



Is it the end for export processing zones?

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Government yesterday conceded that export processing zones have outlived its usefulness.

Inaugurated in 1990 as part of export development, the scheme was being undertaken by the Government to move the economy towards export-led growth.

Trade and Industry Permanent Secretary, David Nalo, said that although export processing zones (EPZs) have increased foreign exchange earnings and created jobs they have failed to contribute to industrialisation.



Importing

"We are still importing raw cotton from Tanzania and Uganda, and then we are exporting yarn to India and China," the PS told reporters yesterday. He said the incentive package given to companies operating under EPZ encourages them to export raw materials and not to support domestic industry.

Some of the tax benefits companies setting up in the zones enjoy include a 10-year corporate income tax holiday and a 25 per cent tax rate for a further 10 years thereafter.

Trade and Industry Permanent Secretary David Nalo (left) consults with Mr Bernard Kagira, an official of Keplotrade, during the meeting yesterday. Photo/Anthony Omuya

They also get a 10-year withholding tax holiday on dividends and other remittances to non-resident parties as well as a perpetual exemption from value added tax (VAT) and customs import duty on inputs.

Mr Nalo's comment comes less than a fortnight after Dr Thomas Kibua, a leading economist and former deputy governor of the Central Bank, asked the Government to abandon the EPZ programme. "If you looked at the sales earnings from the EPZs, particularly in this era of liberalisation, the earnings are held abroad and don't come back to Kenya," he said.

Dr Kibua said the Government is subsidising these companies, meaning they come to Kenya because costs are cheap, but they are not here to create permanent structures. "They are coming here to take advantage of the lower costs, and their only money which comes back to the country is the little bring back to pay salaries," he said.

Mr Nalo was addressing an Economic Partnership Agreements (EPAs) awareness forum at Nairobi's Grand Regency hotel. Eastern and southern Africa countries are holding talks with European Union intended to seal EPAs to replace the Cotonou agreement between Africa, Caribbean and Pacific (ACP) and EU.

The agreements, expected to be signed by the end of 2007, mean that ACP countries would also have to give

duty-free access to EU products. However, the Government and EU trade negotiations support programme's technical assistant, Bernard Kagira, said the EPAs are the most reliable option for Kenya. The only other option would be based on General System of Preferences (GSP), whose approaches are unilateral regimes, lacking the kind of long-term security which investors seek, and cannot, under WTO rules, be legal.

"GSP is transitional because it is meant for developing countries and if the situation changes, Kenya will lose," Mr Kagira said. There is therefore an inbuilt paradox in GSP—if development works, graduation kicks in then you lose the benefits.

Advantage

The advantage with EPAs, he said, it entails a development component with commitment from the EU that it would help ACP countries develop their infrastructure, and encourage regional integration.

The negative impacts of EPAs are estimated at about Sh6.5 billion, assuming all products from the EU are allowed in the country duty free. The revenue loss is expected to be experienced after 10 years of entry into force of EPAs – 2018.

Mr Kagira said the revenue loss scenario has potential of being converted to revenue gain scenario if revenue from EPA related development, for instance, corporate tax, value added tax, was taken into account.

Planning and National Development Permanent Secretary Edward Sambili said the EPA process should bring an opportunity for Kenya and other countries to negotiate for debt cancellation. And the need to lock in development cooperation in the EPA.