

"THE PORT OF TARANTO: ITS LOGISTIC DEVELOPMENT"

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INTRODUCTION

In recent years, Taranto has been facing many important changes. In particular, the port of Taranto is undergoing several transformations. The port and its bay are in the heart of the Mediterranean Sea and therefore in a strategic position. Indeed, it plays a very important role, both commercially and strategically: it is the ideal port of call for commercial shipping between European countries and other continents. Moreover, the port is located close to the main trade routes of the Suez Channel and Gibraltar.

In the past, the port of Taranto had the restricted role of mere movement of goods, but nowadays it is going to be transformed into an extremely important commercial port.

Paragraphs 10-12 of this work show how the port of Taranto is going to be transformed in order to become a major port in the upgraded med-routes.

Paragraphs 6-9 focus on Free Trade Zones. Performance analysis of Free Trade Zones, conducted by experts and scientists are shown together with the economic benefits. Brief examples of Free Trade Zones in China and in the USA are given in order to understand how this type of ports have improved these Countries' economies.

In paragraphs 3-5 the Special Economic Zones, which are the further upgraded level of Free Trade Zones are illustrated, together with their economic benefits, costs and aims. As an example of Special Economic Zones in China, the important case of Shenzhen is shown, explaining how the SEZ in this city allows it to be far more attractive than the rest of mainland China.

At last, paragraphs 1-2 refer briefly to the complex world of financially Free Economic Zones, which is a complex of several typologies of ports and it is the origin and the source of both the Special Economic Zones and of the Free Trade Zones.

PARAGRAPH 1: TYPOLOGIES AND SEVEN GENERATIONS OF FREE ECONOMIC ZONES

In the last century, many developing countries have been improving their economy thanks to the birth of Free Economic Zones. Free Economic Zone (FEZ) institution has a long history and plays an important role in the world economy. The development of Free Economic Zones is a truly global economic phenomenon that is tending towards a general model, although there is still a rich structure of different kinds of FEZ. The classic studies were concentrated on trade creation and trade transfer in a cross-national "Free Trade Area". Most studies, however, have focused on the theoretical analysis of benefits and costs as well and on the economic role of FEZ in the less developed countries, while little attention has been paid to the evolution of FEZ. The Roman Port of Delos can be considered as the first idea of Free Port, the most ancient FEZ. In Italy the first Free Port was established in 1547 in the city of Genoa. Subsequently, such ports also arose in some city-states (e.g. Venice and Ragusa-Dubrovnik) along the eastern and southern rim of the Mediterranean, following the example of the cities lying along the North and Baltic Sea that had constituted the "Free Trade Union" in the late 13th century. Inside this union two cities, known as "free cities" (FCs), played a dominant role: Hamburg and Bremen.

It is possible to define FEZs under a variety of terminologies. In fact, there are currently a lot of different terms to describe it. FEZ is a geographically defined zone where specific economic activities are fiscally incentivized and where free trade and other preferential policies and privileges, different from those of the host country, are granted. FEZ can have a small size or a large dimension; it can range from a zone inside a country to a cross-border zone involving more than two countries; finally it can go from a simply economic zone to aboth economic and administrative zone.

A first classification is between territorial and regime types of FEZs according to their spatial structures. A territorial type of FEZ has a high quality infrastructure and administrative facilities with a better-trained staff than elsewhere in that country, within a specially define territory. There are two sub-types of this kind of

FEZ, depending on the linkages with the domestic economy and the policy of customs supervision, i.e. open type and enclave type.

- Enclave type is a strictly defined zone in which a policy of closed customs supervision is carried out so that it has fewer direct linkages with the domestic economy than the open type (SEZ, Science-based Industrial Park, Free Financial Zone, Free Tourism zone).
- Open type carries out a special policy of customs supervision – It is not strictly defined or separated from the domestic economy. That is why it has more linkages than the enclave type.

Some types of FEZ, such as SEZ, have the features of both open and enclave types of FEZ.¹

In time, FEZs have been classified into 6 main types and 7 generations of subtypes, according to the political, scientific and technological progress:

trade-based FEZ (FTZ), which is the 1st generation of FEZ;

service-based FEZ (Free Tourist and Financial Zones), born in the 1930s, which is the 2nd generation;

manufacture-based FEZ (EPZ), established about twenty years later, which is the 3rd generation of FEZ;

science-based FEZ (SIP), which is the 4th generation;

comprehensive FEZ (SEZ), which is the 5th one;

cross-border FEZs (subdivided into cross-border economic cooperation zone in the European Union and cross-national growth triangles in Asia), which is the 6th one;

lastly, Cross-national regional economic integration (REI), which is the last FEZ's generation.

Every type of FEZ promotes financial internationalization, production integration, world trade liberalization together with many other key economic, technological and social aspects.

¹Meng G. W. 2005. "Evolutionary Model of Free Economic Zones", p. 104

PARAGRAPH 2: CHARACTERISTICS AND EFFECTS OF FEZs

FEZs are widespread in developing countries and, in particular, in the Asiatic industrialized countries, as a growth-oriented instrument. Lately, they have also been adopted in the former centrally planned economies of Eastern Europe in order to stimulate structural and economic transformation.

One of the crucial characteristics of the FEZ is the provision of generous tax investment promotion schemes solely permitted in this enclave, although it is often asserted that tax incentives alone have not been successful in attracting foreign direct investment-FDI. When evaluating FDI, investors tend, firstly, to examine important determinants of countries and regions, such as market size, access to raw materials, availability of skilled labour, etc. Only those areas that satisfy these criteria are further evaluated and, in this phase, tax rates, grants and other incentives become important. However, government can quickly and easily change the range and extent of tax incentives they offer.

A negative implication of tax incentive schemes is the erosion of the tax base. Such measures include:

- Profit tax exemption² or reduction;
- Free or accelerated depreciation;
- Investment tax allowance;
- Subsidy for investment costs;
- Etc. ...³

Tax incentives can also be targeted at investment in regions that are disadvantaged due to their remoteness from major urban centres. Operating in a remote area may entail significantly higher transportation and communications costs in accessing materials used in production, and in delivering end products to markets. Moreover, firms may find it difficult to encourage skilled labour to relocate and work in remote areas that do not offer the services and conveniences available in other economic centres. Tax incentives may be provided in such cases to

² Corporate tax exemption for a specific period of time, which is allowed to the qualified newly-established firms, is generally referred as tax holidays (OECD 2001).

³ Nam C.W., Radulescu D.M. 2004. "Types of tax concessions for attracting foreign direct investment in Free Economic Zones", p. 2.

compensate investors for these additional business costs.⁴ Moreover, there are positive relationships between the presence of public policy measures (such as tax incentives on firms that are in FEZ and other kinds of firm zones) and increased economic activity.

The success of a zone is measured by the change in zone employment, the increase in the number of firms in the zone, the amount of investment undertaken after the designation and also in terms of technology transfer and industrial modernisation, export, diversification of local economies, etc. For example, in 1978, the central government of China granted Special Economic Zones of coastal regions more autonomy in foreign trade and allowed them to charge foreign-invested firms lower taxes than permissible in other regions. The effects of this policy are still present: in fact, the corporate tax rate presently amounts to 15% while the tax rate of the rest of China amounts to 55% and the 33% levied on foreign-funded enterprises in the hinterland. Furthermore, regions and provinces are authorised to set up various types of trading corporations for their own territories, some selected enterprises can conduct foreign trade negotiations independently (without the control of the central government), local governments at different levels and enterprises can retain part of their foreign currency earnings, and some provinces such as Guangdong and Fujian were allowed to transfer a smaller share of tax revenue to the central government.⁵

By being located near various numbers and types of firms in agglomerations or Free Economic Zones, an easy and speedy business access (with low transportation costs) to other service and industrial firms (suppliers, distributors etc.) or research institutions is guaranteed. Furthermore, in the case of expanding similar industrial branches in a given location, firms can realize economies of scale by using jointly supplied products (and raw materials) or by specializing in production. An additional benefit includes the savings resulting from intensive sharing of given major capital investment and infrastructure by a number of firms

⁴ United Nations Conference on Trade and Development (UNCTAD) 2000, "Tax Incentives and Foreign Investment - A Global Survey", p. 7.

⁵Nam C.W., Radulescu D.M. 2004. "Types of tax concessions for attracting foreign direct investment in free economic zones", p. 5.

in a geographic enclave. Within an economic zone that has a concentration of rapidly growing (foreign and domestic) firms in an emerging dynamic industry and service sector, the recruitment of a specialized labour force is also convenient. Additionally, such a geographic proximity makes the inter-firm communication of new ideas, experiences and know-how among firms more efficient and innovative. Consequently, such advantages of agglomeration economies provided by a FEZ can have a positive effect on a local economy and stimulate efficient production and generate productivity growth leading to higher per capita income than that in the rest of the country (Bartik, 1991).⁶

PARAGRAPH 3: SPECIAL ECONOMIC ZONES THROUGH THE YEARS: A BRIEF VIEW ON THE EVOLUTION OF THEIR ADMINISTRATION

A Special Economic Zone is a geographically delimited area, usually physically secured that has a single management or administration. It offers benefits based on physical location within the zone and, thanks to a legal fiction, some trade policy instruments are eliminated. Moreover, it has a separate customs area (duty free-benefits) and streamlined procedures. An SEZ normally operates under more liberal economic laws than those typically prevailing in the country.

The core definition of a free zone, as well as proposed guidelines and standards for them, are contained in the Revised Kyoto Convention of the World Customs Organization (WCO). Specifically, Annex D⁷ and the accompanying guidelines provide standards and recommendations on the treatment of imports to and exports from free zones including territorial limits (free zones are defined as "outside the customs territory" for purposes of the assessment of import duties

⁶Capello R. and Nijkamp P. 2009. "Handbook of Regional Growth and Development Theories", p. 505.

⁷ Annex D of the International Convention on the Harmonization and Simplification of Customs (revised in 1999) defines a free zone as "part of the territory of a Contracting Party where any goods introduced are generally regarded, insofar as import duties and taxes are concerned, as being outside the Customs territoryand not subject to the usual Customs control.

and taxes); minimal documentation requirements; and issues to be covered by national legislation. Free zones typically allow for duty- and tax-free imports of raw and intermediate materials and, in many cases, capital equipment.⁸ So, the term SEZ refers to several economic activities and services rather than to a single functional entity. It is frequently pointed out that SEZs have also evolved into highly specialized facilities, configured to the needs of specific industries and activities, resulting in a large variety of zones with different objectives, markets, and activities, including:

- Free trade zones (FTZs) or in other names such as Foreign Trade Zones, Commercial Free Zones, Free Trading & Warehousing SEZ, are one of the most expansive type of SEZ. They are small, fenced-in, duty-free areas, offering warehousing, storage, and distribution facilities for trade, transshipment, and re-export operations, located in most ports of entry around the world. A leading example is the Colon Free Zone in Panama.
- Export processing zones (EPZs) or, in the other names, Open Economic Zones or Economic Development Zones, are similarly to FTZ in terms of the estate encompassment, however, the tax benefit and other regulations are different. Industrial estates offering special incentives and facilities for manufacturing and related activities aimed mostly at export markets, typically take two forms. In the traditional EPZ model, the whole area within the zone is just dedicated to export-oriented enterprises licensed under an EPZ regime. Indeed, Hybrid EPZs are typically sub-divided into a general zone open to all industries regardless of export orientation and a separate EPZ area reserved for export-oriented, EPZ-registered enterprises.
- Free ports or Port Zones or Ports or Airport Special Economic Zones, are one of the most expansive types of SEZ. They accommodate all types of activities, such as tourism and retail sales, permit people to reside on site and provide a much broader set of incentives and benefits. Therefore, they

⁸Akinci G. and Crittelle J. 2008. "Special Economic Zones: Performance, lessons learned, and implications for zone development", p. 9.

are generally a much broader concept and typically encompass much larger areas. A traditional example are the large-scale free ports in China.

- Enterprise zones or Manufacturing Zones or Hybrid EPZs are established by the government or local government in various communities. Their task is to revitalize distressed urban or rural areas through the provision of tax incentives and financial grants. Most zones are in developed countries, such as in the United States, France, and the United Kingdom.
- Single factories⁹ can be called in several names such as Industrial Estate, Industrial Park, Industrial Zone, IT Park, and Software Park, etc. With the development of this type of Economic Zone, the specialization of a selected industry grows in order to increase the ability to compete with the foreigner in the same industry. Factories do not have to locate within a designated zone to receive incentives and privileges. In fact, this type of special economic zone can be established anywhere, regardless of location. Leading examples of countries relying exclusively on a single factory scheme include Madagascar and Mexico; other countries such as Costa Rica and the United States allow both industrial estate-style zones and single factory designations.
- Specialized Zones can be found in many countries around the world. Each Zone has been established with a special or specific purpose. Some examples of Specialized Zones are multi-product special economic zones, science and technology parks, petrochemical zones, tourist and recreational zones, logistics and warehousing park, reconstruction opportunity zone, and so on.

SEZs have been playing an important international role since many years. Since the mid-1980s, the number of new zones has increased rapidly, with dramatic growth in developing countries. For example, in 1986, the International Labour Organization's (ILO) database of SEZs reported 176 zones in 47 countries; by

⁹ Single factory EPZ programs are similar to bonded manufacturing warehouse schemes, although typically offering a broader set of benefits and more flexible controls.

2006 this rose to 3,500 zones in 130 countries (Boyenge, 2007)¹⁰. In the past, SEZs were exclusively developed and operated by government bodies but their management failed in many zones. At the same time, there was the growing interest of private property groups in zone development. The rise of private zones is given by both the perception that they are more successful than most public zones and the general lack of funding for new government zone development. Recently, a formal public-private partnership is becoming increasingly popular around the world with different model evolving, such as Build-operate-transfer, in which the public sector grantor grants to a private company the right to develop and operate a facility or a system for a certain period, in what would otherwise be a public sector project; and Build-own-operate, a public-private partnership (PPP) project model in which a private organization builds, owns and operates, independently, some facility or structure with some degree of encouragement from the government. The government doesn't provide direct funding in this model, but it may offer other financial incentives. Many changes have occurred with the entry of the private sector into zone development in terms of facilities and services available within zones.

PARAGRAPH 4: AIMS, ECONOMIC BENEFITS AND COSTS FROM SEZs

SEZs normally are established with the aim of achieving one or more of the following four policy objectives (FIAS¹¹ 2008):

- To attract foreign direct investment (FDI): virtually all zones programs, from traditional EPZ to China's large-scale SEZs aim, at least in part, to

¹⁰Akinci G., Farole T. 2011. "Special Economic Zones: Progress, Emerging challenges and future direction", p. 15.

¹¹ Foreign Investment Advisory Service, the multi-donor investment climate advisory service managed by the International Finance Corporation (IFC) and supported by the Multilateral Investment Guarantee Agency (MIGA) and the World Bank (IBRD), is an integrator of services to improve the business-enabling environment of member countries. In particular, FIAS advises governments of developing and transition countries on regulatory simplification, investment policy and promotion, and industry-specific investment climate issues. In its more than 20 years as a donor-funded operation, FIAS has completed over 760 projects in all regions of the world.

attract FDI.

- To serve as "pressure valves" to alleviate large-scale unemployment: the SEZ programs of Tunisia and the Dominican Republic are frequently cited as examples of programs that have remained enclaves and have not catalyzed dramatic structural economic change, but that nevertheless have remained robust, job-creating programs.
- In support of a wider economic reform strategy: in this view, SEZs are a simple tool permitting a country to develop and diversify exports. Zones reduce anti-export bias while keeping protective barriers intact. The SEZs of China; the Republic of Korea; Mauritius; and Taiwan, China, follow this pattern.
- As experimental laboratories for the application of new policies and approaches: China's large-scale SEZs are classic examples. FDI, legal, land, labor, and even pricing policies were introduced and tested first within the SEZs before being extended to the rest of the economy.

In achieving these objectives, SEZs have had a mixed record of success. Empirical research shows that many SEZs have been successful in generating exports and employment and come out marginally positive in cost-benefit assessments (cf. Chen 1993; Jayanthakumaran 2003; Mongé-Gonzalez, Rosales-Tijerino, and ArceAlpizar 2005; Warr 1989).¹²

The economic performance and impact of zone programs in developing countries have been evaluated in numerous studies. Most of these, however, have focused on government-developed and government-run zones and have largely neglected the economic impact of private zone development. Social critics of zone development, on the other hand, have emphasized the social and environmental impacts of zone sand largely dismissed economic contributions.

The economic benefits from zone development are both static and dynamic. The static benefits include:

- Direct employment creation and income generation

¹²Akinci G., Farole T. 2011. "Special Economic Zones:Progress, Emerging challenges and future directions", p. 4.

- Export growth and export diversification
- Foreign exchange earnings
- Foreign direct investment
- Government revenues

In poorer countries the impact of these benefits is bigger than in developed countries due to the lack of jobs and government resources.

The dynamic benefits are much harder to measure, but are far more important to the long-term contributions from zone development. These include:

- Indirect employment creation
- Skills upgrading
- Female employment
- Technology transfer
- "Demonstration effect" arising from application of "best practices"
- Regional development¹³

Let's focus on some economic impacts:

1. EMPLOYMENT GENERATION

For EPZs development this is one of the key objective. In fact, EPZs are used as a tool for job generation, particularly for women first entering the workforce and can do a major role in employment creation in certain countries. Nevertheless, the direct employment impact of zones is low, while the indirect employment effects can be quite substantial. The indirect employment effect of EPZ development globally could range from 9.6 million to 77 million jobs.

However, in many countries the rate of job creation in a number of programs has been considerable. Employment in the Dominican Republic's industrial free zones rose from 500 in 1970 to almost 200,000 today. Almost 1 million workers are employed in the Philippine eco-zones. The share of zone employment of national employment varies widely, with Honduras at 4.6 percent, the Dominican Republic at 6.2 percent, Tunisia at

¹³Akinci G. and Crittle J. 2008. "Special Economic Zones: Performance, lessons learned, and implications for zone development" p. 32.

8 percent, Fiji at 10 percent, the Seychelles at 12 percent, Mauritius at 24 percent, and the United Arab Emirates at 25 percent. The impact of these jobs in countries with high rates of unemployment and underemployment are significant.¹⁴

2. EXPORT DEVELOPMENT

This is another important goal of zone development. In fact, the contribution given to export development by these zones is important both in terms of export diversification (especially important for poorer countries that base part of their economic on exporting primary products) and accelerating export growth. In contrast to the relatively marginal role that zones have played in terms of employment creation, EPZs account for a significant share of manufactured exports in most regions, particularly in the Middle East and North Africa and sub-Saharan Africa.¹⁵

3. FOREIGN EXCHANGE EARNINGS

This is one the main benefits expected of zone development. The foreign exchange contribution of zone programs is hard to establish directly since most do not collect foreign exchange earning statistics. Earnings can be approximated by tracking net exports (gross exports minus imports) as an indicator of the local value added from zone activity. The net economic impact of zones is increased as local value addition is raised.¹⁶

4. FOREIGN DIRECT INVESTMENT

Zones can also play an important role in attracting FDI, but their impact on FDI is hard to gauge due to the lack of data. Available data suggests that SEZs are an important destination of FDI in some countries, such as in the Philippines and in China (where SEZs represent over 80% of cumulative FDI). However, in many other countries, zones have played a marginal role in FDI attraction and most investment is of domestic origin.

5. BUDGETARY IMPACTS

¹⁴Akinci G., Crittle J. 2008. "Special Economic Zones: Performance, lessons learned, and implications for zone development", p. 34.

¹⁵ Id. p. 35.

¹⁶ Id. p. 37

These depend both on the fiscal incentives¹⁷ and the tax policies offered to qualifying enterprises. The main revenue gains are from personal income taxes on direct and indirect employment, and income from import duties and charges on zone products sold to the domestic customs territory, fees from sale or rental of public land to developers. Corporate income taxes, even where they are assessed, are a marginal part of the revenue stream. Zone development also entails a range of financial and economic costs, such as subsidies, salaries of government workers in the zone authority and other operating expenses, infrastructure development outlays, import duties and charges lost from smuggling, taxes forgone from enterprises relocating from the domestic customs territory to the zone.

PARAGRAPH 5: SPECIAL ECONOMIC ZONES IN CHINA: THE CASE OF SHENZHEN

After the Cultural Revolution, the Open Door Policy was launched in China, in 1976, in order to test the efficacy of market oriented economic reforms in a controlled environment. The first SEZs in China were established in Shenzhen, Zhuhai, Xiamen and Shantou located in coastal areas of Guangdong and Fujian Provinces. The four SEZs were quite similar in that they comprised large areas within which the objective was to facilitate broadly based, comprehensive economic development, and they all enjoyed special financial, investment, and trade privileges. The Shenzhen SEZ was the first such zone created. This choice was especially strategic because of its location across a narrow river from Hong Kong, the principal area from which China could learn capitalist modes of economic growth and modern management technologies.¹⁸

The reforms were successful. During the years, lots of types of SEZs have been established in China, including ETDZs informally known as China's national

¹⁷ Import duty exemptions, reduced tax rates, indirect tax abatements, etc. Some analysts sustain that these fiscal incentives represent a sort of "giveaways" since they are revenue forgone by host governments.

¹⁸Zeng D.Z. 2010. "Building Engines for Growth and Competitiveness in China: Experience with Special Economic Zones and Industrial Clusters", p. 9.

industrial parks, high-tech industrial development zones (HIDZs), free trade zones (FTZs), export-processing zones (EPZs), and others. Each has a different focus.

Since the Open Door policy and reforms, China's gross domestic product (GDP) has been growing at an average annual rate of more than 9 percent, with its global share increasing from 1 percent in 1980 to almost 6.5 percent in 2008 and its per capita GDP increasing from US\$ 193 to US\$ 3.263. Total exports have been growing at an average annual rate of 13 percent (21.5 percent from 1998 to 2007), with China's share of total exports increasing from 1.7 percent in 1980 to 9.5 percent in 2008. In 2010, China is set to outpace Japan and become the world's second-largest economy. China has indisputably become an important growth engine of the global economy and a leader in international trade and investment. Rapid growth in the past decades has helped lift more than 400 million people out of poverty.¹⁹

Nowadays, in China SEZ refers to seven specific zones: Shenzhen, Zhuhai, Shantou, Xiamen, Hainan, Shanghai Pudong New Area, and Tianjin Binhai New Area.

Located in the Pearl River Delta, Shenzhen functions as a link between Hong Kong and mainland China, because it is a traditional fishing village that has rich land resources and the geographical advantage of bordering the well-developed economy of Hong Kong. Shenzhen's SEZ is a traditional example of economic and reforms growth thanks to the great passion, creativity, initiative and diligence of Shenzhen's people, that have enabled the city to take the lead in implementing a series of important reforms²⁰. In 2007, Shenzhen was ranked first in comprehensive municipal competitiveness among all the cities in mainland China.²¹

Shenzhen's gross domestic product (GDP) reached RMB²² 780.65 billion in 2008, a 12.1 percent increase over the previous year. The city's total economic output is equivalent to a medium-sized province in China and ranks fourth among major

¹⁹ Id. p. 2.

²⁰ For example, the selling out of state-land-use rights and the stock exchange pilot.

²¹ Chinese Academy of Social Sciences 2008.

²² RMB is the Chinese currency; the yuan is the currency unit.

cities nationwide. Shenzhen has become one of China's most productive cities, with the highest per capita income of RMB 89.814 in 2008 (rising from RMB 606 in 1979), and has topped all China's cities for the past 16 years in international trade.²³ Shenzhen has also developed into an important transport hub on China's southern coast and is considered an important economic base for high-tech industries, financial services, exports, and maritime transport services. Shenzhen has become one of China's most important high-tech research and development (R&D) and manufacturing bases. It is now the world's fourth-largest container port, has the fourth-largest airport in China, and draws the fourth-largest number of tourists among Chinese cities.

In 1978, Shenzhen had only 174 factories, with a total industrial output value of less than US\$ 10.25 million. The city's industrialization began in 1980, when the SEZ was announced and implementation began. Shenzhen's industrialization process experienced several stages, with the scale of its industry increasing from small to large, its products from relatively lower value to higher-tech products, and its factor use from labor and land-intensive to technology intensive. The city has been emerging as a new high-tech industry center.²⁴

After more than 30 years of economic reform and opening up, Shenzhen has developed an export-oriented economy. From 1979 to 2007, total trade volume increased from US \$17 billion to US\$ 287.5 billion. Even in the face of the global financial crisis in 2008, total imports and exports of Shenzhen still grew by 4.3 percent.²⁵

Foreign direct investment (FDI) has made an important contribution to Shenzhen's industrialization. Over the 30 years of China's reform and the implementation of a variety of investment policies, the average growth rate of foreign capital in Shenzhen has been around 28.6 percent per year. In recent years, most foreign capital has gone to service industries, and the actually utilized FDI has been growing rapidly. In secondary industry, the foreign capital flowing into

²³Zeng D.Z. 2010. "Building Engines for Growth and Competitiveness in China: Experience with Special Economic Zones and Industrial Clusters", p. 56.

²⁴ Id. p. 58.

²⁵ Id. p. 59.

textiles and general equipment manufacturing grew by 36.4 percent and 47.0 percent, respectively. In the service sectors, the foreign capital flowing into scientific research, technical services, and geological prospecting grew by 201.7 percent. In wholesale and retail-sales sectors, the inflow grew by 159.5 percent. In addition, the world's top 500 multinational companies have invested enthusiastically. By the end of 2008, 164 of them had investments in Shenzhen. Among the economies of origin of these multinationals, the top three were the United States, Japan, and France, followed by the United Kingdom, Germany and others.²⁶

In terms of economic size, Shenzhen is the fourth largest city in China and its contribution for the nation is very very important.

SEZs allow to create a new mode of economic development. In the case of the Shenzhen one, its development is found in the transformation from a planned economy to a market-based system. At the end of 1980s, the Shenzhen SEZ made a series of measures in different fields such as property rights transfer, bankruptcy, financing, banking, taxation, international trade, foreign exchange, state-owned assets management:

- Reforming use of state-owned land and commercializing housing: Shenzhen Municipal Government transferred the possession of state-owned land through auction. Moreover, Shenzhen commercialized the supplying of housing and laid the bass for the formation of the city's real estate market. These reforms allowed Shenzhen to become the experiment field for bidding on the use of state-owned land.
- Instituting a civil service system: among all the cities with SEZs, Shenzhen was the first one to issue the first plan for setting up a civil service system. Detailed regulations on recruitment, evaluation, reward, and discipline were ratified.
- Encouraging entrepreneurship: Shenzhen encouraged high-tech professionals to become shareholders of private enterprises by investing in several things such as cash, physical goods, individual patents, brands and

²⁶ Id. p. 62.

by promoting technologies in production.

- Privatizing state-owned enterprises: Shenzhen became the first city in China to carry out such privatizations. In fact, Shenzhen established the Investment Management Corporation to manage and operate state owned assets.
- Establishing a securities market: in 1987, the first joint-stock commercial bank and also the first bank to attend the national experiment for the promotion of China's banking industry reform was set up by firms in Shenzhen. This bank is called China Merchants Bank. Next years, Shenzhen set up the Securities Registry Corporation of Shenzhen and the Shenzhen Stock Exchange and moved to legalize and standardize the Shenzhen securities market.
- Creating a foreign exchange transaction center: After establishing the first foreign exchange transaction center, Shenzhen instituted a free trade zone, the Shatoujiao Free Trade Zone, together with the first capital goods market and the future exchange, the Shenzhen Nonferrous Exchange. In addition, the central bank set up a system of credit certificates for enterprises in Shenzhen. These reforms finally established a market economy in Shenzhen.

Nevertheless important is the role of local government. In fact, it expended a great effort to make the SEZ work. Some of the specific measures include promoting foreign investments, creating an orderly market, continuously improving infrastructure, encouraging industrialization through industrial parks.

In concluding, during these three decades of reform China's economy has successfully maintained a surprising growth rate. Shenzhen has become a model for the reform and its experiences have proved to be valuable examples for the rest of the nation. In fact, today, the basic framework of the market economy has been established across the entire country. But China is a large developing country and problems such as information asymmetries, immature institutions are still present. Moreover, its market system is far from perfect. The mission of the SEZs has been to resolve emerging problems in the process of China's economic

development.²⁷

China's reform began with changes in its economic institutions. A market economy requires a well-functioning legal system, fair competition, and incentives that balance competing interests. This kind of economic system also calls for a suitable political environment, and it is for this reason that reform of the political system plays such a vital role in advancing China's economic development. Nonetheless, reforming the political system clearly involves a wide range of interests, and it is difficult to start such reforms at the national level. Under such circumstances, the SEZs surely become the most appropriate test fields for such reform. This new task for Shenzhen and the other SEZs also grants them new development opportunities at the same time.²⁸

PARAGRAPH 6: A PERFORMANCE ANALYSIS OF FREE TRADE ZONES

FTZ is one of the most expansive type of SEZ. It is a tax-free area that provides essential facilities for trading, shipping, import, and export business. By operating in such area, rules and regulation on tariffs, labor, and environment might be exempted or reduced or less controlled.

The Free Trade Zone can be defined as a labor-intensive manufacturing hub, which involves the import of components and raw materials, as well as the export of the produced goods to different countries.²⁹

The goal of a Free Trade Zone is to enhance global market presence by attracting new business and foreign investments. Usually, Free trade Zones are located in a less developed part of the Country in order to reduce poverty, increase employment and promote economic activities. When zones are located near airports and seaports they are generally called proper Free Trade Zones. However, in some cases FTZs are designated outside those logistically-specific areas, in order to accommodate a specific industry or trade purpose, such as large

²⁷ Id. p. 83

²⁸ Id. p. 84.

²⁹ <http://www.economywatch.com/international-trade/free-trade-zone.html>

manufactures or oil refineries. Everyone that wants to import or export goods can take advantages of FTZs: from large businesses to small ones, to individuals.

FTZs may be designed and established for many different reasons and their own characteristics may differ from one other. Nevertheless, it appears that a few common characteristics are standard features of the modern FTZ. These are:

- **Advanced Infrastructure:** the FTZ offers superior quality infrastructure, including, but not limited to, land, office space, utilities, logistics services, business services and other similar facilities.
- **Flexible Regulations:** corporations established within a FTZ may have access to a streamlined customs process with less bureaucracy and red-tape. Firms seeking to secure establishments within a FTZ typically obtain assistance from a single source service provider in order to obtain the necessary permits and applications. In addition, the legislation governing the day-to-day operations of firms operating within the FTZ (e.g., labour law) is usually more flexible relative to the laws applicable in the host country outside the FTZ.
- **Beneficial (Offshore) Location:** Corporations often choose FTZs to move their business activities away from the ultimate destination market (offshore) into a location with a low cost structure.
- **Export Oriented:** FTZs usually cater to export oriented corporations that produce goods destined for foreign jurisdictions outside of the host country.
- **Incentives:** corporate establishment within a FTZ is often coupled with an attractive incentive package, which may include exemption and/or deferral of customs duties, grants for developing and employing local human resources, exemption and/or deferral of sales taxes and other tax incentives and holidays (e.g., lower Corporate Income Tax than the rest of the host country outside the FTZ).³⁰

Free trade zones (FTZ) have become widespread with the liberalisation of

³⁰ Deloitte 2008. "Free Trade Zone Study", p.2.

international trade and investment. They are a key player in the deepening of the global value chain (GVC). UNCTAD³¹ statistics report that the flow of foreign direct investment into developing countries and transition economies rose from 31% for the 1990-1994 period to 50% for the 2008-2012 period. The share of China in world trade grew from 5.9% to 11.4% from 1993 and 2012.³² With trade openness, these countries were able to make the most of their comparative advantage in low labour costs. Moreover, the number and size of EPZs and FEZs exploded.

Some authors (Amengual and Milberg) consider the following EPZs' typical incentives: exemption from some or all export taxes; exemption from some or all duties on imports of raw materials and intermediate goods; exemption from direct taxes such as profits taxes, municipal and property taxes; exemption from indirect taxes such as VAT on domestic purchases; exemption from national foreign exchange controls; free profit repatriation for foreign companies; provision of streamlined administrative services especially to facilitate import and export; free provision of enhanced physical infrastructure for production, transport and logistics.³³ These privileges are generally limited to re-exported goods with restrictions on domestic market sales.

A zone that imports and processes also to meet domestic market demand is called Export-Import Processing Zones (EMPZ). EMPZs represent a sub-category of FTZs. In these zones, a limited or complete share of production or turnover can be "exported" to the domestic market without paying tariffs. This could also be seen as an indirect incentive to raise performance and exports in a "heterogeneous firm" process (Melitz, 2003), by means of both incentives and economies of scale, spillovers and so on. EPZs form the other sub-category of FTZs in which investors benefit from tariff advantages conditionally on their exports. They can "export" their production to the domestic market, partly or without restriction, but must pay tariffs on imported inputs processed for those goods delivered within the

³¹United Nations Conference on Trade and Development.

³² WTO statistics.

³³Amengual M. And Milberg W. 2008. "Economic development and working conditions in export processing zones: A survey of trends, International Labour Office"

country. The growth in FTZs has come in tandem with a redistribution of the different stages of the production process in the GVC. EPZs frequently specialise in the assembly of imported inputs, just before re-exporting and selling the final product. EMPZs, on the other hand, frequently tie in with the regional development policy of the host country as it gives unbounded access to the target region, the domestic market and, potentially, to neighbouring and world markets by means of tariff cuts and/or tax breaks.

An EPZ should increase the exports of the EPZ firm by imposing export targets, but also by creating new trade opportunities for new and existing investors by means of lower transaction trade costs (tariff policy) and/or adapted infrastructure, tax breaks, transport facilities etc. Investors in EMPZs, however, are faced with a trade-off between sales to the domestic market and sales to international markets. The choice will depend on the firm's competitiveness, which will increase with lower input and production costs under EMPZ regulation, and on the level of protection on the domestic market, which will give EMPZ firms a competitive advantage on the domestic market.³⁴

Potential differences between EPZs and EMPZs don't allow so easily to predict the impact of FTZs in a country. Anyway, exemption from tariffs and better trade and infrastructure facilities would have a trade creation impact for the zone, but this impact may be offset at national level by the relocation of domestic enterprises to the zone, by the trade diversion impact and/or by the preference erosion affecting exporting firms' domestic suppliers and reducing their gain from economies of scale and hence their exports.

According to several studies, the expected trade impact of an FTZ will change with the country's tariff rates. In other words, the FTZ impact offsets the negative impact of tariffs on trade (exports and imports) and the higher the national tariff rates, the higher the FTZ impact on trade. An FTZ programme in a country with high tariff rates will boost trade (exports and imports) and attract more investment to the zone than in a country with low tariff rates. Taking this to the extreme, if a

³⁴Siroën J.M., Yücer A. 2014. "Trade Performance of Free Trade Zones" in Document de Travail UMR DIAL, p. 7.

country's tariff rates are equal to zero, then it makes no sense to cut the tariff rates for FTZ firms.³⁵ FTZs raise trade only by easing the negative impact of protection.

At last, FTZ impacts on imports are higher and more robust than their impact on exports. FTZs in exporting countries raise trade by offsetting the negative impact of protection on imported inputs. At the same time, they raise the rest of the world's exports.³⁶

PARAGRAPH 7: ECONOMIC BENEFITS OF FTZs

The actual impact of FTZs on national economic development has also been the object of controversial studies. As a matter of fact, FTZs are seen by many as an instrument of economic growth. But while for some countries FTZs have been real engines of outward-oriented economic growth and have had a considerable impact on industrial development (examples are Singapore, the Republic of Korea and Mauritius), for others, FTZs have failed to boost economic development.

A highlighted example of an unsuccessful FTZ is the one established in Dakar in 1974 (it became operational 2 years later). It offered taxes and customs incentives, such as exemption from taxes on corporate and dividends, exemption from customs duties and taxes machinery, inputs, semi-finished and finished goods. Although it did provide a stable political environment and advantageous financial promotions, the zone did not achieve goals such as the creation of employment, foreign exchange, the attraction of FDI. Many are the reasons why the FTZ failed. Some of them are low productivity of the labour force, red tape, high utilities and transportation costs, government mandated labour market rigidities.³⁷

All agree on the fact that Free Trade Zones are established with the aim of having a positive effect on the economy. Operating within a country's Free Trade Zone offers many benefits both to importers and to exporters. Free Trade Zones provide several benefits such as increased security and insurance on goods, top-of-the-line

³⁵ Id. p.11.

³⁶ Id. p. 22

³⁷ UNESCAP 2005, Free Trade Zone and Port Hinterland Development, p. 109

operating facilities and indefinite storage opportunities. The common expected economic benefits that may be associated with FTZs are noted below:

- Foreign Exchange Earnings: the foreign exchange rate may be positively impacted by increased export earnings, which may lead to lower cost imports for domestic buyers or, alternatively, greater imports at a particular exchange rate.
- Employment Creation and Income Generation: establishing a FTZ may lead to urbanization and a shift from agricultural activities to manufacturing, which is expected to be coupled with a low opportunity cost to expand and diversify the economy.
- Attraction of Foreign Direct Investment: FTZs are expected to attract Foreign Direct Investment ("FDI"), which will increase the capital stock of the host country.
- Technological transfer and knowledge spill-over: FTZs are expected to generate technological transfers, knowledge spill-over and demonstration effects, which will result in production of non-traditional goods by local companies that will benefit from such production as they are forced to manufacture at a higher level with more rigorous quality standards. This will require training of the workforce, staff and management.³⁸

In sight of all these benefits, the most important reason for establishing an FTZ is the creation of employment.

Analysis of the labour composition in FTZs indicates that women's share of total employment in FTZs is substantially higher than in both the economy as a whole and the manufacturing sector outside the FTZ. In many countries, FTZs have allowed a great number of skilled, unemployed women, often overrun with household responsibilities, to become fully employed.

Pay and Working Conditions in most FTZs are either similar to or better than those in comparable manufacturing enterprises in other parts of host countries. Traditionally wages are usually negotiated on an individual basis (i.e. employee to

³⁸ Deloitte 2008. "Free Trade Zone Study", p. 4.

employer) or through collective bargaining (i.e. union to employer).³⁹

PARAGRAPH 8: FREE TRADE ZONES IN THE WORLD: U.S.A.

The first SEZ in the USA was established in New York in 1937, under the name of Foreign Trade Zone. The US investors operate the FTZ in the domestic territory but they also do business with the aim of expanding the operations in foreign countries. There are many benefits that attract most companies to the Zone program, such as duty exemptions on re-export, duty elimination on waste, scrap, and yield loss, weekly entry savings allowed only to Foreign Trade Zone users. Moreover, FTZs provide benefits to the public, such as special customs procedures to help firms do international trade in order to compete with foreign plants, employment opportunities, to attract offshore activity and promote keeping domestic activity.

PARAGRAPH 9: FREE TRADE ZONES IN THE WORLD: SHANGHAI (CHINA)

An important Free Trade Zone has been situated in Shanghai, China, since 2013. This zone is expected to play an important role in the transformation of China into a service-oriented and consumption-driven model economy. Financial services, shipping services, commercial services, are some of the areas in which foreign investment are destined. The most transformative impacts of the SFTZ are expected to be felt in the area of financial services reform. Thanks to these zones, Chinese individuals have opportunities to buy more foreign securities and foreign individuals can have access to Chinese securities; foreign companies and individuals working in the SFTZ are allowed to establish "free trade accounts" in the zone, in RMB or foreign currencies. The zone also instituted an equity trading platform and international assets for financial leasing companies that allow

³⁹ UNESCAP 2005, Free Trade Zone and Port Hinterland Development", p. 13.

domestic and international companies to trade propertyrights, debt and equities of leased assets.

An important innovation in this Free Trade zone is the adoption of the "Special Administrative Measures on the Entry of Foreign Investment into China-Shanghai Free Trade Zone", a kind of "negative list" that specifies in which sector foreign investment is restricted and provides administrative guidelines and financial requirements by investment sector. Moreover, foreign investments included in this list are subject to pre-approval procedures.

PARAGRAPH 10: FREE TRADE ZONES AND THE PORT ITALIAN SYSTEM: DEVELOPMENTS IN TARANTO

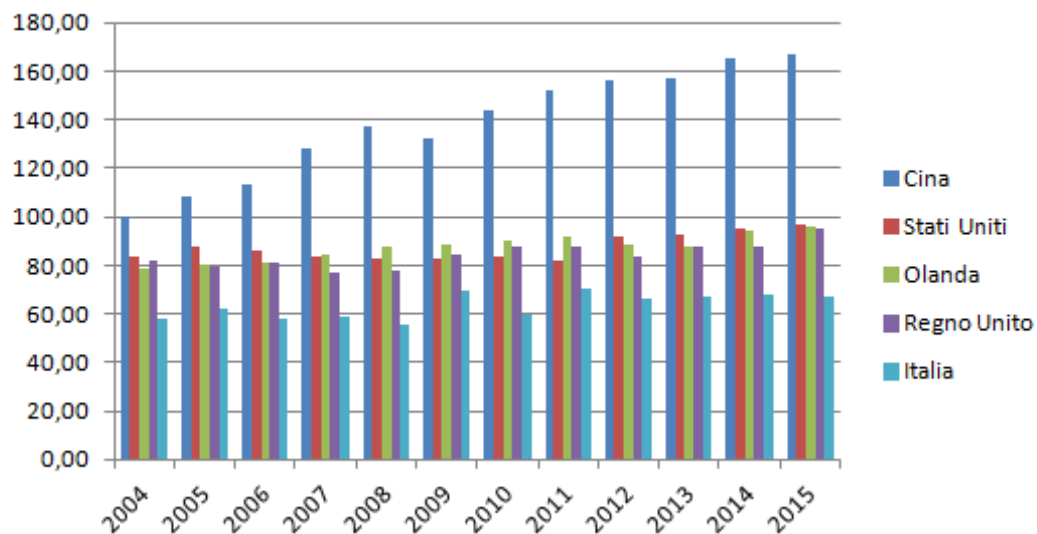
In Europe, the Italian port system ranks third in terms of volume of transported goods. The first two positions are occupied by Netherlands and Great Britain. A result that would seem extraordinary if the Italian port system had not lost competitiveness and market share in the transshipment sector, due to economic and bureaucratic shortcomings. In fact, in Italy, for example, about 19 days are necessary for the fulfillment of the cargo clearance procedures, while in the Netherlands six days are enough. There is also a lack of internal infrastructures and a failure of the port system as a center of connection with other ports in the area, i.e. a port system that uses an intermodal transport network. Therefore, it seems normal for operators to choose other ports in order to maintain their investments. The result of this picture is that, according to a study of the Liner Shipping Connectivity Index, for the last 10 years Italy has ranked about 17th for competitiveness of the maritime system, where China gets the record.

The LCSI Classification is the result of 5 components:

- The number of ships;
- The total capacity of these ships to transport containers;
- The maximum dimension of the ship;
- The number of services;

- The number of enterprises that deploy container ships for the services from/to a Country's port. (*displayed data are derived from Containerisation International Online – <http://www.eurift.eu/index.php/page/Containerisation-International-Online-2005-10-27>*)

The index is generated as follows: for each of the five components, the value of a country is divided by the maximum value of this component in 2004, and for each country, the average of the five components is calculated. This average is then divided by the maximum of 2004 average and multiplied by 100. In this way, it generates the index value of 100 for the country with the highest average index of the five components in 2004.



Source: <http://unctadstat.unctad.org/wds/TableViewer/tableView.aspx>

Comparing the data of figure 1 (which includes only some of the Countries analyzed by UNCTAD), Italy is far behind the other economic powers and, in 2015, has an index equal to less than half of China. This is an important data on which it's not allowed to overlook.

In 2013, the Taranto Port Authority presented a formal request to the Customs

Office of Taranto in order to establish a duty-free zone not landlocked of 2nd Type in the Port of Taranto, with the intention of promoting the economic development of this area and the Interporto of Taranto, increasing the traffic, the productivity and the competitiveness of the port on the Mediterranean, easing the industrial establishment within the free zone, in order to give benefits both to the city and to the whole Country. During the same year, in support of the Port Authority's initiative, the City Council of Taranto approved the Project for the establishment of a Free Trade Zone or of a Special Economic Zone, to be managed by the same Port Authority since 2014.

This establishment would allow an economic and strategic development of the city. The aims are:

- to increase the development of trade and international trade, encouraging the transit and the delivery of goods;
- to increase sales and trade with the rest of the world;
- to promote the settlement and the permanent location of new businesses that create jobs and encourage economic development;
- to support the consumption, improving the population's living conditions and promoting tourism in those areas.

[illegible]

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PARAGRAPH 11: THE FREE ZONE NOT LANDLOCKED OF 2ND TYPE

The Free Zone is a part of the Community's customs territory where non-Community goods are treated as if they were not situated in the customs territory for the application of duties and commercial policy measures on the importation, as far as those goods are not applied to a purpose different from that provided by the customs documents. Community goods benefit from measures linked to their exportations.

Free Zones may be landlocked or not. The landlocked ones (or "submitted to control type I") are zones where there is a clear demarcation of the area to be used as free zones and in which the customs supervision is just a possibility on the incoming, deposited or coming out goods.

The port plate is a port infrastructure that provides the creation of an integrated logistics platform model in shipping, air and land types of transport, as phases of a single process. In this way, the platform is an interexchange center among the different transport segments within an area with appropriate direct links with the national rail and road network. In addition to the establishment of the logistic platform (finished during September 2015), the Integrated Logistic Plate's works provide different interventions on:

- The road of the jetties and of the system, id est the organic and efficient connection of all of the port docks of Taranto and the improvement of links with the national road network;
- The extension of the fourth protruding, namely the realization of a new mooring quay for a length of 600 m., as well as the filling of the areas behind in order to achieve suitable squares for the port operations;
- The dock situated at West of the 4th protruding, that includes both the wharf and the connecting docks until the existing facilities dock;
- The settling tank, to accommodate sludge from the dredging of the west dock and the IV protruding.

Recently, Port Authority President, Professor Dr. Jur. Sergio Prete, has often said that «Thanks to this infrastructural adjustment, the Port of Taranto is starting to

achieve the priority objective of its development policy: becoming a *Third Generation* seaport, namely an infrastructure that goes beyond the performance related to the loading/unloading of goods, something able to offer the complete cycle of services in the supply chain, becoming a lasting structure for the development and the growth of the territory, and a bridge for the same territory between national and international markets.»⁴⁰

PARAGRAPH 12: SEZ IN TARANTO: NEXT REALITY

During March 2015, Port Authority President filed a request in order to the transformation of the Free Zone not landlocked into Special Economic Zone. The SEZs are geographic delimited areas, situated within a nation and having an economic legislation different from the legislation of the Country of origin. Usually, they are created to attract new companies and foreign capital, especially foreign direct investments, specific medium/long term investments having a low liquidity degree, unlike investments portfolios (indirect foreign investments) which can also be short-term, and therefore can have, potentially, a speculative nature. This type of policy is generally applied either in particularly depressed areas within a State in order to boost their economic and social development, or around *border areas* or strategically important infrastructures for the economy of a Country, such as ports and airports. Foreign investors willing to do business in these areas have the advantage to get special economic and financial tax treatments. These include tax exemptions or reductions on income tax, trade tax, accelerated customs procedures, suspension of duties payment and VAT, reduced barriers and delays of bureaucracy and incentives on initial investments, through a variety of operations: import, goods storage, packaging, transformation, assembly, export.

Port Authority President, Prof. Prete, has repeatedly remarked in this regard, that the establishment of the Special Economic Zone «would allow to achieve, in the

⁴⁰<http://www.informare.it/news/gennews/2015/20151554-ok-Comitato-Portuale-Taranto-elenco-2016-opere-programma-2016-2018.asp>

short term, the main objective: to accelerate the development of the territory, in terms both of economy and of employment, thanks to the attraction of more investments, foreign and domestic settlements. The tax exemption on production activities and on the income generated would lead to the adoption of measures and incentives, identified by the Government in order to promote the exports and competitiveness of the territory and of the port, following the example of the renowned cross-border Ports of Call in North Africa.»⁴¹

Special Economic Zones are already present in several European Countries, such as Poland, Latvia and Lithuania: they could find the ideal conditions in the South of Italy, especially where there are already Ports of Transshipment. The port of Taranto is among these the most important.

The foundation of SEZs appears to be the ideal recipe in order to revive foreign direct investment in Italy, attracting the interest of major international groups. The benefits deriving from this strategic operation would by far exceed the inconveniences and the losses that the Exchequer support might meet in order to implement the incentive system in terms of tax revenues. In other words, considering only the benefits and marginal costs that arise from the creation of a SEZ, the balance remains by far favorable.⁴²

In November 2015, the Port Committee in Taranto approved the adoption of the annual list for 2016 and the three-year program of the Port Authority's public works from 2016 to 2018. This will allow the City of Taranto to become a stopover Third Generation Port.

Marianna D'Agostino

Antonio Eduardo Favale

⁴¹ <http://www.messaggeromarittimo.it/news/item/61232-taranto-prete-chiede-zes-per-sviluppo.html>

⁴² The main works involve the correction, enlargement and structural adjustment of the eastern shore of the *Molo San Cataldo* Pier and of the *First Declined Pier*; the collection network of rainwater in public areas of the port and the water supply and sewerage in the eastern part; the reconstruction of the unusable head's deck of the *Molo San Cataldo*; a new breakwater to protect the port outer anchorage-west section; buildings for logistical arrangements of technical-nautical services in the area behind the dock of services and the I and II functional lots.

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"THE PORT OF TARANTO: ITS LOGISTIC DEVELOPMENT"

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