AN ANALYSIS OF THE INVESTMENT INCENTIVE POLICY AFTER 1980 IN TURKEY

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SÜLEYMAN ULUTÜRK

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I certify that this thesis is satisfactory for the award of the degree of Master of Science.

Prof.Dr. Hasan Olgun

Supervisor

Assoc.Prof.Dr. Oktar Türel

Member of Examining Committee

Assis.Prof.Dr. Erdal Yavuz

Member of Examining Committee

Certified that this Thesis confirms to the formal standards of the Institute of Social Sciences.

Assoc.Prof.Dr. Sabri Koç

Director of the Institute

ABSTRACT

The main objectives of this study is to examine the investment incentive measures and find possible answers to the questions about them in Turkish economy. It will thus examine the nature of these measures and try to assess whether there are any imbalances created in the economy due to mismanagement and erroneous decision-making and consequently whether there are any unexpected results. Chapter One tries to outline the theoretical framework of incentives. Chapter Two examines the investment incentive policy in Turkey. Chapter Three concentrates on the investment incentive measures applied in the planned period. The measures and the ways of implementing them will also be explained in this chapter. In Chapter Four the political economy of investment incentives are examined. In addition, in Chapter Five an analysis of investment incentive measures will be made covering the period 1980-1989. It will also show in this chapter that the investment incentive policy has been unable to realize the targets of development plans in Turkey.

ÖZET

Türkiye'de yatırımların teşvik edilmesi, ekonomik hedeflere ulaşmada önemli birer araç olarak kabul edilmiştir. Bu çalışmanın amacı, yatırım teşviklerinin incelenmesi ve bunlar hakkında uygulamadan doğan soruların yanıtlarını araştırmak ve sonuçlarını değerlendirmektir. Bu amaçla Bölüm-1'de yatırım taşviklerinin teorik temelleri, Bölüm-2'de Türkiye'de yatırımların teşvik edilmesi politikası, Bölüm-3'de uygulanan teşvik araçları, Bölüm-4'de yatırımların teşvik edilmesinin yasal ve uygulamaya yönelik biçimi ortaya konulmuş ve Bölüm-5'de de 1980-1989 dönemi için teşvik uygulaması incelenmiştir. Bu bölümde yapılan inceleme sonunda, Türkiye'de yatırımların teşvik edilmesi uygulamasının kalkınma planlarının hedeflerine ulaşmada yeterince etkili olamadığı görülmüştür.

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INTRODUCTION

Investment incentives can be used to direct the scarce resources towards the main targets in order to stimulate the economic development in an economy. For this purpose these incentives are defined to include governmental measures that affect the allocation of resources among economic activities, industries and regions by encouraging or discouraging the economic agents. They may also simply direct them. These measures have to be treated as a rule that the public sector has to obey whereas, the private sector may or may not obey in mixed economy or in developing countries those have planned economy.

There had been some kind of investment incentive measures before the planned period. But the systematic use of investment incentives in Turkey started with the inception of the planned period in 1963. The investment incentives have been used as important policy tools in order to achieve the targets of the development plans in each plan period. These measures were imperative for the public sector and indicative for the private sector. They have been used as tools for encouraging the private sector to invest in some special regions, sectors or industries.

In each five-year development plan, the incentive measures have been specifically determined. The procedures for application, the criteria for who can benefit from these measures and the institutions that are assigned the implementation and control of these measures are specified in decrees and communiqués which are announced annually.

The main incentives in Turkish economy are as follows; 1) the measures that encourage the foreign exchange earning activities and exports, 2) the measures that encourage investments and investing in the regions having priority in development and 3) the measures that encourage tourism investments. We will examine the development of investment incentive measures classified under (2) above and provide an analysis of these measures within the scope of this study for after 1980.

The main objective of this study is to examine the investment incentive measures and find possible answers to the questions about them in Turkish economy. We will thus examine the nature of these measures and try to assess whether there are any imbalances created in the economy due to mismanagement and erroneous decision-making and consequently whether there are any unexpected results.

Hence, in Chapter One we will try to outline the theoretical framework of incentives. In Chapter Two the investment incentive policy in Turkey will be examined. The study in this chapter will be divided into two main parts as the investment incentive policy before the planned period and the investment incentive policy in planned period. Chapter Three will concentrate on the investment incentive measures applied in the planned period. The measures and the ways of implementing them will also be explained in this chapter. In Chapter Four the political economy of investment incentive policy will be examined. In addition, in Chapter Five an analysis of investment incentive measures will be made covering the period 1980-1989. We will also show in this chapter that the investment incentive policy has been unable to realize the targets of development plans in Turkey: The development gap between regions could not be reduced, the investments realized could not be increased, and the industrialization targets of plans could not be attained.

Due to the difficulties in collecting data about the realized encouraged investments we have been unable to find the opportunity to study the data about actual figures on encouraged investments and the specific investment incentive measures. The analysis in Chapter Four has been made employing the data prepared by the State Planning Organization. These data contain the figures about the investments that were proposed by the investors while they received the encouragement certificate.

I-THEORIES OF THE INVESTMENT INCENTIVES

Investment incentives may be considered as an intervention of the government to the market mechanism. Thus, this type of interventions distort the mechanism. In this chapter of the study the theorical framework of interventions will be examined. In the first part of the chapter factor market distortions and product market distortions will be described. And, in the second part of the chapter investment incentives will be accepted as a policy tools. These tools will be examined under two main topics; first is financial incentives, second is economic incentives.

A-POLICY IMPOSED DISTORTIONS IN MARKETS

Classical economists thought that economic activities respond to price incentives. The choice between work and leisure was seen to be affected by the relative prices of goods and labor; the choice between present and future consumption by the rate of interest; and the choice among goods by their relative prices. The interactions of these choices were thought to determine the allocation of resources among industries and regions and the pace of economic growth, with full employment being maintained over time.

There were few dissenting voices. The existence of a reserved army of labor keeps the wages at the subsistence level. The periodic over production, because of the lack of effective demand has caused the crises in capitalistic economics. While Marshall recognized the existence of market failures in the form of external economies and diseconomies, these were considered rather unimportant exemptions [Balassa, 1986, 3].

On the other hand, general equilibrium theorists customarily assume that factor and goods markets are characterized by perfect competition.[Johnson] These theorists gave an increasing emphasis to market failures that would not permit the attainment of Paretian competitive equilibrium, thus legitimizing public interventions in market processes.

In developed countries, Keynessian policies held sway, with the little attention given to their possible adverse consequences for the longer term. In several Western European Countries, some form of planning was introduced. Also, social legislation proliferated, neglecting its effects on economic incentives.

Mathematical economists established the conditions under which the centralization of economic decisions was superior to decentralization. In these models, explicit or implicit use of prices was made. Economic agents were assumed to respond to orders from above rather than to economic incentives. Policy makers followed economists in de-emphasizing prices and incentives, with government directives and interventions distorting the price mechanism in developed and in developing countries. [Balassa, 1986, 4]

Recently, however the importance of prices and incentives has re-emerged. In the developed countries, the efficacy of Keynessian remedies has come to be questioned and planning has fallen into disuse. The adverse economic consequences of social legislations have been given attention.[Balassa,1986,5]

In the following section we would like to examine the policy imposed distortions under two main types and show their results. First is the distortions in factor markets and the second is the distortions in product markets.

1-FACTOR MARKETS DISTORTIONS

Recently, an interest has developed in the economic effects of distortions in factor markets. Such distortions may be the result of taxation, specifically the income tax, affecting the disposable income and the corporation income tax which raises the cost of capital in the corporate sector above its cost in the non-corporate sector; of the existence of a differential between wages in the industrial and the subsistence sector and regions of the underdeveloped and developing countries; of some requirements of social legislation or of a variety of factors [Johnson,686].

a-Labor Market Distortions

Distortions in labor market due to governmental actions may take a variety of forms. Some of these distortions affect the supply of labor, others the demand for labor. Among governmental interventions affecting the supply of labor, unemployment compensation, and regulations aimed at ensuring job security can be maintained. These tend to increase the rate of unemployment while the provision of certain social benefits and the taxation of labor incomes lower labor participation rates. The demand for labor is affected by minimum wage legislation and by social security schemes. These regulations also influence the efficiency of resource allocation and economic growth [Balassa,1986,7].

The governmental interventions to labor market causing the distortions may be for the aim of reducing the unemployment rate; for the aim of increasing the labor supply and demand or for the aim of providing the social security schemes.

The interventions to labor market for the aim of reducing the unemployment rate may take several forms. In Western Europe, attempts have been made to lower unemployment through the reductions in working hours in a week. Such measures have the desired effect in the short-run, provided that there are no compensating wage increases. For similar purposes, early retirement schemes are implemented in these countries.

If the cost of the early retirement scheme is paid partly by the government, there emerges the question of financing this. In any case, early retirement scheme and reductions in working hours reduce labor force participation rates and the rate of return on human capital. They may also lead to loss of skilled workers.

Making the process of dismissing workers difficult and time-consuming is another way of lowering the unemployment rate. In this case when labor can be discharged for economic reasons, those with seniority have to be retained and often high payments have to be made to those who have become redundant [Balassa,1986,9].

While these regulations aim at limiting unemployment, their impact appear to have been the opposite, as firms are reluctant to hire labor that has become a quasi-fixed cost. Also, the mobility of labor turn to the government for compensation, thereby perpetuating the life of inefficient establishment.

Finally, since there is less incentive on the part of workers to improve productivity, absenteeism tends to rise [Balassa, 1986, 9].

The second aim of the interventions in labor market is to affect the labor supply and demand. In this case, the effects of income taxation on the supply of labor and the effects of minimum wage legislation on the demand for labor are taken into consideration.

It is customary to distinguish between substitution and income effects of income taxation of workers' income. The substitution effect reduces the supply of labor and the income effect increases its supply .There are also income effects associated with the provision of goods and services financed by taxation that may offset the positive income effects of higher taxes. And, regardless of income effects, the taxation of labor involves a welfare loss that rises with progressivity of the tax system.

In developing countries, as in developed countries, the minimum wage legislation may be implemented. The aim of this implementation is to improve the conditions of low income groups. In practice, however, it is beneficial for the workers in the formal sector without affecting wages in the informal urban sector and in rural areas [Balassa, 1985b].

This minimum wage legislation reduces the demand for labor determined since the employers may not want to pay to the workers even the minimum wage. Sometimes it may be that the equilibrium level of wages occur below the minimum wage level because of the reserve army of labor.

By lowering the marginal productivity of capital, the substitution of capital for labor in response to the setting of minimum wages will also reduce the rate of economic growth and, in extreme cases, it may lead to an absolute decline in national income [Drabicki, Takiyama, 1982, 232]. As the results have been obtained by assuming labor to be homogeneous, they can be interpreted as indicating the economic effects of exogenous increases in labor costs. This in turn, leads to the question of social security regulations [Balassa, 1986, 11].

The last aim of intervention to labor market is to provide the social security schemes.There is further evidence that social charges raise the cost of labor to the firm in the developing countries.

It appears that, social security schemes create distortions in labor markets by raising the cost of labor of the firm. It is not likely that the wage earners consider the benefits financed by these social security as having considerable share in their incomes. At the same time, taxes and social changes establish a wedge between the cost of labor to the firm and after-tax labor incomes [Balassa, 1985b, 12].

Unemployment compensation is another type of distortion of labor market. This is provided in developed but generally not in socialist or in developing countries. Hence, in the European countries the rate of compensation and its duration was increased to a considerable extent after 1973. In some European countries the unemployed may be paid up to 75 percent of after-tax income. The high rate and the period of unemployment compensation have raised the level of unemployment and lengthened its duration [Balassa,1986,9].

Consequently, distortion in labor markets reduces the efficiency of resource allocation and depresses the rate of economic growth [Balassa, 1986, 13].

b-Capital Market Distortions

Policy imposed distortions in capital markets may originate from credit policy, tax policy, and protection policy. Under the application of these policies, interest rates may be kept below equilibrium levels or differential interest rates may be charged to different borrowers and credit may be rationed among users. The system of taxation applied may affect the after-tax rate of return on capital. Finally, policies of protection will bear on the cost of capital goods [Balassa,1986,13].

Negative or below equilibrium real interest rates encourage capital-intensive investments.They also provide incentives for self-investment, including inventory building at rates lower than those obtainable in the rest of the economy. Credit preferences and credit rationing create distortions in the capital market, thereby reducing the efficiency of investment [Balassa, 1986, 14].

It should be noted, however, that excessively high real interest rates, resulting from the application of strongly restrictive monetary policies, will also have adverse effects by discouraging socially profitable investments and creating disturbances in capital markets.

The interest rate has an effect on private savings. The repression of interest rates produces lower rates of saving [IMF Staff Paper, 1983, 19]. It has further been observed that low interest rates contribute to the outflow of capital in search of higher returns abroad.

The distortions in the factor markets, in both labor market and the capital market have an effect on the transformation curve and hence on the efficiency of resource allocation.

The distortion may be positive to raise the price of a factor in the industry which uses that factor intensively relative to its price compared with other industries or it may be negative and as a result it may lower the price of a factor in the industry where it is used intensively relative to its price in the other industry.

In both cases the distortion in factor markets pulls the transformation curve towards the origin. It becomes convex to the origin [Johnson, 687]. As a result of this, the optimal resource allocation is disturbed by the intervention and the growth of an economy is affected negatively.

2-PRODUCT MARKET DISTORTIONS

Distortions in product market may cause two types of governmental interventions to the markets. First is the price control and the second is the limitation of competition. In the cases of non-traded goods, governments may set the price of the particular service and/or restrict entry by new firms. In the case of traded goods, protection as an important device that limits competition leads to an increase in costs to the user and to the national economy as a whole. [Balassa,1986,5]

Market price distortions due to monopoly, monopsony, monopolistic competition, oligopoly and the like are usually insignificant as compared to these policy implemented factor market distortions [Balassa, 1986, 13]. Whereas the former often seems to create a wedge between price and marginal cost of factors.

B-INVESTMENT INCENTIVE MEASURES AS POLICY TOOLS

In developed and developing countries some kinds of investment incentive measures are used in order to encourage the investors to invest more. There are some types of investment incentives applied during the project phase, constructing phase and operating phase of an investment.

The investment incentive measures that are used in the project phase of an investment, have an effect on determining the place and the subject of an investment. The government may want to direct the investors to invest in some regions of a country or in some special sectors suiting the development goal of a country. If this is the case, the investment incentive measures are provided to the investment in those regions and in those sectors. For example, in Turkey, the investment incentive measures are implemented heavily in some special sectors and in the regions having priority in development.

These investment incentive measures encourage investment. To increase the investment expenditure, government may take some measures in order to decrease the cost of the investment. For this purpose some exemption or exception from various taxes or their installment or reduction from the rates of some taxes may be granted. The procedures for importing investment goods may be simplified and exemption from customs taxes, duties and fees may be introduced. Or some cheap credit possibilities and premium implementations may be applied.

The investment incentive measures that are implemented during the operating phase of an investment serve to increase the profitability of an investment. Various tax exemptions, (income tax or corporation income tax) accelerated depreciation, subsidization and premium implementations are used during this phase.

The measures may have financial characteristics (such as tax incentives) or economic characteristics (such as premium, subsidization or interest and credit policies).

In this study, these measures will be examined under two main categories as financial incentives, and economic incentives.

These two types of investment incentive measures have distortion effects on a market economy since they have intervention characteristics imposed on the market system by the government or by other economical agencies. Nevertheless, they are used as a policy tool in order to develop the economy.

1-FINANCIAL INCENTIVES

Financial incentives are described differently by different writers. Some of them accept the financial incentives as partial or complete exemption from a variety of taxes and they consider these measures as special allowances for reinvestment or rapid depreciation. Financial incentives may be conveniently classified into two categories: as exemption from a variety of taxes, and as special allowances, ordinarily in the form of income or profits tax, that reduce investment costs through reinvestment or depreciation benefits.

In considering the general characteristics of tax incentives, it should be borne in mind that the combinations of incentives offered; the forms of business organizations that may qualify as recipients of the tax relief; the types, extent and duration of the benefits to investors vary substantially from one country to the next, as do the basic tax systems themselves [Heller and Kauffman, 1963, 24].

There are other writers who accept tax incentives as "tax expenses". These writers claim that partial or complete exemption or exception from a variety of taxes and special allowance for some kinds of investment are also a kind of tax expenses in view of the government that collect taxes in order to have an income [Surrey, 1971, 10].

The common idea of these two descriptions about financial incentives is to allow some deduction from taxable income or exemption from some types of taxes.

In developed and developing countries, financial incentives may be listed out as follows; tax exemption or exception, accelerated depreciation, tax credit, investment deduction, investment reserve and reduction from tax rates.

In the following part of the study the economic impact of these financial incentives, will be examined.

a-Exemption From Income Tax and Corporation Income Tax

The profitability of an investment must be taken into consideration before making any investment. Profitability of an investment naturally has an important effect on the decision of an investor. The exemption or exception from business income tax and corporation income tax and reduction of their rates will increase the profitability of an investment and such exemption can work significantly in the direction of promoting the amounts and kinds of investment that is desired by prospective investors [Heller and Kauffman, 1963, 96].

The impact of an exemption or reduction of a tax rate on the revenue of an investment can be determined by using the present value calculation. But the percentage increase in present value requires explicit statement of a number of parameters. This includes: (1) the tax rate in the absence of exemption; (2) the rate at which future income is discounted; (3) the length of the exemption period; (4) the investment horizon or period over which anticipated returns are taken into consideration in estimating the present value of the future income stream; (5) the tax rate during the exemption period.

The percentage increase in the present value of the exemption may be calculated with this formula;

$$V = t(1-t)^{-1}(1-e^{-rn}) \quad (1)$$

where; (V) is the percentage increase in the present value of the future income stream, (t) is the tax rate in the absence of exemption, (r) is the rate at which future income is discounted and, (n) is the length of the exemption period. Full exemption from income tax and infinite investment horizon comprise the criteria for the realization of this formula. It can be seen that the increase in the present value of the future income stream depends entirely on the tax rate (t) [Heller and Kauffman, 1963, 98].

An income tax exemption may be granted in different forms and have, therefore, different effects. The exemption may be in the form of a blanket exclusion, that is, exempt income will not be taken into account at all for purposes of determining the taxable income. Or the exemption income, though not itself taxed, is taken into account for purposes of computing the tax rate applicable to the income that is taxed. Under a progressive rate structure, exemption in the form of a blanked exclusion from the taxable income has a broader effect than when the exempt income is taken into account in determining the applicable rate.

The exemption may be related to income from specific investment or it may be related to the amount reinvested without any reference to a source of income. Or it is given only in so far as the profits are not distributed but brought to share capital to be used for expansion. Further, in order to increase productivity or sales, the exemption may be based on a percentage of the increased sales instead of the profits.

Tax exemption may be total or partial. In some cases, even if total exemption of the profits is granted, a ceiling will be imposed on the amount of profits which an enterprise may earn. If the enterprise earns more than the ceiling, the entire profit will be taxed. A ceiling may also be imposed on the amount of income to be exempted, tying it to a percentage of the capital employed in an exempt enterprise [Dominic, 1980, p.260].

The firms can increase their internal fund to finance new investments or the enterprise may invest even when the investment seems to be unprofitable or risky under the availability of exemption.

b-Accelerated Depreciation

Depreciation, in general, is the reduction of the value of the assets that have an economic usage for more than a year, from the revenue of the firm.The value of an asset used in production decreases each year because of a depreciation. This decrease is accepted as a cost of a production and allowed to be deducted from the revenue of the firm. The total value of the assets may be deducted from the revenue of the firm with an equal amount each year. At the end of the economic usage total value will have been deducted. Total value can also be deducted before its economic usage is due. If the latter type of depreciation is implemented it is named as an accelerated depreciation.

Accelerated depreciation is thought to stimulate the investment expenditures in two ways. First, by increasing after-tax returns in the early years of an assets life and by reducing those in the later years thereby increasing the after-tax rate of return on the assets. This may be referred to a "rate-of-return-effect". The second stimulative effect of this is felt through an increase in cash flow, or a "liquidity-effect" [Coen, 1967, 132].

To illustrate the "rate-of-return-effect" we can use the equations [Coen, 1967];

(2) $$q = \sum (R_s - TC_s)(1+r')^{-s} .$$

Where; (TC) refers to direct taxes in period (s), (q) is a particular asset which can currently be purchased, (R_s) denotes the asset that is expected to yield a stream of returns before taxes and depreciation (s=1,......n.), and finally, (r') is the rate of return after taxes. If a depreciation deduction (D_s)

is permitted in calculating taxable returns during period (s) with tax rate (t), so that (TC_s) will be equal to $TC_s=t(R_s-D_s)$, then;

(3) $q = (1-t) \sum R_s(1+r')^{-s} + t \sum D_s(1+r')^{-s}$.

Accelerated depreciation changes the timing of the deduction in favor of the earlier years and consequently increases the after-tax rate of return. The investor is assumed to compare this return with the return on an alternative use of his funds, for example, the after-tax-return on long-term bonds (r). By raising the former relative to the later, accelerated depreciation aims to make more attractive the investment in depreciated assets (Coen, ,133). The investor would invest in the asset if

(4) $\sum (R_s-TC_s)(1+r)^{-s} > q$.

or if;

(5) $\sum R_s(1+r)^{-s} > (1-t)^{-1}[q-t\sum D_s(1+r)^{-s}]$.

The second way in which accelerated depreciation might stimulate investment is by increasing each firm's cash flow, which is one measure of the amount of internal funds available for financing investment. This is called the liquidity effect.

The investment cash flow can be written as;

(6) $F_s = (1-t)(R_s-D_s)+D_s$.

Where; (F_s) is the investment cash flow in period (s),(t) is the tax rate on business income, (R_s) is gross business income during period (s), and (D_s) is depreciation changes for tax purposes [Coen, ,135].

If the firm is permitted to accelerate depreciation beginning in period (@). Let D^B_s be a measure of depreciation for period (s), (s=@,@+1,...). Cash flow in the absence of the acceleration of depreciation, (F^B_s), will then be;

(7) $F^B_s = (1-t)(R_s-D^B_s)+D^B_s$, $s=@,@+1....$

and the increase in cash flow resulting from accelerated depreciation is ;

(8) $F_s-F^B_s = t(D_s-D^B_s)$,

which is the tax saving in period (s) resulting from accelerated depreciation [Coen, ,135].

For a firm that invests the same amount each period, accelerated depreciation will exceed "normal" depreciation for a number of periods and then will fall to the level of normal depreciation and remain there. For a firm whose capital expenditures are growing each period, accelerated depreciation will always exceed normal depreciation. Thus accelerated depreciation may be considered as a stream of interest-free loans in the amounts $t(D_s-D^B_s)$,$s=@,@+1....$, which will never be repaid in whole or in part unless the firm reduces absolutely its gross capital expenditures [Coen, ,135].

c-Tax Credit

An investment tax credit is a deduction from tax payable of an amount equivalent to a percentage of the investment expenditure or of a percentage of profits attributable to certain economic activities [Dominic, 1980, 272]. The purposes for which an investment tax credit is provided include dispersal of industries to backward regions in the country concerned, exports, mining, industrial undertakings, replacement of machinery, investment in shares, and the like. The tax credit decreases the cost of the investment expenditure equal to the tax saving and reduces the risk in the investment and increases not only the net of tax return, but also the liquidity position of the company and reduces the risk in the investment.

A tax credit can be granted in the year in which an asset is purchased, or it can be spread over several subsequent years. It would not affect business accounts and not distort business decisions. Tax credit can also be varied from time to time as required by economic conditions without adversely affecting business accounting policies. It can only be applied to expenditures on capital without taking into account the amount of normal depreciation. This means that a firm must spend more than that amount necessary to maintain the book value of its assets in order to get a tax credit. Therefore, only growing firms would benefit and it would pay (tax-wise) to grow [Keiser, 1964, 265].

Static and declining firms would receive only normal depreciation on their replacement purchases, growing firms would receive normal depreciation on all purchases plus a tax credit for purchases in excess of normal depreciation [Brown, 1955, 81].

The incentive effect of a tax credit is measured by the equation as follows;
When the income is taxed, the after tax yield, (r_b), is given by the equation,

$$(9) \qquad C = \sum (1-t)g_s(1+r_b)^{-s} + \sum td_s(1+r_b)^{-s} .$$

Where, (C) is the cost of the asset, assumed to be paid immediately, (d_s) is the amount of depreciation allowed in period (s), (g_s) is its income (net of any maintenance costs but with no allowance for depreciation) received at the end of period (s), (t) is the rate of tax on net income, (n) is the number of periods in the life of the asset. The amounts in the numerators on the right-hand side of equation show the after tax receipts of the firm [Chase, 1962, 48].

A tax credit of (k),($0<k<1$), which is applied to all kinds of investment reduces the net cost of capital goods, provided that the firm has current tax liabilities sufficient to absorb the credit, and (r_b). In this case tax credit also rises and the equation becomes,

$$(10) \quad (1-k)C = \sum^{i} (1-t)g_s(1+r_b)^{-s} + \sum td_s(1+r_b)^{-s}.$$

When the tax credit is applied to net investment only, it reduces the net cost of additional capital goods for any firm already investing an amount at least equal to its current depreciation accruals, provided the firm has current accruals of tax liabilities sufficient to absorb the credit. For this firm, when the credit is confined to investment in excess of current depreciation accruals, (r_b) the after tax yield on eligible outlays is such that [Chase, 1962, 51],

$$(11) \quad (1-k)C = \sum (1-t)g_s(1+r_b)^{-s} + \sum td_s(1+r_b)^{-s} - \sum kd_s(1+r_b)^{-s} .$$

The last term is included in the equation because every additional expense added to future depreciation allowances by virtue of present capital outlays raises the amount of future investment that will not be eligible for the credit.

d-Investment Deduction

An investment deduction is a deduction (in addition to other deductions such as depreciation deduction) from taxable income of a percentage of the investment or other related expenditure [Dominic, 1980, 272]. It reduces the cost of the investment by the amount of tax share of it. Thus the income stream of the investors may increase by the amount equal to decrease in the cost of the investment.

An investment deduction may be implemented in the year of investment expenditure itself. Hence, the present value of the income stream is increased by definite tax savings caused by such a deduction, which in turn augments the net of tax return from the investment. The increased net of tax return permits the investor to consider even the risky investments. It provides greater liquidity and hence a greater internal cash flow.

The impact of an investment deduction on the profitability of an investment can be calculated by the equation [Bulutoğlu, 283];

$$K = [R(1-t)+at](1-at)^{-1} \quad (12)$$

Where, (R) is the amount of gross revenue of the investment, (t) is the tax rate, (a) is the investment deduction rate and (K) is the net productivity of the unit investment.

e-Investment Reserve (Fund For Financing Investment)

Investment Reserve may be utilized to earmark part of the profits of a firm for their future investments. Sometimes it is called as Fund For Financing Investment. By allocating part of its profits to the investment reserve, a firm receives an immediate tax reduction equivalent to the tax share of the reserve [Keiser, 1964, 275]. The amount of fund may be considered as an interest-free loan by the investor.

The effect of an investment reserve on the decision of an investor may be determined by the present value of the fund.

It can be calculated as follows;

$$M = mt\{1-r^{-s}[1-(1+r)^{-s}]\} . \qquad (13)$$

Where, (M) is the present value of an investment reserve, (m) is the rate of investment reserve, (t) is the tax rate, (s) is the number of period in the life of an investment.

The investment reserve has an increasing effect on growing firms. Whereas static and declining firms receive only normal depreciation on their replacement investment growing firms receive normal depreciation on all purchases plus an investment reserve as it is the case in the tax credit.

f-Reduction of Tax Rates

Some reduction from the rate of tax may be implemented in order to encourage the investors to invest more.The reduced rates leave more profits in the hand of the tax payer and hence the net of tax rate of return is increased. An increase in the net of tax rate of return reduces the investment risk. It also provides more liquidity to an investor [Dominic, 1980, 273].

2-ECONOMIC INCENTIVES

Economic Investment Incentives, as in the Financial Incentives, have an important effect on the decisions of investors. The government may want to encourage the investors to invest more by using some economical incentives with or without financial incentives.

There are two types of economic incentives that are important. They are, Subsidy Payments and Payment of Interest Differences. In addition, the premium application is another type of incentive, but it has effects on the decision of investors similar to those of subsidies'.

a-Subsidy Payments

The subsidies given to the firm by the government have some social and economic results. Encouraging the consumption of some goods by keeping their prices at a low level, or increasing production of some goods by increasing their profitability are some of these results. The government may affect the production and/or consumption patterns without damaging the market mechanism.

Thus, the subsidies have effects both on producers and consumers. Within the scope of this study we shall only concentrate on the effects of subsidies on producers.

It is best to begin with a description of the production function, cost function, equilibrium condition and the profit function of a firm if we want to show the effects of subsidy on the decision of producers working under imperfect competition.

The production function of a firm describes the whole array of isoquants, each of which shows a different level of output. This function shows how output varies as the factor inputs change and it also provides measurements of concepts which are considered as useful tools in all fields of economics. The main concepts are;

1-The marginal productivity of the factors of production

2-The marginal rate of substitution and the elasticity of substitution

3-Factor intensity

4-The efficiency of production

5-The returns to scale

We can then formulate the general mathematical form of the production function as follows;

$$X = f(L,K,R,S,v,\&) \quad ,$$

where, X=output, L=labor input, K=capital input, R=raw materials, S=land input, v=returns to scale, &=efficiency parameter. All variables are flows, that is, they are measured per unit of time. In practice, it has been observed that raw materials (R) bear a constant relation to output at all levels of production, and the input of land (S) is constant for the economy as a whole, and hence does not enter into aggregate production function. However, (S) is not constant for the individual sector or for individual firm. In these cases land inputs are lumped together with machinery and equipment, in the factor (K) [Koutsoyiannis, 1979, 69-70].

Thus the production function in economic theory assumes the form,

$$X = f(L,K,v,\&) \quad .$$

The factor (v), "returns to scale", refers to the long-run analysis of the laws of production since it assumes changes in the plant. The efficiency parameter (&), refers to the entrepreneurial-organizational aspects of production. Two firms with identical factor inputs and the same returns to scale may have different levels of output due to differences in their entrepreneurial and organizational efficiency.

Cost function of a firm is derived function. It is derived from the technological relationships implied by the production function.

In applied research one of the most commonly used forms of production function is the Cobb-Douglas form,

$$X = ßL^{a}K^{b} \quad .$$

Given this production function and the cost equation we have

$$C = wL+rK \quad ,$$

And the cost function may be derived as a function of output, as,

$$C = f(X) \quad .$$

To do this, the production function is maximized subject to cost constraint.

$$\begin{array}{ll} \text{max.} & X = ßL^{a}K^{b} \\ \text{sb.to} & C = wL+rK \quad . \end{array}$$

The composite function may be formed as follows;

$$W = X+@(C-wL-rK) \quad ,$$

where (@) is Lagrangian multiplier.

From this calculation the cost function of a firm may be obtained as the form,

$$\begin{aligned} C = & \{(1/ß)[(a/ß)^{b}+(b/a)^{a}]\}^{1/(a+b)} \\ & .\{w^{a/(a+b)}.r^{b/(a+b)}\} \\ & .X^{1a+b)} \quad . \end{aligned}$$

In this function, the cost expressed as a function of output (X), and as the production function coefficients, (ß,a,b) and as the prices of factors, (w) and (r). If prices of factors are given the cost depends only on output (X). As a result, the usual diagrams of cost curves, which express graphically the cost function can be derived [Koutsoyiannis, 1979, 97-99].

$$C = f(X) \quad \text{ceteris paribus} \ .$$

"Ceteris paribus" implies that all other determinants of costs, that is, the production technology and the prices of factor, remain unchanged. If these factors change, the cost curve will shift upward or downward. When the prices of factors decrease the cost curve shifts downward or it shifts upward when the prices of factors increase.

The total revenue of a firm is calculated as,

$$TR = P.X \quad .$$

Where, (P) stands for the prices of output and (X) for the output. It can be seen from this equation that revenue of a firm is a function of output (X) and price of goods (P) that is,

$$R = R(X,P) \quad .$$

The firm is in equilibrium when it maximizes its profit (\$), where profit is defined as the difference between total cost and total revenue.

$$\$ = TR-TC \quad \text{or} \quad \$ = R(X,P)-C(X) \quad .$$

Profit of a firm is a function of (X), output and (P), price of output.

$$\$ = \$(X,P) \quad .$$

The total revenue-total cost approach is awkward to use when firms are combined together in industrial studies. The alternative approach, which is based on marginal cost and marginal revenue, uses price as an explicit variable, and shows clearly the behavioral rule that leads to profit maximization.

The equilibrium condition of a profit maximizer firm is in the following form,

$$MR = MC \quad .$$

When this equation is attained the supply of a firm and the price of output is determined according to the demand of firm's output.

In an equilibrium condition, if the cost of a firm decreases, both the total cost curve and, the marginal cost curve of a firm will shift downward. The profit will increase and the previous equilibrium price and output levels will change. Under a new equilibrium condition, the investment will become more profitable. If there are no entry barriers to the industry, this will attract the new firms to enter in industry. Then, investment and production will increase.

The government may want to encourage the investments in any industry or increase to production of goods by using direct subsidy on production goods. When the government gives a subsidy to the firm, it reduces the cost of the production and affects the production of goods and attracts new firms to invest in that industry.

There may be two types of subsidy: one is Specifique Subsidy that is given according to the unit of an output by a set amount, second it may be given according to the price of an output. Both types of subsidies will yield the same results.

b-Payment Of Interest Differences

The second type of economic investment incentives is The Payment Of Interest Differences. The government pays a certain amount of interest applied to the investment credit as an interest difference. This difference may be paid to investors directly or it may be paid to the creditor bank. Then the bank gives the credit to the investors with a rate of interest determined by market conditions. But when the investor uses his credit with this interest rate, the creditor bank pays in return some rate of credit as an interest difference to the investor. The government may pay interest difference to the investor and to the creditor bank with a different rate according to the type of the investment or sector and region.

The effect of payment of interest difference on the decision of investors may be described by using the investment function.

The simplest version of an investment function can be written as a function of an interest rate.

$$I = f(r) \quad .$$

Where;(I) is the investment demand and (r) is the rate of interest determined in the market. The investment demand is negatively related to the interest rate. When the interest rate increases the investment decreases or when the interest rate decreases the investment increases. That is ;

$$dI = f'dr \quad , \quad f'=dI/dr \quad \text{and} \quad f' < 0 \ .$$

If the government applies a payment of interest difference with a rate (@), it must be added to the investment function;

$$I = f\ (r-@) \quad .$$

In this function, the real rate of interest on credit decreases without affecting the equilibrium interest rate. The total derivative of an investment function takes the form of;

$$dI = f'dr - f'd@ \quad , \quad f'= dI/d(r-@) \quad .$$

It can be seen that when (@) increases (dI) will increase or when it decreases (dI) will decrease.

The payment of interest difference may be used to encourage the investments in some regions of a country or it may be applied to increase the investment in some sectors with respect to the needs of a country. This incentive may be meaningful if it is applied selectively according to regions and/or sectors. Otherwise, it will distort the equilibrium interest rate in general.

II-THE INVESTMENT INCENTIVE POLICY IN TURKEY

The topic of investment incentive policy in Turkey will be examined to include two distinct periods. First is the period before the military intervention of 1961. Second is the planned period which began with the implementation of the First Five Year Development Plan. We will examine these periods under the names of Investment Incentive Policy Before the Planned Period and Investment Incentive Policy in Planned Period.

A-INVESTMENT INCENTIVE POLICY BEFORE THE PLANNED PERIOD

The investment and industrialization policy of Turkey before the planned period can be examined under tree sub-periods. These are (a) the 1923-1829 Period, (b) the 1930-1949 Period and (c) the 1950-1960 Period.

a-1923-1929 Period

In Turkey, the investment incentive policy began in 1913 with the law of "Teşvik-i Sanayi Kanunu Muvakkatı" (Provisional Law of Encouragement of Industry). The investment incentive measures provided with this law were as follows; land donation up to 5 thousand square meters to the industrial foundation, exemption from house-tax, tithe, fees of permit and construction fees. Besides these, the goods needed for investment may be imported without paying any kind of customs fees, duties or taxes [Pakdemirli, 1981, 437].

After the Constitution of the Republic, the First Economic

Congress was held in 1923 in İzmir. In this Congress some important decisions were taken to encourage the agricultural production, industrialization, trade and hand work.[Aşıkoğlu, 1988, 33]. But these decisions had a symbolic meaning rather than being practical and applicable [Boratav, 1988, 33].

After the First Economic Congress, the development strategy which heavily favored the private sector had been implemented. To realize this strategy, the Law of Teşvik-i Sanayi was enacted in 1927 [OGD: 15.6.1927]. According to this Law, encouragement and protection of national industry, establishment of big industrial foundations -which would export their products only after defraying the inward demand- and encouragement of individual investors towards industry were the goals of industrialization. The incentive measures comprising this Law may be listed as follows;

- legal expropriation of land and free provisions of land for industrial foundations,
- appropriation of construction and land for the investments by giving credit,
- some tax exemptions,
- exemption from stamp duty while issuing bond and share,
- customs exemption,
- reduction from price of railway transportation,
- reduction from price of raw materials and intermediate goods that are provided by the government,
- industrial goods which are thus produced domestically were to be purchased by the government and they would be awarded premiums.

These measures were to a large extent considerably couragous at that time. But, it is not possible to say that the industrialization aim of the young republic has been realized with these measures [Güvenli, 1981, 451]. The main reason lack of capital and entrepreneuers [Pakdemirli, 1981, 437].

b-1930-1949 Period

The Second Industry Congress took place on April 22 1930. This congress tried to determine the solutions for the "foundation and development of the national industry". Hence, the first industry plan was prepared and applied between 1933-1938 aiming at investment into the most fundamental industries [Aşıkoğlu, 1988, 14].

However, the industrialization policy which the public sector and private sector ran together had an increasing effect on public sector investments and a decreasing effect on private sector investments [Güvenli, 1981, 452]. As a result of this industrialization policy, some public foundations such as; Sümerbank, Etibank, Makina Kimya Endüstrisi Kurumu were established . The fundamental tasks of these foundations were to provide the main and intermediate production goods needed by the national industry.

The Law of Encouragement of Industry (Teşvk-i Sanayi Kanunu) was taken out of power in 1942 due to the prewar conditions. Meanwhile, the First Industrialization Plan and the Second Industrialization Plan were being practiced. After 1945, the liberal economic thought had become effective and the period of giving priority to the private sector investments began [Aşıkoğlu, 1988, 15].

c-1950-1960 Period

During the period of 1950-1960, the liberal economy started to be implemented. With this policy, the credit conditions of the private sector were tried to be increased. Accordingly, the government undertook certain implementation schema. Concerning the encouragement of investors to make investments, the government made rearrangements about the foreign trade policy. As to supporting the agricultural productions, the government set a reasonable price policy. Moreover, public sector investments were limited by certain sectors and regions making the resources available for the private sector. As a result of this policy, investments increased considerably [Manisalı, 1978, 228].

In this same period, private sector investments and foreign investments were tried to be encourage by the help of some legal regulations. Thus, the Law of Encouragement of Foreign Investment and Petroleum Law were enacted.

But the Law of Encouragement of Foreign Investment (item 5821) had been ineffective due to restrictions of areas of investments and the difficulties of profit transfer abroad. Only ten percent of the yearly profit could be transferred. The new Encouragement of Foreign Investment Law enacted in 1954, had been unable to give the expected results.

The Petroleum Law (item 6726) gave opportunities to foreign and local petroleum firms to investigate and produce petroleum. But this Law too could not be effective. Some decrees of this law were taken out of force in 1973 [Güvenli, 1981, 452].

Türkiye Sınai ve Kalkınma Bankası was established at that time for the purposes of providing long and medium term credits for the industry. This was an important step towards providing credit for the industrial investments [Güvenli, 1981, 433].

In general, the period of 1950-1960 had been a period of time to prepare the fundamentals of the incentive policy of the present time [Güvenli, 1981, 453].

B-INVESTMENT INCENTIVE POLICY IN PLANNED PERIOD

The military intervention occurred in May 1960. The parliament was run by the Constituent Assembly (Kurucu Meclis) in 1961. According to the new constitution, the government had to improve the conditions of the low income groups of the society and take the necessary measures. It was announced by the new constitution that the country's economic matters would be organized by a development plan. For this purpose the State Planning Organization (SPO) was established in 1963.

After these regulations the economic system of Turkey was named as "Mixed Economy" [Sarc,1981,20].

During 1961 and 1962 the plan was still being prepared. In 1963 the first development plan was ready to be applied. The development plan was due for a five-year period. These five-year plans was to be put into use via annual implementation plans.

a-First Five Year Development Plan (1963-1967)

The economic goals of the First Five Year Development Plan (FFDP) were as follows;

-a balanced development of agricultural and industrial sectors ,

-balanced development between regions,

-encourage the private sector with incentives to invest more,

-giving the investment incentives both to public and private sectors on equal terms,

-encouraging the import substitution investments,

-investing into the labor intensive sectors where it is more advantegeous [SPO,FFDP,33].

The measures towards developing the industry mentioned in this plan were as follows;

-rearranging the import policy to protect industrial production and changing bureaucratic and legal rules which prevent competition between domestic and foreign products.

-giving incentives to industrial investments for their development,

-taking the necessary measures to prevent the occurrence of monopoly and excess profit earnings,

-making use of potential capacities [SPO,FFDP,117].

With these measures, the role of the private sector was tried to be improved. Accordingly, the investment incentive measures were heavily implemented in this FFDP period.

Some new investment incentive measures were also introduced. For example, Investment Allowance was introduced, Exemption and Exception From Customs Taxes, Duties, and Fees were firstly introduced in 1963. According to the law 474, (with its new rules) the Council of Ministers were authorized to make necessary changes concerning the tariffs and rate of customs taxes. But these goods must be in accordance with the long run gools of the development plan [Aşıkoğlu,1988,18-19].

We have previously mentioned that the "Sanayi Yatırım ve Kredi Bankası" was established in order to provide long and medium term investment credit needs of private sector industrial investments. "Devlet Yatırım Bankası" was established in this period too. This bank is only the bank authorized to give investment credits to public sector investments. In 1987 this bank was rearranged as Eximbank in order to provide the credit needs of foreign borrowers of domestic industrial products.

The investment incentive measures implemented in this planed period could not be effective enough contrary to expectations. Only a few investors benefitted from them since the bureaucratic procedures of benefiting from them were so long and the rules were not clear enough. [Aşıkoğlu, 1988, p.20]. Generally speaking however, it could be said that the planned had been implemented successfully.

b-Second Five Year Development Plan (1968-1972)

The industrial sector of Turkish Economy consisted of small size foundations before the Second Five Year Development Plan (SFDP).

In this period, an important task of the investment incentive policy was that the industrial foundations to be constructed , would be encouraged with effective policy tools provided they were large size foundations [Güvenli, 1981, 454]. In relation to the above aim, the intermediate goods sectors that would feed the industry would be encouraged. With this policy, employment and technology would be improved, the dependence upon foreign aid would be reduced and both the competitive force of Turkish goods with foreign goods and shares of investment goods and industrial sectors in general would be increased. Only then Turkish Economy would become a powerful economy in world economy [SPO, The Report of Special Study Committee of FIFDP, 1982, 21].

The industrial sector was accepted as the leading sector for the development of the country. For this purpose, the priority was given to the industrial investments such as, manufacturing of iron, steel, metallurgy, chemistry and machinery and the import substitution investments [SPO, SFDP, 294].

The measures about the industrial investments and exports mentioned in this plan were as follows;

-rearranging and collecting the regulations about industrial investments and foundations under a single law,

-evaluating the feasibility study in a unique organization,

-determining the depreciation rate according to the sectors differently, taking into account their conditions,

-encouraging the new foundation which would prove to be advantageous,

-establishing organized industrial regions, having enough infrastructure, out of the boundories of cities,

-consolidating export capacities of small foundations under the guidance of the export association,

-giving priority for allocating foreign exchange to industrial exports.

In this planed period the Law (item 933) was enacted in 1967. With this law, all of the regulations about the investment incentives were collected under a single law [see Chapter IV).

This Law was the second after the "Teşvik-i Sanayi Kanunu" enacted in 1927 with its regulations about industrialization and incentive implementation. Both of these laws had significant and improved measures about industrialization relative to their times [Güvenli,1981,456].

c-Third Five Year Development Plan (1973-1977)

The main characteristic of the investment incentive policy in the Third-Five Year Development Plan (TFDP) was to direct the private sector investments. With this policy, the government tried to increase the share of private sector investments in total investments in according to the rules of the mixed economy. Hence, private sector would have an important role in the development of the economy [Aşıkoğlu,1988,26 and SPO Special Expert Council Report, 26].

In this plan, industry had been accepted as the leading sector for the development of the country. The following principles had been assessed [SPO,TFDP,897];

-encouraging the import substitution investments,

-constructing the investments in an economic size,

-giving priority to the investment goods investments,

-maintaining effective protection of the investments into investment goods and intermediate goods industry which require the use of high technology against importation,

- introducing effective incentives to private sector investments in order to encourage the private sector to invest in underdeveloped regions,
- providing fundamental goods and services with prices that can compete with the world prices,
- importing high technology to those sectors that are capable of competing with related foreign sectors.

The first two principles of the assessment proved to be unsolvable problems for Turkish Industry. Even the incentive policy had been ineffective to solve these problems. Despite the incentive policy, the private sector continued to indulge in small size investments [Güvenli,1981,457].

Taking into consideration the industrialization aim, an equal distribution of industrial investments to all regions of the country become the prime motive. To realize this aim, development of underdeveloped regions had been taken as an important issue and the investment incentives had been given to those investments in regions which are given priority in development.

In this planed period the regulations about the development plan and the investment incentive measures had been improved. Certain tax, duty and fee exemptions concerning the investments with export guarantee were implemented in 1973 and the implementation of return of interest differences was efficiently put in force in 1978 [Aşıkoğlu,1988,30].

d-Fourth Five Year Development Plan (1979-1983)

It was announced in the Fourth Five Year Development Plan (FOFDP) that, the investment incentive measures would be implemented selectively. This was determined according to the sector, capacity and the size of the investment, the technology being used, ownership of capital, the additional benefit to the balance of payments and the place of investment [SPO, FOFDP, 276]. The investment incentive measures would be used to attain equal distribution the investments all through the regions of the country. For this purpose, the investments in underdeveloped regions and in regions having priority in development were encouraged more. Foreign savings of Turkish workers working abroad and domestic savings were all directed towards such investments through the cooperatives and public corporations [Aşıkoğlu,1988,32].

The targets and the incentive measures announced in FOFDP were as follows [SPO,FOFDP,276-77];

-giving priority to the development of the investment goods industry,

-giving priority to the investments in intermediate goods industry with the available natural resources of the country which are to be utilized by using the highest possible technology.

-giving priority to those investments in consumption goods industry with export capacity and to the investments to eliminate the bottlenecks,

-constructing the organized industrial regions and encouraging the infrastructure investments in underdeveloped regions,

-applying the investment incentives selectively according to the subject of investment, its size and technology and awarding its providing additional benefit to the balance of payments and the place of investment,

-encouraging the public corporations and constructing the cooperatives to invest in industrial sector,

-reorganizing the incentive system and collecting all regulations under a single law to eliminate disorder in the system.

Until 24 January 1980 the regulations and associations could not be sufficiently developed enough in this planed period. At that date, some important economic stabilization measures were announced. These were about the reconstruction of economic stabilization and which contained some investment incentive measures. For example, the interest rate were reorganized and not only the interest rates but also the rate of repayment of interest differences were determined according to the inflation rate by the decision of the Central Bank. The rate of stamp tax was decreased from 25 per cent to 1 per cent for importation from the GATT countries.

Although the regulations about investment incentive measures were not sufficiently improved, the measures, rules and the ways of benefitting from them were announced with the decision of the government called the "Transmission About The Encouraging And Directing of Investments". The application of the Encouragement Certificate was simplified and medium term credit was backed in connection with the encouragement certificate [Aşıkoğlu, 1988, 36; Güvenli, 1985, 95].

The investments that would be encouraged were organized under the "General Encouragement Table" and were announced with the decrees which were rearranged or altered each year.

The important legal regulations in this period can be listed as follows [Aşıkoğlu,1988,36-37];

-Encouragement of Tourism Investment Law was enacted and some developments about the encouragement of those investments were realized [Law Number-2634, OGD: 12.3.1982].

-The Decree of Encouragement of Foreign Capital was enacted and all the investment incentive measures became applicable to these investments [Memorandum of President of Republic, date 14.1.1980, Number-444].

-The Law of Financial Equilibrium Tax was dissolved [Law Number-2572, OGD:31.12.1981].

-The rate of corporation income tax was decreased to 40 percent [Law Number-2573, OGD:31.12.1981].

-The rate of income tax was decreased (with the same Law]

e-Fifth Five Year Development Plan (1985-1989)

The Fifth Five Year Development Plan (FIFDP) could not be prepared in time. Therefore a temporary development plan was issued in 1984 to be due for a one-year period.

There were not any important differences about the targets of the plan and the investment incentive measures of the FIFDP. But in application some changes had to be done and the investment incentive measures were tried to be applied more efficiently in the regions having priority in development. For example the Investment Allowance rate was increased by 100 per cent in those regions [Aşıkoğlu,1988,38].

The liberalization tendencies about the import regime were seen in this transition period [import regime of 1984, OGD:29.12.1983]. With this new policy the import substitution investment policy came to an end. The rates of Customs and Consumption Taxes were rearranged and some important reductions from these rates were realized [Uludağ,276].

The investment incentive measures were tried to be applied selectively in FIFDP period as it had been in the FOFDP period. For this purpose, the application of incentives differently according to the regions had continued. The foundations of organized industrial regions and the increase in the investments of Turkish workers abroad were encouraged by the investment incentive measures [Aşıkoğlu,1988,39].

The incentive measures mentioned in this plan can be listed as follows;

-applying the investment incentives selectively according to the subject and place of investment, its size and technology and also according to the investment's capacity of providing additional benefits to the balance of payments,

-differentiation of the incentives in order to achieve distribution of investments between regions equally,

-giving priority to labor intensive investments,

-encouraging the investments in industrial and agricultural sectors in order to meet the demands of the neighborhood countries,

-providing incentives for the investments in organized industrial regions and for the investments financed by the Turkish workers working in foreign countries,

-encouraging the use of equity capital for financing the investments,

-developing the manufacturer credit with reasonable conditions to encourage the investment goods productions.

f-Sixth Five Year Development Plan (1990-1994)

The macroeconomic targets of the Sixth Five Year Development Plan (SFDP) were determined as; improving income distribution, increasing employment rate and reducing the development gap between regions so as to attain a rapid, balanced and stable developmental procedure [SPO,SFDP,1].

These targets will be realized through improving the production level by taking the necessary measures of the efficient use of the natural resources of the country. Also through improving and rationalizing the production procedures to effectuate productivity and through, encouraging those investments which will increase employment, the targets are hoped to be realized.

In addition, the private sector investments will be encouraged in order to direct them to concentrate on the manufacturing sector and on production for exportation and increase their share in total investments. The credit possibilities of the private sector to finance their investments will be increased. Private savings and capital accumulation will be encouraged with a new interest policy. The financial system will be improved and the credit facilities will be turned to the advantage of the private sector. Hence, the credit exploitation of the public sector will gradually be reduced.The necessary legal regulations will be realized in order to enhance the use of foreign financial sources easily by the private sector.

The aim of investment incentive policy is determined as, increasing the private sectors investments in order to reduce the development gap between regions, increasing the investments that will provide foreign exchange and compete with foreign goods in accordance with the targets of the plan. The measurements for providing this aim can be listed as follows [SPO, SFDP, 31];

-collecting all regulations about encouraging investments and the investments that will provide foreign exchange under a single law. This Law will be simplified by reducing the number of incentive measures while increasing the incentive effects of them. Bureaucratic formalities will be developed so as to be more efficient and flexible and so that they would work under both inner and olter conditions.

-encouraging the investments to be constructed with a size and technology that will be able to compete with the ones in European Community Countries and expanding and modernizing the present ones,

-giving importance to research and development investments, high technology, usage of natural resources and energy savings,

-giving more effective incentives to the investments in regions having priority in development both in project phase and working phase. For this purpose, (1) establishing a special fund to finance private sector investments in these regions, (2) developing the trade with the countries having common frontiers, (3) continuing the leadership of government investments in manufacturing industry, mining and the related industry in underdeveloped regions, (4) carrying out the public infrastructure investments,

-encouraging the investments financed by financial leasing.

III-INVESTMENT INCENTIVE MEASURES IN TURKEY

In Turkey, a number of investment incentive measures have been applied since the First Five Year Development Plan in order to direct the investments and encourage the investors to invest. It can be seen from TABLE-III-2 at the end of the chapter that the number of these mesures reach 19.

Some of these measures have been applied since the First Five Year Development Plan, such as; Customs Exemption, Investment Deduction and Various Tax Duty and Fee Exemption and Exception. Besides these some measures such as; Financial Leasing, Encouragement Premium and Postponing Value Added Tax have been applied since the initiation of the last two five year development plans.

It can be possible to examine these measures under three main categories. These are; Tax, Duty and Fee Incentives, Premium and Credit Incentives and Other Types of Incentives.

The first category of the measures which can be accepted as Financial Incentives, has an important weight on incentive issue. While some of these measures provide benefit for the investors during the construction period of the investment others provide benefit for the investors during the operation period.

The second group of measures consists of some premium payments and credits. The main characteristics of these are that they provide some payments for the investors directly. They can be called as economic incentives.

The third type of measures provides some easy ways of getting foreign exchange, foreign credit in cash and/or in kind and investment goods which can be movable or unmovable.

In the following parts of our study we shall try to explain what the investment incentive measures are, and how and what kind of benefits they provide for the investors

The table at the end of this chapter (TABLE-III-3) shows the summary of the investment incentive figures which were applied to the investments in the period 1980-1990.

A-TAX, DUTY and FEE INCENTIVES

Tax, duty and fee incentives may provide some benefit for the investors while the investors are still at the initial stages of their investment process. In application, various tax, duty and fee exceptions and exemptions or their postponement and installment may be practised.

In this category, the investment incentives can be examined under four topics. These are;

1-Tax, duty and fee incentives,

2-Custom tax,duty and fee incentives,

3-Incentives by postponement or installment of taxes,

4-Other types of taxes, duty and fee exemption and exception incentives,

1-INCOME TAX and CORPORATION INCOME TAX INCENTIVES

In general, income tax and corporation income tax incentives are applied in the form of reduction of taxes. In Investment Deduction and Fund for Financing Investment incentives, the investors levy their incomes after some reductions. The income tax and corporation income tax are paid less with the amount of tax of the reduced part of income. The part of the income tax which is left unpaid may be considered as an interest free credit for the investors.

The application of Tax Reduction on the Wages of Workers in Regions Having Priority in Development and on Sectors Having Special Importance has an increasing effect on real income of workers. Because of this effect, the workers may supply more labor to the investments in those regions and in those sectors.

a-Investment Deduction

According to the Law of Income Tax and Law of Corporation Income Tax, some amount of the investments can be deducted from the agricultural or business incomes of the investors which are gained from these investments that have made profit from these investments.

The criteria for benefiting from the investment deduction have been mentioned in the eighteenth part of the income tax law as follows;

1) The agricultural or business income that the reduction will be applied to must be calculated on the basis of balance sheet methods of bookkeeping,
2) The investment to be made must be in accordance with the development plan,
3) The investment must be suitable for increasing the production and profitability, for improving the exportation and the quality of the produced goods. The investment must not only contribute to the enhancement of the cultural level of the society but it should also help promote scientific and technical research. It should also be noted that more economical use of energy resources and better and safer working conditions are important points that the investors are required to obey. The investors should also bear in mind that their investments are to be made to attract foreign tourists to the country and that the investments should in no way pollute the environment.
4) The size of the investment must not be less than the size announced by the SPO before.

In addition to these conditions investment expenses such as buildings, machinery, equipment, and others with amortization ought to be unused neither inside nor outside the country.

However, the machines and equipment that have previously been used abroad are accepted to benefit from the investment deduction by the change made by SPO in 1987.

In order to benefit from this incentive, it must be noted on the encouragement certificate that a deduction is allowed to be made. The investors apply to the Ministry of Finance during the investment period.

The Minimum Investment Amount to Benefit from Investment Deduction(TL.):

Years:	In General:	Accepted by High Plan.Org.:	Agricultural Investments:
1980	250 Thousand	125 Thousand	50 Thousand
1981	20 Million	10 Million	4 Million
1982	20 "	10 "	4 "
1983	20 "	10 "	4 "
1984	20 "	10 "	4 "
1985	40 "	20 "	4 "
1986	40 "	20 "	4 "
1987	40 "	20 "	4 "
1988	40 "	20 "	4 "
1989	40 "	20 "	4 "
1990	--	--	-

Source:Communiqués

b-Fund for Financial Investment (Investment Reserve)

The capital stock companies and cooperatives can earmark part of their revenue as financial fund in order to finance their future investments on condition that they comply with the specified time limit of an investment. As stated in Article-8 of the Corporation Tax Law (item number 5422).

The corporations must add the amount of their financial fund which has been earmarked the previous year to the revenue of that year. Then they can calculate their tax of that year. For example, if the firm uses financial fund in 1988, the fund will be added to the revenue of 1989 and then it taxed.

The corporations which are running and having profit can benefit from this incentive for their expansion, modernization, renewal, quality improvement. Moreover, they can benefit for the elimination of bottleneck investments. The new investments can not benefit from this while they are at the early stages, since it is not possible to get profit before operation process begins.

The amount that will be earmarked for the financing fund must be;

a)less than the total amount of the investment and less than the amount of 25% of corporation income tax base,

b)deposited in a government bond account at the Central Bank. This deposit can be withdrawn any time.

As to the formalities, the corporation applies to the SPO with the following documents; the receipt that shows the amount of money deposited in the fund, the documents about the expenditure for the investment including the last four month period and the expenditure planning comprising the near future. Then the receipt and the expenditure documents are attached to a petition and presented to the SPO. SPO, after examining these documents, entitles the corporation to withdraw money from the financial fund.

The right of withdrawing money from the fund must be noted on the documents by the investors. At which intervals they prefer to withdraw money should also be made clear.

c-Tax Reduction From Wages of Workers in Regions Having Priority in Development and Sectors Having Special Importance

According to the Article-31 of the Law of Income Tax (Number 193), Council of Ministers have the right to change the rate of Special Reduction(*) on wages of workers in regions having priority in development and in sectors having special importance. These regions and sectors are announced with the development plans and annual programs.

It was announced with the decree about the incentive measures for regions having priority in development that the rate of special reduction from the wages of workers working in the center of the province of the regions having first degree priority in development are 4 times more and in other places of that province they are 5 times more. These rates are 3 times more in the central of the province in regions having second degree priority in development. But there may be some exceptions within the same regions.

Three points are added to the rates mentioned in the footnote above in regions having first degree priority and three points are added in regions having second degree priority for a five year period from the beginning of the investments having encouragement certificates.

With the change in Article-8 of the Decree about the incentive measures which pertain to the regions having priority, the Council of High Planning has been given the right to encourage the investments in normal regions with the same

(*)Special Reduction: according to the income tax law the incomes of the real persons are taxed after some reduction. The amount of special reduction is 4 hundreds Tl. daily, 6 thousands Tl. monthly and 144 thousands yearly.

standards of regions having second degree priority in development and the investments in the regions having second degree priority with the same standards of the regions having first degree in priority. The investment's sectoral and regional importance and it's contribution to employment are all taken into account by the Council.

2-CUSTOMS TAX, DUTY and FEE INCENTIVES

Customs taxes, duties and fees are paid while goods are being imported. These payments increase the price of the goods. If these are investment goods the cost of the investment naturally increases. When the taxes, duties and fees on imported investment goods are cancelled or reduced the investors may be encouraged to invest more.

a-Customs Exemption

According to the Law Number 474, the exemption from customs taxes, duties and fees are as follows;

1)The exemption applied on the projects: This is applied according to the Decree number 6/12585.The project that will benefit from this exemption must have at least one of the following special features;
a)the produced goods must have a competitive power in foreign markets. However, these goods need not be exported. The necessity for exportation of these competitive goods was invalidated after 1985.
b)a new technology must be introduced; This condition is required to fulfill the need for the application of the most resent technologies.
c)the capacity of the investment must be at least the size of an identical investment in the developed countries especially in European Community countries.
2)Exemption based on goods: According to Article-2 of the law number 474 the customs tax is applied by way of announcing the tax rate belonging to the list of the goods on the customs tariff. The Council of Ministers are entitled to increase these rates up to 50% (Decree number 80/5).

3)The exemption about ship and shipbuilding foundations: According to the decree number 7/12937 which become effective in 1976 and the Law number 2581 enacted in 1982, the ship that has been built or bought from abroad and the machines and equipment that will be used on this ship or the machines or equipment that will be used at the shipbuilding foundation and in the homeland (including the floating docks) may be imported without paying customs tax and duty. In order to benefit from this exemption the investors must take a permission from the related organization, that is, the SPO.

But the Decree number 89/14239 which became effective in 1989 for the imported goods mentioned that the above can be imported without taking any permission from any organization. Besides this, the machines and equipment imported for these kinds of needs have an exemption from any kind of fund and guarantee fund while being imported.

4)There is about 100% exemption from customs taxes, duties and fees for the investment goods, raw materials and materials used in education and research investments: Hence, for the investment goods, raw materials and materials used in the projects carried out in association with international agreements, there is exemption from customs taxes, duties and fees as much as 100% (Decree number 7/3116).

It is necessary to certify the list of machines and equipment to SPO in order to benefit from these incentives.

Universities, academies, the institutions of higher education, technical colleges and public research centers can benefit from the custom exemption for their educational and research needs.

The necessary documents for applying to the customs exemption are as follows;

1)Encouragement certificate or investment goods manufacturer qualification certificate,
2)The import list showing the machines and equipment to be imported for the investment,
3)The list of machines and equipment previously certified by SPO (it is used with the import list),
4)The receipt of fund showing the amount of money paid to "Encouragement of Investment and the Services Providing Foreign Exchange Earning Fund" at Central Bank.

The rate of amount paid to the fund is,(*)

a)5% for the investments of manufacturing industry, educational and health sector investments and ship and plane importing investments which cost less than 3 billion TL, the investments of the Municipalities and of the sectors having special importance are also included in this rate.
b)20% for other types of investments,
c)10% for raw material investments with the exception of fertilizers.

On the other hand, the investments in regions having first and second degree priority and the investment of natural-gas transportation regardless of their location of investment are exempted from paying the Fund fee.

b-Changing Ratio of Taxes and Tariffs of Goods on Customs Entry List

It was announced on the second Article of the Law number 474 that the Council of Ministers are authorized to change the rates of customs tax and the taxes and duties from imported goods.

According to this, the Council of Ministers can change the rates of customs taxes and duties depending on the opinions of the Ministry of Finance and Customs and of other related Ministries and foundations, taking into account the goals of the long-run development plans in order to make the financial and protection provisions of the customs tariff list more effective.

Nevertheless, the additional changes are limited; 1) with the amount of customs tax for the goods that are taxed according to their value and 2)50% of the present value of the goods that are levied according to their weights.

(*)These rates apply to the CIF price of the imported investment goods.

c-Quay Duty Exemption(Transportation Duty Exemption)

The imported goods which are transported by the ro-ros, train ferries and ferry boats may be imported with the zero Quay Duty(*) according to the Decree Number 85/9569 (OGD:11.6.1985, OGN:18781).

It has been pointed out in the Communiques number 89/1 (OGD:11.11.1988, OGN:19986) that this exemption may be applied only to the goods which are transported in trucks, trailers, and railway cars through the ro-ros and ferry lines as stated by the mutual agreements with other countries.

Quay Duty Exemption reduces the cost of investment by preventing the increase of cost of imported machines, equipment and raw materials for investment.

3-INCENTIVES by POSTPONMENT or INSTALLMENT of TAXES

This category of the investment incentives are applied by postponing or installing the taxes, duties and fees emerging from various activities belonging to the investment.

If the investors take a credit from any creditor, they must pay an interest. Postponement or installment of various taxes, duties and fees may be accepted as cheap credit for the investors. By this way, the investment becomes easy and cheap to invest.

a-Installment of the Customs Tax and Duty

It was announced with the Article-3 of the Law number 474 that the Council of Ministers may install the customs tax, quay

(*)According to the Quay Duty Law Number 827 5% of the CIF value of the goods -transported with the maritime line- is paid as quay duty (OGD:2.2.1967, OGN:12517).

duty, production tax and the share of municipality when the investment good is imported. However, the stamp duty can not be installed.

This application began with the Decree number 7/449 in 1970 and it was in force until the year 1984.

To benefit from this incentive the investment must be of an economic size and it must be planned to suit the development plans and annual programs. If the imported goods are also produced domestically the installment is not applied (Decree number:80/5, OGD:14.6.1989; OGN:17017).

b-Installment of Indirect Tax on Domestically Produced Production Goods for Five Years

According to the Article-3/b of the Law number 474 the indirect taxes on the investment goods produced in Turkey can be paid by equal installments for a period of five years. The Council of Ministers has the right to organize this by announcing related decrees. This incentive was valid until the end of 1983.

c-Postponing the Value Added Tax

The Value Added Tax (VAT) was instituted in 1984 by the Law number 3065. According to the Article-46 of this Law which was later added with the Law Number 3099, the VAT that must be paid during importation of goods may be postponed until the date of deduction. The investment must have an encouragement certificate to be able to benefit from this incentive. The provisions of the Law number 6183 exclude such a postponement.

If the investment is realized without taking into account the conditions that are pointed out in the encouragement certificate, the amount of the postponed tax is paid retrospectively according to the law number 6183. Furthermore, the same is true when the investment is not realized at all. The interest rates, according to this act, are applied with a 50% fine through the years.

This incentive is like an interest-free credit for the investors as it includes the postponement of tax payments.

4-OTHER TYPES of TAX, DUTY and FEE EXEMPTION and EXCEPTION INCENTIVES

Other types of tax, duty and fee exemption and exception incentives are applied both in order to decrease the cost of the investments while they are being constructed and to increase their profitability until after they are completed.

a-Exemption from Building Construction Fees

According to the Additional Article-2 of the Expenditure Tax Law, factory, mill and workshop constructions, tourism investments (only the ones encouraged by the SPO), hotels and motels are exempted from construction fees.

Likewise, by changing Municipality Income Law in 1982, hospitals, prevantoriums, sanatoriums, and health centers, all kinds of buildings that are constructed in the dockyards and organized industrial regions are also exempted from construction fee.

Moreover, with the changes in 1987, barns, crop, animal shelters and mangers are exempted from this fee.

There is no need to get a certificate or any other permission to benefit from or use this exemption.

Exemption from construction fee encourages the investors to invest since they consider this exemption as a gain.

b-Exception from Various Taxes, Duties and Fees

Exceptions from taxes duties and fees have been applied by the Law of Measures Taken by the Government on Taxes for the Improvement of Exportation, (Number-261) (OGD:5.7.1963, ODN:11446) and the Decree for provisions of encouragement and improvement of exportation for the medium and long term credit about the investments with export guarantee and the investments about shipbuilding and shipbuilding foundations.

In this application, in the five-year period after the investment is completed, all kinds of tax, duty and fee arising from borrowing or paying the medium and long term domestic investment credits, operating credits, foreign exchange credits and foreign credits will be exempted. If the firm receives credit from the bank, the exemption does not apply.

The investors must guarantee to export some amount of their production. The rate of export limits according to the place of the investment are as follows;

a)20% for the investments in developed regions ,
b)10% for the investments in the normal regions are,
c)5% for the investments in the regions having priority in development.

However, if the amount of total export value guaranteed exceeds 900 thousand Dollars in developed regions, 600 thousand Dollars in normal regions and 300 thousand Dollars in regions having priority, the exportation rates are not applied according to the above mentioned rate of export limits. The rates for these investments are determined differently by SPO.

The exportation condition is not required for the investments about shipbuilding and shipbuilding foundations, educational investments and health investments.

The investments having encouragement certificate can benefit from this incentive regardless of their size. In such cases, there is no need to get an additional certificate in order to benefit from it.

c-Exemption From Tax, Duty and Official-duty for House Building and Investments in Regions Having Priority in Development

It was aimed to encourage house building and investments in regions having priority in development by the exemption from taxes, duties and official-duties with the Law Number 2982 (The Law of Tax, Duty and Fee Exemption About House Construction and Investment in Regions Having Priority in Development, OGD:1.3.1984, OGN:18328).

The exemptions according to this law are as follows; death duty, stamp duty, banking transaction and insurance tax, house-tax, duty and tax and tax, duty and official-duty taking according to the Municipality Income Law.

The investments and operations that will benefit from these exemptions are as follows;

a)buying land or building land for house building and investment in the regions having priority,
b)house building all through the country,
c)using house credit,
d)buying or constructing buildings by the capital stock companies and cooperatives and their wakfs (foundations, trust) for their investments in regions having priority,
e)constructing barns crop, animal shelters, mangers in villages and buying land and house-land for these investments,
f)schools, libraries and sport foundations and building sanctuaries, temples, and buying land or house-land for these investments.

According to the law, to be able to receive credit for buying house or for house building, the net area of the house must be less than 150 square meters. The documents that are used to pay subscriptions and additional payments of the members of the house building cooperatives can benefit from the exemption of tax and duty.

The investments are not necessarily granted the encouragement certificate by SPO for the investments in regions having priority in development: Capital stock companies, cooperatives and their corporations and wakfs to benefit from the exemptions mentioned above (Transaction number:4, OGD:21.11.1986, OGN:19288).

It was announced that these exemptions would be valid until the end of 1988. But the date was later postponed until the end of 1992 by the Law number 3393 (OGD:30.6.1987, OGN:19503).

B-PREMIUM and CREDIT INCENTIVES

Premium and credit incentives are implemented by way of paying money to the investors directly.

In this category of the investment incentives; Encouragement premium induces the use of domestically produced machines and equipment and Resource Utilization Support Premium encourages the investors to use more equity capital. Furthermore, Investment Good Producers Encouragement Credit has an increasing effect on the production of investment goods. And, Payment of Interest Differences incentive decreases the cost of credit. Conceivably, premium application may be considered as a cheap credit for the investors.

1-Encouragement Premium

According to the Decree Number 84/8636, 5% of the value of imported machinery and equipment listed in the Global List(*) must be deposited in Export Encouragement Fund at the Central Bank. This fund is not collected from the investments to be made in regions having first and second degree priority.

From this fund, some rate of invoice value of machinery and equipment which can be acquired domestically from the global list, may be returned to the investors as an Encouragement Premium. This premium application encourages the investors to use domestically produced machines and equipment for their investments (The Decree Number:84/8630, OGD:14.10.1084, OGN:18545).

The rates of Encouragement Premium are as follows;

Years:	Rates(%):
1985	6
1986	15
1987	20
1988	25
1989	25
1990	--

A commission that is settled up under the Governor of the region where the investment is subject to encouragement certificate decides for the implementation of the Encouragement Premium by taking into account the principles of Annual Program Decree and Communiqués. After the investors apply to the

(*)Global List: The list of machines and equipment including the ones which will be imported for the investments having encouragement certificate.

Governor of the place, the Governor investigates the credibility of the investment to give his consent.

The premium is given at intervals of a six-month periods. Besides this, it may be given in four months after the end of the investment by taking into account the time of investment as noted on the encouragement certificate.

Since the beginning of 1987, it has been possible to give the encouragement premium for the machines and equipment which are domestically produced and for which importation is not permitted (without customs tax exemption) by taking permission from SPO. The rate of premium for such goods is the same as the Value Added Tax of these goods. Nevertheless, the premium is not given to the public sectors and municipal investments.

If the investment is not realized, the encouragement premium is taken back according to the Law number 6183.

2-Source Utilization Support Premium

Source Utilization Support Fund was established at the Central Bank in 1984, by the Decree number 84/8860 (OGD:15.12.1984, OGN:18606). The aim of this fund is to direct the banks' sources to the fields that are important for the economy.

This fund has been collected from the investments with encouragement certificates after 14.10.1984, from the exports made after 1.1.1985 and from the specialization credit given since 1985.

From this fund, Source Utilization Support Premium (SUSP) is paid to the investors. It is pointed out that the rate that will apply to the payments from the fund will be announced by the Central Bank by taking into account the opinion's of SPO (Decree number:88/12944, OGD:7.6.1988, OGN:19835).

Source utilization support premium for the investments which are subject to the encouragement certificate may be implemented by taking the equity capital into account. However, for the shipbuilding and shipyard investments total fixed investment amount is taken into account. This premium is paid for hospital investments provided that the encouragement certificate is valid and that the investment has not yet commenced operating and that the total fixed investment amount exceeds 3 billion TL. by taking into account the equity capital regardless of the localization.

The investments in free zones with encouragement certificates can have premium according to the subject of the investments or their place. However, the total amount of the paid premium can not be more than the amount of 33% of the total investment. The rate of SUSP which is applied to these investments are shown on the TABLE-III-1 below.

On the other hand, the rate of the premium is 14% for shipbuilding and yachtbuilding and 15% for the ro-ro, train ferry and ferryboat out of the amount of the total fixed investment.

As for the touristic investments, if the firm is a joint stock company, the rate of premium that will be implemented to the investment will be the same as in TABLE-III-1. But if it is not a joint stock company, the rate will be 10% for normal and developed regions and for other places it will be determined according to their particular conditions.

TABLE-III-1: The Rate Of Source Utilization Support Premium Which is Applied To The Investments:

The Characteristics of the Investment:	Rate of Premium : YEARS 1986	1987	1988	1989	1990
1) Investments in organized industrial regions;					
a) in regions having first degree priority:	%20	%20	---	%60	%60
b) in regions having second degree priority:	%15	%15	%50	%50	%50
c) in normal and developed regions:	%7	%7	%40	%40	%25
2) Investments in;					
a) regions having first degree priority:	%20	%20	%50	%50	%50
b) regions having second degree priority:	%15	%15	%40	%40	%40
c) normal and developed regions:	%7	%7	%15	%15	%15
d) developed regions but the place of it has changed by the Government:	%15	%15	%20	%20	---
3) Tourism settlement center and yatching foundations:	%20	%20	%40	%40	%30
4) Trade center and restaur. investments in regions announced tourism center:	%15	%15	%15	%15	---
5) Other tourism investments	%15	%15	%15	%15	%15
6) Educational investments (in all places):	---	---	%50	%50	%50
7) Hospital investments (more than 3 Billion TL.):	---	---	%50	%50	%50
8) Health investments in normal and developed regions (if they are in regions having priority the rate will be applied accordingly):	---	---	%15	%15	%15
9) ro-ro, train ferry and ferryboat investments:	---	%15	---	---	---

Sources: Communiqués

SUSP is not given to the investments in developed regions. Besides this, it is not applied to the following types of investment;

1)malt and alcohol production,
2)all kinds of machinery importation including the ones used for the establihment of substructure and plane and helicopter importation,
3)all kinds of transportation investments which are not related to production,
4)big trade centers and housing investments,
5)importing ship except ro-ros, ferryboats, train ferries and yachts,
6)all kinds of public investments,
7)electrical energy production,
8)used machines and equipment importation for the investments in normal and developed regions.

If the investors want to use the SUSP, a contract is made with them when they apply to SPO for an encouragement certificate.

3-Investment Goods Producer Encouragement Credit

Investment Goods Producer Encouragement Fund was established by the Central Bank in 1985 by the Decree number 85/9957 (OGD:26.10.1985, OGN:).

The aim of this fund is to encourage the investment goods production investments by giving long and/or medium term domestic and/or foreign "Seller's Credit" to the firms and to the customers of exporters who produce investment goods with export credit.

The office of the Prime Minister is responsible for the execution of this fund and the Central Bank is responsible for its administration.

Foreign exchange may be allocated to the producers or their consortium for the investment goods that will be delivered to the customers by the amount of 25% cost of the input to be used in the production of those goods which have no customs tax or duty. Furthermore, in case of semi-finished goods which are to be imported and which can actually be acquired or produced domestically, 25% may be returned as premium payments to the investors. Implementation of this premium is also carried out by SPO.

The producers who will receive the "Seller's Credit" and "Foreign Exchange Allocation" must apply to SPO to get the "Investment Goods Manufacturer Qualification Certificate". This certificate is valid for only two years. It is not possible to extend the duration of this certificate. But a new one can be requested if it is necessary.

The owners of the certificate and the customers of the producer-exporters can obtain up to 80% credit out of the amount of the contract that has been made between the firms and customers to finance their buyings and sellings.

The application for this credit can be made by the firms which already possess the certificate and by the customers who apply to a commercial bank with their qualification certificate and contract approved by SPO.

The firm that has the investment goods manufacturer qualification certificate can benefit from either the investment goods manufacturer qualification certificate incentives or from the export incentives.

4-Payment of Interest Differences

"The Payment of Interest Differences Fund" was established by the Central Bank with the Decree number 83/7507. The aim of this fund is to encourage the investments in certain sectors by reducing the cost of interest and encouraging the saving as foreign exchange (Decree number:83/7507, OGD:19.12.1983, OGN:18256-M).

It was announced by the Decree number 8/543 that the interest differences may be paid to the creditor bank and to the investors making use of the special sector investment credits for long and/or medium term. In addition agricultural investments, small industries and handicrafts benefit from this fund (Decree number:8/543, OGD:23.3.1980, OGN:16938).

To benefit from the interest differences payment, the investment must be in accord with the goals of the development plans and annual investment programs. The investment that has an encouragement certificate and that has been permitted to use this incentive receives the credit immediately (Decree number:80/5).

The interest differences are not paid to foreign credits or to any kind of domestic private funds. On the other hand, the credits given by the Investment Banks and Development Banks and the investments in the regions having priority in development are excluded from this application.

There is no need for any additional certificates to benefit from this incentive. The creditor bank applies to the Central Bank where it is implemented (Decree number:85/1).

C-OTHER TYPES of INCENTIVES

This last group of investment incentives do not include any kind of direct payment to the investors. Nonetheless, Foreign Exchange Allocation, Possibility of Obtaining Foreign

Credit in Cash and in Kind and Financial Leasing may provide an easy way of obtaining foreign exchange, foreign credit and investment goods respectively.

1-Possibility of Obtaining Foreign Credit in Cash or in Kind

The investors in public and private sectors can use foreign private real and pecuniary credit with the intermediation of the banks in Turkey to finance their investments (Decree number:80/5). They may pursue this credit themselves.

To use this credit the investment must be in harmony with the development plans and annual programs. Besides this, it must have an encouragement certificate and the possibility of using foreign real and pecuniary credits. These must be indicated on the certificate.

However, if the investment is not one of those investments which is encouraged and if it does not have an encouragement certificate, it is possible to use the credit on condition that permission is taken from SPO and that the amount of fixed investment is not less than 50 Million TL (Decree number:8/3891, OGD:30.11.1981, OGN:17527).

2-Allocation of Foreign Exchange

The importation demands are evaluated according to the five-year development plans, annual programs, import regime and according to the decisions of the Council of Ministers. These decisions concern the provisions pertaining to the investments and encouragement and orientation of services providing foreign exchange earnings. These quotas that are imposed upon private sector investments are those that include quotas about shipbuilding and the importation from the countries which Turkey has mutual agreement with (Communiqés number:80/5).

Foreign exchange may be allocated to the investments that are indicated in the general encouragement table and that have encouragement certificate. For the new investments this condition may not be necessary.

Since 1985 foreign exchange has been allocated by the banks for the importation of machinery and equipment for those investments with encouragement certificates (with the Communiqués number:85/1).

If the value of investments increase, the foreign exchange amount allocated for the investments can be increased by 30% without making any changes on the encouragement certificate.

To use this incentive the investors must send a copy of the additional document of the encouragement certificate to SPO within a month which is previously confirmed by the bank.

Actually, using this incentive does not mean that the investors are supplied with additional credit. It only provides foreign exchange for the investors who need this to import the machinery and equipment.

3-Financial Leasing

The meaning of leasing, in general, is that the owner of the goods may transfer the use of the goods to someone to acquire some benefit without transferring the possession of the goods. Financial leasing then is the transfer of machines and equipment by the owner to the lessee (Clark, 51; Üzeler, 7).

Hence, the economic owner of the goods and legal owner of those is not same in financial leasing. The machines and equipment provided by this way induces an extra financial ability, and a floating fund to the firm. It also facilitates the purchasing power of the firm. Financial leasing has been developed as an alternative to medium term bank credits (Üzeler, 9).

In Turkey, the Law of Financial Leasing was enacted in 1985 (Number 3226) (OGD: 28.6.1985; OGN:).

According to this law, the investors may hire movables and unmovables partly or completely for their investment without the necessity of buying them. Thus, the cost of the investment decreases.

The lessee can directly hire his needs from domestic lessors or from foreign lessors. However, if the lessee hires his needs from foreign lessor, it must be indicated on the leasing agreement that the lessee has to buy the goods after the agreement expires and that the lessor must have the right to make use of the terms of the lease according to the regulations of his native country. According to this agreement the import right is given to the lessee.

The leasing agreement can not be nullified during the first four years and this condition must also be indicated on the agreement. However, according to the Decree number 85/9866 announced by the Council of Ministers only under following conditions can the time limit be less than four years;

a) for the goods having amortization due for a four-year period,

b) for the goods accepted by the Secretary of State for

Foreign Trade and Treasury that the technological usage is due for a four-year period,

c) for the goods that will be released at the end of the agreement.

On the other hand, the total amount of money that the lessor will get from the real persons or legal persons can not be more than the amount of rate of 25% of its total equity capital. However, this rate is 40% for the sectors determined by the development plans and for the investments of exportation and for the services of contractors abroad. It can be increased by 75% for big capacity investments accepted by the Secretary of State for Foreign Trade and Treasury. The total amount of financial leasing can not exceed the total equity capital of the lessor more than five times.

The investor who will benefit from the financial leasing has to have an encouragement certificate. Both the lessor and the lessee can benefit from other incentive measures too.

TABLE-III-2 :Summary of Investment Incentives Measures:

INCENTIVES:	80	81	82	83	84	85	86	87	88	89	90
TAX, DUTY and FEE INCENTIVES:											
a-INCOME TAX and CORPORATION TAX INCENTIVES:											
1-Investment Deduction:	A	A	A	A	A	A	A	A	A	A	A
2-Fund for Financing Invest.:	NA	NA	A	A	A	A	A	A	A	A	A
3-Tax Reduction Wages of Workers in Regions Having Priority in Development and Sectors Having Special Importance:	NA	NA	NA	NA	NA	NA	A	A	A	A	A
b-CUSTOMS TAX, DUTY and FEE INCENTIVES:											
1-Customs Exemption:	A	A	A	A	A	A	A	A	A	A	A
2-Changing Ratio of Taxes and Tariffs of Goods on Customs Inward List:	A	A	A	A	NA	NA	NA	NA	NA	NA	NA
3-Quay Duty Exemption:	NA	NA	NA	NA	NA	NA	A	A	A	A	A
c-INCENTIVES by POSTPONING or INSTALLMENT of TAXES:											
1-Installment of Customs Tax and Duty:	A	A	A	A	A	NA	NA	NA	NA	NA	NA
2-Installment of Indirect Tax for Five Years on Domestically Produced Production Goods:	A	A	A	A	NA	NA	NA	NA	NA	NA	NA
3-Postponing Value Added Tax:	NA	NA	NA	NA	NA	NA	A	A	A	A	A
d-OTHER TYPES TAX, DUTY and FEE EXEMPTION and EXCEPTION INCENTIVES:											
1-Exemption from Building Construction Fees:	A	A	A	A	A	A	A	A	A	A	A
2-Exemption from Various Taxes,Duties and Fees:	A	A	A	A	A	A	A	A	A	A	A
3-Exemption from Taxes,Duties and Fees in House Construction and in Regions Having Priority in Development:	NA	NA	NA	NA	NA	A	A	A	A	A	NA
PREMIUM and CREDIT INCENTIVES:											
1-Encouragement Premium:	NA	NA	NA	NA	NA	NA	A	A	A	A	NA
2-Resource Utilization Support Premium:	NA	NA	NA	NA	NA	NA	A	A	A	A	A
3-Investment Good Producers Encouragement Credit:	NA	NA	NA	A	A	A	A	A	A	A	NA
4-Payment of Interest Differences:	A	A	A	A	A	A	NA	NA	NA	NA	NA
OTHER TYPES of INCENTIVES:											
1-Possibility of Obtaining Foreign Credit in Cash or in Kind:	A	A	A	A	A	NA	NA	NA	NA	NA	NA
2-Allocation of Foreign Exchange:	A	A	A	A	A	A	A	A	A	A	NA
3-Financial Leasing:	NA	NA	NA	NA	NA	NA	A	A	A	A	A

A:Applicable, NA:Nonapplicable
Sources:Communiqués and Decrees

TABLE-III-3 :Summary of the investment incentive figures.(*)

INCENTIVES:	YEARS										
	80	81	82	83	84	85	86	87	88	89	90
INCOME TAX and CORPORATION TAX INCENTIVES:											
1) Investment Deduction:											
a)The investment in developed regions (inside the regions of Big Municipality of the Cities Ankara İzmir, Bursa, Adana and in the cities Istanbul and Kocaeli):	%30	%30	%30	%30	%30	%30	%30	%30	%30	%30	%30
b)The investments in normal regions (about regional development):	%40	%40	%40	%40	%40	%40	%40	%40	%40	%40	%40
c)Agricultural investments	%40	%40	%40	%40	%40	%40	%40	%40	%40	%40	%40
d)The investments in the regions having second degree priority in development	%60	%60	%60	%60	%60	%60	%60	%60	%60	%60	%60
e)The investments in the regions having first degree in development:	%60	%60	%60	%60	%100	%100	%100	%100	%100	%100	%100
f)The investments about the sectors having special importance made by the cooperatives and capital stock companies:	%60	%60	%60	%60	%100	%100	%100	%100	%100	%100	%100
g)The invest. of production getting from the water :	%30	%30	%30	%30	%100	%100	%100	%100	%100	%100	%100
h)The invest. for scientific searching and improvement made by the cooperatives and capital stock companies and their partner	%30	%30	%30	%30	%100	%100	%100	%100	%100	%100	%100
i)Tourism investments:	%30	%30	%30	%40	%100	%100	%100	%100	%100	%100	%100

2) Tax Reduction Wages of Workers in Regions Having Priority in Development and Sectors Having Special Importance;(*)											
a) in the regions having first degree priority in development;											
i) in the central of province:	---	---	---	---	---	---	4	4	4	4	4
ii) in other places of that province:	---	---	---	---	---	---	5	5	5	5	5
b) in the regions having second degree priority in development (in central);	---	---	---	---	---	---	3	3	3	3	3
CUSTOMS TAX, DUTY and FEE INCENTIVES:											
1) Customs Exemption:	%100	%100	%100	%100	%100	%100	%100	%100	%100	%100	%100
2) Quay Duty Exemption:	---	---	---	---	---	---	%100	%100	%100	%100	%100
OTHER TYPES TAX, DUTY and FEE EXEMPTION and EXCEPTION INCENTIVES:											
1) Exemption from Building Construction Fee;											
a) factory, mill, workshop consruction. tourism investment, hotels, motels:	%100	%100	%100	%100	%100	%100	%100	%100	%100	%100	%100
b) hospitals, prevantorium, sanatorium, welfare center health center, all kind of buildings constructed in dockyard and organized industrial regions:	---	---	---	%100	%100	%100	%100	%100	%100	%100	%100
c) barn, the place for storiring straw, coop and animal, shelter and manger belonging to building:	---	---	---	---	---	---	---	%100	%100	%100	%100
2) Exemption from Various Taxes, Duties and Fees:	%100	%100	%100	%100	%100	%100	%100	%100	%100	%100	%100

(3) Exemption From Taxes, Duties and Fees in House Construction and in Regions Having Priority in Development:	---	---	---	---	---	%100	%100	%100	%100	%100	---
PREMIUM and CREDIT INCENTIVES:											
1) Encouragement Premium:	---	---	---	---	---	%6	%15	%20	%25	%25	--
2) Resource Utilization Support Premium;											
a)The investments in organized industrial regions in the place having first degree priority in development:	---	---	---	---	---	---	%20	%20	---	%60	%60
b)The investment in place having first degree priority in development:	---	---	---	---	---	---	%20	%20	%50	%50	%50
c)Educational investments (not taking in to account of it's place):	---	---	---	---	---	---	---	---	%50	%50	%50
d)Hospital investments (total fixed investment amount exceeded 3 billion TL.: without differentiating the regions):	---	---	---	---	---	---	---	---	%50	%50	%50
e)The investment in organized industrial regions having second degree priority in development:	---	---	---	---	---	---	%15	%15	%50	%50	%50
f)The investment in place having second degree priority in development:	---	---	---	---	---	---	%15	%15	%40	%40	%40
g)Tourism settlement center and yatching foundations:	---	---	---	---	---	---	%20	%20	%40	%40	%30
h)The investment in organized industrial regions in in normal place:	---	---	---	---	---	---	%7	%7	%40	%40	%25

i) The investments in developed regions but the place of them has changed by the related Ministry or Government by forced moved to normal places:	---	---	---	---	---	---	%15	%15	%20	%20	---
k) The investment in normal regions:	---	---	---	---	---	---	%7	%7	%15	%15	%15
l) Health investment in normal and developed regions (if it is in regions having priority in development the rate will be applied is in that regions):	---	---	---	---	---	---	---	---	%15	%15	%15
m) Trade center and restaurant investment in regions announced tourism center by the Council of Ministers:	---	---	---	---	---	---	%15	%15	%15	%15	---
n) Other tourism investments	---	---	---	---	---	---	%15	%15	%15	%15	%15
o) ro-ro, train ferry and ferry investments:	---	---	---	---	---	---	---	%15	---	---	---
3) Investment Good Producer Encouragement Credit:	---	---	---	---	%25	%25	%25	%25	%25	%25	---

Sources: Communiqués and Decrees
(*) Payment of Interest Differences does not included.

IV-POLITICAL ECONOMY OF INVESTMENT INCENTIVE POLICY

Investment incentive policies are organized and applied with respects to certain laws, decrees and communiqués. These regulations are made by the ruling government. In practice, the decisions of the government may be influenced by request of pressure-groups and by individual rent-seeking activities.

In this chapter we hope to explain the political economy of the investment incentive policies. To do this, we shall first clarify the legal foundations of planning in general. In the second part, the regulations about incentives will be explained. In so doing, the priorities about investment incentives and incentives applied in regions having priority in development will be elucidated. Finally, the encouragement certificate which has an important place in benefitting from the incentive measures will be introduced. The last part of this chapter will deal with the rent-seeking activities in application of the incentive policy.

A-PLANNING

The guidelines for the intervention of the governments in the economy was mentioned in the 1961 constitution of Turkey [Uluatam, Tan, 1982, 17].

According to Article Number 41 of the 1961 Constitution, providing economic, social and cultural developments in a democratic way is given the major task of the government. For this purpose, the government is entitled to take necessary actions to increase the amount of national savings, or to direct the investments endowing them with priorities. In another Article (Number 129), it is mentioned that the development of the economy would be made possible with careful economic planning.

On the other hand, according to the same article, the organization responsible for the preparation and application of the development plans would be established by enacting a law.

State Planning Organization was established in September 1960 with the Law About the Establishment and Duties of State Planning Organization (Number 91). Another Law was passed in October in 1962 About Long Run Plans and Their Applications (Number 77). According to this law five-year development plans were to be prepared. The First-Five Year Development Plan was prepared and began to be applied in 1963. This law was valid between the years 1963 and 1967.

There are no regulations about the State Planning Organization mentioned in the 1982 Constitution of Turkey. But in Article Number 166, it is indicated that economic, social and cultural development and especially the establishment of industry and agriculture in all regions of the country has to be provided by planning and that the government has to take necessary measures for the most profitable use of the national resources. Inevitably this mission is given to the State Planning Organization.

B-REGULATIONS

The principles cited in the constitutions force the governments to make some regulations about the applications to direct the economy and to use the resources to realize planned development.

For this purpose, the Law of Application of Development Plans Number 933 was enacted in 1967. With this law, all the regulations on investment incentives were collected under a single law and the implementation of incentive system was made easier to apply. The rate of Investment Allowance was increased by 80%. The other measures were as follows; Tax Return From Exportation, Customs Tax Exemption and Legal Expropriation of Land for the Organized Industrial Regions. [Güvenli, 1981, 544]. The Encouragement Certificate began to be implemented with this same Law in 1967.

Before this Law the offices that were responsible for the applications for the encouragement of investments had been working under different Ministries. For example, the investment deduction application had been carried out by the Ministry of Finance, and exemption from customs taxes had been applied by a commission consisting of members charged by various Ministries and foundations.

The 24 January economic stabilization measurements had some regulations about the investment incentive measures too. According to the Law Number 4951 the Encouragement and Application Department and Foreign Capital Department were established. [OGD: 25.1.1980, OGN: 16880] Later these two Departments connected to SPO [Memorandum of Prime Ministry, OGD 22.6.1980, OGN: 16908]. Henceforth, the application of encouragement of investments under a single foundation has become possible.

1-Priorities

There are three categories in investment incentive policies which are given certain priorities. These are ; 1) Priorities according to the subject: This kind of priority is given to production goods investments. The second is given to intermediate goods investments. And the third order is given to consumption goods investments. But these types of investments can benefit primarily from the investment incentive measures on condition that they are assessed as being important or as having special importance. 2)Priorities given investors: The types of investors also have an important role given to in order for them to benefit from the investment incentive measures. For instance, Joint Stock Companies which are open to public, cooperatives and the companies whose the partners consist of the workers working abroad can primarily benefit from the investment incentive measures. 3)Priorities of region: One of the main purposes of incentive policy is to reduce the development gap between regions. The regulations, owing to their special importance, are prepared separately and they will comprise the focus of the below section.

2-Regions Having Priority In Development

The regions having priority in development are determined yearly with the Communiqués. Concerning the 1990 implementation of the program, the regions had been mentioned in the Communiqués number 89/14685 [OGD:4.11.1989, OGN: 20332] are as follows:

The Regions Having First Degree Priority In Development

1-Adıyaman	8-Hakkari
2-Ağrı	9-Kars
3-Bayburt	10-Mardin
4-Bingöl	11-Muş
5-Bitlis	12-Siirt
6-Diyarbakır	13-Tunceli
7-Gümüşhane	14-Van

The Regions Having Second Degree Priority In Development

1-Amasya	9-Malatya
2-Artvin	10-Kahramanmaraş
3-Çankırı	11-Sinop
4-Çorum	12-Sivas
5-Elazığ	13-Tokat
6-Erzincan	14-Şanlıurfa
7-Erzurum	15-Yozgat
8-Kastamonu	

In 1984, the Communiqués number 84/8303 about the investment incentive measures for regions having priority in development was put into force. With this Communiqués some special differences on measures were introduced.

For example, the investment in these regions can benefit from the Customs Tax Exemption although it was not mentioned in general encouragement list. Also, the rate of investment allowance was increased for these regions. Some exemption from various fee, duties and taxes were applied. The other differences have been examined in detailed in the Chapter-III before.

The regions which are not mentioned on the list are excepted as normal and developed regions.

3-Encouragement Certificate

Encouragement Certificate is the document that is given by the SPO to the investors for their investments that are approved as being in accord with the development plan and useful for the economy of the country. The properties of the investment are indicated on the certificate. The investment can benefit from the investment incentive measures if it realizes the specified conditions mentioned on the certificate.

Until 1985, this certificate had been a prior document for the investors who wished to benefit from the incentive measures for the investment subjects mentioned on the supplementary table of the annual program known as the General Encouragement Table. The investors then had to take another document called the Implication Document to use it with their encouragement certificate. Later, the encouragement certificate began to be used as an implication document. There was no need to have any additional documents to benefit from the incentive measures.

It was determined on the annual program decree of 1990 (Number 89/14685) that the investments having the conditions of minimum total fixed investment amount can take an encouragement certificate. The minimum total fixed investment amounts are shown in the Table-IV-1 below.

TABLE-IV-1 : Minimum Investment Amount Required

Years:	In Regions Having Priority in Development:	In Normal Regions:
1985	40 Million	80 Million
1986	50 Million	120 Million
1987	50 Million	120 Million
1988	150 Million	500 Million
1989	150 Million	750 Million
1990	250 Million	5 Billion

Source:Annual Program Decrees

The investment with an encouragement certificate can benefit from the incentive measures like, Investment Deduction, Source Utilization Support Premium, Exception from Construction Duty, Exemption from Tax and Duty, and Financial Fund if they are approved.

In principle, the investments in Services Sector can benefit from the incentives other than Investment Deduction, Financial Fund and Source Utilization Support Premium (Decree number:89/14685, Article:3).

The investments that are given the encouragement certificate must have the following qualifications;

a) suitability with the development plan and usefulness for the economy of country,

b) not being less than the minimum investment amount determined with the annual investment program,

c) not being on the supplementary list of the annual program that are not encouraged, (there is no such list in the annual program decree for the year 1990),

d) not having the minimum equity capital less than the amount determined by SPO.

TABLE-IV-2:The Rate of Minimum Investment Equity Capital

The Characteristics of The Investment:	The Rate of Minimum Equity Capital (%):					
	85	86	87	88	89	90
a) Investment in the regions having priority in development:	30	30	30	40	40	40
b) Investments in normal regions:	40	40	40	40	40	50
c) Investments in the developed regions(within the province borders of Istanbul, Kocaeli and within the municipality borders of Ankara, İzmir, Bursa, Adana):	50	50	50	60	60	60
d) All kinds of shipbuilding and related investments:	10	20	20	30	30	25
e) Tourism investments:	--	--	--	50	50	--
f) Agricultural investments:	20	25	25	35	35	--

Source: Incentive Communiqués.

According to the annual program decree for the year 1989, the investors had to apply to SPO with the encouragement document for their investments with a total fixed investment amount less than 3 billion TL. For the investments which exceeds this fixed investment amount, the Feasibility Report was required. Besides this the investors had to be pay for the

"Encouragement of Investments and Services Providing the Foreign Exchange Fund" of the Central Bank. The amount of this fund was 0,1% of the total investment amount. This amount could not exceed 20 million TL.

The fund amount was changed with the annual program for the year 1990. It is now 2 Million TL. for the investments in the regions having priority in development and 10 Million TL. for the investment in other regions. It is not taken from Financial Leasing Companies.

SPO, while evaluating the applications for investments, takes into consideration their overall capacity, their exportation capacities and the equilibrium of demand and supply in general. SPO may guide and advise if necessary, and indicate the incentive measures that the particular investment can benefit from and mention about the special conditions required.

It is obligatory to obey the rules, characteristics and the time limit of the investment mentioned on the certificate in order to benefit from the incentives. The investor can apply to SPO if he demands an increase of the investment amount by 30 percent and additional foreign exchange. Since the place and the subject of the investment are important for the utilization of the incentives, the investor can make no changes as to the subject or the place of the investment. However, if the investor demands a change of place for his investment, he can make a new application and ask for a new certificate from the SPO.

Only after electrical energy and water supply is provided and the buildings constructed and bank credits received can the investment be considered as having started.

The investors must report to the Head Office of the Industrial and Treasury every January and July during the phase of establishment and finally at the end of the completion of the investment. These reports are later sent to SPO.

SPO can take back the right of benefiting from the incentives if the investors do not obey the rules and the conditions mentioned on the encouragement certificate.

C-RENT-SEEKING ACTIVITIES

Most of the information cited below comes from the interviews with the officials and experts of SPO who are responsible for the approval and evaluation of the encouragement certificate applications and the counselors who help the investors while they are applying for the encouragement certificate from SPO. Unfortunately, it is not possible to document in detail most of the illegal rent-seeking activities which we believe might have occurred. For understandable reasons, the officials have generally been reluctant to give detailed information on the evaluation of encouragement certificate applications.

The disorganized and disorderly features of the legal regulations of the investment incentive measures cause some difficulties for most of the investors to benefit from them. It requires the investors to indulge in some detailed investigation and preliminary study before deciding to apply to SPO.

If the documents for application are incomplete or poorly prepared, the investors may or may not benefit from some measures. In some cases they may benefit from them with a low rate or amount.

In practice, the investors apply to get an encouragement certificate in order to benefit from the investment incentive measures by three ways. 1)they may apply themselves, 2)with the help of some person and foundation, 3)with the help of some professional consulting firms.

1) If the investor applies himself to get an encouragement certificate, he must prepare the necessary documents himself. Disorderly characteristics of the incentive system makes difficult the job of the investors. Most of the time they can not benefit from all advantages that their investment could actually have or they may benefit from them under considerably lower amounts or rates.

2) Some officials and experts working for SPO may prepare necessary documents for the investors. Naturally, they receive some payment for their help. However, this is not legal. The officials and experts are not allowed to do this since they may not be impartial and there may be some overgrading concerning the realization of the investment. There may also be free-lance individuals who follow the procedures for application for the investors.

3)Professional consulting firms not only prepare the necessary documents for application but they also give some advise and help to the investors about their subject of investment, its technology, the place and the capacity. These foundations also prepare the feasibility reports of investments. They try to receive and make use of all the investment incentive measures. This way may cost a lot to the investors but it makes their jobs easier.

According to the Article-47 of Communiqués (number 89/14674) if the investor is a company or a joint ownership company only the one who has been charged by its council of managers can apply and follow the job in SPO for this company. But this person must be a member of council of managers or a partner of company. Hence, it is essential that the investor must apply in person.

Only the lawyers are granted the right to apply for the investor they represent. There are no reasonable explanations of this when we consider that most of the experts in SPO who prepare the laws, Communiqués and decrees about investment incentive measures are lawyers.

To avoid this the professional counselling firms first become a partner of the company they are going to work for and then they follow the jobs. When the encouragement certificate and other necessary documents and permissions have been received the partnership of the counselling firm ends.

In 1989, some counselling firms free-lance and professionals established an association to follow the jobs of investors in SPO. But Prime Ministry did not give permission to this association.

There are no organized institutions capable of intervention in regulations about investment incentive measures. But this does not mean that no pressures on this regulation have occurred. Some of the regulations about the measures concern general issues and minor changes are made with additional decrees. However, these may not be noticeable as far as the majority of the investors are concerned. Most of the small investors can not follow these changes. Only the ones who follow these changes in regulations can benefit from them. In some cases the new regulations may be about some special investment subjects or production of some special goods. For example, until recently, the manufacturers of foreign brand motor-cars could not benefit from the investment incentive measures. But with an unexpected change in the regulation, this was changed on May 1990. Then three big Turkish firms had a permission from SPO to produce three foreign brand motor-cars in Turkey. As a result of this we may say that some powerful pressure groups have reached their aim.

To sum up, we can say that the intervention in the regulations on investment incentive measures may be collected under three main topics. First is the pressures from the society; most of these pressures come from consumers and from collective activities of small investors. Second is the political preferences of the ruling government; the government organizes the investment incentive measures according to its economic and social programs rather than the needs of the society. Third one is the pressures from big companies and firms; generally big companies and firms are influential on the decisions taken by the government. They can force the government to change the regulations according to their needs. Obviously, the most effective group is the third type.

V-THE ANALYSIS OF ENCOURAGED INVESTMENTS IN TURKEY AFTER 1980

In this chapter the investments that have been encouraged after 1980 will be examined. The data used here were obtained from the annual reports of "Teşvik Uygulama Başkanlığı" of SPO.

These reports contain yearly data about the investments that were given Encouragement Certificates. The tables in these reports consist of data about the number of certificates, the amount of investments, their working capital, foreign exchange requirements, employment and export engagements for a five-year period until 1984. Also the data about the encouraged investments in regions having priority in development have been organized in other tables.

We have reorganized these data for the period 1980-1989 for our purposes. These are; 1)Sectoral Breakdown of Total Encouraged Investments (Appendix-1), 2)Sectoral Distribution of Certificates (Appendix-2), 3)Sectoral Distribution of Working Capital (Appendix-3), 4)Total Encouraged fixed Investments (Appendix-4), 5)Foreign Exchange Requirements for Investments (Appendix-5), 6)Employment Capacities of Encouraged Investments (Appendix-6).

The data for Encouraged Investments in Regions Having Priority in Development were organized similarly for the years 1980-1989. These are; 1)Sectoral Breakdown of Incentive Certificate (Appendix-7), 2)Total Encouraged Investments (Appendix-8), 3)Working Capital (Appendix-9), 4)Total Encouraged Fixed Investments (Appendix-10), 6)Foreign Exchange

Requirement (Appendix-11), 7)Capacity of Employment (Appendix-12).

The figures calculated and formed as tables using the data above are as follows; 1)Total Fixed Investments Which are Not Encouraged: These are calculated by subtracting total encouraged fixed investments from total fixed investments, 2)Total Encouraged Fixed Investments in Normal and Developed Regions: These are calculated by subtracting encouraged investments in regions having priority in development from total fixed investments. It was assumed that all investments which took place in regions having priority in development have an encouragement certificate. The reason for this assumption is that no data was available on investments which are not encouraged in these regions. Moreover, the authorities of "Kalkınmada Öncelikli Yöreler Başkanlığı" of SPO said that there are no data for such investments. It was accepted by the same authorities that the investments that were realized in these regions were so little that they can be neglected or they may be assumed to benefit from the encouragement measures. 3)Total Encouraged Investments in Normal and Developed Regions; These are was calculated by subtracting total encouraged investments in regions having priority in development from total encouraged investments.

Unfortunately, no data on the realized encouraged investments in Turkey could be found. The data obtained from the reports mentioned above are the data about investments undertaken by the investors while they were carrying out the procedures to receive the encouragement certificate. It is assumed by the authorities of "Teşvik Uygulama Başkanlığı" of

SPO that all encouraged investments are not realized or partly realized in a longer period of time which was not foreseen, and the amount of total investments may be different from the amount mentioned. On the other hand, the data about encouragement measures could not be found separately either. The same authorities said these can not be organized due to a number of difficulties.

The weak points of our study emerge from lack of these two types of data. We have been unable to find the opportunity to examine the investment incentive measures separately, since we do not know which measures were used and by what amount. Consequently, the examination of encouraged investments has been assessed by the help of the predictions of the investors.

This chapter attempts to show how the investment incentive policies coincide or contradict with the goals of development plans. These goals may be pointed out as follows; development, industrialization, reduction of development gap between regions and increase in employment.

To do these, the total fixed investments will be examined in the first part of the chapter. Then, the investments having encouragement certificate will be examined.

We have used the fixed prices in our study instead of current prices. For this reason, the investment amounts used in the tables were deflated to 1988 fixed prices by using investment deflator given in the appendix (Appendix-1).

A-FIXED INVESTMENTS

In this part of the study we will analyze the total fixed investments in general and total fixed investments in normal and developed regions.

1-Total Fixed Investments

When we look into the total fixed investments for the period 1980-1989 we see that there were no important changes in three sectors of the overall five main sectors. These sectors are Agricultural, Mining and Energy Sectors. The investments in other two sectors changed by the end of the period as compared to the beginning of the period. These two sectors are Manufacturing and Services Sectors.

The amount of investment expenditures in Manufacturing Sector decreased from 1980 to 1989 with a smooth trend. In 1984 and 1987, the decreases of investments in this sector were more than the decreases in other years.

On the other hand, the investments in the Services Sector increased with a sharp trend from 1981 to 1989. This had been slower between the years 1981 and 1984 but increased at a faster rate between the years 1984 and 1987.

We can see the amount and shares of investments in sectors from the tables and graphs below.

Table-1 and Graph-1 show the total fixed investments for the period 1980-1989 with 1988 fixed prices. Table-2 and Graph-2 show the percentage shares of sectors of total fixed investments for the same period.

TABLE-V-1
Total Fixed Investments By Sectors
(Public+Private)-(1988 Prices, Billion TL.).

Sectors/ Years	Agricul ture	Mining	Manufac turing	Energy	Services	Total:
1980	1185.3	936.9	6158.9	2606.3	6887.1	17774.5
1981	1586.4	1309.4	5679.9	2869.5	6427.2	17872.4
1982	1620.9	1085.8	5039.9	3081.6	6742.0	17570.1
1983	1706.9	1160.0	4556.6	3142.2	7321.5	17887.1
1984	1682.6	1119.9	4381.1	2821.2	7996.5	18001.2
1985	1488.6	1472.1	4616.1	3069.8	10335.9	20982.5
1986	1501.8	1107.6	4613.8	3566.5	12491.8	23281.6
1987	1871.1	716.0	3851.4	3258.5	14844.3	24541.1
1988	1799.2	612.4	3726.7	3054.6	14992.0	24184.8
1989	1855.5	658.7	3763.8	2772.4	15541.2	24591.6

Source: Annual Repors Of Teşvik Uygulama Bşk., SPO,(1980-1989).

GRAPH-V -1

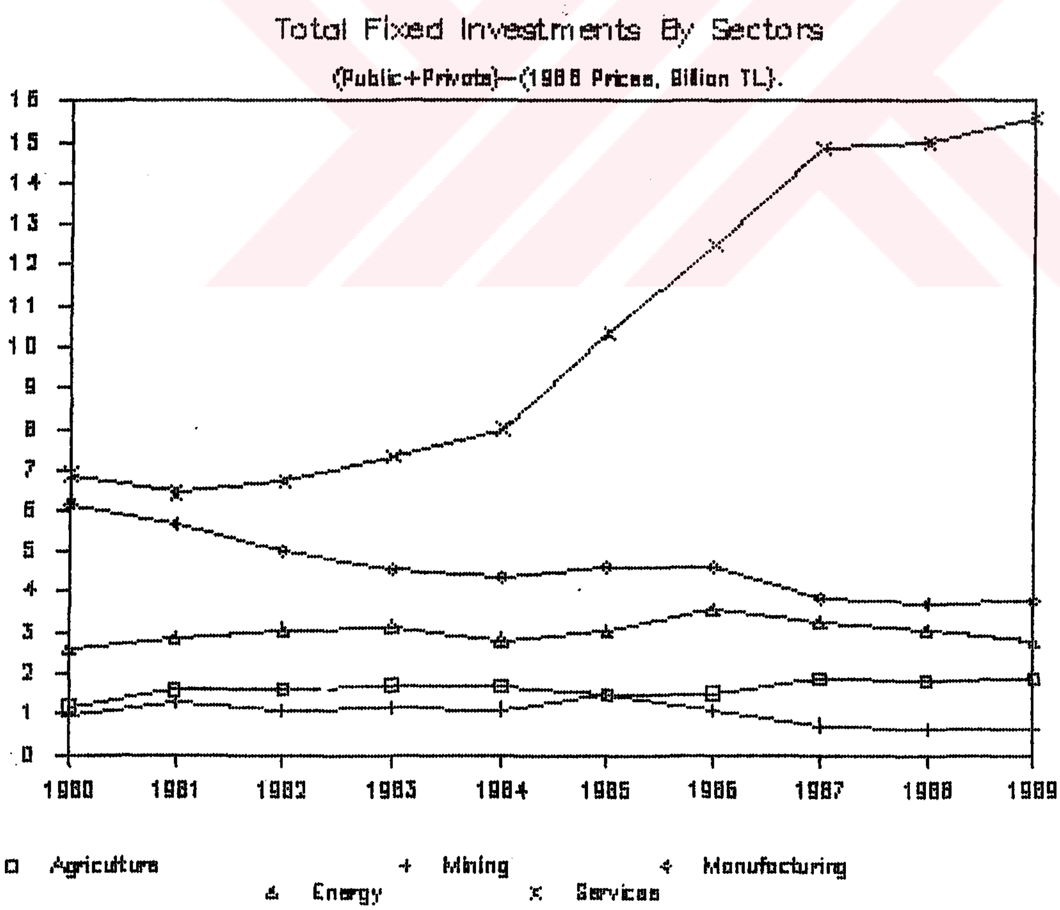
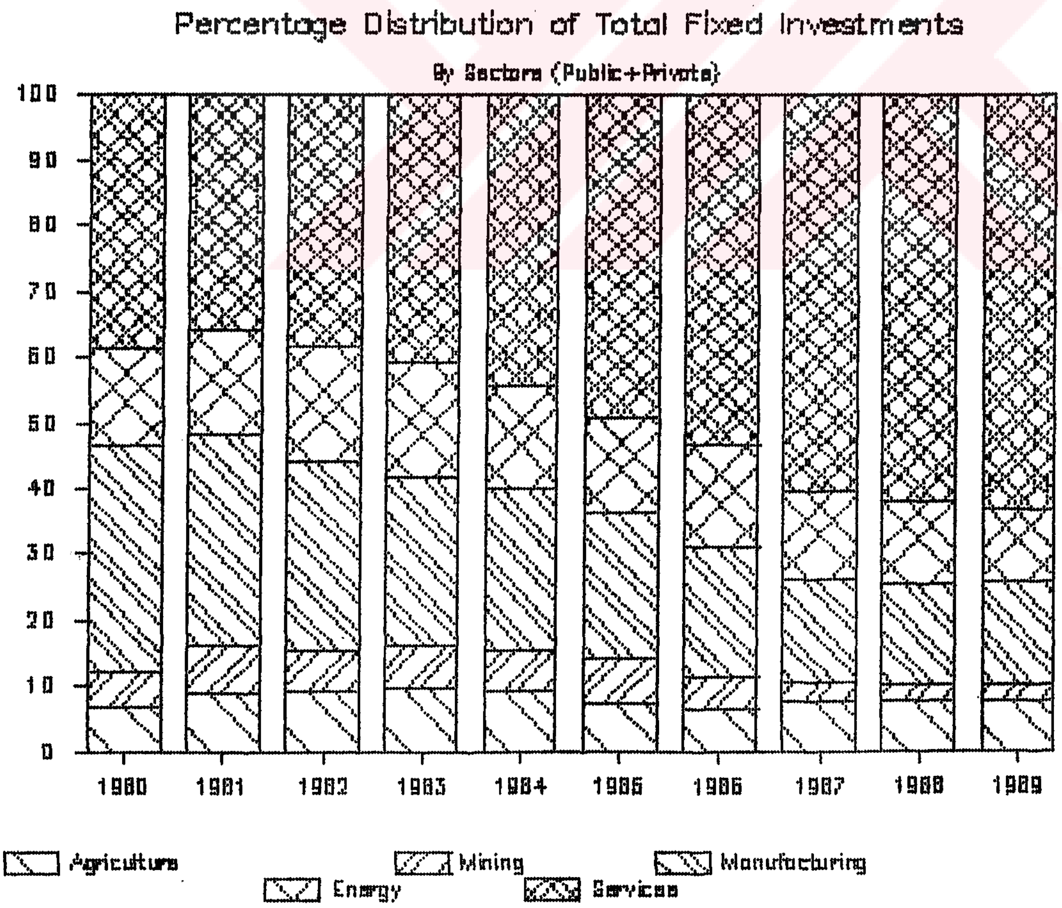


TABLE-V-2
Percentage Distribution of Total Fixed Investments
By Sectors (Public+Private)

Sectors/ Years	Agriculture	Mining	Manufacturing	Energy	Services	Total:
1980	6.7	5.3	34.7	14.7	38.7	100
1981	8.9	7.3	31.8	16.1	36.0	100
1982	9.2	6.2	28.7	17.5	38.4	100
1983	9.5	6.5	25.5	17.6	40.9	100
1984	9.3	6.2	24.3	15.7	44.4	100
1985	7.1	7.0	22.0	14.6	49.3	100
1986	6.5	4.8	19.8	15.3	53.7	100
1987	7.6	2.9	15.7	13.3	60.5	100
1988	7.4	2.5	15.4	12.6	62.0	100
1989	7.5	2.7	15.3	11.3	63.2	100

Source: Own calculation from the TABLE-V-1.

GRAPH-V-2



As it can be seen from these tables and graphs in 1980, a sum of 17774.5 Billion TL. of total fixed investments were realized. A portion of 38.7% of this amount was in the Services Sector. The share of investments in Manufacturing Sector was 34.7% at that year. The shares of investments in other sectors were as follows; 14.7% in Energy Sector, 6.7% in Agricultural Sector and 5.3% in Mining Sector.

As we have mentioned above there were important changes in Services Sector investments and Manufacturing Sector investments. For example, the investments in Services Sector had increased continuously compared to the investments in the previous year. The highest increase was in 1985 with a rate of 29.3% as compared to the investments in 1984 . These increasing rates continued in 1986 and 1987. But the investments in Manufacturing Sector decreased continuously in the period 1980-1989 with the exceptions in 1985 and 1986. Drastic decreases occurred in 1982 at a rate of 11.3% and in 1987 at a rate 16.5%. (see the Table-3 and Graph-3)

If we take 1980 as our basis for our investigation, annual changes of fixed investments by sectors with respect to this year can be seen from the Table-4 and Graph-4.

The variation of fixed investments in Manufacturing Sector as compared to 1980 was 0.92 in 1981. This was the most notable variation of the period 1980-1989. The least variations occurred in 1987 and 1988 with a ratio of 0.61. On the other hand, the variation in services sector was 0.93 in 1981 and 2.29 in 1989. But the variation of total fixed investments in 1989 was only 1.38.

TABLE-V-3
Annual Change of Total Fixed Investments By Sectors

Sectors/ Years	Agricul ture	Mining	Manufac turing	Energy	Services	Total:
1980						
1981	33.8	39.8	-7.8	10.1	-6.7	0.6
1982	2.2	-17.1	-11.3	7.4	4.9	-1.7
1983	5.3	6.8	-9.6	2.0	8.6	1.8
1984	-1.4	-3.5	-3.9	-10.2	9.2	0.6
1985	-11.5	31.5	5.4	8.8	29.3	16.6
1986	0.9	-24.8	0.0	16.2	20.9	11.0
1987	24.6	-35.4	-16.5	-8.6	18.8	5.4
1988	-3.8	-14.5	-3.2	-6.3	1.0	-1.5
1989	3.1	7.6	1.0	-9.2	3.7	1.7

Source: Own calculation from tha TABLE-V-1.

GRAPH-V-3

Annual Change of Total Fixed Investments By Sectors

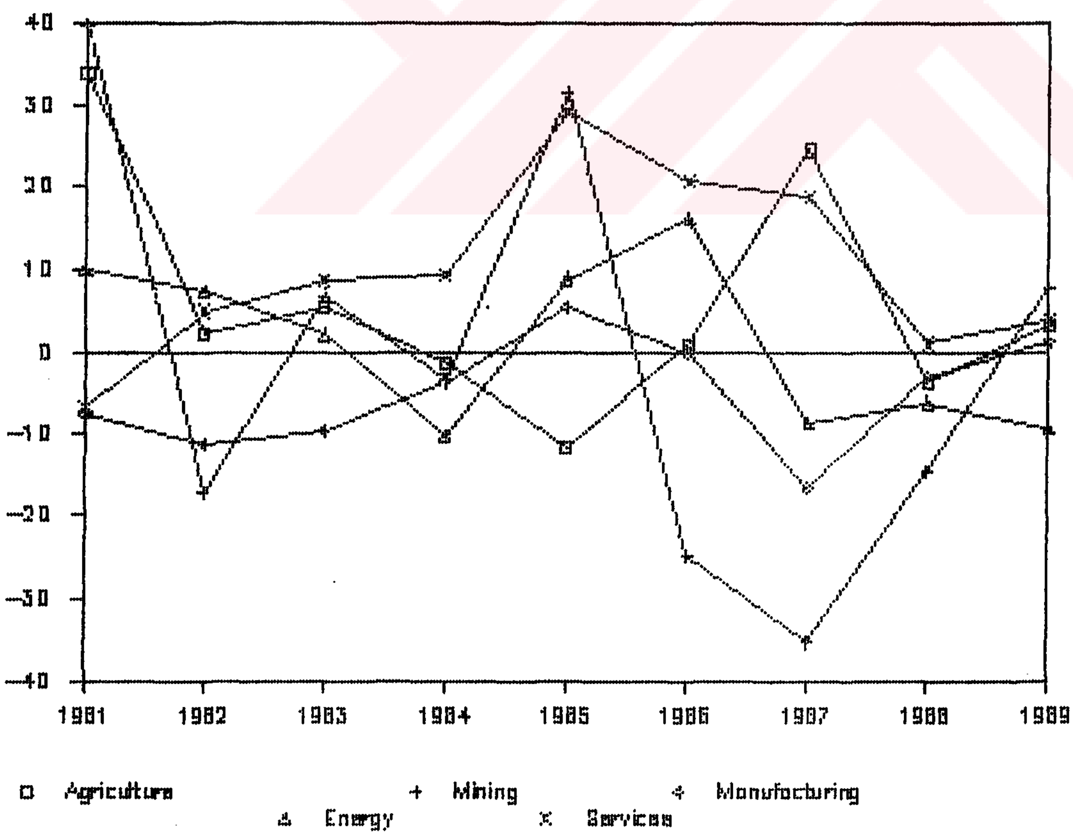
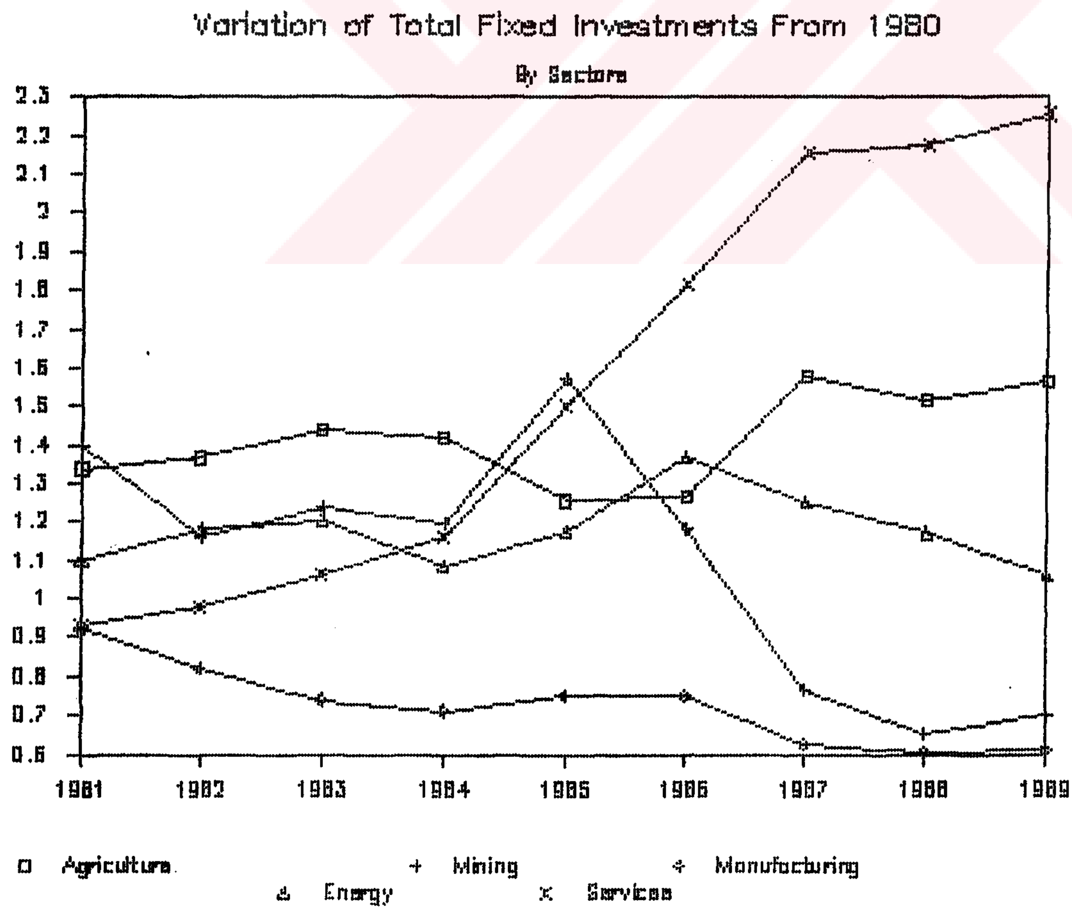


TABLE-V-4
Variation of Total Fixed Investments From 1980
By Sectors

Sectors/ Years	Agricul ture	Mining	Manufac turing	Energy	Services	Total:
1980						
1981	1.34	1.40	0.92	1.10	0.93	1.01
1982	1.37	1.16	0.82	1.18	0.98	0.99
1983	1.44	1.24	0.74	1.21	1.06	1.01
1984	1.42	1.20	0.71	1.08	1.16	1.01
1985	1.26	1.57	0.75	1.18	1.50	1.18
1986	1.27	1.18	0.75	1.37	1.81	1.31
1987	1.58	0.76	0.63	1.25	2.16	1.38
1988	1.52	0.65	0.61	1.17	2.18	1.36
1989	1.57	0.70	0.61	1.06	2.26	1.38

Source: Own calculation from tha TABLE-V-1.

GRAPH-V-4



The annual changes of total fixed investments and their variations from 1980 show us that the resources had been transferred from Manufacturing Sector to Services Sector in the period we examined. As a matter of fact, the share of Services Sector was 63.2% in 1982. However Manufacturing Sector had only 15.3% share in total fixed investments in the same year.

This study shows us that the fixed investments were realized on the contrary expectations of the industrialization goals of development plans.

2-Total Fixed Investments In Normal And Developed Regions

One of the most important goals of the development plans is to reduce the development gap between regions. For this reason we consider it necessary to examine the investments in normal and developed regions. This will also show us the breakdown of investments between these regions and underdeveloped regions. Tables 5, 6 and graphs 5, 6 will help us understand the situation more clearly.

No important changes occurred in Energy, Mining and Agricultural Sectors in the period we examined as regards their total fixed investments. But the investments in the remaining two sectors had changed. These are Manufacturing and Services Sectors.

The investments in Services sector had increased continuously while the investments in Manufacturing Sector had decreased.The increase in Services Sector had partly been the result of the increase of total fixed investments. But this increase in Services Sector had actually been more than the increase in total fixed investments. It may also be claimed that the increase in this sector had emerged from the decrease of other sectors' investments, especially from the decrease in Manufacturing Sector. As it had been the case in the total fixed investments, we may say that there had been resource transfer from other sectors -mostly from Manufacturing Sector- to Services Sector.

The investments in Services Sector increased from 6865.9 Billion TL. (in 1980) to 15371.8 Billion TL. (in 1989). On the other hand, in the same years, the investments in Manufacturing Sector decreased from 4621.2 Billion TL. to 2538.6 Billion TL.. The share of Services Sector was 42.4% in 1980. Their share decreased to 36.4% in 1981, but increased again towards 1989. The share was 67% in 1989.

The share of Manufacturing Sector was 29.6% in 1981. It decreased continuously from this year to 1989. In 1989 the rate was only 11.1%. The share of other sectors had changed slightly in the same years, but on the average they had not changed notably.

This proves our conclusion that the resources had been transferred from Manufacturing Sector to Services Sector.

The total fixed investments in general and the fixed investments in Normal and Developed Regions resemble each other in the period we examined. We can say that, an important part of the total fixed investments consisted of the investments realized in Normal and Developed Regions and they had been affected by these.

In fact, the part of the investments we examined above were encouraged investments. Conceivably, we can have some evidence about the breakdown of encouraged investments between

TABLE-V-5
Total Fixed Investments in Normal and Developed Regions By Sectors (1988 Prices, Billion TL.).

Sectors/ Years	Agricul ture	Mining	Manufac turing	Energy	Services	Total:
1980	1171.4	920.4	4621.2	2599.2	6865.9	16178.2
1981	1483.1	1140.2	4765.9	2858.9	5856.6	16104.5
1982	1594.7	1071.6	4938.4	3081.6	6619.4	17305.7
1983	1694.9	964.1	4441.8	3142.2	7043.5	17286.6
1984	1669.5	1027.5	4119.4	2818.5	7946.1	17581.0
1985	1477.6	1301.2	4457.9	1902.9	10132.3	19271.9
1986	1487.5	1046.2	3808.6	3561.2	11706.9	21610.4
1987	1821.4	684.1	3409.2	3217.2	14705.7	23837.6
1988	1760.1	571.9	2683.1	3013.6	14899.9	22928.6
1989	1652.1	604.1	2538.6	2772.4	15371.8	22939.0

Source: Own calculation.

GRAPH-V-5

Total Fixed Investments in Normal and Developed Regions

By Sectors (1988 Prices, Billion TL.).

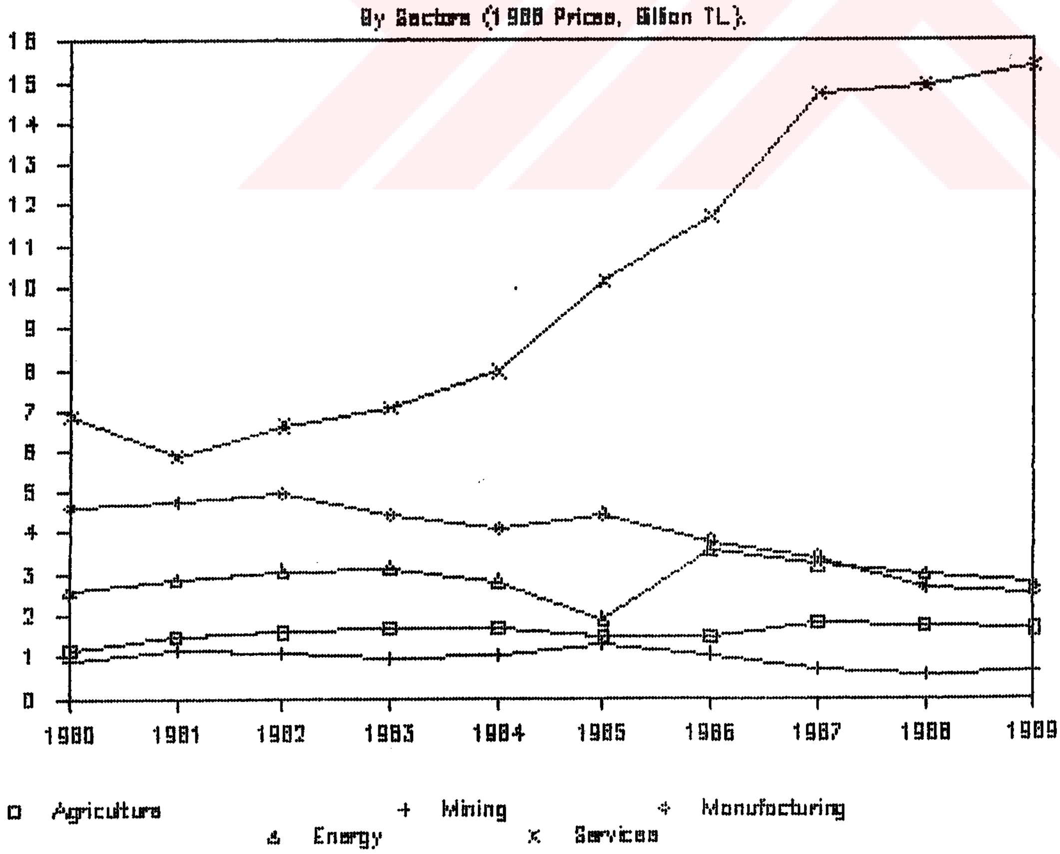
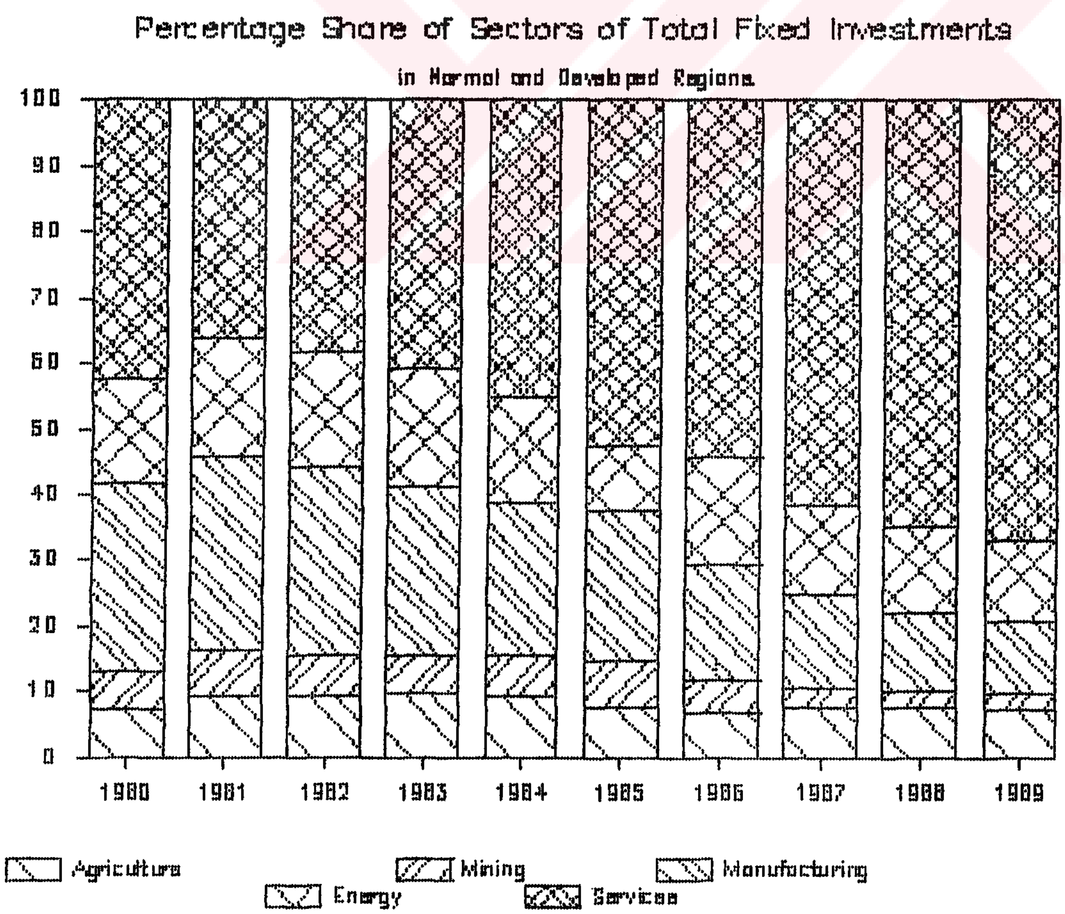


TABLE-V-6
Percentage Share of Sectors of Total Fixed Investments in Normal and Developed Regions.

Sectors/ Years	Agricul ture	Mining	Manufac turing	Energy	Services	Total:
1980	7.2	5.7	28.6	16.1	42.4	100
1981	9.2	7.1	29.6	17.8	36.4	100
1982	9.2	6.2	28.5	17.8	38.3	100
1983	9.8	5.6	25.7	18.2	40.7	100
1984	9.5	5.8	23.4	16.0	45.2	100
1985	7.7	6.8	23.1	9.9	52.6	100
1986	6.9	4.8	17.6	16.5	54.2	100
1987	7.6	2.9	14.3	13.5	61.7	100
1988	7.7	2.5	11.7	13.1	65.0	100
1989	7.2	2.6	11.1	12.1	67.0	100

Source: Own calculation from the TABLE-V-5.

GRAPH-V-6



normal and developed regions and the regions having priority in development. It may be said that the investments had been encouraged more in normal and developed regions rather than in regions having priority in development. A more detailed analysis of this situation will be made in the next part of this chapter.

B-ENCOURAGED INVESTMENTS

We will now examine the encouraged investments for the period 1980-1989. The study has been organized to cover total encouraged investments, encouraged investments in Regions Having Priority in Development (RHPD) and in Normal and Developed Regions (NDR). The breakdown of the investments between NDR and RHPD, percentage distribution between geographical regions, and their distribution according to types are also included.

At the end of this part we will be able to comment on the investment incentive policy as to whether it has been employed according to the goals of development plans.

1-Total Encouraged Investments

It is not possible to say that there were any clear policies that were applied in the period 1980-1989. The amount and sectoral breakdown of encouraged investments and their regional distribution had changed from year to year. (see the tables 7, 8 and graphs 7, 8)

In 1980, the investments in Manufacturing Sector were encouraged more. The percentage share of this sector in total

TABLE-V-7
Sectoral Breakdown of Total Encouraged Investments
(1988 Prices, Billion TL.)

Sectors/ Years	Agricul ture	Mining	Manufac turing	Energy	Services	Total:
1980	380.2	72.0	3350.6	9.5	233.2	4045.5
1981	386.2	504.9	7831.5	9.7	5737.7	14470.0
1982	171.7	181.9	2432.0	13.4	2539.7	5338.8
1983	116.4	281.5	2143.4	26.9	1669.7	4237.9
1984	83.1	1301.5	2932.8	159.6	1170.5	5647.5
1985	112.6	541.4	3171.6	6363.3	3304.6	13493.5
1986	71.5	827.0	4749.6	550.1	6486.0	12684.2
1987	232.8	906.4	4207.3	1176.3	5009.4	11532.2
1988	110.0	225.7	5485.2	1074.4	4393.8	11289.1
1989	261.8	313.8	5714.6	221.4	5111.2	11622.9

Source: Annual Reports of Teşvik Uygulama Bşk., SPO, 1980-1989.

GRAPH-V-7

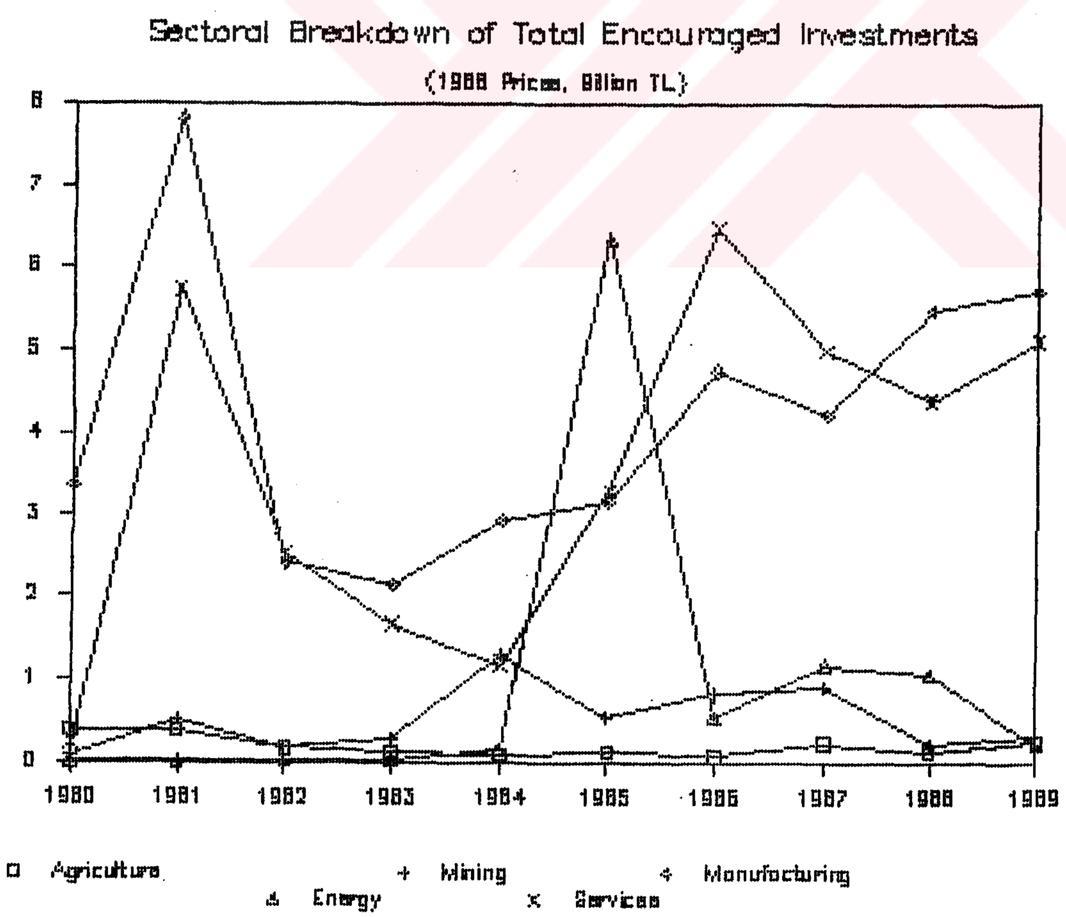
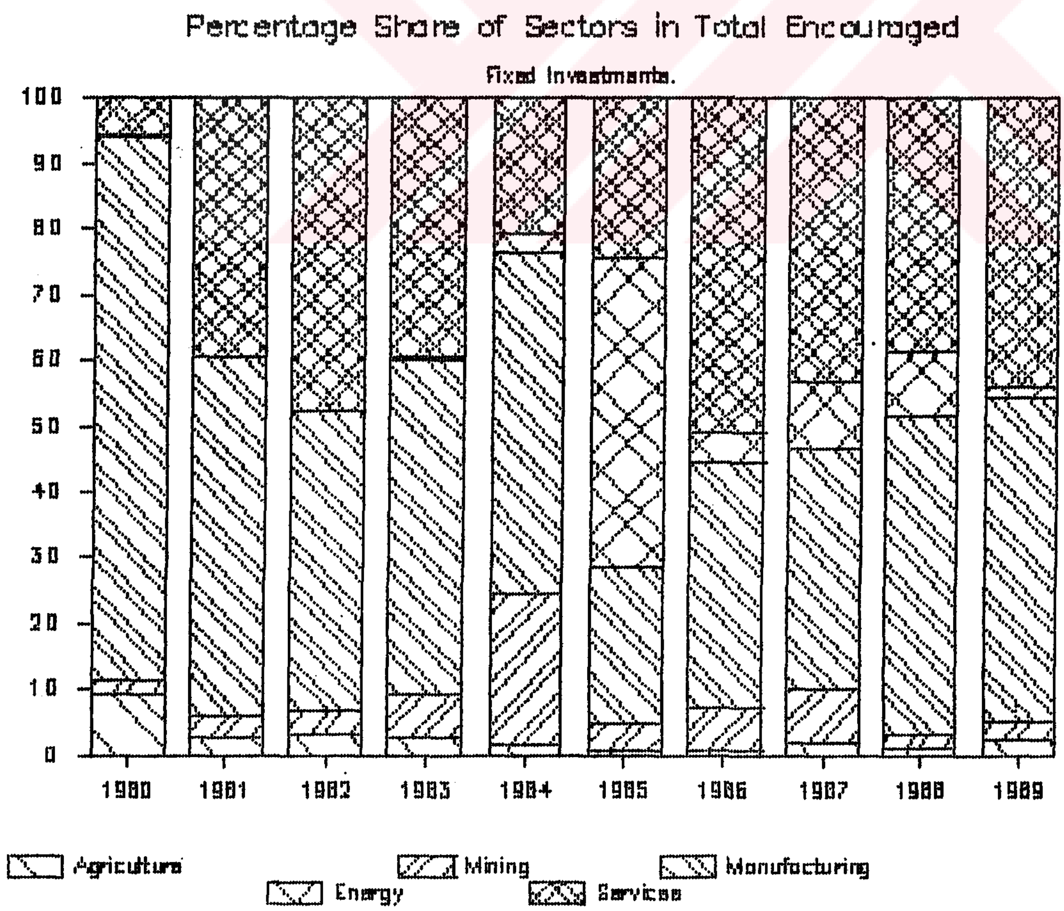


TABLE-V-8
Percentage Share of Sectors in Total Encouraged Fixed Investments.

Sectors/ Years	Agricul ture	Mining	Manufac turing	Energy	Services	Total:
1980	9.4	1.8	82.8	0.2	5.8	100
1981	2.7	3.5	54.1	0.1	39.7	100
1982	3.2	3.4	45.6	0.3	47.6	100
1983	2.7	6.6	50.6	0.6	39.4	100
1984	1.5	23.0	51.9	2.8	20.7	100
1985	0.8	4.0	23.5	47.2	24.5	100
1986	0.6	6.5	37.4	4.3	51.1	100
1987	2.0	7.9	36.5	10.2	43.4	100
1988	1.0	2.0	48.6	9.5	38.9	100
1989	2.3	2.7	49.2	1.9	44.0	100

Source: Own calculation from the TABLE-V-7.

GRAPH-V-8



encouraged investments was 82.8% and the remaining four sectors shared only 17.2% in total. This may be accepted as a good application to realize the industrialization goals of the development plans.

But, the share of this sector began to decrease after 1981. It was 23.5% in 1985 which was the lowest rate of the period. It had increased after 1985 but never reached the rate it had in 1980. The share was 49.2% in 1989. These decreases and increases of the shares of investments in Manufacturing Sector may be evaluated as a sign of mismanagement of investment incentive policy.

On the other hand, the share of encouraged investments in Services Sector in total encouraged investments had increased from 1980 to 1989. The amount of was only 233.2 Billion TL. in 1980 and increased to 5111,2 Billion TL in 1989. The shares in 1980 and 1989 were 5.8% and 44% restpectively.

By looking at the tables 7, 8 and graphs 7, 8 we can see that there were no important changes in other sectors while changes had taken place in Manufacturing and Services sectors. This shows us that the encouragement of the investments in Services Sector had been preferred more with respect to other sectors in period 1980-1989.

This does not cause any negative results by itself. But if it had been increased by reducing the investments in Manufacturing Sector, one can conclude that the investment incentive policy had been abused on the contrary goals of development plans.

2-Encouraged Investments In Regions Having Priority In Development

One of the reasons for encouraging the investments is to reduce the development gap between regions. To realize this, the investments in regions having priority in development are encouraged more. In these regions the amount and the rate of investment incentive measures are applied more than the other regions. For example, the rate of investment allowance may be increased as much as 100 percent. Because of this difference the investors may want to invest more in these regions.

In this part of our study, the investments having encouragement certificate in regions having priority in development will be examined according to their expenditure amount and their sectoral percentage shares. As we have noted above, all investments in those regions are encouraged. Thus, this examination will also give us an idea about the total investments in those regions .

When we look into the encouragement of investment applications in these regions we see some positive results. For example, in these regions the investments in Manufacturing Sector had been encouraged more with respect to other sectors' investments. The share of Manufacturing Sector was 96.3% in total investments in these regions. This high rate continued from this year to 1989. Although there were decreases they can not be considered as important. (see the Table-9 and Graph-9)

It is not enough to examine the encouraged investments in those regions one by one to be able to say that investment incentive measures had been used successfully. We have to consider the distributions of encouraged investments between NDR and RHPD.

TABLE-V-9
Sectoral Breakdown of Encouraged Fixed Investments in Regions Having Priority in Development (1988 Prices, Billion TL.)

Sectors/ Years	Agricul ture	Mining	Manufac turing	Energy	Services	Total:
1980	13.9	16.5	1537.7	7.1	21.2	1596.3
1981	103.4	169.2	914.0	10.6	570.7	1767.9
1982	26.2	14.2	101.5	0.0	122.6	264.4
1983	11.9	195.9	114.8	0.0	278.0	600.5
1984	13.1	92.3	261.7	2.7	50.4	420.2
1985	11.0	170.9	158.2	1166.9	203.6	1710.6
1986	14.3	61.4	805.2	5.4	784.9	1671.2
1987	49.7	31.9	442.1	41.2	138.6	703.5
1988	39.1	40.5	1043.6	41.0	92.1	1256.2
1989	203.4	54.6	1225.2	0.0	169.4	1652.6

Source: Annual Reports of Teşvik Uygulama Bşk.,SPO, (1980-1989).

GRAPH-V-9

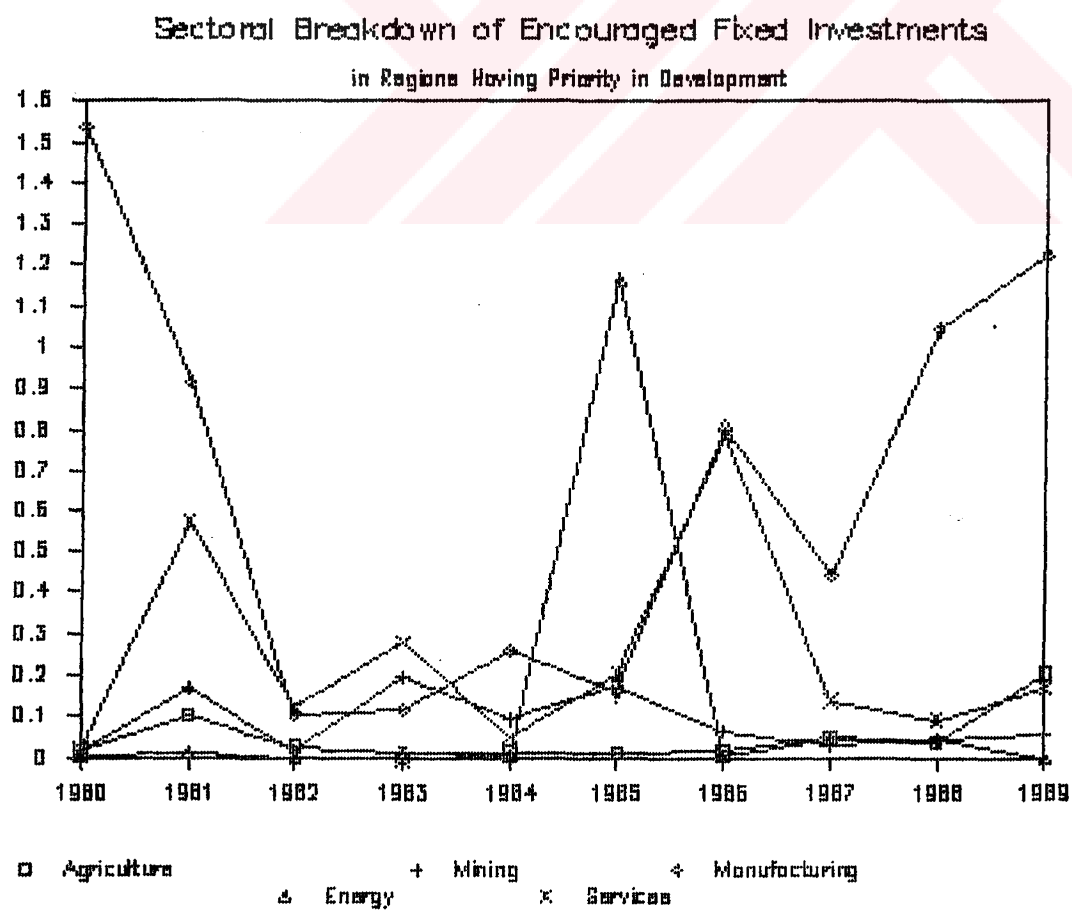
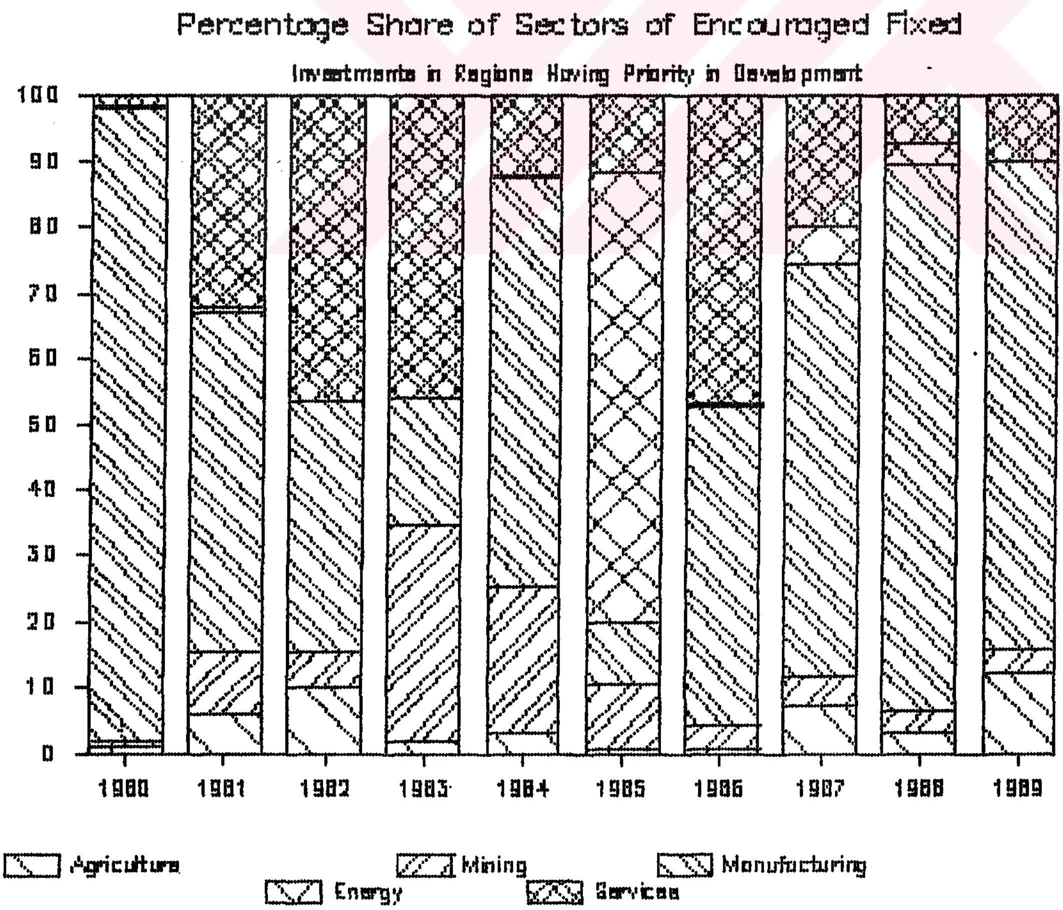


TABLE-V-10
Percentage Share of Sectors of Encouraged Fixed Investments in Regions Having Priority in Development

Sectors/ Years	Agricul ture	Mining	Manufac turing	Energy	Services	Total:
1980	0.9	1.0	96.3	0.4	1.3	100
1981	5.8	9.6	51.7	0.6	32.3	100
1982	9.9	5.4	38.4	0.0	46.4	100
1983	2.0	32.6	19.1	0.0	46.3	100
1984	3.1	22.0	62.3	0.7	12.0	100
1985	0.6	10.0	9.3	68.2	11.9	100
1986	0.9	3.7	48.2	0.3	47.0	100
1987	7.1	4.5	62.8	5.9	19.7	100
1988	3.1	3.2	83.1	3.3	7.3	100
1989	12.3	3.3	74.1	0.0	10.2	100

Source: Own calculation from the TABLE-V-9.

GRAPH-V-10



3-Encouraged Investments In Normal And Developed Regions

The two sectors, Manufacturing Sector and Services Sector had an important weight in encouraged investments in Normal and Developed Regions (NDR). The other three sectors' investments had been encouraged less than these two sectors. Table-11 and 12 and Graph-11 and 12 had been prepared to help clarify the situation.

The encouraged investments in Manufacturing Sector had decreased continuously in the period 1980-1989. The share of encouraged investments in this sector was 74% in 1980. This rate decreased by 25.6% in 1985 at its lowest. At the end of the period it was 45%. At that year the total encouraged investments were 9970.3 Billion TL. and the Manufacturing Sector investments comprised only 4489.4 Billion TL..

Again, the investments in Services Sector had been encouraged at an increasing rate in this period. In 1980, their share was 8.7%. This was the lowest rate of the period. In 1980, 212 Billion TL. amount of encouraged investment was allocated to Services Sector. This amount reached 4941.9 Billion TL. in 1989 which was more than the encouraged investments in Manufacturing Sector. It's percentage share was 49% at that year.

The allocation of this much share for the investments in Services Sector in total encouraged investments in NDR may be accepted as a positive result since these regions are densely populated regions. And the investments of the Services Sector increase the well-being of the citizens by providing easy transportation and communication facilities.

TABLE-V-11
Total Encouraged Investments in Normal and Developed Regions (1988 Prices, Billion TL.).

Sectors/ Years	Agricul ture	Mining	Manufac turing	Energy	Services	Total:
1980	366.3	55.4	1813.0	2.4	212.0	2449.2
1981	282.9	335.7	6917.5	-0.9	5167.0	12702.1
1982	145.5	167.7	2330.6	13.4	2417.2	5074.4
1983	104.5	85.6	2028.6	26.9	1391.7	3637.4
1984	70.1	1209.1	2671.1	156.9	1120.1	5227.3
1985	101.6	370.5	3013.3	5196.4	3101.0	11782.9
1986	57.2	765.6	3944.4	544.7	5701.1	11013.0
1987	183.2	874.4	3765.2	1135.1	4870.8	10828.7
1988	70.9	185.2	4441.6	1033.4	4301.7	10032.9
1989	58.3	259.3	4489.4	221.4	4941.9	9970.3

Source: Own calculation.

GRAPH-V-11

Total Encouraged Investments in Normal and Developed Regions (1988 Prices, Billion TL.).

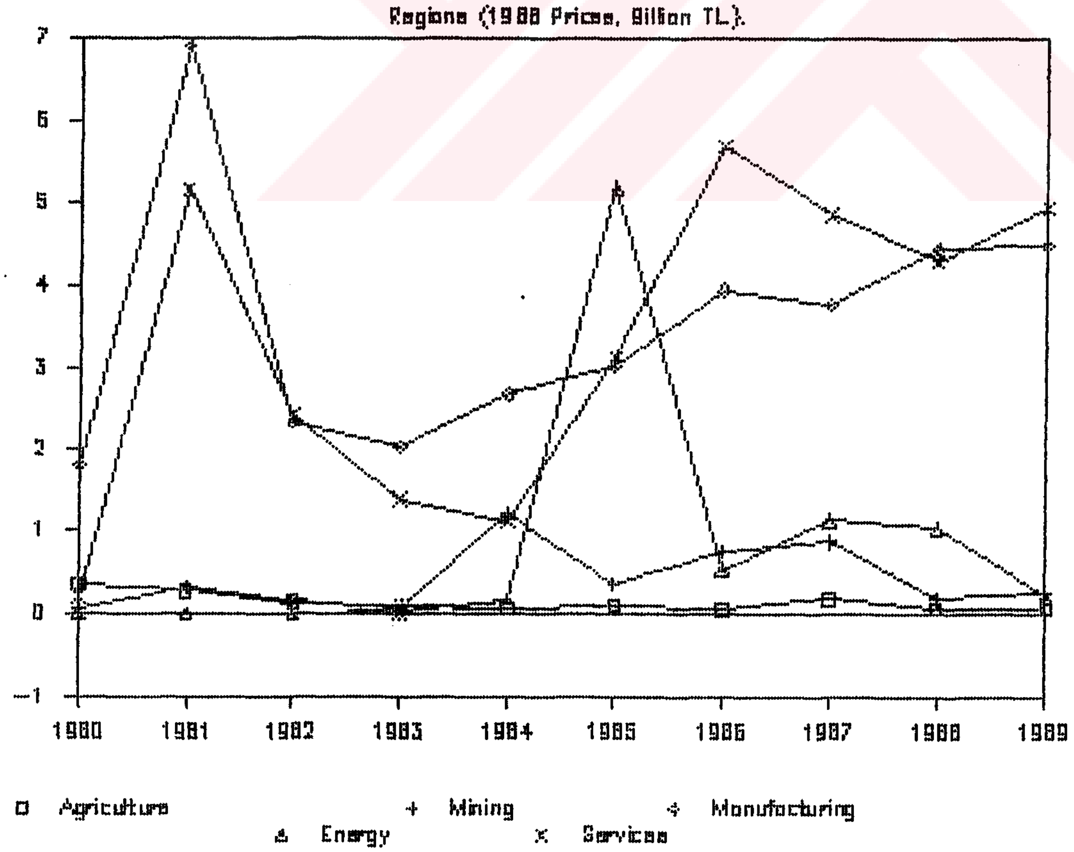


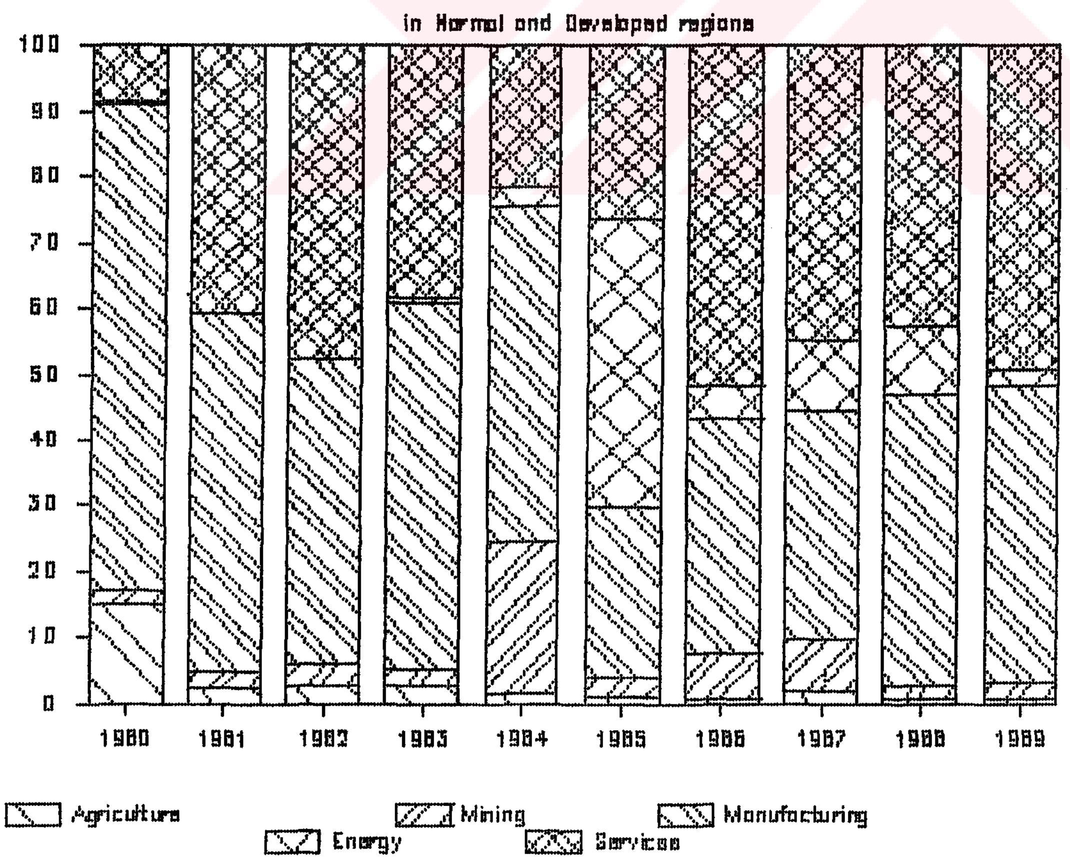
TABLE-V-12
Percentage Share of Sectors of Encouraged Investments in Normal and Developed regions

Sectors/ Years	Agriculture	Mining	Manufacturing	Energy	Services	Total:
1980	15.0	2.3	74.0	0.1	8.7	100
1981	2.2	2.6	54.5	0.0	40.7	100
1982	2.9	3.3	45.9	0.3	47.6	100
1983	2.9	2.4	55.8	0.7	38.3	100
1984	1.3	23.1	51.1	3.0	21.4	100
1985	0.9	3.1	25.6	44.1	26.3	100
1986	0.5	7.0	35.8	4.9	51.8	100
1987	1.7	8.1	34.8	10.5	45.0	100
1988	0.7	1.8	44.3	10.3	42.9	100
1989	0.6	2.6	45.0	2.2	49.6	100

Source: Own calculation from the TABLE-V-11.

GRAPH-V-12

Percentage Share of Sectors of Encouraged Investments



We will continue our study by looking into the percentage share of encouraged investments in total fixed investments in NDR. Table-13 and Graph-13 have been prepared for this purpose. We assume that the encouraged investments will have been realized within a year after receiving the encouragement certificate as the data about total fixed investments are realized investments and the encouraged investments are not normally realized the year the certificate is received. The investors normally need a time to invest and begin to work on their investments. This following formula can be used to assess this situation;

$$R = I^{Ei}{}_{t}100 / I^{Ti}{}_{t+1}$$

where; I^{Ei} is the encouraged investments of i^{th} sector in normal and developed regions with 1988 prices, $I^{Ti}+1$ is total fixed investments of i^{th} sector in period t+1 in these regions with 1988 prices and R is percentage rate.

In 1981 the percentage share of encouraged investments out of total fixed investments in NDR were as follows; 149% in Manufacturing sector, 75.3% in Services sector, 36.5% in Mining Sector, and 24.1% in Agricultural Sector. Energy Sector investments were not encouraged in that year.

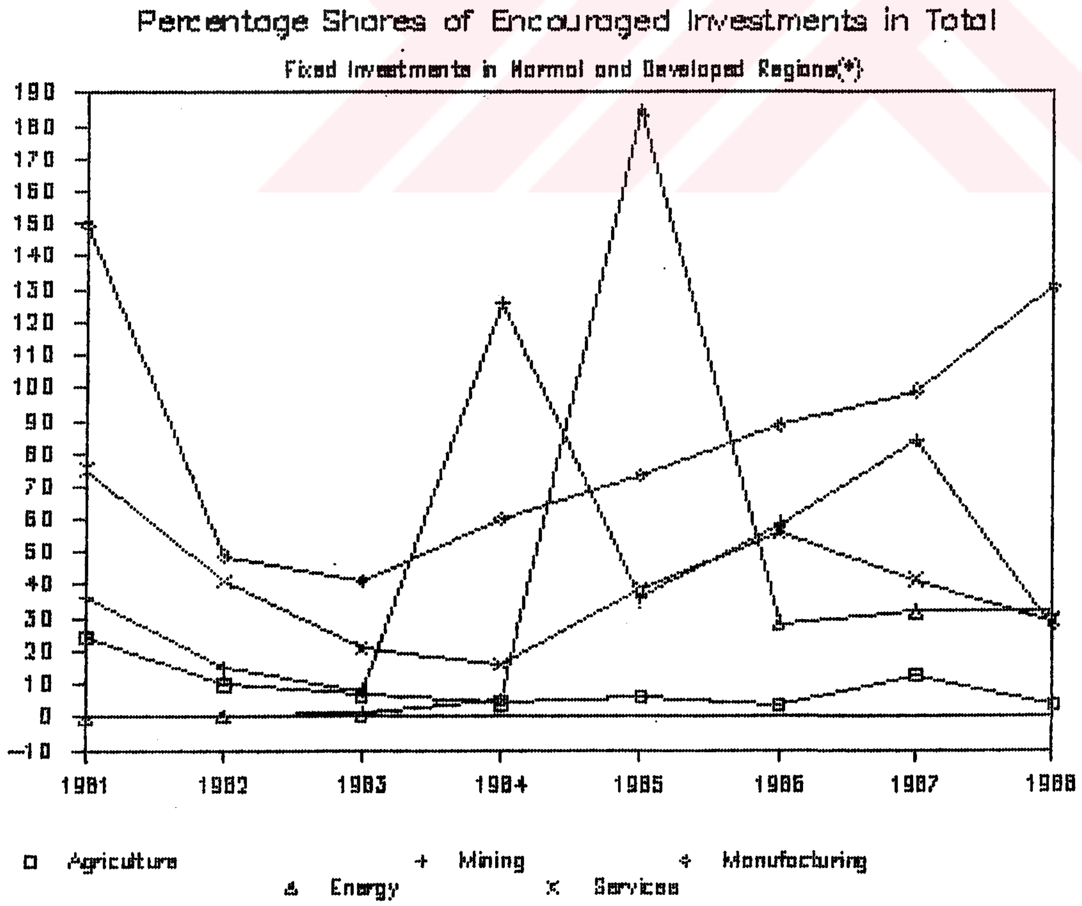
There are contradictions about the results we calculated above. For example, in 1980, the percentage share of Manufacturing Sector investments could not be as much as 149% under normal conditions. The same is true for 1988 results. This contradiction can be seen in other sectors too. For instance, it was 125.4% in 1984 in Mining Sector and 184.4% in 1985 in Energy Sector.

TABLE-V-13
Percentage Shares of Encouraged Investments in Total Fixed Investments in Normal and Developed Regions(*)

Sectors/ Years	Agricul ture	Mining	Manufac turing	Energy	Services	Total:
1980						
1981	24.1	36.5	149.7	0.0	75.3	78.5
1982	9.8	14.7	48.9	0.5	41.3	31.5
1983	6.6	8.0	41.1	0.9	21.0	21.0
1984	4.1	125.4	60.1	5.0	15.9	30.2
1985	6.1	36.1	73.2	184.4	39.0	67.0
1986	3.9	58.8	88.5	28.6	56.3	57.1
1987	12.3	83.6	98.9	31.9	41.6	50.1
1988	3.9	27.1	130.3	32.1	29.3	42.1
1989						

Source: Own calculation.
(*):It is assumed that Encouraged investments realized after the year they gat an encouragement sertificate.

GRAPH-V-13



We have used data which we obtained from the official reports of SPO. Having the results above, we are forced to say that the investment incentive policy had somehow been abused or had been mismanaged and misconducted.

The other reasons for achieving incorrect results in calculation may be that the investments may not be realized wholly or partly after the investors receive the encouragement certificate or they may be realized in a longer time period of time contrary to the expectations mentioned on the certificate. We are inclined to think that, the former reason is more valid, that is, an important part of the investments that have already had the encouragement certificate could not be realized.

We shall now try to compare the encouraged investments in NDR with the encouraged investments in RHPD. It seems sufficient to examine the percentage share of encouraged investments in NDR in total encouraged investments. Table-14 and Graph-14 were prepared to help us.

Examining Graph 14, it can be said that encouraged investments in NDR had an important share in total encouraged investments. In 1980, 64.5% of total encourage investments were in NDR. This rate had increased continuously in ten-year period. The rate was 95% in 1982 and 85.8% in 1989. The high rate of encouragement of investments in these regions occurred in all individual sectors as well.

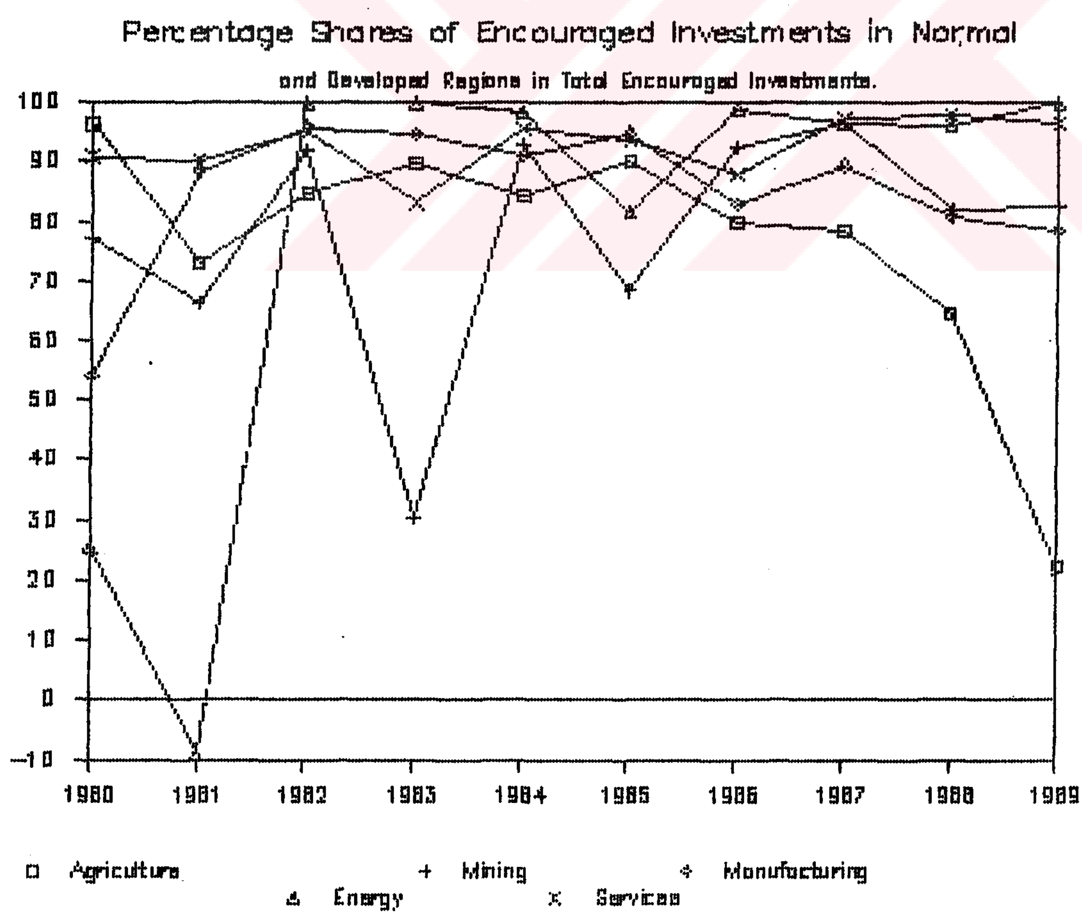
We arrive at the conclusion that an important part of encouraged investments had been in NDR rather than in RHPD by the results we have had hitherto. That is to say , the investments in NDR had been encouraged more as opposed to the goals of development plans.

TABLE-V-14
Percentage Shares of Encouraged Investments in Normal and Developed Regions in Total Encouraged Investments.

Sectors/ Years	Agricul ture	Mining	Manufac turing	Energy	Services	Total:
1980	96.4	77.0	54.1	25.5	90.9	60.5
1981	73.2	66.5	88.3	-9.0	90.1	87.8
1982	84.7	92.2	95.8	100.0	95.2	95.0
1983	89.8	30.4	94.6	100.0	83.4	85.8
1984	84.3	92.9	91.1	98.3	95.7	92.6
1985	90.2	68.4	95.0	81.7	93.8	87.3
1986	80.0	92.6	83.0	99.0	87.9	86.8
1987	78.7	96.5	89.5	96.5	97.2	93.9
1988	64.5	82.1	81.0	96.2	97.9	88.9
1989	22.3	82.6	78.6	100.0	96.7	85.8

Source: Own calculation.

GRAPH-V-14



4-Percentage Distribution Between Geographical Regions

There are seven geographical regions in Turkey. These regions have important differences from various aspects. One of these is the development gap between them. East Anatolia, South-East Anatolia and some parts of Black Sea and Central Anatolia regions are underdeveloped regions. The remaining three regions, that is, Eagean, Mediterranean and Marmara are normal and developed regions. Especially Marmara Region is the most developed region. Most of the industrial investments are found in this region.

When we look at the distribution of encouraged investments between geographical regions we see that most of the encouraged investments had been realized in Marmara Region. We have organized the tables-15,16 and the graphs-15,16 for this analysis.

For example, in 1980 the amount of encouraged investments were 5861.2 Billion TL. and their share in total encouraged investments was 43.6%. But the shares of encouraged investments in other geographical regions, especially in underdeveloped regions were reasonable low. It was 3.7% in Sout-hest Anatolia, 2.9% in East Anatolia, and 5.5% in Black Sea. In 1987, multiregional investments were encouraged more. The share of these investments was 26.4% while the share of Marmara was 27.7%. In 1988 and 1989 the share of Marmara region decreased. The imbalances between geographical regions continued in the period 1980-1989.

By examining the geographical distributions of encouraged investments, we can claim that the investments in normal and developed regions had been encouraged more in this period.

TABLE-V-15
Breakdown Of Encouraged Investments
in Geographical Regions (1988 Prices, Billion TL.)

Regio./ Years	Marm.	Cent. Ana.	Aege.	Medi terra	Blac. Sea	East Ana.	Sout-hes Ana	Multi regio
1981	5861.2	2740.4	1119.2	2100.6	734.7	392.6	500.1	0.0
1982	2539.2	686.7	409.4	600.5	417.0	98.6	247.3	0.0
1983	1910.7	543.7	356.8	770.2	108.3	55.1	401.1	0.0
1984	2322.6	738.0	1155.7	555.6	309.0	181.3	272.1	0.0
1985	4091.9	2324.2	3734.2	1020.7	495.9	147.9	822.9	0.0
1986	4844.7	3570.9	1027.5	1306.4	786.1	354.9	802.3	0.0
1987	3180.0	948.1	1720.6	1398.5	486.7	148.6	575.1	3041.0
1988	4897.5	1296.0	1634.0	1186.2	405.2	293.2	1295.8	281.2
1989	4644.4	972.1	1335.7	1310.5	495.2	417.3	904.2	1303.0

Source: Annual Reports of Teşvik Uygulama Bşk.,SPO,(1980-1989).

GRAPH-V-15

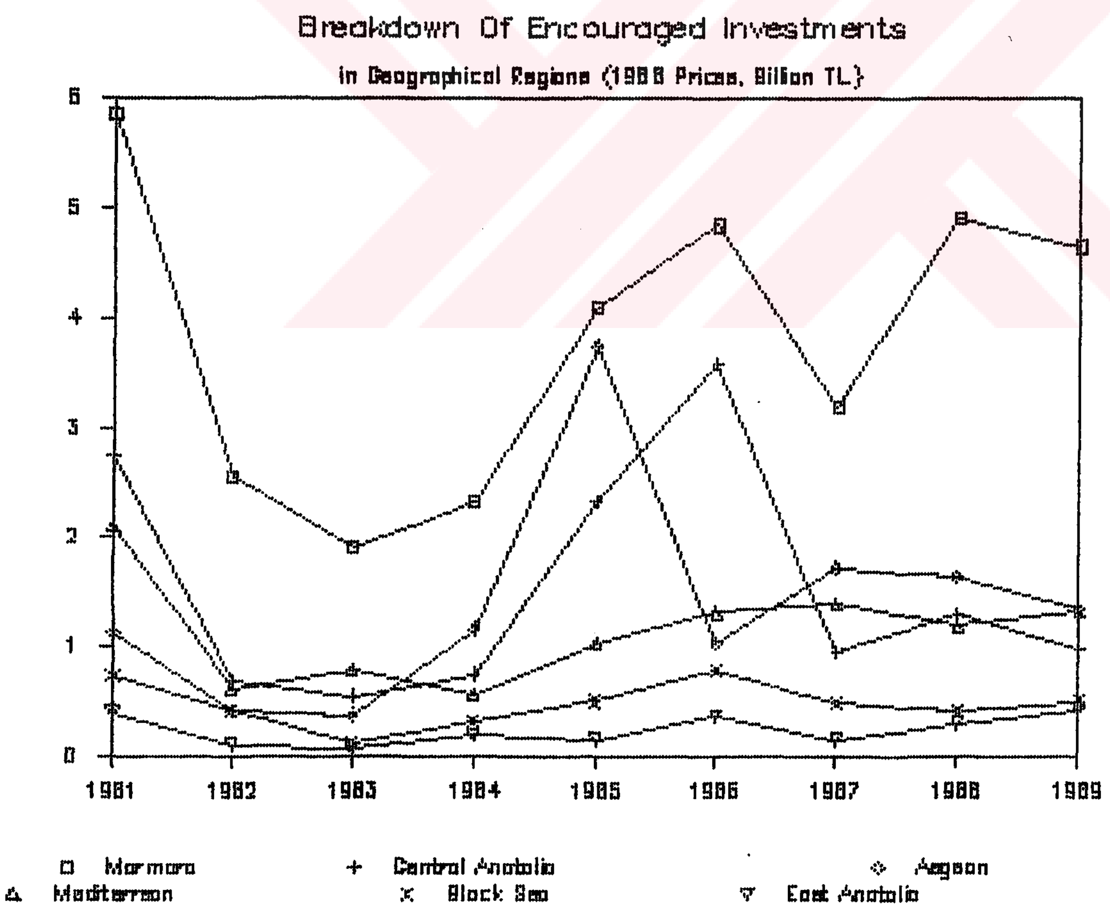
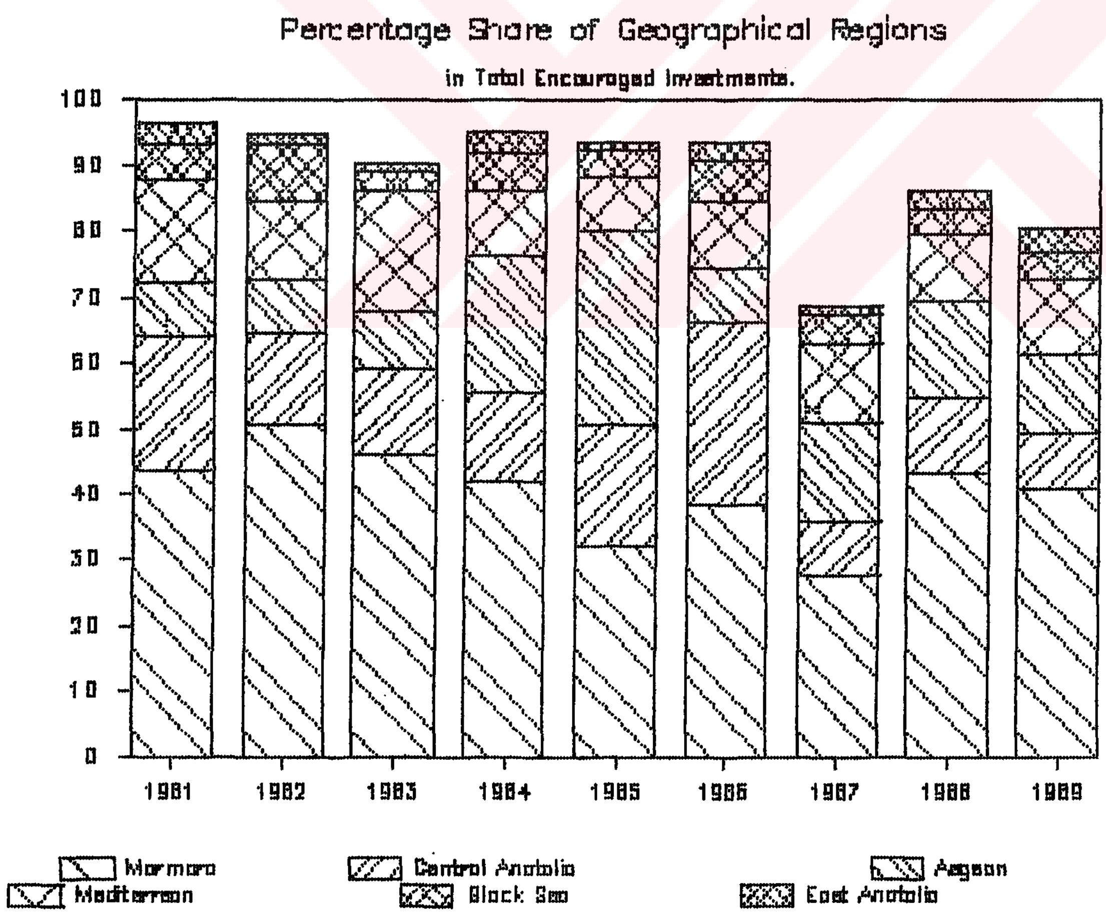


TABLE-V-16
Percentage Share of Geographical Regions
in Total Encouraged Investments.

Regio./ Years	Marm.	Cent. Ana.	Aege.	Medi terra	Blac. Sea	East Ana.	Sout-hes Ana	Multi regio
1981	43.6	20.4	8.3	15.6	5.5	2.9	3.7	0.0
1982	50.8	13.7	8.2	12.0	8.3	2.0	4.9	0.0
1983	46.1	13.1	8.6	18.6	2.6	1.3	9.7	0.0
1984	42.0	13.3	20.9	10.0	5.6	3.3	4.9	0.0
1985	32.4	18.4	29.5	8.1	3.9	1.2	6.5	0.0
1986	38.2	28.1	8.1	10.3	6.2	2.8	6.3	0.0
1987	27.7	8.2	15.0	12.2	4.2	1.3	5.0	26.4
1988	43.4	11.5	14.5	10.5	3.6	2.6	11.5	2.5
1989	40.8	8.5	11.7	11.5	4.4	3.7	7.9	11.4

Source: Own calculation from the TABLE-V-15.

GRAHP-V-16



5-Distribution According To Their Types

In this part of the chapter, the distribution of encouraged investments according to their types will be examined for the period 1981-1989.

There are nine types of investments that SPO assigns to an encouragement certificate in order for the investors to benefit from the investment incentive measures. These are; New Investments, Expansion Investments, Completion Investments, Renewals Investments, Quality Improvement Investments, Elimination Of Bottleneck Investments, Modernization Investments, Integration Investments, and Financial Leasing Investments.

We have prepared the tables-17,18 and graphs-17,18. to analyze this. Since we have been unable to find any data for the year 1980 our examination begins from the year 1981.

It can be seen from the tables that the new investments had been encouraged more in the years 1981-1989.

The percentage shares of new investments had been more than 61.7% (in 1987) in all the years in this period. The rates were 88.9% in 1981 and 78.9% in 1989. The other types of investments had bee encouraged at considerably lower amounts.

TABLE-V-17
The Amount of Fixed Investments According to Their Types (1988 Prices, Billion TL.)

TYPES OF INVESTMENTS	1981	1982	1983	1984	1895	1986	1987	1988	1989
New Invest.	12557	4384	2871	3676	10442	9190	6712	8402	9326
Expansion	899	342	727	951	933	1947	1021	1356	933
Completion	88	37	60	238	94	232	70	171	132
Renewals	107	390	101	327	143	118	348	75	138
Qual. Imp.	377	144	52	116	157	205	39	35	15
Elim.of Bot	42	99	159	191	108	263	166	231	113
Modernisa.	42	42	297	137	533	562	2411	840	934
Entegra.	20	38	71	43	274	143	88	168	232
Leasing	0	0	0	0	0	0	15	11	4
Total:	14132	5476	4338	5678	12684	12660	10870	11288	11826

Source: Annual Reports of Teşvik Uygulama BŞK., SPO, (1980-1989).

GRAPH-V-17

The Amount of Fixed Investments According to Their

Types (1988 Prices, Billion TL.)

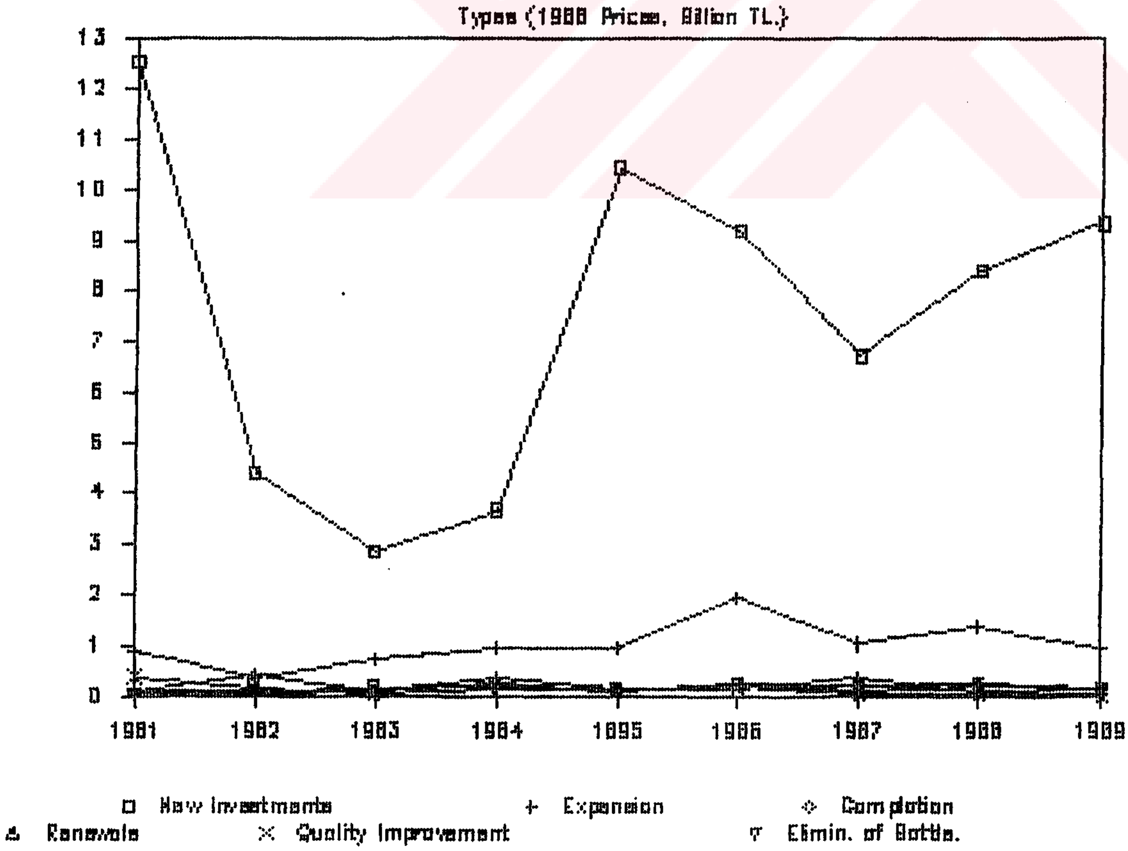
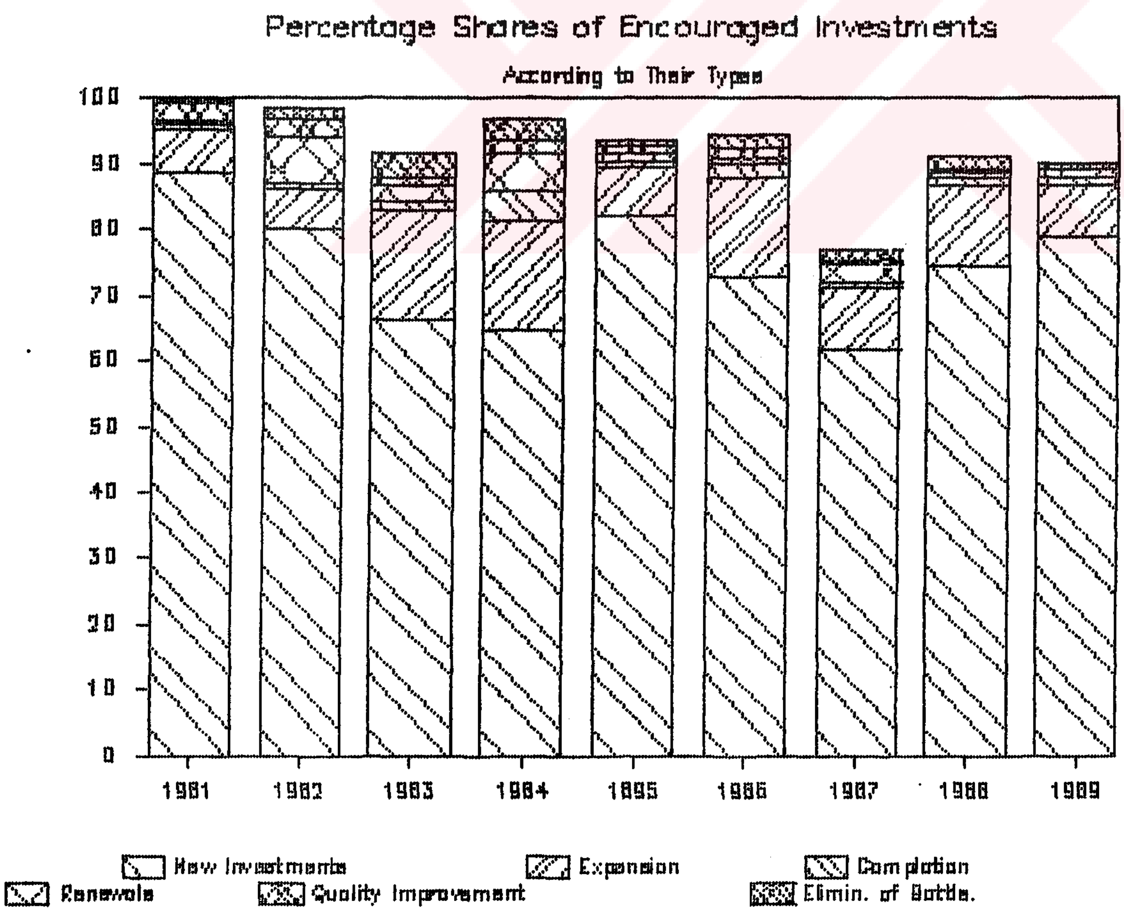


TABLE-V-18
Percentage Shares of Encouraged Investments
According to Their Types

TYPES OF INVESTMENTS	1981	1982	1983	1984	1895	1986	1987	1988	1989
New Invest.	88.9	80.1	66.2	64.7	82.3	72.6	61.7	74.4	78.9
Expansion	6.4	6.2	16.8	16.7	7.4	15.4	9.4	12.0	7.9
Completion	0.6	0.7	1.4	4.2	0.7	1.8	0.6	1.5	1.1
Renewals	0.8	7.1	2.3	5.8	1.1	0.9	3.2	0.7	1.2
Qual. Imp.	2.7	2.6	1.2	2.0	1.2	1.6	0.4	0.3	0.1
Elim.of Bot	0.3	1.8	3.7	3.4	0.9	2.1	1.5	2.0	1.0
Modernisa.	0.3	0.8	6.8	2.4	4.2	4.4	22.2	7.4	7.9
Entegra.	0.1	0.7	1.6	0.8	2.2	1.1	0.8	1.5	2.0
Leasing	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.1	0.0
Total:	100	100	100	100	100	100	100	100	100

Source:Own calculation from the TABLE-V-17.

GRAPN-V-18



CONCLUSION

One of the important means for the administration of the economic policy of the government is realized via the encouragement of investments. As far as public and private sectors are concerned, the significance of investment incentives lies in the fact that these sectors are given the opportunity to increase their investments under governmental supervision.

There are various reasons of investment incentive measures that we encounter in economic theory and practice. Some of these aim to encourage the investors during the phase of setting up of their investments. Others aim to increase the profitability of an already established firm which may enable the possibility of founding new firms.

It is known that the equilibrium (which is) determined by demand and supply condition is disturbed by governmental intervention. Such an intervention for example in labor market, can affect labor demand and supply: an increase in labor income may increase the supply of it and also the labor cost of an investment. As a result of this, labor demand decreases.

It is therefore essential to select the most appropriate investment incentive measures for better and more effective resource allocation in the economy.

The government can direct the business community towards making investments by raising the profitability of the capital in capital market. When this is the case, the incentive measures to be applied take the forms of various taxation, credit and protection policies. Hence, the government can encourage new investments by providing credits at lower rates or by increasing the profitability of the investments by making certain arrangements with respect to taxation. Moreover, protectionist policies may be effective to determine areas for investment.

Eliminating the imperfect market condition and enabling a fair price control can also be considered as methods of intervention into the product market.

These arrangements affect both consumption and demand positively while making attractive the establishment of new investments which seem to have become more profitable.

In Turkey, in the period before and after the planned economy, the main goal has been the development of industry. Before the planned period, the various laws exercised and the industrial plans applied had brought about considerable encouragement with respect to investment incentives. After the establishment of the planned period, the same goal was accepted. The following aims are common to all five-year development plans: (1)to develop the industry, (2)to increase the employment rate, (3)to lessen the development gap between regions.

Thus, investment incentives become the major means for the realization of the aim. However, as we have tried to show in our study for the period 1980-1989, these incentives have rarely been used effectively, not to mention the deviations as regards the overall aim in certain cases.

Although at the beginning, industrial investments had the largest share of the total encouraged investments after 1980, contrary to the aim, services sector investments have largely been encouraged. As to the shares of other sectors there has been no noticeable change. The increase in the share of the service sector investments implies a channeling of resources away from the manufacturing sector.

It is also observed that there has been very little accomplished for an effective implementation of investment incentives to reduce the development gap between regions. On the contrary, mostly investments in already developed regions have been encouraged. Hence these investments in developed regions have had the largest share among the total encouraged investments. The reason, we believe, is for one thing, a misapplication and mismanagement of the predetermined aims and for another, the disorderly nature of the encouragement mechanisms.

Moreover, the effectiveness and efficiency of the investment incentives have been disregarded: it is known that certain incentives become ineffective under circumstances where there is a high rate of inflation. As for instance it is only after the business starts running can the investment allowance be granted and the firm is expected to make use of this allowance in five years' time. As the amount of the allowance is kept fixed and as there is increase in prices due to inflation, the firms undergo unnecessary risks; that is, the amount of the allowance loses its real value in time.

It is also expected that the location and the specific characteristics of the region should be taken in to consideration while the incentive measures are determined. Unfortunately, this issue has not been given due attention.

Indeed, the natural and cultural setting of a region has influences upon the investments to be carried out as well as the region's possibilities of production.

It is inevitably meaningless and impractical to grant the same incentives to touristic places and to places where there are no realistic possibilities of touristic activities. In the same way, granting incentives for industrial investments to a region which is in fact more suitable for agricultural production and which lacks necessary infrastructure and natural resources for industrial investments is merely incomprehensible and unapprovable.

Conceivably, it is essential that the incentives be given by taking into consideration the specific characteristics of a region.

Moreover, the incentives can also be discouraging in effect so as to deter the investors from carrying out unprofitable investments. Consequently, different kinds of incentives can be applied at different phases of an investment.

It is not possible to force the business community to make investments under the circumstances where market economy is practiced. It is only when appropriate incentives and encouragement policy are applied that they can consider making investments. Unless this is realized, the present situation is prone to be more deterring than encouraging on the part of the investors.

APPENDICES

APPENDIX-1

SECTORAL BREAKDOWN OF INVESTMENT INCENTIVE CERTIFICATE

Total Investment (Current Prices, TL.Million) (1980-1989)

SECTORS of INVESTMENTS:	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989
Agriculture:	27553	46143	24251	21784	22072	40130	37319	160483	126175	508618
Mining:	3697	29796	14069	30738	214472	136692	305170	516049	232341	529458
Manufacturing:	161595	502953	210409	270981	557723	918520	1986555	2563814	5739057	9361274
Energy:	513	575	976	2694	25209	1511582	207214	642453	1079435	364456
Services:	13041	455391	250240	224197	236157	924494	2593195	2947578	4476379	8612406
Total:	206399	1034858	499945	550394	1055633	3531418	5129453	6830377	11653387	19376212

Source:Annual Reports Of "Teşvik Uygulama Başkanlığı (1980-1989)" (SPO).

APPENDIX-2

SECTORAL BREAKDOWN OF INVESTMENT INCENTIVE CERTIFICATE

Number of Certificate (1980-1989)

SECTORS of INVESTMENTS:	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989
Agriculture:	99	485	200	167	107	94	81	203	118	444
Mining:	21	54	48	32	53	89	145	160	161	139
Manufacturing:	373	1033	428	385	543	956	1320	1533	1536	1575
Energy:	8	5	8	8	13	21	12	13	13	11
Services:	70	1662	748	401	407	661	901	901	914	1087
Total:	571	3239	1432	993	1123	1821	2459	2810	2742	3256

Source:Annual Reports Of "Teşvik Uygulama Başkanlığı (1980-1989)" (SPO).

APPENDIX-3

SECTORAL BREAKDOWN OF INVESTMENT INCENTIVE CERTIFICATE

Working Capital (TL.Mil.) (1980-1989)

SECTORS of INVESTMENTS:	YEARS									
	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989
Agriculture:	4213	12198	5017	4992	4835	7190	8043	24199	16168	73999
Mining:	823	1315	787	1830	4791	7346	5116	5279	6623	17578
Manufacturing:	25325	32351	14139	28427	43596	110954	148593	163236	253859	376137
Energy:	148	20	21	3	500	10221	4454	210	5055	135
Services:	238	10117	5265	8302	8613	34477	25940	37131	82590	184025
Total:	30747	56001	25229	43554	62335	170188	192146	230055	364295	651874

Source:Annual Reports Of "Teşvik Uygulama Başkanlığı (1980-1989)" (SPO).

APPENDIX-4

SECTORAL BREAKDOWN OF INVESTMENT INCENTIVE CERTIFICATE

Total Fixed Investment (Current Prices, TL. Million)-(1980-1989)

SECTORS of INVESTMENTS:	YEARS									
	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989
Agriculture:	23340	33945	19234	16792	17237	32940	29276	136284	110007	434619
Mining:	2874	28481	13282	28908	209681	129346	300054	510770	225718	511880
Manufacturing:	136270	470602	196270	242554	514127	807566	1837962	2400578	5485198	8985137
Energy:	365	555	955	2691	24709	1501361	202760	642243	1074380	364321
Services:	12803	445274	244975	215895	227544	890017	2567255	2910447	4393789	8428381
Total:	175652	978857	474716	506840	993298	3361230	4937307	6600322	11289092	18724338

Source:Annual Reports Of "Teşvik Uygulama Başkanlığı (1980-1989)" (SPO).

SECTORAL BREAKDOWN OF INVESTMENT INCENTIVE CERTIFICATE
Foreign Exchange Requirement ($ 1000) (1980-1989)

SECTORS of INVESTMENTS:	YEARS 1980	1981	1982	1983	1984	1985	1986	1987	1988	1989
Agriculture:	25150	1655	7515	6159	4697	10092	7413	35709	17163	36982
Mining:	11246	100844	38543	49866	240308	143535	257479	228211	73166	102375
Manufacturing:	874127	1846665	427031	394302	580517	685670	1171909	1163642	1772290	1729548
Energy:	600	798	657	3095	18917	1601569	160122	161337	518400	107090
Services:	26934	2276377	832008	450689	275930	943690	1707768	925840	1196972	1189956
Total:	938057	4226339	1305754	904111	1120369	3384556	3304691	2514739	3577991	3165951

Source:Annual Reports Of "Teşvik Uygulama Başkanlığı (1980-1989)" (SPO).

APPENDIX-6
SECTORAL BREAKDOWN OF INVESTMENT INCENTIVE CERTIFICATE
Employment (Person) (1980-1989)

SECTORS of INVESTMENTS:	YEARS 1980	1981	1982	1983	1984	1985	1986	1987	1988	1989
Agriculture:	7606	9013	3353	3107	2093	2185	1739	4484	2284	6577
Mining:	1261	5133	4233	3500	6061	7158	11825	10316	6261	7513
Manufacturing:	47952	57545	32258	27071	36116	52264	74593	86712	178503	131311
Energy:	143	118	63	39	92	2108	383	4871	14935	108
Services:	2674	53139	22094	15298	11870	42754	68766	54990	66314	59829
Total:	59636	124948	62001	49015	56232	106469	157306	161373	268297	205338

Source:Annual Reports Of "Teşvik Uygulama Başkanlığı (1980-1989)" (SPO).

APPENDIX-7

SECTORAL BREAKDOWN OF INCENTIVE CERTIFICATES FOR REGIONS HAVING PRIORITY IN DEVELOPMENT

Number Of Certificate (1980-1989)

SECTORS of INVESTMENTS:	YEARS									
	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989
Agriculture:	9	114	32	28	22	22	13	48	60	392
Mining:	5	25	5	5	12	31	36	22	36	41
Manufacturing:	45	172	26	23	48	94	185	234	257	412
Energy:	0	2	0	0	1	3	1	1	2	0
Services:	5	286	55	20	49	110	161	97	77	157
Total:	64	599	118	76	132	260	396	402	432	1002

Source:Annual Reports Of "Teşvik Uygulama Başkanlığı (1980-1989)" (SPO).

APPENDIX-8

SECTORAL BREAKDOWN OF INCENTIVE CERTIFICATES FOR REGIONS HAVING PRIORITY IN DEVELOPMENT

Total Encouraged Investments (TL. Mil.) (1980-1989)

SECTORS of INVESTMENTS:	YEARS									
	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989
Agriculture:	1171	12573	2934	2823	3844	4339	7305	33350	48115	403445
Mining:	722	10366	1035	21106	16119	44012	23439	18465	41550	92994
Manufacturing:	71402	62778	8188	14992	51498	49215	354091	277916	1102311	2016436
Energy:	302	642	0	0	424	278314	2000	22500	41000	0
Services:	1213	45460	12204	35714	10079	57651	305976	80471	94602	290095
Total:	74810	131819	24361	74635	81964	433531	692811	432702	1327578	2802970

Source:Annual Reports Of "Teşvik Uygulama Başkanlığı (1980-1989)" (SPO).

APPENDIX-9

SECTORAL BREAKDOWN OF INCENTIVE CERTIFICATES FOR REGIONS HAVING PRIORITY IN DEVELOPMENT
Working Capital (TL.Mil.) (1980-1989)

SECTORS of INVESTMENTS:	YEARS									
	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989
Agriculture:	320	3488	0	1105	1137	1120	1461	4277	9049	65654
Mining:	62	821	0	988	1242	3178	1166	481	1079	3985
Manufacturing:	8865	7853	0	2003	5626	8921	42496	25643	58730	90015
Energy:	30	37	0	0	0	3005	25	0	0	0
Services:	121	1209	80	585	163	3204	1977	794	1256	3764
Total:	9398	13408	80	4681	8168	19428	47125	31195	70114	163418

Source:Annual Reports Of "Teşvik Uygulama Başkanlığı (1980-1989)" (SPO).

APPENDIX-10

SECTORAL BREAKDOWN OF INCENTIVE CERTIFICATES FOR REGIONS HAVING PRIORITY IN DEVELOPMENT
Fixed Investment (TL., Million)-(Total-Working Capital) (1980-1989)

SECTORS of INVESTMENTS:	YEARS									
	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989
Agriculture:	851	9085	2934	1718	2707	3219	5844	29073	39066	337791
Mining:	660	9545	1035	20118	14877	40834	22273	17984	40471	89009
Manufacturing:	62537	54925	8188	12989	45872	40294	311595	252273	1043581	1926421
Energy:	272	605	0	0	424	275309	1975	22500	41000	0
Other Services	1092	44251	12124	35129	9916	54447	303999	79677	93346	286331
Total:	65412	118411	24281	69954	73796	414103	645686	401507	1257464	2639552

Source:Annual Reports Of "Teşvik Uygulama Başkanlığı (1980-1989)" (SPO).

APPENDIX-11

SECTORAL BREAKDOWN OF INCENTIVE CERTIFICATES FOR REGIONS HAVING PRIORITY IN DEVELOPMENT
Foreign Exchange Requirement ($ 1000) (1980-1989)

SECTORS of INVESTMENTS:	YEARS										
	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	Total:
Agriculture:	0	3870	2907	36	213	416	1384	2428	59	21841	33154
Mining:	3336	32368	2600	35540	18440	36822	16224	11034	14337	16921	187622
Manufacturing:	335316	165578	9558	20111	47847	23840	175360	103076	329335	356460	1566481
Energy:	600	430	0	0	74	247086	1071	8725	11487	0	269473
Services:	6035	212254	41938	76962	11855	64558	188998	33976	17631	14549	668756
Total:	345287	414500	57003	132649	78429	372722	383037	159239	372849	409771	2725486

Source:Annual Reports Of "Teşvik Uygulama Başkanlığı (1980-1989)" (SPO).

APPENDIX-12

SECTORAL BREAKDOWN OF INCENTIVE CERTIFICATES FOR REGIONS HAVING PRIORITY IN DEVELOPMENT
Capacity of Employment (Person) (1980-1989)

SECTORS of INVESTMENTS:	YEARS									
	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989
Agriculture:	125	2256	485	545	312	262	336	1228	804	5071
Mining:	275	1829	432	1917	754	3443	1705	1321	1623	1744
Manufacturing:	10875	16708	1567	1598	4429	6251	13418	13134	15344	21787
Energy:	0	40	0	0	10	346	30	24	28	0
Services:	166	6643	3523	1121	848	5345	7871	5422	2548	6417
Total:	11441	27476	6007	5181	6353	15647	23360	21129	20347	35019

Source:Annual Reports Of "Teşvik Uygulama Başkanlığı (1980-1989)" (SPO).

APPENDIX-13

Total Fix Investment Deflatörs (Public+Private)-(1988=100)

	1975	1976	1977	1978	1979	1980	1981	1982
Agriculture	0.7634	0.9018	1.1763	1.7026	2.817	6.1391	8.7887	11.2045
Mining	0.539	0.6313	0.814	1.1789	1.9369	3.9937	5.6412	7.3008
Manufacturing	0.5586	0.6538	0.8241	1.2396	1.9349	4.067	6.0091	8.0702
Energy	0.4943	0.5566	0.7198	1.0759	1.7813	3.8578	5.6964	7.1136
Transportation	0.6377	0.766	1.0078	1.5035	2.5045	5.2663	7.7404	9.5131
Tourism	0.6973	0.9059	1.3839	1.9577	3.1607	6.5298	8.6885	10.9137
Construction	0.7677	0.9361	1.3048	1.8826	3.0797	6.4878	8.3323	10.5003
Education	0.7412	0.892	1.216	1.7618	2.8982	6.1235	8.7156	11.0252
Health	0.7128	0.8459	1.1345	1.6508	2.7296	5.786	8.082	10.1195
Other Services	0.7043	0.8705	1.2034	1.7707	2.9208	6.354	8.9439	11.3811

Source:SPO.

1983	1984	1985	1986	1987	1988	1989
14.4204	20.7343	29.2455	40.9484	58.5338	100	166.0413
10.2702	16.1112	23.8914	36.2831	56.3542	100	163.1064
11.3165	17.5302	25.4625	38.6971	57.0573	100	157.2315
9.9927	15.4804	23.5942	36.8593	54.5963	100	164.5185
12.6252	18.6785	26.3994	38.6751	56.9356	100	162.4233
14.1112	20.2799	29.0325	40.4962	58.0501	100	166.7525
13.6501	20.4195	29.6215	41.2456	60.1052	100	165.0541
14.2362	20.2504	28.8937	40.3202	57.5581	100	167.1771
13.2886	20.2036	29.0419	41.2628	59.4998	100	161.2063
14.636	20.1741	28.4965	39.8179	56.1309	100	168.4508

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