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Free Zones in Countries Very Dependent on the Export of Raw Materials

Luzolo Domingos Sanches-António

***Abstract*— The aim was to answer questions about the conditions for a free zone to be important for a country like Angola, which depends heavily on exploring natural resources, to attract financial resources for its economy. Thus, we reviewed the literature on the role of free zones in the process of regional economic growth and on free zones in countries highly dependent on exporting raw materials. As a result of the review carried out, it was possible to verify that the relationship between the possession of natural resources by parts of developing countries and the levels of economic development, that they present, is not always positive, that is, countries with abundant natural resources tend to to be more prone to wars, and institutional weakness. The approach to the Angolan case allowed, essentially, theconclusion that the Angolan economy is heavily dependent on the exploration of mineral resources, namely oil, and diamonds, and, therefore, very dependent on the price of these commodities on the international market, a free zone can represent for the economy national opportunity for necessary industrialization beyond oil.**

***Index terms*— Natural resources, Theories of regional growth. Special Economic Zone Luanda-Bengo.**
***JEL Classification*—** Q32, Q33, R11, R12.

I. INTRODUCTION

The need for reconstruction, on the one hand, and economic growth, on the other, which Europe faced after the Second World War, led to the emergence of theories around the beginning of the 1960s that aimed to respond to growth challenges. economic, resulting in the return of these same theories to a certain consensus that significantly influenced the conduct of monetary policy in several states.

Over time, the need for State intervention aimed at economic growth has justified the emergence of Free Zones, based on the concept of growth poles and the dynamics of attracting investments.

Since their emergence, free zones have had political institutional purposes that have allowed them to support certain regional development models.

According to the literature consulted, the origins of free zones date back to Italy in 1547, with Livorno being the first free port, and there are no examples of free zones in the world that do not have river or sea exits.

Luzolo Domingos Sanches-António
Tourism Department, School of Tourism and Hospitality,Agostinho Neto University-Luanda, Angola.
ORCID: 0009-0006-9643-7013

Thus, the concept of free zone text is applied in its broadest sense, and there are several types of free zones, namely: commercial-free zones, industrial service zones, and other configurations of free zones such as free factories, free ports, and offshore free zones.

II.THE ROLE OF FREE ZONES IN THE REGIONAL ECONOMIC GROWTH PROCESS

"The economic performance and impact of Free Zone programs in developing countries have been assessed in several studies and agreed to be useful tools for economic growth..." (1 p. 171).

Thus, several countries, having economic distortions in terms of their productive structure, adopt various types of zones to function as a kind of anchor for the rest of their economies.

From this perspective and according to (2), in China, multinational companies initially settled almost exclusively in special economic zones, where they received various tax incentives, land, and infrastructure, close location to suppliers and other similar industries, in addition to research centers, business incubators, state-of-the-art laboratories, as well as adequate energy and transport infrastructure.

The role of the location and agglomeration of economic activities thus finds in the free zones an adequate space for forming productive networks, with possible positive externalities on central variables in the direction of economic growth, including the creation of large-scale employment.

Thus, for(3 p. 4), since the 1960s, several countries, both developed and developing, have been adopting mechanisms that facilitate production and international exchanges and one of these mechanisms is the creation of. They have various economic purposes and enjoy tax exemption. They are widely adopted in export-oriented industrialization, mainly by countries that aim to accelerate the development of certain regions of their territory, in addition to enabling the development of infrastructures. They also attract foreign direct investment, absorb new technologies, and generate new jobs.

Central reasons for adopting this important instrument for planning economic activities are exposed, particularly at an infrastructural, industrial, and even commercial level.

The privileged location of companies possible in a free trade zone facilitates the emergence of technological irradiations that make the dream of a local innovation system a reality, representing a driving force for economic growth, (2).

At the base of this possibility are clusters of different natures, which in their network structure allow the creation of desirable back-to-back chain effects, as postulated by Hirschman (1958).

"The process of industrial development in China began in the 1970s... at that time, the process of liberalization and opening up of the Chinese economy also began. This opening began with the liberalization of foreign trade, not only through the reduction of customs tariffs but also by allowing a greater number of companies (until then only 14) to directly carry out foreign trade operations." (2 p. 15).

Therefore, creating a free zone can be seen as an important way to achieve economic growth and development, making the growing demand for imports of goods and services in the national economy a consequence of increased employment and income generated by exports from this same area.

As a result of the above, it is possible to state that a catalytic effect is developing, which depends on the connections between the Export Processing, which is a possible configuration of a free zone, and the rest of the host economy, which is triggered by a learning effect, which improves the capacity of local companies to export and to update themselves in technological terms Joansson& Nilsson (1997).

According to (1), export processing zones have four main objectives: attracting foreign direct investment, reducing unemployment, promoting economic reform strategies through the development and diversification of exports, as well as testing new approaches to foreign direct investmentand for policies relating to law, land, labor, and commodity prices.

Thus, and also for the same author, export processing zones can play a significant role in economic growth by increasing exports, strengthening the competitiveness of the industry, as well as attracting foreign direct investment, and the general belief is that, for these areas to be economically viable, they must focus on processing for export.

"In 1980 there were 59 free trade zones in the United States of America and only four of them were profitable, and all four directed 80% of their processing operations towards export." (1 p. 154).

It would be expected that in a country with export processing zones installed, the export of final goods increases, and more imports are made than in countries without the incentives that are granted in this type of project, (4 p. 5).

According to(5), the various governments decide to implement export processing zones, essentially aiming to achieve exchange rate stability through the retention of foreign currencies in exchanges with abroad. This occurs, with greater particularly, non-traditional exports, the transfer of new skills and competencies to local human resources, thereby raising the standard of local companies that supply goods and services to the areas. Thus, the introduction of new technologies, resulting from the installation in these areas of companies coming from markets, which are normally more competitive and formatted for high-scale production, stimulates sectors considered strategic for the economy, in areas such as electronics, information technology, activities related to research and development, tourism, infrastructure and human resource development, as well as testing a set of reforms and key policies in the aforementioned areas.

In this sense, in some countries such as China, Mexico, Sri Lanka, and others, the largest portion of the volume of exports originates from export processing zones, which are the basis for the emergence of such a positive effect,(6).

In line with the assumptions contained in classical theories of regional development, namely those based on agglomeration factors, free zones, regardless of their typology, can represent the appropriate space, so that a set of policies can be tested at various levels, fiscal, customs, regulatory and management issues that, once successful, can then be replicated to the rest of the respective host economies.

"The adoption and development of export processing zones not only contributes to the acceleration of export growth but also allows their diversification, as it is an especially important instrument for the development of poor countries that are dependent on exports of only primary products." (3 p. 12).

It is clear from the above that countries whose development stage is still at an early stage can find in the installation of free zones the path to industrialization based on labor-intensive activities, as is the case of the manufacturing sector and countries that represent true case study, as is the case with Asian tigers, which have been experiencing high levels of industrial production for several years, especially China, which is estimated to surpass the industrial capacity of all the countries that make up the G7 shortly. This route can serve as a benchmark for other countries, which, like Angola, have enormous reserves of natural resources, particularly oil, and which find in a free trade zone the possibility of investing oil revenues that result in national gains, mainly by opening up the possibility of using these revenues to create a national industrial sector with an international profile, capable of being competitive in the target markets for national production.

III.FREE ZONES IN COUNTRIES VERY DEPENDENT ON THE EXPORT OF RAW MATERIALS

Several authors address the relationship between natural resources and the prosperity of nations, highlighting their counter-cyclical effect on economic growth and development. This effect, according to (7), is the fact that countries that have oil or other natural resources are unable to grow faster than those that do not have them, calling this phenomenon the curse of natural resources. This curse, also addressed in the literature as the natural resources trap, exerts a counterproductive counter-cyclical effect on other sectors of the economy whose implementation investment is considerably higher, such as the agricultural sector and the manufacturing industry.

"If natural resource reserves and their income are combined and well utilized, they can be a blessing for developing countries. However, too often the oil, gas, and mining extractive industries have been associated with the so-called "resource curse"(8 p. 1).

Still, for(7), some factors explain the reason for the natural resources/weak economic development paradox, and these are:

a. Raw material prices may be subject to declines over time in global destination markets;
b. The volatility of world prices for energy and other mineral and agricultural commodities is particularly high and may be subject to barely controllable factors, such as risks of different natures: economic, financial, and political, in destination markets;
c. These countries typically show weak institutional quality and become prone to armed conflicts, which is detrimental to economic growth.

Econometric studies by Sachs & Warner (2001) demonstrate evidence that countries rich in natural resources tend to grow more slowly than countries poor in resources. However, according to(7), wealth from oil does not necessarily have to lead countries, which depend heavily on revenues from its exploration, as is the case of Angola, to lower economic or political development, through any of the routes mentioned above. On the contrary, the abundance of oil can be seen as a double-edged sword, with both benefits and dangers. It is precisely in this context that the creation of an export processing zonein Angola finds its reason for being, constituting an anchor that allows supporting a strategy that leads to the reduction of dependence on oil revenues, through the dynamization of other sectors of the industry, namely the manufacturing industry. From this perspective, it becomes necessary to change the logic behind the allocation of income from the sale of raw materials, in countries that intend to implement a free zone.

"In countries highly dependent on the sale of raw materials, public spending must be directed towards long-term benefits, through a careful priority that must be given to public investment, management that first focuses on building the necessary infrastructure to attract future investment" (8 p. 3).

In this sense, the implementation of a free zone represents, for countries with these characteristics, the possibility of reducing dependence on their raw materials, through the creation of an industrial sector capable of activating the production of goods marketable abroad.

"The concentration of mineral wealth in countries with poorly diversified economies is associated with poor economic and political results that feed each other simultaneously and are affected by the distinctive characteristics of these resources (8 p. 30).

Since the final production of free zones is mainly destined for highly competitive international markets, in countries where their main source of resources is raw materials, free zones appear as a driving force, which causes a dynamizing effect on infrastructure, long-term investment, and the diversification of revenue generating sources for these same countries.

"The possession of reserves of oil, natural gas, or other natural resources does not necessarily give these countries economic success, since in many African countries, such as Angola, Nigeria, Sudan, and Congo, rich in oil, diamonds, or other minerals, their populations continue to present low levels of per capita income and quality of life, contrasting with East Asia where economies such as Japan, South Korea, Taiwan, Singapore, and Hong Kong, will reach standards of living compared to of the Western world, despite being rocky islands or peninsulas, with practically no exportable natural resources" (7 p. 3).

"The result in the use of raw materials by countries is not the same, especially when it is generalized beyond oil. Norway is an oil producer with very high levels of economic, and human development and good governance. Also, Botswana and Congo are both diamond-rich countries; with Botswana presenting the best performance in continental Africa in terms of democracy, stability, and rapid income growth, while Congo is among the countries with the lowest records in these points" (7 p. 12). Still, for (7), there are cases of countries that were able to effectively take advantage of their natural resource reserves, which constitute an important source of growth throughout their economy.

What has been exposed throughout the chapter allows us to deduce that from the point of view of the human development index, good governance, and balanced economic growth, a free zone represents for Angola, one of the ways to break the "resource trap natural."

IV.CONDITIONS FOR A FREE ZONE TO BE IMPORTANT FOR COUNTRIES LIKE ANGOLA

For a free zone to be important for Angola, it must represent a vector of industrialization that allows it to combat the adverse effects of the Dutch disease, allowing for a productive restructuring that involves the diversification of economic activities, with emphasis on those in the industrial, non-oil sector.

From this perspective, it is important to mention that according to (9), it would be necessary, depending on the comparative advantages identified, to define specific policies concerningforeign direct investment, which, accompanied by capital, technology, and other intangible assets, could generate continuous competitiveness in the economy, capable of providing more disposable income and employment, and for this, it is necessary to promote the accelerated growth of industrial products.

To this end, public spending must be directed to areas that promote, in the long term, benefits for society, through the careful priority that must be given to public investment, based on the construction of the necessary infrastructure to attract future investments." (8)

In this regard, in order for a free zone to become a reality in Angola, an exclusive customs tariff is created and adopted for the zone, which allows the exemption from customs duties for both raw materials and finished products. intended for export only.

Therefore, the country must build and adapt a set of infrastructures: roads, bridges, and manufacturing units, in a strategically located area and make them available to companies, allowing the use of their resources and capabilities, thus facilitating innovation, efficiency, quality, and receptivity. in the target market for national exports. According to data from the BM (2011), the process of improving and expanding infrastructure in Angola has already begun.

Angola has demonstrated a strong commitment to financing, rebuilding, and expanding its infrastructure, having expanded its electricity production capacity, and initiated an ambitious program of rehabilitation of roads, ports, airports, and energy and water systems, (10).

For the creation of a ZF to be a successful reality, it is essential to improve the business environment, as a condition, for foreign direct investment to be attracted, to Angola, which still has a less favorable business environment than the group of selected countries, as illustrated below.

According to (7), countries, where control of oil reserves or other resources is in the hands of the government or a hereditary elite, may be less likely to develop institutions such as the rule of law and decentralized decision-making, which are indispensable for the development of economy, than in countries where moderate market taxation is the preferred way of financing the economy and government spending. Thus, for(8), it is widely recognized that a higher quality of institutions helps to achieve more effective policies, in pursuit of the aforementioned objectives.

Angola is a country whose revenues from oil exploration represent the main source of financing for the State, and as with other countries that are highly dependent on the export of raw materials, institutional quality is a crucial factor for countries that are dependent on the export of resources so that they can outline policies oriented towards development and quality governance(8).

From this perspective, it is crucial at the fiscal, exchange rate, and regulatory levels to outline policies aimed at achieving greater efficiency in the allocation of productive resources available in the economy, which, when combined with acceptable levels of institutional quality, can generate growth and economic development.

VI. CONCLUSION

Based on the literature review carried out, the analysis of the state of infrastructures in the Angolan economy as well as the current business environment, it was possible to reach the following conclusions:

Creating a free zone in Angola may represent adopting a model for disseminating good management practices at various private, public, local, and regional levels, through contact and exchange between companies from highly competitive markets and the economy national.

For a free zone to be important for Angola, a set of conditions will have to be met, which take due account of the characteristics of the Angolan economy' which is largely anchored in the commercialization of commodities, as well as a set of activities aimed at exporting its production. final, so that it can generate competitive advantages along the value chain of the companies located there.

For a free zone to be important for Angola, a set of tax, customs, and exchange rate incentives will also be necessary, which make free zone exports competitive compared to those coming from the rest of the productive sector and in this sense, the similarity of the "Dutch disease" counteract the effect of currency appreciation, due to the inflow of foreign currency into the country, derived from the increase in commodity exports, which makes it difficult for other industries to emerge and/or maintain.

As the Angolan economy is heavily dependent on the exploration of mineral resources, namely oil, and diamonds, and is therefore very dependent on the price of these commodities on the international market, a free zone can represent for the national economy the opportunity for the necessary industrialization beyond oil.

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Luzolo Domingos Sanches-António holds a Master of Science in Monetary and Financial Economics from the Faculty of Economics of Agostinho Neto University and is a PhD. candidate in Economics at the same Faculty. He is the Head of the Department of Tourism and also the Coordinator of the Tourism Course at the School of Tourism and Hospitality of Agostinho Neto University,

where he also teaches economics and finance. His areas of specialization and interest are studies of economic efficiency and regional economics.