

A more recent report suggests that over the next decade (2007-2019) Tanzania received around $2.4 billion in FDI to its economic zones[24]. EPZA data shows that total investment in SEZ companies increased from $1,292 million in 2014 to $2,242 million in 2019, implying an average of $192 million investment per year (EPZA, 2019:4). These numbers represent only a marginal improvement over the situation prevailing in 2008.

Figure Four shows that the SEZ/EPZ programme in Tanzania has not driven an increase in FDI, as hoped for by the EPZA. Figure Four shows that FDI flows have been on a downward trend in Tanzania from 2011 to 2022.

Figure Four: Foreign direct investment, net inflows into Tanzania (% of GDP)[25]



4.2 Employment

SEZs have created millions of jobs worldwide. Between 1975 and 2006 the number of SEZs increased from 79 to 3,500 and employment from 23 to 66 million (in the latter year 40million of this was accounted for by China)[26]. It was this surge that helped persuade Tanzania, and much of Africa to establish SEZs in the 1990s and 2000s.

The creation of SEZ employment in Tanzania got off to a very slow start. By 2008 SEZ employment had reached 7,500 in Tanzania, compared to 218,299 in Bangladesh, 124,517 in Dominican Republic, 1,172,000 in Vietnam, and 130,000 in Honduras. In 2008 SEZs remained marginal to the industrial sector. Only 2.5% of industrial employment was in SEZs in Tanzania compared to 30% in both Dominican Republic and Honduras, and 19% in Vietnam[27]. Compared to the small sizes of their populations, Honduras and the Dominican Republic were generating 10-15 times more employment on a per capita basis than Tanzania[28].

There are some examples of subsequent successful employment creation in Tanzania. In the Benjamin William Mkapa SEZ the Tooku Co Ltd factory grew from 300 employees in 2009 to 4,000 in 2020 and MAZAVA fabrics, a stand-alone EPZ in Morogoro, expanded from 200 employees in 2009 to 2,000 in 2020[29]. There were just not enough such examples. By 2019 SEZ employment was 45,000 in Tanzania, which implied that Tanzania was creating about 4,000 jobs a year in SEZs[30][31] EPZA data shows that employment in SEZs increased from 21,493 in 2014 to 56,312 in 2019, suggesting annual average employment growth was almost 7,000 people, an acceleration, but still a very slow and disappointing result (EPZA, 2019:4). The outcome in Tanzania was perhaps favourable when compared to the 125,000 in Honduras for where employment growth had stalled. But remained far below 2019 SEZ stars, such as 3,000,000 in Vietnam, 1,000,000 in Malaysia, and 1,400,000 in the Philippines[32]. The more successful African SEZ employment experiences, largely in North Africa, include

Egypt, 400,000 and Morocco 150,000 (Rodriquez-Pose et al, 2022:463). It remained the case that SEZs were not a leading driver in employment creation. Typically, SEZ employment was 5% or less of national industrial employment in Africa, compared to 36% in the Dominican Republic, 30% in Honduras, 23% in Malaysia, 16% in the Philippines, and 19% in Vietnam[33].

4.3 Exports

There is a striking lack of data on exports from SEZs in Africa. Even major new studies on African SEZs by the United Nations Economic Commission on Africa[34] and the United Nations Conference on Trade and Development[35] fail to include any such evidence.

One exception[36] includes the results of survey evidence dating from 2009. Table Two below summarises the evidence from this survey. The general failure of African SEZs to provide an export-platform is evident. In 2008 exports from SEZs in Tanzania totalled only $59 million. Exports zones in Ghana ($281 million), Kenya ($145 million), Senegal ($50 million), and Nigeria ($100 million) were little better. The difference with Bangladesh ($2.4 billion), Honduras ($4 billion), the Dominican Republic ($4.5 billion), and especially Vietnam ($16.1 billion) is striking. The African numbers look better for exports from countries with single-factory SEZ schemes, especially Ghana, where export dynamism was largely the result of cocoa processing activities. The relative success of textile exports from SEZs in Lesotho is also evident, where per capita exports are similar to the successful case studies in Central America and Asia.

Table Two: Summary of key EPZ export statistics[37]

	Exports ($) 2008	Exports per capita ($) 2008	EPZ share of national	
			Non-oil exports	Manufacturing exports
Bangladesh	2,430	102	15%	16%
Dominican Republic	4,545	462	69%	96%
Honduras	4,000 (est)	550	61%	98%
Vietnam	16,175	188	30%	41%
Ghana (Tema)	281	12	33%	590%
Ghana (single units)	1,019	44		
Kenya (EPZs)	145	4	9%	25%
Kenya (single units)	265	7		
Lesotho	425	211	64%	64%
Nigeria (Calabar-est)	100	1	4%	16%
Senegal (DIFZ)	50	4	16%	42%
Senegal (single units)	350	29		
Tanzania	59	1	3%	14%

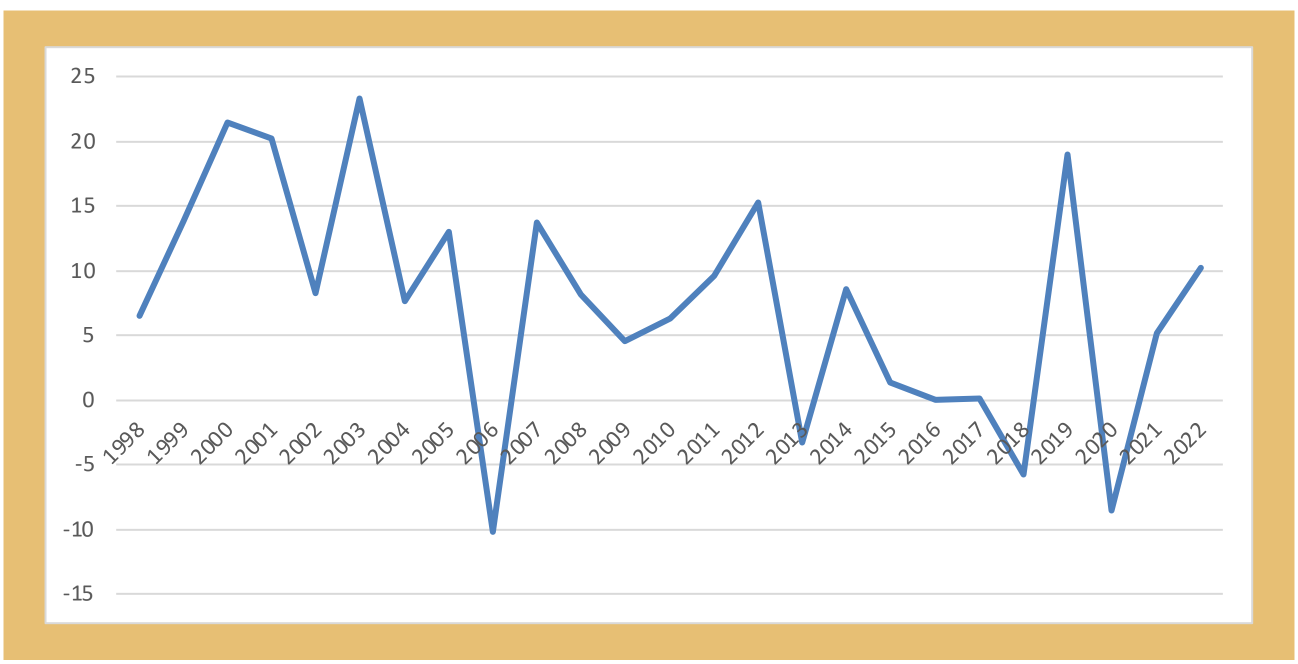
As with investment, while nominal exports from the African zone programs were extremely small on average, around 10-15 times smaller than the corresponding absolute and per capita exports in the non-African programs, their share of national exports was much more in line with international SEZ norms38.

There is only scattered data to cover the period after 2008. One recent report estimates that over the subsequent decade (2007 to 2019) cumulative exports from SEZs in Tanzania totalled $2 billion39. Another estimate suggests that annual foreign exchange earnings from EPZ operations increased from $22 million in 2008 to about $200 million in 201640. In 2016 total exports from Tanzania reached $8 billion, meaning SEZ exports accounted for only 2.5% of the national total (Statista, 2024). EPZA data shows that exports from SEZs in Tanzania increased from $794 million in 2014 to $2,219 million in 2019, implying annual average exports of $285 million41.

A recent fieldwork survey42 notes that EPZA does not have the capacity to monitor exports by individual SEZ firms, and verify if they are meeting the requirement to export 80% of their production. This was especially true among the stand-alone SEZs firms that make up the bulk of licensed SEZ firms and were not conveniently accessible inside SEZ/EPZ parks. This survey found slightly lower figures for total exports. In 2019 the 100 then operational SEZ firms, had exported a cumulative total of $1,800 million. 48 companies that had exited the SEZ scheme had accounted for another $227.8 million of exports43. This lower figure may be evidence that some registered SEZ firms were inflating export numbers in order to qualify for various tax incentives.

Figure Five shows that the passing and implementation of the various SEZ and EPZ Acts in Tanzania, in 2002, 2006, and 2011 have not energised national export growth. Export growth in Tanzania has been on a downward trend from 2002 to 2022.

Figure Five: Tanzania: Exports of goods and services (annual % growth)[44]



5. Tanzania: An SEZ Beauty Contest

As part of China's Going-Out Program, in 2006 the Chinese Ministry of Commerce (MOFCOM) launched a scheme to establish SEZs oversees. At the Forum on China Africa Cooperation (FOCAC) Summit in 2006, Chinese President Hu Jintao pledged to establish 3-5 zones in Africa[45].

MOFCOM held a limited tender to establish the zones which was widely regarded as "fair, and transparent". There were two rounds of tenders, in 2006 and 2007. In the 2006 tender there were more than 60 expressions of interest from Chinese companies, and of these, nearly half were invited to submit formal proposals, 12 of which were invited to present their proposals to a panel of outside experts, including officials from Chinese SEZs, and university professors in Beijing. The panels selected eight proposals based primarily on the proposal itself and its feasibility studies (market potential, investment environment), documented evidence of support from the host government, the ability of developers to finance the project, and the proven capacity of developers to implement a major construction engineering project. The second round in 2007 drew on lessons from the first round, adding a new criterion, that companies needed to show an annual turnover (revenue) of at least $2 billion for at least two previous years effort to ensure that companies would have the resources to finance the development of the zones. Over 50 companies applied, 20 were invited to submit formal proposals and 11 proposals were selected. More than 10 African governments asked to host cooperation zones, among which included the government of Tanzania, a long-standing and close ally of China in Africa. No Chinese company was interested in building a zone in Tanzania[46].

The problem for Tanzania was not related to its economic performance. As figures one and two have shown, the economy of Tanzania was experiencing rapid investment-led economic growth at the time of the tenders in 2006 and 2007.

The issue for Tanzania was not related to problems with governance. Countries with good governance such as Thailand, Mauritius, and South Korea, as well as countries with poor governance, such as Venezuela, Cambodia, Egypt, Algeria, and Indonesia won tenders[47].

The problem for Tanzania wasn't related to its natural resource profile, 7 from the 15 proposed host countries Algeria, Egypt, Indonesia, Nigeria, Russia, Venezuela and Zambia are resource rich, with minerals and fuels made up at least 25% of the country's total exports, on average between 2005 and 2009, while 8 countries hosting zones were resource-poor countries[48].

The failure to win a tender was not about international politics, Tanzania was a long-standing and close ally of China in Africa.

The failure to win a tender was a comment on how Chinese companies perceived Tanzania's ability to develop and run SEZs effectively.

6. Conclusion

The economy of Tanzania has performed well over the last two decades, averaging 5-7% annual growth of GDP, this has been driven by a rapid rise in the investment rate as a share of GDP, from 20% in 2002 to 40% in 2022. It is reasonable to ask, to what extent this can be attributed to the SEZ and EPZ Acts passed in 2002, 2006, and 2011.

There is no evidence that SEZs contributed significantly to the surge in investment after 2002, SEZ firms remained small, with aggregate employment growing by around 4,000 people per year, the vast bulk of industrial employment remained outside the SEZs, SEZs attracted little FDI, and made only a marginal contribution to exports.

The aspiration of the EPZA that SEZs "*Initiate, Develop and Manage Operations of Special Economic Zones for the Creation of International Competitiveness for Sustainable Economic Growth.*" has not been achieved and in this sense SEZs have been a failure in Tanzania.

A subsequent policy paper will complement this finding by showing that SEZs contributed little to making economic growth more sustainable, and failed to promote either wider industrialisation or technological upgrading in Tanzania.

Subsequent policy papers will examine in more detail the policies and functioning of SEZs in Tanzania (and Zanzibar) and provide recommendations for policy reforms to help SEZs achieve the goals set for them by the governments of Tanzania (and Zanzibar). Forthcoming policy papers will include the role of tax concessions, the governance of SEZs, infrastructure, and the domestic investment climate.

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