THE IMPORTANCE OF FOREIGN DIRECT INVESTMENTS IN DEVELOPING COUNTRIES: SPECIAL CASE OF TURKISH ECONOMY

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Abstract

Foreign investments are considered an indispensable element in the development of the whole world and, especially in the progress of the developing countries. In the rapidly developing countries, which are also called "Emerging Markets", the portion of the foreign capital investments keeps increasing in the aggregate investments. Today, while numerous countries of this type are attracting high amounts of foreign investments, Turkey is for behind on this matter.

In this work, initially the main effects of foreign investments on the developing countries are examined and then the foreign investments' role and importance in Turkey are emphasized. The distribution of foreign investments among different groups of countries is also examined and, according to this examination, Turkey's permits of foreign investments and their actual entries were evaluated. Additionally, the distribution of foreign capital investments in sectoral grounds and according to different investment types is evaluated in a comparative manner. In consideration of these explanations, the importance of foreign investments for the development and integration of our country with the rest of the world is emphasized.

INTRODUCTION

Nowadays, countries those differ from each other in terms of their income levels, economic, political and social structure have striven a lot in order to achieve a greater scale of economic growth. Advanced technology and capital accumulation improved by developed countries, parallel to their industrialization, have traversed national borders and acquired an international structure with respect to production, management and marketing. This structure has had developed countries find new markets.

The dependency of developing countries to foreign resources in terms of capital and technology has extended the foreign direct investment activities oriented to them. On the other hand, these countries are questioning the effects of foreign capital inflows on production and external trade as well as the harmonization of foreign technology in terms of economic and social structure. Besides, the fact that whether or not they will provide solutions for the problems of developing countries is a source of anxiety for those countries.

Foreign direct investments provide effectiveness for the host country on such dimensions as meeting capital gap for which domestic resources are insufficient, providing technological advancements, providing positive effects on production, employment and earning foreign exchange activities, creating both external and internal demand, decreasing financing costs and realizing inflationary pressures and capital accumulation. These dimensions constitute the basic economic indicators.

FACTORS THOSE ENCOURAGE THE FOREIGN DIRECT INVESTMENTS

There are many reasons for capital that make it leave its home country, flow into another one and contribute to the development of relevant host country. Capital is an important factor of production. Foreign resources of it may be referred to if there is the lack of domestic ones.

Earning of capital differs in terms of different development levels of countries. This leads to a flow from the country where the earning of capital is relatively law to the one where it is higher. The reasons of foreign capital inflow are classified as; earning profit, providing cheaper raw material and labor, orienting to new markets.

In addition to all of them, risk factor should not be ignored. There are two types of risks that influence foreign direct investments. They can be defined as political risks and risks of trade. The risks of trade are resulted from the ordinary working of economic life where the other category is generated due to acting in a different area with respect to social, political and cultural aspects. In order to prevent such kind of risks, various countries have intended to conclude agreements on "encouraging and protecting investments bilaterally".

The host country planned is criticized in terms of some factors before making investment decision. The main ones of these factors are; economic and political stability, whether or not completing infrastructure investments, juridical regulations about foreign capital and technology absorbing capacity of such country.

As mentioned above there are very many reasons that determine the inflow of foreign capital. It is possible to explore them under such titles as; economic, socio-cultural, political and technological factors.

Economic Factors

Foreign direct investments put the cost conditions of host country in regard because they aim to earn more profit than they can realize in home country. Such factors as population of host country, quality of labor force, transportation opportunities, energy, providing electricity and economic policies applied are very important for the home country. In addition to them, stability of the economy is also very important. So that, the monetary and fiscal policies applied by countries should be confidential for foreign investors, as well as some encouragement policies should be applied.

The economic reasons which constitute one of the main reasons of capital inflow can be defined as; high profit purposes, seeking for new markets and extending the market, more productive production prospects, preventing custom duties and other difficulties about import and export activities, providing facilities to meet raw material necessities, extending the markets.

Political Factors

Political stability brings about one of the most important factors for foreign capital. Investors put political stability in regard as well as economic stability in terms of risks of investment.

Putting these facts into account requires a stable external policy in addition to that of internal one of the host country. Besides, approaches of governors with respect to foreign capital play an important role, too. Such possibilities as domestic war, attack, anxiety of destruction of government constitute risks for a project to live in long run. This will make foreign companies very reluctant to invest their capital.

Socio-Cultural Factors

Socio-cultural structure brings about one of the important criteria that determines the development level of countries. It is claimed that capital inflow will lead to a public transformation for countries with low level of education and dependency to home country of capital will rise.

Although, both economic and political structure of the host country are very appropriate to invest, habits of the citizens may constitute a possibility of risk for the foreign investors, particularly at developing countries.

Technological Factors

Technology is one of the most important problems of developing countries. Such countries need advanced technologies to accelerate their development. Majority of the developing countries can neither produce new technologies nor finance to import them. They can acquire such technologies by means of technological transfers or foreign direct investments. There are many ways of realizing technology transfers. Such factors as sending capital goods, by means of investments, license agreements, technical help programs, sending technical personnel bring about the main ones of them.

FOREIGN CAPITAL PROSPECTS OF DEVELOPING COUNTRIES

Some approaches claim the benefits of foreign capital for developing countries and they believe that such countries have to apply the appropriate economic and political programs in order to realize foreign capital inflow, where the other ones disagree with those views.

Foreign direct investments can be classified as horizontal and vertical. Horizontal capital movements mention the same production of the investor country at both home and host countries. On the other hand, if the investor country orient to an investment abroad in order to complement its product, it generates vertical capital flow.

It is possible to mention the foreign direct investment prospects of developing countries as following;

- Foreign capital has a positive effect on capital accumulation. This is due to the lack of domestic savings of developing countries. Level of domestic savings is not adequate to provide development at developing countries. So, foreign direct investment will provide a net addition to the capital stock of that country, regardless at which sector it is oriented.

- Production capacity of the host country may be increased by the rise in investments.

- If foreign direct investments are oriented to productive areas; maximum productivity may be earned by means of effective business administration thought.

- Modern technology and skilled labor will be imported by developing countries by means of such investments. As a result, a better harmonization process will be realized.

- Foreign direct investment is also very important to prevent the foreign exchange scarcity.

- Foreign debts differ from foreign capital movements for developing countries. Foreign direct investments may provide advantages, because they are not to be refunded and they do not have interest rates.

- Government of the host country may have tax earnings by means of those companies.

- As a result of using cheap technology, which makes costs decrease, quality of production may be improved and prices may get cheaper.

- It will extend both production and consumption capacities. As a result; demand for new investments will rise.

- In order to criticize the realization degree of these prospects, anybody is required find out the position of developing country economics on international markets as well as regard in the prospects of companies with foreign capital.

THE ROLE OF FOREIGN CAPITAL IN DEVELOPMENT OF DEVELOPING COUNTRIES

Foreign direct investments oriented to developing countries may be classified in two categories with respect to production activities.

Minimum cost policies and strategies about natural resources constitute the most important factors that orient export oriented companies to these countries.

Developing countries those have big and natural reserves have become investment areas of companies with foreign capital. If companies, those produce internationally, invest their capital to such kind of countries and orient to export, their aim turns to benefit from the cheap labor under the condition that the natural resources of that country is insufficient. Such examples as production of textile, electronic devices, office materials, tools, sporting materials and spare parts, those have extended at South Asian Countries, can be given to mention the activities of companies with foreign capital. These investments are characterized by both their orientation to foreign markets and their profitability in short-run. Standardization has occurred in terms of production technology and the investment has begun to earn income by the decreases of costs.

Wage gaps that take place between developed and developing countries have extended day by day. Wage increases at developed countries are generated more rapidly than that of developing countries. Besides, working hours have decreased. Labor-intensive production processes have been intended to shift into the regions where wages are relatively low. Low wages and limited rights with respect to unionism have become the basic factors that determine the production area of companies with foreign capital.

Anybody may consider that labor is less productive at developing countries in comparison with the others, as a result of working in return for low wages. But, in fact, such a factor of risk has not appeared. The least productivity of the industries those shifted into developing countries is approximately %60 of the developed ones.

In accordance with these views, low wages may become an advantage for the developing countries, following export oriented industrialization policies, to realize capital inflows by means of accelerating manufacturing sector activities. But, limitations applied to labor force may lead to social costs in long run. Putting these facts into account, it is not easy for anybody to claim that foreign direct investments contribute absolutely to the sectoral development of the country.

It is possible to summarize the objects of foreign capital oriented to domestic market of developing countries as following.

Import-substitute policies of such countries will raise the competition power and monopolizing tendencies of companies with foreign capital. This is resulted from their superior intelligence assets and organization and marketing experiences in comparison with developing countries. Their aim is to increase profit by low levels of production.

Such financial measures improved by developing countries as investment facilities, exemption from custom duties or installment and low cost credits encourage foreign capital to invest in the country. Protective external trade policies, financial encouragement measures and liberal foreign capital policies constitute differences for each developing country. Besides these encouragement factors, political and economic stability of the countries constitute the most important factors for the companies with foreign capital.

POSSIBLE CONCLUSIONS OF FOREIGN CAPITAL FOR DEVELOPING COUNTRIES

The effects of foreign direct investments on production, employment, income, prices, foreign trade, balance of payments, economic growth and welfare should be observed in order to address the positive effects of foreign capital on the economy of the host country. Such effects bring about some difficulties as well as contributions. Furthermore, some of these effects appear in short- run where others appear in long-run.

It is claimed that foreign direct investments raise welfare, transfer capital and technology, contribute to exports, bring management and marketing skills to the host country and increase productivity. But, on the other hand, besides these positive views opposite approaches take place, too.

Saving and Investment Effect

Foreign direct investment inflows will accelerate production and contribute to the development of the host country's economy. Competition of such firms will induce the production capacity of domestic entrepreneurs and raise productivity. External economic effect is defined as the contribution to national income resulted from the increase in creative capacity, productivity and effectiveness of domestic firms encouraged by the competition provided by foreign companies.

External negative economy, on the other hand, means the failure of foreign capital at contributing to solve unemployment problem. Besides, it mentions panic of domestic producers resulted from the high competition. External negative economies eliminate the positive effects by a degree.

Taxes levied on foreign companies by regarding in their net income, create an income increase effect for the host country. It is possible to define the effects of foreign capital on host country's national income as transferring technology and contributing to employment by means of creating new employment areas.

Technology and Management Effect

It is claimed that foreign capital leads to positive effects on economies of host countries about applying new technologies at an international level in terms of appearance of scale economies resulted from training of domestic labor force.

But, coping with technology problem during development process requires choosing appropriate technologies with the economic structure of the country.

Companies with foreign capital trains the entrepreneurs of the host country with skilled personnel brought with them. Foreign capital gets also broader management and business intelligence about banking, exporting, production and technology. Not only transferring but also adopting the technology to special conditions of the country plays an important role, as well as preparing technical and administrative personnel.

Employment Effect

Employment effect constitutes one of the most important effects of foreign capital. Top management accompanies with foreign capital inflows but other part of labor force is provided from the host country. So that, foreign capital leads to an employment increase effect for the developing countries those have a degree of unemployment potential.

Economic development depends not only on potential resources and opportunities but also on using them at production. So that foreign capital has positive effects on coping with unemployment. Besides, potential resources are used. More over, new employment areas are created by means of indirect effects of investments.

Balance Of Payments Effects

Foreign capital provides foreign exchange inflows. So that, it leads to positive effects on balance of payments. Export of goods and services impacts balance of payments positively together with import substitutes provided by investments. On the other hand, such reasons as the import of inputs of production and profit transfers have negative effects on balance of payments.

Not only export increase but also marketing intelligence inflow will be provided under the condition that foreign direct investors have export experience and facilities. So that, domestic investors, those fail at marketing their goods, will acquire the skills of marketing their goods.

Permanency of these positive effects depends on the protection of foreign exchange earner characteristic of foreign capital in long-run. Otherwise, if investments depend on imported inputs and transfers traverse capital flows, negative effects will appear.

THE ROLE AND IMPORTANCE OF FOREIGN CAPITAL IN TURKEY

When we look at the development process of foreign capital in Turkey, it is seen that the relevant regulations have begun by the Law of Inducement for Foreign Investment in January 18th 1954. The development of these regulations is sustained by Oil Law numbered 6326, the Law of Protection of TL against Depreciation numbered 1567, Joint Venture Acts and the Laws of Free Areas.

Turkey has provided developments in terms of foreign capital particularly after 1980. Because, after 1980 period Turkey faced to a transformation process with respect to economic, politic, and social aspects. Foreign direct investments were absolutely focused on within that decisive program. The program provided facilities and broaden the activity area of foreign capital. Besides, it aimed to be attractive.

In accordance with this aim, "Foreign Capital Framework Decree (no.8/168)" was passed at the date of 24th January 1980. This decree justified many of the problems and applied an active system. Particularly, the efforts about foreign banking were very important.

In Turkey the progress of economic conditions and gradually increasing quantity of foreign capital rendered current regulations inadequate as to change of law is inevitable. In this direction the "Law of Direct Foreign Investment" dated 17 June 2003 and numbered 4875, is put into force. This law which is prepared under the condition of reserving the acquired rights of firms founded in scope of the law numbered 6224, comprises essences such as incitement of foreign investment, reserving the rights of foreign investors, complying with international standards in defining Investment and Investor, turning the permission and approval system into information system.

Turkey's foreign capital indicators mention that the amount of authorized foreign direct investments have cumulatively reached to 35,200 million $ for the period from 1980 till now. Table I shows that authorized foreign direct investments realized as 1,208 million $ for the second quarter of 2003. This amount was 933 $ million and 932 million $ for the same periods of 2001 and 2002. So that, anybody may observe an increase by 2 % and 18, 5 %.

TABLE I

Monthly Distribution on FDI Permits (As of June 30.2003)

(Million US $)

	1980 1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	**Total**
Jan.	270	76	133	35	65	126	100	196	84	37	7	92	244	166	**1631**
Feb.	458	116	204	78	66	235	57	218	109	109	38	252	88	103	**2131**
Mar.	458	113	158	144	90	199	161	126	137	284	452	268	207	264	**3061**
Apr.	436	175	158	157	235	123	231	133	185	308	66	121	321	334	**2983**
May	401	261	79	109	65	95	81	100	72	62	360	276	99	176	**2236**
Jun.	615	230	138	110	157	451	128	174	243	133	244	175	44	165	**3007**
Jul.	458	84	191	157	194	98	126	138	99	232	288	145	94		**2304**
Aug	413	394	92	102	36	119	150	79	22	24	330	206	308		**2275**
Sept.	566	61	163	162	78	193	67	74	162	65	147	607	119		**2464**
Oct.	450	124	69	38	96	67	45	82	98	122	647	166	228		**2232**
Nov.	544	154	150	140	189	151	54	179	21	138	82	80	171		**2053**
Dec.	1354	179	284	831	206	1080	2635	340	306	186	807	338	320		**8866**
Tot.	**6423**	**1967**	**1819**	**2063**	**1477**	**2937**	**3835**	**1839**	**1538**	**1700**	**3468**	**2726**	**2243**	**1208**	**35243**

Source: Republic of Turkey, Prime Ministry of State in Charge of Treasury, 2003 Ankara

Sectoral distribution of authorized foreign direct investments address to the weight of manufacturing sector. According to Table II, manufacturing sector brings about the one that mostly authorized for the second quarter of 2003. Its share is 59 %. It is followed by services sector by 30 %.

TABLE II
Sectoral Breakdown of Authorized FDI
(Million US $)

Years	Manufa	%	Agricu.	%	Mining	%	Services	%	Total
1980-90	3993.83	62.18	146.38	2.28	74.17	1.15	2.208.63	34.39	6.423.01
1991	1095.48	55.69	22.41	1.14	39.82	2.02	809.55	41.15	1.967.26
1992	1274.28	70.02	33.59	1.85	18.96	1.04	493.13	27.10	1.819.96
1993	1568.59	76.02	21.05	1.02	11.37	0.55	462.38	22.41	2.063.39
1994	1107.29	74.94	28.27	1.91	6.20	0.42	335.82	22.73	1.477.61
1995	1196.48	67.95	31.74	1.08	60.62	2.06	849.48	28.91	2.938.32
1996	640.59	16.70	64.10	1.67	8.54	0.22	3.122.74	81.41	3.835.97
1997	871.81	51.95	12.22	0.73	26.70	1.59	767.48	43.73	1.678.21
1998	1.017.29	61.79	5.75	0.35	13.73	0.83	609.67	37.03	1.646.44
1999	1.123.22	66.09	16.19	0.95	6.76	0.40	553.40	32.56	1.699.57
2000	1.105.49	31.79	59.74	1.72	5.01	0.14	2.307.18	66.35	3.477.42
2001	1.244.59	43.67	134.38	4.93	29.11	1.07	1.317.20	48.33	2.725.28
2002	892.01	39.77	32.82	1.46	17.29	0.77	1.300.81	58.00	2.242.92
2003 *	710.65	61.41	7.73	0.67	124.18	10.73	314.59	27.19	1.157.15
TOTAL	18.641.15	53.03	615.91	1.75	442.36	1.26	15.453.08	43.96	35.152.50

(*) As of June 30.2003
Source: Republic Of Turkey, Prime Ministry of State In Charge Of Treasury, Ankara, 2003

Distribution of authorized foreign direct investments in terms of country groups shows that there was 6510 companies in Turkey operating with foreign capital, by June of 2003. Their total capital was 15,030,597,943 million TL. And the amount of foreign capital within that was 8,151,061,204 million TL. It meets 54, 23 % of total capital.

TABLE III
Breakdown of Foreign Capital Companies Operating In Turkey According To Home Countries
(Million T.L.)

Countries	No Of Firms	Present Foreign Capital	% In Total Foreign Capital	Total Capital Of The Companies	%Of Foreign Capital In Total Cap.
Oecd Count.					
European Union					
Germany	10.84	1.115.561.380	13.69	1.333.657.525	83.65
Austria	106	37.586.661	0.46	48.668.536	77.23
Belgium	85	81.573.831	1.00	108.393.361	75.26
Denmark	48	53.062.872	0.65	61.915.073	85.70
Finland	19	6.220.044	0.08	7.299.484	85.21
France	277	535.165.617	6.57	864.352.484	61.92
Netherlands	449	2.243.598.180	27.53	5.467.373.329	41.04
United King.	413	712.994.541	8.75	1.225.590.725	58.18
Ireland	29	12.754.101	0.16	32.416.136	39.34
Spain	57	98.548.288	1.21	130.661.908	75.42
Sweden	48	49.909.970	0.61	53.019	94.13
Italy	249	440.079.434	5.40	875.316.173	50.28
Luxemburg	53	201.402.304	2.47	252.948.385	79.62
Portugal	6	33.001.940	0.00	212.383	93.23
Greece	76	33.001.940	0.40	47.356.094	69.69
European Union Total	**2.999**	**5.621.657.160**	**68.98**	**10.509.180.838**	**53.49**
Other Oecd Countries					
Usa	393	631.250.249	7.74	1.184.226.650	53.30
Australia	16	785.362	0.01	1.160.825	67.66
Czech Republic	3	67.008	0.00	70.094	95.60
South Korea	56	52.884.065	0.65	102.631.625	51.53
Switzerland	234	580.653.133	7.12	1.170.725.445	49.60
Iceland	1	154.294	0.00	13.035.948	1.18
Japan	62	337.283.056	4.14	392.517.958	85.93
Canada	32	7.921.	0.10	12.846.507	61.67

Hungary	6	1.225.651	0.02	1.920.543	63.82
Mexico	1	16.100	0.00	23.000	70.00
Norway	18	3.139.951	0.04	5.742.180	54.68
Poland	4	123.196	0.00	205.836	59.85
New Zealand	1	325.040	0.00	325.040	100.00
Other OECD Countries Total Islamic Count.	**827**	**1.615.829.081**	**19.82**	**2.885.431.651**	**55.99**
Middle East C.					
United Arab E.	18	6.091.208	0.07	11.838.189	51.45
Bahrein	4	513.705	0.01	521.856	98.44
Palestine	11	696.096	0.01	820.450	84.84
South Yemen	1	4.800	0.00	6.000	80.00
Iraq	191	9.938142	0.12	11.753.438	84.56
Iran	389	18.209.851	0.22	22.204.413	82.01
Trnc	61	1.454.055	0.02	2.477.176	58.70
Qatar	6	130.032	0.00	255.090	50.97
Kuwait	16	74.349.095	0.91	98.863.826	75.20
Lebanon	61	2.417.611	0.03	2.718.209	88.94
S.Arabia	88	77.628.854	0.95	335.855.638	23.11
Syria	150	3.810.581	0.05	4.635.576	82.20
Jordan	68	2.206.157	0.03	2.745.623	80.35
Yemen	11	268.254.	0.00	313.090	85.68
Middle East Country. Total Northern Afr. Countries	**1075**	**197.718.441**	**2.42**	**495.008.574.**	**39.94**
Algeria	11	796.395	0.01	966.510	82.40
Morocco	5	657.298	0.01	1.586.900	41.42
Libya	27	10.780.681	0.13	19.486.844	55.32
Egypt	31	6.655.890	0.08	7.346.975	90.59
Tunisia	6	463.445	0.01	539.905	85.84
Northern Afr. Count.Total	**80**	**19.353.709**	**0.24**	**29.927.134**	**64.66**
Afghanistan	26	1.084.784	0.01	1.184.143	91.61
Bangladesh	1	72.200	0.00	76.000	95.00

Indonesia	1	525	0.00	1.500	35.00
Malaysia	3	144.160	0.00	5.080.560	2.84
Nigeria	4	496.587	0.01	905.056	54.87
Pakistan	26	3.623.405	0.04	4.216.323	85.94
Sudan	11	156.432	0.00	159.182	98.27
Other Islamic Count. Total	**72**	**5.578.093**	**0.06**	**11.622.764**	**47.99**
Eastern Euro. Countries					
Other Eastern Euro. Countr.					
Albania	10	525.244	0.01	872.700	60.19
Bosnia	8	6.242.827	0.08	12.493.923	49.97
Bulgaria	32	7.991.337	0.10	35.220.340	22.69
Croatia	4	296.840	0.00	407.564	72.83
Macedonia	17	498.015	0.01	564.750	88.18
Romania	13	8.102.677	0.10	33.408.100	24.25
Slovenia	2	230.000	0.00	250.000	92.00
Serbia And Montenegro	22	438.234	0.01	518.593	84.50
Other Eastern Europ.Con.Tot.	**108**	**24.325.174**	**0.31**	**83.735.970**	**29.04**
Commonwealth Of Ind.States					
Azerbaijan	109	9.149.101	0.11	10.211.315	89.60
Estonia	1	6.600	0.00	6.600	100
Georgia	25	700.001	0.01	1.075.163	65.11
Kazakhstan	18	688.975	0.01	1.031.022	66.82
Kyrgyzstan	6	383.884	0.00	393.231	97.36
Moldova	4	120.650	0.00	149.700	80.59
Uzbekistan	9	649.562	0.01	1.152.160	56.38
Russian Fed.	209	16.421.353	0.20	23.181.754	70.84
Tajikistan	3	87.124	0.00	96.350	90.42
Turkmenistan	11	1.184.084	0.01	1.271.789	93.10
Ukraine	31	3.836.504	0.05	8.358.862	45.90
Com. Of Ind.Sta.Total	**426**	**33.227.838**	**0.27**	**46.927.946**	**72.08**

Other Countries					
South. Asian Countries					
Repub.Of Chine	112	5.877.042	0.07	8.305.701	70.76
Philippines	2	6.820	0.00	13.500	50.52
India	7	3.036.483	0.04	3.108.221	97.69
Hong-Kong	11	1.133.410	0.01	1.214..948	99.29
Singapore	5	810.578	0.01	1.909.718	42.05
Taiwan	12	2.397.644	0.03	4.753.637	50.44
Thailand	4	497.280	0.01	586.618	84.77
South. Asian Count. Total	**153**	**13.759.**	**0.17**	**19.892.343**	**69.16**
Other Country					
Gibraltar	3	1.661.420	0.02	2.433.646	68.27
Etopia	1	24.055	0.00	39.521	60.87
Gibraltar		58.484	0.00	58.484	100.00
South Africa And Namibia	1	103.509	0.00	108.500	95.40
Guemsey Island	4	151.960	0.00	318.265	47.75
Dutch Antill.	6	77.641.300	0.95	224.992.204	34.51
Isle Of Man	1	160.000	0.00	160.000	100.00
British Jersey Island	9	161.360.378	1.98	166.109.065	97.41
Israel	73	32.268.779	0.40	68.127.653	47.37
Channel Isla.	3	172.875	0.00	175.875	98.29
Canary Island		3.208	0.00	3.208	100.00
Mixed	563	0	0.00	0	0.00
Liberia	3	42.131	0.00	78.122	53.93
Liechtenstein	16	3.587.312	0.04	3.919.791	91.52
Malta	8	57.155.971	0.70	60.002.900	95.26
Mauntus	1	84.998	0.00	85.100	99.88
Isl.Of Man	1	8.500.000	0.10	10.000.000	85.00
Marshall Isl.	1	150.000	0.00	600.000	25.00

Monaco	4	1.451.294	0.02	1.663.698	87.23
Ot.Count.Total	**698**	**344.577.674**	**4.21**	**538.876.032**	**63.94**
South America					
Argentine	0	0	0.00	0	0.00
Brazil	2	89.370	0.00	108.272	82.54
Equador	1	18.009	0.00	19.575	92.00
Chile	1	93.201	0.00	150.354	61.99
Venezuela	2	54.28	0.00	8.700	62.39
Sout Amer.Tot.	**6**	**206.008**	**0.00**	**286.901**	**71.80**
Middle Ame. And Caribbean's					
Ariba	1	2.400	0.00	4.800	50.00
Bahamas	4	2.775.486	0.03	2.996.971	92.61
Belize	2	129.498	0.00	136.050	95.18
Bermuda	3	494.078	0.01	521.264	94.78
Cayman Island	13	2.100.174	0.03	3.300.624	63.63
Grand-Turk And Caicos Isl.	1	407.546	0.00	582.209	70.00
Guatemala		18.000	0.00	18.000	100.00
British Virg.Isl	29	20.553	0.25	79.639.489	25.81
Jamaica		350	0.00	350	100.00
Cuba	2	925.500	0.01	1.803.000	51.33
Panama	11	247.422.144	3.04	320.705.033	77.15
Mid.Ame.And Carrib. Total	**67**	**274.843.969**	**3.37**	**409.723.790**	**67.08**
Grand Total(*)	**6511**	**8.151.076.404**		**15.030.613.943**	**54.23**

(*) As of June 30.2003

Source: Republic of Turkey Prime Ministry of State in Change of Treasury, Ankara, 2003.

Traditional weight of OECD countries is going on at distribution of foreign direct investments in terms of country groups. 90 % of authorized foreign direct investments that flowed in Turkey come from OECD countries and majority of it belong to European Union countries.

European Union countries have the greatest share within foreign capital of Turkey. This leads to Turkey's integration with those countries as a result of her efforts to join in to European Union. The first countries of Turkey's export-import range have similar positions in terms of foreign direct investment range, too. So that, it is possible to claim that the countries which are in trade relationship with Turkey are concerned in Turkey about investments as a result of their aim on both protecting and extending their market shares. But, regarding in the other investments flowed in the other developing countries reveals that Turkey's shares are relatively low.

Figuring out the distribution of foreign capital in terms of investment types addresses to the greatest shares of capital increase and new investment types according to the indicators of 2003 (Table IV).

TABLE IV
FDI Permits by Types of Investment

Investment Type	2000	2001	2002	2003(*)
New	667	127	117	251
Capital Increase	185	763	614	869
Participation	351	306	266	88
TOTAL	**1.203**	**1.196**	**997**	**1.208**

(*) As of June 30.2003
Source: Republic of Turkey Prime Ministry of State in Change of Treasury, Ankara, 2003.

Under the guidance of foregoing explanations, when we take up the actual entrances with Respect to permitted quantity of foreign investment, it accounts 35,203 million dollars permitted to 6511 firms whilst the actual amount of entrance is 16,366 million dollars between 1980 and 2003 (Table V/VI).

TABLE V
Foreign Investment in Turkey as To the Years

	Permitted Quantity OfForeign Investment (Million $)	Total Amount Of Investment Documents (Million $)	Number Of Firms (**)	Total Capital Of Firms (Milyar TL.)	Total Capital Of Firms**** (Million $)	Actual Entrance (Million $)
1980-90	6.423,01	32.555	78.185	7.943,78	5.581,48	2.519
1991	1.967,26	4.265	2.123	13.101,04	1.235,86	907
1992	1.819,96	3.695	2.330	23.441,21	1.505,56	911
1993	2.063,39	5.710	2.554	36.737,05	1.210,36	746
1994	1.477,61	1.106	2.830	62.449,96	865,64	636
1995	2.938,32	6.187	3.161	113.013,79	1.106,31	934
1996	3.835,97	12.144	3.582	235.971,18	1.515,43	914
1997	1.678,21	3.913	4.068	458.968,46	1.472,66	852
1998	1.646,44	3.096	4.533	823.560,55	1.385,64	953
1999	1.699,57	4.190	4.950	1.446.502,79	1.496,71	813
2000	3.477,42	12.571	5.328	3.063.463,63	2.578,52	1.707
2001	2.725,26	2.817	5.841	6.184.411,71	2.501,11	3.288
2002	2.242,92	1.517	6.280	10.092.737,82	2.689,76	1.042
2003(*)	1.207,99	1.332	6.511	12.605.285,30	1.421,10	144(**)
TOTAL	**35.203,37**	**95.098**			**26.566,13**	**16.366**

(*) On the basis of June

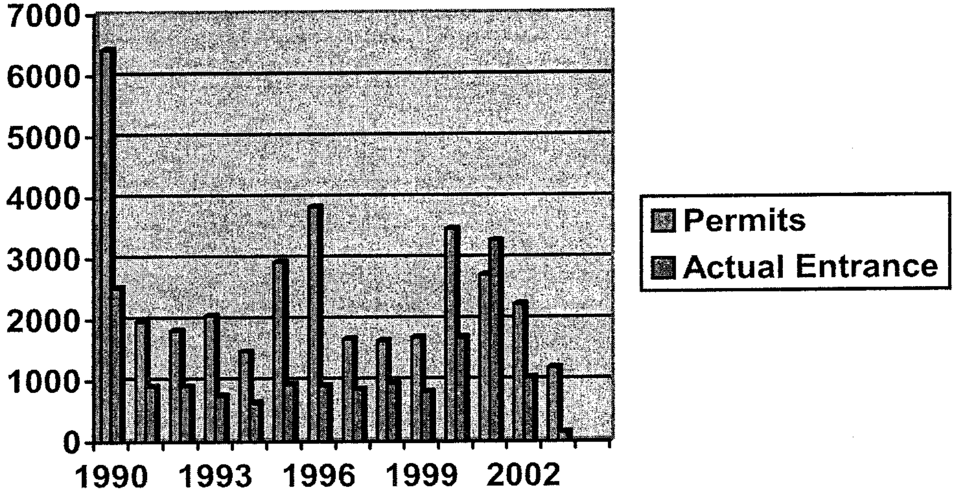
(**) Cumulative

(***) On the basis of January-April

(****) The numbers till to 1997 are obtained in dividing the total amount of capital brought within the year by annual average rate of exchange whereas subsequent years' numbers are obtained in dividing the same numerator for relevant years by monthly average rate of exchange

Source: Treasury and Foreign Trade Undersecretary, General Directorate of Foreign Capital, 2003Q2 Foreign Capital Report, Ankara 2003.

TABLE VI.
Foreign Investment Permissions and Actual Entrances On The Basis Of Years (1990-2003Q2)



Source: Treasury and Foreign Trade Undersecretary, General Directorate of Foreign Capital, 2003Q2 Foreign Capital Report, Ankara 2003.

Within the period 01.01.2003 / 30.06.2003 the total amount of foreign investment permissions prepared by General Directory of Foreign Investment is 1,207.99 million dollars and 231 firms are founded on foreign capital in this period. In the same period of the year 2002, total amount of permissions is 997 million dollars and 196 firms founded. When we compare first 6-month period of 2003 to that of 2002, it is observed that there is 21% rise in permissions. Rise in numbers of firm foundations is in the rate of 18% (Table VII).

TABLE VII
Permitted Foreign Capital In 2001-2003q2
(Million $)

	2001	2002	2003
January	95	244	166
February	250	89	103
March	266	208	264
April	134	321	334
May	277	94	176
June	174	41	165
Total	**1.196**	**997**	**1.208**

Source: Treasury and Foreign Trade Undersecretary, General Directorate of Foreign Capital, 2003Q2 Foreign Capital Report, Ankara 2003.

When we look at the distribution of permissions for $1,207,990,000 in the period 2003Q2 between sectors, $710,650,000 is arranged for the investments in manufacturing, $7,730,000 in agriculture, $365,430,000 in services, $124,180,000 in mining. Assessments of the period of six months of the year 2003, and 2002 for the same period are given below (Table VIII/IX).

TABLE VIII
Distribution Of Permissions Between Sectors In 2003q2

	Permission ($ Million)	Share (%)
Manufacture	710.65	58.83
Agriculture	7.73	0.64
Services	365.43	30.25
Mining	124.18	10.28
Total	**1.207.99**	**100.00**

TABLE IX
Distribution Of Permissions Between Sectors In 2002q2

	Permission ($ Million)	Share (%)
Manufacture	552.30	55.41
Agriculture	3.18	0.32
Services	429.89	43.13
Mining	11.32	1.14
Total	**996.69**	**100.00**

Source: Treasury and Foreign Trade Undersecretary, General Directorate of Foreign Capital, 2003Q2 Foreign Capital Report, Ankara 2003.

When the distribution of permissions between investment types is examined, it is observed that the permissions of capital increment for available firms of foreign capital are reached 71.94% of total permissions whereas in Turkey the shares of firms permitted for new investment and participation in available firms of domestic capital are 28.06% of total permissions (Table X). In 2002Q2, it is observed with similar trend that the permissions of capital increment for available firms of foreign capital are 61.58% of total permissions whilst the shares of firms permitted for new investment and participation in available firms of domestic capital are 38.42% of total permissions (Table XI)

TABLE X
Distribution Of Permissions Between Investment Types In 2003Q2

	Permission ($ Million)	Share (%)
New	251	20.78
Participation	88	7.28
Capital Increase	869	71.94
Total	**1.208**	**100.00**

TABLE XI
Distribution Of Permissions Between Investment Types In 2002Q2

	Permission ($ Million)	Share (%)
New	117	11.74
Participation	266	26.68
Capital Increase	614	61.58
Total	**997**	**100.00**

Source: Treasury and Foreign Trade Undersecretary, General Directorate of Foreign Capital, 2003Q2 Foreign Capital Report, Ankara 2003.

Foregoing figures indicate the fact that the level of foreign capital in Turkey is insufficient. However the foreign capital is important for Turkey to develop and integrate with the world economies.

CONCLUSION

In the globalized economy, foreign direct investments play an important role on employment increasing efforts of countries whose resources are relatively inadequate. Besides, they contribute to the introduction of advanced production and management techniques as well as conclusion of international economic integration. Nowadays, countries those differ from each other in terms of their income levels, economic, political and social structure have striven a lot in order to achieve economic growth. Advanced technology and capital accumulation improved by developed countries, parallel to their industrialization, have traversed national borders and acquired an international structure with respect to production, management and marketing. This structure has had developed countries find new markets.

Resource scarcity of developing countries in terms of capital and technology has extended the foreign direct investment activities oriented to them. On the other hand, these countries are questioning the effects of foreign capital inflows on production and external trade as well as the harmonization of foreign technology in terms of economic and social structure. Besides, the fact that whether or not they will provide solutions for the problems of developing countries is a source of anxiety for those countries.

Besides, foreign investors put some criteria in regard when they take the decision of investing in developing countries. They include such factors as labor costs, productivity, facilities in terms of both regulations and practice and stability.

In "World Investment Report" published by UNCTAD under the structure of United Nations, it is stated that foreign investments comprising 195 countries in the world halved in respect of their peak in 2000. In between 1991-1996 foreign direct investments of 254 billion dollars had culminated in 1.4 trillion dollars by 2000. Whereas in 2001 they dropped down to 824 billion dollars by drawing back to 41% and in 2002 they dropped down to 651 billion dollars by drawing back to 21%. In the report it is expressed that the investments are hopeful in the long-run but seem bad in the short-run. It is also expressed that the developed countries are affected more than the developing countries from falling off in the rate of foreign capital. According to this, the developed countries attracting 1.1 trillion dollars of foreign investment in 2001 had to be contented with an amount of 460 billion dollars in 2002. On the other hand, the developing countries had attracted 246 billion dollars in 2000, 209 billion dollars in 2001 and 162 billion dollars in 2002.

According to UNCTAD's report, Turkey continues her ill-going with respect to foreign capital. Because of the license given to Aria in 2001, Turkey's place of 32nd order in the list of foreign capital investment had dropped down to 49th order with 1 billion dollars in 2002.

In performance and potential criteria expressed in the report, Turkey is of 112th order in performance index and of 86th order in potential index. When we look at these data, we may say that although Turkey's potential is of high degree, its performance is still low.

There are various reasons for Turkey's insufficiency in attracting foreign capital. They may be enumerated as inefficiency, low level of work-force quality, inexistence of institutionalization process, immaterialized privatizations and bureaucratic obstructions.

It will be inevitable for Turkey to take place on a lower level in next year if she stays below the level of 1 billion dollars in 2003. However, lingering laws' passing through Turkish Parliament and endeavors to eliminate defects will allow Turkey to attain her target she longs to.

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