Foreign Direct Investment in Turkey: A Comparison with the Central and Eastern European Countries

Ebru TOMRİS AYDOĞAN[1]

Abstract

This paper examines the pattern of foreign direct investment (FDI) in the Central and Eastern European Countries (CEEC) and Turkey during the 1990-2013 period. The study aims to investigate the basic determinants of FDI inflows into the CEEC and Turkey, and accentuates the importance of transition-specific factors such as the level and method of privatization and the country risk in the CEEC and Turkey. A comparison of FDI inflows to Turkey and the CEEC is carried out in order to understand the main reasons for these inflows in both areas. Finally, a discussion of macroeconomic indicators in the CEEC and Turkey aims at providing a perspective for the developments in these countries.

Keywords: *FDI, Development, TNCs, Turkey, and CEEC.*

Türkiye'deki Doğrudan Yabancı Yatırım: Orta ve Doğu Avrupa Ülkeleri ile Karşılaştırma

Öz

Bu araştırma 1990-2013 döneminde Orta ve Doğu Avrupa Ülkeleri (ODAÜ) ve Türkiye'deki doğrudan yabancı yatırım (DYY) yapısını incelemektedir. Çalışma, ODAÜ ve Türkiye'ye DYY girişlerinin temel belirleyicilerini araştırmakta ve ODAÜ ve Türkiye'deki özelleştirmenin seviye ve yöntemi ve ülke risk düzeyi gibi geçişe-özgü faktörlerin önemini vurgulamaktadır. Bu girişlerin temel belirleyicilerini anlamak için, Türkiye ve ODAÜ arasındaki DYY girişlerinin karşılaştırılması her iki alanda da yapılmaktadır. Son bölüm, ilgili ülkelerdeki son gelişim süreçlerini yansıtmak amacıyla ODAÜ ve Türkiye'deki makroekonomik göstergeleri tartışmaya ayrılmıştır.

Anahtar Kelimeler: *DYY, Gelişme, Uluslarüstü Şirketler, Türkiye ve ODAÜ.*

[1] *Assistant Professor of Economics, Yeditepe University, taydogan@yeditepe.edu.tr*

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1. Introduction

Since the late 1980s, foreign direct investment (FDI) in Turkey has attracted considerable attention. Meanwhile, it has become the focus of both the business and the academic sectors, and several authors carried out empirical research to explain the determinants of FDI inflows to Turkey.

The existing literature generally focuses on the location factors that attract foreign firms to Turkey. Tatoglu and Glaister (1998) tried to find out the determinants of FDI in Turkey by analyzing the eclectic (ownership, location and internalization advantages) paradigm of John Dunning for a sample of 98 firms that invested in Turkey. The study explains how the relative importance of factors that attracted FDI into Turkey varied with the type of industry, the size of the investment and the pattern of ownership.

While one study (Dutz, Us and Yılmaz, 2005) tried to find a positive relationship between the European Union accession (the ultimate liberalization of Turkey) and FDI in Turkey, others (Alfaro et al., 2010 and Geyikdağı, 2011) found no such relationship between the liberalization of trade (and financial markets) and the FDI inflows. Deichmann, Karidis and Sayek (2003) investigated the regional location choices of foreign firms in Turkey, and concluded that the agglomeration variables (foreign firms following other foreign firms to regions with superior labor quality in coastal areas) dominate the location choice decisions. Geyikdağı and Karaman (2013) evaluated the quality of FDI inflows to Turkey and tried to estimate the level of profit transfers. They have shown the importance of profit transfers out of the country by firms using both official channels as well as transfer pricing manipulation.

This paper is designed to shed some light on the major issues by exploring and analyzing foreign capital inflows into Turkey as well as the Central and Eastern European Countries (CEEC) during 1990-2013. Then, we may be able to understand whether Turkey differs in any way from the CEEC in attracting FDI.

The proportion of FDI flowing to developing countries dropped from around 25 percent of the total in the late 1970s to around 20 percent in the 1980s. However, as capital flows became more concentrated in the industrialized countries, foreign investment is flowing more enthusiastically into countries that for decades were under communist regimes. (UNCTAD, 2012 and 2013).

From 1985 onwards, the Turkish governments initiated a series of reforms to accomplish a major policy shift from import substitution to an export-led growth strategy, mainly by liberalizing foreign trade. Turkey liberalized its capital account in 1989, taking an important step towards integrating its economy with the global economic system. Despite an unstable economic environment in Turkey, capital flows into the country increased steadily after 1990, with net capital inflows reaching almost 4 percent of gross domestic product (GDP) in some years. The approved cumulative FDI in Turkey up to March 2000 was in the order of $26 billion. However, over the 1995-2010 period, the total net amount of FDI increased to $103.2 billion (Central Bank of the Republic of Turkey (CBRT), 2011).

This paper also tries to investigate the effects of Turkey's liberalization process on the Turkish economy during the 1995-2013 period. Some observers argued that the integration of the Turkish economy with the EU and the world economy could be supported with FDI attracting policies which could, in turn, result in higher GDP and export growth (Dutz et al., 2005 and Harrison et al., 1996). However, the recent empirical evidence fails to support this view in developing countries (Alfaro et al., 2010). In order to realize the contribution of FDI to economic growth, government policies may concentrate on attracting job-and income- generating greenfield investments rather than mergers and acquisitions (M&A).

2. Changes in the Industrial Environment of Turkey

The structural adjustments and legal regulations, in the early 1980s, were carried out in order to accommodate globalization. Due to changes in the Foreign Investment Law in 1987, the investment climate has become more attractive and suitable for potential investors. The Turkish lira became almost fully convertible and the implementation of the Foreign Investment Law, which was subject to

some modifications in 2003, (Undersecretariat of Treasury, 2005) guaranteed the transfer of capital gains, fees, royalties, and dividends freely.

In addition to the Foreign Investment Law of 1987, Turkey has provided a relatively stable environment for foreign capital by being a party to several bilateral and multilateral agreements. In this context, investment protection and double taxation agreements were signed between Turkey and twenty countries. The Foreign Investment Law modifications of 2003 (Treasury, March 2005), and of 2005-2006 provided considerable privileges to foreign capital. In spite of all the positive institutional developments, Turkey did not attract an important amount of FDI until 2005 when the privatization activities increased considerably. It should be pointed out that M&A constituted a very large share in the FDI inflows to Turkey.

The Foreign Investment Law, introduced in 1954, had provided the basic framework for FDI throughout the 1954-80 period. During the 1980s, under the influence of the International Monetary Fund's conditionalities, there was a switch to liberalization and export-oriented economic policies. From 1984 onwards, protectionist economic policies were abandoned and a comprehensive economic stabilization and liberalization program was implemented. The new program included major objectives such as: a) the minimization of state intervention, b) the establishment of a free market economy, and c) the integration of the Turkish economy with the world economic system.

The annual FDI flows to Turkey kept growing gradually after 1985, to reach $1 billion in 1990. However, during the 1990s, while the global FDI flows were accelerating, the FDI inflows to Turkey increased only at a moderate rate. The number of investors increased from 100 in 1980 to 610 in 1986. In 1979, while only 4 percent of foreign investment went to the banking sector, this figure rose to 20 percent in 1986 (Arıcanlı and Rodrik, 1986, p. 1348).

In 2004, the Investment Advisory Council was established in order to improve the investment environment for foreigners, comprising the executives of 20 multinational corporations with strong influence on the investment decisions in Turkey. The first meeting of the council took place on 15 March 2004 under the chairmanship of the Turkish prime minister (Undersecretariat of Treasury, March 2005, p. 20). Representatives from 10 different sectors, 20 chairmen of the board of directors and high ranking managers of 11 countries attended the meetings of this council and made recommendations.

3. FDI in Turkey by Countries and Sectors

During the 1990-2013 period, the major suppliers of FDI flows to Turkey were Germany, the United States, France, the Netherlands, Switzerland, and the United Kingdom. Evidently, France, Germany, and the United States are the major investors in Turkey according to the statistics of approved investment. The breakdown of FDI inflows to Turkey by countries (2005-2013) are given in Table 1.

The period 2007-2013 has been characterized by a decline in FDI flows to Turkey from the total world. The significant increase of FDI inflows to Turkey was mainly from Germany and the Netherlands, followed by Japan.

Table 1. Breakdown of FDI inflows to Turkey by Countries (2005-2013) (US $ million)

Country	Year								
	2005	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**
France	2,107	444	367	679	617	623	999	176	222
Germany	391	366	954	1,237	498	597	665	491	1,845
USA	88	693	4,212	868	260	323	1,403	439	344
Netherlands	381	5,171	5,442	1,343	718	486	1,425	1,381	1,024
Switzerland	-	-	257	201	163	123	233	454	201
UK	165	883	703	1,335	350	245	905	2,044	297
Italy	692	209	74	249	314	25	111	154	145
Japan	-	-	2	11	3	347	231	106	493
Total World	-	-	19,137	14,747	6,252	6,256	16,136	10,759	10,189

Source: CBRT, 2013, Foreign Direct Investment in Turkey by Countries.

Table 2. Sectoral Breakdown of actual FDI inflows to Turkey (2005-2013) (US $ million)

Sector	Year								
	2005	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**
Manufacturing	788	1,867	4,131	3,971	1,642	923	3,573	2,428	2,008
Agriculture	5	5	9	41	48	80	32	15	37
Mining and Quarrying	40	122	336	145	89	135	146	71	250
Services	7,701	15,724	14,091	9,520	2,315	3,274	12,304	2,804	5,342
Total	8,536	17,719	19,137	14,747	6,252	6,238	16,055	5,569	10,189

Source: CBRT, 2013, Foreign Direct Investment in Turkey by Sectors.

During the 1980s, with the implementation of a comprehensive economic stabilization and liberalization program, the pattern of FDI coming to Turkey has changed. The 1980 economic program and the government's liberal economic policies created a considerable transformation from an import restricting economy to an open one by focusing on policies such as flexible exchange rates, export orientation, public enterprise reform and privatization, financial liberalization, import liberalization, and promotion of foreign direct investment.

Table 2 shows that although FDI flows entering the manufacturing sector have been fluctuating, in recent years, its share in the total FDI inflows has been in the 20-25 percent range. The share of the services was fluctuating between 50 and 77 percent. The FDI inflows to the agricultural sector have been insignificant. However, after the 2008 world financial crisis the amount of FDI inflow dropped sharply in 2009, 2010, and 2012. The FDI inflows to the mining sector after 2008 retained their previous level which was around $ 250 million in 2013.

It appears that while the total FDI inflows amounted to $9.5 billion for the 2003-2012 period, they rose to $22.0 billion in 2007 just before the 2008 global crisis as seen in Table 3. In the years following the world-wide recession of 2008, FDI inflows to Turkey declined without reaching their previous levels.

Table 3. FDI Inflows by Components (US $ million)

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Total FDI (Net)	1,702	2,786	10,031	20,185	22,047	19,760	8,663	9,036	16,047	12,557
• FDI	704	1,442	8,190	17,263	19,121	16,567	6,629	6,203	14,034	-
▪ Capital Net	556	888	8,134	16,982	18,394	14,712	6,170	6,238	14,064	9,503
Inflow	564	986	8,535	17,639	19,137	14,747	6,252	5,936	16,055	10,136
Outflow	- 8	-98	- 401	-657	-743	-35	-82	- 35	-1,991	-633
▪ Reinvested Earnings	132	204	81	106	294	399	786	600	-	-
▪ Other Capital	16	350	56	281	727	2,111	711	339	-30	418
• Real Estate purchases (net)	998	1,343	1,841	2,922	2,926	2,937	1,782	2,494	2,013	2,636

Source: CBRT, 2013, FDI 2012 Report.

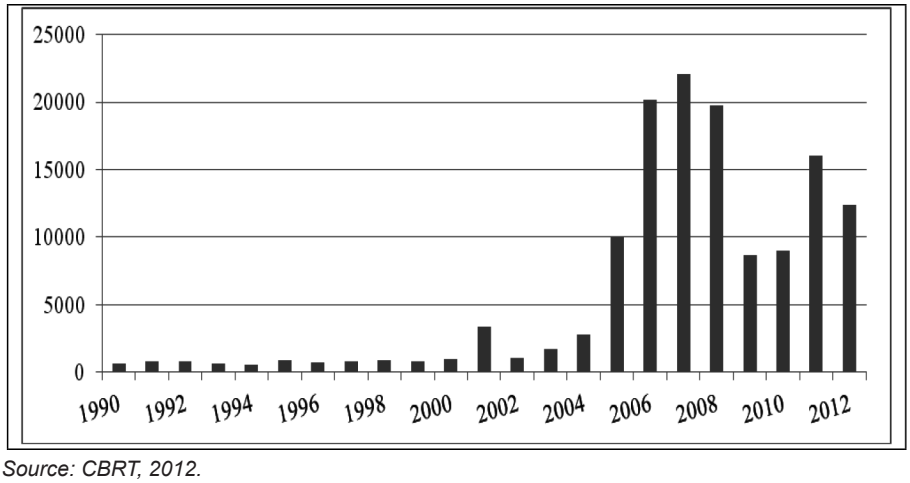
Out of $12.5 billion of the FDI inflows received in 2012, $9.5 billion was directed to equity ventures while $2.6 billion came from real estate purchases. The largest investment in 2012 was the $1.9 billions of SAB Miller, a UK based brewery for the acquisition of a 24 percent stake of Anadolu Efes (Ministry of Economy, 2013). Another important deal was the acquisition of the shares of TAV Airports Holding by the France based Aéroports de Paris that brought 1.1 billion inflows.

As it can be seen from Table 3, the total net FDI has increased from 2003 to 2012. The FDI inflows due to M&A were stimulated by the wave of the privatization drive in Turkey. M&A investments constituted more than 60 percent of the total FDI inflows from 2005 to 2011 (Geyikdağı and Karaman, 2013, p. 385).

Over the 2003-2012 period, the total FDI (net) inflows to Turkey have shown an increasing trend until 2008. In Table 3, FDI inflows to Turkey which stood at $10 billion in 2005 grew to $20.1 billion in 2006 and $22 billion in 2007. After a considerable drop in 2009 and 2010, the FDI inflows gained momentum reaching $15.9 billion in 2011.

Figure 1 displays these rapid increases, especially with the increased privatization activities after 2005. It can also be observed that net equity investments showed a discernible increase between 2005 and 2006, while tending to fall in the following years. Similarly, the FDI inflows in terms of real estate (net) showed a steady growth over the same period. The remarkable growth recorded in FDI inflows in Turkey can partly be attributed to an intense M&A activity spurred by vast privatization programs.

Figure 1. FDI Inflows in Turkey Between 1990 and 2012 (US $ million)



Source: CBRT, 2012.

Table 4. FDI Inflows by Sector, 2010-2012 (US $ million)

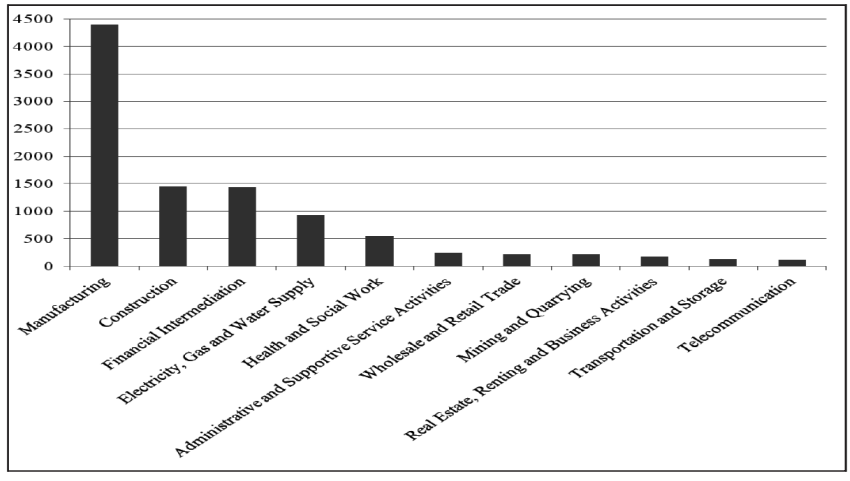
Rank	Sector	2010	2011	2012	Total
1	Manufacturing	923	3,573	4,392	21,751
2	Construction	314	301	1,453	3,207
3	Financial Intermediation	1,620	5,882	1,443	38,606
4	Electricity, Gas and Water Supply	1,823	4,244	924	12,082
5	Health and Social Work	112	231	545	1,416
6	Administrative and Supportive Service Activities	0	47	242	369
7	Wholesale and Retail Trade	435	709	219	4,822
8	Mining and Quarrying	135	146	214	1,316
9	Real Estate, Renting and Business Activities	241	300	179	2,127
10	Transportation and Storage	182	223	131	2,021
	Telecommunication	36	36	114	11,216
	Total	**6,238**	**16,055**	**10,136**	**100,625**

Source: CBRT, 2011, and Undersecretariat of Treasury, General Directorate of Foreign Investment, Foreign Direct Investments in Turkey, May 2011, Ankara, p. 11, Table 5.
Foreign Direct Investments in Turkey, 2012, Ministry of Economy, October 2013.

Table 4 reflects that in 2010, electricity, gas and water supply and distribution, financial intermediation, and manufacturing were the top three sectors attracting foreign capital. While in 2010, almost 56.5 percent of the total FDI inflows were in electricity, gas, and water supply in 2012 the highest inflows were in the manufacturing sector with 43 percent.

The inflows to the energy sector were $2.1 billion in 2010 because of the large M&A deals in the sector. The major deals in this sector were: i) the acquisition of 54 percent of the shares of Petrol Ofisi by OMV, ii) the acquisition of shares of five Hydro-Power Plants which took place in Aralık, Hamzalı, and Reşadiye Cascade by Energo-Pro, and iii) the acquisition of 5 percent of the shares of Yesil Enerji by Statkraft (Undersecretariat of Treasury, General Directorate of Foreign Investment, 2011, p. 11). The number of companies with foreign capital operating in the energy sector increased from 97 in 2005 to 126 in 2010, reflecting in part the increasing demand for energy in Turkey. The registered capital values of 33 companies were greater than $500,000 (Undersecretariat of Treasury, 2011, p. 11). The FDI inflows in the financial intermediation sector were $1.6 billion in 2010. The total inflows for the last six years amounted to $31 billion representing 42.6 percent of the total FDI inflows in Turkey. Again, the main reason for this was the large scale cross border M&A deals which expanded particularly in the banking sector (Undersecretariat of Treasury, 2011, p. 11). Figure 2 also shows the sectoral distribution of FDI inflows to Turkey in 2012.

Figure 2. Sectoral Distribution of FDI Inflows, 2012



Source: CBRT, 2012.

4. The Upsurge of FDI Inflows in Turkey and Some Key Obstacles

The rising trend of FDI inflows during the 1988-1990 period was due to a set of measures that altered the FDI environment and the positive effects of fiscal incentives introduced during the 1984-86 period. Two significant changes in the world at the end of the 1980s and early 1990s were: (i) the movement toward a full economic union of the European Community by the end of 1992, and (ii) the enormous political and economic changes which took place in the former Soviet Union and Eastern Europe, involving political and economic liberalization.

For a long time, Turkey tried to attract FDI because of a lack of accumulated. In addition to capital needs, Turkey also desired the transfer of technology, in order to increase the level of productivity and create high quality export products. However, there were still a number of obstacles lingering on the way.

Firstly, the political and economic instabilities, which were persistent for several years, have increased the risk of foreign investment and undermined the FDI inflows to Turkey. More specifically, high rates of inflation which have been chronic for almost two decades (the average inflation rate being 54 percent for the 1980-1990 and 73 percent for the 1990-2000 period) and the public sector and current account deficits have contributed to uncertainty in Turkey. Admittedly, it is often claimed that global firms may refrain from investment when the country risk happens to be high even when the rate of return has an attractive trade off.

Secondly, it has been argued that the taxation procedures in Turkey were very complex and investors faced high rates of income, corporation, and value added taxes compared to other countries. In other words, the tax burden on potential investors used to that were high as compared to the OECD averages. For instance, in 2002 the average corporation tax rate in the OECD was 31 percent, while the Turkish level was 44 percent in 2001. In Turkey, during 2003-2005, the rate of corporate tax ranged between 30 percent and 33 percent, while the rates for personal income tax were at a minimum of 15 percent and a maximum of 40 percent (Kızılot, 2005). The corporate tax rate in Turkey was 30 percent until 2006, but in the following years it was reduced to 20 percent in order to make Turkey comparable to the new members of the EU (Revenue Administration, 2011, and Worldwide Tax, 2011)[1].

Thirdly, the costs of energy and other inputs are relatively high in Turkey as compared to other OECD countries. The electricity prices for industry were lower in the OECD countries such as France, Germany, England, Greece, Holland, and Hungary. For instance, the electricity price in terms of cent/kwh in 2001 was 4.67 in France, 6 in Germany, 4.91 in Greece, 4.83 in the Czech

1 The corporate tax rate is 30 per cent if a corporate tax payer prefers to use the investment allowance exemption accumulated from the prior years (Undersecretariat of Treasury, 2011).

Republic, while it was 7.90 in Turkey (Journal of Istanbul Chamber of Commerce, 2002). Another problem which is considered specific to Turkey is the problem of obtaining credits and guarantees from the commercial banks.

Finally, transparency may be important because it is very difficult to forecast risk and returns in non-transparent economies. This factor may increase the risk premium because additional taxes and volatility in the foreign exchange rates may be expected. Therefore, transparency should also be provided about major economic indicators such as tax rates.

5. A Comparison of FDI inflows to the CEEC and Turkey

During the transitionary period of the CEEC which took place between 1991 and 2002, former socialist countries of Europe underwent a complete change in their economic systems. Eight members of the former Eastern Bloc joined the European Union (EU) in 2004 followed by two in 2007, and one in 2013. The CEEC experienced a five–fold increase in FDI inflows between 2003 and 2008, rising from $30 billion to $155 billion. Russia attracted much of this additional investment as its inflows rose from $8 billion in 2003 to $70 billion in 2008 (PwC, March, 2010), and 51.5 billion in 2012 (UNCTAD, 2013).

Hungary has shown lower levels of unemployment compared to other CEEC and an overall more stable path of aggregate economic growth. After 1997, the Hungarian GDP has grown between 4.5 percent and 5.5 percent per annum with unemployment decreasing from 13.4 percent in 1992 to 5.9 percent in 2002. Moreover, during the 1990-2002 period, exports increased by 64 percent, with manufactured goods surpassing those originating from agriculture and food processing as the country's most important exports. Evidently, the EU has become the single most important export destination, accounting for over 84 percent of Hungarian exports in 1997 (OECD, 2003). In Hungary, the contribution of the manufacturing sector to overall economic growth widely surpasses that of the other economic sectors. The available data shows that between 1993 and 1998, the manufacturing value added increased by 55 percent and output grew by 65 percent (Viszt and Borsi, 2003). In the meantime, the ratio of exports to GDP has grown continuously from 42 percent in 1997 to 64 percent in 2002 with manufacturing goods holding the highest share (60 percent in 1998). It is evident that economic recovery and continuous GDP growth since 1997 have been initially export-led and stemmed from the manufacturing sector of the Hungarian economy (ibid).

During 1999-2002, the Czech Republic and Poland received the largest share in FDI flows to the region both with 25 percent of the CEEC total, followed by Slovakia and Hungary. The decrease of FDI inflows to Hungary since 1999 is explained by the restructuring of investment by transnational firms as wages have risen. Consequently, labor intensive production capacities have increasingly been relocated to low-wage locations elsewhere in the CEEC and the proportion of capital-intensive investment has increased.

Hungary's foreign trade is dominated by foreign firms, since a large number of transnational corporations (TNCs) produce in Hungary in order to export into the EU markets. The number of foreign companies located in Hungary grew from 6,000 in 1990 to 26,645 in 2000. Besides, in 2000, these firms employed 28 percent of the total workforce (Vizst and Borsi, 2003). The new Russia was the region's single largest recipient of FDI inflows in 2008, having experienced the largest increase since the turn of the 21st century. In Russia, FDI inflows rose from $5 billion in 1997 to almost $70 billion in 2008 mainly due to its vast natural resources. However, there were other smaller CEEC as significant destinations for FDI such as Poland, the Czech Republic, and Hungary. States such as Bulgaria, Croatia, Estonia, Latvia, and Slovenia had not attracted large amounts of FDI prior to 2003, but inflows rose markedly since 2004 (PwC, 2010, p. 1).

The Czech Republic which attracted almost 10 percent of FDI inflows to the region experienced a decline in 2009 because of the global crisis. In 2008, the Czech Republic saw a significant FDI inflow in the automotive sector, investments from Daimler, Volkswagen and Peugeot-Citroen totaled almost $1 billion. The other key sectors were real estate and alternative energy in 2008 (two large investments by Japan Wind Development and Itochu) (PwC, 2010, p. 3). FDI in Slovakia which rose

by 55 percent in 2009 was driven by $2.3 billion of real estate investments by Tri Granit. However, because of the world-wide economic downturn, Latvia and Slovenia experienced the largest decline in FDI inflows in 2009 at 71 percent and 70 percent, respectively. Both countries have attracted a small proportion of FDI in the region. In Latvia, more than 60 percent of total FDI inflows in 2008 were in the real estate sector, valued at around $1 billion. In Slovenia, FDI inflows to real estate had also accounted for a large share of the total (PwC, 2010, p. 3). Table 5 shows that Poland attracted the greatest value of FDI inflows in the CEEC after Russia.

The Czech Republic and Hungary have also been major regional destinations since the mid-1990s. The largest destination of FDI in the CEEC between 1997 and 2008 was Russia with a share of 29 percent of all FDI inflows to the region. However, Russia experienced a 48 percent decline in FDI inflows in 2008 due to the recession experienced in Western Europe. A collapse in the real estate sector and some other extractive industries was responsible for this decline (PwC, 2010).

Table 5. Inward FDI Stock in the CEEC, and Turkey 1990-2012 (Cumulative) (US $ million)

Year	Czech Republic	Poland	Slovakia	Slovenia	Hungary	Russia	Turkey
1990	1,363	109	282	1,643	570	-	11,194
1991	1,886	425	363	1,708	2,107	-	12,004
1992	2,889	1,370	463	1,819	3,424	-	12,848
1993	3,423	2,307	642	1,931	5,576	183	13,484
1994	4,547	3,789	897	2,048	7,087	3,280	14,092
1995	7,350	7,843	1,297	2,617	11,304	5,601	14,977
1996	8,572	11,463	2,046	2,730	13,282	8,145	15,699
1997	9,234	14,587	2,103	2,207	17,968	13,612	16,504
1998	14,375	22,461	2,920	2,777	20,733	12,912	17,444
1999	17,552	26,075	3,188	2,682	23,260	18,303	18,227
2000	21,644	34,227	4,746	2,893	22,870	32,204	19,209
2001	27,092	41,247	5,582	2,594	27,407	52,919	19,677
2002	38,669	48,320	8,530	4,112	36,224	70,884	18,795
2003	45,287	57,877	14,576	6,308	48,340	96,729	33,537
2004	57,259	86,623	20,910	7,590	62,585	122,295	38,522
2005	60,662	90,711	23,656	7,259	61,110	180,313	48,553
2006	79,841	125,782	38,567	8,986	80,153	265,873	68,738
2007	112,408	178,408	47,713	14,375	95,460	324,065	90,785
2008	113,174	164,307	50,416	15,638	88,003	215,755	80,383
2009	125,827	185,202	52,537	15,184	98,803	378,837	143,736
2010	128,504	215,639	50,284	14,467	90,461	490,560	186,980
2011	120,569	198,196	51,293	15,108	84,467	457,474	140,017
2012	136,442	230,604	55,816	15,526	103,557	508,890	181,066

Source: UNCTAD, Wir Series, 2012. UNCTAD, Inward and Outward Foreign Direct Investment Stock, available at http://unctad-stat. unctad.org/TableViewer/tableview.aspx

Table 5 illustrates, over the 1990-2012 period, the FDI stock to the Czech Republic amounted to $136.4 billion while it was $230.6 billion for Poland, $103.6 billion for Hungary, and $508 billion for Russia. When compared with the CEEC, Turkey's recent increasing FDI inflows do not look impressive. The size of the Turkish economy, its large population and its being an open market economy for a much larger period could have attracted more inflows. Nonetheless, it seems that the attractiveness of the CEEC is much higher for foreign investors (Unctad, Wir Series, 2012).

6. Macroeconomic Performance

Since a stable economic environment and high growth rates are considered as desirable locational factors for attracting foreign capital, one could also look at the major economic indicators of Turkey and the CEEC, and evaluate them in this context.

Table 6 illustrates the macroeconomic performances of the CEEC and Turkey for different periods. GDP growth rates in the Czech Republic for this period showed considerable oscillations recording a 1.79 percent growth rate in 2002 and 7.2 percent in 2003, but later declining to 1.65 percent in 2011 because of the global economic downturn. The Czech Republic showed a rather low rate of inflation which was on average, less than 3 percent over the same period.

Table 6. Macroeconomic Performance

Macroeconomic Indicators	Period	Czech Republic	Hungary	Poland	Russian Federation	Slovak Republic	Slovenia	Turkey
GDP (Current US$ Million)	**1995**	57,787	45,561	139,061	395,528	25,253	20,940	169,485
	2004	113,976	101,925	252,768	591,016	56,073	33,837	392,166
	2012	196,446	124,600	489,795	2,014,774	91,148	45,279	789,257
GDP Growth (Annual Average %)	**1995-2000**	2.59	2.71	5.67	0.79	3.83	4.23	4.76
	2001-2006	4.59	4.12	3.62	6.47	5.48	3.99	5.06
	2007-2012	1.27	-0.77	3.98	3.03	3.38	0.34	3.45
Inflation, consumer prices (Annual Average %)	**1995-2000**	7.20	17.34	15.34	65.70	8.52	9.09	76.44
	2001-2006	2.30	5.55	2.50	14.03	5.66	5.00	25.83
	2007-2012	2.83	5.46	3.51	9.19	2.91	2.73	8.23
External Debt Stocks, (Current US$ Million) Debt/GDP								
	2012	101,100	169,300	364,200	636,400	68,440	53,900	336,700
	2012	.51	1.36	.74	.32	.75	1.18	.43
Unemployment Rate (Annual Average % of total labor force)	**1995-2000**	6.12	8.33	12.70	11.30	14.02	7.05	7.02
	2001-2006	7.75	6.37	18.03	7.85	17.17	6.25	10.15
	2007-2012	6.23	9.70	9.03	6.63	12.42	6.55	11.03
Current Account Balance (Annual Average as a % of GDP)	**1995-2000**	-3.92	-5.83	-6.04	-	-5.32	-1.22	-1.07
	2001-2006	-4.11	-7.41	-3.32	9.81	-7.60	-0.95	-2.47
	2007-2012	-2.93	-2.21	-5.08	5.17	-3.12	-1.09	-6.00

Source: World Bank, 2014, http://data.worldbank.org/indicator/NY.GDP.MKTP.CD/countries?display=default.

The current account data are obtained from the OECD, 2014. e: estimated value.

Hungary and Poland registered GDP growth rates of 4.5 percent and 1.44 percent in 2002, and 3.9 percent and 6.23 percent in 2006 respectively. The growth rates of both countries in 2011 were 1.69 percent and 4.35 percent.

The Russian economy finally recovered at the beginning of the new millennium after a disappointing decade from 1990 to 2000 when the national income shrank by a third. Russia achieved a growth rate of 4.74 percent in 2002, 8.15 percent in 2006, and 4.3 percent in 2011. On the other hand, Russia's inflation rate which was still high in 2002 (15.7 percent) after the hyperinflation years of the 1990s, was controlled in the ensuing years, dropping to 9.68 percent in 2006, and 8.44 percent in 2011.

Table 6 also shows that, during the 1995-2012 period, Turkey's GDP growth rate fluctuated considerably. The growth rate of 4.8 percent during the 1995-2000 period, later exhibited a higher average in 2001-2006, and dropped to 3.45 percent recently. The inflation rate which was at its highest level of 82 percent in 1997 slowed down to 44.9 percent in 2002, 10.51 percent in 2006, and 6.47 percent in 2011. The IMF monitored new government program prepared by Kemal Derviş was implemented in 2001-2003, and 2004-2006 to restore the fiscal imbalances which were instrumental in pulling the inflation rate down. The declining trend continued in the subsequent years when the inflation rate dropped to 6.47 percent in 2011. The GDP declined after the 2008 crisis, but started to increase after 2011.

The current account deficit which was only $1.5 billion increased at an alarming rate reaching almost $77 billion in 2011. The current account deficit as a percentage of GDP increased from 2.5 percent in 2003 to 6 percent in 2006, and to 9.7 percent in 2011 (TCMB, 2013). At the moment, this current account deficit is financed by foreign debt and rather volatile "speculative money". However, it seems that, the excessive deficit in the current account will remain to occupy the economic agenda unless it is remedied by serious policy measures.

The major economic variables do not look worse in Turkey when compared with those of the CEEC. The most worrisome issue is the large current account deficit that increases the vulnerability of the country against external shocks. Turkish as well as foreign observers fear that a change in foreign investor expectations about the future can lead to a sudden surge in capital outflows. Then, the depletion of international reserves leading to a severe financial crisis would be a most likely scenario.

10. Concluding Remarks

This paper's goal was to compare the trends of FDI inflows to Turkey and the CEEC and evaluate the recent developments in these countries. It seems that despite efforts to make the country more attractive to foreign investors, Turkey has not been able to receive as much FDI inflows as the CEEC. When the macroeconomic indicators were evaluated, one could see that the CEEC have not performed any better than Turkey. The only exception was the high current account deficit of Turkey (77 billion dollars in 2013) in recent years. This creates a considerable economic risk with a probability of increasing the political risk as well.

During the 1990s, Turkey failed to attract higher amounts of FDI inflows due to severe economic problems and political instability. On the other hand, Hungary, Poland and the Czech Republic became major destinations of FDI, not only from Western Europe but also from the USA and to some extent from Asia as well.

The sharp increase in FDI inflows is attributable to acquisitions by TNCs of large stakes in major Turkish companies, especially in the finance and telecommunication sectors. Also, the privatization and private sector takeovers played an important role. It is safe to argue that with its dynamic economy, large internal market, competitive industry, and skilled labor force, Turkey offers numerous opportunities for international investors.

However, there are some important hindrances because of the economic and financial crises which took place in 1994, 2000, and 2001 mainly because of political reasons. It is widely recognized that these crises were the result of an inefficient economic structure which allowed populist policies, clientelism, and corruption to dominate decision making (Öniş and Güven, 2011). It was rather difficult to coordinate macroeconomic policies under

divided coalition governments which dominated the political arena during the 1990s.

In the medium term, Turkey can aim to increase the educational levels for all segments of society, provide support for innovation and small and medium sized enterprises (SMEs), and maintain low rates of inflation. In the meantime, in order to create a convenient environment, Turkey may try to expand her investment promotion agency and integrate that with her economic development policy. In the context of political and institutional reforms, it is logical to remove major impediments to FDI in terms of attitudes, legislation, bureaucracy, and corruption.

The foreign investment decision is crucially dependent not only on the change of incentives, but also on the sustainability of the new incentive regime which in turn depends on the macroeconomic and political environment. Obviously, economic stability, policy predictability, and the EU relationship may be important preconditions for attracting significant investments into Turkey. Therefore, effective foreign investment promotions and product development policies to improve the technological and human infrastructure are needed in order to make Turkey more competitive in international markets.

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