

# The global zone network, a safe pathway to prosperity in the post-Coronavirus era?

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## Abstract

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The coronavirus pandemic has underlined the vulnerability of global supply and value chains. Free trade zones can play a crucial role in re-booting the world economy but need to break out of the historical binary paradigm through which they have traditionally been viewed. New multitiered Advanced Special Economic Zones (ASEZs), named Prosperity Zones, need to be created with an inner core built around a modernised compliant free trade zone, and with outer layers offering integrated incentives and benefits for a wide range of businesses and support services. These zones will be the engine room of new and more resilient ‘Trade Superhighways’ that offer increased safety, compliance, predictability and flexibility to international trade.

This paper outlines the development of a new paradigm of transparent and compliant Prosperity Zones that have emerged from traditional freeports and freezones<sup>1</sup> and how these new Prosperity Zones will play an essential role in the development of emerging supply chains and future integrated value chains, especially in the aftermath of the COVID-19 crisis. This paper will highlight the importance of developing a new and all-embracing global standard for Prosperity Zones and the potential for the emergence of new Trade Superhighways that will bring greater transparency to trade and become a crucial factor in driving value during the coming economic recovery.

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## 1. Introduction

Freeports, freezones, and other types of special economic zones (collectively called free trade zones), often based around ports, are facing twin pressures in their roles within the international supply and value chains. These free trade zones need to break free from the historical binary trade/export and high-risk framework that has characterised their operation and perceptions. For some time, free trade zones have needed to address the perception and reality that they have too often become the target for illicit trade and criminal syndicates. Mechanisms such as the World Free Zones Safe Zone Program,<sup>2</sup> the Organization for Economic Cooperation and Development (OECD) Code of Conduct for Clean Free Trade Zones,<sup>3</sup> and Authorized Economic Operator<sup>4</sup> status, as well as the use of advanced data technologies and integration with Customs, offer an opportunity for free trade zones to clearly differentiate themselves as a transparent and compliant institution in the global supply chain.

The second and more immediate pressure is how free trade zones can respond to the economic crisis caused by COVID-19 and the emergence of protectionism. In the coming years, the world will need a burst of wealth creation and private sector economic growth. The longer the pause in the economy caused by COVID-19, the more vital this will become (Organization for Economic Cooperation and

Development [OECD], 2020, p. 2). The need for renewed emphasis on ensuring the resilience of global and regional supply and value chains has been recognised (OECD, 2020b, COVID-19 and international trade issues, p. 9), and Prosperity Zones as hubs will play an increasingly important role in economic recovery.

A new type of free trade zone, Prosperity Zones, can become high-performing multidimensional zones, supporting an ecosystem of innovative and value-creating businesses and support services around a core free trade zone recognised for its transparency and compliance. Prosperity Zones will form the basis of new Trade Superhighways that will deliver to host countries the economic growth needed to recover from the COVID-19 economic crisis, and the supply chain resilience that businesses are demanding as they create new ‘just-in-time-always’ supply chains within a trading environment increasingly marked by the threat of protectionism.

## 2. The historic view of the freeports and freezones: a binary paradigm

By some estimates, there are more than 5,000 different types of free trade zones currently in operation in more than 140 economies around the world (United Nations Conference on Trade and Development [UNCTAD], 2019, p. 129). The nature of and nomenclature around free trade zones has changed since the first free ports were established as far back as the early eighteenth century. At the core of all the types and descriptions of these free trade zones is the concept articulated in Specific Annex D of the World Customs Organization International Convention on the Simplification and Harmonization of Customs Procedures (as amended), known as the Revised Kyoto Convention (RKC), where goods in a free zone are considered outside the customs territory for the purposes of duties and taxes (World Customs Organization [WCO], 2008, Specific Annex D 2.1). More broadly, Prosperity Zones have developed to become areas that provide “advantages to business with respect to tariffs, financing, ownership, taxes and other regulatory measures that would otherwise be applicable in the host country” (OECD, 2018, p. 116).

Regardless of the exact nature of the advantages provided to businesses, different types of free trade zones have historically been viewed through a binary paradigm: economic benefits delivered through trade and exports tempered with risks of illicit trade and criminality. This paradigm has resulted in the clumping together of zones without a clear differentiation of transparent, compliant, and high-performing zones from other low-performing zones.

When it comes to economic benefit, free trade zones are designed to act as drivers of growth and, in particular, to attract foreign direct investment (FDI), increase employment and industrial activity, and bring benefits to the host economy primarily through the vehicle of trade. While some studies suggest that the economic benefits of these Prosperity Zones can be difficult to distinguish from growth in the host country (World Bank, 2017, p. 117), other studies have identified clear economic benefits accruing to the communities and areas around different types of zones, including jobs and wage growth as well as value-add for local, small – and medium-sized businesses (The Trade Partnership [TP], 2019, pp. 1–2). Other studies confirm the benefits of free trade zones to global value chains (Siroën & Yücer, 2014, p. 22) as well as the benefits for individual company supply chains (TP, 2019, p. 2).

Notwithstanding the benefits of free trade zones, much attention has been given to the historical issues of illicit trade and organised crime in these zones. This has had a significant negative impact on the perception of zones and the consequent benefits. One of the areas that has garnered most attention over a long period of time is the issue of intellectual property crimes and counterfeiting in particular. Studies have shown that the presence of free trade zones in an economy increases the presence of piracy and counterfeiting in that economy (Organization for Economic Cooperation and Development

and European Intellectual Property Office [OECD/EUIPO], 2018, p. 53) and other studies provide case studies of counterfeit and piracy linked to free trade zones (International Chamber of Commerce [ICC], 2013, pp. 25–28) and the use of free trade zones as trans-shipment points for illicit trade (Financial Action Task Force [FATF], 2010, p. 15). A 2010 report from the FATF (2010, p. 27) identified the risks that free trade and other zones present for money laundering, fraud and other financial crimes.

Many of the drivers of illicit trade and crime in free trade zones are now being addressed. Among the underlying causes has been the absence of international standards (OECD, 2018, p. 116), as well as the fact that while these zones are outside the customs territory only for the purposes of duties and taxes, a low-level of customs involvement in the design and operation of free trade zones has left them vulnerable (Omi, 2019, p. 3). The lack of transparency and ability to monitor transactions and the movement of goods within free trade zone operations has also been identified as an underlying issue in illicit trade and crime (FATF, 2010, p. 28).

The historical binary paradigm for free trade zones of economic benefit and high risk is no longer relevant. A new Prosperity Zone paradigm is now emerging that seeks to clearly differentiate transparent, compliant, and high-performing free trade zones that can generate benefits for global supply and value chains as well as the local, regional and global economy. This new paradigm has never been more critical as the world seeks to emerge from the economic crisis in the wake of COVID-19 and the threat of trade protectionism.

### 3. The new global supply and value chain landscape

The world of trade has changed. Over the past decade, more advanced supply and value chains have emerged and today about 70 per cent of international trade involves global value chains (OECD, n.d., The trade policy implications of global value chains. Global value chains and trade, p.1) and more than half of the goods traded in the world are intermediate goods (UNCTAD, 2018, p. 12). This has created a highly integrated and complex global trading environment. Most trade now is intracompany trade not intercompany trade. This intracompany trade enables greater specialisation, lower costs and ultimately has generated significant economic growth. The issues surrounding the United Kingdom's exit from the European Union shows just how integrated economies can and have become.

In a recently released paper, the European Central Bank (di Nino et al., 2020) highlighted the critical role that free trade zones will play for global value chains in a world where protectionism is increasing, both due to trade conflicts and in the wash-up of COVID-19:

Products manufactured within global value chains (GVCs) obtain the greatest cost-saving benefits from FTZs [Free Trade Zones], as they typically cross borders repeatedly and would otherwise be subject to duties at each border. In the absence of FTZs, tariffs would pile up on GVC products because they are levied on the gross value of the item and not on the value added at each stage. (p. 1)

These global supply and value chains are fast, efficient and cost-effective, but are also highly vulnerable as the COVID-19 crisis has shown. This impact can be seen by the fact that the six countries hit hardest by the coronavirus as of 20 March 2020 accounted for 50 per cent of world manufacturing exports (Baldwin & Tomiura, 2020, p. 59).

The challenge now is to rebuild economies and trade without losing the benefits that have been achieved in recent years through the creation of global value and supply chains. Businesses will increasingly move to create more resilient supply chains, moving away from 'just-in-time' sourcing – often reliant in one supplier – to using of multiple suppliers and more sophisticated inventory management (Bain & Company, 2020, p. 70) to develop new 'just-in-time-always' supply chains. The increasing risks of trade wars and isolation will only reinforce this trend.

These approaches will create new, more dynamic and often more complex supply and value chains. Businesses will require increased visibility over supply chains and greater flexibility to be able to respond to new shocks, particularly in transportation and logistics.

We expect that these trends will concentrate the goods flows into the already existing major trade routes creating new ‘trade highways’ that increase the role and importance of the major free trade zone hubs and support the emergence of new hubs. Future trade highways will be much more than just trade and logistic routes – they shall become well-managed, serviced and self-expanding prosperity corridors. Competition along these highways will shift from a fight for capacities, access and control to a competition of the most advanced service providers and most functional governance structures. Just as in the IT sector there is ever more increased competition between platforms than within technologies in the same platform, we can expect the most efficient, and best regulated, Trade Superhighways will compete (often for the business of the same company).

Both the existing and new hubs will link major market groups of economies and offer regionalised or local production, warehousing and new free trade zone capacity. To break the historical free trade zone paradigm, these expanding and new hubs will need to be clearly differentiated from existing zones across several dimensions. Prosperity Zones will need to be able to offer the transparency, compliance and high-performance to not only meet the needs of supply chain resilience, but to demonstrate – through certification programs such as the WCO Authorized Economic Operator (AEO) program certification and others – that they offer a low-risk operating environment to host countries and businesses. They will also need to be able to demonstrate that they have the operational capabilities to deliver resilient supply chains. Finally, they will need to be able to show that they can move beyond the current economic benefit paradigm to become fully-fledged Prosperity Zones

### **4. Prosperity Zones: a multidimensional paradigm**

The first element in the creation of a new Prosperity Zone will be the development of multidimensional zones. These zones will incorporate a layering approach with an inner core built around a modernised compliant free trade zone and with outer layers offering integrated incentives and benefits not only for businesses involved in manufacturing, trading, and logistics, but also in the areas of technology, education, innovation and support services. This layered ecosystem creates a multiplier effect expanding both the range and depth of benefits a free trade zone creates.

Those Prosperity Zones that offer this multidimensional approach will be clearly differentiated from free trade zones operating in the existing binary trade/export paradigm.

Part of the successful establishment of Prosperity Zones will be removing many of the distortive effects of the “behind-the-border barriers” and regulatory distortions (Singham et al., 2016, p. 2) that can act as disincentives to trade and development. Addressing issues such as the procedural burden to import and export within the core free trade zone have been identified as particularly important as have labour laws, the regulatory process and access to infrastructure (Singham et al., 2016, p. 12). In many countries these Prosperity Zones will not be enclaves of success embedded in poor countries or neighbourhoods but will be alternative delivery mechanisms for reform as they will demonstrate what a successful approach looks like. Increasingly, the tax breaks and incentives that traditional FTZs provide are not enough by themselves to stimulate investment, and allow the deployment of global capital, much of which remains on the side-lines and stuck on balance sheets. These Prosperity Zones can use several tools including a more pro-competitive regulatory framework to attract this capital. The impact of distortion reduction has been underestimated (Singham & Rangan, 2018).

The heart of a Prosperity Zone is a free trade zone. Unlike traditional free trade zones, these will break free of the historical zone paradigm by developing several key characteristics:

- **Compliance with the Revised Kyoto Convention<sup>5</sup> (RKC):** Prosperity Zones will need to ensure compliance with the RKC as a starting point for low-risk operations.
- **Certification under internationally recognised compliance programs:** This can include AEO certification as well as certification under the World Free Zones Organizations Safe Zone and compliance with the OECD Code of Conduct for Clean Free Trade Zones.
- **Fully electronic operating environment:** Ensuring that the Prosperity Zone and businesses operating within the free trade zone can achieve transparency and auditability in their operations.
- **Integration with Customs:** Allowing not only for an on-site customs presence, but the sharing of data, giving Customs and other regulatory agencies visibility over goods and commercial activity within the zone.
- **Modern customs practices:** This includes, among others, fully electronic single windows and an electronic customs environment, the use of modern technologies to monitor cargo movements and inspections away from the entry/exit of the free trade zone, and Mutual Recognition Agreements<sup>6</sup> (MRA) as part of developing Trade Superhighways.

Above all, Prosperity Zones will operate on the basis that although they are outside the customs territory for the purposes of duties and taxes, they are not outside the law, and money laundering and intellectual property right (IPR) laws will apply. A low-risk operating environment and integration with Customs and other government authorities has a positive re-enforcing effect: high-quality and sustainable businesses prefer to operate in this setting, which in turn attracts and builds other high-quality and sustainable businesses. Indeed, successful Prosperity Zones will attract tenants and investments by providing more transparency, not less, offering higher standards of IPR regulations and guaranteeing a more effective enforcement of compliance. Their code of conduct shall be a benchmark for the national regulatory framework, not a reduction.

Beyond the core free trade zone, the new breed of Prosperity Zones will create an environment that supports the creation of new businesses and services. By having the right set of integrated regulations and incentives, Prosperity Zones can create a multiplier effect that drives the creation of additional value to businesses as well as the host economy. This also sets up Prosperity Zones to be able to meet the current and future changing nature of international supply and value chains.

To bring the outer layers of the Prosperity Zone to life will require an integrated approach between governments and other businesses and authorities to ensure that the regulatory structures, incentives, and soft and hard infrastructure are in place to generate development. Some of the key elements that will drive these structures and incentives include:

- **Governance:** A single governance structure for the Prosperity Zone that provides one face and stands between investors, tenants, and government departments. Governance issues are critical in generating economic activity and for creating certainty for all stakeholders.
- **Infrastructure:** Infrastructure beyond the core free trade zone will facilitate the development of supporting businesses and services. As Prosperity Zones will be connected by superhighways, production within each zone will be connected by an integrated provision of media, feedstock, disposal, supply and logistic services, which optimise value creation. Core elements of such an integrated infrastructure are circular economy platforms to turn waste streams out of the zone into value streams within the zone, a smart grid system to allow stable, efficient and autonomous energy supply, an intelligent, digitally controlled supply platform and cyber-physical logistic system to ensure fastest time-to-market, but also advanced communication infrastructure and a high level of safety and security installations.

- **Competence centres:** One element that can promote the development within the wider Prosperity Zone is the creation of competence centres that can act as providers of qualification services, operators of laboratories, testing facilities and business incubators as well as coordinators of port-related research programs. They can be established through links with educational institutions<sup>7</sup> and
- **Innovation:** Creating incentives for the testing and application of new technologies and services can also promote the development of businesses and new services. For example, the increased use of artificial intelligence in ports and logistics can be encouraged. The use of A Prosperity Zones as a test bed for new technologies can create a leverage point for innovation in trade related services.

It is critical to recognise when designing the framework for Prosperity Zones that it is not static and will change over time. Just as COVID-19 has forced adaptations in how global supply and value chains operate, so the framework will need to be updated over time.

Prosperity Zones will create a new global free trade zone paradigm with a multilayered and high-performance ecosystem able to meet the needs of the new supply chains and value chains emerging from the COVID-19 crisis. These Prosperity Zones will be highly differentiated from traditional zones and will also be much better positioned to adapt and meet future changes in the international trading environment. Prosperity Zones will only be able to realise their full value when they can demonstrate high levels of compliance and transparency within an internationally recognised framework.

### **5. Authorised safe and clean free zone: transparency and compliance paradigm**

Another element in breaking the historical binary paradigm for free trade zones is the creation of new Prosperity Zones that are clearly differentiated based on low risk and high levels of transparency and compliance. This approach directly addresses the reality and perception around the use of zones for illicit trade and crime. As noted earlier in this paper, the establishment of transparent and compliant Prosperity Zones is a self-reinforcing virtuous circle: reputable and dynamic companies will establish in those Prosperity Zones that offer transparency and compliance which will in turn attract new businesses. This will also reinforce the multidimensional aspect of Prosperity Zones as outlined in this paper.

Creating transparency and compliance is considered as a key driver of improved performance of zones regarding illicit trade and crime, most recently in the OECD Recommendation of the Council on Countering Illicit Trade: Enhancing Transparency in Free Trade Zones (OECD, 2019, p. 2). Prior to this the ICC has identified the need for compliance and a lack of transparency (ICC, 2013, pp. 5, 6) as major issues as has the FATF (FATF, 2010, pp. 16, 20).

One of the tools that has been recognised as most important in achieving a critical level of transparency and compliance is the World Customs Organization SAFE Framework of Standards which includes at its core the concept of Authorized Economic Operators (WCO, 2018a, p. 23). An AEO is defined as a party involved in the international movement of goods that has been approved by, or on behalf of, a national Customs administration as complying with World Customs Organization or equivalent supply chain security standards and is open to all participants in international supply chains. When certified as an AEO, businesses receive benefits including faster processing times, fewer interventions and lower compliance costs. There are now more than one hundred AEO and customs compliance programs operating around the world (WCO, 2018b, p. 3), covering potentially hundreds of thousands of operators.

In recent years there has been an increasing number of supply chain participants becoming AEO-certified by customs administrations, including transporters, logistic providers, freight forwarders, trading companies, ports, airports, terminal operators and warehouse owners. The importance of AEOs for the future world trade environment is highlighted by recognition of Authorized Operators in Article 7 of the World Trade Organization (WTO) Agreement on Trade Facilitation (WTO, 2014).

AEO supply chain participants are now increasingly being linked through Mutual Recognition Agreements (MRAs) between national customs administrations. Under these agreements, customs administrations recognise each other's AEO programs and AEO-certified operators. More than 75 MRAs have been concluded globally with more than 50 under negotiation. These MRAs have paved the way for the creation of secure end-to-end supply chains – a pre-requisite for the development of future Trade Superhighways.

For the new breed of Prosperity Zones, AEO certification for the zone and for the tenants and businesses that operate within the core and outer layers of the zone will be a critical point of differentiation and a demonstration that they have achieved high levels of transparency and compliance. This will be an important element in putting Prosperity Zones at the heart of future resilient supply and value chains as they can offer security and certainty to businesses reliant on those chains.

Recognising the special issues that pertain to free trade zones, there are several initiatives now under way to address the issues of transparency and compliance within zones and that will allow the new breed of Prosperity Zones to differentiate themselves based on low risk.

One of the major initiatives has been the development by the OECD of a Code of Conduct for Clean Free Trade Zones (Code of Conduct). This Code of Conduct was developed in consultation with the WCO, WTO and FATF as well as OECD members, global supply chain participants and free trade zones. The Code of Conduct aims to “assist governments and policy makers in reducing and deterring illicit trade conducted through and inside Free Trade Zones” (OECD, 2019).

The OECD Code of Conduct includes a number of measures designed to increase transparency and compliance within free trade zones, including, but not limited to: providing unconditional access to competent authorities (for example, Customs, police or other government agencies), in accordance with their domestic law, to carry out enforcement checks of operators; prohibiting operators and persons who do not provide the necessary assurance of compliance with the applicable customs provisions from carrying out an activity in the FTZ; ensuring that economic operators active in the free trade zone maintain detailed digital records of all shipments of goods entering and leaving the zone, as well as all goods and services produced within it and providing access to those records; and, ensuring that economic operators active in the FTZ are required to grant access to their detailed digital records upon request of the competent authorities in the jurisdiction where the zone is established (OECD, 2019, p. 4).

To build on the Code of Conduct, the OECD is now leading the development of mechanisms to assess free trade zones that will allow them to become recognised as ‘Clean Zones’ (OECD, 2019, p. 4).

In addition to the development of the OECD Code of Conduct, another initiative to allow free trade zones to achieve recognition as transparent and compliant is the World Free Zone Organization (World FZO) Safe Zone program.<sup>8</sup> This world-first approach involved an interactive partnership with the OECD and the OECD's Code of Conduct forms the core of the Safe Zone program together with a Security Declaration. The Safe Zone program provides a clear pathway for recognition of transparency and compliance and, in addition to incorporating the OECD Code of Conduct, is based on the WCO SAFE Framework of Standards. Using self-assessment and external validation, Safe Zone is a multitier program with built-in re-certification that provides the track record of compliance needed for free zones to achieve AEO certification.

The first of the emerging group of Prosperity Zones will be in the vanguard of zones seeking to achieve recognition under a range of programs, including Clean Zone, Safe Zone and ultimately achieving AEO status. Over time more and more zones will achieve this recognition of their compliance and transparency creating an ever-wider network of AEO zones. These zones will also be supported by the growing number of MRAs and will underpin the emergence of new Trade Superhighways that will be needed for future resilient supply and value chains.

### **6. Trade superhighways: a champions league for approved operators**

The need for new, more resilient global supply and value chains and the emergence of high-performing transparent and compliant Prosperity Zones support by MRAs will facilitate the creation of new Trade Superhighways. Along these Trade Superhighways, Prosperity Zones will be the engine rooms and routers in resilient supply and value chains, creating a new higher quality level of approved operators, a “champions league division”, like a group of football clubs elevated their own division due to their strengths and results.

Trade Superhighways will create new levels of supply chain flexibility and visibility for manufacturers, suppliers, traders and other supply chain participants that have also achieved AEO status. Inputs, intermediate and finished goods will be able to be routed to, through, and onto Prosperity Zones in the same country, region or another continent using these trade ‘green lanes’ with a minimum of control and supported by the network of manufacturing and other support services within Prosperity Zones. It will open the opportunity for business to create ‘just-in-time-always’ supply chains where goods stay within a controlled AEO ecosystem and decisions on shipping and distribution can be made late in the process due to the ability to move goods quickly in a low-friction trade environment.

Underlying the creation of Trade Superhighways will be Custom’s use of modern border management strategies, in particular the use of data, and as noted earlier, through Prosperity Zone integration with Customs. Modern border management strategies focus on obtaining advance notification of the arrival of goods and people. Supported by MRAs, access to this supply chain data enables risk assessments and customs checks to be performed at all points in their journey, not just when they physically arrive at the port. This ‘multiple border strategy’ provides access to a much richer pool of data to strengthen the compliance and risk assessment for each consignment for use by Customs as well as compliant Prosperity Zones. For example, in addition to consignment information providing details on the nature of the goods, other factors such as manufacturer, shipping agents, carriers, consignees and consignors, embarkation and whole journey details can be obtained and mined to build a more robust risk profile. Prosperity Zones will need to be integrated with Customs and have these modern best border management practices as part of the simplified and streamlined customs administration to maintain globally competitive and efficient services, which support resilient supply and value chains.

Increasing digitisation improves the speed, flexibility and accuracy of supply chains and also feeds into the use of modern border management practices. Emerging technologies such as blockchain will also play an important role, giving greater visibility to all players in the supply chain and allowing Customs, Prosperity Zones and other supply chain participants to take full advantage of the Trade Superhighways.

The creation of a network of Prosperity Zones will also support Trade Superhighways. There will be an incentive for the new breed of Prosperity Zones to collaborate, coordinate, and share to be able to provide networked services to the clients. This will be supported by the natural specialisation that will evolve for Prosperity Zones at a national, regional, and international level.



Trade Superhighways will allow connectivity to different kinds of economic zones: they are not exclusive channels between a few production sites, but will integrate smaller ‘Resilience Hubs’, local competence centres and clusters as well as large-scale Prosperity Zones into a global community of more flexible, resilient and efficient value creation. Their key features are:

- **A high-standard service infrastructure** offered and provided by operators of the Prosperity Zones involved. This will include sourcing, tracking and integrated logistics services, but also talent, knowledge and technology scouting, financial services and general business support. You will find along a Trade Superhighway the typical service portfolio of a strong logistics cluster, and it is a natural that the world’s leading logistics clusters are not allocated at one geographical place, but along a global highway.
- **A self-controlled governance structure** making sure that Trade Superhighways are not just bridging the outskirts of Prosperity Zones, but are subject to the same high governance standard as geographically routed zones. A market mechanism will be in place to apply the most suitable regulations from different Prosperity Zones for operations along the Superhighways, and – as ownership of goods, vehicles, information and technology may change on their way along the Superhighway – compliance with these regulations will be mandatory in order to benefit from business opportunities along ‘prosperity corridors’.
- **An emerging visibility and socioeconomic identity** demonstrating that Trade Superhighways are not just a symbol for a free, sustainable and fair globalisation, but that they actually enfold soft power to motivate a new work and business culture in particular in places outside a Prosperity Zone. Well-managed, noninvasive Superhighways will deliver hope and opportunities to a broad spectrum of the global society and in fact enable a real ‘glocalisation’ – preserving local heritage and identity by giving access to the world’s prosperity hotspots without forcing people or businesses to leave their traditional clusters.

The development of trade superhighways (see Figure 1 below) will not only bring benefits to supply chain participants, governments and A Prosperity Zones, but will be an important part of the economic recovery from COVID-19 by delivering more flexible and efficient trade. They will also provide a bulwark against potential trade wars and protectionism for modern complex, flexible and resilient supply and value chains.

*Figure 1: Trade Super Highways driven by Prosperity Zones<sup>9</sup>*



Source: Technical University of Munich, TUM International GmbH

## 7. Conclusion

A new breed of Prosperity Zones is emerging, characterised by their multidimensional nature and their transparency and compliance. These Prosperity Zones break free from the historical binary trade/export and high-risk freezone/freeport paradigm. At the core of the new Prosperity Zones will be a new type of high-performance free trade zone that is integrated with Customs, employs modern customs and trade practices, and achieves recognition through programs such as Safe Zone, Clean Zone and AEO certification. Prosperity Zones will also be characterised by the ecosystem of innovative business and support services within a wider zone and the requirements for high levels of compliance for businesses and tenants within the Prosperity Zones.

Driven by the need to create more resilient supply and value chains in the wake of COVID-19 and the risk of greater protectionism, Prosperity Zones will pave the way for the creation of Trade Superhighways that provide high levels of flexibility and visibility for all supply chain participants. These Trade Superhighways will support new ‘just-in-time-always’ supply chains by allowing goods to be moved quickly and efficiently with a low-friction trade environment.

Prosperity Zones and Trade Superhighways offer significant opportunities for businesses and customs administrations. Higher levels of visibility and flexibility create the conditions for greater economic benefit from trade and a more compliant, transparent, and secure trading environment. The concept of Trade Superhighways as the aorta of the global economic bloodstream provides an obvious alternative to the negative aspects associated with globalisation – a highly functional, decentralised and open prosperity corridor, unlocking the economic power of highly Prosperity Zones to socioeconomic ecosystems all over the world.

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### Notes

- 1 While the characteristics may vary between individual countries and economies, the terms free zone, freeport, free trade zone, special economic zone are often used interchangeably when analysis is undertaken at a regional or global level. For the purposes of this paper all these terms refer to designated areas providing certain advantages to business with respect to tariffs, financing, ownership, taxes and other regulatory measures than would otherwise be applicable in the host country. This is based largely on the definition used by the OECD in its 2018 report *Governance Frameworks to Counter Illicit Trade* (2020, p. 116) and draws on the definition of Free Zone used in the WCO Revised Kyoto Protocol Specific Annex D.
- 2 Established in 2019 by the World Free Zones Organization, Safe Zone is the world's first free trade zone compliance program. Safe Zone is a voluntary compliance program based on the Authorized Economic Operator concept and offers multi-tiered compliance levels with the highest level being certification as a 'Safe Zone'. The Safe Zone program incorporates the OECD Code of Conduct for Clean Free Trade Zones as well as a Security Declaration.
- 3 The OECD Council adopted the Recommendation on Countering Illicit Trade: Enhancing Transparency in Free Trade Zones on 21 October 2019. The recommendations aim to "to assist governments and policy makers in reducing and deterring illicit trade conducted through and inside Free Trade Zones" (OECD, 2019). The recommendations include a Code of Conduct for Clean Free Trade Zones and also include an instruction for the establishment of a mechanism to assess the performance and compliance of free trade zones with the Code of Conduct (OECD, 2019, p. 4).
- 4 The Authorized Economic Operator (AEO) Program was established in the SAFE Framework of Standards to Secure and Facilitate Global Trade (as updated in 2007) as a 'trusted trader program' to balance heightened security requirements with a continuing global need for trade facilitation. It provided for the security vetting of trading and logistical companies and for expedited customs clearance for those who qualified. The SAFE Framework of Standards to Secure and Facilitate Global Trade was adopted by the WCO Council in June 2005 in response to the 9/11 terrorist attacks and aims to act as a deterrent to international terrorism, secure revenue collections and promote trade facilitation worldwide. The standards have been updated several times, most recently in 2018.
- 5 The World Customs Organization International Convention on the Simplification and Harmonization of Customs Procedures (as amended).
- 6 As defined by the WCO, Mutual Recognition Agreements are a broad concept embodied within the SAFE Framework of Standards, whereby two countries close an agreement or arrangement to mutually recognise AEO authorisations that have been properly granted by one customs administration. This can also include mutual recognition of AEO validations and authorisations, customs security control standards and control results to eliminate or reduce duplication of effort (WCO 2018, AEO Mutual Recognition Strategy Guide, p. 3).
- 7 Examples of institutions are the Competence Centre for Port and Energy Logistics (by Transalpine Pipeline Group, Port of Trieste, Italy, and the Technische Universität München, Germany) and the Centre for Customs and Excise Studies (CCES), Charles Stuart University, Australia.
- 8 <https://www.worldfzo.org/Services/Support/safe-zone>
- 9 Figure 1 illustrates the portfolio of knowledge-driven socio-economic ecosystems, as developed by TUM International GmbH of Technische Universität München, Germany: these ecosystems differ in their key function of managing local cluster networks, applying technology innovation, optimizing supply chains or integrating all of these missions within a prosperity zone. As local or international hubs, they are all connected by Trade Super Highways to support global value creation and control compliance of transactions. The level of connectivity is a key quality indicator for all of these hubs.

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