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EFFECT OF FREE TRADE ZONE INCENTIVES ON FOREIGN DIRECT INVESTMENT IN NIGERIA

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Abstract

In the midst of the contradictory divides of varied research studies on the effect of free trade zones (FTZs) incentives on Foreign Direct Investment (FDI) in Nigeria, this study aims to examine the cost based tax policy incentives in Nigeria free trade zone on inflow of FDI. Therefore, an empirical investigation covering a period of 19 years (2001-2019) was carried out to examine the tax implications of free trade zones on inflow of FDI in Nigeria. The study adopted ex-post facto research design and secondary data were obtained from World Bank database and Central Bank of Nigeria bulletins. Data generated were analysed using multiple regression analysis. The findings revealed PAYE tax, withholding tax (WHT), Value Added Tax (VAT) and industrial training fund (ITF) deductions as major taxes policy incentives in Nigeria FTZs. The study found significant relationship between PAYE, VAT, WHT, ITFd and FDI in Nigeria. Finding also deduced that the cost-based tax policy incentives (VAT, WHT, PAYE tax and ITFd) had some relatively stronger effect on FDI (with R^2 of .431). The study therefore recommended that government should also consider non-tax policy incentives initiative in free trade zones as an important complement to the tax policy incentives in order to attract and stabilize FDI in Nigeria.

Keywords: Foreign direct investment, Free trade zones, Tax policy incentives

INTRODUCTION

The emergent opportunities of globalization and the "link" of economic interconnectedness among nations, opens up various foreign direct investment projections for investors outside the borders of their home country. The chase of these visions which often take the form of real or financial investments is progressively encouraged and embraced in virtually every country all over the world. This is because foreign direct investment (FDI) is increasingly being recognized as an important factor in the economic growth and development. This have led to developing countries like Nigeria, to initiate policies that will boost and retain investments from FDI (Etim, Mfon & Ofonime, 2019). One of such dynamic initiatives is the introduction of free trade zone incentives that are provided for foreign investors in the tax policy.

A free trade zone (FTZ) is a specific class of special economic zone. They are a geographic area where goods may be landed, handled, manufactured or reconfigured, and re-exported without the intervention of the customs authorities. Only when the goods are moved to consumers within the country in which the zone is located do they become subject to the prevailing customs duties. Free-trade zones are organized around major seaports, international airports, and national frontiers—areas with many geographic advantages for trade (Olomu-Agbodo, 2015). Free trade zones can also be labor-intensive manufacturing centers that involve the import of raw materials or components and the export of factory products. An FTZ can also be a region where a group of countries has agreed to reduce or eliminate trade barriers (Sullivan & Sheffrin, 2003). The primary purpose of a free-trade zone is to remove from a seaport, airport, or border those hindrances to trade caused by high tariffs and complex customs regulations. Among the advantages of the system are the quicker turnaround of ships and planes through the reduction in formalities of customs examinations and also the ability to fabricate, refinish, and store goods freely (Olomu-Agbodo, 2015). With the establishment of the Export processing Zone Act in 1991, several policies have been enacted by the Nigeria Government to attract more foreign investors, (Afolabi, 2008). Free Trade Zones therefore are geographically approved location within the country, free from the Nigeria tax laws, levies, duties, and foreign exchange regulations.

Government economic reforms in Nigeria over the years had been dominated by tax incentives granted to various investors with the objective of attracting investment into the country (Olaniyi, Ajayi & Oyedokun, 2018). Variants of taxes been adopted in Nigeria free trade zone ranged from PAYE tax of employees, withholding tax of third party transactions, value added tax of third party transactions and Industrial Training Fund (ITF) deductions of free zone employees (Olomu-Agbodo, 2015). Studies have shown that tax policy incentives (TPI) provide an enabling environment that is conducive to foreign direct investment which stimulates employment, capital transfers and transfer of technological skills (Digumber, Soondram & Jugurnath, 2017; Olaniyi, Ajayi & Oyedokun, 2018). Tax incentives however have a negative impact of revenue generated via taxes, (Olaniyi, Ajayi & Oyedokun, 2018). In view of this submission, the extents to which allowable taxes in Nigeria FTZs affect the inflow of FDI require scholarly and professional attention. This study therefore investigated the effect of free trade zone incentives on FDI in Nigeria.

LITERATURE REVIEW

Conceptual Review

Free Trade Zone in Nigeria

Free Trade Zones date back to medieval times when towns around the Baltic in Asia began to exploit the concept of the free port. As other modes of international transport evolved, FTZs also appeared near airports and border crossings. FTZs subsequently shed their purely trading nature becoming ideal location for processing of raw and intermediate materials into finished products, thereby increasing local value added, generate more employment, industrial development, and productive investment. Many emerging economies are active participants: research shows that most FTZs are located in developing countries (Olomu-Agbodo, 2015). Free Trade Zones are also known as *Special Economic Zones* (SEZs) in some countries. SEZs have been established in many countries as testing grounds for the implementation of liberal market economy principles, they are viewed as instruments to enhance the acceptability and the credibility of the transformation policies and to attract domestic and foreign investment. In 1999, there were 43 million people working in about 3000 FTZs spanning 116 countries (Akinci & Crittle, 2018). The basic objectives of EPZs are to enhance foreign exchange earnings, develop export-oriented industries and to generate employment opportunities. Today the range of zones generally falls into one of the following categories (Akinci & Crittle, 2018).

1. **Free trade zones (FTZs)**: These are generally economic zones sited in designated areas, where goods and raw materials or unfinished goods may be landed, stored, processed and re-exported free of duty under custom supervision. FTZs are typically located around major seaports, international airports, and national boarder lines.
2. **Export Processing Zones (EPZs):** These are industrial areas focusing on assembly and manufacturing of intermediate imports aimed primarily but not exclusively at foreign markets. Sectors include labour-intensive, light manufacturing such as garment production and the assembly of electronics. EPZs also promote linkages with the domestic economy by encouraging technology transfer and innovative industrial strategies. Certain types of EPZs are sometimes called Hybrid Export Processing Zones because they combine the traditional export focus of an EPZ with a sub-divided area in which non-export-oriented activities can take place.
3. **Enterprise zones:** These are economic development areas intended to revitalize specific urban or rural areas where they are located through tax

incentives and financial grants. These are most often found in the developed world.

4. **Freeports:** These are typically the largest of the zones, accommodate all types of activities including tourism, retail sales, and on-site residence, and accompany a broader set of incentives and benefits. Freeports are different from traditional FTZs as they are not seen as export drivers but areas promoting overall economic growth linking the zones with the overall economy of the nation. This has also resulted in greater expansion and liberalization of the core set of policies present in most free zone programs. The European Union allows inward processing relief and other customs schemes that produce some of the benefits of free zones without requiring formal zone definition. In the UK, for example, free ports do not offer significant benefits beyond inbound processing relief schemes. As a consequence, ports like Rotterdam have marketed themselves as "freer than a Freeport".
5. **Single factory EPZ** schemes provide incentives similar to export processing zones but are not a zone at all, rather a single factory located anywhere in a country which receives the special duty free privileges of zones. In the United States they are also called sub-zones.
6. **Foreign Trade Zones (FTZ)** is the name of the specially designated zones in the United States. They are established in or adjacent to a port of entry in which all types of merchandise may be held without being subject to U.S. Customs duties and other taxes.
7. **Special Economic Zones (SEZs):** SEZs extend the relaxed tax and administration characteristics of FTZs to investment arrangements, labour laws, management practices, and wage rate policies in specific areas of the country. Originally this structure applied only to China, but versions now exist in India and elsewhere. China has proposed applying special treatment within SEZs to promotion of real estate, tourism, infrastructure development and banking.
8. **Bonded Warehouses:** Specially designated storage warehouses that have the authorization of Customs authorities.

In addition to the above zones, there are a number of highly specialized zones promoting a specific industry such as information technology, tourism, or heavy industry. The location varies depending on the sector. Sites can be found adjacent to universities, ports, or other relevant hubs of activities relevant to that sector.

There are about 42 free trade zones in Nigeria today, out of which 21 are operational. 12 of the operational Free Zones are located in Lagos State, while only 4 of the 21 non-operational Free Zones are located in Lagos State. Nasco Town Free Trade Zone is the most recently designated free zone in Lagos currently undergoing construction ("Nigeria Export Processing Zone Authority," n.d.). The Calabar Free Trade Zone was the pioneer free zone in Nigeria. It commenced operations in November 2001. The table below shows the Free Zones in Nigeria and their status.

Table 1: **List of FTZs in Nigeria**

S/NO	NAME	LOCATION	SPECIALTY	STATUS
1	Sebore Farms EPZ	Akwa Ibom	Manufacturing, oil & Gas Petrochemicals	Operational
2	ALSCON EPZ	Akwa Ibom	Manufacturing	Operational
3	Calabar Free Trade Zone (CFTZ)	Cross River	Manufacturing, Oil & Gas, Logistics	Operational
4	Empower Free Trade Zone	Enugu State		Operational
5	Centenary Economic City	Abuja		Operational
6	Abuja Tech. Village Free Zone	Abuja	Science Technology	Operational
7	Kano Free Trade Zone	Kano	Manufacturing, Logistics services, Warehousing	Operational
8	Newrest Airline Services & Logistics FTZ	Lagos		Operational
9	Newrest Airline Services & Logistics FTZ	Abuja		Operational
10	Dangote Industries Free Zone	Lagos		Operational
11	Ladol Free Zone	Lagos	Oil & Gas Fabrication, Oil & Gas Vessels, Logistics	Operational
12	Lagos Free Trade Zone	Lagos	Manufacturing, Oil & Gas, Petrochemical	Operational
13	Lekki Free Zone	Lagos	Manufacturing, Logistics services	Operational
14	Nigeria Aviation Handling Company (NAHCO)	Lagos		Operational
15	Nigeria International Commerce City (Eko Atlantic)	Lagos		Operational
16	Snake Island Integrated Free Zone	Lagos	Steel Fabrication, Oil & Gas, Sea Port	Operational

17	Tomaro Industrial Park	Lagos		Operational
18	Quits Aviation Services FZ	Lagos		Operational
19	Pan African Catering Services FZ	Lagos		Operational
20	Alaro City Lekki Free Zone	Lagos		Operational
21	Ogun Guangdong Free Trade Zone	Ogun	Manufacturing	Operational
22	Ibom Science & Tech. FZ	Akwa Ibom	Science & Technology	Under Construction
23	Olokola Free Trade Zone	Ondo	Oil & Gas Manufacturing	Under Construction
24	Olokola Free Trade Zone	Ogun	Oil & Gas Manufacturing	Under Construction
25	Living Spring Free Zone	Osun	Manufacturing, Trading & Warehousing	Under Construction
26	Brass LNG Free Zone	Bayelsa	Liquified Natural Gas	Dev. Yet to commence
27	Banki Border Free Zone	Borno	Manufacturing, Trading & Warehousing	The Sponsor yet to be committed
28	Oil Integrated Logistics Services Free Zone	Lagos	Marine, Logistics, Support Services for offshore Oil Repairs	Operational Licence Suspended
29	Specialized Railway Industrial FTZ	Ogun	Rail Cargo Transport	Dev. Yet to commence
30	Imo Guangdong FTZ	Imo	Manufacturing	Dev. Yet to commence
31	Kwara Free Zone	Kwara	Trading, Warehousing	Physical Dev. Yet to commence
32	Koko Free Trade Zone	Delta	Manufacturing	Physical Dev. Yet to commence
33	Oluyole Free Zone	Oyo	Manufacturing	Physical Dev. Yet to commence
34	Ibom Industrial Free Zone	Akwa Ibom	Manufacturing, Oil & Gas, Trading Services	Physical Dev. Yet to commence
35	Badagry Creek Integrated Park	Lagos	Fabrication	Under Construction

36	Ogindigbe Gas Revolution Industrial Park (GRIP)	Delta	Petrochemical, Fertilizer, Manufacturing and Gas Processing related activities	Under Construction
37	Ogogoro Industrial Park	Lagos	Oil & Gas, Fabrication, Oil & Gas Vessels, Logistics	Under Construction
38	Ondo Industrial City	Ondo	Petro-Chemical & Manufacturing	Under Construction
39	Enugu Industrial Park	Enugu	HV Power Accessories, Coal to Fertilizer Tech. Project & Value Added Industrial Clusters	Under Construction
40	Nasco Town Free Trade Zone	Lagos	Manufacturing, Warehousing, Trading	Under Construction
41	Tinapa Free Zone & Resort	Calabar	Trading & Tourism	Inactive
42	Maigari Border Free Zone	Jigawa		Inactive

Source: Nigerian Export Processing Zone Authority (NEPZA) (2019)

Subsequent to the establishment of the Calabar Free Trade Zone, the Free Zones Scheme has been used as a vehicle for industrial and commercial development of the country. Private sector participation and partnership with the Federal Government and other tiers of government has helped spread the scheme. This has culminated in the establishment of specialized Free Zones as well as other types of Zones. There exist two types of free trade zones in Nigeria – the general-purpose trade/export and the specialized zone. Two administrative bodies are saddled with the responsibility of managing these zones. They are:

1. Nigerian Export Processing Zone Authority (NEPZA), for the general-purpose zones (NEPZA 2004) and
2. Oil & Gas Export Free Zone Authority (OGEFZA), for oil & gas zone (OGEFZA 2004)

Nigeria Free Trade Zone Incentives

Locating in any Free Zone in Nigeria automatically confers upon the investor certain advantages, benefits, and incentives which have been strategically designed by the Federal Government of Nigeria to create a business-friendly and competitive environment for the investor. These incentives are established by Act No. 63 of 1992 and have been improved upon in subsequent legislation. The incentives are as follows (NEPZA, 2019):

a) Complete holiday from all federal, state, and local government taxes, rates, and levies.
b) Duty free importation of capital goods, machinery/components, spare parts, raw materials, and consumable items in the zones.
c) 100% foreign ownership of investments.
d) 100% repatriation of capital, profits, and dividends.
e) Waiver of all imports and export licenses.
f) Waiver on all expatriate quotas.
g) One-stop approvals for permits, operating license, and incorporation papers.
h) Permission to sell 100% of goods into the domestic market (However, when selling into the domestic market, applicable customs duty on imported raw material shall apply).
i) For prohibited items in the custom territory, free zone goods are allowed for sale provided such goods meet the requirement of up to 35% domestic value addition.
j) Waiver on all expatriate quotas for companies operating in the zones.
k) Minimal delays in the movement of goods and services.
l) Rent free land during the first 6 months of construction (for government owned zones).

Tax Implications of Nigeria Free Trade Zones

a) No Value Added Tax (VAT) or Withholding Tax (WHT) is charged on purchases by Approved Enterprises in FTZs from companies in the customs territory.
b) For sales made by Approved Enterprises to companies in the customs territory, there is no WHT. However, the VAT is liable to be paid by the purchasing enterprise.
c) VAT and WHT is applicable on purchases/sales made from the customs territory by unapproved enterprises operating within the Zones.
d) No VAT or WHT is payable on imported goods conveyed through other ports outside the Zones but consigned to the Zones.
e) From 1 January 2015, approved enterprises in the Oil and Gas Free Zones are mandated to submit tax returns to the Free Zones Tax Administration Unit.
f) Transfer pricing provisions are applicable to transactions with head/branch offices (connected taxable persons) of approved enterprises in customs territory.

g) VAT and WHT are applicable to approved enterprises having contract of supplies or design with companies in the customs area.

Tax Policy Incentives

Tax incentive which is an eye opener to this study is generally described as a deliberate reduction in the liability granted by government in order to encourage particular economic unit (e.g. multinational companies, foreign and local investors) to act in some desirable way (e.g. invest more, consume more, import less, Pollute less etc). The reduction in liability is all about a reduction in tax rate, reduction in tax base, outright tax exemption, tax deferment, and so on (Oko, 2014; Tapang, Onodi & Amaraihu, 2018). Tax incentives which is also referred to as tax policy incentives also includes any special tax provisions that are granted to qualified investments or investors and which affords such investors a favourable deviation from the general tax code (Ndajiwo, 2018). In other words, tax incentives grant some tax exceptions, deductions, or exclusions to the beneficiaries (Berkeley, 2019). Developing countries usually use a combination of targeted tax incentives and general incentives which can be present in income tax law or any other law. However, one should realize that granting tax incentives is not enough to compensate for poor investment climate in Africa where such other factors like political instability, racism, ethnicity, religious intolerance, kidnapping and the likes abound.

Foreign Direct Investment

Foreign Direct Investment (FDI) is defined as a cross border acquisition of financial or physical assets by foreign individuals or government with the investor having some controlling rights. These foreign direct investors could be individuals, corporate organizations or a nation (Odiase, 2006). Ndagi (2016) clarifies that FDI is established when a foreign investor acquires at least 10% of the shareholding and voting rights of a foreign enterprise. This point brings clarity on the issue of controlling ownership. The acquisition of the minimum 10% shareholding proportion is deemed substantial and this gives the foreign investor a lasting management interest in the investee. The importance of FDI which places it as a vital economic matter of concern is that through FDI, capital, technology and other managerial expertise, are sourced from foreign countries. It is true that FDI may be motivated by a number of reasons. Some of these reasons may be higher average rates of profits, markets and resources, development of new resources or tax incentives (Berkeley, 2019; Essays, 2018). FDI inflow may stimulate export from domestic sector through industrial linkages or spill-over effects creating demand stimulus for domestic enterprise and promotes exports. Similar views was shared by Harding and Javorick (2011) who were of the opinion that FDI may induce technological catch-up in developing countries and stimulate export growth in medium skilled sector. They added that despite the fact that products from Multinational Enterprises might be of higher quality, export upgrading occurs as local firms in the same industry may 'learn by observing' what multinational produce. Productivity spillover to supplying firms and the high quality input resulting from FDI spillovers may benefit local producers of final goods and services and allow them to upgrade. The high quality products so developed and produced are consumed locally and exported as well.

Theoretical Framework

This study was hinged on the Internationalisation Theory which was developed by Buckley and Casson (1976). Internalization theory is a branch of economics that facilitates the analysis of international business behaviour (Rugman & Collinson, 2012). Although several scholars have contributed to the development of internalization theory over the years, the origin of the theory is traced to Ronald Cruse in his article in 1937. Internalization ensues when perceived benefits exceed costs (Hymer, 1976). In every normal business prospect, cost considerations are paramount because they determine the viability and continuity of any business firm. In foreign investment, tax regime in the investee country is one of the components of cost which could either attract or discourage the investor. Tax policy incentives are designed to mitigate the cost of investment for existing and would be investors. The cost of doing business abroad when made relatively minimal through the benefits afforded by tax incentives enhances perceived benefits for foreign investors.

This theory argued that transnational companies organise their internal activities to benefit from specific advantages, which are to be exploited. The internationalisation theory provides the basis for which companies would prefer to sign contracts with a subcontractor in a foreign country instead of engaging in foreign direct investment themselves (Buckley & Casson, 1976). It explains the motivations of the transnational companies for making foreign direct investment, and by taking advantage of various government fiscal policies and other policies. A foreign direct investor may change its activities in response to changes in governmental policy, tax policy and structures, exchange rates and other inherent cost and uncertainties. Tax rates reduction may determine the attractiveness of location for undertaking investments, and this is relatively cheap in Nigeria. This theory is intuitively relevant to assess how and the extent at which Nigerian tax policy incentives induced its foreign direct investment.

Empirical Studies

In view of the importance of FDI, a number of related studies have been conducted on the tax policy incentives and FDI of various countries. Effiok et al. (2013) conducted a survey study on the impact of tax policy and incentives on FDI and economic growth. The study population was limited to the Export Processing Zones (EPZs) in Nigeria. Primary data, collected through interviews and the administration of a questionnaire to sampled respondents, were used for the study. Models were developed and the ordinary least square regression analysis technique was employed for the analysis of the data collected. The findings of the study revealed that tax rates which were a proxy for tax policy incentives, have a significant relationship with FDI and economic growth. Based on this, it was concluded that tax reform was necessary to make necessary changes in the tax incentives.

Saidu (2015) examined the relationship between corporate taxation and FDI in Nigeria between 1970 and 2013. The CBN statistical bulletin and annual reports of NBS and World Bank provided the secondary data which was used for the study. The collected data were analysed with the aid of correlational and regression techniques. The findings of the analysis revealed that corporate taxation, which was measured by the corporate tax rates, had a negative significant relationship with FDI. It was therefore suggested that FDI can be attracted into the country if the rate of corporate taxation is reduced.

Amuka and Ezeudeka (2017) did an investigation to find out whether the introduction of tax incentive policy produces a significant change on the pattern of FDI flow in the non-oil sector of Nigeria. Companies income tax and investment allowance were the tax incentives considered. Secondary data was used for the study. Ordinary least square econometric analysis was employed for the data analysis. The findings of the study indicated that the introduction of tax incentives policy change the pattern of FDI flows in the sector. This suggests that tax incentives can be utilized as a veritable tool for attracting FDI in the non-oil sector.

Ugwu (2018) comparatively evaluated the contribution of tax incentives towards FDI inflow in three (3) African countries (Nigeria, Ghana and South Africa) in their pre and post IFRS adoption period. Secondary data was used for the study which covered a period between 1999 and 2015. It was found out that while a positive association exists between tax incentives and FDI, FDI did not have significant effect on the exports of those three countries. It was also found out that there was no significant difference in the effect of FDI on exports of this countries in their pre and post-IFRS adoption periods.

George and Bariyima (2015) carried out a research on Tax Incentives and Foreign Direct Investment in Nigeria Given the significance of Foreign Direct Investment (FDI) to economic growth and the use of tax incentives as a strategy among government of various countries to attract FDI, the study examined the influence of tax incentives in the decision of an investor to locate FDI in Nigeria. Data were drawn from annual statistical bulletin of the Central Bank of Nigeria and the World Bank World Development Indicators Database. The work employs a model of multiple regressions using static Error Correction Modelling (ECM) to determine the time series properties of tax incentives captured by annual tax revenue as a percentage of Gross Domestic Product (GDP) and FDI. The result showed that FDI response to tax incentives is negatively significant, that is, increase in tax incentives does not bring about a corresponding increase in FDI. Based on the findings, the paper recommends, amongst others, that dependence on tax incentives should be reduced and more attention be put on other incentives strategies such as stable economic reforms and stable political climate.

METHODOLOGY

The ex-post facto research design was adopted for this study and secondary data was sourced from World Bank Database and CBN bulletins. The data obtained covered a period o*f 19 years (2001-2019)*. Multiple regression was employed in analyzing the collected data in line with the study models.

FDI = f (PAYE, WHT, VAT, ITFd)

Thus, the regression models specified for the study are stated respectively as:

$FDI = a_0 + \beta_1\, PAYE + \beta_2\, WHT + \beta_3\, VAT + \beta_4\, ITFd + e$ ……………………….….(1)

Where:

FDI = Foreign Direct Investment (measured using FDI net inflow (% of GDP).
PAYE = PAYE tax of employees
WHT = Withholding tax of third-party transactions,
VAT = Value added tax of third-party transactions,
ITFd = Industrial Training Fund (ITF) deductions of free zone employees
a0 = Constant term
β1, β2…., β4 = Coefficient of the independent variables
e = Error term

RESULTS AND FINDINGS

Table 2: Regression Output on Relationship between Allowable Taxes in Nigeria FTZ and inflow of FDI

Model	Sum of Square	Mean Square	R^2	F	Adj.R^2	Sig.	Durbin-Watson
Regression	1.703	0.851	.431	2.387	.134	0.015	1.530
Residual	5.706	0.357					
Total	7.408						

a. Dependent Variable: FDI
b. Predictors: (Constant), PAYE, WHT, VAT, ITFd

Predictors	Standardized Coefficient (Beta)
PAYE	2.029
WHT	-1.195
VAT	-0.213
ITFd	1.335

The results in table above show that allowable taxes in Nigeria FTZs correlate with FDI. The Durbin Watson value of 1.530 suggests that there are no significant autocorrelation problems. The R square value of 0.431 reveals that allowable taxes in Nigeria FTZs explain only 43.1% of the variance in FDI which is quite significant. On the ANOVA table, the significance of the taxes to explain the FDI is further confirmed by the p value of .015 which is lesser than .05. On this basis, the result confirmed that there is significant relationship between allowable taxes in Nigeria FTZs and inflow of FDI. Furthermore, out of the four variables, the standardized beta coefficients indicate that PAYE tax makes a relatively slightly stronger contribution to explaining FDI. The PAYE standardized beta coefficient of 2.029 indicates that a 1% increase in PAYE tax of employees in free trade zones will increase FDI by 2.029%., while the WHT standardized beta coefficient of -1.195 indicates that a 1% increase of withholding tax of third party transactions in free trade zone will change FDI by 1.2%. On the other hand, VAT has a standardized beta coefficient of -0.213 which implies that a 1% increase in value added tax in free trade zone helps to change FDI by 0.029% and the ITFd standardized beta coefficient of 1.335 indicates that a 1% increase in Industrial training fund deductions will increase FDI by 1.335%. This study is agreement with the study of Saidu (2015) and Amuka and Ezeudeka (2017) who in their studies found that introduction of tax incentive policy produces a significant change on the pattern of FDI inflow in Nigeria.

CONCLUSION AND RECOMMENDATIONS

This study was carried out with a view to confirming the complementary findings of previous research on the effect of FTZ incentives on FDI inflow in Nigeria. From the findings, the study concludes that tax policy incentives such as value added tax, withholding tax, PAYE tax and industrial training fund deduction of free trade zones have significant effect on FDI in Nigeria. The study therefore recommended that government should consider non-tax policy incentives initiative in free trade zones as an important complement to the tax policy incentives in order to attract and stabilize FDI in Nigeria. Finally, tax incentives should be effectively implemented, and efforts should be made by relevant tax authorities to ensure that firms to benefit from these incentives are adequately granted these incentives.

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