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Promoting Export-Led Economic Growth in Nigeria –The Export Processing Zone Option

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ABSTRACT: *The volatility in crude oil production in Nigeria, which in recent times, have been heightened by militant attacks on critical oil installations in the Niger Delta area and the continued price spiral in international oil market has once again brought to the front burner anxieties about the future of the oil sector in the Nigerian economy. The unfolding scenario has again exposed the Nigerian economy to downside risks of volatility in oil prices with attendant consequences and multiple effects on the economy and businesses as well.. Since the third quarter of 2015, fallen prices of crude oil and fluctuations in crude oil production in Nigeria have conspired to put the country's economy in dire straits. The oil price has fallen by more than 50 percent since June 2014, when it was $115 a barrel. It is now consistently below $50 and has been as low as $37. These developments have put the nation's fiscal operations in quandary. The government has rightly responded by putting in place various fiscal and monetary measures to stem the tide. The federal government has adopted some austere measures to cushion the effect of the persistent drop in revenue. However, the implementation of these short-term measures to shore up revenue could be impeded by political exigencies which often times overrides economic rationality. Thus, a more comprehensive and alternative approach that will promote non-oil export will be a better option. To this end, the authors recommend the revitalization and retooling of the Export Processing Zone (EPZ) Scheme in order to effectively diversify the economy away from oil to an export-led economy.*

Keywords*: Export Processing Zone, Export-led, Economic Growth, Economic Development*

I. INTRODUCTION

The volatility in crude oil production in Nigeria and fluctuations in international oil price has once again brought to the front burner anxieties about the future of the oil sector in the Nigerian economy. Since the third quarter of 2015, fallen prices of crude oil and fluctuations in crude oil production in Nigeria have conspired to put the country's economy in dire straits. The oil price has fallen by more than 50 percent since June 2014, when it was $115 a barrel. It is now consistently below $50 and has been as low as $37 (Nigeria Bureau of Statistics, 2015). The Goldman Sachs has predicted recently that crude oil price may fall to US$20 in the near future (Okoro, 2015).

Moreover, the failure by Organization of Petroleum Exporting Countries (OPEC), which controls nearly 40 percent of the world market, on production curbs, sent what was an already weak commodity to new lows. This plunge is partly due to the sluggish world economy, which is consuming less oil than markets had anticipated, and partly to OPEC itself, which has produced more than markets expected. The newest factor in the oil price equation has been from what was, certainly a few years ago, an unexpected source – the oil of North Dakota and Texas. Over the past four years the boom in extracting oil from shale formations previously considered unviable has been unprecedented. The sheer number of new wells drilled, some 20,000 since 2010, is more than ten times Saudi Arabia's. This has boosted America's oil production by a third, to nearly 9million barrels a day which is just 1 million barrels short of Saudi Arabia's output. The contest between the shale men and sheikhs has meant that oil shortages are now oil surpluses (Hitchens, 2015).

The low crude oil demand can be pinned on the continuing inability of Europe to extricate itself from an almost self-induced recession, along with the lower than expected, but still worthy GDP growth rates of over 7% from China. However, problems within the OPEC cartel also do not seem to have had much effect at all on the price, which in the past would have been the case. The turmoil in Iraq and Libya – two big oil producers with nearly 4 million barrels a day combined has not really affected their output (Hitchens, 2015). The market remains more sanguine about the risks in these countries, but oil output here has not ceased nor is likely to cease completely, nor is it likely to, especially, if government forces in both countries manage (as is possible in the longer term) to regain majority control of production. While America has become one of the world's largest oil producers, it does not export crude oil, but conversely imports much less, creating a lot of spare supply (EIA, 2015).

Finally, the Saudis and their Gulf allies have decided not to sacrifice their own market share to restore the price. They could curb production sharply, but the main benefits would go to countries they detest such as

Iran and Russia. Saudi Arabia can tolerate lower oil prices quite easily. It has $900 billion in reserves. Its own oil costs very little (around $5-$6 per barrel) to get out of the ground (Hitchens, 2015).

There are bound to be losers in the unfolding scenario. Oil producing countries whose budgets depend on high prices, like Nigeria, are in particular trouble. Indeed, to say that the Nigerian economy could be in dire strait in the face of dwindling crude oil prices is to restate the obvious. Nigeria is currently experiencing economic challenges which appear to occur almost every decade – a slump in crude oil prices (Okoh, 2014). The steep and sudden crash of crude oil prices in the international commodities markets and the dictates of today's global economic conditions and realities have made it imperative for urgent reform measures to guarantee sustainable economic growth and development. As an oil exporting country, decline in crude oil prices is a downside to the economy in both the short and medium term. Nigeria's fiscal revenue is overwhelmingly dominated by the oil sector which accounts for approximately 80 percent of government revenue, and up to 95 percent of foreign exchange earnings (Nigeria Bureau of Statistics, 2015). The declining revenue from crude oil receipts cannot even be compensated by revenue from natural gas, as gas exporting countries are also wincing following a glut in the gas market. Consequently, there appears to be palpable and germane concerns on the longer term sustainability and growth of the Nigerian economy. The emerging global oil dynamics tends to indicate that the days of low crude oil prices may just be in the early days (Enebelli-Uzor, 2014).

The unfolding scenario has again exposed the Nigerian economy to downside risks of volatility in oil prices with attendant consequences and multiple effects on the economy and businesses as well. Anxiety on the outlook is further aggravated by past experiences where boom-bust cycles of oil (in the 1980s and 2008) culminated in macroeconomic instability induced by capital inflow reversals and currency devaluation with dire economic consequences. The concerns about the Nigerian economy have been exacerbated by the lack of robust mitigating buffer as a result of lack of strict fiscal discipline to build reserves during boom period (Chinemerem, 2015).

The first impact of the evolving development is decline in the gross federally collected revenue accruing to the federation account. Consequently, there has been a drop in the monthly Federation Accounts Allocation Committee (FAAC) shared among the three tiers of government (CBN, 2015). Aside declining revenue, the Nigerian economy is faced with other headwinds. For instance, the supply gap in the foreign exchange market is increasing as the demand for dollars outpaces supplies, exerting enormous pressure on the Naira. This has led to the depreciation of the currency by the Central Bank of Nigeria (CBN). The depreciation also means that imports are likely to be more expensive and are expected to slow going forward (Enebelli-Uzor, 2015).

In appreciation of the unhealthy situation the country has found itself once more, the new government in Nigeria led by Mohammed Buhari has apparently risen to the challenge. The federal government has adopted some austere measures to cushion the effect of the persistent drop in revenue. Some of the measures include the downward revision of the benchmark price of crude oil for the 2016 budget. A new figure of $65 per barrel has been proposed to the National Assembly. This new benchmark has however been overtaken by the continuous slump of crude oil prices which are currently hovering around $47 per barrel (Enebelli-Uzor, 2016). There is also renewed emphasis on non-oil revenue streams, especially taxation. The federal government has given indication that the existing framework for Value Added Tax (VA) revenue might be adjusted to enable the states and local governments get more revenue. Under the current framework for allocation of VAT revenue, the Federal Government, States and Local Governments receive 15 percent, 50 percent and 35 percent respectively. Possible upward review of VAT from the current 5 percent is also probable considering that VAT rate in Nigeria is one of the lowest among its African peers (Ghana – 17.5 percent; South Africa – 14 percent; Egypt – 10 percent; Algeria – 17 percent; Angola – 10 percent; and Morocco – 20 percent). One of the outcomes of the GDP rebasing exercise is the huge gap in the ratio of tax revenues to the GDP - down from 22 percent to 12 percent (Enebelli-Uzor, 2015).

Other measures taken by the Federal Ministry of Finance (FMF) include the review of tax waivers and exemptions to take in additional tax revenues (FMF, 2015). The FMF has announced the introduction of new surcharges on the importation and consumption of some luxury goods and services to yield estimated N10.56billion additional revenue in 2016. Details of the proposed measures which are expected to kick off from the beginning of the second quarter of 2016 include: a 10 percent import surcharge of new private jets (estimated to yield about N3.7billion in 2016); a 39 percent import surcharge on luxury yachts (estimated to rake in N1.6billion in 2016); 5 percent import surcharge on luxury cars (estimated to yield about N2.6billion additional revenue in 2016); 3 percent luxury surcharge on champagnes, wines and spirits (expected to yield about N2.3billion this year); 1 percent mansion tax on residential properties within the Federal Capital Territory, with value of N300 million and above (estimated to yield additional N260million); and a surcharge on business and first class tickets on air travelers (FMF, 2015).

Additional measures involve plugging of revenue leakages, strengthening of tax administration, and curbing incidences of non-remittance of requisite funds to the treasury by some agencies. Consequently, the federal government has deployed electronic platforms – Treasury Single Account (TSA), Government Integrated Financial Management Information System (GIFMIS) and the Integrated Payroll and Personnel Information System (IPPIS). A number of short-term expenditure cutting measures have also been unveiled to improve government spending and save an estimated N82.5billion. Specifically, procurement and upgrade of buildings have been curtailed, potentially saving about N44billion. International travels and trainings have been cut by 50 percent for all Ministries, Departments and Agencies (MDAs) of the government and this is estimated to save about N14billion annually. Similarly, administrative expenditures for buildings equipment and supplies as well as MDAs' provisions for the procurement of administrative supplies and equipment will be cut, saving about N5billion. Also, other provisions for overhead expenditure have been dropped completely, saving about N4billion. Finally, government also announced the commencement of partial implementation of the White paper on the rationalization of government agencies, commissions and committees, potentially saving about N6.5billion in 2016 (FMF, 2015).

But as rightly observed by Enebelli-Uzor (2015), the implementation of these short-term measures to shore up revenue could be impeded by political exigencies which often times overrides economic rationality. Thus, a more comprehensive and alternative approach that will promote non-oil export will be a better option. To this end, the authors recommend the revitalization and retooling of the Export Processing Zone (EPZ) Scheme. To argue this recommendation more forcefully, the rest of the papers proceed as follows. Following this introduction, section two reviews the EPZ scheme as a policy tool at the disposal of a developing country to diversify her economy and promote exports.

Section 2 - Export Processing Zone Option – An Overview

Export processing zones (EPZs) have become rather popular trade policy instruments since their modern revival in the late 1950s (Adediran, 2013). While in 1970 only a handful of countries permitted a zone, a recent OECD publication (cited in Adenugba & Dipo, 2013), places the total number of zones at 800 located in 173 countries. Export Processing Zones (EPZs) is seen as fenced-in industrial estates specializing in manufacture for exports that offer firms free trade conditions and a liberal regulatory environment (Osanakpo, 2013). This description allows for some domestic sales and includes export processing firms (EPFs) which benefit from the same EPZ incentives without being fenced in.

According to Afeikhana (2006), the primary goals of an export processing zone are:

- To provide foreign exchange earnings by promoting non-traditional exports.
- To provide jobs to alleviate unemployment or under-employment problems in the country and assist in income creation.
- To attract foreign direct investment (FDI) and engender technological transfer, knowledge spill-over and demonstration effects that would act as catalysts for domestic entrepreneurs to engage in production of non-traditional products.

To this end, Export Processing Zones share a few common features:

- Unlimited, duty-free imports of raw, intermediate input and capital goods necessary for the production of exports.
- Less governmental red-tape. More flexibility with labor laws for the firms in the zone than in the domestic market.
- Generous and long-term tax holidays and concessions to the firms.
- Above average (compared to the rest of the host country) communications services and infrastructure. It is also common for countries to subsidize utilities and rental rates.
- Zone firms can be domestic, international or joint venture. The role of FDI is prominent in EPZ activities.
- Zones can be categorized into public or private zones (owned or managed), and high-end or low-end. The latter distinction refers to the range of quality of management, facilities and services provided by the zone and therefore, the type of firms populating it.

Like many developing nations, Nigeria has never disguised her desire for industrialization and export-led growth as strategy for economic diversification (Adediran, 2013; Adenugba & Dipo, 2013; Moneke, 2014). After witnessing a shift from agriculture to crude oil and gas as the main driver of growth, the country has pursued various export-oriented strategies at various times to point the economy away from total dependence on hydrocarbon revenues. Mineral export constitutes more than 90 percent of the nation's export, with crude oil accounting largely for her foreign exchange earnings. Indeed, the nation's over reliance on oil as a major foreign exchange earner has continued to be of major concern to economic watchers as well as managers especially during periods of economic bust. More critically, the recent collapse of oil prices in the international market and the resultant slum in Nigeria's foreign exchange earnings have once again brought to the front burner, the need for the country to diversify her economic structure and broaden her export proceeds.

Beyond the drive for export-led growth, specifically the non-oil export, Nigeria is known to be a heavily import dependent country. The country relies on importation for a majority of its goods, even food, thereby spending a chunk of her foreign reserve on payment for goods and services imported into the country. For example, Nigeria's value of total import stood at N5.34trillion (more than $35billion) by third quarter of 2014 according to the National Bureau of Statistics (NBS, 2014). This skewed economic structure has continued to put pressure on the country's stock of foreign exchange reserves as well as domestic currency, making industrialization very imperative. One policy instrument that the country can and has indeed attempted to leverage on, as a strategy for rapid industrialization and diversification is the Export Processing Zone (EPS) Scheme.

Essentially, Export Processing Zone Scheme as an economic tool involves a deliberate government policy to encourage exports of goods and services by offering a more conducive and competitive business environment, through the provision of special incentives including tariff exemptions to inputs and infrastructure provision in a geographically defined area called an Export Processing Zone or a Free Trade Zone (Cling, 2008). Thus, an Export Processing Zone or Free Trade Zone is a specially designated enclave, clearly delineated and administratively considered to be outside the Customs Territory of the host country, having special regulatory and fiscal incentive rules to enhance its competitiveness. The creation of such zones with special incentive tend to attract Foreign Direct Investment (FDI), boost industrial growth with several other benefits, as investors seek to take advantage of such opportunities (International Labour Organization, 1998, 2003).

The adoption of the scheme as a diversification strategy generated some substantial initial impacts in China and other countries like Ireland and Indonesia, leading to its acceptance by a large majority of developing countries including Nigeria (Osanakpo, 2013). The adoption of EPZ Scheme as an economic policy by Nigeria was necessitated by the grim picture depicted by her economic structure. The aim was to integrate the economy into the global market through the establishment of a liberal market, promotion of exports in both traditional and non-traditional commodities and stimulation of the transfer, acquisition and adoption of appropriate and sustainable technologies to nurture competitive export-oriented industries (Afeikhana, 2006; Adediran, 2013).

More so, the scheme as an economic tool seeks to contribute to Nigeria's industrialization quest through forward and backward linkages. Forward linkages allow companies in Export Processing Zones (EPZs) to sell manufactured/finished goods to the domestic consumer-based depending on the model of Free Trade Zones adopted while backward linkages allow companies within EPZ to buy inputs from the domestic market of the host country and subcontract services to local enterprises (Onayemi & Akintoye, 2009).

It is easy therefore to surmise from the foregoing, that if effectively and adequately harnessed, the country can leverage on the scheme to industrialize and diversify her economic base which will contribute immensely to meeting the present deficiency in the supply of foreign exchange in the country through hydrocarbon revenue.

Section 3 - Nigerian's Export Processing Zone Scheme

In Nigeria, the Export Processing Zone (EPZ) Scheme as a policy was adopted in November, 1991 to achieve sustainable economic growth, industrialization and diversification (Nigeria Export Processing Zone Authority, 2007). Often referred to as Free Trade Zone (FTZ) Scheme, its overall objective for adoption is to create an enabling environment aimed at enhancing economic growth and development of export oriented manufacturing in the non-oil sector of the economy, as well as the propagation of the Nigerian content policy in the oil and gas sector in order to diversify the country's economic base, attract Foreign Direct Investment (FDI), generate employment, increase foreign exchange earnings, enhance technology transfer, skill acquisition/upgrading as well as create backward linkages (Nigeria Export Processing Zone Authority, 2008).

To achieve this laudable objective, two bodies were created to effectively manage these zones; the Nigerian Export Processing Zone Authority (NEPZA) established by the NEPZA Decree No.63 of 1992 (now Cap. N107, LFN, 2004) and the Oil & Gas Export Free Zone Authority (OGEFZA) established by OGFZA Decree No. 8 of 1996 (now Cap. 05, LFN, 2004). The bodies are saddled with the responsibility of promoting and facilitating local and international investments into licensed free trade zones (general purpose zones and specialized purpose zones) in Nigeria. There are currently about 31 licensed free zone enterprises operating in the various zones across the country. Of the number, 14 are fully operational while 8 others are still under varying degrees of construction. Physical development is yet to commence in another 8 approved Free Trade Zones while 1 has its operational license suspended. Also, there are about 10 more FTZs awaiting approval at different stages (Nigeria Export Processing Zone Authority, 2013).

3.1 Incentives Offered in Nigeria's Export Processing Zones (EPZs)

In order to attract investments in the EPZs, government has strategically designed a wide range of incentives for potential investors to create a win-win situation for the country as well as for investors. Some of these incentives as administered by the government legislation include: complete tax holiday from all federal, state and local taxes, rates, and levies, duty free importation of capital goods, machinery/component, spare parts; 100 percent repatriation of foreign capital investment in EPZs at any time with capital appreciation on the investment; waiver of all import or export licenses; rent free land during the first six months of construction of factory space (Osanakpo, 2013).

Others are unrestricted remittance of profits and dividend earned by investors in the zone; 100 percent foreign ownership of enterprises in the EPZ; and sale of up to 100 percent of production (goods) in the domestic market (provided duty is paid on imported raw materials). In addition to these incentives, all free zones in Nigeria are provided with the following standard facilities in order to create an enabling environment for business transactions; large expanse of industrial land with good access to international airports and sea ports; fenced wall around the zones with good security network; trained Free Zone Customs/Immigration roles as obtained in the Free Zones Worldwide (Nigeria Export Processing Zone Authority, 2007).

Equally provided are: police post to provide security for the zone; pre-built zone warehouses for ware-housing and storage of raw material and products; efficient telecommunication facilities; uninterrupted electricity and water supply; good internal/external road network and central transit warehousing facilities at major ports for efficient handling of Free Zone goods (Onayemi & Akintoye, 2009).

In a bid to create a readily available market to export goods produced within her shores, the Nigerian government entered into several trade agreements that guarantee preferential tariffs on her exports. Some of these trade agreements include: Global System of Trade Preference (GSTP), World Trade Organization, African Growth and Opportunity Act (AGOA), Economic Community for West African (ECOWAS) Trade Liberalization Scheme (ETLS), Organization of Oil Export Countries (OPEC), and Developing Eight (D-8) Preferential Tariff Agreement (PTA). All these fiscal, regulatory and infrastructural incentives are geared towards attracting investors into the country's Free Trade Zones (Nigeria Export Processing Zone Authority, 2013).

3.2 Nigeria's as Preferred Export Hub

Nigeria possesses features that make investment in EPZ very attractive to investors. Besides her abundant natural endowment (both mineral and non-mineral), Nigeria's teeming population of over 170 million people provide a ready market for goods and services. With her policy of allowing sales of goods in the domestic market, investors have access to arguably the largest consumer market in Africa. In addition, the population provides a large pool of skilled and unskilled labour required for productive activities. Nigeria enjoys excellent location that creates easy access to markets in Africa, the Middle East, Europe and the Americas. Her access to sea shores and even inshore waters make movement of goods from production point to export destinations very convenient. Furthermore, the country has a well developed aviation industry with six international airports and same number of major port complexes. According to Moneke (2013), these features make Nigeria arguably one of the best investment destinations in the world.

More so, the government has consciously embarked on several investment climate reform programmes, through various agencies and parastatals, to make Nigeria the preferred destination for African and global investors. Such programmes include: establishment of a One-Stop Investment Centre in the Nigerian Investment Promotion Commission, start-to-finish 24-hour business incorporation services, intellectual rights and copyright protection policy and establishment of trade and investment desks in major Nigerian embassies abroad, amongst others. In addition to the establishment of the Competitiveness Council, the government constituted the Doing Business and Competitiveness and Investor Care Committees; working with the Department for International Development and the World Bank aimed at removing all barriers to industrial productivity (Nigeria Export Processing Zone Authority, 2013). All these reforms are making Nigeria a more attractive investment destination.

Section 4 - An Overview of the EPZ Strategy

Since the adoption of the Export Processing Zone as an economic policy, Free/Export Trade Zones in the country have continued to increase both in numbers and in scope. The proliferation of the Zones perhaps underscores the potentials they possess in helping the nation attract foreign direct investment and also achieve the much desired economic growth/diversification. Specifically, between 1992 to date, the number of export zones has grown to about 31 with 10 more awaiting approval (Nigeria Export Processing Zone Authority, 2013). Also, the inclusion of the private sector as well as state governments has opened up more opportunities to the propagation of Free Trade Zones. Today, many zones are being sponsored and developed by states in partnership with private investors as a way of attracting investors into their regions in the hope of harnessing the benefits of EPZs.

The scheme has made significant progress in attracting foreign direct investments (FDIs) into the country. According to the Nigerian Export Processing Zone Authority (NEPZA, 2013), the scheme has attracted a total sum of US$13.5billion from 1992 to date. The government is also targeting another

US$68.1billion fresh FDI from newly licensed free trade zones, with a strategy of fast-tracking the approval of more specialized Export processing zones as well as focusing on high profile investors and their value chains. The scheme has been able to attract companies like General Electric and other leading companies.

However, despite the increase in the number of Export Processing Zones in the country and the huge investments attracted, the result in achieving export diversification has been minimal if not dismal (Chinemerem, 2015). A lot of the zones that have been granted approvals have remained moribund, value-added has been low, economic linkages and technology transfers have also been poor. To that extent, the scheme has not optimally exploited the country's rich human and natural resources to bring about significant change in Nigeria's export structure. For example, as at September, 2014, Nigeria's export was dominated by mineral product with oil and gas contributing more than 90 percent of total exports while the country is still heavily dependent on imported goods. Undeniably, the country is yet to harness the benefits of the scheme to its fullest (Aggarwal, 2010).

Adediran (2013) and Moneke (2013) have identified a number of factors as impediments that have retarded the efficacy of the scheme. Some of the challenges facing free zones in Nigeria include: policy reversals and inconsistencies resulting from inadequate knowledge of the scheme, weak infrastructures and power supply; weak regulatory environment due to conflicting and overlapping laws and procedures; security challenges in some regions; non-availability of long-term funds as well as inadequate consideration to export zones scheme in trade policy mix. The seeming failure in this realm appeared to have informed the recent review of Nigeria's policy on the existing zones. The focus of the review is to tackle these challenges and reposition the zones and make them efficient and functional to maximize the benefits of the scheme.

Section 5 - Optimizing Export Processing Zones

Export Processing Zones remains one of Nigeria's most viable liberal market policies that guaranteed her economic integration into the global market. The successes recorded in some of the zones in the country and indeed across the globe, clearly demonstrated that it is one of the country's untapped treasure-troves. By creating Export Processing Zones, the country is able to lure investors in export-oriented industries which in turn will spur the transfer and adoption of appropriate technologies needed to harness the nation's abundant and untapped resources. The economic linkages will create jobs for the country's teeming workforce as well as generate foreign exchange earnings.

However, to effectively harness the potential and benefits of Export Zones, there is need to maintain consistent policies regarding Export/Free Zones. According to Stein (2008), government should be seen to be unswerving in her policy stance as it relates to goods allowable, incentives, waivers and other benefits. This might require a special consideration of Free Trade Zones during the process of policy formulation to be sure such policies do not repudiate existing incentives for the Zones. More so, government must ensure a review and harmonization of all laws and regulatory framework with clearly defined duties and responsibilities for all her agencies to avoid overlapping functions.

In addition, the business environment should be made very conducive to be able to attract investors into these Zones. Specifically, there is need for security and political stability as such is necessary to attract foreign investments (Madani, 1999). Provision of adequate infrastructure in and around the zones especially electricity and accessible roads, rail lines, sea ports and other infrastructures should also be given top priority by developers as well as government (Milberg & Amengual, 2008).

Finally, government should place special emphasis on high value-added activities in the zones especially manufacturing for exportation. Such zones are generally better integrated into the domestic economy and thus provide sources of far more significant gains for the country on the path to economic diversification.

Types of industries allowed in Nigeria Export Processing Zones according to Nigeria Export Processing Zone Authority (2007) include:

i) Electrical and electronic products
ii) Textile products
iii) Wood products
iv) Leather products
v) Plastics products
vi) Petroleum products
vii) Rubber products
viii) Cosmetics
ix) Garments
x) Chemical products
xi) Metal products
xii) Educational materials and equipment
xiii) Communication equipment and materials

xiv) Sports equipment and materials
xv) Machinery
xvi) Handicraft
xvii) Optical instruments and appliances
xviii) Medical kits and instruments
xix) Biscuits and confectioneries
xx) Printed materials, office equipment and appliances
xxi) Paper materials
xxii) Food processing
xxiii) Pharmaceutical products
xxiv) Oil & Gas activities

Lynakurwa (1991) observed that under propitious circumstances and good management, EPZs generally achieve the two basic goals of creating employment (especially non-traditional employment and income opportunities for women) and increasing foreign earnings. For instance, Mauritius EPZs boosted 71 percent of the nation's gross exports in 2004 and employed 16.6 percent of the work force (Cling, 2005). However, some argue that the net foreign earnings may not constitute a large enough sum to warrant the investments undertaken by the country to accommodate a zone. The opportunity costs of such public investments should be considered more closely. Furthermore, there are potential revenue losses from concessions on income taxes and tariffs. EPZs are sensitive to the national economic environment. They will perform better when the country pursues sound macroeconomic and realistic exchange rate policies (Grossman, 1990; Cling, 2005; Stein, 2008).

Others like (Aggarwal, 2005; Milberg & Amengual, 2008) have argued that EPZs may contribute to the building of national human capital in two ways. Previously unskilled workers have benefited from EPZ presence. Their productivity has increased via job training and learning by doing. The benefits of this skill acquisition is limited however, as most production processes are low-skill and low-tech. The most valuable aspect of this type of employment, aside from the income earned, may be the workers' learning of industrial work discipline and routine.

Training has also occurred at the supervisory and managerial level, with local employees becoming privy to new organizational and managerial methods, negotiation and marketing skills, general business know-how, foreign contacts and entrepreneurship.

In addition, a successful zone, per se, is an efficient and competitive industrial infrastructure. As such it provides the country in which it operates an industrial set-up which it may lack. Most African nations would fit this profile. There are many cases of catalyst and demonstration effects on the host economy (Nigeria Export Processing Zone Authority, 2007)). These effects, together with the labor training, may be the zone's lasting contributions to the country in which it operates.

Creation of backward linkages seems largely conditional on the industrial base of the nation. In countries which did not already enjoy a solid industrial base and which adopted EPZs to encourage these linkages and foster a domestic industrial base, some linkage occurred, though it was spotty and inconsistent, with firm zones complaining of the poor quality or the incompatibility of local inputs. In countries where a solid industrial base existed prior to the establishment of the EPZs - e.g. Taiwan and South Korea- linkages have occurred (Milberg & Amengual, 2008). The transfer of know-how and technology was facilitated by the existing technological sophistication and highly educated labor force. In these cases, EPZs were only one tool in a canopy of governmental policies to foster economic growth through export promotion. Even at the height of their influence, EPZs never acquired a prominent role either in terms of exports value or employment creation in S. Korea or Taiwan.

Wages in most EPZs are equal or higher than average wages outside the zones. However, there is a noted variance around this average. Lax labor, work safety and health laws in many zones have raised concerns with regards to workers' welfare (UNIDO, 2008). The size, nationality and corporate policy of the firm, the type of industrial production, labor market conditions and the country's institutions and regulations play a determining role in establishing the wage rate, workers' rights and work environment in EPZs (International Labour Organization, 2003).

The environmental impact of zone production and laxity in government regulation and monitoring has also raised some concern. There are some information confirming environmental pollution, however, there is lack of systematic qualitative and quantitative analysis on the topic that would lead to well targeted, sensible regulation and monitoring (UNCTAD, 2002).

Some consider a successful zone a good model for country policy makers to mimic in formulating liberalizing domestic policies (Osanakpo, 2013). In this case EPZs facilitate liberalization efforts. Others argue that a successful zone may be used as a safety valve, providing jobs and foreign exchange earnings, and thus easing the pressure on policy makers to undertake economy wide reforms (Adediran, 2013). Zones would then be a stumbling block to liberalization. A third and more recent development is that of post -macro and trade-reform economies (such as Uganda) considering or establishing zones (among other export promotion tools) to bolster low FDI inflows (Onayemi & Akintoye, 2009).

Overall, the EPZs did not universally fulfill the role of "engines of industrialization and growth" as some proponents had anticipated. They have been an engine --among others – in the economy, when they have been given their proper place as a policy tool, and where proper perspective is taken as to their ultimate achievements and costs. EPZs' greatest contribution seems to be job creation and income generation. Their lasting legacy can be three fold. They can contribute to building human capital, and through their demonstration and catalyst effect on the country entrepreneur pool. Also, an efficient, competitive zone is an industrial infrastructure that many countries lack.

Section 6 – Challenges faced by Export Processing Zones

EPZs face new challenges in the increasingly global economy. Rapid changes in consumption preferences and the resulting competitive pressures to meet this demand can affect the locational choices of investors (Mahajan, 2008). Furthermore, increased product sharing is changing the reducing the need for country specific technical expertise. This phenomenon has a differential impact on industries as a function of their technical sophistication. Exclusion of a country from a preferential trade/integration arrangement seems to impact EPZ firms and EPFs which operate there negatively (e.g. Impact of NAFTA on firms and EPZs in the Dominican Republic). These firms may or may not flourish from the membership of their host country in preferential trade arrangements (UNIDO, 2008). The EPZ firms' (and EPFs) initial product mix, market orientation, technological sophistication, strategic business planning and adaptability to the new competitive conditions will have a material influence on their continued success and contributions to the country in which they operate.

The compatibility of EPZ incentives with WTO rules is country specific. Many of the incentives offered to firms are considered export subsidies and developing countries may or may not qualify for a timed or extended exemption from them. Least developed countries and developing countries with less than $1000 per capita GNP are exempted from disciplines on prohibited export subsidies (UNCTAD, 2001).

Section 7 - Policy Recommendations

Based on the foregoing, the following policy recommendations are proffered:

1. An EPZ is not a first best policy choice. The best policy is one of overall liberalization of the economy. Furthermore, EPZs and EPFs are only two of many trade instruments used by firms and countries to promote export development and growth, and have limited applicability. Other policy tools may therefore be more appropriate for a specific country than an EPZ. Nonetheless, EPZs can play a long term dynamic role in a country's development process if they are appropriately set-up and well managed.
2. Establishing an EPZ in a country that has undertaken trade and macroeconomic reform is not usually recommended on three grounds. First, the low FDI inflow may be due to inadequate legal or regulatory framework, or distorted economic incentives in other areas of the economy (e.g. private property laws). Second, EPZs are distortionary trade instruments and introduce an element of discretion into the policy environment. Finally, even if export promotion is in order (i.e. WTO compatible and deemed a solution to the country's low FDI inflow), an EPZ may not be the best instrument to achieve such a goal. If these economies are intent on establishing new EPZs, it is recommended that minimal differential fiscal incentives should be offered compared to the national standards to minimize their distortionary impact on the host economy.
3. Sound and stable monetary and fiscal policies (low inflation, budget management and independent monetary policy), clear private property and investment laws provide a general environment propitious for EPZ success. These conditions should be made available by the central government to realize the full potentials of an EPZ.
4. Moderate income and corporate tax rates are recommended. There is no need for "overly friendly tax incentives (such as permanent tax holidays or waiving all taxes). Provide for accelerated depreciation, rationalize and minimize indirect taxation and licensing practices. Improved collection rates can partially compensate for potential revenue due to reduced tax rates. Ensure that EPZs can import and export free of trade taxation and tariffs.
5. There should be a framework for private development and management of EPZs, including on-site infrastructure (pavements, building shells, etc). Provision of infrastructure external to the zone proper can have positive spillovers for the local and national economy by facilitating transportation and communications (telephones, roads, ports and airports). In this case, if private development is not available for the infrastructure external to the zone, the public role has an economic rational. Subsidizing utilities

encourages over-consumption and discourages economically rational use of resources and factors of production, detracting from the zones benefits for host countries.

6. Labor market constraints increase labor costs and slow market adjustment. In this sense, more business friendly labor laws are beneficial and should be enacted. However, this need not be accompanied by disregard or abuse of workers' safety and labor rights as is the case in some zones. Strengthening regulatory and monitoring activities will reduce labor turn-over and absenteeism and improving workers' productivity.
7. Most developing countries have lax laws and implementation. There are concerns regarding the EPZs large production volume and its potential pollution level- compared to the host economy production levels. In this area, a first necessary step is to form a better qualitative and quantitative understanding of these industrial refuses and their impact on air, soil, water and human health. Follow-up regulation, provision of incentives and monitoring should be tailored accordingly.
8. There is need to perform a careful analysis of incentives offered, their costs to the country, and the type of industries and investment packages (e.g. short or long term) they attract. Incentives need to conform to the WTO rules and time-lines on export promotion instruments.

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Appendix

Table 1 - List of Active Export Processing Zones in Nigeria as at December, 2012

S/N	Name	Location	Sponsor/ Developer	Land Size (Hectares)	Date of Designation	Specialty	Status
1	Calabar Free Trade Zone (CFTZ)	Cross River	Fed. Govt.	220	1992	Manufacturing, Oil & Gas, Logistic Services	Operational
2	Kano Free Trade Zone (KFTZ)	Kano	Fed. Govt.	463	1998	Manufacturing, Logistic Services, Warehousing	Operational
3	Tinapa Free Zone & Resort	Cross River	State Govt./Private	265	/2004	Manufacturing, Trade, Tourism & Resort	Operational
4	Snake Island Int. Free Zone	Lagos	Nigerdock Plc	59.416	2005	Steel Fabrication, Oil & Gas, Sea Port	Operational
5	Maigatari Border Free Zone	Jigawa	State Govt.	214	2000	Manufacturing, Warehousing	Operational
6	Ladol Logistics Free Zone	Lagos	GRML		6/21/2006	Oil & Gas, Fabrication, Oil & Gas Vessels, Logistics	Operational
7	Airline Services EPZ	Lagos	Private		2003	Food Processing and Packaging	Operational
8	ALSCON EPZ	Akwa Ibom	Fed. Govt./Private	814.619	2004	Manufacturing	Operational
9	Sebore Farms EPZ	Adamawa	Private	2000	2001	Manufacturing Oil & Gas, Petrochemical	Operational
10	Ogun Guandong FT Zone	Ogun	State Govt./Private	10000	2008	Manufacturing	Operational
11	Lekki Free Zone	Lagos	State Govt.		2008	Manufacturing,Logistics	Operational
12	Abuja Tech. Village Free Zone	Federal Capital Territory	FCT	702	2007	Science & Technology	Under Construction
13	Ibom Science & Tech. FZ	Akwa Ibom	State Govt.	122.137	2006	Science & Technology	Operational
14	Lagos Free Trade Zone	Lagos	Eurochem technology Singapore	218	2002	Manufacturing Oil & Gas, Petrochemical	Operational
15	Olokola Free Trade Zone	Ondo & Ogun	State Govts./Private	10500	2004	Oil & Gas Manufacturing	Operational
16	Living Spring Free Zone	Osun	State Govt.	1607.86	2006	Manufacturing, Trading and Warehouse	Under Construction
17	Brass LNG Free Zone	Bayelsa	Fed. Govt./Private	304.245	2007	Liquified Natural Gas	Dev. yet to commence
18	Banki Border Free Zone	Borno	State Govt.	500		Manufacturing, Warehousing, Trading	The Sponsor yet to be committed
19	Oils Integrated Logistics Services Free Zone	Lagos	Private Oil Field Industry Support Service Ltd	1000	2004	Marine, Logistics, Support Services for offshore Oil Repairs	Operational License Suspended
20	Specialized Railway Industrial FTZ	Ogun	State Govt.		2007	Rail Cargo Transport	Dev. yet to commence
21	Imo Guangdong FTZ	Imo	State Govt.	1399.27	2007	Manufacturing	Dev. yet to commence
22	Kwara Free Zone	Kwara	State Govt.	355.587	2009	Trading, Warehousing	Physical Dev. Yet to commence
23	Koko Free Trade Zone	Delta	State Govt.	2327.29	2009	Manufacturing	Physical Dev. Yet to commence
24	Oluyole Free Zone	Oyo	State Govt.	1374.5	2000	Manufacturing	Physical Dev yet to Commence
25	Ibom Industrial Free Zone	Akwa Ibom	State Govt.		2012	Manufacturing, Oil & Gas, Trading Services	Physical Dev. yet to commence
26	Badagry Creek Integrated Park	Lagos	Kaztec Engineering	531	2014	Fabrication	Under Construction

27	Ogindigbe Gas Revolution Industrial Park (GRIP)	Delta	Alpha GRIP Dev. Co.	2506.03	2014	Petrochemical, Fertilizer, Manufacturing and Gas Processing related activities	Under Construction
28	Nigeria Aviation Handling Company (NAHCO)	Lagos	NAHCO	10	2014	Cargo Hub, Trans shipment and Warehousing	Under Construction
29	Nigeria International Commerce city	Lagos	Eko Atlantic FZ Ltd	1000	2014	Financial institutions (local and international) leisure, real estate, shopping malls and corporate business, commerce	Under Construction
30	Ogogoro Industrial Park	Lagos	Digisteel	52	2014	Oil & Gas, Fabrication, Oil & Gas Vessels, Logistics	Under Construction
31	Centenary City		Centenary City Plc	1264.78	2014	Leisure, real estate, shopping malls and corporate business, commerce	Under Construction
32	Ondo Industrial City	Ondo	Ondo State Govt	2771.2	2015	Petro-Chemical & Manufacturing	Under Construction

Source: Nigeria Export Processing Zone Authority, 2014 (http://www.nepza.gov.ng/freezones.asp)

Table 2 - List of Export Processing Zones Awaiting Approval as at December, 2012

S/N	**Name**	**Location**	**Sponsor/ Developer**	**Land Size (Hectares)**	**Specialty**	**Status**
1	Ossiomo Free Trade Zone		Ossiomo Investment Ltd	1497	Refineries, Petrochemical plant, Gas processing plant, Metal extraction Industries, Metal Fabrication, fertilizer production, warehousing, Packaging and logistics Services.	At the Presidency
2	Enugu Power And Industrial Development Free Zone	Enugu	State Govt./Oil Data Consulting Company Ltd	403.562	Manufacture of high voltage power generation and distribution equipment and accessories, production of fertilizer from coal, and other value added industrial clusters.	At NEPZA
3	Warri Industrial Business Park	Delta	State Govt./ARCO Petrochemical Engineering Company Limited	329.1	Heavy & light Industries, Oil& Gas, shipping & logistics, R&D and Residential Real estate/ Leisure.	At the Ministry
4	Kogi Free Zone	Kogi	State Govt.	268.49	Manufacturing	At the Ministry
5	Baklang Free Zone		Baklang Offshore Support Services Conglomerate (BOSS)	75	Fabrication: ship, high value marine, oil & gas equipments, logistics services and manufacturing.	Appraisal On-going. Site inspection carried out
6	Madewell & Textile INC. Free Zone		Madewell Garments INC	952.534	Manufacturing activities viz-a-viz production of apparels and garments	At the Ministry
7	Airport Free Zones	Enugu, Kano, Lagos, Rivers	NEPZA/ Federal Ministry of Aviation	1742.24	warehouses, proccessing of manufactured goods,tourism and hotel services,light industries	Appraisal On-going. Site inspection carried out
8	Sahara offshore Logistics Base Free Zone		Sahara energy Resources	20.6	Oil & Gas Processing, Fertilizer, Plastics & Chemical, Warehousing, Trans-shipment & Distribution	Appraisal On-going. Site inspection carried out

Source: Nigeria Export Processing Zone Authority, 2014 (http://www.nepza.gov.ng/freezones.asp)