



Analysis of the Performance of Export Processing Zones in Ghana

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Abstract. Free Zones (also referred to as Export Processing Zones) have been effectively used and are currently being applied in a variety of settings to introduce market oriented economic and institutional policy reforms in several countries such as Ireland, South Korea, Republic of China, Mauritius, Namibia, Togo and Nigeria. In some of these countries, the application of the Free Zones/EPZ policy have had the effect of encouraging competitive enterprises to establish themselves within zone boundaries mainly to produce export. The study adopted both quantitative and qualitative approach to research. Primary data obtained through the use of questionnaire and interviews. 100 registered free zones companies out of the 176 total existing companies were sampled based on the 2007 Ghana Free Zones Board Annual Report using simple random and purposive sampling. Although free zones companies can be found in other regions such as Western, Ashanti and Volta, they are mainly concentrated in Tema and Accra including those in the TEPZ enclave. The main objective was to analyse the export performance of free zones companies in Ghana from 2003 to 2008. Variables used included; exports of FZ companies, export-employment ratio, net exports and value added. The study also looked at the generation of foreign exchange and employment created by these companies from 2001 to 2008. From the results of the study, it could be seen that while national exports are increasing over time, FZ exports have been inconsistent over time. The result depicts that although the number of FZ companies have been increasing since its inception, exports from these companies have not significantly affected gross exports from the country. It was observed that exports from FZ companies have been less than 10% of total exports. This deviates from a number of FZ/EPZ in previous work where FZ/EPZs contribute significantly to the country's exports and improving their economy as indicated earlier in this chapter. Peter L Watson in *'Export Processing Zones: Has Africa missed the boat'*, noted that although there is a potential for Africa to benefit from export-oriented growth based on the development of FZ/EPZs, it would not be easy. The country would need to put together a coordinated package of incentives, infrastructure and services that will attract foreign investors. He also cited attitude and culture as playing an important role in the success of these zones.

Keywords: Free Zones, export processing, employment, performance, exchange earnings

Background

The poor economic performance of many African economies has been associated with low growth of exports in general and manufactured exports in particular (Söderbom Måns and Teal Francis, 2003). Export promotion as an instrument for economic growth cannot be over-emphasized. It is noted in theory that promoting volume and/or value of exports leads to increase in exports hence increased foreign exchange earnings which in turn boosts a country's economy. For some decades now, African countries have witnessed major changes in economic policy to more open market oriented regimes with Ghana being no exception. Export promotion in Ghana is seen as an important policy tool for the country to achieve sustainable economic growth. Several policy instruments have been adopted to promote the nation's export competitiveness. These include the Economic Recovery Programme (ERP) initiated in 1983. A policy instrument that has become a rather popular instrument is the introduction of export processing or free zones. This is due to how zones impart on a country's economy using its outward-oriented nature. Over the last three decades, the adoption of export – oriented industrialization in the global economy has raised questions about the once popular import substitution strategies. This outward oriented strategy has been parallel to the development of Export Processing Zones. Though it initially started with a small number of countries, for example China and Singapore, Export Processing Zones are currently found in more than 90 countries. This option of development strategy emphasizes on the outward orientation of countries with particular emphasis on exports. Steve Radelet (1999) noted that during the last thirty years success in manufactured exports has been nearly synonymous with rapid economic development. This economic development is what most developing countries wanted to achieve.

EPZs have become important part of policy instruments in developing economies in their quest to attract foreign investment, promote non-traditional exports and to increase exports as a whole. Many developing countries have tried to accelerate exports of non-traditional commodities since the 1960s and one way of achieving

this target is by the establishment of an export processing zone or free zones area. Export processing zones became a popular trade policy instrument since its modern revival in the late 1950s. The Shannon Free Zone in Ireland is said to be the world's first export processing zone inspiring the development of export processing zones in emerging markets worldwide (Foreign Investment Advisory Services 2008). The zone was critical to the growth of exports, attracting foreign direct investment and outward orientation of the Irish economy.

The firms inside the EPZs are mostly foreign and enjoy favoured treatment with respect to imports of intermediate goods, taxation and infrastructure. They are also free from industrial regulations applying elsewhere in the country. These privileges are subject to the conditions that almost all of the output is exported and that all imported intermediate goods are used within the zones or else re-exported (Peter G. Warr, 1989). Export Processing Zones are attractive to multinational corporations and are also promoted by governments in developing countries. Economic planners and policy makers advocate Export processing zones or Free Zones because of their high probability of attracting foreign firms that can have positive economic impact on the host country and with the hope of generating multiplier and spread effects in local economics. Their attractiveness can be due to the fact that zones creation has indeed generated important economic benefits in some developing countries.

In Africa, most countries implemented both pure Export Processing Zones approaches along side single factory models. Ghana opted for private sector zones; that is limiting government's role in zones. A number of countries including Mauritius and Madagascar operating the single factory Export Processing Zones programme have been quite successful in terms of exports and job creation (Foreign Investment Advisory Services, 2008). As noted by Cling Jean-Pierre and Letilly Gaelle (2001), Export Processing Zones have experienced expansion in developing countries during the past three decades and has been rising since the 1880s. According to the authors, the acceleration of export processing zones is a result of

the conversion of developing countries economic policies mainly import substitution to export-led growth policies. These policies were considered the optimal strategy to favour insertion into the global economy as well as stimulate employment and also with the emphasis on international competition. Export promotion is now being seen as an important policy for the growth of developing economies. With export processing zones, enterprises are required to produce essentially for exports.

Liberia as well as Senegal established Export Processing Zones in early 1970s. Mauritius success story of their Export Processing Programme, single factory, has led to many zone developments on the African continent, in the East, Southern and in the late 1980s in West Africa. United Nations Industrial Development Organization (UNIDO) defines export processing zones as: a relatively small, geographically separated area within a country, the purpose of which to attract export-oriented industries, by offering them especially favourable investment and trade conditions as compared with the remainder of the host economy. In particular, the export processing zones provide for the importation of goods to be used in the production of exports on a bonded duty free basis (UNIDO 1980).

United Nations Conference on Trade and Development (UNCTAD) defines export processing zones as industrial estates which form enclaves within the national customs territory and are usually situated near an international port and/or airport. The entire production of such zones is normally exported. Imports of raw materials, intermediate products, equipment and machinery required for export production are not subject to customs duty (UNCTAD 1985: 10). Ghana introduced the free zones concept in the mid 1990s to encourage competitive enterprises to establish themselves within zone boundaries to produce mainly for export to aid economic development. In Ghana, Export Processing Zones are used interchangeably with Free Zones. The programme is called Free Zones programme but the zones are termed export processing zones. The term “free” zones as used in Ghana is just a matter of terminology in the sense that companies operating in the programme

enjoy some incentives. Again, through most literature, a variety of terminologies such as free zones (eg. In Ireland and United Arab Emirates), special economic zones(eg. China) and maquiladoras (eg. Mexico and Costa Rica) are used interchangeably.

Objectives of Study

Generally, the study seeks to examine the performance of free Zone companies in Ghana. Specifically, This study in seek to examine the;

- ❖ Export performance of free zones companies in Ghana
- ❖ Generation of foreign exchange earnings from free zones companies
- ❖ Challenges of the free zones programme in Ghana
- ❖ Analyse employment trends in the free zones programme since employment creation is considered as one of the primary goals of establishing free zones.

LITERATURE REVIEW

Concept of Free Zones

Free zones have existed for several centuries. These zones were established to encourage trade in exports mostly from ones located on or near international trade routes. Examples include Hong Kong (1848), Singapore (1819) and Hamburg (1888). Though the sudden increase in the use of the concept seems to be quite a recent development, it has been in existence for a long time now. Modern Free Zones are variants of the traditional commercial zones. While the old zones were often described as a static, labour intensive, incentive-driven, exploitative enclave, the new zone paradigm is more dynamic, investment-intensive, management-driven and an integrated economic tool. Generally, the principles underlying the basic concept of a free zone include:

- ❖ Geographically delimited area, usually physically secured
- ❖ Separate Customs area (duty-free benefits) and streamlined procedures
- ❖ Eligibility for benefits based upon physical location within the zone

The core definition of a free zone, and proposed guidelines and standards are contained in the Revised Kyoto Convention of the World Customs Organization (WCO).

The commonly used term for this concept is Export Processing Zone but as argued in the paper (ILO/UNCTC, 1988), this may not be the most adequate term to reflect economic realities. A more general, less controversial term seemed to be the use of the term free zones. This study however uses the terms interchangeably but basically adopts the term as used by the world bank, “*an export processing zone is defined as a territorial or economic enclave in which goods may be imported, stored, repacked, manufactured and reshipped with a reduction in duties and/pr minimal intervention by customs officials*” (Madani, D., 1999).

The Trafford Park Industrial Estate of the United Kingdom established in 1896 has been credited by the World Bank to be the oldest full-fledged version of free zones (World Bank, 1992) but modern literature on the free zones concept links the first modern zone to that near the Shannon Airport in 1957 in the Republic of Ireland. By 1986, there were 176 zones across 47 countries. In 2003, the number of zones increased to over 3000 across 116 countries (Table 2). A large number of these zones are operating in developing countries.

Table 1: Estimates of EPZs

	1975	1986	1995	1997	2003
Number of countries having EPZs	25	47	73	93	116
Number of EPZs	79	176	500	845	>3000
Employment in EPZs (million)				22.5	42

Source: WEPZA

Rationale for Free Zone Development

The development of zones is one of many policy instruments at the disposal of governments of developing countries. They are normally created as open market cases within an economy that is distorted by trade volatilities, macroeconomic and exchange rate regulations and other governmental controls. World Bank Research working paper (1999) sees four competing but not exclusive views on the roles of Free Zones in the economy. These are: Free zones are considered as an integral part to further economy-wide reforms. Zones normally have life spans and lose their importance as countries implement systematic trade, macroeconomic and exchange rate reforms. For example Ghanaian companies operating in zones do not enjoy certain trade policies. An example is the ECOWAS Trade Liberalization Schemes and if these policies become effective in the country the free zones concept would be played down. Zones that have had their exports and employment share in total exports and employment due to their economies opening up include Taiwan and South Korea Export Processing Zones.

A second view is Free zones being used as safety valves. Here the paper sees zones as providing the needed currency to provide for the host nation's import needs and also to curtail unemployment and under-employment. Thirdly the paper noted that Free Zones can be used as laboratories to experiment with the market economy and outward-oriented policies. China's Special Economic Zones was noted as describing vividly this third view. China's special Economic Zones illustrates labour and financial relationships, new production and dynamics in the zones concept and evaluated before introduction into the larger Chinese economy. Lastly, a more recent view comes from some developing countries where the level of FDI following trade and economic policy reforms has been disappointing. Countervailing measures therefore introduced included establishing free zones to enhance the incentives to help attract FDI and match or surpass the incentives provided by their neighbouring and potential competitors for investors.

Theoretical literature

Theoretical agreement on export-led growth emerged among neoclassical economists due to the success of the free-market, and outward-oriented policies of the East Asian tigers (World Bank, 1993). It is stated that in reality the tigers' success was not left to the market but resulted as much from carefully planned intervention by the governments. As stated by Amsden (1998), the approach behind the emergence of the new Asian Tigers is a strong interventionist state, which has wilfully and abundantly provided tariff protection and subsidies and managed investments. Export-led growth hypothesis has not been widely accepted by academics (Feder 1982; Krueger 1990) and evolved into a new conventional wisdom (Tyler 1981; Balassa 1985), but it also has shaped the development of countries as well as the policies of the World Bank (World Bank 1987).

The proponents of the export-led hypothesis and free trade point out that the Latin America economies that followed inward-oriented policies under the import substitution strategy showed poor economic achievements (Balassa 1980). In order to achieve better economic performance many developing countries tried to stimulate their export-led orientation through implementation of adjustment and stabilization programs, Ghana inclusive. It was envisaged that export promotion would enable these countries to correct imbalances in their economy and assist in the path of full recovery. Although Dorsati Madani (1999) argues that EPZs did not fulfil the role of engines of industrialization and growth as some proponents had anticipated, she finds that under propitious circumstances and good management EPZs generally achieve the two basic goals of increasing foreign exchange earnings and creating employment.

Perter L Watson (2001) also concludes that there is substantial potential for African countries to benefit from export-oriented growth based on the development of EPZs. Any country attempting to develop an EPZ program will have to enlist the concerted and coordinated support of its development partners in the implementation of the

programme. Vijaya Ramachandren and Rachel Cleetus (August 1999) indicates the perhaps the most important lesson to be learnt from the Chinese experience is that exports are key to high GDP growth rates but successful export expansion in turn depends on a policy package which conveys a clear message that the country will give priority to export-oriented firms rather than sheltering import-competing industries. It was also gathered from available literature that EPZs are sensitive to national economic environment. Romer (1993) and Alter (1991) state that EPZs will perform better when the country pursues sound macroeconomic and exchange rate policies. According to World Bank (1992) and UNIDO (1995), Export Processing Zone is an industrial area that constitutes an enclave with regard to customs' tariffs and the commercial code in force in the host country. Traditionally, the concept of free zones developed gradually to compensate for the anti-export bias which was created by the import substitution industrial policy regime.

Aggarwal (2005) saw import substitution policy as a policy that created the incentive structure which was biased against the export sector. In this paper it was also noted that the overvalued exchanged rate coupled with high tariffs and quantitative restrictions made producing for import substitution more profitable compared to the production of export. To increase the production for the export sector, some countervailing measures such as fiscal measures and duty drawbacks were therefore needed. In Aggarwal's view export processing zone policy was developed out of concern of providing special incentives package to curtail the effect of 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). This however means that the relative attractiveness of the system declines under free trading regime (Madani 1999) but recent experience has indicated that the adoption of export-led growth strategies by developing economies has led to considerable increase in the number of zones world wide. The traditional perspective of export processing zones thus fails to explain the recent proliferation of zones in developing countries. The

growth of zones in export oriented regimes may be explained within the realm of new growth theory, new institutionalism and the developmental state theory evolved in the 1980s (Baissac, 2003). These theories are said to re-affirm the fact that economic, political and social institutions have a key role to play in the developmental process. While advanced economies have capable institutional actors, developing countries suffer from lack of capable institutional actors. Economic development can only result from state-led policies designed to address the numerous production failures and bottlenecks that characterize the economies of under-developed countries. One such state-led policy is the Free Zones Scheme.

Free zones are said to offer a more conducive investment climate for developing countries. Free zones therefore make up for infrastructural deficiencies and procedural complexities that characterise these developing countries. It has been stated in literature that trade related infrastructure and institutional framework are lacking in these countries. These institutional framework are essential to a country's conducive investment climate. In these countries also, it is known that production and transaction costs of exports are increased by too many windows in the administrative set-up, complicated bureaucratic procedures and barriers monetary, fiscal, taxation, tariff and labour policies. Free zones are therefore strategic tools to promote and diversify exports in these developing countries. Zones also provide the platform for hassle-free business environment and help develop a competitive industrial base. For developing countries the zones may not substantially affect exports unless they attract Foreign Direct investment given the limited technological and marketing capabilities of these economies. This is due to the easy access to propriety technology of parent and international marketing network. In this era of globalisation, multi-national enterprises are likely to be more competitive in international markets. They are restructuring their operations to take opportunity of scale and scope by internalizing the economies of specialization through the integration of assets, production and marketing activities across countries to advance core competencies in global markets. Multi-national

enterprises are locating different stages of production in different countries according to factor costs and capabilities and/or distributing similar production activities across affiliates in countries with similar capabilities to reap economies of scale.

The vision of a Free Zone Scheme is to provide a viable internationally competitive platform that has the capabilities necessary to attract export oriented Foreign Direct Investment to promote exports.

Johansson (1994) noted that the new theories stress the possible effects generated by zones that may take the form of human capital development, learning and demonstration effects among others. Johansson also noted that the new theories accelerate the process of industrialisation in developing countries. The Free zones in the new theoretical framework serve as a catalyst for fast learning for all major stakeholders in the nation and a pioneer in attracting export oriented Foreign Direct Investments and in promoting exports. Porter (1990) indicated that competitive advantages of Zones may also be explained in terms of cluster approach in that Free Zones are industrial clusters of companies that are located in a geographic region. These clusters of companies share economic infrastructure, a pool of skilled human capital. They also have shared access to governmental and other institutions that provide education, specialized training, information and technical support. These companies may also work together to create joint companies, distribution agreements and common manufacturing agreements. It has been stated in literature that external economies of scale and other advantages of cluster help the operating firms in reducing costs, acquiring competitive edge and attracting foreign direct investment (Dunning 1998).

Empirical literature

Söderbom Måns and Teal (2003) states that a common factor in the collapse of many African economies in the period since independence has been the collapse of

their exports. He noted that there was a growing volume of empirical evidence that increase in trade causes increases in a country's income. A prominent feature of the Asian tigers was the growth in their exports, in particular in manufactured exports. They concluded that with the exception of Mauritius, no country in Africa has developed a pattern of rapid growth in manufactured exports. Most companies in Africa are small and therefore do not export their products, they mainly produce for the domestic economy which is not large enough to warrant the kind of growth being anticipated. The paper states that its international markets that holds the key to such success and whiles developing labour-intensive methods of production than it is currently practiced.

Shirazi and Abdul Manap, (1990), noted that great importance has been given to export promotion strategies since the mid-1990s in most developing countries. They suggested that export expansion leads to a better resource allocation, creating economies of scale and production efficiency through technological development, capital formation and employment creation. They noted in their paper that cross-sectional studies undertaken found a substantive correlation between GDP growth and export growth rate and change in export/GDP ratio but contrary to this, Colombatto (1990) in conducting a cross-sectional studies using 70-country sample rejected the export led growth hypothesis. A paper by Jaime Grenados (2002) states that in Latin America and Caribbean countries, export processing zones were conceived to promote their insertion into the international economy in light of an evident and traditional role in promoting and diversifying exports. The paper also states that countries should not focus all of their attention on making EPZs more successful at the cost of disregarding the needs of the rest of the country's business environment and that EPZs are exceptional and fundamentally temporal instruments. According to Tyler and Negrete (2009) in a paper prepared from the LASA congress in Rio de Janeiro economists know that economic policies and institutions make a difference for growth and development. This, they noted is based on theoretical foundation, empirical analysis, economic reasoning among

others. Using endogenous growth theory, they emphasised that competitive forces involved in accessing or penetrating and succeeding on export markets foster gains in productivity. In addition there is the role of technological progress and technological diffusion and transfer of manufacturing and management practices. In examining possible growth strategies and policy approaches to deal with EPZs, the paper concerned itself with the effects on growth of a country using EPZs as a policy mechanism. The authors noted that this analysis was consistent and extends to previous international research employing panel data to examine growth. They found a positive and significant relationship between the use of EPZs and economic growth. This empirical analysis also supports the argument that countries using EPZ as a growth policy instrument grow at a faster rate than those that do not.

Economic Argument for Free Zones

Although many studies have evaluated the economic performance of Free Zone Programme in developing countries, most of them dealt with government developed and operated zones and did little about private Zone development. Most critics of the development of Zones pay attention to the social and environmental impact of the Zones without looking critically at their economic contributions. Almost all the studies failed to evaluate zone contributions vis-à-vis if they did not exist. Economic benefits of Free Zones can be classified into static and dynamic benefits. These are based on economic indicators. The static benefits which can be said to be the straight forward benefits include:

- ❖ Growth and diversification in exports
- ❖ Increased foreign exchange earnings
- ❖ Employment creation and income generation
- ❖ Foreign direct investment and
- ❖ Increase in Government revenue

The term dynamic benefits are associated with those benefits which are difficult to measure. These benefits are also important to long-term contributions from Zone development. These include:

- ❖ Technological transfer
- ❖ Source of labour training and skills upgrading
- ❖ Indirect employment creation/backward linkages and
- ❖ Regional development

Some argue that Zone development have detrimental socio-economic impacts particularly in relation to women and overall working conditions but the positive side outweigh the negative and this is seen more in poorer countries where there is high unemployment rate and government resources and foreign exchange earnings are scarce. Below is a summary of the main economic indicators for Free Zones. In Chapter four these indicators would be examined vis-à-vis the host nation, which is Ghana in this case as well as the contribution of the Free Zones programme to the objectives and targets aimed at when the zone idea was conceived.

Foreign Exchange Earnings Potential

This is one of the main benefits expected from Free Zones. It has been revealed in literature that Free Zones provide foreign exchange earnings that allow economies with low income to lessen the foreign exchange constraints regarding import their import needs for the rest of the economy. Hence create more resources for state developmental projects. Earlier studies on Free Zones found a phenomenal increase in gross exports and therefore earnings. This created a lot of support for Zone development. For example Blanco de Armas and Sadni-Jallab (2002), stated that Export Processing Zones export in Mauritius grew from 3 percent of total export earnings in 1971 to 52.6 percent in 1986 and 68.7 percent in 1994.

Effects of Foreign Direct Investment

Benefits from Foreign Direct Investment can be grouped into two. First, there are the more formal benefits that are easily quantifiable and are usually short term such as export growth, foreign exchange earnings and employment. Secondly, we have the informal or indirect benefits accruing from Zone operations. This is recognized through the development of linkages with the domestic economy for example technology transfers. Such transfers could also help in the development of non-traditional goods and enhance the production of traditional ones. The domestic economy can also supply to Free Zones enterprises in the medium to long run. This process integrates the Zone into the national economy also and promotes regional development in the long run. It was anticipated that the domestic suppliers would mature enough to compete in the international markets. Linkages have occurred in developing countries where in the early stages of Zone development firms in the zones used basic domestic production processes and where raw material from the domestic economy was used. An example is cited of the success story of Indonesia where cloth and other raw materials for production for the garment industry in the zones came from the domestic economy. These linkages also do occur in more developed countries such as Korea where electrical components are provided by the domestic firms for the electronic firms in the zones.

Employment and Income Creation

Creating jobs is one of the fundamental goals and important contribution of Free Zones to the host economy. This benefit is clearly observed in countries with high underemployment or unemployment rate. In a situation where excess labour has been absorbed the host economy faces a tight labour market. This causes labour costs to increase. Low levels or no unemployment brings income to the many that are employed and increase in labour costs also translates into higher income, thus improving the people's standard of living. According to the Organization of Co-operation and Development (Basile 1984), most Free Zones have a considerable high rate of labour turnover, from 5 to 10 percent, primarily because of the reserves of

labour. This includes a large percentage of female workers who are unemployed or retired early from the job market. Any employment that comes to the unemployed would mean a better standard of living and has a high economic rate of return. Since Export Processing Zones gradually develop towards more technologically advanced sectors, the proportion of female workers tends to reduce significantly (Madani, 1999). Also since low skilled type of manufacturing activities is carried out in Zones, employment seems to concentrate in the lower end of skill distribution in the country. Although employment is created for those facing difficulties in the labour market, it also means that there would be technology spillovers, wages and value added.

Technology transfer and educational benefits

As McIntyre, Narula and Trevino (1996) put it, this can be examined from two angles. There are the tangible transfers such as capital equipment and as development of support industries. The other is the intangible one of skills transfer. When it comes to technological transfers and spillovers there has not been that much success because Export Processing Zones are labour intensive and have little access to advanced technologies because of the low skilled manufacturing firms found there. Authors such as Nadiri (1991) and Globerman (1979) suggested that spillovers have positive effects on their host economies productivity levels but other studies such as the one by Cantwell (1989) suggested that spillovers were not occurring or have not been beneficial to the host economy. Kokko (1992) also found that the extent of spillovers depended on the technological gap between the local firms and the foreign ones. According to Kokko, spillovers would be remarkable if both local and foreign firms have similar level of technology. Most Export Processing Zones in developing countries do not meet the technological needs of its firms. However, there has been a great deal of spill over effect from the establishment of Free Zones in developing countries. Given the high labour turnover stated earlier on, it can be said that domestic firms benefit from training and skilled acquired by workers previously employed in Zone firms. Some of the

workers also receive managerial and supervisory training, thus enriching the entrepreneurial capital of the host nation. The presence of Free Zones also makes other domestic companies copy the operations of successful exporters in the Zone. These include production and managerial skills and dealing with foreign business contacts.

Overview of the Ghanaian Export Economy

As seen in figure 1, Ghana's gross exports has been increasing steadily over the years. However, the agricultural sector dominates the Ghanaian economy with about 46.7 percent share in the country's GDP (www.gipc.org.gh). Ghana's major exports continue to be the key traditional export commodities; cocoa, minerals and timber which together accounted for about 85 percent in 1993, about 72 percent in 1998, about 73 percent in 2003 and about 76 percent of total export revenue in 2007. Figure 2 shows the percentage contributions of the above mentioned major exports in the country over the period 1993 to 2007.

Figure 1



* Provisional

Data Source: Bank of Ghana

Cocoa

The cocoa sector has been registering increases and drops in earnings in certain years over the period under consideration as seen table 3.

Table 2
Cocoa Exports, 1993-2007

Products	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006*	2007*
Cocoa Total (US\$m)	285.9	320.2	389.5	552.1	470	617.4	552.3	437.1	382.7	474.4	817.7	1,025.7	908.4	1,187.4	1,103.2
Cocoa Beans (US\$m)	250.5	295	361.1	479.8	384.8	538.4	497.33	380.9	316.9	392.5	691.6	984.4	818.5	1,041.1	946.3
Volume (000 tonnes)	263.7	238.3	237.3	349.1	261.3	327.3	346.8	348.0	310.5	311.4	354.8	620.4	536.9	657.2	531.7
Unit Price (US\$/tonne)	949.9	1,238.1	1,521.8	1,375.0	1,472.9	1,645.0	1,434	1,094	1,021	1,260.4	1,949.5	1,586.9	1,524.5	1,584.1	1,779.5
Cocoa Products (US\$m)	35.4	25.2	28.4	72.3	85.2	79	54.97	56.3	65.8	81.9	126.1	41.2	89.9	146.4	157
Volume (000 tonnes)	22.8	14.1	13.9	45.4	53.3	48.4	39.9	57.7	63.9	59	48.5	21.1	42.9	78.7	75.5
Unit Price (US\$/tonne)	1533.4	1795.2	2049.9	1592.0	1600.3	1629.0	1379.0	974.0	1028.0	1387.0	2597.8	1950.2	2097.0	1860.2	2077.9

Data Source: Bank of Ghana

* Provisional

Table 3 Minerals Exports, 1993-2007

Item	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006*	2007*
Minerals Total (US\$m)	473.5	588.2	678.8	641.3	613	717.8	749.1	755.9	691.4	753.9	893.6	904.5	1,034.80	1,371.80	1,815.30
of which															
Gold (US\$m)	433.9	548.6	647.3	612.4	579.2	687.8	710.8	702.0	617.8	689.1	830.1	840.2	945.8	1277.3	1733.8
Diamonds (US\$m)	17.3	20.4	14.8	13.4	11.4	10.6	9.0	11.8	20.5	21.1	23.4	26.4	35.7	31.4	29.0
Bauxite (US\$m)	8.4	9.6	10.4	8.5	10.8	7.4	7.6	13.1	16.4	15.1	11.0	8.7	16.0	22.6	19.7
Manganese (US\$m)	13.9	9.6	6.4	7.1	11.6	12.1	21.7	29.0	36.7	28.6	29.0	29.2	37.3	40.6	32.9

Table 4 Exports of Timber and Timber Products, 1993-2007

Item	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006*	2007*
Value (US\$m)	147.4	165.4	190.6	146.8	171.01	171	173.99	175.2	169.3	182.7	174.7	211.7	226.5	199.5	250.1
Volume (cubic metres) '000	727.8	780	590	364.8	442.0	416.2	433.1	498.8	476.5	472.5	445.9	454.5	466.2	454.6	531.8

Source: Bank of Ghana

*Provisional

In 2007, provisional results show that total earnings from cocoa exports dropped from US\$ 1,187.40 million in 2006 to US\$ 1,103.20 million in 2007. This was mainly accounted to by a 19% fall in volume of cocoa bean exports from 657,200 tonnes in 2006 to 531,700 tonnes in 2007. Volume of cocoa products also dropped in 2007 by about 4% from 78,700 tonnes in 2006 to 75,500 tonnes in 2007. The reduction was also attributed to low crop yields in the 2006/2007 main crop season.

Minerals

The minerals sector also has been registering increasing total earnings over the years but dropped in 1997 and 2001 by 4 percent and 9 percent respectively. Gold is the dominant export commodity in the minerals sector. It accounted for about 94 percent of total mineral export earnings in 1997, about 91 percent in 2002 and about 95 percent in 2007. Other commodities here include diamonds, bauxite and manganese. Minerals export earnings is shown in table 4.

Timber and Timber products

The timber sector has seen considerable increase in earnings but also dropped in 1996 by about percent and in 2001 by about 3 percent. Earnings from timber and timber products kept on increasing from then till 2006 when it dropped to US\$199.5 million. It picked up in 2007. As at when available data was being analysed, provisional results indicated total earnings from timber and timber products in 2007 was US\$ 250.1 million. Table 3 shows exports of timber and timber products from 1993 to 2007.

Non-traditional exports

Non-traditional export earnings have been increasing steadily over the years. Ghana's economy performed creditably well in 2007. Total merchandise exports as shown earlier on increased by 12.6 percent from \$3.73 billion in 2006 to \$4.19 billion in 2007. Total non-traditional exports grew from \$893 million in 2006 to \$1.165 billion, contributing about 27.9 percent to merchandise exports. In line with the non-traditional exports strategy (2005-2006), non-traditional exports revenue

reached an all time high of \$1.165 billion in 2007 representing 30.5 percent growth over the 2006 earnings. Leading non-traditional export products include cocoa paste, canned tuna, veneers and cocoa butter. Sheanuts and cut pineapples are also some non-traditional products exported.

Destination of Ghana’s Exports

Major destinations for Ghanaian exports include; United Kingdom, the Netherlands and the United States of America (USA) with Nigeria remaining the most significant destination in West Africa for Ghana’s exports. Figure 2 below gives a general picture of destination of Ghana’s exports in percentages in 1995, 2000, 2006 and 2007.

Figure 2: Ghana’s Exports by Major Destinations

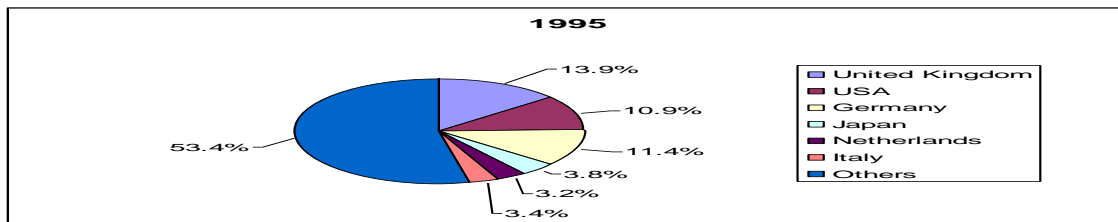


Figure 2a

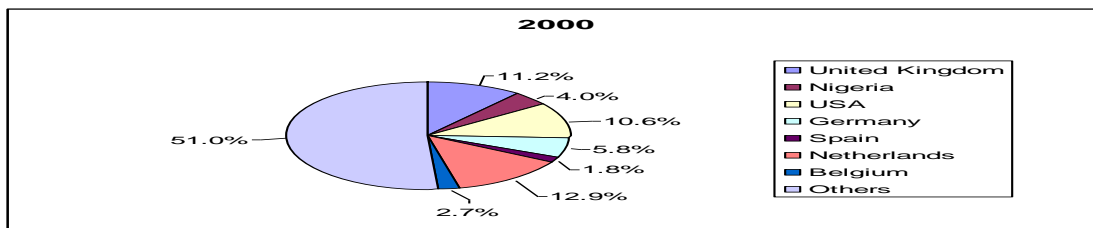


Figure 2b

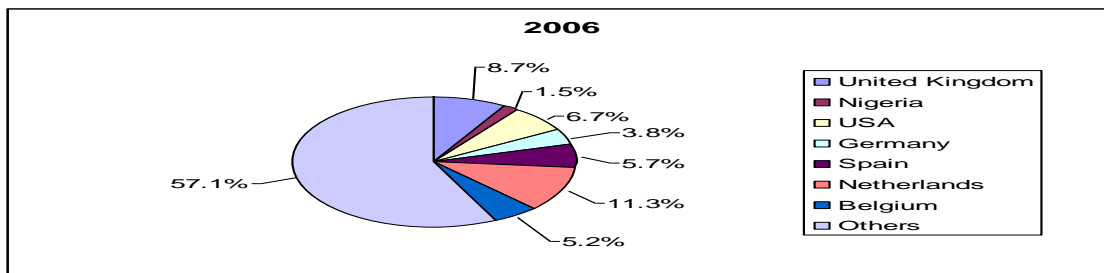


Figure 2c

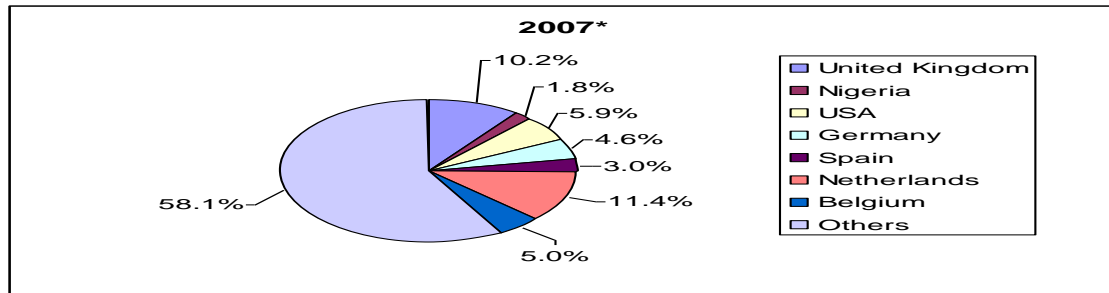


Figure 2d

* Up to second quarter of 2007

Source: IMF, Direction of Trade Statistics, December 2007;

IMF, Direction of Trade Statistics Yearbook 2007

There have been several attempts to diversify exports and to boost export performance in the country. These attempts called for various trade policies and strategies. These include

- ❖ The Economic Recovery Programme
- ❖ The Trade Sector Support Program (TSSP) of the Ministry of Trade, industry , Private Sector Development and President's Special Initiatives
- ❖ Economic Partnership Agreement (EPA)
- ❖ African Growth and Opportunity Act (AGOA)
- ❖ Ghana Free Zones Programme

Background to the Free Zones Programme in Ghana

Free Zones (also referred to as Export Processing Zones) have been effectively used and are currently being applied in a variety of settings to introduce market oriented economic and institutional policy reforms in several countries such as Ireland, South Korea, Republic of China, Mauritius, Namibia, Togo and Nigeria. In some of these countries, the application of the Free Zones/EPZ policy have had the effect of encouraging competitive enterprises to establish themselves within zone boundaries mainly to produce export. After 15 years of economic reforms prior to the inception of the Free Zones programme in Ghana, Ghana's business environment was said to

be one of the best in Africa for private sector development. This was after a benchmark study was commissioned by the Government of Ghana for the Gateway project to compare investment climate to those of Mauritius and Dubai (considered best practices) and Togo and Kenya (potential competitors). The study confirmed that Ghana compares favourably to Togo and Kenya and had advantages that make it attractive to Mauritius and Dubai. Yet foreign investors in Asia, Europe and around the world were largely not aware of the country's business potential both as a platform for production for the world markets and also as a gateway to the West African sub-region. The Free zones under the Gateway project was to attract a mass of export-oriented investors to Ghana to accelerate export-led growth as well as facilitate trade. Ghana in a bid to kick-start the growth of the economy adopted the free zones concepts a little over a decade ago. This was meant to attract investment and capital and to encourage competitive enterprises to establish themselves mainly to produce for export. For the necessary environment to establish the free zones, the Free Zones Act 1995 (Act 504) was enacted by parliament to among other things facilitate the establishment of free zones in Ghana and also to provide for the regulation of activities in the free zones and its related purposes. The Act received Presidential assent in August 1995. Implementation of the Programme commenced in September 1996 with the establishment of the Ghana Free Zones Board Secretariat. The free zones programme as well as ensuring increase in exports and export diversification was also meant to create employment opportunities, attract foreign direct investment and capital, encourage local processing of (and adding value to) manufactured products, promote technology transfer and enhance technical and managerial skills of Ghanaians. Foreign exchange earnings were also expected to increase with the aim of arresting the declining value of the cedi. This free zones programme is also linked to the "Gateway" objective of developing sustainable growth in the private sector through major economic and social improvements.

It also seek to promote the country as the trade and investment gateway to West Africa and also enhance its economic liberalization programme by offering fiscal, trade and investment incentives to encourage production of goods and services for the export markets and also increase the role of the private sector. Ghana's Programme is designed to promote processing and manufacturing of goods through the establishment of EPZs and encouraging the development of commercial and service activities at sea- and air-port areas. In essence, the whole of Ghana is accessible to potential investors who have the opportunity to use the free zones as focal points to produce goods and services for foreign markets. By legislature, free zones enterprises can be located at designated zones, that is the enclave type such as the Tema EPZ and also the factory/enterprises can be located anywhere in the country which is known as the Single- Factory scheme. This is to enable companies take advantage of the resources scattered all over the country.

Under the enclave system, the Ghana Free Zones Board has designated some areas as Export Processing Zones. Adequate infrastructure is expected to be provide at designated sites. This is to serve as land banks to enable investors locate with little or no hassle. Presently, the Ghana Free Zones Board has designated four areas as Export Processing Zones. These are Tema, Ashanti, Sekondi and Shama EPZs. The project is also consistent with International Development Agency's Country Assistance Strategy (CAS) for Ghana, which defines poverty reduction as its central goal. The CAS recognizes that a key requirement for sustainable poverty reduction is higher rates of economic growth by restoring sustainable fiscal balance and promoting private investment for exports. Moreover, a population growth rate of about 3% prior to the inception of the programme and Gross Domestic Product (GDP) growth rate of less than 5% had not been sufficient to significantly reduce poverty levels. It was estimated that an annual GDP growth rate of 8% to 10% would be required for significant poverty reduction. In order to achieve the level of investment required to obtain the targeted growth rate, Ghana had to develop and consolidate its competitive advantages and cater for export markets. This

programme was designed to help remove the constraints to the development of trade and exports and to attract direct investment for industrial and infrastructure development.

This programme was designed to help remove the constraints to the development of trade and exports and to attract direct investment for industrial and infrastructure development. This Free Zones programme is an integral part of the Ghana Gateway Programme, designed to make Ghana a middle income country by the year 2020. The Ghana Free Zones Programme is completely private sector driven. Government's role is limited to facilitating, regulating and monitoring activities of free zone developers or operators and enterprises. The mission of the Ghana Free Zones Board therefore, is to help transform Ghana to be the Gateway to West Africa by creating an attractive and conducive business environment through the provision of competitive free zone incentives and operation of an efficient "one-stop-shop" for the promotion and enhancement of domestic and foreign investment.

The Mandate of the Ghana Free Zones Board as set out in the Free Zone Act 1995 (Act 504) is to:

- a. grant licenses to applicants under the Free Zone Act;
- b. assist applicants for licenses under the Free Zone Act by providing services for obtaining other relevant licenses, permits and facilities;
- c. examine and recommend for approval agreements and treaties relating to the development and activities of the free zones;
- d. monitor the activities, performance and development of free zone developers and enterprises;
- e. Ensure compliance by free zone developers and enterprises of the Free Zone Act and any other laws relevant to free zone activities.
- f. register and keep records and data on the programmes of developers, operators and enterprises in free zones;
- g. perform such other functions as are incidental to the foregoing.

By this mandate, the GFZB is responsible for all activities relating to the implementation of the Free Zones Programme. However, the GFZB collaborates with all frontline and revenue agencies having any bearing on the operations of licensed Free Zone Enterprises.

Designated Free Zones Areas

Tema Export Processing Zone

The flagship of the Ghana Free Zones Programme, the Tema Export Processing Zone, is located in Tema. Tema is one of the country's industrial and residential towns and has the largest seaport in the country. It is located about 24 kilometers from Ghana's international airport. Tema is also one of the fastest growing cities in the country. The Tema Export Processing Zone has a total area of 1,200 acres and offers investors a conducive environment for production including the convergence of all frontline export promotion institutions into a one-stop-shop. The Tema EPZ is also linked to the airport and seaport by good road networks. Part of the Tema EPZ is being developed into a multi-purpose industrial park to enable non-free zones investors also have access to the industrial site. Two other areas have been earmarked for EPZs to include;

Ashanti Export Processing Zone

The Ashanti EPZ with a land area of 1099 acres is located in the Ashanti Region in Ghana and close to the inland port of Boankra. This enclave when developed is envisaged to be an ICT Park. It is expected to provide the necessary telecommunications enabling infrastructure for investors. It would have facilities including, warehousing, agro processing and light industrial/electronic sub-enclaves with a complementary residential estate for enclave employees.

Sekondi Export Processing Zone

The Sekondi EPZ has a land area of 2,200 acres. This zone has been earmarked for oil refinery and related activities. The proximity of this EPZ to Ghana's second seaport with a direct rail link is ideal for heavy industrial activities.

Shama Export Processing Zone

A third zone, the Shama Export Processing Zone, has been designated as a multi purpose enclave and has a total land area of 3000 acres. With this enclave interested developers are invited to develop the enclave.

Export Processing Zones Incentives in Ghana

Extensive and generous incentives are part of the Free Zones Act (1995) package for investors interested in developing and operating free zones enclaves and single factory free zones in Ghana.

Fiscal Incentives

- ❖ Free zones enterprises are exempted 100% from payment of direct and indirect taxes and duties on all imports for production and exports from free zones.
- ❖ 100% exemption from payment of income tax on profits for 10 years from the date of commencement of operation
- ❖ Income tax after ten years shall not exceed a maximum of 8%
- ❖ Relief from double taxation for foreign investors and employees
- ❖ A Shareholder shall be exempted from the payment of withholding taxes on dividends arising from free zone investments

Non Fiscal Incentives

- ❖ No import licensing requirements
- ❖ Both foreign and domestic investor have equal rights to take and hold a maximum of 100% of shares in any free zones enterprise

- ❖ No restrictions on total foreign or local ownership of free zone enclaves and enterprises
- ❖ There are minimal customs formalities. No pre-shipment inspection is required and goods are not physically examined at the port
- ❖ There are no conditions or restrictions on repatriation of dividends or net profit, payment for foreign loan services, payment of fees and charges for technology transfer agreement and remittance of proceeds from sale of any interest in a free zone investment
- ❖ Free Zone investors are permitted to operate foreign accounts with banks in Ghana
- ❖ Free Zone investments are guaranteed against nationalization and expropriation
- ❖ At least 70% of production should be for export, consequently up to 30% of production of goods and services of free zones enterprises are authorized for sale in the local market

All these incentives given to free zones investors are aimed at reducing the cost of doing business in Ghana and hence allow investors to increase production and improve the quality of products to meet international standards and being globally competitive. Currently there are One hundred and ninety-seven (197) entities in the Free Zones with most of them in the manufacturing sector, although we have some in the service and commercial sectors (Source: Ghana Free Zones Board).

METHODOLOGY

Framework for estimation and analysis

This study analyse the export performance of Ghana Free Zones. It also analyse employment trends in the free zones. Growth and development of the free zones programme are also discussed as well as the competitive nature of the programme. These include, provision and quality of infrastructure and governance.

Export Performance of Ghana Free Zones

While analysing the export performance, this study uses the following indicators

- ❖ Exports from the free zones enterprises
- ❖ Employment status of free zones enterprises
- ❖ Net exports (net foreign exchange earnings) and,
- ❖ Value addition (net foreign exchange as a proportion of free zones exports)

This provides a good basis for analysis of the export performance and diversification of the programme and also its contribution to the domestic economy. The basic objective of the programme is to provide an export platform for world exports, hence foreign exchange earnings. In this light, the importance of export orientation and performance of free zones firms cannot be underestimated as it is even indication in the Free Zones Act 1995 (Act 504) that at least 70 percent of production should be for export. In assessing the performance of free zones exports, the study considers growth rates in exports, imports and value addition. Share of free zones exports in total and manufactured exports would also be looked at as this is very important to the contribution of free zones to the Ghanaian economy. Here foreign exchange earnings and value addition would also be analysed as these are two of the important benefits expected from free zones in the country. The argument gathered from literature is that free zones are supposed to provide foreign exchange earnings to lessen the burden of foreign exchange constraints regarding imports needs for the economy. Primary data would be sourced from Free Zones companies.. Graphs and other descriptive measures would be used to execute these analyses.

Analysis of employment creation in the free zones programme

Employment generation is an important motivation for the establishment of free zones. The achievement in terms of creating employment in the free zones programme has formed basis for varied opinion about the success of the programme, though it can be said that some success in this area has been achieved. Employment creation can be in two forms, there is direct employment and indirect employment.

Indirect employment results from backward linkages with the host economy. Due to the difficulty in obtaining data on indirect employment, this study would only concentrate on direct employment generation in the free zones programme. On the basis for firm level data, employment trends would be discussed. As indicated earlier on growth rate in employment will be a proxy for expansion of the zones. Gender composition of employees and also local versus expatriate workers would be analysed.

Competitive nature of Ghana Free zones

For the free zones programme to be successfully used as a tool to enable Ghana embark upon a path of sustained, dynamic, export-led growth, it must have a sustainable environment and competitive edge. The experience with Export Processing Zones/ Free Zones reviewed in Africa was mixed. Numerous government financed EPZs/FZs in countries like Senegal, Liberia and Cameroon failed due to problems such as political instability and an unsafe business environment and cumbersome regulatory procedures. Inefficient institutional structures and poor infrastructure services were also present. However, a few EPZs/FZs have been successful. These success stories had properties like private sector EPZ development and encouraging private provision of infrastructure services.

It is argued in literature that Zones ensure a better investment climate by offering three major advantages over the rest of the economy. These are

- ❖ Provision of incentives
- ❖ Infrastructure facilities and
- ❖ hassle free governance

These advantages should reduce production and transaction costs for exporting and as a result provide an edge to FZs units over the others. Since the inception of the programme, it has experienced some difficulties and challenges in its implementation. To explore the factors responsible for the not too good performance

of the free zones in Ghana, micro aspects of investment climate offered by the zone would be evaluated. These include; the incentive package, quality of governance and the state of physical and financial infrastructure.

Growth and Development in the Free Zones

The size and growth rate in employment would be used as a proxy for expansion and growth in the free zones programme in the Ghana. To capture development in the free zone, changes in infrastructure will be used as a proxy.

Methods of collecting primary data

The study employed both primary and secondary data. The study adopted both quantitative and qualitative approach to research. Primary data obtained through the use of questionnaire. 100 registered free zones companies out of the 176 total existing companies were sampled based on the 2007 Ghana Free Zones Board Annual Report using simple random and purposive sampling. Although free zones companies can be found in other regions such as Western, Ashanti and Volta, they are mainly concentrated in Tema and Accra including those in the TEPZ enclave. The study also employed an interview guide to collect the primary data from respondents. A Semi-structured interview was used in order to encourage participants to raise issues and perspectives that had not been considered in this study. Nonetheless, the issues of this study, specifically the topics discussed, provide a framework to guide the direction of the interview. The interview contained both open and close ended questions and sourced information from the free zones companies.

RESULTS

The study mainly focuses on the export performance of free zones companies in Ghana. In analyzing the export performance, the study used a number of indicators including;

- Exports of Ghana free zones companies

- Employment performance
- Net Exports (Net foreign exchange earnings)
- Value addition (net foreign exchange earnings as a proportion of free zone exports)

Table 5 FREE ZONES EXPORTS IN GHANA

Year	EXPORTS VALUE (US \$)	IMPORTS VALUE (US \$)	% Locally Sold	% Exported
2003	276113255.71	15890103.36	7.01	92.99
2004	129223980.44	35856388.33	11.16	88.84
2005	105539718.97	46326499.14	14.34	85.66
2006	113569812.27	59528870.17	14.85	85.15
2007	284535240.63	66776683.34	13.14	86.86
2008	29255142.74	119613652.7	8.00	92.00

Source: Author's own computation

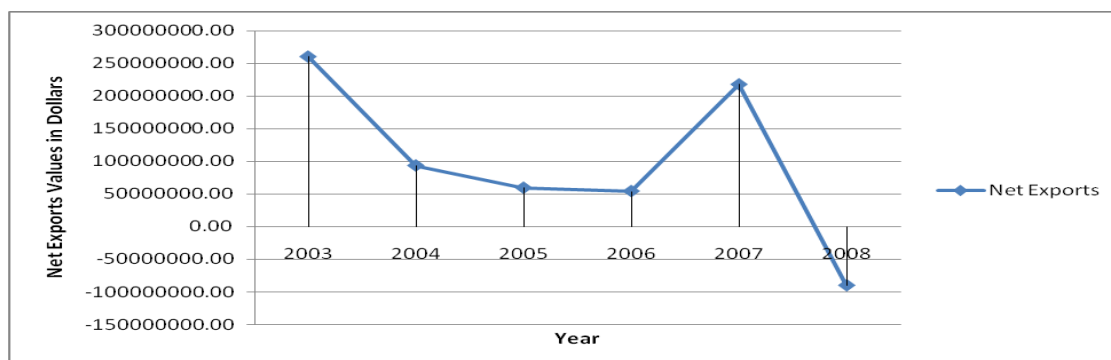
Free Zones Exports in Ghana was looked at for the period 2003 to 2008. This was due to the unavailability of data during data collection. The Free Zone export values in Ghana during the period under study was inconsistent. The export value dropped from \$276, 113,255.71 in 2003 to \$ 105,539,718.97 in 2005 but rose to \$ 113, 569,812.27 in 2006. This rising trend, however, saw about a sixty (60%) per cent increase FZ exports in 2007 but by 2008 the figure had dropped to \$ 29255142.74.

Trends in the value of export earnings from FZ companies can be seen in figure 3 above. This opposes the rising trend in the country's Gross exports (value of all exporting companies in Ghana). However, imports by FZ companies have been growing steadily over the same period from \$ 15, 890,103.36 in 2003 to 59, 528, 870.17 in 2006 which is about a seventy-four (73%) per cent increase. FZ exports continued to increase with the value of imports hitting \$ 119,613,652.70 in 2008. During the period, it was noticed that an average of 88.58% of products from the FZ companies were exported while the rest were sold on the local market . This was in

accordance with the the Free Zones Act 504, which states that at least 70% of the all products from FZ companies be exported to other countries.

Foreign exchange is one of the most important benefits expected from the FZ project in Ghana. This is because it is argued that the FZ would provide foreign exchange earnings that would help reduce the constraints on foreign exchange earnings regarding Ghana's import needs for the rest of the domestic economy but due to the declining nature of exports and the increasing nature of imports in the country over the period, net exports declined from \$ 260,223,152.40 in 2003 to \$54,040,942.10 in 2006, a decline more than a hundred per cent. Net exports rose in 2007 by about 10.85% to \$ 217,758,557.91 from 2006 but again dropped dratically in 2008. Results derived here is not consistent to the objective of adopting the Free Zones concept in Ghana, which was to serve a platform for exports, hence continuously increasing exports and thereby increaseing foreign exchange earnings of Ghana to boost and also cushion the Ghanaian economy when the need arises. Figure 6, presents a comprehensive picture for the trend in net export earnings in the country.

Figure 3. Trends in Net Exports Earnings



Source: Author's own computation

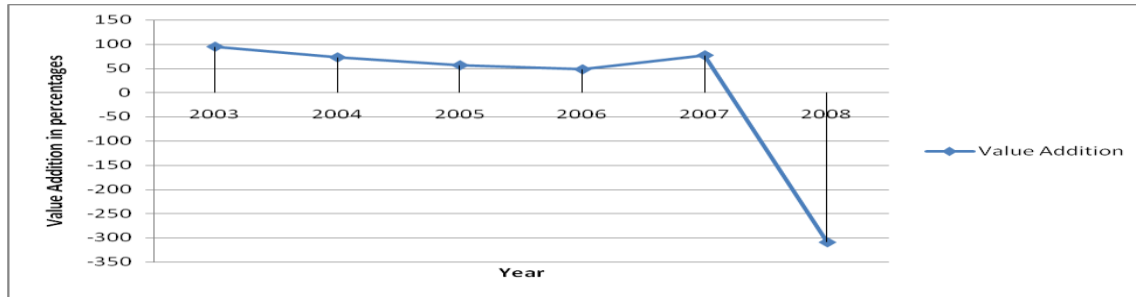
Amirahmadi and Wu (1995) found that a significant number of Asian countries generated large amounts of EPZ exports but have had their net exports earnings being inconsistent and not impressive. However, some countries including

Indonesia and South Korea have had impressive rates of value addition. In Ghana, net exports have been inconsistent and declining on average, hence, value addition which is defined here as net foreign exchange as a proportion of FZ exports is also experiencing a declining effect as plotted in figure 7. Although, Ghana may have export potential, it can be deduced export performance of FZ companies is poor and it could also be deduced that foreign exchange earnings generated by contributes insignificantly to the Ghanaian economy. A summary of the sectors these FZ companies belong to and it can be seen that the manufacturing sector dominates in the FZ as opposed to the agricultural sector which is the main exporting sector in Ghana as stated earlier on the study. Madani (1998), stated that one of the objectives of EPZ was to promote non-traditional exports in general in developing countries. The FZ programme is therefore expective to offer a more conducive investment climate and therefore are expected to offset the disadvantages of producing at high costs and also to create diversification in exports.

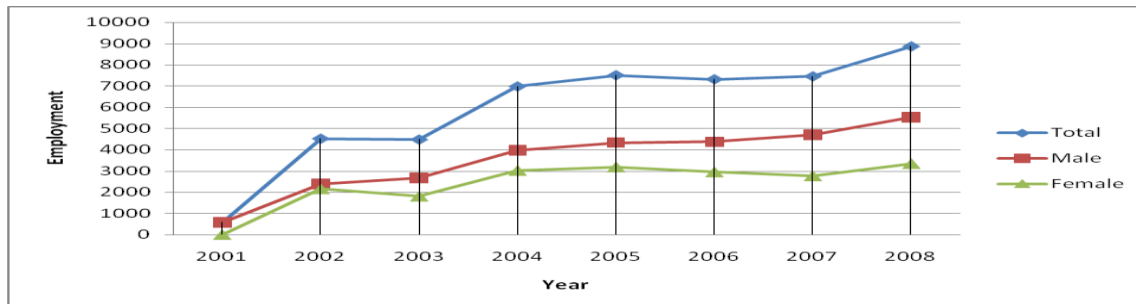
Table 6 NET EXPORTS (NET FOREIGN EXCHANGE EARNINGS)

Year	EXPORTS VALUE	IMPORTS VALUE	Net Exports	Value Addition
2003	276113255.7	15890103.36	260223152.4	94.25
2004	129223980.4	35856388.33	93367592.11	72.25
2005	105539719	46326499.14	59213219.83	56.11
2006	113569812.3	59528870.17	54040942.1	47.58
2007	284535240.6	66776683.34	217758557.3	76.53
2008	29255142.74	119613652.7	-90358509.91	-308.86

Source: Author's own computation

Figure 4 TRENDS IN VALUE ADDITION OF EPZS

Source: Author's own computation

Figure 5 TRENDS IN EMPLOYMENT IN EPZS

Source: Author's own computation

As the FZ programme attracts more investors both local and foreign, it is also expected that firms set up in the free zones would be able to employ a considerable percentage of the labour force in the country in order to increase productivity and export more. The programme is also expected to attract transfer of technology into the host country. As per data gathered from the FZ companies, employment has however been increasing on average over the period, 2001 to 2008 as seen in Figure 8, employment within FZ companies increased from 579 in 2001 to 4485 in 2003 and to 8868 in 2008, registering a percentage increase of about 93.47% over the eight year period. Even though there were some declines in total employment in certain years such as in 2003 and 2003, on average employment rose steadily over the years. As seen in figure 8, it could be seen that even though males dominate in FZ companies, the percentage increase of employing males declined to 59.67% from 2001 to 2003, while it further reduced by 62.35% from 2005 to 2008. That of female

employment in the zone rose from 12 in 2001 to 1,809, which signified a 40.33% increase. By 2008, female employment reached three thousand three hundred and thirty-nine (3,339) employees, which indicated a 37.65 percentage increase. It could however be stated that in the FZs although female employment have been rising male employment still dominates significantly.

Figure 7



Source: Field Survey and Author's own computation

With local and foreign employment in the Free Zones, it is clear from figure 9, that more locals or Ghanaians to be specific are being employed. Meanwhile, the percentage of expatriate or foreign workers has been increasing slightly on average over the period. In 2001, the ratio of the percentages of foreign to local workers was 1.04: 98.96, in 2003, the ratio stood at 0.47% to 99.53 of total zone employment but in 2008, foreign employment rose slightly and the ratio was 1.83% : 98.17% but clearly local employment still dominates and benefits from the free zones employment. Increasing number of foreign workers could be due to the fact the 40% of the companies sampled are owned by foreigners while only 34% are owned by Ghanaians.

Table 7 RATING INFRASTRUCTURAL FACILITIES IN EPZS

INDICATOR	Poor	Less Satisfactory	Average	Satisfactory	Excellent
Political Stability	0	0	30	64	6
Institutional Structure	0	8	50	42	0
Regulatory Procedure	0	6	70	18	6
Investment Incentives	4	16	52	12	16
Policies Towards Export	0	4	30	50	16
Exports facilities	0	18	22	44	16
Exports Concessions	0	6	36	50	8
Currency Stability	4	38	36	22	0
Governance	0	6	34	60	0
Physical Infrastructure	0	24	50	22	4
Financial Infrastructure	4	20	50	26	0

Source: Author's own computation *Note that Values are recorded in percentages

Infrastructure within and available to FZ companies are designed to be superior to that available to the rest of the economy. When respondents were asked to rate infrastructure in the FZ, 50% said physical infrastructure was average, while 24% stated that it was satisfactory. 4% indicated that it was poor. Over 50% of the respondent's rated political stability in the country as satisfactory, which can be seen as a good sign to attract investors. Less than 50% of the respondents were satisfied with the export facilities offered them. With regulatory procedures 70% of the respondents said it was average and only 18% rated it satisfactory. Policies towards exports in the country had 50% of the respondents rating them satisfactory while 30% said it was just average and not satisfactory.

Governance in the country was rated satisfactory on average by the respondents. Since governance, political stability and infrastructure were rated on average satisfactory, one wonders why exports were declining over the period of the study.

The attractive incentive package (Act 504) offered to FZ companies is expected to give them comparative advantage over companies in the domestic economy and hence make them competitive. It is argued that EPZs/FZs eliminates distortions created by high tariff and tax rates that are experienced by non-FZ companies. In Ghana, CEPS has the mandate to administer customs operations and exemption packages under the free zones Act. 30.40% of the respondents cited delay in bureaucratic decisions and inadequate pre-entry services. About 23.10 respondents complained about lack of financial assistance while 15.38% talked about the delay and cumbersome clearing procedures at the port. Other challenges include:

- ❖ Attitude of government officials in assisting and processing of documents
- ❖ Unreliable energy and water supply
- ❖ Transit problems at the borders
- ❖ Inadequate supply of raw materials locally
- ❖ Inconsistency in vessel timing for shipment schedule
- ❖ Security of warehouses and
- ❖ Inconsistent uplifting of values by DICs

Clearly, the results and analysis provided by data gathered indicates that the export performance free zones companies are unimpressive as it shows exports declining. Although Ghana may be a potential destination for investors more work has to be done in streamlining the programme. These results provide insight into the variations of export and other free zones variations and would be very significant for making policies towards achieving a better freezones programme. The next chapter deals with policy recommendation among others.

SUMMARY

The main objective was to analyse the export performance of free zones companies in Ghana from 2003 to 2008. Variables used included; exports of FZ companies, export-employment ratio, net exports and value added. The study also looked at the

generation of foreign exchange by these companies and also employment created by these companies from 2001 to 2008. It began with a background of Free Zones/Export Processing Zones. This was to provide a basis for the analysis of the export performance, employment creation and foreign exchange generation of free zones companies. From the results of the study, it could be seen that while national exports are increasing over time, FZ exports have been inconsistent over time. The result depicts that although the number of FZ companies have been increasing since its inception, exports from these companies have not significantly affected gross exports from the country. From fig 11, it can be seen that exports from FZ companies have been less than 10% of total exports. This deviates from a number of FZ/EPZ in previous work where FZ/EPZs contribute significantly to the country's exports and improving their economy as indicated earlier in this chapter. Peter L Watson in *'Export Processing Zones: Has Africa missed the boat'*, noted that although there is a potential for Africa to benefit from export-oriented growth based on the development of FZ/EPZs, it would not be easy. The country would need to put together a coordinated package of incentives, infrastructure and services that will attract foreign investors. He also cited attitude and culture as playing an important role in the success of these zones.

CONCLUSION

Export performance of free zones companies were tested using Stata and Excel softwares using data collected through questionnaires administered to free zones companies in Ghana. This study can be extended and enhanced in different by first conducting a cross-country research to include country with similar characteristics as Ghana where comparisons could be made to shed more light on the trend of export performance of the zones. Also a more sophisticated analysis could be employed to identify multiple measures for export performance since the present study suffered lack of quality data.

RECOMMENDATIONS

The following recommendations are made based on the study;

- the mode of operation of the Free Zones Programme in Ghana should be closely linked to the national objectives for industrial development. The target of the programme should be in attracting industries with the potential of adding technological value to the economy and also encouraging export activities rather than being used as safe place for light industrial production.

- with economic reforms taking place over time, the incentive packages offered these companies have been becoming less attractive. Incentives are a vital part of attracting investors and hence the success of the programme. There are some incentive packages are inconsistent with WTO rules while others are permissible. Incentives needless to say, range from exemption of various direct and indirect taxes and customs duties to provision of a number of free or low cost services designed to boost exports. For a developing country such as Ghana, subsidies and countervailing measures agreements recognises that these incentives or subsidies play a very important role in our economic development. For example the textiles village located at the Tema EPZ stand to benefit from Ghana's entitlement to unlimited duty-free and quota-free access to the US market for apparel. Government should therefore put in place effective regulatory systems to prevent illegal transshipment of textiles from other countries through the use of counterfeit documents. Thus preventing loss of revenue to the country and better administration of AGOA protocols.

- government should also simplify rules for these companies and avoid delays and corruption in the system.

- government must also pay attention to establishing an environment capable of improving the performance companies in the free zones programme.

Modern infrastructure would contribute significantly to the competitiveness of the programme. Policy makers need to examine the deficiencies in the programme, for example lack of inadequate water and energy supply and financial infrastructure and initiate appropriate policies to solve them. Government should encourage more privatisation of provision and maintenance of services provided these companies to encourage competition among the providers. To contribute to regional development, government must develop residential facilities and social utilities.

- the Customs, Excise & Preventive Service and other relevant agencies should be directed to streamline their processing procedures and recognise Free Zones as One-Stop-Shops. Red tape and bureaucracy should be minimized by these agencies and fast track commercial activities for these companies.
- Free Zones need to be integrated within host economies, as the static and dynamic impacts are very limited when Zones are operated as enclaves
- Free 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 operations should be undertaken by private sector groups on commercial basis.

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