



Sustainable Development and The Role of Free Zones

KEYWORDS

Free Zone, Free Economy, Sustainable Development.

Mohammad Ali Najafi

Department of Management ,Yerevan State University
,Yerevan,Armenia

Kamran Yeganegi

Department of Industrial Engineering, Zanjan Branch,
Islamic Azad University, Zanjan, Iran

ABSTRACT *Developing countries encounter numerous insufficiencies and limits in achieving economic development. Meanwhile they possess specific facilities and preponderance. Free Zone acts as a tool which can relatively compensate the shortcomings and may turn the potential facilities and superiorities to abilities de facto on a national scale. It can also represent a bridge between internal and external economy.*

Accordingly, the main objectives of the Free Zone could be abridged as follows:

- *Supplying the shortages of national economic development.*
- *Benefiting from the privileges, potentials and in general, the comparative advantages of national economy.*
- *Establishing a regular connection between the national economy and the global economy*
- *Gradual connection of the national economy to the global economy.*

In Free Zones, developing countries pursue more elaborate objectives for approaching economic development in the framework of the aforementioned general objectives. They anticipate achieving the internal demands of the national economy through applying those objectives desirably.

Some of the elaborate objectives can be categorized as follows:

- *Absorbing foreign capital, specifically in productive segments.*
- *Supplying more currency in order to satisfy the needs of the national economy.*
- *Absorbing and transferring technology into the national economy*
- *Entrepreneurial efforts in the Free Zone and the national economy*
- *The escalation of the national economy efficiency*

Through the increase in non-oil production , the export development and the flexibility of the structure of an economy production, the ability of that specific economy in diminishing the perils of oil industry and other trades, which by nature results in the betterment of the trade conditions of a country, increases. Hence, when diversification occurs in an economy the rate of peril goes down and the efficiency of the country's trade system escalates.

In addition, the flexibility of the production pattern of an economy leads to the expansion of production potentials. These potentials are highly required in global markets in order to increase the production and income and in response to the probable changes of supply or demand parties.

1. Introduction

Classic economists like Adam Smith believed that international free trade also maximizes global welfare. Smith believed that if a country specializes in producing merchandise for which it has the highest rate of efficiency and then exchange the surplus of its production with the merchandise in the production of which it has no efficiency, the total amount of production of both goods will be seemingly augmented in the world. This production surplus is divided between trade parties. This actually means generalizing the profit of task allotment (and swapping) at the level of international relations.

If the government did not interfere or even if there existed free economy and also free international trade, trade profit could be maximized. Hence, it seems that the barriers on the free flow of products, services and the production parties in countries are in contrast with such objective.

But in practice all countries in the world set specific limits for the flow of international trade. These limitations have

always been justified due to the national welfare. In fact they are set for the purpose of supporting the industries and workers who may be in detriment of getting hurt.

Due to the classics' discussion it is implied that free trade is for the betterment of the economic independence of each country and consequently for that of the world. Meanwhile free trade is a necessary condition for maximizing world's welfare, but not the sufficient condition, since the distribution of income among people and countries is of high importance and undoubtedly should be taken into consideration.

In general, there exist two vantage points and theories on international free trade: the international viewpoint and the zone-oriented viewpoint. International view takes into consideration all the international conferences which are mainly under the supervision of the General Agreement on Tariffs and Trade (GATT). It also aims at reducing customs tariffs and eliminating other trade barriers via international negotiations such as negotiations around Tokyo and Uru-

guay. Apparently, the main concern of such viewpoint is to establish the notion of free trade in the world.

2. Free Zone and the change in development strategy

Free Zones, as tools for economic development, are established for the purpose of the private sector's presence in target countries' economy, for absorbing foreign capital, technology transfer, creating job opportunities through entrepreneurial efforts, and the presence in international target markets.

The current concepts of Free Zone are not necessarily identical and could include various interpretations. The UN has mentioned 23 different titles which have been allocated to Free Zone in different societies, international organizations and the world's official economic journals.

The most important of all are listed as follows:

Foreign trade zone, trade free zone, industrial free zone, free port, and export processing zone (EPZ). The last title is derived from the recent shift in the developing countries' industrial development strategies in the past decades. It is a shift from import sustainable strategies to export encouragement strategy (Griffin, 1989).

International organizations have had different opinions of the Free Zone. "Unido" considers Free Zone a tool for encouraging industrial development which is aimed at exporting industrial merchandise. "Anectad" believes that the global trade's current pattern is to under-developed countries' disadvantage and one of the tools which may cause radical changes to such pattern is "Free Zone".

International Free Zone treats Free Zone as a tool for expanding international trade and is considered a notable help to development. Throughout the recent years, the World Bank has believed that investment in these zones should be preferably in harmony with economic profit.

The International Labor Organization (ILO) has had a positive assessment of the Free Zones' efficiency. This assessment is carried out from the perspective of creating job opportunities and entrepreneurial activities, and a considerable reduction in unemployment. Meanwhile it has put an emphasis on respecting the workforce's rights in such regions.

The experience of establishing Free Zones in Asia shows that those countries which possess a governmental economic atmosphere and obliged to observe the official regulations of customs, currency, organization and other inhibiting laws, believe that the notion of Free Zone is an important factor in eliminating the anti-development barriers. They also claim that they have gained a notable amount of knowledge and new skills through these regions. It is said that there exists 210 Free Zones in China, Turkey and Emirates.

On the other hand, those developing countries which have turned to the establishment of Free Zones believe that they could be a great help to deal with and eventually defeat the state of being under-developed. It means that the flow of capital and management to a country and adding the foreign technical knowledge to the domestic manufacturers may put the country on the path of development and produce a concordance with global economy.

In Other words, Free Zones could possibly convert these

countries' potential superiorities and talents to actual abilities. It could also be an indestructible bridge to join their national economy to the international economy, specifically when all countries compete with each other to gain the membership the World Trade Organization (WTO). These countries aim at applying Free Zones as gates to the global market and at benefiting from the comparative advantages of internal economy in international trades.

2.1 Import-Substitution Strategy

The approach of Import-Substitution Strategy is categorized into the framework of Introspective Economic Development Strategy. This process called Import Substitution creates a ready market for an industry or a number of the country's industries.

In fact, by applying such policy developing countries use their own products instead of importing industries from industrial countries and can consequently produce the necessary industries within the country. Introspective development strategies are summarized as those strategies whose production orientation and structure are designed in response to internal demands and internal markets.

In such strategy Internal Production, Internal Consumer Preferences, Internal Income Elasticity and... are prioritized and directed in a way that result in economic autonomy, in reducing dependence and fighting against foreign threats. Therefore, this strategy mainly benefits from the internal facilities and resources in order to achieve certain levels of self-sufficiency or autonomy.

For the purpose of this strategy, industrialization is pursued by substituting imports and the manufacturing of staple goods such as steel, wheat, cement and... is also pursued in order to utterly finalize economic independence.

2.2 Export Development Strategy

As opposing to Import Substitution Strategy, there is Export Development Strategy.

Supporting export is one of the long-term approaches (of development strategies) and is purposed to encourage the country's exportable goods and challenge the import substitution strategy via economic policies. This strategy could be applied and prioritized due to the following necessities:

A. In under-developed countries there are numerous free and potential resources like materials, equipment, workforce, land and capital which could be skillfully directed to this part if industrial exports are well supported. Consequently the efficiency, growth and the structure of internal products expands.

B. Another hypothesis which may still justify the choice of export supporting strategy is that other resources used in other parts like import substitution have less efficiency. Hence, their internal immigration to more dynamic and efficient parts of export industries may result in a relatively better profit for under-developed countries. In this case, supporting exportable industries becomes crucial as long as the final investment profitability rate in exportable industries is assessed more valuable than internal and substitute industries.

Conversely, if investments are more in exported industries and have less in comparison with other industries, supporting export may result in demand increase and inflation and in fact nullifies the reason or relevance of such support

(Griffin, 1989)

3. Conditions and factors of Free Zones' success

A Free Zone's success is influenced by various economic, social, political and cultural factors, internal laws and regulations, and location. Some factors are as follows:

- Compatibility of Free Zone's objectives with national economy strategy: The chosen objectives and approaches for the establishment of a Free Zone should be utterly harmonious with the objectives and approaches of national economy. If sufficient preparation for the acceptance of the philosophy behind Free Zones does not exist in national projects, establishing such zones will not gain success in coping with the countries' economic problems.

- Official and lawful discretion: A country's laws in regard to Free Zones should explicitly clarify the features of Free Zone's role in national and zone-oriented development. It should also clarify its objectives, duties, and volition. It should necessarily assert the advantages assigned for the purpose of accomplishing those objectives and create encouraging motivations for internal and external investing companies and institutes. Besides, the conditions under which the funding and workforce enter and leave Free Zone need to be clarified too. Any sort of ambiguities in these regards may hinder the success of pre-determined objectives.

- Access to fundamental facilities and public services: Having access to fundamental facilities is one of the most important factors which absorb investors to Free Zone. Basic facilities like water, electricity, petrol, telephone, telex, distant calls, transportation on land and in water, ports and piers, lines of communication (roads and airports), and office and residential buildings are crucial conditions for Free Zones' success.

- Proper executive organizations: The existence of organizations under regulated performance is one of the most important conditions and success factors. Therefore employing well-trained staffs that are acquainted with modern trade-industrial culture, the presence of efficient managers with explicit and assertive laws and regulations for making rapid or routine decisions are of high importance.

- Sustainability of economic policies: The officially announced economic policies and decisions for absorbing internal and external capital and also absorbing tourists and holidaymakers should be lasting and long-term. Those changes in policies which happen in rapid succession make trade parties and investors lose their interests in these regions and may result in failure.

- Transfer of technology and industrial culture: In today's world production expertise is more accumulated in brains rather than in tools. Therefore a demand for specialized workforce and experts accompanied with the necessity of offering high-quality services is increasing in Free Zones since speed, carefulness, ease, trust and efficiency are inseparable features such regions.

Consequently Free Zones need such minds, expertise and trainings. Having such trained experts, a Free Zone supplies the demands of national economy in response.

- An accordance of people and officials: Disagreement between people and officials or those in charge in Free Zone and also the disharmony among officials in doing their current and routine duties may stop or lower the speed of ongoing activities.

- Government's continuous support: The government and officials continuous reinforcement and financial or spiritual support of the Free Zone and its publically announced objectives plays an important role in developing Free Zone's activities.

- An open atmosphere for work and social life: Free Zone is a place for developing various economic activities compatible with its natural and social conditions via joining internal resources with international markets. In this case, how foreigners are being treated, especially those investors who intend to expand their activities in these zones or even the tourists who visit Free Zone for shopping or pleasure could be considered either a proper or deterrent model for international cooperation in the country.

Freedom of action for foreigners in these zones which are compatible with Free Zone's beliefs and culture is considered the main feature (Awokuse, 2008).

4. Conclusion

Nowadays development is considered an international issue, in a way that absorbing foreign investment is one of the most important developing factors from an international viewpoint. For this reason, by absorbing foreign investment, a country could take necessary actions to establish fundamentals and required facilities through common ways of foreign investment. Countries' development as an international process is formed through joining the global economy and the global market.

REFERENCE

- Abrishami, H., Mehrara, M. and Irannejad, M.R. (2010), "Effects of Liberalization Policies on Economic Growth in Islamic Countries", *Journal of Economic Research*, 91.
- Al-Yousif, K.Y. (1997), "Exports and Economic Growth: some empirical evidence from the Arab Gulf countries", *Applied Economics*, 29.
- Awokuse, T.O. (2007), "Causality between Exports, Imports, and Economic Growth: Evidence from transition economies", *Economic Letters*, 94.
- Awokuse, T.O. (2008), "Trade Openness and Economic Growth: is Growth Export-led or Import-led?", *Applied Economics*, 40.
- Bahmani-Oskooee, M. and Oyolola, M. (2007), "Exports Growth and Output Growth: an Application of Bounds Testing Approach", *Journal of Economics and Finance*, 31(1).
- Eghbali, A., Halafi, H.R. and Gaskari, R. (2003), "Oil Exports and Economic Growth", *Journal of Economic Research, Special Issue*, 82.
- Feder, G. (1982), "On Exports and Economic Growth", *Journal of Development Economics*, 12.
- Aradhna Aggarwal. (2001). "Liberalisation, Multinational Enterprises And Export | - Chol, I. (2001) "Unit Root Tests for Panel Data". *Journal of International Money and Finance*, No. 20; 249- 272.
- Gerdie Eeveraert A and Freddy Hheylen, (2002) *Labour Taxes And Unemployment In the OECD, A Nonstationary Panel Data Analysis*. Ghent University.
- Gharabaghian, M. (1994), "Economic Development", Ney Press.
- Griffin, K. (1989), "Economic Development Strategies", translated by M.H. Hashemi and H. Raghfar, Ney Press.
- Jalali Naini, S.A.R. and Mohammadi, M.R. (1996), "Exports and Economic Growth", *Journal of Business*, 1.
- Komijani, A. and Safavi, B. (2006), "Effects of Exports on Total Factor Productivity Growth in Manufacturing: The Provinces of Tehran, Isfahan, Khorasan, and East Azarbaijan", *Nameh Mofid*, 54.
- Konya, L. (2006), "Exports and Growth: Granger Causality Analysis on OECD | - Love, J. and Chandra, R. (2005), "Testing Export-led Growth in Bangladesh in a | - M. Tekere. (2000) "Export Development and Export - led Growth Strategies: Export Processing Zones and The Strengthening of Sustainable Human Development (SHP)". | - Omisakin, O.A. (2009), "Export-led Growth Hypothesis: Further Econometric Evidence from Nigeria", *Pakistan Journal of Social Sciences*, 6(4).
- Blances, f. Gonzelez, M. Lozano-oyola, M. Perez, F. (2010) *The assessment of sustainable tourism: application to Spanish coastal destinations*. Available; from: WWW.Elsevier.com/locate/ecolind.
- Countries with a Panel Data Approach", *Economic Modelling*, 23, pp. 978-992.
- Georg, W. (2008) *Tourism politics, Globalization, Sustainable and Responsible tourism*; Available from. www.art-lectures.com.
- Georg. W. (2008), *Tourism Politics, Globalization, Sustainable and Responsible Tourism*, available from www.art-lectures.com |