UNIVERSITI PUTRA MALAYSIA

PRODUCTIVITY OF ZANZIBAR TOURISM PROJECTS UNDER THE PRIVATE DIRECT INVESTMENTS (1990-99)

MOHAMMED HAFIDH KHALFAN

FEP 2002 6
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DOCTOR OF PHILOSOPHY
UNIVERSITI PUTRA MALAYSIA

2002
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MOHAMMED HAFIDH KHALFAN

Thesis Submitted to the School of Graduate Studies, Universiti Putra Malaysia, In Fulfilment of the Requirement for the Degree of Doctor of Philosophy

April 2002
DEDICATED TO
MY PARENTS,
MY WIFE AND OUR KIDS,
MY BROTHERS AND SISTERS,
THOSE WHO HAVE CONTRIBUTED SOMETHING
INTO MY LIFE HOWEVER TRIVIAL IT MAY SEEM.
Zanzibar islands, in East Africa, form a semi autonomous part of the United Republic of Tanzania. From early 1980's, the Zanzibar Government diversified its economy after realising that its mono-crop economy could not sustain the development momentum, owing to the decline in clove prices, its main cash crop.

The isles' diversification measures have resulted in massive inflow of foreign direct investments (FDI). Nominally, it may be remarkable that over 50 percent of the licensed FDI fall in the tourism industry. The industry employs more than 60 percent of the investment workforce. However, in order to achieve Zanzibar's immediate goal of improving development momentum and long-term sustainable growth, it is necessary to empirically understand the performance of this important segment of the diversified economy.

The main objective of this study is to explore the general performance of tourism projects under the Zanzibar Private Direct Investments, and the
specific objectives are: (i) to provide alternative measures of productivity in the selected establishments; (ii) to compare the productivity pattern between local and foreign owned establishments; and (iii) to measure the contribution of capital and labour inputs to the discovered pattern.

Economists claim that, there are two prime sources contributing to economic growth of a nation, employment growth and productivity growth. In exploring the latter, the study uses two models; while the first employs partial indicators, the second on total productivity is based on the framework developed by Gollop and Jorgenson (1979).

The results have highlighted the dichotomy of the Zanzibar tourism industry, where large, and well-managed foreign-owned-projects co-exist with smaller, less funded locally owned ones. Using different aggregation methods produced contradicting results. Yet, in overall, the foreign projects outshined the locals in many aspects. For instance, though local projects generated more employment opportunities (59%), indicating their dependence on labour-intensity in production, the foreign projects surpassed their local counterparts in cost competitiveness, efficiency and productivity growth. The results suggest that, more concerted efforts are needed to improve the performance of local investors.

The scope of study, however, limits the analysis to the above. In depth analysis of the structure of projects/firms could not be covered due to data constraints.
Abstrak tesis yang dikemukakan kepada Senat Universiti Universiti Putra Malaysia sebagai memenuhi keperluan untuk ijazah Doktor Falsafah

PRODUKTIVI PROJEK PELANCONGAN DI ZANZIBAR DIBAWAH PELABURAN LANGSUNG ASING (1990-99)

Oleh

MOHAMMED HAFIDH KHALFAN

April 2002

Pengerusi: Profesor Maisom Abdullah, Ph.D.
Fakulti: Ekonomi dan Pengurusan


Langkah pelbagaian ekonomi membawa kepada kemasukan pelaburan langsung asing yang besar. Secara nominal, ianya merupakan lebih 50 peratus daripada nilai lesen pelaburan langsung asing di dalam industri pelancongan. Industri tersebut juga menyediakan lebih daripada 60 peratus daripada peluang pekerjaan yang terhasil daripada pelaburan negara. Namun demikian, bagi mencapai matlamat jangka pendek dan jangka panjang yang mampam, adalah perlu prestasi sektor penting ini dikenali secara empirikal.
Objektif utama kajian ini adalah untuk meninjau prestasi keseluruhan projek pelancongan dibawah Pelaburan Swasta Zanzibar, dan matlamat khususnya adalah seperti berikut: (i) menyediakan perkiraan produktiviti alternatif dalam projek yang terpilih; (ii) membandingkan corak produktiviti di antara projek asing dan tempatan; dan (iii) mengira sumbangan input modal dan buruh dalam corak produktiviti yang dikenalpasti.

Ahli ekonomi sering berpendapat, terdapat dua sumber utama yang menyumbang kepada pertumbuhan ekonomi sebuah negara; iaitu pertumbuhan peluang pekerjaan dan pertumbuhan produktiviti. Bagi meninjau pertumbuhan produktiviti, kajian ini telah menggunakan dua model; pertama petunjuk partial dan kedua produktiviti keseluruhan berdasarkan rangkakerja empirikal yang dibangunkan oleh Gollop and Jorgenson (1979).

Penemuan daripada kajian ini telah menonjolkan dikotomi dalam industri pelancongan Zanzibar, di mana projek yang besar dan diuruskan dengan baik, wujud seiringan dengan projek tempatan yang kecil dan mempunyai modal yang kecil. Dengan menggunakan metod aggregation maka terhasil penemuan yang kontradik. Namun demikian, didapati projek asing memperlihatkan prestasi yang jauh lebih baik. Sebagai contoh, walaupun syarikat tempatan menjana lebih banyak peluang pekerjaan (59 peratus) ianya memperlihatkan bahawa ianya amat bergantung kepada buruh yang lebih tinggi dalam penyediaan perkhidmatan mereka. Syarikat asing pula mempunyai kelebihan dari segi daya saing kos, kecekapan dan pertumbuhan produktiviti. Penemuan ini menunjukkan bahawa usaha yang lebih gigih diperlukan untuk
meningkatkan prestasi pelabur tempatan.

Skop kajian ini walaubagaimana pun mempunyai batasan terhadap analisis di atas. Analisis yang mendalam dan terperinci tidak dapat dijalankan khususnya daripada struktur projek/firma, tidak dapat dilaksanakan disebabkan oleh batasan data.
ACKNOWLEDGEMENTS

Praise is to the Almighty for all His bounties on us, His creatures. Obviously, without His assistance, my weakness would be trounced by strong waves of challenges in the way of my studies. Much as I wish I could do, it is almost impossible to mention all those who contributed to my study life, as they are too numerous since each earlier step from class I was an important foundation to the following stages of studying. I am fully aware of this fact and I appreciate all this. Yet, I shall be intellectually bankrupt if I fail to mention a few individuals for their involvement at least in this latest stage.

I owe an intellectual debt to my supervisor, Professor Dr Maisom Abdullah, for her consistent academic and material support during the entire period of my studies at UPM. The same applies to other members of my Supervisory Committee; Professor Dr Mad Nasir Shamsudin, Professor Dr Zakariah Abdul Rashid and Associate Professor Dr Ahmad Shuib. I am also grateful to a former member of the Committee, Dr Mansour Ibrahim of the International Islamic University – Malaysia. To them and to the entire UPM family, the staff and Faculty of Economics and Management, Prof. M. Nasir’s office attendants, Puan Nafsiah, my lecturers in various departments, the entire team of the Graduate School, UPM library and all others, I submit my earnest appreciation.

Without constructive criticisms raised during my PhD qualifying exam by Professor Dr. Fatimah Irshad and Professor Dr. Ishak Hj. Omar, among others, this work would have less merit. I am again grateful to Professor Ishak and also Professor Cleophas Lado for being a Chairman of Examining Committee and Independent Examiner, respectively. Their contributions improved my work to better standards.
I acknowledge with gratitude the unreserved support from my ZIPA colleagues as extended to me through its Chief Executive Officer and Director General, Dr. Hamed R.H. Hikmany and his Deputy Maalim Amour A. Khamis. Quite equally, I am indeed grateful to the Malaysian Training Division of the Prime Minister’s Public Works Department for sponsoring my studies at one of the prestigious academic institutions of the country, Universiti Putra Malaysia (UPM).

To Professor Dr. Alan John Webb, I cannot find proper words to express my family’s gratitude for his moral and material support throughout my studies. In him I have found the meaning of human fraternity and a personality to emulate in helping others. My numerous graduate colleagues, especially brother El Sadig Musa (Al Walid), brother Kevin Onwuka deserve my appreciation for their critical support during my studies.

I am very grateful to my hosts (people of Malaysia), and especially the families of the following sisters: Messrs Sudzi Zainuddin of the Economic Planning Unit (EPU) Putra Jaya, Rusdah Abdulhamid of Malaysian Industrial Development Authority (MIDA) and Juliana Abdulrahman of Perlis. No words can match their munificence to my family.

My sincere appreciation should also go to the families of Messrs Muhammad Suleiman Dadi, Nuru Yakub Othman, Abdullah Seif El-Miskry and Fatma Mohammed Seif, Assad Abdallah Kipanga, Omari Abdallah Semasaba, Ali Juma Mkombe, Ali Khamis Ali, Ali Salim Khalfan, Mohammed Hamdan El Subhy and other supporting friends in Canada, Tanzania, the U.K. and the U.S. Also in this short list are Sh. Mohammed Awadh Al Tamim, Sh Abdulrahman Abdulla and other Gulf relatives and friends.
The journey has been long and tedious. I owe a lot of people for their support. How much I now realise the significance of some historic deeds when my maternal grand-ma (Bi Panya Mussa Hamad) and paternal grand-ma (late Zamzam Sultan Ahmed) took me to Koran madrassah and class one, respectively. My dad (Hafidh Khalfan Hussein) and mum (Sakhiya Haji Hamad) have been key players in my entire life. So are my siblings, my in-laws and other extended family members.

Last but in way the least, let me acknowledge that a caring family is instrumental in overcoming any formidable task. I have proven this through my wife, Ms. Mgeni Mkubwa Salim, our son (Abdulrahman) and daughter (Sakhiya). Together they formed indispensable source of understanding and encouragement during the entire period of my studies. They sacrificed whatever they could and forgo whatever they deserve for my success. Do I need any other chance to prove their loyalty and love?

I have been indicating that, this work has never been a one-man-show. If it is an achievement, it goes to the contributions of a number of individuals. Alternatively, if there are any shortcomings, I am sole responsible for not heeding the advice offered to me. Again, I am very grateful to all who have helped me directly or indirectly, in whichever way and wherever they are; be they individuals or institutions. The failure to explicitly mention their names causes further sense of guiltiness in my conscience, which can only be overcome by their understanding and forgiveness.

To all, may His Almighty reward you accordingly and may He enable me to fulfil my duties (at least) according to your expectations.
I certify that an Examination Committee met on 15th April 2002 to conduct the final examination of Mohammed Hafidh Khalfan on his Doctor of Philosophy thesis entitled "Productivity of Zanzibar Tourism Projects under the Private Direct Investment (1990-99)" in accordance with Universiti Pertanian Malaysia (Higher Degree) Act 1980 and Universiti Pertanian Malaysia (Higher Degree) Regulation 1981. The Committee recommends that the candidate be awarded the relevant degree. Members of the Examination Committee are as follows:

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Date: 13 JUN 2002
DECLARATION

I hereby declare that the thesis is based on my original work except for quotations and citations which have been duly acknowledged. I also declare that this thesis has not been previously or concurrently submitted for any other degree at UPM or other institutions.

MOHAMMED HAFIDH KHALFAN

Date: 22 - 04 - 2002
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<td>ADB</td>
<td>African Development Bank</td>
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<tr>
<td>BOT</td>
<td>Build Own Transfer</td>
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<td>BoT</td>
<td>Bank of Tanzania</td>
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<tr>
<td>CCR</td>
<td>Charnes, Cooper and Rhodes</td>
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<td>CIT</td>
<td>Commission for Tourism</td>
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<td>COLE</td>
<td>Commission for Land and Environment</td>
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<td>DEA</td>
<td>Data Envelopment Analysis</td>
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<td>DFID</td>
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<td>DoS</td>
<td>Department of Statistics, Zanzibar</td>
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<td>ECA</td>
<td>Economic Commission for Africa</td>
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<td>ERP</td>
<td>Economic Recovery Programme</td>
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<td>GDP</td>
<td>Gross Domestic Product</td>
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<td>HIV</td>
<td>Human Immunodeficiency Virus</td>
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<td>IFC</td>
<td>International Finance Corporation</td>
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<td>MIDA</td>
<td>Malaysian Industrial Development Authority</td>
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<td>MNC</td>
<td>Multi National Corporations</td>
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<td>MTC</td>
<td>Ministry of Transport and Communication</td>
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<tr>
<td>NWA</td>
<td>Northern Wild field Area</td>
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<tr>
<td>ODA</td>
<td>Overseas Development Agency</td>
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<td>RIA</td>
<td>Regional Integration Agreements</td>
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<td>Rm</td>
<td>Malaysian Ringgit (dollar)</td>
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<td>TFP</td>
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<td>Total Factor Productivity Growth</td>
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<td>ZSTCA</td>
<td>Zanzibar Stone Town Conservation Authority</td>
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Definition of Terminology

Tourism

Tourism: In common parlance and sociological research, tourism is identical to pleasure travel. From that consideration, tourism is a leisure pursuit and can be considered as a form of consumption. However, besides being an activity in the consumption sphere, tourism can also be viewed as a production activity.

Tourism Industry: It is quite accurate to refer to tourism and travel as an “industry” because it produces markets and provides “products”.

The product: Tourism product is ‘intangible’; it is non-material and cannot be seen, felt, tasted, heard or smelt. A tourist product is commonly called a ‘tour’, which can be in the form of a ‘cruise’ (travel by water) or a trip (a day excursion). Moreover, a tour may be a ‘domestic’ one taken entirely within a country, or an ‘international’ tour, taken in one or more countries abroad.

Attractions: Attractions are the reason for selection of a destination. A single or a group of attractions, together with services, make up the product that the tourist purchases. There are primary attractions that are a core set of attractions (e.g. Twin Towers of Kuala Lumpur, historical Stone Town of Zanzibar, Mount Kilimanjaro of Tanzania, etc.). Secondary attractions are basically additional to primary ones in nature. They are subjective depending on what a tourist considers primary or the main reason, and what is additional attraction or secondary.

Private Direct Investment

Direct Investment (DI) refers to the extension of controlling ownership by a firm in one country to another firm in another country through new investment or acquisition (Grosse and Kojawa, 1988).

Foreign Direct Investment (FDI) is a method of entering foreign markets by investing in manufacturing facilities abroad (Curdaff and Hilger, 1988). This can apply to other industries as well, and is not confined to manufacturing alone.
CHAPTER 1

INTRODUCTION

1.1 Introductory Remarks

Zanzibar archipelago lies in the eastern coast of Africa just south of the Equator. It is about 35 km off the coast of mainland Africa. The archipelago comprises the main islands of Unguja and Pemba along with about 50 other smaller islets. Unguja, which itself is commonly called Zanzibar and hosts the administrative headquarters of the archipelago (Zanzibar town), has an area of 1464 square kilometres (kms). On the other hand, Pemba is about 868 square kms.

The predominantly Muslim population of the islands is estimated to be close to a million and made up of cosmopolitan people from different parts of the world including Africa, Asia and Europe. As shown by Bakari (2001), despite her racial diversity, Zanzibar is socially and culturally a relatively homogeneous community with a high level of social integration measured by inter-ethnic marriages and other cultural intermingling.

Prior to the isles' independence in December 1963, they were a sultanate under the British Protectorate. The new post-independence elected government was in power for a month. Following the January 12, 1964 revolution, Zanzibar united with Tanganyika on April 26, 1964 to form the United Republic of Tanzania. Under the union accord, Zanzibar still maintains some autonomy by having its own government to be headed by the Zanzibar President, with Legislative body and the Judiciary.
According to the current arrangements, Zanzibar is responsible for its socio-economic administration and development planning; managing its fiscal budget and servicing of external debts. For instance, in early 2000 Zanzibar launched its long-term development vision, known as Vision 2020 (Appendix A1.1).

This study focuses on the Zanzibar economy after diversification, which was a result of both economic and political reasons (as shown in Appendices A1.2 and A1.3). This led to liberalisation of economic activities, shifting from government monopoly in all major economic activities to the current status whereby the private sector plays a significant role in the economy. The opening up of the economic activities has resulted in an influx of foreign direct investments especially in the tourism industry.

The main topics of the study focus on the areas of private direct investments, tourism and productivity. While a brief remark on the main topics of the study is presented in this introduction, the details follow in the respective chapters of the study. In this study, the words foreign direct investments (FDI) and private direct investment in general are sometimes used interchangeably. It is the context that specifies the intended use of the term.

The discussion on private direct investments, which involves local and foreign firms, is dominated by the influence of FDI. The main reason behind this is that, though developing countries tend to encourage both domestic and foreign investments, the FDI are more popular owing to their impacts in some host economies that normally
suffer from lack of adequate foreign currency reserves, widespread unemployment and obsolete technologies.

The impact of FDI on developing countries is appreciated through its role in capital inflow, and sometimes in the transfers of technologies or managerial expertise. Other FDI's positive contributions to a host country's economy may be realised through the following ways:

- Increased domestic competitiveness and private sector development
- Contribution towards allocative efficiency and productivity
- Greater access to export markets, and
- Incentives toward policy reform.

Though it is alleged that FDI is a stimulant to foreign trade (even if an investment is domestically oriented), in cases where a host country has been overly generous in granting concessions such as energy subsidies or export bonuses, foreign direct investments can produce mixed results. Therefore, it may be cautioned that, FDI does not save a country, especially if it ignores other macroeconomic or structural issues facing its economy. Owing to the significant role given to incentives in FDI promotion, their further deliberation is necessary, whereby pros and cons will be presented.

The interest in FDI among developing countries is a result of both political and economic variables. For instance, following the demise of the cold war, the official development assistance flows to non-European developing countries showed a