BENEFITS OF FDI FOR DEVELOPING COUNTRIES AND THE CASE OF TURKEY

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ÖZET

Doğrudan yabancı yatırım (DYY-FDI-Foreign Direct Investment) küreselleşmenin hızlanmasındaki en önemli araçlardan biri olmakla beraber gelişmekte olan ülkelerin ekonomilerini de çoğunlukla olumlu yönde değiştirmektedir. DYY yeni olmamakla beraber son yıllarda oldukça popüler hale gelmiş bir ticaret yöntemidir. Teknoloji ve bilgi transferi sağlaması, yeni is sahaları açıp istihdamı artırması, yeni sermaye girişi sağlayarak piyasalara canlılık vermesi DYY'larin belli başlı ekonomik faydalarındandır. Bunlar ve diğer ekonomik faydaların yanında yatırımcıların haklarını korumaya yönelik çalışmaların sosyal hayata yansıması, liberalleşmeye yönelik adımların atılması ile demokrasinin gelişmesine de faydası bulunmaktadır. Bu çalışmada doğrudan yabancı sermaye özet olarak ele alınmış ve gelişmekte olan ülkelere sağladığı avantajlardan bazıları dünyadan örneklerle ortaya konmuştur. Türkiye'deki yabancı sermaye hareketleri ve dünyadaki gelişmeler kısa bir şekilde ele alındıktan sonra yabancı sermayeden faydalanma usulleri üzerinde durulmuştur.

INTRODUCTION

Foreign Direct Investment (FDI) has grown at a increasing rate since the early 1980s and the world market for it become more competitive. Developing countries are becoming increasingly attractive investment destinations. Turkey is one of the competitors in this league and is offering investors a range of assets.

In first section of this study, you will find brief information about FDI and its importance to developing countries. In Section two and three, general benefits of FDI is explained and some evidences given. In fourth and fifth section of the study cover Turkey's FDI status and its efforts to attract more FDI. Study ends with suggestions about how to benefit from FDI.

1. FDI AND ITS IMPORTANCE ON DEVELOPING COUNTRIES

FDI is increasingly important to developing countries. Through FDI, individuals or corporations obtain partial or total ownership of firms located in another country. But foreign investor should have lasting interest and substantial control over the invest-

ment. FDI can take many forms and can be directed at diverse sectors of the economy. At the level of the firm, it often means the establishment or acquisition of a foreign affiliated company. With foreign ownership comes the assumption of foreign interest and influence over the operations of the enterprise in question. Ultimately, FDI is what differentiates a multinational enterprise from a local or nationally oriented firm. With FDI, the investing firm assumes greater risk, compared with licensing or exporting, but has considerably more managerial control over the operation.

FDI has become the most important determinant in the globalization process and is changing the economies of many countries in the world. Although it is not new phenomenon, but its scale has expanded dramatically over the past several decades. Due to reforms affecting world trade and increasing pace of globalization changed the face of FDI and during the last decade it has registered a faster rate of growth than world exports and world production. Yet, the concept of FDI, i.e. the participation of at least ten percent in the equity capital of compans located abroad, presents many interpretative problems, not only because of its inherent complexity but also because of the different ways in which it is being measured and the limited availability of comparable data.

Information about worldwide direct investment is published in United Nations Conference on Trade and Development's (UNCTAD) annual World Investment Reports. In these publications mainly flow and stock statistics based on balance of payments data are used to illustrate the positions of different countries as home and host countries of FDI and the subsidiaries of multinational enterprises (MNE). UNCTAD's most recent report shows that Turkey is one of lowest FDI taking country.[1] Turkey is considered as one of the under-performer country. However, Turkey has high potential in terms of inward FDI. Chairman of Foreign Investors Association of Turkey (YASED) stated that Turkey has potential of attracting about 30 Billion USD per year by the year 2008 as a result of effort to improve investment environment.[2]

FDI is preferred form of capital inflow due to its stability towards economic crisis in a host country (See Chart 1). For example, during 1997-98 global financial crises in East Asian countries, such investments were pretty stable. Other forms of capital investments such as portfolio equity and dept flows, particularly short-term flows were subject to large reversals during the same time.[3] Another example of the stability characteristics of FDI can be given for Latin American Economic Crisis in the 1980s and Mexican crisis in 1994-95. [4] Portfolio equity investments tend to be

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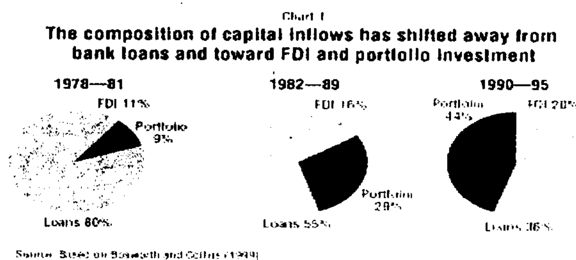
1 UNCTAD, World Investment Report, 2003.

2 Insight Yased *'Letter from Chairman'*, Volume 4 Issue 4, 2003

3 Dadush, Dasgupta and Ratha, " *The Role of Short Term Debt in Recent Crises,*" *Finance & Development*, 2000 December, Volume 37, pp.54-57

4 Loungani and Razin, *'How Beneficial is Foreign Direct Investment for Developing Countries?'*, *Finance & Development*, Volume 38, Number 2, 2001

highly mobile and short-term in their time horizons. The environmental implications of their flows tend to be less clear and more complex than in the case of FDI flows. Initial public offerings and bond placements provide capital to companies (and thus may act like FDI), but once they are sold, they normally change hands many times in secondary markets (such as stock exchanges). This distance attenuates the link between the investor and the entity in which the investment is held. Moreover, many portfolio investors seek to maximize returns in the short term, so environmental risks (which often occur in the long term) tend to be discounted. The search for quick returns also means that portfolio investors may pull out of a sector or a country overnight, if they lose confidence in it.



2. BENEFITS OF FDI TO HOST COUNTRIES

Due to advantages of FDI, many countries, including developing ones and transition economies, compete against one another in attracting foreign investors by offering ever more generous incentive packages and justifying their actions with the productivity gains that are expected to accrue to domestic producers from knowledge externalities generated by foreign affiliates.

There is general agreement about the positive impacts of FDI on the welfare of receiving countries. The benefits of FDI concerning the capital market, technology transfer, market access, investment opportunities and export promotion are among the factors attracting FDI inflows from a host country perspective.

Capital: Multinational enterprises (MNEs) invest in long-term projects, taking risks and repatriating profits only when the projects yield returns.

Technology: Technology effects emerge especially when the liberalization of investment flows drives a more rapid rate of technology development, diffusion and (sometimes) transfer. Such processes may involve the transfer of physical goods

and/or the transfer of tacit knowledge.[5] Evidence provided by the vast majority of economic studies dealing with the relationship between FDI on the one hand and productivity and/or economic growth on the other hand, has found that technology transfer via FDI has contributed positively to productivity and economic growth in host countries.[6]

Market Access: MNEs can provide access to export markets. The growth of exports itself offers benefits in terms of technological learning, competitive stimulus, etc.

Increased Domestic İnvestment: Agrawal examined the data on five South Asian countries and found that the increase in FDI inflows were associated with a manifold increase in the investment by national investors.[7]

Export Growth: It seems that FDI could be associated with export trade in goods, and the hosting country can benefit from an FDI-led export growth.[8] A time series study on China indicates a two-way Granger causality running between output growth and FDI inflows.[9] It is also pointed out that there are many econometric specifications in which FDI is positively linked with long-run growth.[10]

Social Effects (Democratization): Closed economy countries started to liberalize their economy through market reforms that are favorable to foreign investors (privatization, property rights for example), particularly in Eastern Europe and the former Soviet countries. Economic policy in the new democracies is now subject to oversight by parliamentarians and civil society, and this may encourage a more stable policy environment for investors. Oversight may encourage a more development focused allocation of public spending, particularly public investment for creating the skills and public goods that attract foreign investors. As a result, democratic over-

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5 UNCTAD, *Foreign Portfolio Investment and Foreign Direct Investment: Characteristics, Similarities and Differences, Policy Implications and Development Impact.* Document E/B/COM.2EM.6/2. (Geneva: UNCTAD, 1999)

6 OECD, 'Technology and Productivity: The Challenge for Economic Policy'. (Paris: OECD, 1991)

7 Agrawal 'Economic Impact of Foreign Direct Investment in South Asia.' (Washington DC: World Bank, 2000)

8 Goldberg and Klein, 'Foreign Direct Investment, Trade and Real Exchange Rate Linkages in Southeast Asia and Latin America', NBER Working Paper No. 6344.(Cambridge MA: National Bureau of Economic Research, 1997) and OECD 'Open Markets Matter: The Benefits of Trade and Investment Liberalization'. (Paris: OECD, 1998)

9 Shan, Tian and Sun The FDI-led Growth Hypothesis: Further Econometricevidence from China. Canberra: National Center for Development Studies, The Australian National University, Research School of Pacific and Asian Studies, 1997

10 Blomstrom, Lipsey and Zejan 'What Explains the Growth of Developing Countries?' in Baumol, Nelson and Wolff (eds) Convergence of productivity: Cross-national studies and historical evidence.(Oxford: Oxford University Press, 1994) and Borensztein E., J. De Gregorio and Lee (1998) 'How Does Foreign Direct Investment Affect Economic Growth', *Journal of International Economics*, Vol. 45, pp.115–35.

sight may stimulate legal reforms that protect the property rights of all investors, including both domestic and foreigner. [11]

3. EVIDENCES FROM RECENT STUDIES

In Smarzynska's recent study, the estimation results, based on a firm- level panel data set from Lithuania, are consistent with the presence of productivity spillovers taking place through backward linkages.[12] The author suggest that a rise of ten percent in the foreign presence in downstream industries is associated with a 0.38 percent increase in output of each domestic firm in the upstream sector. Moreover, the data indicate that such spillovers are not restricted geographically, since local firms seem to benefit from the operation of foreign affiliates in their own region as well as in other parts of the country. Further, he finds that greater productivity benefits are associated with domestic-market, rather than export-oriented foreign companies. The author detects no difference, however, between the effects of fully owned foreign firms and those with joint domestic and foreign ownership.

Manuel Agosin and Ricardi Meyer have developed a theoretical model of investment that includes an FDI variable and we proceed to test it with panel data for the period 1970-96 and the two subperiods 1976-85 and 1986-96.[13] The model is run for three developing regions (Africa, Asia, and Latin America). One version of the model allowed to distinguish crowding in and crowding out effects for individual countries within each region. The results indicate that in Asia – and less so in Africa – there has been strong crowding in of domestic investment by FDI. By contrast, strong crowding out has been the norm in Latin America. The conclusion they reach is that the effects of FDI on domestic investment are by no means always favorable and that simplistic policies toward FDI are unlikely to be optimal.

A comprehensive study by Bosworth and Collins provides evidence on the effect of capital inflows on domestic investment for 58 developing countries during 1978-95.[14] The sample covers nearly all of Latin America and Asia, as well as many

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[11] Addison and Heshmati *The New determinants of FDI Flows to Developing Countries:Importance of ICT and Democratization.".* UNU/WIDER Discussion Paper No. 2003/45, 2003

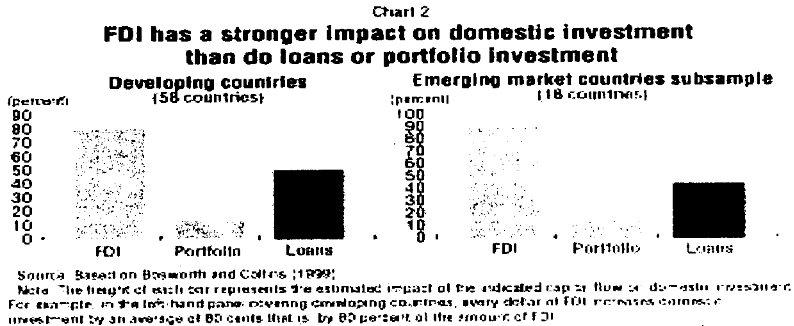
[12] Smarzynska, '*Does Foreign Direct Investment Increase the Productivity of Domestic Firms? In Search of Spillovers through Backward Linkages*' World Bank Policy Research Working Paper 2923, October 2002.

[13] Agosin (1999) and Ricardi Meyer Agosin M. and R. Mayer (2000) *Foreign Investment in Developing Countries. Does it Crowd in Domestic Investment?* UNCTAD Papers No. 146. Geneva: UNCTAD.

[14] Bosworth and Susan M. Collins, '*Capital Flows to Developing Economies: Implications for Saving and Investment*' Brookings Papers on Economic Activity: 1, (Washington DC: Brookings Institution, 1999), pp. 143-69.

countries in Africa. The authors distinguish among three types of inflows: FDI, portfolio investment, and other financial flows (primarily bank loans).

Bosworth and Collins have found that an increase of a dollar in capital inflows is associated with an increase in domestic investment of about 50 cents.[15] (Both capital inflows and domestic investment are expressed as percentages of GDP.) This result, however, masks significant differences among types of inflow. FDI appears to bring about a one-for-one increase in domestic investment; there is virtually no discernible relationship between portfolio inflows and investment (little or no impact); and the impact of loans falls between those of the other two. These results hold both for the 58-country sample and for a subset of 18 emerging markets. (See Chart 2.) Bosworth and Collins have concluded: 'Are these benefits of financial inflows sufficient to offset the evident risks of allowing markets to freely allocate capital across the borders of developing countries? The answer would appear to be a strong yes for FDI.'[16]



Borensztein, De Gregorio, and Lee have found that FDI increases economic growth when the level of education in the host country—a measure of its absorptive capacity—is high.[17] The World Bank's 2001 *Global Development Finance* report summarizes the findings of several other studies on the relationships between private capital flows and growth, and also provides new evidence on these relationships.[18]

4. FDI IN TURKEY

Turkish people benefit from FDI everyday. Most of the cars they drive, many of the medicines they need and a wide range of telecommunications, information tech-

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15 *ibid.*

16 *ibid*

17 Borensztein E., J. De Gregorio and J. Lee 'How Does Foreign Direct Investment Affect Economic Growth', *Journal of International Economics*, 1998, Vol. 45, pp. 115–35.

18 World Bank,'Coalition Building for Effective Development Finance,' *Global Development Finance* (Washington: 2001)

nology, tourism and other services come from Turkish based firms with foreign ownership. Many Turkish companies invest overseas to boost their financial viability, expand their markets and strengthen their Turkish operations as part of global business network. However, many in the community are not fully aware of the benefits of FDI and its importance to the Turkish economy.

FDI creates jobs, increases exports, and improves consumer welfare through reduced costs, wider choice and increased quality, and gives Turkish business access to an improved technological and knowledge base. Inward FDI provides capital to assist the development of competitive domestic industries and infrastructure. Outward FDI provides access to a greater number of distribution channels and networks in international markets for Turkish companies.

Because global companies often have a broader focus than the domestic markets in which they operate, inward FDI works to build export growth by shaping domestic operations into their worldwide operations. Firms with substantial foreign ownerships account for large amounts of Turkey's exports. Domestic operations of foreign firms in Turkey, such as Toyota, are integrated into global operations. Turkey's Sabanci conglomerate, last year bought out its partner's remaining 25% stake, doubled its work force, and made its Turkish plant the European production center for its Corolla model. Toyota intends to start production of a second model later this year, and to boost total production from 40,000 units this year to 100,000 by 2004. Significant technology transfer is associated with the foreign-owned car manufacturing industry in Turkey. Turkey's second largest manufacturer, Oyak-Renault joint venture between the French giant and Turkey's military pension fund, in which Renault holds a controlling stake-already exports 80% of its Turkish production.[19] The car manufacturing industry also is responsible for developing many support industries, such as tire producer, Turkey's own Petlas, Rubber seal manufacturer Standart Profil.

In 1971 FDI in Turkey was only $300 million with an average annual FDI inflow of approximately $90 million. These figures were far below those of other comparable countries at that time. As a result of the shift in the middle 1980s in Turkey from a protectionist trade regime to export-oriented economic liberalization, however, FDI in Turkey increased significantly. Annual FDI flows in Turkey grew rapidly from the mid-1980s, reaching $1 billion in 1990 (Table 1). However, FDI flows per annum have not increased for the decade since then. In other words, during the 1990s when global FDI flows accelerated – exceeding the growth in world trade since 1989 – FDI in Turkey remained static.

[19] The Economist ' Revved up' *Business Middle East*, March, 16th-31st 2002.

Table 1 *FDI Inflows to Turkey*

AUTHORIZED FDI (MILLION $)	NO. OF FOREIGN CAPITAL COMPANIES	REALIZATIONS (MILLION $)	Years
97	78	35	1980
338	109	141	1981
167	147	103	1982
103	166	87	1983
271	235	113	1984
234	408	99	1985
364	619	125	1986
655	836	115	1987
821	1.172	354	1988
1.512	1.525	663	1989
1.861	1.856	684	1990
1.967	2.123	907	1991
1.820	2.330	911	1992
2.063	2.554	746	1993
1.478	2.830	636	1994
2.938	3.161	934	1995
3.836	3.582	914	1996
1.678	4.068	852	1997
1.646	4.533	953	1998
1.700	4.950	813	1999
3.477	5.328	1.707	2000
2.725	5.841	3.288	2001
2.243	6.280	1.042	2002
1.208	6.511	150	2003
35.203	---	**16.372**	*TOTAL*
Important : *All types of permits issued by General Directorate of Foreign Investment are abolished by Foreign Direct Investment Law No. 4875 enacted on June 17, 2003. Therefore any statatistics on base of permits will not be published from this date on.*			(*) As of June 2003 (**) Cumulative (***) Data for 2003 is between Jan-May

Source: www.treasury.gov.tr

If we look at the main sources of FDI we can see that European countries dominate FDI in Turkey (Table 2). France, Holland and Germany are the major investors in Turkey in terms of approved investment. In terms of the number of foreign equity companies, European Union Countries are the most important source of FDI - accounting for more than 65 % of all projects in Turkey. Next biggest source is United States of America. However, it's believed that USA has more investment than it seem, because of the absence of a bilateral tax treaty until 1998 with the US, much U.S.-origin capital has been invested in Turkey through third-country subsidiaries. By unofficial estimates the U.S. is actually the largest source of foreign investment in Turkey.

Table 2

Breakdown of Authorized FDI According to Home Countries

1980-90	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	TOTAL	COUNTRIES
1.045,61	249,18	353,75	223,15	255,29	476,05	2.370,35	103,94	135,5	146,72	33,7	137,71	134,06	5.665,01	France
322,4	280,3	272,9	179,42	194,02	559,32	338,61	206,35	352,05	234,57	1.381,34	635,47	379,27	5.336,02	Netherlands
696,43	196,41	202,46	145,37	223,46	392,13	226,47	281,5	329,8	407,31	636,84	319,31	271,99	4.329,47	Germany
770,59	460,87	197,55	248,34	158,32	231,37	179,44	174,48	297,2	292,51	291,3	316,06	310,75	3.928,78	U.S.A.
877,44	80,82	109,34	120,49	47,42	161,37	164,8	122,25	44,43	88,4	98,15	506,53	247,66	2.669,11	U. Kingdom
799,61	109,08	203,51	136,11	54,29	327,75	156,84	50,28	101,58	50,89	35,26	86,1	149,3	2.260,60	Switzerland
214,06	180,66	119,66	419,29	164	98,57	43,24	124,5	128,69	95,22	17,86	33,63	243,51	1.882,89	Italy
363,33	54,59	36,6	237,06	125,92	283,84	21,14	126,68	17,54	13,85	150,78	258,6	128,76	1.818,69	Japan
582,16	38,07	52,02	43,85	67,5	63,74	74,88	297,62	40,4	198,16	62,15	71,33	82,77	1.674,65	Other Countries
87,54	8,27	20	21,1	13,43	36,2	70,18	7,61	17,82	23,41	161,79	7,98	10,08	485,41	Belgium
20,59	0,94	10,29	93,3	0,53	15,94	30,99	17,88	2,51	13,62	113,52	1,96	3,56	325,63	Korea
125,35	43,95	34,07	15,08	8,44	11,81	8,98	11	17,14	14,47	9,01	13,59	8,05	320,94	S.Arabia
27,95	23,2	24,73	9,81	19,85	33,29	0,8	16,07	10,64	4,2	31,85	72,12	45,95	320,46	Luxemburg
46,83	1,74	2,55	3,58	2,11	17,53	0,13	0	0,67	0	50,67	133,08	28,38	287,28	Panama
14,86	21,42	0	0	0	0,59	0	0,12	0,1	0,13	246,58	0,05	0,93	284,79	Cayman Is.
31,85	51,26	22,63	58,31	37,37	41,33	1,42	0,41	12,86	1,91	2,61	0,67	4	266,63	Canada
82,96	4,73	3,66	5,21	8,57	3,63	0,44	13,68	4,15	11,28	10,05	69,86	4,89	223,11	Denmark
24,47	8,36	8,83	5,55	3,59	32,92	11,2	8,42	6,1	16,41	27,86	2,31	19,89	175,91	Austria
41,05	13,96	14,39	6,25	8,7	11,84	22,09	7,52	19,42	6,88	8,73	2,06	7,74	170,63	Sweden
16,32	6,92	49,7	25,92	11,95	6,44	18,44	4,46	25,16	0	0	0,06	1,36	166,73	Bahrain
8,26	9,16	8,84	4,39	5,79	2,8	10,72	1,74	9,14	30,95	6,31	12,28	42,89	153,26	Spain

55,61	9,67	14,07	15,03	1,32	18,13	6,17	8,35	0	0,16	2,79	0	0,02	131,32	Singapore
9,92	29,51	12,51	0,4	5,41	0,18	0,06	15,64	0,16	0,16	0	0,21	50,61	124,77	Jersey Is.
59,21	3,23	8,95	5,8	3,96	5,63	5,35	9,58	5	1,58	1,98	4,62	4,08	118,97	Iran
0	0,23	0,41	0,09	0,62	6,17	26,71	1,2	0,31	15,2	22,16	2,14	32,83	108,06	Virgin Is.
21,72	6,09	10,47	1,7	20,98	9,76	7,3	3,62	3,36	0,03	0,05	10,41	0	95,49	IFC
1,56	4,98	9,81	2,49	5,17	3,57	10,14	8,3	0,41	3,54	28,78	0	0,02	78,77	TRNC
0	38,35	0,38	14,13	3,2	20,11	0	1,33	0,09	0	0,03	0	0,05	77,67	Bermuda
0,36	0,59	0,39	0,12	4,46	6,58	0,71	36,23	14,39	1,18	0,4	1,26	2,84	69,51	Ireland
3,4	1,22	0,63	0,74	12,19	25,88	2,84	3,05	1,56	0,21	3,13	0,64	10,59	66,07	Finland
31,35	3,56	0,99	2,69	1,69	1,49	10,47	4,58	0,72	1,87	0,51	0,7	1,97	62,6	Syria
1,79	3,82	2,66	9,54	6,56	11,29	5,78	5,29	3	4,13	2,26	4,36	1,77	62,27	Russian Fed.
0,42	1,34	2,75	4,22	0,35	2,97	1,2	1,99	1,56	2,64	32,7	3,47	4,85	60,46	Greece
1,03	11,37	4,17	0,78	0,72	17,67	0,76	0,43	0,06	17,5	0	0,07	0,44	55	Liechtenstein
34,59	8,04	0,32	3,39	0,31	0,23	0,6	0,58	0,31	0,17	0	2,97	1,18	52,69	UAE
0	1,17	3,04	0,03	0,09	0	0,06	0	41,98	0	0,29	0,14	0,05	46,85	Iceland
0,74	0,2	0,93	0,66	0,03	0,2	7,39	1,53	1,63	1,31	3,48	14,39	5,84	38,33	Israel
6.421,36	1.967,26	1.819,96	2.063,39	1.477,61	2.938,32	3.836,69	1.678,21	1.647,44	1.700,57	3.474,93	2.726,14	2.242,92	33.995,32	TOTAL
														As of 31.12.2002

5. TURKEY'S EFFORTS TO ATTRACT MORE FDI

Since the 1980s the Turkish government has aggressively liberalized the economy, improved conditions for foreign investment by removing bureaucratic barriers, and supported an intensive privatization program. Turkey's new stabilization and liberalization program focused on the need to attract private foreign investment, especially from the United States. The role of FDI was perceived as one, which would help sustain economic development and improve the balance of payments situation. To encourage and promote investment, the Foreign Capital Framework Decree (8/168) was issued and a separate governmental institution, the Foreign Investment Directorate, was established in order to simplify administrative procedures and handle investment applications more quickly. Two more decrees were issued in 1983 and 1984. The intent of these was to further liberalized FDI conditions in Turkey. Government decrees in 1985 and 1986 led to the establishment of Free Trade Zones (FTZs), the removal of restrictions on foreign equity participation, and the ending of minimum export requirements. The government also made substantial investments into Turkey's infrastructure.[1] As a result of these as well as favorable customs policies in agreement with the European Union (EU), Turkey has become a very attractive manufacturing location for foreign companies.

Lately on June 2003, one more law was issued. The new Law guarantees national treatment and comprehensive investor rights. All companies established with a foreign capital contribution and under the rules of the Turkish Commercial Code (existing and newly established foreign companies) are regarded as a Turkish company. Therefore equal treatment both in rights and responsibilities as stated in the Constitution and other laws is applicable to all such companies (including national treatment, a guarantee against expropriation without compensation, transfer of proceeds, access to real estate and to expatriate personnel, and international arbitration or any other means of dispute settlement).

The new law enshrines unrestricted entry. All previous requirements issued by the Undersecretariat of Treasury's General Directorate of Foreign Investment (GDFI) are abolished. However, all foreign companies established or to be established in Turkey are still responsible for obtaining those local licences required for a comparable Turkish company.

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[1] FDI Foreign Direct Investment, (2002) Light at the End of the Tunnel...Turkey. *FDI Business, Financial Times*. Accessed online at: http://www.fdimagazine.com/newsarchivestory.php/aid/104/Light_at_the_end_of_the_tunnelTurkey.html; and Tatoglu & Glaister, (2000)). 'Strategic Motives and Partner Selection Criteria in International Joint Ventures in Turkey: Perspectives of Western firms and Turkish Firms.' *Journal of Global Marketing*, Volume 13, Number 3, pp. 53-88.

Entry conditions are the same as for comparable local Turkish companies. There is no minimum amount of capital required. It is no longer obligatory to bring a minimum of $50,000 in share capital. Also, any form of company included in the Turkish Commercial Code is acceptable. It is no longer obligatory to establish either a limited liability company or joint stock company.

The new Law guarantees foreign investors' equal right to own or use land. Foreign investors with a legal entity in Turkey have the same rights to own or use land as domestic investors, thereby reinforcing the concept of non-discrimination by nationality. However, the principle of reciprocity is still valid for foreign legal and foreign real persons.

Pre-permits issued by General Directorate of Foreign Investment are abolished. These branches can be established under rules of Turkish Commercial Code with the permit of Ministry of Industry and Trade.

All companies with foreign capital established under Law No. 6224 (dated 18 January 1954) are subject to the new Law, with their previously granted rights grand fathered. Therefore they will no longer require any approvals from GDFI, though they will now have to send yearly information forms (just like newly-established foreign companies) based on procedures to be determined by new regulations.[2]

6. HOW TO GET MORE BENEFIT FROM FDI?

The benefits that can be derived from FDI are many. Investment Policy Reviews (IPRs) conducted by UNCTAD, provide evidence of benefits in terms of employment generation, wages, linkages with local firms, capital and technology flows exports, voluntary health and education programs, and the range of new product and services provided. However, not all countries benefit equally from FDI. In fact, in some cases it may even have a negative effect in terms of, for example, crowding out domestic private investment and damaging the local environment. Evidence from IPRs also indicates that in many countries there appear to be missed opportunities in establishing local linkages. For instance, nearly all inputs in the pharmaceutical industry in Egypt are imported. There are also cases where linkages have been established, for instance in the mining industry in Peru and the United Republic of Tanzania, but could be developed further.

Government policies can mitigate some of the potentially negative effects of FDI. Competition policy and an appropriate regulatory framework are crucial for guiding successful private participation in infrastructure. Environment policy is

[2] For a detailed information on the recent law see www.treasury.gov.tr.

equally desirable, particularly in countries with fragile ecosystems or sizeable resource extraction activities. Labor laws and health and safety standards can ensure decent work conditions.

These measures are part of the general standards that apply to all enterprises and are consistent with the non-discrimination and national treatment principles that most countries accord to foreign investors.

Public–private dialogue can help raise corporate awareness and encourage socially responsible actions by corporations. From a development perspective, corporate responsibility may involve facilitating the transfer of appropriate technology, assisting in the development of social services, training of local workers and building of linkages with local enterprises. National business councils can help promote public–private dialogue, particularly when local enterprises and other stakeholders are involved. Regional and municipal councils can also be effective.

Bilateral investment treaties and double taxation treaties should be increased. At the end of the 1997, 1513 bilateral investment treaties and 1794 double taxation treaties were in effect. Both types of treaty reflect the growing role of FDI on countries desire to facilitate it.[3]

A strong technological base is an important asset for countries wishing to attract FDI and benefit from it through linkages and technological learning. Unfortunately, many developing countries either lack an effective national science and technology policy or where such a policy is in place, it tends to lack coherence with other key policies that influence investment and enterprise development. A number of the IPRs conducted by UNCTAD reveal a mismatch between national science and technology policies and objectives of countries and their overall investment policies and strategies. There is a need to update national science and technology policies and build a more focused, market-oriented, coordinated and appropriate technology support infrastructure. This should be complemented by policies and incentive schemes that support focused technology activities at the enterprise level. Where a national innovation system has been designed, such as in Ecuador and Peru, the policy focus needs to shift towards effective implementation.

Governments can be proactive in encouraging and deepening linkages between foreign enterprises and local companies (see table 3). The following discussion highlights specific issues and methods of linkage promotion.[4]

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3 Mallampally and Sauvant. 'Foreign Direct Investment in Developing Countries' IMF, *Finance & Development*, Volume 36, Number.1, 1999

4 UNCTAD, World Investment Report, 2003

Table 3

Specific Measures by Governments (of Host and Home Countries) to Promote Linkages

Technology upgrading	**Training**
Partnership with foreign affiliates. Incentives for R&D cooperation. Home country incentives. Promote suppliers' associations.	Collaborate with private sector on one-stop service. Support private sector training programs. Collaborate with international agencies.
Information and matchmaking	**Financial assistance**
Provide relevant information. Maintain updated electronic databases. Act as honest broker in negotiations. Support suppliers' audits. Provide advice on subcontracting. Sponsor fairs, exhibitions and, conferences. Organize meetings and, visits to plants.	Legal protection against unfair contractual arrangements and other unfair business practices. Guarantee recovery of delayed payments. Indirect financing to suppliers through their buyers. Tax credits and other fiscal benefits to firms providing long-term funds to suppliers. Co-finance development programs with private sector. Directly provide finance to local firms. Home country measures: • Two-step loans. • Using official development assistance

Source: UNCTAD, World Investment Report 2001: Promoting Linkages, table VI.1, p. 210.

Linkages are often lacking because local firms cannot meet international production standards, as well as corporate requirements in terms of consistency/continuity and volumes of production. Government and the private sector can work together to establish one-stop centers, where entrepreneurs have access to business development services and inputs (i.e. entrepreneurship training, information, finance, quality control, networking and business counseling). Such programs, for example EMPRETEC and Enterprise Africa, are already in operation in some countries, and under consideration in others.

There are examples where local supplier upgrading programs in technology and skills have helped to stimulate linkages between local firms and MNEs, and where local firms have subsequently developed into exporters themselves. The Irish National Linkage Program was designed to raise local organizational and marketing skills, as well as quality and productivity, to the standard required by MNEs. Many local companies have subsequently reached a critical scale to be able to compete

internationally. Singapore also sought to upgrade local industries through the establishment of a Local Industry Upgrading Program (LIUP), under which MNEs were encouraged to enter into long-term supply contracts with local firms, leading to upgrading. Local firms benefited most in the electronics sector by supplying maintenance services, components and equipment to the semiconductor MNEs.

The Malaysian Penang Skills Development Center is sometimes considered best practice in public–private training cooperation. It utilizes a set of public–private partnerships between the Government and MNEs in order to develop local supply capacity through coaching and mentoring programs. In these supplier development programs, MNEs and large enterprises agree to assist their small suppliers by continuously improving skills and technology. The center was initially financed by the public sector (grants, training materials, equipment and trainers) and the private sector (donations, loan of equipment, furniture and, private training facilities) pooling their resources. It is now self- financing. There may be a useful role for incentive schemes to encourage firms to collaborate with other stakeholders in enhancing the level of skills, technology and infrastructure in the host country. In the past, host Governments have used direct measures, such as local content, export performance and transfer of technology requirements. However, such measures are now being phased out by most developing countries because they are incompatible with their obligations under the WTO Agreements (such as the Agreement on Trade-Related Investment Measures), or with their own market-friendly outward-oriented development strategies. In such a situation, development-oriented incentives assume greater significance. Such incentives (fiscal or financial) could be given to foreign firms as well as to large domestic firms for: (a) encouraging innovation in domestic firms; (b) promoting R&D cooperation with other smaller domestic firms and research institutes; (c) compensating for upgrading the level of skills of employees. Special funds could be established for providing such incentives.

Home country measures, such as tax incentives and the use of official development assistance for capacity building, infrastructure development and enterprise support and training programs aimed specifically at encouraging FDI inflows, can play an important complementary role in such collaborative efforts, particularly in the least developed countries and other structurally weak economies.[5]

[5] UNCTAD, World Investment Report, 2003.

CONCLUSION

Both economic theory and recent empirical evidence suggest that FDI has a beneficial impact on developing host countries. As a result of FDI we see technology transfer and creation of employment in the developing countries, and it is these factors that are the significant benefits of FDI. Technology transfer includes not only scientific processes, but also organizational, managerial and marketing skills. This benefits not only the affiliate of the multi-national enterprise but also the country as a whole as they are able to use their resources more efficiently with the new technology. The benefits of FDI are not limited with technology transfer and creation of employment, it benefits to capital market, export increase and much more as well. But recent work also points to some potential risks: it can be reversed through financial transactions; it can be excessive owing to adverse selection and fire sales; its benefits can be limited by leverage; and a high share of FDI in a country's total capital inflows may reflect its institutions' weakness rather than their strength. Policy recommendations for developing countries should focus on improving the investment climate for all kinds of capital, domestic as well as foreign.

In order to benefit more from FDI, Turkish government has been trying to improve investment climate by doing necessary changes in laws and regulations as well as in incentives. Turkey's latest economic indicators have shown that its economy is getting more stable.