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The Effects of Globalization and Multinational Companies on Turkey's Export

Küreselleşme ve Çok Uluslu Şirketlerin Türkiye'nin İhracatı Üzerindeki Etkileri

Banu ERKÖK[1]

Abstract

With globalization, historical blocks have emerged ascribing a vital place to globalization and the worldwide integration of capital. Those blocks asserted globalization's unquestionable acceptance and supported and advocated it. Consequently, developing countries, including Turkey, started to adopt policies to promote foreign direct investment via different incentives to eradicate the lack of capital and technology in the 1980s. Turkey presents those support to those multinational companies across a variety of industries, including automobile, chemicals, and energy. In fact, Turkish exports have risen more than seventy-five-fold, reaching 225 billion dollars in 2021, compared to 1980. Those multinational companies also played a major role in this increase. The share of those companies' exports in total export was approximately 18 percent between 2007 and 2017. However, their share commenced declining in 2019 which fell to 12 percent in 2021. Besides examining the top ten exporters of Turkey in 2021, we see that half of them are multinational companies, operating in the automotive sector. Moreover, the said sector was the leading exporter for more than 15 years till 2022. Assessing the foreign trade figures of those multinationals in the automotive sector, we see that their imports are also large, particularly those from their production centers. Such that they import approximately 70 units against 100 units of exports. This phenomenon severely deteriorates the current account balance of Turkey.

Jel Codes: *F21, F23, F40, F62*

Keywords: *Foreign Direct Investment, Multinational Companies, Export, Import*

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Öz

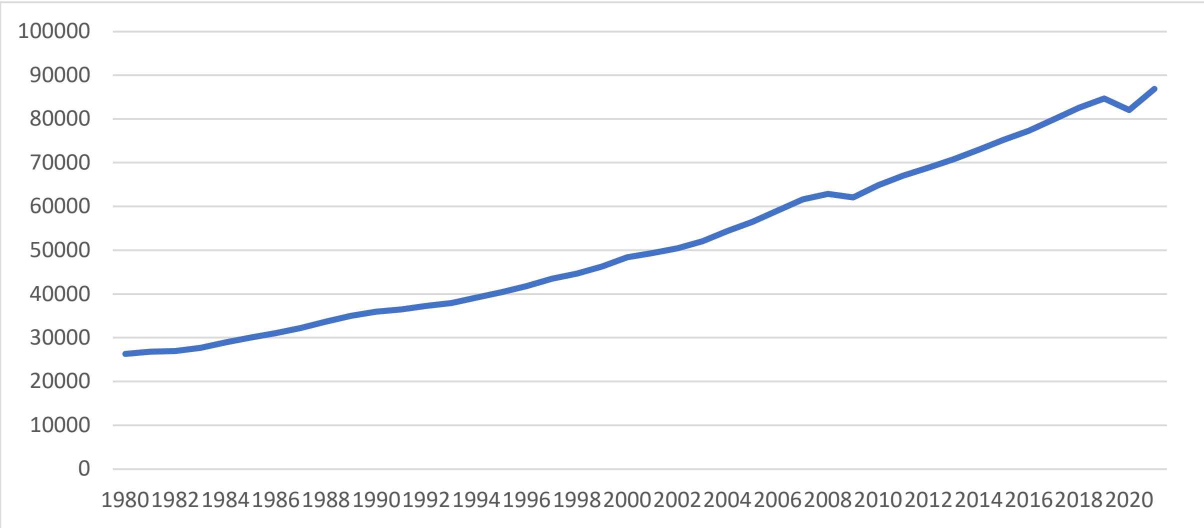
Küreselleşmeyle birlikte, küreselleşmeye ve sermayenin dünya çapında entegrasyonuna hayati bir yer atfeden tarihsel bloklar ortaya çıkmıştır. Bahse konu bloklar, küreselleşmenin tartışılmaz kabulünü ileri sürmüş, desteklemiş ve savunmuşlardır. Bu doğrultuda, 1980'li yıllarda Türkiye'nin de aralarında bulunduğu gelişmekte olan ülkeler, sermaye ve teknoloji eksikliğini gidermek amacıyla farklı teşvikler ile çok uluslu şirket yatırımlarını özendirmeye yönelik politikalar uygulamaya başlamışlardır. Türkiye bahse konu destekleri otomobil, kimya ve enerji gibi çeşitli sektörlerde faaliyet göstermekte olan çok uluslu şirketlere sunmaktadır. Nitekim son yıllarda Türkiye'nin ihracat hacminde büyük bir artış yaşanmış; 1980 yılına kıyasla yetmiş beş kattan fazla artarak 2021 yılında 225 milyar dolara ulaşmıştır. Bu artışta söz konusu şirketler de önemli rol oynamışlardır. Çok uluslu şirket ihracatlarının, toplam ihracat içindeki payının 2007-2017 yılları arasında yaklaşık yüzde 18 seviyesinde bulunduğu gözlemlenmektedir. Ancak 2019 yılından itibaren bu oran düşmeye başlamış; bahse konu şirket ihracatlarının toplam ihracat içindeki payı 2021 yılında yüzde 12'ye gerilemiştir. Ayrıca Türkiye'nin en çok ihracat yapan ilk on şirketini incelediğimizde, bahse konu şirketlerden yarısının otomotiv sektöründe faaliyet gösteren çok uluslu şirketler olduğu gözlemlenmektedir. Ancak, otomotiv sektörü 15 yılı aşkın bir süredir lider ihracatçı sektör konumundayken, kimya sektörü 2022 yılında lider ihracatçı sektör haline gelmiştir. Otomotiv sektörünün dış ticaret rakamlarını değerlendirdiğimizde ise, özellikle üretim merkezlerinden yaptıkları ithalatın yüksek olduğu gözlemlenmektedir. Öyle ki bahse konu şirketler 100 birimlik ihracata karşılık yaklaşık 70 birim ithalat yapmaktadırlar. Bu durum Türkiye'nin cari işlemler dengesini ciddi şekilde bozmaktadır.

Jel Kodları: *F21, F23, F40, F62*
Anahtar Kelimeler: *Doğrudan Yabancı Yatırımlar, Çok Uluslu Şirketler, İhracat, İthalat*

1. Introduction

With globalization and the internationalization of capital, developed countries commenced production in developing countries, in many different sectors, taking the advantage of relatively lower costs of labor or raw materials. Hence, production in the world has augmented fast. As seen in Figure 1, the world GDP rose from 26.3 in 1980 to 86.9 trillion dollars in 2021 (World Bank, 2022a). As a result of the rise in world production, the origin of commodities in many sectors has been disregarded. Several corporations that are located in developed countries commenced investing in developing countries, owing to many of their geopolitical and cost benefits; particularly relatively low-priced labor and other subsidies offered by the host countries[2]. Consequently, developing countries ended up policies of replacing imports with domestic production, namely the import-substitution industrialization (ISI[3]) model, and began adopting liberal economic policies, i.e., export-led industrialization[4] (ELI) models.

Figure 1: World GDP Growth (constant 2015, billion US Dollars)



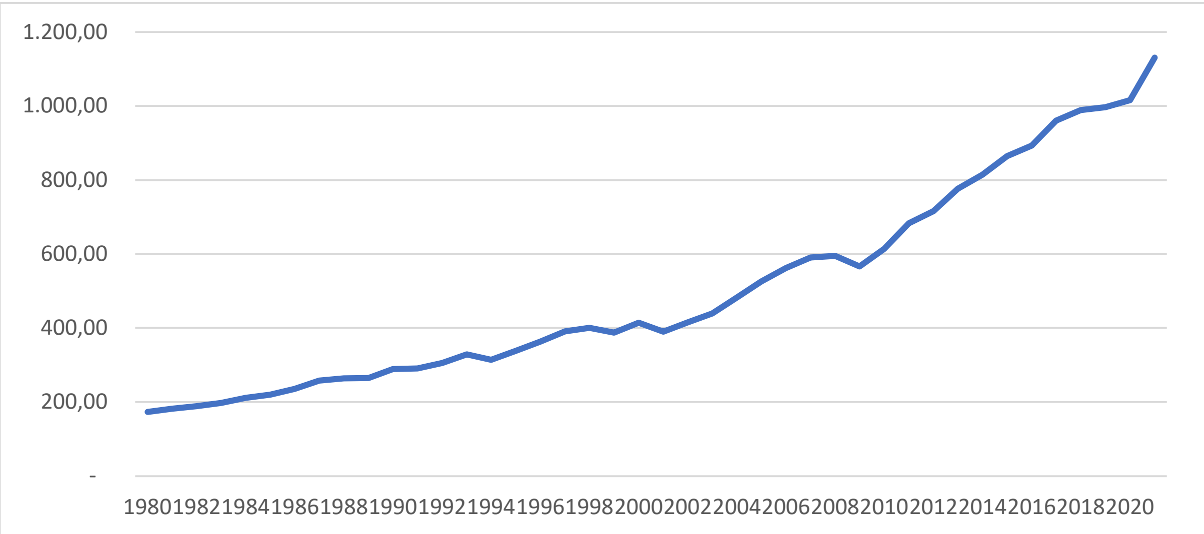
Source: World Bank, 2022a.

ELI model, associated with relatively free labor and capital markets (Balassa, 1988) perceives the increase in exports as having a stimulating influence across the economy as a whole in the form of technological spillovers and other externalities (Marin, 1992: 678). Within the model, the exporting sectors are seen as the locomotives for increasing the exposure to international markets, which in turn leads to incentives for product and process innovation, increase in specialization, and thus the utilization of economies of scale. The idea is that exports can be regarded as economies of scale that are external to the firms in the non-export sector but internal to the economy as a whole (Marin, 1992: 678). The model also assumes that increasing exports cause the accumulation of knowledge and human capital in the economy thereby advancing all firms.

[2] For further information on the investment motivation of multinational companies in developing countries, please see Stopford (1998) and Dunning & Lundan (2008).
[3] For more information about the ISI model, please see Hirschman (1968).
[4] For more information about the ELI model, please see Adelman (1984).

Though, considering the inadequacy of capital accumulation and technology and know-how, developing countries have not succeeded in industrial production, particularly in high-value-added goods. They have also not been successful in increasing exports and enhancing competitiveness. In due course, developing countries, as well as Turkey, have adopted strategies to advance foreign direct investment (FDI), which are perceived to have many beneficial effects on the economy of the host countries, i.e., to eradicate the lack of technology and know-how, and capital and increase international markets integration. As FDI, associated with fostered international trade, is believed to contribute positively to economic growth. Therefore, the raised rate of export growth via FDI is perceived to set off economy-wide efficiency benefits. Therefore, with the ELI model, developing countries have carried out significant radical reforms incorporating adopting FDI-led policies and liberalization of the capital markets[5]. Turkey, among these developing countries, adopting policies in favor of FDI, offered many incentives and subsidies[6] and an advantageous investment climate to attract those multinational companies (MNCs) to invest in Turkey. As a matter of fact, there has been an explicit increase in Turkey's GDP in the last decades since commencing the adoption of the ELI and FDI-led growth model in 1980[7]. Figure 2a and 2b reveals the GDP growth of Turkey. Examining the figures, we see that the Turkish economy experienced explicit growth, particularly between 2002 and 2008.

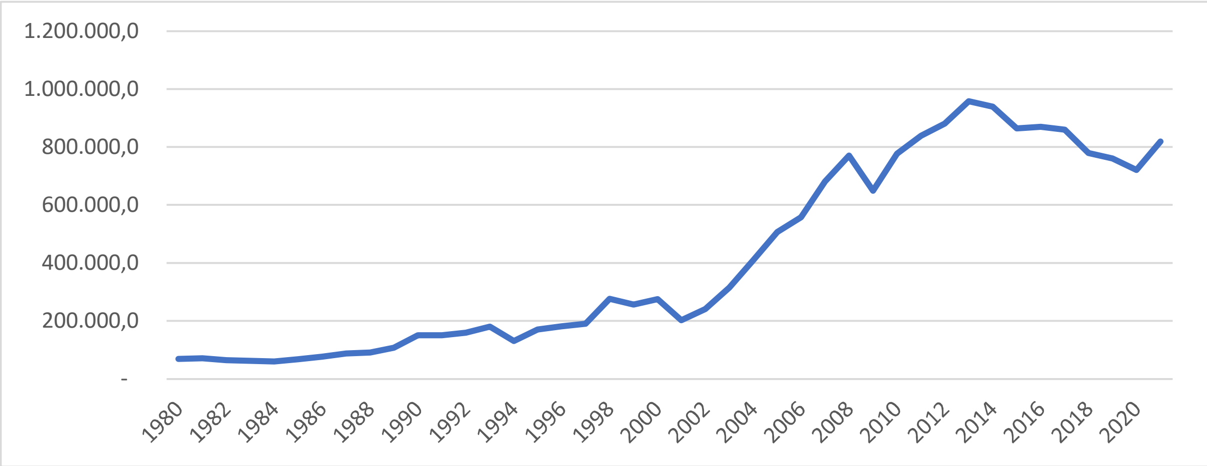
Figure 2a: Turkey's GDP (constant 2015, billion US Dollars)



Source: World Bank, 2022a.

[5] In Turkey, the process of full liberalization of capital movements was completed in 1989. Decree No. 32 was published in the Official Gazette on 11 August 1989 (Official Gazette, 1989: 19).
[6] For more information, please see [Republic of Türkiye Investment Office - Invest in Türkiye.](#) (The Investment Office of Turkey, 2023).
[7] Beginning of commencing export-led growth model.

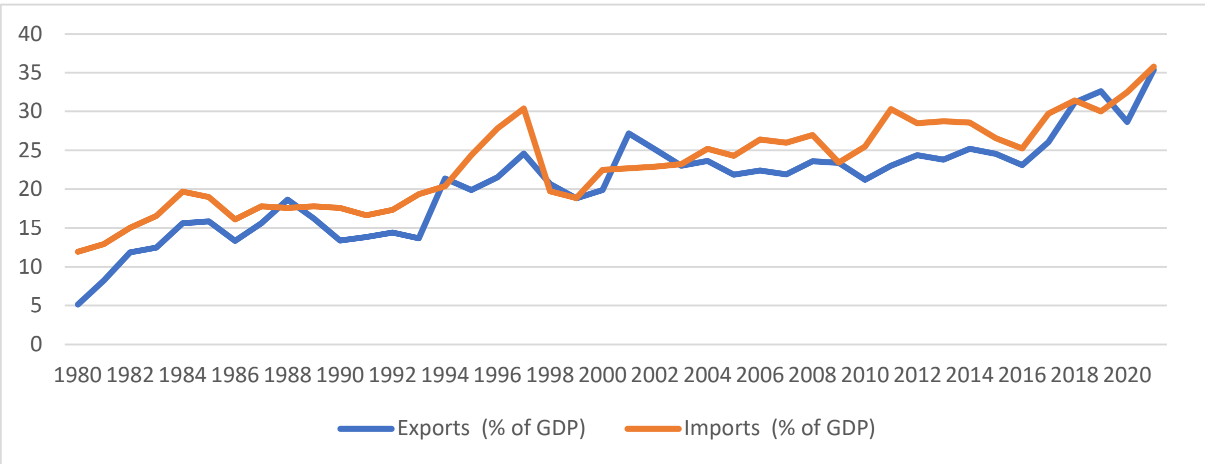
Figure 2b: Turkey's GDP Growth (billion, current US Dollars)



Source: World Bank, 2022a.

Consequently, the total exports of 2.9 billion dollars in 1980 increased more than seventy-five-fold, reaching 225 billion in 2021 and increasing to 254 billion dollars in 2022 (TurkStat, 2022). Total exports were 13 billion dollars and 27.8 billion dollars in 1990 and 2000 respectively. However, the total imports of Turkey also rose from 7.9 billion dollars in 1980 to 271 billion in 2021 and increased to 363.7 billion dollars in 2022 (TurkStat, 2022), deteriorating the current account balance[8] of Turkey. Total imports were 22.3 billion dollars and 54.5 billion dollars in 1990 and 2000 respectively. Figure 3 presents the exports and imports of goods and services, as s percent of GDP.

Figure 3: Turkey's Exports & Imports of Goods and Services (percent of GDP)



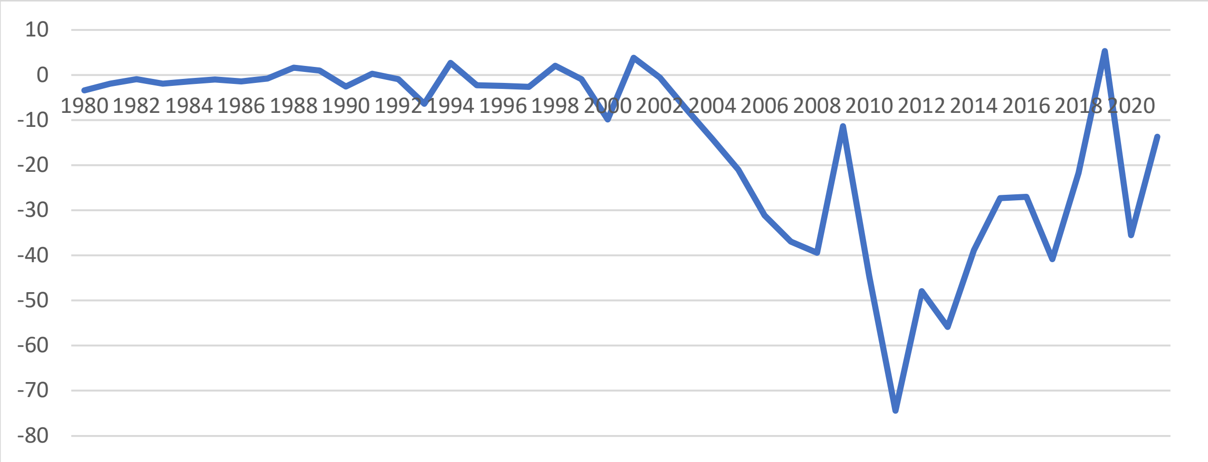
Source: World Bank, 2022b; World Bank, 2022c.

On the other hand, almost seventy-five percent of the total imports in the last years (TurkStat, 2022) are owing to the inputs utilized during the manufacturing process. The primary reason for the deterioration of the current account balance of Turkey (Figure 4[9]) is based on the

[8] Current account balance is the sum of net exports of goods and services, net primary income, and net secondary income (World Bank, 2022d).
[9] Data are in current U.S. dollars (World Bank, 2022d).

import-dependence structure of the manufacturing sector (Erkök, 2022: 66). In other words, Turkey's current account deficit is mainly driven by the intensive use of imported inputs. The current account balance is one of the most analytically useful indicators of an external imbalance. A primary purpose of the balance of payments accounts is to indicate the need to adjust an external imbalance (World Bank, 2022d).

Figure 4: Turkey's Current Account Balance (BoP, current US dollars)



Source: World Bank, 2022d

Accordingly, with the Turkish Export Strategy and Action Plan (Official Gazette, 2012), Turkey aimed for sustainable export-led growth. Such that Turkey primarily targeted exports of high-value-added and advanced technology products. The plan comprised numerical targets such as being among the world's top 10 economies with a GDP of approximately 2 trillion dollars in 2023. The plan encompassed a target of exports of 500 billion dollars and a share of 1.46 percent of world exports. The plan also aimed to improve the investment climate and enlarge investment incentives to attract much more FDI[10]. Nevertheless, as of 2023, we should note that neither of the targets of the Turkish Export Strategy and Action Plan has been realized.

On the other hand, pursuant to the aim of increasing foreign investments in Turkey, many MNCs invested in different sectors in Turkey. However, assessing the foreign trade figures of MNCs with high export figures, especially those who are operating in the automotive sector, we see that they import approximately 70 units against 100 units of exports. The huge amount of imports stems from both inputs utilized during the production process and imported final goods. Such that, those multinational companies import the basic inputs which are high-value-added parts from their production centers. Thus, the MNC both boosts profitability and central sales and also supports the current account balance of the nation, in which the production center is located, with exports. And also increases the profitability of the subsidiary through relatively cheaper labor and other subsidies provided by Turkey. Eventually, the MNC transfers profits to the company's headquarters. This phenomenon provides "double profits" for those companies while increasing the current account deficit of Turkey. MNC investments and exports support developing countries' economies but may have an adverse effect,

[10] For further details on the Strategy and Action Plan coordinated by the Ministry of Trade, Ministry of Development, and Türkiye Exporters Assembly, please see Official Gazette, 2012.

especially on those who are suffering current account deficits such as Turkey. Examining the literature, we can see some historical blocks firmly defending and highlighting solely the positive aspects of FDI on the international trade and economic growth of developing countries.

Among them, Adelman (1984) and Sengupta & Espana (1994) about S. Korea; Chen et al. (1995), Pomfret (1997) and Yao (2006) about China; Yue (1999) about ASEAN region (Indonesia, Malaysia, Philippines, Singapore, and Thailand) and Dowling (1997) about Asian countries (Hong Kong, Singapore, Taiwan, and S. Korea), are highlighting FDIs in promoting the export of the developing country. They consider FDIs as a significant component of technological transfers and spill-over. Many scholars underlined the importance of FDIs in filling the investment gap in developing countries, bringing technology and know-how, and management skills along with international business practices to the host country. Particularly, those scholars highlighted the role of FDI in contributing to high growth performance and enabling developing economies to carry away the constraints of limited domestic markets and narrow resource bases. For instance, Adelman (1984) underlined the importance of pursuing an ELI growth model as the major development dynamic for most less-developed countries during the next decades. Chen et al. (1995) revealed that FDI has been positively associated with economic growth and the increase in total fixed asset investment in China. They have also underlined that FDI led an increasing number of domestic manufacturers to compete globally. Pomfret (1997) stated that the subsequent growth of China has come from pursuing an ELI growth policy and underlined the government's policies that were practical in removing barriers to FDI. Examining the effect of exports and FDI on economic performance, using a large panel data set encompassing twenty-eight Chinese provinces, over the period 1978-2000, Yao (2006) found that both exports and FDI have a strong and positive effect on China's economic growth. Mainly in the literature, FDI-led development strategies are perceived as a rescuer as an important tool in taking the advantage of comparative advantage and scale economies, accessing foreign capital, technology, and marketing expertise. Within this context, this paper aims to discuss MNCs, which became prominent with the advance of globalization, and reveal their positive and negative effects on the host country's economy, mainly underlining their current account deficit-generating structure for developing countries, using the Turkish case study. This paper also aims to reveal the aftermath of MNCs' exports on Turkey's total foreign trade. For this purpose, the paper consists of five sections. In the second section, globalization and the globalization of capital are discussed. In the third section MNCs, and their impact on the host countries' economies are examined. In the fourth section, MNCs and their exports in numerical terms in Turkey are presented. And finally, Section Five concludes.

2. Globalization

Under the capitalist production system, spatial forms have changed significantly throughout history. One of these changes came about as a result of the Industrial Revolution, which also had a major impact on the global economy. The central nations, the US and EU, played a crucial role in this change. The rise of the USA and the EU nations within this paradigm coincided with the transformation of the global economy brought about by the Industrial Revolution. This rise resulted in the creation of the central and periphery states. With the fall of the Soviet Union in the 1980s, another change occurred. In addition to China's ascent following the dissolution of the Soviet Union and the creation of regional alliances, the EU and NAFTA, speeded the movement of capital. These changes have redesigned world spaces. The MNCs played a major role in designing the shape of the new world economy.

Neo-liberalization has spread across the world like an enormous flowing wave of institutional reform and broad adjustment, causing much destruction, not only of prior institutional frameworks and powers but also of divisions of labor, and welfare provisions (Harvey, 2006a). Moreover, in more than four decades, historical blocks[11] have emerged ascribing a vital place to globalization and the worldwide integration of capital. Those blocks assert globalization's unquestionable acceptance, support, and advocate it. Globalization, economic, cultural, and political integration, has led to structural transformations in the economic, cultural, and political fields, even in nation-states. In the 1990s globalization and the internationalization of capital, became especially prominent, with the advance of neoliberalism. According to globalization supporters, to the extent that a country obtains a share of FDI, it obtains a portion of income and global production. On the other hand, some scholars underline that the rise of globalization and laissez-faire policies in international trade may have some adverse impacts on the development and advancement of the economies of developing nations.

Among them, Arrighi (1999), examining the histories of capital accumulation practices, observed that globalization, which started in the 1990s, is the consequence of the former space-making practices. Arrighi (1999) stated that many concepts, that come with globalization, have become the concepts that we use to explain the world. Such that Arrighi (1999) highlighted different nations, Geneva, the Netherlands, the UK, and the USA enlarged ruining different spaces in various periods (16^{th}, 17^{th}, and 18^{th} centuries and 1945, respectively). Actually, according to Arrighi (1999), timings are different, but the outcomes are always the same. In other words, Arrighi argues that even though the nations and periods change, the method and cycle are the same. Likewise, Yeldan (2008) highlights that every single nation has expanded spreading to various geographies at various times, destroying local nations and cultures. According to Yeldan (2008), globalization and the worldwide integration of capital which are dominant 1970s are a continuance of the capitalist wave which was dominant during the 19th century. Likewise, Milanovic (2003) criticized the Washington Consensus[12] policies and the mainstream view of globalization that suggests every country to open up its borders, diminish tariff rates, and attract FDI, thus the poor nations will become rich, and inequality will vanish, as the poor countries catch up with the rich. Milanovic (2003), emphasizing the inequality of income distribution by the Gini[13] coefficient, revealed that the globalizing nations that benefit from globalization are the same: the EU and USA. Besides, Rugman & Brain (2003) underlined the paradox of the MNCs as the agents of international business. They revealed that MNCs largely operate within their home-based markets in a

[11] Gramsci (1999) describes the idea of the historical bloc as the union of dissimilar groups under an ideology.
[12] For more information, please see Williamson (1997).
[13] Measure of the distribution of income.

triad[14]; USA, EU, and Japan. Rugman & Brain (2003), presenting empirical evidence across the 500 largest MNCs, found out that even the five hundred most international MNCs[15] are mainly home triad based in their activities.

On the other hand, Harvey (2006b), defining globalization as a project of structural coherence, underlines the movement of capital between nations to establish a common space between the states and criticizes neoliberalism for the inequality of income distribution it generates. According to Harvey (2006b), by its nature, globalization is a space-changing and space-making project. Additionally, Chang (2002) emphasizes that developed countries have experienced successful growth by adopting conservative economic policies. Still, at present times, institutions such as the WTO[16], IMF[17], and WB[18] are designing developing countries' economic policies whereas the developed nations adopted protectionist policies for themselves to develop. Such that the policies introduced by the 1721 reform in Britain[19] as well as the principles behind them, were similar to those adopted by countries, during the postwar period, like S. Korea, Japan, and Taiwan (Chang, 2002). They all used tariffs and protection policies (ISI) to support their domestic production. Moreover, the US also set out the infant industry argument and Hamilton[20] argued that the new industries, that could soon become internationally competitive, would not be started in the USA, unless their initial losses were backed by the US government. According to Chang (2002), there is a strong similarity between this view and the policies adopted by Walpole[21], since the policies adopted by Walpolean and the Hamiltonian are remarkably similar to the postwar industrial policies (infant industry)[22] of the East Asia. Chang (2002) highlighted that it was only after the Second World War that the USA finally liberalized its trade and started supporting the free trade policies whereas throughout the nineteenth century and up to the 1920s, the USA was adopting the most protectionist economic policies during almost all of this period. Via those policies, the USA was the fastest-growing economy in the world. Also, Emmanuel (1972) reveals that the trade between wealthy and developing nations may lead to unequal exchange. In other regards, agreeing to Singer-Prebisch's theory[23], exchange between the wealthy and developing nations impedes the developing nations due to the distinction in the income elasticity of agricultural and industrial goods and the effect of innovative advancements (Bacha, 1978).

On the other hand, according to Ricardo, labor productivity is the main aspect triggering absolute advantage or comparative advantage between nations. Ricardo is prominently associated with the net benefits of free trade and the handicap of protectionist policies. Ricardo, who is considered a strong defender of laissez-faire ideas and free competition and the pioneer of classical economics, argued that international trade is formed due to

[14] Trio.
[15] MNCs with the highest ratio of foreign to total sales.
[16] World Trade Organization. For more info, please see WTO (2023). WTO | What is the WTO?
[17] International Monetary Fund. (IMF). For more info, please see IMF (2023). About the IMF
[18] The World Bank. For more info, please see World Bank (2023). What We do (worldbank.org)
[19] For more information on Pox Britannica please see Brunton (1990).
[20] First Secretary of the Treasury of the US.
[21] First British Prime Minister
[22] For more information on infant industries, please see Melitz (2005).
[23] For more information on the Singer-Prebisch hypothesis, please see Sarkar (1986).

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comparative advantage and absolute advantage between nations[24]. Besides, Heckscher & Ohlin offered the factor endowment theory in which they utter that the diversities between the factor endowments of nations set off productivity differences. The factor endowment theory, developed by Heckscher & Ohlin, in the early 1900s, considered several factors of production. The theory[25] holds that a nation will export those goods that are produced by the factor that the nation has in relatively large quantity and will import goods whose production requires factors of production where that nation has relatively less quantity.

3. Multinational Companies

FDI is described as the investment that exposes the goal of a resident company in one nation to acquire a permanent benefit in a company located in another nation (OECD, 2008: 17)[26]. The companies that make FDIs are called MNCs (Dunning & Lundan, 2008). FDIs are the triggering instruments of the raised globalization notion in the 1990s. As closed economies, conservative regimes that limit foreign investments, that took steps to free market policies and liberalization led to a fast rise in FDI. Such that FDI flows in 2021 were 1.58 trillion dollars, up 64 percent from the level during the first year of the pandemic (2020) of fewer than 1 trillion dollars[27] (UNCTAD, 2022[28]).

Even if the portion of developing countries has risen significantly in the FDI stock, since the 1990s, the top destinations of FDIs remain the same as the developed countries. Namely, the US is the world's top destination for FDI, while China ascended to the third position after the Netherlands (IMF, 2022a). Hong Kong, Singapore, Luxembourg, Switzerland, and Ireland are also top destinations of FDIs, due to the tax advantages they offer to the MNCs, though, none of these economies level out of the top ten when it comes to GDP (IMF, 2022b)[29]. Germany and UK are also listed as the world's top destinations for FDI. When it comes to Turkey, adopting the ELI and FDI-led growth strategies since 1980, noteworthy FDI flowed inward. Turkey's geopolitical position, relatively cheaper labor, and other benefits the government provides are also the determinants of the inflow of FDI. Figure 5 presents the net inflows of FDI to Turkey along with EU countries, China, the UK, and the US.

[24] For more information, please see Ricardo (2017). (It is the reprint of Ricardo's on the Principles of Political Economy and Taxation.)

[25] For more information on the Heckscher and Ohlin Model, please see Leamer (1995).

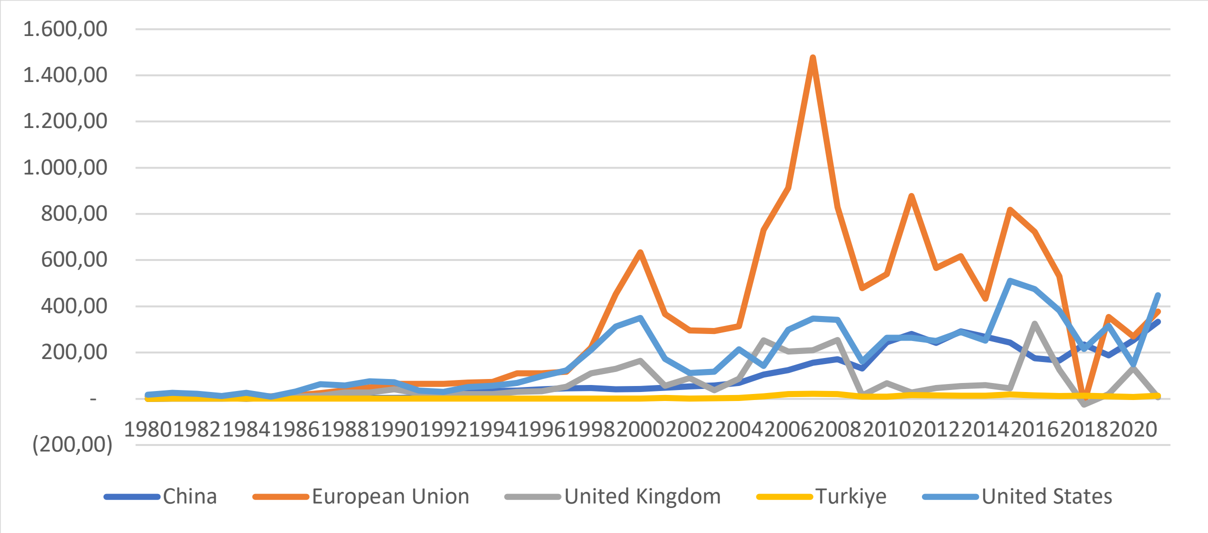
[26] In the Benchmark Definition of FDI of the OECD (OECD, 2008).

[27] For further information on FDI stocks (Foreign Direct Investment stocks measure) please see OECD (2022).

[28] According to the World Investment Report.

[29] For instance, many MNCs establish companies (with special purpose) in offshore financial centers so that the funds can move through the economy, as an intermediary, to their final destination. These companies (with special purposes) are generally set up to take the advantage of tax or regulatory benefits. Those special purpose companies affect the FDI data considerably even though they have a relatively little tangible impact on the host economy (IMF, 2022b). For further information please see: IMF (2022b).

Figure 5: FDI, Net Inflows (balance of payment, current, billion US dollars)



Source: World Bank, 2022e.

FDI has a significant effect on the economy of the host nation. The most crucial of these is a rise in output, generated by MNCs' investment. The production rise generates a rise in welfare and employment in the host country. This increase favorably and positively impacts the balance of payment accounts. MNCs also have a significant impact on the recipient nation's economic growth and balance of payments. Tables 1 and 2 reveal the advantages and disadvantages of MNCs.

Table 1: Positive Effects of MNCs

Effect	Elaboration
An Increase in Output	The lack of capital accumulation is the primary weakness of developing nations. MNCs may contribute to capital accumulation in the host nation by boosting production
Boosting Employment	Through increased production, MNCs can boost employment.
Creates A Favorable Climate for New Technology, and Know-How	MNCs, by bringing new technology, can make the host nation more receptive to embracing new technology.
Positive Effect on The Balance of Payments Account	Boosting the exports, MNCs can support the balance of payment accounts of the host nation.
Increased Economies of Scale[30]	Taking into account the host nation's restricted capacity for domestic business, the developing countries may seek to address their lack of adequate economies of scale through MNC investments.
Increase in Tax Revenues	Profits from MNCs are a significant source of revenue for the host nation when an efficient tax structure is in place.
Increase in the Volume of Export	An increase in the host nation's exports is one of the most fundamental benefits that developing nations expect from MNCs.

Source: Dunning & Lundan (2008); Seyidoğlu (2009).

[30] Companies may experience cost advantages when production becomes efficient, as costs can be spread over a larger amount of goods.

Table 2: Negative Effects of MNCs

Effect	Elaboration
The host nation's fiscal and political independence might become in danger.	Capital's interstate movement can result in a structural coherence initiative (Harvey, 2006b). MNCs can thus exert economic control, endangering the host nation's ability to maintain its own political and economic freedom.
MNCs may engage in unfair rivalry with domestic firms.	MNCs' access to capital and cutting-edge technology can result in unfair competition against domestic firms. This might lead to MNCs gaining a dominant position in the host nation both economically and politically.
Increase in the volume of imports	The purchase of high-value-added, technology-intensive inputs from the MNC's production center has a detrimental effect on the host nation's balance of payments accounts.
Domestic investments may crowd-out	The internal interest rate may rise as a result of MNC's funding from the host country's market. Due to the increased cost of local borrowing on the internal market, this could result in crowding out of the domestic firms.
Rise in foreign exchange expenses	MNCs' imports from their production center place pressure on the host nation's balance of payments accounts.
Fluctuations in the exchange rate	MNCs can influence the exchange rates of the host nation during their arrival and departure. During their arrival, the supply of foreign currency may rise, potentially raising the value of the local currency. In the long term, an overvalued national currency may cause the host nation to favor importing over producing and exporting. MNCs may lead to adverse effects on the balance of payment accounts (by draining the host nation's foreign currency reserves) as they depart. This is the most severe impact that a developing nation with limited foreign currency reserves may encounter while MNCs depart.
Dependence on technology	MNCs typically conduct R & D at their production centers. Therefore, the host nation's technological advancement could be negatively impacted by this circumstance.
Transfer pricing of MNCs	MNCs may use transfer pricing to sell their products at various rates among their subsidiaries and move the profit to the one that is based in the nation with the lowest tax rate. Therefore, the host nation may suffer a tax loss and deterioration of the current account balance.
Profit Transfer of MNCs	MNCs have a positive effect on the host country's balance of payments because they can have a growing impact on exports. However, they may transfer their long-term profit to their centers which harms the balance of payment accounts of the host country. Due to this fact, the host nation needs to adopt measures to restrict profit transfers, to more than a certain level, and instead motivate MNCs to channel them toward domestic investments.

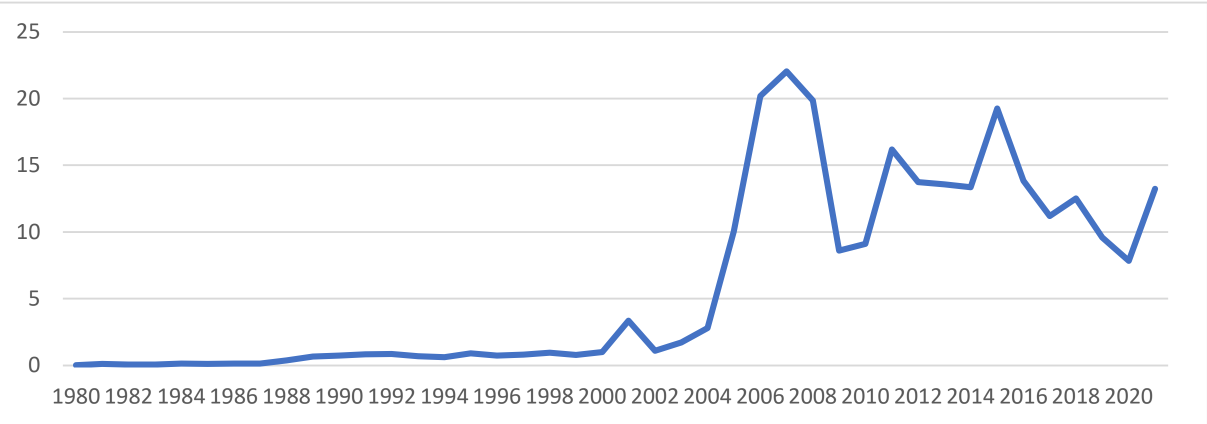
Source: Dunning & Lundan (2008); Seyidoğlu (2009).

4. Export of Multinational Companies in Turkey

Foreign Capital Incentive Law (6224[31]), which came into effect in 1954, was the first piece of legislation governing FDI in Turkey (Official Gazette, 1954[32]). Despite having a liberal and motivating structure for FDIs, the said law was repealed in 2003 and the new law (4875[33]) went into effect. Via the new law, the government aimed to increase FDI flows with the protection of FDIs' rights by international standards, since the former has not been successful in the FDI inflow. With the new law, the government aimed to be more transparent and informative in supporting the FDI inflows. New law targeted to be one of the most liberal ones to motivate inward FDI. When EU membership negotiations officially began in Turkey in 2005, there has been a notable rise in the volume of inward FDI. Figure 6 reveals the FDI inflows[34] to Turkey. In Figure 6, we see that the FDI inflows reached 22 billion dollars in 2007 due to commencing of the accession negotiations with the EU. However, we can reveal that Turkey's integration into WTO, as a charter member, in 1995 also motivated MNCs to invest in Turkey. Through trade agreements, it has been intended to get rid of quantitative limitations and tariffs.

Besides one of the most important policies adopted to rise Turkish exports and FDI flow is the inward processing regime (IPR)[35]. IPR, a customs regime that came into force in 2005, with decision number 8391, was introduced to increase exports by supplying raw materials at world market prices. IPR regulates the temporary imports of goods, that are not in free circulation, to be subjected to processing within the borders of Turkey to be exported. IPR aimed to provide relatively cheaper factors of production from overseas markets, reduce input costs, and increase the competitiveness of the exporting companies in the global market. IPR is a significant component of the export promotion system and enables the use of imported intermediate inputs in exports.

Figure 6: Turkey FDI Inflows (balance of payment, current, billion US dollars)



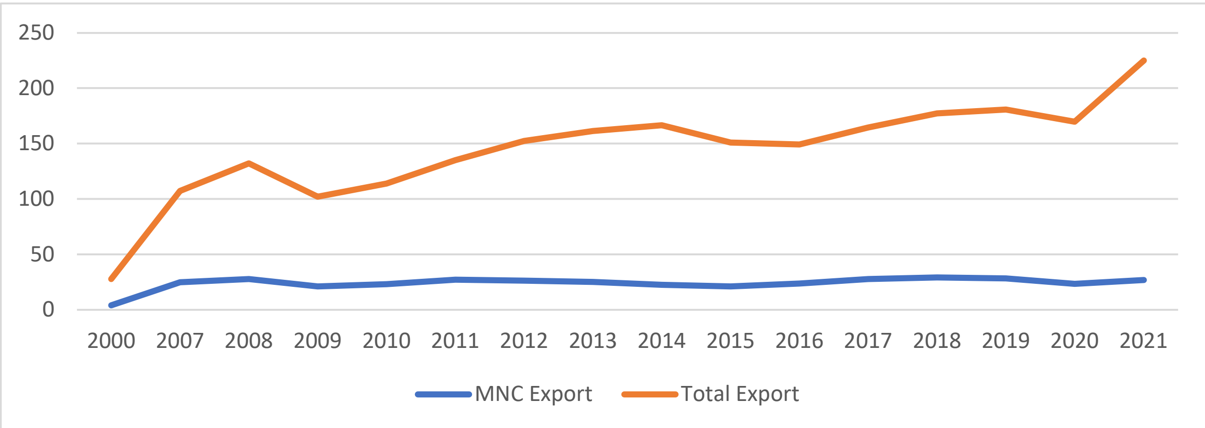
Source: World Bank, 2022e.

[31] For both inward and outward FDI.
[32] For more information, please see Official Gazette (1954). 8615.pdf (resmigazete.gov.tr)
[33] For more information, please see Official Gazette (2003) T (resmigazete.gov.tr) and Official Gazette (2018). Başbakanlık Mevzuatı Geliştirme ve Yayın Genel Müdürlüğü (resmigazete.gov.tr)
[34] For more information on FDI flows please see TCMB (2023). EVDS | Tüm Seriler (tcmb.gov.tr).
[35] For more information on IPR please see Ministry of Trade (2023). Dahilde İşleme Rejimi (ticaret.gov.tr)

On the other hand, as stated above, the policies in 1980 were a turning point for Turkey's foreign trade where ISI policies were replaced by ELI and FDI-led policies with the January 24, 1980, decisions. After 1980, Turkey aimed to function the economy according to the free-market mechanism and to integrate into the world economy. With the implementation of ELI, legal and institutional barriers to exports were removed, direct incentives were provided to exporters by introducing VAT exemptions, tax refunds, export credits, and guarantees, and the foreign trade regime was gradually liberalized. Thanks to the policies adopted, foreign trade volume increased significantly and the composition of exported goods changed significantly. Consequently, the total exports of 2.9 billion dollars in 1980 increased more than seventy-five-fold, reaching 225 billion in 2021 and increasing to 254 billion dollars in 2022. Total exports were 13 billion dollars and 27.8 billion dollars in 1990 and 2000 respectively. However, the total imports of Turkey rose from 7.9 billion dollars in 1980 to 271 billion in 2021 (TurkStat, 2022) increasing more than thirty-four-fold. Total imports were 22.3 billion dollars and 54.5 billion dollars in 1990 and 2000 respectively.

Also assessing the data from Turkey's first and second-largest five hundred industrial companies list, published annually by the Istanbul Chamber of Industry, we see that the number of industrial MNCs[36] among the top one thousand firms in 2000 is one hundred and eighty-three, and their export is 4.1 billion dollars (Table 3 and Figure 7). The number of MNCs had expanded to one hundred and ninety in 2007, and their exports had increased to 24.7 billion dollars. The number of MNCs grew to one hundred and ninety-one in 2010, and their exports rose to 23.1 billion dollars. In addition, there were one hundred and eighty-one industrial MNCs on the list in 2015, and their exports were 21.1 billion dollars, and by 2017, there were one hundred and sixty-seven firms, and their exports rose to 27.8 billion dollars. By 2021, there were one hundred and seventy-five MNCs, and their exports were 27 billion dollars.

Figure 7: MNE Export (billion US dollars)



Source: Istanbul Chamber of Industry (2022); TurkStat, 2022.

[36] Companies with foreign capital shares above 10 percent have been taken into account. Companies with foreign financial stakes greater than 10% have been considered. According to the OECD's understanding of FDI, an investment is considered FDI if it accounts for at least 10% of a company's capital.

Examining the export figures of those MNCs, we see that a sizeable portion of Turkey's exports is carried out by MNCs that are listed among the largest in Turkey. Such that 15 percent of total Turkey exports in 2000 were carried out by MNCs. Their share rose to 23 percent in 2007 and 20 percent in 2010 and declined to 17 percent in 2017. We also see that 18 percent of total exports between 2007 and 2017 were carried out by MNCs whereas their share started to decline in 2019. In 2021 the share of MNCs' export fell to 12 percent.

Table 3: MNCs and Exports 2000-2021 (billion dollars)

	MNC Export	Total Turkey Export	Share of MNC Export (%)	Number of MNCs
2000	4.1	27.8	15	183
2007	24.7	107.2	23	190
2008	27.7	132.1	21	192
2009	21.1	102.2	21	196
2010	23.1	113.8	20	191
2011	27.2	134.9	20	190
2012	26.2	152.5	17	198
2013	25.1	161.5	16	194
2014	22.6	166.5	14	190
2015	21.1	151.0	14	181
2016	23.7	149.2	16	179
2017	27.8	164.5	17	167
2018	29.3	177.2	17	165
2019	28.2	180.8	16	171
2020	23.5	169.6	14	170
2021	27	225.2	12	175

Source: Istanbul Chamber of Industry, 2022

Besides examining the said data, we see that half of the top ten exporting companies are multinational companies, operating in the automotive sector and those companies carried out approximately 7.5 percent of Turkish exports in the last 5 years. The sector, which was the leading sector in Turkish export for more than 15 years, ranked second after the chemical sector in 2022. The chemicals and chemical products sector became the leading exporter in 2022 with 33.5 billion dollars of exports whereas the automotive sector ranked second with 31 billion dollars and ready-to-wear clothing and apparel ranked third with 21.2 billion dollars.

However, assessing the foreign trade figures of MNCs operating in the automotive sector between 2018 and 2021, we see that as the exports rise, imports also rise. Such that they import approximately 70 units against 100 units of exports. Having said that, we see that a sizable portion of imports comes not only from imported inputs used in their manufacturing processes and imported final goods. In other words, those multinationals also import the basic inputs, which are high-valued parts, from their production centers in addition to the imported final goods. Through exports, those MNCs support the current account balance of the country where the production center is based while also increasing profitability and central sales. And the MNC also increases the profitability of the subsidiary, located in Turkey, through relatively cheaper labor and other subsidies and incentives provided by Turkey. This phenomenon provides "double profits" for those multinationals. Eventually, we have to note that the MNC transfers profits to the company's headquarters.

5. Outcome

Globalization and the global integration of capital have gained historical significance, according to the historical blocks. These blocks proclaimed their unwavering support for and advocacy of globalization. As a result, developing nations, like Turkey, began to implement policies to encourage foreign direct investment through various subsidies and incentives in the 1980s. Therefore, these countries aimed to eliminate the lack of capital and technology and advance international market integration through multinational companies. Turkey offered support to those companies in a range of sectors, including energy, chemicals, and automotive.

In fact, compared to 1980, Turkish exports have increased more than seventy-five times, reaching 225 billion dollars in 2021. Those multinational companies contributed significantly to that increase. Examining the export figures of those MNCs, we see that a sizeable portion of Turkey's exports is carried out by MNCs that are listed among the largest enterprises by the Istanbul Chamber of Industry in Turkey. The share of those companies' exports in total export was approximately 18 percent between 2007 and 2017. Additionally, assessing the top ten exporting companies of Turkey in 2021, we see that half of them are multinationals, operating in the automotive sector. However, examining their foreign trade figures, we see that as their exports rise, imports also rise. Such that they imported approximately 70 units against 100 units of exports between 2018 and 2021. Here we also have to highlight that the production structure of those multinationals leads deterioration of the current account deficit of Turkey, by rising the need for external borrowings, which cannot rise without limit.

Assessing those foreign trade figures, we see that a huge amount of imports stems from inputs utilized during their production processes, apart from the imported final goods. In other words, those multinationals, operating in the automotive sector, import the basic inputs, which are high-value-added parts, from their production centers. In this way, the MNC targets to boost profitability and central sales and also support the current account balance of the nation, in which the production center is located, with exports. And the MNC also targets to increase the profitability of the subsidiary, located in Turkey, through relatively cheaper labor and other subsidies and incentives provided by Turkey. This phenomenon provides "double profits" for those companies. Eventually, we have to note that the MNC transfers profits to the company's headquarters.

However, this also leads to the scarce resource flowing to the companies, whose production has an import dependence structure, through different incentives, i.e., inward processing regime. However, those subsidies could be allocated to companies that can or have the potential to produce with a higher domestic content rate. Thus, targeted economic growth can be achieved by the effective utilization of incentives.

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