T.C.
UNIVERSITY OF BAHÇEŞEHIR

POLICY FOR INVESTMENT IN EUROPEAN UNION AND ITS POLITICO-ECONOMICAL CONSEQUANCES ON TURKISH ECONOMY COMPARASION WITH POLAND

M.A. THESIS

Ezgi Aksu

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THE EUROPEAN UNION RELATIONS PROGRAM

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ABSTRACT

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The aim of this thesis is to analyze the evolution of FDI in framework of EU policy for investment which has been developing and its political consequences on Turkey which is still nominee for EU. It is based on *OECD Initiative on Investment for Development* which makes the core of EU policy. To be able to get concrete consequences, Turkey is compared to Poland, newly accesses to EU, because of their similar economic and political structure. Although development of determinants of FDI and government incentives of these two countries are so parallel, Turkey is able to get less foreign investment compared to its own potential attractiveness than Poland's. Membership of EU contributes to regulate legislation of these countries; and so this has influences on inflow of FDI in the long term. However, economic and political stability of the countries become more and more crucial than incentives and policies for FDI. As a consequence of all these reasons, insufficiencies of Turkey to attract for FDI and requirements for transcending these problems are the other essential issues of this thesis.

Keywords: Foreign Direct Investment (FDI), Multinational Firms, Poland, European Union and Policy for Investment.

ÖZET

AB'DE DOĞRUDAN SERMAYE YATIRIM POLİTİKASI

VE TURKİYE'NİN İKTİSAT POLİTİKSINA ETKİSİ

EZGİ AKSU

Yüksek Lisans, Avrupa Birliği İlişkileri Bölümü

Tez Yöneticisi: Yrd.Doç.Dr.Özgür Ünal

Haziran 2007

Bu tezin amaci 90'lı yıllardan itibaren artiş eğilimi gösteren DYSY'nin AB yatırım politikası cervesinde, halen tam aday ulke olan Turkiye 'deki gelisimini ve politik ekonomik etkilerini incelemektir.. cıkıs noktası olarak AB mevzuatinda temel alınan OECD krıterleri kullanılmıstır. Daha somut bir sonuclar yakalayabilmek, ekonomik ve politik yapı olarak Turkıyeye benzeyen ve 2005 yılında AB ye tam uye olan Polonya ornek secilmis ve iki ulke DYSY acisindan karsilastırılmıstır. AB uyelik surecinde DYS belirleyicilerinin gelisimi ve verilen devlet destekleri benzer olmasına ragmen , Turkıye polonyaya oranla kapasitesine gore daha az yabancı sermaye cekmektedir. Gelinen noktada AB uyelginin ulkelrin mevzuatlarında yaptıkları duzenlemeler sonucunda DYSY acısından uzun donemde olumlu etkisinin oldugu, ancak bu surecte ulkelerin ekonomik ve politik istikrarının, DYSY icin uygulanan tesvikl ve politikalardan den cok daha etkin oldugu sonucuna varılmıstır. Bu acidan Turkiyenin eksikleri ve cekicilgi arttırmak icin yapılması gerekenler tezin ikincil hedefi olarak secilmistir.

Anahtar Kelimeler: Doğrudan Yabancı Sermaye Yatırımı (DYSY), Çok Uluslu Şirketler, Polanya, Avrupa Birliği ve Yatırım Politikası.

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INTRODUCTION

The development of international trade increased relating with in the international exchanges, appearance of the FMN having decisive influence on the production and the creation of a single market; they are the factors making the accent on the economic sense of globalization which includes two different aspects on the production and financial activities.

The globalization of production is the production not only accomplished traditionally in national borders, but also accomplished between several countries. For example the simplest toy which is projected in the E.U and financed by France and after its production is done in China or Hong-Kong, is distributed on the whole markets.

As for the globalization of the financial activities, it is an increased movement of flows of capital towards the different markets to acquire more benefits and use less risk. Since 1985, thanks to the increase of liberal policies, the development of the direct and financial investments abroad changed the concept of economic globalization that until 1980 had been marked by the development of international trade and the multiplication of commercial transactions. Between the years 1980 and 1998, their annual growth rate including official flows, interior flows of FDI, portfolio investments and the loans of the trade banks was 25% while the development rate of trade was 5%. We will evaluate in this paper this aspect of the globalization concerning properly FDI which is defined as the main mean of transfers of long-term capitals.

The direct investment abroad (FDI) can be defined as an operation done by an investor based in a country (country of origin) acquires assets in another country (host country) with intention to manage it. This intention of control assures differentiation between FDI and portfolio investments.

Multinational firm is main vector across FDI. Under constraint of the maximization of profit, business companies always try to delocalize their production to have a benefit from less expensive labor force and the climate of more liberal investment.

On the host country, FDI includes the real property like the plants, the buildings of the multinational business companies. As a result of this ownership FDI defined as a flow of capital of long term, appears more stable. Moreover, FDI can make easier the imperceptible transfer of the credit as technology, skill and know-how, so it stimulates directly productivity and growth by increasing the level of exports. Therefore, FDI can ensure stable accesses to steps foreigners. Furthermore, the realization of investments increases the wages because of the increase of income. So, FDI appears as a form of flow of desirable capital in comparison with the others being more volatile. Because of this, those countries are in competition to use advantages of FDI that they recalled. It caused a strong increase of FDI since 1980.

Since 1970s and 1980s FDI was rather shared between the countries exporting of the capital. One of the beneficial effects of FDI became obvious with the increase of their share in the worldwide GDP actual. Since the eighties, developing countries made decisive regulations for multinational firms in order to augment their share in this market. Turkey and Poland can be seen as examples to this group of countries.

But the direction of the FDI is still very important problem of the world economy. Even, during 15 last years, external flows of FDI coming from the developing countries increase faster than those coming from developed countries. When we compare the proportion of external flows of FDI, it is possible to see that some developing countries have much more investments. Moreover, between 1990 and 2003 external stocks of FDI of the developing countries is equal to 10% of world external stock whereas the developed countries share is 88%. And as for the interior stock of FDI for the same period; the share of the developing countries is 30% while that the share of developed countries is 67%. Thus, as FDI are considered essential in the integration process of the developing countries, national governments tried to abolish the adverse circumstances to investments. Turkey and Poland belong to this group of country.

In this paper, we will concentrate analyze of FDI in Turkey since eighties by analyzing the investment incentive policies of Turkey within a comparison with Poland case.

Why we have chosen Poland as a model country in this paper? What is the initiative factor encouraged us to concentrate on Poland case?

In 1979, the World Bank had classified Poland as the tenth world industrial power. 1989 is the year which is the base year of construction of the democracy and market economy. Before it had a closed economy, and there wasn't any FDI. Therefore, Poland passed from an economic situation qualified as one of the top ten industrial powers within the framework of a planned economy and a socialist mode, to an economic situation and policy which could be described as following days of war.

Over the period of 1991-2001, we see certain series of reform of Poland based on the development of the market economy and the private area, the change of the taxation system and the modernization of the financial system, the encouragement of FDI was one of the components of this policy. On the basis of the incentive policies of Poland, we will try to see the way followed by Turkey and determine his insufficiency in this point.

This success of Poland and its resemblances to Turkey such as population growth and economic potential pushed us to analyze the power of the country to attract direct investment.

What is the role of the EU to attract more FDI? Is it possible to follow new member Poland as a model country for Turkey's investment policy and its economical effects?

To be able to do this analysis first of all the concept of the direct investment and its evolution in Union will be analyzed in the first chapter. The departure of analysis is always the key role of multinational firms. Then in the second chapter to answer problems we will concentrate on the foreign direct investments which circulate in Union?

In the second chapter we will focus on the power of Turkey to attract the direct investment with the comparison of the FDI in Poland. The principal aim of this chapter is to make a concretization of the determining factors of the FDI which are analyzed in the first chapter to show the obstacles of Turkey for the foreign investors

In conclusion, we will try to determine the strategies to increase direct investments in Turkey and find an answer if membership of the Turkey to EU will guarantee to obtain much more investment.

CHAPTER I

1. FOREIGN DIRECT INVESTMENT IN EUROPEAN UNION

Since the eighties when liberal policies become more expansive, FDI as a determinant of open market economy has been increasing day by day. In nineties, trough influences of globalization, economic policies of all countries become interdependent to each other. With positive effects of FDI on economic development, developing countries have made necessary regulations on their economic policies to have more favorable investment environment.

In this context, we aimed to define what means the term of "FDI" in economical literature, how its evolution in European Union and what is the fundamental politic issue of FDI in Europe.

1.1. DEFINITION and DETERMINANTS of FDI

A foreign direct investment (FDI) indicates the operation made in a foreign economy to acquire lasting interest. It is needed a long-term relation between parent enterprise and a foreign affiliate and this parent enterprise should have significant influence on management of the foreign affiliate. In order to define as FDI this parent must have control over its foreign affiliate. In this case, control is defined as owning at least 10% of the ordinary shares.[1]

According to the general point of view, FDI is the main form of globalization of multinational companies. Indeed, between 1983 and 1990, FDI increases at worldwide level, four times more than production and three times more than trade. This process continues in 1990s. According to the UNCTAD's data, the FDI estimated at 160 billions dollars in 1991, attained 1271 billion dollars in 2000. That's why a lot of developing countries have changed their investment policy in favor of more liberalization and much more investment promotion. In 1995, there were 106 changes in 64 countries but in 2002, 70 countries made completely 248 changes about FDI to give much more incentives to foreign investors.

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[1] *Dunning, J. H. (1993). Multinational enterprises and the global economy. Wokingham, England ; Reading, Mass, Addison-Wesley*

The governments of these markets are impassioned by FDI which brings new technology and how-know. Indeed they attribute facilities like tax reductions, subsidies in the energy field or grant thousands of dollars per year for the creation of new jobs in order to attract more investments. In addition, they are often wary nevertheless of their contributions. In fact, they try to protect their local industries by limiting operations from foreign companies, obliging them to buy national raw materials or to settle in order to joint-venture agreements. (Example: Carrefour and Sabancı in Turkey)

Despite the increasing request to attract more investment, effects of the foreign direct investments are still polemical. Both approaches absolutely different are confronted, debates concentrate on the role of FMN and FDI in emerging market economy. Some people defend their contribution to economical development whereas others think that these investments are harmful. [2] On the one hand the multinational firms are considered as the most important aspect of penetration and exploitation imperialist of the developing countries (DC) since these companies increase their dependence by looking further into the process of dependent development. According to them, FDI is an efficient means by which the capitalist economy can dominate and exploit developing countries.

On the other hand there are persons who think that multinational firms make possible the use of total worldwide resources with the minimum efficiency and the minimum of wasting. They note that their presence is vital for the fast growth and development of all economies, especially those of developing countries. They help to speed up the economic development process in the host country. They say that investments bring new capital and technology, decrease unemployment and improve life standards.[3] According to the research of the World Bank which compares the growth rates of countries, China is located at the first rank as a developing country among the 30 developed countries of the world with a grow rate of 8,6 % in the 33 previous years (1965-1998). The foreign direct investments of the multinational business companies

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[2] *Jacques, BRASSEUIL, Introduction à l'Economie de Developpement, Paris, Armand Colin, 1993, p.149*

[3] *Adeoye A AKINSANYA, op.cit., p.51*

which enter to China especially after the nineties played an essential role in the fast growth of China. [4](Karluk 2001)Thus, the awaited benefits of the establishment of a multinational are abundantly described in the economic literature.

Therefore which are the factors which push the firms to invest apart from their markets?

According to four abroad type of FDI we can classify the motivations of the firms to invest market-seeking FDI, resource-seeking FDI, strategic-asset seeking FDI and efficiency-seeking FDI. [5] (Dunning 1992)

The first type of FDI-market seeking- moves in order to satisfy the demand of the local and regional markets by the local production. When the domestic demand is saturated, the firm aims at reaching new local and regional markets. In this case, the size of the new market is the most attractive determining factor. And the obstacles to enter to local markets like the commercial tariffs or the freight cost are the motivations which push the investors to make this type of FDI. This is why; we can define this type of FDI like investments substitutes in exports.

The second type of FDI relates to the investments moved by the offer conditions to acquire factors of production that are more efficient than those obtainable in the home economy of the firm like natural resources, raw materials and of cheap labor force. Contrary to the first type of FDI, it is directed towards export. This is why; the labor cost is important particularly in the manufacturing sector. The abundance of the natural resources is another factor which encourages this form of FDI. For example seeking natural resources in the Middle East and Africa, or cheap labor in Southeast Asia and Eastern Europe

The third form of FDI –strategic asset seeking- means the integration of a firm with another foreign firm in order to increase their competitiveness at the international level for which it prefers to build strategic assets like the new technology or the distribution networks. The principal goal is to profit from the assets, advantages of production, the market of the other firm in order to weaken the imperfections of the market.

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[4] *Rıdvan KARLUK, "Türkiye'de Doğrudan Yabancı Yatırımların Ekonomik Büyümeye Katkısı", Ekonomie, İstikrar, Büyüme ve Yabancı Sermaye, Ankara, TCMB, 2001, p.112*

[5] *John H. DUNNING., Multinational Entreprises and The Global Economy, Wokingham, England, 1992, p.38*

The last type is also in order to benefit from the factorial equipments, the cultures, the institutional dispositions, the political and economic systems and the structures of different markets. When the Czech Republic, Estonia, Hungary, Poland and Slovenia have been member of the EU, the number of this type of FDI increased in these countries, because the advantages and the commercial facilities coming from integration are the essential motivations for the foreign investors. [6] It is suggested that this type of FDI comes after either resource or market seeking investments have been realized. Typically, this type of FDI is mostly widely practiced between developed economies; especially those within closely integrated markets

The positive effect of economic integration on the FDI is not a new approach. The establishment of EUROPEAN ECONOMIC COMMUNITY has increased the American investments towards Common Market countries .According to this approach; the institutions have a critical role within the FDI indicators. The country's attractiveness depends more on judicial regulation and quality of bureaucracy.

According to constraint theory indicated by Farmer and Richman (International Business: Year Operational Theory, 1966), two business men, there are 3 types of constraints on the FDI: sociological constraints as for the nationalism and xenophobia; political and lawful constraints such as national regulations and restrictions for the foreign investors and the economic constraints as balance-of-payments problems, trade volume and inflationist tendencies. [7]

Consequently, it is possible to group multinational firm determinants like spatial determinants comprising a large market and a cheap labor force and the institutional determinants indicating local conditions necessary in order to carry out businesses.

Now, we will analyze the relation between multinational firms and foreign direct investments. Indeed, the foreign direct investments are integral part of the global strategy of the firms to establish a permanent position in a foreign economy

[6] *Nauro F. CAMPOS, Yuko KINOSHITA, "Why Does FDI Go Where it Goes? New Evidence from the Transition Economies", IMF Working Paper WP/03/228*

[7] *Abdelrahman A. AHMED, op.cit., 57*

The question thus should be raised: What are main criteria which distinguish a multinational business company from a domestic business company?

1.2 MULTINATIONAL FIRMS and FDI

The definition of the multinational is many. According to Michalet, a multinational company is a firm or a group which established abroad several subsidiary companies in several countries with an organization conceived on a world scale abroad.[8] The term of multinational business companies refers to the economic action which drives the firms out of the national territory, in contrast with the domestic business companies.

According to Ghertmen, the multinational corporation has stable activities and control in at least two countries abroad where it accomplishes more than 10 % of its sales turnover. [9] (Ghertman 1982) Any lower investment in 10 % of ordinary shares is counted as portfolio investment.

According to Jean Louis Mucchelli, a multinational business company is a firm which fabricates all or a party of a product abroad. A central question is to know if the multinational business companies (FMN) were transformed into global business companies because there are degrees in the globalization of the firms which goes from local enterprise to global enterprise.[10](Mucchelli 1994)

It is obtained starting from the average of three indicators: the share of active had abroad, the share of the sales abroad and the share of employment abroad. With a presence abroad more important and more spread, they benefited from the liberalization of the trade and the foreign direct investments to integrate their operations. The multinational firm is thus the result of FDI process.

The business company can know several stages of organization and strategy: regional, multiregional and worldwide FDI. In this last stage, there will be globalization of the

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[8] *Wladmir ANDREFF, op.cit., p.12*

[9] *Michel GHERTMAN, Les Multinationales, Paris, Presse Universitaires de France, 1982, p.15*

[10] *Jean Louis MUCCHIELLI , Relations economiques Internationales, Paris, Hachette, 1994, p.23*

strategy, all countries will be considered red to be a unique and the same market where the business company will intervene simultaneously. [11]

Although the history of the multinational firms is more recently than nation state, they are considered to be one of the main actors of the international system. The international economic system must take into account requirements, interests and objective of the multinationals. [12] According to the Report of World FDI Financial standing 2001 of United Nations, the resources of the 200 biggest multinational are worth 7, 1 trill dollars. This figure which corresponds to a quarter of world FDI economic activities is superior to the total economic greatness of the 182 member countries among 189 member countries of United Nations. [13] So the globalization is produced by a restricted number of big firms which fabricate the biggest part of the vehicles which run in the world; the three or four big societies which produce airplanes, the big news agencies, some big computer firms, about twenties the biggest banks: it is about some hundred of big societies. [14]

On the contrary, their dispersion is very different. Small multinational firms turn generally to the countries developed with close to mother country. But big multinational firms choose to invest in developing countries by adapting all risks of these countries. For instance, the Swedish firms prefer in general Northern Europe and EU, but business companies which are the biggest employers of the world concentrate their job not on industrialized countries. The multinational firms occupying the areas of high-tech have to turn to industrial countries having a market of skilled job which can use this technology. [15] (Birinci 1997) In this context, according to researches, a lot of multinational listed in the world come from developed countries. The analysis of geographical and sectoral origins of the first hundreds multinational point out that the United States remain main country of origin with twenty-seven firms. Then, France, Germany and United Kingdom come. [16]

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[11] *Jean Louis MUCCHIELLI, op.cit., p.23*

[12] *Philippe HUGON, Economie politique internationale et mondialisation, Economica, 1997, p.43*

[13] *Deniz Ülke ARIBOĞAN, Globalleşme Senaryosunun Aktörleri, İstanbul, Der Yayınları, 2001, p.75*

[14] *Olivier DOLFUS, La Mondialisation, Paris, Presses de Science Po, 1997, p.13*

[15] *Yüksel BİRİNCİ, ‘‘Globalleşme ve İktisat Politikası’’, Banka ve Ekonomik Yorumlar, Yay. no.34, İstanbul, Ekim 1997, p.10*

[16] *CNUCED, Rapport 2001 sur l'investissements dans le monde, p.18*

As a result, multinational firms which ownership and capital belong to different entrepreneurs, and investment and marketing activities realize in several countries[17], play central role in world FDI economic incorporation by attaching importance to technological development and direct investments. It is necessary to see into detailed the evolution of these foreign direct investments in the EU in order to understand better general tendency in connection with these investments. We will analyze the main stages which contribute to the evolution of the FDI in the Union.

1.3. EVOLUTION of FDI in EUROPE

We see that before I World War, it is Europe which plays an essential role to obtain FDI in the world. Indeed, Europe was the only region which could invest in the world.[18]

During 1930s, the flows of international capitals were influenced by political instabilities and economic crises. Owing to two world wars, the investments of Europe stopped and in these years, the role of USA augmented. Moreover, after the 2nd world war, national movements and racist policies in certain countries diminished the level of FDI.

During 1950s, the foundation of the Community European speeded up the investments of the American business companies. [19] The investments of USA towards the EC accomplished as the public investments for the reconstruction of Europe after war. For instance, in 1946 3, 75 billion dollars of credit were given to England so that the country became stable. [20]

As treaties for the accomplishment of single market influence directly the volume of the direct investments, The treaty of Rome which came into force on January 1st, 1958 envisage the free movement of property, services, persons and capitals and this drew away the increase of the investments which enter the EU (EUROPEAN

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[17] *Ahmet SELAMOĞLU, Küreselleşme Sürecinde İnsan Kaynağı, İstanbul, Türk Ağır Sanyii ve Hizmet Sektörü Kamu İşverenleri Sendikası Yayını, Yay..no: 27, 1998, p.20*

[18] *Hakan ONGAN, "Doğrudan yabancı sermaye yatırımları ve turkiye" (basılmamıs doktora tezi, isatanbul üniversitesi, 1998), s.34*

[19]-[20] *Tony JUDT, "A Grand Illusion? An Essay on Europe, Penguin Books, London, 1997, p. 126.*

ECONOMIC COMMUNITY). The adoption of the Customs Union in 1958 played a role importing in this increase.

Owing to check application from the Customs Union between countries members, investments more and more augmented in the EU and until 1973, the EU has pulled not much near 75 % of fluxes of the complete direct investments accomplished worldwide. [21]

The American business companies which make exports to member states, after passage to the Customs Union, orientated in the foreign direct investments to be excluded from custom. [22]

Until 1970 Europe continued being the biggest region of reception of the direct investments. During this period the investments which enter to Europe and that go out of Europe earned the high speed. But the crisis of energy in 1970s on one hand, and the destruction of the system of Breton Woods, and in suite that of stable regime of exchange on the other hand, these last drew away the reduction of the level of the increase of FDI in Europe and in the world also. [23]

As for the eighties, in 1981 Greece and in 1986 Spain and Portugal became the members. In 1987, the Unique Act was a big stage which encourages the foreign direct investments in the Union.

The White book which was published in 1985 and the Unique Act in 1987 which aims the institution of single market; they are considered to be the first laws which interest investments in Europe

In the White Book they determined 282 subjects which can be analyzed in the 3 categories:

- The abolition of physical obstacles: Except security public, the main purpose of the patrols of border and custom houses, it is technical and customs restrictions which are between countries. But these limitative controls cause the additional expenses all at once. By taking into account of all, since 1993 they all were abolished.

[21] *George N. YANNOPOULOS op.cit., p.237*
[22] *George N. YANNOPOULOS, op.cit., p.243*
[23] *Jean Pierre Raes, op.cit., p.14*

- The abolition of technical obstacles: By allowing the economies of scale which return more competitive trade, this abolition contributes to the establishment of single market. The most part of technical obstacles were abolished since 1993.
- The abolition of customs obstacles: The existence of customs controls which augments changeable competition and changeable prices, it is one of the results of different custom systems between the members. But in these domain countries members acquired a big success: the abrogation of customhouses and the establishment of the system of VAT. On the contrary for certain products, there is still different rate of VAT.

The free movement of the capital which is one of the main purposes of single market is important for the flows of FDI. This process which begins with the treaty of Rome was fulfilled by the treaty of Maastricht[24] that the free movement of capital came into force.

As for 1990s, Austria, Finland and Sweden became the members of the European Union. So that, the Union which takes more political weight in the worldwFDI and which became a larger economic market started to be interested in the close countries and in the oversea countries. At the beginning of 1990s, owing to the collapse of the Soviet block and following their candidate statue, the Union began more and more being interested in them. Thanks to their stable structure and their program of privatization, these ex-communist countries notably which are by means of Europe drew the big party of the direct investments of the EU.

The establishment of a single market and Economic and monetary Union o are the most important mailmen who play an essential role in this increase of the level of FDI. When they count on the annual foundation of the fluxes of world FDI which came true between 1995 and on 1999, the flux of entrance towards countries members of the Union corresponds to 25 % of the world FDI complete flux. In 2000, depending on the tendency of rise in the world, the volume of the FDI flow entering in the EU arrived at

[24] *Jean-Michel SERVAIS, Universal Labor Standards and National Cultures, Comparative Labor &Policy Journal v.26 no :1 (Fall 2004) p.14*

her level highest until our days: 696 million dollar which represents about half of the FDI flow entering the whole world which is equal to 1, 3 billion dollars. But the last figures show us that the trend of rise does not continue after this year. About the year 2004, the share of the EU in these investments falls regularly and it corresponds to one of third of flows of entry of the world FDI. [25]

The share of the Union in 2000 in the interior world stock of FDI is equal 37, 6 %.[23] This figure shows us that the EU is the largest area which attracts investments. When they look at the role of the EU in outgoing world stock, its share in 2000 reached to 52 % which was 40, 6 % in 1980. During 5 years from 1995 to 1999, the volume of FDI inflows improved more and more. In 2004, it represents of it even more half. [26] Even if the USA and EU were in the same level in 1980 as a FDI outflow stock, either enlargement or evolutions in integration contributed to the progressive increase in the volume of investments carried out by the Union towards outside. In 2000, the EU arrived at the volume of investment 3 times more than USA. This is the result not only of European integration, but also of the deceleration of the American economy. If we compare the figures of net FDI outflows stock of the Union with net FDI inflows stock, it is possible to say that the EU is the investisseuse area of the foreign direct investment.

During 20 last years, the most important penetration modes of FDI are mergers and acquisitions. 70 % of acquisitions carried out in world FDI belong to the EU. But the volume of mergers and acquisitions decreased in 2000s. The number of purchases in the world which were 1, 1 billion dollars in 2000 moved back in 380 million dollars in 2004. The part of the EU in these purchases bent down from 803 million dollars to 164 millions. As for the volume of sales in the EU, it was also influenced of the general trend of fall. Even if the value of sales was 601 million dollars in 2000, in 4 years, it decreased 178 million dollars. [27]

After treatment of the general evolution of FDI in the EU, it is also necessary to analyze the frame in which countries members contact to have a favourable environment investment. It is the initiative on investments which is already adopted

[25] *OECD FACTBOOK 2005, Economic Globalization-FDI Flows and Stocks* *http://www.oecd.org/document/ 05/06/2006*

[26] *World Investment Report 2004, The Shift Towards Services, UNCTAD, New York and Geneva 2004*

[27] *UNCTAD, op.cit.2005, p.254*

within the OECD to be able to give a consistent picture in all policies of investment of countries.

1.4 OECD Initiative on Investment for Development: Policy for Investment

The efforts of national policies and public institutions and international co-operation are core elements in creation of an attractive environment for all investors. In this context, policy framework for investment which is a component of the OECD Initiative on Investment for Development was adopted on May 11, 2006. A working group of representatives from Member States and non-member in OECD developed its content and structure.

Its goal is to promote the transparency and a suitable division of the missions and responsibilities between the governments, the companies and the other actors who support development and fight against poverty. Its principal aim is to encourage policy makers to ask appropriate questions about their economy, their institutions and their policy settings in order to identify their priorities, to develop an effective set of policies and to evaluate progress.

Even if our paper specifically relates to the evolution of FDI in European Union in which all the Member States are also members to OECD, this framework is general reference applied by all Member State of Union. It treats respective responsibilities for the governments, the companies and other parts concerned.

In order to understand better legal procedures for an attractive investment environment that is attractive to investment, the framework must be treated and public policies must be interrogated to be in conformity with the framework.

The framework concerns ten policy domains selected in order to ensure sustainable development relating to macroeconomic stability, social cohesion and establishment of the rule of law. The ten chapters covers trade policy; competition policy; tax policy; corporate governance; policies for promoting responsible business conduct; human resource development; infrastructure and financial sector development; and public governance.[28]

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[28] http://www.oecd.org/dataoecd/1/31/36671400.pdf

The principal role of the public authority is initially an establishment of a "policy of investment" including the Transparency, property protection and non-discrimination which are the 3 investment policy principles.
The transparent information is a critical determinant in investment decisions of foreign investors who will function with very different regulatory systems, cultures and administrative frameworks from their own. Transparent framework for investment help all of the investors to assess potential investment opportunities in a well functioned investment environment.
Intellectual property rights can be envisaged like an incentive given to investors to invest in research and development, and ultimately lead to the creation of innovative products and processes. The investors must know that their rights are recognized and protected within and across economies. Moreover, they give to investors the confidence necessary to share new technologies which bring higher productivity and the growth.
The non-discrimination principle provides that all investors, both foreign and domestic, are beneficiary of the equivalent conditions. The concept of "national treatment" provides that a government treat enterprises equally, no less favorably than domestic enterprises in like situations.
As a country wishes to establish a healthy investment climate, *investment promotion* and facilitation measures can be useful instruments to attract new investors. If all these activities can be centralized in a single agency, it will rise a positive image of the economy because of the offer of highlight profitable investment opportunities.
Moreover, centralizing of foreign investment promotion and facilitation activities can contribute to have more effective cost, engagement full with the state near the promotion investment agencies increases opportunity to present a coherent impression of a country's attractiveness to investors. Indeed these agencies contribute to facilitate a communication between the investors and the public authorities. More relation with the police headquarters and the representatives of the private sector ensures more visibility and credibility. According to public decision makers these agencies are the principal sources of information concerning foreign investors. On the eyes of the

investors, they are one of the most effective channels of communication concerning governmental activities to establish a climate of the investment.

Owing to long delays and costly procedures to establish a new enterprise, many governments have introduced new reforms to simplify the process of establishing a new business. The establishment of the "one-stop shop" allows investors to access information for all entrepreneurial activity and grants the permissions and licenses necessary, so facilitate investment. On the other hand, one-stop shops' make it easier for the government to centralize the quality provision of the services.

The promotion investment agencies of promotion of the investments collaborate with several international organizations which facilitate the exchange of good practices on the strategies of investment promotion and help the agencies to reinforce their capacity of action.

Nowadays the relation between the international trade and the investments has gained a new dimension. Non conformity of trade policies and customs procedures to the internationally recognized standards increases business cost because of the delay in Trans border deliveries and discourages investment. To be able to prevent these disadvantageous, the governments must apply a trade policy well determined. The interaction of the exchanges with the investment is undeniable. The international trade evaluates the impact of the customs, regulatory and administrative procedures on the investment environment. Moreover, the transparency in trade policy has positive effects on creation of a more stable environment in which companies can make their investment plans.

If the government seeks to promote the investments by means of the trade policies, this should be done in transparency and respect to international obligations, such as WTO Agreement on Subsidies and Countervailing Measures. The trade agreements in conformity with the WTO's system attract more investments by developing the markets and increasing the effectiveness of the investment

To be able to understand the rules of the game across the investors and legal authority, we need an effective competition policy in which competition laws must be transparent and must be made based on non-discriminatory criteria.

Transparency means to provide easy accessibility to all interested parties for all necessary information by offering guidance on the interpretation of the competition laws and by publishing reasons for judiciary and regulatory agency decisions. To increase the potential contribution of competition policy to a favourable investment environment, to obtain political commitment is important. Indeed a strong commitment at the political level in order to apply and to supervise the regulations can protect the competition authorities from regulatory capture.

One of the principal elements which directly influence investment decisions is tax discriminations. Where framework conditions or market characteristics are weak, governments address the sources of a weak investment environment and by using of special tax incentives, they give low tax burden, but in this case, there is always possibility that tax incentives may dissuade investors owing to project cost and risk a misallocation of resources.

The corporation income tax depends on the size and age of an enterprise, its ownership structure, type of the business activity and its location. .

The authorities in charge of the tax policy work on a tax treaty network that is helpful to attract investment. This network reduces uncertainty on tax system and the risks for double taxation of income. In addition, due to the tax treaties which provide exchange of information among tax authorities, it is possible to fight against aggressive forms of tax planning on foreign or national source income.

An effective corporate governance framework is based on the effective legal, regulatory and institutional foundation which includes regulation, self-regulatory arrangements, voluntary commitments and business practices related to a country's specific economic circumstances, history and tradition. It must concern all market actors when they enter into contractual relations.

Participation in general shareholder meetings is a fundamental right of all shareholders, both foreign and domestic. Good governance of the company depends on main role played by the board that should guide corporate strategy, monitor managerial performance and ensure respect to legislation. In case of the conflict, the boards have to act in the best interest of the company and its shareholders.

The public policies take into account always collective interests of their citizens. Within the framework of the "policies in favour of a behavior responsible for the companies", they aim at encouraging a dialogue on the codes of conduct of the companies. Therefore he governments collaborate with companies, trade unions and other civil society organizations in order to create *enabling environments for responsible business conduct* which aim at encouraging a dialogue with different market actors. If the enabling environment is well designed and based on clear distinction on the government and business role that cannot substitute for one another, the private and public sector actors will understand better its responsibilities and will be encouraged to support wellbeing for society.

For communicating societal expectations to companies, law-making is the best way, it is creating a stable, predictable environment conducive to investment. Prospects for responsible business conduct are not only linked through a multitude of other channels but also influence the quality of the investment environment. There are some instruments by which governments back for business conduct – such as the *OECD Guidelines for Multinational Enterprises.* envelope the range of areas which are about responsible business conduct, including human rights, provide employment, chain management and industrial relations, the environment, combating bribery, consumer interests, science and technology, disclosure of information, competition and taxation.[29]

Governments can facilitate and encourage companies' efforts by taking into consider companies' views on laws and enforcement practices. They can also gain their favor and provide ombudsman facilities. This gives to companies chance to complain about government decisions that they believe are unjust. In addition, by supplying guidance on appropriate compliance management practices, governments can admit and give support private initiatives to advance compliance.

Thirty-nine countries wherever they operate in the world have committed to advancing responsible business conduct of their multinational enterprises under the *OECD Guidelines for Multinational Enterprises*.

There are multiple dimensions of Human resource development, covering educational attainment, workforce skills, population health and the set of employment policies that connect people to business enterprises with appropriate skills and the ability to adapt quickly to new challenges. Each of them is very important to create a favourable environment for investment, but all of them should be in conformity with

[29] http://www.oecd.org/dataoecd/1/31/36671400.pdf

development and also investment policies applied in the country. Many countries don't invest sufficiently in human capital, due in part to a range of market failures and poverty. In absence of policy intervention to educational investment, under-skills workers into the labour market will increase and they won't satisfy requirements of business.

The population higher educated is essential to be full assumed of the benefits of business investment. Higher education institutions participate in equipping young people with the workforce skills needed by business. The lack of the skilled workers is thus an obstacle with the development of the investment.

In order to support training, the public authorities can apply multiple policy instruments such as co-financing arrangements, tax incentive schemes and subsidies that are specific to country. What is the most important is to ensure stable training programs connected with business requirements

In addition; invest in education ensure healthy population et so that support the productivity of workforce. Moreover, the aim of main labour standards that is based on the basic human rights in workforce is to eliminate all forms of forced or compulsory labour, to abolish child labour, to uphold the principle of non-discrimination in respect of employment and occupation and to ensure the freedom of association and the right to collective bargaining.

These core labour standards push workforce to improve their qualifications. Many countries have ratified ILO core labour standard conventions including labour standards, but certain disparities still continue between the countries in application and respect of these standards. Indeed, the multinational firms generally prefer to invest in countries where basic human and worker rights are protected and enforced.

Good infrastructures play an important role for foreign investments by connecting firms to their customers and their suppliers and enlarging the size of the market. When the regulatory authorities and government infrastructure agencies have more operational independence, infrastructure investment performance improves.

Public governance is key driver ensuring coordination of reform regulation on the various levels of the administration in order to ensure coherence. The quality of the regulation has an influence important on the confidence and the decisions of all investors. As markets become more open, we need well-designed regulatory institutions but the diversity of the institutional systems and the institutional traditions influences regulatory reforms. That’s for this reason, a control mechanism is needed to ensure conformity and promote quality of the regulatory reforms. In addition, effective contributions of the national and foreign actors will be helpful to increase credibility of the process and respect to regulations.

Moreover, adaptation of provisions related to public governance, mostly in criminal law, but also in the civil and administrative regulations contributes to prevent and sanction corruption of domestic public officials. Apart from different international and regional anti-corruption instruments, international cooperation in the fight against corruption must be organized. For example, flow of bribes to public officials in host countries is wanted to be stopped by the OECD Convention of Combating Bribery of Foreign Public Officials in International Business Transactions. Other intergovernmental organizations such as the United Nations, the World Bank, the Asian Development Bank and the International Monetary Fund works by adopting measures aimed at fostering good governance and sanctioning corruption.

Consequently, it is necessary to call attention to the 3 general principles which are the reference for Member States of the Union. The first is the coherence of the policies. The second principle is transparency in the formulation and the implementation of the policies. The transparency supports a favourable investment environment by reducing uncertainties and risks for the investors. By taking account of all these reasons, the transparency one of the topics is included in each policy. The third principle is the regular evaluation of the impacts of the policies in force.

2. CASE STUDY: POLAND AND TURKEY

To be able to understand better the evolution of FDI in Turkey, we need compare it with Poland across FDI and its political effects. In this chapter, the aim is always to concretize the determinants of FDI which are analyzed in the first chapter.

We will mention also why we need compare Turkey with Poland which is new member of the EU. To be able to respond to main question- effect of membership to EU on FDI- we have to see developments of FDI in other country such as Poland which has a lot of similarities.

2.1. General Picture of the FDI in Poland

2.1.1. Volume of FDI in Polish Economy

Flows of FDI of the Western countries towards the new Member States of Eastern Europe started at the beginning of the Nineties during which the volume of the FDI in Poland also knew a considerable rise, thanks to the priority given to the economic growth by the Polish governments. The programs of reorganization and privatization, the creation of economic zones and the incentives tax, they are the principal reasons of the increase in the volume of the FDI in the country. It should not be forgotten that the prospect for adhesion at the EU also played an important role in the attractively of the country. Thanks to these good results obtained, Poland can be regarded as one of the most powerful economies of transition. As for the importance of this development in Poland, it could give example for the future of Turkey and the other applicant countries.

After having completed their passage of a system planned with the saving in walk, the FDI became essential for Poland which was to improve its production, to modernize the infrastructures and to transform its industrial and social structures in order to reach a stable economy and a sustained high growth. Today Poland, it is a Member State of the EU who adopted the "'acquis communautaire" and satisfied a certain number of economic conditions and political installations at the top of the Council European in Copenhagen in June 1993, from where "Criteria of Copenhagen". The collapse of blocks Soviet in 1989 facilitated the economic transition from Poland. Until the fall of Communism, like the other Central European countries and Eastern, Poland also had

relations very limited with the EU. But in two years, it enormously developed them in order to complete its passage of an economy plans with the saving in walk and the democracy as quickly as possible, but that was with the detriment of internal stability.
Poland has a lot of means to access to the FDI easily relating with confidence increased. It is a desirable country for the foreign investors.. However, the macroeconomic risks of imbalances are present and convergence with the former members of the EU has not been reached yet. [30]
The program of economic stabilization was applied by polish government under the control of IMF. On the other hand, at the beginning of this program there was a temporary failure and after the year 1991 the economy entered the process of the positive growth.[31]By this program, the zloty was evaluated of 58%, warp the restrictions of the currencies were released, hyperinflation was stopped, the subsidies were reduced and privatization had an acceleration from where the budget deficits were degraded. As of now, it is easier to include/understand the multitude of the FDI in Poland. [32]
At the beginning, the foreign investors were wary of this country because of the passage politically (passage of Communism to the democracy) and economically (passage of the planned economy with the liberal economy - democracy of market). They were faced with political, economic and social risks which came in particular from the anarchy of the transition. They didn't have any idea about the risks and opportunities which they could meet in this environment that nobody had already known. The fall of Communism was a revolution which can make profits but also losses. The adoption of the democracy could generate populism or a return of the radical right.
In the process of the privatization since 1990, Poland achieved to reduce the figure of the state firms from 8000 to 1000 and increase the figure of SMES (small and medium-sized company) from 1500 to 3 millions in 2004. [33] (Karabalik, 1998)There was a positive impact of growth on the charm of FDI. From 1992, by economic

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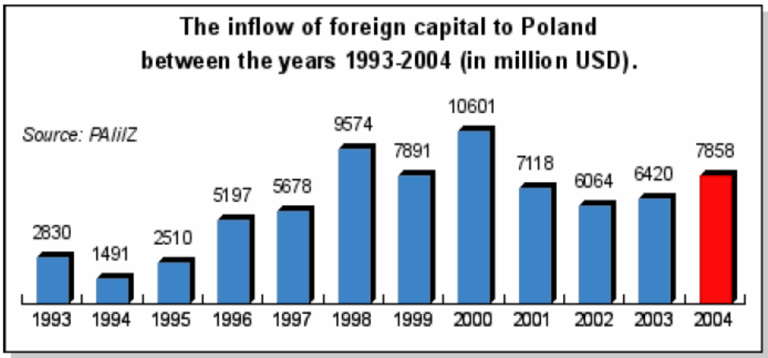
[30] *La Reusite Economique de la Pologne'', Problemes Economiques, No :2538, 15 octobre 1997, p.10*
[31] *Parzymies STANISLAW, ''Poland negociates EU accession'', p.1-2*
[32] *Sevgi İNECİ, op.cit., p.15*
[33] *Hakan KARABALIK, ''Orta Avrupa ülkelerinde yabancı sermaye yatırımları ve özelleştirme'', Dış Ticaret Dergisi, sayı9, Nisan 1998, p.83*

development the volume of FDI has moved faster. In 1998, 40 % of FDI on PECO were attracted by Poland.

From 1992, Poland has drawn much more attention of the foreign investors, for the various reasons what one can classify like following: its fast, stable and continued growth; its size of Polish market with 38,1 inhabitants; its continuation of the policy of “market-oriented”; its labor force productive, justified well, expensive and not qualified; its strategic importance between Eastern EU and markets; the success of the already existing firms foreign since 1990, the application of same principles of the free trade and the open market economy either for the domestic firms or for the foreign firms; incentives for the specific investments, the supports of the international institutions such as the IMF and the World Bank.

Graphic 1

FDI in Poland



Source: http://www.paiz.pl

As we can see on graphic 1, the level of flows of FDI was modest up to 1994, but flows of FDI entered to the trend of rise in 1995. Poland attracted a record amount of foreign investments in 2000 of which the 4 billion dollars were come from the sale from Telekomunikacja Polska. At the end of 2002, Poland through the total amount of the FDI had master key in the first place between the PECO. Even if the stagnation in 2003 of the entry of the foreign investments (6,4 billion dollars against 6,06 in 2002), according to the research of the Polish organization PAIIZ, Poland continues to be the country which attracts the most FDI among the PECO. It received 1% of FDI which circulated in the whole world in 2003. On the other hand, since 2003 the amount of the entering FDI has risen slowly with the favor of many projects of greenfield, and the process of privatization knows a Net deceleration. According to authorities' the progressive resumption of the FDI recorded, in 2004 7,8 and in 2005 8,7 billion dollars would continue to accelerate and flows of entering FDI could be around 10 billion dollars in 2006.

Moreover, the high level of the FDI in Poland comes from its capacity of local market composed of 38, 1 million inhabitants. The access to a walk with strong growth potential is the first motivation. Lastly, successes of the companies present since the beginning of years 1990 has encouraged those which want to enter to the country. The process of integration of Poland at the EU encouraged the investors more to place their capital in this country. The agreements have accelerated the speed of integration of these two areas, and the "acquis communautaire" played a great part for the increase in the transparency and the creation of an pleasant atmosphere for the investments. Indeed, one noted the very beneficial effects of these investments on this host country.

Poland as a member state still continues to profit from the Community transfers (Funds Headlight, ISPA and SAPARD) by which the domestic demand is constant by creating job and by increasing the national income. They are used for the financing of research and of the development, the policies of education and the development of the infrastructures and they indirectly support the entry of the FDI by creating an environment favorable to the investment. With dimensions of all these efforts, which is that one can see in more with respect to the policies followed by the Polish governments?

2.1.2 Role of the Polish Government in Attraction of FDI

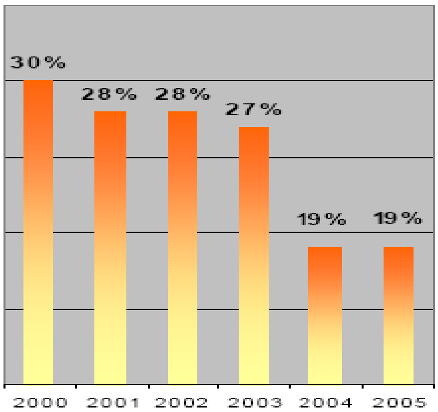
2.1.2.1 Tax Incentives

Owing to adhesion to EU, Polish government modified the legislative framework and accepted a development policy in conformity with the regulation of the EU in order to support the competitiveness of its territory against international competition.

The competition of taxes between the countries in order to attract more investment became more intense in the last decade. It proceeded in the form of reduction of the rate of nominal tax on the companies of the capital (Nominal Corporate Income Tax Rate), of the accelerated depreciation, the generous holidays of taxes (Tax holidays)
As for Poland, fiscal reform 2000 anticipated the gradual reduction in the rate of corporation tax of capital within 5 year (since 2000 until 2004). The final fiscal tax rate on the societies of capitals was reduced from 38 % in 1998 to 19 % in 2004. A so significant reduction of the fiscal tax rate has a great impact on the competitiveness of the country and stimulates the volume of the FDI.

Graph 2

Evolution of the Corporation Tax



2.1.2.2 Tax Incentives

After the 1e January 2001, the commercial activities led by non-residents in Poland are subjected to the law of the Commercial activity of November 19, 1999 and the Code of Commercial Companies of September 15, 2000. The physical entities foreigners and people can function in the country according to general principles' applicable to the domestic contractors. It is possible establishment of a company with the foreign participation without any authorization of any body of official administration.[34]

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[34] *www.unido.pl/guide/File05w.htm*

Moreover, in order to simplify the procedures of creation of company, one adopted "the law on economic freedom" at July 2004 which envisages the creation of a single counter, in accordance with the framework of action for the investments, that which will be operational from January 1, 2007 and thus the reduction in the number of activities those which depend on the administrative authorization concerning six against a score previously. The new law on the bankruptcy which replaced that of 1934 came into effect on October 1, 2003 for the simplification also of the procedures.
As for the other incentives made by the Polish government to encourage the investors to prefer Poland as a their place of investment, one sees the foundation of the Polish agency for the foreign investment whose 3 principal objectives are to help the alien companies to invest in Poland, to support Poland like attractive place for the investment and with advising Polish authorities on the way in which to improve of the laws concerning the foreign investment. PAIIZ offers a service of information and council to the investors free. Indeed, the lack of information constitutes a negative factor for the FDI. On the other hand, during a few years PAIIZ seems to miss financial means and human resources to become a true consultant for the foreign investors in Poland. The transformation of the PAIIZ into a new Polish Agency of the economic promotion (PAPG) which would have foreign branches localized in the principal countries of outgoing FDI. [35]
By offering his assistance to various potential foreign investors, one sees another organization which plays an important part in the promotion of the foreign direct investment; it is the Office of Warsaw of the Organization of Industrial Development of the Nations Plain (UNIDO). In 1983 it founded its office of promotion of investment and of technology and thus it became one of the first international organizations for the establishment of the close connections with Poland. The office of UNIDO in Warsaw is still very active and since the eighties, it has organized the Forums of the international Investors in order to give information on the environment and the occasions of investment in Poland.

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[35] *Missions Economiques, op.cit., p.4*

Finally, the reliability and the stability of the lawful framework of the FDI are related to exercise of the state, the absence of transparency in the decisions and a heavy bureaucracy. The foreign companies established in Poland complain about the instability of the taxation rules and their application.

2.2 General Picture of FDI in Turkey

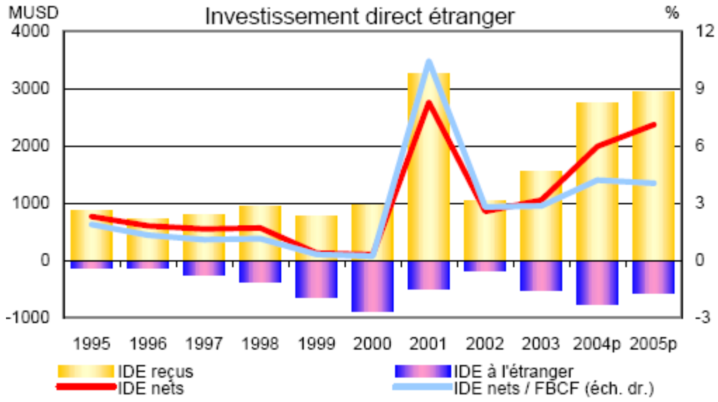
2.2.1 Volume of FDI in Turkish Economy

Turkey has been in a process of change and reforms since the beginning of Eighties in order to complete its passage from a managed economy to market economy. It agreed to liberalize its economy for the Copenhagen criteria and to adhere to the EU.

By making the Decisions of Stability in January 24, 1980, Turkey left the planned economy. Before this date, we can say that the foreign investment did not enter to Turkey on high level. During the 25 years of 1954 to 1980, the total amount of the FDI carried out was 228 million dollars and the total number of the multinational firms was approximately 100. After the Decisions of Stability, the amount of the FDI improved more and more. However, the country was able to obtain only half of the fact that it had considered, even if in the world economy, in particular after 1990, a rather important increase in the FDI is noted. The FDI exceeded for the first time of 200 million dollars in 1987 and reached of 1 billion dollar in 1990. Since this date, we see that FDI remained with near in the same level. However, these evolutions carried out compared to the Eighties were not sufficient when the economic potential and the liberal political economies of Turkey and the world distribution of the FDI are considered.

Graph 3

FDI in Turkey



Resource: DGTPE Statistics, Missions Economics, 2005

As we follow on graphic 3, after having signed the agreement of the Customs union with the EU at January 1, 1996; as opposed to what one waited, an important entry of FDI was not carried out in Turkey. In 1997, 1 billion dollar while the amount of the authorized foreign capital is worth 1,6 billion dollars. In 1998, 976 million dollars and in 1999 817 million dollars entered to Turkey. It can be said that a constant reduction about the year 2000 whose principal result is the negative influence of the international crisis (in 1997 in Asia and 1998 in Russia). Moreover, at the time of this crisis, the earthquake of August 17, 1999; struck the cities which are located in the middle of Turkish economic activity with its contribution to the level of GDP was 34.7%.[36]

Since 2000, an increase in the entry of the FDI can be observed. The privatization of certain publicly-owned establishments and the joint-ventures played an important part in this rise. In 2001, the amount of the FDI which was in 2000 982 million dollars increased in a way enough striking and arrived at the highest level in the last 15 years: 3.2 billion dollars. The reason of the considerable rise of the year 2001 followed by the graph in top, it was the mode of rate of managed exchange. Indeed, the foreigners came to place their capital since there was no more the risk of Turkish devaluation of

[36] *Hazine Müsteşarlığı, Temel Ekonomik Göstergeler*
http://www.treasury.gov.tr/indext.htm

the book. The second reason is related to a license of mobile telephony bought by Aria, an Italian operator and with the sale of a Turkish bank which was within the framework of TMSF at another foreign bank. According to UNCTAD, during this time Turkey is with the 32nd row among the countries which attract more the foreign direct investments. [37]

As for the year 2002, due to the financial crisis in 2001 which was the most serious economic crisis since the Second World War and with the stagnation of the world economy, the amount of FDI carried out decreased to 1 billion dollar. The negative influence of political and macroeconomic instability is shown as a principal reason. Turkey thus obtained the 49th world row among the host countries through the FDI which are carried out from 1991 to 2002.[38]

The volume of flows of entry of the FDI which start to increase in 2003 could not reach on the level of the year 2001 but it was carried out 2.7 billion dollars clearly. [39] On the other hand, what is striking, it is that even if the tendency of fall in the world with respect to flows of entry of the FDI continues in 2003, Turkey increased its stock of investment contrary to the rest of the world. The most important reason is the role of new law of investment which came into effect the same year. As a total stock, Turkey has of 7.6% of its GDP in 2003. Between the countries which have more flow of entering investments, Turkey which was with 53rd row went up to 35e row in 2004.[40]

Last year Turkey attracted the most level of foreign direct investments: 9.7 billion dollars. Improvement of the macroeconomic indicators likes inflation, the economic growth and the rate of inflation; the negotiations of adhesion officially launched to the EU and the application of reform concerning the investments increased the attractiveness of the country. The activities of purchase in the financial sector and the attention from abroad to the adjudications of privatization are concrete examples for growing attractiveness of the country. For example; the foreign direct investments which enter to the country during the year 2005 by the activities of privatization correspond to 15% of the total amount of the investments. In addition, in 2005, the

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[37] *TCMB, Yıllık Rapor 2001, Ankara, TCMB, 2002, p.58*
[38] *UNCTAD, op.cit. 2003, p.235*
[39] *Voir l'annexe B, FDI flows, by region and economy, 2002-2004*
[40] *World Investment Report 2004; country fact sheet: Turkey, www.unctad.org/fdistatistics*

total number of the fusions and acquisitions carried out by the firms of origin foreigner was equal to 61 whose total value corresponds to 17,9 billion dollars of entering investments. [41]

More than 85% of the amount of the FDI carried out in Turkey in 2004 belongs to the countries OECD in which countries of the EU has completely of 78% in 2003 and of 81% in 2004. Since 1995, this rate has been always higher 70%. According to the amount of the investments entering between 2002 and 2005, they were Germany, Belgium, France, Holland, England and Italy which have of most of investments in Turkey.

When one looks at the number of the companies with foreign capital, even if there is an increase, it does not have there, even increase in the entries of the foreign investments and that indicates to us that the made foreign investment of the activities in the country, but in order to invest, it hesitates because of the mistrust of the investors. In 1980, the number of these companies not being that 78 increased to 11.688 until the end of the year 2005. [42] Since the middle of June 2003, there has completely been 5851 new FMN, their new dies and their participation whose 2292 firms were already founded in 2005. In addition, in 500 larger by companies, the number of the foreign firms with capital increased by 113 (in 1995) to 145 (in 2003) in eight years. [43]

As for set out again sectoral of the FDI, between the years of 1980-2002 the manufacturing sector was in the first rank (52.75% of the total entries) and the sector of services (44.53%) was in the second. [44] The same continuous tendency in 2003 and but as from the year the 2004 arrangement between two sectors changes.

According to quantities' of the Documents of Encouragement of the Investment which were regulated between the years 1980 and 2002, the shares of the sector of services increased more than the other sectors. [45] In 2005, as the quantities of document (209) and an amount of total investment (3.49 billion dollars), manufacturing industry was in the forefront with 164 documents. There were 35 documents in the sector of

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[41] *Hazine Müsteşarlığı, Uluslarası Doğrudan Yatırımlar Raporu 2005, p.16*
[42] *Hazine Müsteşarlığı, Yabancı Sermaye Raporu 2005, p.22*
[43] *Hazine Müsteşarlığı, op.cit. 2004, p.11*
[44] *Hazine Müsteşarlığı, Yabancı Sermaye Raporu 2002, p.4*
[45] *Hazine Müsteşarlığı, op.cit. 2003, p.9*

service, 2 documents in agriculture and 8 documents in the mining sector. [46] As a total employment envisaged, it is essential the contribution of the entries of the FDI carried out in manufacturing sector to the level of unemployment.

Between 1980 and 2002, the total value envisaged of the FDI on documents of encouragement was equal 93,437 billion dollars. In 2004, it passed from 1,747 million dollars to 3,882 million dollars compared to the previous year. In 2005, 3.49 billion dollars were envisaged on these documents. [47]

UNCTAD develops two indices in the evolution of performance of FDI: the index of performance and the index of potential of the FDI. The index of performance is an evaluation of the economic size of a country with regard to the quantity of the FDI in the aggregate output. "1" is the optimum value on this index. The countries with a value of more than "1" are countries which attract FDI above their potential in comparison with their economic size. The countries with a value in lower part of "1", are countries which have less performance in attractions of the FDI than their economic size. The index also takes account of the influence of the other factors apart from size of market. The latter are the working conditions, political and economic stability, the natural resources, the infrastructure, the skilled labour, technology, the privatization and the incentives of investment. In addition, in calculations of the index of potential, factors such as GDP per capita, export, the telephone lines, the mobiles phones, the use of energy, the expenditure of R & D, education, the risk of country, exports of the natural resources, stocks of FDI which affect the possibilities of a country to attract FDI are evaluated. The sizes of the market of country are not taken into account. [48]

According to index's of performance, Turkey occupied 111th row in 2004 among the 140 countries, but in 1990 its row was 69. As for its row in the index of potential of 2000-2003, it was generally among the least poor countries which attract less FDI. Its row is 72. [49]

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[46] *Hazine Müsteşarlığı, op.cit. 2005, p.34*
[47] *Hazine Müsteşarlığı, ibid.*
[48] *Voir l'annexe C, Raw data and scores for the variables included in the UNCTAD inward FDI Potential Index, 2000-2002*
[49] *Voir l'annexe D, Inward FDI Performance and Potential Index rankings, 1990-2004*

In Turkey, thanks to the data of the years 2000-2002, the Association of Foreign Capital (YASED) compared Turkey with 15 country and classified to them according to index's of attraction of FDI. According to this index, it was between India and Argentina with 15iem rows.[50]

Consequently, Turkey, located at the crossing of the two continents and the future sources of energy (the oil of Federate Russia), is a FDI center for the investors who seek a hiring in the middle of Eurasia. On the other hand, even if the opportunities offered to the investors, thanks to the dynamism of his economy and its enormous markets, its skilled labour and competitiveness, between the years 1992 and 2002, the volume of FDI in Turkey reached only the level of 1 billion dollar per annum. This amount was too weak for this large country with strong potential. In fact, the government made begin a program of reforms. In the following title, we will try to find an answer to these following questions:

Which are the Turkish incentives of the governments to attract more FDI? Which are the effects of these policies followed by the public authorities?

2.2.2. Role of the Polish government in the attraction of the FDI

2.2.2.1 Establishment of Free Zones

Free Zones are special regions within the country. They are considered to be outside of the customs territory because the Legislative provisions pertaining to customs and foreign exchange obligations are not applied within these regions.

Also, the valid administrative and juridical regulations related to foreign trade and other financial and economic areas are not entirely applicable in these regions. New regulations are made to offer more convenient business climate in order to increase trade volume and export for some industrial and commercial activities as compared to the other parts of country. With the adoption of the Decisions of January 24, establishment of the free zones came on the agenda among other liberal policies. The first positive result achieved by the adoption of the Free Zones Law No:3218 in June 15, 1985.

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[50] *Hazine Müsteşarlığı, op.cit. 2003, p.15*

Since then, Mersin (1987), Antalya (1987), Aegean (1990), Istanbul Atatürk Airport (1990), Trabzon (1992), Istanbul-Leather (1995), Eastern Anatolia (1995), Mardin (1995), ISE Istanbul International Stock Exchange (1997), Izmir Menemen-Leather (1998), Rize (1998), Samsun (1998), Istanbul Thrace (ÇATALCA)(1998), Kayseri (1998), Europa (1999), Gaziantep (1999), Adana Yumurtalik (1999), Bursa (2001) Denizli (2001), Kocaeli (2001) and TUBITAK-Marmara Research Center Technology (2002) free zones became operational.

The main objective of the zones is to increase export-oriented investment and production in Turkey. All field of activities open to Turkish private sector are also open to joint-venture of foreign companies in order to accelerate the entry of foreign capital and technology, obtain the inputs of the economy in an economy and increase the utilization of external finance and trade possibilities. That's why there is no limitation on the proportion of foreign capital participation in investment within the Free Zones. The motives and advantages of free zones are available to all firms regardless of their origin.

- The validity period of an operating license is maximum 10 years for renters, and 20 years for users who wish to build their own working spaces in the zone; if the operating license is for production, these terms are 15 and 30 years for renters and investors respectively.

The possibility to sell abroad the goods they produce with imported inputs, engage in re-export and in labour intensive sectors and to use foreign currency in all transactions (wholesalers, manufacturers) are what is offered to all investors in the Turkish free zones. They are quite ideal for the firms which require modern office and working spaces with good and ready infrastructure. Moreover, an operation commercial or industrial in these sites needs minimum bureaucracy. [51] The regional directorate can only deal with and supervise the permits and licenses regarding the use of land as well as the design, construction and use of buildings and installations within the free zone. Any legal authority regarding prices, quality and standards, and the customs and foreign exchange obligations are not valid in the free zones.

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[51] *Yatırımlarda Vergisel Teşvikler, Gelir İdaresi Başkanlığı, http://www.gelirler.gov.tr/gelir2.nsf 15/06/2006*

Free zones are considered as out of customs areas and legal provisions of foreign trade regime are applied for the trade between a free zone and other regions of Turkey. However, these are not applicable for the trade between free zones and other countries or other free zones. That's why the value added tax is not paid for the goods and services purchased from Turkey. Moreover, free zone users are excused of all taxes, levies, and duties on their activities related to their free zone operations until 31.12.2008.

Free zones are considered as out of customs areas. Taxpayers who has license to function in free zones which founded due to law numbered 3218 are excluded from income and corporation tax limited to the time in their license for the income they gained in these zones. Income tax of the personnel wages until the date of 31.12.2008 Separately, incomes of the taxpayers derived in these zones are excluded from income and corporation tax until the annual taxation period of full membership date to European Union (Free Zones Law temporary article 3) (Corporate Tax circular 13).

Goods and services in free zones are also excluded from VAT. (Value Added Tax Law a.16/1-c, Value Added Tax Law 17/4-ı, Value Added Tax Law General 39/93)

By the date this article comes into effect, the taxpayers, who obtained license to operate in the free zones that were established according to this Law, are[52]

a) exempted from income or corporate taxes on the earnings generated through their activities in these zones, within the limits of the period specified in their operating licenses as of the date this article comes into effect. This exemption does not affect the deduction carried out within the scope of sub clause (b) of sub paragraph 6 under the first paragraph of the article 94 of the Income Tax Law No. 193 dated 31.12.1960.

b) Exempted from the income tax on the wages they pay to their workers until 31.12.2008. However, if the validity period of their operating license ends before 31.12.2008, the end date of the operating license period is taken into consideration regarding this exemption.

c) Exempted from all taxes, levies and duties on their activities related to their free zone operations until 31.12.2008.

[52] İSO, Teşvikler, *http://www.iso.org.tr/tesvikler_default.asp* *15/06/2006*

The firms’ generate earnings from the income or corporate taxpayers through the sales of the goods they produced in the free zones. These earnings are exempted from the income or corporate taxes until the end of the taxation year. It also includes the date of the realization of the full membership of Turkey to the European Union. This exemption does not affect the deduction carried out within the scope of sub clause (b) of sub paragraph 6 under the first paragraph of the article 94 of the Income Tax Law No. 193 dated 31.12.1960.

- In contrast to most Free Zones in the world, sales to the domestic market are allowed.

- The goods can remain in the zones without any time limit.

- The incentives and advantages provided in the free zones are available to all firms regardless of their origin.

- Turkish Free Zones are close to the EU and Middle East Markets, and adjacent to the major Turkish Ports on the Mediterranean, Aegean and Black Seas. And they have easy access to international airports and highways.

- Infrastructure of the Turkish Free Zones is competitive with international standards. The rents of closed and open areas are lower than other countries.

- The goods in free circulation can be sent to Turkey or to the EU countries from the free zones without any customs duty payment. Moreover, no customs duty is applied on the goods of third country origin at the entrance into the free zones and exit to the third countries.

- Since free zones are part of the Turkey-EU Customs Territory, the goods in free circulation can be sent to the EU Countries by an A.TR certificate. Customs duties for the goods of third country origin are also not paid at the entry into the free zones. However, the goods of third country origin that are not in free circulation can be sent to the EU countries by an

A.TR certificate, only after the customs duties are paid over the rates determined in the Common Customs Tariff.

New regulation as regard fiskal initiations were made on “Law on the Free Regions” with her put in force in February 2004 of “Law on the Encouragement of Investments and Job”. According to this new law, all initiations keep their actuality. However, incomes will be tax-free on income or on societies of capitals till the end of the period of tax of the year when they will become the member of the U.E, if they are acquired after the date of her put in force of this law (June, 2004) by the sale of the property which were produced in the region with the letter permission of production.[53]

2.2.2.2 Tax Policy

The Turkish Investment Encouragement System is supported by General Investment Encouragement Program (GIEP) that its legislative base is “DECREE CONCERNING STATE ENCOURAGEMENTS TO INVESTMENTS" (Decree No:2002/4367, dated: 10 June 2002).

The principal goal of the general investment encouragement program is to encourage, support and orient investments, in order to reduce regional imbalances within the country. The program includes all investment activities related to the production of goods and services, research and development (R&D), environmental protection and improvement of quality and standards.

In order to qualify for investment encouragement measures, an investment encouragement certificate[54] must be received by the foreign investor from the General Directorate of Foreign Investments (GDFI). For other investments, certificates are taken from General Directorate of Incentives and Implementation (GDII).

Obtaining of this certificate ensure some encouragement measures such as exemption from Customs Duties and Fund Levies; value Added Tax Exemption for imported and

[53] *Hazine Müsteşarlığı, Yatırım Teşvik Mevzuatı, http://www.treasury.gov.tr/mevzuat/yatirim_tesvik.htm 17/06/2006*

[54] *Kanunlarına Göre Yatırımlarda Vergisel Teşvikler, Gelir İdaresi Başkanlığı, http://www.gelirler.gov.tr/gelir2.n 17/06/2006*

domestically purchased machinery and equipment; exemption from certain taxes, duties and fees and credit allocation from the Budget:

- The imports of the machinery and equipment to be used in the production process are excluded from customs duties. If the exemption is listed on the certificate, importation of these items is possible without custom duties.
- According to Law No. 4369 dated 22/7/1998, Value Added Tax does not include imports and domestic purchases of machinery and equipment within the scope of approved machinery and equipment lists attached to the investment encouragement certificate.
- The advantage of the investors who made US$1,000 of exports upon the completion of the investment is that they are excluded from the taxes, duty and related fees during the investment stage, for operations and processes of obtaining standard credits through banks and land registration in harmony with the related Laws (Law No. 488 dated 1 July 1964 and Law No. 492 dated 2 July 1964). The implementation shall be done in accordance with Temporary Article 2 of the Law No. 3505 (dated 3 December 1988) which are all general Tax Laws. However, according to Law No. 4842 investors will have advantages of this measure without the obligation to have an encouragement certificate and without having to realize $1,000 of exports starting from 1 January 2004. Therefore, this measure will not be used in both "Aids Granted to Small and Medium Sized Enterprises (SMEs) Investments Program" and "General Investment Encouragement Program" as of the specified date.

- Credit can be distributed to regulate and increase the investments of which purposes are regional development, research and development (R&D) investments, environmental protection investments, investments in priority technology areas which are to be determined by Higher Science and Technology Board or Scientific and Technical Research Council, investments to be brought to provinces specified for regional development and investments to be brought to priority development regions and other organized zones from developed regions and manufacturing, agro-industry and mining investments to be realized in the priority development regions in accordance with the legislation on State Encouragement to Investments.

Thirty per cent of the fixed investment cost is an obstacle for the investment credits used for regional development and also this limit shall not exceed TL 4.5 Trillion. The limit for the credits is 50 per cent of the fixed investment cost and shall not go beyond TL 400 billion for environmental investments, research and development investments, priority technology investments and investments to be distributed to organized industrial zones.

Moreover, investment credit can be contributed up to 50 per cent of the fixed investment cost and after the completion of the investment for manufacturing, agro-industry and mining investments to be realized in the priority development regions; operating credit shall be provided to the establishments which create an employment at least 50 persons. Operating credit is to be supplied for existing enterprises in the priority development regions which employ at least 50 workers and has insufficient operational capital

The forms of investment are completely new investments, the extension of capacity, modernization, the increase in quality, the integration and product diversification.

The reduction ratios of investment which are indicated within the framework of the decision are below given:

Without holding in account of the regions, investments more than 250 million dollars which contain at least two of the characteristics classified in lower part the investment are more than 50 million dollars which contain at least one of the characteristics will have 100% of investment tax credit.

- investments with high value added
- investments with high technological capacity
- investments with high international competitive power
- investments which will create area of employment
- The investments carried out in the normal areas will have the right of 60% investment tax credit.
- • The investments carried out in the developed areas will benefit 40% of investment tax credit.

In addition it is possible to see agreements between the countries to avoid the double taxation since 1974. 75 agreements have been signed with other countries but only 58 agreements came into effect. Within the frameworks of these agreements, arrangements were made for income tax in host country and for the division of the taxation between the two countries.

2.2.2.3. *Regulations for Investment: New FDI Law*

After 1980, the first regulation through the international capital was made in January 25, 1980 with ``the Decree of Foreign Capital'' within the framework of "the Decisions of Economic Stability".

Owing to this decree, certain decisions envisaging the reduction in the bureaucratic procedures was taken in order to incite the FDI,. In addition, the FDI were allowed in the banking environment and the entries of the direct investments were made easier in the sector of agriculture, that of tourism and in the sectors of the other services.

But these decisions were modified in 1986, 1992 and 1995. Apart from this decree, there were agreements, plans and reform within the framework of policy of foreign capital. For the period of 1954 and 2006, there are 75 agreements signed with the states for the reciprocal encouragement and the protection of the investments.

Between the years 1990 and 1994, the 6th Five-year Development plan was in force. Its principal aim was the establishment of the investment climate and the reduction of the inequalities between the regions. As for the 7th Five-year Development plan accentuated to integrate into the world economy, increase the share of market and transfer technology by continuing liberal policies on FDI. [55] The 8the Five-year Development plan determined also the necessity of the compatibility of the investment policy with the standards of EU:

In the context of this last plan, a series of work was started in 2000 by Turkish Association of Foreign Capital (YASED) with the collaboration of TRUSTED in order to ameliorate investment climate and "a diagnostic study for the foreign direct investment environment" was prepared. "A Program of Reforms for the Adjustment of an environment favorable with the investments in Turkey `' was thus approved by the Council of Ministers in 2002. Its aim is to decentralize administrative organization, simplify the long bureaucratic procedures and tax policies, and facilitate the recruiting of foreigner labor. In addition it is indispensable to combat for corruption. This program is discussed between the various committees which divide each one a precise point of the program, by cooperating with TRUSTED, the World Bank and the Financial International Co-operation (IFC. the Turkish Treasury set up the projects of the "Regulation for FDI" and the "Model of the Publicity for Efficacy investment". [56]

The most important regulations on FDI which came into force in 2003 are new "Foreign Direct investment Law". The main aim is improving liberal investment environment in Turkey. We can describe this law as like "legal guide" to foreign investors about their rights and obligations, with explicit messages.

The new Law is an integral part of a broader national reform program that is laying the foundation for sustainable growth and development, driven by private investments in a transparent marketplace fully open to the world. The Government of Turkey has established by decree an inter-governmental Coordination Committee for the Improvement of the Investment Climate (YOIKK), composed of high-level representatives of relevant ministries, the private sector and NGOs to help remove remaining bureaucratic obstacles to investment. The Government of Turkey also intends to set up a well-funded new Investment Promotion Agency simultaneously able to work inside government and draw on private sector knowledge and market skills, to carry out a multi-year strategy to promote investment in Turkey. [57]

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[55] *DPT, VII.Beş Yıllık Kalkınma Planı, DPT Yayınları, Ankara, 1995, p.29*

[56] *2002 Yılında Yabancı Sermaye, Yabancı Sermaye Genel Müdürlüğü yayını, Ankara, 2002, p.11*

[57] *Hazine Müsteşarlığı, op.cit. 2004, p.20*

All companies established with a foreign capital contribution and under the rules of the Turkish Commercial Code (existing and newly established foreign companies) are regarded as a Turkish company. Therefore equal treatment both in rights and responsibilities as stated in the Constitution and other laws is applicable to all such companies (including national treatment, a guarantee against expropriation without compensation, transfer of proceeds, access to real estate and to expatriate personnel, and international arbitration or any other means of dispute settlement).

With this Law, all permits granted by the General Directorate of Foreign Investment are abolished. As a result, all transactions for establishing a company with foreign capital will be the same as with local companies. Since all companies established in Turkey within the framework of the Turkish Commercial Code are accepted as Turkish companies, all duties and responsibilities are equal regardless of the nature of capital formation. Entry conditions are the same as for comparable local Turkish companies The National Treatment, the major principle of foreign investment policy of Turkey, was emphasized in the new law.

Its objective is to encourage the IDE, to protect the rights of the foreign investors, to treat the investment and the investors according to international standards', to transform the systems to grant permissions and ratifications concerning the IDE, and to regulate the principles in order to increase the IDE. It removed the need for taking the permission of the treasure and brings to the equal conditions foreign investors as local investors (the equitable principle of treatment). The limit of capital of 5000 dollars is also removed. It also describes the liberal environment of foreign investment concerning freedom with the investment, the freedom of transfers of benefit, the acquisition of the real estate, the payment of the conflicts, the evaluation of the value of the no monetary capital, the employment of the foreign personnel, and the opening of the offices of connection.

In this context, in 2005 one continued to satisfy the priority needs for the environment. Another reforms, it is the entry into force of the redefinition of SME towards the end of 2005. One thus obtained a single definition which is in conformity with the standards of the EU. [58]

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[58] *Hazine Müsteşarlığı, op.cit. 2005, p.70*

For finish having finished our analysis of investment which relates to Poland and Turkey especially the general aspect of their environment of investment and their policy of investment, it is also necessary to examine their economic policy effects of the IDE on two countries. In the chapter following, one will try to do it and find the answers to the problems current of Turkey.
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CHAPTER III

COMPARASION

During the nineties when FDI began playing a role determining on international economic integration ion, the governments of two countries turned to search efficient means to establish a climate more favourable to the investment. They introduced whole system of charm of FDI which concerns at the same time fiscal instigations and other legislative regulations and regulations miscellaneous. These systems are based in most cases on the policy of taxation and the financial instigations among which the most notable example is the creation of ZES in Poland and the establishment of the free regions and from the industrial zones in Turkey. Conditions that they give the foreign investors are at the same time a release of levies on societies or a release of the property levies for smaller plans and a low rate of taxations.

On the contrary, in spite of all attractiveness of this system, the membership in the EU drew away certain changes in Poland or the abrogation of various fiscal incentive programs to assure the harmonization and the adaptation of its regime of investment in European regulation. Turkey is also going to meet with the same procedures during the negotiations of membership. Moreover, the decision to grant the status of country in Turkey candidate adopted in Helsinki in 1999 encouraged it to undertake a series of re-form fundamental. This reform shows that the majority of the political leaders of Turkey are caused to operate on a more critical rapprochement with stocks and norms of the European Union.

According to the economic commission of United Nations for Europe, the correlation between the quality of institutional change and the level of FDI is certain. Institutional environment is a main element for a good economic climate.

Both countries suffer from the same problems across administrative structures. There is another politicization and lack of professionalism in the public administration. The civil servants have tendency to keep a hierarchic relation which prevents any development of interdepartmental coordination and inter services. On the contrary it is necessary to speak also about the lack of trust of the population in institutions. Next to the creation of institutions and the transposition of laws, it is necessary to change the mentalities of people.

Moreover, the lack of effectiveness and transparence of their judicial system and corruption especially in Poland which is the most corrupt country of the EU; these are other mailmen likely to keep the foreign investors to invest. On the contrary, a juridical system working well allows to protect ownership and to guarantee the rights of investments and synonymous with a not risked and stable investment.

After one short comparison of two countries across the macroeconomic indicators and their institutional environment, it is necessary to analyze there itemized the obstacles of Turkey for a good climate of investment

3.1 Obstacles in Turkey for Investors

Bureaucracy

Since its opening, Turkish economy has directed by the real sector. Because of the slowness of the bureaucratic system, the public pillar of economy becomes less adaptive with contemporary developments and it makes delay dynamism of the entrepreneur.

According to the report of the Foreign Investment Advisory Service (FIAS), Turkish bureaucratic structure is the first factor which penalizes Turkey in attractiveness of FDI.[59] We can classify main Turkish bureaucratic structural features:

- it*s slowness is one of the disadvantages in* competing *means of investments,*
- *The investments become much expensive because of the additional costs and delays resulted of the bureaucratic system,*
- *Public provisions are not transparent and that's why they cause the serious confusions*
- *The inconsistent-soft application of laws and the lack of jobs of the bureaucrats cause the lack in application of policy of sanctions*
- • *the companies lose 20 % of the time in* bureaucracy*,*

[59] *Türkiye DYS Yatırım Ortamı Analizi , FIAS, Şubat 2001*

- *The difficulty of the* construction *of a* factory *on the ground of Turkish treasure* because long bureaucratic procedures,
- *Owing to the multiplicity of legal formalities give rise to delay bureaucratic so that the establishment of a company continues at least 2, 5 months.*
- *• it is needed 172 signatures for the establishment of an investment*

The political and macroeconomic instability what have continued for years in Turkey causes the increase in the risk of state; therefore, it becomes an obstacle to attract more investment. The chronic inflation and the disequilibrium in the public financing of last 10 years create uncertainties in economy. The risk of state is the most important indicator for FDI, as long as an investor cannot invest in a more beneficial country if it has risk of state. On the other hand; the improvement of certain macroeconomic indicators for a few years has contributed to the positive evolution of the level of FDI in Turkey.

From 1990 until today there were four governmental elections anticipated; in October 1991, December 1995, April 1999 and the last in November 2002. Except 47th and the last two governments, all of them were the coalitions. These are the examples of political instability in Turkey

Obstacles of the cost

The relative rise of the costs for investment and production is a fundamental factor that prevents the investment.

First the complex fiscal costs and frequently changing, its lack of inflationary accountancy, postponed refund or not - realizes and the increase in fiscal weight; these are the most important problems as regards fiscal subject. It is necessary to make more incentives after the realization of the investments. Is the corporation tax of the capital 44% in Turkey? As a tax weight, the situation of inciting tax in Turkey is higher than the tax non-incentive situation of the others.

Then, energy cost in the industry used for the production process is reflected on the prices of products and it makes a difficult competition with the others. In Turkey the cost of electricity is higher than its competitors.

In addition, the cost of financing of business companies is higher than international level. Credits are absorbed in the financial market by the state and it has an effect of ousting on the investors. The example of one of the Turkish Business company which is "Turk Pirelli " confirms this effect of ousting by complaining high costs of production:

> "2 years ago we had a plan for 200 million dollars investment in Turkey. But owing to increase of labour cost, we made only 50 million dollars of the investment. We have orientated our investment of 150 million dollars towards the Southern Africa and towards Egypt. »

Output

The indicator of national output calculated by GDP per workers and the indicator of national economic prosperity calculated by GDP per capita are used to evaluate economic performance. The level of indicator of output is very low in Turkey.

Transparence and corruption

Transparence is one of fundamental criteria for the attractiveness of FDI. In the countries in where we can see transparency in bureaucracy, it is easier to prevent the corruption; on the contrary, if there are secrets in the governance, it is possible to see more corruption. For example, an additional tax on the societies of capitals increases the margin of the risk of the investment. Indeed, the transparency has more influences on the foreign companies more than the incentives in the tax. According to the Index of Perception of Corruption (IPC) published into 2002 which reflects levels of the corruption in the public sector, Turkey occupies the 65th position among 102 countries

The slowness of jobs of reforms

Even if a program of reforms to improve the capacity of FDI attract started in 2001, as the Deputy governor of the World Bank mentioned, there has been no change concrete since this date. That involved an annual cost for Turkey and caused to lose 1,8 billion dollars of FDI . [60]

Consequently, Turkey, even if it is a country very advantageous for the foreign investors as its geographical situation, the existence of labour more qualified and relatively less expensive in the country,, young and dynamic population, large domestic market, proximity with the natural resources, opening outside and its communication networks with the neighboring countries[61]; it does not succeed in attracting more FDI.

3.2 How the level of FDI increases in Turkey

The role of the government consists with reform complex, difficult and which requires much more time. The points of higher priority are the stabilization of the political and economic structures, the stabilization of general level of the prices and their efforts for adhesion to EU. The privatization is a subject a little less important than the other reforms. Unfortunately, the most important reforms are more complex and at the same time require much more time.

It is necessary to ameliorate juridical structure what is more complex than re-form its fiscal in following conditions: voted laws immediately have to come into force, at the latest in the two months which follow, to avoid problems in the process of transition of the change of these laws[62] and the government must inform the investors on the regulation of new laws to support the trust of the investors. In this process, another important point is to invite the investors and to collect their points of view on the change of these laws for transparence and effectiveness.

To prevent the lacks at the time to judge, the level of education of the judges must be to improve (the education of the judges' commercial for the FDI) and to decrease their weight of work to increase the output.

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[60] *World Bank , World Business Environment Survey, 2000*

[61] *Hüseyin ERDEM, ''Türkiye'de Yabancı sermaye Teşvik Mevzuatı ve Uygulaması'', (Yüksek Lisans Tezi), 1987, p.35*

[62] *Erdoğan ALKIN, '' Türkiye'ye Yeterli Yabancı Sermaye Gelmemesinin Köklü Nedenleri Vardır.'', Finans Dünyası, no.132, aralık 2000, p.13*

It is necessary that the political influence on bureaucracy is minimized to reduce uncertainty further to the change of the government.

In the process of the investment, it is necessary that administrative obstacles are abolished by the government while taking into account the well-being of society. It is important to establish an exchange program with the countries which have succeeded in attracting much more FDI to obstacles. For instance, the agents of the General management of the investment Turkish foreigner Turkish Treasury can establish an exchange program with their colleagues in these countries.

Then they can keep some necessary conditions to attract FDI in Turkey. Among these: It is necessary that economic, political and juridical stability is attained and that efforts for the harmonization about membership in the EU[63] must be speeded up. The chronic inflation is a problem of the first rank confronted by all investors in Turkey. The passage in the accountancy of inflation is also important as the reduction of the inflation which depends on the application of anti-inflationary policies so as to avoid the taxation of fictitious benefits. In this context, it is also necessary to resolve the problems of the taxation of resultant fictitious benefits of the change of the exchange rate. Conflict against informal economy is another critical point for the local and foreign investors. Working right and that of ownership of the foreigners must be organized, coordinated and updated in a satisfactory way for today's needs The practice of the laws of rights of intellectual ownership[64] and protection of competition is also important in international standards. The reduction of public part in the various areas and the abstention of applications avoiding the step of the mechanism of markets are of use for the establishment of trust for Turkey. The existent special zones must be used in a efficient manner and in full capacity by ameliorating their facilities with the intention of drawing attention of foreign and domestic investors must be supported and encouraged because this support is going to make easier of expansion and incorporation of Turkish economy in the world.

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[63] *Türkiye'de Yabancı Yatırımlar ve Yatırım Ortamı ve FIAS Raporu, Finans Dünyası İstanbul, Aralık 2001, p.6*

[64] *FIAS Raporu, Finas Dünyası, İstanbul, Ocak 2002, p.8*

The application of privatization is very important to thus attract the FDI, it is necessary to accelerate the processes of privatization and it should be made publicity so that the foreign investments are directed towards the fields where high technology is necessary

The taking into account of the FDI as of the nongovernmental organizations and the representatives of the real sector are also important. This approach will build a regulation which will satisfy the anxiety of the contractors. This procedure is applied in all the Western countries of Europe and in the United States.

For all these reasons, the Turkish government must continue to apply the program of the IMF in which there exists already much of these economic conditions, political and legal to maintain the confidence of the economic agents. Moreover, the Turkish government must immediately conform to the European standards and apply them.

CHAPTER IV

CONCLUSION

Since the beginning of nineties, FDI represents a growing trend. Their important role grows day by day owing to their access facility to foreign markets and to production factors.

Therefore a lot of developing country (DC) tries to attract much more foreign investments of the multinational business companies (MBC) which has impacts positive and negative on the savings of DC. On the one hand, multinationals bring to DCs high cost activities and technologies which is really difficult to be acquired by their own effort because of the weakness of national savings. On the one hand, ,the DEVELOPING COUNTRIES find the possibility of acquiring activities and technologies requiring of the more expensive investments for their own means, being given the weakness of the national saving. Even though, FDI accomplished in DC contribute to the creation of jobs and bring fiscal means. But on the other hand, the commercial activities of the multinational aggravate the trade deficit. Therefore, these countries become more and more dependent on developed countries which are the origin countries of the most part of MBC.

In the case of Turkey, to be able to analyze evolution and economic effects of FDI we compared it with Poland. Indeed, even if the two DEVELOPING COUNTRIES did many efforts to be liberalized, Poland was able to improve its economic capacity more and to integrate more its economy into the world markets that Turkey. This success of Poland is related mainly to the attraction of the FDI. On the bases of this success, we see a certain series of reform based on the both development of the market role and the private sector, on the policies of taxation and investment incentive policy.

In 1990s, there was much more investment in Polish economy than eighties because the country was applied considerable policies as « shock therapy conducted by IMF » for adhesion to EU and achieved to stabilize its economy (the inflation rate declined from 500-600 % (1989-90) to 1, 9 % (2002) even though there have been ten changes of governments but all these governments had the same purpose; EU membership.

As for method followed by Turkey, with decisions of January 24th, 1980, the passage to free market economy gave rise to increase in the foreign direct investments. Since then, Turkish economic authorities encouraged the establishment of MBC in Turkey by the establishment of free zones and industrial zones, fiscal incentives and regulations and other administrative arrangements. Thus, MBCs and FDI began occupying an important place in Turkish economy in comparison with the previous years. Indeed, Turkey needs capitals to complete its economic development as it is case for Poland and all the DEVELOPING COUNTRIES. On one side, the FDI has positive effects on the economic performance of Turkey by increasing production level in parallel with the augmentation in capital and technology stock. All these advantages are similar in Poland. Other side, the FDI causes unfavorable balance of trade in Turkey. In this case it is possible to say that FDI in Turkey do not show the effects expected because of the dependence of companies to import entry. That's for these reasons Turkey could not succeed in attracting more FDI seen its potential.

When two countries are compared, it is seen that the contribution of FDI on the economic fast growth of Poland is superior to contribution of FDI accomplished in Turkey because the place occupied by FDI in Turkey is not as important as in Poland. Due to the fact that sum of attracted direct investment is very different in these two countries. Even if Turkey makes the same regulations concerning FDI; Poland occupies a place important in the worldwide rank and Turkey remains in the lower ranks compared to its potential. The problem of Turkey comes mainly from its political and economic instability and bureaucratic obstacles. In spite of the recent economic revival, the investors don't trust in a country of which history is full of serious economic and financial crises. Besides, although the levels of macroeconomic indicators improve, because of the absence of a state policy and the lack of confidence, there is no considerable contribution of FDI to the sustained high growth of Turkey.

According to strategy of « the largest ten markets » developed in 1994 by the American government for 2000s, Turkey occupied the place just after China. Since 1994, evolutions show us that direct investment level has passed from that which was envisaged in the strategy. But, unfortunately it is only Turkey which does not succeed in attaining these developments. Even if it has a great potential to attract FDI at least of 30 billion dollars, the amount carried out is lower. In 1990, Turkey with 1 billion dollars was in front of China, Brazil and Mexico through FDI per capita. This shows us that it can easily attain these figures envisaged. [65]

The Second Investment Advisory Council realized (which was carried out) on 29th April, 2005 in Turkey indicated the weak and strong performance of Turkey to attract FDI: principal problems of the foreign investors declared in meeting were bureaucratic and legal obstacles. But also there are other obstacles at macroeconomic and microeconomic level which prevent the entry of FDI in all its forms. Till few previous years' political and economic instability, chronic inflation and the raised interest rate, these were the main problems of Turkey in this subject. These are always the constraints which Turkey must take into account, but today the high taxes which frequently change and the high costs of raw materials and energy are main obstacles which decrease the entry of FDI. [66]

In order to attract much more FDI, the establishment of a confidence climate is essential. And then it is necessary to reduce the role of bureaucracy, to develop structures which can attract and/or speed up the flux of FDI, make promotion and advertising and make fiscal incentives. It will be more useful to follow the countries which succeeded, like Poland, to accelerate the process of reform.

Consequently, FDI carried out by MBC does not constitute a significant part in Turkish economy. Turkey can be considered as a destination important in its under area. But the sum of the FDI stock in Turkey passed from 8,845 billion dollars to 18,196 billion dollars in 2003. For this reason we cannot make a final evaluation concerning the economic political (economic policy) effects of FDI in Turkey as in other DEVELOPING COUNTRIES. Each country has its own characteristics which can even change according to circumstances. We can work analyzing the obstacles of Turkey, in order to ameliorate investment climate which is essential for a sustained high growth.

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65 *ARMAN Abdurrahman, "2000'lerde Türkiye'de Yabancı Yatırımlar", YASED*

66 *Çalışkan,...2003; Radikal, 30.04.05; Milliyet, 30.04.05*

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