THE POLITICAL ECONOMY OF FOREIGN DIRECT INVESTMENT IN TURKEY 1950-1980

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by

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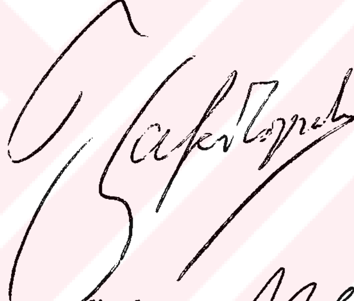
Prof. Zafer Toprak 

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Abstract

In the Turkish Republic, especially in the 1960s and 1970s Foreign Investment was regarded as a very suspicious subject as a result of the capitulations and a substantial amount of Ottoman Debt. There were many debates about the issue in the press and in public and most of the studies in this period had generally a normative way of looking at the Foreign Direct Investment (FDI) issue.

Although Law 6224, the encouragement of Foreign Investment, which was designed as a liberal law, was enacted in 1954, it was used as a law discouraging foreign investment due to this suspicious attitude. During this period a very small amount of FDI entered into Turkey and its share was very insignificant in the Turkish economy.

When we compare the amount of FDI coming to Turkey with the corresponding amounts in some other developing countries we clearly see that our findings strengthens that the share of FDI in Turkey is insignificant. These countries enjoyed an inflow of FDI averaging one-three billion dollars per year while Turkey received averaging eight-ten million dollars per year in this period.

This thesis studies the FDI in Turkey between 1950 and 1980 and examines the contribution of the FDI to the economic growth, employment and tax revenues. In addition, it aims to ascertain the obstacles and impediments that obstruct the greater flow of private foreign investment into Turkey.

Özet

Osmanlı İmparatorluğu'ndan miras kalan kapitülasyonlar ve dış borçlar, Türkiye Cumhuriyeti'nde, özellikle 1960 ve 1970'li yıllarda yabancı sermayeye karşı şüpheci bir yaklaşımın doğmasına neden olmuştur.

1954 yılında yürürlüğe giren 6224 sayılı yabancı sermayeyi teşvik kanunu oldukça liberal hükümler taşımasına rağmen bu şüpheci yaklaşımın sonucunda, yabancı sermayenin gelişini engelleyici bir biçimde kullanılmıştır. Bu dönemde Türkiye'ye gelen yabancı sermaye oldukça düşük miktardadır ve ekonomiye katkısı önemsiz denebilecek boyuttadır.

Türkiye'yi diğer bazı gelişmekte olan ülkelerle karşılaştırdığımız zaman Türkiye'ye gelen yabancı sermaye miktarının ne derece önemsiz boyutta olduğu daha iyi görülmektedir. Bu ülkeler yılda ortalama bir-üç milyar dolarlık yabancı sermaye çekerken, aynı dönemde, Türkiye'ye yılda ortalama sekiz-on milyon dolarlık yabancı sermaye girişi olmuştur.

Bu tez 1950 ve 1980 arası Türkiye'de doğrudan yabancı sermaye yatırımlarını çalışmakta ve yabancı sermayenin ekonomik büyümeye, istihdama ve ülkenin vergi gelirlerine olan etkisini incelemektedir. Çalışma, aynı zamanda yetersiz yabancı sermaye girişinin nedenleri üzerinde de durmaktadır.

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PREFACE

This thesis is written with a purpose to evaluate the activities of foreign firms in Turkey. Foreign Direct Investment, generally, is regarded as a very suspicious subject in Turkey. In addition, most of the studies and discussions in the 1970s were lack of an objective, empirical analysis of foreign direct investment. Therefore to study the activities of foreign firms and to examine their contribution to Turkish economy becomes interesting. However, it should be mentioned that there is not any reliable statistical material about FDI in Turkey. The empirical findings of many economists differ from each other. Therefore, all of the statistical data are analyzed to reach a proper conclusion.

This thesis has seven chapters. The first and the second chapters offer a survey of foreign direct investment theories. The concept of foreign investment and the economic and business theories of foreign direct investment are examined. In this way, the question of why firms invest abroad is examined.

Chapter 3 deals with the economic growth dilemma of developing countries and examines the theories that deal with the necessity of foreign direct investment to realize economic growth in these countries. In addition, the theories that criticize the models that give priority to foreign direct investment to realize economic growth in developing countries will be examined.

In Chapter 4, international FDI activities are examined to understand whether there is a direct relationship between FDI activities and the international economic conjuncture or not. Also, the tendency of FDI movements is analyzed by examining the FDI stock shares of the countries in the world.

Chapter 5 describes the foreign direct investment activities in Turkey with respect to the historical context. The political economy of FDI in Turkey examined. The Turkish foreign investment encouragement laws are summarized.

In Chapter 6, some data such as the amounts and the ratios of authorized and realized FDI, the distribution of FDI in Turkey among different countries, the contribution of FDI to economic growth, employment, and tax revenues are calculated and presented in tables.

Chapter 6 also deals with the problem of inadequate flow of FDI into Turkey from a comparative perspective. Although this thesis puts forward the contribution of foreign direct investment to the Turkish economy by quantitive studies, it cannot elucidate the reasons for the inadequate inflow of FDI by using the same methods. In order to compensate for this, data obtained from the questionnaires and personal interviews were used to evaluate the Turkish foreign investment climate.

In addition, the role of bureaucracy, economic climate, attitudes of the governments to the foreign firms will be examined to understand the reasons for the inadequate inflow of FDI.

CHAPTER 1

INTRODUCTION

Concepts

Portfolio investment is referred to as short-term capital flow and to the exchange of a financial asset of a foreign country in the international capital markets. In this way, capital flows from one country to another and differs from foreign direct investment in that it can take place in a variety of forms, such as through stocks and bonds, short-term credit forms. Foreign direct investment is referred to as long-term capital flow and differs from portfolio investment by taking place in kind, through the exchange of property (patents, technology or machinery) and by acquiring control of a company. It also differs from other kinds of international capital movements in that direct investment proceeds by the reinvestment of profits and accompanied by varying degrees of control, plus technology and management.[1]

In brief FDI is an operation realized by the firms of one country by owning a firm, constituting a new firm, or enlarging the firm's capital in another country. In addition, management skills, control authority and technology accompany direct investment activities, and investors can transfer money, machinery or patent rights as direct investment.[2]

[1] Charles Kindleberger, *American Investment Abroad* (New Haven: Yale University Press 1969), p.2.
[2] Jack N. Behrman, "Promoting Free World Economic Development through Direct Investment", *American Economic Review* (May 1960), pp. 270-282.

The Origins of the Political Economy of International Trade and FDI

In the nineteenth century, the free trade theories generated by Adam Smith and David Ricardo[3] explained and supported the increasing volume of international trade activities. However, there was no systematic explanation of firms investing abroad. This could be due to the growing importance of portfolio investments rather than direct investments or to economists paying attention to international trade theories as a result of the significant increase in volume of international trade. According to free trade theory, voluntary trade between two countries by concentrating on producing goods with which they have the comparative advantage - absolutely more comparative in a specific product - is the best known proposition in the theory of international trade. This theory is inadequate in general not only because of its inadequacy to explain foreign investment activities, but also it doesn't sound convincing to policymakers in most countries – developed and developing – and to some economists.[4]

As foreign investment by European firms in the late nineteenth century grew, political economists started to investigate the nature of foreign investment. One of the theoretical studies took place in Lenin's writings.[5] Lenin largely focused on the working of capitalism, and foreign investment was a distinctive feature of the "last stage of capitalism". However, His main concern was the functioning and the future of capitalism rather than generating a theory of FDI. Like most of the early political economists who were his contemporaries, he also preferred historical methods as the

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[3] See David Ricardo, *The Principles of Political Economy and Taxation* (London: G Bell and sons, 1932); Adam Smith, *The Wealth of Nations* (New York: Collier, 1902).
[4] T.N. Srinivasan, *Handbook of Development Economics*, v. 2 ed, H. Chenery and T.N. Srinivasan, Amsterdam: North Holland 1989 p. 1141.
[5] V. I Lenin, *Imperialism: The Highest Stage of Capitalism* (New York: International Publishers, 1977).

mode of analysis. According to him, FDI activities were a part of and the last stage of the international capitalist system and as the profit ratio in developed countries started to decrease because of the demand for increasing standards of living capital then was exported abroad to the less developed periphery countries. In these countries profits were usually high, for capital was scarce, the price of land and wages were low, and raw materials were cheap.[6] In the following chapters of his book, Lenin points out the relationship between monopoly as a transition from capitalism to a higher system and exporting capital abroad.[7] This view was later developed by political economists to explain the nature of Multinational Corporations (MNC).

The early writings of political economists about FDI were multidisciplinary analyses. They analyzed the subjects with concepts belonging to the fields of economics, sociology, and history, and their methodology was generally qualitative. The early political economists studying foreign investment differed from the economists in the 1970s in that the latter elaborated theories and models including testing results, statistical analysis and comparative case studies.

Until the 1960s, except for a few works by political economist works, there was no systematic model of or theory on FDI activities. Actually, foreign investment was recognized as a part of international trade activities, and generally explained by trade theories. One of the contemporary international trade theories was the Heckscher-Ohlin model of trade. According to this model, trade between two countries takes place not because of the differential labor productivity that arises from technological difference as Ricardo argues, but because of the differences in factor endowments among countries with the assumptions that all countries have access to the same technology, constant returns to scale in production, and pure competition in

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[6] Ibid., p.63.
[7] Ibid., p.88.

the international and national markets. Model implies that Ricardo exposed labor-value theory as the unit of analysis, although he did not explain the reasons for the differences of production costs in countries. The theory states that a trade takes place between two countries that have different factor endowments, capital intensive or labor intensive. However, as will be discussed below, later on, the emergence of FDI theories implying the imperfect market approach became a threat to Heckscher-Ohlin's theory.

As the FDI activities began to increase significantly after 1950, the need of an FDI theory emerged in the intellectual community in the 1960s. This is strongly related with the new international economic conjuncture emerged after the end of Second World War. After the War, as the peace was maintained the volume of international trade increased rapidly. Between 1945 and 1950 capital stock in the U.S. reached a significant level and U.S. industry had not been subjected to any damages during the war years. In addition, during the war U.S. industry had overcome the problems of unemployment and demand shortage that the economic depression had created in the 1930s, reaching full employment. At the end of the war, as the peace was maintained, U.S. industry rearranged its production techniques in response and excess capital began to flow abroad.

Although many economists were aware of the capital flowing abroad owing to the conditions created by the Second World War, there was no systematic analysis of FDI and Multinational Corporations (MNC) until the 1960s. However, between 1945 and 1960 subjects related to foreign investment were discussed generally in the works of development economists. This was strongly related with the necessity of external sources in late developing countries in order to realize higher economic growth rates. After the Second World War, as most of the colonies and semi-colonies

became independent nation-states, a strong demand emerged by the governors of independent countries to experience rapid growth rates and economic development; also, at that time the western and eastern blocks were competing to integrate late developing countries (LDC) into their economic systems. Therefore, to understand why these countries were unable to realize industrialization and to make suggestions to help them, development economics emerged as a branch of economics and development economist mentioned the importance of FDI in the development process of LDCs.

At that moment, the world was divided economically and politically into a two-poled system. In western developed countries, Keynesian economic policies including government intervention were put into practice to achieve sustained economic growth and the welfare state was the main objective. However, for the proper functioning of the international economic order and to realize sustained growth, it became necessary to devise an institutional framework which promoted growth of trade, assisted in the reconstruction of European countries and helped in the economic development of the LDCs. For this purpose the International Monetary Fund (IMF), the International Trade Organization (ITO) and the International Bank of Reconstruction and Development (IBRD) were established after the Bretton Woods conference in 1944. The General Agreement on Tariffs and Trade (GATT), taking ITO's place, was first signed in 1947 and it aimed to sustain liberal trading. After the establishment of these institutions, the United Nations Conference on Trade and Development (UNCTAD) was established in the sixties to facilitate trade issues in the context of development.

The establishment of these institutions led to a significant increase in international trade activities. Regulating the rules of international economic relations

and maintaining a strong international currency sustained the proper functioning of the international economic activities. Assisting the European countries and, later on developing countries, led to an increase in the GNP of these countries, which also meant an increase in demand for U.S. goods. Parallel to the growth of international trade, foreign investment, especially foreign direct investment, activities increased significantly. FDI reached such important high levels that scholars began to examine and sought to formulate a general theory of FDI activities.

In sum, prior to 1960, there was no unique theory of the determinants of FDI. Generally, in the earlier studies done by political economists, the central issue had been the functioning of capitalism and the maintenance of international trade activities. These studies did not look at the incentives or general tendency of FDI activities.

CHAPTER 2

THEORIES EXPLAINING FOREIGN DIRECT INVESTMENT

Economic Theories Explaining FDI

After 1960 economists began to study the FDI phenomenon. The motives of firms investing abroad, licensing their advantages instead of having a foreign operation, came under examination. Stephen Herbert Hymer made the first theoretical approach. In his doctorate thesis, which he wrote at M.I.T., microeconomic analysis was introduced into the study of FDI. According to Hymer, MNCs were the product of imperfect competition and should be analyzed with models from the field of industrial organization. He also put forward the reasons for the necessity of the ownership of subsidies for MNCs rather than giving a license to a local firm.

Hymer's most popular argument, which has been used many times by other economists, such as Kindleberger, was the firm advantage argument. Hymer implies that the unequal ability of firms is a sufficient condition for foreign investment. If a foreign company prefers to invest abroad it should have specific advantages over the native companies because, national companies have the general advantage of better information about their country, in areas such as the economy, language, and law.[8] Second, Hymer discusses the importance of market conditions. According to him, if markets were imperfect, profits would be increased as a result of collusion. For instance, if a merger occurs, competition between the two units is eliminated, and total

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[8] Stephen Hymer, *The Theory of International Operations* (Cambridge, MA: MIT Press 1976), p. 34.

profits are increased.[9] If entry into markets is difficult, and there are only a few companies, the profit ratio and the attractiveness of entry will be increased for the foreign company because of the high profit rate. If entry into a market is not difficult, there is not much point in trying to control the market as the entry of other firms would begin to decrease profit. When there are more than a few firms, cooperation becomes more difficult.[10] Especially, the imperfect market structure is a reason for international operations where raw materials are involved and diversification is also a motivation for international operations.

As mentioned before, generally, firms intending to invest abroad should have advantages in a certain industry. There are many kinds of advantages in making and selling a product such as producing at a lower cost than other firms, having greater knowledge, or having better distribution services. On the other hand a firm would choose to license, rent or sell its advantage as a type of FDI instead of having a foreign operation.

Then the question is how a firm licenses the advantage instead of using it itself or vice versa. According to Hymer, the market structure determines the answer. If the markets are free – meaning each firm's behavior affects the other firms – joint maximization may not occur, and then, it is better for a foreign firm to license its advantages. Therefore, when markets are free or close to perfect competition, firms prefer to license their advantages rather than having foreign operations and also prefer to have foreign operations where markets are imperfect. According to Kindleberger the nature of monopolistic advantages, which produce direct investment, can be indicated under a variety of headings such as departures from perfect competition in goods markets, including product differentiation in branded products such as

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[9] Ibid., p.37.
[10] Ibid., p.38.

cosmetics and soft drinks; in concentrated industries, such as automobiles, tires, chemicals, electronic components, special marketing skills; departures from perfect competition in factor markets (including the existence of patented or unavailable technology); and internal and external economies of scale and government limitations on output or entry.[11]

Hymer states that there are two important reasons for having a foreign operation under conditions of a monopoly or oligopoly. First, the firm will be selling its advantage to enterprises which possesses monopoly power in their markets. A sequential monopoly is therefore involved. The second problem of licensing arises from the difficulty of controlling prices and output. However, if the firm undertakes the operation itself instead of licensing its advantages, there would be less difficulty in achieving maximum profits. Therefore, under the conditions monopoly or oligopoly, it would be better for a firm to have foreign operation instead of licensing it. If there were many buyers of the advantage it would be better to license advantages. The existence of other firms with similar advantages in other countries leads foreign firms to seek this approach. This is because foreign firms, under such conditions, may not want to compete with other firms, and prefer to form cooperation by licensing its advantages.

The table below shows the composition of FDI between licensing and having a foreign operation.

[11] Kindleberger, pp.13-27.

Table 1 License[12] Receipts of U.S. Firms by Region in 1956 (millions of dollars)

	License Receipts of US Companies from Foreigners	
	Unaffiliated Companies	Affiliates[13] of U.S. Companies
Canada	15.7	49.6
Latin America	10.4	75.0
Continental Europe	50.3	36.4
United Kingdom	28.6	22.3
Australia	5.1	7.2

Source: Relies mostly on Hymer, "License Receipts and Payments of United States Firms and Earnings on Direct Investments by Area and Country in 1956", pp.56-59.

What this table suggests is that the share of American companies in European industry, in general, is less than those in Canadian or Latin American industries. In Latin American and Canada, receipts from unaffiliated companies are high, as compared to affiliated companies. This is because the ratio of FDI in Canada and Latin America is high and native companies do not provide efficiency to compete with foreign companies. On the other hand, there is a strong domestic competition for American companies in Europe and Britain. Therefore, U.S. companies prefer to license their advantages rather than operating in European industry. In Table 1, Australia is an exception in the pattern of licensing and direct investment mentioned above. In Australia, the receipts from unaffiliated countries are relatively high, but there is no sufficient explanation for this anomaly.

In sum, the market imperfection approach explains the direction of FDI. According to this approach, firms generally choose to have a foreign operation when there is an oligopoly and monopoly conditions. There are two important facts determining the type of FDI. By bilateral monopoly, the profit ratio of foreign firm

[12] "Receipts" refer not only to licensing but all receipts in connection with agreements to supply patents, processes, technology, equipment under rental, and other technical and proprietary assets such as copyrights and trademarks.
[13] "Affiliates" refers to foreign branches and subsidiaries. The receipts from affiliates do not include receipts paid by foreigners to these foreign branches but remitted in the form of profits or dividends to the parent firm.

increases. Therefore under imperfect market conditions, for a foreign firm, to have a foreign operation rather than licensing is attractive. Also under such conditions, foreign firms do not have the ability to control cost and selling prices if it licenses its advantages to the local firms. Hence, again, having a foreign operation becomes more attractive. On the other hand, if there are many firms operating under free markets conditions, it becomes attractive to a firm to license its advantages rather than having a foreign operation. Although the firm would enter into the domestic market with a technological advantage would face strong competition from the domestic firms under perfect competition (or close to) condition. Empirical data suggest that market conditions determine the type of foreign direct investment. As shown above, American firms mostly choose to have foreign operations in Canada and Latin America; in contrast, they commonly license their advantages in Europe and Britain. Differentiation of products, technology advantage, and management skills create advantages in the oligopoly and encourage the companies to invest abroad. However the market imperfection theory does not satisfactorily explain the inadequate flow into LDCs, even though, market imperfections are more familiar in these countries. Direct investments mostly flow between developed countries.

One of the leading studies on FDI is Raymond Vernon's work on product cycles in trade and investment. Vernon's work had two important consequences. First he tried to find out the reason for commodity exporting countries becoming the importers of these goods in a specific time period. By doing this he tried to determine the pattern of international trade. Second, he examined the role of FDI in the model.

Vernon argues that new products and processes are first exported from the countries in which they are invented, however, foreign countries produce them later, first for domestic consumption, and then for export. He also emphasizes the

assumption that the enterprises in any one of the advanced countries has access to scientific knowledge and their capacity to comprehend scientific principles does not mean equal probability of the application of these principals in the generation of new products.[14] Innovation takes place in countries with high average incomes and with high unit labor costs and unrationed capital compared with all other countries. There are three stages of product development: new product, maturing product and standardized product. A firm in a country of high average income realizes new products. The cost ratio is high, the income elasticity of demand is high, and the amount of product is insufficient for exporting.[15]

In the maturing product process, if the product has a high-income elasticity of demand or if it is a satisfactory substitute for high-cost labor, the demand in time will begin to grow quite rapidly in relatively advanced countries.[16] As the technological knowledge spreads out of the innovator firm, other firms began to produce the same product, yet the innovator firm retains its technological advantage and exports the product to other countries. In the standardized product process the country in which the innovation was realized becomes exporter of that product in a specific period of time. As a result of the spread of technological knowledge, the countries called second – third movers begin to produce the product more efficiently. In less developed countries, due to the low cost of labor, the price of the product become cheaper than in the advanced countries.

This aspect explanation of trade activity is different from the Heckscher – Ohlin theory of international trade. The Heckscher – Ohlin theory argues that the exports of the less developed countries would tend to be relatively labor–intensive

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[14] Raymond Vernon, "International Investment and International Trade in the Product Cycle" *Quarterly Journal of Economics* (May, 1966), p.191.
[15] Ibid., p.192.
[16] Ibid., p.197.

products. Yet Vernon argues that as knowledge is regarded as a free good, then products formerly innovated in advanced countries will not pose the problem of market information for less developed countries and the investment of such products in less developed countries becomes attractive as a result of the low cost of labor.

The product cycle theory also explains the incentives of FDI as well as the pattern of international trade. According to Vernon, in the first development stage of the product, the firms in advanced countries (in which average income and labor costs are high) spend more than their foreign counterparts on new product development. In the early stages of the introduction of a new product, firms generally meet with a number of problems. For instance, the innovator firm does not have the capacity to produce in the new product in large amounts at low cost levels. Therefore, in the first process, the innovator firm has the advantage over its local counterparts and does not intend to have a foreign operation due to number of problems with which it meets. In the maturing product process, as the demand for the product expands, a certain degree of standardization takes place. As the income elasticity of demand for the product is high, the demand will begin to grow in other advanced countries. During this process, the innovator firm exports its product to other relatively advanced and other late developing countries.

Then the question is when a firm chooses to invest abroad rather than export the product. For Vernon, the decision of investment abroad takes place as long as the marginal production cost plus the transport cost of the product exported are higher than the average cost of the production of the product in a foreign market.[17] The producers do not want to lose their share of the marketplace in foreign markets, and inevitably they invest abroad. As the product becomes standardized, second and

[17] Ibid., pp.196-197.

third movers –late developing countries- become attractive as the production locations for the investors. In his study, Vernon also examines how late developing countries became exporters of certain products which were imported before. However, there is an assumption that a scarcity of capital and labor-intensive production takes place in these countries. Then the question is how these countries become exporters of such products with a scarcity of capital. Vernon implies that scarcity of capital in the less developed countries does not prevent facilities for the production of standardize products.[18] First, foreign investment takes place in industries which require some significant labor inputs in the production process, yet they are concentrated in those sub-sectors of the industry which produce highly standardized products capable of self-contained production establishments. Second, the subject that capital costs may not prove a barrier to investment in the standardized product is complex. One of the features of this complexity is the role played by the international investor. For instance: producers of chemical fertilizers, when considering whether to invest in a given country, may be less concerned with the going rate for capital in that country than with their opportunity costs as they see such costs.[19]

Vernon sees great importance in U.S. firms having a technological advantage and explores the relationship between FDI and product cycle. His work integrates trade and foreign direct investment as different stages of the product cycle. What makes Vernon's theory different from Heckscher – Ohlin theory is that in the Heckscher – Ohlin's theory of trade, the same variables are used to explain both trade and non-trade activities. Vernon emphasizes that the starting point of FDI is the innovation advantages of firms in a certain country. Trade flows reflect patterns of innovation, which are driven by internal conditions. New products are first exported

[18] Ibid., pp.205-206.
[19] Ibid., p.206.

from the advanced country, which has a high average income and high labor cost level. Later, foreign countries begin to produce the product, first for domestic demand and later for export. Finally, the country in which the innovation was realized becomes importer of that product.

In sum, FDI in this model takes place when the marginal production cost plus the transport cost of the product exported is higher than the average cost of the production of the product in a foreign market. With FDI, technologies are transferred across borders from the innovating country to second and third movers. However, changing conditions have led scholars to question the product cycle model. Even so, the model, by analyzing the relationship between trade, FDI, and technology, has remained important for many years.

In the 1970s and 1980s studies on MNCs were divided into two branches, both of which find their roots in the studies of Stephen Hymer and Raymond Vernon. The first group, using the tools of institutional economics, such as transaction costs, explained the existence and development of MNCs. The second group, using concepts from industrial organization, such as market power, explained the existence and behavior of MNCs. The transaction cost approach, one of the important approaches explaining FDI, emerged in the 1970s in order to explain the motives of FDI.

The transaction approach, argues that the transaction cost theory can explain the reasons for the existence and development of MNCs. Market imperfections are natural characteristics of markets, and MNCs are institutions for avoiding these imperfections.[20] However, the neoclassical school assumes economic agents have

[20] Jean-François Hennart, "The Transaction Cost Theory of the Multinational Enterprise", in Christos N. Pitelis and Roger Sugden (eds), *The Nature of the Transnational Firm* (London: Routledge, 1991), p.82.

perfect knowledge and therefore the price system become the dominant organization in markets and market transaction costs are zero. As the price mechanism constitutes an information system, each economic agent would consider the needs of society. However, in practice, markets are not as well organized as the neoclassical theory assumes. Therefore, market transaction costs, which include information, and bargaining costs are positive. Market imperfection creates difficulties in evaluating the real values of goods and services; therefore prices in the markets provide imperfect signals for the economic agents.

In the first half of the 1980s new studies on FDI challenged the idea of creating a general theory of FDI. Before the 1980s the main aim of scholars was to generate a universal theory of FDI. However, Kiyoshi Kojima suggested that U.S. and to some extent European MNCs are substantially different from Japanese MNCs. Kojima asserted that there is a "Japanese Style" FDI that contrasts sharply with "MNC Style" or "U.S. Style" FDI. "Japanese Style FDI" differs from "U.S. style FDI" in that Japanese MNCs tend to promote exports from host countries and to support local industries. However, "U.S. Style" MNCs tend to be anti-trade, and exploit monopolistic advantages overseas.

According to Kojima, the world's direct investment activities expand only among developed nations, as the MNCs of developed nations are engaged in expanding the intrafirm division of labor with regard to differentiated, high technology products. On the other hand, direct investment flow from developed to developing nations at a slackened pace, although it is vital in creating impetus to economic development. In these countries technologically simple, labor-intensive industries can be managed by developing nations themselves, therefore new forms of FDI are

demanded. Furthermore, MNCs, at this moment, find fewer profitable investment opportunities in these countries.[21]

Kojima states that this may be the case with European and American MNCs, yet, unlike other developed nations, as a latecomer to the field of FDI, Japan has directed its foreign investment overwhelmingly toward developing nations and Japanese MNCs therefore can be crucially important for promoting economic development in those regions.[22]

As Hymer points out in his study, a typical FDI in a manufacturing industry advances its monopolistic advantage and attempts to achieve monopolistic gains by dominating the host country's domestic market. As Dunning states, MNCs attempt to internalize their transactions through networks of subsidiaries, aiming to reduce transaction costs and maximize profits.[23] However, Japan begins its FDI first in industries in which Japan is already at a comparative disadvantage or, in other words, in industries in which the host country has comparative advantages. U.S. MNCs tend to invest overseas in the most advanced industries in which it has comparative advantages. In this type, FDI replaces export and FDI is called antitrade-oriented. Kojima argues that Japanese FDI is complementary to trade[24].

To illustrate the contribution of Japanese FDI to the international trade activities of a developing country, Kojima gives an example of the Japanese style of investment. Japan completely lacks raw materials such as petroleum. Therefore it is at a comparative disadvantage. On the other hand, Indonesia is rich in deposits although,

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[21] Kiyoshi Kojima, "Japanese-Style Direct Foreign Investment", in *Japanese Economic Studies* (Spring, 1986), p.55.
[22] Ibid., pp.55-56.
[23] John H. Dunning "Trade, Location of Economic Activity and the MNE: A Search for an Eclectic Approach", in B. Ohlin, ed., *The International Allocation of Economic Activity* (London: Holmes and Meier 1977), pp.395-418.
[24] Kiyoshi Kojima, *Direct Foreign Investment A Japanese Model of Multinational Business Operations* London: Croom Helm, 1978 p.65.

they remained underdeveloped and cannot be traded at all. Only when Japan or the United States gives direct investment in developing them would Indonesia achieve a comparative advantage in the extraction of petroleum, creating new trade at the same time. Japan at first invested in the development of natural resources, such as fuel and other products, which it wished to import. For Kojima, this development-import has meant investment with the objective of complementing the Japanese comparative disadvantage and it is typical of Japanese-style FDI.[25]

The other example he gives deals with labor-intensive industries such as textiles. As the Japanese economy developed further, its pool of labor become relatively inadequate. Labor-intensive industries became more costly as a result of substantial increases in wages.[26] Japan then turned, for example, to Korea, where the wages were one-third of those of Japan. Korea, where labor was more plentiful and wages relatively low, had a potential comparative advantage in such labor-intensive production but was unable to realize that potential without direct foreign investment. The arrival of Japan MNCs to create joint ventures for the manufacture of textiles combining Korean labor with Japan capital and technology is beneficial both for the export activities and economic development of Korea.[27]

In sum, Japanese-style promotes the balanced and orderly industrialization of the receiving developing nations. In contrast U.S.-style FDI mostly concentrates on those sectors in which they have a comparative advantage. U.S. MNCs enjoy high profit ratios in protected, oligopolistic markets and produce goods for the domestic market rather than export-oriented commodities in developing countries. However, Japanese-style FDI generally contributes to the trade activities of these countries.

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[25] Kojima, "Japanese-Style Direct Foreign Investment", p.70.
[26] Ibid., p.77.
[27] Ibid., p.71.

As it is considered for this study, the Japanese-style of FDI strengthens the hypothesis that although there are many case studies, there is not a general FDI theory explaining the motives of all MNCs in the world.

In the 1990s most of the studies of FDI rely on the theories generated in the mid 1970s and early 1980s. Most of the economic models of the 1970s and 1980s are broadly relevant explaining most of FDI activities. As Dunning points out, the studies of J.C. McManus, Mark Casson and Peter Buckley, Alan Rugman, Birgitta Swedenborg and Jean Francois Hennart to put forward a general or core theory of international business remain a rich and powerful framework for analysis in the 1990s[28]. In addition he points out that the internalization paradigm which seeks to offer a general, rather than a partial, analytic framework for understanding the growth and pattern of international production, and the eclectic paradigm that not only concerns with the incentives of foreign operation but also seeks to identify and evaluate the advantages which enable the investing firms to out compete their foreign rivals in the first place, continue to offer a rich framework for analyzing the economic determinants of the cross border business activities of both firms and countries. In other words, by Dunning's own words, "we believe that is only by embracing the concepts of alliance capitalism and the realization that the competitiveness of firms is becoming increasingly dependent on their ability to harness the competitive advantages of other firms and also the location specific created assets of other countries that the economic paradigms of the 1970s and 1980s can retain their explanatory power in the 1990s."[29]

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[28] John H. Dunning, "The Economic Theory of the Firms as the Basis for a 'Core' Theory of International Production" in *Current Issues in International Business* ed. Iyanatul Islam and William Shepherd (Cheltenham: Edward Elgar Publishing) 1997.
[29] Dunning, p.64.

However, Dunning also underlines, "The emphasis of competitive advantages of firms and those of countries, and the ways in which firms organize the use of the two kinds of assets, is changing as the socio-institutional structure of capitalism is shifting from that primarily based on hierarchies and markets to that based on a more pluralistic combination of hierarchies, inter-firm alliances, networks and markets, not to mention the role of governments. Increasingly, any 'core' theory of international business needs to incorporate the consequences which cross-border Inter-firm Corporation has on the resources and capabilities of multinational enterprises (MNEs) and the ways in which MNEs choose to organize these assets ."[30] As the increasing extent of FDI, the technological complexity of many products, the changing needs of consumers and the increasing geographical dispersion of knowledge-intensive assets are considered; it is probable that new theories and models of FDI will contribute to the field. For instance, "a fourth category was added to the motives of the market, resource and efficiency seeking FDI, named strategic asset-seeking FDI, which it was argued was undertaken to add to the acquiring firm's existing portfolio of assets others which they have perceive will either sustain or strengthen their overall competitive position, or weaken that of their competitors."[31]

[30] Ibid., p. 66.

[31] John H. Dunning Globalization and the Theory of MNE Activity in *The Globalization of Multinational Enterprise Activitiy and Economic Development* ed. Neil Hood and Stephen Young (New York: St Martin's Pres), 2000. p.28.

Business Theories of Direct Investment

According to neo-classical economic theory, the motive of a firm behavior is explained by profit maximization. Therefore, profit ratio is the primary criteria for a firm while deciding on investment activity. In addition, as Hymer mentions, the profit ratio in the host country should be higher than that in the home country for a firm to have a foreign operation. Although profit maximization is the most important motive taken in consideration during the process of making an investment decision, it is not the only motive. One of the other motives is the growth of a firm, which is formulated by Penrose.[32] Firms produce and make innovations in new products and primarily they grow. According to money (M1) – commodities – money - circulation (M2), the final value of money obtained from the production process is higher than the initial value of the money (M1). In the first step, investors buy capital goods and pay wages to laborers. During the production process, owing to the surplus value created, the final value of the commodity exceeds the initial amount of money used in the production process. Hence, the firm constantly will be in a tendency of growth. In growing, firms may go abroad, and in going abroad, they grow abroad. The motivation of direct investment is the growth of markets rather than profits. Direct investment activities will increase if investors believe that they will achieve a satisfying sale amount related with the market size. As the market grows, the firms grow simultaneously. However, the growth of firm approach is insufficient to explain the investor's attitude. Kindleberger argues the importance of profit motivation rather than the growth of market approach by giving an example about an automobile company's behavior:

[32] Kindleberger, p.7, reference to E.T. Penrose "Foreign Investment and the Growth of Firm", *Economic Journal* 66 (June 1956), pp. 220-235.

"Volkswagen Company, which enjoys substantial sales in the United States, but deliberately refrains from domestic manufacture, having in fact first bought and then sold a former Stud baker plant at Linden, New Jersey".[33] At this point, even though the firm has a large market demand, it prefers to satisfy that demand by exporting instead producing in the foreign country.

The second view of the growth of firm approach has to do with direct investment rather than markets. This is explained by the cost of capital to the firm. Retained earnings are not only cheaper capital than loans but also as cheap as to approach a negative cost. Hence, the firm should reinvest its retained earnings rather than pay out profits.[34] Through this process the firm grows more in its native country than it grows in the foreign country. However, this view neglects the profit–risk analyzes and simplifies the foreign direct investment decision with the growth of a firm by reinvesting the retained earnings.

In brief, the growth of the firm approach explains the FDI in two ways. One of them is that firms grow as the markets grow and they begin to invest abroad as a consequence of the growth process. The other one implies that firms, by reinvesting retained earnings grow and as a result they invest abroad and continue to grow in foreign markets. However, although these approaches reveal some essential points, they do not satisfactorily explain the investment behavior of a firm.

One of the business theories explaining FDI is the penetration into a new market. In the nineteenth century, FDI were concentrated in the fields of petroleum and raw materials. After the 1950s, they were concentrated in manufacturing industries in order to penetrate new markets. With high economic growth rates and higher birth

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[33] Ibid., p.8.
[34] Mehmet Şahin, *Türkiye'de Yabancı Sermaye Yatırımları* (Ankara: Ekonomik ve Sosyal Yayınlar, 1975), p.17-18; Kindleberger, p.10.

rates, developing countries became attractive to foreign investors. In these countries, excess demand for manufactured goods, foreign exchange difficulties, and import restrictions made investment more attractive to foreign investors than exportation.[35] The empirical studies of the Mikesell-Raymond, Robinson and Ashkin concerning the motives behind FDI reveal that, motives are complex and not singularly "profit oriented" as is generally believed and the results of the questionnaires with several American companies revealed that "penetration in to a new market" and "anticipation of relatively higher profit" as the most important motives.[36] The size of the market is one of the important factors influencing the decisions of investing companies.

Market size became more important as it is used as an indication of profit possibility. A small market is correlated with uncertainty. Yet more than market size, its future potential is important. Thus, market size should not be linked with only its dimension but also with its future potential. For instance, Nurkse explains the inducement to invest is limited by the size of the market and the limitation of capital by the size of the market, developing countries cannot attain large proportions of FDI.[37]

Another important motive for an American company to invest abroad is "matching or forestalling a competitor's move". According to some economists, American companies have a different frame of reference regarding foreign investment than do the developing countries. Aside from the fundamental motivation of earning

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[35] Baran Tuncer, *Türkiye'de Yabancı Sermaye Sorunu* (Ankara: Ankara Üniversitesi Siyasal Bilgiler Fakültesi Yayınları, 1968), p.34;

Hans.W. Singer and Javed A. Ansari, *Rich and Poor Countries: Consequences of International EconomicDisorder* (London: Boston: Unwin Hyman 1988), p.242.

[36] Djemal Ashkin, *Evaluation of Private Foreign Investment Climate in Turkey* (Florida State University, D.B.A., 1972), p. 99-109; Harry J. Robinson, *The Motivation and Flow of Private Foreign Investment* (Menlo Park, California: Stanford Research Institute, 1961), p.25; Raymond F. Mikesell, *US Private and Government Invest Abroad* (Eugene: University of Oregon Books, 1962), p.19

[37] Ragnar Nurkse, *Problems of Capital Formation in Underdeveloped Countries*, (Oxford: Basil Blackwell, 1953), pp.6-11.

profits, they are concerned with the degree of uncertainty and risk perceived in an investment decision.[38] J.C. Schreiber writes that American companies are fundamentally motivated to make profit; however, the magnitude of profit sought is tempered by the desire to minimize risk and uncertainty. Schreiber reached this conclusion using data and information obtained through interviews and a mail questionnaire survey conducted among American companies in Taiwan. Aharoni argues American companies' investments in Israel reveal that the motive for foreign investors is minimum levels of risk and uncertainty[39].

It has been already discussed how the motives of companies in making investment decisions depend mostly on the business policies of each company. However, there are other factors, mostly related with the host country, which are also important in influencing companies in their foreign investment decisions. These factors, some of which can be manipulated or adjusted, are in most cases under the control of the host country. It is important that the factors influencing companies' decisions to invest abroad directly reflect their investment motives. The size of the market is the one of the most important factors influencing the companies to invest abroad as penetration into new market is a great motivation. The size of the market becomes important, especially during the Import Substitution Industrialization (ISI) process of developing countries. In the ISI strategy, tariffs are raised to protect the domestic sector from the inflow of cheap foreign goods. Protectionist policies and subsidies create profitable circumstances for foreign companies to invest in the host country.

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[38] Jordan C. Schreiber, *US Corporate Investment in Taiwan* (New York: The Dunellen Company, 1970), p.1.
[39] Yair Aharoni, *The Foreign Investment Decision Process* (Boston: Harvard University, Graduate School of Business Administration, 1966), p.241.

Another important factor influencing the decisions of companies to invest abroad is the availability of foreign exchange for repatriation. It is important because, no matter how profitable a market, if foreign exchange is not available to repatriate the profits, no company will be willing to invest in such a country. Political stability and government attitude toward private investment are recognized as equally important. Actually there is a close relationship between these factors. If in a country, there is a lack of political stability, even the government's favorable attitude toward private investment will not satisfy the foreign investors, who believe no investment in such a country is secure.

The availability of cheap labor, especially in developing countries, may be an important factor in the decision making process on investment abroad. On the other hand, the investments of foreign companies mostly are concentrated in capital-intensive industries in developing countries. In addition, foreign companies employ skilled labor rather than cheap, unskilled labor in developing countries. These arguments will be discussed in detail in the following chapters. Even so at this point, it may be said that the cheap labor factor may be important in cases where export is the dominant motive of the company investing abroad.

The theories and approaches discussed above try to explain the influences and motives of a company deciding to invest abroad. The common conclusion that emerges from the approaches is that profitability is the most important factor, although it is not the only factor. Others are the degree of uncertainty and risk, penetration into a new market, taking advantage of market imperfections, and abundance of cheap raw materials (especially in developing countries). Some theories also argue the importance of the growth of the firm and the growth of markets to explain FDI activities. In most cases, the approaches point out some essential points,

yet in some cases they are inadequate to explain the investment motive wholly. For instance, according to "the growth of the market" approach, as the market size enlarges, production for the market increases in a country. Yet even though there is a high demand potential, an automobile company may prefer to export rather than produce in the foreign country. Cheap and plentiful raw materials generally exist in developing countries; hence this factor cannot explain the decision of a company investing in a developed country. These factors contribute to the explanation of the factors encouraging direct investment abroad. However, since the investment climate is different in every country, and is subject to change, it is desirable that every country foreign investment climate be constantly reviewed.

The Effects of FDI on Host Countries

The next step further studying the motives of FDI is the effects of operations of foreign firms on host countries. This issue became suspicious exactly in developing countries. In these countries the main discussion is whether FDI just exploits the country's resources or has a positive effect on the economy. For instance, the unrestrained activities of foreign firms -thanks to the privileges that were given, in the Ottoman Empire led the people and bureaucrats in Turkey to act prudently towards the FDI issue. Hence, studying the relation between the host countries and foreign firms remains noteworthy. Studies on the effects of FDI are divided into two main branches, the neo-classical school and the dependency school. These works bring with them the question of the power of host countries to regulate FDI. In the 1970s, a new school named the bargaining school, emerged around this issue. The bargaining school examines the relationship between FDI and the governments of host countries.

It holds that the relative power of MNCs and host governments is a function of conditions of the firm, industry and country involved.

The neo-classical school examines the welfare costs and benefits of FDI and emphasizes that the economic benefits of FDI are more relevant than the economic costs of FDI. Edward M. Graham and Paul Krugman, in the article "Economic Impact", argue that the benefits of FDI can be categorized in two groups: the facilitation of trade in goods and services, and external benefits.[40] In some cases, transaction costs may be reduced when international trade takes the form of FDI and FDI facilitates trade in goods, services and knowledge. For some scholars of the neo-classical school, FDI generally brings benefits over the usual gains from trade.

The most frequently cited external benefit is the introduction of new technology, which includes not only science-based production but also management skills to the host country. The technological progress brought by inward foreign investment is generally assumed to be beneficial by definition, but this is true in general only to the extent that technical progress is a free good. Harry G. Johnson underlines, if the return on the technology brought by foreign investment is entirely absorbed by the foreign companies, the prices of commodities to consumers and the prices of factors of production in the economy remaining unchanged, there is no direct benefit to the economy.[41] Under such conditions the only benefit the country receives is revenues from the taxation of the earnings of technological capital. Then the firm has the ability to earn profits higher than domestic firms earn through superior technology.

[40] Edward M. Graham and Paul R. Krugman, "Economic İmpact" in *Foreign Direct Investment in the United States*, Second Edition (Washington DC: Institute for International Economics, 1989) pp 28-29.

[41] Harry G. Johnson, "The Efficiency and Welfare Implications of the International Corporations", in Charles Kindleberger (ed), *The International Corporation* (Cambridge MA: MIT Press, 1970), pp.44-45.

One of the most discussed effects of FDI involves employment. It is expectable that FDI has a positive effect on employment. However, empirical studies done in the U.S. show that FDI almost surely has very little net effect on overall employment.[42] According to Krugman, a wave of FDI into the U.S. turned out to have a positive effect on the demand for U.S. workers. Yet the Federal Reserve applies tight monetary policies in order to avoid accelerating inflation, so that any jobs resulting from the investment are offset by job losses elsewhere.[43] Therefore, although FDI has essentially no effect on total employment, it is important to note that this situation is valid only in the countries in which the central bank seeks to avoid accelerating inflation. The case is somewhat different in developing countries. Foreign firms mostly invest in the capital-intensive sectors and create unemployment by employing skilled workers offering a higher salary than the local firms. By this way, foreign firms decrease the number of skilled workers in the sector and by increasing the wages raise the level of unemployment in the country. There may be an expectation from FDI to the effect that it increases real wages by bringing in more capital to compete for the services of labor as it enters the economy. However, Vernon, in one of his studies about the Leontief paradox, found that the capital-intensive sectors are not intensive in material capital.[44] Therefore it would be not wrong to say that FDI tends to flow into the more capital-intensive sectors of the economy, and that the effect of the inflow of foreign investment is to raise the rate of return on capital and reduce the wages of labor by increasing the demand for capital and reducing the demand for labor.

The dependency school leads the second approach studying the relationship between FDI and the host country. According to this school, the effect of FDI is not

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[42] Graham and Krugman, pp.30-31.
[43] Ibid., p 31.
[44] Vernon, p.46.

positive on the host country as the neo-classical school suggested. FDI affects the very political, social and economic fabric of the host country, weakening the country and its economic development as a result of increasing dependency on FDI.

Dependency means a situation in which the economy of a country is conditioned by and subjected to the development and expansion of another economy.[45] The dependency school emphasize that the industrial development is dependent on the export sector for the foreign currency to buy the inputs utilized by the industrial sector. However, the international price elasticity of the exports of the Latin American countries is lower and for this reason, foreign financing becomes necessary, as industrial development is strongly conditioned by obtaining exchange for capital and intermediary goods. However, capital goods, such as machinery, are not freely available in the international market; they are patented and belong to big companies and they are not sold as trade goods. Rather, companies demand payment of royalties for the machinery equipment. As a result the host country government facilitates the entry of foreign capital into the country because local companies do not have enough foreign exchange for machinery equipment. Under the protection of high tariff barriers, foreign companies enjoy high rates of profit from their exemptions from exchange controls for the importation of machinery and the increased availability of loans through foreign aid and low interest rate conditions. To strengthen the argument, some statistical data is used. According to Dos Santos, from 1946 to 1967 the new entries of capital were 5,415 million dollars into Latin America and the sum of reinvested profits was 4,424 million dollars. The ratio of remitted capital to new flow was around 2.7 in that period; that is, for each dollar that entered $2.70 left.[46]

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[45] Theotonio Dos Santos, "The Structure of Dependence", *American Economic Review* (May, 1970), p.231.
[46] Ibid., p.234.

To sum up, the Dependency school argues that the benefits of foreign investment are unequally distributed between the MNC and the host country. As a result, FDI takes place not because of a higher marginal rate of return but because of some special technique, which is not available to local entrepreneurs, exploits only through direct ownership. Furthermore, the dependency school argues that, MNCs employ capital intensive technologies when they move in, adding to host country's rate of unemployment and worsening the distribution of income. MNCs also distort the host country political processes by collaborating with the local elites, by using their influence in their home countries to bring pressure to keep host government in line.[47] In addition to these views, the effects of Japanese-style FDI on host countries can be added to the analysis. As mentioned above, Kojima asserts that Japanese-style FDI can be beneficial for both the development process and trade activities of the developing country. He asserts that Japanese-style FDI concentrates in industries in which the host country has an overt comparative advantage and Japanese-style FDI has a teaching role in host countries and promotes the balanced and orderly industrialization of receiving developing nations.

In the 1970s as the volume of FDI activities and, in parallel, works on FDI began to increase substantially, studying the relationship between MNCs and host countries became relevant. Scholars became interested in the issue of whether developing countries have the ability to exercise control over MNCs. This issue was brought out in conditions in which developing countries were expecting rapid industrialization progress and demanding that MNCs invest in specific sectors, favorable for rapid industrialization. Furthermore, the transformation of the

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[47] Theodore H. Moran,, "Multinational Corporations and Dependency: A Dialogue for Dependentistas and Non Dependentistas" *International Organization* 32, no.1 (Winter 1978) pp. 80-94.

industrialization strategies of these countries from an import substitution industrialization strategy toward an export-oriented strategy led the governments of host countries to make extra efforts to direct MNCs to invest in export-oriented sectors.

Owing to these improvement mentioned above in the 1970s two major schools of thought contended on whether or not developing countries can increase their power over multinational enterprises, the Dependency school and the "bargaining school".

The bargaining school seeks to understand the relationship between developing countries and MNCs. The main question is to determine who gets the benefits after the investment takes place. At first, when a firm controls something that a government wants, the firm's power would be improved in any bargaining process between the parties. Over time, the bargaining power relationship can shift to "obsolescing bargain" which refers to the decline of the power of a firm when it has heavily invested in the host country.[48]

In early interactions, the balance of power and benefits often favor the multinational. Although the developing country controls access to its markets, the enterprise has more important bargaining assets through its control of capital, technology and managerial skills.[49] However, after the MNC invests heavily in the host country, the host country starts to gain the bargaining power, which was controlled before by the company. As the country attains greater bargaining power, it forces the balance of benefits to shift in its favor.[50] Therefore, the bargaining school first accepts the bargaining power of the MNC over the host country. In this situation, it is not easy

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[48] Vernon, pp.96-104.
[49] Joseph M. Grieco, "Between Dependency and Autonomy: India's Experience with the International Computer Industry" *International Organization* 36, no.3 (Summer, 1982), p. 610.
[50] Ibid., p.610.

for the host country to direct the activities of MNCs for its own purposes or benefits. However, as the foreign company settles down in the country, the host government starts to gain the bargaining power and forces the balance of benefits manage these relations more effectively.

The MNCs bargaining power resources discussed most frequently in the literature are: technology, managerial skills, capital, and access to markets. The major host country's bargaining power resource is access to the domestic market, and its value is a function of its size (population or income), its rate of growth, and its development in terms of income per capita.[51]

On the other hand the Dependencia approach gives attention to the dependency of the host countries on the MNCs. According to the dependency school, the major decisions about the evolution of industries in developing countries are made by the MNCs. Hence, there is no ground to talk about the bargaining power of the host country to direct the investments in its favor. Although recent studies by Marxist-Dependencia writers have introduced in to their analyses the contribution of MNCs to the economic growth of several advanced developing countries and recognize the phenomenon of bargaining between developing countries and MNCs in which the former may extract some concessions from the latter, compared to the bargaining school, the Marxist-Dependencia school maintains that what bargaining that does take place is over marginal issues, and sees very little chance of developing countries' being able to try to attain fundamentally greater control over multinationals operating in their economies.[52] Industries in developing countries may grow due to the presence of MNCs, yet these industries stay outside the control of the host country.

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[51] Stephen J. Kobrin, "Testing the Bargaining Hypothesis in the Manufacturing Sector in Developing Countries" *International Organization.* 41, no.4 (Autumn, 1987), pp.619-621.
[52] Ibid., p.610.

Recent studies on India's improving performance from 1960 to 1980 in dealing with the international computer industry have revealed the bargaining power of host countries. By the mid-1960s the Indian government had stated to the MNCs that India should participate in the ownership and control of foreign computer subsidiaries in the country, should have access to the sources of supply for most of the country's computer needs, and should participate in the manufacture of the advanced systems available internationally. The goals of the Indian government affected India's performance in computers over time. India at first was unsuccessful in shaping and directing the local activities of the multinational computer firms for its own favor, as Vernon states. Yet, over time, India took the advantage of developments in international computing to reconstruct relations with the international computer firms on terms more favorable to it and increased its ability to manage its relations with the foreign computer firms operating in India. Finally, the data processing industry grew more inward directed than it had been before in India. It can be suggested that, the access to the domestic markets, the existence of a strong state and local entrepreneurs give developing countries an important advantage to direct foreign firms in favor of the host country.

In sum, it is clear that FDI theories were generated especially in the 1960s and in the 1970s and these theories also reflect the economic and political conjuncture of the international system in this period. However, these theories are inadequate to explain completely the motives of investing abroad. These are mostly case studies and they can be insufficient explaining other cases. For example, the theory of Hymer's -market imperfection- successfully explains the motives and activities of the U.S. firms; however, it is insufficient to explain the Japanese style of investment. Therefore, this

thesis suggests that there is not any general FDI theory that explains the motives and activities of foreign firms.

In this chapter, also the relationship between the MNCs and the governments was examined. The governments of developing countries generally encourage the inflow of FDI into their countries to sustain higher economic growth rates. The inflow of the FDI is very important for these countries. In the next chapter, the relationship between FDI and developing countries is analyzed in detail.

CHAPTER 3

THE NECESSITYOF EXTERNAL SOURCES IN LDCs

The Economic Growth Dilemma of LDCs

As most of the colonies became independent nation-states after the end of the Second World War, many governments of these countries began to encourage the inflow of FDI. The governors of these countries were intensely interested in economic development, growth and welfare and their efforts were strongly related with the sustainable economic development. Simultaneously, in developed countries, Keynesian economic policies, which call for increases especially in government expenditures, were adopted to maintain economic stability and to reach a substantial economic growth rate. While in developed countries, economies had the chance to reach full employment levels in developing countries, however, it was difficult to reach full employment levels because of the scarcity of capital. Therefore, Keynesian economic polices were not directly applicable to developing countries.

As a result, economic development dealing with the problem of the economic growth of developing countries emerged as a branch of economics. Development economists generated theories about economic development and proposed models for developing countries to realize high rates of growth. They focused on increases in per capita and related such increases to certain major factors, such as capital accumulation, population growth, and technological process. The importance of models proposed by development economists increased under the Cold War conditions. The transformation of colonies into independent nation states

increased competition between the Western block and the Soviet block to integrate these states into their economic systems. Hence, development economy as a branch of economics, and theories and models generated by development economists became very important under the conditions of the two-poled world economic system.[53]

As mentioned above, economic growth became the main issue in developing countries after the Second World War. Economic growth is generally accepted as a numerically measurable increase in the production capacity in an economy. In other words, economic growth means an increase of the GNP in an economy. An increase in income level per capita requires an increase in the production capacity and an increase in production can be obtained by an increase in investments every year. To increase the investment level of an economy, a certain amount of output should be saved and should be directed into investments every year. However, a low level of income capacity brings a low level of savings with it. This is because marginal propensity to save is low at low levels of income. Actually, the dilemma of developing countries emerges in this point. In these countries, there is a demand for economic growth, but low levels of income, low levels of investment, and savings blocks the economic growth process. In addition, even though there can be an increase in the GNP, as populations increase, the GNP per capita can remain at the same level. Ragnar Nurkse uses the phrase "the vicious circle of poverty" to describe the problem of economic development, and explains the conditions of developing countries with a seemingly trite proposition: "A country is poor because it is poor".[54] Of course, this is a simple explanation and a tautology. However, there are some other important points that Nurkse has observed. According to him, the main problem of developing countries is

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[53] George A. Petrochilos, *Foreign Direct Investment and the Development Process: The Case of Greece* (Vermont: Avebury 1989) pp.1-2.
[54] Nurkse, p. 4.

the accumulation of capital. "A circular relationship exists on both sides of the problem of capital formation in the poverty-ridden areas of the world. On the supply side, there is the small capacity to save, resulting from the low level of real income. The low- real income is a reflection of low productivity, which in its turn is due largely to the lack of capital. The lack of capital is a result of the small capacity to save, and so the circle is complete".[55] On the demand side, due to the small real income, the inducement to invest may be low. It is also due to the low level of productivity, which is a result of the small amount of capital used in production. Although Nurkse states that there are matters of unilateral causation that can keep a country poor -for instance lack of mineral resources- yet implies that lack of adequate capital equipment is the main reason for underdevelopment. Therefore such a view emerges from the statements: it is difficult to maintain a high economic growth rate in an underdeveloped country by its own dynamics. The flow of foreign capital into a developing country will have an accelerant effect in the economies of developing. Foreign investments will affect the economies of developing countries positively.

In sum, inadequate investment, savings, income block the purpose of developing countries, to realize high economic growth rates, and capital levels. Therefore, the governments of developing countries encouraged the inflow of foreign capital by arranging foreign investment laws.

Moreover the necessity of external sources for developing countries also arises as a result of balance of payments deficits. In the 1950s most of the developing countries applied a strategy called Import Substitution Industrialization. The general aim of this strategy is to maintain the production of commodities, which cannot be produced, in the domestic industry. For this purpose, the state protects infant

[55] Ibid., pp. 4-5.

industries from the competition of foreign firms, increases tariffs to diminish the importation of the final goods, and, decreases the tariffs of capital and intermediate goods, which are used in the investment and production process. However, the dependence of domestic producers on capital and intermediate goods, which cannot be produced in the domestic market, increases the balance of payment deficits.

It's a general fact that in developing countries, demand for imported goods increases gradually. Yet, over-valuated domestic currency obstructs the exportation of domestic goods. Hence it becomes difficult to find foreign exchange to compensate the demand for imports. In this way, the necessity of external sources also emerges as a result of balance of payment deficits in developing countries. In addition to the difficulty of LDCs to increase their saving ratios and their inability to finance imports through their export earnings, there are some additional facts constraining the economic growth rate, such as low education levels, inadequate technology, and inadequate structural arrangements of the type necessary for the economic development. The constraints of economic growth mentioned above are known as the two-gap model in development economics and it implies a situation in which foreign assistance, in the form of either aid or FDI, is necessary for the balance of payments and it is necessary to exceed the income level that is determined by the scarcity of capital.

In sum, after the Second World War, government policies to realize high economic growth rates brought the necessity of external sources with them, due to low levels of investment, savings, income and capital. In addition, the dependency of foreign producers on imported capital and intermediate goods increased the necessity of external sources in developing countries.

Discussions on the Effects of Foreign Investments

To realize a sustained economic growth rate foreign investment is necessary, as mentioned above. However, some economists claim that foreign investments mostly do not positively affect the economies of developing countries. According to Singer, FDI in the long run have negative effects on balance of payments. In addition, he points out that FDI generally do not flow in the form of cash; instead, foreign investors often borrow from the capital markets to invest in the host countries. Therefore, mostly the host countries' sources finance the foreign investments rather than external sources.[56] Singer also states that foreign investments employ skilled labor rather than unskilled labor by offering high wage rates. Therefore, it becomes hard for domestic investors to employ skilled labor by offering appropriate wages. Last, Singer questions the effect of FDI by analyzing the distribution of investment abroad with respect to industries. His study shows that in the nineteenth century, FDI were concentrated in producing consumer goods for domestic markets in developed countries. However, FDI were concentrated in the export-oriented sectors in Third World countries to export raw materials and commodities to developed countries. Hence, the economies of developed countries were positively affected rather than economies of the developing countries.[57] In addition to the Singer's view, Baran states that the interests of companies exporting raw materials to the markets of the developed countries did not lie in the general economic development of the host country.[58]

[56] Singer and Ansari, pp.241-244.
[57] Ibid., p.242
[58] Paul Baran, *The Political Economy of Growth* (New York: Monthly Review Press, 1968) p. 197.

On the other hand, Nurkse talks about the positive affects of FDI concentrated in export-oriented sectors. According to him, British foreign investments from 1870 to 1914 in railways securities provided a useful foundation for the general development of the borrowing countries.[59] In some of these countries, governments borrowed heavily from international capital markets for the purpose of infrastructure investments, which led to a high economic growth rate in following years as a result of the integration of markets. However, Singer argues that investment in these countries was channeled to sectors that were linked to the economy of the investor country rather than the host country and that foreign investment, whether direct or portfolio was invariably directed to economic activities-such as commercial institutions and the socio-economic infrastructure connected with the export trade.[60] Hence, the contribution of FDI in core countries is irrelevant for Singer.

As mentioned above, in the nineteenth century the MNCs were concentrated in the export-oriented and the service sectors in LDCs. However, between 1950 and 1980 the MNCs were concentrated mostly in the manufacturing industry. This master thesis suggests that the MNCs act differently as the economic conjuncture and as the functioning of the international economic system change. Therefore, in the next chapter, the relationship between the economic conjuncture and the MNCs activities will be analyzed.

[59] Nurkse, pp. 24-25.
[60] Ibid., pp.242-243.

CHAPTER 4

THE PATTERNS OF FOREIGN DIRECT INVESTMENT

Most of the theories explaining the incentives of FDI are typically case studies, which usually bring out some aspects of foreign investment rather than generating a wide-ranging theory of FDI. This situation has led scholars to use historical data in their studies to seek out the general characteristics of FDI. The studies have revealed that the activities of MNCs are in harmony with the international economic conjuncture. The international economic conjuncture reflects the general characteristics of a period.

Until 1914, private capital movement (which can also be termed portfolio investment), in the form of bonds and debt investments, was a much more important component of international financial flows than direct foreign investment. In 1914, about seventy percent of total United Kingdom and French long-term investments consisted of government and railway bonds[61]. As the major characteristics of FDI are considered in the nineteenth century, first, it should be stated that the flow of foreign investment mostly took place between developed countries. As Table 2 shows, about four-fifths of the foreign capital stake in 1914 was directed to developing countries. The manufacturing investments oriented towards local markets were mainly concentrated in Europe (including the U.K., Russia) and the U.S. Second, FDI in late developing countries, especially in Latin America, was concentrated in the production

[61] Douglas C. North, "International Capital Movements in Historical Perspective" in *U.S. Private and Government Abroad* ed. Raymond Mikesell (Eugene: University of Oregon Books) 1962 Pp. 20-21.

of raw materials and export-oriented commodities such as rubber, sugar, tobacco, tea, coffee and cocoa. In addition, FDI in these countries also was concentrated in the service sector, in areas, banking and infrastructure investments such as railroads.[62]

Furthermore in the nineteenth century, language, cultural, political and trading ties as well as geographical distance played more important roles in the decision making process of foreign investment than they do today. For instance seventy two percent of U.S. investment was in other parts of the American continent, while there was a strong colonial content in British, French and Belgian involvement in developing countries.[63] During the nineteenth century foreign investment activities and flow of portfolio investment reached very high levels. In the second half of the nineteenth century the ratio of the transfers flow from Britain was equivalent to four percent of the GNP of those years. This ratio reached to seven percent of the GNP in 1914.[64]

The interwar years witnessed a significant decrease in the expansion of foreign direct investment. This was due mostly to the negative effects of the Great Depression that began in the U.S. in 1929. In this period, Great Britain was no longer willing to play the role of leader of the international economic system, which had negative repercussions on international trade because of a lack of a strong international currency and international institutes regulating trade activities. Plus, beggar-thy-neighbor policies had negative influences on international trade.

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[62] for the Ottoman Empire see Şevket Pamuk, *The Ottoman Empire and European Capitalism. 1820-1913: Trade,Investment and Production.* (Cambridge; New York: Cambridge University Pres, 1987) pp. 55-81.
[63] John H. Dunning, "Changes in the Level and Structure of International Production: The Last One Hundred Years" in *International Investment,* ed. Peter J. Buckley, Aldershot, Hants, England ; Brookfield, Vt., USA : E. Elgar, 1990, p.6.
[64] Tuncer, p. 17.

Table 2 Estimated Stock of Accumulated FDI by Recipient Country or Area

	1914		1938		1960		1971		1978	
	$m	%	$m	%	$bn	%	$bn	%	$bn	%
Developed Countries	5,235	37.2	8,346	34.2	36.7	67.3	108.4	65.2	251.7	69.6
North America										
USA	1,450	10.3	1,800	7.4	7.5	13.9	13.9	8.4	42.4	11.7
Canada	800	5.7	2,296	9.4	12.9	23.7	27.9	16.8	43.2	11.9
Europe										
Western Europe	1,100	7.8	1,800	7.4	12.5	22.9	47.4	28.5	136.2	37.7
Of which UK	200	1.4	700	2.9	5.0	9.2	13.4	8.1	32.5	9.0
Other European	1,400	9.9	400	1.6						
Of which Russia	1,000	7.1								
Australasia and South Africa	450	3.2	1,950	8.0	3.6	6.6	16.7	10.0	23.9	6.6
Japan	35	0.2	100	0.4	0.1	0.2	2.5	1.5	6.0	1.7
Developing Countries	8,850	62.8	15,969	65.7	17.6	32.3	51.4	30.9	100.4	27.8
Latin America	4,600	32.7	7,481	30.8	8.5	15.6	29.6	17.8	52.5	14.5
Africa	900	6.4	1,799	7.4	3.0	5.5	8.8	5.3	11.1	3.1
Asia	2,950	20.9	6,068	25.0	4.1	7.5	7.8	4.7	25.2	7.0
Southern Europe					0.5	0.9	1.7	1.0	3.4	0.9
Middle East	400	2.8	621	2.6	1.5	2.8	3.5	2.1	8.2	2.3
International and Unallocated							6.5	3.9	9.5	2.6
TOTAL	14,085	100.0	24,315	100.0	54.5	100.0	166.3	100.0	361.6	100.0

Source; Dunning 1990, p.7.

The negative effect of the Great Depression on portfolio investment was greater than on FDI. As mentioned above, in the nineteenth century, portfolio investment had the largest share in total foreign investment. As the financial markets collapsed after the crisis on Wall Street, the volume of private capital flow decreased substantially. Furthermore, the international capital stake rose quite substantially in the

inter-war years.[65] In this period, the Americas continued to attract more than two-thirds of the U.S. direct investment stake; the role of U.S. participation in Europe fell in the 1920s and recovered somewhat in the 1930s, as did European investments in the U.S. There were also several new MNCs emerged in such as new oil investment (in the Gulf of Mexico), and non-ferrous metals (in Latin America) in the developing countries in the inter-war years. In addition, there was a substantial expansion of public utility investments in Latin America by U.S. firms[66].

After the Second World War, the international direct investment stake rose modestly between 1945 and 1960. In this period, the share of FDI in the total foreign investment increased significantly. Also, the pre-war trend for MNCs to favor developed countries for new investment activities continued after 1945. The expansion of MNCs activities in developing countries decreased. In 1914, two-thirds of the capital stake had been directed to developing countries; by 1938 this had fallen to fifty-five percent, and in 1960 it was nearly forty percent. In other words, the rate of increase of the foreign firm activities in developed countries was much higher than that in developing countries.

Between 1950 and 1980, the United States was the major source of investment flows to developing countries, on average responsible for over half of the total. Most U.S. investment in developing countries was in manufacturing, with chemicals and machinery the most important (as in the Turkish case). Japan took second place, with special focus on East Asia. Japanese investment concentrated in mining to supply raw materials for Japan. Also, manufactures, metals, chemicals and textiles were important. France and Germany (West) increased their outflows. For France, commercial services were more important according to data from the IMF in

[65] Ibid., p.8.
[66] Ibid., p.9.

1985. One of the characteristics of FDI in this period was the concentration of MNCs in the production of commodities for domestic markets rather than focusing on the production of export-oriented commodities and raw materials, as in the nineteenth century.

Until 1980, the annual net flow of FDI to developed countries was $15 billion. However, after 1980, the net flow of FDI to developed countries jumped to $175 billion in 1988 and reached $250 billion in 1997. Also in developing countries, a rapid increase in FDI inflow was observed. The annual net flow of FDI to developing countries jumped from $15 billion in 1980 to $50 billion in 1995 and $150 billion in 1997.[67]

[67] UNCTAD, Report by the Secretariet of the UNCTAD, geneva: UNCTAD, 1999, p.116.

Table 3 Percentage Breakdown of Number of Manufacturing Subsidies of MNCs by Country of Location

Subsidiaries Established 1946-1961

	US Based MNCs	UK Based MNCs	Continental European Based MNCs	Japanese Based MNCs
Developed Countries	63.2	79.5	65.4	0.7
North America				
USA	-	3.2	10.7	0.2
Canada	14.9	12.7	5.3	-
Europe	35.9	26.6	41.8	0.5
Japan	2.6	0.3	1.5	-
Australasia and South Africa	9.8	36.7	6.1	0.0
Developing Countries	36.8	20.5	34.6	99.3
Middle East	1.4	2.6	3.0	0.6
Africa	1.4	4.6	6.6	0.3
Asia	3.4	6.9	5.8	66.1
Latin America	30.6	6.4	19.2	32.3
TOTAL	100.0	100.0	100.0	100.0
Number of Subsidiaries	2009	684	609	65

Source: Dunning, 1990, p.12.

Table 3 suggests that Japanese based MNCs mostly invested in developing countries rather than developed countries. Between 1946 and 1961, 99.3 % of Japanese based subsidiaries were established in the developing countries. This situation is directly related with the Kojima's argumentation. The Japanese-Style MNCs mostly concentrated in developing countries in which they have comparative disadvantages.

On the other hand, the U.S. and the European based MNCs mostly concentrated in the developed countries. This situation is generally explained by the high income elasticity of the demand in the developed countries. As considered for the developing countries, U.S. and the European based MNCs mostly invested in Latin American countries rather than in Asia or Middle East. 0.4% of U.S. based MNCs

concentrated Middle Eastern and 30.6% of U.S. based MNCs concentrated in the Latin American countries. Therefore it can be suggested that some of the developing countries strongly differ from the others in receiving FDI.

Turkey is in the category of developing countries and receives insignificant FDI flow. Most of the developing countries-especially Latin American Countries-receive higher amounts of FDI than Turkey. In the next sections the reasons for the inadequate flow of FDI to Turkey will be examined.

CHAPTER 5

THE POLITICAL ECONOMY OF FDI IN TURKEY 1950-1980

The investment and operation of foreign companies in Turkey goes back to the nineteenth century. In the nineteenth century, owing to the arrangements signed between the Ottoman Empire and several European countries, there was a climate encouraging the operation of foreign companies. Foreign companies established enterprises operating in railways, electricity, service sector and maritime lines and harbors. In 1914, they built up economic monopolies dominating the basic services.

After the Turkish War for Independence, the new Turkish Republic abolished the capitulations and aimed to impede the domination of foreign firms in the public sector. There is a commonly shared belief in Turkey regarding the government's anti-FDI stance in the first years of the Republic. However, in the 1920s the governments' attitude toward FDI was positive and the local firms were encouraged to collaborate with foreign firms.[68] As Tezel suggested "the capitalist development strategy adopted in the 1920 was harmonious with FDI activities and collaboration of local firms with the foreign firms."[69] An outstanding example of this occurred during the War for Independence when in the National Assembly; there was a discussion about the entrance of a foreign firm to collaborate with a Turkish representative in Turkey. Most of the representative gave their support to the Turkish partner of the foreign firm. The interesting point is the foreign firm's nationality was Italian and

[68] Korkut Boratav, "İktisat Tarihi" (1908-1980) in *Türkiye Tarihi 4 Çağdaş Türkiye 1908-1980* (İstanbul: Cem Yayınevi). 1997.
[69] Yahya Sezai Tezel, *Cumhuriyet Döneminin İktisadi Tarihi (1923-1950)* İstanbul: Tarih Vakfı Yurt Yayınları, 2000. p. 196.

Turkey was at war with Italy at the time.[70] In the 1920s several firms containing foreign capital obtained special statute from the government to invest in the manufacturing, mining sectors. Some of these firms are İzmir Telefon Şirketi (Swedish-1925), Kireçlik Krom Maden Şirketi (French-1928),Adana Elektrik Şirketi (German-1928) and the most well-known firm, Ford Motor Company (1929).[71] However, in 1939 owing to the effects of the Great Depression, the plant of the Ford Motor Company stopped its production. In addition to the activities of foreign firms in the 1920s, the share of foreign capital was also important in total firms. According to Ökçün, 43% of total stock (of total companies) was belonged to the firms containing foreign capital between 1923 and1930.[72]

In 1929 the Great Depression affected the activities of MNCs directly. In Turkey, with the Depression of 1929, the Turkish government enacted new rules about the flow of foreign exchange. The restrictions cancelled the transfers of foreign firms and obstructed the entrance of new foreign firms because, as discussed above, the guarantee of transfer of profit was one of the main motives for foreign firms to invest in Turkey.[73] Also the expropriation of foreign firms between 1928 and 1944 did not create an attractive climate for foreign firms to invest in Turkey. In this period, there was no FDI inflow to Turkey.

It is generally accepted that after 1950 the flow of foreign capital into Turkey began to increase substantially. This was due to changes in the political climate. The former government, the RPP (Republican Peoples' Party), had applied Etatist policies

[70] Yahya Sezai Tezel, "Birinci Büyük Millet Meclisinde Yabancı Sermaye Sorunu" in *Ankara Siyasal Bilgiler Fakültesi Dergisi*, 25 (Ankara: Ankara Üniversitesi Siyasal Bilgiler Fakültesi Yayınları, Mart 1970) pp.239-251.
[71] Tezel, *Cumhuriyet Döneminin İktisadi Tarihi (1923-1950)* p.196.
[72] Gündüz Ökçün, *1920-1930 Yılları Arasında Kurulan Türk Anonim Şirketlerinde Yabancı Sermaye Sorunu*, (Ankara: Ankara Üniversitesi Yayını, 1971).
[73] Kenan Bulutoğlu, *100 Soruda Türkiye'de Yabancı Sermaye* (İstanbul: Gerçek Yayınları, 1970).

in the 1930s. During this period, induced by the Great Depression, most of the LDCs adopted Import Substitution Strategies (ISI) to face with disappearing export markets and the resulting severe foreign exchange shortages. The main aim of this strategy is to manufacture previously imported simple, basic consumer goods. In this period although there wasn't a theoretical framework, Turkey experienced the ISI process after the Great Depression. ISI strategy does not require the state as the leader in the process; however, because of inadequate accumulation of private capital, the State took the leadership in the ISI process by adopting etatist policies in Turkey. Etatism promotes and aims to realize higher economic growth rates by introducing the state as an economic agent or giving priority to the state activities rather than the private sector. The government by emerging as an investor and producer aimed to make the state the leader in the economy. This affects the position of foreign firms in the economic development process. In other words, to realize higher economic growth rates where the private capital stock is inadequate for new and large-scale investments, etatist policies giving priority to the state in the economy as an investor and producer were adopted rather than giving priority to the private sector and foreign capital as an external source. It can be said that as the role and share of the state enterprises increased in the economic development process, the relative importance encouraging FDI as an economic policy decreased between 1930 and 1945.[74]

After the end of the Second World War major political and economic changes took place in Turkey owing to the developments in the international economic system and to domestic pressure. In the country many social groups had become dissatisfied with the RPP. On the other hand, the emergence of the U.S. as the dominant world power enabled the emergence of a new international economic

[74] Yahya Sezai Tezel, *Cumhuriyet Döneminin İktisadi Tarihi (1923-1950)* p.201.

system, which had need of and suggested a more liberal and open economic model for countries. In addition, Soviet territorial demands pushed the Turkish government toward a closer relation with the western, developed countries.

As a result of the facts mentioned above, the Turkish government rearranged its economic policies. On the other hand, international institutions such as the IBRD, the IMF and the U.S. were insisting that Turkey adopt liberal foreign trade policies and should give priority to agricultural production rather than industrialization. For instance a research team from IBRD stated, "We do not suggest that Turkey should abandon its goal of industrialization. We suggest rather that the quickest path to that goal is through increased emphasis on agricultural development". For this purpose the 1947 development program favoring agricultural production and emphasizing private capital was replaced with the development plan of 1946, which gave priority to state investments for the purpose of industrialization.[75]

In 1947 a development plan encouraging FDI was discussed and after this year laws about FDI were enacted to encourage inflow and foreign firms were allowed to transfer their profits abroad. Before 1947, the laws about FDI were not attractive for MNCs to invest in Turkey. With Law No. 1447 about "securities, stocks and bonds and foreign exchange markets", the exchange and exportation of foreign currency, stocks and bonds were realized under the control of government. Law No. 1567, about the protection of the value of Turkish currency, regulated foreign exchange and capital market. In by-law No. 13, arranged in 1947, a new regulation was made for the "protection of the Value of Turkish Currency". This new regulation brought encouragement of foreign investment with it. According to this bylaw, direct

[75] İlhan Tekeli and Selim İlkin, *Savaş Sonrası Ortamında 1947 Türkiye İktisadi Kalkınma Planı* (Ankara: Orta Doğu Teknik Üniversitesi, 1974) pp. 6-10.

investment could operate and invest in the specific sectors which were important for the economic development of the country. Foreigners, investing in these specific sectors gained the advantage to transfer profit and capital without having to apply for permission from the Ministry of Finance. With this law, the government encouraged foreign investors to invest and operate in specific sectors.

In 1950 the RPP, just before the Democrat Party (DP) came to power after the adoption of the multi-party system, enacted the first encouragement law of FDI; Law No. 5583.[76] With this law the government extended the right of transfer to private companies, which borrowed from international markets.

Although changes in the political and economic policies were initiated in the RPP period, the electoral victory of the DP was the major turning point for the economy. The DP put strong emphasis on agriculture and adopted liberal trade policies, which made the importation of finished goods easier. These policies favored local merchants rather than large industrialists and it became attractive to import commodities from abroad for the domestic market and activities and most of the foreign firms preferred to export rather than having a foreign operation in Turkey under such circumstances. In the adoption of liberal trade policies the local merchants and large landowners played an important role and their power was relatively much higher[77].

What these improvements in the early 1950s suggest for the FDI is that a mixed economy which gives the state a secondary role and the private sector the primary role requires external sources in order to sustain high economic growth rates. In pursuit of this transformation, after 1950 the DP prepared laws encouraging FDI to

[76] K. Göymen and G. Tüzün, "Foreign Capital in Turkey" in *METU Studies in Development*, no .11, 1984, pp.60-61.
[77] Serdar Turgut, *Demokrat Parti Döneminde Türkiye Ekonomisi: Ekonomik Kalkınma Süreçleri Üzerine bir Deneme*, (Ankara: Adalet Matbaacılık, 1991) pp. 140-144.

increase the inflow of FDI into the country. Although the experts of the World Bank were pleased about the encouragement Law No. 5583, enacted in 1950, the restrictions and the indefinite articles of FDI obstructed the inflow of higher amounts of FDI. To increase the inflow of FDI, a new encouragement law, Law No. 5821 was enacted on August 1, 1951. According to this law, foreign capital should meet some criteria: it was to promote the economic development of Turkey, and operate in a field open to foreign capital.

This law brought new arrangements to the transfer of profit. According to the new arrangements, foreign investors were allowed to a partial transfer of profits, dividends and interests, which were not to exceed ten percent of the foreign capital brought in. If the profit exceeded ten percent of capital, the excess was to be added to the next year's transfers. With Law No. 5821, foreign investors were granted all of the rights, facilities and exemptions extended to local investors.

In this period Turkish economy enjoyed high economic growth rates. Between 1946 and 1954 GNP increased by an average annual rate of 9%. Especially, after 1950 the DP put strong emphasis on agricultural development and used the Marshall Plan aid to finance the import of agricultural machinery and expand the area under cultivation. Tractor use increased from 9,170 in 1949 to 35,000 in 1953 and reached to 42,136 by the end of the decade[78]. Owing to the favorable weather conditions and international economic conjuncture because of the Korean War and strong emphasis of the DP on agricultural development, the increase of agricultural production reached to 11%. The share of agriculture in GNP increased from 43.6% in 1946 to 44.7% in 1953 while the share of industry decreased from 15.2% to 13.4%[79].

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[78] Morris Singer. *The Economic Advance of Turkey* (Ankara: Turkish Economic Society), 1977 p.250.
[79] Boratav, p.312.

Although the share of industrial sector in GNP decreased, there were significant improvements in this sector in this period. Industrialization attempts encouraged by the Turkish Industrial Development Bank (Türk Sınai ve Kalkınma Bankası), created in the 1950 by the RPP, that extended long and medium term credit to the manufacturing sector. TIDB credits were instrumental in the development of some of the prominent industrial enterprises in the 1950s.[80] Nearly all of the big business established in this period obtained credits of the TIDB.[81] As a result, owing to the availability of funds, relaxation of import restrictions and accessible foreign exchange, industrial production reached to 9% of GNP at that period. [82]

However, these golden years did not last very long. The favorable conjuncture disappeared in 1953. After the end of the Korean War international demand for export commodities slackened and the favorable weather conditions disappeared. Under such circumstances exports declined and foreign exchange reserves were depleted under the liberalized import regime. At the end of the 1953 the country experienced balance of payment crisis which is characterized by shortages of many items of basic final goods. Most of the foreign firms, operating in Turkey, had increasing difficulty in obtaining foreign exchange to pay their parent company for purchases of inputs and to transfer profit in this period. Hence, especially in 1953 and 1954 shortages of foreign exchange obstructed the higher amounts of the FDI flow into Turkey.

After 1954, a shift to the ISI strategy arose out of necessity as a result of the balance of payments crisis. Until the 1960s, Turkey's experience with import substitution had been limited to the accidental beginnings triggered by foreign

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[80] Ayşe Buğra, *State and Business in Modern Turkey A Comparative Study.* New York: State University of New York Press, 1994. p.122.
[81] Çağlar Keyder, *Türkiye'de Devlet ve Sınıflar* (İstanbul: İletişim Yayınları), 1989, p.193.
[82] Gürel Tüzün, "1950-1960 Döneminde Sanayileşme" in *75 Yılda Çarklardan Chip'lere* (İstanbul: Tarih Vakfı Yayınları), 1999. pp. 152-153.

exchange shortages of the 1950s. Owing to the foreign exchange crisis, to diminish the dependence on foreign exchange tariff rates were increased and the importation of finished goods was restricted. High tariff rates accompanied by government restrictions on importation created favorable conditions for domestic producers in the capital accumulation process. Domestic producers enjoyed high profit rates under the conditions where they were protected by the state from international competition.[86] The state did not support the local firms only by increasing the tariff rates and restricting the importation of finished goods, but also concentrated on the production of intermediary goods to supply cheap inputs for the private sector.

On January 18, 1954, the government enacted a new Foreign Investment Encouragement Law, No. 6224, superseded Law No. 5821 that was not attractive enough increasing the inflow of FDI. By doing this, the DP aimed, first, to decrease the balance of payments deficits and second, as the foreign exchange crises made it difficult for local firms to export commodities that are not produced locally, the government, by enacting Law No. 6224, intended to increase manufacturing activities of foreign firms. The latter is important in the development of the large industrial groups. Most of the local merchants, distributors of foreign companies, became producer of those certain commodities after the foreign exchange crisis. Law No. 6224 brought very liberal provisions. It abolished restrictions on the transfers of profits, dividends and interest to ten percent of the capital as well as the restriction of foreign investment in certain specified areas of economic activity. The main requirements of Law No. 6224 were that foreign investment contributes to the economic development of Turkey that it should be in a field of activity open to

[86] Şevket Pamuk and Çağlar Keyder, "Türkiye'de Rantların Ekonomi Politiği", *Milliyet*, 12 Aralık 1979.

Turkish private enterprise and that foreign investment should not entail any monopoly or any special concessions.

The provisions of Law No. 6224 seem liberal and compare favorably with the investment laws of many countries. However, between 1951 and 1980, $230 millions of total capital came through this channel.[83] Since its inception in 1954, the flow of private capital into Turkey remained far below expectations. The ratio of realized investment of the authorized investment was only 30.7% between 1951 and 1965.

From 1950 onwards, foreign direct investment entered into Turkey according to four main categories. These were 1) Laws No. 5821 and No. 6224; 2) the Turkish Industrial Development Bank, established with the aid of the International Bank of Recovery and Development in 1950 to provide long-term credit for private enterprise as well as to encourage private investments. 3) Petroleum Law No. 6326, which was enacted on March 18, 1954 and featured liberal provisions; and 4) Special Law No. 7462 about the Ereğli Iron and Steel Factory, enacted in 1960. The private foreign investment, which came to Turkey through this channel, was significant relative to others.

As mentioned before the role of the TIDB credits was significant especially in the 1950s. One of the largest and important industrial ventures of the Sabancı Group, the BOSSA textile factory established on the basis of credits obtained from the Turkish Industrial Development Bank.[84] Also receiving the industrial credit from the Turkish Bank for Industrial Development was a turning point in Eczacıbaşı Group's business career, one (of the most successful business companies in Turkey) in 1950.

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[83] Asım Erdilek, "Turkey's New Open Door Policy of Direct Foreign Investment: A Critical Analysis of Problems and Prospects", *METU Studies in Development* no.13 (1986).
[84] Buğra p.83

Nejat Eczacıbaşı, the founder, was among the first entrepreneurs who applied to the Bank for industrial credit. He wanted to build a factory producing drugs under foreign license and the factory started production in 1950.[85]

In the second half of the 1950s, as the favorable conjuncture for exporting disappeared, under protectionist conditions, foreign firms decided to invest rather than export certain products to Turkey. By collaborating with local firms, foreign firms began to manufacture their products in Turkey. This cooperation strengthened the transformation of local merchants into industrialists. As Krueger writes, "the traders whose business was to import and resell consumer goods lost out to the industrialists who started factories to take advantage of import prohibitions".[87] These importers commonly lacked the know-how required for successful local firms. Consequently, they asked the foreign firms whose products they distributed to start joint ventures with them.[88] Working as the representative agency of a foreign exporter to Turkey is an important step in the business careers of some prominent Turkish businessmen. Joint ventures with foreign firms also appear to be important for some well-known Turkish businessmen in their entry into the industrial sector. By Buğra's own words: "At a more general level, one could suggest that, in a late industrialization country which professes a commitment to the objective of Westernization, in a country where technology is important and, along with it, new needs are created, some knowledge of foreign production processes and markets naturally appears as a business asset of significance. Hence, in Turkey, entrepreneurs who possessed such knowledge have entered the business scene with an initial advantage".[89]

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[85] Buğra, p.87.
[87] Anne Krueger, *Foreign Trade Regimes and Economic Development: Liberalization Attempts and Consequences*. NBER, A Special Conferences Series, 1978 vol. 10 p. 268.
[88] Asım Erdilek, *Direct Foreign Investment in Turkish Manufacturing*, (Tubingen: 1982) p.18.
[89] Buğra, p.67.

What this thesis suggests is that the contribution of FDI was significant in the transformation of local merchants into industrial entrepreneurs. According to Eralp foreign encouragement laws coincided with the period when the local bourgeoisie was attempting to collaborate with the MNCs.[90] Foreign firms and state enterprises facilitated the industrialization process and there was a direct relationship between the transformation process.

Local merchants dealing with the importation of finished goods became producers of certain goods instead of importing them, in this period.[91] For instance, the Koç Group, one of the most significant business companies in Turkey, owing to the long-lasting foreign shortages in the 1950s started with the assembly production of the goods which were imported before. The company decided to build a factory for the assembly production of Ford vehicles.[92] Bernar Nahum, a shareholding manager of Koç explained that Vehbi Koç, the founder of the holding, convinced the necessity of industrialization in Turkey due to the lack of foreign exchange, the import limitations of the government.[93] Many well-known industrial groups such as Borusan, Tekfen, Enka, E.C.A, Profilo, STFA, Alarko and Altınyıldız established in the 1950s and most of them cooperated with foreign firms in this period.[94]

Actually, it can be considered that the entrance of FDI into the host country may act as an obstacle for the operations of local firms. Yet in Turkey, the local entrepreneurs wanted to collaborate with FDI in order to acquire technological

[90] Atilla Eralp, "Türkiye'de İzlenen İthal İkameci Kalkınma Stratejisi ve Yabancı Sermaye" in *METU Studies in Development*, Special Issue (1981) p.623.
[91] Çağlar Keyder, "The Political Economy of Turkish Democracy", *New Left Review*, no.115 (1979), pp.21-23.
[92] Buğra, p.81.
[93] Bernar Nahum. *Koç'ta 44 yılım* (İstanbul: Milliyet Yayınları, 1988) p.253.
[94] Doğan Avcıoğlu, *Türkiye'nin Düzeni* (Ankara: Bilgi Yayınevi, 1968) pp. 358-385.

knowledge and management skills.[95] In other words there was collaboration rather than competition between the MNCs and large local firms. This collaboration enabled the entrance of local entrepreneurs in many sectors without having enough technological knowledge and management skills. In this way, foreign firms, instead of exporting their products, entered Turkey and collaborated with local entrepreneurs to realize the production of their commodities. As was the case in the Brazilian, the small-scale local firms couldn't compete with or collaborate with foreign firms and they stopped production in some cases. For instance, in the pharmaceutical sector, foreign firms displaced the small-scale firms in 1970. Another important point was that most of the firms intended to collaborate with foreign firms in almost every kind of production. Some scholars argue that in some specific areas local firms realized the investment with their own resources, but most preferred to collaborate with foreign firms.[96] This situation can also be explained by the strong demand of local entrepreneurs for foreign firms to bring managerial skills and technological knowledge with them.

Hence, it would be not wrong to argue that although the amount of the inflow of FDI into Turkey was insignificant statistically, the contribution of FDI in the transformation of local merchants into industrialists and in the industrialization process was essential and that there was collaboration between foreign firms with local entrepreneurs rather than competition.

Although the trade barriers, the protectionist policies adopted by the government and encouragement Law No. 6224 regarding FDI were favorable for foreign companies to invest in Turkey, the increase in the inflow of FDI was not as

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[95] Türkiye Sanayi Kongresi Tebliğleri, "Türkiye'de Sınai Yatırımlarda Yabancı Sermaye" (1968), p.78

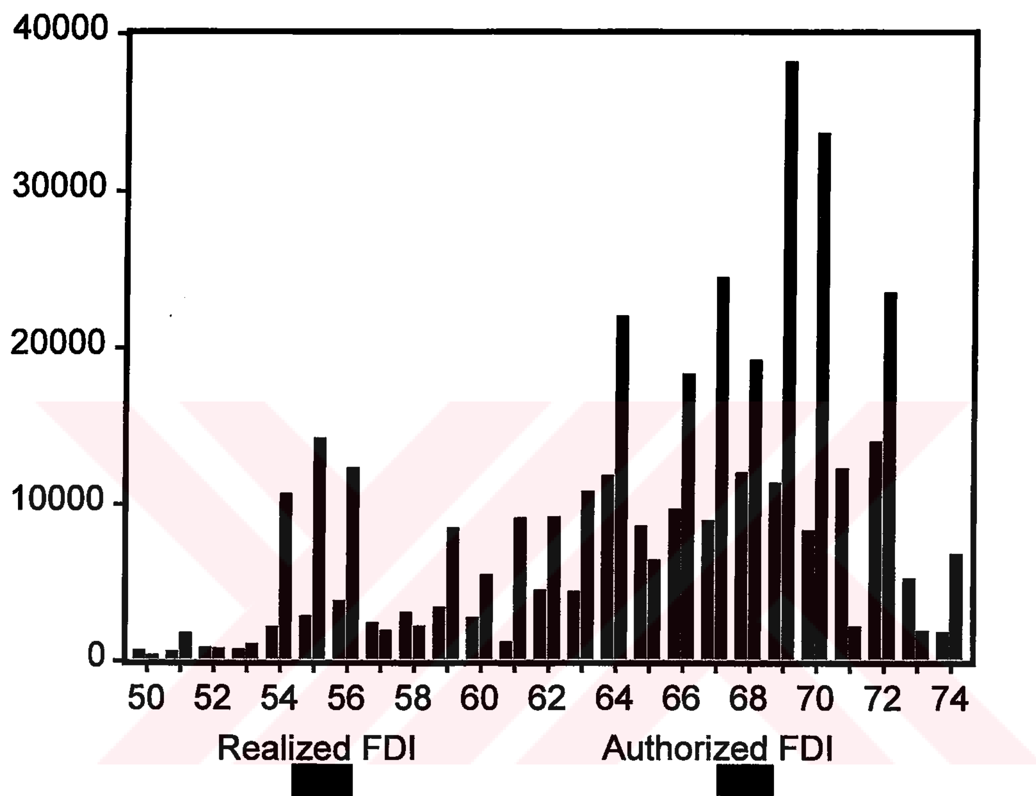
[96] Avcıoğlu, p. 368; Mehmet Selik, *Türkiye'de Yabancı Özel Sermaye (1923-1960),* Ankara: Türk İktisadi Gelişmesi Projesi, 1961.

great as expected between 1954 and 1960. This can be explained by the economic instability, especially between 1954 and 1958. Turkey was unable to borrow from abroad and external pressures and political unrest forced the DP to announce a stabilization programme in August 1958. The programme included moderation on government expenditures and a de facto develuation. As seen in Figure 1, the amount of realized FDI decreased in 1957 compared to the previous years as a result of expectations of a devaluation and economic instability. For instance the regional manager for Southern Europe and the Near East of the Alpha Petroleum Company was considering Alpha's position in Turkey due to Türk Alfa A.Ş. was having increasing difficulty in obtaining dollars to pay its parent company for purchases of refined oil products, which it marketed in Turkey.[97] At the end, the managers thought that if Alpha were to pull out of Turkey it would lose its present crude supply position in the rapidly growing Turkish market and continued its activities.[98]

In the 1960s both authorized and realized foreign investments were below the levels expected by the Turkish government. This fact can be strengthened by reference to the proposed first five-year development plan about foreign direct investment. The five-year development plan forecasted the need of $50 million per annum since the beginning of the plan in 1963. As can be seen in Figure 1, authorized

[97] D. Richard Robinson, *Cases in International Business.* New York: Rinehart and Winston, 1962 p.65.
[98] Ibid., p.69.

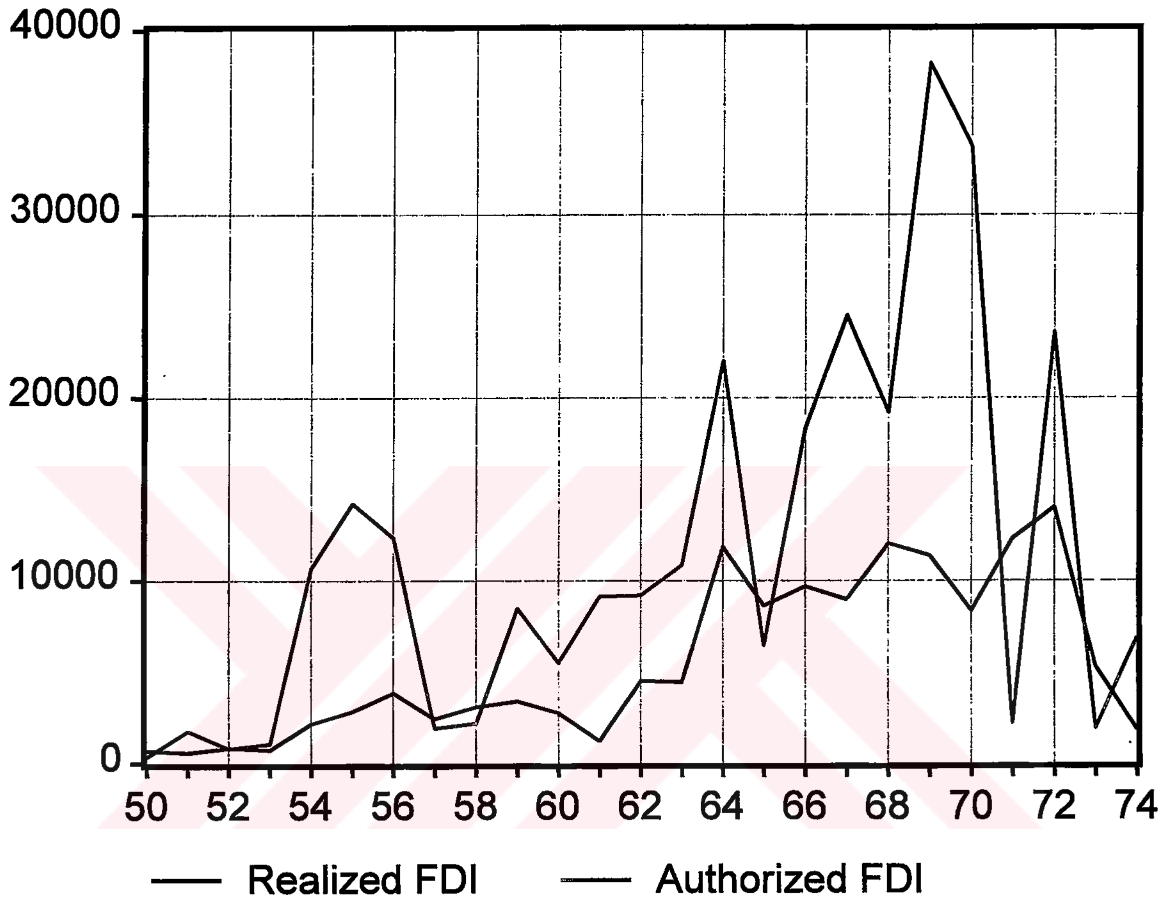
Figure 1 Authorized and Realized FDI in Turkey between 1950 and 1974 ($ 1000)



Source : Uras, pp. 162,166 ; Şahin, p. 67.

Figure 2 Authorized and Realized FDI in Turkey between 1954 and 1974

Line Graph ($ 1000)



Source : Uras, pp. 162,166 ; Şahin p. 67.

investment had not reached the $50 million level since 1951. When the realized investment is considered, the situation was worse than the authorized investment.

In 1960 with the military coup, the new regime sought to quicken the pace of development. To the officers of the new regime planning was the single efficient way of achieving development. The new regime differed from that of the DP in important respect: its reliance on state plans and the officers institutionalized ISI as the official development strategy.[99] With the establishment of the State Planning Organization (SPO) after the May 1960 coup the idea of development planning was admired. The bureaucracy, the MNCs and the large industrialists mostly shared this idea. The development plans of the SPO were based on long-term models rather than short-term policies and were obligatory for the public sector and only problem solving for the private sector. They maintained the coordination between economic sectors and agents, strengthened economic growth and economic stability, and encouraged the inflow of foreign investment.

In the first development plan, the balance of payments effect received focus rather than the technological and employment effects of FDI.[100] Plus, in this plan, for the first time the problem of low realized investments was mentioned. Foreign companies were not obliged to realize investment immediately following the granting of investment permission. They could realize investments whenever they wanted. Actually, many firms had preferred to wait for some years to invest in Turkey because of political instability. In this way they had the chance to invest under conditions

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[99] Henri J. Barkey, *The State and the Industrialization Crisis in Turkey* (Colorado: Westview Press 1990), p.66.
[100] Devlet Planlama Teşkilatı, *First Five-Year Development Plan*, 1963-1967 (Ankara: Turkish Republic Prime Ministry, 1963) pp.237-239.

suitable for investment. With foreign investors having investment permission, they made it difficult for domestic firms and other foreign investors to get approval for investments in the same area. This situation also blocked the entrance of other foreign companies willing to invest at that time and created and strengthened the oligopoly conditions in Turkish economy.

The SPO noticed this dilemma and decided to cancel the investment permissions of foreign companies if the investments were not realized after a certain period. In other words, all authorized investments had to be implemented within specific time periods, which were contained in their decrees and the Turkish government canceled unimplemented decrees.

One of the problems was about the article of Law No. 6224, concerning the contribution of FDI to the economic development of the country. According to Law No. 6224, foreign companies could realize investment in all sectors of the economy, provided it aided the country's economic development. It was not clear, however, how this was to be determined. Many representatives of foreign companies claimed that the SPO used this provision as a tool to discriminate against MNCs. In the first development plan, the SPO also tried to clarify the concept of "beneficial for the country's economic development". [101]

In the second development plan, the technological contribution of MNCs was stated. It was because many questions and debates had arisen in the public about the contribution of MNCs to the economy. Some of the scholars questioned the technological, and employment effects of FDI on the country. Most of them reached the conclusion that many FDI projects, in the past, which had been accepted without negotiating, had led to substantial losses for Turkey. Plus, the contribution of the

[101] Erdilek, *Direct Foreign Investment in Turkish Manufacturing*. p. 27.

MNCs to economic growth, and technological improvement was much below the levels that were expected.[102] Hence, in the second development plan the emphasis was given to the technological contribution of the FDI to the country rather than the balance of payment effect.

Especially in the 1960s, a significant increase in real wages created a substantial demand for domestic commodities and the growth of the domestic market encouraged the inflow of FDI to Turkey. In this period, called as the golden period of ISI, the economic growth rate was seven percent and the manufacturing sector's growth rate was between eleven and twelve percent.[103]

The 1970s witnessed several economic and political instabilities in both Turkey and in the world. In developing countries, the easy stage of ISI came to an end and the foreign exchange crisis and increasing dependency of imports led them to shift towards export promotion. Plus, most of the developed and developing countries negatively affected from the 1974 oil crisis. However, owing to the remittances sent by workers in Europe, with the support of the foreign exchange reserves and an accommodating monetary policy, Turkey did not simultaneously experience the negative impacts of the oil crisis with other countries in 1974 and the growth rate of the economy reached to 8.9 percent in 1975 and 1976.[104] Yet, borrowing abroad and expansionary policies only delayed the crisis. In 1978 and 1979 Turkey found itself in its most severe balance of payments crisis.[105]

In the 1970s firms containing foreign capital faced with two main issues in Turkey. First, the scarcity of foreign exchange, especially after 1976, obstructed transferring profits and obtaining imported inputs. In the 1970s, the inputs of the

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[102] Gülten Kazgan, Cumhuriyet, 18 Ağustos 1967.
[103] Z.Y. Herschlag, *Turkey the Challange of Growth* (Leiden: E. J. Brill, 1968) pp.196-197.
[104] Şevket Pamuk and Roger Owen a History of Middle East Economies in the Twentieth Century (Cambridge: Harvard University Pres, 1999) p.114.
[105] Pamuk and Owen, p.115.

MNCs, as well as domestic companies, mostly relied on imported intermediary and capital goods. On the other hand there was a scarcity of foreign exchange owing to the overvalued Turkish Lira and the governments took over the allocation of the scarce foreign exchange. Hence, firms containing foreign capital had difficulties in obtaining foreign exchange.

Second, the economic and political instability in the 1970s led foreign firms to be act prudently. Obviously, although Law 6224 remained effect, the attitudes of governments towards FDI changed in the 1970s. This change was mostly due to the firms containing foreign capital did not fulfill the export requirements. The officers of SPO and the governments often influenced the necessity of export contribution of foreign firms. In addition the ideological thoughts and attitudes that were dominant in the political atmosphere were also significant affecting the activities and investment of foreign firms.

To be more specific, it would be better to clarify the attitude of the governments towards FDI in Turkey. In 1971 there was a sudden change in the political life in Turkey and a non-party government under the premiership of Nihat Erim came in to power in March 1971. The new measures (affecting FDI) introduced by the new government indicated a shift from the liberal foreign investment policy. The new government announced that future applications for FDI would be judged on the following bases: provision for majority Turkish ownership; capacity for export; ability to induce an inflow of technology; and utilization of economies of scale.[106] In reality, the demands of the Turkish governments had not been met by the MNCs. The Turkish government's demand for increases in export commitments increases in local content and restrictions on the local credits available to FDI firms were harshly

[106] Ashkin, p. 19.

criticized by the MNCs operating in Turkey. They found the Turkish government's demands irrational.[107] As it is considered from a theoretical perspective, the commitments of Turkish government are what the bargaining school suggests. As mentioned before the Bargaining school suggests that technology is what the multinationals have and what the late developing countries want. For this purpose, especially in the 1970s, host countries put pressure on MNCs to bring their technology with them and the MNCs were directed to export-oriented sectors. For instance some of the Latin American countries and India gained bargaining power over the MNCs by controlling capital and access to its markets and directed them for their favor in the 1970s. On the other hand the MNCs did not want to share their technological advantage which brings with it high profit rates. Although Brazil was successful at directing the MNCs to the manufacturing sector because of its control over the access to its markets and resources, it did not gain the same success when trying to direct MNCs in the pharmacy sector; due to the MNCs bargaining power was stronger than the bargaining power of the Brazilian government in the pharmaceutical sector.

However, the bargaining strategy of the Turkish government and the SPO was not as successful as that utilized in Latin America. The reasons will be discussed in the next chapters.

Eventually foreign firms quickly affected from the new improvements and the regulations of the Turkish governments. FDI entered into Turkey decreased from $12 million in 1972 to $1.8 million in 1974 and fluctuated during the period 1975-1979. Finally $9 million dollars of FDI left Turkey in 1979.[108]

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[107] Erdilek, *Direct Foreign Investment in Turkish Manufacturing* p.22.
[108] Erdilek, "Turkey's New Open Door Policy of Direct Foreign Investment: A Critical Analysis of Problems and Prospects".

In sum, the foreign exchange crisis experienced in the second half of the 1970s had a great impact on the MNCs operating in Turkey. They had trouble getting the foreign exchange to transfer to their corporate headquarters. In addition the foreign exchange crisis, the bargaining policies of the governments, and the economic and politic instability in the country, obstructed the higher level of FDI flow into Turkey.

CHAPTER 6

FDI IN THE TURKISH ECONOMY

This study is limited to the analysis of the foreign direct investment entered to Turkey by Laws No. 5821 and 6224. As mentioned before, although it had highly liberal provisions, Law No. 6224 proved unable to attract the high flow of foreign investment to the country. In the next section, this issue will be discussed at greater length. In this section FDI movements and the impact of foreign direct investment on the economy will be studied.

Table 4 The Distribution of Firms Containing Foreign Capital According to Specific Fields-1977

Fields	Number of Firms
Chemicals	23
Electrical Machines	17
Food and beverage	9
Vehicles	8
Tourism	6
Machinery	5
Mining	1
Agriculture	1

Source: Uras 1979, p.146.

106 firms containing foreign capital were operating in the Turkish economy in 1976. This amount began to decrease slightly after that year. By the end of 1977 the number of firms with foreign capital was 99. 86 of these firms were operating in the manufacturing sector. 11 firms were operating in the service sector, one in mining, and one in agriculture. In 1977 88.3% of FDI was concentrated in the manufacturing

sector. In 1979, the number of firms decreased to 91, and in 1980, showing a significant increase, the number of firms with foreign capital reached 100.[109]

In 1977, in 46 of these firms, the foreign capital share was below fifty percent. In 53 firms, the share of foreign capital was over fifty percent. When considering these numbers, the measure taken by the government regarding the share of the foreign capital in firms should be taken account. 12 firms contained one hundred percent foreign capital and most of them were concentrated in the pharmaceutical sector. Some of the important firms containing foreign capital were Akdeniz Fertilizer Industry Corporation (share of foreign capital: 40%), Oyak – Renault Automobile Factory Corporation (share of foreign capital: 44%), Tofaş Turkish Automobile Factory Corporation (share of foreign capital: 41.5%), and Anadolu Glass Industry Corporation (share of foreign capital: 13.1%).

Table 5 Distribution of Foreign Investment in Turkey According to Industries (by the end of 1965 - 1,000$)

Sectors	Machinery and Equipment	Cash	Others	Total	% of total capital
Agriculture	140,9	-	-	140,9	0.21
Mining	228,4	627,9	-	856,3	1.25
Manufacturing	39,058	23,248	3,076	65,383	95.2
Building	135,4	494,6	-	630,1	0.92
Services	102,4	1,505	-	1607,7	2.34
TOTAL	39,665	25,876	3,076	68,618	100

Source: Records of the Ministry of Trade, in Tuncer, p.87. in Ashkin p.88.

As mentioned before, MNCs mostly invested in the manufacturing industry especially between 1950 and 1980 in developing and developed countries. In Turkey, like in other countries, operations of foreign firms mostly concentrated in the

[109] Taner Berksoy, Suut A.Doğruel, and Fatma Doğruel, *Türkiye'de Yabancı Sermaye* (İstanbul: Tüses, 1989).

manufacturing industry. As seen in the Table 5, 95.2% of FDI was concentrated in manufacturing industry in Turkey in 1965. In the end of the 1970s this ratio decreased to 85 %. Although there were ardent discussions in the parliament about encouraging FDI in the agricultural sector[110], foreign firms did not prefer to invest in this sector. 0.21% of total foreign capital invested in the agricultural sector in 1965. The share of service sector was also insignificant. Roughly 2.5% of total foreign capital invested in the service sector. However, owing to the changes in the international economic conjuncture and the economic policies of the Turkish governments the share of service sector began to increase appreciably after 1980.

Table 6 Production Effect of Foreign Direct Investments (manufacturing- million TL)

Years	Realized production	Production of private sector	Contribution of F.D.I to production	% (3/1)	% (3/2)
1961	17,496	11,258	800	4.58	7.11
1962	19,439	12,209	603	3.10	4.91
1963	20,084	12,464	963	4.80	7.73
1964	24,368	14,996	1,248	5.12	8.32
Average				4.44	7.10

Source: Tuncer p. 99.

The contribution of FDI to production in Turkey can be studied by analyzing the manufacturing industry. This is because ninety-five percent of FDI was concentrated in manufacturing activities and the inadequacy of confident data about the other sectors. The contribution of foreign investment to production was calculated by using the data of a questionnaire conducted by the SPO and foreign companies. The results of the questionnaire give some information about the sales amounts of

[110] Güngör Uras, *Türkiye'de Yabancı Sermaye Yatırımları*. İstanbul: Formül Matbaası, 1979. pp. 126-132

foreign companies. For instance, in 1964, the share of foreign capital was 5.12% of total production and 8.32% of the private sector's production in 1964.

The Effects of FDI on the Turkish Economy

In 1973 the share of firms containing foreign capital was 10.38% of total sales in the manufacturing sector. This ratio was 10.02% in 1975 and 10.27% in 1976. The share of FDI in the GNP was 1.4 %. For the sake of comparison, in Brazil this ratio was 8.3 %.[111]

Table 7 The Share of FDI in the GNP of Some Developing Countries-1975
(Percentage as $US millions)

Country	GNP	% FDI in GNP
Greece	21,320	3.1
TURKEY	36,030	1.4
Egypt	9,540	0.7
Nigeria	25,600	11.3
Argentina	39,330	5.1
Brazil	110,000	8.3
Mexico	63,200	7.6
Indonesia	29,120	12.0
Iran	55,110	0.9

Source: Drawn from Karluk, p.211.

As seen in Table 7, the share of FDI in GNP was 1.4% in 1975. When compared with other developing countries, this ratio is insignificant. For instance, in Brazil, the share of FDI in GNP was 8.3% and in Mexico it was 7.6% in 1975. Although the size of the Greek market was smaller than the Turkish market the share of FDI in Greek economy was 3.1%. However, it should be mentioned that, aids and economic policies of the European Union played an important role in the Greek economy. There are similarities between the attitudes of government in Greece and

[111] S. Rıdvan Karluk, *Türkiye'de Yabancı Sermaye Yatırımları* (İstanbul: İstanbul Ticaret Odası, 1982), p.211.

Turkey. In Greece, similar in Turkey, the government tried to increase the inflow of FDI by regulating the liberal encouragement law of FDI in the 1950s. Insufficient industrial capital, political and economic instability, and inadequate infrastructure were the problems facing the Greek economy in the first half of the 1950s. The Greek authorities considered that if foreign firms were encouraged to invest in Greece that would create employment opportunities, limiting imports and accelerating the country's economic development. Although The Greek government restricted the transfer of profit if it was over ten percent of the capital, in many ways, gave privileges to the foreign firms. FDI as a percentage of total capital formation in the Greek economy was running at 2.4% per annum at 1975 prices.[112]

The Employment effect FDI and Shares of Foreign Firms in Total Sales

As mentioned before, MNCs heavily invested in the manufacturing sector in developing countries. Turkey was not an exception. In Turkey between 1950 and 1980 most of the MNCs concentrated in the manufacturing sector. After 1980 the relative importance of service sector increased. Table 8 suggests that foreign capital was concentrated in five main sectors: automotive, pharmaceutical and chemicals, electrical machines and tools, food and beverage, and rubber in manufacturing industry. Firms containing foreign capital have a share of 56.2% of total sales in vehicle sector. Their share is 58% in rubber sector and 52.8% in electrical machines. Although it had the second highest sales amount, the textile sector was not attractive to foreign firms because of a comparative disadvantage. The share of firms containing foreign capital in total sales is 0.5% in textile sector. This indicator shows that, as Hymer points out,

[112] Petrochilos, p.69.

MNCs invest in the sectors in which they have the comparative advantages over the local firms. In addition, especially European and U.S. firms invest in the capital-intensive sectors. Hence, it can be suggested that MNCs mostly concentrated in the sectors, which required management skills and high technology.

Table 8 Share of Firms Containing Foreign Capital in Total Sales and Employment in Manufacturing Industry (millions dollars) -1976

	Total Firms		Firms Containing Foreign Capital			
Sector	Sales(1)	Employment(2)	Sales(3)	(3/1)	Employment(4)	(4/2)
Food and Beverage	4,126	154,609	197	4.7	3,928	2.5
Textile and Clothing	2,640	186,942	14	0.5	913	0.4
Paper	465	16,321	8	1.7	187	1
Rubber	236	10,920	137	58	3,400	31.1
Plastic engrave	231	11,579	22	9.6	588	5
Chemicals	1,262	42,767	231	18.3	6,682	15.6
Glass	153	9,654	26	17.3	1,670	17.2
Vehicles	923	54,690	519	56.2	10,968	20
Mineral Goods	466	29,431	73	15.4	2,174	7.3
Machines	655	41,115	25	3.9	1,340	3.2
Agricultural Machines	409	19,815	105	25.7	1,552	7.8
Electrical Machines	569	27,224	301	52.8	9,945	36.5
Others	665	37,324	14	2.1	603	1.6
TOTAL	12.805	737.919	1.672	13	43.950	5

Note: 1$=16.66 taken by 1976. Calculated and organized using the FDI reports of Ministry of Commerce (1976) and Uras (1979) p.194

The Employment and Efficiency Effect of FDI

As mentioned before, owing to the high unemployment rates and the need to create employment in order to sustain a higher economic growth rate, developing countries encourage the investments of foreign firms. These countries expect from the FDI creating new job opportunities and introducing management skills. However, the statistics and the activities of MNCs bring out that most of the MNCs invested on the capital-intensive sectors rather than labor-intensive sectors and by and large they employed skilled labor. This situation was similar in Turkey especially between 1950 and 1980.

Table 8 is a good example supporting the statement above. As shown in Table 8 foreign firms employed 5% of total workers in Turkey. This ratio is as insignificant as the other indicators.

The statement above, about the concentration of MNCs in capital-intensive sectors can be strengthened by Table 9.

Table 9 Production Value of Per Worker - 1973

Firms	(TL/Per Worker)
Foreign Firms	314,572
Private Sector (manufacturing)	190,019

Source: Uras, p.208.

Table 9 suggests that the efficiency of per worker is higher in the foreign firms when compared to local firms. As the unit of capital is increased, then the efficiency of per worker increases. Therefore, according to Table 9, it can be argued that foreign investment was concentrated in capital-intensive sectors.

Table 10 strengthens that the employment effect of foreign firms is trivial. Employment created by foreign investment was insignificant when total employment

and private employment levels were considered. The ratios of contribution of FDI are 3.21% when private sector considered only, and 1.91 when public and private sector both considered.

Table 10 Number of Workers in Manufacturing Industry-1965

Total (Public+Private)	Number of Workers in Private sector	Number of Workers in F.D.I	% (3/1)	% (3/2)
472,122	287,619	9,135	1.91	3.21

Source; Tuncer 1968, p.116.

Dependency of Foreign Firms on Inputs Imported

One of the important contributions expected from the FDI was an increase in the amount of foreign exchange in the country. As the foreign firms decided to invest in the country, it is expected that, they will gradually bring foreign exchange with them. However, in Turkey, most of the MNCs borrowed from internal sources or obtained credits from the Cooley fund which was formed by the U.S.A. in order to support the U.S. firms operating in Turkey. By this way, U.S. firms could easily borrowed credits as Turkish currency rather than foreign exchange. Furthermore, the statistics suggest that most of the MNCs brought machinery and equipment with them rather than bringing cash.

The statistics show that, MNCs, like many local firms, depended on input imported rather than using internal linkages. Especially, in the second half of the 1960s, the easy stage of ISI came to an end and producers became more dependent on foreign exchange as they began to produce intermediary and capital goods. According to Table 11 the ratio of the dependency of foreign firms on inputs imported in manufacturing industry was 52.5%. Most of the foreign firms obtained the main parts

of the product from their home countries. This situation was criticized and called *montaj sanayi* (assembly industry), which referred to the import of at least ¾ of the product to be assembled in the host country.

Table 11 Dependency of Foreign Firms on Inputs Imported (millions dollars)-1975

	Total Input	Imported Input	Dependency on Imports %
Manufacturing Industry	1,013	532	52.5
Food and beverage	127	43	33.7
Textile and Clothing	2.5	0.7	28
Paper	5.8	3.8	65.5
Rubber	80	69	86.2
Plastic engrave	14	5.5	39.2
Chemicals	154	120	77.9
Glass	19	4.7	24.7
Vehicles	331	168	50.7
Mineral goods	53	19	35.8
Machines	16	3.7	23.1
Agricultural machines	59	29	49.1
Electrical machines	140	60	42.8
Others	8.1	2.1	25.9

Note: 1$=15.15 taken by the 1975 rate
Source: Own calculation from Uras (1979) p.269

As seen in Table 12, the imports of foreign firms depended mostly on intermediary and capital goods. This can be explained by the inadequacy of local producers in producing commodities which require technology, management skill, and economies of scale. This picture also shows the failure of the ISI strategy in Turkey as the firms became more dependent on foreign inputs in the later steps of the model.

Table 12 Exports and Imports of Firms Containing Foreign Capital 1970 ($ m)

	Exports(1)	Imports(2)	(1) – (2) Deficit
Final Goods Sect	11.8	6.5	5.3
Intermediary Goods Sector	9.6	100.0	- 90.4
Capital Goods Sector	3.8	182.6	- 178.8
TOTAL	25.2	289.1	- 263.9

Source: Alpar, p.178.

The Export Contribution of Foreign Firms to the Turkish Economy

As mentioned before, one of the expected contributions from MNCs is to increase their exportation. Especially in the 1970s, the Turkish governments started to bargain with the MNCs and attempted to direct them to the export-oriented sectors. However, many foreign firms found the implementations irrational and abandoned their investment decisions. As seen from the Table 13, the implementations of the governments did not increase the amount of exports in terms of the total sales of foreign firms. In the manufacturing industry, in which MNCs heavily invested, exports of firms containing foreign capital were 2.8% of their total sales in 1973, 3.1% in 1975 and 2.7% in 1976. The amount of exports done by foreign firms was insignificant.

Table 13 Exports of Firms Containing Foreign Capital in Total Sales (as percentage)

Sectors	Exports/Total Sales of Foreign Firms		
	1973	1975	1976
Manufacturing	2.8	3.1	2.7
Mining	100	95.2	82.3
Agriculture	15.4	15.7	7.3
Services	2.1	2.4	43.3
TOTAL	3.3	3.6	3.3

Source: Uras 1979, p.214.

The Effects of Taxes Paid by Foreign Firms on the Turkish Economy

In general, when the total tax revenues are considered the contributions of foreign firms are insignificant. One reason for this situation is, foreign firms would be taxed twice on their incomes, and host countries generally keep the tax levels of

foreign firms lower than the domestic producers. However, the tax ratio of the production tax and duty tax are the same for both foreign and local firms.

Table 14 Tax Payments of F.D.I in Total Tax Revenues of State (Thousand TL)

	Total Tax Revenues (income+corporation+ tax from production)	Tax payments of F.D.I (income+corporation +tax from production)	%
1961	5,988,000	20,100	0.3
1962	6,750,000	21,400	0.3
1963	7,124,000	26,500	0.4
1964	8,326,000	36,900	0.4

Source: Bulletin of State Incomes 1966, Ministry of Finance, in Tuncer, p.96

According to Table 14, FDI made up 0.4% of total taxes. This is an important indicator, which shows that the contribution of FDI to tax revenues was insignificant. To give a more detailed example, it can be said that the payment of income taxes of FDI was 0.5% of total income taxes collected.

Table 15 Share of Firms Containing Foreign Capital in Tax Revenues, in percentage

	1973	1975	1976
Corporation Taxes	7.68	7.01	0.63
Income taxes	0.60	0.54	0.63
Financial balance tax	1.45	1.21	1.06
Production tax	14.98	10.87	16.50
Duty tax	28.73	41.73	40.02

Source: Uras p.233.

Although the contribution of firms containing foreign capital was insignificant to tax revenues, there is an exception for one case. As it is seen in the Table 15, foreign firms have a share of 40% in total duty tax. The state taxes the inputs imported from abroad and the case above also strengthens the dependency of foreign firms on inputs imported.

Transfer of the Profits

As mentioned before the main motive of a firm to invest abroad is profit maximization. Firms, gradually, transfer some of their profits to home country or reinvest them. However, especially developing countries desire that the inflow of foreign capital exceeds the profits sent back abroad.

Table 16 Comparison of the Transfers and Amount of FDI that Entered Turkey (thousand dollars) 1950-1975

	Realized FDI (1)	Income Transferred (2)	(2/1)
According to Law No. 6224	152,945	173,444	134
According to Petroleum Law	-	-	136 *

* It refers to the period 1963-1976.
Source: Own calculation from Alpar, p. 171; Uras pp. 225 and 166.

Table 16 suggests that the amount of the out flowing capital was quite larger than the inflow of capital in Turkey. In some of the Latin American countries the amount of out flowing capital was much higher than Turkey. In Latin American countries in this era the outflow of capital was much higher than the inflow of foreign capital. According to data from 1946 to 1967, the new entries of capital were 5,415 million dollars into Latin America and the sum of reinvested profits was 4,424 million dollars. And in this period, the ratio of remitted capital to new flow was around 2.7; for each dollar that entered $2.70 left.[113]

[113] Theotonio Dos Santos, "The Structure of Dependence" *American Economic Review* (May, 1970) p.231.

Reasons for the Inadequate Flow of FDI

As seen from the study above, the amount of FDI in Turkey was below the expected level. However, compared to other countries in the world, Turkey had a very liberal foreign encouragement law. As seen in Table 17, Turkey differed from other countries in encouraging FDI.

What can be understood by this fact is that there is no direct relationship between the regulations about FDI and the inflow of foreign capital. In other words, the inflow of foreign capital could not be increased only by liberal regulations alone. If the inflow of foreign capital is below the expected level, one should be looking elsewhere for the reason.

Table 17 Selected Rules Affecting Affiliates of Foreign MNCs

Country	Ownership	Profit Remittance	Local Content
Argentina	Unrestricted	supplementary tax on remittance above 12% of registered capital	80% require on autos
Brazil	de facto gov. Pressure for majority Brazilian ownership	supplementary tax on remittance above 12% of registered capital	on many products, over 90% on autos
Mexico	49 % foreign is maximum	unrestricted except by general exchange controls	on many products; 60% on autos
Turkey	unrestricted until 1972, after 1972, 49% foreign is maximum	unrestricted	-

Source: Oksay 1967 ; Grosse, from Business International Corporation, 1987.

According to Table 17, only Turkish laws enabled the profit remittance without any restriction and did not require a ratio of local content in the production of foreign

firms. However, as seen in Table 18, the annual average of FDI inflow to Brazil was 1.8 billion dollars and the amount of FDI inflow in Turkey was 7.7 million dollars.

Table 18 Inflows of FDI to Major Recipient Countries in Latin America and Turkey 1970 – 1980 (US $ millions)

Country	Annual Averages	
	1970-1974	1975-1979
Brazil	851.9	1,820.3
Mexico	413.1	791.3
Argentina	10.2	119.6
Turkey	4.7	7.7

Source: Uras p. 166; Grosse, p.56.

The Brazilian Case – a comparison

One of the interesting points is that, although Brazil and Turkey are generally put into the same category as LDCs, or periphery countries, as the dependency school calls them, the amount of FDI in Brazil has been much higher than in Turkey.

Table 19 Foreign Capital Stock in Some Developing Countries (millions dollars)

Countries	1973
Argentina	2.5
Brazil	7.5
Mexico	3.1
India	1.8
South Africa	8.4
TURKEY	0.4

Source: Doğruel; Berksoy.

Table 20 Crude Classification of the International System circa 1970

	Per Capita GNP Greater than $900	Per Capita GNP Less than $900
GNP greater than $100 billion	U.S. U.S.S.R Japan Germany (Fed. Rep.) France United Kingdom	China
GNP between $30 billion and $100 billion	Italy Canada Germany (Dem. Rep) Poland Spain Sweden Czechoslovakia Australia	India BRAZIL MEXICO
GNP between $5 billion and $30 billion	Belgium Switzerland Denmark Romania Finland Norway Netherlands Hungary Greece Austria Argentina Venezuela Israel	South Africa Yugoslavia Pakistan Iran TURKEY Indonesia Korea Egypt Philippines Chile Colombia Nigeria Taiwan

Source: IBRD, 1973; Evans, p.293.

Evans points to the data in Table 20 as a reference to show that Brazil differs from Third World Countries, with a higher income. According to Evans, Brazil's "economic miracle" made it "the Latin American Darling of the International Business Community" and the Brazilian market was the sixth largest in the world in 1973 for American manufacturing affiliates. [114] Brazil was enjoying a growth rate of ten percent per year and the growth rate was even higher, particularly in certain sectors such as

[114] Peter Evans, *Dependent Development: The Alliance of Multinational, State and Local Capital in Brazil* (New Jersey: Princeton University Press, 1979), p.33.

automobiles in the 1970s.[115] Hence, the growth of investments, sales and profits put Brazil into perspective as a potential location for foreign direct investment. Growth in itself was attractive, but also Brazil provided good rates of return as well as opportunities for rapid growth for foreign firms. One of the similarities between two countries is that Brazil and Turkey adopted ISI strategy in the same period. However, unlike Turkey, Brazil was able to transform its economic development strategy from ISI to export-led growth when the inevitable crisis of ISI emerged and, as a result, Brazil experienced an economic boom between 1966 and 1973.[116]

Of course, the growth rate and goods rate of return were not the only incentives for foreign firms to invest in Brazil. Its geographic location and its relations with center countries in the eighteenth and the nineteenth centuries also helped in its industrialization process. In the nineteenth century, there was a flow of an important amount of foreign capital, especially from Britain and European countries into Brazil. Throughout the nineteenth century, foreign investment was concentrated in natural-resource industries and public utilities (power generation, telephone and telegraph service). In this period, British entrepreneurs built local companies and hired local workers.[117]

In the nineteenth century the concentration of foreign countries in the export-oriented sectors restricted the possibility of industrial growth because it created a poor domestic market and it left a large surplus in the hands of foreign entrepreneurs. However, in this period, Brazil was more fortunate than many dependent nations. Its major export crop, coffee, was in the hands of local rather than

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[115]Ibid., pp. 166-167.
[116] Haldun Gülalp, "Türkiye'de İthal İkamesi Bunalımı ve Dışa Açılma" in *METU Studies in Development*, no.7 (1980), p.56.
[117] Robert Grosse, *Multinationals in Latin America* (London: Routledge,1989), p.9.

foreign capital. The local ownership of the plantations not only provided some degree of local autonomy, but more important, the possibility of local capital accumulation.[118]

According to Cardoso, the difference of Brazil's position from that of the other LDCs in the twentieth century is explained by the term "dependent development". The dependent development, for Cardoso, is a special instance of dependency characterized by the association or alliance of international and local capital. The state also joins the alliance as an active partner, and the resulting triple alliance is a fundamental factor in the process of dependent development.[119] In other words, dependent development is based on the triple alliance of the multinationals, the state, and the local bourgeoisie. Comparing Turkey with Latin American countries Buğra emphasizes that "Although foreign direct investment has not traditionally played an important role in Turkish economy and, consequently, has not appeared as a factor which could significantly alter the nature of state-business relations as it has, for example, in the Latin American setting where foreign connections have played a non-negligible role in many business careers. Working as the representative agency of a foreign exporter to Turkey is an important step in the business careers of some prominent Turkish businessmen. Joint ventures with foreign firms also appear to be important for some prominent Turkish businessmen in their entry into the industrial sector".[120]

According to Evans, dependent development, which brings a rapid economic growth rate with it, is not a phase that all countries are able to reach. Only a few are chosen.[121] Dependent development takes place in countries in which the local bourgeoisie and international capital can forge functioning alliance. These countries

[118] Evans, pp.60-61.
[119] Fernando Henrique Cardoso, "Dependency and Development in Latin America" in *The New Left Review* (1972) pp. 83-95.
[120] Buğra, p.67.
[121] Evans, p. 33.

differ from the majority of Third World countries and Wallerstein refers them to semi-periphery.

To reveal the difference of Brazil from Third World countries, Evans gives information about economic indicators. He states that in the case of steel, both India and Mexico, produced amounts in the same range as Brazil, but no other Third World country even comes close. Mexico and the Republic of South Korea both produce more synthetic fibers than Brazil, but in consumer durables like passenger cars and refrigerators not even Mexico is a close competitor. In 1974 when the Brazilian production of steel was 7.5 (million metric ton) it was 5.0 in Mexico and 6.6 in India. The production of steel was 1.5 (millions metric ton) in Turkey in 1976. Again, in 1974 the production of passenger cars (including those assembled from imported parts) was 562 (thousand unit) in Brazil, and only 63 (thousand unit) in Turkey by 1976.[122]

The Effect of the Bureaucracy and the State Planning Organization (SPO)

Although Turkey had a very liberal foreign encouragement law (Law No. 6224), the inflow of FDI was lower than the expected level. However, Article 1 of Law No. 6224 implied that FDI had to benefit the economic development of the country. This vague law over the years became open to use a tool for the bureaucracy and the government to discriminate against some FDI activities. Hence, especially for the foreign firms, the SPO and the red typing of public institutes were responsible for the low inflow of FDI.

For instance, an entrepreneur, Alber Bilen who was the drugs producer Böhme Fettchemie's independent representative for the Middle East region, began to

[122] İbid., pp.297-298.

explore the possibilities of local import substitution production under foreign license when the foreign exchange scarcity became relevant. Buğra explains the controversy between the encouragement law of FDI and the attitude of the government toward foreign investment: "The joint venture was formed in a period when a very liberal foreign investment law was in application, and the attitude of the government in power was also very favorable toward joint ventures between Turkish and foreign firms. Yet, the implementation of the law was governed by a very pragmatic attitude which consistent in limiting the period of the agreement with the objective of eliminating the foreign partner as soon as the technological know-how was acquired and the firm was established on the market. This obvious tactic was, of course, well noticed by foreign investors who were driven away from the agreement as a consequence. There was, in other words, a clear discrepancy between the law and its bureaucratic implementation"[123] In a closed economy in which foreign economic relations are subject to extensive state control, each connections with foreigners also involves an encounter with the state authority.[124] In addition many foreign investors accused the Turkish bureaucracy of straight and simple violation of the law for not implementing its various provisions. For instance, the bureaucracy did not allow the capitalization of intangible rights reduced and even stopped royalty payments.[125]

One of the important obstacles for foreign firms was the long waiting period to receive their permissions from the Council of Ministers. In the 1970s, the average time between a firm's application for permission and its publication in the Official Gazette was about two years.[126] Another problem was the SPO's unwillingness to process the FDI applications quickly enough. The SPO often increased the red tape

[123] Buğra, p.91.
[124] Ibid., p.69.
[125] Erdilek, *Direct Foreign Investment in Turkish Manufacturing* p.14.
[126] Ibid., p. 24.

for the application procedures for foreign firms so that permissions for foreign firms would be delayed at least for three or four months. The SPO officers denied that the SPO was anti-FDI and explained the delays with political facts and a shortage of expert personnel. The last fact was the main problem of the institutions, which were responsible for evaluating FDI applications. For instance, there were only a few experts in the Ministry of Commerce's (MOC) FDI division and they were fired for political reasons when the new government came into power. Hence, with no skilled employees, as the chief of the MOC's FDI division stated, his division was no longer capable of evaluating the FDI applications on a technical level.[127]

The Single Agency Problem

One of the facts affecting the FDI application process was the lack of a strong and efficient organization dealing with the FDI application process. Coordination was lacking between the institutions dealing with FDI. The application procedure was complicated and required many steps before realizing the investment. According to foreign encouragement Law No. 6224, first, the FDI application was submitted to the Ministry of Commerce. Then, if the application was in fulfillment of its requirements the MOC sent the application to the SPO (before the establishment of the SPO it had been the Committee of Encouragement of FDI). The SPO evaluated the net economic and technological benefits for the country within the framework of the development plans. If the evaluation of the SPO was favorable, then the application was sent back to the MOC. From there, a draft of the foreign firm application was sent by the MOC to the Council of Ministers (COM) for political approval. The draft had to be signed

[127] Ibid., p. 25.

by all cabinet ministers before it could become finalized. The final decree went into effect with its publication in the Official Gazette.[128]

With the 24 January 1980 program, a newly created Foreign Direct Investment Department, within the SPO, acquired the consolidated authority, which had been previously split among several different government agencies to manage the relations with foreign firms.[129]

The Foreign Exchange Crises

Foreign exchange is important for foreign firms in two ways. First, business theory implies that the main motive for foreign investment is profit and foreign firms gradually want to transfer their profits to their home countries. Second, especially in the countries, which have adopted the strategy of ISI, it is important for a foreign firm to obtain foreign exchange to get imported inputs. In these countries generally when the easy stage of ISI come to an end, there emerges a scarcity of foreign exchange and the dependency of firms (including foreign firms) on imported inputs makes the scarce foreign exchange more important. In Turkey, there are specific examples of this phenomenon, which were experienced in the foreign exchange crises in 1954, 1958 and in the second half of the 1970s.[130]

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[128] Tuncer, p.77.
[129] Erdilek, "Turkey's New Open Door Policy of Direct Foreign Investment: A Critical Analysis of Problems and Prospects" p.173.
[130] Robinson, pp.62-71, 81.

The Effect of Political and Economic Instability

As mentioned above in the section on business theories of FDI, economic climate and political stability are important in the decision of foreign direct investment. Although the profit ratio is the main motive to invest abroad, under the conditions where the risk of investment is high, foreign firms would avoid realizing the investment abroad.

In Turkey, the relationship can be seen clearly between the political and economic instability and the realized FDI. After 1957, the ratio of realized investment started to diminish. In 1957, the realized investment was 13.4% of the authorized investment; in 1958, this ratio decrease to 5.8%. This can be explained by the economic, political instability in 1956-7. Especially in 1957, although they received investment permission, the expectation of devaluation prevented foreign investors from investing in Turkey. Another example can be given by comparing the 1959 ratios with the 1960 ratios. In 1959, the realized investment was 8% of the authorized investment. In 1960 this ratio sharply decreased to 0.5%. This can be explained by the military intervention. Therefore, it can easily be said that the economic and political climate has a great influence on foreign direct investment activities. As seen in 1969, both the realized investment and the ratio of realized investment to authorized investment decreased significantly. This can also be explained by the expectation of devaluation.

The Effect of Public Opinion

Owing to the bitter experience with the capitulations in the nineteenth century in the Ottoman Empire, FDI has always been viewed as somewhat suspicious in Turkey. In the 1960s, many debates took place in the parliament and in the press. These were mostly about the improper functioning of the foreign firms. For instance, one foreign firm, although it had taken the approval to produce the raw materials for pills, produced baby' s food, which was in no way related to the approved category.[131] Other criticized subject was the insignificant contribution of the foreign firms to the Turkish economy. Most of the foreign firms assembled imported inputs. They were criticized for disregarding the local content and increasing the dependency on foreign exchange.

In the 1970s, although ideological attitudes were mostly in favor of FDI, government obstacles increased significantly. For instance, during the coalition governments, some decrees were blocked for more than a year because of the lack of one or two signatures. In addition, the competition between the political parties mostly increased employee circulation in the departments dealing with FDI and this diminished the number of skilled personnel in these departments.

[131] *Uras,* pp. 276-277.

The Bargaining Process

Especially in the 1970s, the SPO increased its negative behavior toward foreign firms. SPO officers explained this behavior with the bargaining process and stated that the SPO aimed to protect the nation's economic interests. However, this bargaining process was a little problematic. As mentioned before, after the second half of the 1960s, in the development plans, the export contribution of FDI was stated. For instance, between 1973 and 1977 the government put the export commitment of five percent of the total production of FDI per year and it was difficult to realize this amount for many foreign firms.[132] In 1972, the Erim government decided to increase the share of local content in foreign firms. Also in the 1970s governments demanded that foreign firms bring technology with them into the Turkish economy. However, many foreign investors found the demands of the Turkish government for increases in export commitments and local content irrational.

Contrary to Turkish experience, especially in the 1970s, some of the Latin American countries were successfully bargaining with the MNCs in certain areas. It would be interesting to examine how some Latin American countries were successful in the bargaining process to understand the failure of the Turkish governments.

Since the independence of most Latin American countries in the early 1800s, governments have tightly controlled their economies. In the twentieth century most of them adopted Statism and established many state enterprises for the purpose of industrialization. However, this was not a "nationalistic movement" in the sense. In

[132] Uras, pp. 264, 270.

other words, this movement was not against foreign capital because of the term "dependent development". In the 1930s and 1940s In Brazil and Mexico many big enterprises were founded or were already in existence. Latin American economic development in the twentieth century has taken place with the autonomy of the state largely restricted by the presence of an already strong industrial business class[133]. In Turkey, a local business class was virtually nonexistent in the early years of the Republican period and foreign capital does not appear as a factor likely to limit state autonomy and to affect the political content of business activity. Thus the relationship between a Latin American government and a MNC seeking to establish operations in that country depends largely on the existing ties between that government and local firms or other MNCs with existing facilities. Unless the MNC offers some superior benefits to the government in comparison with the established local firms, it is likely be quite difficult for the new MNC to enter that market.[134]

These explanations show that the states in Brazil and Mexico have connections with the local entrepreneurs and MNCs. However, only these facts do not explain the governments' success. Many governments were mostly successful in bargaining with the foreign firms in certain areas. Then the question is what the other facts were increasing the bargaining power of the host countries.

First of all, the bargaining process is somewhat like a game theory with two players. Thus, both participants have the chance to win. Therefore, it should be stated that host countries governments do not win all the time. Then, it becomes necessary to examine under which conditions the actors, the MNCs and the governments, have the bargaining power over the other. First, the power of the firm is greater in situations in

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[133] Buğra, p.20.
[134] Grosse, p.71.

which its proprietary knowledge in pharmaceuticals, computers, is more important. For instance, in Brazil, the state couldn't succeed in increasing the share of the local content in the pharmaceuticals sector because of the technological advantage of foreign firms.[135] On the other hand, if the technology in the project is mature or standardized such as in foods, then the firm has less bargaining power than the government.

Second, the governments welcome the research and development expenditures of MNCs in the host countries and the MNCs enjoy some exceptions.

Third, MNCs have bargaining power in locations where economies of scale are important. On the other hand, the governments of the host countries mostly have bargaining power in circumstances where the industry is based on a raw material available in the host country. In other words, the more dependent the MNC is on some resources of the country, the more powerful the government's bargaining position. For instance, Venezuela was able to nationalize and control the ownership of the oil reserves in 1975 due to this explanation.[136]

In addition, the power of the government increases where the market served by the business is entirely in the host country. Access to the domestic market strengthens the bargaining power of the host countries. Finally, the bargaining power of a host country increases in highly competitive industries.

In conclusion, it can be said that the position of the state and its role in generating basic industry, a favorable economic environment, and access to the domestic markets strengthens the bargaining power of a host country.

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[135] Evans, pp. 84-90.
[136] Grosse, p.82.

CHAPTER 7

SUMMARY AND CONCLUSION

In this thesis, first, the question of why a firm invests abroad was investigated by examining economic and business theories of FDI. A general survey of FDI theories demonstrated that there is no single theory explaining the motive of FDI. Most of the theories explaining FDI were case studies and their arguments were inadequate to explain FDI activities in other specific cases.

Second, in this thesis, the relationship between FDI activities and the international economic conjuncture was examined. The flow of FDI took place mostly between developed countries in both the nineteenth and twentieth centuries. In addition, the share of late developing countries in FDI activities continued to diminish while the share of developing countries increased during the twentieth century. The distribution of FDI as well was related to the international conjuncture. In the nineteenth century most of the foreign firms were concentrated in export-oriented sectors in late developing countries. This was strongly related with the economic conjuncture. In the nineteenth century most of the LDCs were colonials of the center countries and the importance of raw materials in the nineteenth century increased the FDI activities in export orientation and the service, infrastructure sectors in these countries. In the twentieth century foreign firms mostly were concentrated in the manufacturing sectors in these countries. After the Second World War, many of LDCs adopted ISI strategy that led to an increase in tariff rates and foreign firms decided to invest rather than export to these countries. Foreign firms enjoyed high rates of profit

in protected manufacturing industries in which local competition was weak. One of the reasons for the flow of FDI into LDCs was the demands of the governments of these countries to realize high rates of economic growth. Inadequate capital stock led the LDCs to use FDI as an external resource in the quest for economic development and economic growth.

In Chapter 6 the FDI in Turkey was analyzed. In reality, the contribution of FDI was insignificant or, in other words, it was below the expected level. The share of FDI in the GNP fluctuated between one and two percent, which refers to an unimportant contribution. The employment effect and the contribution to the tax revenues of the state of FDI in Turkey were also insignificant. However, this master thesis suggests that although the contribution of FDI to the Turkish economy was statistically insignificant, it played an important role in the transformation of merchants into the industrial bourgeoisie. The increase in tariff rates led merchants to manufacture the products which they had imported before and the lack of technological and managerial knowledge led them to collaborate with foreign firms. Most of the well-known industrial groups today collaborated with foreign firms in the 1950s and 1960s.

Finally, the reasons for the inadequate inflow of FDI were examined. Actually, there is not a single fact explaining the reasons of inadequate inflow of FDI. However, there are some facts that explain maybe not wholly, but mostly, the inadequate inflow of FDI in Turkey. The facts: the foreign exchange problem, economic and political instability, the lack of a strong and single department dealing with FDI, red-tape, the attitude of the SPO toward the foreign firms together are reasonable in understanding the inadequacy of FDI into Turkey. In addition, this thesis suggests that the Turkish government's bargaining policies, like those of the governments of Latin American in

the 1970s, also hindered the inflow of FDI. First, the demands of the Turkish government mostly were irrational. Most of the foreign firms complained that meeting the demands of the Turkish government was impossible.

In conclusion, LDCs, in the second half of the twentieth century, aimed to sustain higher economic growth rates. They adopted industrialization as the main target. Turkey, named as one of the LDCs, to realize higher growth rates encouraged the inflow of FDI as an external source into the country. It was because, the capital was scarce or, in other words, internal sources were inadequate for the rapid industrialization in the country and there was a need of external source to sustain higher economic growth rates. However, the inflow of FDI did not reach to the level that was expected. The number of firms containing foreign capital was insignificant when compared with Brazil and Mexico. The contribution of FDI to economic growth, employment, and tax revenue of the state was insignificant also. This thesis also suggested some certain facts in explaining the reasons of inadequate flow of FDI into Turkey. This is because, there is not a single fact explaining the inadequate flow of FDI. The investment climate, the role of bureaucracy, the government attitudes towards foreign firms and the international economic conjuncture, together make sense in understanding the reasons of inadequate flow of FDI.

Today, there is a great interest of the public towards the FDI issue. This is an important development when the excitably discussions about the FDI issue in the parliament and public in the 1960s are considered. Law No. 6224, encouraging FDI, is still remaining in effect- with minor but important changes and the red-tape is by and large reduced. However, although the members of the parliament wholly are aware of the contribution of FDI and encourage the inflow of FDI, the political and economic instability obstruct the higher amounts of inflow of FDI. Therefore it can be said that,

liberal foreign encouragement law is not enough to increase the inflow of FDI, it should be accompanied by the economic and political stability.

APPENDIX

A. FOREIGN INVESTMENT ENCOURAGEMENT LAW

Law No. 6224 Approved on January 18, 1954

Subject of the Law

Article 1. This law shall apply to the foreign capital imported into Turkey and to loans made from abroad by the decision of the Foreign Encouragement Committee and the approval of the Council of Ministers provided that the enterprise in which the investment shall be made:

a) will tend to promote the economic development of the country,
b) will operate in a field of activity open to Turkish private enterprises,
c) will entail no monopoly or a special privilege.

"The Foreign Investment Encouragement Committee" referred to in this Article and established according to Article 8, will herinafter be referred to as "The Committee".

Foreign Capital Base

Article 2. For the purpose of the application of this Law, the term "Foreign Capital Base" shall mean the sum of the values assessed and fixed in the manner described here-under:

a) The following items imported from abroad for the efficient establishment, expension or reactivation of an enterprise as envisaged by this Law:

1- Capital in the form of foreign exchange

2- Machinery, equipment, instruments and the like, machinery components, spare parts and materials and other necessary goods approved by the Committee,

3- Intangible rights such as licenses, patent rights and trade marks and services.

a) The experts selected by the Committee will assess the value of the imported capital in the form of goods, services and intangible rights and will determine whether these are goods and values imported for the purpose of the enterprise approved by the Committee.

The assessments made by the experts may be reviewed and modified by the Committee.

The assessment shall be made both in the currency of the country of origin and in Turkish currency at the official rate of exchange prevailing at the time of importation.

The right to appeal provided for in Article 8 being reserved, the decision of the Committee with respect to assessment shall be final.

Reinvestment of Profits

Article 3. Of the profits realized by an approved enterprise under the tax laws in force, the net amount accrued to the owners of the Foreign capital base may be, by the decision of the Committee, reinvested and added, in whole or in part, to the basic foreign capital or invested in some other enterprise meeting the conditions of Article 1.

Transfer of Profits and Capital Stock

Article 4.

a) The following profits and capital stocks are entitled, subject to the provisions of paragraph (c) of this Article, to transfer abroad in the currency of the

country from which the foreign capital base originated and at the prevailing official rate of exchange.

1- Of the profits realized after December 31, 1953, as determined by the tax laws in force, such net amounts as accrue to the owners of the foreign capital base.

2- The share of the owners of the foreign capital base in the proceeds of the sale, within reasonable prices, of assets in case of partial or total liquidation of an enterprise subject to this Law.

3- The proceeds of the sale, within reasonable prices, of part or the whole of the foreign capital base of an enterprise subject to this Law.

4- The principle of and interest on a foreign loan contracted according to the provisions of Article 6 of this Law, when due under the terms of the Loan Agreement.

b) The Ministry of Finance or the Committee, may, if they deem it necessary, order

1- the inspection of the books of account and tax returns of the enterprise subject to this Law, in order to determine the amount transferable in accordance with sub-paragraph 1 of Paragraph (a) of this Article, or

2- Investigation of the bona fide nature of sales shares and assets and of loans to an approved enterprise.

c) The Ministry of Finance shall issue, upon application the requisite permit for the transfer abroad of profits, sales proceeds or the principal of and interest on loans that are eligible for transfer under paragraph (a) of this Article.

Transfer of Shares

Article 5

a) The Ministry of Finance shall execute, upon request, the following guarantees upon stock shares or stock certificates, registered on the books of the Turkish corporation, that represent the foreign capital base, as defined in Article 2.

(The dividends of this stock share are immediately transferable into…(Foreign exchanges of origins) at the official rate of exchange prevailing at the date of transfer, on presentation of this stock share of stock certificate to the Central Bank of the Republic of Turkey or its authorized representatives abroad. The proceeds of the sale of this stock share or stock certificate or that part of the proceeds of the realized value of the assets sold in liquidation, to which the owner of this stock share or stock certificate is entitled, are transferable at the official rate of exchange prevailing at the date of transfer, into… (Foreign exchange or origin) in accordance with article 4 of Law No.:… of the Republic of Turkey.)

b) Registered stock shares or stock certificates bearing such guarantees shall be freely transferable between persons of all nationalities both in Turkey and abroad. Before the sale of such stock shares or stock certificates to real and juridical persons settled in Turkey, it is obligatory to present them to the Ministry of Finance for the cancellation of such guarantees whether or not new stock shares or stock certificates are issued to replace them.

Guaranty of Loans

Article 6

a) The Ministry of Finance is authorized, subject to a decision of the Council of Ministers, to provide its guaranty, against security or bail, for an amount not exceeding

1 billion Turkish Liras, of the principal of and interest on a foreign loan to an enterprise fulfilling the requirements of Article 1 of this Law.

b) Such guaranty shall automatically lapse with respect to any part of the principal or interest of a loan so guaranteed that has been repaired.

Employment of Aliens

Article 7

a) The conditions and prohibitions of Laws Nos. 2007 and 2818 shall not apply, during the periods of surveying, erection and operation of an enterprise established in accordance with this Law to aliens investing in such enterprises, to alien representatives of such investors and to alien experts, foremen and other skilled personnel for such period of time as the Committee certificate is necessary to the efficient establishment, expansion, reactivation or operation of such enterprises.

b) The above provisions, shall also apply to alien experts, foremen and other skilled personnel employed by such domestic enterprises as do, in the opinion of the Committee, meet the conditions set forth in Article 1 of this Law.

c) Aliens employed according to the provisions of this article may, subject to the prior consent of the Ministry of Finance, transfer in the currency of their own respective countries and at the prevailing official exchange rates, that part of their earnings as are stipulated in their respective contract of employment, for the maintenance of their dependents and for their normal savings.

Foreign Investment Encouragement Committee

Article 8

a) In order to carry out the duties provided for by this Law, a committee is formed under the chairmanship of the General Manager of the Central Bank of the Turkish Republic and consisting of the following members: the Director General of the Treasury, the Director General of Domestic Trade, the Director General of Industrial Affairs, the Chairman of the Board of Research and Planning of the Ministry of State Enterprises and the Secretary General of the Union of Chambers of Commerce, Industry and Commodity Exchanges. In cases where it finds it necessary, this Committee may ask for the opinion, on an advisory basis, of representatives of other Ministries and institutions. The Committee shall give its decision on any application, within 15 days, at the latest of their submittals.

   The Director General of Domestic Trade will act as Secretary General of the Committee. If necessary, the Committee may be called to a meeting by the Secretary General.

   The remuneration to be paid to the Chairmen and members of the Committee will be fixed by the Council of Ministers.

b) Any decision of the Committee may be appealed by the parties concerned within 30 days as from the date of the notification thereof. The competent authority to deal with such appeals in constituted by the Ministers of Finance, Economy and Commerce and State Enterprises. The decisions of this authority are final.

Article 9

a) The Ministry of Economy and Commerce is the competent authority in the application of the provisions of this law.

b) The Ministry of Economy and Commerce shall have the authority to order release from the custody of the customs of foreign capital imported in kind according to the decisions of the Committee.

Equal Treatment of Domestic and Foreign Capital

Article 10 all rights, immunities and facilities granted to domestic capital and enterprises shall be available on equal terms, to foreign capital and enterprises shall be available on equal terms, to foreign capital and enterprises engaged in the same fields.

Article 11

a) All rights granted to the investors under Article 31 of Decree No. 13 issued under authority of Law No. 1567 and under Laws Nos. 5533 and 5821 are hereby preserved.

b) Investments made under Law No. 5821 between August1st, 1951 and the date on which this Laws enters into force, shall benefit from the provisions of this Law.

Repeal of Former Law

Article 12 Law No. 5821 is hereby repealed.

Effective Date

Article 13 This Law shall be effective from the date of its promulgation.

Article 14 The Council of Ministers is charged with the enforcement of this Law.

Explanatory Notes

1) The purpot of the Laws referred to in the foregoing Law No. 6224 is as follows:

A- Law No. 2007 concerns the trades and employments reserved to Turkish citizens in Turkey.

B- Law No. 2818 provides that persons employed in any mines must be Turkish citizens, although engineers, technicians, foremen and skilled workers may be of foreign nationalities; that an employment permit must be obtained, however on behalf of such foreign labor from the relevant Ministry; and that the employers are required, for every alien person employed, to pay a so-called "expert training contribution" at a rate to be fixed by the Government.

2) Due to changes in the organization of the Turkish Government, subsequent to the promulgation of the Law, the Ministry of Economy and Commerce referred to in the Law has been succeeded by the Ministry of Commerce, and the Ministry of State Enterprises by the Ministry of Industry.

3) Again due to the afore-mentioned changes, the Committee referred to under Article 8 hereof is currently composed of the following members:

General Manager of the Central Bank of the Republic of Turkey,

Chairman of the Committee,

President of the Department of Domestic Trade, Ministry of Commerce,

Secretary – General of the Committee,

Director General of Treasury, Ministry of Finance,

President of the Department of Industry, Ministry of Industry,

President of the Department of Power, Ministry of Industry,

President of the Department of Mining, Ministry of Industry,

Secretary General of the Union of Chambers of Commerce, Industry and Commodity Exchanges of Turkey.

Source: Oksay (1967)

B. Tables

Table A1 Degree of Investment Risk in Turkey Compared with Other Countries Evaluated by 20 U.S. Companies, 1972

Country	Greater	Same	Less	Do Not Know
Mexico	11	6	-	3
Brazil	10	2	2	6
Israel	5	6	-	9
Greece	6	6	2	6
Iran	3	10	3	4
India	-	6	6	2
Egypt	-	1	14	2
England	18	-	-	2
France	15	1	-	4
Japan	13	2	-	5

Source: Ashkin, p. 123.

Table A 2 Relative Importance of Amount of FDI Entered in Several Ways by the End of 1965 ($ 1000)

by the law no.5821-6224	68,618
by Industrial Development Bank	64,480
by Petroleum Law	236,226
by Special Law No.7462 about Ereğli Iron and Steel factory	163,812
TOTAl	$533,136

Source: Tuncer, p.79.

Table A 3 Distribution of American Investment Abroad with Respect to Industries (1960-1965) –as percentage

Industries	1960	1961	1962	1963	1964	1965
Petroleum	56.3	50.7	48.8	48.0	43.7	40.2
Manufacturing	26.8	31.9	32.8	33.6	38.0	37.1
Mining	9.8	9.5	11.1	10.9	10.1	14.3
Trade	3.8	4.4	4.1	4.3	3.7	3.8
Others	3.3	3.5	3.2	3.2	4.5	4.6

Source: Tuncer, p.39.

Table A 4 Transfers of Firms Containing Foreign Capital in Turkey (According to Law No.6224) (Thousand dollars)

	Profit	Credit and Interest	License	TOTAL
1950-1963	17,598	2,981	1,611	22,190
1964	1,941	70	63	2,074
1965	3,585	495	302	4,382
1966	5,203	965	1,017	7,185
1967	5,890	3,409	341	9,640
1968	7,556	2,036	1,534	11,126
1969	6,666	2,156	1,033	9,855
1970	7,720	3,596	591	11,907
1971	4,786	3,975	1,211	9,972
1972	6,888	2,064	1,865	10,817
1973	8,627	2,792	1,568	12,987
1974	10,810	11,382	2,295	24,487
1975	12,425	21,224	3,173	36,822
TOTAL	99,695	57,145	16,604	173,444

Source: Uras, p.225.

Table A 5 Authorized and Realized FDI 1950-1974 ($ 1,000)

Year	foreign exchange	material capital	intangible rights	total	foreign exchange	material capital	intangible rights	total
1950	355	-	-	355	228	456	-	684
1951	1,341	417	-	1,758	235	340	-	575
1952	176	618	-	794	731	109	-	840
1953	35	981	50	1,066	156	568	-	724
1954	1,217	9,318	132	10,667	1,049	1,061	50	2,160
1955	1,692	8,957	3,587	14,339	114	545	2,183	2,842
1956	2,622	9,562	155	12,339	2,917	931	-	3,848
1957	444	1,476	-	1,920	630	1,802	-	2,432
1958	562	1,572	62	2,196	577	2,348	164	3,089
1959	1,992	6,374	22	8,488	1,211	2,151	35	3,397
1960	2,662	2,806	29	5,497	861	1,864	34	2,759
1961	203	8,556	363	9,122	580	629	-	1,209
1962	3,555	5,613	30	9,198	1,596	2,884	21	4501
1963	4,600	5,946	304	10,850	2,253	2,186	5	4,444
1964	12,547	9,053	419	22,019	3,801	7,983	50	11,834
1965	2,697	3,754	-	6,451	5,273	2,926	419	8,618
1966	13,282	4,913	163	18,358	3,668	5,947	79	9,694
1967	20,000	3,792	733	24,525	5,691	3,248	30	8,969
1968	5,579	13,502	136	19,217	8,694	3,223	103	12,020
1969	11,431	26,786	-	38,217	9,107	2,084	184	11,375
1970	10,177	23,371	169	33,717	4,359	3,754	237	8,350
1971	1,369	841	-	2,210	3,509	8,649	157	12,315
1972	12,704	10,808	68	23,580	5,431	8,482	119	14,032
1973	107	1,301	414	1,822	3,222	1,698	369	5,289
1974	250	6,610	-	6,860	632	1,213	-	1,845

Source: Şahin, p.67; Uras, pp. 162, 169.

Table A 6 Distribution of Imports in Turkey ($ millions)

	1964	1966	1968	1970	1972
Investment Goods	245	341	367	446	782.7
Raw Materials	226	341	361	455	707.1
Consumer Goods	26	36	36	47	72.8

Source: Türkiye Cumhuriyeti Başbakanlık Basın-Yayın Genel Müdürlüğü, p. 393

Table A 7 Distribution of FDI According to Country of Origin by 1977

Countries	Number of Firms	% of Total Foreign Capital
West Germany	24	13.16
U.S.A.	19	16.00
Austria	5	1.13
Belgium	4	2.21
Denmark	5	3.57
France	6	16.46
Netherlands	6	4.84
Britain	4	2.64
Sweden	2	0.22
Switzerland	11	10.80
Italy	6	11.65
Japan	1	3.44
Canada	1	2.65
Kuwait	1	10.56
Mixed	4	3.15
TOTAL	99	100.00

Source, Uras, p.153.

Table A8 Comparison of Transferable Income and Transferred Income, 1973 (according to Law No.6224)

	Transferable (1)	Transferred (2)	(2) / (1)
Final Goods Sector	3.197	2.794	87.3
Intermediary Goods Sector	5.895	3.565	60.4
Investment Goods Sector	7.110	4.906	69.0
TOTAL	16.202	11.265	69.5

Source: Own calculation from Alpar, p. 175.

Table A9 Wages Paid Monthly by Foreign Firms Local Firms (TL-1973)

	Foreign Firms	Local Firms (TL-1973)
Final Goods Sector	2,875	1,691
Intermediary Goods Sector	2,892	2,131
Investment Goods Sector	2,833	1,895
Average	2,833	1,905

Source: Alpar, p. 184.

Table A10 Organization of Foreign Business in Turkey and Their Share in the Joint Venture (end of 1965 1,000 TL)

Nature of Organization	No	Local Capital	%	Foreign Capital	%	Joint Capital	%
Corporation	72	284,705	46.1	332,749	53.9	617,454	100
Limited Company	26	16,958	19.2	71,327	80.8	88,285	100
Others	6	6,393	60.8	4,123	39.2	10,516	100
TOTAL	104	308,056	43.0	408,199	57.0	716,255	100

Source: Reports on FDI, Special Comission of Experts, in Tuncer, p.90, in Ashkin p.79.

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