

taxation, which Turkey is negotiating at various levels, will provide a framework to help the enforcement of a confident climate for foreign investors in the long run.

#### Results Apparent

The favorable results of these flexible investment policies and promotion measures adopted by the Turkish government have been apparent in the direct foreign investment flow. The cumulative foreign capital which entered Turkey between 1954 and 1980 was only \$228 million, while the amount of foreign capital approved in 1986 alone was \$364 million. For the first quarter of 1987, the figure is \$143.7 million, representing a projected target of

from the public to the private sector to make the economy more responsive to market forces. Undoubtedly, in the defence field, and in cases where there had previously been a monopoly, there will be many opportunities for foreign investors.

In addition to the favorable atmosphere, the issue of free-trade zones, which are on the way to becoming operational, will obviously be an element of attraction for foreign investment. The Mersin Free-Trade Zone is already fully operational, and the Antalya Free Trade Zone will start officially this year.

A total of 68 foreign firms have already applied for Mersin and Antalya. Considering that there are 90 firms operating in Ireland's Shannon Free Zone, which was established in 1959, and 82 firms operating in South Korea's Masan Free Zone, which are among the biggest in the world, this figure of 68

procedures within the zone and greatly facilitate and speed user operations. Any authority given to the government agencies and municipalities regarding prices, quality and standards will furthermore not be valid in the free zones. This provision can be attributed to the assumption that entrepreneurs are rational beings and it is believed that they would ruin their own business if they did not conform to the requirements of the market.

Free zones avail long leases and the annual land lease cost per square meter is only 2 dollars.

## Free zones in Turkey

The Turkish free zones are capable of becoming the most successful free zones in the Mediterranean. This claim can be substantiated by the comparative advantages of the Turkish free zones mainly for two reasons; the natural advantages enjoyed by Turkey in the region and additional advantages arising from the free zone status.

Turkey is a stable country with a unique geographical location. She has reached a certain level of industrialisation and is endowed with a cheap and productive labour force. She is currently implementing economic policies that will encourage foreign capital investments.

Additional advantages arising from the free zone status are indicated by focusing on the subjects below:

- Free zone earnings of workers and businessmen are exempt from all kind of taxes, duties and fees such as income and corporate taxes.
- Goods brought into the free zone enjoy exemption from import duties.
- Income and revenues generated at the operation stage in the free zone can be repatriated or transferred into Turkey and other countries without being subject to any tax. Thus, such transfers are not hindered by the convertibility question or other bureaucratic procedures. Another advantage of this procedure is the im-

munity of capital and profits to changes in the domestic exchange and inflation rates.

- Credit is obtainable at reasonable rates from the Banks operating in the free zones, thus the cost of capital will also be minimised.
- The State finances the infrastructure system in the free zones.
- A predominantly private sector-based company will operate the free zones. This management model is thought to be more receptive and appropriate for meeting client demands. The share of the state sector in the operating company, on the other hand, ensures reliability and security to the zones' clients and foreign investors.
- Bureaucracy will be minimised because of the fact that a single authority is in charge of zone administration during the investment and operation stages. Except for the acquisition of operating licences granted by the Undersecretariat, the use of land as well as the design, construction and utilisation of the premises and installations within the zone shall be issued and supervised by Zone Directorates. Elimination of the engagement of national and local authorities in the above mentioned activities will reduce supervision and

procedures within the zone and greatly facilitate and speed user operations. Any authority given to the government agencies and municipalities regarding prices, quality and standards will furthermore not be valid in the free zones. This provision can be attributed to the assumption that entrepreneurs are rational beings and it is believed that they would ruin their own business if they did not conform to the requirements of the market.

- Free zones avail long leases and the annual land lease cost per square meter is only 2 dollars.
- Following the commencement of operations in the free zones, strikes and lock-outs for a period of ten years cannot be applied.
- In addition to all these incentives at the investment and production stages, the zone operators and client's can qualify for further incentives in case they are deemed necessary by the Council of Ministers.
- The zones are near ports and international connections and to the attractive cultural, tourism, recreation and entertainment centres of Turkey as well as to potential markets in the EEC and Middle-Eastern countries.
- There is no import limitation although many countries have a 100 per cent

per capita, calculated on the basis of purchasing power parities, is \$3,500. A high growth rate, twice as high as that of the EC average, will provide important opportunities.

Just to give an example, today the average EC energy consumption per capita is about 5,000 kilowatts an hour. In Turkey, this is 800 kilowatts an hour. If this figure could be increased even to the level which is half that of the EC's, this would be a striking development. Relatively cheap labor cost and geographical closeness to Middle East markets will be important elements for the European capital flow.

Encouragement of foreign investment will also help to reduce emigration from Turkey, which is a specific concern for some EC members.

By Altan Alpaya

restriction.

For potential investors, the Turkish free zones are the most attractive ones in the Mediterranean. However, the prime factor that determines the success of free zones is the availability of investors who are capable of generating a sufficient volume of business in these zones. The Mersin and Antalya free zones that are currently being established have passed this test with flying colours. Applications forwarded by candidate firms were subject to evaluation in order to identify the prospective clients of the free zones. Out of 701 firms which applied (68 foreign) 386 (38 foreign) were selected. Shortly before this, the zones clients began to acquire their operating licences.

These 701 applications submitted for the Mersin and Antalya free zones, reflected a three-fold demand for more land than available. However, as a result of consultations held with the applicants, the size of land demanded has been reduced. At the moment 41 applicants are on the waiting list and reserved land of limited size is available.

#### TURKISH FREE TRADE ZONES

For further information contact: Free Zones Directorate, State Planning Organisation, Necatibey Cad. 108, Ankara, TURKEY

Tlx: 42110 dpt tr.

pg. 4 NewSpod