

Original Paper

The Development and Enlightenment of Brazil's Manaus Free Trade Zone

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Received: March 1, 2024

Accepted: March 22, 2024

Online Published: May 7, 2024

doi:10.22158/jbtp.v12n2p73

URL: <http://dx.doi.org/10.22158/jbtp.v12n2p73>

Abstract

As an effective tool for promoting international trade and economic development, free trade zones have received widespread attention and application worldwide. As the first free trade zone in Brazil, the Manaus Free Trade Zone has achieved significant results in promoting the economic development of Brazil and the Amazon region since its establishment in 1967. This article analyzes the development process of the Manaus Free Trade Zone, explores its policy framework, legal environment, and driving factors of related economic activities, and proposes to optimize the policy environment, strengthen environmental protection. Inspiration from four aspects: promoting open cooperation and highlighting innovation leadership.

Keywords

Manaus, Free Trade Zone, Economic and Trade Cooperation

1. Introduction

A free trade zone refers to the complete elimination of tariffs and quantity restrictions in commodity trade among member countries that have signed a free trade agreement, allowing goods to flow freely between member countries, in order to attract foreign investment, develop local enterprises, improve the financial system, and promote high-speed and comprehensive economic development within the zone. Since 2013, China has successively established a total of 21 free trade pilot zones (hereinafter referred to as “free trade zones”) in batches, including Shanghai, Tianjin, Fujian Province, Chongqing, etc. In addition to coastal free trade zones such as Shanghai, Zhejiang, and Fujian, which have large free seaports, the establishment and development of inland free trade zones such as Chongqing, Sichuan, Shaanxi, and Henan have become important support for promoting China's establishment of a new dual circulation development pattern, accelerating trade transformation and upgrading, and promoting high-quality economic development. The Manaus Free Trade Zone in Brazil, as a typical representative of inland free trade zones, its successful development experience can provide reference for the construction of China's free trade zones.

2. Basic Information of the Manaus Free Trade Zone

Manaus City is located in the Amazon tropical rainforest, at the confluence of the Amazon and Negro rivers, approximately 1700 kilometers from the estuary. It is an important port in the Amazon River basin with abundant resources and huge development potential, but with a sparse population. In 1960, its population was only over 170000 people. In order to develop the economy of the Amazon Basin and accelerate the overall development of the region, in 1957, the Brazilian federal government established a free trade zone in the city of Manaus. Due to historical reasons, it was only a duty-free port and did not produce the expected benefits. Ten years later, during the military government's reign, in order to strengthen Brazil's presence in the Amazon region, Act No. 288 of 1967 was signed, enjoying a series of tax and other benefits, marking the official establishment of the Manaus Free Trade Zone. In 1968, the policy scope of the Free Trade Zone was further expanded to the entire Western Amazon region. After years of development, the achievements of the Manaus Free Trade Zone have been remarkable. Its population exceeded 2 million in 2018, and it has successively built the Santa Lun Cuyaba Highway and the Cross Mazonika Highway. Before implementing the free trade zone policy, Manaus had always relied on trade within the Amazon continent, but with the implementation of the free trade zone policy, 90% of the Amazon economy was concentrated in Manaus. On the other hand, according to FGV's research report (2019), the per capita GDP of Amazon has more than doubled since 1990, while São Paulo has only grown by 32% during the same period.

3. The Development Experience of the Manaus Free Trade Zone

After more than 50 years of development, Manaus has emerged from backwardness and become an important engine driving economic development in the western region of Brazil. At the beginning of its development, it mainly focused on trade and adopted an inward oriented economic development model dominated by imports, vigorously introducing advanced foreign technologies and products into the domestic market. However, with the continuous development of its overall strength, it gradually shifted to an outward oriented economic model that coordinated the development of commerce, industry, and agriculture. It has its own characteristics and experience in institutional establishment, service management, green development, and open cooperation.

3.1 Establish a Specialized Agency to Exert Autonomous Functions

At the beginning of the establishment of the Manaus Free Trade Zone, a management bureau directly under the Federal Ministry of the Interior (SUFRAMA) was established, which was fully responsible for the operation and management of the free trade zone and had legislative, administrative, and financial autonomy. The director of the management bureau was nominated by the Minister of the Interior and approved by the President, which avoided local government intervention in the free trade zone and ensured the independence of its operation. Its main functions can be summarized as formulating an overall development plan for the free trade zone, promoting the smooth implementation of the plan, supporting the development of enterprises in the zone, communicating with relevant national and regional departments, formulating corresponding measures based on the development of the free trade zone, and even coordinating the development of the Amazon region. Especially the autonomy of taxation, on the other hand, the Authority is also a "one-stop service" provided by the Brazilian government for enterprises investing in the Manaus region, continuously consolidating the investment environment in the region and promoting sustainable economic development. Overall, the

existence of the Manaus Free Trade Zone Management Bureau provides strong support for the development of the Manaus Free Trade Zone.

3.2 Building a High-Quality Environment to Attract Foreign Investment

Since its establishment, the Manaus Free Trade Zone has focused on creating a relaxed investment environment, providing convenient and smooth high-quality services, and continuously attracting the attention of global investors. Specifically, there are four main aspects: firstly, relaxed tax policies. Brazil has a variety of tax burdens, and most of the income of enterprises is used here. For foreign originating goods entering the Manaus Free Port, there is no need to pay tariffs or other federal, state or local import taxes. In addition, some goods are exempt from industrial product tax, and most goods are exempt from value-added tax. Imported goods are used for processing, re export, or transportation, and subsequently transported to other regions of Brazil also meet the tax exemption conditions. On the other hand, the income tax of Brazilian subsidiaries is very high, up to 75%, which is definitely unfavorable for foreign investment. Enterprises in the Manaus Free Trade Zone, within 10 years from the beginning of profitability, will have their personal income tax fully reduced. This measure remains effective until 2023. Secondly, there is a duty-free commodity trading area set up within the trade zone, allowing tourists to choose and purchase. If the goods are directly exported, they can be purchased without restrictions, otherwise the limit is \$600. This undoubtedly increases the visibility and customer stickiness of the free trade zone. In recent years, Manaus has become a popular tourist city in Brazil. The third is to provide convenient and affordable rental services. For example, its symbolic price of \$0.3 per square meter for renting industrial land, launched around 2000, attracted over \$4 billion in investment from international companies such as Coca Cola and Nokia. In the same year, these companies generated a profit of \$14 billion. The fourth is to strictly control product quality. In a relaxed investment environment, the Manaus Free Trade Zone has almost strict quality standards and has introduced corresponding regulations and systems to establish a good international reputation.

3.3 Promote Environmental Protection First and Maintain Green Development

The Manaus Free Trade Zone is located in the Amazon rainforest and is rich in natural resources. In the choice between economic development and environmental protection, environmental protection is not hesitated to put environmental protection before enterprise production. All enterprises entering the free trade zone need to be inspected in advance to ensure that the investment and construction projects do not damage the ecological environment. Once any enterprise is found to have violated regulations and caused ecological pollution, it will be strictly punished and cleared out of the free trade zone. On the other hand, enterprises in the free trade zone not only enjoy abundant tax benefits, but also bear the responsibility of environmental protection. When they move in, they must apply for both an environmental construction permit and an environmental operation permit, and require annual updates of the permit to the environmental protection department in the free trade zone, in order to enjoy tax benefits and other benefits. In addition, the Free Trade Zone Management Committee also advocates for enterprises within the zone to adopt a sustainable development model and regularly organizes inspections of production, transportation, and sales. All links must comply with sustainable development, otherwise corresponding penalties will be imposed. Overall, after more than 50 years of development, the free trade zone has driven the economic development of underdeveloped areas in western Brazil. At the same time, the surrounding Amazon basin remains vibrant and has become a model of coordinated development between economic development and environmental protection.

3.4 Adhere to Open Cooperation and Coordinate Common Development

Since the establishment of the Manaus Free Trade Zone, it has taken on the important task of economic development in the northwest tribal areas of Brazil, especially in the Amazon region. All its special preferential policies are applicable to the entire Amazon region, and Manaus has become a window for the entire Amazon region, attracting a large amount of investment and cash technology, and gradually radiating to surrounding cities, driving the overall economic development of the Amazon region. The surrounding cities also utilize the funds, technology, and raw materials of the Manaus Free Trade Zone for production, and supplement it, thus forming a free trade zone system with the Manaus Free Trade Zone as the core and the surrounding cities as the support. In addition, the Manaus Free Trade Zone also provides free financial support and expert support to surrounding cities every year, thereby narrowing the gap between them and driving the overall development of brokers. On the other hand, the Manaus Free Trade Zone has always adhered to the concept of open development, constantly aligning with the fourth international industrial revolution. In 2018, the “Brazilian Industry 4.0 Agenda” was released, and two months later, the “Manaus Free Trade Zone Industry 4.0 Development Resolution” was released, attempting to create a set of technologies that allow the integration of physical, digital, and biological worlds in the production process, value chain, distribution stage, etc., covering the Internet of Things, big data, 3D printing. Various industries such as cloud computing.

Looking back at the half century of the Manaus Free Trade Zone in Brazil, under its highly autonomous management, preferential tax policies have been continued, and the relaxed investment environment has been continuously optimized, attracting a large influx of domestic and foreign investment and driving rapid economic development. At the same time as economic development, the Manaus Free Trade Zone has always adhered to the principle of putting green first, rooted environmental protection in the development concept of the free trade zone, and firmly established in the corporate culture of enterprises in the zone. It is an excellent example of coordinated economic and environmental development worldwide. In addition, Manaus also takes into account the coordinated development of surrounding regions, actively connecting with international new concepts and technologies, and has become a leading free trade zone in Brazil and even the world. However, it is not difficult to see from the decline in the development of the Manaus Free Trade Zone in recent years that it focuses more on economic development and how to create greater economic value. However, insufficient efforts have been made to improve productivity and introduce new technologies, resulting in low overall technological integration. Relying solely on tax incentives, cheap labor, and especially tax incentives, this requires long-term public expenditure by the Brazilian government. Once policies are tightened, it will have a serious impact on the development of the free trade zone.

4. Enlightenment on the Development of China's Free Trade Zones

The construction of China's free trade zones began in 2013, and 21 free trade zones have been established in front of it. Among them, the eastern coastal free trade zones represented by Shanghai, Tianjin, Zhejiang, and Guangdong provinces have developed rapidly relying on the mature financial system and market economy of their respective cities. However, there is still a certain gap in the western inland free trade zones represented by Chongqing, Sichuan, and Xinjiang provinces, especially Xinjiang and Shaanxi provinces, how to make good use of regional advantages, leverage the benefits of free trade zones, drive economic development, and promote trade transformation and upgrading is particularly crucial. The development experience of the Manaus Free Trade Zone is worth learning from.

4.1 *Optimizing the Policy Environment and Attracting Investment Attention*

In recent years, China has introduced a large number of preferential policies for investment in free trade zones, and the overall investment environment is improving. However, there are three aspects that can be used for reference. Firstly, there are currently 21 free trade zones in China, which have basically covered most provinces and cities in the country. On the one hand, it provides more choices for individual investors, but it is also easy to cause mutual competition and resource waste in free trade zones. It is recommended to combine the characteristics of each free trade zone to form different characteristic modules of free trade zones, for example, in the service industry, manufacturing industry, handicrafts industry, finance industry, etc., various free trade zones will form mutually beneficial complementary and common development. The second is to delegate more power to the management committee of the free trade zone, making it fully autonomous. It is not difficult to see from Manaus' successful experience that the autonomy of the management bureau is the fundamental guarantee for its rapid development. The management committee is the only responsible body of the free trade zone, directly responsible to higher authorities, and thus forms a management system in which the management committee is in charge and relevant local government agencies assist. The third is to introduce a sound institutional system, establish a relaxed investment environment, and focus on tax incentives, leasing incentives, and talent pool reserves, truly attracting the attention of investors.

4.2 *Strengthen Environmental Protection and Promote Sustainable Development*

In recent years, the call for development to be more environmentally friendly has become increasingly prominent. Each free trade zone should learn from the experience of the Manaus Free Trade Zone and integrate environmental protection and sustainable development into the development of the free trade zone. This can be done from three aspects: firstly, relevant regulations on environmental protection in the free trade zone should be introduced, advocating for the integration of environmental protection and sustainable development into the corporate culture of various enterprises in the zone, fundamentally making them love the environment and emphasize environmental protection; The second is to establish a professional environmental protection agency in the free trade zone to supervise the entire process of enterprise construction, production, transportation, sales, and other aspects, impose penalties on non-compliant enterprises, and post signs of polluting enterprises at the entrance of the enterprises. Experts can also be invited to hold lectures on the latest environmental protection technologies; Linking preferential policies with environmental protection, it is clear that the prerequisite for enjoying preferential policies is to comply with relevant environmental regulations, collect preferential taxes from non-compliant enterprises, and in severe cases, cancel their free trade zone operation rights. Enterprises with outstanding environmental contributions can also receive moderate tax incentives.

4.3 Promote Open Cooperation and Strengthen Mutual Benefit and Win-Win Situation

The Manaus Free Trade Zone, through its window effect, has enabled the once most backward Amazon region in Brazil to achieve economic takeoff. This has great reference value for inland free trade zones in western China, especially in Xinjiang, Sichuan, Chongqing, and other regions. Specifically, the first is to establish an assistance mechanism. The free trade zone, based on the actual situation of each region, signs assistance agreements with surrounding underdeveloped areas and provides certain financial assistance, and actively promote investors to invest in the region. The second is the radiation of favorable policies, integrating underdeveloped areas in need of assistance around various free trade zones, and radiating tax preferential policies such as tariff reduction to specific regions, thereby driving overall coordinated development through a single point. The third is to strengthen communication and assistance between parks, promote mutual benefit and complementarity, focus on long-term planning, and form a strong and distinctive brand to attract greater investment. On the other hand, their respective trade zones should also actively connect with the latest international forms, such as the systematic upgrading and reshaping of Industry 4.0, and actively promote international cooperation and exchange. They have established extensive trade cooperation relationships with countries around the world, which will provide more market opportunities and partners for enterprises in free trade zones, thereby promoting sustainable economic development.

4.4 Highlighting Innovation Leadership and Building a Strong Talent Team

The development of enterprises and the development of free trade zones cannot do without talent reserves. Reflecting on the difficulties faced by the Manaus Free Trade Zone in recent years, it is not difficult to see that the crux is insufficient talent reserves. We need to develop towards talents and progress towards technology. Specifically, we need to establish a talent reserve system that complements the cultivation and absorption of talents, follow the path of integrated industry, academia, and research, establish cooperation mechanisms with local universities, and provide generous benefits, attract talents from society to work in the free trade zone. The second is to improve the talent management system, ensure various welfare benefits for talents, regularly organize performance evaluations, and stimulate talents' innovation ability through rewards and punishments. The third is to provide a fertile ground for talent growth, fully respect and trust talents, unleash their subjective initiative, and provide them with learning opportunities such as degree enhancement and ability training, so that they can truly integrate into the free trade zone and serve the construction and development of the free trade zone.

5. Conclusion

As a relatively successful inland free trade zone, the Manaus Free Trade Zone's successful development experience is worth learning from for China's free trade zones, but China's free trade zones have their own development characteristics. Each free trade zone should combine its own characteristics, start from the actual situation, make efforts in policy, continuously optimize the investment environment, handle the management of environmental protection and economic development, uphold the concept of green first, and continuously strengthen cooperation and exchange with domestic and foreign economic organizations, for mutual benefit and win-win results. Finally, innovation and leadership should be highlighted, making talent an inexhaustible driving force for development.

Funding

Chongqing Social Science Planning and Cultivation Project-“Research on the long-term governance mechanism of information poverty in southeast Chongqing under the background of rural revitalization (2021PY33)”; Chongqing Educational Science Planning Project-“Research on the Training Mode and Path of Diversified Internationalized Talents from the Perspective of the Belt and Road” (K22YY209697); Science and Technology Research Project of Chongqing Municipal Education Commission-“Research on the long-term governance mechanism of information poverty in ethnic border areas from the perspective of relative poverty (KJQN202100904)”; The Humanities and Social Sciences Research Project of Chongqing Education Commission: Mechanism and Path Research on Empowering Rural Industry Revitalization in Southwest China with Digital Economy (23SKGH219).