

Preliminary results on a Questionnaire Survey regarding the Determinants of FDI in Turkey: the significance of shadow economy

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Agenda

1. Introduction: Motivation and Aim of this presentation
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5. Motives, Incentives and barriers for Foreign Investors in SEE, CEE and Turkey
6. Empirical evidence from cross-border acquisitions in the Turkish banking sector during the period 2001-2011
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1. *Motivation* and Aim of this presented paper

- Turkey has been a leading example of reform-driven growth acceleration in the period 2001–2013
- During this period, cumulative FDI inflows (net) exceeded \$137bn; FDI inflows in the financial intermediation sector have reinforced significantly this trend
- Although there is a significant increase in the volume of related academic literature, only a limited volume of academic research has been focused on questionnaire surveys
- Analyze the determinants of FDI in Turkey, through a questionnaire survey to be finalized during the summer 2013
- Analyze the role of unofficial economy as an obstacle / barrier on discouraging future FDI inflows
- Present preliminary results from the motives of FDI in banking sector of Turkey during the decade 2001–2011

3. A Synopsis of Literature Review (determinants of FDI – based on questionnaires surveys)

Methodology	Number of publications	%	Publication period
a. Econometrics	48	32%	1988-2011
b. Questionnaire Surveys / Interviews	12	8%	1995-2011
c. Descriptive analysis	90	60%	1965-2011
Sector	17	11%	1998-2009
Historical	13	9%	1965-2010
EU / Customs Union	10	7%	1993-2009
Ligislation / Economic Liberalization / Promotive	10	7%	1993-2004
Comparative with Other Countries	5	3%	1997-2009
Comparison of Turkey with Other Countries	35	23%	1986-2011
Total	150	100%	1965-2011

Source: P. Kontakos (2012)

2. Foreign direct investment trends in Turkey

- Significant improvement of inward FDI since 2002
- Cumulative FDI inflows (net) in March 2013 exceeded \$137 bn from \$15 bn in 2002-1954. The number of companies with foreign capital participation reached 33,451 from 4,869 respectively
- FDI inflows in the Turkish financial intermediation sector are the main contributor. Also, acquisitions of real estate by foreigners are substantial and reached \$22.6 bn in the period 2003-2013 (March)
- Up to March 2013, 152 countries had invested. In the period 2003-2013 Netherlands ranked first with \$15.8 bn, followed by USA with \$8.2 bn.

4. Questionnaire Surveys / Interviews

- 12 relevant studies were found, of which one (Coskun, 2001) compares the results of three previous surveys. The majority of papers is focused on the analysis & estimation of the importance of FDI determinants in Turkey (*Table 2*)

#	Researchers	Publication period	Methodology	Thematology
1	Anil, κ.α. (2011)	2006-2010 (:)	Questionnaire Survey / Interviews (107 companies)	FDI Determinants
2	Pehlivanoglu (2010)	2001-2009	Interviews (12 companies)	Sector
3	Berkoz and Turk (2009)	2005	Questionnaire Survey (90 companies)	FDI Determinants (location)
4	Dumludagab (2009)	2006	Questionnaire Survey (52 companies)	FDI Obstacles
5	Sungur and Hellstrom (2006)	2005	Questionnaire Survey (11 companies)	Determinants of Swedish FDI
6	Ok (2004)	2004 (:)	Questionnaire Survey (# of companies n/a)	FDI Obstacles
7	Loewendahl, E. and H. (2001)	2001	Interviews (30 companies)	FDI Determinants / Obstacles
8	Coskun (2001)	1978-1980, 1977, 1994	Synopsis of 3 previous surveys	FDI Determinants
9	Coskun (1996)	1994	Questionnaire Survey (# of companies n/a)	FDI Determinants
10	Erdilek (1982)	1978-1980	Questionnaire Survey (43 companies)	FDI Determinants
11	Erden (1996)	Sep 1993 - Feb 1994	Questionnaire (150 companies in the form of joint ventures)	FDI Determinants
12	Taslica (1995)	1977	Questionnaire Survey / Interviews (# of companies n/a)	FDI Determinants

Source: P. Kontakos (2012)

5. Motives, Incentives and barriers for Foreign Investors in SEE, CEE and Turkey

- **Bitzenis (2006, 2007)** has conducted a comprehensive literature review of questionnaire surveys regarding the **FDI determinants in CEE and SEE regions**. Based on this review a Questionnaire has been constructed. The conceptual framework is derived from the Eclectic Paradigm, or the “OLI” approach, of Dunning (1993).
- **Kontakos (2012)** applied a similar approach for the FDI in the case of **Turkish banking sector**. These motives were also considered during the construction of the questionnaire (*Table 1*)
- Finally the **significance of Turkish shadow / unofficial economy as an FDI barrier** is explicitly analyzed in the questionnaire, particularly given its size, as discussed in other papers by **Bitzenis, Schneider & Vlachos (2012)** (*Table 2*)

Table 2: Shadow economy (GDP percentage).

Country/Year	2003	2004	2005	2006	2007	2008	2009	2010	2011
Bulgaria	35,9	35,3	34,4	34,0	32,7	32,1	32,5	32,6	32,3
Romania	33,6	32,5	32,2	31,4	30,2	29,4	29,4	29,8	29,6
Lithuania	32,0	31,7	31,1	30,6	29,7	29,1	29,6	29,7	29,0
Estonia	30,7	30,8	30,2	29,6	29,5	29,0	29,6	29,3	28,6
Latvia	30,4	30,0	29,5	29,0	27,5	26,5	27,1	27,3	26,5
Cyprus	28,7	28,3	28,1	27,9	26,5	26,0	26,5	26,2	26,0
Malta	26,7	26,7	26,9	27,2	26,4	25,8	25,9	26,0	25,8
Poland	27,7	27,4	27,1	26,8	26,0	25,3	25,9	25,4	25,0
Greece	28,2	28,1	27,6	26,2	25,1	24,3	25,0	25,4	24,3
Slovenia	26,7	26,5	26,0	25,8	24,7	24,0	24,6	24,3	24,1
Hungary	25,0	24,7	24,5	24,4	23,7	23,0	23,5	23,3	22,8
Italy	26,1	25,2	24,4	23,2	22,3	21,4	22,0	21,8	21,2
Portugal	22,2	21,7	21,2	20,1	19,2	18,7	19,5	19,2	19,4
Spain	22,2	21,9	21,3	20,2	19,3	18,4	19,5	19,4	19,2
Belgium	21,4	20,7	20,1	19,2	18,3	17,5	17,8	17,4	17,1
Czech Republic	19,5	19,1	18,5	18,1	17,0	16,6	16,9	16,7	16,4
Slovakia	18,4	18,2	17,6	17,3	16,8	16,0	16,8	16,4	16,0
Sweden	18,6	18,1	17,5	16,2	15,6	14,9	15,4	15,0	14,7
Denmark	17,4	17,1	16,5	15,4	14,8	13,9	14,3	14,0	13,8
Finland	17,6	17,2	16,6	15,3	14,5	13,8	14,2	14,0	13,7
Germany	17,1	16,1	15,4	15,0	14,7	14,2	14,6	13,9	13,7
Ireland	15,4	15,2	14,8	13,4	12,7	12,2	13,1	13,0	12,8
France	14,7	14,3	13,8	12,4	11,8	11,1	11,6	11,3	11,0
United Kingdom	12,2	12,3	12,0	11,1	10,6	10,1	10,9	10,7	10,5
Netherlands	12,7	12,5	12,0	10,9	10,1	9,6	10,2	10,0	9,8
Luxembourg	9,8	9,8	9,9	10,0	9,4	8,5	8,8	8,4	8,2
Austria	10,8	11,0	10,3	9,7	9,4	8,1	8,5	8,2	7,9
<i>EU27 unweighted average</i>	<i>22,3</i>	<i>21,9</i>	<i>21,5</i>	<i>20,8</i>	<i>19,9</i>	<i>19,3</i>	<i>19,8</i>	<i>19,5</i>	<i>19,2</i>
<u>Non-EU European countries</u>									
Croatia	32,3	32,3	31,5	31,2	30,4	29,6	30,1	29,8	29,5
Turkey	32,2	31,5	30,7	30,4	29,1	28,4	28,9	28,3	27,7
Norway	18,6	18,2	17,6	16,1	15,4	14,7	15,3	15,1	14,8
Switzerland	9,5	9,4	9,0	8,5	8,2	7,9	8,3	8,1	7,8
<u>Highly developed non European OECD countries</u>									
Canada	15,3	15,1	14,3	13,2	12,6	12,0	12,6	12,2	11,9
Australia	13,7	13,2	12,6	11,4	11,7	10,6	10,9	10,3	10,1
New Zealand	12,3	12,2	11,7	10,4	9,8	9,4	9,9	9,6	9,3
Japan	11,0	10,7	10,3	9,4	9,0	8,8	9,5	9,2	9,0
United States	8,5	8,4	8,2	7,5	7,2	7,0	7,6	7,2	7,0

6. Empirical evidence from cross-border acquisitions in Turkish banking sector during 2001-11

- The motives are exported from information reported in the **bulletins of major financial institutions** on the official date of a foreign investment transaction. Even if other factors may have been communicated to investors, the info contained in the official bulletins can be considered as more precise & constructive for their real motives (*Table 1*).
- **The motives have been categorized in four categories: Location & country** advantages, **market** advantages, **efficiency** advantages for the foreign bank investors and **incentives from the Turkish government**. The first three categories have been determined according to the frame of modified approach of selected example OLI of Dunning and the Internalization Theory.

6. Empirical evidence from cross-border acquisitions in Turkish banking sector during 2001-11

<i>Buyer</i>	<i>CITI</i>	<i>BNP</i>	<i>HSBC</i>	<i>NBG</i>	<i>EFG</i>	<i>UCG</i>	<i>Dexia</i>	<i>ING</i>	<i>NCB</i>	<i>BBVA</i>
<i>Target</i>	<i>Akbank</i>	<i>TEB</i>	<i>Demir</i>	<i>Finans</i>	<i>Tekfen</i>	<i>Yapi Kr</i>	<i>Deniz</i>	<i>Oyak</i>	<i>TFinans</i>	<i>Garanti</i>

Location – Country Advantages

Geographical proximity

Cultural similarities /closeness

Market Advantages

Expected economic growth

Political stability

Macroeconomic stability

Potential entrance in EU

Unexploited market, or demand, growth potential

Market size

Bank's (Efficiency) Advantages

High profitability size or margins of the target



6. Empirical evidence from cross-border acquisitions in Turkish banking sector during 2001-11

Economies of scale	
Economies of scope (and cross-selling)	
Competition pressures in home country	
International or regional player	
Increasing the global presence	
Become a local leader player	
Exploiting or acquiring know-how and expertise	
Exploiting or acquiring know-how in IT technology	
Exchange “best practices” with the target	
Product/customer profile of the target	
Synergies in loan/deposit ratio with the target	
Risk diversification	
Government’s Incentives	
Deregulation / Financial liberalization	

Source: Press releases, P. Kontakos

Note: Toned box signifies that motive is applicable to that bank.

8. Preliminary results from our empirical evidence

CONCLUDING REMARKS

- The **cultural proximity** is obvious in the case of acquisition by National Commercial Bank (NCB) of Turkiye Finans
- According to **host market advantages**, the expected economic growth is characterized as a very important motive in the cases of National Bank of Greece, EFG Eurobank Ergasias, UniCredit and Banco Bilbao Vizcaya Argentaria (BBVA).
- Also, the **political stability**, Turkey was characterized by BBVA as “a powerful democracy for more than 80 years and a model of country which is example for other countries”. But between the banks which analyzed the political stability as a motive reported only from BBVA.

8. Preliminary results from our empirical evidence *(cont.)*

CONCLUDING REMARKS

- The **macroeconomic stability** per se, or in terms of inflation, monetary stabilization, fiscal consolidation, or exchange-rate volatility, was mentioned indirectly only from BBVA when it referred to the Turkey economy as one characterized by “stable and disciplined economic policies”.
- The **market size**, in the logic of expected economic growth, usually defined in terms of GDP growth, was mentioned as a motive from the Greek investors and also from NBC and BBVA.
- The **foreign bank efficiency advantages** were considered by Citibank, NBG, Dexia, BBVA.

8. Preliminary results from empirical evidence *(cont.)*

CONCLUDING REMARKS

- The **deregulation of the Turkish financial system** is not directly mentioned but can be implied as a significant factor, since the entrance of most of foreign bank investors coincided or followed the deregulation of the Turkish financial system in 2001
- **Overall**, the results of the sample of the ten foreign banks of the study are overall in accordance with previous studies and analyzed in literature with the noticeable exception of prospect of Turkey's **accession prospect to European Union**, which doesn't appear explicitly relevant as an explanatory factor.