FOREIGN INVESTMENT IN TURKEY: TRANDS & PROSPECTS

Cemil Bülent AYBAR

Introduction:

Rapidly changing dynamics of global economy both creates and restricts opportunities for countries. LDC economies, unlike more capable and flexible industrialized country economies, have substantial difficulties in exploring and exploiting opportunities in an increasingly globalized world economy. Regional dynamics, both economic, social and political are the major determinants of the opportunities and restraints imposed on local economies. Middle East is a very strong illustration of this fact with its incredibly dynamic social, political and economic structure. This complex regional system which is renowned by its powerful natural resource-oil, is an arena of vast political conlicts which affect its social and economic dynamics. Although Middle East is erroneously identified with oil rich economies of the region, it offers a vast diversity in terms of economic, social and political characteristics. This paper focus on one of those non-OPEC economies-Turkey- of the region which reflects the diversity mentioned above. Turkish economy like many other counterparts in the region and Third World at large is in a long lasting economic development struggle. The efforts of economic liberalization and structural adjustment initiated in 1980 created a reasonable transformation from a closed economy to an open one, of course at a substantial economic and social cost -$42 billion external debt, an official unemployment rate of 11% (18-20% unofficial), 50-70% inflation. 1980 Reform program empha-

sized flexible exchange rates, an export drive, public enterprise and privatization, financial liberalization, import liberalization, and promotion of foreign direct investment. Flexible exchange rates, export drive and financial liberalization were the focus of the reform program particularly in the first half of the 1980s. Privatization and promotion of the FDI were increasingly emphasized in the second half of the 1980s. Like many other counterparts in LDCs, Turkish authorities recognized the inevitable role of FDI in the development process because of inability of the domestic capital accumulation to facilitate investments creating new capacities. Appreciation of the role of the FDI in the development process, created one of the most liberalized foreign investment regimes among ali the LDC economies. With this regulatory structure and her economic resources Turkiye joined the relentless game of attracting foreign investors into her territories. A fairly successful promotional activity increased the negligible extant FDI stock substantially between 1986-1990 at an annual average of 50 %. The focus of this study is to analyze this trend and question the overly optimistic expectations of the Turkish authorities about the future FDI flows. Section one reviews the current economic condition in a retrospect. Section two analyzes the structure of the FDI in terms of its sectoral distribution and trends. Section three builds up projections under the light of expected economic, social and political developments in the regional markets and world markets in general. Section three is followed by concluding remarks.

Section I: Turkish Economy in Retrospect

Turkish economy, like many other LDC economies, evolves in cyclical economic bottlenecks followed by political ones. First severe crisis came in late 50s and followed by a military takeover. Second one preceded the 1973 oil-shock in 1971, before the world economy shaken. The recovery from the second economic and political crisis was rather quick despite the unfavorable global economic conjuncture. Turkish economy enjoyed high growth rates in the 1970s. This was a typical case of import-substituting industrialization without a foreign exchange constraint, thanks to remittances of 500,000 Turkish workers in Western Europe[1]. However austerity programs followed by 1973 oil shock brought an end to the emigration

(1) Aricanli, Tosun & Rodrik Dani, "An overview of Turkey's Experience with Economic Liberalization and Structural Adjustment", World Development, Vol 18, No. 10, pp. 1343-1350, 1990.

process which alleviated the labor surplus since mid 1960s. Oblivious to both direct and indirect consequences of oil shock, Turkish governments preserved their high growth policy, and were therefore decoupled from European economy. Exports and workers remittances stagnated while imports shot up. This fed back negatively on remittances as an increasingly overvalued currency discouraged their inflow. Current account deficits were financed by short-term under government exchange rate guarantees to private borrowers. By mid 1977 Turkish government was caught in a severe liquidity crisis and foreign banks refused to lend further. The extensive external borrowing was the engine of growth, with investments reaching to 25 % of GDP. The austerity in Europe was a definite end to labor migration, which in the early 1970s, had amounted to over 50 % of the annual growth in employment in Turkey. The long period of economic growth that had begun in 1960s reached its climax in 1976, just before it ended in a crash.

A turning point in Turkish economic policy came in 1980. In January, after several unsuccessful attempts in 1978-79 and two failed IMF programs, government announced a far reaching stabilization program, now known as "January 24 package". The reforms initiated in January 1980 put the turkish economy on an outwardly oriented course, a sharp turnaround from the postwar era of inwardly oriented growth. Reformation process particularly focused on the following policies to facilitate a transition from a closed economic structure to a radically open one:

- Flexible Exchange Rates
- Export Orientation
- Public Enterprise Reform and Privatization
- Financial Liberalization
- Import Liberalization
- Promotion of Foreign Direct Investment

Overvalued exchange rates preceding 1980s were constant source of economic instability and caused erosion of external competitiveness substantially. 1980 onward nominal value of Turkish Lira were kept on a steady downward trend partly to offset the high inflation. TL depreciated by 50 % between 1979 and 1987 in real terms to subsidize exports in contrast to pre 1980 period of overvalued TL[2]. Overly inward orientation of Turkish economy was another source of economic instability, of particu-

(2) Aricanli, Rodrik, p. 1345

larly foreign exchange bottlenecks experienced in late 1970s. An undervalued TL and other massive subsidies to the export sector accompanied by shrinking demand because of austerity programs stimulated the exports. Subsidies comprised of tax rebates, export credits and foreign currency retention amounted to on average 20-30 % ad valorem equivalent between 1981 and 1985[3]. The third vein of economic reforms directed to reduce public sector losses. A pricing system reflecting costs of production in State Economic Enterprises (SEE) put in effect and SEEs ventured to be self financing organizations. Depressed wage structure mandated by the military regime helped SEEs to reduce losses. Government investment were limited strictly to infrastructure and a privatization program initiated. Progress in the Privatization program has been very slow because of lack of political consensus on the issue and lack of domestic capital to acquire large asset bases of SEEs. A very thin Stock market prevents large public offerings, but rapid expansion of Istanbul Stock Exchange and financial infrastructure might facilitate new offerings in the first half of 1990s. The fundamental issue in Privatization is the lack of investment capital and trends in savings are not encouraging in this regard. Interest in Privatization program by foreign investors was hindered by political uncertainty particularly after a supreme court decision rendering a transaction constitutionally unlawful (acquisition of USAS by Scandinavian Airlines System). A predominantly oligopolistic and monopolistic market structure fed back an inefficient capital allocation in Turkish economy. Control of Banks by major industrial corporations created substantial inefficiencies in the allocative system. Lack of capital markets further added to the allocational inefficiencies and created an inevitable dependency on bank financing. Deregulation of deposit rates were first move towards financial liberalization but it was followed by a speculative boom and a costly crash in 1982. Since then deposit rate ceiling are imposed by central bank despite occasional deregulations quitted immediately after being effective. A major aspect of financial liberalization was institution of foreign currency deposits within the domestic banking sector. A further deregulation was in effect in 1990 regarding foreign exchange transactions and capital movements. Turkish capital markets were opened to foreign investors and Turkish investors involvement in foreign markets were facilitated with a decree in effect as of May 1990. With an import liberalization domestic market intended to be opened up to foreign competition, but it was realized only to a very limit-

(3) Aricanli, Rodrik; p. 1344.

ed extent. Currently almost ali major sectors of the economy is under severe protection including durables, auto, electronics, steel and chemicals[4]. Import liberalization caused a substantial increase in luxurious consumer products rather than creating a more competitive industry. Finally lack of domestic investment capacity and indigenous technological infrastructure were aimed to be compensated by foreign direct investments. As it's been mentioned before, a very radical foreign investment regulation was prepared.

Total cumulative FI inflow amounted to only $ 228.1 million by the end of 1979. Starting from 1980 FI inflows averaged around $ 325 million annually with an average 50 % annual increase by the end of 1988. In 1989 FI inflows amounted to $ 1,470.5 million increasing 78 % from 1988. Recorded inflows in the first quarter of 1990 summed up to $ 396.5 million[5]. Figures presented above include also portfolio investments, but a detailed breakdown of the inflows are not available except for 1989 and first quarter of 1990.

The following part reviews several key economic indicators of the post-liberalization era:

GNP And Per Capita Income:

GNP growth rate averaged around 4 % during 1981-1983 following economic chaos recession experienced between 1978 and 1980. Since 1984 economy grew at an average rate of 6 %. During 1988 GNP growth rate slowed due to various changes in the monetary policies of the government to controi inflationary pressures in the economy. 1989 GNP growth rate was only 1 %, but a reversal in the monetary policy brought a 7.5 % growth in 1990 (projected growth was only 2.5 %) accompanied by high inflation rates. Projected real GNP growth rates in 1990s are 2.5 to 3.5 % p.a[6].

Growth in agriculture and mining sectors has consistently remained below the average growth rate in other sectors. Manufacturing and energy (electricity, gas and water) sectors have grown at a faster pace than the general economy. Services and construction sectors followed the similar growth rates as the general economy. Turkish GNP reached at $ 60

(4) OECD Economic Surveys; Turkey 1989/1990, OECD Publications, Paris; p. 86.
(5) State Planning Organization, Board of Foreign investment unpublished annual report.
(6) The Turkish Economy 1990, p. 101.

bn and $ 65.7 bn in 1988 and 1989 respectively. Industry is the leading sector of the economy by 34 % of the GNP. Although Turkish GNP is increasing in nominal terms since 1963 it is still low compared to similar economies of Spain and Greece.

Demostic Demand:

Following the recession in late 1970s and early 1980, domestic demand (of which 88 % private sector demand) increased 5.9 % on average between 1984 and 1988. In the first half of the 1980 fixed capital investments declined despite increasing demand but picked up since 1985 and raised to it current level of..... (As of December 1988). Due to budget deficits public sector investment cut back by 3.6 % in 1987 and 8 % in 1988[7]. However, private sector investments have increased by 19 % in 1987 and 17.7 % in 1988. The distribution of private sector fixed capital investments has increased significantly in construction, tourism, and manufacturing. Following the liberalization programs in effect since 1980 investments in agriculture declined, while investments in manufacturing, energy, tourism have been growing rapidly.

Population, Labor Force And Unemployment:

The population of the country is currently approximately 55 million. According to the latest figures released by the State Institute of Statistics there are 18.4 million people who make up the labor force and 15.7 million (85 %) who hold jobs. Therefore, close to 2.5 million people are unemployed The ratio of people actively seeking employment to the labor force is 11 %[8]. Population growth averaged 2.8 % between 1980 and 1985 exceeding 2 % growth in the previous decade. Last 5-years planning term suggests bringing growth rate to 0.7 % level by the year 2000, but there is no concerted effort even to initiate a downward trend. If the same demographic trends continue, the population of Turkey is expected to reach 73 million by the turn of the century. Approximately 17 million people are over age 12 but not economically active. % 57 of this segment are housewives who choose not to work, 20 % are students, 10 % are retired people and 10 % are not physically or mentally capable of working.

(7) Turkish Economy 1990.

(8) An Investment Guide to Turkey; Citibank Istanbul Branch, 1990; p. 14.

Fifty percent of the population is under the age 26, 48 % is under 20 and only around 5 % is over the age of 65 which is quite different demographic structure compared to the ageing population of the EC countries.

As of 1989, 50.1 % of the population is employed in agricultural sector, 14.2 % in industry and 30.7 % in services[9]. The current sectoral distribution of manpower in Turkey shows a deviation from the typical LDC configuration where concentration in agriculture is far higher.

Foreign Trade and Balance of Payments:

One of the most remarkable progress made through reform program is in exports which reached $ 11.7 billion with a steady increase since 1980. Imports also have grown within this period, but currently coverage of imports by exports is 82 % which is stili high for a developing country. As of January 1990, 79.7 % of the exports are manufactured products, 17.7 % are agricultural and 2.6 % are mining and quarrying. Share of manufactured products have steadily grown over the last decade. Among the industrial exports textiles constitute the majority (40.5 %) followed by iron and steel (18.5 %), chemicals (9.3 %) and the leather goods (6.5 %). Majority of exports are accounted for EEC (41.9 %) and other OECD countries (13.4 %). Only 5 % of the exports are accounted for Islamic countries. There has been a severe decline in exports to oil-exporting Middle Eastern countries particularly aftermath of the Iran-Iraq war. Current account deficit of Turkiye has been kept between $ 1.5 billion and $ 966 in last for years (around 2.5 % of GNP)[10]. This range can be explained by fluctuations in workers remittances, tourism income, and short term capital inflows. Particularly during 1989 and 1990s overvalued TL and high interest rates created an uncovered interest arbitrage opportunity for speculative capital. Turkish Central Bank's commitment to a stronger TL reduced the risks involved in this process and speculators had almost 20 % net interest differential gain during this period. Although FDI and Portfolio investments increased substantially in late 1980s, massive debt principle payments and infrastructure expenditures increased dependence on foreign debt during 1980, bringing the foreign debt stock to $ 41 billion[11]. Debt/service ratio climbed to alarming levels of 60 % in 1989. Debt financing will be inevitable to pay the principle and

(9) The Turkish Economy 1990; p. 29.
(10) OECD Economic Surveys; p. 70.
(11) The Turkish Economy 1990; p. 157.

interests during 1990s given that a significant jump in export earnings are not expected. After this review of the performance of the Turkish economy, next section will look at structure of Foreign investments and ternds in FI.

Section II: Structure of FDI and Trends

Since majority of global capital movements are among developed economies of the world, LDCs have to compete for a relatively small portion of the mobile capital. 90 % of the total world FDI stock (around $ 1 trillion) are in OECD countries. $ 70 billion annual flow of FDI is also invested and received by OECD members. In another words Turkiye competes with other LDCs for the remaining 10-11 % of the potential FDI flows.

A major obstacle for foreign capital proved to be regulatory environment which was hindered FDI flows into LDCs for decades Fears from nationalization of foreign owned assets experienced in late 1960s and early 1970s caused a serious stagnation throughout 1970s and early 1980s. While FDI flows peaked between 1981-1988 period LDC economies still had substantial difficulties in attracting foreign investors. In this period Turkiye has radically reformed its foreign capital laws and created a very liberal regulatory environment for foreign investors. All sectors of the economy were opened for FDI with a minimum capital requirement of $ 50,000. There are no restrictions regarding equity ownership in terms of percentages. All profits, dividends and liquidation proceeds can be freely transferred abroad. No restrictions imposed on the employment of the foreign personnel. Foreign Capital and Investment Board signs bilateral tax agreements to prevent double taxation (These agreements are proceeded at three stages: negotiation, settlement and application. Since they require the approval of legislative bodies of the involved countries, activation of the agreements takes long time). This rather liberal regulatory framework created a substantial inflow of foreign capital since 1986 increasing at an average rate of 50 %. FDI permissions issued by the Foreign Capital Board reached at $ 1.5 billion in 1989 a 78 % increase from 1988[12] (This total is equal to total issued permission between 1980-1986). Total permissions issued in 1990 reached at $ 2.5 billion.

(12) Turkish Industrialists' and Businessman's Association, "The Turkish Economy 1990", p. 79.

A sectoral breakdown of the FDI in Turkiye reveals that 51.2 % of the extant FDI is in manufacturing. Services follow manufacturing by 45.2 %. The share of agriculture and mining are 2.7 % and 0.9 % respectively[13]. Foreign investment licenses by sectors as of 1989 and first quarter of 1990 reveals an increasing trend in favor of manufacturing. While manufacturing investments rose from 61.3 % to 65.2 %, share of services in foreign investments declined from 37.3 to 33.5 %. A further breakdown of the FDI in each sector will help clarify the nature of the FDI in Turkiye.

Manufacturing:

Investments in manufacturing sector is rather diversified. 21 % of the total $ 900.99 million investment is in cement industry which was under massive privatization and restructuring. A chain of state owned plants sold to two French multinationals under privatization program[14]. Another 11 % of the investments in 1989 were in Food Manufacturing. Iron & Steel, Transport equipment and related industries followed the food manufacturing with 9.7 % and 8 % respectively. Sensational declarations of Toyota and Mazda's investment decisions with Turkish partners brought a further momentum to auto imports from particularly Japan. Investment decisions of other two major European auto manufacturers, French Peugeot and GM-Europe raised serious questions about the absorptive capacity of the domestic markets and export prospects. Turkish car market with an annual absorptive capacity of 120,000-140,000 will be supplied 650,000 car if all projected investment and production is realized by 1993[15]. Since this size of a domestic production can not be justified by domestic demand, 50 to 60 % of this production is expected to be exported. If fierce competition for the market share in Europe considered, alternative markets for this surplus production turns out to be Middle East, Eastern Europe and Soviet Union. Purchasing Power considerations almost cross-out Eastern Europe and Soviet Union as viable markets for such a product, Middle East remains to be only realistic alternative despite its volatile structure. A cartesian reasoning casts serious doubts about the viability of investments yet to be realized. Other investments in manufacturing are in electronics mostly concentrated on tv sets

(13) The Turkish Economy 90, p. 81.
(14) Hazardagli Ismet, "Ekonomik Panorama", vol. 4, No. 3, January 1991, p. 10-15.
(15) Hazardagli Ismet.

and video recorders realized by shaky Polly Peck of England. Beverage industry is another significant FDI receiver (4.4 %) motivated by tourism investments. Heineken and Phillip Morris' Miller are two such investment in this field, mostly targeting foreign visitors concentrated on Aegean and Mediterranean coasts.

Services:

In services sector we see a far more concentrated structure as compared to manufacturing. 44 % of investment are in Hotel and Restaurant related businesses. In other words tourism is a major FDI recipient in this sector. Before cheering little thinking casts a lot of shadow in this apparently happy picture drawn by the authorities. A substantial part of this investment is accounted by takeovers directed to tourism concerns under heavy short and long term debt by the multinational tour operators. It is known that this kind of investments do not create expected foreign exchange flows which Turkish economy heavily relies on in the long run, since visitors make the payment for the whole arrangement at home, or at off-shore tax heavens.

Other major recipients in services are Banking, Insurance and other Financial Institutions (14 %). Financial services investments are followed by land, marine and air transportation. Health care and other social services constitute only a minor portion of service sector investments.

A breakdown of the country source of investments might bring further insights: U.K. is the leading FDI stock holder in Turkiye with 16.17 % of the total. As of 1990 January Switzerland, Germany, Italy, U.S., Netherlands, France and Japan account for 12.8 %, 11.31 %, 10.32 %, 8.17 %, 6.11 %, 5.14 %, 4.55 % respectively[16]. In other words 81.69 % ol the FDI stock is accounted by OECD countries and these investments sum up to 52.29 % of asset capital base in Turkey. (EC members account for 55.05 % of total FDI stock). Middle Eastern investments in Turkey account for only 9.62 % of the total FDI stck. Saudi Arabia, Kuwait and Iran are the major Middle Eastern Investors in Turkiye with respective shares of 3.95 %, 1.32 % and 1.40 %. Turkey partly suffers from a bad timing to encourage FDI from Middle East since once abound petro-dollars looking for investment opportunities are not available anymore because of massive declines in oil prices and infrastructure investments in

(16) The Turkish Economy 1990; p. 152-155.

petrol rich countries. Today particularly Iranian and Saudi capital inflows are rather politically motivated to provide financial support to fundamentalist groups in the country and concentrated in financial sector to provide Islamic Banking services.

A more detailed break-down of the type of FDI flows in Turkiye will provide further analytical logistics. A useful break-down for this purpose will be:

- New Investment
- Expansion
- Increase in Capital

Figures released by the Foreign Capital Board includes also Portfolio Investments. 28 % of the Foreign Capital flows ($ 415 million) are accounted by Portfolio investments motivated by new deregulations in the capital markets and surprisingly well performing Stock Market despite stagnating growth. The configuration of the remaining part of the FDI is sufficient to trim the optimism for the eyes can see: Only 37.8 % of the total foreign capital inflow including portfolio investments are new investments 9 % of the total FIs are expansion investments of the existing foreign owned corporations. The remaining 26 % are accounted by capital increases which are supplied by retained earnings. This break-down clarifies the FDI configuration in Turkey. The implications of this breakdown are crucial for future projections. Since only roughly 38 % of the total foreign capital inflows are constituted by new investments we should be careful in projections. Capital increases and expansion investments are only expected to be continued under very favorable economic conditions. Given the serious bottlenecks created by structural problems and recession in world economy reinforced by Gulf crisis Turkish economy is already facing a tough period. High inflation and expected stagnation in growth is likely to worsen because of devastating implications of Gulf crisis. Portfolio investments are also standing on a very shaky ground. A rather speculative stock market and recent poor performance might reverse the trend in a matter of days. Rapid devaluation of Turkish Lira against to major currencies in the first quarter of 1991 already created a reverse trend. Turkish Fund marketed in U.S. was ranked eight among ten developing country funds[17].

(17) Wall Street Journal, May 20, 1991.

Section III: Prospects and Suggestions

The review of Turkish economy presented in section I reveals that transition aimed at the beginning of the decade has been realized to some extent but structural problems of the economy remains to be solved. High inflation has become a self-feeding process because of multiple reasons. Although government investments directed only to infrastructure rather than manufacturing and services as it's been traditionally, slow pace of privatization prevented shrinkage of government sector and budget deficits reached at .. % of GNP. Massive debt financing have had devastating effect on the capital allocation process and have stimulated inflation because of interest and principle payments. Restructuring in SEEs have not increased productivity and profits are generated through price increases (some of the SEEs are monopolies). In short, structural inflation is not likely to ease in 1990s unless infrastructure expenditures cut back substantially and privatization gain pace. Given the desperate need for infrastructure investments and political debate on privatization expecting major shifts on these fronts at best are not realistic. Investor's sensitivity to high inflation is a well known fact and foreign investors would be far more cautious investing in an inflationary environment. This economic imperative suggests that unless structural inflation cured major FDI inflows should not be expected to increase or continue even in most profitable sectors like tourism.

Among the consequences of an anti-inflationary austerity program is a drastic reduction in growth and compressed domestic demand which will halt foreign investment flows intending to serve the potential domestic market. Although demographics are favorable, depreciating real incomes and declining purchasing power would have negative effect on this category of FDI.

During 1980-83, under the military government real wages declined steadily. This trend continued until 1989, and pressures by organized labor gained pace with the democratization process. Real wages at 1983 prices declined to 66 (1983 is 100) in 1988 and rose to 82.3 in 1989 in the public sector. In the private sector, real wages reached 117.8 after hitting 89.6 in 1988[18]. Massive strikes have been taking place since 1990 to push wages further compensating real declines since 1979. This movement increases hourly compensation rates which have long been perceived as an attractive factor for FDI. If this trend goes on another com-

(18) The Turish Economy 1990; p. 29-30.

parative advantage will be lost during 1990s. Although it is unlikely that wages will go up EC levels, availability of more skilled and cheaper labor in Eastern Europe constitutes a major threat.

Given the trends analyzed previously, domestic market is far from being promising for foreign investors. An alternative for foreign investors is to use Turkiye as an export platform to Middle Eastern and Soviet markes. Particularly second alternative is being frequently pronounced by government authorities in the context of Black Sea Free Trade Area including Soviet Union, Bulgaria, Romania and Turkiye. Because of transportation convenience through Black Sea and massive demand for consumers goods in these markets this alternative seems to be a viable one, but a further analysis raises serious questions about the potantial economic gains. The first problem is the lack of purchasing power in these markets. Romania is the weakest economy among the all Eastern European countries and it is still in a political turmoil. Because of very high level of foreign debt, it is an insolvent country where its foreign exchange is allocated among debt payments and vital imports. Bulgaria although have a stronger industrial infrastructure than Romania, is also experiencing same set of problems, namely lack of purchasing power and foreign exchange. Given the stagnating growth and difficulties in the transition process to market economy 1990s will be difficult years for these countries hardly rendering them promising markets. Counter-trade will be the only viable means to serve these markets which foreign investors are unlikely to be interested. Soviet market, although huge, is not far different than these two regarding its problems. One major advantage of Turkiye in access to this market is its cultural proximity particularly to Turkic republics of Soviet Union. But counter-tarde is again almost the only means to serve these markets since they can't appropriate foreign exchange from Soviet government and can not generate for-ex to finance their imports. Although these markets might be exploited to some extent by creating co-operative ventures and combinations of counter-trade, it will most likely to be left to domestic corporations and entrepreneurs rather than attracting foreign investors.

Use of Turkiye as an export platform to enter Middle Eastern market might be economically viable for Japanese, European and other South-East Asian (Taiwan and South Korea and Singapore) investors. Despite the inherent volatility of Middle East market and declining oil income in the region, demgraphics and development trends reveal an increasing demand for consumer and capital goods. Since current status of technologi-

cal infrastructure renders competitive capital goods production and export infeasible, consumer goods are left as the major export category to the region. Particularly products requiring semi-skilled labor can be produced and shipped to the region combining labor and transportation cost advantages. A far more promising approach is establishing production facilities in the newly opened Free Trade Zones in Southern and South-East Turkiye. Tax exemptions for imported inputs and investment incentives might create further competitive advantage in serving Middle Eastern Market.

The final possihility is using Turkey to serve EC markets. Relatively cheap labor (is a fading advantage as expressed before) and geographic proximity can be combined to create a competitive advantage in EC market against to South-East Asian producers. Particularly income tax exemptions in FTAs might bring labor costs close to South-East Asian levels.

Although Turkiye has a fairly strong potential with its resources to attract FDI, structural economic problems create a severe obstacle for exploitation of this potential. "House in order" is the prerequisite for a successful foreign investment promotion. Unfortunate poor potential in neighboring markets except for EC is another obstacle to offer its location advantages. Emergence of East European market economies will soon add another dimension to this phenomena since these economies are able to offer a better educated labor force and more developed industrial and technological infrastructure. Its growing population can only be a further roadblock in its economic development unless it is transformed in to skilled and semi-skilled labor force along with problem identifiers, problem solvers and strategic brokers linking these elements of human resources.

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