

# Potential for Non-Oil Export in Industrial Clusters and Cities

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# INTRODUCTION

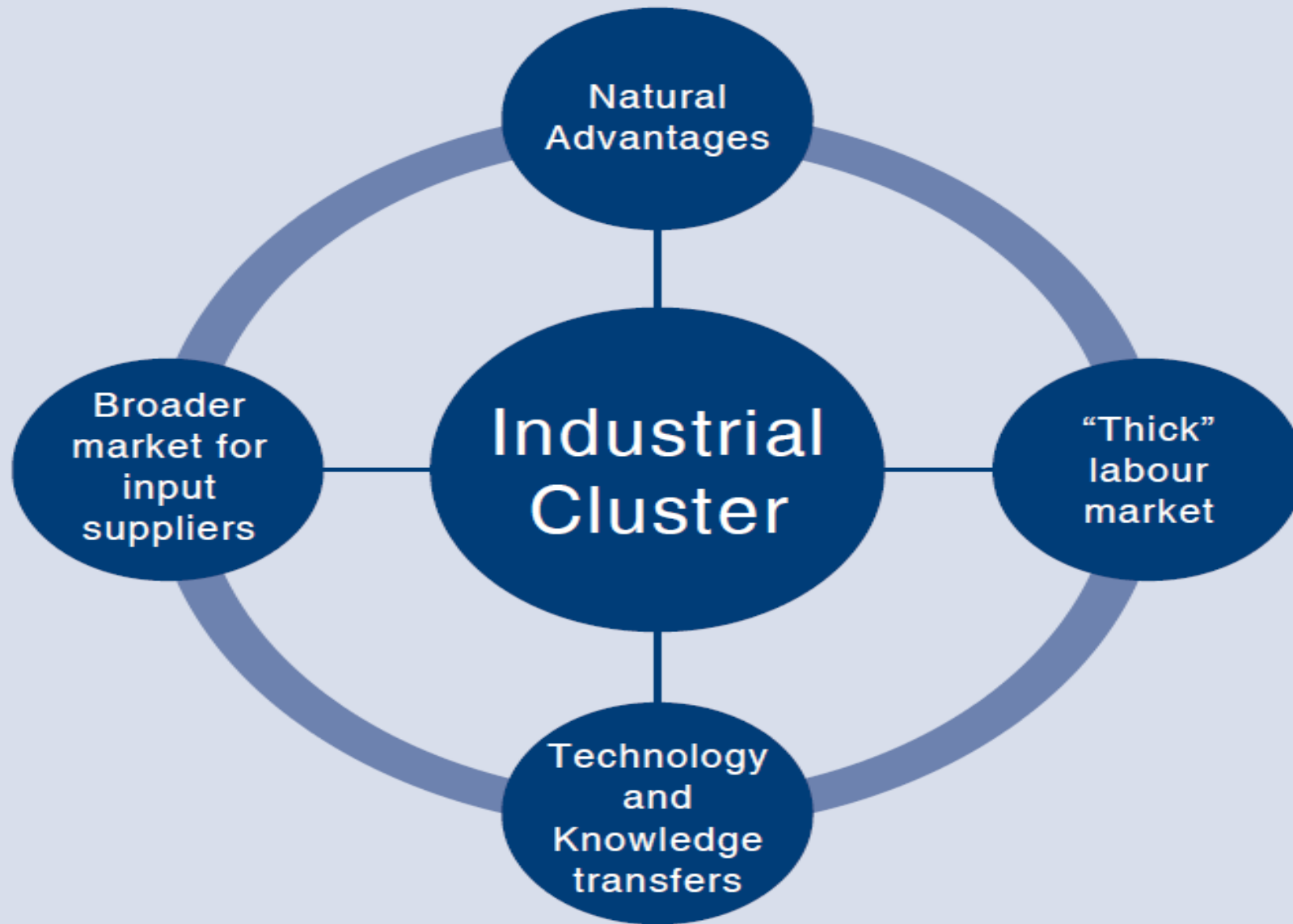
- Industrial clusters and cities are key components of the National Industrial Revolution Plan (NIRP), now embedded in the Economic Recovery and growth Plan (ERGP).
- A key strategy being pursued in this respect is creation of Special Economic Zones around the country: Free Zones, Staples Processing Zones etc.
- The Government also expressed commitments to re-energise existing production clusters and cities

# ESSENCE OF AGGLOMERATION

- Agglomeration (through Industrial Clusters and Cities) are effective mechanisms that help to concentrate resources and align trade routes, diagnosing ways to generate and accelerate development processes besides being growth poles in economies.
- Cluster developments are very strategic for national competitiveness in the global economy.
- Basic motivations for creation of industrial clusters and cities:
  - To fulfill Government's industrialization ambition
  - Private sector's desire to reduce costs: - transporting inputs/finished goods, access to pool of labour, co-creation of ideas (innovation and knowledge spillover), and general economies of scale
  - Natural advantages: proximity to ports (attraction to exporting firms); and presence of some location specific mineral resources



## Drivers of agglomeration



# BENEFITS OF AGGLOMERATION

Empirical Evidences – Adapted from SGS, 2012

- Productivity:
  - Doubling economic density (industrial concentration) has potential to increase productivity by 6%
  - Doubling employment density has likelihood to increase productivity by 4 to 4.5%
- Input-Process-Market Co-location
  - Doubling travel time to a city centre (market) reduces productivity by 15%
  - Doubling the distance to a regional market lowers profits by 6%





# BENEFITS OF AGGLOMERATION - CONTD

## General Evidences

- Shared facilities for production
- Products Aggregation for export
- Attractive pool for formalization that assures access to development assistance
- Creation of structure for uniform standards
- Attraction to standards and conformity assurance institutions
- Attraction to production and trade related services
- Enables ease of planning by different levels of government
- Pooling of ideas for innovation incubation
- Sharing of market intelligence
- Attraction to social investors



# INCENTIVES FOR EXPORT ORIENTED CLUSTERS/CITIES

Experience from Some African Countries:

- Tax Relief including VAT: for firms co-located in a special zone and export cells and clusters
- Customs Duty Relief: reduction or exemption from duty on inputs for production for export
- Employment tax incentives: further tax by volume of employment per firm
- Provision of Infrastructure:
  - Physical infrastructure – dedicated power plant, road and rail links, quality infrastructure and aggregation facility
  - Financial Infrastructure: customise grant and loan facilities with less stringent conditions

# KEYS TO SUCCESSFUL INDUSTRIAL CLUSTERS/CITIES

## The Chinese Experience:

- Gradualism with an experimental approach
- A strong commitment, plus active and pragmatic facilitation of the state
- Preferential policies and broad institutional autonomy
- Staunch support and proactive participation of governments, particularly in the areas of public goods and externalities
- Public-private partnership to create environment that fosters innovation, global standard and export market drive
- Attraction of foreign investment and investment from the Chinese in diaspora
- Continuous technology learning and upgrading





# POTENTIALS OF INDUSTRIAL CLUSTERS/CITIES

- Crucial contributors to countries economic success around the world
- Internationalization of MSMEs and their products, and models to other MSMEs
- In China it is estimated that as of 2007, SEZs (including all types of industrial parks and zones) accounted for about 22% of national GDP, about 46% of FDI, and about 60% of exports and generated in excess of 30 million jobs.
- In 2007, the 54 Chinese IDZs hosted about half the national high-tech firms and science and technology incubators. They registered some 50,000 invention patents in total, more than 70 percent of which were registered by domestic firms.
- ETDZs are also responsible for another one-third of China's high-tech industrial output and exports.
- How do we position ourselves to achieve the same?



THANK YOU

