



FREE ZONES: THE AEGEAN FREE ZONE EXPERIENCE

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JANUARY 2012

FREE ZONES: THE AEGEAN FREE ZONE EXPERIENCE

A THESIS SUBMITTED TO THE GRADUATE SCHOOL OF SOCIAL  
SCIENCES  
IZMIR UNIVERSITY OF ECONOMICS

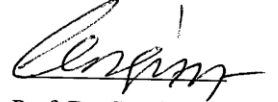
BY

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IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE DEGREE  
OF MASTER OF ART  
IN  
THE GRADUATE SCHOOL OF SOCIAL SCIENCES

JANUARY 2012

Approval of the Graduate School of Social Sciences



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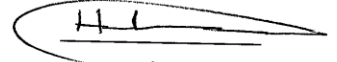
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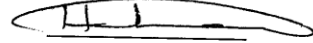
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## ABSTRACT

### FREE ZONES: THE AEGEAN FREE ZONE EXPERIENCE

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MA in Financial Economics, Graduate School of Social Sciences

Supervisor: Assoc. Prof. Dr. İ. Hakan Yetkiner

January 2012, 112 pages

Together with the expansion of production and income level in the world, international trade has been growing considerably since 1950s. In order to increase trade volume, various policies and instruments have been used by country governments. One of the methods pursued by a number of governments to promote international trade has been the use of Free Zones (FZs). Before 1970's, free zones were more common in industrialized countries. Developing countries inspired by the performance of the Western European free zones and initiated FZ programs. Especially after 1980's, FZs has been very popular in developing countries. According to ILO's report (2003), as of 2002, it was estimated that there are approximately 3,000 free zones in 116 countries. In Turkey, there are 19 active Free Zones in different parts of Turkey with an \$18.5 billion total trade volumes (2010). Their share in Turkey's total trade is 7.3 percent. Moreover, Aegean Free Zone (AFZ) generates 13 percent of total trade made through Free Zones (FZs). For that reason it is worth to evaluate the importance of AFZ in the FZ application of Turkey and to verify whether the Turkish FZ experience does fit to the theory and practice.

To this end, this thesis puts forward (i) a theoretical review of the development and aim of FZ in general, (ii) The overall Turkish FZ experience, (iii) and an evaluation of Aegean Free Zone as a special case study of Turkish FZ experience. A questionnaire was created as a method for a special case study, and addressed to 20 AFZ users. For data collection, a questionnaire including open and closed-end questions and personal interviews are used. Survey results analyzed with likert-type scale and ratios according to AFZ users' responses. For the evaluation of survey; general purposes, advantages and benefits of free zones from AFZ users' point of view are considered. AFZ's statistical facts, figures and survey results are observed as consistent with the theoretical benefits and purposes of free zones. Thus, it can be considered both free zone authorities and users are in win-win strategy for their long-term existence in global markets.

Keywords: International Trade, Free zones, Aegean Free Zone

## ÖZET

### SERBEST BÖLGELER: EGE SERBEST BÖLGESİ DENEYİMİ

Can, Gamze

Finansal Ekonomi Yüksek Lisans Programı

Sosyal Bilimler Enstitüsü

Tez Danışmanı: Doç. Dr. İ. Hakan Yetkiner

Ocak 2012, 112 sayfa

Dünyada üretim ve gelir düzeyindeki artışa paralel olarak 1950'lerden itibaren uluslararası ticaret belirgin bir büyüme kat etmiştir. Ülkeler ticaret hacimlerini arttırmak adına çeşitli politikalar ve enstrümanlar kullanmaktadır. Bu bağlamda Serbest Bölgeler birçok ülkenin dış ticareti destekleyici uygulamalarından biri olmuştur. 1970'lerden önce serbest bölgeler sanayileşmiş ülkelerde yaygın olarak kullanılmaktaydı. Batı Avrupa serbest bölgelerinin performansından etkilenen gelişmekte olan ülkeler, serbest bölge uygulamalarını faaliyete geçirdiler. Özellikle 1980 sonrası serbest bölgeler gelişmekte olan ülkeler arasında oldukça popüler olmuşlardır. ILO (2003) raporuna göre 2002 yılı itibariyle 116 ülkede yaklaşık 3000 serbest bölge faaliyet göstermektedir. Türkiye'de 2010 itibariyle 18,5 milyar \$ toplam ticaret hacmine sahip 19 aktif serbest bölge ülkenin değişik bölgelerinde faaliyet göstermektedir. Serbest Bölgelerin ülkenin toplam ticaret hacmindeki payı 7,3'tür. Bununla beraber Ege Serbest Bölgesi (ESB), toplam serbest bölgeler ticaret hacminin %13'üne sahiptir. Bu nedenle ESB, serbest bölgelerin teoride ve pratikte gerçeğe ne kadar uyduğunu değerlendirmek için incelemeye değer bulunmuştur. Bu tez çalışması ile, (i) serbest bölgelerin gelişim ve amaçlarının teorik açıdan

incelenmesi (ii) Türkiye'nin genel serbest bölge deneyimi, (iii) özel bir vaka çalışması olarak ESB uygulamasının incelenmesi amaçlanmaktadır. Vaka çalışmasına yönelik olarak 20 ESB kullanıcılarına ulaştırılmak üzere bir anket hazırlanmıştır. Veri toplama amacına yönelik olarak anketteki açık ve kapalı uçlu sorular ile birlikte kişisel röportajlar uygulanmıştır. Anket sonuçlarının değerlendirilmesinde, ESB kullanıcılarının yanıtlarına göre likert ölçeklendirilmesi ve rasyolar kullanılarak analiz yapılmıştır. Ayrıca, toplanan veriler değerlendirilerek ESB'nin swot analizi de oluşturulmuştur. ESB anketinin incelenmesinde serbest bölgelerin genel amaç, fayda ve avantajları kullanıcıların bakış açıları dikkate alınarak değerlendirilmiştir. ESB'nin istatistiksel verileri ve anket sonuçları, serbest bölgelerin teorideki kuruluş amaç ve faydaları ile tutarlı gözlemlenmiştir. Böylece, gerek serbest bölge kullanıcılarının gerekse serbest bölge otoritelerinin küresel pazarda uzun dönem varoluşlarının kazan-kazan stratejisine uygun olduğu yönünde değerlendirilebilir.

Anahtar Kelimeler: Uluslararası Ticaret, Serbest Bölgeler, Ege Serbest Bölgesi



## ACKNOWLEDGEMENTS

I would like to thank my Supervisor Assoc. Prof. Dr. İ. Hakan Yetkiner and committee members Assoc. Prof. Dr. Hasan Fehmi Baklacı and Asst. Prof. Dr. Habil Gökmen for their assistance through this thesis process. I would also like to thank Asst. Prof. Dr. Emin Akçaoğlu for his contributions and Aegean Free Zone management, ESBAŞ and operating companies participated in my survey with patience.

Special thanks to my mother and Korhan Kervan for their continuous faith and support.

## TABLE OF CONTENTS

	Page
ABSTRACT.....	iv
ÖZET.....	vi
ACKNOWLEDGEMENTS.....	viii
TABLE OF CONTENTS.....	ix
LIST OF FIGURES and TABLES.....	xi

## CHAPTER

1. Introduction.....	1
2. Definitions, Types, Objectives and Impacts, of Free Zones.....	5
2.1. Definitions of Free Zones and Their Characteristics.....	5
2.2. The Purposes and Functions of Free Zones.....	7
2.3. Types of Free Zones.....	10
2.4. Impacts of Free Zones on Economy.....	12
2.4.1. Positive Impacts of Free Zones on Economy.....	13
2.4.2. Negative Impacts of Free Zones.....	16
2.5. Application of Free Zones in the World.....	16
3. Literature Review.....	22
4. Free Zones in Turkey and Their Contributions to the Economy.....	41
4.1. Development of Free Zones in Turkey.....	41
4.2. Establishment Purposes of Free Zones in Turkey.....	42
4.3. Types of Free Zones in Turkey.....	45
4.4. Contributions of Free Zone in Turkey to the Economy.....	46
4.4.1. Foreign Trade.....	47
4.4.2. Employment.....	49
4.4.3. Foreign Capital Investments.....	51
4.5. The Structure of AFZ and Its Contribution to the Economy.....	53
4.5.1. Economic Evaluation of the AFZ.....	58
4.5.2. The Contribution of the AFZ to the City of Izmir and the Turkish Economy.....	59

5. Aegean Free Zone Experience.....	66
5.1. Objective of the Survey.....	66
5.2. Methodology.....	67
5.3. Sample Criteria and Application of Survey.....	67
5.4. Evaluation of Survey Responses.....	68
5.5. Main Evaluation.....	79
5.6. SWOT Analysis of AFZ.....	86
6. Conclusion.....	88
REFERENCES.....	91
APPENDICES.....	98

## LIST OF FIGURES and TABLES

	Page
<b>FIGURES</b>	
Figure 1 Sectoral Distribution of Aegean Free Zone.....	61
Figure 2 Distribution of Users Activity in Aegean Free Zone.....	62
Figure 3 Contribution of AFZ to Capital Investment.....	63
Figure 4 Contribution of AFZ to Employment.....	64
Figure 5 Contribution of AFZ to Trade Volume.....	65
Figure 6 Activity Duration in AFZ.....	69
Figure 7 Type of Business Activity.....	69
Figure 8 Investment Origin According to Business Type.....	70
Figure 9 Facility Ownership According to Origin of the Investment.....	71
<b>TABLES</b>	
Table 1 Summary of Main Findings about Economic Impacts of FZs.....	40
Table 2 Free Zones in Turkey as of 2011.....	42
Table 3 Structure of Free Zones in Turkey.....	46
Table 4 Annual Trade Volumes of Free Zones in Turkey.....	48
Table 5 Breakdown of the Trade Volume by Sectors.....	48
Table 6 Breakdown of the Trade Volume by Sectors.....	49
Table 7 Employment Structure of Free Zones in Turkey.....	50
Table 8 Non- seasonality Adjusted Labour Force Status in Turkey.....	51
Table 9 International Direct Investment Status in Turkey.....	52
Table 10 Breakdown of Free Zone Operation Licenses.....	53

Table 11 Big Firms that Operate in the Aegean Free Zone and Their Establishment.....	57
Table 12 Building Investment Decision Criteria.....	72
Table 13 Reasons for Operating in Free Zone.....	73
Table 14 Satisfaction of the Investors.....	73
Table 15 Reasons for Operating in AFZ.....	74
Table 16 Satisfaction of the Targets and Expectations.....	75
Table 17 Other Investments of the Users in AFZ.....	76
Table 18 Reasons for Other Investments.....	77
Table 19 Factors Affecting Permanency of Investments.....	77
Table 20 Users Perception for their Contribution to Economy.....	78
Table 21 Difficulties and Problems of Free Zone's.....	79
Table 22 SWOT Analysis of AFZ.....	87

## **CHAPTER 1**

### **INTRODUCTION**

Countries in the world are striving for bringing long term and dynamic solutions to their basic targets such as economic growth, trade balance and employment increase. For this aim, countries look for solutions in order to increase their market shares in international trade in an environment of fierce competition. In addition, in order to show high performance in international trade, it is necessary to have an environment that does not hinder quick decision-making and implementation and other related issues.

As a result of such needs, free zones, which can be defined as areas where bureaucracy is lowered to a minimum level and government interference is constrained, have become an important means for creating an investment and trade environment. While having very significant logistical functions as effective trade centers in developed countries in today's world, free zones have become prominent in developing countries as means through which new opportunities are created in order to benefit more from international investment and trade opportunities and to create additional lines of business.

Within this regard, free zones, which have become prominent as an important element of foreign trade policies especially for developing countries, are accepted and defined from a general approach as areas that are located within countries' national borders but are left out of customs lines with respect to the implementation of tax and customs legislations. Putting it in another way, it can be said that free zones are doors that are easily opened to international markets. For that reason,

activities that are started in free zones have multi-directional impacts. These are both direct and indirect impacts and they emerge as a result of the connection of Free Zones (FZs) with national economies. However, it is very difficult to evaluate and especially to quantitatively measure all of these impacts. For example, it is not possible to make a quantitative evaluation and analysis with regard to issues such as technology transfer, development of labor force and management skills, and international marketing knowledge.

Thirty five years ago, there were just 79 FZs in 25 countries. As of 2011, 3,700 free zones operated in 135 countries and accounted for over \$600 billion in exports and 72 million direct jobs. Development of free zones has helped to improve global trade relations and has created over 70 million jobs and \$600 billion of direct trade-related value. Some free zones only operate with the purpose of foreign trade; others' are mixed with internal market operations. Such zones are established to improve the internal market and to attract foreign capital, and they generate a value which constitutes the one third of developed countries' banks deposits in the world. It is argued that free zones are generally established in developed countries with the aim of import, and in developing countries with the aim of export. As a result, it is stated, it becomes possible especially for developing countries to speed up their development and to get bigger shares in the international trade environment.

Activities in Turkey to establish free zones with the aim of accelerating economic development and getting more shares from the world market accelerated in 1980s. As a complementary element of international expansion and globalization process that began to be implemented with the 24 January 1980 Decisions, initiatives to establish Free Zones were started in Turkey, too. Within this context, free zones

which started to be established with the Free Zone Law dated 15.06.1985 and numbered 3218 have made clear contributions to the economy since the time of their establishment. With numbers that increased over the years, 19 free zones in Turkey realize a trade volume of approximately 18 billion dollars in year 2010.

The purpose of this study is to investigate Aegean Free Zone as a special case of Turkish Free Zones. With this thesis, it is aimed to examine to what extent the expectation of firms are met, the primary problems that they face, examine the motivating factors for operation in Aegean Free Zone (AFZ) as well as the perceived contribution of AFZ to firm's goals.

To position Aegean Free Zone in a wide, international context, and to discuss contributions of the generated benefits for the users and economy, first it is necessary to explore the structure and potential economic effects of FZs in theory and other applications in the world. Therefore, this thesis consists of five chapters. After the introduction, the second chapter of the study offers a brief review of free zone concept. In this chapter, definitions of free zones are given, types of free zones are explained, and impacts on the national economies are reviewed with some examples of such zones in the world. The third chapter comprises the literature review on free zones. The history of free zones in Turkey, facts and figures about Turkish free zone experience, free zone models and activity areas are discussed in the fourth chapter. Aegean Free Zone (AFZ) is discussed in detail as one of major free zone in Turkey. The key figures of Aegean Free Zone on Izmir and Turkish economy are examined also in this chapter.



In chapter 5, to assess the perception of AFZ by the firms that operate in the zone, a survey study will be conducted which include items and questions consistent with the purposes mentioned above. Finally, in the conclusion part, findings from the survey study are interpreted.

## **CHAPTER 2**

### **DEFINITIONS, TYPES, OBJECTIVES AND IMPACTS OF FREE ZONES**

#### **2.1. DEFINITIONS OF FREE ZONES AND THEIR CHARACTERISTICS**

Free zone concept has evolved over time resulting in a variety of zones with differing objectives, markets and activities. According to the structure of the zone, a free zone can be also called as export processing zones (EPZ), industrial free zones, industrial export zones, free trade zones, special economic zones, bonded warehouses, technological and scientific parks, financial services zones, free ports, duty-free zones, free processing zones, investment promotion zones, free insurance zones, free banking zones, free enterprise zones, free gambling zones and free medical zones. In this paper, the term FZ (free zone) is used to cover all such arrangements, independent of their concentration or geographical distribution.

Actually there is no consensus on the usage of the concept of free zone in the literature. The reason is that many countries employ their own variations of these special areas and use their own terminology to describe them. For example, Mexico refers to its zones as “maquiladoras,” Ghana, Cameroon, and Jordan have “industrial free zones,” the Philippines calls its economic zones “special export processing zones,” and Russia has “free economic zones.” Despite the differences in nomenclature, each zone operates to increase trade throughout its respective region by offering special trade incentives to stimulate local and foreign investment within the region (Murray, 2010). A broad definition will categorize free zones as designated special areas within the political borders of a country but considered outside the customs borders where common laws of foreign trade and finance of a

country are exempted from being practiced. However there are a number of different definitions applied by international organizations.

In 1999, Revised Kyoto Convention of the World Customs Organization (WCO) set the core definition, standards and guidelines for free zones. Annex D of the International Convention on the Harmonization and Simplification of Customs (revised in 1999) defines a free zone as "part of the territory of a Contracting Party where any goods introduced are generally regarded, insofar as import duties and taxes are concerned, as being outside the Customs territory".

According to the World Bank (1992), "an export processing zone is an industrial estate, usually a fenced-area of 10 to 300 hectares, which specializes in manufacturing for export. It offers firms conditions and a liberal regulatory environment". Madani (1999) refers to a study by the ILO (1988) and defines an EPZ as "a clearly delimited industrial estate which constitutes a free trade enclave in the customs and trade regime of a country, and where foreign manufacturing firms producing mainly for export benefit from a certain number of fiscal and financial incentives". Similarly, UNIDO (1995) states that a FZ is an industrial area that constitutes an enclave with regard to customs' tariffs and the commercial code in force in the host country.

According to the definition made by UNICTAD, "Free zone is an area that is established near an international port or an airport and is separated from the national customs area for special purposes, and goods can be brought into this area, imported goods can be stored, they can be subjected to some processing, and they can be used

for manufacturing without customs proceedings, and as long as the goods do not enter the national customs area, there is no necessity to pay taxes".

While there are some common characteristics between different countries' free zone practices such as "being considered as out of the customs line" and "provision of special incentives", there are also some differences depending on countries' social and political situations in addition to their economic and trade policies. Because of these differences between free zone practices, there is a big variation in terminology about free zones. Still approximately twenty five terms are used for defining the practice known as free zone. Most popular ones will be analyzed in the following parts of this chapter.

## 2.2. THE PURPOSES AND FUNCTIONS OF FREE ZONES

Free zones, which bring a new dimension to international connections in today's world, with modern infrastructure and facilities, allow the access of capital into new markets with lesser bureaucracy and lesser risks. In today's world where market economy is on the rise, regionalization efforts together with the changes in the world's population structure have made free zones as one of the means that will make both developing and developed countries the parts of the same whole. Madani (1999), Cling and Letilly (2001) outline four broad policy reasons for the development of zones, especially in developing countries. FZs are developed to support economic reform; to act as "pressure valves" to alleviate growing unemployment; to serve as experimental labs for the application of new policies and approaches; increasing exports and to attract FDI.

According to Kelieher (1976), Free Zones have been considered especially by the countries that prefer a development strategy based on exports as FZs one of the means to increase exports. The purpose of Free Zone practice is to create the appropriate environment for development, to select, invest and operate in the sectors which will be more important in the future. Therefore applying incentives to these sectors, to attract foreign capital and technology that will realize investments will stimulate the export growth.

In the direction of this definition; purposes of the FZs can be given as follows:

- To increase investment and production in countries for export,
- To increase exports,
- To speed up the entrance of foreign capital and new technology,
- To increase employment,
- To provide for the inflow of foreign currency,
- To provide input needs of the economy in a cheap and regular way,
- To stimulate the economy,
- To benefit from external financing and trade opportunities more,

The functions of Free Zones, on the other hand, can be given as follows:

- To provide for the appropriate basis that will allow for the introduction of foreign capital and technologies,
- To ensure that the industrialist can get some raw materials and intermediate goods easily in demanded quantities and without time losses,
- Low-cost production and export with the help of incentives and advantages,

- Selling the goods that are coming from outside of the country to other countries in transit,
- Creating new employment opportunities,
- To constitute a step with regard to the facilitation and speeding up the export of the country's export commodities.

The purposes of free zones, which emerged as free ports in order to improve and increase external trade, have become varied over time and they have been important means for the implementation of external trade and development policies of a country. Today, free zones have started to become centers where efficient production and sales methods that decrease costs are applied with advanced logistical opportunities provided, where progressive and innovative practices are carried out in various areas such as information technologies, electronic trade and media, and which are not changed by developments but which directs developments. Free zones, which go beyond the mentality that concentrates only on improving external trade, have become economic processing zones that serve in every area of the economy with its alternative investment and incentive practices.

Thus, the purposes and targets of free trade zones are broad. However, it can be said that its main purpose is to encourage foreign capital inflow in order to improve production and export of industrial goods. In addition to this and depending on the structure and characteristics of the economy, employment opportunities, contribution to the balance of payments, technology transfer, and impacts about overcoming the differences in regional development are mentioned as purposes of free zones (Lakshmanan, 2009). Every country can adopt one or several of these main purposes according to its priorities. In some countries, the main purpose can be increasing

industrial production and export and finding a solution to the problem of employment while in others it can be providing foreign capital and technology inflow. Consistent with these purposes, this study will attempt to determine to what extent AFZ fits with these purposes through survey analysis.

### 2.3. TYPES OF FREE ZONES

The concept of free zone can vary depending on the economic structure where it is practiced. Free zones appear as different practices with respect to their purposes, functions, legal structures and scope. In fact, it is possible to see a different type of free zone in each country. These different practices stem from countries' economic and geographic structures, from different expectations of countries from free zones, and from the differences in legal structures that regulate free zones.

While free zones can be defined in two different ways as open free zones and closed free zones depending on the compliance to the country's economic and legal rules, in addition to the main categorization generally made as free trade zones and free production zones, they can also be categorized with specific classifications according to different activity areas. Within this regard, Open Free Zones are defined as free zones in which the country's present laws and rules are not applied while Closed Free Zones are defined as free zones in which the country's laws and rules are partially applied.

It may not be possible to make a clear-cut separation between free zone types. However, the most important criterion is about the types of activities that are carried out in free zones. Activities of free zones can have both commercial and industrial characteristics. It is observed that from the 1960s until today, there has been a broad

transition from free trade zones to free production zones. While in developed countries free zones mainly have a commercial role, it is seen in developing countries that establishing free zones with industrial purposes is an increasing trend (Çardak, 2006). Beside these, some practices, which have different characteristics, can be discussed as separate types. These can be classified as Free Ports, Maquiladoras (twin factories), Free Banking Zones and Off-shore Banking, Bonded Warehouse, Duty Free Zones and Duty Free Shops, Free Investment Zones and Transit Only Zones. Among them, free trade zones and free production zones are most common type of zones applied in the world.

Free trade zones are areas which, in order to facilitate commercial activities, are located near a port or an airport and are established in a demarcated area, and where external trade constraints are entirely or completely removed. In such zones, as long as they are not industrial activities, commercial activities such as import of any product without paying customs duties, storing and keeping them, exhibiting, classifying, grading, packaging, re-packaging, labeling, crushing and sorting, integrating and disintegrating them, making simple mounting operations, bottling, customs free re-carrying, re-export and transit trade can be carried out.

Free production zones are areas in which various industrial activities are carried out for export and for consumption in the internal market<sup>1</sup>. Activities in these zones are mainly industrial, not commercial. These zones are places where investments are generally made in order to benefit from the cheap labor force and raw materials of the international capital as well as from tax advantages. Generally, export-oriented

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<sup>1</sup> There are many definitions made for free production zones. These zones are mentioned in various sources with different names such as Industrial Free Zone, Free Export Zone, Export Processing Zone and Free Production Zone.



domestic and foreign investments are made in these zones where the labor force is cheap and there is a partial or complete exemption from any kind of taxes, duties and charges and where infrastructural opportunities are broader. Since the purpose is export, most of the time bringing the goods produced in these zones into the host country is forbidden. Free production zones in its common form in the world appear as industry islands where multi-national companies compete. For those who want to make investments in these zones, customs facilities and financial incentives are provided and bureaucratic obstacles are reduced. It is possible to see free production zones in 30 different countries of the world. It can be said that the most significant ones among them are South Korea, Taiwan, Malaysia, Brazil, Dominic, Sri Lanka and People's Republic of China.

#### 2.4. IMPACTS OF FREE ZONES ON ECONOMY

Today free zones are like windows of countries opening to the global economy. With these zones, integrating to the global economy becomes easier. Main contributions of free zones to countries' economies are; generally increasing export and employment, creating new business opportunities, accelerating technological modernization, playing a role of a laboratory where different economic policies are implemented and the results of such policies are monitored, and transforming the economy into an outward-oriented economy. However, these contributions are not always accomplished. Zones that are established at badly chosen locations, with insufficient infrastructures, and without potential cannot provide these contributions and they can even create some negative effects on the contrary.<sup>2</sup>

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<sup>2</sup> Tüzmen (2003:4).

#### 2.4.1. POSITIVE IMPACTS OF FREE ZONES ON ECONOMY

Free Zone practices both in the world and in our country show that Free Zones have contributions that can be considered as significant. It is also helpful to state that these contributions depend on Free Zones' degree of freeness and form of operation.

Traditionally, there are four main benefits in establishing FZ.

- Provide foreign exchange earnings by promoting non-traditional exports
- Provide jobs to alleviate unemployment or under-employment problems in the host country.
- Attract foreign direct investment (FDI) to the host country
- Lead to technologic transfers, knowledge spillover and demonstration effects that could act as catalysts for domestic entrepreneurs to engage in production of non-traditional products.

The contribution of a free zone to the national economy is mostly seen in the area of export. As enterprises that are established in free zones with the purposes of production and export obtain their raw materials and other inputs, and also semi-finished and finished product needs from the host country, export volume of that country will increase because selling goods to the free zone will be considered as export. In addition to this, when enterprises operating in such zones provide their main inputs such as labor force, water and electricity from the host country, the

added value that will remain in the national economy will increase due to the activities in the free zone.<sup>3</sup>

Having firms with foreign capitals operate in the free zone and making transaction in these zones generally with foreign currencies provide direct and indirect foreign exchange earnings for the host country. Revenues that come from goods, services and labor force that will be sold within the free zone are direct foreign exchange earnings. And this makes a positive impact on the balance of payment. Apart from that, rents and charges that are gained from depots, warehouses, business and production centers, loading and discharging facilities, and usage of vehicles provide foreign currency inflow as these payments are made in foreign currencies. Of course it is also necessary to add foreign exchange revenues that are gained through exports made to foreign countries (Graham, 2004).

Free zones, which are one of the most significant means for cheapening foreign trade and increasing export in the world, have also been important means in many countries for attracting foreign capital and hence for technology transfer, because many encouraging elements such as infrastructure facilities, opportunities to benefit from incentives, exemption from duties and many others make free zones attractive for foreign capital. In the reports of the United Nations Industrial Development Organization (UNIDO) in 1995, capital groups were recommended to make their choices of investment location based on the criteria such as inexpensiveness of transportation costs, inexpensiveness of labor force, abundance of qualified labor force, low first investment expenses, and incentives, and it was emphasized in these reports that almost all of these incentives are present in free zones (Lall, 2000). For

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<sup>3</sup> Alpar (1985:42).

that reason, foreign investors are more eager to make investments in these zones. Because some firms that will be making investments in free production zones will bring their technology into these zones together with their capitals, foreign capital inflow also provides an opportunity for technology transfer.

One of the purposes of free zones is to find a solution to the problem of unemployment. New firms that are established in free zones, even though they cannot completely solve the problem of unemployment, are able to respond to some labor force potential. Contribution to employment generally depends on the type and activities of free zones. It is difficult to argue that a small-scaled free port is an efficient solution to the problem of employment of a country. But a multi-functional (production, storage, trade etc.) free production zone or export processing zone can make significant contributions for solving the problem of employment.

Free zones not only make a direct contribution to solve the problem of employment as mentioned above, they also have some indirect contributions. Various input demands (food, clothing, entertainment etc.) of free zones from outside of these zones (but from the host country) continuously feed the outside of the free zones, that is, the host country. Because of these demands, it is possible to see an increase in the demand for labor force outside of the free zone as well. For example, in Egypt and Taiwan, every worker employed in a free zone leads to the employment of one person in the host country.<sup>4</sup>

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<sup>4</sup> Koroğlu (1999:68-69).

#### 2.4.2. NEGATIVE IMPACTS OF FREE ZONES

Free zones have positive impacts on national economies, but they can also have negative impacts as well. Free zones that are badly planned (cost/benefits analysis have not been made), that are inadequate in terms of infrastructure and that have administrative problems can possibly make harming effects even though they have benefits. If there were not any negative impacts, it would be possible to transform the whole country into a free zone.

Some of these negative impacts on the other hand result from the purposes of free zones. For example, one of the purposes of free zones is to facilitate external trade and to increase its volume. But because the volume of imports will also increase by means of these zones, this in turn will increase the import pressure on the national economy and hence it may increase the balance of payment deficit. Or, it may lead to the loss of tax revenues because of tax incentives that are implemented in free zones. These impacts may occur with different depths and characteristics depending on what kind of activities are carried out in the free zone (free port, export processing zone etc.).

#### 2.5. APPLICATION OF FREE ZONES IN THE WORLD

After the world economic crisis of 1929-1939, tendency towards establishing free zones increased as a solution. After the positive contribution that free zones make for the development of developing countries and for increasing exports were accepted by international organizations in 1960s (United Nations Economic and Social Council- 1967), the number of these practices started to increase in the whole world. And today, it is said that there are more than 3,500 free zones operating. As a

result, in 75 countries governed by different regimes such as USA, United Kingdom, Germany, Hungary, Yugoslavia, Saudi Arabia, Pakistan, India, Thailand and China, the volume of trade that are realized by means of free zones have reached to 600 billion dollars. A research made by World Economic Processing Zones Association (WEPZA) is emphasizing the role and significance of free zones for the development of international trade<sup>5</sup>. The results of this research were announced with a statement made in the WEPZA conference held in the United States on 13-16 September 1998. In particular, it was stated that foreign trade of 102 countries which have free zones has shown a continuous increase in the last ten years. On the other hand, the volumes of foreign trade of 126 countries which does not have free zones, in contrast, have experienced marginal increase or even some decrease.

The members of the European Community (EC) are applying a common customs tariff (CCT=Common Customs Tariff) for the trade activities with non-EC countries. And within the Community, free movement of goods was accepted with the Customs Union Agreement. With regard to the internal trade within the Community, in Paragraph A of Article 3 of Rome Treaty there are provisions that facilitate and increase internal trade among the member countries such as the removal of customs duties for entry and exit of goods, removal of quotas, and removal of all other measures with equivalent effects<sup>6</sup>. However, despite these facilities, when a producer in the Community wants to sell its goods to another producer, the goods need to comply with the industrial standards or the legislative regulations of that country, and it needs to put its goods into a process of test and certification.

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<sup>5</sup> WEPZA (World Economic Processing Zones Association): The purpose of the organization is to work for the removal of restrictions that hinder the development of free zones and for increasing the share of free zones from world trade. Wepza holds ordinary meetings every year with the participation of senior managers of free zones, and one of the recent meetings was held in 2005 in the Aegean Free Zone.

<sup>6</sup> [http://ec.europa.eu/economy\\_finance/emu\\_history/documents/treaties/rometreaty2.pdf](http://ec.europa.eu/economy_finance/emu_history/documents/treaties/rometreaty2.pdf)

Although Free Zones and Free Warehouses are geographically located in the Community Customs Union, they are considered as being outside of the Community Customs Union with regard to the implementation of import duties and trade policy measures. Free Zones and free warehouses are established in accordance with the internal legislation of countries. Each country can permit the establishment of free zones. By defining the borders of free zones and warehouses, member countries are able to pass the entry and exit controls to customs administrations. Free zones and warehouses have a limited duration. Free warehouse is considered as a customs regime and it is not conditional on any guarantees. In contrast, customs warehouse is a customs regime and a guarantee is required. (Shaerlaeckens, 1993)

When we look at the free zone practices in the Middle East, we can see that there are various structures in Jordan, Lebanon, Syria, Egypt, Israel, Iran and Syria. Free zones that are established in Egypt are seen as a result of Enver Sedat's policy of international expansion. Egypt signed with the European Community a Preferential Trade Agreement. And within the framework of Agreements made with Syria and Iraq, non-tariff barriers were removed. Foreign firms in Egypt can make investments having 100% of it as their own property. Moreover, income tax reduction and other tax reductions are valid for an indefinite period of time in Egypt. Salaries and wages of foreign personnel are subject to Egyptian income tax principles. In Egypt, it is possible for foreign firms and persons to make storages or renting in the zone when they do it with an Egyptian partner. Investments to be made are exempted from taxation for five years. In the case that 40% or more of the goods that are sent to Egypt from the free zone are parts or raw materials with Egypt-origin, a customs duty discount of 50% is made when goods enter into Egypt. In addition to this, there are measures that are based on the principle of reciprocity and that will prevent

double taxation, long-term tax exemptions, and absolute exemption from some specific taxes.

Free zones are also practiced in the countries of American continent such as USA, Brazil, Chili, and Mexico because of its foreign-trade-increasing impact. In the United States, Free Zones were created with Foreign Trade Law dated 1934 under Foreign Trade Zones Committee of Ministry of Commerce. Today, three types of free zones are present in the USA. These are foreign trade zones, investment zones and technoparks. Free trade zones started to be established in the United States in 1930s as for foreign trade zones. Wide-ranging services are being given in these zones. These are storage, sorting and packaging of goods that are brought to the zone. All operations in these zones are exempted from customs duty. However, when goods or services are sold to a duty-paid market, then a tax obligation is existent for the importer. Free zone settlement is generally in the form of technoparks in America. Silicone-Wells is considered as the biggest technopark. 20% of the World's computer production is made in this technopark. It is said that free zone practices in the United States have been generally unsuccessful in meeting expectations, because firms of this country generally prefer to operate in free zones of developing countries which provide more advantages. Moreover, United States is further from the markets due to its location.

Prominent free zone type in Mexico is Maquiladora. As it is known, in Maquiladoras, Mexican firms are able to import goods that are produced in the United States as customs-free, and then they make the mounting and export them generally to the USA market. The United States, on the other hand, does not impose customs duty on these goods completely; it only imposes a tax on the Added Value



that is produced in Mexico. This type of free zone which was permitted to be established on the border region of USA and Mexico in the beginning, was permitted to be established everywhere in the country as from 1972.

In People's Republic of China, Exclusive Economic Zones (EEZ) were established as means of the "open-door policy" that started to be implemented from the end of 1970s onwards. The aim with EEZs that are established in Shenzhen, Shantou, Zhuhai and Xiamen was to attract foreign capital that has high technology, to establish an export-directed industry and to increase export revenues in this way, and to increase tourism revenues. The big part of the foreign capital comes from Hong Kong, Taiwan, Japan, South Korea, USA and Germany. Because China is a developing market, generally low-cost goods that are very much consumed are produced. These are textiles, ready-wear, sports shoes, toys and a large part of electronic devices.

Free zones in Taiwan have made a great achievement with large amounts of investment and improvement expenses made by the government. Some of the factors that led to the success of free zones are as follows: appropriate establishment time, appropriate location selection, centralized administration of procedures, tax incentives, land rents and sale of factories.

It is known that South Korea is a country that has successful free zone practices, too. South Korean economy left its import-substitution policy as from 1960s, and it started to gradually implement foreign expansion policies. With this approach, free zones that started to operate in 1970s aimed at attracting foreign capital to these areas, and helping to overcome the problems of foreign exchange, employment and technology. In these zones that are called as free production zones or export

processing zones, big foreign investments have been made in textiles and mine processing industries. Firstly American firms and later Japan firms have initiated export-directed investments in the said sectors. (Jayanthakumaran, 2002)

In conclusion, except from small differences between free zone practices that are existent almost in every region of the world, they all have a common approach and they try to reach their targets through some taxation and incentive policies that they provide for the investors in an area that is defined within the borders of the country. While it is seen that some countries have been successful in this area, there are also countries that have failed. And the main reason for their failure is especially the mistakes that are made about the location of free zone that will be established.

## **CHAPTER 3**

### **LITERATURE REVIEW**

Looking from a theoretical perspective, studies about free zones with several approaches exist in the literature. Some of the main subjects investigated in the studies are about the welfare impacts of free zones on host countries, the reasons of the diffusion of foreign direct investment in these zones, development of free zones that have appeared in the recent periods, regional benefits of free zones and other case studies implied to specific free zones. In this survey, studies in the literature are reviewed in chronological order in two classifications. First, we study the FZs literature not directly work on Turkey. Second, we review the literature on FZs on Turkey.

Earliest study in the literature about free zones was made by Hamada (1974) with the aim of analyzing the theoretical framework of the concept of free zones. In this study, Hamada (1974) examined, under different assumptions, the impact –on the welfare of a country– of the establishment of free zones within a standard trade model which accepts the presence of two factors of production and two goods. In Hamada’s model, there is no scale economies, and it assumes an economy where two goods –one labor-intensive and one relatively more capital-intensive— are produced using the labor and capital factors. The price of labor-intensive good is equal with the international price, and in contrast to this the price of capital-intensive good is higher than the international price. Capital-intensive good is protected by taxing the imports. In such an economy, there is a balance where all of capital and labor are used and both of the goods are produced. However in a free zone, labor

force is supplied from out of the zone and their consumption is made outside. Because of the competition, profitability and price level for both of the products (labor force and consumed goods) are the same in the internal market. If, because of price differences, there emerges a difference between the free zone and the internal market in terms of profit and price that is provided by the local capital and labor, then this will be taxed. Establishing a free zone without having foreign investors in such an economy means the creation of a spot in the country where international prices apply. Capital and labor will be able to flow into this spot from within the country. Hamada (1974) shows that under these conditions, relatively capital-intensive good will not be produced in the free zone and it will only be produced in the other part of the country and for that reason the free zone will not have any impact on the welfare of the country either in a positive or in a negative way.

Rodriguez (1976) broadens the results put forward by Hamada (1974) about the macro economic impacts of free zones. According to Rodriguez (1976), when there is factor mobility between the free zone and the remaining part of the host country, final balance will give the same trade pattern as in the free trade situation. Moreover, all trade will be done not by the host country, but only by the free zone. When interpreting the analysis made by Hamada (1974) about free zones, it should not be forgotten that unemployment was not assumed in the system, and that the increase in the production of capital-intensive good enters into the analysis merely as a factor ratio impact and other social and political impacts that this increase will make on the country's industrialization process were completely left out of the analysis. For that reason, Rodriguez (1976) indicated the inaccuracy of implementing the results obtained from this theory. Hamilton and Svensson (1982), on the other hand, broaden the problem mentioned by Hamada (1974) and they try to interpret its

results. In their study, Hamilton and Svensson (1982) analyze the results of establishing a free zone with regard to consumption, welfare, and production. According to their findings, in case that a free zone is established, there is the possibility of an increase in the welfare due to capital import, but this possibility depends on the tax regulations implied in the zones.

It is also necessary to mention the four-stage model that is developed by Basile and Germidis (1985) about the life cycle of free zones. In this model, it is argued that free zones develop by passing through four stages: (i) establishing the main infrastructure, (ii) increasing indirect foreign capital investments and exports, (iii) increase in the quality due to the investments, and (iv) the integration of the zone to the local economy and transfer to private entrepreneurs.

The potential impacts of establishing a free zone on employment and welfare in the host country with a developing economy were examined by Young and Miyagiwa (1987). In addition to potential welfare and employment impacts of free zones on host countries, the issue of whether establishment of a free zone can really attract foreign investors into that free zone is debated. Miyagiwa (1986), on the other hand, discusses whether establishing a free zone in a rural area or in an urban area is more beneficial.

Another field in the literature is about the users attitudes towards the free zones. Tansuhaj and Gentry (1987) evaluated firm differences in perceptions of the facilitating role of free zones via conducting a survey for users and non-users of free zones. In the study, awareness and attitudes towards free zone benefits compared according to the firm characteristics and their level of import/export activities.

Results of the survey indicate that cash flow and interest saving on duty, facilitation of transshipment and simplified customs procedure are the most important benefits that users of free zone are aware. On the other hand, non-users are not as aware of the same benefits. Authors propose more promoting activities for non-users in order to increase the awareness of them and attract more users to the zones. Especially logistics and distribution advantages of free zoned should be pointed out to non-users.

Devereux and Chen (1995) examined the welfare effects of free zones using a single model where the output of each firm in a zone is exported and where there are no trades or other taxes on inputs or output. In their study, they propose free zones increase income which is commonly omitted in literature by economists. In the analysis, two methods were used in order to determine the impact of a zone on income: first, volume of trade effect, which is the induced change in trade of goods subject to trade restrictions and, second, factor terms-of-trade effect which is the change in income accruing to domestic factors. Factor terms-of-trade correspond to the increase in wage payments to the domestic workers employed in the zone. Their findings show factor terms-of-trade effect raises welfare whereas the volume- or-trade effect is uncertain and depends crucially on the factor intensities of protected sectors in the domestic economy. This result differs from the previous literature where the factor terms-of-trade effect not included in the welfare analysis of free zones. In sum, they propose free zones are likely to be welfare-improving under a much wider variety of circumstances than previously realized.

Baissac (1996) questioned the validity of using cost-benefit analysis by reviewing the theoretical and methodological frameworks of the studies in the literature. It is

argued that scope of the studies is limited to make an overall evaluation of the concept of free zones. According to Baissac (1996), benefits and costs are difficult to assess on a case by case approach. Policy analyst should propose a study as complete as possible, revealing through data analysis and extensive interviewing of the actors concerned the multiple dimensions of costs and benefits. Such approach requires a different model of the export processing zone, a model at the cross-roads of the major disciplines of social science, such as economics, political science, sociology, geography. Informed by diversified perspectives, concerned with diverse issues, the policy analyst would present to the policy maker a picture of the zone that would be less caricature, without any doubt, but also more complex.

Regarding welfare analysis of free zones on host economy, Kusago and Tzannato (1998) evaluated the theories in literature within the selected Asian free zones framework. Main argument of the study is that free zones are attracting foreign investors and by doing so, host countries expect to benefit from employment creation, additional foreign earnings and technology transfer. Two results from the study are, (i) for less industrialized countries, free zones contribute to the employment problems significantly, (ii) for industrialized countries, contribution to employment is limited. Foreign earnings benefits of free zones to the host countries are related with the form of wage payments to the workers in foreign investments. According to the authors, wage payment with foreign currency is similar with the direct export of labor. However, technology transfer benefits of free zones found as less beneficial than other impacts due to the weak link between the presence of free zones and technology upgrading.

According to Madani (1999), there are four competing views on the role of FZs in an economy. One considers it as an integral part to further economy-wide reforms. FZs are to have a specific life span, losing their significance as countries implement systemic trade, macroeconomic and exchange rate reforms. A second view sees FZs in terms of a safety valve. They provide much-needed foreign currency to accommodate import needs for the host nation and create jobs to alleviate some of the national unemployment or underemployment. A third view is that FZs can be used as laboratories to experiment with market economy outward oriented policies. Finally, all these views still consider the FZs as a source of technological transfers and human capital development. It is also interesting to note that in the past thirty years, FZs have been implemented at two different development stages. One set of countries (Mauritius, Dominican Republic, China) have reverted to them in the early stages of their industrial development, with the expectation that they provide the "engine of growth" to propel their economies into industrialization. They also sought production and export diversification. A second set of countries (Tunisia, Malaysia, Indonesia, and Honduras) implemented FZ when they already had a strong industrial production and export sectors.

Cling and Letilly (2001) examined the efficiency of free zones in meeting the various objectives. For this aim, they analyzed the impacts of free zones on the development of the host countries in the light of the experiences of several examples. Employment creating and economic growth potential of free zones, both from a theoretical point of view and from the empirical study of a number of examples are considered in their study. Three main findings arise from the research are as follows; free zones has benefits mainly to emerging countries, industrialization policy should not be the main mission of establishing free zones as



successful zones mainly depend on low-skilled labor and producing goods with low added value and new developments such as agreements signed within WTO and new forms of globalization may present both opportunities and risks for the future of FZs.

In many developing countries, free zones have been used as a substitute for the import substitution programs. Virgill (2001) investigated the reason of the establishment of such zones and their performance as a tool for reform. According to the findings in the study, FZs was emerging in countries where institutions such as the financial system, governance and corporate governance were experiencing improvements. In such countries, FZs was found complements to reform. On the other hand, FZs may be a substitute for reform when there is complex tax system or bureaucracy in business environment. Thus, for a successful development strategy, usage of free zones should accompany additional reforms to the business environment.

Armas and Sadni-Jallab (2002) investigated the role and the impact of free zones in terms of foreign exchange earnings potential, technology transfer, and employment effects on the local and national economies, in world trade and its likely impact on host countries' economies, and specifically for Mexico's economy. According to the findings of the research, free zones in Mexico are successful in creating employment. However current social conditions of the workers and future opportunities for the workers in the absence of FZs are indicated as noteworthy for further studies. Due to its high import composition, that does not seem to be changing much over time, the foreign exchange earnings potential of the free zones found less successful. It is even argued that Mexican Crisis has been affected by the high import component of the free zones. Although there is evidence of some

modernization and upgrading of technologies in Mexican free zones, it has been found most disappointing in its role as an engine for the modernization and growth of the industrial sector in Mexico.

Similar to this thesis, several studies in the literature examine the performance and evaluation of a particular free zone in terms of its achievements and contribution in the economy as well as problems being faced by the operating firms. Survey method is commonly used for analysis. Akhtar (2003) investigated the performance of Karachi Export Processing Zone (KEPZ) in Pakistan on various aspects. The benefits depend upon the efforts towards learning and absorbing foreign technologies and shifting the growth pattern of Pakistan to an outward looking economy traditionally from an inward one. It is argued that there is a great potential in Pakistan to achieve success and growth through export-oriented strategy activated through free zones. According to the survey, the success in this requires the coordinated efforts of various agencies, sustainability of incentives, and provision of internationally competitive levels of infrastructure.

Jayanthakumaran (2003) surveyed free zones literature within the benefit-cost framework. As free zones are well established and seem profitable in many of Asian countries like China, South Korea, Sri Lanka, Philippines and Indonesia, literature including them surveyed and examined in the study. Via using benefit-cost framework with enclave model and shadow price estimates, economic performance of the selected free zones are examined<sup>7</sup>. Survey results propose that enclave model is not appropriate for benefit-cost evaluations of free zones due to the lack of

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<sup>7</sup> Warr (1989) proposed the enclave model which omits the net income effect of the zones in the benefit-cost framework. According to his model, only taxes paid to government increase the welfare of host economies. In that sense, free zones do not provide a benefit on the tax gain of a host country.

including employment and local purchases contributions' to the host economy. Hence backward linkages like shadow price which is excess of actual payments on market prices and opportunity costs of the respective items contributions to the economy are evaluated in the study. Survey results within the selected Asian free zones (China, South Korea, Sri Lanka, and Indonesia) support the literature which argues that free zones have positive impacts on the host economy. Only Philippines free zone found inefficient due to the high infrastructure costs which lessen the net income of the zone.

Tyler and Carolina (2009) examined the relationship between the use of free zones and economic growth. They extend previous international cross-sectional research, using panel data to examine the determinants of economic growth. Using this theoretical framework, a question asked concerns the effects on growth of country use of free zones as a policy mechanism. The analysis demonstrates a positive and significant relationship between the use of FZs and economic growth. Accordingly, the analysis provides support for the contention that host countries using FZs grow faster than countries that have not employed such mechanisms. The policy implication proposed in the study is that country governments that have abstained the use of FZs might be well advised to re-examine their policies.

Borozan (2010) examined the benefits and contribution of FZs to Croatian economic growth referring the advantages argued in the study of Cling and Letilly (2001). In the study, effects of free zones on employment, balance of payments and competitiveness are questioned with cost and benefit analysis. According to the findings of the study, free zones have beneficial effects in terms of job creating in the region which could be directly, through the start-ups, opening new branches or

spreading the existed firms or could be indirectly through activating frozen resources located out of the zone. Concerning the impact of FZs on balance of payments, two ways are addressed in the study. First one is the model that free zone producers do not import the intermediate goods and produce substitute products and services which have been imported otherwise. This would cause a favorable effect in the balance of payments of a country. Latter one is an increase in exports driven by the free zone producers also have positive impact on trade balance. The final criticism about the benefits of free zones is in regard to the competitiveness of the nations. It is argued that nation-competitiveness can be achieved through foreign direct investment, transfer of high technologies and resulting progress in productivity, as well as through spillovers of knowledge, skills and good business practice on firms. Free zones are stated as laying the groundwork for improving nations' competitiveness according to the study.

Economic impacts of free zones in the Indian context are examined in Aggarwall's study (2010). It is argued that the existing economic theories do not adequately explain the rationale and contribution of FZs. Integrating the provisions of the theories of agglomeration economies and global value chains to the existing theories, a new extended theoretical framework is used in the analysis of the study. According to the analysis within this context, free zones are stimulating investment and employment. However their role appears to be more valuable in bringing about economic transformation which could be from a resource-led economy to a skill and technology-led economy; from low value added economic activities to high value added economic activities; from low productive sectors to high productive sectors; and from unorganized to organized sectors, both at the national and regional levels.

Another argument about free zones in literature is whether they are creating unfair competition due to the tax exemption. Bogataj and Bogataj (2011) compared net income of companies operating in free zone with identical companies in local market in order to investigate if any unfair competition exists. Their findings proposes that the level of reduction of tax burden in free zones is only a compensation for higher labor costs, additional administrative costs and the cost of risks assumed at transit regime. Hence, they argued that it is not completely true to judge free zones cause unfair competition.

Similar to worldwide (common) literature, economic benefits of the free zones are one of the most reviewed subjects in the Turkish studies. Kibritçioğlu (1995) reviewed the literature on the contributions of the free zones to the host country. Basic characteristics and macroeconomic effects of the FZs in Turkey analyzed as a special case in the study. Comprehensive empirical evaluation of the experiences of host countries is indicated as impossible due to the difficulty of finding statistical information on the FZs all around the world (Kibritçioğlu). According to macroeconomic analysis of the FZs in Turkey, it is proposed that the employment creation and foreign capital attraction functions of the zones are limited. On the other hand, FZs in Turkey has a prominent role for trade since 1991 according to findings of the study.

Hava (1999) investigated the Aegean Free Zone and its structure. For the analysis of the study, trade volume, employment and investment figures are examined. One of the key figures pointed out in the study is that most of the licenses are organized for trade and production activities. According to Hava (1999), companies which have trade licenses, have great potential to shift production according to the opportunities

for higher profits. This will stimulate the economic potential in the region and accelerate the technology transfer. Benefits of the AFZ can be increased via attracting more local and foreign investors to the zone. One of the methods proposed in the study for subsidizing the investors to AFZ is evaluating potential investors by ESBAŞ (Founder and Operating Company of AFZ) and finding source for long term credits to them.

Akal (2002) examined the performance of 16 free zones in Turkey between years 1996 and 2001. Economic figures of the selected zones regarding to capital inflow, foreign trade, industrialization, and employment are analyzed in the study. According to Akal (2002), creating employment and providing opportunity to supply cheap input for production are main contributions of free zones to the national economy. On the other hand, it is argued that free zones have direct and indirect impacts on the regional economy. Turkey, as one of the most important country due to its geographical location, Turkish free zones can be considered as a hub for the logistics and warehousing of the materials for the less developed neighbor countries. Thus, it is proposed that the quality of such services in Turkish free zones should be improved.

Öztürk (2004) reviewed foreign direct investment in free zones by considering related theories in the literature. Foreign Direct Investment in FZs has been studied in the light of the theories which are based on perfect markets as Differential Rate Return Hypothesis, Portfolio Theory, Output and Market-Size Hypotheses. Furthermore, these investments have been examined by considering the theories which are based on imperfect markets as Product Cycle Hypothesis, Oligopolistic Reactions Hypothesis, Internalization Hypothesis, Dunning's OLI Paradigm, and

Caves Economies. The place of Free Zones in New International Division of Labor has been discussed by referring to determinants of Foreign Direct Investment in Developing Countries (Ozturk 2004). According to the findings of the study, foreign investments in FZs can be explained by Differential Rate Return Hypothesis and Portfolio Theories which are based on perfect markets and structure of the host countries. On the other hand, due to the export oriented strategies of the zones in developing countries, Output and Market-Size Hypotheses are indicated as not explanatory. Analyzing the behaviors of the multinational firms' investments in FZs, theories which are based on imperfect competition are proposed as more explanatory. For the author, the main reason of the investment in FZs is related with the cheap labor cost structure of such zones in developing countries.

Organ (2006) reviewed a detailed examination of free zones in Turkey whether they fulfill the purposes of their foundation, especially in terms of their export and employment targets and dimensions. Concerning the characteristics of total trade in the free zones, it is indicated that free zones in Turkey are import oriented. Another problem pointed out in the study is illustrated with the comparison between the values of merchandise brought to free zones from within and outside the country and those of merchandise exported from free zones to the whole country and abroad. This illustration reveals that these values are very close and this is evidence that no additional value is created via production in free zones. Concerning the employment opportunities in FZs, there is a continuing increase in the number of those employed in free zones in Turkey. However, comparison of this result with the number of those employed in free zones in different countries, it appears that free zones in Turkey have failed to realize the expectations on their founding that they would create new employment opportunities. Besides, the number of the workforce

employed in the free zones in the Aegean, Marmara and Mediterranean regions is far higher than that of zones in other regions shows that free zones have, however, failed to solve the problem of inequality between regions and that resources transferred to these zones from the public and private sector cannot be used effectively (Organ, 2006).

Ebiri (2006) investigated the fiscal benefits and impacts of the free zones in contribution to Turkey's national economy. The study is specifying the current situations of free zones and determining its financial contribution to economy and what length of economic advantage realized compared to what is expected from establishment purposes. Although free zones have positive figures such as employment and trade volume increase, imperfect competition and smuggling are indicated as the negative impacts of free zones for the economy. According to Ebiri (2006), unsuccessful applications of "free zone" operations can be minimized with careful planning, effective management and control.

Muzhdabayeva (2006) also investigated Aegean Free Zone for the contributions to the regions' economy. Interpreting the economic indicators such as share of trade volume, employment, and investments, AFZ's contribution has been found as positive and continually increasing. To improve the benefits of the AFZ to the Aegean region, Muzhdabayeva (2006) proposed and advised that sufficient advertiser activities should be implemented, especially for the sectors in need of high technologic investments. In the study, importance of the internal audit and quality is emphasized. It is foreseen that this will increase competition, quality and trade volume in the AFZ. Another argument of the study indicates that the techno-park character of the AFZ should be in the spotlight to attract more users to the zone.



National and international events, congresses and fairs are important activities to be used for this purpose.

Kocaman (2007) reviewed literature on free zones and their worldwide applications and Turkish cases. In the study, free zones are emphasized as the second best policy after overall liberalization of national economy. Contrary to the most of the studies in the literature, Kocaman (2007) argued that free zones do not contribute to national and regional economic wealth. Although Wepza (World Economic Processing Zones Association) introduce Turkish free zone experience as one of the most successful applications in the world, according to Kocaman (2007), free zones can be considered as obstacles for the trade liberalization of Turkey. In addition to this, free zones contribution to the regional economy found unsatisfactory.

Economic impacts of free zones are examined with a survey executed Gaziantep Free Zone by Arslanlı and Yapraklı (2007). Survey designed to reveal the contributions the GFZ to the economic structure of the region by increasing the investment, foreign trade productivity, creating employment opportunities, and increasing the exportation and the competitive capacity. In the study, data concerning the opinions of people who work in GFZ about the economic impacts of free trade zone were collected using a questionnaire method and the data collected were analyzed using statistical tools. Need of education for the existing workers and employment of more qualified workers in the zone is emphasized in the study. According to the main finding of the survey conducted in GFZ, economic impact of the zone in the region is positive. However, impacts of the zone found as unsatisfactory by 10% of the responses. For the improvement of the contribution of

FZs to the economy, authors proposed better investment opportunities and incentives which should be warrantable by the public authorities.

Çelenk (2007) reviewed Turkish FZs from a different perspective. In the study, Turkey's EU membership adaptation process is investigated from the point of FZs application. In Europe, the main aim of establishment of free zones is facilitating trade activities. However, increasing investment and production activities for exports is the main establishment aim of the FZs in Turkey. In EU, laws are not allowing unfair competition for the firms outside the FZs in a region. In Turkey, special tax incentives and promoting activities are in favor of the firms operating in free zones. According to the comparison of European and Turkish FZ application, such inequalities and regulations done so far to prevent this kind of unfair competition is still not acceptable for the EU standards.

Similar with Çelenk (2007), Yazıcılar (2007) reviewed the differences of the regulations for the FZs in EU and Turkey. In Turkey, most of the earnings gained from industrial activities are tax exempted. However, in European FZs usually trade actions are carried out and although the formalities are partially fewer in terms of foreign trade, customs and taxation, exemption is not as much as in Turkey. During EU adaptation process, necessary requirements for the legal structure of the FZs in Turkey are questioned in the study. In EU, companies are investing in FZs for facing less bureaucracy in their trade activities. Tax exemption is not applied in such zones. However in Turkey, companies' main aim for operating in FZ is usually related with tax exemptions and advantages. This is an argument for imperfect competition of the FZs in Turkey and this is the most criticized issue by EU authorities. According to

Yazıcılar (2007), Turkey should reorganize the incentives provided to FZs users according to EU legislations.

Impacts of the free zones for the local economic growth in Turkey have been investigated by Öztürk, Değer and Değer (2009). Affects of private sector investments, public investments, public current and infrastructure expenditures, geographical location and the rate of population growth on economic growth of 72 selected provinces are considered in a equation derived from endogenous growth theory. According to the findings, geographical location stimulates economic growth, while initial per capita income of provinces has negative effects. Concerning the impacts of FZs on the growth of local economies, result of the estimation is statistically insignificant. However, when the free zones which have seaport are used in the regression, result of the estimation indicate that FZs have positive effects on economic growth of provinces which have seaport. Important argument of the study about free zones is indicating that FZs have positive effects on economic growth of provinces which have seaport. Thus, authors associated the decision of location choice of FZs with the political benefits more than the economic benefits.

Another free zone in Turkey is investigated by Uzay and Tıra (2009). Economic impacts of Kayseri Free Zone are examined by a survey to determine the problems and the corresponding solutions for the firms. One of the main problem revealed from the survey is that field of activity in the zones shifting from production to purchase and selling activities which is not the establishment purpose of such zones. To prevent this, the need of promoting production activities with subsidies is pointed out in the study. Besides, a big part of the exports realized in the FZs are to the Turkish local market. This is also not desirable for the export performance of the

FZs. This could be diminished via limiting the exports to Turkey and promoting them for abroad countries. Another important problem emphasized in the study is related with the bureaucracy firms are facing. Especially, procedures for the incoming and outgoing goods and services into the zones cause extra time and money losses for the firms.

In the thesis study of Oğuz (2010); tax applications free zones in Turkey are examined within the ESBAS model. The critical control points of ESBAS model equivalent to tax paradise are formed and the tax analysis is introduced in the study. Evaluating the literature and data, contributions of free zones to the economy is emphasized. According to the analysis of the tax implementation in AFZ, firms have more tendencies to profit maximization with lower tax ratios and subsidies. Foreign capital flows to the places where this opportunity can be realized. Today, many developing countries compete for attracting this capital via harmful tax competition. However FZs provide legal base for attracting foreign capital and provide great contributions to the economy.

To sum up, related theories in Turkey are mainly focus on the economic impacts of the zones to the regional and national economies. Positive impacts of the free zones are pointed out in most of these studies, while some of them do not find significant impacts. Summary table of the finding for some of the studies regarding to the economic impacts of the FZs are given below.

**Table 1. Summary of Main Findings about Economic Impacts of FZs**

Author(s)	Year	Subject	Main Findings
Akal, M.	2002	Macroeconomic Effects of Activities in Free Zones	FZs are creating employment and providing opportunity to supply cheap input for production.
Kocaman, Ç.B.	2007	The Evaluation Of Macroeconomic Impact Of Free Zones: Turkey Case	Free zones can be considered as obstacles for the trade liberalization of Turkey and their contribution to the regional economy found unsatisfactory.
Kıbrıçoğlu, A.	1995	Free Zones in Turkey and Their Macroeconomic Effects	Employment creation and foreign capital attraction functions of the FZs are limited. However they have a prominent role for trade.
Hava, T.H.	1999	Free Zones and an Evaluation of Aegean Free Zone	FZs do not provide enough benefits for the economy. However this could be increased with attracting more investors.
Arslan İ. and Yapraklı S.	2007	Economic Effects of Free Zones: A Research for Determination of the Effects of Free Zone in Gaziantep	For the improvement of the contribution of FZs to the economy, better investment opportunities and incentives should be provided by the public authorities.
Öztürk L., Değer M. and Değer S.	2009	Local Economic Growth and Free Zones: Political or Economic Choice	Impacts of FZs on the growth of local economies is not significant. However, FZs have positive effects on economic growth of provinces which have seaport.

Studies about benefits of the zones in the literature mainly propose that free zones have positive impacts on the national and regional economy. However the main criticism for the improvement of this benefit is that investment in these zones are not at the desired level. In order to increase the benefits, governments and zone authorities should increase their promoting activities and incentives for potential and existing investors. According to findings, benefits can be increased with more investment and this will stimulate increase in exports and employment.

## **CHAPTER 4**

### **FREE ZONES IN TURKEY AND THEIR CONTRIBUTIONS TO THE ECONOMY**

#### **4.1. DEVELOPMENT OF FREE ZONES IN TURKEY**

With foreign expansion policies that were started as a result of significant transformations that occurred in Turkish Republic's economic perspective in 1980s, a growth model based on import-substitution was replaced with an export-oriented growth model and concrete and permanent steps started to be taken with regard to the establishment of free zones. The first success within this regard came with the addition of the phrase "free zones will be established" to the 1984's plans. Investment incentives started to be rapidly implemented in Turkey following the establishment of Incentives and Implementation Department in 1967, and as a result of this industrialization started to develop, and with the entry of 24 January 1980 decisions into force, the stage of export campaign started (Toroslu, 2000).

As a result of these developing commercial and industrial activities, works about free zones were accelerated and the Free Zone Law numbered 3218 was adopted on 15.6.1985. Arrangements in this area continued with the Governing Regulation on Free Zones which was published in the Official Gazette numbered 21520 on 10/03/1993. New arrangements were made with the Customs Law numbered 4458 which was adopted on 27.10.1999 and came into force as from 05.02.2000. And finally, an amendment was made on the Regulation on Free Zones on 27.03.2001, and it was published in the Official Gazette dated 27.03.2001 and numbered 24355. Within the framework of the globalization phenomenon, Turkey General Directorate

of Free Zones became a member of World Export Processing Zones Association (WEPZA) on 1991.

Free Zones which are accepted as efficient and modern organizations for the improvement of foreign trade today have made a significant progress despite their short history in our country. Trade connections are being established via the free zones in Turkey and present connections are being improved continuously. The list of 19 free zones that were established in Turkey as from 1985 and that still operate in 2011 are as follows in chronological order:

Table 2 : Free Zones in Turkey as of 2011

<b>Free Zone</b>	<b>Date of Establishment</b>
Mersin Free Zone	1985
Antalya Free Zone	1985
Aegean Free Zone	1987
Istanbul Ataturk Airport Free Zone	1990
Trabzon Free Zone	1990
Istanbul Thrace Free Zone	1990
Adana Yumurtalik Free Zone	1992
Istanbul Leather & Industry Free Zone	1992
Mardin Free Zone	1994
Samsun Free Zone	1995
Europe Free Zone	1996
Rize Free Zone	1997
Kayseri Free Zone	1997
İzmir Menemen Leather Free Zone	1997
Gaziantep Free Zone	1998
Tubitak - Mrc Free Zone	1999
Denizli Free Zone	2000
Bursa Free Zone	2000
Kocaeli Free Zone	2000

**Source: Undersecretariat of the Prime Ministry for Foreign Trade**

#### 4.2. ESTABLISHMENT PURPOSES OF FREE ZONES IN TURKEY

Free Zones Law numbered 3218 was adopted on 06.06.1985 with the aim of increasing liberalization and creating a safer environment for foreign capital as well

as increasing investment and production, accelerating foreign capital and technology transfer, maintaining a cheap and regular economic input entry, and benefiting more from the international financing and trade opportunities in a politically convenient time where new policies that target lesser bureaucracy are being implemented. As from the date that this Law entered into force, establishment of free zone was based on a stronger legal basis and a convenient environment was created for the improvement of free zones. Even though the previous law did not identify any aims, it was obvious that the aim was to facilitate import and export; the Law numbered 3218 on the other hand mentioned its purpose and scope in its first article.

The purposes of Free Zones in Turkey are specified in the Free Zones Law numbered 3218<sup>8</sup> as follows:

- 1) To increase the comparative advantages of Free Zones that will be established in Turkey vis-à-vis Free Zones operating in other countries,
- 2) To establish internationally known trade centers in our country that has an important place especially in the Middle East because of its geographical location,
- 3) To enable entrepreneurs that operate in Free Zones obtain their inputs from internal and external markets without paying any taxes, duties and charges, and to enable domestic entrepreneurs obtain their needs continuously and cheaply without making storages from the internal market,
- 4) To make entrepreneurs come to these zones by exempting real and legal persons that operate in Free Zones from income tax and corporate tax, and doing so to create an opportunity for the development of the region and hence the locale,

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<sup>8</sup> The Free Zones Law numbered 3218 was published in the Official Gazette dated 15.06.1985 and numbered 18785.



- 5) To bring bureaucracy and formalities to the minimum level for the entries to and exits from Free Zones, for bringing the goods, processing and selling them or for taking them out of the zones and for operating all activities,
- 6) To increase the inflow of receipts with domestic production on the one hand and increasing exports on the other by enabling entrepreneurs that come to Free Zones obtain their goods with cheaper prices as the goods that are brought to zones are considered as being exported if entrepreneurs obtain their investment inputs in the form of raw materials, semi-finished and finished products from Turkey,
- 7) To bring modern technologies that can help Turkish industry to develop, and to provide investment inputs from Turkey,
- 8) To allow those who come from outside of the country to Free Zones to bring real capital and money capital, and to allow them to partially or completely take these capitals abroad together with their interests and profits,
- 9) To advertise Turkish Free Zones in world banking, insurance and other service sectors by allowing banks that are not present in Turkey to open offices in Free Zones like banks and insurance companies that operate in Turkey, and to allow for other auxiliary services such as expertise, agency business, consultancy services, commercial surveillance services to be carried out in Free Zones,
- 10) To benefit from the advanced technique and organization of commercial and industrial activities in free zones, but at the same time to create a system which will neutralize negative competition that might be brought to domestic activities by such trade and industry,
- 11) To establish a fund in order to meet the expenses for establishing and improving facilities about Free Zones, the source of which will mainly come from the income that will be gained from activities in Free Zones.

According to the Free Zone Law Nr: 3218; The Council of Ministers has the authority to determine the location and boundaries of the free zones. The Council of Ministers grants permission for the establishment and operation of free zones to public institutions and agencies, resident or non-resident real persons or legal entities.

#### 4.3. TYPES OF FREE ZONES IN TURKEY

It is observed that three basic models are being implemented with regard to the establishment of free zones in Turkey. In the first model, free zones are established on a public land and its infrastructure expenses are covered by the government, while its superstructure expenses are covered by the operating and using companies. Examples of this model are Antalya and Mersin Free Zones. In the second model, free zones are again established in public land, however their infrastructure expenses are covered by their founders and operators. Superstructure expenses in this model, on the other hand, are covered by the founder and operator of the zone in question and by its user companies. Examples of this model are Aegean and Trabzon Free Zones. And in the third model, free zones are established on areas that belong to the founder and operator of the free zone, and its infrastructure expenses are covered by this organization or firm. Superstructure expenses are covered by the founder and operator of the zone and by its user companies. Examples of this model are Leather and Mardin Free Zones (Toroslu, 2000).

Table 3 : Structure of Free Zones in Turkey

<b>Free Zone</b>	<b>Date of Establishment</b>	<b>Land Structure</b>	<b>Zone Structure</b>
Mersin Free Zone	1985	Public	Government
Antalya Free Zone	1985	Public	Government
Aegean Free Zone	1987	Public	Private
Istanbul Ataturk Airport Free Zone	1990	Public	Government
Trabzon Free Zone	1990	Public	Private
Istanbul Thrace Free Zone	1990	Private	Private
Adana Yumurtalık Free Zone	1992	Public	Private
Istanbul Leather & Industry Free Zone	1992	Private	Private
Mardin Free Zone	1994	Private	Private
Samsun Free Zone	1995	Public	Private
Europe Free Zone	1996	Private	Private
Rize Free Zone	1997	Çaykur	Private
Kayseri Free Zone	1997	Private	Private
İzmir Menemen Leather Free Zone	1997	Private	Private
Gaziantep Free Zone	1998	Private	Private
Tubitak - Mrc Free Zone	1999	Public	Public
Denizli Free Zone	2000	Private	Private
Bursa Free Zone	2000	Private	Private
Kocaeli Free Zone	2000	Public	Private

**Source: Undersecretariat of the Prime Ministry for Foreign Trade**

#### 4.4. CONTRIBUTIONS OF FREE ZONES IN TURKEY TO THE ECONOMY

3235 free zone firms that have operating licenses 809 of which being about production by the end of 2010 have reached to a volume of trade that was worth 19 billion USA Dollars as a result of their activities in comparison to the same period of 2009, and have provided an increase of 4.6 % in the volume of free zone trade. When we consider the trade volume of free zones, it is seen that Istanbul Leather and Industry Free Zone has the leading position with its trade volume of 4.27 billion USA Dollars. Aegean Free Zone and Istanbul Ataturk Airport follow Istanbul Leather and Industry Free Zone with their trade volumes of 2.7 and 2.5 billion USA Dollars.

Again when we look at the allocation of free zone trade volume according to directions as the end of 2010, it is seen that a trade volume of 8.92 billion USA Dollars in the direction of entrances from within the country into the free zones, 9.65 billion USA Dollars in the direction of exits from the free zones to abroad were realized. When we look at the sector distribution of trade volume of free zones, it is seen that the biggest share belongs to the industry sector with a share of 94%. When we consider the industry sector together with its sub-branches, it is seen that industrial goods have a share of 87.8%, processed agricultural goods have a share of 6.1%, and processed petroleum products have a share of 0.11%.

#### 4.4.1. FOREIGN TRADE

Today there are 19 free zones in our country and the total trade volume of our free zones has reached to 19 billion by the end of 2010. When we compare the volume of trade in 2010 and 2009 (Table 4), it is observed that there has been an increase of 4.59%. However, because of the global economic crisis that occurred in 2009, the trade volume of Free Zones in Turkey that decreased in parallel to the decrease in the volume of its foreign trade haven't been able to catch the level of 2008 yet.

When we look at the distribution of trade volume according to sectors (Table 5), it is seen that the industry sector has the biggest share. 93.96% of the total trade volume of free zones is realized by the industry sector. Agricultural sector constitutes 5.57% of the total trade volume, while mining constitutes 0.29%.

Table 4 : Annual Trade Volumes of Free Zones in Turkey ( US \$ 1.000 )

Free Zone	2007	%		2008	%		2009	%		2010
		2008-2007	2008		2009-2008	2009		2010-2009	2010	
Istanbul Leather & Industry Free Zone	6.312.273	-4,9%	6.001.678	-35,6%	3.867.187	10,4%	4.270.831			
Aegean Free Zone	4.092.781	-8,0%	3.763.964	-29,4%	2.658.772	-5,9%	2.502.919			
Istanbul Ataturk Airport Free Zone	3.618.897	-2,2%	3.539.000	-16,5%	2.954.765	-8,0%	2.718.109			
Mersin Free Zone	2.556.331	3,2%	2.637.921	-27,3%	1.918.637	16,1%	2.227.309			
Istanbul Thrace Free Zone	2.290.343	-18,7%	1.862.771	-36,1%	1.190.035	24,4%	1.480.979			
Bursa Free Zone	1.619.125	-0,9%	1.604.603	-20,3%	1.279.473	5,7%	1.352.280			
Europe Free Zone	1.498.721	5,1%	1.575.653	-25,1%	1.180.940	9,1%	1.288.563			
Antalya Free Zone	545.511	33,7%	729.233	-16,9%	605.927	18,3%	716.721			
Kocaeli Free Zone	467.128	51,0%	705.309	14,9%	810.654	-52,1%	387.919			
Kayseri Free Zone	646.906	8,7%	702.948	-37,1%	442.397	18,7%	525.028			
İzmir Menemen Leather Free Zone	423.836	-2,6%	412.922	-32,2%	280.040	10,0%	307.913			
Samsun Free Zone	95.775	324,3%	406.402	-90,8%	37.290	149,5%	93.021			
Adana Yumurtalık Free Zone	160.757	63,7%	263.148	-34,3%	172.937	26,9%	219.516			
Gaziantep Free Zone	72.786	96,9%	143.306	-22,7%	110.740	15,9%	128.338			
Tubitak - Mrc Free Zone	47.056	137,4%	111.715	47,5%	164.828	40,5%	231.643			
Trabzon Free Zone	38.762	73,1%	67.114	-36,4%	42.675	13,6%	48.495			
Denizli Free Zone	74.784	-41,7%	43.584	-24,1%	33.079	87,6%	62.048			
Rize Free Zone	11.561	-41,3%	6.784	-4,1%	6.507	-43,1%	3.701			
Mardin Free Zone	112	-	-	-	-	-	6.872			
<b>TOTAL</b>	<b>24.573.445</b>	<b>0,02%</b>	<b>24.578.055</b>	<b>-27,8%</b>	<b>17.756.883</b>	<b>4,6%</b>	<b>18.572.205</b>			

Source: Undersecretariat of the Prime Ministry for Foreign Trade

\*Mardin Free Zone omitted due to negligible trade volume

Table 5 : Breakdown of the Trade Volume by Sectors ( US \$ 1.000 )  
( January-December 2010 )

Sectors	Inflow		Outflow		Total	%
	To Zones	%	From Zones	%		
I. AGRICULTURE	546.324	6,12%	521.166	5,4%	1.067.490	5,7%
A. Vegetable Products	498.317	5,59%	493.987	5,1%	992.304	5,3%
B. Livestock Products	43.426	0,49%	24.869	0,3%	68.295	0,4%
C. Fishery Products	1.154	0,01%	910	0,0%	2.064	0,0%
D. Forestry Products	3.426	0,04%	1.400	0,0%	4.826	0,0%
II. MINING & QUARRYING	27.336	0,31%	26.364	0,3%	53.700	0,3%
III. INDUSTRY	8.346.641	93,57%	9.104.375	94,3%	17.451.016	94,0%
A. Processed Agricultural Products	550.289	6,17%	580.726	6,0%	1.131.015	6,1%
B. Processed Petroleum Products	8.353	0,09%	9.629	0,1%	17.982	0,1%
C. Industrial Products	7.787.999	87,31%	8.514.029	88,2%	16.302.028	87,8%
<b>TOTAL</b>	<b>8.920.301</b>	<b>100,00%</b>	<b>9.651.905</b>	<b>100,0%</b>	<b>18.572.206</b>	<b>100,0%</b>

Source: Undersecretariat of the Prime Ministry for Foreign Trade

When we look at the distribution of trade volume according to countries (Table 6), it is seen that 40.85% of the total trade volume was realized with Turkey, 35.94% was with OECD and EU member countries, and the remaining part was realized with

other countries of Europe, Northern Africa and Middle East countries, Commonwealth of Independent States and other countries.

Table 6 : Breakdown of the Trade Volume by Countries ( US \$ 1.000 )  
( January-December 2010 )

Countries	Inflow		Outflow		Total	
	To Zones	%	From Zones	%		%
I. OECD & EU COUNTRIES	4.440.934	49,8%	2.233.789	23,1%	6.674.723	35,9%
A. EU (27) Countries	3.444.966	38,6%	1.933.068	20,0%	5.378.034	29,0%
B. Other OECD Countries	995.968	11,2%	300.721	3,1%	1.296.689	7,0%
II. OTHER EUROPEAN COUNTRIES	11.402	0,1%	21.346	0,2%	32.748	0,2%
III. COMMON WEALTH OF INDEPENDENT STATES (CIS)	267.067	3,0%	485.468	5,0%	752.535	4,1%
IV. NORTH AFRICA & MIDDLE EAST	452.911	5,1%	918.005	9,5%	1.370.916	7,4%
V. OTHER COUNTRIES	1.453.211	16,3%	702.107	7,3%	2.155.318	11,6%
VI. TURKEY	2.294.777	25,7%	5.291.189	54,8%	7.585.966	40,8%
<b>TOTAL</b>	<b>8.920.302</b>	<b>100,0%</b>	<b>9.651.904</b>	<b>100,0%</b>	<b>18.572.206</b>	<b>100,0%</b>

Source: Undersecretariat of the Prime Ministry for Foreign Trade

#### 4.4.2. EMPLOYMENT

Free zones are important for employment creation. Especially free production zones create quite a broad employment opportunities within the scope of industrial activities. It is also possible for free zones to have an indirect contribution on the employment problem. Various input needs that are obtained from outside of the zone for manufacturing purposes, and the needs of domestic and foreign personnel that are working in free zones such as food, clothing, and entertainment create a certain amount of employment in these zones.

From the 1980s until today, this contribution of free zones was given prominence in Turkey, and it was stated that new employment opportunities would be created in free zones. When we look at the amount of employment in free zones in our country (Table 7) as from 31.12.2010, it is seen that the Aegean Free Zone constituted

37.61% of the total amount of employment that was realized in free zones and had the biggest share among other free zones in Turkey, while Mersin Free Zones was in the second rank with its share of 12.72% and Bursa Free Zone was in the third rank with its share of 12.47%. Total number of personnel that are employed in free zone is 48,684. While 36,502 of them are employed as workers, 5,462 are bureau personnel. From this perspective, the positive contributions of free zones especially about unskilled labor force cannot be ignored.

**Table 7 : Employment Structure of Free Zones in Turkey (31.12.2010)**

<b>Free Zone</b>	<b>Worker</b>	<b>Office</b>		<b>Total</b>
		<b>Staff</b>	<b>Other</b>	
Aegean Free Zone	17.318	994	0	18.312
Bursa Free Zone	4.815	1.022	233	6.070
Mersin Free Zone	0	0	6.191	6.191
Istanbul Leather & Industry Free Zone	1.862	407	86	2.355
Antalya Free Zone	2.278	478	0	2.756
Kocaeli Free Zone	2.589	133	63	2.785
Europe Free Zone	1.651	301	0	1.952
İzmir Menemen Leather Free Zone	1.061	281	56	1.398
Tubitak - Mrc Free Zone	1.964	239	52	2.255
Istanbul Ataturk Airport Free Zone	78	893	3	974
Kayseri Free Zone	1.345	70	10	1.425
Istanbul Thrace Free Zone	991	421	17	1.429
Adana Yumurtalık Free Zone	146	91	0	237
Gaziantep Free Zone	114	60	0	174
Samsun Free Zone	182	47	0	229
Denizli Free Zone	37	17	0	54
Trabzon Free Zone	57	5	9	71
Rize Free Zone	0	0	0	0
Mardin Free Zone	14	3	0	17
<b>TOTAL</b>	<b>36.502</b>	<b>5.462</b>	<b>6.720</b>	<b>48.684</b>

**Source: Undersecretariat of the Prime Ministry for Foreign Trade**

By January 2011, the number of people that are employed in Turkey is 22.5 million (Table 8). When it is considered that the number of people employed in free zones in the same period, it is possible to say that 22 in a thousand of the total amount of employment is realized in free zones.

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**Table 8 : Non-seasonally Adjusted Labour Force Status in Turkey**

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	<b>2011</b>
Non-institutional population (000)	71 817
Population 15 years old and over (000)	53 051
Labour force (000)	25 505
Employed (000)	22 461
Unemployed (000)	3 044
Labour force participation rate (%)	48

**Source:** [www.turkstat.gov.tr](http://www.turkstat.gov.tr)

In conclusion, it can be said that although free zones in Turkey do not provide a solution completely to the problem of unemployment, they have succeeded in melting a certain amount of labor force potential.

#### 4.4.3. FOREIGN CAPITAL INVESTMENTS

A law which abolished the Law for Incentives for Foreign Capital dated 18 January 1954 and numbered 6224 and which highlights the liberal characteristics of the investment environment in Turkey was prepared. This new law numbered 4875 came into force after being published in the Official Gazette dated 17 June 2003. With “the New Direct Foreign Investment Law” which was prepared as the main law about direct investments, mainly, Turkey’s egalitarian and liberal approach towards international investments was reflected and the legislation was given the characteristics of a “legal guide” which “gives a clear and comprehensible message



to investors” and which shows the rights and obligations that investors have on the basis of various legislations.

The most significant breakthroughs that were brought with the Law numbered 4875 are the recognition of main concepts about investments such as “foreign investment and foreign direct investment” within the framework of international standards, and the removal of the preliminary permission procedure and the minimum capital requirement that were put as conditions for firms that will be established as firms with foreign capital according to previous regulations. As a result of the legal regulations made regarding the establishment of firms in the same time as the Law numbered 4875, procedures for the establishment of a firm are carried out by Trade Registry Offices in 1 day. As a result of the new regulations, there is no difference between establishing a firm with foreign capital and establishing a firm with 100% domestic capital. The number of firms with foreign capital, which was 5215 before 17 June 2003 when the new law came into force, rapidly increased after the new regulations and it reached to 6,244 by the end of 2004. And by the end of 2009, the number of firms with foreign capital reached to 23,672 and the total amount of foreign direct investment reached to 6,001 million dollars. (Table 9)

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**Table 9 : International Direct Investment Status in Turkey**

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	<b>2009</b>
Total Inflow ( Million US\$)	6.001
Total Number of Companies	23.672

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Source: [www.treasury.gov.tr](http://www.treasury.gov.tr)

When we look at the number of foreign firms that are operating in our free zones (Table 10), it is seen that 598 of 3,235 firms are firms with foreign capital, and 166

of these foreign firms are manufacturing companies. It can be said that these numbers haven't reach to the demanded level, but as our free zones develop, they will contribute more to foreign capital investments in the upcoming years in parallel to increases in their volume of trade.

**Table 10 : Breakdown of Free Zone Operation Licences  
( 31.12.2010 )**

<b>User's Activities</b>	<b>Local</b>	<b>Foreign</b>	<b>Total</b>
Production	643	166	809
Purchasing – Selling	1.477	339	1.816
Other	517	93	610
<b>TOTAL</b>	<b>2.637</b>	<b>598</b>	<b>3.235</b>

**Source: Undersecretariat of the Prime Ministry for Foreign Trade**

#### 4.5. THE STRUCTURE OF AEGEAN FREE ZONE AND ITS CONTRIBUTION TO THE ECONOMY

Aegean Free Zone (AFZ) was established on 5 July 1989 on an area of 2,200,000 m<sup>2</sup> in Gaziemir, Izmir. Officially opened on 14 August 1990, the Aegean Free Zone is located on a very advantageous area in terms of transportation. It's 4 km away from Adnan Menderes Airport and 12 km away from the city center. Moreover, it is close to modern land and railway networks and it provides many transportation and logistics facilities such as subway train. In accordance with the “build-operate-and-transfer model” based on the contract signed with the Secretariat of the State Planning Organization, the Aegean Free Zone has been established and operated since 1990 by ESBAS (AFZ Founder and Operating Company) which is a private sector institution. In addition to all infrastructure and necessary superstructure

investments, energy, water, telecommunication and all municipal services, shipment, handling and catering are provided by ESBAS. Partners of ESBAS are Izmir Metropolitan Municipality, Izmir Chamber of Commerce, Aegean Region Chamber of Industry, Izmir Special Provincial Directorate of Administration and the EAC Company.

First production in the zone started on 24 November 1991. Being the first production zone in Turkey, the number of user firms that operate in the Aegean Free Zone for trade and production purposes are rapidly increasing. As of January 1, 2011 there are 236 companies in the Zone, 165 domestic and 71 international. Total trade volume for 2011 is projected at \$4 billion USD. Total investment in the Zone (construction, etc.) will have reached almost \$670 billion, 70% by International Companies. As of 2010, Aegean Free Zone employment has reached 17,500, whose 77% created by international firms. Among the Free Zones in Turkey, the Aegean Free Zone attracts most of the foreign investments. The reason for this is ESBAS' intensive marketing activities in and out of the country. The main points that are emphasized include promoting firms with high technology, facility, service and quality superiority, and stability factor implemented by ESBAS.

Sectors in the Aegean Free Zone are mostly electronics, food processing and packaging, machine manufacturing and mounting, precision gauges, metal junction pieces and kitchen furniture manufacturing, textile clothing, clothing machines, leather and leather products, chemical products and durable consumer goods. Moreover, ESBAS is the first Turkish Free Zone Founder and Operator company that has ISO 9001 Quality Management System Certificate. Units in the Aegean

Free Zone are; Aegean Free Zone Directorate, Revenue Office, Customhouse Guard Section Chief Office, Police unit and ESBAS.

In order for importing or exporting firms to carry out production activities, the Founder and Operating Firm ESBAS provides rentable parceled lands with ready infrastructure, ready factory buildings, modular production buildings, open and close storage areas and working places. Besides these, it also provides services such as electricity, water, telephone, food, loading and discharging, labor and equipment provision.

Different trade activities are provided in Aegean Free Zone, such as;

- *Production:* In addition to the produced goods, it is also possible to carry out raw material and intermediate good purchase and sale, storage, marking, packaging, labeling, exhibiting and maintenance and repair.
- *Purchase – Sale:* Purchase and sale, storage, labeling, packaging and exhibition of traded goods can be carried out.
- *Storeroom Management:* It is possible to store the goods of users or other non-user persons or institutions.
- *Workplace Renting:* Ready working places can be rented out to the users.
- *Assembly - Disassembly:* The user firm can carry out mounting and demounting activities for the goods that have been declared and specified when obtaining the user firm operating license.
- *Maintenance – Repair:* The user firm can carry out maintenance and repair activities for the goods that have been declared and specified when obtaining the user firm operating license.

- *Banking*
- *Insurance*
- *Offshore Banking*
- *Financial Leasing (Leasing)*
- *Others (Others that are not mentioned above)*

Financial Incentives provided by the Aegean Free Zone for the users and for the firms and institutions operating in the zone can be summarized as follows:

- Producing companies do not pay corporate tax for their income.<sup>9</sup>
- Customs Duty is not paid for machines and goods that are brought from abroad.
- Zone users can buy goods from the domestic market at export price and without paying VAT.
- Stocks can be made in the customs-free area without any time limitation.
- Gained profits can be freely transferred to another country.
- Bureaucratic procedures are kept at a minimum level.

Moreover, as long as they operate in the zone, firms and institutions can benefit from cost-efficient renting and construction facilities. In addition to this, the free zone also provides its users with municipal services at cost-efficient and competitive prices, as

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<sup>9</sup> Several amendments made on 6 February 2004 on the Law numbered 3218 in accordance with the “Law on Amendments on Investment and Employment Incentives numbered 5084 and on Some Other Laws” and the Free Zones Legislation. These amendments brought some limitations to the incentives from which the users in the free zones can benefit. These are as follows; Users that obtained their Operating License before 6 February 2004 are exempted from the Corporate Tax, and they are exempted from the Employee’s Income Tax until 2008. With regard to the users that obtained their operating licenses as from 6 February 2004, they are exempted from the Employee’s Income Tax if they are producers but they are not exempted if they carry out commercial activities.

well as financing, operation and labor force guidance. Besides these, the free zone provides the operating firms with industrial areas with modern infrastructure, commercial offices with suitable conditions, the opportunity to rent a land and build a facility for up to 30 years, and the opportunity to rent lands and facilities for up to 15 years.

In AFZ, there are many multinational firms in various industries. These companies utilize the AFZ to manufacture, assemble, package, warehouse and ship their products to facilities, subsidiaries and customers, in every corner of the globe. Some of the biggest ones listed with the year they first entered the zone are shown in Table 11.

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Table 11 : Big Firms that Operate in the Aegean Free Zone and Their Establishment

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<b>Name</b>	<b>Country</b>	<b>Date</b>	<b>Industry/Product</b>
Delphi Automotive	USA	1997	Automotive components
Hugo Boss	Ger	1998	Apparel
Delphi Diesel Systems	USA	2001	Automotive components
Eldor Electronics	ITAL	1997	Transformers
Stork Fokker Elmo	NETH	2007	Aerospace components
Lisi Aerospace	FRA	1992	Aircraft Assembly Wind Energy Turbine
Aero	GER	2001	Blade
Cummins	USA	2011	Automotive components
Kale Pratt&Whitney	TR/USA	2011	Aerospace components
PFW	GER	2003	Aerospace components
Kapadokya Textile	NETH/TR	2004	Apparel
Akzo Nobel	NETH	1999	Chemical
Mahle	GER	2003	Automotive components
CMS	TR	2010	Automotive components

Source: [www.esbas.com.tr](http://www.esbas.com.tr)

The increase in the profitability and the sales of the user firms as well as renewal of their license periods show the positive impact of the services. The most powerful evidence for this is that current user firms are enlarging their investments. AFZ stands as the most powerful free zone in Turkey in terms of foreign capital that it attracts as well as the high added value that it creates. The interest of the foreign investors in the Aegean Free Zone is increasing every day.

#### 4.5.1. ECONOMIC EVALUATION OF THE AEGEAN FREE ZONE

The Aegean Free Zone is one of the most successful free zone in Turkey in terms of attracting foreign capital. Firms with high technology, superiority in facility, service and quality, and stability factor implemented by the zone operator are given particular importance in marketing activities. Sectors in the Aegean Free Zone are mainly electronics, automotive, machine manufacturing and mounting, precision gauges, metal junction pieces and kitchen furniture manufacturing, textile clothing and food processing and packaging. Sectors with the highest trade on the other hand are textile products, ready wear, heavy duty machines, chemical products and durable consumer goods. Goods with the highest trade volume are textiles, leather, chemicals, food products and tobacco. Goods that constitute the manufacturing sector on the other hand are electronics, textiles, automotive and aviation materials, machines, leather clothing materials and food processing and packaging. When we examine all the indicators of the Aegean Free Zone, we see that it has always showed growth since the date it started to operate. We can see this when we look at the employment, foreign trade and investment volumes given below in this chapter.

#### 4.5.2 THE CONTRIBUTION OF THE AEGEAN FREE ZONE TO THE CITY OF IZMIR AND THE TURKISH ECONOMY

Izmir, which is the center of the Aegean Region, serves a large hinterland especially with its Izmir Alsancak Port and coordinates the trade relations in the neighboring cities. Aegean Free Zone makes an important contribution to the economies of Izmir and the Region in various aspects. When determining its contribution to the employment, in addition to the employees in the Zone, domestic employment which produces goods and services for the Zone has been considered as indirect employment. On the other hand, the social aspect of the subject is as important as its economic aspect, because high employment volume will also make important contributions to the country in terms of social aspects. As the number of personnel working in the free zone increases, the education, development and cultural activities of the personnel also increases. With the trainings given in the Aegean Free Zone, the personnel is encouraged to specialize and to reach a higher level of working performance and this, in turn, contributes firms to employ more qualified personnel.

As the people gets economically stronger, their interests and consumption behaviors will change and they will start consuming better quality products. Thus we can say that Free Zone enlivens the economy in Izmir and it contributes to the increase in the investments. Economic liveliness also affects population growth. Increasing population and intensifying commercial activity brings the problem of housing.

When the Aegean Free Zone becomes completely operational, it is expected that it will employ 30,000 people (approximately 1.5 times higher when compared with the

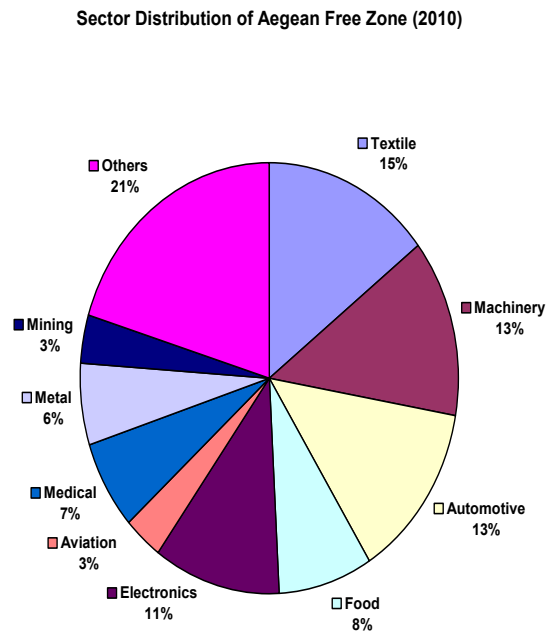


current number, 18,000) and this is expected to come into life in a short period of time like 4 years. Especially such a number might create a big housing demand in the Gazimir area. Thus, the construction sector will liven up. Thus, free zones affect the economic, social and cultural values of the societies in the areas where it is established and they can even cause a change. One of the most important areas that international companies compete is the rapid technological changes. Technological superiority also brings competitive superiority. Because R&D expenditures necessary for technological development reach to a level that cannot be afforded by firms, the state provides the domestic and foreign firms with incentives such as free zone practices with the aim of technology transfer. As the technology developed, the world economy entered into a rapid development process and those countries that were previously considered as less developed have reached to the technology of its competitors that can make faster, cheaper and better quality productions as the communication systems develop, and they started to rise to the level of developing countries as a serious competitor against them.

Free zones stimulate technology transfer in different ways. One of the method is that foreign companies invest in the zones bring their own technology. By trainings and skill upgrading of labors, know-how transfers to local labors. This leads to an increase in the qualification of the local employers and other local companies which are related with such foreign companies. Big international firms such as Delphi Automotive, Hugo Boss, United Technologies that are founded in the Aegean Free Zone not only create employment opportunities, but they also bring their technology and know-how. In this way they contribute to the national economy in the long run in terms of production, employment as well as technological innovations and advantages. Another important contribution of AFZ for the technology transfer can

be related with the increasing investors in aviation sector in the zone. Lisi Aerospace, Stork Fokker Elmo and Kale Pratt&Whitney are world's biggest companies in aviation sector. Recent developments in Aegean Free Zone are drawing the attention of other big companies in this sector. With the promoting activities, AFZ can be a center for the aviation and defense sector in the upcoming years. In AFZ, there are 236 companies operating in different activity areas. Given the sector distribution in the Aegean Free Zone below in Figure 1, it is seen that the first five sectors is textiles with a rate of 14.4% which is followed by Machinery with 13.3%, Automotive with 13.3%, Electric-Electronic with 10.6% and Food with 8.3%.

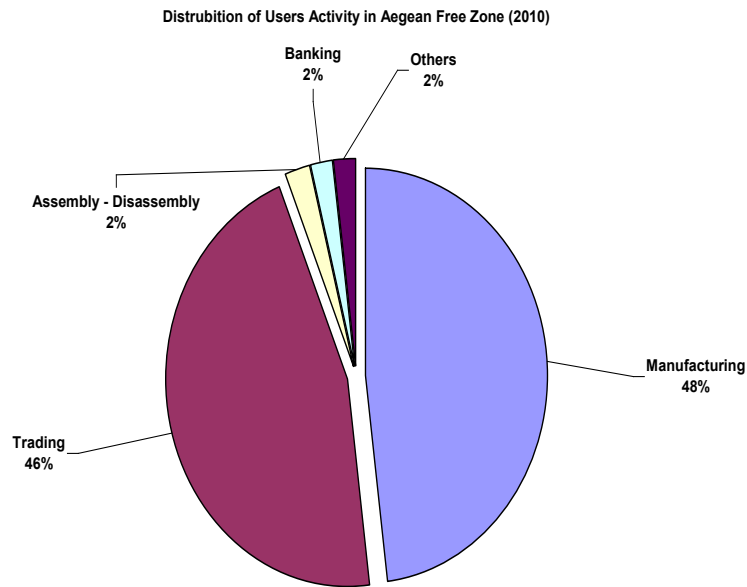
**Figure 1. Sectoral Distribution of Aegean Free Zone**



Source: Aegean Free Zone Directorate

Activity areas of the users in the Aegean Free Zone, as given in Figure 2, illustrates that production has an important place with a rate of 48% and this verifies that the users operate in accordance with the purposes of free zones.

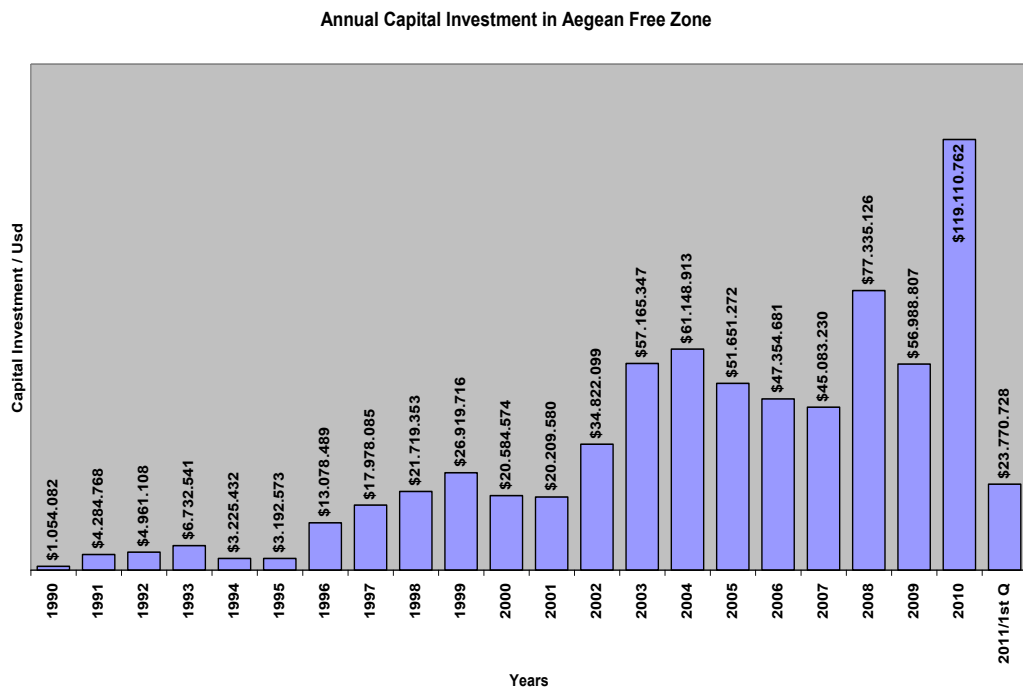
**Figure 2. Distribution of Users Activity in AFZ**



**Source: Aegean Free Zone Directorate**

Since the establishment of the Aegean Free Zone in 1989, 670\$ million investment was made in the zone. There are many foreign and local big companies exist in Aegean Free Zone. In recent years aviation sector made huge investments in Aegean Free Zone. As it is shown in Figure 3, there was a sharp increase in 2010 due to this reason.

**Figure 3. Contribution of AFZ to Capital Investment**

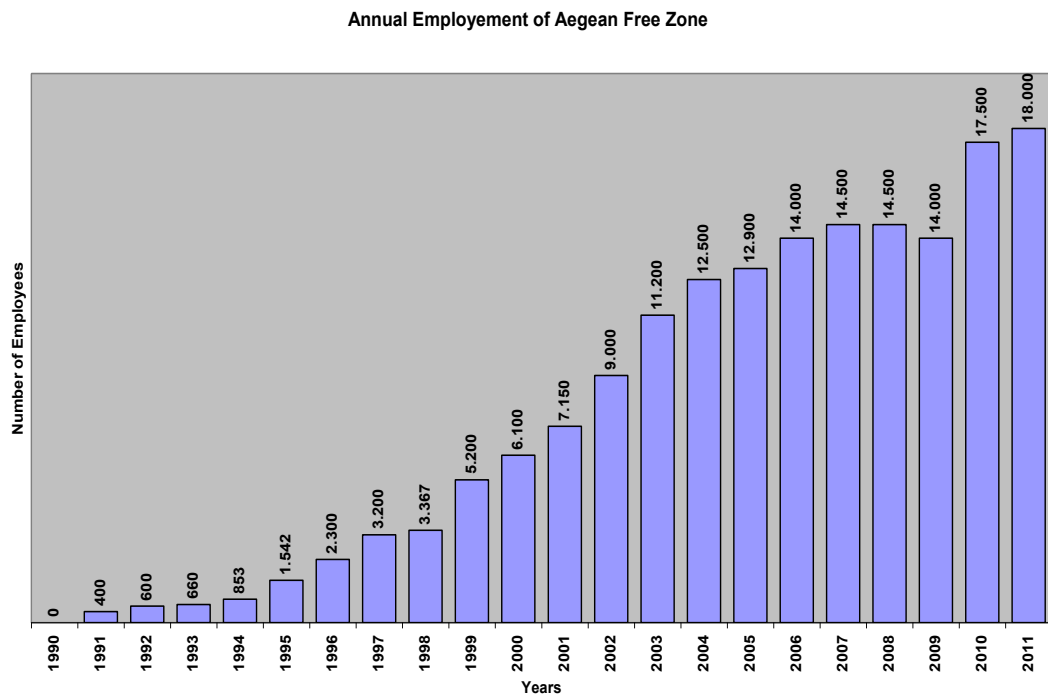


Source: Aegean Free Zone Directorate

236 firms operate in the Aegean Free Zone, 71 of them being foreign firms. Although foreign firms constitute the 22% of the total number of firms, they have a share of 76% in terms of their investment volume.

The employment has always been increasing since the day the zone started to operate, and it has multiplied by 45 times by 2010 since 1991. While there were 400 employees in 1991, it increased to 18.000 by 2010. ESBAS is the most employment creating free zone among the 19 free zones operating in Turkey with a share of 37%.

**Figure 4. Contribution of AFZ to Employment**

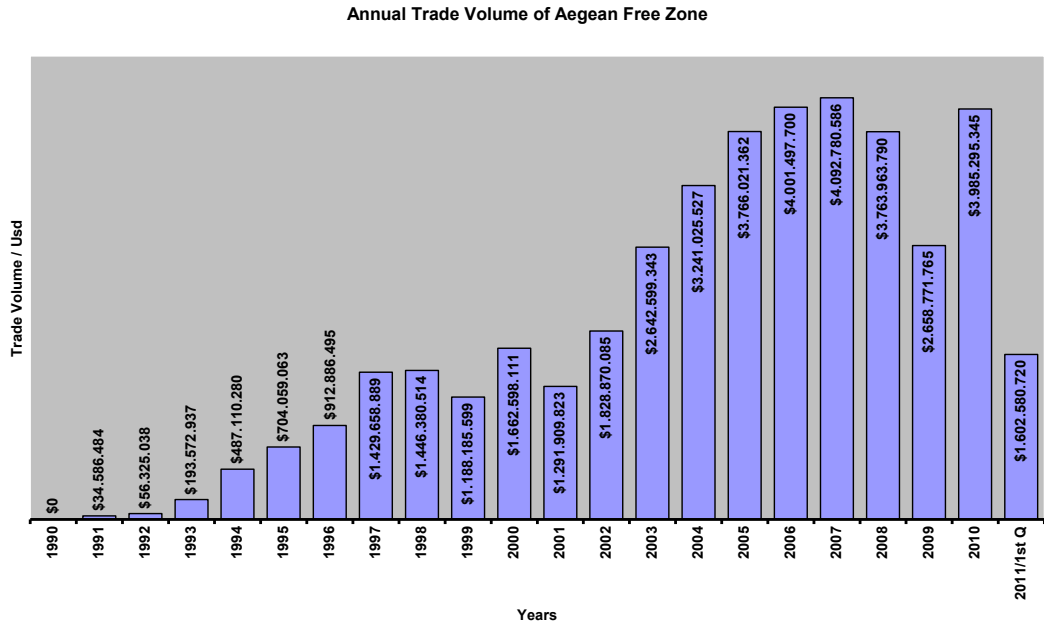


**Source: Aegean Free Zone Directorate**

78% of the firms operating in the Aegean Free Zone are domestic firms, while the remaining part belongs to the foreign firms. However, foreign companies constitute 3/4 of total employment created in Aegean Free Zone.

Trade volume of the Aegean Free Zone has been increasing continuously except for the 1999-2001 period in which economic crisis were experienced. The volume of trade which was only 34.5 million dollars in 1991 reached to almost 4 billion dollars in 2010, thus it increased approximately by 11 times. Since the date it started operating, the Aegean Free Zone realized a trade volume over 36 billion dollars. Its trade volume in 2010 is 109 times higher than its trade volume in 1991 and it has approached to 4 billion dollars.

**Figure 5. Contribution of AFZ to Trade Volume**



Source: Aegean Free Zone Directorate

## **CHAPTER 5**

### **AEGEAN FREE ZONE EXPERIENCE**

The questionnaire constructed for the study is designed for companies that operate in Aegean Free Zone (AFZ). The questionnaire contains questions to examine to what extent the expectation of firms are met, the primary problems that they face, examine the motivating factors for operation in Aegean Free Zone (AFZ) as well as the perceived contribution of AFZ to firm's goals.

#### **5.1. OBJECTIVE OF THE SURVEY**

The purpose of this survey is to get a better insight and understanding of the type and activities of the companies operating in the Aegean Free Zones, perception for their investment decisions, problems that they face and permanency of the investments in free zone. The questionnaire consisted of the following group of questions:

- General information on the structure of companies, establishment, country of origin
- Type of business activity (manufacturing, trade/ warehousing or services)
- Reasons for their investment decision in free zones
- Reasons for their investment in Aegean Free Zone
- Permanency of investments
- Evaluation of users outside (if) investments with their investments in AFZ
- Reliability to the Free Zone Authorities
- Problems of users related with free zone structure and regulations

- Contribution to national and regional economy from Free Zone user's point of view

## 5.2. METHODOLOGY

Questions of the survey are generated upon the interviews with Free Zone authorities and users, my personal experience in Aegean Free Zone and academic studies related with free zones. The questionnaire is comprised of 23 questions including 1 open end and 22 closed end questions. First 8 questions gather general information regarding the structure of the companies. Questions 9 to 23 are designed to obtain opinions of users on the issues mentioned above in objectives part of this chapter. For the evaluation of the survey responses; percentages, averages of the responses and 5-point Likert-type<sup>10</sup> scale was used. Results were coded and analyzed using Microsoft Excel. Besides a SWOT analysis of Aegean Free Zone is prepared according to the result of the survey and personal interviews.

## 5.3. SAMPLE CRITERIA AND APPLICATION OF SURVEY

Survey was conducted over a 3 weeks period in August, 2011 with a response rate of 100%. In identifying the sample of users to be surveyed, the biggest companies which consist of 70% of total trade volume of Aegean Free Zone were selected. Out of 236 companies with 4 billion \$ total trade volume that operate in AFZ, just 20 of them generate 2.8 billion \$. The users' questionnaires were then distributed to the

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<sup>10</sup> The Likert Scale is an ordered, one-dimensional scale from which respondents choose one option that best aligns with their view. There are typically between four and seven options but five is very common. All options usually have labels, although sometimes only a few are offered and the others are implied. A common form is an assertion, with which the person may agree or disagree to varying degrees. In scoring, numbers are usually assigned to each option (such as 1 to 5).



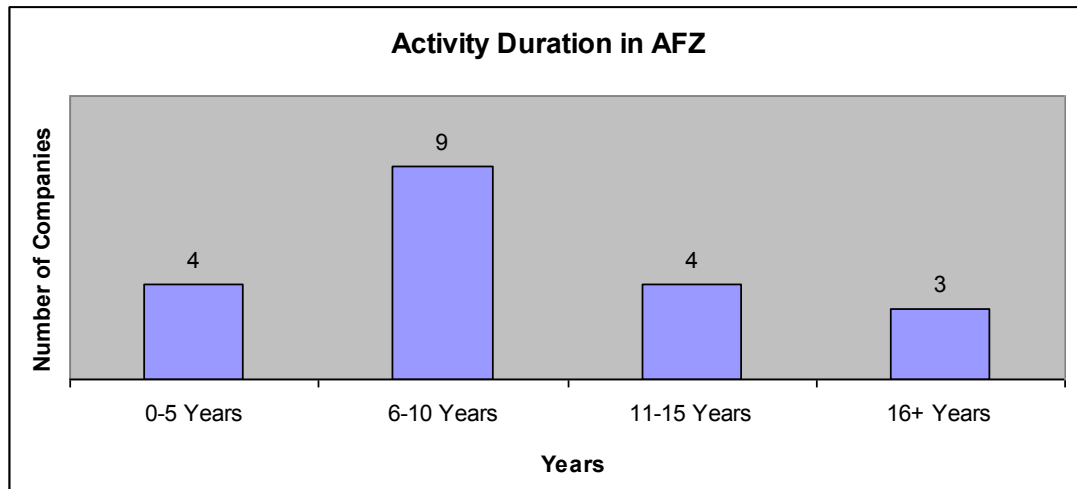
selected users with the help of Free Zone management and personal efforts. Out of 20 selected users, 7 of them were personally visited. The visits included a wide-ranging discussion with companies' managerial positions on various aspects of free zones, AFZ and their managerial and operational activities. As survey questions include strategic information regarding companies current and future activities, the firms were informed that there will be no declaration and distribution of company specific information to any third party.

#### 5.4. EVALUATION OF SURVEY RESPONSES

In this part of the chapter, survey questions will be analyzed according to the responses for each question. Main findings for related questions will be grouped and analyzed accordingly in conclusion part. First 3 questions are designed just for getting information about the name of the company, responsible person and position.

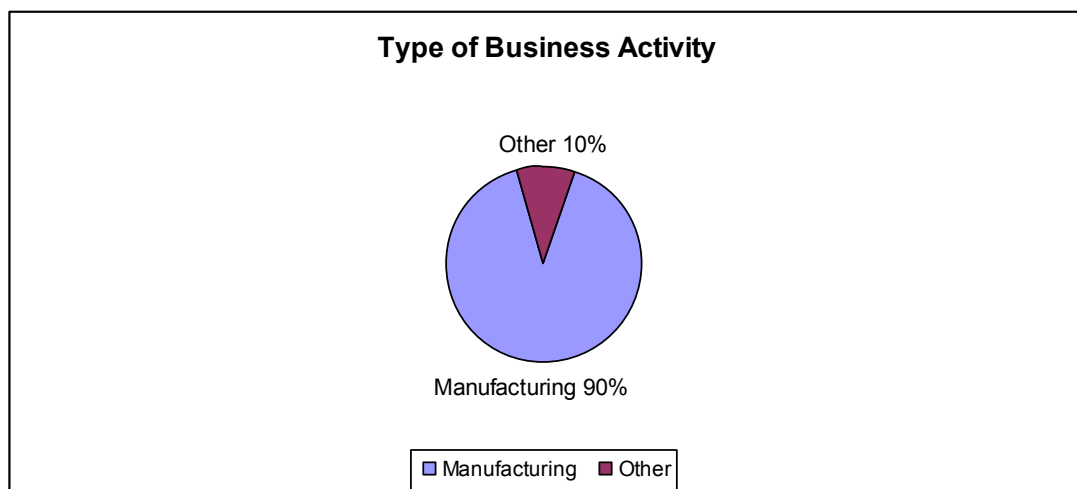
In fourth question, year of establishment asked to users. 20 companies in the survey have been operating in AFZ on average of 9.4 years. Distribution of the companies according to 5 year period (Figure 6) illustrate that investments are majored on medium and long term.

**Figure 6. Activity Duration in AFZ**



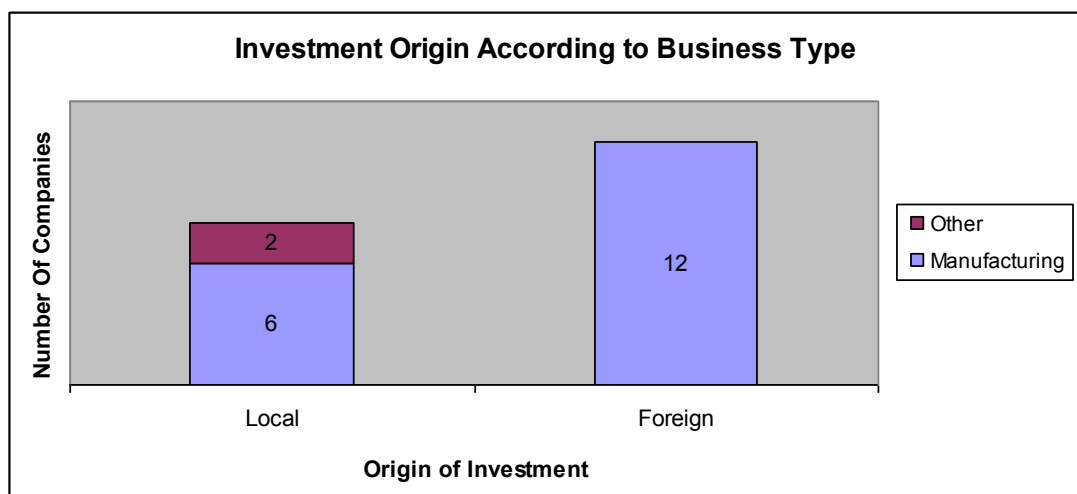
In question 5 and 6, type of business activity (manufacturing, trade/ warehousing or services) is asked to investors and the results are illustrated in Figure 7. As the main aim of free zones is to encourage production, 18 manufacturing companies out of 20 also approve that free zones are chosen from producers commonly. Besides 7 of 18 manufacturing companies also have other licenses, especially trade.

**Figure 7. Type of Business Activity in AFZ**



Question 7 is addressed to find out the share of foreign investors in selected 20 companies. Below, Figure 8 illustrates that 8 companies are local originated whereas 12 of them are foreign investors. All of the foreign investors' main business activity is manufacturing and this is a key figure since free zones aim of the establishment supports for the production activity of foreign investors.

**Figure 8. Investment Origin According to Business Type**



Companies can lease rentable parceled lands with ready infrastructure, ready factory buildings, modular production buildings, open and close storage areas and working places. On the other hand, companies can rent just land from public and build their own facility. In order to find out which strategy the investors chose for their building investment, questions 8 and 9 are asked.

**Figure 9. Facility Ownership According to Origin of the Investment**

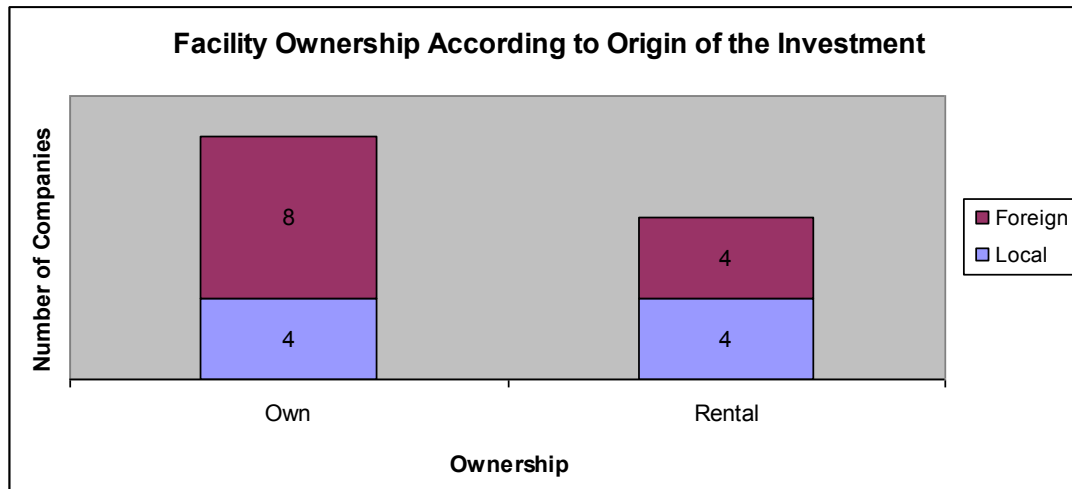


Figure 9 shows that 12 of the investors are owners of their facilities and 8 of them are foreign companies. This can be evaluated as these companies are planning their investment duration for a longer period than others. Especially foreign investors decided to build their own facilities due to the reason that production requires long term period in a stable environment. In order to find out the main reasons of the investors choice for their facility investment decision question 9 is asked.

In Table 12, from the answers received for the building investment decision criteria, 44% of the companies choose *planned activity and investment duration* as the most importance and runner up was share of the initial investment cost in the overall investment budget by 28%, as expected. Distribution of the responses according to ownership illustrated below.

**Table 12. Building Investment Decision Criteria**

<b>Building investment decision criteria</b>	<b>Importance Level</b>		
	<b>Own</b>	<b>Rent</b>	<b>Total</b>
Planned activity and investment duration	40%	50%	<b>44%</b>
Share of the initial investment costs in the overall investment budget	33%	20%	28%
National/International financial indicators	13%	10%	12%
Flexible / Constant establishment strategic decision	0%	10%	4%
Others	13%	10%	12%

Main advantages of AFZ for users were asked in Question 10. As it is illustrated below in Table 13, their responses vary according to the importance level for each reason and illustrates whether they are aware of them before their investment decision in free zone. And the importance level scaled according to the Likert-type scale. As the main advantage of free zone is tax exemption, similarly in this question 3 different tax advantages preferred as leading factors affecting the investor's decision for their existence in free zone. Logistics advantages and opportunity of various trade options are in the spotlight. On the other hand, ease of technology transfer ranked bottom of the list.

To find out if the investors satisfied with the advantages of the free zone, the eleventh question is addressed. Generally companies are satisfied with most of the advantages; however bureaucratic advantage expectations have the lowest satisfactory percentage among all of them. This problem also appeared several times during my personal interviews. On the other hand, economical advantages of free zones like ease of money transfer, low exchange rate risk topping the list.

**Table 13. Reasons for Operating in Free Zone**

<b>Reasons for operating in Free Zone according to the importance level.</b>	<b>Very Important</b>	<b>Important</b>	<b>Moderate</b>	<b>Not Important</b>	<b>Not at all important</b>	<b>Mean Score</b>
Exemption for Income and Corporate Taxes	14	5	1	0	0	<b>4,65</b>
Exemption for Customs Tax and VAT	14	5	1	0	0	<b>4,65</b>
Tax exemption regarding Employment	12	3	3	2	0	<b>4,25</b>
Ease of Investment	3	10	4	3	0	3,65
Easy access to external markets	7	6	4	3	0	3,85
Logistics advantages	5	12	2	1	0	<b>4,05</b>
Utilities services	6	6	7	0	1	3,80
Technology transfer	4	3	9	3	1	<b>3,30</b>
Minimizing Exchange rate risk	3	11	4	0	2	3,65
Easy Money transfer	5	10	3	0	2	3,80
Various Trade Opportunities (transit trade, re-export, etc)	9	8	1	0	2	<b>4,10</b>
Less bureaucratic barriers for international trade	7	6	6	0	1	3,90

5=very important, 4=important, 3=moderate, 2=not important, 1=not at all important

**Table 14. Satisfaction of Investors**

<b>Satisfaction of the investors related to free zone main advantages</b>	<b>YES</b>		<b>NO</b>		<b>UNDECIDED</b>	
		<b>%</b>		<b>%</b>		<b>%</b>
Tax advantage expectations have been satisfied.	12	60%	5	25%	3	15%
Bureaucratic advantage expectations have been satisfied.	6	<b>30%</b>	5	25%	9	<b>45%</b>
Geographical advantage expectations have been satisfied.	13	65%	1	5%	6	30%
Logistics advantage expectations have been satisfied.	10	50%	4	20%	6	30%
Utilities services advantage expectations have been satisfied.	13	65%	3	15%	4	20%
Economical advantage expectations have been satisfied. (Easy money transfer, low exchange rate risk, etc.)	16	<b>80%</b>	2	10%	2	10%

Apart from the reasons to choose free zones in question 10, question 12 focuses on the preference reasons for investing in AFZ especially. According to my evaluation of advantages regarding AFZ listed in Table 15. Users found *logistics opportunities* as the most important factor, whereas *related sector concentration* came last. Location specific advantages are more important for investors, but managerial and infrastructural (ESBAS) factors do not force top ranks, as also some managerial failure of ESBAS observed during my personal interviews with some of the users.

**Table 15. Reasons for Operating in AFZ**

<b>Reasons for operating in AFZ according to the importance level.</b>	<b>Very Important</b>	<b>Important</b>	<b>Moderate</b>	<b>Not Important</b>	<b>Not at all important</b>	<b>Mean Score</b>
Existing commercial roots in Aegean Region	5	8	3	3	1	3,65
Preference of International Big Companies	5	3	10	1	1	3,50
Social service opportunities	2	6	7	4	1	3,20
Logistics opportunities ( Proximity to Airport, Harbor, Çeşme Ro-Ro)	8	9	2	0	1	<b>4,15</b>
Geopolitical position and hinterland	5	9	5	0	1	3,85
Related sector concentration in Aegean Free Zone	1	3	12	2	2	<b>2,95</b>
Quality of utilities services	4	7	7	1	1	3,60

5=very important, 4=important, 3=moderate, 2=not important, 1=not at all important

In table 16, apart from question 11, which was asked for companies' satisfaction for main advantages of free zones, question 13, 14 and 15 are asked to investigate companies' satisfaction for being an investor in Aegean Free Zone, realization of their pre-investment expectations and targets in general and the reasons behind this.

**Table 16. Satisfaction of the Targets and Expectations**

<b>Achieve/Fail criterias for targets and expactations</b>	<b>Q 13- Q 14 YES</b>	<b>%</b>	<b>Q 13- Q 14 YES-UNDECIDED</b>	<b>%</b>	<b>Q 13- Q 14 UNDECIDED-UNDECIDED</b>	<b>%</b>
Free Zone's common structure and regulation	8	<b>50%</b>	2	100%	2	100%
Effects of Aegean Free Zone	2	<b>13%</b>	0	0%	0	0%
National/International economic conjuncture	6	38%	1	50%	1	50%
Sectoral developments and indicators	4	25%	2	100%	1	50%
Company's own commercial and managerial activities	8	<b>50%</b>	1	50%	1	50%

According to the results, even 16 of 20 companies are satisfied with their investment in AFZ, just 2 of them think that AFZ is affecting their success in realizing their expectations and targets. For the others, *free zone's common structure and regulation* and *company's own commercial and managerial activities* are more effective.

Table 17 and 18 are related with the questions 16, 17 and 18 which are considering other investments of users outside AFZ. 11 of the companies have another similar investment outside AFZ and 7 of them are located in Turkish local market (Table 17). These companies currently do not have an investment in another Turkish free zone. However during the interviews, two companies indicated that they had investments in Mersin Free Zone in the past for ease of logistics and accessibility to target markets in Middle East. But for strategic reasons and operational costs, they



decided to quit from MFZ. Question 18 is designed to find out the need of another investment and its relationship with the AFZ investment. As it is shown in Table 18, Companies' other investment reasons of *complementary relationship and synergy between companies* is well ahead among others. For the companies having other investment in abroad, the main factors are determined as *ease of operations* and *strategic decisions*.

**Table 17. Other investments of the Users in AFZ**

<b>Another Investment</b>	<b>YES</b>	<b>NO</b>
In another Free Zone in Turkey	0	10
In Turkish local market	7	0
Abroad	4	0

\*Some companies have more than one investment

For questions 19 and 20, permanency of investments are investigated. 18 of the companies are planning to continue their activities in AFZ. This is consistent with the response of the question for their satisfaction to be an investor in AFZ. Again, it can be seen that AFZ-sourced factors have less impact on investors' decision for continuity. Reasons for their continuity of investments of those 18 companies listed below in Table 19.

**Table 18. Reasons for Other Investments**

<b>Reasons For Other Investments</b>	<b>In another Free Zone in Turkey</b>	<b>In Turkish local market</b>	<b>%</b>	<b>Abroad</b>	<b>%</b>
Profitability	0	0	0%	1	25%
Ease of operations	0	3	43%	2	<b>50%</b>
Target market	0	3	43%	1	25%
Quality	0	0	0%		0%
Strategic decisions	0	2	29%	2	<b>50%</b>
Brand concern	0	0	0%		0%
Earlier investments	0	1	14%	1	25%
Complementary relationship and synergy between companies (cost, efficiency and operational synergy)	0	5	<b>71%</b>	1	25%
Need of supply for the main investment in Aegean Free Zone	0	2	29%	0	0%
Others	0	1	14%	0	0%

**Table 19. Factors Affecting Permanency of Investments**

<b>Permanency of Investments</b>	<b>%</b>
Budget, income, and profit evaluations	50%
Attainability of pre-investment expectations and targets	44%
General national/international economic conjuncture	33%
Opportunity/threats evaluation	11%
General effects of Free Zones	50%
Effects of Aegean Free Zone	17%
Others	6%

The 21th question is to provide information about companies' opinions for their contribution to regional and national economy according to the importance level. Given in below table 20, *Employment* and *trade volume* contribution are evaluated as most important among others. Awareness of companies for their contribution to trade volume is consistent with the aim of establishment of free zones for governments.

**Table 20. User's Perception for their Contribution to Economy**

<b>Contribution to Economy</b>	<b>Very Important</b>	<b>Important</b>	<b>Moderate</b>	<b>Not Important</b>	<b>Not at all important</b>	<b>Mean Score</b>
Contribution to employment	11	7	1	0	1	<b>4,35</b>
Contribution to trade volume	6	13	0	0	1	<b>4,15</b>
Currency inflow	5	11	2	1	1	3,90
Technology transfer	2	13	3	1	1	3,70
Know-How transfer	2	11	6	0	1	3,65
Contribution to Turkish brand value and increasing competition	4	7	8	0	1	3,65
Continuous qualified and trusty supply	4	8	7	0	1	3,70
Others	0	2	3	0	1	3,00

5=very important, 4=important, 3=moderate, 2=not important, 1=not at all important

In 22th question, companies asked to address the difficulties and problems that they face with Free Zone's regulation and legislation. Most of the factors listed in below Table 21 have high mean scores and also observed in personal interviews accordingly. The highest scores are related with the problem of stock keeping and entrance-exit procedures for non-commercial products. Key figure here is that *Constrain for exporting 85% of production for exemption of income tax paid for*

*employees* have the lowest mean score due to the reason that majority of companies in the survey are manufacturers. It shows that for companies, it is not a big deal to beat 85% sanction for exemption, and it is again consistent with establishment aims of free zones to increase production and export contribution to the total national economy.

**Table 21. Difficulties and Problems of Free Zones**

<b>Difficulties and problems of Free Zone's legislation and regulations</b>	<b>Very Important</b>	<b>Important</b>	<b>Moderate</b>	<b>Not Important</b>	<b>Not at all important</b>	<b>Mean Score</b>
Different and complex tax incentives	5	10	3	2	0	3,90
Constrain for exporting 85% of production for exemption of income tax paid for employees	8	4	4	3	1	<b>3,75</b>
Delays and problems for non-commercial goods and services in entrance and exit to free zone.	12	4	3	1	0	<b>4,35</b>
Problems due to the need of guaranty for transit products entrance and exit to free zone.	9	6	5	0	0	4,20
Destruction procedures for wastes, expired items, etc.	10	5	5	0	0	425
Simultaneously stock keeping with Free Zone authority.	11	5	4	0	0	<b>4,35</b>

5=very important, 4=important, 3=moderate, 2=not important, 1=not at all important

Question 23, asked for gathering information with AFZ problems and the need of improvements according to the users point of view. Response rate for this question is low however during interviews; opinions of responsible persons are collected. Responses of the companies will be mentioned main findings part of this chapter.

## 5.5. MAIN EVALUATION

Purpose of this survey was to determine the comparative advantage of AFZ in comparison to other FZs and other investment opportunities outside the free zones. Companies' awareness of the free zone establishment reasons and advantages for their choice of investment in AFZ was also aimed to be tested. Besides survey questions tried to understand the perception of the companies' in contributing the regional and national economy.

Advantages of free zones for users and establishment purposes of free zones are considered together for examining the above issues. Then, questions designed for evaluating the common benefit of users and free zone purposes. Below listed topics are most important purposes and advantages used in survey questions. The important functions of free zones in the theory tested with AFZ users' experiences and opinions are as follows:

- To increase investment and production in Turkey for contributing the benefit of total trade volume
- To increase employment
- Accelerating foreign capital and technology inflow
- Provide cheap and regular input and supply continues and qualified output
- Currency inflow
- Know-how transfer

Benefits of investing in AFZ for the users are examined with the survey. Important benefits of free zones in the theory used in survey questions are listed below:

- Tax Exemptions
- Ease of Investment
- Easy access to external markets
- Logistics advantages
- Utilities services
- Technology transfer
- Minimizing exchange rate risk
- Easy money transfer
- Various Trade Opportunities (transit trade, re-export, etc)
- Less bureaucratic barriers for international trade

In order to evaluate above criteria, 8 group of questions set created. Reasons for asking each question group, what aimed to find out, main findings and comments regarding to them given below.

First 4 questions of the survey just designed to get information about companies' general profiles like; name of the company, name and position of responsible person, date of establishment of the company. Among these questions a general idea of the companies' existence duration in free zone provided. According to survey responses, 20 companies have been operating in AFZ 9.4 years on average. This indicates that companies in AFZ have medium and long term investments on average. In other words, investors are considering their investments permanent.

Increasing foreign investment and production are referred as important free zone establishment purposes. Via asking questions 5, 6 and 7; share of the foreign investors and producers aimed to find in selected companies. As shown in related

questions in part 5.3., share of producers are approximately 90% in 20 companies while 12 of them are foreign investors. This result supports the argument that the main purpose of free zones establishment reason to increase production and foreign investment.

For the purpose of providing input needs and supplying the outputs in a cheap and regular way, permanency and duration of free zone users' investments is important. For the permanency of investment, key factors considered as satisfaction of the users, reliability to the free zone authorities and realization of their targets and expectations are tested within questions 8, 9, 11, 13, 14, 15, 19 and 20.

For evaluating the permanency of investment, all related questions support that users consider long term investments in AFZ. However it is much related with the budget, income and profit evaluations of users and problems they faced with free zone authorities. In that sense, any change that will not result in favor of users' benefit will be effective for their investment duration. Besides both responses for survey and face to face interviews reveal that, bureaucratic process in free zone is one of the most important problems for users. To sum up, in general case users are satisfactory with their investments in AFZ and willing to exist for a long term of period. This is also approved that planned activity duration's importance level in Table 10. (1<sup>st</sup> in the rank with 44%) Again, with 80%, economical advantage expectations satisfaction is in the first rank in Table 14. This benefit of users should be guaranteed for the permanency of users investments.

Companies operating in AFZ, considered effects of AFZ for realization of their expectations and targets in the bottom of the lists. (Table 16 and 19) This result

indicates that AFZ management should be more supportive for AFZ users in order to maintain long term of investment and attract potential investors to the zone.

Free zones provide some privileges and advantages for users. In the survey, perception of the users for them was tried to be tested. Besides impacts of them on their investment decisions and permanency of investments were also evaluated with the questions; 10, 15 and 20.

Factors that affect users' decision for investing in free zone mainly related with tax exemption. Similarly with the study of Oğuz (2010) in AFZ, firms have more tendencies to profit maximization with lower tax ratios and subsidies. Besides, logistics opportunities and availability for various trade options seems important factors for free zone investors (Table 13). This result may be beneficial for free zone authorities for implicating their strategy more on these issues in order to attract new potential users to free zones. On the other hand, free zones structure and regulation is reported as one of the most important factor for realization of targets and expectations. (Table 16 and 19) This brings to a conclusion that both investors preference for investing in free zone and their targets realization depend upon free zones own structure commonly. So, free zone regulations play an important role for investors' decisions and continuity of their investments.

In the survey both for general free zones related and AFZ related questions (12, 13, 14, 19, 20, 23) were asked to the users. Their preference for AFZ rather than other free zones, contribution of AFZ to the users and AFZ related problems tried to be investigated. Logistics opportunities of AFZ due to the proximity to Adnan Menderes Airport, Izmir Harbor, and Çeşme Ro-Ro are considered as the most



important factor for investing in AFZ. However other factors like utilities services and social service opportunities which are related with AFZ management seems not as important as others (see Table 15). Users in AFZ are mostly satisfied with their investment in AFZ according to 18 positive responses out of 20 companies. However they linked the reason of their satisfaction with non-AFZ reasons. Users' satisfaction and willingness to continue their investment related with AFZ sourced reasons came at the bottom of the list (see Table 16 and 19). Besides with question 23 and personal interviews, users mainly link their success with managerial skills and free zones specific advantages.

In order to analyze the reason for investing in another company outside AFZ, questions 16, 17 and 18 were asked to the users. Half of the companies have another investment outside AFZ, mainly in Turkish local market. Similarly with findings in the studies of Borozan (2010) and Bogataj (2011), the reason of the other investment mainly related with the complementary relationship of both companies (see Table 18). During interviews, companies argued that existence of another company in Turkish local market provides flexibility, efficiency and easy options to cooperate. This is again a key figure that related with the bureaucratic problems of free zones and strict controls in entrance and exits. Results of the survey responses in AFZ also supports the argument of Borozan (2010) as free zones have beneficial effects in terms of job creating in the region which could be directly, through the start-ups, opening new branches or spreading the existed firms or could be indirectly through activating frozen resources located out of the zone.

To provide information about companies' opinions for their contribution to regional and national economy and their social consciousness, question 21 was asked.

Companies evaluated employment and trade volume as most important contributions of their activity to the regional and national economy (see Table 20). As governments try to increase employment and trade volume via establishing free zones (or provide necessary land and infrastructure only), it is consistent that users are also aiming to increase trade volume and employment. Tansuhaj and Gentry evaluated firm differences in perceptions of the facilitating role of free zones via conducting a survey for users and non-users of free zones. In the study, interest saving on duty, facilitation of transshipment and simplified customs procedure are the most important benefits that users of free zone are aware similarly with the findings in AFZ.

Companies located in free zones pay higher net wages to workers as the tax burden is lower in the zones (Devereux and Chen, 1995). In Aegean Free Zone, higher wages and their return to the national economy is declared in the personal interviews. Devereux and Chen (1995) propose that free zones increase income which is commonly omitted in literature by economists. According to their findings, increase in wage payments to the domestic workers employed in the zone raises welfare of the economy.

For gathering information about free zones related problems and difficulties that users are facing, questions 22 and 23 designed in the survey. Question 22 includes selected problems and asked as a closed-end question to the users, on the other hand question 23 is open ended question that asks for the users' opinion. Surprisingly, responses to question 23 are very similar to the factors specified in question 22. The main problems are related with the problem of stock keeping and entrance-exit

procedures for non-commercial products (Table 21). Other problems especially focused on AFZ in question 23 are as follows;

- Problems related with the visitors to the AFZ. As free zone is a custom controlled area, there are difficulties during the entrance of visitors.
- Problems related with ESBAS managerial and personnel level
- Problems related with the life support (food, health, social services, electricity, water, etc.) services supplied by only ESBAŞ. Companies see this as a mandatory application and complain about the monopolistic structure of ESBAŞ.
- Problems related with insufficiency of logistics services. Equipments for logistics purposes like crane, handling equipments are limited and low quality.

Similar problem is indicated in the study of Uzay and Tıra (2009). Kayseri Free Zone in Turkey is investigated by Uzay and Tıra (2009) by a survey to determine the problems and the corresponding solutions for the firms. One of the most important problems emphasized in the study is related with the bureaucracy firms are facing. Especially, procedures for the incoming and outgoing goods and services into the zones cause extra time and money losses for the firms.

#### 5.6. SWOT ANALYSIS OF AFZ

According to the survey responses and personal interviews in AFZ, strengths, weaknesses, opportunities and threats of AFZ can be evaluated as below SWOT table.

**Table 22. SWOT Analysis of AFZ**

<b>SWOT analysis of AFZ</b>	
<b>Strengths</b>	<b>Weaknesses</b>
<ul style="list-style-type: none"> <li>• Good location and transport network</li> <li>• Qualified infrastructure</li> <li>• Good geopolitical location</li> <li>• Social activities and successful landscaping</li> </ul>	<ul style="list-style-type: none"> <li>• Monopolistic structure of ESBAŞ</li> <li>• Managerial insufficient skills</li> <li>• Too many bureaucratic process</li> <li>• Lack of strategic approach to attract new investors</li> <li>• Insufficient logistics services</li> </ul>
<b>Opportunities</b>	<b>Threats</b>
<ul style="list-style-type: none"> <li>• Big international companies choice</li> <li>• Aviation sector concentration</li> <li>• Enough space for extra investments</li> <li>• Strategic approach to the future evolution of free zones</li> <li>• Highly quality labor force in some sectors</li> </ul>	<ul style="list-style-type: none"> <li>• Economic conjunctures and EU integration process. (When Turkey will be full member of EU, the FZs functions will be limited)</li> <li>• Other free zones in Turkey and abroad</li> <li>• Diminishing FDI trend in Turkey</li> <li>• Izmir's limited commercial activities</li> </ul>

It can be said that İzmir is one of the important factor for the success of AFZ. Geopolitical situation of İzmir and its close connections with airport, harbor and the short distance to other Aegean cities, attract the investors to this region. In the future, together with the strengths of AFZ, some opportunities such as growth in aviation and defense sector may increase the importance of AFZ. However, Turkey's EU integration is a big threat for AFZ's and other free zones' presence.

## **CHAPTER 6**

### **CONCLUSION**

In today's world, countries are trying to increase their wealth by production and export. Therefore, free zones are considered as one of the important tools by most of the countries in the world. Free zones are designated special areas within the political borders of a country but considered outside the customs borders where common laws of foreign trade and finance of a country are exempted from being practiced. Tax exemptions and favorable incentives for producers and exporters attract investors.

Due to the high level of economic integration in the world, global capital makes its investments to the most profitable countries. The country governments are in a competition to attract foreign capital in order to get share of this pie. Foreign capital inflow to a country means increase in investment, employment, economic improvement and growing stronger. Besides, apart from direct impacts and contributions of free zones to the national economy, it is also important to contribute to regional economies where they are located.

Today, more than 3,500 free zones are operated in 130 countries and accounted for over \$600 billion in exports and 66 million direct jobs are realized at free zones. Free zones are supported by the governments as they provide large employment, new technology entry and contribution to country economy. Furthermore, these zones are reason of choice by foreign investors with their other advantages of tax incentives and easiness in customs processes.

This thesis is designed for evaluating main issues regarding free zones structure in the world, in Turkey and in AFZ. Purposes, advantages and benefits from AFZ users' point of view are considered. Besides, AFZ specific issues are also evaluated in survey questions to find out reasons and criteria for users' investment in AFZ. It is also aimed to evaluate the satisfaction of the users by analyzing the willingness to continue their investments, reliability to the free zone structure and authorities, problems they face and their comments. Current users, potential investors and free zone authorities' managements are expected to benefit from results of this thesis.

Purpose of the thesis is to prove if free zones establishment purposes and advantages provide a win-win strategy for both free zone users and authorities of free zones with the given data. For this purpose, past and recent economic figures of AFZ investigated in chapter 4. Although some limitations made in free zones legislation, (amendments on investment and employment incentives made with the Law numbered 5084 in 2004) increase in total trade and capital investment have been continuously increased since establishment. So it supports the argument that both investors and free zone authorities have benefits. In chapter 5, it is questioned with the opinions of AFZ users. Again, survey results generally indicate that investors are satisfied with their investment and willing to continue their activities. According to these findings, one can say that free zones are beneficial for both parties and their existence in better conditions would be beneficiary for economical wealth.

According to the above findings in this thesis, it can be concluded as Turkey should improve free zone structure for the aim of attracting more investors to the zones. Turkey, as a developing country, in means of strengthens the structure of its economy, increase exports and inflow of foreign currency, should make incentive

regulations. This would also increase the efficiency of free zones and will provide users a better environment for their investments. With the amendments which would be done in this perspective, the global capital will move to Turkey via free zones. This would stimulate the increase in foreign trade, production, employment and competition.

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## APPENDIX A

### AEGEAN FREE ZONE SURVEY APPLICATION

To whom it may concern,

Below survey was prepared for my master thesis concerning Free Zones, especially focused on Aegean Free Zone. Your answers and comments to this survey will be used in the analysis of this thesis and absolutely will not be released to the public. I hope results of the analysis would be beneficiary for all Free Zone users. Thank you for your kind cooperation.

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1. Name of Company:
2. Name of the Responsible Person :
3. Position of the Responsible Person in the Company:
4. Date of Establishment of the Company:
5. Main operation of the Company:  
Manufacturing    Others
6. Other licenses owned: (Please indicate)
7. Your investment:  
 Local     Foreign
8. When considering time / cost / efficiency criterias, you choose your building rent from ESBAŞ or totally owned?  
 Totally owned     Rental

9. Which of the below is/are effective for your decision concerning the building investment.

- Planned activity and investment duration
- Share of the initial investment costs in the overall investment budget
- National/International financial indicators
- Flexible / Constant establishment strategic decision
- Others (Please indicate).....

10.

<b>Please mark the reasons for your operating in Free Zone according to the importance level.</b>	<b>Very Important</b>	<b>Important</b>	<b>Moderate</b>	<b>Not Important</b>	<b>Not at all important</b>
Exemption for Income and Corporate Taxes					
Exemption for Customs Tax and VAT					
Tax exemption regarding Employment					
Ease of Investment					
Easy access to external markets					
Logistics advantages					
Utilities services					
Technology transfer					
Minimizing Exchange rate risk					
Easy Money transfer					
Various Trade Opportunities (transit trade, re-export, etc)					
Less bureaucratic barriers for international trade					



11.

	YES	NO	UNDECIDED
<b>Do the expectations for your investment in Free Zone have been satisfied?</b>			
Tax advantage expectations have been satisfied.			
Bureaucratic advantage expectations have been satisfied.			
Geographical advantage expectations have been satisfied.			
Logistics advantage expectations have been satisfied.			
Utilities services advantage expectations have been satisfied.			
Economical advantage expectations have been satisfied. (Easy money transfer, low exchange rate risk, etc.)			

12.

	Very Important	Important	Moderate	Not Important	Not at all important
<b>Please mark the reasons for your operating in Aegean Free Zone according to the importance level.</b>					
Existing commercial roots in Aegean Region					
Preference of International Big Companies					
Social service opportunities					
Logistics opportunities ( Proximity to Airport, Harbor, Çeşme Ro-Ro)					
Geopolitical position and hinterland					
Related sector concentration in Aegean Free Zone					
Quality of utilities services					

13. Are you satisfied for being an investor in Aegean Free Zone?

Yes  No  Undecided

14. Your pre-investment expectations and targets have been realized in general?

Yes  No  Undecided

15. What reason/reasons are effective to achieve/fail your pre-investment expectations and targets?

Free Zone's common structure and regulation

Effects of Aegean Free Zone

National/International economic conjuncture

Sectoral developments and indicators

Company's own commercial and managerial activities

Others (Please indicate) .....

16. Are you running another same investment outside Aegean Free Zone? ( If *yes*, please also answer questions 17 and 18, if *no*; please skip to question 19)

- Yes    No

17. If your answer to question sixteen is “yes”;

In another Free Zone in Turkey

In Turkish local market

Abroad

18. Which of the below is/are effective for your outside Aegean Free Zone investment? (Please answer if question 16 is “yes”)

Profitability

Ease of operations

Target market

Quality

Strategic decisions

Brand concern

Earlier investments

Complementary relationship and synergy between companies (cost, efficiency and operational synergy)

Need of supply for the main investment in Aegean Free Zone

Others( Please indicate) .....

19. Are you planning to continue your activities in Aegean Free Zone?

- Yes    No    Undecided

20. Which of the below is/are effective for your decision to continue/discontinue your activities?

- Budget, income, and profit evaluations
- Attainability of pre-investment expectations and targets
- General national/international economic conjuncture
- Opportunity/threats evaluation
- General effects of Free Zones
- Effects of Aegean Free Zone
- Others (Please indicate).....

21.

<b>Please mark the contribution of your activity and investment in Aegean Free Zone to the region and country's economy according to the importance level.</b>	<b>Very Important</b>	<b>Important</b>	<b>Moderate</b>	<b>Not Important</b>	<b>Not at all important</b>
Contribution to employment					
Contribution to trade volume					
Currency inflow					
Technology transfer					
Know-How transfer					
Contribution to Turkish brand value and increasing competition					
Continuous qualified and trusty supply					
Others (Please indicate)					

22.

Please mark the difficulties and problems that you face with Free Zone's legislation and regulations.	Very Important	Important	Moderate	Not Important	Not at all important
Different and complex tax incentives					
Constrain for exporting 85% of production for exemption of income tax paid for employees					
Delays and problems for non-commercial goods and services in entrance and exit to free zone.					
Problems due to the need of guaranty for transit products entrance and exit to free zone. (Problem of accommodating guaranteed vehicles, high cost of letter of warranty from the banks, etc.)					
Destruction procedures for wastes, expired items, etc.					
Simultaneously stock keeping with Free Zone authority. (SBBUP and other online systems)					
Others (Please indicate)					

23. What improvements and developments needed in Aegean Free Zone?  
(Please numerate according to the importance level)

1. ....
2. ....
3. ....
4. ....
5. ....

Thank you for your contribution.

## APPENDIX B

### EGE SERBEST BÖLGE ANKET UYGULAMASI

Sayın Yetkili,

Serbest Bölgeler kapsamında Ege Serbest Bölge uygulaması için hazırlamakta olduğum Yüksek Lisans Tez çalışmamda kullanılmak üzere aşağıdaki anket hazırlanmıştır. Firmanıza ilişkin bilgiler sadece tez çalışmasında kullanılacak olup, firma ismi ve anketi dolduran kişinin bilgileri kesinlikle gizli tutulacaktır. Ortaya çıkacak analizin Ege Serbest Bölge kullanıcıları olarak sizlere faydalı sonuçlar ortaya çıkaracağını umut eder, ayıracağınız zaman için teşekkür ederim.

Gamze CAN

İzmir Ekonomi Üniversitesi Sosyal Bilimler Enstitüsü  
Finans Ekonomisi Yüksek Lisans Programı

e-posta: [c\\_gamze@yahoo.com](mailto:c_gamze@yahoo.com)

Tez Danışmanı: Doç. Dr. İ. Hakan YETKİNER

İzmir Ekonomi Üniversitesi İİBF Öğretim Üyesi

1. Firmanın Adı:
2. Anketi Dolduranın Adı-Soyadı:
3. Anketi Dolduranın Firmadaki Görevi:
4. Firmanın Faaliyete Başlama Tarihi:
5. Firmanın Ana Faaliyet Konusu:  
 Üretim     Diğer
6. Sahip olunan diğer ruhsatlar: (Lütfen belirtiniz)
7. Yatırımınız:  
 Yerli     Yabancı
8. Serbest Bölge'de üst yatırım zaman / maliyet / verim kriterlerini göz önünde bulundurduğunuzda mevcut faaliyetinizi yürüttüğünüz üst yapıyı Serbest Bölge Kurucu İşletici firma tarafından kiralık olarak mı özel mülkiyet olarak mı değerlendirdiniz?  
 Özel Mülkiyet     Kiralık

9. Vermiş olduğunuz üst yapı yatırım kararında aşağıdakilerden hangisi/hangileri etkili olmuştur?

- Planlanan faaliyet ve yatırım süresi
- İlk yatırım maliyetlerinin planlanan genel yatırım bütçe içerisindeki payı
- Ulusal/Uluslararası piyasalardaki göstergeler
- Esnek / Sabit yapılanma stratejik kararları
- Diğer (Lütfen belirtiniz).....

10.

	Çok Önemli	Önemli	Ne Önemli Ne Önemsiz	Önemsiz	Hiç Önemli Değil
<b>Serbest Bölgede faaliyet gösterme sebeplerinizi tercihinizdeki önemine göre işaretleyiniz.</b>					
Gelir ve Kurumlar vergisinden muafiyet					
Gümrük vergisi ve KDV muafiyeti					
İşgücüne ilişkin vergi avantajları					
Yatırım Kolaylığı					
Dış Piyasalara daha kolay ulaşmak					
Lojistik avantajları					
Altyapı hizmetleri					
Teknoloji transferi					
Kur riskini minimize etmesi					
Kolay para transferi (SB faaliyetlerinden elde edilen gelir ve kazançların herhangi bir kambiyo rejimine veya izne tabi tutulmadan yurtdışına veya Türkiye'ye transferi)					
Ticaret olanakları (transit ticaret, re-export gibi ticari uygulamalara elverişliliği)					
Dış ticaretteki bürokratik engellerin azlığı					

11.

	<b>EVET</b>	<b>HAYIR</b>	<b>KARARSIZIM</b>
<b>Serbest Bölge'de yatırım yapma tercihinizi etkileyen beklentilerinizin karşılandığını düşünüyor musunuz?</b>			
Vergisel avantaj beklentilerim karşılandı.			
Bürokratik avantaj beklentilerim karşılandı.			
Coğrafi avantaj beklentilerim karşılandı.			
Lojistik avantaj beklentilerim karşılandı.			
Altyapı avantaj beklentilerim karşılandı.			
Ekonomik avantaj (kur riskini aza indirmesi, kolay para transferi, vb.) beklentilerim karşılandı.			

12.

	<b>Çok Önemli</b>	<b>Önemli</b>	<b>Ne Önemli Ne Önemsiz</b>	<b>Önemsiz</b>	<b>Hiç Önemli Değil</b>
<b>Ege Serbest Bölgesi'ni tercih etmeniz için nedenlerini önem derecesine göre işaretleyiniz.</b>					
Ticari faaliyetlerimizin Ege Bölgesi'nde süregelmesi					
Dünya devi üretici firmaların tercihi olması					
Sosyal hizmet olanakları					
Lojistik imkanları (Havaalanı, liman, Çeşme Ro-Ro'ya yakınlığı)					
Jeopolitik konumu ve hinterlandı					
Ait olunan sektörün Ege Serbest Bölge'de yoğunlaşması					
Altyapı hizmetlerinin kalitesi					



13. Ege Serbest Bölge’de yatırım yapmış olmaktan memnun musunuz?

Evet  Hayır  Kararsızım

14. Yatırım yapmadan önceki beklenti ve hedefleriniz genel anlamda gerçekleşti mi?

Evet  Hayır  Kararsızım

15. Yatırım öncesi beklenti ve hedeflerinize ulaşmanızda/ulaşamamanızda aşağıdakilerden hangisi/hangileri etkili olmuştur?

Serbest Bölgeler genel yapı ve işleyişi

Ege Serbest Bölgesi kaynaklı etkiler

Ulusal ve küresel ekonomik gelişmeler

Sektörel gelişmeler ve göstergeler

Firmanın kendi ticari ve yönetsel faaliyetleri

Diğer (Lütfen belirtiniz) .....

16. Ege Serbest Bölge dışında aynı faaliyeti yürüttüğünüz başka yatırımınız var mı? (16.soruya cevabınız EVET ise lütfen 17 ve 18. Soruları da cevaplayınız, HAYIR ise 19. soruya geçiniz.)

Evet  Hayır

17. Onaltıncı soru “evet” ise;

Türkiye’de başka bir Serbest Bölge’de

Türkiye’de iç piyasada

Yurtdışında

18. Aşağıdakilerden hangisi/hangileri Ege Serbest Bölge dışındaki yatırımınızın sebebi/sebepleridir? (16. soru evet ise cevaplayınız)

Kârlılık

Operasyonel kolaylık

Hedef Pazar

Kalite

Stratejik karar

Marka kaygısı

Geçmiş yatırımın sürdürülmesi

Firmalar arası tamamlayıcılık ve sinerji (maliyet, verim ve operasyon sinerjisi)

Serbest Bölge ana yatırımına hizmet edecek yan yatırımlar gerekliliği

Diğer ( Lütfen belirtiniz) .....

19. Ege Serbest Bölge’de faaliyetlerinize devam etmeyi düşünüyor musunuz?

- Evet    Hayır    Kararsızım

20. Vermiş olduğunuz faaliyet sürdürme/sürdürmeme kararınızda aşağıdakilerden hangisi/hangileri etkilidir?

- Bütçe, ciro,kâr değerlendirmeleri
- Yatırım öncesi beklenti/hedeflere ulaşılabilirlik
- Genel ulusal ve küresel ekonomik konjonktür
- Fırsat/tehdit değerlendirmeleri
- Serbest bölge genel etkileri
- Ege Serbest Bölge kaynaklı etkiler
- Diğer (Lütfen belirtiniz).....

21.

	Çok Önemli	Önemli	Ne Önemli Ne Önemsiz	Önemsiz	Hiç Önemli Değil
<b>Firmanızın Ege Serbest Bölge içindeki faaliyet ve yatırımının bölge ve ülke ekonomisine sağladığı katkıyı önem derecesine göre işaretleyiniz.</b>					
İstihdam					
Dış Ticaret hacmine katkı					
Döviz girdisi					
Teknoloji transferi					
Know-How transferi					
Türkiye'nin marka değerini yükseltmesi ve rekabet gücünü arttırması					
Sürekli kaliteli ve güvenilir arz gücü sağlaması					
Diğer (Lütfen belirtiniz)					

22.

	Çok Önemli	Önemli	Ne Önemli Ne Önemsiz	Önemsiz	Hiç Önemli Değil
<b>Serbest Bölge işleyişi ve mevzuatı açısından karşılaştığınız sorunları önem sırasına göre sıralayınız.</b>					
Vergi teşviklerinin farklı ve karmaşık olması					
Personele ödenen gelir vergisi muafiyeti için üretimin %85'inin yurtdışına ihraç edilme şartı aranması					
Ticari olmayan ürün ve servislerin bölgeye giriş ve çıkışında yaşanan gecikme ve sorunlar					
Transit ürün giriş ve çıkışlarının teminata bağlanmasından ötürü karşılaşılan sorunlar (teminatlı araç bulma sıkıntısı, banka teminat mektuplarının yüksek maliyeti, vs.)					
Fire, atık, S.K. tarih vs. problemleri ürünler için imha prosedürlerindeki zorluk					
Serbest Bölge ile eşzamanlı stok tutulması ve karşılaşılan problemler (SBBUP ve diğer online sistemler)					
Diğer (Lütfen belirtiniz)					

23. Sizce Ege Serbest Bölge’de geliştirilmesi ve iyileştirilmesi gereken alanlar nelerdir?  
(Lütfen önem derecesine göre sıralayınız)

1. ....
2. ....
3. ....
4. ....
5. ....

Katılımınız için teşekkür ederiz.