

Chapter 17

Benefits and Problems of the Brazilian SEZ Model: Analysis of the Manaus Free Trade Zone

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ABSTRACT

One way of implementing economic policies for regional development is the creation of SEZs (Special Economic Zones), with the objective of integrating regions by means of tax incentives and investments in logistical infrastructure. In Brazil, the best known SEZ model is Manaus Free Trade Zone (MFTZ), implemented in the 1960s in a region surrounded by tropical forest, far from large urban and commercial centers and with low population density. Besides MFTZ, other SEZ models have been implemented or are in the process of implementation in Brazil, but without the impacts that MFTZ has experienced. In this study, the economic, demographic, and social characteristics of MFTZ were addressed to seek answers regarding the benefits and challenges of the Brazilian model. It can be concluded that despite the tax benefits given to industries in the Manaus Free Trade Zone and the visible economic growth in the region, there is much to advance in relation to social benefits and human development.

OBJECTIVE

Analyze the Manaus Free Trade Zone model in order to identify the benefits and problems of implementing a SEZ in the Brazilian socioeconomic environment.

RESEARCH QUESTION

What were the benefits and problems of the Manaus Free Trade Zone implementation considering the Brazilian socioeconomic environment?

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INTRODUCTION

Economic and social development has always been a discussion that involves various spheres of social studies such as economics, sociology, and political sciences, among other perspectives. Such concerns are now emerging in a world of robust changes and great social and regional inequalities.

One of national and regional governments' objectives is the economic integration and development of certain regions that are considered strategic for the economy or that need actions to reduce regional inequalities.

One way of implementing economic policies for regional development is the creation of SEZs (Special Economic Zones), with the aim of integrating regions through tax incentives and investments in logistical infrastructure.

The best known SEZ model in Brazil is Manaus Free Trade Zone (MFTZ), created with the purpose of “enabling an economic base in Western Amazonia, promoting better productive and social integration of this region with the country, ensuring national sovereignty over its borders” (Superintendencia da Zona Franca de Manaus [SUFRAMA], 2021).

SEZs involve free trade zones (FTZs), free trade areas (FTAs) and export processing zones (EPZs). Brazil has come to possess twenty-six (26) authorized SEZs. In 2018, 5 SEZs were revoked; in 2019, 1 SEZ was revoked; 20 SEZs remain (Ministry of Economy, 2020).

The creation of the first SEZs dates back to the 1970s in Latin America and East Asia. Records of Industrial Free Zones as Incentives to Promote Export-Oriented Industries, presented by the UNIDO Secretariat at the Training Seminar on Industrial Free Zones, point to the existence of three “export processing zones” in the world in 1971: Kaoshiung (China), Shannon (Ireland) and Kandla (India) (Seraphic & Seraphic, 2005).

“The creation of SEZs in Brazil” was the subject of studies by several authors, in which regional economic development and government action were the object of their research. Being the main SEZ and the most comforted, SFM became the most studied. Serafico & Serafico (2005) point out that the creation of ZFM was a milestone in the regionalization of capitalist development in Brazil in the midst of a “Cold War” and dictated by a military government. The thesis of the need for government interference for regional development is supported by Monte Rey (2019), who states that, without tax incentives and government support, the free market would not be able to bring regional development to the Amazon. Other authors also explore government action for regional development as a justification for the creation of the ZFM.

There are other aspects for the creation of ZFM – hence SEZs – to be considered, such as the social cost-benefit of tax incentives given in relation to regional development taken to the Brazilian Amazon. This is the case of Rivas, Mota and Machado (2009) and the Getulio Vargas Foundation [FGV] (2019), among others, who try to assess whether the tax benefits given to companies located in the region compensated, considering the generation of employment, income and human development.

Finally, there are studies focused on the environmental impacts that the creation of the ZFM brought to the region, as opposed to the economic and social gains. This theme is not generally applied in Brazil, as there is greater environmental concern in relation to the Amazon Forest region. In this axis, we find the studies by Nogueira, Sanson & Pessoa (2007), as well as those by Araújo & Santiago (2019), who point out that the environmental impacts of the ZFM are not significant, as the companies installed there are industries that do not use materials forestry or mineral raw materials.

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