



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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2002



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(1990-99)**

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**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.**



Abstract of thesis presented to the Senate of Universiti Putra Malaysia in fulfilment of the requirements for the degree of Doctor of Philosophy

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

By

MOHAMMED HAFIDH KHALFAN

April 2002

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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 Putra Malaysia
sebagai memenuhi keperluan untuk ijazah Doktor Falsafah

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

Oleh

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April 2002

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Kepulauan Zanzibar, di Afrika Timur, merupakan wilayah autonomi di United Republik Tanzania. Dari awal 1980an, Kerajaan Zanzibar telah mempelbagaikan ekonominya setelah menyedari bahawa ekonomi yang berasaskan tanaman tunggal tidak dapat menyediakan momentum pembangunan ekonomi yang mampan disebabkan harga cengkik yang rendah. Komoditi itu merupakan tanaman kontan utama negara tersebut.

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 mampan, 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 walaupun bagaimanapun 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.



TABLE OF CONTENTS

	Page
DEDICATION	ii
ABSTRACT	iii
ABSTRAK	v
ACKNOWLEDGEMENTS	viii
APPROVAL SHEETS	xi
DECLARATION FORM	xiii
LIST OF TABLES	xvii
LIST OF FIGURES	xviii
LIST OF ABBREVIATIONS	xix
DEFINITION OF TERMINOLOGY	xxi
CHAPTER	
1 INTRODUCTION	1.1
1.1 Introductory Remarks	1.1
1.2 Background of the Problem	1.7
1.3 Statement of the Problem	1.10
1.4 Significance of the study	1.12
1.5 Research Questions	1.13
1.6 Objectives of the Study	1.13
1.7 Scope of the Study	1.14
1.8 Organisation of the Study	1.14
2 ZANZIBAR TOURISM DEVELOPMENT AFTER THE ECONOMIC DIVERSIFICATION	2.1
2.1 Introduction	2.1
2.2 Conceptual and Theoretical Issues in Tourism	2.1
2.2.1 Tourism development and dependent theory	2.2
2.2.2 Mass tourism and eco-tourism	2.4
2.3 Overview of Zanzibar Economic Revival Process	2.10
2.4 Tourism Development in Zanzibar	2.14
2.5 Measures to Develop Tourism Industry in Zanzibar	2.19
2.6 Institutional Framework	2.22
2.7 Some Empirical Studies in Tourism	2.25
2.7.1 Impact of tourism industry in an economy	2.26
2.7.2 The impact of currency depreciation on tourism	2.28
2.7.3 Backward linkages of tourism industry	2.32
2.8 Summary and Discussion	2.34
2.9 Recommendations	2.38
3 PRIVATE DIRECT INVESTMENTS	3.1
3.1 Introduction	3.1
3.2 Theoretical Issues	3.1
3.3 Determinants of FDI	3.5
3.4 Incentives in FDI Promotion	3.8
3.4.1 Tax incentives in Zanzibar FDI promotion	3.12
3.4.2 Costs of offering fiscal incentives	3.17



3.4.3	Reconciliation between tax incentives and collection	3.20
3.5	Promotion of Private Direct Investment	3.22
3.5.1	Integrated marketing approach in investment promotion	3.24
3.6	Lessons from Asia's Economic Progress	3.26
3.6.1	Learning from a laggard: A case of Myanmar	3.31
3.7	FDI and Regional Integration	3.34
3.7.1	Some theoretical considerations	3.35
3.7.2	Some effects of trade liberalisation	3.35
3.7.3	Explicit investment provisions and other influences	3.39
3.7.4	Dynamic effects of regional integration	3.40
3.8	FDI and Dynamics of Productivity	3.42
3.8.1	Theoretical considerations	3.43
3.9	Summary	3.46
4	REVIEW OF PRODUCTIVITY LITERATURE	4.1
4.0	Introduction	4.1
4.0.1	Evolution of productivity studies	4.1
4.1	Conceptual and Analytical Review	4.7
4.1.1	Indices of productivity	4.8
4.1.2	Primal and dual productivity studies	4.12
4.1.3	Intertemporal and interspatial productivity analysis	4.22
4.1.4	Eclectic research on productivity	4.25
4.1.5	Frontier techniques	4.27
4.1.6	Productivity issues in services	4.34
4.1.7	Remark on productivity analysis	4.42
4.2	Theoretical Review	4.43
4.2.1	Major factors in economic growth	4.44
4.2.2	Growth theories	4.47
4.2.3	Technological progress	4.66
4.2.4	Technological progress and the growth process	4.71
4.3	Review of Empirical Studies	4.77
4.3.1	Sub-Saharan African growth perspective	4.89
4.4	Summary and Conclusion	4.91
5	METHODOLOGY	5.1
5.1	Introduction	5.1
5.2	Measurement Framework	5.2
5.2.1	Growth accounting framework	5.3
5.3	The Data Construction	5.17
5.3.1	Sources of data	5.17
5.3.2	Data constraints	5.17
5.3.3	Working definitions and construction of variables	5.19
5.4	Model Specification	5.27
5.4.1	The first model: partial productivity indicators	5.29
5.4.2	The second model: translog model	5.34
5.5	Conclusion	5.37
6	DISCUSSION OF THE RESULTS	6.1
6.1	Introduction	6.1
6.2	The Results	6.3

	6.2.1	Partial productivity indicators	6.3
	6.2.2	Divisia translog results	6.19
6.3		General Discussion	6.28
	6.3.1	Problems facing investment projects	6.32
	6.3.2	Productivity enhancement	6.39
6.4		Conclusion	6.47
SUMMARY, CONCLUSION AND RECOMMENDATION			7.1
7	7.1	Summary of the Study	7.1
	7.1.1	Summary of the findings	7.4
	7.2	Conclusion	7.7
	7.3	Recommendations	7.12
	7.3.1	Productivity improvement	7.12
	7.4	Limitations and Areas Recommended for Further Research	7.14
	7.4.1	Limitations	7.14
	7.4.2	Areas recommended for further research	7.15
BIBLIOGRAPHY			R.1
APPENDICES			
A	ELABORATION OF ISSUES		A.1
1.1	Zanzibar Vision 2020 (Zv2020)		A.1
1.2	Need for Diversification		A.2
1.3	Zanzibar Diversification Process		A.3
2.1	Measures to Develop Zanzibar Tourism Industry		A.5
2.2	Impact of Instability on Tourism Industry		A.8
3.1	The East Asian Model of Governance		A.9
4.1	Basic Data Envelopment Analysis (DEA) Models		A.10
5.1	Unit Roots, Cointegration and Structural Change		A.12
7.1	Market Failure and Government Failure in Development Process		A.13
B	FIGURES AND TABLES		
2.1	Zanzibar land profile		A.14
4.1	Comparison of basic DEA models		A.11
3.1	Summary of host country's determinants of FDI		A.15
6.1	Summary of the results from the partial productivity analysis		A.16
6.2	Trend performance of the firms (projects) over the period		A.17
6.3	Weighted input-shares in output before autocorrelation correction		A.21
BIODATA OF THE AUTHOR			B.1



LIST OF TABLES

Table		Page
2.1	Approved investments under ZIPA	2.27
2.2	Average exchange rates between US\$ and TShs (1977-2000)	2.32
2.3	International tourist arrivals in Zanzibar by origin (1985-1997)	2.33
2.4	Annual tourist expenditure in Zanzibar (1977-1997)	2.34
4.1	Summary of the characteristics of various studies in service sector	4.35
4.2	Methods used in measuring hotel productivity.	4.41
4.3	Alternative views of growth	4.51
4.4	Studies on sources of growth for the Malaysian economy	4.83
6.1	Derivatives of labour input of Zanzibar tourism projects (1990-99)	6.5
6.2	Capital-input and process-efficiency derivatives of the projects	6.9
6.3	Summary of the performance-indicators of the projects, origin-wise	6.11
6.4	Shares of variables in Zanzibar tourism projects, 1990-99	
6.4b	Share-rates of the main variables origin-wise	6.14
6.5	Summary of the trend-performance based on partial productivity	6.17
6.6	Summaries of the input shares after adjustment	6.21
6.7	Contribution of variables towards added value growth	6.23
6.8	Contributing factors to the discovered growth of added value	6.24



LIST OF FIGURES

Figure		Page
2.1	The Basic Zanzibar Tourism Model	2.22
3.1	Continue or abandon tax incentive (CATI) model	3.21
4.1	Labour productivity in relation to economic and employment growths	4.45
4.2	Labour-intensive production function	4.55
4.3	Harrod-Domar production function: fixed coefficients of production	4.58
4.4	Per capita production function.	4.62
4.5	Growth equilibrium with technical progress	4.65
4.6	Categories of technological progress	4.66
5.1	Production function representation of total-factor productivity	5.5
6.1	Shares of the productivity-variables in Zanzibar tourism projects	6.13
6.2	Comparison between the projects' sources of growth rates	6.28
6.3	Productivity improvement: strategies and techniques	6.42
6.4	Comparisons between tourism and manufacturing in input intensity	6.44



LIST OF ABBREVIATIONS

ADB	African Development Bank
BOT	Build Own Transfer
BoT	Bank of Tanzania
CCR	Charnes, Cooper and Rhodes
CfT	Commission for Tourism
COLE	Commission for Land and Environment
DEA	Data Envelopment Analysis
DFID	Department For International Development
DoS	Department of Statistics, Zanzibar
ECA	Economic Commission for Africa
ERP	Economic Recovery Programme
GDP	Gross Domestic Product
HIV	Human Immunodeficiency Virus
IFC	International Finance Corporation
MIDA	Malaysian Industrial Development Authority
MNC	Multi National Corporations
MTC	Ministry of Transport and Communication
NWA	Northern Wild field Area
ODA	Overseas Development Agency
RIA	Regional Integration Agreements
Rm	Malaysian Ringgit (dollar)
TFP	Total Factor Productivity
TFPG	Total Factor Productivity Growth
TzS/TShs	Tanzanian Shilling
UPM	Universiti Putra Malaysia
URT	United Republic of Tanzania
USD (\$)	United States Dollar
UNDP	United Nations Development Programme
UNIDO	United Nations Industrial Development Organisation
WB	World Bank
WIR	World Investment Report
WTO	World Tourism Organisation
ZAFREZA	Zanzibar Free Economic Zones Authority
ZANTEL	Zanzibar Telecommunication
ZELUP	Zanzibar Economic and Land Use Plan
ZIPA	Zanzibar Investment Promotion Agency
ZSTCA	Zanzibar Stone Town Conservation Authority



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 (Curdiff 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