ASSESSMENT OF THE IMPACTS OF COMPETITION, EMPLOYMENT, AND INCENTIVE PRACTICES ON THE FOREIGN DIRECT CAPITAL INVESTMENTS IN TURKEY

Andıl ÇEKİÇ* – Elçin YAZICI** – Erdem ERKUL***

Abstract: This study gives a brief overview of the recent situation that the foreign direct investments in Turkey are facing towards. Competition, employment and state incentives are determined as the main concerns to be discussed from academic literature. In the scope of the study, a quantitative research was performed among random foreign direct investment companies that happen to operate in Turkey and the results that are being obtained from the study is being presented in an analytical perspective. And finally, in the conclusion part the measures that are thought to be crucial for maintaining the level of foreign direct investments and attracting further are being discussed.

Keywords: foreign direct investment, competition, unemployment, tax tariffs

Türkiye’deki Rekabet, İşsizlik ve Teşvik Koşullarının Doğrudan Yabancı Sermaye Yatırımlarına Olan Etkisinin Değerlendirilmesi


Anahtar Kelimeler: Doğrudan yabancı yatırım, Rekabet, İşsizlik, devlet teşvikleri, vergi tarifeleri

* Atılım Üniversitesi Siyaset Bilimi ve Kamu Yönetimi Bölümü. anilcekic@atilim.edu.tr
** elcin7979@gmail.com
*** eerkul@digital-government.net
Introduction

The process of global integration developing on a world scale, and the supply-demand equilibrium progressing parallel to that process, cause the countries change their investment policies in search of new strategies. In that framework, many countries, which can not balance their needs by using their existing resources, try to have control on the world’s resources by following policies involving direct foreign capital investments. Efficiency and competition policies implemented to develop the investment processes of the countries in the fields of production and searching for resources enable the local and foreign entrepreneurs to control the local and national markets. As for Turkey; though it is in the effort of keeping pace with the rapid developments taking place within the scope of global improvement, we see that Turkey is much behind of many developed and developing countries in terms of attracting the direct foreign investments. As a result of that, the process of competition, a factor which is effective on the development of Turkish markets, can not be brought to international platforms. On the other hand, the very limited progress achieved from the employment-oriented practices causes the production and investment polices remain at local level. This study of ours reflects the impacts of competition, employment, and incentive policies implemented in Turkey on the direct foreign capital investments from the perspectives of the managers of foreign-capital companies acting in our country. Our findings obtained from the survey we have made among the managers of foreign-capital companies acting in Turkey have been evaluated with a view to set forth the existence of the relation between the direct foreign capital investments and competition, employment, and incentive practices.

Subject And Method Of Research

The struggle for sharing the world’s resources in the aftermath of the World war II have caused many developed or developing countries to formulate their prospective aims and strategies through the adoption of new approaches in the fields of production and investment. The efforts spent in that framework to access different and new resources constantly increase the importance of direct foreign investments. The practices intending to enhance competition, increase employment, and support production/investment equilibria through the provision of incentives have gained an undisputable importance in the arrangement of market balances of the countries which are trying to keep pace with the developments taking place on a global scale. Such practices have also started to play a major role in the development of economic and political processes of those countries.

In the face of the rapid changes observed in the perception of investment, it has become necessary for Turkey to bring the process of competition to
international platforms, to create new areas of employment, to support the economic activities with new incentive policies, and to assess the impacts of the current investment policies on the direct foreign capital investments. As such, the objective of this study was to assess the impacts of competition, employment, and incentive practices implemented in Turkey on the direct foreign capital investments, and to get the perspectives of the managers of foreign-capital companies on those practices. Our study was based on the steps of:

- Scanning the literature on the subject-matter
- Carrying out a survey among the managers of foreign-capital companies, (in year 2011 and 2012, phone calls were performed with managers of 464 foreign capital companies in all over Turkey, and 41 of them had positively responded to fulfill the complete survey)
- Analyzing the results of the surveys,
- Assessment of the results of analysis, and presentation of the proposals of solution.

In preparation of the surveys we have carried out among the managers of foreign-capital companies, we have used a semi-qualitative and semi-quantitative method. The findings we have obtained through the analysis of the results of our surveys can be accepted to be important, as they show that our assessments on the subject matter of our research are verified by the perspectives of the company-managers.

**Impacts Of The Competition Environment On The Direct Foreign Capital Investments In Turkey**

The policies directed to the rapid organization of the trade and capital movements play an important role in the integration of local production with the international balances. Competition is an important factor in the integration of economic structures of the countries with the world, in the development of a certain region, or in the improvement of the profitability of a company making production. Competition, “besides involving the ability to supply the customers with the products and services in the manner, and at the times and places they would prefer, also embodies the capability to meet the opportunity costs of the resources used in production” (Filiztekin and Karaata, 2010:8). In that framework, the competition which develops within the scope of the power of corporations to create an impact on the market and on the prices effective in the market, shapes the global markets with its guiding effect on the trade at national and international levels (Karabıçak, 2009:139). The process of competition, though advancing on a global scale, could not show the required progress in Turkey, which is among the developing countries. When we look at the general
structure of competition in our country, we see that efforts were made to keep pace with the changes taking place in the world through the neo-liberalization policies put into implementation in 1980 and the years which followed. However, during that period, results of the implementations put into effect in the socio-economic field, like the public financing, privatization, and direct foreign capital investments, did not yield the expected results. The fund deficit occurred in that framework was tried to be closed by Turkey through short-term capital movements. In the 1990’s, short-term foreign funding supports were continued to be received in order to close the public expenditure deficits. Under the yoke of high inflation, high level of foreign indebtedness, high real interests, and a disorganized banking system, Turkish economic system lost its competitive power and production potential (İSO, 2002:9).

Direct foreign capital investment, which is defined as “the investments made by one or more international investors by their own, or in cooperation with one or more local companies, apart from the portfolio investments which means the purchasing of the securities traded in the stock exchange of a country by another country(ies), or by foreign corporations” (DPT, 2000b:1), has an important function in shaping the local and foreign investment policies of countries. When the relation between direct foreign capital companies acting in Turkey and the competitive power is examined on sectoral basis, it is seen that the competitive power is particularly important for the raw material and labor-oriented products. However, the direct foreign capital investments tended to grow for the capital-intensive products and the products requiring research; and the weak competitive power of such products has created negative effects (TEPAV, 2007:15). For that reason, Turkey needs to focus on the development of production technologies, approaches of management, and the strategic organization policies, in order to improve its competitiveness in the local and international markets (Bozer, 2001:152).

At the global level, average net private capital flow is about five times higher than the direct foreign capital flow. In Turkey, the same ratio is 7:1. It is an important indicator showing the small size of the direct foreign capital investments in Turkey, rather than the high amount of local capital. In general, it has been observed that even if the number of local companies making production in a country highly exceeds the number of foreign-capital companies, there is a tendency for high-level correlation between those two types of companies. Therefore, “in the same way the Foreign Direct Investment (FDI) acts as acatalyst for local investment, the latter also acts as a catalyst for the former”. However this mechanism has not functioned as expected between the local and foreign companies acting in Turkey (TEPAV, 2007:10).

According to Ulengin, Önsel and Karaata (2009:17) the close relationship between effectiveness of product markets and competitive power is one of the
important structural entities that shape the investment conditions in the
countries. The right product and services portfolio, the countries that have
effectively working product markets do develop according to the demand and
supply conditions are crucial for production and development of a healthy
competitive market. For this reason, in the market structures that state
interference are at a minimum level, the economic exchanges for products
and services can be performed in a more healthy manner. But the last
 economical crisis’ happened at global level since 2008, also slowed down the
economic performance of Turkey and this led to state interference into Turkish
economy by creating pressure on the product and services markets for
protecting the local companies. (Ulengin, Önsel, Karaata, 2009:17)

Within the scope of our study, we have carried out a survey among the
managers of foreign companies to determine the level of competition
environment in Turkey compared to other countries where those companies are
acting. 45 % of the managers participated in the survey have evaluated the
existing level as “medium”. Findings of the survey are shown in Graph 1. The
competitive structure of a country is very important, both for the development
of local market, and for ensuring the effectiveness in foreign markets. In that
framework, formulation of new perspectives as regards to the factors seen as
barriers against the integration of Turkey’s environment of competition with the
world is assessed to be important for making achievements in the medium and
long terms.

Graph.1 Comparison of the Environment of Competition in Turkey with other Countries
where the Company is Acting

Even though the liberalization movements in the market policy, as well as
the measures and practices implemented for the liberalization of the trade and
Investments are aimed at the development of competition in Turkey, they still fall short in bringing the level of competition to global levels. Some experiences and information gained from the practices of foreign countries in that regard are important; as they show that the local markets can keep themselves away from the pressures of competition caused by certain practices nonconforming with the concept of competition, like the establishment of cartels in the local markets between the local and foreign companies, exclusive dealership and distribution agreements, monopolization of local inputs, and high costs of transportation. On the other hand, in Turkey the market inputs are limited and the competition is restricted due to many practices, such as; a law prescribing to grant a preference of 15% in the public tenders for the prices offered by local companies, compared to those offered by foreign companies; the requirement of many difficultly-prepared documents and high taxes even from the company having the right of monopoly in the importation of alcoholic drinks, and acting under the indirect control of the state despite its privatization; and the lack of a well-steered policy of importation (TEPAV, 2007:13). Besides all those mentioned above, the high costs of inputs are also considered among the factors restricting competition. High costs of energy, and high prices of the raw materials used by the public due to over-employment and inefficiency are also hindering the improvement of the environments of competition and investment. On the other hand, input costs in the form of public load on the interest rates and labor costs also cause negative impacts on competition (Güven, 2008:81).

In Turkey, there are many other interconnected factors hindering the development of competition. Among those, practices of taxation and intensive bureaucracy were mentioned from different perspectives by the company managers participated in our surveys. The close relation between the complicated practices of taxation and the bureaucracy acts as a factor hindering the development of the investment processes. In that framework, spread of the nontransparent practices in the environments of investment also creates a negative impact on competition and competitive power (FIAS, 2001:8). Also, the fact that the constantly changing laws and regulations are interpreted and implemented differently by different persons prepares the basis for an environment of unfair competition and insecure investments (Bozer, 2001:154). In that framework, importance of ensuring the administrative stability, a well-functioning economic structure, and legal security has become undisputable in the development of the environments of investment and competition (ISO, 2002:133).

In the survey we have carried out to determine the factors hindering the development of competition environment in Turkey, 79.31% of the foreign-capital company managers who participated in the survey answered our question of “What are the factors hindering the development of competition environment in Turkey?” by stating that the practices stipulated by the tax
legislation were standing as barriers in the path of development of competition. Those seeing the tax practices as the main barriers to the development of competition were followed by others who thought that the development of competition was hindered due to bureaucratic and administrative impediments (75%), political and economic instabilities (56%), and failures in promotion (16%). According to the findings of the analysis, among the main factors hindering the development of competition in Turkey, it is possible to mention the practices stipulated by the tax legislation, as well as the bureaucratic and administrative practices. Graph 2 shows the findings obtained as a result of the analysis of the survey made to determine the factors hindering the development of competition environment in Turkey.

One of the important findings obtained as a result of the analysis of the survey was that the failures in promotion were also hindering the development of the competition environment. Having been chosen by 15 of the company managers who participated in the survey (60%) as the 4th priority among other answers to the question related with the factors hindering the development of competition environment, it confirms the importance of the failures made in promotion during the process of the development of competition. In the light of that finding, it is assessed that some studies should be initiated in order to eliminate those failures in promotion.

Graph 2 Main Factors (being assigned as first or second priority by the survey participants) hindering the development of competition environment in Turkey

One of the important findings obtained as a result of the analysis of the survey was that the failures in promotion were also hindering the development of the competition environment. Having been chosen by 15 of the company
managers who participated in the survey (60%) as the 4th priority among other answers to the question related with the factors hindering the development of competition environment, it confirms the importance of the failures made in promotion during the process of the development of competition. In the light of that finding, it is assessed that some studies should be initiated in order to eliminate those failures in promotion.

The fact that competitive power remains at low levels in Turkey can be explained in various ways. However, some of those explanations have gained priority among others due to their special importance. One of them is related with the dominancy of the public-owned monopolies and large private-sector companies in various markets. Certain practices of the corporations having a firm place in the local markets are contrary to the principles of competition, and such practices cause negative impacts on the foreign capital companies. For instance; due to the very short payback terms given to the Turkish companies for their investments to be made with their declared (or not declared) high profits, those companies tend to show their values higher than their real values and demand high take-over prices. That creates negative effects on competition. Because of the above-mentioned attitudes of the Turkish companies, the development observed in the processes of merging of companies remain at very low levels (TEPAV, 2007:6-14).

Degree of competition between the local and foreign companies making production in a country bears importance for the enlargement of investments, increasing the productivity, and adoption of new technologies and approaches of management. Within the scope of our study, we have carried out a survey among the managers of foreign companies to find out how sufficient the level of competition is between the local and foreign companies acting in Turkey. 46.15% of the managers participated in the survey have evaluated the existing level as “medium”. The studies to be initiated with the aim of increasing the level of competition between the local and foreign capital companies acting in Turkey can be expected to create positive effects on the investment and production processes of the companies.

**Assessment Of The Impacts Of The Employment Environment On The Direct Foreign Capital Investments In Turkey**

Capital is a factor having a great impact on the shaping of economic structures and labor markets of countries (Bülbüll and Emirmahmutoğlu, 2010:218). On the other hand, employment is one of the basic variables in the development of the capital and economic growth. At the same time, employment represents the human factor in the production phase. Together with the human factor, the quality of human labor also gains importance in the processes of integration of knowledge and technological experience in
production, as well as their development and transfer. Therefore, it can be said that employment, capital accumulation, and technological developments are three factors complementing each other in the countries’ efforts for growth and development (Saygılı and Cihan, 2008:51).

Turkey is considered among the countries having the biggest market power in the world. 40% of the Turkish population is below the age of 22. Besides that, Turkey ranks 13th among the countries having the largest urban population. Those figures are the indications of the fact that Turkey has a young and dynamic population (Ulengin, Önsel, and Karaata, 2009:10). Despite that advantageous situation, when the Turkish population is evaluated in terms of qualified labor, the result is not promising for the foreign capital investments. In Turkey, the level of qualified labor force is not very high. In fact, however, presence of the human capital who will use the physical capital in the host country is very important for foreign capital investments; and Turkey has not yet sufficiently developed its human capital, who would use the physical capital - that is, the machinery- and feed it with new technologies (Uygur, 2001:27). It is assessed that Turkey, having in fact a vast population potential, should develop its human capital, and should put into implementation new projects which would be supported by new approaches in management. Within the scope of our study, we have carried out a survey on that subject-matter among the managers of foreign capital companies with a view to get their perspectives. 

39.5% of the managers who participated in the survey answered our question of “What is the level of difficulties faced by your company in finding qualified staff to be employed at the stages of investment/enlarging the investments?” by stating that the said difficulties were at “medium” level. Inability to meet the needs of those companies for qualified staff at the required level is a factor creating a negative impact on the investment potential of Turkey.

Turkey is a country having a vast population potential. However, the low speed of development of the human capital is considered as a barrier to investment. Furthermore, few researches have been made until now and very few findings could be obtained on the impacts of the direct foreign capital investments on employment. In that framework, we have carried out a survey among the managers of foreign capital companies to determine the relation between the population structure-wages and the foreign capital companies. 36.84% of the managers who participated in the survey answered our question of “What is the level of difficulties faced by your company in finding qualified staff to be employed in your sector?” by stating that the said difficulties were at “medium” level. We have also made a survey for developing our research on the subject of wage balances. During that survey, we have asked the question of “In what level the expectations are met in your sector in terms of the wages of qualified labor force?”. 47.5% of the participants have answered that question as “good”. Qualified human capital is the basic element shaping each phase of
production in Turkey. Therefore, improvement of the human capital particularly in parallel with the technological developments will serve the elimination of many extra stages which are considered as barriers in the process of production.

Graph 3 shows our findings based on the results of the survey we have carried out about the factors causing difficulties in the employment of qualified staff for the foreign capital companies acting in Turkey. Order of priority given to those factors by the company managers who participated was as follows: Lack of qualified staff (88.57%), staff mobility (67.85%), and demand of high wages (53.85%).

The current situation as regards to the employment has an impact on the production of the enterprises. One of the most important elements of production is the human factor. To the question of “How do you evaluate the impact of the quality of the employed staff on the production you are making?”, 53.85% of the participants gave the answer of “good”. This finding obtained at the end of the survey is considered important, as it shows that the current status of the quality of employment in Turkey is not at a level that would cause a barrier to the production process. It is assessed that even though there are some restrictions in the field of employment in Turkey due to the fact that the qualified human capital is limited, those restrictions are not at a level that would prevent the development of investments.

Impacts Of The Incentives On The Direct Foreign Capital Investments In Turkey

In the UNCTAD report, the definition of incentives is given as follows: “any measurable economic advantages afforded to specific enterprises or
categories of enterprises by (or at the direction of) a government, in order to encourage them to behave in a certain manner” (Kaymak, 2005:84). The benefits provided through incentives have an impact on the decision-making processes of foreign entrepreneurs regarding new investments. Incentives are also important in Turkey; within the scope of efforts to develop the conditions of investment, and to keep pace with the global processes. Through the implementation of incentive policies, it is aimed to eliminate the inequalities between different regions, spread the capital to the base, create opportunities of employment, have the advanced technologies used, and increase the international competitive power (Çiloğlu, 2000:30).

In Turkey, implementation of direct foreign investment incentive policies has shown development within the context of arrangements made in accordance with the 24 January 1980 Decisions, and the Foreign Capital Framework Decree No.8/168. In order to facilitate the investments, the incentives included various benefits, such as; lifting the restrictions imposed on the transfers of infrastructure, profit, and capital; implementing build-operate-transfer models, etc. (Hazman, 2010:263). However, the different incentive policies implemented by frequently changing governments could yield positive effects only in the short-term, while in the long-term their results were sporadic and ineffective. The system of incentives implemented in Turkey have been arranged through ambiguous laws and regulations which are constantly changed, and which from time to time contradicting with each other. Such implementations have also caused uncertainties in the division of duties and powers among different public organizations. Due to the facts that the laws and regulations implemented by different public organizations differ from each other, different assessments are made on the same subject, and there are a lot of procedures needed to be followed, a serious waste of time inevitably occurs during the process of investment. On the other hand, despite the fact that the incentive practices differ from each other based on the types, places, and sizes of investments, the length of time needed for the process of investment is always too much, and that causes various problems (İSO, 2002:104). The complex nature of the incentive practices causes difficulties and provokes negative effects on the expectations of the investors.

One of the important steps needed to be taken to make the production attractive for the investor is granting benefits. Removing or easing certain difficulties faced by companies during the investment process through the provision of incentives is also one of the important steps in ensuring the stability of the relations between the government and the investor companies. 70% of the managers of the local and foreign companies who participated in our survey answered the question of “How sufficient do you think are the incentives provided to local and foreign companies in Turkey?” by stating that the sufficiency of incentives were at “medium” level. That finding obtained at the
end of the survey is considered important, as it shows that the current incentive practices in Turkey are not sufficient to meet the expectations of the enterprises. The fact that limited studies are carried out in Turkey regarding incentive practices is seen as an important problem in terms of the functioning of investment and production processes. Graph 4 shows the findings reflecting the points of view of the company managers who answered the question of “In Turkey, which are the most common barriers to the implementation of incentive systems?”.

According to the results of the survey we have carried out about the barriers to the implementation of incentives in Turkey, order of priority given to those barriers by the company managers who participated was as follows: Practices of Taxation (67.75%), Administrative Practices (57.14%), Legislation (41.37%), Economic Instability (38.09%), Tariffs (33.33%), and Political Instability (19.04%). Those barriers affecting the investment processes in Turkey are the structural factors which have a negative impact also on the activities of enterprises.

Graph 4. Barriers to the implementation of incentive systems

It is thought that following practices can yield positive results in improving the current status of incentive practices, and enlarging the areas of investment: Simplification of the investment and incentive systems; reduction of the information and documents required; implementation of a system without requiring incentive certificates for granting investment incentives; lifting the
Conclusion

The process of global integration has reshaped the new searches and strategies of the competitive economies within the framework of limited resources, and in a way which is based on capital and the balance between production and consumption. Powers and strategies of the countries sharing the world’s resources for their own targets and goals show a progress to the extent of those countries’ ability to increase the share they have taken from the world economy. That evolution observed in the international economy have also been adopted by many developing countries. In that framework, a special type of financing, which is called as direct foreign investments, has been developed as a solution to the deficiency of domestic resources suffered mostly by the developing countries.

It is seen that Turkey is much behind of many other developing countries in terms of attracting the direct foreign investments. Certain political and economic developments going on in Turkey have caused many decisions and practices related with the policies of competition, employment, and incentive policies remain at a limited scale for long years. The barriers faced during the implementation of many projects intending to develop production and investments cause various negative effects, such as restricting the competition in the markets, narrowing down the employment opportunities, and limiting the incentive practices. Those negative circumstances limit the process of attracting the direct foreign investments to our country, and show their effects in the short term.

The fact that the environment of competition between local and foreign companies do not develop at the required level, also brings limitations to many other developments in the fields of production, productivity, and technology. In order to develop a more measurable environment of competition in the local market, it is necessary to perceive the importance of replacing the monopolistic approach with a competition-oriented economic approach. In Turkey, the competition between local and foreign companies develops within the framework of limping practices of competition. The local companies ignore technology and productivity at the production stage, and they develop new fields of industry through the establishment of sub-industries to produce goods similar to those coming from abroad. That causes narrowing of the local market. In that framework, the concept of cheap production adopted by the local companies contradicts with the goals and expectations of the foreign capital companies acting in Turkey. Local companies in Turkey demand high prices for the products they produce at the sub-industry facilities they establish by stating
that they are going to make production. As a result of that, activities of the foreign capital companies are restricted, and the development of competition environment is hindered.

Turkey is a country having a vast population potential. However, due to the limited support provided by the government for raising a qualified labor force, and the fact that most of the young population is working at service sub-sectors, an important problem arises in attracting the foreign-capital companies to the country. The foreign companies facing difficulties in finding qualified staff in the country, tend to bring their staff from abroad. In fact, at the beginning of the development of foreign capital investments, cheap labor force was seen as an advantage. However, now it is an undisputable fact that today’s enterprises need highly-educated staff who can speak foreign languages, and can easily adapt to new developments. Apart from that, it is also hard to find professional managing staff in Turkey. That can be related to the facts that most of the enterprises are established in the form of family-run businesses, most of the young population start their working-life without having sufficient technological knowledge, and the efforts spent by the state to overcome that difficulty remain limited. Findings of the survey reflecting the difficulties faced by the companies to employ qualified staff (88.57% of the answers were reflecting those difficulties) also support that fact. Those findings are considered important, as they show that some measures should be taken by Turkey to bring a solution to the problem related with the lack of qualified staff.

In a country, incentives are provided by the state in order to support and facilitate the investments. The complicated nature of the incentive practices in Turkey, as well as the tendencies to implement the incentive practices on general basis, without taking into consideration the special functional aspects of different investments are the issues of priority needed to be dealt with by the state. Another important factor hindering the implementation of incentive practices is the bureaucracy. In Turkey, the relation between the incentives and bureaucracy is one of the barriers to the development of the process of investment. It is assessed that within the framework of the efforts to be spent by the state for overcoming the above-mentioned difficulties, it will be helpful to prepare the incentive packages by taking into consideration the regional differences, and in a way to comply with the specific features of the investments to be made. Furthermore, steps should be taken to reduce the bureaucratic formalities.
REFERENCES


