



ANADOLU ÜNİVERSİTESİ

**INVESTMENT ENVIRONMENT
AND FOREIGN DIRECT INVESTMENTS
IN THE UNDERLYING TRENDS
OF THE TURKISH ECONOMY**

**Prof. Dr. S. Ridvan Karluk
Dean of Faculty of Economics
Anadolu University
Turkey**

**“E-Leader Conference”
January 2-4, 2012
Manila, Philippines**

Economy: Overview

- ▶ The Turkish economy has shown remarkable performance with its steady growth over the last nine years.
- ▶ Turkey's economy is increasingly driven by its industry and service sectors, although its traditional agriculture sector still accounts for about 30% of employment.
- ▶ An aggressive privatization program has reduced state involvement in basic industry, banking, transport, and communication.

Economy: Overview

- ▶ The economy of Turkey is defined as an emerging market economy by the IMF and is largely developed, making Turkey one of the world's newly industrialized countries.
- ▶ The CIA classifies Turkey as a developed country.



Reasons and Advantages to Invest in Turkey

- ▶ – To set free any foreign investors to make direct foreign investment in Turkey unless it is indicated otherwise by the provisions of private law and international agreements,
- ▶ –To make the foreign investor be subject to equal treatment with the domestic investors,
- ▶ –Not to nationalize or expropriate the direct foreign investments unless the public benefit requires so and they are remunerated accordingly pursuant to the applicable legislation,

- ▶ –Possibility of transferring any net profit, dividend, sales, liquidation and compensation values, any amounts that may arise from the activities and procedures of the foreign investors in Turkey to be payable in return to any licenses, management and similar agreements, and payments of the principals and interests of any foreign loans by means of banks and private financial institutions freely to abroad,



“E-Leader Conference”
January 2-4, 2012
Manila, Philippines

- ▶ –To set free any foreign companies at the status of a legal entity that the foreign investors may have established in Turkey or participated in to acquire any immovable assets or limited rights in-kind in the regions open for the acquirement of Turkish citizens,
- ▶ The achievement of the market economy with its rules and institutions not only offers a window of opportunity from medium to long term, but also brings Turkey ready for a more convenient investment environment to foreign investors.



Foreign Direct Investments in Turkey

- ▶ Turkey could only attract USD 1 billion foreign investment on the average per year since 1990. According to generally accepted international standards, the minimum annual FDI attraction potential of Turkey is USD 35 billion (UNCTAD 2002), which means that Turkey faces an investment loss of minimum USD 34 billion every year. In order to catch this potential Turkey has to build confidence to its economy by ensuring stability of rules and regulations, transparency and political stability.

“E-Leader Conference”
January 2-4, 2012
Manila, Philippines

- ▶ According to UNCTAD, top five largest recipients of international direct investment inflows are USA, China, France, Hong Kong and UK. Having received USD 7.6 billion in FDI inflows, Turkey holds 32nd place among the largest recipients of FDI inflows. Turkey's position fell down to 15th place in this year's ranking for developing countries. Among the developing regions, South and East Asia stand out as it has been in the previous years. In the UNCTAD Report Turkey is included among the West Asian countries, and ranks 3rd in the region, behind Saudi Arabia, which ranks 1st.

Foreign Direct Investments Inflow to Turkey by Year

USD million

	2005	2006	2007	2008	2009	2010
FDI Total (Net)	10,031	20,185	22,046	18,269	8,409	8,899
Equity Investment (Net)	8,134	16,982	18,393	14,698	6,168	6,225
• Inflows	8,535	17,639	19,136	14,733	6,250	6,260
• Liquidation Outflows	-401	-657	-743	-35	-82	-35
Intra Company Loans*	56	281	727	634	459	180
Real Estate (Net)	1,841	2,922	2,926	2,937	1,782	2,494

*Loans that companies with foreign capital are given by foreign partners
Source: Central Bank of the Republic of Turkey

“E-Leader Conference”
January 2-4, 2012
Manila, Philippines

Foreign Direct Investments Inflow to Turkey by Countries

USD million						
Countries	2005	2006	2007	2008	2009	2010
European Union	5,006	14,489	12,601	11,076	4,927	4,762
	391	357	954	1,237	497	498
	2,107	439	367	679	617	589
	383	5,069	5,442	1,343	718	501
	166	628	703	1,335	350	233
	692	189	74	249	314	54
Other European Countries	1,267	7,807	5,061	6,233	2,431	2,887
Other European Countries (Excluding EU)	1,646	85	373	291	305	243
	3	21	5	82	2	0
	88	848	4,212	868	260	318
	26	121	11	23	52	56
Central-South and Caribbean	8	33	494	60	19	5
Asian	1,756	1,927	1,405	2,345	673	873
Near and Middle Eastern Countries	1,678	1,910	608	2,184	361	437
Gulf Arabian Countries	1,675	1,783	311	1,963	209	371
Other Near and Middle Eastern Countries	2	3	196	96	78	16
Other Asian Countries	78	17	797	161	312	435
Other Countries	2	115	36	2	12	3
Total	8,535	17,639	19,137	14,747	6,250	6,260

Breakdown of Companies with International Capital by Sector

Sectors	1954 - 2004	2005	2006	2007	2008	2009	2010	Total(1954-2010)
Agriculture, hunting, fishing and forestry	123	33	39	46	52	55	61	409
Mining and quarrying	132	50	45	77	87	73	73	537
Manufacturing	1,860	377	412	463	454	388	399	4,353
• Manufacture of food products and beverages	208	36	42	34	34	50	63	467
• Manufacture of textiles	229	61	45	46	21	18	19	439
• Manufacture of chemicals and chemical products	218	36	40	54	45	39	51	483
• Manufacture of machinery and equipment n.e.c.	138	26	51	44	46	29	24	358
• Manufacture of motor vehicles, trailers and semi-trailers	136	21	15	19	23	18	7	239
• Other manufacturing	931	197	219	266	285	234	235	2,367
Electricity, gas and water supply	89	8	40	69	108	128	116	558
Construction	317	307	386	444	344	299	319	2,416
Wholesale and retail trade	2,899	680	717	757	760	913	1,082	7,808
Hotels and restaurants	689	160	182	196	203	171	152	1,753
Transport, storage and communications	654	213	256	270	282	264	334	2,273
Financial intermediation	120	18	46	42	42	17	14	299
Real estate, renting and business activities	634	470	626	779	635	468	511	4,123
Other community, social and personal service activities	299	141	171	161	204	160	172	1,308
Total	7,816	2,457	2,920	3,304	3,171	2,936	3,233	25,837

Source: Undersecretariat of the Treasury

Main Incentives for Foreign Direct Investment in Turkey

- ▶ Turkey provides various incentives and grants to the investors for the purpose of facilitating larger investments and capital contributions by the local and foreign investors and eliminating the regional imbalances.



“E-Leader Conference”
January 2-4, 2012
Manila, Philippines

The incentives granted to the investors under the current regime can be classified under below headings;

- ▶ – Investment incentives,
- ▶ – Export incentives,
- ▶ – Free Trade Zones,
- ▶ – Technology Parks,
- ▶ – Research and Development Incentives,
- ▶ – Incentives to Less Developed Regions.



Conclusion



- ▶ Turkey is an attractive country for global investors. Turkey with a relatively high quality labor force and economic location advantages with easy access to regional markets. The experience of more than 16,000 (as of end-2010) foreign capital establishments, including 112 of the Fortune Top 5000 companies, confirms Turkey as a predominant investment location.

