

## Chapter 18

# Strategy Proposals to Minimize Weaknesses and Maximize the Potential of Brazilian SEZs

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### ABSTRACT

*Special Economic Zones, which are areas designed for the development of industrial activity with tax benefits defined in specific legislation, were created in Brazil with the purpose of developing specific country areas with distinct results. This study proposes strategies for economic and sustainable development that enable competitive advantage creation in order to minimize weaknesses and maximize potentialities found in the Special Economic Zones. In this sense, the authors carry out an analysis in theoretical bases based on regional data, focusing on issues that may constitute an obstacle to the development process designed for these areas, as well as proposing paths that can enhance their development, aligned with the regional, cultural, economic, and environmental context. In analyzing the strategies about Manaus Free Trade Zone, it can be observed that the environmental perspective assumes a preponderant and highly relevant role. Its main weakness is too much emphasis on economic development and little concern with environmental issues in a region with strong ecological expression.*

### INTRODUCTION

Brazil is a country of continental dimensions, occupying 48% of the South America total area, with a great economic variety among its different geographical regions. Regional development policies were

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created with the purpose to develop specific country areas and to reduce inequalities and consequently increase its socioeconomic indicators (Cavalcante, 2020).

As an example of these policies, we have the creation of Special Economic Zones (SEZs) whose biggest and best representative is Manaus Free Trade Zone (MFTZ), which is oriented to the local market and later initiatives such as Free Trade Areas (FTAs) aims to develop and integrate to the country cities located in remote regions of the Western Amazon international borders (Cavalcante, 2020) and Export Processing Zones (EPZs) focused on attract investments from companies focused on exporting their production (Brasil, 2009, as cited in Zilli et al., 2015).

One of the outstanding characteristics of Brazil is still the economic and social inequality that exists in its different geographical regions. Historically, government officials have sought to institute policies that promote regional development, such as the SEZs creation.

In this sense, the aim of this chapter is to carry out a theoretical analysis about the weaknesses and potential of the Special Economic Zones from Brazil, with special focus on Manaus Free Trade Zone, as it is the main Brazilian model, as well as proposing theoretical subsidies and creating strategies to develop competitive advantage to minimize weaknesses and maximize SEZs potentials.

To achieve the proposed objective this study was based, on analyzes of scientific and technical materials produced about Brazilian SEZs, with a focus and emphasis on their weaknesses and potentials.

In this way, the chapter was developed addressing primarily the SZE in Brazil and its challenges emphasizing the historical aspects of the MFTZ and its challenges; afterwards, an attempt was made to analyze the environmental aspects, taking an approach from the environmental perspective involving the MFTZ; and finally, an analysis and strategies for competitive advantage creation focused on maximizing the potentialities and minimizing the weaknesses of SEZs were carried out.

## **SPECIAL ECONOMIC ZONES IN BRAZIL**

According to Cavalcante (2020) and Lannes (2015) Brazilian SEZs are located in delimited areas, associated with specific industrial districts and have tax benefits defined by law, which despite not being isonomic are quite similar, complemented by conditions of investment, trade, taxation and regulation different from those applied to companies in the rest of the country.

Lannes (2015) explains that MFTZ is the oldest free trade area in Brazil and has incentives related to tax exemption or reduction both for importing products and for the purchase of national or nationalized goods and also, in the export of products and sales to the Brazilian territory.

MFTZ is made up of three distinct areas, the commercial area which lost much importance with the opening of the Brazilian economy from 1990 onwards, the agriculture and livestock sector, which is related to projects aimed at food production, agribusiness, fish farming and tourism; and the industrial which is the most important of the three and is represented by Manaus Industrial Pole (MIP), where around 600 industries operate and is considered the support base of MFTZ (Cardoso & Monte Rey, 2019).

Jorge and Martins (2014) and Cavalcante (2020) explain that, tax benefits similar to the MFTZ, were extended to Western Amazon regions when the FTAs were created, with a broad and overlapping legislation and can be considered as small free zones if we consider only the commercial aspect and, therefore, in the context of this study they will be considered as a simple MFTZ extension. In addition, the model adopted for FTAs was exhausted with the adoption of measures to encourage imports (De Almeida, 2011). Figure 1 shows the location of MFTZ and FTAS.

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