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A Comparative Analysis of FDI in Terms of "Quantity" and "Quality": Turkish Case

DYY'nin "Nicelik" ve "Nitelik" Açısından Karşılaştırmalı Bir Analizi: Türkiye Örneği

Ayça SARIALİOĞLU HAYALİ[1]

ABSTRACT

Developing countries offer incentives, such as "financial and tax incentives", to encourage Foreign Direct Investment (FDI) in any case by focusing on the "quantity" of FDI rather than its "quality". The study maintains that Turkey constitutes a typical developing country in terms of both her relatively liberalized policies aiming at attracting FDI in quantity and her failure about not attracting sufficient FDI compared to the other countries, both developed and developing. On the other hand, the study argues that it is not a typical developing country in terms of attracting "the right quality of FDI", which is tackled here in terms of "the entry mode of FDI". The aim of this study is to investigate these arguments through comparisons of FDI inflows to Turkey with the others in terms of both its "quantity" and "quality". According to this, while the "greenfield investments" as an entry mode of FDI dominates the FDI inflows to developing countries, "brownfield investments" take the dominance in Turkish case. When it is looked at the year base data this finding seems consistent with the mass privatisation era of Turkey started in 2004. The study uses UNCTAD (2010)'s new database on cross-border Merger&Acquisitions (M&As) and obtain greenfield investment data.

Keywords: FDI, greenfield investment versus brownfield investment, Turkish case

ÖZET

Gelişmekte olan ülkeler her koşulda DYY (Doğrudan Yabancı Yatırım)'yi teşvik etmek için DYY' nin "niteliği"nden çok "niceliği"ne odaklanarak "finansal ve vergi teşvikleri" gibi teşvikler önermektedir. Çalışma, Türkiye'nin hem DYY'yi niceliksel olarak çekmeyi amaçlayan göreceli olarak liberal politikaları hem de diğer ülkelere (hem gelişmiş hem de gelişmekte olan) kıyasla yeteri kadar DYY çekmeme konusundaki başarısızlığı açısından tipik bir gelişmekte olan ülke olduğunu ileri sürmektedir. Diğer taraftan, çalışma burada "DYY'nin Giriş Şekli" açısından ele alınan "DYY'nin iyi kalitelisi"ni çekme açısından Türkiye'nin tipik bir gelişmekte olan ülke olmadığını savunmaktadır. Çalışmanın amacı bu argümanları, Türkiye'ye gelen DYY ile diğerlerini hem "nicelik" hem de "nitelik" açısından karşılaştırarak araştırmaktır. Buna göre, DYY'nin bir giriş şekli olarak "yeşilalan yatırımları" gelişmekte olan ülkelere giden DYY'ye hakimken, Türkiye örneğinde "kahverengialan yatırımları" hakimiyeti ele almaktadır. Yıl bazlı veriye baktığımızda bu bulgu 2004 yılında Türkiye'de başlayan yoğun özelleştirme dönemiyle tutarlı gözükmektedir. Çalışma UNCTAD (2010)'un sınır ötesi Birleşme ve Satın Almalar (B&SA) konusundaki yeni veri tabanını kullanmakta ve yeşilalan yatırımları verisini elde etmektedir.

Anahtar Kelimeler: DYY, kahverengialan yatırımlarına karşı yeşilalan yatırımları, Türkiye örneği

1. INTRODUCTION

"Quality" of FDI depends on several factors listed in the FDI literature. Among the others, "mode of entry" of the FDI, which can be greenfield versus brownfield investments, place among the most important ones in the list in terms of benefeting from FDI for developmental purposes. This can be direct positive impact of FDI on economic development through investment, namely, increasing the gross fixed capital formation. In this regard, it is maintained that compared to the other mode, namely, brownfield investment, greenfield investment is accepted more useful to the economic growth of the host developing country. London Economics (2010) puts it as follows: "Greenfield investment directly results in investment in structures, plants, etc. which, ceteris paribus, raises the capital formation of an economy and hence stimulates GDP growth...In contrast, the support to economic growth provided by cross-border M&As[1] to economic growth can be less certain" (London Economics, 2010, p. 23).

Although in the literature, for developmental purposes it has been started to be focused on "quality" of FDI more than its "quantity", in practice, developing countries are not at this stage at all both in terms of their political perspectives and policies that they prefer to implement towards FDI. They are likely to invite FDI unconditionally for developmental purposes. To this end, most developing countries simultaneously adopt very similar policies. They

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offer incentives, such as "financial and tax incentives" as well as "market preferences" to encourage FDI in any case, namely, focusing on the "quantity" of FDI rather than its "quality". The study argues that Turkey constitutes a typical developing country in terms of both her highly liberalized policies aiming at attracting FDI in quantity and her failure about not attracting sufficient FDI compared to the developed countries and the other developing countries, which do not have as much as liberalized FDI regimes compared to her, like China. Moreover, there is a divergence for Turkey in terms of the entry mode of FDI, which is tackled as an indicator of its quality in order to be beneficial for economic development of the host country.

The aim of this study is to investigate these issues through comparisons of FDI in Turkey with the others in terms of both its "quantity" and "quality" tackled as "entry mode" here in order to have an opinion about the "quantity" and "quality" of FDI in Turkey compared to the others. Following the introduction part, the study tackles a brief literature review on Quality versus Quantity of FDI and in the main part it tackles first the comparison of FDI in Turkey with the others in terms of quantity and then in terms of quality tackled as "entry mode". As a contribution to the literature the study indicates clearly, comprehensively and comparatively dual failure of Turkey as both attracting insufficient FDI and more importantly, relatively "wrong quality of FDI", which is tackled here as brownfield investment. It achieves this contribution by using a new database and calculating the data of relatively "right quality of FDI", which is tackled here as greenfield investment, according to this relevant database. In this regard, the calculated greenfield investment data is another contribution to the FDI literature especially in terms of Turkish case. To this end, the study uses UNCTAD (2010)'s new database on M&As[2] and obtain greenfield investment data by using this new data following the works in the literature such as London Economics (2010) and Calderón *et al.* (2002). [3]

2. A BRIEF LITERATURE REVIEW ON QUALITY VERSUS QUANTITY OF FDI

In order to be beneficial for economic development of the host country rather than the "quantity" of FDI its "quality" has been started to be focused on in literature. The quality of FDI depends on the "scope and competence of the subsidiary" of the Multinational Companies (MNCs). All these are partly connected with the "factors internal to MNCs, including their internationalisation strategy, the role of particular affiliates in their global system and the motivation for their investment" (Lall and Narula, 2004, p. 450). Much of these are outside the scope of the effect of the host countries. In this regard, the motivation of the FDI is vital in determining the linkages and externalities. Narula and Dunning (2000) lists four main motives for FDI as 1-seeking natural resources; 2- seeking new markets; 3-restructuring existing foreign production; and 4) seeking new strategic assets. Lall and Narula (2004) classify them into two categories: "The first category includes the first three motives: asset-exploiting, to generate economic rent by using existing firm-specific assets. The second category is the fourth motive: asset-augmenting, to acquire new assets that protect or enhance existing assets." They argue that developing countries mostly attract the wrong quality of FDI as the first category above, instead of attracting the second category of FDI. Because of the fact that all subsidiaries do not offer the same spillovers to host countries they cannot be in the same efficiency for development. For instance, a sales office as an affiliate can have high turnover and employ many people, but its technological spillovers will be limited relative to manufacturing facility (Lall and Narula, 2004, p. 451). Also, if performance requirements, such as hiring local people *etc.* by MNCs, were banned then that even employing many people would not produce expected spillover benefits for the host country.

Right quality FDI depends on some characteristics that Chudnovsky and Lopez (1999) listed as "the type of FDI (i.e. whether it is market-resource-efficiency or asset-seeking), the life-cycle stage of the respective product/sector, the export propensity and the role played by the affiliates in the global corporate network, the mode of entry - greenfield or takeover, with or without a local partner-, the country of origin of FDI and the sector in which the firm is doing business" (Chudnovsky and Lopez, 1999, p. 10). They argue that "One dollar of FDI brings different impacts in terms of growth and sustainable development according to the type of FDI, the sector in which it operates and the structural characteristics, development styles and available price and non-price incentives in host countries" (Chudnovsky and Lopez, 1999, p. 6).

One of the indicators of the "quality" of FDI is accepted as the "mode of entry" of the FDI, which can be greenfield versus brownfield investments, into the host country, in order to have direct

positive impact on economic development through investment, namely, increasing gross fixed capital formation. In this regard, it is maintained that when the FDI is realised by acquisition of existing assets in the host country and/or merger with them it is called "brownfield investment". It does not create required addition at all to the capital stock, output or employment if they only lead to a change of ownership without adding to productive capacity or productivity especially compared to the "greenfield investment". Greenfield investment leads a net addition to the host country's capital stock. Moreover, in the brownfield investment when entirely new productive capacity is not placed, the technology spillover also can be seen in question (Milberg, 1999, p. 107). London Economics (2010) argue that compared to greenfield investment its impact on economic growth through increasing capital stock is problematic, can be less certain and accepted not as much as the impact of greenfield investment, at least in the short-run (London Economics, 2010, p. 23). UNCTAD (2000) puts it as follows: "...greenfield FDI is more useful to developing countries than cross-border M&As. Other things (motivations, capabilities) being equal, greenfield investment not only brings a package of resources and assets *but* simultaneously creates additional productive capacity and employment; cross-border M&As may bring the same package but do not create immediate additional capacity" (UNCTAD, 2000, p. 198).

On the other hand, it is argued that the benefits of the M&As depend on the characteristics of the host country and the conditions in which local firms are acquired. Under those circumstances, they could increase output by raising productivity through better technology and/or management (Lall, 2000, p. 14). London Economics (2010) puts this issue as follows: "Greenfield investment directly results in investment in structures, plants, etc. which, ceteris paribus, raises the capital formation of an economy and hence stimulates GDP growth...In contrast, the support to economic growth provided by cross-border M&A to economic growth can be less certain" (London Economics, 2010, p. 23).

Although in the literature there have been large empirical works on FDI and economic development/growth (See for instance Balasubramanyam et al., 1996; Borensztein et al., 1998; Agosin and Mayer, 2000; Carcovic and Levine, 2002; Hermes and Lensik, 2003 etc.) there are few studies working directly on the relationship of the two different components of FDI with economic development/growth. This is mostly due to the lack of the relevant data or the limitations of the existing data in terms of working empirically. Among these few studies in the literature, Calderón *et al.* (2002) investigate both the relationship of the two different components of FDI with investments and economic growth and the relationship of these components of FDI with each other. They use a large cross-country time-series data set including the data of both 21 developed and 61 developing countries for the period of 1987-1999 in a bivariate vector autoregressions (VAR) analysis. They find that in developed countries there is a bi-directional relationship between M&As and greenfield investments, namely, higher M&As lead more greenfield investments and *vice versa*. However, for the developing countries the relationship is uni-directional, namely, just from the M&As to greenfield investments. Moreover, while for developing countries domestic investment is followed by both types of FDI, the reverse is not the case. On the other hand, for developed countries domestic investment is just followed by M&As and the reverse is the case for just greenfield investments. Lastly, regarding the relationship between economic growth and FDI they find that increases in the growth rate lead both types of FDI in developed countries and just greenfield investments in developing countries. More importantly, they reach a result that neither types of FDI have a significant impact on economic growth in both developed and developing countries concluding that "the relationship between FDI and growth depend largely on third factors driving both variables" (Calderón *et al.*, 2002, pp. 8-16). As another significant study London Economics (2010) aims to measure the relative performance of the two types of FDI and the contribution of FDI to economic growth for the European Union (EU) 27 countries for the period of 2007-2009. They first construct their own data of the M&As by using Zephyr database and deduct the estimate of this data from the official FDI inflows to obtain a rough data of greenfield investments. As a next step, they compare the greenfield investments with the investments financed by the domestic residents as percentages of the private gross fixed capital formation. They find that very small proportion of the total private gross fixed capital formation in the EU 27 is greenfield inward FDI. As a last step for this section in their work, they evaluate the effects of the greenfield investments on real GDP growth by comparing the actual level of GDP with the level of GDP that would be obtained if the greenfield investments did not

involved for the period of interest. They find that in the wake on the financial crisis in 2008 real growth in GDP in the EU27 was lower due to a collapse in inward greenfield FDI and they put the more significant result that they obtained as follows "More importantly, the recession would have been almost half of a percentage point deeper in the absence of greenfield inward FDI" (London Economics, 2010, pp. 23-28).

3. A COMPARATIVE ANALYSIS OF FDI INFLOWS TO TURKEY

3.1. In Terms of "Quantity"

After the debt crises in the 1980s that reduced the foreign bank loans availability as a financial resource and also short term portfolio investment that created several financial crises in the 1990s, for two decades developing countries have been trying to use the FDI as a financial resource (Singh (2005a, p. 3). The change in composition of private capital flows to developing countries from bank lending to FDI after especially the debt crises in the 1980s and from portfolio investments to FDI after the financial crises in the 1990s can be observed in Table 1. Although the portfolio flows including both equity and bonds increased gradually in the 1980s and dramatically in the 1990s, they decreased by 10 percent in total after the 1990s as Table 1 indicates. In the 1990s among private capital flows to all developing countries FDI and portfolio investments ranked first and second, respectively, as seen in Table 1. This process was accelerated by the liberalisation and privatisation programs in developing countries in the 1990s. Schmukler and Zoido-Lobatón (2001) put the situation as follows: "Deregulation, privatization, and advances in technology made FDI and equity investments in emerging markets more attractive to firms and households in developed countries. The 1990s witnessed an investment boom in FDI and portfolio flows to emerging markets" (Schmukler and Zoido-Lobatón, 2001, p. 2). This trend can be seen in Figure 1.

Table 1: Composition of Private Capital Flows to All Developing Countries
(in million dollars- on average and % of the total flows- on average)

Type of Flow	1970-1981	1982-1989	1990-1999	2000-2008
Bank Lending	16,254.7 (69%)	10,317.5 (40.6%)	17,044.7 (11.1%)	79,385.7 (18%)
Portfolio Equity	23.9 (0.1%)	328 (1.3%)	16,427.3 (10.7%)	38,488.5 (8.7%)
Bonds	941.5 (4%)	1,370 (5.4%)	23,557.3 (15.3%)	32,267.9 (7.3%)
Foreign Direct Investment (FDI)	6,326.3 (26.9%)	13,369.1 (52.7%)	97,184.7 (63%)	290,129.5 (65.9%)

(**Source**: Global Development Finance (Edition: February 2010)

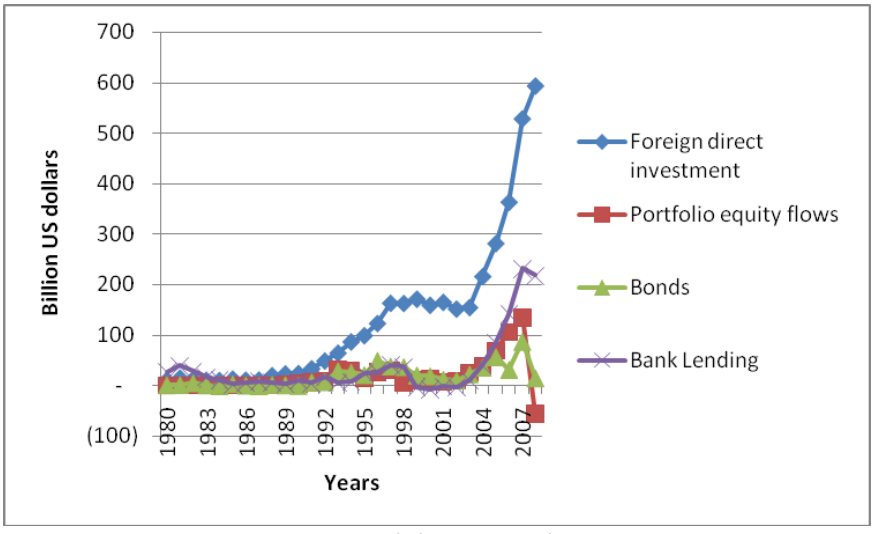


Figure 1: Private Capital Flows to Developing Countries
(**Source:** Global Development Finance, Edition: February 2010)

First focus of the developing countries on FDI is its "quantity" rather than its "quality". This is due to it is accepted as a relatively sound financial resource in especially solving balance of payments problems, namely, current account issues. On the other hand, it should be mentioned that in literature the potential problems of FDI in terms of financial resource have been discussed[4]. In this regard, it can be started to this part with the analysis of FDI inflows into the developing world compared to develop ones in terms of "quantity". It can be said that although developing countries almost "unconditionally invite FDI for developmental purposes" and simultaneously adopt very similar liberalized policies and incentives, such as "financial and tax incentives" as well as "market preferences" to encourage FDI in any case, the big share of the FDI inflows goes to the developed economies. Milberg (1999) evaluates this fact as a dilemma with the basic growth theory which say that "in the absence of market distortions, capital will flow from where its returns in investment is lowest (developed countries) to where its return is highest (developing countries)" (Milberg, 1999, p. 103) [5]. The following Figure 2 supports this fact.

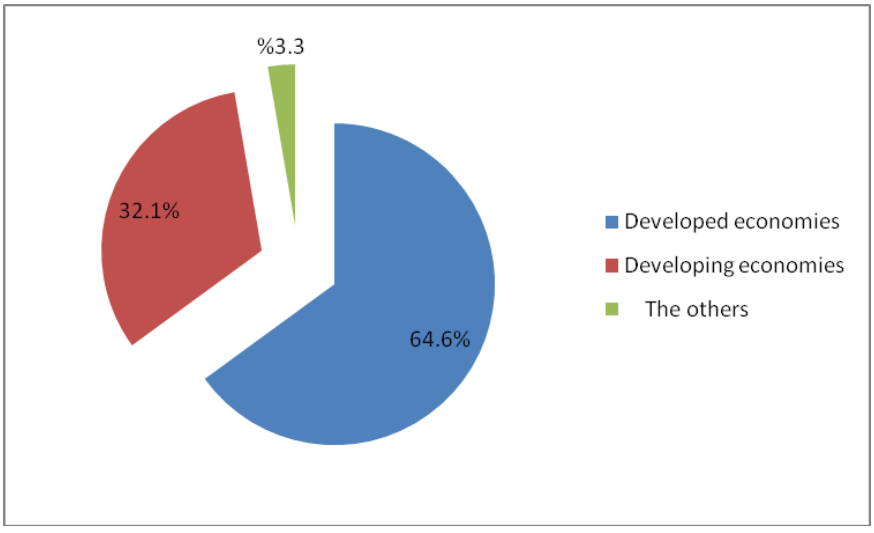


Figure 2: The Percentage Share of Total FDI Inflows by Region, Average Value of the Era 1990-2010
(**Source:** UNCTAD, FDI/TNC Database 2010)

According to Figure 2, while 64.6 percent of total world FDI inflows goes to developed economies just 32.1 percent goes to developing ones. When we look at the FDI inflows into developing world in detail we face with the following pie chart indicating the sub-regions of the developing world.

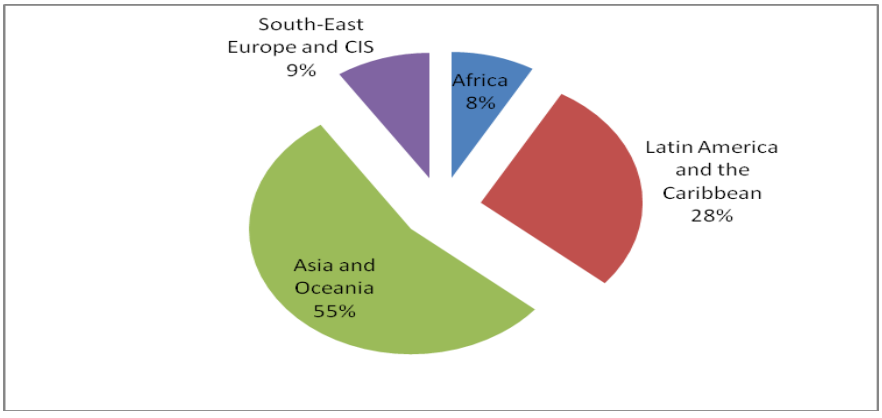


Figure 3: The Percentage Share of FDI Inflows into Developing World, Average Value of the Era 1990-2010
(**Source:** UNCTAD, FDI/TNC Database 2010)

According to Figure 3, compared to the other developing regions Asia region takes the leadership of attracting FDI inflows into the region by getting over the half of the total FDI inflows into the developing world. And among the Asian countries China, by herself, gets the 33.4 percent of the FDI inflows into the region as an annual average value of the era 1990-2010 by attracting 18.22 percent of the FDI inflows going to the all developing countries. When it is looked at Turkey's performance in attracting FDI inflows we get an opposite situation compared to China[6] as seen in Figure 4. Although Turkey's remarkable affords in attracting more FDI into the country, she gets only 1.8 percent of the FDI that go to the developing world and 3.3 percent of the FDI that go to her region. In this regard, Turkey's region is accepted as Asia according to the UNCTAD database classification and it is the same with China's region, which allows efficiency in terms of comparability.

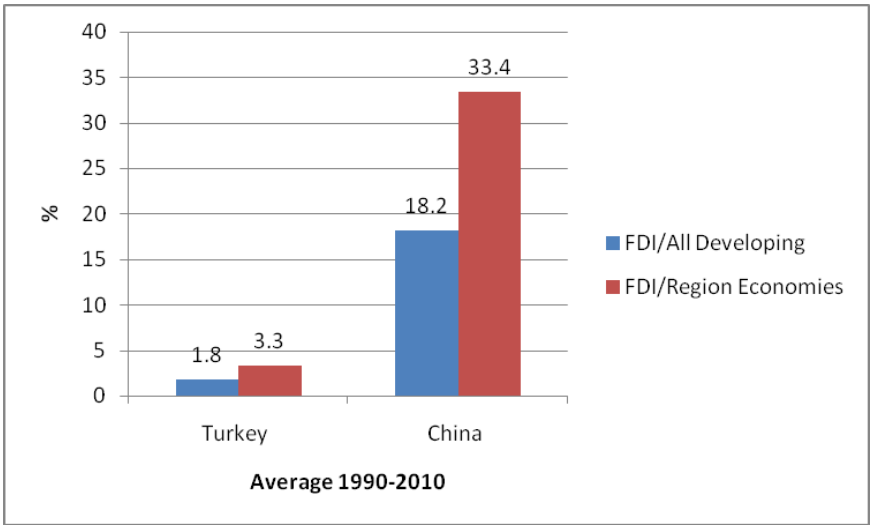


Figure 4: The Comparison of FDI İnflows To Turkey with China, Annual Average 1990-2010
(As percentage of FDI inflows to All Developing Countries and to Region Economies)
(**Source**: UNCTAD, FDI/TNC Database 2010)

Figure 4 also indicates another important point in terms of Turkey's relatively liberalized policies[7] implemented for attracting FDI to Turkey. It indicates that liberalization policies do not attract FDI at all when especially compared with China, which points out that the *laissez faire* perspective towards FDI, does not work at all in this case. Agosin and Mayer (2000) put another important side of this issue as follows:

> "Therefore, the assumption that underpins policy toward FDI in most developing countries- that FDI is always good for a country's development and that a liberal policy toward MNEs is sufficient to ensure positive effects- fails to be upheld by the data…..the most far-reaching liberalisations on FDI regimes in the 1990s took place in Latin America, and that FDI regimes in Asia have remained the least liberal in the developing world…Nonetheless, it is in these countries that there is strongest evidence of crowding in. In Latin America, on the other hand, liberalisation does not appear to have led crowding in" (Agosin And Mayer, 2000, p. 17).

This is also consistent with the literature telling that contrary to the neoliberal view, in order to inflow FDI seeks different things in a host country other than liberalization policies, such as "absorptive capacity". Absorptive capacity of the host country refers to the host country's infrastructure, education system, human resource, institutions, a minimum level of scientific and technical knowledge, which is required to use innovation, dynamic business climate, well-functioning markets, establishment of property rights (especially intellectual property rights), past industrialisation experience *etc.* (Findlay, 1978; Perez and Soete, 1988; Borensztein *et al.*, 1998; Narula and Marin, 2003; Xu, 2000; Koko *et al.*, 2001; Smarzynska, 2002; Bhagwati, 1978; Ozawa, 1992; Balasubramanyam *et al.*, 1996). Lall and Narula (2004) refer to Narula (2004) which handles absorptive capacity in four categories: 1-Firm- sector absorptive capacity 2-Basic infrastructure 3-Advanced infrastructure 4-Formal and informal institutions (Lall and Narula, 2004, p. 455). Thus, it can be drawn that

FDI can be a more significant part of a development strategy for middle-income countries, but not for the poor countries which do not have absorptive capacity for both attracting and benefiting FDI . So, there cannot be found any correlation between FDI and economic development in the least developed economies, namely, poor countries, such as sub-Saharan Africa. On the other hand, such correlation can be found in the middle income developing economies, especially in 10 economies such as China, Brazil, Singapore, Mexico, Indonesia, Argentina, Malaysia, Poland, Chile and Peru, as some spillovers have been identified. The top 13 list in terms of attracting FDI has been changed for the era of 1990-2010 as seen in Table 2. According to the following Table 2, while Malaysia, Argentina, Chile, Indonesia and Peru has been removed from the top ten, Hong Kong, Russia, India, British Virgin Islands, Saudi Arabia and Cayman Island took their place in the list. Argentina and Chile together with Turkey placed at the last three of the top 13 list. In this regard, when it is looked at Table 2 more carefully it seems that Malaysia and Indonesia as the Asian countries which experienced the Asian Crisis in 1997 were severely punished in terms of FDI inflows. On the other hand, it is stressed that this is not relevant for the M&A type of FDI. Yilmaz (2007) explains the potential reasons of new cross-border M&As in those countries as follows: After financial crisis when local firms get cheaper foreign capital wants to buy these local firms, which is called "fire-sale FDI" by Krugman. Yilmaz (2007) underlines that although Indonesia was severly affected by the crisis and Malaysia imlemented strict policies against the international investors, the acquisitions in those countries by international investors reached to 2 billion dollars after crisis (Yilmaz, 2007, p. 7). Moreover, the table also gives a clue about the new world order in terms of emerging of a new global power, which is accepted as BRIC (Brazil, Russia, India, China) countries. As seen in Table 2 out of the BRIC countries Russia and India enter into the top ten in which the other BRIC countries, such as China and Brazil, have already been involved. When it is looked at Turkey's situation Table 2 does not give a good picture. It does not place in the top ten and ranks last in the top 13 list. Moreover, the first of the list, China, gets ten times more FDI than Turkey as the last of the list. Actually, this is not surprising at all if the several "FDI trust indexes" such as the ones published by A.T. Kearney and UNCTAD measuring the country's rank in competitiveness in terms of FDI are considered. Because it is seen that in such indexes while China is mostly in the top of the list Turkey is never among the top ten of the same list. Although these indexes can be subjective and have limitations (Yilmaz, 2007, p. 12) they give a common picture in terms of Turkey's failure and China's success in attracting FDI at least in terms of the gap between them.

Table 2: FDI Inflows to Developing Countries, Top 13, 1990-2010

			As percentage	
Rank	Country	Annual Average, 1990-2010 US Dollar Million	of FDI inflows to All Developing Countries	of World FDI inflows
1	China	51552	18.2	6.5
2	Hong Kong, China	26065	9.2	3.3
3	Brazil	18441	6.5	2.3
4	Mexico	15826	5.6	2.0
5	Russia	14349	5.1	1.8
6	Singapore	14288	5.0	1.8
7	British Virgin Islands	10092	3.6	1.3
8	India	9338	3.3	1.2
9	Saudi Arabia	7466	2.6	0.9
10	Cayman Islands	6298	2.2	0.8
11	Argentina	6000	2.1	0.8
12	Chile	5976	2.1	0.7
13	Turkey	5089	1.8	0.6

(**Source:** UNCTAD, FDI/TNC Database 2010)

Regarding the Turkish case, Yilmaz (2007) mentions that the potential reasons of the failure of Turkey in attracting FDI should be investigated at the corporate and microeconomic levels, other than the macroeconomic conditions. He summarises the potential reasons of the failure of Turkey in attracting

FDI compared to the other developing countries, especially, her three important rivals at this arena that emerged in Eastern Europe, such as Czech Republic, Poland and Hungary, for the era of 1990-2005, as follows: "High taxes on inputs, which have great influence on production costs like labor and energy, the lack of high skilled workers, the education system which is not adequate to train people for having qualifications which firms seek to competate in international arena, the insufficiency of Research and Innovation investments and technological infrastructure" (Yilmaz, 2007, p. iii). Yilmaz (2007) lists the infrastructural factors that have negative impacts on Turkey's competitive power from the "competitiveness criteria list" of the International Institute for Management Development (IMD) World Competitiveness Report in 2005 as follows: High-tech exports (as percentage of manufactured exports), Illiteracy (as adult-over 15 years- illiteracy rate as a percentage of population), Pupil-teacher ratio (for primary education), Investment in telecommunications (as percentage of GDP), Internet users (as number of internet users per 1000 people), Electricity costs for industrial clients (US$ per kwh), Human development index, Computers per capita (as number of computers per 1000 people), Life expectancy at birth, Total expenditure on R&D per capita ($) (Yilmaz, 2007, p. 12 from IMD World Competitiveness Report, 2005).

When we look at the FDI inflows to Turkey in comprison with these three countries, Czech Republic, Poland and Hungary, we see the big picture more clearly. According to this, if we tackle the 1990-2010 era by sub-groups such as the eras of 1990-1999 and 2000-2010 we get different views. Indeed, if we change the sub-groups era from 1990-1999 and 2000-2010 into the eras of 1990-2003 and 2004-2010, in which 2004 is tackled as the year after which "mass privatisation" in Turkey was started and will be tackled later, we get completely different picture as follows:

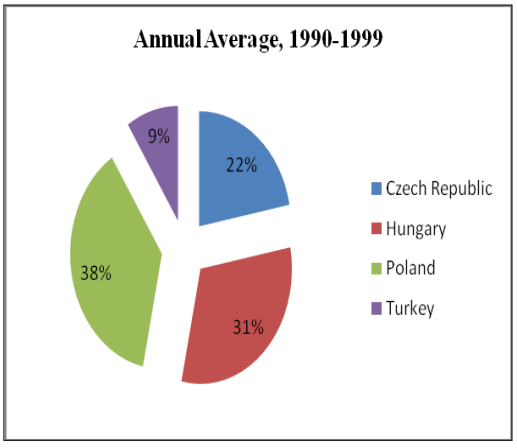
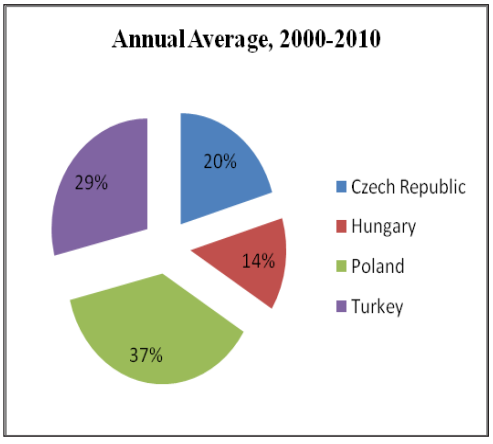


Figure: 5a



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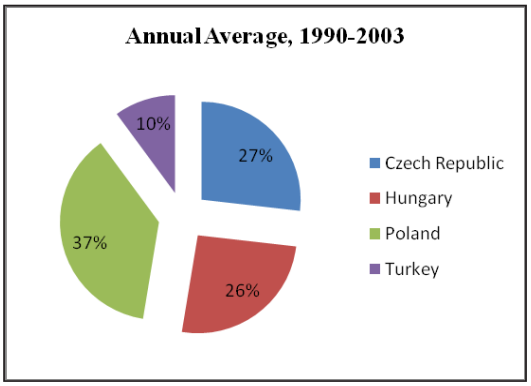

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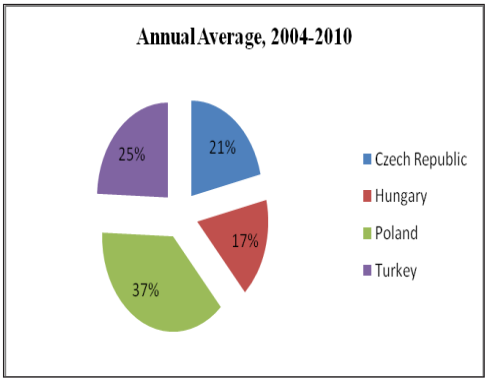

Figure: 5d

Figure 5: The percentage shares of FDI inflows by 4 rival countries
(**Source:** UNCTAD, FDI/TNC Database 2010)

According to Figure 5a, for the era of 1990-1999, among these four countries Turkey places at the last rank in the competition of attracting FDI inflows to her country by getting only 9 percent of the FDI inflows going to these countries. This is consistent with Yilmaz (2007) in terms of Turkey's rank as being last. However, for the era of 2000-2010, the picture changes and she places in the second rank as seen in Figure 5b. When we look at the picture more detailed by regrouping the eras, we see that for 1990-2003 nothing changes in terms of Turkey's rank as seen in Figure 5c. Indeed, Figure 5d clearly indicates that Turkey's change of rank from last to second, mostly stems from the era of 2004-2010 in which mass privatisation, which attracted brownfield investments (M&As) of FDI, was experienced. On the other hand, it can be said that for this era while rising to the second rank in attracting FDI Turkey, of course, generally benefitted from the macroeconomic policies that she implemented to ensure macroeconomic stability after her financial crisis in 2001.

3.2. In Terms of "Quality" Proxied by "Greenfield Investments"

According to the literature "quality of FDI" depends on more qualifications than its entry mode. However, here, in this study, entry mode of FDI is focused on as an indicator or a "starting point" for the "quality of FDI" for developmental purposes. In this regard, it can be said that the mode of entry of FDI, namely, to be greenfield investment rather than brownfield investment, into a developing host country is a necessary but not a sufficient condition for development. However, when we look at the relevant data it can be said that even this starting point is not valid for Turkey. The data is taken from the UNCTAD Cross-border M&A database, which is accepted as a useful available data "on cross-border M&A activity" allowing to compare "between these data and over-all foreign direct investment flows" (Globerman and Shapiro, 2004, p. 9). As also underlined in the Globerman and Shapiro (2004), although both data seem to come from a single source, namely, UNCTAD, in reality, UNCTAD gathered them from different sources, such as M&As data from Thomson Financial and FDI inflows data from IMF data (Globerman and Shapiro, 2004, p. 10). Therefore, the data can be problematic to compare[8], especially in the year base. So, in this work, it is also taken as an average of the years for the period 1990-2010 in order to overcome of the problems stemming from the calculation differences so forth. Globerman and Shapiro (2004) put it as follows: "In order to minimize problems created by negative inflows, non-coincident payments, and single large transactions, and to facilitate comparisons among the variables, we chose to average the various series over the sample period" (Globerman and Shapiro, 2004, p.10).[9]

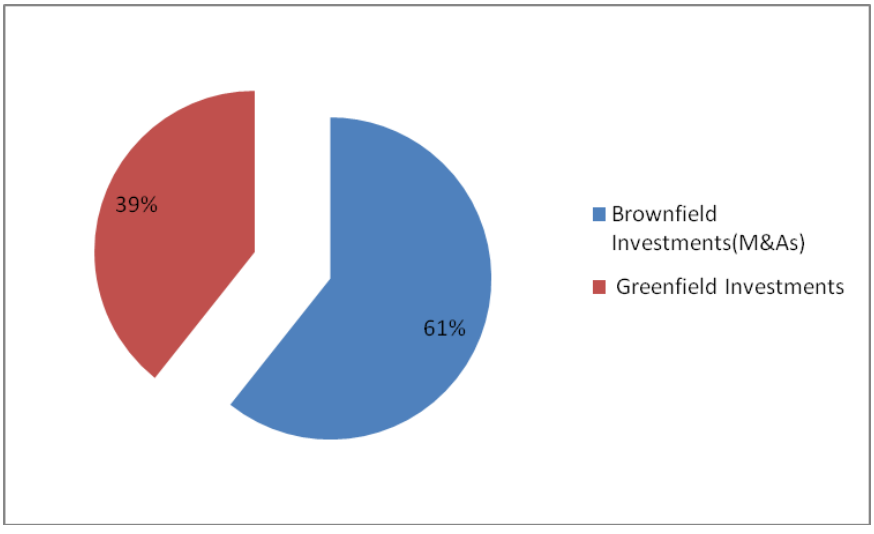

Figure 6: The Percentage Share of Brownfield and Greenfield Investments of FDI Inflows into Turkey, Annual Average 1990-2010
(**Source:** UNCTAD, FDI/TNC Database 2010 and UNCTAD Cross-border M&A Database 2010)

Figure 6 indicates that for the era of 1990-2010 period FDI inflows mostly entered Turkey as brownfield investments, namely, via cross-border M&As, rather than new investments, namely, via greenfield investment. There is also a divergence for Turkey from the rest of the developing world in terms of the entry mode of FDI. The following Figure 7 indicates this.

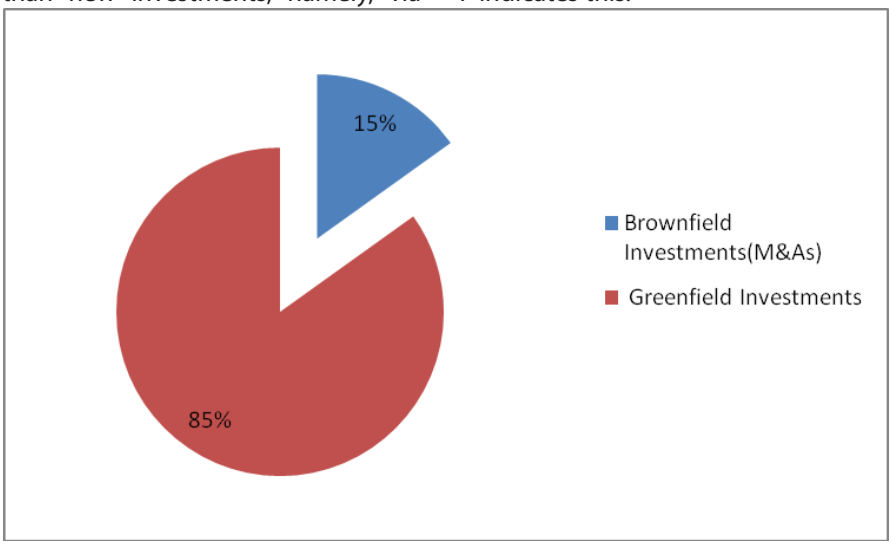

Figure 7: The Percentage Share of Brownfield and Greenfield Investments of FDI Inflows into Developing World, Annual Average 1990-2010.
(**Source:** UNCTAD, FDI/TNC Database 2010 and UNCTAD Cross-border M&A Database 2010)

The following Figure 8 also indicates the divergence of Turkey from China. In this regard, Figure 8 clearly indicates that for the era of 1990-2010 period FDI inflows mostly entered China as new investments rather than cross-border M&As. According to this, while greenfield investments in China constituted 88 percent of the FDI inflows, brownfield investments in China remained at just 12 percent of them. There can be a list of factors behind this fact such as having low costs in labour force, being a fast growing economy, having a huge domestic market and a high Human Development Index. In this regard, Globerman and Shapiro (2004), which empirically investigate the common and different factors that influence the two different types of FDI, underline some factors specific to China in attracting the greenfield investments. In this regard, they also empirically find that the FDI inflows

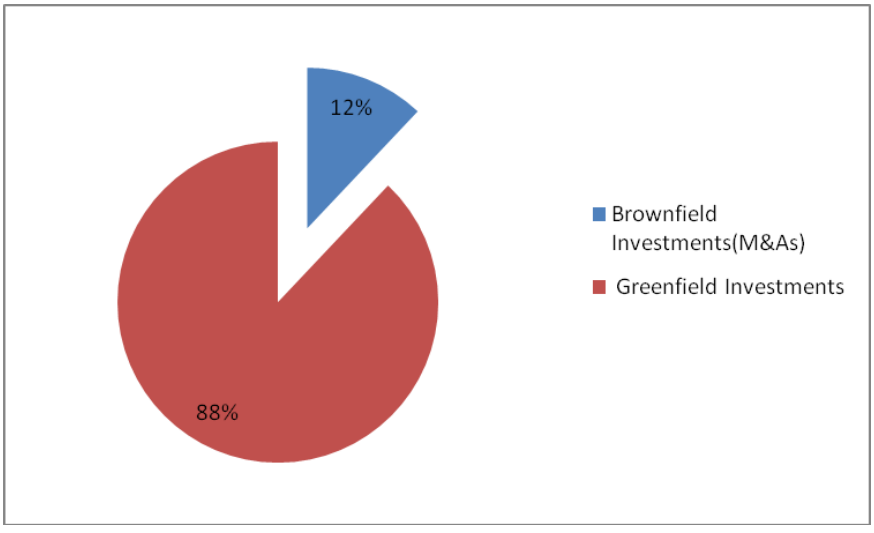

Figure 8: The Percentage Share of Brownfield and Greenfield Investments of FDI Inflows into China, Annual Average 1990-2010
(**Source:** UNCTAD, FDI/TNC Database 2010 and UNCTAD Cross-border M&A Database 2010)

into China are in the form of greenfield investments rather than M&As since the China coefficient in their empirical study was not statistically significant in the M&A equation. They explain that this fact is due to "the result of investments by expatriate Chinese", who live "in countries that are themselves characterized by weak governance infrastructures (Thailand, Malaysia, Indonesia)". They stress that the investments of expatriate Chinese in China stem from their cultural linkages with China and also their ability to work in such environments of weak governance infrastructures. They also give a clue about the potential fact behind the low levels of cross-border M&As in China as "over much of this period, M&A activity was restricted in China" (Globerman and Shapiro, 2004, pp. 10, 24-25). On the other hand, the picture of Turkey is opposite for the same era. By constituting 61 percent of the FDI inflows brownfield investments dominated the FDI inflows entering Turkey, although the greenfield investments remained at 39 percent of them. This picture can stem from the relatively high levels in the total production costs including both energy and labour costs and relatively high tax ratios including all kinds besides the relatively low levels in Human Development Index.

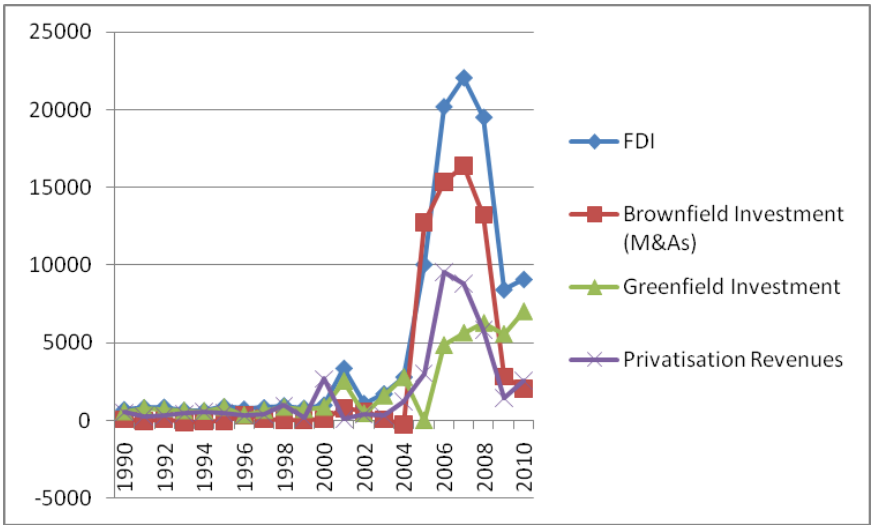

Figure 9: FDI, Brownfield & Greenfield Investments to Turkey, Privatisation Revenues, US$ million, 1990-2010.

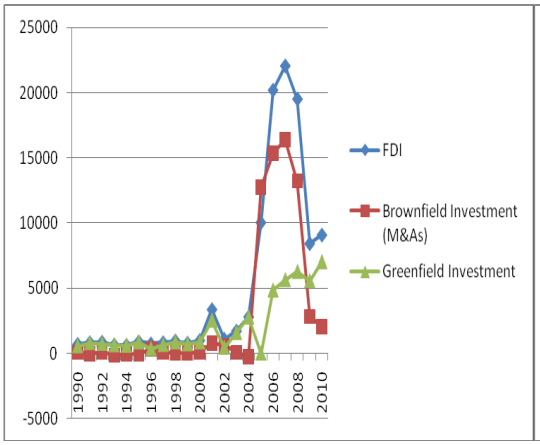

Figure 10: FDI inflows, Brownfield & Greenfield Investments to Turkey, US$ million, 1990-2010

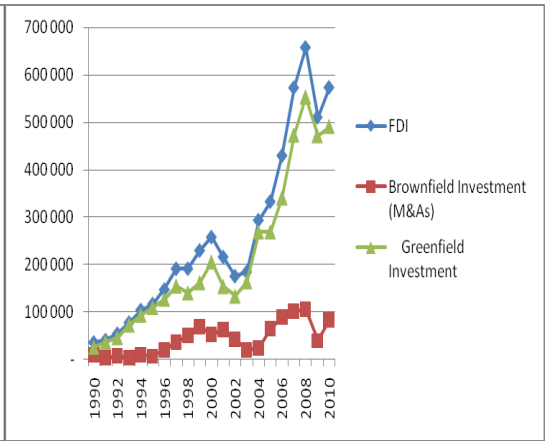

Figure 11: FDI inflows, Brownfield & Greenfield Investments to Developing world, US$ million, 1990-2010

(**Source:** UNCTAD, FDI/TNC Database 2010 and UNCTAD Cross-border M&A Database 2010)

Although the relevant data is a bit problematic to be used in year base[10], in order to have an opinion about the big picture we tried to show it in a year base formation. According to this, we got an opinion that after especially 2004 the brownfield investments in Turkey accelerated, compared to greenfield investment, by dominating FDI inflows. This fact is consistent with the accelerating privatisation policies

after 2004[11]. Onis (2011) puts this fact as follows: "... The major boom in privatisation revenues occurred in the post-2004 era, which corresponds with the start of formal negotiations with the European Union for full-membership. Figure 1 also illustrates the fact that privatisation and foreign direct investment are highly interrelated phenomena" (Onis, 2011, p. 711). Indeed, the FDI which Onis (2011) tackled as "highly interrelated phenomena" with privatisation is the brownfield kind of FDI. The following Figure 9 indicates this clearly as brownfield investments seem highly interrelated with both privatisation revenues and FDI inflows.

Although the brownfield investments seem highly interrelated with FDI inflows into Turkey by dominating them as seen in Figure 9, the opposite version seems valid for the developing world. When it is looked at the FDI inflows into developing countries by year base, at the first stage we see the interrelation of greenfield investments with FDI, which seems to dominate FDI inflows into developing countries, as seen in Figure 11.

4. CONCLUSION

There should be both inside factors such as absorbtive capacity of the host country and outside factors such as quality of FDI in order to benefit from FDI for economic development of the host country. Entry mode of FDI is just one of the indicators of the quality of FDI, but an important one. It can be a starting point. But to do this, developing countries should change their FDI perspective. Otherwise, as Turkey did they limit FDI's benefits just to a "financial resource" for current accout deficits in a pragmatic way and they cannot use FDI at all for developmental purposes. In this regard, Turkey constitutes a typical developing country not just for having relatively liberalized policies aiming at attracting FDI in quantity, but also her failure about not attracting sufficient FDI compared to the developed countries and the other developing countries like China. On the other hand, it seems that it is not a typical developing country in terms of attracting "the right quality of FDI", which is tackled here in terms of the entry mode of FDI. According to this, while greenfield investments as a useful entry mode of FDI dominate the FDI inflows into developing countries, brownfield investments take the dominance in Turkish case. All these-both attracting insufficient FDI and wrong quality of FDI- point out that there is something wrong in Turkey's FDI perspective and policies in terms of the sustainable developmental purposes in the long-run.

As strongly argued in the literature for the host countries, which have even absorptive capacities, "national development and technological plans" should be implemented to benefit the FDI, as in Asia (Dunning, 1994; Freeman and Hagedoorn, 1989; Milberg, 1999). It is argued that governments should play the role of "a market facilitator and provider of complementary assets" (Narula, 2004; Dunning, 1997; Stopford, 1997). Moreover, it is maintained that governments should play national policies to promote MNCs "into improving and upgrading capabilities to sustain more technologically sophisticated industrial activities, [by not] …only attracting the investment but also deepening its presence in the host economy on the basis of dynamic not static comparative advantages" (Mortimore and Vergara, 2004, p. 525). In other words, developing countries should regulate and/or direct FDI to promote their economic development. Thus; they can prevent the market failures related to FDI, which are defined by the UNCTAD Secretary General R.Ricupero, as follows:

> "TNC [Transnational Corporation] investment process in its relationship to developing countries. The first [kind of market failures] arise from information or co-ordination failures in the investment process, which can lead a country to attract insufficient FDI, or the wrong quality of FDI. The second [kind of market failures] arises when private interests of investors diverge from the economic interest of home countries" (quoted from Singh, 2005a, p. 12).

END NOTES

[1]Following several works in the literature such as Singh (2005a, 2005b), Globerman and Shapiro (2004), UNCTAD (2000) and London Economics (2010), cross- border Mergers & Acquisitions (M&As) are used as a proxy for brownfield investments.

[2]UNCTAD Cross-border M&A database (www.unctad.org/fdistatistics).

[3]It is calculated by subtracting the data of cross-border M&As from the data of FDI inflows, which are both taken from UNCTAD database. Since FDI includes both "M&A related flows and greenfield or other physical investment related flows", following London Economics (2010) for simplicity "all the greenfield and other physical investment related inflows" will be accepted as "greenfield FDI" (London Economics, 2010, p. 23).

[4]FDI with its relatively stable and "non paper", namely, real structure, is handled as a sole reliable source for financing developing countries, "providing a non-volatile source of capital that requires neither a fixed interest payment nor a repayment of principal at a specified date" (Milberg, 1999, p. 100). However, if FDI is a "brown field investment" as buying the stocks of the local firm at the stock market, then it is not clear to differentiate the portfolio and direct investments. Moreover, Singh (2005a) maintains that the potential negative effects of FDI on developing countries can be the facts that FDI surges can cause undesirable results, such as exchange rate appreciation, decreasing developing country's competitiveness on international trade (Singh, 2005a, p. 9). With the development and high liberalisation of financial markets of the developing economies, FDI can easily be hedged, which cause to eliminate the difference between FDI and the portfolio investments than ever before; thus, it gives FDI the capability of creating financial crises, by being unstable and volatile (Milberg, 1999, p. 101). In this regard, Willet *et al.* (2004) maintain that not just the short-term ones, but FDI also can create volatility in capital movements, contrary to the expectations, as experienced in the Asian crisis countries (Willet *et al.,* 2004, p. 30). The crisis effect of the short-term capital inflows, the so called hot money, as leading CAD by appreciating local currency and creating virtual welfare increase were widely examined in the literature. Compared to them FDI was accepted more innocent and beneficial for the host country. However, FDI has been recently started to be criticized in terms of its possible crisis effect through the time inconsistencies of the transfers of its profits, which are from the host country to home country. So, it is argued that to avoid the financial fragility, stemming from the "unfettered FDI", which bases the economic structure prone to crises, the governments need to monitor and regulate the amount and timing of FDI. Because, it is argued that aggregate foreign exchange inflows and outflows, both in the short and long run, might be stemmed from the large FDI projects, which may generate a "time profile" of these outflows, in the form of dividend payments or profits transaction, and inflows that can be time inconsistent. In this regard, this time inconsistency can cause liquidity crises and even solvency crisis with worse consequences for economic development as seen in Asia (Singh, 2005a, pp. 9-10).

[5]Moreover, he argues that among the developing countries they mostly went to just ten middle income countries during the era of 1992-1997 by also having shifted the sectoral composition of their investment from manufacturing to the services without developmental dimension (Milberg, 1999, p. 103), since the services are accepted as non-traded goods in the theory.

[6]China has a very unique situation in terms of attracting FDI inflows to herself since China, by herself, as a single country can attract FDI inflows more than some regions or sub-regions in the world, for the era of 1990-2010, such as South America (15.7%), South-East Asia (12.6%), South-East Europe and CIS (10.4%), Africa (9.2%), West Asia (8.9%) and Central America (7.3%) as percentages of FDI inflows going to all developing countries.

[7]Please see Turkish Republic Prime Ministry Undersecretariat of Treasury (1998) for Foreign Capital Legislation, which was started to be liberalized in the 1980s gradually. Akpolat and Inancli (2011) put the liberalization process in Turkey as follows: "Turkey is one of the emerging economies which have changed its trade and investment regimes in the early 1980s. Turkey carried out this transformation by adopting a new liberal macroeconomic framework. Turkey, as many developing countries, has implemented foreign capital-promoting policies. Obstacles which prevent foreign capital to enter into Turkey have been removed gradually" (Akpolat and Inancli, 2011, p. 57). In 2003 by passing Foreign Direct Investment Law (No. 4875) the foreign capital regime of Turkey was highly liberalized. Hisarciklilar *et al.* (2010) put the importance of this law with the following words: "With this legislative change, investment climate has been made more favourable for the entries of foreign firms. The Act guarantees nondiscrimantory

treatment, with equal rights for foreign and national investors. The FDI Act removed the screening and pre-approval procedures for FDI projects, redesigned the company registration process so that it was equal for domestic and foreign firms, facilitated the hiring of foreign employees, included FDI firms in the definition of "domestic tenderer" in public procurement, granted foreign investors full convertibility in their transfers of capital and earnings and authorized foreign persons and companies to acquire real estate in Turkey..." (Hisarciklilar *et al.*, 2010, p. 4).

[8]Globerman and Shapiro (2004) put it as follows: "FDI..flows include investment funds transferred between a parent and an affiliate. Negative flows can therefore be recorded if funds are withdrawn from an affiliate. The M&A series record the value of the transaction at the time it is finalized, and therefore cannot be negative. It is therefore possible that the value of recorded cross-border activity exceeds the value of recorded FDI (FDO) activity, despite the fact that the latter is the more comprehensive measure. In addition, the two series may not involve coincident temporal flows of funds if an M&A transaction involves staged payments, or if the date recorded by Thomson as the final date does not coincide with the recording of funds transferred in the balance of payments. Thus, use of a single year's data can be misleading, particularly for small countries, where a single remittance by an affiliate in a given year can create temporary and possible large changes (negative) in recorded FDI. Likewise, a single large M&A can create large recorded inflows/outflows even for relatively large countries" (Globerman and Shapiro, 2004, p. 10).

[9]Moreover, normally at the final stage the ratios also should be checked and adjusted in order to create meaningful ratios by overcoming the problems stemming from the time inconsistencies of the data calculations. According to this, if recorded value of M&A amounts for a country exceeds its total FDI inflows, a value of one is assigned (Globerman and Shapiro, 2004, p. 12). It is maintained that "This procedure was necessary because for some countries, very small reported FDI flows were accompanied by large reported M&A amounts, resulting in implausibly large ratios" (Globerman and Shapiro, 2004, p. 12). However, in our database we did not have such a problem, so we did not need to do this adjustment. However, we did similar adjustment for the year base data, which will be mentioned in the following endnote 10.

[10]As Globerman and Shapiro (2004) stress although both data seem to come from a single source, UNCTAD, in reality, UNCTAD gathered them from different sources, such as M&As data from Thomson Financial and FDI inflows data from IMF data (Globerman and Shapiro, 2004, p. 10). Therefore, the data can be problematic to compare, especially in the year base stemming from the calculation differences, which Globerman and Shapiro (2004) put as follows: "... problems created by negative inflows, non-coincident payments, and single large transactions..."(Globerman and Shapiro, 2004, p.10). We also had these kinds of problems in the year base data, such as negative M&As data and M&As data bigger than FDI data, especially for Turkey, namely, for a single country case. However, we tried to overcome this data problem by adjusting data as follows: When we had negative M&As value we used FDI value for Greenfield for that year and when we had M&As value bigger than FDI in that year we used "0" for Greenfield investment.

[11] Please see Onis (2011) for a detailed analysis of "mass privatisation" policies in Turkey.

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