

# **Spatial Preferences of Foreign Industrial Capital In Aegean Region**

**By**

**Kaya HÜNLER**

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We approve the thesis of **Kaya HÜNLER**

**Date of Signature**

.....

**10.09.2003**

**Prof. Dr. Cemal ARKON**

Supervisor

Department of City and Regional Planning

.....

**10.09.2003**

**Prof. Dr. Hülya KOÇ**

Dokuz Eylül University

Department of City and Regional Planning

.....

**10.09.2003**

**Assoc. Prof. Dr. Semahat ÖZDEMİR**

Department of City and Regional Planning

.....

**10.09.2003**

**Prof. Dr. Akın SÜEL**

Head of Department

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## **ABSTRACT**

Since from the beginning of the study, the main focus is on the flow of financial capital and increasing dominance of manufacturing sector activities in metropolitan areas, regions and space transformations. In this study; Turkey and Aegean Region are analyzed in terms of both economical dynamics and socio-cultural dynamics in the context of new trends in globalization.

The impacts of new trends and dynamics of globalization have been experienced in urban, regions and metropolitan areas since the 1980s. The increasing competition between regions at national and global levels has brought about new development dynamics which have taken place at different planning scales. Therefore, analyzing these new tendencies is of great importance in identifying the influences coming from a global level. Whereas, the analysis of Turkey and Aegean Region enables us to draw conclusions upon differences resulting from the planning and economic dynamics; and, investigating the regional transformations of Aegean Region, makes possible to evaluate variances resulted from the region planning dynamics.

## ÖZ

Çalışmanın başından itibaren, temel dayanak noktası; kapital akışı, bölge ve metropoliten alanlar içerisinde artan imalat sanayi aktiviteleri ve bu bağlamda oluşan mekansal dönüşümler üzerindedir. Bu çalışmada Türkiye ve Ege Bölgesinin ekonomik ve sosyal dinamikleri, globalleşme sürecinin yeni trendleri çerçevesinde incelenmiştir.

Birçok bölge ve metropoliten alan içerisinde globalleşme sürecinin yeni trendleri ve dinamiklerinin etkileri 1980'lerden beri yaşanmaktadır. Ulusal ve global düzeyde artan rekabet, birçok farklı planlama ölçeklerinde yeni gelişim dinamikleri ortaya çıkarmıştır. Dolayısıyla, bu yeni gelişim eğilimlerinin incelenmesi globalleşme etkisinin tanımlanması açısından önem kazanmıştır. Öte yandan Türkiye ve Ege bölgesinin analizi; ekonomik dinamikler ve planlamadan kaynaklanan farklılıkları tartışmak, Ege Bölgesinde oluşan bölgesel dönüşümleri araştırmak ve bölgesel planlama dinamiklerinden oluşan çeşitliliklerini değerlendirmek konularında tartışmayı sağlayacak bir tablonun oluşturulmasını olanaklı kılacaktır.

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## CHAPTER 1

# INTRODUCTION

Foreign Direct Investment (especially industrial capital) in Turkey have increased dramatically since 1980 in terms of both number and value, and commensurately with the legal and institutional reforms that have been undertaken to promote foreign direct investment. This study has aimed to bring up a detailed analysis of the investments' characteristic, reasons of the localization in Turkey and Aegean Region and changing effects of FDI's on planning practice and theory.

In the 1970s and 1980s, all over the world, significant changes in capitalism have appeared. These have had their roots in the economic boom period of the late 1960s and early 1970s. In the mid-1960s, the success of the boom turned out to be an obstacle for further advance. Markets were saturated and industrial overcapacity was omnipresent in most of the western world (Storper and Scott, 1986). As a result of the improvements in transportation and communication technologies, a wider geographic market for industrial plants was opened. Industrialization and economic development of

peripheral areas have contributed to worldwide expansion of markets. Consequently advanced capitalist countries created new investment opportunities in the newly industrializing countries, such as Brazil, Mexico, Taiwan, Singapore, Hong Kong and Korea (Storper and Scott, 1986; Cooke, 1990; Harvey, 1989).

After the 1980's, nation governments of developing countries have implemented free market oriented neoliberal policies. While spending efforts to attract investments; creating partnerships with private sector agencies, availability of material resources, the role of sediment social and historical dynamics, level of technical development, infrastructure and other facilities, have all become important parameters in attracting the investors.

In general foreign investment or international investment means, the investment of legal or real persons outside their borders after the countries comparative advantage. The major characteristics of the Foreign Direct Investment activity can be summarized as follows:

The incidence of Foreign Direct Investment over the period 1980-2002 experienced a significant increase in terms of both number and capitalizes largely because of the effective implementation of economic and legal reforms introduced by the Government to promote Foreign Direct Investment. Firms from Europe, the USA and the Far East dominated the investments in this period.

In the lights of these developments; after 1980's Turkey's commercial legislation moved from strict isolation to an open market approach in the private sector. In 1980, the Turkish Government embarked upon a series of reforms designed to accomplish the following: remove price controls and subsidies, lessen the role of the public sector in commerce, emphasize growth in the private sector, stimulate private investments and savings, liberalize foreign trade, reduce tariffs, ease capital transfer exchange controls, reform the Central Bank and the taxation system. The three major objectives of these new policies and programs were:

(1) Minimize state intervention; (2) establish a free market economy; and (3) integrate the Turkish economy with the world economic system. To achieve these three directives,

the Foreign Investment Law was modified to a more liberal and flexible setting for international interests.

Following Turkey's entrance to the customs union with Europe in January 1996, an increase is expected in the number of European equity venture formations, in the form of both acquisitions and Greenfield investments.

In addition, Turkey's unique strategic location will attract many European multinationals, which perceive Turkey as a dependable base for the growing neighboring markets – Turkish-speaking republics of Central Asia, Eastern Europe, the Middle East and the Balkans.

The greatest number of Foreign Direct Investment operating in manufacturing and services are concentrated in the Marmara Region and Aegean Region which are due largely to its strategic location as an industrial zone for the whole of Turkey.

Most of the European ventures in both manufacturing and service sectors are concentrated in the Marmara region. The other main locations of the European investments are the Aegean region and Central Anatolia. Turkey, particularly since the 1980s, has been undertaking massive infrastructure development projects, such as motorways, dams, power plants and airports in these regions to enhance the conditions offered to industries that are likely to attract foreign capital.

The study refers to the matter of realizing the neo-liberal policies over the restructuring of the urban spatial configuration and of the industrial capital. Under liberal constitution, while many growth poles develop at the national geography, the withdrawal of former growth poles appears to be an observed reality. As this changing pattern at the national space has found its meaning mainly within a style that targets at the performance of the capital on matter of compliance; underpinning this performance were serious governmental interventions. In other words, national governments, during this formation, hold the power to determine the spatial specialization and development with transposition of incitement and sources of various items.

The aim of the study can be summarized as follows: After mentioning the global process and policies taking Turkey and similar countries to the adjustments of the period after 1980, a brief look refers to the effects of the adjustments of liberalization executed by Aegean Region and Izmir upon the geography of the country. Another objective is to illustrate the traces left by the restructuring processes on economical and political scale, over the spatial organization of Izmir and Aegean Region.

In the following chapter, the new dynamics and trends of globalization, evolution of region planning, Foreign Investments and their impressions on the region planning are analyzed. In the first section of the second chapter, recent changes of the region concept and anatomy of region planning will be detailed; the rest of the chapter is devoted to the analysis of the new meaning of local and in the light of these changes; the new region planning strategies.

The third chapter is mainly concentrated on the retrospective aspects of the regional planning since the 1960. The impacts of neoliberal policies and economic developments on the regional planning approaches are explained. In the rest of the chapter; region planning are discussed as a spatial step of planning and in this connection, meaning of local is defined in planning concept.

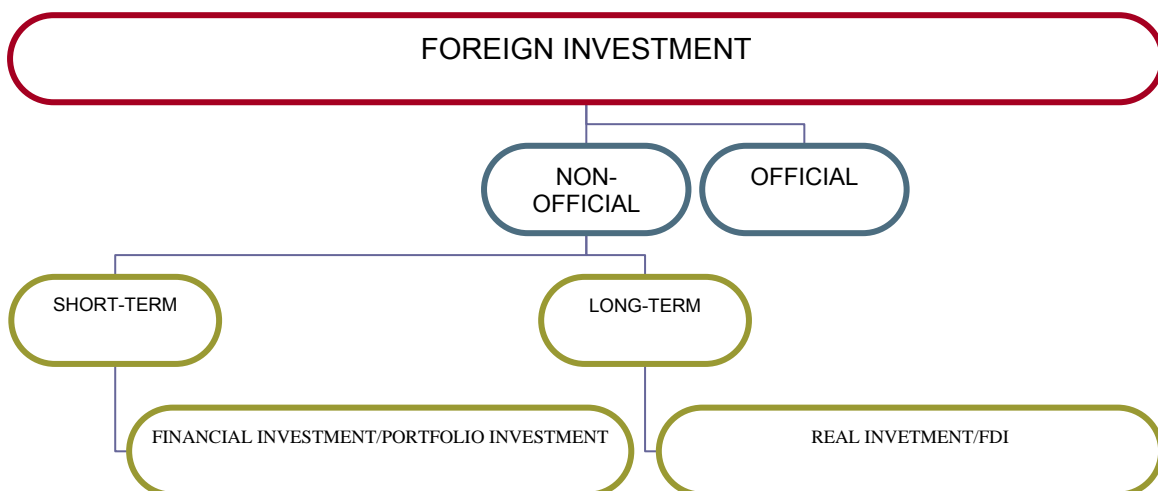
In the fourth chapter, after analyzing the new global order with a new economic dynamic - FDI's-; multilateral agreements, global trends, legislative changes and investment opportunities in Turkey will be presented. And then recent developments in Turkey on FDI's and Multilateral Agreement on Investment issue will be defined.

In the fifth, the evaluation of foreign direct investment inflow in industrial activities in Turkey and Aegean Region is aimed to reveal. The distribution of foreign direct investments in industrial activities in the district, and current properties of the investments are analyzed. Also, employment input insuring, ratio, foundation place, sectoral, home country distribution of the industrial capital in the Aegean Region will be examined. The study concludes with an overall assessment of consequences attained in foregoing chapters.

## CHAPTER 2

### FOREIGN DIRECT INVESTMENT

In general foreign investment or international investment means, the investment of legal or real persons outside their borders after the countries comparative advantage. It can be in two ways :



**Figure 2.1** Foreign Investment Process Chart (Source: Seyidođlu, 1994, Istanbul)

A capital transaction differs in above-mentioned way. Official capital movements are which a country's official monetary authority, such as the Central Bank of the government undertakings. Through the central bank the governments apply monetary policies. We will analyze the non-official movements. An international capital movement is an exchange of assets, and an asset is a promise to pay interest at some date to mature-that is to be redeemed for money. Short-term capital movements are those that have less than 1 year as maturity, other capital movements are long-term. The short-term asset includes demand deposits and cash, as well as treasury bills, commercial paper and so forth. A short-term asset includes equity and real estates, bonds, notes, mortgages and so forth. In this respect they are similar but they have also differences (Wilfried, 1983, New York).

Foreign Direct Investment means transnational companies settling down to a country other than his own country. In this terms the real company is the so-called Parent Company and the other company that is build in the foreign company is the subsidiary. So the subsidiary learns the secrets of the Parent Company, the technology it has. And also it earns the privileges that he gets from trademark. Against this the subsidiary gives the profits partial or all to the parent company.

Through the Foreign Direct Investment the country's benefit is the foreign currency transfer and the short-term capital inflow. The exchange transfer materializes in two ways: First through the Transnational Corporations and secondly through the transfer of machinery, equipment etc. Foreign investment can enter to a country also in form of license, technical knowledge and as know-how.

The main difference between the portfolio investment and foreign direct investment is the management factor. In the case of FDI the subsidiary is subordinated to the parent company. Mostly the management of the subsidiaries is agreed from the parent companies and from their policies. And that again shows us the usage of the word "Direct" in the phrase Foreign Direct Investments. The portfolio Investments is not intervened by the management of the companies. Secondly the FDI brings within the capital also the production technology and the managerial knowledge. By the portfolio investment the investor has to bring the capital and not even more. Third the Investor identity is different .The portfolio investment can be realized from real persons

whereas FDI not. FDI invested legal persons that. Finally the forth difference is about the repayments of Investments. In portfolio investments the conditions of profits and payments are set forth in the agreement. Whereas profits of the FDI is influenced from the Parent company and policies of the government. The transnational corporations are here the decision taking organization. The FDI brings to the home countries high profits. The Profit is affected from other factors like the cost reduction increase of prices that are going to be examined below:

The Cost Reduction: An internal economy includes advantages like cheap labor, transport costs, technical knowledge and others.

Internal Economies; The production process can be organized under one organization and also managed. So at the same time it can be controlled and this effects the reduction of cost. This argumentation is introduced from R.H. Coase; because of this it's called Coase Economies. The coordination under one organization can be taken as "vertical integration ". The traditional example for this integration is the Industrial firms that invest in the countries that he can get the resources for the production. As Hans Singer made clear that the investments in host countries doesn't complete with the economy of the host country. Those are a sort of enlargement of the foreign economies. The internal economy turns to a dual system in which the high technology stays in the foreigner's hand and the internal has the weak production technology.

Know-how advantage: The TNC s brings within itself the know-how that the firm has since the establishment. Every firm has special methods and technical knowledge; in other words we can call it the firm's internal secrets. These can be about the production designs, production technology, marketing, firm management etc. These areas play a linking role by the competition of firms that operates in the same sectors or connected sectors. Sometimes only a small difference by the production method can give a firm a competitive advantage against the other firms. Because of this reason the TNC's want not to share the secrets with the other firms. Otherwise giving the secret must be advantageous against the loss.



Generally in a local market the local firms have more advantage than the TNC's, because they know the local market better than the new entered TNC's. In addition to this disadvantage for TNC, have to pay extra costs like transportation, information and traveling costs, which depends to be leaded by the Parent Company. In this case TNC have an extra advantage which has to balance these conditions. The most accepted view is that the TNC's have more knowledge about the world market than the local competitors. Also it can market it in whole market easier. Also we shouldn't forget the know-how aspect that has a major linking role in the world market.

“Cheap Labor: The other factor about the cost is the labor aspect. The cheap labor is important in respect to produce the product cheaper, so that the TNC has an advantage. This reason explain us partially why the TNC s have more interest to produce the product in Newly Industrialized States (NICs) than in Industrial states. In 1960 American firms begun with the first investments in overseas countries like South Korea, Hong Kong where the labor is many times cheaper than in America. The cheap Labor gives the firm an additional advantage in competing with the other firms. The sectors are food, apparel and shoe industries that are build on labor intensively.

Transportation cost: The one problem is also the cost of the transport. Imagine, a TNC's produces a heavy final product, which should be send to overseas.

It can reduce the cost when the TNC's settles down to the cheaper and more suitable country that is near to his market. Also he can prefer those countries where he gets the resources for his product. We can give the automotive, pharmacy, chemical Industry as example for this category.

Tax differences: The tax diversification plays also a big role by choosing the suitable country for the TNC's. When we take to countries as an example ; the taxes can be in one country very law and in addition to this a tax exemption can be obtained in special cases whereas in the other country not. The TNC's would prefer the country with low taxes or exemption if the other factors that we above mentioned are also preferable for the TNC's.” (Fountas, Stillianos, 1996, p. 145-146-147)

The main theoretical FDI models are divided into five groups (Fountas, Stillianos, 1996, Oxford). These groups are:

(a) Industrial organization: It suggests that the firm-specific characteristics be the major determinants of the FDI. Firm-specific characteristics, such as product technology, management skills, and economies of scale, have been found as being an advantage to the host country. And it gives an advantage on foreign subsidiaries compared with the local competitors. These characteristics give to the country an oligopolistic advantage, which accounts for market imperfections in host countries.

(b) Corporate investment: The conventional theories of corporate investment emphasize the location determinants of FDI like the importance of the size of the host market as given by the level of gross domestic product, factor prices, and the protection afforded to investing firms by tariffs or other measures.

(c) Strategic Theory: The strategic determinants of FDI refer to long-term factors that have mainly indirect effects on the decision to invest abroad but are directly relevant to the profitability of the venture. Such factors are desire of a foreign investor to defend existing foreign markets and investments against encroachment by competitors and to gain and maintain a source of supply.

(d) Eclectic Approach: Dunning developed a completely mix definition through all of the above approaches.

(e) Portfolio Theory: This approach takes the risk of uncertainty in analyzes. It is based on the observation that fluctuations in rates of return on capital within, and even more so between, so risks may be reduced by a diversification of portfolios.

## **2.1 New Global Order and FDI's**

Today the world is going towards globalization, in which the market economy plays a great role. Political power and wealth are linking the modern international system. These are linked also on the one hand with political economy and on the other hand market economy. This market system is characterized by industrial capital. These issues were analyzed by the classical political economists (Smith, Ricardo) and by Marx, wherein owners of capital, workers and

intermediaries are all linked in social relationships through market and political Institutions. These facilitate the circulation of money for the production and/or purchase of commodities, services, land and labor. In the mercantilist theory period and before there was not a market system that was based on industrial production (Stubbs, Geoffrey, 1994, London).

In the second half of the XVIII Th. Century the market economy has begun to emerge. With the collapse of "laissez faire laissez passe" in the 1930s and the reestablishing of the mixed economy of the post-war, so the market economy underwent transformations after country differences. Countries differ in population density, labor skills, climate fertility, raw materials, capital equipment, etc. These differences like climate and land are totally immobile, whereas labor and capital not. This shows us again the strangeness connection between the market economy and political power. This implies again that the two dynamics of economic and security issues are bound up with each other in international politics. So Karl Polanyi put in the following manner;

“The gearing of markets into a self regulatory system of tremendous power inherent tendency of markets towards excrescence, but rather the effect of highly artificial stimulants administered to the body social in order to meet a situation which was created by the no less artificial phenomenon of the machine.”(Polanyi, 1994, p.96)

With the collapse of the Soviet bloc economies of the market system become fully internationalized. Now there is a trend going from international to transnational economy. We will analyze the role of Foreign Investment in the transnational economy.

International direct investment flows have increased significantly in recent years, most of these flows have been between the industrialized countries and the newly industrialized economies of Asia. For most other developing countries the foreign direct investment flows was at a low level, because of their debt problems. Significant progress seen in countries towards establishing more liberal foreign investment regimes reducing restrictions or eliminating distortive measures.

## **2.2 Foreign Direct Investment by Transnational Corporations**

Today's world economy is shaped by the liberal economy framework, technology, and competition and most important by globalization. Foreign Direct Investment (FDI) by transnational corporations plays a major linking role in many national economies. So it builds an integrated international production system transnational corporations deploy their tangible and intangible assets (capital, research-and -development, technology, and organizational and managerial practices, trade links). At the same time the developments of these assets affects the firm in a positive way. TNC's strengthens the resources of countries and their capacity to produce, to reach and to expand markets for their economic performance.

Today's world is shaped more and more through globalization. The increasingly liberal policy frameworks, made possible by technological advances, and driven by competition, economy plays a big role in the whole system. Foreign direct investment (FDI) by transnational corporations (TNC's) now plays a major role in linking many national economies. The TNC's are building an integrated international production system transnational corporations deploy their tangible and intangible assets (capital, research-and development capacity and technology, organizational and managerial practices, trade links). At the same time, the deployment of these assets by firms strengthens the resource base of countries and their capacity to produce, to reach and expand markets for their products and to restructure their economies - in brief, to improve their economic performance.

International production by TNC's - now some 40,000 parent firms and some 250,000 foreign affiliates - increasingly influences the size and nature of cross-border transactions. It shapes the nature of the world economy. Outward FDI stock and global sales of foreign affiliates - two generally accepted proxy indicators of international production - now stand at \$2.6 trillion (1995) and \$5.2 trillion (1992), respectively (see table below). In the 1990's, the rate of growth of FDI stock has substantially exceeded that of world output (GDP) and world exports. The size and scope of international production are affected further by the activities of TNC's. It can be in

forms other than FDI, such as subcontracting, licensing and franchising, through which markets for goods, services and factors of production can be reached and international production organized. Global sales in international markets associated with, defined international production. This amounted to an estimated 7 trillion\$ in 1992. In fact, in the case of TNC's headquartered in the United States, four out of five dollars received for goods and services sold abroad by these firms are earned for goods and services produced by their foreign affiliates or sold to them.

**Table 2.1:** Selected world FDI, economic and financial indicators, 1981-1993 (Source: UNCTAD)

Indicator	Value	Average annual growth rates		
	(1993)	(Percentage)		
	(Billion\$)	90-95	96-00	01-03
FDI outflows	222	0.8	28.3	5.6
FDI outward stock	2135	5.4	19.8	7.2
Sales of foreign affiliates of TNC's	5325	1.3	17.4	-2.6
Current gross domestic product at	23276	2.1	10.6	3.3
Gross fixed capital formation	5351	0.7	9.9	3.2
Exports of goods and non-factor	4762	-0.1	14.3	3.5
Royalties and fees receipts	38	-0.7	21.8	13.0

The diverse nature of international production suggests that international policy discussions about market access have to deal not only with trade in goods and services but also with FDI as a modality to access markets. FDI is also a modality to access factors of production. Specific government policies may introduce a bias in favor or against any specific modality of international transactions. And this causes a distortion in the way in which firms undertake and organize their international activities. The importance of such distortions would become clearer if governments give more attention to the interrelationships between investment, trade and other forms of international transactions. It's very important in their dual function of accessing markets for goods, services and factors of production and organizing international production.

National, regional and international agreements are paying more attention to FDI. Although for a number of countries there is still an imbalance between the degree of liberalization of FDI and trade regimes (with progress achieved for the latter, furthermore, bound in multilateral agreements). FDI regimes at the national level are rapidly being liberalized: continuing a trend of earlier years. 101 out of 102 legislative changes made in 1993 in 57 countries were in the direction of a more liberal FDI framework; in 1994, 108 out of 110 legislative changes made in 49 countries were in the same direction. The FDI framework affects the both parts, the home and host countries. We can examine it as outward and inward FDI.

### **2.2.1 Impact of Inward FDI**

An injection of FDI adds to the recipient economies the capital stock so it can increase a country's output or productivity through a more efficient utilization of existing resources or by absorbing unemployed resources. There are several ways in which inward FDI can add to the capital stock of a recipient country. The most obvious is Greenfield FDI, i.e. establishing a new business. Ownership switching FDI (e.g. acquisition or privatization) may also benefit the capital stock of a host country if the domestic firm that is taken over would have closed down otherwise. The funds received by host countries from the sale of domestic firms to foreign investors can be reinvested in the host country, thus adding to the existing capital stock.

### **2.2.2 Impact of Outward FDI**

There is an asymmetry in world trade between the outward and inward FDI. A central question is that the impact of the outward FDI whether of the expense of domestic investment. A TNC's system raises the capital where it is at least expensive and suitable. So the country must be a positive choice for enhancing competitiveness. Briefly we can say that the positive asymmetry between in-and outward FDI can affect the home economy in a positive way. The FDI by TNC's

now plays a major role by linking the national economies. We will see the diversification of out-and inward FDI regional and global trends below.

### **2.2.3 Regional and Global Trends**

All of the TNC's want to ensure access to world markets for goods and services to produce and to sell in global markets as efficiently and profitably as possible. Therefore a national, regional and international agreement plays more importance to FDI. Investment stocks and flows remain concentrated primarily in the developed world and particularly in the Triad (The European Union, Japan and the United States). The share of developing countries in the world inflows is higher than their shares in the world imports.

“The volume of FDI flows reflects the strengths of countries current location advantages for inflows and the strength of the firm's current ownership-specific advantages for outflows. We can also see the significant regional differences as:

The Asia Pacific is remaining as the most important host region among the developing countries. This region accounts for more than 70% of the total developing country FDI stock. Therein China and South Asia are in the forefront. China is more selective about the types of the FDI that it seeks and it encourages a greater geographic dispersion of these investments within China.” (World Investment Report 1995, p.57)

FDI flows in Asia have started to grow rapidly since 1994. And also India is being more attractive to significant amount of Investment. West Asia is not a major recipient of FDI, with the Arab-Israeli Peace it could help their economies to grew and open-up to new Investments. Beyond this peace there are still so many conflicts which couldn't be solved till today. Also after the Golf-Crisis there has been an embargo established against the Iraq government like this circumstances other issues make it very different to invest for FDI in those high-risk areas.

The FDI stock in Latin America and the Caribbean had reached \$186 billion in 1994 this region comes on second plays for TNC's in the developing world. The FDI flows in Latin America is concentrated on the countries like Argentina, Brazil,

Chile, Colombia, Mexico and Venezuela These countries accounted for 71% of the FDI inflow in the region. Especially the privatization policy of these countries has played a big role by increasing the FDI flows in the Region. For example as a result of the privatization program, the number of foreign affiliates among the 500 largest companies in Latin America increased from 138 to 151 (World Investment Report 1995).

The Central and Eastern Europe (CEE) has reached estimated \$ 6.3 billion, but when we compare these states with the developing countries the FDI remains marginal. Some of the countries of the region become large recipients of FDI those countries are as follows:

- The vise grad countries; Bulgaria, Czech Republic, Hungary and Poland.
- The next-tier countries; Bulgaria, Estonia, Kazakhstan. Romania, The Russian Federation, Slovakia, Slovenia, Ukraine, Yugoslavia.
- The other CEE states that are negligible in terms of FDI flows. These countries are Albania, Belarus, Latvia, Lithuania, and Republic of Moldavia. Caucasian

“Capital: The capital inflow to the host countries establishes new facilities such as, adding to the capital stocks and increasing output and employment. Transnational Corporation system generates financial capital because all of their profits are distributed to shareholders as dividends; some of them are reinvested and retained. And through the FDI inflows the domestic firms must compete with the Foreign originated firms, if they were not competitive they would close down and that increases the local firm capabilities. Capital generated internationally can be deployed anywhere in a TNC system with offering advantages in terms of flexibility In project financing and minimizing transaction costs.

Innovatory capabilities; invention can be defined as the discovery of new information about the production process of a product. Suppose a company develops a product in secret and than market it. If other firms can quickly imitate the new invention, competition will rapidly compete away the profits on this new product. Since everyone can foresee that this will occur, few resources will be devoted to searching for inventions, even though they are socially valuable.” (Begg, 1991, p.83-84)

Inventions are examples of public good. The problem arises because the inventor cannot privately appropriate the benefits since imitators cannot be excluded. The solution to this issue is a patent system, which confers a temporary legal



monopoly on the inventor who registers or patents the invention. The temporary monopoly provides, before the fact, the assurance that if the search for a new discovery is successful the inventor will be able to cash up after the fact. It's important that the monopoly should be only temporary. Otherwise, successful inventors would have an entrenched entry barrier which would prevent competition and are suppressed over.

When we look from the Foreign Direct Investment's site, it involves the setting up of research and development affiliates and also strengthens the innovatory capabilities of host countries. At the same time outward FDI can strengthen home countries by allowing firms to access overseas research and development capabilities and technologies. Otherwise those aspects are difficult to obtain and to minimize the cost of technological development.

Technology and skills; The trend today is going toward globalization of markets, characterized by technological mobility, competitive new entrance and increasing demand for high quality of products of international standards. New technologies are being transferred to countries. Foreign Direct Investment can strengthen home countries by allowing firms to access overseas research and development capabilities and technologies. Otherwise difficult to obtain and minimize costs of technological development.

Organizational and managerial practices; the adoption of practices more efficient organizational and managerial practices by units. The firms and institutions, regardless of their origin, seek to organize and manage them effectively to obtain best possible utilization of resources and highest levels of performance. In doing so to a significant extent by cultural context in which they find themselves. Organizational and managerial practices are increasingly recognized as central factors to the competitiveness of firms, determining the efficiency of the entire range of activities of firms. It conveys an idea of range of newer practices. Many of them are closely linked to technology, human resources and labor relations, organization. We can give an example for the production:

Quality-control circles that is a voluntary participation of employees in quality control in order to improve their work and capabilities. The contribution to the competitiveness will be the stimulation of the knowledge and developing capabilities through self-enlightenment and smoothing horizontal information exchange thereby increasing a sense of unity within a company.

Foreign Trade depends today on industrial organization of the world as mentioned above. And that again explains us the need for a transnational Law on the FDI issue. It still lacks the institutions its need.

### **2.3 Towards a Multilateral Agreement on FDI**

As mentioned before the governments separately considered inward and outward FDI policies. Different structuring and tendencies that have appeared in international economic relations led to changes in foreign direct investment and in the type of investment. The reduction of technological and political barriers brings within changes in international economic relations. Despite the liberal foreign investment regimes that set forth the foreign investors are still faced with uncertainties related to investment barriers, discriminatory treatment, and legal framework and practices. These restrictions are seen as a barrier in entering markets.

Above all, it needs a transnational law. It's very important that a framework is needed for transparency, stability and predictability at the multinational level. And the aim of this Law must be to allow firms to contribute to economic growth, while prospering internationally.

In the aftermath of Uruguay Round which allowed Multilateral Agreements to acquire corporate attributes in international trade. It has become a general view that unless similar arrangements are adapted in foreign investments concerning international trade reached following GATT negotiations. The relationship between international investment and trade necessitates an organic approach for such an arrangement for both of the economies. The Transnational Corporations,

which are, based usually in more than two countries the bilateral agreements insufficient.

Within this framework liberal steps have been taken to integrate the issue as a whole system. Two step integration is being foreseen for the integration. The "first step integration" is accepted as the recognition of basic freedoms to foreign investors between countries, such as the freedom to enter national markets, national treatment and the most favored nation principle. While the "second step integration" is the removal of practices that breaks the rules of free competition against foreign investors, of certain performance obligation and of technical barriers presenting discriminatory practices towards foreign capital firms.

Although the first steps towards the creation of multilateral investment arrangements were present in the TRIMS, TRIPS and WTO Agreements signed at the end of the Uruguay Round. The Arrangements that have taken place are only on the sectors based.

In the final Act of Uruguay Round of Multilateral Trade negotiations new framework ideas has been apparent. It's been implemented by the WTO (World Trade Organization). Efforts could only be build on the regional level, especially in the framework of European Union, NAFTA and APEC. Today there is a agreement on a binding Multilateral Agreement on Investment (MAI). Turkey has recently signed the Agreement. The goal of the Agreement is to ensure harmony in the arrangements concerning foreign capital investment MIGA (Multilateral Investment Guarantee Agency) is the one institution that is based on these ideas.

### **2.3.1 Recent developments in Multilateral Agreements on Investment**

In accordance to the progress on MAI, The Multilateral Investment Guarantee Agency (MIGA) was established on 12 April 1998 as the newest member organization of the World Bank Group. Its purpose is to encourage the flow of FDI to its developing member countries for economic development. It's primary

means of facilitating investment through the provision of investment guarantees against the risks of currency transfer, expropriation, and war and civil disturbance political risks.

The Convention establishing MIGA states; the objective of the Agency shall be to encourage the flow of Investment for productive purposes among member countries, and in particular to developing member countries.

MIGA's aim is to guarantee the member countries against noncommercial risks for FDI in its developing member countries, and provide technical assistance to governments of developing member countries to improve their ability to attract FDI.

MIGA is promoting new investments and new contributions to expand, privatize, or financially restructure existing projects in developing countries. MIGA Guarantee covers; (MIGA Annual Report 1997, Multilateral Investment Guarantee Agency)

Currency transfer restrictions that prevent investors or lenders from converting local currency into foreign exchange and/or transferring the proceeds abroad.

Expropriation in the form of acts (direct or indirect) by host governments that reduces or eliminates ownership of, control over or rights to the insured investments.

War and civil resulting in damage to, or destruction or disappearance of, tangible assets or interference with the ability of the foreign enterprise to operate.

Breach of contract by a host government, provided the investor obtains an arbitration award or a judicial sentence for damages and is unable to enforce it after a specified period. In certain cases when the investor is unable to enforce it after a specified period, or in certain cases when the investor is unable to obtain the award or sentence.

MIGA member and signatory countries;

**Table 2.2** Developed-Industrial- Countries in MIGA (Source:UNCTAD)

Belgium	Germany	Luxembourg	Sweden	Canada
Greece	Netherlands	Switzerland	Denmark	Ireland
Norway	U. Kingdom	Finland	Italy	Portugal
U. States	France	Japan	Spain	

**Table 2.3** Developing Countries in MIGA (Source:UNCTAD)

<b>AFRICA</b>				
Algeria	Cote d'Ivoire	Lesotho	Namibia	Togo
Angola	Egypt	Libya	Nigeria	Tunisia
Benin	E. Guinea	Madagascar	Senegal	Uganda
Botswana	Eritrea	Malawi	Seychelles	Zambia
Burkina Faso	Ethiopia	Mali	Sierra Leone	Zimbabwe
Cameroon	Gambia	Mauritania	South Africa	
Cape Verde	Ghana	Mauritius	Sudan	
Congo	Guinea	Morocco	Swaziland	
Rep. Congo	Kenya	Mozambique	Tanzania	

<b>ASIA/PASIFIC</b>				
Bangladesh	China	Fiji	India	Indonesia
Korea	Malaysia	Micronesia	Nepal	Pakistan
Papua New G.	Philippines	Sri Lanka	Vanuatu	Vietnam
Western Samoa				

<b>EUROPA / CENTRAL ASIA</b>				
Albania	Armenia	Azerbaijan	Belarus	Bosnia- Herzegovina
Bulgaria	Croatia	Cyprus	Czech Rep.	Estonia
Georgia	Hungary	Kazakhstan	Kyrgyz Rep.	Lithuania
Macedonia	Moldova	Poland	Romania	Russian Fed.
Slovak Rep.	Slovenia	Turkey	Turkmenistan	Ukraine
Uzbekistan				

<b>LATINAMERICA / CARIBBEAN</b>				
Argentina	Bahamas	Barbados	Belize	Bolivia
Brazil	Chile	Colombia	Costa Rica	Dominica
Dominican Rep	Ecuador	El Salvador	Grenada	Guatemala
Guyana	Haiti	Honduras	Jamaica	Jamaica
Nicaragua	Panama	Paraguay	Peru	St. Lucia
St. Vincent	Trinidad	Uruguay	Venezuela	

<b>MIDDLE EAST</b>				
Bahrain	Israel	Jordan	Kuwait	Lebanon
Malta	Oman	Qatar	Saudi Arabia	U.Arab Em.
Yemen Rep				

## **2.4 The Growth of Foreign Direct Investment**

In the first half of the 1990s, funding from international and domestic financial markets for Private sector investments surpassed public sources of capital in the financing of capital and in the financing of economic development. From 1990 to 1996, private capital flows to developing countries and economies in transition increased fivefold, to an estimated \$244 billion in 1996. Private sources now accounts for more than 4/5 of the total capital flows to developing countries and economies in transition. The share of FDI in these flows more than quadrupled over the same period, increasing from 25\$ billion in 1990 to 110\$ billion in 1996. In contrast official development assistance held steady at 40\$ to 50\$ billion for year. The second half of the 1990s opened with a continuation of the economic trends in developing countries and economies in transition that had started early in the decade:

- Emerging democracies oriented towards market economies
- Improved macroeconomic management
- Strengthened banking system
- Liberalized investment systems.

These factors continued to enhance the environment for FDI. In turn FDI contributed to better global integration among industrial and developing countries. And labor markets were more closely linked, and the productivity and economic growth of beneficiary countries increased.

The decade of 1990s has seen MIGA become a standard setter in the promotion of investment flows to its developing member states and economies in transition. MIGA's Convention calls on the Agency to cooperate with private insurers to encourage such insurers to provide coverage of noncommercial risks in developing member countries on conditions similar to those applied by the Agency.

MIGA's claims fee record has played a role in encouraging private insurers to offer political risk insurance and reinsurance for longer duration's. This has increased the availability of longer-term political risk insurance, to the benefit of potential investors and developing countries alike.

### **2.4.1 The Causes of Multinationalization**

The Multinationalization depends on the comparative advantage theory. That means the production of a certain good can be produced cheaper than in home country So that the final product can bring a big profit for the country. Today it's not enough to think about the profit, because there are many risks like, political and financial situation. For example we can get higher returns from the Newly Industrializing Countries (NIC's), which also includes high risks for the investors. The political risk is that investing in a totally different socially, politically and cultural country. That depends again on the cultural and historical background of those states. Because of these reasons the state can restrict the foreign investments with the cause of being harmful for the country's own economy or against their political interests. For example the one government can decide for the foreign investments, whereas the new government can't. And when we look that the political situations of those states, which are mostly of changing nature, we can imagine the high-risk environment for the foreign investors. The one point that the investors hesitate is the risk of nationalizing. The investor can



use the countries financial resources as a precaution against nationalizing. That means it can profit from the home country credit. The usage of such internal credits can be seen from investors' perspective as a lifeboat against the nationalization of the market.

Because of this reason the countries amends bilateral agreements on encouragement and protection of foreign investments. Briefly the multinalization is a critical decision taking process for a firm. This process of multinalization has begun after the Second World War with the efforts of the American Firms following the European Countries and Japan.

## CHAPTER 3

### TURKEY - AN INVESTMENT OPPORTUNITY

Turkey has a unique location, which gives her a major advantage in serving the markets of Europe, the Middle East and North Africa. Her proximity to the new Republics of former Soviet Block countries provide her with the excellent access to the world markets.

The Turkish economy is in the process of rapid growth in virtually all sectors. It is obvious that, being the inheritor of eight thousand years, Anatolia possesses an extremely high potential in trade and this points makes it attractive for foreign investors over long years.

“First in 1838 Ottoman Empire has been faced with the problem of foreign capital, after the so-called ‘Trade Agreement’. In 1827 Ottoman Empire has lost the war against the English, French and Russian fleet. In that time period Ottoman Empire was collecting %3 Fee on imported goods. So within the Ottoman market the foreign traders couldn't compete. With the Trade Agreement, the foreign traders started having the same rights those of the Ottoman citizens.” (Bulutoğlu, 1970, p.61)

“The Ottoman producers could buy the monopoly right of a certain product with the so-called “Yed-i Vahit” (License Price). Also this application has been abolished after the agreement. It's been agreed not to take anymore from foreign traders except the port fees, which are applied in the amounts of % 9-export fee and % 3 customs fee.” (Yücekok, 1970, p.23)

The sources from foreign countries have been lost at that time. The Ottoman Empire could not give any service without debt anymore. The only credit borrowing institution within the Ottoman Empire was the "Galata Bankers" although the real source of that institution was again Europe originated. The Galata bankers had very limited credits. Because of this reason there was no way out other than European Credit Institutes.

The foreign debt issue began after 1854, because the Ottoman Empire could only postpone the financial crisis until this time. In 1854 the "Kırım War" compensation

payments was paid for the first time through a foreign Credit Institute, "Dent Palmer & Co.". The other Credit Institutions are given in Table as follows (Güngör, 1979).

Before the debt issue the foreign investments were very limited. For example in 1865 the management of "Bar mining factory" was given to a French company. After the entrance of French and Italian companies in the Ottoman market, Germans also entered with the Deutsche Bank (German Bank) in 1888.

**Table 3.1:** Foreign Credit Institution between 1854-1877 (Source: Güngör, 1979, p:31)

<b>Institution</b>	<b>Debited Amount(Million)</b>	<b>Interest Rate</b>
1854 Palmer and Co.	5 GBP	%6
1855 France and England	5 GBP	%4
1858 Deu'Palmer and Co.	5 GBP	%6
1860 Mires	400 FRF	%6
1862 Ottoman Bank	200 FRF	%6
1865 General Cr. And France	40 GBP	%5
1869 Comptair D'escompte	555 FRF	%6
1870 Baron Hirsck	792 FRF	%3
1871 Credit General Ottoman	5 GBP	%6
1872 Credit General Ottoman	278 FRF	%9
1872 Credit General Ottoman	11 GBP	%5
1872 Credit General and Credit Mobiler	694 FRF	%6
1874 Ottoman Bank	1000 FRF	%5
1877 Ottoman Bank	5 GBP	%5

The first project of Deutsche Bank was the establishment of the Baghdad Railway Project . In 1889 through the German Investment "Ottoman Railway Company" has been established.

In the same time period the United State also begun to the "Chester Project" 'which aims to build railway to the eastern states.

Gas, electricity and telephone undertakings were interesting investment areas for the foreign investors because of their monopoly state in Ottoman Empire.

We can see the share of foreign investors between 1890 and 1907 in Table 3.2

Table 3.2 Share of Foreign Investors between 1890 1907 ( Source: Herslag, 1968,p:45)

<b>States</b>	<b>Percentage</b>
Germany	45.4
France	25.9
England	16.9
U.S.A.	3.7
Italy	1.2
Holland	0.9
Other	4.2

“No special regulations have been brought out for foreign investors. There was no need for special regulations because the foreign investors obtained the same rights like the) ottoman citizens. Only one point had to be handled and this was the acceptance of the foreign originated Insurance Companies in the Ottoman Empire.” (Uras G., 1968 p.74)

After the establishment of The Turkish Republic, the debt problem of Ottoman Empire stood still. The Turkish Republic had to face the debts of the Ottoman Empire which were 62.23 % before 1912 and 76.53% after 1912. With the economic crisis in 1929 there was a payment problem so the Turkish Republic wanted to decrease the annual installments and to pay a part of the debt in Turkish Lira's. After long negotiations in 1933, Paris agreement has been concluded and the installments have also been decreased, the payment schedule has been postponed from 30 to 50 years, and the debt has been frozen at 65 million US dollars. The Turkish Republic paid the installments before the deadline in 25.05.1954. The new Turkish Republic has begun to nationalize the so-called civil services like electricity, gas, telephone and others.

In 1950 Turkey has begun to attract foreign Investments. Consequently in 1954 the law regulating foreign capital inflow was enacted at that time foreign entries due to structure of the Turkish economy were limited.

Since 1980 Turkey's development strategy has been based on an outward oriented strategy. And rapid changes had begun in the economic and social structure of Turkey; Deregulation of Interest rates, establishment of organized markets for money, the free out and inflows of foreign currencies, liberalization of capital movements, reforms in the banking systems etc. were some of the new developments. One of the important policies was to reduce the government intervention and improve the business climate.

Following these measures which were taken, protectionist economic policies were abandoned. A comprehensive economic stabilization and liberalization program was implemented.

The three most important objectives of the program were:

- (i) Minimizing the state intervention,
- (ii) Establishment of a free market economy,
- (iii) Integration of the Turkish economy within the world economic system.

One of the major policy decisions was to take the adoption of a liberal and flexible foreign investment policy. So the investment climate has become more efficient and suitable for potential investors. And in addition to these measures the procedures of obtaining investment incentives, registering and getting operation permits for them were simplified. The Turkish Lira became almost fully convertible and the implementation of foreign investment Law No: 6224 guaranteed the capital gains, fees, royalties and the transfer of paid up capital freely. In addition to these measures Turkey also provides a well-secured environment for foreign capital inflow by being a party to multilateral and bilateral agreements.

Since the mid-1980's, international investors have taken an increasingly important part in the whole Turkish economy. So there is an upward graphic in the number of foreign investors.

As a result of all measures that are taken by the Turkish State, it has become a more attractive country for foreign investors. The infrastructure for industrial

operations has considerably improved especially by the western part of the country. There are presently free zones that are operational and offer attractive conditions for establishing industrial operations.

Turkey has many problems like the other developing countries. Those were low incomes, low savings and high taxes and inflation rate. Turkish government has taken new measures against the above mentioned issues. Those are:

- (i) Improving savings and optimizing the capital allocation,
- (ii) Implementation of realistic exchange rates,
- (iii) Implementing Value Added Tax (VAT) and other reforms to strengthen the public finance,
- (iv) Optimum allocation of resources, so that the efficiency and competitiveness of the Turkish economy increases while implementing the required measures (TUSIAD, The Turkish Economy 92, Istanbul).

### **3.1 Turkish International Trade Between The Settling Years And 1980**

The phase between the Ottoman Empire and Turkish republic occurred by the end of the 1<sup>st</sup> world war and the independence war. The settling of the Turkish republic is explained by the decisions of the bases of the economical policies and by the new institutional and legal arrangements. In this period economical and social changes were accelerated. This period is an arrangement period, while capital accumulation has gained different dimensions.

In year 1923, in the Trade congress organized in Izmir, the attitude of Turkish economy against the foreign capital has been defined for the next decade. In the congress the idea of national union was accepted. The principles to accept the foreign capital were improved. The principles were not to privilege the foreign capital, but foreign capital should have obeyed to our national legalities ( Herslag, 1968).

There is another fact to affect the international relations of Turkish Economy. This fact is the Lozano pact of peace. The aim of Turkey in this pact was to provide economical and

social independencies. First of all economical, trade and legal privileges given to the foreign countries by Ottoman empire has been cancelled. Also the cabotage right has been disabled and the right for shipping is validated only for Turkish sheep.

Another topic discussed in Lozano was the public out loans with respect to Ottoman empire. The customs was also another point which was discussed. About this topic Turkey has accepted the former customs definition for the next five years. This definition was signed by Ottoman Empire on 1 September 1916. The Mussel problem has not reached to a solution in Lozano but in 1926 by the negotiations of the National committee and by the pressure of England it was accepted for 25 years the %10 of the oil profits will be given to Turkey. In the following years by the new legal arrangements the shape of the economical politics has been formed ( Herslag, 1968).

In the same period; the basic politics of international trade was to protect native production against foreign competition. Exportation has increased in the beginnings of the period, then it started to decrease. The reasons for the reduce of the international trade capacity of the country. First reason was that the government has increased the customs taxes from %16 to %40 for the foreign goods. This was done to protect the native production. Second reason was the limitations of developed capitalist countries for their international trades because the crisis in their countries ( Herslag, 1968).

In the year 1923 the economy could be called as an open economy where in year 1930 the economy was more independent from foreign countries. In the following years this situation led to international trade to play a smaller role in the economy. In the period of 1930-1939, there are two distinctive specifications according to economical politics. These are preservation and the policy of state control. These years can be called the period of state control. In those years of crisis of over the world, Turkey has closed to outside and tried to have its national industrialization ( Herslag, 1968).

The great crisis has affected the undeveloped countries like Latin American countries also affected Turkey. These countries were the countries that exporting raw materials and importing industrial products. At the end of the crisis the price of the raw materials have decreased more than the price of industrial products. The only way to prevent the retreat caused by the reduce of export incomes, was to compensate the international trade loans by the export of the capital belonging to central countries.

But with the crisis the capital movements got slower. In this situation the way to prevent the decrease of consumption and income is to control the imports. The first industrialization movements of 3<sup>rd</sup> world countries in the first half of the 21<sup>st</sup> century were the investments in flour, sugar, and textile. After the year 1929 the experience of Turkey was also in the same way (Herslag, 1968).

During the application of the policy of state control, there has been made some arrangements about the international trade. The main aim of the international trade policy in that time was to avoid trade loans. For this reason the international trade was followed with equivalent contracts. In this period of time Turkey only made imports from the countries that Turkey has made exports. Turkey has restricted the imports of the products that are just manufactured in Turkey. There has been made many contracts with other countries especially with Germany. The arrangements about international trade were made by the "International Trade Office" established in 1934. After the year 1936 International trade budget has been prepared ( Herslag, 1968).

The policy of restricting the international trade has been continued during the 2<sup>nd</sup> world war. Except the year 1938, in that period the international has always made profits. Especially in the years of the war the export has increased due to the demand for the agricultural products and mines like chrome. But the restrictions have reduced the international trade capacity from 15% to 5%. The increase in international trade also increased the inner stokes of gold and foreign exchange. As a result it was a successful period for Turkey according to international trade.

Between the years 1946 and 1960, private capital has get bigger by new sources. The increase of the capital especially the trade capital has helped the economical and social improvements. This period has opened the rural to trade and created fast urbanization. With the beginning of the multi political party period, the economy has been opened up to foreign capital and this lead the private capital to reach bigger capacities. In this period the approach between Turkey and USA has played a dominative role in the development of the international trade relations. After the year 1947 by application of Truman doctrine and with Marshall Plan, the USA has sent some investigators to Turkey. Although they found out the economy to be strong, they have made sound critiques about the restrictions of private investment. Also they have criticized the



governmental control on the economy. Turkey was made to have radical changes in economy in order to get American aid. These changes were to encourage native and foreign capital. The main reason to add Turkey to the aid program was to help Europe to be reconstructed. For that reason the agriculture has been modernized and roads have started to be constructed. Not only USA but also international organizations like World Bank, IMF and OEEC were dominant on the economic politics (Güngör, 1979).

In this period the most important thing in the international economic relations was the foreign capital. The most important foreign capital was the American aid. Up to the year 1950 the aid was as donations. There have been developments that attracted the foreign capital. Foreign capital was brought in to the country as foreign exchange. But the foreign capital should make investments on agriculture, industry, transport and tourism. After 1950 the foreign capital was free to make investments on any sector. The percentage of the foreign capital to the investments on manufacturing was only 1 of 8 of the total amount of foreign capital (Güngör, 1979).

“The international trade has played a big role after the radical changes of the economic policies. The devaluation made on 7 September 1946, has decreased the value of Turkish Lira. The value of 1 American Dollar was 1,30 TL and it increased to 2,80 TL. The aim was to increase export and to limit import. After devaluation both export and import increased but import increased more than export has increased. This was not a good reason for international trade. The demand for the import goods increased. The increase in import has lasted until the year 1953. In this period by the loaning and with the decrease of export incomes it was a must to limit the imports.

The limitations applied in different levels according to the amount of the foreign exchange. The exports could not get increase because the manufacturing process and services have been using imports.” ( Güngör, 1979, p.67).

Payment for the loans after 1953 has started to become a problem. Then USA has decreased the amount of the economic aid. IMF has made the government to take some consistency precautions on 4 August 1958. These precautions can be concluded in 4 parts. These are; ( Güngör, 1979).

1. Devaluation of Turkish Lira
2. Aborting the limitation of imports
3. Limiting the budget consumptions
4. Creation of “Governmental Economical Organizations” and increasing the prices of governmental services.

In this period the precautions couldn't reach to stability, because in this period imports continued to increase and economy has become dependent on imports.

After the year 1962 the economical policies based on planning. After 1963 plans of 3 or 5 years was dominative on investment policies. Governmental investments rely on the annual programs that are formerly planned in five year plans. Private investments needed the approval of Governmental Planning Organization to get governmental aid.

Government has helped the manufacturers of iron-steel, cuprum, aluminum, petro-chemical materials. It was to prevent the dependency of the industry for the import materials, but the dependency for the imports increased.

In this period the percentage of the export within the national income was very small and also it has retreated. Although the dependency for the imports and the low export capacities the international trade increased between 1962 and 1976. The main reason for that was the joining of foreign sources. The short term, long term credits and foreign aids has reached to 300-500 million dollars per year between 1962 and 1974. At years 1975 and 1976 it reached to 1 billion dollars. Another source was the foreign exchanges provided by Turkish workers in Europe. But in that period the dependency for the import increased and the export has been ignored.

60's was a period of that the international trade has been controlled with steady rate of exchanges and with quotas. At these years the international loans was controlled by a consortium established to help Turkey by OECD in year 1961. After 1968 IMF has made pressure for devaluation and for the liberalization of international trade regime. ( Güngör, 1979).

After 1974 parallel to the increase of petroleum prices the world's economy was stagnating. Turkey has given a reaction by sustaining the export and national incomes by short term loans. After these policies the economic crisis has returned more severe where the crisis could be avoided by simple but planned precautions.

In 1977 the international trade gets worse; export has decreased 200 million dollars according to the previous year. Imports increased 13%. The difference between the imports and exports has been bigger than 4 billion dollars in negative way. At the end of the year Turkey was unable to find credits. To buy petroleum Turkey should have paid in advance. The fulfillment for new credits was to reach an agreement on standard consistency policy with the IMF. Turkey has started to make sacrifices to reach to an agreement with IMF. These have been followed with inconsistent unsuccessful economical policies that trying to overcome the economical crisis with price controls.

### **3.2 Legislation for Foreign Direct Investment in Turkey**

Finding business premises is a top priority when a company from overseas decides to establish a base in Turkey. In addition, if an expatriate will be sent to Turkey to run the operation, he or she will need a place to live. Client A, a telecommunications equipment company that belongs to a European-based group, needed a centrally located three-person office and housing for its expatriate manager and his family. This company chose an office in Ankara business district, which is close to the area in which many government buildings are located. The entire process that we have mentioned below can take about a month and a half and sometimes even more because of the bureaucracy of the government. The Background is that a legal or natural person must have a business address in Turkey is extremely important. Without it, a company or the person cannot complete corporate registration formalities. This address is also necessary for other applications and paperwork. And the more time a company representative spends in Turkey attending to this task, the greater the start-up costs. If this person is stationed in Turkey throughout the entire search process, his or her company will have to shell out big amount in a month for

transportation, accommodations, and other basic needs. He or she have to fulfill the legislative sight of the FDI, which is stated in the Foreign Investment Law.

In Turkey, the Foreign Direct Investment is subject to the Foreign Investment Law no: 6224, the Protection of the Value of the Turkish Currency Law No: 1567 and the Law concerning the Organization and Functions of Undersecretariat of Treasury and Undersecretariat of Foreign Trade No: 4059. And the special regulation concerning petroleum, the Petroleum Law No.6326.The FDI concerning on permits shall be issued in accordance with the following principles:

Persons and legal person's residence abroad shall be permitted to invest in Turkey, also to engage in commercial activities and others such as;

- which are beneficial to the economy of the country
- are in areas which are open to the Turkish private sector
- do not entail any monopoly or special privilege.

Which are stated below:

“Real persons and legal entities residing abroad may engage in all types of industrial, commercial, agricultural and other fields aimed at the production of goods and services provided that such activities are listed in permits and/or incentive certificates granted by the General Directorate of Foreign Investment (GDFI), Undersecretariat of Treasury (UT), and published in the Trade Registry Gazette of Turkey.

Provisions of related legislation are reserved on the matters regarding the banks and establishment, operation permits and all sorts of transactions subject to special regulations, of financial institutions whose main fields of activities are money, capital markets and insurance.” (Undersecretariat of Treasury, Official Gazette, 1995)

The investment can be in sort of capital inflow or equipment, machinery.

The following items imported front abroad for the efficient establishment or expansion of an enterprise coming within the scope of the present law or for putting the same again into activity:

1. Capital in the form of foreign currency.

2. Machinery, equipment, tools and similar articles, machinery components, spare parts and materials and other necessary commodities to be approved by the Committee,
3. Services and rights over immaterial property such as patent rights, licenses and trade Marks...

The Undersecretariat has the right to make amendments that are in contact with capital increase, capacity increase, issuance of permits for new productions and participation ratio for existing foreign investments.

If there will be a change in partner's participation ratio or capital increase, foreign capital companies shall apply to the GDFI, UT. Existing foreign capital companies are free to use advance capital from their local or foreign partners for their future capital increases. (Undersecretariat of Treasury, Official Gazette, 1995)

The Undersecretariat of Treasury (UT) has the right to investigate and finalize the transaction concerning purchase and sale of stock of foreign companies. In accordance with the provisions of foreign exchange legislation, shall not be effected by foreign capital Framework Decree unless they are registered under the Foreign Investment Encouragement Law. Foreign capital brought into Turkey is set forth in the article Performing commercial activities and setting up unincorporated Companies in Turkey by person's resident abroad except building up companies and opening branch and liaison offices in accordance with foreign Investment Legislation and petroleum Law, concluding license.

“...Principles regarding foregoing point and the transfer of the profit, Sale and liquidation values to be paid in return for license and representation agreements are determined by the Ministry.” (Undersecretariat of Treasury, Official Gazette, 1995, p. 3)

The Undersecretariat will endorse a transfer guarantee on shares or temporary receipts, which are registered in the name of persons or legal person's residents' abroad.

Lists of other Laws and Regulations Related to Foreign Capital Legislation;

-Decree on State Aids for Investments No: 94/6411, 1994

-Law on some Investments Executed through the B.O.T. Model, No: 3996

- Law about Regulation of the implementation of Privatization, No: 4046, and Law amending this Law, and Law: 6224, No: 4105
- Law No: 4108 Concerning Amendment in Law on Tax Procedures No: 213; Law on the prosecution of Public Receivables No: 6183; Law on income Tax No: 5422; and Law of the Value Added Tax No: 3065.
- Decree on The Protection of the Patent Rights, No: 551
- Decree on the Protection of the Industrial Designing Rights, No: 554 -Decree on the Protection of trademarks, No: 556
- Law No: 4110 Concerning Amendment in Law on Intellectual Property Rights No: 5846 dated on 05.12.1951
- Law No: 4077 about protection of Consumer Rights -Communiqué on the corporate Tax, No: 51
- Communiqué on the income Tax Law, No: 187.

The provisions of the FDI are as follows:

The approval procedure; The authorized approval agency for foreign investments, including capital increases as mentioned above, is the Undersecretariat of Treasury, General Directorate of Foreign Investment, (GDFI), located in Ankara. Where foreign investment participation exceeds US \$ 150 million, UT has to seek approval from the council of Ministers. The application for approval has to be in Turkish or in English and should be presented with the following documents:

- Certificate of Activity
- Annual Report
- Copy of Passport (applicable to the individuals) It must be certified by the Turkish Consulate or by a Turkish notary.
- Letter of Commitment
- Two copies of feasibility study including:
  - Performa Invoices
- Global list of machinery to be imported.

### **3.3 Recent Developments In Turkey-Foreign Investment Issue**

The manufacturing sector comes with 90.92 million at first rank. The services sector comes second with 74.99 million US Dollar. When we look after the groups:

As it is apparent in the table showing the breakdown of FDI inflows according to home country groups ,% 98of the total amount belong to OECD countries and dominant position of EU Countries in this amount reflects the traditional pattern of the composition of FDI inflows.

Table 3.3 The Breakdown of FDI's according to Home Countries (Source: YASED)

EU Countries	125.87 million\$
OECD Countries	37.08 million\$
Other Countries	3.68 million\$
Total	166.63 million\$

Foreign investment has been intensified in manufacturing industries, especially in transport vehicles, cements, chemicals, electronics, food manufacturing and iron and steel, in the services sectors like tourism, banking and other financing sectors. As we can see below;

As we can see on the Table industrialization is considered the fundamental factor in development of Turkey and special importance has been attributed to this sector. Combined with an outward policy, major capacities have evolved in almost every sector of manufacturing industry.

The Turkish economy is in the process of rapid growth in virtually all sectors of manufacturing industry, in energy, transportation and communications and in tourism as well.

It is obvious that, being the inheritor of the natural and cultural treasures of thousand years, Anatolia possesses an extremely high tourism potential, against that point compared with the successful states in tourism; Turkey has to attract more tourist than till yet because of his natural sources and cultural treasures.

These facts show us that the positive developments since 1980 continues, through the positive approaches in the legislation and administration; like the opening up defense industry, free trade zones, energy, transportation etc.

In spite of other developing countries, Turkey has natural sources due to his location. It has an expanding market between the Europe and Asia. For that reason Turkey has taken some precautions to attract these expanding markets. These precautions are:

Privatization; the privatization program was first discussed in 1984 as part of the new economic policies. The government carries the role where the private sector would not or could not enter because of the factor like; profit and the nature of public services like defense, health, education and infrastructure. The remaining State Economic Enterprises (SEE's) were opened to domestic and foreign capital.

This responsibility of this program was given to the Prime Ministry, Housing development and Public Participation Administration (HDPPA) which was established in 1984. The related regulation was Law No.2983 dated in 1984 "Encouragement of Savings and Acceleration of Public Investments ". With the Law No.3291 dated 28 May 1986 amends the procedures and responsibilities for the privatization program. HDPPA was separated into two different administrations on 10 April 1990.To the Public Participation Administration (PPA) and Public Participation High Council (PPHC). PPA was given the responsibility of conducting the privatization program, managing the public Participation Fund and Financing major infrastructure projects. Laws 2983 and 3291 set these responsibilities and procedures about the privatization process forth. Law 2983 was founded on 6 January 1992 as the decision making body of PPA. PPHC is a body of Ministers of State and Deputy Prime Minister, Minister of State, Minister of Public Works and Housing, Undersecretary of State Planning Organization, Undersecretary of Treasury, Chairman of Public Participation Administration and directed by the Prime Ministry.

Up to present there are many SEE's privatized like; most known Petkim, Sumerbank and Turkish Airlines. Also 28 subsidiaries banks and the state shares in 71-equity participation have been transferred to the PPA for privatization. The methods used in privatization of a company were set forth through PPA's the decision of the objectives are given according to their nature and characteristics. PPA is entitled to select the suitable option for the privatization such as awarding management contracts, assigning leases to private sector



companies, selling shares through public offerings, stock market flotation or block sales to domestic and international investors. A privatization program has been developed according to the global privatization policy. According to this framework the necessary legal and financial measures has been arranged under the privatization program (Güngör, 1979).

Table 3.4 Breakdown of FDI's Approvals by Sectors (Source: YASED)

Sectors	Permission Num.	Foreign Capital Million\$	Type of Investments (000\$)			
			New	Expansion	Increase In Capital	Portfolio
<b>Agriculture</b>						
Agr. Service	1	0,594	0	0	0	0,594
Agr. Total	1	0,594	0	0	0	0,594
<b>Mining</b>	1	0,123	0,123	0	0	0
Mining Total	1	0,123	0,123	0	0	0
<b>Manufacturing</b>						
Food Man.	4	36,737	0,051	0,577	1,109	35
Beverage Ind.	1	1,03	1,03	0	0	0
Textiles	1	0,051	0,051	0	0	0
Ready Made Garments	3	23,616	6,616	0	0	17
Printing	1	0,317	0,317	0	0	0
Chemistry	3	1,072	0	1,072	0	0
Ind. Chemicals	2	6,535	0	0	1,897	4,638
Plastics	3	1,882	1,781	0	0	0,101
Ceramic Prod.	2	0,224	0,227	0	0	0
Cement	1	1,402	0	1,402	0	0
Iron-Steel	3	1,181	0,003	1,178	0	0
Machinery	1	0,323	0,323	0	0	0
Fab Metal Prod	1	0,273	0	0,273	0	0
Electrical Mach.	3	0,551	0	0,435	0	0,116
Electronics	4	10,161	10,053	0	0	0,108
Transport. Ind.	6	4,798	0,947	2,499	1,292	0,06
Other Ind. Prod	2	0,767	0,484	0	0,283	0
Manfact. Total	41	90,920	21,880	7,436	4,581	57,023
<b>Sevices</b>						
Trade	28	10,769	6,281	0	0,162	4,326
Restaurants	8	0,474	0,473	0	0	0,001
Hotels	5	17,046	0,111	13,162	3,669	0,104
Construction	5	9,28	0,145	8,981	0	0,154
Transport Ser.	2	0,433	0	0	0,397	0,036
Communication	1	1,147	0	1,147	0	0
Financial Instit.	1	1,997	0	0	1,997	0
Other Soc. Ser	1	5,252	5,252	0	0	0
Other Activities	2	28,596	28,333	0	0	0,263
Services Total	53	74,994	40,595	23,29	6,225	4,884
<b>Grand Total</b>	<b>96,000</b>	<b>166,631</b>	<b>62,598</b>	<b>30,726</b>	<b>10,806</b>	<b>62,501</b>

In February 1988, the first public offering was the sale of 22 % shares of TELETAS; the 40% state owned Telecommunication Company. During the TELETAS sale 19 underwriters and 30 dealers were employed. The shares were widely offered to the public through 4.822 branches across Turkey and 42.000 people purchased. And the second important case in the privatization program was the case of ANSAN-Coca-Cola Bottling Company in November 1988(beverage sector). The point was that the direct sale of the 88.3 state opined shares. (Güngör, 1979).

The six of eight equity participation's which are quoted in ISE (Istanbul Stock Exchange Market) namely Ereğli Demir ve Çelik Fab.T.A.S.(ERDEMİR) steel producer, Cukurova Elektrik A.S. and Kepez Elektrik A.S. ( two electricity utility companies ) , Arcelik A.S. ( electrical appliances producer ),Bolu Cimento Sanayii A.S. (a cement factory) and Çelik Halat and Tel Sanayi A.S. (steel cable manufacturer) shares were offered to public across Turkey in April 1990.

The Privatization is the one of main features of the Government's new liberal economic policy to integrate the Turkish Economy with the world Economy by opening it to international competition through privatization. And "Encouragement of Foreign Capital " will contribute to the establishment of a true market mechanism.

### **3.4 Recent developments in Turkey on Multilateral Agreement on**

#### **Investment Issue**

After Uruguay Round that gives an institutional characteristic to the Multilateral Agreement on Investment in the international trade. Whereas GATT negotiations have been concluded without making a similar arrangement for the foreign capital investment. With the rapidly increasing effect of the foreign investment in the whole world economy was the main reason of the decision taking in the OECD Ministerial Council meeting held in May 1991. Which envisages the preparation of the investment agreement. The negotiation group has formed in accordance with this decision started its studies in September of the same year.

Although the first initiatives regarding multilateral investment arrangements have been partly included in the Trade Related Investment Measures (TRIMS) and General Agreement on Trade in Services (GATS) signed in the end of Uruguay Round. It has been also included in the "Code on Liberalization of OECD Capital Movements" and "National Treatment Instruments" as well as the "Energy Charter Treaty" signed in 1994 and the "Convention on the Settlement of Investment Disputes between the States and Nationals of Other States" within the World Bank. The arrangements that have been made until today was limited to the sectors rules or to the certain factors regarding the foreign investment and the protection standards and which are open to the participation of the non-OECD nations. It covered all the subjects of the investment. Turkey was and still is representing in the negotiation group and the subordinate sub-groups (specialist groups, draft groups), through the Undersecretariat of Treasury, Ministry of foreign Affairs and the members of our permanent Represents on OECD as well as the specialists from other Institutions who are invited regarding the subject.

The fact that the initiative directed towards preparation has been started on a forum like OECD in which nations that have reached a certain level of economic development, have joined mostly. This point has caused some criticism that this agreement will only serve the national economic interests of these nations and that it will provide the multinational companies of these nations. That directs a big part of the investments, with certain advantages, which may constitute a threat against the national sovereignty of developing nations that will be a party to this agreement. It has been noted that various circles in our country have also articulated this kind of criticism being on the agenda of the world recently.

In case of coming into effect of this agreement, it is possible to state that this agreement will provide various advantages to the foreign investors because the uncertain investment regime, which takes the nations as a basis, will be routine under the accepted multilateral rules. And also the the agreement will prevent the discriminatory treatment towards the foreign investors through the basic disciplines such as "National Treatment", the "Most Favored Nation" and "Transparency" that the agreement has foreseen. On the other hand, the requirement for making an

international arrangement for the arbitrary national policies implemented towards liberalization of the existing capital regimes which has been used as an important attraction factor in the competition especially started between the nations in order to attract more foreign capital has become more and more acceptable. Therefore it is not possible to say that the agreement will be good for the nations which aim to attract the foreign capital in this regard, but on the other hand this wouldn't be beneficial on some sectors that will be examined later not beneficial. (Güngör, 1979).

It is considered to be impossible to make a credible assessment for today on what kinds of results MAT will lead as for the nations which are a party to the agreement on whole world because of the disagreements continuing among the parties on various subjects in the end of the discussion held for about two and a half years. However it is an obvious fact that the existing foreign capital regime of the nation, which is a party of the agreement and will be affected by the results of the agreement in a positive or negative way. This must be taken as a basis to form a judgement on these subjects when making an assessment within the framework of the draft text of the agreement.

The Law 6224 on the Encouragement of the foreign capital being in force since 1964 and the related regulations and announcements as well as "OECD Code on Liberalization of Capital Movements" to which Turkey is a party, "OECD National Treatment Instrument", "The Convention on Settlement of Investment Disputes between States and Nationals of the other States ", "UN Convention of 1918 on the Recognition and Implementation of the foreign arbitration resolutions" and the "The Agreement on the Mutual Encouragement of the Investment " of which discussion process with 32 nations is at the various stages and which has been approved by the 29 nations and has come into force constitute the foreign capital regime.

Turkey issued the The National Reservations in 1986 that her procedures require within the framework of the "OECD Code on Liberalization of the Capital Movements" to which she became a party in 1961 and the "National Treatment Instrument". Similarly Turkey has 30 Reservations in eight different fields on the draft text formed during the discussions on MAI. These reservations are not final because the draft text nations can freely implement more liberalization in their existing regimes. At present MAI does not include any provision envisaged the

necessity of the opening a sector which is not open to the foreign investment to the foreign Investors in accordance with MAI. However, it is not possible to withdraw an arrangement made towards liberalization.

MAI does not include any limitation on the existing authority of the state regarding privatization and establishment or abolition of the monopoly. Regarding the indemnity that MAI envisages for the damages of the foreign investors, in accordance with our legislation it is not possible to seize a company which was legally established. And also carried out activity, without paying indemnity, therefore there does not exist a more advantageous right according to MAI, except for this implementation.

Other participant nations have also any reservations regarding draft text of the agreement. For example, Canada has detailed reservations on 17 different fields, France on 13 different fields, Italy on 7 different fields and Germany 6 different fields. However it is assessed that a big part of these reservations have stemmed from the sectoral strategy and policies that the nations have adopted, as it was the case in the reservations of other participant nations. The main policy, which Turkey has pursued in the field of foreign capital especially from the second half of 1980s, has to basic factors. These can be summarized as follows:

- 1) Increasing the foreign capital investments about which it is thought to contribute to the economic development of the country.
- 2) Establishing a liberal foreign capital regime.

Within this framework, national policies and economic requirements are considered and discussions of multilateral Agreement on Investment are continued with the sensivity of cooperating with relevant authorities.

In addition to this, it shouldn't be avoided that approaches which are open to foreign capital, partly sectoral (like energy) in company unification and acquisition fields have been established through privatization efforts and build-operate transfer, build-operate

models in important and expensive investments. In this respect, as it was explained above, it should be noted again that Turkey has 30 reservations in eight different fields.

Regarding the foreign capital investments in cultural fields, since there is a tendency that the subject of culture will be involved in general exceptions of the agreement, Turkey did not include this subject in its reservations but announced that it will keep its reservation right.

Concerning the solution of the international disagreements, as one of the parties of the Convention on Settlement of Investment disputes between States and the nationals from other states, which was open to signature on the World Bank platform and had been in effect since 1969 up today. It was also signed in 1988 by Turkey; Turkey admits that disputes that may arise with foreign investors can be brought to international arbitration within the framework of rules of international center for the Settlement of International Disputes (ICSID). On the other hand, it is considered by all agreements on the mutual encouragement and protection of the investment (AMEPI) that possible dispute between foreign investments and local courts or international arbitration can settle home countries. Between 28 OECD nations and Turkey, there are eight AMEPIs, which are in effect. Therefore, it is not expected that MAI may impose any new obligation on Turkey, regarding the Settlements of disputes.

## CHAPTER 4

### Region And Planning

After 1980; when the end of the history was claimed, and when the ideologies have lost their importance, established order of the world has been redefined. By the events some said a new world order will be built and some said that a complete irregularity will be dominative. Both sides agreed one thing that whatever it's name is, the changes on earth would result in an expectation of serious conversions. As a matter of fact; in the short period up to the beginning of the new century, the expected changes in social, cultural and economical areas occurred in light velocity. Each place on earth made a move to catch the development and to be counted in the new construction. In this study, the effects of the changes (mostly in the view of economical dimensions) in the financial areas on the spatial choices will be opened to discussion.

A new (dis)order is formed over two big world wars and the cold war which lasted almost a hundred years. The financial politics of the nations and governments which were very important in the last century leaves their importance on the economy to the "Trans National Company's (TNC). In spite of the former period which the national roots were very important, now the TNC's having international specifications, take their places in the new development by their foresights. This new accumulation of capital, which is limiting (!) its activity area as the whole earth; is bigger than the budget of the World Bank.

By the means of this new (dis)order, the traditions are exposed to radical changes; the colonialism which dominated the period after The Second World War was taking a new shape parallel to the new developments.

As a paradox, on one side as the financial capital is declaring sovereignty, on the other side space is getting a meaning as if it is discovered recently. It was expected that by the density of the financial structure the productivity scale will decrease but it is observed that a behavior, which is suggesting flexible production, dominant.

In this manner, as expected, the territorial share of the earth is seriously exposed to a revision. After the war the share in the conjuncture, has lost its importance. The financiers, which are supporting the idea that the TNC's should make the distribution of finance, are not satisfied with the arranging; the new geographies which are candidates for the new construction and the new distributions for the functions.

The governments are new in a hard situation that they cannot defend the functions they have been carrying out. This situation has caused the capitals to organize themselves to be sufficient more directly to their necessities. However it is not for sure, for today and near future it can be said that the national governments and the geographical borders are not untouchable anymore (Keyder,1996).

After the year 1945; there has been a period that, the new countries having their liberty newly used to keep their relations with one pole or with both to opposite poles. For now this period is over. But now many politicians of The 3<sup>rd</sup> World -nation-countries are agreed that the "so called liberty" has derivated many dependent relationships. These countries are now in a period to try to overcome their financial debts and to adaptate to the new process. They cannot be insensitive to the demands of the groups of the capitals anymore. It is commonly expressed that the shrink of the governments and the retreat of the governments in the financial arena will result in the rational operation of the marketing.

As a result by the new economical politics and propagandas supporting these politics caused the nation government authorities to be effected in a bad way. In this new process, the different regions in the countries; are defining their global relations independent upon the central authority.

With a different point of view we can explain these changes as follows: Capitalism, since it's beginning, has progressed for maximum gain without any limitation. But time to time it has been forced to compensate against the politics of the governments. Some times it has utilized the politics to keep competing with other capitals. After the1970's, the rate of the rivalry has increased by the capitals abandonment of the political borders. Technological improvements provides the



production in anywhere of the world. The fact that is called globalization can be seen clearly now (Keyder, 1996).

Whether political or managerial, the legality of all present borders is interrogated. Also different people have already refused the borders. Enlightens the definitions of the fact, called region affected by the recent border discussions, according to the changing spatial paradigms by making semantic investigations.

Web shaped economical organizations and relations destroy the meaning of border and contradict with the theory of borders are sharp and stable. The space including different networks are now getting beyond the physical borders. This situation means that the recent meaning of border is not valid anymore. Additions or separations of different units to these networks results in a change from steady and defined structures to continuously changing relationship systems. In this situation the strict hierarchical definition of the role of the units is not accepted.

The decisions defined above and the distribution of knowledge independent from space between the members of the network leads us to a question. This question is: According to which data will be the politics about the development of a region, will be decided.

As a result the firms belonging to a region can develop relations with the other firms at the region and can reach to world markets. Also these firms can make cooperation's and at least they can communicate with the firms of other countries in the world. Relations are now independent from space, this is the result of that relations are forming around the common profits (Eraydın, 1995).

## 4.1. Region Concept In Planning

The etymologic roots of region come from Latin word region which means environment, area. Region as a fact has multi meanings and it is highly relative and can be looked from many points of views. For example in the scale of countries region can mean several countries. In the regions of Europe, it means member countries and also it means several units occupying settled places. In the recent years, in the terminology of international law; the region also has gained the meaning of the union of the countries which have commons in geography, politics and economics. An example for that can be The European Union.

The main specifications of a region are; occupying a geographic area, having similar economical and social structure, having same ethnic, cultural, regional properties around a common history, and surrounding the people that speaking the same language. For a definition of "Region"; geographic, ethnic, cultural, industrial, urban, managerial, measurements are used. For example if we consider geography as a measurement the regions can be; mountain regions, border regions, coast regions, or center regions. If we consider managerial measurements, regions can be planning regions, economical regions, cultural regions (Mengi, 1998).

The semantic analyze of region shows us the piece of the land that it's borders are decided according to managerial or economical commons; land, landscape similarities or according to the historical, cultural similarities of the people of that land. (Larousse 1986, Turkish Dictionary 1986) The definition brings a spatial limitation, but also it tries to catch commons in managerial, economic, physical and socio-cultural components. The definition also has the will to make a homogenization. According to the traditional logic the region means the integrity of local units which have come together by their commons and the borders of this region is closed to out of national government borders, and again this region is ruled by this national government. As an addition to this definition, in the point of view of planning and analyzing the region shouldn't be as small as a city and shouldn't be as big as a country.

"In this manner planning of a region means the economical, social and physical planning

of a region. It is the most rational arrangement of the space and to equip this arrangement as required."(Taneri, 1977) "As a conclusion region planning is the period of formulating and explaining the social goals within the process of regulating the activities with respect to time and over a scale bigger than a city."(Tekeli, 1972, p.121)

The concept of region now means a unit which is defined with global relationship net, and which is the union of locals that are not continuous spatially, and which has changing borders and can be open to international relations directly. Region planning applies the new developed integration methods, and tries to create opportunities for the locals by making interferences to advantageous sectors in the new structure of globalization. As opposite to the former years now the investments and the incitements are now densed on certain sectors to increase successful productions and to increase the chance to compete in international arena. By the light of these developments, the facts called public finance, public service, balanced regional development have lost their necessities when compared those years which the progress paradigm was valid.

The natural sources in the world are not distributed as balanced. In period according to political and economic choices the politics has worsened the imbalance in the distribution of the natural sources. So the Region Planning is based on the theory of making the distribution of the natural sources more balanced. Generally it is done by supplying investments to undeveloped regions, preventing the negative effects of the metropolitans which have developed out of balance and providing a geographical identity to the national development plans... After the war parallel to the developments in the world, by the applications of region planning, it has been desired to realize the arranged general aims. It was the golden ages of region planning, the sciences of region planning was newly getting it's theoric meaning and Walter Izard in his book named "An Introduction To Region Science"; has said:

"The region science is obviously related to regions. But the region rather than a free and pure area, gets meaningful to a region scientist when it is considered whit it's problems which are wanted to be investigated and solved by the region planner."(Isard, 1975, p.11)

## 4.2 Periodic Chancing Of The Region Concept

When we consider the space affected by many psychological, social, political, economic, physical factors; for all the application scales even including national and town scale; the region planning becomes most discussed and most speculative planning step of all. The discussions are made mostly on the applications methods, application tools and planning borders rather than the necessity of the planning period. So region planning is neither a choice of an ideological structure nor a possession of the central authority. Region planning is a compulsory tool to define the spatial geography. In the planning period it is a compulsory to make spatial classifications to define the commons and different because it is impossible to handle and make investigations on large areas. For such an analyze the valid analyze techniques will not be adequate and also it will not possible to catch a common language in the areas which are physically, economically, socially very large. This means the variety caused by social, economic and physical components make the spatial differentiation to be a compulsory.

Beside it is accepted that the region planning studies are necessary, the discussions are still continuing about concept of region planning in the country and all over the world. Furthermore if care the terminological indefiniteness caused by the globalization; it is possible that parallel to the new meaning of the region planning in progressing years, new discussions about the concept will probably shaping. By the known effects of globalization, loosing the necessity of the national borders and by the change the view to space depending on the new communication and transport comforts, the fact called region is the most affected concept.

As it can be seen by the explanations made up to now; the theoretic definition of the concept called region planning, the discussions about the scale and the necessity of the applications is not in question. The main problem is intensified on the chaos of the application and the decision of the planning limits. Because of this, the definitions of the plan region limits are made sometime on the managerial, sometime on the socio-cultural, sometime on the physical and economic platforms.

The problems of the region planning directed to the application are getting more complex by the new discussions made in recent years. Parallel to the changing meaning of region, the region planning period is also conceptually changing in application scale in the academic environment which is busy with local-global discussions. In this period the traditional definition of region is seriously overhauled and a new definition takes its place with a completely different concept.

The definitions made above are generally explaining the region planning in general theories applied by the dominative progress paradigms belonging to the period after the war. But totality will not be so realistic if the region planning studies are made by these definitions. A valid planning region is changing due to the social, physical and economical factors even within the planning period. So it is not convenient to try to solve the problems by using the 30 years earlier data and to form the theory of the region planning. After the years passed by the limitation discussions, the biggest mistake will be to limit the region planning within the same conceptual platform.

Beside the years that planning was in its golden years, today the region planning has content which are far away from its older declarations. Planning, as a creative, applicative association, has become the applicator of the capital because of the limitations of the governmental authority in the activity and application.

"These developments and the new position of the regions in the world system are defining the new function of region planning. Region planning of today; economically is the project of becoming united with the world system and becoming demarcating."(Eraydın, 1997, p.19)

Region is a highly relative concept. So the reality that we catch by the lines for the border definition is in one way equal to the success of the region planning studies. Anyhow the change of the meaning of region and region planning is mainly shaped by the boundaries changes.

By the comparative/periodical investigations of region shows us that first scientific definition is made by the studies of the cartographers in the 18<sup>th</sup> Century. It has been recognized that river basins are forming logical regions and the first region definitions

were made depending on the natural formations like rivers, mountains. Afterwards by the studies of the geographers, definitions has been started to make by geographic specifications. In those times borders of the empire were based on the unity of the agriculture sector and the agricultural producing areas.

When we come up to the 19<sup>th</sup> Century as an addition to the physical structure, the question, "are the people showing similarities living on the spatial units?" has been asked. But it hasn't been dwelled upon this subject because of the worries that it could lead to some problems. In this period that by the discovery of the element, human; beyond of the physical elements the necessity to define the social and cultural properties have been recognized.

The main discussions in 20<sup>th</sup> Century was about the question, "will it be a problem for the forming of national governments to define the regional differences?" as a matter of fact it was worried that the regions defined by anthropological and cultural differences will prevent to become a united whole. So the studies, emphasizing the homogeneity of the national governments, have become important. On the other hand by emphasizing that the main idea of becoming a unity will be economical, the differences within the national governments are defined by the economical indicators.

After The Second World War when the progress economics were actual, especially the undeveloped countries have taken the progress economics into consideration for the economic independence. This tendency has last up to the 1970 crisis and parallel the region planning studies were applicated intensively. In the period, that country was considered as a whole and region was defined as half-open piece of the closed system, the region planning was living its advancing years. In this period, within the logic of social prosperity government, by the evaluation of regional possibilities and by decreasing the regional differences, the choices like the development of the regions with their all possibilities have been made. The process of organizing the economical structure, elements and dynamics with a nationalist spatial approach expresses the paradigm which is summarizing the period.

The crisis of 1970 has caused serious changes in the regional politics. The economic conjecture was bringing the idea that each region must utilize its sources as much as

it can. This process in some way can be concluded as the return of the region planning with local elements. But the concept called Regional Development Depending on Inner Expansion, which is shaped by the theme of activating regional sources and developing creativity; is quietly different from the local progress applications of 60's.

The idea of local progress is defining the region as independent units which are closed to outer world, where the new concept is defining the region as interaction with other regions and as a piece of the system. Instead of a graded relation on interactive relation is in question.

In the end of the 80's, with the concept of rivalry and competition a new approach for the conceptualizing the space was in question. In this manner, the concept of region and regional development is too far away from their meaning belonging to 60's. Within the dialect of globalization-localization according to the new definition brought by the new paradigm, the regions are a piece of international system rather than the national governments. The development of a region can be provided only by using the local capacity and accumulation in the conditions of international competitions.

The recent developments show us that the national governments will continue to loose their economical importance and new upper scales formed by mosaics will take place. These new upper scales/umbrella type organizations are defined as an analysis organ for solving the disharmony rather than distribution mechanism. Just it can be concluded from The European Union that the regions must reach to a level that they can start their development. Otherwise it doesn't seem to be possible to provide the interaction and solidarity between the units of a whole. But in this new period while blocks are forming; how will change the concept of government? This situation is not clear yet. Who will be in charge for regions to be equipped enough to be able to use its regional sources. This question is still waiting for a response (Eraydın, 1995).

Eraydın has made a classification including there periods in their studies. According to this, in the period when the borders were made, by natural borders, the region was defined according the geographic specifications. Afterwards, while defining the region

as an addition to physical parameters, social and cultural properties of people also taken into consideration. In this period of 19<sup>th</sup> Century the mind of national government have appeared. Lastly, the post-industrial period, where the borders lost their importance and national governments have lost their prestige, has started. From now on it is certain that the optimization of source usage covers the global arena rather than the regional scale due to the flexibility of space organization brought by the developments in transport and communication sectors. From now on all the sources in the world, whatever their geographic coordinates are included to producing process according to their relative superiority.

### **4.3 Local as a Dominant Dynamics**

In the beginning of 90's, after the application of global scaled economical agreements, to limitate the region planning studies having national plans and space expansion with the applications of progressing paradigm will be a wrong attitude. In the situations when the governmental interfaces and the planning was caused and when the market powers and the self arrangement of marketing was relied on, it is not possible to mention about a progressing rhetoric like in the beginning. After this step, the becoming problem was, while opening the country to foreigner capital according to the comparative cost theory, the politics made for developing incitements were causing limitation. (Başkaya, 1997)

“Meanwhile in the situation of ideological hegemony of the ultraliberal trend, planning used with the concept of progress, plan of progress, five year plan etc... concepts are fallen from favor.”(Başkaya, 1997, p.38)

Today the concept of region planning has succeeded to be dominant in literature by its new meaning and content. Region planning has taken a mission of providing data to economical politics and to territorial share.

“In any country the situations that can attract the capital and big firms is not distributed balanced over the geography and over the sections of community. Because of this, the differences between the groups which are in a privileged position (groups which can



make relations with the capital) and the others is increasing. In this situation the aid of the government can be important. Successful governments are trying to prepare the situations which will attract big firms; they are taking precautions which will lead more of their population to join to world of production.”(Keyder, 1996, p.28)

Parallel to the decreasing activity of national governments the global capital, independent from the central organizations, is forming its local connections again. By the new construction coming from North, the 3<sup>rd</sup> World geography is trying to take its place in this new formation. Municipalities of big cities are trying to bring the international business into their city. They must use their sources to advertise their cities in a better way, because in the national economic crisis the only way to develop for the metropolitan regions is becoming a world city. Addition to that the public sources must be used productively.

In this construction, the region planning that used to be applicated to remove the imbalance between the regions in the country, is now economically trying to become united with the system of world. Local units are trying to take their places in the market by preparing their plans and strategies. The nation economics are now reached to saturation, so development is possible only for the geographies that are supplying the required conditions (Keyder, 1996).

“From these explanations this can be resulted: if especially companies which can make decisions in great scales are so free to make attempions, in any country the politics deciding to the investments and production consequently to employment will not be like the progressive management politics that we get used to in the older period. The aim of these new politics should be to attract the globalized capital. The capital which is moving freely and the capital which is able to make investments to places where it wants will only take serious the choices which are attractive. That is why governments continuing old politics are in a crisis. These governments are trying to keep old politics in order to keep their legality, and the worst; the staff's managing the governments are doing this for their benefits. Because of this they are being late to provide suitable conditions and they are loosing opportunities to be adapted to the new world. Then the activities are limited with local balance, and they are being slow to catch the acceleration which is dominant in the world.” (Keyder, 1996, p.48)

### **4.3.1. Regional Space As Spatial Step Of Planning**

In any country progressing with a plan, the principle of providing harmony between the planning steps has been a common concept. To provide a consistency between the planning steps and the decisions made for different scales is very important. The region planning studies which are trying to introduce a spatial content to the national progressing plans, consisting of economical and society advices, has a dual installation which is also trying to find solution to the needs of local in country scale.

Within the national progressing plans, economical priorities are decided in the perspective of time. Central control has some tools to shape the population distributions and the physical structure. The authority on the substructure and the use of land, credits, and incitements etc... with these tools central control gets the opportunity to activate the national priorities. But there can be some problems because of the political properties and because of the needs of local that couldn't be defined as well. How much should it be sacrificed from both in order to provide the entirely economical development. In this manner region planning is an important interface to provide a balanced distribution in the country and to define the needs of local.

“According to some region planning has an economical tendency and it is related to the share of the sources between the regions by the central organization in order to achieve the regional national aims. According to some others region planning is the planning of progress including the physical, economical, social elements in regions and sub-regions. And it is more than the use of lands.” (Glasson, 1974, p.ix)

To prepare the region planning studies and connect those with the national plan can be provided in two ways. The first approach is to divide the content of the national plan into several region plans. With this national sources, which have been prepared by the sector investigations in macro scale, are distributed the regions. In the second approach the valid region plans are united and a united national plan is formed. In this approach; prepared region plans and Sectoral balance is tried to make harmonious with the national progressing aims.

### **4.3.2 A Regional Critic In Economic Development**

The concept of progressing is one of the most used concepts in the last 50 years. But it was not wandered so much what it really means (Başkaya, 1997). Even at the last point the most considered part of it was about the economical content. It real investigation hasn't been done about the content of the concept after The Second World War. All sections of the community especially the managerial sections have been persuaded that it is a desirable and positive fact. It has been widespread that the only way to reach to the prosperity/civilization level of the western governments is to follow the progressing ideology. In time progressing paradigm lying on economical priorities have started to be discussed with its social and cultural point of views. The period of reaching to the aims of economical progressing plan and the productive use of the sources has created some new topics and tools.

As a matter of fact to comprehend the importance of the fact space in the economical analyses is a product of the needs. Within the studies the arising blank has been filled by the economical analyzes in region scale. by both of qualitative and quantitative evaluation of the region, the region has been a subject of the imbalance happened in space. And the use of region as a scale is the main reason of the deal with the concept.

The regional scale economical analyzes of developing countries must understand the whole of the country because of the limited natural, social and economical sources. Also for supplying inventory and comparison period the region unit provides the best spatial scale(General Secretariat of National Security Committee,1993).

There are different opinions to apply the progressing and planning concepts together. Planning as being the main component of the beginning and continuing steps of socialist system, is also used by capitalist systems. However the progressing ideology of the capitalist system doesn't need to a plan or to a search of balance. In other words, if the progress is measured by economical data, rather than a interregional comparison, the comparison is made by the final product and densed on

the unit rational success. This application, which is commonly, faced in exploitation regimes, can cause serious problems in long terms.

“Even if the non-equality and imbalance is accepted as the nature of the development process, the idea of the new century for the social prosperity government, suggests not to be stable against the imbalance and suggests to remove the non-equality between the reach and poor regions... the problem is how much will it be sacrificed from both ideals for the social justice and economical development for today and future? In other words if seem that it is the choice problem of these two.” (General Secretariat of National Secretary Comitee, 1993, p.36)

In certain situation of economical developments it is dealed differently with topics of region development and interregional imbalance. (General Secretariat of National Secretary Comitee, 1993)

It is possible to separate the strategies providing the regions to develop in 3 main groups according to several politics especially investment politics. First strategy is to distribute the valid sources homogeneously to the country. This process which is called localization is criticized generally by the economists because it causes extravagancy. Another strategy is to dense the investments at the development poles and attractive centers. Especially in non-developed regions these development poles provide the benefits from the density and provide to prevent the regional imbalance. Lastly the idea of, accelerating the progress by increasing the priority to non-developed regions, especially by making public service investments are accepted. (General Secretariat of National Secretary Comitee, 1993)

## CHAPTER 5

### FDI'S AND ECONOMIC DEVELOPMENTS TURKEY AND AEGEAN REGION

“After 1980, two directions of economic and political life can be realized in Turkey: reducing the labor incomes and arranging the dynamics of economic development to accord with the demand in foreign market. The objective underpinning this policy can be summarized as to amplify the local and foreign investments in the country, via both types of interventions.” (Keçenek, 1986, p.217)

When assessed with regard to the investments, apart from the fact that the local capital of the private sector cannot display an investment increase as expected, it is also not possible to identify a severe increase in those data which include foreign capital investments.

“In data of the period between 1985-90, which directly display the shares of foreign investments of the countries; the annual average share of Turkey within the world total does not even reach one million dollar and, according to the general distribution, it seems to belong to the category of the least in rates of share. On the other hand, the percentage of those investments which directly fit into the new definition of investment is only about 4 %.” (Yabancı Sermaye Derneği Bülteni, 2001/4, p.9-10).

Parallel to the worldwide increasing capital movements from developed countries to the developing countries; foreign direct investments into Turkey have been increased substantially since 1980. According to Table 5.1, showing the foreign capital flow after 1980 to the national geography, which was then in a rather depressive geopolitical position in terms of such a flow, it can easily be noticed that the rate has rapidly increased following 1985. As it was already known, FDI's into Turkey have risen to a great extent after the 1990s. In comparison to the permission given to the flow of foreign capital, that the increase in question refers to a considerably limited level.

As Table 5.2 shows that FDI's in manufacturing industry comprise 52,70% of all foreign investment inflows to Turkey. The investments in service sector constitute the second largest category with 44,50% share of total FDI's; and the rest is belonged to agriculture and mining, respectively, 1,80% and 1%.

Between 1980 and 1988, there were slight increases in FDI's; but from 1988 to 1989, the amount of FDI was almost doubled and reached to \$1,511.94 million. Berksoy and Saltoğlu (1998) declared that:

“During the period between 1990 and 1996, foreign direct investments' share in special capital movements into developing countries slightly decreased from 56,6% in 1990 to 42,4% in 1993; but increased to 48,1 in 1996. They, after analyzing capital movements in Turkey, found out that while the share of short term capital movement was increasing, the share of foreign direct investments decreased from 16% to 7% between 1990 and 1996.” (Berksoy and Saltoğlu, 1998, p.19-20).

Among the countries invested in Turkey, France, the United States, Germany, the Netherlands, and Switzerland are the first five countries whose investments have constituted the greatest shares in total FDI inflows to Turkey from 1980 to 2002. (Undersecretary of Treasury web page).

Much of the FDI literature has analyzed the distribution and locational behavior of foreign investors. In his work on multinational enterprises, Dunning (1981) showed that the location of FDI reproduces the general distribution of demand in the host economy. Dunning and Norman (1987) demonstrated that foreign business and professional service firms rated proximity to clients and specialized services, and access to the pool of skilled professionals highly.

Woodward and Glickman (1991), Hill and Munday (1992), Ondrich and Wasylenko (1993) examined the determinants of the location decision as influenced by national and regional characteristics. Bagchi-Sen (1995) investigated the temporally varying effects of a set of location determinants on the location of FDI in finance, insurance and real estate (FIRE) sectors. Findings of this study indicate that the locational association of FDI in FIRE with their domestic counterparts weakened in the late

1980s compared to the early 1980s. Hill and Munday (1992) indicated that financial incentives and access to markets were important determinants of the regional distribution of new FDI projects and jobs in the 1980s. Yet, in spite of the importance of FDI, our knowledge about its development trends and locational characteristics is restricted in Turkey.

**Table 5.1** Foreign Direct Investment Inflows to Turkey, between 1980 and 2002

(Source: Undersecretary of Treasury web page. (As of Jan. 2003))

Years	Authorized FDI (\$ million)	Realizations (\$ million)	Number of Firms
1980	97.00	35	78
1981	337.51	141	109
1982	167.00	103	147
1983	102.74	87	166
1984	271.36	162	235
1985	234.49	158	408
1986	364.00	170	619
1987	655.24	239	836
1988	820.52	488	1,172
1989	1.511.94	855	1,525
1990	1.861.16	1.005	1,856
1991	1.967.26	1.041	2,123
1992	1.819.96	1.242	2,330
1993	2.063.39	1.016	2,554
1994	1.477.61	830	2,830
1995	2.938.32	1.127	3,161
1996	3.836.97	964	3,582
1997	1.678.21	1.032	4,068
1998	1.645.77	976	4,533
1999	1.700.00	813	4,950
2000	3.477.00	1.707	5.328
2001	2.725.00	3.288	5.841
2002	2.243.00	549	6.311
<b>Total</b>	<b>33.995.00</b>	<b>15.729</b>	--

**Table 5.2** Percentage Share of Sectoral Breakdown of FDI's into Turkey Between 1980-1999

Source: Undersecretary of Treasury web page. (As of Jan. 2003)

Years	Agriculture (%)	Mining (%)	Manufacturing (%)	Services (%)	Authorized FDI (Million \$)
1980	0,00	0,00	91,51	8,49	97.00
1981	0,25	0,29	73,05	26,41	337.51
1982	0,63	1,18	59,01	39,18	167.00
1983	0,03	0,02	86,56	13,39	102.74
1984	2,19	0,09	68,51	29,21	271.36
1985	2,72	1,82	60,94	34,53	234.49
1986	4,63	0,24	53,15	41,98	364.00
1987	1,98	0,19	44,86	52,97	655.24
1988	3,33	0,68	59,80	36,18	820.52
1989	0,62	0,78	62,84	35,75	1.511.94
1990	3,52	2,53	65,23	28,72	1.861.16
1991	1,14	2,02	55,69	41,15	1.967.26
1992	1,85	1,04	70,02	27,10	1.819.96
1993	1,02	0,55	76,02	22,41	2.063.39
1994	1,91	0,42	74,94	22,73	1.477.61
1995	1,08	2,06	67,95	28,91	2.938.32
1996	1,67	0,22	16,70	81,41	3.836.97
1997	0,73	1,59	51,95	45,73	1.678.21
1998	0,35	0,83	62,04	36,78	1.645.77
1999	0,98	0,02	66,93	32,48	1.669.57
2000	0,21	0,00	32,75	66,34	3.477.42
2001	0,51	0,1	46,38	48,82	2.725.28
2002	0,16	0,1	40,91	58,76	2.243.00
<b>Total</b>	<b>1,80</b>	<b>0,09</b>	<b>52,70</b>	<b>44,50</b>	<b>33.995.35</b>

Current interest in understanding the locational dynamics of foreign direct investment (FDI) has been initiated by the high rate of increase in the flow of foreign capital to the United States (Bagchi-Sen, 1995). In the last decade, various researchers have investigated the growing phenomenon of foreign direct investment in US



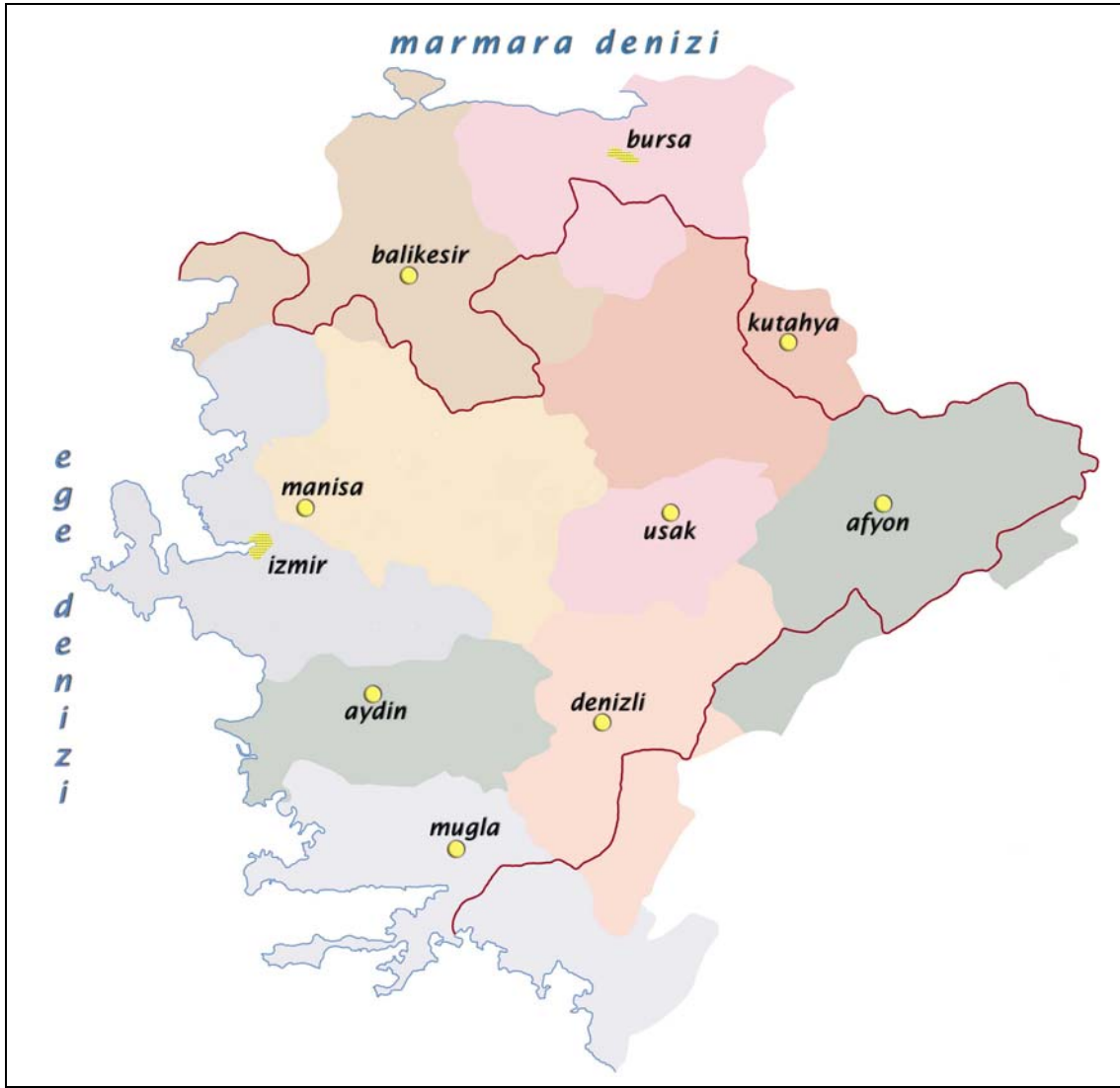
manufacturing. (McConnell, 1980; Glickman & Woodward, 1988; Coughlin et al., 1991; Friedman et al., 1992; O'hUallachain & Reid, 1992)

## **5.1 The State of Manufacture Industry in The Structure**

In order to understand the development of the regional manufacture industry under the 1980 Liberalization policies and to conceive of its structure with regard to basic economical indicators, it is beneficial to outline as to specify the story of manufacture industry in the city of Izmir and the Aegean region. By this way, not only will the basic differences in the urban and regional manufacture industry caused by the different economical conjunctures and restructuring periods, become more explicit, but also will those structural characteristics, which, in context of the basic indicators, belong to manufacture industry, but still which cannot be read, be put on the agenda. It definitely is not possible to interpret the basic indicators without conceiving these structural characteristics.

## **5.2 Liberalization Practice of The Aegean Region and Izmir**

A similar and striking case of the currently liberal experienced practice takes place in the historical past of the region and city. It is as such that, if one of the two cities where the Ottoman state has been articulated to the dominant liberal accumulation relations were Izmir, the other one has been Istanbul. Whereas Istanbul were a political focus included within the chain of world cities during the mentioned period, the city of Izmir represents, not a point of global power, but rather a political and commercial center holding the control of its region. The rich agricultural potential owned by the Aegean region, has assigned the city of Izmir with the identity of a control center responsible for the production and distribution of a sort of a raw material depot, and moreover, such an attractive characteristic of a market attained by the region has shaped the spatial organization of both Izmir as a center city and its region.



**Figure 5. 1** Aegean Region (Source: Dođmuş, 2003, p.70)

As an inquiry of the nature of dominant accumulation regime of the period, hindered behind any kind of project such as transportation, communication, infrastructure and spatial formations, there exists the trace of the rationale to relieve the capital circulation within the region and the city. And in the present spatial pattern of the city, it still is possible to read the lasting impacts of these sorts of traces inherited from the past.

### 5.3 The Recent Roles Of Aegean Region and Izmir in The New World

While the impacts of liberal policies upon the geography of Turkey, develop through transformations at different levels on one hand; on the other hand, each region internalizes these transformations at a different level. Different from the traditional nodes of growth of the period prior to 1980, namely Istanbul, Izmir, Kocaeli, Bursa, Ankara and Adana, after 1980, such small cities as Tekirdağ, Kırklareli, Kahramanmaraş, Gaziantep, Kayseri and Denizli, all experience an upswing.

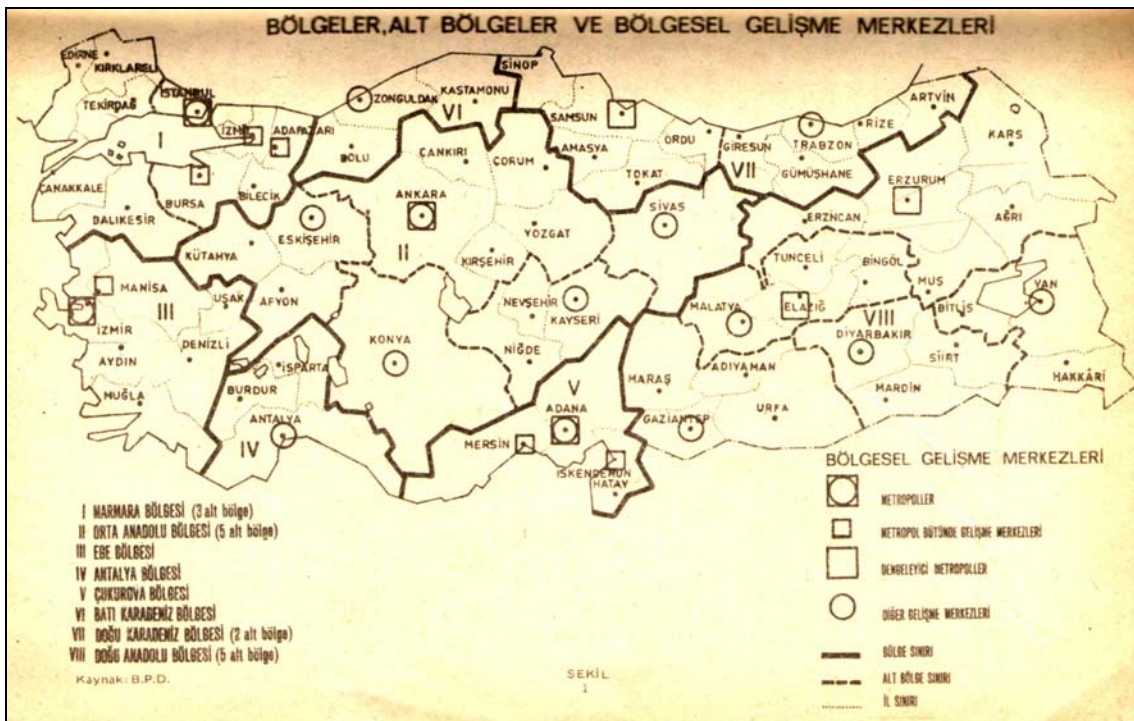


Figure 5. 2 Regional Development Bases (Source: Doğmuş, 2003, p.83)

The Marmara region is the main region where Istanbul controls the region. Istanbul, as a control center, undoubtedly does not get content only with the control of Marmara. It can convincingly be claimed that, taking the augmenting hegemony of the mediator position adopted by the megapole into consideration, there remains the effort to have control and provide for decisions over a much wider hinterland.

“According to such a statement, an important part of those cities, which have experienced an upswing, can be opened up to foreign markets through İstanbul; in other words, their chances and opportunities to develop and experience an upswing, are again dependent upon İstanbul, because the control of capital is there.” (Altınçekiç, 1998, p.94)

It can be revealed within the framework of these statements about Turkey that; as an expression of limited gains, when the preferences of the local and foreign investors about the investment locations are concerned, the regions of Marmara, Aegean and Mediterranean seem to be leading.

“The Marmara region, displays that it is a focus of preference with 71 % obtained from the investments in total. In the Aegean region, on the other hand, the incited investments of foreign capital are shared between İzmir with 51 % and Manisa with 38 %.” (EBSO, Araştırma ve Ekonomik İlişkiler Müdürlüğü, 2002, p.2-6)

“It is worth calling attention to the picture that 500 firms with foreign capital, prefer the Marmara region and particularly İstanbul as their investment location as a place where the income per capita is the highest, where the local capital of the private sector is concentrated and where it traditionally constitutes the most attractive region to emerge as an investment place. Of these 500 firms, 400 are located at Marmara. İstanbul is the first with 267 firms. Kocaeli and Bursa are the other two centers of the region. The Aegean is the second important region which is preferred by the large firms with foreign capital. İzmir is the first in the region with 35 firms among the 500 with foreign capital. In Manisa and Denizli, there exist a total of 5 large foreign investments”. (Ekonomik Forum, 1997, p.13)

When the location decisions around the national geography of the foreign capital, it can convincingly be stated that there exist specific preferences on the matter. Regarding the tendency of location of the first 500 firms with the highest capital, the Marmara region takes a leading position by sheltering 400 firms within. Of these firms with foreign capital located at the Marmara region, 267 firms are in İstanbul. As for the Aegean region, of the 500 firms, the number of those with foreign capital in the region, is 63 and 35 of them are located at İzmir. In other words, the province of İzmir comprises more than half of the foreign capital investments. The share of Manisa,

another province of the region, is 6% and Muğla 38%. The basic reason where Manisa, as an industrial center, is left so far behind is because of the tendency of a considerable portion of foreign capital investments to be realized at fields excluding production.

According to the sectoral tendencies of firms with foreign capital placed within the region, instead of being depicted as a production center, the Aegean region has been subject to such types of investments that can be attributed to mainly a trade and tourism center. Whereas the province of Manisa definitely attracts production-intensive investments, the province of Muğla encompasses investments of tourism services and those classified as hotel business.

The province of Izmir has portrayed the results of constituting a metropolis control center on one hand, and a focus of production on the other, both by the diversity of investments it manifests. In Izmir, where almost every sector takes place within, even though the majority pertains to the trade group, it can as well be emphasized that the activities of production and service do constitute an important field of investment.

#### **5.4 The Manufacture Industry of Izmir and Aegean Region**

In the industrialization process of Izmir until the 1980's, there can be two fundamental periods of breakthrough to speak of. The first one is the years of statism commenced in between 1929-'35 after the declaration of Republic. The second period of breakthrough dates back to the process of import-substituting policies between 1972-77, and emerges with certain qualified implementations, which are binding particularly with regard to the public sector and encouraging with regard to the private sector.

Considered as such, it can convincingly be revealed that Izmir did not constitute a prominent industrial focus during the time of the Ottoman Period and that it has initiated its industrialization with the period of Republic. According to the enumeration of industry in 1915, while Istanbul takes the first place in terms of industrial investments, Izmir shares the other half of the percentage with Izmit, Uşak and

Manisa. As for the basic investments, they mostly are concentrated in food sector, since they mainly are subject to the traditional exports, and the city is rather left bare regarding the development of other industries (Avcioğlu, 1984).



**Figure 5. 3** Functional Region of Aegean Region (Source: Dođmuş, 2003, p.70)

This situation should certainly be interpreted as to be associated with the articulation of the city of İzmir to the foreign trade affairs of the period. The rich agricultural hinterland of Western Anatolia, has been determining in the course of internationalization. Within the liberal foreign trade policies of the period, since the main objective rational guiding both the economical and the spatial geography, was to considerably augment and “transpose” the spatial mobility of raw material and capital outside, instead of developing the industrialization processes, the investments have thus been slipped more likely in fields of infrastructure.

The depression of 1929, have not only resulted in necessitating a considerable modification in merely the macro-economical policies around the country geography, but, modification has as well been reflected in many other fields. As a consequence of the replacement of liberal policies by statism, though the effectiveness of public has increased in processes of industrialization, Izmir has more likely pursued its development on the leadership of private local capital during the period. The agriculture-dependent industrialization practice of Izmir and its region as well as its structure fit into entrepreneurship of the private sector, both have resulted in the impacts of the 1929 depression to become even more profound. Because, in result, Izmir and the Aegean region take place as one of the few centers that produce for large markets around the country geography in that period, and hold an economy that mainly dependent on exports products. Two matters have played a role in surmounting the depression experienced in the region. By virtue of the first agricultural sale cooperatives established to decrease the adverse effects of the depression on one hand, and of the agricultural capital transferring itself to other fields excluding agriculture during the depression period on the other, the burden caused by the depression has been endeavored to be encountered. ( Herslag, 1968).

“The 1950’s come forth as the period during which serious changes have been realized in the economical structuring of Turkey. Firstly, it can be emphasized that the impacts of the change have been rather multi-lateral in terms of the results of the policies for agriculture. In order to reveal the impact of change upon industrialization, even only the statement, where, among the total industrial enterprises within the national scale, those established between the years 1946-’60 attain a rate of about 60%, can be of an indicating expression for the portrayal of the magnitude of change.” (Avcioğlu, 1984, p. 73)

Turkey has entered the 1960’s as to be accompanied by an economical conjuncture, which, as a result of the policies of the 1950’s, the rise in production of the agricultural sector and the broadened opportunities of foreign debts, have extended in terms of capital accumulation. This also means a raise in the effectiveness of industry in the process of capital accumulation. On the other hand, the 1960’s is outstanding with a distinguishing factor in some other field, and that can claimed to be the initialization of a planned period in the country. As for the plan objectives,

industry keeps its leading role in this period as well. By the book of instructions for the Assembly industry in 1964, a new process has been initialized in industrialization, and for the first time on national scale, industrial production has exceeded agricultural production. Then in the year 1967, industrial production has doubled that of agriculture (Özgür, 1975).

The basic developments accelerating the industrial processes of Izmir and its region during 1960's can be summarized mainly in two factors. The first one is that, in context of the incitement system implemented on national scale, Izmir has augmented its share with regard to this period. The second one and the most important factor is that, in context of especially large-scale investments of Izmir, the city has received a considerably high share from the foreign capital incitements. In the distribution of foreign capital investments, the branches like chemistry, foodstuffs and machinery equipment, all are set forth.

“The share of public investments in Izmir has gone through a serious increase starting with the second plan period, and of these, most concentrate on sector of manufacture industry and its intermediate-commodities.” (Altınçekiç, 1987, p.13)

Particularly during the import-substituting model, the existence of a powerful public sector in Izmir has availed for a considerable level of indication of both the structuring of manufacture industry and the preferences concerning the investment and production fields of capital; and has left explicit impacts upon the process of compliance with the restructuring practice of Izmir after the 1980's.

In context of the development of manufacture industry in Izmir and Aegean Region, the basis was tried to be constituted by the resolutions to be flourished at two fields:

The development of manufacture industry in Izmir and its region with respect to its basic characteristics have always been within a development tendency dependent upon the local capital; and it mainly relies on the tradition of industrialization where agriculture emerges as the determining factor.



The strong infrastructure provided for manufacture industry over the Western Anatolia lands, and the process of capitalization where these lands rapidly get involved with, have been determining in the building up of the qualifications of the regional capital such that the capital has attained a structural identity stepping on the sector of agriculture on one hand, and of industry on the other.

Towards the end of the 1970's, as a consequence of public investments, the groups of intermediate-commodities have become the basic sector with a considerable difference. The public workplaces making productions within the group of intermediate-commodities, have determined the production structure of the region and the city in terms of the output quality of the production realized on one hand, and the magnitude of the domestic market of production on the other. Primarily, a definite upgrade could be noticed in sectors of main metal and chemistry, where the connection impact in progress is rather high. On the other hand, the sectors of tobacco and textiles have also kept their traditional positions within the manufacture industry. As for sectors of agriculture, building and services, they have shown a progress consistent with the general scheme of the national model and have been structured as sectors of crucial quality. It is also possible to read the entire developments as follows: In the period between 1970-'80, the manufacture industry has achieved a considerably diversified sectoral structuring such that it points out to an important potential with regard to manufacture industry in Izmir (Avcioğlu, 1984).

The structural characteristics emphasized here, have constituted restrictions, in the process of compliance with the 1980 liberal restructuring policies. While restructuring obliges the resolution of some structural dynamics, some others have preferred to be adapted to change. In the following resolution to be accomplished about the city of Izmir and its region, the new foundations flourished by structuring after 1980 are put on the agenda on one hand, and these processes of change are then underlined on the other.

## **5.5 The Ratio of Foreign Industrial Capital on Aegean Region**

Sixty three companies that are active in The Aegean Region are based on only foreign capital. The five ones of the investments related these companies only have the investments in Turkey. The rest of the companies have investment in not only Turkey but also the other countries.

With regard to the countries where the investment is originated from, while the countries of West Europe take the leading role in the distribution of foreign capital placed at the region, on the condition that the foreign investment is involved in partnerships with local investors, the fact where the share of partnership is kept considerably high, can as well be easily monitored.

## **5.6 Home Countries Distribution of Foreign Industrial Capital on Aegean Region**

Germany is at the first place in these countries that make investment in this zone. Eight ones of companies entirely are founded with German capital and the five ones of these firms are produced textile and also the rest of companies are produced plastic, machine and electrical machine.

USA is at second place. Five ones of nine companies in USA entirely are founded USA capital. These companies are an active in tobacco, automotive, metallic furniture and electrical machine. Switzerland that is at third place has no partner and their investment sectors are based on productions of chemical medicine, marble and box for drinking.

85 percentage of foreign capital investment have established after 1984. Taking preventive measures and laws for foreign capital inflows are seen the the main reasons of this. Tourism promotion law (2634) made in 1982 and Free Zone (3218) made in 1985 are the arrangements, which created new attractive areas and promotion on mechanisms. The law of 10353 made in 1986, cancelled some limitations on foreign investments.

**Table 5.3** Ratio of Foreign Investments on Aegean Region

Source: EBSO Membership Registrations Database, 2002.

Ratio	Number of Companies	%
10	2	2.5
40	1	2
49	3	3.5
50	4	5.0
64	1	2.5
75	3	3.5
80	1	2
85	2	2.5
90	2	2,5
100	63	77.5
Total	81	100.0

Subsequently this arrangement, 100% foreign capitals investments have been possible by abolishing the obligation of foreign capital's investing by a Turkish firm's accompany. The same arrangement has provided conveniences about portfolio investments, contact offices of foreign firms, foreign credits (loan), and the people who consulted with foreign firms. While the taxpayers who did not reside in Turkey have encouraged to get the investment credit (loan), tax levels have been decreased, and new arrangements about tax responsibilities of foreign firms and profit transfers have been gone into effect. It has been provided that foreign firms' utilizing investment incitements from which Turkish firms had been utilized. Also these firms' exemption from some taxes, expenses, etc. has been provided in the condition of foreign firms' guaranteeing a specific exportation income.

**Table 5.4** Home Country Distribution of Foreign Investment on Aegean Region

Source: EBSO Membership Registrations Database, 2002.

<b>Country</b>	<b>Number of Companies</b>	<b>%</b>
Germany	21	37.5
USA	10	22.5
Switzerland	4	7.5
Holland	5	7.5
France	8	7.5
Japan	2	5.0
England	7	5.0
Italy	3	2.5
Denmark	2	2.5
Iran	1	2.5
Total	63	100.0

Legislative, financial and institutional arrangements that summarized above have provided coming foreign investments to Turkey after 1984 more than past periods (Eraydin, 1992).

Another consequence about the region is of more than half firms' are being established at the year 1990 and after. Investment especially increased at the year 1992. All these investments were green investments. In another words, they have not started their action by capturing or buying a native firm.

## **5.7 Sectoral Distribution of Foreign Industrial Capital on Aegean Region**

The whole of foreign capital investments functioning at the field of production, those are too many the half of these (%55) textile-ready made, automotive, chemistry and food. In the sector of electrical machine of firms for electrical equipments or machines is produced interference remover, for aviation and defense industry is produced elements of mechanical connection and tolls is used in electrical distribution. As for

metallic furniture for drinking is made productions that are box and variety measurement tools.

**Table 5.5** Sectoral Distribution of Manufacturing FDI's on Aegean Region

Source: EBSO Membership Registrations Database, 2002.

<b>Sector</b>	<b>Number of Companies</b>	<b>%</b>
Textile	12	19,5
Automotive	8	13,5
Electrical machine	3	4,5
Metallic furniture	3	4,5
Tobacco	8	13,5
Chemistry	13	21,5
Soil Productions	1	1,5
Food	9	15,5
Machine	1	1,5
Drinking	2	3,0
The others ( inside plastic)	5	9,0
Total	63	100

## **5.8 Foundation Place of Foreign Industrial Capital on Aegean Region**

Especially companies founded by foreign capital preferences for foundation places are generally Aegean Free Zone and Torbali. The half of the companies that are founded by foreign capital is established in these zones. Active companies in Izmir mostly founded after 1980s.

## **5.9 Employment of Foreign Industrial Capital on Aegean Region**

There are 5443 person works in the firms and 40 of them are foreigner. Foreigners are employed at high levels of administrative positions.

The 55% of the laborers are employed at textile, ready-made clothing and tobacco sector. Especially on ready-made clothing sector, employment of women laborers is concentrated.

Almost all firms except for ready-made clothing sector have made explicit that they trained their laborers vocationally.

**Table 5.6** Foundation Place on Aegean Region

(Source: EBSO Membership Registrations Database, 2002)

<b>Location</b>	<b>Number of Companies</b>	<b>%</b>
Aegean Free Zone	14	22.5
Atatürk Organize Ind. Zone	5	7.5
Kemalpaşa	5	12.5
Inner of Izmir city	11	30.0
Manisa	9	10.0
Torbali	13	15.0
Aydın	5	2.5
Total	59	100.0

**Table 5.7.** Employment of Manufacturing Industry in Eagen Region by Years (1980-1999)

Years	Cities	Manufacturing Sectors					
		Food	Textile	Chemistry	Soil Prod.	Metal	Others
1980	İzmir	32178	14702	5926	3006	12479	5420
	Aydın	427	5167	82	609	-	234
	Manisa	1474	3268	307	4467	669	270
	Muğla	153	283	-	-	-	2301
1985	İzmir	30199	18075	9867	3446	3542	21870
	Aydın	731	5498	-	923	142	933
	Manisa	1805	5168	617	4868	3185	83
	Muğla	290	222	-	-	258	2183
1990	İzmir	27967	25393	13984	3897	19466	3849
	Aydın	797	5232	83	852	765	251
	Manisa	2170	5526	2330	4067	6161	497
	Muğla	-	133	-	-	-	2247
1995	İzmir	25327	29013	13241	4460	4077	22530
	Aydın	945	4165	-	962	-	1312
	Manisa	3796	3930	2046	5087	190	4895
	Muğla	56	280	-	141	-	1271
1999	İzmir	22206	19509	14441	4512	24542	5385
	Aydın	1039	4171	-	1270	1268	266
	Manisa	4722	2234	1156	5013	9063	537
	Muğla	160	319	-	472	175	906

## 5.10 Input Ensuring of Foreign Industrial Capital on Aegean Region

According to the knowledge given from the firms, input ensuring distribution (as untreated, treated or half treated production) is shaped as 19% inside region, 13% outside region / inside country, 68% outside region. Metallic stuffs take first rank at input exportation order, by 100% ratio. In sequence, chemistry (95%), textile (82%), and electrically machine (72%) follow metallic stuffs.

It is possible to summarize in this way the sectoral differences about fully foreign invested firms:

Input ensuring from abroad, metallic stuff sector takes the first rank. This sector ensures its all inputs from abroad. But itself sends the input, or a connected firm, which the sector specifies at market, buys input. There is textile/ready-made clothes sector at second rank. Purchasing is in control of the main firm in this sector too. The

main firm itself sends the input or it orients the connected firm towards the market. At third rank, there is electrically machines sector.

The automobile factory in the automotive industry, whose production is mostly linked with montage, ensures the 90% of inputs, which is necessary for its production, from the main firm. The other firm, that concerns by-production in this sector, ensures all steel that is the main raw in its production, from Marmara Region, and sends all its products to England where the main firm is set.

The firms in this group have almost no subcontractor connections in the region. In all connected firms only two of them mentioned about the subcontractors. One of the firms in electrically machine sector has made explicit that one in three of their production was carried out by subcontractor firms, and in their relation to these subcontractor firms, they considered important the criterions of trust, quality, and imbibing the new technology. Also the firm has made explicit that they transferred the knowledge about quality control and the new production techniques to their subcontractor firms.

One of the subcontractor firms in the region has developed a new product in assistance the technical knowledge that transferred by the connected firm, and main office of firm in France has demanded this product. Another firm that works with subcontractors is in machine sector. They have made explicit that they gave the input to the subcontractor and the subcontractor firm has been carrying out almost 20% of their production. They also pointed at trust, quality, and the price were important in their relation with the subcontractor.

The input that ensured from inside the country, generally consist of raw or the products, which's value-added tax is low. Products such as marble, tobacco, thread, sheet iron, fabrics, cornstarch, copper, and steel can be specified among these inputs.



## **5.11 The Future of Foreign Industrial Capital and Its Spatial Preferences in Aegean Region**

The answer to which the industrial capital of Izmir possesses what kind of a reproduction scenario associated with itself, can be read from the study named Planned Development in the Aegean.

This study takes its departure point from a perspective based on regional development pertaining to the Aegean region. The reason for this on the other hand is said to be the fact that the center understanding entails vast imbalances created by the economical and social orientations and thus, impedes development (EBSO, 1993b). Therefore, the plan, within such a departure, is structured upon a regional understanding as follows:

The understanding of unified locality and region, created over a natural center, and constituting the organic relations in terms of economical and social aspects, is stated as the most rational alternative among the region understandings (EBSO, 1993b).

“In such a context, the gains to be brought by an understanding of region can be explained under five points stated below:

- Approach and the economical and social cooperation.
- The outer-center potentials will avail to be realized.
- The economical activities adjacent and inter-molded with each other, will be positioned within the envious at places appropriate for themselves
- Following the emptying of the center, these areas will be opened to certain activities of international standards.
- Such type of a regional development will expose a regional - pyramidal structure organically articulated in the course of time.” (EBSO, 1993b, p.12)

“EBSO bases the requirements of such type of a project, on developments pursued after 1980 and on the regression experienced on every scale in the Aegean. Among the reasons of regression, whereas the matter of limitations were given priority on hand, emphasis was given to the facts that there could be no diversity attained in terms of effectiveness in regional economies after 1980, and that insufficiencies were to occur in specialization and finally, for reason pertaining to management methods.” (EBSO, 1993b, p.19)

- Relative to the infrastructure investments and service opportunities, the level of opportunities created within Izmir lead to very different scales of gains in respect to the zones at other cities. In terms of planning decisions prepared by the local governments, Izmir has been accepted as a serious investment area, and the distribution of its resources is being fostered by such an approach, therefore, it can be indicated that Izmir still continues to be the main investment area. It can be also said that such a planning approach has an effectual pay in directing the preferences of the capital.
- In the period of national development policies, the prevailing development dynamics is industry. While the processes of industrial areas were to develop at a location close to the center in the first period, towards the end of the period, the orientation has been towards the peripheries.
- The policies and adjustments after 1980 points out to the facts that the importance of the Izmir and Aegean Region is augmented in all grounds and that among the investment rationales of the capital of manufacture industry; the central city attains a role as determining focus.

## CHAPTER 6

### CONCLUSION

In context of the structural transformation it experiences as required by liberalization, while Izmir, relocates the production activities to its closer region on one hand, it aids in Aegean Regions distant from itself for being restructured as production centers embodied in certain cities. As for the new role of Izmir, it is being shaped aiming to control the supply and re-distribution of the capital. Also Izmir sustains its tradition of being an industrial city.

As a reason lying behind such type of tendencies, it can be suggested that the future probabilities for Izmir and Aegean Region are endeavored to be imposed.

With respect to its organization at present, the city of Izmir has not yet built the infrastructure will relieve and accelerate the circulation of capital.

The foundations of the most of regional firms have been realized after the 1980 regulations. In this structure that can be qualified as considerably new with regard to an institutionalized and traditional industrial structuring, it can be suggested by a dignified interpretation that, in terms of the behaviors of firms, the searches for short-termed benefits do prevail.

“The outstanding province, with regard to the firms establishments after 1980, is again Izmir. When compared to the period prior to 1980, there has been a 3.5-folded increase in the number of firms after 1980, and in terms of the number of firms located in the region, the province of Izmir, with its share of 81%, is exposed as the engine power of the region.” (Altınçekiç, 1998, p.127)

In terms of ending this portrayal emerging at regional economy and conceiving of this real situation better, the findings of different platforms should be integrated on an appropriate mode by considering the other indicators.

With the help of the recently-stated discussions concerning the structural and conjectural characteristics of the regional manufacture industry, it has become even

more possible to get hold of the traces, over which the ability to comply especially with the new liberal politics after 1980, can be read.

The first one is the existence of strong public investments placed at the region prior to 1980. The characteristic of the new period, suggesting a structural change, points out to the fact that, it has primarily been the problem of compliance that is put on the agenda particularly in terms of –local and foreign- industrial capital.

In the development of regional economy after 1980, in general terms, it can be stated that the contribution of foreign trade has been left so far behind in comparison to the Marmara region, but contrarily that they have been agglomerated in those sectors of the region gaining importance after 1980.

It should be emphasized that 1995 appears to be the year bursting in terms of the share of the incitements given for the region and Izmir, and that at that year the increase in the sum of investments with incitement has been realized with a level of 104% in the Aegean region, and 179% in Izmir. However, despite such an increase, the share Izmir and the Aegean region receives from the incited investments does not exceed 10% in 1995 and 1996. Although there is experienced a definite recession in terms of the sum of investments, such a circumstance can said to be pursued parallel to the general circumstances of Turkey. (EBSO, 1997)

After 1990 then, there emerges a specific intensification in strategies for Izmir and Aegean Region. Every strategy is shaped together with the interventions that can render themselves probable. Furthermore, the effects of ‘scenarios’ fostered for the city of Izmir, exposed as the engine of Aegean Region, is not only restricted with the borders of Izmir, but is bound to be structured with the modes of intervention affecting the entire region. With respect to this, it is evident that the reading of the scenarios of Izmir as to be also associated with the region emerges as an inevitable necessity.

On the matter of complying with the restructuring required by liberalization, the impacts of the long-ranged stagnation monitored in the region, has not manifested itself, undoubtedly, in merely the economical field. The category of space, being shaped by both economical strategies and constituting the limits of availability of

strategies in context of the potential and thresholds it comprises, in other words, the cities, are restructured especially after 1980 as the fundamental apparatuses of means of restructuring. In the mentioned structuring, though the departure point is taken as the rationales of the new accumulation model, the skills and qualities of the capital came out at spaces in question has been the fundamental determiner. (Altınçekiç, 1998)

Within this structure, the regional planning that has been put into practice in order to eliminate the regional imbalances in the country has been searching for “the methods of economic integration with the world system”. On the other hand, local units have been waiting to take role on market by preparing their plans and strategies with the help of projected roles in world economic system. Likewise, Istanbul-centered Marmara capital and Aegean Region as well have been striving to determine their regional borders in the integration process to the global market. The capitals of Marmara and Aegean have been urgently putting the structural adaptation projects into practice so that they can represent the country in global sphere. The different organizations of each region have been trying to complete the technologic-economic infrastructure arrangements as prerequisites of the ongoing global order.

Under these circumstances, it is quite hard to estimate which region will finally reach victory in existing competition. The essential objective of this research is to determine new spatial borders of Aegean Region, which are still under discussion in a probable integration process. The border line in question can be whether under the influence areas of EBSO (Aegean Region Chamber of Industry) and İTO (Izmir Chamber of Trade) or can parallel with geographical region, regional planning borders, which have been discussed in development plans and implementation borders of institutional studies. Another borderline that does not coincide with those above is quite probable.

Considering we analyze the changing borders and various functional relation types during socio-economic and politics performed in the country up to now, it is seen that Izmir has remained as the administrative and economic center and different borderlines surrounding this city have formed. Particularly, performed by DPT (State Planning Organization) in 1982 titled as Settlement Centers Grading, a functional region -as Izmir being the center- spilling over into neighboring regions has been formulated. According

to this study; also Antalya, Isparta, Burdur and Balıkesir were included to this functional region in addition to the cities of the Aegean. In another project formulated during the Fifth Five-Years Development Plan, Izmir was determined as the center and a regional grading based on this took place. In this project, the region concept was considered independent from administrative borders and according to the formed functional scheme of Aegean Region; Izmir was defined as one of the sixteen regional centers in countrywide.

Aegean Region has an essential commercial role as the gate of the country opening outwards in every stage of its history. Shipping of the production recently accelerating in the region parallel to the export-oriented industrial organization is provided through transportation network established again by Izmir. Consequently, in new relations to be established with global market, Izmir and its hinterland seem to face serious alterations. It is quite probable that some additions would happen from outer of the region, while some provinces included in the region may only watch the process. In other words, it is clear that the regional projects established by regional-scaled economic organizations would orientate industrial and commercial profile of the region and determine the spatial borders.

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