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UNDERSTANDING THE FREE ZONES SCHEME [The Nigerian Perspective]

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[The Nigerian Perspective]

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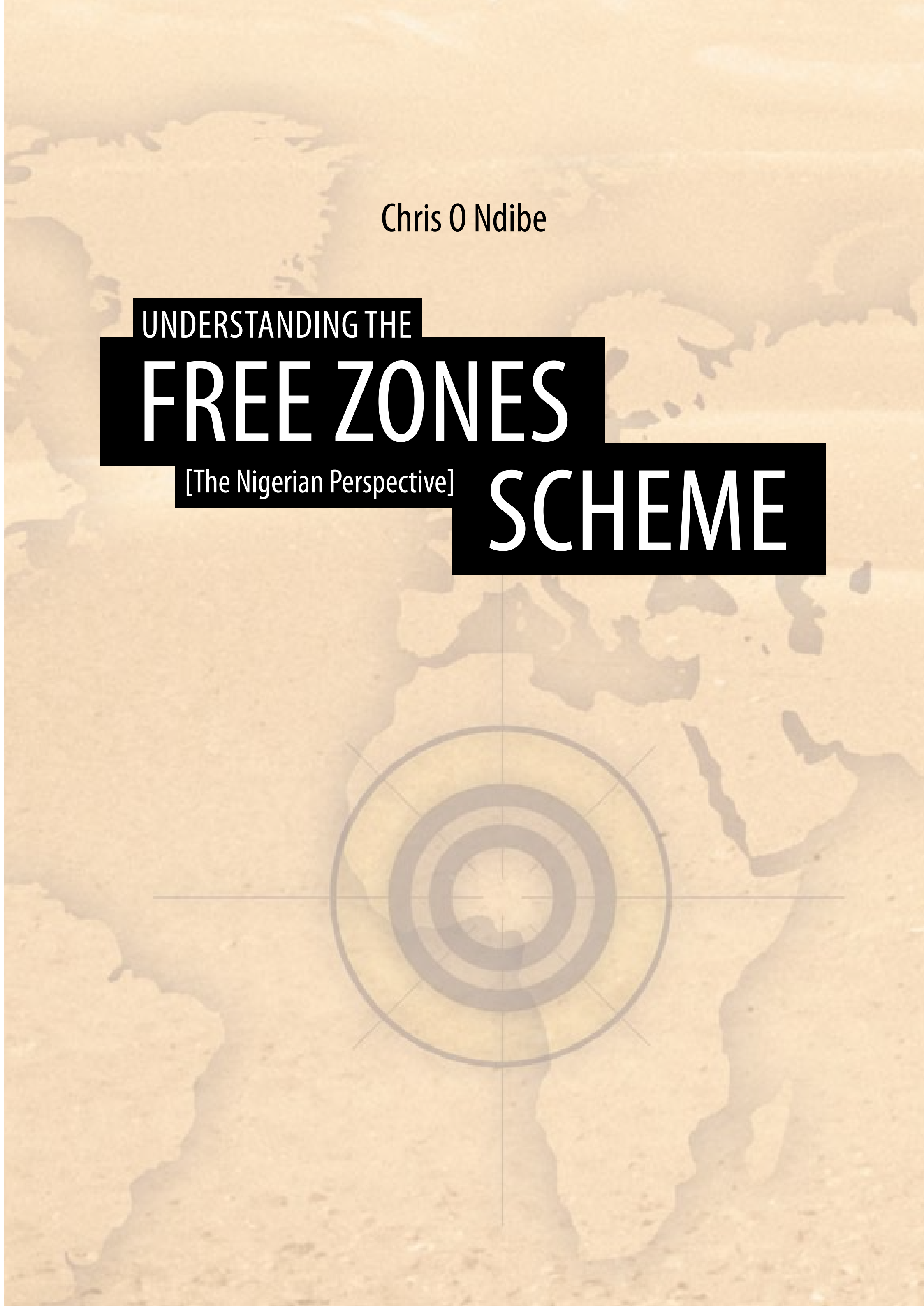

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PREFACE

UNDERSTANDING THE OPERATION OF THE FREE ZONE SCHEME

Recently, there has been proliferation of Free Zones, especially Export Processing Zones/Free Trade Zones, in the world. This has been documented in many studies conducted by the World Bank, United Nations Industrial Development Organisation (UNIDO), World Trade Organisation (WTO) also some individuals and groups.

Most of the FZs of the world are government owned, developed and operated, like the Calabar Free Trade Zone. But there have also been dramatic changes in the ways in which Zones have been managed, regulated and governed in the past decades.

These include the growing prominence of private sector developed and operated Zones; the use of public–private Partnerships for Zones development, the implementation of WTO-consistent policy and incentive frameworks and innovative regulatory frameworks.

These changes have important implications for the economic impacts of Free Zones and offer significant lessons to policy makers on how to maximise Zones' success.

This book will attempt to analyse the major trends and developments in terms of Zone configuration, ownership, development, management and regulation approaches and to identify best practices toward the management of a Zone, though no two Zones are the same in the present scheme of things. It is of utmost importance to evaluate the overall economic and social performance of Free Zones in the light of the current world changes while assessing the relationship of the Free Zones and the economic reform agenda of Nigeria.

FOREWORD

A book on understanding Free Zones Scheme as it concerns Nigeria is long overdue. The scheme which started in Nigeria more than a decade ago has been barracked with a lot of hostility arising from lack of in-debt knowledge of the importance / contribution of the scheme to the nation's economic development by policy makers and staff of other government agencies whose activities affect the scheme.

It is no gainsaying that a book on Free Zones' Scheme must go beyond the conventional wisdom of theorists or postulators who have little or no experience in the trenches in this vista or vocation.

The author, being one of the pioneer staff of NEPZA and immediate past General Manager of Calabar Free Trade Zone (CFTZ), has done considerable time in the trenches to be able to encapsulate his experiences and that of other eggheads he has worked with into a body of knowledge for posterity to learn from.

The author acted a bit too fast to beat some of us who have been dwelling more on both local and international seminar papers and either by omission or commission are still grappling with publishing our own accounts and experiences of the scheme.

In my many years of associating with Free Zones worldwide, I have not found any other policy tool which has been more successful in attracting Foreign Direct Investment and in stimulating economic growth in diverse cultures in more countries and in more different situations than the Free Zones Scheme. The Author clearly captured this altruism during his exciting voyage in the Free Zones Scheme.

The book rekindles some indelible memories in me and easily reminds me of my seven years as the GM (CFTZ): the trials, the tribulations and the triumphs and, above all, my few years as the Managing Director of NEPZA which will be for another memoir as this is just a foreword and not my own Free Zones account.

Most of the case studies used in this book immensely demonstrate that to a very large extent, the basic rules on the Free Zones Scheme not only apply to Nigeria but also that countries have their own peculiarities and nuances.

The Author, Chris Ndibe, came to NEPZA bubbling with nerve and utility coupled with the zeal and zest to learn. With such insatiable appetite for knowledge, it was always a pleasure to read from him a product of his many years of readership and interactions with other experts on the Free Zones Scheme.

This book is probably a derivation from those periods of shared values and the use of each other as a sounding board for ideas which increased my confidence in his abilities and capabilities. "UNDERSTANDING THE FREE ZONES SCHEME: NIGERIAN PERSPECTIVE" is a sort of justification and renforcement of my confidence in the management team of the Authority.

I therefore enjoin whoever reads this foreword not to hesitate reading the book to discover the illuminating revelations enunciated in it which constitute some of the road maps to success of the Free Zones Scheme in Nigeria.

Until time and chance permit me to round off my own piece on the Free Zones Scheme, have a wonderful reading.

SINA AGBOLUAJE
Managing Director, NEPZA

CHAPTER 1

FREE ZONE DEFINITION

A Free Trade Zone is an industrial area within a geopolitical area of a country which is considered the Customs territory for fiscal exemption and other incentives. Various economic and commercial activities which are export-oriented are encouraged within the area. The activities include but are not limited to manufacturing, processing, assembling, banking, insurance, warehousing, etc.

It can also be defined as a strategy for economic development usually characterised by a special regulatory and incentive regime, often in an enclave clearly delineated and administratively thought of as being outside a nation's Customs and trade regime to attract both local and foreign investment. The special regulatory and fiscal regimes allow for freedom of operation at competitive costs.

The concept of Free Trade Zone is very powerful, which is why more and more countries are recognising a new paradigm of Free Trade Zones. While the old Free Trade Zone was often described as a static, labour–intensive incentive driven, exploitative enclave, the new zone paradigm is more dynamic, investment–intensive, management–driven, enabling and an integrated economic tool.

The concept is equally not a new one. It is almost as old as western civilisations, having existed in the Phoenician city of Tyre in about 300 BC in the Greek Island of Delos, which by inference became one of the wealthiest islands in the world for nearly a century. For many years, sovereigns expressed concern about the implications of Free Trade Zones. The Romans even made efforts to suppress them as destructive to the centralism of the Roman Empire just as today many agencies of government in Nigeria are trying to suppress the Free Trade Zone Scheme on the ground that government is losing revenue.

The concept is one of many trade policy instruments used to promote non-traditional exports. Other such instruments include but are not limited to import tariff drawn back arrangements, temporary admissions and export subsidies.

However, the Free Trade Zones of today are quite different from the Free Zones of the past. Although they still serve a largely similar purpose, they have grown increasingly complex and are thus involved with an increasing volume and variety of economic transactions. Contrary to the view of trade bureaucrats and liberal trade economists, the liberalisation of trade has not eliminated the need for Free Zones, but rather expanded their role. As globalisation takes hold, the formation of Free Zones continues at an increasing rate (Robert Haywood, 2000)

Free Zones have existed for several centuries. They were established to encourage entreport trade, mostly in the form of citywide Zones located on international trade routes. Examples include Gibraltar (1704), Singapore (1819), Hong Kong (1848), Hamburg (1888), and Copenhagen (1891). Modern Free Zones are variants of these traditional, commercial Zones. The principles underlying the basic concept of a Free Zone include:

- Geographically delimited area, usually physically secured;
- Single management/administration;
- Eligibility for benefits based upon physical location within the Zone;
- Separate Customs area (duty-free benefits) and streamlined procedures.

The fundamental concept of a Zone is that it is an alternative policy framework, developed by government, to promote policy objectives of government. Sometimes this involves a specified geographical region, but just as often it involves a specific industry such as banking or insurance, or companies with some common behaviour such as export orientation, high technology content.

Free Trade Zones are generally established within a single country, although there are a few examples of cross-border zones, where free trade areas are established between countries. Regional free trade areas present control issues, which are similar to those between states in large national territories, and what were previously customs issues often fall to domestic police forces as border checks are eliminated.

The core definition of a Free Trade Zone and proposed guidelines and standards are contained in the Revised Kyoto convention of the World Customs Organisation (WCO). The Annex D of the international convention on the Harmonisation and simplification of Customs (revised in 1999), defines a Free Zone as part of the territory of a Contracting Party where any goods introduced are generally regarded, insofar as import duties and taxes are concerned, as being outside the Customs territory … and not subject to the usual customs control. Kyoto convention and the accompanying guidelines provide standards and recommendations on the treatment of imports to and exports from free zones including territorial limits (Free Zones are defined as 'outside the customs territory' for the purposes of the assessment of import duties and taxes), minimal documentation requirements, issues to be covered by national legislation.

Free Zones typically share a few common features; allow for duty- and tax-free imports of raw and intermediate materials and, in many cases, capital equipment necessary for the production of exports, less government red-tape, more flexibility with labour laws for the firms in the Zone than in the domestic market; generous and long-term tax holiday and concessions to the firms; above average (compared to the rest of the host country) communications services and infrastructures. It is also common for countries to subsidise utilities and rental rates; Zones' firms can be domestic, international or joint venture. The role of Foreign Direct Investment is prominent in Free Zone activities.

VARIANTS OF FREE ZONES SCHEME

Jean-Paul Gauthier (2004) stated that this generic Free Zone concept has evolved over time, resulting in a large variety of Zones with differing objectives, markets and activities. When discussing Free Zones, a variety of terminologies are used interchangeably through most of the literatures; Johansson (1994) supports such a clustering, arguing that the general concept of all these terminologies is basically the same. The name of a Free Zone is often based on ownership, structure of production and functions of the Free Zone. It is either public or privately owned, medium or small scale export-oriented firm or group of industries with Free Zones status. The variants are:

- Free Trade Zones, also know as Commercial Free Zones and Free Commercial Zones, are small, fenced-in, duty-free areas, offering warehouses and other storage facilities for trade, transhipment and re-export operations, located in most ports of entry around the world. Leading examples are the Colon Free Zone in Panama, Jebel Ali Free Zone in UAE and Calabar Free Trade Zone in Nigeria.

- Export Processing Zones are industrial estates offering special incentives and facilities to manufacturing and related activities aimed mostly at export markets. The World Bank (1992) defined EPZ as 'an Industrial Estate, usually a fenced-in area of 10 to 300 hectares, that specialises in manufacturing for export. It offers firms free trade conditions and liberal regulatory environment.' The traditional 'pure' EPZ model is where the entire area within an EPZ is designated for export-oriented enterprises licensed under an EPZ regime. Hybrid EPZ in contrast are sub divided into a general Zone open to all industries regardless of export orientation and a Separate EPZ area reserved for wholly export-oriented EPZ enterprises. In most Asian countries, like Thailand and the Philippines, EPZ areas within hybrid zones are fenced-in. In many Latin American countries – like Costa Rica and Mexico – EPZ registered enterprises may be located in the same area as firms registered under other regimes.

• **Science & Technology Parks (STPS)** are organisations managed by specialised professionals, whose main aim is to increase the wealth of the community by promoting the culture of innovation and the competitiveness of associated businesses and knowledge-based institutions. To enable these goals to be met, a Science Park stimulates and manages the flow of knowledge and technology amongst Universities, R&D institutions, companies and markets; it facilitates the creation and growth of innovation-based companies through incubation and spin-off processes; and provides other value-added services together with high quality space and facilities (Int. Association of Science Parks).

This definition encompasses not only the different models currently existing in the world, but also other labels and expressions such as Technology Park, Research Park, Technopole which have a social purpose.

By creating a favourable climate for innovation, countries and regions will allow their industries and companies to become stronger, to make more profits and to generate more employment. And by doing so, they will reach their most important objective in economic and industrial policy: to increase the social welfare and the level of life of their citizens. Science & Technology Parks have proved to be very powerful elements for regional development, provided the adequate model is chosen for a given region or city.

The main aim of STPs is to help companies become more innovative and therefore, more competitive and to increase the economic standing of their region or municipality. In today's global economy, the key words for economic success are technology, R&D and knowledge management, and most of all innovation.

• **Enterprise Zones** are intended to revitalise distressed urban or rural areas through the provision of tax incentives and financial grants. Most of these Zones are in developed countries like USA, France and UK, although South Africa is developing similar schemes.

• **Special Economic Zones (SEZ)** are a much broader concept – typically encompassing much larger areas; accommodating all types of activities including tourism, retail sales; permitting people to reside on site, and providing a much broader set of incentives and benefits.

• **Single Factory EPZ Scheme (Export Processing Factories)** offer EPZ incentives to individual enterprises regardless of location; factories do not have to locate within a designated zone to receive incentive and privileges. Single factory EPZ programmes are similar to Bonded Manufacturing Warehouse Schemes, although typically offering a broader set of benefits and more flexible controls.

Leading examples of countries relying exclusively on a single factory scheme include Mauritius, Madagascar, Mexico and Fiji. Countries like Costa Rica, USA and Sri Lanka allow both industrial estate-style Zones and single factory designations. Nigeria started and licensed about 23 EPFs, but cancelled to Customs MIBS after a long debate with Nigeria Customs on the existence of such a programme. The Export Processing Factory or Single Factory Export Processing Zone usually benefits from the following:-

I. Unlimited duty-free imports of raw, intermediate input and capital goods necessary for the production of exports.

ii. Less governmental red-tape including more flexibility with labour laws for the firms.

iii. Generous and long-term tax holidays and concessions to the firms.

iv. The firms can be domestic, international on foreign ownership of the firms or on the repatriation of the profits.

v. Just like EPZs/FZs firms, EPFs can be differentiated by their ability to sell their output (in part or whole) in the market of the country.

Other types of Free Zones are:

- Customs/Fiscal depot;
- Offshore Finance Centre (Monetary Free Zone);
- Tourist and Educational Free Zone;
- Tourism and Business Resort;
- Logistical & Tranship Free Zone.

It is frequently pointed out that Free Zones have also evolved into highly specialised facilities, configured to the needs of specific industries and activities. There are special zones to promote high technology- or science-based industries; petrochemical and heavy industry zones relying on cheap energy sources and specialised facilities; offshore financial services zones to promote offshore financial and non-financial activities; software and ICT Zones accommodating software coding and other offshore IT Services operations, airport-based zones, specially supported aviation and air-based activities; logistics parks, cargo villages/cities, providing specialised facilities and support services to facilitate trade, supply chain management and logistics; tourism zones to facilitate integrated resorts and leisure community development, and others.

It is important to note that free zones are not free after all. They are regulated environments in which the regulations are different from those in the rest of the national economy. In most cases, the rules are more liberal, though ironically in many cases they are effectively more controlled environments and often follow the rules of law more closely than the rest of the economy.

For example, while many industrial zones have no duty charged on imports or exports, they are tightly controlled by customs to prevent smuggling into the domestic customs territory.

Free Trade Zones are increasingly not only about trade but rather about investment, industry, research and development, services, education, training and logistics. In other words Free Zones are about everything in the modern economy. Many Free Zones are not about confined territories, but may cover an entire country, or specific industries. Robert Haywood classified most of the countries known as tax havens as industrial specific Free Zones. Though there are others, New York has an insurance Free Zone, whereby the premium payment is sufficiently large (say over $100,000), so the state insurance laws do not fully apply. It is assumed that an individual paying that much in premium can protect his own welfare better than a State Insurance Commissioner. Performance specific Free Zones allow individual factories to receive Free Zone benefits, provided they meet certain conditions.

In the past these have normally included export requirements, use of local materials, but more recently they have included technical skill levels and employment commitments.

A Zone may be both small in scale and restricted to industry or performance criteria. A Typical Export Processing Zone is just such a small scale export industry zone. The small scale Zone is what we typically think of as a Zone, and does not present any extraordinary difficulties in either understanding or regulation. It may cover up to a few square miles or a few thousand hectares. Most are between 50 – 500 hectares. The wide area Zone, on the other hand, is quite different. One covers several thousand square kilometres and can have resident populations that number in the millions. The Chinese Special Economic Zones were some of the first wide area zones and have been such spectacular successes that they have led to a number of attempted duplications.

The Chinese Model of Special Economic Zone has been successful because of the powers and independence of these zones in China. The Chinese Special Economic Zones have both legislative, executive and in some cases, even judicial functions. They are organised along the lines of an autonomous province or state. For example, most Special Economic Zones have their own customs service, tax collection system and even department of foreign affairs.

This independence has allowed some of the zones to succeed, but not without leaving the control of activities in the zones with serious regulatory problems. Nevertheless, Special Economic Zones are perhaps the most effective development tools ever created. Many have growth rates in excess of 20% per year and have doubled their population income every four years for more than a decade.

From the above, it is important to re-emphasise that Free Zones are a product of the countries that created them. They are fully accountable to, and controllable by, the countries that created them. To a large extent the Free Zone is a more controlled environment and has a high attraction for leading countries in their search for appropriate regulation and expected international behaviour, attracting investments from legitimate businesses that may fear a more lawless or docile domestic environment.

Free Zones are a problem only in those states that are also a problem outside the zones and may be a solution to some problems even then. Different regulations may not be inferior, but rather superior to a system that has failed the rest of the country.

CHAPTER II

RATIONALE/BENEFITS FOR FREE ZONE DEVELOPMENT

WHY DEVELOP FREE ZONES?

Zone development is one of the many trade policy tools at the disposal of a developing country government. Typically, they are created as open market cases within an economy that is dominated by distortion trade, macroeconomic and exchange rate regulations and other government controls.

From the World Bank Research working paper (1999), there are four competing, but not exclusive views on the roles of Free Zones in the economy. One considers it an integral part to further economy-wide reforms. In this light, Free Zones are to have a specific life span, losing their significance as countries implement systematic trade, macroeconomic and exchange rate reforms. As the economy opens up and a country develops its capacity for competitive industrial exports, Free Zone's exports and employment share in total export and employment falls. Both Taiwan and South Korea Export Processing Zones fit into this category.

A second view sees Free Zones in terms of a safety value. They provide much needed foreign currency to accommodate import needs for the host nation and create jobs to alleviate some of the national unemployment or under-employment.

A third view is that Free Zones can be used as laboratories to experiment with market economy, outward-oriented policies. China's early Special Economic Zones have been seen as embodying this third view.

Here new production, labour and financial relationships and dynamics were introduced and evaluated before introduction into the larger Chinese economy.

A final, less orthodox and much more recent view, comes from some developing countries in which the level of FDI following trade and macro policy reforms has been disappointing. Some are considering (or have established) Free Zones to enhance the incentives to attract FDI, matching or surpassing the incentives provided by their neighbouring (and potentially competitive) countries for these investors.

All these views still consider the Free Zone Scheme as a source of technological transfer and human capital development which no doubt, has a certain level of catalytic and demonstrative effect on domestic private industries.

The Zone may also be providing a well-managed and efficient industrial structure in a nation that may not possess one. The labour force also benefits from technical training and learning-by-doing in the Zones, although according to some literature, most of the Zones' firms use low-tech, labour intensive production processes. It appears that the most valuable training for the labour force may be the work discipline they acquire for industrial production.

EVOLUTION & THEORETICAL FOUNDATION

Traditionally, the concept of Free Zones evolved to compensate for anti-export bias created by the import substitution industrial policy regime. An Import Substitution Industrial (ISI) strategy creates an incentive structure, which tends to be biased against the export sector. Comparative analysis of India, Sri Lanka and Bangladesh Zones, maintained that the overvalued exchange rate coupled with high tariffs and quantitative restrictions (QRS) makes production for import substitution significantly profitable relative to production for exports. Attempts to promote export industry within an import substituting regime therefore requires countervailing fiscal measures such as duty drawback, cash compensation or import replenishment licences to offset the effects of these disincentives. The policy of Free Zones evolved out of this concern by providing special incentive packages to offset the anti-export bias and promote exports. In neo-classical theory therefore Free Zones are considered as the second best policy choice consisting of compensating for one distortion (import duties) by introducing another (subsidy). Recent experience has shown that adoption of export-led growth strategies by developing countries has led to considerable increase in the number of Zones across the world.

The growth of Free Zones in export oriented regimes may be explained within the realm of new growth theory, neo-institutionalism and the developmental state theory evolved in the 1980s (Baissac, 2003). These theories reaffirm that economic, social and political institutions have a key role to play in the development process. In contrast with advanced economies, developing countries face a chronic lack of capable institutional actors. Economic development can only result from state-led policies designed to address the numerous production failures and bottlenecks that characterise the economies of under-developed countries. Free Zones Scheme is one such state-led policy.

Free Zones therefore make up for infrastructural deficiencies and procedural complexities that characterise developing countries and offer a more conducive investment climate. It is a known fact that too many windows in the administrative set-up, bureaucratic hassles and barriers raised by monetary, trade, fiscal, taxation, tariff and labour policies further increase production and transaction cost of exports in these countries. Free Zones therefore offer a quality infrastructure and hassle-free business environment permitting an economy to promote and diversify exports and develop a competitive industrial base. However, given the limited technological and marketing capabilities of developing countries, the Zones may not affect exports substantially unless they attract FDI also. This is due to easy access to the proprietary technology of their parents and an international marketing network. Multi-national enterprise affiliates are likely to be more competitive in international markets. In this era of globalisation, MNE are now restructuring their operations to procure economies of scale scope by internalising the economies of specialisation through the integration of assets, production and marketing activities across countries, to advance core competencies in global markets. They are locating different stages of production in different countries to factor costs and capabilities and/ or distributing similar production activities across affiliates in countries with similar capabilities to reap scale economies. The vision of a Free Zone Scheme in an export oriented regime is to establish a viable internationally competitive platform that is capable of attracting export oriented FDI to promote exports.

Johansson (1994) stressed that the new theory has the possible effects generated by Zones that may take the form of learning, human capital development, demonstration effects etc., and accelerate the process of industrialisation in developing countries. The Free Zones, in the new theoretical framework, are both a catalyst for past learning for all national stakeholders (policy makers, entrepreneurs and labour) and a pioneer in the attraction of export oriented FDI and in promoting exports.

Viewing it from its competitive advantages; it may be explained in terms of the cluster approach. Since FZs are industrial clusters of companies that are concentrated in a geographic region, the companies share economic infrastructure, a pool of skilled human capital, and governmental and other institutions that provide education, specialised training, information and technical support. Also these companies may cooperate to create joint companies, distribution agreement, technology transfer agreements and common manufacturing agreements. External economies of scale and other advantages of the cluster help the operating firms in reducing costs, acquiring competitive advantages and attracting foreign direct investments (Dunning 1998).

NEOCLASSICAL FOUNDATIONS

Robert Haywood (2005) traced the World Bank's position on the Free Trade Zone concept as finding its source in neoclassical economic theory and particularly within the confines of welfare economics. Welfare economics is a branch of economics concerned with two specific problems:

(a) the measurement of real national income;

(b) the efficiency and equity of particular economic outcomes, including the scope for improving them through various instruments of economic policy.

In market economics that are not based on laissez faire – the unfettered functioning of the market which results in the optimum allocation of resources and results in Pareto efficiency – welfare is a function of the allocation of resources resulting from both market interactions and government intervention. The greater the number of distortions away from the laissez faire ideal, the greater the loss in welfare and economic growth. On this foundation, any form of government intervention is welfare reducing. The case for free trade, however, is clearly distinguished, both analytically and empirically, from the case for laissez faire. In effect, where the latter is considered to be a Utopia, free trade, or rather freer trade, is not only plausible but highly desirable following the principles of second best welfare economics. Second best welfare economics seeks to determine what Milner calls optimal intervention: the policy response which seeks to correct distortions in resource allocation in an attempt to create free-trade-like conditions.

Neoclassical economics has conceived the problem of under-development as being a problem of resource allocation at the national level. Under developed economies are allocatively inefficient. This allocative intervention introduces distortions that result in significant welfare losses. To Lal, writing in the 1980s with significant influence over key policy circles, developing countries made the mistake, on the foundation of the development economics that emerged and flourished in the

1950s and 1960s, to give the preference to imperfect planning over imperfect markets. In the 1980s and afterwards, structural adjustment sought to create the reforms expected to lead developing economies towards an economic system approaching the allocative efficiency that is considered by neoclassical economics to be the necessary condition for sustainable growth.

In this powerful meta-theoretical framework, analysis of Free Trade Zone has been rather pessimistic. The majority of analyses have usually found Free Zone to be either directly welfare reducing or result in the constitution of a dual economic structure harmful to long-term efficiency in the allocation of resources.

Hamada concluded in 1974 that rather than leading toward the economy-wide liberalisation which would maximise resources allocation or respecting the principle of optimal intervention, Free Trade Zones increase distortions in resource allocation.

Spinanger is less pessimistic. In 1984, rejecting Hamada's assumption of full employment as a basis of analysis, proposed that FTZ/EPZs constitute a liberalisation, toward the exploitation of a country's comparative advantage. Balasubramanyam (1988), further criticising Hamada's work, concludes that Free Trade Zones represent a move to exploit a country's comparative advantage. In agreement with the two previous authors, however, Balasubramayam recognises that FTZs, by promoting unbalanced growth, result in the constitution of a dual economic structure. This structure is characterised by a highly protected, import substitution oriented domestic economy marked by the concentration of investments in the production of capital intensive goods, and an export-oriented enclave where investments are in the production of labor-intensive goods. This structure of the economy leads to the inefficient allocation of resources at the national level, resulting in an overall loss of welfare.

POLICY IMPLICATIONS OF THE ORTHODOX PERSPECTIVE

Free Trade Zones therefore express:

(I) Economy wide duty-free import systems should be emphasised over specific Zones;

(II) Support to Free Zones should be considered individually for each economy, in the context of broader trade policy reforms involving a shift toward outward oriented development, mainly as a transitional instrument for helping, economies enter world markets;

(III) Private development and management of Free Zones is to be encouraged and when public development is required, special arrangements ought to be put in place to ensure full cost recovery (development costs, including land rents, and operating costs) and efficient management.

Free Zones are therefore efforts to improve allocative efficiency in previously highly regulated and protected economies. Their role should be transitory towards the establishment of fully liberalised trade systems in order to avoid: (1) the reinforcement of welfare reducing distortions; (2) the constitution of dual economic structures harmful to short- and long-term growth; (3) the creation of economic rents that are similarly harmful. In addition, everything should be done to minimise heavy public investments resulting in a decrease of the potential yet limited benefits of a Free Trade Zone.

HETERODOX PERSPECTIVE

It is easier to define heterodoxy by what it is not than by what it is. Heterodoxy, not orthodoxy. On the case of Free Zones, primarily meant views, theories, analyses that are not trade theory based. Thus defined, heterodoxy has several streams. The focus here is on perspectives that incorporate contributions of new growth theory, neo-institutionalism and the developmental state theory.

Johansson proposed that the pessimism of neoclassical theory as regards the developmental impact of Free Zones resulted from its complete discounting of the role of human resources in development. Inspired by new growth theory, she expressed that 'human capital accumulation is hypothesised to have been a significant contributor to the growth miracle in South-East Asia'. In countries like, for example, Mauritius and the Dominican Republic, that Free Zones appear to have played this last point springs from a concern with the direct cost of the Zones to their host economies. These costs include infrastructural investments, tax breaks and investment incentives; operation costs are a major role in the development and industrialisation process and it is suggested that the demonstration effect of foreign affiliates has had a profound impact on local entrepreneurs in the initial stage of development. Johansson proposed that Zones can play an essential economic role by serving as an instrument designed to attract to an economy catalysts, firms and individuals. She defined the catalyst as 'a pioneer, which initiates and transmits the export supply response in the host country'. As such, Free Zones can play a role as follows:

1) 'Domestic firms lack the capacity to package technical, marketing and managerial know-how with the internal and external resources available to them. This packaging is provided by FDI in the Zones'.

2) 'Domestic firms seldom have access to international distribution channels on their own. On the other hand, international or joint venture companies do and can show the ropes to fledgling domestic exporters'.

3) 'Entry into international markets would be difficult without the inroads created by connection with an established multinational corporation with wide international business dealings'.

In a study of a firm's export performance focusing on the Mauritius export processing zone, it is advanced that neoclassical analysis disregarded the importance of firm level variables in the development of a successful export oriented economic sector. It further argued that the Mauritian case, so fundamentally linked to the export processing zone, demonstrated the centrality of these form level variables, and particularly of the role of knowledge transfers. This view closely followed perspectives from the neo-institutionalism school.

NEW GROWTH THEORY AND NEO-INSTITUTIONALISM

The above mentioned concepts emerged in mid-to-late 1980s as alternatives to what has been commonly referred to as neo-liberalism, a powerful political economic current based on neo-classical economic theory that swept the world and ultimately led to the victory of liberal capitalism and democracy over socialism and its multiple forms of political oppression.

New growth and neo-institutionalism sought to reaffirm that social and political institutions had a key role to play in the market beyond their influence on the allocation and cost of labour and capital. The two theories proposed that economies were not simply machines that spontaneously created or destroyed wealth, but were social constructions informed by knowledge. This knowledge component, in its varied forms of formal academic knowledge, technology, modes of behaviour, institutional culture, cultural traditions and inclinations, and policy could positively (and negatively) impact growth and development.

These propositions were quite common sense. However, they lacked formal theoretical foundations, analytical models and empirical testing in the real world to challenge the supremacy of the scientifically sophisticated and well institutionalised orthodox paradigm.

DEVELOPMENTAL STATE THEORY

Developmental state theory offered a potent challenge to the neoclassical views on economic growth in the analysis of the performance and non-performance of Third World countries. The theory gained wide recognition for its work on East Asian countries, and then referred to as Newly Industrializing Countries.

The core problem of development is productivity and the efficiency in the use of a country's factors of production. Developing countries face a productivity gap that cannot be bridged by reliance on natural factors endowment and foreign direct investment (FDI). Even a successful exploitation of comparative advantage in, say, labour costs, will not suffice to bridge the gap as advanced economies benefit from increasingly rapid productivity gains. In effect, productivity gains are dependent variables of a technological progress in production-related activities. And technology is path-dependent and self-reinforcing. In other words, there is no prospect for less advanced economies to ever catch up if they leave it to the work of free trade and the neoclassical allocative efficiency of unfettered markets.

Productivity gains do not have their source in the functioning of the market. Rather, they are the result of institutional arrangements: One hallmark of a technologically advanced economy is a set of institutions to create novel products, proprietary production processes, firm specific skills and other 'competitive assets' (Amsden).

These arrangements constitute clear instances of market failures, resulting from non-market transactions between institutional partners. In contrast with advanced economies, developing countries face a chronic lack of capable institutional actors to the exception, in the successful cases of emergence from chronic underdevelopment, of the state. Economic development can only result from state-led policies designed to address the numerous 'production failures' and bottlenecks which characterise the economies of underdeveloped countries.

An extensive survey reveal that with respect to production, latecomer governments in postwar capitalist countries have assisted the private sector in building professionally managed, large-scale modern corporations and in entering mid-technology industries (starting usually with cotton weaving and spinning). To construct socially those competitive assets for production purposes, governments have rigged key exchange prices,

such as the price of foreign currency, credit, and labour (by weakening its bargaining power); that is, they have deliberately got relative prices 'wrong' Weiss and Hobson argued through historical analysis that in all instances of successful national economic growth and development, the state has played the defining role in creating the condition for rapid industrialisation. Whereas neoclassical analysts have seen the progressive reforms of trade regimes as constituting the creation of neutral trade regimes providing no incentives for the production for the domestic market versus export markets, some authors have proposed that, rather than 'liberalising' trade to remove a bias against exports, export sales were more profitable than domestic ones. This required action on two fronts:

(1) Discouraging production for domestic sales via penalties, tariffs, and restrictions on imported inputs.

(2) Buttressing the penalties with a host of special rights and export promotion subsidies. Instead of having created a neutral incentive trade regime, as neoclassical analyses of the NICs propounded, the East Asian states conceived a trade regime that was distinctly export oriented: The key point is that this kind of trade regime is neither export nor import neutral. Its underlying strategy is to change the domestic predisposition of manufacturers in favour of an outward orientation, which it does via the judicious manipulation of rewards and penalties. A central proposition of the heterodox approach is that 'the principal thrust of the developmental state's activity is not to displace market mechanisms but to support entrepreneurial decision-making and private property with coordination and market augmenting intervention', (Weiss and Hobson, 1992). Free Zones are more than: (1) an instrument by which a government progressively aligns the economy to the country's comparative advantage via the creation of an enclave in the national regulatory regime (dynamic standpoint); and/or (2) an instrument by which a government seeks to jump start employment creation and the generation of foreign exchange earnings in situations of chronic shortages of both (static standpoint).

Importantly, however, these long-term benefits brought by Free Zones will not spontaneously develop. They occur with a broad and concerted policy framework geared toward accelerated productivity through export oriented industrial growth. The Free Zones, in this framework, are both a catalyst for fast learning for all major national stakeholders (policy makers, entrepreneurs and labour) and a pioneer in the attraction of FDI. In this conception, static contribution loses its importance in relation to dynamic contribution.

Aggarwal summed it up that new theories developed since the 1980s, albeit different from the dynamic functions considered by the World Bank, posit that Zones play a crucial initiating role in the development of national industrial capacity by:

i. Offering a platform for internationally mobile productive units;
ii. Creating an environment conducive to investment and exports;
iii. Initiating a shift in the orientation of the domestic private sector toward export activities;
iv. Leading government to adapt a more proactive and responsive attitude toward private sector's requirements of regulatory and administrative efficiency.

FURTHER ANALYSIS

The rationale for the development of Free Zones differs between developing and developed countries. For developing countries, free zones have traditionally had both a policy and infrastructure rationale. The typical free zone policy package of import and export duty exemptions; streamlined customs and administrative controls and procedures, liberal foreign exchange policies, income tax incentive are meant to boost an investor's competitiveness and reduce business entry and operating cost. Export oriented Free Zones (EPZs) are intended to convey 'free trade status' to export manufacturers to enable them to compete in global markets, and counter-balance the anti-export bias of trade policies.

Madani (1999), Cling & Letilly (2002) and Gauthier (2004) outlined four broader policy reasons for the development of Zones, especially EPZs, in developing countries:

(i) To support a wider economic reform strategy. In this view EPZs are a simple tool permitting a country to develop exports and to diversify. Zones are ways of reducing anti-export bias while keeping protective barriers intact. The EPZs of Taiwan and South Korea followed this pattern.

(ii) To serve as 'pressure values' to alleviate growing unemployment. Many Free Zones are associated with this and are examples of robust, job creating programmes that have remained enclaves with few linkages to the host economies.

(iii) To serve as experimental laboratories for the application of new polices and approaches. China's Special Economic Zones are classical examples of this category. Financial, legal, labour and other policies were introduced and tested first within the Special Economic Zones before being extended to the rest of the economy.

(iv) To attract foreign direct investment into the countries.

The 'hardware' of the Free Zones is fully serviced sites with purpose built facilities for sale or lease – aimed at enhancing the competitiveness of manufacturers and service providers, and realising agglomeration benefits from concentrating industries in one geographical area. These include efficiencies in government supervision of enterprises and provision of off-site infrastructure facilities, improved environmental controls, increased supply and subcontracting relationships among industries, amongst others. This infrastructure rationale is one of the most important driving forces behind Zone development in countries that are poor in infrastructure like Nigeria.

The rationale for Free Zone development in industrialised countries is more varied. The new Special Economic Zones programme in South

Korea and the 22 Foreign Access Zones in Japan, for example, are explicitly intended to promote foreign investment. In contrast the main rationale for Shannon Free Zone in Ireland was to establish a 'growth pole' in economically distressed southern part of the country.

Revitalisation in the economically distressed urban and rural areas is the motivation behind the many enterprise Zone-style programmes in UK, France and the USA. But enhancing trade efficiency and manufacturing competitiveness is the principal rationale behind Free Zone programmes in most industrialised countries. Many companies choose a Free Zone location because of the important advantage of operating in a flexible, duty-free environment.

Operating costs are lower as a result of reduced overhead, insurance and security cost; cash flow is enhanced by the ability to postpone duty payments upon entry into the domestic Customs Territory. The Foreign Trade Zones in the US have been critical in enabling manufacturers to operate 'just-in-time' systems. The efficiency advantages provided by Free Zones are even more important for industrialised countries also the reduction of tariff barriers.

Many studies have evaluated the economic performance of Free Zone programmes in developing countries. Most of the studies focused on government developed and operated Zones and neglected private zone development. Critics of Zone development, on the other hand, have focused on the social and environmental impacts of Zones, and have largely been dismissive of economic contributions. Almost all the studies failed to evaluate zone contributions relative to the counterfactual – what if zones did not exist? How do Free Zones and Zone-based enterprises compare with local firms or those operating under other incentive regimes?

From the above attempt to evaluate some of the socio-economic benefits of Free Zones we can conclude that the economic benefits are both

static and dynamic. The static benefits which are straightforward include:

- Employment creation and income generation;
- Export growth and diversification;
- Foreign Exchange earnings;
- Foreign direct investment;
- Government revenue.

The dynamic benefits are more difficult to measure and are far more important to long-term contributions from Zone development. The most common include:

- Indirect employment creation/background linkages;
- Skills upgrading and female employment;
- Technological transfer;
- 'Demonstration effect' arising from application of 'best practices';
- Regional development.

Although some critics argue that Zone development has negative socio-economic impacts, particularly in relation to the role of women, labour and working conditions in Zones, the positive impacts outweigh its costs and the benefits are obviously amplified in poorer countries where jobs and foreign exchange earnings and government resources are scarce.

Below is a short note on the overall consensus on the goals and objectives of Free Zone:

1. Foreign Exchange Earnings Potential – one of the main benefits expected from a free zone. It is already a known fact that free zones provide foreign exchange earnings that allow low income economies to slacken the foreign exchange constraints regarding their imports for the rest of the economy and increase the government's development funds. Early works on Free Zones impacts showed substantial growth in gross exports, leading experts to support the Zones enthusiastically. In some

countries, increases in gross export and earning of Free Zones have been phenomenal. For instance, in Mauritius, EPZ export earnings grew from three per cent of total export earnings in 1971 to 52.6 per cent in 1986 and 68.7 per cent in 1994.

2. FDI Effects: technological transfer, knowledge spill-over and backward linkages – The foreign direct investment effects goes beyond that of receiving needed infusion of capital (financial as well as machinery) from developed countries. The positive spill-ov ers of such FDI extend beyond the demonstration effect discussed above to include technology and further knowledge transfer. Such transfer, together with the 'catalyst' factor, would foster industrial development in non-traditional goods and efficient gains in production processes of the traditional ones. Such a transfer also fosters a backward linkage to the host country firms, which would allow them to step in as suppliers to the Free Zone firms in the medium to long run.

This process integrates the Zone into the regional and national economy and promotes regional development beyond the immediate and limited servicing of the enclave structure. Eventually, it was hoped, these domestic supplier firms would mature to compete in the international market.

In developing countries in the early stages of development, linkages have occurred when the firms in the zones used basic production processes, where domestic raw materials and intermediate inputs could be used. A great success story in this regard is the experience of the Indonesian zones, where the dominant garment industry uses domestic cloth and other raw intermediate inputs for its production.

Linkages also occur in advanced developing countries like South Korea and Taiwan, where a large industrial base already existed and could provide electronics firms in their zones with high quality, international components.

3. Employment Effect on National Economy – job creation is considered one of the most important contributions of any Free Zone to the economy. This goal is based on two assumptions. The first one is that the country has high unemployment or underemployment. This is a reasonable assumption and the argument would work only until the excess labour is absorbed, then the host nation faces a tight labour market and rising labour costs. Of course, rising labour cost translates into higher labour income, and improving workers' living standards.

The second assumption equates creating jobs with alleviating unemployment. Free zones have created jobs which wouldn't have been there without the existence of the scheme. For some of the employed workers in the zone, the alternative to the Free Zone employment would have been unemployment, underemployment or return to village subsistence life. If the workers are unemployed, their opportunity cost is zero and any new activity – including the Free Zone firms – which expands employment will have a high economic rate of return.

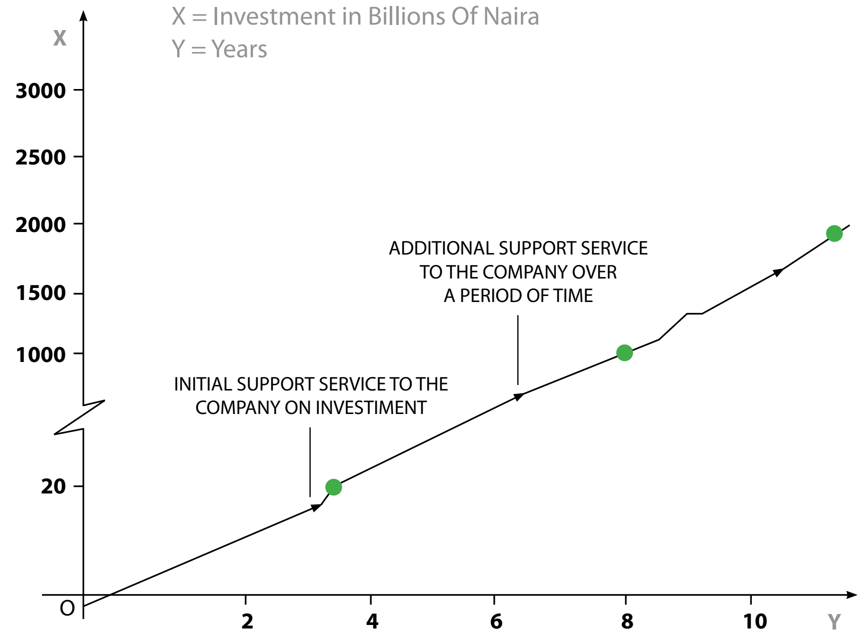
4. Education / Training Benefits (Human Capital Development) –there has no doubt been a great deal of knowledge spill-over effect from the creation of EPZs in developing countries. Examples abound on how a previously unskilled labour force has become semi-skilled and skilled through training and learning by doing on the job. By extension, these improved skills and productivity increased the workers income earning capacity. Given the high labour turnover rate in the Free Zones, domestic firms get the opportunity to benefit from training and skills by hiring workers previously employed in the Zone firms. Some employees also receive training at the managerial or supervisory level, thus enriching the entrepreneurial capital of the country. Also, the presence of Free Zones allows domestic entrepreneurial and workers to benefit from observing and copying the traits that make the Zone firms successful exporters. These traits may include managerial and production skills, negotiations and marketing skills in dealing with foreign business contacts.

CHAPTER III

FINANCING THE ACTIVITIES OF FREE ZONE ENTERPRISES

(Compilation of Papers presented at One-Day Summit in Calabar Free Trade Zone)

Financing the Activities of Free Zone Enterprises



(1) FINANCING TRADE THROUGH FREE TRADE ZONES: CHALLENGES AND PROSPECTS

(By Alhaji Baba Yusuf Ahmed, MD/CEO – NEXIM Bank)

INTRODUCTION

I would like to first of all express my gratitude to the Management of the Calabar Free Trade Zone (CFTZ) for the opportunity to speak at this one day interactive summit themed 'Foreign Exchange Sourcing and CBN Regulations on Offshore Banking'. It is always a pleasure to discuss with our stakeholders issues of mutual importance and provide some insight into the thinking of the management of the bank concerning areas of perceived need within the ambit of our stated mandate. My presentation will dwell primarily on the role the Nigerian Export-Import Bank (NEXIM) is playing within the Zone in support of private export initiatives and will discuss some of the product offerings which may be taken advantage of.

As we are aware, the FTZ scheme, when fully operational, is intended to encourage:

- Industrial production;
- Offshore banking;
- Insurance and reinsurance;
- International stock, commodities and mercantile exchanges;
- Commercial industrial research;
- Agriculture and agro-allied industries;
- Mineral processing;
- International tourist resort development and operations.

AN OVERVIEW OF THE NIGERIAN EXPORT ECONOMY

The structure of the Nigerian economy is based almost entirely on a single product – oil, which has continued to contribute over 90% of export earnings and about 80% of Nigeria's total revenue. This has in turn reduced the contribution of the non-oil sector to an insignificant level. For example, Nigeria's total export trade, mainly agricultural produce, chemicals and some light manufactured products, grew significantly in the 1960s and early 1970s. The situation was, however, replaced by massive export of crude oil and the attendant neglect of the agricultural sector. From 97.4% of total export value in 1960, non-oil exports continued to decline to 42% in 1970, 2.8% in 1980, 2.37% in 1990, 1.2% in 2000 and about 2.0% in 2005.

The decline in non-oil export has been worsened by the high preference of Nigerians for imported goods. In 2003, Nigeria's total import bill stood at $ 15.1 billion (N1, 956 billion) with consumer goods accounting for about $5.77 billion (N744.7 billion) or 38 per cent. In the consumer goods category, food items accounted for over N274.5 billion or 37 percent. The irony of this national trade tragedy is that these imported items have better local substitutes. The ban currently placed by the federal government on some imported goods, such as, textiles, biscuits, fruit juice, etc, signals a great sigh of relief to local enterprises and therefore, a major boost to non-oil export.

The federal government in the attempt to reverse the ugly trend in the export sector has taken the following initiatives since 1999:

- Instituted as policy, an annual target of 10% growth in non-oil export;
- The signing of a number of export protocols; for example, the ECOWAS CET which improved access to the ECOWAS market for Nigerian goods;
- Inauguration of the Standards Organisation of Nigeria (SON) to ensure the production of high quality goods;

• Pursued a policy of economic diplomacy through which a US$5 billion cassava export order was secured from the Peoples Republic of China;

• The strengthening of the financial system through a process of consolidation to ensure that exporters have access to credit on terms that are supportive of export activity;

• Securing debt relief, thereby improving access to international credit and releasing resources to improve social infrastructure.

EXPORT FINANCING IN NIGERIA

Before 1945, Nigeria had no specialised export financing system as multinational corporations experienced little or no difficulty in sourcing financing from foreign owned banks to support their trade activities. The defunct West African Produce Marketing Board later handled exclusively the marketing of scheduled traditional agricultural produce such as cocoa, groundnut, cotton and solid minerals. This marketing arrangement was subsequently transferred to the Nigerian Produce Marketing Company, which acted as exporter for the various regional marketing boards.

Having realised the importance of exports in the growth and development of a country, the federal government of Nigeria had since independence played an active role in assisting the export sector financially. Apart from its exclusive marketing and financing of petroleum export, it also put in place from 1962, an export-financing scheme whereby marketing boards could meet their cash requirements by drawing 90-day bills of exchange on the Nigerian Produce Marketing Company. A consortium of commercial banks and acceptance houses discounted such bills while the Central Bank of Nigeria (CBN) provided a rediscounting and refinancing facility for the bills up to a specified limit. The CBN later assumed direct responsibility for the financing of marketing boards when the financing arrangement collapsed in 1968 due partly to the withdrawal by the commercial banks and acceptance houses from the scheme as a result of the uncertainties in produce marketing among others.

The CBN Act of 1958, as amended by Decree No. 32 of 1969 and Decree No. 3 of 1970, explicitly empowered the CBN to purchase, sell, discount and rediscount bills of exchange and promissory notes for the purpose of financing seasonal agricultural operations as well as the marketing of crops both internally and externally. It also empowered CBN to grant advances for fixed periods not exceeding one year against various acceptable securities including warehouse warrants, or their equivalents in respect of staple commodities and other goods duly insured.

From 1979, the CBN further supported export finance with the use of its direct instruments of monetary policy. Thus, it stipulated mandatory credit allocations by commercial and merchant banks to the export sector. The prescribed credit allocation to the export sector, which became a preferred sector from 1979 ranged between three and six per cent for commercial banks and three and four per cent for merchant banks in the period 1979–1982.

The adoption of market-oriented economic policies as a result of the introduction of the Structural Adjustment Programme (SAP) in 1986 marked a turning point in export financing in Nigeria. The programme made export a high priority activity. In line with SAP, the federal government in 1986 promulgated the Export Incentives and Miscellaneous Provisions Decree. The decree enumerated a number of incentives to boost exports. Among other things, the decree mandated the CBN to provide a rediscounting facility on short-term bills for exporters and to establish the Nigerian Export Credit Guarantee and Insurance Corporation (NECGIC) to provide export credit guarantee and insurance to protect exporters from the inherent risks in export.

Having created an incentive regime favourable to foreign exchange earnings from diversified sources, the Authorities proceeded to create an export credit agency in line with international practice and this led to the creation of the Nigerian Export-Import Bank (NEXIM).

CHALLENGES OF EXPORT DEVELOPMENT AND FINANCING IN FTZS

The role of NEXIM in export financing according to the Investment Procedures, Regulations and Operational Guidelines (2004) for Free in Nigeria, Section 12 of Part 7, is that some of the prohibited activities as listed below, pose enormous challenges for investors in the area of accessing operational funding:

- Granting Naira loans to or raising any Naira loans on behalf of residents or non-residents;
- Borrowing in Naira from any resident, including authorised dealer banks, except with approval of NEPZA and CBN;
- Sourcing foreign exchange in the foreign exchange market of the customs territory.

Apart from restricted access to funding, another major constraint on success in the Zone, especially of power/energy supply. We are all aware of the bad state of power supply in the country and the overwhelming importance of this resource for effective operations of factories. Although there are provisions for alternative power supply by Zone management, it appears inadequate to cater for the needs of companies operating there.

However, with the presence of stakeholders at this summit, especially the CBN, banks currently operating in the Zone and NEPZA Management, I am optimistic that these highlighted problems would be addressed in order to pave the way for meaningful development of operations within the Zone.

One major impediment which was peculiar to operations within the erstwhile Calabar Export Processing Zone (CEPZ) was the CBN regulation which requires that all financing activities within the Zone must be done in foreign exchange. This imposed severe constraints on the ability

of exporters to access investment capital to grow their business and limited the number of Nigerian entrepreneurs that could take advantage of the incentives offered within the Zone.

NEXIM has had a presence in the Calabar Free Trade Zone since 1998 with a view to supporting the free trade zone initiative and in particular, the activities of investors in the Zone. Although constrained by some of the operating guidelines of both the CBN and NEPZA, the Bank has through sourcing of foreign currency denominated lines of credit from multi-national organisations and Export Credit Agencies such as AFREXIM Bank, First Bank London, and has assisted some investors in the Zone namely: Golden Giants Industries FZE, Stonecraft Granite & Marble FZE and Bao Yao Steel Industries FZE. Currently, we are processing about five applications from the CFTZ.

The Bank is currently exploring other lines of credit from the EXIM Bank of India, Islamic Development Bank and UBA New York, with a view to sourcing adequate funds in readiness to further support investors' activities in the Zone.

SUCCESS STORY

NEXIM, since its inception in 1991, assisted a large number of exporters with its various facilities many of which were startup projects.

In terms of financial interventions, the Bank's total loan exposure to exporters grew from N3.23billion in 1991, peaking at N8.41 billion in 2003. This figure declined to N5.71billion in 2004 and N2.45billion in 2005 as a result of caution exhibited by management in response to the uncertainty in the banking Industry arising from the CBN's consolidation directive. Looking at the bank's performance in the new millennium, this represents an annual average of N4.29 billion or a six-year cumulative amount of N25.73 billion as shown below:

YEAR	N'BN
2000	1.43
2001	2.20
2002	5.51
2003	8.43
2004	5.71
2005	2.45
	25.73

TITLE		
Agriculture	N9.86bn	38.32%
Manufacturing	N11.32bn	44.00%
Solid Minerals	N2.52bn	9.79%
Oil & Gas	N1.02bn	3.96%
Services	N1.01bn	3.93%
	N25.73bn	**100%**

The sectoral spread of the bank's intervention in the period 2000–2005 is as above.

Within the Zone, the bank has funded transactions in excess of US$6.0 million since 2000. The bank, through its strategic partnerships with regional multilateral agencies, has been able to leverage access to projects within the Zone for funding in foreign currency thereby ensuring that businesses are able to compete favourably in both the international and domestic markets.

The instruments used by the bank to achieve this were all denominated in foreign exchange and included; lines of credit, medium-term loans and short- and medium- term guarantees.

The distribution of our recent investments in the Zone within the last six years (2000 – 2005) is as follows:

	(M)	
Solid Minerals	$3.50	56.91%
Manufacturing	$2.65	43.09%
	$6.15	**100.00%**

These projects are involved in stone transformation, rubber processing, textiles production and iron/steel production. Other companies operating within the zone offer great potential for the export of food and household products to the region and to Africa as a whole.

The recent review of activities in Calabar Free Trade Zone that allow firms to not only engage in export production but to also undertake service-oriented activities has provided a powerful incentive to would-be investors and has seen an influx of projects into the zone, opening up opportunities for the bank to provide financial support to projects operating within the Zone.

Furthermore, the recent establishment of the Tinapa Business Resort within the City of Calabar is expected to create the first integrated business and leisure resort in Nigeria in the mould of similar zones around the world. Our expectation is that it would not only open opportunities for the export of tourism services which can be exploited with significant implications for the development of Cross River State and the nation's economy as a whole but will set the precedent for similar initiatives in other resource impaired states.

CONCLUSION

Through the provision of finance, trade information and advisory services, as well as risk-bearing facilities, the bank has intervened successfully in encouraging the development of entrepreneurs in the real sector to create and expand productive capacity as well as stimulate economic activity through employment generation. Our interventions have raised a new generation of entrepreneurs willing to tap the opportunities to trade beyond the shores of this country. These interventions extend beyond the FTZ in Calabar to include support extended to Free Trade Zones, export processing factories and farms across the country. Our interventions generate an annual average foreign exchange of US$50 million providing an independent source of dollar financing for real sector development.

However, though it is the intention of the Bank to use its facilities to reinforce other incentives targeted at the export sector for the establishment of a culture of self-inspired export, correction of the structural weakness in Nigeria's export (especially those of product and market concentration), with its attendant socio-economic gains, it must be borne in mind that export led development can only be effective if reinforced by other measures such as political stability, consistent and stable macro-economic policy environment and effective tariff protection.

In conclusion, the potential of this country is far from being even barely tapped; it is the intention of the bank to continue to create and utilise trade capacity to open up these opportunities. To this end the bank has been restructured and repositioned to facilitate a national culture of self-inspired, export-led growth and development that will lead to the emergence of world-class entrepreneurs.

(2) CHALLENGES OF FINANCING INVESTMENTS IN THE FREE ZONES IN NIGERIA

(By B. B. Ebong, Group MD/CEO – Union Bank Plc)

INTRODUCTION

Developing countries that had followed the import-substitution industrialisation (ISI) strategy experienced disappointing growth performance compared to those that pursued an export-oriented industrialisation (EOI), such as the newly industrialising countries (NICs) of East Asia (Singapore, Hong Kong, Taiwan, Malaysia, South Korea). As part of their economic reform strategies, some of the developing countries began to move the EOI strategy requiring the adoption of a package of industrial incentives to attract foreign investors to produce in the domestic economies for export. One of these policies was the establishment of Export Processing Zones (EPZs) or Free Trade Zones (FTZs).

An EPZ is a 'clearly demarcated industrial zone which constitutes a free trade enclave outside a country's normal customs and trading system where foreign enterprises produce principally for export and benefit from certain tax and financial incentives'. There are notable exceptions to this definition. In the case of Singapore or Hong Kong, the entire country is an EPZ, in China vast areas are designated 'special economic zones' while in some countries individual firms in different locations are granted EPZ status. Several factors have facilitated the spread of EPZs, including the following:

• The advice of international financial institutions (the World Bank and the IMF) that see them as one of the essential ingredients of the opening up of Third World economies;

• The technical assistance provided by the United Nations (UN) agencies, the United Nations Industrial Development Organisation (UNIDO), the United Nations Conference on Trade and Development (UNCTAD), and the US Agency for International Development (USAID), in the case of Central American countries, to establish EPZs;

• The generalised system of preferences (GSP) under which the industrialized countries granted privileged tariffs for exports from developing countries for products that have acquired at least 35% of their value added in the beneficiary country;

• Provision of financial support by industrialised countries to organisations responsible for export promotion in developing countries.

In 2002 (see Jauch, 2002), there were between 200 and 850 EPZs in the world employing between 4 and 27million workers. Africa had more than 31 EPZs by 1995 with Mauritius as the most successful country so far benefiting from EPZs. For the countries promoting EPZs, the economic rationale, according to the International Confederation of Free Trade Unions (ICFTU, 1996) is as follows:

These zones, by attracting foreign investment, promote national development, enabling a transfer of technology, bringing in currency, improving infrastructure and creating jobs.

Most enterprises in the EPZs are branches of multinational enterprises (MNEs) even though some local enterprises operate in the zones. The major principle behind EPZs exploited by the MNEs is the international segmentation of the production process. The MNEs thus search for the most favourable conditions for production, seeking out countries with the best comparative advantage in any given segment of the production process. Some countries have offered highly skilled labour at low wages and little or no trade union rights.

Nigeria, as part of her economic reform measures, sought to appropriate the benefits of EPZs by setting up the Free Trade Zones (FTZs) in 1992. The EPZs in Nigeria were set up by the Nigerian Export Processing Zones (NEPZ) Act 63 of 1992. However, the Calabar Free Trade Zone (CFTZ), which is the pioneer FTZ in Nigeria, was only fully completed in 1999 and commenced operations in November, 2001. Currently, the Onne FTZ is also operational while work is in progress at different stages in other EPZs in Lekki, Tinapa, Snake Island, etc. Thus, it is most appropriate that this interactive summit is taking place to examine ways of funding companies operating in the FTZs to grow. My contribution here is centred on the challenges of financing investments in the FTZs.

EPZ IN NIGERIA

According to the NEPZ Act, the governing authority of the EPZs and FTZs in Nigeria is the Nigeria Export Processing Zones Authority (NEPZA) and each Zone is independent and under a separate Zone Management. For legal purposes, each zone is to be treated as an offshore territory of Nigeria.

The usual exemptions and incentives granted to enterprises operating in EPZs are granted by the NEPZ Act 63 of 1992 to enterprises in the FTZs as follows:

- Exemption from all Federal, State, Local Government taxes, levies and rates;
- Duty-free importation of capital goods, consumer goods, raw materials components intended to be used for the purposes of and in connection with an approved activity;
- Exemption from pre-import inspection of imports of goods into the zones for use by approved enterprises in the zones;
- Exemption from legislative provisions pertaining to taxes, levies, duties and foreign exchange regulations;
- Repatriation of foreign capital investment in the zones at any time with capital appreciation of the investment;
- Remittance of profits and dividends earned by foreign investors in the zones;
- Waver of import or export licences;
- Rent-free land at construction stage of factory.
- No restriction on foreign equity ownership;
- Freedom to employ foreign managers and qualified personnel.

Transactions between enterprises in each of the FTZs and persons/enterprises in Nigeria customs territory are treated as follows:

- Goods/services supplied by an enterprise in the Zones to customers inside the Nigerian customs territory shall be paid for in foreign currency, and subject to the normal rules and regulations applicable to importation and repatriation of proceeds of sales and services;
- Goods/services supplied by persons/enterprises within the Nigerian customs territory to an approved enterprise in a Zone shall be paid for in foreign currency and subject to the rules and regulations applicable to export from Nigeria and the repatriation of proceeds from sales or services.

Thus, the provisions of the NEPZ Act No. 63 of 1992 presuppose that each of the Zones is an offshore location in relation to economic transactions with the Nigerian customs territory.

SOURCES OF FINANCE FOR ZONE ENTERPRISES

The Zone enterprises operating offshore to Nigeria can interact with the Nigerian customs territory and with the rest of the world in terms of financing their investments. Thus, the available sources of finance for investment include:

• Equity investments. The funds could be owners' equity, or raised through initial public offer (IPO) or through private placements, inviting venture capital funds, private equity investors, or with subscription from the private arm of the World Bank, the International Finance Corporation (IFC). For successful IPO, the company must have a track record performance in the customs area of Nigeria or abroad as an MNE. Most of the enterprises in the CFTZ, given their history, are most likely to have relied on promoters' equity contributions to set up;

• Internal funds. The effectiveness of this as a source of finance depends on the profitable operations of the enterprise and even this may not permit the enterprise to achieve fast growth. Internal funds take the form of depreciation provisions and profits that can be ploughed back into operations. This is another sure source of funding for the existing enterprises in the CFTZ;

• Bonds flotation: This may be floated in the customs territory of Nigeria or in foreign capital markets. Again, good track record of performance is the key to success unless the company, being without a track record, is promoted by very reputable international investments bankers. Even at this, these enterprises need to have investment grade ratings from reputable global ratings agencies. The use of bonds permits funds to be raised for the medium to the long-term. I suspect that this source is not yet amply exploited by the Zone enterprises, again due to their young history;

• Bank lending: This may take several forms including lending for working capital, term loans for factory and capital goods importation, stocking facility and bills discounting. Bank involvement in investment financing for the Zone enterprises presupposes the existence of client-customer relationship between the banks and the enterprises in the Zones, or in the customs territory of Nigeria or in their offshore locations. The regulations guiding banking business in the Zones preclude Nigerian banks from providing Naira loans to Zone enterprises. This limits investment financing of the enterprises by Nigerian banks to foreign currency loans that they could generate from operations in the FTZs, from their off-shore subsidiaries or from on-lending from credit lines made available by their foreign correspondent banks or from other financial institutions. Union Bank of Nigeria Plc has a branch in the CFTZ that has been funding enterprises in the Zone. Union Bank of Nigeria Plc has an off-shore subsidiary, Union Bank (UK) Plc that can also provide foreign currency loans to Zones' Enterprises. In addition, Union Bank has over US$156million in clean lines of credit from our correspondent banks that could be lent to Zones' enterprises. There is at least one other Nigerian bank with an offshore subsidiary that could meet the bank financing needs of the firms. But bank financing of the enterprises may be currently limited by the very modest trading operations (exports and imports) of these enterprises facilitated by Nigerian banks.

EQUIPMENT LEASING

This is particularly appropriate for start-up firms that lack the creditworthiness to attract adequate funds for outright purchase of equipment. The leasing option may take the form of capital lease (for items like factory equipment) or as an operating lease (for assets like automobiles and office equipment).

CONSTRAINTS ON FTZ INVESTMENT FINANCING

Even though the Free Zones are offshore territories in Nigeria, they are still under the jurisdiction of Nigeria and so we expect those factors restricting the inflow of investments into the country to present similar challenges to financing investments in the Zones.

These include the following:

• The long history of Nigeria as a nation of incompetent economic management, high level of corruption and economic crimes, political and social instability, limited internal market, and inadequate infrastructures. Only recently the country was delisted from the Financial Action Task Force (FATF) on money laundering and terrorism financing list of non-cooperating nations. Also, before now Nigeria did not have an investment grade rating for the economy, which was a deterrent to foreign investors. Consequently, there is presently only a limited presence of notable MNEs in the domestic economy after many others have divested from the country much earlier. Thus, the domestic economy, apart from the oil and gas sector, has been unattractive as an investment destination. The FTZs are yet to prove attractive to foreign investors, judging by the category of enterprises in the CFTZ for now;

• The relatively underdeveloped infrastructure for foreign trade in Nigeria. The major ports in Nigeria are inefficiently managed and others are yet to be fully developed. For instance, it is only recently that a contract was awarded by the Federal Government for further dredging of the Calabar ports while concessionaires were recently appointed to inject private sector management into the ports;

• The relatively obscure history of enterprises in the zones, which prevents them from utilising international stock and bond markets to raise funds. They have also not been able to make inroads into the customs territory by way of exportation.

This also means that only limited amounts of funds can be made available to them through guarantees provided by banks operating in the Zones for them to borrow from abroad;

• The absence of a clear comparative advantage offered by the domestic economy to be exploited by FTZ enterprises. The domestic economy offers so little in terms of supplies of skilled manpower, major raw materials for industrial manufacturing, and manufacturing support services industry (banking, insurance, freights, etc);

• The footloose nature of Free Zones enterprises that predisposes them to leave the Zone any time does not create that feeling of permanence that gives investors confidence to invest in projects.

THE WAY FORWARD

We have established that Nigeria set up the Free Zones to accelerate development goals by attracting foreign investors to produce for exports unhindered by burdensome regulations. As it has turned out, however, the Zones have not been successful in attracting the kind of enterprises with the muscle to attract adequate investment financing. This is mainly due to problems associated with investment flows into the country and the features of the enterprises themselves. In order to optimise the benefits of the Free Zones, it is necessary to address the issues that constrain investment flows into the country by taking the following steps:

• The infrastructural support for more efficient international trade, like expansion and more efficient management of ports, should continue to receive attention.

• Nigeria should also continue to intensify efforts at fighting financial crimes by strengthening the capability of the Financial Intelligence Unit (FIU) and the law courts to investigate, prosecute and adjudicate on financial crimes.

• The Federal Government of Nigeria (FGN) should also persevere in its reform programmes so as to engender a self-sustaining growth that would lift the mass of Nigerians out of poverty and increase the size of the domestic market in terms of purchasing power.

• Being a labour-abundant country, Nigeria should reform its education system to produce highly skilled labour that would provide a major attraction for Zones' enterprises.

• The issue of disputed political successions that had fouled the investment climate in the past needs to be addressed in the future through strict constitutionalism.

(3) THE IMPERATIVES OF LENDING AND FOREIGN OPERATIONS IN THE FREE TRADE ZONE (Paper delivered by Mrs Mofoluke B. Dosunmu, First Bank of Nigeria Plc)

INTRODUCTION

Loans creation and foreign exchange sourcing and trading are important components of economic activity as well as economic growth. Unarguably, banks whilst carrying out these functions provide a major impetus to economic growth of countries and serve as a catalyst for economic development for their respective economies.

WHAT IS THE FREE TRADE ZONE?

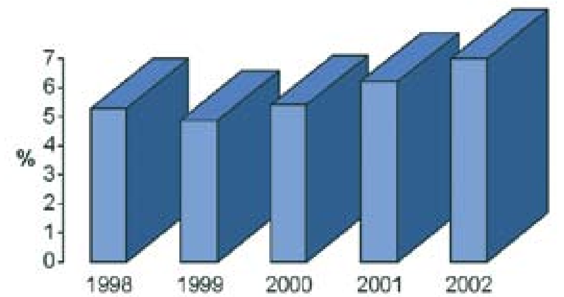
A free trade zone (FTZ) or export processing zone is one or more areas of a country where tariffs and quotas are eliminated and bureaucratic requirements are lowered in order to attract companies by raising the incentives for doing business there.

Most FTZs are located in developing countries. They are special zones where (some) normal trade barriers such as import or export tariffs do not apply, bureaucracy is typically minimised by outsourcing it to the FTZ operator and corporations setting up in the zone may be given tax breaks (i.e. exemptions from paying certain taxes such as corporate income tax, withholding tax, capital gains tax etc) as an additional incentive. Usually, these zones are set up in underdeveloped parts of the host country, the rationale being that the zones will attract employers and thus reduce poverty and unemployment and stimulate the area's economy. These zones are often used by multinational corporations to set up factories to produce goods (such as clothing or shoes).

Several factors are responsible for the adoption of Free Zones Scheme in Nigeria , amongst which are the diversifications of the revenue base of the economy, provision of industrial infrastructure such as roads, electricity and water, employment generation and to encourage export through local production.

Free Trade Zones are attempts to improve a nation's economic performance; for developing countries, they are efforts to hasten growth and close the income imbalance. Since banks hold the bulk of money supply and are capable of creating money, their roles in Free Trade Zones cannot be overemphasized. Their most important contribution is their intermediation role in the savings and investment process. Banks through their credit creation activities act as lubricants and promote growth in different sectors of the economy. This role is worth noting especially in developing economies, where available resources are generally inadequate to meet development needs.

GROSS FIXED CAPITAL FORMATION (% OF GDP)



Source: *CBN Annual Report 2002*

For Nigeria, diversifying the country's export base has become imperative in view of the fluctuating fortunes of oil in the international market. If the incidence of poverty, which is currently ravaging Nigeria, is to be effectively reduced, there is an urgent need for government to design policies that will ensure that the economy attracts local and foreign investments. Growing the economy demands that both the private and the public sectors come together to rejuvenate all the key sectors so that the potentials of the country can be fully maximised. In 2000, combined inflow of foreign investment into Africa was US$9.1 billion, with Nigeria, South Africa and Angola accounting for 70% of this. As with Angola, the problem with investment in the country, (whether domestic or foreign) is its concentration in the oil industry.

Despite its prime position amongst the world's leading oil producers, the Nigerian economy has yet to achieve its true potential since independence. From a largely agrarian economy in the 1950s and 1960s, by the 1970s, the Nigerian economy had become dependent on oil export earnings. Agriculture, which had been the bedrock of the country's economy, ceased to receive the required attention following the discovery of oil.

The accompanying shift in the source/structure of public revenue led to a decline in agricultural productivity, as successive governments failed to deepen investments. The rural economy, which accounted for more than 95% of farming activity, suffered neglect, precipitating the rural-urban drift.

Though the nation made over US$200 billion in oil receipts between 1970 and the early 1980s, the economy, failed to grow due essentially to inappropriate ordering of priorities, improper sequencing of projects and gross mismanagement. With Gross National Product (GNP) of about US$38 billion, an estimated population of 130 million, and per capita income of US$310 (see graph above), the economy has plumbed the depths of underdevelopment. The collapse of public infrastructure – telecommunication, roads, power supply, etc. – and the military's intervention in politics further attenuated investment flow, as it spurred flight of capital from the domestic economy.

Thus, the civilian administration that came to power in 1999 inherited a country in considerable disrepair. Public utilities and the civil

service had no clear targets, and were no longer structured to deliver on targets, as a result of which private sector activities were remarkable for their absence. Subsequently, the critical challenge was that of correcting the ills of the past in order to build a solid future. So far, the present administration has embarked on initiatives aimed at reinvigorating the economy as well as stimulating investment from as diverse a combination of sources as possible. In the last four years, investment worth hundreds of millions of dollars has trickled into the economy, leading to new employment opportunities. It is undoubtedly the return to democracy together with the twin policies of deregulation and liberalization, which have had the more profound impact in attracting investment into Nigeria in the last few years. If we accept that investing in democratic governance and opening up of the economy enhances the country's stock of social capital, clearly one immediate return is the increase in foreign investment in Nigeria in the past four years as exemplified by the telecommunications sector.

Additionally, the move by government to deregulate the economy and encourage greater private sector participation, as shown in the ongoing privatisation programme, has no doubt opened up the economy. The coming into operation of FTZs will further strengthen investment in Nigeria.

Its success is dependent on availability and willingness of investors to invest in the zone and banks' (local and international) lending.

STATUS AND ENABLING LAWS

The relevant laws and statutes guiding the establishment and operations of the export processing zones are as vested in Nigeria's Investment Promotion Agency for investment into the Free Zone areas in Nigeria. The licensing, monitoring and regulation of Free Zones Scheme in Nigeria is vested in the Nigeria Export Processing Zones Authority by the Nigeria Export Processing Zones' Act 63, of 1992.

The enabling Act also confers on the Authority the power to approve and grant all licences and permits to the exclusion of all other Agencies, enforce obedience and compliance to rules and regulations. In effect, the Act is an omnibus law, which permits the Authority and its Board the power to define the policy directions and provide a one-stop-shop business transaction without bureaucracy.

FEATURES AND CHARACTERISTICS OF NIGERIAN FREE TRADE ZONES

Currently the following industries are permissible in the FTZ:

- Electrical and electronic products;
- Textile products;
- Garments;
- Wood products and handicraft;
- Leather products;
- Petroleum product's;
- Rubber and plastic products;
- Cosmetics and other chemical products;
- Metal products and machinery;
- Educational materials and sports equipment;
- Printing materials, communication and office equipment;
- Medical kits, optical instruments and appliances;
- Biscuits, confectioneries and other food processing;
- Pharmaceutical products;
- Shipbuilding and repairs;
- Oil and gas logistics;

The concept of Free Trade Zones which tends to position them as geographical zones established outside the customs territory of the host country provides a unique challenge for banks wishing to operate within them, as banking within these zones is more or less an offshore activity.

Given the highly sensitive nature of banking , the industry is understandably highly regulated and this presents a special challenge for banks seeking to operate within the Zones, as that location would place them outside the scope of their regulator's overview.

Currently in Nigeria there is no authorisation for banks to operate within the Zones and for a bank to do so, approval will be required from the relevant authorities.

IMPERATIVES FOR LENDING WITHIN THE FTZ

In any economy a number of factors are primary determinants of lending and investment activity. These include;

- Host country market size;
- Cost of labour;
- Country risk;
- Availability of developed infrastructure;
- Investment in human capital;
- Institutional support, e.g. good governance;
- Reduction in regulatory barriers;
- Reduction in capital controls;
- Strong macroeconomic fundamentals;
- Legal and judicial framework.

Banks by the nature of their business carry out the following major roles in any national economy:

- Accepting deposits and lending money;
- Issuing and marketing various securities;
- Asset management.

Foreign exchange trading and related FX transaction processing within specific exchange control guidelines as is the case in Nigeria.

Each of these roles is carried out within the ambit of a clearly defined regulatory environment. The case today is that no such regulatory environment exists for banks willing to operate within the Free Zones. It is therefore imperative that specific guidelines be introduced for this purpose.

Second, because of the highly regulated operating environment in Nigeria, the applicable statutes are not enforceable within the free trade zone given that by definition, the free zone is an environment where business activity is deemed to be unencumbered by local regulations.

Third, the legal status of entities operating in the zone needs to be clarified as this will determine lending and investment decisions for banks wishing to operate within the zones. Currently, Nigerian banks cannot lend to entities not registered in Nigeria as stipulated by BOFIA. The question therefore arises as to whether entities licensed to operate within the Zone can be deemed to be registered or incorporated in Nigeria.

Fourth, the manner of securitising assets created, remedies available to lenders and the protection for investors in banks operating within the zone need to be clearly defined by the regulatory authorities i.e. CBN or NEPZA before any Nigerian bank can embark on a proper venture in the Zone.

In known tax havens and popular offshore business locations such as Jersey, British Virgin Islands, etc, specific guidelines exist to regulate the operations of financial institutions.

A common characteristic of all banks credit policies is that lending is done within clearly defined internal as well as regulatory guidelines which seek to ensure that specific terms and conditions have been met

and the facilities created properly secured in order to guarantee repayment as at when due.

Given the issues highlighted above it would be quite difficult for any Nigerian bank to operate, mobilise deposits and investments as well as carry out lending within the Nigeria Free Zones.

THE MANNER OF FOREIGN OPERATIONS IN THE FREE ZONES

The Naira is not a convertible currency and consequently all Foreign Exchange related activities are closely regulated in Nigeria by the central bank. The nature of foreign exchange transactions banks can or cannot engage in are clearly spelt out in the foreign exchange manual and various supplementary circulars issued by the Trade and Exchange department of the Central Bank of Nigeria. These guidelines which provide a framework for Nigerian banks foreign operations activities conspicuously omit to stipulate the modalities for foreign exchange activities in the Zones.

Regrettably this in effect is something of a regulatory vacuum within which Nigerian banks cannot validly operate.

The question that readily comes to mind is what will be the nature of the operation of any Nigerian bank in this situation?

Can it be regarded as an ordinary branch, a foreign branch or even a distinct legal entity? Who shall regulate the activities of these banks, the federal ministry of finance, NEPZA, or CBN?

This vacuum has created a major challenge for Nigerian entrepreneurs wishing to operate within the Zones and presented them with a major disadvantage when compared with their foreign counterparts who most likely would have the support of major global financial institutions that are not constrained by any limitations imposed by the Banking License issued by the Central bank of Nigeria.

RECOMMENDED IMPERATIVES FOR LENDING AND FOREIGN OPERATIONS ACTIVITIES WITHIN THE FREE TRADE ZONES

In order for companies operating in the Free Zones to get a fair access to bank lending and foreign exchange operations within the zone it is imperative that necessary legislation / regulations be put in place to ensure the following:

1. Clarify the legal / regulatory status of banks wishing to operate within the zone;

2. Clarify the legal status of other entities, e.g. depositors, investors and borrowers operating within the zone;

3. Clarify the applicable statutes guiding banks operations as well as nature of banking activities permissible within the zone;

4. Clearly define the responsibility for and nature of regulatory oversight of banking activities within the zone;

5. Ensure free movement of capital both within as well as in and out of the Zone;

6. Extension of all applicable tax exemptions and investment support mechanisms to banks and other financial institutions willing to operate within the zone;

7. Provision of clear guidelines on the impact of these operations on Nigerian banks' other (normal) operations;

8. The creation of a credit bureau to provide due diligence and credit rating for entities operating within the zone. (Some entities operating here may not have been registered anywhere else other than with the licensing authority within the Zone).

CONCLUSION

Given the issues raised above, it is clear that Nigerian banks will not be able to carry out proper lending or foreign operations activities in the various Zones being set up in the country. For them to do so, a proper regulatory framework needs to be put in place. This framework will necessarily provide a paradigm within which various players such as Investors, lenders, borrowers and even NEPZA the overall regulatory authority will interact.

(4) FOREX SOURCING AND THE REGULATION OF OFFSHORE BANKING IN NIGERIA FREE TRADE ZONES (By Mrs. O. O. Akanji, Director of Trade and Exchange Department, Central Bank of Nigeria)

INTRODUCTION

To gain tax breaks and a competitive edge, sometimes you have to look over the horizon. In much the same way that early explorers set out to seek fame and fortune in other lands, today's savvy entrepreneurs are looking to go offshore.

A couple of decades ago, there were few offshore centres, and those that existed were surrounded by myths of illicit activities. A lot has changed since that time.

The offshore industry today spans the globe and involves half the world's financial transactions by value. It is estimated that more than US$2 trillion flow through offshore centres everyday.

Does Nigeria want to be part of this global development?

• Going offshore could very well be a viable financial strategy for many entrepreneurs – assuming they understand the ins and outs of the off shore world.

CONCEPTUAL FRAMEWORK

The basic professional name increasingly used to identify a legal tax haven is an International Financial Centre (IFC). Offshore banking is a sub-set of the IFC.

An IFC is a nation or independent legal jurisdiction that has passed important legislation to protect and attract international clients. To date, there are about 59 such jurisdictions throughout the world that have taken steps to be known as IFCs.

Sophisticated global money managers consider the use of IFCs to be a safe and reasonable way to conduct business. And every single day, more entrepreneurs discover the benefits that come with taking at least a portion of their assets offshore. In fact a recent issue of the American Institute of Certified Public Accountants (AICPA) newsletter, unequivocally endorsed offshore planning. It provides financial services to foreign residents, corporations and institutions to the exclusion of domestic operations in the host country.

Off shore banks have very little connection with a host country's financial system. They are in the business of receiving money in any currency from foreign residents and other entities and investing them in foreign countries as well, but not in the host country, so it is a special type of banking.

Offshore financial services, which include banking, insurance, securities, trust and fund management, and incorporation/registration of companies, must be regulated. There should be a unit that will regulate, spearhead and coordinate efforts to promote and develop the IFC. The unit could be a Financial Services Authority (FSA) which will streamline

the government machinery in supervising the offshore financial services industry.

The CBN will have to undertake research and development works as well as draw up plans for further growth and efficiency of the unit. There must be legislation that will guide its operations. An offshore banking licence must be established which may be restricted or unrestricted. Some offshore banking licences are granted on the condition that the bank must establish, maintain and guarantee a business office in the host country from where it could operate without restriction, except that it may not transact business with any person or entity in the host country. Care must be taken to ensure that offshore deposit mobilization strategies do not breach domestic banking laws.

The characteristics are as follows:

• Established under favourable banking laws considered less stringent than those in the domestic jurisdictions;

• Operates in environments that have low tax rates or provides concessional rates of tax or even tax-free, usually referred to as 'tax-havens';

• Exhibits high level of confidentiality in its operations (this is not illegal);

• Does not render banking services to residents of the host country;

• More often than not, managed from a location different from where they are physically located. Sometimes, management may be delegated to a local trust company or professional management firm who would work closely with the management of the bank;

• Operational frontier is not limited; in other words, operates freely across international frontiers unless the conditions of licensing stipulate otherwise.

FOREX SOURCING AND OFFSHORE BANKING (COUNTRY EXPERIENCES)

The Federal Government in September 2003 inaugurated a Committee to examine the desirability or otherwise of offshore banking in Nigeria. Its report was submitted to the Minister of Finance in January, 2005 after visiting the Free Zones in Calabar and Onne Oil and Gas. The Committee also undertook a study tour to two Offshore Financial Centres (OFCs) namely, Dubai (UAE) and Jersey Island (UK). Then, the Committee recommended as follows:

• Nigeria must enact enabling legislation for Offshore Financial Centres since international best practice precludes an OFC from domestic regulations;

• Nigeria has now complied with the Financial Action Task Force (FATF) requirements, and has recently been delisted from the Non-Compliance Countries and Territories (NCCT) which will build confidence in the system to attract foreign direct investment;

• To make progress on the establishment of OFCs in Nigeria, the Forum may want to enquire from the Minister of Finance on the fate of the Federal Government Committee's report on the subject.

The Committee was to obtain information on the relationship between offshore banks and conventional banks; the structure, processes and human resource requirements of establishing OFCs; the licensing, regulatory/supervision of OFC/O offshore banking and other issues relating to security, money laundering etc.

DUBAI EXPERIENCE

The Dubai International Finance Centre (DIFC) was established due to the absence of a regulated financial centre with full transparency in that region; the need to have an international finance exchange; the need to centralise and repatriate approximately US$1.2 trillion as at end of 2004 of the Gulf region scattered all over the world. Dubai is the economic hub of the Gulf region and the financial gap created in that region has to be filled.

DUBAI IFC OPERATIONS

For operational efficiency, the Dubai IFC was divided into three core bodies:

(1)The DFIC Authority, a government authority that is dedicated to helping businesses set up in the Centre. It has two subsidiaries – International Finance Exchange which is an electronic financial market, trading in securities, bonds and derivatives; and the Land Company which is a financial district built in the heart of Dubai from which DIFC licences will operate.

(2) The DIFC Judicial Establishments which is a separate and independent judicial body created to administer and enforce the laws of the DIFC.

(3) The DIFC Financial Services Authority (DFSA) which is an independent regulatory and supervisory body. It licenses and regulates the activities of financial institutions in the DIFC.

SERVICES PROVIDED BY THE DIFC ARE:

• banking (trade finance and investment banking);

• capital which provide a market for regional listing of privately owned companies and also offers facilities for companies from outside the region to be dual listed;

• asset management and fund registration;

• reinsurance;

• Islamic finance;

• back-office operations.

INCENTIVES

• 100% foreign ownership;

• zero tax rate;

• freedom to repatriate capital and profits without restrictions.

SECURITY

• stringent laws against money laundering;.

• regulators hired from Europe, particularly the UK, to ensure compliance with internationally accepted standards.

THE DUBAI EXPERIENCE SHOWS

• Dubai is a universally recognised economic hub for institutional financial services;

• independent risk-based regulator;

• independent legal system based on international standards including a commercial court system;

• access to regional wealth for capital and investment purposes;

• cluster of financial services;

• wholesale rather than retail (i.e. consumer) focus;

• banks cannot accept deposits of local currency;

• bank dealings will be undertaken in foreign currency;

• local financial market cannot adequately fund the economic development of the country, but with offshore operations, government raises an Initial Public Offer (IPO) which transfers foreign capital into the local economy.

THE JERSEY EXPERIENCE

Jersey is one of the British Isles but not part of UK; it is also not a member of the European Union. It has its own government with an independent legislature and judiciary.

The Financial Industry in Jersey started over 40 years ago. The Jersey International Finance Centre is possibly the oldest in the world. It has clients from over 200 countries with the world's top 500 banks as their target.

JERSEY IFC OPERATIONS

The banking sector makes up to 50% of the revenue generated to keep the government and Island of Jersey functioning.

Offshore operations are more integrated into the domestic or host environment, unlike Dubai which has an exclusive enclave for offshore banking. However, they have specific licences for the type of banking services (retail or offshore) provided by a bank. An intending operator, in the IFC must have a very strong capital base for it to be registered and allowed to operate. There is a favourable and stable tax regime which acts as an incentive to investors/depositors (0% tax rate for international companies).

Activities in Jersey IFC are: bank deposits (foreign currency only); collective investment scheme; asset management for individuals and companies; trust businesses. The selling point of Jersey IFC is the presence of high quality professionals with international experience (lawyers, accountants, bankers and economists)

Compliance with all regulatory agencies both local and foreign such as IMF, FATF etc are imperative for investors' confidence in the location.

JERSEY IFC SUCCESS SHOWS

• stable government with consistent monetary and fiscal policies resulting in stable economy;

• favourable tax regime;

• regulatory stability and strength (compliance with international standards);

• good reputation;

• integrity'

• independent and highly qualified regulators who are accepted internationally;

• availability of good infrastructure (IT, Communication, etc);

• high quality professionals with international experience;

• employees in Jersey IFC are treated as both foreign and local, and the revenue generated from the Centre is used to finance government activities, for example, education and health.

OFFSHORE BANKING AND CBN REGULATIONS

Nigeria is not operating offshore banking for now. Are we ready for it? Existing CBN regulations have no content for the operation of offshore banking, except for the prohibition of the Free Trade Zone in the Forex market. However, there are promising developments pointing to the establishment of some necessary conditions by CBN for successful offshore banking if Nigeria is serious about starting it.

NECESSARY CONDITIONS IN NIGERIA FOR SUCCESSFUL OFFSHORE BANKING

• Conducive economic climate characterised by viable, fully developed and investment-friendly environment;

• Stable political environment with guaranteed security of people and property;

• Proximity to investment markets where funds could profitably be invested;

• Availability of world-class infrastructure, such as telecommunication, power, information technology, etc to facilitate prompt conclusion of transactions, particularly in volatile market conditions,

• Absence of exchange controls to enable an offshore bank to move funds with more freedom and flexibility;

• Convertibility of the currency of host country to facilitate transactions;

• Operating environment which is tax free, has low tax rate or provides concessionary rates of tax to offshore banks;

• With a well developed financial system, CBN has been able to achieve banks' recapitalisation/consolidation which has made the banking sector stronger;

• The Nigerian capital market is also strong and the insurance market is being strengthened as they start recapitalisation;

• CBN is liberalising its foreign exchange markets and its capital account towards naira convertibility.

However, the participation of Free Trade Zone companies in the Nigerian foreign exchange market has been proscribed because of the following:

• The concept of Free Trade Zone (FTZ) implies independent sourcing of foreign exchange by operators in the zone from sources independent of the Customs Territory;

• The companies operating in FTZ can access domestic markets to pay for imports while it is mandatory to repatriate proceeds from those who operate export companies from the zones.

Under the NEPZA Act 63 of 1992, all visible and invisible trade transactions from FTZs and EPZs to the Nigerian Custom Territory are eligible for payment in foreign exchange using funds purchased from foreign exchange market

THE ADVANTAGES OF OFFSHORE BANKING

Offshore banks provide access to politically and economically stable jurisdictions. This may be an advantage for those residents in areas where there is a risk of political turmoil who fear that their assets may be frozen, seized or disappear. However, developed countries with regulated banking systems offer the same advantages in terms of stability.

Some offshore banks may operate with a lower cost base and provide higher interest rates than the legal rate in the home country due to lower overheads and a lack of government intervention. Advocates of offshore banking often characterise government regulation as a form of tax on domestic banks, reducing interest rates on deposits.

Offshore finance is one of the few industries, along with tourism, that geographically remote island nations can competitively engage in. It can help developing countries source investment and create growth in their economies, and can help redistribute world finance from the developed to the developing world.

Interest is generally paid by offshore banks without tax deducted. This is an advantage to individuals who do not pay tax on worldwide income, or who do not pay tax until the tax return is agreed, or who feel that they can illegally evade tax by hiding the interest income

Some offshore banks offer banking services that may not be available from domestic banks such as anonymous bank accounts, higher or lower rate loans based on risk and investment opportunities not available else where.

THE DISADVANTAGES OF OFFSHORE BANKING ARE AS FOLLOWS:

Offshore banking has been associated with the underground economy and organised crime, through money laundering. Following 11 September 2001, offshore banks and tax havens, along with clearing houses, have been accused of helping various organised crime gangs, terrorist groups, and other state or non-state factors.

The existence of offshore banking encourages tax evasion, by providing an attractive place to deposit hidden income.

Offshore jurisdictions are often remote, so physical access to information can be difficult. Yet in a world with global telecommunications this is rarely a problem. Accounts can be set up online, by phone or mail.

Developing countries can suffer due to the speed at which money can be transferred in and out of their economy as 'hot money'. This is aided by offshore accounts, and can add to problems in financial disturbance.

Offshore banking is usually more accessible to those on higher incomes, because of the costs of establishing and maintaining offshore accounts. The tax burden in developed countries thus falls disproportionately on middle-income groups.

THE 7-FOLD WAY FORWARD

In view of the current reforms, is it feasible, profitable and advisable for Nigeria to host offshore banks now? Having satisfied some of the conditions, to what extent does Nigeria fit into the framework of an offshore financial centre?

1) We must establish the legislation.

2) We must know the risks the country will carry associated with offshore banking and be ready to plan to mitigate those risks.

3) We must move fast in getting the infrastructural facilities right, particularly power.

4) We must have adequate security for all, particularly the investing public.

5) We must ensure that we keep our polity more democratic.

6) We must not have policy reversals in the liberalisation that has been achieved in Forex management (see tables)

7) We must plan the timeline to get all necessary things working for establishing the IFC, as the world is already taking advantage while we work hard on anticipated risks.

REGULATIONS FOR FREE TRADE ZONES COMPANIES

Regulations	Allowed	Needs Approval			Not Allowed
Free Trade Zone Companies		In Principle	Management approval	TED approval	
1 Open foreign currency accounts in Nigeria or overseas	✓				
2 Open External Accounts in Nigeria to:					
3 Defray statutory and administrative expenses	✓				
4 Pay goods and services in Nigeria	✓				
5 Place fixed deposits with commercial banks in Nigeria	✓				
6 Invest in Naira assets in Nigeria	✓				
7 External Accounts may be funded from:					
8 Sale of foreign currency (transaction based)			✓		
9 Credit facilities from the banking institutions in Nigeria					✓
10 Dividends, interests, rental, profits, fees and commission	✓				
11 Repatriation of Naira from overseas banks				✓	
12 Convert funds in the external account into foreign currency arising from receipt of dividends, interest, rental, profits, fees and commission	✓				
13 Borrow in foreign currency or lend in foreign currency with commercial banks in Nigeria	✓				
14 Lend in Naira					✓
15 Borrow in Naira					✓
16 Undertake any foreign exchange transactions in two foreign currencies with an authorized dealer or any non-resident		✓			
17 All transactions with specified persons or restricted currencies					✓

(5) FACILITATING TRADE IN THE NIGERIA FREE ZONES WITH THE NEW GUIDELINES ON DESTINATION INSPECTION

(By M. T. Othman, National Co-ordinator, ASYCUDA/COMPUTER, Nigeria Customs Service)

PRIMARY ROLE OF CUSTOMS

- Revenue collection;
- Suppression of smuggling;
- Implementation of Government fiscal policy measures;
- Agency functions;
- Generation of Statistical data for planning purposes;
- Trade facilitation.

WHY A PRESHIPMENT INSPECTION REGIME?

The scheme was introduced to address the following:

- Concealment of goods;
- Under declaration;
- Over or Under invoicing of goods imported;
- Check on quantity and quality of imported goods;
- Determination of duty payable;
- Prevention of importation of prohibited, dangerous or hazardous goods.

PRESHIPMENT INSPECTION REGIME

Rather than solving the problems for which it was introduced, the scheme created new ones:

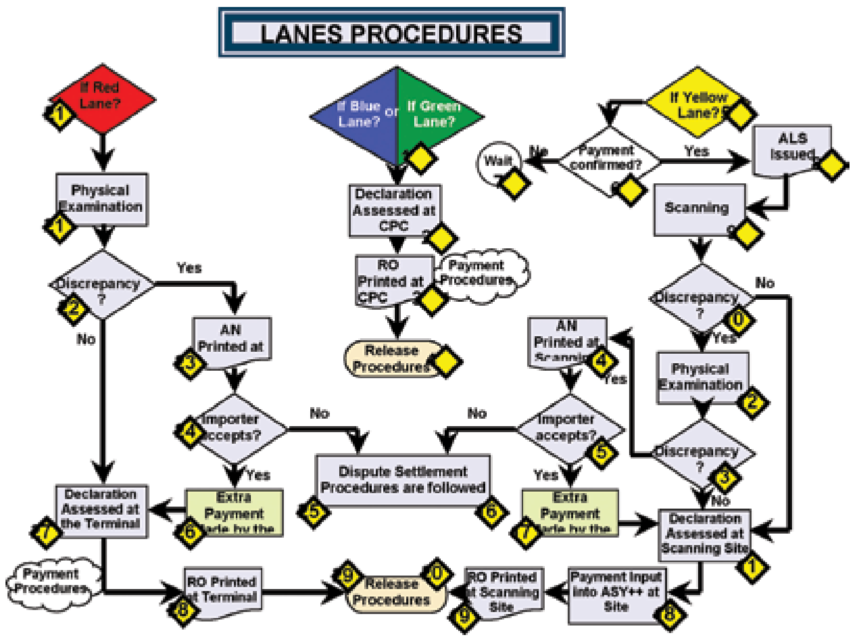
- Inaccuracies and discrepancies in classification and assessment of duties;
- Delays in inspection of goods and issuance of the CRIs leading to accumulation of demurrage;
- Concealment and false declarations;
- Diversion of goods to neighbouring countries.

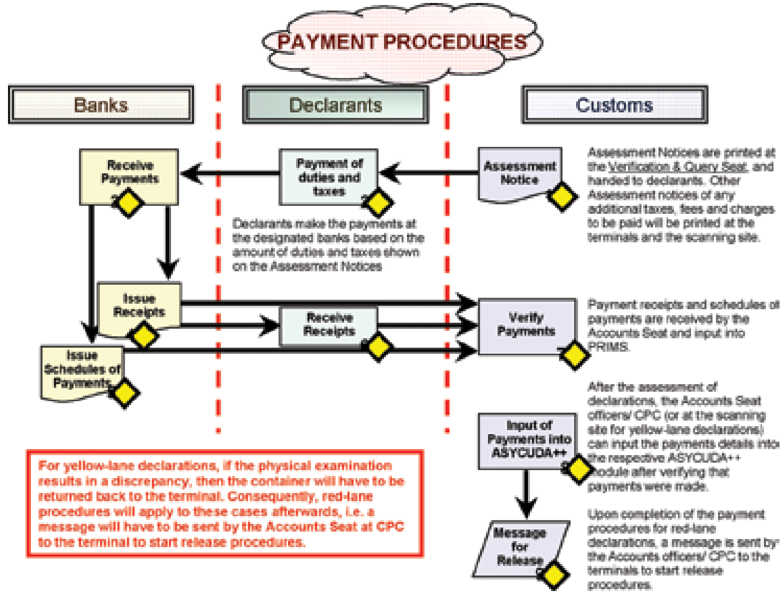
This led to loss of revenue, importation of prohibited goods and elongated clearance process.

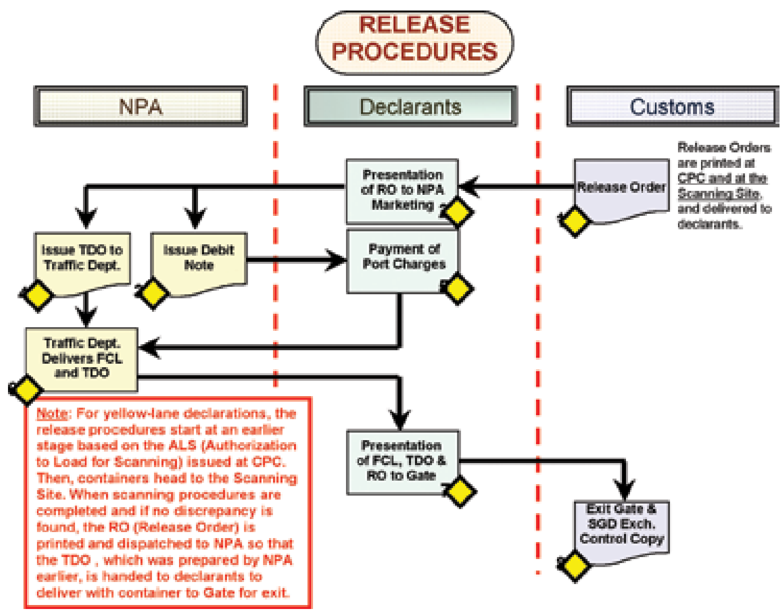
DESTINATION INSPECTION SCHEME IN NIGERIA

The destination Inspection scheme is geared toward achieving the following:

- Elimination of the long wait for the CRI;
- Reduction of the cost of clearance of goods;
- Speedy clearance of goods arising from simplified procedures;
- Increase of revenue;
- Saving government, the colossal amount of foreign currency being spent in payment of inadequate service of the PSI.







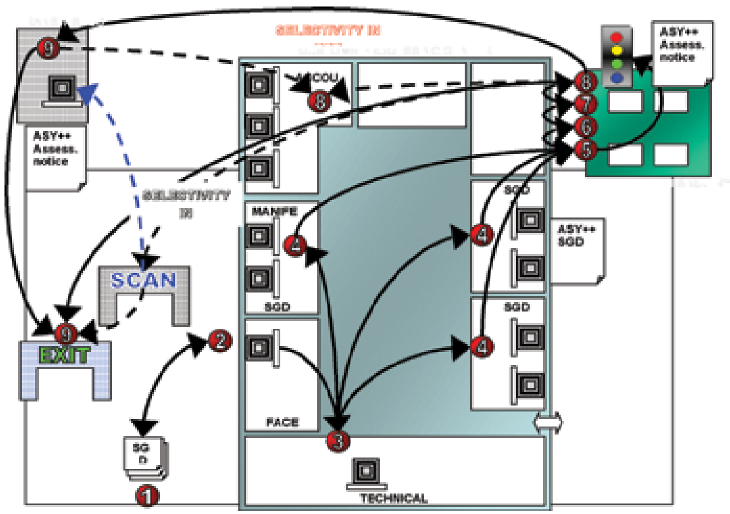
THE CHALLENGES

- Public awareness;
- Sustainability of the scheme;
- Co-operation of all stakeholders;
- Resistance to change;
- Compliance;
- Capacity building;
- Reform must be total;
- Availability of equipment and machines at the ports.

THE SERVICE PROVIDERS

X-RAY Scanners and Risk Management: COTECNA Inspection Limited – LOT I (Apapa & TinCan seaport, Kano & Abuja Airports, Jibiya and Banki Border Posts); **SGS** – LOT II (Onne & Port-Harcourt seaports, Port-Harcourt airport, Idiroko Border Post); **Global Scan** – LOT III (Warri & Calabar seaports, Ikeja airport and Seme border post).

ASYCUDA: UNCTAD (UNCTAD Component of ASYCUDA);



CHAPTER IV

NIGERIA'S EXPERIENCE OF FREE ZONES

Before an Overview of the Free Zones Scheme in Nigeria is attempted, we intend to be sure that major issues and questions that often crop up are briefly addressed.

Free Zones exist in a wide range of sizes; there are instances as small as 50 hectares of land and as large as a region in the case of Economic Zones. We need to state at the onset that the generic name of the scheme is widely known as Free Zone within which we have several variants including Export Processing Zone (EPZ), Free Trade Zone (FTZ), Special Economic Zone (SEC) etc. In this review, we shall use all of these interchangeably, making the various meanings obvious as we progress.

A Free Zone can be located anywhere in a country, although proximity to the sea and airports is an added advantage to bring about substantial savings in freight and hauling charges.

In the last 30 years, countries all over the world, particularly developing nations, have increasingly recognised the benefits which economic liberalisation and greater private sector participation in the economy could bring about. This becomes even clearer when the limitations and weaknesses of import substitutions as a strategy for economic development are taken into account. Realisation of this impelled the Federal Government of Nigeria to take far reaching steps to improve the environment for investment and boost the development of the non-oil sector of the economy.

Thus, in 1989, the federal government commissioned the United Nations Industrial Development Organisation (UNIDO) under the auspices of the United Nations Development programme to conduct a feasibility study of the establishment of Export Processing Zones in Nigeria with particular emphasis on the first EPZ at a site adjacent to the Port of Calabar.

However, it must be stressed that the concept of Export Processing Zones in Nigeria dates as far back as the late 1970s. Notable among the various works promoting the need for EPZ were the positive indication of the UNIDO report, the Nigerian Government's submission to the World Trade Centre of Nigeria in 1984 and the Gills reports.

These studies were handled by the Federal Ministry of Industry until it was transferred to the Federal Ministry of Commerce in 1991.

On November 7, 1991, the then military President, General Ibrahim Babangida, laid the foundation stone of the premier Export Processing Zone in Calabar, Cross River state on 152 hectares of land. It was a landmark, a bold step by Nigeria towards improving the environment of business. The actual infrastructural development of the Calabar EPZ started in 1992 with the responsibility of the development handled by a Presidential Task Force.

The main purposes were:

- to create employment;
- to generate foreign exchange;
- to Increase the processing of exportable products;
- to encourage the transfer of technology.

It was the Implementation Task force that handled construction of the Calabar EPZ from 1992. At this time, Decree 34, which initially gave legal backing to EPZ in Nigeria was replaced with Decree 63. The first managing director of the Nigeria Export Processing Zones Authority, Engr. Sunday Ako, was appointed in December, 1992.

Also in December, the first board of directors was appointed with a well-known and widely experienced university lecturer, Dr Anthony Ikpi, as chairman. In 1994, the board staffed the Authority. However, the Calabar EPZ did not become operational until after its official commissioning in 2001.

We need to remind ourselves that though the concept of EPZ is relatively new in Nigeria, it is not a novel idea as it has a long historical antecedent. The idea was conceived in about 1806, when the Gilbraltor, a major trading post was used as a transhipment Port. The idea gradually spread in the harmattan to Shannon and Taiwan's EPZ adventure in 1965.

In Africa, an EPZ in Mauritius was started in 1970; today, it has grown to cover the Island. Apart from Nigeria, many other African Countries have adapted the Scheme. There are more than 400 EPZs or its variants in more than 100 countries.

However, today's EPZ has undergone some transformation from traditional schemes because of the need to align it with the global trading system. In the 2000s it was observed that a purely EPZ policy could not transform the industrial and commercial landscape of Nigeria if she is to capture her own share of international investment, if only because most zones worldwide are no longer purely concerned with export processing but have been made flexible to accommodate commercial, industrial and service-oriented industries. It was also noted that Nigeria has certain peculiar advantages which investors eyeing the African market see as a major advantage but which a purely export processing zone that allows only limited sales in domestic markets could not satisfy.

It was therefore decided in 2001, that the Calabar EPZ, be allowed to operate as a more flexible Free Trade Zone. This is why most of the Free Zones in Nigeria are Free Trade Zones. Also, over the years, it was discovered that the Free Zones' Scheme is not limited to the development of the non-oil sector. In other countries, the Free Zones' Scheme is being used to further harness the potential in the petroleum, gas and solid minerals sectors.

One other area of the scheme's development is the government's enablement of the participation of the private sector. The NEPZ Act 63 of 1992, allows ownership, development and management of Free Zones by government, a combination of public and private sectors or purely private sector ownership. Today, it is not uncommon to find in a Nigerian Free Zone ownership in all the three categories.

In conclusion, we need to mention the most important elements of a Free Zone. Such elements include predictable, apparent and real access by investors to Free Zone incentives which offer automatic and expeditious approval of investment projects with the Free Zone as a one-stop-shop. On top of which, any scheme must provide tax breaks, excellent infrastructure, exemptions from Customs and other import or export duties, freedom from bureaucracy, relief from foreign exchange controls and freedom of ownership of investment.

Countries implementing the Free Zone Incentives must also remove policy inconsistencies, work visa restrictions and public sector monopoly of the provision of utilities and services. Not forgetting, of course, the importance of fostering a favourable business environment, particularly with regards to customs clearance procedures.

Although, Free Zones are not a panacea for economic development, they have become a proven strategy that, if well used, can complement economic and industrial development effort, as they have done for the Asian Tigers and, most recently, in China.

ADDENDUM

REPORT OF THE PRESIDENTIAL COMMITTEE ON FREE TRADE ZONES IN NIGERIA

A Presidential Committee on Free Zones in Nigeria was constituted by the President of Federal Republic of Nigeria, Chief Olusegun Obasanja in March, 2005 to among other things:

- Define and spell out the differences in the terms export processing zone; free trade zone; single export factory zone; special economic zone; specialised free trade zone; free zone farms; and off-shore banking;
- Determine any overlapping responsibilities among the free zones;
- Spell out responsibilities, functions, regulations and amendments to the laws establishing them; if necessary;
- Spell out the modus operandi for each zone;
- Consider issues relating to safety, security and prevention of smuggling and corruption;
- Consider the implication of offshore-based free trade zone side by side normal port operations for international shipping;
- Any other relevant issues.

The highlights of the recommendations of the Committee as approved by Mr President are as follows:

i. The operation of the free zones scheme in Nigeria should be closely linked to national objectives for industrial development. Consequently, the scheme should have as its target investors, industries with potential to add real technological value to the economy while encouraging export activities, rather than being used as havens for routine commerce or light industrial production;

ii. There should be a separation of regulations from management function in the running of free zones and towards this end, the federal government should establish an umbrella institution with responsibility of, Free Zones in the country (including oil and gas Free Zones activities). The body could be known as the Nigeria Free Zones Authority and it will license all Free Zones, set general standards of operation and arbitrate disputes between the Free Zones where they occur;

iii. Government should consider, as a future option, the privatisation while Government should encourage private sector players to promote the establishment of any additional Free Zone, so long as such new Zone meets national objectives and serves as genuine mechanisms for attracting FDIs into the economy;

iv. In the event that Government decides to retain the status quo of NEPZA AND OGFZA as the two regulatory bodies for the separate aspects of Free Zone activities in the country, the legislative amendments proposed in this Report should be enacted to fine-tune the operations of the scheme;

v. Government should adopt only two variants of the Free Zones concept, i.e. Export Processing Zone and Free Zones (including Trade, Oil and Gas), respectively. Different levels of incentives should be worked out for each variant with priority being given to export-driven industries;

vi. The present indefinite tax holidays granted to investors in the Free Zones should be discounted. Rather, investors in the Export Processing Zones should get a 15-year tax holiday, while investors in the Free Trade Zones should get a 10-year tax holiday, both in the first instance;

vii. The tax incentives for the Free Zones should be aligned with Nigerian tax laws to prevent conflict;

viii. Personal Income Tax should be paid by all Nigerian and non-Nigerian employees in the Free Zones;

ix. Products manufactured by enterprises in the Free Zones which fall into a category of goods banned from importation into the Customs Territory (Nigeria) should be allowed to be imported into the country if such goods meet a criterion of 35% value added and are so certified by the Standard Organisation of Nigeria (SON);

x. The Federal Ministry of Finance and the Central Bank should as a matter of urgency finalise the Off-Shore Banking Regulations for the Free Zones to enhance financial transactions within them. This will equally check the temptation by any Free Zones investor to engage in Naira transaction, contrary to the original intention for their establishment;

xi. Government should pay priority attention to the provision of necessary infrastructure in all Government-funded/operated Free Zones as it is a significant factor in the investment decisions of investors in Free Zones schemes worldwide;

xii. Government should take urgent action to revitalize the country's Steel industry and the Petrochemicals industry, as both form a crucial bedrock in the plans of most industries in Free Zones visited, and the availability of steel and petrochemicals will enable the industries to fully utilise their production capacities;

xiii. Government should encourage the continuous development of the Free Zones concept in the country so long as both new and existing Zones operate in consonance with the national objectives and act as genuine institutions to enhance FDI and technology transfer;

xiv. The Nigeria Customs Service and other relevant agencies should be directed to evolve a processing system which recognises the need to see Free Zones as 'One-Stop Shop' where bureaucracy is minimised and commercial activities fast-tracked. This will minimise or eliminate the present complaints about the slow pace of transaction in our Free Zones;

xv. The Nigerian National Petroleum Corporation (NNPC) through its 'Nigerian Content' Division should develop the appropriate synergy with the Free Zones in order to ensure that their activities promote the achievement of significant local content in oil- and gas-related activities which will ultimately act as a driver for other sectors of the economy;

xvi. Government should strengthen the tax-gathering capacity of the Federal Inland Revenue Service in order to make tax-incentives in the Free Zones attractive and viable. Alternatively, a system of direct incentives to investors should be studied and further developed. In the area of legislative reform, Government should equally consider the possibility of enacting specific, all-embracing legislation on Free Zones in order to provide for, among other things, the protection of investments and the waiver of sovereignty in appropriate cases;

xvii. There is a need to stipulate as a matter of policy that the new Free Zones should produce a comprehensive masterplan as a precondition for registration. This will ensure the orderly development of such Zones in line with national policy objectives. Such a masterplan should aim at streamlining and defining the nature of industries and services to be sited in each Fee Zone. It is, however, proposed that as a foundation for such masterplans, there should be a national strategy on the desirable industries to be sited in the Free Zones with a bias for Medium/Hi-Tech industries producing capital goods with a potential to drive or stimulate other industries within the economy.

xviii. The Legislative Drafting Department of the Federal Ministry of Justice should undertake the harmonisation of the contents of pending bill for 'An Act to Provide for the Establishment of the Nigeria Free Zones Authority and for other Matters Connected Therewith' with the Committee's recommendations herein for an expanded 'Authority' to oversee all Free Zones, as may be subsequently approved by government. This will expedite the process of forwarding the new Bill to the National Assembly by government.

The Secretary to the Government of the Federal Republic of Nigeria in his note to Mr President on the Committee Report stated this:

There should be only one (1) Free Zone Authority to regulate and harmonise the activities of other Free Zones. While the various zones originally manned by NEPZA and OGFZA could still operate on their own as separate Zones, they should be under the supervisory control of the Regulatory Authority like any other zones approved by Federal Government such as Snake Island Integrated Free Zone, Lekki Free Trade Zones etc. It must be recalled that government in the White Paper on the Report of the Presidential Panel on the Review, Harmonisation and Rationalisation of Federal Parastatals, Institutions and Agencies had at page 24, item 102, accepted the recommendations that Onne Oil and Gas Free Zone should come under Nigeria Export Processing Zones Authority (NEPZA). What is therefore desirable is that NEPZA should be the overall Authority under which other Zones should operate. NEPZA will therefore, become a regulatory body while other Zones will enjoy their autonomy in their day to day operations, but under the regulatory supervision of NEPZA. This position is in line with the decisions of the council in Conclusion EC(2002) 27th Meeting of Wednesday, 24th July 2002 in which Council approved that the Nigeria Free Zones Authority Bill 2002 as amended be enacted into law to replace the Nigeria Export Processing Zones Authority Act No. 63 of 1992. With the Bill, the new role of the Nigeria Free Zones Authority is consistent with Council's decision on the Harmonisation and Rationalisation of Parastatals which makes the Authority only a Regulatory and Monitory body over all other zones.

It is pertinent to recall that the Committee was set up because of the objections raised by NEPZA and OGFZA to the Bill which would lead to structural changes in their operations and administration. But, it is clear that the decision of the Council on establishing a Nigeria Free Zones Authority as Regulatory and Monitoring body for the other Zones was in the right direction.

United Nations Development Organisation (UNIDO 2003) report in conjunction with Federal Ministry of Industry recommended the following:

The Key objective in Nigeria's Free Zone development is to broaden their integration into the economy rather that treat them as export processing enclaves. Free Zones have multiplied around the world to achieve various objectives, including increased attraction of FDI, promotion of linkages with local suppliers, promotion of export-oriented production, employment creation and income generation. In respect to the successes of free zone in other countries of the world, the UNIDO report submitted that:

• Zones need to be integrated within host economies, as the static and dynamic impacts are very limited when zones are operated as enclaves.

• Zones should not be viewed as a substitute for country's larger trade and investment efforts.

• The regulatory framework should provide streamlined procedures for business registration.

• Private rather than public development of zones increases the chances of success and zones operation should be undertaken by private sector groups on a commercial basis.

By comparison, factors inducing failure include bureaucratic policy frameworks, uncompetitive fiscal incentives, subsidised rent and other services, poor locations (e.g. remote locations), and inadequate coordination between private developers and governments in infrastructure provision.

The Act establishing the Nigeria Export Processing Zones Authority (NEPZA) came into effect in 1992 but the first Free Zone – the Calabar Free Trade Zone – was not fully completed until 1999 and commissioned in 2001. Ostensibly, growth since then has been rapid since there are at present 16 Free Zones. NEPZA objectives to 2006 foresee an expansion

to 15–20 Free Zones, with 50% increase in jobs. So far growth within the non-oil zones has been limited because Nigeria has not been able to provide three of the conditions needed for zones to succeed:

• A staple of export processing zone is assembly and further processing for re-export of imported raw materials and components. Excellent shipping and customs clearance of imports and exports (especially, those that are time sensitive is essential). Most Nigerian non-oil zones are not located at sea ports and do not have dedicated trade facilitation arrangements. In effect, they are subject to Nigeria's poorly run general services. Given the present state of trade facilitation services, and of transport infrastructure. It is not reasonable to expect inland zones to succeed as export platforms.

• Zone infrastructure is either not first class or expensive, and electricity and communications seem in part to be dependent on national providers.

• Zones have not been convincing as portraying themselves as sanctuaries from the red tapism and the hassles of doing business in Nigeria.

Fortunately, the profile of zones is being changed from pure export-oriented facilities to multifacility zones (free zones). Free Zone producers will no longer be required to export 75% of their outputs. They will be able to sell locally or abroad. Export income is subject to zero corporate tax and domestic sales income subject to standard taxation. Investment promotion is now on the basis of high quality infrastructure, reduced bureaucracy and elimination of corruption. Investors are now attracted without being limited in accessing the local market. From International evidence and the experiences running a Free Zone in Nigeria from inception to 2006, a number of recommendations are proposed (UNDO/FGN, 2003).

i. The reorientation of the zones to Free Zones with unlimited domestic market access;

ii. The move to private development of Zone facilities is endorsed and existing zones should be privatised. Private developers are much more likely to take realistic view of the prospects for attracting investors (their tenants) and have a commercial incentive to build appropriate facilities in appropriate locations and to promote the zones to investors. There may sometimes be a case for public subsidy for zone development, under public-private partnership (PPP) arrangements, but the commercial disciplines should be paramount. NEPZA should concentrate on assisting private zone developers to secure good locations and development permits and providing excellent administrative services to zone industries;

iii. In principle, well-conceived Free Zones could provide a short-medium-term stimulus to the attraction of foreign-owned SMEs in manufacturing industry (where the costs associated with poor infrastructure are a particularly strong inhibiting factor). Special consideration should be given to policy measures to encourage investors in Free Zones to assist value chains integration in target sectors.

iv. Agro-processing is a natural candidate for investor targeting. It is consistent with development objectives and current constraints. It has export potentials. And it is less dependent than other manufacturing on imported inputs and thus on the quality of import facilitation services.

v. Supplier development should be encouraged by a deemed export scheme. Suppliers of processed inputs which enter into zone manufacturers would have the same incentives as the manufacturers themselves (including zero corporate tax on export related income).

Addendum added by the Author

CHAPTER V

TRENDS IN FREE ZONE DEVELOPMENT

There have been profound changes in the Free Zone concept and approach, to economic development since the first modern Zone was established in Ireland in 1959, and even more fundamental changes are foreseen over the next decade with full implementation of the WTO Agreement.

This can be consented to by expansion of the types of Zones in both developing and industrialised countries. Countries are now facilitating the development of Zones to meet specific objectives and target markets. Traditional EPZs are increasingly being augmented and sometimes supplanted by new, more flexible arrangements. Hybrid Export Processing Zones are the preferred model in most Central and East European Countries and increasingly among many Latin American countries. Commercial Free Zones have been the traditional development norm among most Middle East and North African Countries, but this is a recent innovation in Asia, where Zone development has emphasised export manufacturing.

Free Zones were traditionally developed as isolated enclaves both in terms of their underlying policy framework and location. Access to a generous set of incentives and privileges was rigidly controlled. Qualifying firms typically had to be 80–100 per cent export oriented, for firms engaged in manufacturing activities.

Zones were physically located in relatively remote areas or near transport hubs, viewed primarily as 'growth poles' for regional development. Zones were exclusively developed and managed by government bodies.

The above rigid approach has changed fundamentally over the past two decades and it will continue to change. One of the major changes in thinking has been to permit Zones to develop countrywide, and not restrict them to growth poles or other designated areas. This may be in response to the growing desire of private Zones developers and the increasing number of private property development groups. Applications for new Zone development are increasingly treated like any large-scale property development – subject where applicable to land use planning, zoning, building and environmental requirements. Governments have had to develop Zone designation criteria and transparent processes to govern the designation of new Zones promoted by private groups.

A related development has been the rethinking of the role of Zones in economic development. First, sets of EPZs were intended to promote exports, create jobs and transfer technology through backward linkages. But the rapid pace of globalisation and trade liberalisation is stimulating a much broader view in terms of development objectives and performance expectations. Increasingly, Zones were viewed as a key mechanism to promote two-way trade and facilitate liberalisation and modernisation of the host economy. The new system emphasis is to integrate Free Zones with the domestic economy.

The evolution of traditional Free Zones is exemplified in the new generation of Special Economic Zones or Free Ports. Traditionally, Free Ports were a city state such as Hong Kong, Macau, Singapore, including Labuan (Malaysia) and Batam (Indonesia) which were viewed as more easily secured. In the past decade, the Chinese Special Economic Zones, Free Ports inside the contiguous part of countries, have increased, in part because of better Customs and tax controls and technologies, but also as part of efforts to integrate Zones with host economies, and have balanced development rather than dependence or single industries.

Free Ports and Special Economic Zones are fundamentally different from traditional Free Zones. Instead of being export drivers and investment magnets, they are designed as liberalised platforms for diversified economic growth that not only could but should also spill over into the

national economy. Today, the SEZ/Free Port concept represents a major expansion, as a variant, over the traditional approaches. They are larger in size and tend to cover larger areas which offers greater flexibility to firms in terms of the location of their plant and the scope of inter-firm linkages; also they provide a broader range of permissible activities – including tourism, duty-free shopping informatics, warehousing, transhipment and repackaging activities, etc. Within this concept, all type of merchandise can be introduced duty- and tax-free by registered enterprise or individual residents. Enterprises can freely import any merchandise in any quantity, and are not restricted to what is directly used in the manufacturing process as in the case of Export Processing Zone. Duty and tax-free merchandise can be sold at the retail or wholesale level and sometimes consumed within the Zone area. There is also full access to the .domestic market on a duty-paid basis. Most Special Economic Zones allow enterprises to sell any amount of their product to the export market, local market or to consumers located temporarily or permanently within the Free port. Sales to the domestic Customs territory are unrestricted as long as all applicable import duties, taxes and other charges are fully paid.

Another important development trend is the expansion and liberalisation of the core set of policies and privileges of most Zones' programmes. In general, these have taken the form of removing many distortions previously associated with EPZs, in line with best practices.

Typical provisions now offered by the programmes include:

• Expansion of activities permitted within the Zones to include commercial professional services (such as warehousing, transhipment and informatics) in addition to all types of manufacturing and processing;

• Equal treatment of investors and investment forms. Zones' legislation accords the same benefits to foreign and local investors, and to various legal forms. This reduces distortion in terms of the impact of incentives;

• Provision of incentives for private Zone developers to facilitate private entry into Zone development;

• Allow Zone developers and others to supply utilities services (telecommunications, water/sewage, power) to tenants of Free Zones estates by treating them as indirect exporters;

• Treatment of sales of goods and services from the domestic sector to Zones as 'constructive exports' eligible for all relevant export incentives;

There is a shift towards a universal set of fiscal incentive for all promoted activties, rather than a seperate regime for Zones (Free Zone–based enterprises receiving the same incentives as promoted industries outside the Zones). This eliminated the potential for unfair competition that arises when identical operations located within and outside a Free Zone legislation also increasingly incorporates features to increase the transparency and automaticity of the programmes. Investment approvals have been transformed from a case-by-case evaluation process to a simple registration process, meeting explicit criteria. The use of negative lists, default machinisms that confer automatic approvals within a predetermined time period and other mechanisims have been simplified by the use of single forms, automated systems and other technologies.

Many Zones have also gone as far as dismantling provious anti-labour provisions of Zone policies and management practices toward greater adherence to universal labour standards as defined by the 1998 ILO Declaration on Fundamental Principles and Rights at work.

UNIQUE CASES

A unique case worth referring to is China's Special Economic Zones which were established to serve as 'demonstration areas' for policy reforms and to encourage foreign investments. The economic impact of these Zones has been far reaching, transforming entire regions and economies.

The Shenzhen Special Economic Zone's twenty-five years of growth has transformed Shenzhen from a small sleepy fishing village into a thriving urban metropolis. The Special Economic Zones also host other Zones, all with special incentives regimes.

A number of Asian countries have also implemented specialised Zones for financial services, information technology, science-based industries, etc.

South Korea has initiated a major Free Economic Zone development programme with three large-scale Zones being implemented by private property development consortia. Korea has also designated Cheju Island as a 'Free International City' with special benefits. And equal footing policies for firms in the domestic Customs area enhancing competitiveness and liberal FDI policies have been tested in Free Zones before being extended countrywide.

India has also launched a major SEZ development initiative – about 30 have been approved for development. Indonesia provided Bonded Zone status to Batam and Bintan Islands, located 20 minutes away from Singapore. In Jordan, Zones have automated Customs systems, piloted and implemented in the Aquba Special Economic Zone. Customs forces have merged with national Customs to upgrade the nation's capabilities.

SUCCESS STORIES OF FREE ZONES AROUND THE GLOBE

MAURITIUS

Mauritius has become the model of a successful EPZ programme in Africa; it provides important lessons for other EPZs. The programme started in 1971. Its importance in the economy is indicated by the growing share of EPZ's export in total exports which rose from 25% in 1978 to over 65% by 1998. Over the years there has been a continuous increase in the share of value added by EPZs in total manufacturing which by 1999 reached over 50% of 13% of total GDP. One of the most important economic benefits of the EPZ programme has been the diversification of the Mauritian economy. In the mid-1960s, exports from Mauritius consisted solely of agricultural goods, primarily sugar, accounting for about 70% of all exports. By 1990 and as a result of EPZs, Mauritius exports a variety of manufactures with sugar's share having fallen to 29.6% of total exports, while EPZ exports rose from 31% to 64% during the same period. This increase in the export of manufactured goods has played a critical role in reducing the nation's vulnerability to price fluctuations associated with primary commodity exports. An analysis by country of destination shows that 66% of the exports were to countries of the European Union spurred by the favourable conditions offered by the Lome Convention.

Enterprises in the Zone peaked to 591 in 1988 but had fallen to 512 by 1999 with firms in 'wearing apparel' the most important group in the EPZ, being 251, and those in the 'flowers' group, the only non-manufacturing group in the EPZ, being 39. Employment in the EPZ has been growing and currently stands at 91,374 (61,506 females and 29,868 males including 13,425 foreign workers) although the share of EPZ employment in total employment has fallen from 34% in 1987 to 28% by 1999. The decline in employment is partly a result of the shift by Mauritius to higher value added, high skill processes and EPZ's relocation to cheap labour havens in Madagascar. Although initial growth under the EPZ programme was due almost entirely to foreign investors, the Mauritian EPZ programme is notable for the extent to which it has attracted local investment. Today 60% of all EPZ investments in Mauritius are locally owned, without any form of government decree requiring local ownership.

An examination of the factors behind the success of Mauritius suggests that the following played a key role:

- The desire to use Mauritius's membership of the Lome Conventions to get preferential access to the EU market;
- Cultural ties play a critical role in attracting investors from Hong Kong. These investors were looking for a safe haven to invest their capital, following the British-Chinese agreement to revert Hong Kong to China in 1997;
- Quota-free access to US markets during the early stages;
- The existence of a flexible and supportive government, in conjunction with political and social stability (Kanyenze et al.).

It is doubtful whether Mauritius' case can be replicated. Mauritius managed to utilise a favourable incentive package, consequential on duty-free access to the European Community under the Lome Convention. However, the Lome Convention is set to change fundamentally, limiting the opportunities for other countries to follow the Mauritius route. In addition, globalisation and the demands for the observance of labour and environmental standards implies the cheap wage route is no longer viable (Kanyenze, G. 1998). It is in this respect that Mauritius has made a conscious effort to shift towards high value added and high skill products such as electronics. This contrasts sharply with the race to establish EPZs in other African countries.

Mauritius is an outstanding example of success in the African region. In the 1960s, Professor of Chemical Engineering, Edouard Lim Fat, of Rose Hill, Mauritius, reported on the impossibility of relying solely on sugar for economic development and suggested creation of the Free Zone. Based on his efforts, the Zone was created in 1970. In subsequent years factory buildings were constructed and the promotion programme begun. The concept was for a regime-type Free Zone in which factories could be located in many places on the Island and still receive Free Zone benefits.

When, in 1979, Peoples Republic of China signalled its desire to reintegrate Hong Kong with the mainland, a flood of garment producers from Hong Kong left the colony for Sri Lanka and created 30,000 jobs there in six months. The President of Sri Lanka said, 'Stop – no more

Hong Kong garment factories' and the overflow went to Mauritius, the only other major promoter of Free Zones at that moment within reach. Timing was perfect. In the following years, Mauritian investors entered the garment business in large numbers and controlled 44% of the factories by about 1985 when Professor Lim Fat was re-elected Chairman of Mauritius Export Processing Zone Association (MEPZA). His service as consultant on Free Zone development to UNIDO and others in Africa and elsewhere has helped many countries; Mauritian heavy investment in Madagascar is a recent success.

PUERTO RICO'S EXPERIENCE

In 1942 this Caribbean Island part of the USA decided to industrialise, Teodor Mosocoso, was delegated to fly to Cambridge, Massachusetts and engage the help of a consulting company related to Massachusetts Institute of Technology. World War II was on and submarines were sinking ships travelling the 1200 miles to Miami or 1500 miles to New York. Import substitution was the strategy selected at first – cement, glass and shoe factories were built by the socialist-minded government (with the direct support in the United States Congress of conservative Republican Senator Robert A. Taft – to show that bipartisanship existed at the time.)

After the war, development slowed as neither the government nor local firms were able to build exports. Beginning in 1947 the government decided to attract firms from mainland USA as investors, and in 1951 it passed a tax exemption law as an incentive to foreign and mainland investors. It further created the Economic Development Administration (Fomento), headed by the now legendary Teodoro Moscoso to manage investment, and the Puerto Rican Industrial Development Company (PRIDCO) to build infrastructure, factory buildings and industrial parks throughout the Island. By 1963 it had attracted 480 manufacturing firms to its 30 industrial parks.

In the 1930s, Puerto Rico was called the 'poorhouse of the Caribbean'. The average age at death of the Puerto Rican male was 37. The wage was $0.30 per hour. Only 2% of persons aged 20–24 were in universities.

In 1940, per capita GNP was $ 154. By 1989 it was $6060, the highest in Latin America. And the 20–24 age group had 60% in universities. The average Puerto Rican male was living past 75 years.

From a manufacturing base employing 62,500 in 1953, job creation was 20,000 to 1960, of which 10,000 were in apparel and 3000 in electronics. By 1970 jobs grew another 55,000, with 22,000 in apparel and 10,000 in electronics and instruments – all due to the efforts of Fomento and his EPZs. By 1989 Puerto Ricans owned factories employing 27% of 157,000 employees in manufacturing.

What we have come to call the Economic Processing Zone was successful from the very beginning in spearheading industrialisation in this first significant effort to alleviate human suffering in the Caribbean.

Duty-Free Zone

Since there was no tariff on goods going to or coming from the US mainland, the whole Island was a duty-free Zone under US Customs control, and Customs kept separate statistics, which it does to this day. Any new factory exporting to the mainland had the same privileges and services as are now available in EPZs around the world.

Tax Exemption

Since Puerto Rico was part of the USA, the tax exemption provisions were particularly effective – e.g. exemption from USA income taxes for 10 years. This was possible because under the political arrangement with the USA as it evolved from 1898 Puerto Ricans were US citizens with complete freedom to move to the mainland, but could not vote in federal elections if they were resident on the Island. The principle of 'No taxation without representation' freed Island residents from US taxes. Of course, there were Puerto Rican taxes to be paid, but under the new laws, export industries attracted to the Island were exempt from these initially.

THE SHANNON FREE ZONE

The Shannon Free Trade Zone, located at the Shannon International Airport, is the world's oldest Free Zone, was established in 1947. This facility is attractive as an international distribution and warehouse centre serving Western Europe because it provides the unique combination of a Customs-free industrial Zone and direct access to air and surface transport to the United Kingdom and other European markets. Raw materials and partly or completely manufactured products may be imported into the Free Zone in any quantity and held there without payment of duties or taxes. Processing, sorting, grading, or repackaging of the goods may take place within the Zone and buildings may be leased or built. As sales require, the goods held in the Free Zone may then be withdrawn from inventory and re-exported to other countries or imported into Ireland for consumption after payment of appropriate duties, value-added taxes and excise duties. If the goods are re-exported to another country, duties and taxes, as appropriate will be payable in that country. Notwithstanding the rightful claim of Puerto Rico to originality in EPZs, Shannon has been an important innovating EPZ from its beginning, reaching 8000 employees in its early years and having about 5000 today after moving to high tech. It is credited with spreading its EPZ knowledge around the world., Its development company has done studies for UN organisations in many countries. The regular course it offers in EPZ development and management has been valuable for developing countries in learning how to get started.

Shannon Development provides financial assistance to companies wishing to locate in Shannon Free Zone or expand existing operations. Incentives are arrived at through a process of negotiation.

KAOHSING, TAIWAN

The idea to set up an Export Processing Zone in Taiwan was initiated in the late 1950s and realised in the 1960s. At that time, there was the government's financial difficulty, foreign reserves shortage, increasing population and high unemployment rate, so it was an urgent need for the government to develop industries for export. At that time, manufacturing industries in industrialised countries happened to start moving overseas. Taiwan government took that opportunity and implemented the Statute for Investment by Foreign Nationals, the Statute for investment by overseas Chinese and the Investment Encouragement Act to attract overseas capital for promoting domestic industrial development.

Given the world and domestic economic situations of that time, a highly efficient and free Special Zone was needed. After a decade of research, preparations for eradication of obstacles were completed and the system started. Two former vice presidents, Chena Chen and Chia-Gan Yen, and former national advisor Dr K. T. Lee set out to establish the first Export Processing Zone in Taiwan, the Kaohsiung EPZ, on 3 December 1966. The four major goals behind the system were: attract foreign industrial investment,, explore external trade, increase job opportunity and introduce modern technology.

In the implementation process, former national advisor, Dr K. T. Lee was seconded to the planning of the special Zone, which made a remarkable contribution to Taiwan's economic development.

Also, the free courses given regularly by the Export Processing Zone's administration at Kaohsiung, ROC, Taiwan, have been equally helpful – and have been the basis for the education and start-up of almost all the Zones in Asia. Nigerians have benefited from the programme and South Americans now regularly attend Taiwan EPZA courses. Taiwan's EPZs employed 90,000 workers in the early years and now have about 50,000 as factories moved into high-tech.

CHINA FREE TRADE ZONE

Shantou FTZ provides a good investment environment in Shantou Special Economic Zone, one of China's earliest cities opening to the outside world. Shantou was chosen as one of 50 strong cities with strengths to exploit, particularly its semitropical maritime climate. In telecommunications, it allows long-distance calls to be made directly to more than 200 countries as well as 1300 cities in china. Transport is convenient. It is 179 s.m from Hong Kong and 180 s.m from Kaoshiung in Taiwan. From Shantou Port cargo ships can sail to about 160 ports in over 40 countries, as well as to the main ports of China. 30,000 dwt ships can be ported directly at FTZs special use wharf which is only 500 metres away from Shantou FTZ. The zone is connected with Guangzhou, the capital city of Guangdong province, and Shenzhen Special Economic Zone by road, and Xiamen Special Economic Zone by national motorway. Shantou is the starting station of Guang-Meishan railway which connects with Jin-Jiu-Jiu railway at Longchunan. By air, there are more than 40 domestic and international routes.

The Administrative Committee of Shantou FTZ is an organisation accredited by the people's Government of Shantou and owns the economic management rights of the city, which was authorised by the city government. Under it there are such organs as the Office, Economic Development council, Public Utility council, etc. These organisations work with the Customs of Shantou FTZ, Administrative Branch for Industry and commerce, Tax Branch, Public Security Branch, etc. All investment procedures can be completed quickly at the Administrative Committee. All investment inquiries are answered within 24 hours. The examination and approval of a project application, if policies permit, can be done in less than three days after the submission of all necessary documents; and even within one day if the project is a special one.

Investment Development

1. Processing Industry: processing industry of capital-intensive, technology-intensive and high added value is warmly encouraged, as well as general ones whose products are sold well in both domestic and foreign markets.

2. Bonded Warehousing: large-scale warehousing in the Zone is encouraged, along with the development of bonded transportation and warehousing.

3. International Trade: international companies, business associations and chain shops are encouraged to deal with international trade, entreport trade and frontier trade.

4. Finance and Insurance Industry: international banks, insurance companies and finance houses are encouraged to establish branches in the Zone.

5. Real Estate: investments in either the development of large tracts of land or the supporting installations of warehousing, export processing and trade are encouraged.

UNITED ARAB EMIRATE FREE ZONES

The ushering in of Free Zones has transformed the economic scenario of the UAE in a relatively short span of about 20 years, bringing about tremendous change in the industrial setup of this young nation. The pioneer in the Free Zone Empire in UAE is Jebel Ali Free Zone which was established in Dubai in February 1985. Since then it has been one success story after another; hardly a year goes by without a Free Zone being established in some part of the Emirate. Today, there are more than 15 Free Zones and some more at the development stage.

With the number of Zones increasing, their impact on the UAE economy has deepened. UAE Free Zones are home to around 6000 companies and total investment is estimated to be more than $6000 million and the value of exports from the Free Zones has dramatically increased. The Free Zones hold the key to the economic transformation of the region.

The Jabel Ali Free Zone best exemplifies the potential of these Free Zones. It is estimated that this single Free Zone has accounted for 40% of Dubai's exports and re-exports; being the first Free Zone in the country, it has created the benchmark for regulations and incentives. Its rapid growth has also provided a powerful economic inspiration to the other Emirates, which have set up their own Zones to attract investment.

The general incentives offered by the UAE Free Zones are more or less the same. All grant up to 100% foreign ownership. Complete exemption of taxes from Customs and commercial levies, full repatriation of capital and profits and extended leases, are the norm. They also have a minimum of red tape and quick approval procedures.

Thus, keeping the engine of industrial diversification rolling by attracting foreign investment in the private sector is central to the region's overall plan to reduce its economic dependence on oil, while creating employment for its nationals. Moreover, the Free Zones could prove to be the mechanism not only for a new impetus to diversification, but also for changing the very face of industrial activities in the region.

The Authority of Dubai Airport Free Zone, part of Dubai government's strategic plan to be an investment driven economy, was established in 1996. The DAFZA became fully operational only in 1994 when the construction of its facilities was completed. The following year, DAFZA became a fully independent authority. The idea behind the establishment of DAFZA is to create an ideal business environment for big international companies that select the Zone not only as a base for UAE activities but also as a regional base for manufacturing, distribution and services. Activities at the Zone are oriented around high-value, low volume products which require a rapid access to markets. DAFZ is an ideal location for high-tech/IT products, luxury items, jewellery, light industrial/assembly operations and activities related to the aviation industry.

CHAPTER VI

GUIDELINE/APPROACH FOR FREE ZONES DEVELOPMENT

One of the clearest lessons learned from decades of Free Zones, particularly EPZ development, is that Zones cannot and should not be viewed as a substitute for a country's larger trade and investment efforts. They are one tool in a portfolio of mechanisms employed to create jobs, generate exports and attract foreign investment – through the provision of incentives, streamlined procedures and custom-built infrastructure. But maximising the benefits of Zones depends on the extent to which they are integrated with their host economies.

The benefits of Zone development are suppressed when they are operated as enclaves, but multiplied when they are accompanied by countrywide economic policy and structural reforms that enhance the competitiveness of domestic enterprise and facilitate the development of backward and forward linkages (JP. Gauthier, 2004).

Critical issues that need to be addressed in the configuration of a Free Zone development programme is the type to be promoted. The following approach is recommended:

- Permit industrial estates to host Free Zone enterprises as well as those licensed under other regimes;
- Ensure that the Free Zone regime is flexible, allowing a range of commercial as well as manufacturing activities;
- Promote private rather than public development of zones. International experience suggests that this increases the chances of success.

Gauthier maintained that all types of Zones should be permitted, offering customised infrastructure, facilities and services tailored to the specific needs of target industries. But as far as possible, all Zones should have a common set of incentives and privileges, rather than duplicating and overlapping regimes which result in revenue loss. There is the final and unique case of Special Economic Zones (SEZs) or so-called 'Large Format' Free Zones which can have significant economic impact particularly in terms of exports and foreign investment. The Subic and Clark Free Ports in the Philippines, for example, together account for almost 10 per cent of national merchandise exports. The Shenzhen SEZ in China has attracted almost US $30 billion in FDI and generates 14 per cent of Chinese exports. SEZs can also be very effective in promoting the diffusion of new policies, procedures and governance structures. Experience has shown that administering and regulating an SEZ regime is extremely demanding on governments, so SEZ development efforts should only be undertaken by those countries that have the institutional capabilities, expertise and commitment to make them succeed.

POLICY FRAMEWORK

International experience suggests that the best policy and incentive framework needs to be streamlined, encouraging Zones to compete on the basis of facilitation, facilities and services rather than incentives. The key elements of a best practice policy framework include the following:

• Concept of extra-territoriality – as defined in the Revised Kyoto Convention. Free Zones should be treated as outside the domestic Customs territory, but should be eligible for national certificates of origin and participate in trade and market access agreements.

• Private Zone development – clear definition of private in terms of benefits, obligations, rights and public–private partnerships for Zone development.

• Zone designation criteria – physical development standards and clear criteria for the designation of new Zones. The main issue is to guide but preserve the flexibility of individual Zone development proposals while optimising the impact on government funding for off-site infrastructure connections.

• Eligibility criteria – the openness of a Free Zone regime is defined in terms of minimum export requirements and the types of activities and ownership forms permitted.

• Labour regime – international experience strongly suggests that the long-term competitiveness of a Free Zone depends on the quality and productivity of its workers. To achieve this, it is important that labour regimes are fully consistent with ILO standards and obligations, but they should be defined within a flexible and liberal labour market regulatory framework.

INCENTIVE FRAMEWORK

Countries are under pressure to offer a generous package of tax and duty exemptions to provide a level playing field between competitors. The package of fiscal incentives has become almost standardised among Zones internationally. There is considerable evidence to suggest that some of these fiscal incentives are ineffective and a drain on public resources, in particular the use of tax holidays and other differentiated corporate income tax regimes have been widely abused. The following guidelines can be proposed for the design of a Free Zone incentive framework:

• Introduction or reform of Free Zone regimes should be taken as an opportunity to rationalise corporate tax incentives. Best practice approach is to have performance-based incentives in a country's tax code rather than through special legislation such as the Free Zone Acts/regimes.

• Incentive framework should be WTO compliant. This is best done by removing any export obligation and allowing Zone enterprise full access to the domestic market on a duty paid basis.

• Zone regimes should be used to advance demonopolisation and deregulation of telecommunications and other utilities where applicable. Countries like Jamaica and others have used their Free Zone regime to accomplish this.

REGULATORY FRAMEWORK

A crucial aspect of a successful Free Zone programme is the simplification and streamlining of investment approvals, expatriate work permits, removal of required import and export licences etc; as well as accelerated on-site Customs inspection procedures and automatic foreign exchange access. Free Zone legislation is increasingly incorporating features to increase the 'transparency' and 'automaticity' of the programmes. A key global trend is the movement toward the establishment of 'one-stop-shops' to consolidate and expedite government approval.

The key guidelines for the development of a best practice Zone regulatory framework are:

(i) Install streamlined procedures for business registration embodying a simple declarative investment registration system, rather than any sort of investment approval regime. Key elements would include: application to a single government office to provide the licence; promulgation of a list of ineligible activities and other explicit criteria for approval or denial.

(ii) Facilitate provision of secondary permits and authorisations. Additional permits – lands, buildings labour, health and safety, etc. – can be facilitated by vesting all such authorisations within the Free Zone Authority rather than other ministries and agencies. The Zone Authority should have offices in each Zone to perform these services.

(iii) Develop special Customs rules and regulations drawing upon

WCO and WTO provisions, and fast-track implementation of automated Customs systems, with proper inventory controls and audit systems, within the Free Zones.

INSTITUTIONAL FRAMEWORK

One of the major factors behind the success and failure of Zone programmes is the autonomy and effectiveness of the body charged with regulating operations. One element is particularly important especially in the context of the rising number of private Zones. It is critical that Zone Authorities remain engaged in purely regulatory functions, and do not own, develop or operate Zones since opportunities for perceived and actual conflict of interest are multiplied when the entity charged with guiding and monitoring Zone performance is simultaneously one of the Zone operators being monitored.

Below are best practice guidelines for the development of an effective institutional framework:

(i) Ensure adequate autonomy of the Zone authority particularly over staffing, budgets, spending and policy-making.

(ii) Ensure adequate authority by constituting an independent Board comprising key government officials and private sector representatives reporting to the highest level of government. Ideally, allow private sector representatives to constitute the majority of Board membership to ensure flexibility and customer focus.

(iii) Ensure that the Zone authority serves as a one-stop-shop by promulgating legislation that provides the body with single-point authority over other government bodies in core areas.

(iv) Ensure that the body delegates, outsources and privatises as many non-core functions and services as possible to focus on core activities.

PHYSICAL DEVELOPMENT AND MANAGEMENT

The way Zones are located, developed and managed has links with its success. It has already been argued that management of Zones is enhanced when they are operated on a cost-recovery rather than subsidised basis, and are market-oriented and customer focused. This is best done when Zone operation is undertaken by private sector groups on a commercial basis, rather than by government organisations which frequently are subjected to political pressures and funding constraints. At the same time, the rapid proliferation of private governments especially in terms of offsite infrastructure and facilities, as exemplified by the Dominica Republic and more recently, the Philippines and Viet Nam, is not to be encouraged.

Guidelines for zone development are:

(i) Implement land use planning and zoning efforts in core Zone areas for industrial and commercial development to guide the actions of private developers.

(ii) Develop Zone designation criteria in Free Zone law and implementing regulations to ensure that private Free Zones have the best topography, are well located (near population centres and transportation hubs), and minimise offsite infrastructure development expenditures by government.

(iii) Establish a land use planning and infrastructure development unit in Zone regulatory authorities to ensure adequate planning and support of offsite infrastructure provision.

OUTLOOK FOR FREE ZONE DEVELOPMENT

What is the outlook for free zones in the context of global integration and trade liberalisation? Some analysts argue that the rationale for Zones is diminishing as average tariff rates fall around the world. Others foresee a diminished role for Zones as the MFA was dismantled, given the dependence of many Zones on the apparel and textiles industry.

Our analysis suggests that this is not the case. The case for Free Zones may actually be stronger in the context of trade liberalisation. Even with the full implementation of the Uruguay Round, some tariff and non-tariff barriers will remain in most countries. Developing country exporters will need to compete with exporters in other countries who are operating in a duty and tax-free environment. Second, even with lowered tariffs, anti-export biases will not be removed. Various policy distortions, procedural inefficiencies and infrastructural inadequacies will deter exporters, many of which can be avoided by continued development of focused investment and export promotion mechanisms as occurs in Free Zones.

The prevalence of Free Zones in industrialised countries with open economies also underscores the importance of the concept of competitiveness. The 266 US foreign-trade Zones are a particularly prominent example. Many companies choose an FTZ location because of the important advantages of operating in a flexible, duty-free environment. Operating costs are lower as a result of reduced insurance, security and overhead costs. Cash flow is enhanced by the ability to postpone duty payments only upon entry into the domestic customs territory. FTZs in the US have been critical in enabling manufacturers to operate 'just-in-time' systems. In fact, most vehicles manufacturers in the US are located in FTZs or have factories provided with FTZ status. Mechanisms such as Free Zones that provide efficiency advantages are even more important despite the advent of modern production and distribution concepts and approaches, and they could be the key to the reduction of transaction cost.

There is little doubt that Free Zones must reinvent themselves in response to global integration, international trading rules and the rise of regional FTAs. Zones cannot and should not compete on the basis of fiscal incentives, but rather differentiate themselves in terms of facilities, services and most importantly, streamlined procedures. Many zones, especially privately operated ones, are rapidly reconfiguring themselves into efficient distribution, production and trade facilitation hubs to reduce logistics costs. International manufactures have realised that here is much greater scope to reduce logistics cost than production costs. This can be accelerated within a Free Zone setting, by reducing transaction processing times and paperwork requirements.

There is a continuing role for Zones in many counties to incubate and accelerate policy reform. In most developing country settings, the greatest scope may lie in introducing new Customs control concepts. In others, Zones might be used to side-step public or private monopolies in telecommunications. In still others, like the South Korean SEZs which are 'English language-only', Zones may provide a better environment to attract foreign investment.

In conclusion, Free Zones now increasingly compete on the basis of business- enabling policy environments, rather than on the basis of fiscal and customs incentives. They are increasingly integrated into national markets from a physical, policy and economic standpoint. They are increasingly utilised as platforms to move goods between countries in today's global marketplace. They have increased their compliance with WTO and ILO norms, as well as decreased their dependence on scarce state resources, becoming more socially responsible development tools as a result. They have, in short, evolved and adapted to a new situation, and are, in our view, unlikely to disappear. Given this finding, properly assessing the particular characteristics which have made some Zones successful and others less so is a relevant proposition. It is hoped that this paper has offered a few elements for consideration in that context.

CHAPTER VII

INCORPORATING TOURISM INTO FREE ZONES SCHEME (Case of Tinapa Business Resort in Nigeria)

Introduction

According to the World Bank, export processing zones are some sort of export promotion tools that include bonded warehouses and temporary admission schemes particularly for foreign investors. Such zones, now in many countries often have three main goals: to provide the country with foreign exchange earnings by promoting non-traditional exports; to create jobs and generate income; to attract foreign direct investment, technology transfer, knowledge spillover, etc.

A Free Zone is a geographical region that has economic laws that are more liberal than a country's typical economic laws. In the last few decades, Special Economic Zones, a variant of Free Zone Schemes, have been established in several countries. Examples of such Zones can be found in People's Republic of China, India, Jordan, Poland, Kazakhstan, the Philippines, Russia, Peru, etc. In Africa, such Zones have been established in Mauritius, Cameroon, Senegal, Nigeria …

A Free Trade Zone (FTZ) is a part or parts of a country where tariffs and quotas are eliminated and bureaucratic requirements lowered to attract companies and raise incentives of doing business there. In the United States, Free Zones are referred to as 'Urban Enterprise Zones'. Selected examples of some FTZs are shown in Table 1.

However they are called, these Free Zones were mostly organised in the middle of the last century. Many countries started implementing such enclaves to make use of trade and economic opportunities in order to accelerate development processes. No matter where such Zones are created, they generally share several common features:

1) they allow duty-free imports of raw materials and other goods needed for production;

2) excessive bureaucracy is curtailed allowing 'one-stop shopping' facilities for permits, investment applications, etc.;

3) firms that operate within the zones benefit from generous tax concession;

4) infrastructure and other services are generally more advanced than in other parts of the country;

5) while firms can be domestic, foreign or joint ventures, foreign direct investment (FDI) plays a prominent role.

TABLE 1: SELECTED COUNTRIES WITH A FREE ZONES SCHEME

Africa
Cameroon
Mauritius
Senegal
Nigeria
Asia
Taiwan (China)
Bangladesh
Philippines
Sri Lanka
India
Shenzhen (China)
Xiamen (China)
Zhuhai (China)
Latin America
Costa Rica
El Salvador
Honduras
Jamaica

As has been seen in many such Zones in the past decades, the Zones are created to provide a more pragmatic and open economic policy. In some examples like China, it resulted from a policy of economic seclusion and the desire for modernisation. In Mexico, it facilitated the liberalisation of domestic sales allowing up to 20–40% of its Zones' output to be sold domestically. In other places, the Zones were created alongside economy-wide reforms that include macroeconomic and trade reforms as in India and Tunisia. Specifically, the SEZs that were created in China starting from the 1980s were designed to rectify the relative backwardness of its economy, promote the import of modern technology and adopt management techniques considered to be feasible and desirable for a developing economy that were hitherto not known in socialist economies.

Globally, these economic zones are mostly established to be spatially geographical laboratories where alien economic concepts are tested and benefits derived. In some countries, the SEZs are confined to industrialised and other economic activities ranging from primary production to real estate development and gradually, tourism and various kinds of service industries.

Although many Free Zones were created without considering tourism as a major industry, it is now clear that tourism, leisure and recreation are indisputable components of any Free Zone. Two reasons have led to this assertion:

1) tourism has become a major player in the global economy recording over 800 million arrivals in 2005 and accounting for about 10% of the world's economic activity;

2) Free Zones continue to attract people inward making the tourism and leisure industries relevant in such circumstances.

In the ensuing discussions, EPZ, FTZ and SEZ will be considered as serving the purposes enumerated above that include boosting the economy and improving the overall quality of life of a given population and will be referred to henceforth in this paper as the 'Special Economic Zones (SEZ)'.

The question of whether or not tourism can make economic impact that it ordinarily does at a destination is debatable. This paper therefore will look at the SEZ, their antecedents and highlight examples of the Nigerian SEZ with a view to making tourism relevant in such a dynamic setting.

In SEZ, alongside the development of industries, trade centres and real estates, the provision of leisure, recreation, tourism and other service industries is conceived to provide a certain quality of life to the resident workers, visiting businessmen and occasionally visitors/tourists seeking leisure. As an example of this trend, the Shenzhen SEZ in China was conceived and is being built on the premise that it provides a platform for industries, a liveable environment and tourism. The outcome thus far, successfully portrays a cluster of thematic activities where tourism is vibrant.

Where SEZs are being built, it is imperative that the notion of liveability and quality of life is embedded throughout the plan. Contemporary quality of life can be articulated in the extent to which tourism, leisure and recreation services are made available. As many countries that have developed SEZs consequently increase the number of foreign investments, it brings along an additional number of travellers to such Zones. Where travel in a region increases by visitors, tourism and related services also increasing. As a simple economic equation, where there is demand, efforts should be made to provide the necessary supply.

Strategies for Integrating Tourism in SEZ

There exist already liberal policies in these SEZs that tourism can benefit from. As tourism is set to take its place in the whole framework of a SEZ, caution should be exercised to take care of unwarranted costs that could be imposed through policy errors or ineffective and inefficient implementation of policies. Where legislation or a policy is in place that will specifically target the tourism industry, its duties could be some or all of the following:

- To review and revise investment incentives to take care of the tourism industry;
- To revise government policies in attempting to create a high quality tourism experience;
- To plan and establish the reputation of the SEZ as a tourist destination;
- To provide a forum for the development, implementation, and revision of the operational strategies for the tourism industry;
- To assist in the development of enterprises and create educational programmes directed at the training and development of tourism industry employees;
- To design an overall programme for capacity building in the SEZ and specifically to cater for the tourism industry.

As tourism is an industry that is all-encompassing and can accommodate multiple stakeholders, a good framework for its implementation in a SEZ will attract more companies and individuals to invest and take part. In creating a strategy for the industry A cautionary note, however, is that tourist zones have some unique characteristics that make financial incentives offered more difficult to control, unlike production, processing, trade. Many tourist oriented companies are quite small or dual use. For example, taxi cab drivers may drive local residents on alternate trips, shops can also serve local consumption, etc. Some methods of taking care of these in terms of incentives will have to be found. One way to do this is to encourage and enhance domestic tourism and the local leisure and recreation industries to create a system of enhanced domestic consumption.

SEZs are areas designated by governments for development into balanced agricultural, industrial, commercial, and in some areas tourist/recreational regions. Some of these Zones developed as independent communities with minimum government interference. They were created to administer their own economic, financial, industrial and tourism development often without help from national governments. They are also designed to provide adequate facilities to establish linkages with surrounding communities and other entities within the country.

Given that the concept of SEZ is not new and many other developing nations are equally keen on attracting foreign investments, it is essential for SEZs in Nigeria to continue to provide sufficient incentives to potential investors especially where tourism is involved. In fact tourism is one cornerstone of economic strategy, and one that is increasingly being recognised by governments, providing preferential treatment that can allow entrepreneurs to obtain profitable returns which are necessary and should thus be encouraged. There are viable places in Nigeria where the SEZs could be juxtaposed with a tourist and recreation resort; the Badagry in Lagos State, Oguta in Imo State, Banki in Borno State, Aguleri/Umuleri in Anambra State, just to mention a few.

Although SEZ (as in China) are also created to boost economic competitiveness, they bear close similarities to the export processing zones. SEZ appeared in some third world countries and regions as early as in the mid 1960s. Generally these zones are planned and established to absorb foreign investments, import technology, develop industry, expand exports. In contemporary times, such zones can be used to increase employment, provide trade opportunities and cultivate creativity and innovation which will ease the competition within the increasingly saturated local labour market.

EXAMPLES OF NIGERIAN EXPORT PROCESSING ZONES

The Nigeria Export Processing Zones Authority (NEPZA) is responsible for the regulation of Free Zone operations where such legislation is functional. Its tasks involve policy formulation, licensing and monitoring, investment facilitation and promotion of the Free Zones. Overall, NEPZA exercises authority over Export Processing Zones (EPZs), Border Free Zones (BFZs), Free Trade Zones (FTZs), Export Processing Factories (EPFs) – or Free Sub-Zones (FSZs) – and Export Processing Farms (EPFs) which together reflect the concepts of and culminate to Free Zones Scheme.

The concept of Free Trade Zones (FTZ) was conceived and established by Act No. 63 of 1992 to facilitate a friendly climate for local and foreign investments. The plan promotes the creation of industrial and commercial activities in clearly defined Zones. Like similar zones in other countries, these Zones are governed by special regulatory and fiscal rules, which allow freedom of operation at competitive costs. The concept, modus operandi and context in which they exist and operate are similar to those in other countries. As of today, there are thirteen Free Zones operating in Nigeria (See Box 1).

BOX 1: THE 13 FTZS IN NIGERIA

- The Calabar Free Trade Zone
- The Kano Free Trade Zone
- The Onne Oil and Gas Free Trade Zone
- The Maigatari Border Free Trade Zone
- The Banki Border Free Trade Zone
- The Lekki Free Trade Zone
- The Lekki Export Processing Zone
- Tinapa Free Trade Zone & Tourism Resort
- Oil Integrated Logistics Support Services (OILSS Free Trade Zone)
- Olokola Free Trade Zone
- Snake Island Free Trade Zone

The Zones occupy large expanses of land and are easily accessible to international airports and seaports. They are equipped with pre-built warehouses and good internal and external road networks. Other infrastructure made available to these Zones includes efficient telecommunication facilities, uninterrupted electricity and water supply, etc. As an example, this paper will look critically, at the Calabar Free Trade Zone (CFTZ). As most of the Nigerian experiment in Free Trade Zones dates back to 1992, it is believed that assessment of the CFTZ will be useful example other FTZs in Nigeria and beyond.

THE CALABAR FREE TRADE ZONE

This is the first and most functional FTZ in the country. It was established in 1992 in Calabar, capital of Cross River State in the southeast of the country. It has the capacity to accommodate between 80 and 100 industrial firms. By the end of 2005, 76 investors had received licences to operate in this Zone. To cope with the upsurge of investors, the Cross River State Government granted an additional 68 hectares of land for further development, bringing the total area of the FTZ to 220 hectares. Facilities available to this Zone include a free port formally manned by Nigeria Ports Authority but now concessIoned to a private company which has an estimated annual capacity of 1.5 million metric tonnes of cargo, serviced plots, built up standard factories for immediate occupation by prospective investors, banking services and digital telecommunication systems.

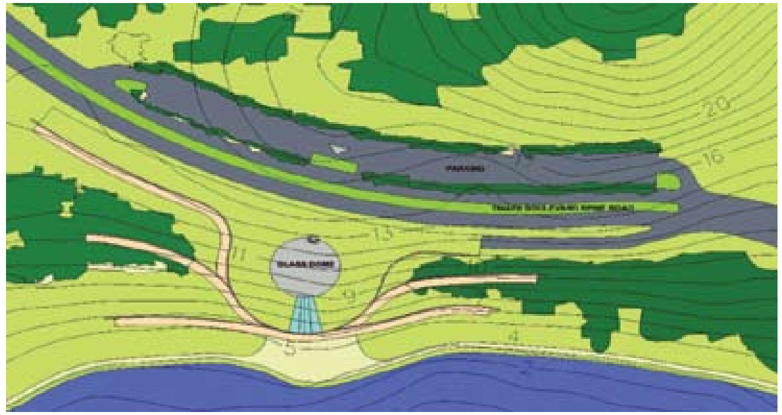
The Growth of FTZ in Nigeria and Prospects for Tourism

The Free Trade Zones currently promote and attract different types of commercial and industrial activities which enhance the movement of people in and out of the Zones. In this context, tourism and leisure services can be complementary. One of the potentials of SEZs is that they tend to vault from obscure beginnings to centres of economic growth activity and prosperity. This is evident in Mauritius, Tunisia, China, India and recently in Nigeria.

From what has been reported thus far, the rapid physical development of the Calabar Free Trade Zone is impressive and its achievements in providing infrastructure, employment and generating industrial output and growth are considerable. Although some of these achievements are laudable, it is necessary to cast a critical eye over such achievements and assess them in the light of the long-term goals.

Globally, the development of SEZs has been attracting a certain amount of attention. In countries like China, Philippines, etc, such Zones have become areas of most development in their countries. Initially, in most SEZs, there was always a preponderance of heavy and light industrial activities. Recently, such activities are being complemented by tourism, leisure and recreation as a result of changes in demographic composition, economic status and growth in GDP. In addition to industrial activities, service activities of which tourism and leisure are a part, could be established fairly quickly. To this end, investors who are clearly interested in ventures such as estate management and tourism could easily find a niche in a demographically growing environment.

In the context of Nigeria, and Cross River State in particular, it was easy for such investments to materialise as most administrative delays had been minimised. Some publications and regulations about foreign investments, taxation, remittance and other matters have been made available to prospective entrepreneurs.



SUCCESSES THAT POLICIES CAN BRING IN TINAPA

The Zone provides the necessary enabling environment for the setting up of developments, expansion and growth of export-oriented manufacturing industries particularly in the non-oil sector of the economy. As this facility grows, it is also open to other service industries of which tourism can be a major player.

The government of Cross River State had a vision to touristically transform the economic landscape of the state. As Tinapa is juxtaposed to the Calabar Free Trade Zone, it is set to become an integrated business resort with potential to be a successful tourism venture in a FTZ. As mentioned in the website of the Cross River State, Tinapa is the 'realization of an exciting dream – the first integrated business and leisure resort in Nigeria' implemented under a private-public partnership agreement framework.

Taking advantage of government policies and the natural resource potential of Cross River State, the success of the FTZ and the visionary policy that brought Tinapa into place, can be transformed into a trading hub that will provide amenities for tourism and leisure. The creation of SEZs is often the result of vision and policies continuing, success hinges on strategic planning and gradual implementation. In order to achieve success and continuing improvement, there is the need for reliable data to facilitate future strategic planning and to warrant extensive international comparisons. Such comparisons facilitate the use of best practices that have been tested and are successful elsewhere. However, it is not always possible to chart the progress of SEZs against similar developments in other countries, – the settings and priorities differ. But where such data are available and support is given, a number of studies can be initiated. Some of these can be categorized as follows:

Social Change: naturally in SEZs, activities and continuous growth encourage the movement of numerous people for various purposes. Where this happens, changes in individual attitudes, in value systems, in political outlook, lifestyles, living standards, expenditure patterns, are inevitable. What these changes are and how they affect the status of SEZs is important to note. Any prospective investor in service industries like tourism, recreation and leisure will find these indices useful. The government in turn will require these sorts of data for further strategic planning.

Rural Sector: the fact that SEZs are created from virgin lands or sometimes rural areas presents a situation of transformation and land use changes. In a sense, rural populations are exposed to these transformations. Such changes can be expected to be pervasive and far-reaching, given their sometime sudden occurrence.

Property Market: at any stage in the development of a SEZ, the property market and estate management are crucial to the growth process. The nature and details of this sector will have to be understood within the whole zonal growth context. Tourism in turn, boosts the property market.

Financial Services: The importance of the banking and financial systems that operate in a Zone cannot be exaggerated.

CONCLUSION

Free Zones are sensitive to the national economic environment and perform better when the host country pursues sound macroeconomic and realistic exchange rate policies. One consequence of special economic zones is that they build on human capital. Unskilled workers benefit from creation of jobs and training and learning by doing. Such training also occurs at the supervisory and managerial levels. Where service industries and tourism in particular are gradually introduced, the need for capacity building at all levels cannot be overemphasised. When this is done, it facilitates the learning of new organisational and managerial methods, negotiation and marketing skills, general business know-how and a spirit of entrepreneurship.

In tourism terms, there already are basic resources (both tangible and intangible), a vision and a framework of operation. What is needed in addition is a strategy for making the tourism industry viable and sustainable when juxtaposed with a FTZ. Strategies will include but not be limited to setting targets for future growth, planning for future growth, creating a marketing strategy, seeking partnerships, capacity building, knowledge management. For these to be effective, they should be conceived, planned and implemented to cover short-term, medium-term and long-term targets that can be realistically achieved.

Finally, if some or all of these are considered alongside the current vision of the government, it will make this FTZ a better place for tourists to visit and for tourism companies to invest and flourish – at least in Nigeria. Under this arrangement, some industries will enjoy tax relief while others will be subsidised. Which route to go on will depend on the importance attached to the tourism industry.

Many economies tend to implement subsidies to many sectors of the economy. Popular among these are agricultural subsidies in USA and Europe. In Australia, defensive subsidies were introduced to preserve traditional industries; recently, subsidies have been targeted on programmes dealing with research and development, innovation and creativity; a strategy termed non-traditional economies. This is where tourism in Nigeria and indeed Africa fits in. Looking at results and examples from most countries that implement subsidies to various sectors, a simple sentence can logically summarize the policy, 'If you subsidize it you get more of it. If you tax it you get less of it.' The time is set to further think of tourism in a special economic zone particularly in Nigeria.

CHAPTER VIII

WHY DO ZONES FAIL?

A major reason behind the poor performance of some Zones has been the existence of uncompetitive and restrictive policy frameworks. While investment incentives provided are generous, restrictive provisions, corrupt practices and bureaucratic procedures erode their effectiveness. There are several main macroeconomic policies and exchange rate regimes that have been linked to the success of Free Zones. Therefore, before looking at issues that constitute the failure of Free Zones we must identify some factors that will increase the probability of success:

• the establishment of EPZs should not be regarded as a substitute for pursuing economy-wide reforms;

• it is necessary to encourage more and stronger backward links between export-oriented firms and the rest of the local economy;

• there is a need to diversify the composition of the export-oriented sector and to upgrade export-oriented legislation.

SOME ISSUES LINKED WITH THE FAILURE OF FREE ZONES

The degree of government interference and increasing distortions introduced in the operation of 'Free Trade and Capital Regimes'. For example, in Nigeria the interference of other government agencies with different regulations and diversified interpretation of the legal instrument establishing the zones has never been healthy for the success of any Free Zone. Customs and tax administration interference is a very serious agent of failure of zones; other services with which difficulties are frequently associated are getting visas for expatriate staff, approvals for setting up companies. The more time business people have to spend trying to understand arcane bureaucratic procedures and follow-up with civil servants to get permits and approvals, the less time that they devote to the task in which they have a comparative advantage, i.e. producing goods and services and creating jobs.

• **Uncompetitive Fiscal Incentives:** the fact that virtually the same package of incentives is offered by successful zones and failed zones suggests that they are not a key success factor, so there is a need for a constant review of incentives as they can attract investors into a particular zone. Some countries have little leeway in deciding what incentives to give to entrepreneurs. This is largely decided by international competition. Costa Rica, for example, offers a large and wide range of incentives to industries interested in establishing operations there. In addition, it has invested heavily in education and has established a special regime for foreigners who wish to retire to the country. As a result, Costa Rica has an image of being very-investor-friendly. A southern African country once offered relocation of production plant from the country of origin and to pay labour for two years. In essence, incentive schemes should be internationally competitive and as simple as possible to operate.

• **Weak Administrative Bodies:** the weak performance of some programmes can also be traced to corruption and weak government bodies established to develop, operate and regulate Free Zone activity. Unprofessionally operating companies have often run services into the ground and budgeting problems have short-changed basic maintenance. Also Customs officials extract their own taxes at ports and road transport is hampered by officials collecting semi official and unofficial tolls often every few kilometres. Bribes to these 'roadblocks', the petty bureaucratic and payments to 'fixers' all add to the cost of doing business and reduce competitiveness.

• **Poor site locations, entailing heavy capital expenditures:** the economic failure of zones such as the Bataan EPZ in the Philippines is linked to poor site location, design and development practices. Undoubtedly, location plays an important part in explaining success and failure of a Zone. Panama has been extremely successful in promoting economic development based on trade and services, capitalising on transport cost and time savings that result from its geographical location, on two oceans and at the crossroads of the northern and southern American continents. The republic has built a substantial export processing industry based partially on its proximity to the North American markets. Free Zones that are landlocked, like Kano Free Trade Zone in Nigeria, Chad and Rwanda will always be at a competitive disadvantage. In addition, developing transport linkages to the hinterland is made more difficult by long distances and often difficult terrain. This clearly has implications for inter-competitiveness where transport costs are often a critical factor.

• **Poor zone development and infrastructure:** the quality of infrastructure, level of development and maintenance is a serious factor. When the Colon Free Zone in Panama was starting, a good Port already existed and there was a reasonable road to the airport in Panama City. The Dominican Republic developed excellent air, sea and road transport infrastructure in support of its EPZs.

Mauritius also has excellent port and airport facilities. Exporters of fruit and vegetable in Zimbabwe benefit from much better airport facilities and air services than their counterparts in Burkina Faso and Nigeria. Infrastructure in Nigeria Free Zone is in poor condition especially the Calabar Free Trade Zone which is suffering from a shallow waterway to the adjoining seaport. Electricity supplies are frequently unreliable, erratic and unpredictable. Water supply is deficient and telecommunication facilities are expensive.

• **Inadequate administrative coordination between private developers and poor management:** too many bodies involved in zone administration is counterproductive. Most private EPZs and industrial zones in Viet Nam, for example, sat empty because local and national authorities could not provide road and other infrastructure connections to the site. It is clear that management of Free Zones must be responsive to the needs of the entrepreneurs who will set-up business in the Zone. Too often, Zones have been designed and run by bureaucrats who have in experience with what it takes to run a business.

• **Very low level of labour:** when the locality has very low levels of basic education and literacy – it becomes an impediment to developing a modern labour force. The work force may be unaccustomed to the discipline of factory life. This culture is inimical to the rigours of quality control, the maintenance of standards, and the adherence to deadlines.

CHAPTER IX

MANAGING FREE TRADE ZONE IN NIGERIA

Managing a Free Zone Trade Zone is normally handled like any other business empire. In Nigeria, it is no different from other parts of the world, as the concept of Free Zones is the same, although problems and prospects are peculiar to each Zone, as is the managerial approach.

STRUCTURE OF FREE ZONE MANAGEMENT IN NIGERIA

The structure in Nigeria is such that every Zone, whether public or privately owned, is supervised and regulated by the Nigeria Export Processing Zones Authority, the Federal Government body established by Act 63 of 1992.

As at October 2006, Nigeria has thirteen Free Zones. Some are government owned while others are privately owned. It is the primary responsibility of Zonal management to promote foreign direct investment and exports, as well as generation of employment and transfer of technology to the Zone/host community.

NEPZA through Act 63 of 1992 has an ‘open door policy’ to attract foreign investment into Nigeria Free Trade Zones facilitating and sustaining Zone management.

Management of Free Zones in Nigeria is headed by the Managing Director of the regulating Authority (NEPZA). The Managing Director, through various departments of the Authority, considers policy issues and periodically reviews the working of the Zones with a view to redirecting when appropriate or promoting their activities. The Managing Director is responsible to the Board of Directors and the Honourable Minister of Commerce.

The Authority's statutory functions as stipulated in the enabling Act include:

• Establishment of Customs, police, immigration and similar services in the Zones;

• Supervising and co-ordinating the functions of various public and private sector organizations operating within the Zones and resolving any dispute that may arise amongst them;

• Resolution of trade disputes between employers and employees in the Zones in consultation with the Federal Ministry of Employment, Labour and Productivity;

• Adoption of investment promotion strategies for the Zones, as well as opening investment offices abroad;

• Establishment and supervision of Zonal administrations for the purpose of managing the Zones and granting all requisite permits and licences to approved enterprises. All investors' applications, import and export activities, residential permits, company registration and a host of others are handled by the Authority through the Zones without undermining the statutory functions of other relevant government agencies. This procedure, which was adopted by all successful Free Zones worldwide, is to ensure the one-stop approval system which reduces bureaucracy to the barest minimum. It has become standard practice worldwide;

• For Free Zones Authorities to coordinate the activities of relevant Ministries /Agencies for optimum performance, it is absolutely necessary that:

i. Customs provides regulations facilitating the quick clearance of goods imported or exported to and from the Zones;

ii. Immigration desk offices issue work and residential permits with minimum delay;

iii. Labour Ministry provides workable guidelines on Labour rules, regulations and other welfare related matters;

iv. The police maintains and enforces law and order in the Zones without intimidation;

v. Banks provide off-shore banking facilities with ease.

There are some relevant Ministries/Agencies which cannot establish a presence in the Zone. It becomes necessary for such Ministries/ Agencies to strengthen and empower their offices or branch offices close to the host community of the Zones to provide 'on-the-spot' services that would be required by the Authority to enable a timely and 'one-stop' approval system. This calls for a reorientation and training of officers who will be charged with such responsibilities as enhance performance. This is important because the Free Zones Scheme is now a highly competitive venture as the investor is at liberty to locate in any Free Zone of his choice. The Zone must therefore be aggressively efficient to attract free minded investors.

A Zone in Nigeria is headed by either a General Manager or a Managing Director depending on the designation chosen by the owners/promoters of the Zone. These are the Chief Executives of their Zones responsible for day-to-day administration, approving investment proposals with the advice of their subordinates in the Zone, delivering the promise of the one-stop-shop and enforcing various regulatory provisions. In the case of Calabar Free Trade Zone, where I managed, the general manager is assisted by assistant general managers and other line officers.

The Zone's management is structured to function as a central facilitation point for investor activities. It is a step-down activity of the Free Zone Authority in processing investors' import and export documents including their immigration matters. Added to this is also advice and assistance at every stage of the investment process within the Zone. The Zone's management also procures all requisite approvals from other government agencies. The Zone's Management is the only organ an investor needs to contact for whatever matter relating to activities in the Zone. The Zones operate as an autonomous body that reports quarterly to the Managing Director of NEPZA and forwards annual reports to him as the head of the regulatory Agency.

9.2 Administrative Structure of a Zone

(Using Calabar Free Trade Zone(CFTZ) as a Case Study)

Calabar Free Trade Zone (CFTZ) is administered by the General Manager, under whose purview other departments and units work. The collective inputs of the departments and units make for the efficiency and effectiveness or otherwise of the operations of the Zone. In Calabar Free Trade Zone, there are the following departments and units with their responsibilities:

1. Operations department
   Enforcement Unit
   Security Unit
2. Maintenance Department
   Electrical Unit
   Mechanical Unit
   Quantity Survey Unit
   Estate Management Unit
3. Investment Services and Promotion Department
4. Accounts Department
5. Administration/Personnel Unit
6. Library Unit
7. Public Relations Unit
8. Information Technology Unit

9.3 Operational Strategies in Managing a Free Zone

Managing a Free Zone in Nigeria may not have been different from managing it in other parts of this world, but for the fact that no two nations are the same in terms of policy formulation, implementation and operational strategies. What I shall attempt in this section is to share experiences and strategic approaches that could work for other Zones especially within the sub-region. The fact remains that peculiarities of a country in terms of infrastructures and level of technology will certainly determine the functionality of any system. Consider the following:

i. In managing a Zone, we must be conscious of the infrastructural level. Zone is supposed to be a 'centre of excellence' which is one of the principal objectives for establishing Zones especially within developing countries. The infrastructure should be constantly on checks and repair to offer the services required for international businesses. Although meeting this in Nigeria has been a herculean task, but when considered with the Customs territory of the host community, successes are being achieved.

ii. There must always be an analysis of micro and macro economic policy framework of the host country as such policies affect the operations of the Zone. Such analyses are normally forwarded to the regulatory Authority which in turn takes it up to ministerial and presidency level.

iii. We must always plan ahead. Develop a strategy on what you want to achieve/attract within a particular time frame. This becomes a yard-stick for measuring your performance at the end of the period set. Because of the nature of activities in the Zone, strategic planning is imperative else you may miss the way. Working without a plan of action has led to inexplicable reasons for collapse of many Zones.

iv. Know your assets and liabilities which will assist your promotion and management of the Zone.

v. Understand the philosophies of the investors you have on ground and tailor them appropriately to be in tandem with the Zone's philosophies and by implication, the host nation's policy. Some investors may come into the Zone to execute objectionable philosophies and thereby objectionable activities. There lies the essence of scrutinising the information supplied in an investor's application form.

vi. There must be constant cross breeding of ideas on the functionality and operations of the Zone by the Zone management, investors and other relevant agencies of government and the organised private sector.

This is achieved by holding an investor's forum and sometimes summits, where stakeholders discuss issues of common concern and take advice from people with experience in a similar operation.

vii. Monitoring and evaluation is a vital aspect of Zone management. The enforcement unit must be on their toes working to maintain order in liaison with the operations unit while carrying out their scheduled activities. Investment services also play an important role in this aspect as they interact with the investors on a constant basis to monitor growth and problems. Investors complete and return questionnaires every quarter which elicits information on their production, imports, hours of production, sales, wastes, profits, duties and their problems and suggestions on their expectations.

viii. Influencing decision making and machinery is another key strategy . There must be conscious effort in penetrating the fabric of society so as to favourably forestall decisions that may work against the Zones especially within the host community. Free Zones within developing countries in general and Nigeria in particular, are still being viewed with askance so major decisions taken by opinion leaders have to be monitored. Always make a list of whom you want to convince, to comprehend the tenets of Free Zone for whatever reasons, be they politicians, police, customs, immigration and other influential organizations and personalities. You must identify where and when to meet the cream of society and establish the Zone's presence. Identify what is important to those people and build a relationship to achieve the ultimate goals of the Zone.

ix. Your attitude to expatriates must be acceptable because they are ultimately your salesmen. They sell the Zones better to their foreign counterparts than can be done with any medium. Your relationship with them matters, but this should not be at the detriment of the host country. You must be friendly but firm on the side of the rules governing activities in the Zone.

x. A zone is no Free Zone without the right infrastructure. A corollary to this is that the infrastructure so provided must be constantly maintained. This includes the physical and human infrastructures. In the case of human infrastructure, after the hiring of capable staff, comes the human capital development to enable workers to be well equipped and to work in line with developmental trends. This is very important because of the dynamic nature of Free Trade Zones today. The place of a library in this respect cannot be overemphasised as it assists in research and development in the Zone. There must be constant studies on the political situation, economic, monetary transactions, social legislation evolution, labour, climate and availability of transportation, community relations etc. There is a need to establish a research and development Centre in any Zone. The centre will be a 'help centre' to make the Zone competitive, increase its adaptation and developmental instincts to enable the Zone respond quickly to changing trends in the dynamic society of today. This will ultimately improve the economics of scale. The establishment of a research and development centre could be easily done by using experts and researchers from universities in the region. This is part and parcel with the outsourcing trend, special third party or call centre operations which are becoming very important today. It enables locals to focus on core business/core competences. It is effective in controlling, is less capital intensive, offers economies of scale and improves efficiency and above all, keeps everyone up to speed with new technological solutions. We need consultants in some areas for better exchange of ideas and richer management. Such consultants should frequently visit the Zone and periodically call for information on the programme implementation and general operation.

xi. Investors retention and sustenance care is another vital aspect of managing a Zone. The head of the Zone must through the investment services and public relations units design programmes for direct communication with investors; take advice from them and implement suggestions where applicable. Divide the entire zone into cells and each cell is manned by an officer who serves as 'cell centre' for investors located within that cell. Sometimes certain responsibilities are passed to the investors themselves as management of the zone is a joint business of all the stakeholders. Companies in the Zone disappear or relocate to elsewhere because of some problems which if realized on time, would be nipped in the bud. Some of the problems could be social instability, crime level, political instability, policy inconsistency, market shift, taxation etc.

There must be constant monitoring and evaluation of our competitors with a view to knowing what they are doing.

IMAGE BUILDING AND PUBLICITY OF THE FREE ZONE

The Zone is like any other product on the market. It should therefore have image and character. The management of the Zone will decide how to brand the Zone. Zone image and character are built on the total sum of all the operational activities in the Zone, the quality of both physical and human infrastructure and the manner of communication to the outside world. Doing the right thing is one aspect, telling it is another, how it is told is yet another. Carrying out the activities in the Zone without adequate publicity that goes with it is like winking at someone in the dark, you know what you are doing but she does not know what you are doing.

A Zone is branded by changing an outsiders' view about the operations of the Zone with intensified campaign and matching services. The image so created is the brand of that particular Zone. Good image is achieved by targeting investors satisfaction, checking what already exists in this sector and fashioning ways of improving them, the evaluation and cross breeding of ideas, having a well articulated developmental plan and public awareness programme through integrated mass communication.

This involves the use of advertising, public relations and personal selling. These three areas put together form promotion.

This again is a joint business of management and investors. Investors could advertise in a regular FZ/TV programmes, by contributing to

the cost of the airtime. Pages can be sponsored by investors for advertising their products. This increases the number of copies to be produced thereby guaranteeing wider publicity to wider audience.

ENTERTAINMENT AND SPORTS

The popular axiom that all work and no play makes Jack a dull boy also applies to Zones operation. As an industrial/commercial site, there must be a Mess/Club where staff retire to at the end of a day's work. Also important is recreational facilities, because a healthy staff is an asset to the organization. Annual Free Zones sports competition would also add to the health and wealth of the Zones. The curriculum should be planned to accommodate at least two days of recreational activities for one hour after the office closes. This goes a long way to directly assisting the organization.

GENERAL OPERATIONS IN THE ZONE

The job of Zone management is made simpler if there is an operational procedural manual, which every operator has to follow strictly. Core activities in the Zone that require this are the importation of the materials investors require for their production, the procurement of locally sourced materials, services and equipment so as to fully benefit from the fiscal incentive and exemptions granted under the Free Zone status, particularly for the export of their products. The manual should cover basic and critical procedures to be followed in obtaining exemptions from duties and tax. The manual after all is not an encyclopedia that covers every situation and requirement that may arise in the Zone, but to a large extent it should take in areas that will make the activities of the Zone, on the part of investors and management, effective and efficient.

GENERAL PROCEDURES FOR IMPORTING GOODS IN NIGERIA FREE ZONE

Goods are imported into the Zone through the following procedures:

Zone management ensure that suppliers of such goods forward the bill of lading, invoices and packing list itemizing the goods with prices for each item in the list.

1. The bill of lading shall meet the following requirements:

a. the consignee of the goods must be a registered investor in the Zone; with specified address (location) of the consignee in the Zone.

b. The port of discharge and voyage number and name must be clearly specified.

2. A copy of the manifest for goods on board any ship to the Zone is normally forwarded by the shipping line to the Zone management. In the absence of a manifest, Zone management uses internet facilities to verify the authenticity of the documents forwarded to the Zone. This process calls for documents to be forwarded days in advance to avoid demurrage.

3. On receipt of notification, a letter from investors with the complete relevant documents verified, the Zone prepares a 'request order to transfer under Custom escort' from the port to the investor's site in the Zone with the landing certificate duly endorsed by the Zone's Customs.

4. The Comptroller of Customs authorises the transfer of such goods from the port of discharge to the Zone.

5. A tally clerk in the Zone or any officer assigned by the Zone will inspect the opening of the containers brought in, with the Zone's Custom Officer, to confirm whether the contents correspond with what is on the Parking List. If everything is in order, the the certificate of release is signed.

6. Imports landing outside the port where the Zone is situated, thereby involving two Comptrollers of Customs, are handled as follows:

a. Documents are processed by Zone management and a request order is forwarded to the Comptroller of Custom at the port of landing through the host Comptroller. The host Comptroller is normally the receiving Comptroller who in turn transfers to the Zone.

b. The Custom Area Comptroller of the port of discharge releases goods under escort to the host Comptroller of the Zone. A copy of the duly signed landing certificate is taken by the Custom officer who escorted the goods from the port of discharge for proper filing.

c. Other procedures of inspection and issue of release certificate also apply in this case.

7.For importation of construction materials or other machines on a 'temporary use basis', which are to be exported at a later date, the process of importation follows the procedure used for materials/equipment that will be permanently used by the investors in their production processes. But in the case of temporary use, each set of shipping documents must state that the equipment is being imported on a 'temporary use basis'. Such documents so endorsed are to be retained for later re-exportation to the country of origin, other countries where use is desired or duty paid on such items if it is to be exported to the Customs territory.

In the case of re-exportation of construction equipment/plant, the original importation documents are required. Constructional plants/equipment are free and cleared of all duties, charges and taxes. Whatever new files or papers are to be opened for the re-exportation of the said plant/equipment, will refer to the original importation file/document which is normally in the custody of the Zones' operations department and the Zones' Customs services. A copy of such documents must be attached.

Temporary exportation of imported equipment outside the country for repair and return of repaired plants/equipment to the investors' site in the Zone is allowable provided notification was forwarded to the zone management to temporarily export equipment outside the country for repairs. This is temporary exit, for industrial equipment which will be accompanied by original import documents.. The Certificate of Export is endorsed by the Zone and forwarded to Customs services for other necessary processes. The request letter for the temporary export of equipment outside the country by the investor must carry detailed information like: name of equipment, weight, number of packages, value, name and address of workshop where the repair is to take place, etc.

Upon reimportation, the normal importation procedure applies except that the shipping documents must refer to the original temporary exportation document and must clearly state that the equipment has been out of the country for repair.

HUMAN RESOURCE DEVELOPMENT AND USE OF KNOWLEDGE OFFICE

As earlier stated, free zones can be categorized as high-end or low-end. This distinction refers to the wide range of services provided by the zone (quality of management, facilities and personnel) and therefore, the type of firms populating a zone.

With this assertion in mind, it is important that a zone is managed with good programme for sourcing qualified personnel; develop the workforce to an acceptable standard and a knowledge officer for effective and efficient performance.

A knowledge officer may be appointed to initiate, drive and coordinate knowledge management programmes. The knowledge officer has become necessary in managing not only Free Zones but other organizations in the developing countries because knowledge is a sustainable source of competitive advantage which is essential for management to tap. In an era of rapid change and uncertainty, zones need to explore new knowledge, nurture it and disseminate it, if accepted, throughout the host economy and in the case of knowledge that is only peculiar to free zones it is transferred to other zone in the country. Such knowledge are normally being embodied in technologies and the services rendered by the zone.

Knowledge management in the zones tends to be means of galvanizing the zones to develop knowledge as a source of value creation and redirecting the activities of the zone management for the better. In some cases where the zone cannot employ a knowledge officer, it can engage a consultant from outside.

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NIGERIA EXPORT PROCESSING ZONES AUTHORITY DECREE 1992

DECREE NO. 63

Nigeria Export Processing Zones Act 1992

Act No. 63

[19th November1992] Commencement.

THE FEDERAL MILITARY GOVERNMENT hereby decrees as follows:-

Establishment of the Nigerian Export Processing Zones.

1. -(1) The President, Commander-in-Chief of the Armed Forces may, from time to time by order, upon the recommendation of the Nigeria Export Processing Zones Authority established under this Decree, designate such area as he thinks fit to be an export processing zone, (in this Decree referred to as "a Zone").

(2) The Zone established pursuant to subsection (1) of this section, may be operated and managed by a public, private or a combination of public and private entity under the supervision of and with the approval of Nigeria Export Processing Zones Authority established by section 2 of this Decree.

(3) Every order made pursuant to subsection (1) of this section, shall specify the limits of the area designated and ascribe a name to that Zone.

(4) The Nigeria Export Processing Zones Authority may, from time to time, by order, amend, vary or add to the limits of a Zone or change the name of a Zone.

(5) An order, made under subsection (3) of this section, shall not affect an approved enterprise existing before the commencement of the order.

Establishment of the Nigerian Export Processing Zones Authority and its governing Board, etc.

2.-(1) There is hereby established for the Nigeria Export Processing Zones, an authority to be known as the Nigeria Export Processing Zones Authority (in this Decree referred to as "the Authority").

(2) The Authority shall be a body corporate, with perpetual succession and a common seal and may sue and be sued in its corporate name and shall be capable of acquiring, holding, or disposing of any property movable or immovable for the purpose of carrying out its functions.

Membership of the governing Board.

3.-(1) There shall be for the Authority, a governing Board which shall consist of a Chairman to be appointed by the President, Commander-in-Chief of the Armed Forces on the recommendation of the Minister and the following other members, that is to say --

(a) a representative each from the following Federal Ministries, that is:
(i) Commerce and Tourism,
(ii) Industries and Technology;

(b) the Director of Customs or his representative not below the grade of Assistant Director;

(c) the Managing Director of the Nigerian Ports PLC or his representative not below the grade of a Deputy Director;

(d) one representative each from the following bodies, that is --

the Nigerian Association of Chambers of Commerce, Industries, Mines and Agriculture;
ii. the Manufacturers Association of Nigeria;
iii. the Association of Nigerian Exporters;

(e) two persons to be appointed by the Minister from the private sector who shall be persons possessing practical experience in industry, commerce, finance, export promotion and other related fields;

(f) a representative of the Central Bank of Nigeria not below the grade of Director; and

(g) the Managing Director of the Authority.

(2) A member of the Board other than ex-officio member shall subject to the provisions of this Decree, hold office for a period of four years from the date of his appointment as a member and shall be eligible for re-appointment for one further period of two years and thereafter he shall no longer be eligible for re-appointment.

(3) Notwithstanding subsection (2) of this section, the President, Commander-in-Chief of the Armed Forces may on the recommendation of the Minister require any member to vacate his office if his continued membership will not be in the interest of the Authority.

(4) Any member of the Board other than ex-officio member may by notice in writing to the Board resign his appointment.

(5) The supplementary provisions contained in the First Schedule to this Decree shall have effect with respect to the tenure of office of the members and the proceedings of the Board and other matters relating to the Board.

Functions of the Authority.

4. In addition to any other functions conferred on the Authority by this Decree, the functions and responsibilities of the Authority shall include:-

a. the administration of the Authority and management of all the Export Processing Zones;
b. the approval of development plans of the Authority and the Zones annual budgets in respect to infrastructures, administrative buildings, promotion of Zones, the provision and maintenance of services and facilities;
c. the establishment of customs, police, immigration and similar posts in the Zones;

d. the supervision and co-ordination of the functions of various public sector and private sector organisations operating within the Zones and resolving any dispute that may arise amongst them;
e. the resolution of trade disputes between employers and employees in the Zone in consultation with the Federal Ministry of Employment, Labour and Productivity;
f. the adaptation of investment promotion strategies in the Zones, including the opening of Investment Promotion Offices abroad;
g. the recommendation to the Federal Military Government of additional incentive measures for the Zones;
h. the establishment and supervision of Zonal Administrators for the purpose of managing the Zones and the grant of all requisite permits and licences to approved enterprises.

Appointment of Managing Director, Secretary and other employees.

5.-(1) There shall be for the Authority, a Managing Director who shall be the Chief Executive and shall be appointed by the President, Commander-in-Chief of the Armed Forces on the recommendation of the Minister.

(2) The Managing Director shall be responsible for

a. the preparation of plans, annual programmes and budget;
b. the recommendation of bye-laws applicable in each Zone;
c. the development of strategies for the promotion of the Zones inside and outside the country;
d. the implementation of the approved plans, programmes and budgets;
e. the day-to-day administration of the Authority.

(3) Without prejudice to the generality of subsection (1) of this section, the Authority shall have the power to --

a. appoint a Secretary who shall be qualified to practice as a legal practitioner in Nigeria and has been so qualified for

not less than ten years;
b. pay the employees such remuneration and allowances as it may, from time to time, determine;
c. pay the employees such pensions and gratuities as are payable to persons of equivalent grades in the public service of the Federation.

6.-(1) Subject to subsection (2) of this section, the activities specified in the Second Schedule to this Decree shall be approved activities for the purposes of this Decree. *Approved activities, etc.*

(2) The Authority may, from time to time, prescribe the activities which may be carried on in a Zone, and for this purpose may, by Order, amend the Third Schedule to this Decree.

7. The President, Commander-in-Chief of the Armed Forces or Governor of a State respectively may, by Order, transfer to the Authority, any property belonging to the Federal or State Governments respectively which appears to be necessary or expedient to the Authority in carrying out its functions under this Decree and such property shall vest in the Authority by virtue of the Order and without further assurance. *Vesing of property in the Authority.*

8. Approved enterprises operating within a Zone shall be exempted from all Federal, State and Government taxes, levies and rates. *Exemption from taxes.*

9.-(1) Any enterprise which proposes to undertake an approved activity within a Zone, shall apply to the Authority in writing for permission to do so and shall submit such documents and information in support of its application, as the Authority may require. *Approval of enterprises to undertake approved activity.*

(2) Subject to the provisions of this Decree, the Authority may grant, subject to such terms and conditions as it thinks fit, approval for an enterprise to undertake the approved activity specified in its application brought under subsection (1) of this section.

(3) For the purposes of this section, "approved activity" means any of the activities specified in the Second Schedule to this Decree.

10.-(1) The Authority may grant a licence for any approved activity in a Zone to an individual or business concern whether or not the business is incorporated in the customs territory. *Power to grant licence.*

(2) The grant of a license by the Authority shall constitute registration for the purposes of company registration within the Zone.

(3) A licensed company operating within a Zone and undertaking an approved activity shall notify the Authority of any purchase, assignment or transfer of shares in the company, except where the company's shares are quoted and are freely transferable on any international Stock Exchange. *Cap 59 LFN.*

(4) The Authority shall by order from time to time prescribe the regulations governing the Zone.

11.-(1) Where an approved enterprise operating within the Zone supplies goods and services to customers within the customs territory, that enterprise shall be entitled to receive payment for such goods and services in foreign currency and for the purposes of such payment, the normal rules and regulations applicable to importation of goods and services into Nigeria and repatriation of the proceeds of sales and services shall apply. *Payments for goods and service.*

(2) Where a person within the customs territory supplies goods and services to an approved enterprise established within a Zone, the person shall be entitled toreceive payment for such goods or services in foreign currency and the rules and regulations applicable to export from Nigeria and the repatriation of proceeds from sales or services shall apply.

12.-(1) The Authority and any approved enterprise shall be entitled to import into a Zone, free of customs duty, any capital *Import of goods into the Zone. 1988 No. 1* *goods, consumer goods, raw materials, components or articles intended to be used for the purposes of and in connection with an approved activity, including any article for the*

construction, alteration, reconstruction, extension or repair of premises in a Zone or for equipping such premises.

(2) For the purposes of this section, articles for equipping premises shall be deemed to include equipment for offices and other ancillary facilities necessary for the proper administration of the premises and for the health, safety, hygiene and welfare of the premises and of persons employed therein.

(3) The Authority may by Order, amend or vary the articles specified in the Fourth Schedule to this Decree.

(4) All goods brought into a Zone shall be consigned:

a. to the Authority or to an approved enterprise and the goods may, with the approval of the Authority, be transferred from one approved enterprise to another or from the Authority to an approved enterprise or from an approved enterprise to the Authority; or
b. without prejudice to the provisions of section (2) of this section, to a bank acting on behalf of any party to a transaction involving the Authority or an approved enterprise.

(5) The Authority may take such steps as it deems necessary to preserve goods within a Zone, whether by moving the goods from one place to another or by storing the goods and where any expenses are incurred by the Authority in so doing, the owner or consignee of the goods shall reimburse the Authority for the expenses.

(6) Subject to the provisions of this Decree and any regulations made thereunder, goods brought into a Zone pursuant to this section may

a. unless otherwise directed by the Authority, be stored, sold, exhibited, broken up, packed, graded, cleaned, marked, re-marked, loaded, unloaded, reloaded, divided, mixed, separated or otherwise manipulated; or
b. be worked, processed or reprocessed or otherwise manipulated or manufactured; or
c. be consumed if the goods are meant for consumption in the Zone, unless otherwise directed by the Authority; or
d. subject to subsection (7) of this section, be removed from a Zone or sent into the customs territory, whether as originally packed or otherwise; or
e. subject to any enactment pertaining thereto, be destroyed.

(7) Where any goods which are dutiable on entry into the customs territory are sent from a Zone into the customs territory, the goods shall be subject to the provisions of the Customs, Excise Tariff, Etc. (Consolidation) Act and any regulations made thereunder, and if the goods areintended to be disposed of in the customs territory, shall not be removed from the Zone unless: *Cap 88 LFN.*

a. the consent of the Authority has been obtained; and

b. the relevant customs authorities are satisfied that all import restrictions relevant thereto have been complied with and all duties payable in connection with the importation thereof into the customs territory have been paid.

(8) Samples of goods being taken into the customs territory shall be subject to the provisions of subsection (6) of this section, except in cases where the relevant customs authority is satisfied that such goods are of no commercial value.

(9) Where goods are brought from the customs territory into a Zone for the purposes of an approved activity, the goods shall be deemed to be exported.

(10) The Per-Import Inspection Scheme shall not apply to imports of goods into the Zones for use by approved enterprises in the Zones.

Persons not to enter zones without permission.

13.-(1) No person shall enter, remain in or reside in a Zone without the prior permission of the Authority.

(2) Any person who contravenes the provisions of subsection

(1) of this section shall have his permit revoked by the Authority.

Prohibition of retail trade.

14.-(1) No retail trade shall be conducted within a Zone without the prior approval of the Authority and which may be subject to such terms and conditions as may be imposed, from time to time, by the Authority.

(2) Any person who contravenes the provisions of subsection

(1) of this section or of a term or a condition imposed pursuant to that subsection shall have his licence revoked by the Authority

Special provisions relating to articles imported with custom duty cessions.

15.-(1) An approved enterprise which imports into a Zone an article with a benefit in respect of customs duty under the provisions of this Decree shall --

a. keep such records of the articles so imported in such forms and containing such particulars as may be required by the Authority;
b. cause the articles to be marked with such mark and in such manner as may be required by the Authority;
c. permit the Authority or a person authorised by the Authority at all reasonable times

i. to inspect the records relating to those articles;
ii. to have access to any factory, warehouse, assembly plant or other premises under the control of the approved enterprise for the purpose of examining the article which the Authority

believes to be therein and of satisfying itself of the accuracy of the particulars in relation to the article contained in such records.

(2) Any person who contravenes the provisions of subsection (1) of this section is guilty of an offence.

Prohibition of storage of ammunition and dangerous explosives.

16.-(1) Notwithstanding any other provision of this Decree, the following goods shall not be imported, taken into or stored in a Zone --

a. firearms and ammunition, other than by members of the Nigeria Police Force or the Armed Forces of the Federation or by Security Agencies employed to work in a Zone in the course of their duties or by such other persons as may be authorised by the Authority;
b. dangerous explosives, without prior approval of the Authority;
c. petrol, inflammable materials, hazardous cargoes or oil fuels, other than in such quantities and on such terms and conditions as may be prescribed by the Authority;
d. goods which the Authority by Order has imposed specific or absolute prohibition on their importation into a Zone.

(2) Any person who contravenes the provisions of subsection (1) of this section is guilty of an offence.

Expor of goods from a Zone.

17. Export of goods from a Zone to the customs territory shall, except as otherwise prescribed by or pursuant to this Decree, be subject to the same customs and licensing requirements as apply to goods imported from other countries.

18.-(1) Approved enterprises within the Zones shall be entitled to the following incentives --

Incentives and related matters.

a. legislative provisions pertaining to taxes, levies, duties and foreign exchange regulations shall not apply within the Zones;
b. repatriation of foreign capital investment in the Zones at any time with capital appreciation of the investment;
c. remittance of profits and dividends earned by foreign investor in the Zones;
d. no import or export licences shall be required;
e. up to 25 per-cent of production may be sold into the customs territory against a valid permit, and on payment of appropriate duties;
f. rent-free land at construction stage, thereafter rent shall be as determined by the Authority;
g. up to 100 per-cent foreign ownership of business in the Zones allowable;
h. foreign managers and qualified personnel may be employed by companies operating in the Zones.

(2) The Authority shall be the only agency qualified to --

a. give all approvals; and
b. cancel all licences.

(3) The Authority shall simplify all procedure necessary for authorization of investments in a Zone and state by Order from time to time its requirements for the grant of authorisations for investments in a Zone.

(4) Operations within a Zone shall commence on the date when the construction of the perimeter fence and gate of the Zone have been completed and the Authority has assumed duties.

(5) There shall be no strikes or lockouts for a period of 10 years following the commencement of operations within a Zone and any trade dispute arising within a Zone shall be resolved by the Authority.

Enterprises to submit returns.

19. An approved enterprise shall submit to the Authority at such intervals as may be prescribed, such statistical data, and such information and returns as regards the sales and purchases and other operations of the enterprise as the Authority may require or as may be prescribed, from time to time.

Work permits.

20. Where a person who is a non-Nigerian citizen is employed by the Authority or by an approved enterprise established in a Zone, upon application by the enterprise for a licence to establish itself within a Zone or at any time thereafter, the enterprise shall apply on behalf of the non-Nigerian citizen, direct to the Authority for the purpose of immigration and employment permits, in such manner as may be prescribed by the Authority.

21.-(1) The Authority may make staff regulations relating generally to the conditions of service of the employees of the Authority and without prejudice to the generality of the foregoing such regulations may provide for --

a. the appointment, promotion and disciplinary control of all employees of the Authority; and
b. appeal by such employees against dismissal or other disciplinary measures and until such regulations are made, the regulations relating to the conditions of service of the officers in the civil service of the Federation and the provisions of the Pensions Act shall be applicable with such modifications as may be necessary to the staff of the Authority.

(2) Approved enterprises operating within the Zones shall make provisions for the pensions and gratuities for their employees.

22.-(1) The Authority shall establish and maintain a fund which shall consist of -- *Fund of the Authority.*

a. all moneys received from the Federal Government;
b. proceeds from all activities, services and operations of the Authority;
c. grants, gifts and donations made to the Authority; and
d. such other sum as may accrue, from time to time, to the Authority.

(2) The Authority shall, from time to time, apply the proceeds of the fund established pursuant to subsection (1) of this section --

a. to the cost of administration of the Authority;
b. to the payment of salaries, fees or other remuneration or allowances, pensions and gratuities payable to the officers and employees of the Authority;
c. for reimbursing members of the Board or of any committee set up by the Board for such expenses as may be expressly authorised by the Authority in accordance with the rates approved by the National Council of Ministers;
d. for the maintenance of any property vested in the Authority; and
e. for investment, maintenance of Zones, marketing, promotion, training, research and similar activities.

23.-(1) The Authority shall, not later than 31st October in each year, submit to the Minister an estimate of its expenditure and income (including payments into the fund of the Authority) during the next succeeding year. *Annual estimates, accounts, etc.*

(2) The Authority shall keep proper accounts in respect of each year (and proper records in relation thereto) and shall cause its accounts to be audited within six months after the end of each year by auditors appointed from the list and in accordance with the guidelines supplied by the Auditor-General of the Federation.

24.-(1) Except as provided under this Decree, an enactment applicable in the customs territory shall apply within the Zones. *Enactment applicable in customs territory to apply.*

(2) The Minister may, by Order published in the Gazette, modify the application of any enactment which is made applicable in a Zone by subsection (1) of this section, where the enactment concerned restricts or interferes with the smooth running of the Zone or operation of licences therein.

25.-(1) Every omission or neglect to comply with and every act done or attempted to be done contrary to the provisions of this Decree or any regulations made thereunder shall be an offence and in respect of and such offence for which no penalty is expressly provided the offender shall be liable on conviction to a fine of N 100,000 or to a term of imprisonment for three months or both. *Omission or non-compliance.*

(2) Whoever attempts to commit any offence punishable under this Decree or any regulations made thereunder or abets the commission of such offence shall be punished with the punishment provided for such an offence.

(3) Where a body corporate is guilty of an offence under this Decree, and that offence is proved to have been committed with the consent or connivance of, or to be attributable to any neglect on the part of any director, manager, secretary or other similar officer of the body corporate, or any person who was purporting to act in any such capacity; he, as well as the body corporate, shall be guilty of that offence and shall be liable to be proceeded against and punished accordingly.

26.-(1) The governing board of the Nigeria Export Processing Zones Authority established by the Nigerian Export Processing Zones Decree 1991 is hereby dissolved and the said Decree is hereby replaced. *Repeal.*

(2) The transitional and savings provisions in the Second Schedule to this Decree shall have effect in relation to the employees, assets [and] liabilities of the Board dissolved under this section and the other matters mentioned therein notwithstanding anything to the contrary in this Decree or any other enactment.

(3) Notwithstanding subsection (1) of this section, any Order made, registration effected, licence or permit issued, notice or information given, return made or other thing done under the repealed enactment which, immediately before the commencement of this Decree was in force or effect shall continue in force and have effect as if made, effected, issued, given, or done under the corresponding provision of this Decree.

27. The Authority may, with the approval of the Minister make regulations for the proper implementation of this Decree. *Regulations.*

28. In this Decree, unless the context otherwise requires -- *Interpretation.*
"approved activities" means activities specified in the Third Schedule to this Decree;

"approved enterprise" means any enterprise established within a Zone approved by the Authority;

"Authority" means the Nigeria Export Processing Zones Authority established by section 2 of this Decree;

"member" means a member of the Board and includes the Chairman;

"Minister" means the Minister charged with responsibility for matters relating to trade.

29. This Decree may be cited as the Nigeria Export Processing Zones Decree 1992. *Citation.*

FIRST SCHEDULE
Section 3(5)

SUPPLEMENTARY PROVISIONS RELATING TO THE AUTHORITY

Proceedings of the Board

1.-(1) Subject to this Decree and to section 2 of the Interpretation Act, the Board may make standing orders regulating the proceedings of the Authority or of any committee thereof.

(2) The quorum of the Board shall be eight and the quorum of any committee of the Board shall be as may be determined by the Board from time to time.

2.-(1) The Board shall meet not less than four times in each year and, subject thereto, the Board shall meet whenever it is summoned by the Chairman, and if the Chairman is required to do so by notice given to him by not less than three other members; he shall summon a meeting of the Board to be held within fourteen days from the date on which notice is given.

(2) At any meeting of the Board, the Chairman shall preside, but if he is absent, the members present at the meeting shall appoint one of their number to preside at that meeting.

(3) Where the Board desires to obtain the advice if any person on a particular matter, the Board may co-opt him as a member for such period as it thinks fit.

Provided that a person who is a member by virtue of this sub-paragraph shall not be entitled to vote at any meeting of the Board and shall not count towards the quorum.

Committees

3.-(1) The Board may appoint one or more committees to carry out on behalf of the Board such of its functions as the Authority may determine.

(2) A committee appointed under this paragraph shall consist of such number of persons (not necessarily members of the Board) as may be determined by the Board; and a person other than a member of the Board shall hold office on the committee in accordance with the terms of his appointment.

Miscellaneous

4.-(1) The fixing of the seal of the Authority shall be authenticated by the signature of the Chairman and of any other member authorised generally or specially by the Board to act for that purpose.

(2) Any contract or instrument which, if made or executed by a person not being a body corporate, would not be required to be under seal may be made or executed on behalf of the Board by the Chairman and the Managing Director or any person authorised generally or specially by the Authority to act for that purpose.

5. Members of the Board shall be paid out of moneys at the disposal of the Board such renumeration, fees or allowances in accordance with such scales as may be approved, from time to time, by the Minister.

6. The validity of any proceedings of the Board or of a committee thereof shall not be adversely affected by any vacancy in the membership of the Board or of a committee or by the defect in the appointment of any member of the Board or committee or by reason that a person not entitled to do so took part in the proceedings.

7.-(1) A member of the Board who is --

> *a. directly or indirectly interested in any company or enterprise the affairs of which are being deliberated upon by the Authority; or*
> *b. is interested in any contract made or proposed to be made by the Authority;*

shall as soon as possible after the relevant facts have come to his knowledge disclose the nature of his interest at a meeting of the Board.

(2) A disclosure under subparagraph (1) of this paragraph, shall be recorded in the minutes of the meeting of the Board and the member shall --

> *a. not take part after such disclosure in any deliberation or decision of the Board with regard to the subject matter in respect of which his interest is thus disclosed;*
> *b. be excluded for the purposes of constituting a quorum of the Board for any such deliberation or decision.*

SECOND SCHEDULE

1. By virtue of this Decree, there shall be vested in the Authority established under this Decree (in this Schedule referred to as "the Authority") all assets, funds, resources and other movable or immovable property which immediately before the commencement of this Decree were vested in the Authority established under the repealed enactment (in this Schedule referred to as "the former Authority").

2. Subject to the provision of paragraph 1 of this Schedule --

> *a. the rights, interest, obligations and liabilities of the former Authority existing immediately before the commencement of this Decree under any contract or instrument, or at law or in equity apart from any contract or instrument, shall by virtue of this Decree be deemed to have been assigned to and vested in the Authority;*
> *b. any such contract or instrument as is mentioned in sub-paragraph (a) of this paragraph, shall be of the same force and effect against or in favour of the Authority and shall be enforceable as fully and effectively as if instead of the former Authority the Authority had been named therein or had been a party thereto; and*
> *c. the Authority shall be subject to all the obligations and liabilities to which the former Authority was subject immediately before the com-*

mencement of this Decree and all persons shall, as from the commencement of this Decree have the same rights, powers and remedies against the Authority as they had against the former Authority immediately before the day.

3. Any proceeding or cause of action pending or existing immediately before the commencement of this Decree by or against the former Authority in respect of any rights, interest, obligation or liability, of the former Authority may be continued, or as the case may require, commenced and the determination of a court of law, tribunal or other authority or person may be enforced, by or against the Authority to the same extent that such cause of action or determination might have been continued or commenced or enforced by or against the former Authority as if this Decree had not been made.

4. Any person who immediately before the commencement of this Decree held office under the former Authority shall, on the commencement of this Decree be deemed to been transferred to the Authority on terms and conditions not less favourable than those obtaining immediately before the commencement of this Decree and service under the former Authority shall be deemed to be service under the Authority for pensions purposes.

5. For the purposes of paragraph 4 of this Schedule, the terms and conditions comprised in any transferred appointment shall not be construed as being less favourable merely because they are not in all respects identical or superior to the terms and conditions enjoyed by any person concerned immediately before the commencement of this Decree if the first-mentioned terms and conditions taken as a whole confer substantially equivalent or greater benefits.

6. Within twelve months next after the making of this Decree the Minister, if he thinks fit, may by order published in the Gazette make additional transitional or saving provisions for better carrying out of the objectives of this Schedule.

THIRD SCHEDULE

(Section 6)

APPROVED ACTIVITIES

1. Manufacturing of goods for export
2. Warehousing freight forwarding and customs clearance
3. Handling of duty free goods (transhipment, sorting, marketing, packaging, etc.)
4. Banking, stock exchange and other financial services;
insurance and re-insurance
5. Import of goods for special services, exhibitions and publicity
6. International Commercial Arbitration Services
7. Activities relating to integrated zones
8. Other activities deemed appropriate by Nigeria Export Processing Zones Authority.

FOURTH SCHEDULE

Section 12(3)

DUTY FREE ARTICLES

1. Building materials.
2. Tools.
3. Plant.
4. Machinery.
5. Pipes.
6. Pumps.
7. Conveyor belts.
8. Other appliances and materials necessary for construction, alteration, and repair of premises.
9. Capital and consumer goods, raw materials components of all articles intended to be used for the purpose of, and in connection with reconstruction, extension or repair of premises in a Zone or for equipping such premises and any other items approved by the Authority.