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Abstract

During the 1990s, circumstances in the world economy substantially changed. Developing countries have initiated political and economical reforms in order to eliminate the barriers of trade and to encourage the FDI transactions. Together with the integration and development of transport and information technologies, the production activities of companies accelerated and became more globalized. As a result of these progresses, the world trade volume, and especially the flows of foreign direct investments, began increasing in the early 1990s. Today, the foreign direct investments have been the main and the most important instrument among the capital flows running into developing countries. Developing countries, which have recognized the beneficial points of the foreign direct investment flows, have strived to work for liberalizing their economies. Sectors such as telecommunication, transport and energy, which are rather domestically operated, have even been introduced to foreign capital. Many countries have initiated reforms and enacted laws for eliminating the bureaucratic, administrative and legislative difficulties and barriers in order to support and improve the investment environment. This competitive environment among the countries points out the benefits and positive effects of the foreign capital inflows.

It is a well known fact that the foreign direct investment activities offer significant development opportunities for the developing countries. High efficiency and productivity growth, administrative and high technological know-how are to be gained through the investment flows, which the multinational enterprises realize in the economies of these countries. Foreign direct investments simultaneously increase the rate of employment, national income and export efforts. As long as the foreign direct investments are supported, the capital accumulation for the future economic growth can easily be obtained.

Until 2003, Turkey indeed has not been very successful in attracting the FDI inflows among its competing countries. In 1980, the previously import oriented economy of Turkey were converted to an export-oriented one and reforms were carried out so that the foreign trade could become more liberalized. As a part of this policy, the state controls on financial markets were reduced and herewith the economy was attempted to be integrated with the global economic system. Nevertheless, the liberalization of the financial markets alone was not sufficient to solve the macroeconomic problems of Turkey. The high inflation and unemployment rates, low participation rates, economic and political instability were the main problems of Turkey which caused the economic crisis in 2001. After the crisis, the unemployment rate rose by more than 10% and the credit interest rates were more than 16 %. The Turkish government made substantial reforms to

improve the investment environment. With assistance of the World Bank, the "Coordination Council for the Improvement of the Investment Environment – CCIIE" (YOIKK) was established after the enactment of the Foreign Direct Investment Law in 2003. The number of foreign companies which was 6.529 in 2003 has successfully increased to 21.632 in 2008. The Turkish FDI volume increased and reached over USD 22.000 million in 2007 which was only USD 1.751 million in 2003.

As a result of the recent economic crisis the world has been suffering, an overall decrease has been observed in the world FDI flows. This paper studies the attractiveness of the investment environment of Turkey, the efforts of the Turkish government for improving this investment environment, and the performance in the foreign direct investment inflows before and during the global financial crisis.

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1 Investment Environment in Turkey

1.1 Major Investment Attractiveness of Turkey

1.1.1 Geographical Advantage

Turkey is located at an intersection point of three continents Asia, Europe and Africa. This geostrategic advantage with being surrounded by the seas on four sides and the proximity to the western as well as the eastern markets has always been an attractive point in terms of realizing trade opportunities and having good living conditions for many great civilizations throughout history.

Turkey has boundaries with eight neighbors: Greece, Bulgaria, Garcia, Armenia, Azerbaijan, Iran, Iraq and Syria. The territory has been divided into two main parts by the Bosporus, the Marmara Sea and the Dardanelles Strait. The region called Anatolia is surrounded by the Black Sea to the north, the Aegean and the Marmara Sea to the west and the Mediterranean Sea to the south. As a result of the unique geographic climate of each area, the territory has been divided according to the geographical similarities into seven different regions: Aegean, Marmara, Black Sea, Eastern Anatolian, Mediterranean, South-Eastern Anatolian and Central Anatolian. The climate in these regions does not only have advantages on tourism but also on the agriculture. Many healthful agricultural primary and secondary products are being imported not only by the neighbors, but also by oversea countries.

Turkey has three main climate areas. The Black Sea region has the advantage of being mild and rainy through the year, the central and south eastern Anatolia have a cold and snowy winter followed by a hot summer. The Mediterranean Region is very hot and sunny during almost 11 months in a year. These features have always been very attractive for the tourists and the investors of the entertainment sector for both winter and summer seasons. Along a coastline of 8,000 kilometers there are many 5-Star hotels in the Aegean and Mediterranean Regions. Many natural and historical areas in Kuşdası, Bodrum, Antalya, Fethiye, Marmaris, Alanya draw attentions of not only the domestic but also the European tourists. Due to the statistic reports taken from the Republic of Turkey Ministry of Culture and Tourism, almost 22.2 billion foreign tourists have visited Turkey in 2007 which has brought the country an income of USD 18.5 billion with an increase of 9.7 % compared to 2006.

Throughout 81 provinces, Ankara, Istanbul and Izmir have always played a big role in the industrial, economical, political, and cultural organizations as well as in the entertainment sector. Not only these three major provinces but also Eskisehir, Bursa, Kocaeli, Çanakkale, Denizli, Isparta, Muğla and Antalya have been involved with the ten most developed provinces according to the data of "Solutions for Turkey`s Problems in 2007".

Table 1: World`s Highest Tourism Income and Foreign Visitor Numbers of the Most Favored Countries in 2007

World`s Highest Tourism Income of the Most Favored Countries in 2007			World`s Highest Foreign Visitor Numbers of Countries in 2007		
	COUNTRY	**USD BILLION**		COUNTRY	**USD BILLION**
1	USA	96,7	1	FRANCE	81,9
2	SPAIN	57,8	2	SPAIN	59,2
3	FRANCE	54,2	3	USA	56,0
4	ITALY	42,7	4	CHINA	54,7
5	CHINA	41,9	5	ITALY	43,7
6	UK	37,6	6	UK	30,7
7	GERMANY	36,0	7	GERMANY	24,4
8	AUSTRALIA	22,2	8	UKRAINE	23,1
9	AUSTRIA	18,9	**9**	**TURKEY**	**22,2**
10	**TURKEY**	**18,5**	10	MEXICO	21,4

Source 1: Own tables illustrated due to the date taken from Tourism Report 2007, Republic of Turkey Ministry of Culture and Tourism

As reported in the "Tourism Strategy of Turkey – 2023", Turkey has created a long-term tourism strategy where the main goal is to be placed in the fifth position of the both lists above. In order to develop the investment environment in tourism sector, incentives will be offered, adjustments should be made in the taxation system to support not only the tourism accommodation facilities, but also the travel agencies as well as the investment approaches to the areas, except the sea sides, which shall be encouraged through attractive engineering projects. [1]

[1] (Republic of Turkey Ministry of Culture and Tourism Publications, 2007 pp. 9,10)

1.1.2 High Population and Labor Force

Turkey has a population exceeding 70.5 million as of 2007 statistics. According to the data taken from the Turkish Statistics Institute (TURKSTAT), 9.23 % of the total population is between the ages of 25-29, which is more than that of the other European countries, denoting a great dynamism in the economy. According to the population statistics, 35.376.533 of the population represent the male and 35.209.723 the female citizens. 70.5 % of the population resides in cities. 12.573.836 citizens represent 17.8 % of the whole population who resides in Istanbul, 6.3 % in Ankara, 5.3 % in Izmir, 3.5 % in Bursa, 2.8 % in Adana. Nearly half of the population is younger than age 28. The workers whose age lies between 15 and 64 represent 66.5% of the whole population. [2]

Table 2: Distribution of Population by Age Groups[3]

Age Groups	Male Population	Female Population	Total	% Of Total Population
0 – 4	2 978 972	2 814 934	5793906	8,21
5 – 9	3 303 329	3 133 498	6436827	9,12
10 – 14	3 288 472	3 123 186	6411658	9,08
15 – 19	3 159 723	2 997 310	6157033	8,72
20 – 24	3 181 804	3 058 769	6240573	8,84
25 – 29	3 295 102	3 217 736	6512838	9,23
30 – 34	2 885 151	2 842 548	5727699	8,11
35 – 39	2 565 112	2 507 329	5072441	7,19
40 – 44	2 379 314	2 346 486	4725800	6,70
45 – 49	2 057 626	2 027 439	4085065	5,79
50 – 54	1 781 029	1 784 640	3565669	5,05
55 – 59	1 369 618	1 419 240	2788858	3,95
60 – 64	981 178	1 086 536	2067714	2,93
65 – 69	781 165	917 418	1698583	2,41
70 – 74	629 241	743 836	1373077	1,95
75-79	441 289	628 672	1069961	1,52
80-84	212 383	366 496	578879	0,82
85-89	58 552	123 636	182188	0,26
90+	27 473	70 014	97487	0,14
Total	**35.3765.33**	**35.209.723**	**70.586.256**	**100.00**

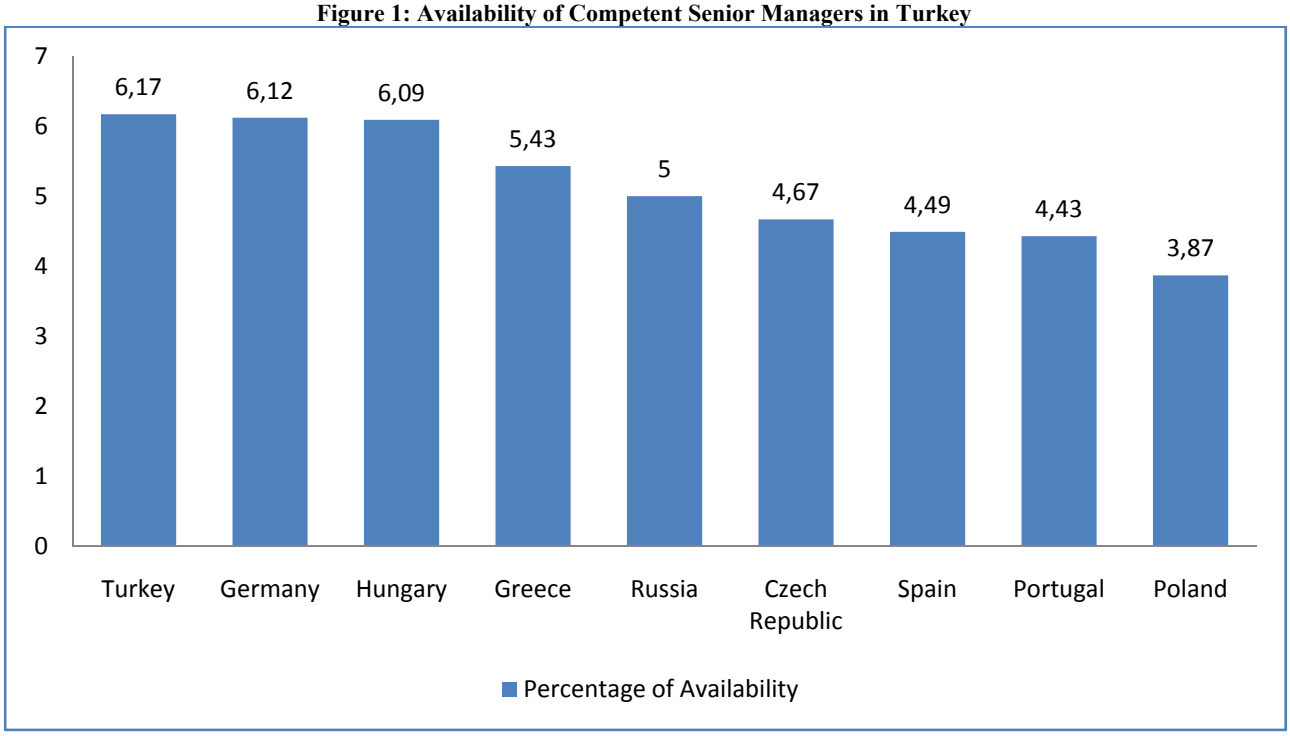
Source 2: TURKSTAT

The private sector is rapidly growing and developing itself. The ratio of textiles and clothing, which represents the largest industrial sector, accounts for one-third of the industrial employment. Not only textiles and clothing, but the automotive and electronics sectors are also gaining a high market share within Turkey´s export data.

[2] (TURKSTAT, Turkish Statistical Institute , 2007)
[3] (YASED, International Investors Association of Turkey, 2008 p. 7)

The labor force in Turkey is well-known for qualified and hard-working employers who occupy a high capacity of knowledge in business. A labor force which is highly competitive in Turkey is very attractive for investors who are looking for the high quality and low cost criteria in their investment decisions. According to the data taken from the IMD World Competitiveness Yearbook 2007, Turkey is registered as the country which employs a high amount of competent senior managers among its competing countries.

Figure 1: Availability of Competent Senior Managers in Turkey



Source 3: IMD World Competitiveness Yearbook 2007

The private sector trades in a very competitive market structure because of the economic conditions for the past 20 years. In domestic, as well as in the outside markets, intensive and attractive marketing strategies have been conducted for Turkish-Trademarked products and services. Many Turkish products are highly preferred abroad not simply for their low cost option, but also the unique quality and performance. Identically to the reputation of high quality of the manufacturers, other sectors such as services, banking and tourism have also made enormous progress in their courts, and hence been prize worthy for delivering professional services and for providing high class physical and technical infrastructure.

1.1.3 Strong Supply of Resources

Most of the energy resources of the world are located at the Middle East Central Asian. Turkey has a specific advantage of being a bridge to those resources. Besides being a gateway to those resources, the Turkish territory itself is also very rich with natural resources like *"oil, coal, iron, ore, copper, uranium, manganese, antimony, chromium, mercury, borate, sulphur, zinc, borax"*.[4] The resources are well-operated and secured by the major legislative reforms of the Natural Gas Market Law, Petroleum Market Law, and Electricity Market Law and therefore draw the attention of the domestic as well as the foreign investors.

As OMV, Austria`s leading oil and gas company, took over the 34 % (today 41,3 %) share of the Petrol Ofisi, the largest gas station operator in Turkey, for EUR 884 million in 2006, the company still searches for a settlement in Turkish electricity market, after having a partnership in Borasco Elektrik on 30.07.2008 (60%)[5] which deals with the production and trading of electricity, with Turcap Investments B.V., a subsidiary of the global financial services provider Lehman Brothers Holdings Inc. (25%), and Metcap Enerji Yatirimlari San. ve Tic A.S. (15%).[6]

Werner Auli, the OMV Executive Board Member responsible for Gas and Power expressed: *"The entry into the Turkish market is another important step in terms of the use of natural gas for power generation in addition to the projects in Romania and Germany. The Turkish electricity market has a strong growth rate of around 10% per year. New power plants are urgently required in order to cover the high demand. This project will help ensure the supply security in Turkey."*[7]

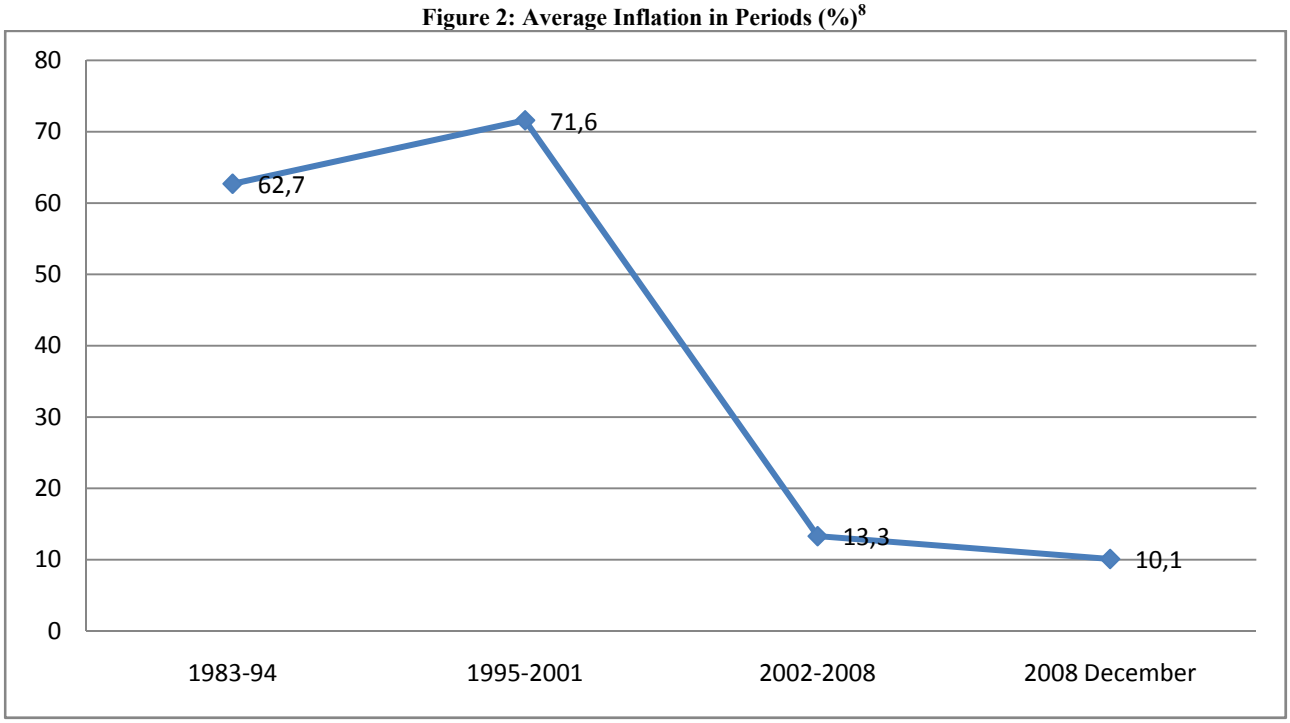
As cited above, the main investment purpose of the investors is not only using the resources of Turkey, gaining more market share or globally expanding but also accessing the resources of the neighbor countries of Turkey.

[4] (Geocities, 2009)
[5] (Project Finance Magazine, 2008)
[6] (Scandinavian Oil Gas Magazine, 2008)
[7] (Eye of Dubai, 2008)

1.1.4 Turkey`s Effort to Lower Inflation

Since 1980s, there have been plenty of reforms for a more liberalized economy. The Turkish government decided to change the policy of an inward oriented system to an export oriented commercial policy in 1980. The economy of Turkey has suffered from the high inflation rates for many years. The high prices began to depreciate within the recent successful economic programs after the economic crisis in 2001.

Figure 2: Average Inflation in Periods (%)[8]



Source 4: TURKSTAT, CBRT, 30.01.2009

Also illustrated in the table, the inflation rate during the period 1983-1994 was 62.7 %, which was followed by 71.6 % in the period 1995-2001, which then successfully dropped to 13.3 % and 10.1 % in the following years. Even one digit numbers such as 7.7% in 2005 showed up in this table between 2005 and 2008. Yet the current economic crisis affected the prices, so the rates increased to 8.5% in 2007 and 10.1 % in 2008.

The integration programs, negotiations for the EU-Membership with the European Union were also affective for achieving stability in the economy. Meeting the qualifications required by the EU has already given a start to develop the economy by former and current governments. The developments in legislative and taxation system, advancing the living standards and investment

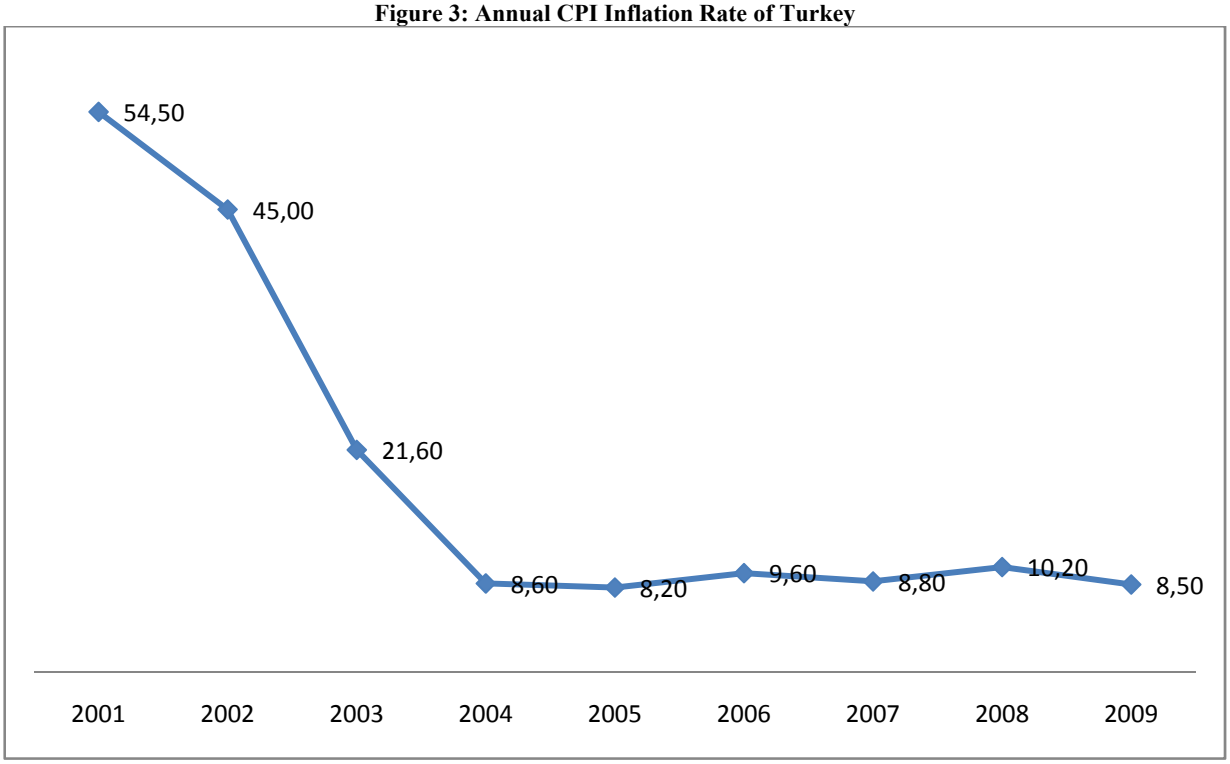
[8] (Republic of Turkey Prime Ministry Undersecretariat of Treasury, 2009 p. 37)

environment also arouse interest of the foreign investors to increase the market share in the Turkish market.

The economy is still fighting against the high current account deficit and external debts although there have been strong economic efforts in fiscal policy between the years 2002 and 2007. Nevertheless, as the overall FDI inflows, including the ones of Turkey, are in decline as result of the global economic crisis. Turkey still assumes to receive inflows in the FDI transactions as there are still reforms being introduced in economic and judicial perspectives and as Turkey offers more attractive investment conditions than other countries in the region.

Figure: Annual CPI Inflation Rate of Turkey

Figure 3: Annual CPI Inflation Rate of Turkey

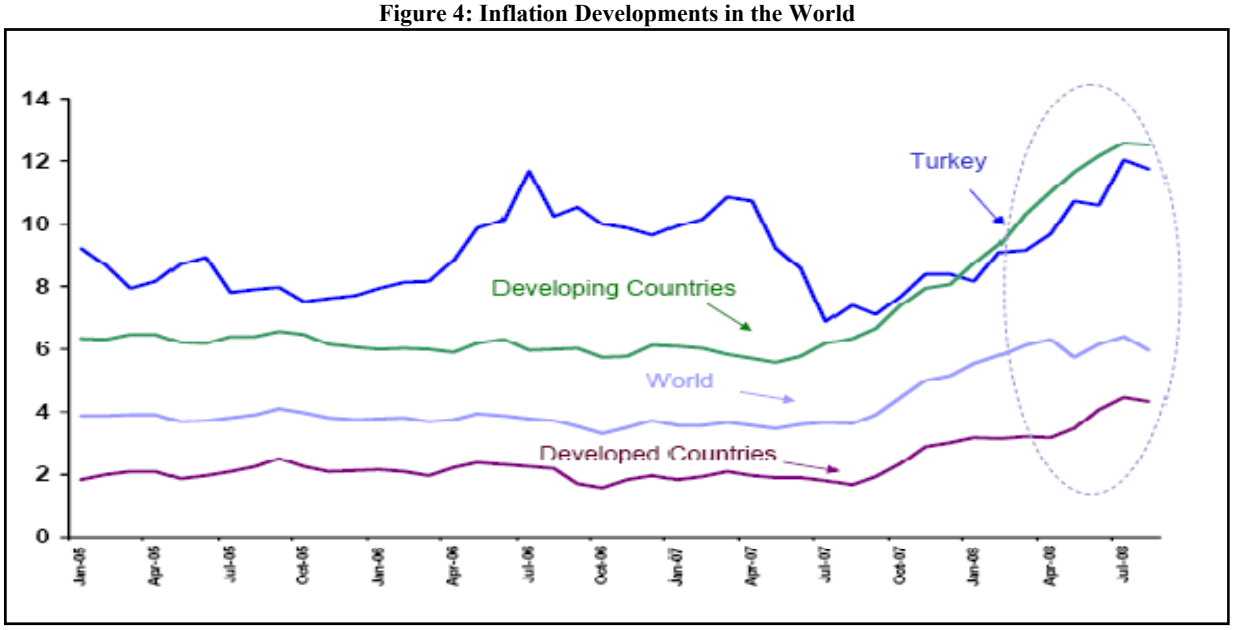


Source 5: Project Link, Global Economic Outlook Country Data[9]

The inflation rate of Turkey might have been higher than the ones of developed countries and the world`s average but yet Turkey has achieved to display a lower inflation rate by the end of 2008 among the developing countries. (Figure 4)

[9] Global Economic Outlook Country Data, Turkey, Annual CPI Inflation Rate, (United Nations, Development Policy and Analysis Division, 2009)

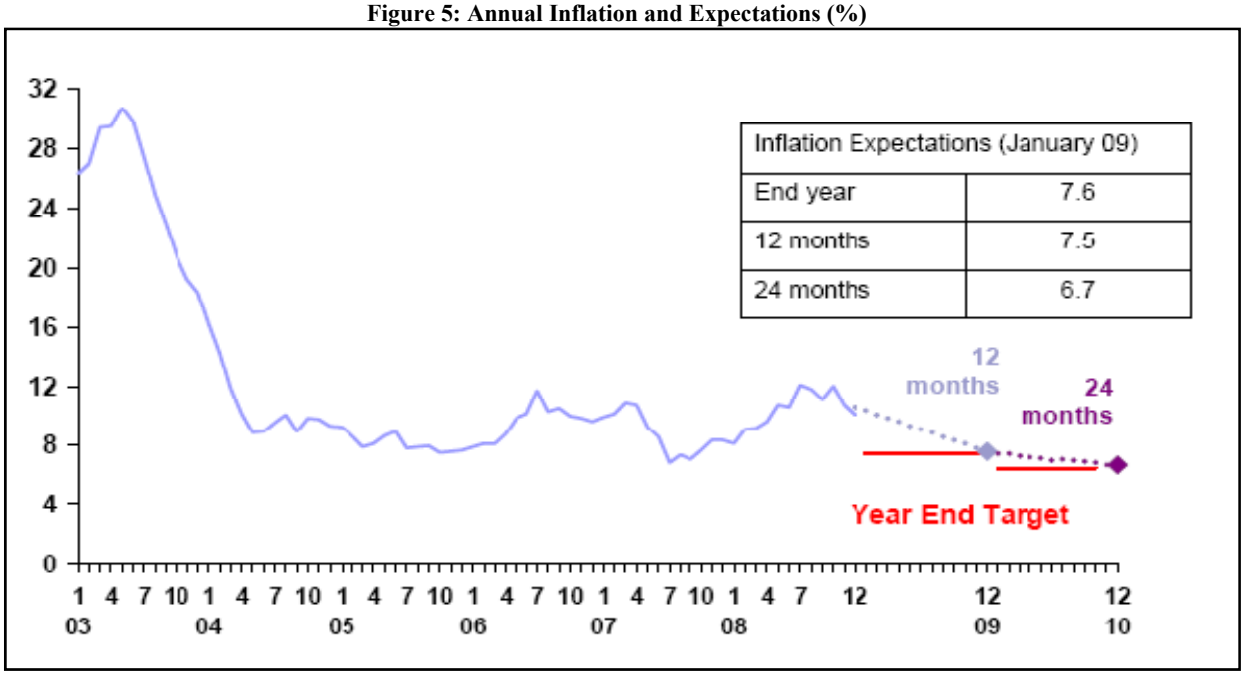
Figure 4: Inflation Developments in the World



Source 6: IFS, Central Banks, CBRT[10]

According to the forecast data taken from the Central Bank of the Republic of Turkey (CBRT) in January 2009, a decrease in the inflation rate is expected to be 7.6% by the end of this year, 7.5% in 2010 and 6.7% in 2011.

Figure 5: Annual Inflation and Expectations (%)



Source 7: CBRT`s Survey of Expectations[11]

[10] (Republic of Turkey Prime Ministry Undersecretariat of Treasury, 2009 p. 46)
[11] (Republic of Turkey Prime Ministry Undersecretariat of Treasury, 2009 p. 44)

1.1.5 International Memberships

As the country has a very special location of being a crossroad between the East and the West, this strategic feature creates a unique advantage for doing business. Beside the European Union, the location is also important for creating business opportunities with emerging markets in Middle East and Central Asian Turkic Republics.

As mentioned above, Turkey has eight neighbors namely Greece, Bulgaria, Garcia, Armenia, Azerbaijan, Iran, Iraq and Syria. After the fall of the Ottoman Empire followed by the First World War, Turkey was reestablished as the Republic of Turkey by Mustafa Kemal Atatürk in 1923. The reforms Ataturk had made, has let the country quickly develop itself in a very short time. *Through the memberships in the European regional organizations as a "founding member of United Nations (1945), member of Council of Europe (1949), NATO (1952), OECD (1961), EEC (1963), OSCE (1973), CSCE (1973), Western European Union (1992), Customs Union (1995), and the Group of Twenty Finance Ministers and Central Bank Governors, known as G-20 (1999)"*[12], Turkey has been highly integrated in the Western World. In 2005, the full membership negotiations with the European Union have started. Turkey, whose membership will begin on January 1, 2009, was elected as a non-permanent member of United Nations Security Council on October 17, 2008, on behalf of the Western European and Others Group.

Besides the many other minority groups in the country, the main religion is Islam. As an Islamic country, Turkey creates a comparative advantage through the cultural proximity in terms of doing business with other Islamic countries. Therefore the Turkish foreign trade policy is equally applied in the eastern countries. As a founding member, Turkey has been in actively involved within organizations such as the Organization of The Islamic Conference, OIC (1969) and Economic Cooperation Organization, ECO (1985) in order to develop the cultural, industrial and political relationships in the region.[13]

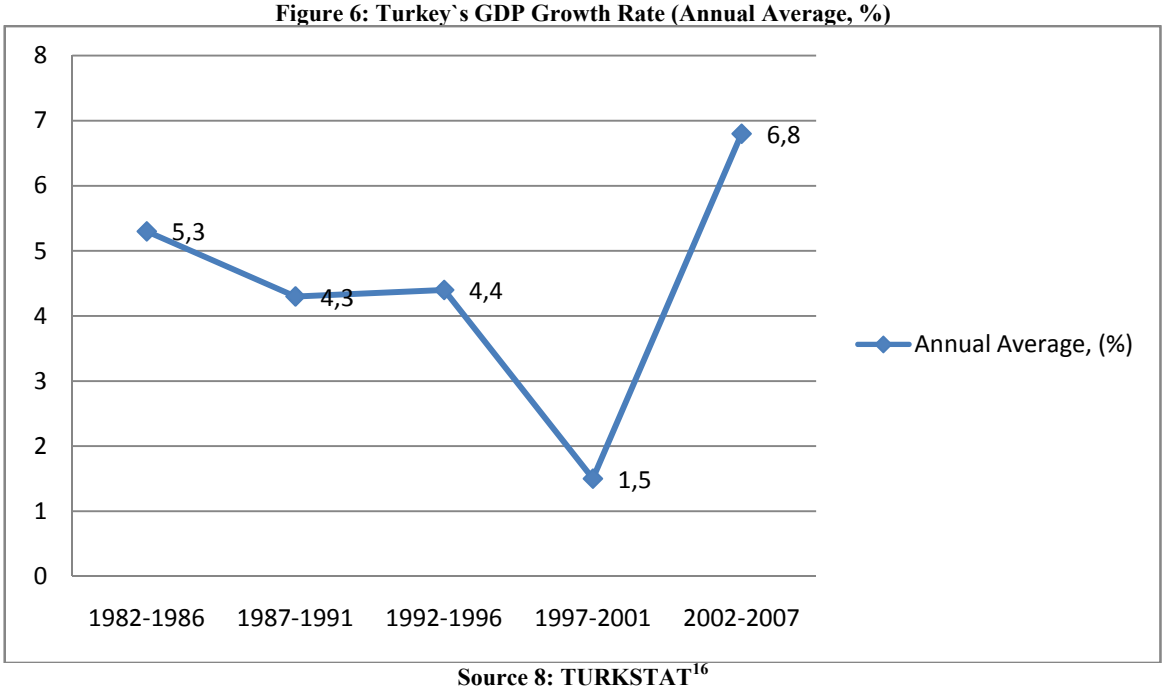
A further extension of the cultural and economic relations into Central Asia has been established by the completion of multibillion dollar oil and gas pipeline project of Baku-Tblisi-Ceyhan pipeline from Baku in Azerbaijan in 2006. [14]

[12] (Wikipedia)
[13] (Economic Cooperation Organization, 2009)
[14] (CIA, 2009)

1.1.6 Recent Economic Indicators

"The Gross Domestic Product (GDP) or Gross Domestic Income (GDI) is one of the measures of national income and output for a given country`s economy. It is the total value of all final goods and services produced in a particular economy, the dollar value of all goods and services produced within a country`s borders in given a year."[15] According to the data taken from the Undersecretariat of Treasury in Turkey the average growth rate of the annual GDP, which was very low during the economic crisis in 2001, has increased since 2002.

Figure 6: Turkey`s GDP Growth Rate (Annual Average, %)



Source 8: TURKSTAT[16]

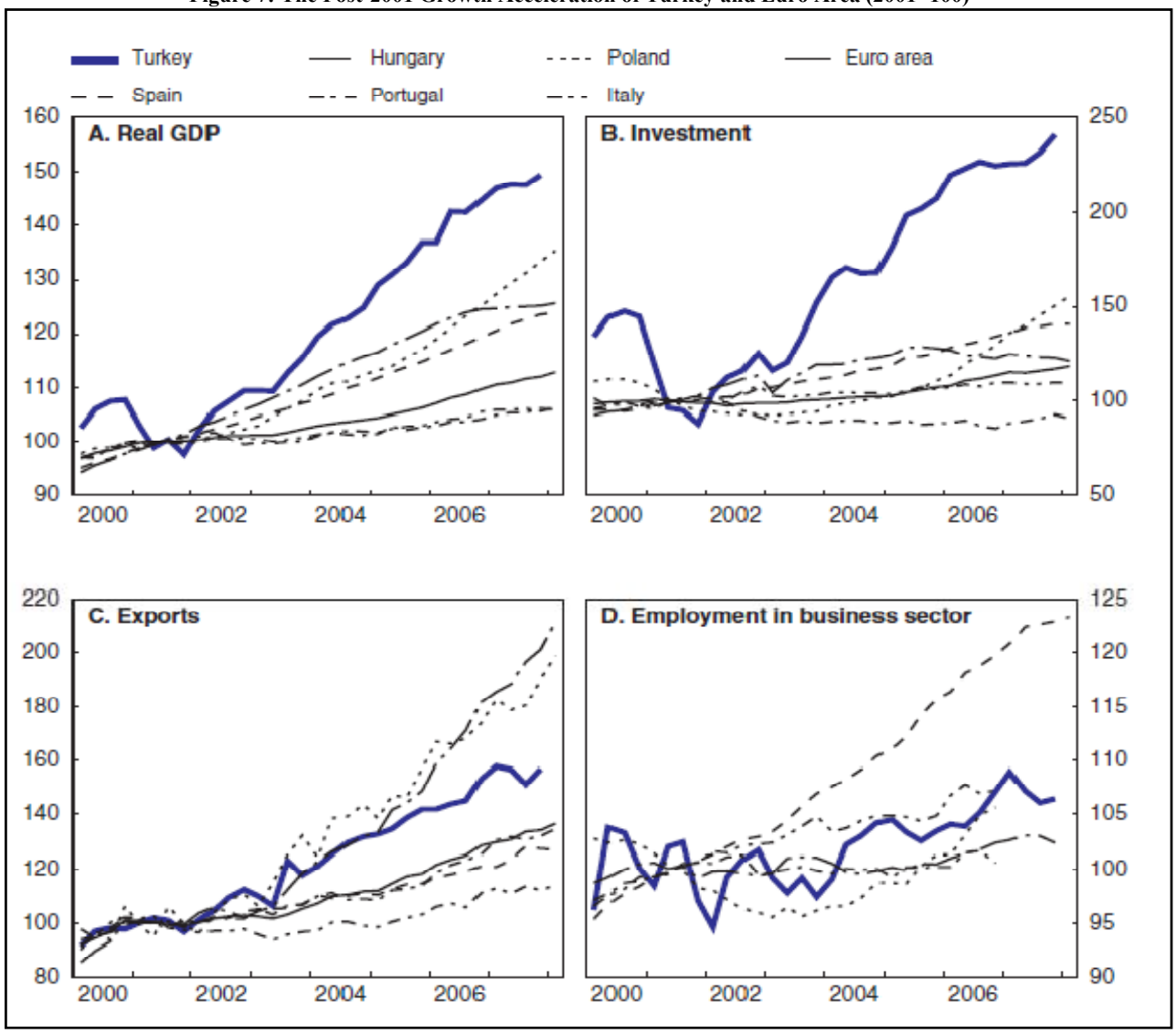
The future expectations of the Undersecretariat of Treasury in Turkey concerning the GDP growth are assumed to be positive with growth rates of 4.0 %, 5.5 % and 6.0 % in 2009, 2010 and 2011 respectively. [17]

[15] (Arthur Sullivan, 2003)

[16] Own graph illustrated due to the numbers taken from (Republic of Turkey Prime Ministry Undersecretariat of Treasury, 2009 p. 13)

[17] (Republic of Turkey Prime Ministry Undersecretariat of Treasury, 2009 p. 14)

Figure 7: The Post-2001 Growth Acceleration of Turkey and Euro Area (2001=100) [18]



Source 9: OECD Economic Outlook No. 83 database

According to the data of Economic Outlook of OECD regarding Turkey´s profile, which was released in July 2008, it has been reported that significant growth have been observed in real GDP, investment, exports and employment in business sector areas since 2002. This macroeconomic growth of Turkey has even been stronger than the ones of the Hungary, Poland, Spain, Italy or the EU-Region in real GDP and investment issues.

The factor that influenced this growth was the Turkish government that made several improvements and developments to the public and private sectors. After the economic slowdown in 2001 in Turkey, many efforts have been undertaken in order to upgrade the economy and the business environment. In Turkey there are large scaled and successful domestic companies that had showed a significant performance in productivity, output, creating employment opportunities and exports

[18] (OECD Economic Surverys: TURKEY, 2008 p. 23)

after 2001. Due to the Economic Outlook of OECD, the largest 500 companies had supplied the 49 % of the total industrial value added and 54 % of the exports in 2006. *"Most of the modern domestic firms have not been adversely affected by the competitive squeezes resulting from trend currency appreciation and low-cost country competition. They could protect their profit margins through productivity gains, recourse to imported inputs, and a re-centering of their activities on the domestic market. Many firms also started to invest abroad, backed by the real appreciation of the Turkish lira and their large cash resources."*[19]

After the privatization transactions and large-scale mergers, the number of foreign companies has risen mostly in oil exploration and distribution.[20] An example of the oil exploration and distribution would be that the acquisition of the 34 % shares (USD 1.054 billion) of Petrol Ofisi, market leader in refined oil products in Turkey, by the Austrian OMV and the Turkish Dogan Holding.

The foreign companies invested mostly in banking sector, telecommunication and retail trade. HSBC, Fortis Bank, NGB, Dexia Bank, BNP Paribas, Bank Hapoalim, Unicredito were some examples of the foreign banks which acquired totally or partially the shares of the Turkish domestic banks.

The medium-sized enterprises (MSE) are basically the long-standing traditional family companies which are actively operating and gaining market share since 2002. The Turkish government and many financial institutions such as banks are encouraging and supporting these companies in terms of granting business-concerned credits or easy payment conditions to improve and develop themselves, so that these companies employ more workers, increase the country´s productivity and the consumption rate. These companies have created approximately 700.000-800.000 new emplacements in the manufacturing sector since 2000.

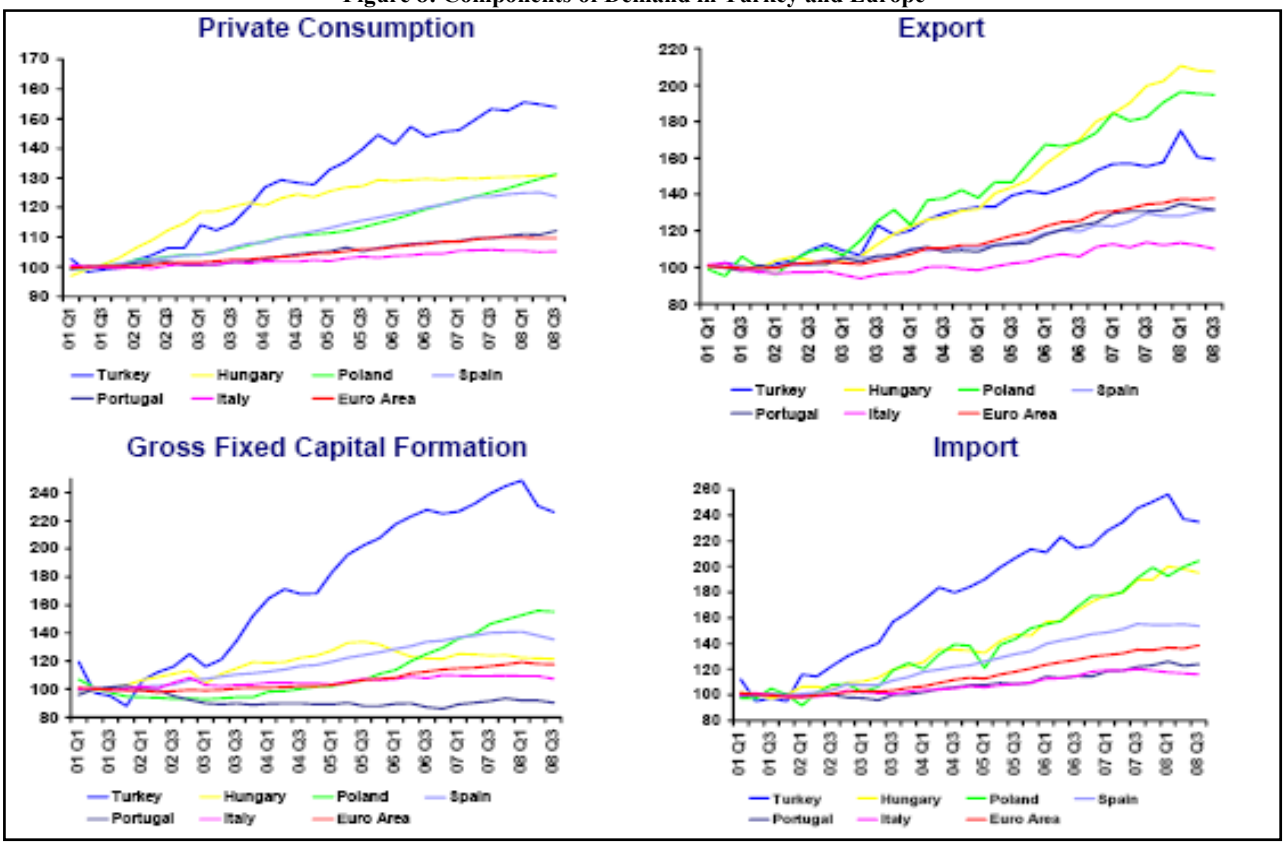
Trade Facilities, Numbers of Import-Export

According to the Economic Outlook of OECD, there are three main forces which have high impact on the globalization of the Turkish economy, namely; "*the increase in the share of exports in*

[19] (OECD Economic Surverys: TURKEY, 2008 p. 22)
[20] (OECD Economic Surverys: TURKEY, 2008 p. 23)

output, the opening of domestic markets to import competition and finally the increasing recourse to international savings in funding investment". [21]

Figure 8: Components of Demand in Turkey and Europe[22]



Source 10: OECD, 2008

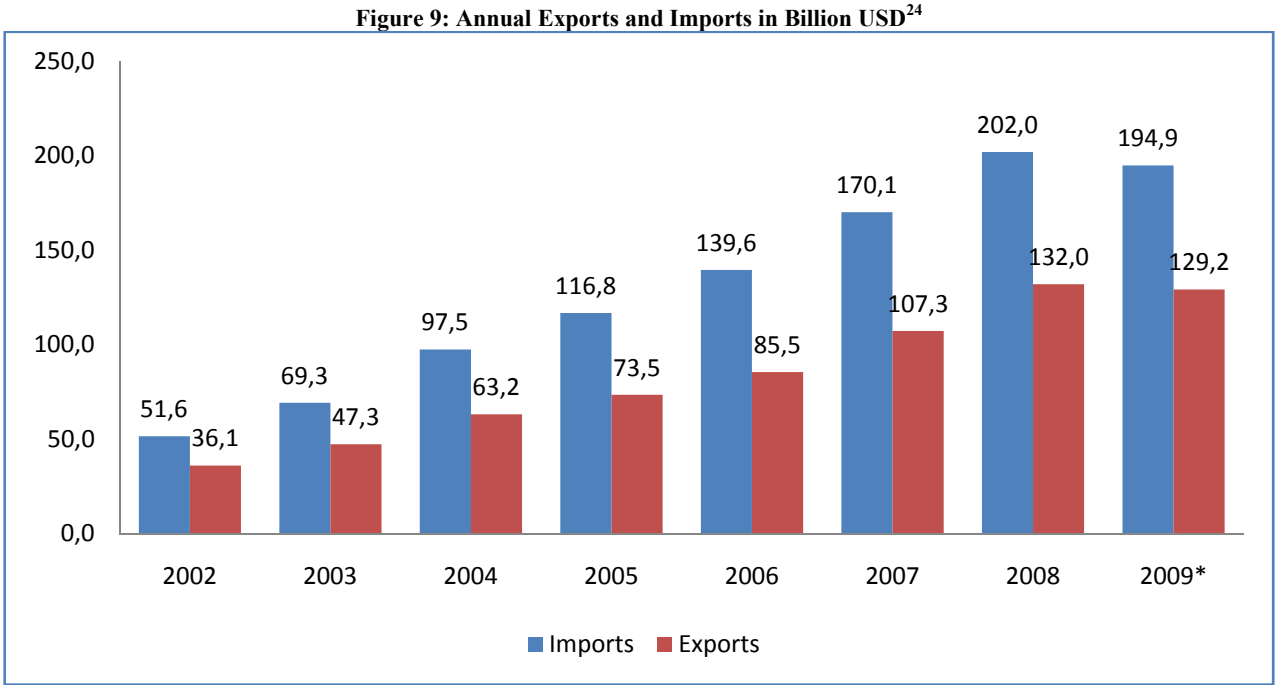
The low-cost and qualitative production, the potential supply of the resources enable Turkey to create a comparative advantage among its neighbors in producing textiles, clothing, food, furniture, glass products, white goods, car assembly and light industrial machinery. Turkey and Turkish raw materials, as well as the end-products, have been globalized through the export facilities since 2000s.

Although Turkey has a high productivity level in its domestic market and even carries out export transactions, the high volume of the import figures constitute an enormous competition environment in the market. The Customs Union, which was signed in 1996 with the European Union, empowered foreign traders to export their goods without facing difficulties as Turkish exporters do. This caused high competition in many sectors resulting to a high productivity level as well.

[21] (OECD Economic Surverys: TURKEY, 2008 p. 24)
[22] (Republic of Turkey Prime Ministry Undersecretariat of Treasury, 2009 p. 22)

"Greater interest by all categories of international investors in Turkey after 2001 also gave Turkish borrowers fuller access to international savings. Portfolio investors in the stock market, medium-to-long term bank lending to local banks and non-financial corporations, trade and supplier credits, and plain foreign direct investment all participated in this surge. Trend currency appreciation also contributed, by widening the gap between high capital costs in the local market and much lower costs of externally borrowed funds after exchange-rate adjustments. Fiscal consolidation having cut public borrowing needs, international savings funded for the most part increases in private business investment and household consumption." [23]

Figure 9: Annual Exports and Imports in Billion USD[24]



Source 11: TURKSTAT
***Annualized in January 2009**

The manufacturing sector in Turkey offers a wide product range in its subcategories and is therefore highly competitive in both domestic and foreign markets. The most worldwide known sectors of Turkey are the textile yarn and related goods, road vehicles, iron and steel, electrical machinery and appliances, vegetables and fruits.

The average weight of "textile yarn and related goods" was 12 % of total exports and 4.5 % of total imports during the period 1993-2006. The sector "road vehicles" has grown considerably since 2000s and had an export share of 13.7 % in 2006, grew from 1.9 % in 1993. "Iron and steel" is an old sector in Turkey which had become specialized by big Turkish manufacturers and small sized

[23] (OECD Economic Surverys: TURKEY, 2008 pp. 30,31)
[24] Own graph illustrated due to the numbers taken (Republic of Turkey Prime Ministry Undersecretariat of Treasury, 2009 pp. 51,52)

iron makers even in small towns. The sector weighted 5 % of total imports and 8.5 % of total exports in the above-given period. In the electrical machinery and appliances sector, Turkey is known as a large importer of these goods as a result of internationalization. On the other hand there are a lot of domestic producer companies such as BEKO, Arcelik and Vestel, which produce and export high qualifty white goods and electrical equipments. These products represented 5 % of the total exports in 2006. [25] According to its natural capacity, Turkey possesses a big advantage in growing vegetable sector. Many countries in Europe, Asia and Africa are importing Turkish fruit and vegetables. In 2008, the export of fruit and vegetables was increased by 20 %, representing the 2.22 % of the exports. [26]

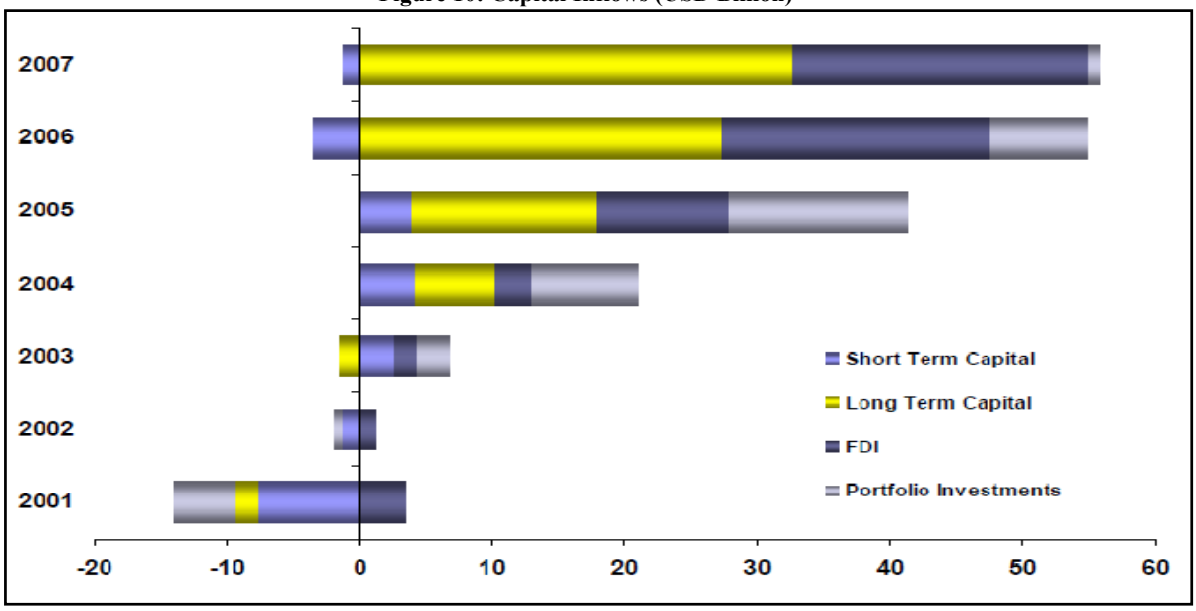
Turkey has shown a significant export performance among its competitors during the period 2001-2007. The Undersecretariat of Treasury expects that the exports are assumed to increase in the following years. In 2009 it is targeted that the exports reach USD 149.2 billion, USD 163.4 billion in 2010 and in 2011 the exports are expected to amount USD 181.7 billion.[27] The average annual growth rate of exports of Turkey was recorded as 14.9 %, even much higher than the one of the Euro-Region, the developing Asian countries, the Middle East and the western hemisphere where 4.7 %, 14.0 %, 5 % and 4.2 % average annual growth rates were realized in this period respectively.[28]

Financial Flows

The investments made in Turkey are rather long term oriented since the improvement actions and many reforms were realized by the Turkish government concerning the investment environment in favor of both domestic and foreign investors.

[25] (OECD Economic Surverys: TURKEY, 2008 p. 28)
[26] (General Secretary of Istanbul Exporters Association (İSTANBUL İHRACATÇI BİRLİKLERİ GENEL SEKRETERLİĞİ), 2008 p. 1)
[27] (Republic of Turkey Prime Ministry Undersecretariat of Treasury, 2009 p. 56)
[28] (Republic of Turkey Prime Ministry Undersecretariat of Treasury, 2009 p. 55)

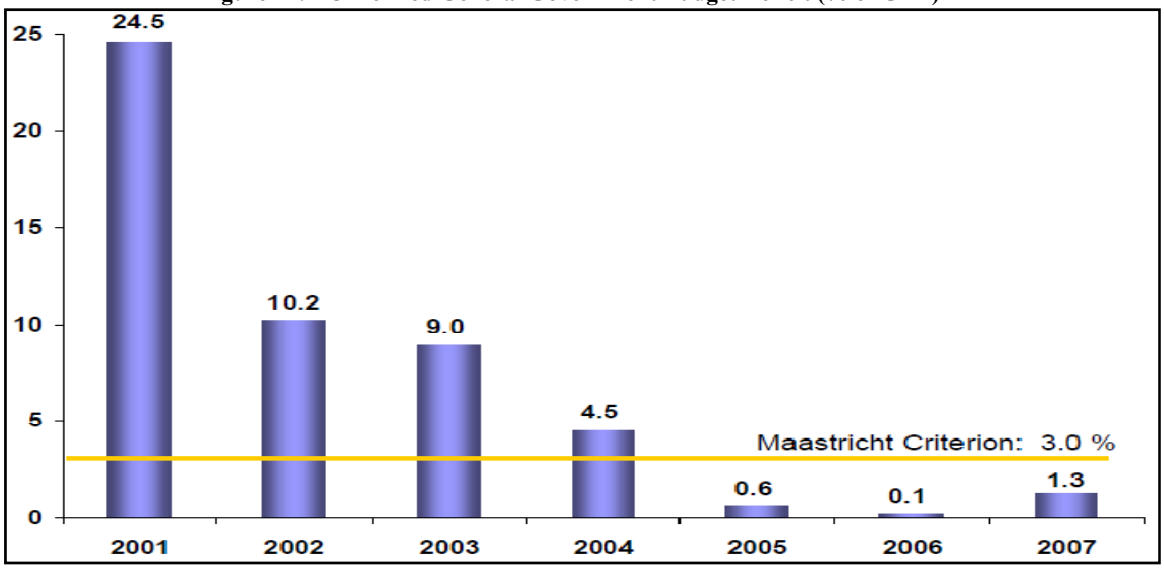
Figure 10: Capital Inflows (USD Billion) [29]



Source 12: CBRT

After 2004, the increase in the FDI inflows can easily be observed in the Figure 10 above. The portfolio investment, which is another form of investment on the shares, assets or bonds of a foreign company and hence not an active involvement in the management of the company, seems to be realized rather lower than the FDI transactions between 2006 and 2007.

Figure 11: EU-Defined General Government Budget Deficit (% of GDP) [30]



Source 13: Undersecretariat of Treasury

The fiscal performance of the government has improved since 2004 and remained below the Maastricht Criteria during the period 2005-2008. The budget deficit is still large but is targeted to perform better in the following years. According to the data taken from the Undersecretariat of

[29] (Republic of Turkey Prime Ministry Undersecretariat of Treasury, 2009 p. 66)
[30] (Republic of Turkey Prime Ministry Undersecretariat of Treasury, 2009 pp. 72,73)

Treasury ,the EU defined general government budget deficit targets are 0.53%, 0.42% and 0.71 % in 2009, 2010 to and in 2011 respectively.[31]

Research and Development Expenditures

The Turkish Economy Report of Undersecretariat of Treasury announced that Turkey invested USD 3 billion for the R&D expenditures in 2002 and herewith was ranked in the 24th place worldwide. In 2006 the expenditures had increased and reached USD 4.9 billion which placed Turkey into the 23rd position. China, Argentina and Romania were the first three countries corresponding to the ranking list of the increase in the R&D expenditure where Turkey was ranked 7th.

Table 3: Countries which increased R&D expenditure most, (2002-2006) [32]

Country	Rate of Expenditure Increase	Rank According to Expenditure Increase	Rank According to Expenditure
China	**120 %**	**1**	**3**
Argentina	**98 %**	**2**	**29**
Romania	**82 %**	**3**	**35**
Turkey	**62 %**	**7**	**23**

Source 14: OECD, TURKSTAT, TÜBITAK

The employment which was 28.964 in 2002 has also increased and reached 54.444 in 2006. Turkey was ranked as the 20th country among the other countries which increased R&D personnel most and herewith even out placed such countries as Switzerland, Austria, Argentina, Denmark, Greece and Romania in this manner during the period 2002-2006. According to the increase of the personnel number, Turkey was ranked the second after Mexico.

Table 4: Countries which increase R&D personnel most, (2002-2006) [33]

Country	Rate of Personnel Number Increase	Rank According to Personnel Number Increase	Rank According to Personnel Number
Mexico	**92 %**	**1**	**14**
Turkey	**88 %**	**2**	**20**
Czech Republic	**83 %**	**3**	**24**

Source 15: OECD, TURKSTAT, TÜBITAK

[31] (Republic of Turkey Prime Ministry Undersecretariat of Treasury, 2009 p. 73)
[32] (Republic of Turkey Prime Ministry Undersecretariat of Treasury, 2009 p. 165)
[33] (Republic of Turkey Prime Ministry Undersecretariat of Treasury, 2009 p. 168)

1.2 Improvement Actions of Turkish Government for Investment Environment

1.2.1 Reform Program for the Improvement of the Investment Environment

Until 2001, approaches concerning business activities or investments in Turkey needed to deal with many approvals and permissions from the governmental bodies. This bureaucracy caused difficulties, discouragements and many delays in terms of starting or closing a business. This unpleasant situation ended up with a reform process, which was launched in 2001 by the Turkish government, in order to encourage both foreign and local investors and to improve the investment environment for the wealth of the economy.

These administrative and time consuming barriers were assumed to be managed and controlled by the Turkish government and the Foreign Investment Advisory Service (FIAS)[34]. For this reason, the "Principle Decision on the Reform Program for Improving the Investment Climate in Turkey" was launched on December 11, 2001. Furthermore an additional coordination body namely the "Coordination Council for the Improvement of the Investment Climate (CCIIE)" was established which works with the government officials and private sector organizations with following subcommittees:

- *"Foreign Direct Investment legislation*
- *Company Registration and Reporting*
- *Employment*
- *Sectoral Licenses*
- *Land Acquisition and Site Development*
- *Taxes and Incentives*
- *Customs and Standards*
- *Intellectual Property Rights*
- *Promotion of Investment*
- *Small and Medium Sized Enterprises*
- *Public Procurement Law"* [35]

In order to provide the sustainability of the reform process, the Coordination Council for the Improvement of Investment Environment (CCIIE) focuses on issues such as decreasing the time

[34] (YASED, International Investors Association of Turkey, 2008 p. 18)
[35] (TUSIAD, Turkish Industrialists´and Businessmen`s Association, 2004 p. 27)

and cost of business establishment, increasing the labor market flexibility, improving the R&D performances, reducing and easing the cost of customs, supporting the financing problems of Short and Medium-sized Enterprises.

The performance of the committee successfully ended up with the enactments of the following laws which had significant impacts on the foreign investment activities[36]:

- Foreign Direct Investment Law, (simplifies the procedure of the foreign investment activities)
- Law concerning the revision of Commercial Law and other relevant laws, (simplify the company registration steps from 19 to 2)
- Law concerning the Employment of Foreigners in Turkey, (simplifies and accelerates the approval of employing foreigners in Turkey)
- Law concerning the Amendment of Public Procurement Law (redefines the "domestic tenderer" by involving also the foreign investors established in Turkey, by granting them the same rights and ensuring the equal conditions as the local companies have)
- Law no 4916 amending the Registry of Title Deed Law (grants foreign companies as well as the foreign real persons the right to acquire real estate in Turkey on the principle of reciprocity which shall be expressed as a kind of assurance that the Turkish real person and the companies would also be granted the same conditions.)

1.2.2 Secure Investment Environment

The enacted laws and many bilateral and multilateral agreements such as with UN, NATO, OECD, WHO, GATT, WTO, ILO, IMF, ECO, OIB, BSEC, IDB, ICSID[37] and many more have created a secure investment environment for foreign investors. The interest and belief in this secure environment by the investors can easily be explained by the increased number of foreign companies which reached more than 21.000 as of 2008 which was only 6.529 in 2003.

The World Bank publishes annually a report called "Doing Business Report" which consists of the rankings of world`s economies in terms of assessing the business environment. Turkey has made a clear progress as reported in the Doing Business Reports since 2006. In this report which was released on September 10th, 2008, Turkey was ranked as the 59th country in the "Ease of Doing

[36] (TUSIAD, Turkish Industrialists´and Businessmen`s Association, 2004 p. 28)
[37] (YASED, International Investors Association of Turkey, 2008 p. 10)

Index" and as the 43rd in the "Starting a Business Index" among 181 countries.[38] Turkey had taken the 84th place in the Ease of Doing Index among 155 countries in 2006.

In Doing Business 2009 Report which covers the period April 2007 and June 2008, the progress of Turkey can easily be seen in "Employing Workers", "Trading Across Borders", "Paying Taxes", "Enforcing Contracts", "Protecting Investors" and "Closing A Business" indexes.

Table 5: Rankings of Turkey taken from "Doing Business 2009" report, covering the period April 2007 to June 2008

Ranking Criteria	Turkey´s ranking throughout 181 countries
Ease of Doing Business Rank	59
Starting a Business	43
Dealing with Construction Permits	131
Employing Workers	138
Registering Property	34
Getting Credit	68
Protecting Investors	53
Paying Taxes	68
Trading Across Borders	59
Enforcing Contracts	27
Closing a Business	118

Source 16: Doing Business 2009

1.2.3 Turkish Competition Law

´Together with the Act on the Protection of Competition in 1994, initiating the establishment of Turkish Competition Authority (TCA) in 1997, economic policy of Turkey which was rather controlled by government, has been transformed into a market-based competition regime. The competition law which was adjusted to the regulations of the European Union, targets the Competition Authority to observe and to control the economy as well as to broaden the culture of competition within the economy.

There are three main intervention issues where the competition policy focuses on:

- *"Prevention of agreements restricting competition and abuse of dominant position while on the other hand granting exemptions to and preparing secondary regulations for agreements*

[38] (The World Bank Group, Doing Business Report 2009)

which are in conflict with competition rules but are deemed beneficial for the economy and to consumers,

- *Control of mergers and acquisitions, prevention of attempts for M&As which would create a dominant position in the market and adversely affect competition,*
- *Monitoring of state aids, prohibition of state aids contrary to efficiency and competition."*[39]

As it is announced in the Policy Brief, OECD underlines that the acts in Turkey are being applied parallel to the acts of the EU law, *"The Act's substantive antitrust prohibitions appear in three articles. The first, Article 4, deals with agreements among two or more firms (and parallels Article 81(1) of the EU law). The second, Article 6, deals with abuse of dominance by one or more firms (parallel to EU Article 82). The third, Article 7, focuses on mergers and acquisitions (following the EU merger regulation)."*[40] Accroding to the Policy Brief of OECD, the strengths of Turkish Competition Authority are defined by "*its devotion to articulating and efficiently implementing sound competition policy; its focus on due process and transparency; and its attention to developing and training expert staff. Its fiscal and administrative autonomy, and the absence of substantive government interference in its work, also contribute significantly to its efficacy."*[41]

As the Turkish Competition Authority regulates the market in a familiar way with the European Commission`s, a foreign investor has the similar opportunities to use the similar competition structure and principals as well as the business establishment procedure as he has in his own country.

1.2.4 Anti-Dumping Regulations

Until 1980´s domestic markets were thought to be protected through high tariffs and import regulations. As of 1984, the import policy has been more liberalized and the domestic market has been opened to the foreign competitors by putting high import restrictions and the bill of customs considerably aside.

The first Anti-Dumping code was therefore enacted in 1989 in consequence of the appearance of unfair trade activities caused by the import liberalization policies after 1980, namely the Legislation on Prevention of Unfair Competition in Importation. It was then amended in 1999 by the Law No

[39] (YASED, International Investors Association of Turkey, 2008 pp. 111,112)
[40] (OECD, 2005 p. 2)
[41] (OECD, 2005 p. 4)

4412, covering the provisions on the protection from dumped imports. Regulations concerning the technical and official procedures were arranged through the formulations with the provisions of Tokyo Round Anti-Dumping Code of General Agreements on Tariffs and Trade (GATT). The Final Act of the Uruguay Round and Marrakech Agreement Establishing the World Trade Organization (WTO) and the Turkey-European Community Council Resolution, regulating the Customs Union were other references for the Turkish anti-dumping authority. [42]

Through these regulations and laws, the anti-dumping system focuses on preventing the unfair trade competition concerning below market-cost sales, misuse of economic dependence, and many other unfair trade practices in order to protect and support the domestic industry. Simultaneously these regulations offer a fair trade market environment to the foreign investors by accomplishing the requirements of free trade, matching the international commerce and trade criteria of EU and WTO.

1.2.5 Infrastructure

As it has also been reported in the "Turkey Investment Climate Assessment, *"the lack of reliable infrastructure and services reduces the competitiveness of the private sector by limiting access to input and output markets, increasing transaction and operation costs, and discouraging additional investment in incumbent firms and the creation of new enterprises"*[43], it is important to spotlight the development of the infrastructure. The greater the developments are in a country, the more the growth possibilities there will be. As long as there are easy access opportunities through transportation, energy and communication technologies in the economy, attracting businesses will be easier, quicker and cost efficient.

"Although Turkey has good infrastructure compared to other similar-income countries, it falls short of OECD and EU standards, and compares unfavorably with other emerging markets. Costly and low-quality backbone infrastructure services burden Turkish firms."[44]

According to the Investment Advisory Council for Turkey Progress Report 2008, there has been again very much attention paid to the development of infrastructure.

[42] (YASED, International Investors Association of Turkey, 2008 pp. 112,113)
[43] (The World Bank, 2007 p. 157)
[44] (The World Bank, 2007 p. 157)

1.2.5.1 Transportation Infrastructure:

Based on the Investment Advisory Council recommendations[45], it is vital to improve the infrastructure of highways, railways, airways and maritime transportations in order to support Turkey´s position as a gateway among its neighbors and the quality of transportation of both domestic and foreign passengers.

Highway Transportation: In order to improve the highway transportation, 7.766 km of highways were constructed during the period 2003-2007. Within the framework of development works which started in 2003 concerning transportation, Turkey has 13.867 km as total length of divided highways and 63.899 km of highways as a result of infrastructural development works. Additionally there are new projects to be realized within the framework of public private partnerships. Via build-operate-transfer (BOT) method, 7 motorway projects are in construction in order to connect Istanbul, Ankara and Izmir through a safer access route.[46]

Table 6: Motorways planned to be financed via BOT method[47]

Projects	***Length (kilometers)***
Gebze – İzmir Motorway Project	*421.00*
Kuzey Marmara Motorway Project	*361.20*
Ankara – İzmir Motorway Project	*549.00*
Kınalı – Malkara – Çanakkale – Savaştepe Motorway Project	*433.00*
(Ankara – İzmir) – Beylikova – Eskişehir – Bursa Motorway Project	*202.00*
(Ankara – İzmir) – Kırka – Afyon – Burdur – Antalya Motorway Project and Antalya Çevre Motorway Project	*345.00*
Ankara – Kırıkkale – Delice Motorway Project	*120.00*
TOTAL	***2,431.20***

Source 17: General Directorate of Highways

Railway Transportation: According to the report, a 5 % increase was observed in the total passenger traffic totaling to 81.2 million of passengers in 2007, which was 77.4 million the year

[45] "*The fourth meeting of Investment Advisory Council was held on June 11, 2007 under the chair of Prime Minister Mr. Recep Tayyip Erdoğan. The meeting gathered the heads of 21 multinational companies, four leading business associations, the International Monetary Fund and the World Bank and related cabinet members to take stock of Turkey's achievements in the investment environment over the past year, and identify challenges ahead."* (Republic of Turkey Prime Ministry Undersecretariat of Treasury, 2008 p. 8)

[46] (Republic of Turkey Prime Ministry Undersecretariat of Treasury, 2008 pp. 52,53)

[47] Own table illustrated due to the date taken from (Republic of Turkey Prime Ministry Undersecretariat of Treasury, 2008 p. 53)

before.[48] As the country´s geographical characteristic does not allow improving railway transportation in some parts of the country, the transportation is realized mostly by the highways. In 2007 nearly 20.8 million of freight transportation, which corresponds to an increase by 6 % as of 2006, has been carried out through railway transportation. This has led to an increase in the income of the freight transportation by 12 % in 2007 and 136 % compared to the data of 2002.

Furthermore, new projects are in construction such as the "High Speed Train" which will shorten the six-hour road into 3 hours between Ankara-Istanbul. High Speed Metro project will ease the traffic drastically and be realized in 2009 in Istanbul. Another construction work which was announced as the major transportation project in the world is the "Marmaray". The main feature of this project is that it will connect Asian and the European sides of Istanbul to each other by a 76 km long railway tunnel which goes under the Istanbul Strait.

Maritime Transportation: A total coast line of 8.333 kilometers denotes a great geographical advantage for Turkey besides being an intersection point of the countries of Europe, Asia, Mediterranean and Middle East. Therefore an advanced maritime transportation is vital in order to ease the freight as well as the passenger transport. In Turkey, ports are owned and operated in three categories: public, public and private, private ports. The public ports which belong to Turkish Republic State Railways (TCDD) and Turkish Maritime Administration (TDI) are owned and operated by the state. The second category refers also to an ownership of the state but after the transfer of operations rights, the privatization processes enable private enterprises to operate these ports as well. Lastly, the private ports are both owned and operated by private enterprises.

There are 20 ports which are owned by Turkish Maritime Organization (TDI). Currently five of these ports are in the privatization portfolio and waiting to be transfered (Bandırma, Derince, İskenderun, and Samsun Ports). For the Port of Izmir for instance, the consortium formed by Global Yatırım Holding (a Turkish Investment Company), Hutchison Whampoa LTD., (a Chinese port operator) and EIB (Aegean Exporters Association) offered the highest bid (USD 1.275 billion) in the public auction in 2007 (still in progress). [49]

"Works are underway to connect all main ports with highways and railways in order to develop port-railway combined transportation and to maintain that all ports become logistic centers

[48] (Republic of Turkey Prime Ministry Undersecretariat of Treasury, 2008 p. 53)
[49] (Republic of Turkey Prime Ministry Privatization Administration, 2009)

suitable to combined transportation. In 2007, project works for constructing Filyos Port in Black Sea, Çandarlı Port in Aegean Sea, Mersin Container Port in Mediterranean, and Derince Container Port in Marmara have been carried out. Maintenance of hinterland transportation of the ports by railways is given priority in these works."[50]

Airway Transportation: The major airline company in Turkey is the Turkish Airlines which provides 150 worldwide and 28 domestic flight directions. "*Turkish Airlines was ranked second in the category "on-time departure" among 25 member airlines of the Association of European Airlines. This achievement in reducing delays, announced in the December 2004 by the Consumer Report of the Association of European Airlines, was followed by another second place in the category of "minimum lost baggage."*[51] On the other hand, there are also other international and domestic flight options through other airlines such as Pegasus, Air Anatolia, Onur Air, Air Alfa, Atlas Jet and MNG Airlines. This high competition enables flying at favorable prices with high comfort and quality. Turkish Airlines which offered 23 % of its shares to the public has also been in the privatization process since 2004. The administration`s shareholding structure which was 75.18 % as of 2004, was reduced to 49.12 % in 2006 after the public offer. Turkish Airlines had 26.11 % international and 33.78 % domestic market shares by the end of 2007. [52]

There are 20 international and 52 total modern constructed airports which offer both international and domestic passengers high quality of service. Sabiha Gökçen International Airport, which is located in the Asian Side of Istanbul, has also been in the privatization process since 2007. The transfer of the airport management was realized for USD 3.1 billion to a consortium of Malaysia Airports Holdings and Turkey´s Limak for 20 years via "build, operate and transfer" (BOT) method.[53]

1.2.5.2 Energy Infrastructure

The energy sector of Turkey has been operated and monitored by the state over many years. The privatization processes enabled the private sector to get involved into the market. In the power generation, the market share of private enterprises has increased and reached almost 40 % over 20

[50] (Republic of Turkey Prime Ministry Undersecretariat of Treasury, 2008 p. 54)
[51] (YASED, International Investors Association of Turkey, 2008 p. 12)
[52] (Republic of Turkey Prime Ministry Privatization Administration)
[53] (ANSAmed, 2007)

years. Now the energy market is more competitive with the involvement of the private sector which clearly had a positive impact on the quality. [54]

Due to the data taken from the article written by Güner Law Office, there are thermal power plants, geothermal energy and hydro power plants that are used in order to generate electricity in Turkey. The main resources of energy are generated through lignite, hydro and biomass. New strategies are being developed in order to decrease the share of fossil fuels in primary energy consumption. For the continuous growth of the economic in Turkey, it is significantly important to make appropriate developments and improve the usage of renewable energy sources as well as the technologies.

*"Turkey's renewable energy sources are plentiful and renewable energy supply provided approximately 12% of total primary energy supply (**TPES**) in 2003 (i.e. 10.10 million tons of oil equivalent (**Mtoe**)), making it the second-largest domestic energy source after coal. The primary renewable energy resources (**RER**) in Turkey are: hydro, biomass, wind, biogas, geothermal and solar."*[55]

In wind, hydropower and geothermal plants, improvement studies have been realized concerning the renewable energy sources. The rate of return on investment of these areas will arise in the future. Due to the geographical location, Turkey receives a significant amount of sunlight every year. This huge energy potential is roughly 11.000 times of the amount of electricity generated in Turkey by the year 1996. The annual solar energy potential of Turkey which amounts to 35 Mtoe, is expected to reach 602 kilo tone of oil equivalent (Ktoe) in 2010 and 1.119 in 2020.[56] Nevertheless, the only real use of this solar energy is applied in the coastal regions for domestic hot water production. In 2004 the production of 8 million square meters of solar collector were realized.

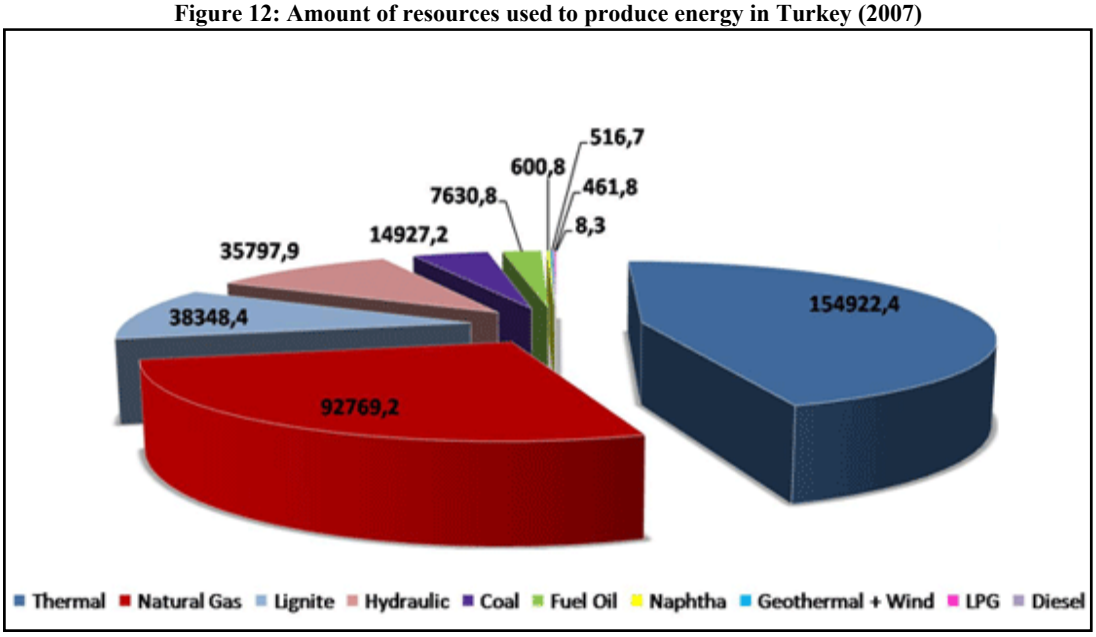
The wind energy which has a potential of 10.000 MW is another source of energy used in Turkey. There are currently 40 new wind farm projects which have received licenses and 751 projects which are still waiting for the approval of the license applications. [57]

In Turkey, there are 678 hydropower sites of which 135 are currently under construction in order to build hydropower plants. The potential hydropower energy is estimated to reach annually 127.000

[54] (TUSIAD, Turkish Industrialists´and Businessmen`s Association, 2004 p. 45)
[55] (Güner Law Office, 2008 p. 5)
[56] (Yilmaz, 2004 p. 7)
[57] (Özdemir, 2008 p. 49)

MW of which only 35 % of total is operational amounting to 46.000 MW. By 2010, the national development plan targets a 100 % increase. [58]

Figure 12: Amount of resources used to produce energy in Turkey (2007)



Source 18: Energy Market Regulatory Authority (EMRA) [59]

The geothermal energy of Turkey amounts to the one eight potential of the world`s reserves which places Turkey in the seventh place worldwide. The new enacted law by the Turkish Government "Application Regulation of the Law on Geothermal Resources and Natural Mineral Water" on 11.12.2007, encloses the procedure, elements and sanctions in relation to; "*issuing license for operation; transferring this license; auditing the actions; resource and the environment; revoking the license; protecting the resources; leaving the area of the license in relation to the geothermal resources and natural mineral water that are specified or will be specified and gas, which origins from geothermal. There are 11 other geothermal fields, all in far South-West Turkey, which maybe suitable for geothermal power production. The Germencik - Aydın field in the Aydın Province is the most promising one. Power generation potential in this field has been estimated to exceed 100 MW.*"[60]

Another option from which Turkey has decided to generate energy is the nuclear power energy : *"In response to predicted power supply shortfalls and rising oil prices Turkey has decided on the nuclear power option. Turkey wants to build three new nuclear generation plants with a total*

[58] (Güner Law Office, 2008 p. 5)
[59] Figure taken from (Republic of Turkey Prime Ministry Investment Support and Promotion Agency, 2009 p. 29)
[60] (Güner Law Office, 2008 p. 5)

generation capacity of 5,000MW by 2015, the first of which will be developed at Mersin on Turkey's Mediterranean coast." [61]

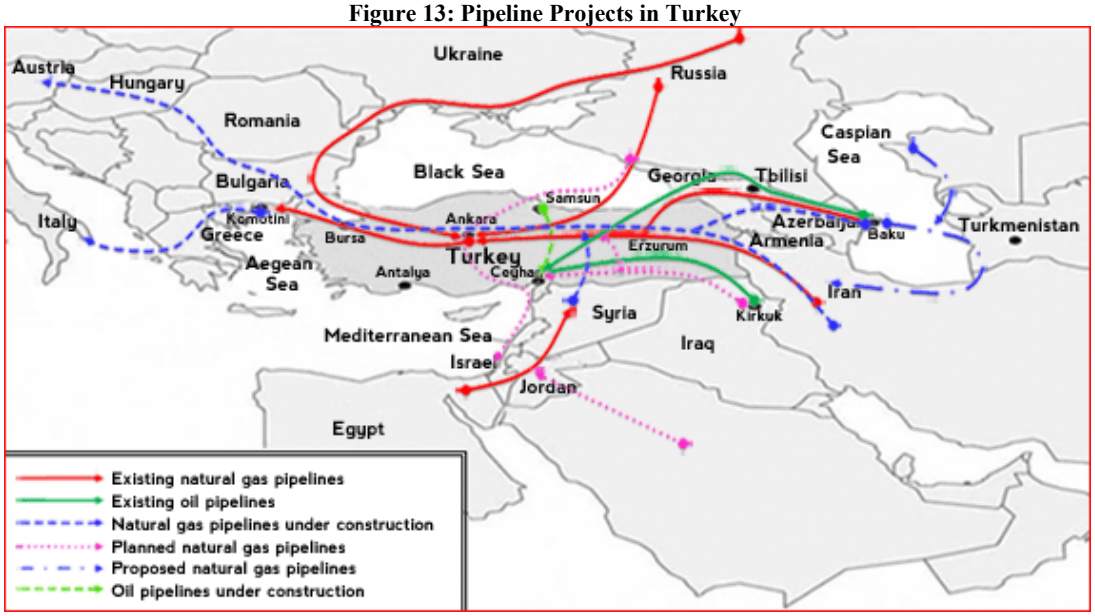
Turkey is located next to the regions which possess 73 % of the world´s proven oil, 72 % of the world´s proven gas reserves. Therefore through its unique strategic and geographical situation, many international pipeline projects have been constructed in Turkey to supply the energy resources in order to meet its own demands and to serve the world markets in a cost-efficient, safe and environment-friendly way. Due to the data taken from "Investor's Guide" [62], the contracts signed among its neighbor countries; in order to develop the infrastructure and to improve the quality of the delivery as well as to ease access to these resources are listed and figured below:

- Baku-Tbilisi-Ceyhan COPL Project (completed in 2005, capacity carriage annually 50 million tons of crude oil)
- Turkey-Greece NGTL Project
- Transcaspian Turkmenistan-Turkey Europe NGTL Project
- Azerbaijan-Turkey NGTL Project
- Iraq-Turkey NGTL Project
- Egypt-Turkey NGTL Project
- Turkey-Bulgaria-Romania-Hungary-Austria NGTL Project (Nabucco Project)
- Eastern Black Sea NGTL
- Western Black Sea Project
- Natural Gas Underground Storage Project

The interconnection projects where Turkey has taken part of are the EIJLLST (Egypt, Iraq, Jordan, Lebanon, Libya, Syria, and Turkey) Interconnection Project, MEDRING Project, "Black Sea Regional Transmission Planning Project" (BSRTPP), and ECO Interconnection Project. The most important progress of which Turkish power system interconnects is the one with the European Power Network that has been achieved recently. [63]

[61] (Guner Law Office, 2008)
[62] (Republic of Turkey Prime Ministry Investment Support and Promotion Agency, 2009 p. 30)
[63] (Secretariat General for EU Affairs, 2006 p. 1)

Figure 13: Pipeline Projects in Turkey



Source 19: Investor`s Guide for Turkey[64]

1.2.5.3 Telecommunication Infrastructure

The Ministry of Transportation and the Telecommunications Authority which regulates the telecommunications activities in Turkey, is a financially and administratively independent institution that gives licenses and sets fees in the telecommunication sector. "*The Telegram and Telephone Law No. 406 (amended as Telecommunications Law) is the principal law governing telecommunications activity in Turkey. The Wireless Law No. 2813 (amended as Ministry of Transportation Law No. 3348) also includes provisions relating to telecommunications in Turkey. The Telecommunications Law was reformed in 2000 and 2001. The reforms were aimed at modernizing and reforming the legal and institutional framework for the provision of telecommunications infrastructure and service in Turkey."*[65]

The major actors of the telecommunication market in Turkey are Türk Telekom, and Turkcell, Telsim Vodafone and Avea. Since 1840 the Turkish market was served by Türk Telekom which built the*" first manual telephone exchange with 50 lines in the Big Post Office of Istanbul in 1909"*[66]. As Europe`s fifth and the world´s thirteenth largest fixed telephone operator, Türk Telekom serves the market with value-added services and supports its rapidly increasing customers

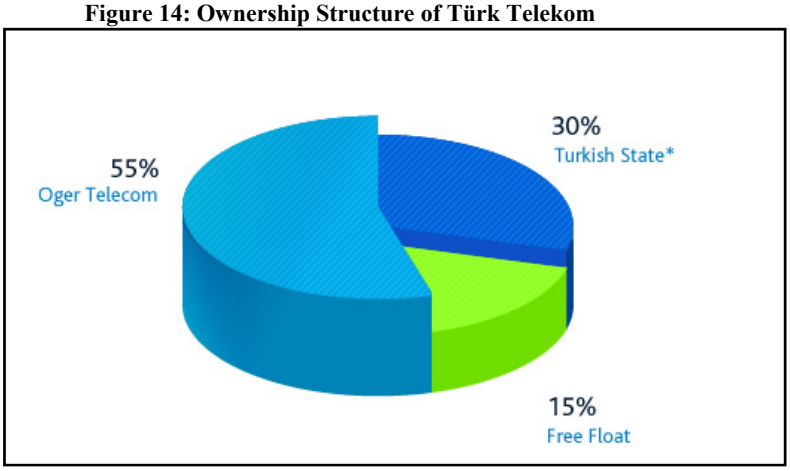
[64] (Republic of Turkey Prime Ministry Investment Support and Promotion Agency, 2009 p. 30)
[65] (Türk Telekom, Investor Relations, 2008)
[66] (Türk Telekom, Company Profile, 2008)

with permanently developing technology and its more than 40 thousand high qualified and experienced workforce.[67]

The company with its 17.8 millions of PSTN customers, 5.2 millions of ADSL customers and 11 million GSM customers as of June 30th, 2008, was privatized by the Republic of Turkey Prime Ministry Privatization Administration according to the Telegram and Telephone Law No 406 through block sale of 55 % of its shares (USD 30 Million) on November 15th, 2005. [68]

Since 2005, Saudi Oger Telecoms Joint Venture Group with Telecom Italia owns the 55 % of the share of Türk Telekom which owns the 40 % of the Avea`s shares as well. "*The 30% of the shares belongs to Undersecretariat of Treasure of Turkey. The remaining 15% of shares has been offered to public. Türk Telekom shares have been operated on through IMKB (Istanbul Stock Exchange) since May 2008."*[69]

Figure 14: Ownership Structure of Türk Telekom



Source 20: Türk Telekom[70]

After Türk Telekom was privatized, the competition in the market has risen rapidly therefore price regulations concerning long distance calls were realized. Currently Turkcell is the leading mobile phone operator with a market share of 55.5 % followed by Vodafone and Avea whereby their market shares are registered as 26.6 %, and 17.9 % respectively. In the communication market, according to the favorable promotion campaigns, the amount of registered SIM cards has risen from 61.4 million to 65.4 million in the last year.

After the monopoly in the communication sector has been revoked, the competition is determined by the Telecommunications Authority to be rebalanced in order to provide fair price and good

[67] (Türk Telekom, Company Profile, 2008)
[68] (Republic of Turkey Prime Ministry Privatization Administration)
[69] (Türk Telekom, Company Profile, 2008)
[70] (Türk Telekom, 2008)

quality services. To improve the infrastructure of communication market, costs of international calls or internet access have been relatively decreased and the R&D operations have been supported to provide more employment and to encourage the investors.

1.2.6 Incentives

Incentives granted by the Republic of Turkey for supporting the investment environment in manufacturing services, energy sector and exports are equally accessed by both domestic and foreign investors since foreign investors were given equal rights within the framework of the new FDI Law in 2003.

1.2.6.1 Incentives for Investments

The investment incentive system has also been strengthened in 2006 within the framework of the improvement efforts of the investment environment. There are three main headings in the investment scheme[71] :

- General Incentive Regime
- Incentives Granted to Small and Medium Sized Enterprises (SMEs)
- Energy Support for Less Developed Regions

Table 7 indicates the sectoral breakdown of the investment incentive certificates given during the period 2004-2008. Among the agriculture, mining, energy and services sectors the highest amount of incentive certificates were granted in the manufacturing sector. Based on the table below, the number investments incentive certificates given to the agriculture, mining, manufacturing and energy sectors has risen compared to the year before. In 2008, although little decrease is observed concerning the number of certificates in the services sector, the amount of foreign capital showed an increase. In 2008 the highest foreign capital flow was realized in the manufacturing sector followed by energy and services sectors. Despite the decrease in the investments in the manufacturing sector in 2008, the most employed workers belong to this sector.

[71] (Project & Investment & Development Agency, 2009)

Table 7: Sectoral Breakdown of Investment Incentive Certificates (2004-2008)

	Agriculture	Mining	Manufacturing	Energy	Services	Total
Number of Certificates						
2004	82	168	2.558	45	1.225	**4.078**
2005	96	158	2.305	85	1.660	**4.304**
2006	94	132	1.614	55	1.195	**3.090**
2007	64	131	1.424	102	645	**2.366**
2008	73	136	1.476	144	619	**2.448**
Fixed Investment (TL.)						
2004	360.556.445	515.001.386	11.818.210.671	903.052.140	5.022.390.157	**18.619.210.799**
2005	488.463.926	687.387.799	12.578.801.068	2.101.640.761	7.689.818.006	**23.546.111.560**
2006	519.453.633	607.568.048	11.735.120.197	1.938.884.304	8.567.808.691	**23.368.834.873**
2007	347.117.960	639.353.161	12.368.412.275	4.158.251.636	8.820.479.510	**26.333.614.542**
2008	359.937.219	714.237.931	10.210.985.456	8.600.160.000	8.343.832.235	**28.229.152.841**
Foreign Exchange (1000 $)						
2004	89.893	164.968	5.581.315	471.258	1.561.785	**7.869.219**
2005	120.520	212.438	5.412.766	838.324	1.679.942	**8.263.990**
2006	108.316	224.383	4.785.607	706.940	2.058.316	**7.883.562**
2007	87.394	153.841	5.773.826	1.348.986	1.716.959	**9.081.006**
2008	85.652	200.582	4.717.140	3.157.951	2.358.400	**10.519.725**
Employment (Person)						
2004	6.431	7.851	98.641	1.834	51.019	**165.776**
2005	4.709	8.247	90.310	889	75.217	**179.372**
2006	4.006	4.406	62.834	1.452	50.014	**122.712**
2007	2.360	4.052	69.246	4.928	52.572	**133.158**
2008	2.590	4.673	47.249	5.142	38.723	**98.377**

Source 21: The Undersecretariat Turkish Treasury Portal[72]

1.2.6.1.1 General Incentive Scheme

The general incentive scheme is essentially a tax benefit program regulated by the Turkish government. [73] Incentives are granted to all investment activities which amount to at least TRL 200.000 in the Priority Development Regions (or at least TRL 400.000 in the other regions). [74]

According to the region, size and subject of the investment, the applications of the incentives varies.[75] Due to the general incentive scheme:

- The investors which import machinery and equipments with the Investment Incentive Certificate are **exempted from customs duties**.
- The investors which import or locally distribute machinery and equipment with the Investment Incentive Certificate are **exempted from the value added tax (VAT).**

[72] (Republic of Turkey Prime Ministry Undersecretariat of Treasury, 2008)
[73] (Republic of Turkey Prime Ministry Investment Support and Promotion Agency, 2009 p. 5)
[74] (Turkish Embassy London Office of the First Economic Counsellor, 2008) see *Incentives and State Aids*
[75] (Republic of Turkey Prime Ministry Investment Support and Promotion Agency, 2009 p. 5)

- Investments for R&D projects, SMEs, environmental projects and projects operated in the 50 prioritized development provinces are given **interest support** which is provided by the Treasury for the selected parts of the investment credit´s rate.

1.2.6.1.1.1 Incentives for Industrial Parks

Industrial parks in Turkey are categorized into six parts: [76]

1) Technology Development Zones (TDZ)
2) Organized Industrial Zones (OIZ)
3) Industrial Zones (IZ)
4) Free Trade Zones (FTZ)
5) Industrial Sites
6) Trade and production centers composed of workshops

The last two parks, where usually micro or small sized enterprises are operating, are relatively smaller in size. The similar characteristics of the first four industrial parks are determined as below:

- Numerous incentives and state aids
- High developed infra and supra structures
- Low tariff applications of electricity, gas and telephone
- Minimized bureaucracy

1.2.6.1.1.1.1 Technology Development Zones (TDZs)

The areas which are designed to promote R&D activities and gain more investment interest through providing high technology fields are called Technology Development Zones (TDZs). The points which are marked as red in the Figure 15 are the TDZs. The TDZs are placed in the provinces such as Adana, Ankara, Antalya, Bursa, Eskisehir, Erzurum, Gaziantep, Isparta, Istanbul, Izmir, Kocaeli, Konya, Kayseri, Mersin and Trabzon. There are 30 TDZs of which only 18 are currently operating while the remaining 12 are under construction. At present, 6 TDZs in Ankara, 3 in Istanbul, 3 in

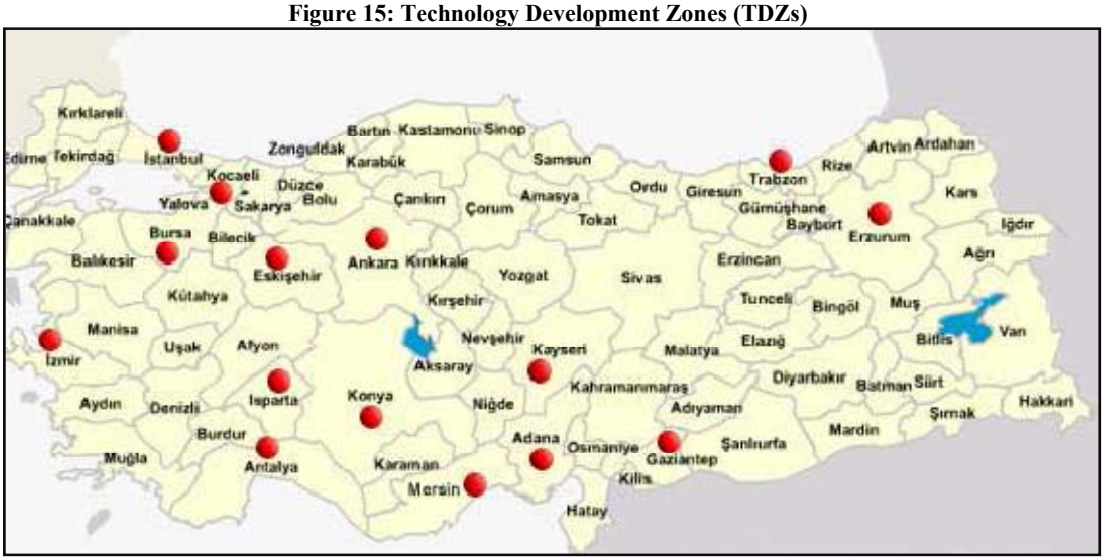
[76] (Turkish Embassy London Office of the First Economic Counsellor, 2008) see *Industrial Parks*

Kocaeli, and 1 in all other provinces mentioned above are in operation. The advantages of these zones are listed as below: [77]

- The existence of the well developed infrastructures,
- Income and corporate taxes of the profits gained from Software (for instance system management, business applications, mobile phones, military command control) and R&D activities are exempted until 31.12.2013.
- Income taxes of the researchers, software and R&D personnel who are employed in the TDZ are exempted until 31.12.2013.
- Customs duties and fund levies are exempted
- The academic staff is supported in establishing company, conducting research in the zones.

Figure: Technology Development Zones (TDZs)

Figure 15: Technology Development Zones (TDZs)



Source 22: Investor`s Guide for Turkey[78]

1.2.6.1.1.1.2 Organized Industrial Zones (OIZs)

An OIZ is a production park which is regulated and supervised by the Ministry of Industry and Trade. In the OIZs, accessing and benefiting from information and communications technologies are targeted, the economic factors in the local areas are managed to be integrated, all necessary infra and supra structure services are provided at very favorable costs, the urbanization process is experienced to be managed in the country, environmental problems are intended to be prevented and finally the transfer of Know-How is working to be facilitated among SMEs. Minimized

[77] (Republic of Turkey Prime Ministry Investment Support and Promotion Agency, 2009 p. 12)
[78] (Republic of Turkey Prime Ministry Investment Support and Promotion Agency, 2009 p. 12)

bureaucracy, low labor costs, well infra and supra structures, good cooperation structure between the companies operating in the OIZ can be denoted as the advantages of the OIZs.[79] There are 251 OIZs of which 127 are currently in progress while the remaining 124 are under construction.

The advantages which investors can benefit while operating in the OIZs are[80]:

- *100% exemption from income tax for employed workers.*
- *100% exemption from the employer's share of social security costs.*
- *Free land allocation*[81]
- *Up to 50% support for electricity costs.*
- *Exemption from real estate tax, waste water charges, building construction duties and the use-of building.*

Figure 16: 50 Prioritized provinces (grey) and 4 provinces (red) with free land allocation only

Source 23: Investor`s Guide for Turkey[82]

1.2.6.1.1.1.3 Industrial Zones (IZs)

In order to obtain large scaled and technology oriented investment sites, industrial zones are designed and regulated by the Ministry of Industry and Trade. High technology is the main sector in

[79] (Turkish Embassy London Office of the First Economic Counsellor, 2008) see *Organized Industrial Zones*
[80] (Republic of Turkey Prime Ministry Investment Support and Promotion Agency, 2009 p. 15)
[81] "*For the investments in priority regions only, The Ministry of Finance would grant free land by giving right of easement for 49 years, if provided that the investment creates employment opportunity for at least 10 employees for an uninterrupted period of 5 years, depending of the availability of land.*" (YASED, International Investors Association of Turkey, 2008 p. 49)
[82] (Republic of Turkey Prime Ministry Investment Support and Promotion Agency, 2009 p. 14)

these zones where a minimum investment site of 1.500 m² is required. All benefits gained in the OIZs are similarly provided to the companies operating in the industrial zones. [83]

1.2.6.1.1.1.4 Free Trade Zones (FTZs)

"A free trade zone (FTZ) is a special designed production site which aims at increasing export-oriented investment and production in Turkey, accelerating the entry of foreign capital and technology into Turkey, enhancing the productivity and economies of scale and increasing the utilization of external financial sources and trade opportunities."[84]

As illustrated in the Figure 17 below, the FTZs are located within the political borders of the country yet these zones are treated as if they were a territory outside of the country. National and legal regulations concerning foreign trade, financial and economic fields which are applicable within the customs area, are only partially practiced in these zones.

Currently 20 FTZs are operating in Turkey in different areas, which are located close to the Turkish maritime ports, airports and main loading stations of the railways in order to enable an easier access to the markets of the European Union and the Middle East.

Free Trade Zones have being regulated and supervised by the General Directorate of Free Trade Zones of Undersecretariat of Foreign Trade since 1985. As soon as the Operating or Construction Licenses are approved from the regulator, the companies are allowed to operate in FTZs.

Advantages of FTZs and incentives granted to the companies which operate in FTZs:

- 100 % exemption from customs duties and other assorted duties of the imported goods with no restriction on the age or model of the machinery
- 100 % exemption from corporate and income tax for production companies
- 100 % exemption from VAT and special consumption taxes of the imported goods with no restriction on the age or model of the machinery
- 100 % exemption from the special consumption tax (OTV) and VAT of the energy, water and telephone costs within the FTZs.
- Free storage of the goods for an unlimited period in a special storage area.

[83] (Republic of Turkey Prime Ministry Investment Support and Promotion Agency, 2009 p. 15)
[84] (Turkish Embassy London Office of the First Economic Counsellor, 2008), see *Free Trade Zones*

- 100 % exemption from the VAT of the purchased goods in Turkey by the companies operating in FTZ
- Free international and national transfer of commercial revenues and earnings realized in FTZ.
- Minimized bureaucracy

Figure 17: Free Trade Zones in Turkey

Source 24: Investor`s Guide for Turkey[85]

1.2.6.1.2 Incentives granted to SMEs

The small and medium sized enterprises (SMEs) operate in the industries such as tourism, manufacturing, education and health, agriculture, mining, software and IT and are defined according to the size and amount of total value of assets as illustrated in the Table 8 below:

Table 8: SME figures

	Micro Size	Small Size	Medium Size
Number of Employees	1-9	10-49	50-250
Net Sale or Total Value of Assets	TRL 1 million (USD 800 thousand)	TRL 5 million (USD 4 million)	TRL 25 million (USD 20 million)

Source 25: Investor`s Guide for Turkey[86]

[85] (Republic of Turkey Prime Ministry Investment Support and Promotion Agency, 2009 p. 16)
[86] (Republic of Turkey Prime Ministry Investment Support and Promotion Agency, 2009 p. 6)

The support given to the SMEs in investment and operational areas comprises of the investments in manufacturing, mining, agricultural, software development fields as well as the investments or modernization facilities in selected regions concerning tourism, healthcare, education sectors and the investments utilizing capital goods (incl. construction, machinery, raw materials, and construction equipments) of not more than TRL 950.000. [87] The SMEs are exempt from customs duties and VAT.

A public agency called KOSGEB which affiliates with the Ministry of Industry and Trade supports SMEs in terms of providing consultancy, training, information, quality development, market research and international cooperation development services as well as assisting their rapid adaptation in technological innovations and empowering their competitiveness. [88]

Table 9 below indicates the sectoral breakdown of the investment incentive certificates granted to SMEs in 2008. In the manufacturing sector the number of certificates delivered to the SMEs was 1.133 in 2008. As a result of the high investments, 19.229 workers were employed in the manufacturing sector, bringing into the market higher employment than the other sectors could do.

Table 9: Sectoral Breakdown of Investment Incentive Certificates of SME's in 2008

Sectors	Number of Certificates	Fixed Investment (TL.)	Foreign Exchange (1000 $)	Employed (Person)
Agriculture	49	50.025.639	4.017	653
Mining	26	28.710.500	6.228	487
Manufacturing	1.133	912.469.886	318.281	19.229
Energy	-	-	-	-
Services	155	121.297.937	38.500	2.247
Total	**1.363**	**1.112.503.962**	**367.026**	**22.616**

Source 26: The Undersecretariat Turkish Treasury Portal[89]

1.2.6.1.3 Energy Support for Less Developed Regions

"Energy support is provided within the context of "Law on Encouragement of Investments and Employment and Amendment of Certain Laws" (No. 5084, dated January 29th 2004) issued by the Ministry of Finance. The Communiqué concerning the implementation of the energy support (No: 2004/1, published in the Official Gazette No:25487, dated June 9th, 2004) was issued by the Undersecretariat of Treasury and the Minister in charge of Undersecretariat of Treasury is responsible from the implementation of the provisions of this Communiqué."[90]

[87] (Republic of Turkey Prime Ministry Investment Support and Promotion Agency, 2009 p. 6)
[88] (Turkish Research and Business Organizations, 2008)
[89] (Republic of Turkey Prime Ministry Undersecretariat of Treasury, 2008) see *SMEs 2008*
[90] (Tariff Information and Legislation of Turkey)

The investments into the provinces which are less developed (Table 10) are granted energy support if the GDP per capita of this region is equal of less than USD 1.500 as of 2001. The energy support is granted to the companies which operate in the "*manufacturing industry, mining, animal husbandry, greenhouse production, cooling warehouse, tourism, education and healthcare sectors.*" [91] Another criterion to obtain this benefit for the companies established before 01.10.2003 is to increase their employment rate by 20 % or at least employ 10 people, if after the increase there are still less than 10 workers employed. The companies which are new established will also be granted an energy support rate of 20 % if they employ at least 10 workers.[92]

Table 10: Provinces receiving energy support

1- Adıyaman	19- Hakkari
2- Afyon	20- Iğdır
3- Ağrı	21 - Kars
4- Aksaray	22- Kırşehir
5- Amasya	23- Malatya
6- Ardahan	24- Mardin
7- Bartın	25- Muş
8- Batman	26- Ordu
9- Bayburt	27- Osmaniye
10- Bingöl	28- Siirt
11- Bitlis	29- Sinop
12- Çankırı	30- Sivas
13- Diyarbakır	31- Şanlıurfa
14- Düzce	32- Şırnak
15- Erzincan	33- Tokat
16- Erzurum	34- Uşak
17- Giresun	35- Van
18- Gümüşhane	36- Yozgat

Source 27: The Undersecretariat Turkish Treasury Portal[93]

The energy support rate varies according to the rate of employment of the investing companies. The more the employed workers the company has, the higher the support rate will be. The energy support and the applications of the companies are administrated by the Provincial Directorate of the Ministry of Industry and Trade.

1.2.6.2 Export Incentives

In order to invigorate the export efforts of the companies, incentives are granted for the actions in *market research, R&D studies, creating opportunities in attending international exhibitions, expenditure on patents, trademarks and industrial designs*[94].

[91] (Tariff Information and Legislation of Turkey)
[92] (Tariff Information and Legislation of Turkey)
[93] (Republic of Turkey Prime Ministry Undersecretariat of Treasury) see *Turkish Investment Encouragement System*

Based on the recommendations of the report called *"Investment Environment in Turkey, 2008"* published by YASED, the exporters are indirectly supported through export credits, insurances and some aids provided for certain export related expenditures. The export credits are issued by Turk Eximbank (the export credit bank of Turkey) whose credit conditions are fully adjusted to those of the EU after the Customs Union was signed. Therefore, the export instruments such as letters of guarantee, letters of credits and all other transactions are fully exempted from taxes, duties and charges. [95]

Turk Eximbank provides the "*insurance of the export receivables, which are derived from export proceeds against commercial (bankruptcy of the buyer, buyer´s failure in paying the export amount or rejection of the goods shipped to buyer) and political risks (cancellation of buyer´s import permission, state of war, civil war and transfer difficulties).*" [96]

1.2.6.3 Incentives for Research and Development Studies

Research and Development studies are supported by TUBITAK (Scientific and Technological Research Council of Turkey) and TTGV (Turkish Technology Development Foundation). The incentives granted by TUBITAK cover *"concept developments, prototype productions, construction of pilot facilities, patent and license studies, technological researches and technical feasibility researches and activities related to post-sale problems stemming from product design."*[97]

The 60 % of the expenses of R&D activities such as "*cost of machinery, personnel, equipment and software, consultancy and other service fees, fees paid to scientific institutions, registration fees for patent and industrial designs to Patent Institution, cost of R&D related material"* [98]are repaid as a State Aid. Each project receives a state aid for 3 years.

[94] (Republic of Turkey Prime Ministry Investment Support and Promotion Agency, 2009 p. 7)
[95] (YASED, International Investors Association of Turkey, 2008 pp. 38,39)
[96] (YASED, International Investors Association of Turkey, 2008 p. 39)
[97] (Republic of Turkey Prime Ministry Investment Support and Promotion Agency, 2009 p. 7)
[98] (YASED, International Investors Association of Turkey, 2008 p. 45)

2 Foreign Direct Investment

2.1 Definition and Main Characteristics of Foreign Direct Investment

FDI, known as Foreign Direct Investment, is basically an investment which one country makes into another country. The main motives of a decision maker for making cross border investments are the opportunities of accessing the natural resources of the host country, employing high skilled workers at low unit costs, using the infrastructure of the host country, benefiting the geographical advantage, getting more globalized, gaining more market share and herewith more revenue. For the host country, FDI transactions denote transfer of advanced technology and management know-how into the market, the dynamism in the economy and in the finance market, higher employment and productivity in certain areas and the increase in the country`s attractiveness. For both parties, FDI plays a big role for their economies and companies.

IMF defines the direct investment as "*the category of international investment that reflects the objective of a resident entity in one economy obtaining a lasting interest in an enterprise resident in another economy. (The resident entity is the direct investor and the enterprise is the direct investment enterprise.) The lasting interest implies the existence of a long-term relationship between the direct investor and the enterprise and a significant degree of influence by the investor on the management of the enterprise."* Another point which should be mentioned here is that the control of the operated company is transferred to the investing company through the purchase of equity share, license of used technology, franchising, undertaking internal debt, etc. This control is defined by IMF as *"an incorporated or unincorporated enterprise in which a direct investor, who is resident in another economy, owns 10 percent or more of the ordinary shares or voting power (for an incorporated enterprise) or the equivalent (for an unincorporated enterprise).* [99]
The resident entity purchases an enterprise in one economy in terms of Mergers and Acquisitions (M&As). The investments in stock markets, the so called portfolio investments, are not counted in the FDI terminology: "*As the equity investments can be defined as "liquid, hot money" and has the disadvantage of getting withdrawn in case of an economic crisis, it is thought to be not included in the foreign direct investments, more precisely the foreign direct investments are the investments made into domestic structures, goods, equipments, services, companies, organizations and durables."* [100] The portfolio investors, who do not have an influence on the management, are mainly

[99] (International Monetary Fund, 1993 p. 86)

[100] (Economics Glossary)

interested in the safety of their investments and the revenue generated. On the other hand, as the direct investors have their voice in the operations, the expectations of the direct investors vary from those of portfolio investors. "*From the viewpoint of direct investors, enterprises often represent units in a multinational operation, the overall profitability of which depends on the advantages to be gained by deploying the various resources available to the investors in units located in different economies. Direct investors are thereby in a position to derive benefits in addition to the investment income that may accrue on the capital that they invest (e.g., the opportunity to earn management fees or other sorts of income).*"[101]

In order to gain access to more cost and time efficient resources in terms of technology, nature and human capital and to expand their current, maybe already-saturated markets, companies are making investments and globalizing themselves through FDI activities in recent decades. Almost the half of all cross-border activities has been realized through FDI activities accounting nearly USD 1 trillion Green Field investments[102] which have supplied more than 3 million employment opportunities worldwide in 2007. Also, the supply of long-term employments by the parent companies in the foreign countries can be defined as another definition for Greenfield investments apart from constituting operational facilities from the ground up only.

Another definition composed by the OECD is as follows: *"Direct investment involves both the initial transaction between the two entities and all subsequent capital transactions between them and among affiliated enterprises, both incorporated and unincorporated. The OECD defines "foreign direct investor" as "an individual, an incorporated or unincorporated public or private enterprise, a government, a group of related individuals, or a group of related incorporated and/or unincorporated enterprises which has a direct investment enterprise – that is, a subsidiary, associate or branch – operating in a country other than the country or countries of residence of the foreign direct investor or investors. A "direct investment enterprise" is defined as an incorporated or unincorporated enterprise in which a foreign investor owns 10 per cent or more of the ordinary shares or voting power of an incorporated enterprise or the equivalent of an unincorporated enterprise. An effective voice in the management, as evidenced by an ownership of at least 10 per*

[101] (International Monetary Fund, 1993 p. 86)
[102] "*A Green Field Investment is defined as a form of FDI where a parent company builds new operational facilities in a foreign country as a new venture*." (Investopedia)

cent, implies that the direct investor is able to influence or participate in the management of an enterprise; it does not require absolute control by the foreign investor. [103]

Due to the benchmark of OECD, some countries may not accept the 10 % rule but the combinations of the following factors such as, representation on the board of directors, participation in policy-making process, material inter-company transactions, interchange of managerial personnel, provision of technical information or long-term loans at lower than existing market rates in order to give an allowance to the existence of the relationship of the direct investment elements.

2.1.1 Forms of FDI

Deciding which form of investment should be made is the key question for a decision maker who wants to make an investment into a country abroad. There are two main forms of investing abroad namely the Green Field Investment and Mergers and Acquisitions (M&A`s).

According to Meyer and Estrin (2001), a Green Field Investment is a mode of investment which is made by building an entire subsidiary from bottom up by using the investor´s management, technology, know-how and capital. (Klaus E. Meyer and Saul Estrin, 2001) There will be a place purchased or hired in the host country in order to make the production or sale facilities with the hired and trained employees. An example for a Green Field investment is the IKEA which makes investments in many countries. IKEA purchases a large building site, makes the constructions in this location according to its own sale strategy, (for instance own designed show rooms, and sale oriented leading corridors) and carries out its own marketing policy.

On the other hand, another mode of entry into foreign markets is the so-called Merger and Acquisitions. M&A´s are the mode of investment which aims to purchase an already existing company or a combination of it. A **merger** occurs when two companies decide to combine the shares, work force, know-how and materials and by this way make business as a brand new jurally single company where both companies' shares are issued together. The merger of Sony Corp. and Ericsson in 2001 would be an example which ended up with a new brand name Sony Ericsson. Both companies have similar products, target customers and business areas. This kind of a merger is called a *horizontal merger* where both companies have similar products and activity areas. Another

[103] (OECD, 1996 pp. 7,8)

kind of merger is the *vertical merger* where a company joints together with its supplier or its customer for one specific end product and where both companies work at different steps of production. If a company merges with its supplier, the profitability increases by reducing the costs of negotiating or finding other suppliers since the merged supplier supports and shares its market share, experience, know-how and customer database with the company. An example for it would be that a car manufacturer merges with a tire company. In this case, the car manufacturer gains advantage of low-cost raw materials and an advantage in the bargaining power since both companies would have only one purpose, working together. As none of these companies would ever damage their own company, the ambition would be supporting each other in many issues and making profits together.

An **acquisition** on the other hand, occurs when a company decides to buy, in other words "takeover", another company with cash, stock or a combination of the two. In this case, the acquiring company is the owner of both companies. Basically, acquisition is made by two ways namely, the acquisition of shares and hence a takeover of control of the target company or the purchase of assets of the target company. In the former case, the management of the company is handed over through the purchase of the shares. The acquired company is not fully sold out, it runs further with all of its debts and the risks that it faces in its business area. The second form of the company acquirement is done by buying all of the assets of the target company. The target company receives therefore a big amount of cash and gets to liquidate which enables the targeted company enters into other areas of the market.

The decision whether to acquire or to merger depends on the aim of the company. Acquiring a business would mean an expansion of the market where the acquiring company receives the market share of the target company through the acquisition. The product lines would be diversified; the customer base and distribution channels of the target company would be transferred into the ones of the acquiring company which then means higher revenue and higher market share. In the operational sense, the acquiring company would gain higher economies of scale which leads to an efficient use of facilities, distribution and marketing channels. Among all of these advantages, the acquiring company should also pay attention to some diversifications. Appearance of huge differences in cultural, technological, lingual and geographical cases would cause conflicts. These differences must be able to be compensated or adjusted by the acquiring company. If the acquiring company does not pay attention to the lingual differences, if for instance, the company does not translate a booklet of its product into the host country´s language, no big success should be expected.

As mentioned above, investing into a foreign country is done by two ways: Green Field Investments and M&A´s. The high settlement costs can be a choice criterion for a decision-maker who prefers the M&A option. The Green Field Investment is a costly decision in terms of the replacement, establishment, construction, marketing research costs. Another reason, why M&A´s are preferred, can be the reputation of the acquired company. An already established successful company with its marketing strategies, customer base and market share is more profitable than a new establishment.

There are many circumstances which assist to determine whether to make the foreign direct investment or not. Briefly these determinants can be classified in two main groups[104]. These are the economic conditions and the governmental policies which are made in the host country. These determinants are basically the size of the market, inflation and the risk rates, the expectations of economic growth in the host country, labor force and the national resources, developments in the infrastructure in the country, financial situation of the government, business environment, political stability and the government incentives granted to the foreign investments as well as the trade and investment policies.

The market size, as mentioned before, is a very attractive determinant for a decision-maker. It is not obvious to make an investment into a market which is already saturated or which has a smaller size than the market of the investor company has in its own country. So the FDI should be made into an unsaturated big market where there are still growth opportunities and advantages which can be derived by making business. In a big-sized market, there will always be high competition which causes cost reductions. Since the costs in the market can be reduced, the bargaining power of the investor company would rise. Other factors are the production and the labor costs. If the cost of producing one unit in the home country of the investor is seriously higher than the one in the host country, the decision of making the FDI is unavoidable. It is not always about the cost of production or labor, the availability of the skilled workforce makes also an influence on the decision. A negative relation occurs between the cost of labor and the availability of skilled workforce. The higher the skill-set of the workers, the higher will be their expectations of higher wages. If it is important for an investor to produce high amounts of products and then sell them, so the production cost should be in foreground in this decision making process. If there is higher attention paid on the customer relationship, marketing, finance as well as the information technologies then high-skilled workers are required. So the decision-maker should balance this relation according to its production and marketing strategies.

[104] (Sahoo, 2006 p. 37)

Beside these costs, the investor also observes some other factors in the host country in order to make his decision. The economic growth of the host country, the inflation rates, the availability of the infrastructure and ROI rates as well as the policies and the stability of the economy have always been the key factors of the investor.

2.1.2 Advantages and Risks of FDI

Over the last 20 years, considerably high increases have been stated in the world FDI flows. The observations and studies during these years have proved that the FDI activities have created many advantages for both the investor and the recipient countries. The countries, which are economically developing, are the countries that most benefit in terms of economical growth and development through these investment activities. The inflows generated by the FDI transactions have been the major external financial resources for the developing countries which face with financial difficulties in their economies.

Apart from the portfolio investments, export or import activities of goods and services; FDI transactions supply and assist the transfer of the know-how and the technology which finally reinforce the productivity and the competitiveness, creating substantial spillover effects in the host country.

Moreover, FDI enables the unemployment rate to decrease and creates new opportunities of labor in the host country. Through training employees and joining the know-how of traditional and international administrative experiences, more high qualified human resources can be obtained. The higher the employees are skilled, the higher will be their salaries and thus a better life condition can be reached in this manner. As long as there are new technologies brought into a market, the competition in that market will increase. This high competition may increase the interest on the research and development studies which then will have a positive impact on the growth of the productivity.

While making an investment decision, macro-environmental and micro-environmental issues are to be carefully evaluated.[105] Having considered the appropriate marketing and sales strategies in the host country, it is obviously a great opportunity for growth, revenue and income increment for the investor. The macro-environmental issues consist of market attractiveness and the company capability profile whereas micro-environmental issues basically depend on the economic, socio-cultural and political-legal influences.

[105] (Jobber, 2004 p. 846)

The market attractiveness can be estimated by determining the market size, market growth rate, competition environment, costs of serving the market, profit potential and market access. As long as these indicators are well analyzed, it will be easier and less risky for an investor to make a decision. On the other side, company`s skills also play a crucial role. The company capability profile consists of the skills, resources, product adaption and competitive advantage of the investor company.[106]

As long as these macro-environmental issues are analyzed, it is important for the decision-maker to observe the micro-environmental influences. The differences in the socio-cultural issues can be defined as entry barriers that may appear through the diversities in the social perspectives and attitudes between the home and the host country. Therefore an investor may decide to invest into a country where there are similarities concerning these issues. The political-legal issues on the other hand, are the political stability, trade barriers, and general policies of governments, concerning imports and foreign direct investments, which may influence the decision maker as well. If a threat occurs concerning protectionism and expropriation of assets of the host country or negative attitudes towards foreign investors are observed, this may harm the investment climate; discourage the investors as well as the import approaches. In order to encourage the foreign investors, governments should ensure to standardize and simplify the investment process. [107]

Besides the various advantages generated through investing into a foreign country, some risks may also occur on behalf of both investors and the recipient country. As the investment will be made into a foreign country, the cultural differences between these countries must be well considered by the investing company. These differences must quickly be adopted and a common strategy must be generated for the benefit of both countries.

Other areas where disadvantages or conflicts may occur are the issues such as operation, employing the personnel and transfer of the profits generated in the host country. If there are differences in the operational know-how of the managers of both companies and if the criteria of the skills which are required from the personnel vary, conflicts may occur in the management, production and many other departments which then may reduce the productivity resulting to a decrease in the profits of the company as well. Certain operational policies that the investing company brings in may not be easily adapted by the workers of the host company. Another topic which can be mentioned as a disadvantage for the host country is that the profits, which are generated by the investor companies, will be transferred to their own countries thus the balance of the financial market in the host country can be lost, resulting to higher consumer prices in the host country.

[106] (Jobber, 2004 p. 846)
[107] (Jobber, 2004 p. 847)

A risk for the host country may also occur if the strategically vital places or enterprises are acquired or operated by a foreign company. The government will then have less control over the functioning of this investment. Therefore, the host country should consider it well which enterprises are to be privatized or approved for being operated.

Conflicts regarding the economical, social and political instabilities as well as the international relations with the neighbor countries also affect the foreign direct investment activities. The government of the recipient country should take the responsibility of improving the labor market flexibility, encouraging the investment environment and simplifying the business regulations in the host country.

2.2 Overview to World FDI Approaches in Recent Years

International trade and FDI activities have been the most exponentially growing areas in the world`s globalized economy. *World FDI flows which were realized as an annual average of USD 492.605 million during the period 1990-2000, have reached USD 717.695 million by the end of 2004 and USD 1.833.324 million as of 2007."* [108]. Parallel to those developments, the sales of the multinational companies, that have expanded in the world through Mergers & Acquisitions (M&A) activities, have been clearly more than the export scores of these companies after 1994 by their own. Comparatively, the FDI stocks in the service industry, which was only USD 950 billion in 1990, have significantly increased and were realized as USD 4 billion by the end of 2002.

Turkey indeed, has not been that successful in capturing attention of foreign capital in the period where the importance of the multinational companies and the FDI activities gain a global meaning. The average FDI inflow in Turkey was not even USD 1 Billion during the period 1990-2004. The main purpose of not being that attractive was the political and economic uncertainties which began in the second period of 1980´s and continued until the economic crisis in 2001. It will be proper to define the period of 15 years between 1987 and 2002 as a lost period in terms of deriving advantage of investments in Turkey. In this period, besides considering making investments in Turkey, some foreign companies even preferred to shut down their plants in Turkey. During these years, Turkey`s economy suffered from the enforcements of the politics on the economy and had to fight against the high inflation rates such as 62.7 % during 1983-1994 and 71.6 % during 1995-2001. Turkey had to deal with its history`s hardest economic crisis in that period with the lowest GDP growth rates.

[108] World Investment Report (UNCTAD, 2008)

After the crisis in 2001, Turkey had to come up with the very high internal and external debts. The International Monetary Fund (IMF) gave suggestions about macroeconomic politics and assisted Turkey´s financial market by providing almost USD 20.4 billion between 1999 and 2003. The strategies of the public finance sector assisted the inflation and real interest rates to decrease and moved the economy upwards in the growth path. Followed by the successful applications of the macroeconomic strategies and the decision of launching the negotiations of the Turkey` membership by the Council of European Union by the end of 2004, the foreign companies` interest in making investments to Turkey has seriously increased. Together with the impacts of the privatization processes, the FDI inflow[109] into Turkey has reached USD 10.031 billion and the GDP grew by 2.8 % in 2005. According to the data of United Nations Conference on Trade and Development (UNCTAD), Turkey has taken the ninth position in the FDI rankings among the emerging countries such as China, Mexico, Brazil, Russia, Bermuda, United Arab Emirates, Cayman Islands and Colombia concerning the successful inflow data of USD 10.031 million in 2005.

After the great performance in 2005, the FDI inflows has further risen to USD 20.185 million in 2006 and reached its record level of USD 22.057 million in 2007. In 2006, Turkey exhibited a similar upward trend together with the trend of the world investment flows and even made a higher progress in receiving inflows and in terms of growth among the developed and developing countries.

2.3 World FDI Flows (2003-2008)

As we look through the breakdown of the world`s highest FDI income receiver countries in 2007, USA has taken the first place with an inflow amount of USD 232.8 billion, followed by the UK and France, USD 224.0 billion and USD 158.0 billion respectively.

After the new FDI law, which was enacted in Turkey in 2003, the FDI inflows that Turkey received have drastically increased. As Turkey was ranked in the 53rd place with USD 1.3 billion in 2003, Turkey reached the 38th place with USD 2.9 billion in 2004 followed by the 23rd place with USD 9.1 billion in 2005. These numbers may not indicate big amounts due to the world statistics, but after the economic crisis in 2001, Turkey had achieved to receive USD 20.1 billion. Together with this inflow Turkey was ranked as the 16th in the top 20 list of the most FDI receiver countries of the

[109] Due to the FDI Law no 4875, the net amount of cross-border transfers by companies based in Turkey which are determined as equity capital or other capital in Central Bank of The Republic of Turkey`s balance of payment statistics and transfers for acquisitions of real estate by foreigners are defined as foreign direct investment inflow. (Republic of Turkey Prime Ministry Undersecretariat of Treasury General Directorate of Foreign Direct Investment, 2009 p. 1)

world in 2007. (Table 11 - 12) According to the tables taken from the "World Investment Report 2007", the world investment figures were always in rise. In 2008 the investment numbers have decreased mainly as a result of the global economic recession in the financial sector, exchange rate effects on the uncertainties in the oil prices, war risks and terrorism in the world.

Table 11: Top Ten FDI Recipient Countries and Turkey (2003-2006) [110]

Rank Order 2003	Country	USD Billion
1	China	53.5
2	United States of America	53.1
3	France	42.5
4	Belgium	33.5
5	Germany	32.4
6	Spain	25.8
7	Ireland	22.8
8	Netherlands	21.0
9	United Kingdom	16.8
10	Switzerland	15.5
53	**Turkey**	**1.8**
World Total		564.1

Rank Order 2004	Country	USD Billion
1	United States of America	135.8
2	China	60.6
3	United Kingdom	56.0
4	Belgium	43.6
5	Australia	36.0
6	Hong Kong	34.0
7	France	32.6
8	Bermuda	25.5
9	Spain	24.8
10	Mexico	22.4
38	**Turkey**	**2.9**
World Total		742.1

Rank Order 2005	Country	USD Billion
1	United Kingdom	193.7
2	United States of America	101.0
3	France	81.1
4	China	72.4
5	Netherlands	41.6
6	Germany	35.9
7	Belgium	33.9
8	Hong Kong	33.6
9	Canada	28.9
10	Spain	25.0
23	**Turkey**	**9.8**
World Total		945.8

Rank Order 2006	Country	USD Billion
1	United States of America	175.4
2	United Kingdom	139.5
3	France	81.1
4	Belgium	72.0
5	China	69.5
6	Canada	69.0
7	Hong Kong	42.9
8	Germany	42.9
9	Italy	39.2
10	Luxemburg	29.3
16	**Turkey**	**20.1**
World Total		1,305.6

Source 28: World Investment Report 2007 "Transnational Corporations, Extractive Industries and Development", UNCTAD, IMF

[110] Own table illustrated due to the date taken from (Republic of Turkey Prime Ministry Undersecretariat of Treasury, June, 2008 p. 8)

Since 1995, the United Nations Conference on Trade and Development releases information bulletins through a critical inspection called "World Investment Prospects Survey" about medium-term FDI forecasts in the world. According to this survey which was released in 2006, it was announced that an increase was to be expected in 2007-2009 period. Now, according to the press release of UNCTAD in January 2009, the global FDI is in decline as a result of economic recession.

Table 12: Top Twenty FDI Recipient Countries and Turkey (2007)

Rank Order 2007	Country	USD Billion
1	United States of America	232.8
2	United Kingdom	224.0
3	France	158.0
4	Canada	108.7
5	Holland	99.4
6	China	83.5
7	Hong Kong, China	59.9
8	Spain	53.4
9	Russia	52.5
10	Germany	50.9
11	Belgium	40.6
12	Switzerland	40.4
13	Italy	40.2
14	Brazil	34.6
15	Austria	30.7
16	Ireland	30.6
17	Mexico	24.7
18	Saudi Arabia	24.3
19	Singapore	24.1
20	India	23.0
21	Turkey	22.0
World Total		18.333,30

Source 29: World Investment Report 2007 "Transnational Corporations, Extractive Industries and Development", UNCTAD, IMF

As the Table 21 reveals, world FDI flow has decreased by 21 % in 2008 because of harder conditions of credits, uncertainties in the political and fiscal strategies of governments. Due to this vagueness in the monetary policies of the world, many companies had to declare that they are in the necessity of cutting current capital costs, canceling investment decisions and even laying off

workers. Finally all these reasons had given a rise to big confusions leading to a decrease in FDI flows. According to the survey, the main determinants of the FDI were the growth potential of the local markets, the possibility of entering regional markets, stability of the investment climate, availability of the skilled workers in the region and etc. Nowadays because of the recession, more attention is paid on the region of the country, political and fiscal stability, risks of war and so on. Yet, the influences of the economic crisis alter due to these facts in every country.

Until 2007, North America (USA mainly) and Western Europe were projected as the most preferred areas for FDI in terms of possessing strong durable investment climate. Due to the results of UNCTAD World Investment Prospects Survey 2007-2009, South, East and South-East Asia were expected to admit a larger portion of FDI flow, after North America and the European Union. West Asian is considered to receive a smaller share of FDI, although Turkey in this region was ranked the 5th among the developing countries in 2006.

The Table 13, which is taken from the press release of UNCTAD, reveals that there is a major decrease nearly by 33% in the FDI flows of developed countries. The crisis, which emerged through the liquidity deficit in the debt markets of the developed countries, quickly affected the economies of the developing countries. The economies of strong developed countries such as Finland, Germany, Italy the USA and the UK have to deal with the decreased loans which directly affected the investment financing. A decrease of 33 % has also been seen in cross border Mergers and Acquisitions (M&A) activities of developed countries in the Table 13.

According to the press release of UNCTAD, it was announced that the inflows to developing countries, have been at least positive. As a result of rising costs and slower growth in oil demand, the FDI flows to West Asia were decreased more than 20 %. Turkey was also affected and recorded a 25.5 % decrease in the FDI inflows according to the estimated data collected by UNCTAD (24.5 % decrease due to the data of Central Bank of the Republic of Turkey). On the other hand, the increase of the inflows to South America has given a rise to the inflows of Latin America and the Caribbean regions where a 12.7 % increase was reported in 2008. The FDI inflows to North America however have decreased by 16 % in 2008.

The FDI inflows to South, East and South East Asia have been registered with an increase of 3 %, where India, China and Malaysia have received the highest FDI inflows of this region in 2008. The FDI inflows to South-East Europe and the Commonwealth of Independent States have shown resilience to the economic slowdown and have experienced a rise of 6 %, where the Russian Federation received 17.6 % of inflows in this region.

Table 13: World FDI Inflows, Cross-Border M&As and Growth Rates, 2007-2008[111]

Region/economy	FDI inflows			Cross-border M&As		
	2007	2008 a	Growth rate (%)	2007	2008	Growth rate (%)
World	**1 833.3**	**1 449.1**	***- 21.0***	**1 637.1**	**1 183.7**	***- 27.7***
Developed economies	**1 247.6**	**840.1**	***- 32.7***	**1 454.1**	**981.8**	***- 32.5***
Europe	848.5	562.3	*- 33.7*	825.0	548.7	*- 33.5*
European Union	804.3	557.4	*- 30.7*	782.0	506.4	*- 35.2*
Austria	30.7	12.9	*- 57.9*	9.0	3.0	*- 66.6*
Belgium	40.6	17.1	*- 58.0*	5.4	28.3	*420.6*
Czech Republic	9.1	11.4	*24.8*	0.4	5.1	*1 353.3*
Denmark	11.2	14.7	*31.3*	11.2	6.4	*- 42.8*
Finland	8.5	- 6.3	*- 173.9*	11.8	4.2	*- 64.2*
France	158.0	114.3	*- 27.6*	62.4	37.2	*- 40.4*
Germany	50.9	26.0	*- 48.9*	101.0	42.9	*- 57.5*
Hungary	5.6	3.4	*- 39.5*	0.7	1.6	*122.1*
Ireland	30.6	- 6.1	*- 120.1*	5.4	4.9	*- 9.8*
Italy	40.2	2.3	*- 94.3*	31.4	27.4	*- 12.8*
Netherlands	99.4	29.5	*- 70.4*	209.8	25.4	*- 87.9*
Poland	17.6	16.2	*- 7.7*	1.3	1.2	*- 7.4*
Romania	9.8	10.6	*8.6*	1.8	1.0	*- 41.4*
Spain	53.4	57.3	*7.3*	66.0	71.6	*8.4*
Sweden	21.0	36.5	*74.3*	12.4	25.3	*104.8*
United Kingdom	224.0	109.4	*- 51.1*	231.0	206.2	*- 10.7*
United States	232.8	220.0	*- 5.5*	379.4	314.9	*- 17.0*
Japan	22.5	17.4	*- 22.6*	21.4	19.1	*- 10.8*
Developing economies	**499.7**	**517.7**	***3.6***	**152.9**	**177.0**	***15.7***
Africa	*53.0*	*61.9*	*16.8*	*10.2*	*26.3*	*157.0*
Egypt	11.6	10.9	*- 5.6*	1.9	15.9	*732.7*
Morocco	2.6	2.4	*- 7.0*	0.3	0.1	*- 64.7*
South Africa	5.7	12.0	*111.2*	6.7	8.2	*22.9*
Latin America and the Caribbean	*126.3*	*142.3*	*12.7*	*30.7*	*29.5*	*- 3.8*
Argentina	5.7	7.3	*27.9*	1.4	0.6	*- 54.0*
Brazil	34.6	41.7	*20.6*	8.6	9.7	*13.6*
Chile	14.5	17.8	*23.2*	2.7	3.3	*24.6*
Colombia	9.0	10.9	*20.3*	4.4	0.6	*- 86.0*
Mexico	24.7	20.7	*- 16.0*	6.0	3.7	*- 38.8*
Peru	5.3	7.4	*38.9*	1.2	0.4	*- 64.7*
Asia and Oceania	*320.5*	*313.5*	*- 2.2*	*112.0*	*121.2*	*8.2*
West Asia	71.5	56.3	*- 21.3*	30.3	31.5	*4.0*
Turkey	22.0	16.4	*- 25.5*	15.5	11.9	*- 23.4*
South, East and South-East Asia	247.8	256.1	*3.3*	81.5	89.4	*9.7*
China	83.5	92.4	*10.6*	15.5	20.3	*30.6*
Hong Kong, China	59.9	60.7	*1.3*	26.8	18.2	*- 32.3*
India	23.0	36.7	*59.9*	5.6	11.2	*100.8*
Indonesia	6.9	5.5	*- 21.3*	2.7	2.7	*- 0.3*
Malaysia	8.4	12.9	*53.4*	4.5	5.5	*22.4*
Singapore	24.1	10.3	*- 57.2*	8.8	17.0	*91.6*
Thailand	9.6	9.2	*- 4.4*	2.9	0.6	*- 78.2*
South-East Europe and the CIS	**85.9**	**91.3**	***6.2***	**30.1**	**25.0**	***- 17.0***
Russian Federation	52.5	61.7	*17.6*	23.5	17.7	*- 24.9*
Ukraine	9.9	9.7	*- 1.5*	1.7	6.0	*260.5*

Source 30: (UNCTAD, 2009)
a- Preliminary estimates

[111] Source: (UNCTAD, 2009)

2.4 FDI Statistics of Turkey (2003-2008)

The net FDI inflow has been recorded as USD 1.239 million in December 2008 as indicated in the Table 14 below. "*The FDI inflows include the net amount of transfers classified as "capital" and "other capital" in the balance of payment statistics of the Central Bank of Turkey, from abroad by the firms operation according to the "Foreign Direct Investment Law No. 4875" and transfers for the real estate purchases of foreigners in Turkey."*[112]

In 2008 the equity investment inflow, which has been registered as USD 14.709 million, represents the equity share transfers of foreign investors for their new establishments or existing companies in Turkey, and for their participation into the existing domestic companies.[113]As illustrated in the Table 15, the major transactions have been in the financial intermediation sector with USD 5.456 million, mainly in the banking sector.

Table 14: Foreign Direct Investment Inflows, annually (2003-2008), in USD Million[114]

	2003	2004	2005	2006	2007	2008	Change %
Foreign Direct Investment Total (Net)	1.751	2.785	10.031	20.185	22.057	17.985	-19,6
Foreign Direct Investment	753	1.442	8.190	17.263	19.131	15.048	-22,7
Equity Investment (Net)	737	1.092	8.134	16.982	18.404	14.674	-21,7
Inflows	745	1.190	8.535	17.639	19.147	**14.709**	**-24,5**
Liquidation Outflows	-8	-98	-401	-657	-743	-35	-95,3
*Intra Company Loans **	16	350	56	281	727	374	-48,6
Real Estate (Net)	998	1.343	1.841	2.922	2.926	2.937	0,4

Source 31: Central Bank of the Republic of Turkey, Provisional Data
*** Loans which companies with foreign capital take from foreign partners**

In 2004, the net FDI inflow was announced as USD 1.190 million which then increased substantially since 2005 and registered as USD 8.535 million. In 2006 and 2007, the amount of inflows increased further and reached USD 17.639 million and USD 19.147 million respectively. As a result of the global economic slowdown, the amount of inflows decreased to USD 14.709 million by 24 % according to the data taken from the CBRT in 2008.

[112] (Republic of Turkey Prime Ministry Undersecretariat of Treasury General Directorate of Foreign Direct Investment, 2009 p. 1)
[113] (Republic of Turkey Prime Ministry Undersecretariat of Treasury General Directorate of Foreign Direct Investment, 2009 p. 2)
[114] Own table illustrated due to the date taken from (Republic of Turkey Prime Ministry Undersecretariat of Treasury General Directorate of Foreign Direct Investment, 2009 p. 13)

Table 15: International Direct Investment Inflow by sector, in USD Million[115]

Sectors	2007	2008	Change %
Agriculture, hunting and forestry	5	25	**400,00**
Fishing	3	19	**533,33**
Mining and quarrying	336	168	-50,00
Manufacturing	4.210	3.820	-9,26
Manufacture of food products, beverages and tobacco	766	1.279	**66,97**
Manufacture of textiles	232	190	-18,10
Manufacture of chemicals and chemical products	1.109	196	-82,33
Manufacture of machinery and equipment	48	220	**358,33**
Office machinery and computers	117	243	**107,69**
Manufacture of motor vehicles, trailers and semi-trailers	70	67	-4,29
Other Manufacturing	1.868	1.860	-0,43
Electricity, gas and water supply	567	1.036	**82,72**
Construction	285	764	**168,07**
Wholesale and retail trade	169	2.064	**1121,30**
Hotels and restaurants	33	27	-18,18
Transport, storage and communications	1.116	169	-84,86
Financial intermediation	11.662	5.756	-50,64
Real estate, renting and business activities	560	652	**16,43**
Health and Social Work	177	150	**400,00**
Other community, social and personal service activities	13	59	**533,33**
Total	19.136	14.709	-50,00

Source 32: Central Bank of the Republic of Turkey
Provisional Data

The sectors which attracted the foreign investors in 2008, have been mostly the financial intermediation with USD 5.456 million, the manufacturing sector with USD 3.734 million and the wholesale and retail trade with USD 2.059 million as well as **construction, real estate, renting and business activities and other community, social and personal service activities**. Although financial intermediation amounted as the highest FDI inflow in 2008, nearly 50 % decrease was observed in this sector compared to the year before. Sectors which received an increase in the FDI inflows compared to 2007 are the agriculture, fishing, manufacture of food products, beverages and tobacco, manufacture of machinery and equipment, office machinery and computers, real estate, renting and business activities, health and social work, other community, social and personal service activities.

[115] Own table illustrated due to the date taken from (Republic of Turkey Prime Ministry Undersecretariat of Treasury General Directorate of Foreign Direct Investment, 2009 p. 14)

Table 16: Number of Companies with International Capital by Year according to Mode of Establishment[116]

Year	Company Establishment	Participation	Branch Office	Total	Cumulative numbers of companies
1954-2002	4.336	892	210	5.438	5.438
2003	851	208	32	1.091	6.529
2004	1.515	460	64	2.039	8.568
2005	2.191	501	58	2.750	11.310
2006	2.571	653	64	3.288	14.606
2007	2.913	655	61	3.629	18.235
2008	2.695	638	64	3.397	21.632
Total	17.072	4.007	553	21.632	
Change 2007-2008	-7.5	-2.6	4.9	-6.4	

Source 33: Undersecretary of Treasury
Provisional Data

The data above illustrates the number of companies with international capital according to type of investments such as new establishment, participation, and new branch office. Beginning from 1954 until 2008, 21.632 international companies are operating in Turkey. After the Foreign Direct Investment Law No. 4875 which was enacted in 2003, the number of companies nearly doubled in 2004 with an increase by 53.5%. As it can be seen in the Table 16, between these three types of establishments, establishing a company has been the most preferred market entry. Only 553 foreign companies in almost 54 years have totally entered the market by opening a branch office in contrast to 17.072 companies which preferred to establish a new company. Among these, 4.007 companies were participated with the existing companies. Observing the one year period between 2007 and 2008, and although the method of opening a branch office has been less favorable, there was a 4.9 % increase by the companies which opened a branch office. A 7.5 % and 2.6 % decrease have been observed in participation and new establishments among the types of entries respectively.

[116] Own table illustrated due to the date taken from (Republic of Turkey Prime Ministry Undersecretariat of Treasury General Directorate of Foreign Direct Investment, 2009 p. 7)

2.4.1 Number of Companies and Amount of FDI Inflows by Country and by Sector in Turkey

As stated above, in 2008 Turkey received USD 14.709 million of FDI inflow of which USD 11.103 million was generated from the companies of European Union. There are currently 11.626 companies operating in Turkey since 1954. The highest inflows of 2008 were received from United Kingdom, Luxemburg, Netherlands, and Germany among the EU countries. In 2008 other regions which increased flow of investments compared to the year before, were the Asian and Near & Middle Eastern countries with USD 2.290 million and USD 2.130 million respectively.

Turkey receives considerably high investment amounts from the USA. In 2007, around USD 4.212 million was invested by American companies. Nearly 929 US-based companies are operating in Turkey since 1954. As a result of the financial crises, the investment amount received from USA has decreased considerably to USD 859 million in 2008. (Table 17, 18, 19)

Table 17: International Direct Investment Inflows by Country, 2008 / October, in USD billion[117]

Countries		**2007**	**2008**
European Union (27)		**12.600**	**11.103**
	Germany	954	1.048
	France	368	680
	The Netherlands	5.443	1.767
	United Kingdom	702	2.281
	Other European Countries	5.133	5.232
Other European Countries (Excluding EU)		**373**	**289**
Africa		**5**	**83**
	U.S.A.	**4.212**	**848**
	Canada	**11**	**24**
Central-South America And Caribbean		**494**	**60**
Asian		1.405	2.129
	Gulf Arabian Countries	311	1.746
	Near And Middle Eastern Countries	297	223
	Other Asian Countries	797	160
Other Countries		**36**	**1**
Total		**19.136**	**14.709**

Source 34: Central Bank of the Republic of Turkey (CBRT)
Provisional Data

[117] Own table illustrated due to the date taken from (Republic of Turkey Prime Ministry Undersecretariat of Treasury General Directorate of Foreign Direct Investment, 2009 p. 15)

Table 18 indicates from which countries the most FDI inflows (in forms of mergers and acquisitions, privatizations and property sales) have been realized in 2007 and 2008. In 2007, USD 12.600 billion, 65.8% of the total FDI, was received from the European Union countries, mainly from Netherlands (USD 5.443 billion), Greece (USD 2.360 billion) and Germany (USD 954 billion). The USA was ranked as the second investor country with USD 4.212 billion in 2007.

In 2008, the total capital inflow to Turkey was decreased almost 22 % to USD 14.709 billion. The inflow from the European Union countries had 76.22 % share of the total inflow. The United Kingdom, which was ranked as the fifth in 2007 with USD 702 million, highly increased its investments to USD 2.281 million and ranked as the first country that made the highest investment in 2008. The second major attack of USD 2.074 billion was made by Luxemburg which had only USD 582 million of investments in 2007. On the other hand, the first three major investor countries of 2007 the Netherlands, the USA and Greece have considerably decreased their amount of investments in 2008. (Table 18)

Table 18: Leading investing countries in the FDI inflows of Turkey

	2007	FDI Inflow USD Million	Share (%)		2008	FDI Inflow USD Million	Share (%)
1	The Netherlands	5.443	28.4	1	United Kingdom	2.281	15.5
2	USA	4.212	22.0	2	Luxemburg	2.074	14.1
3	Greece	2.360	12.3	3	The Netherlands	1.778	12.1
4	Germany	954	5.0	4	Saudi Arabia	1.244	8.5
5	United Kingdom	702	3.7	5	Germany	1.050	7.1
6	Portugal	701	3.7	6	USA	859	5.8
7	Kasachstan	613	3.2	7	Spain	825	5.6
8	Spain	583	3.0	8	Greece	778	5.3
9	Luxemburg	583	3.0	9	France	682	4.6
10	Brazil	467	2.4	10	Austria	559	3.8
	Others	2.518	13.2		Others	2.579	17.5
Total		**19.136**	**100.0**	**Total**		**14.709**	**100.0**

Source 35: Central Bank of the Republic of Turkey (CBRT)

According to the data of Undersecretariat of Treasury of Republic of Turkey for 2007 and 2008, 14.15 % decrease was announced in number of companies of the member countries of the European Union, mainly of the UK with a 45.6 % decrease. The number of American and Canadian companies has fallen by 1.5 % and 42.2 % respectively. The amount of the companies of Central South America and Caribbean, Iraq and other Asian countries such as South Korea have decreased by 42.85 %, 21 %, 45 % respectively in 2008.

On the other hand, the number of companies which made investments into Turkey such as from the Germany and Netherlands has increased by 5.6 % by 12.15 % respectively. Another increase is observed in the number of the companies of Non-European countries by 11.3 % and African countries by 10.6 %. The amount of companies from Near & Middle Eastern Countries such as Azerbaijan, Iran and from China has also increased by 12.0 %, 31.1 % and 9.5 % in 2008 respectively.

Table 19 : List of Companies with International Capital in Turkey by Country, 2007-2008/November[118]

Countries from		**2007**	**2008**	**(1954-2008)Total**
European Union		**2.084**	**1.789**	**11.626**
	Germany	563	595	3.600
	The Netherlands	255	286	1.673
	United Kingdom	456	248	2.021
	Other European Countries	810	660	4.332
Other European Countries (Excluding EU)		**492**	**548**	**2.716**
African Countries		**47**	**52**	**347**
North America		**165**	**149**	**1.061**
	U.S.A.	132	130	929
	Canada	33	19	132
Central-South America And Caribbean		**21**	**12**	**115**
Near And Middle Eastern Countries		**506**	**567**	**3.527**
	Azerbaijan	120	136	571
	Iraq	112	88	575
	Iran	106	139	1.019
	Other	168	204	1.362
Other Asian Countries		**278**	**233**	**1.420**
China		42	46	337
South Korea		24	13	142
Other		212	174	941
Other Countries		**36**	**47**	**267**
Total		**3.629**	**3.397**	**21.079**

Source 36: Undersectretariat of Treasury
Provisional Data

There are 21.079 companies with international capital (Table 19) investing in Turkey as of 2008. More than the half of this number, namely 11.533 companies are making investments into Istanbul only. In 2008 the main sector, where the highest investment were realized, was the financial intermediation and the manufacturing with USD 5.456 million and USD 3.734 million respectively.

[118] Own table illustrated due to the date taken from (Republic of Turkey Prime Ministry Undersecretariat of Treasury General Directorate of Foreign Direct Investment, 2009 p. 18)

In Istanbul as of 2008, 4.092 companies are operating in the wholesale and trade sector. Another sector where the number of companies is relatively high (2.211) in Istanbul is the manufacturing sector (Table 20).

Table 20: Number of Companies with International Capital by Sector According to the Investment Location (1954-2008) [119]

Sectors	Istanbul	Antalya	Ankara	Muğla	Izmir
Agriculture, hunting, fishing and forestry	**84**	**66**	**22**	**16**	**42**
Mining and quarrying	**144**	**19**	**76**	**7**	**46**
Manufacturing	**2.211**	**161**	**212**	**35**	**328**
Manufacture of food products, beverages and tobacco	175	25	19	5	45
Manufacture of textiles	285	5	9	4	25
Manufacture of chemicals and chemical products	283	16	13	1	32
Manufacture of machinery and equipment n.e.c.	190	2	25	1	32
Manufacture of motor vehicles, trailers and semi-trailers	87	-	10	-	13
Other Manufacturing	1.191	113	140	25	181
Electricity, gas and water supply	**182**	**14**	**87**	**1**	**24**
Construction	**634**	**574**	**157**	**203**	**96**
Wholesale and retail trade	**4.092**	**349**	**390**	**86**	**384**
Hotels and restaurants	**490**	**487**	**69**	**261**	**71**
Transport, storage and communications	**1.089**	**256**	**66**	**140**	**80**
Financial intermediation	**236**	**8**	**7**	**7**	**9**
Real estate, renting and business activities	**1.700**	**676**	**215**	**463**	**121**
Other community, social and personal service activities	**671**	**115**	**105**	**41**	**55**
Total	**11.533**	**2.725**	**1.410**	**1.260**	**1.256**

Source 37: Undersectretariat of Treasury
Provisional Data

As Istanbul has a population of nearly 17 million, the opportunity to make business and therefore benefit from the consumption rate is relatively high. Not only the appearance of high population and high consumption rates, but also being the heart of the trade market enables this city to build beneficial contacts. The strategic situation of the city, for instance as being harbor for the marine carriers, has always been a reason why the investors might have thought investing and making business can be a better option rather than only making shipments through the city. The second attractive city is Antalya with 2.725 companies investing there. Antalya is a perfect place in Turkey to make investments in real estate as well as in the entertainment sector. Antalya is a unique place which offers simultaneously high temperature for the holiday lovers and ski options which is only 2

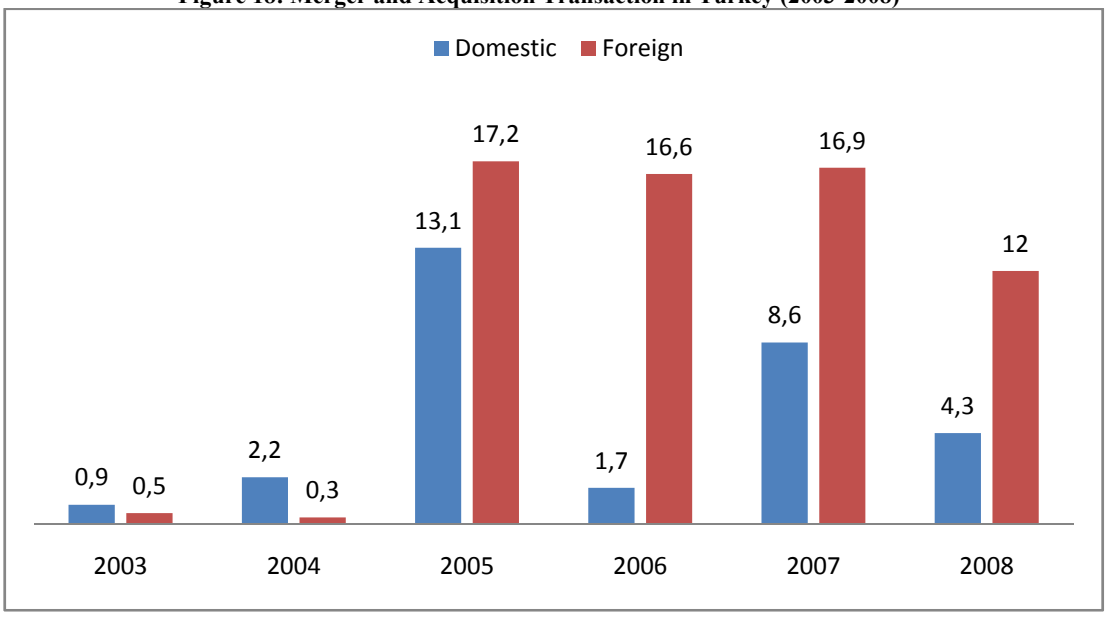
[119] Own table illustrated due to the date taken from (Republic of Turkey Prime Ministry Undersecretariat of Treasury General Directorate of Foreign Direct Investment, 2009 p. 10)

hours away from the centre in Mount Davraz. Therefore both the sun and snow at the same season created many opportunities in terms of renting and realizing business activities in Antalya at most. Although Ankara is the capital city, there are 1.410 foreign based investor companies. Apart from these three major attractive cities there are 1.260, 1.256, 424, 383, 356, 257, 163 and 1.312 companies investing in Muğla, Izmir, Bursa, Aydın, Mersin, Kocaeli, Adana and other cities respectively in mainly wholesale and retail trade, manufacturing and construction sectors. [120]

2.4.2 Cross Border Merger and Acquisitions (M&As) and FDI

In 2006, the world total FDI flow were registred as USD 1.306 billion whereas the cross-border M&A activities had a value of USD 880 billion, 67 % of the total FDI flows. Therefore, cross-border M&As constitutes an important share of FDI flows.

Figure 18: Merger and Acquisition Transaction in Turkey (2003-2008) [121]



Source 38: Ernst & Young M&A Transaction Report 2008

The highest participation of the foreign investors in the M&A transactions were observed in 2005 and 2007. In 2008, as a result of the global financial crisis, the numbers of the investing foreigner companies decreased. The transactions by the European investors comprised nearly the 83 % of the

[120] (Republic of Turkey Prime Ministry Undersecretariat of Treasury General Directorate of Foreign Direct Investment, 2009 p. 10)
[121] (YASED, 2009 p. 5)

total deal value of the foreign investors` share, reaching a deal value of more than USD 13.8 billion (including estimates for deals with undisclosed values) in 2008. [122]

In Turkey, the **finance sector** which corresponds to the largest share of FDI inflows, represented the 71 % share of M&A in 2007.[123] The "Deal List of 2008" taken from Deloitte, indicates the name of the acquirer companies, their origin, and the companies acquired in Turkey, their deal values as well as the sectors in which the transactions as M&A activities were realized. According to Deloitte, the most attractive sectors in 2008 were the services, energy and financial services as M&A transactions. In the services sector 24 deals were realized followed by 20 deals in financial services and 19 deals in the energy sector.[124] The transactions realized by the foreign investors with a deal volume of USD 13.8 billion (including unclosed values), contribute the 75 % of the deal value in 2008 as represented in the Deloitte`s Deal List of 2008. On the other hand, the acquisitions by Turkish investors constituted USD 4.6 billion with 64 transactions (including unclosed values).[125]

[122] (Vardar, January 2009 p. 2)
[123] Date taken from (Republic of Turkey Prime Ministry Undersecretariat of Treasury, June, 2008 p. 13) see *Foreign Investment Reports*
[124] (Vardar, January 2009 p. 4)
[125] (Vardar, January 2009 p. 2)

Figure 19: 2008 Deal List[126]

	Acquirer	Origin	Target	Sector	Stake	Deal Value (US$ million)
1	**BC Partners - DeA Capital - Turkven**	UK	Migros Türk	Retail	97.9%	3,100.0(*)
2	**British American Tobacco (BAT)**	UK	Tekel Sigara	Tobacco	100.0%	1,720.0
3	**Global Yatırım Holding-Energaz-ABN Amro Consortium**	Turkey	Başkent Doğalgaz	Energy	100.0%	1,610.0(**)
4	**EnerjiSA -Sabancı Holding-Verbund**	Austria	Başkent Elektrik Dağıtım	Energy	100.0%	1,225.0
5	**National Bank of Greece**	Greece	Finansbank	Financial Services	9.7%	697.2
6	**AkCez Consortium**	Czech Republic	Sakarya Elektrik Dağıtım	Energy	100.0%	600.0
7	**Abraaj Capital**	UAE	Acıbadem Sağlık Hizmetleri	Healthcare	53.8%	586.7
8	**Lukoil**	Russia	Akpet Akaryakıt Dağıtım	Energy	100.0%	555.0
9	**AXA Group**	France	AXA Oyak Holding	Financial Services	50.0%	525.0
10	**Socar**	Azerbaijan	Tekfen İnşaat	Construction	50.0%	520.0
11	**Zorlu Enerji**	Turkey	Ankara Doğal Elektrik Üretim's 9 Power Plants	Energy	N/A	510.0
12	**Alsim Alarko**	Turkey	Meram Elektrik Dağıtım	Energy	100.0%	440.0
13	**Allianz**	Germany	Koç Allianz Sigorta	Financial Services	47.1%	392.4
14	**CEZ**	Czech Republic	Akenerji	Energy	37.4%	302.6
15	**Groupama**	France	Güven Sigorta	Financial Services	100.0%	282.5
16	**GDF Suez**	France	Izgaz	Energy	90.0%	232.0
17	**Allianz**	Germany	Koç Allianz Hayat ve Emeklilik	Financial Services	49.0%	198.1
18	**Çelebi Holding**	Turkey	Bandırma Port	Infrastructure	N/A	175.5
19	**ING Group**	Netherlands	Oyak Emeklilik	Financial Services	100.0%	169.8
20	**Titan Cement Group**	Greece	Adoçim Çimento Beton Sanayi	Cement	50.0%	132.7
21	**Kiler Holding**	Turkey	Aras Elektrik Dağıtım	Energy	100.0%	128.5
22	**Ceynak Lojistik**	Turkey	Samsun Port	Infrastructure	N/A	125.2
23	**Akkardan**	Turkey	Bossa	Textile	73.1%	111.5
24	**Doğan Yayın Holding**	Turkey	Doğan TV	Media	5.1%	99.9
25	**Doğuş Holding**	Turkey	Kral FM and Kral TV	Media	N/A	95.0
26	**Miroglio**	Italy	Ayaydın Group	Textile	50.0%	92.6
27	**Odlen Asset Management**	USA	Ihlas Madencilik	Mining	18.0%	90.0
28	**Asya Katılım Bankası**	Turkey	A101 Supermarkets	Retail	25.0%	83.6
29	**Frigoglass**	Greece	SFA Soğutma Sanayi	Manufacturing	86.0%	80.4
30	**Petrol Ofisi**	Turkey	Akçakoca Natural Gas Project	Energy	26.8%	80.3
31	**Manag Gayrimenkul**	Turkey	Atakule Gayrimenkul Yatırım Ortaklığı	Real Estate	51.0%	77.0
32	**Asian Debt Management (ADM)**	Hong Kong	STFA Holding	Construction	21.0%	65.0
33	**Bank Hapoalim**	Israel	Bank Pozitif	Financial Services	7.5%	64.0
34	**Axel Springer**	Germany	Doğan Yayın Holding	Media	9.7%	61.0
35	**Recordati**	Italy	Yeni İlaç	Pharmaceuticals	100.0%	60.0

Source 39: Deloitte

(*) Deal value includes shares acquired through a mandatory tender call in the ISE (Istanbul Stock Exchange)
(**) Announced in the first quarter of 2008, not closed yet
N/A: Not applicable, N/D: Not Disclosed

[126] (Vardar, January 2009 pp. 7-10)

Figure 20: Figure 19 continues

	Acquirer	Origin	Target	Sector	Stake	Deal Value (US$ million)
36	Bekaert	Belgium	Beksa Çelik Kord	Automotive & Parts	50.0%	59.3
37	Sinpaş	Turkey	Adabank	Financial Services	100.0%	57.1
38	Koninklijke Vopak	Netherlands	GY Elyaf ve Iplik Sanayi	Textile	100.0%	51.1
39	Italgen	Italy	Bares Elektrik Üretim	Energy	100.0%	50.2
40	Hygeia	Greece	Şafak Hastaneleri	Healthcare	50.0%	48.0
41	Central Bottling Company	Israel	Turk Tuborg	Food & Beverage	95.7%	44.5
42	Arkem Kimya	Turkey	Alkintel Melamin Port	Infrastructure	100.0%	44.2
43	Uralita	Spain	Özpor	Building Materials	100.0%	43.4
44	Eczacıbaşı İlaç	Turkey	Monrol Nükleer Ürünler	Pharmaceuticals	50.0%	43.1
45	Sinpaş GYO	Turkey	Saf Gayrimenkul Geliştirme	Real Estate	7.4%	41.6
46	Pirelli Group	Italy	Türk Pirelli	Automotive & Parts	25.8%	39.2
47	SK Networks	Korea	Daiyang Metal Sanayi	Iron & Steel	30.0%	37.8
48	Fresh Cake Gida	Turkey	Unmaş (Uno Ekmek) and Doruk (Komşu Fırın)	Food & Beverage	50.0%	37.5
49	Acıbadem Sağlık	Turkey	International Hospital	Healthcare	40.0%	32.4
50	Koza Group	Turkey	Kanalturk	Media	100.0%	30.0
51	Morgan Stanley & Co Int. Plc	UK	Ege Seramik	Ceramic Tiles	17.2%	27.4
52	IMSG	Russia	Elektrik İletişim	Media	100.0%	25.0
53	Pirelli Group	Italy	Çelikord	Automotive & Parts	48.0%	24.0
54	Ada Metal	Turkey	Demrad Döküm	Iron & Steel	100.0%	24.0
55	Ihlas Madencilik	Turkey	Pomza Export Madencilik	Mining	N/A	22.0
56	Çalik Holding	Turkey	Çalik Şeker Konsorsiyum Yatırım	Financial Services	34.0%	20.3
57	Çimsa Çimento	Turkey	Bilecik Hazır Beton (Plants and aggregate units)	Cement	N/A	19.3
58	Yıldız Holding	Turkey	Kerevitaş Gıda	Food & Beverage	51.0%	16.5
59	Gulftainer	UAE	Demas International Lojistik	Logistics & Transportation	50.0%	15.9
60	Miramar	Turkey	Lidya Hotel	Tourism	N/A	15.4
61	Samco Turizm	Turkey	Sunset Turistik İşletmeleri	Tourism	N/A	14.2
62	İş Girişim Sermayesi	Turkey	Dr. F. Frik İlaç Sanayi	Pharmaceuticals	17.0%	13.4
63	Anel Telekomünikasyon	Turkey	Solectron Elektronik	Electronics	100.0%	13.0
64	Özderici GYO	Turkey	Uğur Gayrimenkul	Real Estate	100.0%	12.3
65	M1 Group (Najib A. Mikati)	Lebanon	Keyland Hotel	Tourism	100.0%	11.6
66	Aygaz	Turkey	Koç Statoil Gaz Toptan Satış	Energy	50.0%	11.5
67	Esas Holding	Turkey	Peyman Kuruyemiş	Food & Beverage	30.0%	11.0
68	Escort Computer	Turkey	TNB Bilgisayar ve Görüntü Sistemleri	Manufacturing	16.5%	10.6
69	Flap Kongre Toplantı Hizmetleri	Turkey	Beyaz Filo Oto Kiralama	Services	15.7%	8.8
70	Continental	Germany	Otomotiv Lastikleri Tevzi	Automotive & Parts	89.7%	8.2
71	Alvimedica	Denmark	Nemed Tibbi Ürünler	Healthcare	85.0%	6.8
72	Swicorp	Saudi Arabia	Step Halıcılık ve Mağazacılık	Retail	33.3%	6.8
73	Xing	Germany	cember.net	IT	100.0%	6.3
74	FEM Consortium (Turkish Finans Enerji Maden Metalurji Sanayi)	Turkey	Tekel Ayvalık Tuzlası	Mining	N/A	6.1
75	As Çimento	Turkey	Barit Öğütme	Cement	100.0%	5.6
76	Fuji Heavy Industries	Japan	Baytur	Automotive & Parts	10.0%	5.0
77	Tolkar Makina	Turkey	Smartex	Manufacturing	100.0%	4.7
78	Ihlas Madencilik	Turkey	Mir Madencilik	Mining	99.0%	4.6
79	Yeşil Enerji	Turkey	Özarsu İnşaat Elektrik Turizm Sanayi ve Ticaret	Energy	70.0%	3.6
80	The Morning Star	USA	Harranova Besi ve Tarım Ürünleri	Agriculture & Breeding	10.0%	2.5

Source 40: Deloitte

Figure 21: Figure 19 continues

	Acquirer	Origin	Target	Sector	Stake	Deal Value (US$ million)
81	Aygaz	Turkey	Koç Statoil İletim	Energy	50.0%	2.4
82	ING Group	Netherlands	Üniversal Menkul Değerler	Financial Services	100.0%	1.8
83	Büyükhanlı Family	Turkey	Öncü Menkul Değerler	Financial Services	100.0%	1.8
84	Aktif İleti	Turkey	Pronected.com	Services	70.0%	1.5
85	Selena FM	Poland	Polyfoam Yalıtım	Building Materials	85.0%	1.3
86	Groupama	France	Güven Hayat	Financial Services	100.0%	(***)
87	A.P. Moller - Maersk Group	Denmark	Maersk Denizcilik	Logistics & Transportation	40.0%	N/D
88	Abraaj Capital	UAE	Numarine	Shipbuilding	50.0%	N/D
89	Actera	Turkey	News Outdoor Turkey	Media	N/D	N/D
90	Actera	Turkey	G2M	Services	50.0%	N/D
91	Adecco Holding Europe	Switzerland	Adecco Hizmet ve Danışmanlık	Services	49.0%	N/D
92	Aegon	Netherlands	Ankara Emeklilik	Financial Services	100.0%	N/D
93	ALD Automotive	France	Alfa Oto Kiralama	Services	49.0%	N/D
94	Ana Gıda	Turkey	Komili	Food & Beverage	N/A	N/D
95	ArcelorMittal	Luxembourg	Uginox	Manufacturing	35.0%	N/D
96	Ashmore	UK	Arzum Kucuk Elektrikli Ev Aletleri	Household Appliances	N/D	N/D
97	Ashmore	UK	Exotic Meyve Suları	Food & Beverage	N/D	N/D
98	Assa Abloy	Sweden	DAF Kilit	Manufacturing	N/D	N/D
99	Avnet	USA	Akora Teknoloji	IT	N/A	N/D
100	Azelis	Luxembourg	Tara Kimya	Chemicals	100.0%	N/D
101	Bahat Sağlık Grubu	Turkey	Özel Gaziosmanpaşa Hastanesi	Healthcare	50.0%	N/D
102	BASF Coatings	Germany	Yaşar Basf Otomotiv Boyaları	Chemicals	50.0%	N/D
103	Bedminster Capital	USA	Ana Gıda	Food & Beverage	39.0%	N/D
104	Bostik	France	Tekbau	Building Materials	100.0%	N/D
105	Brenntag	Germany	Aromaster	Chemicals	N/D	N/D
106	Brenntag	Germany	Trend Gıda	Chemicals	N/D	N/D
107	Caradon Radiators	UK	Termo Teknik	Manufacturing	15.0%	N/D
108	Carlyle Group	USA	TVK Shipyard	Shipbuilding	50.0%	N/D
109	CEVA Logistics	Netherlands	Varan Kargo	Logistics & Transportation	100.0%	N/D
110	Civitas	Greece	Global Tanıtım	Media	N/A	N/D
111	Cogentrix Energy (Goldman Sachs)	USA	Tayyapı Enerji Grubu	Energy	50.0%	N/D
112	Credit Suisse	Switzerland	Lider Faktoring	Financial Services	9.9%	N/D
113	Ebewe Pharma	Austria	EBV Sağlık	Pharmaceuticals	99.5%	N/D
114	EDF Energies Nouvelles	France	Polat Enerji	Energy	50.0%	N/D
115	Ejot Invest International	Germany	Ejot Tezmak	Manufacturing	N/D	N/D
116	ERGO Versicherungsgruppe	Germany	İsviçre Sigorta	Financial Services	25.0%	N/D
117	European Founders Fund	Germany	Yemek Sepeti Elektronik İletişim	Services	20.0%	N/D
118	EWE	Germany	Kayseri Doğal Gaz Dağıtım Pazarlama	Energy	80.0%	N/D
119	EWE	Germany	Bursa Şehiriçi Doğalgaz Dağıtım (BURSAGAZ)	Energy	40.0%	N/D
120	Fiba Holding	Turkey	Kumport	Infrastructure	50.0%	N/D
121	First Title	USA	Fu Gayrimenkul Yatırım Danışmanlık	Services	38.0%	N/D
122	Fresenius	Germany	Yaşam Özel Sağlık	Healthcare	100.0%	N/D
123	Fresenius	Germany	Ataliz Sağlık	Healthcare	99.9%	N/D
124	Fresenius	Germany	Düzey Sağlık Hizmetleri	Healthcare	100.0%	N/D
125	GfK	Germany	Bileşim International	Services	100.0%	N/D
126	Gryphon Holdings	UK	Mobilera	Services	N/D	N/D
127	Halcor	Greece	Sega Bakır	Mining	50.1%	N/D
128	Havaş	Turkey	TGS Yer Hizmetleri	Services	50.0%	N/D

Source 41: Deloitte

Figure 22: Figure 19 continues

	Acquirer	Origin	Target	Sector	Stake	Deal Value (US$ million)
129	International Restaurants Group (Lehman Brothers)	USA	Istanbul Doors Group	Entertainment	38.5%	N/D
130	ISS Facility Services	Denmark	Sardunya Hazır Yemek	Services	100.0%	N/D
131	ISS Facility Services	Denmark	Paksil	Services	100.0%	N/D
132	Jones Lang Lasalle	USA	Alkaş Danışmanlık	Services	100.0%	N/D
133	JP Morgan	USA	Çağdaş Menkul	Financial Services	100.0%	N/D
134	Kıran Holding	Turkey	Tuzla Tersanecilik	Shipbuilding	100.0%	N/D
135	Koç Bilgi	Turkey	Kaletron	IT	100.0%	N/D
136	Koç Finansal Hizmetler	Turkey	San Menkul	Financial Services	99.9%	N/D
137	Kök Finansal	Turkey	Standard Yatırım Menkul Kıymetler	Financial Services	100.0%	N/D
138	Legrand	France	Estap	Manufacturing	100.0%	N/D
139	Limak İnşaat	Turkey	İstaş İnşaat	Cement	50.0%	N/D
140	Lusail International Media	Qatar	Turkuvaz Radyo Televizyon	Media	25.0%	N/D
141	Mahle Group	Germany	Mopisan Motor Gömlek Piston	Automotive & Parts	60.0%	N/D
142	Manara Investments	Saudi Arabia	ACT Airlines	Logistics & Transportation	21.0%	N/D
143	Mayr-Meinhof Packaging	Austria	Superpack	Packaging	60.0%	N/D
144	Medyasoft	Turkey	Bilimer	IT	100.0%	N/D
145	Mitsubishi Corporation Mitsubishi UFJ Lease & Finance	Japan	Ekim Turizm (Intercity)	Services	45.0%	N/D
146	Munters	Sweden	Munters-Form Endüstri Sistemleri	Manufacturing	80.0%	N/D
147	Netone Telekom	Turkey	Turk.net	IT	100.0%	N/D
148	Oğuz Soycan (Private Investor)	Turkey	Dubai İnşaat	Construction	100.0%	N/D
149	OMV	Austria	Borasco	Energy	60.0%	N/D
150	Partners in Life Sciences	Netherlands	Betasan	Pharmaceuticals	100.0%	N/D
151	Rözmaş Metal	Turkey	Rözmaş Chuo	Automotive & Parts	50.0%	N/D
152	RP Capital	UK	Bimeks	Retail	49.0%	N/D
153	Schneider Electric	France	PKS Profilüks	Manufacturing	N/D	N/D
154	Su Private Equity	Turkey	Bizim Toplu Tüketim	Retail	20.0%	N/D
155	Taib Yatırım	Turkey	PDF Corporate Finance	Financial Services	100.0%	N/D
156	Trenkwalder	Austria	GTG Eğitim Danışmanlık ve İnsan Kaynakları	Services	80.0%	N/D
157	Trenkwalder	Austria	GUT Temizlik Hizmetleri	Services	80.0%	N/D
158	Trenkwalder	Austria	Vanlıoğlu Güvenlik	Services	80.0%	N/D
159	Trenkwalder	Austria	Ebru Güvenlik	Services	80.0%	N/D
160	Trenkwalder	Austria	VG Güvenlik	Services	80.0%	N/D
161	Trenkwalder	Austria	Perpa Koruma ve Güvenlik	Services	77.0%	N/D
162	Trenkwalder	Austria	Itemsan Temizlik Güvenlik Sistemleri	Services	77.0%	N/D
163	Trenkwalder	Austria	Erçak Temizlik	Services	100.0%	N/D
164	Turkven	Turkey	Tekin Acar	Retail	50.0%	N/D
165	Turkven	Turkey	Mavi Jeans	Textile	35.0%	N/D
166	UniCredit	Italy	Martur	Automotive & Parts	20.0%	N/D
167	Universal System Logistics	Russia	Kuzu Kargo	Logistics & Transportation	49.0%	N/D
168	Vedat Alaton (Private Investor)	Turkey	BMS Endustriyel Temizlik Restorasyon	Services	N/D	N/D
169	Yemekci	Turkey	7 Yedi Endustriyel Yemek	Services	100.0%	N/D
170	Yıldız Holding	Turkey	Oba Çay	Food & Beverage	N/D	N/D
171	Yıldız Holding	Turkey	Doğa Bitkisel	Food & Beverage	N/D	N/D
172	Zurich Financial Services	Switzerland	TEB Sigorta	Financial Services	100.0%	N/D

Source 42: Deloitte

The highest amount received in the FDI inflow in the finance sector was the acquisition of Turkish "Finansbank" by Greek "Natioanal Bank of Greece" for USD 5 billion in 2006. In 2007, the highest FDI inflow were recorded by the acquisition of 20 % shares of Turkish "Akbank" by American

"Citibank" for USD 3,1 billion, followed by the acquisition of Turkish "Oyak Bank" by Hollandese "ING Bank" for USD 2,7 billion.[127] Other major transactions in the finance sector were the acquisition of % 38 share of Turkish "Şekerbank" by Kazach "Turanalem Securities JSC" for USD 610 million and the purchase of % 70 share of Turkish "Tekfenbank" by Greek "EFG Eurobank Ergasias" for USD 182 million. Additionally, the transfer for the acquisition of "Settlement and Custody Unit of Garanti Bank" by German "Deutsche Bank" for USD 115 million was another big transfer among the major transactions in 2007. [128]

After the new Insurance Law was enacted in Official Gazette on June 14th in 2007 in Turkey, there has been noteworthy transactions in the **insurance sector**. The purchase of 80 % shares of "Genel Sigorta" by Spanish "Mapfre" for USD 380 million, the acquisitions of the shares of "Garanti Sigorta" and "Garanti Emeklilik" by Hollandese "Eureko" for USD 489 and 134 million respectively. Similarly the transfer made for merging "Aviva Hayat ve Emeklilik" and "Ak Emeklilik" to form "Avivasa Emeklilik ve Hayat A.Ş." for USD 100 million, the transfer of USD 85 millon for the purchase of 58 % share of "Ray Sigorta" by hollandese "TBIH" and finally the purchase of 64 % share of "Şeker Sigorta" by American "Liberty Mutual" for USD 63 million were some of the major FDI transactions in 2007 in insurance sector.[129]

Since 2004, considering Turkey`s geographical position, other major sectors which achieved to gain the interest of the foreign investors were the **transport, storage and communication sector.** During the period 2004-2006 the communication sector attracted the foreign investors, for instance the transfers by Vodafone and Motorola for USD 300 million and USD 50 million respectively, were the examples of the major transactions realized in this sector. The transport sector higly drew the attention in 2007. The purchase of 97.6 % shares of "UN Ro-Ro İşletmeleri A.Ş." by "Kohlberg Kravis Roberts Investment Funds" for USD 1.28 billion was one of the biggest transfer in the transport sector. [130]

In Europe, the highest amount registered in M&A activities in the **financial sector**, was realized by the acquisition of the hollandese bank "ABN Amro" by RBS, Santander and Fortis consortium in 2007 for USD 99.4 billion. This was followed by the acquisition of both "German Hypo Vereinsbank" for USD 21 billion in 2006 and "Capitalia" for USD 30 Billon in 2007 by "UniCredit", which is a strong Italian bank and a partner of "Turkish Yapı Kredi Bankası". In 2007,

[127] (UNCTAD, 2008 p. 32)
[128] (Republic of Turkey Prime Ministry Undersecretariat of Treasury, June, 2008 p. 55)
[129] (Republic of Turkey Prime Ministry Undersecretariat of Treasury, June, 2008 p. 55)
[130] (Republic of Turkey Prime Ministry Undersecretariat of Treasury, June, 2008 p. 57)

"Monte dei Paschi die Siena" acquired the "Antonveneta" which is another Italian bank, for USD 9 billion. [131]

Table 21: Largest cross-border M&A Activities in the financial sector in the Balkans, 2006-2007[132]

Value (USD Billion)	Acquired (Target) Company	Target Country	Acquiring Company	Home Country	Year
5.0	Finansbank	Turkey	National Bank of Greece	Greece	2006
4.7	Banca Commerciala Romania	Romania	Erste Bank	Austria	2006
3.1	Akbank	Turkey	CitiGroup	United States	2007
2.7	Emporiki Bank	Greece	Credit Agricole	France	2006
2.7	Oyak Bank	Turkey	ING Group	Netherlands	2007
2.4	DenizBank FS	Turkey	Dexia	Belgium	2006

Source 43: UNCTAD, Cross-border M&A database

Some other global examples of M&A´s in the rapidly growing transport sector are the purchase of "Dakota, Minnesota & Eastern Railroad" by Canadian "Pacific Railway" for USD 1.5 billion, the acquisition of road transport company "Laidlaw Int." for Pounds 1.9 billion by "First Group" and the acquisition of Australian "Adsteam Marine" by Danish "Maersk Group, Svitzer Wijsmüller" for USD 693 million.[133]

The M&A activities in 2009 seemed to decrease due to the instabilities caused by the global financial crisis. The effects of the recession are mostly observed in the developed countries; therefore as it the decrease of the number and amount of activities in 2008 denotes, the investor companies may postpone their investment decisions and focus on their own markets for a while.

2.5 The New FDI Law 4875

In 2003, important legislative reforms were carried out in order to improve the investment environment, simplify the company establishment, and to increase the foreign direct investment inflows. As taken from the Official Gazette, dated 17.06.2003, the scope of the enacted law is as following:

"Article 1: The objective of this law is to regulate the principles to encourage foreign direct investments; to protect the rights of the foreign direct investors; to define investment and investor in line with international standards; to establish a notification-based system for foreign direct

[131] (Republic of Turkey Prime Ministry Undersecretariat of Treasury, June, 2008 p. 54)
[132] (UNCTAD, 2008 p. 32)
[133] (Republic of Turkey Prime Ministry Undersecretariat of Treasury, June, 2008 p. 56)

investments rather than screening and approval; and to increase foreign direct investments through established policies."[134]

The major aims of the new enactment are eliminating bureaucratic red tape for foreign investors by simplifying company formations, granting equal rights to both domestic and foreign investors, protecting the rights of the foreign investors in respect of international standards.

The bureaucratic procedures are considered to be decreased through the eliminations of some approval steps in the foreign direct investment process. For the company formation process it was necessary to organize official approvals of more than 20 government agencies. Henceforth, the company establishment will only require some basic steps. "*The Undersecretariat of Treasury obtains FDI data through Data Sharing Protocols it will set up primarily with Central Bank of the Republic of Turkey, Capital Market Board, Ministry of Industry and Commerce, Ministry of Finance, The Union of Chambers and Commodity Exchanges of Turkey, Trade Registry Offices and other relevant public authorities and institutions and public professional organisations and NGOs, or through other procedures."* [135] Within this framework the notary's act of Articles of Association, a Certificate of deposit of the foreign currency, an Investment Approval of Undersecretariat of Treasury and a Memorandum of Understanding is required to be delivered. After the company establishment is confirmed by the Ministry of Industry and Trade, the company should be registered in the City Authority, Trade Register, Chamber of Commerce or Chamber of Industry and Local Tax and Social Insurance Authority.

As the new Foreign Direct Investment Law pays attention to the equality of the rights of both domestic and foreign investors, all companies, which are established with foreign capital and under the rules of Turkish Commercial Code, will be considered as Turkish companies and thus the same rights and exemptions, which the Turkish companies benefit, will also be granted to the foreign companies. Furthermore the law underlines the terms of foreign direct investment such as investment freedom, national treatment, expropriation and nationalization, employment of foreign personnel, acquisition of real estates, assessment of the value of non-cash capital, settlement of disputes, international arbitration and freedom of profit transfers.[136]

The General Directorate of Foreign Investment (GDFI) under the authority of Undersecretariat of Treasury is responsible for the foreign direct investment activities in Turkey. The institution assists

[134] (Republic of Turkey Prime Ministry Undersectretariat of Treasury, Turkey, 2003)
[135] (Republic of Turkey Prime Ministry Undersectretariat of Treasury, Turkey, 2003)
[136] (TUSIAD, Turkish Industrialists´and Businessmen`s Association, 2004 p. 29)

international investors by guiding them in terms of business establishments, investment opportunities, investment incentives and relative certificates, as well as by informing them about Turkish legislation and tax system, working permits, administrative topics and by consulting them in finding business partners.

2.6 Growth Opportunities and Examples of FDI by Sector

Despite the declining atmosphere in the world economic situation, political instabilities, financial difficulties such as rising current account deficits, inflation and unemployment rates, there are still benefit potentials in certain economic areas in the world. Turkey still offers major opportunities for the investors in many sectors by encouraging the investors through granting investment incentives, offering exemptions for the investments and simplifying the business establishment process.

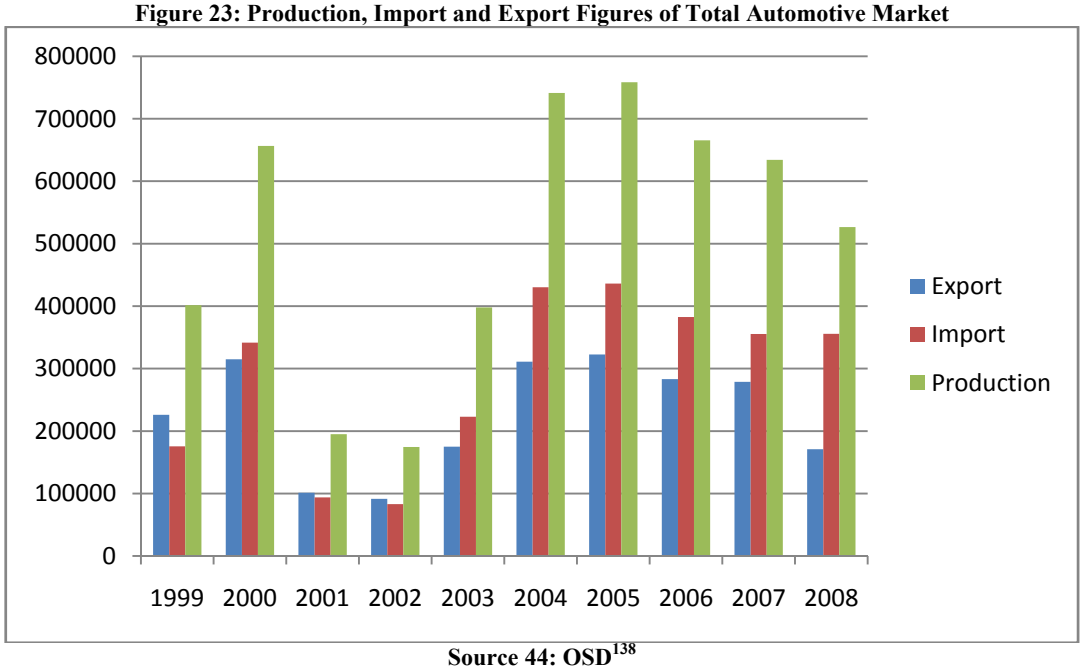
Automotive industry is one of the remarkable sectors in the Turkish economy. The Turkish automotive industry, which has a history of over 50 years, has been fully integrated with the European Union in production and marketing fields after the Customs Union was signed. After major development and innovation investments were realized in 1996, the sector had successfully expanded into the European Union market.

The world total production in the automotive industry has increased by 6.8 % as it is reported in the survey of OICA regarding the period 2006 and 2007. Turkey´s production effort was realized as an increase by 11.3 % in that period. [137]

According to the data taken from the Automotive Manufacturers Association in Turkey, Turkey was ranked as the 17th country among the automotive producer countries in the world. Turkish automotive industry is expected to receive more foreign capital and expand further into Europe and other neighbor countries in the future. Besides being an attractive industry for foreign capital, the sector also creates employment opportunities of more than 500.000 people. According to the data of OSD, the total employment in this industry has grown by % 69 resulting to an increase from 17.745 to 30.000 people in the period 1999-2005. In 2005, the productivity of foreign companies such as Honda and Toyota were 61 % and 48 % and the productivity of the foreign based Turkish companies such as Hyundai Assan, Oyak Renault and Tofas were 66 %, 54 % and 56 % respectively. Not only the main industry but also the supply industry creates plenty of job opportunities in the economy.

[137] (Organisation Internationale des Constructeurs d'Automobiles (OICA), 2008)

Figure 23: Production, Import and Export Figures of Total Automotive Market



Source 44: OSD[138]

Due to the strong domestic demand and as the production numbers illustrate, the automotive industry has been the major export sector over the last years. The figure 23 illustrates the production, export and import numbers of the automotive industry between 1998 and 2008 in Turkey. The highest production in this sector was realized in 2005. In 2008, the export number of the following automotive companies has raised considerably, Oyak Renault, Tofas, Honda Turkey, Türk Tractor, A.I.O.S. and Hattat as the table 22 shows. Totally, the export numbers of the automotive industry have increased by 10 % in 2008. (Table 22)

Table 22: Export of Member Companies (Unit)

Companies	2007	2008	Change %
Oyak Renault	204.428	252.232	23,38
Tofas	146.177	209.443	43,28
Toyota	154.386	119.586	-22,54
Ford Otosan	221.741	217.876	-1,74
Hyundai Assan	69.224	61.000	-11,88
Honda Turkey	7.732	34.926	351,71
Türk Tractor	5.761	9.648	67,47
Karsan	1.632	482	-70,47
Mercedes Benz Turkey	8.708	9.083	4,31
MAN Turkey	1.699	1.538	-9,48
Temsa	1.151	1.245	8,17
B.M.C.	1.524	1.189	-21,98

[138] (OSD (Automotive Manufacturers Association), 2009)

Otokar	1.115	619	-44,48
A.I.O.S.	750	1.042	38,93
Hattat	0	53	53
Total	**829.879**	**920.763**	10,95

Source 45: OSD[139]

Turkish Shipbuilding Industry is another major field which Turkey is counted as one of the leading countries in the world. Due to the data of Catania Investments, after China, South Korea and Japan, Turkey was ranked the 4th in the world concerning the amount of ordered ships and the 3rd in terms of the amount of ordered mega yachts[140]. On account of high demand in the world, the industry has high production volume and product diversity at ship subsidiary industries. "*The Turkish shipbuilding industry has considerable contribution to Turkish economy with USD 1.5 billion from new ship building, USD 1 billion from repair and maintenance activities."* [141] In 2007 33.480 workers were employed in shipyards in Turkey. This amount is expected to increase to 111.298 in 2013.[142] In 2007, nearly 100.000 workers, whereas this amount is expected to reach approximately 350.000 in 2013, were employed in the ship building industry as subcontractors.[143] The amount of ships delivered, of which 56 were exported, was 142 in the period 1998-2002. The delivery has reached 368 of ships in the period 2003-2007 of which again 183 were exported.[144] Compared to 2006, the exports of the ship subsidiary industries have increased by 17 % and reached USD 7 million in 2007. The main export markets for the Turkish ship subsidiary industries are the USA, Georgia, the Netherlands, Lebanon and Austria.[145]

Energy sector is one of the major attractive sectors in Turkey as Turkey is located close to world´s proven gas (71.8 %) and oil (72.7 %) reserves.[146] Turkey ensures the energy flow through constructing a natural bridge between the source (Eastern markets) and the consumer markets (Western countries). As it is also illustrated in the Figure 13, the pipeline projects, which are realized or still in construction, are indicated as crucial investments for the wealth and the integration of the region.

[139] (OSD (Automotive Manufacturers Association), 2009 S. 19)
[140] (Catania Investments, 2008) see *Turkish Ship Manufacturing Industry*
[141] (Uyanık, 2008 p. 2)
[142] (Catania Investments, 2008 p. 20)
[143] (Catania Investments, 2008 p. 21)
[144] (Catania Investments, 2008 pp. 22,29)
[145] (Uyanık, 2008 p. 3)
[146] (Energetska Strategija p. 1)

The Turkish energy sector was highly liberalized in line with the EU directives. The state monopoly on power and natural gas was dissolved by the enactment of two laws (Electricity Market Law 4628 and Natural Gas Market Law 4646) in 2001. The further liberalization and reconstruction studies were followed by the other laws on the licenses of the electricity market in 2002, oil market in 2003 and the renewable energy in 2005.[147] EMRA, (The Energy Market Regulatory Agency) which is an independent regulator, has been established to monitor and to supervise the market of electricity, gas, LPG and petroleum since 2002. Besides the intensive legal arrangements concerning electricity, oil and natural gas sectors, many privatization approaches have encouraged foreign investors since 2003. The main factors which create investment opportunities for foreign investors are the rising demand in the energy sector, the geostrategic position of the country as a supplier and deliverer and the major liberalization approaches. The tenders in the privatization of the electricity sector are closely followed by the German EON Energy, Austrian OMV, Italian Enel and American AES.[148] As illustrated in the Table 16, the energy sector, which received 82.72 % increase in its FDI inflows, was one of the main attractive sectors in 2008.

Many Turkish companies are looking for business partners in the Turkish energy sector as foreign investors transfer high technologies into the market. "*Meanwhile the EU has been encouraging Turkey to provide a safe transit center for the EU's future energy requirements, and is strongly interested in establishing new supply networks over Turkey. According to an EU study 70% of the incremental gas demand of Europe can be supplied via Turkey and the U.S. is interested in reducing dependence on Persian Gulf oil supplies and preventing supply disruptions. Turkey has the opportunity to become Europe's fourth-largest source of energy supply after Norway, Russia, and Afghanistan."*[149]

The threat of global warming makes it necessary to find alternative energy sources for all countries in the world. According to the report which was published by Ernst & Young in 2007, the attractiveness indices of the countries concerning renewable energy was determined. According to this report, Turkey was ranked as the second country which receives the highest wind source among the European countries and as 24th in the ranking list of All Renewable Index. This had awakened for instance the US-Dutch Solar Company "GiraSolar" which invested on multi-technology solar and wind projects on two Turkish islands, Kizilada and Gökceada in 2007. [150]

[147] (Turkish American Chamber of Commerce of the Southeast United States, 2008 p. 33)
[148] (Turkish American Chamber of Commerce of the Southeast United States, 2008 p. 33)
[149] (Turkish American Chamber of Commerce of the Southeast United States, 2008 p. 37)
[150] The Ernst & Young Country Attractiveness Indices provide scores for national renewable energy markets, renewable energy infrastructures and their suitability for individual technologies. (Ernst & Young, 2007 pp. 1,11)

Another major sector which is important for the Turkish economy is the **construction sector.** The sector does not only call the foreign capital into the market, it also satisfies the needs of the foreign market abroad. There are many strong international Turkish construction and commitment companies which introduce the Turkish hard-working and success-oriented mentality by their projects all over the world. Besides the construction works, Turkey is also known as a major producer of glass, ceramics and components, cement, tiles, iron and steel, PVC, frames and many other construction materials. The low interest rates and the loan promoting policy ensured the expansion of this sector in 2005. Although there are many strong Turkish construction companies in the market, the participation of foreign investors is increasing in the sector as well. The growth in the FDI inflow from USD 285 million to USD 764 million in 2008 corresponds to an increase by 168 % as listed in the Table 16.

The developing economy, rapid urbanization and high demand in the market, makes the construction sector vital. Not only the big cities such as Istanbul, Ankara and Izmir but also the Eastern and South Eastern Anatolia are already reconstructed by modern sky walkers, trade buildings and offices, new production plants, city halls, shopping centers and real estates. The Southeastern Anatolian Project (GAP) is a major reconstruction project which offers many investment and business opportunities in the market. In order to make socio-economic developments and increase the employment rate in the region, many incentives and exemptions are granted to the foreign and domestic investors that are interested in investing in the GAP region. The region offers investors a dynamic and rapidly growing market, low cost and qualified workforce, a developed industrial infrastructure (11 OIZs, 25 small sized IZs, 2 FTZs), appropriate transport conditions (air, sea and road), rich suitable land for agricultural production and proximity to the Middle Eastern markets. Other sectors that attract foreign investors in the GAP region are the agriculture, hunting, forestry and fishing. The exports of the agricultural products from the GAP region rose from USD 427 million in 1994 to USD 1.9 million in 2005.[151] The inflows of the foreign direct investments have increased by 400 % and reached USD 25 million in 2008. Due to the fact of the serious effects of the global warming and the increasing demand in the world, agriculture sector has become a very strategic and important sector over the last years. Turkey`s special geographic location enables to create an opportunity to improve the production activities and satisfy the demand of the domestic as well as the foreign markets in the agriculture sector. Therefore plenty of reforms and modernization projects have been realized in line with the EU directives and international standards.

[151] (Medibtikar, 2007) see *Agriculture and Agrifood*

Other major sectors, where foreign investments were realized, were the **finance, telecommunication and retail industries.** Besides the establishments of the banks in Turkey such as Albaraka Turk, Bank Europe, ING Bank, Citibank, City Credits Bank, Deutsche Bank, Fortis Bank, HSBC Bank, many foreign banks have also branches in the Turkish financial market such as ABN Amro Bank, Banca di Roma, Bank Mellat, Habib Bank.

In consideration with the increasing population, rapid urbanization and higher comsumption interest of the young population in fashion and modern lifestyle, the **retail sector** in Turkey has been growing since 1990. The high demand of the consumers, the low cost production options and the appropriate paying conditions encourage the flow of foreign direct investments. In May 2005 for instance, the French Group Carrefour and one of the Turkey´s largest conglomerate Sabancı Holding "*announced their partnership and agreed to acquire 60 % or the supermarket chain Gima and 82 % of discount store chain Endi, both of whom operate in Turkey."*[152] In the first quarter of 2009, Carrefour announced in a press release that 22 stores[153] are operating in Turkey as the of end of 2008. The expansion rate by 9.3 % of the Turkish market amounts more than the average expansion rate generated in the total European market.[154] The German Metro Group, which has been operating in the Turkish market since 1990, serves the market under the brandnames Metro Cash & Carry with 11, Real Hypermarket with 11, and Media Markt with 8 branches.[155] Another major retailer in the Turkish market is the Migros, a Swiss based retailer, of which the majority of its shares were transfered to the Turkish group Koç Holding in 1975. Since then the group is serving the market with 220 Migros, 247 Tansaş, 460 Şok, 3 5M, and 8 Macrocenter stores as of 2007.[156] Due to the report concerning the retail market in Turkey published by the Euromonitor, the factors of this high sustainable growth, despite the economic crises, are the entry of increasing numbers of multinational companies, increased purchasing power, promotional activities and the different payment condition choice given to the consumer. [157]

The **tourism sector** in Turkey considerably offers many business opportunities to domestic and foreign investors in many areas. Among many successful Turkish hotels and tourism companies, the most active foreign companies in this sector are the German TUI, Neckermann, Club Robinson, the Swiss Kuoni, the French Club Mediterranée, the Anglo-Saxon Hilton, Sheraton, Ramada, Conrad,

[152] (Data Monitor, 2005 p. 7)
[153] (Group Carrefour, Business, 2009)
[154] (Groupe Carrefour, 2009 p. 6)
[155] (Metro Group, 2009)
[156] (Migros Türk Kurumsal, 2009)
[157] (Euromonitor International, 2009)

Hyatt Regency, Inter-Continental and Holiday-Inn, the Canadian Four Season.[158] The revenue generated from this sector significantly grows as the country offers many travel advantages. According to the press release of the Turkish Statistical Institute in the last quarter of 2008 compared to the same period of 2007, the tourism income has increased by 12.5 % amounting to USD 4.4 billion, of which almost USD 3.3 billion was obtained from foreign visitors and USD 1.1 billion from citizens residing outside of Turkey. Due to these statistics, almost 31 million people visited Turkey in 2008. The total income generated in this sector was approximately USD 22 billion in 2008.[159] As many travel agencies and hotels are making high promotions and offering many appropriate conditions, Turkey´s income in tourism is estimated to increase in the following years.

[158] (Medibtikar, 2007) see *Tourism*
[159] (TURKSTAT, Turkish Statistical Institute, 2009)

3 Current Global Economic Situation

3.1 Overview

During the 2000´s, the commodity, housing and mainly oil prices rose extremely high. The economic growth in the high populated countries such as China and India has accelerated the demand of these products leading to price increases. In 2008, the food prices as well as the prices of the precious items such as gold and oil reached their highest values. On the other hand the US Dollar lost its value against many currencies. Parallel to this, a huge downfall in the commodity market has been observed especially in the real estate market of the United States in 2008. After 2000 the real estate prices increased which was caused by the easily lent mortgage debts. The consistently increasing real estate prices have created an optimistic atmosphere in the markets and have allowed the banks to give easily mortgage credits to the low-income households which were willing to own a real estate. As the real estate prices fell down, the subprime mortgage market collapsed which led the low-income households to fail and lose their assets.

In 2008, it came out that the mortgage crisis affected not only one market in the USA, but the whole financial system. The institutions, which lent high risky credits to the low-income households, have collected these credit contracts and converted them into bonds which took place in the transactions of the stock markets and sold them to the investment and trade banks. One of the investment banks Bear Stearns, which held a high amount of these high risky credits, went bankrupt in March 2008 and was sold to another investment bank JPMorgan Chase by the US government. Yet bankruptcies did not stop, more were followed by the collapses of other big investment banks such as Lehmann Brothers, Merrill Lynch and the insurance company American International Group. Banks like Washington Mutual and Wachovia also went bankrupt and were acquired by other banks. In order to remedy the crisis, the US government affirmed the bailout plan of USD 700 billion in September 2008.

3.1.1 External Economic Situation

After the Great Depression, the world is experiencing another financial crisis as a result of the collapse of the subprime mortgage markets in the USA in mid-2007. This has rapidly affected the economies of the developed countries and expanded quickly to the developing countries later on.

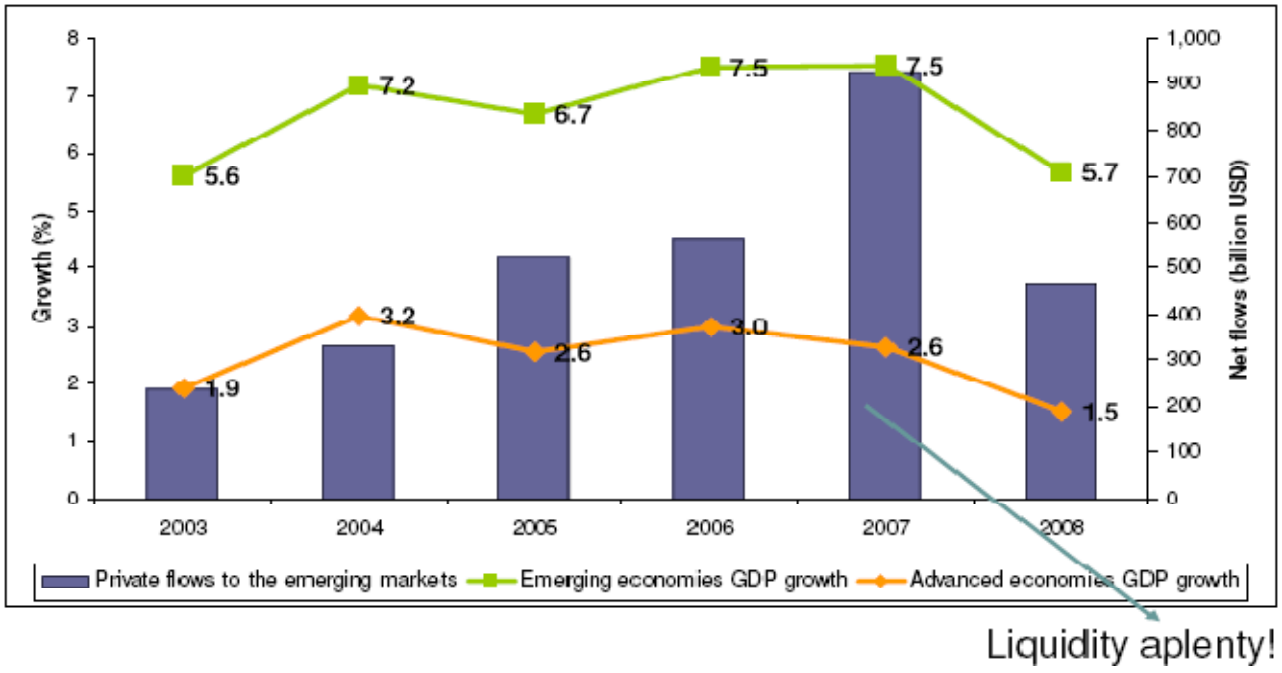
The crisis could not be prevented despite the strong liquidity injections released by the central banks in many developed countries or the monetary policies made by the government of the USA.

Thereupon, stock markets in the USA and Europe have crashed, many leading companies and institutions were shut down, banks have smashed up and finally interest rates have increased leading to financial difficulties in lending credits to the companies.

3.1.2 Figures and Expectations of Global Growth

As the Figure 24 also illustrates, 2007 was the most profitable year in the world in terms of FDI flows, GDP growth and private flows to the emerging markets. As of October 2008, the graphic has strongly fallen down which was caused by the liquidity scarcity in both developed and developing countries. As mentioned above, not only the emerging economies but also the developed economies have indicated a sharp fall in this period. As declared in the UN baseline forecast, the World Gross Product (WGP) is predicted to derive a major decrease from 2.5 % to 1.0 % in 2009. (Table 23)

Figure 24: Growth and Net Flows of Emerging Markets in the period 2003-2008



Source 46: "Turkey: The Global Crises and Beyond Investment Climate & Long-Term Growth"[160]

[160] (Ulrich Zachau, 2009, February 11 p. 2)

Table 23: Growth of World Output (%) 2003-2009[161]

Annual Percentage Change									
							2009 (b)		
	2003	2004	2005	2006	2007	2008(a)	Baseline scenario	Pessimistic scenario	Optimistic scenario
World Output (c)	2.7	4.0	3.5	4.0	3.8	2.5	1.0	-0.4	1.6
of which									
Developed Economies	***1.8***	***3.0***	***2.4***	***2.9***	***2.5***	***1.1***	***-0.5***	***-1.5***	***0.2***
United States	2.5	3.6	2.9	2.8	2.0	1.2	-1.0	-1.9	-0.5
Euro Zone	0.8	2.1	1.7	2.8	2.6	1.1	-0.7	-1.5	0.3
Japan	1.4	2.7	1.9	2.4	2.1	0.4	-0.3	-0.6	0.5
Economies in Transition	***7.3***	***7.6***	***6.5***	***7.8***	***8.3***	***6.9***	***4.8***	***2.7***	***6.1***
Developing Economies	***5.2***	***7.1***	***6.7***	***7.0***	***7.1***	***5.9***	***4.6***	***2.7***	***5.1***
China	10.0	10.1	10.2	11.1	11.4	9.1	8.4	7.0	8.9
India	7.3	7.1	11.5	7.3	8.9	7.5	7.0	4.7	7.5
Brazil	1.1	5.7	2.9	3.7	5.4	5.1	2.9	0.5	3.0
Mexico	1.4	4.2	3.0	4.8	3.2	2.0	0.7	-1.2	1.5
Turkey	*5,3*	*9,4*	*8,4*	*6,9*	*4,6*	*2,8*	*1,8*	n.a.	n.a.
Of which									
Least Developed Economies	***5.2***	***7.2***	***7.9***	***7.7***	***7.8***	***6.4***	***5.1***	***2.0***	***6.1***
Memorandum Items									
World Trade	5.6	11.2	8.0	8.8	6.3	4.4	2.1	-3.1	3.1

Source 47: UN/DESA, World Economic Situation and Prospects 2009 (WESP) – Global Outlook 2009 , UN
Source: UN/DESA, World Economic Situation and Prospects 2009 (WESP) – Global Outlook 2009[162], UN

(a): Partly Estimated,

(b): Forecasts, based in part on "Project Link"[163]

(c): Calculated as a weighted average of individual country growth rates of gross domestic product, where weights are based on GDP in 2005 prices and exchange rates.

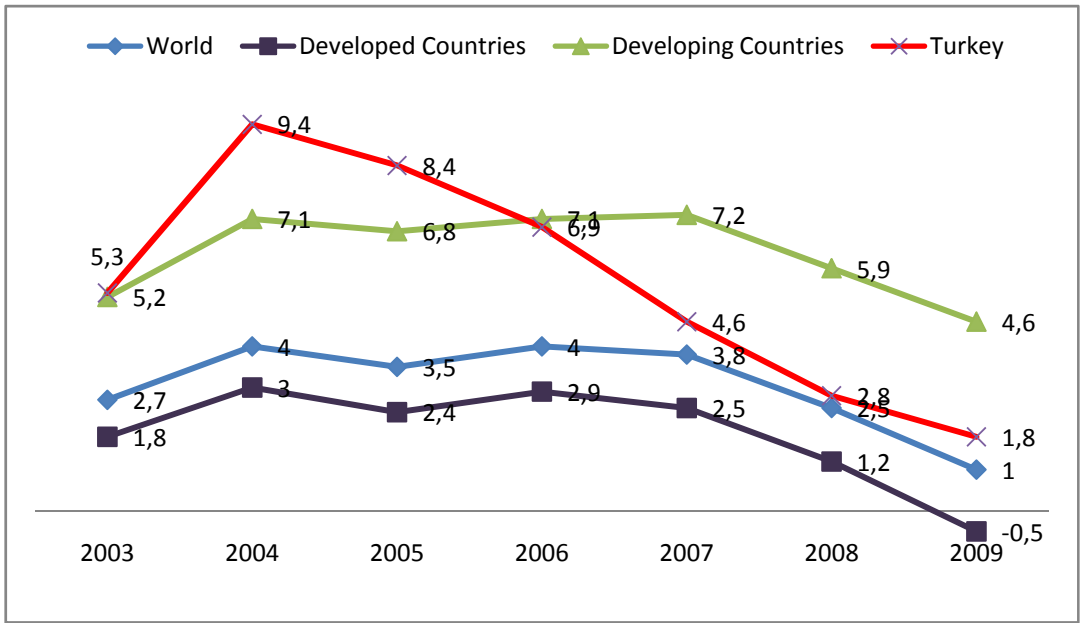
[161] Own table illustrated due to the date taken from (United Nations, 2009 p. 2)

[162] World Economic Situation and Prospects (WESP) is a joint product of the Department of Economic and Social Affairs, the United Nations Conference on Trade and Development and the five United Nations regional commissions. (United Nations, Development Policy and Analysis Division, 2009)

[163] Project LINK is a large cooperative, non-governmental, international research consortium. It is based on a world-wide network of participants in more than 60 countries in the industrial and developing world, and it is internationally recognized as a leading centre of quantitative international economic analysis. The activities of Project LINK are coordinated jointly by the Project LINK Research Centre at the University of Toronto and the United Nations` Department of Economic and Social Affairs. (Project Link Research Center, 2009)

Figure 25 illustrates the annual growth rate of real GDP based on the baseline scenario of United Nations. An overall decline is viewed after 2008 mostly in developed countries. In this manner, UN expects that the GDP growth of Turkey to be positive in 2009. There are still investments realized or expectations occur in the developing countries, therefore the real GDP growth rate of developing countries is assumed to be higher than the one of the developed countries.

Figure 25: Annual growth rate of real GDP (%)
(World, Developed Countries, Developing Countries and Turkey)[164]



Source 48: Project Link, Global Economic Outlook, Country and Region Data,

Figure 25 illustrates the annual growth rate of real GDP based on the baseline scenario of United Nations. An overall decline is viewed after 2008 mostly in developed countries. In this manner, UN expects that the GDP growth of Turkey to be positive in 2009. There are still investments realized or expectations occur in the developing countries, therefore the real GDP growth rate of developing countries is assumed to be higher than the one of the developed countries.

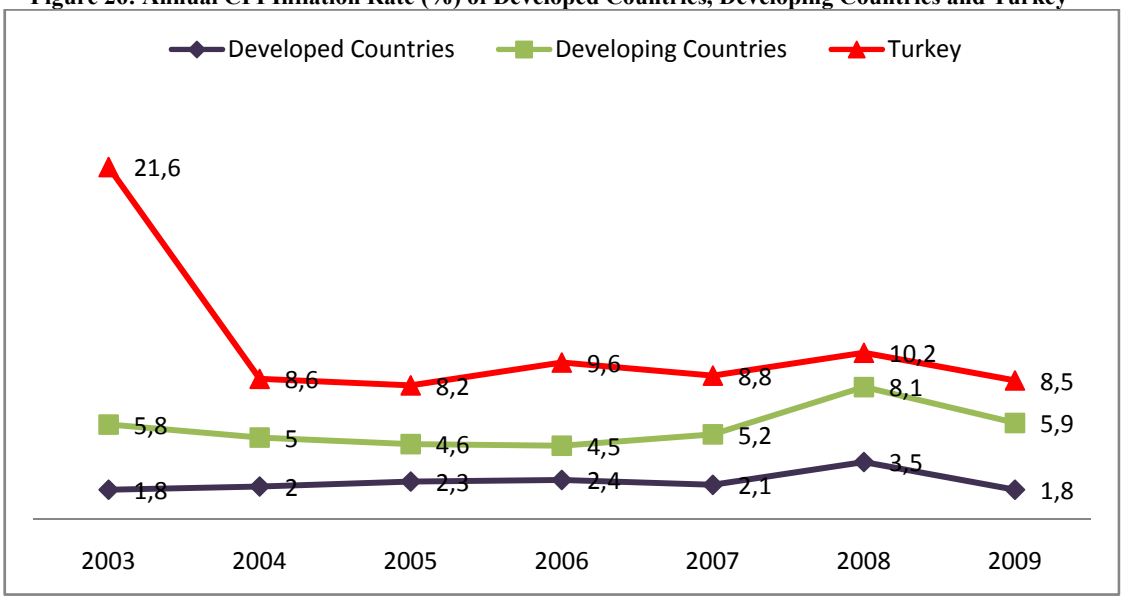
3.1.3 Inflation Rates and Unemployment

According to the data taken from Reuters in February 2008, the global inflation experienced its highest level in its history which is assumed to be caused by *"rising demand of food and commodities in the fast growing emerging markets, excess of money supply around the globe, monetary easing by the Fed to tame financial crisis, growth surge supported by the easy monetary*

[164] Own table illustrated due to the date taken (United Nations, Development Policy and Analysis Division, 2009)

policy in Asia, speculation in commodities, agricultural failure, rising cost of imports from China".[165]

Figure 26: Annual CPI Inflation Rate (%) of Developed Countries, Developing Countries and Turkey[166]



Source 49: Project Link Global Economic Outlook, Country and Region Data

As mentioned above many companies, no matter large or small sized, have been hit hard and had to dismiss many workers since 2007. Due to the predictions of International Labor Organization (ILO), at least 20 million places will be vacated by the end of 2009. Compared to the global unemployment rate of 2007 which was 5.7 %, the number of the unemployed people will increase by 18 million and reach 6.1 % in 2009. If the economic situation gets worse, this increase will reach 6.5 % corresponding to 30 million of unemployed people, compared to 2007. The ILO has also predicted in its Global Employment Trends Report (GET), that as the global financial crisis deteoriates, the number of unemployed people worldwide would rise by more than 50 million in 2009 based on the worst scenario. The highest unemployment rate of 2008 was observed in the countries such as North Africa (10.3%), Middle East (9.4 %), Central & South Easter Europe (non EU) & the commonwealth of Independent States (CIS) (8.8 %), sub-Saharan Africa (7.9 %) and Latin America (7.3 %). According to the ILO, there was also a negative growth concerning the employment creation in the developed economies and the EU Region. The unemployment rate of the developed economies and the EU region increased from 5.7 % to 6.4 % in 2008. [167]

[165] (Dharmakirti Joshi, 2008)
[166] Own figure illustrated due to the data taken from (United Nations, Development Policy and Analysis Division, 2009)
[167] **(International Labour Organization, 2008)**

3.1.4 Forecasts and Expectations

According to the UNCTAD`s "World Economic Situation and Prospects 2009" report, which was released in January 2009, three forecasts are issued concerning the economic situation; the baseline forecast, the pessimistic and the optimistic scenarios.

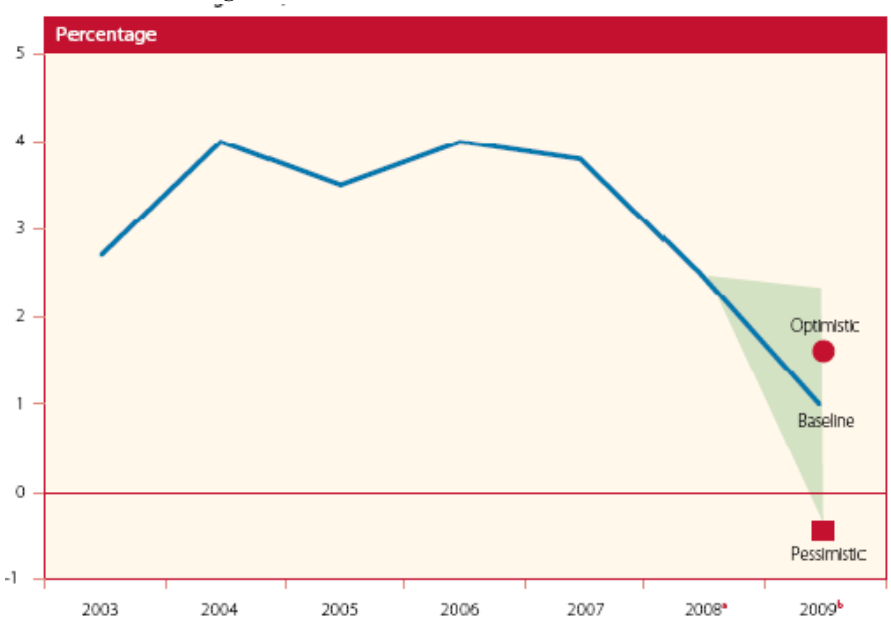
In this report, the world economic growth is analyzed between and among the developed countries, developing countries and countries in transition one by one. According to this report, the optimistic scenario demonstrates that the world output would have a tendency of growth by 1.6 %. The pessimistic scenario predicts that there would be a decrease by 0.4 % and the baseline forecast would point to an increase by 1.0 % in the world output. (Table 23)

The pessimistic scenario marks out that by reasons of the uncertain situations in the financial crisis, the world economy would perform worse than it is assumed in the baseline outlook. According to the pessimistic scenario, world trade volume would also move parallel to the world economic growth line. Due to the optimistic scenario, the world trade volume would indicate an increase by 3.1 %, to the baseline forecast it would also increase by 2.1 %, whereas the pessimistic scenario states that it would decrease by 3.1%. (Table 23) As the optimistic scenario foresees, the export and import volumes of the developed countries would depreciate by 7.3 % and 10.4 % respectively. The same scenario also predicts that the export and the import volumes of the South-Eastern Europe would illustrate an upward movement as by 0.8 % and 3.5 %, whereby the developing countries would illustrate a fall by 0.5% in their export volumes and an increase of 5.7 % in their import figures. [168]

"Due to the baseline forecasts, it is expected that after six or nine months the financial markets will reach its regular trend in developed countries after the central banks in the United States, Europe and Japan provide further monetary stimulus from the end of 2008 and on into 2009"[169] .The baseline forecast delivers some foresights that the fastest growing country group would be the countries in transition by 6.1 %, and the developing countries by 5.1 %. Among this group, China and India with 8.9 % and 7.5 % growth rates would be on the top of list. [170]

[168] (United Nations, 2009 p. 37)
[169] (United Nations, 2009 p. 3)
[170] (United Nations, 2009 p. 2)

Figure 27: World Economic Growth, 2003-2009[171]



Source: UN/DESA

(a) Partly estimated

(b) Projections, based on Project LINK

The painted area indicates confidence interval at two standard deviations from historical forecast errors.

In the optimistic scenario it is assumed that the confidence in the financial markets would be regained quicker than it is assumed in the baseline. Together with more interest-rate cuts, it is expected that during the first half of 2009 financial markets would have easier circumstances and fiscal stimulus packages of between 1.5 and 2 per cent of gross domestic product (GDP) would be introduced.[172]

As it is illustrated in the Figure 28, the world economic growth has fallen sharply since 2007 and is still demonstrating a declining line. According to the report of UN, it has been stated that the economic crisis has hit the developed countries much harder. Therefore the actions which the developed countries will undertake should differ from the ones of the developing countries. Currently countries such as Turkey face difficulties like scarcity in demand, and therefore companies will suffer from the financial problems. Considering the world trade tendencies, it is important for developing countries to make more export and import transactions in order to overcome the actual situation.

[171] (United Nations, 2009 p. 4)
[172] (United Nations, 2009 p. 4)

4 Conclusion

The current financial situation which was caused by the subprime mortgage crisis in the USA, affected the global economy in 2007. Therefore FDI transactions were considerably affected by the instabilities of the financial markets in 2008. Parallel to the slowdown, the amount of M&A transactions is also assumed to be in decline in the following years. It is obvious to assume that in some cases, the merger activities and consolidations would rather be more preferred to be realized than the acquisitions. Despite the economic crises, the interest to the energy sector is predicted to increase in 2009 and 2010 as a result of the rising demand in the sector. Financial intermediation, services, retail and communication sectors are also expected to continue to draw attention in the following years.

Governments should provide the stability and confidence in financial markets. It is crucial for many economies in the world not to repeat the similar mistakes of the previous crises. In order to increase the productivity, it is vital to support the SMEs, encourage the public and international investments and moreover launch appropriate stimulus packages. Protectionism may not be the advisable strategy which may lead to a decrease in the trade volume globally.

Turkey experienced several economic crises throughout its history. After the progress in the investment environment in the period 2003-2007, it is important for Turkey to apply the reform programs further and continue encouraging investment approaches. In order to increase the productivity and the wealth of the economy, more the employment should be created and more infrastructural developments should be applied so that the domestic as well as the foreign investment activities increase. Although the previously import-oriented economy was converted to an export-oriented strategy, the import volume is still higher than the export volume. In order to overcome the trade deficit, it is important for the Turkish government to focus on the domestic production which would increase the employment as well. As the small and medium sized enterprises need more financial aid than the big multinational enterprises, the Turkish government should support primarily these small sized companies in order to prevent further bankruptcies.

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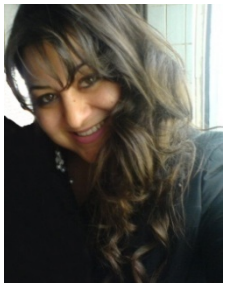
Curriculum Vitae



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Date of Birth, Place	:	17.07.1981 Ankara, TURKEY
E-mail	:	eser77@hotmail.com
Language Skills	:	Turkish (Native) English (Fluent) German (Fluent)

Eser ERGIN

Work Experience

Office Works

- **01.12.2007-01.04.2008 Die Route, The Monthly Economic Magazine in Turkish and German Language (Vienna)**

Redaction, Editing Picture and Texts, Interview Department, Marketing, Human Resources

- **01.07.2007 - 01.09.2007 HALKBANK (Istanbul)**

Practice in Halkbank / Istanbul
-Bostancı Corporate Branch Office (Operations, Marketing, Credits, External Trade)
-Gayrettepe / Şişli Head Office (International Banking, Corporate Marketing)
-Salıpazarı Head Office (Treasury)

- **04.02.2005-01.11.2008 Firma Ergin Handel KG Aluminium and Glassfassaden (Vienna)**

Auditing, Business Transactions with the Austrian Companies, Corporate Identity Searches

- **01.03.2005 – 01.06.2005 Firma Euroschloss (Vienna)**

Auditing, Short Term Income-Outcome Accounting

- **01.01.2004-01.02.2005 Firma EBM (Vienna)**

Marketing and Customer Relations, Design and Translation Works for the Catalog of the Company in German-Turkish, English-Turkish,

- **01.01.2001- 31.12.2003 Austrian - Turkish Press Association (Vienna)**

High Responsibility in Redaction, Editing Picture and Articles, Interview Department, Marketing, Distribution, Human Resources

- **01.07.2000 – 01.12.2000 ATIB Austrian – Turkish Businessmen Foundation (Vienna)**

Practice in the Organizations, Business Activities

Organizational

- **10.11.2008-11.11.2008 5th.Vienna Economic Forum (Vienna)**

Practice in the organizations in the Forum, mainly responsible at the desk of Republic of Turkey

- **03.11.2008-07.11.2008 IKSV İstanbul Foundation for Culture and Arts (Vienna)**

Organizing, guiding and leading the musicians of "Kolektif Istanbul" and "Baba-Zula" in Vienna during their tour

- **06.09.2008 – 30.11.2008 Aspendos Café Bar (Vienna)**

Guitar Performance at Anadolu Rock Nights

- **13/14/16.05.2008 BMSK Soziales und Konsumentenschutz (Vienna)**

Translation Works for the Expert Delegation of General Direction of Social Help in the name of Prime Ministry of the Republic of Turkey in co-operation within the workshops of Ministry of Social Help in Vienna

- **01 .02.2008 Wiener Kaffesiederball** in the name of **İstanbul Foundation for Culture and Arts (Vienna)**

- ***Organizing, guiding and leading the famous singer*** *Candan Ercetin and her Orchestra in Wiener Kaffesiderball*
- **05-06 .11.2007 4th.Vienna Economic Forum (Vienna)** ***"Investment Development in the Countries from the Adriatic to the Black Sea, Problems and Solution Proposals"***

Practice in the organization in the Forum, mainly responsible at the desk for the Turkish Republic

- **01.10.2007- 01.05.2008 Hedef Foundation for Culture and Music (Vienna)**

Guitar lessons in the name of the Foundation to 7-16 year-old children

Academic Education

- **September 2001- April 2009 University of Vienna**

International Business Administration including
Master Program in Production Management and Operations Research
-Courses taken in German and English

- **2000 - 2001 Sommer School of University of Vienna**

German Language Course in Summer School of Vienna

- **1998 - 1999 Arı College High School (Ankara)**
- **07.1997-08.1997 International Colleagues School of English, ICS (United Kingdom)**

English Language School in Norwich

- **1996 - 1998 Arı College Scientific High School (Ankara)**
- **07.1993-08.1993 Channel School of English - Country Cousins (United Kingdom)**

English Language School in Ilfracombe, North Devon

- **1986 - 1996 Arı College Primary and Intermediate School (Ankara)**

Certificates

- *SAP by All For One, Member of AC GROUP, Project Manager Franz Birsel*

Organization, Master Date & Business Processes
Production, Production Orders
Material Requirements Planning

- *Attendance in the Organization of 5th Vienna Economic Forum*
- *Attendance in the Organization of 4th Vienna Economic Forum*

Technical Courses Taken

- *SAP (AC GROUP Project Management)*
- *Xpress*
- *Quark-Express*
- *Adobe Photoshop*

Interests

- *Playing Guitar and Singing*
- *Volleyball*
- *Painting*
- *Cycling*
- *Cooking Asian*