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FOREIGN DIRECT INVESTMENT IN TURKEY, 1950-1980, A COMPARATIVE STUDY

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Abstract: In the Turkish Republic, especially in the 1960s and 1970s Foreign Investment was regarded as a very suspicious subject in Turkey as a result of the capitulations and a substantial amount of Ottoman Debt. There were many debates about the issue in the press and most of the studies in the period had generally a normative way of looking at the Foreign Direct Investment issue. During this period, a very small amount of Foreign Direct Investment entered into Turkey.
This study focuses especially on the period 1950 and 1980 in which the negative attitude towards FDI was at its peak. The study examines the FDI in the Turkish economy and argues the reasons of low level of FDI flow into Turkey in comparison with Brazil (which is very similar to Turkey when market size, population and growth strategies are considered) in this period.

Keywords: Foreign Direct Investment, Turkey – Economic Conditions – 1950-1980.

1950 VE 1980 YILLARI ARASINDA TÜRKİYE'DE YABANCI SERMAYE YATIRIMLARININ KARŞILAŞTIRMALI OLARAK İNCELENMESİ

Özet: Osmanlı İmparatorluğu'ndan miras kalan kapitülasyonlar ve dış borçlar, Türkiye Cumhuriyeti'nde, özellikle 1960 ve 1970'li yıllarda yabancı sermayeye karşı şüpheci bir yaklaşımın doğmasına neden olmuştur. 1954 yılında yürürlüğe giren 6224 sayılı yabancı sermayeyi teşvik kanunu oldukça liberal olmasına karşın, bu şüpheci yaklaşımın sonucunda yabancı sermayenin gelişini engelleyici bir biçimde kullanılmıştır. Bu dönemde Türkiye'ye gelen yabancı sermaye oldukça düşük miktardadır. Türkiye'yi diğer bazı gelişmekte olan ülkelerle karşılaştırdığımız zaman Türkiye'ye gelen yabancı sermaye miktarının ne derece önemsiz boyutta olduğu daha iyi görülmektedir. Bu ülkeler (Brezilya, Meksika gibi) 1960 ve 1970'li yıllar boyunca yılda ortalama 1-3 milyar dolarlık yabancı sermaye çekerken, aynı dönemde, Türkiye'ye yılda ortalama 10-15 milyon dolar arası yabancı sermaye girişi olmuştur. Bu çalışma Türkiye'de yabancı sermaye yatırımlarını, yabancı sermaye teşvik kanunlarını incelemekte, yabancı sermayenin ekonomiye katkısının ve yetersiz yabancı sermaye girişinin nedenlerinin üzerinde durmaktadır.

Anahtar Kelimeler: Doğrudan Yabancı Yatırımlar, Yabancı Sermaye, Türkiye Ekonomisi 1950 -1980

I. INTRODUCTION

In the Turkish Republic, especially in the 1960s and 1970s Foreign Investment was regarded as a very suspicious subject in Turkey as a result of the capitulations and a substantial amount of Ottoman Debt. There were many debates about the issue in the press and most of the studies in the period had generally a normative way of looking at the Foreign Direct Investment issue. Although well-known Law No. 6224, the encouragement of Foreign Investment, was designed as a liberal law in 1954, it was used as a law discouraging foreign investment due to this suspicious attitude. During this period a very small amount of Foreign Direct Investment entered into Turkey and its share was very insignificant in the Turkish economy.

When we compare the amount of FDI coming to Turkey with the corresponding amounts in other developing countries we clearly find that our findings strengthens that the share of FDI in Turkey is insignificant. These countries (such as Brazil and Mexico) enjoyed an inflow of FDI averaging 1-3 billion dollars per year while Turkey received averaging 10-15 million dollars per year between 1950 and 1980.

This study focuses especially on the period 1950 and 1980 in which the negative attitude towards FDI was at its peak. The study examines the encouragement laws of foreign direct investment which were enacted in the Republican Era, the contribution of FDI to the Turkish economy and finally argues the reasons of low level of FDI flow into Turkey in this period.

II. THEORIES OF FDI

It is interesting that until the 1960s, except for a few works by political economist works, there was no systematic model of or theory on FDI activities. Actually, foreign investment was recognized as a part of

international trade activities, and generally explained by trade theories such as Heckscher-Ohlin model of trade.

In the nineteenth century, the free trade theories generated by Adam Smith and David Ricardo [1-2] explained and supported the increasing volume of international trade activities. However, there was no systematic explanation of firms investing abroad. This could be due to the growing importance of portfolio investments rather than direct investments or to economists paying attention to international trade theories as a result of the significant increase in volume of international trade.

As foreign investment by European firms in the late nineteenth century grew, first, political economists started to investigate the nature of foreign investment. Such theoretical studies took place in Lenin's, Hobson's writings [3-4]. However, their main concern was the functioning and the future of capitalism rather than generating a theory of FDI. Like most of the early political economists who were their contemporaries, they also preferred historical methods as the mode of analysis. According to political economists, FDI activities were regarded as a part of and the last stage of the international capitalist system.

Between 1945 and 1960 subjects related to foreign investment were discussed generally in the works of development economists. This was strongly related with the necessity of external sources in late developing countries in order to realize higher economic growth rates. After the Second World War, as most of the colonies and semi-colonies became independent nation-states, a strong demand emerged by the governors of independent countries to experience rapid growth rates and economic development; also, at that time the western and eastern blocks were competing to integrate late developing countries (LDC) into their economic systems. Therefore, to understand why these countries were unable to realize industrialization and to make suggestions to help them, development economics emerged as a branch of economics and development economist mentioned the importance of FDI (rather than proposing a core theory of FDI) in the development process of LDCs.

As the FDI activities began to increase significantly after 1950, the need of an FDI theory emerged in the intellectual community. FDI theories were generated especially in the 1960s and in the 1970s and these theories also reflect the economic and political conjuncture of the international system in this period. Stephen Herbert Hymer made the first theoretical approach. In his doctorate thesis, which he wrote at M.I.T., microeconomic analysis was introduced into the study of FDI. After the work of Hymer, Vernon in the 1960s, Buckley, Dunning, Kojima, McManus, Casson, Rugman, Swedenborg and Hennart in the 1970s and 1980s proposed new models and theories of FDI (For a detailed study about a survey of FDI theories see [5]).

The methodology of economists studying FDI gradually changed during time. The early writings of political economists about FDI were multidisciplinary analyses. They analyzed the subjects with concepts belonging to the fields of economics, sociology, and history, and their methodology was generally qualitative. However the methodology of the economists in the 1970s was quantitative and these economists elaborated theories and models including testing results, statistical analysis and comparative case studies.

Today, foreign direct investment is referred to as long-term capital flow and differs from portfolio investment by taking place in kind, through the exchange of property (patents, technology or machinery) and by acquiring control of a company. It also differs from other kinds of international capital movements in that direct investment proceeds by the reinvestment of profits and accompanied by varying degrees of control, plus technology and management [6].

In other words FDI is an operation realized by the firms of one country by owning a firm, constituting a new firm, or enlarging the firm's capital in another country. In addition, management skills, control authority and technology accompany direct investment activities, and investors can transfer money, machinery or patent rights as direct investment [7].

III. FDI IN THE EARLY PERIOD OF TURKISH REPUBLIC

The investment and operation of foreign companies in Turkey goes back to the nineteenth century. In the nineteenth century, owing to the arrangements signed between the Ottoman Empire and several European countries, there was a climate encouraging the operation of foreign companies. Foreign companies established enterprises operating in railways, electricity, service sector and maritime lines and harbors. In 1914, they built up economic monopolies dominating the basic services [8].

After the Turkish War for Independence, the new Turkish Republic abolished the capitulations and aimed to impede the domination of foreign firms in the public sector. There is a commonly shared belief in Turkey regarding the government's anti-FDI stance in the first years of the Republic. However, in the 1920s the governments' attitude toward FDI was positive and the local firms were encouraged to collaborate with foreign firms [9].As Tezel suggested "the capitalist development strategy adopted in the 1920 was harmonious with FDI activities and collaboration of local firms with the foreign firms" [10]. An outstanding example of this occurred

during the War for Independence when in the National Assembly; there was a discussion about the entrance of a foreign firm to collaborate with a Turkish representative in Turkey. Most of the representative gave their support to the Turkish partner of the foreign firm. The interesting point is the foreign firm's nationality was Italian and Turkey was at war with Italy at the time [11]. In the 1920s several firms containing foreign capital obtained special statute from the government to invest in the manufacturing, mining sectors. Some of these firms are İzmir Telefon Şirketi (Swedish-1925), Kireçlik Krom Maden Şirketi (French-1928),Adana Elektrik Şirketi (German-1928) and the most well-known firm, Ford Motor Company (1929) [10]. However, in 1939 owing to the effects of the Great Depression, the plant of the Ford Motor Company stopped its production. In addition to the activities of foreign firms in the 1920s, the share of foreign capital was also important in total firms. According to Ökçün, 43% of total stock (of total companies) was belonged to the firms containing foreign capital between 1923 and1930 [12].

In 1929 the Great Depression affected the activities of MNCs directly. In Turkey, with the Depression of 1929, the Turkish government enacted new rules about the flow of foreign exchange. The restrictions cancelled the transfers of foreign firms and obstructed the entrance of new foreign firms because, as discussed above, the guarantee of transfer of profit was one of the main motives for foreign firms to invest in Turkey [13]. Also the expropriation of foreign firms between 1928 and 1944 did not create an attractive climate for foreign firms to invest in Turkey. In this period, the level of FDI inflow to Turkey was very insignificant.

Another reason of low level of FDI inflow was about the economic policies that were adopted. The government, the RPP (Republican Peoples' Party), had applied Etatist policies in the 1930s. During this period, induced by the Great Depression, most of the LDCs (Late Developing Countries) adopted ISI (Import Substitution Industrialization) strategies to face with disappearing export markets and the resulting severe foreign exchange shortages. The main aim of this strategy is to manufacture previously imported simple, basic consumer goods. In this period although there wasn't a theoretical framework, Turkey experienced the ISI process after the Great Depression. ISI strategy does not require the state as the leader in the process; however, because of inadequate accumulation of private capital, the State took the leadership in the ISI process by adopting Etatist policies in Turkey. Etatism promotes and aims to realize higher economic growth rates by introducing the state as an economic agent or giving priority to the state activities rather than the private sector. This affected the position of foreign firms in the economic development process and the encouragement of foreign capital disappeared on the agenda.

In other words, to realize higher economic growth rates where the private capital stock is inadequate for new and large-scale investments, Etatist policies giving priority to the state in the economy as an investor and producer were adopted rather than giving priority to the private sector and foreign capital as an external source. It can be said that as the role and share of the state enterprises increased in the economic development process, the relative importance encouraging FDI as an economic policy decreased between 1930 and 1945 [10].

IV. 1945 – 1970: A NEW PERIOD FOR FDI

After the end of the Second World War major political and economic changes took place in Turkey owing to the developments in the international economic system and to domestic pressure. In the country many social groups had become dissatisfied with the RPP. On the other hand, the emergence of the U.S. as the dominant world power enabled the emergence of a new international economic system, which had need of and suggested a more liberal and open economic model for countries. In addition, Soviet territorial demands pushed the Turkish government toward a closer relation with the western, developed countries.

As a result of the facts mentioned above, the Turkish government rearranged its economic policies. For this purpose the 1947 development program favoring agricultural production and emphasizing private capital was replaced with the development plan of 1946, which gave priority to state investments for the purpose of industrialization.

Owing to the new development plan which put emphasis on private sector and foreign capital, the encouragement of FDI issue emerged back on the agenda. In 1947 a development plan encouraging FDI was discussed and after this year laws about FDI were enacted to encourage inflow and foreign firms were allowed to transfer their profits abroad. Before 1947, the laws about FDI were not attractive for MNCs (Multinational Corporations) to invest in Turkey. With Law No. 1447 about "securities, stocks and bonds and foreign exchange markets", the exchange and exportation of foreign currency, stocks and bonds were realized under the control of government. Law No. 1567, about the protection of the value of Turkish currency, regulated foreign exchange and capital market. In by-law No. 13, arranged in 1947, a new regulation was made for the "protection of the Value of Turkish Currency". This new regulation brought encouragement of foreign investment with it. According to this bylaw, direct investment could operate and invest in the specific sectors which were important for the economic development of the country. Foreigners, investing in these specific sectors gained the advantage to transfer profit and capital without having to apply for permission from the Ministry of Finance. With

this law, the government encouraged foreign investors to invest and operate in specific sectors.

In 1950 the RPP, just before the Democrat Party (DP) came to power after the adoption of the multi-party system, enacted the first encouragement law of FDI; Law No. 5583 [14]. With this law the government extended the right of transfer to private companies, which borrowed from international markets.

Although changes in the political and economic policies were initiated in the RPP period, the electoral victory of the DP was the major turning point for the economy. The DP put strong emphasis on agriculture and adopted liberal trade policies, which made the importation of finished goods easier. These policies favored local merchants rather than large industrialists and it became attractive to import commodities from abroad for the domestic market and activities and most of the foreign firms preferred to export rather than having a foreign operation in Turkey under such circumstances. In the adoption of liberal trade policies the local merchants and large landowners played an important role and their power was relatively much higher [15].

What these improvements in the early 1950s suggest for the FDI is that a mixed economy which gives the state a secondary role and the private sector the primary role requires external sources in order to sustain high economic growth rates. In pursuit of this transformation, after 1950 the DP prepared laws encouraging FDI to increase the inflow of FDI into the country. Although the experts of the World Bank were pleased about the encouragement Law No. 5583, enacted in 1950, the restrictions and the indefinite articles of FDI obstructed the inflow of higher amounts of FDI. To increase the inflow of FDI, a new encouragement law, Law No. 5821 was enacted on August 1, 1951. According to this law, foreign capital should meet some criteria: it was to promote the economic development of Turkey, and operate in a field open to foreign capital.

This law brought new arrangements to the transfer of profit. According to the new arrangements, foreign investors were allowed to a partial transfer of profits, dividends and interests, which were not to exceed ten percent of the foreign capital brought in. If the profit exceeded ten percent of capital, the excess was to be added to the next year's transfers. With Law No. 5821, foreign investors were granted all of the rights, facilities and exemptions extended to local investors.

In this period Turkish economy enjoyed high economic growth rates. Between 1946 and 1954 owing to favorable conditions and DP's agricultural development policies GNP increased by an average annual rate of 9%.

In this period, industrialization attempts encouraged by the Turkish Industrial Development Bank (Türk Sınai ve Kalkınma Bankası), created in the 1950 by the RPP, that extended long and medium term credit to the manufacturing sector. TIDB credits were instrumental in the development of some of the prominent industrial enterprises in the 1950s [16]. Nearly all of the big business established in this period obtained credits of the TIDB [17]. As a result, owing to the availability of funds, relaxation of import restrictions and accessible foreign exchange, industrial production reached to 9% of GNP at that period [18].

However, these golden years did not last very long. The favorable conjuncture disappeared in 1953. After the end of the Korean War international demand for export commodities slackened and the favorable weather conditions disappeared. Under such circumstances exports declined and foreign exchange reserves were depleted under the liberalized import regime. At the end of the 1953 the country experienced balance of payment crisis which is characterized by shortages of many items of basic final goods. Most of the foreign firms, operating in Turkey, had increasing difficulty in obtaining foreign exchange to pay their parent company for purchases of inputs and to transfer profit in this period. Hence, especially in 1953 and 1954 shortages of foreign exchange obstructed the higher amounts of the FDI flow into Turkey.

After 1954, a shift to the ISI strategy arose out of necessity as a result of the balance of payments crisis. Until the 1960s, Turkey's experience with import substitution had been limited to the accidental beginnings triggered by foreign exchange shortages of the 1950s. Owing to the foreign exchange crisis, to diminish the dependence on foreign exchange tariff rates were increased and the importation of finished goods was restricted. High tariff rates accompanied by government restrictions on importation created favorable conditions for domestic producers in the capital accumulation process. Domestic producers enjoyed high profit rates under the conditions where they were protected by the state from international competition [19]. The state did not support the local firms only by increasing the tariff rates and restricting the importation of finished goods, but also concentrated on the production of intermediary goods to supply cheap inputs for the private sector.

The foreign exchange crises brought the necessity of foreign capital with it. To attract the inflow of foreign capital On January 18, 1954, only three years after the encouragement Law No. 5821, the government enacted a new Foreign Investment Encouragement Law, No. 6224. By doing this, the DP aimed, first, to decrease the balance of payments deficits and second, as the foreign exchange crises made it difficult for local firms to export commodities that are not produced locally, the

government, by enacting Law No. 6224, intended to increase manufacturing activities of foreign firms. The latter is important in the development of the large industrial groups. Most of the local merchants, distributors of foreign companies, became producer of those certain commodities after the foreign exchange crisis. Law No. 6224 brought very liberal provisions. It abolished restrictions on the transfers of profits, dividends and interest to ten percent of the capital as well as the restriction of foreign investment in certain specified areas of economic activity. The main requirements of Law No. 6224 were that foreign investment contributes to the economic development of Turkey that it should be in a field of activity open to Turkish private enterprise and that foreign investment should not entail any monopoly or any special concessions.

The provisions of Law No. 6224 seem liberal and compare favorably with the investment laws of many countries. However, between 1951 and 1980, $230 millions of total capital came through this channel [20]. Since its inception in 1954, the flow of private capital into Turkey remained far below expectations. The ratio of realized investment of the authorized investment was only 30.7% between 1951 and 1965.

From 1950 onwards, foreign direct investment entered into Turkey according to four main categories. These were 1) Laws No. 5821 and No. 6224; 2) the Turkish Industrial Development Bank, established with the aid of the International Bank of Recovery and Development in 1950 to provide long-term credit for private enterprise as well as to encourage private investments. 3) Petroleum Law No. 6326, which was enacted on March 18, 1954 and featured liberal provisions; and 4) Special Law No. 7462 about the Ereğli Iron and Steel Factory, enacted in 1960. The private foreign investment, which came to Turkey through this channel, was significant relative to others.

IV.1. The Contribution of FDI to The Development of Turkish Industrialists

As mentioned before the role of the TIDB credits was significant especially in the 1950s. One of the largest and important industrial ventures of the Sabancı Group, the BOSSA textile factory established on the basis of credits obtained from the Turkish Industrial Development Bank [16]. Also receiving the industrial credit from the Turkish Bank for Industrial Development was a turning point in Eczacıbaşı Group's business career, one (of the most successful business companies in Turkey) in 1950. Nejat Eczacıbaşı, the founder, was among the first entrepreneurs who applied to the Bank for industrial credit. He wanted to build a factory producing drugs under foreign license and the factory started production in 1950 [16].

In the second half of the 1950s, as the favorable conjuncture for exporting disappeared, under protectionist conditions, foreign firms decided to invest rather than export certain products to Turkey. By collaborating with local firms, foreign firms began to manufacture their products in Turkey. This cooperation strengthened the transformation of local merchants into industrialists. As Krueger writes, "the traders whose business was to import and resell consumer goods lost out to the industrialists who started factories to take advantage of import prohibitions" [21]. These importers commonly lacked the know-how required for successful local firms. Consequently, they asked the foreign firms whose products they distributed to start joint ventures with them [22]. Working as the representative agency of a foreign exporter to Turkey is an important step in the business careers of some prominent Turkish businessmen. Joint ventures with foreign firms also appear to be important for some well-known Turkish businessmen in their entry into the industrial sector. By Buğra's own words: "At a more general level, one could suggest that, in a late industrialization country which professes a commitment to the objective of Westernization, in a country where technology is important and, along with it, new needs are created, some knowledge of foreign production processes and markets naturally appears as a business asset of significance. Hence, in Turkey, entrepreneurs who possessed such knowledge have entered the business scene with an initial advantage [16].

What this thesis suggests is that the contribution of FDI was significant in the transformation of local merchants into industrial entrepreneurs. According to Eralp foreign encouragement laws coincided with the period when the local bourgeoisie was attempting to collaborate with the MNCs [23]. Foreign firms and state enterprises facilitated the industrialization process and there was a direct relationship between the transformation process.

Local merchants dealing with the importation of finished goods became producers of certain goods instead of importing them, in this period [24]. For instance, the Koç Group, one of the most significant business companies in Turkey, owing to the long-lasting foreign shortages in the 1950s started with the assembly production of the goods which were imported before. The company decided to build a factory for the assembly production of Ford vehicles [16]. Bernar Nahum, a shareholding manager of Koç explained that Vehbi Koç, the founder of the holding, convinced the necessity of industrialization in Turkey due to the lack of foreign exchange, the import limitations of the government [25]. Many well-known industrial groups such as Borusan, Tekfen, Enka, E.C.A, Profilo, STFA, Alarko and Altınyıldız established in the 1950s and most of them cooperated with foreign firms in this period [26].

Actually, it can be considered that the entrance of FDI into the host country may act as an obstacle for the operations of local firms. Yet in Turkey, the local entrepreneurs wanted to collaborate with FDI in order to acquire technological knowledge and management skills [27]. In other words there was collaboration rather than competition between the MNCs and large local firms. This collaboration enabled the entrance of local entrepreneurs in many sectors without having enough technological knowledge and management skills. In this way, foreign firms, instead of exporting their products, entered Turkey and collaborated with local entrepreneurs to realize the production of their commodities. As was the case in the Brazilian, the small-scale local firms couldn't compete with or collaborate with foreign firms and they stopped production in some cases. For instance, in the pharmaceutical sector, foreign firms displaced the small-scale firms in 1970. Another important point was that most of the firms intended to collaborate with foreign firms in almost every kind of production. Some scholars argue that in some specific areas local firms realized the investment with their own resources, but most preferred to collaborate with foreign firms [28]. This situation can also be explained by the strong demand of local entrepreneurs for foreign firms to bring managerial skills and technological knowledge with them.

Hence, it would be not wrong to argue that although the amount of the inflow of FDI into Turkey was insignificant statistically, the contribution of FDI in the transformation of local merchants into industrialists and in the industrialization process was essential and that there was collaboration between foreign firms with local entrepreneurs rather than competition.

Although the trade barriers, the protectionist policies adopted by the government and encouragement Law No. 6224 regarding FDI were favorable for foreign companies to invest in Turkey, the increase in the inflow of FDI was not as great as expected between 1954 and 1960. This can be explained by the economic instability, especially between 1954 and 1958. Turkey was unable to borrow from abroad and external pressures and political unrest forced the DP to announce a stabilization programme in August 1958. The programme included moderation on government expenditures and a de facto develuation. As seen in Figure 1, the amount of realized FDI decreased in 1957 compared to the previous years as a result of expectations of a devaluation and economic instability. For instance the regional manager for Southern Europe and the Near East of the Alpha Petroleum Company was considering Alpha's position in Turkey due to Türk Alfa A.Ş. was having increasing difficulty in obtaining dollars to pay its parent company for purchases of refined oil products, which it marketed in Turkey [29]. At the end, the managers thought that if Alpha were to pull out of Turkey it would lose its present crude supply position in the rapidly growing Turkish market and continued its activities [29].

In the 1960s both authorized and realized foreign investments were below the levels expected by the Turkish government. This fact can be strengthened by reference to the proposed first five-year development plan about foreign direct investment. The five-year development plan forecasted the need of $50 million per annum since the beginning of the plan in 1963. As can be seen in Figure 1, authorized investment had not reached the $50 million level since 1951. When the realized investment is considered, the situation was worse than the authorized investment.

IV.2. 1960-1972 Period: The Role of State Planning Organization

In 1960 with the military coup, the new regime sought to quicken the pace of development. To the officers of the new regime planning was the single efficient way of achieving development. The new regime differed from that of the DP in important respect:

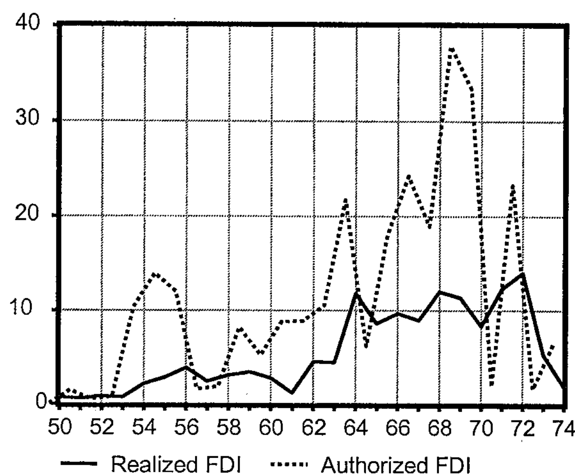

Figure.1: Authorized & Realized FDI in Turkey 1950 - 1974 ($ million)

Its reliance on state plans and the officers institutionalized ISI as the official development strategy [30]. With the establishment of the State Planning Organization (SPO) after the May 1960 coup the idea of development planning was admired. The bureaucracy, the MNCs and the large industrialists mostly shared this idea. The development plans of the SPO were based on long-term models rather than short-term policies and were obligatory for the public sector and only problem solving for the private sector. They maintained the coordination between economic sectors and agents, strengthened economic growth and economic stability, and encouraged the inflow of foreign investment.

In the first development plan, the balance of payments effect received focus rather than the technological and employment effects of FDI [31]. Plus, in this plan, for the first time the problem of low realized investments was mentioned. Foreign companies were not obliged to realize investment immediately following the granting of investment permission. They could realize investments whenever they wanted. Actually, many firms had preferred to wait for some years to invest in Turkey because of political instability. In this way they had the chance to invest under conditions suitable for investment. With foreign investors having investment permission, they made it difficult for domestic firms and other foreign investors to get approval for investments in the same area. This situation also blocked the entrance of other foreign companies willing to invest at that time and created and strengthened the oligopoly conditions in Turkish economy.

The SPO noticed this dilemma and decided to cancel the investment permissions of foreign companies if the investments were not realized after a certain period. In other words, all authorized investments had to be implemented within specific time periods, which were contained in their decrees and the Turkish government canceled unimplemented decrees.

One of the problems was about the article of Law No. 6224, concerning the contribution of FDI to the economic development of the country. According to Law No. 6224, foreign companies could realize investment in all sectors of the economy, provided it aided the country's economic development. It was not clear, however, how this was to be determined. Many representatives of foreign companies claimed that the SPO used this provision as a tool to discriminate against MNCs. In the first development plan, the SPO also tried to clarify the concept of "beneficial for the country's economic development" [22].

In the second development plan, the technological contribution of MNCs was stated. It was because many questions and debates had arisen in the public about the contribution of MNCs to the economy. Some of the scholars questioned the technological, and employment effects of FDI on the country. Most of them reached the conclusion that many FDI projects, in the past, which had been accepted without negotiating, had led to substantial losses for Turkey. Plus, the contribution of the MNCs to economic growth, and technological improvement was much below the levels that were expected [32]. Hence, in the second development plan the emphasis was given to the technological contribution of the FDI to the country rather than the balance of payment effect.

Especially in the 1960s, a significant increase in real wages created a substantial demand for domestic commodities and the growth of the domestic market encouraged the inflow of FDI to Turkey. In this period, called as the golden period of ISI, the economic growth rate was seven percent and the manufacturing sector's growth rate was between eleven and twelve percent [33].

V. 1970-1980 PERIOD: A CHANGE IN THE ATTITUDE TOWARD FOREIGN FIRMS

The 1970s witnessed several economic and political instabilities in both Turkey and in the world. In developing countries, the easy stage of ISI came to an end and the foreign exchange crisis and increasing dependency of imports led them to shift towards export promotion. Plus, most of the developed and developing countries negatively affected from the 1974 oil crisis. However, owing to the remittances sent by workers in Europe, with the support of the foreign exchange reserves and an accommodating monetary policy, Turkey did not simultaneously experience the negative impacts of the oil crisis with other countries in 1974 and the growth rate of the economy reached to 8.9 percent in 1975 and 1976 [34]. Yet, borrowing abroad and expansionary policies only delayed the crisis. Turkey found itself in its most severe balance of payments crisis in 1978 and 1979 [34].

In the 1970s firms containing foreign capital faced with two main issues in Turkey. First, the scarcity of foreign exchange, especially after 1976, obstructed transferring profits and obtaining imported inputs. In the 1970s, the inputs of the MNCs, as well as domestic companies, mostly relied on imported intermediary and capital goods. On the other hand there was a scarcity of foreign exchange owing to the overvalued Turkish Lira and the governments took over the allocation of the scarce foreign exchange. Hence, firms containing foreign capital had difficulties in obtaining foreign exchange.

Second, the economic and political instability in the 1970s led foreign firms to be act prudently. Obviously, although Law 6224 remained effect, the attitudes of governments towards FDI changed in the 1970s. This change was mostly due to the firms containing foreign capital did not fulfill the export requirements. The officers of SPO and the governments often influenced the necessity of export contribution of foreign firms. In addition the ideological thoughts and attitudes that were dominant in the political atmosphere were also significant affecting the activities and investment of foreign firms.

To be more specific, it would be better to clarify the attitude of the governments towards FDI in Turkey. In 1971 there was a sudden change in the political life in Turkey and a non-party government under the premiership of Nihat Erim came in to power in March 1971. The new measures (affecting FDI) introduced by the new government indicated a shift from the liberal foreign investment policy. The new government

announced that future applications for FDI would be judged on the following bases: provision for majority Turkish ownership; capacity for export; ability to induce an inflow of technology; and utilization of economies of scale [35]. In reality, the demands of the Turkish governments had not been met by the MNCs. The Turkish government's demand for increases in export commitments increases in local content and restrictions on the local credits available to FDI firms were harshly criticized by the MNCs operating in Turkey. They found the Turkish government's demands irrational [22].

As it is considered from a theoretical perspective, the commitments of Turkish government are what the bargaining school suggests in the 1970s. The bargaining school seeks to understand the relationship between developing countries and MNCs. The main question is to determine who gets the benefits after the investment takes place. At first, when a firm controls something that a government wants, the firm's power would be improved in any bargaining process between the parties. Over time, the bargaining power relationship can shift to "obsolescing bargain" which refers to the decline of the power of a firm when it has heavily invested in the host country [36].

According to the school, in early interactions, the balance of power and benefits often favor the multinational. Although the developing country controls access to its markets, the enterprise has more important bargaining assets through its control of capital, technology and managerial skills [37]. However, after the MNC invests heavily in the host country, the host country starts to gain the bargaining power, which was controlled before by the company. As the country attains greater bargaining power, it forces the balance of benefits to shift in its favor. Therefore, the bargaining school first accepts the bargaining power of the MNC over the host country. In this situation, it is not easy for the host country to direct the activities of MNCs for its own purposes or benefits. Though, as the foreign company settles down in the country, the host government starts to gain the bargaining power and forces the balance of benefits manage these relations more effectively.

For this purpose, especially in the 1970s, host countries put pressure on MNCs to bring their technology with them and the MNCs were directed to export-oriented sectors. For instance some of the Latin American countries and India gained bargaining power over the MNCs by controlling capital and access to its markets and directed them for their favor in the 1970s. On the other hand the MNCs did not want to share their technological advantage which brings with it high profit rates. Although Brazil was successful at directing the MNCs to the manufacturing sector because of its control over the access to its markets and resources, it did not gain the same success when trying to direct MNCs in the pharmacy sector; due to the MNCs bargaining power was stronger than the bargaining power of the Brazilian government in the pharmaceutical sector.

However, the bargaining strategy of the Turkish government and the SPO was not as successful as that utilized in Latin America. The reasons will be discussed in the next chapters.

Eventually foreign firms quickly affected from the new improvements and the regulations of the Turkish governments. FDI entered into Turkey decreased from $12 million in 1972 to $1.8 million in 1974 and fluctuated during the period 1975-1979. Finally $9 million dollars of FDI left Turkey in 1979 [20].

In sum, the foreign exchange crisis experienced in the second half of the 1970s had a great impact on the MNCs operating in Turkey. They had trouble getting the foreign exchange to transfer to their corporate headquarters. In addition the foreign exchange crisis, the bargaining policies of the governments, and the economic and politic instability in the country, obstructed the higher level of FDI flow into Turkey.

VI. REASONS FOR THE INADEQUATE FLOW OF FDI INTO TURKEY

As seen from the study above, the amount of FDI in Turkey was below the expected level. However, compared to other countries in the world, Turkey had a very liberal foreign encouragement law. As seen in Table.1, Turkey differed from other countries in encouraging FDI.

What can be understood by this fact is that there is no direct relationship between the regulations about FDI and the inflow of foreign capital. In other words, the inflow of foreign capital could not be increased only by liberal regulations alone. If the inflow of foreign capital is below the expected level, one should be looking elsewhere for the reason.

According to Table.1, only Turkish laws enabled the profit remittance without any restriction and did not require a ratio of local content in the production of foreign firms. However, as seen in Table 2, the annual average of FDI inflow to Brazil was 1.8 billion dollars and the amount of FDI inflow in Turkey was 7.7 million dollars.

Table.1: Selected Rules Affecting Affiliates of Foreign MNCs

Country Ownership	Profit Remittance	Local Content	
Argentina remittance above 12% of registered capital	Unrestricted on autos	supplementary tax on	80% require
Brazil for majority Brazilian ownership	de facto gov. Pressure remittance above 12% of registered capital	supplementary tax on over 90% on autos	on many products,
Mexico 49 % foreign is maximum general exchange controls	unrestricted except by 60% on autos	on many products;	
Turkey unrestricted until 1972, after 1972, 49% foreign is maximum	unrestricted	-	

Source: Oksay, K.(1967). Türkiye'de Yabancı Sermaye Yatırım Kılavuzu. İstanbul: Doğan Kardeş. [38] ; Grosse, R. (1989). Multinationals in Latin America. London: Routledge. [39]

Table.2: Inflows of FDI to Major Recipient Countries in Latin America and Turkey 1970 – 1980 (US $ millions)

Country	Annual Averages	
	1970-1974	1975-1979
Brazil	851.9	1,820.3
Mexico	413.1	791.3
Argentina	10.2	119.6
Turkey	4.7	7.7

Source: Grosse, R. (1989). Multinationals in Latin America. London: Routledge. [39]; Uras, G. (1979). Türkiye'de Yabancı Sermaye Yatırımları. İstanbul: Formül Matbaası.[40]

VI.1. Brazilian Case – a Comparison

One of the interesting points is that, although Brazil and Turkey are generally put into the same category as LDCs, or periphery countries, as the dependency school calls them, the amount of FDI in Brazil has been much higher than in Turkey.

Evans points out that Brazil differs from Third World Countries, with a higher income. According to Evans, Brazil's "economic miracle" made it "the Latin American Darling of the International Business Community" and the Brazilian market was the sixth largest in the world in 1973 for American manufacturing affiliates [41]. Brazil was enjoying a growth rate of ten percent per year and the growth rate was even higher, particularly in certain sectors such as automobiles in the 1970s. Hence, the growth of investments, sales and profits put Brazil into perspective as a potential location for foreign direct investment. Growth in itself was attractive, but also Brazil provided good rates of return as well as opportunities for rapid growth for foreign firms. One of the similarities between two countries is that Brazil and Turkey adopted ISI strategy in the same period. However, unlike Turkey, Brazil was able to transform its economic development strategy from ISI to export-led growth when the inevitable crisis of ISI emerged and, as a result, Brazil experienced an economic boom between 1966 and 1973 [42].

Of course, the growth rate and goods rate of return were not the only incentives for foreign firms to invest in Brazil. Its geographic location and its relations with center countries in the eighteenth and the nineteenth centuries also helped in its industrialization process. In the nineteenth century, there was a flow of an important amount of foreign capital, especially from Britain and European countries into Brazil. Throughout the nineteenth century, foreign investment was concentrated in natural-resource industries and public utilities (power generation, telephone and telegraph service). In this period, British entrepreneurs built local companies and hired local workers [39].

In the nineteenth century the concentration of foreign countries in the export-oriented sectors restricted the possibility of industrial growth because it created a poor domestic market and it left a large surplus in the hands of foreign entrepreneurs. However, in this period, Brazil was more fortunate than many dependent nations. Its major export crop, coffee, was in the hands of local rather than foreign capital. The local ownership of the plantations not only provided some degree of local autonomy, but more important, the possibility of local capital accumulation [41].

According to Cardoso, the difference of Brazil's position from that of the other LDCs in the twentieth century is explained by the term "dependent

development". The dependent development, for Cardoso, is a special instance of dependency characterized by the association or alliance of international and local capital. The state also joins the alliance as an active partner, and the resulting triple alliance is a fundamental factor in the process of dependent development [43]. In other words, dependent development is based on the triple alliance of the multinationals, the state, and the local bourgeoisie. Comparing Turkey with Latin American countries Buğra emphasizes that "Although foreign direct investment has not traditionally played an important role in Turkish economy and, consequently, has not appeared as a factor which could significantly alter the nature of state-business relations as it has, for example, in the Latin American setting where foreign connections have played a non-negligible role in many business careers. Working as the representative agency of a foreign exporter to Turkey is an important step in the business careers of some prominent Turkish businessmen. Joint ventures with foreign firms also appear to be important for some prominent Turkish businessmen in their entry into the industrial sector [16].

According to Evans, dependent development, which brings a rapid economic growth rate with it, is not a phase that all countries are able to reach. Only a few are chosen [41]. Dependent development takes place in countries in which the local bourgeoisie and international capital can forge functioning alliance. These countries differ from the majority of Third World countries and Wallerstein refers them to semi-periphery.

To reveal the difference of Brazil from Third World countries, Evans gives information about economic indicators. He states that in the case of steel, both India and Mexico, produced amounts in the same range as Brazil, but no other Third World country even comes close. Mexico and the Republic of South Korea both produce more synthetic fibers than Brazil, but in consumer durables like passenger cars and refrigerators not even Mexico is a close competitor. In 1974 when the Brazilian production of steel was 7.5 (million metric ton) it was 5.0 in Mexico and 6.6 in India. The production of steel was 1.5 (millions metric ton) in Turkey in 1976. Again, in 1974 the production of passenger cars (including those assembled from imported parts) was 562 (thousand unit) in Brazil, and only 63 (thousand unit) in Turkey by 1976 [41].

VI.2. The Effect of the Bureaucracy and the State Planning Organization (SPO)

Although Turkey had a very liberal foreign encouragement law (Law No. 6224), the inflow of FDI was lower than the expected level. However, Article 1 of Law No. 6224 implied that FDI had to benefit the economic development of the country. This vague law over the years became open to use a tool for the bureaucracy and the government to discriminate against some FDI activities. Hence, especially for the foreign firms, the SPO and the red typing of public institutes were responsible for the low inflow of FDI.

For instance, an entrepreneur, Alber Bilen who was the drugs producer Böhme Fettchemie's independent representative for the Middle East region, began to explore the possibilities of local import substitution production under foreign license when the foreign exchange scarcity became relevant. Buğra explains the controversy between the encouragement law of FDI and the attitude of the government toward foreign investment: "The joint venture was formed in a period when a very liberal foreign investment law was in application, and the attitude of the government in power was also very favorable toward joint ventures between Turkish and foreign firms. Yet, the implementation of the law was governed by a very pragmatic attitude which consistent in limiting the period of the agreement with the objective of eliminating the foreign partner as soon as the technological know-how was acquired and the firm was established on the market. This obvious tactic was, of course, well noticed by foreign investors who were driven away from the agreement as a consequence. There was, in other words, a clear discrepancy between the law and its bureaucratic implementation" In a closed economy in which foreign economic relations are subject to extensive state control, each connections with foreigners also involves an encounter with the state authority. In addition many foreign investors accused the Turkish bureaucracy of straight and simple violation of the law for not implementing its various provisions. For instance, the bureaucracy did not allow the capitalization of intangible rights reduced and even stopped royalty payments [22].

One of the important obstacles for foreign firms was the long waiting period to receive their permissions from the Council of Ministers. In the 1970s, the average time between a firm's application for permission and its publication in the Official Gazette was about two years. Another problem was the SPO's unwillingness to process the FDI applications quickly enough. The SPO often increased the red tape for the application procedures for foreign firms so that permissions for foreign firms would be delayed at least for three or four months. The SPO officers denied that the SPO was anti-FDI and explained the delays with political facts and a shortage of expert personnel. The last fact was the main problem of the institutions, which were responsible for evaluating FDI applications. For instance, there were only a few experts in the Ministry of Commerce's (MOC) FDI division and they were fired for political reasons when the new government came into power. Hence, with no skilled employees, as the chief of the MOC's FDI division stated, his division was no longer capable of evaluating the FDI applications on a technical level [22].

VI.3. The Single Agency Problem

One of the facts affecting the FDI application process was the lack of a strong and efficient organization dealing with the FDI application process. Coordination was lacking between the institutions dealing with FDI. The application procedure was complicated and required many steps before realizing the investment. According to foreign encouragement Law No. 6224, first, the FDI application was submitted to the Ministry of Commerce. Then, if the application was in fulfillment of its requirements the MOC sent the application to the SPO (before the establishment of the SPO it had been the Committee of Encouragement of FDI). The SPO evaluated the net economic and technological benefits for the country within the framework of the development plans. If the evaluation of the SPO was favorable, then the application was sent back to the MOC. From there, a draft of the foreign firm application was sent by the MOC to the Council of Ministers (COM) for political approval. The draft had to be signed by all cabinet ministers before it could become finalized. The final decree went into effect with its publication in the Official Gazette [44].

With the 24 January 1980 program, a newly created Foreign Direct Investment Department, within the SPO, acquired the consolidated authority, which had been previously split among several different government agencies to manage the relations with foreign firms [20].

VI.4. Foreign Exchange Crises

Foreign exchange is important for foreign firms in two ways. First, business theory implies that the main motive for foreign investment is profit and foreign firms gradually want to transfer their profits to their home countries. Second, especially in the countries, which have adopted the strategy of ISI, it is important for a foreign firm to obtain foreign exchange to get imported inputs. In these countries generally when the easy stage of ISI come to an end, there emerges a scarcity of foreign exchange and the dependency of firms (including foreign firms) on imported inputs makes the scarce foreign exchange more important. In Turkey, there are specific examples of this phenomenon, which were experienced in the foreign exchange crises in 1954, 1958 and in the second half of the 1970s [29].

VI.5. The Effect of Political and Economic Instability

As mentioned above in the section on business theories of FDI, economic climate and political stability are important in the decision of foreign direct investment. Although the profit ratio is the main motive to invest abroad, under the conditions where the risk of investment is high, foreign firms would avoid realizing the investment abroad.

In Turkey, the relationship can be seen clearly between the political and economic instability and the realized FDI. After 1957, the ratio of realized investment started to diminish. In 1957, the realized investment was 13.4% of the authorized investment; in 1958, this ratio decrease to 5.8%. This can be explained by the economic, political instability in 1956-7. Especially in 1957, although they received investment permission, the expectation of devaluation prevented foreign investors from investing in Turkey. Another example can be given by comparing the 1959 ratios with the 1960 ratios. In 1959, the realized investment was 8% of the authorized investment. In 1960 this ratio sharply decreased to 0.5%. This can be explained by the military intervention. Therefore, it can easily be said that the economic and political climate has a great influence on foreign direct investment activities. As seen in 1969, both the realized investment and the ratio of realized investment to authorized investment decreased significantly. This can also be explained by the expectation of devaluation

VI.6. The Effect of Public Opinion

Owing to the bitter experience with the capitulations in the nineteenth century in the Ottoman Empire, FDI has always been viewed as somewhat suspicious in Turkey. In the 1960s, many debates took place in the parliament and in the press. These were mostly about the improper functioning of the foreign firms. For instance, one foreign firm, although it had taken the approval to produce the raw materials for pills, produced baby' s food, which was in no way related to the approved category [40]. Other criticized subject was the insignificant contribution of the foreign firms to the Turkish economy. Most of the foreign firms assembled imported inputs. They were criticized for disregarding the local content and increasing the dependency on foreign exchange.

In the 1970s, although ideological attitudes were mostly in favor of FDI, government obstacles increased significantly. For instance, during the coalition governments, some decrees were blocked for more than a year because of the lack of one or two signatures. In addition, the competition between the political parties mostly increased employee circulation in the departments dealing with FDI and this diminished the number of skilled personnel in these departments.

VI.7. The Bargaining Process

Especially in the 1970s, the SPO increased its negative behavior toward foreign firms. SPO officers explained this behavior with the bargaining process and stated that the SPO aimed to protect the nation's economic interests. However, this bargaining process was a little problematic. As mentioned before, after the second half of the 1960s, in the development plans, the export

contribution of FDI was stated. For instance, between 1973 and 1977 the government put the export commitment of five percent of the total production of FDI per year and it was difficult to realize this amount for many foreign firms [40]. In 1972, the Erim government decided to increase the share of local content in foreign firms. Also in the 1970s governments demanded that foreign firms bring technology with them into the Turkish economy. However, many foreign investors found the demands of the Turkish government for increases in export commitments and local content irrational.

Contrary to Turkish experience, especially in the 1970s, some of the Latin American countries were successfully bargaining with the MNCs in certain areas. It would be interesting to examine how some Latin American countries were successful in the bargaining process to understand the failure of the Turkish governments.

Since the independence of most Latin American countries in the early 1800s, governments have tightly controlled their economies. In the twentieth century most of them adopted Statism and established many state enterprises for the purpose of industrialization. However, this was not a "nationalistic movement" in the sense. In other words, this movement was not against foreign capital because of the term "dependent development". In the 1930s and 1940s In Brazil and Mexico many big enterprises were founded or were already in existence. Latin American economic development in the twentieth century has taken place with the autonomy of the state largely restricted by the presence of an already strong industrial business class [16]. In Turkey, a local business class was virtually nonexistent in the early years of the Republican period and foreign capital does not appear as a factor likely to limit state autonomy and to affect the political content of business activity. Thus the relationship between a Latin American government and a MNC seeking to establish operations in that country depends largely on the existing ties between that government and local firms or other MNCs with existing facilities. Unless the MNC offers some superior benefits to the government in comparison with the established local firms, it is likely be quite difficult for the new MNC to enter that market [39].

These explanations show that the states in Brazil and Mexico have connections with the local entrepreneurs and MNCs. However, only these facts do not explain the governments' success. Many governments were mostly successful in bargaining with the foreign firms in certain areas. Then the question is what the other facts were increasing the bargaining power of the host countries.

First of all, the bargaining process is somewhat like a game theory with two players. Thus, both participants have the chance to win. Therefore, it should be stated that host countries governments do not win all the time. Then, it becomes necessary to examine under which conditions the actors, the MNCs and the governments, have the bargaining power over the other. First, the power of the firm is greater in situations in which its proprietary knowledge in pharmaceuticals, computers, is more important. For instance, in Brazil, the state couldn't succeed in increasing the share of the local content in the pharmaceuticals sector because of the technological advantage of foreign firms [41]. On the other hand, if the technology in the project is mature or standardized such as in foods, then the firm has less bargaining power than the government.

Second, the governments welcome the research and development expenditures of MNCs in the host countries and the MNCs enjoy some exceptions.

Third, MNCs have bargaining power in locations where economies of scale are important. On the other hand, the governments of the host countries mostly have bargaining power in circumstances where the industry is based on a raw material available in the host country. In other words, the more dependent the MNC is on some resources of the country, the more powerful the government's bargaining position. For instance, Venezuela was able to nationalize and control the ownership of the oil reserves in 1975 due to this explanation [39].

In addition, the power of the government increases where the market served by the business is entirely in the host country. Access to the domestic market strengthens the bargaining power of the host countries. Finally, the bargaining power of a host country increases in highly competitive industries.

In brief, it can be said that the position of the state and its role in generating basic industry, a favorable economic environment, and access to the domestic markets strengthens the bargaining power of a host country.

VII. CONCLUSION

Actually, there is not a single fact explaining the reasons of inadequate inflow of FDI between 1950 and 1980. However, there are some facts that explain maybe not wholly, but mostly, the inadequate inflow of FDI in Turkey. The facts: the foreign exchange problem, economic and political instability, the lack of a strong and single department dealing with FDI, red-tape, the attitude of the SPO toward the foreign firms together are reasonable in understanding the inadequacy of FDI into Turkey. In addition, this thesis suggests that the Turkish government's bargaining policies, like those of the governments of Latin American in the 1970s, also hindered the inflow of FDI. First, the demands of the

Turkish government mostly were irrational. Most of the foreign firms complained that meeting the demands of the Turkish government was impossible.

Today, there is a great interest of the public towards the FDI issue. This is an important development when the excitably discussions about the FDI issue in the parliament and public in the 1960s are considered. After 1980, the attitude of governments toward FDI changed significantly. Law No. 6224, encouraging FDI, is still remaining in effect- with minor but important changes and the red-tape is by and large reduced. Although the annual average of FDI inflow jumped from 10-15 million dollars to 1 billion dollars in the 1990s, the new level is below the expectations of the governments. Although the members of the parliament wholly are aware of the contribution of FDI and encourage the inflow of FDI, the political and economic instability obstruct the higher amounts of inflow of FDI. While in the 1970s executives of foreign firms were typically complaining about the negative attitude of governments, in the 1990s they mostly complain about the macroeconomic instability. Therefore it can be said that, a liberal foreign encouragement law is not enough to increase the inflow of FDI, it should be accompanied by the economic and political stability.

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