

Université Paris-Dauphine



University of Dokuz Eylül



- with pro-trade policies in and
- on
  - « » : Linkages between EPZs and the rest of the economy (e.g. Knowledge spill-overs)
  - The role of FTZ in and for policies
  - with minimum impact on domestic market (Wu, 2009)
  - across FTZ programs (FIAS, 2008)
- - Source of
  - with
  - and

show a large share of exports for some FTZs (Chinese SEZs, Maquiladoras etc.)

- : with lower tariff rates
- Second Best solutions: Elimination of counter-productive effects of high tariffs on firms' competitiveness

□ by referring their different characteristics

- Geographic form (concentrated or widespread)
- Type of business (transit, processing, commercial etc.)
- Industrial specialization (service, technology, logistics etc.)

□ Exceptions to tariff and/or fiscal policy

- Exceptions to national regulations and often with tariff exemptions on imported inputs and tax breaks granted to FTZ firms

□ Accompanied and :

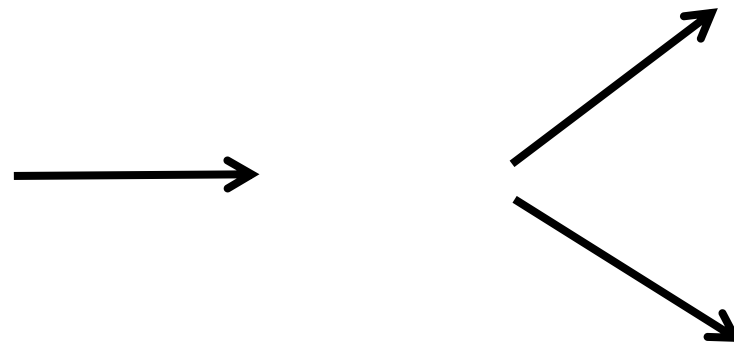
- 100% export share requirement with no access to domestic market
- 80% export share requirement; in other words 20% sold in domestic market (eg. Bangladesh)
- No requirement (eg. Uruguay, Thailand etc.)

□ (EPZs) imply a transformation of imported inputs before exporting a processed good.

□ «

»: Processing for domestic market

used as a further incentive for investors (eg. 20% in Mauritius, FTZ of Manaus with advantageous tariff rates conditional on local value-added etc.)



- due to lack of data : ILO database by Singa & Boyange (2007), WEPZA database etc.
  - Different definitions of FTZs
  - Regime opacity
  - Inoperative FTZs
- Original data constructed by authors under project ANR Program « Les Suds II »
  - 
  - Approximately (without counting Maquiladoras and US Foreign Trade Zones)
  - (information about date of creation and legislative details, type of zone(s), activity of zone(s) etc.); (Number of zones, main activity, legislation) ; ; , etc.

- We use a  $\text{PPML}$  of trade ( )
  - Cross-country analysis with a sample of  $122$  countries for year  $2000-2006$
  - Interest Variables:  $\ln(\text{Trade})$  and  $\ln(\text{GDP})$
  - Model is estimated by  $\text{PPML}$  in its mutiplicative form (Santos Silva & Tenreyro; 2006).  $\text{PPML}$  is a strong tool for:
    - « Zero » trade values
    - Heterogeneity bias when log-linearized
- FTZ dummy defined for  $122$  countries by using author's original database:
  - Conditions for the existence of FTZ :  $\ln(\text{GDP}) > 10$  and  $\ln(\text{Trade}) > 10$
  - $\text{EPZ}$  (EPZ or EMPZ)
  - $\text{EMPZ}$  (EMPZ): Duty-free domestic access
  - Having at least one firm

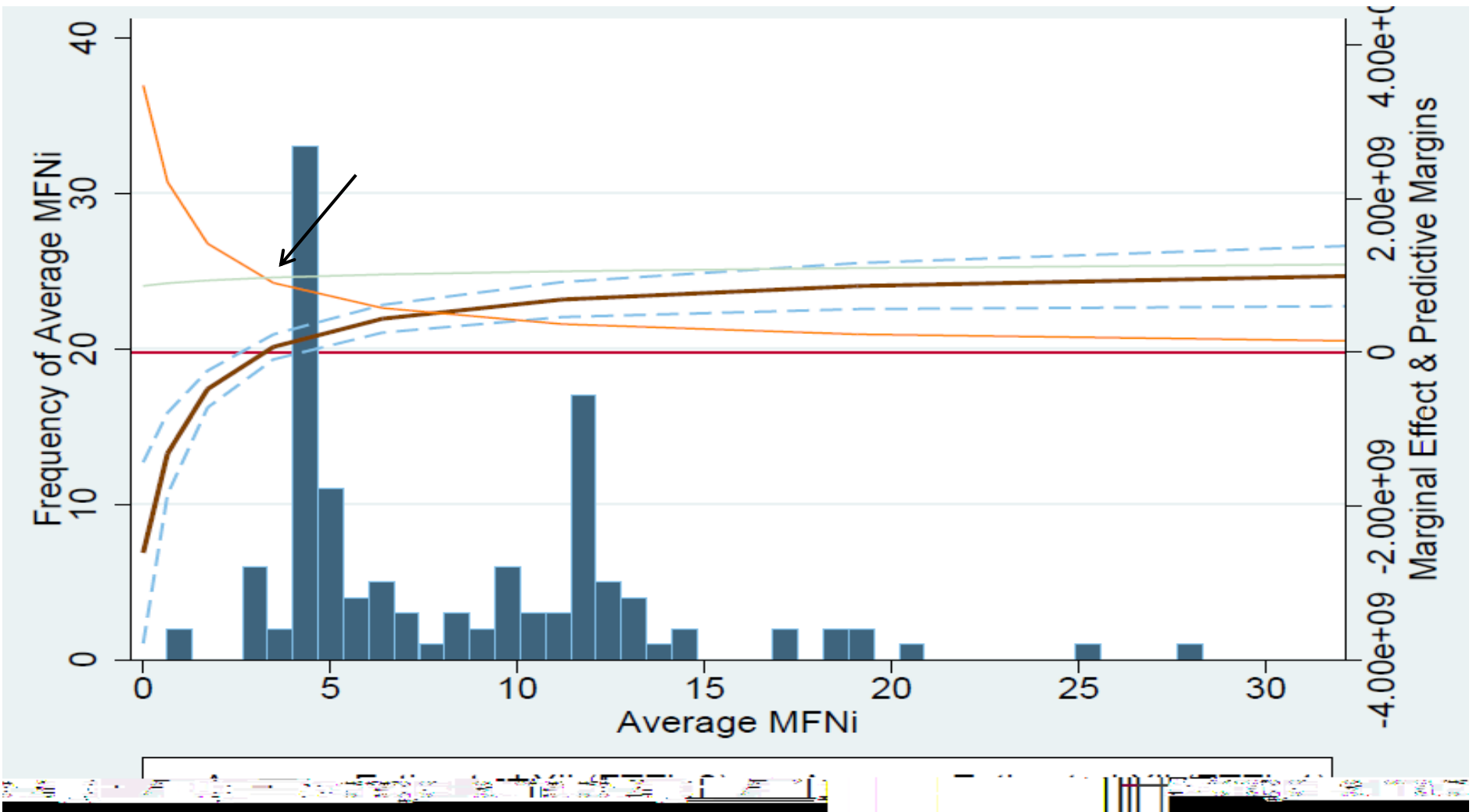
Ln(Dij)	-0.685***
	(0.042)
Ln(Yi)	0.733***
	(0.031)
Ln(Yj)	0.743***
	(0.030)
Ln(YperCapi)	-0.005
	(0.046)
Ln(YperCapi)	0.017
	(0.038)
Ln(Rij)	1.384***
	(0.145)
Ln(Rji)	1.137***
	(0.136)
RTAij	0.040
	(0.088)
EC27ij	0.516***
	(0.140)
CONTij	0.580***
	(0.108)
LANGij	0.365***
	(0.069)
COLij	-0.208**
	(0.088)
LLi	-0.148*
	(0.086)
LLj	-0.135
	(0.099)
Constant	10.406***
	(2.379)

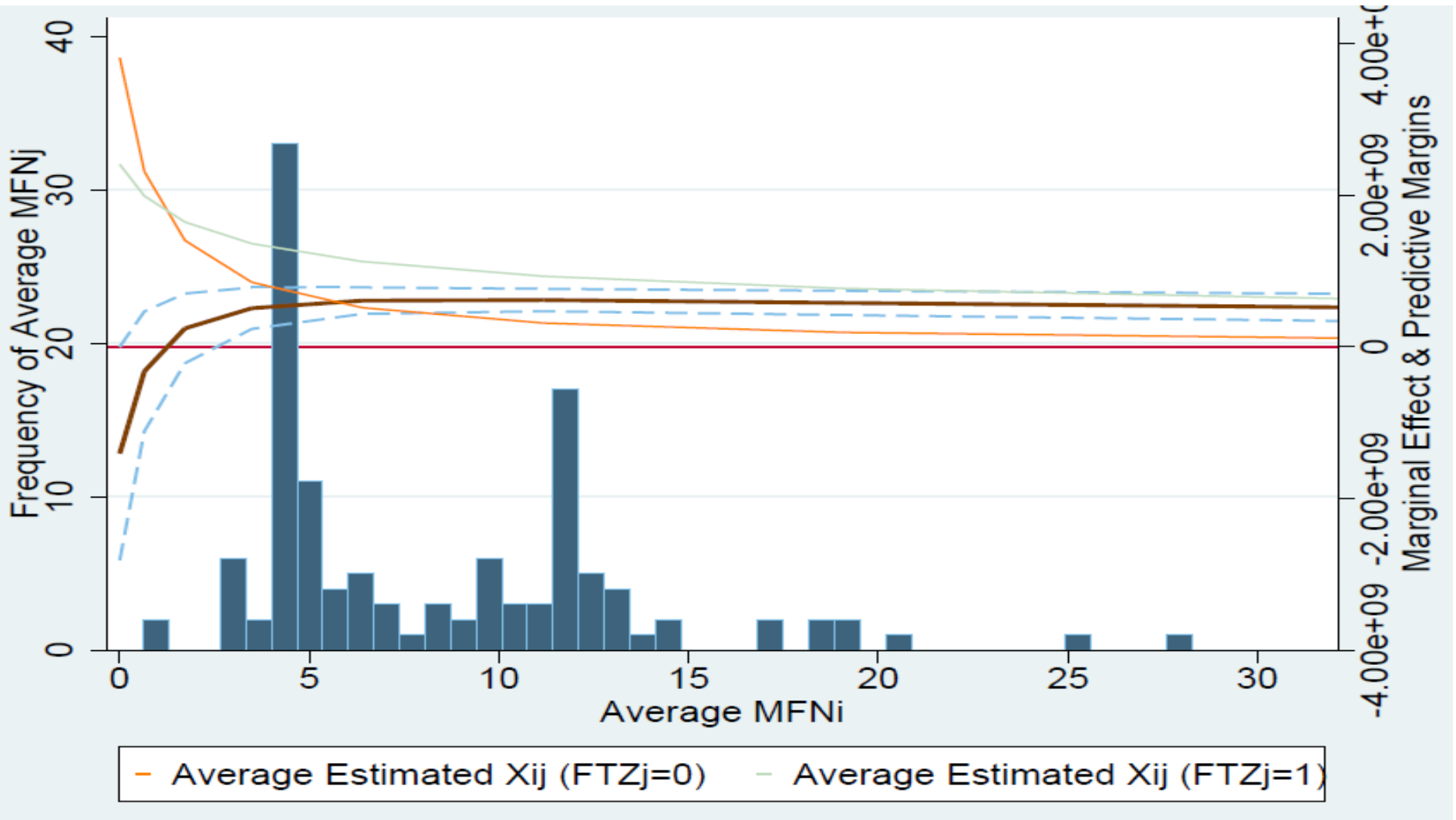
- of country in current US\$ (positive, significant)
- of country in current US\$ (not significant)
- between and (negative, significant)
- (Helliwell; 1998) of country and (positive significant)
- variable for and (negative, not significant for ; significant at %10 for )
- between and other than the EU (positive, not significant)
- countries and (positive, significant)
- of and (positive, significant)
- between and (positive, significant)
- between and (negative, significant)



	(1)	(2)	(3)	(4)
Dependent Variable: $X_{ij}$	FTZ	FTZ interaction	EPZ-EMPZ	EPZ-EMPZ interaction
$\log(MFN_i)$	-0.556***	-0.898***	-0.573***	-0.902***
$\log(MFN_j)$	-0.794***	-1.000***	-0.783***	-0.985***
$FTZ_i$	0.193*	-1.391***		
$FTZ_j$	0.527***	-0.461*		
$FTZ_i * \log(MFN_i)$		0.977***		
$FTZ_j * \log(MFN_j)$		0.620***		
$EPZ_i$			0.347**	-0.610
$EMPZ_i$			0.140	-1.731***
$EPZ_j$			0.518***	-0.259
$EMPZ_j$			0.513***	-0.611*
$EPZ_i * \log(MFN_i)$				0.667***
$EMPZ_i * \log(MFN_i)$				1.140***
$EPZ_j * \log(MFN_j)$				0.507***
$EMPZ_j * \log(MFN_j)$				0.696***
<b>Pseudo R-squared</b>	<b>0.795</b>	<b>0.837</b>	<b>0.802</b>	<b>0.838</b>

Significance Level: \*\*\* 1% \*\* 5% \* 10%





- to control for  
and the
  - , regressed over MFN tariffs, FTZ variable, the interaction terms and unilateral control variables
  - Similar results for exporter and importer FTZ country trade
- with the distinction of
  - EPZ impact on exports of country not significant but have the same positive sign.
  - EMPZ impact on imports are less significant and important in size when estimated in interaction.
- Controlling the database
  - (necessary and sufficient condition: existence of the program):  
Similar results
  - : « very active » FTZs: Similar results
  - from FTZ country to non-FTZ country due to limited share of FTZ exports in US exports: higher FTZ impact on exports and imports
  - : Similar results

- FTZs raise trade only by  $\frac{1}{1+\tau}$ .
- FTZs are more important than their impacts on exports.
- FTZs contribute to GVCs. This result confirms their contribution to GVCs.
- The effects are larger by  $\frac{1}{1+\tau}$  (more sensitive to tariff levels).
- A debate around the effects versus the effects... instead of the effects versus the effects...

