

NEAR EAST UNIVERSITY

BA

BUS 400

**Business Planning and Strategies
Famagusta Free Port and Zone**

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AIM OF STUDY

FPZ is an important sector especially for developing countries. TRNC is one of these countries, and the economy of TRNC depends on Tourism and Agriculture in general. So FFPZ is an alternative sector that can improve the economic development partially.

In my thesis, I have researched the situation of FFPZ in the form of function, objectives, plans, and profits and cost for TRNC by comparison with host countries. Then I have tried to evaluate the capacity of TRNC in what form that can be useful.

INTRODUCTION

Free zones and free ports are special free trade zones but they are outside custom territories, which has direct tax advantages, free warehousing, tariff, quotas, fees and other types of barriers. Free zones are commonly the countries which have surplus production of commodities. FTZ is a mechanism that is used to attract foreign investment and business into domestic free trade zones, decreasing the cost of imports and exports and providing better and professional services. Through increasing economic and social welfare of country and domestic and international trade.

ABRIVATION

FFZ FREE TRADE ZONE

FP FREE PORT

FT FREE TRADE

FFPZ FAMAGUSTO FREE PORT AND ZONE

FTZP FREE TRADE ZONE AND PORT

FTP FREE TRADE AND PORT

INTRODUCTION

Free port and zone areas are placed into legal restriction but they are outside custom restrictions, which has direct tax exemption, free travelling, tariff, quotas, fees and other types of barriers. Free zones are necessary for countries which have suitable situation for establishing. FZ is a mechanism that is used to attract foreign investment and business into country for increasing export, decreasing the cost of import goods and providing funds and technological transfers. Shortly increasing economic and social welfare of country and international trade welfare.

Behind these main objectives also free zones are used for specific reason as avoiding illegal trade. For example although China is a close economic country, she establish this area for avoiding illegal trade into country. So this proves that each country can establish FZ.

The number of FZ is seen dramatic increase in last 35 years. In early 1970's was 131. In 1980 they increased 362 and in 1982, up to 406. Increasing is mostly seen in US with 50 FZ. Europe increased only 40 FZ. So all trading activities have increased with growing the number of FZ in the world.

After 1974, petro dollar appreciated improve commercial activities and parallel to this improvements, financial activities were had a big role on developing FZ's in all over the world.

The FTZ's are used especially by multinational companies and off shore banking enterprises in general. These companies are generally big and multinational. They engage in international business and their aim of using of FPZ is tax exemption, duty free, non tariff and quota applications. Near these objective, they can find low wage rate in that country and cheaper resources for their operations.

They are also some service sector with manufacturing off shore banking and insurance services. They sale their services for other companies in FZ's.

Free Ports is established in different forms one country to another cause of reasons, objectives and locations. In this thesis I will point out FFPZ with their objectives, activities, services, and their project for future.

1.1 CONCEPT OF FREE ZONES

Economic development is the most important factor for each country because development of countries are related to the development of their economy. So all countries in the world-wide know this reality and they try to improve their economy for better welfare and development. In the world some of countries are powerful with their economic structure. Differentiation between two power is their future and cost of themselves. The power of country is related with economic development, although country has a big weapon capacity or not. Cause of this is that arm and weapon power is provided by the economic and economy of country is a single source for this expenditure. GNP was a high level against the living standard in Russia. The reason of this is that GNP of Russia is expensed on arm power instead of people.

So, for economic improvements and developments, there are so many economic and politic consideration. FTZ is one of the economic application for partially improving the economy of the country. FTZ's have a big place on international trade, because they are mostly used by multinational cooperations for transferring their goods, decreasing the cost of production and sales cost.

Private sector has more profit than government from using FTZ, because they push their investment towards host countries which have FTZ, then shifting production from country to another effect the welfare of home country. Government losses from this situation are taxes, production capacity from shifted investment.

FTZ's are especially established in developing countries and this process creates the opportunities for improvements of developing countries economy. Development of a country means the development of an others because development of a country is related with developing the international trade. One of the main reason is cost of production in developing countries is less than developed countries in the form of electricity, water transportation, raw material, cheap labor. By all above and incentives for investors makes production cheaper in FTZ's in developing countries, then low cost of production increased the competition between the countries in international area.

Another important point in the case of international trade is that the closeness of the zone to the target market to operate it. For example, an English firm who targets to capture some market share in Middle East. TRNC is more suitable than France for production. Producing is more cheaper in TRNC than France FTZ. At least transportation cost is lower in TRNC even cost are constant.

FTZ's are also a laboratory of economy. Application of any economic policy could be observed and applied in FTZ and application of policy solutions can be easily observed in these area. After that policy could be used on home country, if policy solution is how it is expected. For example government has a project like giving any incentives to the investors and government can apply this policy in FTZ then solution of the policy implication is used for whole country. So, FTZ as a small country into the country.

In TRNC, any domestic investor can invest with presenting all feasibility study to Industry and Commercial Ministry and if feasibility study is found suitable for investment, investment is occurred. But process doesn't work similarly to foreign investments, if investment has 51% foreign share. Permission for investment is firstly evaluated by Prime Ministry then investment gets the position. In fact this situation is shown in the form of formality for researching foreign company. But the main reason is threatening of foreign investment power, which will take place after establishing to country. After establishing of a foreign investor to the country would be problem to country because government cannot throw the investor out from country. But FTZ can throw foreign investor from country after completing the deadline. This time is 21 years for manufacturing firms and 7 years for service sector.

What is the afraid of government from foreign investor?

Maybe this is not a question for a big country but it is for small countries as TRNC. Especially big foreign investor can change the economic structure of country in the form of employer and production capacity. We had been witnesses for this type of crises, although big investor is one of the TRNC investor. In Asil Nadir's situation,

TRNC got so many problems and economy had fluctuated even though its effects continue.

1.2 IMPLEMENTATION OF FREE ZONES IN THE WORLD

FPZ activities have started with existency of FC's firstly in Europe before the national state. FPZ, has past from so many steps for placing current position. Although exact dates are not certain, the implementation of FC started in Karthaca and Shurcities established in East and North Coast of Meditteranean. Lter on similar implementation has started in Rodos, which was a commercial center at that time. These cities were known with their commercial success in the world trade and were the first implementation of FZ's.

Countries where the capitalism was exist with the development in sea transportaion and commerce have been established large trade cities. Rodos is one of these commercial city, because of its location in middle Mediterranean Sea. Rodos become a very rich city with her transit transportation. We examine that, it exist some proofs relating for renting of warehouse with this respect island become an important stage in the international trade area.

Middle-age in developing FPZ's helped for establishing closr relations between east and west have results developments in the sea transportation. We see that FC's implementations started by the destroyment of Roman Empire.

In the new age, the ideological changes has affected the commercial ideas of nations in the 15th century. In to this perod central authorities by establishing national governments had become more powerful and they made the first foundation of a system known as merchantalism between 15th and 18th century. In this time period government took serious custom regulation and measures in order to prevent their national economy. On the other hand, some cities established in the important ports were permitted to continue their activities.

Near age, can be evaluated before and after 1950. Before 1950, FPZ reached their actual position like in Europe now. After first world war, FZ's implementation raised up for decreasing pressurize of 1929 economic crises.

After 1950, as a result of the industrial revolution which took place at the second half of the 19th century. The rapid capital saving in industrial countries have forced big cities to search for new investment areas. This resulted the multinationals to play greater role in the international markets with accumulated capital. For the developing countries to meet demand of international market and to recude balance of trade deficit, the FZ implementation was unavoidable. The first FZ was established in Shanon Airport. Ireland 1958, and in Taiwan 1960 in the form of EPZ (1).

1.3. TYPES OF FREE ZONES

As I mentioned before, FZ's are used for different aims from one country to another, but there are may be more than one segment involved in the FZ's. So we can evaluate FZ's into 6 parts. Then we can more easily compare them in the form of good or bad for TRNC, if they are established one by one.

A- Free Production (Export Processin) Zones

This type of FZ engage in exporting all production in this zone is free. These are the main investment areas of the multinationals are labor incetives. These zones are not subject to custom duty and sometimes the investors are given free opportunity to invest

B- Free Trade Zone

These areas are established by government for free trade purposes. These areas are outside of custom boundaries, and they are divided into two parts.

(1) Gursoy, N, Famagusta Free port And Zone, EMU, 1991

i- Clos Free Zones

There is not boundaries of the host countreis, but activities in free zones are limited by government legislations and regulations. Activities and all operations are occured under certain events. The kind of free zone depends on law on free zone.

ii-Open Free Zone

Second type of zone is vis-a-vis of close free zone. There is not limited and, this area is outside of custom boundaries of the host country. Trade in this zone is occured freely.

C- Maquidolars

This is an unique kinds of free zone because there is only on the US and Mexico border. The goods are producted in this area for expoprtng only to US. There is not subject to custom duty.

D-Free Ports

This type of free zone can be established into any ordinary port as in FP situation and they are established for free export, ,mport and, transportation activities. The activities are either exemted or minimised by government regulation on these area and this application of custom duties change one country to another. These are depends on economic, geographic structure and also political policies of countries. This type of areas have biggest share in free zone segment in world-wide.

E- Free and Off Shore Banking

In this type of area the regulation, or low of banking in host counties is not considered and applied. The main reason of establishing these areas are providing many circulation in international level and their service is cheaper for firms in FTZ because there is not income tax on their services.

F- Insurance Zones

They are exist in very low amount and they are established in certain places. Insurance zone can be also established with other zones and their purposes insuring the activities of firms in FTZ (1).

1.4 IMPLIMENTASTION OF DIFFERENT TYPE OF ZONE IN TRNC.

Implementation of all zones in a country is very difficult, because there is conflict on causes of establishing and structure zone.

First of all, goverment has to analise the structure of economy, geografigal advantages, and competitiveness ability other host country. Then, also has to complete the neccesary requirements of investor in the form of incentives and construction, which are used in businessoperation as electricity, water, stores, communication line, burocracy and, etc. TRNC has a suitable structure for different type of zones. TRNC does not available for only maquidolar type of zone. This type of zone was established only between US and Mexico, cause of economic reasons between the two countries.

(1) Iskender, SENGEZER, "Serbest Bolgeler"
IGEME Pres, 1983 p.p.4

2.1 EXPECTATIONS OF INVESTORS FROM FREE ZONES

Expectations of investors is most important speciality of FZ's sector, because Zones are established for especially foreign investors and investor decides investing on this area in the way of expectations from host country. Investors look for best zone which is mostly consider their expectations. So governments try to complete and fulfill the expectations of investors from zone. This is also very important for development of zone, because if all the expectations are fulfilled, the investment on that are raised up that amount.

MAIN EXPECTATIONS OF ONVESTORS FROM FTZ

- Electricity, water, roads and, sewage are main needs of investors in zone because electric, water, road and sewage play very important role in their business.

- Possibility of communication and transfer are the speciality of technology in this century. Communication is the heart of business development. This is provided by telephone, telex, telefax channel in the business life. Transportation is one of the bussiness segment in FZ. The channel of transportation must be provided as much as investor requirement.

- Store house, antrepo, warehouse, and manufacturing plant are the place that are used for preventing, stocking and operation places of FZ.

Container Areas developes with development of FZ. Container is more safety and easy transportation in the transportation process. The loading and unloading problems are minimised with developing this transportation system.

- Burocracy is never liked by investor. It becomes very hurt dealing for investor. It makes late all business activities and decrease the productivity of people. So low burocracy and fast operation in the process must be the principle of investors.

Tariff, rent, taxes are another specialities of zones. These components are the most attraction speciality of FZ for investor. Firstly these components are considered by investor in their investment decision.

-Rate of exchange policy and foreign exchange activities has to be taken into consideration, because all the payment is given into foreign currency and FZ is the international market therefore foreign exchange is the part of this market. The allocation of foreign exchange policies must be arranged according to international market.

-Political stability is considered by foreign and also domestic investors in country. Political stability is going in parallel with economic stability because political fluctuations generally leads to change in economic policies as seen in Turkey after the selection. Political reason is observed by investor for investing on stable economy. TRNS is one of the good example for this situation because there is not political stability and the future of country is unknown. This situation threatens the investor for investing on TRNS. - Stipulate for investors: limitation on funds and employment situation is most probably established into some restriction. This restriction has to be in competing the funds and employment requirements for investment.

-Profit transfer right: Investor always wants to use his profit how he wants because he thinks that this is a natural right of them. This right was given by FFPZ to all investor.

2.2 FACTORS AFFECTING THE ENTERPRISES OF FTZ'S SUCCESS

To be successful depends on some main factors as below:

a. Tax Advantages:

This advantage is the most important factor on FTZ success. When we consider applications in the world, we can see that tax is the most important factor that affects the profit margins of firms.

b. Foreign Exchange Incentives:

Foreign exchange is also important for carrying activities easier because FTZ is an international market and activities of this market is easier with foreign exchange incentives.

c. Environment of FTZ:

FTZ is not available to do their activity without a considerable environment. There must be financial and commercial center around FTZ. Bank is an example of this environment which must be exist around FTZ.

d. FTZ has to provide communication line, all transportation channels, appropriate man power, technical condition and social services must be attractiveness.

e. The management team has to get political and managerial stability in governing FTZ. Changing rules and regulation in FTZ avoiding and threatening the development and investment to FTZ.

2.3 THE LEVEL OF FFTZ SUCCESS

FFTZ is forward in the tax exemption. There is not taxation in the form of income tax and corporate tax under 41/44 regulation. Provided that any income derived from the export of goods and services to TRNC other than goods and services manufactured and rendered in the FPZ and exported TRNC shall not be included in such exemption.

Foreign exchange easiness are provided by FFTZ as all payments by natural person corporate bodies, all fees, all charges for services rendered, all salaries and wages, all rents and royalties and all other charges payable under the legislation for the time-being in force, shall be paid in foreign currency of internationally valid convertibility other than Turkish Liras and Cyprus Pounds. The payments in question shall be paid out of an external account to be opened by them preferable in a bank operation within Free Zone or in the absence of such a bank in a Bank operation within

the Free Zone, or in the absence of such a Bank in a Bank operating withing TRNC.

FFTZ weakness on providing communication line, transportation channels, social service and technical conditions. Communication line is not still established depends on investors requirements. Transportation channels is no sufficient, because there is not sufficient flying service, shipping service, burocracy is an other problem in transportation, because same applications are use for goods which are exported and imported. The goods are controlled in the airport and in FFTZ, although goods are transported under the controller. This situation increases the cost of transportation, because investor pay the money for services and also late of transportation is and extra cost for investor.

Management stability is exist in FFTZ's. There is not frequent regulation changes every year on the management policies in FFTZ.

3.1 STRUCTURE OF FAMAGUSTA FREE TRADE AND ZONE

3.1.1. LOCATION

The Turkish Republic of Northern Cyprus (TRNC) covers the Northern part of the island of Cyprus which is situated in the Eastern Mediterranean at a distance of 64 km to south Turkey. 96 km west of Syria and 400 km north of Egypt. The part is located at the cross road of east-west and north-south navigation routes and three continents. Because of its advantageous location at these crossroads, FFPZ is an ideal place for foreign investors. FFPZ is within the bounds of Famagusta which is second major city in TRNC. FFZ and FFP are suited on the Eastern Coast of the TRNC at a position.

(1)

LAT 35 07'N

LONG 35 56'E

3.1.2 ESTABLISHMENT

The concept of FZ in Cyprus has been considered firstly in early 1970's. But as a result of peace operation in 1974, the idea of establishing a FTZ in Famagusta had to be delayed until 1977. The government of TRNC in 1977 (then TRNC) has passed the act 14/1977 and therefore approved the establishment of FZ and FP 519000 sqm in Famagusta. It was commenced functioning in 1978. The FFP and zone was completely financed by the present government of 1977 and was mainly divided into two parts as a free port and free zone. In both of these units the passport, custom, foreign exchange, tax and foreign trade regulation of TRNC are not applicable.

3.1.3 THE OBJECTIVES OF FFP AND FFZ

The objectives of FZ and FP are not so different. The objectives of FZ and FP are approximately the same. These objectives mainly are increasing the amount of exports, making cheaper imports if possible, transferring of foreign capital and technology possible from outside to N. Cyprus increasing employment (decreasing

unemployment) through establishing new working fields, therefore to increase the contributions to the economic development process of the country by increasing the foreign exchange inflow and finally in the fields of politics, helping TRNC to be recognized. (1)

3.1.4 ADMINISTRATION OF FFP AND FFZ.

Famagusta FP and FZ's Board of Directors are formed by the representative of Ministry of Finance and Ministry of Tourism and Transport. The head of the Board of Directors is from the Ministry of Trade and Industry. The managing director of FFP and FFZ is also a member of Board of Directors. All the decisions about the zone is taken by this board. In other words there is not independent management structure. Therefore the decision has to go through government which is unlikely in other countries. (1)

3.1.5 PERSONNEL OF FFP AND FFZ

In both free port and free zone there are 77 personnel presently working in security department, administration, accounting and in storage and crane units beside of these:

Employed by administration day labor : 5

Employed by the Cyprus Turkish Port Workers Ltd.: 20

Employed by the investors in the area: 170

Therefore the daily average of 272 personnel are working (1).

3.1.6 INCENTIVES FOR INVESTOR IN ffpz

1- Both from inside and outside of N. Cyprus, other goods can be brought into the FFP and FFZ. These goods can be stored in opened zone in store houses of the zone or in the ware houses of companies that are rented from FFZ and constructed by

(1) Directorate of FFTZ, Annual Magazine, 1992.

the investors. The goods that are brought can be re exported either as they are, or after they are processed beyond, these goods can be used in sort of production, constraction or for repaair.

2- On the goods that are brought into FFP or FFZ, repair mounting, or demounting process can be done.

3- Any sort of industrial maniffacturing and transit trade activities can be done in the FFP and FFZ.

4- All survey, banking and insurance services can be done.

5- Any kinds of sea transportation means can be constructed, repaired, mounted, and demounted in the FFP and FFZ.

6- The other activity that are not listed above can be done only if they are approved by the cocil of ministers.

7- All the activities under taken by the investors in FFP and FFZ are not subject to the custom duty.

8- In FFP and FFZ passport, custom, foreign exchange regulation are not applicable.

9- The incomed gained from in FFP and FFZ are not subject to income and cooperate tax.

3.1.7 THE CHARACTERİSTİC OF FFPZ

A- Free port is divided into three as; Quay, Close Area, and Open Areas covering 89363 sgm.

i. Quay

The quay is between 35 07 North paralel
and 35 57 East Longitude

Length of quay: 415 meters

With of area: 250 meters

Length of area: 450 meters.

ii. Closed Areas

Closed store	No: 1 (UNI-PAC)	5815 sgm
Closed store	No: 2 (FZ-STORE)	3978 sgm
Closed store	No: 3 (NEW)	3892 sgm
Closed store	No: 4 (HUBERT SCHARFE)	140 sgm
4 Private officies		600 sgm
12 offices		600 sgm
WC		60 sgm
Point		25 sgm
Scale		50 sgm
TOTAL		51160 sgm

iii. Open Areas

Asphalt areas	25935 sgm
Asphalt roads	19800 sgm
Stabilised areas	28468 sgm
TOTAL (*)	74203 sgm

(*) Source: FFPZ, Annual Report, 1992.

B- FREE ZONE

Free Zone is divided into two sections for its infructures and specialities with the total of 429667 sgm with the width of 500 m and with length of 980 m.

Total plots to be rented : 85

Total area of plots to be rented	279791 sgm
Administration building	2883 sgm
Parking lot	9616 sgm
Road and pavements	56873 sgm
Old house and garden	7360 sgm
Establishment of overland road	3740 sgm
Area of plots along the shore	32850 sgm
Green areas	36544 sgm
TOTAL	429667 sgm

Source: FFPZ, Annual Report, 1992

out of the 85 of 279791 sgm plots, 51 of 149125 sgm is currently being rented and 34 of 130662 sgm is free.

3.1.8 THE SERVICES PROVIDED IN FFP AND FFZ

A- Free Port Services

All those ships that comes to the FP in order for loading, unloading, or for making a stop, or event the agent of any shipping company have the following services by the application of the FP directorate

- Pilot / Romorkaj service
- Hawser motors services
- for the security survey services

The Directorate of FFPZ provides these services with accompany of Famagusta Port Office.

B- Storage Service

The goods that are brought to FFPZ can be stored either in warehouse or in open sheds within the border of FZ. The storage procedure indicates that the goods which are stored in either closed or in open sheds are not subject to any storage charges for first seven days.

C- Workmanship Services

Depending to demand the cargo owners, FFP Directorate demands workers from the Cyprus Turkish Port Workers Ltd. for loading or for transfer of goods. Cyprus Turkish Port Workers Ltd. provide necessary number of the employees to the FP area.

D- Crane and Forklift Services

For loading, unloading, or for transfer purposes FFPZ Directorate is capable to provide sequices for 24 hours with the existing capacity. These services are also available for the conventional part as well.

E- Rental Services For Land and Officies.

The investors who want to rent officies or plot belonging to the FFPZ has to apply to the FFPZ Directorats and state the type of work and site they want to do business in. Together with the board of directors, the head of the FFPZ considers the application one of the copy of the application is sent to the Ministry of Trade and the other is sent to the government planning office.

3.1.9 THE INFRASTRUCTURE OF FFPZ.

1. 1981	Building of 4180 sgm of store	22660108
2. 1981-83	Builging of 1380 sgm of road	42298000
3. 1982-84	Building of 600 sgm officises	15660108
4. 1983	Building of two power generations	-----
5. 1985	Building of 500 sgm asphalt	17823872
6. 1985	Building of car scale	15475120
7. 1985	Building of 15000 sgm asphalt	44118000
8. 1986	Building of 9650 sgm asphalt	35587275
9. 1986	Repair of shed roods	28936461
10. 1987	Building of rooms for power stat	8800000
11. 1989	Shed construction and 1000 m road construction	175000000
12. 1990	500 m road construction	148000000
13. 1991	500 m overland road asphalt	146000000

3.1.10 THE EQUIPMENTS, LOADING CAPACITY AND OF THE INVESTMENT IN FFPZ.

FFPZ Directorate currently owns the equipments that are named below and is ready to provide services for 24 hours.

(*) Source: FFPZ, Directorate Annual Report, p.9

<u>TYPES OF EQUIPMENT</u>	<u>LABEL</u>	<u>LIGHTING CAPACITY</u>
1.Forklift	Fiat	40 Tons
2.Forklift	Lunching Hermes	45 Tons
3. Mobile crane	Coles (electric)	17 Tons
4. Mobile crane	" "	17 Tons
5. " "	" (hidrolic)	15 Tons
6. " "	" "	20 Tons
7." "	Demac MC (hidrolic)	36 Tons
Total lifting capacity.....		149.5 Tons

3.1.11 THE INVESTORS AND INVESTMENT AREAS IN FFPZ.

A- Currently functioning companies.

1. Sezai Turkes and Fevzi Akkaya	Machinery meintenace and repair
2. Uni-Pac Packing Industries Ltd.	Pasteboard manufacturing.
3. Germenes Industry and Trade Ltd.	Industrial Manufacturing.
4. Mediterranean Impex	Duty Free Shops
5. Naval Enterprise Ltd.	Duty Free Shops
6. Adem A. Kaner and Borthor Ltd.	Duty Free Shops
7. Gani Ltd.	Duty Free Shops
8. Alba Holding	Transit Trade
9. Hubert Shaffer	Transit Trade

10. Borusan Construction Material	Transit Trade
11. Alfer International	Transit Trade
12. Sadallah Hababa	Transit Trade Leather Processing
13. Snowball Ltd.	Textile
14. Automotive Trading Ltd.	Car mounting and demounting
15. Serdar Leather	Leather Manufacturing
16. General Store	Transit Trade
17. S & G International	Transit Trade
18. Yousuf Abdo Kesservani	Transit Trade
19. Continental	chemical Plastic
20. Mohammed Ibrahim H.L.E1 Mohanna	Transit Trade
21. Mohammed Walis Hababba	Leather Manufacturing
22. Mahammed Hababba	Leather Manufacturing
23. Tespa Electronic	Transit Trade
24. Apple Trading	Transit Trade
25. Ataksu	Water Bottling

B- Companies Who Have Constructs But Not Functioning Yet

1. Wear Well Cyprus Ltd.	Textile
2. Star Electronic Cyprus Ltd.	Electronic Manufacturing
3. Meltem Tourism & Transport	Transit Trade
4. I.G.S. Cyprus	Transit Trade

5. Bolero Trading Transit Trade

6. Sen Oz Ltd. Transit Trade

7. Ulug Ltd. Transit Trade

We can point out from above tables that the FFPZ is more likely to serve to local companies instead of surviving to foreign companies. This situation of course proves that the FFPZ is diverted from the main aim of attracting the foreign capital and transfer of technology to N. Cyprus.

3.1.12 EMPLOYMENT STRUCTURE OF FFPZ

Existing employment amount is cerated by FFPZdirectorate and firms in FFPZ.

1. FFPZ Drectorate

Parmanent Staff 77 person

Day labor (daily average) 5 person

Cyprus Turkish port Workers (Daily average) 20 person

2. Sezai turkesh & Fevzi Akkaya 5 person

3. Uni-Pac packing Industries 120 person

4. Germener Industry 5 person

5. Offices, Transit Trade and others 40 person

Total (Daily average) 272 person

The employment number is not sufficient to say that FTZ contribute to employment structure of TRNC economy. So FFTZ can not complite it duty on employment.

3.1.13 THE CARGO AND SHIPMENT IN FFPZ

The load that arrives to the FFPZ is mainly composed of Rolle paper, Chemical fertiliser, Heavy industrial machines, galvanized pipes, bulk iron, ceramics, marble timber, 20 and 40 feet containers and other general goods. The load that leaves from FFPZ is mainly composed of manufactured pasteboard, chemical fertiliser, heavy industrial machines. The total of load inflow and outflow and the total of ships for last three years are follows.

<u>Year</u>	<u>Load Inflow</u>	<u>Load Outflow</u>	<u># Ships</u>
1989	26959	Tons 25456 Tons	31
1990	23579	Tons 28589 Tons	38
1991	81485	Tons 81105 Tons	95

We can see from table that there is very big increasing at export in 1991, although Gulf Crises was been during this period.

3.1.14 THE NET FOREIGN EXCHANGE CHANILIZE

Foreign exchange are generated from the existing of their activities as follows.

	1989	1990	1991
1. FFPZ Contribution	799762	657648	625570
2. Employment Contribution	1600000	1231859	93729
3. Others Contrubution	500000	3190000	139284
TOTAL(*)	2899762	2208707	1704583

(*) Source: FFPZ, Annual Report, 1992

There is contribution between export and foreign exchange canalized to FFTZ. At one hand there is increasing the export and on the other hand foreign exchange decline from 2.2 million to 1.7 million. The cause of variance between export and import depends on two factors. The first factor is barley export. In 1991, there has been a huge amount of barley export. But, this huge amount did not give too much profit for FFPZ, because the owner of barley was government and loading of barley was done by machines which do not need employer and loading is occurred in very short time. The charges on this export is not as much as other goods export. The cause of this high increase in export depends on this situation. The second reason was Gulf crises for variance in foreign exchange canalise and the Asil Nadir crises. Especially Asil Nadir situation is one of the main important factor for this variance. UNI-PAC had a long strike in 1991. One of the part of foreign canalise is the payment of investor to employer. Then the export stopped during this strike. All these factors create this variance.

3.1.15 THE CASH FLOW (FLOW OF INCOME) OF FFPZ

Income of FFPZ from its service to investors as follows based on last 2 years.

Types of Services	1990	1991
1. Import and Export		
Wharfage Dues	87342052	101 5610325
2. Rent a charges		
for Antrepo and Warehouse	545718628	822817406
3. Tax on ships and port	22904148	173642725
4. Land rents	441753854	360877334
5. Employment Services		
Load and unload	603607868	863501387

6. Overtime charges	66902709	80321885
7. Income from forlift etc.	1245029770	1404793998
8. Place of Approval revenues, documentation	71859655	102513511
9. Delay compensation	23921215	78671917
10. Scale revenue	14259045	843968
11. Other	-	545651212
TOTAL	3124303944	54492245668

Source: FFPZ, Directorate Annual Report, 1991.

Developing of all activities of FFTZ can seen from its Income increases in a year. Income increases in a year but this increasing in real is not significant because depresiation of TL is more than 57 percent againts US\$. So, this increasing is not significant, if we show the income of FFPZ in TL. So foreign exchange chanalizing tablesupport this situation in FFPZ income (cash flow) from its' service.

3.1.16 PAYMENT SYSTEM OF FFTZ SERVICES

A- Payment Mechanism

Payment on wages, sales, tax, tariff, fees, penalties and payments or goods and servieses are charged under the law of FFPZ for mayment procedurs. All the payments are paided with the all convertible foreign currency without Turkish Lira and Cyprus currency. There is also possibility of payment in the form of TL with proving that exchanging foreign currency in one of the TRNC bank.

B - Payments Duration:

Payments for wharfage dues and warehouse rent have to be paid before withdrawn goods. Celtificat payment must be paid at the time of certification. All payments is

paid after receiving the receipt into 15 days. There is penalty for delaying the payment after 15 days. For the first month this delay compensation is 10% and following each month this percentage increase by 5%.

C- Fees, Charges, and Tariffs

1- Annual rents for factory building sites vary from US\$ 2.00-2.50 per sgm. The leasing agreements initially are made for 21 years and may be renewed for an additional two terms. Business offices can be leased for seven years and may be renewed for an additional two terms.

2- Storage charges (per or part, thereof; per day or per paid thereof)

i) For cargo in store and/or warehouses

General cargo US\$ 0.20

ii) For cargo in open shacking area.

General cargo US\$ 0.10

Bulk cargo US\$ 0.05

iii) Containers (per day)

Empty container US\$ 0.25

Full container US\$ 0.75

iv) Short term renting of areas

per sgm US\$ 0.50

Source: FFPZ, Annual Report, 1992

4.1.1 OPPORTUNITY OF OFF SHORE BANKING IN TRNC

1- Concept of off shore Banking:

At the beginning of 1973, world had petrol crises and after this crises the structures of financial relation is changed and placed a different condition. After this petrol crises economic fluctuations and, problems gives importance for financial sector raised up on national and international level in world-wide. Nowadays financial activities played most important scenario for economic life in the world.

The competition is seen at each sector as commercial trade, industry, and thecnology. This competition is also as much as important in financial sector. Then, there is trying for providing more heavily competition on this sector. There is two reason for providing the hurt competition on financial sector.

a- Easyness for financial needs.

b- This implies the mor attractivnees on FT areas.

On the other hand, in last 10 years, increasing the compitition power of East West and Far East tended to improve the off shore financial "center". This situation has leaded to developing these areas.

We can define off shore banking as a free banking activity, being excluded from the law and regulations organised for banking sector of a country (1)

Off shore banking is quite flexible or sometimes free in certain subject matters.

a- Obligation for adapting the rules of goverment in credit availability thecnics.

b- Restrictions to possess foreign currencies.

c- Tax and expenditure changing methods after the banking services.

(2) I.A.V. Seminer on march FZ, reha POEOY lecture, 1987, pp:139-140

(1) Iskender, Sengezer, "Free Zone" Export Development Center, p.p 91

Off shore banking is not restricted with only carry on there activities only in FZs. They can also make business as a on shore banking.

All the money used in off shore banking is existed in legal ways from the country. But other side of coin is not so shining, because the earning from the legal activities such as, international drug trade, tax smuggling, can easily go outside. The country with this way governments took always after this money in order to not let exist. There is approximately 8 trillion dollars in the reservoirs of off shore banking. So it shows that reservoirs of off shore banking is not accepted as a small amount. (1)

Free Banking Zone is not similar with the offshore banking system, because purposes of them is not similar. FBZ serve to only FZ and has a special taxation policies operating for trade, production and service purposes and benefit from all FZ incentives but FZ can practice off shore activities than FBZ and offshore banking complete each other. (1)

Off shore banking unfortunately is not established yet. The political reason is the main important factor that plays role on the situation, because off shore banking system needs the stability especially on politics. It is unknown that how much off shore banking will be satisfactory or successful in TRNC but with the elimination of political uncertainty of TRNC, all the money surplus will easily flow to TRNC banks and into the FBZ from East-West country. Off shore banking will also help to recognition of TRNC in international trade.

4.1.2 ECONOMIC AND FUNCTIONAL PROBLEMS OF FFPZ.

FFPZ has provided very good incentives which is not given by all FPZ in the form of taxation, tariffs, foreign exchange, fees and on other factors but there is lack of requirements for reaching better development in FFPZ. We can define these main requirements as below.

(1) Opcit, Engin, Erdogan, p.47

- 1- Lack of underground: Investment in the form of sewage, road.
- 2- Electricity; 50% of electricity constructing is not completed yet. There must be continuous electricity in the port.
- 3- Water: There is not sufficient spread power on main distribution water mechanism and some place of FFPZ provides water needs with water tankers. The directorate building is included in to this area.
- 4- Communication: Unfortunately, it is not sufficient for any FPZ. Especially in rain days defects are increased then communication line is completely provided by wireless.
- 5- Low quality on port services: Mechanic part and employment which is used on loading, unloading and carrying decreased the productivity of FFPZ. We have not to forget that carrying is a linear type. Ship owners have a price on transportation in the form of m^3 or tone in mediterranean countries. They have cost even they cast in port or during the moments without loading and unloading cost. For this reason loading and unloading are very important for the time being. No one of owners of ship or agent makes business for only name of FFPZ. So this disadvantage of FFPZ let its investors or customers to other host countries. Cause of this reason FFPZ has to increase loading and unloading capacity in the form of tone or m^3 . We can clarify this situation as an example. If daily cost of ship is 3000\$ and cost of transportation is 5000\$. If we unload this ship in two days, that ship doesn't use FFPZ. so time situation is very important for the transit transportation.
- 6- Bureaucracy difficulties: Foreign banks and insurance agencies are not approved by FFPZ, although this approval exists under act 4.

Although off shore banking system can come to TRNC, it is not established in FFPZ. This situation negatively affects the financial fields. However, FFPZ is more interested with off shore banking system in the form of completely or least tax exempt, uncontrolled profit transfer. The most important situation is in this event that law does not make nationalized.

The firms and agencies in FFPZ. After completing 21 years agreement between firms, agencies with FFPZ is ended. So FFPZ can throw firm or agencies from FFPZ with using the agreement rights. This situation creates the conflict with the aim of FFPZ. And investors are very sensitive on stability in FFPZ.

7- Customer prevent the transportation of goods from Ercan air port to FZ and from FZ to Ercan air port. For example if any good is going to be sent to a foreign country, it is packaged and transported under the control of FZ customer. Customer who is in Ercan air port opens these packages and goods are packaged again. All these increased the cost of transportation and disturbs investors.

7- Employment existence: Above the necessary number of employee avoids the development, because current expenditures are difficulty factor for development. As known that in Cyprus the excessive employment is exist in every public sector.

8- FFPZ tariff must be lower than other host countries because we have to consider the political problem, we have to eliminate this political instability with tariff applications.

9- Marketing and introduction: There is lack of points on marketing and introducing in TRNC. Each public sector make their own marketing and introduction but this is highly cost for public sector and unfortunately public sector does not know the value of this high cost for marketing and introduction. Even though representatives can not provide this need of public sector because the staff of these representatives are changed every year and stability is not exist. These staffs try to only introduce political situations. They don't consider the economic introduction at outside for example no representatives tried to contact with FFPZ.

10- Experience and knowledge capacity: This is a lack of important factor at each public sector. The education is not given as necessary. This situation does not motivate people on their job and lack of experience, knowledge makes people as robot and they do their job without motivation and efficiency. At the end, people has not belief, knowledge responsibility and making power of their job. This situation is exist in FFPZ. There is not motivation for employer to be more productive.

Source: FFPZ directorat report. Mehmet OZTURK, 1991.

11- Staff situation is stable: Employer in free zone dose not fel in trust himself because in last two years, employers were lay out from their job for a shor term and then they are accepted to their job. The reason of this is avoding employers for being permanat worker because employment will be higher then todays.

4.1.3 THE POSITIVE IMPACTS OF FREE ZONE TO THE HOST COUNTRIES ECONOMY

Positive impact level of FZ depends on their types because each types offZ has different impact of economy. If we generilized FZ impact on ecanomy we candefine as follows.

- One of the aim of FZ are expansion of trade incountry with attraction of foreign investors to these areas.

- Expantion of economy solves employment problem in TRNC. For this reason, employment has to be taken from the host country. This situation is developed with the developing of FZ.

- Foreign reserve is an other contribution of FZ for the host country. This provesthat why convertible foreign currencies are used in all payments. All the payment on services such as renting, warehousing, antrepo, labor service and paper work are source of foreign reserve of FZ.

- As a result of activites undertaken in the free zone, the "value added" will also give rise in the host countrie's economy since the electricity, water, employees and other services inputs of production are provided by the host country. This matter should be in the way to increas the "value added". (1)

(1) Gungor, Hasan, Free Zone In The World And The Case of TRNC And Hong Kong, EMU, 1991

-Transit trade is increased with FFPZ in TRNC because one of the using areas of FZ are for transit trade. The warehouses, open area are used for this purposes. The goods are waited and stored in warehouses and open zones, then these are transfered to an other countries.

-FFPZ also helps for domestic goods exports. Especially public goods are exported from FFPZ and FP provide direct export opportunity for public goods.

-Parallel to increase in foreign capital in FZ transfer of technology will also increase. This will lead to an increase in the value added and will also encourage the domestic producers. The important points here is the use of this new technology in the national economy. In other words, efforts must be spent on increase of knowledge and skills of entrepreneurs, and employees. The use of unskilled employees in FZ will not create the expected expansion. So employees education and skill development will help to transfer of technology to accelerate.

-FFP also used as economic laboratory. Any new business or investment can be established FFPZ and the impact of new investment is analysed. Therefore, if a new investment provides development opportunity for country. It can be also established without FFPZ. Otherwise this investment is thrown after contract deal line.

-FFPZ helps to improve other sector in TRNC. Transportation sector is one of this. Developing this sector is partially developing the FFPZ, because the capacity of transportation will parallelly increase the export.

RECOMENDATION AND CONCLUSSION:

Cause of selecting this project is that FFPZ can be the locomotive of TRNC economy, if it is considered as much as it needs. This sector is one of the public sector that provide it's financial funds itself. This is very important factor for measuring it's success, because other public sectors deficit is closed at the end of year by government with using other public sector or by other resources. There is not government intervention in the form of financial supporting. So planing is very important for FFPZ because FFPZ does not trust to government to support any projetc implimentation, therefore FFPZ has advantage on sucesing or apply their plans because they have to finance their projects implimentation by their sources.

One of the conflict here that some government interventions make difficult the application of plans, because some political causes as taking more employees than needed and some regulation avoiding the development of FFPZ.

The lack of insurance company, consulting and off shore banking in unfourtuntly restricted to be established in the FFPZ. There is very big conflict point with the aim of FFPZ and the regulation which are applied for FFPZ. These service sectors are one of the FFPZ specialities and government restrict this aim of FFPZ.

During my profect study, I have seen that there is not trusting of government on public sector, because one of the good example for this is the controle of expot or import procees from FFPZ and Ercan. Although this two sectors are public sector, regulations shows that there is not government trust on each public sector and one of the government institution controlls other, so this shows us that this type of events always create burrocracy for investors and prove that goverment does not trust its staffs.

First of all government must trust to that FFPZ is one of the main locomotive sector that is going to improve the development of TRNC economy. Then some regulations mus be re-evaluated for providing conditions to diffrent types of service sector and incentives on the investment would be better, although FFPZ incentives are suitable for investors. But one of the important point must be remindd always that TRNC is not dveloped as other host country and political situation of TRNC one of the

difficulties for economic development and economic structure of TRNC will be better with the foreign investment of FFPZ.

Development of FFPZ means that development of TRNC economy. We can define this situation with thinking the industrial problems of TRNC and how the development of FFPZ is a solution of these problems. The main problems of industry are financial funds, transportation, know how, quality worker, unstability on quality and price of goods, competitiveness, lack of infrastructure, marketing and introduction, energy. So FFPZ can be the solution of all these problems as foreign investment means more financial funds and increasing export, import is going to improve the transportation for providing the capacity that is needed, then establishment of new factories implies the know-how with educating employees in these factories, then this is going to chose the quality of workers problems. The other factors that foreign investor has already link with other countries and they can also purchase factories which are not in operation. Therefore foreigner's has already market and they can make these factories in to manufacturing. Than also marketing and introduction can be provided by foreigners. The lack of infrastructure will has to be completed for providing the needs of foreign investors.

Government also has to pay attention on introducing of FFPZ in to international. This situation is not seriously considered by government. There is two way of introducing FFPZ in the world. One of this is foreign investors and other is representations of TRNC outside and FFPZ in TRNC. This two way has to be used in the way of introduction of FFPZ. There is lack of service in FFPZ. One of the reason is infrustructre. Unfortunetly infrustructure of FFPZ has nod finished yet. Other one is workers attidues for service. Especially during loading and unloading procedure, workers are not motivated on their jobs. The quality of service cause of this situation i not as it must be. The loading and unloading procedure has to be rearranged for being in better standart. FFPZ does not followe the technologic development in FFPZ areas. So the implimentation of FFPZ is very difficult because there is not consideration about FFPZ development in the world. The developments are ony followed from books or magazines and this is not a realy consideration about FPZ development. This development might seen directly.

This is succeeded with sending FFPZ members for researching directly in other FPZ.

An other point that, fees and rents on stocked goods. FFPZ has a fix fees and rents application. This procees can be change with giving the authority to FFPZ directorate for bargain on rent and fees. This is not seen as incentives to investor, because investor can store more than before. During my study I have seen that there is a very big development is seen, when we compaired to previous years. There is implimentation on loading and unloading capacity. The capacity of ware housing is expanded. The number of employment has grown, although it is not necessary, the number of factories have increased. Than is also increase on foreign exchange chanilize.

FFPZ has advantages on geogerahic location, climate, social service, and FFPZ has to use these advantages for better development. Investors pay attention on social service climate and geographic location near the incentives because these are very important for investor to be more succesfull. TRNC is a small island and this helps to investor for reaching the needed services, because time is a cost for investors.

I am sure that if government and people belive for developing the FFPZ, there will be less problem than today for development. Finally TRNC has to engage on this sector more than today, because FFPZ is an important mechanism to help economic development.

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