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Research Article

Special Economic Zones: Resurgence of Mercantilism Philosophy of International Trade

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Abstract
The adoption of special economic zones in various countries comes in the strategy of export-led development of recent decades. Special economic zones have been implemented to attract foreign direct investment, create more employment, boost exports and ensure an accelerated economic growth, etc. This paper analyses the nature of special economic zones and their link to neomercantilism and how that strategy seems to threaten neoliberalism as a new world orientation of international trade. The evidences show that special economic zones are the resurgence and tool of neomercantilism and reveal that they act contrarily to neoliberalism as it is manifested by WTO policies against some strategies for special economic zones success.
Keywords: Special economic zones, neomercantilism, neoliberalism.

1. Introduction

Nowadays economic development are putting much importance in the development of economic zones so as to attract foreign investors and promote exportations all in line of brining the remedy to persistent unbalanced terms of trade; especially for developing economies. As pointed out by Zoilboev (2022), "the free economic zones are treated as an engine to promote the entry of foreign investments into the national economy with the hope to produce the goods that fulfill the world standards that are required in the international markets."

The history documents that the first special economic zone (SEZ) was established many years ago, but formal the territories with some current features of free economic benefits like the right to pay low taxes, started emerging in 16 century in Europe; when the vocal of "Porto Franco" saw the day (Guangwen, 2003). When USA entered the move in 1937 in New York (Leong, 2007) and with the launch of a new special economic zones in Puerto Rico in 1942 by USA governments, the system continuously became a modus operandi under multiple denominations in the whole world (Baeumler *et al.,* 2009).

By special economic zones territories in the countries, the government regain the edge of intervening in economy through various measures and incentives to boost exportations that may be contrary to current movemenet of neo-liberalism and globalization by which the state influence in economy must be kept to the bare minimum for leaving markets free as a locomotive to optimal resources allocation. As defended by Milton (1962, p 55) "neoliberalism is viewd as the elementary proposition that both parties to an economic transaction benefit from it, provided the transaction is bilaterally voluntary and informed." And by implication, restrictions that may be imposed in any form on the freedom of trade as underpined by current world trend of international businesses will reduce general welfare by limiting individuals the opportunity to improve their situation.

Since the foundations and success of special economic zones in the economies rely on the government interventions through various policies to provide attractive conditions and environments that will attract foreign capitals in form of investments and boost exports (Bost, 2007; Celestin, 2019; Zoilboev, 2022), that are theoretically viewed to be out of line of neoliberalism with its globalization movement, are not the reality of neomerchantilism resistance in international trade that bases its idea on governement intervention in economy to limit imports and expend exports by all means to accumulate more wealth? Does the policy of special economic zones matches with current movement of neoliberalism of international trade?

By the above realisation and interrogation, this article intends to clarify the issue by reviewing the litteratures on special economic zones, neoliberalism and mercantilism and describe special economic zones as the policy for persistence of mercantilism philisophy in international trade affaires that is at the antipodes of neoliberalism.

2. Increasing development of special economic zones in the world

2.1. Nature of special economic zones

Special economic zones (SEZ) are described as areas that are located within a; governed by different trade and business regulations vis-à-vis the rest of the country; aiming at accelerating national economic growth rate through the improvement of trade balance, employment opportunities, augmented foreign and home investments, etc. Costachie (2008); who uses instead the term "*free trade zone",* describes it as a geographical and economic assembly in which there are no obstacles for wares and services exchange, no customs taxes, no tariff obstacles. These match with Grubel (1982) who opines that "*free trade zones are areas separated from the surrounding host country's territory by fences or other barriers into which goods from abroad can be brought without quota restrictions or the payment of tariffs and excise taxes, and without being subjected to exchange controls, and to the majority of statistical reporting requirements and regulations aimed at the protection of consumers.*"

Sinenko and Mayburov (2017), documented that Special economic zones are generally used globally as a tax tool for promoting development and luring foreign investment and those tax incentives availed in SEZs are highly impacting investments decisions. In 2022, world economy counted over 7000 special economic zones located in 145 economies employing 100 millions of people (UNCTAD, 2022). And those special economic zones are organized under various forms: Free-trade Zones, Export Processing Zones, Free Economic Zones, Industrial Parks/or Industrial Estates, Bonded Logistics Parks, Urban Enterprise Zones (Salonga, 2019) free trade zones, exports processing zones (Bost, 2019) but all those classifications bear the same denominator of having the intent to attract foreign investments and finally promote exports of a country. And they are given different names in different countries, but describing the same institution: "industrial free zone" in Syria, and Jordan; "maquiladora" in Mexico and Panama, "free trade Zone" in Bulgaria and Chile; "special export processing zone" in the Philippines; "special economic zone" in China; "bonded zone" in Indonesia; "free zone" in the United Arab Emirates and Turkey; etc. (de Armas and Jallab, 2002).

2.2. Strategies for success of SEZs

Various measures and strategies are put in place by governments to ensure the achievement of intended goals of creation of special economic zones in their countries. By their analysis, it is revealed that they are split into three main categories:

2.2.1 Foreign investments attraction measures

Those are various measures that are put in place for foreign investments attraction in the country. According to Shayah and Qifeng (2015), in the UAE to attract foreign investors in free zones, some measures have been taken: 100 percent foreign ownership allowed-while outside free zones, local sponsors are needed for foreign companies to be established, and foreign ownership is limited to a maximum of 49 percent-free taxes regime-no corporate taxes, no personal income taxes, no currency restrictions, no licensing, agency, no Emiratization-the policy of the government of the United Arab Emirates to guarantee employments to its citizens in a dignified and efficient manner in public and private companies-full repatriation of capital and profits, and no other domestic regulations that apply to customs territory.

In Mauritius, to motivate foreign firms into free zones, government availed some incentives: guarantee of free repatriation of profits and dividends, guarantee for non–eventual nationalizations, tax holidays of 10-20 years for corporate income taxes, tax free dividends for 5 years, duty free importations of machineries and other productions materials and equipments, etc. (Arouf,1988; quoted by Kinunda-Rutashobya, 2003).

2.2. 2 Export promotion measures

These are measures intending to offer facilities production process to firms located in special economic zones so as their products may be competitive on international markets; exports promotion. By Bost (2019), their primary purpose is to export most of their production, which justifies the absence of customs duties on imports for raw materials, but also for all imported inputs; thus their export focus is therefore one of the main characteristics of free zones. This is why special economic zones are described by Arnold (2017) as "space for globalized production–as a capital-led strategy for low-cost exports."

2.2.3 Imports limitations measures
They are measures that are intending to discourage production from those zones to be locally consumed. They act naturally as import restrictive measures. Sales by SEZ units in the domestic tariff area are subject to payment of full custom duty and to the import policy in force (Kumar, 2008). Simply put, all products that are processed from special economic zones must be directly exported. If they fail to be brought on international markets and be locally consumed, they attract customs duties and taxes as if they are directly imported from outside the country.

Shayah and Qifeng (2015) revealed that in AUEs, free zone companies are not allowed to trade directly with the UAE market; once done, the free zone companies can trade within the UAE only through locally appointed distributors. And a custom duty of 5% is applicable when the free zone company sells in the local market. Regarding import licensing, inside the UAE only firms with an appropriate trade license can engage in importation, and only UAE registered companies, which must have at least 51 percent ownership by a UAE national, can obtain such a license.

As conclusion, the success of special economic zones; in their various forms basing on countries orientation, depends on those above measures that attract the accumulation into the country of capitals from abroad, boost of exports and minimization of imports for maintaining a favorable balance of payments of the country.

3. Special economic zones; a tool for neomercantilism
Neoliberal theories of international trade instruct that free trade maximizes the overall world prosperity. But, the contemporary world is experiencing an ever emergence, increase and proliferation of visible barriers to free trade at national levels and international scale (Dommen, 1987). This implies that neoclassical world system is facing some obstacles leading to protectionism; to mercantilist practices of ancient times.

3.1. Nature of neomercantilsm
Mikail (2009) documented that mercantilism philosophy of international trade evolved between 1500 and 1800 in Western Europe with some common features: a big power of the state in the control and regulation of economy, taxing the incoming; importation of manufactured materials and high duty taxes are prohibited while importation of raw materials is legalized. Since valuable metals such as gold and silver both finance the wars and constitute the resource of economical and political power, then the aim should be increasing the valuable metal stocks of the treasure, development of international transportation services for exportation so as to increase the gold stock. For the sake of simplicity, mercantilism is understood as an economic policy that aims to accumulation of foreign reserves through attraction of foreign capitals and exports promotion, and limitation of importations of final goods in the country. Customarily, mercantilism is linked to the idea that precious metals were requisite to a powerful country, and that the ways whereby this could be attained was through a favorable balance of trade (Hettne, 1993). By mercantilism, various protective measures are put in place for the state to maintain internal economic stability.

Nowadays, in economic and policy parlance, the term neomercantilism is replacing mercantilism, even if the new maintains some features of the oldest. As it was documented Okeke (2016) neomercantilism; modern-mercantilism, retains most of the attributes of mercantilism by which the main philosophy is to build the nation rather than emphasizing inherent individual profitability, a concern of capitalism–mother of neoliberalism and globalization and therefore, neo-mercantilism preconizes adoption of economic policies that reflect protectionism. According to Yu (2017), neomercantilist policies are adopted by China for its national development and global expansion whereby it uses strategies of promoting nationalism and patriotism, stockpiling gold and foreign reserves, striving for favorable balance of payment via exchange rate manipulation, tariff, export subsidies and other trade protections.

3.2. Special economic zones and neomercantilism, threat to neoliberal world trend
Current international trade arena is experiencing various changes that transform the rules of the game and mainly intending to the promotion of economic liberalism for general integration of world economy into globalization movement. Despite the achievements of the Bretton Woods system, big defender of economic neoliberalism, but it failed to prevent the occurrence of implementation of national policies that disturb international market-based trade. Therefore, the option of special economic zones policies in many countries seems to be against irresistible move of global economy, even if export processing zones have reproduced over the past forty years as mechanism of development and export-based growth and extensively present in

Asia and in Latin America in the 70s, it spread in about twenty years in Africa and in transition economies and in large emerging markets such as China, India and Russia (Engman *et al.,* 2007).

Special economic zones strategies for their success and sustainability are viewed as contrary to new economic world order of free trade and behave as an engine to neomercantilism in international trade. Even if neomercantilism differs significantly from its classical parent; mercantilism with emphasis on states to maximize national wealth (gold, silver,..) by securing and using vital raw materials, it does not reject the power of market mechanism, but it seeks to protect state interests, particularly the political and military standing of a country, by trying to shape the national and international workings of markets, it seeks to control the strategic sectors of the economy (Ziegler and Menon, 2014). Thus, the nature of special economic zones goes in that line of neomercantilist philosophy by which the state must influence international trade mechanisms for guaranteeing national prosperity.

The neomercantilist nature of special economic zones is reflected in current debates and conventions of World Trade Organization (WTO) that act as against some strategies of special economic zones success in different countries. This corroborates with Cling and Letilly (2001) who realised a paradox as the economic logic of a free trade area is supposed to be against EPZs: on the one hand, as intra-regional imports become duty free, the EPZ benefits on these imports are extended to all companies; on the other hand, duty free importation benefits for EPZ firms on non-regional imports have to be abolished, as the logic of the free trade area is to grant preferential treatment to regional trade.

Various international agreements and new forms of globalization are bearing a big impact on development of SEZs. New forms of globalization and regionalism impose some change on these zones, and modify their relative attractiveness to different developing countries. The agreement on subsidies and countervailing measures that are used to promote the success of SEZs by attracting investors to them; even if nowhere specifically mentioned, those subsidies and advantages generally offered to companies in SEZs are prohibited by WTO resolutions (Cling and Letilly, 2001; Engman *et al.,* 2007; Jones and Thomsen, 2008).
To sum up, neomercantilism practices; despite the power of current ideology of neoliberalism, are in vogue for achieving countries sustainable development and one of strategies to attain that goal is the creation of special economics zones to attract foreign capitals and boost countries exports. Even if special economic zones in different countries mark the persistence and strength of neomercantilism, they are viewed as betrayal to new world order of international trade as governed by WTO.

4. Conclusion and implications

Special economic zones have been adopted by different economies in recent decades as the strategy to attain of export-led development. Those special economic zones have been implemented specifically to attract foreign direct investment, create more employments, augment exports and ensure an enhanced economic growth, etc.

By this document, it has been analyzed the nature of special economic zones and their association to neomercantilism and in what way that strategy appears to threaten neoliberalism as a new world direction of global trade. The evidences display that special economic zones are the revival and instrument of neomercantilism and disclose that they act contrarily to neoliberalism as it is demonstrated by WTO policies against some approaches for special economic zones success.

Special economic zones constitute a big subject with multiple interests to various parties; academic, economic planners, territorial planers, etc. Despite the resistance from international plans, special economic zones continue to develop given their expected outcomes, but must be transformed due to different pressures coming from different moves against them. A new conception of special economic zones must be elaborated for them to cope with current world orientation of international trade affairs oriented to free trade.

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