A Tale of Two FTZs: Reforming Canada's Foreign Trade Zone Program

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A TALE OF TWO FTZs:
REFORMING CANADA'S FOREIGN TRADE ZONE PROGRAM

by
Kyle André Sousa

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Reforming Canada's Foreign Trade Zone Program

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May 2, 2018
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Abstract

Foreign Trade Zones are a means of importing and exporting goods while avoiding the payment of tariffs on goods. This is done though the institution of zones that are solely relegated for this purpose which are operated outside of the government. The ultimate goal of FTZs is the abatement of tariffs and excise taxes within the zone, thus stimulating economic growth in the area that the zone is located by attracting foreign business interests. FTZs offer a level of flexibility to those who wish to make use of them, as they allow for money to be free rather than in bond while providing facilities for storage, manufacture, or manipulation of products. Business operating within a Foreign Trade Zone often also benefit from other economic incentives such as competitive utilities, access to multiple modes of transportation and skilled labour pools. However, there are a three key things that make FTZs successful. Foreign Trade Zones are often:

- Clearly demarcated areas or territories which are governed by a different set of laws and regulations than the rest of the country
- Trade hub cities or areas within a territory that are utilized mainly for the import, export, re-export storage, manipulation, or manufacturing of goods flowing through the area and exchanging hands
- An area or zone which is geared towards attracting international trade and foreign direct investment through economic incentives such as the elimination or reduction of trade barriers or taxes on production

While this is the regular profile for a Foreign Trade Zone, this is not how Canada operated their FTZs for many years. Canadian FTZs existed in the form of programs administered by the government rather than the traditional model of FTZ operation found everywhere else in the world. This lead to Canada being left out of the system of FTZs around the globe due to the fragmented nature of our FTZ system as well as the fact that there was no one set territory for FTZs within the country.

The Harper government made reforms to Canadian FTZs by creating the first "traditional" FTZ in the country in 2008, situated in Winnipeg. The Centreport FTZ Point has proved to be a success in demonstrating that the changes are more efficient and user friendly. Centreport follows the three key factors necessary for a successful FTZ, is now used as a basis for future FTZs elsewhere in Canada. Just recently, Windsor-Essex County has been granted FTZ Point Designation status. What does this mean for Windsor? How do the reforms of 2008 improve how Canada operates FTZs in relation to the way FTZs are run in other countries? This paper examines the differences between Canadian FTZs and more traditional FTZs by comparing and contrasting Canada's system with the American method of operating FTZs. In conclusion, the FTZ point reforms bring Canada into the fold insofar as FTZ operation is concerned, while also maintaining the flexibility that made Canada's system so unique to begin with. By offering single window service at FTZ Point locations, both international and domestic firms can utilize traditional FTZs, or use the FTZ type programs outside of the zone. Windsor's recent FTZ point designation is sure to be a boon to the economy, as it now gives even more incentive to invest in an area already so critical to Canadian trade.
Dedicated to my family

who stood by me throughout the years,

most importantly those who have passed away

before they could see me graduate.

Father

José Maria Sousa
1962-2010

Godfather

Roger Branco
1960-2017
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Chapter I. Introduction

"Every man thus lives by exchanging"

-Adam Smith

One of the undying debates in the realm of economics is the role of free trade versus that of protectionism. Scholars, policy analysts, economists and legislators have all tackled the topic in one way or another, with some opting for a trade system that favours free flowing international trade while keeping a modest amount of protection for their own industries. Protection in the economic sense comes in the form of customs duties, tariffs, and excise taxes which create monetary barriers for trade. If a foreign good is more expensive than the good being produced at home, chances are consumers are going to maximize their utility and choose the cheaper product. Free trade however is mostly what it sounds like, the free and unhindered movement of goods and services across borders between international partners; allowing products in and out of one's domestic market with little or no added tax levied upon import/export.

Taxation on inbound and outgoing items is not uncommon even in free market economies. Many states subscribe to a level of laissez-faire market economics to some degree, but tariffs such as a general sales tax or a customs tax still regularly apply. Customs tariffs are taxes on external goods entering or leaving a territory and excise taxes which are indirect taxes such as ad valorem taxes like the Value Added Tax (VAT), or sales taxes and consumption taxes.

1 (Smith 2010, 29)
like the Goods and Service Tax (GST) on products sold within a territory.² The reasons for these taxes are different; most are added to generate revenue for the government, some are added to curb behaviour such as "sin" through excise taxes on tobacco and alcohol, while others are levied for the maintenance of infrastructure like roads through fuel taxes.³ Canadian excise taxes in particular are usually aimed at goods such as cigarettes and alcohol rather than the GST or HST. The use of taxes to discourage consumption on goods also applies for environmental reasons, which are manifested through taxes on energy and carbon gas emissions. The most important taxes regarding trade however are those placed upon imports and exports.

Imports are at times problematic for certain nations with sensitive economic sectors, and it is for this reason taxes are sometimes placed more on imports than goods circulating within the domestic market. One excellent example of this is the decimation of the corn and tortilla industry in Mexico by cheap American imports. Protectionist policies put high tariffs in place to protect corn farmers, which kicked off a period of sustained economic grown for decades known as the Mexican Miracle when domestic prices for corn began to soar as a result of the tariffs placed on American maize imports.⁴ Of course protectionist policies are not just found in developing nations. Many Western capitalist democracies usually subsidize industries or put trade barriers on some imported goods. This is done often to protect critically important or infant industries. The Canadian dairy industry, which is heavily protected by high tariffs on

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² (Whalen 2002, 160)
³ (Cnossen 2005, 3-6)
⁴ (Bethell 1991, 338-340)
dairy imports and only exports a small amount exemplifies how pro-trade countries can protect certain sectors.⁵

Protectionism is something that has been seen as a bigger problem than the problems it solves. Since the onset of neoliberal economic policies ushered forth through what we now call the Washington Consensus in the 1980's,⁶ an increased emphasis on the lessening of trade barriers internationally became policy in many nations across the globe, following America's lead towards a world with at least fewer monetary impediments to international trade. But regardless of America's ardent stance towards the progression of neoliberal policy, the U.S. too has its own history of protectionist policies. The prevalence of Adam Smith's views on personal freedom and monetary liberty unrestricted from the tyranny of excessive government control and imposition, whom many attribute as being the inspiration for the Washington Consensus (either accurately or inaccurately)⁷ may be viewed by proponents of neoliberalism as a sign that attitudes are changing, but the impact of free international trade on workers, the economy, and political relations is still hotly debated and probably always will be. What is important is how societies have found means through necessity to balance the at times perilous tightrope of global economics.

There are few means to balance out the impact of imported goods on domestic markets while encouraging foreign direct investment (FDI) and international trade. The two may seem more like opposing forces rather than complementary ones, as illustrated with Mexico's corn industry. But products have moved across borders since time immemorial, and taxes and tariffs

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⁵ (Schmitz 2005, 101)
⁶ (Stiglitz and Serra 2008)
⁷ (Oslington 2011, 106)
have existed for just as long. Importing foreign goods and exporting domestic goods only grows the market and allows the diversity of choice at the store. This creates an economic and often political impasse for many nations who must balance the benefits and drawbacks of the two. But one thing is certain, no nation lives upon this planet alone and all on the political spectrum recognize trade is a natural part of human interaction. Regardless, the barriers stand. However, a system of trade involving the removal of these monetary barriers has evolved over time to sidestep the excise taxes, import/export tariffs and additional fees included in trade between international partners by creating specially demarcated areas which are exempt from regular trade regulations and taxes, known as Foreign or Free Trade Zones (FTZ). These "zones" allow for the storage, manipulation, and even manufacturing of raw goods imported free of tariff and exported either free of tariff or given an avenue to recover duties paid previously. FTZs not only effectively take away the trade barriers between nations but allow for FDI growth through further economic incentives attracting foreign businesses to conduct trade and manufacturing locally by offering facilities where the import, re-export and storage of goods can be done while delaying tariff payment.

Foreign Trade Zones are not particularly a modern or novel creation, their development spans back to the time before Christ walked the earth rather than just to the time before Chinese Communist chairman Deng Xiaopeng decided trade with America wasn’t such a terrible idea. Though FTZs have definitely modernized and evolved from the Roman *civitas libera* to the Foreign Trade Zone Act of 1934, there are a few things which have stayed roughly the same throughout history, giving us a stable, functional guide to FTZs. These commonalities are:
Clearly demarcated areas or territories which are governed by a different set of laws and regulations than the rest of the country

Trade hub cities or areas within a territory that are utilized mainly for the import, export, re-export storage, manipulation, or manufacturing of goods flowing through the area and exchanging hands

An area or zone which is geared towards attracting international trade and foreign direct investment through economic incentives such as the elimination or reduction of trade barriers or taxes on production

FTZs are simply a type of economic zone partitioned from the rest of normal regulatory jurisdiction which is oriented towards providing foreign business interests opportunities to trade and store their goods domestically without worrying about customs duties or tariffs while providing incentives for foreign business to bring some of their operations with them to the zone. By creating FTZs, nations are able to bring additional wealth and economic growth to their country while enticing international corporations to set up production and shipment facilities in them, providing additional employment opportunities to the labour forces of the host nation. FTZs are a crucial aspect of international free trade, and most work quite well by conforming to the aforementioned characteristics.

However there is one particular country that does not operate Foreign Trade Zones like other nations typically do. While many have their own slight variations, most are easily recognizable as a type of FTZ with the exception of Canada's FTZ program. Canada's FTZs operate in a very decentralized manner, which is in some ways an improvement on the FTZ
concept as a whole, but in practice creates a rather byzantine system which does not favour the relative simplicity of traditional FTZs found elsewhere. This results in a demonstrable lack of use of Canada’s FTZ programs, and thus a missed opportunity for Canada to maximize its potential for international trade. This paper will focus on providing an analysis of the Canadian FTZ program including its pros and cons as well as a review of how the Canadian system compares with the American traditional style of FTZ. It will show that the Canadian system while unique and beneficial in some ways, is not user friendly and ultimately does not work as well as other FTZs found globally. Finally, using the case of a proposed FTZ in Windsor paired with an examination of the recently implemented Centreport FTZ Point program, it will be shown that reforming Canada’s FTZ programs to a traditional style of FTZs much like what has been done in Centreport will produce a far more functional and inviting climate for international trade. It is therefore recommended upon review of the historical evolution of Foreign and Free Trade Zones as well as a comparative analysis of Canada’s FTZ program to that of the United States of America and elsewhere that the Canadian FTZ program be reformed to work in the interest of international trade rather than the hamstrung state in which it currently operates.

1.2 A Brief History of Free Trade Zones

The history of free trade amongst foreign nations long predates Adam Smith’s Inquiry into the Cause and Nature of the Wealth of Nations. While the contemporary "myth of newness" as Matthew Sparke coined it finds more traction amongst neoliberal proponents of
laissez-faire economics,\textsuperscript{8} such as Thomas Friedman who argued that global trade and globalization was a new phenomenon in his 1999 publication The Lexus and the Olive Tree,\textsuperscript{9} a clearer examination of history quickly proves otherwise. Circa 600 BC the Persian empire began creating its trade and administrative systems, while expanding roadways to connect the Mediterranean and Central Asia, opening up supply routes that earlier were impossible.\textsuperscript{10} By the time Alexander the Great of Macedon took his mantle as conqueror, several cities and trade outposts had sprung up along the what would be called the Silk Road, with more being created in Alexander's conquest. \textsuperscript{11} As the Silk Road expanded and trade agreements were negotiated with ancient China, the Silk Road evolved into one of the most important trade routes in recorded history.

Free Trade Zones are not anything particularly new either. Throughout much of early Western history, goods were traditionally taxed by the various empires which conducted trade with each other. Taxes and excise revenue (internal taxes levied by the domestic nation) would be collected along with other taxes levied on the populace by the receiving empire in order to grow their own treasuries and bolster their power. However there were certain cities that were allowed by Hellenic and Roman law to operate free of the Empire's normal edicts, commonly referred to as "free cities" or \textit{Civitas Libera} in Latin.\textsuperscript{12} The empire would send tax collectors and regional governors to oversee the various provinces of the Roman expanse, however this legal authority did not apply to free cities of foreign nations. They were essentially exempt from the

\textsuperscript{8} \cite{Sparke 2013}
\textsuperscript{9} \cite{Friedman 2000, xvii}
\textsuperscript{10} \cite{Frankopan 2016, 1-13}
\textsuperscript{11} \cite{Frankopan 2016, 4-5}
\textsuperscript{12} \cite{Buraselis 2000, 113}
tax laws of the Roman Empire; land taxes, agricultural production tithes, customs duties and other various Roman taxes need not apply within the boundaries of the free cities who had autonomy to operate their own finances.\textsuperscript{13} The creation of the Civitas Libera concept was aimed at lessening the economic pressure of vassal states while securing trade and wealth for the Roman Empire, however while "free cities" were exempt from customs and tariffs directly, some indirect taxes remained through the need of military aid, tolls for infrastructure and at times tariffs remained on certain imports.\textsuperscript{14} In this manner, the very first Free Trade Zones were born.

Though the Roman Empire was as vast as it was strong, few empires can outlast the forces of time. By 500 AD Rome had fallen after being invaded by the Goths, and new powers came to be.\textsuperscript{15} The Holy Roman Empire was all that was left of the Roman Empire, which was given over to a Frankish (French) king Charlemagne by Pope Leo III in 800 AD.\textsuperscript{16} Charlemagne, who conquered the Germanic tribes of Saxony and forcefully converted them to Christianity now went about creating a new Roman Empire through the Christian religion, and set out to unite and convert Europe, an endeavour in which he was ultimately successful.\textsuperscript{17} Charlemagne's conquest of Europe united most of the continent and set up a system of trade posts and administrative centres after him which eventually grew in size and importance. By the 13th century, a new power came to be through conflict between the Germanic and Slavic peoples. The various free cities of Europe, which existed much as they had before despite

\textsuperscript{13} (Duruy 1886, 68-72)  
\textsuperscript{14} (Tan 2017, 79-80)  
\textsuperscript{15} (Ward-Perkins 2006)  
\textsuperscript{16} (Barbero 2004, 75-102)  
\textsuperscript{17} (Collins 1998)
radical changes to their imperial government, would be joined together with the cities of Lubeck and Hamburg, created out of the Holy Roman Emperor's conquest to form the Hanseatic League, a grand alliance of free cities and ports connected via the trade routes and outposts.\textsuperscript{18}

The Hanseatic League operated much like an international organization of city-states (free cities) rather than as an actual state or empire. The League was mainly created to oversee trade between the free cities associated with them and protect the interests of the various industrial guilds which it represented, making the Hanseatic League a key economic player in the Middle Ages.\textsuperscript{19} The Free City of Lubeck, one of the main cities involved in the creation of the Hanseatic League along with Hamburg became a key free trade city which had grown into a major trade hub and transshipment centre for fish and salt to the Baltic Coast, creating a burgeoning economy based on early principles of free trade.\textsuperscript{20} This continued up until the Peace of Westphalia in 1648 which set up the modern system of sovereign states which de facto disbanded the Hanseatic League.\textsuperscript{21}

While few would delve so deeply into antiquated history, this review of events gives us an accurate view on how foreign trade zones have evolved over time as well as lessons in success. There are several similarities between the \textit{civitas libera} of Ancient Rome and the free and Imperial cities of the Hanseatic League. Primarily, they were demarcated regions in which regular laws levied by the hegemonic power did not apply. Each free city had set boundaries of

\textsuperscript{18} (Nicolle 2014, 3)  
\textsuperscript{19} (Mogens 2000, 295-305)  
\textsuperscript{20} (Brill Publishers 2015, 27)  
\textsuperscript{21} (The Encyclopaedia Britannica 1890, 450-451)
jurisdiction that clearly began and ended at free city territory even though they were a part of a larger economic system; the Roman Empire and the Hanseatic League both operated in just such a manner. The second key characteristic that both the free cities of Rome and the League share was their economic agency apart from the centralized government. These areas were free to deal with other city states and foreign entities at their liberty, as long as they complied with the regulations set out by the imperial power and paid their necessary dues owed as part of an empire or economic consortium. The third and mostly implied characteristic is the lessening or complete removal of taxes and tariffs on goods traded between merchants on products within the zone.

The ancient methods of foreign and free trade zones served their particular purpose well when goods being exchanged were rather simple to handle and store. Foodstuffs, furs, agricultural products, raw materials such as stone and logs for construction were all transportable with relative ease. While there was a market that stretched across the globe for rarer items or handmade goods from faraway locales, the basic market for goods was rather simple, and followed a series of trade routes connecting the various trading hubs and city states that traded with each other. But industrialization and technology changed both what we can create as well as how we can ship and sell it. We are not only trading raw resources and basic sundries, but a diverse selection of manufactured goods from a multitude of different countries and markets globally. Cars, furniture, artwork, luxury goods, and exotic fruit are now traded in bulk internationally as well. As these wants have diversified, so too have the way we ship goods for sale. Trade began to expand rapidly in the industrial age to include every continent on the planet and connect them into one global market. With the diversification of trade also came the
necessity for advanced trading and administration centres. Industrialization ushered in the age of mass production increasing the supply and speed with which goods could traded between nations and sold to consumers internationally. In this manner, there is a modicum of truth to Friedman's analysis of international trade, as the way in which we trade, what we trade and who we trade with not only changed significantly, but connected the world in a way that was previously impossible.

The Westphalian system ultimately ended the city state of the Middle Ages and replaced it with what we now know as modern sovereign nation states which encompass set territories with recognized boundaries which they then have jurisdiction over. This caused the entire nature of free trade to change. A more direct style of governance evolved and was applied to the various countries of the world apart from that of kings and feudal lords. Empires still remained, however with protectorates and colonies far from the hegemonic power. Britain was one such empire which exported the natural wealth of its numerous colonies for the benefit of the crown. It is with the independence of the 13 colonies of America that free trade started to really gain traction once more. Rallying cries of "no taxation without representation" became a call to action over what was seen as an act of tyranny by the colonists over rising taxes levied by the Crown.\textsuperscript{22} America would create the very first modern Foreign Trade Zone long after its Revolution.

The modern FTZ was born out of necessity. The stock market crash of 1929 sent much of the Western world into what is now known as the Great Depression, which lasted roughly a

\textsuperscript{22} (Manning 2011, 108)
decade. Crippling unemployment which affected upwards of 13 million Americans,\footnote{Malchik 2010, 2} homelessness, poverty, and the eventual increase in popularity of John Steinbeck novels characterized this period. In an effort to protect American workers, Republican Senator Reed Smoot, chairman of the Senate Finance Committee and Republican Congressman Willis Hawley, chairman of the House Ways and Means Committee were tasked with the creation of tariff legislation. The bill bearing the name of Smoot and Hawley was signed into law in 1930 by President Hoover.\footnote{Irwin 2011, 3}

While the Smoot-Hawley Tariff was meant to protect American farmers from the economic impact of imported goods, it had a very different effect. Imported goods were not flooding American markets; American businesses really had little to fear from international competition as they only accounted for 4% of U.S. GNP.\footnote{Peláez 2008, 208} The tariff erected barriers which isolated them from what little foreign competition they did face, and some nations retaliated with tariffs of their own directed at U.S. exports.\footnote{Irwin 2011, 4} The situation required remedy, and relief came in the form of the Foreign Trade Zone Act of 1934.\footnote{United States Congress House Committee on Ways and Means 1934} The FTZA outlined the authority for a governing board to oversee the operation of demarcated zones which were free from regular tax laws in which products could be imported, held in lading, stored, and then exported into the market without being subject to formal customs duties and other taxes upon entry, as is with goods entering regular territory.\footnote{Office of The Federal Register 2014, 64} In addition to this, materials could be further processed resulting in higher value added materials being created at the port by foreign investors. The
main objective of the FTZA was to attract foreign direct investment in the U.S. and encourage international trade through providing avenues for tariff relief and savings on the costs of trading goods. The act also set out where a FTZ could be located within America, leading to more than 250 FTZs and their accompanying warehousing, administration centres, industry complexes and bonded logistics parks being developed in ports and cities in every state of the country including Puerto Rico. The American FTZ system stands as a model for much of the rest of the world who eventually followed suit with their own FTZ style programs.

1.2 FTZs Around the World

After the emergence of FTZs in America, various nations across the globe have utilized some form of FTZ like program, most notably Special Economic Zones (SEZ) in Asia and Export Processing Zones (EPZ) in numerous developing countries. While SEZs and EPZs have a very similar function to FTZs, there are a few differences. For example, EPZs are mostly created with the intention of taking advantage of a lower cost of labour, while SEZs are more general purpose tariff and tax deferral. It is important to note that the very definition of an FTZ has been blurred together over time with SEZs and EPZs, enough so to cause general confusion even amongst scholars. While there may not be any concrete definition outlined, all three of these programs consist of the same three components as defined in the introduction. It should be understood that FTZs, SEZs and EPZs have much in common, and each have been developed

29 (Foreign Trade Zones Board 2017)
30 (Papadopoulos and Malhotra 2007, 149)
to some capacity in different flavours globally for the same purpose of attracting FDI and facilitating trade.

SEZs are zones which exist outside of regular trade laws and fees. They are established areas within a country which do not follow the same rules governing international trade and customs, regulations, and taxation as the rest of the state, operating much like the free cities of Rome and Middle Age Europe.\(^{31}\) SEZs normally provide some sort of economic incentive in their placement for those who would use them, whether that be low taxes, more liberal investment conditions or access to a market and workforce.\(^{32}\) SEZs are more concerned with providing an area where duties, tariffs and taxes are different from the rest of the country providing a welcoming economic climate for investment by foreign business interests. Though they are not particularly aimed directly at customs and tariff laws, duty relief is an important feature found in virtually every SEZ globally.

Of the SEZs in Asia, the most notable and oldest is the Shenzhen Special Economic Zone which was created by the Chinese Communist Party in 1981.\(^{33}\) The creation of the Shenzhen SEZ was a drastic shift from the protectionist stance of the Communist Party of China, and has arguably evolved into China's most successful Special Economic Zone. The Chinese government had entrenched itself in its own interpretation of Marxist dictatorship since Chairman Mao Zedong wrestled power from the Kuomintang after a civil war fought from 1945 to 1949, after which Mao declared his newly founded Peoples Republic of China .\(^{34}\) However, with the deaths

\(^{31}\) (Farole and Akinci 2011, 3)
\(^{32}\) (Farole and Akinci 2011, 1-4)
\(^{33}\) (Pak 1997, 14)
\(^{34}\) (Cheek 2016, 17)
of Mao in 1976 and his second in line of leadership Zhou Enlai, the new Chairman of the Central Advisory Commission and an outspoken critic of Mao’s policies, Deng Xiaoping, was the only one left to lead the Chinese government.\(^{35}\)

To allow a zone for international trade would have been absolutely unheard of before the leadership of Deng Xiaoping, however Xiaopeng was a radical reformer who fundamentally changed the direction of the Peoples Republic of China from the hard-line authoritarian brand of socialism it was intended to be to the market driven socialism which more suited Deng’s aspirations and vision for the future. SEZs became a subject of interest at a Central Work Conference aimed at economic reform held in 1979, after two leaders of the Guangdong province met with Xiaoping and remarked on their region’s incredible economic climate due to being so close to Hong Kong, a British colony at the time and trading hub.\(^{36}\) Deng Xiaoping set about creating an experimental SEZ in the Guangdong province hoping to possibly capitalize on the proximity to the trade powerhouse nearby which served as a window to the rest of the world.\(^{37}\) By this time, Deng had already been courting the American government for better relations. Richard Nixon began the process of normalizing relations with China after thirty years of icy diplomacy, a process that was finished by the incoming President Jimmy Carter. Less than a month later, Xiaoping was the first Chinese foreign delegate to be hosted in America since the Korean War ended in 1953.\(^{38}\) The following years have seen China transform from a backwards rural agrarian state to fully fledged export driven market economy.

\(^{35}\) (Baum 1996, 3-4)
\(^{36}\) (Marti 2002, 7)
\(^{37}\) (Goodman 2002, 94)
\(^{38}\) (Stewart 2001, 14-15)
Since then, the Shenzhen SEZ has become the site for what is now known colloquially as the "Shenzhen Miracle", in which a small rural village grew to over 10 million inhabitants, becoming the 4th largest city in China after only thirty years. This monumental growth was all thanks to the creation of the SEZ, which allowed for property and ownership rights granted not only to internationals but Chinese citizens as well in addition to tariff and customs relief, a gigantic difference from the dictates of the CCP in the rest of the country. Small apartments were sold at competitive market prices which attracted foreigners and citizens alike, seeing an explosion of real estate transactions which accounted for 31% of state income in the first few years of Shenzhen's existence. As of 2016, Shenzhen's GDP rose to 284 billion USD, up 9% from 2015. Shenzhen has been able to secure for itself a pattern of stable growth through the economic incentives offered in order to attract high FDI via the various multinational corporations which take advantage of the laxity of tax laws and labour regulations in the Shenzhen SEZ.

Of all of the MNCs that operate in the Shenzhen SEZ, few are as noteworthy as the Taiwanese manufacturer Foxconn. Opened in 1988 in the SEZ, the Foxconn Ocean Sophisticated Computer Plug Factory has created electronic parts for many of the high-tech products that we use today. Dell, Lenovo, HP and Apple are among the most prominent of Foxconn's

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39 (Zhang 2015, 108)
40 (Pak 1997, 14)
41 (Ngai and Chan 2012)
customers, all household names worldwide.\(^{42}\) In 2011, Foxconn's total imports and exports accounted for 5.9% of all of China's foreign trade.\(^{43}\)

The economic success of Shenzhen cannot be overstated. The sheer amount of economic activity and growth it has generated in such a relatively short span of time is remarkable to say the very least, without stating the effect it had on China's future. The Shenzhen SEZ inspired the Chinese government to continue on with the creation of four other SEZs in the country at Zhuhai, Xiamen, Shantou and Hainan.\(^{44}\) The story does not simply end here for Shenzhen, whose future is undeniably bright. GDP per capita is forecasted to rise to $20,000 by 2020 in Shenzhen alone, a product of the Shenzhen SEZ system.\(^{45}\) There have even been suggestions that with Silicon Valley slowing down as the global leader in research and technology development Shenzhen may become the next future tech hub.\(^{46}\) This is due to Shenzhen's commitment to economic innovation and evolving as a manufacturing city based largely on technology and export of electronic products.

Shenzhen may be the most notable SEZs in Asia, but by no means does China have a monopoly on wealthy SEZs. Another country which has been able to utilize SEZs in order to bolster trade is India, which actually utilized a process of trade facilitation called "single-window service" to repair their SEZ system which wasn't working.\(^{47}\) India developed SEZs in the early 1990's, however they had little effect due to a decentralized and complicated import/export

\(^{42}\) (Ngai and Chan 2012)
\(^{43}\) (Morschett, Schram-Klein and Joachim 2015, 378)
\(^{44}\) (White 2016)
\(^{45}\) (Chen and de'Medici 2012, 111)
\(^{46}\) (Konieczny 2017)
\(^{47}\) (Soundarapandian 2012, 238)
SEZ system that was difficult and time consuming to navigate. In 2005, India passed the Special Economic Zones Act which then consolidated and streamlined India's SEZs through offering this type of single-window service system as an alternative to what they had began with in the 90's. The effect of single-window service implementation has been incredibly improved export growth of Indian SEZs by a 225% from 2005-2015. Adoption of a single-window service system may prove to be an important strategy for FTZ development in Canada and other nations with ailing FTZ programs, as is reviewed later.

Export Processing Zones are a bit different from SEZs, as they focus more on products being manufactured and exported out rather than a reciprocal flow of goods between markets. EPZs are normally found in developing countries which are trying to attract foreign direct investment through offering exporters duty free imports. Essentially this allows for any business interest to set up their processing facilities within the zone, import raw materials without paying duty, and then exporting a finished product to consumers. EPZs are far more oriented towards the production of goods and attracting industries whose product is then exported for consumption elsewhere rather than the flow of goods back and forth. They are mostly vessels for production, normally used by states which look to create an export based economy.

Some states have experienced great success by implementing EPZs in their territory. They can be found in developing nations globally, ranging from Thailand to Mexico. One prominent example of an EPZ can be found along the Mexican border, the numerous factories

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48 (Soundarapandian 2012, 239)
49 (Rahoof and Arul 2016, 48)
50 (World Bank Publications 1992, 18)
51 (Papadopoulos and Malhotra 2007)
and assembly plants that are called Maquiladoras. These are areas in which raw materials and parts are imported and then labourers work to manufacture the good, often in fenced in properties that are clearly demarcated.\textsuperscript{52} EPZs are very attractive places for MNCs to set up shop and take advantage of relatively lax labour laws on imported raw materials without tariffs needing to apply.

Though this does paint a rather rosy picture of SEZs and EPZs, they are far from perfect, and not a panacea to economic difficulty. One of the biggest criticisms of SEZs and EPZs specifically is that they have a general tendency to mistreat their workforces. As EPZs are normally found in developing countries in order to capitalize on a cheap labour force to maximize profit to begin with, so too are these workers at an increased disadvantage. Multinational corporations often take advantage of the workforce which have little economic agency and thus are often forced by necessity to work at factories such as Foxconn, or the various sweatshops in Honduras, the Dominican Republic, the Mexican Maquiladoras and elsewhere.\textsuperscript{53} Pair this with the laxity of labour laws that are often found in developing nations, and one can quickly see the issue. For all the wealth Foxconn generates, it also generates a good deal of suicides each year from the stress of working in such a demanding environment with long hours and low pay.\textsuperscript{54}

Another concern that has been raised over SEZs and EPZs are often who sets them up, which raises questions over the sovereignty and right to natural wealth that the common citizenry in SEZs and EPZs may not have access to. In recent years, China has been quite active

\textsuperscript{52} (World Bank Publications 1992, 18)
\textsuperscript{53} (Krupat 1997, 71)
\textsuperscript{54} (Ngai and Chan 2012)
in SEZs all over the continent of Africa, where Chinese corporations utilize the economic status of the SEZ to generate wealth that some argue does not stay in Africa, an already impoverished region of the world.\textsuperscript{55} The argument is that a second type of colonialism is now taking place in which Africans are losing more of their right to their land and national resources which are being siphoned from an external power.\textsuperscript{56} While an incredibly compelling argument that does bear a great deal of weight, few can discredit the GDP growth that accompanies these SEZs and the infrastructure which comes along with Chinese FDI.\textsuperscript{57} The creation of SEZs are voluntary on the part of nations who institute them and thus there is a free exchange of material, money, and labour, and does create valuable infrastructure that Africans use.

Though there are pros and cons to SEZS and EPZs, they do allow for increased economic activity and they share the same aim of trade facilitation and economic growth. The main characteristics of both types of zones is to attract FDI through providing facilities located in an area designated outside of regular trade laws for port operation, manufacturing, storage and shipment on exports and/or imports brought in that are free from customs duties, tariffs and excise tax or provide some avenue for reclaiming or reducing such fees. But it is important to keep in mind what separates these systems, as SEZs act mainly to provide tariff relief through creating an area outside of regular tax laws that is favourable for investment and trade while EPZs are designed to help attract businesses for the sole purpose of FDI through providing an area where they can produce goods for immediate export.

\textsuperscript{55} (Adem 2016, 228-229)
\textsuperscript{56} (Brautigam 2011)
\textsuperscript{57} (Farole and Akinci 2011, 9-11)
While there is much overlap, the two are tailored to address slightly different issues. Foreign and Free Trade Zones however are specifically designed for the sole purpose of the free movement, storage, production and or manipulation of foreign goods entering the FTZ and leaving it. It essentially acts as a corridor for foreign corporations to move their goods from one destination to another without tax. It is for this reason that FTZs are often seen as far superior to EPZs and SEZs as they focus on import, export, production and re-export in an area safe from virtually every tax that could be levied on the product until it reaches the market rather than just focusing on exports.

Foreign Trade Zones incorporate the main objective of both SEZs and EPZs while capitalizing on the best aspects of both. FTZs operate like Special Economic Zones as do EPZs, but rather than being there for the sole purpose of providing duty relief and protection from normal tax laws in a given area like SEZs or focusing on the production and exporting of goods for international consumption as EPZs do, FTZs allow for manipulation and storage of imported goods in order to prepare them for re-export free of customs and excise duties.

Chapter II. Functions of FTZs

Though there is no particular set method for FTZs to operate, they generally follow a similar pattern worldwide. As the first modern FTZ program came from the United States and has thus influenced the creation of FTZs globally, the function of FTZs in America provides a basic overview of the operation and benefits of FTZs found internationally. While each nation takes a somewhat unique approach to the creation of FTZ programs as seen with SEZs and EPZs
globally, American FTZs are arguably the most profitable and efficient in the world. Currently, the U.S. has 277 FTZs and over 500 subzones nationwide. Subzones are zones which are located outside of the boundaries of a foreign trade zone, but offer the same benefits to those within it. These are normally granted to individual corporations which must comply with all regular FTZ standards for the import, export, and storage of the product. America's FTZ infrastructure is the largest and most advanced in terms of history, profitability, global impact, and sheer size. The American FTZ system shall serve then as the ideal template with which FTZs are disseminated and explained for the purposes of this research.

FTZs make use of several types of trade infrastructure within them to process and store goods, chief among these are Customs Bonded Warehouses, logistics and distribution centres, and of course, ports of entry for goods and access to means of freight (road, rail, sea, air). Customs bonded warehouses (CBWs) are essentially points in a port of entry where goods being imported into the country in question are held before entering the market. What differentiates a CBW from a regular warehouse of goods is that the goods being imported are not taxed until they leave the building, and are inspected upon entry of the CBW instead of the border or port of entry as they are considered to be "in bond". Bonded items are items that have been guaranteed for their value and contents, eliminating the need to check the good upon entry into a port, effectively negating wait times and delays in shipments. The goods are sent to a bonded area, normally a CBW where customs and border officials will check the goods for compliance. This is done for a variety of reasons ranging from the manipulation of the

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58 (Tiefenbrun 2013, 153)
59 (Cook, Alston and Raia, Mastering Import and Export Management 2004)
60 (Canadian Border Services Agency 2015)
product before it enters the market, to simple storage. The ability to bypass border checks not only decreases congestion by easing the flow of traffic but when mixed with a stipulation which allows for further manipulation of products CBWs can become powerhouse processing cross-docks for expedited trade all the while managing inventory in a foreign nation. This makes CBWs an utter necessity for international trade, as the flexibility in customs and security allow for and encourage increased economic growth. However there is an issue, as one must pay the customs bond in order to use a customs bonded warehouse. This creates an issue where money is tied up until the good is shipped and the bond is returned.\(^6\) Goods held in a CBW may remain in the bonded area for up to four years after they are imported.

Logistics and distribution centres are essentially trade hubs in which the transportation, transshipment, and manipulation of goods such as labelling, packaging or assembly is done on imported goods, preparing them either for re-export or entry into the domestic market.\(^6\) The changing nature of trade has necessitated the creation of larger more complex logistics and distribution centres around ports of entry and are found in every FTZ. They are critical for the efficient movement and processing of goods within Foreign Trade Zones, as these are normally the warehouses and facilities which physically store and move the good in question to other trade destinations, acting like nodes in a supply chain. With the increased focus towards free trade and the free movement of goods across international borders, logistics and distribution centres are fundamental to keeping the cost of shipping goods down.\(^6\) This particular function on a FTZ is quite beneficial when operating a multinational corporation which relies upon global

\(^6\) (U.S. Customs and Border Protection 2010)  
\(^6\) (Klimek and Sulima-Chlaszczak 2002, 90)  
\(^6\) (Klimek and Sulima-Chlaszczak 2002, 89-90)
supply chains or just in time inventories as imports and exports aren't taxed at all if they are simply moving through the FTZ.\textsuperscript{64}

Ports of entry are basically the entry point which goods and people may move into and out of a country. Ports of entry are places where border services are set up to process the incoming and outgoing flow of people and goods internationally, and are found anywhere one may lawfully enter a sovereign territory. Historically ports of entry were found at border crossings and seaports, but a port of entry can be found anywhere one may legally enter. It is for this reason that international airports are considered ports of entry, as people and goods may flow through them. A port of entry is always serviced by some type of mode of transportation, whether that be sea, road, rail or air, and are normally overseen by a port administrator.\textsuperscript{65} In America, most international trade infrastructure is located close to these ports in order to allow for the efficient processing, storage, and movement of the goods in question. Ports of entry thus typically have a great concentration of logistics and distribution centres as well as easy access to means of travel and freight. In America, Foreign Trade Zones must be placed no more than 60 miles away from a port of entry.\textsuperscript{66}

FTZs encompass all of the above infrastructure in order to work efficiently. CBWs and logistics/distribution centres are what store, process and move the goods accepted at various ports of entry within a territory. The main function of a FTZ then is to allow all of this activity while providing tax and customs exemption on the goods within until they reach their

\textsuperscript{64} (Cook, Alston and Raia, Mastering Import and Export Management 2004, 98)  
\textsuperscript{65} (Office of The Federal Register 2014, 96)  
\textsuperscript{66} (Kim and Kim 2014, 343)
designated market. It is through the combination of CBWs, logistics/distribution centres, and FTZs located at ports of entry that allows them to function as they do.

The following diagram shows the regular process of goods moving into and out of a Foreign Trade Zone:

A few things are made clear from this diagram. First, goods within a Foreign Trade Zone are not subject to any duties for the entire duration they stay within the zone. That means everything from completed merchandise ready to enter the domestic market to raw goods for manufacture. This allows foreign business interests to set up their processing and manufacturing facilities within the FTZ, generating job growth and economic activity. The impact of American FTZs on employment is telling. In 2011, FTZs located in American territory

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67 (New York City Economic Development Corporation 2017)
employed roughly 340,000 people.\textsuperscript{68} That number has only grown larger throughout the years. As of 2014, American FTZs employed 420,000, a 7.7\% increase from 2013.\textsuperscript{69}

Second, goods are not taxed upon import and export, which allows for FTZs to not only be trade hubs for production but viable stops for goods being traded internationally to their intended destination. Even businesses which have not set up extended facilities for processing, manufacture, or the manipulation of the goods benefit from utilizing FTZs and shipping their goods through them. One large advantage of FTZs is not having money tied up in bond, as is the case with storing imported goods outside of a foreign trade zone. Even though their money is reimbursed, having this money held down rather than being saved or used elsewhere is another cost incurred with international trade.\textsuperscript{70}

Third, goods may be imported into the domestic market through FTZs at a reduced rate, providing savings for businesses who choose to export their goods into the domestic market rather than re-export them along to their intended destination. While FTZs are normally geared towards export, the import side of it is quite important as well. Items imported outside of an FTZ are subject to all regular taxation while those flowing through are often offered reduced taxes or access to opportunities to be refunded on customs and duties paid through a process called customs drawback.\textsuperscript{71} Customs drawback is a means to recuperate money in tariffs that have already been paid, much like a rebate which assists businesses in saving money.

\textsuperscript{68} (Griswold 2013)
\textsuperscript{69} (National Association of Foreign-Trade Zones 2014, 10)
\textsuperscript{70} (Kim and Kim 2014, 343)
\textsuperscript{71} (U.S. Customs and Border Protection 2016)
Finally, FTZs give the added benefit of being able to manufacture, process, and store imported goods for the purpose of value added activities and re-export. This is incredibly lucrative business, as the number indicate that American FTZs in 2014 made upwards of $99 billion in trade revenue in 2014 through exports from FTZs, a record for FTZ profitability in America.\(^7\) It is the ability to manufacture and manipulate items imported before they are able to enter the market paired with the customs and duties exemptions that attracts FDI and boosts employment growth. Foreign Trade Zones are now no longer there simply for the free movement of goods into and out of the zone, but the production of goods without domestic taxes within them. This advantage over normal trading ports makes all of the difference.

Let us say for the purposes of presenting an example of how FTZs work, that a foreign company decides that they would like to build a new line of toys. The company chooses to use a Foreign Trade Zone to enter the American market instead of a regular port of entry. They are able to import their product to the U.S. without paying any fees. This company could also decide that rather than manufacturing the toy in their own country and then shipping the finished product to the U.S., it could instead import parts of the toy that are shipped to America for assembly, packaging, labelling and then entry into the market. This is also done duty free, as the FTZ operates outside of the jurisdiction of regular trade and tax laws. Either way, the toy is not going to be taxed until it enters the American market, and even then there are means offered for customs duty reimbursement. Perhaps this toy is something that isn't to be released to the market for some time for whatever reason. It can then be kept at a bonded warehouse without requiring to pay the bond. The toy may also be cheaper simply to produce

\(^7\) (National Association of Foreign-Trade Zones 2014, 1)
in America, in which the company then moves their operations to a FTZ creating jobs and generating economic activity. Imports on raw goods aren't taxed, the manufacturing of the toy and the value adding activities conducted on the product are not taxed either. Finally, suppose that the company wishes to import parts of the product for assembly and then re-export to the Canadian market rather than the American market. They can then export the product without duties until it enters its destined market.

2.1 Implications of America's Success

The profitability of America's FTZs is clear, with the trends on everything from import, export, production, and employment rising exponentially over the years.\(^73\) Imports to American FTZs amounted to over $234 billion, while products produced and exported from FTZs totalled over $546 billion in goods.\(^74\) This constant flow of goods on the global supply chain generated $99 billion in 2014, as stated earlier.\(^75\) These numbers indicate a widespread use of FTZs in America by a multitude of foreign businesses from a diverse selection of industries. This is because America's Foreign Trade Zones ascribe to all three of the necessary characteristics of a FTZ as seen throughout time: they are areas considered outside of the tax laws that govern the rest of the nation, they allow for the free import, export, and re-export of goods as well as the production or manipulation of goods within the zone, and finally they provide economic incentive for foreign direct investment and attracting international trade within the zone.

\(^{73}\) (National Association of Foreign-Trade Zones 2014, 1-3)
\(^{74}\) (National Association of Foreign-Trade Zones 2014, 1)
\(^{75}\) (National Association of Foreign-Trade Zones 2014, 1)
through the elimination of customs duties and taxes on production. They have stayed true to what makes FTZs work throughout the ages in all of their forms, which pays off.

The United States FTZ program is streamlined rather than complex, and the results show that their model is working. One important aspect of the FTZ concept in America is that it is overseen by an FTZ operator, often a type of consortium or some other type of private interest. After applying to the Foreign Trade Zones Board and following all necessary rules and regulations for the creation of a Foreign Trade Zone, the operator then assumes control of the FTZ. The operator acts as a one stop medium for organizing the flow of goods through the zone, or for businesses which wish to set up within the zone. The citizenry around the zone benefit from new employment opportunities while foreign business interests that use the zone benefit from the complete elimination of customs duties and excise taxes on items imported, exported, waiting, or produced in the zone.

The use of a FTZ is not completely cost free, but the physical cost of utilizing the port is miniscule compared to the volume and worth of the products in the FTZ and the amount FTZs are used for transshipment. In the United States, there is one fee that must be paid, the Merchandise Processing Fee, which is .21% ad valorem on items values over $2000 entering the port, which there is a minimum of $25, on every shipment to a maximum of $485 weekly. The only other tax that may be applied is the Harbour Maintenance Tax, should the goods enter a

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76 (Lowden 2013, 232)
seaport FTZ which is .125% of the value of the goods.\textsuperscript{77} These costs are ultimately negligible to those who utilize FTZs and they are offset by the savings that they provide.

America's success relies on its ability to look at what is needed and adapt for the future. The Smoot-Hawley Tariff was a great impetus for FTZs to be created as the effect it had on trade in America required an immediate response in order to keep things from getting worse. Decades after the Great Depression, the American Foreign Trade Zone system not only still works but has been improving exponentially in recent years.\textsuperscript{78} With exports totalling $99 billion, the American FTZ system demonstrates just how much revenue FTZs generate. America's FTZs are successful in part because of America's role in the world as a principal consumer, but mainly because they operate the way FTZs have historically. They focus on what makes FTZs so very effective in the first place, they provide an area outside of customs law, focussed on the import, export, manipulation, storage and re-export of goods between nations while offering economic incentives such as exemption of customs duties, excise taxes, and domestic processing taxes.

But one main aspect that is important here is the fact that FTZs in America are found in a specific area, rather than being able to be set up all over the country. This is not the case everywhere however, as states have attempted to create FTZ type areas or system on their own terms, tailored for their own purposes like Special Economic Zones and Export Processing Zones. Each is their own twist on the FTZ concept that has evolved over centuries. This is not however the case with Canada, who differentiates itself greatly from other FTZs in their operation and layout.

\textsuperscript{77} (Hinkelman 2005, 182)
\textsuperscript{78} (National Association of Foreign-Trade Zones 2014, 1-10)
Chapter III. Canada’s Foreign Trade Zones

Things are quite different in the Canadian context, as our own system of Foreign Trade Zones are an odd mix of pragmatism paired with a crippling lack of foresight. In America, FTZs are clearly defined areas in which duties on goods can be deferred or avoided altogether, they can be processed and have value added to the imported products without paying state or local value based taxes, and transport goods between the point of entry and the facilities within the FTZ in-bond, ultimately bypassing delays caused by security checks, processing or increased traffic and congestion, much like the system of CBWs as discussed previously.79 In Canada, much of the aforementioned functions of a FTZ remain the same save for two key factors: FTZs in Canada are not clearly defined areas, and thus they are not overseen by an operator or FTZ certification grantee as in America since FTZs in Canada have no clearly defined borders but rather track goods entering into the country through the FTZ program administered by the Canadian Border Services Agency.80

Canada’s Foreign Trade Zones are not “zones” but programs, a specific set of three which offer the same benefits as the traditional Foreign Trade Zone without being tied to a location. These programs are the Duty Deferral Program, the Export Distribution Centre Program, and the Exporters of Processing Services Program.81 Each of these programs offer something similar to the traditional FTZ found elsewhere, but do not conform to all three characteristics of successful FTZs throughout history as has been outlined. They focus on the import, export, and re-export of goods into the Canadian territory which are then free from

79 (Ferguson and Steverango 2013)
80 (Ferguson and Steverango 2013)
81 (Department of Finance Canada 2013)
Canadian tax laws. This is attractive to some businesses which look for flexibility in order to find something that fits best with their company's interest.

While it makes a good deal of sense to effectively make the entire country a Foreign Trade Zone, it raises difficulties in the marketing of FTZs in Canada, giving American FTZs an obvious advantage as operators of FTZs in America are able to market their location and services while the Canadian FTZ system is fragmented into several different agencies and websites.\textsuperscript{82} Furthermore, Canada's FTZ programs are far more directed to export oriented companies and only ones whose export sales are greater than 70%.\textsuperscript{83} In addition, the fact that duty deferral is only for a maximum of four years through the customs bonded warehouse Duty Deferral Program compared to the American stipulation that duties can be deferred indefinitely gives American FTZ's a clear advantage in temporary duty deferral.

In a report created by M. Ferguson and C. Steverango for the McMaster Institute of Transportation and Logistics, it was argued that Canada's FTZ system is inefficient, and thus not as effective as FTZs found in other nations. This is due mainly to the decentralized manner of Canada's FTZ programs and the fact that they are not tied to one specific area. As foreign business interests essentially look for the best location with which to set up their processing and manufacturing facilities, nominating all of Canada as a viable location for Foreign Trade Zone type operations does little to market any one area and give foreign businesses reasons for moving to a particular Canadian location. This key feature of traditional FTZs is lost among the rest of Canada's vast territory, and thus Canada's FTZ programs are suffering from a critical lack

\textsuperscript{82} (Ferguson and Steverango 2013)
\textsuperscript{83} (Ferguson and Steverango 2013)
of marketability. Ferguson and Steverango demonstrate in their report that there is evidence that many foreign businesses are even unaware of Canada's FTZ programs. This criticism falls directly in line with the pattern of Foreign and Free Trade Zones that has evolved over time. Location is an important aspect of trade, just as much as accessibility is. While having an open style of Foreign Trade Zones instead of traditional FTZs which can market themselves and clearly state the advantages and benefits of choosing their FTZ, their region, instead of any other ones inside the country. The point of FTZs is not just to provide duty relief and facilitating the free flow of goods, it is also about attracting FDI.

Another issue with Canada's FTZ programs is their difficulty to navigate and the fact that foreign business interests would have to have entered and completed the necessary requirements of all three programs in order to get all of the benefits that a traditional FTZ would bring. While this does favour those businesses which do not wish to take advantage of all the benefits of a traditional FTZ and provides an added sense of flexibility, the non-user friendly nature of having to access all of these programs separately rather than all in one place like American FTZs in itself creates a barrier to trade. The Canadian government often states that flexibility is the main benefit to the Canadian model over territorially based Foreign Trade Zones, but a look at FTZs here and elsewhere shows otherwise. This is proven simply by looking at the case of India, as discussed in section 1.2 which saw an instant increase after providing single window service. A detailed look at the three programs will show how very much more

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84 (Ferguson and Steverango 2013)
85 (Ferguson and Steverango 2013)
complicated the Canadian FTZ system is in comparison with that of America’s FTZs as shown on Figure 1 in the previous chapter.

### 3.1 Duty Deferral Program

The Duty Deferral Program (DDF) is actually an umbrella term for the three programs which it encompasses, but the main objective remains the same: the deferral of duties. This is done through the Customs Bonded Warehouse Program, the Duties Relief Program, and the Drawback Program.\(^{86}\) The Customs Bonded Warehouse Program offers much of what the American CBW does insofar as it provides duty relief to items held in bond after paying a bonded security on the goods being stored. The one difference here is that CBWs within Canada do not necessarily have to be conventional warehousing facilities, nor do they have to be near a port of entry, as FTZs can be accessed anywhere in Canada.\(^{87}\) In fact, the rules governing the creation of CBWs in Canada are so flexible that one could turn their office, home, or hotel room into a CBW and gain the benefits of Duty Relief on the items they have with them.\(^{88}\) This greatly assists smaller businesses or smaller trade operations which may not require the extensive facilities available at ports elsewhere. However, there is the important drawback that goods cannot be held there indefinitely as is the case with American CBWs, as there is a limit of four years that goods can be held in bond.\(^{89}\) In American FTZs and others

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86 (Government of Canada 2016)  
87 (Canadian Border Services Agency 2015, 1)  
88 (Government of Canada 2012)  
89 (Canadian Border Services Agency 2015, 1)
abroad, bonds are not even necessary as the goods are treated as if they haven’t entered
American territory.

The Duties Relief Program is rather straightforward, as it is concerned solely on products
that are imported for the eventual purpose of re-export.\(^9\) However, this also applies to goods
that are used in the process or manufacture of a final good for re-export, one of the main
functions of a regular FTZ. This applies at the time of importation, so as long as the imported
items are re-exported after storage or manufacture and manipulation they are not subject to
taxation.\(^1\) This program is what allows for the free flow of goods through a port, and is
intended to be used in unison with the CBWP.

The final part of the Duty Deferral Program is the Drawback Program, which as
discussed earlier, is the means in which duties which have already been paid may be
reimbursed. Businesses have access to the Drawback Program if the goods are exported at
some point in time or the goods are manufactured and then exported out of Canada.\(^2\) This is
useful for those who have already paid the duties on the items they are importing and
afterwards reclaiming their tariffs paid as if they were operating under the other sections of the
Duty Deferral Program. The DDP is overseen by the Canadian Border Services Agency which
work directly to track the goods in question within Canadian territory.\(^3\)

On the surface, the decentralized nature of the DDP does favour the flexibility of when
and where one can acquire duty exemption of reimbursement. But as stated earlier, the DDP 's

\(^9\) (Canadian Border Services Agency 2015)
\(^1\) (Canadian Border Services Agency 2015)
\(^2\) (Canadian Border Services Agency 2015)
\(^3\) (Flaherty 2011, 90)
internal programs are meant to be utilized in unison, though they can be accessed alone should the need arise.

### 3.2 Export Distribution Centre Program

Though complex in comparison to the process of acquiring duty relief provided by a traditional FTZ, there are great benefits to the DDP, mainly its flexibility. However this flexibility ends with the Export Distribution Centre program, which is tailored to a very specific action and has many limitations to what can actually be done there. The EDCP is focussed on the abatement of the Goods and Sales Tax as well as the Harmonized Trade Tax (GST/HST), which is offered to companies which are importing a good for limited manipulation and then re-export.\(^94\) Take for example a fruit crop being grown in the European Union and destined for sale in the United States. The proprietor sends the shipment to Canada where it is then labelled or packaged, and re-exported to American markets. In this scenario, the fruit would not be subject to domestic GST and HST.

There are a few important stipulations that must be followed however. The Export Distribution Centre is not for the purpose of manufacturing goods, rather the very limited manipulation of the items that have been imported. Packing, labelling, sorting, assembly, and testing of goods is allowed as long as the value added to the product does not exceed 10% of the worth of the good.\(^95\) In addition to this, exports must make up 90% of the revenue of the company that wishes to partake in the EDCP.\(^96\) These restrictions only really allow for the type

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\(^94\) (Department of Finance Canada 2013)  
\(^95\) (Government of Canada 2012)  
\(^96\) (Department of Finance Canada 2013)
of action as was described with the example of the fruit, very small additions to the product in
order to prepare it for market rather than full production.

The specificity of the EDCP has lead to the critical underuse of the program, which was
enacted in 2000. By 2004, only 30 companies were using the EDCP with only 12 companies
using the DDP as well.\textsuperscript{97} This is directly because of the tight restrictions on who can participate
and how much value can be added. Many have pointed out that the 10% cap on value added to
products eliminates many from even being considered in the program.\textsuperscript{98} This inefficiently low
allowance for value added activities seriously hampers the effectiveness of the program. The
Export Distribution Centre Program, much like FTZs and EPZs aims to attract FDI, but yet the
exclusionary nature of the EDCP seems to do little to that effect, especially when compared to
the FTZs and EPZs found elsewhere.

\subsection*{3.3 Exporters of Processing Services Program}

This is another very specific program aimed at providing relief from GST and HST on
goods that are not owned by the company, but are manufacturing a product by contract for the
purpose of export.\textsuperscript{99} Again, this is a very restrictive program that has several stipulations which
must be met before corporations can use the Exporters of Processing Services Program. The
EOPS specifies that the product being imported must be owned by someone who is not a
resident of Canada, nor are they a close relative. The possession of goods cannot be transferred

\begin{footnotesize}
\begin{itemize}
\item \textsuperscript{97} (Ferguson and Steverango 2013)
\item \textsuperscript{98} (Ferguson and Steverango 2013)
\item \textsuperscript{99} (Government of Canada 2017)
\end{itemize}
\end{footnotesize}
to another Canadian business except for the purpose of storage and transportation, and the goods cannot be consumed in Canada. The goods created by the company participating in the EOPS must be exported within four years of first manufacture. The EOPS essentially is for the import of raw goods and materials for manufacture by a Canadian firm, but the product is not for Canadian consumption. Suppose a European corporation decided to make shoes strictly for the American market. The raw materials such as the leather and fabric are imported into the country, manufactured within Canadian territory, then are exported out of the country to their designated market for sale. The shoes are not subject to Canadian GST or HST despite being produced within Canadian territory, nor are the raw materials used for the production of the shoes taxed upon entry. In this way, Canada is able to attract firms who are looking to break into other markets with their products by providing them with economic incentives to produce their goods here. However, this is specifically tailored to attract foreign investment rather than assisting Canadian firms which are looking to produce for other markets.

In conjunction the Duty Deferral Program, Export Distribution Centre Program and Exporters of Processing Services Program constitute Canada's fragmented FTZ system. A quick review of these programs show the benefits of having a decentralized system of FTZs as they give flexible options to business owners globally to move their production cycles to Canada. However, these differences come at the cost of marketability, ease of access, and lack of obvious incentive to move one's operations to a fixed location within the country. Realizing the issues inherent with this system, the Canadian government has slowly begun to move forward with their transition to a tradition FTZ system in recent years.

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100 (Government of Canada 2013)
3.4 Centreport and its Implications

The stark contrast between Canadian FTZ programs and FTZs found in America and elsewhere around the world cannot be understated; one system is centralized and streamlined while the other is decentralized, fragmented and difficult to navigate in comparison. While Canadian FTZs are able to provide a flexibility that FTZs elsewhere are unable to, the findings of Ferguson and Steverango on the overall viability and effectiveness of Canada's FTZ programs clearly indicate the problematic nature of Canada's fragmented system in comparison with those found globally. Little has differed in these programs since they were created in 1985 in order to streamline the special tariff programs available at the time.\textsuperscript{101} Apart from the North American Free Trade Agreement (NAFTA) which eased many of the monetary trade barriers between North American states, little was done in the way of changing Canada's FTZ programs in any meaningful way. There has been a clear shift in recent years towards a formal FTZ system that looks and acts more like a typical Foreign Trade Zone would in other states.

Despite the decentralized method of providing FTZ services in Canada, due to recent reforms under the Harper government there are now traditional American style FTZs in operation in the province of Manitoba and elsewhere after the success of the Centreport FTZ Point pilot project highlighted the benefits of formal FTZs. The Winnipeg inland port of Centreport is run by a corporate operator which provides single-window services as well as access to all available Canadian FTZ programs at the port itself, essentially the "point" part of the program. Additionally, low corporate taxes mixed with the ability for many business to

\textsuperscript{101} (Drawback Experts Canada 2014)
reclaim GST and HST give the Centreport FTZ a competitive edge.\textsuperscript{102} Centreport is an inland intermodal port of entry supporting a global air cargo airport as well as three Class 1 railroads in addition to a trucking hub, making it one of Canada's most efficient and sizeable formal Foreign Trade Zones, along with being the first to offer single-window services.\textsuperscript{103} Centreport gave a precedent for moving forward with traditional style FTZs elsewhere in the country.

To be clear, this is not to suggest that the exact design of Centreport is applicable to every future FTZ Point in Canada, as it is an inland port with its own particular benefits and infrastructure. What it does mean is that the model for providing single window services to clients within a fixed location that provides economic incentives for investment like traditional FTZs around the world can be replicated in Canada. The FTZ Point pilot project reforms as seen first in Winnipeg have provided a basis for the adoption of FTZ Point projects across Canada. Niagara is following suit with a traditional FTZ of its own, officially establishing the first Foreign Trade Zone in Ontario.\textsuperscript{104} As of July 2017, Windsor has been granted its own FTZ Point designation, making it the eighth FTZ Point established in Canada and the second in Ontario.\textsuperscript{105} Nova Scotia and Alberta have also established FTZs of their own, following Centreport’s model of offering single window access and navigation through the various FTZ programs.

Winnipeg was a good choice for the creation of a traditional Foreign Trade Zone. The city has served as a trading hub and centre for commerce since the very early years of Canadian settlement. Beginning as a main trading post for fur traders up until the 1900's, Winnipeg was

\begin{footnotes}
\item[102] Thompson Dorfman Sweatman LLP 2016
\item[103] Thompson Dorfman Sweatman LLP 2016
\item[104] Government of Canada 2016
\item[105] Government of Canada 2017
\end{footnotes}
originally envisioned as a Chicago style trade oriented city, at times referred to as the "Chicago of the North". Much of this was based off of the railway system that runs through it, a main method of transport and commerce since the very first railway system was built through it via the government of Sir John A. Macdonald. The history of the railroad and the history of the province is intertwined, as this is the very same railway route which caused several Métis uprisings in the late 1800's. It's close proximity to the Assiniboine and Red River, two bodies of water which run through the city and connect at the commerce centre, the Forks which served as a historical marketplace since the fur trade is another main means of transportation and freight. As the fur trade died out, the trade of grain grew as hunting was eventually supplanted by farming. By 1909, Winnipeg became the largest centre for grain in North America after handling over 88 million bushels, beating out Minneapolis, Duluth, Buffalo, Chicago and New York.

It still serves as a centre for grain today, but it has grown to encompass many other markets. Winnipeg's economy is one of the most diverse in all of Canada, featuring a strong manufacturing sector which produces everything from aerospace components to farm equipment, a very large agricultural sector and a growing financial sector as well. This is all in conjunction with its natural resources such as mining which accounts for $2.5 billion in revenue annually that are close and easily accessible. The city also sports an international airport which has been in operation since 1928. The James Armstrong Richardson International Airport,

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106 (Wishart 2004, 189)  
107 (Reid 2008, 109)  
108 (Artibise 1979, 284)  
109 (Government of Manitoba 2017)  
110 (Lee 2017, 183)
formerly known as Stevenson Field, is a large complex that held the title as Canada's 8th busiest airports in 2010.  

Winnipeg remains a city built around commerce, as it is not only well situated in the country to connect both the East and the West, but it also sports several modes of transportation and freight that are not only essential but also conducive to trade. The diverse nature of the goods that both flow through and originate from Winnipeg and the rest of the province of Manitoba serves as an accurate gauge of the contents of Canada's marketplace as a whole. In relation to the creation of a pilot project, Winnipeg's demographics made it a prime candidate when the time came for a revision of Canada's Foreign Trade Zone system as it gives a good sample of Canada's general demographics.

While Winnipeg serves well for a snapshot of Canada's demographics, it has its share of issues. Primarily, it is a home to a small local market that while well connected to various modes of transportation, remains quite distant from most major markets. This is a particularly large drawback, as proximity to markets and general location of an FTZ is an important feature of most successful FTZs. There are several indications that Centreport is not generating the amount of economic activity as once hoped. Years after the creation of the Centreport inland FTZ, there has been an absence of news reporting any serious growth. At the current moment, there are swathes of land that are yet to be developed, and thus provide no economic benefit apart from future promises. Creating a single window service FTZ in Winnipeg was definitely a sensible idea that fit well with Harper administration's Asia-Pacific Gateway Project, its location and history made it well suited to serve as Canada's first Foreign Trade Zone. Winnipeg was

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111 (Palgrave Macmillan 2016, 290)
once a booming economy which served as a trade hub for goods moving throughout Canada, and still does as part of the Gateway Project, which aimed at facilitating the flow of Canadian goods to the Western seaboard for trade with Asian nations. However, the level of trade happening in Winnipeg now is mostly domestic rather than international as it serves as more of a trade corridor connecting Eastern Canadian provinces to Western Canadian provinces.\textsuperscript{112} Much of what passes through Winnipeg is either meant for domestic consumption or is destined for international shipment in British Columbia.

While Centreport does have access to an international airport as well as road and rail by being placed strategically at the heart of Canada's Asia-Pacific Gateway initiative,\textsuperscript{113} the pilot project for Canada's first traditional Foreign Trade Zone would have been better suited had it been located elsewhere, as it lacks the 'foreign' aspect. The only international port of entry to the city in through the airport, which while being quite active, does not bring in the same amount of foreign goods as a border crossing or seaport would allow. The common theme of FTZs is that they operate best a busy ports of entry, often adjacent to a neighbouring country if possible in order to capitalize on the flow of goods through international borders and ease wait times and delays. A better location for a traditional FTZ in Canada would perhaps be a port of entry which sees a great deal of international traffic.

There are many such ports throughout Canada. The Port of Prince Rupert is easily one of the busiest seaports in Canada due to its place at the end of the Asia-Pacific Gateway Project. By 2015, Port Rupert was one of the main ports of entry in all of North America for goods

\textsuperscript{112} (The Council on International Trade 2011, 6-7)  
\textsuperscript{113} (Government of Canada 2010)
coming in from Asia. Port Rupert is not only well situated for an FTZ port offering single window services but as it also plays such an important role in the shipment of goods to Asia, it is a very good candidate for an FTZ much like Centreport in Manitoba.\textsuperscript{114} The Lewiston-Queenston Bridge and Rainbow Bridge crossings in Niagara which connect the province of Ontario to the state of New York is yet another main international port which would definitely benefit from a traditional FTZ as well due to the volume of traffic they experience.\textsuperscript{115} As of 2016, the Niagara region has been designated as an FTZ Point.\textsuperscript{116}

But in comparison to all of these places which are, as stated excellent candidates for future traditional style Foreign Trade Zones in the country, one place in particular seems to be a superb candidate for such treatment far before others. The Windsor-Detroit international crossing is absolutely integral for trade with our largest trading partner, the United States of America. With over a quarter of Canada's annual trade crossing into the state of Michigan from Ontario encompassing everything from automobile parts to agriculture, the Ambassador Bridge which creates this crossing is easily one of the most important pieces of infrastructure to both Canada and the United States.\textsuperscript{117} Currently, there is only one single span of the bridge as well as a tunnel for commuter travel, but another bridge has been announced to be built in the coming years. A rail system also connects these two industrial cities which once created and commanded the North American auto trade. While the auto trade has steadily declined since the advent of foreign auto makers and has definitely slowed since the economic recession of 2008, Windsor still remains a major trade corridor with much to offer.

\textsuperscript{114}(Carbaugh 2016, 107)  
\textsuperscript{115}(Helleiner 2016, 5)  
\textsuperscript{116}(Council of Canadians 2016)  
\textsuperscript{117}(Savage 2015)
As stated previously in chapter 3.4, Windsor has just recently been granted FTZ Point designation. This comes after years of speculation and inquiry by many into the subject, who rallied for a Windsor FTZ Point designation before other locations. In a 2016 article produced by the Windsor Star, journalist Dalson Chen glibly pointed out that "As a hub for international trade that’s trying to attract foreign and domestic investment, it seems a no-brainer that a certain border region should be named a Foreign Trade Zone. We’re talking, of course, about Niagara Falls. Last week, the federal government officially designated the Niagara Region an FTZ Point — the first designation of its kind in Ontario."\textsuperscript{118} Chen, along with many Windsorites were rightly dumbfounded that Windsor was overlooked as a candidate for FTZ Point designation for so long. Whatever the reason for Niagara acquiring its designation before Southwestern Ontario, Windsor now has the coveted FTZ designation, and the process of implementation is well underway. Its position allows for easy access with which foreign companies could start up and break into both the American and Canadian market, and the existing (and future) infrastructure makes it an ideal location for a Foreign Trade Zone much like CentrePort and other places which have already received FTZ Point designation.

Windsor’s FTZ Point designation comes after two years of application processing and preparation conducted primarily by the Windsor-Essex Economic Development Corporation (WEEDC).\textsuperscript{119} As of receiving the designation, WEEDC will take responsibility over the FTZ Point program with assistance from a FedDev Ontario taskforce with representatives from Transport Canada, Export Development Canada, Global Affairs Canada, the Canada Revenue Agency, and

\textsuperscript{118} (D. Chen 2016)
\textsuperscript{119} (Windsor-Essex Economic Development Corporation 2017)
Innovation, Science, and Economic Development Canada. This list of agencies which are involved in the preparation and application of the Windsor-Essex FTZ Point program underline the sheer necessity of a single window service system. For any business whether it be large scale multinational corporations or small scale local enterprises, the navigation of all respective programs encompassed within the FTZ Point program would provide undue complications to what should be a user friendly system. Through their involvement and the administration of the program benefits to those within the Foreign Trade Zone by WEEDC, both local and foreign companies who operate in the area can have quick and easy access to the Customs Bonded Warehouse, Duty Deferral, Customs Drawback, Export Distribution Centre and Exporters of Processing Services programs without the hassle of having to access all of these various programs individually. Pairing this with Windsor’s location and role as the busiest trade corridor in the country creates a very favourable place for local and foreign investment in the area.

Chapter IV. A Tale of Two FTZs

Canada and the United States of America form the second most important bi-national trade partnership in the world, with goods flowing between our two nations with a combined value of billions. The fact that so much has been done in order to eliminate the barriers that exist between us but yet so very many remain continues to be a hurdle for increased economic growth in an area vital for trade between these two nations. The North American Free Trade
Agreement (NAFTA) eliminated many trade barriers between the United States and Canada when it was enacted in 1994, but that has not been the economic panacea as once thought.\textsuperscript{122}

The Windsor-Detroit Crossing is the most important trade route between Canada and the United States. It is estimated that the volume of trade that flows through Windsor ranges between $500 million and $750 million daily, which constitutes 25\% of all merchandise traded between the two countries.\textsuperscript{123} These numbers denote the incredible significance of the crossing between Windsor and Detroit, and provided impetus for both the previous Harper government and Governor Rick Snyder to approve and agree to move forward with plans for increased infrastructure in the future.

But while Windsor may be well located to be a border port, it does suffer from a lack of facilities. Primarily, the issue of intermodal facilities being absent from Windsor already presents a large obstacle to facilitated trade. Intermodal facilities are necessary for the transfer of goods from one method of shipping to another without the handling of whatever goods are being shipped. Windsor does have access to rail, air, road and water, but currently does not have any means of combining these methods of freight in the manner that an intermodal facility would. There also aren't any current plans for Windsor to get an intermodal facility either, as the last time the issue was investigated was April 2008 by the City of Windsor and Transport Canada.\textsuperscript{124} There is still "good news" however, as the area beside the Windsor Airport has been designated as a potential Multi-Modal Area, but as progress seems to have halted those dreams may never be realized.

\textsuperscript{122} (Floyd 2017)
\textsuperscript{123} (CBC News 2016)
\textsuperscript{124} (McCormick Rankin Corporation 2008)
It is here that we see the clearest break between Centreport, an inland intermodal facility and Windsor, a river port which serves as a trade corridor for goods to the United States. These two regions are different from each other and thus have different needs. Besides the fact that the volume of trade that runs through Windsor far exceeds that of Winnipeg, Windsor is on the frontier of Canadian territory adjacent to our largest trade partner while Centreport is located several hundred kilometres from the North Dakota crossing at Pembina/Emerson and the Minnesota crossing at Lancaster/Tolstoi. The function of Winnipeg’s Centreport is the flow of goods through Western Canada while the function of the international crossing and river port of Windsor is that of the entry and exit of goods between two nations. Centreport also operates an intermodal facility whereas Windsor does not. While that is a hindrance logistically, that is not to say that Windsor does not have transportation capabilities. A system of rail, air, deepwater port facilities, a direct vehicular crossing with the United States as well as expressways, and tunnel systems for road and rail denote the myriad methods of shipment available in Windsor.

But transportation systems are not all that Windsor has to offer. As a historically manufacturing centre, roughly 90% of all vehicle assembly factories and 60% of American and Canadian manufacturing facilities reside within one day trucking time of the city.\textsuperscript{125} This strategic location and access to manufacturing infrastructure would provide an attractive atmosphere for investment in the manufacturing sector under a future Windsor FTZ Point. It bears repeating that the purpose of Foreign Trade Zones is to provide an area conducive to investment. With such a wealth of investment opportunities and manufacturing sites available

\textsuperscript{125} (Windsor-Essex Economic Development Corporation 2016)
to prospective investors, the tariff easing measures provided via a FTZ would create a favourable environment for foreign direct investment and trade.

4.1 A Model for Windsor?

Windsor has a long history of being a corridor for trade and economic activity. It has traditionally benefitted from both its close proximity to the United States of America and its position as Canada’s most southern crossing into the heartlands of its biggest trading partner. It is home to a strong agricultural sector which leads in Ontario for creating jobs, tax revenue, and GDP growth, among other areas.\textsuperscript{126} Roughly $1.2 billion is generated annually from the Windsor-Essex region’s agricultural sector alone.\textsuperscript{127} However this is not even the industrial sector which Windsor is known globally for. The city of Windsor in conjunction with the city of Detroit historically has been a main centre for the automotive industry since its very inception with the invention of the automobile and later innovations which have had wide ranging implications for manufacturing across the globe.

Henry Ford created his automobile factory in Detroit in the late 1800’s and was the very first to create an automobile parts factory in Windsor in 1904, effectively linking the two international cities though the trade of automotive parts.\textsuperscript{128} By 1930, Detroit became home to two other automotive companies which would in the future turn into giants of the industry, General Motors and the Chrysler corporation, creating what is known as the "Big Three".\textsuperscript{129} In time, both General Motors and Chrysler would negotiate and operate parts and assembly

\begin{footnotesize}
\textsuperscript{126} Fantoni 2015
\textsuperscript{127} Fantoni 2015
\textsuperscript{128} Anastakis 2005, 18
\textsuperscript{129} Anastakis 2005, 18-19
\end{footnotesize}
plants in Windsor. In fact, it is through the operation of the Big Three in Detroit and Windsor and their close integration through the use of factories on both sides of the border and the management of just-in-time inventory stock operations that the American-Canadian Automotive Products Trade Agreement was created in 1965, effectively overturning many tariffs that were originally in place on automotive parts and products.\textsuperscript{130} This in turn created the groundwork for future free trade agreements down the line such as NAFTA.\textsuperscript{131}

This still continues today, however at a far diminished pace than that of the heyday of automotive production. Though Windsor has the highest concentration of automotive parts factories and assembly plants in all of Canada, the industry is in steady decline.\textsuperscript{132} Ontario's manufacturing sector, a large part of which was constituted of auto factories in the Windsor region has shrunk upwards of 30% since 2002.\textsuperscript{133} This has resulted in many jobs being lost and sent to places such as Mexico or overseas. Regardless, what remains in Windsor is a strong employment base, as well as access to skilled labour and manufacturing infrastructure just waiting to be used. Its location as well as the available territory make it a viable candidate for any foreign or domestic business interest to move to or begin their operations.

Border infrastructure is another clear benefit that Windsor has over many international crossings with America. The bridge is well situated and has been upgraded with trusted shipper and commuter routes in order to decrease wait times. With regards to the Ambassador Bridge which only spans four lanes, those with NEXUS and FAST capability still are funnelled into the

\textsuperscript{130} (Weintraub and Sands 1998, 1)
\textsuperscript{131} (Weintraub and Sands 1998, 1-2)
\textsuperscript{132} (UNIFOR 2015)
\textsuperscript{133} (Moncur 2014)
same meandering and at times seemingly endless lineup with the rest of the border crossers due to a lack of infrastructure, effectively negating the purpose of those two programs to begin with. But the building of the Gordie Howe bridge however is sure to alleviate this pressure by creating additional dedicated lanes for trusted shipper programs along with its regular lanes for public use. This will only benefit business interests which choose to move or begin operations within the Windsor-Essex Foreign Trade Zone.

As stated previously, the need for a Windsor FTZ has been recognized and is currently in the process of being developed. The process of acquiring and setting up a FTZ Point designation is not a small nor simple one. After submitting the necessary applications and required paperwork to the Department of Foreign Affairs, Trade and Development (a federal division) as well as FedDev Ontario (a provincial division which oversees economic development within the province), a task force consisting of private sector participants must be created in preparation for the future FTZ Point program designation. Once approval has been acquired from both the federal and provincial government, FTZ Point designation is then given to a corporation which will serve as the operator of the FTZ Point. Judging by how much of this that has been undertaken by the Windsor Essex Economic Development Council already, WEEDC is positioned to most likely become the operator of a future Windsor FTZ Point. After FTZ Point designation is given by both the federal and provincial government, it is then up to the FTZ operator to educate local businesses on what the changes mean for them, apply for funding for marketing and ultimately begin the marketing of the FTZ Point after implementing a marketing

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134 (Windsor Essex Economic Development Corporation 2016)
135 (D. Chen 2016)
strategy.\textsuperscript{136} According to WEEDC, much of this has already been completed, with the marketing and information sessions to local businesses and other interested parties currently underway.\textsuperscript{137}

It should be stated that there is of course a cost to implementing FTZs, particularly in Ontario. In total, Canadian customs revenue generated upwards of $3.6 billion in 2010, quite a large sum of money for government coffers.\textsuperscript{138} According to data released by the Canadian Border Services Agency in 2010, Ontario makes up 49.5\% of all tariff revenue collected in Canada.\textsuperscript{139} This means that nearly half of the customs income generated would be ultimately threatened by a program which is meant to cut or at the very least divert tariffs, resulting in less customs revenue. The fact that Windsor is one of the most important with regards to imports and exports in Ontario only exacerbates the worry of lost revenue for the government. Perhaps this is one reason that the designation for a Windsor Foreign Trade Zone Point has taken so very long, and was not considered before Niagara and other places which experience far less volumes of import and export traffic.

Regardless, the benefit to the area would far outweigh any hypothetical drawback to customs revenue. The general idea of an FTZ as has been seen since antiquity has relied upon the three main points as outlined in the introductory chapter: clearly demarcated zones which benefit from different trade laws than the rest of the country located in areas or cities which focus on or have a high concentration of import/export activities, which offers economic

\textsuperscript{136} (Windsor Essex Economic Development Corporation 2016)
\textsuperscript{137} (Windsor Essex Economic Development Corporation 2017)
\textsuperscript{138} (Cousineau 2013)
\textsuperscript{139} (Ferguson and Steverango 2013, 47)
incentives such as tax relief for the purpose of attracting foreign and local investment. With the current FTZ Point designation, Windsor has an increased chance of generating employment opportunities through attracting business and trade. By providing a streamlined process as offered by WEEDC located at a fixed position, Windsor and the surrounding Essex County can market themselves for their positive attributes such as location, transportation, manufacturing and labour.

4.2 Conclusion: Reforming the Canadian FTZ system

The FTZ Point program as first initiated in Winnipeg was the very first step in the right direction for Canadian FTZs. What they have allowed for is the creation of a traditional style of Foreign Trade Zones that are easily recognizable and accessible to business interests across the globe, while still maintaining the small scale flexibility that Canada's various FTZ type programs offer. This solution is essentially twofold, as it does not drastically change the manner in which Canada offers FTZ type programs now while offering the standard fare Foreign Trade Zone that is both recognizable and conducive to large scale international trade.

Should one wish to utilize the various programs alone or in whatever combination that they desire, they can still tailor their needs by accessing the various programs individually. It is still possible for one to set up a customs bonded warehouse in their hotel room, or effectively create a space anywhere in Canada that offers the FTZ services that they require. At the same time, the development of the FTZ Point programs which offer single window service harkens back to what makes FTZs so very successful from the very beginning with the civitas liberas of Rome and the city states of antiquity: clearly demarcated areas or territories where the regular
tax laws do not apply, found in trade hub cities or areas within a territory that are utilized
mainly for the import, export, re-export storage, manipulation, or manufacturing of goods
flowing through the area which is geared towards attracting international trade and foreign
direct investment through economic incentives such as the elimination or reduction of trade
barriers or taxes on production.

The 'point' part of the FTZ Point program is the creation of a single window service
point in which any future users of the FTZ can go for complete assistance from the port
operator, much like what can be found elsewhere in Foreign Trade Zones around the world.
This allows for easier access by foreign business interests who wish to take advantage of
Canada's FTZ system without the hassle of navigating through the complicated and fractured
nature of the various FTZ type programs that are offered. One need only speak to the operator
of the FTZ in the region to set up the required services.

Another key advantage of the FTZ Point program is that it allows for the operator of the
Foreign Trade Zone to now market their FTZ in relation to others found in the world, a key issue
that was pointed out by Ferguson and Steverango. With the FTZ under direct control of the port
operator, not only can they provide one stop services for all the myriad FTZ needs of foreign
business interests at ease, but also compete with other FTZs in order to attract the right
business to the right place. Operators will now be able to engage in crucial marketing which
informs potential FTZ users as to what makes that particular FTZ the right fit for their
enterprise, whether that be access to different means of transportation and freight, proximity
to resources and markets, competitive costs for infrastructure, hydro, labour and everything
else that is important to businesses who may require a wide variety of amenities for their particular business needs.

It should be kept in mind that the main purpose of FTZs is to attract foreign direct investment through the use of the port for the import and re-export of goods as well as the fabrication of goods within the FTZ. This in turn generates economic activity. There is far more to Foreign Trade Zones than merely being a place to store goods without paying duties, they are also locations for commerce and manufacturing. This in turn fosters an environment conducive to foreign trade, while also creating employment for those who live in and around the FTZ. In this manner nations benefit from increased economic activity and avenues of employment generated within the zone. It is a scenario where much is gained simply by averting tariffs.

The creation of the FTZ Point as seen first at Centreport has promising implications. It demonstrates that Canada is willing to learn from past errors and use new information to gauge an appropriate response. The Harper government was right to reform the system as it was, and the fact that new traditional style FTZs are starting to be implemented elsewhere in the country is a good indicator of that. Centreport itself is still growing as well. As of 2016, Imperial Seed, a grain processing company has begun the movement of their operations to the Centreport FTZ, an $8 million operation which will double the company’s processing capacity.\footnote{CentrePort Canada 2016} Imperial Seed is not the only one to move operations to Centreport, as 46 other companies have also relocated to Centreport since its opening in 2009, generating upwards of $250 million.\footnote{Love 2017} It is estimated
that the Centreport FTZ Point will attract an additional 70 new businesses by 2020, with more land being developed for this purpose.\textsuperscript{142} Furthermore, an estimate provided by the Manitoba Bureau of Statistics in 2016 shows that full development of the southern part of Centreport would generate upwards of $1.48 billion in revenue and 17,600 permanent jobs.\textsuperscript{143} These projections indicate that Centreport is still growing.

This holds many implications for the future of a Windsor area Foreign Trade Zone. Primarily, the boost in employment and increased economic activity that will come with the an FTZ Point designation will be nothing short of a boon to the city and the province as a whole. As it is already the busiest trade corridor in Canada, the added activity garnered from increased FDI through the institution of a traditional FTZ is unquestionable. For a city that is so very used to being at the forefront of international trade, an FTZ Point designation seems like the obvious choice. This can only translate into increased economic activity and opportunity for the region, especially after the Gordie Howe bridge is completed.

Foreign Trade Zones across the globe have always had certain things which made them what they are. They functioned in a manner which was conducive to trade by following three main criteria: they have always been specific areas usually situated near a busy port of entry where economic incentives for commerce can be found, with tax laws that are specifically different within the zone. This is formula which has been tried and tested since the very early ages of Western civilization, and it is through the adherence to the aforementioned criteria that FTZs have functioned throughout history. While it is admirable that Canada attempted a

\textsuperscript{142} (Gray 2015)
\textsuperscript{143} (Thompson Dorfman Sweatman LLP 2016)
fragmented yet flexible system to meet the needs of anyone who wished to take advantage of the benefits of a Foreign Trade Zone without being located within one, this hampered Canada's ability to even be recognized as having a real FTZ system as pointed out by Ferguson and Steverango.\textsuperscript{144} The FTZ Point reforms have changed that around while keeping the unique flexibility that was once offered through the various FTZ programs.

Canada has made great strides forward in recognizing the problems that were inherent in the FTZ system as it was. The recent reforms which created the FTZ Point system has greatly ameliorated many of the issues that were prevalent before. By utilizing the FTZ Point system as demonstrated with Centreport, Canada now has a blueprint to move forward with the institution of FTZs that exist in the same capacity as FTZs throughout the world with its own Canadian flavour of flexibility. The model that Centreport provides must be replicated in busy ports across the country in order to maximize our economic potential through modernizing the way we handle our Foreign Trade Zones.

This process has already begun, as seen with new single window service FTZs springing up in Ontario and elsewhere in the country. The Niagara FTZ is the very first of its kind in the province, and heralds a visible shift in the manner which Canada will manage and create Foreign Trade Zones in the future.\textsuperscript{145} As of 2015, FTZ Point designations were instituted in Calgary, Halifax, Regina and Port Sydney, all of which follow the same style of single window service operation as CentrePort in Winnipeg.\textsuperscript{146} With regards to Windsor, it is hopefully only a matter of time before the region itself acquires its very own FTZ to compliment its busy

\textsuperscript{144} (Ferguson and Steverango 2013, 62-64)
\textsuperscript{145} (Council of Canadians 2016)
\textsuperscript{146} (Council of Canadians 2016)
international crossing. The stage has been well set, and the time is ripe for Windsor to receive similar treatment that Winnipeg and other Canadian cities have.

What is left for Canada is to now complete the process of fully integrating the FTZ Point reforms throughout Canada. The new FTZ Point designations that have been instituted in the wake of CentrePort's pilot project are merely the first steps on the path to fully modifying and modernizing our Foreign Trade Zone system into a system that can be readily identified and easily used by foreign business interests. The reforms that have been enacted have done much already to change how Canadians handle foreign trade. By returning to the criteria that has made FTZs work since time immemorial, Canada can fully reap the benefits of global international trade.
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Vita Auctoris

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