FOREIGN DIRECT INVESTMENT IN TURKEY AND LATIN AMERICAN COUNTRIES: A COMPARATIVE PERSPECTIVE, 1980-1995

A THESIS PRESENTED BY

MEHMET UFUK TUTAN

TO

THE INSTITUTE OF

ECONOMICS AND SOCIAL SCIENCES

IN PARTIAL FULLFILLMENT OF

THE REQUIREMENTS

FOR THE DEGREE OF

MASTER OF

INTERNATIONAL RELATIONS

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I certify that I have read this thesis and in my opinion it is fully adequate, in scope and in quality, as a thesis for the degree of Master of International Relations.

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ABSTRACT

FOREIGN DIRECT INVESTMENT IN TURKEY AND LATIN AMERICAN COUNTRIES: A COMPARATIVE PERSPECTIVE, 1980-1995

by
Mehmet Ufuk Tutan

M.I.R. in International Relations
Supervisor: Asst. Prof. Dr. A. Gülgün Tuna
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In this study Foreign Direct Investment (FDI) experiences of Turkey between 1980 and 1995 are examined in comparison to the FDI experiences of the Latin American countries. Various FDI theories are presented, with a special emphasis on the Dependencia Approach. In addition, a historical background of FDI policies in the world, Latin America and Turkey is provided. The arranged FDI incentive systems and enacted legislations in Turkey are also reviewed. In the last part, some conclusions about the effects of post-1980 FDI policies on the Turkish economy are drawn.

Key words: Foreign Direct Investment, Multinational Corporations, Dependencia Approach, incentives, periphery countries, core countries, Latin America.

ÖZET

KARŞILAŞTIRMALI BİR AÇIDAN TÜRKİYE VE LATİN AMERİKA ÜLKELERİNE 1980-1995 DÖNEMİNDE DOĞRUDAN YABANCI SERMAYE YATIRIMI

Mehmet Ufuk Tutan

Yüksek Lisans Tezi, Uluslararası İlişkiler Bölümü
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Bu çalışmada Türkiye'nin 1980-1995 dönemindeki Doğrudan Yabancı Sermaye Yatırımı (DYSY) deneyimi, Latin Amerika ülkelerinin DYSY deneyimi ile karşılaştırmalı olarak incelenmiştir. Değişik DYSY kuramları, Bağımlılık Yaklaşımına vurgu yapılarak sunulmuştur. Ek olarak, dünyada, Türkiye'de ve Latin Amerika'daki DYSY politikaları tarihsel bir yaklaşım içerisinde verilmiştir. Türkiye'deki DYSY teşvik sistemleri ve kabul edilen yasalar da gözden geçirilmiştir. Çalışmanın son bölümünde, 1980 sonrası uygulanan DYSY politikalarının etkileri hakkında bazı sonuçlar çıkarılmıştır.

Anahtar sözcükler: Doğrudan Yabancı Sermaye Yatırımları, Çok Uluslu Şirketler, Bağımlılık Yaklaşımı, teşvikler, çevre ülkeler, merkez ülkeler, Latin Amerika.

To my mother Penbe Tutan,

'Adalılar'

and

Sevda Özsoy

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I would like to express my sincere gratitude to my supervisor Asst. Prof. Dr. A. Gülgün Tuna for her guidance, support, patience, encouragement, and corrections throughout this study.

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CHAPTER I

INTRODUCTION

After the crises of capitalism in 1973, and especially 1982, some relatively richer Third World countries became members of a distinct category that includes the producers of many diversified manufactured products. Simultaneously, the penetration of international capital into their social and economic structures became an integral part of the countries. Foreign capital, especially Foreign Direct Investment (FDI), was no longer an external force whose interests were represented internally by comprador industrialists and landlords. Capital accumulation took place in those countries by exporting mostly primary and manufactured goods, in exchange for high-tech goods, increasingly after 1980. In time, as the foreign and local capital reached a consensus about the exploitation of the domestic resources, the success of the industrialization and exportation was being stimulated. The growth of foreign entries and the expansion of foreign firms into certain manufactured sectors worked at the expense of the small domestic firms. The expansion of domestic firms into certain sectors was only and only dependent on the successful collaboration with the foreign firms or else they could only expand on traditional sectors in which the profit rates were low. The banks, especially foreign ones, although they said their aim was to improve the local financial infrastructures, came to control certain industries and to create plans for liberal, private enterprise-oriented developments. The real aim of the foreign capital inflows from the core countries, which exploit the other countries and produce the latest technology and products, after 1980 is to bring old manufactured product technologies into the periphery countries, which are the exploited countries in the world economic relations, and to affect the export structure of the periphery. This would lead to the integration of the economy of the periphery with the core by way of Balance of

Payments, and consequently increase the profit rate of the old technology exploited by the core. Another aim of this technology transfer is to reduce the tension between the developing and the developed by creating the illusion that the developing countries will also become developed one day.

The purpose of the current study is to analyze the FDI experiences of Turkey between 1980 and 1995. To have a better understanding of Turkish experiences, Latin American FDI experiences are also analyzed and the two are then compared. The justification for this comparison lies in the similarities between the early FDI experiences of Turkey and Latin America, and the dissimilarities after the mid-1980s. Another region such as South Asia is not chosen for comparison because the transformations in this region were not synchronous with those of Turkey. On the other hand, only one of the Latin American countries might have been chosen for comparison instead of treating them as a block, however they were considered all together, because comparison is more meaningful if the data base is kept as large as possible. The pre-1980 FDI experiences of Turkey and Latin America have also been examined to be able to put forward the historical basis of the post-1980 period.

A general overview of the Dependencia Approach is given although it is not the core subject of the thesis. This approach has been used to criticize the FDI experiences of Latin America after 1980. Its basic notions have been used to present the FDI experiences of both regions in an objective manner.

In Chapter II we will provide a theoretical framework of FDI and Multinational Corporations, surveying alternative FDI theories. Chapter III presents a brief overview of the FDI policies in the world in a historical perspective, and recent trends in FDI in the world. In Chapter IV we will be discussing the historical development of FDI, the changes in FDI policies after 1980, the sectoral composition and country shares of FDI, and the general outlook of foreign capital after 1990, in Turkey. Chapter V is devoted to the Turkish FDI policies after the 1980s, stating incentive legislations in detail. Chapter VI discusses the Latin American FDI experiences in accordance with the Dependencia approach, first from a historical point of view and then the post-1980 period in detail. The last chapter presents the summary and the conclusions of the study.

CHAPTER II

THEORIES OF FOREIGN DIRECT INVESTMENT AND MULTINATIONAL CORPORATIONS

2.1 Definitions and Theoretical Frameworks

Foreign Direct Investment (FDI) is investment that is made to acquire a number of interests in a company operating in an economy other than that of investor, the investor's purpose being to have an effective voice in the management of the company. FDI can be divided into two primary components: portfolio investment, which is the purchase of stocks and bonds for the aim of obtaining a yield on the funds invested, and direct investment which enables the investors to participate in the management of the company in addition to seeking a yield on the funds invested. FDI is defined as investment that gives the investor effective control and is accompanied by managerial participation. Multinational Corporations (some prefer Transnational Corporation(TNC)) are business enterprises that own and manage affiliates located in two or more different countries.[1] "It is often presumed to represent a more stable flow of capital, that is linked more closely to physical capital, as compared to short-term investment, namely hot money"[2].

There are three groups of FDI. The first group is the investor side. The second one is related with the conditions of host countries, and the final group is the operation of both home and host countries dealing with the state of the world-economy.

Much of the FDI is generally held by Multinational Corporations (MNCs). These corporations are especially dealing with FDI to keep on international advantage, locational advantages, and ownership advantages. Stemmed from these facts, FDI permits the investor to gain from a competitive advantage in creating, exporting and capturing private returns on information and new technologies.[3]

MNCs have control over high technology and managerial skills, and have better knowledge of international markets which are all to the advantage of these corporations. The widening technological gap between developed and developing countries may result in increasing FDI inflows into developing countries since MNCs could exploit monopolistic profits by selling high-technology. The low cost production possibility and a large, growing internal market are the advantages of host countries in favour of attracting FDI. Macroeconomic stability, for the long run, external trade, foreign exchange, FDI policies are also interests of foreign investors. FDI inflows are affected by the factors such as world-wide recession, increasing trade barriers, and regional integration.

MNCs' objectives for implementing FDI fall into three categories: market, raw materials and cost reduction. The aim of the FDI in terms of market motivation is to possess large markets for the home country. Raw material is the traditional source of FDI that has extracted much of the contention for the production. The motive of cost reduction is related to labor cost differentials and tax reduction all of which increases competitiveness of home country in various markets.[4]

Although several theoretical and practical researches have been performed, there is not a clear justification on FDI through MNCs on host countries. The proponent view claims that FDI is beneficial for the economy of host country. There are seven points on which the view's claims rest on. These are mobilization and productive use of investment capital, higher unemployment generated by FDI, export promotion, balance of payments surplus, technology and managerial skills transfer and generation of taxable income. The opponents, on the other hand, put forward problems such as profit remittance, interest, licensing, know-how and capital repatriation; heavy dependence on imported materials; costly inappropriate technology and distorting domestic entrepreneurship and capital.[5]

2.2 Theories Affecting FDI and MNCs

2.2.1 Two International Theories

As knowledge and technology grow, the discipline of economies is divided into a branch to specialize in the researches of international trade and, in relation to it, FDI. In Mercantilist Theory, a country is wealthy when it has a large reserve of gold and silver bullion. To obtain the bullion, a favourable trade balance is obligatory and government should insure this via policies of support for home industry. Currently, there are considerable signs a reemergence of mercantilism as the determined international strategy of those countries which are either emerging from a historical development of the nations (Japan) and from a lengthy period of underdevelopment (South Korea).[6]

2.2.1.1 Comparative Advantage

Ricardo who might be termed the "father" of international trade theory wrote the notions of the earlier mercantilism with the Theory of Comparative Advantage. Adam Smith had earlier initiated the Theory of Absolute Advantage (each nation should produce that good of which it produces the most with the least amount of input), whereas Ricardo indicated that, even though a nation held an absolute advantage in the production of two goods, trade could still occur between two countries.[7]

2.2.1.2 Factor Endowment

In 1933, the Swedish economist, Ohlin, brought forth the theory of Factor Endowment, which indicates that trade takes place because nations have different endowments of the factors of production. Later, the Heckscher-Ohlin Theory, which states that a nation's comparative cost advantage will be determined by its domestic factor supply, was built.[8]

2.2.2 Theories of FDI

Trade theory was improved by the Factor Endowments Theory. FDI had, for some time, dwelled on raw material extraction industries in order to sustain the needs of the home country. The emergence of MNCs, after World War II, investing outside of their home territory for other than the logic of raw materials or national enclosed markets brought the action of the MNCs into a serious focus and the need to examine and explain the role of the firm in FDI emerged.

2.2.2.1 International Product Cycle Theory

The theory emphasizes that individual business should make FDI decisions rather than countries. The proponent of the theory, Vernon, attempts to explain international trade and international investment decisions.[9]

According to Vernon, there are four stages in the production process. In the first stage, new products are invented in developed countries and are exported into the developing countries. In the second stage, the technology of the product becomes available in the developing countries. In the third stage, developing countries enter the market for the exportation of the product and the competition among the countries increase. In the fourth stage, the products are produced through MNCs in the developing countries and are exported to the home country.[10]

The theory tries to put forward the behaviours of MNCs and the developing countries through FDI as the patterns of international trade change.

2.2.2.2 Internationalization

The theory includes monopolistic advantage theory, internationalization theory and transaction cost theory. Monopolistic advantage theory states that a firm accumulates knowledge about its products during the production process and this provides a complete advantage to this firm over the other firms in the relevant industries of both home country and host country. In the international operations, FDI is undertaken by MNCs which minimized uncertainties, transaction costs and risks by controlling the whole operation about the products.[11]

Firms internalize imperfect markets until the cost of further internalization outweighs the benefits. Although internalization of markets involves costs such as administration and communication across national boundaries, internationalization is useful only if these costs do not exceed the benefits of internalization arising from reduction of time and minimization of the impact of government intervention.[12]

2.2.2.3 The Eclectic Theory of International Product

The theory seeks to provide a full explanation of the activities of MNCs. The approach is close to both the transaction cost and the internalization approaches, although it makes a separate point of ownership advantages. The theory broadens the explanations of FDI in transactional cost and market imperfections[13] and draws heavily on Factor Endowment Theory[14].

Dunning indicates that firms will engage in FDI when three conditions are satisfied (1) possession of net ownership advantages, (2) ability to internalize the advantage and (3) being in the firm's best interest to utilize some non-home country factor endowments.[15]

2.2.2.4 Dependencia and Neo-Imperialists

The basic argument of both theories is generally related with Marxism although their logic is independent of the Marxist approach because of their common roots in the nationalism of Third World countries.

In 1948, The United Nations' Economic Commission for Latin America (ECLA)[16] and its director, Raul Prebisch, suggested planning as a program of export diversification and import substitution and rapid industrialization to eliminate the region's economic dependence on the advanced industrial countries.[17] The ECLA writers, namely Dependentistas, sought an explanation of the problem of underdevelopment by indicating the unequal exchange between Latin American countries and the Industrialized countries.[18]

The Dependentistas claim that the reasons of the weak economic structure of the developing countries are the policies of the "developed market economies and centrally planned economies in the world"[19]. The remedies they suggest are the revolutionary transformation of the international order to socialist principles and equal redistribution of the world wealth among the countries.[20]

The neo-imperialists emphasize that the Developed countries use economic tools against the Third World. These are permanent economic dependence on monopoly capital in the Developed countries; integration into the Developed economic blocs; economic emission through FDI directly controlled by the Developed economies.[21] The role of the state in the Developing countries is to provide cheap inputs and political stability for giant MNCs. economies.[22] The neo-imperialist literature (Baran and Sweezy) considers the MNCs and their economic activity (FDI) as a new kind of surplus exploitation of the monopolies in the Developed economies.[23] Monopolistic control on developing markets and infant industries, and destroyed local small enterprises gave MNCs an opportunity to create excess surplus which was absorbed through FDI into the home country.[24] In a similar approach, the Dependentistas assert that FDI and technology transfer in the Developing countries disturbs[25] the local economy by extracting local surplus, imposing monopolistic power on market and creating a comprador bourgeoisie.[26] In other words, both approaches criticize FDI for its impact on national economic and political sovereignty.

Endnotes

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[4]Coyne, 49.

[5]Ibid., 39-40 and Magnus Blomstrom and Ari Kokko give important emphasis on positive empirical aspects of FDI in "How Foreign Investment Affects Host Countries," The World Bank International Economics Department Development Data Group and International Finance Division, Policy Research Working Paper No: 1745 (March 1997), 1-14.

[6]Coyne, 17-18.

[7]Ibid., 19.

[8]Ibid., 20.

[9]R. Vernon, "International Investment and International Trade in The Product Life Cycle," The Quarterly Journal of Economics, No: 2 Vol. 1.(1966), 190-207.

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[22]Ibid.

[23]Marry, 8.

[24]Paul A. Baran, The Political Economy of Growth (New York: Monthly Review Press, 1967), 163-220.

[25]Samir Amin, Imperialism and Unequal Development (New York: Monthly Review Press, 1977), 169-177.

[26]Samir Amin, Unequal Development: An Essay on The Social Formations of Peripheral Capitalism, trans. Brian Pearce (Sussex: New Harvester, 1976), 296-298.

CHAPTER III

AN OUTLOOK TO FDI AND FDI POLICIES IN THE WORLD

In this chapter we will present a general outlook to FDI experiences in the world. Section 3.1 gives a short history of FDI in the world. Section 3.2 discusses the need for the FDI after 1980. Section 3.3 examines FDI in the world after the debt crisis of 1982. Section 3.4 analyzes recent trends in FDI flows in the world after the crisis. We will try to give a brief review of the FDI policies in the world after 1980 in order to compare with FDI experiences of Turkey.

3.1 Short History of FDI

In the mid-20th century, raw materials of developing countries were being exploited by MNCs via FDI. FDI actions were especially in agricultural sectors. During the 1960s and 1970s, a considerable part of FDI in manufacturing sector at the developing countries served domestic markets. Accompanied by the nationalization movement, national governments enhanced their control over natural resources in that period. After the mid-1970s, private banks increased their lending to developing countries. These have been some of the causes of the decrease of FDI share in total capital inflow to the developing countries in the 1970s.[1]

3.2 The Need for FDI After 1980

In the 1980s, a transformation in FDI policy frameworks took place for developing and developed countries. Structural adjustment programs were put into application to liberalize their FDI policy. Especially the 1982 world debt crisis forced most of the developing countries to give importance to FDI. Because, FDI was seen as a means of capital inflow, technology transfer, employment and export generation, and as an alternate for private bank lending after the world debt crisis. Normally, MNCs were important for the FDI activities.[2]

3.3 FDI in the World After 1980

As mentioned previously, the credits of the private banking system decreased by the outburst of the international debt crisis in 1982. Simultaneously, International Money Fund (IMF) and World Bank (WB), the international creditors, began to extend credits. Nevertheless, their credits were not suitable for the developing countries due to the social costs, and thereupon, FDI inflows became the alternative source. However, the serious world-wide recession, adverse economic conditions of home countries, and new forms of protectionism in developed countries resulted in a decrease in FDI inflows into developing countries during the early 1980s.

On the contrary, the world-wide FDI outflows increased during the second half of 1980s which ended in a strong recovery of the world economy. Especially Japan and Asian Newly Industrialized Countries (NICs) invested their current account surplus into developing countries as FDI inflows. In that period, services became the largest sector as FDI inflows continued.[3]

At the beginning of the 1980s, the world-wide FDI had a bipolar attribute, with the United State of America (USA) and European Community (EC) as the source countries. As Japan rose as a significant investor, this bipolar structure was transformed into a tripolar one, namely the Triad, after the mid-1980. The FDI inflows increased in USA markets, that is to say, intra-Triad FDI inflows had the largest share in total world FDI inflows. The reasons of the intra-Triad FDI inflows were the largest market size in the Triad, depreciation of US dollar, collaboration of MNCs such as making alliances with other MNCs in order to have control over complementary technologies.[4]

Since the 1950s, the share of the service sector in total FDI has been growing. By the late 1980s, the share of service in total FDI reached the level of 50%. In developing countries service investments are concentrated in trading, construction and tourism.[5]

3.4 Recent Trends in FDI Flows in the World

FDI is a major agent for both international integration and growth, and modernization of the world market. From this point of view, it is not surprising that almost 50% of the total foreign capital outflows go to developing countries. On the other side, foreign investments concentrated in the USA and EC countries have declined, since 1980, to almost 30%, which was 60% out of the total international investment in 1980 (See App. D, Table 7).[6]

FDI has become a fundamental element in complex corporate investment and production strategies. A global market place has been created as a result of the development of global communications and data transfer. The importance of foreign direct investment in the international economy is increasing day by day. Likewise, it is an increasingly important form of net long term resource flows for developing countries. Besides, FDI forms a flow of production assets and activities.

The year 1993 witnessed the end of the FDI recession that had predominated in 1991 and 1992. In 1993, global outflows increased by 5% reaching $ 193 billion. However, unlike the USA and the United Kingdom (UK), outflows from other developed countries, mostly in Western Europe and Japan persisted to decline in 1993. From 1992 to 1993 the share of developed countries in worldwide inflows decreased from 64% to 58%.[7]

As opposed to the low growth of foreign direct investment flows to developed countries, developing countries welcomed the $ 71 billion inflow in 1993, which rose to $ 80 billion in 1994. More than 80% of the increase in foreign direct investment which flows to developing countries was accounted for by one developing country, China. Excluding China, FDI flows into developing countries increased by 6% in 1993 and by 15% in 1994. Altogether, the total inflows into developing countries in 1993 alone were higher than the level of inflows of developed countries in 1986. In 1993, worldwide inflows reached a historic peak of 39%. Altogether, developing countries are becoming attractive host countries, mostly due to their growth performance together with ongoing liberalization of FDI policies.[8]

In Asia and Pacific region, investment inflows increased by 51% in 1993, reaching $ 48 billion in that year and $ 53 billion in 1994. Asia and Pacific accounted for 68% of total inflows to developing countries in 1993. Investment inflows in Latin America increased by 16% in 1993, reaching $ 19 billion in that year and $ 22 billion in 1994. These regions accounted for 27 % of total inflows to developing countries in 1993. Argentina was the largest recipient with over $ 6 billion inflows in 1993. FDI flows into Africa remained stagnant in 1993, at about $ 3 billion, in spite of the continuous liberalization of investment regimes by a number of countries. Accordingly, Africa's portion in all inflows to developing countries decreased to 5% in 1993, compared with 11% between 1986 and 1990. Investment inflows to the countries of Central and Eastern Europe increased by 22% in 1993, reaching $ 6 billion in that year. The growth of inflows, however, has slowed due to limbering economic recession in some countries of Western Europe combined with the slow or negative growth in these countries during their transition towards a market economy. Central and Eastern Europe accounted for 3% of worldwide inflows in 1993. In Western Europe, investment inflows decreased by 10% in 1993 to $ 73 billion approximately. Investment flows into EC was $ 110 billion in 1990, $ 66 billion in 1992 and fell by 15% in 1993 compared with 1992. On the contrary, inflows into other Western European countries were almost doubled in 1993. Outflows also declined by 10% to $ 100 billion in 1993. Investment inflows to Japan fell to $ 100 billion in 1993, after an amount of almost $ 3 billion in 1992. Outflows fell by 20% to $ 14 billion. Investment inflows to other developing countries declined by 37% reaching nearly $ 7 billion in 1993. Australia like Japan experienced a sharp decrease in investment inflows.[9]

The developed countries were the principle sources of the recovery of the FDI flows, as well as beneficiaries. Investment outflows from them declined by 19% in 1991, and 6% in 1992 whereas they increased by 4% in 1993.[10]

From 1986 on, Turkey, as a developing country, saw an increase in investment inflows. Whereas the total inflow was $ 170 million in 1986, it reached $ 1.3 billion in 1992, the peak level. After the liberalization of the foreign investment regime, privatization studies of state owned enterprises and had given foreign investors the opportunity to participate in these enterprises and decreasing the formalities in dealing with foreign investment applications, Turkey's investment inflows increased to the level of $ 2 billion in 1995. Most of the inflows are coming from France, USA, Germany, Holland, and Sweden. Turkey's outward investment increased especially after the establishment of Commonwealth of Independent States. Turkish enterprises are generally involved with construction activities in these countries.

Endnotes

[1]There is detailed knowledge and data about FDI and foreign bank loans into Turkey in the late 1970s in Turkiye Ekonomisi, (7th ed. Rev.; Istanbul: Remzi Kitabevi, 1996), 141-168, written by Yakup Kepenek and Nurhan Yenturk.

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CHAPTER IV

HISTORICAL DEVELOPMENT OF FDI IN TURKEY

In this chapter we will examine FDI in Turkey between 1950 and 1995. The analysis extends to the pre-1980 period because the historical background of the FDI inflows in the post-1980 period must have been presented for a better understanding. In addition to that, this gives us the chance to compare the FDI policies before and after 1980. Section 4.1 and Section 4.2 present FDI inflows between 1950 and 1979 in Turkey. Section 4.3 and 4.4 discuss economic environments of Turkey in the 1980s. Section 4.5 and 4.6 examine macroeconomic developments and FDI polices. Section 4.7 and 4.8 investigate sectoral composition of FDI and the ratios of FDI to some macroeconomic indicators. Section 4.9 and 4.10 present country share of FDI and FDI firms in Turkey. Section 4.11, 4.12, 4.13, 4.14, 4.15 discuss FDI with its economic perspective, country share and sectoral distribution.

4.1 FDI Inflows and Sectoral Composition Between 1950 and 1979 in Turkey

Between 1950 and 1980, the main problem of Turkish economic policy was to meet foreign exchange needs because there was a need for sources to implement some development programs.[1] The aim of the Import Substituting Industrialization (ISI) strategy implemented in that period was to convert Turkey into a self-sufficient country and reduce the imports in the long run. However, the Turkish industry needed more foreign exchange resources and depended more on imports in the late 1970s. In addition to this crisis, the rise in oil prices hit the economy. Because of political uncertainty, the change in the economic policy could not be implemented. This resulted in economic contraction in the 1970s.

During the 1970s, subsidies to the industrial sector increased. The increase was a must because of the fixed exchange rate policy. In fact, there was an increase in the exports but the foreign exchange problem could not be solved. The export structures of Turkish firms were small and middle scale and these firms could not achieve to establish an organization for pursuing their interests. Between 1973 and 1980, these firms had a loss in real values because of fixed exchange rate policy.[2] But we have to consider export subsidies to these firms.

The relatively limited role of FDI in the development of Turkish manufacturing as a source of external resources shows the meagerness of the proportional net benefits that Turkey derived from FDI that did not take part in its manufacturing development between 1950 and 1979.[3]

Before 1980, dealing with import affairs was more profitable than dealing with exports affairs, because imports could create rents to the businessman. Therefore, strong export groups could not be created in Turkey in that period.

When we look at the sectoral distribution of FDI inflows between 1950 and 1974, the manufacturing attracted a large share of FDI inflows. Especially, chemicals, transportation and vehicles, electrical machinery equipment attracted large share as a sub-sector of the manufacturing. The service sector was the second leading sector which attracted FDI inflows (See App. C, Table 2).

In the period between 1950 and 1974, the Turkish manufacturing sector absorbed %92 of total FDI inflows. The share decreased to 86 % in 1975 and 80 % in 1979 (See

App. C, Table 2). Transportation vehicles, chemicals, electrical machinery and electronics were among the major sectors which absorb the largest share of manufacturing FDI stock. The shares of agriculture and mining in total FDI inflows remained stable until 1979 (See App. C, Table 2). However, the share of services and tourism in total inflows increased rapidly in the 1950-79 period (See App. C, Table 2).

Between 1954 and 1979, there was a gradual increase in realized FDI inflows except 1974 and 1979. In 1974 and 1979, there was a decrease in FDI inflows. In other words, the existing FDI was withdrawn from Turkey. The amount was $ 7.7 million and $ 6.4 million, respectively (See App. C, Tables 1,4,5). The reason of the decline in 1974 could be the Cyprus war and the USA embargo. In 1979, because of increase in oil prices, FDI inflows decreased not only in Turkey but also all over the world. In 1964, there was a sudden increase in FDI inflows compared to previous years (See App. C, Table 1). The reason of the increase could be the spreading of democratic movement through Turkey after establishing a democratic constitution. This democratic climate in Turkey may have attracted FDI inflows.

In 1975, manufacturing sector attracted 86.29% of total FDI inflows, which was a very high amount when compared with the previous years (See App. C, Table 2). Transportation vehicles, electrical and machinery equipment, chemicals were among the major sub-sectors. The service sector was the second sector in that year. When we look at the ratio of total FDI inflows to GNP, the ratios were under 0.032 % (See App. C, Table 6). This data evidences the fact that Turkey could not attract huge amount of FDI inflows, in this year.

In 1979, although manufacturing sector attracted 79.37% of total FDI inflows, there was a decrease compared to that of 1975. The share of service sector increased in that period compared to that of 1975 (See App. C, Table 2). When we look at the ratio of total FDI inflows to Gross National Product (GNP), the ratios were under (-)0.008 percent (See App. C, Table 6). The American embargo and the economic crises in the world resulted in an outflow of the existing FDI inflows which is the reason of the negative FDI growth rate.

4.2 Source Countries as Investors Between 1950 and 1979 in Turkey

In the 1950-74 period the USA had the largest share in total FDI inflows. The USA was followed by respectively, Germany, the Netherlands, Italy and Switzerland. In 1975, the order was the USA, Germany, Italy, Switzerland and France, respectively. These countries had 50% of the total FDI inflows then. In 1979, the order changed so that France had the largest share in total FDI inflows. France was followed by Germany, the USA, Italy and Switzerland, respectively (See App. C, Tables 3,4,5). It may be concluded that Turkey could not succeed in attracting a large amount of foreign investment before the 1980s. The MNCs and FDI firms in that period were oriented towards the domestic market and achieved to export small shares of their total sales. The reason was that these firms were more dependent on imports rather than domestic production and were relying on domestic credits rather than using external finance sources.

During the 1970s, instead of integrating itself with the world economy on the basis of international division of labor and mutually beneficial trade, the Turkish economy preferred to largely isolate itself from the forces of international competition. Thus, state intervention and bureaucratic interference in the economy was extreme, and the role of markets was almost nonexistent during 1970s. The Turkish economy could not attract notable FDI, up to 1980. A great deal of the FDI that came in was domestic market-oriented; that is to say, focused on the import-substituting industries. Turkey became known as one of the riskiest host-countries in the world for foreign investors, after the mid-1970s.[4]

It must be stated here that, before 1980, Turkey did not have an explicit and well-defined FDI policy and the bureaucracy was not willing to implement FDI policy for industrialization. Another problem was the lack of skilled personnel. Since in a highly protected domestic market it was more reasonable to produce for the domestic market, MNCs preferred to produce for internal markets rather than exports and chose to borrow credits from domestic financial markets rather than looking for external credits, considering the given exchange rates regime and credit markets.[5] We have observed that after mid-1970s the leadership of source countries of FDI inflows shifted from the USA to the European countries.

4.3 Late 1970s and Early 1980s

Until 1980, the developing countries' -including Turkey- main source of external borrowing was the private banking system. However, the debt crisis in 1982 and in addition, the lack of official lending forced these countries to perceive FDI as a source of foreign exchange. This condition created a new mentality based on globalisation, liberalization, and openness to the world-economy in order to support the "new FDI policy".[6]

After entering the foreign exchange crisis in 1979, Turkey implemented stabilization and structural adjustment policies. Yet, in those years, the existence of a liberal legal framework did not guarantee its liberal implementation. Three factors resulted in its being implemented in a limited manner. The first one was the contradiction between overall economic policies and the new FDI policy. The second factor was the negative attitude of the bureaucrats. And finally the third one was Law 6224 which was an obstacle for the implementation process.

Turkey insisted on ISI strategy, until the late 1970s. The gap between saving and investment was tried to be closed by foreign saving in the form of government to government or international economic institutions to government lending. Private and official lending opportunities diminished, due to the foreign exchange crisis. Consequently, Turkey accepted to implement IMF and WB proposals in order to integrate the economy into the world economy and to attract foreign exchange. Turkey made three stand-by agreements with the IMF during 1980-83. The WB supplied five structural adjustment loans in the 1980-84 period.[7]

4.4 Economic Environment of Turkey in the 1980s

Among the OECD countries, the Turkish economy is one of the most dynamic. During the 1980s, Turkey's GNP increased almost 2 percent faster than the OECD average reaching yearly average of 5 percent growth rate.[8]

The main reasons behind this high growth rate were economic policies implemented in this period. These policies were trade and financial liberalization, development of capital markets, major public investment in telecommunications, roads and other basic infrastructures, promotion of foreign investment, and external debts.

4.4.1 Turkey's New Internationalization

In the 1980-1990 period, Turkish exports increased at an average compound rates of 16% whereas imports increased at a rate of 11% per year. In 1990, Turkish imports amounted to $ 22 billion and exports to $ 13 billion, which consisted 33% of GNP. In mid-1980s only 35% of the traded goods were industrial products, this rate increased to 80% of total exports in mid-1990s. Geographically considerations show that nearly 50% of exports and 40% of imports are with the EC such that no one country was accounting for more than 25% of either exports or imports.[9]

4.4.2 Resource Base

In the late 1980s the sectoral composition of the Turkish economy was typical of a newly industrialized country. Agriculture employed almost 50% of the total civilian labor force while its contribution to GDP was less than 18%, which is 26% for industry and 56% for services.[10]

- **Agriculture**

Among Turkey's products there is a wide range of temperate and Mediterranean products and all together they added up to 18% of GDP during the 1980s. Moreover, agriculture is the source of raw materials for many important industrial activities and therefore exporters rely on agriculture. After 1980, laws were enacted to encourage FDI to agro-industry for export namely seeds, production of fodder plants, production of fresh fruits and vegetables.[11]

The following table shows Turkey's international ranking in the total output of selected key products.

Table 4.1: Turkey's Ranking in World and European Output, 1987

Product	World	Europe	Product	World	Europe
Barley	8	5	Olives	4	4
Cigarettes	18	10	Pistachios	2	1
Citrus	8	3	Sugar	13	3
Cotton	7	1	Sugar Beet	7	6
Figs	1	1	Sunflower	7	4
Grapes	6	4	Tea	6	1
Hazelnuts	1	1	Tobacco	6	1
Lentils	1	1	Wheat	17	2
Maize	25	8			

Source: YASED and Citibank, An Investment Guide to Turkey, (Istanbul, Citibank, 1992),8.

This sector was always powerful in Turkey and a further boost is coming from the progressive implementation of a development project in Southeast Anatolia on the Euphrates and Tigris rivers. This multi-purpose river based project aims to increase Turkey's irrigatable land by an area over half the size of Belgium while almost doubling the electrical energy output.[12] As a matter of fact, the success of the project depends on the realization of land reform and equal income distribution in Southeastern Anatolia.

- **Mining**

Although Turkey has an important mineral resource base, further exploration and investment is needed for the country's full potential to be realized. This sector has been opened to FDI after January 1980. Especially, chromate, copper, magnesite and coal benefited from FDI.[13] In the past, mining activity was dominated by the public sector, but together with the liberalization policy a new mining law was enacted in 1985 and the restrictions on the private investment in the sector were reduced.[14]

- **Manufacturing**

Turkey's manufacturing base is diverse, with industrial sectors varying from traditional to high technology activities. After 1980, a huge amount of FDI has been made to electronics as a sub-sector (See App. B, Tables 1-5). The government encouraged foreign investors to consider all possible projects either on their own or in joint ventures with the state electronics corporation, TESTAS.[15] Iron and steel, electrical and electronics products, basic metal industries, machinery and equipment, and chemicals were the most dynamic sectors of the last decade. The average rate of these sub-sectors was higher than that of the manufacturing sector as a whole, which reached an annual average growth rate of 7.4% between 1980 and 1990.[16]

The most important traditional sector, textiles, attracted new computer technologies in the industry. Between 1985 and 1990, hardware imports grew rapidly and stood over $ 1 billion.[17] The other sectors using such technologies are durable goods producers, iron and steel, and automotive industry.

- **Energy**

There are 65 million tons of proven crude reserves of petroleum of Turkey. Law no. 2808, a petroleum operations law enacted in 1983, aims to exploit those reserves more efficiently. This law stimulated the incentives for foreign oil firms to invest in Turkey.[18] From almost 50% of total primary energy consumption in 1978, petroleum by-products' share decreased to nearly 40%, with hard coal, lignite, natural gas and hydraulic energy playing an increasingly important role.[19]

Since the early 1970s Turkey's electricity consumption has been growing at an annual rate of 10%. Electricity production per year is estimated to increase from 52 billion kwh in 1989 to 200 billion kwh by the year 2000.[20] Electricity generation and production were under the monopoly of the Turkish Electricity Board (TEK) and two private monopolies till mid-1980s. Private sector investment is legal now.

The oil sector is another area becoming increasingly attractive to foreign investors. Petroleum Law was changed in the early 1980s to stimulate liberal activities. In the mid-1990s there were 25 companies in this sector. The deregulation of oil prices by the government in 1989 also eased the conditions under which private refiners can import crude oil and refined products.[21]

4.5 Macroeconomic Developments

During the 1980s macroeconomic developments were generally positive, except the persistently high rate of inflation. The decade was characterized by high economic growth and a strong balance of payments. A relatively low average current account deficit--even account surplus in some years--was recorded, which was mainly due to growing merchandise exports, tourism revenues, and workers' remittances. High capital inflows resulted in a steady increase in reserves. At the end of 1991, gross international reserves stood at almost $13 billion, which is equal to eight months' imports, a comfortable level of liquidity by international standards.[22]

During the second half of the decade, imbalances began to develop in the domestic budget even though a successful structural change was achieved in the external accounts.

The public sector borrowing requirement rose to 12.6% of GNP in 1991 from 4.3% in 1982. The inflation rate, as measured by the December to December increase in consumer prices, rose to 75% in 1988 from 35% in 1986. The volume of export increased in 1990s as compared to that of the 1980s.[23] Among the reasons of these positive developments were the increase in Turkey's export to the ME countries, and the decrease in wages which are equivalent to low production costs, between 1980 and 1990.

The inability of the central government to control the growth of its expenditures and to repay its debts to the internal and external institutions, which have grown faster than revenues over most of the period, has been the main reason for the growing internal imbalance.

Table 4.2: Macroeconomic Developments of Turkey, 1980-1990

(Compound Annual Rates of Growth)

Real GNP	5.1%
Merchandise Exports	16.1%
Merchandise Imports	10.0%
Current Account Balance (average)	$ (-)1.3 billion
Inflation Rate (Wholesale Prices)	54%

Source: YASED and Citibank, An Investment Guide to Turkey, (Istanbul: YASED, 1992), 13.

4.6 FDI Inflows and Policies After 1980 in Turkey

After 1980, Turkey implemented the Japanese type development strategy, known as Soya Shasha, which emphasized industrial exports. This policy was also implemented by the newly industrializing countries such as South Korea, Brazil.[24] The advantages of this system can be listed as follows:

- The competition among the small export firms resulted in decrease in sale prices and profits in the external market. Therefore, large export firms should deal with exports.
- The risks in the external market was much more than internal market. So, large firms reduce the possibility of risks.
- The large firms could take credits much easier than small firms. They strengthened the position of the large firms at the external markets.

Therefore, Turkish government put some restrictions on export issues. For example, the authorized capital limit was $ 500 million in 1984, $ 2 billion in 1988, $ 5 billion in 1989.[25] While on the one hand, Turkish economic policy tried to increase the volume of exports and liberalize its economy; on the other hand, small and middle firms were not allowed to deal with export affairs. This was one of the contradictions of Turkish economic policy after 1980. The Turkish economic policy resulted in monopolization in export affairs and the few large firms not only benefited from export subsidies from the state but also implemented an "Imaginary Export" (The Turkish phrase referring to the situation in which goods were not really exported but declared to the government as if they were exported to be able to benefit from government export promotions) in order to extract more resources from the state.

During 1980-1992, although Turkey had important economic and political ties with the EC and the USA, Turkey could not attract a large amount of FDI inflows as much as the governments of the period planned. Turkey applied to the EC for full membership in 1992, and Turkey signed a treaty for the custom union with the EC in 1996. These attempts can be interpreted as Turkey aimed to increase FDI inflows through EC.

Until 1980, the USA and EC were the major countries which brought FDI inflows into Turkey (See App. C, Tables 3,4,5). However, in 1980s, EC countries preferred to invest in the USA because of the USA's high rate of growth. These conditions decreased FDI inflows in Turkey. Since the real wages in Turkey were too low until 1989, Turkey had a comparative advantage in labor intensive commodities. Unfortunately, the developed countries' markets were closed to that type of trade. This condition also decreased Turkey's chance for FDI inflows which was export-oriented. Rivalry among developing countries for FDI inflows, after 1980, resulted in world-wide liberalization of FDI policies. Therefore, Turkey did not have any comparative advantage in that period.

In the 1980s, production of technology and skill-intensive commodities and productive services were the major sectors which attracted FDI inflows. But, in that type of commodities, Turkey could not decrease the costs at a competitive level because of insufficient infrastructure, unskilled labor and lack of capital. Therefore, MNCs preferred to use Turkey as a large market rather than sending FDI inflows. Another reason for the low FDI inflows was the disintegration of Yugoslavia, the Gulf Crisis, and The war in the eastern part of Turkey also affected FDI inflows in Turkey due to political instability in the region.

4.7 Sectoral Composition of FDI After 1980 in Turkey

When we look at the sectoral composition of FDI inflows in the 1980s, the share of the service sector was increasing while the share of the manufacturing sectors was decreasing in Turkey. In fact, the world-wide outflows on service sector increased in that period, also tourism, banking, trade as a sub-sector had the largest share in FDI inflows into Turkey. Foreign banks opened branches in Turkey in the early 1980s. This financial liberalization attracted FDI inflows, especially in the service sector in the 1983-1989 period (See App. B, Tables 1-5,7). The share of agriculture and mining remained low.

Transportation vehicles, chemical, iron and steel, electrical machinery, textile had the largest share of FDI inflows on the manufacturing sector in Turkey (See App. B, Tables 1-4,7,). In the early 1980s, the share of manufacturing in total FDI decreased while the share of the service sector in total FDI increased in the period (See App. B, Tables 1,2 and App. A, Tables 1,2). Although the industrial sector absorbed the largest amount of FDI, this sector could not use the resources efficiently and could not export huge production amounts (See App. B, Tables 8 and 9). In other words, this sector could not reconvert the foreign resources into foreign exchange due to the dependency on FDI, inefficient production and managerial structures during the 1980s.[26]

The sectoral distribution between 1980-1983 was not different than the previous period. Manufacturing sector had the largest share at the level of 74% in total FDI inflows. Electrical machinery, transportation vehicles, textile and food sectors were the leading sub-sectors. The share of the service sector in total FDI reached the level of 25% (See App. B, Tables 1,2). Thus the FDI inflows to the services sector has started to increase in Turkey in parallel to the increase in the world after 1980.

Between 1984 and 1986, the share of the manufacturing sector in total FDI inflows decreased at the level of 60%. Aeroplane, iron and steel, and electronics were the leading sub-sectors. The share of the service sector in total FDI increased to 36%. Banking was the leading sub-sector (See App. B, Tables 1,3). In this period, FDI inflows to the services sector has continued to increase since some Middle East countries channelled their capital to Turkey by way of the banks they established in Turkey.

Between 1987 and 1989, the share of the manufacturing sector in total FDI inflows decreased to 55%. Chemicals, food, transportation vehicles and iron and steel were the leading sub-sectors. The share of the service sector in total FDI increased to 39%. Tourism was the leading sub-sector (See App. B, Tables 1,4). The data shows that, in this period, FDI inflows to the manufacturing sector has reached the lowest level whereas FDI inflows to the services sector has reached the highest level of the 1980s. The sudden rise in the FDI inflows to the tourism sub-sector was the reason of the increase in services sector in addition to the reasons explained above. On the other hand, the decrease of the FDI inflows to the leading sub-sectors of the manufacturing sector was the cause of the above mentioned decrease.

Between 1990 and 1992, the manufacturing sector shares in total FDI inflows increased to 63.48%. Food, chemicals, transportation vehicles were the leading sub-sectors. The share of the service sector in total FDI inflows decreased to 32%. Tourism was the leading sub-sector (See App. B, Tables 5,11). A decrease in the FDI inflows to the services sector and a small increase in the manufacturing sector were observed when compared with the previous period.

Between 1993-1995, the manufacturing sector shares in total FDI inflows increased to 71%. The reason of the increase was the huge FDI absorption of the transportation vehicles sub-sector. The share of the service sector in total FDI inflows continued to decrease to 26.9%, due to the decrease in the FDI inflows to the banking sub-sector. Tourism was the leading sub-sector (See App. B, Tables 5,12).

During 1980-1989, the share of the manufacturing in total FDI decreased gradually while the service increased to 40% of total FDI inflows. The share of tourism as a sub-sector of service increased. The share of the cement and soil sub-sector in total FDI increased after 1987 because of selling many cement factories to foreign investors (See App. B, Tables 1-5,7). During 1980-1989, the sectoral distribution of FDI decreased in manufacturing whereas it increased in service. Tourism emerged as the leading sub-sector (See App. B, Tables 1-5).

During 1990-1995, the share of the manufacturing increased because of foreign investment in transportation vehicles and cement productions (See App. B, Tables 1,5,11,12). There was a decline in service because of unsuccessful attempts in the tourism sub-sector during the Gulf War.

4.8 The Ratios of Total FDI Inflow in Sectors to GNP

Between 1980 and 1995, there was an expectation for the increase in the ratio of total FDI to GNP due to enactment of new laws for FDI inflows, and the willingness of official economic policy to attract FDI into Turkey. But, although there was an increase in the ratio, the expectations were not satisfied. The ratio of FDI to GNP was too small in 1980. But there was an increase in 1981. Until 1986, the gradual increase continued and in 1989, the ratio reached the level of 1.1%. After 1989, except 1994, the ratio fluctuated around 1.1%. In 1990, the ratio decreased in spite of reaching the 1% as a ratio. During the 1990s, the FDI to GNP ratios were around 1% (See App. B, Table 10). The higher the FDI to GNP ratio, the more FDI attracted into a country. Therefore, we can conclude that Turkey has attracted more FDI in 1990s when compared to the previous decade.

On the other hand, after 1980, the ratios of the agriculture, industry and service sectors to GNP reflected interesting results. The service sector's share in GNP was the largest share after 1980. In other words, the service sector increased its share in GNP.[27] The FDI inflows, after 1980, to the service sector increased during the 1980s. It can be concluded that the FDI inflows increased "the productions" of the service sectors after

1980. Especially, the FDI inflows to the service sector reached the highest level in 1989, and the share of the service sector on GNP increased after that year. The parallel developments among FDI inflows to the service sector and the service sector share on GNP may give us some clues about the depended economic developments to foreign resources (See App. B, Tables 1-5, 10-12).

Although the manufacturing sector had the largest share in FDI inflows, the share of the manufacturing sector in GNP fluctuated around 25% after 1980.[28] It can be concluded that FDI inflows on this sector could not increase the share of the sector on GNP. The reasons could be lack of high-technology in this sector, lack of trained labor and managers, insufficient productivity. In other words, there were structural problems in the manufacturing sector which resulted in a constant production level although the sector attracted high amounts of FDI compared to other sectors (See App. B, Tables 1-5, 10-12).

Although the agriculture sector did not attract high amounts of FDI inflows, the sectoral share on GNP was around 15%.[29] This can be concluded that this sector needed to be channeled new resources and have not depended on foreign resources, yet (See App. B, Table 10).

4.9 Country Shares of FDI in Turkey After 1980

During 1980-1995, there was a fluctuating trend in the distribution of FDI in the context of source country. Many European countries and the USA were the leading countries. During 1980-1983, Switzerland had the largest share in total FDI, followed by Germany, the USA, France. During 1984-1986, the USA became the largest investor followed by Saudi Arabia, Switzerland, Germany. In fact, the banking sector had the largest share in service especially from Saudi Arabia in that period. During 1987-1989, the share of the UK increased, followed by Switzerland, France, the USA. The tourism sector increased its share in service, especially from EC. During 1990-92, France had the largest share in total FDI followed by the USA, the Netherlands, Germany. Between 1993-1995, the Netherlands, France, the USA and Germany were the leading countries, respectively (See App. B, Table 6). The selling of public sector attracted foreign capital into Turkey, especially from EC's MNCs. In the 1980s, the USA share in the total FDI inflows to Turkey decreased as a result of the economic crises in the USA. The reason of the increase in FDI share of the European countries in the same period was Turkey's attempts to integrate with the EC. Coming to the 1990s, although there occurred an increase in the share of the USA it was not at the level of the increase in the share of the EC, thus the ranking did not change.

Turkey's aim in the 1980s was to increase the amount of export of manufactured goods. Therefore, Turkey tried to channel FDI on manufacturing sectors in order to create new investments, employment and new technology inflows. But the expectations of Turkey were not realistic, because FDI firms never preferred international export markets and foreign capital, rather they preferred to exploit internal markets and domestic capital. The FDI firms established sub-sectors and sale offices rather than factories or industry. Therefore, Turkish human resources could not benefit from new technology, new managerial and marketing skills. In fact, although there was an increase in manufacture exports from developing countries to developed countries, even in the 1960s and early 1970s, only certain countries such as South Korea, Hong Kong, and Brazil benefited from this export increase.

4.10 FDI Firms in Turkey

Since December 1983, all commercial and service sectors have opened to FDI, foreign portfolio equity investment in Turkish firms has been made easier, the employment of foreign personnel for FDI firms has been put under fewer restrictions. Turkey has established free-trade zones that offered foreign firms tax exemptions and more liberal currency regulations. They were approved in 1982 in order to strengthen Turkey's role as the commercial links between West and Middle East especially through export oriented FDI.[30]

FDI firms who are owned by the foreigners contributed a small amount to Turkish exports. Until 1985, the share of FDI exports in total manufactured exports was too small. After 1988, the share showed an increasing trend. In 1992, the share reached its top level. The largest FDI exports were transportation vehicles, cement and soil products, textile and clothing. The largest FDI firms ranking in the 500 largest industrial firms of Turkey increased their shares in total exports after 1988. However, in 1992 the share declined (See App. B, Tables 8 and 9).

The FDI firms' share in total exports increased gradually between 1984 and 1991. There was a sudden increase in 1988. This may be the result of privatization of some public institutions which was sold to foreign investors. FDI shares in total sales fluctuated between 1981 and 1991. But there was a sudden increase in 1991. The FDI share increased in total sales because the Turkish industrial, agricultural, service sectors decreased their total production level. (See App. B, Tables 8 and 9) Neither the public nor the private sector could produce and sell goods as compared to the previous period.

4.11 Foreign Capital in Turkey in 1995

The amount of foreign capital permits reached a maximum amount of $2,938 million in 1995, as Table 4.3 demonstrates. When compared with the cumulative total of foreign capital permits since 1959 which has been $16,758 million, the 1995 amount accounted for almost 18% share of this total figure (See App. B, Table 7). 35.2% of these permits were directed towards new investments, 19.5% to participations in companies, and 18% to capital increases in companies. When the levels were compared with those attained in 1994, it becomes clear that there was an increase in the contribution of foreign capital to production and employment levels. The actual foreign capital inflow into the country has been higher than previous years, with the temporary figure adding up to $1.250 million. In 1995 the total "Permit and Incentive Certificates" prepared for foreign capital companies reached TL 328.5 trillion, nine times higher in comparison to 1994.[31]

Table 4.3: Distribution Of Foreign Capital Permits in Turkey(1995)

Sector **Portfolio**	**Number of Permits**	**Foreign Capital $ Million**		**Type of New**	**Investment Extension**	**Cap. Increase**
Agriculture	33	31.74	19.09	1.51	5.54	5.6
Mining	17	60.62	17.16	0	10.03	33.43
Manufacturing	411	1996.48	610.36	472.33	411.93	501.87
Services	764	849.48	388.85	34.21	394.22	32.2
Total	1225	2938.32	1035.46	508.05	821.72	573.1

Source: Türk Ekonomi Bank, The New Investment Environment in Turkey, (Istanbul: Intermedia 1996), 46.

4.12 Sectoral Distribution of Permits Issued in 1995

The foreign capital reached $577.1 million as a consequence of 28 permits issued in the automotive industry, with 47.3% of permits in this sector directed towards improvement of existing establishments, 28.4 to new investments, and 23.1% to portfolio investments. The automotive support industry received capital permits valued at $118.9 million, with 43% share in both new and for the improvement of existing investments.[32]

With 47 permits issued, foreign investment valued at $364.2 million was for the chemical industry, 75.5% of which was for new and 19% for the improvement of existing investments.. 28.9% of the total capital share of the permits went to the services sector. Other community services received 37.3% of the total share, while hotels participated 19.99% and general trade 13.4%. The share of the new and the existing investments was 49.8%, while 46.4% was directed to capital increases of existing companies. The portfolio investments in the cement industry accounted for 96.8% of permits in 1995. Foreign capital permits in the food industry in 1995 was $171 million.[33]

On the other hand, portfolio investments increased 12 times in the electrical machinery industry, and three and two times, for improvement and for new investments, respectively. The amount of foreign capital permits in the sector was $191.8 million (See App. A ,Table 2).[34]

4.13 Distribution of Permits Issued in 1995 According to the Countries

In the year before the signing of the Customs Union Treaty, foreign capital arriving from the European Union Countries amounted to $1.873 billion, shares divided among the

Netherlands, French and German companies as 30.5%, 25.4% and 21%, respectively. The share of European Union countries (EU) within the total was 63.9%. The amount of European capital coming to Turkey increased by 93%, compared to 1994. Just like the OECD countries, the amount of foreign capital investments increased by 101% in comparison to 1994, reaching $2.758 billion. Sweden, Austria, and the USA are shareholders at $327, $283 and $231 million respectively (See App. A, Table 3). The reasons of distributing these permits were Turkey's opening its borders to the EU countries, accelerating the privatization program, and attempting to attract more FDI inflows.

4.14 Total Actual Entries

The interim amount for real inflow by the end of 1995 remained at $1250 million when contrasted to the amount of $830 million. The effects of the economic development and recovery in 1995 manifested themselves in foreign capital permits. Whereas the foreign capital permits added up to $1484,66 million by the end of 1994, the figure for the same period reached $ 2938,32 million for 1995 (See App. A, Tables 1,2.).

When a country based analysis of the 1995 foreign investment figures is made, it is understood that $1873,37 million worth of permits went to OECD countries, $70,29 million to Islamic countries, $19.82 million to eastern European countries and $82,49 million to the remaining others (See App. A, Table 3).[35]

The Netherlands goes ahead in the amount of foreign capital permits with $559,2 million, followed by France with $476,05 million, Germany with $392,13 million, Switzerland with $327,75 million, and Japan with $283,84 million. The total number of companies with foreign capital reached 3,161 and the amount of total capital 113 trillion TL at the end of 1995 (See App. A, Table 3).

4.15 General Outlook of Foreign Capital in 1990s

The number of foreign capital companies functioning in Turkey reached 3,161 and the amount of foreign capital investments to $16.758,15 million, as of the end of December 1995. 2,214 of these companies operated in the services, 818 in the manufacturing, 79 in the agricultural and 44 in the mining sectors (See App. A, Table 1).

The permits distributed in 1995 ($2938,32 million) increased by 38.25% and 97.84% as compared to the same period in 1993 ($2125 million) and 1994 ($1484,66 million), respectively (See App. A, Table 2). The inflow between 1990-1995 reveals an annual mean of $1.88 billion of foreign capital permits. Total amount of foreign capital since 1990 has been as follows: $1,861 million; $1,967 million; $1,820 million; $2,125 million; $1,485 million $2,938 million, respectively (See App. A, Tables 1,2.).

As shown in the previous sections, although permits were issued to be high, their realization could not be that high. That is because foreign investors--either countries or firms—did not find Turkey to be a reliable country as a result of Turkey's political, economic, and social instabilities.

Endnotes

[1]Selim Ilkin, 1980 Sonrasi Buyuk Ihracatcilarin Orgutlenmesi ve Turkiye Dis Ticaret Dernegi, Metu Studies in Development, 19 (2) (1996), 146.

[2]Ibid.

[3] Asim Erdilek, Turkey's New Open Door Policy of Direct Foreign Investment: A Critical Analysis of Problems and Prospects, Metu Studies in Development, 13 (1-2) (1986), 171-172.

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[5]Ayla Yilmaz, Turkey's Foreign Direct Investment Experience During 1980-1992 Period with Special Reference to Manufactured Exports (unpublished Master's thesis, Department of Economics, METU), 22-24.

[6]Ibid., 35.

[7]Ibid., 39.

[8]An Investment Guide to Turkey, A Report prepared by YASED and Citibank (Istanbul, Citibank, 1992), 8.

[9]Ibid.

[10]Ibid., 9.

[11]Erdilek, 178.

[12]An Investment Guide, loc. cit.

[13] Erdilek, loc. cit., 180-181.
[14]An Investment Guide, loc. cit., 10.

[15]Erdilek, loc. cit.

[16]Melih Celasun, Türkiye Ekonomisi, Isletme ve Finans, 63-64 (Haziran- Temmuz 1991), 5.

[17] An Investment Guide, 11.

[18]Erdilek, loc. cit.

[19]An Investment Guide, loc. cit., 11-12.

[20]Ibid.

[21]Ibid.

[22]Data for import and reserves are available in Main Economic Indicators, State Planning Organization, (1997), 49-58, 72.

[23]Data for GNP, export, public sector borrowing and inflation are available in Main Economic Indicators, (1997) on pages 11-14, 59-68, 109-118, 86-88.

[24]Ilkin, 149.

[25]Ibid.

[26]Fikret Senses, Türkiye'de Sanayilesme, (Ankara: Verso, 1989), 17.

[27]Main Economic Indicators, 1997, 11-16.

[28]Ibid.

[29]Ibid.

[30]Erdilek, 177 -178.

[31]An Investment Guide 46-47.

[32]Ibid.; Yabanci Sermaye Raporu(1993-1995), T.C. Basbakanlik Hazine Mustesarligi, (Ankara: Hazine, 1996), 121, 124.

[33]Ibid.

[34]Ibid.

[35]Ibid., 121-127.

CHAPTER V

TURKISH FDI POLICIES AFTER 1980

In this chapter we will examine Turkey's FDI policies after 1980 from a different point of view. This part of the thesis, essentially, deals with the policy changes in legislations, decrees, and incentives after 1980. We will therefore present all incentives enacted in accordance with these policy changes. Section 5.1 presents a general outlook to the Turkey's FDI situation. Section 5.2 discusses the background of FDI policies with its laws, incentives and programs. Section 5.3 examines FDI incentive legislations in Turkey. Section 5.4 shows some foreign investment framework decrees.

5.1 Outlook for the FDI in Turkey

Different from most of the other developing countries, Turkey has natural resources, labor and an expanding market. This function of Turkey has provided the Turkish businessmen the opportunity to play an active role in the neighborhood markets within a very short duration. Turkish enterprises then looked for partners who can bring technology, management and some capital to convert the country to an economic bridge between the West and the East.

Foreigners make investments in Turkey due to the following reasons:

- Turkey offers a ready-to-purchase growing domestic sector because of its young population over 69 million.

- Turkey has a relatively inexpensive labor force.
- Turkey also has a reasonable network of communications and transportation facilities coupled with organized industrial units.
- There are operational free zones in Turkey.

Today, more than 3161 companies are performing various activities such as storing exhibition, packing, trading, banking, insurance, assembling, and disassembling in the zones provided that they are pollution free (See App. A, Table 2). Turkish free zones are completely tax free. The trade between free zones and home country is treated as foreign trade. The merchandise brought into the free zones can be sent abroad with or without being processing. The following privileges are offered in the zones:[1]

- Reduced bureaucracy
- No customs formalities or charges on imports and exports of all investment materials
- No corporation tax on any income generated, even if that income is transferred to sister companies in Turkey.
- Exemption from export procedures on exports from Turkey higher than $500 value.
- No income taxes.
- No obligation to account in Turkish Lira.

5.2 Background of FDI Policies in Turkey

Because of its need for foreign exchange resources, Turkey put into effect in 1954 law no: 6224 concerning the encouragement of foreign capital.[2] The law in question was considered as only a framework text and this resulted in the practical enhancement of the weight of the policies implemented. Until 1980, international capital movements did not affect Turkey very much due to the conservative attitude of the governments towards foreign currency.

Foreign investors--except several foreign banks from the USA and Middle East Countries—adopted a wait-and-see attitude till 1980s when new laws were enacted. Foreign investors were especially interested in the agro-industry and tourism sectors however they hesitated to make capital and technology investment in Turkey due to political uncertainty, together with some other legal and administrative obstacles.[3]

Some of the important economic policy changes which occurred during the 1980s were the deregulation of interest rates, reforms in the banking sector, liberalization of the capital movements, establishment of organized markets for foreign exchange, stocks and securities. After these changes, a comprehensive economic stabilization and liberalization program was put into application instead of previous protectionist economic policies. The aims of this new program were:[4]

- Minimizing state intervention
- Establishment of free market economy
- Integration of Turkish economy with the world economic system

Together with the resolutions enacted on January 24, 1980 some developments about foreign capital applications took place, such as the establishment of the department of foreign investment. This department arranged all the transactions regarding foreign capital to be performed at the level of single authority, further facilitated the formalities and provided the opportunity to invest in Turkey to companies active in any field not only in the manufacturing sector.[5] More liberal and flexible provisions on the transactions of the foreign capital were introduced with the enactment of decree no: 32.[6]

Consequently, the Turkish Lira became fully convertible : transfer of profits, fees, royalties and capital--in case of liquidation--was let free by law no: 6224. Foreign investment was further promoted by being a party to several bilateral and multilateral agreements and organizations, Council of Europe, The World Bank, IMF, OECD, Asian Development Bank, GATT, NATO and UN.[7]

Foreign capital inflow to Turkey had increased at a high rate following the new arrangements affected in law no: 6224, from an amount of $ 280 million foreign capital investment between 1980 and the year law no: 6224 was enacted to an amount of $1250 million FDI inflow in 1995 (See App. C, Table 1; App. A, Tables 1,2). During the 1980-July 1995 period, a total of $ 16.8 billion value of foreign direct investment has been approved and inflows reached to $ 8.8 billion (See App A, Tables 1,2 and 3). Between 1980 and 1995, most of the foreign capital were in the services sector and manufacturing sector (See App. A, Table 1).

5.3 New Incentive Legislation

Export and FDI incentive systems are being arranged so that they are in line with Turkey's commitment under EU, Custom Union and the GATT. The new incentive system has some differences. First of all, the preferred incentives to be given are investment allowances; value added tax (VAT) deferrals; tax, duty, and charges exemption; and financing fund by which all kind of tax reduction and/or exemption can be rendered during the investment phase. The region of investment is the main criterion for granting the incentives. The incentive regime in 1995 brought about the "industrial belts" concept in addition to the established priority areas. 20 organized industrial zones and 18 provinces have been placed under this concept and compromised sectors with special importance.[8]

Investments made on these areas are granted with higher incentives. The "industrial belts" are generally defined as provinces suitable in terms of infrastructure potentials for industrialization. The objective of the regional based incentives are to encourage investments and to direct them to the less developed regions of the country. Some of the major changes coming into force with the new legislation are:[9]

- The minimum required total fixed investment amount to enjoy an incentive certificate is 6 billion TL for investments to be realized in priority development regions and 10 billion TL for all other investments.
- The amount to be deposited in the incentive fund at The Central Bank at the time of application for an incentive certificate is 20 billion TL for investments in priority development regions and in industrial belts and, 50 million TL for investments other regions.
- Capital/credit ratio should be 40% for investments in priority development regions, 50% for normal regions and 60% for developed regions. If there is foreign or foreign exchange credit, the capital/credit ratio can be decreased to 15%.

Turkey offers some advantages and incentives to potential investors. According to the foreign investment act, equal treatment is the basis for all investors. As a result, foreign investors have the same rights and responsibilities as local investors. When investing in Turkey, foreign investors are required to make a minimum investment of $ 50.000 and are treated equally with Turkish investors.

5.3.1 Investment Incentives

As mentioned above investment incentives are granted depending on which part of the country the investment goes to. Some of the investment incentives are as follows: [10]

- **Customs, Duties and Fund Exemption**

Most--if not all--machinery and equipment imported for the investment are subject to exemption. A fund payment of 5-20 percent must be made, however, for some of them. According to the relevant legislation, the investments to be made in "industrial belts" and priority development zones are exempt from the 5 percent fund payment.

- **Investment Allowance**

This allowance results in the corporate tax exemption for the investments. Depending on the location of the investment the rates of investment allowance changes between 39 percent and 100 percent of total fixed investment.

- **Subsidized Credit Facility**

It is available for Research and Development (R&D) projects and environment investments. For the year 1995, this facility was available for investments to be realized in priority development regions and industrial belts up 15% to 25% of the total fixed amount.

- **Soft Loans**

It is granted to R&D investments, environmental investments, small and medium size enterprises and special credits. Investors can also benefit from additional tax deferrals.

- **Research and Development (R&D)**

The corporations can defer up to 20% of their annual corporate tax amounts for a duration of three years provided that this sum would not exceed R&D expenditures of the corporation during that year.

- **Financial Fund**

Corporations that have started activity and that are continuing their ongoing investments can defer their corporate tax obligations up to 25% of the corporate tax accrued, provided that they deposit its amount in a fund at The Central Bank.

5.3.2 Export Incentives

Several exports incentives are available for investors in Turkey. These are exemption from various taxes, fees and duties; exemption from customs duty on raw materials and semi-product imports; and export credits through Eximbank. Most of the incentives are related with manufacturing and mining sectors.

5.4 Foreign Investment Framework Decree

Collective bargaining, strikes and lock-outs were put in a strict, disciplinary framework after 1980. This strong government control on relations with labor assured foreign investors for a stable working environment.[11] With the 1980 Framework Decree on Foreign Investment extraordinary advantages were provided to investments in some sectors such as tourism[12] (See App. B, Table 1). To exemplify, the share of the foreign ownership can be as high as 100 percent without any negotiations with the Turkish government.[13] In 1982, Law no: 2634 for the Encouragement of Tourism Investments was enacted with which land and credit allocations to tourism ventures have been liberalized.[14]

The new foreign investment framework decree enacted on June 7, 1995 brought Turkey's foreign investment regime to a much more liberal point at which the formalities were reduced:[15]

1. The same rights and obligations for foreign investors and local ones.
2. No limitation in equity participation ratios.
3. No limitation in entering sectors.
4. The free transfers of profits, fees, royalties and the repatriation of capital.

5. All foreign investments applications without taking into consideration the amount of capital are evaluated by General Directorate of Foreign Investment.

6. The approval requirement for license, know-how, technical assistance and management agreements is lifted in the new decree.

In short, this new decree has the aim of reducing the bureaucratic formalities for the foreign investments to be made in Turkey.

5.4.1 Privatization Program

The privatization program, set up with act no: 4046 as an autonomous government agency, aimed to implement an immense privatization program. Within this program, government shares in textile, iron, steel, petrochemicals, oil, telecommunications, and air transport sectors are aimed to be sold to foreign investors as blocks. [16]

5.4.2 The Build-Operate-Transfer Model

Build-Operate-Transfer (BOT) model offers foreign investors the opportunity to participate in the large infrastructure projects as investors. Furthermore, the government guarantees buying the products or service output of the investments at a certain price over a certain period. A special law was enacted for the adoption of this model. The related ministry or a state economic enterprise may enter into an agreement with the investors which qualify for the initiation and operation of the investment. Through the BOT model, projects such as the following have been opened to the private sector: Natural gas power plant, lignite power plant, hydroelectric power plant, establishment and operation of free zones, bridges and tunnels, highways and railways, seaports and airports, telecommunication projects.[17]

5.5 Conclusion

The main determinant of the FDI practice of Turkey is the interaction of its given external factors and internal conditions. The external factors can be listed as the state of the world economy, economic environment of source countries, tactics of MNCs, and finally, the relative position of competing countries.

Although foreign investment inflows are considered as a mechanism to help fix Turkey's balance of payments difficulties, this is not of chief significance. These inflows have a short-lived restorative effect and can be hardly turned into outflows. Their main importance for Turkey is through the advanced technology, know-how and skills the foreign investor brings with him. Between 1950 and 1960, Turkish industry was not very well-developed when compared with its foreign contemporaries. Plants were frequently second-hand and this was enough for those days since there was a great void in the market. 1980s and 1990s, however, witnessed an increased demand for quality and new products. New entrepreneurs entered the market and these pressures forced the manufacturers to search other markets. This resulted in a need to have world standard goods produced in higher volumes and with less cost. This was provided by foreign investors who brought not only their money but also their licenses, patents, know-how and names.

To illustrate, the food industry in Turkey is rich in kind. However, it was a problem to transport those foods to the European consumer. Foreign technology helped Turkey to produce ready made soups, shock-frozen fruits and nuts without afrotoxin or to convert its livestock into vacuum packed sausages, salami and steaks ready to be consumed. Hence, not only has Turkey found new markets for its products but also a higher portion of value added has stayed in Turkey. Therefore, the new technology and increased capacity has helped Turkey to create value added, revenues, salaries, tax and export incomes.

Endnotes

[1]An Investment Guide to Turkey, A Report prepared by YASED and Citibank (Istanbul, Citibank, 1992), 42-44.

[2]Asim Erdilek presents detailed knowledge about the laws enacted in Turkey after the 2. World War in his book Direct Foreign Investment in Turkish Manufacturing: An Analysis of The Conflicting Objectives and Frustrated Expectations of a Host Country (Tubingen: Institut fur Weltwirtschaft an der Universitat Kiel, 1982), 11-17.

[3]Asim Erdilek, Turkey's New Open Door Policy of Direct Foreign Investment: A Critical Analysis of Problems and Prospects, Metu Studies in Development, 13 (1-2) (1986), 185.

[4]Ibid., 171-172; Selim Ilkin, 1980 Sonrasi Buyuk Ihracatcilarin Orgutlenmesi ve Turkiye Dis Ticaret Dernegi, Metu Studies in Development, 19 (2) (1996), 146-149; Fikret Senses, An Assessment of Turkey's Liberalization Attempt Since 1980 Against The Background of Her Stabilization Program, Metu Studies in Development, 10 (3) (1984), 271-321; Ziya Onis clearly presents the aim of the program in the article Stabilization and Growth in a Semi-Industrial Economy: An Evaluation of The Recent Turkish Experiment, 1977-1984, Metu Studies in Development, 13 (1-2) (1986), 10-14.

[5]Erdilek, 1986, 174-176.

[6]The New Investment Environment in Turkey, A Report prepared by Turk Ekonomi Bank (Istanbul: Intermedia, 1996), 72.

[7]An Investment Guide, 3; There are many detailed knowledge about the relations between Turkey and other organizations in Fikret Senses article Sanayilesmede Yeni Bir Donemec: 1980'li Yillar ve Otesi, Metu Studies in Development, 20 (4) (1993), 5229-548.

[8]The New Investment, loc. cit., 11.

[9]There are extensive information and data about the new incentive system in the book "An Investment Guide to Turkey" the pages between 29 and 42.

[10]Ibid.

[11]Erdilek, 1986, loc. cit.

[12]Ibid., 179-180.

[13]Ibid., p. 178.

[14]loc. cit.

[15]The New Investment, 8-9.

[16]Yakup Kepenek and Nurhan Yenturk, Turkiye Ekonomisi, (7th. ed.. rev.;Istanbul: Remzi Yayinevi, 1995), 234-239, 442-445.

[17]The New Investment, loc. cit., 10, 28-45.

CHAPTER VI

FDI EXPERIENCES OF LATIN AMERICAN REGION: A HISTORICAL PERSPECTIVE

The two regions, Turkey and Latin America, had similar economic, political, and social structures in the pre-1980 period. In the post-1980 period, although both regions opened their economies to FDI inflows, they experienced different developments. The reasons of this diversification would provide a deeper insight for understanding the Turkish FDI experience and serve as a basis for future FDI plans of Turkey. This is why we analyze the FDI experience of the Latin American countries in comparison to that of Turkey.

In this chapter, we will examine the FDI experiences of Latin American countries during the 1980-1995 period. We will emphasize the economic structures and policy changes of Argentina, Brazil and Mexico together with the rest of the countries in the continent. Both of these topics have been examined since 1980 by UNCTAD Reports. Section 1 presents the FDI experiences, some economic indicators and the accepted theory by many academicians and policymakers in the continent during 1900-1980. Section 2 discusses the economic and political policy shift and its effects on FDI. Section 3 presents the results of the policy changes and the situation of FDI from 1990 to 1996.

6.1 FDI Experiences Between 1960 and 1980

6.1.1 Some Economic Indicators During 1900-1980

In Latin America, between 1900 and 1980, the average annual growth rate of per capita Gross Domestic Production (GDP) followed a positive trend. The average rate for the countries increased from 1.29 percent in the 1900-1960 period to 2.37 percent in the 1960-1980 period. In the rate of overall GDP growth before 1980, Brazil, Chile and Mexico presented unstable increases, while Argentina and Colombia were relatively stable (See App. D, Table 8). One of the reasons of the stability was that expansionary periods lasted much longer than contractionary periods.[1]

Table 6.1: Average Annual Growth Rate of GDP and Per Capita GDP, 1900-80

COUNTRIES	**GDP(Growth Rate %)**		**PER CAPITA GDP(Growth Rate %)**	
	1900-40	**1940-80**	**1900-40**	**1940-80**
Argentina	3.8	3.2	0.8	1.2
Brazil	3.5	6.2	1.2	3.2
Chile	2.5	4.0	1.2	1.6
Colombia	4.5	4.6	2.4	2.4
Mexico	2.0	6.5	1.4	3.4

Source: Victor J. Elias, Sources of Growth: A study of Seven Latin American Economies, (San Francisco: ICS Press., 1992), p. 14.

The growth dynamics of the Latin American countries after 1945 were highly dependent on the acceleration and slowdown synchronization with those of the developed countries, the quality and productivity of labor, and the rate of technological changes. In addition to those, policy variables, such as government expenditures, the size of the fiscal deficits and foreign trade, were the other elements for explaining the diverse rates of growth.[2] Even though they had different growth rates they can still be treated within a single category since they have similar economic, political and social structures, especially similar amount and source of FDI inflows.

6.1.2 FDI Experiences and Dependencia Approach

In Latin America, in the period 1945-60, FDI was perceived as the primary engine for development. By the early 1970s, constraints on the autonomy of FDI through MNCs were implemented in order to mitigate the socio-economic costs. The "Dependencia" approach whose scholars were "analyzing the conditions of development and underdevelopment, together with FDI and technology as paramount dependence issues"[3] and which began to gain popularity among social scientists and policy makers in Latin America in the late 1960s claims that foreign firms drain capital from host countries by exporting more funds than are brought in, in addition to this, they accused foreign investors generating distorted consumption patterns, displacing established local firms, intervening in local politics, altering income distribution and eroding the living conditions of the ordinary people.[4]

After the mid-1960s, most, if not all, Latin American governments, more or less, applied the arguments of the Dependencia approach to politics and economics. The new politics toward FDI was soon reflected in public policy across the continent. For instance, Argentina enacted a set of legal guidelines regulating FDI in 1971; Bolivia, Colombia, Peru and Chile formed the Andean Pact which established a common restrictive policy toward FDI in 1971; Mexico and Brazil introduced similar restriction in the mid-1970s. However, the experience and implementation in Latin America concerning the regulation of FDI varied according to the political and economic conditions of the countries in the continent. Furthermore, the practical experience of several Latin American countries showed that a restrictive regulatory system toward FDI was not a strong barrier to new FDI. On the other hand, a liberal regulation together with incentives was not a significant way for diffusing FDI.[5]

During the 1970s, in the context of FDI experiences, the similarity between Latin America and Turkey is striking. Just as in Latin America, Turkish state intervened financial, social and political crises of 1970s and implemented ISI strategy for growth. Another resemblance is the condensation of FDI inflows in machinery and electrical machinery, transportation equipment, rubber products, tobacco, and chemicals manufactured sub-sectors. The only exception to this similarity is the pharmaceuticals sub-sector. Foreign capital dominancy in some sectors of Turkey also parallels to the USA capital dominancy in Latin America (See App. C, Tables 3,4,5 and Tables 6.2, 6.3). The difference is that, perhaps as a result of geographical proximity, European capital is the second, after the USA, the most dominant foreign capital in Turkey's FDI inflow (See App. C, Tables 3,4,5). However, the lack of the corresponding consensus between the local and foreign capital prevented Turkey from experiencing similar economic and political developments like Latin America. This is one of the reasons of Turkey's losing its semi-periphery property and remaining as a periphery country. As Çaglar Keyder clearly states, the main contradiction between the local capital and foreign capital is not structural but conjectural.[6] One of the reasons of this contradiction is the fear of the local capital dominated in agro-industry from losing its shares from the exploitation and losing its power to the foreign capital, dominated in manufactured sectors, in the context of both economic and ideological spheres. Since 1970, both groups have been struggling to exploit the surplus value and integrate with the world economy through their own products. Therefore, they accepted to integrate with the world economy provided that their self interests are protected.

6.2 Economic Policy Changes and its Effects on FDI

For most Latin American countries, there was low economic growth and instability in the economies. These countries not only suffered the worldwide instability that began after 1974, but also had negative growth until the mid-1980s. Although many factors were responsible for the unstable economic performances, the large amount of foreign debt borrowed by Latin American countries was one of the main reasons.[7] Towards the end of the 1980s, only a few Latin American countries could achieve to reach recovery period.

6.2.1 The Turbulent Period

After the "Import Substituting" period of the 1970s, foreign firms' labor productivity levels and growth rates were much higher than those of similar sized domestic firms.[8] Although many Latin American countries implemented open-door policies after 1980, low FDI continued to be a serious problem. Especially, in Chile and Colombia, capital inflows played a smaller role to achieve growth and stability.[9] FDI was mostly less important than other long-term capital inflows in the 1980s for the Latin American countries since the debt crises necessitated urgent liquid short-term money.[10] The economies with widespread macroeconomic imbalances such as large budget deficits and hyperinflation were in serious crisis. In addition to that, private investments and exports did not seem to be the driving forces of growth and recovery (See App. D, Table 1). Thus, except Chile(because of strong state intervention and external political support), most of the countries in the region could not achieve to complete their own structural adjustments and attract new FDI inflows (See App. D, Table 5).[11]

During the turbulent years, selected countries, except Brazil, shown in the Table 6.2 attracted foreign capital into their secondary product sectors. This means that the countries belonged to the "semi-periphery"[12] category, an integral part of which is the international capital. In other words, as industrial production moved from the center to the periphery, the relations of production of the previous period were extended, instead of being transformed. The periphery became part of an integrated system of industrial production whose control continued to remain in the center. This is the industrialization inserted by foreign-owned firms on the periphery. Namely, the previous periphery countries experienced "the internalization of international capital"[13]. In that context, Brazil experienced and adapted itself to the semi-periphery system much faster than the other Latin American countries during the 1970 and 1980s. Especially, "the consensus between local and foreign capital around the issue of accumulation of industrial capital, more complex internal division of labor and increased productivity, and the direct intervention to the crisis of the Brazilian state"[14] played important roles in attracting new FDI. The result was the huge foreign stocks in the Brazilian secondary and tertiary product sectors. In this period., in six Brazilian industries(machinery and electrical machinery, transportation equipment, rubber products, tobacco, chemicals and pharmaceuticals) foreign, especially USA, capital was dominant.[15] In the other industries such as leather products, footwear and paper products, local capital held the predominant position. A similar foreign capital superiority on the same industries also existed in other Latin American countries.

Just as in many Latin American countries, low FDI inflows and economic crises continued to be serious problems in Turkey during the 1980s. As we have stated previously for the 1970s, during the 1980s, unlike the Latin American countries whose main source of FDI inflows was the USA, European countries had the largest share of FDI inflows to Turkey.

Between 1980 and 1989, Turkey's growth rate was very high. The main reasons behind this achievement were the high volume of exports to the Middle East (ME) countries, low wages, weak domestic demands and high external credits in the country. Another reason was the enactment of many laws after 1980, the aims of which were to open all commercial and service sectors to the capitalist economy, to increase portfolio investment, to purchase foreign technology, and to employ foreign personnel for FDI firms. By this way, foreign investors could easily find favorable conditions to exploit the resources and the domestic market in Turkey rather than exporting what they have produced in the country. However, in Latin America, the similar laws and regulations concerning both FDI and trade liberalization were enacted after the mid-1980s. In our opinion, the reason of Latin America's being late in enacting the regulations and laws was the authoritarian regimes of the region who did not feel the necessity to enact them but did rather behave arbitrarily. The emergence of the notion of democratization, during the late 1980s, forced those governments to make regulations and rules.

Table 6.2: Industrial Distribution of Foreign Direct Capital Stock of Selected Latin American Countries in Selected Years (US $ million)

	1977-83	**1977-82**	**1977-83**	**1981**	**1981-83**	**1975-1981**
Sectors/Countries	Argentina	Brazil	Chile	Colombia	Mexico	Peru
Primary Product	793	758	824	N.A.	522	3194
Secondary Product	1399	16007	502	868.6	14814	726
Tertiary Product	754	22154	667	N.A.	3355	430
Total	2854	21831	1993	N.A.	18691	4350

Source:John Dunning and John Cantwell, IRM Directory of Statistics of International Investment and Production, (London: Macmillian Press, 1987), pp. 643, 663, 674, 685, 723, 749.

Table 6.3: Leading Home Country and Sectors Attracting FDI in the Selected Latin American Countries in Selected Years

	1977-83	**1977-82**	**1977-83**	**1981**	**1981-83**	**1975-1981**
	Argentina	Brazil	Chile	Colombia	Mexico	Peru
Leading Home Country	USA	USA	USA	USA	USA	USA
Leading Sectors	Petroleum and Motor Vehicles	Motor Vehicles	Machinery and Oil	Chemicals	Chemicals	Machinery Rubber Petroleum

Source: Source:John Dunning and John Cantwell, IRM Directory of Statistics of International Investment and Production, (London: Macmillian Press, 1987), pp. 649-50, 668-69, 679, 727, 753, 775.

6.2.2 The Recovery Period

In the late 1980s, economic and political adjustments were being completed in the continent. In this period, macroeconomic stability was slow in Brazil and Venezuela, and was still perceived as fragile in Argentina and Peru. In addition, the appreciation of the real exchange rate, together with widespread trade liberalization and weak domestic demand, was discouraging trade.[16] Although efforts to strengthen domestic firms and their technological capacities continued, the role of FDI in the export-investment within the region played an important role in the catching-up process.

6.2.2.1 Trade and FDI

Trade among the countries of the region grew rapidly because of both unilateral trade liberalization and the strengthening of trade groups such as Mercosur, The Andean Group and The Latin American Integration Association. The intra-regional exports and imports of the secondary and tertiary products grew rapidly during the period (See App. D, Table 6).[17] Regional firms accompanied with MNCs were the chief actors for the increased volume of trades within the region. However, the existing structure of most of the economies in the region was still relying on raw materials and primary products for their export earnings.[18] Trading countries such as Argentina, Brazil and Mexico in the region stimulated their export diversification. Although agricultural exports from the region benefited much more from diversification, the total exports of manufactured products which were attracting huge amounts of FDI in the late 1980s were increasing rapidly. "The growth of Latin America's total exports of manufacturers rose by an annual average rate of 16.8 per cent from 1970 to 1990, increasing their share in total exports from 10.6 per cent to over 30 per cent"[19] (See App. D, Tables 2, 4). Nevertheless, although intra-Latin American trade corresponded to 27 per cent of the region's total exports of manufacturers in 1990, the exports were only about 10 per cent of the region's imports, more than 40 per cent of which came from the USA (See App. D, Tables 2, 4).[20]

6.2.2.2 MNCs and FDI

MNCs strengthened some specific industrial sectors in the continent during the debt crisis of the 1980s.[21] For instance, MNCs' share in total Mexican exports realized by private sector in 1982 was 42 percent, which rose to 65 percent in 1987.[22] Foreign capital brought by the MNCs operated with both private and state-controlled capitals.[23] Latin American FDI experiences show that states and their organizations are important determinants of economic policy implementations. Controls on capital inflows imposed by states have different objectives on economic policies such as national development, fiscal and monetary policies, taxes, exchange rate policies, technological developments etc..[24] In relation with that, MNCs have different objectives and different patterns of FDI policies in different regions. The policy differentials depend not only on the importance of raw materials or products produced in the host countries but also on the capacity and ability of the host country's negotiation power with the MNCs.[25]

6.3 The Results of Policy Changes on FDI During 1990-1996

At the beginning of 1990s, Chile established a strong regime and policy for controlling FDI in the country and foreign borrowing by its residents. Regulations concerning FDI encouraged long-term investment. The Mexican regime's main objective was to control foreign ownership in the country. Although foreign investment liberalization in 1989 relaxed the restrictions on foreign ownership, the government never gave up protecting national sectors from foreign ownership.[26] In Brazil, the government has maintained a triple alliance with the local and foreign capitals since the early 1980s. The restrictions on FDI in Brazil were much smoother than those in the other countries in Latin America.

Between 1990 and 1992, the capital inflows in many Latin American countries, accompanied by trade liberalization, increased rapidly as compared to the period of 1980 and 1989. Even FDI flowed into the countries which were suffering from serious macroeconomic imbalances. The increased capital inflows stimulated a hyperinflation expectations by raising money supply and spending. However, because of currency appreciation which kept import cost down, inflation in the continent generally continued to fall.[27] Annual average of capital flows in the late 1980s were $ 8 billion. Between 1991-1992, the average rose to $ 50 billion. Especially, Argentina, Brazil, Peru and Colombia were very successful to lower their inflation rates since they adopted tight monetary policies in order to decrease their external deficits to sustainable levels.[28]

The annual growth with annually 2.3 percent and economic recovery were more unstable and slower in Latin America as compared to the other regions in the world in the early 1990s.[29] Argentina, Chile, Uruguay and Venezuela succeeded high growth rates, ranging from 7 per cent to over 10 percent and absorbed steady amounts of FDI in this period, whereas Brazil suffered from unstable growth and fluctuated FDI inflows.[30] "Chile and Colombia had achieved their growth and stability by the mid-1980s, i.e. before the resurgence of capital inflows of the early 1990s"[31]. Chile and Colombia sustained their own growths much less dependent on FDI inflows as compared to Argentina and Mexico.

The UNCTAD Report of 1993[32] clearly states that the reasons of the recovery in Latin America in this period were the prolonged recessions in the industrialized countries, particularly its main trade partnership, the USA and a sudden and marked reversal of capital movements in the world. "The behavior of total FDI flows over the last decade: very rapid increases from 1979 through 1981; strong declines from 1982 through 1985; and then increases from 1986 through 1990."[33] At Appendix D, the Table 7 of FDI flows of developed countries indicates that developed countries after the 1985 slightly increased FDI flows into the outward regions, especially by 1989, the flows to the outward were stimulated rapidly;[34] adoption of strict monetary, macroeconomic and liberalization policies implemented by Latin American governments; and success of privatization policies. The declining interest rates in the USA increased the net return on investment in productive assets in the region. Together with the reversal of capital movements in the world and success of privatization policies, FDI inflows through transnational firms were stimulated immediately in the early 1990s. The relaxation of FDI constraints and trade liberalization presented homelike and suitable conditions for the inflows. These facts, all together, explain the increase in FDI inflows to Turkey and Latin America after 1989. Latin American countries were highly affected by all the crises in USA, their main trade partner. Those crises of USA did not affect Turkey that much, however, since Turkey had another important trade partner, the European Union.

The UNCTAD Report of 1993[35] classified Latin American countries in 4 groups with respect to their performance during the 1990s:

1) those which had turned around recession to recovery (Peru and Brazil)
2) those with accelerating rates of growth (Bolivia, Columbia and Paraguay)
3) those with declining rates of growth (Argentina, Chile and Uruguay)
4) those which moved into recession (Mexico and Venezuela)

After 1993, Brazil entered the expansionary period in terms of output and FDI inflows. The countries in the second and third groups showed poorer performance in the context of growth as compared to 1990-1992 period. The fourth group countries, although they experienced an amazing recovery period, moved into a serious recession period.

The trend towards recovery and disinflation strengthened in 1995. Like the rest of the developing world, a certain pattern of growth was observed in Latin American countries even if it had been unstable. In this period, exports have increased on account of intra-regional trade, a high growth rate was achieved in the continent (See App. D, Table 6). However, a rise in deficits in current account has emerged. Although hyperinflation was controlled in the end, it was highly dependent on the stability of the nominal exchange rate.[36]

The growths of both Argentina and Mexico were export-led: "In Mexico, devaluation played a key role whereas in Argentina the expansion of exports largely resulted from a rise of the real exchange rate in Brazil"[37]. The expansion of Brazil and Argentina helped the recovery of Uruguay. The strengthening of the regional trade not only stimulated the growth in the economies but also encouraged the intra-regional investment flows. Particularly in agro-industrial sectors, Brazilian, Argentina and Chile firms have made a huge amounts of investments in each country and the continent.[38] Between 1990 and 1994, intra-Mercosur exports and imports as a share of those increased significantly (See App. D, Table 6).[39] "The most rapidly growing products in intra-Mercosur trade are capital-intensive goods that members have not been able to export competitively to outside markets"[40].

The region has continued to absorb large amounts of FDI since 1990 (See App. D, Table 5).[41] The FDI inflows could not be converted into manufactured, skill and technology intensive exports except Brazil. In the continent, most of the countries' exports still depend on raw materials (See App. D, Table 4).[42] In other words, the trade liberalization and the dismantling of import substitution regimes have not brought about the countries in the continent into the international economy in the context of export ability and diversification since the late 1970.[43]

Between 1990 and 1996, the capital flows to Latin America reached an annual average of $44 billion.[44] Since the international debt crisis of 1982, the increased capital inflows represented a significant turning point (See App. D, Table 5). "Although most of the countries in the region benefited from capital inflows, these flows were concentrated in only a few countries such as Mexico, Brazil, Argentina and Chile"[45] (See App D, Table 5). However, during the 1990-1996 period, the Mexican crisis of December 1994 decreased the capital flows for half a year. Although the countries in the region were affected in different degrees, the governments in the continent adopted tight monetary and fiscal policies in order to avoid low growth rates, hyperinflation, high unemployment rates and lack of capital inflows.[46] Because of high intra-regional exports, volunteer economic solidarity in the continental level and a good agricultural harvest in the region[47] the crisis did not damage the economies as expected (See App. D, Tables 2, 5, 8). As capital inflows revived in the mid-1995, most of the countries in the region except Mexico and Venezuela turned into their economic levels before the crisis.[48]

6.4 Conclusion

Since 1945, FDI has always been a motor force for growth of Latin American countries. Although the nature of FDI structure was changed in time, the countries in the continent have found a way to attract capital inflows every time. During the 1970s, the private banks in the industrialized banks and USA's MNCs stimulated capital inflows into Latin America. By the beginning of the early 1970s, the countries had made many structural policy changes in their economies and legislation. As a result, at the end of the 1980s, together with the reversal of capital movements in the world, "Latin American countries, like the other developing countries in the world, have been major recipients of FDI, and the lion's share of manufacturing exports of developing countries to developed countries has come from these countries"[49] (See App. D, Table 7). However, although the intra-regional trade has been increasing rapidly since 1980 in the context of manufacturing export, most of the Latin American countries are still relying on raw materials and primary products for their export earnings (See App. D, Tables 3, 4).

Macroeconomic stability seems to be a more significant determinant of FDI inflows than regional integration. However, the Mercosur case illustrates that comprehensive integration may stimulate capital inflows into the member countries as long as economic, political and social barriers are removed completely.[50]

Endnotes

[1]Victor J. Elias, Sources of Growth: A Study of Seven Latin American Economies (San Francisco: ICS Press, 1992), 11-12.

[2]Ibid., 165-166.

[3]Moises Naim, "Government Regulation of Foreign Investment: Emerging Lessons from Latin America," Direct Foreign Investment: Costs and Benefits , ed. Richard D. Robinson (New York: Preager Publishers, 1987), 45.

[4]Ibid., 41-67; Peter Evans presents detailed knowledge for dependent development of the Latin American experiences in his book Dependent Development: The Alliance of Multinational, State and Local Capital in Brazil (New Jersey: Princeton University Press, 1979), 55-100.

[5]Robinson, loc. cit.

[6]Emperyalizm, Azgelismislik ve Turkiye, (Istanbul: Birikim Yayinlari, 1976), 95-109

[7]Elias, 2.

[8]Aluora Calderon, Michael Mortimero and Wilson Peres, "Mexico: Foreign Investment as a Source of International Competitiveness," Foreign Direct Investment and Governments: Catalysts for Economic Restructuring, ed. John H. Dunning and Rajncesh Narula (New York: Routledge, 1996), 253.

[9]UNCTAD-Trade and Development Report, 1993 (New York: United Nations Publications, 1993), 123.

[10]Ibid., 53.

[11]Ibid., 118-122.

[12]Evans, 9.

[13]Ibid., 55-101. The concept means that the periphery becomes more dependent on MNCs in new ways, but the MNCs are also dependent on the domestic market of the periphery to a much more degree as compared to pervious relations. There is more detailed knowledge about this concept in this book.

[14]Ibid., 10-11.

[15]David Felix, "Industrial Development in East Asia: What are The Lessons for Latin America?," UNCTAD, Discussion Papers No: 84 (May 1994), 20.

[16]Manuel R. Agosin, "Saving and Investment in Latin America," UNCTAD, Discussion Papers No: 90 (October 1994), 10.

[17]UNCTAD-Trade and Development Report, 1989 (New York: United Nations Publications, 1989), 2-12, 37, 110-21, 12-14, 122-36.

[18]UNCTAD-Trade and Development Report, 1997 (New York: United Nations Publications, 1997), 13; UNCTAD-Trade and Development Report, 1994 (New York: United Nations Publications, 1994), 19.

[19]Ibid.

[20]Ibid., 20.

[21]Dunning and Narula, 241.
[22]Ibid., 253.

[23]Evans, 9.

[24]UNCTAD, 1994, 97.

[25]Joseph La Palombara and Stephen Blank, "Multinational Corporations and Developing Countries," Multinational Corporations and Third World Development, ed. K. Paradip Ghosh (London: Greenwood Press, 1984), 7-29; "Industrialization: Trends and Transformation," World Bank Development Report, (1987) 38-57.; Dunning, John, Multinational Enterprises and The Global Economy (Addison: Wesley, 1993), 287-330.

[26]UNCTAD, 1994, 195.

[27]UNCTAD, 1993, 113-117.

[28]UNCTAD, 1994, loc. cit., 14.; Felix, 26.

[29]UNCTAD, 1997, I-III; UNCTAD, 1996, 34; UNCTAD, 1993, 4-5,113.

[30]Ibid., 53.

[31]Ibid., 123.

[32]113-126.

[33]Kenneth A. Froot, "Introduction," Foreign Direct Investment, ed. Kenneth A. Froot (Chicago: The University of Chicago Press, 1993), 5.

[34]Edward M Graham and Paul R. Krugman, "The Surge in FDI in The 1980s," Foreign Direct Investment, ed. Kenneth A. Froot (Chicago: The University of Chicago Press, 1993), 18.

[35]6.

[36]UNCTAD, 1997, II.

[37]Ibid., 11.

[38]Ibid., 12-13

[39]Magnus Blomstrom and Ari Kokko, "How Foreign Investment Affects Host Countries," The World Bank International Economics Department Development Data Group and International Finance Division, Policy Research Working Paper No: 1745 (March 1997), 33-35.

[40]Ibid.

[41]In 1996, capital inflows amounted to $50 billion, against $26 billion in 1995, with a large portion consisting of FDI. See additional knowledge UNCTAD, 1997, 13.

[42]Ibid., 11-12.

[43]The World Bank Development Report (1987) presents the trade strategy of the Latin American countries on pages 78-84.

[44]Dunning and Narula, 24; UNCTAD, 1997, 13.

[45]Ibid., 245; See for additional knowledge UNCTAD, 1993, 55; UNCTAD, 1997, 14, 30.

[46]UNCTAD, 1996, 14-15.

[47]Ibid.

[48]John Rapley explains Mexican FDI experiences and its recent crisis in his book Understanding Development (Boulder: Lynne Rienner, 1996), 55-80.

[49]Liangsheng Wang, "Growth and Wage Inequality with Foreign Investment," Memorandum From Department of Economics (Oslo: University of Oslo Press, 1996), 2.

[50]Blomstrom and Kokko, 1-42.

CHAPTER VII

CONCLUSION

There is a sharp difference in FDI policies of the 1980s as compared to those of the previous years. From the Second World War to the mid-1970s, the MNCs established subsidiaries in both developing and developed countries. Although the 1970s witnessed a rapid expansion of international investment in developing countries, private bank lending grew much more rapidly than FDI. However, such a borrowing system increased foreign short term debts and many developing countries, most of which implemented ISI strategy for growth instead of export-led growth, could not pay their debts on time because of insufficient foreign currency stocks. In addition to that, economic crisis in the USA decreased the net return on investment and consequently increased the return in the developing countries. Therefore, a variety of new forms of FDI has come to play an important role in developing-developed relations. This new FDI policy was highly dependent on globalisation, liberalization, and openness to world-economy together with joint international business ventures, various international contractual arrangements and removal of all trade barriers.

At the beginning of the 1980s, most governments of developing countries shifted their industrialization strategy for growth to export-led growth strategy and paid new attention to the private FDI in their economies. This is because many developing countries desired to mitigate the external debt problem by attracting more private foreign investment, to transfer technology and managerial skills, and to generate taxable income for their balance of payments. The developed countries began to invest their current account surplus into developing countries as FDI inflows. For example, Japan and Asian Newly

Industrialized Countries (NICs) invested their current account surplus into developing countries as FDI inflows. As Cem Somel emphasized, between 1983 and 1990, the rate of FDI increase became three times larger than that of export increase and four times larger than that of total world output increase.[1] MNCs, in that context, were the primary actors in both FDI inflows and outflows and export and import affairs in the host countries.

To find out the determinants of FDI and its effects on Turkey and other developing countries, we examined alternative theories. First of all we presented two international theories which affected FDI: Theories of Comparative Advantage and Factor Endowment. The former claims that each nation has a comparative advantage in the production of a commodity, even though another nation has an absolute advantage in the production of some other commodity. The latter states that trade exists since countries have different endowments of the factors of production. In addition to these we summarised four theories of FDI: International Product Cycle Theory, Internationalization, The Eclectic Theory of International Product, and finally Dependencia and Neo-Imperialists. Among the four we made use of the last one mostly. This theory looks for an explanation of the problem of underdevelopment by giving reference to the unequal exchange between the developing and the developed.

Having summarized the FDI developments in the world, we can present the findings of this study. In this study we have attempted to examine Turkey's FDI experiences during 1980-1995 and to compare these experiences with those of the Latin American region. In order to have a comparative perspective we have also discussed FDI experiences of both Turkey and Latin American region during 1950-1979. The two regions experienced the same macroeconomic imbalances, FDI policies and industrialization strategy until the debt crisis of the 1980s. Both of them were highly dependent on the dynamic synchronization with those of the developed countries. By the early 1970s, constraints on the autonomy of

FDI were implemented to prevent the socio-economic costs and a set of legal guidelines were enacted although they needed foreign capital and technology for their growths. Until the late 1970s, the region adopted Dependencia School's policies. However, such a policy could not be realized in Turkey since Turkey's social, economic and political experiences and class relations in both state and society were somewhat different from those in the Latin American region. For instance, even though there was landlordship in Turkey, it was not in the scale of Latin American plantations. Moreover, the national bourgeoisie class, who produced for the internal market, in Turkey, unlike the bourgeoisie class in Latin America, struggled against the comprador bourgeoisie and foreign capitalists. After 1980, they both implemented open-door policies, suffered from the macroeconomic imbalances, and increased their export ability in the secondary and tertiary products through intra-regional trade and economic blocks. During the 1980s, neither could attract huge amounts of FDI inflows. However, in the late 1980s, the similarities between Turkey and Latin American region disappeared in the context of both economic sense and FDI inflows. Many countries in the continent established a consensus between local and foreign capital. That is, while MNCs were strengthening some specific industrial sectors, local capital was investing in the rest of the sectors. Latin American FDI experiences show that states and their organizations are important determinants of economic policy implementations. The governments in the continent adopted tight monetary and fiscal policies in order to avoid low growth rates, hyperinflation, high unemployment rates and lack of capital inflows. On the other hand, the governments in Turkey neither worked towards such a consensus nor implemented tight macroeconomic policies against imbalances since the 1970s although some rare attempts had appeared. Additionally, there did not exist a consensus between local and foreign capital. It is a fact that Latin American countries formed volunteer economic solidarity in the continental level during the 1980s and this solidarity increased the possibility of the successes in the national level. The FDI inflows and the regional economies have been much more stable than those in Turkey since the late 1980s. The reasons of this diversification between Turkey and Latin American region after the late 1980s are the serious Latin American governments which implemented their political and economic decisions without depending on external effects, the strong economic and politic solidarity among many countries in the region and the closer attention to the region from the great economic powers in the world.

Although we discussed Turkey's FDI experiences in the period between 1980 and 1995 in detail, the period between 1950 and 1979 was also analyzed because we have to know the historical background of FDI including data supports before the intended period was presented. The earlier period--as presented above--attracted low FDI inflows. Most of the existing inflows was channelled to the manufacturing sector such as chemicals, transportation and vehicles, electrical machinery equipment since ISI strategy gave importance to the development of domestic market and the market needed manufacturing goods. The low FDI inflows fluctuated in some years of this period. The reasons of the fluctuations can be linked to the crisis in the world and political environments of the country. In this period, the USA, Germany, the Netherlands, Italy and Switzerland accounted for the largest shares in total FDI inflows to Turkey.

In the early 1980s, Turkey shifted its industrialization strategy to the export-led growth strategy since the military and its civil partners aimed to integrate Turkey into the US dominated capitalist system and to change structures of the society and class relations into new ones. In the economic sense, these powers needed foreign currency, new technology and new managerial skills to improve macroeconomic imbalances. It is clear that Turkey had shifted its growth strategy two or three years ago as the other developing countries did. In other words, Turkey had an advantage in the context of experiences. However, Turkey could not use this advantage efficiently because of unskilled governments and bureaucracy.

Between 1980 and 1990, due to the high volume of exports to the ME countries, low wages, weak domestic demands and high external credits in the country, Turkey had a higher growth rate than the OECD average. In that period, Turkey's export was mainly to the EC and the ME countries. Turkey's export to EC concentrated primarily on textile, clothing and leather products which are labor-intensive ones and that to the ME concentrated mainly on iron and steel, non-electric, transportation vehicles, and plastics and rubber products which are primarily capital-intensive ones and food which is labor-intensive one (See App. B, Tables 13 and 15). It should also be remembered that FDI and technology inflows to Turkey were mostly in the manufacturing sectors, especially textile, iron and steel, transportation vehicles, and chemicals sub-sectors (See App. B, Tables 1-5). Therefore, we have concluded that FDI inflows affected the nature of exports in the context of both labor-intensive and capital-intensive products but much more on the latter. In this respect, we should consider FDI firms' export ability. Then, it is understood that these firms focused mainly on transportation vehicles, metal products and cement and soil product exports. Thus, the share of the FDI firms' exports to the annual total export was about 5 percent in this period (See App. B, Tables 8 and 9). It is clear that the FDI firms were dealing with the internal market and the ME countries to export capital-intensive products instead of exporting them to the developed countries. The firms' contributions to Turkey's total export were negligible except the export of transportation vehicles. In other words, the firms did not convert FDI inflows into the export outflows. It is a fact that the main exporters to the ME countries and the EC in the period were the various public enterprises and private sector, respectively. Turkey, although it could not form intra-regional groups with its regional neighbours as in the case of Latin America, increased its export of manufactured goods by selling them to the underdeveloped countries of the region. Its export in 1980s, however, remained mainly dependent on the primary goods, just as in Latin America.

As in the previous period, Turkey's export was also mainly to the EC and the ME countries between 1990 and 1995. Like the previous period, the various public enterprises and private sectors were still the main exporters to the ME and the EC. Turkey's export to the EC concentrated primarily on textile, clothing and leather products which are labor-intensive ones and that of Turkey to the ME concentrated mainly on iron and steel, textile and food which are either capital-intensive or labor-intensive ones (See App., B, Table 14 and 16). When compared with the previous period, more labor-intensive products have been exported to the ME. Here, it may be asked whether the nature of Turkey's export products to the ME has transformed from the capital-intensive products to the labor-intensive products or the reverse has occurred by FDI inflows and the implementation of high-technology. When we look at the FDI inflows of this period, the FDI share of the manufacturing sector has decreased until 1992, and increased suddenly after 1993 (See App., B, Tables 5, 11, and 12). The reason of the sudden increase was the huge FDI inflows into the transportation vehicles sub-sector. At the same time, there was not a significant amount of FDI inflow and technology transfer to the food and textiles sub-sectors. As a result we have observed that, as FDI inflows became more concentrated on certain capital-intensive products, Turkey's exports were composed more and more of labor-intensive products. In other words, although Turkey's attempts to have a semi-peripheral economic structure have been continuing since 1980, during the 1990s, Turkey's economic structure has become even more peripheral. This structure has been supported by the capitalist economies such as France, US, the Netherlands and Japan. These economies were the main FDI sources for Turkey (See App., B, Table 6).

Turkey attempted to open its economy to the capitalist world without restrictions and enacted many laws to support this policy between 1980 and 1995. The main aim of the policy was to bind the structure of the economy to the capitalist economies as a peripheral country since there were needs for peripheral countries which would produce manufactured goods for the developed countries. The net benefit of the periphery would be the increased revenue from exports. It is a fact that Turkey has increased its export revenues since 1980 but Turkey could not transform the nature of export products and the countries to which products have been exported. The labor-intensive manufactured products were being exported to the developing countries. Moreover, most of the FDI inflows, coming from the developed countries, flowed into the labor-intensive sectors and most of the capital outflows were inhaled from the service sectors, especially from banking and trade. In other words, the developed countries encouraged Turkey to adapt their old technology without making new R&D expenditures in order to have new rents from the technology adaptation. The reason behind this manufactured-product-technology transfer was that the economic and social costs of those manufactured products were substantially higher when compared with the cost of high-tech products. Although some countries such as Brazil were transformed to semi-peripheral countries with this technology transfer, some others, because of lack of infrastructure and unavailable conjectures in the world economy, remained as peripheral countries, even though they attempted to become semi-peripheries at the beginning. Turkey is an example to the latter.

Endnotes

[1]"Uretimde Kuresellesme ve Kalkinma," Toplum ve Bilim, 69, (1996), 85.

APPENDIX A

Table 1: Sectoral Distribution of Foreign Capital Permits (1980-1995)

Years	Manufacturing		Agriculture		Mining		Services		TOTAL	Actual
	US$ mil	**%**	**US$ mil**	**%**	**US$ mil**	**%**	**US$ mil**	**%**	**US$ mil**	**Inflow**
1980	88,76	91,51	0	0	0	0	8,24	8,49	97	35
1981	246,54	73,05	0,86	0,25	0,98	0,29	89,13	26,41	337,51	141
1982	98,54	59,01	1,06	0,63	1,97	1,18	65,43	39,18	167	103
1983	88,93	86,56	0,03	0,03	0,02	0,02	13,76	13,39	102,74	87
1984	185,92	68,51	5,93	2,19	0,25	0,09	79,26	29,21	271,36	162
1985	142,89	60,94	6,37	2,72	4,26	1.8 2	80,97	34,53	234,49	158
1986	193,47	53,15	16,86	4,63	0,86	0,24	152,81	41,98	364	170
1987	293,91	44,86	13	1,98	1,25	0,19	347,08	52,97	655,24	239
1988	490,68	59,8	27,35	3,33	5,62	0,68	296,87	36,18	820,52	488
1989	950,13	62,84	9,36		11,86	0,78	540,59	35,75	1.511.94	855
1990	1214,06	65,23	65,56	3,52	47,09	2,53	534,45	28,72	1.861.16	1,005
1991	1095,48	55,69	22,41	1,14	39,82	2.02	809,55	41,15	1.967.26	1,041
1992	1274,28	70,02	33,59	0,5	18,96	1,04	493,13	27,1	1.819.96	1,242
1993	1580,3	74,37	31,21	1,47	11,77	0,55	501,71	23,61	2.124.99	1,016
1994	1106,23	74,51	29,32	1,97	6,2	0,42	342,91	23,1	1.484.66	830
1995	1.996,48	67,95	31,74	1,08	60,62	2,06	849,48	28,91	2.938.32	1250
TOTAL	11046,6	65,92	294,65	1,76	211,53	1,25	5.205,37	31	16.758,15	8,822

Sources: The New Investment Environment in Turkey, (Istanbul: Intermedia 1996), 49
Yabanci Sermaye Raporu(1993-1995), T.C. Basbakanlik Hazine Mustesarligi, 104.

Table 2: Foreign Capital in Turkey by Years 1980-1995

Years	Foreign capital permits	Total of investment certificates	Cumulative Total for Companies in Operation		
			Number of companies	Total capital	Actual inflow
	US$ million	TL billion		TL million	$ million
1980	97	77	78	28,39	35
1981	337	72	109	47,4	141
1982	167	218	147	100,196	103
1983	102	199	166	147,109	87
1984	271	312	235	254,775	162
1985	234	1168	408	464,981	158
1986	364	3100	619	707	170
1987	655	3180	836	960,035	239
1988	820	5468	1172	1597,103	488
1989	1,511	9507	1525	4847,832	855
1990	1,811	18249	1856	7943,775	1005
1991	1,967	15894	2123	13101,036	1041
1992	1,819	17976	2330	23441,214	1242
1993	2,174	70136	2554	36737,05	1016
1994	1,484	37202	2830	964	830
1995	2,938	328448	3161	113013,79	1250
TOTAL	16,758	511208			8822

Sources: The New Investment Environment in Turkey, (Istanbul: Intermedia, 1996), 49.
Yabanci Sermaye Raporu(1993-1995), T.C. Basbakanlik Hazine Mustesarligi, 103.

Table 3: Distribution of Permits Issued According to Countries (US $ million)

Countries	1980-4	1980-5	1980-6	1980-7	1980-8	1980-9	1980-10	1991	1992	1993	1994	1995	Total
France	43,08	14,92	8,31	33,11	43,71	233,42	6690,06	249	353	226	256	477	2606,4
USA	268,2	21,71	24,53	61,07	129,75	137,49	127,84	460	197	253	157	231	2071
Germany	144,66	22,49	45,26	105,58	61	130,95	145,88	196	202	158	224	392	1869,2
Nether.	39,28	8,7	2,4	20,4	68,3	149,21	34,11	280	273	212	196	559	1842,5
Switz.	233,34	20,01	53,29	82,52	115,49	167,23	127,74	109	204	142	54,3	328	1636,1
UK	28,73	26,49	22,83	102,61	129,65	280,72	286,41	80	110	115	51,5	161	1395,1
Italy	22,4	0,1	4,83	6,09	40,58	74,2	65,86	180	120	420	164	98,5	1196,2
Japan	0,05	3,45	2,63	111,53	69,18	73,78	102,71	54	36,6	237	126	284	1101,3
S.Arabia	4,95	4,36	75,77	7,27	17,32	11,05	4,63	43	34	15	8,4	11,8	238,7
Canada	7,52	0	5,54	0,58	9,76	6,21	2,24	51	23	58	37	41,3	242,7
Belgium	13,99	0,16	17,12	4,5	3,85	29,85	18,07	8,27	20	21	13,4	36,2	186,5
S.Korea	0	0	0,2	1,65	0,48	1,01	17,25	0,94	10,3	93,3	0,5	15,9	141,5
Bahrain	3,33	6	0,95	0,04	1,07	0,58	4,35	6,92	50	25,9	11,9	6,4	117,2
Denmark	21,36	6,9	4,67	2,05	0,58	31,64	15,76	4,73	3,66	5,21	8,5	3,6	108,7
Singapore	0	0	0	0	0,05	29,73	25,83	9,67	14	15	1,3	18,1	113,8
Sweden	0,66	0,85	1,03	6,88	3,97	12,01	15,65	14	15	6,25	8,7	11,8	96,1
Iran	12,59	2,78	7,09	8,03	11,17	12,07	5,48	3,23	9	5,8	4	5,6	86,7
IFC	4,46	0	0	2,13	0,7	5,86	8,57	6,09	10,5	1,7	21	9,7	70,7
Panama	0,89	0,67	20,36	2,06	16,1	3,73	3,02	1,74	2,6	3,58	2,11	17,5	74,3
Austria	2,82	0,16	0,9	1,06	4,85	8,15	6,53	8	8,9	5,55	3,5	32,9	83,7
UAE	16,06	0	4,64	1,03	3,14	3,68	6,04	8,04	0,3	3,39	0,31	0,2	46,8
Syria	4,42	1,7	1,71	2,65	5,53	4,21	11,13	3,56	0,99	2,69	1,9	1,4	41,7
Others	102,82	93,04	59,94	92,4	43,68	105,17	157	185	123	100	133	195	1390,2
TOTAL	975,61	234,49	364	655,24	820,52	1511,9	1861,16	1967	1819	2124	1484	2938	16758

Sources: The New Investment Environment in Turkey, (Istanbul: Intermedia 1996), 50.
Yabanci Sermaye Raporu(1993-1995), T.C. Basbakanlik Hazine Mustesarligi, 105.

APPENDIX B

Table 1: Sectoral Distribution of Authorized FDI, 1980-1995

Sector	Total Author. Capital	New Investment (in million $)	Sector Share (%)
Manufacturing (Total)	10375,39	2505,21	66
Food & Beverages	1476,5	270,02	9,34
Tobacco	364,96	239,52	2,31
Textile & Clothing	392,15	112,15	2,48
Paper, Print	174	43,89	1,10
Rubber	298,09	1,13	1,89
Plastic	158,6	29,41	1,00
Chemicals	1756,06	186,64	11,11
Glass	75,8	33,23	0,48
Transport. Vehicles	2554,26	788,3	16,16
Aeroplane	231,59	145,81	1,46
Metal Products	226,92	130,01	1,44
Iron & Steel	562,29	162,25	3,56
Machinery	53,09	13,42	0,34
Elect. Machinery and Electronics	1058,62	156,12	6,70
Cement & Soil Pro.	751,69	29,72	4,75
Other Manufacturing	231,8	113,59	1,47
Agriculture	269,48	84,76	1,70
Mining	188,6	54,76	1,19
Services	4795,12	2431,73	30,33
Tourism	1534,49	822,25	9,71
Banking	768,76	205,32	4,86
Trade	807,2	379,28	5,11
Other Services	1765,87	845,88	11,17
TOTAL	15808,58	5026,36	100,00

Sources: Turkiye'de Yabanci Sermaye, State Plan Organization, (1983, 1987, 1990), 13-22.
Yabanci Sermaye Raporu(1990-1992), T.C. Basbakanlik Hazine Mustesarligi, 23,27,31, 35,39,43.
Yabanci Sermaye Raporu(1993-1995), T.C. Basbakanlik Hazine Mustesarligi, 107, 114,121.
Turkey Main Economic Indicators, State Planning Organization,(1997), 73,74.

Table 2: Sectoral Distribution of Authorized FDI, 1980-1983

Sector	Total Author. Capital	New Investment	Sector Share
		(in million $)	(%)
Manufacturing (Total)	522,77	142,28	74
Food & Beverages	72,13	10,69	10,24
Textile & Clothing	50,33	7,85	7,15
Paper,Print,	14,83	10,91	2,11
Rubber	7	0	0,99
Plastic	6,42	0	0,91
Chemicals	47,72	2,9	6,78
Transportat. Vehic.	93,49	18,76	13,28
Metal Products	14,86	4,62	2,11
Iron & Steel	3,96	12,71	0,56
Machinery	19,99	4,59	2,84
Elect. Machinery and Electronics	96,01	49,6	13,63
Cement & Soil Pro.	38,43	6,25	5,46
Other Manufacturing	25,96	14	3,69
Agriculture	1,95	1,06	0,28
Mining	2,97	0,77	0,42
Services	176,56	124,62	25,07
Tourism	62,26	42,91	8,84
Banking	65,96	37	9,37
Other Services	48,34	44,71	6,86
TOTAL	704,25	269,33	100,00

Source: Turkiye'de Yabanci Sermaye, State Plan Organization, (1983), 13-26.

Table 3: Sectoral Distribution of Authorized FDI, 1984-1986

Sector	Total Author. Capital	New Investment (in million $)	Sector Share (%)
Manufacturing (Total)	522,28	303,63	60,04
Food & Beverages	66,37	18,75	7,63
Textile & Clothing	19,01	4,66	2,19
Paper,Print,	0,57	0,05	0,07
Rubber	7,89	0	0,91
Plastic	4,02	0,66	0,46
Chemicals	93,03	69,48	10,69
Transport. Vehicles	41,99	4,2	4,83
Metal Products	7,63	0,66	0,88
Iron & Steel	69,99	55,58	8,05
Machinery	13,45	0,07	1,55
Elect. Machinery and Electronics	63,62	18,17	7,31
Cement & Soil Pro.	0,51	0,51	0,06
Other Manufacturing	10,01	7,1	1,15
Agriculture	29,16	17,03	3,35
Mining	5,38	0,32	0,62
Services	313,04	242,93	35,99
Tourism	64,5	57,91	7,41
Banking	101,05	52,25	11,62
Trade	49,83	41,36	5,73
Other Services	97,76	91,41	11,24
TOTAL	869,86	563,91	100,00

Source: Turkiye'de Yabanci Sermaye, State Plan Organization, (1987), 17-21, 26.

Table 4: Sectoral Distribution of Authorized FDI, 1987-1989

Sector	Total Author. Capital	New Investment (in million $)	Sector Share (%)
Manufacturing (Total)	1658,88	410,4	58,59
Food & Beverages	183,24	45,19	6,47
Textile & Clothing	112,24	28,8	3,96
Paper,Print,	112,8	18,2	3,98
Rubber	112	0,28	3,96
Plastic	15,4	10,25	0,54
Glass	295	47,3	
Chemicals	46,8	25,8	1,65
Transportat. Vehic.	202,1	76	7,14
Aeroplane	36,9	0	1,02
Metal Products	35,3	16,7	2,47
Iron & Steel	138,4	76,9	4,89
Machinery	5,35	3,5	0,19
Elect. Machinery and Electronics	104,33	31,5	3,68
Cement&Soil Pro.	200,6	5,32	7,08
Other Manufact.	34,54	21,6	1,22
Agriculture	43,81	10,5	1,55
Mining	22,67	8,4	0,80
Services	1106,05	707,1	39,06
Tourism	508,2	400,3	17,95
Banking	86,3	25,2	3,05
Trade	172,8	75,2	6,10
Other Services	338,5	206	11,96
TOTAL	2831,41	1136,17	100,00

Source: Main Economic Indicators, State Planning Organization, (1990),14, 16, 18.

Table 5: Sectoral Distribution of FDI Stock

Year	**1980**	**1983**	**1986**	**1989**	**1992**	**1995**
Sector	(%)	(%)	(%)	(%)	(%)	(%)
Manufacturing (Total)	87,25	67,9	51,21	50,58	54,36	62,68
Food & Beverages	11,57	10,23	9,47	7,07	11,77	7,85
Textile & Clothing	3,88	7,01	2,84	2,83	2,26	1,63
Paper,Print,	0,51	2,36	0,54	3,77	1,4	0,25
Rubber	5,52	1,79	0,84	1,59	2,21	1,63
Plastic	0,04	0,29	0,53	0,47	1,77	1,43
Glass	2,34	2,6	1,07	0,73	0,54	0,12
Transportat. Vehic.	18,05	10,87	10,03	4,99	9,64	36,78
Aeroplane	n.a.	n.a.	0,08	n.a.	1,66	1,59
Metal Products	4,51	3,1	1,23	0,53	1,94	0,25
Iron & Steel	n.a.	2,93	3,27	4,17	3,65	0,09
Machinery	3,68	2,32	3,36	0,71	0,16	0,14
Elect. Machinery and Electronics	24,8	6,01	7,2	8,82	6,49	8,99
Cement & Soil Pro.	0,87	2,66	0,58	0,25	1,88	0,29
Other Manufacturing	1,06	4,09	0,72	1,21	1,75	1,63
Agriculture	0,01	2,43	2,9	2,22	2,73	1,27
Mining	0,21	0,7	1,08	1,02	1,75	2,45
Services	12,53	28,07	44,81	45,88	41,66	33,60
Tourism	3,99	4,71	6,45	12,06	8,73	7,11
Banking	8,39	12,43	18,07	8,17	9,02	3,39
Trade	n.a.	n.a.	5,99	11,25	5,15	4,62
Other Services	0,15	11,83	14,3	14,41	18,25	18,47
TOTAL	100,00	100,00	100,00	100,00	100,00	100,00

Sources: Turkiye'de Yabanci Sermaye, State Plan Organization, (1983, 1987, 1990), 13-22.
Yabanci Sermaye Raporu(1990-1992), T.C. Basbakanlik Hazine Mustesarligi, 43.
Turkey Main Economic Indicators, State Planning Organization,(1997), 73,74.
Yabanci Sermaye Raporu(1993-1995), T.C. Basbakanlik Hazine Mustesarligi, 121.

Table 6: Source Country Distribution of Authorized FDI

Source Country	1980-1983	1984-1986	1987-1989	1990-1992	1990-1995
	(%)	(%)	(%)	(%)	(%)
Belgium	0	3,05	1,38	0,80	2,93
Denmark	1,72	2,4	1,23	0,43	0,27
France	5,37	2,56	12,22	22,56	14,61
Germany	19,48	8,65	9,84	9,66	11,80
Italy	1,47	1,91	5,15	6,49	10,40
Japan	n.a.	0,7	6,5	3,44	9,86
Netherlands	2,65	2,66	5,33	11,25	14,74
Saudi Arabia	0,43	9,32	1,26	1,47	0,54
Switzerland	32.09	9,27	13,17	7,80	7,99
UK	3,48	6,15	15,05	8,35	4,99
USA	13,8	24,98	11,01	13,95	12,02
Other	18,84	12,25	17,45	13,7	9,85
TOTAL	100	100	100	100	100

Sources: Turkiye'de Yabanci Sermaye, State Plan Organization, (1983), 33, 35, 37.
Turkiye'de Yabanci Sermaye, State Plan Organization, (1987), 14, 18,22.
Yabanci Sermaye Raporu(1990-1992), T.C. Basbakanlik Hazine Mustesarligi, 17,19,22.
Turkey Main Economic Indicators, State Planning Organization,(1997), 75.

Table 7: Foreign Direct Investment Movements (million $)

Years	Authorized FDI	Capitalized Profits	Net FDI	Profit Transfers
1980	97	35	35	10
1981	338	141	141	9
1982	167	103	103	15
1983	103	87	87	23
1984	271	162	162	16
1985	235	158	158	52
1986	364	170	170	40
1987	655	239	171	47
1988	821	488	406	42
1989	1512	855	738	112
1990	1861	1005	789	102
1991	1967	1041	910	119
1992	1820	1242	912	124
1993	2063	1016	797	162
1994	1477	830	637	140
1995	2938	1250	935	183
TOTAL	16689	8822	7151	1196

Sources: Yabanci Sermaye Raporu(1990-1992), T.C. Basbakanlik Hazine Mustesarligi, 9.
Yabanci Sermaye Raporu(1993-1995), T.C. Basbakanlik Hazine Mustesarligi, 103.
Main Economic Indicators, State Planning Organization, (1997), 73.

Table 8: Manufactured Exports by FDI Firms, 1985-1992 (million $)

Sectors	1985	1986	1987	1988	1989	1990	1991	1992
Food, Beverages, Tobacco	40,55	53,63	50,37	57,03	167,89	182,34	207,31	94,37
Textile, Clothing	15,62	11,78	15,89	15,83	35,68	47,94	46,57	38,8
Plastic, Rubber	1,14	1,25	1,37	1,18	16,28	11,64	51,55	46
Chemicals	5,22	9,11	11,36	21,85	72,64	68,84	119,46	78,88
Transportation Vehicles	38,42	33,7	7,68	12,01	29,96	59,35	116,45	153,04
Iron & Steel	0	0,49	0,06	0	4,07	43,19	76,12	74,87
Metal Products	0,65	1,4	35,5	55,84	44,23	30,24	9,77	1,72
Machinery Electrical	3,36	2,15	11,04	55,21	9,26	12,56	30,65	22,81
Machinery & Electronics	0,62	1,02	0,57	7,44	12,98	47,83	83,61	98,44
Glass, Cement & Soil Products	12,27	6,65	11,63	12,77	16,66	38,47	19,43	21,33
Others	1	6,44	1,35	1,67	2,73	5,28	5,9	3,97
Total	118,85	127,62	145,12	235,22	414,88	550,81	772,31	635,5

Source: Undersecretariat of Treasury and Foreign Trade, Unpublished Data, 1992.

Table 9: Shares of Manufactured Exports by Large FDI Firms (%)

Year	Share of FDI Firms exports in FDI Sales	Share of domestic firms exports in their sales	Share of export in sales for the 500 largest firm	FDI Firms share in total Exports	FDI Share in Total Sales	Share of FDI firms in Turkey's total annual export
1984	12,02	11,56	11,62	11,54	13,95	4,92
1985	8,67	10,66	10,37	42,79	14,9	4,67
1986	5,61	10,18	9,04	15,34	24,9	5,7
1987	9,42	10,56	10,36	15,64	17,04	5,77
1988	18,58	12,29	13,31	21,2	16,29	9,08
1989	13,11	12,42	12,56	21,83	20,91	10,56
1990	11,24	9,63	9,98	22,36	21,84	10,08
1991	6,61	11,6	9,87	23,09	34,71	10,13

Source: Yilmaz, Ayla. Turkey's Foreign Direct Investment Experience During 1980-1992 Period with Special Reference to Manufactured Exports. Unpublished Master's dissertation, Department of Economics, METU, 1993, 117.

Table 10: The Ratios of FDI to GNP and to GDP between 1980 and 1995

Years	FDI Inflows	GNP	GDP	FDI/GNP	FDI/GDP
	($ million)	($ million)	($ million)		
1980	97	68390,6	67457	0,14%	0,14%
1981	338	71504	70419,1	0,47%	0,48%
1982	167	64209,2	63485,1	0,26%	0,26%
1983	103	60491,5	60373,4	0,17%	0,17%
1984	271	59098,2	58643,4	0,46%	0,46%
1985	235	66890,6	66408,3	0,35%	0,35%
1986	364	75173,3	75018,5	0,48%	0,49%
1987	655	85979,2	85638,2	0,76%	0,76%
1988	821	90460	90494,6	0,91%	0,91%
1989	1512	107544,5	106122,5	1,41%	1,42%
1990	1861	150757,8	149195	1,23%	1,25%
1991	1967	150176,8	149155,6	1,31%	1,32%
1992	1820	158156,2	156655,8	1,15%	1,16%
1993	2063	169935,3	168356,1	1,21%	1,23%
1994	1477	164856,4	163843,9	0,90%	0,90%
1995	2938	171122,7	169467,7	1,72%	1,73%

GNP, GDP and FDI values are at current prices

Sources: Yabanci Sermaye Raporu(1993-1995), T.C. Basbakanlik Hazine Mustesarligi, 103.

Gross National Product, Concept, Methods, and Sources, State Institue of Statistics Prime Ministry Republic of Turkey, (1994), 67-70.

Turkey Main Economic Indicators, State Planning Organization,(1997), 13-15.

Table 11: Sectoral Distribution of Authorized FDI, 1990-1992 (in million $)

Sector	Total Author. Capital	New Investment	Sector Share
Manufacturing (Total)	3583,42	972,67	63,48%
Food & Beverages	493,96	77,39	8,75%
Tobacco	256,45	233,9	4,54%
Textile & Clothing	108,23	43,76	1,92%
Paper, Print	28,79	11,23	0,51%
Rubber	39,43	0,05	0,70%
Plastic	61,55	9,25	1,09%
Chemicals	528,18	34,96	9,36%
Glass	13,71	0,38	0,24%
Transportat. Vehicles	662,27	322,3	11,73%
Aeroplane	57,56	22,52	1,02%
Metal Products	139,44	102,98	2,47%
Iron & Steel	238,44	6,27	4,22%
Machinery	10,1	6,27	0,18%
Elect. Machinery	327,06	45,96	5,79%
and Electronics			
Cement & Soil Pro.	500,26	15,64	8,86%
Other Manufacturing	117,99	39,81	2,09%
Agriculture	123,96	10,14	2,20%
Mining	105,87	34,1	1,88%
Services	1831,67	712,05	32,45%
Tourism	560,44	171,16	9,93%
Banking	306,74	60,86	5,43%
Trade	295,71	143,64	5,24%
Other Services	668,78	336,39	11,85%
TOTAL	5644,92	1728,96	100,00%

Source: Yabanci Sermaye Raporu(1990-1992), T.C. Basbakanlik Hazine Mustesarligi, 23, 24, 27, 28, 31, 32.

Table 12: Sectoral Distribution of Authorized FDI, 1993-1995 (in million $)

Sector	Total Author. Capital	New Investment	Sector Share
Manufacturing (Total)	4088	629,51	71,00%
Food & Beverages	660,8	118	11,48%
Tobacco	108,1	3	1,88%
Textile & Clothing	100,9	27	1,75%
Paper,Print,	17,8	3	0,31%
Rubber	119,1	0,8	2,07%
Plastic	71,2	9,25	1,24%
Chemicals	791,8	32	13,75%
Glass	10,1	7	0,18%
Transportat. Vehic.	1553,6	367	26,98%
Aeroplane	13,8	0	0,24%
Metal Products	29,6	5	0,51%
Iron & Steel	83,7	11	1,45%
Machinery	4,2	2,46	0,07%
Elect. Machinery and Electronics	467,6	11	8,12%
Cement & Soil Pro.	11,5	2	0,20%
Other Manufacturing	44,2	31	0,77%
Agriculture	70,6	46	1,23%
Mining	51,7	11	0,90%
Services	1547,8	645	26,88%
Tourism	339	150	5,89%
Banking	208,7	30	3,62%
Trade	288,8	119	5,02%
Other Services	612,5	167	10,64%
TOTAL	5758,1	1331,51	100,00%

Source: Yabanci Sermaye Raporu(1993-1995), T.C. Basbakanlik Hazine Mustesarligi, 107, 114,121.

Table 13: Turkey's Export to the European Community Countries Between 1980 and 1989 (1000 $)

Sectors	1980	1981	1982	1983	1984	1985	1986	1987	1988	TOTAL
Food	61719	60667	48938	71404	56097	88607	108611	304755	212400	1013198
Chemicals	10996	15472	13233	12237	20992	24617	47852	73305	130062	348766
Plastics,Rubber	2846	4734	3452	8969	8414	14825	34673	59719	77582	215214
Leather	20829	42594	79472	109279	276631	426611	270424	530377	376830	2133047
Textiles	297411	387704	392076	383254	410739	367787	389320	386476	478351	3493118
Clothing	60109	91989	239502	389790	591429	400946	459041	680637	819631	3733074
Seramics,Glass	10538	12449	15973	20152	34707	48190	54077	73393	97110	366589
Iron,Steel	19039	16826	32063	15591	28399	39298	82444	64274	207201	505135
Non-electric	7274	11757	13000	14289	28717	182005	85391	361285	52899	756617
Electrics	1133	2767	3261	4688	8633	51275	20108	62423	85638	239926
Transport	10244	21230	14487	23578	20398	26181	23550	43690	32900	216258
Optical Instruments	40	126	114	185	118	15175	8461	10007	753	34979
TOTAL	502178	668315	855571	1053416	1485274	1685517	1583952	2650341	2571357	13055921

Source: Undersecretariat of Treasury and Foreign Trade, Unpublished Data, 1998

Table 14: Turkey's Export to the European Community Countries Between 1990 and 1995 (1000 $)

Sectors	1989	1990	1991	1992	1993	1994	1995	TOTAL
Food	143816	240251	328693	312505	324665	440526	518096	2308552
Chemicals	172433	128574	99995	112529	108627	168830	180076	971064
Plastics,Rubber	100598	97914	115315	135032	134745	165009	257136	1005749
Leather	407633	580860	471903	409614	386881	327226	315515	2899632
Textiles	659976	684386	624980	522531	508210	654177	749107	4403367
Clothing	1809700	2335568	2685128	3281290	3237599	3255285	4367483	20972053
Seramics,Glass	118282	171811	169274	190919	183840	209784	265609	1309519
Iron,Steel	252110	370933	176275	202492	138118	293450	504755	1938133
Non-electric	86061	121067	113259	159701	143787	258493	354296	1236664
Electrics	161196	331411	416099	505749	390535	414476	572758	2792224
Transport	75151	71698	110973	119456	133609	198420	400282	1109589
Optical Instruments	1171	2054	4368	18199	10777	14727	14694	65990
TOTAL	3988127	5136527	5316262	5970017	5701393	6400403	8499807	41012536

Source: Undersecretariat of Treasury and Foreign Trade, Unpublished Data, 1998

Table 15: Turkey's Export to The Middle East Countries Between 1980 and 1989 (1000$)

Sectors	1980	1981	1982	1983	1984	1985	1986	1987	1988	TOTAL
Food	28919	61741	156872	172483	266672	161380	88355	128444	122645	1187511
Chemicals	14072	24611	41349	44327	52331	58365	74202	148498	133413	591168
Plastics,Rubber	10369	37511	45240	56916	73080	75857	71793	141004	142296	654066
Leather	131	292	582	931	1128	743	3189	86515	16943	110454
Textiles	18432	51915	81545	98792	97121	97544	65333	43135	43484	597301
Clothing	8059	39837	37251	18883	55530	105389	56516	64082	71372	456919
Seramics,Glass	15874	53983	52255	53569	63742	78062	57635	66067	61218	502405
Iron,Steel	8019	34395	278140	347977	443144	855321	392855	431476	482813	3274140
Non-electric	13108	34144	59511	62654	47199	149532	86339	169890	125001	747378
Electrics	411	575	5855	32855	40070	44913	69331	95839	113263	403112
Transport	29502	71567	65759	78010	71218	94959	20633	32628	35976	500252
Optical Instruments	79	40	57	68	273	2021	1925	13784	6424	24671
TOTAL	146975	410611	824416	967465	1211508	1724086	988106	1421362	1354848	9049377

Source: Undersecretariat of Treasury and Foreign Trade, Unpublished Data, 1998

Table 16: Turkey's Export to The Middle East Countries Between 1990 and 1995 (1000$)

Sectors	1989	1990	1991	1992	1993	1994	1995	TOTAL
Food	128614	89771	225706	286966	237798	311878	310198	1590931
Chemicals	93058	83100	64778	78680	52565	37391	41068	450640
Plastics,Rubber	92599	67622	108027	123288	111309	105383	104845	713073
Leather	2774	1773	2845	2611	2614	2445	1957	17019
Textiles	105509	102757	133397	172520	140407	174859	161983	991432
Clothing	73759	56552	55044	79029	82163	84764	94388	525699
Seramics,Glass	44400	41547	36293	55704	44273	37962	43550	303729
Iron,Steel	433939	398467	371878	356168	384880	397339	536996	2879667
Non-electric	38735	27290	25573	49811	45864	52189	48527	287989
Electrics	48729	67469	46155	22497	55874	36775	45521	323020
Transport	12954	10548	9316	26077	33752	46636	44391	183674
Optical Instruments	1180	1434	675	1165	1435	1958	1795	9642
TOTAL	1076250	948330	1079687	1254516	1192934	1289579	1435219	8276515

Source: Undersecretariat of Treasury and Foreign Trade, Unpublished Data, 1998

APPENDIX C

Table 1: Realized FDI Inflows, 1950-1979
(in million US $)

Year	Annual FDI Inflow	Cumulative FDI Inflow
Pre-1954	2,8	2,8
1954	2,2	5
1955	1,2	6,2
1956	3,4	9,6
1957	1,3	10,9
1958	1,1	12
1959	3,4	15,4
1960	1,9	17,3
1961	1,2	18,5
1962	4,2	22,7
1963	4,5	27,2
1964	11,9	39,1
1965	11,6	50,7
1966	9,7	60,4
1967	9	69,4
1968	13,9	83,3
1969	13,2	96,5
1970	9	105,5
1971	11,7	117,2
1972	12,8	130
1973	67,3	197,3
1974	-7,7	189,6
1975	15,1	204,7
1976	8,9	213,6
1977	9,2	222,8
1978	11,7	234,5
1979	-6,4	228,1

Source: Turkey Main Economic Indicators, State Planning Organization,(1987), 10.

Table 2: Sectoral Distribution of FDI Inflows, 1950-1974, 1975 and 1979 (in %)

Sector	1950-1974			1975	1979
	Number of Firms	**Sub-sector Share in main sector (%)**	**Sector Share in Total FDI(%)**	**Sector Share in Total FDI**	**Sector Share in Total FDI**
Manufacturing(sum)	133	100	91,92	86,29	79,37
Food	8	8,82	8,1	6,81	5,39
Baverages	4	2,3	2,11		
Textile and clothing	7	2,04	1,88	0,99	0,58
Paper	1	0,5	0,46	2.24	1,93
Rubber	5	13.82	12,71	10,22	8,83
Chemicals	31	19	17,46	13,67	11,07
Glass	1	0,13	0,12	2,09	1,8
Transportation Vec	11	18.23	16,76	23,35	22,32
Metal Products	11	4,87	4,48	3,93	9,89
Machinery	15	6,42	5,9	2,56	4,64
Electrical Machinery and Equipment	10	16,78	15,43	14,28	11,77
Soil,Stone Products	10	5,41	4,97	2,51	0,95
Forestry Products	1	0,09	0,08		
Building Materials	1	0,02	0,02		
Other Manufacturing	4	1,57	1,44	0,05	0,22
Agriculture	3	100	0,28	0,05	0,04
Mining	5	100	0,59	1,1	79
Services	18	100	7,21	12,56	19,8
Trade	3	6,34	0,46		
Banking	2	21,55	1,55	2,37	4,36
Other Services	13	72,11	5,2	0,41	0,16
TOTAL	159		100	100	100

Sources: G. Uras, Turkiye'de Yabanci Sermaye Yatirimlari, (Istanbul: Formul Matbaasi,1979), 163-167.
Turkiye'de Yabanci Sermaye, State Planning Organization, (1983), 12, 20.

Table 3: Source Country Distribution of FDI Inflows, 1950-1974
(in million US $)

Source Country	Number of Firms	Authorized FDI	Realized FDI	Country share in Realized FDI (%)
Austria	7	6,49	1,61	1,17
Belgium	3	1,86	0,85	0,62
Canada	2	2,88	2,35	1,7
Denmark	5	1,35	1,98	1,44
France	11	16,53	5,63	4,08
Germany	29	56,67	19,72	14,29
Israel	1	0,34	0,01	0,01
Italy	9	21,25	15,82	11,47
Kuwait	0	7,2	0	0
Netherlands	8	16,26	16,67	11,79
Pakistan	0	1,4	0	0
Spain	0	0,14	0	0
Sweden	3	3,96	0,64	0,46
Switzerland	19	32,7	14,64	10,61
UK	8	8,9	6,1	4,42
USA	41	61,98	33,28	24,12
Unified	13	46,96	19,06	13,82
TOTAL	159	286,87	137,96	100

Source: G. Uras, Turkiye'de Yabanci Sermaye Yatirimlari, (Istanbul: Formul Matbaasi,1979), 164, 168.

Table 4: Source Country Distribution of FDI Stocks, 1975
(in million TL)

Source Country	Number of Firms	Authorized FDI	Realized FDI	Country share in Realized FDI (%)
Austria	6	31,22	67	1,43
Belgium	6	77,67	19,22	3,57
Canada	1	51	51	2,34
Denmark	5	88,62	47,16	4,07
France	8	241,94	43,68	11,11
Germany	24	326,76	46,61	15,01
Italy	6	289,06	42,7	13,28
Japan	1	80	40	3,67
Kuwait	1	64,8	40	2,98
Netherlands	6	122,51	66,31	5,63
Sweden	2	4,96	22,53	0,23
Switzerland	13	247,36	56,48	11,36
UK	5	62,17	41,37	2,86
USA	20	396	28,85	18,19
Venezuela	1	4,5	100	0,21
Unified	5	88,86	41,66	4,08
TOTAL	109	2177,42	40,19	

Source: Turkiye'de Yabanci Sermaye, State Planning Organization, (1983), 13.

Table 5: Source Country Distribution of FDI Stocks, 1979
(in million TL)

Source Country	**Number of Firms**	**Authorized FDI**	**Realized FDI**	**Country share in Realized FDI** (%)
Austria	2	3,7	34,26	0,15
Belgium	2	9,1	67,41	0,36
Canada	1	51	51	2,03
Denmark	4	39,9	24,8	1,58
Finland	1	34,7	61,96	1,38
France	6	426,1	44,9	16,92
Germany	23	386,34	46,59	15,34
Italy	5	257,65	40,24	10,23
Japan	2	19	40	0,75
Kuwait	1	64,8	60,64	2,57
Netherlands	6	106,9	25	4,24
Sweden	2	5,5	63,86	0,22
Switzerland	7	252,3	43,92	10,02
UK	5	81,3	47,64	3,23
USA	13	323,36	13,39	12,84
Unified	5	281,39	9,05	11,17
Internat. Institut.	6	175,44	29,7	6,97
TOTAL	91	2518,48	40,19	100

Source: Turkiye'de Yabanci Sermaye, State Planning Organization, (1983), 21.

Table 6: The Ratios of FDI to GNP between 1968 and 1979

Year	**Annual FDI Inflow** (**$ million**)	**Annual GNP** (**$ million**)	**FDI/ GNP Ratios** (%)
1968	13,9	18050	0,00077
1969	13,2	20193	0,00065
1970	9	19031	0,00047
1971	11,7	17244	0,00068
1972	12,8	21968	0,00058
1973	67,3	27947	0,00241
1974	-7,7	38242	-0,00020
1975	15,1	47452	0,00032
1976	8,9	53684	0,00017
1977	9,2	61264	0,00015
1978	11,7	66828	0,00018
1979	-6,4	81696	-0,00008

The ratio calculations are made by using FDI and GNP data.
Sources: Turkey Main Economic Indicators, State Planning Organization,(1987), 10.
Gross National Product: Concepts, Methods, and Sources, State Institute of Statistics, (1994), 67.

APPENDIX D

Table 1: Value of Exports of Selected Latin American Countries in Selected Years Between 1979 and 1988 (Millions of Dollars)

Countries	**1970**	**1975**	**1979**	**1980**	**1981**	**1982**	**1983**	**1984**	**1985**	**1986**	**1987**	**1988**
Argentina	1173	2961	7813	8020	9143	7626	7835	8107	8396	6852	6360	9135
Brazil	2739	8670	15244	20132	23680	20213	21899	27005	25639	22376	26225	33787
Chile	1234	1552	3894	4671	3906	3710	3836	3657	3823	4222	5102	7048
Mexico	1311	2992	8818	15301	20041	17916	20634	24196	21644	16031	20656	20658
Colombia	736	1465	3300	3945	2956	3095	3081	3483	3552	5102	4642	4873
Peru	1065	1291	3676	3916	3249	3227	3027	3131	2705	2467	2626	2672

Sources :Trade and Development Report, 1987, UNCTAD (Paris: UN Publications, 1987),4.
Trade and Development Report, 1989, UNCTAD (Paris: Un Publications, 1989), 4.

Table 2: Latin America: Trade in Manufacturers by Major Regions of Originand Destination, 1970-1990 (Percentage Share)

	Exports			**Imports**		
Origin/Destination	**1970**	**1980**	**1990**	**1970**	**1980**	**1990**
World	100,0	100,0	100,0	100,0	100,0	100,0
Developed Market Economies of which:	54,2	46,0	66,5	88,0	83,1	79,6
Western Europe	18,3	18,5	17,1	37,8	29,8	26,5
USA	31,3	21,9	43,3	38,2	38,6	41,2
Developing Countries of which:	44,3	51,6	31,7	7,1	12,6	15,4
Latin America	41,7	44,0	22,2	6,0	9,6	9,5

Source :Trade and Development Report, 1994, UNCTAD (Paris: UN Publications, 1994), 21.

Table 3: Export GDP Ratios of Selected Latin American Countries in Selected Years (Percentages)

Countries	**1980**	**1985**	**1990**	**1992**
Argentina	5,1	11,7	10,4	6,6
Brazil	9,1	12,2	7,2	10
Chile	22,8	29,1	36,5	33,4
Colombia	16,2	13,8	20,4	21,2
Mexico	10,7	15,4	15,8	13,6
Peru	13,7	15,3	14,6	13,5
Venezuela	28,8	25	39,4	25,5

Source: David Felix, "Industrial Development in East Asia: What are The Lessons for Latin America?," UNCTAD, Discussion Papers No: 84 (May 1994), 23.

Table 4: Commodity and Geographical Structure of Exports from Latin America in 1990 (Percentage Distribution)

Region	**Food**	**Agricultural Raw Materials**	**Ores and Metals**	**Fuels**	**Manufacturers**	**Total Exports**
World	27,0	3,3	11,4	26,5	30,8	100,0
Developed Market Economies of which:	28,1	3,5	14,0	21,0	32,6	100,0
Western Europe	41,6	5,0	19,1	10,0	23,3	100,0
USA	20,1	2,1	6,5	29,9	40,9	100,0
Developing Countries of which:	25,8	4,6	9,6	12,1	47,6	100,0
Latin America	22,1	4,2	7,0	16,3	50,2	100,0

Source :Trade and Development Report, 1994, UNCTAD (Paris: UN Publications, 1994), 21.

Table 5: Annual Average of Net FDI of Selected Latin American Countries in Selected Periods (billion dollars)

Countries in selected periods (billion dollars)	**1980-1981**	**1982-1985**	**1986-1989**	**1990**	**1991**	**1992-1995**	**1996**
Argentina	0,9	0,4	0,7	2,0	2,4	3,2	2,0
Brazil	1,9	1,7	1,2	0,2	1,66	1,66	5,5
Chile	0,3	0,2	0,2	0,2	0,6	1,3	2,2
Mexico	2,5	0,7	2,6	2,6	4,8	5,3	6,4
Venezulela	0,1	0,1	-0,1	0,4	1,9	0,5	1,4

Sources :Trade and Development Report, 1993, UNCTAD (Paris: UN Publications, 1993), 55.

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Table 6: External Trade of MERCOSUR, 1988-1994
(Million USD and Percentage)

	1988	1989	1990	1991	1992	1993	1994
Total Exports (USD)	44829	46555	46333	45911	50847	54085	62027
Intra-MERCOSUR Exports(%)	6,5	8,2	8,9	11,1	14,3	18,6	19,3
Total Imports (USD)	23076	26061	29302	34264	40649	48509	62422
Intra-MERCOSUR Import(%)	13,3	15,1	14,5	15,5	18,4	19,6	19,6

Source: Magnus Blomstrom and Ari Kokko, "How Foreign Investment Affects Host Countries," The World Bank International Economics Department Development Data Group and International Finance Division,Policy Research Working Paper No:1745 (March 1997),34.

Table 7: FDI Flows of Developed Countries, 1981-1990
(Billion Dollars)

			% changes of	
Years	**Outward**	**Inward**	**Outward**	**Inward**
1981	46	32		
1982	18	22	-0,61	-0,31
1983	23	23	0,28	0,05
1984	31	31	0,35	0,35
1985	50	27	0,61	-0,13
1986	86	64	0,72	1,37
1987	135	108	0,57	0,69
1988	161	129	0,19	0,19
1989	201	165	0,25	0,28
1990	217	152	0,08	-0,08
1981-1985	168	134	-0,23	-0,12
1986-1990	800	618	3,76	3,61

Percentage changes are calculated from outward and inward flows.
Source: Edward M Graham and Paul R. Krugman, "The Surge in FDI in The 1980s," Foreign Direct Investment, ed. Kenneth A. Froot (Chicago: The University of Chicago Press, 1993), 18.

Table 8: Rates of Growth of Real GDP of Latin American Countries Between 1968-1992 (Percentage)

	1968-72	1973-77	1978-82	1983-87	1988-92
Argentina	3,1	2,1	-0,6	0,9	3,0
Brazil	8,2	6,8	2,7	6,2	-0,5
Chile	3,7	-1,0	2,4	4,7	6,3
Colombia	6,4	4,0	3,1	4,3	3,2
Mexico	6,1	4,7	6,3	0,7	3,6
Peru	5,6	3,0	3,7	6,0	-3,6
Urugay	2,0	3,7	1,5	4,5	2,8
Venezuela	4,8	6,8	-0,3	2,9	4,7

Source: Manuel R., Agosin "Saving and Investment in Latin America," UNCTAD, Discussion Papers No: 90 (October 1994), 17.

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