



# **NIGERIA** Development or **Underdevelopment**



(Selected Seminal papers)

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## Chapter Seven

### EXPORT-DRIVEN INDUSTRIALIZATION: AN OVERVIEW OF THE EXPORT PROCESSING ZONE (EPZ) SCHEME IN NIGERIA

#### INTRODUCTION

Since the mid-1960s, several developing countries implemented policies designed to stimulate exports of non-traditional manufactured goods. One type of this export promotion effort is the establishment of export processing zones (EPZs). Several EPZs were created in the early 1970s and by the 1980s, about 35 existed in Asia alone. EPZs are increasingly becoming important in the export promotion crusade of developing countries.

An EPZ is a special enclave, outside a country's normal customs barriers, within which investing firms, mostly foreign, enjoy special treatment with respect to imports of intermediate goods, company taxation, provision of infrastructure and freedom from industrial regulations applying elsewhere in the country. Though details may vary, a universal feature in EPZs "is the almost complete absence of either taxation or regulation of imports of intermediate goods into the zones. These privileges are subject to the conditions that almost all of the output produced is exported and that all imported intermediate goods are utilised fully within the zones or re-exported" (Warr, 1990, p. 30)

Following the problems in the Nigerian economy created by the mismanaged windfall from petroleum and the failure of the import substitution industrialization strategy (ISI), policy-makers began to conceive of establishing an EPZ for the country as a way of promoting industrialization through exports.

Traditionally, Nigeria exports raw materials (agriculture and mineral resources) to developed countries. It was anticipated that the earned foreign exchange will be utilized in developing and modernizing the economy. After several decades, Nigeria still remains essentially an export-based economy. What is sad is that the exports are still in raw form. Therefore, the various policies,



programmes and strategies including the various incentives have not altered the export of raw materials and import of finished goods feature of the economy. Partly due to this, government decided to create an EPZ to encourage the export of manufactured or semi-manufactured goods.

The paper is organized as follows: Following the introduction, section 2 of the paper discusses some conceptual issues highlighting the special features of EPZs. In section 3, we examine the Calabar Export Processing Zone while workers welfare in the context of EPZ is analysed in section 4. Section 5 concludes the paper.

## 2. CONCEPTUAL ISSUES

Export Processing Zones or free trade zones are special enclaves outside a country's normal customs barriers where foreign or domestic firms may manufacture or assemble goods for exports without paying the normal custom duties on raw materials and exported products.

The economic activities taking place within EPZs have been labour-intensive light manufacturing processes such as electronics assembly, garment production, assembly of light electrical goods, etc. An important feature of firms operating within EPZs is their international mobility. Turnover is often high and firms leaving an EPZ in one country move to an EPZ in another, in which perhaps conditions are more favourable.

This 'footloose' character of firms operating within EPZs, that is, their global mobility and capacity to adjust output rapidly in response to changing conditions has been ignored by most of the existing theoretical work on the subject. Thus, the conclusion more often is that EPZs are necessarily welfare reducing for nations establishing them.

The economic literature on EPZs center on their benefits and costs. Host governments closely monitor EPZs and when compared with data available for other public projects in developing countries, there exist a paucity of information. Consequently, empirical works on EPZs are still scanty.

## 2.1 FEATURES OF EPZs

The detail features of EPZs vary, but the following are almost universal and can be used in describing a typical EPZ.

### i) *Duty-Free Import of Raw Materials:*

Raw materials needed for the production of exports may be imported duty-free and without regard to any quantitative restrictions existing in the domestic economy. Also, products may be exported without payment of export taxes, sales duties and other levies. EPZs may be physically located anywhere in the home (host) country but the processing activities undertaken within them occur 'outside' the country provided the jurisdiction of normal customs provisions is considered.

Though goods produced within EPZs may not normally be sold within the domestic economy, rejected goods by foreign buyers can be sold domestically with permission. Invariably, this type of sale will displace imports which would have occurred from other sources and often attract normal custom duties.

EPZs firms' purchases of raw materials and intermediate goods from within the domestic economy are frequently subsidized so as to encourage backward linkages between EPZ firms and the domestic economy.

These subsidies are otherwise known as 'rebates' or 'drawbacks' and they often counteract the effects of domestic protection.

### ii) *Company Income-Tax Holidays:*

In most cases, temporary exemptions from normal income-tax provisions are frequently offered, with duration lasting from three to ten years. Non EPZ firms negotiate successfully for continuation of tax holidays but are not granted.

### iii) *Reduced Bureaucracy:*

EPZ firms are often provided with streamlined customs documentation requirements for imported raw materials and capital goods and exported final products. More often, a



special branch of customs is usually established to mediate between EPZ firms and the government. The idea is to minimize EPZ firms' administrative costs and to prevent unnecessary and costly delays. The extent to which these bodies are empowered to act on behalf of the government differs. EPZ firms are generally exempted from the following regulations: restrictions on repatriation of profits; restrictions on the employment of foreign nationals in managerial, supervisory and technical roles; and requirements for special approvals for the importation and installation of labour-saving capital equipment. Sometimes, EPZ firms may be granted access to the host country's allocation of imports.

*iv. Better Infrastructure and subsidized Utilities:*

An EPZ usually consists of a fenced area with a perimeter and gates policed by customs officials to prevent duty-free materials from being smuggled into the domestic economy. According to Warr (1990, p 135) "while infrastructure facilities such as roads, and telephone and telex communications are normally superior to those outside, they are generally inferior to those found in the industrial area of developed countries."

Utilities are more often subsidized. Electricity tariffs are especially important in this regard since light manufacturing enterprises are heavy users of electrical power. Rates charged within EPZs are frequently below, and never above, industrial rates elsewhere in the host country.

In addition, EPZs include standard construction factory buildings, constructed and managed by government authorities; investing firms can then rent floor space. Such rates are again generally lower than commercial industrial ones elsewhere in the country. Alternatively, intended EPZ firms may lease land within the zone and construct their own buildings. Whenever they leave the zone, firms may sell or lease these buildings.

What we have described above is the general characteristics of EPZs. Let us examine the Calabar Export Processing Zone in Nigeria.

### 3. CALABAR EXPORT PROCESSING ZONE

The apparent successes recorded in some Asian countries notable Taiwan and the Republic of Korea with EPZs prompted Nigerian policy-makers to consider establishing EPZs in Nigeria. It was believed that EPZs would attract foreign investment thereby contributing to the growth of the economy.

Hence, in 1980, Gills Nigeria Ltd., a firm of consultants, carried out a feasibility study and recommended the establishment of an EPZ around the Calabar Port. Nine years after, the government recommended a review of the Gills report given the long internal and cost variations due to the changing economic situation. A new study was conducted by a consortium of UNIDO and UNDP experts between November 1990 and June 1991. The submission of this report led to the formation of an inter-ministerial committee charged with the responsibility of drafting the EPZ legislation; thereafter, experts were appointed to complete the feasibility study.

In 1991, government promulgated Decree No. 34 formally establishing the EPZ and providing for the appointment of the Nigerian Export Processing Zone Authority (NEPZA) to handle its implementation.

A total area of 208,849 hectares close to the Calabar port complex has been meant to serve as the permanent site of the first EPZ in Nigeria. The foundation stone of the EPZ was laid on November 11, 1991. Government inaugurated an implementation task force in March 1992 given the responsibility to oversee various aspects of the project.

The role played by EPZs in promoting industrialization and manufactured exports has always been controversial. Government has allocated huge funds for the realisation of EPZ in Nigeria. For the most part, the Calabar EPZ has met almost all the conventional requirements for its take-off. For example, in 1995 government allocated about N3 million for the provision of facilities in the free trade zone.

The economic environment in the last three years has been favourable for the take off of the EPZ. The rate of inflation is around 22%, the exchange rate regime is stable, interest rate is now market determined and budget deficits have been curtailed. These indices should attract foreign investors to use the facilities provided by the



Calabar EPZ.

Government continually provides incentives needed to realize the objectives of the EPZ. In the 1995 budget, any export processing factory in a bounded export zone was entitled to an accelerated first year 100% capital allowance claim on its qualifying building and plant expenditure without any restriction to full claim of capital allowances in any year of assessment.

A lot of resources have gone into the EPZ scheme hence government should continue to nurture it so that the society could benefit. The Calabar EPZ will generate employment, increase incomes of firms, result in the establishment of auxiliary ventures (backward and forward linkages) and contribute positively to the economy of Cross River and neighbouring states.

The state of manufactured exports in Nigeria indicates the need for an EPZ.

**3.1 Performance of Manufactured Exports in Nigeria:**

Table 7.1 shows the performance of manufactured exports in Nigeria. For the entire period, manufactured exports, as a proportion of total exports was less than 1%. On the other hand, oil export continues to dominate. The establishment of the EPZ in Calabar is aimed at increasing the share of manufactured exports. The performance of manufactured exports has been unsatisfactory during the period.

**Table 7.1: Manufactured Exports As A Proportion of Total Exports, 1982 - 92 (%)**

Year	Manufactured Exports as A % of Total Exports	Oil Exports As a % of Total Exports
1982	0.16	97.1
1983	0.12	94.2
1984	0.16	95.0
1985	0.07	96.7
1986	0.04	93.1
1987	0.51	95.3
1988	0.60	91.2
1989	0.55	94.9
1990	0.67	97.0

1991	0.92	96.2
1992	0.53	97.8

Source: Jerome, A. and A. Adenikuiju "Trade Policies And the Promotion of Manufactured Export in Nigeria" in NES, 1995, p. 200.

**4. EXPORT PROCESSING ZONE AND WORKERS WELFARE**

It is necessary that the welfare of workers be addressed in the Calabar EPZ. There is a general tendency for firms in the EPZ to exploit workers - pay lower wages and do not provide necessary facilities like adequate medical care.

Working conditions in EPZs have been widely criticised by scholars from industrialized countries. The criticism centres on harsh working conditions and low wages. This situation was discovered in a study on working conditions in Phillipines' Bataan EPZ. This ought to be avoided in Nigeria hence it is useful that from the start a cordial working relationship should exist between workers and employers. Industrial peace is necessary for sound EPZ that will stimulate growth in the economy.

**5. CONCLUSION**

We have examined export promotion in the context of EPZs. There is no doubt that the Calabar Export Processing Zone has some of the basic features of any EPZ in the world. Nonetheless, there is need to continue to develop the basic infrastructure.

Government should as a matter of urgency commission the Calabar EPZ. It will enhance the economic activities of the area and neighbouring states. There is need to state that firms operating within the EPZ must ensure industrial peace. The surest way of achieving this is to provide basic facilities and incentives for workers. Industrialization through EPZ should not negate welfare of workers.

I hope that my presentation has highlighted some issues which can further be discussed in this workshop.