

**Interaction of the
Business Environment and Multinational Enterprises
in Turkey**

A Study based on an Example of
the Automotive Industry

Diplomarbeit

zur Erlangung des Grades einer Diplom-Wirtschaftsarabistin (FH)

an der
Hochschule Bremen
Fachbereich Wirtschaft

Studiengang Angewandte Weltwirtschaftssprachen (Arabisch)
und Internationale Unternehmensführung

vorgelegt von: Christina Schlegl
Mat.-Nr.: 993407511

Adresse: Kleinbettlinger Str. 14
 72658 Bempflingen
 Tel: 07123/3 55 90

Referent: Prof. Dr. Christian Schuchardt
Korreferent: Prof. Dr. Willi Timmermann

Bempflingen, 23.09.1998

C o n t e n t s

Introduction: Problems, Objectives and Definitions

Abbreviations

1. The Theoretical Framework

1. Globalization of Markets and Enterprises
- 1.1. Why International Trade?
 - 1.1.1. Smith and Ricardo: The Theory of Absolute and Comparative Advantage
 - 1.1.2. Protectionism and Free Trade
 - 1.1.3. Economics of Newly Industrializing Countries
- 1.2. Micro-and Macro-Organizational Aspects of MNEs and MNE Activity
 - 1.2.1. Forms of Investment
 - 1.2.2. Influencing Factors and Future Patterns of MNE Activity
 - 1.2.3. The Globalization of the Automotive Industry
- 1.3. Summary

2. The Example of Turkey

- 2.1. Historical Background
 - 2.1.1. The Historical Legacy of Turkey as a Semi-Colonized Country
 - 2.1.2. The Liberalization Period
 - 2.1.3. Changing Economic Relations in Turkey: The Investment Climate Today
- 2.2. Approaches to Economic Integration
 - 2.2.1. The EU Trap: An Ambivalent Relationship
 - 2.2.2. The Black Sea Economic Cooperation
- 2.3. Excursus: Istanbul – The Concept of Global Cities
- 2.3. Summary

3. Foreign Investments in Turkey

- 3.1. The Structure of Foreign Investments in Turkey
 - 3.1.1. Countries
 - 3.1.2. Sectors
 - 3.1.3. Companies
- 3.2. Global Influence on the Business Environment
- 3.3. The Bridge Function of Turkey in the Economic Perspective
- 3.4. Summary

4. Empirical Analysis: The Factors of Performance

- 4.1. Goal-setting, Objectives, and Procedures of the Empirical Analysis
- 4.2. Public Policy for the Auto Industry
 - 4.2.1. Market Structure and Efficiency
 - 4.2.2. The Effects of Trade Liberalisation: 1980-98
- 4.3. Mercedes-Benz Türk A.S.
 - 4.3.1. Domestic Activities versus Export
 - 4.3.2. Foreign Direct Investment: The Bus Factory in Hoshdere
- 4.4. Summary

5. Assessment of The Business Environment and MNEs

5.1. Results of the Turkish Liberalization

5.1.1. General Thrust of the Turkish Economy and Investment Climate

5.1.2. Settlement of MNEs: Facing a Different Culture

Excursus: Statements of Turkish and German Employees at MBT towards Cultural Differences

5.1.3. European Business Habits versus Anatolian Businessmen

5.2. Impact of MNEs' Market Power

5.4. Summary

6. Results and Perspectives

Tables and Graphs

Bibliography

Statement

A B B R E V I A T I O N S

A

ACM	Anden Common Market
A.O.S	Anatolian Otomotiv Sanayii
APEC	Asean Pacific Economic Group
ASEAN	Malaysia, Singapur, Indonesien, Phillipinen, Thailand und Brunai

B

BM	Black Market
B.M.C	British Motor Company
BPS	British pound sterling
BSEC	Black Sea Economic Co-operation

C

CIS	Commonwealth of Independent Countries
-----	---------------------------------------

D

DEIK	Foreign Economic Relations Board
DİM	Dis ticaret müstesarlđı (Ministry of foreign affairs)
DC	Developing Countries

E

EU	European Union
----	----------------

I

IBS	IBS Research & Consultancy
IC	Industrialized Countries
ICOC	Istanbul Chamber of Commerce
IMF	International Monetary Found

M

MBT	Mercedes-Benz Türk A.S.
-----	-------------------------

N

NAFTA	North American Free Trade Area
NIC	Newly Industrialized Countries

O

OECD	Organization of Economic and Co-operation development
OSD	Automotive Manufacturers' Association

S

SIS	State Institute of Statistics
-----	-------------------------------

T

TL	Turkish Lira
----	--------------

I n t o d u c t i o n

In late 1978 the Turkish government decided to leave the classical path of import-substitution industrialization (ISI) in favor of outward orientation and international competitiveness. The decision was a consequence of a severe economic disequilibria Turkey witnessed towards the end of the 1970s and resulted in a major adjustment program in January 1980. The resolution was accompanied by an 'orthodox' International Monetary Fund (IMF) type program and basically aimed at the gradual correction of the Republic's insolvency through the attraction of foreign direct investment (FDI) and a boost in exports.

Along with the liberalization measures in foreign trade activities, the new economic strategy aimed at decreasing both the scale of public sector activity as well as the degree of state intervention in the operation of the market. From the change towards an outward orientation Turkey did not only expect a considerable increase in FDIs but also the solution of its three major macroeconomic problems: galloping inflation, unequal distribution of income and a high rate of unemployment. Drastic changes in the global environment in the second half of the 1980s stimulated foreign investment in Turkey, such as the enormous political and economic changes taking place in the former Soviet Union and Eastern Europe and the impressive rise of Japan as a world power and as a major source of foreign investment. Consequently, Turkey was on the verge to play an important part in the region as an export base and a point of entry into markets of the European Union, the Middle East as well as the emerging markets of the former Soviet Union and East Europe. Such factors are additional advantages to Turkey's large internal market, low labor costs and the absence of European Union-style rigorous technological regulations.

Turkey's adjustment program is characterized by three different phases: a phase of stabilization and structural adjustment in the years 1980 to 1983, followed by a period of liberalization and acceleration of growth which lasted until 1987 and a third phase of stabilization and slow growth as a consequence of a political crisis in the aftermath of the general elections in 1987. The adoption of an outward oriented policy led to a boost in both, the manufacturing industry and the service sector leaving the agricultural sector behind. Whilst agriculture, forestry and fishing accounted for 42 percent of GNP at current producers' prices in 1960, it was only 16.6 percent in 1996. For the industrial sector it was 16 percent in 1960 and 24.8 percent in 1996. The most significant increase was reported in the service sector with a rise of 15.5 percent from 1960 (36 percent) to 1996 (51.5 percent).

The Republic's determination to join the EU in the 1990s witnessed several setbacks in this decade despite its efforts to correct the Republic's macroeconomic instability and thus be part of a strong economic and political association granting financial and administrative assistance to its member states. The country's determination to become a "component" of the Union is reflected in the Republic's economic strategy of the 1990s, modelled on the requirements for an EU accession.

Liberalization of markets and privatization of state-owned enterprises are nowadays a global phenomena, hence the Turkish experience is not unique. Several countries have been undergoing similar types of transformation as part of a more general process in the restructuring of the world economy during the 1980s stemming from a debt crisis that hit the LDCs in late 1970s resulting in a decrease of 25 percent in foreign direct investment.

Another phenomenon of the past two decades next to the liberalization and privatisation in some countries, is the increasing significance of investments in the form of foreign direct investment as a type of regional and international expansion of companies. Whereas FDIs are intended to secure natural resources for the production, to ease the entering of new outlet markets and thus extend the product cycle of goods from the firms point of view; national governments see in FDIs a source of capital inflow and technology transfer. FDIs have to be seen in the context of the interplay between multinational enterprises and less developed countries, an aspect that got a new turn in the 1980s. Slow economic growth, low levels of capital accumulation in the 1980s and a constant widening of the technological gap vis-à-vis the industrial countries forced countries like Turkey to revise their attitude towards FDI. In addition, a heavy debt burden limited the funds available for capital formation.

FDI in the pre-1980 period was extremely limited in Turkey due to a multitude of restrictions and bureaucratic constraints. In the course of the 1980s these restrictions were gradually eliminated and made way for comprehensive incentives and tax exemptions to attract foreign companies. The results, however, were marginal. It was in the first place small and middle-size enterprises that entered the Turkish market, the expected market-leaders stayed away, despite new investment laws that provided a liberalized business climate. The foreign investment code was made consistent with the Organization for Economic and Cultural Development (OECD) norms. Therefore, foreign investors became entitled to the same investment incentives and allowances as their domestic counterparts. Moreover, foreign investors could transfer their profits without any restrictions to their home countries.

Turkey's pre-liberalization period was determined by "*mutual distrust between the government and foreign investors, a regime that was clearly not conducive to the goal of attracting large inflows of foreign investment.*"¹ Therefore, prior to the liberalization, multinational enterprises (MNE) preferred institutional arrangements involving little or no investment of capital such as joint-ventures, licensing agreements or subcontracting, enabling the companies to economic presence without running the full risks associated with direct investment. Turkey's structure of the automotive industry verifies this assumption. Upon their foundation in the 1960s or 70s most enterprises in this sector started either as licensing agreements or joint-ventures. After the Republic's change to an export-oriented industrialization companies like Mercedes-Benz Turkey turned from a licensing agreement into a subsidiary. Others who intend to enter the market are also thinking about the establishment of a subsidiary, such as the Japanese car maker Mazda.

The high degree of sectoral concentration of foreign capital in the pre-1980s era, in particular in the manufacturing sector, namely the automotive industry, chemicals, rubber, electrical and electronic products is remarkable. These factors accounted for more than 2/3 of the total stock of foreign capital. Clearly, foreign capital played a crucial role in the development of important branches of the manufacturing industry in Turkey oriented towards the domestic market.

I picked the automotive industry as an example to demonstrate the manufacturing sectors' development in a changing business climate. In the course of my studies at the Hochschule Bremen I had the opportunity to serve a three-month internship at Mercedes-Benz Turkey (MBT) in Istanbul. The vehicles' producer who specializes in the production and sale of commercial vehicles in Turkey, has been on the Turkish market since 1967, at first as a licensing agreement known under the name "Otomarsan". In 1990 Otomarsan was renamed in Mercedes-Benz Turkey when the shareholder structure changed and the Daimler Benz AG in Stuttgart increased its shares to 55.65 percent. It is the study's aim to illustrate the development

¹ Önish, 1998:309

of MBT in a changing business environment from 1967 to 1998 embedded in the general development of the automotive sector since 1980.

MBT's activities were basically aimed at the domestic market, even though exports to the Middle East started in 1970. Later West and East Europe as well as the former Soviet Union as trading partners were added. Their export activities increased slightly after 1980 and got momentum during the 1994 economic crisis compensating a considerable decrease in domestic sales. In course of the decision to turn the licensing agreement into a subsidiary of the Daimler Benz AG, the enterprise further expanded its production facilities in Turkey with the construction of a second bus plant in Hoshdere, a district of Istanbul. Since its foundation MBT has become one of the most successful foreign companies in Turkey: it ranked second largest exporter of the automotive industry in 1995, it ranks fourth in terms of turnover achieved (1997) and holds fourth position in sales from production from all automotive manufacturers.

With the initiation of liberalization methods in 1980 Turkey exposed itself and its local manufacturers to the powers of a globalized market. Therefore the liberalized market structure did not only change the working conditions for MNEs but also Turkey's position within the global economy. In addition to the prevailing macroeconomic problems of the country, the government also has to fight the negative effects of the European Customs Union it joined in 1996. The impact of a liberalized market structure on both, national governments and MNEs is manifold. A comprehensive reflection on the development and the current situation of a foreign company in Turkey as well as of the government's attitude towards FDI must include the background of direct and indirect factors of influence on a changing business environment.

I therefore divided the study into five chapters. In chapter one I will present the theoretical framework of the study including the classical hypothesis by Ricardo and Smith on the advantages of international trade as well as the modern approach by Dunning on the increasing significance of FDIs. Next to the explanation of macro- and microeconomic factors determining the motivation for worldly trade activities, this chapter will also include a short review of the development of the automotive industry since World War (WW) II.

Chapter two is a more focused consideration of the particular case of Turkey and the development of its industrialization policy after WW II which has been determined to a great extent by Turkey's legacy as a semi-colonized country in the late Ottoman Empire. The chapter will also deal with the new investment law introduced post 1980 as well as with the Republic's current integration problems into the European Union and the establishment of the Black Sea Economic Cooperation (BSEC), as a possible alternative to the EU. As a supplement to chapter two, chapter three will give a thorough insight into the foreign investment structure in Turkey as far as principle investors, affected sectors and participating companies are concerned. To provide a complete perception, section 3.1. also gives an outline of the country's trade structure which is closely connected to its investment structure as to the investing countries. Global influences on the business climate in Turkey such as the Gulf crisis in 1990/91 when Turkey lost one of its most important trading partners, the Iraq, and the Republic's geopolitical position which grants the country an ambiguous advantage in the region as a trade hub for Europe and Asia are subject of the third chapter.

Having illustrated the conditions MNEs have to work under in Turkey and the situation the government faces within the country, I would like to introduce the auto manufacturer Mercedes-Benz Türk A.S. (MBT). I will firstly concentrate on the general thrust of the auto industry in Turkey, its development and the effects the trade liberalization had on the industry. MBT will

thereby serve as a pragmatic model that profited from and grew with the changing business environment of Turkey which has become more favorable over the years.

In chapter five, I shall illustrate the provisional results of the liberalization period post 1980 classifying the changes of an amended market structure and the possibilities offered to MNEs. Moreover, I will bring up the complex issue the impact of MNEs market power in the host country and will conclude with an outlook on the prospects of FDI in Turkey.

Owing to the lack of relevant literature on the situation of foreign companies in Turkey, I decided to explain the situation by presenting the example of MBT. By choosing this method I take a limited generalization of the model into account. The results of my study are based to a great extent on experience gained during my internship in Turkey as well as on the case study chosen. In order to clearly separate the empirical analysis from the theoretical framework and the literature review I inserted quotes from interviews conducted with staff-members of MBT and business experts in Turkey as a proof for my findings. The interviews have all been taped and transcribed in Turkey.

Abstract:

The Interaction between the Business Environment and Multinational Companies in Turkey: The Case of the Turkish Automotive Industry

Der Internationale Handel hat in den letzten 40 Jahren einige, wesentliche Veränderungen erfahren. Während Warenaustausch über Grenzen hinweg in der Literatur der 50er und 60er Jahre als ein „kulturfrees Phänomen“² angesehen wurde, ist Ende der 60er, Anfang der 70er Jahre ein Trend zur Anerkennung von länderspezifischen Unterschieden sichtbar geworden. Diese Entwicklungen wurden gefolgt von einer dritten Entwicklungsphase, die regionale Integration, technologische Entwicklung und geographische Unterschiede von weltweit operierenden Firmen mit in Betracht zog. Diese wurden als „multinationale Unternehmen“ bezeichnet. Die 80er Jahre sahen eine weitere, wichtige Veränderung: alte Philosophien wurden in Frage gestellt und Unternehmen erkannten die Notwendigkeit, neue Strategien zu entwickeln, um spezielle Anforderungen der Länder, in denen sie tätig waren, zu erfüllen. Einen weiteren Schritt in diese Richtung ging man mit der Übernahme des „Globalisierungs-Konzepts“, das als eines der meist benutzten und meist diskutierten Begriffe des Jahrhunderts gilt.

Firmen im Allgemeinen, und multinational agierende im Besonderen, engagieren sich im internationalen Geschäft wann immer die Aussicht auf eine Umsatzsteigerung besteht, entweder um ihre weltweite Markstellung zu halten oder auszubauen. Ein zweiter Punkt für ein „going global“ ist gegeben, wenn es einer Unternehmung profitabel erscheint eine Auslandsniederlassung zu errichten um somit eine Erhöhung der Aktiva zu erreichen.

Als eine Folge der Kolonialisierung tendieren Firmen bestimmter Länder dazu sich in früheren Kolonien ihres Heimatlandes niederzulassen, z.B. die Franzosen in Nordafrika oder die Briten in Indien. Obwohl dieses Phänomen langsam schwindet, kann auch heute noch eine gewisse Marktaufteilung innerhalb der dominierenden Mächte beobachtet werden.

Obwohl die Türkei niemals kolonialisiert war, spielt die Republik aufgrund ihrer geographischen Lage zwischen Europa und Asien eine wichtige Rolle in einer globalisierten Welt und im strategischen Interesse von Nationen und multinational agierenden Unternehmen. Es gibt ausreichend Literatur über die Rolle der Türkei als Brücke zwischen zwei Kontinenten, ein Phänomen das dem Land zugefallen ist.

Die Erklärung für die fast sechzigjährige Abwesenheit der Türkei von der „Weltbühne“ liegt in den Erfahrungen, die das Land während des Osmanischen Reiches und während des zweiten Weltkrieges machte: zwei Ereignisse bei denen die Türken vom Westen dominiert wurden und von ihm abhängig war. Fast 60 Jahre später war es wieder der Westen, der die Republik mit Hilfe eines Reformprogrammes des Internationalen Währungsfonds im Jahre 1979 zurück in das internationale Handelsgeschehen brachte.

Zwölf Jahre zuvor hatte Mercedes-Benz Türkei (MBT), damals noch unter dem Namen „Otomarsan“ seine Aktivitäten in der Türkei begonnen; aufgrund der strikten Importbeschränkungen, die das Regime verhängt hatte zunächst nur auf dem Binnenmarkt. Nach der Liberalisierung von 1980 begann MBT mit dem Export in die Nachbarländer.

Heute sind die Türkei und MBT in die „globalisierte Welt“ eingebunden. Mit der Aufspaltung der UDSSR im Jahre 1992 konnte MBT seine Aktivitäten auf einen neuen,

² s.auch: Dunning, J: „The Globalization of Business“, Routledge, London 1993, p.9-10

vielversprechenden Markt ausweiten und die Türkei sah in den ehemals russischen Staaten einen neuen Verbündeten und möglichen Ersatz für die Ablehnung des türkischen Aufnahmegesuchs in die Europäischen Union.

Die Auswirkungen und die strukturalen Veränderungen, die die Globalisierung verursacht hat, ist durch ein zwei Phasen-Model dargestellt: einmal auf der nationalen Ebene – der türkischen Seite – und auf der Ebene der multinational agierenden Unternehmen – Mercedes-Benz Türkei. Die Studie verdeutlicht, daß MBT von der stufenweise Öffnung des türkischen Marktes profitieren konnte während die Nation mit den Problemen zu kämpfen hatte, die sich aus der schwierigen Neuorientierung für die Republik ergaben, die zudem ihre Identität zwischen zwei Kontinenten – Europa und Asien – suchte. Die Rivalität zwischen den in Istanbul ansässigen Wirtschaftsvereinigungen TÜSIAD, die die Istanbuler Geschäftswelt repräsentiert und MÜSIAD, die die anatolischen Geschäftsleute vertritt, verdeutlicht diesen Zwiespalt.

Die Rolle von multinational agierenden Unternehmen in der Türkei ist ambivalent: Firmen bringen Wohlstand und Zukunftsperspektiven für einen Teil des Landes, aber lassen diejenigen zurück, die keine qualifizierte Ausbildung oder ausreichende Sprachkenntnisse vorweisen können. Ausländische Sprachkenntnisse sind in der Türkei nicht weitverbreitet – eine Folge der Nicht-Kolonialisierung des Landes. Auch nach der wirtschaftlichen Liberalisierung ist der Anteil an Direktinvestitionen von ausländischen Firmen sehr gering und konzentriert sich auf Schlüsselindustrien, wie z.B. die Automobilindustrie. Das Engagement von Unternehmen in den Schlüsselindustrien, wie z.B. der Automobil-, der Elektronik- oder der pharmazeutische Industrie, gibt ihnen die Möglichkeit die wirtschaftliche und teilweise die politische Entwicklung des Gastgeberlandes durch ihre finanzielle Überlegenheit zu beeinflussen.

Die nachfolgende Aussage eines türkischen Managers von MBT verdeutlicht die ungleiche Machtverteilung zwischen ausländischen Investoren und lokalen Anteilseignern (MBT hält 55,65 % von MBT`s Aktien – Stand 1998):

„Gut, ich meine es gibt einen Vorstand, ein ausführendes Komitee und so weiter, die türkischen Investoren werden von diesem Vorstand oder Komitee vertreten...wenn es um Kapitalerhöhungen usw geht, hat selbstverständlich Daimler-Benz (heute Daimler-Chrysler – die Autorin) das Sagen. Deshalb kann es passieren, daß die Erhöhung so beträchtlich ist, daß der türkische Investor nicht in der Lage ist, diesen Betrag sofort zu zahlen. Wie Sie sehen, die Finanzierung kommt immer von den Deutschen.“