

## THE FREE ZONES- INSTRUMENTS OF ECONOMIC INTEGRATION, BETWEEN TRADITION AND PRESENT SITUATION

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*The emergence of the free zones, some of them created in the second half of the 19th century, presents socio-economic advantages regarding: the introduction of modern technology in these zones, gaining incomes from the granting of plots of land, the use of the local human resources, the creation of new infrastructures in the transports from the respective areas, the drawing of foreign and local investors, the development of the international relations and exchanges. Countries establishing free-trade zones usually are characterized by non-competitive domestic industries and regulatory frameworks, and this is one way in which they gain access to foreign investment and markets. Such zones sometimes lead to technology transfers to host countries. Trade and transfer of technology represents a work program adopted at the Doha Ministerial Conference aimed at increasing flows of technology to developing countries.*

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Free-trade zones are defined areas, also called export processing zones, normally located near transport nodal points and designated by governments for duty-free import of raw materials or manufacturing components intended for further processing or final assembly and their re-export afterwards. Such products are exported to markets in other countries. Successful free-trade zones tend to have a plentiful supply of relatively cheap and adequately skilled labour. Countries establishing free-trade zones usually are characterized by non-competitive domestic industries and regulatory frameworks, and this is one way in which they gain access to foreign investment and markets. Such zones sometimes lead to technology transfers to host countries, but often that is not an objective of companies establishing operations in them. Trade and transfer of technology represents a work program adopted at the Doha Ministerial Conference aimed at increasing flows of technology to developing countries.

Trade and labour standards are one of the new trade issues. It is concerned with the question whether trade rules should be used to promote minimum labour standards in exporting countries. Like others of these new trade issues, it has actually been around for some time. The 1919 constitution of the International Labour Organization had the adoption and promotion of labour standards as a main objective. Some consider that the concept of "fair labour standards" derives from Article 23 (a) of the Covenant of the League of Nations in which members endeavoured "to secure and maintain fair and humane conditions of labour for men, women and children both in their own countries and in all the countries to which their commercial and industrial relations extend".

Trade and investment are, also, one of the new trade issues, even though some rudimentary rules on investment formed part of the Havana Charter. The issue is concerned with the relationship between trade and investment as factors in international economic relations and the emergence of

investment as a market access issue. Broadly speaking, for a long time, trade and investment tended to be regarded as separate policy issues. Today, the two are increasingly regarded as complementing each other. In a situation of declining border protection, investment flows can stimulate new trade patterns and strengthen older ones. In other cases, firms are more or less forced to invest and produce in target markets because high tariffs make importing an unrealistic option.

The WTO Singapore Ministerial Conference established in December 1996 a Working Group on the Relationship between Trade and Investment to examine this issue. Competition represents the way firms behave in the market place and how they respond to the actions of other suppliers and consumers. Underlying the idea of competition is the assumption that supply and demand are limited, at least in the short term, and that firms must strive obtain their share of the available resources. In ideal conditions, competition between firms would be based on price and the ability to innovate and respond to changes in the market. There would be no impediments to the operation of the price or market systems.

In the real economy, human ingenuity, high entry barriers to some industries, efficiencies of scale obtainable from large-scale operations and other factors combine to impair perfect competition in various ways. This may lead to economic rents being accorded to some firms, but without any obligation on their part to let the consumer benefit from this situation. Governments recognize this, and in many countries they seek to protect, where necessary, competition through antitrust laws and competition policy. Most economies are becoming internationalized, and government approaches to trade policy, i.e. their assessment of the extent to which foreign firms and their products should be allowed to compete in the market, therefore can be of critical importance to the level of competition prevailing in the market.

Fair competition, in trade policy, represents the proposition that international trade should be conducted within the non-discriminatory rules of the multilateral trading system. Sometimes this is also known as the level playing field. One element of fair competition in trade is that competition is kept within certain bounds. Otherwise, antidumping measures, countervailing duties, etc., may apply. In competition policy, fair trade means the conduct of business in conformity with usually pro-competitive laws.

Equitable competition is a concept based on the assumption that there ought to be some degree of international harmonization of labour, environmental and other standards seen to affect the cost of production to achieve a framework in which firms compete on more equal terms. The wisdom underlying this concept is that countries permitting inadequate standards give their firms a cost advantage which translates into enhanced international competitiveness for them.

Trade and environment are viewed by some as another of the new trade issues. It is concerned with the issues arising from the interaction between measures to expand international trade and those aimed at protecting the environment. There is a view that virtually all trade-environment issues fall within one of the following categories: (i) the trade effects of environmental regulation of protection, (ii) the trade effects of environmentally related product standards, (iii) the use of trade measures to secure international environmental objectives and (iv) the environmental effects of trade and trade liberalization. Hoekman and Kostecki list four main reasons offered by its proponents for the inclusion of this issue in the WTO agenda. First, production and consumption activities in one country may have a detrimental environmental impact on other countries. Second, some environmentalist groups have propounded the view that trade itself is bad for the environment because of its potential to spread pollution. Third, some consider that environmental measures and policies are bad for trade because they might allow countries with low environmental standards to be more competitive than those that have to bear the cost of higher standards. Fourth, environmental policies may unnecessarily restrict trade as shown in the tuna cases. There is much argument about the possibility that differences in environmental standards might lead to cost differentials which could be exploited by those enjoying lower costs. The

proposition that trade measures ought to be used in support of environmental objectives generally is not favored by trade-policy makers because it might lead to a whole new array of protectionist measures only tenuously connected with the aim of environmental protection. Still, some multilateral environment agreements already contain significant measures covering international trade. A work program is now under way on these issues in the WTO Committee on Trade and Environment.

The concept of *free trade zone* is defined generally as a geographic area – *free harbor/port, free deposit, and free airport* – found on the territory or at the frontier of a country, a space where the goods have free access that was created in order to develop freely the economic relations.

The notion of *free zone* means in the opinion of the specialists in this domain an area limited by natural or artificial frontiers, within which the merchandise is loaded, stored, processed or delivered/shipped, being excepted from customs duties or restrictions (1).

Other authors use the term of *economic free zone*(2) which is different from the *customs union* or *the free trade zone*, being underlined the fact the goods that enter in a free economic zone undergo essential changes, new values being created. From the almost 23 terms(3) that name the *free zones*, the notion of *tax haven* is to be remembered.(4).

No matter the terms used, it is important that the free access of the goods in the free zone and the customs facilities represent a modality of drawing the foreign capital and stimulating the foreign investments. But these opportunities mean the stimulation of the manpower and an adequate infrastructure. The activities of industrial processing must be oriented towards export, towards increasing the quality and the operability to the level of those zones users' requirements.

The legislative approach in this domain targets the control and management of the free zones which signifies a certain liberty of action in the allocation of the resources (for the access of the goods adapted to the market's requirements), in the introduction of new technologies, but also restrictions imposed on the investors regarding the respect for the environmental protection norms and the lack of involvement in the country's security problems.

The foreign investments in the free zones are made in industry, agriculture, human resources, constructions and commerce, tourism and banking services. The foreign investors can participate in the administration and management of their investments, they can transfer a quote of the profits in their country and their funds and material assets can not be nationalized or expropriated.

The introduction of the free zone regime is a right that belongs to local authorities that must make a feasibility study in their documentation regarding the opportunity for the creation of a free zone, specifying the geographical, social, economic frame and the potential partners and investors as well as the human resources. The entire documentation must have the approvals regarding the property right on the respective land, other ones from the Environment Protection and Supervision Agency, the Urban Development Commission and the Ministers of competence. The regime of free zone has a long historical tradition, the certification of the first such zones in the Galati and Braila ports dating since 1834-1836, their objective being the development of trade. In 1866, facilities were granted to the Greek traders making businesses in the Danube ports. The economic importance of these two free zones declined as consequence of the Germany and Austro-Hungary's intervention and promotion of their merchandises. Sulina was also under the same regime of free zone, and during 1870-1931 many goods transited through it in their way to the Near East and Middle East. The most important fact is the Senate voted a project of law stipulating, besides the imports of various goods, the re-exporting of these or their transformation into raw materials and also the creation of enterprises. The rules for re-exports without customs restrictions, the conditioning of goods by packing, shape, quality, unlimited storage in customs warehouses are only some of the articles from the 1931 Law for Free Zones, that were still valid in the moment of the Law 84/1992 elaboration and some still are.

The present free zones in Romania, six of them, were introduced by law(5), commercial and financial facilities being granted to them by the State administration, in order to promote the international exchanges, the drawing of foreign capital for the introduction of modern technologies and increasing the possibilities of using the national economy's resources.

The free zones Brăila, Galați, Sulina were recreated and the free zones Constanța-Sud, extended till the harbor complex Basarabi, and Giurgiu were appointed by Governmental Decisions.

#### ***Sulina Free Zone***

Due to its position, Sulina, the port situated where the Danube flows in the Black Sea, had become porto-franco in 1870 as consequence of the necessity to develop commerce especially for the merchandises exported from the Mediterranean basin and other countries. During 1871-1875 almost 9750 ships had passed through Sulina, known as a European gate. All the privileges of the Sulina port were abrogated in 1931 even though the status of porto-franco and implicitly, of free zone(6), had lead to the development of commerce on the Danube, to the increase of ships and merchandise traffic, to the economic progress of the town and the prosperity of the traders making commerce with the exterior.

The free port of Sulina is created in 1978 due to its geographical position influencing the international, maritime and fluvial traffic of Romanian or foreign goods and the extending of the economic relations with countries from South-East Europe and the Near and Middle East. By its creation as a free port, the volume of the import and export operations through chambers of commerce grew and the cooperation with foreign firms and the creating of commercial companies were encouraged. The activities specific for the regime of free zone intensified in 1993 and were made by economic agents, users of this zone, with the approval and on the basis of the licenses granted by the Sulina Free Zone Administration, created by the reorganization of the External Commerce enterprise, which functions as an autonomous direction, based on the principles of economic administration and financial autonomy. The object of activity is represented by:

- goods and services meant for import or export;
- processing or transforming goods for re-exports;
- exploiting of the basins, wharfs, platforms, deposits, equipments and installations;
- collaboration with economic agents in the investments made;
- industrial production;
- hotel services.

The goods prohibited to be imported on the Romania's territory are not admitted in this zone and the dangerous merchandises must be stored in locations specially created in conformity with the present legislation. The ships with activities in the port of Sulina can land in the established points and are exempted from the duties payment when passing through Sulina channel.

#### ***Constanța-Sud and Basarabi Free Zone***

The existence of a free zone in the Constanta port is mentioned during the period 1880-1883, being abolished afterwards. The Constanța- Sud and Basarabi free zone including two platforms to which a third one was representing harbor territory was added was created not until 1993. The two free zones are administrated by an autonomous direction, respectively the Constanța-Sud and Basarabi Free Zone Administration which deals with:

- manipulation, storage, selection, measurement, packing, processing, fabrication and marking of the merchandise;
- stock exchange and financial-banking operations;
- renting and taking in concession parcels of land;
- the ships' freighting, agency, supply;
- granting licenses to economic agents for activities in this zone.

All the activities realized have the approval not only of the zonal authority but also of the Minister of Transports. The Constanța-Sud free zone, because is linked to all transportation means (terrestrial, maritime, fluvial, air), offers opportunities for:

- renting or taking in concession plots of land or buildings;
- terminals for oil or chemical products, cereals and transport means;
- industrial, commercial and stock exchange activities;
- possibilities for on-going international projects.

Since contracts of concession on 50 years time were signed with Romanian or foreign physical and juridical persons, there is a danger of the concessionaires giving up their contracts due to the imposing of taxes on goods or income tax, fact that would lead to the decrease of the investors' number, of the investments' volume and of the exports' value which would bring about the growth of the commercial deficit and the liquidation of some businesses but also sending employees in unemployment and to the growth of the underground economy.

### ***Brăila Free Zone***

Brăila was declared free port in 1836 and kept on functioning under that regime until 1883. Due to some reasons of external nature (customs warehouses in old ports all around Europe) Brăila free zone was abolished in 1940. Consequently to a number of Governmental Decisions modified and completed in 2000, the Braila free zone was created and it was formed by three perimeters with a port. The Administration is also an autonomous direction having the same attributes as the other free zones, such as:

- organization of auctions;
- giving licenses to the economic agents;
- giving in concession plots of land and buildings.

On the surface of the three perimeters, there are 61 Romanian and foreign firms that realize export-import, processing and presentation activities and 18 firms that have rented storing locations. All the firms are customs duties, approvals payments, TVA and income tax exempted. Due to its position at the frontier with Moldova and Ukraine, the Braila Free Zone offers to its users fiscal and customs facilities, access to railway, maritime and fluvial transport means and to cars of any tonnage, but also customs or technical consultancy, possibilities of manipulating the merchandises and storing them on platforms or in warehouses.

Among the opportunities of economic development offered to the private entrepreneurs, it can be mentioned:

- realization of a performing infrastructure;
- amplification of the technological transfer and industrial processes modernization's operations;
- subcontracting with local economic agents;
- growth of available jobs' number;
- creation of an industrial park oriented towards the information and communication technology.

### ***Giurgiu Free Zone***

One of the most important Danube ports (7), with opening for the commercial relations with the Balkans and the Middle East, Giurgiu has become a free zone in 2000. The Giurgiu Free Zone Administration, functioning as an autonomous direction has the following activities:

- giving in concession terrains to the investors;
- renting plots of land and various locations for production, commerce, services related activities;
- granting licenses to the users in this zone.

This free zone offers the possibility of loading the ships with oil products since it has an oil terminal but it also has a developed railways network and an adequate road infrastructure. The productive commercial companies develop industrial activities and the exports of finite products are stimulated. The Giurgiu free zone is property of the state and was created to promote the



international commerce and draw foreign capital. Due to the possibilities of using the ports and fluvial capacities of the Danube but also the capacities of industrial processing, agricultural and storage ones, this free zone is predicted to become one of the largest European economic free zones.

### ***Curtici-Arad Free Zone***

Curtici-Arad Free Zone (8), created in 1999, the most recent and dynamic from the Romanian free zones, it represents a factor of economic and social competition, generating various services regarding:

- circulation of the financial-banking capital;
- hotel services;
- public alimentation;
- consultancy;
- control of goods' quality and quantity;
- internal and international dispatching.

Located at the frontier with Hungary, this free zone is situated on a European road, railway and air corridor which draw the investors. The existence of concession, renting and association contracts permits the users to make investments as well as production, processing, storing and commerce activities. New jobs were created by the development of small and middle enterprises, those contributing at the regional and county development but also to the external relations.

In conclusion, the existence of the six free zones offers, by their functionality, the following advantages:

- gaining incomes from the concessions;
- using the local human resources;
- the realization of new infrastructures;
- the introduction of modern technologies in all the free zones;
- promoting of international relations and exchanges.

The creation of new free zones, next to the traditional ones, had for consequence the drawing of investors with foreign or autochthonous capital, the introduction of modern technologies, the realization of merchandise stocks necessary to the national economy and the carrying on of commercial and industrial operations.

The location of these zones next to or inside some transport ways (maritime or fluvial ports - Sulina, Galați, Brăila, Constanța-Sud, airport-Otopeni, railway), that are constitutive part of the Romanian state's territory, permits the transit of a large volume of import-export merchandises.

There is a possibility of creating new free zones at the frontier with Moldova (Ungheni, Albița) or Ukraine (Giurulești) in points with maximal commercial affluence.

It must be taken into account however that almost 10 years are necessary for a free zone to become functional and the rhythm of involvement of the foreign investors is not constant.

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