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**A comparative analysis of inward and outward
FDI in Turkey**

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A comparative analysis of inward and outward FDI in Turkey

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This article presents a comparative analysis of the inward and outward foreign direct investment in Turkey. It is hypothesized that the country's negative business climate caused by both economic and political factors is a major determinant of both. This article investigates why, compared to many developing countries that have attracted and benefited from significant inflows of foreign direct investment, Turkey is conspicuous as a country that has not done so, despite its increasing openness to international trade. After showing that Turkey's outward investment has surged recently, it relates the causes of such surge, especially compared to the meagre inward investment flows. It concludes that recent institutional reforms and increasing economic and political stability can make Turkey an important host country for foreign direct investment in the future.

Key words: inward FDI, outward FDI, Turkey

Introduction

Foreign direct investment (FDI), which has played a significant role in globalization, has enabled many developing countries to accelerate their development. The benefits of inward FDI for developing countries have been widely analyzed and empirically researched in the literature (UNCTAD, 2001; Lipsey, 2002; OECD, 2002a; UNCTAD, 2002a). Although some recent

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theoretical and empirical research has been skeptical of this benign view of FDI, the overwhelming evidence supports it (Moran, 1998; Loungani and Razin, 2001; Moran, 2001; Lipsey, 2002; OECD, 2002b).

Compared to many developing countries that have attracted and benefited from significant inflows of FDI, Turkey is conspicuous as a country that has not done so. What are the reasons for this? What needs to change for Turkey to attract and benefit from significant inflows of FDI? What is the Government of Turkey doing, with the help of international institutions such as the Foreign Investment Advisory Service (FIAS), to make Turkey a more attractive host country? Does Turkey really want inward FDI or has it been seeking inward FDI out of desperation and under foreign pressure? What are Turkey's prospects in becoming an attractive and successful FDI host country?

Before 1980, Turkey had essentially a closed economy based on import substituting industrialization behind tariff and non-tariff barriers. Since 1980, Turkey's globalization has been impressive but one sided. The economy has become much more open to international trade. The customs union with the European Union (EU) has reinforced openness to trade since 1996. But Turkey's integration with the world economy through FDI has lagged relative to other developing countries.

Turkey's failure to attract FDI has both economic and non-economic causes (SPO, 2000; FIAS, 2001a; FIAS, 2001b). Economic causes include high transactions costs of entry and operation for foreign investors (due to excessive bureaucracy and red tape, and widespread corruption), chronic high inflation, increasing economic instability, inward orientation until 1980, lack of protection of intellectual property rights, lack of inflation accounting and internationally acceptable accounting standards, failure of privatization, insufficient legal structure and inadequate infrastructure (especially energy).

Non-economic causes include chronic political instability, internal conflicts (especially the Kurdish problem), historical

animosity towards foreign economic presence (dating back to the Capitulations during the Ottoman Empire), fear of foreign political domination within the civilian and the military bureaucracy, lack of FDI promotion (indicating an unwillingness or reluctance to attract FDI), and the structure of Turkish business (family-owned and controlled and closed to foreign takeovers).

On the other hand, Turkey's outward FDI has surged recently, increasing much faster than inward FDI. Why have Turkish firms begun to invest abroad? What are the characteristics of these firms? In which countries and in which industries do they invest mostly? Do they favour joint ventures with local partners or wholly owned affiliates?

FDI outflows have been caused by both economic and political factors. New markets in the EU, the United States, the Balkans, West Asia, North Africa, the Russian Federation and the newly independent Turkic Republics in Central Asia, and the ability of the Turkish private sector to exploit them are important positive factors. Recent back-to-back domestic economic crises and political uncertainty, as well as rising unit labour costs, are important negative factors. These same factors have also been behind divestments by foreign investors in Turkey. Another cause behind divestments has been the increasing openness to trade. Several foreign affiliates that had been attracted by import-substitution have decided to divest faced with rising competition from imports, especially those from the EU since 1996.

This article is organized as follows. The next section outlines the conceptual framework. Then follows a review of Turkey's globalization, which has favoured international trade and labour migration over inward FDI. The subsequent section offers a comparative analysis of Turkey's inward and outward FDI performance. It is followed by two sections presenting more detailed analyses of inward and outward FDI trends, respectively. The last section contains a summary and the conclusions.

Conceptual framework

This article presents a comparative analysis of the inward and outward FDI in Turkey. It is hypothesized that the country's negative business climate caused by both economic and political factors is a major determinant of both. The focus is on the determinants, not the effects, of inward and outward FDI. The methodology used is descriptive and institutional, relying on original documents, reports, graphs, tables, and their interpretation. The conceptual framework draws on John H. Dunning's eclectic ownership-location-internalization (OLI) paradigm and its dynamic version, the Investment Development Path model (Dunning, 1993, pp. 76-89; Dunning, 2000), as well as the industrial organization-based FDI theory surveyed by Richard Caves (1996).

There is a growing econometric literature, which is not surveyed here due to space limitations, on inward, although not on outward, FDI in Turkey. The Turkish inward FDI literature deals with the causes and effects of FDI (Erdilek, 1982; Erden, 1996; Tatoglu and Glaiser, 2000; Erdilek, 2001; Berköz, 2001; Dutz et al., 2003; Erdilek, 2003). Some of the studies in this literature use macro data, some use industry data at various levels of aggregation, and others use either firm-level or plant-level micro data. To the knowledge of this author, this is the first published study that deals with outward FDI from Turkey at an economy-wide level, with emphasis on the manufacturing sector.¹

Turkey's globalization and FDI

Since 1980, Turkey has become increasingly open to international trade. In 2001, exports and imports accounted for 21% and 27% of the GNP, respectively, up from 4% and 11%, respectively, in 1980 (SPO, 2002). It has not yet, however, taken

¹ Several earlier studies on outward FDI dealt with the internationalization of Turkish construction companies (see e.g. Kaynak and Dalgic, 1991).

full advantage of globalization in terms of inward FDI.² Turkey's preference for foreign trade has deprived the country of the full benefits of globalization.

Besides failing to become a major emerging market for international portfolio investors, Turkey has failed spectacularly in attracting FDI. Turkey's failure to attract FDI reflects the general mismanagement of the economy over decades, as well as the reluctance to admit and promote FDI. Chronic and ratcheting inflation and increasingly erratic and low economic growth, the main symptoms of perpetual crisis, were caused by the mismanagement of the economy.

Chronic high inflation, economic and political instability, widespread corruption, a weak and unpredictable legal system have acted as major deterrents of FDI. The progressive liberalization of the FDI regime since 1980 has not neutralized these powerful disincentives. Failure of privatization, inadequate protection of intellectual property rights such as patents, trademarks and copyrights as well as the lack of inflation accounting have been other obstacles to inward FDI.

Turkey's ambivalence, if not hostility, towards FDI and reluctance to promote it can be traced to the Capitulations that permitted foreign governments to exercise extraterritorial jurisdiction over their nationals living in the Ottoman Empire (Lewis, 1965, p. 449). Abolished by the Treaty of Lausanne in 1923, Capitulations have been regarded since the founding of the Turkish Republic in 1923 as humiliating derogations from national sovereignty. The fear of economic domination and control is still deeply embedded in the collective conscience of the Turkish civilian and military elite.

Therefore, it comes not as a surprise that there has been no official promotion of inward FDI in Turkey. Without an

²The relationship between openness to trade and openness to inward FDI in developing countries is complex and ambiguous according to recent empirical evidence (Nunnenkamp and Spatz, 2002).

investment promotion agency (IPA) of its own, not surprisingly Turkey was not a member of the World Association of Investment Promotion Agencies (WAIPA) until 2002. On WAIPA's website (<http://www.waipa.org>), Turkish membership is identified as "Invest in Turkey". When you click on "Invest in Turkey", however, you go to the website of the Turkish Treasury. There is no "Invest in Turkey" yet.

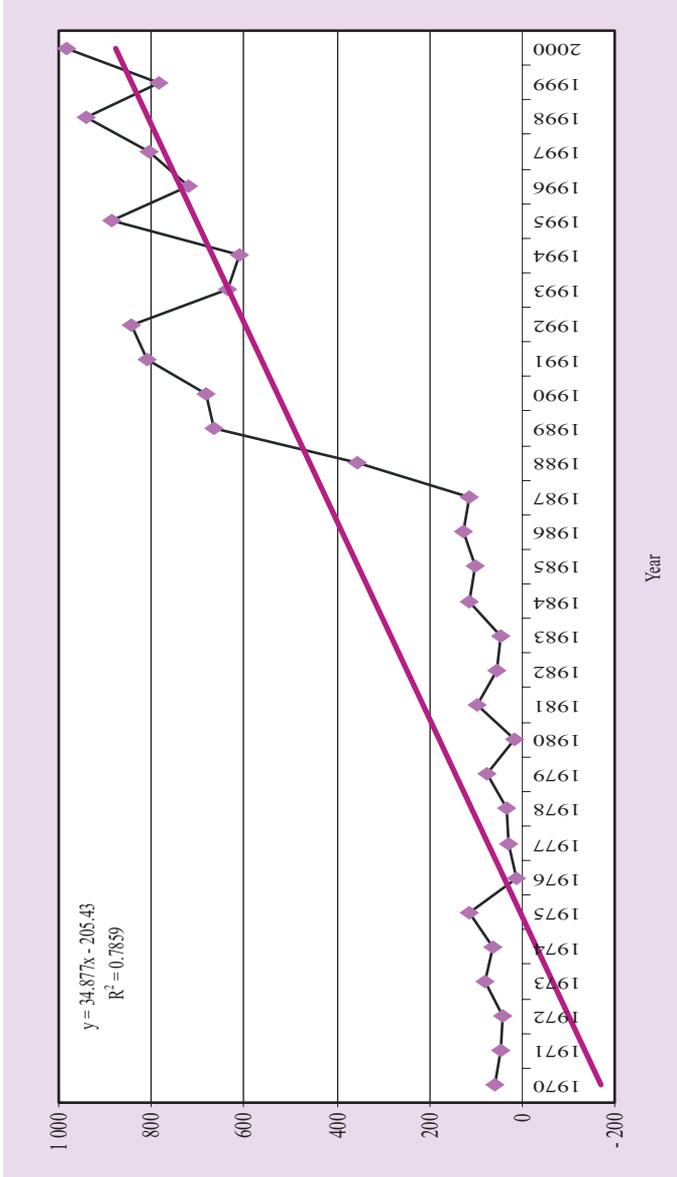
One major expected but disappointing catalyst for Turkey's realization of its potential as an FDI host has been its increasingly close relations with the EU. The recognition of its candidacy by the EU's Helsinki Summit in December 1999 raised unrealistic expectations, which have not been sustained by the less clear outcome of the December 2002 Copenhagen Summit. Because Turkey has lacked macroeconomic and political stability and because it has been cool if not hostile to foreign investors, there has been no upsurge in inward FDI either from the EU or elsewhere since the customs union with the EU went into effect in 1996.

Turkey's inward and outward FDI performance

Turkey's inward FDI performance has been disappointing by all measures based on UNCTAD data.³ According to figure 1, inward FDI in absolute terms shows an upsurge at the end of the 1980s. In relative terms, however, this upsurge does not seem that impressive as much of the rest of the world, including other developing countries, was much more successful than Turkey in attracting FDI, as indicated by figure 2.

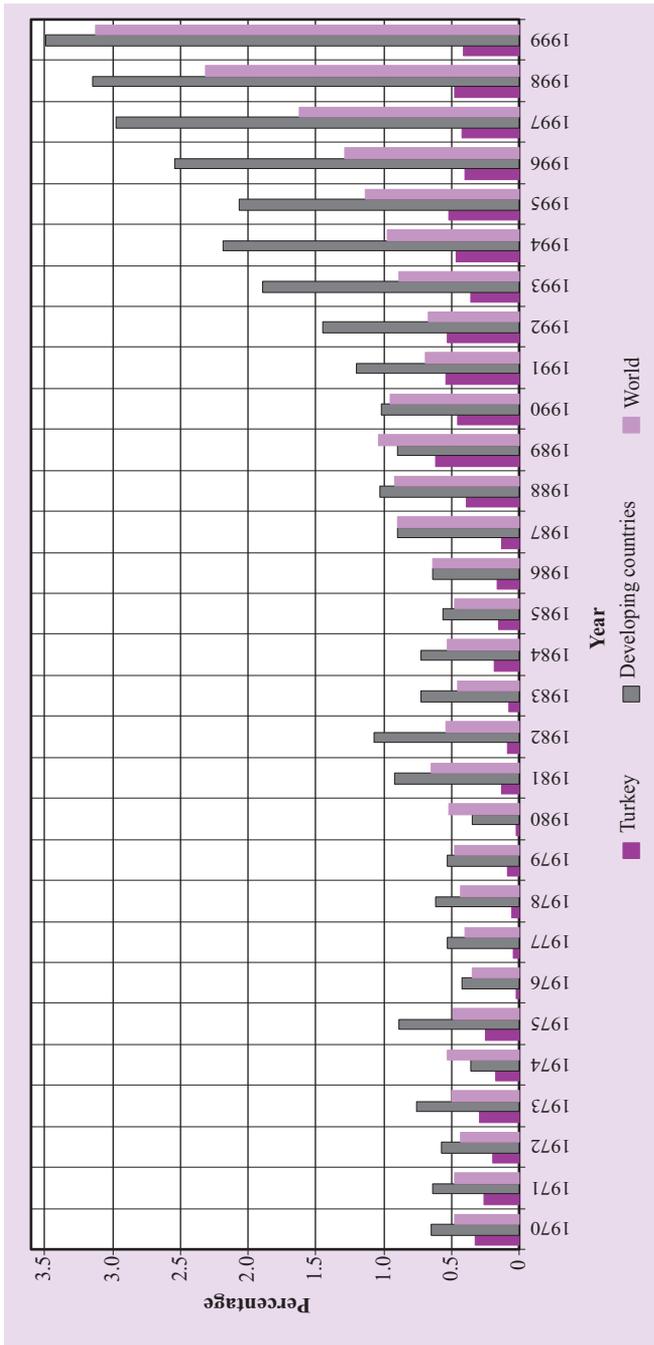
³ The macro approach taken here to analyze the importance of FDI in terms of FDI flows and stocks has several shortcomings. The micro approach that analyzes the importance of FDI in terms of international production, the shares of world and domestic production that are accounted by foreign operations, is preferable (Lipse, 2001). Unfortunately, comparable and reliable time series data on both inward and outward FDI that are required for the micro approach are unavailable yet. UNCTAD's Transnationality Index, however, takes international production into account to some extent.

Figure 1. FDI inflows into Turkey, 1970 – 2001
(\$ million)



Source: UNCTAD 2002b.

Figure 2. FDI inflows as percentage of gross domestic product, 1970-1999



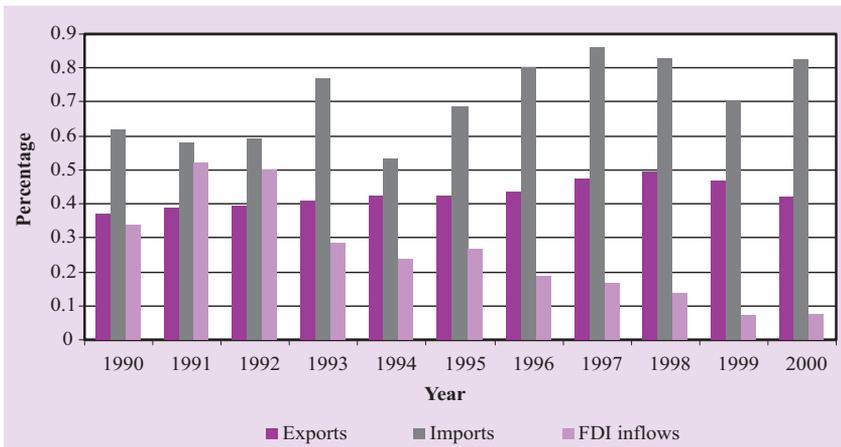
Source: UNCTAD 2002b.

According to figure 3, although Turkey's share in world trade was quite stable, its share of world FDI inflows went down in the 1990s.

Another way to view Turkey's relative performance as an FDI host country is in terms of three indices developed by UNCTAD: Transnationality Index, FDI Performance Index and FDI Potential Index. According to the Transnationality Index, in 1999, among developing countries, Turkey ranked third from the bottom; only India and United Arab Emirates had lower indices (UNCTAD, 2002a, p. 275). UNCTAD divides countries into four groups according to their FDI Performance and Potential Indices: 1. front runners; 2. above potential economies; 3. below potential economies; and 4. under-performers (with both indices low). Turkey is listed among the under-performers, which are generally poor countries, for both the 1988-1990 and the 1998-2000 periods (UNCTAD, 2002a, p. 31).

As for FDI outflows, figure 4 shows clearly that Turkish outward FDI accelerated following the 1994 economic crisis. It

Figure 3. Turkey's share in world exports, imports and FDI inflows, 1990-2000
(%)



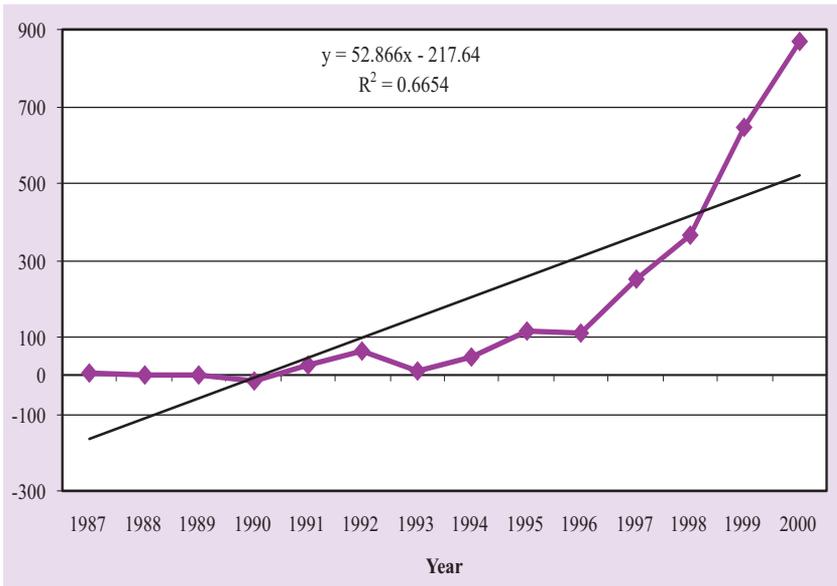
Sources: UNCTAD 2002b and UNCTAD 2002c.

is still quite low but rising relative to the rest of the world, including developing countries.

Turkish FDI outward stocks have been increasing exponentially in both absolute and relative terms. While FDI inflows into Turkey have been low, FDI outflows from Turkey, relative to the rest of the world, have grown quite successfully.

Table 1 provides additional data on the absolute and relative performance of Turkey as a host and home country. It contains new information that expresses inward and outward FDI inflows as percentage of gross capital fixed capital formation (GFCF). Relative to the rest of the world, both inflows and outflows have been insignificant as percentages of GFCF. Outflows, however, have increased as percentage of GFCF very rapidly.

Figure 4. Turkish FDI outflows, 1987-2000
(\$ billion)



Source: UNCTAD 2002b.

Table 1. Turkey: inward and outward FDI flows, 1985-2001
(\$ million and %)

	Millions of dollars						Percentage of gross fixed capital formation				
	1985-1995 (Annual average)	1997	1998	1999	2000	2001	1985-1995 (Annual average)	1997	1998	1999	2000
Turkey											
Inward	529	805	940	783	982	3 266	1.7	1.6	1.9	1.9	2.2
Outward	24	251	367	645	870	497	0.1	0.5	0.7	1.6	2.0
Developing countries											
Inward	50 912	191 022	187 611	225 140	237 894	204 801	4.4	11.1	11.4	13.4	13.4
Outward	21 512	74 797	50 256	73 636	104 207	36 571	2.0	4.0	3.1	3.5	5.8
World											
Inward	181 101	478 082	694 457	1 088 263	1 491 934	735 146	3.9	7.4	11.0	16.5	22.0
Outward	202 481	474 010	684 039	1 042 051	1 379 493	620 713	4.5	7.4	11.0	15.9	20.6

Source: UNCTAD 2002d.

Turkey's business environment

Two decades ago it was concluded that Turkey's FDI environment had been suboptimal and unstable throughout the post-World War II period (Erdilek, 1982). In the 1980s, the environment improved somewhat as Turkey began to liberalize its economy internally and externally (Erdilek, 1986; Erdilek, 1987; Erdilek, 1988). But overall the earlier conclusion still holds, as confirmed by recent diagnoses by the Organisation for Economic Co-operation and Development (OECD) and FIAS (OECD, 2002b, p. 103; FIAS, 2001a, p. viii).

First let us look at the chronic macroeconomic instability that has deprived Turkey of an attractive FDI environment. The 1990s was Turkey's lost decade in the middle of which it suffered another major economic crisis. At the end of 1999, Turkey began a comprehensive International Monetary Fund (IMF)-supported three-year economic stabilization and structural reform programme. Opening up to FDI was not an explicitly stated component of this programme according to the Letter of Intent, dated December 1999, submitted by the Government of Turkey to the IMF (IMF, 1999).

The IMF programme made significant progress till the second half of November 2000, with sharp drops in inflation and interest rates. For the first time Turkey made it into the top 25 countries (ranked 23rd between Malaysia and Argentina) in A. T. Kearney's annual FDI Confidence Index, reflecting the FDI intentions and preferences of the world's major transnational corporations (TNCs) (Global Business Council, 2001).⁴

In November 2000 the programme experienced its first crisis, mitigated by an IMF emergency package. After its second crisis in February 2001, the programme collapsed. In March 2001, Turkey needed the IMF and the World Bank to continue their support for its economy on a knife-edge facing default.

⁴ Following the twin economic crises it experienced in late 2000 and early 2001, however, Turkey dropped out of the top 25 in the next annual FDI Confidence Index (Global Business Council, 2002).

One of the conditions was evidently to have Turkey commit explicitly to opening up to FDI.

An in-depth review of the IMF documents (Letters of Intent, Staff Reports, Article IV consultations, and Stand-By Arrangement reviews) on Turkey since March 2001 shows that, following its economic crises in November 2000 and February 2001, and in need for IMF and World Bank support, Turkey was constantly encouraged to improve its FDI environment as part of the conditionality for IMF financial assistance. Actually, this pressure dates back to October 2000, with the initial involvement of FIAS in Turkey, as part of the World Bank Group's 2001-2003 Country Assistance Strategy for Turkey, which stressed the importance of FDI repeatedly and underscored the role of FIAS in improving Turkey's FDI environment (World Bank, 2000 and World Bank, 2001).

FIAS 2001b, building on FIAS 2001a, documents and analyzes at length Turkey's administrative barriers to investment according to different benchmarks. It is at 250 pages and with 10 appendices by far the most exhaustive recent study of the Turkish FDI regime and environment, based on extensive field work consisting of surveys and interviews. It is right on target with its hard hitting charge that the Turkish administration has been fixated on control instead of service and enforcement. This control, combined with lack of accountability and transparency, and exercise of discretion, has resulted in widespread corruption, concludes FIAS 2000b.

FIAS 2001b deals with a long list of issues relating to employment of both foreign and domestic labour, company registration and reporting, location and operation of FDI companies; among the operational issues are taxation, trade and customs regime, ex-post monitoring and site inspections, intellectual and industrial property rights. The analyses of these issues are followed by specific recommendations for reform. Its conclusions emphasize the need to build the political will required for an action plan with broad support and to monitor improvements as that plan is implemented.

The two FIAS studies have provided the basis of the recent changes in Turkey's FDI environment and policies. Following a meeting in September 2001 at the Turkish Treasury to discuss FIAS 2001a, a Programme to Improve the Investment Environment in Turkey was announced in November 2001. A Coordination Council for Improving the Investment Climate (CCIIC), consisting of government and private sector representatives, was formed to implement the Program to Improve the Investment Environment in Turkey.

The CCIIC decided to form an Advisory Investor Council (AIC), consisting of the chief executive officers or chairpersons of about 15 foreign affiliates such as Toyota, Hyundai, Siemens, Daimler-Chrysler, and Citigroup. It scheduled its first meeting for July 2002. However, this meeting had to be postponed as the coalition Government, which had failed to enact the showcase legislation required by the IMF, was falling apart. The AIC is yet to hold its first meeting.

To summarize the discussion thus far, under the previous Government of Turkey, a coalition of three parties, Turkey made tentative attempts to improve its FDI environment. These attempts did not bear fruit. Much of what the previous Government had done, including the Constitutional amendment in 1999 to allow foreign affiliates to seek international arbitration in disputes involving Turkey was due to foreign pressures. That Government's responsiveness to those pressures had increased as it moved from one economic crisis to another, needing foreign financial support to avoid default. It did not appear to believe in, and voluntarily seek, inward FDI. It was a Government in difficulties whose major concerns were its own survival and the prevention of the country's economic collapse.

Since November 2002, Turkey has had a single party Government with a sizeable majority in Parliament that recognizes the importance of FDI. The Justice and Development (AK) Party's programme is clearly pro-FDI (AK Party, 2003a). Accordingly, the current AK Party programme recognizes the importance of inward FDI as an essential factor in the country's

economic development (AK Party, 2003b). The Government has shown through its actions that its pro-FDI stance is not just rhetoric meant to please the IMF and the World Bank. Soon after taking office, the Government reorganized the CCIIC and restated its operational principles (Undersecretariat of Treasury, 2003a). Government ministers, in contrast to those in previous Governments, have repeatedly met with and listened to the views of major business organizations that wish to improve Turkey's business environment for both national and foreign investors.

The major achievement of the AK Party in its quest to improve the FDI environment has been the enactment of the new FDI law, Law 4875, in June 2003, to replace the old FDI law, Law 6224, which dates back to 1954 (Undersecretariat of Treasury, 2003c). This law replaces the old FDI approval and screening system with a notification and registration system, bans nationalization without fair compensation, guarantees national treatment to foreign investors, does not restrict FDI in any sectors or impose any performance requirements, eliminates the old minimum capital limit, grants foreign investors full convertibility in their transfers of capital and earnings, allows them to own property without any restrictions, and recognizes foreign investors' right to international arbitration. The new FDI legislation demonstrates the present Government's determination to make Turkey an attractive host country; but its effective implementation, which requires a radical change in Turkish bureaucracy's mindset, will be the real test.

Turkey's outward FDI

According to the Investment Development Path model, based on the eclectic OLI paradigm (Dunning, 1993, pp. 88-89; Dunning, 2000), a country passes through five development stages in its evolution from a host to a source country for FDI.⁵ According to this model, Turkey appears to be in stage 3 in

⁵ The extended product life cycle hypothesis, with seven phases, is an alternative model for the conceptualization of outward FDI from developing countries (Yeung, 2000a, pp. 18-20).

which outward FDI rises, inward FDI falls, but net outward FDI is still negative. Either the negative or the positive role of the State in the rise and strategies of emerging economy TNCs has been particularly important (Yeung, 2000a, pp. 20-26). In the case of Turkey, like in those of Japan and the Republic of Korea, its evolution as a source country seems to have been accelerated not only by deliberate policy discouraging inward FDI (as in Japan and the Republic of Korea), but also by the chronic macroeconomic and political instability over more than three decades to which especially larger Turkish companies have adapted remarkably. This adaptation to instability and risk has enabled them to evolve into TNCs themselves by developing ownership specific assets, reacting to the eroding location-specific advantage of their home country by internalizing those ownership specific assets through outward FDI. The rise of Turkish TNCs belongs to the “second wave” of Third-World TNCs whose “...globalization is less driven by cost factors per se, but more by a search for markets and technological innovations to compete successfully in the global economy” (Yeung, 2000a, p. 12). There is a growing literature on emerging economy TNCs (Yeung, 2000b) which is not surveyed here due to space limitations.

This article compares the situation in Turkey to that of Korean outward FDI in the electronics industry in the 1990s, as analysed by Byung-Hwa Lee (2002). That study found that Korean TNCs have integrated FDI into their business strategies, especially in searching for new markets in both developing and developed countries. According to Lee, these firms have pursued outward FDI in developed countries not only for new markets and to bypass import restrictions but also to acquire advanced technology, modern research and development (R&D) facilities and highly skilled labour. Lee (2002, pp. 56-59) divides outward FDI from developing countries, on the basis of different market and technology conditions, into three categories: horizontal integration, vertical integration and delocalization.

Horizontal integration takes advantage of the closeness to foreign markets and scale economies. Vertical integration takes

advantage of factor cost differences and scale economies. Delocalization is the transfer of production abroad and the complete or partial closure of domestic facilities. Horizontal integration is divided into two subcategories, voluntary (offensive) and involuntary (defensive), depending on whether it is based on proactive rationalization strategy or a reactive response to domestic and foreign challenges. On the whole, vertical FDI is offensive but delocalization FDI is defensive.

Unlike Lee (2002), this article could not base its findings on an econometric investigation of Turkish outward FDI at the firm level since data are not available. This discussion, as an exploratory study, is based on anecdotal and case study evidence. It seems that the outward FDI by three of Turkey's largest conglomerates, Koc Holding, Sabanci Holding and Anadolu Group, discussed below, has been primarily a mixture of involuntary (defensive) as well as voluntary (offensive) horizontal FDI and delocalization FDI. Some of the negative factors that account for Turkey's difficult FDI environment lie behind the upsurge in outward FDI from Turkey (NTVMSNBC, 2002).

The political and bureaucratic culture in Ankara that has been unfriendly to foreign investors has been unfriendly to domestic investors as well. Speaking of Turkish bureaucracy, a businessperson, who had participated in the meetings of the CCIIC observed, "I have to be fair to them. They were equally hostile to Turkish investors. In their eyes they were the protectors of the sacred state – we were ogres who thought of nothing but profit" (Munir, 2002).

Outward FDI by Koc Holding, Turkey's largest industrial and financial conglomerate with consolidated revenues of \$6.7 billion and exports of \$2.2 billion in 2002 (Koc Holding, 2003) consists of various parts.⁶ Koc Holding's white goods producer Arcelik⁷ acquired, in July 2002, two United Kingdom cooker

⁶ This analysis is based on the information presented by the Koc parent company's (<http://www.koc.com.tr>) and its affiliates' websites.

⁷ <http://www.arcelik.com.tr>.

brands, Leisure and Flavel, after buying two affiliates of the bankrupt appliance maker Brandt group of France; in April 2002 the Blomberg unit in Germany (which produces washing machines and dryers); and, in May 2002, the Elektra Bregenz unit in Austria (which produces cookers, stoves, and vacuum cleaners). In September 2002, Arcelik bought a majority stake in the Romanian refrigerator maker Arctic. Arcelik also announced plans to establish a washing machine factory in Russian Federation and two refrigerator factories in Central and Eastern Europe.

For a large Turkish company such as Koc Holding's Arcelik, whose long-term objective is to become one of the world's largest appliance companies, the domestic market is too small. It has been also very volatile due to the severe macroeconomic instability of recent years. Moreover, producing in developed countries, especially in the EU, enables a company such as Arcelik to overcome the perceived liability of the "Made in Turkey" label. Having production abroad can also improve the international image of a Turkish company, helping it in various ways, e.g. in raising funds and attracting investors in international capital markets.

Arcelik's outward FDI, which appears to be a mixture of involuntary (defensive) horizontal expansion and delocalization FDI, has been primarily in the form of wholly owned "brownfield" affiliates. Koc Holding's other outward FDI, however, seems to have been at least partly based on voluntary (offensive) horizontal expansion. For Sabanci Holding, whose outward FDI has been primarily in both green- and brownfield joint ventures with DuPont, motivated largely by the acquisition of DuPont technology, the vertical expansion seems to have also played a role. Anadolu Group's outward FDI seems to have been motivated by both voluntary (offensive) horizontal expansion and delocalization.

Besides Arcelik's production facilities, Koc Holding has several marketing companies in Europe such as Beko UK, Beko Deutschland, Beko France, Beko Espana, and Beko Polska to

distribute its white goods under its international Beko brand. Europe's third largest selling television brand, Beko, which had been an original equipment manufacturer for the German electronics producer Grundig, considered in 2002 but rejected the acquisition of that ailing company, which went bankrupt in 2003. Recently, Beko established in England an R&D and marketing affiliate, Fusion Digital Technologies, of which it owns 70%. This venture, aimed at developing digital technologies, is to help Beko in its plan to become the leader in Europe's TV market by 2005 (Aksam, 2003).

Koc Holding has outward FDI in the services sector. In financial services, Kocbank Nederland N.V., established in May 1996, is an affiliate of Koc Financial Services (KFS), with a major focus on commercial banking, treasury and private banking activities. In May 2001, Kocbank Nederland NV opened its first branch in Frankfurt, Germany. In March 2002, it established Koc Asset Management (Suisse) SA in Geneva to enhance its private banking activities.

In retail services, Koc Holding, on the basis of its 48 years of experience with its joint venture with Swiss Migros in Turkey,⁸ has developed since 1996 supermarkets, hypermarkets, and shopping centres (Ramstores) in Azerbaijan, Bulgaria, Kazakhstan and the Russian Federation. There are now three Ramstores in Baku, Azerbaijan; 5 Ramstore shopping centres and 20 Ramstores in Moscow; one Ramstore shopping centre and two Ramstores in Kazakhstan; and two Ramstores in Sofia, Bulgaria. Koc also has several distribution, servicing and trading affiliates in the United States, Europe and Asia. According to Koc Holding's 2002 Annual Report (Koc Holding, 2003), Koc Holding's 23 foreign affiliates' total sales amounted to \$1.1 billion.

Sabancı Holding, Turkey's second largest industrial and financial conglomerate,⁹ with consolidated revenues of \$5.2

⁸ <http://www.migros.com.tr>.

⁹ On the basis of information presented on its website (<http://www.sabanci.com.tr>) and other sources.

billion in 2002, has also been a major outward investor (Gardner, 2002). It has operations in Europe, the United States, West Asia, and North Africa. It plans to expand into other countries in Asia, including China.

In 1999, DuPont and Sabanci merged their polyester fibre, resin and intermediates into DuPontSA (DuPont Sabanci Polyester Europe) B.V., based in the Netherlands, the largest polyester company in Europe. DuPontSA develops, makes and sells polyester filament, staple, resins, and intermediates throughout Europe, West Asia and Africa. DuPont and Sabanci are equal partners in this joint venture with annual sales of about \$1 billion and about 4,500 employees. The joint venture owns, besides several operations inside Turkey, the following ones outside Turkey: DuPont's pure terephthalic acid and resins businesses at Wilton, United Kingdom, and dacron filament and staple businesses at Pontypool, United Kingdom, and Uentrop, Germany, as well as Sabanci's texturizing plant in Garforth, United Kingdom.

Dusa International LLC, another 50/50 joint venture between DuPont and Sabanci Holding, is the world's biggest industrial nylon yarn and cord fabric producer. It accounts for 40% of total nylon and 66% of total yarn and cord fabric production of the world. This joint venture, headquartered in Wilmington, Delaware, United States, started operations in late 2000. It operates nine manufacturing sites worldwide. Its manufacturing facilities outside Turkey are: DuPont Sabanci Dusa (Brazil), DuPont Sabanci Dusa (Argentina), Interkordsa (United States), DuPont Sabanci (United States), Kordsa (United States), Interkordsa GmbH (Germany), Nile-Kordsa Co. (Egypt) and Kian Kordsa (Islamic Republic of Iran). With a capital of \$592 billion, Dusa International has 2,300 employees worldwide.

As for other business segments, recently Sabanci Holding's Cement Group has been searching for acquisition candidates in Europe and the United States to produce white cement abroad (Erk, 2003).

Anadolu Group, founded in 1969 with origins in the early 1950s, is another large Turkish conglomerate, with total net sales over \$1 billion (excluding financial services) in 2001.¹⁰ It is active in manufacturing, financial services, and tourism, has joint ventures in Turkey with several foreign investors. In soft drinks, it is partnered with Coca Cola. It owns 40% of all seven bottling and distribution Coca Cola plants in Turkey. It has a joint venture in Turkey with Germany's A.W. Faber Castell to produce writing instruments (pens, pencils, erasers, etc.).

Anadolu Group's automotive division has joint ventures in Turkey with Isuzu, Itochu, Honda, Kia, Lada, and Lombardini to produce passenger cars, commercial vehicles, motorcycles and industrial engines. Anadolu Group holds the sales, marketing and distribution rights for Kia and Lada vehicles in the Commonwealth of Independent States (CIS) countries. These vehicles, imported from the Republic of Korea and the Russian Federation, respectively, are sold in Kazakhstan, Azerbaijan, Armenia, Georgia, Turkmenistan, and Ukraine after pre-delivery inspection.

Anadolu Group's international presence is largely in beverages. It began producing beer in Turkey in 1969, with the Efes Pilsen brand, one of Turkey's widely known trade marks. Efes Pilsen, Turkey's beer market leader, is exported to more than 35 countries in five continents. Efes Pilsener has been producing beer in the Russian Federation (Moscow) since 1999, Romania (Bucharest) since 1998, Kazakhstan (Karaganda) since 1999, and Ukraine (Odessa) since 2001. Efes Breweries International B.V., the Netherlands-based affiliate of the Efes Beverage Group, which conducts the Group's international beer operations, won, in December 2002, the right to acquire the Vitanta Intravest S.A. brewery located in Chisinau, the Republic of Moldova, through a tender offer.

¹⁰ On the basis of information presented on its website (<http://www.anadolugroup.com>).

Efes Beverage Group, which includes Efes Pilsen, the leader in the Turkish brewing and malt industry, consists of 31 companies, producing and marketing beer, malt and soft drinks. It has 12 breweries, 4 malteries, and 9 Coca-Cola bottling facilities in nine countries. It was the 11th largest European brewer by sales volume in 2001. While marketing its own brands outside of Turkey, it produces the leading global brands inside and outside Turkey. It produces, under licensing agreements, Miller Genuine Draft and Beck's in Turkey, and Warsteiner Premium Verum in the Russian Federation.

Efes Beverage Group has an extensive regional relationship with Coca-Cola that began with bottling franchises in CIS countries and the Russian Federation. It has invested since 1993 in the production and distribution of Coca-Cola products in Azerbaijan, Kazakhstan, Kyrgyzstan, the Southern part of the Russian Federation, and Turkmenistan. These activities are part of an integrated operation ranging from production to marketing. The partnership with Coca-Cola expanded to the Turkish market with Anadolu Group's purchase of a 40% stake in Coca-Cola's seven bottling and distribution companies in Turkey.

Not all Turkish outward FDI, however, is carried out by large Turkish firms. Many small firms, especially in the textile and apparel sector, which still accounts for the lion's share of Turkish manufacturing exports, have been investing in Central and Eastern Europe, especially in the Czech Republic, Bulgaria and Romania, attracted by these countries' more favourable business environments and in anticipation of their EU membership ahead of Turkey. Much of this outward FDI appears to be primarily a mixture of involuntary (defensive) horizontal FDI and delocalization FDI.

Summary and conclusions

Compared to many developing countries that have attracted and benefited from significant inflows of FDI, Turkey is conspicuous as a country that has not done so. Turkey's

integration with the world economy through inward FDI has lagged relative to other developing countries. Turkey's unattractive FDI environment, caused by political and economic instability as well as a historical fear and suspicion of foreign economic presence, is the explanation.

Turkey's outward FDI, on the other hand, has surged recently, increasing much faster than inward FDI. Outflows have been caused by both economic and political factors. New markets outside Turkey and the ability of the Turkish private sector to exploit them are important positive factors. Recent back-to-back domestic economic crises, rising unit labour costs, and political uncertainty, are important negative factors. Turkey, along with Turkish companies, can benefit from outward FDI. But if it is involuntary and results in delocalization, as the anecdotal evidence suggests that it is to some extent, there may be reason for concern from a public if not a private viewpoint.

There is reason to be optimistic about the Government's plans to improve the environment for inward FDI. The AK Party has a comfortable parliamentary majority, and it has had positive pronouncements and actions so far. If it provides the much-needed political and economic stability, if it overcomes the bureaucratic opposition to FDI and if it makes good use of the technical work of FIAS, it can succeed. It remains to be seen, however, whether the AK Party will be able to govern effectively, given all the obstacles it has faced during its first months in office, and whether it will remain true to its pro-FDI stance.

Turkey can and should overcome its fear of inward FDI, notwithstanding all the understandable historical reasons for that fear. That fear is at odds with its quest for EU membership. It is at odds with globalization without which Turkey can not survive as a modern country. China has overcome its similar experience with foreign economic domination and control. Its spectacular success with inward FDI is well known. Turkey can become another such success if it wants to.

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