

DILEMMAS AND CHALLENGES IN THE TRANSFORMATION OF FREE ZONES: GLOBAL TRADE PROSPECTS

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ABSTRACT

Purpose- Multiple transformations have begun with the shift from industry-oriented to information-oriented structures in the free zones. The study aims to examine the dilemmas and difficulties observed in the transformation of free zones operating in Turkey.

Methodology- The study is in quantitative design. The study used the trade volume data according to the countries realized by the free zones in Turkey in 2020.

Findings- While the analysis reveals the global trade of free zones, it also reveals results of the ratio of exports to imports of 17 free zones.

Conclusion- The results highlight the need for these regions to be integrated into high-tech industrial transformation policies.

Keywords: Free zones, transformation, global trade, Turkey, trade volume.

JEL Codes: F10, F14, M16

1. INTRODUCTION

To achieve transformation in the long-term strategic goals of countries, qualitatively developing productivity, quality, and innovation will be necessary given the change in international competition conditions. By establishing duty-free zones in many countries, potential gains from trade are expected as a regulatory force to overcome market disruptions (Mogielnicki, 2021; Liu, Wang & Guo, 2021; Willemijn, 2013; Facchini, & Willmann, 1999). Successful free zones benefit by attracting foreign direct investment, creating jobs, increasing exports, and spreading significant effects (Zeng, 2011). On the other hand, the establishment of free zones involves high risks and costs, and at the same time, public investments, implementations, and coordination are required to be realized within a strong plan for the targeted performance of free zones. In this context, dilemmas and difficulties arise in the transformation that occurs at the point of adaptation to changing conditions of free zones, which is a significant strategic practice aimed at the removal of borders between countries.

With the transition of free zones from an industry-oriented structure to an information-oriented structure, global trade expectations are also changing. In order to meet these expectations, it is necessary to experience transformations for free zones. Difficulties and dilemmas are present in transformations arising from the changes in global economic conditions, technological advancements and their impact on enterprises, increased workforce potential, adoption of innovative production and management techniques, changes in market conditions, and qualitative evaluations of global trade. The study focused on examining the transformations of free zones to understand these dilemmas and challenges.

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The performance of free zones at the global level is complex, and there are successful examples (China) as well as underperforming zones. The main motivation of the study is to reveal the current performance of free zones in Turkey with their gains and losses in terms of global trade expectations. The structure of the study is arranged as follows; a detailed literature review on the subject, disclosure of data and methodology, and presentation of findings. Finally, conclusions and recommendations are given.

2. LITERATURE REVIEW

In the historical process, trade policies and trade regimes have been carried out in various ways, basically at the national, regional, and global levels. In order to facilitate the development of international trade, free zones, one of the strategies that can overcome the obstacles encountered at these levels, have taken their place in the system. These regions, which have many functions in order to ensure the successful development of world trade, have played a significant role as a policy tool for new activities for products and services, promoting foreign investment, expanding exports, providing technology transfer, and creating employment (Dabour, 1999; Graham, 2004; Waters, 2013). Free zones are areas within the borders of the country, which are kept outside the customs borders in terms of acceptance and which gain a competitive advantage with state aid, and where the regulations on commercial, financial and economic areas valid in the country are not applied or partially applied. For this reason, it is characterized as a specific application of trade and has static and dynamic benefits for countries (Shayah & Qifeng, 2015).

The performances of free zones have been evaluated in the literature in terms of the static and dynamic benefits they create. Studies measuring the effectiveness of free zones continue to be carried out. In order to investigate the performance of free zones in a cost-benefit framework, Jayanthakumaran (2003) argued that the sample of South Korea, Malaysia, Sri Lanka, China, and Indonesia, are economically efficient and provide returns well above their estimated opportunity costs. China has established several pilot Free Zones in recent years to deepen trade liberalization. The study, which investigated the effect of these zones on the capital flow, imports, and exports of the economy, shows that the newly established regions encourage local foreign direct investment (FDI) and foreign direct investment (FDI), but the effect on goods exports and imports is limited (Bao, 2020). It has been a matter of curiosity how successful the free zones are in the countries where they are established. In this context, criticisms of free zones in the literature are emphasized on cost-production-commercial volume-technology-employment. Establishing and functionalizing these zones is costly, far exceeding the benefits to be gained from them. While the public expenditure made here does not create sufficient employment, it cannot create the trade volume that will provide foreign exchange earnings. In advanced technology transfer, it has been observed that production remains as simple assembly and at a low value-added level (Warr, 1985; Kaplinsky, 1993).

Focusing on developing countries, Cling and Letilly (2001) emphasized the contribution of free zones to the sectoral diversity of host economies and stated that their share in exports of manufactured goods was apparently high in the Dominican Republic, Madagascar, Mauritius, and Mexico, and contributed to the diversification of exports to some extent. While these regions exported only tropical goods such as coffee and bananas, after the establishment of the zones, they started to export labor-intensive manufactured goods such as textiles, clothing, and electrical and electronic goods, but this transformation was limited in general. Öztürk (2013) evaluated the future of free zones in Turkey in his study. He gave opinions on significant points such as increased imports of these zones, causing public revenue losses, not meeting expectations, and working conditions. It has been emphasized that the functionality of these regions will decrease in the future and may lose its importance.

In the light of this literature, the free zones should be transformed into a suitable structure that will adapt to all changing conditions in order to overcome the obstacles that will reduce their functionality in order to ensure a successful performance. In this context, the study focuses on the dilemmas and challenges in the transformation of free zones in Turkey. Should these regions, which have the potential to generate public revenue, be excluded from taxation by providing tax incentives, and should / not be seen as revenue losses in terms of global trade prospects? Have these regions become/not the main source of imports? seeks answers to their dilemmas. The problem of the study is "Do these regions meet global trade expectations? What are the difficulties in front of global trade in particular free zones?" has been determined.

3. DATA AND METHODOLOGY

The study was designed in a quantitative pattern. The study was first presented to the Inonu University Social and Human Sciences Ethics Committee Unit, approved and accepted by the relevant ethics committee (Ethics Committee Decision Number: 2022/1-16, Document Date and Number: 07/01/2022-E.130499). The data used in the study were obtained by obtaining the necessary permissions from the Ministry of Commerce, General Directorate of Free Zones. The secondary data used in the research belong to the year 2020 regarding 17 Free Zones in Turkey. The data set is classified by country as the total trade volume. The data were analyzed by descriptive analysis for each free zone. The findings are presented in tables and graphics.

4. FINDINGS

The trade volume of 17 free zones in Turkey with different countries has been investigated. According to the findings, the free zone operating in the widest geography in 2020 is the Mersin Free Zone. Mersin free zone is followed by Aegean and Istanbul Industry and Trade (8.8%) and Kayseri (8.3%) free zones, respectively. Rize and Trabzon Free Zones do not show a global spread (Table 1). The trade volume of the regions according to the countries shows the levels of globalization.

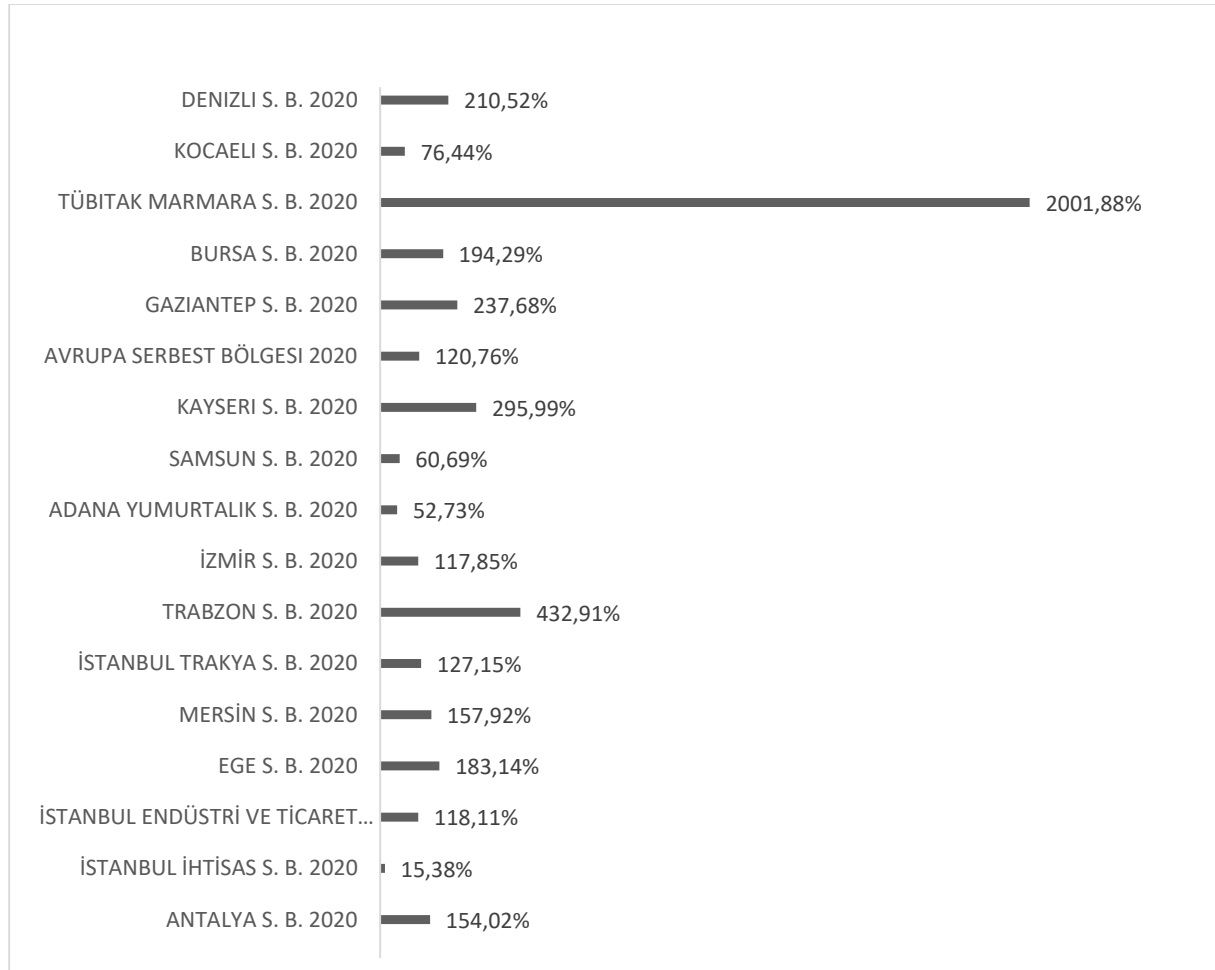
Table 1: The diversity of countries with which free zones trade in 2020

Free Zones	Frequency (N)	Percent(%)
Adana Yumurtalık S.B (Free Zone)	128	7,2

Antalya S.B (Free Zone)	104	5,9
Avrupa Serbest Bölgesi	136	7,7
Bursa S.B (Free Zone)	112	6,3
Denizli S.B (Free Zone)	39	2,2
Ege S.B (Free Zone)	156	8,8
Gaziantep S.B (Free Zone)	59	3,3
İstanbul Endüstri Ve Ticaret S.B (Free Zone)	156	8,8
İstanbul İhtisas S.B (Free Zone)	132	7,4
İstanbul Trakya S.B (Free Zone)	133	7,5
İzmir S.B (Free Zone)	113	6,4
Kayseri S.B (Free Zone)	147	8,3
Kocaeli S.B (Free Zone)	100	5,6
Mersin S.B (Free Zone)	162	9,1
Rize S.B (Free Zone)	1	,1
Samsun S.B (Free Zone)	30	1,7
Trabzon S.B (Free Zone)	5	,3
Tübitak Marmara S.B (Free Zone)	61	3,4
Total	1774	100,0

At the point of discussions about the regions being the main source of imports, the ratio of exports to imports has been examined. Export and import data for 2020 are calculated, and the findings are given in Graph 1.

Graph 1: The Ratio of Exports to Imports



According to the findings, the ratio of exports to imports in the Istanbul Specialized Free Zone was the lowest compared to other regions. Respectively, the import coverage ratio of the Adana Yumurtalık, Samsun, and Kocaeli zones is also low. According to graph 1, the zone with the best performance in terms of import coverage for 2020 was the TÜBİTAK Marmara Free Zone (Graph 1). TÜBİTAK Marmara Free Zone is in a successful transformation compared to other regions. It provides a significant ecosystem in order for companies using advanced technology or innovative companies to turn a technological invention into a commercial product, method, or service where they produce/develop technology or software.

5. CONCLUSION

Free zones need to be transformed into a suitable structure in order to perform successfully, adapt to dynamic conditions, and overcome obstacles that would reduce their functionality. In this context, the study focuses on the dilemmas and difficulties in the transformation of free zones in Turkey. Based on the dilemma of these regions, which are examined in terms of global trade expectations, like tax incentives and public revenue losses, and they're becoming the center of imports, it is aimed to determine the situation of free zones to meet global trade expectations and the difficulties in front of global trade in particular free zones.

An analysis of data from 17 turkey-based free zones based on the classification of country-specific trade volumes was done in the study. According to global trade expectations, the focus is on country diversity and trade volume level. In addition, the interpretation was made according to the ratio of exports to imports in the regions. At this point, it is considered significant to integrate them into high-tech industry transformation policies for a good performance. The transition of regions to an information-oriented structure was considered to be the main challenge.

The study basically has some limitations. Although country diversity is seen as a sign of globalization, the global trade expectation of the host country where the region is established is an increase in the export rate. However, since the country diversity analysis is made according to the trade volume, the countries where the import is made are also included. In this context, the ratio of exports to imports in 2020 has been examined, and it is aimed to clarify the debates on seeing free zones as the center of imports. At this point, in addition to the findings obtained, it is recommended to make studies that will provide deeper insights by observing free zones for more time, and conduct additional studies that will provide more evidence with free zones of other countries.

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