Outward Foreign Direct Investment and Economic Growth, the Changing Nature of Turkish Economy

Liberalization and deregulation policies after 1980's successfully open Turkish economy to global world and increased foreign trade and investment. The focal point of this policy was constructed on increasing FDI to Turkish economy in order to attain high economic growth. In last couple of years there is a enormous amount of change in this process where contrary to inward FDI the outward FDI of Turkish companies significantly increased. That clearly indicates the amount of capital movement abroad for investment purposes. That accompanied with low saving rates which is the main determinants of investment level in home country. The OFDI in Turkish economy is quite neglected area in academic literature and there are few research on its impacts on economic growth. In this paper I am trying observe the impact of OFDI on economic growth for Turkish economy.

Academic Framework and Literature Review

Short literature review confirms that most of the global companies have OFDI in developing countries not only for exploiting the market but rather enhance their competitiveness. Tulder provided a clear reference for argument. Thus OFDI entrance provides resource accumulation, new technologies, and wide network of distributors. For example Asian company policies rooted on that argument in global investments. (Tulder, 2012,p 316)Even though there is a increasing trend of FDI towards developing world, some companies in developing countries also investing for business in developed world. The volume of this flow is increasing especially in previous years. Thus the phenomena of OFDI are not only the case for developed world and its mutually inclusive for developing countries.

In general terms there are two sets of factors effecting companies OFDI decisions. There are home country conditions and host country conditions. Factors as unstable economic life, poor macro-economic variables, and hazardous tax policy towards entrepreneurs are the main derives in home altering foreign investments abroad. These are push factors in country where companies forced to leave home. Pull factors are the attractions of host country where low cost of production, easy access to all markets, high skilled labor, raw material resources. Here are the main factors effecting OFDI of companies.

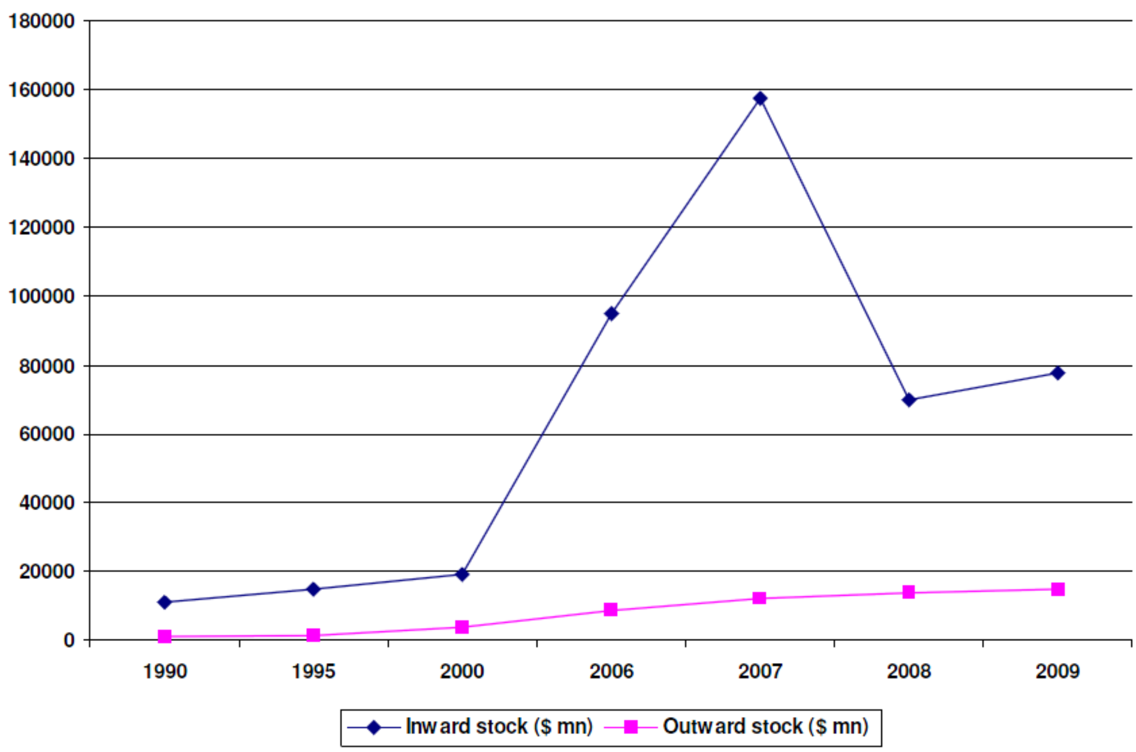
Home derives

a. Unstable macroeconomic indicators. Macroeconomic conditions are one of the main factors forces companies to produce and sell abroad since it increases the financial crisis risk in home.
b. Poor business environment for new investments. Lack of skilled labor, few financial incentives for capital accumulation and investments, poor infrastructure in production sites are some examples for push factors.
c. If the government policy is not selective and supportive for industrial investments the businessmen will prefer to move to other countries.
d. Rule of law is quite important if the solutions for disputes in courts are not reliable, which will create unsafe business environment.

Host country derives for OFDI

a. Easy access to new markets. The logistic problems cost of transportation and high import taxes are the main factors hampering international trade. So companies do prefer to invest where there is a strong demand for their products.
b. In some cases the costs of factors of production are much lower in host country compared to home. In that case industrial companies prefer to move factories to host countries in order to produce much more competitive for world markets.
c. Qualified low cost of labor and positive external economies for high tech innovative production methods. If host country has excellent opportunities in infrastructure in production plants that will attract new investments from foreign world.

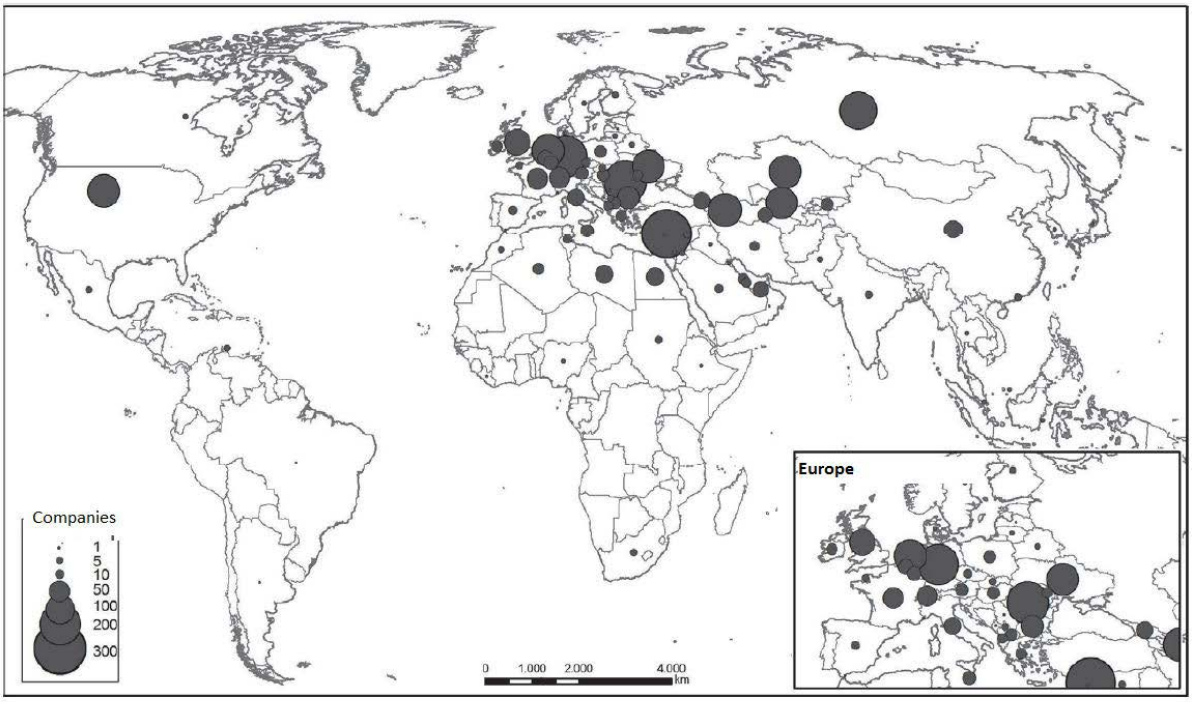
Annex figure 6: Turkey: Inward & outward FDI stock, 1990-2009 (USD million)



As it seen on graph Turkey has lost its momentum in attracting new FDI's from foreign world. Instead the foreign direct investments of Turkish companies abroad increase gradually. Turkish companies are producing abroad with different incentives from accession to EU markets to low costs of production. Mainly Greenfield investments are lower in Turkish multinationals rather they do investments on old fashioned European factories with high profit opportunities

In generally speaking Turkish OFDI mainly concentrated in financial sector where state and private banks have subsidiaries and branches in all over the world but especially in regions where Turkish minority and workforce exits. Those investments help Turkish businessmen all around the world to establish and promote their business. After the serious financial crisis in 2001 many Turkish banks have downsized and bankrupt in country. The impact of that financial crisis has serious impediments on Turkish economy.(Ikiz, p. 102, 2011) State owned banks also opening new banks and branches in order to promote international trade of Turkish companies. %54 of Turkish OFDI is in service sector especially banking and financial sector. The rest of the investments is in manufacturing sector mainly construction, durable goods and chemical production. Turkey did not make any foreign investment in agricultural sector. The main part of OFDI made in Western Europe around %30 and heavily in Holland than Germany. Second biggest OFDI made to Central Asia and Caucasus mainly in Azerbaijan. Third biggest partner in foreign investments of Turkey is made to Eastern Europe and Balkans. The economic incentives are much more significant in Turkish company's foreign investments.

Even though Turkey has close relations with most of the Arab countries in Middle East the share of OFDI in European countries is still high. This very clearly indicates the EU accession of Turkey almost achieved via trading partners. Turkish MNEs and SMEs are very active in EU borders. This is mainly because of Turkish people presence in European countries since 1960s and EUs diminishing workforce. They started business and got connections with Turkish firms.



Economic Growth and Changing Nature of Turkish Economy

Since 1980's export promotion strategy of Turkish economy created dynamic economic environments for country and transformed and reorganized Turkish economic structure. The growth rate radically declined during the crisis of 1994 and 2001 economic crisis. Also in last couple of years it was around 3% which is not so powerful for Turkish economic performance. Economic policy makers also followed positive policies for Foreign Direct Investment in Turkey. There are deregulation policies launched for this purpose aiming that it would solve low savings problem and unemployment in country. Since 2002 the FDI to Turkey sharply increased via privatization policies in

Turkey. During this term high economic growth of Turkey created welfare effects. There were few Greenfield investments rather whole process was transfer of ownership from public companies to foreign companies.

After 1990's Turkish companies were starting business in foreign with liberal economic policies. Since 2010 Turkish companies especially Multinational Enterprises increased their operations abroad. Mainly in EU countries the Turkish OFDI increased due to easy access to EU markets, So this process is basically the flow of investment capital to abroad where otherwise would create employment by investments in home country. Declining level to FDI to Turkey with increasing OFDI from Turkey has adverse effects on Turkish economy such as declining growth due to low savings for investments. The downward trend of FDI to Turkey is threating macroeconomic stability since there is a decline the volume of investments. The macro economic instability and low real exchange rate index also forces countries to mover their production facilities to foreign world which has a multiplier effect on declining growth rate. In order to achieve sustainable high growth rates as a country with low savings so Turkey has to follow suitable economic policies for new investments.

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