AN ANALYSIS OF FOREIGN DIRECT INVESTMENT ACTIVITY IN TURKEY

Ekrem TATOĞLU*
Veysel KULA**

Abstract:

To date no study has presented data, which systematically consider the detailed activity of foreign direct investment (FDI) in Turkey over a substantial period of time. Drawing on official sources, this paper attempts to rectify this position by providing key statistics on the trend and pattern of foreign equity venture formation in Turkey. The study examines several dimensions of activity: Time period of formation, industry characteristics, geographical location, capital size, foreign equity shareholding, and company type. An attempt is made to explore the percentage of foreign ownership of foreign investments in Turkey by means of regression analysis.

Özet:

TÜRKİYE'DE DOLAYSIZ YABANCI YATIRIM FAALİYETİNİN ANALİZİ

Türkiye'deki dolaysız yabancı sermaye yatırımlarını uzun bir zaman sürecini kapsar sekilde sistematik olarak inceleyen veri mevcut değildir. Bu çalışma, resmi kaynaklardaki verileri baz alarak Türkiye'deki yabancı sermaye yatırımlarının eğilimleri hakkında temel istatiksel bilgiler sunmaktadır. Çalışmada yabancı sermayenin şu boyutları incelenmektedir: Yabancı sermaye yatırımlarının gerçekleşme zamanları, endüstriyel karakteristikleri, kuruluş yerleri, sermaye hacmi, yabancıların hisse payı ve firmanın hukuksal türü. Regresyon analizi yöntemi ile Türkiye'deki yabancı sermayeli yatırımlarda yabancı sermayedarların hisse oranlarını etkileyen faktörlerin saptanmasına çalışılmıştır.

---

* Res. Asst., Adnan Menderes Üniversitesi
** Res. Asst., Afyon Kocatepe Üniversitesi, İktisadi ve İdari Bilimler Fakültesi

Keywords: Foreign Direct Investment (Turkey), Portfolio Investment, Joint-Ventures, Foreign - Owned Ventures, Foreign Investment Legislation

Anahtar Kelimeler: Dolaysız Yabancı Sermaye Yatırımı (Türkiye), Portföy Yatırımı, Ortak Girişimler, Yabancı Sermaye Girişimleri, Yabancı Sermaye Mevzuatı

1. Introduction

Foreign direct investment (FDI) has been growing rapidly in the last decade and is acting as a major force shaping globalisation. According to the *World Investment Report 1996* prepared by UNCTAD (1996), world FDI inflows in 1995 reached to an unprecedented $315 billion level by increasing almost 40 percent over 1994. While majority of the overall inward FDI inflows are still concentrated in developed countries, the value of FDI inflows to developing countries has been substantially increasing, reaching a highest level of $100 billion as of 1995. Developing countries attracted nearly 35 percent of total FDI inflows during 1993-1995, as compared with less than 20 percent during 1984-1989 (UNCTAD, 1996). Among the developing countries, Asian countries have consistently received the largest percentage of FDI, where China alone comprised almost 40 per cent of total FDI inflows to developing countries (Broadman and Sun, 1997). Latin American and Caribbean countries also attracted great deal of foreign investment, which consisted of around 27 percent of the total inward FDI in developing countries in 1995. Investment flows to Central and Eastern Europe doubled nearly to $12 billion in 1995 (UNCTAD, 1996). This is the continuation of a trend that began in 1990 and has driven developing countries to become a major force in world FDI. The success of the developing countries in attracting FDI stems mainly from an investment climate characterised by growing markets and increasingly liberal policy frameworks (Jun and Singh, 1996).

These trends have also been observed in Turkey at the country level. After many years of experience with heavy government involvement in the economy, Turkey, since the early 1980s, has embarked on a market liberalisation program. Significant progress has been recorded in the liberalisation of trade and investment policies, and the pursuit of macro-economic stability and economic growth. This policy approach has undoubtedly contributed to a substantial increase in FDI. Table 1 shows both authorised and actual inflows of FDI to Turkey, together with the number of foreign equity ventures (FEVs) established during the period 1980-1995. The number of FEV formations reached a total of 2,900, with the amount of cumulative FDI totalling $7,572 million as of the first quarter of 1995 (GDFI, 1995). The authorisations during this period accumulated to $14,529 million. Although there has been an increasing trend in the value of FDI inflows to Turkey, its share of the global inflows is relatively low (less than 1 per cent as of 1992) compared with that of the newly emerging markets of the Far East and Latin America (OECD, 1995; *Financial Times*, 1994). This situation may lead some economists to be dismissive of the role of foreign direct investment in the Turkish economy. However, when Turkey's efforts are evaluated from the perspective of distinct time periods, its success in attracting foreign capital is quite remarkable.

Table 1. Foreign Direct Investment (FDI) in Turkey, 1980-1995

Years	Authorised FDI (US $ million)	Number of Firms (cumulative)	Actual Inflows of FDI (million $)
1980	97.00	78	35
1981	337.51	109	141
1982	167.00	147	103
1983	102.74	166	87
1984	271.36	235	162
1985	234.49	408	158
1986	364.00	619	170
1987	655.24	836	239
1988	820.52	1,172	488
1989	1,511.94	1,525	855
1990	1,861.16	1,856	1,005
1991	1,967.26	2,123	1,041
1992	1,819.96	2,330	1,242
1993	2,271.30	2,554	1,016
1994	1,484.66	2,830	830
1995[a]	563.81	2,900	-
Total	**14,529.95**	**2,900**	**7,572**

Source: Undersecretariat of Treasury, General Directorate of Foreign Investment (GDFI), *Foreign Investment Report, March 1995*, Ankara. [a] As of 31 March 1995.

Prior to 1980, there were about 70 firms operating with foreign capital ownership. During the periods of 1980-86 and 1987-95, however, the number of foreign equity ventures amounted to 529 and 2,888 respectively, which reveals the success of measures to attract foreign investment.

FDI is conventionally defined as a form of international inter-firm cooperation that involves establishing, acquiring, or expanding an affiliated subsidiary corporation or branch. Parry (1980:15) regards FDI as a particular kind of response by multinational enterprises to imperfect markets. British Business, citing the definitions of the International Monetary Fund (IMF) and the Organization for Economic Cooperation and Development (OECD), defines FDI as:

'... investment that adds to, deducts from, or acquires a lasting interest in an enterprise operating in an economy other than that of investor, the investor's purpose being to have an effective voice in the management of the enterprise' (British Business, 6 June 1986:464).

An essential element of FDI is to exert a continuing interest and to forward an effective voice in managing the real assets of a foreign affiliated entity. When there is no substantial influence in the management of the foreign enterprise, the investment is considered as a portfolio equity investment (Dua and Rashid, 1996:33). The U.S. Commerce Department defines up to 10 per cent equity participation by a U.S. firm in a foreign affiliate as a portfolio investment (Chowdhury, 1992). An ownership of at least 10 to 25 percent is commonly considered to be the minimum for an investment to be considered as FDI, the essential ingredient being the control over assets (Brewer, 1991). While a formal clear-cut definition is difficult, FDI is regarded, for the purposes of this survey, to include ventures involving at least 10 percent of foreign equity ownership. The investments, where foreign ownership is equal to or less than 10 percent, are considered to be portfolio equity investments.

There has been some difficulty, however, particularly at the official level, in defining joint ventures precisely, partly because the concept has been viewed as covering a large variety of situations, with the result that no OECD member countries' competition laws give a precise definition (OECD, 1986). The more specialised literature has given many definitions, but there has been no systematic adoption of a universally accepted definition (Young *et al.* 1989: 208-209). A definition for joint ventures which may be more applicable to their establishment in developing countries is set out by Koot (1988):

'A joint venture is defined as a subsidiary company that is established by a corporation together with a partner company in a foreign country, the normal case being the multinational company from an industrialised economy having a share of some 20 percent or more in the equity of a company outside its home country, with the remainder of equity being in possession of a company located in the country where the joint venture is to be established' (Koot, 1988: 347-348).

Hennart (1988) also includes partial acquisition of another firm's ownership in his definition of joint ventures. The definition which accounts for both domestic and international joint ventures (JVs) reads as:

'JVs arise whenever two or more sponsors bring given assets to an independent legal entity and are paid for some or all of their contribution from the profits earned by the entity, or when a firm acquires a partial ownership of another firm' (Hennart, 1988: 361-362).

Beamish and Banks (1987) characterised joint ventures solely from the vantage point of equity ownership by defining them as 'shared-equity undertakings between two or more parties, each of whom held at least five percent of the equity' (Beamish and Banks, 1987: 7).

For the purposes of this survey, a venture is defined as JV when foreign equity ownership ranges between 11-90 percent, whereas a venture with foreign equity shareholding of more than 90 percent is labelled as wholly foreign-owned venture. In line with the U.S. Commerce Department practice, JVs are further classified into two categories as either being minority foreign owned (11-50 percent) or majority foreign owned (51-90 percent) joint ventures.

This paper provides a detailed analysis of the structure of FDI and of foreign equity venture formations in Turkey since the late 1940s. The main purpose of the paper is to draw a factual picture of the formation of all foreign capital-based companies under the FDI-oriented institutional, legal and economic reforms that have been implemented since 1980, regardless of the level of the proportion of foreign ownership.

The paper is set out as follows: In the next section, Turkish Government policies towards foreign investment are reviewed. Third section indicates the nature of the database. The fourth section analyses the pattern of the formation of foreign equity ventures in the context of the key dimensions of the data. In clarifying the patterns of FDI activity, explanations are provided on the formation of firms with foreign capital from the perspective of the policy reforms and the emerging opportunities provided by the domestic market. A summary, and policy implications of the study are presented in the last section.

2. Economic Policies And Legal Regulations On FDI

From the Great Depression in 1929 through the beginning of 1950s, Turkey was among the most protectionist countries in the world (Yılmaz, 1986). The major development concerning foreign capital occurred after World War II with the formation of rapid development strategies and the increasing international competition. During this period, a liberal economic policy was implemented in Turkey. Hence, a significant restructuring with the objective of encouraging foreign investments occurred in accordance with some gradual steps taken towards the integration of the Turkish economy into the world markets. The Law for the Encouragement of Foreign Capital (Law no. 6224) was enacted to ensure the inflow of foreign private investment. The Law still remains in force today, and maintains the fundamental conditions since it was issued in 1954.

This regulation could be considered as a first and serious step towards the creation of a new investment environment and security for FDI in Turkey, after having adopted hostile attitudes for so long. The Law 6224 basically allowed foreign investors to operate in all sectors open to Turkish private enterprises with the condition of benefiting the economic development of the country and with that of not declaring any special concession or monopoly. The Law, in particular, granted foreigners equal treatment with domestic firms, and provided foreign investors with guarantees concerning the transfer of profits, fees and royalties and ensured free repatriation of capital in the event of liquidation or sale.

However, despite the incentives provided by the No. 6224 Law, the required importance was not given to FDI and it remained far below the desired level due to political and economic instabilities in the economy of the country, and the defects in the application of the law had sustained to persist.. Likewise, Erdilek (1982:13) argues that the wording of Law 6224 also created serious problems for the implementation of the Law. Although it was generally characterised as being a liberal law for containing no explicit limitations on FDI activities, there exist some ambiguities regarding the wording of the Article 1, Clause (a), that FDI had to be 'useful for the economic development of the country'. Even with the non-availability of supplementary written regulations such vagueness led to the arbitrary implementation of the Law on ideological grounds. This situation, therefore, created an FDI environment of mutual distrust between multinationals and Turkish government.

As seen in Table 2, the amount of foreign private capital entering Turkey remained negligible during the 1950s, totalling to less than $16 million. Matters improved somewhat during the 1960s and 1970s when multinationals - particularly in the fields of chemicals and pharmaceuticals, electrical equipment, machinery and motor cars - established a small processing or assembly base in Turkey (OECD, 1983a). However, due to the severe economic crisis which occurred in the late 1970s and the onset of foreign exchange crisis in 1977, it became practically impossible to transfer profits. Thus, the annual inflow of FDI declined substantially (OECD, 1983b). Total volume of foreign capital during the period of 1960-80 amounted to $212 million, which was still very low compared to the other OECD Mediterranean countries over the same period.

Table 2. FDI in Turkey Under Law No. 6224, 1954-1979 ($ million)

Years	In the period indicated	Cumulative Total
1954-59	15.4	15.4
1960-69	81.1	96.5
1970-75	108.2	204.7
1976	8.9	213.6
1977	9.2	222.8
1978	11.7	234.5
1979	-6.4	228.1

Source: State Planning Organisation, Foreign Investment Directorate.

Turkey's 1980 economic programme foresaw the need to attract private foreign investment and assigned a significant role to FDI to sustain economic development and improve the balance of payments situation, which significantly deteriorated during the past decade. The measures towards this end were taken only after 1980 and thus the existing law (No. 6224 Law) regulating the foreign capital was complemented by accompanying measures to encourage new inflow of foreign investment.

No. 8/168 Foreign Capital Framework Decree was promulgated on 24 January, 1980, and included articles with the aim of facilitating the inflow of foreign capital. On the basis of this decree, Foreign Investment Directorate (FID), attached to the Prime Ministry, was established in order to simplify administrative procedures, and to handle investment applications with speed and in harmony by merging the services formerly carried out by the Ministries of Finance, Trade, Industry and Technology and the State Planning Organisation. The decree also stipulated that for the FID to be able to extend the permissions for foreign capital shares; participating foreign capital investments of the total fixed investments would be at most $50 million, and the rate of foreign capital share would not be less than 10 percent or more than 49 percent. In addition, the investment areas where foreign capital can participate were also indicated. Contrary to previous practice, by this decree only investments in industry and mining exceeding $50 million level or requiring more than 49 percent foreign capital participation need to be approved by the Council of Ministers; all others - including investments by subjects of the Arabian Gulf States, as well as tourism investments with more than 49 percent of foreign participation - were directly decided by the department. This contrasted sharply with the prior procedure when applications had to be processed and agreed upon by a large number of Ministries' prior submission to the Cabinet for final approval. These complexities, to a large extent, were removed with the introduction of the new programme.

The two new basic decrees in order to liberalise further FDI conditions in Turkey were issued on 29 December, 1983 and on 1 April, 1984, which allowed the Foreign Investment Directorate to grant foreigners the right to invest not only in industry but also in the fields of import and export trade, and provided for the establishment of trade offices, liaison offices and agencies. Moreover, the right of profit transfer and the repatriation of capital were also provided for these types of investments (Yılmaz, 1986).

A rather significant intiative came into effect in 1985. This was the enactment of Law 3218 on Free Trade Zones to promote export-oriented FDI in designated regions of the country, which were exempt from most provisions applying to FDI activity outside the Free Trade Zones but subject to certain restrictions. Erdilek (1988:144) defines this decree as the most serious FDI-related regulation.

In 1986, the No. 86/10353 decree dated 12 February 1986 was issued based on the Law 6224 and the No. 1567 Law Concerning the Protection of the Value of Turkish Currency. This new decree was adopted to ensure further liberalisation of Turkish FDI policy and introduced some significant changes as follows: It repealed the Foreign Capital Framework Decree No. 8/168, dated January 24, 1980 and its supplements. Thus, restrictions on foreign equity participation and the minimum export requirements were removed. Additionally, foreign portfolio equity investment in Turkish firms has been made easier. The new decree authorised the Foreign Investment Directorate to approve the foreign investment projects up to $150 million. The applications for investments where foreign capital share exceeds $150 million will be submitted to the FID for preliminary evaluation, and then sent to the Council of Ministers for final approval (Art. 4,Clause b). On the basis of this decree (No. 86/10353), the Communiqué No. 19117 concerning the Foreign Capital Framework Decree (No. 86/10353) was issued with the objective of determining the principles of the application and implementation of permits to be granted.

In 1992, Foreign Investment Directorate was attached to the Undersecretariat of Treasury and Foreign Trade through the enactment of a new decree (Decree No. 92/2789) which re-emphasised the authority of the FID on FDI projects for approval and incentive certificates.

3. The GDFI Database

All foreign equity ventures operating in Turkey are recorded by the General Directorate of Foreign Investment (GDFI). The GDFI (formerly FID) acts as a one-stop agency for implementing the regulations concerning foreign investment. It advises and assists foreign investors, receives and processes investment applications, and reviews and approves license, royalty and management contracts (Tonge, 1994). All foreign investments not exceeding the value of $150 million are subject to the approval of the GDFI. The database of GDFI consists of all foreign equity investments in Turkey since 1947 and as of the first quarter of 1995 includes 2,888 FEVs. The GDFI database also provides information about country of origin, location of the investment, the sector of operation, proportion of foreign equity shareholding, total paid-in capital, the formation type of the company, and entry date.

Foreign capital has flowed into Turkey from countries throughout the world, but the majority of it has come from Europe and the USA. In terms of the distribution of authorised FDI by country of origin, foreign investments in Turkey are dominated by European countries (64%) by value of FDI followed by the USA (14%), with the remainder being mainly shared by the countries from the Far East (9%) and the Middle East (4%) (GDFI, 1995).

The location of the investment within Turkey is grouped under seven geographic regions: Marmara, Aegean, Black Sea, Central Anatolia, South, East, and South-Eastern Anatolia. These geographic regions differ in terms of economic development and level of infrastructure. For instance, while the Marmara region can be characterised as the most economically developed region of Turkey, the regions of Eastern and South-Eastern Anatolia constitute the least developed regions of Turkey.

In terms of the sector of operation, all foreign equity ventures are classified according to their related fields of investment, which in turn are re-grouped under three broad sectors of manufacturing, service and agriculture.

FEVs are broadly classified into three categories according to proportion of foreign equity shareholding. The first category of FEVs, where foreign ownership is equal to or less than 10 percent, are considered to be portfolio investments, whereas foreign equity shareholding of more than 90 percent can be considered as a wholly foreign-owned venture (WFOV). The remaining categories that fall in between may be accepted as joint ventures (JVs), which are either minority foreign owned or majority foreign owned joint ventures. Although there is no explicit information in the GDFI database concerning the Turkish partner's shareholding, this can be inferred from the foreign partner's shareholding.

The data concerning the amount of total paid-in capital are stated in Turkish Liras and therefore may be subject to the criticism of under-valuation of the firm resulting from the use of historic cost accounting principles utilized by Turkish companies. Turkey has experienced a high rate of inflation since the 1970s, hence company statements in general do not reflect the real financial status of the firms. This leads to a major caveat that applies in classifying the size of the firms with respect to the level of total paid-in capital. However, due to the lack of other readily available hard data on firm size such as employee numbers, the convenience of using the amount of capital as a criterion have made its application mandatory. Also, the distinctions between the varying levels of paid-in capital are made tentatively, since there is no commonly accepted standard of measurement to describe firm size as small, medium or large.

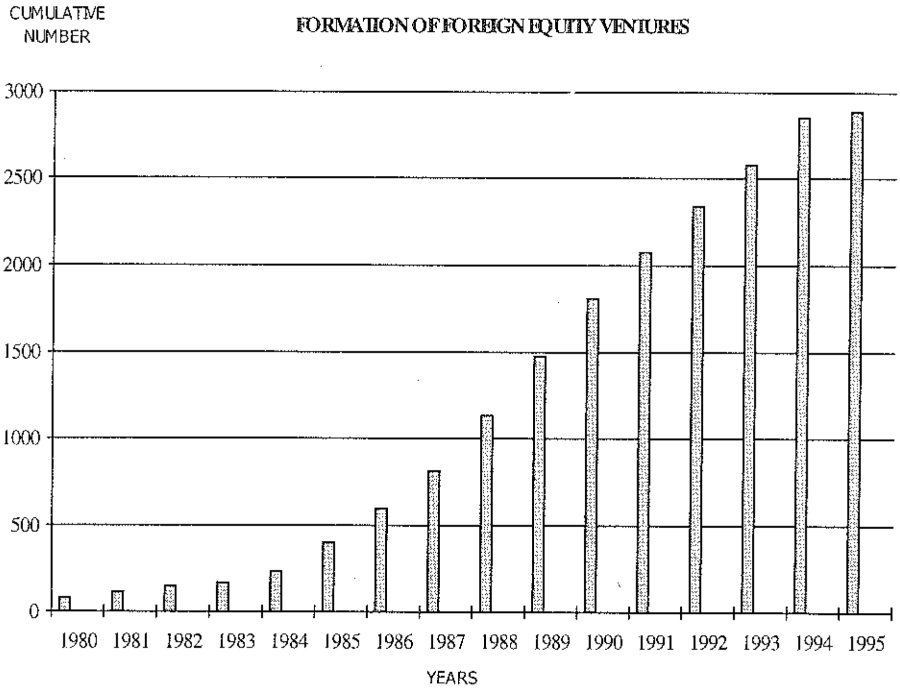
There are two types of business organisations that are open to foreign investment: incorporated companies and limited liability companies. In addition to these two forms, foreign investors are also allowed to open up their companies' branches in Turkey by operating them under their own companies' name. The minimum capital required per foreign shareholder in such companies is $50,000, however, the GDFI may grant conditional permissions and determine higher capital requirements based on case-by-case analysis. Incorporated companies are mainly preferred for large size operations, whereas limited liability companies are commonly used for rather smaller size operations (YASED, 1994).

The entry date of the FEVs are classified in terms of distinct time periods which imply significant policy changes towards FDI. Three different time periods are identified: The first period covers FEVs which were established between 1947 and 1979. The FEVs formed between 1980 and 1986 fall into the second period, which particularly experienced significant policy changes and legal reforms towards FDI. The third period contains those FEVs established between 1987 and 1995 (as of 22nd of March).

4. Distribution of FDI Trends in FEV Formation Over Time

The general trend of the formation of foreign equity ventures in Turkey over the 1980-1995 period as cumulative amounts is shown in Figure 1. There were only 71 foreign equity ventures operating in Turkey until 1980. A steady growth is observed during the first half of the 1980s -concurrent with the implementation of the radical January 1980 economic program. After 1985 sharp increases were experienced in foreign equity venture formations as the economic and legal reforms produced their results.

Figure 1. Cumulative Foreign Equity Venture Formation, 1980-1995*



As of 22 March, 1995

Table 3. Foreign Equity Venture Formation by Country of Origin and Time Period

Country of Origin	1947-1979		1980-1986		1987-1995[a]		Total	
	No	%	No	%	No	%	1947-1995	%
Germany	16	22.5	73	13.8	420	18.3	509	17.6
U.K.	3	4.2	40	7.6	161	7.0	204	7.0
France	6	8.4	9	1.7	144	6.3	159	5.5
Switzerland	5	7.0	55	10.4	95	4.2	155	5.4
Netherlands	6	8.4	19	3.6	121	5.3	146	5.0
Italy	4	5.6	6	1.1	105	4.6	115	4.0
Other W. European	5	7.0	38	7.2	200	8.7	243	8.4
USA	8	11.2	59	11.1	150	6.6	217	7.5
Canada	1	1.4	-	-	12	0.5	13	0.5
Iran	-	-	52	9.8	159	6.7	211	7.3
Saudi Arabia	1	1.4	20	3.8	39	1.7	60	2.1
Syria	-	-	39	7.4	64	2.8	103	3.5
Other Middle Eastern	-	-	51	9.6	164	7.2	215	7.5
Japan	1	1.4	6	1.1	32	1.4	39	1.3
South Korea	-	-	1	0.2	13	0.6	14	0.5
Other Far Eastern	-	-	-	-	32	1.4	32	1.1
C.I.S.	-	-	-	-	101	4.4	101	3.5
Eastern Europe	-	-	2	0.4	32	1.4	34	1.2
Northern Cyprus	-	-	4	0.8	29	1.3	33	1.1
Other	3	4.2	13	2.4	39	1.7	55	1.9
Multi Country	12	16.9	42	8.0	176	7.7	230	8.0
Grand Total	71	100.0	529	100.0	2288	100.0	2888	
Overall percentage	2.5		18.3		79.2			100.0

Source: GDFI Database; Note: [a]As of 22 March 1995

Table 3 indicates FEV formation by country of origin and the time period. From the total of 2,888 firms recorded, just over 50 percent are established with firms from Western Europe, of which six countries take the lead: Germany, UK, France, Switzerland, Netherlands and Italy. These countries are also the main trading partners of Turkey, and have well-established political and economic links particularly through the European Union of which Turkey is an associate member.

The USA constitutes almost 7.5 percent of the total firms and shows an increasing tendency of interest towards FEV formation in Turkey. Thus, the OECD countries, in general, constitute nearly 60 percent of the total number of FEV formations. Their share in Turkey's foreign trade as of 1995 was nearly 65 percent of the total amount of Turkish exports and imports (OECD, 1996).

One of the most striking features of FEV formation in Turkey is observed in the number of new foreign equity ventures formed with firms from Middle Eastern, Eastern European and C.I.S. countries. Although there was only one FEV firm from the Middle East until 1980, by 1995 they accounted for just over 20 percent of all firms with foreign ownership. The existence of Humoini Regime in Iran and the war between Iran and Iraq could largely account for this increase.

The significant growth in the number of FEV formations since the beginning of the 1980s can, to a great extent, be explained by the effective implementation of the economic liberalisation program. But the major increase in both the number and the size of FDI is recorded after the adoption of FDI-specific government actions which led to the enactment of Law 3218 on Free Trade Zones in 1985 and the issuance of Foreign Capital Framework Decree 86/10353 in 1986 to promote foreign capital investment (Erdilek, 1988). These two actions and subsequent pieces of legislation have had a clear impact on the number of equity ventures established with firms from any broad group of countries.

The number of FEV formations in terms of sectoral groupings during the three distinct time periods is shown in Table 4. The majority of FEVs were established in the service sector (69.8%), and among the services, trade and tourism take the highest shares with 39.3 percent and 8.9 percent respectively. The manufacturing sector constitutes the second largest industry group (28.1%) with agriculture the third largest having a relatively low share (2.4%). Prior to 1980, the greatest number of FEV formations occurred in the manufacturing sector, which accounted for about 80 percent of all FEVs. This situation is largely explained by the economic policies of that time. The economic policy implemented from the 1960s to the beginning of the 1980s strictly adhered to the import substitution model of industrialisation, which favours the protection of domestic industries. Foreign capital, therefore, mainly preferred to invest in the import substituting industries of the manufacturing sector, such as the automotive industry, chemicals, electronics, iron and steel (Eralp, 1983; Balkır, 1993). During the 1980s, however, the greatest increase in the number of FEV formations was experienced in the service sector, mainly in trade and tourism, concurrent with both the increasing volume of trade with Middle Eastern and West European countries, and the substantial amount of incentives provided to the tourism sector.

Table 4. FEV Formation by Sector and Time Period

SECTOR	1947-1979		1980-1986		1987-1995[a]		Total	
	No	%	No	%	No	%	1947-1995	%
Manufacturing	**59**	**83.1**	**164**	**31.0**	**584**	**25.5**	**807**	**28.1**
Auto, Transport and Related Equipment	9	12.7	9	1.7	45	2.0	63	2.2
Chemicals	18	25.3	16	3.0	52	2.3	86	3.0
Electronics	2	2.8	7	1.3	28	1.2	37	1.3
Food	7	9.9	25	4.7	65	2.8	97	3.4
Textile, Apparel and Leather	1	1.4	27	5.1	120	5.2	148	5.1
Electrical Machinery, Metal, Iron and Steel	17	24.0	31	5.9	95	4.2	143	5.0
Other Manufacturing	5	7.0	49	9.3	179	7.8	233	8.1
Services	**11**	**15.5**	**343**	**64.8**	**1659**	**72.5**	**2013**	**69.8**
Trade	2	2.8	206	38.9	926	40.5	1134	39.3
Tourism	4	5.6	34	6.4	218	9.5	256	8.9
Insurance	-	-	7	1.3	19	0.8	26	0.9
Banking	1	1.4	20	3.8	13	0.6	34	1.2
Investment Finance	-	-	-	-	14	0.6	14	0.5
Transport	-	-	22	4.2	66	2.9	88	3.0
Restaurants	-	-	3	0.6	33	1.4	36	1.2
Construction	-	-	1	0.2	47	2.0	48	1.7
Other Services	4	5.6	50	9.4	323	1.4	377	13.1
Agriculture	**1**	**1.4**	**22**	**4.2**	**45**	**2.0**	**68**	**2.4**
Grand total	**71**	**100.0**	**529**	**100.0**	**2288**	**100.0**	**2888**	
Overall percentage	**2.5**		**18.3**		**79.2**			**100.0**

Source: GDFI Database

Note: [a]As of 22 March 1995

The distribution of the foreign equity ventures in terms of the amount of total paid-in capital and their formation by time period is presented in Table 5. The following classification of the capital values is assigned for practical reasons: 1.C1: FEVs whose total paid-in capital is equal to or less than one billion Turkish Liras (TL). 2. C2: Capital value equal to or less than 20 billion. TL and greater than 1 billion. TL. 3. C3: Capital value equal to or less than 100 billion. TL and greater than 20 billion. TL. 4. C4: FEVs whose capital are more than 100 billion. TL. The first group of FEVs can be considered as small-size firms, whereas the second group and to a some extent the third group of FEVs are likely to be regarded as medium-size firms. Finally, the fourth group of FEVs may be accepted as large-size companies in terms of the amount of total paid-in capital.

As Table 5 clearly indicates, the majority of the FEVs are small-size enterprises which account for almost 57 percent of all the FEV formations (1,642 firms), with medium-size firms comprising about 38 percent of all FEVs. It should be recalled, however, that the amount of paid-in capital may not accurately reflect the actual size of the firms and the data, and therefore, carries some potential bias in terms of the true size of companies.

Table 5. FEV Formation by Capital Size and Time Period

Capital band	**1947-1979**		**1980-1986**		**1987-1995**[a]		**Total**	
(billion TL.)	**No**	**%**	**No**	**%**	**No**	**%**	**1947-1995**	**%**
C1<1	17	24.0	353	66.7	1272	55.6	1642	56.9
C2 1-20	15	21.1	97	18.4	766	33.5	878	30.4
C3 20-100	16	22.5	42	7.9	167	7.3	225	7.8
C4 >100	23	32.4	37	7.0	83	3.6	143	5.0
Total	71	100.0	529	100.0	2288	100.0	2888	
Overall percentage	2.5		18.3		79.2			100.0

Source: GDFI Database

Notes: As of March 22 1995

Industry Characteristics of the FEVs

Distribution of FEV formation by the broad country of origin and sectoral groupings are shown in Table 6. West European countries, that constitute more than half of the total FEV formations (53%), take the lead in all three broad sectoral groups. While West European countries account for 68 percent of all FEV formations in the manufacturing sector, their share in the service sector is lower, being about 47 percent. A contrasting picture is observed with FEVs formed by the Middle Eastern countries. Although they comprise about 25 percent of all FEV formations in the service sector, they constitute only 9 percent of the FEVs in the manufacturing sector. Firms from the Far East, like firms from Middle Eastern countries, have shown a preference towards FEV formation in the service sector, having 3.4 percent of all FEVs in the service sector compared to 1.7 percent in the manufacturing sector. FEV formation with the firms from the USA shows a similar trend being only marginally higher in the service sector than in manufacturing.

Table 6.FEV Formations by Broad Country of Origin and Sectoral Groupings

COUNTRY OF	MANUFACTURING			SERVICE			AGRICULTURE			TOTAL		
ORIGIN	No	$\%^X$	$\%^Y$	No	$\%^X$	$\%^Y$	No	$\%^X$	$\%^Y$	Total	$\%^Y$	$\%^X$
WESTERN EUROPE	548	*68.0*	35.8	939	*46.6*	61.3	44	*64.7*	2.9	1531	100.0	*53.0*
MIDDLE EAST	73	*9.0*	12.4	510	*25.3*	86.6	6	*8.8*	1.0	589	100.0	*20.4*
USA	58	*7.2*	26.8	155	*7.7*	71.4	4	*5.9*	1.8	217	100.0	*7.5*
FAR EAST	14	*1.7*	16.5	68	*3.4*	80.0	3	*4.4*	3.5	85	100.0	*2.9*
OTHER	42	*5.2*	17.8	190	*9.4*	80.5	4	*5.9*	1.7	236	100.0	*8.2*
MULTI-COUNTRY	72	*8.9*	31.3	151	*7.5*	65.7	7	*10.3*	3.0	230	100.0	*8.0*
Total	807	*100.0*		2013	*100.0*		68	*100.0*		2888		*100.0*
Overall Percen.($\%^Y$)	27.9			69.7			2.4			100.0		100.0

Source: GDFI Database, as of 22 March, 1995

$\%^X$ shows the percentage of column totals

$\%^Y$ shows the percentage of row totals

FEV formation in terms of the capital size and the broad sectoral groupings are shown in Table 7. The majority (65.5%) of the FEVs operating in the service sector are mainly small-size firms whose capital is one billion TL or less, with the relatively larger operations (capital value greater than 20 billion TL) constituting only 8 percent of the total FEV formations. These findings sharply contrast to what is observed in the manufacturing sector, where 36 percent of the total FEVs have capital values of one billion TL or less, while larger-size enterprises account for almost 25 percent of FEV formations in the manufacturing sector. Agriculture is dominated mainly by the small-size foreign equity ventures (47%).

Table 7. FEV Formations by Sector and Capital Size

Capital band	**Manufacturing**		**Service**		**Agriculture**			
(billion TL.)	No	%	No	%	No	%	**Total**	%
C1 <1	291	36.0	1319	65.5	32	47.0	1642	56.9
C2 1-20	320	39.7	530	26.3	28	41.2	878	30.4
C3 20-100	113	14.0	106	5.3	6	8.8	225	7.8
C4 >100	83	10.3	58	2.9	2	3.0	143	5.0
Total	807	100.0	2013	100.0	68	100.0	2888	
Overall percentage	27.9		69.7		2.4			100.0

Source: GDFI Database, as of 22 March 1995

The extent of foreign partner firms' shareholding in FEVs by broad industry sector is shown in Table 8. The data regarding the proportion of foreign ownership was classified into six categories. As can be observed from Table 8, a relatively large number of equity venture formations were in the form of wholly foreign-owned ventures (43%), whereas only 4 percent were portfolio investments with less than 10% foreign ownership. The remaining 53% of FEVs were established as joint ventures with the percentage of ownership ranging from 10 to 90%. Majority foreign owned joint ventures (which possess 51 to 90% of foreign ownership) account for almost 43 percent of the total, with minority foreign owned joint ventures (which have 10 to 50% of foreign ownership) comprising the remaining 57 percent of the stock of total 1,528 joint ventures. The incidence of the large number of WFOVs and majority foreign owned joint ventures is partly explained by the abolition of the restrictions on foreign equity participation and the minimum export requirements by governmental decree (No. 86/10353) in 1986. In addition, at this time the limit value for the direct approval of the foreign investments by the GDFI was increased to $150 million, which further relaxed the bureaucratic procedures for the approval of FEV formations.

Regarding the distribution of the FEVs across the broad sectoral groupings, a significant majority of the WFOVs are concentrated in the service sector (80%), while only 18 percent remain in the manufacturing sector. With respect to the number of joint venture formations, 65.8 percent of the FEVs in the manufacturing sector are joint ventures, with about 47 percent in the service sector.

Table 8.FEV Formations by Sector and Proportion of Foreign Ownership

CAPITAL	MANUFACTURING			SERVICE			AGRICULTURE			TOTAL		
PERCENTAGE	No	$\%^X$	$\%^Y$	No	$\%^X$	$\%^Y$	No	$\%^X$	$\%^Y$	Total	$\%^Y$	$\%^X$
0-10	52	*6.4*	45.6	60	*3.0*	52.7	2	*2.4*	1.7	114	100.0	*3.9*
11-20	47	*5.8*	61.0	29	*1.4*	37.7	1	*1.5*	1.3	77	100.0	2.7
21-50	296	*36.7*	37.7	463	*23.0*	58.9	27	*39.7*	3.4	786	100.0	*27.2*
51-80	151	*18.7*	31.0	319	*15.8*	65.5	17	*25.0*	3.5	487	100.0	*16.9*
81-90	37	*4.6*	20.8	138	*6.9*	77.5	3	*4.4*	1.7	178	100.0	*6.2*
91-100	224	*27.8*	18.0	1004	*49.9*	80.6	18	*26.5*	1.4	1246	100.0	*43.1*
Total	807	*100.0*		2013	*100.0*		68	*100.0*		2888		*100.0*
Overall Percen.($\%^Y$)	27.9			69.7			2.4					100.0

Source: GDFI Database, as of 22 March, 1995
$\%^X$ shows the percentage of column totals
$\%^Y$ shows the percentage of row totals

Geographical Location of the FEV Formations

Table 9 shows the geographic location of the FEV investments in Turkey according to the broad sectors of operation. It is readily apparent from Table 9 that most of the FEVs in both the manufacturing and service sectors are concentrated in the Marmara region, which comprises about 64 per cent of all the FEV formations. The other main locations of the FEVs are Central Anatolia, Southern Anatolia (Mediterranean part) and the Aegean region. The geographical concentration of FEV investments is largely explained by the following factors: Differing levels of economic development between the regions, levels of infrastructure, proximity to ports and financial centers, size of the potential target market. For instance, the Marmara region, which includes the provinces of Istanbul, Kocaeli and Bursa, is fully endowed with these determining factors. In addition, the municipalities of

Ankara, Izmir and Adana are also situated within the developed regions of the country which are namely Central, Aegean and Southern Anatolia. Turkey, particularly since 1980s, has been undertaking massive infrastructural development projects such as motorways, dams, power plants and airports in these regions to enhance the conditions offered to industries that are likely to attract foreign capital. The remaining three regions, particularly Eastern and South Eastern Anatolia, comprise only 1.6 percent of total FEV formations, which is mainly explained by their low level of economic development and industrial backwardness.

Table 9. FEV Formations by Geographical Location and Broad Sector of Operation

GEOGRAPHICAL LOCATION	MFG		SERVICE		AGR			
	No	%	No	%	No	%	Total	%
MARMARA	504	62.5	1329	66.0	26	38.2	1859	64.4
AEGEAN	124	15.4	192	9.6	11	16.2	327	11.3
CENTRAL	92	11.4	303	15.0	5	7.3	400	13.9
SOUTHERN	56	6.9	177	8.9	21	30.1	254	8.8
BLACK SEA	17	2.1	7	0.3	2	2.9	26	0.9
EASTERN	7	0.9	3	0.1	2	2.9	12	0.4
SOUTH EASTERN	7	0.9	2	0.1	1	1.4	10	0.3
Total	807		2013		68		2888	
Overall percentage	27.9		69.7		2.4			100

Source: GDFI Database, as of 22 March 1995; MFG: Manufacturing; AGR: Agriculture

Apart from the industrially developed regions, there are six free trade zones being situated at strategic locations: namely, Izmir, Antalya, Mersin, Istanbul-Ataturk Airport, Istanbul-Trakya, Trabzon and a number of organised industrial zones. Since the enactment of the Free Trade Zones Law in 1985, estimated trade capacity of the six free trade zones reached $915 million in 1993 (MEER, 1994). The free trade zones provide attractive economic incentives to both local and foreign investors and include all sorts of economic activities from manufacturing to banking.

Capital Size and Percentage Share of Foreign Ownership

Table 10 presents the distribution of FEV formations in terms of their capital size and the proportion of the foreign partner's equity shareholding. As can be seen from Table 10, there is a clear pattern of negative relationship between the capital size of the FEV and the number of firms: with the only exception of 20 firms which form the group with the capital of less than one billion TL and less than 10% foreign ownership. The number of firms within each foreign ownership percentage band decreases as the capital size increases. For example, the number of WOFVs (the foreign ownership of more than 90%) within the smallest capital size band is 835, whereas only 40 WOFVs exist with the capital of more than 100 billion TL. Another phenomenon reflected by the table is that while both WFOVs and majority foreign owned joint ventures dominate the small-sized FEVs (74.1%), they account for less than half of the large-size FEVs. This can be to a great extent explained by the huge capital requirements of the large-size operations, which incline firms to prefer fewer wholly foreign-owned ventures or majority owned joint ventures.

Table 10. FEV Formations by Capital Size and Share of Foreign Ownership

CAPITAL	C1[a]		C2		C3		C4			
Percentage Share Of Foreign Ownership	No	%	No	%	No	%	No	%	Total	%
0 – 10	20	1.2	44	5.0	29	12.9	21	14.7	114	3.9
11 – 20	17	1.0	35	4.0	12	5.3	13	9.0	77	2.7
21 – 50	389	23.7	289	32.9	66	29.3	42	29.4	786	27.2
51 – 80	260	15.8	168	19.1	35	15.6	24	16.8	487	16.9
81 – 90	121	7.4	46	5.2	8	3.6	3	2.0	178	6.2
91 – 100	835	50.9	296	33.8	75	33.3	40	27.9	1246	43.1
Total	1642	100.0	878	100.0	225	100.0	143	100.0	2888	
Overall percentage	56.9		30.4		7.8		5.0			100.0

Source: GDFI Database, as of 22 March 1995

Note: [a] C1 = up to 1,000million TL; C2 = 1,000-20,000million TL; C3 = 20,000-100,000million TL; C4 = over 100,000million TL.

Table 11 shows the FEVs in terms of the proportion of foreign equity shareholding and the broad country of origin. As Table 11 clearly shows, there is a much greater tendency for firms from the Middle East, USA and Far East than firms from Western Europe towards the formation of wholly foreign-owned ventures in Turkey. While only about 37 percent of all FEV formations by West European countries are WFOVs, this proportion compares to over 58 percent for the firms from Middle East. Conversely, there has been relatively less interest in the formation of minority joint ventures by firms particularly from the Middle East (19.2%) being compared with those from Western Europe (33.9%).

Table 11. FEV Formations by Broad Country of Origin and Proportion of Foreign Equity Shareholding

CAPITAL PERCENTAGE	WEST EUROPE		USA		MIDDLE EAST		FAR EAST	
	No	%	No	%	No	%	No	%
0 – 10	82	5.4	6	2.8	8	1.4	1	1.2
11 – 20	51	3.3	4	1.8	5	0.9	4	4.7
21 – 50	469	30.6	56	25.8	108	18.3	28	32.9
51 – 80	277	18.1	29	13.4	78	13.2	9	10.6
81 – 90	91	5.9	10	4.6	47	8.0	3	3.5
91 – 100	561	36.6	112	51.6	343	58.2	40	47.0
Total	1531		217		589		85	
Overall percent.	53.0		7.5		20.4		2.9	

CAPITAL PERCENTAGE	OTHER		MULTI-COUNTRY			
	No	%	No	%	Total	%
0 – 10	13	5.5	4	1.7	114	3.9
11 – 20	7	3.0	6	2.6	77	2.7
21 – 50	92	39.0	33	14.3	786	27.2
51 – 80	38	16.1	56	24.3	487	16.9
81 – 90	11	4.7	16	7.0	178	6.2
91 – 100	75	31.8	115	50.0	1246	43.1
Total	236		230		2888	
Overall percent.	8.2		8.0			100

Source: GDFI Database, as of 22 March 1995

The distribution of FEV formations by the broad country of origin and the capital size are shown in Table 12. The firms from the Middle Eastern countries appear to have a relatively greater interest in smaller scale operations, with almost 84 percent of the total FEVs being established by Middle East partners where concentration is in small-size firms whose total paid-in capital is equal to one bn. TL or less. In contrast, only 51 % of FEV formations by partners from Western Europe are in small-size firms. Regarding the larger scale of operations, West European countries take the lead by having about 56 percent of all large-size FEV formations although it should be noted that Western European firms have the greatest number in each of the size categories. Despite this, it would appear that there are some predispositions by foreign partners towards particular size of operations.

Table 12. FEV Formations by Capital Size and Broad Country of Origin

COUNTRY OF	C1[a]		C2	
ORIGIN	No	%	No	%
WESTERN EUROPE	781	**51.0**	534	**34.9**
USA	123	**56.7**	61	**28.1**
MIDDLE EAST	494	**83.9**	72	**12.2**
FAR EAST	41	**48.2**	31	**36.5**
OTHER	114	**48.3**	103	**43.6**
MULTI COUNTRY	89	**38.7**	77	**33.5**
Total	1642		878	
Overall percentage	56.9		30.4	

COUNTRY OF	C3		C4			
ORIGIN	No	%	No	%	Total	%
WESTERN EUROPE	136	**8.9**	80	**5.2**	1531	53.0
USA	21	**9.7**	12	**5.5**	217	7.5
MIDDLE EAST	19	**3.2**	4	**0.7**	589	20.4
FAR EAST	7	**8.2**	6	**7.0**	85	2.9
OTHER	9	**3.8**	10	**4.3**	236	8.2
MULTI COUNTRY	33	**14.3**	31	**13.5**	230	8.0
Total	225		143		2888	
Overall percentage	7.8		5.0			100

Source: GDFI Database, as of 22 March, 1995

Note: [a]C1 = up to 1,000m; C2 = 1,000-20,000m; C3 = 20,000-100,000m; C4 = over 100,000m

Company Type of FEVs

Table 13 shows that the form of incorporated company accounts for about 54 percent of all FEV formations in Turkey, while limited liability companies constitute nearly 40 per cent of the total. The incorporated company form appears to be favoured by FEVs from West European countries (63.3%) and the USA (59.9%), over the limited liability company form. In contrast, the firms from the Middle Eastern countries show a greater propensity towards the limited liability company form for FEV formations (73.9%) than towards the incorporated company form. These contrasting predispositions towards the different types of business organisations can be explained to a great extent by the prevailing organisational culture in these two different groups of countries. In addition, the scale and field of operations may also affect the form of business organisation.

Table 13. FEV Formations by Company Type and Broad Country of Origin

COMPANY TYPE	WEST. EUROPE		USA		MIDDLE EAST		FAR EAST
	No	%	No	%	No	%	No
INCORPORATED CO.	969	63.3	130	59.9	133	22.6	38
LTD LIABILITY CO.	484	31.6	51	23.5	435	73.9	34
BRANCH OFFICE	78	5.1	36	16.6	21	3.5	13
Total	1531		217		589		85
Overall percentage	53.0		7.5		20.4		2.9

COMPANY TYPE	OTHER	MULTI-COUNT.		
	No	No	Total	%
INCORPORATED CO.	134	166	1570	54.4
LTD LIABILITY CO.	88	60	1152	39.9
BRANCH OFFICE	14	4	166	5.7
Total	236	230	2888	
Overall percentage	8.2	8.0		100

Source: GDFI Database, as of 22 March 1995

Table 14 presents the distribution of FEVs in terms of the proportion of foreign equity shareholding and the company type. It is readily apparent from Table 14 that about 60 percent of the limited liability FEVs are in the form of wholly foreign-owned ventures with more than 90% foreign ownership, whereas less than 19 percent of limited liability FEVs are in minority foreign-owned and portfolio investments. With the incorporated companies, however, a less extreme pattern is observed. A large number of incorporated company FEVs have a relatively balanced structure of capital ownership in terms of foreign equity shareholding, i.e., ownership, to a certain extent, is more equally distributed between the foreign and local partners. Similarly, equity joint ventures, which imply a certain amount of capital apportionment, account for almost 70 per cent of the incorporated FEVs.

Table 14. FEV Formations by Company Type and Foreign Equity Shareholding

FOREIGN EQUITY SHAREHOLDING COMPANY TYPE	0 – 10		10 - 20		20 – 50		50 - 80	
	No	%	No	%	No	%	No	%
INCORPORATED COMPANY	104	6.7	74	4.7	580	37.0	318	20.3
LTD LIAB.COMP.	9	0.8	3	0.3	2006	17.4	161	14.0
BRANCH OFFICE	1	0.6	-	-		3.6	8	4.8
Total	114		77		786		487	
Overall percentage	3.9		2.7		27.2		16.9	

FOREIGN EQUITY SHAREHOLDING COMPANY TYPE	80 - 90		90 - 100			
	No	%	No	%	Total	%
INCORPORATED COMPANY	79	5.0	415	26.4	1570	54.4
LTD LIAB. COM.	97	8.4	682	59.2	1152	39.9
BRANCH OFFICE	2	1.2	149	90.0	166	5.7
Total	178		1246		2888	
Overall percentage	6.2		43.1			100

Source: GDFI Database, as of 22 March 1995

Empirical Findings from Regression Analysis

A multiple regression analysis was executed in an attempt to shed some light on identifying the main determinants of the foreign equity share of FEVs in Turkey. The analysis includes all FEV formations since 1947 (N=2,888).

Table 15. Multiple Regression on Percentage Foreign Equity Shareholding

Constant	94.171**
	(5.183)
2nd Time Period (1980-86)	1.607
	(3.302)
3rd Time Period (1987-95)	3.332
	(3.171)
Manufacturing	-2.998
	(3.238)
Services	4.548
	(3.180)
West Europe	-13.171**
	(1.802)
USA	-7.646*
	(2.420)
Middle East	-8.744**
	(2.051)
Far East	-13.877**
	(3.242)
Other countries	-18.858**
	(2.361)
Marmara region	7.579**
	(1.596)
Aegean region	3.134
	(2.045)
Central Anatolia	2.732
	(1.956)
Incorporated co.	-31.597**
	(2.139)
Limited liability co.	-11.060**
	(2.180)
Capital size	-1.27028E-11**
	(2.9535E-12)
N	2,888
R square	0.243
Adjusted R square	0.239
F value	61.645**

*$p < 0.05$; **$p < 0.01$. Standard errors are in parentheses.

First period (1947-79) is the Time period reference category; Agriculture is the Broad Sector reference category; Multi-country is the Broad Country of Origin reference category; Other regions is the Broad Investment Region reference category; Branch Office is the Formation Type reference category.

The percentage equity shareholding of the foreign partner is treated as the dependent variable, which is a function of the following independent variables: The time period of formation, broad sector of operation, broad country of origin, investment region in Turkey, company type and capital size. The explanatory variables, due to their qualitative nature, were converted into zero/one dummy variables.

A series of multiple regression equations were estimated, where each group of variables were successively entered into multiple regression equations in order to identify the individual effect of each set of variables on the dependent variable. However, the regression equation that best captures the impact of the independent variables on the extent of foreign equity shareholding is shown in Table 15, where all the variables were entered simultaneously. The regression equation as a whole is significant at the 0.001 level; of the fifteen independent variables eight are significant at the 0.01 level and one at the 0.05 level. A negative coefficient indicates that the variable decreases the percentage of the foreign partner equity stake in the FEV. The findings of this analysis indicated that the capital size of the FEV, country of origin, and the company type of the venture played a significant role in determining the proportion of foreign equity stake. The independent variables account for nearly 24 percent of the variation in the dependent variable, which is a relatively low level of explanatory power[1]. This would imply that other variables have an important influence on the percentage of foreign equity shareholding of the FEV. These influences can only be found at the individual company level for firms included in the FEV formations in Turkey.

5. Summary and Policy Implications

Foreign equity venture formations in Turkey have dramatically increased since 1980 both in terms of their number and value, commensurate with the legal and institutional reforms that have been undertaken to promote foreign direct investment. This paper has provided a detailed analysis of the foreign direct investment activity drawing upon the official sources. A descriptive profile of the FEV formations established from 1947 through 1995 (as of 22 March) have been presented via cross tabulations on the basis of the key dimensions of the GDFI database. The major characteristics of the FEV formation activity can be summarised as follows:

(a) The incidence of FEV formation over the period 1980-1995 experienced a significant increase, both in terms of number and capital size. This has been largely caused by the effective implementation of economic and legal reforms introduced by the government to promote FDI. The FEV formations in this period were dominated by firms from Western Europe and the Middle East.

(b) Over the 1980-1995 period, the majority of FEVs were formed in the service sector, followed by manufacturing sector, which was the reverse of the profile experienced over the 1947-1979 period. This change can be explained to a great extent by the abandonment of the policy of import substitution applied in the 1960s and the 1970s (which led to the concentration of FEVs in the manufacturing sector due to the attraction of the incentives and the protection provided for this sector). Additionally, the long-standing Iran-Iraq war, and the Humoini Regime in Iran can be cited to had spurred the inflow of FDI to Turkey from Middle Eastern contries.

(c) The majority of the FEVs operating in the service sector are mainly small-size firms, whereas in the manufacturing sector more than the half of the firms are large-size FEVs.

(d) While the majority of the FEVs were established as joint ventures, WFOVs surprisingly account for a considerable amount of the total FEV formations. The large number of WFOVs and majority joint venture formations can be partly explained by the abolition of restrictions on foreign equity participation and the further relaxations on the bureaucratic procedures concerning the approval of foreign direct investments.

(e) The greatest number of FEVs operating in manufacturing and services are concentrated in the Marmara region, and this is largely due to its strategic location as an industrial zone for the whole of Turkey.

(f) A large proportion of small-size FEVs are in the form of WFOVs and majority foreign owned joint ventures, while relatively few WFOVs and majority foreign owned joint ventures are among the large size operations.

(g) There has been a clear tendency among the investing firms from the Middle East to choose the limited liability type of company, which is one form of business organisation available to FEV formations. Conversely, investing firms from West Europe and the USA are more in favour of the incorporated form of company.

A regression analysis investigated the major determinants of the proportion of foreign equity shareholding in the FEV formations. However, only 24 percent of the variation in the foreign partner's equity shareholding was explained by the available data. Hence, there is a need to seek other data at the individual firm level in order to better explain the proportion of foreign equity ownership.

This research has implications for both foreign investors and public policy makers. From the foreign investor's perspective, Turkey has a large and growing population of mainly young people, with substantially increasing income levels (over $3,000 per head as of 1996). Although the economy has a degree of instability, with the current annual rate of inflation of around 60-70 percent, Turkey began freeing up its once autarkic inward-oriented economy over 15 years ago, and now has one of the region's most liberal investment regimes. Turkey has many sophisticated, well-managed companies and also has a growing number of succesful second-tier companies (*Financial Times*, 1997). With the establishment of a customs union with the EU, Turkish industries will be exposed to competition to a greater extent than has been the case to date. This is expected to have a favourable effect on the level of European FDI in Turkey (Tatoglu and Glaister, 1996). Similarly, customs union with the EU might accelerate the inflow of FDI to Turkey from South-East Asian countries. Firms from these countries may consider investing in Turkey as a stepping stone to access to European market, hence overcome the barriers of the EU. The results of this study indicate that an increase in the volume of joint ventures and in the number of acquisitions is likely due to their suitability for enabling a faster entry of foreign investors to the Turkish market. The intention of local firms to cope with the growing domestic competition may also foster joint venture activity with European-based MNEs. The rapid growth of some sectors such as energy, transportation, financial services, telecommunication, tourism and retailing will yield greater opportunities for multinational investors to invest in these sectors. Finally, being at the cross-roads of Europe and Asia, Turkey is a conduit for investment into mainly Turkish-speaking Central Asia. This may present fruitful opportunities for multinationals from the triad (Europe, USA and Japan) countries that intend to serve these markets by establishing collaborative ventures or strategic alliances with Turkish firms.

From a public policy perspective, this research signifies the desirability of taking necessary steps to attract further foreign investments. Delaying public sector reforms will stifle foreign participation in privatisations and infrastructure projects, which are considered as the principal motors of foreign investment in emerging economies. The Turkish Government should accelerate the privatisation programme and the development of infrastructure projects by removing major obstacles that slow down the process. Nunnenkamp (1997) notes that while FDI flows related to privatisation may lead to exceptionally high peaks in overall FDI, such inflows should not be considered as one-off events. In many cases, privatisation contracts may instigate further investment to be undertaken after the original purchase due to changes in ownership which have been associated with substantial additional investment in the rationalisation and modernisation of privatised firms.

Although it is designated as one of the world's ten big emerging markets (BEMs) by the US Government (Garten, 1996), Turkey is not promoting itself very well. In this respect both public and private organisations as well as various trade and industrial associations should play a more active role in informing potential foreign investors about prevalent business practices in the country. Local firms should also be encouraged to form alliances with foreign firms to obtain the required resources that they lack (e.g. in proprietary technology and managerial know-how) and thus enable them to effectively cope with intensifying competition stemming from Turkey's accession to the customs union with the EU.

Note:

1. A multicollinearity problem occurs with the regression equation in Table 15, mainly resulting from including some highly correlated independent variables. No attempt was made to remove the problem of multicollinearity and interpret the partial regression coefficients. Instead, the explanatory power of the whole model has been considered.

References

Balkır, C. (1993) 'Turkey and European Community: Foreign Trade and Direct Foreign Investment' in Balkır, C. and Williams, A. M. (eds.), *Turkey and Europe*, Pinter Publishers Ltd., London and New York.

Beamish, P. W. and Banks, J. (1987) "Equity Joint Ventures and the Theory of the Multinational Enterprise", *Journal of International Business Studies*, 18(Summer), pp. 1-16.

Brewer, L. T. (1991) 'Foreign Direct Investment in Developing Countries', *World Bank Working Paper Series*, No. 712 (June).

British Business: Department of Trade and Industry, Weekly Publication (1971-1987).

Broadman, H. G. and Sun, X. (1997) 'The Distribution of Foreign Direct Investment in China', *The World Economy*, 20, pp. 339-361.

Chowdhury, J. (1992) 'Performance of International Joint Ventures and Wholly Owned Foreign Subsidiaries: A Comparative Perspective', *Management International Review*, 32(2), pp. 115-133.

Dua, P. and Rashid, A. I. (1996) 'Foreign Capital Inflows: The Experience of Emerging Markets in Asia', *Journal of Asian Business*, 12(3), pp. 31-45.

Eralp, A. (1983) *International Capital, Local Capital and the State in the Import-Substituting Industrialisation of Turkey*, Unpublished Doctoral Dissertation, University of Southern California.

Erdilek, A. (1988) 'The Role of Foreign Investment in the Liberalisation of the Turkish Economy' in Nas, T. F. and Odekon, M. (eds.), *Liberalisation and the Turkish Economy*, Greenwood Press, pp. 141-159.

Financial Times (1994) April 11.

Financial Times (1995a) November 9, Thursday.

Financial Times (1995b) November 24, Friday.

Financial Times (1997) *Financial Times Survey: Turkey*, May 26.

Garten, J. E. (1996) 'The Big Emerging Markets', *Columbia Journal of World Business*, 31(2), pp. 7-31.

GDFI (1995) *Foreign Investment Report, March 1995*, Ankara.

Hennart, J. F. (1988) "A Transaction Cost Theory of Equity Joint Ventures", *Strategic Management Journal*, 9, pp. 361-374.

Jun, K. W. and Singh, H. (1996) 'The Determinants of Foreign Direct Investment in Developing Countries', *Transnational Corporations*, 5(2), pp. 67-105.

Koot, W. T. M. (1988) "Underlying Dilemmas in the Management of International Joint Ventures" in Contractor, F. J. and Lorange, P. (eds.), *Co-operative Strategies in International Business*, DC Heath, Lexington, Massachusetts: Lexington Books, pp. 347-367.

MEER [Middle East Executive Reports] (1994) 'Turkish FTZs', 17(7), pp. 17-18.

Nunnenkamp (1997) 'Foreign Direct Investment in Latin America in the Era of Globalized Production', *Transnational Corporations*, 6(1), pp. 51-81.

OECD (1983a) *Economic Surveys, Turkey.*

OECD (1983b) *Foreign Investment in Turkey: Changing Conditions Under the New Economic Programme*, OECD: Paris.

OECD (1986) *Competition Policy and Joint Ventures*, OECD: Paris.

OECD (1995) *Foreign Direct Investment: OECD Countries and Dynamic Economies of Asia and Latin America*, OECD: Paris.

OECD (1996) *OECD Economic Surveys: Turkey*, OECD: Paris.

Parry, G. (1980) *Multinational Enterprise: International Investment and Host Country Impacts*, JAI Press, Greenwich.

Tatoğlu, E. and Glaister, K. W. (1996) 'Trends and Patterns of European Foreign Direct Investment in Turkey', *European Business Review*, 96(6), pp. 11-21.

Tonge, D. (1994) 'Foreign Investment in Turkey', *Middle East Executive Reports*, 17(1), pp. 20-23.

UNCTAD (1996) *World Investment Report: Investment, Trade and International Policy Arrangements*, Sales No. E.95.II.A.9.

YASED [Foreign Investment Association] (1994) *Doing Business in Turkey*, Istanbul.

Yılmaz, B. (1986) 'The Impact of New Liberalization Programmes on Direct Foreign Investments in Turkey', *Economic Research Paper No.15*, University of Durham, Centre for Middle Eastern and Islamic Studies.

Young, S.; Hamill, J; Wheeler, C. and Davies, J. R. (1989). *International Market Entry and Development: Strategies and Management*, Harvester Wheatsheaf: Hemel Hempstead.