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"THE DEVELOPMENT OF FOREIGN DIRECT INVESTMENT IN TURKEY"

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İSTANBUL - 1998

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Abbreviations

FDI	: Foreign Direct Investment
UT	: Undersecratariat of Treasury
TNC	: Transnational Corporations
GDP	: Gross Domestic Product
UN	: United Nations
EU	: European Union
CEE	: Central Eastern Europe
SME	: Small Medium Enterprises
WTO	: World Trade Organization
NAFTA	: North American Free Trade Area
MAI	: Multilateral Agreement on Investment
MIGA	: Multilateral Investment Guarantee Agency
NIC	: Newly Industrialized Countries
VAT	: Value Added Tax
GDFI	: General Directorate of Foreign Investment
SEE	: State Economic Enterprises
HDPPA	: Housing development and Public Participation Administration
PPA	: Public Participation Administration
PPHC	: Public Participation High Council
ISE	: Istanbul Stock Exchange Market
BOT	: Build-Operate-Transfer
GAP	: South Eastern Anatolian Project
TOBB	: Turkish Union of Chambers of Commerce, Industry, Commodity Exchanges and Maritime Chambers of Commerce
TUSIAD	: Turkish Industrials and Businessmen's Association
IKV	: Economic Development Foundation
YASED	: Association of Foreign Capital Coordination
EXIMBANK	: Export Import Bank of Turkey
WEPZA	: World Export Processing Zones Association

Introduction

The inter-country correlations between markets are law because different countries and their economic prospects are not closely tied. Different countries have different political systems, different currencies, different foreign exchange regulations, different trade restrictions, different political alliances, and various other barriers to international trade. As a result of these differences, different countries markets are seldom highly synchronized or highly positively correlated with each other.

Today the World is going towards globalization and newly most of the countries have signed the Multilateral Agreement on FDI-included Turkey-. Also in this respect the fulfillment of MIGAs (Multilateral Investment Guarantee Agency) objectives contributes to the development of the private sector in host countries and increases the ability of these countries and to achieve economic, socially and environmentally sustainable development. MIGAs success in promoting foreign Direct Investment in its developing member countries and economies in transition makes an important contribution to the attainment of the overall development.

In this context Turkey's development strategy has been also changed in the 80's from inward to outward oriented market policy. Within the time period Turkish Economy is in the process of rapid growth in many sectors; in manufacturing, energy, transportation and communications and in tourism as well. Until the decade of 1980's,in which Turkey started the liberalization movement and opened up it's economy to the outside world, there were less than 100 foreign investors in Turkey, and the total amount of foreign investment was only 228 million American Dollars. That means very few companies did invest before 1980.This was the investment made in 26 years starting from 1954 in which the Law for Encouragement of Foreign investment was passed. Today the total amount of foreign investment has exceeded.... billion American Dollars, and the number of foreign investors .....

Turkey has a special place among the developing countries, and offers more possibilities and potential than other Third World Countries. The opening up of the ex-Soviet and East European Economies to the outside world, and the developments concerning the Turkish Republic has further provided new possibilities and opportunities for Turkey, for its trade and investment activities. Against these positive developments Turkey still lacks on some points, like the political stability, bureaucratic difficulties, new regulations on FDI (Foreign Direct Investment) issue such as environment policy, Intellectual property rights and others which we will examine in the thesis. With the acceptance of Multilateral Agreement on FDI , Turkey has to fulfill the expected regulations and apply them.

Part One of the Thesis examines recent global and regional trends in FDI, with a special emphasis on the emergence of TNC's from developing countries and on changing forms of international transactions. And it also focuses on the role of TNC's in influencing country access to resources and markets and in facilitating economic restructuring. Part Two discusses policy issues and the development of the legislation on the FDI issue in Turkey. Part Three contains the recent developments in Turkey from inward and outward FDI perspective. The annex contains statistics on FDI trends and on Turkish economy.

- PART ONE –

THE CHANGING GLOBAL ORDER

Today the world is going towards globalization , in which the market economy plays a great role. Political power and wealth are linking the modern international system. These are linked also on the one hand with political economy and on the other hand market economy. This market system is characterized by industrial capital. These issues were analyzed by the classical political economists (Smith, Ricardo) and by Marx, wherein owners of capital, workers and intermediaries are all linked in social relationships through market and political Institutions. These facilitate the circulation of money for the production and/or purchase of commodities, services, land and labour. In the mercantilist theory period and before there was not a market system that was based on industrial production. [1]

In the second half of the XVIII Th. Century the market economy has begun to emerge. With the collapse of ***"laissez faire laissez passe"*** in the 1930s and the reestablishing of the mixed economy of the post-war, so the market economy underwent transformations after country differences. Countries differ in population density, labor skills, climate fertility, raw materials, capital equipment, etc. These differences like climate and land are totally immobile, whereas labor and capital not. This shows us again the strangeness connection between the market economy and political power. This implies again that the two dynamics of economic and security issues are bound up with each other in international politics. So Karl Polanyi put in the following manner;

> *"..the gearing of markets into a self regulatory system of tremendous power inherent tendency of markets towards excrescence ,but rather the effect of highly artificial stimulants administered to the body social in order to meet a situation which was created by the no less artificial phenomenon of the machine."*[2]

With the collapse of the Soviet bloc economies of the market system become fully internationalized. Now there is a trend going from international to transnational economy.[3] We will analyze the role of Foreign Investment in the transnational economy.

International direct investment flows have increased significantly in recent years, most of these flows have been between the industrialized countries and the newly industrialized economies of Asia. For most other developing countries the foreign direct

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1 Stubbs ,Richard-Underhill ,R.D.Geoffrey, "Political Order And The Chancing Global Order", Macmillian Press,1994 London.

2 Polanyi, Karl "The Great Transformation"', Stubbs, Richard-Underhill, R.D.Geoffrey, "Political Order And The Chancing Global Order", Macmillian Press, 1994 London.

3 International denotes relations among states as units; transnational means in a more complex pattern of relationship across borders, the interpenetration of national economies and societies that is necessarily not limited to state-to state relations.

investment flows was at a low level, because of their debt problems. Significant progress seen in countries towards establishing more liberal foreign investment regimes reducing restrictions or eliminating distortive measures.

3. FOREIGN DIRECT INVESTMENT BY TRANSNATIONAL CORPORATIONS:

Today's world economy is shaped by the liberal economy framework, technology, and competition and most important by globalization. Foreign Direct Investment (FDI) by transnational corporations plays a major linking role in many national economies. So it builds an integrated international production system transnational corporations deploy their tangible and intangible assets (capital, research-and –development, technology, and organizational and managerial practices, trade links). At the same time the developments of these assets effects the firm in a positive way. TNC's strengthens the resources of countries and their capacity to produce, to reach and to expand markets for their economic performance.

Today's world is shaped more and more through globalization .The increasingly liberal policy frameworks, made possible by technological advances, and driven by competition, economy plays a big role in the whole system. Foreign direct investment (FDI) by transnational corporations (TNC's) now plays a major role in linking many national economies. The TNC's are building an integrated international production system Transnational corporations deploy their tangible and intangible assets (capital, research-and-development capacity and technology, organizational and managerial practices, trade links). At the same time, the deployment of these assets by firms strengthens the resource base of countries and their capacity to produce, to reach and expand markets for their products and to restructure their economies – in brief, to improve their economic performance.

International production by TNCs – now some 40,000 parent firms and some 250,000 foreign affiliates – increasingly influences the size and nature of cross-border transactions. It shapes the nature of the world economy. Outward FDI stock and global sales of foreign affiliates – two generally accepted proxy indicators of international production – now stand at $2.6 trillion (1995) and $5.2 trillion (1992), respectively (see table below). In the 1990's, the rate of growth of FDI stock has substantially exceeded that of world output (GDP) and world exports. The size and scope of international production are effected further by the activities of TNC's. It can be in forms other than FDI, such as subcontracting, licensing and franchising, through which markets for goods, services and factors of production can be reached and international production organized. Global sales in international markets associated with, defined international production. This amounted to an estimated $7 trillion in 1992. In fact, in the case of TNC's headquartered in the United States, four out of five dollars received for goods and services sold abroad by these firms are earned for goods and services produced by their foreign affiliates or sold to them.

Table: Selected world FDI, economic and financial indicators, 1981-1993

ndicator	Value at current prices, 1993	Average annual growth rates (Percentage)		
	(Billions of dollars)	1981-1985	1986-1990	1991-1993
ꟳDI outflows	222	0.8	28.3	5.6
ꟳDI outward stock	2135	5.4	19.8	7.2
;ales of foreign affiliates of TNC's [a]	5325 [b]	1.3[c]	17.4	-2.6d
:urrent gross domestic product at factor cost	23276	2.1	10.6	3.3
;ross fixed capital formation	5351	0.7	9.9	3.2
:xports of goods and non-factor services	4762	-0.1	14.3	3.5
ꞃoyalties and fees receipts	38	-0.7	21.8	13.0

Source: UNCTAD[4],

The diverse nature of international production suggests that international policy discussions about market access have to deal not only with trade in goods and services but also with FDI as a modality to access markets. FDI is also a modality to access factors of production. Specific government policies may introduce a bias in favor or against any specific modality of international transactions. And this causes a distortion in the way in which firms undertake and organize their international activities. The importance of such distortions would become clearer if governments give more attention to the interrelationships between investment, trade and other forms of international transactions. It's very important in their dual function of accessing markets for goods, services and factors of production and organizing international production.

National, regional and international agreements are paying more attention to FDI. Although for a number of countries there is still an imbalance between the degree of liberalization of FDI and trade regimes (with progress achieved for the latter, furthermore, bound in multilateral agreements). FDI regimes at the national level are rapidly being liberalized: continuing a trend of earlier years. 101 out of 102 legislative changes made in 1993 in 57 countries were in the direction of a more liberal FDI framework; in 1994, 108 out

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[4]UNCTAD ,Division on Transnational Corporations and Investment, World Investment Report 1995: Transnational Corporations and Competitiveness (United Nations publications, Sales No. E.95.II.A.9).

[a] Estimated by extrapolating the worldwide sales of foreign affiliates of TNC's from France, Germany, Italy, Japan, and the United States on the basis of the relative importance of these countries in worldwide outward FDI stock. However, the data on sales of foreign affiliates for France are included only after 1988 because of unavailability of the data prior to that year. For Italy the sales data are included only in 1986, 1988, 1990 and 1992.

[b] 1992

[c] 1982-1985

[d] 1991-1992

of 110 legislative changes made in 49 countries were in the same direction.The FDI framework effects the both parts , the home and host countries. We can examine it as outward and inward FDI.

3.1. Impact of Inward FDI:

An injection of FDI adds the recipient economies the capital stock .So it can increase a country's output or productivity through a more efficient utilization of existing resources or by absorbing unemployed resources. There are several ways in which inward FDI can add to the capital stock of a recipient country. The most obvious is Greenfield FDI, i.e. establishing a new business. Ownership switching FDI (e.g. acquisition or privatization) may also benefit the capital stock of a host country if the domestic firm that is taken over would have closed down otherwise. The funds received by host countries from the sale of domestic firms to foreign investors can be reinvested in the host country, thus adding to the existing capital stock.

3.2. Impact of outward FDI:

There is an asymmetry in world trade between the outward and inward FDI.A central question is that the impact of the outward FDI whether of the expense of domestic investment. A TNC's system raises the capital where it is at least expensive and suitable. So the country must be a positive chose for enhancing competitiveness. Briefly we can say that the positive asymmetry between in-and outward FDI can effect the home economy in a positive way. The FDI by **TNC's** now plays a major role by linking the national economies. We will see the diversification of out-and inward FDI regional and global trends below

3.3. Regional and global trends :

All of the TNC's want to ensure access to world markets for goods and services to produce and to sell in global markets as efficiently and profitably as possible. Therefor a national, regional and international agreement plays more importance to FDI. Investment stocks and flows remain concentrated primarily in the developed world and particularly in the ***Triad (The European Union, Japan and the United States).*** The share of developing countries in the world inflows is higher than their shares in the world imports.

The volume of FDI flows reflects the strengths of countries current location advantages for inflows and the strength of the firm's current ownership- specific advantages for outflows. We can also see the significant regional differences as: [5]

The Asia Pacific is remaining as the most important host region among the developing countries. This region accounts for more than 70% of the total developing country FDI stock. Therein China and South Asia are in the forefront. China is more selective about the types of the FDI that it seeks and it encourages a greater geographic dispersion of these investments within China.

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5 World Investment Report 1995

FDI flows in ***Asian*** have started to grow rapidly since 1994. And also India is being more attractive to significant amount of Investment. West Asia is not a major recipient of FDI, with the Arab-Israeli Peace it could help their economies to grew and open-up to new Investments. Beyond this peace there are still so many conflicts which couldn't be solved till today. Also after the Golf-Crisis there has been an embargo established against the Iraq government like this circumstances other issues make it very different to invest for FDI in those high-risk areas.

The FDI stock in ***Latin America and the Caribbean*** had reached $186 billion in 1994 .This region comes on second plays for TNC's in the developing world. The FDI flows in Latin America is concentrated on the countries like Argentina, Brazil, Chile, Colombia, Mexico and Venezuela .These countries accounted for 71% of the FDI inflow in the region. Especially the privatization policy of these countries has played a big role by increasing the FDI flows in the Region. For example as a result of the privatization program, the number of foreign affiliates among the 500 largest companies in Latin America increased from 138 to 151.

The ***Central and Eastern Europe*** (CEE) has reached estimated $ 6.3 billion, but when we compare these states with the developing countries the FDI remains marginal. Some of the countries of the region become large recipients of FDI those countries are as follows :

-The Visegrad Countries ; Bulgaria, Czech Republic, Hungary and Poland.
-The next-tier countries; Bulgaria, Estonia, Kazakhistan, Romania, The Russian Federation, Slovakia, Slovenia, Ukraine, Yugoslavia.
-The other CEE states that are negligible in terms of FDI flows. These countries are Albania, Belarus, Latvia, Lithuania, and Republic of Moldavia, Caucasian Republic and Uzbekistan.

Having access to foreign factors of production and being able to organize production internationally, has a number of advantages that all the above mentioned states want to get is that a package of wealth creating assets that become available directly for use in production activities and hence can enhance the economies performance of countries. We can take those assets as follows:

***3.3.1. Capital*:** The capital inflow to the host countries establishes new facilities such as, adding to the capital stocks and increasing output and employment. Transnational Corporation system generates financial capital because all of their profits are distributed to shareholders as dividends, some of them are reinvested and retained. And through the FDI inflows the domestic firms must compete with the Foreign originated firms, if they were not competitive they would close down and that increases the local firm capabilities. Capital generated internationally can be deployed anywhere in a TNC system with offering advantages in terms of flexibility In project financing and minimizing transaction costs.

***3.3.2. Innovatory capabilities*:** Invention can be defined as the discovery of new information about the production process of a product.[6]Suppose a company develops a product in secret, and than market it. If other firms can quickly imitate the new invention, competition will rapidly compete away the profits on this new product. Since everyone can foresee that this will occur, few resources will be devoted to searching for inventions, even though they are socially valuable.

Inventions are examples of public good. The problem arises because the inventor cannot privately appropriate the benefits since imitators cannot be excluded. The solution to this issue is a patent system, which confers a temporary legal monopoly on the inventor who registers or patents the invention. The temporary monopoly provides, before the fact, the assurance that if the search for a new discovery is successful the inventor will be able to cash up after the fact.It's important that the monopoly should be only temporary. Otherwise, successful inventors would have an entrenched entry barrier which would prevent competition are suppressed over.

When we look from the Foreign Direct Investment's site, it involves the setting up of research and development affiliates and also strengthens the innovatory capabilities of host countries. At the same time outward FDI can strengthen home countries by allowing firms to access overseas research and development capabilities and technologies. Otherwise those aspects are difficult to obtain and to minimize the cost of technological development.

3.3.3. Technology and skills: The trend today is going toward globalization of markets, characterized by technological mobility, competitive new entrance and increasing demand for high quality of products of international standards. New technologies are being transferred to countries. Foreign Direct Investment can strengthen home countries by allowing firms to access overseas research and development capabilities and technologies. Otherwise difficult to obtain and minimize costs of technological development.

***3.3.4. Organizational and managerial practices*:** The adoption of practices more efficient organizational and managerial practices by units. Modern firms and institutions, regardless of their origin, seek to organize and manage themselves effectively to obtain best possible utilization of resources and highest levels of performance. In doing so to a significant extent by cultural context in which they find themselves. Organizational and managerial practices are increasingly recognized as central factors to the competitiveness of firms, determining the efficiency of the entire range of activities of firms. It conveys an idea of range of newer practices. Many of them are closely linked to technology, human resources and labour relations, Organization. We can give an example for the production: the so-called

6 Begg,D.,Economics,Third Edition,Mc Graw Hill,1991,London.

quality-control circles that is a voluntary participation of employees in quality control in order to improve their work and capabilities. The contribution to the competitiveness will be the stimulation of the knowledge and developing capabilities through self-enlightenment and smoothing horizontal information exchange thereby increasing a sense of unity within a company.

Foreign Trade depends today on industrial organization of the world as mentioned above. And that again explains us the need for a transnational Law on the FDI issue. It still lacks the institutions its need.

4. Towards a multilateral Agreement on FDI

As mentioned before the governments separately considered inward and outward FDI policies. Different structuring and tendencies that have appeared in international economic relations led to changes in foreign direct investment and in the type of investment. The reduction of technological and political barriers brings within changes in international economic relations. Despite the liberal foreign investment regimes that set forth ,the foreign investors are still faced with uncertainties related to investment barriers, discriminatory treatment, and legal framework and practices. These restrictions are seen as a barrier in entering markets.

While the transnational world economy is reality, it still lacks the institutions its need. Above all it needs a transnational Law. It's very important that a framework is needed for transparency, stability and predictability at the multinational level. And the aim of this Law must be to allow firms to contribute to economic growth, while prospering internationally.

In the aftermath of Uruguay Round which allowed multilateral Agreements to acquire corporate attributes in international trade. It has become a general view that unless similar arrangements are adapted in foreign investments concerning international trade reached following GATT negotiations. The relationship between international investment and trade necessitates an organic approach for such an arrangement for both of the economies. The transnational Corporations, which are, based usually in more than two countries the bilateral agreements insufficient.

Within this framework liberal steps have been taken to integrate the issue as a whole system. Two step integration is being foreseen for the integration. The "first step integration" is accepted as the recognition of basic freedoms to foreign investors between countries, such as the freedom to enter national markets, national treatment and the most favored nation principle. While the "second step integration" is the removal of practices that breaks the rules of free competition against foreign investors, of certain performance obligation and of technical barriers presenting discriminatory practices towards foreign capital firms.

Although the first steps towards the creation of multilateral investment arrangements were present in the TRIMS, TRIPS and WTO Agreements signed at the end of the Uruguay Round. The Arrangements that have taken place are only on the sectors based.

In the final Act of Uruguay Round of Multilateral Trade negotiations new framework ideas has been apparent. It's been implemented by the WTO (World Trade Organization) Efforts could only be build on the regional level, especially in the framework of European Union, NAFTA and APEC. Today there is a agreement on a binding Multilateral Agreement on Investment (MAI). Turkey has recently signed the Agreement. The goal of the Agreement is to ensure harmony in the arrangements concerning foreign capital investment MIGA (Multilateral Investment Guarantee Agency) is the one institution that is based on these ideas.

4.1. Recent developments in Multilateral Agreements on Investment

In accordance to the progress on MAI, The Multilateral Investment Guarantee Agency (MIGA) was established on 12 April 1998 as the newest member organization of the World Bank Group. Its purpose is to encourage the flow of FDI to its developing member countries for economic development. It's primary means of facilitating investment through the provision of investment guarantees against the risks of currency transfer, expropriation, and war and civil disturbance ("political risks").

The Convention establishing MIGA states in Article 2:

> *"The objective of the Agency shall be to encourage the flow of Investment for productive purposes among member countries, and in particular to developing member countries."*

MIGA' s aim is to guarantee the member countries against noncommercial risks for FDI in its developing member countries, and provide technical assistance to governments of developing member countries to improve their ability to attract FDI.

MIGA is promoting new investments and new contributions to expand, privatize, or financially restructure existing projects in developing countries. MIGA Guarantee covers;[7]

4.1.1.Currency transfer restrictions that prevent investors or lenders from converting local currency into foreign exchange and/or transferring the proceeds abroad.

4.1.2. Expropriation in the form of acts (direct or indirect) by a host government that reduces or eliminate ownership of, control over or rights to the insured investments.

4.1.3. War and civil disturbance (including politically motivated acts of sabotage orTerrorism) resulting in damage to, or destruction or disappearance

[7] MIGA Annual Report 1997,Multilateral Investment Guarantee Agency

of, tangible assets or interference with the ability of the foreign enterprise to operate.

4.1.4. ***Breach of contract*** by a host government, provided the investor obtains an arbitration award or a judicial sentence for damages and is unable to enforce it after a specified period. In certain cases when the investor is unable to enforce it after a specified period, or in certain cases when the investor is unable to obtain the award or sentence.

4.2. MIGA member and signatory countries

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Belgium	Germany	Luxembourg	Sweden	Canada
Greece	Netherlands	Switzerland	Denmark	Ireland
Norway	United Kingdom	Finland	Italy	Portugal
United States	France	Japan	Spain	

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AFRICA	South Africa	Bulgaria	Domenican Rep.
Algaria	Sudan	Croatia	Ecuador
Angola	Swaizaland	Cyprus	El Salvador
Benin	Tanzania	Czech Republic	Greneda
Botswana	Togo	Estonia	Guatamala
Burkina Faso	Tunisia	Georgia	Guyana
Cameroon	Uganda	Hungary	Haiti
Cape Verde	Zambia	Kazakhistan	Honduras
Congo	Zimbabwe	Krygyz Rep.	Jamaica
Rep.Congo	***ASIA/PACIFIC***	Lithuana	Nicaragua
Cote d'Ivoire	Bangladesh	Macedonia	Panama
Egypt	China	Moldova	Paraguay
Equiratol Guinea	Fiji	Poland	Peru
Eritrea	India	Romania	St.Lucia
Ethiopia	Indonesia	Russian Federation	St.Vincent
Gambia	Korea	Slovak Republic	Trinidad
Ghana	Malaysia	Slovenia	Uruguay
Guinea	Micronesia	Turkey	Venezuela
Kenya	Nepal	Turkmenistan	***MIDDLE EAST***
Lesotho	Pakistan	Ukraine	Bahrain
Libya	Papua New Guinea	Uzbekistan	Israel
Madagascar	Philippines	***LATIN AMERICA/***	Jordan
Malawi	Sri Lanka	***CARIBBEAN***	Kuwait
Mali	Vanuata	Argentina	Lebanon
Mauratania	Vietnam	Bahamas	Malta
Mauritius	Western Samua	Barbados	Oman
Morocco	***EUROPE /***	Belize	Qatar
Mozambique	***CENTRAL ASIA***	Bolivia	Saudi Arabia
Namabia	Albania	Brazil	United Arab Emirates
Nigeria	Armenia	Chile	Yemen Rep.
Senegal	Azerbejcan	Colombia	
Seychelles	Belarus	Costa Rica	
Sierra Leone	Bosnia-Herzogovina	Dominica	

5. THE GROWTH OF FOREIGN DIRECT INVESTMENT

In the first half of the 1990s, funding from international and domestic financial markets for Private sector investments surpassed public sources of capital in the financing of capital and in the financing of economic development. From 1990 to 1996,private capital flows to developing countries and economies in transition increased fivefold, to an estimated $244 billion in 1996.Private sources now accounts for more than 4/5 of the total capital flows to developing countries and economies in transition. The share of FDI in these flows more than quadrupled over the same period, increasing from 25$billion in 1990 to 110$ billion in 1996.In contrast official development assistance held steady at 40$ to 50$ billion for year.

The second half of the 1990s opened with a continuation of the economic trends in developing countries and economies in transition that had started early in the decade:

- Emerging democracies oriented towards market economies
- Improved macroeconomic management
- Strengthened banking system
- Liberalized investment systems

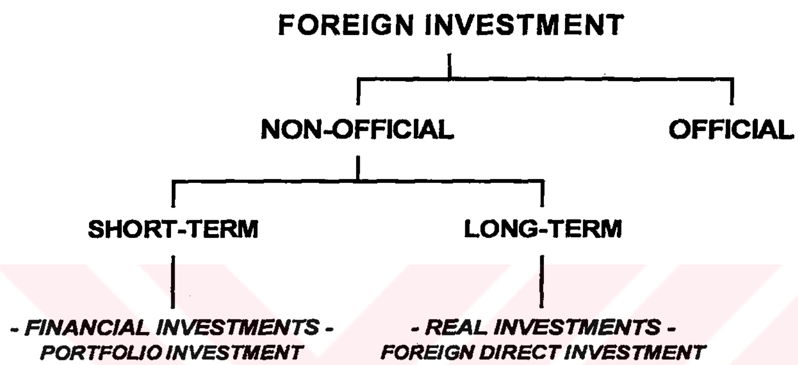
These factors continued to enhance the environment for FDI .In turn FDI contributed to better global integration among industrial and developing countries. And labor markets were more closely linked, and the productivity and economic growth of beneficiary countries increased.

The decade of 1990s has seen MIGA become a standard setter in the promotion of investment flows to its developing member states and economies in transition. MIGAs Convention (Article 21) calls on the Agency to cooperate with private insurers to *"encourage such insurers to provide coverage of noncommercial risks in developing member countries on conditions similar to those applied by the Agency."*

MIGAs claims fee record has played a role in encouraging private insurers to offer politicalrisk insurance and reinsurance for longer durations. This has increased the availability of longer-term political risk insurance, to the benefit of potential investors and developing countries alike.

5.1. FOREIGN DIRECT INVESTMENT

In general foreign investment or international Investment means, the investment of legal or real persons outside their borders after the countries comparative advantage. It can be in two ways:[8]



A capital transaction differs in above-mentioned way. ***Official capital*** movements are which a country's official monetary authority, such as the Central Bank of the government undertakings. Through the central bank the governments apply monetary policies. We will analyze ***the non-official*** movements. An international capital movement is an exchange of assets, and an asset is a promise to pay interest at some date to mature-that is to be redeemed for money. ***Short-term*** capital movements are those that have less than 1 year as maturity, other capital movements are ***long-term.*** The short-term asset includes demand deposits and cash, as well as treasury bills, commercial paper and so forth. A ***short-term*** asset includes equity and real estates, bonds, notes, mortgages and so forth.[9] In this respect they are similar but they have also differences.

Foreign Direct Investment means transnational companies settling down to a country other than his own country. In this terms the real company is the so-called Parent Company and the other company that is build in the foreign company is the subsidiary. So the subsidiary learns the secrets of the Parent Company, the technology it has. And also it earns the privileges that he gets from trademark. Against this the subsidiary gives the profits partial or all to the parent company.

Through the Foreign Direct Investment the country's benefit is the foreign currency transfer and the short-term capital inflow. The exchange transfer materializes in two ways: First through the Transnational Corporations and secondly through the transfer of

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8 Seyidoglu,Halil Prof.Dr., "Uluslarasi Iktisat" ,10.Baski,1994 Istanbul.

9 Wilfried,J.Either, ***"Modern International Economics"***,II.Edition,1983 , New York

machinery, equipment etc.. Foreign investment can enter to a country also in form of license, technical knowledge and as know-how.

The main difference between the portfolio investment and foreign direct investment is the management factor. In the case of FDI the subsidiary is subordinated to the parent company. Mostly the management of the subsidiaries is agreed from the parent companies and from their policies. And that again shows us the usage of the word "Direct" in the phrase Foreign Direct Investments. The portfolio Investments is not intervened by the management of the companies. Secondly the FDI brings within the capital also the production technology and the managerial knowledge. By the portfolio investment the investor has to bring the capital and not even more. Third the Investor identity is different .The portfolio investment can be realized from real persons whereas FDI not. FDI invested legal persons that. Finally the forth difference is about the repayments of Investments. In portfolio investments the conditions of profits and payments are set forth in the agreement. Whereas profits of the FDI is influenced from the Parent company and policies of the government. The transnational corporations are here the decision taking organization.

5.1.1. The Causes of Multinalization:

The multinalization depends on the comparative advantage theory. That means the production of a certain good can be produced cheaper than in home country .So that the final product can bring a big profit for the country. Today it's not enough to think about the profit, because there are many risks like, political and financial situation. For example we can get higher returns from the Newly Industrializing Countries (NIC's) , which also includes high risks for the investors. The political risk is that investing in a totally different socially, politically and cultural country. That depends again on the cultural and historical background of those states. Because of these reasons the state can restrict the foreign investments with the cause of being harmful for the country's own economy or against their political interests. For example the one government can decide for the foreign investments, whereas the new government can't. And when we look that the political situations of those states, which are mostly of chancing nature, we can imagine the high-risk environment for the foreign investors. The one point that the investors hesitate is the risk of nationalizing. The investor can use the countries financial resources as a precaution against nationalizing. That means it can profit from the home country credit. The usage of such internal credits can be seen from investors' perspective as a lifeboat against the nationalization of the market.

Because of this reason the countries amends bilateral agreements on encouragement and protection of foreign investments. Briefly the multinalization is a critical decision taking process for a firm. This process of multinalization has begun after the Second World War with the efforts of the American Firms following the European Countries and Japan.

The FDI brings to the home countries high profits. The Profit is effected from other factors like the cost reduction, increase of prices that is going to be examined below:

- The Cost Reduction: An internal economy includes advantages like cheap labour, transport costs, technical knowledge and others.

5.2.1. Internal Economies: The production process can be organized under one organization and also managed. So at the same time it can be controlled and this effects the reduction of cost. This argumentation is introduced from R.H. Coase, because of this it's called ***Coase Economies***. The coordination under one organization can be taken as ***" vertical integration"***. The traditional example for this integration is the Industrial firms that invest in the countries that he can get the resources for the production. As Hans Singer made clear that the investments in host countries doesn't complete with the economy of the host country. Those are a sort of enlargement of the foreign economies. The internal economy turns to a dual system in which the high technology stays in the foreigner's hand and the internal has the weak production technology.

a) Know-how advantage: The TNC s brings within itself the know-how that the firm has since the establishment. Every firm has special methods and technical knowledge; in other words we can call it the firm's internal secrets. These can be about the production designs, production technology, marketing, firm management etc. These areas play a linking role by the competition of firms that operates in the same sectors or connected sectors. Sometimes only a small difference by the production method can give a firm a competitive advantage against the other firms. Because of this reason the TNC's want not to share the secrets with the other firms . Otherwise giving the secret must be advantageous against the loss.

Generally in a local market the local firms have more advantage than the TNC's, because they know the local market better than the new entered TNC's. In addition to this disadvantage for TNC, have to pay extra costs like transportation, information and travelling costs, which depends to be leaded by the Parent Company. In this case TNC have an extra advantage which have to balance this conditions. The most accepted view is that the TNC's have more knowledge about the world market than the local competitors. Also it can market it in whole market easier. Also we shouldn't forget the know-how aspect that has a major linking role in the world market.

b) Cheap Labour: The other factor about the cost is the labour aspect. The cheap labour is important in respect to produce the product cheaper, so that the TNC has an advantage. This reason explain us partially why the TNC s have more interest to produce the product in Newly Industrialized States (NICs) than in Industrial states. In 1960 American firms begun with the first investments in overseas countries like South Korea, Hong Kong where the labour is many times cheaper than in America. The cheap Labour gives the firm an additional advantage in competing with the other firms. The sectors are food, apparel and shoe industries that are build on labour intensively.

c) Transportation cost: The one problem is also the cost of the transport. Imagine, a TNC's produces a heavy final product, which should be send to overseas.
It can reduce the cost when the TNC's settles down to the cheaper and more suitable country that is near to his market. Also he can prefer those countries where he gets the resources for his product. We can give the automotive, pharmacy, chemical Industry as example for this category.

d) Tax differences: The tax diversification plays also a big role by choosing the suitable country for the TNC's. When we take to countries as an example ; the taxes can be in one country very law and in addition to this a tax exemption can be obtained in special cases whereas in the other country not. The TNC's would prefer the country with low taxes or exemption if the other factors that we above mentioned are also preferable for the TNC's.

5.1.2. The main theoretical FDI models :The main theoretical FDI models are divided into five groups[10].

These groups are :

(a) Industrial organization: It suggests that the firm-specific characteristics be the majordeterminants of the FDI. Firm-specific characteristics, such as product technology, management skills, and economies of scale, have been found as being an advantage to the host country. And it gives an advantage on foreign subsidiaries compared with the local competitors. These characteristics give to the country an oligopolistic advantage, which accounts for market imperfections in host countries.

(b)Corporate investment: The conventional theories of corporate investment emphasize the location determinants of FDI like the importance of the size of the host market as given by the level of gross domestic product, factor prices, and the protection afforded to investing firms by tariffs or other measures.

(c)Strategic Theory: The strategic determinants of FDI refer to long-term factors that have mainly indirect effects on the decision to invest abroad but are directly relevant to the profitability of the venture. Such factors are desire of a foreign investor to defend existing foreign markets and investments against encroachment by competitors and to gain and maintain a source of supply

10 Fountas,Stillianos, *"An empirical Analysis of Inward Foreign Direct Investment Flows in The EU"*,Journal of common market Studies ,Volume 34,No.4,Blackwell Publishers,1996,Oxford.

(d) Eclectic Approach: Dunning developed a completely mix definition through all of the above approaches.

(e) Portfolio Theory: This approach takes the risk of uncertainty in analyzes. It is based on the observation that fluctuations in rates of return on capital within, and even more so between, so risks may be reduced by a diversification of portfolios

- PART TWO -

6. Turkey – An Investment Opportunity

Turkey has a unique location, which gives her a major advantage in serving the markets of Europe, the Middle East and North Africa. Her proximity to the new Republics of former Soviet Block countries provide her with the excellent access to the world markets.

The Turkish economy is in the process of rapid growth in virtually all sectors .It is obvious that, being the inheritor of eight thousand years, Anatolia possesses an extremely high potential in trade and this points makes it attractive for foreign investors over long years.

First in 1838 Ottoman Empire has been faced with the problem of foreign capital, after the so-called 'Trade Agreement''. In 1827 Ottoman Empire has lost the war against the English, French and Russian fleet. In that time period Ottoman Empire was collecting **%3 Fee on imported goods**. So within the Ottoman market the foreign traders couldn't compete. With the Trade Agreement, the foreign traders started having the same rights those of the Ottoman citizens.[11]

The Ottoman producers could buy the monopoly right of a certain product with the so-called "Yed-i Vahit " (License Price) [12]. Also this application has been abolished after the agreement. It's been agreed not to take anymore from foreign traders except the port fees, which are applied in the amounts of % 9-export fee and % 3 customs fee.

The sources from foreign countries have been lost at that time. The Ottoman Empire could not give any service without debt anymore. The only credit borrowing institution within the Ottoman Empire was the "Galata Bankers'' although the real source of that institution was again Europe originated. The Galata bankers had very limited credits. Because of this reason there was no way out other than European Credit Institutes.

The foreign debt issue began after 1854, because the Ottoman Empire could only postpone the financial crisis until this time.

In 1854 the "Kirim War" compensation payments was paid for the first time through a foreign Credit Institute, "Dent Palmer & Co."

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11 Bulutluoglu,Kenan, ***"Turkiye'de Yabanci Sermaye"***,1970 Istanbul

12 Yucekok ,Ahmet,***1838 Ticaret Sozlesmeleri***, SBF Dergisi', Cilt 23 No.1, 1979 Ankara.

The other Credit Institutions are as follows :[13]

Institution	Debited Amount (million)	Interest Rate
1854 Palmer and Co.	5 GBP	%6
1855 France and England	5 GBP	%4
1858 Deu'Palmer and Co.	5 GBP	%6
1860 Mires	400 FRF	%6
1862 Ottoman Bank	200 FRF	%6
1865 General Cr.and France	40 GBP	%5
1869 Comptair D'escompte	555 FRF	%6
1870 Baron Hirsck	792 FRF	%3
1871 Credit General Ottoman	5 GBP	%6
1872 Credit General Ottoman	278 FRF	%9
1872 Credit General Ottoman	11 GBP	%5
1873 Credit General and		
Credit mobiller	694 FRF	%6
1874 Ottoman Bank	1000 FRF	%5
1877 Ottoman Bank	5 GBP	%5

Before the debt issue the foreign investments were very limited. For example in 1865 the management of "Bar mining factory" was given to a French company.

After the entrance of French and Italian companies in the Ottoman market, Germans also entered with the "Deutsche Bank" (German Bank) in 1888.

The first project of "Deutsche Bank" was the establishment of the "Bagdat Railway Project ". In 1889 through the German Investment "Ottoman Railway Company" has been established.

In the same time period the United State also begun to the "Chester Project" 'which aims to build railway to the eastern states.

Gas, electricity and telephone undertakings were interesting investment areas for the foreign investors because of their monopoly state in Ottoman Empire .

13 Uras,T.Gungor, ***"Turkiye'de Yabanci SermayeYatirimlari*** ",1979 Istanbul.

We can see the share of foreign investors between 1890-1907:[14]

States	Percentage :
- Germany	45.4
- France	25.9
- England	16.9
- U.S.A.	3.7
- Italy	1.2
- Holland	0.9
- Other	4.2

No special regulations have been brought out for foreign investors. There was no need for special regulations because the foreign investors obtained the same rights like the Ottoman citizens. Only one point had to be handled and this was the acceptance of the foreign originated Insurance Companies in the Ottoman Empire.[15]

After the establishment of The Turkish Republic, the debt problem of Ottoman Empire stood still. The Turkish Republic had to face the debts of the Ottoman Empire which were 62.23 % before 1912 and 76.53% after 1912. With the economic crisis in 1929 there was a payment problem so the Turkish Republic wanted to decrease the annual installments and to pay a part of the debt in "Turkish Lira's ". After long negotiations in 1933,Paris Agreement has been concluded and the installments have also been decreased, the payment schedule has been postponed from 30 to 50 years, and the debt has been frozen at 65 million US dollars. The Turkish Republic paid the installments before the deadline in 25.05.1954. The new Turkish Republic has begun to nationalize the so-called civil services like electricity, gas , telephone and others.

In 1950 Turkey has begun to attract foreign Investments. Consequently in 1954 the law regulating foreign capital inflow was enacted .At that time foreign entries due to structure of the Turkish economy were limited.

Since 1980 Turkey's development strategy has been based on an outward oriented strategy. And rapid changes had begun in the economic and social structure of Turkey; deregulation of Interest rates, establishment of organized markets for money, the free out and inflows of foreign currencies, liberalization of capital movements, reforms in the banking systems etc. were some of the new developments. One of the important policies was to reduce the government intervention and improve the business climate.

Following this measures which was taken, protectionist economic policies were abandoned. A comprehensive economic stabilization and liberalization program was implemented.

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14 Herslag , Z.Y. , ***"Turkey"*** , 1968 Leiden.

15 Uras,T.Gungor, ***"Turkiye'de Sigorta Sorunu*** ", DPT, 1968

The three most important objectives of the program were:

(i) minimizing the state intervention,
(ii) establishment of a free market economy,
(iii) Integration of the Turkish economy within the world economic system.

One of the major policy decisions was to take the adoption of a liberal and flexible foreign investment policy. So the investment climate has become more efficient and suitable for potential investors. And in addition to this measures the procedures of obtaining investment incentives, registering and getting operation permits for them were simplified. The Turkish Lira become almost fully convertible and the implementation of foreign investment Law No: 6224 guaranteed the capital gains, fees, royalties and the transfer of paid up capital freely. In addition to these measures Turkey also provide a well-secured environment for foreign capital inflow by being a party by multilateral and bilateral agreements.

Since the mid-1980's, international investors have taken an increasingly important part in the whole Turkish economy. So there is an upward graphic in the number of foreign investors.[16]

As a result of all measures that are taken by Turkish State, it has become a more attractive country for foreign investors. The infrastructure for industrial operations has considerably improved especially by the western part of the country. There are presently free zones that are operational and offer attractive conditions for establishing industrial operations.

Turkey has many problems like the other developing countries. Those were low incomes, low savings and high taxes and inflation rate. Turkish government has taken new measures against the above mentioned issues. Those are:

(i) Improving savings and optimizing the capital allocation,
(ii) Implementation of realistic exchange rates.
(iii) Implementing Value Added Tax (VAT) and other reforms to strengthen the public finance.
(iv)Optimum allocation of resources, so that the efficiency and competitiveness of the Turkish economy increases while implementing the required measures.[17]

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16 See Annex on p.62

17 TUSIAD(Turkish Industrialist' And Businessmen's Association), ***"The Turkish Economy'92"***, T/92,1992 Istanbul.

6.1. LEGISLATION FOR FOREIGN DIRECT INVESTMENT IN TURKEY

Finding business premises is a top priority when a company from overseas decides to establish a base in Turkey. In addition, if an expatriate will be sent to Turkey to run the operation, he or she will need a place to live. Client A, a telecommunications equipment company that belongs to a European-based group, needed a centrally located three-person office and housing for it's expatriate manager and his family. This company chose an office in Ankara business district, which is close to the area in which many government buildings are located. The entire process that we have mentioned below can take about a month and a half and sometimes even more because of the bureaucracy of the government. The Background is that a legal or natural person must have a business address in Turkey is extremely important. Without it, a company or the person cannot complete corporate registration formalities. This address is also necessary for other applications and paperwork. And the more time a company representative spends in Turkey attending to this task, the greater the start-up costs. If this person is stationed in Turkey throughout the entire search process, his or her company will have to shell out big amount in a month for transportation, accommodations, and other basic needs. He or she have to fulfill the legislative sight of the FDI, which is stated in the Foreign Investment Law.

In Turkey, the Foreign Direct Investment is subject to the Foreign Investment Law no: 6224, the Protection of the Value of the Turkish Currency Law No: 1567 and the Law concerning the Organization and Functions of Undersecretariat of Treasury and Undersecretariat of Foreign Trade No: 4059. And the special regulation concerning petroleum, the Petroleum Law No.6326.The FDI concerning on permits shall be issued in accordance with the following principles:

(i) Persons and legal persons residence abroad shall be permitted to invest in Turkey, also to engage in commercial activities and others such as ;

- which are beneficial to the economy of the country
- are in areas which are open to the Turkish private sector
- do not entail any monopoly or special privilege,

Which are stated below:[18]

Article 1- *Real persons and legal entities residing abroad may engage in all Types of industrial ,commercial ,agricultural and other fields aimed at the production of goods and services ,provided that such activities are listed in permits and/or incentive certificates granted by theGeneral Directorate of Foreign Investment (GDFI), Undersecratariat of Treasury (UT), and published in the Trade Registry Gazette of Turkey.*

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18 Undersecretariat of Treasury, ***"Communiqué Concerning The Foreign Capital Framework Decree*** ",Official Gazette Date: August 24,1995

Provisions of related legislation are reserved on the matters regarding the banks and establishment, operation permits and all sorts of transactions subject to special regulations, of financial institutions whose main fields of activities are money, capital markets and insurance.

(i)The investment can be in sort of capital inflow or equipment, machinery.

Article 2-...The following items imported from abroad for the efficient establishment or expansion of an enterprise coming within the scope of the present law or for putting the same again into activity :

1. Capital in the form of foreign currency.
2. Machinery, equipment, tools and similar articles, machinery components, spare parts and materials and other necessary commodities to be approved by the Committee,
3. Services and rights over immaterial property such as patent rights, licenses and trade Marks...

(i) The Undersecretariat has the right to make amendments that are in contact with capital increase, capacity increase, issuance of permits for new productions and participation ratio for existing foreign investments.

Article 6-If there will be a change in partner's participation ratio or capital increase, foreign capital companies shall apply to the GDFI, UT. Existing foreign capital companies are free to use advance capital from their local or foreign partners for their future capital increases.[19]

(ii) The Undersecratariat of Treasury (UT) has the right to investigate and finalize the transaction concerning purchase and sale of stock of foreign companies. In accordance with the provisions of foreign exchange legislation, shall not be effected by foreign capital Framework Decree unless they are registered under the Foreign Investment Encouragement Law. Foreign capital brought into Turkey is set forth in the Article 12.Amended with the Decree No.91/1935

Article 12.... Performing commercial activities and setting up unincorporated Companies in Turkey by persons resident abroad except building up companies and opening branch and liaison offices in accordance with foreign Investment Legislation and petroleum Law, concluding license...

...Principles regarding foregoing point and the transfer of the profit, Sale and liquidation values to be paid in return for license and representation agreements are determined by the Ministry.

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19 Undersecretariat of Treasury, ***"Communiqué Concerning The Foreign Capital Framework Decree*** ",Official Gazette Date: August 24,1995

(iii) The Undersecratariat will endorse a transfer guarantee on shares or temporary receipts, which are registered in the name of persons or legal person's residents' abroad.

Lists of other Laws and Regulations Related to Foreign Capital Legislation;

-Decree on State Aids for Investments No: 94/6411, 1994
-Law on some Investments Executed through the B.O.T. Model, No: 3996
-Law about Regulation of the implementation of Privatization, No: 4046,and Law amending this Law, and Law: 6224,No: 4105
-Law No: 4108 Concerning Amendment in Law on Tax Procedures No: 213; Law on the prosecution of Public Receivables No: 6183; Law on income Tax No: 5422;and Law of the Value Added Tax No: 3065.
-Decree on The Protection of the Patent Rights, No: 551
-Decree on the Protection of the Industrial Designing Rights, No: 554
-Decree on the Protection of trademarks, No: 556
-Law No: 4110 Concerning Amendment in Law on Intellectual Property Rights No:5846 dated on 05.12.1951
-Law No: 4077 about protection of Consumer Rights
-Communiqué on the corporate Tax, No: 51
-Communiqué on the income Tax Law, No:187.

The provisions of the FDI are as follows:

6.1.1. The approval procedure: The authorized approval agency for foreign investments, including capital increases as mentioned above, is the Undersecretariat of Treasury, General Directorate of Foreign Investment, (GDFI), located in Ankara. Where foreign investment participation exceeds US $ 150 million, UT has to seek approval from the council of Ministers. The application for approval has to be in Turkish or in English and should be presented with the following documents:

-Certificate of Activity
-Annual Report
-Copy of Passport (applicable to the individuals)
It must be certified by the Turkish Consulate or by a Turkish notary.
-Letter of Commitment
-Two copies of feasibility study including:
-Proforma Invoices
-Global list of machinery to be imported

6.1.2. Establishment of a Company: Upon obtaining approval, the establishing company can register at the Turkish ministry of Industry and Trade.

For a public stock company, at least five founding members are necessary. The minimum paid up capitals has to be %25 of the total signed investment, but at least US $

50.000 per foreign investor. A private limited company requires at least two partners. Each foreign investor also has to pay a minimum of US $ 50.000This money has to be transferred to Turkish hard currency and deposited \ blocked in a Turkish Bank. Documents to be presented at the ministry of Industry and Trade are given as follows:

-Articles of Association certified by a notary
-Certificate of conversion and deposit of foreign currency
-Investment approval of Undersecretariat of Treasury.

After confirmation of the establishment of the company by the Ministry of Industry andd Trade, further procedures are as follows:

-Registration in the city authority. This requires the presentation of:
-Registration in the Trade Register
-Registration in the Chamber of Commerce Chamber of Industry
Unblocked paid up capital upon submission of documentation for registration in the Trade Register.
-The Registration in the local tax Register
-And the registration in the social insurance authority.

6.1.3. Portfolio Investment and Participation: Application to Undersecretariat with the presentation of following documents:

-Certificate of Activity
-Previous Year annual Report
-Certified copy of Passport
-Letter of commitment brought by the foreign investor

6.1.4. Establishing of a liaison office: The provisions for opening a liaison office in turkey are as follows;

-Obligation of approval through UT
-Commercial activities creating any income within Turkey are not permitted..
-All expenditure of the liaison office has to be covered in foreign currency from abroad.

6.1.5. Know-how Transfer Licenses: Application of the approval of know-how transfer, licensing technical assistance and management agreements has to be filled with the investment application and the following documents;

-Draft License Agreement
-Existence of the plants in Turkey where the respective products or services are to be produced. This should be accompanied by a feasibility study for the production
-Last years annual report including information on research and development activities of the license holder regarding the products in question.

-Registration of the patent or brand names in the name of license holder, if applicable.

Against the bureaucracy that the foreign investor faced with, there is still demand for the new applies. This proves us the dynamism of the Turkish market. We can see also the improvements in FDI issue through recent developments in Turkey.

- PART THREE-

7. RECENT DEVELOPMENTS IN TURKEY-FOREIGN INVESTMENT ISSUE-

The total amount of foreign capital from the beginning of the FDI really starts in 1954 to 1980's to 280 million U.S. Dollars .The results of these new measures are ;

(i) Period between 1980-1996'the total capital permissions reached the amount of 20.5 billion U.S. Dollars.
(ii) As of the end of July 1996 the number of foreign capital companies operating in Turkey reached to the number of 3.582.
(iii) The 3.582 companies' foreign capital exceeds in July 1996 235.971.182 billion TL.[20]

As we can see on table 1.2. , The total value of permissions granted for foreign investments in 1996 was 3.836 billion U.S. Dollars. This was the highest value of permissions for foreign investments granted since 1954.

As of the end of September 1998 the amount of authorized FDI has reached 24,433 million US $ .The total amount of 1998 (till September) stands at 1.229 million US $.

Sectoral Breakdown on September;

Sector	Total
Agriculture	0.59
Mining	0.13
Manufacturing	90.92
Services	74.99
Total	166.63 million $

The manufacturing sector comes with 90.92 million at first rank. The services sector comes second with 74.99 million US Dollar. When we look after the groups:

EU Countries	125.87 million $
(OECD)Countries	37.08 million $
Other Countries	3.68 million $
Total	166.63 million $

As it is apparent in the table showing the breakdown of FDI inflows according to home country groups ,% 98of the total amount belong to OECD countries and dominant

20 See Annex on p.62.

position of EU Countries in this amount reflects the traditional pattern of the composition of FDI inflows.

The remarkable authorizations in The Second Quarter of 1998 ;

April 1998 ;

-Telsim Telekom A.S.	52 Million $ (Portfolio)
-Mercedes Benz T.A.S.	40 Million $ (Expansion Investment)
-Dusa End. Iplik San.A.S.	17 Million $ (Expansion Investment)

May 1998 ;

-Trakmak Traktor ve Zir.Mak.A.S.	21 Million $ (Portfolio)
-Novartis Saglik Gida Tar.A.S.	17 Million $ (New Investment)
-Standart Profil Oto Tic. A.S.	3 Million $ (Portfolio)

June 1998 ;

-Pfizer Ilaclari A.S.	41 Million (Cappital Increase)
-Imbat Mesrubat A.S.	27 Million (Portfolio)
-K.S.A. 5318	23 Million (New Authorization)
-Ozdag Paz.A.S.	17 Million (portfolio)

September 1998 ;

-Fruko Mesrubat San.A.S.	35 Million $ (Portfolio)
-UNIT Altyapi ve Tarim A.S.	20 Million $ (New Authorization)
-Mavi Ege Soke Giyim A.S.	17 Million $ (New Authorization)
-Anadolu Japan Tur. A.S.	13 Million $ (Expansion Investment)
-Kur.Sube adina.5507 I.B.	10 Million $ (New Authorization)

Authorized FDI (Monthly – Million US $)

Year	January	February	March	April	May	June	July	August	Septembe	Total
1996	102	57	161	231	81	128	126	150	67	1103
1997	196	57	126	133	100	174	138	79	74	1077
1998	83	218	134	188	79	243	95	22	167	1229

The cooperation between the States and Turkish Institutions was also an encouragement for the Foreign investors, not only in the number of TNC's also there was an increase of the SME's (Small Medium Sized Enterprises), that invests in Turkey.

Foreign investment has been intensified in manufacturing industries, especially in transport vehicles, cements, chemicals, electronics, food manufacturing and iron and steel, in the services sectors like tourism, banking and other financing sectors. As we can see below ;

BREAKDOWN OF FOREIGN INVESTMENTS APPROVALS BY SECTORS
(01/09/1998 - 30/09/1998)

SECTORS			TYPE OF INVESTMENT (000 $)			
	Num.of Permission	Foreign Capital	New	Expansion	Increase In Capital	Portfoli
AGRICULTURE						
Agriculture Services	1	0.594	0	0	0	0.594
AGRICUL. TOTAL	1	0.594	0	0	0	0.594
MINING	1	0.123	0.123	0	0	0
MINING TOTAL	1	0.123	0.123	0	0	0
MANUFACTURING						
Food Manufacturing	4	36.737	0.051	0.577	1.109	35
Beverage Industries	1	1.03	1.03	0	0	0
Textiles	1	0.051	0.051	0	0	0
Ready Made Garments	3	23.616	6.616	0	0	17
Printing	1	0.317	0.317	0	0	0
Chemistry	3	1.072	0	1.072	0	0
Industrial Chemicals	2	6.535	0	0	1.897	4.638
Plastics	3	1.882	1.781	0	0	0.101
Ceramics,Clay and Cement Prod.	2	0.224	0.224	0	0	0
Cement	1	1.402	0	1.402	0	0
Iron - Steel	3	1.181	0.003	1.178	0	0
Machinery	1	0.323	0.323	0	0	0
Fabricated Metal Products	1	0.273	0	0.273	0	0
Electrical Machinery	3	0.551	0	0.435	0	0.116
Electronics	4	10.161	10.053	0	0	0.108
Transport Related Industries	6	4.798	0.947	2.499	1.292	0.06
Other Industrial Products	2	0.767	0.484	0	0.283	0
MANUFACTURING TOTAL	41	90.920	21.880	7.436	4.581	57.023
SERVICES						
Trade	28	10.769	6.281	0	0.162	4.326
Restaurants	8	0.474	0.473	0	0	0.001
Hotels	5	17.046	0.111	13.162	3.669	0.104
Construction	5	9.28	0.145	8.981	0	0.154
Services related with Transport	2	0.433	0	0	0.397	0.036
Communication	1	1.147	0	1.147	0	0
Financial Institutions	1	1.997	0	0	1.997	0
Other Social Services	1	5.252	5.252	0	0	0
Other Activities	2	28.596	28.333	0	0	0.263
SERVICES	53	74.994	40.595	23.29	6.225	4.884
GRAND TOTAL	96.000	166.631	62.598	30.726	10.806	62.501

As we can see on the Table industrialization is considered the fundamental factor in development of Turkey and special importance has been attributed to this sector. Combined with an outward policy, major capacities have evolved in almost every sector of manufacturing industry.

The Turkish economy is in the process of rapid growth in virtually all sectors of manufacturing industry, in energy, transportation and communications and in tourism as well. It is obvious that, being the inheritor of the natural and cultural treasures of thousand years, Anatolia possesses an extremely high tourism potential, against that point compared with the successful states in tourism, Turkey has to attract more tourist than till yet because of his natural sources and cultural treasures.

These facts show us that the positive developments since 1980 continues, through the positive approaches in the legislation and administration; like the opening up defense industry, free trade zones, energy, transportation etc.

In spite of other developing countries, Turkey has natural sources due to his location. It has an expanding market between the Europe and Asia. For that reason Turkey has taken some precautions to attract these expanding market. These precautions are:

7.1. Privatization :

The privatization program was first discussed in 1984 as part of the new economic policies. The government carries the role where the private sector would not or could not enter because of the factor like; profit and the nature of public services like defense, health, education and infrastructure. The remaining State Economic Enterprises (SEE's) were opened to domestic and foreign capital.

This responsibility of this program was given to the Prime Ministry, Housing development and Public Participation Administration (HDPPA) which was established in 1984. The related regulation was Law No.2983 dated in 1984 ,***"Encouragement of Savings and Acceleration of Public Investments "***. With the Law No.3291 dated 28 May 1986 amends the procedures and responsibilities for the privatization program. HDPPA was separated into two different administrations on 10 April 1990.To the Public Participation Administration (PPA) and Public Participation High Council (PPHC). PPA was given the responsibility of conducting the privatization program, managing the public Participation Fund and Financing major infrastructure projects. Laws 2983 and 3291 set these responsibilities and procedures about the privatization process forth. Law 2983 was founded on 6 January 1992 as the decision making body of PPA. PPHC is a body of Ministers of State and Deputy Prime Minister, Minister of State, Minister of Public Works and Housing, Undersecretary of State Planning Organization, Undersecretary of Treasury, Chairman of Public Participation Administration and directed by the Prime Ministry.

Up to present there are many SEE's privatized like; most known Petkim, Sumerbank and Turkish Airlines. Also 28 subsidiaries banks and the state shares in 71-equity participation have been transferred to the PPA for privatization.

The methods used in privatization of a company were set forth through PPA's .The decision of the objectives are given according to their nature and characteristics. PPA is entitled to select the suitable option for the privatization such as awarding management contracts, assigning leases to private sector companies, selling shares through public offerings, stock market flotation or block sales to domestic and international investors. A privatization program has been developed according to the global privatization policy. According to this framework the necessary legal and financial measures has been arranged under the privatization program.

In February 1988, the first public offering was the sale of 22 % shares of TELETAS, the 40% state owned telecommunication company. During the TELETAS sale 19 underwriters and 30 dealers were employed. The shares were widely offered to the public through 4.822 branches across Turkey and 42.000 people purchased. And the second important case in the privatization program was the case of ANSAN-Coca-Cola Bottling Company in November 1988(beverage sector). The point was that the direct sale of the 88.3 % state owned shares.

The six of eight equity participation's which are quoted in ISE (Istanbul Stock Exchange Market)[21]. namely Eregli Demir ve Celik Fab.T.A.S.(ERDEMIR) steel producer, Cukurova Elektrik A.S. and Kepez Elektrik A.S. (two electricity utility companies) , Arcelik A.S. (electrical appliances producer),Bolu Cimento Sanayii A.S. (a cement factory) and Celik Halat and Tel Sanayi A.S. (steel cable manufacturer) shares were offered to public across Turkey in April 1990.

The Privatization is the one of main features of the Government's new liberal economic policy .To integrate the Turkish Economy with the world Economy by opening it to international competition through privatization. And "Encouragement of Foreign Capital "will contribute to the establishment of a true market mechanism.

7.2. Foreign Trade Regulations:

7.2.1. Export Regulations:

Turkey's export is already determined in accordance to decree on the Export Regime. According to this decree;

· [25]Istanbul Stock Exchange (ISE or Turkish acronym: IMKB) started its trading operations in 1986,has stimulated public's interest in stock trading. Currently ISE can receive global demands, as the restrictions on foreign capital to ISE are removed and the market has been liberalized.

The competent authority in exports is the prime Ministry, Undersecretariat of Treasury and foreign trade. As is mentioned Law No:3274 on organization, the Undersecretariat is authorized to implement the exports within the frame of objectives envisaged by development plans and annual programs. The determination and implementation of the export policy, the sale and payment terms, (kind of foreign currency for value of export realized from the item policy), exports in Turkish Lira (on country or product base), the procedures and basis of fairs abroad and export oriented promotion activities, observation of the export procedures from beginning phase to bringing of the foreign currency into the country, demand of all kinds of information and documents related to export, exports subjected to a permit, price conformity, and all the necessary measures to supervise and control the exports ,cooperation and coordination between the institutions related to exports shall be ensured by the Undersecretariat .

Authorized personnel of the related public and professional institutions are in charge of taking necessary steps by promoting exports and to finalize the transactions rapidly. The government has also produced a decision regarding "Foreign Trade Capital Companies "to enter in the exportation so as to run marketing systems in a more realistic way in 1984.The new arrangements for "Foreign Trade capital Companies" are mentioned below. With the latest export legislation new measures have been put into force. These measures are:

-to widen the scope of foreign trade capital companies and direct these towards specialization,

-to establish multi-partnership foreign trade companies bring together a minimum of 10 manufacturing exporting firms whose exports are below the agreed amount to enable them to utilize credit facilities.

-to contribute promotional and marketing activities in exports.

Incentive principles on export are determined according to the Decree on the Encouragement of Exports and Activities providing Foreign Currency Earnings by the Undersecretariat of Treasury within the scope of promoted projects will be given in the section of "Incentive System in Turkey" in detail.

7.2.2. Import Regulations:

With the economic liberalization program since1980, the adjustments were made according to the free market economy principal. Briefly, reliance on market forces, encouragement of the private sector, emphasis on export growth, import liberalization and achievement of better internal and external balances are the main features of this process.

The aims of the Turkish import policy towards liberalization are; to secure protection within reasonable limits to the domestic industry; to provide continuos supply of raw materials and intermediary goods with competitive prices; to encourage investments, thus providing a favorable ground for the creation of employment and income in industrial and foreign trade sectors and to keep prices under control against inflationary tendencies.[22]

The substantial structural changes in import regimes are as follows :

-The list of goods subject to the import licenses is abolished;
-Import guarantee deposit scheme is abrogated,
-The validity period of import permits are now fixed according to the importer's request
-Customs duties and Housing Fund Levies are consolidated in a single list,
-All restrictions with regard to importation from the centrally planned economies were abolished.
-Regulations concerning the imports of the State Economic Enterprises and other public Institutions were simplified and preliminary tender permission is no longer required
-The harmonized Commodity and coding system has been adopted
-Greater authority was delegated to Chambers of commerce and Industry with regard to import procedures.

Turkey's import regime are determined according to the import regime publish every year ,and public and private sector imports are realized on the basis of that regime. The current import regime contains a basic list that indicates customs duties .A second list contains commodities that are encouraged for investment purposes that are exempted from custom duties. Regarding this import regime the principles pertaining to the standards an quality control and other hygienic controls of the imported goods, either before or after the imports of materials used in production of pharmaceuticals shall be executed by the below authorities;

-Ministry of Health, regarding the pharmaceutical raw materials for human health
-The Ministry of Agriculture, regarding the veterinary and agricultural disinfection pharmaceuticals and pharmaceutical raw materials

7.3. ***Incentive System in Turkey*:**

Incentive system plays an important role in economy. In Turkey the General Directorate of Incentives and implementation of the Undersecratariat of Treasury UT, is responsible for both the export and investment incentive system in the country. The Incentive policies were set forth after the goals of countries.

In Turkey especially following incentive measures has been used. Those measures are; Customs exemption, Investment allowance, Credits or Premium from resource

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[22]Turkish Republic, Prime Ministry, Undersecratariat of Treasury, General Directorate of Foreign Investment, 25.03.1997,Ankara. "

Utilization Support Fund, Exemption from tax, duty and charges on Credits, building and Construction Charges exemption Infrastructure charges exemption, low interest credit, deferment of Value added tax and investment financing fund.

In addition to the above mentioned measures also new measures have been apperent with the latest incentive regime. Those measures are;

-Low credit from "Encouragement of Investments and Services Providing Foreign Exchange Earnings fund"
-Incentive premium
-Social Security Payments and Energy Incentives
-Land allocation

The above mentioned measures are applied in different regions and sectors .The main objective of these incentive is to create extra funds for the investor in the investment or in the operation phase. The extra funds are achieved either by not collecting some of the duties, taxes, fees and charges, or by granting cash.

7.3.1. Customs Exemption:

Almost all machinery and equipment are exempted from customs duties. They are only subject to a fund payment of 5 % for most of the capital goods and 20 % for the specialized. First and Second Degree priority regions Investments and some certain investments exempted from this fund. The customs exemption also covers the importing of production materials, and spare parts for 3-12 month needs of investments.

(i) ***Investment Allowance:*** The main objective of this measure is to minimize the tax payments. This measure is applicable to all income and corporate tax paying investors. The percentage of the allowance differs between 30 and 100. It depends on the sector and on the geographical location. Investment allowance is a sort of tax exemption.

(ii) ***Low-rate credit Incentive:*** According to the measures that are set forth in the legislation if possible and suitable this incentive is given to the investor. The credits were paid from "Encouragement of Investments and Services Providing Foreign Exchange Earning Funds". The credit is to be granted upon positive development by the Turkish Development Bank, as a percentage of the fixed investment cost. The credit rate differs from 5% to %50. It depends on the nature of the Investment such as the area, the special sector or selected industry etc. The repayment of the given credits are made in four equal installments per year over a period of five years in which there is a two year grace period.

(iii) ***Incentive Premium:*** The Value Added Tax (VAT) imposed on locally purchased investment goods and equipment are paid back to the investor by means of this cash grant

(iv) ***Land Allocation:*** The Investments that are made in agricultural, educational and health areas are being encouraged by some major projects through the Land Allocation. So major projects have the opportunity to take advantage of the State owned Land Allocation.

(v) ***The exemption from the taxes, duties and charges on credits:*** When the full capacity reached, taxes, duties and charges are exempted from long term domestic investment credits.

(vi) ***Financing Fund:*** It's a fund where investors are financed through the state. It's given to those investors who have been continuing their activities and have closed accounting period with profit regarding extension, renovation modernization and improvement of quality. This incentive gives the investor the opportunity to postpone a percentage of his tax to the following fiscal year so that he can ease the cash-flow difficulties.

7.3.2. Export Incentives

Turkey has achieved an outstanding performance by increasing her exports 13.6 billion US dollars in 1991. The composition and destination of exports has also changed. The structure of exports changed in favor of industrial products and the share of industrial products in total exports increased to 78 percent in 1991.

In order to attain the structural change, export incentives were directed to direct cash grant measures such as Tax Rebate or the Resource Utilization Support Premium. Attaining the desired structural change, there is a shift from direct cash grants and the above mentioned incentive measures were abolished in 1988 and 1986 respectively. Payment from the Support and Price Stabilization Fund for the exports completely eliminated on February 1, 1992. There is a shift from these measures to a system of export credits and insurance and guarantee schemes.

The objective of the export incentive policy is to increase exports in accordance with the targets and guidelines laid down in the development plans. Like most developing countries, Turkey attaches great importance to the formulation and implementation of this policy, with emphasizes on improving GATT disciplines relating to all subsidies and countervailing measures that effect international trade.

It must also be stressed that, Turkey has taken great steps towards modifying its incentive system. Studies have been completed to introduce Export Credits and Insurance Systems, and a Government Decree has been issued.

The Export Incentive Decree and Communiqué for 1992 was published and entered in the Official Gazette 20 March 1992.

Export Incentive measures can be grouped under the following headings;

- Taxes, Duty and Charges Exemption
- Foreign Exchange Allocation and Customs Exemption
- Corporate Tax Exemption
- Export Credits
- Energy Incentives

Exporters are exempted from Value Added Tax related to all goods and services exported. In order to get the benefits of the exports incentives, exporters should apply to UTFT-General Directorate of Incentives and implementation.

(i) **Taxes, Duties and Charges Exemption:** Tax, duty and charges exemption is extended to all banking, insurance transactions relating to both the procuring and the repayment of export financing credits and to the charges fees and the taxes to be paid for services given by banks, insurance companies and public institutions.

(ii) **Foreign Exchange Allocation and Customs Exemption:** Exporter and producer-exporter companies are allowed to import those raw, semi-produced and packaging materials that are used in producing the good to be exported without paying any customs. The required foreign exchange is also allocated for these exporters to allow them to carry out their import transactions. Companies are allowed a global import right of not more than 60 percent of the FOB value of their export commitment. This exemption is also applied to imports based on counter guarantee letter instead of against export commitment and these transactions are called imports by temporary acceptance.

Exports who do not require the allocation of foreign exchange and who realize their exports without and export incentive certificate, are still entitled to import raw materials, consumption and consumables used to produce the already exported products. On the other hand, exporters are allowed to import, by paying premium instead of duties.The auxiliary materials and spare parts till certain extent, that are used in producing the export products.

Producer-exporters have the right to import investment goods with a maximum value of 10 percent of their export value.

(iii) **Corporate Tax Exemption** :The Corporate tax exemption system, established under

Law No.5422, was amended in 1981 by Law No.2573 and in 1988 by Law No.3482 which simplified the system and made provision for a given percentage to be deducted from corporate income.

The exemption system is only granted to companies and not to businesses operated by individuals. It is therefore mainly designed to encourage exports through companies and "institutionalize" the process. This incentive will also be eliminated within a reasonable period of time.

This exemption applies to the producer-exporters of industrial products whose annual export earnings are above 250,000 US dollars. To the producer-exporters of fresh fruits and vegetables and aquatic export products and for foreign exchange earnings in respect of freight.

Corporate tax exemption, which is regarded as the most important incentive scheme will also be gradually removed. In the official Gazette on August 16, 1991 published with the rate of exemption being dropped to 12 percent in 1991, and to 8 percent in early 1992.

In case of companies that do not produce export products themselves, the rate is 2 percent in 1992.

(iv) **Export Credits:** The Government of Turkey has declared that, the main aim of the annual program for 1991, concerning the incentives for exports will be to encourage exports through a system of export credits and insurance. The same policy was declared in annual programs of 1989 and 1990.

To serve this purpose, the Export Import Bank of Turkey carries out various export credit schemes. EXIMBANK has now replaced the Central Bank that used to be the only organization to issue export credits. These credit schemes are designed to meet the financial needs of exporters in order to achieve the export level laid down in the annual program, aimed at achieving the growth rate with a minimum of foreign credit.

These credit schemes are; special exports rediscount credit, post shipment and pre-shipment export credits, Buyer's credits and foreign Trade Companies Rediscount Credit.
Credits interest rates ranging between 35-48 with maturities between 30-120 days.

(v) **Energy Incentives :** Manufacturer-exporters can be supplied electricity at 25 percent discounted prices for their exported products. They may also supplied fuel-oil from refineries in Turkey at price which not subject to custom duty, tax and any fund payments for the exported products.

And other incentives are given also to the foreign investors for example tax exemptions on wages of workers who are in priority development regions, deferment of VAT on imported goods, Medium and long term domestic credits and also exemption from the transportation and infrastructure taxes.[23]

23 Seyidoglu,Halil Prof.Dr., ***"Uluslarasi Iktisat"***, 10.Baski, 1994 Istanbul.

7.4. Free Zones in Turkey:

Within the framework of export-oriented investment and production in Turkey, the Free Zones Law No.3218 was enacted in 1985 and since then Mersin and Antalya Free Zones become operational in 1988 ,Aegean and the Istanbul Ataturk Airport Free Zones in 1990 , Trabzon Free Zone in 1992 ,and Istanbul Leather Free Zone in 1995 (Istanbul Leather Free Zone is a "Specialised Free Zone" the activities other than the leather are also permitted in the Free Zone according to the needs of the commercial and industrial Atmosphere considering the requirements of the Free Zone) ,and commercial activities are being performed in Mardin and Eastern Anatolian Free Zones since October 1995 and the new implementation ,Istanbul International Stock Exchange Free Zone begun to perform its activities on February 1997 .

In general all kind of activities can be performed in Turkish Free Zones such as Manufacturing, storing, packing, general trading, banking and insurance. Investors are free to construct their own premises, but the Zones also have available office spaces , workshops, or warehouses on rental basis with attractive terms. All fields of activities are open to Turkish private sector and joint venture of foreign companies.

More than 700 companies are operating there with various activities such as storing, exhibition, packing, trading, banking, insurance, assembling and etc. Turkish free zones are completely tax-free. And companies are not treated after their nationality because they're equal, because of these fact free zones gives the opportunity for transition handle. The products were sent from one country and sent to another country while using the services of the Turkish free zones.

The trade between the home country and the free zones are treated as foreign trade. The goods in free zones can be sent abroad or to Turkey with or without processing.[24]

7.4.1. Turkish Free Zones are;

a)Mersin Free Zone :

It is located on Eastern Mediterrenean Coast of Turkey.As an economic stepping stoone for Turkey`s foreign trade potential the zone constitutes a center for foreign investors with its proximity to major international markets.

Adjacent to Mersin port, the Zone has been established on a 776.000 square meters public estate.Commercial activities begun in 1988.All services within the Zone are provided by MESBAS A.S.[25]

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24 See Annex on p.62

25 "Free Zones in Turkey" Prime Ministry, Undersecretariat for Foreign Trade, Ankara ,1998

b)Antalya Free Zone :

It has been established on an area of 536.740square meters of public property.Commercial activitiesin Antalya Free Zone have commenced in 1988 and ASBAS A.S.,which is a private firm, is the Zone operator.

c)Aegean Free Zone :

The Aegean Free Zone is the first export processing zone in Turkey that is developed by a private sector company.It is also first privately developed free zone of its size in the world.

The zone is just 4 kilometers away from the Adnan Menderes International Airport and 14 kilometers away from the Izmir port .The founder-operator of the company zone is ESBAS and has a foreign share of 96.4 percent.

d) Istanbul Ataturk Airport Free Zone:

The zone has to sections , the first one provides 33 premises and has been in operation since 1990, while the second one which became operational in 1991 offers 57 premises.ISBI- Istanbul Ataturk Airport Free Zone founder and operator company has been granted the authority to undertake the zone foundation and operating activities.

e)Trabzon Free Zone :

Commercial activies in the zone has been performed since 1992.The founder-operator company of the zone is TRANSBAS A.S. and has a foreign share of 94 percent.

Trabzon Free Zone offers secure and convenient storage facilities,from which regional markets can draw shipments when they need.

f)Istanbul Leather Free Zone :

Istanbul Leather Free Zone operational in 1995 is a "Specialised Free Zone" the activities other than the leather are also permitted in the Free Zone according to the needs of the commercial and industrial Atmosphere considering the requirements of the Free Zone .The zone has been established on a 88.000 square meters of private estate by Founder-Operator company DESBAS A.S.

g)Erzurum Eastern Anatolian Free zone :

Erzurum Eastern Anatolian Free zone was established on a 484.350 square meters and it is operational since 1994.

h)Mardin Free Zone :

The establishment of Mardin Free Zone has been envisaged within the framework of the measures taken for the development of Eastern and Southeastern Anatolia, and within this context a Decree of the Council of Ministers No:94/6028 which determines the location and boundaries of the free zone. The Mardin Free Zone is operational since 1994.

i) Istanbul International Stock Exchange Free Zone:

Istanbul International Stock Exchange Free Zone begun its activities on 1997.In order to create an international finance center in Istanbul, the national and international members of the ISE have been authorized or proposed to engage with the transactions in the ISE.

7.4.1. Incentives offered in Turkish Free Zones are;

-The free zones are tax free zones
-Free Zone users are also exempted from duties
-In contrast to the other free Zones, sales to the domestic markets are allowed.
-Convertible currencies are used
-Also employment of foreign managers and experts are allowed
-The quality standards of free zones are compared to international are comparable.
-Land lease prices are very competitive
-The cost labour in Turkey is lower in comparison to the other countries similar nature
-The proximity of the Turkish free Zones to the ports and international connections.
-The validity period of Operation License is maximum 10 years for tenant users ,and 20 years for other users who wish to make they own offices in the Zone. If the requested Operation License period is in excess of 20 years the period can be prolonged to 99 years.

7.4.2. Off-Shore Banking Activities in the Turkish Free Zones:

The Off-Shore banking has gained an additional significance as a result of the intervening Gulf Crisis. The fact that many of the countries in the region affected by this crisis was important for world trade and banking centers.

The current policies of the Turkish Government aim making the country a major point of international financial interest. And a separate set of legislation was prepared for the off-shore banks for which a greater freedom of operation was deemed in comparison to the other free zones.[26] These Banks;

(i) Are not bound by Law no:3182 on Banking Institutions in their banking operations,

(ii) May perform all kind of banking operations aiming at foreign countries and free zones without any restrictions on their loans in cash or kind and on the funds they may draw,

(iii) Will be subject to the provisions dealing with the foreign loans under the legislation on the preservation of the value of Turkish Currency in the cash loans extended to natural and legal persons residents in Turkey,

(iv) Are barred from offering banking services to persons resident in Turkey with the exception of cash loans

(v) May freely determine the interest rates applicable to deposits and those chargeable for their loans and other benefits they may claim, and

(vi) Will be exempted from the Saving Accounts Insurance Fund for the deposits which they collect.

-The banks to operate in the off-shore Banking Center are entitled to the following incentives similar to the other free zone users;

(i) Profits obtained through activities within the Zone are exempted from all taxes, duties, fees and other public charges and they are not subject to legislation dealing with the exchange.

(ii) Profits and incomes obtained by the banks through activities within the zone will not be subject to income and corporate tax if it is evidenced that they are brought to other parts of Turkey.

(iii) The banks are free to transfer their profits to any country of their choice by informing the free zone management.

(iv) Customs duties, taxes, municipal dues and other public charges are not applicable to the goods imported into the zone from abroad.

(v) These banks may also have access to the other incentives contained in the decrees of Council of Ministers.

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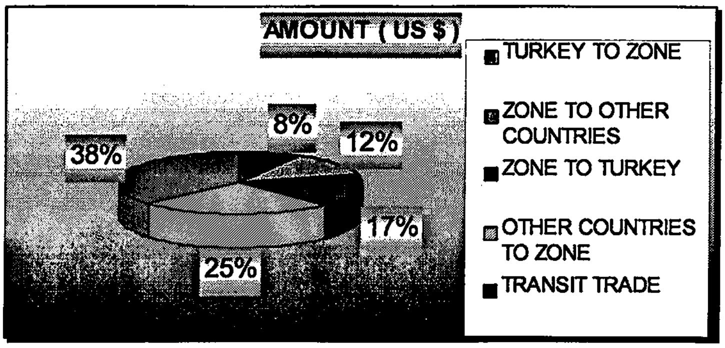
26 Uras,T.Gungor, ***"Turkiye'de Yabanci SermayeYatirimlari"***,1979 Istanbul

FREE ZONES ESTABLISHMENT AND MANAGEMENT MODELS,CAPITAL STRUCTURES OF OPERATING

ZONES	TYPE OF PRROP.	INFRA-STRUCTURE FINANCED BY	SUPRA-STRUCTURE FINANCED BY	OPERATIONAL SINCE	OPERATING COMPANY	ESTABLISH-MENT YEAR	TOTAL KAPITAL AMOUNT (TL)	SHARE OF FOREIGN CAPITAL %	FOREIGN CAPITAL AMOUNT (TL)	PAID-IN CAPITAL AMOUNT (TL)
ANTALYA	PUBLIC	PUBLIC	PRIVATE (USERS)	1987	PRIVATE ASBAS A.S.	1986	1,250,000,000	.-	.-	625,000,000
MERSIN	PUBLIC	PUBLIC	PRIVATE (USERS)	1987	PRIVATE MESBAS A.S.	1986	3,660,000,000	.-	.-	2,745,000,000
ADANA-YUMURTALIK	PUBLIC	PRIVATE TAYSEB A.S.	PRIVATE (USERS)	1991	PRIVATE TAYSEB A.S.	1990	2,500,000,000	25	625,000,000	625,000,000
AEGEAN	PUBLIC	PRIVATE ESBAS A.S.	PRIVATE (USERS)	1990	PRIVATE ESBAS A.S.	1989	2,500,000,000	96.4	2,410,000,000	2,410,000,000
ISTANBUL-ATATURK AIRPORT	PUBLIC	PUBLIC	PUBLIC	1990	PUBLIC					
ISTANBUL-OFFSHORE BANKIG	PRIVATE	PRIVATE ATAKOY A.S.	PRIVATE ATAKOY A.S.		PUBLIC					
ISTANBUL-THRACE	PRIVATE	PRIVATE ISBAS A.S.	PRIVATE (USERS)		PRIVATE ISBAS A.S.	1991	2,500,000,000	.-	.-	1,000,000,000
TRABZON	PUBLIC	PRIVATE TRANSBAS A.S	PRIVATE RANSBAS A.S.		PRIVATE TRANSBAS A.S	1991	1,500,000,000	66	990,000,000	1,500,000,000

TABLE 1.9.TRADE IN FREE ZONES BETWEEN 1988-1992

	AMOUNT (US $)
TURKEY TO ZONE	87,218,386
ZONE TO OTHER COUNTRIES	127,112,226
ZONE TO TURKEY	176,396,140
OTHER COUNTRIES TO ZONE	262,127,020
TRANSIT TRADE	379,000,000
TOTAL	1,031,853,772



***Source :** Turkey 1993 ,Annual Report ,Undersecratariat of Treasury,1993,Ankara*

Turkey is also the member of the WEPZA (World Export Processing Zones Association). WEPZA is a private international Association of Export Processing Zones founded in 1978 by the United Nations Industrial Development Organization (UNIDO).As an independent and a non-profit international association ,WEPZA has 46 Export Processing Zone and Free Zone organizations ,public and private, operating in 38 countries and currently housing factories employing 800.000 export workers. Its purpose is to promote cooperation among the Zones, to stimulate industrial development worldwide through exchange of information, research and management training.

7.5. Turkey's first trade partners are with 155.88 million US Dollar the EU Countries. Turkey has a special agreement with the EU Countries that exists and expands since the "Ankara Agreement 1963". Turkey has concluded with EU Countries the Customs Union. So that Turkey can export all of his industrial products with some exceptions or restrictions on certain goods (like textile, agriculture) without tax barriers. This is again an advantage for Turkey, because the EU Countries present a market of 350 million consumers.

7.6. Build-Operate Transfer Model : Some of infrastructure projects , which are needed, but kept outside of budget outlays, have been opened to private sector within the framework of Build-Operate-Transfer (BOT) Model. It means that the international consortium bidding on a project shall be designed, raise, secure funding for the construction, construct, own, manage and maintain the project in exchange for host governments. And also guarantees to take the products of the plant lets say a given period between 10-15 years with a price paid for the product and/or services throughout the given period at a level sufficient to cover debt service, operation and maintenance costs. It also provides a return of equity to attract investors. At the end of the term, when the entire project loan has been paid and equity capital has been repatriated ownership of the project would be transferred to host government without charge. An appropriate entity of the host country will be willing to invest up to a certain percentage of the equity of joint venture to be performed to acquire and operate the project .The project must be completed under a turnkey fixed price contract.

Force major risks during the construction and during the operation are borne by the host government but other commercial risks by the consortium. Payment for the products and services will be made in foreign currency, using the same basket of currencies in which the project financed.

At present negotiations are continuing under this model for some thermal power plants, hydraulic dams and power plants, the expansion of Istanbul Ataturk Airport.

7.7. The Black Sea Economic Corporations : It envisages a greater commercial and industrial corporation among the states. Thus the Turkish Republic has a big opportunity in penetrating the market situated around the Black Sea and beyond the former soviet states. Turkey has potential areas for investments.

7.8. South eastern Anatolian Project (GAP Project): With the progress of South eastern Anatolian Project (GAP Project), will open huge tracts of fertile lands for farming through irrigation. The GAP Project aims the utilization of land and water resources. So it will create a new source for hydroelectric power and it will effect the increasing agriculture production. The project covers 8 provinces namely; Sanliurfa, Mardin, Gaziantep, Adiyaman, Diyarbakir, Siirt, Batman and Sirnak. The total area of them accounts for 9.7% of the national territory.

Through the GAP Project it will be possible to obtain 2-3 crops like cotton, Soya, beans maize etc. After accomplishment of GAP Project the new investments areas will be the agro-industries and agricultural input producing industries. The policy of the Government is to promote the private investments. Also increase the role of the private sector-included foreign direct investments- .The investment areas with big opportunities will be;

-Seed production and seed production farms
-Export oriented vegetable production
-Wheat flour
-Frozen foods
-Packing and storage facilities
-Cotton yarns and cottons wearing apparel
-Fertilizer Industry
-Construction materials Industry
-Textile machinery
-Agricultural machinery and equipment

The most important investment areas will be agro-industries and agricultural input producing industries. It is excepted that the textiles and food process5ng will attract large amount of capital. The region is also excepted in long-term to be a major exporter of processed and unprocessed agricultural goods, to the regions and abroad. This will create opportunities for investment in storing and packaging and transportation.

Urbanization, population will increase and so that the desire for better housing will increase. And that again will effect the construction sector also in a positive way. Presently there are foreign firms that are interested to invest in this area;[27]

FIRM	INVESTMENT AREA
Benetton and Altinyildiz	Textile
Israeli Oscot	Cotton yarns
Spain / Gesa	Corn chips
South Korea / Hyundai-Daewoo	Electric Energy and agriculture
Netherlands	Management-Cooperation Programme
Royce-Royce	Electric Energy Production
MAN	Oil production
Italy / Lafer	Textile

Beyond all these positive developments Turkey has potential areas for investments, those are:

7.8.1. Agriculture: Turkey is the one of the few countries in the world, which is self sufficient in food and textile, and also exporter of these goods. When we consider Turkey's agricultural growth potential in terms of soil, climate, available labor force and proximity to the national and international market. Turkey can become supplier of the region in medium and long term with right technology, management and capital. Investment in seed production, integrated meet industry, poultry and fish farming can find a ready market in the neighboring country like the Middle East, the ex-soviet countries and eastern European countries.

7.8.2. Mining: Turkey has many potentials for mining areas. And also petroleum fields that are available for joint ventures and direct foreign investments.

7.8.3. Tourism: Turkey has been site of numerous civilizations for over seven thousand years of human history, and many historical sites remain reflecting Turkey's Hittite, Greco-Roman, Seljuk and Ottoman heritage. Turkey has more than 4000 km of natural shoreline along the Mediterranean, Black sea and Aegean seas which is believe to be an excellent potential for Tourism.

7.8.4. Manufacturing Industry: Turkey has already a good base in the manufacturing sector, which could be utilized for mass production with the right engineering and organization. A recent development in the automotive and the aircraft manufacturing has opened up new areas of investment opportunity for parts and components suppliers. Some of the potential areas are as follows:

(i)Construction equipment and materials; The Government of Turkey and its neighbors, the former soviet states and the Middle East countries have given high priority to housing and

27 "Dunya", "***Foreign investors that supports the Turkish economy*** ", Economy Newspaper, 18 February 1998, Istanbul.

infrastructure investment. This sector has a great growth potential for Turkey if ones consider the present statue and competitiveness of the Turkish contractors in the market place.

(ii)Electronic Industry: Turkey offers excellent opportunities for investment in the electronic Industry. When we consider the availability of good schools, research facilities and a labor pool with reasonable wages.

(iii)Garment Industry: Turkey has a good textile base to be further developed with modern technology and management. Unprocessed cotton is still one of the main export goods. This cotton and its first phase products could be further processed in Turkey and coupled with synthetic fibers to develop improved textile products, and subsequently clothing for domestic and export markets.

At present there are good number of top quality and well known names being produced in high quality in attracting high demand in the domestic and export markets alike. Still yet the sector is open for more investment particularly in final ready-to-wear products. A major point that should be taken into consideration is that these sectors are attractive for investments. The GAP Project will also give new opportunities for investment.

8-Recent developments in Turkey on Multilateral Agreement on Investment issue

After Uruguay Round that gives an institutional characteristic to the Multilateral Agreement on Investment in the international trade. Whereas GATT negotiations have been concluded without making a similar arrangement for the foreign capital investment. With the rapidly increasing effect of the foreign investment in the whole world economy was the main reason of the decision taking in the OECD Ministerial Council meeting held in May 1995. Which envisages the preparation of the investment agreement. The negotiation group has formed in accordance with this decision started its studies in September of the same year.

Although the first initiatives regarding multilateral investment arrangements have been partly included in the Trade Related Investment Measures (TRIMS) and General Agreement on Trade in Services (GATS) signed in the end of Uruguay Round. It has been also included in the "Code on Liberalization of OECD Capital Movements" and "National Treatment Instruments" as well as the "Energy Charter Treaty" signed in 1994 and the "Convention on the Settlement of Investment Disputes between the States and Nationals of Other States" within the World Bank. The arrangements that have been made until today was limited to the sectors rules or to the certain factors regarding the foreign investment and the protection standards and which are open to the participation of the non-OECD nations. It covered all the subjects of the investment. Turkey was and still is representing in the negotiation group and the subordinate sub-groups (specialist groups, draft groups), through the Undersecretariat of Treasury, Ministry of foreign Affairs and the members of our permanent Represents on OECD as well as the specialists from other Institutions who are invited regarding the subject.

The fact that the initiative directed towards preparation has been started on a forum like OECD in which nations that have reached a certain level of economic –development, have joined mostly. This point has caused some criticism that this agreement will only serve the national economic interests of these nations and that it will provide the multinational companies of these nations. That directs a big part of the investments, with certain advantages, which may constitute a threat against the national sovereignty of developing nations that will be a party to this agreement. It has been noted that various circles in our country have also articulated this kind of criticism being on the agenda of the world recently.

In case of coming into effect of this agreement, it is possible to state that this agreement will provide various advantages to the foreign investors because the uncertain investment regimes, which takes the nations as a basis, will be routine under the accepted multilateral rules. And also the the agreement will prevent the discriminatory treatment towards the foreign investors through the basic disciplines such as "National Treatment", the "Most Favored Nation" and "Transparency" that the agreement has foreseen. On the other hand, the requirement for making an international arrangement for the arbitrary national policies implemented towards liberalization of the existing capital regimes which has been used as an important attraction factor in the competition especially started between the nations in order to attract more foreign capital, has become more and more acceptable. Therefore it is not possible to say that the agreement will be good for the nations which aim to attract the foreign capital in this regard, but on the other hand this wouldn't be beneficial on some sectors that will be examined later not beneficial.

It is considered to be impossible to make a credible assessment for today on what kinds of results MAI will lead as for the nations which are a party to the agreement on whole world because of the disagreements continuing among the parties on various subjects in the end of the discussion held for about two and a half years. However it is an obvious fact that the existing foreign capital regime of the nation, which is a party of the agreement and will be affected by the results of the agreement in a positive or negative way. This must be taken as a basis to form a judgement on these subject when making an assessment within the framework of the draft text of the agreement.

The Law 6224 on the Encouragement of the foreign capital being in force since 1954 and the related regulations and announcements as well as "OECD Code on Liberalization of Capital Movements" to which Turkey is a party, "OECD National Treatment Instrument"., "the Convention on Settlement of Investment Disputes between States and Nationals of the other States ", "UN Convention of 1958 on the Recognition and Implementation of the foreign arbitration resolutions" and the "The Agreement on the Mutual Encouragement of the investment " of which discussion process with 32 nations is at the various stages and which has been approved by the 29 nations and has come into force constitute the foreign capital regime.

Turkey issued the "The national reservations" in 1986 that her procedures require within the framework of the "OECD Code on Liberalization of the Capital Movements" to which she became a party in 1961 and the "National Treatment Instrument". Similarly Turkey has 30 Reservations in eight different fields on the draft text formed during the discussions on MAI. These reservations are not final because the draft text nations can freely implement more liberalization in their existing regimes. At present MAI does not include any provision envisaged the necessity of the opening a sector ,which is not open to the foreign investment ,to the foreign Investors in accordance with MAI.However,it is not possible to withdraw an arrangement made towards liberalization.

MAI does not include any limitation on the existing authority of the state regarding privatization and establishment or abolition of the monopoly.

Regarding the indemnity that MAI envisages for the damages of the foreign investors, in accordance with our legislation it is not possible to seize a company which was legally established. And also carried out activity, without paying indemnity, therefore there does not exist a more advantageous right according to MAI, except for this implementation.

Other participant nations have also any reservations regarding draft text of the agreement. For example, Canada has detailed reservations on 17 different fields, France on 13 different fields, Italy on 7 different fields and Germany 6 different fields. However it is assessed that a big part of these reservations have stemmed from the sectoral strategy and policies that the nations have adopted, as it was the case in the reservations of other participant nations. The main policy, that Turkey has pursued in the field of foreign capital especially from the second half of 1980s,has to basic factors. These can be summarized as follows:

1) Increasing the foreign capital investments about which it is thought to contribute to the economic development of the country.
2) Establishing a liberal foreign capital regime.

Within this framework, national policies and economic requirements are considered and discussions of multilateral Agreement on Investment are continued with the sensivity of cooperating with relevant authorities.

In addition to this, it shouldn't be avoided that approaches which are open to foreign capital, partly sectoral (like energy) in company unification and acquisition fields have been established through privatization efforts and build-operate transfer, build-operate models in important and expensive investments .In this respect, as it was explained above, it should be noted again that Turkey has 30 reservations in eight different fields.

Regarding the foreign capital investments in cultural fields, since there is a tendency that the subject of culture will be involved in general exceptions of the agreement, Turkey did not include this subject in its reservations but announced that it will keep its reservation right.

Concerning the solution of the international disagreements, as one of the parties of the "Convention on Settlement of Investment disputes between States and the nationals from other states "which was open to signature on the World Bank platform and had been in effect since 1969 up today. It was also signed in 1988 by Turkey, Turkey admits that disputes that may arise with foreign investors can be brought to international arbitration within the framework of rules of international center for the Settlement of International Disputes (ICSID). On the other hand, it is considered by all agreements on the mutual encouragement and protection of the investment (AMEPI) that possible dispute between foreign investments and local courts or international arbitration can settle home countries. Between 28 OECD nations and Turkey, there are eight AMEPIs, which are in effect. Therefore, it is not expected that MAI may impose any new obligation on Turkey, regarding the Settlements of disputes.

8.1.Turkey Reservations on Draft Text of the Agreement

Draft text agreement is a kind of comprehensive framework including lots of matters on which the nations can not agree. For this reason, within the framework of the article regarding the nations "reservations on the agreement " articles which will exist in the final agreement text (reservations are called as "exceptions" in the MAI terminology), OECD Secretariat demanded that agreement was to determine reservations on future parties.

Turkey has informed the Secretariat on 30 reservations, which it has determined in the draft framework text so far, in order to get them, included in "Nations Exceptions" section that will be a part of the final agreement as well.

When reservations are determined, a relevant regulation, which is based on the practice and reservation matters indicated by Turkey as international arrangements concerning the foreign capital, has been taken as basis so far.

The reservations of Turkey on MAI draft framework text can be classified under the three titles:

i) An "Introduction" section in which general reservations are explained
ii) Reservations concerning all sectors
iii) Reservations concerning certain sectors

8.1.1.An "Introduction" section in which general reservations are explained

In this section there are some explanations concerning the characteristics of reservations, matters supposed to be out of the agreements extent and Turkey's right of reservation.

In this section having the introduction title, the following are indicated:

1) The submitted reservation list is accepted as a beginning list; Although a scrutiny was given to reflect the current legal framework in accordance with the reality, Turkey has reserved rights on supplementing the reservation list;

2) The said list can be supplemented depending on revision and review of the regulation in effect, and consultations with the relative ministries and official institutions/organizations;

3) The reservations in the lists were determined with the supposition that they are general reservations regarding the cultural industries, professional standards, and MAI will not extend over any agreement concerning cross-border financial services,

4) The submitted reservation list was prepared, by assuming non of the MAI articles have an effect toward past;

5) Turkey may determine the reservation list again, by depending on the final statement of the relevant article derived from the negotiation process after the reservations being determined.

Additionally, Turkey has indicated in the negotiation process when the privatization matter was put on the agenda that it had reservations on the all obligations, regarding the matter, imposed by the agreement.

8.1.2. Reservations concerning all sectors

1) With regard to national treatment principle of MAI [28];

a) According to our national regulation, foreign investor is required to bring minimum capital of $ 50.000; act in a field, which is open to Turkish private sector and ask a fore-permission of the General Directory of Foreign Capital.

The enterprises having foreign capital are allowed establish as limited or incorporated company. Moreover, they are also allowed to establish a liaison office provided that they don't Carry out any commercial activity.

A foreign investor can not have the majority shares of a monopoly in our country [29].

b) The foreigners can not work as doctor, dentist, midwife, nurse, chemist, veterinarian, optician, head doctor, or a manager in factories producing product. Only the foreigners, who became a specialist in Turkey, can work in laboratories under the relevant law. The commercial activity states in Cabotage Law numbered 815 and other specialty fields are only open to Turkish citizens[30].

c) Only Turkish citizens can become street hawker, musician, photographer, hairdresser, typist, broker, manufacturer of clothes, hats and shoes, broker, seller of goods produced by state monopolies, translator, guide, road worker, driver, watch-maker, watchman, porter, singer, construction worker, blacksmith and carpenter[31].

d) According to the Law no.6224, the firms with foreign capital that are operating in Turkey, can acquire real estate for the purposes about their activities and they can not acquire property for any other purposes[32].

2) Concerning MAI`s incompatibility solution mechanism

a) The agreement article about incompatibility's solution between the state and investor do not contain the stage before the foundation for the firms with foreign capital. In other words, foreign investors are not allowed to rescue international arbitration for the incompatibilities that can arise this stage. "The pre-foundation stage" is the period of time between the time that any foreign investor receives an authorization from the General Directorate for Foreign

[28] According to this application, it is envisaged that foreign investors are subject to less advantageous treatment than the ones that are applied to domestic investors.
[29] Law with no 6224, Framework Decision of foreign investment and privatization Law with no 4109.
[30] Law no; 6197,6283,6343,3958,992,2219,1136,1512,815,1262,3568.
[31] Law no.2007
[32] Land register lawno.2644, village law 442,military restriction law 1110.

Capital and the time when the other procedures have been completed and the foundation or joining of the company is announced[33].

b) The agreement article about solution of the incompatibles between state and investor can not be applied to the firms with foreign capital that was established in Turkey. As the firms with foreign capital are accepted as Turkish firms who work according to Turkish Trade Law, they are subject to the laws of Turkish Republic and they don't recourse international arbitration.[34]

8.1.3.Drawbacks about specific Sectors

Turkey has informed 24 drawbacks about seven sectors within the framework of present draft provision agreement that has not been finished yet.[35]

1)Transportation Sector :

a) Civil Aviation ;

Airline management license is given to the firms whose administration is under the control of Turkish citizens and shares with voting rights are owned by mostly Turkish citizens and registered in Turkey. Airline firms, whose shares are mostly owned by foreigners, can not work in domestic lines. Foreign airlines can give ground-handling services through the firms, which they found in Turkey.

b) Marine Transportation;(National Treatment)

The registration of commercial ships under the name of the firms are allowed only if the firms are allowed only if the firms administration is under the control of Turkish citizens and most of the shares are owned by Turkish citizens.[36]

2-Trade Sector

a) Retail Trade (National Treatment)

Firms with foreign capital can not operate in retail trade (except hypermarkets)[37]

b) Real estate purchasing-selling (National Treatment)

Firms with foreign capital can not trade real estate. The municipality borders to acquire landed property limit foreigners.

[33] Foreign Investment encouragement law no.6224 and Framework Decision of foreign investment.
[34] Administration Law.
[35]One of these sectors apart from the industry and services is the public finance.
[36] Coasting Trade Law no.815 and Turkish Trade Law no.6762.
[37] General Directorate for foreign capitals application.

This limitation can be abolished by Council of Ministers for tourism centers investments.[38]

3-Agricultural Industries

a) Fishing and processing (National Treatment)

Enterprises established by foreign capital can carry out fish processing activities, however they can't get fishing license. Fisher boats can be registered to get fishing license only if Turkish citizens or firms whose majority of shares belongs to Turkish citizens process them.

4-Mining Sector:

a) Oil Prospecting ,Drilling, Distribution(national Treatment)

Foreign institutions can carry out oil marketing and selling activities without any limitations. Provided that a foreign country does not control them, they can invest in prospecting and drilling activities. These limitations can be abolished by a resolution of Council of Ministers. Oil activities can be carried out by corporations registered in Turkey or by Turkish branches of corporations domiciled abroad. Investments of refinery pipeline transporting and storage can be permitted by resolution of Council of Ministers.[39]

5 – Services Sector:

a) Radio and Television Broadcasting (National Treatment)

Foreign investors can only process maximum 20 % shares of firms carrying out activities in the sector and they can not be associated with more than one broadcasting firm.[40]

b) Harbours services (National Treatment)

Only Turkish subject real and judicial persons can utilize the privatization of harbours if it's realized with methods other than handing over of possessions.

6 – Public Finance

a) Public debts(National Treatment)

The right of making all arrangements concerning public debts and of determining the method that is to be implemented to disputes concerning these debts is excepted from the provisions of multilateral agreement on investment.[41]

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[38] Village Law no.442, tourism Encouragement law no.2634 and General directorate for foreign capital application.
[39] Oil Law no.6326
[40] Radio and Television Law no.3984
[41] All kind of present and future government measures that can be take regarding to the issue.

7 – Financial Services

a) Banking (National Treatment)

Establishment of banks by foreign investors and opening their first branches are subject to permission of Council of Minister.[42]

b) Capital Market Institutions (National Treatment)

Most of the board of Directors of the investment firms has to be consisting of from Turkish Citizens.[43]

c) Stock Market (National Treatment)

Portfolio management and consulting services can only be practiced by the intermediary institutions, which has been established in Turkey.

d) Financial Leasing (National Treatment)

Financial Leasing firms or their branches with foreign capital subjected to different obligations for the paid in capital in comparison to firms with domestic capital.

e) Financial Consulting Services (National Treatment)

In the foreign investors are the citizens of the countries, which has established the financial consulting principles with official arrangements and authorized by Prime Ministry, they are allowed to carry out financial consulting services.

f) Insurance (National Treatment)

In the assistant services with regard to insurance, foreign real and corporate bodies can only be active in consulting and risk management services.[44]

g) Banking and Financial Consulting (National Treatment-MFN)

Foreign investors carrying out banking services as branches can be subjected to the rule of reciprocity. Foreign investors are allowed to carry out financial consulting services with regard to the rule of reciprocity.[45]

[42] Banking law 3182
[43] Capital Market law 2499
[44] Insurance Control law.7397
[45] Independent accountancy, Independent Accountant Financial Consultant law3568.

h) Traffic Insurance (National Treatment)

Insurance firms whose paid in capitals are owned by Turkish citizens can only insure compulsory traffic insurance of public vehicles.

i) Financial Services other than Banking (National Treatment)

Factoring, Consumer Credit, financial leasing, investment, portfolio management, firms, intermediary institutions and rating agencies can only be established as Joint Stock Company.

j) Reassurance (National Treatment)

Insurance and reassurance brokers have to be accommodating in Turkey. In order to work as brokers, foreign corporate bodies have to establish insurance and reassurance firms and branches.[46]

k) Stock arranging and clearing services (Monopoly)

TAKASBANK A.S can only carry out stock arranging and clearing services.

l) Banking (National Treatment)

Foreign banks branch's credit limits are not determined according to banks head firms capital but regarding to the branch's capital that is in Turkey.

m) Banking (National Treatment)

New financial services and products acceptance is depended on the presence of national arranging regulations and its accordance to these regulations.[47]

Unlike the above-mentioned aspects, we must also take the political aspects into consideration. The political environment plays a big role by the decision of foreign investors.

During the 90s the foreign investor become also uncomfortable by awaiting the establishment of the new governments and their announcement of political new program. Also there was the aspect of unstability in Turkish economy due to the high inflation and unknown political circumstances. And that was and still is not a healthy environment for foreign direct investment.

We can see also by the on the table of investments in Turkey.[48]It can happen that foreign investor working one day found the another day they into an economic crisis. So the charm was

[46] Insurance control law 7397

[47] Country reserves under the GATS content.

[48] See Annex on p.62

broken from one day to another. The delay in the enactment of the necessary measures concerning the crisis further aggravated this negative impact. So the foreign Investors couldn't see the immediate future. Also no serious effort has been spend to lower the inflation and re-establish stability.

Only the dynamism and some measures in the Turkish Economy despite the unstable environment let the foreign investor attract to invest in Turkey. In this regard adapting a Multilateral Agreement on Investment will build a more secure environment for the foreign investors. Turkey has still some reservations that are explained above in terms of, on some sectors and issues.

CONCLUSION

The negative developments of the last years, Turkey is still regarded as one of the world's attractive centers, because his great potential in terms of resources, like geography, population and other positive aspects.

When we consider the FDI portion in the developing countries compared with Turkey, we can say that Turkey has to attract the foreign investors. And because of all above mentioned reasons Turkey must establish a more integrated economical framework within the transnational economy .Beyond all these developments Turkey still lacks on political and organizational institutions and issues which is examined in the thesis.

Unlike the aspects, we must also take the political aspects into consideration. The political environment plays a big role by the decision of foreign investors.

1991 was the first year that cast a shadow over the foreign investors, because of the government crisis and early election atmosphere. During 1992-1993 the foreign investor become also uncomfortable by awaiting the establishment of the new government and their announcement of political new program. Due to the high inflation and unknown political circumstances there is unstability in Turkish economy. And that is not a healthy environment for foreign direct investment.

The crisis in 1994 sent out shock waves among foreigners as well as everyone in the country. We can see also by the following graph the investments in Turkey.[49]Those who were content and working one day found the another day themselves into an economic crisis. So the charm was broken from one day to another. The delay in the enactment of the necessary measures concerning the crisis further aggravated this negative impact. The failure to place application the 5 April economic package save the fiscal and especially the section related to structural measures, and the daily withering of time gained through financial measures. The foreign investors was thinking that Turkey is not able to alter the conditions and re-establishing the economic following the crisis.

Since the crisis in 1994 the share in new foreign investment has fallen. In 1996 new foreign Investment was under the expectations .The existing foreign investors were postponing investments in expansion and renewal. The reason was the economic and political instability in Turkey. So the foreign Investors couldn't see the immediate future. Also no serious effort has been spend to lower the inflation and re-establish stability.

The political instability environment in the country has put a brake in the foreign investment. When we look to the other countries we can take China as an example, in a climate where the Republic of China is attracting an annual $40 billion in FDI, whereas Turkey could attract only a total of $3-4 billion. The fact that many developing countries, which are considered as Turkey's competitors, are currently attracting $7-8 billion annually is a further attestation of this thesis.

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49 See Annex on p.62

Turkey has to take precautionary steps against the inflation, political instability that harms the whole Turkish economy. In FDI issue Turkey has adapted generally the newly Multilateral Agreement on Investment (MAI) against all the public discussions about the economical sovereignty with some reservations. He had to fulfill the procedures that are set forth in the agreement other than this Turkey has to abolish price controls that create unfair competition and to prevent unfair competition he has to ensure the functioning of the competition Council as soon as possible. Also he had to expedite the functioning of the Customs Union Agreement in order to achieve harmony with European Union legislation in general sense. It is not enough that only the dynamism in the Turkish Economy despite the unstable environment let the foreign investor attract.

ANNEX
BASIC STATTISTICS

THE FOREIGN INVESTMENT PERMITS (MILLION $)

COUNTRIES	1980-84	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997 *	TOPLAM
FRANCE	43.08	14.92	8.31	33.11	43.71	233.42	669.06	249.18	353.75	223.15	255.29	476.05	2370.35	2.39	4,975.77
U.S.A.	268.2	21.71	24.53	61.07	129.75	137.49	127.84	460.87	197.55	248.34	158.32	231.37	179.44	55.17	2,301.65
NETHERLANDS	39.28	8.7	2.4	20.4	68.3	149.21	34.11	280.3	272.9	179.42	194.02	559.32	338.61	20.18	2,167.15
GERMANY	144.66	22.49	45.26	105.58	101.61	130.95	145.88	196.41	202.46	145.37	223.46	392.13	226.47	26.81	2,109.54
SWISS	233.34	20.01	53.29	82.52	115.49	167.22	127.74	109.08	203.51	136.11	54.29	327.75	156.84	1.75	1,788.94
U.K.	28.73	26.49	22.83	102.61	129.65	280.72	286.41	80.82	109.34	120.49	47.42	161.37	164.8	0.42	1,562.10
ITALY	22.4	0.1	4.83	6.09	40.58	74.2	65.86	180.66	119.66	419.29	164	98.57	43.24	84.64	1,324.12
JAPAN	0.05	3.45	2.63	111.53	69.18	73.78	102.71	54.59	36.6	237.06	125.92	283.84	21.14	0	1,122.48
S.ARABIEN	4.95	4.36	75.77	7.27	17.32	11.05	4.63	43.95	34.07	15.08	8.44	11.81	8.98	0	247.68
CANADA	7.52	0	5.54	0.58	9.76	6.21	2.24	51.26	22.63	58.31	37.37	41.33	1.42	0	244.17
BELGIUM	13.99	0.16	17.12	4.5	3.85	29.85	18.07	8.27	20	21.1	13.43	36.2	70.18	0.92	257.64
S.KOREA	0	0	0.2	1.65	0.48	1.01	17.25	0.94	10.29	93.3	0.53	15.94	30.99	0	172.58
BAHREIN	3.33	6	0.95	0.04	1.07	0.58	4.35	6.92	49.7	25.92	11.95	6.44	18.44	0	135.69
DENMARK	21.36	6.9	4.67	2.05	0.58	31.64	15.76	4.73	3.66	5.21	8.57	3.63	0.44	0	109.20
SINGAPUR	0	0	0	0	0.05	29.73	25.83	9.67	14.07	15.03	1.32	18.13	6.17	0	120.00
SWEDEN	0.66	0.85	1.03	6.88	3.97	12.01	15.65	13.96	14.39	6.25	8.7	11.84	22.09	0	118.28
IRAN	12.59	2.78	7.09	8.03	11.17	12.07	5.48	3.23	8.95	5.8	3.96	5.63	5.35	0.24	92.37
I.F.C.	4.46	0	0	2.13	0.7	5.86	8.57	6.09	10.47	1.7	20.98	9.76	7.3	0	78.02
PANAMA	0.89	0.67	20.36	2.06	16.1	3.73	3.02	1.74	2.55	3.58	2.11	17.53	0.13	0	74.47
AUSTRIA	2.82	0.16	0.9	1.06	4.85	8.15	6.53	8.36	8.83	5.55	3.59	32.92	11.2	0.11	95.03
B.A.E.	16.06	0	4.64	1.03	3.14	3.68	6.04	8.04	0.32	3.39	0.31	0.23	0.6	0	47.48
SYRIA	4.42	1.7	1.71	2.65	5.53	4.21	11.13	3.56	0.99	2.69	1.69	1.49	10.47	0.06	52.30
OTHER	102.82	93.04	59.94	92.4	43.68	105.17	157	184.63	123.27	91.25	131.94	195.04	142.32	2.21	1,524.71
TOTAL	975.61	234.49	364	655.24	820.52	1,511.94	1,861.16	1,967.26	1,819.96	2,063.39	1,477.61	2,938.32	######	194.90	20,721.37

Foreign Direct Investment in Turkey

YEARS	PERMITTED FDI (MILLION $)	FIRMS NUMBER	TOTAL CAPITAL OF FIRMS(MILLION TL)	ACTUAL ENTRANCE (MILLION $)
1980	97.00	78	28,390	35
1981	337.51	109	47,400	141
1982	167.00	147	100,196	103
1983	102.74	166	147,109	87
1984	271.36	235	254,775	162
1985	234.49	408	464,981	158
1986	364.00	619	707,164	170
1987	655.24	836	960,035	239
1988	820.52	1172	1,597,103	488
1989	1,511.94	1525	4,847,832	855
1990	1,861.16	1856	7,943,775	1005
1991	1,967.26	2123	13,101,036	1041
1992	1,819.96	2330	23,441,214	1242
1993	2,063.39	2554	36,737,050	1016
1994	1,477.61	2830	62,449,964	830
1995	2,938.32	3161	113,013,790	1127
1996	3,836.97	3582	235,971,182	483
1997 **	194.90	3630	259,427,965	
TOTAL	20,721.37			9182

YEAR	TURKISH POPULATION	INCREASE%	YEAR	TURKISH POPULATION	INCREASE%
1960	2.7	.---	1980	1.462.400	15.3
1962	15.3	125	1982	1.580.700	2.2
1964	85.2	214.4	1984	1.425.721	-8.9
1966	161.1	21.2	1988	1.523.678	2.9
1968	205.4	19.1	1990	1.694.649	5.1
1970	469.2	45.5	1992	1.854.945	4.2
1972	712.3	9.1	1994	1.965.577	2.5
1974	1.027.800	12.9	1995	2.014.311	2.5
1976	1.079.300	0.2			

TABLE : 3.11 - FOREIGN DEBT

	TOTAL	ORT TE	ONG TER	VICE RATIO	
		(MILLIONS OF	EDIUM A	REIGN DEBT	
			(MILLIONS OF	IONS OF US$)	
1950	373	-	-	12	
1960	992	-	-	31	
1970	1,929	-	-	27	
1980	16,227	2,505	13,722	47	
1983	18,385	2,281	16,104	38	
1984	20,659	3,180	17,479	31	
1985	25,476	4,759	20,717	31	
1986	32,101	6,349	25,752	36	
1987	40,428	7,623	32,805	32	
1988	40,722	6,417	34,305	36	
1989	41,751	5,745	36,006	32	
1990	49,035	9,500	39,535	29	
1991	50,489	9,117	41,372	29	
1992	55,592	12,660	42,932	29	
1993	67,356	18,533	48,823	26	
1994	65,601	11,310	54,291	29	
1995	73,278	15,701	57,577	24	
1996	79,767	20,536	59,231	21	
1997 (1)	82,166	20,862	61,304	19	(2)

SOURCE : UT

(1) AS OF END OF JUNE

(2) JANUARY-JUNE PERIOD

TABLE :FOREIGN DIRECT INVESTMENT

YEARS	FOREIGN DIRECT INVESTMENT PERMITS (MILLIONS OF US$)	FOREIGN DIRECT INVESTMENT REALISATIONS (NET) (MILLIONS OF US$)
1950	1	5
1960	10	24
1970	88	58
1980	97	18
1983	103	46
1984	271	113
1985	235	99
1986	364	125
1987	655	106
1988	821	354
1989	1,512	663
1990	1,861	700
1991	1,967	783
1992	1,820	779
1993	2,063	622
1994	1,478	559
1995	2,938	772
1996	3,837	612
1998	1,077(1)	245(2)

SOURCE: UT, CB
(1) JANUARY-SEPTEMBER PERIOD
(2) JANUARY-JUNE PERIOD

TABLE : 3.1 - FOREIGN TRADE VOLUME AND THE RATIOS OF FOREIGN TRADE BALANCE

	FOREIGN TRADE VOLUME (MILLIONS OF US $)	FOREIGN TRADE BALANCE / GNP %	CURRENT ACC. BALANCE / GNP %
1950	549.1	0.6	1.3
1960	788.2	1.0	1.5
1970	1,536.1	2.7	1.3
1980	10,819.5	6.6	4.9
1983	14,962.8	4.8	3.1
1984	17,890.5	4.8	2.4
1985	19,301.4	4.4	1.5
1986	18,561.5	4.0	1.9
1987	24,347.8	3.7	0.9
1988	25,997.4	2.0	-1.8
1989	27,416.8	3.9	-0.9
1990	35,261.4	6.3	1.7
1991	34,640.5	4.8	-0.2
1992	37,585.6	5.1	0.6
1993	44,773.5	7.8	3.5
1994	41,376.1	3.2	2.0
1995	57,344.9	7.7	-1.4
1996	65,855.4	10.2	-2.6
1997 (1)	72,000.0	10.0	-2.5
1998 (2)	79,000.0	9.8	-2.4

SOURCE: SPO, SIS
(1) ESTIMATION
(2) PROGRAM

TABLE : 3.4 - TOTAL IMPORTS (Excluding Gold)

	MILLIONS OF US$	INDEX NUMBER	IMP / GNP (%)	PER CAPITA IMPORT (US $)
1950	285.7	100.0	7.7	13.7
1960	467.5	163.6	4.5	17.0
1970	947.6	331.7	7.0	26.8
1980	7,909.4	2,768.4	11.3	178.0
1983	9,235.0	3,232.4	14.8	192.9
1984	10,756.9	3,765.1	17.7	219.2
1985	11,343.4	3,970.4	16.6	225.5
1986	11,104.8	3,886.9	14.5	215.9
1987	14,157.8	4,955.5	16.1	269.4
1988	14,335.4	5,017.6	15.8	266.9
1989	15,792.1	5,527.5	14.5	287.7
1990	22,302.1	7,806.1	14.6	397.6
1991	21,047.0	7,366.8	13.8	367.1
1992	22,870.9	8,005.2	14.3	390.4
1993	29,428.4	10,300.5	16.2	491.5
1994	23,270.0	8,144.9	17.8	380.3
1995	35,709.0	12,498.8	20.8	579.3
1996	42,732.8	14,957.2	23.1	681.6
1997 (1)	46,000.0	16,100.8	24.1	721.6
1998 (2)	50,000.0	17,500.9	24.5	771.8

SOURCE: SPO, SIS

(1) ESTIMATION

(2) PROGRAM

TABLE : 3.6 - IMPORT COVERAGE OF EXPORTS

	TOTAL EXPORTS (MILLIONS OF US$)	TOTAL IMPORTS (MILLIONS OF US$)	IMPORT COVERAGE OF EXPORTS (%)
1950	263.4	285.7	92.2
1960	320.7	467.5	68.6
1970	588.5	947.6	62.1
1980	2,910.1	7,909.4	36.8
1983	5,727.8	9,235.0	62.0
1984	7,133.6	10,756.9	66.3
1985	7,958.0	11,343.4	70.2
1986	7,456.7	11,104.8	67.1
1987	10,190.0	14,157.8	72.0
1988	11,662.0	14,335.4	81.4
1989	11,624.7	15,792.1	73.6
1990	12,959.3	22,302.1	58.1
1991	13,593.5	21,047.0	64.6
1992	14,714.7	22,870.9	64.3
1993	15,345.1	29,428.4	52.1
1994	18,106.1	23,270.0	77.8
1995	21,635.9	35,709.0	60.6
1996	23,122.6	42,732.8	54.1
1997 (1)	26,000.0	46,000.0	56.5
1998 (2)	29,000.0	50,000.0	58.0

SOURCE: SPO, SIS

(1) ESTIMATION

(2) PROGRAM

TABLE : 3.7 - TOURISM

	1950	1963	1970	1980	1983	1984	1985	1986	1987	1988
NUMBER OF TOURIST ARRIVALS	36,372	198,841	724,784	1,057,364	1,506,557	1,855,337	2,190,217	2,397,282	2,906,065	4,265,197
NUMBER OF CITIZENS TRAVELLING ABROAD	...	41,833	515,992	1,324,159	2,049,068	2,073,905	1,848,702	1,734,841	2,084,625	2,278,681
TOURISM REVENUES (MILLIONS OF US$)	2	8	52	326	420	548	1,094	950	1,476	2,355
TOURISM EXPENDITURES (MILLIONS OF US$)	8	21	48	104	128	277	324	313	448	358

	1989	1990	1991	1992	1993	1994	1995	1996	1997 (1)	1998 (2)
NUMBER OF TOURIST ARRIVALS	4,516,077	5,397,748	5,552,963	7,104,065	6,525,202	6,695,705	7,747,389	8,531,473	9,700,000	11,000,000
NUMBER OF CITIZENS TRAVELLING ABROAD	2,590,844	2,937,546	2,856,386	2,995,378	3,312,758	3,523,541	4,045,143	4,306,530	4,700,000	5,000,000
TOURISM REVENUES (MILLIONS OF US$)	2,557	3,225	2,654	3,639	3,959	4,321	4,955	5,650	7,500	8,500
TOURISM EXPENDITURES (MILLIONS OF US$)	565	520	592	776	934	866	911	1,265	2,000	2,250

SOURCES : (1) SIS - TOURISM STATISTICS
(2) MINISTRY OF FINANCE
(3) SPO - SPECIAL TOURISM COMMITTEE REPORTS
(4) SPO - FIVE YEAR AND ANNUAL PROGRAMS
(5) POLICE DEPARTMENT
(6) CENTRAL BANK

... NO INFORMATION IS AVAILABLE
(1) ESTIMATION
(2) PROGRAM (ACCORDING TO CENTRAL BANK DATA)

	1950	1960	1970	1980	1985	1990	1991	1992
Total Population (1)	20,947,188	27,754,820	35,605,156	44,736,957	50,664,458	56,473,035	57,853,000	58,946,000
Urban Population (2)	3,035,961	6,215,111	11,550,644	18,824,957	23,926,262	30,515,681	31,842,769	33,098,115
Rural Population	17,911,227	21,539,709	24,054,512	25,912,000	26,738,196	25,957,354	26,010,231	25,847,885

	1993	1994	1995	1996	1997
Total Population (1)	60,034,000	61,110,000	62,171,000	63,221,000	64,266,000
Urban Population (2)	34,600,958	36,241,074	37,853,969	39,593,641	41,493,687
Rural Population	25,433,042	24,868,926	24,317,031	23,627,359	22,772,313

	1950-1955	1955-1960	1960-1965	1965-1970	1970-1975	1975-1980	1980-1985	1985-1990
Life Expectancy at Birth (Years)	44	43	52	55	58	61	63	66
Infant Mortality per 1000 Live Births	235	206	185	158	140	111	83	65

(1) Estimate for Year-End population from 1991 onward

(2) Urban refers to areas with population of 20.000 or more

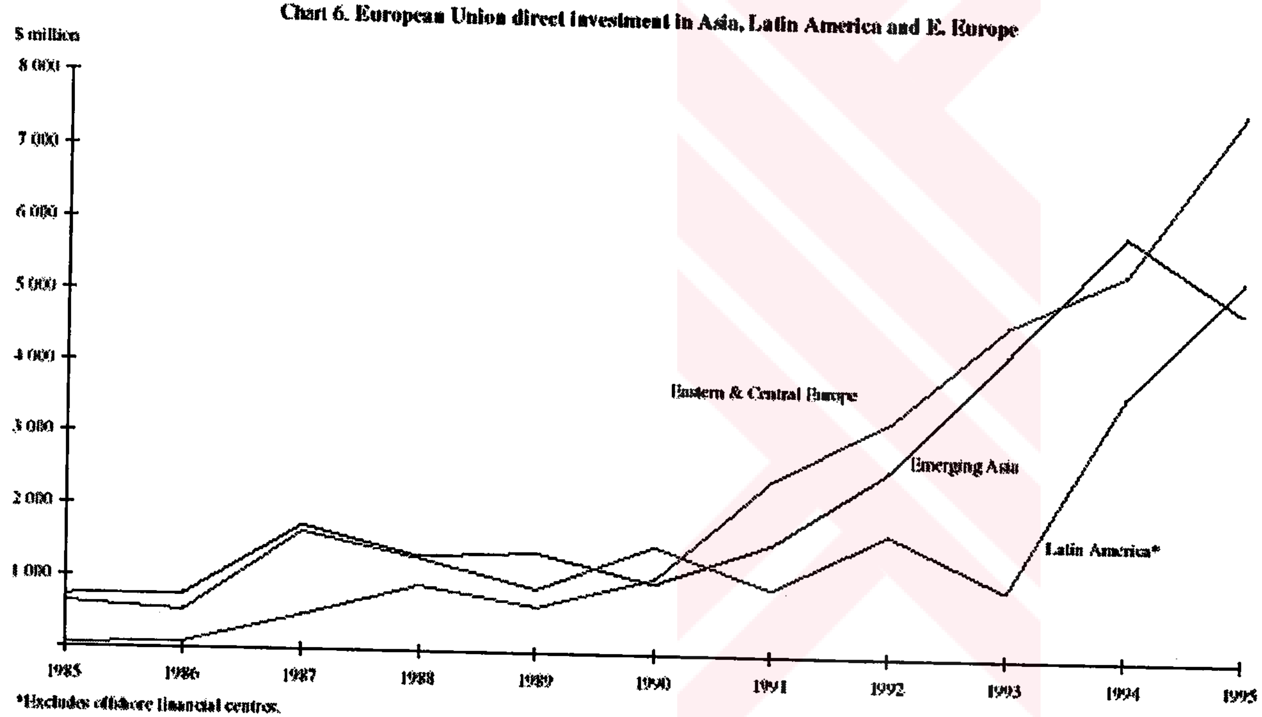
(Thousands of US Dolar)

	1985-89	1990	1991	1992	1993	1994	1995	1996	1985-1996
GROSS PRIVATIZATION REVENUES	183,102	486,012	223,161	422,882	547,362	565,200	762,922	263,916	3,454,557
Block Sales	17,013		30,302	317,665	365,922	178,253	264,816	168,129	1,342,099
Block Sales and Public Offering	119,450		13,070	92,600				0	225,120
Public Offering	13,090	320,580	72,773		23,929	2,733		0	433,106
Sale in ISE	9,882	165,071	106,933	12,617	141,367	66,550	19,698	1,989	524,105
International Offering						316,305		0	316,305
Asset Sale	23,667	361	83		16,143	1,360	155,742	51,832	249,187
Pledged Block Sale							28,950	31,469	60,419
Interest Income							3,270	4,304	7,573
Decrease in Receivables from SEEs							9,671	2,389	12,060
Other Revenues							1,565	30	1,595
Borroving							279,212	3,776	282,988
REPURCHASE FROM ISE	-1,467	-113,584		-678		-18,515		0	-134,243
NET PRIVATIZATION INCOME	181,635	372,429	223,161	422,204	547,362	546,686	762,922	263,916	3,320,314
PRIVATIZATION EXPENSES	-46,881	-12,949	-26,958	-222,066	-50,259	-46,648	-170,240	-108,206	-684,206
Payment to brokers	-34,580		-19,758	-217,329	-45,731	-39,742	-9,521	-8,478	-375,140
Auditing & Consulting Expenses	-9,719	-6,486	-2,127	-850	-393	-3,731	-10,813	-3,359	-37,478
Advertisement Expenses	-2,582	-6,462	-5,073	-3,888	-4,134	-2,607	-5,748	-2,991	-33,485
Social Aid Payments						-555	-11,776	-17,838	-30,170
Decrease in Liabilities							-28,983	-6,868	-35,851
Wages and Salaries after Privatization							-11,886	-717	-12,603
30 Percent Early Retirement Payments							-3,268	-4,715	-7,983
Other Expenses						-13	-6,005	-9,979	-15,997
Insrease in Receivables							-82,239	-53,261	-135,500
DIFFERENCE BETWEEN INCOMES AND EX	134,753	359,480	196,203	200,138	497,103	500,037	592,683	155,710	2,636,108
Dividend Income	110,448	114,659	181,253	147,928	109,750	88,897	72,084	306,228	1,131,247
Participation in Capital Increases	-175,566	-469,635	-346,458	-194,915	-429,708	-211,553	-141,685	-180,027	-2,149,547
Transfer to Treasury	-97,177			-117,279	-127,133	-62,528	-402,856	-354,669	-1,161,643
Transfer to Privatization Administration Budget							-2,727	-3,400	-6,127
BALANCE OF PRIVATIZATION ACCOUNT	-27,543	4,505	30,998	35,872	50,011	314,854	117,499	-76,158	450,037
Danis-Denet/ Gelirler	5.31	1.33	0.95	0.20	0.07	0.66	1.42	1.27	1.08
Danis-Denet/ Giderler	20.7	50.1	7.9	0.4	0.8	8.0	6.4	3.1	5.5

LIST OF COUNTRIES WITH WHICH THE REPUBLIC OF TURKEY HAS EITHER STARTED NEGOTIATIONS OR CONCLUDED THE AVOIDANCE OF DOUBLE TAXATION

COUNTRY	BEGINNING DATE OF NEGOTIATIONS	THE DATE OF SIGNATURE	THE DATE OF RATIFICATION	THE DATE OF ENTRY INTO FORCE
ALBANIA	. -----	04.04.1994	. -----	. -----
ALGERIA	. -----	02.08.1994	. -----	. -----
AUSTRIA	. -----	03.11.1970	24.09.1973	01.01.1974
AZERBAIJAN	. -----	09.02.1994		
BELGIUM	. -----	02.06.1987	08.10.1991	01.01.1992
BULGARIA	. -----	07.07.1994	. -----	. -----
CANADA	26.01.1990	. -----	. -----	. -----
CHINA	. -----	23.05.1995	. -----	. -----
DENMARK	. -----	30.05.1991	20.06.1993	01.01.1994
EGYPT	. -----	25.12.1993	. -----	
FINLAND	. -----	09.05.1986	30.12.1988	01.01.1989
FRANCE	. -----	18.02.1987	01.07.1989	01.01.1990
GERMANY	. -----	16.04.1985	31.12.1989	01.01.1990
HUNGARY	. -----	10.03.1993	. -----	
INDIA	. -----	31.01.1995	. -----	
INDONESIA	28.07.1995	. -----	. -----	
IRAN	21.07.1994	. -----	. -----	
ITALY	. -----	27.07.1990	01.12.1993	01.01.1994
JAPAN	. -----	08.03.1993	28.12.1994	01.01.1995
JORDAN	. -----	06.06.1985	03.12.1986	01.01.1987
KAZAKHISTAN	. -----	15.08.1995	. -----	. -----
KUWAIT	02.02.1989	. -----	. -----	. -----
MACEDONIA	. -----	16.06.1995	. -----	. -----
MALAYSIA	. -----	27.09.1994	. -----	. -----
MONGOLIO	. -----	12.09.1995	. -----	. -----
THE NETHERLANDS	. -----	27.03.1986	30.09.1988	01.01.1989
NORWAY	. -----	16.12.1971	30.01.1976	01.01.1997
PAKISTAN	. -----	14.11.1985	08.08.1988	01.01.1989
POLAND	. -----	3.11.1993	. -----	. -----
SOUTHERN AFRICA	09.06.1994	. -----	. -----	. -----
REPUBLIC OF KOREA	. -----	24.12.1983	25.03.1986	01.01.1987
ROMANIA	. -----	01.07.1986	15.09.1988	01.01.1989
RUSSIAN FEDERATION	. -----	09.09.1993		
SAUDI ARABIA	. -----	11.01.1989	09.08.1990	01.01.1987
SWEDEN	. -----	21.01.1988	18.11.1990	01.01.1991
TUNISIA	. -----	02.10.1986	28.12.1987	01.01.1988
TR.REP.OF NORTHERN	. -----	22.12.1987	30.12.1988	01.01.1989
TURKMENISTAN	. -----	17.08.1995	. -----	. -----
UKRAINE	27.01.1995	. -----	. -----	. -----
UNITED ARAB EMIRAT	. -----	29.01.1993	26.12.1994	01.01.1995
UNITED KINGDOM	. -----	19.02.1986	25.10.1988	01.01.1989
UNITED STATES	07.11.1986	. -----	. -----	. -----
UZBEKISTAN	. -----	05.04.1993	. -----	. -----

Chart 6. European Union direct investment in Asia, Latin America and E. Europe



*Excludes offshore financial centres.

Source: OECD *International Direct Investment Statistics Yearbook*

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