

FOREIGN DIRECT INVESTMENT IN TURKEY:
DETERMINANTS, PROBLEMS, TAX AND LEGAL CHANGES

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Foreign Direct Investment in Turkey:
Determinants, Problems, Tax and Legal Changes

Türkiye’de Doğrudan Yabancı Sermaye Yatırımları:
Belirleyiciler, Problemler, Vergisel ve Hukuki Değişiklikler

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Abstract

Erdal Ekinçi, “Foreign Direct Investments in Turkey:
Determinants, Problems, Tax and Legal Changes”

This thesis offers an empirical study of the motives for the selection of Turkey as a location for foreign direct investment (FDI). In addition to the determinants of selecting Turkey as a location for investment, the thesis also analyzes the issues that affect the investment environment and the reception by the current investors of the recently introduced tax and legal changes intended to enhance Turkey’s attractiveness for FDI. For this purpose, following an extensive literature review on the subject matter and a series of interviews with various executives, a questionnaire is prepared and is pre-tested. Then, the questionnaire is applied to the executives of 73 corporations established in Turkey with foreign capital.

In the study, first the factors that lead to the selection of Turkey as the location for investment are identified. Then, the main problems that affect the FDI environment in Turkey are determined, and the impact of these problems on the FDI environment and the operations of the firms are measured. Third, the study investigates the progress achieved in the solution of these problems as compared to the dates on which these investments were initiated, and the probability of solutions to the identified problems in the next five-year period. Finally, the impact of the tax and legal changes introduced in the last five years on FDI environment and business plans of firms is analyzed.

In the study, the hypotheses which examine the relationship between the determinants, problems, tax and legal changes and investment date, industry, capital

size, sales volume, employee size, mode of entry, ownership pattern, country of origin of foreign equity are tested through t tests and variation analysis, and the findings are discussed.

Tez Özeti

Erdal Ekinci, “Türkiye’de Doğrudan Yabancı Sermaye Yatırımları:
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Bu tez, Türkiye’nin doğrudan yabancı sermaye yatırımları (DYY) için bir yatırım yeri olarak seçilmesinin nedenlerini ampirik olarak sunmaktadır. Yatırım yeri olarak seçilmesinde belirleyici olan faktörlerin yanı sıra, yatırım ortamını etkileyen problemler ile ülkenin yabancı sermaye yatırımları için cazibesinin artırılması amacıyla yapılan vergisel ve hukuki düzenlemelerin mevcut yatırımcılarca nasıl algılandığı da analiz edilmektedir. Bu amaçla, yoğun bir literatür okuması ve bazı yöneticilerle yapılan görüşmelerden sonra, bir anket geliştirilerek ön testi yapılmış, sonra anket Türkiye’de yatırım yapmış olan 73 yabancı sermayeli şirketin yöneticilerine uygulanmıştır.

Çalışmada, önce Türkiye’nin yatırım yeri olarak seçilmesinde etkili olan faktörler belirlenmiştir. İkinci olarak, Türkiye’nin yatırım ortamını etkileyen problemler tespit edilmiş ve bu problemlerin Türkiye’nin yatırım ortamına ve firmaların operasyonlarına etkisi ölçülmüştür. Üçüncü olarak, belirlenen problemlerin çözümünde yatırımların yapıldığı tarihe göre bir ilerleme olup olmadığı ve bu problemlerin gelecek beş yıl içerisinde çözülme olasılığı araştırılmıştır. Son olarak, yatırım ortamının iyileştirilmesi için son beş yılda yapılan vergisel ve hukuki düzenlemelerin yatırım ortamına etkisi ile firmaların iş planlarına etkisi analiz edilmiştir.

Çalışmada, yabancı sermaye yatırımlarını etkileyen faktörler, problemler ve vergi ve hukuki düzenlemeler ile yabancı sermaye yatırımlarının giriş tarihi, sektörü, sermaye büyüklüğü, satış hacmi, çalışan sayısı, giriş şekli, sahiplik yapısı, geldiği

ülke arasındaki ilişkiyi analiz eden hipotezler test t testleri, deęişim analizleri ile test edilmiş, bulgular tartışılmıştır.

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CHAPTER 1

INTRODUCTION TO THE STUDY

1.1. Introduction

Contrary to the expectations, eminent social scientists describe the current moment of globalization not so much as the final destination of the world economy, but as an “age of transition” (Hopkins and Wallerstein, 1996). Even though “over the last 30 years world capitalism has undergone major transformations”, there has been no widespread consensus among scholars on the formations and outcomes of the late global phase in capital flows (Arrighi, 2001/2002, p. 469). Hill (2005) gives us a concise account of the signs of transitions as follows:

We are moving away from a world in which national economies were relatively self-contained entities, isolated from each other by barriers to cross-border trade and investment; by distance, time zones, and language; and by national differences in government regulation, culture, and business systems. And we are moving toward a world in which barriers to cross-border trade and investment are tumbling; perceived distance is shrinking due to advances in transportation and telecommunications technology; material culture is starting to look similar the world over; and national economies are merging into an interdependent global economic system (p. 4).

In effect, the nation-state is gradually losing grounds as the essential actor in the operation of the world economy. As a result of the transition from the national to the “transnational stage”, a “transnational capitalist class (TCC)” has become the key player of the global economic system with their vital role in “internationalization of capital and the global integration of national production structures” (Robinson and Harris, 2000, p. 12).

As for the impact of this transformation on foreign direct investment (FDI) on a global scale, based on recent data, the FDI stock in 2004 figured around \$9 trillion, which has been created by 70.000 transnational corporations (TNCs) and their 690.000 subsidiaries in other countries, while total sales by these subsidiaries added up to approximately \$19 trillion. The total amount of FDI flows in 2004 was \$648 billion. While developed countries received 64% of this figure, the percent of FDI inflows to developing countries was 36% which was the peak level since 1997 (UNCTAD, 2005a, p. xix). Furthermore, in 2005 there was a 29% increase in FDI inflows, amounting to a total of \$916 billion. The substantial amount of this figure stemmed from “cross-border mergers and acquisitions”, particularly in developed countries. The amount of FDI undertaken in developed and developing countries were \$542 billion and \$334 billion with the shares of 59% and 41%, respectively (UNCTAD, 2006, p. xvii). It is also estimated that both the volume of FDI flows and the share of developing countries in FDI inflows will increase in the upcoming years (UNCTAD, 2005b).

There are various factors that account for the increase in the share of developing countries. The major one is “the intense competition in many industries” (UNCTAD, 2005a, p. xix). This has required the TNCs to find out new venues of enhancing the “competitiveness”. As a consequence, TNCs have taken a number of initiatives to spread out their operations in new markets in order to increase their sales, benefit from scale economies and cut in costs (p. xix).

Nevertheless, neither these initiatives to increase competitiveness nor capital flows can be understood without taking the location choice into account. FDI behaviors and decisions are intricately related to numerous determinants that are

effective in the location choice and these determinants differ from one country to another, even within the same country or from one firm to another.

Theoretical and empirical studies regarding the location choice of foreign direct investment have identified many determinants. Market size, growth rate, economic stability, tariff and non-tariff barriers, labor costs, market infrastructure, natural sources, tax incentives, political stability, host country government policies, corruption level, democratic standards, social networks, cultural values, intensity of cultural ties have been identified as the determinants playing role in the location choice of foreign direct investment activities of multinational enterprises. It is possible to classify these determinants as economic, sociopolitical, social networks and cultural.

When we analyze the inward FDI position of Turkey, we observe that it would be rather optimistic to assert that Turkey has been successful in the accomplishment of the desired objectives regarding the foreign capital investments since the country had opened its economy to international investments in 1980. During the period between the enactment of the Law Concerning Foreign Capital in 1954 until 1980 which marks the opening of Turkey's economy to foreign capital, the number of corporations that have realized foreign direct investments in Turkey was 78, and the total amount of foreign investments realized in Turkey was only 35 million dollars (GDFI Database). Concurrent with Turkey's opening its borders to the inflow of foreign capital, a relative increase was marked in the volume of foreign investments in Turkey. Nevertheless, the FDI total realized each year remained below 1 billion USD until 2001. The net FDI, which exceeded 1 billion USD for the first time in 2001, was realized as 1.14 billion USD in 2002, 1.75 billion USD in 2003, 2.88 billion USD in 2004, and as 9.80 billion dollars in 2005. However, taking

into consideration the countries that attract the highest level of FDI, which include the United Kingdom with 154.5 billion USD; USA with 99.4 billion USD; China with 72.4 billion USD, France with 63.6 billion USD, or the Netherlands with 43.6 billion USD, Turkey's progress in terms of FDI, still remains somewhat minor (GDFI, 2007).

Turkey has accomplished a record level in terms of its performance to attract foreign direct investments in 2006, during which, the FDI total was realized as 20.17 billion USD. Again, as of the end of fiscal year 2006, the number of companies with foreign capital operating in Turkey has reached 14,955 (GDFI, 2007). "Although the composition and general trend of the inflow of international direct investment in 2006 were to a great extent in consistency with the inflows of international direct investments on a global perspective, the increase in the inflows of international direct investment realized in Turkey during the last two years is significantly above the average increase that was achieved by the developed and the developing countries. According to the estimates, while in 2006 FDI has increased at a rate of 34.3% as compared to the previous year; in Turkey, this increase was achieved at a rate of 105.7%" (p. vii). This increase in Turkey's locational attractiveness in recent years is strongly linked to "the macroeconomic stability that was accomplished, the impacts of the negotiations regarding full accession to the European Union on the level of predictability and the efforts concerning the improvement of the investment environment" (p. 6). The cross border mergers and acquisitions and the privatization of the public enterprises are other two key factors in the increase of foreign direct investments in Turkey (GDFI, 2007).

In review of the academic studies analyzing the determinants of FDI in Turkey or failure of Turkey in inward FDI, we see that various factors have been

identified as effective in Turkey's case. Examining foreign direct investment in Turkey, Erden (1996) argues that economic and financial liberalization in Turkey at the beginning of 1980s have affected "investment, capital increase, exports, products and ownership" policies of existing firms (p.183). The study also shows that although 53% of investors perceive Turkey's risks as undesirable, they also consider it as an attractive country for investment. From the investors' point of view, "the inconsistent macroeconomic policy" is the most crucial issue impacting the FDI in Turkey (p. 184). Other concerns that are related to "the regulatory environment, the tax system, the absence of inflation accounting system, the existence of corruption, the recognition of patents rights, incentives, environmental protection legislation, and the insufficient development of financial markets" are regarded "as moderately serious" (p. 184). The findings of the study reveal that "the absence of standard accounting practices, recognition of goodwill/brand equity, land availability and the social problems of expatriate families" are considered "the least serious" (p.185).

In his study of the determinants of foreign direct investment in Turkey, Tatoğlu (1996) finds that the "market size, the repatriability of profits, the growth rate of the Turkish economy and government policy towards FDI" are the most important location-specific factors for foreign direct investments in Turkey (p. 90).

In his study of the driving factors of FDI in Turkey, Ok (2004) finds that "economic and political instability" is the most important obstacle in front of investors. While considering "high inflation" as another important barrier (p. 113), the author predicts that as "political stability improves and governments stay in power relatively long term", the possibility of foreign investors "to invest more in Turkey" will increase (p.114).

Erdilek (2003) analyzes the major impediments to a healthy FDI environment in Turkey in “economic and non-economic” categories. The economic factors constitute “high transactions cost of entry and operation for foreign investors (due to excessive bureaucracy and red tape, and widespread corruption), chronic high inflation, increasing economic instability, inward orientation until 1980, the lack of protection of intellectual property rights, the lack of inflation accounting and internationally acceptable accounting standards, the failure of privatization, insufficient legal structure and inadequate infrastructure” (p. 80) . The non-economic factors comprise “chronic political instability, internal conflicts, historical animosity towards foreign economic presence, fear of foreign political domination within the civilian and military bureaucracy, lack of FDI promotion, and the structure of Turkish business (family-owned and controlled and closed to foreign takeovers)” (pp. 80-81). In another study, Coskun (2001) investigates the determinants of foreign direct investment in Turkey and states that “the promising Turkish economy” and “growing local market” (p.221) are the major determinants in FDI decisions and that “geographical location” and low cost labor do not play a major role in investors’ decisions since these conditions are offered by other economies in the region (p. 225).

In a study on the reasons for operating a joint venture strategy instead of wholly-owned affiliates or other organizational choices in Turkey, Demirbağ et al. (1995) identify “protection of technology/quality assurance, risk reduction, partner's local identity and knowledge and cost reduction” as the four major factors for foreign partners in adopting a joint venture structure (p. 49). In a parallel research on local parent firms, the study refers to three components in the formation of joint venture; namely, “enhancement of competitiveness, access to global markets, and access to

foreign parent's complementary resources” (p. 49). The findings of the study imply that local partners prefer joint venture to adopt global potentials for their domestic operations.

Deichmann et al. (2003) investigate the factors affecting the location decisions of multinational enterprises (MNEs) within Turkey and conclude that “agglomeration, depth of local financial markets, human capital and coastal access” determine the location decisions of foreign investors within Turkey, noting also that “the location determinants vary by industrial category, investment composition and origin-country characteristics” (p. 1767). The study, moreover, suggests that “national and provincial governments” should improve “disparities in education, income, infrastructure” in order to appeal better to foreign firms for investment (p. 1777).

The studies conducted to identify the determinants of foreign direct investment in Turkey so far have focused mainly on economic factors (Coskun 2001; Deichmann et al. 2003) or economic and sociopolitical factors (Demirbağ et al., 1995; Erden, 1995; Tatoğlu, 1996; Erdilek, 2003; Ok, 2004). In this study, our aim is to investigate whether there have been any changes in the weight of the determinants affecting the decisions of foreign investors for their location choices. The second aim of our study is to analyze the problems faced by foreign equities in Turkey and the pace of progress achieved in the solution of these problems and the prospects of further improvement in the upcoming years. Our third aim is to analyze the impact of tax and legal changes introduced within the last five years on the FDI environment and business plans of foreign equities.

In addition to the aforementioned themes, this study is expected to contribute new perspectives to the question as to whether in general investments are attracted by

the business environment or by the potential of high returns regardless of high risks. In connection with this goal, the study will offer important clues to determine if the investments are conjuncture-bound or permanent ones attracted by the business environment.

1.2. Definition of Terms

1.2.1. Multinational Enterprise

A multinational enterprise (MNE) can be defined as “an enterprise which owns or controls value-adding activities in more than one country” (Dunning, 1989, p. 5) or as “a corporation that owns or licenses its business activities both at home and in other countries” (Zekos, 2005, p.52). For Dunning (1989), the pursuits of the MNE may result in the “production of tangible goods or intangible services or a combination of” these two activities (p. 5). This description is especially useful in “distinguishing enterprise that engages in direct investment, which gives the enterprise not only a functional stake in the foreign venture but also managerial control, and one that engages in portfolio investment, which gives the interesting enterprise only a financial stake in the foreign venture without any managerial control” (Zekos, 2005, p. 52).

The OECD Guideline for Multinational Enterprises (2000) does not give a clear-cut definition of the MNE. However, it refers to the characteristics of multinational enterprise that identify the enterprise. For OECD (2000), multinational enterprises are

companies or other entities established in more than one country and so linked that they may co-ordinate their operations in various ways. While one or more of these entities may be able to exercise a significant influence over the activities of others, but their degree of autonomy within the enterprise may vary

widely from one multinational enterprise to another. Ownership may be private, state-owned or mixed (p. 17-18)

A detailed definition of the MNE is provided in UNCTAD (1999). According to this definition, a transnational corporation (another term used to designate a MNE) is

an enterprise, comprising entities in two or more countries, regardless of the legal form and fields of activities of these entities, which operates under a system of decision-making, permitting coherent policies and a common strategy through one or more decision-making centres, in which the entities are so linked, by ownership or otherwise, that one or more of them may be able to exercise a significant influence over the activities of others, and in particular, to share knowledge, resources and responsibilities with the others (p. 45).

For the purposes of this study, we will use MNEs instead of TNCs and MNCs.

1.2.2 Foreign Direct Investment

IMF's Balance of Payments Manual (1993) defines direct investment as

the category of international investment that reflects the objective of a resident entity in one economy obtaining a lasting interest in an enterprise resident in another economy (The resident entity is the direct investor and the enterprise is the direct investment enterprise.) (p. 86).

This definition is consistent with the definition given in the OECD Benchmark Definition of Direct Investment (1996). For OECD "foreign direct investment reflects the objective of obtaining a lasting interest by a resident entity in one economy ("direct investor") in an entity resident in an economy other than that of the investor ("direct investment enterprise")" (p. 7). The concept of the lasting interest in this definition refers to "the existence of a long-term relationship between the direct investor and enterprise and a significant degree of influence on the management of the enterprise" (IMF, 1993, p. 86; OECD, 1996, pp. 7-8).

For U.S. Bureau of Economic Analysis (BEA, 2008) direct investment abroad refers to “the ownership or control, directly or indirectly, by one U.S. person of 10 percent or more of the voting securities of an incorporated foreign business enterprise or an equivalent interest in an unincorporated foreign business enterprise”.

Foreign direct investment has been distinguished from foreign portfolio investment in four ways. (i) FDI requires “the transfer of non-financial assets in addition to the financial assets”. “Technology and intellectual capital” are some examples of these non-financial assets. However, there is no such a requirement in the foreign portfolio investment. The transfer of money capital is sufficient for foreign portfolio investment. (ii) In foreign portfolio investment there is “a change in the ownership of the assets transferred”; whereas this is not applicable to FDI. In other words, the control of decision-making over the assets transferred is up to the investor. (iii) Compared to foreign portfolio investment, FDI tends to be “more indivisible” and less interchangeable. “The deployment of the assets transferred”, moreover, is concluded primarily “by corporations (rather than by individuals and institutions)” in charge. (iv) While the driving force of foreign portfolio investment is “higher foreign interest rates”, in the case of FDI, it is “the opportunity of achieving a better economic performance” than competitors (Dunning and Dilyard, 1999, p. 4).

In IMF’s Balance of Payments Manual (1993), foreign direct investment is subdivided into “equity capital, reinvested earnings, and other capital associated with various intercompany debt transactions.” (p. 87) The first subdivision refers to the “equity in branches, all shares in subsidiaries and associates and other capital contributions,” (p. 87), the second subdivision refers to “the foreign direct investor’s share of earnings not distributed as dividends by subsidiaries and associates and earnings of branches which are not remitted to the direct investor” and the third

subdivision refers to “the borrowing and lending of funds between direct investors and subsidiaries, branches, and associates” (pp. 87-88).

At this juncture, we also need to define other related terms such as “foreign direct investor”, “direct investment enterprise”, “subsidiary”, “associate”, “branch”, “host country” and “home country” to attain a better understanding of the scope of our study.

According to OECD (1996),

a foreign direct investor is an individual, an incorporated or unincorporated public or private enterprise, a government, a group of related individuals, or a group of related incorporated and/or unincorporated enterprises which has a direct investment enterprise – that is, a subsidiary, associate or branch – operating in a country other than the country of countries of residence of the foreign direct investor or investors (p. 8).

Direct investment enterprise is “an incorporated or unincorporated enterprise in which a direct investor, who is resident in another economy, owns 10 percent or more of the ordinary shares or voting power (for an incorporated enterprise) or equivalent (for an unincorporated enterprise)” (IMF, 1993, p. 86). When the direct investor “owns less than 10 per cent of the ordinary shares or voting power of an enterprise, yet still maintains an effective voice of management,” this is also considered as a direct investment enterprise; for “an effective voice of management only implies that direct investors are able to influence the management of the enterprise and does not imply that they have absolute control” (UNCTAD, 2004, p. 53). Subsidiaries are entities where “a non-resident investor owns more than 50 percent”, associates are entities where “a non-resident owns 50 percent or less”, and branches are “wholly or jointly owned unincorporated enterprises, either directly or indirectly owned by the direct investor” (IMF, 1993, p. 86). The terms used by U.S. Bureau of Economic Analysis for associate and subsidiary are minority-owned foreign affiliate and majority-owned foreign affiliate, respectively (BEA, 2008).

Home country refers to “the country in which the parent entity is located” and host country refers to “the country in which an entity other than parent entity is located” (UNCTAD, 1996, p. 161).

1.2.3. Joint Venture and Wholly-Owned Subsidiary

A joint venture can be defined as

a cooperative business activity, formed by two or more separate organizations for strategic purposes, that creates an independent business entity and allocates ownership, operational responsibilities, and financial risks and rewards to each member, while preserving their separate identity/autonomy (Li, 2008, p. 779).

For Young and Bradford (1977: cited from Tatoğlu, 1996, pp. 6-7), a joint venture is

an enterprise, corporation or partnership, formed by two or more companies, individuals or organizations, at least one of which is an operating entity which wishes to broaden its activities for the purpose of conducting a new, profit-motivated business of permanent duration. In general the ownership is shared by the participants with more or less equal distribution and without absolute dominance by one party (p. 11).

When “the firm owns 100 per cent of the stock”, it is called a wholly owned subsidiary (Hill, 2005, p. 494).

1.3. Scope of the Study

In the second chapter, we will review the theoretical perspectives on foreign direct investment undertaken by multinational enterprises. Although various disciplines have contributed to the current understanding of MNE and FDI (Meyer, 1998), we will briefly review the main theoretical perspectives on MNEs and FDI activities undertaken by these MNEs, specifically the determinants of FDI in this

chapter. These theoretical perspectives can be classified into five groups: industrial organization models, product cycle theory, internationalization theory, transaction cost approach and internalization theory, and Dunning's eclectic paradigm.

In the third chapter, we will report the methodology of this study. Because the present study is empirical, we will review the process of the primary data collection including the development of the questionnaire administered.

In the fourth chapter, we will identify the locational determinants of Turkey as a host country for FDI. In addition, we will analyze whether locational determinants vary in relation to ownership pattern of foreign equity, mode of entry of foreign equity, country of origin of foreign equity, industry of foreign equity, capital size of foreign equity, employee size of foreign equity, sales volume of foreign equity, entry year of foreign equity and existence of previous relations of foreign equity in Turkey.

Chapter 5 aims to identify the problems that influence the FDI environment of Turkey and firms' operations. We will also analyze whether the pace of progress achieved in the solution of these problems is perceived enough or not as well as the possibility of these problems being solved in the upcoming years. Whether the influence of these problems on the FDI environment and on firms' operations and the pace of progress in the solution of these problems vary in accordance with the above independent variables will also be tested in Chapter 5.

In Chapter 6, first we will identify the tax and legal changes introduced within the last five years in Turkey. Second, we will analyze the impact of these changes on the FDI environment and business plans of firms in Turkey. Third, we will investigate whether the impact of these changes vary in accordance with the above independent variables.

In Chapter 7, we will provide a summary and state our conclusions as well policy implications of this study.

1.4. Conclusion

In this chapter, we have provided the context of the study, the definitions of terms we used in the study and the scope of the study.

In the following chapter, we will review the theoretical perspectives on foreign direct investment and multinational enterprises.

CHAPTER 2

THEORETICAL PERSPECTIVES ON MULTINATIONAL ENTERPRISES (MNEs) AND FOREIGN DIRECT INVESTMENT (FDI)

2.1. Introduction

This chapter aims to review the theoretical perspectives on foreign direct investment (FDI) undertaken by multinational enterprises (MNEs). As Meyer (1998) notes, various academic disciplines, ranging from economics and strategic management to finance, marketing, and organizational behavior, have taken part in the formation of the current characterization of FDI. For an extensive analysis of FDI and MNEs, therefore, substantial familiarity with these disciplines is necessary.

We will briefly review the main theoretical perspectives on MNEs and FDI activities undertaken by these MNEs, specifically the determinants of FDI in this chapter. These theoretical perspectives can be classified into five groups: industrial organization models, product cycle theory, internationalization theory, transaction cost approach and internalization theory, and Dunning's eclectic paradigm.

In the second section, we will provide the names who contributed to these perspectives and their arguments. Conclusions are presented in the last section. We should also note that literature review is not limited to this chapter. Each empirical chapter will also provide a literature review which is specific to that chapter.

2.2. Theories of the MNEs and FDI

It is widely accepted that until 1960s the “neoclassical financial theory of portfolio flows” was the main dominant paradigm for accounting for global capital flows. During this period it was assumed that “capital moves in response to changes in interest rate” “with no transaction costs” and that capital transactions are conducted “between independent buyers and sellers”; hence there was “no role for the MNE” and “no separate theory of FDI” (Dunning and Rugman, 1985, p. 228). For, scholars did not see any interest in exploring the motives behind the formation of the MNE and the way it operated. It was only with the foundational groundwork of Hymer that it became possible “to break out the arid mold of international trade and investment theory and focus attention upon the MNE per se.” (p. 228). In this section, we will identify and review the leading MNE/FDI theories, namely, industrial organization models, product cycle model, internationalization theory, transaction cost approach and internalization theory and Dunning’s eclectic paradigm.

2.2.1. Industrial Organization Models

Hymer (1960, 1976) maintained that the MNE was the outcome of “market imperfections” (Dunning and Rugman, 1985). The MNE, therefore, could benefit from “its international operations to separate markets and to remove competition, or to exploit an advantage” (p. 229). Hymer’s line of thinking is based on the assumption that perfect competition does exist neither at local nor at global level. At the local level, firms are far from having “homogeneous products” and identical “access” to factors of production. Meanwhile at the global level, certain difficulties on trade

through “tariffs and quotas”, “tax policies” diminish the possibility of perfect competition severely (Kaya, 2004, p. 25). Hymer argues that “firms gain monopoly or oligopoly market power” due to the lack of perfect competition and then, in case of trade difficulties among the countries, they undertake FDI to benefit from this power (Forsgren, 1989: cited from Kaya, 2004, p. 25).

According to Yamin (1991), although “Hymer’s insights are somewhat incomplete”, they make two essential “contributions” (p. 77). The first one is the assertion that “portfolio investment” is inadequate in accounting for FDI. The second contribution is the assertion that there is an “association between market failure and FDI” (p. 65). In other words, FDI movements are triggered by these market failures.

Although it is difficult to “find a publication on FDI that does not make some reference to Hymer’s work” (Calvet, 1981, p. 43), Hymer’s work overlooks three important points. As Dunning and Rugman (1985) state, first of all, his “analysis is based upon structural imperfections” (p. 229) and says little about market imperfections stemmed from transaction costs. Second, he underestimates “the location of MNE activity” and “the importance of the geographical and spatial dimension of the MNE” (p. 230). Third, Hymer does not discuss “the political or social issues” of developing countries and does not say anything about the “benefits and costs of FDI or technology transfer” and “the impact of MNE” on those countries (Dunning and Rugman, 1985, p. 231).

Hymer’s views were followed by the first comprehensive inquiry into FDI theories by Kindleberger (1969) (Calvet, 1981). Kindleberger argued that direct investment was primarily due to the absence of “pure competition” in the market. Under the scenario of pure competition, claimed Kindleberger, the only mode of economic engagement on the global scale will be international trade. For in an ideal

market environment, it is assumed that “all markets operate efficiently,” there are “no external economies of production or marketing,” and “no barriers to trade or competition” and no cost or constraint on information (Calvet, 1981, p. 43). As Calvet (1981) notes, Kindlerberger’s model established two prerequisites in order for direct investment to happen: (1) the firm-specific “advantages” of a firm investing abroad must outweigh the disadvantages of being a foreign firm, and (2) the market from which these advantages are benefited “must be imperfect” in terms of “goods markets” and “factor markets” as well as “scale economies and government-imposed disruptions” (p. 44).

After Hymer (1960, 1976) and Kindleberger (1969), Caves (1971) also used market imperfections in explaining the existence of MNEs and their foreign direct investment behavior (Calvet, 1981). For Caves, “product differentiation” in the domestic market is the key player in foreign investment. The firm that introduces a “differentiated product” gains competitive advantage in the market and aims to exploit this advantage in markets abroad. When there are sufficient instruments “such as, patents and copyrights” for the differentiated product in foreign markets, then the firm embarks on investing abroad (Calvet, 1981, p. 46).

Knickerbocker (1973), Flowers (1976) and Graham (1978) also consider the “strategic interaction between firms” as an essential factor in foreign direct investment and they emphasize “the roles of rivalry between and the collusion among the firms” as the driving forces in FDI activity (Jacobsen and Tschoegl, 1997, p. 4).

Knickerbocker (1973) argues that the leader’s strategy is “imitated by dominated firms to prevent him from gaining an early lead advantage by establishing a position in the market and factually raising entry barriers” (Meyer, 1998, p. 72). Flowers (1976) argues that “increased industrial concentration” leads to “foreign direct investment

entries after investment by leading firm in industry” has invested. His research confirms “the theory of oligopolistic reaction in FDI” that there is a “functional relationship between the concentration of investment entries and industrial concentration” (p. 43). As a specific case, Flowers shows that the tendency of the pioneer companies in “highly concentrated European and Canadian industries” is “to come into United States in clusters of subsidiaries, in response to the first investing firm in the industry” (p. 47). Graham’s (1978) model argues that when a foreign firm enters a market, the domestic firms react by investing in its home country. In this sense, Graham considers the “European direct investment in the United States” as “a defensive phenomenon” (p. 59).

Industrial organization models have been criticized from different point of views (Calvet, 1981). First, the models are critiqued for the argument that “the seller’s concentration” is the “main determinant of foreign investment” (p. 47). Second, while the models are successful in understanding “the advantages of home country firms”, they say little about “the country or industry patterns of foreign investment” (Aliber, 1970: cited from Calvet, 1981, p. 47). Third, the models pay little attention to the takeovers, and do not answer why firms prefer to acquire the existing companies rather than establishing new ones (Calvet, 1981).

2.2.2. Product Cycle Theory

The product cycle theory (PCT) of Raymond Vernon aims to explain “the life cycle of a product” and its effect on international trade. Vernon (1966) identifies three stages for the life of a product, namely, the new product, the maturing product and the standardized product.

In the first stage (the new product), the product is produced at home country where consumers have high income levels. At this stage, the product is not standardized, “producers are concerned with the degree of freedom they have in changing their inputs”, “the price elasticity of demand is low” and the producers’ need for “effective communication with consumers, suppliers, and even competitors is high” (p. 195).

In the second stage (the maturing product), “a certain degree of standardization” is witnessed. While “the demand for the product expands,” “product differentiation efforts” still continue (p. 196). At this stage, economies of scale are achieved with increase in the standardization of the product which, in turn, leads to increase in production. When “the product has a high income elasticity of demand” or when it serves as “a satisfactory substitute for high-cost labor,” the demand arising from other advanced countries starts to expand quickly (p. 197). At this stage, investors begin to question whether it is safe enough to establish a local production in other advanced countries. If the cost figure is seen reasonable, then the firms tend to invest in other advanced countries.

In the third stage (the standardized product), as the name suggests, the product is standardized which leads consumers to be price sensitive. Therefore, firms begin to “invest in less-developed areas” where labor costs are considerably lower than advanced countries (p. 203). At this stage, firms engage in the introduction of new products and they begin to import the standardized product from developing countries to advanced countries.

PCT has been criticized from several points of view. The theory has been considered as “ethnocentric” since Vernon argued that “most new products are developed and introduced in the United States” (Hill, 2005, p.160). Vernon (1979)

himself argued that “PCT had strong predictive power in the first two or three decades after World War II, especially in explaining the composition of US trade” and “the patterns of FDI by US firms” (p. 265). Nevertheless, the power of the assumptions underlying the PCT has decreased because “MNCs have now developed global networks of subsidiaries” and “the US market is no longer unique among national markets either in size or factor cost configuration” (p. 265).

2.2.3. Internationalization Theory

This theory is mainly based on the research of Johanson and Wiedersheim-Paul (1975) and Johanson and Vahlne (1977), and commonly known as the Uppsala School. While industrial organization models and internalization theory conceptualize “FDI as determined by the firm and its environment”, internationalization theory “analyzes the international business of the firm as a gradual process” (Meyer, 1998, p. 76).

Meyer (1998) locates the origins of the Uppsala School “in the behavioral theory of the firm” (Cyert and March 1963; Aharoni 1966) and in “the growth theory of firm” (Penrose, 1959) (p. 76). The model of this school “focuses on the development of the individual firm and particularly on its gradual acquisition, integration, and use of knowledge about foreign markets and operations, and on its successively increasing commitment to foreign markets,” where internationalization is defined as “a process in which the firms gradually increase their international involvement” (Johanson and Vahlne, 1977, p. 23). The model has two main assumptions. First, “the lack of knowledge is an important obstacle to the development of international involvement of a firm” and second, “the necessary knowledge can be acquired mainly through international operations” (p.23).

The expansion of international operations of the companies is correlated to “an interplay between the development of knowledge on foreign locations and operations in the countries, and, on the other hand, an increasing resource commitment” (Meyer, 1998, p. 76). However, for Johanson and Vahlne (1977) internationalization is not due to “a strategy for optimum allocation of resources to different countries where alternative ways of exploiting foreign markets are compared and evaluated”, but the result of “a process of incremental adjustments to changing conditions of the firm and the environment” (p. 26). In this approach, the vital form of knowledge is “experiential knowledge”, which, compared to “objective knowledge”, is more difficult to obtain and which “must be gained successively during the operations in the country” (p. 28).

Meyer (1998) derives three major conclusions from the internationalization theory. First of all, “firms will typically follow an establishment chain moving from lower to higher modes of involvement”. In other words, they develop small steps instead of making large foreign production investments. The second conclusion is that “firms enter markets in a sequence starting countries in close ‘psychic distance’”. The latter term is used to describe certain similarities between the home and host countries in terms of geography, culture, politics and language. In this sense, the existence of such similarities accelerates the investment decision of firms. And finally, “initial investments in a country... allow customers to develop brand loyalty” which, in turn, “creates an option for further FDI and taking advantage of emerging opportunities” (p.72).

Although the Uppsala model found empirical evidence (e.g. Çavuşgil, 1984; Bodur and Madsen, 1993; Erden, 1996), it has been criticized from different point of views. These critiques are listed by Meyer (1998) as follows: For Forsgren (1989) the model explains “primarily for firms at an early stage of internationalization”; for Sölvell (1987) and Nordström (1991) certain economic conditions such as “industry-specific

barriers to entry” or “market potential and industry structure” effectively reduce the significance of psychic distance; and for Nordström (1991) firms tend to skip certain stages of the internationalization process forecasted by the Uppsala model due to their tendency to act “more rapidly from low to high involvement” (p. 77).

In addition to the issues above, Andersen (1993) underlines the missing points of the Uppsala model. First, Anderson claims, “the delineation of theoretical boundaries” should be strengthened (p. 227). Second, the model does not offer an adequate explanation as to “why or how the process takes place or how to predict the movement from one stage to the next are not properly addressed.” And third, there is no sufficient “congruence between the theoretical and the operational level” of the model (pp. 227-228).

2.2.4. Transaction Cost Approach and Internalization Theory

Internalization theory, which is based on the transaction costs developed by Coase (1937), explains the formation of multinational enterprises through deviation from perfect competition. Although transaction cost approach was extended by Williamson (1975, 1981, 1985), the internalization theory has been “developed independently” of Williamson’s views (Meyer, 1998, p. 75).

In Meyer (1998), the major contributors to this theory include Caves (1971), McManus (1972), Buckley and Casson (1976), Swedenborg (1979), Rugman (1981) and Hennart (1982). Transaction cost approach assumes that “commercial transactions” are arranged with the aim “to economize on the sum of production costs and transaction costs” (Williamson, 1979, p. 245). Coase (1937) tries to explain how the “choice between the assumption (made for some purposes) that resources are

allocated by means of price mechanism and the assumption (made for other purposes) that this allocation is dependent on the entrepreneur-co-ordinator” is made (p.389). For Coase, “the costs of using the price mechanism,” such as “costs of discovering what the relevant prices are” and “costs of negotiating and concluding a separate contract for each transaction,” are the main motivations of a firm’s existence (pp. 390-391). He, then, argues that with the expansion of the firm “the costs of organizing additional transactions within the firm” will also increase, based on the premise that a firm expands as long as “the costs of organizing an extra transaction within the firm are equal to the costs involved in carrying out the transaction in the open market, or, to the costs of organizing by another entrepreneur” (p. 394).

For Beamish and Banks (1987), the goal of the internalization theory is to explain “the existence of MNEs” through “an economic rationale”. The motivation here is that “firms establish local operations as a means of serving a foreign market rather than engaging in arms-length transactions with market intermediaries.” In other words, the theory foresees that “it is more efficient for the firm to use internal structures rather than market intermediaries to serve a foreign market” because of transaction costs stemming from “conducting business in imperfect markets” (p. 2). Williamson (1975) argues that imperfections in the market are caused by “two environmental conditions, uncertainty and the small number of market agents.” “When these conditions” are accompanied by “two sets of human factors, opportunism and bounded rationality,” it follows that “the cost of writing, executing and enforcing arms-length complex contingent claims contracts with market intermediaries” becomes more expensive “than the costs of internalizing the market” (Beamish and Banks, 1987, p. 2).

Buckley and Casson (1976) point at five concurrent components that brought about the unprecedented increase in MNE activity in the post-World War II era. These are:

(1) the rise in the demand of technology intensive products, (2) efficiency and scale gains in knowledge production, (3) problems associated with organizing external markets for this new knowledge, (4) reductions in international communication costs, (5) increase in the scope of tax reduction through transfer pricing (Rugman and Verbeke, 2003, p. 126).

Internalization theory of multinational enterprise is based on two premises: “(1) Firms choose the least cost location for each activity they perform, and (2) firms grow by internalizing markets up to the point where the benefits of further internalization are outweighed by the costs” (Buckley, 1988, pp. 181-182). Buckley and Casson (1976) determine “industry-specific factors”, “region-specific factors”, “nation-specific factors” and “firm-specific factors” as “four sets of parameters relevant to the internalization decision” of MNEs (Rugman and Verbeke, 2003, p. 126).

In essence, the perspective of the internalization theory and that of transaction costs approach are very close to each other. The main difference arises from their point of focus. While transaction cost analysis deals mainly with “the market failure due to lock-in effects arising from asset specificity”, internalization theory highlights “the market failure in the markets for information” (Meyer, 1998, p. 75).

Although internalization theory is at the centre “of the new theories of the MNE” (Rugman, 1986, p. 114), the theory has been criticized for several reasons.

These reasons are quoted by Rugman (1986) as follows:

(i) Internalization is in fact a general theory of why firms exist, and without additional assumptions it is almost tautological. To make the theory operational it is necessary to specify assumptions about transaction costs for particular products and for trade between particular locations” (Casson, 1982, p. 26). (ii) “Internalization theory is tautological because firms internalize imperfect markets until the cost of further internalization outweighs the benefits. To have any empirical content, restrictions must be imposed on the relative size of

transaction costs in internal and external markets” (Buckley, 1983, p. 42). (iii) “Internalization does not satisfy the conditions of refutability that is required of a theory (Kay, 1983, p. 305) (p. 104).

Buckley (1988) points at the impossibility of direct testing of the general theory and maintains that “tests of the theory of the multinational enterprise need to be more precise and rigorous”, and further refined for equitable testing (p. 190). Beamish and Banks (1987) consider that the chief constraint of the theory is that it “focuses primarily on one mode hierarchy or organization” and as a result, it offers only “wholly owned subsidiary” as the “solution to the problem of imperfect international markets”. Whereas, firms can choose other forms of market entry such as “licensing, management contracts, subcontracting, joint ventures and consortia” (pp. 2-3).

2.2.5. Dunning’s Eclectic Paradigm

Dating back to the mid-1950s, Dunning’s eclectic paradigm of international production was first presented “at a Nobel Symposium in Stockholm in 1976” (Dunning, 2001, p. 173). Dunning’s eclectic paradigm, in basic terms, consists of a number of components that aim to provide a better account of MNE or FDI activities (Grosse and Behrman, 1992: cited from Tatoğlu and Glaister, 1998). Dunning supplements “ownership advantages” to “location and internalization advantages” of internalization theory to explain the FDI activity (Tatoğlu and Glaister, 1998, p. 283).

As stated above, the eclectic paradigm claims that “the extent, geography and industrial composition of foreign production undertaken by MNEs is determined by the interaction of three sets of interdependent variables.” (Dunning, 2000, p. 163). The first is “the ownership (O) specific advantages” which are related to “the ownership of the

investing enterprises”. Other things being equal, this premise implies that “the greater the competitive advantages of the investing firms, relative to those of other firms, the more they are likely to be able to engage in, or increase, their foreign production” (p. 164).

The second is “the location (L) specific advantages” which refer to “the locational attractions of alternative countries or regions for undertaking the value adding activities of MNEs.” The assertion here is that “the more the immobile, natural or created endowments, which firms need to use jointly with their own competitive advantages, the more firms will choose to augment or exploit their ownership-specific advantages by engaging in FDI” (p. 164).

The third is “internalization (I) specific advantages” which “offer a framework for evaluating alternative ways in which firms may organize the creation and exploitation of their core competencies given the locational attractions of different countries or regions.” The assertion here is that “the greater the net benefits of internalizing cross-border intermediate product markets, the more likely a firm will prefer to engage in foreign production itself, rather than licensing” (p. 164). Dunning (2001) furthermore emphasizes that “the significance of each of these advantages and configuration between them is likely to be context specific, and in particular, is likely to vary across industries, regions or countries and among firms” (p. 176).

Other researchers who tested Dunning’s eclectic framework of foreign direct investment (Agarwal and Ramaswami, 1992; Brouthers et al., 1996; Dunning and Kundu, 1995; Tse et al., 1997) have argued that the OLI framework is better compared to transaction cost approach, since it takes many “influential factors” into consideration “including internalization (transaction cost), ownership specific, and location specific variables” (Brouthers et al., 1999, p. 839). However, Dunning’s eclectic paradigm has nonetheless been criticized by various scholars from different points of views. It has been

argued that “the explanatory variables identified by the eclectic paradigm are so numerous that its predictive value is almost zero” (Dunning, 2001, p. 177). Itaki (1991) claims that (1) “ownership advantage is redundant” both because “it originates from the internalization and integration” and because “it does not allow for the cost of its acquisition” (p. 448), (2) ownership advantage cannot be distinguished from the location advantage (p. 451), (3) the concept of location advantage in the framework is “ambiguous” (p. 455), (4) there are some “possible methodological dangers of a multi-factor analysis under the three headings of the eclectic theory” (p. 457).

In response to these criticisms, Dunning (2001) has argued that first, all components of eclectic paradigm is “well grounded in economic and organizational theory”; second, his eclectic paradigm is by no means intended to account for every type of international production as a whole “but rather to point to a methodology and to a generic set of variables which contain the ingredients necessary for any satisfactory explanation of particular types of foreign value-added activity”; third the problems identified for eclectic paradigm are valid also for other theories (p. 177). Finally it should be noted that the eclectic paradigm is still “a useful and robust general framework for explaining and analyzing not only the economic rationale of international production but many organizational and impact issues relating to MNE activity” (Dunning, 1988, p. 24).

2.3. Conclusion

In this chapter, we have reviewed the main perspectives that explain the MNEs and their foreign investment activities. These perspectives have been analyzed under five categories: industrial organization models, product cycle model, internationalization

theory, transaction cost approach and internalization theory and Dunning's eclectic paradigm.

CHAPTER 3

RESEARCH METHODOLOGY

3.1 Introduction

This study has three major objectives. First, locational determinants of Turkey for foreign direct investment (FDI) are investigated. Second, the problems influencing the FDI environment and firms' operations are examined and the perceptions of investors concerning these problems are explored. Third, the tax and legal changes introduced within the last five years are identified and the impact of these changes on the FDI environment and business plans of firms are inquired.

The literature, variables and research hypotheses are given in detail in each of the related chapters that follow. This chapter explains the research methodology of the study to collect the data for the empirical analysis.

Use of in-depth interviews, interpretation of secondary data may also generate productive results for this study. However, in consideration of the main objectives of the study, a survey questionnaire proves to be much more functional. Therefore, we employed a self-administered survey questionnaire to collect the data. We also conducted in-depth interviews and used a wide range of secondary data to constitute a well-developed background for the survey questionnaire. In this sense, we have employed a mixture of quantitative and qualitative methods in this study.

The remainder of this chapter is as follows: The next section will report the primary data collection including the process regarding the development of the questionnaire, respondent selection, e-mail survey and response rate. In the third

section, the validity and the reliability of the questionnaire will be analyzed. In the fourth section, the data analysis will be presented. A summary will be given in the final section.

3.2 Primary Data Collection

As stated before, for a comprehensive analysis of foreign direct investment and multinational enterprises, a detailed reading from various disciplines is essential. Therefore, we began our study by an extensive literature review. This review provided us with a general understanding of the main theories of MNEs and FDI, the factors influencing the FDI, the difficulties faced by investors, the institutions necessary for FDI, and so on.

Although there is a rich literature regarding FDI movements in the West, studies investigating FDI movements in Turkey are quite limited. Erdilek (1982), Bodur and Madsen (1993), Demirbağ (1994), Erden (1996), Tatoğlu (1996), Coşkun (2001), Ok (2004), Kaya (2004) are among these studies. Because both the dynamics of FDI in the world and the dynamics of Turkey are changing dramatically, we needed to conduct in-depth interviews to also gain a deeper understanding of the fundamental issues of FDI in Turkey.

For this purpose, we have arranged three semi-structured interviews with leading names from the business world in Turkey. The first interview was made with the Chairman of International Investors Association (YASED). The other two interviews were conducted with the general managers of two leading multinational enterprises in Turkey. We asked the interviewees about the FDI performance of Turkey, the reasons behind the low performance, the strengths, weaknesses,

opportunities and threats of Turkey from the standpoint of FDI, the investment climate of Turkey, the difficulties they face regarding the investment environment, their perceptions and expectations about today and future and their suggestions for making Turkey an attractive location for FDI. The interview was semi-structured and not recorded. Therefore, interviewees felt free and behaved generously and candidly about their feelings, experiences, expectations and suggestions. Each interview lasted for about 45-50 minutes. Then, we copied out the interview notes.

3.2.1 Development of the Questionnaire

To collect the primary data, we have developed a questionnaire based on the extensive literature review and in-depth interviews we conducted. The studies (and questionnaires) dealing with these issues were also consulted (e.g.; Erden, 1996; Tatoğlu, 1996; Coşkun, 2001; Erdilek, 2003; Ok, 2004, and Kaya, 2004). These studies helped us identify the key questions to be interrogated. We consulted studies conducted on this topic and benefited largely from the questions addressed and the factors and problems identified in these works. We, in some cases, made direct use of the terms employed in these studies; for example, “purchasing power of customers”, “degree of unionization”, “market size”, “availability of low cost inputs”, “availability of good quality inputs” from Tatoğlu, 1996; “government incentives”, social problems of expatriate families”, “corruption” from Erden, 1996; “frequent changes in business legislation and rules”, “informal economy” from Ok, 2004; “bureaucratic burden and delay” from Kaufmann and Wei, 1999.

As there is supposed to be “an inverse relationship between the length of a questionnaire and the response rate of the survey,” it is important to examine each

question with the maximum effort to decide whether the question is indispensably required for the purpose of study and whether its “wording” is firm (Berenson et al., 2004, p. 10).

We assumed that the senior managers of foreign firms in Turkey (potential respondents) have an adequate level of proficiency in English: therefore, we prepared our questionnaire in English. To ensure its English quality, we also shared the preliminary questionnaire with an academician whose native language is English. This preliminary questionnaire was furthermore discussed by three academicians who had experience in designing survey questionnaire. Based on their comments, we revised the preliminary questionnaire and constituted the draft version of the questionnaire.

Since the purpose of questionnaire testing is “to find out whether the series of questions is working,” it is crucial to check the functionality and robustness of the questionnaire and find ways of revising it where necessary (Blankenship et al., 1998, p. 200). To do so, we conducted seven pilot studies to make sure that the main issues of the study are understood by potential respondents and that there is no unclear or ambiguous point regarding the questions and statements in the questionnaire. We also paid careful attention to the properties of the pilot study to reflect the diversity of FDI in Turkey. Three firms in the pilot study were in manufacturing business, two firms were in service sector and the other two firms were in the information and communication technology sector. After the completion of these draft questionnaires, we also called the respondents to evaluate the questionnaire in order to make sure that the research issues were addressed in the questionnaire and the statements in the questionnaire were clear and unambiguous.

Based on the information provided in the pilot studies and the comments we received from the respondents who filled these questionnaires, we finalized the

questionnaire by making necessary modifications and adjustments. The final version of the questionnaire was structured in six sections: (1) general information, (2) locational factors, (3) mode of entry, (4) prior relations, (5) FDI environment, (6) tax and legal changes. There was more than one question in each section of the questionnaire (see Appendix B).

3.2.2 The Respondent Selection

The target population of our study consists of the firms with foreign capital that invested in Turkey in the form of foreign direct investment. The total number of firms recorded as the firms with foreign capital by the Undersecretariat of Treasury is 18,308 as of December 31, 2007 (GDFI, 2007). The sample we chose for the study is senior managers/expatriates of firms which are members of YASED (Foreign Investors Association). “Founded in 1980 to promote a better business environment, YASED is a non-profit, private sector organization whose members are international companies operating in Turkey. It is one of the most important and influential representatives of the international investments in Turkey. YASED has 265 international companies as its members” (Yased, 2008). Accordingly, our sample size was 265.

3.2.3 E-Mail Survey

There are several means of conducting a survey, such as “personal interview, telephone interview, e-mail and mail” (Berenson et al., 2004, p.10). Even though personal or telephone interview typically generate a larger number of responses, they tend to be costly (Berenson et al., 2004). Alternatively, mail surveys are particularly

useful “to get information from people who are difficult to interview in person or by telephone, including executives and professionals” and in cases “where the respondents need to consult sources to give an accurate reply” (Blankenship et al., 1998, p. 112). The average time for a respondent to complete the questionnaire was about half an hour and the potential respondents were executives/senior managers. Therefore, we used e-mail to conduct the questionnaire. To increase the response rate, we also used some of major techniques suggested by Blankenship et al. (1998).

The Cover Letter: The cover letter began by describing the topic of the research. Then it informed the respondents about the main objectives of the study. In the following paragraph, the letter stated that their cooperation would generate valuable information not only to academic scholars, but also to companies engaged in foreign direct investment and to government/state authorities. Confidentiality and anonymity were also assured (see Appendix A).

Questionnaire Design: To increase the response rate, we designed a relatively short questionnaire. We also used macro to make the questionnaire user-friendly for the respondents, particularly in answering questions measuring the scale.

Confidentiality/Anonymity: Confidentiality and anonymity were assured and emphasized in the cover letter. It was also guaranteed that neither the respondent’s name, nor the title of respondent’s company would be disclosed at any stage of our study, including the analysis and reporting stages.

Incentives: The respondents were asked whether they wanted from us to send a summary of the research findings at the end of the questionnaire. This issue was also noted in the cover letter that the results of the study were to be shared with respondents who would request to be informed about them.

3.2.4 Response Rate

Not long ago, it was virtually impossible for mail surveys to reach a response rate above 15 percent. Nevertheless researchers have recently produced innovative ways to increase the response rates (Blankenship et al, 1998). Even so, Malhotra (2007) reports that for the time being there is a tendency of decline in response rates.

The duration of the questionnaire was eight weeks. However, starting with the fourth week, we sent e-mails to the respondents to remind them the completion of the questionnaire. For a majority of the list, we also called and asked them to complete the questionnaire. By the due date, we received 75 filled questionnaires. However, we eliminated two questionnaires due to missing information about the general information. At the end, we had 73 completed questionnaires which indicate a 27.5% response rate.

3.3 Validity and Reliability of the Questionnaire

3.3.1 Validity

Validity is defined as “the accuracy of the measurement” (Burns and Bush, 2000, p. 332). If “the purpose of measurement is to measure what we intend to measure” (Zikmund, 2003, p. 331), then validity is the means for evaluating the precision of the

measurement in relation to the existing condition (Burns and Bush, 2000). Burns and Bush (2000) identify “content, predictive, convergent, and discriminant” validity types as the ones frequently used by researchers to assess the validity. In this study, we used content validity to assess the validity of the questionnaire. To use Zikmund’s (2003) definition,

face, or content, validity refers to the subjective agreement among professionals that a scale logically appears to accurately reflect what it purports to measure. When it appears evident to experts that the measure provides adequate coverage of the concept, that measure has face validity (p. 332).

According to Malhotra (2007), “content validity is a subjective but systematic evaluation of how well the content of a scale represents the measurement task at hand” (p. 286).

We have established the content validity of the questionnaire in three stages: First, a detailed literature review including the visit of questionnaires in similar issues was conducted. Second, the preliminary questionnaire was reviewed by three academicians, two of whom are from the field. Third, a pilot test for seven firms was conducted to finalize the questionnaire.

3.3.2 Reliability

Reliability denotes “the tendency in a respondent to respond in the same or in a very similar manner to an identical or near identical question”; therefore, when a measure provides “an identical or very similar response from the same person with successive administrations,” the measure is deemed to be reliable (Burns and Bush, 2000, p. 329). Zikmund (1999) defines reliability as “the degree to which measures are free from random error and therefore yield consistent results” (p. 330). Churchill

(1999) argues that “if a measure were valid, there would be little need to worry about its reliability” (p.458).

We used the coefficient alpha to determine the internal consistency reliability. “The coefficient alpha, or Cronbach’s alpha, is the average of all possible split-half coefficients resulting from different ways of splitting the scale items. This coefficient varies from 0 to 1, and a value of 0.6 or less generally indicates unsatisfactory internal consistency reliability” (Malhotra, 2007, p. 285). For Burns and Bush (2000), “levels of 0.65 and 0.70 are often considered acceptable for measures that are being used for the first time, whereas higher reliability levels are expected for measures that have been used before” (p. 332). The coefficient alpha levels for the scales are presented in each of the related chapters.

3.4 Data Analysis

All answers in the questionnaires were entered into computer in compliance with the coding we determined for analysis. Prior to analysis, the data were examined for normality, linearity and missing values. The analysis we generated through Statistical Packages for Social Science (SPSS) for Windows (version 11.5) will be reported in Chapter 4, Chapter 5 and Chapter 6.

3.5 Conclusion

This chapter outlined the research methodology of this study. To collect the primary data, a survey questionnaire was administered. The validity and reliability of the questionnaire was established through guidelines in the literature. After the

administration of an e-mail questionnaire, a response rate of 27.5 per cent was achieved—a rate which can be considered as high for this type of method. The analysis of primary data is reported in Chapter 4 to 6.

CHAPTER 4

DETERMINANTS OF FOREIGN DIRECT INVESTMENT IN TURKEY

4.1 Introduction

Given the fact that under normal circumstances foreign direct investment (FDI) is more costly than other alternatives such as exporting and licensing, it is appropriate to ask why firms engage in direct foreign investment in other countries (Hill, 2005). FDI is “expensive because a firm must bear the costs of establishing production facilities in a foreign country or of acquiring a foreign enterprise” and it bears certain risks due to problems arising from involving in operations abroad which may not be predicted in advance (p. 223). Yet theoretical and empirical studies regarding the FDI movements have identified various determinants that impact investment decisions: market conditions, regulations, incentives, factor costs, firms’ strategies, and so on.

Until the end of 1990s, the literature investigating FDI determinants and location choice by multinational enterprises (MNEs) predominantly focused on “certain important traditional demand factors such as wage rates, capital costs, market size, and the proximity of the local market” (Biswas, 2002, p. 492) whereas the increase in the FDI movements cannot be accounted for without taking into consideration “the non-traditional factors” (p. 501). As a result, the FDI literature examining the MNEs activities has paid more attention to the non-economic determinants such as institutions, political risk, incentives (e.g. Kaufmann et al., 1999; Resnick, 2001; Globerman and Shapiro, 2002; Harms, 2002; Jensen, 2003; Busse and Hefeker, 2007).

This chapter is concerned with Turkey's locational factors that influence the location choice of the MNEs which have already invested in Turkey as of 2007. In the next section of this chapter, we will consider the prior literature related to the locational factors that have impact on the MNEs location choice decision. In the third section, we will identify the locational determinants that have played role in foreign direct investments made in Turkey as of end of 2007. In the fourth section, we will test whether locational factors vary with ownership pattern of foreign equity, mode of entry of foreign equity, country of origin of foreign equity, industry of foreign equity, capital size of foreign equity, employee size of foreign equity, sales volume of foreign equity and entry year of foreign equity and existence of previous relations of the foreign equity in Turkey.

4.2 Literature Review and Development of Hypotheses

Conventionally, FDI is viewed as “a means of exploiting firm-specific assets in a foreign market” (Hymer, 1960; Caves, 1971; cited from Gilmore et al., 2003, p. 197). Thanks to FDI, “the investing firm can not only penetrate the domestic market, but also gain access to raw materials, diversify its business operations and rationalize production process”. Moreover, direct investment eliminates the problems arising from “exporting such as trade barriers and transport costs” (Gilmore et al., 2003, p. 197).

In the remainder of this section, we will present the basic determinants for country choice since we are interested in the locational determinants affecting the MNEs decisions.

4.2.1 Market Potential

Market size and its growth potential have been considered as the most important factors influencing the location for investment (e.g. Scaperlanda and Mauer, 1969; Kobrin, 1979; Root and Ahmed, 1979; Dunning, 1980; Schneider and Frey, 1985; Billington, 1999; Zhang, 2000). Market size has been deemed as “the single most widely accepted determinant of FDI flows” (Chakrabarti, 2001, p. 96).

“A large market” is, generally, associated with a higher demand. Therefore, other things being equal, a large market is expected to be more successful in receiving FDI flows, especially for “market-seeking FDI” (Asiedu, 2003, p. 11). The hypothesis that market size is influential in FDI inflows is “based on the assumption that an inadequate market size” slows down “the specialization of productive factors”. Thus, a firm undertakes the investment in the foreign market where the size of the market enables the firm to generate the “economies of scale” (Scaperlanda and Mauer, 1969, p. 560)

Dunning (1993) lists a number of factors that lead firms to explore prospects of market expansion through FDI:

to expand the existing domestic buyer-supplier relationships in host countries; to either pre-empt or avoid being pre-empted by the rivals’ entry into a particular host country; to produce products close to local markets; to lower transportation costs; and to benefit from investment incentives (Makino et al., 2002, p. 411).

In their study of the U.S. FDI flow to Europe, Scaperlanda and Mauer (1969) found that “size of market”; in his study of the FDI determinants in the U.K., Billington (1999) found that “income and growth”; in their analysis of the determinants of FDI into Central and Eastern European Countries (CEECs), Resmini (2000), Carstensen and Toubal (2004) and Galego et al. (2004) found that “market potential”; in their

study examining the FDI from western countries to transition economies, Bevan and Estrin (2004) found that “market size”; in their study of the FDI from the western countries to Turkey, Tatoğlu and Glaister (1998) find that “market size and growth rate of the economy”; in her study investigating the FDI activity in Turkey, Erden (1996) found that “market potential”; in his study examining the determinants of FDI, Coşkun (2001) found that “growing local market”; in their study of the Swedish multinationals, Braunerhjelm and Svensson (1996) found that “market size”; in their analysis of the FDI determinants in China, Cheng and Kwan (2000) found that “large regional market”; in her study investigating FDI in Africa, Asiedu (2005) found that “large domestic market” is one of the most significant factors influencing the FDI flows.

It is obvious that regardless of the name (market size, market potential, market growth, GDP per capita), “market-size hypothesis is generally valid across a variety of countries, periods and specification of variables” (Chakrabarti, 2001, p. 98).

4.2.2 Factor Costs

Market size and potential market growth are not the only factors that affect the location choice of FDI. Firms prefer to invest abroad to benefit from the resources that are not available in the home country or that have price advantages compared to that of home country. Natural resources, low labor, raw materials and transportation costs are some examples of those resources.

According to the “neoclassical theory of FDI determinants”, the main motivation behind a firm’s decision to make a foreign investment is “manufacturing

costs advantages” (Resmini, 2000, p. 676). As stated in Chapter 2, internalization approach assume that “(1) firms choose the least cost location for each activity they perform, and (2) firms grow by internalizing markets up to the point where the benefits of further internalization are outweighed by the costs” (Buckley, 1988, p. 181-82). Compared to transport and raw materials, labor costs have received more attention in theoretical and empirical studies (Gilmore et al., 2002).

The studies conducted by Resmini (2000), Bevan and Estrin (2004) and Carstensen and Toubal (2004) show that labor supply and its low cost have a serious effect on the FDI flows in Central and Eastern Europe. Galego et al. (2004) anticipate that FDI inflows to CEECs will continue due to low labor cost in spite of low specialization of labor supply.

In another study, Sethi et al. (2003) argue that US-oriented MNEs have undertaken a high amount of investment in Asian countries to derive the benefit of cheap labor costs. In his study analyzing the determinants of FDI in Turkey, Coşkun (2001) suggests that low labor cost does not have a major effect on FDI decisions since transition economies also offer this advantage. Comparing Bahrain and Ireland, Gilmore et al. (2002) found that investors deemed the existence of qualified labor more valuable than its cost. Transport costs were found to have a moderate effect in the same study. While Wheeler and Mody (1992) and Biswas (2002) also suggest a positive correlation, Schneider and Frey (1985) suggest a negative one between low labor cost and FDI.

4.2.3 Openness

Openness of an economy has been considered to play a role in FDI flows. “The trade (import plus export) share of GDP” reflects the degree of openness of a country (Addison and Heshmati, 2003, p. 10). In their study on China, Liu et al. (2002) found that “economic development, exports and FDI” (p. 1433) interacts with each other, and accordingly strengthens the economy. Galego et al. (2004) argue that there is a significant association between trade openness and FDI movements in CEECs which imply that “the trade and FDI are complements and not substitutes” (p. 85). Chakravorty and Mazumdar (2003) suggest that openness of an economy leads to the development of the infrastructure which in turn has an impact on FDI decisions. Islam and Montenegro (2002) argue that there is a positive correlation between openness and the development level of institutions. However, they note that this relationship is not valid for countries that mainly export their “natural resources”.

Analyzing data from 79 countries, Sachs and Warner (1995) found an association between “openness and growth rate of GDP per capita”. A similar result was also found by Harrison (1996), Edwards (1996), Wacziarg and Welch (2003) and Quazi and Mahmud (2006). Barro (2001) confirms this relationship but he notes that the impact of openness on growth will decrease as the economy becomes affluent. Vamvakidis (2002) argues that the positive relationship between trade openness and growth is seen after 1970s, whereas before, there was no relationship, or even a negative relationship between the two. Rodriguez and Rodrik (2000), too argue that it is difficult to claim that there is a strong relationship.

4.2.4 Risk

The level of economic and political risk on the location choice of MNEs has been widely examined. Addison and Heshmati (2003) found that the degree of risk has a high impact on FDI inflows and the state of “being highly indebted” (p. 23) plays a determining factor in the FDI attractiveness of a country. In his study analyzing the determinants of FDI in Turkey, Ok (2004) found that “economic and political instability and high inflation” (p. 113) impact FDI inflows negatively. In his study investigating the relationship between country risk and openness, Aizenman (1987) suggests that an increase in the former will have a negative effect on the FDI inflows.

Froot and Stein (1991) maintain that the depreciation observed in U.S. dollar brings about the FDI inflows received by the U.S. to rise because depreciation reduces the value of the U.S. companies, thereby creating opportunities for foreign MNEs for acquisitions. Blonigen (1997) also explains the Japanese FDI in the U.S. with the depreciations in the U.S. dollar.

Trade deficit is another type of economic risk. While Schneider and Frey (1985) and Lucas (1993) argue that low levels of trade deficit have a positive on FDI inflows, Tsai (1994) reports an inverse relationship between FDI inflows and trade deficit. In general, however, “trade surplus” is considered as the “indicative of a dynamic and healthy economy with export potential and is therefore more likely to encourage FDI” (Chakrabarti, 2001, p. 100).

Political risk as a determinant of economic growth has been studied widely (e.g. Londregan and Poole, 1990; Mauro, 1995; Harms, 2002). In their analysis of

the relationship between FDI and political risk in developing countries, Jun and Singh (1996) report that high levels of political risk influence the FDI negatively. A similar study conducted by Harms (2002) for developing countries reached the same conclusion. Jodice's study (1980) focuses on "the risk of expropriation" in the developing countries and foresees that such a risk affects the foreign firms' financials. Gastanaga et al. (1998) examine host country policies of developing countries and counted "nationalization risk" among the factors influencing the FDI. The study of Mudambi and Navarra (2003) suggests that FDI prefer locations where centre-right parties are in power. Kobrin (1976) alternatively argues that political risk is important only when it bounds the operations of foreign firms and leads to "pressures for nationalization, increased local control or ownership, regulations preventing remittance of profits or fees, limits on distribution or market penetration" (p. 37).

4.2.5 Institutions

It is commonly acknowledged that the economic prospects of a country are closely tied to that country's "political, institutional and legal environment" in which the "governance infrastructure" is formed (OECD, 2001, cited from Globerman and Shapiro, 2002, p. 1899). Accordingly, a good governance infrastructure comprises

an effective, impartial and transparent legal system that protects property and individual rights; public institutions that are stable, credible and honest; and government policies that favor free and open markets. These conditions encourage FDI, presumably private domestic as well, by protecting held assets from arbitrary direct or indirect appropriation (Globerman and Shapiro, 2002, p. 1901).

In their study of the institutional quality of CEECs, Pournarakis and Varsakelis (2002) remark that although these countries have challenging markets for FDI, the poor quality of “civil and political rights” constitute a significant barrier for FDI inflows. Therefore, priority should be given to increase the quality of these rights (p. 8). Harms and Ursprung (2002) argue that MNEs are frequently alleged for investing locations where labor rights are low. However, their study does not find evidence for this argument and even finds evidence for the opposite argument that MNEs have a tendency to invest in locations where there is a strong civil society. In his analysis of data from 114 countries, Jensen (2003) concludes that because democratic countries have low political risk, they are more successful in receiving the FDI. Examining the relationship between democracy and FDI in Asia, Latin America and Caribbean, on the other hand, Resnick (2001) argues that “transition” periods imply “uncertainty” which in turn has a serious impact on FDI. What is more interesting in this study is that high democratic standards could also influence FDI negatively. Asiedu (2003) and Gwartney et al. (2006) underline the importance of institutions in growth and FDI decisions. Smith-Hillman and Omar (2005) consider the poor FDI performance of developing countries as the reaction to the bad quality of institutions. Addison and Heshmati (2003) argue that democracy and deployment of “information and communication technologies (ICT)”, Soper et al. (2006) argue that “ICT expenditures” influence FDI inflows to developing countries.

The protection of intellectual property rights has also been considered as a significant factor in explaining the FDI performance of countries. Leblang (1996) argues that in order to find out the reasons behind the differences in the growth rate of national economies “we must redirect our inquiry and focus on property rights;” for “(i) economies of nations that protect property rights grow more rapidly than those of

nations that do not protect property rights; and (ii) the nature of a political regime influences economic growth indirectly through its commitment to property rights” (p. 5). Gould and Gruben (1996), De Soto (2000), Biswas (2002), Li and Rescnik (2003), Lewer and Saenz (2005), Kobeissi (2005) also confirm that the protection of intellectual property rights plays a determinant role in growth and FDI decisions. Park and Ginarte (1997), however, did not find a positive relationship between “intellectual property rights and growth”, but they argue that the protection of intellectual property rights leads to an increase in R&D expenditures.

In his study of the FDI performance of transitional economies, Hewko (2002) states that “the most important factor in attracting FDI remains the existence of actual business opportunities”(p. 73). In other words, Hewko argues, the establishment of attractive and stable legal measures does not necessarily generate FDI flow if “genuine economic opportunities” are not present. Nevertheless, there is also no guarantee that the presence of these “opportunities” without a perfect legal system will persuade foreign firms to invest in that country (p. 73).

4.2.6 Incentives

Use of incentives by host country governments can also be a means of attracting FDI. However, the literature related to host country government attitude including regulations, incentive will be discussed in detail in Chapter 6 which investigates mainly this issue.

Hypotheses

As stated before, we will analyze the degree of the importance of locational factors in FDI decisions in the context of Turkey as of end of 2007. The other aim of our research is to investigate whether the relative importance of locational factors vary with (i) ownership pattern of foreign equity, (ii) country of origin of foreign equity, (iii) industry of foreign equity, (iv) capital size of foreign equity, (v) employee size of foreign equity, (vi) sales volume of foreign equity, (vii) entry year of foreign equity and (viii) existence of previous relations of the foreign equity in Turkey. For this purpose, following hypotheses have been developed:

H1: The relative importance of locational factors on foreign direct investment decision will vary with the ownership pattern of the foreign equity.

H2: The relative importance of locational factors on foreign direct investment decision will vary with the mode of entry of the foreign equity.

H3: The relative importance of locational factors on foreign direct investment decision will vary with the country of origin of the foreign equity.

H4: The relative importance of locational factors on foreign direct investment decision will vary with the industry of the foreign equity.

H5: The relative importance of locational factors on foreign direct investment decision will vary with the capital size of the foreign equity.

H6: The relative importance of locational factors on foreign direct investment decision will vary with the employee size of the foreign equity.

H7: The relative importance of locational factors on foreign direct investment decision will vary with the sales volume of the foreign equity.

H8: The relative importance of locational factors on foreign direct investment decision will vary with the entry year of the foreign equity.

H9: The relative importance of locational factors on foreign direct investment decision will vary with the existence of previous relations of the foreign equity.

4.3 Sample Characteristics

The sample of this study is composed of 73 foreign equities. Of this sample, 38 (52.1% of total) are WOSs and 35 (47.9%) are JVs. When mode of entry adopted by these equities is analyzed, it is seen that 50 equities (68.5%) were established by setting up new companies, while the rest (23) (31.5%) were formed by full or partial acquisition of existing firms. In terms of the time period of formation, 48 (65.8%) of foreign equities were formed before 2004 and 25 (34.2%) of foreign equities were formed after 2003.

The countries of origin of foreign equities are as follows: Australia (1.4% of the total), Austria (2.7%), Bahamas (1.4%), Belgium (1.4%), British Virgin Islands (1.4%), Canada (1.4%), Finland (2.7%), France (9.6%), Germany (19.2%), Greece (1.4%), Ireland (1.4%), Israel (1.4%), Italy (2.7%), Japan (4.1%), Kazakhstan (1.4%), Kuwait (2.7%), Luxembourg (1.4%), The Netherlands (9.6%), Norway (1.4%), Saudi Arabia (1.4%), Spain (1.4%), Sweden (2.7%), Switzerland (5.5%), The United Kingdom (2.7%), United Arab Emirates (9.6%), The United States of America (8.2). In total, 58 (79.5%) of foreign equities are coming from western countries and 15 (20.5%) of foreign equities are coming from non-western countries.

The industry categories of these foreign equities are as follows: auto, transport and related equipment (9.6% of total), chemicals (6.8%), construction

(5.5%), consultancy (4.1%), electronics and electrical machinery (6.8%), financial services (5.5%), food and beverages (8.2%), insurance (2.7%), logistics (2.7%), pharmaceuticals (12.3%), telecommunication (5.5%), textile (1.4%), other manufacturing (13.7%) and other services (15.1%). In total, 30 (41.1%) of the foreign equities are involved in manufacturing sector, 32 (43.8%) of the foreign equities are involved in service sector and 11 (15.1%) of the foreign equities are involved in information and communication technologies.

In terms of capital size, 18 (24.7%) of the foreign equities have a capital size lower than YTL 800,000, 37 (50.7%) of them have a capital size ranging from YTL 800,001 to YTL 50,000,000 and the remaining 18 (24.7%) equities have a capital size greater than YTL 50,000,001. In terms of employee size, 18 (24.7%) of the foreign equities have an employee size lower than 41, 37 (50.7%) of them have an employee size ranging from YTL 41 to 600 and the remaining 18 (24.7%) equities have an employee size greater than 600. In terms of sales volume, 18 (24.7%) of the foreign equities have a sales volume equal or lower than YTL 15,000,000, 37 (50.7%) of them have a sales volume ranging from YTL 15,000,001 to YTL 350,000,000 and the remaining 18 (24.7%) equities have a sales volume greater than YTL 350,000,000.

In terms of existence of previous relations of foreign equities, 53 (72.6%) of the foreign equities had previous relations before investing to Turkey. The remaining 20 (27.4%) equities had no relations before investing to Turkey. Sample characteristics are accordingly summarized in Table 4.1.

Table 4.1 Sample Characteristics

	n	%		n	%
Ownership Pattern of Foreign Equity			Country of Origin		
WOS	38	52.1	Australia	1	1.4
JV	35	47.9	Austria	2	2.7
			Bahamas	1	1.4
Mode of Entry of Foreign Equity			Belgium	1	1.4
Greenfield	50	68.5	British Virgin Islands	1	1.4
Acquisition	23	31.5	Canada	1	1.4
			Finland	2	2.7
Industry of Foreign Equity			France	7	9.6
Auto, Transport and Related Equipment	7	9.6	Germany	14	19.2
Chemicals	5	6.8	Greece	1	1.4
Construction	4	5.5	Ireland	1	1.4
Consultancy	3	4.1	Israel	1	1.4
Electronics and Electrical Machinery	5	6.8	Italy	2	2.7
Financial Services	4	5.5	Japan	3	4.1
Food and Beverage	6	8.2	Kazakhstan	1	1.4
Insurance	2	2.7	Kuwait	2	2.7
Logistics	2	2.7	Luxembourg	1	1.4
Pharmaceuticals	9	12.3	The Netherlands	7	9.6
Telecommunication	4	5.5	Norway	1	1.4
Textile	1	1.4	Saudi Arabia	1	1.4
Other Manufacturing	10	13.7	Spain	1	1.4
Other Services	11	15.1	Sweden	2	2.7
			Switzerland	4	5.5
Annual Sales of Foreign Equity (YTL)			UK	2	2.7
0-15 million	18	24.7	United Arab Emirates	7	9.6
15-350 million	37	50.7	USA	6	8.2
Above 350 million	18	24.7			1.4
			Entry Year of Foreign Equity		
Employee Size of Foreign Equity			Prior to 2004	48	65.8
0-40	18	24.7	After 2003	25	34.2
41-600	37	50.7			
Above 600	18	24.7	Existence of Previous Relations		
			Yes	53	72.6
Capital Size of Foreign Equity			No	20	27.4
0-800,000	18	24.7			
800,001-50,000,000	37	50.7			
Above 50,000,000	18	24.7			
Total	73	100.00		73	100

Host Country Locational Factors

The questionnaire presented a list of 19 locational factors attributed to Turkey. These factors are shown in the Table 4.2. To learn the perception of the relative importance of locational factors on the foreign direct investment decisions in Turkey, respondents were asked following question: “In your decision to choose Turkey as a direct investment location, how important were the following factors?”

Table 4.2 Host Country Locational Factors for FDI in Turkey

1	Market size
2	Growth rate of the economy
3	Relative economic stability of Turkey
4	Purchasing power of customers
5	Degree of unionization
6	Relative political stability of Turkey
7	Geographical proximity of Turkey
8	Access to potential markets
9	Government incentives
10	Trade (tariff and non-tariff) barriers
11	Transferability of profits and capital
12	Availability of quality infrastructure (transportation, communication etc.)
13	Availability of low cost inputs
14	Availability of good quality inputs
15	The presence of previous foreign direct investment (FDI) in Turkey
16	The presence of companies with high potential in the privatization program and the Saving Deposit Insurance Fund (TMSF)
17	Various opportunities due to the absence of a fully competitive market in Turkey
18	A welcoming attitude towards FDI
19	Turkey’s European Union candidacy

Statistical Analysis

The data analysis and hypotheses testing were conducted through parametrical statistical tests. Since our main goal is to measure the relative importance of locational factors on FDI decisions, first we carried out the reliability

of the level of importance scale. The Cronbach's alpha reliability test indicated that the reliability of scale is robust. The Cronbach's alpha for the scale measuring of the relative importance of locational factors on FDI decisions has a value of 0.8141. Taking into consideration that Nunnally (1978), Burns and Bush (2000) and Malhotra (2007) deem 0.7 as an acceptable reliability coefficient, the alpha value in our study indicates that the scale is reliable.

Then, we used varimax rotation factor analysis to extract the underlying factors. Locational factors with factor loadings greater than 0.35 were grouped for each factor derived. The factor analysis revealed five underlying factors which explained the 60.1 % of the observed variance. An internal reliability test showed that Cronbach alpha values for the underlying factors range from 0.28 and 0.74. These factors are grouped as: *infrastructure and comparative cost advantages, government policies, investment risk, strategic locational advantages, market conditions* as shown in Table 4.3.

Table 4.3 Factors of Host Country Location Influences

Factors	Factor loads	Eigen-value	% of Variance explained	Cum. %	Cronbach alpha
Factor 1: <i>Infrastructure and Comparative Cost Advantages</i> Availability of low cost inputs Trade (tariff and non-tariff) barriers Availability of good quality inputs Availability of quality infrastructure (transportation, communication etc.)	.81 .71 .65 .57	4.79	25.2	25.2	.72
Factor 2: <i>Government Policies</i> A welcoming attitude towards FDI Transferability of profits and capital The presence of companies with high potential in the privatization program and the Saving Deposit Insurance Fund (TMSF) Turkey's European Union candidacy Government incentives	.75 .65 .63 .58 .37	2.42	12.7	37.9	.67
Factor 3: <i>Investment Risks</i> Relative political stability of Turkey Relative economic stability of Turkey Degree of unionization	.88 .83 .62	1.74	9.2	47.1	.74
Factor 4: <i>Strategic Locational Advantages</i> Geographical proximity of Turkey Various opportunities due to the absence of a fully competitive market in Turkey The presence of previous foreign direct investment (FDI) in Turkey Access to potential markets	.76 .62 .57 .45	1.36	7.2	54.3	.63

Table 4.3 (continued)

Factor 5:		1.10	5.8	60.1	.28
<i>Market Conditions</i>					
Growth rate of the economy	.78				
Market size	.62				
Purchasing power of customers	.36				

Notes:

Principal components factor analysis with varimax rotation.

K-M-O Measure of Sampling Adequacy = .705

Bartlett's Test of Sphericity = 456.217; $p < .000$

Finally, the hypotheses were tested by considering differences in the means of the locational factors on FDI decisions in Turkey. Because sample size was relatively large, we used parametric tests. The hypotheses, investigating the relative importance of locational factors on FDI decisions, were tested by two-tailed t-tests and one-way Anova depending on the number of independent variables.

4.4 Results and Discussion

4.4.1 Host Country Selection

The rank order of the host country location factors for foreign direct investment decision is shown in the Table 4.4. “Market size” (4.47) and “Growth rate of economy” (4.07) are perceived by respondents to have the highest degree of importance in choosing Turkey as direct investment location. “Geographical proximity of Turkey” (3.78), “Access to potential markets” (3.71) are other two location factors with high importance. These four factors indicate that market conditions and strategic locational advantages are the most influential factors for inward FDI.

In the second group (5 to 8), there are “Availability of low cost inputs” (3.63), “Transferability of profits and capital” (3.62), “Availability of good quality inputs” (3.60) and “Availability of quality infrastructure (transportation, communication etc.)” (3.55). These four factors indicate that infrastructure and comparative cost advantages together with government policies are effective in attracting FDI.

In the third group (9 to 13), the mean of locational factors are still above the median measure. The leading important factor in this group is “Purchasing power of customers” (3.41). “Various opportunities due to the absence of a fully competitive

market in Turkey” (3.30) shows that the lack of full competition in Turkey is also perceived by foreign investors as an opportunity for investment. The other two factors, “Relative economic stability of Turkey” (3.29) and “Relative political stability of Turkey” (3.19), are related to Turkey’s investment risk. In this sense, the relative stability achieved in economic and political life in Turkey seems to have affected the investment decisions of foreign investors. “The presence of previous foreign direct investment (FDI) in Turkey” (3.10) is the last locational factor with a mean above the median measure.

In the fourth and lowest group (14 to 19), there are different locational factors which we grouped under various factor names. “A welcoming attitude towards FDI” (2.99) is the leading locational factor in this group. “Trade (tariff and non-tariff) barriers” (2.86), “Government incentives” (2.74), “Turkey’s European candidacy” (2.71), “Degree of unionization” (2.52) constitute other locational factors with moderate degree of importance. “The presence of companies with high potential in the privatization program and Saving Deposit Insurance Fund (TMSF)” is perceived by the respondents as the lowest significant factor in choosing Turkey as investment place.

Table 4.4 The Relative Importance of Locational Factors for Turkey

Locational Factors	Rank	Mean	SD
Market size	1	4.47	.69
Growth rate of the economy	2	4.07	.69
Geographical proximity of Turkey	3	3.78	1.03
Access to potential markets	4	3.71	1.17
Availability of low cost inputs	5	3.63	1.06
Transferability of profits and capital	6	3.62	1.15
Availability of good quality inputs	7	3.60	1.01
Availability of quality infrastructure (transportation, communication etc.)	8	3.55	.87
Purchasing power of customers	9	3.41	.89
Various opportunities due to the absence of a fully competitive market in Turkey	10	3.30	1.15
Relative economic stability of Turkey	11	3.29	.90
Relative political stability of Turkey	12	3.19	1.01
The presence of previous foreign direct investment (FDI) in Turkey	13	3.10	1.11
A welcoming attitude towards FDI	14	2.99	1.17
Trade (tariff and non-tariff) barriers	15	2.86	1.12
Government incentives	16	2.74	1.13
Turkey's European Union candidacy	17	2.71	1.14
Degree of unionization	18	2.52	1.04
The presence of companies with high potential in the privatization program and the Saving Deposit Insurance Fund (TMSF)	19	2.07	1.29

Notes:

1. The mean is the average on a scale of 1 (= "no importance") to 5 (= "of major importance").
2. SD = standard deviation

4.4.1.1. Host Country Selection and Ownership Pattern of the Foreign Equity

Appendix Table 4.1 shows that two variables "Transferability of profits and capital" and "Availability of quality infrastructure (transportation, communication, etc.)" are significant in relation to ownership pattern of foreign equity in Turkey. Although all other variables have p-values greater than 0.05, p-values for some of these variables ("Market size", "Growth rate of the economy", "Government incentives") are less than 0.1, and for some variables ("Degree of unionization", "Access to potential markets", "The presence of companies with high potential in the

privatization program and the Saving Deposit Insurance Fund (TMSF)” are a little bit above 0.1. This situation has affected the cumulative importance of locational factors and led the cumulative p-value to be 0.032. Therefore, this result indicates that there is strong support for H1; i.e., the relative importance of locational factors on foreign direct investment decision varies with the ownership pattern of the foreign equity.

4.4.1.2. Host Country Selection and Mode of Entry

Appendix Table 4.2 shows that only two variables “The presence of previous foreign direct investment (FDI) in Turkey” and “The presence of companies with high potential in the privatization program and the Saving Deposit Insurance Fund (TMSF)” are significant in relation to mode of entry of foreign equity. These two variables are important for the firms prefer investments in the nature of acquisition instead of greenfield. Because the transfer of companies in the privatization program and the Saving Deposit Insurance Fund is concluded through acquisition, this result is very normal.

It is clear from Appendix Table 4.2 that there is no support for H2 from the remaining variables because all other variables and cumulative importance of locational factors have p-values greater than 0.05. Therefore, we can conclude that the relative importance of locational factors on foreign direct investment decision does not vary with the mode of entry of the foreign equity. On this basis, it is reasonable to argue that mode of entry (acquisition vs. greenfield) of foreign equity is independent of locational factors in the case of foreign direct investment in Turkey.

4.4.1.3. Host Country Selection and Country of Origin of the Foreign Equity

Our study focuses on foreign direct investment made in Turkey as of 2007. Therefore, the overall sample of foreign equities was partitioned into two groups with regard to the country of origin of the investment. The first group consists of foreign equities founded by firms from western countries, while the second group consists of foreign equities founded by firms from non-western countries. Within this framework, the countries are classified as follows:

- i- Western countries: Australia, Austria, Bahamas, Belgium, British Virgin Islands, Canada, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Norway, Spain, Sweden, Switzerland, The Netherlands, The United Kingdom, The United States of America.
- ii- Non-western countries: Israel, Japan, Kazakhstan, Kuwait, Saudi Arabia, United Arab Emirates.

Appendix Table 4.3 shows that “Growth rate of the economy” ($p < 0.05$), “Government incentives” ($p < 0.05$) and “Availability of quality infrastructure (transportation, communication etc.)” ($p < 0.05$) are significant in relation to country of origin of foreign investment. Foreign equities coming from non-western countries attribute more importance to these variables compared to the foreign equities coming from western countries.

The remaining variables and cumulative importance of locational factors have p-values greater than 0.05 which indicates that there is no support for H3 in that the relative importance of locational factors does not vary with the country of origin of foreign equity. Therefore, H3 is rejected.

4.4.1.4. Host Country Selection and Industry of the Foreign Equity

To facilitate the statistical testing of the locational factors, the industry of foreign equities in the sample was categorized into three groups as follows:

- i- Manufacturing: Auto, transport and related equipment; chemicals; electronics and electrical machinery; food and beverages manufacturing; pharmaceuticals; textile; other manufacturing.
- ii- Service: Construction; consultancy; export-import trading; financial services; insurance; logistics; other services;
- iii- Information and communication technology: Computer and software; telecommunication;

Appendix Table 4.4 shows that there is strong support for H4 in that the relative importance of host country factors varies with the industry of the foreign equity. “Access to potential markets” ($p=0.008$), “Government incentives” ($p=0.001$), “Trade (tariff and non-tariff) barriers” ($p=0.007$), “Availability of quality infrastructure (transportation, communication etc.)” ($p=0.004$), “Availability of good quality inputs” ($p=0.28$), “The presence of companies with high potential in the privatization program and the Saving Deposit Insurance Fund (TMSF)” (0.002) and “Various opportunities due to the absence of a fully competitive market in Turkey” ($p=0.031$) are significant in relation to the industry of foreign equity.

Foreign equities involved in manufacturing and information and communication technologies attribute more importance to “Access to potential markets” compared to the foreign equities involved in services. The importance attributed to “Government incentives” by information and communication companies is significantly higher than manufacturing and service companies. The fact that the

majority of incentives in Turkey are granted to information and communication companies may be the reason for this difference. As it is expected, “Trade (tariff and non-tariff) barriers” is more important for manufacturing companies compared to other two industries. “Availability of quality infrastructure (transportation, communication etc.)” is considered to be more influential by foreign equities involved in manufacturing and information and communication technologies. This difference is also normal since quality infrastructure is required more for those companies compared to the companies involved in services. This significant difference is seen also for “availability of good quality inputs”, that is, manufacturing and information and communication companies attribute more importance to “availability of good quality inputs”. Information and communication companies seem to benefit more from privatization program and the sale of companies of Saving Deposit Insurance Fund (TMSF) and therefore attribute more importance to “the presence of companies with high potential in the privatization program and the Saving Deposit Insurance Fund (TMSF)” compared to manufacturing and service companies. Finally, service and information and communication companies consider the lack of fully competitive market in Turkey as opportunity for investment and therefore attribute more importance to “various opportunities due to the absence of a fully competitive market in Turkey”.

As seen in the Appendix Table 4.4, the p-value for cumulative importance of host country locational factors is 0.003 which indicates that there is strong support for H4 in that the relative importance of locational factors on foreign direct investment decision varies with the industry of the foreign equity. In this sense, it is reasonable to argue that the industry of foreign equity is not independent of the locational factors of Turkey for FDI.

4.4.1.5. Host Country Selection and Capital Size of the Foreign Equity

To facilitate the statistical testing of the locational factors, the capital size of foreign equities in the sample was categorized into three groups as follows:

- i- Low capital size: Foreign equities with capital size lower than YTL 800,000,
- ii- Medium capital size: Foreign equities with capital size between YTL 800,000 and YTL 50,000,000,
- iii- High capital size: Foreign equities with capital size greater than 50,000,000

Appendix Table 4.5 shows that there is strong support for H5 in that the relative importance of host country factors varies with the capital size of the foreign equity. “Degree of unionization” ($p=0.010$), “Relative political stability of Turkey” ($p=0.017$), “Access to potential markets” ($p=0.041$) and “Trade (tariff and non-tariff barriers)” ($p=0.001$) are significant in relation to the capital size of foreign equity.

Foreign equities with high capital size seem to attribute more importance to “Degree of unionization”. Companies with high capital size generally employ more employees and therefore, the degree of unionization may be a significant concern for these companies. “Relative political stability of Turkey” is perceived important by companies with low and high capital size. It is surprising that political stability is more important for the companies with low capital size compared to the companies with medium size. The importance attributed to “Access to potential markets” by companies with medium and high capital size is significantly higher than those with low capital size. The fact that companies with medium and high capital size aim to derive more benefit from the opportunity to access to potential markets may be

reason for this difference. As it is expected, “Trade (tariff and non-tariff) barriers” is more important for companies with high capital size compared to those with medium and low capital size. It should also be noted that the variables “Government incentives” and “A welcoming attitude towards FDI” have p-values less than 0.1 (0.056 and 0.091, respectively) and foreign equities with high capital size attribute more importance to these variables.

As seen in the Appendix Table 4.5, the p-value for cumulative importance of host country locational factors is 0.041 which indicates that there is strong support for H5 in that the relative importance of locational factors on foreign direct investment decision varies with the capital size of the foreign equity. In this sense, it is reasonable to argue that the capital size of foreign equity is not independent of the locational factors of Turkey for FDI.

4.4.1.6. Host Country Selection and Employee Size of the Foreign Equity

To facilitate the statistical testing of the locational factors, the employee size of foreign equities in the sample was categorized into three groups as follows:

- i- Low employee size: Foreign equities with employee size lower than 40,
- ii- Medium employee size: Foreign equities with employee size between 41 and 600,
- iii- High employee size: Foreign equities with employee size greater than 600.

Appendix Table 4.6 shows that there is no support for H6 in that the relative importance of host country factors does not vary with the employee size of the

foreign equity. However, “Growth rate of the economy” ($p=0.047$), “Trade (tariff and non-tariff) barriers” ($p=0.018$) and “Transferability of profits and capital” ($p=0.044$) are significant in relation to the employee size of foreign equity.

Foreign equities with high and medium employee size attribute more importance to “Growth rate of economy” and “Transferability of profits and capital” compared to the foreign equities with low employee size. “Trade (tariff and non-tariff) barriers”, on the other hand, is considered as more important by foreign equities with high employee size.

As seen in the Appendix Table 4.6, the p-value for cumulative importance of host country locational factors is 0.232 which indicates that there is no support for H6, that is, the relative importance of locational factors on foreign direct investment decision does not vary with the employee size of the foreign equity. Therefore, H6 is rejected. In this sense, it is reasonable to argue that the employee size of foreign equity is independent of the locational factors of Turkey for FDI.

4.4.1.7. Host Country Selection and Sales Volume of the Foreign Equity

To facilitate the statistical testing of the locational factors, the sales volume of foreign equities in the sample was categorized into three groups as follows:

- i- Low sales volume: Foreign equities with sales volume up to YTL 15,000,000,
- ii- Medium sales volume: Foreign equities with sales volume between YTL 15,000,001 and YTL 350,000,000.
- iii- High sales volume: Foreign equities with sales volume 350,000,000

Appendix Table 4.7 shows that there is strong support for H7 in that the relative importance of host country factors varies with the sales volume of the foreign equity. “Growth rate of the economy” ($p=0.013$), “Degree of unionization” ($p=0.036$), “Trade (tariff and non-tariff) barriers” ($p=0.013$), “Transferability of profits and capital” ($p=0.028$) and “Various opportunities due to the absence of a fully competitive market in Turkey” ($p=0.002$) are significant in relation to sales volume of foreign equity.

Foreign equities with high sales volume attribute more importance to “Growth rate of the economy”. Since high sales volume generally imply more profit, this difference is not surprising. “Degree of unionization” and “Trade (tariff and non-tariff) barriers” are deemed as more important by foreign equities with high sales volume compared to those with low and medium sales volume. “Transferability of profits and capital”, as expected, is perceived more important by the companies with medium and high sales volume. Transferring profits without facing any problem seem to be influential for foreign equities with high potential sales volume before investment while determining investment location. Whereas, foreign equities with low sales volume attribute more importance to “Various opportunities due to the absence of a fully competitive market in Turkey”.

As seen in the Appendix Table 4.7, the p-value for cumulative importance of host country locational factors is 0.032 which indicates that there is strong support for H7, that is, the relative importance of locational factors on foreign direct investment decision varies with the sales volume of the foreign equity. In this sense, it is reasonable to argue that the sales volume of foreign equity is not independent of the locational factors of Turkey for FDI.

4.4.1.8. Host Country Selection and Entry Year of the Foreign Equity

To facilitate the statistical testing of the locational factors, the entry year of foreign equities in the sample was categorized into two groups; namely, foreign equities invested in Turkey prior to 2004 and foreign equities invested in Turkey after 2003. There are two reasons for us to choose year 2003 as a milestone. First, after a long period, a single-party government was established at the beginning of 2003. Second, Law No. 6224 Concerning the Encouragement of Foreign Capital which was put into effect as of January 18th, 1954 was abolished in 2003. Instead of this conservative law, a more liberal one, Law No. 4875 Concerning Foreign Direct Investments dated June 17th was put into effect.

Appendix Table 4.8 shows that there is no support for H8 in that the relative importance of host country factors does not vary with the entry year of the foreign equity to Turkey. However, “Purchasing power of customers” ($p=0.044$), “The presence of previous foreign direct investment (FDI) in Turkey” ($p=0.009$), “The presence of companies with high potential in the privatization program and the Saving Deposit Insurance Fund (TMSF)” ($p=0.003$), “Various opportunities due to the absence of a fully competitive market in Turkey” ($p=0.024$), “A welcoming attitude towards FDI” ($p=0.008$) and “Turkey’s European Union candidacy” ($p=0.014$) are significant in relation to the employee size of foreign equity.

While foreign entities invested in Turkey before 2004 attribute more importance to “Purchasing power of customers”, those invested in Turkey after 2003 attribute more importance to “The presence of previous foreign direct investment (FDI) in Turkey”, “The presence of companies with high potential in the privatization program and the Saving Deposit Insurance Fund (TMSF)”, “Various

opportunities due to the absence of a fully competitive market in Turkey”, “A welcoming attitude towards FDI” and “Turkey’s European Union candidacy”. These differences are expected because as Turkey has become a candidate for the EU in 2004, it has adopted a more favorable attitude in 2003, and accelerated privatization in the same year.

As seen in the Appendix Table 4.8, the p-value for cumulative importance of host country locational factors is 0.172 which indicates that there is no support for H8, that is, the relative importance of locational factors on foreign direct investment decision does not vary with the entry year of the foreign equity. Therefore, H8 is rejected. In this sense, it is reasonable to argue that the entry year of foreign equity is independent of the locational factors of Turkey for FDI.

4.4.1.9. Host Country Selection and Prior Relations

Appendix Table 4.9 shows that there is no support for H9 in that the relative importance of host country factors does not vary with the existence of prior relations of the foreign equity to Turkey. However, “The presence of companies with high potential in the privatization program and the Saving Deposit Insurance Fund (TMSF)” ($p=0.050$), and “A welcoming attitude towards FDI” ($p=0.005$) are significant in relation to the employee size of foreign equity.

Foreign entities which did not have any relations prior to investment decision attribute more importance to “The presence of companies with high potential in the privatization program and the Saving Deposit Insurance Fund (TMSF) and “A welcoming attitude towards FDI”.

As seen in the Appendix Table 4.9, the p-value for cumulative importance of host country locational factors is 0.088 which indicates that there is no support for H9, that is, the relative importance of locational factors on foreign direct investment decision does not vary with the existence of prior relations of the foreign equity. Therefore, H9 is rejected. In this sense, it is reasonable to argue that the existence of prior relations of foreign equity is independent of the locational factors of Turkey for FDI.

4.5. Conclusion

In this chapter we have identified locational factors of Turkey that have impact on the foreign direct investment decisions. We have also investigated whether the locational factors vary with ownership pattern, mode of entry, country of origin, industry, capital size, employee size, sales volume, entry year and existence of previous relations of foreign equity.

The factor analysis revealed that 19 locational factors can be grouped under five titles; namely, (i) infrastructure and comparative cost advantages, (ii) government policies, (iii) investment risk, (iv) strategic locational advantages, (v) market conditions.

The present study finds that the market size and growth rate of the economy are the most influential factors that are taken into consideration while determining the location of investment. In this sense, market conditions of Turkey have determining characteristics in attracting inward FDI. Along with market conditions, geographical proximity of Turkey and the opportunity to access to potential markets also impact FDI decisions. Therefore, while deciding to invest in Turkey, investors aim to derive maximum benefit from Turkey's geographical location. Moreover,

investors attribute importance to the transferability of profits and infrastructure and comparative cost advantages.

Testing of hypotheses 1 to 9 indicates that the locational determinants of Turkey vary with the ownership pattern, industry, capital size, and sales volume of foreign equity. On this basis, we can argue that ownership pattern, industry, capital size, and sales volume of foreign equity are not independent of the locational factors of Turkey.

In addition, testing of hypotheses reveal that the locational factors of Turkey do not vary with the mode of entry, country of origin, employee size, entry year and existence of prior relations of foreign equity. Therefore, it is reasonable to argue that the mode of entry, country of origin, employee size, entry year and existence of prior relations of foreign equity are independent of locational factors of Turkey.

CHAPTER 5

THE PROBLEMS AND THEIR IMPACT ON FDI ENVIRONMENT AND FIRMS' OPERATIONS

5.1 Introduction

This chapter mainly deals with the problems faced by foreign equities in Turkey. As a developing country, Turkey has various economic, political, social and institutional problems which influence not only the foreign direct investment (FDI) environment of Turkey, but also the operations and business plans of firms invested in Turkey. In her study of FDI firms in Turkey, Erden (1996) analyzed the problems faced by investors at that time and pointed at “the inconsistent macroeconomic policy” (p. 184) as the most significant problem. The study showed that from the investors' point of view, “the regulatory environment, the tax system, the absence of inflation accounting system, the existence of corruption, the recognition of patent rights, incentives, environmental protection legislation and the insufficient development of financial markets” were regarded as “moderately serious” problems, while “problems related to the absence of generally accepted accounting standards, recognition of goodwill/brand equity, land availability and the social problems of expatriate families” were considered as “the least serious” ones (p. 184- 85).

In this chapter, we will first review the literature on the problems incurred by foreign direct investors. Second, we will identify the problems that influence the FDI environment and firms' operations. Third, we will analyze the perceptions of investors about the progress achieved in the solution of these problems and the

possibility of solutions to the existing problems in the upcoming years. Fourth, we will test whether the issues above vary with the independent variables of the study. The final section gives a summary and a set of conclusions.

5.2 Literature Review and Development of Hypotheses

The role of foreign direct investment in the development of the countries is vital. The importance attributed to FDI is not valid only for developing but also for developed countries. Therefore, except for a few, all countries see it in their interest to attract inward FDI by providing a firm business environment to foreign investors.

According to Hill (2005), FDI (1) “makes a positive contribution to a host country economy by supplying capital, technology, and management resources that would otherwise not be available and thus boost that country’s economic growth rate” (p. 244), (2) “brings jobs to a host country that would otherwise not be created there” (p. 246), (3) improves the host country’s “balance of payments” (p. 248), and (4) “increases the competition in the national market, thereby driving down the prices and increasing the economic welfare of consumers” (p. 250).

It is obvious that a firm business environment can attract FDI. The existence of a quality institutional framework, as well as economic fundamentals, may enrich the investment environment. However, the creation of quality institutions may not be regarded as merely a technical matter. Institutions, many times, reflect the cultural and political background of a country and this background may not alter as a result of technical processes. In fact, the concerns of foreign equities about the problems analyzed in this study show that the institutional problems such as corruption, informal economy, bureaucratic burden are still continuing.

Çavuşgil et al. (2003) report that “despite reforms, the Turkish economy suffers from an inefficient public sector and weak political leadership” (p. 468). According to the study, hyperinflation in Turkey stands out the source of numerous challenges facing foreign investors. Although listing “ineffective tax collection, spiraling inflation, public sector overspending, aborted attempts to kick-start a privatization program, and a fidgety currency value” (p. 472) as critical problems, the study is nevertheless optimistic about the business environment in Turkey as “an increasingly attractive and substantial platform for free enterprise” (p. 470).

Buğra (1990: cited from Bodur and Madsen, 1993) argues that the government occupies a central place in the formation of business life in Turkey, because “Turkish companies remain highly dependent on the Government as to financial matters, such as credit incentives.” and as a result of this dependency, she argues, Turkish business world is often vulnerable to interventions and “frequent and unpredictable policy changes” by the government (p. 39).

In his analysis of the outward FDI of Turkish manufacturing firms, Kaya (2004) finds that the most important “push motives of Turkish manufacturing firms” are “high utility costs, unstable exchanges rates, high inflation rate, political instability, high cost of finance and high employment costs” (p. 156). Alternatively, Erdilek (2003) points at “chronic high inflation, economic and political instability, widespread corruption, a weak and unpredictable legal system” (p. 83) as the most significant determinants of poor performance FDI in Turkey.

For Ok (2004), “economic and political stability, high inflation, high uncertainty, high credit costs and frequent changes in rules and legislation” (p. 106) are the main barriers for FDI.

As stated before, we will analyze the problems that influence the FDI environment and firms' operations. Moreover, we will investigate whether the pace of progress achieved in the solution of these problems is perceived as enough or not and whether the investors are optimistic or pessimistic about the possibility of prospective solutions for these problems in the upcoming years.

Moreover, we will test whether the influence of the problems on the FDI environment and firms' operations and the perceptions of the investors about the progress achieved for these problems and the possibility to solve these problems vary with ownership pattern of foreign equity, country of origin of foreign equity, industry of foreign equity, capital size of foreign equity, employee size of foreign equity, sales volume of foreign equity, entry year of foreign equity. For this purpose, based on classification we provided in Chapter 4, the following hypotheses have been developed:

Hypotheses

H1: The relative seriousness of the problems on the foreign direct investment environment will vary with the ownership pattern of the foreign equity.

H2: The relative seriousness of the problems on the foreign direct investment environment will vary with the country of origin of the foreign equity.

H3: The relative seriousness of the problems on the foreign direct investment environment will vary with the industry of the foreign equity.

H4: The relative seriousness of the problems on the foreign direct investment environment will vary with the capital size of the foreign equity.

H5: The relative seriousness of the problems on the foreign direct investment environment will vary with the employee size of the foreign equity.

H6: The relative seriousness of the problems on the foreign direct investment environment will vary with the sales volume of the foreign equity.

H7: The relative seriousness of the problems on the foreign direct investment environment will vary with the entry year of the foreign equity.

H8: The relative seriousness of the problems on the firms' plans will vary with the ownership pattern of the foreign equity.

H9: The relative seriousness of the problems on the firms' plans will vary with the country of origin of the foreign equity.

H10: The relative seriousness of the problems on the firms' plans will vary with the industry of the foreign equity.

H11: The relative seriousness of the problems on the firms' plans will vary with the capital size of the foreign equity.

H12: The relative seriousness of the problems on the firms' plans will vary with the employee size of the foreign equity.

H13: The relative seriousness of the problems on the firms' plans will vary with the sales volume of the foreign equity.

H14: The relative seriousness of the problems on the firms' plans will vary with the entry year of the foreign equity.

H15: Compared to the date of entry, the progress achieved in the solution of the problems will vary with the ownership pattern of the foreign equity.

H16: Compared to the date of entry, the progress achieved in the solution of the problems will vary with the country of origin of the foreign equity.

H17: Compared to the date of entry, the progress achieved in the solution of the problems will vary with the industry of the foreign equity.

H18: Compared to the date of entry, the progress achieved in the solution of the problems will vary with the capital size of the foreign equity.

H19: Compared to the date of entry, the progress achieved in the solution of the problems will vary with the employee size of the foreign equity.

H20: Compared to the date of entry, the progress achieved in the solution of the problems will vary with the sales volume of the foreign equity.

H21: Compared to the date of entry, the progress achieved in the solution of the problems will vary with the entry year of the foreign equity.

H22: In the oncoming five-year period, the possibility of prospective solutions will vary with the pattern of the foreign equity.

H23: In the oncoming five-year period, the possibility of prospective solutions will vary with the country of origin of the foreign equity.

H24: In the oncoming five-year period, the possibility of prospective solutions will vary with the industry of the foreign equity.

H25: In the oncoming five-year period, the possibility of prospective solutions will vary with the capital size of the foreign equity.

H26: In the oncoming five-year period, the possibility of prospective solutions will vary with the employee size of the foreign equity.

H27: In the oncoming five-year period, the possibility of prospective solutions will vary with the sales volume of the foreign equity.

H28: In the oncoming five-year period, the possibility of prospective solutions will vary with the entry year of the foreign equity.

5.3. Problems Faced by Foreign Direct Investors

The questionnaire presented a list of 20 problems which are perceived to influence the FDI environment and operations of firms with foreign capital. These problems are shown in the Table 5.1. To learn the perception of the relative seriousness of the problems on the foreign direct investment environment and on the operations of existing investments, respondents were asked two questions: “How serious do the following problems influence the FDI environment of Turkey?” and “How serious do the following problems affect your firm’s operations in Turkey?”.

We also want to learn the perception of the achieved progress compared to the date of entry and the possibility of prospective solutions in the oncoming five-year period. For this purpose, respondents were asked following two questions: “How much progress has been achieved in the following problems in Turkey compared to the date on which you made your first investment?” and “How do you see the possibility of prospective solutions to these problems in the oncoming five-year period?”.

Table 5.1 Problems Faced by Foreign Direct Investors

1	Corruption
2	Informal economy
3	Uncertainties arising from the macroeconomy
4	Lack of depth in finance markets
5	Chronic inflation
6	Government/state intervention in economy
7	Volatility of the political environment
8	Poor quality of democratic institutions
9	Threat of an authoritarian / fundamentalist regime
10	Ethnic tension
11	Low security of intellectual property
12	Bureaucratic burden and delay
13	Governmental and bureaucratic failures in keeping promises made to foreign investors
14	Frequent changes in business legislation and rules
15	Absence of a legal base in applications
16	High tax burden on employment
17	Lack of generally accepted accounting rules (IFRS, US GAAP)
18	The significance of the extent of relations with the government and/or bureaucracy in conducting business
19	Social problems of expatriate families
20	Difficulties in obtaining work permits for expatriates

Statistical Analysis: The data analysis and hypotheses testing were conducted through parametrical statistical tests. Since our main goal is to measure (i) the seriousness of the problems on FDI environment and firms' operations and (ii) the progress achieved in the solution of the problems compared to the date of entry and the possibility of prospective solutions in the oncoming five-year period, first we carried out the reliability of the level of impact scale. The Cronbach's alpha reliability test indicated that the reliabilities of scales are robust. The Cronbach's alpha for the scale measuring the seriousness of the problems on FDI environment and firms' operations has a value of 0.8302 and 0.8539, respectively. The Cronbach's alpha for the scale measuring the progress achieved in the solution of the problems compared to the date of entry and the possibility of prospective solutions in the oncoming five-year period, has a value of 0.9317 and 0.9211, respectively.

Taking into consideration that Nunnally (1978), Burns and Bush (2000) and Malhotra (2007) deem 0.7 as an acceptable reliability coefficient, the alpha values in our study indicate that the scales are reliable.

Then, the hypotheses were tested by considering differences in the means of the seriousness of the problems on FDI environment and firms' operations and in the progress achieved in the solution of the problems compared to the date of entry and the possibility of prospective solutions in the oncoming five-year period. The hypotheses were tested by two-tailed t-tests and one-way Anova depending on the number of independent variables.

5.4 Results and Discussion

5.4.1 The Influence of the Problems on FDI Environment

The rank order of the seriousness of the problems on the FDI environment is shown in the Table 5.2. "Uncertainties arising from the macroeconomy" (4.33) is perceived by respondents to have the highest seriousness on the FDI environment among the problems identified in Turkey. "Bureaucratic burden and delay" (4.29), "Volatility of the political environment" (4.21), "Frequent changes in business legislation and rules" (4.18) are other problems deemed as high influence on the FDI environment of Turkey. "Corruption" (4.10), "Governmental and bureaucratic failures in keeping promises made to foreign investors" (4.10), "High tax burden on employment" (4.10) have been perceived by the respondents to have equal serious influence on the FDI environment. "Informal economy" (4.04) is the other serious problem for the FDI environment in this group (1 to 8). When the first eight problems are analyzed, it is seen that these problems are related to different

dimensions of the FDI environment. In this sense, these problems can be classified as economic, political, legal, social problems.

The second group (9 to 15) and third group (16 to 18) of the problems are still above the median measure. “Absence of a legal base in applications” (3.88) is the highest ranked problem in the second group. “Low security of intellectual property” (3.86) and “Government/state intervention in economy” (3.85) are also considered important problems affecting the FDI environment. “Lack of depth in finance markets” (3.75) and “Chronic inflation” (3.75) are two problems perceived by the respondents to have equal serious influence on the FDI environment. The respondents also consider “The significance of the extent of relations with the government and/or bureaucracy in conducting business” (3.70) as a serious problem for the FDI environment. “Poor quality of democratic institutions” (3.52) is the last important problem in the second group.

“Lack of generally accepted accounting rules (IFRS, US GAAP)” (3.23) has been deemed to have a moderate effect on the FDI environment. Similarly, respondents attribute less moderate importance to “Threat of an authoritarian / fundamentalist regime” (3.19) and “Difficulties in obtaining work permits for expatriates” (3.14).

Finally, “Ethnic tension” (2.77) and “Social problems of expatriate families” (2.45) are perceived by the respondents to have the least effect on the FDI environment of Turkey.

Table 5.2 The Seriousness of the Problems on the FDI Environment of Turkey

Problems	Rank	M	SD
Uncertainties arising from the macroeconomy	1	4.33	0.75
Bureaucratic burden and delay	2	4.29	0.70
Volatility of the political environment	3	4.21	0.74
Frequent changes in business legislation and rules	4	4.18	0.81
Corruption	5	4.10	0.77
Governmental and bureaucratic failures in keeping promises made to foreign investors	6	4.10	0.87
High tax burden on employment	7	4.10	0.82
Informal economy	8	4.04	0.73
Absence of a legal base in applications	9	3.88	0.85
Low security of intellectual property	10	3.86	0.85
Government/state intervention in economy	11	3.85	0.89
Lack of depth in finance markets	12	3.75	0.85
Chronic inflation	13	3.75	0.83
The significance of the extent of relations with the government and/or bureaucracy in conducting business	14	3.70	0.79
Poor quality of democratic institutions	15	3.52	0.85
Lack of generally accepted accounting rules (IFRS, US GAAP)	16	3.23	1.12
Threat of an authoritarian / fundamentalist regime	17	3.19	1.10
Difficulties in obtaining work permits for expatriates	18	3.14	1.07
Ethnic tension	19	2.77	1.14
Social problems of expatriate families	20	2.45	1.01

Notes:

1. The mean is the average on a scale of 1 (= “not at all serious”) to 5 (= “very serious”).
2. SD = standard deviation

5.4.1.1. The Influence of Problems on FDI Environment and Ownership Pattern of the Foreign Equity

Appendix Table 5.1 shows that only corruption is significant in relation to the ownership pattern of the foreign equity. Compared to the wholly-owned subsidiaries, joint ventures attribute more importance to the corruption as having serious effect on the FDI environment of Turkey. All other variables have p-values greater than 0.05 which indicates that there is no support for H1. This result indicates that although

these problems are considered to have a serious influence on the FDI environment of Turkey, this does not vary with the ownership pattern of the foreign equity.

5.4.1.2. The Influence of the Problems on the FDI Environment and Country of Origin of the Foreign Equity

Appendix Table 5.2 shows that two variables, “Bureaucratic burden and delay” ($p=0.46$) and “High tax burden on employment” ($p=0.02$) are significant in relation to the country of origin of foreign equity. The foreign equities coming from non-western countries rank the tax burden on employment as higher compared to those coming from western countries. The reason for this difference may stem from the fact that the tax burden on employment in the western countries is higher than the burden on employment in non-western countries. Therefore, high tax burden on employment in Turkey seems to be deemed surprising and accordingly more serious for the foreign equities coming from the non-western world. What is more interesting is that the foreign equities coming from non-western countries attribute higher seriousness to bureaucratic burden and delay compared to the foreign equities coming from western countries. It is possible to speculate that the foreign equities from non-western countries may have a perception that Turkey has already solved the bureaucratic problems prior to their investment decision while, foreign equities from western countries, on the other hand, consider Turkey as a developing country and accordingly expect it to have some bureaucratic problems to a certain extent. All other variables have p-values greater than 0.05 which indicates that there is no support for H2. This result suggests that although the identified problems are

considered to have a serious influence on FDI environment in Turkey, this influence does not vary with the country of origin of foreign equity.

5.4.1.3 The Influence of the Problems on the FDI Environment and Industry of the Foreign Equity

Appendix Table 5.3 shows that only one variable, “High tax burden on employment” ($p=0.024$) is significant in relation to the industry of foreign equity in Turkey. The foreign equities involved in manufacturing and information and communication technologies consider the tax burden on employment more serious than the foreign equities involved in the service sector. All other variables have p-values greater than 0.05 which indicates that there is no support for H3. This result reveals that although the problems presented are considered to have a serious influence on FDI environment of Turkey, this influence does not vary with the industry of the foreign equity in Turkey.

5.4.1.4. The Influence of the Problems on the FDI Environment and Capital Size of the Foreign Equity

Appendix Table 5.4 shows that there is no relation between the influence of problems on the FDI environment and the capital size of the foreign equity. All variables have p-values greater than 0.05 which indicates that there is no support for H4. This result indicates that the problems presented are considered to have a serious influence on FDI environment of Turkey, this influence does not vary with the capital size of foreign equity

5.4.1.5. The Influence of the Problems on the FDI Environment and Employee Size of the Foreign Equity

Appendix Table 5.5 shows that only one variable, “Threat of an authoritarian / fundamentalist regime” ($p=0.05$) is significant in relation to the employee size of foreign equity in Turkey. The foreign equities with low employee size consider the threat of an authoritarian or fundamentalist regime more serious than the foreign equities with medium and high employee size. All other variables have p-values greater than 0.05 which indicates that there is no support for H5. This result reveals that although the problems presented are considered to have a serious influence on FDI environment of Turkey, this influence does not vary with the employee size of the foreign equity in Turkey.

5.4.1.6. The Influence of the Problems on the FDI Environment and Sales Volume of the Foreign Equity

Appendix Table 5.6 shows that two variables, “Threat of an authoritarian / fundamentalist regime” ($p=0.022$) and “Low security of intellectual property” ($p=0.043$) are significant in relation to sales volume of foreign equity in Turkey. The foreign equities with low sales volume consider the threat of an authoritarian or fundamentalist regime more serious than the foreign equities with medium and high sales volume. On the other hand, the foreign equities with medium and high sales volume are more sensitive to intellectual property rights and therefore, consider the low security of intellectual property as a more important problem compared to the foreign equities with low sales volume. The remaining variables have p-values

greater than 0.05. This result shows that the influence of the problems on the FDI environment does not vary with the net sales of investment. Therefore, H6 is rejected.

5.4.1.7. The Influence of the Problems on the FDI Environment and Entry Year of the Foreign Equity

Appendix Table 5.7 shows that three variables, “Lack of depth in finance markets” ($p=0.016$), “Threat of an authoritarian / fundamentalist regime” ($p=0.038$) and “High tax burden on employment” ($p=0.04$) are significant in relation to the entry year of the foreign equity to Turkey. The foreign equities which invested in Turkey prior to 2004, consider lack of depth in finance markets and threat of an authoritarian /fundamentalist regime as more important problems compared to the foreign equities which invested to Turkey after 2003. This difference may stem from the experience of the firms which invested to Turkey previously. On the other hand, the foreign equities which invested in Turkey after 2003 are more sensitive to the tax burden on employment and attribute more importance to this problem compared to the foreign equities which invest Turkey previously. All other variables have p-values greater than 0.05 which indicates that there is no support for H7. This result reveals that although the problems presented are considered to have a serious influence on FDI environment in Turkey, this influence does not vary with the entry year of foreign equity.

5.4.2. The Influence of the Problems on Firms' Operations

The rank order of the influence of the problems on the firms' operations is shown in the Table 5.3. "Frequent changes in business legislation and rules" (4.03) is perceived as the most important problem by the respondents that influence their operations. It is obvious that the respondents are complaining about the ambiguousness of the tax and legal framework. The second serious problem which affects the operations of the foreign equities is the "bureaucratic burden and delay" (3.97). A comparative cost disadvantage, "High tax burden on employment" (3.85) is third most influential problem on the operations of foreign equities. "Uncertainties arising from the macroeconomy" (3.77) and "Volatility of the political environment" (3.62) are economic and political problems which have a serious influence on the operations of foreign equities. The respondents also attribute high importance to "Governmental and bureaucratic failures in keeping promises made to foreign investors" (3.52).

The second group (8 to 14) is still above median measure. "The significance of the extent of relations with the government and/or bureaucracy in conducting business" (3.44), "Low security of intellectual property" (3.14) and "Corruption" (3.14) are three institutional problems in this group which the respondents attribute moderate importance. The other variables in this group, namely "Government/state intervention in economy" (3.37), "Chronic inflation" (3.34), "Lack of depth in finance markets" (3.16) and "Informal economy" (3.12) are economic problems and are considered to have moderate influence on the operations of foreign equities.

The variables in the third group (15 to 20) are below the median measure and therefore, it can be argued that these variables "Poor quality of democratic institutions" (2.90), "Lack of generally accepted accounting rules (IFRS, US

GAAP)” (2.82), “Threat of an authoritarian / fundamentalist regime” (2.70), “Difficulties in obtaining work permits for expatriates” (2.48), “Ethnic tension” (2.45) and “Social problems of expatriate families” (1.95) have little or no influence on the operations of the foreign equities in Turkey. We can argue that political problems have a determining character in the investment decisions of foreign equities. However, when the location is chosen and the investment is made, then it loses its importance gradually. On the other hand, it is obvious that the foreign equities do not consider the lack of generally accepted accounting rules since they generally adjust their reporting system. Moreover, although bureaucratic burden has been evaluated as one of the most serious problems on the operations of the firms, it seems that this problem has been relatively solved in obtaining work permits for expatriates.

Table 5.3 The Influence of Problems on Firms' Operations

Problems	Rank	M	SD
Frequent changes in business legislation and rules	1	4.03	1.03
Bureaucratic burden and delay	2	3.97	0.90
High tax burden on employment	3	3.85	0.97
Uncertainties arising from the macroeconomy	4	3.77	0.98
Volatility of the political environment	5	3.71	1.01
Absence of a legal base in applications	6	3.62	0.98
Governmental and bureaucratic failures in keeping promises made to foreign investors	7	3.52	1.19
The significance of the extent of relations with the government and/or bureaucracy in conducting business	8	3.44	0.93
Government/state intervention in economy	9	3.37	1.10
Chronic inflation	10	3.34	1.02
Lack of depth in finance markets	11	3.16	0.99
Corruption	12	3.14	1.18
Low security of intellectual property	13	3.14	1.23
Informal economy	14	3.12	1.21
Poor quality of democratic institutions	15	2.90	1.04
Lack of generally accepted accounting rules (IFRS, US GAAP)	16	2.82	1.25
Threat of an authoritarian / fundamentalist regime	17	2.70	1.25
Difficulties in obtaining work permits for expatriates	18	2.48	1.29
Ethnic tension	19	2.45	1.28
Social problems of expatriate families	20	1.95	1.01

Notes:

1. The mean is the average on a scale of 1 (= "not at all serious") to 5 (= "very serious").
2. SD = standard deviation

5.4.2.1. The Influence of Problems on Firms' Operations and Ownership Pattern of the Foreign Equity

Appendix Table 5.8 shows that there is no relation between the influence of problems on firms' operations and the ownership pattern of foreign equity. All variables have p-values greater than 0.05 which indicates that there is no support for H8. This result reveals that although the problems presented are considered to influence operations of firms with foreign capital in Turkey, this influence does not vary with the ownership pattern of foreign equity. Therefore, H8 is rejected.

5.4.2.2 The Influence of Problems on Firms' Operations and Country of Origin of the Foreign Equity

Appendix Table 5.9 shows that there is no relation between the influence of problems on firms' operations and the country of origin of foreign equity. All variables have p-values greater than 0.05 which indicates that there is no support for H9. This result reveals that although the problems presented are considered to influence operations of firms with foreign capital in Turkey, this influence does not vary with the country of origin of foreign equity. Therefore, H9 is rejected.

5.4.2.3 The Influence of Problems on Firms' Operations and Industry of the Foreign Equity

Appendix Table 5.10 shows that only one variable, "The significance of the extent of relations with the government and/or bureaucracy in conducting business" ($p=0.014$) is significant in relation to the country of origin of foreign equity. The foreign equities involved in service and information and communication technologies attribute more importance to this problem compared to the foreign equities involved in manufacturing sector. All other variables have p-values greater than 0.05 which indicates that there is no support for H10. This result reveals that although the problems presented are considered to influence operations of firms with foreign capital in Turkey, this influence does not vary with the industry of foreign equity. Therefore, H10 is rejected.

5.4.2.4 The Influence of Problems on Firms' Operations and Capital Size of the Foreign Equity

Appendix Table 5.11 shows that two variables, "Threat of an authoritarian / fundamentalist regime" ($p=0.041$), "Difficulties in obtaining work permits for expatriates" ($p=0.039$) are significant in relation to capital size of investment in Turkey. While the foreign equities with medium capital size attribute more importance to the threat of an authoritarian / fundamentalist regime, the companies with low capital size consider the difficulties in obtaining work permits for expatriates as more important. All remaining have p-values greater than 0.05 which indicates that there is no support for H11. Therefore, H11 is rejected.

5.4.2.5 The Influence of Problems on Firms' Operations and Employee Size of the Foreign Equity

Appendix Table 5.12 shows that only one variable, "Low security of intellectual property" ($p=0.043$) is significant in relation to employee size of investment in Turkey. The foreign equities with medium and high employee size attribute more importance to intellectual property rights. Therefore, they consider the low security of intellectual property as a serious problem on their operations compared to the equities with low employee size. However, all remaining have p-values greater than 0.05 which indicates that there is no support for H12. This result shows that the influence of the problems on firms' operations does not vary with the employee size of foreign equity. Therefore, H12 is rejected.

5.4.2.6 The Influence of Problems on Firms' Operations and Sales Volume of the Foreign Equity

Appendix Table 5.13 shows that there is no relation between the influence of the problems on firms' operations and the sales volume of the foreign equity. All variables have p-values greater than 0.05 which indicates that there is no support for H13. This result shows that the influence of the problems on firms' operations does not vary with the sales volume of foreign equity. Therefore, H13 is rejected.

5.4.2.7 The Influence of Problems on Firms' Operations and Entry Year of the Foreign Equity

Appendix Table 5.14 shows that only one variable, "High tax burden on employment" ($p=0.035$) is significant in relation to the entry year of foreign equity to Turkey. The foreign equities which invested in Turkey prior to 2004 are more sensitive to employment taxes. Therefore, they consider it as a more important problem for their operations compared to the foreign equities invested in Turkey after 2003. All other variables have p-values greater than 0.05 which indicates that there is no support for H14. This result reveals that although the problems presented are considered to have serious influence operations of firms with foreign capital in Turkey, this influence does not vary with the entry year of foreign equity.

5.4.3 The Achieved Progress in the Solution of the Problems Compared to the Date of Entry

The rank order of the achieved progress in the solution of the problems compared to the date of entry of foreign equities is shown in the Table 5.4. “Chronic inflation” (3.38) is highest ranked problem for which a progress has been achieved in Turkey for solution. The progress achieved in all other problems is below the median measure which indicates that the foreign equities are not satisfied with the pace for the solution of the problems. “Lack of depth in finance markets” (2.93), “Government /state intervention in economy” (2.85) and “Uncertainties arising from the macroeconomy” (2.82) are other problems for which a relative progress have been achieved. The common characteristic of these four problems is that they all are economic problems. Then, we can derive from this situation that foreign equities in Turkey are of opinion that among the problems which influence the FDI environment of Turkey, the success in solution is high for the economic ones compared to the date the invested in Turkey.

The achieved progress in economic problems is followed by “Lack of generally accepted accounting rules (IFRS, US GAAP)” (2.77). The interesting issue is that the applicable accounting rules in Turkey are not in compliance with IFRS or US GAAP¹. However, both the number of international accounting firms and the number of people specialized in IFRS and US GAAP has increased. This increase may lead the foreign equities to think that this issue has been solved relatively.

The progress achieved in “Volatility of political environment” (2.66), “Low security of intellectual property” (2.66) and “Absence of a legal base in applications”

¹ It is envisaged in the draft Commercial Code that all joint stock companies shall adopt IFRS rules. However, this draft has not become a law in the Assembly yet.

(2.66) has been perceived as equal by the respondents. As seen from the table 5.18, the progress achieved for the problems presented in the questionnaire is very close to each other. The means of the remaining problems ranges from 2.63 (“Governmental and bureaucratic failures in keeping promises made to foreign investors”) to 2.33 (“Corruption”).

It is obvious that for the foreign equities in Turkey, the least success has been achieved in the solution of “Corruption” (2.33) and “High tax burden on employment” (2.36). In other words, the foreign equities in Turkey perceive that the progress in the solution of the problems presented in the questionnaire is generally low.

Table 5.4 The Progress Achieved in the Solution of the Problems Compared to the Entry Date of Foreign Equity to Turkey

Problems	Rank	M	SD
Chronic inflation	1	3.38	1.06
Lack of depth in finance markets	2	2.93	0.90
Government/state intervention in economy	3	2.85	0.95
Uncertainties arising from the macroeconomy	4	2.82	0.99
Lack of generally accepted accounting rules (IFRS, US GAAP)	5	2.77	1.03
Volatility of the political environment	6	2.66	1.07
Low security of intellectual property	7	2.66	0.93
Absence of a legal base in applications	8	2.66	0.99
Governmental and bureaucratic failures in keeping promises made to foreign investors	9	2.63	0.99
Poor quality of democratic institutions	10	2.62	0.98
The significance of the extent of relations with the government and/or bureaucracy in conducting business	11	2.59	1.03
Social problems of expatriate families	12	2.58	1.17
Informal economy	13	2.47	0.99
Bureaucratic burden and delay	14	2.45	1.12
Threat of an authoritarian / fundamentalist regime	15	2.44	1.14
Ethnic tension	16	2.41	1.07
Frequent changes in business legislation and rules	17	2.38	1.08
Difficulties in obtaining work permits for expatriates	18	2.38	1.16
High tax burden on employment	19	2.36	1.16
Corruption	20	2.33	0.99

Notes:

1. The mean is the average on a scale of 1 (= “very little”) to 5 (= “too much”).
2. SD = standard deviation

5.4.3.1. The Progress Achieved in the Solution of the Problems and Ownership Pattern of the Foreign Equity

Appendix Table 5.15 shows that there is no relationship between the perception of achieved progress in the solution of the problems compared to the entry date of foreign equity to Turkey and the ownership pattern of the foreign equity. All variables have p-values greater than 0.05 which indicates that there is no support for H15. This result indicates that the foreign equities in Turkey consider that the progress achieved in the solution of the problems presented in the questionnaire is generally little and this little progress does not vary with the ownership pattern of the foreign equity. Therefore, H15 is rejected

5.4.3.2. The Progress Achieved in the Solution of the Problems and Country of Origin of the Foreign Equity

Appendix Table 5.16 shows that there is no relationship between the perception of achieved progress in the solution of the problems compared to the entry date of foreign equity to Turkey and the country of origin of foreign equity. All variables have p-values greater than 0.05 which indicates that there is no support for H16. This result indicates that the foreign equities in Turkey consider that the progress achieved in the solution of the problems presented in the questionnaire is generally little and this little progress does not vary with the country of origin of foreign equity. Therefore, H16 is rejected.

5.4.3.3 The Progress Achieved in the Solution of the Problems and Industry of the Foreign Equity

Appendix Table 5.17 shows that only one variable, “Chronic inflation” ($p=0.020$) is significant in relation to the industry of foreign equity in Turkey. The foreign equities involved in manufacturing and service sector rank the progress achieved in the solution of chronic inflation higher compared to the companies involved in information and communication technologies. This perception can be accounted for by taking into consideration that the manufacturing and service companies invested Turkey before information and communication companies and that the inflation rates were very high in 1980s compared to recent years. All other variables have p-values greater than 0.05 which indicates that there is no support for H17. This result indicates that the foreign equities in Turkey consider that the progress achieved in the solution of the problems presented in the questionnaire is generally little and this little progress does not vary with the industry of the foreign equity. Therefore, H17 is rejected.

5.4.3.4. The Progress Achieved in the Solution of the Problems and Capital Size of the Foreign Equity

Appendix Table 5.18 shows that there is a strong relationship between the perception of achieved progress in the solution of the problems compared to the entry date of foreign equity to Turkey and the capital size of the foreign equity. Thirteen variables, “Corruption” ($p=0.014$), “Uncertainties arising from macroeconomy” ($p=0.000$), “Lack of depth in finance markets” ($p=0.000$), “Chronic inflation”

($p=0.037$), “Government / state intervention in economy” ($p=0.004$), “Ethnic tension” ($p=0.050$), “Low security of intellectual property” ($p=0.001$), “Governmental and bureaucratic failures in keeping promises made to foreign investors” ($p=0.032$), “Frequent changes in business legislation and rules” ($p=0.028$), “Absence of legal base in applications” ($p=0.004$), “The significance of the extent of relations with the government and/or bureaucracy in conducting business” ($p=0.000$) and “Social problems of expatriate families” ($p=0.009$) are significant in relation to the capital size of the foreign equity. For all these variables, the foreign equities with high and medium size capital perceive that the progress achieved in the solution of concerning problems is more compared to the foreign equities with low capital size. The reason for this difference may stem from the fact that foreign equities with medium and high size capital have intense relations regarding these problems in business life and accordingly can compare the improvement in practice compared to the foreign equities with low capital size. Other variables have p-values greater than 0.05 but it should also be noted that these p-values are still low. Because p-value for cumulative perception of achieved progress in the problems is also $p=0.000$, we can conclude that there is strong support for H18. This result indicates that the foreign equities in Turkey consider that the progress achieved in the solution of the problems presented in the questionnaire is generally little. However, the pace of progress varies with the capital size of foreign equity. Therefore, H18 is accepted.

5.4.3.5. The Progress Achieved in the Solution of the Problems and Employee Size of the Foreign Equity

Appendix Table 5.19 shows that three variables, “Lack of depth in finance markets” ($p=0.000$), “Chronic inflation” ($p=0.037$) and “Government / state

intervention in economy” ($p=0.018$) are significant in relation to the employee size of foreign equity in Turkey. The foreign equities with medium and high employee size consider the pace of progress achieved in these three problems is more compared to the foreign equities with low employee size. Although all other variables have p-values greater than 0.05, the p-value for cumulative perception of achieved progress in the problems is also $p=0.031$ which indicates that there is strong support for H19. This result indicates that the foreign equities in Turkey consider that the progress achieved in the solution of the problems presented in the questionnaire is generally little. However, the pace of progress varies with the employee size of foreign equity. Therefore, H19 is accepted.

5.4.3.6. The Progress Achieved in the Solution of the Problems and Sales Volume of the Foreign Equity

Appendix Table 5.20 shows that two variables, “Lack of depth in finance markets” ($p=0.007$) and “The significance of the extent of relations with the government and/or bureaucracy in conducting business” ($p=0.039$) are significant in relation to sales volume of foreign equity in Turkey. The foreign equities with high sales volume consider the pace of progress achieved in these two problems is relatively more compared to the foreign equities with medium and low sales volume. The remaining variables have p-values greater than 0.05. This result indicates that the foreign equities in Turkey consider that the progress achieved in the solution of the problems presented in the questionnaire is generally little and the pace of progress does not vary with the sales volume of foreign equity. Therefore, H20 is rejected.

5.4.3.7. The Progress Achieved in the Solution of the Problems and Entry Year of the Foreign Equity

Appendix Table 5.21 shows that three variables, “Informal economy” ($p=0.030$), “Lack of depth in finance markets” ($p=0.004$) and “Chronic inflation” ($p=0.003$) are significant in relation to the entry year of the foreign equity to Turkey. The foreign equities which invested in Turkey prior to 2004, rank the pace of progress achieved in informal economy, lack of depth in finance markets and chronic inflation higher compared to the foreign equities which invested to Turkey after 2003. This difference may stem from the fact that the foreign equities which invested in Turkey prior to 2004 have faced with these problems heavily. Therefore, they can see the relative improvement in these problems better than those which invested to Turkey after 2003. All other variables have p-values greater than 0.05 which indicates that there is no support for H21. This result indicates that the foreign equities in Turkey consider that the progress achieved in the solution of the problems presented in the questionnaire is generally little and the pace of progress does not vary with the entry year of foreign equity. Therefore, H21 is rejected.

5.4.4. The Possibility of Prospective Solutions to the Problems in the Oncoming Five-year Period

The rank order of the possibility of the prospective solutions in the oncoming five-year period is shown in the Table 5.5. Only two variables, “Chronic inflation” (3.10) and “Lack of generally accepted accounting rules (IFRS, US GAAP)” (3.08) are above median measure. All other variables have means below median measure

which indicates that the foreign equities are generally pessimistic about the possibility of prospective solutions in the oncoming five-year period. In other words, their expectation that the prospective solutions will be found for the problems presented in the questionnaire is low.

The means of the remaining variables range from 2.97 (Lack of depth in finance markets) to 2.45 (High tax burden on employment). On the other hand, the expectation that economic problems will be solved is relatively higher compared to the institutional problems. As it is found, the perceived pace of progress achieved in economic problems was also higher than the perceived pace of progress achieved in institutional ones. Parallel to this finding, the foreign equities are of the opinion that the possibility to find prospective solutions to institutional problems is low compared to economic-oriented problems.

Another interesting finding is that ethnic tension was deemed as not to have great influence on the FDI environment and on the firms' operations. Moreover, it was also perceived that the progress achieved in the ethnic tension was very little. From Table 5.26, we see that the respondents' expectation that ethnic tension problem will be solved is very low. Then, we can conclude that although foreign investors perceive ethnic tension as a problem for FDI environment, this problem does not influence their operations and their expectation about this problem is that it will continue in the oncoming years.

Table 5.5 The Possibility of Prospective Solutions in the Oncoming Five-year Period

Problems	Rank	M	SD
Chronic inflation	1	3.10	1.04
Lack of generally accepted accounting rules (IFRS, US GAAP)	2	3.08	1.04
Lack of depth in finance markets	3	2.97	0.99
Uncertainties arising from the macroeconomy	4	2.93	0.92
Low security of intellectual property	5	2.82	0.93
Corruption	6	2.78	1.06
Informal economy	7	2.75	0.98
Absence of a legal base in applications	8	2.71	0.99
Bureaucratic burden and delay	9	2.70	0.92
Social problems of expatriate families	10	2.70	1.22
Government/state intervention in economy	11	2.68	0.94
The significance of the extent of relations with the government and/or bureaucracy in conducting business	12	2.68	0.97
Threat of an authoritarian / fundamentalist regime	13	2.66	1.12
Governmental and bureaucratic failures in keeping promises made to foreign investors	14	2.66	0.92
Volatility of the political environment	15	2.60	0.92
Poor quality of democratic institutions	16	2.60	0.91
Frequent changes in business legislation and rules	17	2.52	0.97
Ethnic tension	18	2.49	0.94
Difficulties in obtaining work permits for expatriates	19	2.49	1.12
High tax burden on employment	20	2.45	1.00

Notes:

1. The mean is the average on a scale of 1 (= “too low”) to 5 (= “very high”).
2. SD = standard deviation

5.4.4.1. The Possibility of Prospective Solutions in the Oncoming Five-year Period and Ownership Pattern of the Foreign Equity

Appendix Table 5.22 shows that there is no relation between the possibility of prospective solutions in the oncoming five-year period and the ownership pattern of foreign equity. All variables have p-values greater than 0.05 which indicates that there is no support for H22. This result indicates that the foreign equities in Turkey consider that the possibility of prospective solutions for the problems presented in

the questionnaire is generally low and this low possibility does not vary with the entry year of foreign equity. Therefore, H22 is rejected.

5.4.4.2 The Possibility of Prospective Solutions in the Oncoming Five-year Period and Country of Origin of the Foreign Equity

Appendix Table 5.23 shows that there is no relation the possibility of prospective solutions in the oncoming five-year period and the country of origin of foreign equity. All variables have p-values greater than 0.05 which indicates that there is no support for H23. This result indicates that the foreign equities in Turkey consider that the possibility of prospective solutions for the problems presented in the questionnaire is generally low and this low possibility does not vary with the country of origin of foreign equity. Therefore, H23 is rejected.

5.4.4.3 The Possibility of Prospective Solutions in the Oncoming Five-year Period and Industry of the Foreign Equity

Appendix Table 5.23 shows that only one variable, “Low security of intellectual property” ($p=0.016$) is significant in relation to the industry of foreign equity. The foreign equities involved in service and information and communication technologies are more sensitive to intellectual property rights, and accordingly attribute more importance to this problem compared to the foreign equities involved in manufacturing and service sector. All other variables have p-values greater than 0.05 which indicates that there is no support for H24. This result indicates that the foreign equities in Turkey consider that the possibility of prospective solutions for

the problems presented in the questionnaire is generally low and this low possibility does not vary with the industry of foreign equity. Therefore, H24 is rejected.

5.4.4.4 The Possibility of Prospective Solutions in the Oncoming Five-year Period and Capital Size of the Foreign Equity

Appendix Table 5.24 shows that there is a strong relationship between the perception of the possibility of prospective solutions for the problems in the oncoming five-year period and the capital size of the foreign equity. Six variables, “Uncertainties arising from macroeconomy” ($p=0.001$), “Lack of depth in finance markets” ($p=0.006$), “Volatility of political environment” ($p=0.008$), “Frequent changes in business legislation and rules” ($p=0.030$), “Absence of legal base in applications” ($p=0.041$) and “The significance of the extent of relations with the government and/or bureaucracy in conducting business” ($p=0.043$) are significant in relation to the capital size of the foreign equity. For all these variables, the foreign equities with high and medium size capital perceive that the possibility of prospective solutions for these problems in the oncoming five-year period is high compared to the foreign equities with low capital size. The reason for this difference may stem from the fact that foreign equities with medium and high size capital take into consideration the improvement they see compared to the foreign equities with low capital size. Other variables have p-values greater than 0.05 but it should also be noted that these p-values are still low. Because p-value for cumulative possibility of prospective solutions to the problems is also $p=0.046$, we can conclude that there is strong support for H25. This result indicates that the foreign equities in Turkey consider that the possibility of prospective solutions to the problems presented in the

questionnaire is generally low. However, this possibility varies with the capital size of foreign equity. Therefore, H25 is accepted.

5.4.4.5 The Possibility of Prospective Solutions in the Oncoming Five-year Period and Employee Size of the Foreign Equity

Appendix Table 5.25 shows that only two variables, “Lack of depth in finance markets” ($p=0.045$) and “Volatility of the political environment” ($p=0.016$) are significant in relation to employee size of investment in Turkey. The foreign equities with high employee size seem to be more optimistic about the possibility of prospective solutions for these two problems compared to the equities with medium and low employee size. However, all remaining have p-values greater than 0.05 which indicates that there is no support for H26. This result shows that the foreign equities in Turkey consider that the possibility of prospective solutions to the problems presented in the questionnaire is generally low and this expectation does not vary with the employee size of foreign equity. Therefore, H26 is rejected.

5.4.4.6 The Possibility of Prospective Solutions in the Oncoming Five-year Period and Sales Volume of the Foreign Equity

Appendix Table 5.26 shows that four variables, “Uncertainties arising from macroeconomy” ($p=0.021$), “Lack of depth in finance markets” ($p=0.018$), “Volatility of the political environment” ($p=0.043$) and “Frequent changes in business legislation and rules” ($p=0.007$) are significant in relation to the sales volume of the foreign equity. The foreign equities with high sales volume are more

optimistic about the possibility of prospective solutions for concerning problems compared to the equities with medium and low sales volume. All other variables have p-values greater than 0.05 which indicates that there is no support for H27. This result shows that the foreign equities in Turkey consider that the possibility of prospective solutions to the problems presented in the questionnaire is generally low and this expectation does not vary with the sales volume of foreign equity. Therefore, H27 is rejected.

5.4.4.7 The Possibility of Prospective Solutions in the Oncoming Five-year Period and Entry Year of the Foreign Equity

Appendix Table 5.27 shows that only one variable, “Governmental and bureaucratic failures in keeping promises made to foreign investors” ($p=0.041$) is significant in relation to the entry year of foreign equity to Turkey. The foreign equities which invested in Turkey after 2003 are more optimistic about the possibility of a solution for this problem compared to the foreign equities invested in Turkey prior 2004. All other variables have p-values greater than 0.05 which indicates that there is no support for H28. This result shows that the foreign equities in Turkey consider that the possibility of prospective solutions to the problems presented in the questionnaire is generally low and this expectation does not vary with the entry year of foreign equity. Therefore, H28 is rejected.

5.5. Conclusion

This chapter first identified the problems that influence the FDI environment and firms’ operations seriously. Second, we investigated the progress achieved in the

solution of these problems compared to the entry of the foreign equity to Turkey and the possibility of prospective solutions in the oncoming five-year period. Finally, we tested whether the influence of problems on FDI environment and firms' operations and the progress achieved in the solution of these problem and the possibility of prospective solutions for these problems vary with ownership pattern of foreign equity, country of origin of foreign equity, industry of foreign equity, capital size of foreign equity, employee size of foreign equity, sales volume of foreign equity and entry year of foreign equity in Turkey.

The present study finds that the influence of the problems on FDI environment of Turkey is quite strong. The same problems influence the operations of foreign equities to a great extent. Political and economic instability, bureaucratic burden and delay and frequent changes in business legislation and rules are the highest ranked problems that influence the FDI environment. When the influence of the problems on firms' operations is analyzed, these problems remain the same but political instability is replaced with high tax burden on employment.

This study reveals that the pace of progress achieved in the solution of the problem compared to the entry date of foreign equity to Turkey cannot be considered as too much. The investors perceive that a remarkable success was achieved in the solution of chronic inflation problem. Moreover, investors think that the possibility of prospective solutions for these problems is not high.

Testing hypotheses 1 to 7 indicates that although the identified problems are considered to have a serious influence on FDI environment in Turkey, this influence does not vary with the ownership pattern, country of origin, industry, capital size, employee size, sales volume and entry year of foreign equity. Therefore, hypotheses 1 to 7 were rejected.

Testing hypotheses 8 to 14 indicates that the problems presented in the questionnaire are deemed to have serious influence on firms' operations. However, this influence does not vary with the ownership pattern, country of origin, industry, capital size, employee size, sales volume and entry year of foreign equity. Therefore, hypotheses 8 to 14 were rejected.

Testing 15 to 21 indicates that the foreign equities in Turkey consider that the progress achieved in the solution of the problems presented in the questionnaire compared to the entry date of foreign equity to Turkey is generally little and this little progress does not vary with the ownership pattern, country of origin, industry, sales volume and entry year of foreign equity, but with capital size and employee size of foreign equity. Therefore, hypotheses 15, 16, 17, 20 and 21 were rejected, but hypotheses 18 and 19 were accepted.

Testing hypotheses 22 to 28 indicates that the foreign equities in Turkey consider that the possibility of prospective solutions in the oncoming five-year period is generally low and this low possibility does not vary with the ownership pattern, country of origin, industry, employee size, sales volume and entry year of foreign equity, but with capital size of foreign equity. Therefore, hypotheses 22, 23, 24, 26, 27, 28 were rejected, but hypothesis 25 was accepted.

CHAPTER 6

TAX AND LEGAL CHANGES AND THEIR IMPACT ON FDI ENVIRONMENT AND BUSINESS PLANS

6.1 Introduction

The patterns of global foreign direct investment (FDI) have changed recently. The most obvious evidence of this change is the share of foreign direct investment received by developing countries. Even though it has been traditionally assumed that FDI prefers developed countries, in 2005 the amount of FDI inflow to developed countries rose by 37%. However, there was a 57% increase, which brought the amount of FDI to developing countries to its “highest level ever recorded” with a total of \$334 billions (UNCTAD, 2006, p. xvii).

These changes in the FDI inflow patterns have led both developed and developing countries to revise their views of foreign direct investment. The extent of this revision can be gauged from the number and transformational characteristics of changes initiated in the regulation of investment regimes of these countries in the last two decades. According to UNCTAD data (2005a, pp. 22-26), in 1991 the number of countries that adopted changes in their “investment regime” was 35 and the number of these amendments was 82. While 80 of these “regulatory changes” were “more favorable to FDI”, only 2 of these regulatory changes were “less favorable”. By 2004, the number of countries that made changes in their investment regime reached 102 and the number of “introduced” regulations increased to 271. While 235 of these changes reflected a favoring attitude toward FDI, 36 of them were less sympathetic.

Moreover, the number of countries that decreased the corporate income tax rate effective 2005 was twenty², whereas the number of countries that increased the corporate income tax rate was limited only to three (UNCTAD, 2005a). Therefore, the trends in investment regulations have in general followed a steady pattern: a great majority of the introduced changes were aimed to attract FDI through “simplified procedures, enhanced incentives, reduced taxes and greater openness to foreign investors” (UNCTAD, 2006, p. xviii).

It was inevitable for Turkey not to be affected from these developments in world economy. In particular, beginning with the single party power in 2003 a high number of legal regulations has been introduced within a five-year period. It is obvious that the majority of these changes were intended to improve the FDI environment of Turkey and to make it attractive for foreign direct investment.

In this chapter, we will analyze the tax and legal changes introduced within the last five years to attract foreign direct investment in Turkey. In this context, the perception of the managers of foreign equities in Turkey will be evaluated from two points of view. First, we will analyze whether the changes introduced have improved the FDI environment of Turkey. Then, we will investigate whether these regulations have any impact on business plans of firms with foreign capital which already invested in Turkey. In the final section, we will analyze whether the impact of these changes vary with the ownership pattern of foreign equity, country of origin of foreign equity, industry of foreign equity, capital size of foreign equity, employee size of foreign equity, sales volume of foreign equity and entry year of foreign equity in Turkey.

² In the same year, Turkey also reduced the corporate income tax rate from 33% to 30%.

6.2 Literature Review and Development of Hypotheses

Biswas (2002) notes that “until recently, most of the literature on the determinants of FDI and the consequent choice of location by a multinational corporation has tried to examine the role of certain important traditional demand factors, such as wage rates, capital costs, market size, and proximity to the local market” (p. 492). However, in assessing the economic performance of a country, there has been an increasing recognition of the role played by non-economic factors such as “its political, institutional and legal environment” (OECD, 2001, cited from Globerman and Shapiro, 2002, p. 1899).

With this change in perception, the influence of host country policies in attracting inward FDI has also received more attention in theoretical and empirical studies (e.g. Cheng and Kwan, 2000; Billington, 1999; Shah, 2003; Edmiston et al., 2000). As an expected result of this change, the competition among countries to attract inward FDI through regulations has gained the characteristics of a “beauty contest” (Oman, 2000).

Introduction of tax incentives (tax holidays, tax-free zones, investment allowances, reduction in corporate tax rates) and simplifications in the fulfillment of requirements for companies with foreign capital are the most used instruments to attract inward FDI by host country governments (UNCTAD, 2006).

Root and Ahmad (1978) found that taxes have a major influence on the foreign investment made in manufacturing sector. They argue that “although taxes have not been in the past an important factor consideration in the investor’s choice of a country, nonetheless they would become important in the future with the increasing mobility of factors associated with the international production of multinational corporation” (p. 87). Studies by Billington (1999), Hsiao and Shen (2003), and Shah

(2003) also confirm the effect of the introduction of reduced corporate tax rates on FDI. Buettner and Ruf (2007) investigate the impact of taxation on German multinationals that have direct investment abroad, and find that corporate tax rate applicable in the host country affects the investment decisions significantly. A research report prepared by Haufler and Stöwhase (2003), on the other hand, argue that investments made in manufacturing and service sector have different attitudes towards the tax structure of host country. While investments involving manufacturing activities are interested in “effective average tax rate,” the investments involving service sector ascribe more significance to “the statutory tax rate” of host country (p. 49). Edmiston et al. (2004) confirm the traditional argument that the “tax incentives” that are not addressed well do not create the expected impact on FDI and may even have a negative influence on investment decisions, especially if the host country has an intricate tax system.

Contrary to the findings above, there are studies that do not corroborate a positive relationship between corporate tax rates and foreign direct investment. In his study investigating the correlation between the tax rates and investment decisions of MNEs in 19 OECD countries for the period 1980-2000, Jensen (2007) does not find any evidence for the existence of such a correlation. In their study analyzing the investment decisions of U.S. multinationals, Loree and Guisinger (2003) find that “raising incentive levels” (p. 296) does not necessarily attract FDI inflows since when a country moves to introduce new incentives, it may lead other competing countries to introduce new incentives at the same time. This would in turn generate no new investments in any country.

As stated before, in this chapter we will analyze the degree of the impact of tax regulations (introduction of transfer pricing and thin capitalization rules, adoption

of inflation accounting), tax incentives (reduction of corporate income tax rate, tax deduction for R&D activities, various tax advantages granted to investments realized in less developed regions, tax exemption for technological development zones) and the simplification of procedures required for the companies with foreign capital (facilitating procedures during the establishment of companies, abolishment of permission required for the amendments of articles of association, abolishment of registration required for payments extended abroad etc.) on FDI environment and business plans of firms.

Within this framework, the impact of these regulations on the location choice of foreign direct investment will not be evaluated in this chapter since the impact of government incentives on the location choice of FDI was already discussed in Chapter 4. Accordingly, our purpose here is to discuss whether these regulations have improved the FDI environment of Turkey and whether these regulations have affected the business plans of firms with foreign capital in Turkey.

Moreover, the other aim of our investigation is to learn whether the impact of these changes on FDI environment and business plans of firms with foreign capital vary with ownership pattern of foreign equity, country of origin of foreign equity, industry of foreign equity, capital size of foreign equity, employee size of foreign equity, sales volume of foreign equity, entry year of foreign equity. For this purpose, based on classification we provided in Chapter 4, the following hypotheses have been developed:

Hypotheses

H1: The relative impact of tax and legal changes on the foreign direct investment environment will vary with the ownership pattern of the foreign equity.

H2: The relative impact of tax and legal changes on the foreign direct investment environment will vary with the country of origin of the foreign equity.

H3: The relative impact of tax and legal changes on the foreign direct investment environment will vary with the industry of the foreign equity.

H4: The relative impact of tax and legal changes on the foreign direct investment environment will vary with the capital size of the foreign equity.

H5: The relative impact of tax and legal changes on the foreign direct investment environment will vary with the employee size of the foreign equity.

H6: The relative impact of tax and legal changes on the foreign direct investment environment will vary with the sales volume of the foreign equity.

H7: The relative impact of tax and legal changes on the foreign direct investment environment will vary with the entry year of the foreign equity.

H8: The relative impact of tax and legal changes on the firms' plans will vary with the ownership pattern of the foreign equity.

H9: The relative impact of tax and legal changes on the firms' plans will vary with the country of origin of the foreign equity.

H10: The relative impact of tax and legal changes on the firms' plans will vary with the industry of the foreign equity.

H11: The relative impact of tax and legal changes on the firms' plans will vary with the capital size of the foreign equity.

H12: The relative impact of tax and legal changes on the firms' plans will vary with the employee size of the foreign equity.

H13: The relative impact of tax and legal changes on the firms' plans will vary with the sales volume of the foreign equity.

H14: The relative impact of tax and legal changes on the firms' plans will vary with the entry year of the foreign equity.

6.3. Tax and Legal Changes

The questionnaire presented a list of 12 tax and legal changes introduced within the last five years in Turkey. These changes are shown in the Table 6.1. To learn the perception of the relative impact of these changes on the foreign direct investment environment and business plans of existing investments, respondents were asked two questions: "How much did the following changes introduced in the taxation system and in the legal system affect the environment of the foreign direct investments in Turkey?" and "How much did these changes affect your business plans?".

Table 6.1 Tax and Legal Changes Introduced in Turkey

1	Facilitating the procedures of establishing companies with foreign capital in Turkey
2	Abolition of the permission receipt requirement for establishing a company or opening of a branch with foreign capital
3	Abolition of the minimum capital requirement for establishing a company with foreign capital in Turkey
4	Abolition of the requirement imposed on companies with foreign capital for permission receipt in applications concerning investments, capital increase operations, introduction of amendments in the articles of association
5	Abolition of the obligation regarding the registration of the concerned agreements for being authorized to pay license, know-how, technical assistance and franchise payments
6	Regulation through law of a provision that companies with foreign capital shall be granted equal rights with companies established with domestic capital
7	Reduction of the applicable corporate tax rate
8	Introduction of clear, understandable and objective criteria on transfer pricing and thin capitalization rules
9	Adoption of the inflation accounting application
10	Introduction of 100% tax deduction opportunity on the R & D investments
11	Offering various tax advantages on investments made in the 49 least developed provinces of Turkey
12	Granting tax exemption on the gains derived from the investments made in the technological development zones

Statistical Analysis: The data analysis and hypotheses testing were conducted through parametrical statistical tests. Since our main goal is to measure the impact of tax and legal changes on FDI environment and on business plans of firms, first we carried out the reliability of the level of impact scale. The Cronbach's alpha reliability test indicated that the reliability of scale is robust. The Cronbach's alpha for the scale measuring the impact of tax and legal changes on FDI environment and on business plans has a value of 0.8515 and 0.8188, respectively. Taking into consideration that Nunnally (1978), Burns and Bush (2000) and Malhotra (2007) deem 0.7 as an acceptable reliability coefficient, the alpha values in our study indicate that the scales are reliable.

Then, we used varimax rotation factor analysis to extract the underlying factors. Tax and legal changes with factor loadings greater than 0.5 were grouped for each factor derived. The factor analysis revealed three underlying factors which explained the 63.2 per cent of the observed variance. An internal reliability test showed strong Cronbach alpha values for the underlying factors 0.83 and 0.80. Since the last factor consists of only one component, Cronbach alpha was not calculated for the third factor. As shown in Table 6.2, these factors are grouped as follows: *legal changes, direct tax changes, indirect tax changes*.

Table 6.2 Factors of Tax and Legal Changes

Factors	Factor loads	Eigen-value	% of Variance explained	Cum. Per cent	Crombach Alpha
Factor 1: Legal changes		4.72	39.36	39.36	.83
- Abolition of the requirement imposed on companies with foreign capital for permission receipt in applications concerning investments, capital increase operations, introduction of amendments in the articles of association	.83				
- Regulation through law of a provision that companies with foreign capital shall be granted equal rights with companies established with domestic capital	.73				
- Abolition of the obligation regarding the registration of the concerned agreements for being authorized to pay license, know-how, technical assistance and franchise payments	.70				
- Abolition of the minimum capital requirement for establishing a company with foreign capital in Turkey	.66				
- Abolition of the permission receipt requirement for establishing a company or opening of a branch with foreign capital	.65				
- Facilitating the procedures of establishing companies with foreign capital in Turkey	.64				

Table 6.2 (continued)

Factor 2:		1.67	13.88	53.25	.80
Indirect tax changes					
- Granting tax exemption on the gains derived from the investments made in the technological development zones	.82				
- Introduction of 100% tax deduction opportunity on the R & D investments	.79				
- Offering various tax advantages on investments made in the 49 least developed provinces of Turkey	.74				
- Introduction of clear, understandable and objective criteria on transfer pricing and thin capitalization rules	.61				
- Adoption of the inflation accounting application	.54				
Factor 3:		1.20	9.97	63.21	
Direct tax changes					
- Reduction of the applicable corporate tax rate	.81				

Notes:

Principal components factor analysis with varimax rotation.

K-M-O Measure of Sampling Adequacy = .798

Bartlett's Test of Sphericity = 344.796; $p < .000$

Finally, the hypotheses were tested by taking into account the differences in the means of the impact of tax and legal changes on FDI environment and business plans of firms with foreign capital in Turkey. We used parametric tests because sample size was relatively large and assumed that the sample is from a normal distribution. Our hypotheses, on the impact of tax and legal changes on the FDI environment and business plans were tested by two-tailed t-tests and one-way Anova depending on the number of independent variables.

6.4 Results and Discussion

6.4.1 The Impact of Tax and Legal Changes on FDI Environment

The rank order of the impact of tax and legal changes on the FDI environment is shown in the Table 6.3. “Reduction of the applicable corporate tax rate” (4.51) is perceived by respondents to have the highest positive impact on the FDI environment among the tax and legal changes introduced in the last five years. “Introduction of 100% tax deduction opportunity on the R&D investments” (3.90), “Introduction of clear, understandable and objective criteria on transfer pricing and thin capitalization rules” (3.88), “Facilitating the procedures of establishing companies with foreign capital in Turkey” (3.73) are other highest ranked changes perceived to influence the FDI environment.

The second group (5 to 8) and third group (9 to 12) of tax and legal changes are still above the median measure. “Adoption of the inflation accounting application” (3.55) is the highest ranked change in the second group. The lack of inflation accounting was deemed as one of the important problems faced by foreign investors in Turkey (Erden, 1996; Ok, 2004). This result implies that introduction of

inflation accounting has been appreciated by foreign investors. “Abolition of the obligation regarding the registration of the concerned agreements for being authorized to pay license, know-how, technical assistance and franchise payments” (3.51), “Abolition of the permission receipt requirement for establishing a company or opening of a branch with foreign capital” (3.49), “Abolition of the requirement imposed on companies with foreign capital for permission receipt in applications concerning investments, capital increase operations, introduction of amendments in the articles of association” (3.45) are also deemed to influence FDI environment.

In the third and lowest ranked group (9 to 12) of tax and legal changes, there are “Offering various tax advantages on investments made in the 49 least developed provinces of Turkey” (3.40), “Granting tax exemption on the gains derived from the investments made in the technological development zones” (3.40), “Regulation through law of a provision that companies with foreign capital shall be granted equal rights with companies established with domestic capital” (3.36), “Abolition of the minimum capital requirement for establishing a company with foreign capital in Turkey” (3.12). Insufficient infrastructure in the 49 least developed provinces may be a significant reason for respondents considering that tax advantages offered in these provinces did not affect the FDI environment too much. That the number of sectors that can benefit from technological development zones is low may be the reason for relatively low mean of “Granting tax exemption on the gains derived from the investments made in the technological development zones”. The foreign investors’ attitude to wait for implementation instead of commitment seems to cause “the companies with foreign capital shall be granted equal rights with domestic capital” to have a lower mean. Finally, because the minimum capital requirement for

establishing a company with foreign capital was quite low (USD 50,000)³, the abolishment of this requirement seems not to have any effect on the investment environment.

Table 6.3 The Relative Impact of Tax and Legal Changes on FDI Environment

Tax and legal changes	Rank	Mean	SD
Reduction of the applicable corporate tax rate	1	4.51	0.73
Introduction of 100% tax deduction opportunity on the R & D investments	2	3.90	0.96
Introduction of clear, understandable and objective criteria on transfer pricing and thin capitalization rules	3	3.88	0.67
Facilitating the procedures of establishing companies with foreign capital in Turkey	4	3.73	0.75
Adoption of the inflation accounting application	5	3.55	1.08
Abolition of the obligation regarding the registration of the concerned agreements for being authorized to pay license, know-how, technical assistance and franchise payments	6	3.51	0.80
Abolition of the permission receipt requirement for establishing a company or opening of a branch with foreign capital	7	3.49	0.77
Abolition of the requirement imposed on companies with foreign capital for permission receipt in applications concerning investments, capital increase operations, introduction of amendments in the articles of association	8	3.45	0.85
Offering various tax advantages on investments made in the 49 least developed provinces of Turkey	9	3.40	0.88
Granting tax exemption on the gains derived from the investments made in the technological development zones	10	3.40	0.83
Regulation through law of a provision that companies with foreign capital shall be granted equal rights with companies established with domestic capital	11	3.36	0.92
Abolition of the minimum capital requirement for establishing a company with foreign capital in Turkey	12	3.12	1.08

Notes:

1. The mean is the average on a scale of 1 (= “not at all”) to 5 (= “too much”).
2. SD = standard deviation

³ Regardless of ownership structure, the minimum capital requirement for joint stock companies and limited liable companies is YTL 50,000 and YTL 5,000, respectively.

6.4.1.1. The Impact of Tax and Legal Changes on FDI Environment and Ownership Pattern of the Foreign Equity

Appendix Table 6.1 shows that there is no relation between the tax and legal changes introduced in Turkey and the ownership pattern of foreign equity. All variables have p-values greater than 0.05, which indicates that there is no support for H1. This result shows that although tax and legal changes introduced within the last five years are considered to have a significant impact on FDI environment in Turkey, this significance does not vary with the ownership pattern of foreign equity.

6.4.1.2. The Impact of Tax and Legal Changes on FDI Environment and Country of Origin of the Foreign Equity

Appendix Table 6.2 shows that there is no relation between the tax and legal changes introduced in Turkey and the country of origin of foreign equity. All variables have p-values greater than 0.05, which indicates that there is no support for H2. This result suggests that although tax and legal changes introduced within the last five years are considered to have a significant impact on FDI environment in Turkey, this significance does not vary with the country of origin of foreign equity.

6.4.1.3. The Impact of Tax and Legal Changes on FDI Environment and Industry of the Foreign Equity

Appendix Table 6.3 shows that there is no relation between the tax and legal changes introduced in Turkey and the industry of foreign equity in Turkey. All

variables have p-values greater than 0.05, which indicates that there is no support for H3. This result reveals that although tax and legal changes introduced within the last five years are considered to have a significant impact on FDI environment in Turkey, this significance does not vary with the industry of the investment in Turkey.

6.4.1.4. The Impact of Tax and Legal Changes on FDI Environment and Capital Size of the Foreign Equity

Appendix Table 6.4 shows that four variables, “Abolition of the obligation regarding the registration of the concerned agreements for being authorized to pay license, know-how, technical assistance and franchise payments” ($p < 0.05$), “Introduction of clear, understandable and objective criteria on transfer pricing and thin capitalization rules” ($p < 0.05$), “Offering various tax advantages on investments made in the 49 least developed provinces of Turkey” ($p < 0.01$), and “Granting tax exemption on the gains derived from the investments made in the technological development zones” ($p < 0.05$) are significant in relation to capital size of foreign equity in Turkey. Although the remaining variables have p-values greater than 0.05, the cumulative p-value is 0.01, which indicates that there is strong support for H4. The relative impact of tax and legal changes on FDI environment is perceived more strongly by the companies with high capital size compared to companies with low and medium capital size.

6.4.1.5. The Impact of Tax and Legal Changes on FDI Environment and Employee Size of the Foreign Equity

Appendix Table 6.5 shows that three variables, “Facilitating the procedures of establishing companies with foreign capital in Turkey” ($p < 0.05$), “Abolition of the

permission receipt requirement for establishing a company or opening of a branch with foreign capital” ($p < 0.05$) and “Offering various tax advantages on investments made in the 49 least developed provinces of Turkey” are significant in relation to employee size of foreign equity in Turkey. The relative impact of these changes on FDI environment seems to be perceived more strongly for the companies with high and low employee size compared to the companies with medium employee size. The remaining variables have p-values greater than 0.05 and the cumulative p-value is 0.252. This result shows that the impact of tax and legal changes does not vary with the employee size of investment. Therefore, H5 is rejected.

6.4.1.6. The Impact of Tax and Legal Changes on FDI Environment and Sales

Volume of the Foreign Equity

Appendix Table 6.6 shows that only one variable, “Abolition of the obligation regarding the registration of the concerned agreements for being authorized to pay license, know-how, technical assistance and franchise payments” ($p < 0.05$) is significant in relation to sales volume of foreign equity in Turkey. Companies with high sales volume consider this change in the legislation to have a significant impact on FDI environment. The remaining variables have p-values greater than 0.05 and the cumulative p-value is 0.408. This result shows that the impact of tax and legal changes does not vary with the net sales of investment. Therefore, H6 is rejected.

6.4.1.7. The Impact of Tax and Legal Changes on FDI Environment and Entry Year of the Foreign Equity

Appendix Table 6.7 shows that there is no relation between the tax and legal changes introduced in Turkey and the entry year of foreign equity to Turkey. All

variables have p-values greater than 0.05, which indicates that there is no support for H7. This result reveals that although tax and legal changes introduced within the last five years are considered to have a significant impact on FDI environment in Turkey, this significance does not vary with the entry year of foreign equity.

6.4.2. The Impact of Tax and Legal Changes on Business Plans

The rank order of the impact of tax and legal changes on the business plans is shown in the Table 6.4. “Reduction of the applicable corporate tax rate” (3.96) is perceived as the most significant change that will affect the business plans of the FDI realized in Turkey. The reduction of corporate tax rate from 30% to 20% effective 2006, has decreased the effective tax load of investments dramatically. Therefore, it is not surprising to see that foreign investors ranked this change as number one. The relative impact of “Introduction of clear, understandable and objective criteria on transfer pricing and thin capitalization rules” (3.44) is also high. The introduction of unambiguous rules for transactions concluded with associated parties seems to affect the business plans of existing foreign investors in Turkey. “Introduction of 100% tax deduction opportunity on the R & D investments” (2.95) is an important tax advantage for companies involved in R&D activities in Turkey. Therefore, this advantage may result in multinational enterprises to carry on their R&D activities in Turkey. “Adoption of the inflation accounting application” (2.93) has a moderate impact on the business plans of foreign investors. Prior to introduction of inflation accounting, companies with foreign capital even pay taxes over their capital due to devaluation of Turkish Lira. With the application of inflation accounting, such a situation is not applicable any more.

“Abolition of the requirement imposed on companies with foreign capital for permission receipt in applications concerning investments, capital increase operations, introduction of amendments in the articles of association” (2.78), “Regulation through law of a provision that companies with foreign capital shall be granted equal rights with companies established with domestic capital” (2.78) and “Abolition of the requirement imposed on companies with foreign capital for permission receipt in applications concerning investments, capital increase operations, introduction of amendments in the articles of association” (2.60) will have a low impact on the business plans.

The last group of changes (8 to 12) does not have any impact on business plans of foreign investors in Turkey. Four of these changes (“Abolition of the permission receipt requirement for establishing a company or opening of a branch with foreign capital” (2.37), “Abolition of the minimum capital requirement for establishing a company with foreign capital in Turkey” (2.12), “Offering various tax advantages on investments made in the 49 least developed provinces of Turkey” (2.04) and “Facilitating the procedures of establishing companies with foreign capital in Turkey” (2.00)) are related to new investment. In this sense, these changes do not offer any advantages to companies that are already established. As stated previously, because activities that can be involved in technological development zones are limited, granting tax exemption does not affect the business plans.

Table 6.4 The Relative Impact of Tax and Legal Changes on Business Plans

Tax and Legal Changes	Rank	M	SD
Reduction of the applicable corporate tax rate	1	3.96	0.87
Introduction of clear, understandable and objective criteria on transfer pricing and thin capitalization rules	2	3.44	0.91
Introduction of 100% tax deduction opportunity on the R & D investments	3	2.95	1.54
Adoption of the inflation accounting application	4	2.93	1.19
Abolition of the obligation regarding the registration of the concerned agreements for being authorized to pay license, know-how, technical assistance and franchise payments	5	2.78	1.17
Regulation through law of a provision that companies with foreign capital shall be granted equal rights with companies established with domestic capital	6	2.78	1.06
Abolition of the requirement imposed on companies with foreign capital for permission receipt in applications concerning investments, capital increase operations, introduction of amendments in the articles of association	7	2.60	1.05
Abolition of the permission receipt requirement for establishing a company or opening of a branch with foreign capital	8	2.37	0.96
Abolition of the minimum capital requirement for establishing a company with foreign capital in Turkey	9	2.12	1.14
Offering various tax advantages on investments made in the 49 least developed provinces of Turkey	10	2.04	1.20
Granting tax exemption on the gains derived from the investments made in the technological development zones	11	2.04	1.18
Facilitating the procedures of establishing companies with foreign capital in Turkey	12	2.00	0.91

Notes:

1. The mean is the average on a scale of 1 (= “not at all”) to 5 (= “too much”).
2. SD = standard deviation

6.4.2.1. The Impact of Tax and Legal Changes on Business Plans and Ownership

Pattern of the Foreign Equity

Appendix Table 6.8 shows that three variables, “Abolition of the obligation regarding the registration of the concerned agreements for being authorized to pay license, know-how, technical assistance and franchise payments” ($p < 0.05$),

“Introduction of 100% tax deduction opportunity on the R & D investments” ($p < 0.05$) and “Granting tax exemption on the gains derived from the investments made in the technological development zones” ($p < 0.05$) are significant in relation to the ownership pattern of foreign equity. The relative impact of these changes on business plans of firms is high for joint ventures compared to wholly-owned subsidiaries. The remaining variables have p-values greater than 0.05 and the cumulative p-value is 0.081, which indicates that there is no support for H8. This result reveals that although tax and legal changes introduced within the last five years are considered to have a moderate impact on business plans of firms with foreign capital in Turkey, this impact does not vary with the ownership pattern of foreign equity.

6.4.2.2 The Impact of Tax and Legal Changes on Business Plans and Country of Origin of the Foreign Equity

Appendix Table 6.9 shows that two variables, “Offering various tax advantages on investments made in the 49 least developed provinces of Turkey” ($p < 0.05$) and “Granting tax exemption on the gains derived from the investments made in the technological development zones” ($p < 0.05$) are significant in relation to the country of origin of foreign equity. While the relative impact of the former change on business plans is high for the companies coming from western countries compared to non-western countries, this situation is reverse for the latter change. The remaining variables have p-values greater than 0.05 and the cumulative p-value is 0.789 which indicates that there is no support for H9. This result reveals that although tax and legal changes introduced within the last five years are considered to

have a moderate impact on business plans of firms with foreign capital in Turkey, this impact does not vary with the country of origin of foreign equity.

6.4.2.3 The Impact of Tax and Legal Changes on Business Plans and Industry of the Foreign Equity

Appendix Table 6.10 shows that three variables, “Abolition of the obligation regarding the registration of the concerned ($p < 0.05$), agreements for being authorized to pay license, know-how, technical assistance and franchise payments”, “Introduction of 100% tax deduction opportunity on the R & D investments” ($p < 0.01$) and “Granting tax exemption on the gains derived from the investments made in the technological development zones” ($p < 0.001$) are significant in relation to the industry of foreign equity. The relative effect of the first change on business plans is high for the manufacturing companies compared to other two industry groups. However, the relative effects of the second and third change on business plans are high for information and communication technology companies. This result is not surprising because license, know-how, technical assistance and franchise payments are more common for manufacturing companies. Therefore, the abolition of the requirement for the permission of these payments is more welcomed by manufacturing companies. On the other hand, companies involving in information and communication technology have higher R&D investments and therefore, the benefit to be derived by these companies from a tax deduction for R&D investments will be higher. Moreover, the advantage regarding the tax exemption granted to technological development zones will be derived more by information and communication technology companies. The remaining variables have p-values

greater than 0.05 and the cumulative p-value is 0.386, which indicates that there is no support for H10. This result reveals that although tax and legal changes introduced within the last five years are considered to have a moderate impact on business plans of firms with foreign capital in Turkey, this impact does not vary with the industry of the investment in Turkey.

6.4.2.4 The Impact of Tax and Legal Changes on Business Plans and Capital Size of the Foreign Equity

Appendix Table 6.11 shows that three variables, “Abolition of the obligation regarding the registration of the concerned agreements for being authorized to pay license, know-how, technical assistance and franchise payments” ($p < 0.01$), “Introduction of 100% tax deduction opportunity on the R & D investments” ($p < 0.01$) and “Offering various tax advantages on investments made in the 49 least developed provinces of Turkey” ($p < 0.05$) are significant in relation to capital size of investment in Turkey. Because the relative benefit to be derived from these changes is high for the companies with high capital size, these changes seems to have a higher impact on the business plans of the firms with high capital size compared to the firms with low and medium-size capital. Although the remaining variables have p-values greater than 0.05, the cumulative p-value is 0.007, which indicates that there is strong support for H11.

6.4.2.5 The Impact of Tax and Legal Changes on Business Plans and Employee Size of the Foreign Equity

Appendix Table 6.12 shows that six variables, “Facilitating the procedures of establishing companies with foreign capital in Turkey” ($p < 0.05$), “Abolition of the requirement imposed on companies with foreign capital for permission receipt in applications concerning investments, capital increase operations, introduction of amendments in the articles of association” ($p < 0.05$), “Abolition of the obligation regarding the registration of the concerned agreements for being authorized to pay license, know-how, technical assistance and franchise payments” ($p < 0.01$), “Introduction of 100% tax deduction opportunity on the R & D investments” ($p < 0.01$), “Offering various tax advantages on investments made in the 49 least developed provinces of Turkey” ($p < 0.05$) and “Granting tax exemption on the gains derived from the investments made in the technological development zones” ($p < 0.01$) are significant in relation to employee size of investment in Turkey. Because the relative benefit deriving from these changes is high for the companies with high employee size, these changes seem to have a higher impact on the business plans of the firms with high employee size compared to the firms with low and medium employee size. The remaining six variables have p-values greater than 0.05 and the cumulative p-value is 0.004. This result shows that the impact of tax and legal changes on business plans varies with the employee size of foreign equity. Therefore, H12 is accepted.

6.4.2.6 The Impact of Tax and Legal Changes on Business Plans and Sales Volume of the Foreign Equity

Appendix Table 6.13 shows that four variables, “Abolition of the obligation regarding the registration of the concerned agreements for being authorized to pay license, know-how, technical assistance and franchise payments” ($p < 0.01$), “Introduction of 100% tax deduction opportunity on the R & D investments” ($p < 0.05$) “Offering various tax advantages on investments made in the 49 least developed provinces of Turkey” ($p < 0.01$), “Granting tax exemption on the gains derived from the investments made in the technological development zones” ($p < 0.01$) are significant in relation to net sales of investment in Turkey. Since the relative benefit to be derived from these changes is high for the companies with high sales volume, these changes seems to have a higher impact on the business plans of the firms with high sales volume compared to the firms with low and medium sales volume. The remaining variables have p-values greater than 0.05 and the cumulative p-value is 0.005. This result shows that the impact of tax and legal changes on business plans varies with the sales volume of foreign equity. Therefore, H6 is accepted.

6.4.2.7 The Impact of Tax and Legal Changes on Business Plans and Entry Year of the Foreign Equity

Appendix Table 6.14 shows that there is no relation between the tax and legal changes introduced in Turkey and the entry year of foreign equity to Turkey. All variables have p-values greater than 0.05, which indicates that there is no support for

H14. This result reveals that although tax and legal changes introduced within the last five years are considered to have a moderate impact on business plans of firms with foreign capital in Turkey, this impact does not vary with the entry year of foreign equity.

6.5 Conclusion

This chapter identifies the tax and legal changes introduced within the last five years in Turkey to attract foreign direct investment. It also investigates the impact of these changes on FDI environment and business plans and whether this impact varies with ownership pattern, country of origin, industry of investment, size of investment and entry year of investment.

The present study finds that the impact of tax and legal changes on the FDI environment in Turkey is quite strong. However, the impact of these changes on business plans of firms which already invested in Turkey is quite limited except for reduction in corporate income tax rate. The reason for difference mainly stems from the nature of the changes introduced: The majority of these changes offer certain incentives to new investments, but not much to the existing investments. In other words, the aim of these changes is to present an attractive environment for potential investments, not to satisfy the investments already made.

Testing of hypotheses 1 to 7 indicates that the impact of tax and legal changes on FDI environment does not vary with the ownership pattern, country of origin, industry of investment, employee size of investment, sales of investment and entry year of investment, but with capital size of investment. Compared to the companies

with medium and low capital size, the companies with high capital size consider that the introduced changes to have a higher impact on the FDI environment.

Testing of hypotheses 8 to 14 indicates that the impact of tax and legal changes on business plans of existing firms varies with capital size of investment, employee size of investment and sales size of investment. The companies which have high capital size, high employee size and/or high sales volume think that the introduced changes have more impact on their business plans compared to the companies which have low and medium capital size, employee size and sales turnover. However, the study finds no support for ownership pattern, country of origin, industry of investment and entry year of investment.

CHAPTER 7

CONCLUSION

7.1 Introduction

In the previous three chapters, we examined the locational factors that influence the foreign direct investment (FDI) decisions in Turkey, the problems that affect the FDI environment of Turkey and firms' operations and the impact of the tax and legal changes introduced in the last five years on the FDI environment and business plans of existing firms with foreign capital. In this chapter, we will summarize the findings and present pertaining policy implications, limitations and areas of further research.

7.2 Background of the Study

Even though “over the last 30 years world capitalism has undergone major transformations”, there has been no widespread consensus among scholars on the formations and outcomes of the late global phase in capital flows. (Arrighi, 2001/2002, p. 469). As for the impact of this transformation on foreign direct investment (FDI) on a global scale, the most recent data from UNCTAD (2008) shows the continuing expansion of “the production of goods and services by an estimated 79,000 TNCs and their 790,000 foreign affiliates” (p. xvi). In 2007, moreover, while the total sales of the TNCs reached \$31 trillion and their number of employees near 82 million, their FDI stock went above \$15 trillion (UNCTAD,

2008). The data also reveal that although FDI inflows were expected to decline in 2007 due to the current economic crisis, the worldwide FDI inflows came to \$1.8 trillion in 2007. The share of developing countries was nearly \$500 billion, which showed a 21 percent increase compared to 2006. The increase in FDI has mainly stemmed from the “relatively high economic growth and strong corporate performance in many parts of the world” (p. xv). Approximately 30% of total FDI inflows were in the form of “reinvested earnings” from “increased profits of foreign affiliates, notably in developing countries” (p. xv).

As a developing country, Turkey has not been successful in accomplishing the desired objectives regarding foreign capital investments since it has opened its economy to international investments in 1980. However, Turkey began to increase its FDI share starting from 2001. The FDI inflows to Turkey were \$3.35, \$1.13, \$1.75 and \$2.88 billion for the years 2001, 2002, 2003 and 2004, respectively. The FDI inflows in 2005, 2006 and 2007 were much higher than previous years. These figures eventuated as \$10.03, \$19.92 and \$21.87 billion in 2005, 2006 and 2007, respectively (GDFI, 2008). Consequently, the FDI stock of Turkey reached \$146 billion as of 2007 (UNCTAD, 2008).

This study aimed to identify the influence of locational factors of Turkey on the investment decisions of FDI made in Turkey. Because FDI performance is not independent of the FDI environment, we also investigated the problems that affect this environment and firms’ operations negatively. Moreover, Turkey has introduced a number of radical changes in the legal and tax legislation which are also expected to have an impact on the improvement of FDI environment and business plans of existing firms with foreign capital. Accordingly, our study explored answers to the issues above.

7.3 Theoretical Perspectives on MNEs and FDI

There are mainly five perspectives that explain the MNEs and their foreign investment activities. These perspectives are industrial organization models, product cycle model, internationalization theory, transaction cost approach and internalization theory and Dunning's eclectic paradigm.

Industrial organization model is developed from Hymer's work (1960, 1976). Hymer's essential argument is that "portfolio investment" is inadequate in accounting for FDI and that there is an "association between market failure and FDI" (Yamin, 1991, p. 65) in that the movements of the latter are triggered by the former.

The product cycle theory (PCT) of Vernon (1966) aims to explain the life cycle of a product and its effect on international trade. Vernon identifies three stages for the life of a product and argues that production locations change according to these stages, namely the new product stage, the maturing product stage and the standardized product stage.

Defining internationalization as the "process in which the firms gradually increase their international involvement," the internationalization theory concentrates on the developmental phases of the individual firm by tracking its "gradual acquisition, integration, and use of knowledge about foreign markets and operations" and its eventual "commitment to foreign markets" (Johanson and Vahlne, 1977, p. 23).

Internalization theory explains the emergence of MNEs in terms of "economic rationale" (Beamish and Banks, 1987, p. 2). This theory is based on two premises: "(1) Firms choose the least cost location for each activity they perform, and (2) firms grow by internalizing markets up to the point where the benefits of further internalization are outweighed by the costs" (Buckley, 1988, pp. 181-182).

Finally, the eclectic paradigm maintains that “the extent, geography and industrial composition of foreign production undertaken by MNEs is determined by the interaction of three sets of interdependent variables” (Dunning, 2000, p. 163); namely, ownership specific advantages, location specific advantages and internalization specific advantages.

7.4 Methodology

We have employed both qualitative and quantitative methods in this study. We began our study by an extensive literature review. This review provided us with a general understanding of the main theories of MNEs and FDI, the factors influencing FDI, the difficulties faced by investors, and the institutions necessary for FDI activity. To gain a deeper understanding of fundamental issues of FDI in Turkey, we arranged three semi-structured interviews with the leading names in Turkish business world: One interview with the Chairman of YASED and other two interviews with the general managers of two leading MNEs operating in Turkey.

We developed a questionnaire based on the on the extensive literature review, in-depth interviews we conducted and the previous questionnaires dealing with these issues in the quantitative stage of our study. Then we discussed the preliminary questionnaire with three academicians experienced in designing survey questionnaire. Based on their comments, we revised the preliminary questionnaire and constituted the draft version of the questionnaire. For in order to ensure that “the series of questions” serve the purposes of the study, it is essential to check the functionality and robustness of the questionnaire and to find ways of revising it where necessary (Blankenship et al, 1998, p. 200). Therefore, we conducted seven pilot studies to make sure that the main issues of the study are understood by potential respondents and that there is no unclear

or ambiguous point regarding the questions and statements in the questionnaire. Based on the information provided in the pilot studies and the comments we received from the respondents who filled these questionnaires, we finalized the questionnaire by making necessary modifications and adjustments. The validity and reliability of the questionnaire were also assessed at this stage.

The target population of our study consists of the firms with foreign capital that invested in Turkey in the form of foreign direct investment. The total number of firms recorded by the Undersecretariat of Treasury as firms with foreign capital is 18,308 as of December 31, 2007 (GDFI, 2008). As the sample for our study we chose senior managers/expatriates of firms that are members of YASED (Foreign Investors Association) which has a total of 265 international companies under its umbrella. We administered our questionnaire through e-mail and at the end we had 73 completed questionnaires which correspond to a 27.5% response rate.

All the answers in the questionnaires were entered into computer in compliance with the coding we determined for analysis. Prior to analysis, the data were also examined for normality, linearity and missing values.

7.5 Summary of Findings

In this section, we will present the summary of findings of this study. Table 7.1, presented at the end of this section, summarizes the research hypotheses of each chapter, the acceptance/rejection of each hypothesis and the type of analysis used to test the hypothesis.

7.5.1 Determinants of Foreign Direct Investment in Turkey

This study aimed to identify the locational factors that influence the FDI decisions of foreign equities in Turkey. Based on literature review, in-depth interviews and previous questionnaires dealing with this issue, we identified 19 locational factors. First, a rank order of these 19 locational factors was examined. Next, varimax rotation factor analysis was administered to extract the underlying factors. Then, the relationship between the relative importance of these factors and the independent variables of the sample (including ownership pattern, mode of entry, industry, and size) was tested.

The study reveals that market size and growth rate of the economy are perceived by respondents to have the highest degree of importance in choosing Turkey as direct investment location. This result is parallel to previous empirical research by Scaperlanda and Mauer (1969); Kobrin (1979); Root and Ahmet (1979); Dunning (1980); Schneider and Frey (1985); Billington (1999); Zhang (2000). Market potential is also identified by Tatoğlu (1994), Erden (1996), Tatoglu and Glaister (1998) and Coşkun (2001) as the most important locational factor in the FDI decisions of foreign equities in Turkey. Turkey's geographical proximity and access to potential markets are two additional location-specific factors of high importance. The study showed that Turkey's attitude towards FDI, trade barriers, government incentives, Turkey's European candidacy and degree of unionization cannot be deemed as important factors.

Varimax rotation factor analysis revealed five underlying factors which explained 60.1 % of the observed variance. These five factors were grouped as

follows: *infrastructure and comparative cost advantages, government policies, investment risk, strategic locational advantages, market conditions.*

Testing hypotheses H1 to H9 of this chapter revealed that the locational factors of Turkey does not vary with mode of entry, country of origin, employee size, entry year and existence of prior relations of foreign equity, but with the ownership pattern, industry, capital size, and sales volume of foreign equity.

7.5.2 Problems and Their Impact on FDI Environment and Firms' Operations

The second objective of this study was to identify the problems which influence the FDI environment of Turkey and firms' operations negatively. Based on literature review, in-depth interviews and previous questionnaires dealing with this issue, we identified 20 problems. First, a rank order of these 20 problems was examined according to their influence on the FDI environment and on the firms' operations. Next, the pace of progress in the solution of these problems and the possibility of these problems being solved in the future were also investigated. Then, the relationship between these problems and the independent variables of the sample (including ownership pattern, industry, and size) was tested.

The study revealed that uncertainty of the macroeconomy is the most serious problem that affects the FDI environment. This problem is also identified in the study of Erden (1996). The bureaucratic burden, volatility of the political environment and frequent changes in business legislation and rules are other serious problems affecting the FDI environment of Turkey. Firms' operations are most seriously impacted by frequent changes in business legislation and rules. Moreover, the study indicates that the investors are not satisfied with the pace of progress

achieved in the solution of these problems in comparison to their entry date and are also pessimistic about the possibility of the problems being solved in the future.

Testing hypotheses 1 to 14 reveals that the influence of these problems on the FDI environment of Turkey and on the firms' operations do not vary with the ownership pattern, country of origin, industry, capital size, employee size, sales volume and entry year of foreign equity. Testing hypotheses 15 to 21 shows that the pace of achieved progress varies with capital size and employee size of foreign equity. Testing hypotheses 22 to 28 indicates that the possibility of prospective solutions in the oncoming five-year period varies with only capital size of foreign equity.

7.5.3 Tax and Legal Changes and Their Impact on FDI Environment and Business Plans

One of the major objectives of this study was to evaluate the impact of tax and legal changes introduced within the last five years, on the FDI environment and on the business plans of the firms with foreign capital. Based on literature review and in-depth interviews, we identified 12 tax and legal changes. First, a rank order of these 12 tax and legal changes was examined according to their impact on the FDI environment and business plans of the firms. Next, varimax rotation factor analysis was administered to extract the underlying factors. Then, the relationship between the relative importance of these changes and the independent variables of the sample (including ownership pattern, industry, and size) was tested.

The study reveals that the reduction in the corporate tax rate is the most important change that has a positive impact both on the FDI environment and

business plans of firms. Moreover, the impact of these changes introduced in the legal and tax legislation on the FDI environment is more evident than the impact on the business plans of firms. The reason for this difference mainly stems from the nature of the changes introduced: the majority of these changes are favorable to new investments, but not so to existing firms. In other words, the aim of these changes is to present an attractive environment for potential investments, not so much as to satisfy the investments already made.

Varimax rotation factor analysis revealed three underlying factors which explained the 63.2 % of the observed variance. These three factors were grouped as follows: *legal changes*, *direct tax changes*, *indirect tax changes*.

Testing hypotheses 1 to 7 shows that the impact of tax and legal changes on FDI environment varies with the capital size of foreign equity. Testing hypotheses 8 to 14 indicates that the impact of tax and legal changes on business plans of existing firms varies with capital size, employee size and sales volume of foreign equity.

Table 7.1 Summary of Hypotheses

Subject	Hypothesis	Result	Statistical Test
Determinants of Foreign Direct Investment in Turkey (Chapter 4)	H1: The relative importance of locational factors on foreign direct investment decision will vary with the ownership pattern of the foreign equity.	Accepted	Two-sample <i>t</i> -test
	H2: The relative importance of locational factors on foreign direct investment decision will vary with the mode of entry of the foreign equity.	Rejected	Two-sample <i>t</i> -test
	H3: The relative importance of locational factors on foreign direct investment decision will vary with the country of origin of the foreign equity.	Rejected	Two-sample <i>t</i> -test
	H4: The relative importance of locational factors on foreign direct investment decision will vary with the industry of the foreign equity.	Accepted	ANOVA
	H5: The relative importance of locational factors on foreign direct investment decision will vary with the capital size of the foreign equity.	Accepted	ANOVA
	H6: The relative importance of locational factors on foreign direct investment decision will vary with the employee size of the foreign equity.	Rejected	ANOVA
	H7: The relative importance of locational factors on foreign		

	<p>direct investment decision will vary with the sales volume of the foreign equity.</p> <p>H8: The relative importance of locational factors on foreign direct investment decision will vary with the entry year of the foreign equity.</p> <p>H9: The relative importance of locational factors on foreign direct investment decision will vary with the existence of previous relations of the foreign equity.</p>	<p>Accepted</p> <p>Rejected</p> <p>Rejected</p>	<p>ANOVA</p> <p>Two-sample <i>t</i>-test</p> <p>Two-sample <i>t</i>-test</p>
<p>Foreign Direct Investment Environment of Turkey (Chapter 5)</p>	<p>H1: The relative seriousness of the problems on the foreign direct investment environment will vary with the ownership pattern of the foreign equity.</p> <p>H2: The relative seriousness of the problems on the foreign direct investment environment will vary with the country of origin of the foreign equity.</p> <p>H3 The relative seriousness of the problems on the foreign direct investment environment will vary with the industry of the foreign equity.</p> <p>H4: The relative seriousness of the problems on the foreign direct investment environment will vary with the capital size of the foreign equity.</p>	<p>Rejected</p> <p>Rejected</p> <p>Rejected</p> <p>Rejected</p>	<p>Two-sample <i>t</i>-test</p> <p>Two-sample <i>t</i>-test</p> <p>ANOVA</p> <p>ANOVA</p>

H5: The relative seriousness of the problems on the foreign direct investment environment will vary with the employee size of the foreign equity.	Rejected	ANOVA
H6: The relative seriousness of the problems on the foreign direct investment environment will vary with the sales volume of the foreign equity.	Rejected	ANOVA
H7: The relative seriousness of the problems on the foreign direct investment environment will vary with the entry year of the foreign equity.	Rejected	Two-sample <i>t</i> -test
H8: The relative seriousness of the problems on the firms' plans will vary with the ownership pattern of the foreign equity.	Rejected	Two-sample <i>t</i> -test
H9: The relative seriousness of the problems on the firms' plans will vary with the country of origin of the foreign equity.	Rejected	Two-sample <i>t</i> -test
H10: The relative seriousness of the problems on the firms' plans will vary with the industry of the foreign equity.	Rejected	ANOVA
H11: The relative seriousness of the problems on the firms' plans will vary with the capital size of the foreign equity.	Rejected	ANOVA
H12: The relative seriousness of the problems on the firms' plans will vary with the employee size of the foreign equity.	Rejected	ANOVA

H13: The relative seriousness of the problems on the firms' plans will vary with the sales volume of the foreign equity.	Rejected	ANOVA
H14: The relative seriousness of the problems on the firms' plans will vary with the entry year of the foreign equity.	Rejected	Two-sample <i>t</i> -test
H15: Compared to the date of entry, the progress achieved in the solution of the problems will vary with the ownership pattern of the foreign equity.	Rejected	Two-sample <i>t</i> -test
H16: Compared to the date of entry, the progress achieved in the solution of the problems will vary with the country of origin of the foreign equity.	Rejected	Two-sample <i>t</i> -test
H17: Compared to the date of entry, the progress achieved in the solution of the problems will vary with the industry of the foreign equity.	Rejected	ANOVA
H18: Compared to the date of entry, the progress achieved in the solution of the problems will vary with the capital size of the foreign equity.	Accepted	ANOVA
H19: Compared to the date of entry, the progress achieved in the solution of the problems will vary with the employee size of the foreign equity.	Accepted	ANOVA
H20: Compared to the date of entry, the progress achieved in the solution of the problems will vary with the sales volume	Rejected	ANOVA

of the foreign equity. H21: Compared to the date of entry, the progress achieved in the solution of the problems will vary with the entry year of the foreign equity.	Rejected	Two-sample <i>t</i> -test
H22: In the oncoming five-year period, the possibility of prospective solutions will vary with the ownership pattern of the foreign equity.	Rejected	Two-sample <i>t</i> -test
H23: In the oncoming five-year period, the possibility of prospective solutions will vary with the country of origin of the foreign equity.	Rejected	Two-sample <i>t</i> -test
H24: In the oncoming five-year period, the possibility of prospective solutions will vary with the industry of the foreign equity.	Rejected	ANOVA
H25: In the oncoming five-year period, the possibility of prospective solutions will vary with the capital size of the foreign equity.	Accepted	ANOVA
H26: In the oncoming five-year period, the possibility of prospective solutions will vary with the employee size of the foreign equity.	Rejected	ANOVA
H27: In the oncoming five-year period, the possibility of prospective solutions will vary with the sales volume of the	Rejected	ANOVA

	<p>foreign equity.</p> <p>H28: In the oncoming five-year period, the possibility of prospective solutions will vary with the entry year of the foreign equity.</p>	Rejected	Two-sample <i>t</i> -test
Tax and Legal Changes (Chapter 6)	<p>H1: The relative impact of tax and legal changes on the foreign direct investment environment will vary with the ownership pattern of the foreign equity.</p> <p>H2: The relative impact of tax and legal changes on the foreign direct investment environment will vary with the country of origin of the foreign equity.</p> <p>H3: The relative impact of tax and legal changes on the foreign direct investment environment will vary with the industry of the foreign equity.</p> <p>H4: The relative impact of tax and legal changes on the foreign direct investment environment will vary with the capital size of the foreign equity.</p> <p>H5: The relative impact of tax and legal changes on the foreign direct investment environment will vary with the employee size of the foreign equity.</p> <p>H6: The relative impact of tax and legal changes on the</p>	<p>Rejected</p> <p>Rejected</p> <p>Rejected</p> <p>Accepted</p> <p>Rejected</p>	<p>Two-sample <i>t</i>-test</p> <p>Two-sample <i>t</i>-test</p> <p>ANOVA</p> <p>ANOVA</p> <p>ANOVA</p>

	foreign direct investment environment will vary with the sales volume of the foreign equity.	Rejected	ANOVA
	H7: The relative impact of tax and legal changes on the foreign direct investment environment will vary with the entry year of the foreign equity.	Rejected	Two-sample <i>t</i> -test
	H8: The relative impact of tax and legal changes on the firms' plans will vary with the ownership pattern of the foreign equity.	Rejected	Two-sample <i>t</i> -test
	H9: The relative impact of tax and legal changes on the firms' plans will vary with the country of origin of the foreign equity.	Rejected	Two-sample <i>t</i> -test
	H10: The relative impact of tax and legal changes on the firms' plans will vary with the industry of the foreign equity.	Rejected	ANOVA
	H11: The relative impact of tax and legal changes on the firms' plans will vary with the capital size of the foreign equity.	Accepted	ANOVA
	H12: The relative impact of tax and legal changes on the firms' plans will vary with the employee size of the foreign equity.	Accepted	ANOVA
	H13: The relative impact of tax and legal changes on the firms' plans will vary with the sales volume of the foreign	Accepted	ANOVA

	equity. H14: The relative impact of tax and legal changes on the firms' plans will vary with the entry year of the foreign equity.	Rejected	Two-sample <i>t</i> -test
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7.6 Discussion

According to GDFI (2008), FDI inflows realized in Turkey amount to \$2.885 billion for 2004, \$10.029 billion for 2005, \$19.918 billion for 2006 and \$21.873 for 2007. Worldwide FDI inflows for the same period are \$648 billion (UNCTAD, 2005a), \$916 billion (UNCTAD, 2006), \$1.306 trillion (UNCTAD, 2007) and \$1.833 trillion (UNCTAD, 2008), respectively. As these figures show, the FDI inflows realized in Turkey in the last five years have in essence followed closely the global conjuncture during that time. As the most distinguishing feature of this conjuncture, investments have been realized largely through cross-border mergers and acquisitions. (UNCTAD, 2005a; UNCTAD, 2006; UNCTAD, 2007; UNCTAD, 2008). Taking into consideration that 25 firms (out of 73) in our sample were established in 2004 and after in Turkey, it is reasonable to argue that FDI inflows realized during the concerning period reflects the worldwide situation.

The successful implementation of the privatization program during this period has been a specific case to Turkey. Thus, while prior to 2003 the total sum of proceeds from privatization was \$7.810 billion, privatization figure realized as \$1.206 billion in 2004, \$3.031 billion in 2005, \$9.580 billion in 2006 and \$8.817 billion in 2007 (PA, 2008). Considering the significant share of FDI investments in privatization revenues, it is reasonable to make the case that the FDI inflows received by Turkey in recent years have gone hand in hand with the global trends in cross-border mergers, acquisitions and privatization.

In this regard, we can predict that in parallel with the current global financial crisis, FDI inflows to Turkey will come to a standstill in 2009 and subsequent years.

One of the important findings of this study is that the investors who participated in our questionnaire did not attribute great value to Turkey's EU membership in their investment decisions. In accordance with a resolution adopted on December 17, 2004, Turkey officially resumed EU accession negotiations effective October 3, 2005. With the membership bid, there was a strong public opinion that the FDI inflows to Turkey would increase considerably. However, we observe that Turkey's EU membership bid is ranked 17th out of 19 factors (with a 2.71 mean) in the investment decisions of the participants in our sample. By the same token, when we consider the fact that market size and growth rate of economy rank top two in the decision process, it appears that instead of a firm business environment, foreign investors in Turkey prioritize factors that are risky but have high returns. In this respect, it is plausible to make the case that the FDI inflows to Turkey aim to benefit from market opportunities in medium term, without any long term projections.

Another finding in this study is that foreign equities consider that the progress in the solution of the problems presented in the questionnaire compared to the entry date of foreign equity to Turkey is generally little. However, the hypothesis testing reveals that the foreign equities with high capital size and high employee size attribute greater significance to this little progress. In other words, the foreign equities with high capital and employee size deem the pace of progress to be more satisfactory compared to the foreign equities with low and medium capital and employee size. A similar finding was observed in the perception about the possibility of prospective solutions in the oncoming five-year period. The foreign equities in Turkey consider that the possibility of prospective solutions for the problems presented in the questionnaire is generally low. However, the hypothesis testing reveals that the foreign equities with high capital size

are relatively more optimistic about the solution of these problems in the next five years. In this sense, it is reasonable to argue that big investments are relatively more optimistic about the progress achieved and the possibility of prospective solutions. Although all firms share the same problems, it is possible to speculate that big investments take greater initiative to solve the problems they encounter and in case of necessity, even push legal constraints to the limit in order to eliminate them.

7.7 Contribution of the Study

This study provides an empirical examination of the determinants of foreign direct investment in Turkey from the standpoint of Turkey's locational factors. It also analyzes the problems that affect the FDI environment of Turkey and firms' operations. This study explores the perception of the executives of foreign equities in Turkey about the pace of progress achieved compared to the entry date of foreign investment and their views on the possibility of solutions to these problems in the oncoming five-year period. The study also shows the impact of the tax and legal changes introduced within the last five years on the FDI environment and the business plans of existing firms with foreign capital. In terms of the issues above, this study provides new data and empirical insight for current literature.

As stated in the previous chapters, there have been radical changes in Turkey's attitude towards FDI, which led to a dramatic improvement in Turkey's FDI performance in recent years. This study illustrates the underlying reasons for the change in attitude towards the FDI and assesses the attractiveness of location-specific factors of Turkey. This study is unique in that by including the locational determinants (strengths

and opportunities), the problems (weaknesses and threats) and tax and legal changes, it provides a complete picture of FDI in Turkey.

7.8 Implications of the Study

This study conveys several implications for managers and policy makers. From managerial point of view, it identifies the location-specific factors of Turkey in terms of FDI. In this sense, managers who have investment plans for their firms in Turkey may evaluate these location-specific factors during decision making. Moreover, since the impact of Turkey's problems on the FDI environment and on firms' operations has been identified, managers may also evaluate potential effects of these problems on their investment prior to decision. This study also informs managers about the positive attitude of the government towards FDI. Moreover, this study alerts the managers to the fact that the possibility of the problems (particularly the institutional ones) being solved in near future is quite low.

This study offers valuable information to policy makers as well. First, it identifies the attractive locational factors of Turkey so that policy makers may emphasize these factors in their activities for attracting inward FDI. Two important factors to be promoted by policy makers are market size and growth rate of the economy. Second, this study reveals that contrary to expectations, government incentives have not been influential in attracting FDI. Third, the investors believe that macroeconomic instability, bureaucratic burden and delay and volatility in the political environment and frequent changes made in business legislation and rules affect FDI environment negatively. Therefore, policy makers should focus on these problems.

Moreover, the investors complain about the frequent changes in business legislation and rules and high tax burden on employment. Therefore, an improvement in the tax burden on employment and more stability in the business legislation will motivate the investors. Fifth, investors are pessimistic about the possibility of the problems being solved in the future. Therefore, more energy should be spent for the solution of the problems. Sixth, the tax and legal changes introduced within the last five years do not seem to have an impact on the business plans of the firms with foreign capital except for the reduction in the corporate tax rate. Therefore, while deciding to grant incentives, policy makers should take the sensitivities of foreign capital more into consideration.

In addition to above, as stated before, about 30% of the total FDI inflows in 2007 consisted of reinvested earnings that stemmed from the increased profits of foreign affiliates, particularly in developing countries (UNCTAD, 2008). Therefore, policy makers should also motivate existing firms to inject the profits to capital instead of profit distribution.

Finally, this study demonstrates that market potential is currently the most important factor in investment decisions. The market potential factor in turn reveals that investments are often made without necessarily taking a firm business environment into account, whereas these investments are very unlikely to extend further in the long run. Therefore, this study implies that policy makers should concentrate on the business environment for sustainable development and that stable investment is absolutely contingent upon improvements in the business environment.

7.9 Limitations of the Study

This study has several limitations. First, in identifying the relative importance of the locational factors, it was assumed that the respondents have been active in the decision making process. However, a considerable number of firms invested in Turkey before 1990s; and this implies that the likelihood of the respondent being active in the investment decision process of the concerning firm is low. Therefore, the locational factors deemed as important may reflect the current situation rather than the investment date.

A similar limitation is valid for the question evaluating the pace of progress in the solution of the problems compared to the entry date of foreign investment. The assessments of the respondents who have not started to work in the concerning company from the entry date of investment may be biased.

The third limitation is related to the knowledge of the respondent about tax and legal changes. Although, the importance of the majority of these changes are expected to be known by all executives, some changes or incentives may not be known in detail by the respondent, particularly if he or she does not have a finance/accounting background, which in turn might lead to incorrect assessments.

The fourth limitation is about the non-existing firms. Because, they are not in the sample, their evaluations about these issues, particularly about the problems were not measured.

Finally, while being informative on global FDI flows, this study did not investigate the FDI situation in countries against which Turkey is competing, such as the

East European countries, whether there are any qualitative differences between the investments received by these countries, on the one hand, and by Turkey, on the other.

7.10 Areas for Further Research

This study could not focus on several aspects of MNEs and their FDI activities in Turkey. However, these aspects deserve to be investigated in the future. As we stated before, each perspective regarding MNEs focuses on different points of foreign involvement of the MNEs. An empirical study may investigate which perspective is more successful in explaining the FDI in Turkey.

In this study, we aimed to identify the locational advantages of Turkey. A further study may explore ownership and internalization advantages of the firms invested in Turkey as well as location-specific advantages. Another research area may be the influence of the home country of the FDI on the locational decisions related to Turkey.

We did not employ case studies in this study due to time and cost constraints. Although it is difficult to generalize the implications of case studies, we believe that this method may produce valuable insight into the FDI environment in Turkey. Moreover, this study did not utilize the panel data (time series and cross-sectional) method. Further studies that would use this method may offer very informative perspectives on how concepts come into existence on a global scale.

Finally, in regard to the agency-structure relation, this study did not examine the impact of the investing firms as agents on the business environment as structure. Rather, the study was focused on the impact of the structure on agent. Therefore, further

research on the impact of investing firms on business environment—on the ways they shape, orient and contribute to the development of the business environment—will yield very remarkable results.

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APPENDICES

Appendix Table 4.1 Host Country Location Factors for Foreign Equity and Ownership Pattern

Locational Factors	Group	N	Mean	Std. Deviation	t-value	p-value
Market size	WOS	38	4.61	.59	1.832	.071
	JV	35	4.31	.76		
Growth rate of the economy	WOS	38	3.92	.67	-1.927	.058
	JV	35	4.23	.69		
Relative economic stability of Turkey	WOS	38	3.32	.96	.275	.784
	JV	35	3.26	.85		
Purchasing power of customers	WOS	38	3.39	.86	-.160	.873
	JV	35	3.43	.95		
Degree of unionization	WOS	38	2.34	.99	-1.539	.128
	JV	35	2.71	1.07		
Relative political stability of Turkey	WOS	38	3.16	1.03	-.297	.767
	JV	35	3.23	1.00		
Geographical proximity of Turkey	WOS	38	3.68	1.07	-.833	.408
	JV	35	3.89	.99		
Access to potential markets	WOS	38	3.50	1.18	-1.631	.107
	JV	35	3.94	1.14		
Government incentives	WOS	38	2.53	1.01	-1.702	.093
	JV	35	2.97	1.22		
Trade (tariff and non-tariff) barriers	WOS	38	2.68	.84	-1.429	.157
	JV	35	3.06	1.35		
Transferability of profits and capital	WOS	38	3.34	1.02	-2.178	.033
	JV	35	3.91	1.22		
Availability of quality infrastructure (transportation, communication etc.)	WOS	38	3.26	.83	-3.095	.003
	JV	35	3.86	.81		
Availability of low cost inputs	WOS	38	3.58	1.00	-.427	.671
	JV	35	3.69	1.13		
Availability of good quality inputs	WOS	38	3.47	1.08	-1.140	.258
	JV	35	3.74	.92		
The presence of previous foreign direct investment (FDI) in Turkey	WOS	38	3.00	1.14	-.769	.445
	JV	35	3.20	1.08		
The presence of companies with high potential in the privatization program and the Saving Deposit Insurance Fund (TMSF)	WOS	38	1.84	1.22	-1.573	.120
	JV	35	2.31	1.35		

Appendix Table 4.1 (continued)

Various opportunities due to the absence of a fully competitive market in Turkey	WOS	38	3.29	1.18	-.091	.927
	JV	35	3.31	1.13		
A welcoming attitude towards FDI	WOS	38	2.84	1.03	-1.096	.277
	JV	35	3.14	1.31		
Turkey's European Union candidacy	WOS	38	2.55	1.03	-1.256	.213
	JV	35	2.89	1.23		
Cumulative importance of host country locational factors	WOS	38	60.32	8.42	-2.193	.032
	JV	35	65.09	10.14		

Appendix Table 4.2 Host Country Location Factors for Foreign Equity and Mode of Entry

Locational Factors	Group	N	Mean	Std. Deviation	t-value	p-value
Market size	Greenfield	50	4.48	.65	.259	.797
	Acquisition	23	4.43	.79		
Growth rate of the economy	Greenfield	50	3.98	.74	-1.625	.109
	Acquisition	23	4.26	.54		
Relative economic stability of Turkey	Greenfield	50	3.34	.80	.726	.470
	Acquisition	23	3.17	1.11		
Purchasing power of customers	Greenfield	50	3.44	.95	.406	.686
	Acquisition	23	3.35	.78		
Degree of unionization	Greenfield	50	2.52	.99	-.007	.995
	Acquisition	23	2.52	1.16		
Relative political stability of Turkey	Greenfield	50	3.34	1.00	1.883	.064
	Acquisition	23	2.87	.97		
Geographical proximity of Turkey	Greenfield	50	3.68	1.06	-1.237	.220
	Acquisition	23	4.00	.95		
Access to potential markets	Greenfield	50	3.58	1.28	-1.432	.156
	Acquisition	23	4.00	.85		
Government incentives	Greenfield	50	2.60	1.16	-1.573	.120
	Acquisition	23	3.04	1.02		
Trade (tariff and non-tariff) barriers	Greenfield	50	2.90	1.09	.413	.681
	Acquisition	23	2.78	1.20		
Transferability of profits and capital	Greenfield	50	3.60	1.18	-.179	.859
	Acquisition	23	3.65	1.11		
Availability of quality infrastructure (transportation, communication etc.)	Greenfield	50	3.56	.93	.174	.862
	Acquisition	23	3.52	.73		
Availability of low cost inputs	Greenfield	50	3.60	1.07	-.356	.723
	Acquisition	23	3.70	1.06		
Availability of good quality inputs	Greenfield	50	3.52	1.09	-1.032	.305
	Acquisition	23	3.78	.80		
The presence of previous foreign direct investment (FDI) in Turkey	Greenfield	50	2.84	1.13	-3.077	.003
	Acquisition	23	3.65	.83		
The presence of companies with high potential in the privatization program and the Saving Deposit Insurance Fund (TMSF)	Greenfield	50	1.80	1.03	-2.727	.008
	Acquisition	23	2.65	1.61		
Various opportunities due to the absence of a fully competitive market in Turkey	Greenfield	50	3.28	1.26	-.232	.817
	Acquisition	23	3.35	.88		

Appendix Table 4.2 (continued)

A welcoming attitude towards FDI	Greenfield	50	2.92	1.23	-.710	.480
	Acquisition	23	3.13	1.06		
Turkey's European Union candidacy	Greenfield	50	2.68	1.22	-.356	.723
	Acquisition	23	2.78	.95		
Cumulative importance of host country locational factors	Greenfield	50	61.66	9.86	-1.252	.215
	Acquisition	23	64.65	8.62		

Appendix Table 4.3 Host Country Location Factors for Foreign Equity and Country of Origin

Locational Factors	Group	N	Mean	Std. Deviation	t-value	p-value
Market size	Western	58	4.47	.65	-.006	.995
	Non-Western	15	4.47	.83		
Growth rate of the economy	Western	58	3.98	.71	-2.126	.037
	Non-Western	15	4.40	.51		
Relative economic stability of Turkey	Western	58	3.29	.94	.100	.921
	Non-Western	15	3.27	.80		
Purchasing power of customers	Western	58	3.36	.93	-.917	.362
	Non-Western	15	3.60	.74		
Degree of unionization	Western	58	2.55	1.05	.500	.619
	Non-Western	15	2.40	1.06		
Relative political stability of Turkey	Western	58	3.24	1.01	.824	.413
	Non-Western	15	3.00	1.00		
Geographical proximity of Turkey	Western	58	3.79	1.06	.199	.843
	Non-Western	15	3.73	.96		
Access to potential markets	Western	58	3.62	1.25	-1.320	.191
	Non-Western	15	4.07	.70		
Government incentives	Western	58	2.59	1.08	-2.352	.021
	Non-Western	15	3.33	1.18		
Trade (tariff and non-tariff) barriers	Western	58	2.84	1.06	-.271	.788
	Non-Western	15	2.93	1.39		
Transferability of profits and capital	Western	58	3.53	1.14	-1.201	.234
	Non-Western	15	3.93	1.16		
Availability of quality infrastructure (transportation, communication etc.)	Western	58	3.43	.88	-2.335	.022
	Non-Western	15	4.00	.65		
Availability of low cost inputs	Western	58	3.57	1.11	-.968	.336
	Non-Western	15	3.87	.83		

Appendix Table 4.3 (continued)

Availability of good quality inputs	Western	58	3.53	1.08	-1.137	.259
	Non-Western	15	3.87	.64		
The presence of previous foreign direct investment (FDI) in Turkey	Western	58	3.07	1.09	-.406	.686
	Non-Western	15	3.20	1.21		
The presence of companies with high potential in the privatization program and the Saving Deposit Insurance Fund (TMSF)	Western	58	1.97	1.23	-1.344	.183
	Non-Western	15	2.47	1.51		
Various opportunities due to the absence of a fully competitive market in Turkey	Western	58	3.29	1.15	-.120	.905
	Non-Western	15	3.33	1.18		
A welcoming attitude towards FDI	Western	58	2.88	1.16	-1.548	.126
	Non-Western	15	3.40	1.18		
Turkey's European Union candidacy	Western	58	2.69	1.13	-.333	.740
	Non-Western	15	2.80	1.21		
Cumulative importance of host country locational factors	Western	58	61.71	9.69	-1.597	.115
	Non-Western	15	66.07	8.25		

Appendix Table 4.4 Host Country Location Factors for Foreign Equity and Industry of the Foreign Equity

Locational Factors	Group	N	M	SD	F-value	p-value
Market size	Manufacturing	30	4.33	.71	1.554	.219
	Service	32	4.63	.55		
	Information and communication technology	11	4.36	.92		
Growth rate of the economy	Manufacturing	30	4.00	.59	.617	.542
	Service	32	4.06	.80		
	Information and communication technology	11	4.27	.65		
Relative economic stability of Turkey	Manufacturing	30	3.10	1.03	2.010	.142
	Service	32	3.31	.78		
	Information and communication technology	11	3.73	.79		
Purchasing power of customers	Manufacturing	30	3.37	.85	1.384	.257
	Service	32	3.31	.93		
	Information and communication technology	11	3.82	.87		
Degree of unionization	Manufacturing	30	2.63	.81	.849	.432
	Service	32	2.34	1.15		
	Information and communication technology	11	2.73	1.27		
Relative political stability of Turkey	Manufacturing	30	3.00	1.02	.928	.400
	Service	32	3.31	1.03		
	Information and communication technology	11	3.36	.92		
Geographical proximity of Turkey	Manufacturing	30	3.87	1.07	1.133	.328
	Service	32	3.59	1.04		
	Information and communication technology	11	4.09	.83		
Access to potential markets	Manufacturing	30	4.00	.98	5.189	.008
	Service	32	3.25	1.32		
	Information and communication technology	11	4.27	.65		

Appendix Table 4.4 (continued)

Government incentives	Manufacturing	30	2.73	.98	7.957	.001
	Service	32	2.38	1.16		
	Information and communication technology	11	3.82	.75		
Trade (tariff and non-tariff) barriers	Manufacturing	30	3.23	1.01	5.295	.007
	Service	32	2.41	.98		
	Information and communication technology	11	3.18	1.40		
Transferability of profits and capital	Manufacturing	30	3.50	1.01	1.129	.329
	Service	32	3.56	1.24		
	Information and communication technology	11	4.09	1.22		
Availability of quality infrastructure (transportation, communication etc.)	Manufacturing	30	3.77	.77	5.934	.004
	Service	32	3.19	.90		
	Information and communication technology	11	4.00	.63		
Availability of low cost inputs	Manufacturing	30	3.83	.79	2.785	.069
	Service	32	3.31	1.26		
	Information and communication technology	11	4.00	.89		
Availability of good quality inputs	Manufacturing	30	3.87	.63	3.746	.028
	Service	32	3.25	1.30		
	Information and communication technology	11	3.91	.54		
The presence of previous foreign direct investment (FDI) in Turkey	Manufacturing	30	3.10	1.12	1.819	.170
	Service	32	2.91	1.17		
	Information and communication technology	11	3.64	.67		
The presence of companies with high potential in the privatization program and the Saving Deposit Insurance Fund (TMSF)	Manufacturing	30	1.63	1.03	6.679	.002
	Service	32	2.09	1.33		
	Information and communication technology	11	3.18	1.25		

Appendix Table 4.4 (continued)

Various opportunities due to the absence of a fully competitive market in Turkey	Manufacturing	30	2.90	1.21	3.662	.031
	Service	32	3.50	1.14		
	Information and communication technology	11	3.82	.60		
A welcoming attitude towards FDI	Manufacturing	30	2.83	1.21	1.558	.218
	Service	32	2.94	1.19		
	Information and communication technology	11	3.55	.93		
Turkey's European Union candidacy	Manufacturing	30	2.43	1.14	2.871	.063
	Service	32	2.75	1.16		
	Information and communication technology	11	3.36	.81		
Cumulative effects of locational factors	Manufacturing	30	62.13	7.89	6.457	.003
	Service	32	60.09	9.77		
	Information and communication technology	11	71.18	8.67		

Appendix Table 4.5 Host Country Location Factors for Foreign Equity and Capital Size of Foreign Equity

Locational Factors	Group	N	M	SD	F-value	p-value
Market size	Low	18	4.50	.71	.715	.493
	Medium	37	4.38	.76		
	High	18	4.61	.50		
Growth rate of the economy	Low	18	4.06	.64	.619	.542
	Medium	37	4.00	.78		
	High	18	4.22	.55		
Relative economic stability of Turkey	Low	18	3.50	.86	1.515	.227
	Medium	37	3.11	.94		
	High	18	3.44	.86		
Purchasing power of customers	Low	18	3.33	1.14	.593	.555
	Medium	37	3.35	.79		
	High	18	3.61	.85		
Degree of unionization	Low	18	2.11	1.41	4.886	.010
	Medium	37	2.43	.87		
	High	18	3.11	.68		
Relative political stability of Turkey	Low	18	3.56	1.04	4.315	.017
	Medium	37	2.86	1.00		
	High	18	3.50	.79		
Geographical proximity of Turkey	Low	18	3.78	1.11	.638	.531
	Medium	37	3.89	.97		
	High	18	3.56	1.10		
Access to potential markets	Low	18	3.11	1.53	3.351	.041
	Medium	37	3.92	.98		
	High	18	3.89	.96		
Government incentives	Low	18	2.44	1.29	3.013	.056
	Medium	37	2.62	.92		
	High	18	3.28	1.23		
Trade (tariff and non-tariff) barriers	Low	18	2.39	1.04	7.861	.001
	Medium	37	2.70	1.02		
	High	18	3.67	1.03		
Transferability of profits and capital	Low	18	3.39	1.33	1.855	.164
	Medium	37	3.51	1.07		
	High	18	4.06	1.06		
Availability of quality infrastructure (transportation, communication etc.)	Low	18	3.33	1.03	1.582	.213
	Medium	37	3.51	.87		
	High	18	3.83	.62		
Availability of low cost inputs	Low	18	3.44	1.29	1.524	.225
	Medium	37	3.54	1.02		
	High	18	4.00	.84		

Appendix Table 4.5 (continued)

Availability of good quality inputs	Low	18	3.44	1.29	1.411	.251
	Medium	37	3.51	1.04		
	High	18	3.94	.42		
The presence of previous foreign direct investment (FDI) in Turkey	Low	18	2.94	1.21	.658	.521
	Medium	37	3.24	1.04		
	High	18	2.94	1.16		
The presence of companies with high potential in the privatization program and the Saving Deposit Insurance Fund (TMSF)	Low	18	1.94	1.16	.331	.720
	Medium	37	2.03	1.32		
	High	18	2.28	1.41		
Various opportunities due to the absence of a fully competitive market in Turkey	Low	18	3.39	1.33	.538	.586
	Medium	37	3.38	1.04		
	High	18	3.06	1.21		
A welcoming attitude towards FDI	Low	18	2.72	1.18	2.480	.091
	Medium	37	2.86	1.08		
	High	18	3.50	1.25		
Turkey's European Union candidacy	Low	18	2.72	1.32	.330	.720
	Medium	37	2.62	.89		
	High	18	2.89	1.41		
Cumulative importance of host country locational factors	Low	18	60.11	10.99	3.347	.041
	Medium	37	61.49	8.00		
	High	18	67.39	9.72		

Appendix Table 4.6 Host Country Location Factors for Foreign Equity and Employee Size of Foreign Equity

Locational Factors	Group	N	M	SD	F-value	p-value
Market size	Low	18	4.39	.78	.205	.815
	Medium	37	4.51	.69		
	High	18	4.44	.62		
Growth rate of the economy	Low	18	3.72	.89	3.206	.047
	Medium	37	4.16	.55		
	High	18	4.22	.65		
Relative economic stability of Turkey	Low	18	3.50	.79	1.138	.326
	Medium	37	3.14	.98		
	High	18	3.39	.85		
Purchasing power of customers	Low	18	3.33	1.03	.593	.555
	Medium	37	3.35	.86		
	High	18	3.61	.85		
Degree of unionization	Low	18	2.44	1.29	2.734	.072
	Medium	37	2.32	1.03		
	High	18	3.00	.59		
Relative political stability of Turkey	Low	18	3.56	1.04	3.027	.055
	Medium	37	2.92	.98		
	High	18	3.39	.92		
Geographical proximity of Turkey	Low	18	4.00	1.03	1.094	.341
	Medium	37	3.81	1.08		
	High	18	3.50	.92		
Access to potential markets	Low	18	3.67	1.53	.737	.482
	Medium	37	3.59	1.17		
	High	18	4.00	.69		
Government incentives	Low	18	2.56	1.34	2.259	.112
	Medium	37	2.59	.96		
	High	18	3.22	1.17		
Trade (tariff and non-tariff) barriers	Low	18	2.72	1.18	4.251	.018
	Medium	37	2.62	1.01		
	High	18	3.50	1.10		
Transferability of profits and capital	Low	18	3.11	1.32	3.255	.044
	Medium	37	3.65	1.03		
	High	18	4.06	1.06		
Availability of quality infrastructure (transportation, communication etc.)	Low	18	3.28	1.07	1.540	.222
	Medium	37	3.57	.80		
	High	18	3.78	.73		
Availability of low cost inputs	Low	18	3.33	1.41	2.296	.108
	Medium	37	3.57	.93		
	High	18	4.06	.80		

Appendix Table 4.6 (continued)

Availability of good quality inputs	Low	18	3.50	1.34	.626	.538
	Medium	37	3.54	.93		
	High	18	3.83	.79		
The presence of previous foreign direct investment (FDI) in Turkey	Low	18	2.94	1.39	1.296	.280
	Medium	37	3.30	.97		
	High	18	2.83	1.04		
The presence of companies with high potential in the privatization program and the Saving Deposit Insurance Fund (TMSF)	Low	18	1.89	1.13	.237	.789
	Medium	37	2.11	1.37		
	High	18	2.17	1.34		
Various opportunities due to the absence of a fully competitive market in Turkey	Low	18	3.72	1.41	1.655	.199
	Medium	37	3.19	1.00		
	High	18	3.11	1.13		
A welcoming attitude towards FDI	Low	18	2.89	1.41	.481	.620
	Medium	37	2.92	1.01		
	High	18	3.22	1.26		
Turkey's European Union candidacy	Low	18	2.83	1.29	.171	.843
	Medium	37	2.70	1.00		
	High	18	2.61	1.29		
Cumulative importance of host country locational factors	Low	18	61.39	11.22	1.492	.232
	Medium	37	61.57	8.60		
	High	18	65.94	9.27		

Appendix Table 4.7 Host Country Location Factors for Foreign Equity and Sales Volume of Foreign Equity

Locational Factors	Group	N	M	SD	F-value	p-value
Market size	Low	18	4.44	.78	.544	.583
	Medium	37	4.41	.72		
	High	18	4.61	.50		
Growth rate of the economy	Low	18	3.67	.91	4.592	.013
	Medium	37	4.16	.55		
	High	18	4.28	.57		
Relative economic stability of Turkey	Low	18	3.44	.86	1.515	.227
	Medium	37	3.11	.97		
	High	18	3.50	.79		
Purchasing power of customers	Low	18	3.44	1.10	.414	.663
	Medium	37	3.32	.82		
	High	18	3.56	.86		
Degree of unionization	Low	18	2.44	1.38	3.494	.036
	Medium	37	2.30	.94		
	High	18	3.06	.64		
Relative political stability of Turkey	Low	18	3.22	.94	.915	.405
	Medium	37	3.05	1.08		
	High	18	3.44	.92		
Geographical proximity of Turkey	Low	18	4.22	.88	2.277	.110
	Medium	37	3.65	1.06		
	High	18	3.61	1.04		
Access to potential markets	Low	18	3.89	1.08	2.389	.099
	Medium	37	3.43	1.32		
	High	18	4.11	.76		
Government incentives	Low	18	2.78	1.22	2.698	.074
	Medium	37	2.49	.96		
	High	18	3.22	1.26		
Trade (tariff and non-tariff) barriers	Low	18	2.83	1.04	4.611	.013
	Medium	37	2.57	1.04		
	High	18	3.50	1.15		
Transferability of profits and capital	Low	18	3.06	1.21	3.770	.028
	Medium	37	3.68	1.08		
	High	18	4.06	1.06		
Availability of quality infrastructure (transportation, communication etc.)	Low	18	3.39	.78	1.387	.257
	Medium	37	3.49	.93		
	High	18	3.83	.79		
Availability of low cost inputs	Low	18	3.72	1.18	2.051	.136
	Medium	37	3.41	1.07		
	High	18	4.00	.84		

Appendix Table 4.7 (continued)

Availability of good quality inputs	Low	18	3.72	1.07	.490	.615
	Medium	37	3.49	1.10		
	High	18	3.72	.75		
The presence of previous foreign direct investment (FDI) in Turkey	Low	18	3.22	1.31	.448	.641
	Medium	37	3.14	1.00		
	High	18	2.89	1.13		
The presence of companies with high potential in the privatization program and the Saving Deposit Insurance Fund (TMSF)	Low	18	2.28	1.36	.926	.401
	Medium	37	1.86	1.21		
	High	18	2.28	1.41		
Various opportunities due to the absence of a fully competitive market in Turkey	Low	18	4.11	.83	6.884	.002
	Medium	37	3.03	1.09		
	High	18	3.06	1.21		
A welcoming attitude towards FDI	Low	18	3.17	1.34	1.133	.328
	Medium	37	2.78	.92		
	High	18	3.22	1.44		
Turkey's European Union candidacy	Low	18	3.06	1.21	1.254	.292
	Medium	37	2.54	.93		
	High	18	2.72	1.41		
Cumulative importance of host country locational factors	Low	18	64.11	7.37	3.605	.032
	Medium	37	59.89	9.38		
	High	18	66.67	10.39		

Appendix Table 4.8 Host Country Location Factors for Foreign Equity and Entry Year of Foreign Equity

Locational Factors	Group	N	Mean	Std. Deviation	t-value	p-value
Market size	2003 and prior	48	4.42	.65	-.842	.403
	2004 and later	25	4.56	.77		
Growth rate of the economy	2003 and prior	48	4.06	.67	-.102	.919
	2004 and later	25	4.08	.76		
Relative economic stability of Turkey	2003 and prior	48	3.33	.88	.595	.554
	2004 and later	25	3.20	.96		
Purchasing power of customers	2003 and prior	48	3.56	.87	2.049	.044
	2004 and later	25	3.12	.88		
Degree of unionization	2003 and prior	48	2.65	.89	1.433	.156
	2004 and later	25	2.28	1.28		
Relative political stability of Turkey	2003 and prior	48	3.29	1.03	1.175	.244
	2004 and later	25	3.00	.96		
Geographical proximity of Turkey	2003 and prior	48	3.77	.99	-.114	.910
	2004 and later	25	3.80	1.12		
Access to potential markets	2003 and prior	48	3.65	1.16	-.669	.506
	2004 and later	25	3.84	1.21		
Government incentives	2003 and prior	48	2.58	1.05	-1.657	.102
	2004 and later	25	3.04	1.24		
Trade (tariff and non-tariff) barriers	2003 and prior	48	2.94	1.06	.784	.436
	2004 and later	25	2.72	1.24		
Transferability of profits and capital	2003 and prior	48	3.65	1.10	.301	.765
	2004 and later	25	3.56	1.26		
Availability of quality infrastructure (transportation, communication etc.)	2003 and prior	48	3.52	.87	-.368	.714
	2004 and later	25	3.60	.87		
Availability of low cost inputs	2003 and prior	48	3.65	.98	.174	.862
	2004 and later	25	3.60	1.22		
Availability of good quality inputs	2003 and prior	48	3.54	.99	-.713	.478
	2004 and later	25	3.72	1.06		
The presence of previous foreign direct investment (FDI) in Turkey	2003 and prior	48	2.85	1.03	-2.694	.009
	2004 and later	25	3.56	1.12		
The presence of companies with high potential in the privatization program and the Saving Deposit Insurance Fund (TMSF)	2003 and prior	48	1.75	.98	-3.080	.003
	2004 and later	25	2.68	1.60		

Appendix Table 4.8 (continued)

Various opportunities due to the absence of a fully competitive market in Turkey	2003 and prior	48	3.08	1.16	-2.309	.024
	2004 and later	25	3.72	1.02		
A welcoming attitude towards FDI	2003 and prior	48	2.73	1.09	-2.708	.008
	2004 and later	25	3.48	1.19		
Turkey's European Union candidacy	2003 and prior	48	2.48	1.09	-2.518	.014
	2004 and later	25	3.16	1.11		
Cumulative importance of host country locational factors	2003 and prior	48	61.50	8.95	-1.379	.172
	2004 and later	25	64.72	10.41		

Appendix Table 4.9 Host Country Location Factors for Foreign Equity and Prior Relations

Locational factors	Group	N	Mean	Std. Deviation	t-value	p-value
Market size	Yes	53	4.43	.75	-.639	.525
	No	20	4.55	.51		
Growth rate of the economy	Yes	53	4.06	.69	-.237	.814
	No	20	4.10	.72		
Relative economic stability of Turkey	Yes	53	3.32	.94	.506	.615
	No	20	3.20	.83		
Purchasing power of customers	Yes	53	3.32	.89	-1.411	.162
	No	20	3.65	.88		
Degree of unionization	Yes	53	2.47	1.05	-.649	.518
	No	20	2.65	1.04		
Relative political stability of Turkey	Yes	53	3.19	1.02	-.042	.966
	No	20	3.20	1.01		
Geographical proximity of Turkey	Yes	53	3.72	1.06	-.860	.393
	No	20	3.95	.94		
Access to potential markets	Yes	53	3.60	1.29	-1.294	.200
	No	20	4.00	.73		
Government incentives	Yes	53	2.70	1.14	-.509	.612
	No	20	2.85	1.14		
Trade (tariff and non-tariff) barriers	Yes	53	2.83	1.16	-.405	.687
	No	20	2.95	1.05		
Transferability of profits and capital	Yes	53	3.51	1.17	-1.300	.198
	No	20	3.90	1.07		
Availability of quality infrastructure (transportation, communication etc.)	Yes	53	3.53	.95	-.313	.755
	No	20	3.60	.60		
Availability of low cost inputs	Yes	53	3.60	1.08	-.344	.732
	No	20	3.70	1.03		
Availability of good quality inputs	Yes	53	3.60	1.06	.014	.989
	No	20	3.60	.88		
The presence of previous foreign direct investment (FDI) in Turkey	Yes	53	3.04	1.04	-.728	.469
	No	20	3.25	1.29		
The presence of companies with high potential in the privatization program and the Saving Deposit Insurance Fund (TMSF)	Yes	53	1.89	1.27	-1.992	.050
	No	20	2.55	1.28		
Various opportunities due to the absence of a fully competitive market in Turkey	Yes	53	3.19	1.19	-1.370	.175
	No	20	3.60	.99		

Appendix Table 4.9 (continued)

A welcoming attitude towards FDI	Yes	53	2.75	1.14	-2.883	.005
	No	20	3.60	1.05		
Turkey's European Union candidacy	Yes	53	2.68	1.16	-.403	.688
	No	20	2.80	1.11		
Cumulative importance of host country locational factors	Yes	53	61.43	9.07	-1.730	.088
	No	20	65.70	10.24		

Appendix Table 5.1 The Influence of Problems on FDI Environment and Ownership Pattern of the Foreign Equity

Problems	Group	N	M	SD	t-value	p-value
Corruption	WOS	38	3.92	.82	-2.076	.041
	JV	35	4.29	.67		
Informal economy	WOS	38	4.00	.62	-.495	.622
	JV	35	4.09	.85		
Uncertainties arising from the macroeconomy	WOS	38	4.24	.85	-1.098	.276
	JV	35	4.43	.61		
Lack of depth in finance markets	WOS	38	3.76	.97	.102	.919
	JV	35	3.74	.70		
Chronic inflation	WOS	38	3.66	.81	-1.025	.309
	JV	35	3.86	.85		
Government/state intervention in economy	WOS	38	3.84	.86	-.071	.943
	JV	35	3.86	.94		
Volatility of the political environment	WOS	38	4.16	.82	-.566	.573
	JV	35	4.26	.66		
Poor quality of democratic institutions	WOS	38	3.68	.90	1.735	.087
	JV	35	3.34	.76		
Threat of an authoritarian / fundamentalist regime	WOS	38	3.26	1.11	.574	.568
	JV	35	3.11	1.11		
Ethnic tension	WOS	38	2.95	1.01	1.422	.160
	JV	35	2.57	1.24		
Low security of intellectual property	WOS	38	3.82	.77	-.489	.626
	JV	35	3.91	.95		
Bureaucratic burden and delay	WOS	38	4.21	.74	-.985	.328
	JV	35	4.37	.65		
Governmental and bureaucratic failures in keeping promises made to foreign investors	WOS	38	4.08	.78	-.172	.864
	JV	35	4.11	.96		
Frequent changes in business legislation and rules	WOS	38	4.16	.82	-.222	.825
	JV	35	4.20	.80		
Absence of a legal base in applications	WOS	38	3.89	.76	.188	.852
	JV	35	3.86	.94		
High tax burden on employment	WOS	38	4.08	.78	-.183	.855
	JV	35	4.11	.87		
Lack of generally accepted accounting rules (IFRS, US GAAP)	WOS	38	3.29	1.04	.446	.657
	JV	35	3.17	1.22		
The significance of the extent of relations with the government and/or bureaucracy in conducting business	WOS	38	3.71	.73	.133	.895
	JV	35	3.69	.87		

Appendix Table 5.1 (continued)

Social problems of expatriate families	WOS	38	2.47	.95	.189	.851
	JV	35	2.43	1.09		
Difficulties in obtaining work permits for expatriates	WOS	38	3.05	.96	-.699	.487
	JV	35	3.23	1.19		
Cumulative influence of the problems on the FDI environment	WOS	38	74.24	8.19	-.192	.848
	JV	35	74.63	9.21		

Appendix Table 5.2 The Influence of the Problems on the FDI Environment and Country of Origin of the Foreign Equity

Problems	Group	N	Mean	Std. Deviation	t-value	p-value
Corruption	Western	58	4.07	.81	-.587	.559
	Non-Western	15	4.20	.56		
Informal economy	Western	58	4.00	.73	-.939	.351
	Non-Western	15	4.20	.77		
Uncertainties arising from the macroeconomy	Western	58	4.26	.76	-1.596	.115
	Non-Western	15	4.60	.63		
Lack of depth in finance markets	Western	58	3.72	.87	-.579	.565
	Non-Western	15	3.87	.74		
Chronic inflation	Western	58	3.72	.81	-.590	.557
	Non-Western	15	3.87	.92		
Government/state intervention in economy	Western	58	3.90	.89	.888	.378
	Non-Western	15	3.67	.90		
Volatility of the political environment	Western	58	4.21	.77	.032	.975
	Non-Western	15	4.20	.68		
Poor quality of democratic institutions	Western	58	3.57	.86	.955	.343
	Non-Western	15	3.33	.82		
Threat of an authoritarian / fundamentalist regime	Western	58	3.28	1.06	1.289	.202
	Non-Western	15	2.87	1.25		
Ethnic tension	Western	58	2.86	1.13	1.413	.162
	Non-Western	15	2.40	1.12		
Low security of intellectual property	Western	58	3.81	.93	-1.036	.304
	Non-Western	15	4.07	.46		
Bureaucratic burden and delay	Western	58	4.21	.69	-2.102	.046
	Non-Western	15	4.60	.63		
Governmental and bureaucratic failures in keeping promises made to foreign investors	Western	58	4.16	.83	1.149	.254
	Non-Western	15	3.87	.99		

Appendix Table 5.2 (continued)

Frequent changes in business legislation and rules	Western	58	4.14	.85	-.836	.406
	Non-Western	15	4.33	.62		
Absence of a legal base in applications	Western	58	3.91	.80	.731	.467
	Non-Western	15	3.73	1.03		
High tax burden on employment	Western	58	3.95	.80	-3.218	.002
	Non-Western	15	4.67	.62		
Lack of generally accepted accounting rules (IFRS, US GAAP)	Western	58	3.33	1.07	1.425	.158
	Non-Western	15	2.87	1.30		
The significance of the extent of relations with the government and/or bureaucracy in conducting business	Western	58	3.66	.83	-.919	.361
	Non-Western	15	3.87	.64		
Social problems of expatriate families	Western	58	2.38	.97	-1.209	.231
	Non-Western	15	2.73	1.16		
Difficulties in obtaining work permits for expatriates	Western	58	3.07	1.04	-1.068	.289
	Non-Western	15	3.40	1.18		
Cumulative influence of the problems on the FDI environment	Western	58	74.19	8.55	-.455	.651
	Non-Western	15	75.33	9.21		

Appendix Table 5.3 The Influence of the Problems on the FDI Environment and Industry of the Foreign Equity

Problems	Group	N	M	SD	F-value	p-value
Corruption	Manufacturing	30	4.17	.70	2.400	.098
	Service	32	3.91	.82		
	Information and communication technology	11	4.45	.69		
Informal economy	Manufacturing	30	4.10	.71	1.188	.311
	Service	32	3.91	.73		
	Information and communication technology	11	4.27	.79		
Uncertainties arising from the macroeconomy	Manufacturing	30	4.30	.75	.182	.834
	Service	32	4.31	.82		
	Information and communication technology	11	4.45	.52		
Lack of depth in finance markets	Manufacturing	30	3.63	.96	.559	.574
	Service	32	3.81	.82		
	Information and communication technology	11	3.91	.54		
Chronic inflation	Manufacturing	30	3.70	.84	.145	.865
	Service	32	3.81	.78		
	Information and communication technology	11	3.73	1.01		
Government/state intervention in economy	Manufacturing	30	3.97	.96	.457	.635
	Service	32	3.75	.88		
	Information and communication technology	11	3.82	.75		
Volatility of the political environment	Manufacturing	30	4.37	.67	1.320	.274
	Service	32	4.13	.79		
	Information and communication technology	11	4.00	.77		

Appendix Table 5.3 (continued)

Poor quality of democratic institutions	Manufacturing	30	3.67	.88	.966	.386
	Service	32	3.47	.88		
	Information and communication technology	11	3.27	.65		
Threat of an authoritarian / fundamentalist regime	Manufacturing	30	3.00	1.26	.871	.423
	Service	32	3.28	1.02		
	Information and communication technology	11	3.45	.82		
Ethnic tension	Manufacturing	30	2.77	1.19	.009	.991
	Service	32	2.78	1.10		
	Information and communication technology	11	2.73	1.19		
Low security of intellectual property	Manufacturing	30	3.77	1.01	.322	.726
	Service	32	3.94	.76		
	Information and communication technology	11	3.91	.70		
Bureaucratic burden and delay	Manufacturing	30	4.27	.64	.035	.965
	Service	32	4.31	.69		
	Information and communication technology	11	4.27	.90		
Governmental and bureaucratic failures in keeping promises made to foreign investors	Manufacturing	30	4.13	.78	.166	.847
	Service	32	4.03	.93		
	Information and communication technology	11	4.18	.98		
Frequent changes in business legislation and rules	Manufacturing	30	4.20	.71	.472	.626
	Service	32	4.09	.96		
	Information and communication technology	11	4.36	.50		
Absence of a legal base in applications	Manufacturing	30	3.93	.83	.114	.892
	Service	32	3.84	.85		
	Information and communication technology	11	3.82	.98		

Appendix Table 5.3 (continued)

High tax burden on employment	Manufacturing	30	4.27	.78	3.913	.024
	Service	32	3.81	.82		
	Information and communication technology	11	4.45	.69		
Lack of generally accepted accounting rules (IFRS, US GAAP)	Manufacturing	30	3.17	1.09	.536	.587
	Service	32	3.38	1.13		
	Information and communication technology	11	3.00	1.26		
The significance of the extent of relations with the government and/or bureaucracy in conducting business	Manufacturing	30	3.47	.82	2.273	.111
	Service	32	3.88	.79		
	Information and communication technology	11	3.82	.60		
Social problems of expatriate families	Manufacturing	30	2.30	1.15	1.476	.236
	Service	32	2.44	.88		
	Information and communication technology	11	2.91	.94		
Difficulties in obtaining work permits for expatriates	Manufacturing	30	3.03	1.10	1.430	.246
	Service	32	3.06	.95		
	Information and communication technology	11	3.64	1.29		
Cumulative influence of the problems on the FDI environment	Manufacturing	30	74.20	8.31	.359	.700
	Service	32	73.94	8.75		
	Information and communication technology	11	76.45	9.66		

Appendix Table 5.4 The Influence of the Problems on the FDI Environment and Capital Size of the Foreign Equity

Problems	Group	N	M	SD	F-value	p-value
Corruption	Low	18	4.06	.87	.032	.968
	Medium	37	4.11	.77		
	High	18	4.11	.68		
Informal economy	Low	18	3.94	.80	.331	.719
	Medium	37	4.11	.74		
	High	18	4.00	.69		
Uncertainties arising from the macroeconomy	Low	18	4.39	.78	.253	.777
	Medium	37	4.35	.72		
	High	18	4.22	.81		
Lack of depth in finance markets	Low	18	3.94	.87	.722	.489
	Medium	37	3.73	.87		
	High	18	3.61	.78		
Chronic inflation	Low	18	3.78	.88	.403	.670
	Medium	37	3.68	.88		
	High	18	3.89	.68		
Government/state intervention in economy	Low	18	3.78	.94	.632	.535
	Medium	37	3.78	.89		
	High	18	4.06	.87		
Volatility of the political environment	Low	18	4.11	.83	.228	.797
	Medium	37	4.22	.79		
	High	18	4.28	.57		
Poor quality of democratic institutions	Low	18	3.39	.85	.281	.756
	Medium	37	3.57	.90		
	High	18	3.56	.78		
Threat of an authoritarian / fundamentalist regime	Low	18	3.17	1.10	.721	.490
	Medium	37	3.32	1.08		
	High	18	2.94	1.16		
Ethnic tension	Low	18	2.56	1.15	.542	.584
	Medium	37	2.89	1.15		
	High	18	2.72	1.13		
Low security of intellectual property	Low	18	3.72	.83	.340	.713
	Medium	37	3.89	.88		
	High	18	3.94	.87		
Bureaucratic burden and delay	Low	18	4.11	.76	.815	.447
	Medium	37	4.32	.71		
	High	18	4.39	.61		
Governmental and bureaucratic failures in keeping promises made to foreign investors	Low	18	4.00	1.03	.426	.655
	Medium	37	4.19	.78		
	High	18	4.00	.91		

Appendix Table 5.4 (continued)

Frequent changes in business legislation and rules	Low	18	4.11	1.02	.090	.914
	Medium	37	4.19	.78		
	High	18	4.22	.65		
Absence of a legal base in applications	Low	18	3.94	.80	.095	.909
	Medium	37	3.84	.87		
	High	18	3.89	.90		
High tax burden on employment	Low	18	3.78	.73	1.867	.162
	Medium	37	4.22	.79		
	High	18	4.17	.92		
Lack of generally accepted accounting rules (IFRS, US GAAP)	Low	18	3.00	1.03	.516	.599
	Medium	37	3.32	1.13		
	High	18	3.28	1.23		
The significance of the extent of relations with the government and/or bureaucracy in conducting business	Low	18	3.56	1.04	.403	.670
	Medium	37	3.73	.65		
	High	18	3.78	.81		
Social problems of expatriate families	Low	18	2.50	.92	1.567	.216
	Medium	37	2.27	1.07		
	High	18	2.78	.94		
Difficulties in obtaining work permits for expatriates	Low	18	3.56	.98	2.023	.140
	Medium	37	2.95	1.03		
	High	18	3.11	1.18		
Cumulative influence of the problems on the FDI environment	Low	18	73.39	9.33	.174	.841
	Medium	37	74.68	8.90		
	High	18	74.94	7.70		

Appendix Table 5.5 The Influence of the Problems on the FDI Environment and Employee Size of the Foreign Equity

Problems	Group	N	M	SD	F-value	p-value
Corruption	Low	18	4.00	.84	.298	.743
	Medium	37	4.16	.80		
	High	18	4.06	.64		
Informal economy	Low	18	3.78	.88	2.458	.093
	Medium	37	4.22	.67		
	High	18	3.94	.64		
Uncertainties arising from the macroeconomy	Low	18	4.44	.78	.651	.525
	Medium	37	4.35	.72		
	High	18	4.17	.79		
Lack of depth in finance markets	Low	18	4.11	.83	2.224	.116
	Medium	37	3.62	.89		
	High	18	3.67	.69		
Chronic inflation	Low	18	3.78	.81	.128	.880
	Medium	37	3.78	.92		
	High	18	3.67	.69		
Government/state intervention in economy	Low	18	4.17	.62	1.552	.219
	Medium	37	3.73	.99		
	High	18	3.78	.88		
Volatility of the political environment	Low	18	4.33	.59	.412	.664
	Medium	37	4.19	.84		
	High	18	4.11	.68		
Poor quality of democratic institutions	Low	18	3.39	1.04	.354	.703
	Medium	37	3.59	.83		
	High	18	3.50	.71		
Threat of an authoritarian / fundamentalist regime	Low	18	3.67	.97	3.134	.050
	Medium	37	3.16	1.09		
	High	18	2.78	1.11		
Ethnic tension	Low	18	2.89	1.23	.271	.763
	Medium	37	2.78	1.16		
	High	18	2.61	1.04		
Low security of intellectual property	Low	18	3.78	.94	.167	.846
	Medium	37	3.86	.89		
	High	18	3.94	.73		
Bureaucratic burden and delay	Low	18	4.28	.83	.261	.771
	Medium	37	4.24	.72		
	High	18	4.39	.50		
Governmental and bureaucratic failures in keeping promises made to foreign investors	Low	18	4.22	.88	.734	.484
	Medium	37	4.14	.86		
	High	18	3.89	.90		

Appendix Table 5.5 (continued)

Frequent changes in business legislation and rules	Low	18	4.39	.70	.884	.418
	Medium	37	4.08	.89		
	High	18	4.17	.71		
Absence of a legal base in applications	Low	18	4.22	.73	2.040	.138
	Medium	37	3.76	.93		
	High	18	3.78	.73		
High tax burden on employment	Low	18	3.78	.73	1.867	.162
	Medium	37	4.22	.79		
	High	18	4.17	.92		
Lack of generally accepted accounting rules (IFRS, US GAAP)	Low	18	3.28	1.23	.046	.955
	Medium	37	3.24	1.06		
	High	18	3.17	1.20		
The significance of the extent of relations with the government and/or bureaucracy in conducting business	Low	18	4.00	.69	2.101	.130
	Medium	37	3.54	.84		
	High	18	3.72	.75		
Social problems of expatriate families	Low	18	2.44	1.10	.931	.399
	Medium	37	2.32	1.00		
	High	18	2.72	.96		
Difficulties in obtaining work permits for expatriates	Low	18	3.11	1.23	.206	.814
	Medium	37	3.08	1.04		
	High	18	3.28	1.02		
Cumulative influence of the problems on the FDI environment	Low	18	76.06	8.58	.447	.642
	Medium	37	74.08	9.56		
	High	18	73.50	6.67		

Appendix Table 5.6 The Influence of the Problems on the FDI Environment and Sales Volume of the Foreign Equity

Problems	Group	N	M	SD	F-value	p-value
Corruption	Low	18	4.11	.83	.032	.968
	Medium	37	4.11	.77		
	High	18	4.06	.73		
Informal economy	Low	18	3.94	.87	.331	.719
	Medium	37	4.11	.70		
	High	18	4.00	.69		
Uncertainties arising from the macroeconomy	Low	18	4.39	.70	1.019	.366
	Medium	37	4.41	.72		
	High	18	4.11	.83		
Lack of depth in finance markets	Low	18	4.06	.94	1.549	.220
	Medium	37	3.65	.86		
	High	18	3.67	.69		
Chronic inflation	Low	18	3.78	.94	.157	.855
	Medium	37	3.70	.85		
	High	18	3.83	.71		
Government/state intervention in economy	Low	18	3.94	.80	.215	.807
	Medium	37	3.78	.95		
	High	18	3.89	.90		
Volatility of the political environment	Low	18	4.17	.71	.303	.739
	Medium	37	4.27	.80		
	High	18	4.11	.68		
Poor quality of democratic institutions	Low	18	3.44	.70	.130	.878
	Medium	37	3.57	.99		
	High	18	3.50	.71		
Threat of an authoritarian / fundamentalist regime	Low	18	3.72	.89	4.055	.022
	Medium	37	3.16	1.04		
	High	18	2.72	1.23		
Ethnic tension	Low	18	2.89	1.32	.666	.517
	Medium	37	2.84	1.04		
	High	18	2.50	1.15		
Low security of intellectual property	Low	18	3.44	.98	3.285	.043
	Medium	37	4.05	.74		
	High	18	3.89	.83		
Bureaucratic burden and delay	Low	18	4.11	.83	.815	.447
	Medium	37	4.32	.67		
	High	18	4.39	.61		
Governmental and bureaucratic failures in keeping promises made to foreign investors	Low	18	4.11	.83	1.186	.311
	Medium	37	4.22	.85		
	High	18	3.83	.92		

Appendix Table 5.6 (continued)

Frequent changes in business legislation and rules	Low	18	4.00	.91	.678	.511
	Medium	37	4.27	.80		
	High	18	4.17	.71		
Absence of a legal base in applications	Low	18	3.94	.94	.394	.676
	Medium	37	3.92	.80		
	High	18	3.72	.89		
High tax burden on employment	Low	18	3.89	.68	1.349	.266
	Medium	37	4.08	.86		
	High	18	4.33	.84		
Lack of generally accepted accounting rules (IFRS, US GAAP)	Low	18	3.44	1.20	.452	.638
	Medium	37	3.14	1.06		
	High	18	3.22	1.22		
The significance of the extent of relations with the government and/or bureaucracy in conducting business	Low	18	3.72	.83	.434	.649
	Medium	37	3.62	.86		
	High	18	3.83	.62		
Social problems of expatriate families	Low	18	2.56	1.10	1.848	.165
	Medium	37	2.24	.98		
	High	18	2.78	.94		
Difficulties in obtaining work permits for expatriates	Low	18	3.11	1.18	.020	.980
	Medium	37	3.16	1.01		
	High	18	3.11	1.13		
Cumulative influence of the problems on the FDI environment	Low	18	74.78	9.88	.092	.913
	Medium	37	74.62	8.86		
	High	18	73.67	7.14		

Appendix Table 5.7 The Influence of the Problems on the FDI Environment and Entry Year of the Foreign Equity

Problems	Group	N	Mean	Std. Deviation	t-value	p-value
Corruption	2003 and prior	48	4.06	.78	-.513	.610
	2004 and later	25	4.16	.75		
Informal economy	2003 and prior	48	4.06	.70	.343	.733
	2004 and later	25	4.00	.82		
Uncertainties arising from the macroeconomy	2003 and prior	48	4.21	.77	-1.947	.055
	2004 and later	25	4.56	.65		
Lack of depth in finance markets	2003 and prior	48	3.58	.87	-2.462	.016
	2004 and later	25	4.08	.70		
Chronic inflation	2003 and prior	48	3.71	.77	-.641	.524
	2004 and later	25	3.84	.94		
Government/state intervention in economy	2003 and prior	48	3.83	.95	-.211	.834
	2004 and later	25	3.88	.78		
Volatility of the political environment	2003 and prior	48	4.15	.82	-.948	.346
	2004 and later	25	4.32	.56		
Poor quality of democratic institutions	2003 and prior	48	3.54	.90	.292	.771
	2004 and later	25	3.48	.77		
Threat of an authoritarian / fundamentalist regime	2003 and prior	48	3.00	1.13	-2.111	.038
	2004 and later	25	3.56	.96		
Ethnic tension	2003 and prior	48	2.88	1.12	1.126	.264
	2004 and later	25	2.56	1.16		
Low security of intellectual property	2003 and prior	48	3.88	.96	.165	.870
	2004 and later	25	3.84	.62		
Bureaucratic burden and delay	2003 and prior	48	4.25	.67	-.637	.526
	2004 and later	25	4.36	.76		
Governmental and bureaucratic failures in keeping promises made to foreign investors	2003 and prior	48	4.04	.85	-.737	.464
	2004 and later	25	4.20	.91		
Frequent changes in business legislation and rules	2003 and prior	48	4.08	.85	-1.402	.165
	2004 and later	25	4.36	.70		
Absence of a legal base in applications	2003 and prior	48	3.85	.77	-.312	.756
	2004 and later	25	3.92	1.00		

Appendix Table 5.7 (continued)

High tax burden on employment	2003 and prior	48	4.29	.74	2.980	.004
	2004 and later	25	3.72	.84		
Lack of generally accepted accounting rules (IFRS, US GAAP)	2003 and prior	48	3.19	1.02	-.475	.636
	2004 and later	25	3.32	1.31		
The significance of the extent of relations with the government and/or bureaucracy in conducting business	2003 and prior	48	3.58	.82	-1.744	.086
	2004 and later	25	3.92	.70		
Social problems of expatriate families	2003 and prior	48	2.42	1.01	-.411	.683
	2004 and later	25	2.52	1.05		
Difficulties in obtaining work permits for expatriates	2003 and prior	48	3.10	1.12	-.360	.720
	2004 and later	25	3.20	1.00		
Cumulative influence of the problems on the FDI environment	2003 and prior	48	73.71	8.79	-.982	.329
	2004 and later	25	75.80	8.32		

Appendix Table 5.8 The Influence of Problems on Firms' Operations and Ownership Pattern of the Foreign Equity

Problems	Group	N	M	SD	T	p
Corruption	WOS	38	3.03	1.17	-.832	.408
	JV	35	3.26	1.20		
Informal economy	WOS	38	3.08	1.12	-.323	.747
	JV	35	3.17	1.32		
Uncertainties arising from the macroeconomy	WOS	38	3.76	1.10	-.036	.972
	JV	35	3.77	.84		
Lack of depth in finance markets	WOS	38	3.16	1.03	-.058	.954
	JV	35	3.17	.95		
Chronic inflation	WOS	38	3.26	1.03	-.692	.491
	JV	35	3.43	1.01		
Government/state intervention in economy	WOS	38	3.47	1.01	.839	.404
	JV	35	3.26	1.20		
Volatility of the political environment	WOS	38	3.68	1.02	-.247	.806
	JV	35	3.74	1.01		
Poor quality of democratic institutions	WOS	38	3.05	1.06	1.273	.207
	JV	35	2.74	1.01		
Threat of an authoritarian / fundamentalist regime	WOS	38	2.68	1.21	-.102	.919
	JV	35	2.71	1.32		
Ethnic tension	WOS	38	2.50	1.25	.331	.741
	JV	35	2.40	1.33		
Low security of intellectual property	WOS	38	3.05	1.27	-.609	.545
	JV	35	3.23	1.19		
Bureaucratic burden and delay	WOS	38	3.87	.96	-1.034	.304
	JV	35	4.09	.82		
Governmental and bureaucratic failures in keeping promises made to foreign investors	WOS	38	3.53	1.11	.043	.966
	JV	35	3.51	1.29		
Frequent changes in business legislation and rules	WOS	38	3.95	1.09	-.691	.492
	JV	35	4.11	.96		
Absence of a legal base in applications	WOS	38	3.63	1.00	.136	.892
	JV	35	3.60	.98		
High tax burden on employment	WOS	38	3.92	.94	.658	.513
	JV	35	3.77	1.00		
Lack of generally accepted accounting rules (IFRS, US GAAP)	WOS	38	2.95	1.21	.891	.376
	JV	35	2.69	1.30		
The significance of the extent of relations with the government and/or bureaucracy in conducting business	WOS	38	3.37	.82	-.669	.506
	JV	35	3.51	1.04		
Social problems of expatriate families	WOS	38	2.00	.99	.479	.633
	JV	35	1.89	1.05		

Appendix Table 5.8 (continued)

Difficulties in obtaining work permits for expatriates	WOS	38	2.45	1.37	-.220	.827
	JV	35	2.51	1.22		
Cumulative influence of problems on firms' operations	WOS	38	64.39	11.01	-.066	.947
	JV	35	64.57	11.79		

Appendix Table 5.9 The Influence of Problems on Firms' Operations and Country of Origin of the Foreign Equity

Problems	Group	N	M	SD	t	P
Corruption	Western	58	3.22	1.17	1.243	.218
	Non-Western	15	2.80	1.21		
Informal economy	Western	58	3.14	1.16	.202	.841
	Non-Western	15	3.07	1.44		
Uncertainties arising from the macroeconomy	Western	58	3.69	.99	-1.336	.186
	Non-Western	15	4.07	.88		
Lack of depth in finance markets	Western	58	3.21	.95	.722	.473
	Non-Western	15	3.00	1.13		
Chronic inflation	Western	58	3.34	1.05	.039	.969
	Non-Western	15	3.33	.90		
Government/state intervention in economy	Western	58	3.40	1.08	.406	.686
	Non-Western	15	3.27	1.22		
Volatility of the political environment	Western	58	3.71	.99	-.090	.929
	Non-Western	15	3.73	1.10		
Poor quality of democratic institutions	Western	58	2.91	1.06	.155	.877
	Non-Western	15	2.87	.99		
Threat of an authoritarian / fundamentalist regime	Western	58	2.81	1.23	1.509	.136
	Non-Western	15	2.27	1.28		
Ethnic tension	Western	58	2.52	1.29	.854	.396
	Non-Western	15	2.20	1.26		
Low security of intellectual property	Western	58	3.10	1.27	-.456	.650
	Non-Western	15	3.27	1.10		
Bureaucratic burden and delay	Western	58	3.93	.90	-.776	.440
	Non-Western	15	4.13	.92		
Governmental and bureaucratic failures in keeping promises made to foreign investors	Western	58	3.62	1.15	1.422	.159
	Non-Western	15	3.13	1.30		
Frequent changes in business legislation and rules	Western	58	4.02	1.07	-.165	.869
	Non-Western	15	4.07	.88		
Absence of a legal base in applications	Western	58	3.69	.94	1.259	.212
	Non-Western	15	3.33	1.11		
High tax burden on employment	Western	58	3.79	.89	-.976	.332
	Non-Western	15	4.07	1.22		
Lack of generally accepted accounting rules (IFRS, US GAAP)	Western	58	2.93	1.18	1.477	.144
	Non-Western	15	2.40	1.45		
The significance of the extent of relations with the government and/or bureaucracy in conducting business	Western	58	3.38	.88	-1.070	.288
	Non-Western	15	3.67	1.11		

Appendix Table 5.9 (continued)

Social problems of expatriate families	Western	58	1.90	.97	-.806	.423
	Non-Western	15	2.13	1.19		
Difficulties in obtaining work permits for expatriates	Western	58	2.38	1.25	-1.308	.195
	Non-Western	15	2.87	1.41		
Cumulative influence of problems on firms' operations	Western	58	64.69	10.65	.310	.757
	Non-Western	15	63.67	13.98		

Appendix Table 5.10 The Influence of Problems on Firms' Operations and Industry of the Foreign Equity

Problems	Group	N	M	SD	F	P
Corruption	Manufacturing	30	3.37	1.19	2.805	.067
	Service	32	2.78	1.16		
	Information and communication technology	11	3.55	1.04		
Informal economy	Manufacturing	30	3.33	1.21	.975	.382
	Service	32	2.91	1.09		
	Information and communication technology	11	3.18	1.54		
Uncertainties arising from the macroeconomy	Manufacturing	30	3.83	.95	.383	.683
	Service	32	3.66	1.10		
	Information and communication technology	11	3.91	.70		
Lack of depth in finance markets	Manufacturing	30	3.10	.99	1.281	.284
	Service	32	3.34	1.00		
	Information and communication technology	11	2.82	.87		
Chronic inflation	Manufacturing	30	3.23	1.07	.309	.735
	Service	32	3.44	1.01		
	Information and communication technology	11	3.36	.92		
Government/state intervention in economy	Manufacturing	30	3.37	1.22	.217	.806
	Service	32	3.44	.98		
	Information and communication technology	11	3.18	1.17		
Volatility of the political environment	Manufacturing	30	4.00	.95	2.172	.122
	Service	32	3.53	1.02		
	Information and communication technology	11	3.45	1.04		
Poor quality of democratic institutions	Manufacturing	30	3.20	1.03	2.286	.109
	Service	32	2.75	1.05		
	Information and communication technology	11	2.55	.93		
Threat of an authoritarian / fundamentalist regime	Manufacturing	30	2.53	1.33	.470	.627
	Service	32	2.84	1.19		
	Information and communication technology	11	2.73	1.27		

Appendix Table 5.10 (continued)

Ethnic tension	Manufacturing	30	2.67	1.40	.776	.464
	Service	32	2.34	1.18		
	Information and communication technology	11	2.18	1.25		
Low security of intellectual property	Manufacturing	30	3.07	1.23	.430	.652
	Service	32	3.09	1.28		
	Information and communication technology	11	3.45	1.13		
Bureaucratic burden and delay	Manufacturing	30	3.93	.78	.048	.954
	Service	32	4.00	1.02		
	Information and communication technology	11	4.00	.89		
Governmental and bureaucratic failures in keeping promises made to foreign investors	Manufacturing	30	3.70	.99	.811	.449
	Service	32	3.47	1.27		
	Information and communication technology	11	3.18	1.47		
Frequent changes in business legislation and rules	Manufacturing	30	4.13	.86	.279	.757
	Service	32	3.97	1.20		
	Information and communication technology	11	3.91	.94		
Absence of a legal base in applications	Manufacturing	30	3.70	.92	.468	.628
	Service	32	3.63	1.01		
	Information and communication technology	11	3.36	1.12		
High tax burden on employment	Manufacturing	30	3.97	.76	.389	.679
	Service	32	3.75	.98		
	Information and communication technology	11	3.82	1.40		
Lack of generally accepted accounting rules (IFRS, US GAAP)	Manufacturing	30	2.67	1.18	1.094	.340
	Service	32	3.06	1.27		
	Information and communication technology	11	2.55	1.37		
The significance of the extent of relations with the government and/or bureaucracy in conducting business	Manufacturing	30	3.07	.87	4.523	.014
	Service	32	3.72	.77		
	Information and communication technology	11	3.64	1.21		

Appendix Table 5.10 (continued)

Social problems of expatriate families	Manufacturing	30	1.83	1.02	.309	.735
	Service	32	2.03	1.03		
	Information and communication technology	11	2.00	1.00		
Difficulties in obtaining work permits for expatriates	Manufacturing	30	2.07	1.14	2.809	.067
	Service	32	2.81	1.28		
	Information and communication technology	11	2.64	1.50		
Cumulative influence of problems on firms' operations	Manufacturing	30	64.77	10.51	.054	.947
	Service	32	64.56	11.00		
	Information and communication technology	11	63.45	15.00		

Appendix Table 5.11 The Influence of Problems on Firms' Operations and Capital Size of the Foreign Equity

Problems	Group	N	M	SD	F	P
Corruption	Low	18	3.22	1.17	.536	.587
	Medium	37	3.00	1.25		
	High	18	3.33	1.08		
Informal economy	Low	18	2.72	1.23	1.699	.190
	Medium	37	3.35	1.16		
	High	18	3.06	1.26		
Uncertainties arising from the macroeconomy	Low	18	3.50	1.04	1.138	.326
	Medium	37	3.92	1.04		
	High	18	3.72	.75		
Lack of depth in finance markets	Low	18	3.11	.96	1.223	.301
	Medium	37	3.32	1.03		
	High	18	2.89	.90		
Chronic inflation	Low	18	3.06	1.00	1.004	.372
	Medium	37	3.41	1.09		
	High	18	3.50	.86		
Government/state intervention in economy	Low	18	3.11	1.13	1.474	.236
	Medium	37	3.32	1.11		
	High	18	3.72	1.02		
Volatility of the political environment	Low	18	3.56	.92	.306	.737
	Medium	37	3.78	1.06		
	High	18	3.72	1.02		
Poor quality of democratic institutions	Low	18	2.44	1.10	2.577	.083
	Medium	37	3.11	1.02		
	High	18	2.94	.94		
Threat of an authoritarian / fundamentalist regime	Low	18	2.44	1.15	3.357	.041
	Medium	37	3.05	1.22		
	High	18	2.22	1.26		
Ethnic tension	Low	18	2.06	1.16	1.310	.276
	Medium	37	2.65	1.25		
	High	18	2.44	1.42		
Low security of intellectual property	Low	18	2.72	1.13	1.411	.251
	Medium	37	3.24	1.23		
	High	18	3.33	1.28		
Bureaucratic burden and delay	Low	18	3.89	1.13	.101	.904
	Medium	37	4.00	.88		
	High	18	4.00	.69		
Governmental and bureaucratic failures in keeping promises made to foreign investors	Low	18	3.39	1.38	.274	.761
	Medium	37	3.62	1.14		
	High	18	3.44	1.15		

Appendix Table 5.11 (continued)

Frequent changes in business legislation and rules	Low	18	3.89	1.32	.231	.794
	Medium	37	4.05	.94		
	High	18	4.11	.90		
Absence of a legal base in applications	Low	18	3.56	1.20	.053	.948
	Medium	37	3.65	.98		
	High	18	3.61	.78		
High tax burden on employment	Low	18	3.50	.99	1.589	.211
	Medium	37	3.97	.87		
	High	18	3.94	1.11		
Lack of generally accepted accounting rules (IFRS, US GAAP)	Low	18	2.61	1.09	.576	.565
	Medium	37	2.97	1.40		
	High	18	2.72	1.07		
The significance of the extent of relations with the government and/or bureaucracy in conducting business	Low	18	3.50	.71	.625	.538
	Medium	37	3.32	.97		
	High	18	3.61	1.04		
Social problems of expatriate families	Low	18	1.78	1.00	.683	.508
	Medium	37	1.92	1.01		
	High	18	2.17	1.04		
Difficulties in obtaining work permits for expatriates	Low	18	3.06	1.51	3.410	.039
	Medium	37	2.14	1.16		
	High	18	2.61	1.14		
Cumulative influence of problems on firms' operations	Low	18	61.11	9.34	1.085	.344
	Medium	37	65.81	12.80		
	High	18	65.11	9.57		

Appendix Table 5.12 The Influence of Problems on Firms' Operations and Employee Size of the Foreign Equity

Problems	Group	N	M	SD	F	P
Corruption	Low	18	2.83	1.25	.785	.460
	Medium	37	3.24	1.19		
	High	18	3.22	1.11		
Informal economy	Low	18	2.89	1.28	.990	.377
	Medium	37	3.08	1.28		
	High	18	3.44	.98		
Uncertainties arising from the macroeconomy	Low	18	3.50	1.20	1.397	.254
	Medium	37	3.95	.88		
	High	18	3.67	.91		
Lack of depth in finance markets	Low	18	3.44	.98	2.785	.069
	Medium	37	3.24	.98		
	High	18	2.72	.89		
Chronic inflation	Low	18	3.06	1.00	.951	.391
	Medium	37	3.43	1.12		
	High	18	3.44	.78		
Government/state intervention in economy	Low	18	3.17	.92	.446	.642
	Medium	37	3.41	1.24		
	High	18	3.50	.99		
Volatility of the political environment	Low	18	3.61	1.09	.218	.805
	Medium	37	3.70	1.05		
	High	18	3.83	.86		
Poor quality of democratic institutions	Low	18	2.61	1.29	1.097	.339
	Medium	37	2.95	1.00		
	High	18	3.11	.83		
Threat of an authoritarian / fundamentalist regime	Low	18	2.94	1.30	.903	.410
	Medium	37	2.73	1.24		
	High	18	2.39	1.24		
Ethnic tension	Low	18	2.28	1.41	.466	.629
	Medium	37	2.59	1.26		
	High	18	2.33	1.24		
Low security of intellectual property	Low	18	2.56	1.25	3.287	.043
	Medium	37	3.43	1.17		
	High	18	3.11	1.18		
Bureaucratic burden and delay	Low	18	3.89	1.08	.101	.904
	Medium	37	4.00	.91		
	High	18	4.00	.69		

Appendix Table 5.12 (continued)

Governmental and bureaucratic failures in keeping promises made to foreign investors	Low	18	3.39	1.38	.274	.761
	Medium	37	3.62	1.19		
	High	18	3.44	1.04		
Frequent changes in business legislation and rules	Low	18	4.11	1.18	.231	.794
	Medium	37	3.95	1.00		
	High	18	4.11	.96		
Absence of a legal base in applications	Low	18	3.67	1.08	.057	.944
	Medium	37	3.62	1.04		
	High	18	3.56	.78		
High tax burden on employment	Low	18	3.56	.98	1.286	.283
	Medium	37	3.89	1.02		
	High	18	4.06	.80		
Lack of generally accepted accounting rules (IFRS, US GAAP)	Low	18	2.78	1.40	.256	.775
	Medium	37	2.92	1.26		
	High	18	2.67	1.14		
The significance of the extent of relations with the government and/or bureaucracy in conducting business	Low	18	3.39	.85	.064	.938
	Medium	37	3.43	.99		
	High	18	3.50	.92		
Social problems of expatriate families	Low	18	1.78	1.06	1.347	.267
	Medium	37	1.86	1.00		
	High	18	2.28	.96		
Difficulties in obtaining work permits for expatriates	Low	18	2.56	1.50	.876	.421
	Medium	37	2.30	1.31		
	High	18	2.78	1.00		
Cumulative influence of problems on firms' operations	Low	18	62.00	10.84	.569	.569
	Medium	37	65.35	12.76		
	High	18	65.17	8.42		

Appendix Table 5.13 The Influence of Problems on Firms' Operations and Sales Volume of the Foreign Equity

Problems	Group	N	M	SD	F	P
Corruption	Low	18	2.61	1.14	2.540	.086
	Medium	37	3.35	1.18		
	High	18	3.22	1.11		
Informal economy	Low	18	2.72	1.27	1.699	.190
	Medium	37	3.35	1.18		
	High	18	3.06	1.16		
Uncertainties arising from the macroeconomy	Low	18	3.50	.86	1.751	.181
	Medium	37	3.97	1.07		
	High	18	3.61	.85		
Lack of depth in finance markets	Low	18	3.56	.92	2.552	.085
	Medium	37	3.14	1.06		
	High	18	2.83	.79		
Chronic inflation	Low	18	3.33	1.03	.304	.739
	Medium	37	3.27	1.12		
	High	18	3.50	.79		
Government/state intervention in economy	Low	18	3.22	.94	.284	.754
	Medium	37	3.38	1.23		
	High	18	3.50	.99		
Volatility of the political environment	Low	18	3.67	.97	.024	.976
	Medium	37	3.73	1.02		
	High	18	3.72	1.07		
Poor quality of democratic institutions	Low	18	2.61	1.09	.980	.380
	Medium	37	2.97	1.04		
	High	18	3.06	1.00		
Threat of an authoritarian / fundamentalist regime	Low	18	3.11	1.18	2.368	.101
	Medium	37	2.73	1.22		
	High	18	2.22	1.31		
Ethnic tension	Low	18	2.33	1.33	.466	.629
	Medium	37	2.59	1.28		
	High	18	2.28	1.27		
Low security of intellectual property	Low	18	2.83	1.20	.768	.468
	Medium	37	3.27	1.28		
	High	18	3.17	1.15		
Bureaucratic burden and delay	Low	18	3.89	1.02	.152	.860
	Medium	37	4.03	.93		
	High	18	3.94	.73		
Governmental and bureaucratic failures in keeping promises made to foreign investors	Low	18	3.28	1.27	1.495	.231
	Medium	37	3.76	1.19		
	High	18	3.28	1.07		

Appendix Table 5.13 (continued)

Frequent changes in business legislation and rules	Low	18	4.06	1.16	.283	.754
	Medium	37	3.95	1.08		
	High	18	4.17	.79		
Absence of a legal base in applications	Low	18	3.61	1.20	.413	.663
	Medium	37	3.70	.94		
	High	18	3.44	.86		
High tax burden on employment	Low	18	3.83	.99	.574	.566
	Medium	37	3.76	.93		
	High	18	4.06	1.06		
Lack of generally accepted accounting rules (IFRS, US GAAP)	Low	18	3.28	1.27	1.648	.200
	Medium	37	2.70	1.27		
	High	18	2.61	1.14		
The significance of the extent of relations with the government and/or bureaucracy in conducting business	Low	18	3.50	.79	1.013	.368
	Medium	37	3.30	1.00		
	High	18	3.67	.91		
Social problems of expatriate families	Low	18	1.94	1.11	1.000	.373
	Medium	37	1.81	.97		
	High	18	2.22	1.00		
Difficulties in obtaining work permits for expatriates	Low	18	2.61	1.50	.774	.465
	Medium	37	2.30	1.29		
	High	18	2.72	1.07		
Cumulative influence of problems on firms' operations	Low	18	63.50	10.55	.115	.891
	Medium	37	65.05	12.63		
	High	18	64.28	9.55		

Appendix Table 5.14 The Influence of Problems on Firms' Operations and Entry Year of the Foreign Equity

	Group	N	M	SD	t	P
Corruption	2003 and prior	48	3.21	1.20	.712	.479
	2004 and later	25	3.00	1.15		
Informal economy	2003 and prior	48	3.21	1.13	.828	.410
	2004 and later	25	2.96	1.37		
Uncertainties arising from the macroeconomy	2003 and prior	48	3.77	.97	.045	.965
	2004 and later	25	3.76	1.01		
Lack of depth in finance markets	2003 and prior	48	3.02	.91	-1.748	.085
	2004 and later	25	3.44	1.08		
Chronic inflation	2003 and prior	48	3.35	.98	.135	.893
	2004 and later	25	3.32	1.11		
Government/state intervention in economy	2003 and prior	48	3.40	1.12	.278	.782
	2004 and later	25	3.32	1.07		
Volatility of the political environment	2003 and prior	48	3.73	.96	.197	.845
	2004 and later	25	3.68	1.11		
Poor quality of democratic institutions	2003 and prior	48	3.02	1.02	1.332	.187
	2004 and later	25	2.68	1.07		
Threat of an authoritarian / fundamentalist regime	2003 and prior	48	2.65	1.25	-.496	.622
	2004 and later	25	2.80	1.29		
Ethnic tension	2003 and prior	48	2.56	1.25	1.021	.311
	2004 and later	25	2.24	1.33		
Low security of intellectual property	2003 and prior	48	3.19	1.23	.484	.630
	2004 and later	25	3.04	1.24		
Bureaucratic burden and delay	2003 and prior	48	3.90	.90	-1.013	.314
	2004 and later	25	4.12	.88		
Governmental and bureaucratic failures in keeping promises made to foreign investors	2003 and prior	48	3.52	1.09	.003	.998
	2004 and later	25	3.52	1.39		
Frequent changes in business legislation and rules	2003 and prior	48	3.92	1.07	-1.282	.204
	2004 and later	25	4.24	.93		
Absence of a legal base in applications	2003 and prior	48	3.52	.95	-1.157	.251
	2004 and later	25	3.80	1.04		
High tax burden on employment	2003 and prior	48	4.02	.89	2.152	.035
	2004 and later	25	3.52	1.05		
Lack of generally accepted accounting rules (IFRS, US GAAP)	2003 and prior	48	2.75	1.21	-.678	.500
	2004 and later	25	2.96	1.34		
The significance of the extent of relations with the government and/or bureaucracy in conducting business	2003 and prior	48	3.35	.89	-1.075	.286
	2004 and later	25	3.60	1.00		

Appendix Table 5.14 (continued)

Social problems of expatriate families	2003 and prior	48	1.94	1.04	-.089	.929
	2004 and later	25	1.96	.98		
Difficulties in obtaining work permits for expatriates	2003 and prior	48	2.50	1.30	.187	.852
	2004 and later	25	2.44	1.29		
Cumulative influence of problems on firms' operations	2003 and prior	48	64.52	11.74	.043	.966
	2004 and later	25	64.40	10.67		

Appendix Table 5.15 The Progress Achieved in the Solution of the Problems and Ownership Pattern of the Foreign Equity

Problems	Group	N	M	SD	t	p
Corruption	WOS	38	2.32	.96	-.116	.908
	JV	35	2.34	1.03		
Informal economy	WOS	38	2.55	1.08	.781	.437
	JV	35	2.37	.88		
Uncertainties arising from the macroeconomy	WOS	38	2.71	1.01	-1.001	.320
	JV	35	2.94	.97		
Lack of depth in finance markets	WOS	38	2.89	.98	-.360	.720
	JV	35	2.97	.82		
Chronic inflation	WOS	38	3.39	1.22	.093	.926
	JV	35	3.37	.88		
Government/state intervention in economy	WOS	38	2.87	1.02	.177	.860
	JV	35	2.83	.89		
Volatility of the political environment	WOS	38	2.71	1.04	.438	.662
	JV	35	2.60	1.12		
Poor quality of democratic institutions	WOS	38	2.63	.94	.136	.892
	JV	35	2.60	1.03		
Threat of an authoritarian / fundamentalist regime	WOS	38	2.47	1.22	.274	.785
	JV	35	2.40	1.06		
Ethnic tension	WOS	38	2.39	1.15	-.135	.893
	JV	35	2.43	.98		
Low security of intellectual property	WOS	38	2.68	1.07	.253	.801
	JV	35	2.63	.77		
Bureaucratic burden and delay	WOS	38	2.53	1.22	.588	.558
	JV	35	2.37	1.00		
Governmental and bureaucratic failures in keeping promises made to foreign investors	WOS	38	2.66	.97	.247	.247
	JV	35	2.60	1.03		
Frequent changes in business legislation and rules	WOS	38	2.29	1.04	-.777	.440
	JV	35	2.49	1.12		
Absence of a legal base in applications	WOS	38	2.61	1.05	-.468	.641
	JV	35	2.71	.93		
High tax burden on employment	WOS	38	2.29	1.23	-.510	.612
	JV	35	2.43	1.09		
Lack of generally accepted accounting rules (IFRS, US GAAP)	WOS	38	2.68	.99	-.711	.479
	JV	35	2.86	1.09		
The significance of the extent of relations with the government and/or bureaucracy in conducting business	WOS	38	2.55	1.01	-.314	.754
	JV	35	2.63	1.06		
Social problems of expatriate families	WOS	38	2.50	1.20	-.573	.569
	JV	35	2.66	1.14		

Appendix Table 5.15 (continued)

Difficulties in obtaining work permits for expatriates	WOS	38	2.37	1.20	-.115	.909
	JV	35	2.40	1.14		
Cumulative perception of achieved progress in the problems	WOS	38	52.11	13.98	-.161	.872
	JV	35	52.63	13.71		

Appendix Table 5.16 The Progress Achieved in the Solution of the Problems and Country of Origin of the Foreign Equity

Problems	Group	N	M	SD	t	p
Corruption	Western	58	2.38	.97	.859	.393
	Non-Western	15	2.13	1.06		
Informal economy	Western	58	2.52	1.01	.875	.385
	Non-Western	15	2.27	.88		
Uncertainties arising from the macroeconomy	Western	58	2.79	1.02	-.486	.628
	Non-Western	15	2.93	.88		
Lack of depth in finance markets	Western	58	2.91	.94	-.328	.744
	Non-Western	15	3.00	.76		
Chronic inflation	Western	58	3.47	1.10	1.302	.197
	Non-Western	15	3.07	.88		
Government/state intervention in economy	Western	58	2.86	.93	.223	.824
	Non-Western	15	2.80	1.08		
Volatility of the political environment	Western	58	2.71	1.03	.773	.442
	Non-Western	15	2.47	1.25		
Poor quality of democratic institutions	Western	58	2.64	.97	.366	.715
	Non-Western	15	2.53	1.06		
Threat of an authoritarian / fundamentalist regime	Western	58	2.45	1.16	.145	.885
	Non-Western	15	2.40	1.12		
Ethnic tension	Western	58	2.48	1.10	1.135	.260
	Non-Western	15	2.13	.92		
Low security of intellectual property	Western	58	2.60	.94	-.975	.333
	Non-Western	15	2.87	.92		
Bureaucratic burden and delay	Western	58	2.50	1.14	.718	.475
	Non-Western	15	2.27	1.03		
Governmental and bureaucratic failures in keeping promises made to foreign investors	Western	58	2.66	.97	.421	.675
	Non-Western	15	2.53	1.13		

Appendix Table 5.16 (continued)

Frequent changes in business legislation and rules	Western	58	2.41	1.09	.470	.640
	Non-Western	15	2.27	1.03		
Absence of a legal base in applications	Western	58	2.67	1.00	.251	.802
	Non-Western	15	2.60	.99		
High tax burden on employment	Western	58	2.38	1.15	.333	.740
	Non-Western	15	2.27	1.22		
Lack of generally accepted accounting rules (IFRS, US GAAP)	Western	58	2.74	1.02	-.416	.679
	Non-Western	15	2.87	1.13		
The significance of the extent of relations with the government and/or bureaucracy in conducting business	Western	58	2.62	1.01	.516	.607
	Non-Western	15	2.47	1.13		
Social problems of expatriate families	Western	58	2.53	1.17	-.586	.560
	Non-Western	15	2.73	1.16		
Difficulties in obtaining work permits for expatriates	Western	58	2.33	1.18	-.807	.422
	Non-Western	15	2.60	1.12		
Cumulative perception of achieved progress in the problems	Western	58	52.66	13.66	.363	.718
	Non-Western	15	51.20	14.54		

Appendix Table 5.17 The Progress Achieved in the Solution of the Problems and Industry of the Foreign Equity

Problems	Group	N	M	SD	F	p
Corruption	Manufacturing	30	2.37	1.07	.370	.692
	Service	32	2.38	.94		
	Information and communication technology	11	2.09	.94		
Informal economy	Manufacturing	30	2.50	.97	.075	.928
	Service	32	2.47	1.02		
	Information and communication technology	11	2.36	1.03		
Uncertainties arising from the macroeconomy	Manufacturing	30	3.13	.86	2.638	.079
	Service	32	2.59	1.10		
	Information and communication technology	11	2.64	.81		
Lack of depth in finance markets	Manufacturing	30	3.07	.83	.611	.546
	Service	32	2.81	1.03		
	Information and communication technology	11	2.91	.70		
Chronic inflation	Manufacturing	30	3.67	.80	4.115	.020
	Service	32	3.38	1.21		
	Information and communication technology	11	2.64	.92		
Government/state intervention in economy	Manufacturing	30	2.90	.76	.070	.932
	Service	32	2.81	1.09		
	Information and communication technology	11	2.82	1.08		
Volatility of the political environment	Manufacturing	30	2.80	.89	.445	.642
	Service	32	2.56	1.19		
	Information and communication technology	11	2.55	1.21		
Poor quality of democratic institutions	Manufacturing	30	2.53	.90	.200	.819
	Service	32	2.66	1.04		
	Information and communication technology	11	2.73	1.10		
Threat of an authoritarian / fundamentalist regime	Manufacturing	30	2.17	.95	1.881	.160
	Service	32	2.72	1.25		
	Information and communication technology	11	2.36	1.21		
Ethnic tension	Manufacturing	30	2.37	1.00	.478	.622
	Service	32	2.53	1.16		
	Information and communication technology	11	2.18	.98		

Appendix Table 5.17 (continued)

Low security of intellectual property	Manufacturing	30	2.83	.87	1.619	.205
	Service	32	2.44	.98		
	Information and communication technology	11	2.82	.87		
Bureaucratic burden and delay	Manufacturing	30	2.57	.97	.674	.513
	Service	32	2.28	1.11		
	Information and communication technology	11	2.64	1.50		
Governmental and bureaucratic failures in keeping promises made to foreign investors	Manufacturing	30	2.67	.88	.370	.692
	Service	32	2.53	1.05		
	Information and communication technology	11	2.82	1.17		
Frequent changes in business legislation and rules	Manufacturing	30	2.40	1.04	.048	.953
	Service	32	2.34	1.07		
	Information and communication technology	11	2.45	1.29		
Absence of a legal base in applications	Manufacturing	30	2.67	.96	.498	.610
	Service	32	2.56	.98		
	Information and communication technology	11	2.91	1.14		
High tax burden on employment	Manufacturing	30	2.53	1.07	.602	.550
	Service	32	2.25	1.14		
	Information and communication technology	11	2.18	1.47		
Lack of generally accepted accounting rules (IFRS, US GAAP)	Manufacturing	30	2.77	1.01	.717	.492
	Service	32	2.66	.97		
	Information and communication technology	11	3.09	1.30		
The significance of the extent of relations with the government and/or bureaucracy in conducting business	Manufacturing	30	2.73	.91	.505	.605
	Service	32	2.50	1.14		
	Information and communication technology	11	2.45	1.04		
Social problems of expatriate families	Manufacturing	30	2.60	1.25	.043	.957
	Service	32	2.53	1.16		
	Information and communication technology	11	2.64	1.03		
Difficulties in obtaining work permits for expatriates	Manufacturing	30	2.33	1.09	.301	.741
	Service	32	2.34	1.18		
	Information and communication technology	11	2.64	1.36		

Appendix Table 5.17 (continued)

Cumulative perception of achieved progress in the problems	Manufacturing	30	53.60	11.12	.210	.811
	Service	32	51.34	15.55		
	Information and communication technology	11	51.91	15.70		

Appendix Table 5.18 The Progress Achieved in the Solution of the Problems and Capital Size of the Foreign Equity

Problems	Group	N	M	SD	F	p
Corruption	Low	18	1.83	.71	4.550	.014
	Medium	37	2.35	.79		
	High	18	2.78	1.35		
Informal economy	Low	18	2.17	1.20	2.667	.077
	Medium	37	2.41	.76		
	High	18	2.89	1.08		
Uncertainties arising from the macroeconomy	Low	18	2.00	.91	11.703	.000
	Medium	37	2.97	.73		
	High	18	3.33	1.08		
Lack of depth in finance markets	Low	18	2.17	.92	13.913	.000
	Medium	37	3.03	.69		
	High	18	3.50	.79		
Chronic inflation	Low	18	2.89	1.41	3.450	.037
	Medium	37	3.43	.93		
	High	18	3.78	.73		
Government/state intervention in economy	Low	18	2.22	1.00	5.877	.004
	Medium	37	3.05	.74		
	High	18	3.06	1.06		
Volatility of the political environment	Low	18	2.17	1.20	3.067	.053
	Medium	37	2.73	.90		
	High	18	3.00	1.14		
Poor quality of democratic institutions	Low	18	2.39	1.20	.650	.525
	Medium	37	2.68	.82		
	High	18	2.72	1.07		
Threat of an authoritarian / fundamentalist regime	Low	18	1.94	1.11	2.316	.106
	Medium	37	2.59	1.14		
	High	18	2.61	1.09		
Ethnic tension	Low	18	1.89	1.08	3.130	.050
	Medium	37	2.54	.99		
	High	18	2.67	1.08		
Low security of intellectual property	Low	18	2.00	.91	7.290	.001
	Medium	37	2.81	.88		
	High	18	3.00	.77		
Bureaucratic burden and delay	Low	18	1.94	1.26	2.614	.080
	Medium	37	2.65	1.01		
	High	18	2.56	1.10		
Governmental and bureaucratic failures in keeping promises made to foreign investors	Low	18	2.11	1.08	3.615	.032
	Medium	37	2.76	.83		
	High	18	2.89	1.08		

Appendix Table 5.18 (continued)

Frequent changes in business legislation and rules	Low	18	1.89	1.08	3.753	.028
	Medium	37	2.41	.90		
	High	18	2.83	1.25		
Absence of a legal base in applications	Low	18	2.00	.97	6.109	.004
	Medium	37	2.84	.76		
	High	18	2.94	1.16		
High tax burden on employment	Low	18	1.94	1.16	1.573	.215
	Medium	37	2.46	1.17		
	High	18	2.56	1.10		
Lack of generally accepted accounting rules (IFRS, US GAAP)	Low	18	2.28	1.07	2.883	.063
	Medium	37	2.89	.88		
	High	18	3.00	1.19		
The significance of the extent of relations with the government and/or bureaucracy in conducting business	Low	18	1.83	.86	10.629	.000
	Medium	37	2.65	.89		
	High	18	3.22	1.00		
Social problems of expatriate families	Low	18	1.94	.87	5.085	.009
	Medium	37	2.62	1.19		
	High	18	3.11	1.13		
Difficulties in obtaining work permits for expatriates	Low	18	1.83	1.29	3.097	.051
	Medium	37	2.49	1.07		
	High	18	2.72	1.07		
Cumulative perception of achieved progress in the problems	Low	18	41.44	13.67	10.420	.000
	Medium	37	54.35	9.99		
	High	18	59.17	14.81		

Appendix Table 5.19 The Progress Achieved in the Solution of the Problems and Employee Size of the Foreign Equity

Problems	Group	N	M	SD	F	P
Corruption	Low	18	2.06	.80	1.803	.172
	Medium	37	2.30	.94		
	High	18	2.67	1.19		
Informal economy	Low	18	2.17	.86	1.460	.239
	Medium	37	2.49	1.07		
	High	18	2.72	.89		
Uncertainties arising from the macroeconomy	Low	18	2.44	1.15	2.926	.060
	Medium	37	2.81	.88		
	High	18	3.22	.94		
Lack of depth in finance markets	Low	18	2.17	.79	11.588	.000
	Medium	37	3.11	.84		
	High	18	3.33	.69		
Chronic inflation	Low	18	2.89	1.28	3.450	.037
	Medium	37	3.43	1.04		
	High	18	3.78	.65		
Government/state intervention in economy	Low	18	2.39	1.04	4.286	.018
	Medium	37	2.86	.86		
	High	18	3.28	.89		
Volatility of the political environment	Low	18	2.50	1.25	1.257	.291
	Medium	37	2.57	.96		
	High	18	3.00	1.08		
Poor quality of democratic institutions	Low	18	2.44	1.20	1.410	.251
	Medium	37	2.54	.84		
	High	18	2.94	1.00		
Threat of an authoritarian / fundamentalist regime	Low	18	2.22	1.40	1.527	.224
	Medium	37	2.35	1.06		
	High	18	2.83	.99		
Ethnic tension	Low	18	2.33	1.24	1.456	.240
	Medium	37	2.27	.99		
	High	18	2.78	1.00		
Low security of intellectual property	Low	18	2.28	1.02	2.862	.064
	Medium	37	2.68	.91		
	High	18	3.00	.77		
Bureaucratic burden and delay	Low	18	2.39	1.29	.433	.650
	Medium	37	2.38	1.06		
	High	18	2.67	1.08		
Governmental and bureaucratic failures in keeping promises made to foreign investors	Low	18	2.50	1.15	1.214	.546
	Medium	37	2.54	.87		
	High	18	2.94	1.06		

Appendix Table 5.19 (continued)

Frequent changes in business legislation and rules	Low	18	2.06	1.11	2.576	.083
	Medium	37	2.32	.94		
	High	18	2.83	1.20		
Absence of a legal base in applications	Low	18	2.28	1.07	1.969	.147
	Medium	37	2.73	.87		
	High	18	2.89	1.08		
High tax burden on employment	Low	18	2.11	1.13	.567	.570
	Medium	37	2.41	1.24		
	High	18	2.50	1.04		
Lack of generally accepted accounting rules (IFRS, US GAAP)	Low	18	2.50	.99	.807	.450
	Medium	37	2.84	.99		
	High	18	2.89	1.18		
The significance of the extent of relations with the government and/or bureaucracy in conducting business	Low	18	2.39	.92	2.615	.080
	Medium	37	2.46	.96		
	High	18	3.06	1.16		
Social problems of expatriate families	Low	18	2.39	1.14	.495	.611
	Medium	37	2.57	1.21		
	High	18	2.78	1.11		
Difficulties in obtaining work permits for expatriates	Low	18	2.28	1.32	.280	.757
	Medium	37	2.35	1.14		
	High	18	2.56	1.10		
Cumulative perception of achieved progress in the problems	Low	18	46.78	14.64	3.635	.031
	Medium	37	52.00	12.55		
	High	18	58.67	13.33		

Appendix Table 5.20 The Progress Achieved in the Solution of the Problems and Sales Volume of the Foreign Equity

Problems	Group	N	M	SD	F	P
Corruption	Low	18	2.11	.83	.911	.407
	Medium	37	2.32	.91		
	High	18	2.56	1.25		
Informal economy	Low	18	2.22	1.00	.781	.462
	Medium	37	2.51	1.04		
	High	18	2.61	.85		
Uncertainties arising from the macroeconomy	Low	18	2.56	1.15	2.856	.064
	Medium	37	2.73	.87		
	High	18	3.28	.96		
Lack of depth in finance markets	Low	18	2.39	.85	5.365	.007
	Medium	37	3.03	.90		
	High	18	3.28	.75		
Chronic inflation	Low	18	3.06	1.06	1.813	.171
	Medium	37	3.38	1.19		
	High	18	3.72	.67		
Government/state intervention in economy	Low	18	2.67	.97	1.042	.358
	Medium	37	2.81	.91		
	High	18	3.11	1.02		
Volatility of the political environment	Low	18	2.56	1.25	.856	.429
	Medium	37	2.57	.96		
	High	18	2.94	1.11		
Poor quality of democratic institutions	Low	18	2.56	1.25	.318	.729
	Medium	37	2.57	.77		
	High	18	2.78	1.11		
Threat of an authoritarian / fundamentalist regime	Low	18	2.67	1.46	1.108	.336
	Medium	37	2.24	1.01		
	High	18	2.61	1.04		
Ethnic tension	Low	18	2.39	1.33	.437	.648
	Medium	37	2.32	.91		
	High	18	2.61	1.09		
Low security of intellectual property	Low	18	2.61	.92	1.174	.315
	Medium	37	2.54	.99		
	High	18	2.94	.80		
Bureaucratic burden and delay	Low	18	2.33	1.37	.175	.840
	Medium	37	2.46	.99		
	High	18	2.56	1.15		
Governmental and bureaucratic failures in keeping promises made to foreign investors	Low	18	2.33	1.08	1.439	.244
	Medium	37	2.65	.86		
	High	18	2.89	1.13		

Appendix Table 5.20 (continued)

Frequent changes in business legislation and rules	Low	18	2.00	1.08	2.450	.094
	Medium	37	2.38	.92		
	High	18	2.78	1.26		
Absence of a legal base in applications	Low	18	2.67	1.03	1.155	.321
	Medium	37	2.51	.90		
	High	18	2.94	1.11		
High tax burden on employment	Low	18	2.17	1.25	.379	.686
	Medium	37	2.38	1.16		
	High	18	2.50	1.10		
Lack of generally accepted accounting rules (IFRS, US GAAP)	Low	18	2.39	.85	1.663	.197
	Medium	37	2.86	1.03		
	High	18	2.94	1.16		
The significance of the extent of relations with the government and/or bureaucracy in conducting business	Low	18	2.33	1.14	3.402	.039
	Medium	37	2.46	.90		
	High	18	3.11	1.02		
Social problems of expatriate families	Low	18	2.33	.97	.826	.442
	Medium	37	2.57	1.24		
	High	18	2.83	1.20		
Difficulties in obtaining work permits for expatriates	Low	18	2.22	1.17	1.400	.253
	Medium	37	2.27	1.19		
	High	18	2.78	1.06		
Cumulative perception of achieved progress in the problems	Low	18	48.56	13.84	2.219	.116
	Medium	37	51.57	12.82		
	High	18	57.78	14.63		

Appendix Table 5.21 The Progress Achieved in the Solution of the Problems and Entry Year of the Foreign Equity

Problems	Group	N	M	SD	t	p
Corruption	2003 and prior	48	2.40	1.03	.803	.425
	2004 and later	25	2.20	.91		
Informal economy	2003 and prior	48	2.65	.98	2.218	.030
	2004 and later	25	2.12	.93		
Uncertainties arising from the macroeconomy	2003 and prior	48	2.98	1.02	1.913	.060
	2004 and later	25	2.52	.87		
Lack of depth in finance markets	2003 and prior	48	3.15	.85	2.959	.004
	2004 and later	25	2.52	.87		
Chronic inflation	2003 and prior	48	3.65	1.04	3.092	.003
	2004 and later	25	2.88	.93		
Government/state intervention in economy	2003 and prior	48	2.98	.96	1.632	.107
	2004 and later	25	2.60	.91		
Volatility of the political environment	2003 and prior	48	2.83	.97	1.984	.051
	2004 and later	25	2.32	1.18		
Poor quality of democratic institutions	2003 and prior	48	2.67	.93	.604	.548
	2004 and later	25	2.52	1.08		
Threat of an authoritarian / fundamentalist regime	2003 and prior	48	2.48	1.11	.420	.675
	2004 and later	25	2.36	1.22		
Ethnic tension	2003 and prior	48	2.44	1.07	.293	.770
	2004 and later	25	2.36	1.08		
Low security of intellectual property	2003 and prior	48	2.67	.88	.115	.909
	2004 and later	25	2.64	1.04		
Bureaucratic burden and delay	2003 and prior	48	2.44	1.07	-.153	.879
	2004 and later	25	2.48	1.23		
Governmental and bureaucratic failures in keeping promises made to foreign investors	2003 and prior	48	2.69	.99	.681	.498
	2004 and later	25	2.52	1.00		
Frequent changes in business legislation and rules	2003 and prior	48	2.46	1.09	.821	.414
	2004 and later	25	2.24	1.05		
Absence of a legal base in applications	2003 and prior	48	2.75	.93	1.109	.271
	2004 and later	25	2.48	1.08		
High tax burden on employment	2003 and prior	48	2.33	1.12	-.232	.817
	2004 and later	25	2.40	1.26		
Lack of generally accepted accounting rules (IFRS, US GAAP)	2003 and prior	48	2.75	1.04	-.195	.846
	2004 and later	25	2.80	1.04		
The significance of the extent of relations with the government and/or bureaucracy in conducting business	2003 and prior	48	2.63	1.04	.413	.681
	2004 and later	25	2.52	1.00		

Appendix Table 5.21 (continued)

Social problems of expatriate families	2003 and prior	48	2.56	1.22	-.130	.897
	2004 and later	25	2.60	1.08		
Difficulties in obtaining work permits for expatriates	2003 and prior	48	2.33	1.19	-.509	.612
	2004 and later	25	2.48	1.12		
Cumulative perception of achieved progress in the problems	2003 and prior	48	53.81	12.70	1.259	.212
	2004 and later	25	49.56	15.48		

Appendix Table 5.22 The Possibility of Prospective Solutions in the Oncoming Five-year Period and Ownership Pattern of the Foreign Equity

Problems	Group	N	M	SD	T	p
Corruption	WOS	38	2.82	1.06	.293	.771
	JV	35	2.74	1.07		
Informal economy	WOS	38	2.92	1.00	1.532	.130
	JV	35	2.57	.95		
Uncertainties arising from the macroeconomy	WOS	38	2.84	.86	-.866	.390
	JV	35	3.03	.98		
Lack of depth in finance markets	WOS	38	3.00	.90	.246	.807
	JV	35	2.94	1.08		
Chronic inflation	WOS	38	3.21	1.02	.978	.331
	JV	35	2.97	1.07		
Government/state intervention in economy	WOS	38	2.82	.87	1.243	.218
	JV	35	2.54	1.01		
Volatility of the political environment	WOS	38	2.58	.86	-.228	.821
	JV	35	2.63	1.00		
Poor quality of democratic institutions	WOS	38	2.58	.79	-.232	.818
	JV	35	2.63	1.03		
Threat of an authoritarian / fundamentalist regime	WOS	38	2.71	1.14	.419	.677
	JV	35	2.60	1.12		
Ethnic tension	WOS	38	2.50	.95	.064	.949
	JV	35	2.49	.95		
Low security of intellectual property	WOS	38	2.95	.84	1.201	.234
	JV	35	2.69	1.02		
Bureaucratic burden and delay	WOS	38	2.68	.93	-.138	.891
	JV	35	2.71	.93		
Governmental and bureaucratic failures in keeping promises made to foreign investors	WOS	38	2.71	.90	.512	.610
	JV	35	2.60	.95		
Frequent changes in business legislation and rules	WOS	38	2.42	.95	-.909	.366
	JV	35	2.63	1.00		
Absence of a legal base in applications	WOS	38	2.71	.96	-.016	.987
	JV	35	2.71	1.05		
High tax burden on employment	WOS	38	2.39	1.05	-.507	.613
	JV	35	2.51	.95		
Lack of generally accepted accounting rules (IFRS, US GAAP)	WOS	38	2.97	1.03	-.930	.355
	JV	35	3.20	1.05		
The significance of the extent of relations with the government and/or bureaucracy in conducting business	WOS	38	2.76	.91	.715	.477
	JV	35	2.60	1.03		
Social problems of expatriate families	WOS	38	2.66	1.24	-.295	.769
	JV	35	2.74	1.22		

Appendix Table 5.22 (continued)

Difficulties in obtaining work permits for expatriates	WOS	38	2.42	1.11	-.571	.570
	JV	35	2.57	1.14		
Cumulative possibility of prospective solutions to the problems	WOS	38	54.66	12.03	.182	.856
	JV	35	54.11	13.44		

Appendix Table 5.23 The Possibility of Prospective Solutions in the Oncoming Five-year Period and Country of Origin of the Foreign Equity

Problems	Group	N	M	SD	t	p
Corruption	Western	58	2.88	1.04	1.581	.118
	Non-Western	15	2.40	1.06		
Informal economy	Western	58	2.79	.97	.676	.501
	Non-Western	15	2.60	1.06		
Uncertainties arising from the macroeconomy	Western	58	2.90	.95	-.637	.526
	Non-Western	15	3.07	.80		
Lack of depth in finance markets	Western	58	2.97	1.03	-.120	.905
	Non-Western	15	3.00	.85		
Chronic inflation	Western	58	3.17	1.05	1.237	.220
	Non-Western	15	2.80	1.01		
Government/state intervention in economy	Western	58	2.72	.87	.698	.488
	Non-Western	15	2.53	1.19		
Volatility of the political environment	Western	58	2.62	.89	.324	.747
	Non-Western	15	2.53	1.06		
Poor quality of democratic institutions	Western	58	2.55	.86	-.942	.349
	Non-Western	15	2.80	1.08		
Threat of an authoritarian / fundamentalist regime	Western	58	2.69	1.10	.479	.633
	Non-Western	15	2.53	1.25		
Ethnic tension	Western	58	2.50	.94	.121	.904
	Non-Western	15	2.47	.99		
Low security of intellectual property	Western	58	2.74	.83	-1.462	.148
	Non-Western	15	3.13	1.25		
Bureaucratic burden and delay	Western	58	2.64	.89	-1.106	.272
	Non-Western	15	2.93	1.03		
Governmental and bureaucratic failures in keeping promises made to foreign investors	Western	58	2.66	.85	-.043	.966
	Non-Western	15	2.67	1.18		

Appendix Table 5.23 (continued)

Frequent changes in business legislation and rules	Western	58	2.43	.92	-1.560	.123
	Non-Western	15	2.87	1.13		
Absence of a legal base in applications	Western	58	2.67	.94	-.673	.503
	Non-Western	15	2.87	1.19		
High tax burden on employment	Western	58	2.45	.99	-.063	.950
	Non-Western	15	2.47	1.06		
Lack of generally accepted accounting rules (IFRS, US GAAP)	Western	58	3.03	1.03	-.770	.444
	Non-Western	15	3.27	1.10		
The significance of the extent of relations with the government and/or bureaucracy in conducting business	Western	58	2.72	.89	.676	.501
	Non-Western	15	2.53	1.25		
Social problems of expatriate families	Western	58	2.66	1.28	-.595	.554
	Non-Western	15	2.87	.99		
Difficulties in obtaining work permits for expatriates	Western	58	2.43	1.19	-.931	.355
	Non-Western	15	2.73	.80		
Cumulative possibility of prospective solutions to the problems	Western	58	54.22	12.14	-.229	.820
	Non-Western	15	55.07	14.87		

Appendix Table 5.24 The Possibility of Prospective Solutions in the Oncoming Five-year Period and Industry of the Foreign Equity

Problems	Group	N	M	SD	F	P
Corruption	Manufacturing	30	2.63	.96	1.261	.290
	Service	32	3.00	1.16		
	Information and communication technology	11	2.55	.93		
Informal economy	Manufacturing	30	2.60	.89	.628	.537
	Service	32	2.88	1.07		
	Information and communication technology	11	2.82	.98		
Uncertainties arising from the macroeconomy	Manufacturing	30	2.87	.68	.489	.615
	Service	32	2.91	1.15		
	Information and communication technology	11	3.18	.75		
Lack of depth in finance markets	Manufacturing	30	2.93	.83	.600	.552
	Service	32	2.91	1.09		
	Information and communication technology	11	3.27	1.10		
Chronic inflation	Manufacturing	30	2.93	.83	.617	.542
	Service	32	3.22	1.21		
	Information and communication technology	11	3.18	1.08		
Government/state intervention in economy	Manufacturing	30	2.57	.90	.539	.586
	Service	32	2.81	.97		
	Information and communication technology	11	2.64	1.03		
Volatility of the political environment	Manufacturing	30	2.60	.81	.009	.991
	Service	32	2.59	1.01		
	Information and communication technology	11	2.64	1.03		

Appendix Table 5.24 (continued)

Poor quality of democratic institutions	Manufacturing	30	2.50	.97	.332	.719
	Service	32	2.69	.90		
	Information and communication technology	11	2.64	.81		
Threat of an authoritarian / fundamentalist regime	Manufacturing	30	2.50	1.07	1.082	.345
	Service	32	2.88	1.10		
	Information and communication technology	11	2.45	1.29		
Ethnic tension	Manufacturing	30	2.40	.77	.920	.403
	Service	32	2.66	1.12		
	Information and communication technology	11	2.27	.79		
Low security of intellectual property	Manufacturing	30	2.63	.93	4.393	.016
	Service	32	2.75	.84		
	Information and communication technology	11	3.55	.93		
Bureaucratic burden and delay	Manufacturing	30	2.73	.83	1.564	.216
	Service	32	2.53	.95		
	Information and communication technology	11	3.09	1.04		
Governmental and bureaucratic failures in keeping promises made to foreign investors	Manufacturing	30	2.57	.82	.246	.783
	Service	32	2.72	.99		
	Information and communication technology	11	2.73	1.01		
Frequent changes in business legislation and rules	Manufacturing	30	2.60	.93	.392	.677
	Service	32	2.41	1.01		
	Information and communication technology	11	2.64	1.03		
Absence of a legal base in applications	Manufacturing	30	2.57	.94	.541	.584
	Service	32	2.81	1.03		
	Information and communication technology	11	2.82	1.08		

Appendix Table 5.24 (continued)

High tax burden on employment	Manufacturing	30	2.50	.94	.066	.936
	Service	32	2.41	1.04		
	Information and communication technology	11	2.45	1.13		
Lack of generally accepted accounting rules (IFRS, US GAAP)	Manufacturing	30	3.13	.97	.406	.668
	Service	32	2.97	1.00		
	Information and communication technology	11	3.27	1.35		
The significance of the extent of relations with the government and/or bureaucracy in conducting business	Manufacturing	30	2.70	.92	.017	.983
	Service	32	2.69	1.00		
	Information and communication technology	11	2.64	1.12		
Social problems of expatriate families	Manufacturing	30	2.63	1.25	.127	.881
	Service	32	2.78	1.24		
	Information and communication technology	11	2.64	1.21		
Difficulties in obtaining work permits for expatriates	Manufacturing	30	2.37	1.16	.413	.663
	Service	32	2.63	1.21		
	Information and communication technology	11	2.45	.69		
Cumulative possibility of prospective solutions to the problems	Manufacturing	30	52.97	10.53	.332	.719
	Service	32	55.22	14.54		
	Information and communication technology	11	55.91	12.75		

Appendix Table 5.25 The Possibility of Prospective Solutions in the Oncoming Five-year Period and Capital Size of the Foreign Equity

Problems	Group	N	M	SD	F	p
Corruption	Low	18	2.72	1.13	.814	.447
	Medium	37	2.68	.88		
	High	18	3.06	1.30		
Informal economy	Low	18	2.78	1.31	.111	.895
	Medium	37	2.70	.78		
	High	18	2.83	1.04		
Uncertainties arising from the macroeconomy	Low	18	2.33	.91	7.226	.001
	Medium	37	3.00	.82		
	High	18	3.39	.85		
Lack of depth in finance markets	Low	18	2.39	1.04	5.499	.006
	Medium	37	3.05	.81		
	High	18	3.39	1.04		
Chronic inflation	Low	18	3.06	1.00	.361	.698
	Medium	37	3.03	1.09		
	High	18	3.28	1.02		
Government/state intervention in economy	Low	18	2.56	.92	1.006	.371
	Medium	37	2.84	.90		
	High	18	2.50	1.04		
Volatility of the political environment	Low	18	2.06	.87	5.131	.008
	Medium	37	2.70	.85		
	High	18	2.94	.94		
Poor quality of democratic institutions	Low	18	2.28	.75	1.553	.219
	Medium	37	2.70	.88		
	High	18	2.72	1.07		
Threat of an authoritarian / fundamentalist regime	Low	18	2.67	1.28	.002	.998
	Medium	37	2.65	1.09		
	High	18	2.67	1.08		
Ethnic tension	Low	18	2.33	1.08	.488	.616
	Medium	37	2.59	.93		
	High	18	2.44	.86		
Low security of intellectual property	Low	18	2.50	.79	1.583	.213
	Medium	37	2.97	.87		
	High	18	2.83	1.15		
Bureaucratic burden and delay	Low	18	2.44	.92	.960	.388
	Medium	37	2.81	.97		
	High	18	2.72	.83		
Governmental and bureaucratic failures in keeping promises made to foreign investors	Low	18	2.44	.86	.858	.428
	Medium	37	2.78	.95		
	High	18	2.61	.92		

Appendix Table 5.25 (continued)

Frequent changes in business legislation and rules	Low	18	2.17	.79	3.705	.030
	Medium	37	2.46	1.04		
	High	18	3.00	.84		
Absence of a legal base in applications	Low	18	2.22	.94	3.334	.041
	Medium	37	2.81	.94		
	High	18	3.00	1.03		
High tax burden on employment	Low	18	2.00	.84	2.767	.070
	Medium	37	2.54	1.04		
	High	18	2.72	.96		
Lack of generally accepted accounting rules (IFRS, US GAAP)	Low	18	2.72	1.18	1.930	.153
	Medium	37	3.11	.97		
	High	18	3.39	.98		
The significance of the extent of relations with the government and/or bureaucracy in conducting business	Low	18	2.22	.88	3.296	.043
	Medium	37	2.76	.98		
	High	18	3.00	.91		
Social problems of expatriate families	Low	18	2.17	1.15	2.403	.098
	Medium	37	2.84	1.19		
	High	18	2.94	1.26		
Difficulties in obtaining work permits for expatriates	Low	18	2.28	1.32	.930	.399
	Medium	37	2.46	1.02		
	High	18	2.78	1.11		
Cumulative possibility of prospective solutions to the problems	Low	18	48.33	11.81	3.220	.046
	Medium	37	55.49	11.83		
	High	18	58.22	13.55		

Appendix Table 5.26 The Possibility of Prospective Solutions in the Oncoming Five-year Period and Employee Size of the Foreign Equity

Problems	Group	N	M	SD	F	p
Corruption	Low	18	2.94	1.21	1.182	.313
	Medium	37	2.59	.93		
	High	18	3.00	1.14		
Informal economy	Low	18	2.72	1.18	.077	.926
	Medium	37	2.73	.90		
	High	18	2.83	.99		
Uncertainties arising from the macroeconomy	Low	18	2.61	1.09	2.479	.091
	Medium	37	2.92	.83		
	High	18	3.28	.83		
Lack of depth in finance markets	Low	18	2.50	.99	3.249	.045
	Medium	37	3.05	.88		
	High	18	3.28	1.07		
Chronic inflation	Low	18	2.83	1.15	.755	.474
	Medium	37	3.19	1.02		
	High	18	3.17	.99		
Government/state intervention in economy	Low	18	2.72	1.02	.019	.981
	Medium	37	2.68	.85		
	High	18	2.67	1.08		
Volatility of the political environment	Low	18	2.28	.96	4.387	.016
	Medium	37	2.51	.84		
	High	18	3.11	.90		
Poor quality of democratic institutions	Low	18	2.22	.94	2.162	.123
	Medium	37	2.73	.77		
	High	18	2.72	1.07		
Threat of an authoritarian / fundamentalist regime	Low	18	2.83	1.29	.446	.642
	Medium	37	2.54	1.12		
	High	18	2.72	.96		
Ethnic tension	Low	18	2.61	1.14	.547	.581
	Medium	37	2.38	.89		
	High	18	2.61	.85		
Low security of intellectual property	Low	18	2.61	.85	1.048	.356
	Medium	37	2.97	.87		
	High	18	2.72	1.13		
Bureaucratic burden and delay	Low	18	2.50	.99	.695	.503
	Medium	37	2.81	.97		
	High	18	2.67	.77		
Governmental and bureaucratic failures in keeping promises made to foreign investors	Low	18	2.83	1.15	.504	.607
	Medium	37	2.57	.77		
	High	18	2.67	.97		

Appendix Table 5.26 (continued)

Frequent changes in business legislation and rules	Low	18	2.28	1.02	1.973	.147
	Medium	37	2.46	.96		
	High	18	2.89	.90		
Absence of a legal base in applications	Low	18	2.56	1.10	.504	.606
	Medium	37	2.70	.97		
	High	18	2.89	.96		
High tax burden on employment	Low	18	2.17	.99	.972	.383
	Medium	37	2.54	1.04		
	High	18	2.56	.92		
Lack of generally accepted accounting rules (IFRS, US GAAP)	Low	18	2.89	1.18	.850	.432
	Medium	37	3.05	1.00		
	High	18	3.33	.97		
The significance of the extent of relations with the government and/or bureaucracy in conducting business	Low	18	2.78	.94	.319	.728
	Medium	37	2.59	.98		
	High	18	2.78	1.00		
Social problems of expatriate families	Low	18	2.61	1.24	.158	.854
	Medium	37	2.68	1.27		
	High	18	2.83	1.15		
Difficulties in obtaining work permits for expatriates	Low	18	2.17	1.15	1.038	.360
	Medium	37	2.62	1.14		
	High	18	2.56	1.04		
Cumulative possibility of prospective solutions to the problems	Low	18	51.67	14.00	.885	.417
	Medium	37	54.32	11.32		
	High	18	57.28	13.87		

Appendix Table 5.27 The Possibility of Prospective Solutions in the Oncoming Five-year Period and Sales Volume of the Foreign Equity

Problems	Group	N	M	SD	F	P
Corruption	Low	18	2.67	1.19	.324	.724
	Medium	37	2.76	.93		
	High	18	2.94	1.21		
Informal economy	Low	18	2.50	1.25	.828	.441
	Medium	37	2.81	.88		
	High	18	2.89	.90		
Uncertainties arising from the macroeconomy	Low	18	2.56	1.15	4.105	.021
	Medium	37	2.89	.74		
	High	18	3.39	.85		
Lack of depth in finance markets	Low	18	2.44	.98	4.272	.018
	Medium	37	3.05	.88		
	High	18	3.33	1.03		
Chronic inflation	Low	18	2.78	1.22	1.121	.332
	Medium	37	3.19	.97		
	High	18	3.22	1.00		
Government/state intervention in economy	Low	18	2.50	1.04	.729	.486
	Medium	37	2.81	.81		
	High	18	2.61	1.09		
Volatility of the political environment	Low	18	2.33	1.03	3.296	.043
	Medium	37	2.51	.80		
	High	18	3.06	.94		
Poor quality of democratic institutions	Low	18	2.39	.92	.656	.522
	Medium	37	2.68	.82		
	High	18	2.67	1.08		
Threat of an authoritarian / fundamentalist regime	Low	18	3.06	1.30	1.608	.208
	Medium	37	2.49	1.04		
	High	18	2.61	1.04		
Ethnic tension	Low	18	2.61	1.24	.333	.718
	Medium	37	2.41	.80		
	High	18	2.56	.92		
Low security of intellectual property	Low	18	2.83	1.04	.005	.995
	Medium	37	2.81	.78		
	High	18	2.83	1.15		
Bureaucratic burden and delay	Low	18	2.56	1.15	.297	.744
	Medium	37	2.73	.87		
	High	18	2.78	.81		
Governmental and bureaucratic failures in keeping promises made to foreign investors	Low	18	2.61	1.20	.030	.970
	Medium	37	2.68	.75		
	High	18	2.67	.97		

Appendix Table 5.27 (continued)

Frequent changes in business legislation and rules	Low	18	2.17	1.04	5.335	.007
	Medium	37	2.41	.86		
	High	18	3.11	.90		
Absence of a legal base in applications	Low	18	2.56	1.10	1.474	.236
	Medium	37	2.62	.92		
	High	18	3.06	1.00		
High tax burden on employment	Low	18	2.11	1.13	1.434	.245
	Medium	37	2.54	.96		
	High	18	2.61	.92		
Lack of generally accepted accounting rules (IFRS, US GAAP)	Low	18	2.61	1.09	2.897	.062
	Medium	37	3.16	.99		
	High	18	3.39	.98		
The significance of the extent of relations with the government and/or bureaucracy in conducting business	Low	18	2.50	1.25	1.843	.166
	Medium	37	2.59	.80		
	High	18	3.06	.94		
Social problems of expatriate families	Low	18	2.44	1.20	.943	.394
	Medium	37	2.68	1.23		
	High	18	3.00	1.24		
Difficulties in obtaining work permits for expatriates	Low	18	2.17	.99	1.625	.204
	Medium	37	2.49	1.17		
	High	18	2.83	1.10		
Cumulative possibility of prospective solutions to the problems	Low	18	50.39	14.65	1.957	.149
	Medium	37	54.30	10.68		
	High	18	58.61	13.58		

Appendix Table 5.28 The Possibility of Prospective Solutions in the Oncoming Five-year Period and Entry Year of the Foreign Equity

Problems	Group	N	M	SD	t	p
Corruption	2003 and prior	48	2.71	1.05	-.810	.421
	2004 and later	25	2.92	1.08		
Informal economy	2003 and prior	48	2.79	1.01	.458	.648
	2004 and later	25	2.68	.95		
Uncertainties arising from the macroeconomy	2003 and prior	48	3.02	.91	1.155	.252
	2004 and later	25	2.76	.93		
Lack of depth in finance markets	2003 and prior	48	3.10	.95	1.597	.115
	2004 and later	25	2.72	1.02		
Chronic inflation	2003 and prior	48	3.21	.99	1.282	.204
	2004 and later	25	2.88	1.13		
Government/state intervention in economy	2003 and prior	48	2.69	.95	.032	.974
	2004 and later	25	2.68	.95		
Volatility of the political environment	2003 and prior	48	2.71	.90	1.361	.178
	2004 and later	25	2.40	.96		
Poor quality of democratic institutions	2003 and prior	48	2.58	.92	-.251	.802
	2004 and later	25	2.64	.91		
Threat of an authoritarian / fundamentalist regime	2003 and prior	48	2.60	1.03	-.561	.577
	2004 and later	25	2.76	1.30		
Ethnic tension	2003 and prior	48	2.42	.87	-.958	.341
	2004 and later	25	2.64	1.08		
Low security of intellectual property	2003 and prior	48	2.73	.89	-1.180	.242
	2004 and later	25	3.00	1.00		
Bureaucratic burden and delay	2003 and prior	48	2.56	.82	-1.771	.081
	2004 and later	25	2.96	1.06		
Governmental and bureaucratic failures in keeping promises made to foreign investors	2003 and prior	48	2.50	.83	-2.082	.041
	2004 and later	25	2.96	1.02		
Frequent changes in business legislation and rules	2003 and prior	48	2.48	.92	-.501	.618
	2004 and later	25	2.60	1.08		
Absence of a legal base in applications	2003 and prior	48	2.60	.92	-1.296	.199
	2004 and later	25	2.92	1.12		
High tax burden on employment	2003 and prior	48	2.40	.94	-.663	.510
	2004 and later	25	2.56	1.12		
Lack of generally accepted accounting rules (IFRS, US GAAP)	2003 and prior	48	3.02	1.08	-.698	.488
	2004 and later	25	3.20	.96		

Appendix Table 5.28 (continued)

The significance of the extent of relations with the government and/or bureaucracy in conducting business	2003 and prior	48	2.67	.93	-.221	.825
	2004 and later	25	2.72	1.06		
Social problems of expatriate families	2003 and prior	48	2.69	1.27	-.107	.915
	2004 and later	25	2.72	1.14		
Difficulties in obtaining work permits for expatriates	2003 and prior	48	2.42	1.15	-.807	.422
	2004 and later	25	2.64	1.08		
Cumulative possibility of prospective solutions to the problems	2003 and prior	48	53.90	12.34	-.467	.642
	2004 and later	25	55.36	13.40		

Appendix Table 6.1 The Impact of Tax and Legal Changes on FDI Environment and Ownership Pattern of the Foreign Equity

Tax and legal changes	Group	N	M	SD	t-value	p-value
Facilitating the procedures of establishing companies with foreign capital in Turkey	WOS	38	3.58	.76	-1.771	.081
	JV	35	3.89	.72		
Abolition of the permission receipt requirement for establishing a company or opening of a branch with foreign capital	WOS	38	3.34	.75	-1.782	.079
	JV	35	3.66	.76		
Abolition of the minimum capital requirement for establishing a company with foreign capital in Turkey	WOS	38	3.16	1.05	.284	.778
	JV	35	3.09	1.12		
Abolition of the requirement imposed on companies with foreign capital for permission receipt in applications concerning investments, capital increase operations, introduction of amendments in the articles of association	WOS	38	3.39	.75	-.597	.552
	JV	35	3.51	.95		
Abolition of the obligation regarding the registration of the concerned agreements for being authorized to pay license, know-how, technical assistance and franchise payments	WOS	38	3.53	.65	.215	.831
	JV	35	3.49	.95		
Regulation through law of a provision that companies with foreign capital shall be granted equal rights with companies established with domestic capital	WOS	38	3.39	.82	.372	.711
	JV	35	3.31	1.02		
Reduction of the applicable corporate tax rate	WOS	38	4.39	.86	-1.378	.173
	JV	35	4.63	.55		
Introduction of clear, understandable and objective criteria on transfer pricing and thin capitalization rules	WOS	38	3.82	.61	-.813	.419
	JV	35	3.94	.73		
Adoption of the inflation accounting application	WOS	38	3.50	1.01	-.393	.696
	JV	35	3.60	1.17		

Appendix Table 6.1 (continued)

Introduction of 100% tax deduction opportunity on the R & D investments	WOS	38	3.84	1.00	-.574	.568
	JV	35	3.97	.92		
Offering various tax advantages on investments made in the 49 least developed provinces of Turkey	WOS	38	3.37	.67	-.285	.776
	JV	35	3.43	1.07		
Granting tax exemption on the gains derived from the investments made in the technological development zones	WOS	38	3.47	.76	.813	.419
	JV	35	3.31	.90		
Cumulative impact of tax and legal changes influencing FDI environment	WOS	38	42.79	5.64	-.688	.493
	JV	35	43.83	7.21		

Appendix Table 6.2 The Impact of Tax and Legal Changes on FDI Environment and Country of Origin of the Foreign Equity

Tax and legal changes	Group	N	M	SD	t-value	p-value
Facilitating the procedures of establishing companies with foreign capital in Turkey	Western	58	3.72	.79	-.042	.967
	Non-Western	15	3.73	.59		
Abolition of the permission receipt requirement for establishing a company or opening of a branch with foreign capital	Western	58	3.47	.78	-.603	.548
	Non-Western	15	3.60	.74		
Abolition of the minimum capital requirement for establishing a company with foreign capital in Turkey	Western	58	3.16	1.12	.494	.623
	Non-Western	15	3.00	.93		
Abolition of the requirement imposed on companies with foreign capital for permission receipt in applications concerning investments, capital increase operations, introduction of amendments in the articles of association	Western	58	3.41	.90	-.754	.454
	Non-Western	15	3.60	.63		
Abolition of the obligation regarding the registration of the concerned agreements for being authorized to pay license, know-how, technical assistance and franchise payments	Western	58	3.52	.78	.216	.829
	Non-Western	15	3.47	.92		
Regulation through law of a provision that companies with foreign capital shall be granted equal rights with companies established with domestic capital	Western	58	3.34	.89	-.206	.837
	Non-Western	15	3.40	1.06		
Reduction of the applicable corporate tax rate	Western	58	4.43	.77	-1.773	.080
	Non-Western	15	4.80	.41		
Introduction of clear, understandable and objective criteria on transfer pricing and thin capitalization rules	Western	58	3.88	.65	.065	.948
	Non-Western	15	3.87	.74		
Adoption of the inflation accounting application	Western	58	3.57	1.03	.325	.746
	Non-Western	15	3.47	1.30		
Introduction of 100% tax deduction opportunity on the R & D investments	Western	58	3.90	1.04	-.131	.896
	Non-Western	15	3.93	.59		

Appendix Table 6.2 (continued)

Offering various tax advantages on investments made in the 49 least developed provinces of Turkey	Western	58	3.43	.86	.644	.522
	Non-Western	15	3.27	.96		
Granting tax exemption on the gains derived from the investments made in the technological development zones	Western	58	3.43	.82	.682	.497
	Non-Western	15	3.27	.88		
Cumulative impact of tax and legal changes influencing FDI environment	Western	58	43.26	6.77	-.076	.940
	Non-Western	15	43.40	5.04		

Appendix Table 6.3 The Impact of Tax and Legal Changes on FDI Environment and Industry of the Foreign Equity

Tax and legal changes	Group	N	M	SD	F-value	p-value
Facilitating the procedures of establishing companies with foreign capital in Turkey	Manufacturing	30	3.87	.63	1.025	.364
	Service	32	3.59	.84		
	Information and communication technology	11	3.73	.79		
Abolition of the permission receipt requirement for establishing a company or opening of a branch with foreign capital	Manufacturing	30	3.60	.67	1.096	.340
	Service	32	3.34	.79		
	Information and communication technology	11	3.64	.92		
Abolition of the minimum capital requirement for establishing a company with foreign capital in Turkey	Manufacturing	30	3.07	1.17	.320	.727
	Service	32	3.09	1.06		
	Information and communication technology	11	3.36	.92		
Abolition of the requirement imposed on companies with foreign capital for permission receipt in applications concerning investments, capital increase operations, introduction of amendments in the articles of association	Manufacturing	30	3.50	.86	1.056	.353
	Service	32	3.31	.86		
	Information and communication technology	11	3.73	.79		
Abolition of the obligation regarding the registration of the concerned agreements for being authorized to pay license, know-how, technical assistance and franchise payments	Manufacturing	30	3.60	.81	.340	.713
	Service	32	3.44	.72		
	Information and communication technology	11	3.45	1.04		
Regulation through law of a provision that companies with foreign capital shall be granted equal rights with companies established with domestic capital	Manufacturing	30	3.40	1.00	2.260	.112
	Service	32	3.16	.81		
	Information and communication technology	11	3.82	.87		

Appendix Table 6.3 (continued)

Reduction of the applicable corporate tax rate	Manufacturing	30	4.40	.93	.558	.575
	Service	32	4.59	.56		
	Information and communication technology	11	4.55	.52		
Introduction of clear, understandable and objective criteria on transfer pricing and thin capitalization rules	Manufacturing	30	3.87	.68	.226	.798
	Service	32	3.84	.51		
	Information and communication technology	11	4.00	1.00		
Adoption of the inflation accounting application	Manufacturing	30	3.53	.97	1.249	.293
	Service	32	3.41	1.16		
	Information and communication technology	11	4.00	1.10		
Introduction of 100% tax deduction opportunity on the R & D investments	Manufacturing	30	3.90	1.09	.068	.934
	Service	32	3.88	.87		
	Information and communication technology	11	4.00	.89		
Offering various tax advantages on investments made in the 49 least developed provinces of Turkey	Manufacturing	30	3.40	.81	.550	.579
	Service	32	3.31	.93		
	Information and communication technology	11	3.64	.92		
Granting tax exemption on the gains derived from the investments made in the technological development zones	Manufacturing	30	3.27	.78	1.255	.292
	Service	32	3.41	.87		
	Information and communication technology	11	3.73	.79		
Cumulative impact of tax and legal changes influencing FDI	Manufacturing	30	43.40	6.76	1.066	.350
	Service	32	42.38	5.97		
	Information and communication technology	11	45.64	6.71		

Appendix Table 6.4 The Impact of Tax and Legal Changes on FDI Environment and Capital Size of the Foreign Equity

Tax and legal changes	Group	N	M	SD	F-value	p-value
Facilitating the procedures of establishing companies with foreign capital in Turkey	Low	18	3.72	.83	2.682	.075
	Medium	37	3.57	.69		
	High	18	4.06	.73		
Abolition of the permission receipt requirement for establishing a company or opening of a branch with foreign capital	Low	18	3.44	.78	1.729	.185
	Medium	37	3.38	.76		
	High	18	3.78	.73		
Abolition of the minimum capital requirement for establishing a company with foreign capital in Turkey	Low	18	3.11	1.13	.004	.996
	Medium	37	3.14	1.11		
	High	18	3.11	1.02		
Abolition of the requirement imposed on companies with foreign capital for permission receipt in applications concerning investments, capital increase operations, introduction of amendments in the articles of association	Low	18	3.56	.86	2.689	.075
	Medium	37	3.24	.86		
	High	18	3.78	.73		
Abolition of the obligation regarding the registration of the concerned agreements for being authorized to pay license, know-how, technical assistance and franchise payments	Low	18	3.50	.92	3.188	.047
	Medium	37	3.32	.82		
	High	18	3.89	.47		
Regulation through law of a provision that companies with foreign capital shall be granted equal rights with companies established with domestic capital	Low	18	3.61	.98	2.266	.111
	Medium	37	3.14	.82		
	High	18	3.56	.98		
Reduction of the applicable corporate tax rate	Low	18	4.50	.51	.620	.541
	Medium	37	4.43	.87		
	High	18	4.67	.59		
Introduction of clear, understandable and objective criteria on transfer pricing and thin capitalization rules	Low	18	3.94	.73	3.259	.044
	Medium	37	3.70	.62		
	High	18	4.17	.62		

Appendix Table 6.4 (continued)

Adoption of the inflation accounting application	Low	18	3.56	1.15	1.868	.162
	Medium	37	3.35	1.11		
	High	18	3.94	.87		
Introduction of 100% tax deduction opportunity on the R & D investments	Low	18	4.00	.97	1.943	.151
	Medium	37	3.70	1.08		
	High	18	4.22	.55		
Offering various tax advantages on investments made in the 49 least developed provinces of Turkey	Low	18	3.67	.84	5.565	.006
	Medium	37	3.08	.86		
	High	18	3.78	.73		
Granting tax exemption on the gains derived from the investments made in the technological development zones	Low	18	3.72	.67	3.414	.038
	Medium	37	3.16	.93		
	High	18	3.56	.62		
Cumulative impact of tax and legal changes influencing FDI environment	Low	18	44.33	7.72	4.897	.010
	Medium	37	41.22	5.89		
	High	18	46.50	4.48		

Appendix Table 6.5 The Impact of Tax and Legal Changes on FDI Environment and Employee Size of the Foreign Equity

Tax and legal changes	Group	N	M	SD	F-value	p-value
Facilitating the procedures of establishing companies with foreign capital in Turkey	Low	18	3.89	.68	4.433	.015
	Medium	37	3.49	.77		
	High	18	4.06	.64		
Abolition of the permission receipt requirement for establishing a company or opening of a branch with foreign capital	Low	18	3.72	.67	3.387	.039
	Medium	37	3.27	.80		
	High	18	3.72	.67		
Abolition of the minimum capital requirement for establishing a company with foreign capital in Turkey	Low	18	3.11	1.18	.379	.686
	Medium	37	3.22	1.11		
	High	18	2.94	.94		
Abolition of the requirement imposed on companies with foreign capital for permission receipt in applications concerning investments, capital increase operations, introduction of amendments in the articles of association	Low	18	3.44	1.04	.447	.641
	Medium	37	3.38	.86		
	High	18	3.61	.61		
Abolition of the obligation regarding the registration of the concerned agreements for being authorized to pay license, know-how, technical assistance and franchise payments	Low	18	3.50	.92	.946	.393
	Medium	37	3.41	.86		
	High	18	3.72	.46		
Regulation through law of a provision that companies with foreign capital shall be granted equal rights with companies established with domestic capital	Low	18	3.39	1.04	.515	.600
	Medium	37	3.43	.93		
	High	18	3.17	.79		
Reduction of the applicable corporate tax rate	Low	18	4.72	.46	1.150	.323
	Medium	37	4.41	.86		
	High	18	4.50	.62		
Introduction of clear, understandable and objective criteria on transfer pricing and thin capitalization rules	Low	18	3.83	.79	.134	.875
	Medium	37	3.86	.59		
	High	18	3.94	.73		
Adoption of the inflation accounting application	Low	18	3.56	1.20	.049	.953
	Medium	37	3.51	1.10		
	High	18	3.61	.98		

Appendix Table 6.5 (continued)

Introduction of 100% tax deduction opportunity on the R & D investments	Low	18	4.11	1.13	1.262	.289
	Medium	37	3.73	.96		
	High	18	4.06	.73		
Offering various tax advantages on investments made in the 49 least developed provinces of Turkey	Low	18	3.67	1.08	3.585	.033
	Medium	37	3.14	.75		
	High	18	3.67	.77		
Granting tax exemption on the gains derived from the investments made in the technological development zones	Low	18	3.72	1.02	2.383	.100
	Medium	37	3.22	.82		
	High	18	3.44	.51		
Cumulative impacts of tax and legal changes influencing FDI environment	Low	18	44.67	8.51	1.406	.252
	Medium	37	42.05	5.94		
	High	18	44.44	4,54		

Appendix Table 6.6 The Impact of Tax and Legal Changes on FDI Environment and Sales Volume of the Foreign Equity

Tax and legal changes	Group	N	M	SD	F-value	P-value
Facilitating the procedures of establishing companies with foreign capital in Turkey	Low	18	3.67	.84	2.456	.093
	Medium	37	3.59	.72		
	High	18	4.06	.64		
Abolition of the permission receipt requirement for establishing a company or opening of a branch with foreign capital	Low	18	3.39	.92	1.683	.193
	Medium	37	3.41	.69		
	High	18	3.78	.73		
Abolition of the minimum capital requirement for establishing a company with foreign capital in Turkey	Low	18	3.11	1.13	.379	.686
	Medium	37	3.22	1.13		
	High	18	2.94	.94		
Abolition of the requirement imposed on companies with foreign capital for permission receipt in applications concerning investments, capital increase operations, introduction of amendments in the articles of association	Low	18	3.28	1.07	1.355	.265
	Medium	37	3.41	.80		
	High	18	3.72	.67		
Abolition of the obligation regarding the registration of the concerned agreements for being authorized to pay license, know-how, technical assistance and franchise payments	Low	18	3.06	1.11	4.941	.010
	Medium	37	3.57	.65		
	High	18	3.83	.51		
Regulation through law of a provision that companies with foreign capital shall be granted equal rights with companies established with domestic capital	Low	18	3.39	1.14	.017	.983
	Medium	37	3.35	.79		
	High	18	3.33	.97		
Reduction of the applicable corporate tax rate	Low	18	4.67	.49	.827	.441
	Medium	37	4.41	.86		
	High	18	4.56	.62		
Introduction of clear, understandable and objective criteria on transfer pricing and thin capitalization rules	Low	18	3.83	.79	.134	.875
	Medium	37	3.86	.59		
	High	18	3.94	.73		
Adoption of the inflation accounting application	Low	18	3.44	1.29	.329	.721
	Medium	37	3.51	.99		
	High	18	3.72	1.07		

Appendix Table 6.6 (continued)

Introduction of 100% tax deduction opportunity on the R & D investments	Low	18	4.00	.97	.598	.553
	Medium	37	3.78	1.06		
	High	18	4.06	.73		
Offering various tax advantages on investments made in the 49 least developed provinces of Turkey	Low	18	3.44	1.04	1.462	.239
	Medium	37	3.24	.83		
	High	18	3.67	.77		
Granting tax exemption on the gains derived from the investments made in the technological development zones	Low	18	3.56	.98	.620	.541
	Medium	37	3.30	.88		
	High	18	3.44	.51		
Cumulative impact of tax and legal changes influencing FDI environment	Low	18	42.83	8.70	.909	.408
	Medium	37	42.65	5.73		
	High	18	45.06	5.00		

Appendix Table 6.7 The Impact of Tax and Legal Changes on FDI Environment and Entry Year of the Foreign Equity

Tax and legal changes	Group	N	M	SD	t-value	p-value
Facilitating the procedures of establishing companies with foreign capital in Turkey	2003 and prior	48	3.75	.70	.376	.708
	2004 and later	25	3.68	.85		
Abolition of the permission receipt requirement for establishing a company or opening of a branch with foreign capital	2003 and prior	48	3.54	.74	.748	.457
	2004 and later	25	3.40	.82		
Abolition of the minimum capital requirement for establishing a company with foreign capital in Turkey	2003 and prior	48	3.04	1.09	-.894	.374
	2004 and later	25	3.28	1.06		
Abolition of the requirement imposed on companies with foreign capital for permission receipt in applications concerning investments, capital increase operations, introduction of amendments in the articles of association	2003 and prior	48	3.44	.85	-.201	.841
	2004 and later	25	3.48	.87		
Abolition of the obligation regarding the registration of the concerned agreements for being authorized to pay license, know-how, technical assistance and franchise payments	2003 and prior	48	3.56	.74	.820	.415
	2004 and later	25	3.40	.91		
Regulation through law of a provision that companies with foreign capital shall be granted equal rights with companies established with domestic capital	2003 and prior	48	3.29	.87	-.830	.410
	2004 and later	25	3.48	1.00		
Reduction of the applicable corporate tax rate	2003 and prior	48	4.40	.82	-1.833	.071
	2004 and later	25	4.72	.46		
Introduction of clear, understandable and objective criteria on transfer pricing and thin capitalization rules	2003 and prior	48	3.79	.68	-1.527	.131
	2004 and later	25	4.04	.61		
Adoption of the inflation accounting application	2003 and prior	48	3.54	1.03	-.068	.946
	2004 and later	25	3.56	1.19		

Appendix Table 6.7 (continued)

Introduction of 100% tax deduction opportunity on the R & D investments	2003 and prior	48	3.90	.93	-.101	.920
	2004 and later	25	3.92	1.04		
Offering various tax advantages on investments made in the 49 least developed provinces of Turkey	2003 and prior	48	3.38	.73	-.298	.766
	2004 and later	25	3.44	1.12		
Granting tax exemption on the gains derived from the investments made in the technological development zones	2003 and prior	48	3.31	.72	-1.214	.229
	2004 and later	25	3.56	1.00		
Cumulative impacts of tax and legal changes influencing FDI environment	2003 and prior	48	42.94	5.73	-.643	.522
	2004 and later	25	43.96	7.66		

Appendix Table 6.8 The Impact of Tax and Legal Changes on Business Plans and Ownership Pattern of the Foreign Equity

Tax and legal changes	Group	N	M	SD	t-value	p-value
Facilitating the procedures of establishing companies with foreign capital in Turkey	WOS	38	1.97	.68	-.255	.799
	JV	35	2.03	1.12		
Abolition of the permission receipt requirement for establishing a company or opening of a branch with foreign capital	WOS	38	2.26	.83	-.984	.328
	JV	35	2.49	1.09		
Abolition of the minimum capital requirement for establishing a company with foreign capital in Turkey	WOS	38	2.11	1.01	-.140	.889
	JV	35	2.14	1.29		
Abolition of the requirement imposed on companies with foreign capital for permission receipt in applications concerning investments, capital increase operations, introduction of amendments in the articles of association	WOS	38	2.45	.92	-1.323	.190
	JV	35	2.77	1.17		
Abolition of the obligation regarding the registration of the concerned agreements for being authorized to pay license, know-how, technical assistance and franchise payments	WOS	38	2.50	1.03	-2.193	.032
	JV	35	3.09	1.25		
Regulation through law of a provision that companies with foreign capital shall be granted equal rights with companies established with domestic capital	WOS	38	2.92	.94	1.184	.240
	JV	35	2.63	1.17		
Reduction of the applicable corporate tax rate	WOS	38	3.95	.87	-.117	.907
	JV	35	3.97	.89		
Introduction of clear, understandable and objective criteria on transfer pricing and thin capitalization rules	WOS	38	3.34	.85	-.938	.351
	JV	35	3.54	.98		
Adoption of the inflation accounting application	WOS	38	2.74	1.03	-1.463	.148
	JV	35	3.14	1.33		
Introduction of 100% tax deduction opportunity on the R & D investments	WOS	38	2.47	1.52	-2.867	.005
	JV	35	3.46	1.40		

Appendix Table 6.8 (continued)

Offering various tax advantages on investments made in the 49 least developed provinces of Turkey	WOS	38	2.16	1.22	.868	.388
	JV	35	1.91	1.17		
Granting tax exemption on the gains derived from the investments made in the technological development zones	WOS	38	1.63	.82	-3.283	.002
	JV	35	2.49	1.36		
Cumulative impact of tax and legal changes influencing FDI environment	WOS	38	30.50	6.93	-1.771	.081
	JV	35	33.66	8.28		

Appendix Table 6.9 The Impact of Tax and Legal Changes on Business Plans and Country of Origin of the Foreign Equity

Tax and legal changes	Group	N	M	SD	t-value	p-value
Facilitating the procedures of establishing companies with foreign capital in Turkey	Western	58	2.07	.79	1.275	.207
	Non-Western	15	1.73	1.28		
Abolition of the permission receipt requirement for establishing a company or opening of a branch with foreign capital	Western	58	2.41	.88	.763	.448
	Non-Western	15	2.20	1.26		
Abolition of the minimum capital requirement for establishing a company with foreign capital in Turkey	Western	58	2.17	1.16	.720	.474
	Non-Western	15	1.93	1.10		
Abolition of the requirement imposed on companies with foreign capital for permission receipt in applications concerning investments, capital increase operations, introduction of amendments in the articles of association	Western	58	2.62	1.01	.285	.776
	Non-Western	15	2.53	1.25		
Abolition of the obligation regarding the registration of the concerned agreements for being authorized to pay license, know-how, technical assistance and franchise payments	Western	58	2.72	1.17	-.812	.419
	Non-Western	15	3.00	1.20		
Regulation through law of a provision that companies with foreign capital shall be granted equal rights with companies established with domestic capital	Western	58	2.86	1.07	1.297	.199
	Non-Western	15	2.47	.99		
Reduction of the applicable corporate tax rate	Western	58	4.02	.87	1.125	.264
	Non-Western	15	3.73	.88		
Introduction of clear, understandable and objective criteria on transfer pricing and thin capitalization rules	Western	58	3.45	.94	.181	.857
	Non-Western	15	3.40	.83		
Adoption of the inflation accounting application	Western	58	2.95	1.13	.234	.815
	Non-Western	15	2.87	1.46		

Appendix Table 6.9 (continued)

Introduction of 100% tax deduction opportunity on the R & D investments	Western	58	2.81	1.53	-1.488	.141
	Non-Western	15	3.47	1.51		
Offering various tax advantages on investments made in the 49 least developed provinces of Turkey	Western	58	2.19	1.22	2.139	.036
	Non-Western	15	1.47	.92		
Granting tax exemption on the gains derived from the investments made in the technological development zones	Western	58	1.86	1.00	-2.645	.010
	Non-Western	15	2.73	1.58		
Cumulative impact of tax and legal changes influencing FDI environment	Western	58	32.14	7.61	.269	.789
	Non-Western	15	31.53	8.37		

Appendix Table 6.10 The Impact of Tax and Legal Changes on Business Plans and Industry of the Foreign Equity

Tax and legal changes	Group	N	M	SD	F-value	p-value
Facilitating the procedures of establishing companies with foreign capital in Turkey	Manufacturing	30	1.83	.75	.968	.385
	Service	32	2.16	.85		
	Information and communication technology	11	2.00	1.41		
Abolition of the permission receipt requirement for establishing a company or opening of a branch with foreign capital	Manufacturing	30	2.10	.80	2.381	.100
	Service	32	2.63	1.01		
	Information and communication technology	11	2.36	1.12		
Abolition of the minimum capital requirement for establishing a company with foreign capital in Turkey	Manufacturing	30	1.87	.94	1.383	.258
	Service	32	2.34	1.23		
	Information and communication technology	11	2.18	1.33		
Abolition of the requirement imposed on companies with foreign capital for permission receipt in applications concerning investments, capital increase operations, introduction of amendments in the articles of association	Manufacturing	30	2.70	.95	.214	.808
	Service	32	2.53	1.05		
	Information and communication technology	11	2.55	1.37		
Abolition of the obligation regarding the registration of the concerned agreements for being authorized to pay license, know-how, technical assistance and franchise payments	Manufacturing	30	3.17	1.05	3.208	.046
	Service	32	2.44	1.19		
	Information and communication technology	11	2.73	1.19		
Regulation through law of a provision that companies with foreign capital shall be granted equal rights with companies established with domestic capital	Manufacturing	30	2.70	1.06	.224	.800
	Service	32	2.88	1.04		
	Information and communication technology	11	2.73	1.19		

Appendix Table 6.10 (continued)

Reduction of the applicable corporate tax rate	Manufacturing	30	4.10	.92	.833	.439
	Service	32	3.91	.82		
	Information and communication technology	11	3.73	.90		
Introduction of clear, understandable and objective criteria on transfer pricing and thin capitalization rules	Manufacturing	30	3.37	.93	.657	.521
	Service	32	3.41	.87		
	Information and communication technology	11	3.73	1.01		
Adoption of the inflation accounting application	Manufacturing	30	2.97	1.00	1.106	.336
	Service	32	2.75	1.24		
	Information and communication technology	11	3.36	1.50		
Introduction of 100% tax deduction opportunity on the R & D investments	Manufacturing	30	3.20	1.56	6.261	.003
	Service	32	2.34	1.45		
	Information and communication technology	11	4.00	.89		
Offering various tax advantages on investments made in the 49 least developed provinces of Turkey	Manufacturing	30	1.90	1.12	.358	.701
	Service	32	2.13	1.24		
	Information and communication technology	11	2.18	1.33		
Granting tax exemption on the gains derived from the investments made in the technological development zones	Manufacturing	30	1.93	.98	10.683	.000
	Service	32	1.69	.93		
	Information and communication technology	11	3.36	1.50		
Cumulative impact of tax and legal changes influencing FDI environment	Manufacturing	30	31.83	6.13	.964	.386
	Service	32	31.19	8.19		
	Information and communication technology	11	34.91	10.03		

Appendix Table 6.11 The Impact of Tax and Legal Changes on Business Plans and Capital Size of the Foreign Equity

Tax and legal changes	Group	N	M	SD	F-value	p-value
Facilitating the procedures of establishing companies with foreign capital in Turkey	Low	18	1.83	.79	.846	.434
	Medium	37	1.97	.80		
	High	18	2.22	1.22		
Abolition of the permission receipt requirement for establishing a company or opening of a branch with foreign capital	Low	18	2.22	1.00	.286	.752
	Medium	37	2.43	.90		
	High	18	2.39	1.09		
Abolition of the minimum capital requirement for establishing a company with foreign capital in Turkey	Low	18	1.78	1.00	1.099	.339
	Medium	37	2.24	1.19		
	High	18	2.22	1.17		
Abolition of the requirement imposed on companies with foreign capital for permission receipt in applications concerning investments, capital increase operations, introduction of amendments in the articles of association	Low	18	2.28	1.18	1.207	.305
	Medium	37	2.68	.97		
	High	18	2.78	1.06		
Abolition of the obligation regarding the registration of the concerned agreements for being authorized to pay license, know-how, technical assistance and franchise payments	Low	18	2.28	1.27	7.774	.001
	Medium	37	2.62	1.01		
	High	18	3.61	.98		
Regulation through law of a provision that companies with foreign capital shall be granted equal rights with companies established with domestic capital	Low	18	2.83	1.34	.414	.663
	Medium	37	2.68	.88		
	High	18	2.94	1.11		
Reduction of the applicable corporate tax rate	Low	18	3.72	1.02	.975	.382
	Medium	37	4.00	.88		
	High	18	4.11	.68		
Introduction of clear, understandable and objective criteria on transfer pricing and thin capitalization rules	Low	18	3.67	.91	2.303	.108
	Medium	37	3.22	.95		
	High	18	3.67	.77		

Appendix Table 6.11 (continued)

Adoption of the inflation accounting application	Low	18	2.56	1.15	1.965	.148
	Medium	37	2.92	1.14		
	High	18	3.33	1.28		
Introduction of 100% tax deduction opportunity on the R & D investments	Low	18	2.17	1.47	6.671	.002
	Medium	37	2.86	1.48		
	High	18	3.89	1.28		
Offering various tax advantages on investments made in the 49 least developed provinces of Turkey	Low	18	1.67	.97	4.490	.015
	Medium	37	1.89	1.15		
	High	18	2.72	1.27		
Granting tax exemption on the gains derived from the investments made in the technological development zones	Low	18	1.61	1.20	3.078	.052
	Medium	37	2.00	1.11		
	High	18	2.56	1.20		
Cumulative impact of tax and legal changes influencing FDI environment	Low	18	28.61	7.68	5.373	.007
	Medium	37	31.51	6.85		
	High	18	36.44	7.79		

Appendix Table 6.12 The Impact of Tax and Legal Changes on Business Plans and Employee Size of the Foreign Equity

Tax and legal changes	Group	N	M	SD	F-value	p-value
Facilitating the procedures of establishing companies with foreign capital in Turkey	Low	18	2.11	.90	3.275	.044
	Medium	37	1.76	.64		
	High	18	2.39	1.24		
Abolition of the permission receipt requirement for establishing a company or opening of a branch with foreign capital	Low	18	2.50	1.10	1.390	.256
	Medium	37	2.19	.84		
	High	18	2.61	1.04		
Abolition of the minimum capital requirement for establishing a company with foreign capital in Turkey	Low	18	2.22	1.35	1.001	.373
	Medium	37	1.95	1.00		
	High	18	2.39	1.20		
Abolition of the requirement imposed on companies with foreign capital for permission receipt in applications concerning investments, capital increase operations, introduction of amendments in the articles of association	Low	18	2.83	1.25	4.323	.017
	Medium	37	2.27	.93		
	High	18	3.06	.87		
Abolition of the obligation regarding the registration of the concerned agreements for being authorized to pay license, know-how, technical assistance and franchise payments	Low	18	2.44	1.25	8.260	.001
	Medium	37	2.51	1.12		
	High	18	3.67	.69		
Regulation through law of a provision that companies with foreign capital shall be granted equal rights with companies established with domestic capital	Low	18	2.78	1.17	.031	.969
	Medium	37	2.76	1.12		
	High	18	2.83	.86		
Reduction of the applicable corporate tax rate	Low	18	4.06	.87	.428	.653
	Medium	37	3.86	.98		
	High	18	4.06	.64		
Introduction of clear, understandable and objective criteria on transfer pricing and thin capitalization rules	Low	18	3.33	1.08	.757	.473
	Medium	37	3.38	.86		
	High	18	3.67	.84		

Appendix Table 6.12 (continued)

Adoption of the inflation accounting application	Low	18	2.67	1.19	1.542	.221
	Medium	37	2.86	1.18		
	High	18	3.33	1.19		
Introduction of 100% tax deduction opportunity on the R & D investments	Low	18	2.33	1.50	5.103	.009
	Medium	37	2.81	1.52		
	High	18	3.83	1.25		
Offering various tax advantages on investments made in the 49 least developed provinces of Turkey	Low	18	2.00	1.24	4.608	.013
	Medium	37	1.73	1.07		
	High	18	2.72	1.18		
Granting tax exemption on the gains derived from the investments made in the technological development zones	Low	18	1.33	.49	6.128	.004
	Medium	37	2.11	1.29		
	High	18	2.61	1.14		
Cumulative impact of tax and legal changes influencing FDI environment	Low	18	30.61	8.12	6.096	.004
	Medium	37	30.19	6.94		
	High	18	37.17	6.86		

Appendix Table 6.13 The Impact of Tax and Legal Changes on Business Plans and Sales Volume of the Foreign Equity

Tax and legal changes	Group	N	M	SD	F-value	p-value
Facilitating the procedures of establishing companies with foreign capital in Turkey	Low	18	2.00	.91	1.825	.169
	Medium	37	1.84	.65		
	High	18	2.33	1.28		
Abolition of the permission receipt requirement for establishing a company or opening of a branch with foreign capital	Low	18	2.33	1.14	.444	.643
	Medium	37	2.30	.81		
	High	18	2.56	1.10		
Abolition of the minimum capital requirement for establishing a company with foreign capital in Turkey	Low	18	2.22	1.44	.687	.507
	Medium	37	1.97	.93		
	High	18	2.33	1.24		
Abolition of the requirement imposed on companies with foreign capital for permission receipt in applications concerning investments, capital increase operations, introduction of amendments in the articles of association	Low	18	2.72	1.27	2.570	.084
	Medium	37	2.35	.92		
	High	18	3.00	.97		
Abolition of the obligation regarding the registration of the concerned agreements for being authorized to pay license, know-how, technical assistance and franchise payments	Low	18	2.61	1.24	7.171	.001
	Medium	37	2.46	1.04		
	High	18	3.61	.98		
Regulation through law of a provision that companies with foreign capital shall be granted equal rights with companies established with domestic capital	Low	18	2.83	1.25	.031	.969
	Medium	37	2.76	.98		
	High	18	2.78	1.06		
Reduction of the applicable corporate tax rate	Low	18	4.00	.91	.234	.792
	Medium	37	3.89	.97		
	High	18	4.06	.64		
Introduction of clear, understandable and objective criteria on transfer pricing and thin capitalization rules	Low	18	3.33	1.08	.459	.634
	Medium	37	3.41	.90		
	High	18	3.61	.78		
Adoption of the inflation accounting application	Low	18	2.72	1.23	1.094	.341
	Medium	37	2.86	1.08		
	High	18	3.28	1.36		

Appendix Table 6.13 (continued)

Introduction of 100% tax deduction opportunity on the R & D investments	Low	18	2.78	1.59	4.476	.015
	Medium	37	2.59	1.50		
	High	18	3.83	1.25		
Offering various tax advantages on investments made in the 49 least developed provinces of Turkey	Low	18	2.28	1.27	5.771	.005
	Medium	37	1.62	.98		
	High	18	2.67	1.24		
Granting tax exemption on the gains derived from the investments made in the technological development zones	Low	18	2.11	1.32	5.352	.007
	Medium	37	1.68	1.03		
	High	18	2.72	1.07		
Cumulative impact of tax and legal changes influencing FDI environment	Low	18	31.94	8.32	5.708	.005
	Medium	37	29.73	6.35		
	High	18	36.78	7.89		

Appendix Table 6.14 The Impact of Tax and Legal Changes on Business Plans and Entry Year of the Foreign Equity

Tax and legal changes	Group	N	M	SD	t-value	p-value
Facilitating the procedures of establishing companies with foreign capital in Turkey	2003 and prior	48	2.00	.88	.000	1.000
	2004 and later	25	2.00	1.00		
Abolition of the permission receipt requirement for establishing a company or opening of a branch with foreign capital	2003 and prior	48	2.27	.92	-1.219	.227
	2004 and later	25	2.56	1.04		
Abolition of the minimum capital requirement for establishing a company with foreign capital in Turkey	2003 and prior	48	2.00	1.07	-1.284	.203
	2004 and later	25	2.36	1.25		
Abolition of the requirement imposed on companies with foreign capital for permission receipt in applications concerning investments, capital increase operations, introduction of amendments in the articles of association	2003 and prior	48	2.56	.97	-.451	.653
	2004 and later	25	2.68	1.22		
Abolition of the obligation regarding the registration of the concerned agreements for being authorized to pay license, know-how, technical assistance and franchise payments	2003 and prior	48	2.85	1.22	.740	.462
	2004 and later	25	2.64	1.08		
Regulation through law of a provision that companies with foreign capital shall be granted equal rights with companies established with domestic capital	2003 and prior	48	2.79	1.07	.121	.904
	2004 and later	25	2.76	1.05		
Reduction of the applicable corporate tax rate	2003 and prior	48	3.92	.90	-.570	.570
	2004 and later	25	4.04	.84		

Appendix Table 6.14 (continued)

Introduction of clear, understandable and objective criteria on transfer pricing and thin capitalization rules	2003 and prior	48	3.50	.85	.798	.428
	2004 and later	25	3.32	1.03		
Adoption of the inflation accounting application	2003 and prior	48	3.00	1.09	.677	.501
	2004 and later	25	2.80	1.38		
Introduction of 100% tax deduction opportunity on the R & D investments	2003 and prior	48	3.00	1.52	.420	.676
	2004 and later	25	2.84	1.60		
Offering various tax advantages on investments made in the 49 least developed provinces of Turkey	2003 and prior	48	2.10	1.17	.622	.536
	2004 and later	25	1.92	1.26		
Granting tax exemption on the gains derived from the investments made in the technological development zones	2003 and prior	48	2.04	1.09	.006	.995
	2004 and later	25	2.04	1.37		
Cumulative impact of tax and legal changes influencing FDI environment	2003 and prior	48	32.04	7.66	.043	.966
	2004 and later	25	31.96	7.99		

Appendix A. Cover Letter

Questionnaire for Foreign Direct Investment in Turkey: Determinants, Problems, Tax and Legal Changes

Dear Sir/Madam,

This questionnaire has been prepared as part of the doctoral dissertation of Erdal Ekinçi to identify the key factors that affect foreign direct investments in Turkey, to highlight the critical issues faced by the foreign direct investments made in Turkey, and to determine the responses of the foreign direct investors to the regulations recently introduced in Turkey in the taxation system and the legal system as a whole. In this sense, the present study is concerned with the views and opinions of the executives of the companies with foreign capital— wholly owned or joint venture.

Please rest assured that your cooperation will provide significant contributions to the present study. Obviously, the results of this study will provide valuable information to the individuals who conduct academic research in this area, to companies engaged in foreign direct investment and to government/state authorities. Therefore, we would like to inform you that, upon your request, it will be a great pleasure for us to share the results of this study with you.

It will take a short time for you to complete this questionnaire. To ensure the reliability of the results achieved in this study, however, it is essential that the participants provide correct and accurate answers to all the questions. Could you please take just a few minutes of your valuable time to complete the questionnaire and return the completed questionnaire by July 31, 2008 electronically to ekincierdal@yahoo.com?

Your answers to this questionnaire shall be treated as strictly confidential information. The answers will be analyzed in strict anonymity and neither your name, nor the title of your company shall be disclosed during any stage of our study, including the analysis and reporting stages.

We hope that you will agree to participate in our questionnaire, and thank you in advance for your esteemed assistance, cooperation and contributions.

Prof. Dr. Ahmet Süerdem

Erdal Ekinçi

İstanbul Bilgi University

PhD Student

Appendix B. Sample Research Questionnaire

**Foreign Direct Investment in Turkey:
Determinants, Problems, Tax and Legal Changes**

I. General Information

Respondent's name:

Respondent's title:

Phone:

Fax:

E-mail:

Company name:

Entry date of foreign investment (participation) in Turkey:

Number of employees (approximately):

Annual sales (YTL) (end of 2007):

Total company capital (YTL) (end of 2007):

Country of Origin for Foreign Investor

Share of Capital Owned by Foreign Investor
(end of 2007)

1-

2-

3-

Sector (Please check):

Auto, transport and related equipment

Chemicals

Computers, office equipment

Construction

Consultancy
machinery

Electronics and electrical

Financial Services

Food and Beverages

Insurance

Logistics

Pharmaceuticals

Real Estate

- Telecommunication Textile
- Tourism
- Other manufacturing (Please specify _____)
- Other services (Please specify _____)

II. Locational Factors

1-) In your decision of choosing Turkey as a direct investment location, how important were the following factors?

(Please check according to importance by using the scale below, where 1=of no importance, 5=of major importance)

	Of no importance				Of major importance
(1) Market size	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5
(2) Growth rate of the economy	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5
(3) Relative economic stability of Turkey	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5
(4) Purchasing power of customers	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5
(5) Degree of unionization	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5
(6) Relative political stability of Turkey	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5
(7) Geographical proximity of Turkey	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5
(8) Access to potential markets	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5
(9) Government incentives	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5
(10) Trade (tariff and non-tariff) barriers	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5
(11) Transferability of profits and capital	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5
(12) Availability of quality infrastructure (transportation, communication etc.)	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5
(13) Availability of low cost inputs	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5
(14) Availability of good quality inputs	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5

- (15) The presence of previous foreign direct investment (FDI) in Turkey** 1 2 3 4 5
- (16) The presence of companies with high potential in the privatization program and the Saving Deposit Insurance Fund (TMSF) 1 2 3 4 5
- (17) Various opportunities due to the absence of a fully competitive market in Turkey** 1 2 3 4 5
- (18) A welcoming attitude towards FDI 1 2 3 4 5
- (19) Turkey's European Union candidacy** 1 2 3 4 5
- (20) Other (Please specify) 1 2 3 4 5

III. Mode of Entry

2-) Please indicate the original type of your (foreign) investment in Turkey?

- A new company was set up (green field investment)
- A joint venture was set up
- An existing company was fully acquired
- An existing company was partially acquired
- A company was fully acquired through privatization or from TMSF
- A company was partially acquired through privatization
- Other (Please specify)

3-) Has the original shareholder structure changed since the entry date of foreign investment (participation)?

- Yes No

If no, please go to question 4.

If yes, please indicate what has happened.

IV. Prior Relations

4-) Prior to direct investment decision, did you have business relations in Turkey?

Yes No

If no, please go to question 5.

If yes, please check the nature of relations.

- | | |
|---|--|
| <input type="checkbox"/> Import from Turkey | <input type="checkbox"/> Contract manufacturing |
| <input type="checkbox"/> Export to Turkey agreement | <input type="checkbox"/> Marketing/distribution |
| <input type="checkbox"/> Franchise agreement | <input type="checkbox"/> Service agreement |
| <input type="checkbox"/> Patent/know-how licensing | <input type="checkbox"/> Other (Please specify) |
| <input type="checkbox"/> Liaison office | |

5-) To what extent did the following relationships established in Turkey previously influence your firm's decision to invest in Turkey?

(Please check according to their influence by using the scale below where 1=of no influence, 5=of major influence)

	Of no influence					Of major influence				
Customers	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5
Suppliers	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5
Sales agents	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5
Distributors	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5
Competitors	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5
Affiliated companies which invested in Turkey previously	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5
Investment banks/intermediary institutions	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5

Personal relations of the top management of your firm in Turkey 1 2 3 4 5

New investors interested in selling their companies or seeking partners for their companies 1 2 3 4 5

Other (Please specify) 1 2 3 4 5

V. FDI Environment

6-) Please indicate

- (i) how serious do the following problems influence the FDI environment of Turkey and
- (ii) how serious do the following problems affect your firm’s operations in Turkey

(Please check according to the level of seriousness by using the scale below, where 1=not at all serious, 5=very serious)

	(i) Influence of problems on FDI environment					(ii) Influence of problems on your firm’s operations				
	Not at all serious		Very serious			Not at all serious		Very serious		
Corruption	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5
Informal economy	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5
Uncertainties arising from the macroeconomy	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5
Lack of depth in finance markets	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5
Chronic inflation	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5
Government/state intervention in economy	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5
Volatility of the political	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5

environment

Poor quality of democratic institutions 1 2 3 4 5 1 2 3 4 5

Threat of an authoritarian / fundamentalist regime 1 2 3 4 5 1 2 3 4 5

Ethnic tension 1 2 3 4 5 1 2 3 4 5

Low security of intellectual property 1 2 3 4 5 1 2 3 4 5

Bureaucratic burden and delay 1 2 3 4 5 1 2 3 4 5

Governmental and bureaucratic failures in keeping promises made to foreign investors 1 2 3 4 5 1 2 3 4 5

Frequent changes in business legislation and rules 1 2 3 4 5 1 2 3 4 5

Absence of a legal base in applications 1 2 3 4 5 1 2 3 4 5

High tax burden on employment 1 2 3 4 5 1 2 3 4 5

Lack of generally accepted accounting rules (IFRS, US GAAP) 1 2 3 4 5 1 2 3 4 5

The significance of the extent of relations with the government and/or bureaucracy in conducting business 1 2 3 4 5 1 2 3 4 5

Social problems of expatriate families 1 2 3 4 5 1 2 3 4 5

Difficulties in obtaining work permits for expatriates 1 2 3 4 5 1 2 3 4 5

Other (Please specify) 1 2 3 4 5 | 1 2 3 4 5

7-) Please indicate

- (i) how much progress has been achieved in the following problems in Turkey compared to the date on which you made your first investment (Please check according to the pace of progress by using the scale below where 1=very little, 5=too much)
- (ii) possibility of prospective solutions to these problems in the oncoming five-year period (Please check according to the possibility of solution by using the scale below where 1= too low, 5=very high)

	(i) Compared to the date of entry					(ii) In the oncoming five-year period				
	Achieved progress					Possibility of prospective solutions				
	Very little				Too much	Too low				Very high
Corruption	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5
Informal economy	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5
Uncertainties arising from the macroeconomy	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5
Lack of depth in finance markets	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5
Chronic inflation	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5
Government/state intervention in economy	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5
Volatility of the political environment	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5
Poor quality of democratic institutions	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5
Threat of an authoritarian / fundamentalist regime	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5
Ethnic tension	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5

Low security of intellectual property	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5
Bureaucratic burden and delay	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5
Governmental and bureaucratic failures in keeping promises made to foreign investors	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5
Frequent changes in business legislation and rules	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5
Absence of a legal base in applications	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5
High tax burden on employment	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5
Lack of generally accepted accounting rules (IFRS, US GAAP)	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5
The significance of the extent of relations with the government and/or bureaucracy in conducting business	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5
Social problems of expatriate families	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5
Difficulties in obtaining work permits for expatriates	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5
Other (Please specify)	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5

VI. Tax and Legal Changes

8-) Please indicate

- (i) how much did the following changes introduced in the taxation system and the legal system as a whole affect the environment of the foreign direct investments in Turkey?
- (ii) how much did these changes affect your business plans?

(Please check according to their influence by using the scale below where 1=not at all, 5=too much)

	(i) The changes made have affected					(ii) The changes made have affected				
	FDI environment					<u>your firm's plans</u>				
	Not at all			Too much		Not at all			Too Much	
Facilitating the procedures of establishing companies with foreign capital in Turkey	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5
Abolition of the permission receipt requirement for establishing a company or opening of a branch with foreign capital	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5
Abolition of the minimum capital requirement for establishing a company with foreign capital in Turkey	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5
Abolition of the requirement imposed on companies with foreign capital for permission receipt in applications concerning investments, capital increase operations, introduction of amendments in the articles of association	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5
Abolition of the obligation regarding the registration of the concerned agreements for being authorized to pay license, know-how, technical assistance and franchise	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5

payments

Regulation through law of a provision that companies with foreign capital shall be granted equal rights with companies established with domestic capital

1 2 3 4 5

1 2 3 4 5

Reduction of the applicable corporate tax rate

1 2 3 4 5

1 2 3 4 5

Introduction of clear, understandable and objective criteria on transfer pricing and thin capitalization rules

1 2 3 4 5

1 2 3 4 5

Adoption of the inflation accounting application

1 2 3 4 5

1 2 3 4 5

Introduction of 100% tax deduction opportunity on the R & D investments

1 2 3 4 5

1 2 3 4 5

Offering various tax advantages on investments made in the 49 least developed provinces of Turkey

1 2 3 4 5

1 2 3 4 5

Granting tax exemption on the gains derived from the investments made in the technological development zones

1 2 3 4 5

1 2 3 4 5

Other (Please specify)

1 2 3 4 5

1 2 3 4 5

THANK YOU VERY MUCH FOR YOUR ASSISTANCE

Would you like me to send you a summary report of the research findings? Please tick

YES

NO