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Influence of free trade zones on the productive diversification and the international insertion of Latin American and Caribbean countries

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C O N T E N T S

F O R E W O R D

This document has been drafted in compliance with Activity 1.2.4 of the Work Programme of the Permanent Secretariat of SELA for the year 2012, entitled "Free trade zones, export diversification, and challenges of external insertion for Latin American and Caribbean countries (LAC). With this study, SELA provides a crucial element for analysis and outlining a regional policy on production integration in building the Community of Latin American and Caribbean States (CELAC).

This paper, entitled "Influence of free trade zones on the production diversification and the international insertion of Latin American and Caribbean countries", is aimed at exploring the conversion of free trade zones in the region, from a mechanism for export promotion into a tool for production diversification, attraction of foreign investment and technology transfer of a great number of Latin American and Caribbean countries.

The document contains an executive summary and four chapters, namely: the study of world trends of policies and businesses in free trade zones; an outlook of the Asian and Latin American and Caribbean experiences over the last couple of decades and their influence on the establishment of global or regional value-added chains; socio-economic impact and the effect on productive development of free trade zones; and proposals for government actions in the regional, sub-regional and national contexts of Latin America and the Caribbean.

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EXECUTIVE SUMMARY

Over the past 25 years, development and consolidation of free trade zones by most Latin American and Caribbean countries, and especially by Asian countries, cemented free trade zones as a *par excellence* tool for job generation, attraction of foreign investment, technology transfer, production diversification, wider export supply and better alternatives for insertion into the world economy.

Through the 1990s, free trade zones were mainly a tool for export promotion. Over the past 20 years, though, they have been deemed a tool for productive development. Through all these years, related regulations have changed as well, in order to meet the requirements of the World Trade Organisation (WTO) for the purposes of removing any subsidies on exports.

The regulations in some Latin American and Caribbean countries, as well as in Asian nations, mirror the higher profile of free trade zones around the world. While in 1975, only 29 countries had approved the setup of 665 free trade zones, resulting in the generation of some 800,000 jobs, by 2006, about 130 countries had included the free trade system in their regulations. Accordingly, there are approximately more than 3,500 free trade zones around the world, which generate about 66 million jobs, 40 million of which are in China.

Based on the study of the evolution of regulations in countries such as Malaysia, China, Costa Rica, the Dominican Republic, Colombia and Uruguay, notable for the development of their free trade zones, it can be concluded that their regulations focus on attraction of foreign investment and job generation in sectors dedicated to cutting-edge technology, in addition to the recent development of productive chains with local suppliers.

Furthermore, countries such as the Dominican Republic and Costa Rica, formerly exporters of textiles and clothes, substantially turned into producers of high value-added medical devices as well as service providers including business processing outsourcing (BPO) and call centres. This, besides increasing investment in free trade zones, encourages training of local labour, diversification of exports of goods and services and the tightening of ties with the country main trade partners.

Free trade zones are older than international trade agreements and they have succeeded in fitting in a current context of prevailing trade integration under free trade agreements. Generally, free trade zones have become an important catalyst of investments and production and industrial development centres.

Free trade zones spur well-being and development in their surroundings; attract investments; foster productive chains and country integration, and, last but not least, generate jobs.

From a review of global trends of policies and businesses related to free trade zones, an assessment of their implications on the LAC economy and wellbeing, and an analysis of the Asian, Latin American and Caribbean experiences, the following proposals have been brought forward for the purposes of national, sub-regional and regional action and to keep on cashing in on the strengths of free trade zones.

***Origin accumulation through industrial clusters**:* The international agreements effective among Latin American and Caribbean countries should provide for origin accumulation of goods manufactured, transformed, or assembled in their free trade zones in order to

get these countries closer together. Also new countries should be added to these agreements. Origin accumulation is among the main constituent elements of a regional policy on production and trade convergence in Latin America and the Caribbean.

***Relocation of industrial processes through free trade zones*:** This is the result of a mixture of concurrent factors, namely: increasing costs in Southeast Asia; free trade agreements; requirements for prompt production and decreasing inventories, and, last but not least, environment preservation through the reduction of carbon dioxide emissions. Latin America and the Caribbean should capitalize on world relocation to attract new investments and pursue job generation.

Free trade zones as tools to promote the production of manufactured goods: Free trade zones are ideal for Latin America and the Caribbean to occupy its position in its own right in the global production of manufactured goods, through development and integration of the regional production and industrial activity, in accordance with the objectives of the Community of Latin American and Caribbean States (CELAC), for the establishment of an all-inclusive region.

Free trade zones should continue to be a tool for integration, investment, trade and well-being: Free trade zones have become the pull of new industries, logistics and services, which will help increase the regional and hemispheric value-added trade. Free trade zones are a platform to relocate in Latin America and the Caribbean businesses presently in faraway countries. In this way, these businesses will both enjoy geographical proximity and take advantage of multiple hemispheric free trade agreements.

This is a golden opportunity for Latin American and Caribbean free trade zones. Existent free trade zones and their outcome are just a trial of globalization and of what can be done with regard to investment attraction and job generation.

In other words, this new decade is the decade of Latin American and Caribbean free trade zones.

***Proposal for a Latin American and Caribbean free trade zone system**:* In the next decade, in addition to bearing witness to the establishment of the Community of Latin American and Caribbean States (CELAC), free trade zones shall become a major scheme of Latin American and Caribbean production and trade integration. Undoubtedly, free trade zones will play a key role in regional integration of industrial, logistic and service processes. To facilitate and embolden such process, a common denominator is needed for basic rules governing the free trade zones spanning 20 million square kilometres of Latin America and the Caribbean.

Therefore, the drafting of a “Latin American and Caribbean Fundamental Charter on common components of free trade zones” is a priority task in furtherance of regional production and trade integration.

I. WORLD TRENDS OF POLICIES AND BUSINESSES RELATED TO FREE TRADE ZONES AND EVOLUTION OF INTERNATIONAL REGULATIONS

Free trade zones – understood as geographical areas which enjoy preferential treatment in tariffs, taxes and exchange – are in force in a context of globalization and establishment and development of free trade agreements. Free trade zones enliven dynamic sectors, such as manufacturing, services and world logistics, which sectors allow for production diversification and global insertion of Latin American and Caribbean countries. Free trade zones are the platform for service supply, and production and assembly of goods. Free trade zones are the ideal stage for business relocation. All this is pivotal to energize and cash in on free trade agreements among the countries of the Americas.

Throughout the years and the evolving model of free trade zones, several world trends have emerged as to the incentives to free trade zones. Wherever they are, free trade zones pull local and foreign investment; pursue production linkage with local suppliers; generate jobs, and foster local development. Similarly, in accordance with the Agreement of the World Trade Organization (WTO) on Subsidies and Countervailing Measures, customary incentives to exports have been removed through free trade zones.

The following are some examples of world trends of policies and businesses related to free trade zones and the evolution of world regulations. Further, in the second part of this document, the experience of these countries will be described.

1. China

In the 1980s, China set up five special economic zones: Shenzhen, Zhuhai, Shantou, Xiamen and Hainan, all of them located on the country's southern coast. These free trade zones and export processing zones form part of several schemes implemented in China to attract foreign investment.

Subsequent to the establishment of the special economic zones, four main development zones were set up, all of them with different advantages and tax incentives. Nowadays, a total of 251 zones generate 40 million jobs:

a) Economic and technology development zones
b) Zones for the development of high-tech industries
c) Free trade zones
d) Export processing zones

Over the past 30 years, China has afforded several schemes of tax incentives on location, type of investment and exports. This has changed since joining the WTO in 2001, insofar as incentives to exports have been phased out, as a requirement laid down in its Incorporation Protocol to become a WTO member.

For this reason, in accordance with the above-mentioned agreement, the Chinese government has made material changes to foreign investment laws. The purpose is to afford a relaxed, acquiescent regime with regard to the performance in the Chinese market of joint ventures and wholly-owned foreign companies, on an equal footing for both foreign and domestic investment.

On 1 January 2008, China dismantled the income incentives applicable to free trade zones and special economic zones. Such incentives provided for two years of tax exemption, followed by three years of payment of the income tax at 7.5%, and subsequent payment at 15% versus an overall income tax of 33% from the fifth year.

In 2008, China chopped the overall income tax from 33% to 25% and set this range as plain rate for all companies, regardless of its location and the source of investment, that is, either foreign or domestic, except for high-tech businesses located in special economic zones. For them, the original tax incentives would remain in force.

2. Malaysia

Operations in free trade zones in Malaysia are governed by Law 438 of 1990, known as the Free Zones Act. Under this law, free trade zones are outside the Principal Customs Area (PCA). Therefore, they are subject to specific benefits and requirements.

Business benefits include the following exemptions:

a) Tax exemption on imports of raw materials and foreign components.
b) Tax exemption on imports of machines and equipment.
c) Tax exemption on imports of parts and deliverables.
d) Incentives to manufacturing outsourcing (partial processing and production chains).
e) Sales and excise tax exemption for purchases of raw materials and local components; purchases of machines and equipment, and purchase of parts and deliverables.
g) Possibility of organizing a company with 100% of foreign capital.
h) Possibility of repatriating 100% of the principal amount and benefits (except for selected products).

Incentives to the income tax and tax deduction are afforded by investment promotion laws according to the geographical location of the project or priority sectors which are the target of the investment.

Vietnamese laws have also regulated these matters.

3. Costa Rica

Law 6695 of 1981 established the Corporation of Free Trade Zones. Later on, the Law 7210 of 1990 laid down the system for free trade zones. Subsequent reforms of the Law 7210 (Law 7830 of 1998 and Law 8794 of 2010) updated the system and adapted it to the WTO requirements, thereby discharging the country obligations within the timeframe.[1]

Main incentives to the beneficiaries of free trade zones include:

a. 100% exemption in the following taxes: foreign remittances, import/export duties and overall sales and consumption.

b. Exemption on import taxes for vehicles and exemption for a 10-year term on taxes of real estate conveyance and municipal taxes inside the free trade zone.

[1] Costa Rica Investment Promotion Agency. CINDE. http://www.cinde.org/attachments/155_Regimen%20de%20Zona%20Franca%20en%20Costa%20Rica.pdf. July 2010.

c. Income tax (Law 7210) for manufacturers exporting more than 75% of their output; 100% exemption for partnerships the first eight years and 50% exemption the next four years.

These incentives will expire at the end of 2015, in accordance with the WTO guidelines. Nevertheless, the reform of 2010 (Law 8794) will remain in force for large-scale manufacturing projects (US$ 10 billion, 100 employees, no minimum export level), that is, 100% exemption the first eight years and 50% exemption the next four years.

d. 10% of income tax credit and deferred payment up to 10 years provided that the parent company shall not get dividends. For small and medium-sized manufacturing projects (US$ 150 million, no minimum export level): preferential tariff at 6% for eight years and 15% the next four years, as well as 10% of income tax credit.

Main categories of businesses in free trade zones of Costa Rica are as follows:

a. Export processers: they produce, process, and assemble for export or re-export of their products. These businesses must export 75% of their output and they will be in force only through 31 December 2015, in accordance with the WTO provisions.

b. Marketers: they are not producers. Instead, they handle, re-pack or re-distribute non-traditional commodities for export or re-export. Such commodities may not be sold in the local market.

c. Services: export services to overseas businesses and also to other beneficiaries and users of free trade zones.

d. Administrators: they are dedicated to management of industrial parks and instalment in there of companies that benefit from the free trade zone regime.

e. Scientific research: they are devoted to improve the technological level of the industrial or agri-business activity and the country's foreign trade.

f. Shipyard and dockyard operators: they are engaged in building, repair or maintenance of vessels.

g. Processers and suppliers: they produce, process and assemble goods without the need to meet any export requirements.

Pursuant to Costa Rican regulations, businesses located in a free trade zone may not carry out the following activities: mining; hydrocarbons exploration or extraction; manufacturing or trade of weapons and ammunition; electric power generation (except for stand-alone consumption); banks; financial institutions, and underwriters.

Under the National Development Plan of 2006, a new mechanism was set up in Costa Rica to attract investment, in line with the WTO requirements on subventions and free trade zone regimes.

For such purpose, a committee composed by the Treasury Ministry, the Ministry of Foreign Trade and the Foreign Trade Promoter drafted Law Nº 8794 of 12 January 2010, called "Reform of the law on the free trade zone system Nº 7210 of 23 November 1990, entering into force on 22 January 2010. The issue of this new law was notified to the WTO Subventions Committee in mid-2011.[2] Amendments include:

a. The addition of a new category of processing enterprise, which does not need to export a selected percentage of its output to be a beneficiary of the free trade zone system (item f, article 17, Law 7210), thereby superseding the requirement according to which, in order to benefit from the free trade zone system, businesses should export at least 75% of their output.

b. Processing businesses ranked under the new item f) of article 17 of the law may introduce their goods in the local market. However, in this case, all import-related taxes and customs duties shall apply. Tariffs shall be paid only for the input used for production, in line with international obligations.

c. Several incentives were created to locate the recipients of the free trade zone system outside the Greater Extended Metropolitan Area (GAMA), provided that free trade zones shall be located in less developed areas.

d. Tax credits at 10% would be granted to new processers on account of: i) return reinvestment; ii) Costs for capacity building and training of staff of micro, small and medium-sized enterprises operating as suppliers of the beneficiaries of the free trade zone system.

The current free trade zone model in force in Costa Rica relies on a quantum leap towards industrial diversification and increasing added value of goods and services produced in these areas. As a result of such progress and development, existing free trade zones have been ranked as world-class, as spelled out in the second part of this document.

Exports from free trade zones in 2010 soared to US$ 4.83 billion, and were mainly destined to the United States, the European Union and Asian markets. Such exports account for 52%-54% of Costa Rica's overall exports in 2006-2010.

Based on the figures of Costa Rican agencies Free Trade Promoter, PROCOMER, and Foreign Investment Promotion Agency, in 2011 foreign direct investment in free trade zones totalled US$ 470 million, coming mainly from the United States and the European Union. Costa Rica's success is partly due to direct foreign investment. Particularly, US$ 9 in every US$ 10 of the foreign investment in the free trade zone went to the high-tech sector.[3]

4. Dominican Republic

The legal framework for free trade zones is defined in Law 8-90. It is aimed at fostering the establishment of new free trade zones and growth of existent ones; regulating their operations and development, and setting goals and objectives in the national interest for a proper coordination of the public and private sectors.

The law defines free trade zones as "a country geographical area subject to special customs and tax controls, as set forth in the Law 8-90, whereby the organization of

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[2] Notice related to the extended postponement of Costa Rica's programmes, according to documents G/SCM/61/Add.1 to 8, and G/SCM/62/Add.1 to 8, as set forth in paragraph 4, article 27, Agreement on Subventions and Countervailing Measures.

[3] Data of the Central Bank of Costa Rica and PROCOMER.

companies is allowed for the supply of their goods or services to the foreign market, through the necessary incentives to foster their development."

Main regulations that compose and complete this system are: Foreign Investment Law (Law 16-95); Law on Textiles and Footwear (Law 56-07); Resolution 4-2007, which provides for a minimum wage for the workers in a free trade zone (in force); the U.S. Initiative for the Caribbean Basin (ICB), and the Textile Parity Initiative.

The main incentives envisaged in the regulations include: 100% exemption for income tax and the tax on building and transfer of real estate; municipal taxes, import taxes and customs duties.

Unlike Costa Rica, industrial diversification of free trade zones in the Dominican Republic was rather forced, due to the termination of the WTO Multi-Fibre Agreement in 2005. As a result, the Dominican Republic should promptly embrace industrial diversification. Like Costa Rica and other Central American countries, the Dominican Republic mostly relies on the businesses of textiles and clothes. The impact of diversification will be subsequently tackled in depth.

In keeping with WTO guidelines, the Law 139 of 2011 removed the export performance requirements and alike, in order to comply with WTO requirements. Nonetheless, the Dominican Republic continues working on new projects to meet the WTO requirements by 2015 and to make the country free trade zones more competitive.

5. Uruguay

While free trade zones, such as the free trade zones of the ports of Colonia and Nueva Palmira, have developed through laws such as the Law 11.392 of 1949, Law 15.921 of 1987 was the hallmark in Uruguay. Under article 1 of this latter law, the Uruguayan State set as "in the national interest, the promotion and development of free trade zones, intended to boost investment, expand exports, maximize the utilization of domestic labour, and encourage world economic integration..."

According to the WTO report of 2012, "*Uruguay grants tax incentives to exports under several regimes, such as return of indirect taxes, the vehicle scheme, and free trade zones.*"[4] (Our emphasis added). Under this system, businesses operating in free trade zones are exempted from all domestic taxes, except for social security contributions. Any trade, industrial or service activity is allowed in free trade zones. Similarly, users of free trade zones may import goods, services and raw materials free from import duties or taxes, no matter their origin. Goods produced in free trade zones may be sold in Uruguayan customs territory without restrictions, upon payment of customs duties and taxes.

Users of free trade zones in Uruguay may be individuals or corporations entitled to such activities by regulatory authorities. The exclusiveness requirement applies. A distinction is made between "direct users," empowered to operate in a free trade zone under an agreement with the owner, and "indirect users," empowered to operate in a free trade zone under an agreement with a direct user and using his/her facilities.

Users of free trade zones are exempted from any and all domestic taxes, in force or to be created, even those that require specific exemptions by law for conducting activities in free trade zones.

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[4] A review of trade policies in Uruguay. Document WT/TPR/S/263, Page X, 6 June 2012.

Benefits and incentives include:

- Exemptions for users of any future or current domestic taxes, namely: income tax, value-added tax, net worth tax, internal specific tax and corporation tax.
- Goods, services, commodities and raw materials, whatever their origin, introduced in free trade zones, and goods manufactured in there, may go outside at any time, exempted from any future or current taxes or equivalent instruments, levies and charges.
- Certificates of origin will be issued for the goods manufactured in free trade zones. Preferential treatment on Uruguayan exports by foreign countries for selected products and in restricted volumes or values will be preferably used by the exporters of such products based in a free trade zone.
- Unlimited stay of goods in a free trade zone.
- No monopolies of services of industrial ownership shall govern in free trade zones.

6. Colombia

The free trade zone system has turned Colombia into one of the most enticing sites for investment in Latin America and the Caribbean. Some of the reasons explaining this fact include the benefits and tax incentives offered to enterprises in free trade zones; the variety free trade zones; duration; involved economic sectors, and their high economic impacts over the past few years.

The Colombian free trade zone system dates back to the mid-20th Century. Initially a tool for export promotion, it turned out to be a mechanism for industrial promotion, investment attraction and job generation. The model envisaged in 1958[5] enlivened imports as part of the economic model effective by then, making room for the formation of inventories for production and reducing charges connected with tariffs and sales taxes. By 1985, the model of free trade zones for export[6] prevailed in the export activity. Customs advantages were granted, such as no payment of tariffs and taxes on imported inputs; easy administrative steps, and tax incentives, including income tax exemption, upon verification of exclusively or almost exclusively dedication to export activities.

In both cases, the principle of extra-territoriality applied for customs treatment of related commodities; the State, through government agencies, was fully responsible for ownership and management.

Law 7 of 1991, the Foreign Trade Framework Law, defined free trade zones as tools to encourage exports within the context of the economic opening heralded by the Government at that time. This prompted privatization of various government sites established as free trade zones.

Before the Law 1004 of 2005, amending the free trade zone system, 11 industrial free trade zones had been decreed throughout the country,[7] namely in the following cities or zones: Cartagena, Barranquilla, Santa Marta, Cali, Cúcuta, Bogotá, the Coffee Axis and Antioquia, among others, with no significant results. (See Table below).

[5] Law 105 of 1958.

[6] Law 109 of 1985.

[7] Report on free trade zones. Inter-Sector Committee of Free Trade Zones. June 2012.

TABLE 1
Free trade zones declared in Colombia before 2005

COLOMBIA – DECLARED FREE TRADE ZONES BEFORE THE LAW 1004 OF 2005		
1. Santa Marta	7. Ciudadela Salud	
2. Barranquilla	8. Bogotá	
3. Rionegro	9. Coffee Axis	
4. Cartagena	10. Pacific	
5. La Candelaria	11. Palmaseca	
6. Cúcuta	**TOTAL**	**11**

Source: Ministry of Trade, Industry and Tourism of Colombia.
Report on free trade zones. Inter-Sectoral Committee on Free Trade Zones.
June 2012.

Following the changes introduced by Law 1004 of 2005, legal instruments and policies on free trade zones focused on development of the local industry, investment attraction and job generation, in addition to the potential export activity. These changes were due, among others, to comply with the commitments to the World Trade Organization (WTO), particularly the Agreement on Subventions and Countervailing Measures. To that effect, Colombian regulations related to free trade zones should fit in the provisions on subventions to exports, with income tax exemption playing a key role. Like Colombia, several countries adjusted, or are in the process of adjusting, their regulations on free trade zones ahead of the deadline set by the WTO.

Note also that exports from Colombian free trade zones enjoy the same treatment afforded in trade agreements to commodities from the rest of the Colombian territory.

Upon the issue of the Law 1004 of 2004 and subsequent regulations, including Decrees 383 and 4051 of 2007, the free trade zone system has undergone material changes mirrored in the effects of its main objectives, namely: job generation and new investments; improved competiveness; technology development; scale economies, and easier trade.

New regulations retained the concept of permanent free trade zones under the scheme of industrial parks, multi-users, and transitory free trade zones. The concept of permanent, special, single-user free trade zones was added. The latter envisages agri-business, port and service, including health care, free trade zones. Moreover, the role of operating users, industrial users of goods and services and trade users was defined or re-defined.

Main benefits and incentives under the current free trade system include:

- Single income tax at 15%.
- No customs duties (tariff and VAT).
- For the purposes of import taxes, incoming commodities are regarded as outside the national customs territory (TAN) instead of imports.
- Exports from a free trade zone to foreign countries are benefitted from trade agreements, except for the case of Peru.
- VAT exemption for raw materials, inputs and final products sold from the TAN to industrial users and operators of free trade zones.

7. The Americas: No standardized policies as yet

In contrast to global trends of policies on free trade zones, no standard policies, particularly in the field of origin, have been made in the Americas. While the United States afford origin to the goods produced in free trade zones of the Dominican Republic, CAFTA parties, Colombia and Peru, and MERCOSUR deny origin for the goods coming from their own free trade zones. However, they confer origin upon the goods manufactured in extra-regional free trade zones, such as Colombia, under a trade agreement with MERCOSUR Member States.

A campaign should be launched in Latin America and the Caribbean, not only to acknowledge the origin of the goods manufactured in free trade zones, under the trade agreements effective in the hemisphere, but also to regulate the accumulated origin, as done by Mexico and Central American countries under the CAFTA-DR.

By virtue of the foregoing, concerning standardization of systems for the purposes of granting origin under the agreements in force, LAC countries ought to join efforts towards an all-encompassing regional trade policy.

II. EXPERIENCES IN ASIA, LATIN AMERICA AND THE CARIBBEAN REGARDING THE DEVELOPMENT OF FREE TRADE ZONES AND THEIR ROLE IN ESTABLISHING AND CONSOLIDATING BUSINESS SECTORS LINKED TO GLOBAL OR REGIONAL VALUE CHAINS

This section shows the different trends in free trade zones in Asia, Latin America and the Caribbean in terms of their progress towards the consolidation of business sectors involved in global and regional value chains.

1. China: free trade zones as a tool for economic opening and investment attraction

1.1 Bolstering technology:

As mentioned earlier, China reduced the overall income tax from 33% to 25% and set such rate as the flat rate for all companies in the country, regardless of their location and whether investments are domestic or foreign. Meanwhile, China kept the overall income tax rate at 15% for high-tech companies, thus sending a signal to new investments coming into the country.

In fact, Circular No. 40 dated 26 December 2007 notified the establishment of tax incentives for high / new technology start-ups (as of 1 January 2008) in certain specific regions. These regions are Special Economic Zones (SEZ), as well as the new area of Pudong (Shanghai).[8]

The incentive is a tax exemption consisting in the reduction of the tax rate by 50% for two to three years, beginning the first year of revenue generation. From that time, the company will pay 15%.

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[8] Source: Paper by ARAUJO IBARRA & ASOCIADOS for ADOZONA, “Benchmarking Internacional de Zonas Francas”, 2009.

High / new technology companies are those whose products and services are included in the categories of high and new technologies with key State support, including the following:

a) Electronic communication technology
b) Biological and medical technology
c) Aerospace technology
d) New materials technology
e) High-tech services
f) New energies and energy saving technology
g) Environmental resources and technology
h) Transformation of traditional industries through new technologies

Additionally, revenue from high and new technologies must represent at least 60% of total revenues of the company, at least 30% of the employees must have a technical degree and 10% of employees must be involved in Research and Development activities.

For the reasons mentioned above, China has focused on encouraging foreign investment in the high-tech manufacturing and industrial sectors, thus consolidating equipment manufacturing, a sector in which the country has vast experience and a high production capacity.

1.2 Implementation of foreign standards in free trade zones as a mechanism to encourage investment:

Regarding extraterritorial free trade zones, China designated a foreign territory as free trade zone where the enforcement of foreign legislation is allowed. Such is the case of the Free Trade Zone of Singapore, in Suzhou, located 250 km away from China, where Singapore laws are enforced in Chinese territory, including laws governing intellectual property, trademarks, patents and labour.

This example shows that free trade zones have been used as magnets for investments and strategic projects.

2. Malaysia: free trade zones to boost high-technology exports

A dynamic country, since its independence in 1957 Malaysia has managed to leave behind its economic dependence on commodities and agriculture and became a high-technology exporting country.[9] Malaysia has a population of 29 million, and in 2011 it exported US$ 226 billion, four times higher than Colombian exports in the same period (US$ 56 billion).

Traditionally, Malaysia has clearly defined the sectors and activities to be developed, which turns the country into one of the world leaders in production and exports of electric and electronic equipments, semiconductors and machinery.

According to the records of the Malaysian investment authority (MIDA),[10] in Malaysia there are Free Trade Zones and Export Processing Zones.[11] Currently, free zones in

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[9] Source: Paper by ARAUJO IBARRA & ASOCIADOS for ADOZONA, "Benchmarking Internacional de Zonas Francas", 2009.

[10] Malaysian Investment Development Authority

[11] Some of the key Free Trade Zones are the following: Pasir Gudang (Johor Port), Tanjung Pelepas (adjacent to Pelepas Port), Batu Berendam I (in the region of Melaka), Batu Berendam I (in the region of Melaka) , Tanjung

Malaysia are evolving towards the concept of Integrated Free Zones, which are considered as new free zones including export processing, services, logistics and storage areas, similar to the concept of Integrated and Comprehensive Free Zones of the People's Republic of China.

Therefore, Malaysian zones are characterized by the services they provide to their users and customers. These services include the provision of logistics services and the services of paperwork and licenses from the relevant authorities, among others. This implies that most of the zones are near or within the same facilities of ports, so that they can provide their services in an efficient way.

In Malaysia, the Free Trade Zone regime works together and in a complementary way with other regimes that also grant incentives and benefits, such as the Industrial Estates and the Licensed Manufacturing Warehouses. These are the equivalent of Individual Business Free Trade Zones, where there a single industrial user of goods and services.

Over the last decade, the vision of Free Trade Zones has changed dramatically, as it has focused on promoting large-scale scope projects involving brokers and entire regions in the country. These projects will be largely emphasized as this is the path Malaysia has chosen to achieve a higher level of development and attain by 2020 standards similar to developed countries.

One of these large-scale projects is the Multimedia Super Corridor. This project initially (1996) involved only the corridor that connects the city of Kuala Lumpur with its International Airport. By 2009, it had spread throughout the Klang Valley (within the region of Selangor) and the Penang region, reaching an area of more than 750 square kilometres.[12]

The Multimedia Super Corridor is an area designated by the government for Malaysian to take the final leap into the information and knowledge age. Within this zone, benefits and incentives are granted to enterprises and high-tech projects such as e-government, research and development clusters, e-business, tele-health, computer services outsourcing and universities, among others.

In Malaysia this corridor is considered as the most important initiative that exists throughout Asia for locating companies in the sectors of information technology and communications. Currently the corridor comprises over 1,000 multinationals, both foreign and Malaysian. In late 2009, they generated more than 63,000 jobs and together invested more than US$ 230 million in research and development.[13]

Kling (in the region of Melaka), Telok Panglima Garang (in the region of Selangor), Sungai Way I (in the region of Selangor), Sungai Way II (in the region of Selangor), Pulau Indah (PKFZ - Port Klang, Selangor), Jelapang II (Perak region), Kinta (Perak region), Bayan Lepas I (Penang region), Bayan Lepas II (Penang region), Bayan Lepas III (Penang region), Seberang Perai (Penang region, off the island of Penang), Sama Jaya (Sarawak region).

[12] MIDA: Malaysia Industrial Development Authority.http://www.mida.gov.my/env3/.

[13] MIDA: Malaysia Industrial Development Authority.http://www.mida.gov.my/env3/.

3. Costa Rica: Industrial diversification and increased value added

3.1 Industrial diversification aimed at high-tech sectors

As mentioned above, the current model of free trade zones in Costa Rica is based on a big leap toward industrial diversification and increased value added of goods and services produced in these areas. This progress and development has led to existing zones being classified as "world class."

At the beginning, the regime of free trade zones in Costa Rica largely depended on textiles and garment. But in the early 2000s, when the country initiated its diversification process, this trend was marked by foreign investment in high-tech sectors.

Over the last 15 years, through strategic initiatives, Costa Rica has become the country with the highest levels of technology and added value of products in Central America. Indeed, Costa Rica is the second largest exporter of medical devices in Latin America, second only to Mexico. Costa Rica is also the largest exporter of high technology in Latin America and the most important country in manufactured exports to China.

Today, many of the users of free trade zones in Costa Rica have gone from selling raw materials and low-tech finished products to sell high-tech end products such as medical precision equipment, textiles, apparel, agribusiness, assembly, pharmaceuticals, electronic and electrical equipment. This shows not only the industrial restructuring but the increased value added and sophistication of labour.

Costa Rica has become a reference for the production of medical devices, the provision of clean technologies and the development of the electronics and specialized parts industry. In 2011, about 110 companies located in free trade zones helped the service sector to generate foreign sales of US$ 1,666 million, 33% of total exports that year. Out of 34 new FDI projects in 2011, 21 were in that sector, which generated approximately 32,000 direct jobs.[14]

Also, the sophistication of production processes taking place in Costa Rica free trade zones has led to the inauguration of new shared service centres and the establishment of operations by the various multinationals, with hemispheric coverage. In this way, only in San Jose and its surroundings there are approximately one million square meters in service free trade zones, where several multinationals have their administrative support centres for the hemisphere.

By October 2011, there were 256 companies benefiting from the free trade zone regime, out of which 47% are service companies and 44% are manufacturing companies.[15]

Listed below are the top 10 manufacturing sectors in the free trade zones of Costa Rica, which represent 85% of its exports. Top on the list is the manufacture of electronic devices with a 34% share in total exports, followed by medical equipment (22%), pharmaceuticals (7%), food (5%), control devices (3%) and garments (only 2% of total exports).

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[14] Magazine Summa. http://www.revistasumma.com/economia/22470-unas-110-empresas-impulsan-al-sector-servicios-en-costa-rica.html. February, 2012.

[15] ICEX. Economic and Trade Bureau of the Spanish Embassy to Panama City. http://www.oficinascomerciales.es/icex/cma/contentTypes/common/records/mostrarDocumento/?doc=4566176. November 2011.

TABLE 2
Costa Rica- Exports of manufactures produced in Free Trade Zones in 2007 – 2011
(US$ million FOB)

Economic activity	2011 JAN to JUNE		2010		2009		2008		2007	
	FOB US$	%	FOB US$	%	FOB US$		FOB US$	%	FOB US$	%
PIPES, ELECTRONIC VALVES, AND OTHER ELECTRONIC COMPONENTS	834	34	982	22	901	19	1.150	23	1.523	30
MEDICAL AND SURGICAL EQUIPMENT AND ORTHOPEDIC APPLIANCES	543	22	1047	23	974	21	914	18	722	14
PHARMACEUTICALS, MEDICINAL CHEMICALS AND BOTANICAL PRODUCTS	170	7	230	5	202	4	188	4	167	3
OTHER FOOD N.C.P.	118	5	247	5	208	4	197	4	165	3
CANNED FRUITS AND VEGETABLES	102	4	129	3	198	4	188	4	198	4
VEGETABLE AND ANIMAL OILS AND FATS	86	3	98	2	82	2	120	2	91	2
DISTRIBUTION AND CONTROL DEVICES	77	3	138	3	82	2	110	2	103	2
RUBBER TIRES AND TUBES; RETREADING AND REBUILDING OF RUBBER TIRES	65	3	112	2	94	2	107	2	87	2
CLOTHING, EXCLUDING FUR APPAREL	57	2	82	2	102	2	131	3	181	4
PLASTIC PRODUCTS	47	2	71	2	55	1	66	1	66	1
Total of 10 sectors :	**2.098**	**85**	**3.136**	**69**		**62**	**1.171**	**64**	**3.301**	**65**
General total:	**2.457**	**100**	**4.538**	**100**		**100**	**4.982**	**100**	**5.065**	**100**

Another very important aspect of the model of free trade zones in Costa Rica that should be highlighted is that not only the country has become the nation with the largest exports of value added products in the region, but it is also the only country that has complied the most with the principle of "one single China." Costa Rica broke its trade relations with Taiwan and signed a Free Trade Agreement with the Asian giant, thus becoming a strategic partner for Asia and a commercial bridge for the United States.

Consequently, the increased value added in the free trade zones, meaning the additional value that the goods and services acquired during the production process, is a trend that, along with diversification in production, has led to the success and significant growth of the industrial sector in Costa Rica.

3.2 Implementation of productive linkages

Another very important aspect in the Costa Rican model is the implementation of productive linkages between users of free trade zones, local entrepreneurs and users of free trade zones in other neighbouring countries. The productive linkages between companies in free trade zones with local businesses in Costa Rica deserve special mention, as such linkages are particularly evident in the textile and apparel, manufacturing and agribusiness sectors.

The enactment of Law 8794 of 2010 established mechanisms to stimulate productive linkages between companies in free trade zones and local producers. The law established, among other things, the possibility that local companies supplying goods to companies in free trade zones can enjoy the benefits of the free trade zone regime, if they prove that they provide at least 40% of their total sales to these companies.

The Special Commission defined strategic sectors with productive linkages, including the following:

- Advanced electronics
- Advanced electronic components, devices, equipment, implants and medical supplies and their highly specialized packaging or containers
- Automotive parts and precision machined components
- Aerospace and aeronautical engineering
- Pharmaceutical and biotechnology
- Renewable energy
- Automation and flexible manufacturing systems

As a result of the promotion of productive linkages, the establishment of high-tech companies has enabled technology transfers and significant development of this industry in the local market.

Proof of this is Intel, a U.S. company that began operations in Costa Rica since 1998. It began as an individual business free trade zone and has become an industrial estate where all its suppliers (including designers, software services and financial services) are concentrated, in addition to two manufacturing plants and a distribution centre.

Production chains in Costa Rica have grown considerably. To date there are more than 331 national companies, mainly SMEs, which are suppliers of the companies established under the free trade zone regime.

Additionally, in 2001 these linkages reported US$ 0.8 million for the concept of first business. That figure rose to US$ 8.2 million in 2010, a tenfold increase in less than a decade. According to research by the Inter-American Development Bank (IDB), the productive linkages between local suppliers and companies in free trade zones have accumulated about US$ 840 million in the past 10 years.

As Costa Rica has focused on diversifying its products and services as well the generation of value added, it has increased the percentage of employees in the service sector, to the extent that out of the 58,012 direct jobs in free trade zone, 32,000 work in the service sector, i.e. 55% of total workers in the free trade zones.[16]

4 Dominican Republic: from the textile and apparel sector to diversification of the production of goods and services

Similarly to Costa Rica, the Dominican Republic has managed to turn the free trade zone regime into the main engine of national development by adding value to its production processes. This has boosted industrial diversification and the development of productive linkages.

The table below shows the share of the different industries in production in free trade zones, with apparel and textiles representing 21.6% of total activity in free trade zones, followed by services (20.7%), tobacco (9%), trading companies (8%), agribusiness (7%), pharmaceuticals (4%) and electronics (4%).

TABLE 3
Number of companies in Free Trade Zones in the Dominican Republic based on main activities, 2009-2010

Activity	2009		2010	
	Enterprises	% Share 2009	Enterprises	% Share 2010
Apparel and Textiles	131	23.69	120	21.62
Services	112	20.25	115	20.72
Tobbaco and derivatives	47	8.50	51	9.19
Trading companies	49	8.86	47	8.47
Agribusiness	40	7.23	40	7.21
Medical and pharmaceutical products	22	3.98	24	4.32
Electronics	24	4.34	22	3.96
Footwear and components	18	3.25	19	3.42
Jewellery	21	3.80	19	3.42
Cardboard, prints and paper	15	2.71	15	2.70
Others	74	13.38	83	14.95
Total	**553**	**100.00**	**555**	**100.00**

Source: National Council of Export Processing Zones, Statistics 2010.

[16] Magazine Summa. http://www.revistasumma.com/economia/22470-unas-110-empresas-impulsan-al-sector-servicios-en-costa-rica.html. February 2012.

The share of the apparel sector is still high compared to other industries, but it is important to analyze the fact that the impact of this sector has declined over the past eight years. In 2003, total exports in this sector reached 50.7%, while in 2010 its share fell to 21.6%, as shown in the table below.

TABLE 4
Share of the textile sector in total companies in Free Trade Zones in the Dominican Republic, 2003-2010

Years	Overall Total	Textile Sector	Percentage Share
2003	531	269	50.7
2004	569	281	49.4
2005	556	226	40.6
2006	555	198	35.7
2007	526	170	32.3
2008	525	143	27.2
2009	553	131	23.7
2010	555	120	21.6

Source: National Council of Export Processing Zones, Annual Statistics Report 2010.

As in Costa Rica, in the Dominican Republic the textile and garment sector was largely replaced with the production of medical devices and pharmaceuticals. This sector represented 26.1% of exports from free trade zones in the country in 2010, according to the Central Bank of the Dominican Republic.

Industrial diversification translated into increased value added of the goods produced in free trade zones. Such value added of exports from free trade zones climbed from 25% to 50% with the implementation of a program called Managing Knowledge for a Culture of Lean Manufacturing. The plan was implemented by the National Institute of Technical and Professional Capacity Building (Infotep) and the Dominican Association of Free Trade Zones (Adozona). With this initiative free trade zones have evolved from assembly industries to implementing technology, thus increasing their competitiveness.[17]

Notwithstanding the foregoing, the textile and garment sector continues to play a role in the productive linkage model par excellence. Local companies and free trade zones have vertically integrated in recent years, specializing in the various branches of the textile and garment "cluster," thanks to the efforts of the National Council of Export Processing Zones of the Dominican Republic, as well as the recommendations from a study conducted by the firm Nathan Associates in 2005 about the impact of the dismantling of the Multi-Fibre Agreement.

Therefore, it is important to note that by 2010 the textile and garment sector in the country contributed 34% of the employment generated by the free trade zones, i.e., 41,882 direct

[17] Magazine Hoy Digital. The added value of exports from the free trade zone increased from 25% to 50% http://www.hoy.com.do/economia/2011/9/11/392673/Encuentro-EconomicoEl-valor-agregado-de-las-exportaciones-de-zonas. September 2011.

jobs. Furthermore, it accounted for 23% of total exports from free trade zones, for a value of US$ 964.2 million, according to figures published by the National Council of Export Processing Zones (CNZFE).

Similarly to Costa Rica and the rest of Central America, in the case of the Dominican Republic it is believed that productive linkages can improve as long as local producers optimize their quality standards in the provision of raw materials and companies in free trade zones have production processes that generate greater value added, especially in terms of the development and use of better technology in these industries, in order to increase the competitiveness of exports from free trade zones.

Certainly, the momentum and improvement of such linkages are generating greater incentives for investment, job creation and export promotion.

Ending 2011 there was a total of 51 industrial estates in operation and 586 companies. That same year, the accumulated investment of companies in free trade zones in operation amounted to US$ 2,098 million. This represented a relative increase of 5.2% compared to 2009, with the United States as the country with the highest investment in free trade zones in the Dominican Republic. This represented 45.1% of investment or US$ 1,299.5 million.

In terms of exports, the value of total exports in 2010 grew by 7.6% compared to 2009, from US$ 3,793.5 million to US$ 4,080.1 million. Exports from free trade zones accounted for 61.8% of total exports in the Dominican Republic.[18]

By the end of 2010, the number of workers, technicians and administrative staff employed by free trade zones amounted to 121.001, a growth of 7.4% over 2009 (112,618 jobs).[19]

5 Uruguay

ECLAC believes that the activity of free trade zones in Uruguay has been increasing rapidly in recent years, suggesting a change consistent with the passage from a special trade regime to a new phenomenon of trade specialization in Uruguay[20]. According to the latest official figures from the National Statistics Institute of Uruguay in 2010,[21] the number of "establishments"[22] that operate in the Uruguayan free trade zones has been increasing.

The following table shows the growth in the number of direct and indirect users and operators in all the companies in the free trade zones of Uruguay. A total of 1,379 firms

18 Source: National Council of Export Processing Zones of the Dominican Republic, 2010.

19 Source: National Council of Export Processing Zones of the Dominican Republic, 2010.

20 Survey on Free Trade Zones in Uruguay: economic activity, foreign trade and platform for exports of services. Marcel Vaillant and Álvaro Lolanne. March 2010.

21 Final Report, December 2010, on the Third Census on Free Trade Zones, 2007-2008.

22 In the Report (P. 4) "establishments" are defined as "an institutional unit (company) or a part thereof located in a single physical space where one or more production activities (not ancillary) are conducted".

were located in the free trade zones of the country until 2008, which had 1,116 indirect users, 254 direct users and nine operators.[23]

TABLE 5
Direct and indirect exporters in free trade zones in Uruguay
(Number)

Free Trade Zone	Operators		Direct Users		Indirect Users		Total Establishments	
	Year		Year		Year		Year	
	2007	2008	2007	2008	2007	2008	2007	2008
Botnia	1	1	8	6	8	6	17	13
Colonia	1	1	35	35	91	91	127	127
Florida	1	1	66	68	181	198	248	267
Libertad	1	1	12	14	56	58	69	73
M'Bopicuá-Punta Pereira	1	1	1	0	0	0	2	1
Nueva Helvecia	1	1	4	4	21	23	26	28
Nueva Palmira	1	1	7	6	4	5	12	12
Río Negro	1	1	3	3	2	2	6	6
Rivera	0	0	4	4	3	3	7	7
Zonamérica	1	1	108	114	688	730	797	845
Total	**9**	**9**	**248**	**254**	**1.054**	**1.116**	**1.311**	**1.379**

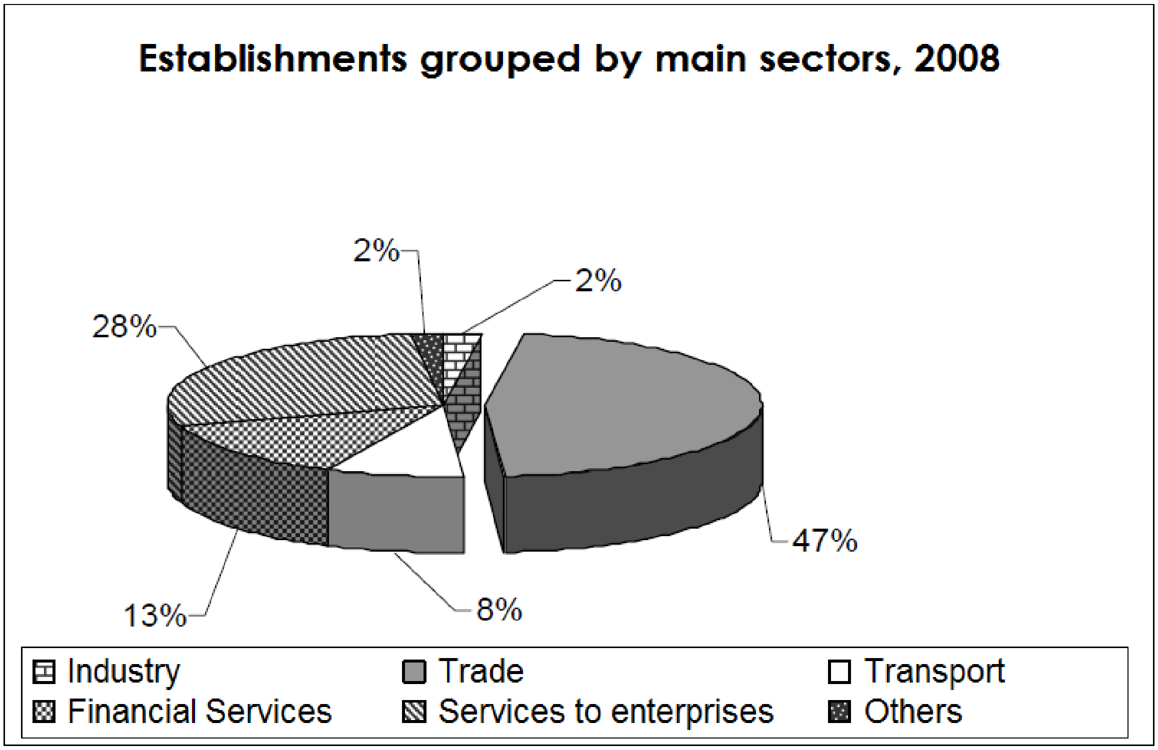
Note: In Rivera Free Trade Zone there is no operator because it is under intervention.
Source: National Statistics Institute.

The most important sectors in the free trade zones are Trade, Business Services, Financial Services and Transportation, as shown in the following chart.[24]

[23] Final Report, December 2010, on the Third Census on Free Trade Zones, 2007-2008.

[24] Ibid.

CHART 1
Establishments grouped by main sectors, 2008



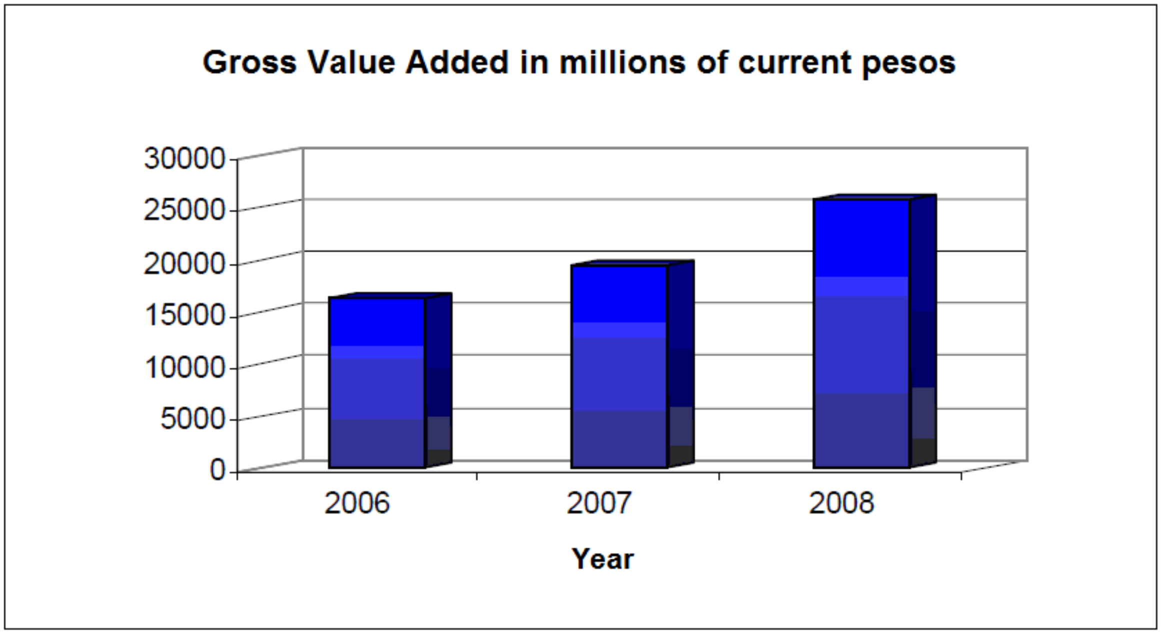
Note: Others include: Construction, Hotels and Restaurants, Social and Health services and other services.
Source: National Statistics Institute.

According to Juan Opertti, the Executive Director of the Chamber of Uruguayan Free Trade Zones, foreign investments that have been injected into the Uruguayan free trade zones are focused primarily on three areas, namely, i) industry, in the fields of pharmaceuticals and electronics, ii) logistics, especially in regional distribution centres and iii) international services, in off-shoring, such as call centres, and software development and consulting.[25]

Further, the gross value added (GVA) of the free trade zones, as a proportion of GDP, has been growing, as shown in the following chart.

[25] http://czfuy.com/prensa.html.

CHART 2
Gross Value Added of the free trade zones in Uruguay



Source: National Statistics Institute.

In terms of jobs, it is important to note that more and better trained personnel for activities in free trade zones is necessary in Uruguay. Recently,[26] the lack of qualified personnel for operations in free trade zones led the Executive Office to temporarily and exceptionally authorize users of free trade zones to hire more than 25% of overseas staff to develop their projects in Uruguay. Free Trade Zones Act requires these enclaves to have a minimum of 75% of local labour.

As for the future prospects of the regime, according to Opertti, the new phase of development of the Uruguayan free trade zones is expected to take place in the sectors of engineering, health sciences, such as telemedicine, film editing, design and medical tourism, among others, based on the validations agreed between the public and private sectors.[27]

Finally, the Uruguayan free trade zones are expected to lead the consolidation of the country as an international platform for investment, infrastructure, intelligence, innovation, internationalization and inclusion.

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[26] http://www.entornointeligente.com/articulo/1295136/URUGUAY-Zonas-francas-podran-contratar-mas-extranjeros-temporalmente-31072012

[27] http://czfuy.com/prensa/el-futuro-esta-en-convertirse-en-plataforma-de-internacionalizacion.pdf.

6. Colombia

As of June 2012, there are 102 free trade zones in Colombia, located in several of its major cities. Three of them have been expanded, 30 are permanent zones (industrial estates or multi-business free trade zones) and 69 are special permanent free trade zones (individual business free trade zones).

These free trade zones are developing their activities in the fields of industry and services. In the industrial sector, there are items such as beverages, biofuels, sugar, cement, cosmetics, food and oil refinery. The service sector includes call centres, health services and port services.

As for the main impacts of this newly modified free trade regime, the Tax and Customs Office[28] (DIAN) has recorded significant numbers in different areas.

In terms of employment, permanent free trade zones in Colombia (industrial estates under free trade zone regime) are more labour-intensive than special free trade zones. The total employment commitments in permanent free trade zones hit 100,355 jobs, compared to only 24,649 in special free trade zones.

Meanwhile, in Colombia, most investments have been injected into individual business free trade zones. Total investment commitments to date amount to COL$ 13,681,188 million, approximately US$ 7,600 million, out of which 84% corresponds to special free trade zones and the remaining 16% to the permanent free trade zones. See the table below:

TABLE 6
Employment and investment commitments based on the type of free trade zone

TYPE OF FREE TRADE ZONE	EMPLOYMENT COMMITMENT				INVESTMENT COMMITMENT (US$ millions)	INVESTMENT AMOUNT EXECUTED (US$ millions)	ADVANCED INVESTMENT
	DIRECT	EXECUTED	INDIRECT	EXECUTED			
Permanent Free Trade Zones	27,582	904	72,773	5,747	2,154,904	587,678	27.27%
Special Permanent Free Trade Zones	10,987	10,255	13,662	46,377	11,526,284	10,791,752	93.63%

Source: DIAN, 15 June 2012
Prepared by the Vice-Directorate of Customs Registration (includes commitments of extensions).

The future of the Colombian free trade zone regime is promising and best results require a comprehensive commitment of the actors involved in the medium and long term. Luis Carlos Villegas, the president of the National Association of Industrialists (ANDI), stated in the Fifth Congress on Free Trade Zones, held in September 2011:

"I have no doubt that the free trade zone regime is successful, provided that it is given time to show results and especially provided that it is accompanied by policies, strategies and measures to remove barriers and enhance its effects. Only a comprehensive,

[28] Body attached to the Ministry of Finance and responsible for declaring the existence of free trade zones and auditing the implementation of various commitments contained in the Master Development Plan of the free trade zone

consistent and joint vision of work between the Government and the private sector can make Colombia an ideal place for investment."[29]

III. IMPLICATIONS ON THE ECONOMY AND THE WELL-BEING OF LAC COUNTRIES CAUSED BY THE DEVELOPMENT OF FREE TRADE ZONES, INCLUDING CHANGES IN PRODUCTIVE DEVELOPMENT PATTERNS AND EXTERNAL INSERTION

As we have seen before, free trade zones in Latin America and the Caribbean have facilitated the increase of investments, the creation of jobs, the creation of manufactured goods with added value, the development of clusters, especially with local suppliers, and the diversification of activities and services, adapting to the globalized context of free-trade agreements.

Similarly, free trade zones have served as deepening mechanisms of two-way relations with the United States, whether it is as importer of goods and services from free trade zones in Latin America and the Caribbean, as well as in the country that is one of the largest investors in the continent's free trade zones.

Besides the examples mentioned in the previous section, which evidence that free trade zones have served as catalysts for the development of productive clusters, and for the generation of added value in countries like Costa Rica and the Dominican Republic, next we explore some of the implications caused by free trade zones, and then we will analyze the environment they will have to adapt to.

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[29] See www.andi.com.

TABLE 7
Job creation and investment in Central American free trade zones

	COUNTRIES								
FACTORS - data up to 2011-	**Costa Rica**	**El Salvador**	**Guatemala**	**Honduras**	**Nicaragua**	**Panama: Free trade zones**	**Panama: Colon free-trade area**	**Dominican Republic**	**TOTAL**
Number of free trade zones and/or number of companies	256 companies	16 TFA, 200 companies	24 TFA, 270 companies	-	35 TFA, 696 companies	14 TFA, 94 companies	2,960 companies	51 TFA, 586 companies	**5,062 companies 165 TFA**
FDI in free trade zones (millions of US dollars)	$ 470		$ 251	$ 688	$ 67	$ 5	$ 386	$ 2,098	**$ 3,965**
Exports from free trade zones (millions of US dollars)	$ 4,833	$ 2,238	$ 350	$ -	$ 1,200	$ 70	$ 11	$ 4,080	**$ 12,782**
Employment in free trade zones	58,012	70,321	17,000	120,000	99,506	2,729	30,000	121,000	**518,568**

Source: Prepared by the author, Araujo Ibarra y Asociados. 2012.

1. Importance of free trade zones in the United States

In the case of the United States, the regulations were unified throughout the 52 states as an investment promotion mechanism, thus generating an estimate 320,000 jobs[30] and investments for US$ 150 billion, for regional development.

According to the annual report for 2011, made by the U.S. Foreign Trade Zones Board,[31] with the consolidated information for 2010, for the month of December of that year, 168 general-purpose free trade zones projects, and 263 sub-areas, which operate in the aforementioned areas, were active.

Among the most representative industries of the manufacturing sector of free trade zones, are oil refineries, automotive industry, and the sector of equipments and machinery. Also, by 2010, 320,000 people were employed in 2,400 companies, which operated under tax-free procedures.

In 2010, a total of US$ 534 trillion was reached in the income for shipments to general areas, as well as to the sub-areas; compared to US$ 430 trillion in 2009. Fifty-eight percent of the shipments received in 2010 in the different types of areas consists of national merchandise, which are considered as national products, and also foreign products that have been nationalized before entering free trade zones.

Eighty-five percent of the US$ 534 trillion in shipments entering in 2010, i.e., US$ 453.3 trillion, entered the sub-areas, keeping the merchandise distribution pattern that has remained almost unchanged during the last 15 years. The rest entered in 2010 went to the general-purpose free trade zones.

2. Per capita exporters of manufactured goods of Latin America and the Caribbean

The main challenge for Latin America and the Caribbean is to capitalize on the boom of economic opening. Ten countries in the region already have a Free Trade Agreement with the United States. That is why this is really the decade of the free trade zones, since they used to be disintegrated countries, with obstacles for international trade, and without any trade agreements.

The following table shows the various per capita exporters of Latin America to the United States. It indicates that Costa Rica is the country with the largest per capita exporter ratio in the region, with a value of US$ 1,892, followed by Mexico with US$ 1,813. On the other hand, Panama and Colombia are the lowest per capita exporters in the region, with US$ 79 and US$ 111, respectively.

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[30] Griswold , Daniel. "Foreign-Trade Zones: A Home Run for Economic Development" http://home.elpasotexas.gov/ftz/_documents/2012_04_Griswold%20El%20Paso%20Export%20Forum%204-26-12.pdf

[31] 72nd Annual Report of the Foreign Trade Zones Board to the Congress of the United States. December 2011. http://ia.ita.doc.gov/ftzpage/annualreport/ar-2010.pdf April 2012.

TABLE 8
Per capita exporters of manufactured goods in Latin America and the Caribbean

Manufactured goods						
Exporting Country	**Total imports USA**	**Imports Chapters -14, 27**	**Remaining Imports**	**Population**	**Per capita (Total Imports)**	**Per capita (Manufacturing Only)**
Costa Rica	10,111,100,492	1,341,371,921	8,769,728,571	4,636,348	2,181	1,892
Mexico	262,670,975,073	54,179,871,122	208,491,103,951	114,975,406	2,285	1,813
Honduras	4,456,848,357	709,819,975	3,747,028,382	8,296,693	537	452
Dominican Republic	4,154,575,088	154,470,894	4,000,104,194	10,088,598	412	396
Chile	9,169,821,460	2,841,650,307	6,328,171,153	17,067,369	537	371
El Salvador	2,481,461,924	246,465,048	2,234,996,876	6,090,646	407	367
Nicaragua	2,607,154,559	521,211,748	2,085,942,811	5,727,707	455	364
Guatemala	4,135,509,852	1,931,048,290	2,204,461,562	14,099,032	293	156
Peru	6,152,813,259	2,567,536,225	3,585,277,034	29,549,517	208	121
Colombia	22,390,928,185	17,285,735,993	5,105,192,192	46,044,601	486	111
Panama	388,090,146	110,502,094	277,588,052	3,517,000	110	79
CAFTA-DR	27,946,650,272	4,904,387,876	23,042,262,396	48,939,024	571	471

Source: Prepared by the author, Araujo Ibarra y Asociados. 2012.

This table evidences how countries that have taken advantage of the free trade zones for the production of manufactured goods are the ones that show the higher per capita exporters, such as Costa Rica, Mexico, Dominican Republic, and the CAFTA countries – Dominican Republic.

3. Free trade zones in an environment of free trade agreements in the Americas

The trend of countries, as the commercial relations are deepened between them, is to enter into last-generation free trade agreements with the counties considered as strategic for the expansion of their trade, in order to increase both trade and investment flows.

In the Americas, during the 1980s, few agreements were signed. The United States signed a free trade agreement with Israel, in which it was agreed to establish a free trade area to strengthen and develop the economic relations between the two countries. In American countries, no other agreement was signed at that time.

The 1990s saw a much higher number of agreements signed. Following is a list of the free trade agreements signed by the countries of the American continent with other countries of the same continent, or from other regions. It is worth noticing that the date of signature of a free trade agreement is usually different from the date of entry into force, due to the ratification process in each one of the member countries of the agreement.

COUNTRY	YEAR OF SIGNATURE OF THE AGREEMENT. 1990s										
	1990	**1991**	**1992**	**1993**	**1994**	**1995**	**1996**	**1997**	**1998**	**1999**	**2000**
CANADA			MEXICO-U.S. (NAFTA)				CHILE ISRAEL				
UNITED STATES					MEXICO-CANADA (NAFTA)						JORDAN
MEXICO			U.S.-CANADA (NAFTA)		COSTA RICA COLOMBIA			NICARAGUA			EFTA NORTHERN TRIANGLE (SALVADOR, HONDURAS AND GUATEMALA) ISRAEL EUROPEAN UNION
BELIZE											
GUATEMALA									CAFTA* COUNTRIES + DOMINICAN REPUBLIC (Costa Rica, El Salvador, Guatemala, Honduras and Nicaragua)	CHILE-CAFTA	NORTHERN TRIANGLE – MEXICO
SALVADOR									PAISES CAFTA+ REPUBLICA DOMINICANA	CHILE - CAFTA	TRIANGULO NORTE-MEXICO
HONDURAS									CAFTA COUNTRIES + DOMINICAN REPUBLIC	CHILE - CAFTA	NORTHERN TRIANGLE – MEXICO
NICARAGUA								MEXICO	CAFTA COUNTRIES + DOMINICAN REPUBLIC	CHILE - CAFTA	

COUNTRY	YEAR OF SIGNATURE OF THE AGREEMENT. 1990s										
	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
COSTA RICA					MEXICO				CAFTA COUNTRIES + DOMINICAN REPUBLIC	CHILE - CAFTA	
DOMINICAN REPUBLIC									CARICOM. CAFTA COUNTRIES + DOMINICAN REPUBLIC		
PANAMA											
COLOMBIA					MEXICO						
VENEZUELA											
ECUADOR											
PERU											
BOLIVIA											
PARAGUAY											
URUGUAY											
ARGENTINA											
CHILE							CANADA			CHILE - CAFTA	

NOTE: EPAs (Economic Partnership Agreements) ARE EXCLUDED.

SOURCE: FOREIGN TRADE INFORMATION SYSTEM. SICE OAS.

PREPARED BY: ARAUJO IBARRA Y ASOCIADOS, 2012.

In 2000, and subsequent years, there has been an even larger increase in the number of free trade agreements signed, as shown in the following table, which demonstrates the growing need for the countries of the American continent to expand their markets, promote investment, and eliminate tariff and non-tariff barriers:

COUNTRY	YEAR OF SIGNATURE OF THE AGREEMENT. 2000 AND SUBSEQUENT YEARS												
	2000	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**
CANADA		COSTA RICA							COLOMBIA EFTA PERU **JORDAN**		**PANAMA**		
EEUU	JORDAN			CHILE SINGAPORE	BAHRAIN CAFTA+ DR MOROCCO AUSTRALIA		COLOMBIA PERU OMAN	SOUTH KOREA **PANAMA**					
MEXICO	EFTA. NORTHERN TRIANGLE (SALVADOR, HONDURAS AND GUATEMALA)- ISRAEL. EUROPEAN UNION			URUGUAY			JAPAN					CAFTA PERU	
BELIZE													
GUATEMALA	NORTHERN TRIANGLE – MEXICO		CAFTA-PANAMA		U.S.-CAFTA+DR	TAIWAN		COLOMBIA-NORTHERN TRIANGLE			**CAFTA-MEXICO**		
SALVADOR	NORTHERN TRIANGLE – MEXICO		CAFTA-PANAMA		U.S.-CAFTA+DR			COLOMBIA, -NORTHERN TRIANGLE TAIWAN			**CAFTA-MEXICO**		
HONDURAS	NORTHERN TRIANGLE – MEXICO		CAFTA-PANAMA		U.S.-CAFTA+DR			COLOMBIA, -NORTHERN TRIANGLE TAIWAN			**CAFTA-MEXICO**		

COUNTRY	YEAR OF SIGNATURE OF THE AGREEMENT. 2000 AND SUBSEQUENT YEARS												
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
NICARAGUA			CAFTA-PANAMA		U.S.-CAFTA+DR		TAIWAN				CAFTA-MEXICO		
COSTA RICA		CANADA	CAFTA-PANAMA		U.S.-CAFTA+RD. CARICOM						CHINA. SINGA-PORE. CAFTA-MEXICO		
DOMINICAN REPUBLIC					U.S.-CAFTA+RD CARICOM								
PANAMA			CAFTA-PANAMA	TAIWAN			CHILE SINGA-PORE	U.S.			CANADA	PERU	
COLOMBIA							CHILE. U.S.	EL SALVADOR, GUATEMALA, HONDURAS (NORTHERN TRIANGLE)	CANADA. EFTA		EURO-PEAN UNION		
VENEZUELA													PERU
ECUADOR													
PERU							CHILE. THAILAND UNITED STATES		CANADA. SINGA-PORE	CHINA	EFTA	JAPAN MEXICO PANAMA SOUTH KOREA	VENEZUELA
BOLIVIA													
PARAGUAY								MERCOSUR-ISRAEL					

COUNTRY	YEAR OF SIGNATURE OF THE AGREEMENT. 2000 AND SUBSEQUENT YEARS												
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
URUGUAY								MERCOSUR-ISRAEL					
ARGENTINA								MERCOSUR-ISRAEL					
CHILE				EFTA U.S. KOREA		CHINA	COLOMBIA PERU PANAMA	JAPAN	AUSTRALIA	TURKEY	MALAYSIA	VIETNAM	

AGREEMENTS NOT YET IN FORCE

NOTE: EPAs (Economic Partnership Agreements) ARE EXCLUDED.

SOURCE: FOREIGN TRADE INFORMATION SYSTEM. SICE, OAS.

PREPARED BY ARAUJO IBARRA Y ASOCIADOS, 2012.

4. The phenomenon of relocation: Possibilities for investment attraction and job creation in free trade zones

4.1 Relocation

A study conducted by the *Boston Consulting Group* in 2011, entitled *Made in America Again*, presents some of the reasons why manufacturing companies, especially of electronic products, computers, plastics and tires, will come back to the U.S., or will look for other countries to invest:

- Every year in China, salaries increase between 15% and 20%, compared to the previous year.
- Automation and other measures to improve production in China are increasingly less, and do not grow at the pace that salaries and production costs grow.
- Due to the increase in the income levels in China, companies are increasingly looking for ways to supply the domestic market, and the Asian market before exporting, which is affecting exporting prices.
- The Chinese government promotes, within the GO-GLOBAL initiative, the investment of Chinese companies abroad.
- Revaluation of the Yuan is affecting their exports.

These factors have caused the phenomenon of relocation, which forces the companies to install the production of the last link of the productive chain in the point closer to the final consumer, where the U.S. is one of the importers of the products coming from China. In 2011, U.S. imports from China added up to US$ 417 trillion; in other words, equal to 18.4% of the total imports, US$ 2.262 quintillion.

4.2 Possibility of diminishing carbon emissions, by relocating production in free trade zones in LAC: Sustainable growth

In a context of international trade, the World Trade Organization (WTO) has not had much to say about the need to protect the environment beyond the national level.[32] However, with the relocation of companies closer to the final consumer, several positive impacts are generated on the environment, bringing the companies closer to a better location with several of its groups of interest, among them the environment, the workers, and the suppliers.

The creation of jobs is possible with the communities close to the companies, and with the development of local clusters, as seen in countries such as Dominican Republic and Costa Rica. This implies a transfer of knowledge through the training of workers, the increase of their income, and their families, by taking them to a higher level of consumption at homes; and finally the development of productive clusters with local suppliers, thus saving in transportation costs, reduction of delivery time, as well as more control over products delivered by suppliers.

Similarly, by facilitating the relocation of companies in the American continent, the reduction of impacts on the environment is achieved, especially of the carbon footprint. The relocation of companies, along with the purchase of local raw materials, reduces

[32] Global Development and Environment Inst, Jonathan M. Harris (Lead Author);Tom Tietenberg (Topic Editor) "Trade and the environment". In: Encyclopaedia of Earth. Eds. Cutler J. Cleveland (Washington, D.C.: Environmental Information Coalition, National Council for Science and the Environment). [First published in the Encyclopaedia of Earth 7 November 2008; Last revised Date November 7, 2008; Retrieved August 14, 2012 <http://www.eoearth.org/article/Trade_and_the_environment>

carbon emissions generated by the transportation of raw materials or of manufactured products. Sometimes, raw materials are sent from their country of origin to China, to be manufactured and then sent the final products to the country of origin, or to nearby countries to be sold. This causes additional air transportation, which in turn translates into larger carbon emissions. In the case of sea transportation, the consumption of fuel increases when raw materials are sent to China to be sent back later on as final products.

TABLE 9
Carbon footprint from some Chinese cities to the USA

From	Average tons of CO_2 generated in a single air route **
Shanghai	**1.3**
Suzhou	**1.2**
Dongguan	**1.4**
Beijing	**1.2**
Total Average	**1.3**

Source: Prepared by Araujo Ibarra, July 2012.
*** The average was calculated based on the distances from each of the cities to the following U.S. destinations: New York, Houston, Los Angeles, and Miami. The methodology used to calculate such emissions was the GHG Protocol of Fundación Carbón Cero.[33]*

On the other hand, when comparing the tons of carbon generated as a consequence of transportation from the capitals of the countries that are the main commercial partners of the United States, the number of tons generated by the route is substantially reduced, with an average of 0.5 tons of CO_2 per trip, compared to an average of 1.3 tons of CO_2 when a flight departs from China to the United States.

TABLE 10
Composition of the carbon footprint of U.S. transportation

From	Average tons of CO_2 generated in a single air trip*	Difference with China's Total Average in tons = 1.3
Canada	0.27	1.04
Mexico	0.27	1.04
Brazil	1.16	0.15
Colombia	0.39	0.92
Argentina	0.9	0.41
Average tons	**0.5**	

Source: Prepared by Araujo Ibarra, July 2012.
**Houston was chosen as U.S. destination since the city represents an average value of emissions from selected Chinese cities.*

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[33] Carbón Cero, An initiative of Fundación Plan 21.
http://www.carbonocero.org/co2_calculator/metodologias.html

In summary, it is calculated that as a consequence of the aforementioned tendencies, between 15% and 20% of the Southeast Asian to the United States can be relocated in Latin America (between 100 and 140 billion dollars per year).

This addition means between 50% and 70% of increase in manufactured goods exports that Latin America should achieve to increase the participation of the exports of manufactured goods from 45% to 65%, which is the annual world average, and that would mean an increase equal to 200 billion dollars per year of new Latin American exports with value added.

In other words, it would mean adding to the rest of Latin America the equivalent of what Mexico exports today in manufactured goods. This is the big relocation challenge, and the free trade zones will be exceptional scenarios.

5. Free trade zones as key instruments for creating and consolidating regional clusters in Latin America

Free trade zones have been instruments for the generation of regional clusters, and the best example can be seen in the Dominican Republic, since there we can see the huge efforts being made to attract investments and companies to improve the productive sectors, particularly textile and manufactures, as this is the clustering model par excellence. They are local companies and free trade zones that have been integrated vertically in the last years, specializing on the different branches of this cluster.

As an example of these clusters in the Textile-Manufactures sector in the Dominican Republic can be highlighted on the area of Santiago. In this area there has been the integration of several manufacturing companies, specialized in several areas and products of that cluster, such as the development of fabrics, design of clothing, supplies such as buttons, and zippers, cutting activities, sewing, ironing, among others.

It is important to highlight that in 2010 in this country, 21.6% of the productive activities were developed by companies of the textile-manufactures sector, providing 34% of the jobs generated by free trade zones; in other words, 41,882 direct jobs, and 23% of the total exports from the tax-free area, that is, US$ 964,2 million, according to CNZFE figures.

There are other experiences of Latin American clusters. In Guatemala and Nicaragua, fabric factories have been established, which with the new rules of origin are destined to the production of clothing in CAFTA countries with the rules of cumulative origin.

In Colombia, several free trade zones have been subject to the consideration of the government for the different clusters: 1) for the construction sector in the city of Barranquilla, 2) for the soft-drinks sector along with the packaging sector near the capital of the country.

Another case worth mentioning in Colombia is the approval of the tax-free zone of General Motors, for the manufacturing of car bodies of the Andean Community, a company that at the same time is complementing this investment with the manufacturing of other auto-parts, directly or through tax-free regimes, aimed both at exports and at the domestic market.

The importance of Costa Rica is also highlighted, with the conversion of the business tax-free zone to the multi-business tax-free zone for the production of technology at the INTEL factory in San Jose.

IV. POLICY PROPOSALS FOR NATIONAL, SUB-REGIONAL AND REGIONAL ACTION TO TAKE INTO ACCOUNT THE INTERNATIONAL TRENDS OF BUSINESSES THROUGH FREE TRADE ZONES, AND TO MEET THE POLICY CHALLENGES CAUSED BY THE ADJUSTMENT OF THE INCENTIVES FOR FREE TRADE ZONES TO EXISTING INTERNATIONAL COMMITMENTS

Once the regulatory evolution of the countries studied is reviewed, as well as the trends of the free trade regime in each one of them, and the presentation of examples of positive impacts, and of generation of well-being of free trade zones, translated into the creation of jobs and transfer of knowledge and technology, as well as the development of productive clusters, next we will formulate some policy proposals for national, sub-regional, and regional action, that would allow for the continuous evolution and adaptation of the free trade zones regime.

Thus, far from losing validity and importance, free trade zones will be a better catalyst for the integration of countries, the increase of commercial exchange, and the platform of exports destined to the main commercial partners in Latin America and the Caribbean.

1 Accumulation of origin through industrial clusters

One of the proposals is to bring Latin American and Caribbean countries closer, through actions such as allowing free trade zones of countries that have international agreements with each other, and through the joining of others to such agreements, to contemplate the accumulation of origin of the products that have been made, transformed, or assembled in those free trade zones.

This way, free trade zones from different countries become a source of collaboration and entrance to the markets of commercial partners, through the compliance with the requisite of origin, thus promoting the creation of new regional clusters.

Free trade zone regimes in the region, nowadays and in the future, allow these countries, if acting as a block, for attracting industries from these tax-free sectors, and to compete globally.

2 Relocation of industrial processes through free trade zones

A second reflection, based on this document, revolves around the importance of capitalization, through free trade zones, of the industrial processes that will be installed again in Latin America as a consequence of the phenomenon of industrial relocation.

This phenomenon is due to a combination of concurring factors, such as the rise of the Southeast Asia, free trade agreements, the requirement for fast production, as well as the decrease in stocks, and not of less importance, the preservation of the environment through the reduction of carbon emissions.

Both Latin America and the Caribbean will have to take advantage of these factors, not only to achieve the internationalization of their economies, but to deepen regional integration and to be seen by the world as a block that comes to play as a new competitor in these industries, and including new projects to be developed in free trade zones.

3. Free trade zones as mechanisms to promote exports of manufactured goods

Free trade zones are the ideal mechanism to help Latin America and the Caribbean to get to the place that is rightfully theirs in terms of international production of manufactured goods, through the development and integration of the productive and industrial activity of the region, in accordance with the objectives of the Latin American and Caribbean States Community (CELAC) for the creation of an integrated regional space.

In Latin America and the Caribbean, manufactured goods represent only 45% of the exports, which is why this 20% that the continent has to recover accounts for US$ 200 billion per year, out of a quintillion of dollars exported in 2011. This figure would dramatically reduce unemployment rates, through the use of free trade zones for the export of manufactured goods.

China, a country for which manufactured goods represent 94% of its exports, exports four times more than the total exports of manufactured goods of Latin America and the Caribbean, and also generates 40 million direct jobs at present. It is worth wondering how China managed this miracle of going from being a totally closed economy, to be the first global exporter, and at the same time be the first exporter of manufactured goods in 30 years.

The most important mechanism this country has used is the free trade zones, or the so-called Special Economic Zones (SEZ), which in 1982, the year of their creation, were an experiment in capitalism in a communist country, and not a foreign trade instrument.

SEZs have evolved so much, that in three of them, called *Integrated Free Trade Zones,* the concepts of logistics, industrial, and service are integrated, and one of them, the area of Suzhou, not only applies the principle of extra-territoriality, but also allows the application of the legislation of Singapore in the territory of the free trade area of China in certain areas such as best practices for the environment, labour, quality, and copyright.

Besides China, in countries such a Vietnam, considered to be the new rising star in the Southeast Asia, nearly 200 free trade zones have allowed for the generation of over one million new jobs, allowing this country to go from the production of low and medium technology goods, to high technology goods.

4. Free trade zones have managed to adapt and maintain their validity, since their creation, and should continue to be a tool for integration, investment, trade, and well-being

Free trade zones in the Americas are older than continental international trade agreements. As a matter of fact, one of the first free trade zones was the one created in Colon in 1948, the one in Barranquilla started working in 1962 and has just reached its 50th year of operations. This means that the tax-free area in Colon (1948) was born before the consolidation of the Central American Common Market (1951), and the tax-free area in Barranquilla (1962) was created before the Andean Community (1969).

Most Central American and Caribbean free trade zones were created before CAFTA (Central America Free Trade Agreement), and MERCOSUR free trade zones, with the exception of the free trade zones in Manaos and Tierra del Fuego, which had to adapt to the stiff requirements of MERCOSUR's resolution 08, which excludes the original goods coming from sub-regional free trade zones from the benefits of this agreement.

This is why right now, free trade zones are the right mechanism to work as a magnet for new industries and logistics and service processes that will help the increase of trade of hemispheric added value, thus serving as platforms for the relocation of industries that now are in faraway countries, to be installed in Latin American free trade zones, and enjoying not only the geographic proximity, but also the advantages derived from the multiple free trade agreements of the hemisphere.

It is here and now when there is a golden opportunity for free trade zones in Latin America and the Caribbean. Current free trade zones applications and their results are only a globalization experiment of what may be achieved in terms of attracting investment and generating jobs.

In other words, the decade that is just starting is the decade of free trade zones in Latin America and the Caribbean.

5 Proposal for a Latin American and Caribbean regime on free trade zones

During the next decade, which will also be a period during which we will be able to see the creation of the Community of Latin American and Caribbean States (CELAC), free trade zones should become an important scheme for productive and commercial interaction among the different countries of Latin America and the Caribbean. There is no doubt that free trade zones will manage to achieve with each other, and at a concrete level, the creation of integrated processes in terms of industry, logistics, and services, which integration processes undertaken thus far could not achieve.

The transformation of free trade zones from simple technical instruments for foreign trade to political mechanisms for regional commercial integration, will give them a new status in the Latin American landscape. For this purpose, without a doubt, it will be absolutely necessary to create a minimum common denominator of the basic regulations that shall rule the free trade zones located in the 20 million square kilometres of Latin America and the Caribbean.

From Mexico to Argentina, today we find several free trade zones models that coexist pacifically with each other, but that if unified and jointly promoted, they may inject power back into the integration of the best commercial, industrial, technological, logistics, and service links of Latin America and the Caribbean.

A recommendation is made to extract the common denominator of the exporting free trade zones from CAFTA-RD, from the strategic areas supervised in Mexico, from the mixed free trade zones in Colombia, from the tax-free area for the substitution of imports in Manaos, from the logistics free trade zones in Panama and Chile, and from the services free trade zones in Uruguay. This will be a creative task that will also become a pre-requisite to achieve the relocation in Latin America and the Caribbean of many of the multiple industrial and service processes offered in a competitive manner in Southeast Asia.

At the same time, these different Latin American schemes are exogenously moulded by the multiple commercial agreements present in our hemisphere. While the CAFTA agreement acknowledges the origin of Central American and Caribbean free trade zones, MERCOSUR denies it to their own, but recognizes it from third countries with which it has agreements for tax exemption, such as the case of Colombia.

Other countries such as Peru have recently changed their legislation, in order to expressly acknowledge the origin of the products made in the Andean free trade zones.

Therefore, one of the priority tasks for the Regional Agenda of the Government Authorities of Free Trade Zones should be the proposal of a "Fundamental charter on the common elements of free trade zones," for promoting productive and commercial integration of this region, which might be inspired by the following principles:

1. The first principle should be to follow the regulations on free trade zones, set forth on Annex D of the Kyoto Agreement, a provision intended to unify the practices of free trade regimes.

   As an alternative, it would be possible to consider the idea of an Agreement on free trade zones for Latin America. The closest background for such an initiative would be the provisions regarding the International Agreement for the Simplification and Harmonization of Customs Regimes, or Kyoto Agreement.

   In accordance with Article I of Chapter 2, Specific Annex D of the Agreement, free trade zones are defined as "*a part of the territory of a Contracting Party, in which the goods introduced in it are generally considered as if they were not inside the customs territory, in terms of the rights and imports taxes."*

   It should be borne in mind that the heterogeneity of the International Trade and Customs practices of the countries that have tax-free regimes in Latin America would require efforts in the harmonizing and unifying task provided for in the Preamble of the Agreement.

   Regulations and "Recommended Practices" on the aforementioned Annex D would serve as a first input for the achievement of the General Agreement proposed. It is worth remembering that these provisions are transversal and applicable to the matters of free trade zones, such as their establishment and control, admission of goods, operation guarantees, liquidation of rights and taxes, and closing of free trade zones.

2. The second one would be the adoption of the principle of the National Treaty for the products made in free trade zones, with respect to the international trade agreements entered into by any country.

3. The third principle is to suggest the incorporation into free trade zones of a single electronic window for operations, including those related to foreign trade and the incorporation of companies.

4. A recommendation is made to standardize a training programme in free trade zones, with technical institutions for the training of personnel in each country, in order to offer quality labour for new industrial processes, procedures and services.

5. Promote custom procedures adequate for the 21st century; in other words, procedures that foster the systematization and swiftness of custom operations in real time.

6. Provide an excellent physical infrastructure, with the services that are characteristic in a world-class free trade area, required by the modern businessman.