

## ASSESSMENT OF THE ROLES OF FOREIGN DIRECT INVESTMENT IN THE DEVELOPMENT OF INFRASTRUCTURE. A CROSS-SECTIONAL STUDY OF ZANZIBAR INTERNATIONAL AIRPORT IN ZANZIBAR ISLAND.

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### ABSTRACT.

#### Background:

The study assessed the roles of foreign direct investment in the development of infrastructure in Zanzibar.

#### Methodology:

The study was conducted at the Urban West Region at Abedi Amani National Airport. The study was conducted through a qualitative method where a sample size of 86 respondents was involved. The study employed a cross-sectional study design.

#### Results:

The study found that foreign direct investment is one of the external sources of financing economic activities in different countries. However, the most important thing that distinguishes this type of investment from other sources of external financing is that it is free from burdening the host countries with debt burdens such as foreign loans. It is also important that it is not associated with political commitments, as is the case for some grants and foreign subsidies.

#### Conclusion:

All countries, especially the developing ones, tended to create the appropriate investment climate to attract it due to the noticeable lack of their internal financial resources to the estimated high cost of implementing their development programs and being aware of its advantages.

#### Recommendation:

The study recommends that the Zanzibar Investment Bureau and the National Statistical Bureau should move to make this data readily available to the public to allow further and more in-depth research on the importance, dynamics, and contexts of FDI.

**Keywords:** *Foreign Direct Investment, Development, Infrastructure*

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### BACKGROUND OF THE STUDY.

According to Narula and Dunning (2000), the motives for FDI are crucial in determining the extent to which they will be useful in strengthening local technological capabilities in developing countries. Importantly, FDI may also result in negative spillovers if indigenous firms have to close down, as they cannot completely upgrade their technologies. This form of technology transfer includes upgrading production and marketing processes at the acquired firms that occur as a result of the greater technological strengths that foreign investors potentially bring in as a result of the firm-specific assets of parent companies. (FDI Government adopted a National Investment Promotion Policy and enacted the National Investment Promotion and Protection Act of 1990 to enhance the investment climate" (Muganda 2004). BOT, TIC & NBS (2013) opined in Tanzania Investment Report that "periodic publications of the findings of the survey of foreign private investment have shown that there was an increase in Foreign Direct Investment) inflows into the country in recent years". World Bank (2006) highlights and applauds the set

of FDI development very aptly and says, "Tanzania as one of Africa's best-performing countries in terms of GDP growth and attracting foreign direct investment". On the other hand, REPOA (2012) responding to these developments brought by FDI but having some doubts on its contribution on the economy stated that "however, the extent to which FDI is contributing to economic transformation (and poverty reduction) is an open question. Therefore, the research intended to determine the roles of foreign direct investment in the development of infrastructure at Zanzibar airports

### METHODOLOGY.

#### Research design.

The study employed a cross-sectional study design. The research design is the plan in terms of which research participants are selected and information is collected from them.

### **Study area.**

This study was conducted at Zanzibar International Airport in Zanzibar Island. The above-mentioned study area is a central location for air transport in Zanzibar in which a good amount of FDI has been conducted.

### **Sampling procedure.**

The sampling techniques were both probability and non-probability sampling. For probability, simple random sampling was used to obtain respondents from the area, and for non-probability; the purposive procedure was used to get information from key informants.

### **Sampling frame.**

The sampling frame included the directors, pilots airport extension officers, and all airport workers.

### **Study Sample.**

The sample involved 86 leaders and professionals from Zanzibar International Airport and the ministry responsible for the investment.

The sampling method to be used is purposive sampling in which a sample of identified individuals will be addressed. According to the literature, purposive sampling is often used in qualitative research, where the study wants to gain detailed knowledge about a specific phenomenon rather than make statistical inferences, or where the population is very small and specific.

### **Sample size.**

Due to the nature of the study, time, and financial constraints a total of 86 respondents were involved consisting of 80 airport workers and extension officers.

Formulae

$$n = \frac{N}{1 + N(e)^2}$$

Where N is the total population of workers, e is the error confidence interval and n is the sample size

N=800

e= 15%

$$n = 800 / 1 + 800 (0.15)^2$$

n = 80

Key informants will be; -

Directors	4
Pilot	1
Ward extension officer	1
Total	6

Therefore, n + total number of key informants = total sample size

$$80 + 6 = 86$$

### **Data Collection Techniques.**

The study used a semi-structured interview questionnaire to interview the respondents followed by probing. The study also conducted observations on the activities at the research premises and consulted any available documents related to the topic.

### **Type of data and sources.**

Primary and secondary data were collected from the study's Primary data source; primary data was collected from shareholders of Zanzibar International Airport available in the study area. Secondary data sources; secondary data were given from books, journals, and reports from the Zanzibar Airport office, internet published, and unpublished literature.

### **Data analysis.**

The study consolidated the collected data from interviews, questionnaire observation notes, and document reviews and coded them to give emerging ideas. The emerging ideas were then arranged into topics and sub-topics and triangulated concerning other sources of data. According to Olsen triangulation is defined as the mixing of data or methods so that diverse viewpoints or standpoints cast light upon a topic. The mixing of data types, known as data triangulation, is often thought to help in the validation of the results.

### **Validity and Reliability.**

According to Trochim and Donnelly (2006), validity refers to the best estimate of the truth of any proposition conclusion, or inference described in the research. On the other hand,

Reliability refers to the measurement of the quality of the data collected in any research; it's a measurement of the consistency of the data with the research background and is also a measurement of the suitability of the data for analysis (Behling & Law, 2006). In this study, during the analysis process, relationships or differences supporting or conflicting with original or new hypotheses will be subjected to tests of significance to determine with what

validity data can be said to indicate any conclusion(s). Moreover, status checks of the data collected will be carried out to determine if they are valid and reliable. The sources for the historical quantitative research taken from official company organizational websites and peer-reviewed journals are to ensure that the information used in the literature review was accurate and valid.

### **Pilot Study.**

A pilot study refers to a smaller version of the larger study that is conducted in preparation for that study. A pilot study can be used as a feasibility study, to ensure that the ideas or methods behind the research are

sound, as well as to work out the kinks in the study protocol before commencing the larger study. For this study, two local Airports were used for the pilot study (Qu and Dumay 2011).

They completed the questionnaire to establish whether it communicated the intended message of the study to the participants. The responses reflected a good understanding and no ambiguity (Parker 2014).

### **Ethical Considerations.**

Ethical considerations involve the principles for deciding what is right and wrong. In interactive research, ethical issues have to be considered before data collection to recognize and protect the rights of individuals. The study adhered to the ethical standards appropriate to this study. The respondents' anonymity was assured and no one was harmed during the research (Milpark Business School 2011)

## **RESULTS.**

### **Response Rate, Gender, and Age.**

The study targeted a population of 86 respondents, 30 respondents including management employees, 30 administrative officers, and 20 cashier workers whereas 5 extension officers from Zanzibar International Airport. However, out of the 90 questionnaires issued only 86 were collected giving this study a response rate of 92%. The study sought to establish the respondents' gender. Respondents were asked to indicate their gender. The research established that respondents were largely composed of males at 55.8 % (48) while females were at 44.2 % (38). The study sought to establish the respondents' ages. Respondents were asked to indicate their age. The results are indicated in Table 1.

**Table 1: Response rate.**

Respondents	Frequency	Percentage
Male	48	55.8
Female	38	44.2
Total	86	100.0

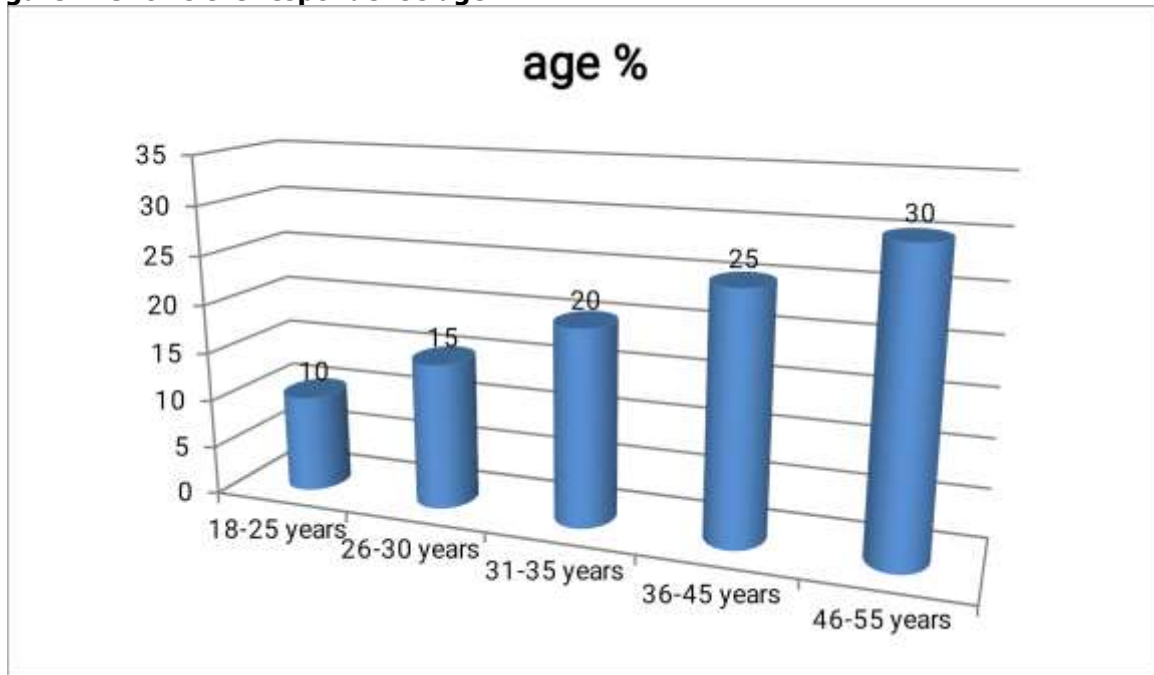
*Source: Field data*

### **Respondents Age.**

The study established that the majority of the respondents were aged between 55 and above years which stood at 22%. 46-55 years accounted for 20%, those between 36-45 years accounted for 15% and those between 26-55 years accounted for 10% and those 18-25 years accounted for 3% as indicated in figure 4.2 below. This was a result of the population structure whereby this age group

comprises the largest number of the population under study. The age group is mature enough to understand the dynamics under the study. This implies that the employees of Zanzibar International Airport are aged above 55 years and have a better knowledge of the roles of FDI and the issues that affect them within the airport. It also shows that this age group greatly participates in Zanzibar International Airport. Hence of great relevance to this study. The results are indicated in the figure 1.

**Figure 1: Shows the respondent's age.**

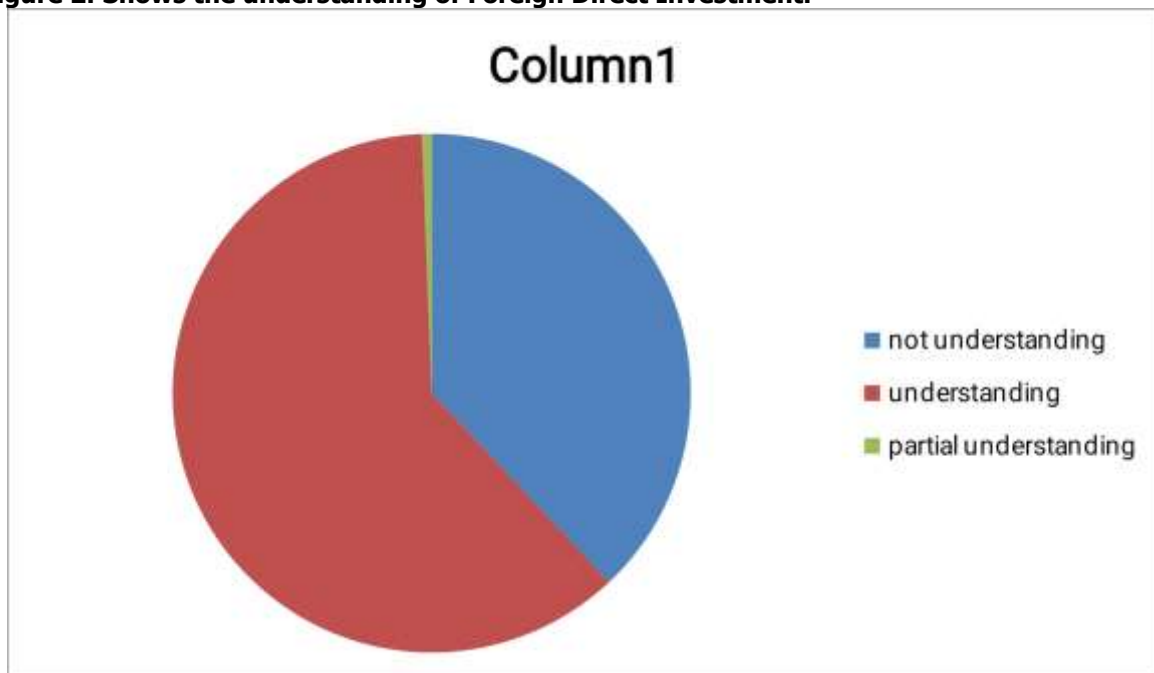


### Understanding of FDI.

The study sought to establish a full understanding of foreign direct investment in the airport and if they were aware of it, their response was; that 61.4% understood the

full meaning of FDI and they were aware of it in the airport, 38% did not understand the meaning of FDI and not aware of it. 0.6% had low knowledge of FDI. This means that most of the respondents are aware of the roles of the FDI. The results are indicated in the pie chart Figure 2

**Figure 2: Shows the understanding of Foreign Direct Investment.**



**Allocation of funds by FDI to Zanzibar International Airport as of 2020-2022.**

The study sought to establish how funds were allocated by the foreign investment companies to the construction of Zanzibar International Airport from the document analysis this was released.

**Table 2: Zanzibar International Airport allocation of FDI funds years 2020 to 2022.**

Year	2020	2021	2022
Amount in Tsh	278,980,529	4,696,466,674	5,240,057,044

From Table 2 foreigners are increasing their investments gradually which means the funds are well utilized by the Zanzibar International Airport. There is also the need to construct the airport further.

**Evaluation of promotion of FDI.**

The study established if the tax reduction promotes the FDI, this was the reaction of the respondents in Table 4 N= 86

**Table 3: Reaction of the respondents on the evaluation of the promotion of FDI.**

Responses	Frequency	Percentage
Strongly disagree	45	52
Agree	25	30
Disagree	10	11
Strongly disagree	6	7
Total	86	100

The study established that 52 % (n=45) strongly agreed that the reduction of taxes by the government would promote foreign direct investment in the Airport. 30% (25) agreed, 11% (10) disagreed and 7% (6) strongly

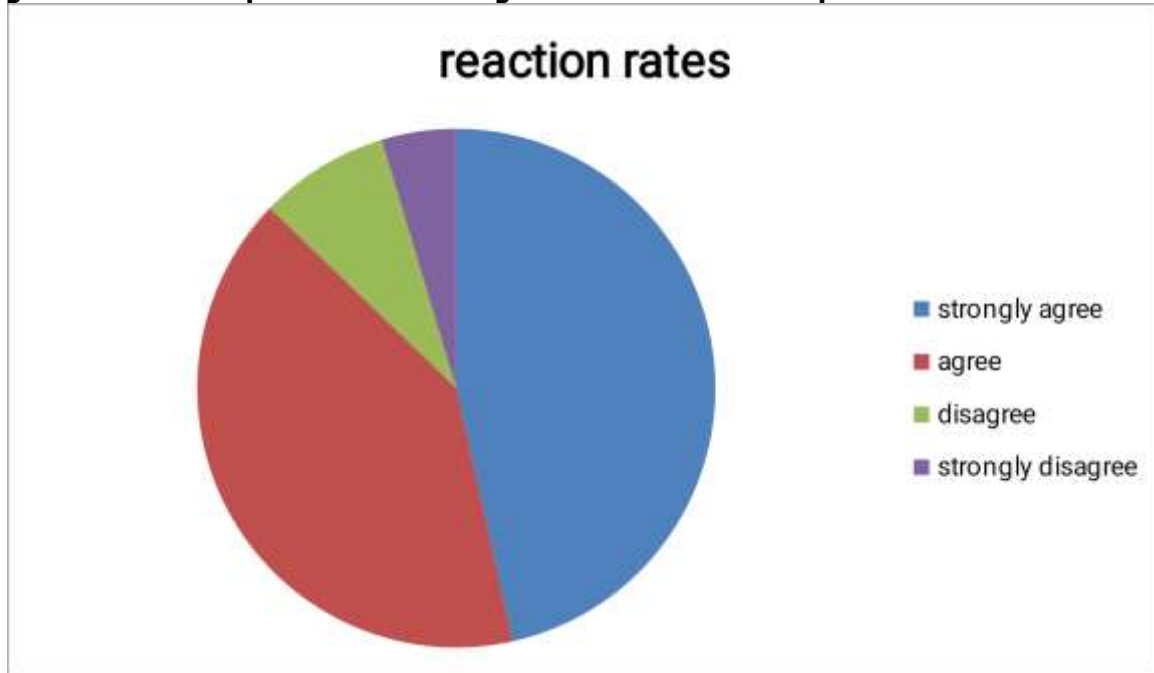
disagreed. This means that the current government will attract more investors to the development of the infrastructure of Airports.

**Evaluation of good infrastructure promotes FDI.**

The construction of good infrastructure in the form of quality transport systems facilitates the transport of goods and services produced by firms, and hasten the distribution process. Timely transactions arising from good transportation networks as well as an efficient and reliable energy supply to companies will cut down production costs and scale up factor productivity. Firms

benefit from low telecommunication costs as this will hasten communication both locally and internationally. Investment decisions largely rely on a good and improved infrastructure system. Thus, quality and well-developed infrastructure lowers the cost of doing business and improves the investment climate of foreign private firms, thereby influencing them to invest abroad. Foreign direct investment can also lead to the development and improvement of the host country's infrastructure. The study established whether good infrastructure can promote FDI and the results were as Figure 3.

**Figure 3: Shows response on whether good infrastructure can promote FDI.**

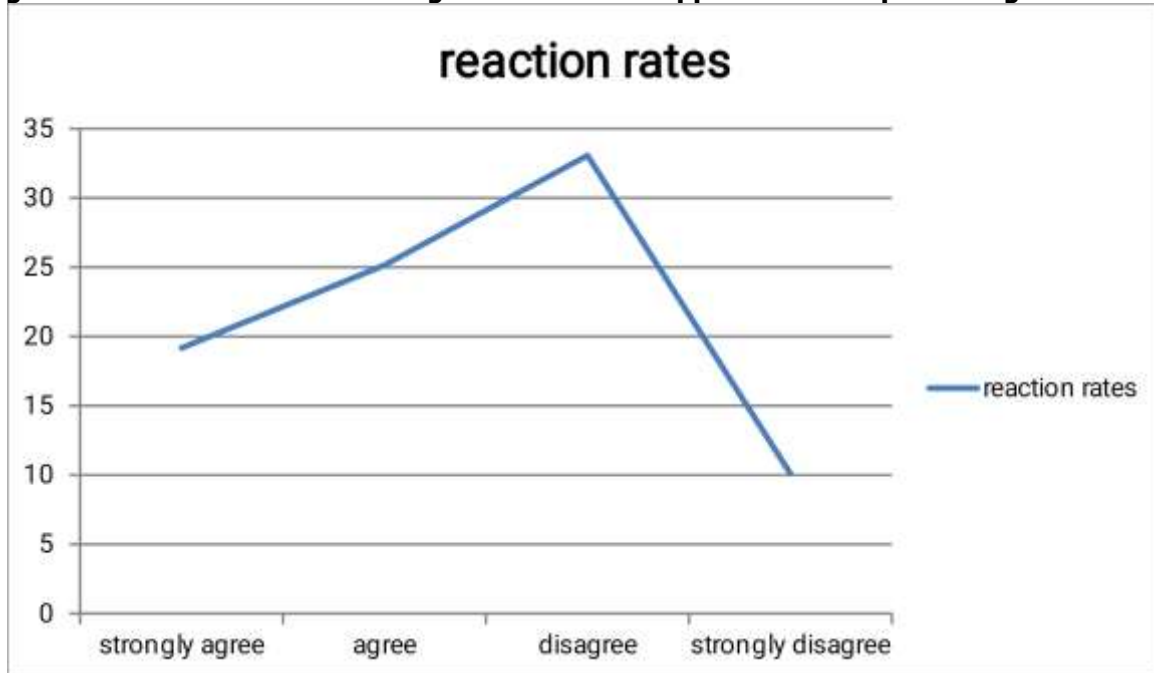


At the reaction level, respondents (n=40) representing about 47 % of the respondents strongly agreed that good infrastructure promotes foreign direct investment. They were seconded by another (n=35) representing about 41 % of the respondents who strongly agreed with the response of the questionnaire. Respondents (n=7) representing about 8% disagreed that good infrastructure does not promote foreign direct investors. They were strongly seconded by (n=4) representing 5% of the overall respondents who strongly disagreed. From the result above, the majority of member respondents agreed that the government should develop infrastructure to attract many investors who will invest in our airports. The investors will also promote infrastructure

#### **Evaluation of good investment opportunities promotes FDI.**

The study established whether the investment opportunities promote foreign direct investments in the airport. 33 (38%) of the respondents disagreed that investment opportunities do not promote FDI. It was seconded by 25 (29%) respondents who agreed that investment opportunities increase the level of investment in the Airport. 19 (22%) of respondents strongly agree while 10 (12%) of them strongly disagree. This means investment opportunity both promotes and sometimes doesn't but a great percentage agreed as shown in Figure 4

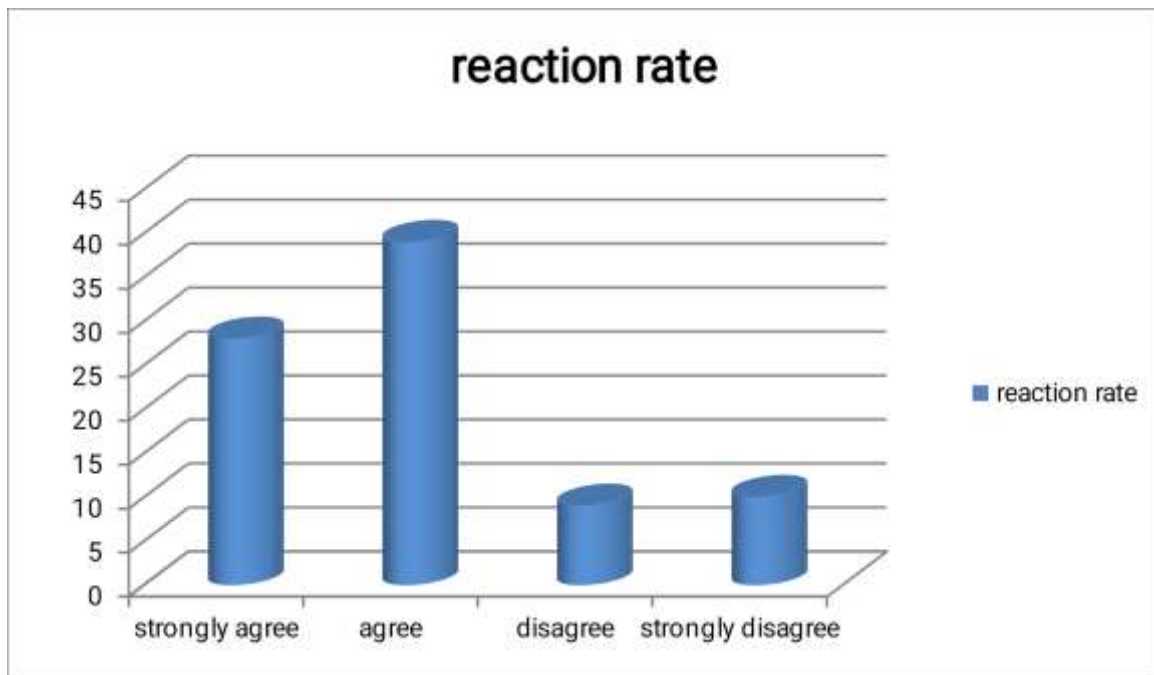
**Figure 4 shows the evaluation of good investment opportunities in promoting FDI.**



**Evaluation of Security/Safety promotes FDI.**

According to the sampled result determining those who believed that security and safety promote foreign direct investment. Here are the findings and results. As presented in Figure 5.

**Figure 5: Shows the respondent's response on whether security promotes FDI.**



The findings demonstrate that the number of participants who believed that security and safety promote foreign direct investments stands at (n=39) representing about

45% of the total respondents agreed. (n=28) More respondents representing about 32% of the respondents strongly agreed with the research question. (n=10)

representing about 11% of the respondents strongly disagreed with the question of whether security and safety promote FDI in Zanzibar International Airport. They were strongly seconded by (n=9) representing about 10% of the total respondents.

**Evaluation of good customer care promotes FDI.**

**Table 4: Shows the response rate on whether good customer care promotes FDI.**

Response	Rate	Frequency
Agree	80.1	68
Strongly agree	14	12
Disagree	3.6	4
Strongly disagree	2.3	2

Page | 8

According to the findings illustrated in Table 4, data reveals that among the overall respondents represented on the rate column, and frequency column (n=68) 80.1% of the respondents who responded to the questionnaire agreed that good customer care promotes foreign direct investment. They were strongly seconded by (n=12) representing about 14% of the total rate in overall respondents. While (n=4) of the respondents representing

about 3.6% of the overall respondents disagreed with the questioner that good customer care does not promote foreign direct investment. They were strongly seconded by other (n=2) respondents who felt the need to strongly disagree with the sentiment.

**Evaluation of good policy promotes FDI.**

**Table 5: Shows the response rate on good policy in promoting FDI.**

Response	rate	Frequency
Agree	76.8	66
Strongly disagree	4.6	4
disagree	11.2	10
Strongly agree	7.3	6

At the reaction level, evaluations of the good policy of the hosting country were assessed whether they will promote the FDI. (n=66) representing about 76.8% of the respondents agreed, they were seconded by (n=6) more people representing about 7.3% of the respondents who strongly agreed. (n=10) representing about 11.2% of the overall respondents disagreed that evaluation of the good policy of the hosting country was assessed whether they will not promote the FDI. They were seconded by (n=4) respondents representing about 4.6% of the overall respondents who strongly disagreed.

**Evaluation of International Festival Promotes FDI.**

Analyzes on examining if the international festival promotes and to what extent it promotes. According to findings, in determining whether the international festivals promote foreign direct investment, here are the findings results as answered by the respondents (N=86=Frequency=100%Rate)

**Table 6: Shows the response of the participants on whether international festivals promote FDI.**

Response	Frequency	Rate
Agree	24	28
Strongly agree	23	27
Disagree	21	24
Strongly disagree	18	21

According to the findings, (n=24) representing about 28 % of the total respondents agreed that international festivals will attract many investors who will invest directly in infrastructure. (n=23) More people representing about 27% of the respondents strongly seconded this examination results. N=21 of the respondents representing about 24% of the overall respondents disagreed that the international festival does not promote the FDI. They were seconded by n=18

representing 21% more of the respondents who strongly disagreed.

**The study established other factors that promote FDI.**

Other factors which promote foreign direct investments in infrastructures were stated by the respondents; such factors include market size, the performance of the financial markets, macroeconomic stability, adequate



infrastructure (economic factors), and labour (social factors). Others include a good investment climate, competent institutions of government, transparent systems, and stable exchange rates (political factors), among others.

### **Business freedom.**

This measure assesses the ability to create, operate, and close an enterprise quickly and easily. It represents the overall burden, as well as the efficiency, of government regulations.

Freedom from government—this factor measures both the government’s use of scarce resources for its purposes (government expenditures, including consumption and transfers) and the government’s control over scarce resources through ownership

### **Property rights.**

The Property Rights Index measures the ability of individuals to accumulate private property, secured by clear laws that are fully enforced by the state. Freedom from corruption—this index assesses the perception of

corruption in the business environment, including levels of government legal, judicial, and administrative corruption.

### **Financial freedom.**

This index measures the extent of government regulation of financial services. Fiscal freedom—this is a measure of the burden of government from the revenue side. It includes both the tax burden in terms of the top tax rate on income and the overall amount of tax burden (as a portion of GDP). Investment freedom assesses the restrictions a country imposes on foreign investment.

### **Evaluation of government efforts towards FDI.**

The study established the efforts of the hosting government towards foreign direct investment. The study sought to determine the extent of government efforts in attracting foreign investors. Respondents were asked to indicate the extent to which the government has done to attract direct investors. The findings are indicated in Table 8

**Table 7: Government efforts to attract direct investors.**

Government Effort	Frequency	Percentage
Good international relation	8	9.3
Good infrastructures	20	23.3
investment opportunities	10	11.6
Reduce tax	23	26.7
Advertisements	18	20.9
Good policy	7	8.1
Total	86	100.0

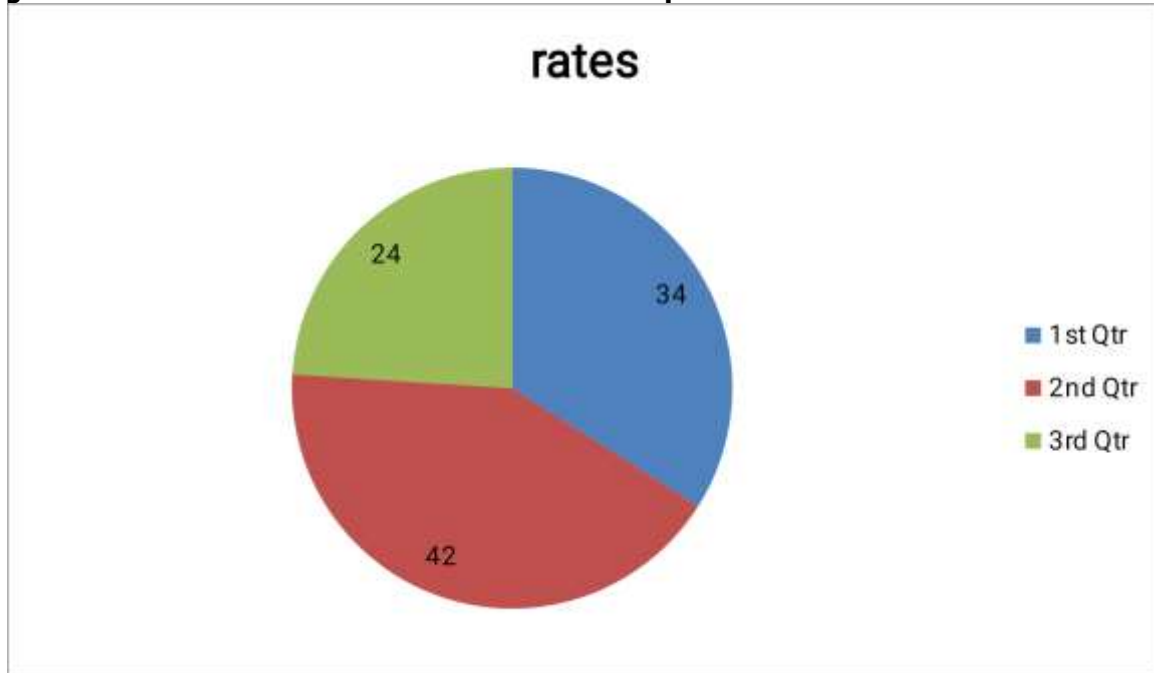
According to Table 7, 23 or 26.7% of the selected respondents mentioned that the reduction of taxes will attract more investors and the government has put more effort into it. It was followed by 20 or 23.3% which represented the good infrastructures in the Country, 18 or 20.9% represented advertisements that are done by the country, investment opportunities in a country 10 respondents represented 11.6%, 8 (9.3%) respondents believed in good international relationships and 7 which is 8.1% agreed on good policy have been put by the government.

### **Evaluation of roles of FDI at the Zanzibar International Airport.**

The respondents were asked to assess the roles played by foreign direct investments and their extent; this was their

response. Zanzibar International Airport has been able to acquire some level of technological capabilities. Most of these are basic capabilities such as maintaining machinery and airplanes in the airport and constructing the infrastructures, where air companies carry out this activity and businesses. Next is improving efficiency in existing work tasks (42%), of the respondents agree that thought FDI, planning, and control of production have been achieved. Development of a new production process, the introduction of a major improvement to machinery, and the introduction of a major improvement in the way the work is organized, all of which were achieved this was from by 34% of the respondents. 24% agreed that the Introduction of new marketing strategies, which is another important component of innovation capability, has been achieved to a much lesser extent. As shown in figure 6.

**Figure 6: Roles of FDI at Zanzibar International Airport.**

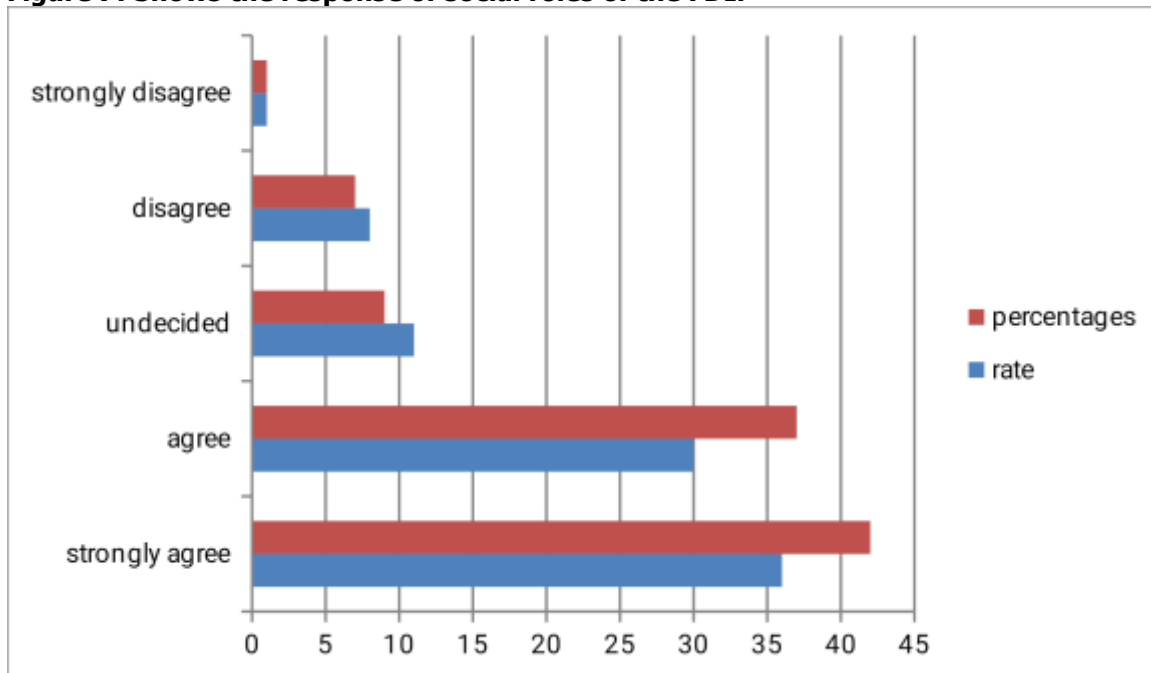


**Evaluation of Social Service Roles of FDI.**

Figure 7 indicates that the majority (42%) 36 of the respondents strongly agreed that FDI contributed to the development of social service and the well-being of the

Airport, while 27% 30 respondents agreed. Those who disagreed and strongly disagreed stood at 7% and 1% respectively, and undecided was 9% which is 11 respondents. The general implication from this suggests that FDI has a big role in social services in the Airport.

**Figure 7: Shows the response of social roles of the FDI.**



**Evaluation of Employment Opportunity of FDI.**

As more foreign companies invest in Zanzibar, it has led to greater employment. The effect on employment will be positive as foreign investors will probably exploit the low

labour cost available. FDI would thus seem to have a positive influence on employment. It would further help to increase the salaries of the workers as there is more competition for their work. This would in turn give them a better lifestyle.

The study also sought to find out how the creation of FDI has created employment opportunities. It was the study's feelings that the respondents would state the employment rates that have been created by FDI.

**Table 8: Response on employment opportunity of the FDI.**

Scale	N	%
Strongly agree	56	63
Agree	30	33
Undecided	1	1
Disagree	2	2
Strongly disagree	1	1
Total	86	100

Table 8 indicates the following findings; (n=56) respondents representing about 63% of the overall respondent rate strongly agreed that The FDI has created employment opportunities in Zanzibar International Airport. They were seconded by (n=30) respondents representing about 33% of the overall respondents who agreed. (n=2) respondents representing about 2% of the overall respondents disagreed with the questioner's view that The FDI does not create employment in the host country instead it employs foreigners. Another (n=1) respondent representing about 1% of the overall respondents strongly disagreed. 1 respondent who represents 1% was undecided. This information represented on the chart reveals n=56 of the respondents representing the highest number of respondents who strongly agreed. This means most employment opportunities are created by investors who invest in Zanzibar International Airport through an FDI policy.

### **Evaluation of infrastructure developments of FDI**

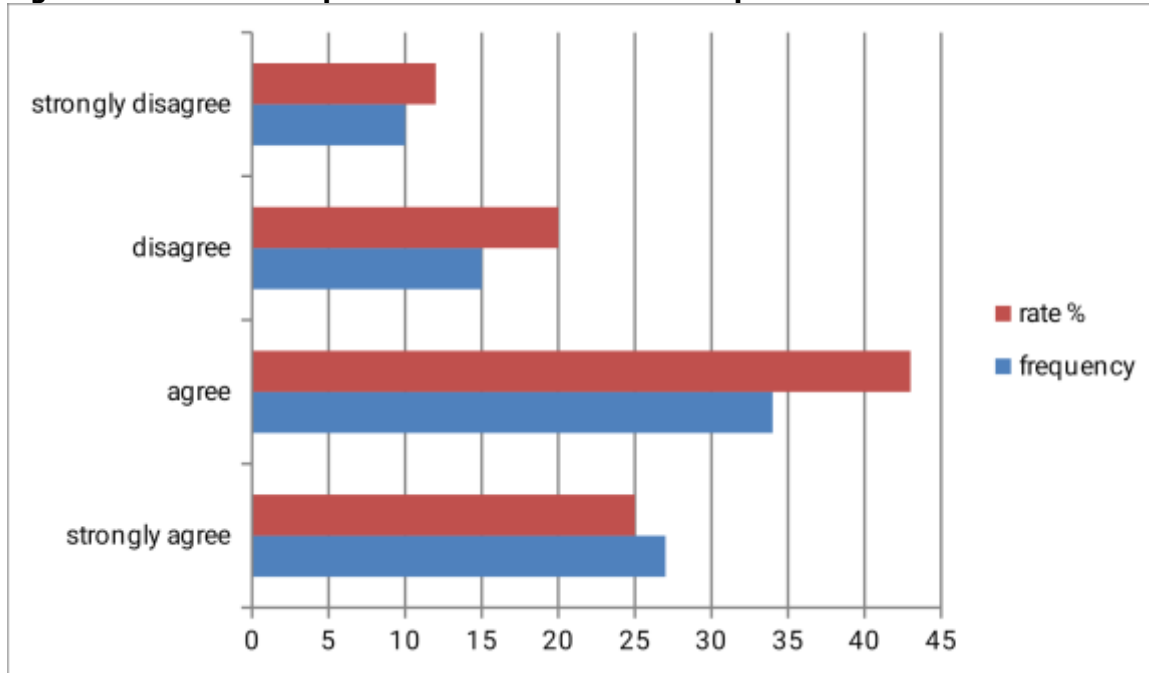
An e-readiness assessment of southern African countries conducted by SADC in 2002 rates Zanzibar as among the most developed infrastructure compared with other southern African countries. The basis for modern economic development is evident. Zanzibar also rates among the highest in terms of fixed-line density, mobile phone penetration, electricity penetration, PC penetration, Internet access, and number of households with television and radio. However, despite having a good infrastructure, there are reportedly disparities in the use of distribution and use. By the end of 2020, the total number of fixed lines was 21,268, which corresponded to a telephone density of 26.4% in Zanzibar airport. The mobile sector

has grown tremendously over the years to reach 54,368 phones in December 2020. In other words, 67.9 % of the population has a mobile phone and has more than double the number of fixed lines. The two telecommunications operators have contributed significantly to attaining these achievements.

Today, the airport has three Internet Service Providers (ISPs) and numerous Internet cafes on the nine main islands. The three ISPs are connected to the international Internet backbone via satellite through their own VSat. With regards to connection to customers, the ISPs make available to their customers a variety of connections such as dial-up, lease line, and wireless broadband. The availability of a variety of choices to customers has contributed towards an annual growth and statistics show that in 2020, the number of Internet accounts has reached 3,309. ("SIB-Telecommunication", 2007). The airport has developed interims of infrastructures. The study sought to study the reactions of the respondents on the contributions of FDI in infrastructures.

According to the results of the featured findings, about (n =34) representing about 43% of the participants who participated in answering the question agreed that the FDI has developed infrastructure in the airport. (n=27) More people strongly seconded the research representing about 25% of the overall participants. About (n=15) respondents among the people who participated in answering the questionnaire repressing 20%, did not see any importance of FDI in terms of the development of infrastructures they argued that most foreigners develop their home countries. It was strongly seconded by (n=10) representing 12% of the respondents who disagreed. The representation of the data is illustrated in Figure 8. (N=86, percentage rate =100%)

**Figure 8: Shows the response on infrastructure developments of the FDI.**



One of the activities, that are helping to push the latter, is the identification of appropriate frequency bands from the radio spectrum that can be used to deploy wireless systems to create a countrywide reliable and efficient ICT infrastructure and provide widespread accessibility to ICT services. As a result of the survey in September 2020, the government approved the ICT policy for the country to ensure the availability of accessible, universal, affordable, modern, and high-quality ICT facilities and improve the country's strong position. Before the ICT policy, the technological capabilities of Zanzibar revolved around marine research technologies funded by different private institutions and foreign aid. Foreign aid also funds its ICT policy ("Zanzibar launches ICT policy", 2020).

### Evaluation of Technological development of FDI.

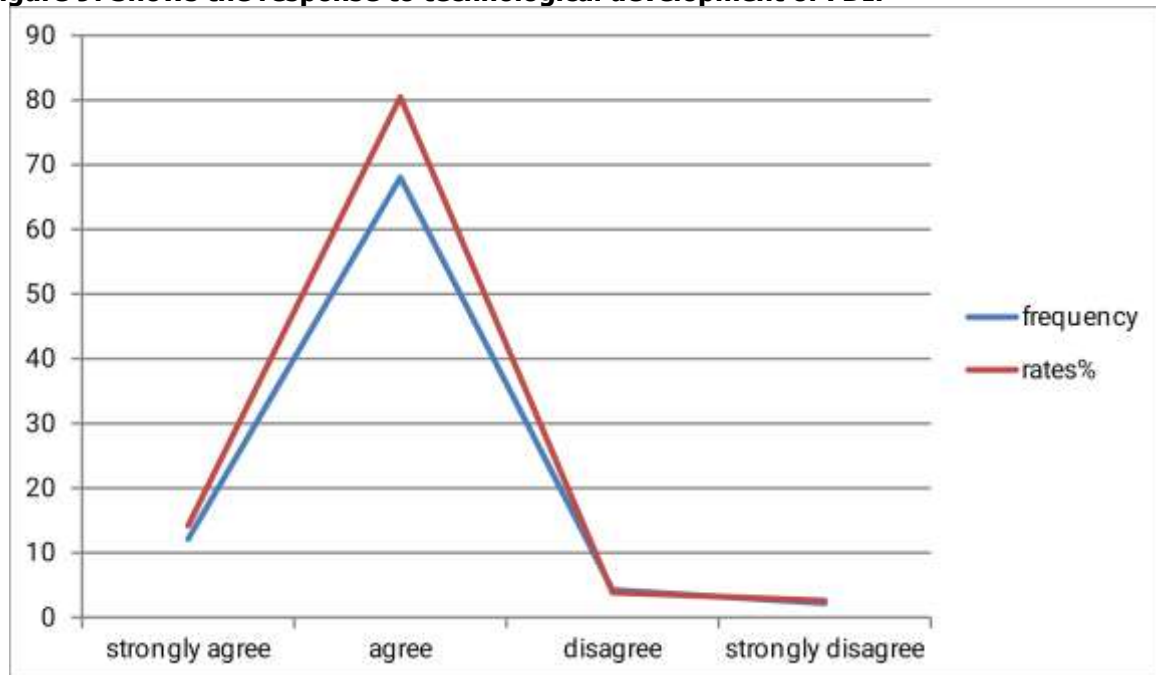
Zanzibar technological capabilities are still developing at a rapid pace, but one of the major setbacks is the lack of commitment and funding by the government to connect the country to the submarine cable that will provide

international fiber connectivity to the islands. The South Africa-Far East (SAFE) submarine cable, which is a connection of over 13,800 km from Cape Town in South Africa to Malaysia, linking Mauritius, Reunion and India on the

the way is still under discussion within the Zanzibar government since 2004. This FDI could remedy the government's lack of commitment. Zanzibar airport has not been left behind; foreign agencies have invested in it. The study sought to find out whether the FDI has contributed to the development of technology.

The findings demonstrate the number of those participants who believed that FDI has developed technology in the airport. (n= 68) representing about 80.1% of the total respondents agreed. (n=12) More respondents representing about 14% of the respondents strongly agreed with the research question. (n=4) representing about 3.6% of the respondents disagreed with the question of whether the FDI has developed technology in the airport this percentage believed that investors are busy developing their own countries. They were strongly seconded by (n=2) representing about 2.3% of the total respondents.

**Figure 9: Shows the response to technological development of FDI.**



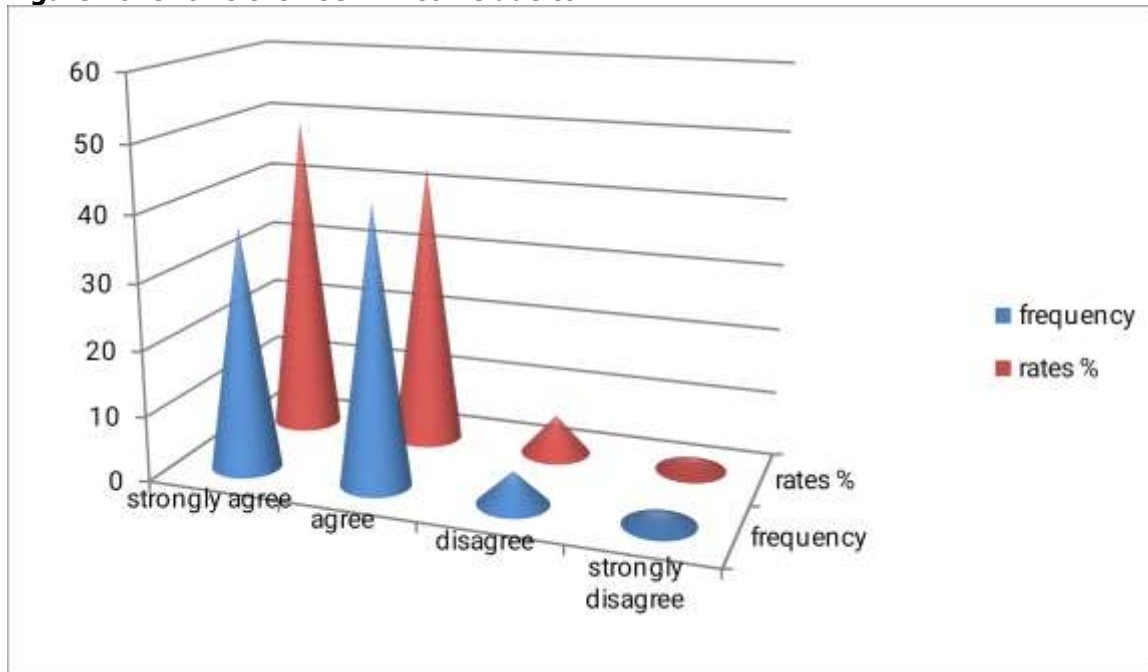
Thus, this study is developed to find out the rise of national income due to Foreign Direct Investment and Economic Growth, as to whether FDI is increasing the income in the Zanzibar International Airport context.

**The study sought to assess the rise of income due to FDI.**

Findings results indicate that on the learning level (n=42) respondents representing about 49% of the total

respondents agreed that FDI has increased the income at the airport. They were seconded by (n=37) respondents representing about 43% of the total respondents who strongly agreed. (n=5) respondents representing about 6% of the overall respondents disagree according to our interview instrument argument that FDI does not increase income. They were again seconded by (n=2) respondents representing about 2% of the overall respondents who strongly disagreed with the view of the interview questioner. The illustrations of the finding results are represented in figure 10.

**Figure 10: Shows the rise in income due to FDI.**



Foreign direct investment is one of the external sources of financing economic activities in different countries. However, the most important thing that distinguishes this type of investment from other sources of external financing is that it is free from burdening the host countries with debt burdens such as foreign loans. It is also important that it is not associated with political commitments, as is the case for some grants and foreign subsidies. Therefore, all countries, especially the developing ones, tended to create the appropriate investment climate to attract it due to the noticeable lack of their internal financial resources to the estimated high cost of implementing their development programs and being aware of its advantages. It became clear through remarkable development experiences in many countries such as China, India, Malaysia, Tanzania, and other countries, which mainly represented the acquisition of technology and methods accompanied by the modern competencies required to use them. That all allows for the creation of job opportunities, the development of diversifying exports, and the development of the productive base of the national economy.

## DISCUSSION.

Many studies confirm the important role of FDI in small island states. There are limited studies considering the nature, extent, and dynamics of the role of FDI, given the specific contexts of particular developing small island states like Zanzibar. Studies from Haimpton and Christensen (2002), Asiedu (2004), Naude and Krugell (2006), and Hansen and Rand (2006) found that FDI has a significant positive impact on GDP in developing countries and contributes towards economic growth. Furthermore, Markusen and Venables (1999) emphasized

how FDI brings many benefits to a country. French (1998), and Taylor (2000) found that there are a lot of adverse effects also and that developing countries should also pay special attention to these adverse effects when attracting FDI. Like all small island states, the goal of Zanzibar is sustainable economic development. Given the very small size of its domestic markets and its geographical isolation (which often limits the benefits of regional economic integration); Zanzibar is heavily reliant on international trade as a major source of development financing. As a result of globalization and regionalization which has enabled the lowering of trade barriers, Zanzibar is taking full advantage of this to reap as many benefits from FDI, so that it can improve the welfare of its developing economy. Being able to gain from the benefits of FDI will surely improve its economic development. Furthermore, being able to manage and contain the adverse effects that come with it will help the country achieve its goal in a more controlled manner. Results from the situational analysis (PESTLE) have revealed that Zanzibar is a small island state with a profound and strategic location, favorable for investments. The Zanzibar International Airport has taken advantage of FDI and it has developed into a modern airport.

## CONCLUSION.

Globalization has made it easier for investment to flow across markets and has also enabled trade between markets to become easier. As a result governments and companies alike are taking full advantage of this either to invest in other markets or to attract new investments to

their shores in the form of FDI. This FDI can improve the welfare of developing economies and airports.

Economies can benefit from this through increases in output and income, increases in the level of production, increases in inflow of capital, gain from technological transfer, and most important of all increases in the growth and expansion of businesses, resulting in the growth in the level of activities in the economy. FDI creates employment opportunities that in turn translate into income for households. With household incomes, spending and the revenue of businesses increase. FDI has become a very important aspect for economies to grow and prosper.

Zanzibar as a small island state with a very small economy is no exception, yet it cannot exist on its own. Its small size, unstable economy, and narrow economic base make Zanzibar vulnerable to internal and external economic issues. Embarking on the trend of globalization and gearing for a more prosperous future has brought awareness that attracting FDI is the way forward to help its economy grow. The specific role that FDI will have in Zanzibar will come in different forms. Firstly, it will enable Zanzibar to overcome scarcities of resources such as capital. Secondly, it will increase output and income, which in turn will create more employment and income for households. Thirdly Zanzibar will gain from technological transfer, which will boost performance and optimize productivity. Fourthly it will enhance competition in the economy, which will help lower the impact on price, adding welfare to consumers. Fifthly it will help growth in domestic investment because business growth influencing a cycle of growth encourages local investments. Sixthly it will help Zanzibar to gain access to the export market via the investor's experience and

expertise. Seventhly as Zanzibar is facing scarcities of foreign exchange, it will help alleviate the foreign exchange gap through the inflow of foreign financial capital and as a result will help stabilize the economy.

The implications that FDI will have on Zanzibar are very encouraging and positive. Due to the characteristics and the impact that it will have on the economy, Zanzibar greatly depends on FDI to keep its economy afloat and has now become the key to solving the economic difficulties that it is encountering. It is the key to its economic survival and better

sustained future economic growth and prosperity. Effective government policies and better longer-term planning will surely put Zanzibar on the right track to economic recovery. At present Zanzibar is ranked fifth in Africa in terms of transparency and third in terms of attracting FDI. Zanzibar must therefore continue to improve its climate for investment by continuing to improve the regulatory frameworks, and infrastructures, as well as providing incentives that will attract more FDI as well as benefit the economy as a whole.

Additionally, the Zanzibar government must improve the local investment climate.

Taxation is one issue, which must be addressed because foreign investors are given massive concessions while local investors are being squeezed of every single cent. Another important issue that should be addressed is the rapid increase in inflation, which is affecting the competitiveness of, Zanzibar and shying away a lot of prospective investors from its shores.

On the whole, this research has been able to determine the strengths and vulnerabilities that determine the need for FDI, how FDI is obtained, how it will affect Zanzibar, and most importantly the importance that foreign direct investment is to Zanzibar.

## **RECOMMENDATIONS FOR FUTURE RESEARCH.**

Recommendations for future research may include expanding this study to include a comparison of Zanzibar against other small island states or the comparison of the role of FDI on developing and developed small island states. However, a major obstacle in the case of Zanzibar is the availability of reliable data for critical analysis and comparisons. The developed countries and most small island states have up-to-date data readily available online or through their statistical agencies. The Zanzibar Investment Bureau and the National Statistical Bureau should move to make this data readily available to the public to allow further and more in-depth research on the importance, dynamics, and contexts of FDI.

## **LIMITATIONS OF THE STUDY.**

The politics of the country which are a major influence of FDI inflow were not well represented in the model. Therefore the effects were not well expressed in the model. There were also time constraints that had to be addressed.

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### **LIST OF ABBREVIATIONS.**

**FDI:** Foreign Direct Investment

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### **CONFLICT OF INTEREST.**

The author declares no conflict of interest.

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