

## **BACKWARD LINKAGES OF FIRMS UNDER EXPORT PROCESSING ZONE AUTHORITY IN TANZANIA**

**BY**

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### **ABSTRACT**

The main objective of this study is to assess the backward linkages of the exporting firms under export processing zones. More specifically, the study intended to explore whether the exporting firms source the inputs from the local suppliers, the challenges that they face when sourcing from local suppliers and their contribution in terms of technology transfer and human capital development. The data were collected from thirty exporting firms that operate under export processing zones through questionnaire, interview and documentary review.

The findings revealed that not all export processing zones firms have backward linkages with the local economy as they source their inputs from other suppliers outside the country. However, agro-processing firms have contributed much in boosting up the standard of living of the local people. Export processing zones firms have contributed to the foreign earnings and in increasing employment opportunities. Furthermore there have been a technological transfer and human capital development through technical skill instruction, on job training, learning by doing though the pace of these changes is small and their immeasurable in some cases. In conclusion, this study noted that the export processing zones program can bring about major changes in the economy. From the findings of the study has provided recommendations to build a strong and sustainable export processing zones.

**Key words:** Export Processing Zones, firms, Sourcing materials, local suppliers, technology transfer and backward linkage

### **1.0 INTRODUCTION AND BACKGROUND OF THE STUDY**

A widely debated aspect in developing countries relates to the role that export processing zones (EPZs) can play to the domestic economy, in terms of employment creation, linkages to the rest of the economy, and net foreign exchange earnings (Warr, 1990). A number of studies have identified EPZs as a useful transitional tool in the process of integrating the national economy with the world

economy (ADB, 1997; Johansson and Nilsson, 1997; Radelet and Sachs, 1997). In many cases, EPZs have served as a catalyst and demonstrated their effect to the host economies (Rhee, 1990; Rhee and Belot, 1992). It has been recognized that for EPZs to contribute to sustainable economic development, they would have to be linked to the rest of the economy (Willberg, 2007). The direct channel is through backward linkages generated when EPZ firms raise demand for inputs from the domestic suppliers, and through technological spill-overs which come as skills attained in EPZ-based production which are passed on to the rest of the economy.

In most developed and emerging countries such as China, Taiwan, and South Korea that have adopted the scheme, EPZs tend to build strong linkages within a short period of time (Madani, 1999). This is because many of these countries had solid industrial bases which existed prior to the establishment of the EPZs. The transfer of technology was facilitated by the existing technological sophistication and highly educated labour force. For example, Taiwan, China and South Korea have been successful in creating backward linkages due to their strong industrial base (Kokko, 1992). The weaker industrial base caused the linkage to take more time to be implemented, causing it to become inconsistent with firms in the zones who complained of the poor quality or incompatibility of local inputs (Madani, 1999). For example, in Bangladesh, Costa Rica and Guatemala, more than 90% of raw and intermediate inputs in the zones were imported, signaling weak backward linkages (Jenkins, 1998).

Tanzania first launched its EPZA program in 2003, and in 2006 the programme was broadened into free trade zones, ports and tourist parks (Kweka, 2011). The management of the zones focused on providing an efficient business environment for the companies to operate and produce within the zones. This included providing higher quality infrastructure and offering a “one-stop” and streamlined business start-up, registration process and expedited approvals for foreign investment (Tanzania Country Report, 2009). Despite the preferences extended to the EPZA firms, still a number of important research issues are raised. These are: Whether the EPZA firms provide backward linkages with local suppliers, Whether EPZA firms provide a sustainable path for transferring technology to local suppliers, and whether EPZA firms support human capital development to local suppliers. Therefore this study intends to explore the backward linkages of EPZA firms and the local suppliers.

## 1.2 Objectives of the study

The study was guided by the following specific objectives:

- i. To explore the sources of materials used by EPZA firms.
- ii. To assess the challenges which EPZA firms face when sourcing from local suppliers.
- iii. To determine how EPZA firms support the local suppliers in terms of technology transfer and human capital development.

## 2.0 LITERATURE REVIEW

This part presents the literature review related to the study. It first gives the definitions of the key terms and the empirical literature.

## **2.1 DEFINATIONS OF KEY TERMS**

### **2.1.1 Export processing zones**

Export processing zones are recent phenomenon which allow for the creation of a closed society isolated from the domestic economy within which export-oriented manufacturing activities can freely operate without state interference (Madani, 1999). Foreign investors in the zones are given favored treatment with respect to the taxation, infrastructure, import controls and industrial regulations. In return, the investors are expected to process all intermediate imports within the zone and export without adversely affecting the domestic economy (Jayankrunthaman, 2003).

### **2.1.2 Linkages**

A broad definition of linkages include transactions between foreign affiliates and local business and non-business entities, like universities, training centers, research and technology institutes, export promotion agencies and other official or private institutions (Altenburg, 2000). This study focused on linkages between EPZ firms and the local suppliers. Therefore, linkages are defined as inter-firm transactions that go beyond arm's length, one-off transactions that involve longer-term collaborations between the parties (UNCTAD, 2001) Backward linkages are where EPZ firms buy inputs from the domestic market of the host country and subcontract services to local enterprises as much as possible (Madani, 1999).

## **2.3 Empirical Review**

Weiping and Amirahimad (2001) in their study on export processing zones in Asia with the objective of analyzing why EPZs become attractive to governments in developing countries and the impact of EPZs to the domestic economy. The findings of the study were that EPZs seem to fail when used for promoting technology transfer, linkage effects and regional development. According to the study, these goals have not been met as a result of inadequate policy support.. Also the system of incentives has encouraged the import dependency as they can import all materials, parts and equipment duty free. Therefore, firms do not look for local suppliers. Firms in the zones tend to rely on imported materials and components from their own global networks, which are usually of higher quality, a tendency that precludes the creation of backward linkages with the local economy.

Jayanthakumaran (1995) in his study on Trade Reforms and Industrial Performance of Sri Lanka 1977-90, through the review of literature with the objective of identifying the extent of local purchase by EPZ firms observed that most of the local purchases were sub-products. These purchases were at a small level and the percentage of domestic purchases to total raw materials remained static for a period of time. According to the findings of the study the attempts to promote sub-contracting were not successful for a number of reasons. These reasons were first, EPZ firms mostly bought their inputs from the cheapest source outside the country, utilizing the facilities offered to them such as tariff free import of raw materials, parts and components. The second reason is that, EPZ firms had no direct contact with domestic firms. The third reason is that, linkages of zone enterprises with local industries were limited, as there was a low level of industrialization in the country and the nature of import-based manufacturing processes that they adopted. The study concluded that local purchases were not very enthusiastic in the other Asian zones.

Furthermore, in 2003 Jayankrunthaman conducted another study on EPZs to analyze the cost benefit appraisal of export processing zones, a survey of literature targeting EPZs in six countries: South Korea, Philippines, Indonesia, Malaysia, Sri Lanka and China. The objective of the study was to analyze the effect of EPZs in terms of the costs involved in developing the program, the revenue lost on incentives given to the EPZ firms against the benefits that the economy derived from the EPZ. The study findings show that all six countries realized the expected benefits in terms of employment created, taxes collected and other revenue derived from the firms. However, with the exception of Philippines, most of the countries gave a positive net present value. This was an indication that the EPZ programme was worthwhile to undertake in those countries. On the other side, the linkage with the domestic economy was negligible, because of little domestic purchases of machinery and raw materials. According to the findings of the study, the greater isolation of the zones from the domestic economy did not encourage the technological spillovers and other integration which was expected in the domestic economy.

UNCTAD (2000); Hansen (2006), They concluded that FDI policies should move from focusing on attracting FDI to a focus of promoting linkages between local firms and the exporting firms. These linkage policies required sophistication and a different approach where firms were assessed of their contribution to local suppliers' contribution. This study is relevant to developing countries like Tanzania where many foreign firms are flowing in due to favours extended to them by the government. They have to evaluate the impact of those firms to the local firms and how they link with the domestic economy..

### **3.0 RESEARCH METHODOLOGY**

#### **3.1 Research population and Sample**

The targeted population of the study was EPZA firms in Dar es Salaam, Tanzania. These included the locally owned firms and the firms owned by foreign investors. The sample size for this study was 60 EPZA firms of which 30 firms were selected randomly from the sample. The selected sample consisted of twelve firms from the manufacturing, fourteen firms from agro-processing, and four firms from assembling. The selected firms involved both firms owned by local and foreign investors.

#### **3.2 Data collection and methods**

Both primary and secondary data were collected for this study. The sources were expected to enrich the researcher's understanding of the problem as they were compared/ collaborated with each other thus, making results more reliable.

#### **3.3 Secondary Data**

In this study, secondary data involved intensive literature review. Various literatures and empirical studies relevant to the study were reviewed. The statistical data from published sources were also undertaken. Other information was collected from Export Processing Zone Authority and Tanzania Revenue Authority published documents.

### **3.4 Primary Data**

Primary data were gathered directly from the field. In this study, the primary data was gathered through questionnaires. The questionnaires were administered through personal interview. Also, Observation as a tool for data collection was as well used in this study.

### **3.5 Questionnaires**

Questionnaires were used for the collection of primary data. These were questionnaires which consisted of definite, concrete and predetermined questions which were presented with the same wording and order. The reason for using this was that the exporting firms would have much information to try to build up the linkage with local suppliers even in a situation that did not exist. Therefore, it was thought that the response to a questionnaire could highlight issues concerning the linkages and the real situation in the field could be easily studied without bias as noted by Kothari, (2004).

## **4.0 FINDINGS AND DISCUSSION**

### **4.1 The sources of raw material by EPZA firms**

Sources of raw material by EPZ firms depend mostly on the product that they produce and the international standards requirements on that product. The EPZA firms develop backward linkages with the host country economy by sourcing raw materials from local suppliers. Such linkage is deliberately induced by the pre established government policies that encourage the export-oriented firms to buy raw materials from local suppliers. The EPZA firms have to understand that the domestically produced raw materials in the market have as substitute to imported inputs. However empirical studies show that EPZ firms could buy imported raw materials duty free. This means EPZ firms receive a rebate from the government equivalent to the duty that would have been paid on these imported inputs. There is no welfare effect to the local economy from the purchase of the imported raw materials by the EPZ firms (Warr, 1990). Also Lall and Wignaraja (1998) assert that: "exporters, especially firms in export processing zones (EPZs), took advantage of favorable external and internal environment to propel exports into the forefront of economic growth".

The research findings of the study revealed that, EPZA firms in Tanzania can be grouped into four categories basing on their core business activities. This includes agro processing, engineering or manufacturing, mineral and oil refinery. Sources of raw materials under each category are different. The study found that 70% of the 30 visited exporting firms in Dar es Salaam region source more than 80% of their inputs from the foreign suppliers. Among the reason for sourcing inputs from foreign suppliers was unavailability of that input in the country or poor quality of the local inputs.

However, in the findings from previous research on backward linkages in the tourism sector showed that foreign firms import inputs due to the duty free incentive on imports. There is a need to maintain business relationships in their home country misuse the tax incentives for their own benefit. Mayer (2010) noted that, most of the South African owned hotels in Zanzibar prefer to source their foods and beverages from South Africa. Likewise Kenyan and Italian owned hotels import their requirements Italy and Kenya respectively. Also Anderson (2011) commented that the

foreign firms sources raw materials from their mother country to strengthen the business relationship. Likewise, in Tanzania there are EPZA firms which source from their mother country where they have business relationship with those foreign countries. One of the managing directors of an agro processing firm said:

*We source most of our inputs such as sugar from France, because of the poor quality of the sugar produced in Tanzania. If we use the inputs from Tanzania our products will not meet the ISO requirements, and we will not be allowed to sell our nutritional foods in the special markets that we have in the world. We are trying to educate Tanzanians on the quality of sugar that we need, but yet they have not managed to meet the standards.*

#### **4.2 Agricultural based industries**

Agricultural sector employs more than 80% of the Tanzanian working force. Most farmers are found in rural areas. The current campaigns of “Kilimo Kwanza” have a purpose of bringing about agricultural revolution in Tanzania. The exporting firms that deals with the agro processing products uses more than 80% of the locally produced raw materials as inputs in their industries.. The firms have opened up godowns in the supplier’s area so that they can easily fetch the raw materials from the farmers. One purchasing officer of Honey industry said that,

*We have introduced different physical collection centers for beekeepers so that honey and bee wax will be collected from customers. At the collection center’s the honey and wax are collected, tested, stored and transported to the industry. By having the physical collection centre’s the suppliers are encouraged to increase beehives and harvest honey more regularly. Currently, we have canters in Shinyanga, Singida, Rukwa and Tabora Regions. More than five thousand beekeepers have been registered in those regions.*

Furthermore, the production manager of one of the food production Industries limited expressed that,

*In the previous years we were getting most of our industrial inputs at Tandale market in Dar es Salaam. Currently, many milling industries have been developed that leads to high demand. To get assurance of supplies, we have expanded the sources of raw materials to upcountry. We have our godowns in Mbeya, Sumbawanga, Iringa, and Kilimanjaro regions.*

However, through observation it was noted that the EPZA firms do not have clear information about the local inputs available in the agricultural sector. The small scale farmers are not recognized directly by the exporting firms. The local farmers access the exporting firms through agents who collect the raw materials and sell them in bulk to the exporting firms. The traders charges higher price to exporting firms which is sometimes twice of the price they pay to the local farmers. One of the EPZA firm members of the management emphasized that;

*The small farmers could be more efficiency if they join together and form a group. This will enable them to produce more quality products and access the market directly. We find it difficult to collect the inputs from house to house. Some are located in very interior areas*

*where it is difficult to reach, because of poor infrastructures. Also this attracts high costs on local materials.*

Therefore, it was noted that the existence of backward linkages in agricultural sector will push the sector to adopt modern technology. The multiplier effect will be observed to other sectors of the economy such as education, industry, tourism and health.

### **4.3 Engineering / Manufacturing industries**

The research findings of the study revealed that 43.3% of the firms registered under EPZA are dealing with engineering and manufacturing activities. They produce different products for export purposes such as electronic cards, decorations, tiles, plastic products, candles, petrochemical products, structure panels, motorcycle and tricycle, steel, garments cement bags, mosquito nets and recycling of lead alloys and used oils. EPZA firms under the manufacturing sector use more of imported inputs than the locally produced one. Most of the exporting firms under manufacturing sector have a very high initial capital investment. The EPZA considers the increase in initial capital investment as a measure of performance of the EPZA programme. This being the case, the performance of EPZA in terms of investment may show an increase, but the benefits to the local economy are found to be insignificant and sometimes negative.

Furthermore, it was found that there are firms in manufacturing sector which have a well established business abroad where they source raw materials. In one of the firms, the production officer said that, *“there is enough supply lines in developed countries, for all of our input components and spare parts, all other raw materials are available. Our showrooms in Japan are well equipped with high tech storage facilities.”* In this scenario, it was noted that, if the exporting firm finds it optimal to source inputs from the foreign country, the local economy will not benefit. The above views are supported by Petersen and Pedersen (2008) who argued that, those foreign investors who are more integrated to the local economic activities even if they have fewer investments are more preferred

When analyzing the effect of exporting firms on backward linkages in a host economy, it was noted that manufacturing firms from outside do not create new linkages with local firms. They just displace pre existing linkage between local firms and local suppliers. These firms would like to have a large number of suppliers in order to secure the inputs at a more competitive price. One of the manager said that, *sourcing cotton products locally is a matter of a great concern. We have to match the costs and benefits. However, China and India are able to ensure sustainable supply of raw materials and at a practicable price and timely delivery.* Therefore, by importing the cheap inputs from abroad, the exporting firms benefit from low production costs. By using cheap inputs their products also become cheap in the market. In this regard the local firms become less competitive as they sell their products at very high prices. The local firms decide to quit the production or to form the joint venture with foreign firms. Therefore the lack of backward linkage turns out to be a threat to the local firms in the country.

Furthermore, Interviews with procurement officer in one of EPZ firms showed that there was a lack of awareness locally, regionally and internationally about what Tanzania can potentially offer in terms of intermediate products and services.

*He said that, we need to source from local suppliers, but we do not have clear information about the available resources. Sometimes it costs us to send our quality assurance laboratory personnel to check the quality of the available local materials. It involves high cost and time to get a reliable local supplier. Therefore we do not entertain that. We just look for other*

*suppliers from outside who have publicized the specifications of their supplies. Then we select the supplier who fits to our requirements.*

This being the case, it limits the market for local inputs to EPZA which is among potential niches to local suppliers. As a result, backward linkages have not been strengthened due to little or no information about local suppliers.

#### **4.4 Assembling industries**

In this study, it was noted that 20% of the EPZA firms with initial capital investment of 23.5 million are mainly dealing with assembling activities. These firms import more than 90% of the industrial inputs. The products that are assembled to finished goods include motorcycles, air conditioners, used cars, construction equipments, trailer, buses, computer peripherals and farm implements. Some of these products are sold within the country and others are exported to the neighbouring countries such as Zambia, Congo, Malawi, Uganda and Kenya. The assembled parts and components are imported from foreign countries such as China, Japan and India. The importation of the parts and components for assembling industries do not have a significant impact on local suppliers rather it develops ties with the supplying firms outside the country. The assembling firm employs few people with technical knowledge. This was noted in two visited assembling firms.

These firms use the incentives provided by the EPZA such as duty free import incentive to reap the benefits of the local market and the neighbouring countries. In this study it was observed that, the assembling firms have a little impact on the local suppliers and the economy of the country as a whole. The benefits that they derive from EPZA do not match with their impact to the local economy. To support these, Tanzania Revenue Authority made an analysis of the general loss that the country make on incentives, this was done in the year 2008 and was quoted in the media that, “*tax exemptions to the EPZA firms cost the country about US\$ 451 million the ten-month period running from July 2008 to April 2009. This loss makes up 6.4 percent of the total 2009/10 national budget and 9.6 percent of the projected domestic revenue collections for the budget*”.

#### **4.5 Local Supplier selection procedures**

Usually, the products that are produced for export purposes have to meet the international standards so that they can compete in the foreign market. In that regard it was noted that, the EPZA firms looks for a qualified local supplier who can deliver the best bundle In terms of quality, reliability and price. This view is also supported by Mayer, (2010) who pointed out that, “For a local supplier to capture beneficial spillovers from its dealings with exporting firms, it first must be selected and included in the network of qualified suppliers. In an interview with Honey Care one of the respondents said that;

*“Currently we have installed a facility that sorts the forms of honey, the suppliers of high quality honey and specialist honey are registered in the group of beekeepers. Once they are registered they form a network of suppliers with our sister company in Kenya. We provide to them training, equipment and other facilities to enable the registered supply to supply the honey regularly and at high quality.”*

Local firms, large and small, compete for the business of supplying inputs to the exporting firms with multinational suppliers. Therefore, local suppliers who have being selected to deliver goods and services to exporting firms become a part of the production network of the exporting firms. This is the potential for spillover benefits that can boost competitiveness and growth, and subsequently increase its shares of the market.



On the other hand the research findings of the study revealed that, the exporting firms under EPZA do not use tendering system in local supplier selection. They consider criterias such as location of the supplier, price, and ability to supply on time. However, as stated above, the quality of the supplies is highly considered by all exporting firms. The purchasing officer of Dardam manufacturing company said that; *“If the supplier supplies to us but do not comply with the standards, we just break up the business with the supplier and select another one who can meet our requirements. We do not have permanent contracts with the suppliers, but we can have a long term relationship with suppliers who usually supply to us on time and at a required quality and quantity.”* Therefore, it was noted that, being a member of the qualified suppliers, the local suppliers may train other suppliers who can comply with the standards. This will form a chain of suppliers who can supply to the local and international level firms and as a result the local economy will benefit.

#### **4.5 Prices offered on inputs from local suppliers**

The prices offered on local inputs in most cases were based on the existing local market price. During the interview it was noted that exporting firms experienced high price fluctuation in agricultural products as compared to other industries such mining and manufacturing. The EPZA manager said that, *“During harvest season the prices of the agricultural products are low due to higher supply in the market. In some aspect, the traders try to rise up prices by purchasing from farmers and sell in bulk and at a higher prices. Some of them try to store the products to earn higher price when the demand grows high.”* However, the manager commented that in some cases, the traders have failed to store these produce in a safe way and as a result the quality deteriorates. The fall in quality makes them not to get the expected price in the market, and sometimes they lose the market completely.

In this study it was also noted that the prices of local inputs is highly influenced by the quality of supplies. The quality of suppliers bares 60% on the pricing criterias. *The purchasing officer of Honey Care Africa argued that, “We cannot buy the inputs full of poisons, for the sake of our products and the health of people who consumes our products. The honey market in Europe is very competitive. China exports Honey to Europe in large quantity at relatively low prices. Customers are very concern about the quality of the products. We have potential customers in Europe, Germany and Canada whom we supply to them annually. If we will not be careful with the prescribed standards we may lose the permit of getting our products in those markets. The local suppliers must understand this and adopt new technology that will enable them to produce high quality inputs”.*

Distance involved from the input production area to exporting firm industrial area was another factor pointed as criteria for pricing the local suppliers products. Higher transport costs makes the firms to pay low prices for the inputs. Therefore, it was noted that to facilitate backward linkages the infrastructure in the areas where raw materials are available needs to be developed.

#### **4.6 Challenges facing EPZA firms on sourcing local suppliers**

80% of the 30 visited EPZA firms were complaining about the quality of the inputs from the local suppliers. The respondent asserts that the local suppliers use poor quality tools and inputs in the production process, which leads to poor quality of outputs. For example they cited use of insect sides and pest sides that are poisonous in agricultural products. The EPZA firms, especially those with ISO certificates are audited with the World Food Programme. They are required to adhere with the international agreed standards so that they can continue to be the members. If they fail to meet

the standards, they will lose the certificates. These firms are very strict on the inputs they purchase so that to maintain the standards of their outputs.

Another challenge faced by EPZA firms is the failure of local suppliers to meet the terms of the contract, the findings revealed that most of the suppliers are not able to supply the required quantity on regular basis as per agreed terms of the contract. For example one of the purchasing officers said, *“If you order 400 tones of gravels the supplier may bring about 250 tones, and sometimes the suppliers may mix the products of low quality and even none useful material in the ordered materials”*. In another case the purchasing officer of Honey Care Africa said that, *we have noted that the beekeepers are not willing to harvest the honey regularly, We have to take some initiatives to encourage them so that to get at least the required amount on regular basis.*

Another challenge is shortage of required quantity of input in the market. The EPZA investors said that,

*“Most of the farmers depend on rain, if there is a drought season they fail to supply even a half of the required inputs. In another case the EPZA investor said that; “The local suppliers may bring the inputs in one week consecutively and disappear for a number of months. When he appears again he starts giving unacceptable excuses including poor means of transport, difficulties in collection of the supplies. This is a loss to our business. We cannot let our business to be seasonal while we have other sources outside which are more reliable”*.

Likewise, this challenge was also noted by Meyer, (2010) who expressed that, “many developing countries have limited capacity to produce and process the agricultural products and to make them available at a required consumption level also there is lack of technological know-how in production methods”. In this regard the EPZA firms look for external sources of inputs so that they can run their business smoothly. However, it was noted that, in other cases the investors are conservative on types of inputs that they are familiar with rather than experimenting new type of inputs from host country supplies. Therefore, the foreign exporting firms find it more reliable to source the inputs from abroad rather than sourcing locally.

#### **4.7 Technology transfer and human capital development**

The study findings revealed that the Technology transfer by EPZA firms in Tanzania took place in different sectors of the economy. These include agricultural sectors, manufacturing, mining, and transport and education sectors. The technology transfer helps in improving the performance of the local suppliers. This has been observed by McIntyre, Narula, Trevino (1996) who comments that the technology transfer to the local suppliers creates a trade-off for the exporting firms and the local firms.

#### **4.8 Physical technology transfer by EPZA firms in Tanzania**

With regards to technological transfers and spillovers, EPZA in Tanzania have facilitated the employment of modern technology in different industrial sectors. Most of the firms installed the modern machines that enable them to produce high quality products. Also, through the use of modern technology and equipments the local suppliers have increased their production quantity and receive more money. A production manager in Dardam industry said that; *“The EPZA firms that process the locally produced raw materials have resulted into changes on the technological level and life style of the local suppliers. A clear example is the suppliers of gravels in Msata area at Pwani region who have benefited by selling their products to Dardam ltd. He said some of the*

*suppliers have shifted from the use of bicycle as their means of transport to motor vehicle. According to the manager they have managed to build nice houses and to meet their basic needs.”* This is a sign of improvements and the impact of EPZA firms integrations to the local economy. The local suppliers have to continue to adopt the modern technology so that they can create higher product value. This will enable them to increase their market share at the local, regional and international level.

#### **4.9 Learning by doing and on job training**

The findings of the study revealed that local suppliers learn from the investors on day to day instruction that they are given. Others have been taken for official training outside the country. The employee training in Honey Care Africa has been supported by friendly donors from Europe, Germany, South Africa and Kenya. In paper craft industries specialist engineers are brought from overseas for staff training. The same applies to Power Foods Industries Limited where the foreign technical expertise in production and marketing from France are working with Power Foods Industries in Tanzania for one year so that they can give their experience to locals. In general, the number of the trained employees by EPZA firms depends on the time of recruitment and the department in which the employee is placed.

In case of technical knowledge, the EPZA firms use to employ people with preliminary knowledge on the particular area and instruct them about the required basics required. The employees will continue to learn as they are doing. This has been applied by many EPZA investors in the zones in many different countries. The EPZA firms have observed the creation of qualified new knowledge to the local suppliers as well as local employees to support the development of labour force in industries. This can also be supported by the views of other researcher such as Johansson and Nilsson (1997) in particular who argued that, the importance of externalities in the area of human capital accumulation, including learning-by-doing and on-the-job training that could pass into the rest of the economy, and result into raising productivity has a remarkable impact to the country and develop more significant backward linkages with the local suppliers.

#### **5.0 CONCLUSION AND RECOMMENDATIONS**

The introduction of EPZA programme in Tanzania plays an important and positive role in a country's development strategy. Appropriate policies and incentives should be provided to the exporting firms to encourage local sourcing of inputs, parts and components. Through this transfer of technology to local manufacturers and other spillover, benefits can be realized. It is therefore pertinent to systematically identify mechanisms and channels by which spillovers from EPZA exporting firms can be generated and absorbed by local suppliers.

In many cases, the local suppliers receive technologies and market knowledge from the exporting firms, either through foreign parent-affiliate transfers or through technology licenses. Also, other local firms benefit indirectly through what is often referred to as the demonstration effect, as well as through increased competition and the transfer of skilled employees. Arguably, the existence and size of spillover benefits would be determined by the integration of the exporting firms in the host country. Finally, the study found out that lending a contract to sell the inputs to an exporting firm under EPZA is a significant challenge. The small and medium suppliers in Tanzania find it difficult to qualify as a supplier to participate in the supplier's network. A local supplier has to meet tough business standards and make huge upfront investments to get their inputs ready when required. Significance assets and workforce of local suppliers are generally needed. Also, in order to meet this, some cash flow commitments is inevitable. Therefore, the local suppliers have to adjust themselves so that they can cope with the dynamic business environment. They have to overcome

the liability of smallness and newness. The greater achievement will be experienced through the expansion of the investments, employing more people, undergo investments training and educating the workforce, acquire new machinery and equipment, and upgrade managerial skills and expertise and access more funding to the financial institutions. These policies will act as a benchmark to evaluate whether the firms are moving towards the targets of EPZA.

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