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**FDI and TNCs in Turkey
(Especially in Services)**

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FDI AND TNCs IN TURKEY (ESPECIALLY IN SERVICES)

Foreign Direct Investment in Turkey

FDI Regime: The Government of Turkey views foreign direct investment as vital to the country's economic development and prosperity. The main focuses of the law on Foreign Direct Investment are protection of foreign investors' rights and equal treatment for domestic and foreign companies.

The common view about the level of FDI to Turkey in the past years was that Turkey has not benefited greatly from increased FDI flows brought by globalization. However, taking into consideration, new steps to improve investment environment, the positive macroeconomic developments, current privatization process, and the EU perspective, the government expects that Turkey will attract more than USD 15 billion of FDI between 2005 and 2007.

Table 1: Sectoral Breakdown Of Authorized FDI (Million \$)

YEARS	MANUFACTURING	%	AGRICULTURE	%	MINING	%	SERVICES	%	TOTAL
1980	88,76	%92	-	%0	-	%0	8,24	%8	97,00
1981	246,54	%73	0,86	%0	0,98	%0	89,13	%26	337,51
1982	98,54	%59	1,06	%1	1,97	%1	65,43	%39	167,00
1983	88,93	%87	0,03	%0	0,02	%0	13,76	%13	102,74
1984	185,92	%69	5,93	%2	0,25	%0	79,26	%29	271,36
1985	142,89	%61	6,37	%3	4,26	%2	80,97	%35	234,49
1986	193,47	%53	16,86	%5	0,86	%0	152,81	%42	364,00
1987	293,91	%45	13,00	%2	1,25	%0	347,08	%53	655,24
1988	490,68	%60	27,35	%3	5,62	%1	296,87	%36	820,52
1989	950,13	%63	9,36	%1	11,69	%1	540,59	%36	1.511,77
1990	1.214,06	%65	65,56	%4	47,19	%3	534,49	%29	1.861,30
1991	1.095,48	%56	22,41	%1	39,82	%2	809,55	%41	1.967,26
1992	1.274,28	%70	33,59	%2	18,96	%1	493,13	%27	1.819,96
1993	1.568,59	%76	21,05	%1	11,37	%1	462,38	%22	2.063,39
1994	1.107,29	%75	28,27	%2	6,20	%0	335,85	%23	1.477,61
1995	1.996,48	%68	31,74	%1	60,62	%2	849,48	%29	2.938,32
1996	640,59	%17	64,10	%2	8,54	%0	3.122,74	%81	3.835,97
1997	871,81	%52	12,22	%1	26,70	%2	767,48	%46	1.678,21
1998	1.017,29	%62	5,75	%0	13,73	%1	609,67	%37	1.646,44
1999	1.123,22	%66	16,19	%1	6,76	%0	553,40	%33	1.699,57
2000	1.105,49	%32	59,74	%2	5,01	%0	2.307,18	%66	3.477,42
2001	1.244,59	%46	134,38	%5	29,11	%1	1.317,20	%48	2.725,28
2002	892,01	%40	32,82	%1	17,29	%1	1.300,81	%58	2.242,93
2003*	710,65	%59	7,73	%1	124,18	%10	365,43	%30	1.207,99
TOTAL	18.641,60	%53,0	616,37	%1,8	442,38	%1,3	15.502,93	%44,0	35.203,27

*As of June 30, 2003, **Important:** All types of permits issued by General Directorate of Foreign Investment are abolished by Foreign Direct Investment Law No. 4875 enacted on June 17, 2003. Therefore any statistics on base of permits will not be published from this date on.

Source: <http://www.hazine.gov.tr/english/ybs/sector-ing+.htm>.

2.461 companies and branch offices with foreign capital have been established within the period between 17 June 2003, on which The Foreign Direct Investment Law No: 4875 came into power and 31 December 2004. Besides, 634 foreign capital participations into existing companies

incurred. When we look at the number of companies with foreign direct capital by sector, we see that Services has the biggest share with 72%. Sectoral breakdown of Liaison Offices in 2004 shows that wholesale trade/commission trade and manufacture of textiles are leading sectors.

Table 2: Number of Companies with Foreign Capital by Sector

	Services	Manufacturing	Other	Total
2003	662	230	67	959
2004	1.564	361	211	2.136
Total	2.226	591	278	3.095
Share (%)	72%	19%	9%	100%

Source, http://www.hazine.gov.tr/stat/yabser/ybs_rapor2004.xls , Sep 26, 2005.

Services sector has very important share among the FDI permits issued by General Directorate of Foreign Investment. Manufacturing is the leading sector; agriculture and mining are the followers with very small shares. Between 1980 and 2003, total FDI permits amounted 35,2 billion \$ and 44% of which is for the investments in services, 53% for manufacturing, 1,8 % for agriculture and 1,3% is for mining investments. (Table-1)

Trade has the biggest share on services; followers are banking/other financial services, insurance and communication according to detailed data of 2002.

Table 3: FDI Permits in Services, 2002 (Million \$)

Services	Number of Permits	Amount of FDI Permits	For New Companies		For Existing Companies
			New	Participation	Number of Permits
R & D Activities	3	30,121	0,000	0,000	30,121
Banking and Other Finan. Services	6	230,496	16,145	191,625	22,726
Marine Transport	7	3,298	2,579	0,000	0,719
Laundry & Dry Cleaning Services	3	0,776	0,111	0,243	0,422
Other Services	40	109,358	0,694	74,609	34,055
Other Social Services	46	74,781	1,606	6,145	67,030
Communication	9	107,947	9,880	0,000	98,067
Air Transport	3	0,367	0,104	0,000	0,263
Construction	22	30,997	4,062	11,080	15,855
Leasing	3	3,750	0,369	0,000	3,381
Hotels	71	80,248	43,932	1,199	35,117
Restaurants and Cafes	17	15,732	0,413	0,093	15,226
Health Services	11	13,400	0,505	0,000	12,895
Insurance	8	171,786	0,000	13,675	158,111
Cinema & Entertainment Facilities	3	4,158	0,000	0,000	4,158
Services Related with Transportation	37	13,445	4,312	0,572	8,561
Trade	549	255,292	42,338	83,818	129,136
Investment Finance	18	89,935	0,179	34,242	55,514
Total	856	1.235,887	127,229	417,301	691,357

Source: http://www.hazine.gov.tr/duyuru/basin/report_ing.pdf.

A sectoral breakdown of foreign direct investment inflow indicates that services sector has the biggest share by 59% at the last ten years.

Table 4: Sectoral Breakdown of FDI Inflow (Million \$)

	Services	Manufacturing	Other	Total
1995	534	388	12	934
1996	467	424	23	914
1997	456	349	47	852
1998	362	553	38	953
1999	447	353	13	813
2000	763	932	12	1.707
2001	2.439	846	3	3.288
2002	510	78	2	590
2003	196	338	12	546
2004	766	272	71	1.109
Total	6.940	4.533	233	11.706
Share	59%	39%	2%	100%

Source : http://www.hazine.gov.tr/stat/yabser/ybs_rapor2004.xls.

As in the case of foreign investment permits, the services sector has very important role in the issued "Investment Intensive Certificates". While services sector's share is 22% at the number of certificates, it is 68% at total investment, but 1% at estimated employment.

Table 5: Sectoral Breakdown of Investment Incentive Certificates Issued for Companies with Foreign Capital in 2004.

Sector	Number of Certificates	%	Estimated Total Investment (Million \$)	%	Contribution of Foreign Direct Investors (Million \$)	%	Estimated Employment (Number of Person)	%
<i>Agriculture</i>	9	4%	19,4	0%	11,0	1%	290	1%
<i>Mining</i>	7	3%	66,3	2%	53,2	3%	696	3%
<i>Manufacturing</i>	179	72%	1.171,6	30%	617,2	38%	25.461	95%
<i>Services</i>	54	22%	2.625,6	68%	963,1	59%	290	1%
Total	249		3.882,9		1.644,5		26.737	

Source: <http://www.hazine.gov.tr/english/forinvest.htm> , Sep 26, 2005.

TNCs' Share in Turkey's Foreign Trade

When we look at the share of TNC on the Turkey's foreign trade, we see that companies with foreign capital tended to import than export.

Table 6: TNCs Share on Turkey's Foreign Trade

FOREIGN TRADE 2004	Share of TNC	
	EXPORT	IMPORT
Capital Goods	50,5%	34,2%
Intermediate Goods	18,8%	28,4%
Consumption Goods	20,4%	56,0%
Total	22,9%	32,7%

Investment Incentives in Turkey

Government policy is to encourage investment in manufacturing, services, and energy sector and to encourage exports. To benefit from investment incentives, domestic and foreign investors are equally treated; the foreign capital companies can benefit from all incentives and allowances granted to local companies. The investment incentives (*including ICT sector*) in Turkey can be classified mainly under the following headings:

- General Investment Encouragement Programme
- Incentives for the Low-Income Regions
- Incentives Granted to Small and Medium Sized Enterprises (SME Incentives)
- Supports in Free Zones and Technology Development Zones
- Research and Development Supports

Major Incentive Instruments:

- Exemption from customs duties and fund levies
- Value Added Tax (VAT) Exemption
- Incentive on withholding of income tax
- Insurance premium incentive for employers
- Energy support
- Free land allocation
- Credit Allocation from the Budget.

Support in Technology Development Zones

Additional incentive measures especially for software investors operating in the Technology Development Zones are in the form of tax advantages since January 2, 2004:

- Profits derived by the Zone managing companies for the implementation of Technology Development Zones Law, and the profits derived by the income and corporate taxpayers **focused on software and R&D activities in the Zone**, are exempt from income and corporate taxes until December 31st, 2013.
- **Wages of researchers, software and R&D personnel employed** in the region are exempt from all taxes until December 31st, 2013.
- **Deliverables and services in the form of system management**, data management, work applications, sectoral, Internet, mobile and military command control centre application software produced by the entrepreneurs operating in the Technology Development Zone during the exemption period of income or corporate taxes are also exempt from the value added tax.

There is another work related to ICT. **The Export Strategic Plan for 2004-2006** released by the Undersecretariat for Foreign Trade presents a road map to all parties involved in exports. One of the targets (target no: 2.4.) to achieve is “to develop informatics technology and software, and to generalize their usage in domestic and foreign markets”. A working group was established for this target, they are working on software inventory of Turkey. When they finish their work, it will be available to say something about TNCs share on software export.

Table 7: Sectoral Distribution of Foreign Capital Companies Operating

In Turkey* (YTL)

Sector	No. of firms	Present foreign capital	% in total foreign capital	Total capital of the companies	% of foreign capital in total capital
AGRICULTURE	151	278.417.122	3,63	294.158.826	94,7
MINING	101	37.919.647	0,49	47.354.929	80,1
MANUFACTURING	1667	3.182.618.272	41,52	5.411.113.189	58,8
ENERGY	51	367.096.783	0,0479	392.363.428	94%
SERVICES	4541	3.799.698.315	0,4957	6.460.294.924	59%
Research and Development Activities	15	4.048.475	0,05%	4.555.570	88,87%
Banking and Other Financial Services	37	809.179.858	10,56%	1.495.319.636	54,11%
Laundry & Dry Cleaning Services	1	2.000	0,00%	10.000	20,00%
Marine Transport	62	11.968.032	0,16%	27.871.288	42,94%
Other Services	346	241.899.654	3,16%	307.643.477	78,63%
Other Social Services	269	381.489.235	4,98%	478.113.813	79,79%
Communication	45	716.559.540	9,35%	1.536.220.439	46,64%
Air Transport	55	4.043.797	0,05%	9.312.137	43,43%
Construction	200	46.130.474	0,60%	75.053.528	61,46%
Land Transport	20	3.567.973	0,05%	9.234.446	38,64%
Leasing	9	30.159.928	0,39%	30.363.500	99,33%
Hotels	360	308.453.546	4,02%	375.211.447	82,21%
Private Education	12	104.306	0,00%	466.250	22,37%
Restaurants and Cafes	295	95.535.698	1,25%	104.996.419	90,99%
Health Services	48	46.916.350	0,61%	63.257.143	74,17%
Insurance	31	127.200.065	1,66%	201.947.652	62,99%
Cinema & Entertainment Facilities	12	2.558.146	0,03%	3.778.062	67,71%
Services Related with Transportation	173	57.164.999	0,75%	93.763.176	60,97%
Trade	2.470	499.217.138	6,51%	661.119.603	75,51%
Investment Finance	70	406.911.585	5,31%	975.444.338	41,72%
Other Personal Services	11	6.587.516	0,09%	6.613.000	99,61%
GRAND TOTAL	6.511	7.665.750.139	100,00%	12.605.285.296	60,81%
* As of June 30, 2003					

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