

Trading Volumes of Free Zones in Turkey and Evaluation of Their Contribution to International Business



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Abstract The main purpose of the existence of free zones in the world is to increase the volume of trade between the countries. In addition to this purpose, it is aimed in creating new employment positions and contributing them to the economy by opening up new business areas.

The geographical position of Turkey is very important, and certainly it affects the international business activities in Turkey. In this context, there are 19 free zones in Turkey, and there are hundreds of effective companies operating in these important free zones.

In this study these free zones will be assessed as the basis of general business activities annually. On the other hand, trade volumes of the free zones will be assessed in terms of products such as vegetable products, livestock products, fishery products, forestry products, mining and quarrying, processed agricultural products, processed petroleum products, and industrial products. In addition, trade volumes between Turkey and other countries such as OECD and EU countries, other OECD countries, the Commonwealth of Independent States, North Africa, and the Middle East will be compared and analyzed.

Keywords Free zone • International business

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1 Introduction

There are many types of definitions in the literature for the free-trade zones. Generally, it can be defined as places where commercial and industrial activities are simplified and government intervention is reduced to minimum and also a place in the political boundaries of a country but remained outside the customs territory. As can be understood from the description, with its flexibility free zones provide major commercial interests (IZTO, Access Date: 11.04.2016).

When we examine the historical process of free zones, this process can predicate up to ancient Greek and Roman civilizations about 2000 years ago. Greece's Piraeus and Chalcis Ports are considered as the first examples of this subject. The first free zones are established on the major trade routes. The colonies on these routes eliminated the economic and political controls fully or partially on "free cities" (Tumenbatur 2012, p. 340).

However, in the sense we understand it today, the first examples are Gibraltar Island (1704), Singapore (1819), and Hong Kong (1841) with the treaty between England and China for 99 years (KALKINMA, Access Date: 11.04.2016).

There are also examples from the Ottoman Empire. Today Sulina City remains in the Romanian border where the Danube flows into the Black Sea. This city's port has been turned into a free port during the Ottoman Empire in 1870. This port has been announced as a free zone in 1978 by the Government of Romania (Alpar 1985, p. 13).

There are various port applications in European cities in the early 1900s. Free-trade zones seemed as a way of solving the economic crisis after the Great Depression on 1929. Singapore and Hong Kong free zones which were established before the Second World War and the following ones like Panama, Ireland, Taiwan, and South Korea achieved a great success. These successful implementations have contributed significantly to the adoption of the idea of establishment of free zones in many countries (Karaduman and Zafer 2002, p. 133).

Free zones are implemented in order to improve economic development. In 1980s by rapidly increasing the number of free zones reached to 450 zones over 80 countries. This rapid growth has led to search for new markets. In this respect in year 1978, the World Export Processing Zones Association (WEPZA) was founded under the leadership of United Nations Industrial Development Organization (UNIDO). WEPZA, a nonprofit organization, helps the member countries on market and trade researches and provides important support by reducing cost of research (Tumenbatur 2012, p. 340).

2 Free-Trade Zones and Applications in Turkey

Sudden changes in the political and economic systems are not easy for the countries. The countries who noticed it began to look for different ways to adapt to changing conditions for economic development. At this point, due to more trade

development request without changing the current political and economic system, the phenomenon of the “free zone” was developed. The benefits of such commercial points understood that without making any customs operations and radical changes in the existing commercial system, the imported goods can be stored or can be processed easily. As a result, free-trade zones appeared as safe ports for the storage of goods from abroad or for transit trade (Duzenli 2006, p. 20).

2.1 The Scope of Free-Trade Zones

The main purpose of the establishment and operation of free zones can be determined as follows (Sezgin 2008, p. 12):

- To increase investment and production for export
- To speed up the entry of foreign capital and technology
- To assure the need of the economy for the input cheap and on a regular basis
- To take more advantage of external financing and trade opportunities

On the other hand, some important functions of these free-trade zones can be listed as follows (Sezgin 2008, p. 12):

- Testing of new trade and economic policies
- Introducing new technologies into the country by encouraging foreign capital firms
- Providing direct and indirect employment
- Reducing costs by partial importation to the country
- Removing bureaucratic barriers
- Providing incentives and benefits for low-cost export goods
- Providing economic contribution by enabling transit trade
- Providing world trade for export products by simplifying the distribution.

Meanwhile, it is possible to talk about some substantial benefits of a free trade. These benefits can be listed as follows (Orhan 2003, p. 122):

- Provide benefits for importation (time, storage costs, tax advantages, and quality assurance).
- Provide benefits for exportation (timing and competitive advantage).
- Provide foreign capital entry.
- Provide employment support.

2.2 Free-Trade Zones in Turkey

In Turkey, attempts for establishment of free zones started in 1927. However, they could not find an application area because of the political and economic reasons

until the 1980s. The first application of the free zone is considered at the port Istanbul, and for this purpose a law is issued on 22 June 1927. However, it could not be put into practice because of the inadequate infrastructure, bureaucratic obstacles, and the Great Depression seen all over the world (Bakir 1984, p. 68).

In 1928, a free zone trial is done for Ford Company, but it failed again due to the Great Depression. Similarly, attempts to free zones in 1946 and 1956 are forgotten for a short time. The serious practice for free zones in Turkey has been done after the new economic strategies in 1980. It was thought that such zones could contribute to exports and also attract foreign investors. After various discussions, Mersin and Antalya (1987), Ege and Istanbul Atatürk Havalimani (1990), Trabzon (1992), Istanbul Deri ve Endüstri (1995), Doğu Anadolu and Mardin (1995), IMKB (1997), İzmir Menemen Deri, Rize, Samsun, Istanbul Trakya, Kayseri (1998), Avrupa, Gaziantep, Adana-Yumurtalık (1999), Bursa, Denizli ve Kocaeli (2001), and Tubitak-Marmara Arastırma Merkezi Teknoloji (2002) were established. Although the contribution of current free zones to the economy is discussed, the new zones, Istanbul Kiyi Bankacılığı, Zonguldak-Filyos, and Ipekyolu Vadisi, are established in Turkey (Ozturk 2013, p. 77).

3 Trading Volumes of Free Zones in Turkey and Evaluation of Their Contribution to International Business

When Table 1 is examined, Turkey's export figures can be seen between the years 2011 and 2015. Accordingly, in 2015, approximately Turkey's 45% of the exports realized to the European Union, meanwhile exports from free-trade zones ratio, %, has been 1.33. In this aspect, it can be concluded that there is not an adequate rate of exports made from free-trade zones.

When Table 2 is examined, Turkey's import figures can be seen between 2011 and 2015. Accordingly, in 2015, Turkey imports approximately 38% from the European Union; imports from free zones in Turkey have been 0.59%. If Tables 1 and 2 were compared, it can be evaluated as positive that export rates are higher than import rates.

As of 31 December 2014, a total of 2914 companies operate in free zones of Turkey, and it can be observed from Table 3. Twenty-three percent of these companies are foreign and 77% of them are domestic. In addition, 32% of them makes production, 46% of them concerns in trading, and 22% are operating in other activities. Thirty percent of domestic firms that are located in free zones are production facilities; 37% of foreign firms that are located in free zones are production facilities.

According to Table 4, as of 31 December 2015, the total number of the companies has been decreased by 1.03%. Despite this decline, the number of companies engaged in production increased by 1.40%, and the number of other

Table 1 Exports of Turkey to country groups, 2011–2015 (value: thousand \$)

	2015	2014	2013	2012	2011
Total exports of Turkey	143,861,522	157,610,158	151,802, 637	152,461,737	134,906,869
A. European Union (EU-28)	64,008,890	68,514,370	63,039,810	59,398,377	62,589,257
Rate of European Union in total exports	44.49%	43.47%	41.53%	38.96%	46.39%
B. Free zones in Turkey	1,906,800	2,269,841	2,412,824	2,294,934	2,544,721
Rate of free zones in total exports	1.33%	1.44%	1.59%	1.51%	1.89%
C. Other countries	77,945,833	86,825,947	86,350,002	90,768,426	69,772,890
1. Other European countries	14,143,878	15,183,962	14,213,880	14,166,917	12,734,548
2. North African countries	8,528,402	9,757,935	10,041,750	9,443,604	6,700,805
3. Other African countries	3,922,011	3,996,463	4,103,794	3,913,246	3,633,016
4. North American countries	7,066,716	7,292,336	6,580,293	6,662,554	5,459,299
5. Central America and Caraibs	848,855	938,023	1,004,173	769,630	626,293
6. South American countries	1,309,912	1,852,328	2,126,991	2,191,084	1,840,351
7. Near and Middle Eastern	31,092,055	35,383,669	35,574,660	42,451,153	27,934,772
8. Other Asian countries	10,308,562	11,590,682	12,016,838	10,574,649	10,199,361
9. Australia and New Zealand	619,543	600,042	538,473	490,339	480,755
10. Other countries	105,899	230,507	149,150	105,250	163,690

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companies operating in other activities increased by 2.82%, while the number of trading companies has decreased by 4.53%.

Table 5 situates the annual trade volume of free zones in Turkey. There are 19 free zones in Turkey. It can be obtained that trade volumes fell in year 2011, showed an increase in years 2012 and 2013, but declined again in years 2014 and 2015, respectively. In years 2014 and 2015, 82.5% of the total trade volume has been realized by seven free zones. The remaining 12 free zones performed 17.5% of the total trade volume.

Benefiting from Table 5, as a result of the calculations made by taking into account, seven free zones which performed the highest trading volume is as follows.

Table 2 Imports by country groups, 2011–2015 (value: thousand \$)

	2015	2014	2013	2012	2011
Total imports of Turkey	207,206,813	242,177,117	251,661,250	236,545,141	240,841,676
A. European Union (EU-28)	78,668,832	88,783,651	92,457,992	87,657,462	91,439,406
Rate of European Union in total exports (%)	37.97	36.66	36.74	37.06	37.97
B. Free zones in Turkey	1,227,213	1,260,771	1,267,869	1,045,827	1,038,057
Rate of free zones in total exports (%)	0.59	0.52	0.50	0.44	0.43
C. Other countries	127,310,768	152,132,695	157,935,389	147,841,852	148,364,213
1. Other European countries	28,109,858	36,367,325	41,319,229	37,206,446	35,668,228
2. North African countries	3,006,952	3,435,769	3,508,479	3,308,343	3,342,055
3. Other African countries	2,092,386	2,502,192	2,522,630	2,613,447	3,424,658
4. North American countries	12,057,020	13,834,992	13,952,865	15,084,268	17,345,670
5. Central America and Caraips	1,039,500	1,123,835	1,362,167	1,069,126	903,455
6. South American countries	3,661,121	3,934,733	3,665,676	4,079,580	4,500,367
7. Near and Middle Eastern	13,574,618	20,480,465	22,214,051	21,410,008	20,439,413
8. Other Asian countries	53,339,679	56,162,293	54,648,319	49,602,022	53,143,945
9. Australia and New Zealand	608,577	637,678	1,318,247	861,022	806,922
10. Other countries	9,821,057	13,653,413	13,423,725	12,607,589	8,789,500

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Table 3 Number of companies in Turkey's free zones

Firms's activities	Local	Foreign	Total
Production	679	249	928
Purchasing-selling	1039	309	1348
Other	518	120	638
Total	2236	678	2914

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Free zones	Rate of trade volumes in total (%)
Aegean	19
Mersin	16
Istanbul Industry and Trade	14.5
Europe	11
Bursa	8.5
Istanbul Thrace	7
Istanbul Atatürk Airport	6.5

Europe, Istanbul Thrace, Istanbul Atatürk Airport, Istanbul Industry and Trade, and Bursa are located in the Marmara Region. With reference of this information, 47.5% of the total trade volume of free zones has been performed by the free zones located in the Marmara Region. On the other hand, according to Table 5, when Aegean, Istanbul, Izmir, and Denizli are taken into account, the ratio of Turkey's total trade volume of free zones located in the west is approaching 71%. There can be seen an annual total trade volume of free zones by the direction of trade on Tables 6 and 7.

There are 19 free zones in Turkey. When the years between 2011 and 2015 are evaluated, a total of 111,632,611,000 US dollars in trade volume was recorded during the 5-year period. The direction of the trade can be seen below:

- From zones to Third World countries is 33.3%
- From Third World countries to zones is 31.9%
- From zones to domestic market is 22.8%
- From domestic market to zones is 12%

With the reference of the above ratios, bilateral trade volumes of free zones with foreign countries are 65%. On the other side, bilateral trade volumes of free zones with domestic market are 35%. With the reference of Table 7, it can be said that there is an important decrease of annual trade volume as compared to the previous years. Especially the trade from domestic market to the free zones decreased by 19.3%.

Table 8 shows the distribution of trade of free zones according to the group of countries. As compared with the previous year, the annual trade volumes of free zones to the almost all groups of countries has decreased, but the annual trade volumes with North Africa and Middle East countries, OECD countries, and other European countries, which are not member of the EU, have increased.

Table 4 Changes and breakdown of free zone operation licenses

User's activities	December 2014	December 2015	%
Production	928	941	1.40
Purchasing-selling	1348	1287	-4.53
Other	638	656	2.82
Total	2914	2884	-1.03

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Table 5 Annual trade volume of free zones (US\$1000)

Zones	2011	% 2012–2011	2012	% 2013–2012	2013	% 2014–2013	2014
Istanbul Industry and Trade	3,603,223	-10.63	3,220,084	4.58	3,367,671	-1.18	3,327,829
Aegean	5,747,500	-9.14	5,221,937	-10.37	4,680,242	-8.27	4,293,268
Istanbul Atatürk Airport	2,241,525	-6.15	2,103,566	-14.56	1,797,352	-15.52	1,518,438
Mersin	2,693,049	42.3	3,832,246	-7.31	3,552,257	-1.21	3,509,193
Istanbul Thrace	1,533,749	-5.88	1,443,596	19.42	1,723,958	-5.25	1,633,496
Bursa	1,571,579	-2.5	1,532,317	24.48	1,907,397	1.42	1,934,424
Europe	2,059,462	14.83	2,364,905	3.17	2,439,927	0.32	2,447,756
Antalya	731,252	2.52	749,707	20.36	902,379	-7.64	833,450
Kocaeli	549,607	34.33	738,265	-10.23	662,729	5.75	700,819
Kayseri	700,713	-0.53	696,971	14.53	798,250	1.03	806,459
Izmir	356,553	-8.42	326,535	12.79	368,283	-13.11	319,987
Samsun	118,377	-40.75	70,139	30.48	91,521	21.38	111,085
Adana-Yumurtalik	265,654	11.35	295,816	34.36	397,467	29.72	515,598
Gaziantep	112,053	-8.38	102,659	93.89	199,045	-32.45	134,455
Tubitak-Mam Tech.	196,787	5.7	208,007	12.33	233,652	-25.32	174,486
Trabzon	90,204	-22.31	70,079	-17.48	57,828	-19.47	46,569
Denizli	67,694	6.79	72,293	-21.45	56,783	113.81	121,408
Rize	4565	-12.12	4012	-8.86	3657	-3.69	3522
Mardin ^a	2628	-100	0	0	0	0	0
Total	22,646,175	1.8	23,053,135	0.81	23,240,397	-3.48	22,432,242

^aMardin Free Zone omitted due to negligible trade volume
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Table 6 Directional changes in total trade volume (US\$1000)

	2011	%	2012	%	2013	%	2014	%
From domestic market to zones	2,668,180	11.8	2,971,393	12.9	2,886,929	12.4	2,732,526	12.18
From zones to Third World countries	6,924,450	30.6	7,070,643	30.7	7,701,394	33.1	7,957,871	35.48
From Third World countries to zones	7,252,802	32	7,257,543	31.5	7,490,100	32.2	7,058,603	31.47
From zones to domestic market	5,800,743	25.6	5,753,556	25	5,161,974	22.2	4,683,242	20.88
	22,646,175	100	23,053,135	100	23,240,397	100	22,432,242	100

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Table 7 Directional changes in trade volumes during January–December period (US\$1000)

	January–December 2014	January–December 2015	%
From domestic market to zones	2,732,526	2,205,295	−19.3
From zones to Third World countries	7,957,871	7,493,675	−5.83
From Third World countries to zones	7,058,603	6,549,732	−7.21
From zones to domestic market	4,683,242	4,011,960	−14.3
Total	22,432,242	20,260,661	−9.68

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In 2014 and 2015, a total of 42,692,903 billion US dollars in trade volume realized and its distribution can be observed below:

- EU countries are 31.6%.
- Other OECD countries are 7.6%.
- Other European countries are 0.2%.
- CIS is 5%.
- North Africa and Middle East are 10%.
- Turkey is 31.9%.
- Other countries are 13.7%.

The highest trade volumes of free zones by country have emerged with European Union countries and the Turkey domestic market.

Table 8 January–December period breakdown of trade volume by countries (US\$1000)

Countries	Inflow to zones		Inflow to zones		Outflow from zones		Outflow from zones		Total (January–December 2014)	Total (January–December 2015)	%
	(January–December 2014)	(January–December 2015)	(January–December 2014)	(January–December 2015)	(January–December 2014)	(January–December 2015)	(January–December 2014)	(January–December 2015)			
I. OECD and EU countries	4,203,593	3,950,385	–6.02	4,492,078	4,155,811	–7.49	8,695,671	8,106,196			–6.78
A. EU (28) countries	3,397,823	3,011,110	–11.38	3,741,398	3,367,283	–10	7,139,221	6,378,393			–10.66
B. Other OECD countries	805,770	939,275	16.57	750,680	788,528	5.04	1,556,450	1,727,803			11.01
II. Other European countries	4721	48,125	919.49	16,063	31,462	95.86	20,784	79,587			282.93
III. CIS	421,683	369,873	–12.29	794,645	569,636	–28.32	1,216,328	939,509			–22.76
IV. North Africa and the Middle East	624,316	544,683	–12.76	1,420,381	1,704,811	20.02	2,044,697	2,249,494			10.02
V. Other countries	1,804,291	1,636,666	–9.29	1,234,704	1,031,954	–16.42	3,038,995	2,668,620			–12.19
VI. Turkey	2,732,526	2,205,295	–19.29	4,683,242	4,011,960	–14.33	7,415,768	6,217,255			–16.16
Total	9,791,129	8,755,027	–10.58	12,641,113	11,505,634	–8.98	22,432,242	20,260,661			–9.68

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Table 9 shows the distribution of annual trade volumes of free zones by sector between the years 2011 and 2015. A total of 42,692,903,000 US dollars of annual trade volume of free zones can be summarized as follows:

- Agriculture is 8.48.
 - Vegetables products are 8.1%.
 - Livestock products are 0.18%.
 - Fishery products are 0.017%.
 - Forestry products are 0.345%.
- Mining and quarrying are 0.32%.
- Industry is 91.2%.
 - Processed agricultural products are 5.3%.
 - Processed petroleum products are 2%.
 - Industrial products are 83.9%.

With the light of below information, the biggest share of the annual trade volume is emerged by the industry sector with the ratio of 91.2%.

With the help of Table 9, as compared with the previous year in 2015, the following changes can be observed:

- Vegetable products increased by 38.7%.
- Livestock products decreased by 48.71%.
- Forestry products increased by 17.42%.
- Processed petroleum products decreased by 46.88%.

Table 10 shows the total employment of free zones in Turkey. Apparently, in the year 2015, the total number of employees has increased by 1.19% compared to the previous year and became 62,234 persons. The majority of the employees are workers. An interesting outcome is, while the total trade volume has decreased, the total number of employees has increased.

The distribution of the total number of employees by trade zones can be seen below.

Rate of employment in free zones (%)	
Aegean	28
Bursa	16
Mersin	14
Istanbul Industry and Trade	8.2
Antalya	7.5
Kayseri	6.2
Europe	6
Istanbul Thrace	3
Izmir	2
Istanbul Atatürk Airport	1.9
Kocaeli	1.9
Others	5.3

Table 9 January–December period breakdown of the trade volume by sectors (US\$ 1000)

Sectors	Inflow to zones		Outflow from zones		Outflow from zones		Total	
	(January–December 2014)	(January–December 2015)	(January–December 2014)	(January–December 2015)	(January–December 2014)	(January–December 2015)	(January–December 2014)	(January–December 2015)
I. Agriculture	778,722	915,935	17.62	1,166,737	758,787	1,166,737	1,537,509	2,082,672
A. Vegetable products	731,858	886,299	21.1	1,144,558	732,396	1,144,558	1,464,254	2,030,857
B. Livestock products	36,053	17,149	-52.43	8636	14,217	8636	50,270	25,785
C. Fishery products	1652	1485	-10.13	2182	2287	2182	3939	3666
D. Forestry products	9158	11,003	20.14	11,361	9887	11,361	19,046	22,364
II. Mining and quarrying	41,779	43,246	3.51	15,873	37,177	15,873	78,956	59,119
III. Industry	8,970,628	7,795,846	-13.1	10,323,024	11,845,149	10,323,024	20,815,776	18,118,870
A. Processed agricultural products	532,897	518,785	-2.65	599,608	628,060	599,608	1,160,957	1,118,393
B. Processed petroleum products	264,549	150,660	-43.05	140,728	284,025	140,728	548,575	291,388
C. Industrial products	8,173,181	7,126,401	-12.81	9,582,689	10,933,063	9,582,689	19,106,245	16,709,089
Total	9,791,129	8,755,027	-10.58	11,505,634	12,641,113	11,505,634	22,432,241	20,260,661

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Table 10 Employment structure of free zones in January–December period

Zones	January–December 2014				January–December 2015				Total	%
	Worker	Office staff	Other	Total	Worker	Office staff	Other	Total		
	Aegean	13,900	2720	422	17,042	14,124	2,906	457		
Bursa	8200	990	81	9271	9175	921	20	10,116	9.11	
Mersin	7792	910	632	9334	7322	923	534	8779	-5.95	
Antalya	3739	739	0	4478	3939	790	0	4729	5.61	
Istanbul Industry and Trade	3213	1154	0	4367	3897	1254	0	5151	17.95	
Kocaeli	1188	105	65	1358	1020	105	65	1190	-12.37	
Tubitak-Mam Tech.	1022	385	9	1416	958	429	5	1392	-1.69	
Europe	2836	486	0	3322	3115	631	0	3746	12.76	
Kayseri	3185	299	78	3562	3457	348	74	3879	8.90	
Izmir	1209	271	63	1543	927	293	63	1283	-16.85	
Istanbul Thrace	1568	468	11	2047	1409	471	17	1897	-7.33	
Istanbul Atatürk Airport	494	687	65	1246	498	569	119	1186	-4.82	
Adana-Yumurtalik	1778	97	2	1877	645	78	3	726	-61.32	
Samsun	351	50	0	401	386	54	0	440	9.73	
Gaziantep	94	61	0	155	110	42	1	153	-1.29	
Trabzon	34	6	7	47	34	4	10	48	2.13	
Denizli	24	9	0	33	16	9	0	25	-24.24	
Mardin	3	1	0	4	3	1	0	4	0.00	
Rize	1	1	0	2	1	2	0	3	50.00	
Total	50,631	9439	1435	61,505	51,036	9830	1368	62,234	1.19	

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Table 11 Rate of trade volumes and rate of employment in free zones

Free zones	Rate of trade volumes (%)	Rate of employment (%)
Aegean	19	28
Mersin	16	14
Istanbul Industry and Trade	14.5	8.2
Europe	11	6
Bursa	8.5	16
Istanbul Thrace	7	3
Istanbul Atatürk Airport	6.5	1.9

<http://www.ekonomi.gov.tr> (Access Date: 11.04.2016)

When Tables 5 and 10 are compared, the outcoming result is summarized in Table 11.

According to Table 11, the free zones located in Istanbul have lower rates of employment, but on the contrary, the rate of trade volumes is higher relatively. The rate of trade volumes of Bursa and Aegean area free zones is lower than the rate of employment. It can be concluded that there is no evident correlation between the rate of trade volumes and rate of employment.

4 Conclusion

The rapid globalization all over the world is changing the way of business. Free zones are also one of the important reflections of changing business. Despite the turbulent historical past, the free-trade zones are very important points for the world trade today.

Located in various geographic locations of our country, 19 of the free-trade zones have been a very significant contributor to our economy. These free zones have reached the number of direct employees over 50,000 people in total both blue and white collar by 2015.

In these free zones, over 3000 companies carry over 20 billion dollars in trade volume per year. Therefore, these trade zones are very important business points in terms of employment and foreign trade. More than a quarter of the companies that operate in the free zones are foreign companies. That is also very important in terms of foreign capital entry.

On the other hand, Turkey is rapidly evolving and advancing in the region; therefore there must be a further increase in the trading volumes for the free zones in Turkey. The commercial developments which will be revealed in the volume of free zones in Turkey will have a very positive impact on the country's and region's economies.

Consequently, foreign capital should be encouraged and should be provided to contribute to the country's economy by new legal regulations, incentives, and new advantages that may be offered for these important commercial points.

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