

BEYOND POLITICS: SOUTH EAST NIGERIA ECONOMIC INTEGRATION AND THE PLACE OF FREE TRADE ZONES

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Abstract

Since 2017, the South Eastern region of Nigeria, comprising of Abia, Anambra, Ebonyi, Enugu and Imo State have advocated for economic integration to enhance its regional prominence. The study explores the transformation potential of Free Trade Zones (FTZ) in accelerating economic growth and integration in the South East, leveraging the Free Trade Zone Act of 2019, which provided tax breaks and streamlined custom procedures. Utilizing a qualitative research methodology and a system theory as the theoretical framework, this paper draws from secondary data sources and employs content analysis. The findings reveal that FTZs attract significant Foreign Direct Investment (FDI), which the region can strategically harness. Moreover, the implementation of FTZs is shown to reduce unemployment rates and increase the region's Gross Domestic Product (GDP). The study emphasizes that these economic benefits are sustainable only if state policies are designed with long - term perspective, transcending political tenures. Recommendations include the adoption of enduring policies to ensure the institutionalization of FTZs, thereby serving as a cornerstone for economic integration in the South East region of Nigeria. Also the quantum of diaspora remittance into the country can be directed towards investment given the right atmosphere.

Key words: Free Trade Zone, Foreign Direct Investments, Diaspora, Tax Breaks, Economic integration.

1. Introduction

The south eastern Nigeria which comprises of five states namely Abia, Anambra, Ebonyi, Enugu and Imo state are diverse in various sectors of economy. They are rich in Agriculture, commerce, manufacturing, oil and gas and other services. These economic endowments are spread across the length and breath of the region. Each has a particular area they have a comparative advantage in and can be harnessed collectively. Looking at level of development in these states it could be concluded that these resources are under exploited or not exploited at all. Adesopo and Asaju (2004) posits that their isolated efforts has been the bane of the underdevelopment existing in the region. The states depend highly on Federal allocations and other regions economy to take care of their needs while they have industrial hubs, enterprises and agricultural opportunities that can be harnessed collectively to generate employment opportunities, industrial growth, and wealth creation. It has been adjudged that the low level of partnership among the states towards collective development were responsible for non attainment of self sufficiency in the region (Eboh, Okoye and Ukwu, 2006). Nwogboga (2011), reiterated that these states are faced with developmental challenges which are consequence of their inability to harness the various resources collectively. Even the state owned enterprises have collapsed due to negligence on the part of the state executives.

It was this realization that gave rise to the creation of South East Nigeria Economic Commission (SENEC) in 2006. Nwogboga (2011) posits that SENEK was established as a

driving force for the region, but that their impact was never felt because of the political differences that exist among the states. Yet another commission known as South East Development Commission was birthed by President Ahmed Tinubu on 24th July 2024 and it became operational this 12th February 2025. Whether it will go the way of the SENEK is yet to be seen. Among the problems being faced are the problem of funding, insecurity and infrastructural developments. The political differences had made it impossible for enactment of policies that will help in the actualization of the dreams of the people in the region. SENEK had plans for the collective development of the region, but it was hindered by implementation strategy. The new South East Development Commission (SEDC) has its mandate which hinges on driving Development in the region which includes reconstruction of war damaged roads, houses, tackling ecological problem that is almost choking the region and unlocking the regions commercial potentials (This Day, 2025). Before the establishment of the commission the governors have continued to meet with the hope of realizing this mission. The last one was on the 2nd of July 2024.

However, Ohabunwa (2021) on the other hand believes that the principal way to grow an economy is by attracting both foreign and domestic investments. And to attract these investments one needs to provide a secure environment, enforce law and order, provide stable macroeconomic environment, ensure policy stability and give irresistible incentives. The irresistible investments incentives can come in different forms and one of such is the free trade zone.

Free Trade Zones (FTZ) is a specialized economic zone that gives privileges to companies doing business within the zone especially in terms of taxes. This is an economic policy that will encourage Foreign Direct Investments (FDI) to operate in Nigeria free from Nigeria's Tax laws, levies, duties and foreign exchange regulations (Aremu, 2005). According to Afolabi (2008), it is an economic privilege for foreign direct investment (FDI) to function without the constraints of Nigeria's tax regulations, levies, duties, and foreign exchange controls. The establishment of Free Trade Zones (FTZ) in Nigeria began in 1991 with the passage of the Export Processing Zone Authority (NEPAZA) Act by the federal government. In these zones, goods can be imported, processed, manufactured, or altered and then exported again without interference from customs authorities. Within this framework, both foreign and domestic firms are permitted to bring in raw materials, produce goods, export products, and engage in other activities without being bound by the usual customs taxes, labor laws, and cumbersome administrative regulations. Thus this study aims to interrogate how the South Eastern Nigeria States in their collaborative effort can leverage on the existence of FTZs to attract both foreign and domestic investments to achieve their developmental goals in the region.

2.0 Conceptual Clarifications

2.1 Economic Integration

Economic integration involves the lowering of trade obstacles and limitations on capital movement between regions to enhance their economies. This process generally results in the harmonization of monetary and fiscal policies among the participating states or nations. The various economies merge to form a significantly larger market. Fofack (2021) suggests that economic integration enhances market access and decreases business costs by providing opportunities for economies of scale. Similarly, Kenton (2024) defines economic integration "as a collaborative effort among nations that usually entails the reduction or removal of trade barriers and the alignment of fiscal policies." Scholars agree that the primary objective of economic

integration is to minimize costs for both producers and consumers. This naturally boosts the volume of trade among the economies that are integrating. According to Kenton (2024), there are seven stages of economic integration, which are preferential trading areas, free trade areas, customs unions, economic and monetary unions, and full economic integration.

Economic integration has several benefits, including increased economic activities among the involved states, job creation resulting from growth, and enhanced political connections between the states involved, owing to consistency in both fiscal and monetary policies. However, despite these advantages, it also has drawbacks, as noted by Kenton (2024), which include trade diversion and a reduction in sovereignty.

2.2 The Free Trade Area/Zone

Kraugman (1991) described free trade zones as areas where participating countries concur to eliminate tariffs and other trade obstacles on goods within the zone. Onyedinefu (2022) characterized free trade zones as labor-intensive manufacturing hubs that involve the importation of raw materials or components and the exportation of manufactured goods as well as service industries. According to the World Bank (2008), these are duty-free areas that provide warehousing, storage, and distribution facilities for trade, transshipment, and re-export operations. A free trade agreement can exist between two nations that agree to reduce trade barriers to promote their economic growth. A free trade zone can be defined as a designated area within a nation where businesses operate under specific advantages aimed at accelerating economic growth. It is generally classified into various types such as Special Economic Zones, Export Processing Zones, Free Trade Zones, Oil and Gas Zones, Border Zones, Industrial Parks, Logistics Zones, Information and Communication Technology Zones, and Tourism Zones. The terminology for free trade zones can vary by country; for instance, some refer to it as a Special Economic Zone, Foreign Zone, Industrial Development Zone, Enterprise Zone, or Free Trade Zone, as seen in Nigeria.

The organization tasked with overseeing free trade zones in Nigeria is the Nigerian Export Processing Zones Authority (NEPAZ), which was established in 2004 in accordance with the Nigeria Export Processing Act Cap N107 LFN and the Oil and Gas Export Free Zone Act (OGEFZA) Cap 05 LFN 2004. While the Nigeria Export Processing Act is responsible for granting licenses to free zone enterprises, OGEFZA manages licensing specifically for the oil and gas sector. NEPAZ describes a Free Trade Zone as "a geographically defined area considered to be outside the customs territory, where national regulations on production, trade, and other economic activities may not apply or may only partially apply." A zone can be administered by the public sector, the private sector, or a partnership of both. NEPAZ is responsible for issuing licenses to operators in the free trade zones. It's not all activities that are permissible in a free trade zone. Some of the permissible activities include the following:

- 1) Construction of light manufacturing - housing, light manufacturing and services.
- 1) Solid minerals and metals - cement, basic steel, aluminium, chemicals, auto-assembly.
- 2) Oil and Gas - Petrochemical, Fertilizer, Methanol, Plastics, Refineries.
- 3) Agro business and Agro Allied - Food processing, Sugar, Palm oil processing, Cocoa processing, Leather and leather products, Rubber products, Textiles and Garments.

In Nigeria, there are about 42 licensed free trade zones housing more than 500 licensed free zone enterprises. It's been argued that out of these 42, only 25 are active. In a free trade zone area, there is always a main company known as the Zone Company that oversees operations

within the zone, while all the others are known as free zone enterprises. In most cases, the free trade zone is named after the Zone Company. However, every trade zone has its own specific regulations and operational guidelines outside the general ones as specified by NEPAZ.

Numerous incentives are derived from establishing a business in the free trade zones in Nigeria. According to NEPZ and OGFZ Act, they include tax holidays from states and federal government, duty-free importation of raw material, equipment and, machinery needed to carry out businesses, rent fees during construction stages. These help to reduce the cost of production. Bureaucratize bottle necks are also reduced in the process of registration. They are allowed to repatriate their foreign capital investment in foreign currency anytime on the capital appreciation of the investment. Hundred percent ownership is allowed, and their waivers on all expatriate quota approvals. So many scholars from different academic background had written extensively on the issue of Free Trade zones in Nigeria with divergent opinion depending on the field of academic, one is coming from.

Adepoju and Adepoju (2019) posit there is a difference between theory and practice of free trade zone in Nigeria. He believed that there is need for transparency, infrastructural development and adherence to international best practices for both the host and the investors to harmonize the theory and practice of a free trade zone. Ene, Adegboju and Abiodun (2024) believe that free trade zones has numerous benefits that Nigerians should tap into to be able to achieve its sustainable development. This includes the tax benefits, forex and custom and other interesting incentives. While having so many incentives, they believe that certain debilitating challenges still stands in the way towards unlocking potentials that can transform Nigeria's economy through job creation and economic diversification.

Torres (2007) posits that the objectives of countries that make use of free trade zones are mostly for development, generation of income, increase in employment and above all by attracting mostly Foreign Direct Investment. These achieved by offering lots of incentives to companies who wish to do business in the zones. Afolabi (2008) reiterates that most free zones are located in developing countries and have concentrated traditionally on manufacturing for exports. According to him many of them are located near sea port routes in other to leverage on international transport. He believes that the waiver on the issue of employment is yet another hurdle that will impact greatly on achieving increase in employment among the indigenes. This is because a lot of FDI's especially China usually employs their people.

It has been lauded by scholars that benefits abound for both the investors and country housing the free trade zone. Such benefits include;

- a) Tax freedom; this is one of them biggest of them all. Although there has been some restrictions in tax freedom of late, there still exist some exemptions in taxes, tariffs and applicable foreign exchange.
- b) Removal of bureaucratic hurdle in the process of approval and incorporation purposes
- c) Better connectivity by being located close to sea ports and easy to approach roads.
- d) They are granted export and import licence freedom
- e) Rent; companies under construction do not pay rent until they become operational
- f) Companies in the zone can have a hundred percent ownership of the business,

2.3 Theoretical framework

This study will be anchored on structural Functionalism theory which emerged in the 20th century as a response to the growing complexity of modern societies and the need to understand the underlying structures and processes that shape social behaviour. The theory is informed by

the contributions of notable scholars such as Emile Durkheim, Talcott Parsons, and Robert K. Merton. It perceives society as a multifaceted system consisting of different components, each serving particular roles that aid in the overall stability and balance of the society. This viewpoint highlights the interconnectedness of social institutions and how they collaborate to uphold social order and unity.

The South East zone forms the complex system within which structures are developed with a specific function for the states, that will be working towards the stability of the zone. Such structures as road network, sea ports, laws guiding the intermingling of the economic activities in the zone and effective apparatus that will enable it function without bureaucratic hurdle. Each state bound by the policies that will give the region its stability. Each state is also mandated to carry out certain functions for the overall good of the region. Some certain function will be done collaboratively, especially if they require huge finance.

3.0 Methodology

The study looks at the historical and current relationship between the South-east states of Nigeria, relying on documentary evidence. This was adopted to see what has been done in the past and the current endeavors by the leadership of the states to present a united front in their economic development pursuit. Qualitative content analysis method was adopted to help analyze and discover ways and means the States can adopt to move the region forward, development-wise. Secondary sources such as journals, text books, newspapers were used to see the impact Free Trade Zones have had on other societies or states faced with similar circumstances. The findings are expected to contribute to the ongoing discourse on ways to bring about unified economic development in the region.

4.0 Discussions and Analysis

4.1 Free Trade zone as a tool of Economic development:

Exemptions offered in free trade zone areas often attracts investors both local and foreign. It always a fertile ground for Foreign Direct Investments (FDI). These investments had always had a massive contribution to nations economic growth. Chinese example are there for one to look at. Zeng (2010) posits that China's Special Economic Zones (SEZ) contributed largely to Chinese economic growth. It attracted FDI, created employment, Technology and Skills. The China's SEZs was used to attract about 50% of the countries FDI in 2007 and earned about 22% of their GDP. In his study, he posits that China grew from being a closed economy with little interaction with its neighbours to rank as the second largest economy after the United States. He claimed that the establishment of Special Economic Zones (SEZs) in China facilitated substantial growth in international trade and attracted foreign direct investments, driving development. Consequently, from 2012 to 2016, the cultural and creative sectors expanded by an average of 14% each year. During this time frame, the once modest fishing village attracted almost \$300 billion in investments and more than 90,000 foreign companies.

Mauritius is one of the African countries that has ventured into Free Trade zone as a means of economic emancipation. It used to be an agrarian economy before the introduction of Free Trade zone. It was noted that 70% of their export was sugar cane. Free trade zone was introduced in the country about 1996. Freezone Channel (2018), posits that not only did their economy become diversified, their export rose from 30% to 60%, while sugar cane export fell to 29.6%. And there has been a continuous increase in quantity of export. Thus Mauritius became a model for other African countries.

In Zeng (2012) in 103442 World Bank Policy Note report on some six Free Trade zones in Nigeria, posits that there were significant progress with several firms already operating in the zones. The zones includes a) The Lekki free trade zone in Lagos, b) The Ogun-Guangdong free trade zone in Ogun state, c) The Abuja Technology village in FCTA, d) Koko free zone Delta State, e) Warri Industrial business park in Delta State, and f) The ICT park Asaba, Delta state. However not all of them are on the same page. Some had already gone far while some are still in their infrastructure development stage. For area like Lekki Free Trade zone, an estimated \$1, billion has been invested through Private- Public partnership (PPP). Companies are already operating in the zone and have employed about 450 staff out of which 80% are Nigerians.

Eneh et al (2024) posit that free trade zones are drivers of investment by their way of attracting FDIs. He contends that the array of incentives and tax holidays given to them naturally reduces the cost of doing business. Thus this makes it very attractive to investors especially the foreign ones. Apart from tax reductions, they also enjoy a more simplified and less expensive regulatory compliance burden. They reiterated that Free trade zones in Nigeria as at 2023 had created over 30,000 jobs in Nigeria. NEPAZA was also said to have recorded about \$400 million (four hundred million dollars) FDI inflows alone, while over \$100 million (one hundred million dollars) was recorded from international export. Another attraction is the repatriation of profit. Most foreign investors naturally want to know what happens to their profit. The fact that full repatriation is allowed is enough to bring them in.

It's been noted from the success stories from other countries like China and Mauritius, that government strong commitment to infrastructure development in the areas as well as establishment of business support system had helped to give a boost to the activities in the free trade zones. They also had preferential treatment in terms of acquisition of cheap land and rapid custom clearance. The FDI also played an important and leading roles in their successes as well as the diaspora who helped in technology transfer. The investors were focused and were having a healthy competition among themselves.

According to World Bank (2022), remittances from Nigerians leaving outside the country exceeded \$21 billion in 2022. It was also noted that Nigeria is among the highest recipient of remittance in Africa from overseas. These inflows took care of support for families and support for local economies. This was reiterated by John-Oti et al (2025), who posits that Nigerian Diaspora contributes significantly to the nations' economic growth through their remittance which goes to investments and skill transfers. They posits that the amount of remittance into the country surpasses that of Foreign Direct investment and Aids in Nigeria. These findings go a long way to address in part, the issue of capital requirements for take-off of some industries.

However many states in Nigeria are yet to register free trade zones especially the south east region of the country. To benefit from the free trade zone opportunity, the first step is to acquire a free trade zone area which the authority in charge has made its registration quite easy. In the absence of administrative companies that can acquire such zone, the government can embark on the acquisition by themselves and then lease out to interested investors.

From the findings of the study, it's been observed that a lot of registered FTZ in Nigeria are not functional. The South Eastern Nigeria has just one (1) registered Free Trade zones that is functional only in Enugu State. Below is the table of registered functional FTZs in Nigeria according to States.

Table 1: The number of functional free trade zone areas in Nigeria according to states

S/n	State	Number
1	Abuja	1
2	Akwa Ibom	1
3	Cross Rivers State	2
4	Delta	3
5	Enugu	1
6	Kaduna	1
7	Kogi	1
8	Lagos	11
9	Lagos/Ogun	1
10	Niger	1
11	Ogun	2
	Total	25

Sourced by Dr. Orji Stella Ifeoma . August 2025.

However it's been noted that Free trade zone survives more where there are basic infrastructures that will make it easy for them to do business. Such infrastructures like good roads and good road networks, constant power supply and ports(airport and seaport) for easy evacuation of their finished products. They are thriving in lagos and Ogun state in Nigeria because of their proximity to the port and the relative availability of some basic infrastructures. Public/Private Partnership (PPP) are also known to be an added advantage. Inram(2025) posits that the successes and failures recorded in the Free Trade zones are due mostly to availability of these infrastructures and markets for their products. He also mentioned that corruption, political instability are some of the issues that mitigates against the success of the FTZs.

5.0 Conclusion

South East of Nigeria has been battling with how to bring development to the region, collectively. The government had met severally, looking for a road map to achieve collective development. Such effort can be seen with the establishment of SENEK (South East Economic Commission) and most recently South East Development Commission. This paper tried to look at other ways this collective development can be achieved. It looked at the establishment of businesses under Free Trade Zones. As noted, Free trade zones have a lot of tax incentives that will appeal to FDI (Foreign Direct Investments) and even local manufacturers. Examples of countries or region where Free Trade zones had helped in the development were considered. the study was able to realize that Foreign Direct Investment under free trade zones had helped so many regions or countries to achieve their pre-determined aim of development. The study realized that if the government in the South East Region will collectively work towards infrastructural development in the region, which is the basis for successes recorded in areas where it was administered, the South East will experience rapid development through increased FDI, diversification of products, increased exports which will be seen in the increase in GDP and increased employment.

6.0 Recommendations

For the actualization of the benefits associated with Free Trade Zones the following are recommended from the study:

- 1) The State governments in the East should embark on collective infrastructural development by enacting policies that will outlive their tenures to ensure continuity in their developmental stride towards provision of railway transport, seaport, international airport and a host of other infrastructures.
- 2) The Diaspora community should be co-opted into investing or joint partnership with the government having in mind the quantum of inflows that comes from them into the country.
- 3) Aside commissions set up by the Federal government, non-political and merit-based board of trustees should be established that will be solely responsible to the administration of policies that were enacted to help in the integration and development of these economic investments in the east.
- 4) The government should also help in the acquisition of lands that can be designated as a free trade zone area in the absence of companies or individuals.

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