

## EVALUATION OF THE FREE ZONE STRUCTURE IN TERMS OF TURKISH ECONOMY

**Sadife GÜNGÖR**

*Taskent VHS, Selcuk University  
Taskent MYO, Taskent, Konya, Turkey  
+905542524139, sadifegungor@selcuk.edu.tr*

**Sevilay KONYA**

*Taskent VHS, Selcuk University  
Taskent MYO, Taskent, Konya, Turkey  
+905443526000, sevilaykonya@selcuk.edu.tr*

**Mehmet Burak CERAN**

*Akoren VHS, Selcuk University  
Akören MYO, Akören, Konya, Turkey  
+905058538119, mbceran@selcuk.edu.tr*

**Abstract:** *Free zone (FZ) although within the political boundaries of a country, in particular, such as customs practices, various trade restrictions and areas have been left out of various legal practices. Free zones have the ability to support the development efforts of the developing countries, in terms of the volume of foreign trade, balance of payments, industrialization, technology transfer, employment, providing benefits in areas such as facilitating the import and export. In this context, the aim of this study, the purpose of the free zones in terms of Turkey's economy and its effects on the economy are investigated with indicating the importance and characteristics.*

**Keywords:** *Free Zones, Turkey, Turkey Economy*

### 1. INTRODUCTION

The first applications that take advantage of the free zones as an important tool, dates back to the earliest times of the economy and trade strategies (Erdoğan and Ener 2005.12). It is seen that occur in the first application of the free city although not known exactly start dates and features, in the first centuries, the eastern and southern shores of the Mediterranean recognized the commercial success of the city as Carthage and Sur city with different features in some places of the performance applications.

Free zones have supporting development efforts especially in developing countries have a role in supporting development efforts (Orhan, 2003:117-118). Currently, export-oriented development strategies that have been adopted in some developing countries, provide important economic benefits from free trade zone application

In particular, export free zones which have been created in order to improve and develop foreign trade, it has had an important place in outward economy model. Then in 1980 in Turkey, in several provinces, it is up to present 21 free zone activities put in working order.

These free zones are expected to contribute to the national economy (Uzay and Tıraş, 2009:249).

The purpose of this study is to reveal the positive and negative effects on the national economy of 19 pieces free zones in Turkey. Pursuant to this fact, in the first part of the study, it expressed the conceptual framework of the free trade zone. In the second part it expressed the impact of free zones on Turkey's economy.

## 2. CONCEPTUAL FRAMEWORK

Free zone; can be described as, part of a country's foreign trade with the laws and restrictions necessary to fully implement the regime or the disabled, usually, an international airport located near the port or located within national borders, accepted outside the customs territory and essentially, selected to operate export-oriented industrial and commercial areas (Güner, 1995:3).

In other words, free zones, although there are within the political boundaries of a country, in particular, such as customs applications, a variety of trade restrictions and areas that have been left out of various legal practices. In addition to the customs privileges that provided to companies in these regions, they are given various tax exemptions, as like world standards such as communication and communications infrastructure opportunities and export-oriented productions are subsidized in various ways (Öztürk etc.2009:364). Generally, the main objectives of the establishment of Free Trade Zones can be summarized briefly as follows (Tümenbatur, 2012:341):

- To increase investment and production for export,
- To increase foreign trade, foreign investment and technology by providing input,
- To benefit more from foreign financing and trade opportunities,
- Enabling to the Domestic producers benefit from the price in the world market and provide input on a regular basis, contribute their international competitiveness,
- To increase exports by promoting the development of export-oriented industries,
- Increasing the foreign currency inflow.
- creating new business opportunities to help solve the employment problem,
- brought to the country from abroad advanced production technology and management techniques and to raise economic standard,
- To benefit from the advantages of re-export and transit trade,
- To ensure the continued ability of the banking activities in foreign markets.

Free Zones are the formation of special importance for the country's continuous and direct link with the outside world. Free zones with the expansion of the international market in the country, as more weight is an issue come to the fore. In other words, it is said that the free zones which creates an easier gateway to international markets easier. However, a movement initiated in free zones, broader and more comprehensive dimension is reflected in the country's economy and act. Therefore, there are versatile local effects of the generated operating in free zones. These are the direct and indirect effects are formed links with the country's economy as a result of the free zones (Çelenk, 2007: 1). Free zones can be examined as separated into two including the effects of positive and negative on their established region and the country (Toroslu, 2000, 10-12): As positive effects; It can be listed as providing opportunities for the offshore banking, to increase exports and foreign exchange earnings, to facilitate the import, foreign investment and facilitate technology transfer, transit trade, effect of port and transport services, employment-enhancing effect, to provide facilities for test new policies.

The negative effects can be listed as; to create the import pressure, competitor to domestic companies in the free zone companies, deterioration of social structures and wage inequality, economic efficiency of the reduction in orientation, increase the trend of trafficking, accelerate monopolization, the negative effects of investment, reduction of the economic impact of foreign investment, high cost of establishment of free zones, creating the problem of environmental pollution. Free zones established for industrialization in Turkey, in creating an attractive environment for foreign investment and along with new sources of employment, foreign exchange earnings, which bring technological developments (Tümenbatur, 2012:350).

### 3. FREE ZONES EFFECT TO THE TURKISH ECONOMY

While the free zones are carrying out their activities, might be encountered with some positive and negative effects. Free in looking at the development process in our country seems to be more of a positive impact (Aksoy, 2010: 65).

**3.1. Positive Effects of the Free Zones in terms of economy:** Most important goal of the countries that want to establish free trade zones is to take a greater share of world trade. Free zones that have been established to achieve this goal, there are some positive effects on the economy of the host country. These effects depend on free zone established goal and choose of the location of the organization, also infrastructure (Arslan, 2005: 34). Free zones are established to increase market share of the country and able to do more stable export (Düzenli, 2006: 27).

**Effect For Export Increase:** Free zone structures are the areas where the foreign trade regime doesn't apply literally. Free trade zones provide export facilitation and also increase. The transport of the goods to the free zone region for Domestic producers are counted as exports and it will be held by foreign investors in the free zone investment and production. The goods will be done using the native country and will contribute to export (Demirel, 1993: 7).

If a country are operating in the free zone, its main purpose is to generate income through exports. Companies enter into manifold relations for achieve this goal and they are trying to get a share of the world market (Akyürek, 1983: 72).

The benefits for exporters of free zones, are expressed as follows (Arslan, 2005: 33-34):

- Which was founded in the free zones on domestic and foreign manufacturers and exporters, because of necessary raw materials, semi-finished and finished goods needs- deemed as export operation and good sales, the export volume of the country will expand.
- The costs of goods which are processed in various ways and manufactured and packaged for export, imported goods used as input because of not to pay tax, export goods share will increase in the market.
- The exporter who brings his goods to the free zone, has completed all his operations and analyzed sales and advantages in foreign markets.
- Free zones allow a more comfortable and conscious work of the foreign trade sector. Better recognition of all kinds of export markets, demand analysis and effort for its product development accordingly, are important contributions to increasing the exports.

Table 1: As of Free Zones Annual Trading Volume (1000 USD \$)

Regions	2010	% 2011-2010	2011	% 2012-2011	2012	% 2013-2012	2013
İstanbul Industry and Trade	4270831	-15,63	3603223	-10,63	3220084	4,58	3367671
Aegean	2502919	129,69	5747500	-9,14	5221937	-10,37	4680242
İstanbul Atatürk Airport	2718109	-17,53	2241525	-6,15	2103566	-14,56	1797352
Mersin	2227309	20,91	2693049	42,30	3832246	-7,31	3552257
İstanbul Trakya	1480979	3,56	1533749	-5,88	1443596	19,42	1723958
Bursa	1352280	16,22	1571579	-2,50	1532317	24,48	1907397
Avrupa	1288563	59,83	2059462	14,83	2364905	3,17	2439927
Antalya	716721	2,03	731252	2,52	749707	20,36	902379
Kocaeli	987919	41,68	549607	34,33	738265	-10,23	662729
Kayseri	525028	33,46	700713	-0,53	696971	14,53	798250
İzmir	307913	15,80	356553	-8,42	326535	12,79	368283
Samsun	93021	27,26	118377	-40,75	70139	30,48	91521
Adana- Yumurtalık	219516	21,02	265654	11,35	295816	34,36	397467
Gaziantep	128338	-12,69	112056	-8,38	102659	93,89	199045
TUBİTAK- Mam. Tek.	231643	-15,05	196787	5,70	208007	12,33	233652
Trabzon	43495	86,01	90204	-22,31	70079	-17,48	57828
Denizli	62048	9,10	97694	6,79	72293	-21,45	56783
Rize	3701	23,35	4565	-12,12	4012	-8,86	3657
Mardin	6872	-61,76	2628	-100,00	0	0,00	0
TOTAL	18572206	21,94	22646175	1,80	23053135	0,81	23240397

Resource: www.ekonomi.gov.tr

**Enhancing Effect of Currency Income:** The purpose of creating free zone, is provide Exchange income. Some of the companies that operate in developing countries free zones, are foreign companies. Because of these companies do business and operations in foreign currency, Exchange input would be happen. Goods, services and labor force incomes where have been made in the free zones, are the direct foreign exchange earnings (Ebiri, 2006: 69).

As well as wages of the labors, other added-value elements, for example, warehouse rent, land rent, various taxes and interest on the loan could consider in this context. Companies that operate in free zones, will take their raw materials, intermediate goods, semi-processed material and energy needs from the country where is the free zone is located as currency equivalent. All kinds of goods and services where are to be sold to the free zones of the country, so will be currency return (Alpar, 1980: 43).

**Employment Increase Effect:** Free zones, even if they literally not create solutions to unemployment in their countries, with the potential labor force, it can be considered successful in terms of melting of a certain unemployment rate. Small-scale free zone cannot provide this. However, a multifunctional free zones' contribute to this situation may be undeniable. A small detail here, the host country may require to bring workers from outside to the region to receive preventive measures (Orhan, 2003: 123).

Develop the economic activities at Free zones, to provide a positive contribution to solving the employment problem and for that to happen, labor force must be provided within the country (Güner, 1985: 11). If labor wages are lower than neighboring countries, labor migration can be to the where the free zone country. This situation can be caused falling wages due to the competition and also created additional employment may lead to be taken by foreign country workers. The application can be used as a condition of the domestic labor for to avoid this situation.

**Table 2: Employment Situation in Free Zones (31.12.2013)**

	REGIONS	LABOUR	OFFICE PERSONEL	OTHER	TOTAL
1	AEGEAN	14204	2649	412	17265
2	Bursa	6456	964	520	7940
3	Mersin	6747	850	611	8208
4	Antalya	3020	690	0	3710
5	İstanbul Endüstri ve Ticaret	3710	574	60	4344
6	Kocaeli	1245	103	50	1398
7	TUBİTAK- MAM Tek.	1689	997	13	2699
8	Europa	2551	461	0	3012
9	Kayseri	2498	180	119	2797
10	İzmir	1139	269	63	1471
11	İstanbul Thrace	1080	459	37	1576
12	İstanbul Atatürk AIRPORT	486	630	69	1185
13	Adana-Yumurtalık	352	70	336	758
14	Samsun	362	46	0	408
15	Gaziantep	69	72	0	141
16	Trabzon	38	5	9	52
17	Denizli	28	10	0	38
18	Mardin	3	1	0	4
19	Rize	4	0	0	4
	<b>TOTAL</b>	<b>45681</b>	<b>9030</b>	<b>2299</b>	<b>57010</b>

Resource: [www.ekonomi.gov.tr](http://www.ekonomi.gov.tr)

Foreign Capital Technology Transfer: A country's foreign capital attraction depends on the recognition of special opportunities to multinational companies. Because foreign capital enter in the country with suitable facilities. This is the reason that makes it attractive. These special offers can be summarized as follows (Alpar, 1980: 30):

- social and political stability in the country, provided nationalization warranty,
- granted the right to profit transfer,
- provided the opportunity to use the quota of the host country,
- The host country and their country of origin, provided Possibility of exports,
- provided the opportunity to benefit from the host country's tax exemption,
- supplied ready infrastructure and superstructure,
- Bureaucracy and red tape are reduced to the lowest level.
- Provided low wages, lack of trade union rights,
- Investment and export promotion can be provided,
- Against risks arising from currency fluctuations, conservation measures can be taken.

### 3.2. In terms of national economy Negative Effects of the Free Zones

Free zones in terms of the country's economy also has some negative effects. These effects are described below.

**Monopolization Acceleration:** Although a number of free zones provide opportunities for domestic and foreign companies, It will be able to accelerate the process of monopolization in enterprises at the country. For example, parts where were manufactured in small and medium-sized firms, costly and establishment of international standards in an automobile factory to find transport to free zone and free importation because of buy the same components from outside, indicating widespread activities in the country may lead to a rapid collapse of such large and small organizations. Buyers, jut in case where attach importance better packaging, the products where are manufactured in domestically, It provided the free zone relative to use of cheaper packaging materials, can be packaged in a free zone, this situation may be adversely affected in the domestic packaging industry (Özcan, 1987: 52).

**Causing Loss of the tax:** The countries which established freezones, provides tax relief ranging between 5 to 30 years to the entrepreneurs who will operate in these countries. Subsequently, continue to encourage, apply the reduced tax rates to the entrepreneurs who are operating in free zones. Furthermore, besides these incentives, in some free zones, permanent tax exemption is also given (Düzenli, 2006: 35).

**Equal Distribution of the investment:** The establishment of free trade zones of the province, in particular industrial development centers, regional distribution of the investments may be adversely affected

Many of the industries will be concentrated in areas that close to free zones to benefit from external economies of these zones and it may further increase the imbalance between these regions. The negative consequences of such a development, even more increase the reduction of unemployment and social welfare.

The State that undertakes infrastructure of the free zones, because of it will send significant portion of the budget deficiency to this area, will be a significant loss of income (Arslan, 2005: 34).

**Creation of Environmental Pollution:** Activities where will be occurred in the free zone region may cause contaminant. This effect shows diversity according to its region and types of activities of the free zone. For example, in a free zone or free port which is

connected to a port, The rate of increase in maritime traffic, sea water pollution may increase. In this case, the type of production in free zones, air pollution and manifests itself in the form of production waste (DPT, 1985: 10).

**Being competitors to the domestic company:** Foreign companies where have been located in the manufacturing free zones, can be a major competitor of the domestic companies in foreign markets. In particular, the transport cost is a significant disadvantage, exports to neighboring countries will reduce the cost of the free zone, and foreign companies will become a serious contender status for domestic firms (Güner, 1985: 13-14).

**Increase of the import pressure:** Domestic and foreign companies where have been operating in the free zone, because of they work for the competition, raw materials and inputs which they use, can purchase cheaper than host country from sellers to the free zone. Prices of factors of production in foreign countries, import propensity of the free zones might be higher the rest of the countrys' import propensity (Güner, 1985: 12).

The establishment of a free zone can make pressure fort o increase imports. In particular, free trade zones where are located in developed countries, prefer to use the cheaper world production inputs. In fact, overall, the tax and customs exemptions where are provided in free zones, in order to be exported in the future, though, Imports can make it very attractive. In other words, the propensity to import free zones, by definition-, has to be above the average import trends in the country. If that happens, it will not only increase foreign currency payments, however, the manufacturing unit will be set up in these regions, in terms of input output relations, will not be mentioned back feed.

However, this is not seen in all free trade zones. Rather, it is intensive and export-oriented foreign investment companies, it is possible to say that can be seen in Mexico type free zones more intensively (DPT, 1985: 7).

#### Rise of Social Structure and Wage Inequality Corruption:

After the establishment of free trade zone, both in the province where the free zone, as well as the surrounding areas, significantly, population and social structure may change. This change is due to the increase in economic activity. This change will lead to some social problems. On the other hand, usually do not allow the right to strike and trade union activities in free zones, that's why workers' wages are kept at lower levels in domestic workers wages. This situation causes to the emergence of dual wage costs in the market. In these areas , child and female workers can cause social problems (Arslan, 2005: 39).

#### 4. CONCLUSION

Despite being very short in the presence of Turkey's economy of the free zones,it provides contribute and gain speed and this is an indisputable size. Undersecretariat of Foreign Trade of the employment data released by the end of 2013, the employment rate in some regions was low, but in some plaes the employment rates are high.

In free zones in Turkey, the trade volume in 2013 have been increased by 0.81 percent over the previous year and recorded as 23,240,397.

Free zones are the most important vehicles for countries to adopt the export oriented industrialization strategy. The number of free zones in Turkey tends to increase continuously.

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