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THE EFFECTS OF FOREIGN DIRECT INVESTMENT ON DEMOCRACY: A COMPARATIVE ANALYSIS OF ARGENTINA AND TURKEY

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ABSTRACT

Master's Thesis

The Effects of Foreign Direct Investment on Democracy: A Comparative Analysis of Argentina and Turkey

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This dissertation explores the relation between Foreign Direct Investment (FDI) and the level of democracy in Turkey and Argentina in between the years 1980-2000. It has three aims; first to revisit the political effects of FDI. Second to examine the development of FDI in Turkey and Argentina and third to compare and contrast the two countries in regard of the FDI they received and FDI's political effects.

This dissertation argues that not all types of FDI facilitate the level of democracy in developing world. The political effects of FDI depend on the sector, type of FDI as well as the development level of the source country and the absorption capacity of the host country.

Looking at Argentina and Turkey, it was found out that in both of the countries with the beginning of liberalization and the arrival of FDI, the economy grew and life standards of the citizens improved resulting in the improvement of the democracy. But, this period made both of the countries dependent to external sources and fragile to external shocks resulting in economic and political crisis with heavy burdens on the lives of the citizens.

Key Words: FDI, Democracy, Argentina, Turkey, Politics

ÖZET

Yüksek Lisans Tezi

Doğrudan Yabancı Yatırımın Demokrasiye Etkisi: Arjantin ve Türkiye Karşılaştırması

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Bu tezde 1980-2000 dönemleri arasında doğrudan yabancı yatırımın Arjantin ve Türkiye demokrasileri üzerine etkisi incelenmiştir. Bu tezin üç temel amacı bulunmaktadır; doğrudan dış yatırımın siyasal etkilerinin değerlendirilmesi, doğrudan dış yatırımın Türkiye ve Arjantin'deki gelişiminin incelenmesi ve Arjantin ve Türkiye'ye 1980-2000 yılları arasında giden doğrudan dış yatırımın siyasal etkiler göz önünde bulundurularak karşılaştırılmasıdır.

Bu tez, doğrudan dış yatırımların gelişmekte olan ülkelerin demokrasi düzeylerini aynı şekilde etkilemediğini savunmaktadır. Bu bağlamda, doğrudan dış yatırımların siyasal etkilerinin; yatırımların çeşidine, sektöre, kaynak ülkenin gelişmişlik düzeyine ve ev sahibi ülkenin hazmetme kapasitesine bağlı olduğu savunulmaktadır.

Arjantin ve Türkiye örnekleri incelendiğinde, her iki ülkede de liberalleşme ve dış yatırım ile birlikte ekonominin büyüme gösterdiği, vatandaşların yaşam standartlarının arttığı ve demokrasinin geliştiği gözlemlenmiştir. Fakat söz konusu süreç her iki ülkeyi de dışa bağımlı ve dış şoklara karşı kırılgan bir duruma getirmiş ve halk üzerinde etkisi büyük olan ekonomik ve politik krizlerle sonuçlanmıştır.

Anahtar Kelimeler: Doğrudan yabancı yatırım, Demokrasi, Arjantin, Türkiye, Politika

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LIST OF ABBREVIATIONS AND SYMBOLS

CIS	Commonwealth of Independent States
DP	Democrat Party
EC	European Community
ECLAC	Economic Commission for Latin America and the Caribbean
EEC	European Economic Community
EU	European Union
FDI	Foreign Direct Investment
GDFI	General Directorate of Foreign Investments
GDP	Gross Domestic Product
HDI	Human Development Index
IMF	International Monetary Fund
ISI	Import Substitution Industry
JP	Justice Party
LDC	Least Developed Countries
MERCOSUR	Southern Common Market
MNE	Multinational Enterprise
NUC	National Unity Community
OECD	Organization for Economic Cooperation and Development
OLI	Ownership, location and internalization

PKK	Kurdistan Workers’ Party
RPP	Republican People’s Party
SMP	Staff Monitored Program
TCMB	Central Bank of Republic of Turkey
TNC	Transnational Company
UK	United Kingdom
UN	United Nations
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Programme
US	United States
WIR	World Investment Report

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INTRODUCTION

Kebonang (2006) draws attention to the point that Foreign Direct Investment (FDI) is an important source of capital necessary for the growth and development in the developing countries. Until the 1990s, most of the FDI went to developed countries however, starting from the mid of the 1990s FDI flows to developing countries began to increase (Kebonang, 2006: 255-270).

Kebonang (2006) believes that many developing countries throughout the 1960s and the 1970s regarded FDI and the Multinational Enterprises (MNE) as threats to local economic development. Similarly some developing countries nationalized or expropriated foreign investments during the 1960-70s (Kebonang, 2006: 255-270). But Kebonang (2006) also adds that the way developing countries viewed FDI and MNEs began to change in the 1980s. Accordingly, in the 1990s, the globalization and economic growth attracted the attention of the developing countries. Therefore, most of the countries abandoned state-planned inward economic policies and moved to free market economies. The leaders in most of the developing countries began to see FDI as a stimulus for economic growth and development. Thus, attracting FDI became one of the main national policies for most of the developing countries (Kebonang, 2006: 255-270; UNCTAD, 2005).

As Pini and Cigliutti (1999) and Onis (2006a) point out; the neo-liberal policies as that of; liberalizing foreign trade regime, removal of exchange rate controls, applying specific policies with incentives to attract FDI, downsizing of the government, privatizing public services support the idea that democratic governance, free market-economy together with economic openness are necessary ingredients for development (Pini, Cigliutti, 1999; Onis, 2006a). Kebonang (2006) and UNCTAD (2005) highlight that these policies were first applied in Latin America than for the rest of the developing countries. The international institutions like the World Bank and IMF believe that FDI is an important factor of development in the developing countries (Kebonang, 2006: 255-270; UNCTAD, 2005). In the last 30 years democratization in the developing world increased remarkably and countries became interested in promoting and improving their democratic governance[1] (UNCTAD, 2005).

Scholars like Dailami (2000), de Soysa (2003a), Li Quan and Reuvency (2003), Maxfield (1998), Rudra (2005) and Gallagher (2002) studied the political effects of FDI. As argued by Dailami (2000), de Soysa (2003a), Li Quan and Reuvency (2003), Maxfield (1998) and Rudra (2005); via financial liberalization, democracy can be spread to the developing world. They emphasize that in order to attract foreign investors, the developing countries promoted democratic governance. FDI also has an indirect effect on democratic development. FDI increases the economic growth in the developing countries. This economic growth improves the education and lives of the citizens and promotes democratization[2] and democratic development. Dailami (2000), de Soysa (2003a), Li Quan, Reuvency (2003), Maxfield (1998) and Rudra (2005) also emphasize the social and psychological effects of FDI on the developing countries due to the reason that MNEs stay in host countries for a long time and interact with the local government and local people which results in the learning process in regard of democratic ideas and values, to take place (Dailami, 2000; de Soysa, 2003a; Li Quan, Reuvency, 2003: 29-54; Maxfield, 1998: 1201-1209; Rudra, 2005: 704-730). Gallagher (2002) believes that MNEs go to authoritarian regimes. Gallagher emphasizes that FDI fosters authoritarianism and degrades the local economic environment in order to gain increased amounts of profits (Gallagher, 2002; 338-372).

The effects of FDI depend on whether FDI comes to primary or non-primary sector, whether the FDI comes from a developed or developing country as well as the absorption capacity of the host country and whether FDI is made via Greenfield, joint ventures or Mergers and Acquisitions (M&A) and privatizations. In this regard, FDI from developing countries is less likely to spread democratic values and ideas. FDI in non-primary sectors promotes the economic development and thus has positive effect to the democratic consolidation in the host country. It is believed that

[1] Democratic governance means to set up policies to resolve the problems the country faces within the legal framework (UNDP, 2010c).

[2] Democratization is the transfer from authoritarian regime to democratic regime.

countries with the absorption capacity can benefit from the positive externalities of the FDI regarding their democratization and development. FDI via Greenfield/Joint venture is believed to bring new productive assets to the country. On the other hand, FDI via M&A and privatizations do not usually bring new productive assets to the country instead they use the current ones (Dailami, 2000; de Soysa, 2003a; Li Quan, Reuvency, 2003: 29-54; Maxfield, 1998: 1201-1209; Rudra, 2005: 704-730; Gallagher, 2002; 338-372).

In this regard, in this dissertation the link between capital flows and the political liberalization and democratization in regard of Turkey and Argentina in between the years 1980-2000 will be analyzed. The main research question explored is whether FDI contributes to the improvement of democratization in Turkey and Argentina during the 1980-2000 period. Even though the effects of FDI on democratization have been studied a lot by scholars, a direct analysis of the pre-mentioned countries has not been made. Even though the two mentioned countries have no geographical proximity or relation, they experienced similar patterns of economic and political developments during the 1980-2000 period. Therefore, the comparison of Argentina and Turkey in regard of FDI's effects on democracy during the 1980-2001 period is an original research topic. The comparison of the two aforesaid countries have been found necessary due to the fact that both of the countries experienced the rise and the fall of the military regimes throughout the history and both of them returned to democracy in the 1983. Similarly, in both of the countries FDI began to increase in the 1980s with the commence of neo-liberal program and this period coincided with the leadership of Turgut Ozal in Turkey and Carlos Menem in Argentina, both having unchecked constitutional authority. Even more, both of the countries faced economic crisis with heavy burdens on the lives of the citizens during the same periods and thus in both of the countries the Human Development Index (HDI)[3] values stayed almost stable and FDI values decreased.

[3] HDI is a summary of measuring long-term progress of a country in three basic dimensions as; living a long and a healthy life, having access to resources needed and living a decent standard of living.

The dissertation proceeds as follows; following an introductory chapter regarding the literature review of FDI-democracy relation; the two cases will be analyzed from an historical perspective. In the third chapter, FDI in Argentina and Turkey will be explained and then in the fourth chapter the two cases will be compared and contrasted in regard of the effect of FDI on democracy in the time period of 1980-2000. This will be followed by the concluding remarks and the limitations of the dissertation.

CHAPTER I

THE CONTOURS OF DEMOCRACY AND FOREIGN DIRECT INVESTMENT

Foreign Direct Investment is an important source of economic growth and development for the developing countries. During 1960 and 1970s, due to the legacy of colonial exploitation, developing countries became hostile to the foreign direct investment (Kebonang, 2006: 255-270; Gilpin, 1987). This hostility brought problems like the uncompetitive industries, increasing balance of payments deficits and lack of financial capital (Cohn, 2000). As to UNCTAD (2005, 2006) in such an environment, from 1980s onwards with the increasing globalization in the world, governments in the developing world became interested in promoting FDI. This period also coincided with the increasing democratization movements in the developing world (UNCTAD, 2005; 2006).

Dailami (2000), de Soysa (2003a), Li Quan, Reuveny (2003), Maxfield (1998), Rudra (2005) and Gallagher (2002) studied the effects of globalization and FDI and democratization (Dailami, 2000; de Soysa, 2003a; Li Quan, Reuvency, 2003: 29-54; Maxfield, 1998: 1201-1209; Rudra, 2005: 704-730; Gallagher, 2002: 338-372). Dunning (2002) analyzed the effects of democracy on FDI and came up with the idea why MNEs invest in developing countries (Dunning, 2002). First, the terms FDI and democracy will be explained and then, the literature regarding the effects of globalization on democracy, the effects of democracy on FDI and the effects of FDI on democracy will be analyzed.

1.1 FOREIGN DIRECT INVESTMENT (FDI)

IMF's 5th Edition of the Balance of Payments Manual and OECD's Benchmark definitions are the standard definitions of FDI. Accordingly, FDI is a cross-border investment made by a foreign entity or entities resident in one economy namely the direct investor with the aim of acquiring a long lasting interest in an enterprise namely the direct investment enterprise which operates outside the economy of the investor (IMF, 1993; OECD, 2008). As OECD (2008) highlights, the meaning of long lasting interest is that there is a long term relation between the direct investor and the direct investment enterprise and that the investor has influence on enterprise management. The dominant players in FDI transactions are the large Multinational Enterprises (MNE)[4]. FDI enhances the technology and know-how transfer which can lead to economic development (OECD, 2008).

1.1.1 General Trends of FDI

IFC (1998) draws attention to the point that foreign direct investment in developing countries fluctuated over time in response to changes in the investment environment which include government policies for foreign direct investment as well as government's wide economic policy agenda. Thus, FDI reflected the policy changes in developing countries; in the 1950s import substitution[5], in the 1960s natural resource led development, in the 1970s structural adjustment[6] and in the 1980s transition to market economies and the increased role of private sector in the 1990s (IFC, 1998).

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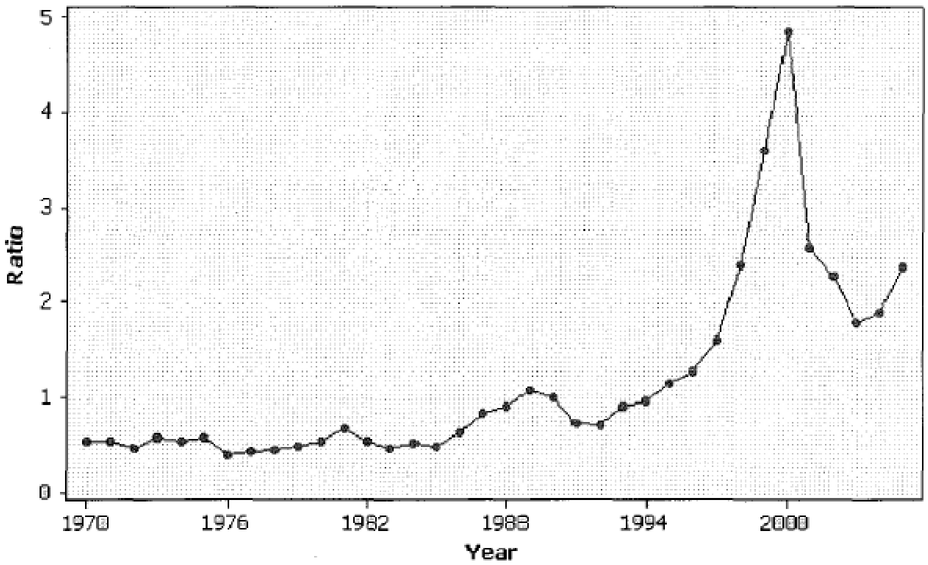
[4] In this study Multinational Enterprise (MNE) and Transnational Company (TNC) terms are used interchangeably and have the same meaning.

[5] Import Substitution is a trade or economic policy aiming to reduce the foreign dependency of a country through the local production of industrialized products.

[6] Structural adjustments are the policies of IMF and World Bank pursued in the developing countries. They are the policy conditions for getting new loans from the IMF or World Bank or obtaining lower interest rates on the existing loans.

Figure 1: FDI Inflow-GDP Ratio, 1970-2005



Source: UNCTAD (2006).

As of IMF (1993) in the 1990s as a result of the integration of international capital markets, FDI flows grew strongly in the world even increasing the global economic growth or global trade. Global inflows grew by an average of 13 percent a year during the years 1990-1997. During the time 1998-2000, the inflows increased by an average of circa 50 percent a year. During this time, the inflows were driven mostly by cross-border mergers and acquisitions. The inflows reached to US$ 1.5 trillion in the 2000. In the 2001 the inflows declined to US$ 729 billion due to a drop of cross border merger and acquisition (M&A)[7] among industrial countries

[7] When a firm decides to invest instead of exporting, it can choose to make Greenfield investment in which the single investor establishes a new plant in a host country. The subsidiary in this type of investment is wholly-owned by the investor and the parent company holds at least 95 percent equity shares in the affiliate. The second choice is the joint venture in which there are multiple investing parents and none of the investors holds more than 95 percent of the equity shares in the affiliate. Third is the M&A in which the firm acquires the assets of a local firm and combines them with his own assets (Raff, Ryan, Stahler, 2004). Privatization is also used as a way to invest in a country. It is believed that Greenfield investments are the best ingredients for productivity. Similarly, Joint Ventures also increase productivity but privatizations and M&A do not bring new productive assets but they are able to replace the inefficient capital management and enable better use of the existing productive assets (Ferraz, Nobuaki, 2002: 383-99).

(IMF, 2003). Figure 1 explores the ratio of total FDI net flows to the world GDP in between the years 1970 and the 2005.

As to Fig.1 in the 2004 and the 2005 FDI inflows increased substantially. They rose by 27 percent in the 2004 and 29 percent in the 2005. In the 2005 transnational companies (TNC) included 77,000 parent companies with over 770,000 foreign affiliates. In the 2005, they have generated circa 4.5 trillion US $ in value added, employed circa 62 million workers and exported goods and services which are valued more than US$ 4 trillion (UNCTAD, 2006).

However, geographical distribution of FDI inflows continues to be uneven. Between the 1985 and the 1990, 83 percent of FDI flows took place in developed countries. (de Soysa, 2003) In the 2004, world's top MNEs were dominated by EU, Japan and US (UNCTAD, 2006). But, also FDI flows to developing countries began to rise over the two decades.

1.1.2 FDI to Developing Countries

As Jonas and Wren point out first investments in the developing world began with the colonial exploitation. Large trading companies from UK and Netherlands entered to Asia and America and got the control of the markets of cotton, silk and spice. The investments of Britain and French focused on extracting natural resources in Latin America, Asia, Africa and Australia. After World War II, modern MNEs began to invest in developing countries (Jonas, Wren, 2006).

Within the context of the view of Cohn, from the 1880s to first decade of 20^{th} century is the time when there were very few FDI restrictions in the developing world. Thus, FDI grew substantially and concentrated on the exploitation of natural resources. World War I and nationalization of foreign capital following the Revolution in Russia in the 1917 resulted in the decrease of FDI growth. The onset of Great Depression in the 1929 brought the end of heavy flows of FDI. During the interwar period, some developing countries like that of Egypt moved to more nationalist policies regarding the foreign investments (Cohn, 2000).

In the 1960s due to the legacy of colonial exploitation, stagnation in the economic development and widespread poverty, developing countries became highly hostile to FDI. International trade and foreign capital became to be seen as enemies. MNEs became to be regarded as the tools of exploitation of the *"periphery"* by the *"core"* which was at the end the main reason for underdevelopment in the south. Thus, many countries in the developing world, especially those in Latin America, Africa and South Asia adopted import substitution (ISI) strategies in order to protect their domestic industries (Gilpin, 1987).

However, the hostility of developing countries towards FDI brought economic problems such as; uncompetitive industries, increasing balance of payment deficits and lack of financial capital (Cohn, 2000). On the other hand, Gilpin (1987) emphasizes that East and Southeast Asia practiced some export-led growth strategies which brought enormous gains (Gilpin, 1987). With the debt crisis of early the 1980s, many developing countries got forced to confront increasing international competition and started to view FDI as an economic stimulator (Kebonang, 2006: 255-270). UNCTAD (2006) mentions that as a result of the desire to attract FDI, governments in developing countries became forced to provide more hospitable environment to foreign investors which include more economic liberalization and more openness (UNCTAD, 2006).

At the end of the 1990s, the number of foreign affiliates located in developing countries was 129,771 and the ones located in developed countries were 93,628 (Li Quan, Li, Resnick, 2003a: 1-37, 2003: 1-37). In the 2005 inflows to developed countries was US$ 542 billion which is an increase of 37 percent compared with the 2004 rates. The inflows to developing world rose to US$ 334 billion which is in percentage terms 59 percent of total global inward FDI (UNCTAD, 2006). Uneven FDI inflow distribution continued to be a problem for the developing countries. One third of the developed country FDI global stocks go to 5 economies namely; China, Hong Kong, Argentine, Brazil and Mexico (IMF,1993). China, Hong Kong, Singapore, Mexico and Brazil are the largest FDI inflow recipients in the developing world (UNCTAD, 2006).

UNCTAD (2006) points out that Asia is the favorite destination for foreign investors. In between the 1998-2001, half of FDI going to developing to world went to Asia which corresponded to 18 percent in world total FDI inflows. This was followed by Latin America and Caribbean, Central and Eastern Europe and the CIS[8]. FDI inflows to Africa accounted only 3 percent of world total (UNCTAD, 2006). In Asia their largest recipients were China and Hong Kong (IMF, 2003).

Brazil and Mexico were recorded as the largest recipients in Latin America (IMF, 2003). Inflows to Central and Eastern Europe and CIS mainly went to Russian Federation, Ukraine and Romania (UNCTAD, 2006). Boughtan (1997) emphasizes that FDI to developing countries mainly went to manufacturing and processing industries. But in the past, it was associated with natural resource richness (Boughton, 1997). Manufacturing FDI has been attracted increasingly by Asia especially in automotive, electronics, steel and petrochemical industries. On the other hand, FDI in primary sector in Latin America grew significantly accounting nearly 25 percent of total inflows. The resource seeking Latin American countries were; Venezuela, Colombia, Ecuador and Argentine. FDI inflows to Africa were mainly on natural resources, especially oil to countries like Algeria, Egypt, Equatorial Guinea, Mauritania, Nigeria, and Sudan (UNCTAD, 2006).

1.2 DEMOCRACY

As to Schumpeter (1950) the method called democratic is the one in which there are institutional arrangements to arrive at political decisions and in which individuals have the power to decide by competitive struggle for the people's vote. Accordingly, open, free and fair elections are the must ingredients of a democracy (Schumpeter, 1950: 250-273).

Regarding the measurement of democracy, this study is going to adopt Human Development Index (HDI). HDI is a summary of measuring long-term

[8] CIS was founded in the 1991 following the dissolution of the Soviet Union. Its members are; Azerbaijan, Armenia, Belarus, Georgia, Kazakhstan, Kyrgyzstan, Moldova, Russia, Tajkistan, Turkmenistan, Uzbekistan and Uraine (CIS, 2007).

progress of a country in three basic dimensions as; living a long and a healthy life, having access to resources needed and living a decent standard of living. In this regard, life expectancy at birth, GNI per capita in purchasing power parity (PPP)[9] US dollars, means years of adult education (average number of years of education received in a life-time by people aged 25 years and older), expected years of schooling for children of school entrance age (total number of years of schooling a child of school-entrance age can expect to receive if prevailing patterns of age-specific enrolment rates stay the same throughout the child's life) (UNDP, 2010a:1) will be analysed in Argentina and Turkey during 1980-2000.[10] The reason for to choose HDI is because the overall democratization of country will be analysed in regard of the improvement of the living standards of the individual beings in the country.

Within the context Huntington articulates that democratization is the transition from authoritarian regime to the democratic regime and the waves of democratization are groups of transitions occurring in a specific period of time.[11] The first two waves had been succeeded by reversals. During the reversals, some countries stayed democratic and only some returned to authoritarian rule (Hungtington,1991).

Huntington (1991) emphasizes that the first wave of democratization began in the early 19th century along with the increase of suffrage rights and made a peak after World War I. With this wave, 30 countries established least minimal national democratic institutions. The reversal began in the 1922 with the accession of Mussolini to power. Democratic institutions in many countries were overthrown by military coups. The regime changes were a reflection of communist, fascist and militaristic ideologies. The reverse lasted until the 1942 with the world democracies decreasing to 12 (Hungtinton, 1991).

[9] Purchasing Power Parities (PPPs) are currency conversion rates. Countries convert to a common currency and equalize the purchasing power of different currencies. They eliminate the price level differences between countries. (OECD,2011)

[10] Human Development Index (HDI) runs from o (low) to 1 (high human development).

[11] Note that not all of the transitions to democracy occurred during three successive waves (Huntington, 1991).

Huntington (1991) explains that the second wave of democratization began with World War II. But due to the growth of communism and the failure of many postcolonial democracies, by early the 1960s the reverse took place. The reversal of the second wave democratization brought pessimism in regard of the applicability and stability of democracy in the developing countries (Hungtinton, 1991).

As to Huntington (1991) the trend of democratization, the third way democratization has risen again since the mid-1970s with the decline of military rule in Spain, Portugal and Greece. The fall of communism also marked an upsurge in this wave. Overall, the transition to democracy was a global one. The third wave of democratization has added approximately 50 new democracies (Hungtinton, 1991). The third way democratization is still continuing. There have been some reversals but still the trend continues to shift up. The third wave democratization coincides with globalization boom (de Soysa, 2003a). The world witnessed increased interchange of people together with goods, information, informatics, media and capital in other words the increase of *"economic globalization"* (Friedman,1999 cited. Milner, Mukherjee, 2009). Economic globalization includes the liberalization of trade and capital account liberalization (Milner, Mukherjee, 2009). One of the basic aims of economic globalization is the increase of FDI flows. (de Soysa, 2003a). Thus, it could be nesessary to consider the effects of globalization on democracy while studying the effects of FDI on democracy.

1.2.1 Theoretical Review on the Effects of Globalization on Democracy

Li and Reuveny (2003b) argue that there are three competing propositions in regard of the effects of globalization on democracy; globalization promotes democracy, globalization prohibits the consolidation of democracy and democratization does not have anything to do with globalization (Li, Reuveny, 2003b: 29-54). Lipset (1959) argues that globalization boosts economic growth, promotes education and thus enhances the path for political freedom and democratization (Lipset, 1959: 69-105).

Oneal and Russett (1997) emphasize the role of international institutions in promoting democratization. Based on the notion of Kant that democracies rarely fight each other, it was believed that commercial interests raise demand for democracy (Oneal, Russett, 1997: 267-293). For market economy to operate efficiently, some democratic features of domestic institutions such as accountability, transparency and decentralization are necessary. Thus, developing countries face pressure for democratization while they get integrated to the world economy (Bhagwati, 1995: 263-281).

Li and Reuveny (2003b) highlight the impact of exogenous economic forces on state. Globalization pushes states for decentralization. As a result of the declining state control such as the weakening rent-seeking capacity of the state elites, and their reduced incentives to resist democracy, in developing countries, the bargaining power of business and market increases together with the increase of the entrance of labor unions, business associations into the political arena (Li, Reuveny, 2003b: 29-54). The worldwide economic integration is emphasized in regard of the effect of globalization on democracy. Globalization reduces the information costs and increases the contact between developing countries and developed democracies, thus intensifies the diffusion of democratic ideas to the developing world (Diamond, 2002: 21-35).

Li and Reuveny (2003b) also argue that globalization deteriorates the political environment in developing countries. First of all, as a result of the increased capital mobility across countries, and increased market-oriented resources and production facilities, the autonomy of the state over economic and social policies decreases (Li, Reuveny, 2003b: 29-54). In order to attract foreign capital, governments introduce some public policies which please the international commercial interests instead of the citizens. Thus, the quality of democracy decreases (Gray, 1996). Muller (1995) argues that globalization increases the gap between the North and the South. (Muller, 1995: 966-982).

1.2.2 Theoretical Review on the Effects of Democracy on FDI

Dunning (2002) offers the logic that the decisions of MNEs to make investments abroad depend on three conditions namely; ownership, location and internalization (OLI). Ownership is the specific advantages namely; unique property rights, product innovation or market advantage over firms in other countries in order to secure their returns. Location advantage is the advantage such as access to large foreign market or savings in transport costs. Internalizing means; instead of simply selling or licensing his technology needed for the production process, MNEs have a desire to produce the product in a foreign location in order to internalize the advantages across different markets (Dunning, 2002).

Before the 1990s, FDI had gone mostly to developed countries. In the 1990s, 85 percent of world FDI inflows went to industrialized democratic countries. However, the situation began to change in mid the 1990s (Jensen, 2003: 587-616). Li and Resnick (2003a) believe that MNEs prefer to invest in authoritarian regimes because the lack of constraints in authoritarian regimes is seen profitable for MNEs. They argue that authoritarian leaders are able to provide advantageous deals to foreign investors at the expense of tax payers. Li and Resnick (2003a) also highlight that; authoritarian regimes can protect the foreign capital from public pressure for high wages, business protection and stronger labor rights. They emphasize that, without strong pressure from below, they are able to enact efficiency enhancing economic reforms (Li, Li, resnick, 2003a: 1-37, 2003: 1-37).

Jensen (2003) argues that even though FDI to developing countries increased, large part of FDI still goes to rich, highly taxed developed democracies (Jensen, 2003: 587-616). Jensen (2003), Jakobsen and de Soysa (2006b) emphasize that the unlimited power of the authoritarian leaders bring instability to the political environment. The political risks include arbitrary expropriation, nationalization and other forms of ex-post government interventions such as; tax rates, depreciation schedules, tariff rates and changes in other policies that affect the multinational operations directly (Jensen, 2003: 587-616; Jakobsen, de Soysa 2006b: 384-410;

Kebonang, 2006: 255-270). Even though nationalization is not a common practice nowadays, it still continues to be a great political risk for MNEs due to fact that nationalization expropriates revenue streams and brings policy changes (Jensen, 2003: 587-616).

Within the context, Jensen (2003), Jakobsen and de Soysa (2006) articulate that the political and economic risks are the biggest concerns of the foreign investors who have the intention of investing in developing countries. The unpredictability of the policies, excessive regulatory burdens, deficient enforcement of property rights and the lack of commitment in the government all play a major role in deciding to invest in a developing country. MNEs prefer the governments that can minimize these risks (Jensen, 2003: 587-616; Jakobsen, de Soysa 2006b: 384-410). Jensen (2003) believes that democratic regime is seen to be more credible and accountable due to its democratic institutions which can guarantee low political risks for foreign investors (Jensen, 2003: 587-616).

Globerman, Shapiro, and Tang's (2004) studies in Eastern European countries and Biglaiser and DeRouen's (2006) studies in Latin America emphasize that democratic features play a critical role in attracting FDI (Globerman, 2004: 19-40; Biglaiser, 2006: 51-75). Schulz (2009) believes that the reason that there are conflicting results in regard of the effect of democracy on FDI is that scholars do not distinguish between different types of FDI. He concluded that democracy is negatively correlated with FDI in resource seeking primary industries but it is positively correlated on market and efficiency seeking FDI in the non-primary sectors (Schulz, 2009).

1.2.3 Theoretical Review on the Effects of FDI on Democracy

Gallagher (2002) points out that multinational enterprises ignore political rights and civil liberties when they invest in a country and since repressive policies create a stable, well controlled and relatively low cost environment for the foreign investors, foreign investors foster repressive regimes in developing countries

(Gallagher, 2002: 338-372). Gray (1996) believes that in order to attract FDI, governments issue some policies which please the MNEs rather than the public. MNEs constrain the actions of states as well as labor and communities and thus decrease the accountability of governments to the voters which at the end effects the consolidation of democracy in a negative manner (Gray, 1996).

Jensen (2003) emphasizes that on the basis of the idea of Kant that democracies rarely fight each other foreign commercial interests increase the demand for democracy in developing countries to provide a stable and peaceful investment environment to the foreign investors. MNEs do not prefer countries with high political risks because the cost of disinvesting physical assets is extremely high and if governments change their related policies after the investment of MNEs, the profit of MNEs will be affected badly (Jensen, 2003: 587-616). De Soysa (2003a), Jensen (2003), Li, Reuveny (2003b), Oneal, Russett (1997) point out to the importance of democracy in the choice of foreign investors in investing to developing countries (de Soysa, 2003a; Jensen, 2003: 587-616; Li, Reuveny, 2003b: 29-54; Oneal, Russett, 1997: 267-293). In order to attract foreign investment, governments reduce the cost of doing business and increase the predictability of the rules of the system within which firms conduct their business. (de Soysa, 2003a; Jensen, 2003: 587-616; Li, Reuveny, 2003b: 29-54; Oneal, Russett, 1997: 267-293). Lipset (1959) argues that FDI boosts economic growth in developing countries. Some scholars believe that economic developing promotes democracy (Lipset, 1959: 69-105). Li and Reuveny (2003b) believe that FDI with its economic positive spillovers, increases economic growth and improves education which all at the end fosters the consolidation of democracy (Li, Reuveny, 2003b: 29-54). MNEs have to stay in host countries for a long time that they interact with local governments and local people which result in ethical and social benefits to host countries such as; consumer rights, labor standards.etc. which are necessary conditions for the consolidation of democracy (UNCTAD, 1999). Li and Reuveny (2003b) highlight that FDI has substantial social and psychological effects in the developing countries. FDI’s involvement in the host economy promotes transparency, accountability and effectiveness of domestic institutions and reduces state interventions and excessive economic regulations. (Li, Reuveny, 2003b: 29-54).

Li and Reuveny (2003) used 4 indicators while measuring globalization namely; trade openness, foreign direct investment flows, portfolio investment inflows, and the spread of democratic ideas. The last effect, they argue, is related with contact based mechanisms. They operationalize it by using geographical approximation that they believe that political regime of a country is more likely to be affected by the political regimes of countries that are around that country. Even though this is true, since MNEs are already in the host country, the interaction between MNEs and host countries are frequent and direct. Thus, it can be concluded that the presence of MNEs from developed democracies enhances the consolidation on democracy in the developing countries. So FDI is the better choice for the exporting of democratic ideas from democracies to developing countries (Li, Reuveny, 2003b: 29-54).

Dailami (2000) emphasizes that with the help of the FDI inflows authoritarian states feel forced to decentralize power. As a result of the free mobility of foreign capital, government's selection and management of macroeconomic policies are restricted (Dailami, 2000). It is necessary to note that central governments lose their control over economic and social progress in order to attract FDI. This at the end enhances the path for social pluralism (de Soysa 2003a).

Li and Reuveny (2003), de Soysa (2003), and Rudra (2005) have tested the relationship between globalization and democracy. Li and Reuveny (2003) showed that FDI's effect on democracy is significant and positive. In their studies Li and Reuveny (2003) used 127 countries from the 1970 to the 1996. Rudra (2005) linked trade and capital flows with democratization. He analyzed 59 developing countries from the 1972 to the 1997. Rudra dropped FDI from the model because he found that FDI had been highly correlated with trade and that the preliminary results showed that the effect of FDI is not significant with or without trade. De Soysa (2003) analyzed the relation between FDI and democracy for circa 100 countries from the 1970 to the 1999. Accordingly, he found that FDI stocks as a percentage of GDP has a small but positive long-run effect on democracy. The reverse effect of democracy on FDI stocks is also significant but with a negative coefficient. (Li, Reuveny, 2003b: 29-54; de Soysa, 2003a; Rudra, 2005: 704-730).

De Soysa (2003a) used Vanhanen Index which is based mainly on domestic election system focusing on political competition and political participation and Rudra (2005) and Li and Reuveny (2003b) used Polity IV which concentrates on different aspects of democracy. It can be concluded that the effect of FDI on democracy depends on the type FDI whether it is resource seeking concentrating on extracting natural resources, primary sector or it is market or efficiency seeking concentrating on non-primary sectors, on the absorption capacity of the host country and depends whether the FDI inflows go from a developed or developing country. FDI from developed countries enhances the consolidation of democracy. FDI in non-primary sectors enhances the consolidation of democracy in developing countries. Similarly, FDI via Greenfield investments and joint ventures is more likely to increase the productive capacity of a country then the FDI via M&A or privatizations (Li, Reuveny, 2003b: 29-54; de Soysa, 2003a; Rudra, 2005: 704-730). Primary sector is limited with resource seeking FDI which mostly concentrates on accessing and extracting raw materials. Most FDI flowing to developing countries in the 1960s was resource-seeking. In the 1970s this kind of FDI began to decrease and replaced mostly with market seeking – seeking to expand its market- and efficiency seeking – seeking to decrease costs- FDI, concentrating on non-primary sectors. FDI going to a country that has minimal democratic capacity like that of the human capital to absorb the technology, the effect of FDI on democracy is recorded to be positive (UNCTAD, 2006).

CHAPTER II

ARGENTINA AND TURKEY IN BRIEF

Onis (2006a) describes Argentina and Turkey as the two countries on the path from democratic transition to democratic consolidation. Both of the countries retuned to democracy on 1983 after a long period of military interludes. This period also coincided with the application of the neo-liberal economic policies in both of the countries. Both of the countries opened up their economies and began liberalization and privatization projects. Even though these applications brought with them the fragility of the economy and crisis-prone economic structure, both of the countries experienced a break from their military-interlude prone history (Onis, 2006a). First the history and democratization of Argentina and then the history and democratization of Turkey will be analyzed.

2.1 BRIEF OVERVIEW: ARGENTINA

2.1.1 The Independence

Jonas (2002) draws attention to the point that Argentina became independent in the 1816. During that time, Argentina used to be one of the poorest colonies of Spain. It used to face high economic and political instability. At the end of the 1850s and beginning of the 1860s, the internal war in the country was devastating. At the last quarter of the 19^{th} century, the economic situation of Argentina began to change. This was due to two important technological innovations namely; developments in regard of agricultural product storages and cheap transport technologies. Therefore, demand for Argentina products increased in the world and Argentina turned out to be a fast growing economy (Jonas, 2002).

Sorenson (2001) highlights that after the beginning of the 1990s; Argentina became one of the richest countries in the world. The suitable economic conditions in the world attracted foreign capital. With the immigrants coming to Argentina, the population of Argentina turned out to be 7.5 million in the 1913 which was 3.3 million in the 1890. In the same period, the capital stock increased by 4.8 percent annually. During that period, the standards of living in the country increased rather a lot (Sorenson, 2001).

Alvaredo (2007) emphasized that in the 1913 the per capita income in Argentina was 4519 dollars and it was 6308 dollars in the USA, 6800 dollars in Australia, 6130 dollars in New Zealand, 5290 dollars in Canada, 3584 dollars in Sweden, 4147 dollars in France, 2512 dollars in Finland, 3050 dollars in Italy, and 2682 dollars in Spain (Alvaredo, 2007 cited Ergun, 2010).

As to Ergun (2010) Argentina used to be a great exporter of agricultural products until the time of World War I. Argentina exported its products to industrialized countries especially to Great Britain. Even though agriculture was the leading economic force, industrialization and development of modern services also took place in Argentina. The role of foreign direct investment (FDI) was significant during that period. FDI was the main channel of technology transfer together with the immigrants coming from Europe (Chudnovsky, Lopez, 2008). However, one important point was omitted during that period of high economic growth. Since, the economic growth and local finance structure of the industry were not mature enough before the war period, Argentina economy was financed by foreign capital which made Argentina economy dependent to foreign trade and foreign capital. However, the stability in the economy continued without interruption until World War II (Ergun, 2010).

From the 1912 to the 1930, during the time of the first wave of democratization, Argentina experienced the transition to a democratic regime (Alston, A.Gallo, 2005; Huntington, 1991). Key institutional reforms were made during that period. On one hand, rule of law was guaranteed and on the other hand, some new laws which aimed at the protection of property rights and infrastructure were enacted. Similarly, in the 1916, first free and fair elections were held in Argentina (Chudnovsky, Lopez, 2008).

Until the 1930s, Argentina experienced 70 years of political stability which at end facilitated its economic development. Argentina was ranked as one of the wealthiest countries of the world. Despite World War I brought some economic problems to Argentina, according to its per capita income, in the 1920, Argentina was ranked the 7th in world (Sullivan, 2006).

2.1.2 The First Military Coup in Argentina

2.1.2.1 The Great Depression

Ergun (2010) emphasizes that the Great Depression started on October 24th 1929 first by the decrease of “*Chirre bonds"* in US in New York Stock Exchange and defused to the entire world. The global crisis had diverse results in Argentina. As a result of the reduction in economic activities, international demand to Argentina products decreased. Ergun (2010) also emphasizes that the already cheap agricultural products became even cheaper. For instance, Argentina’s main export products; wheat, corn and ketene seed prices in between the years 1929-1933 decreased approximately 43 percent. The rapid decrease in Argentina exports affected the national economy. Argentina faced significant degradation in trade balance (Ergun, 2010). In the 1930s during the course of the reversal of the first wave democratization; the first military coup in Argentina took place (Daseking et.al, 2004; Huntington, 1991).

Argentina was described as a country of economic and political distributional conflict. Politics were like a sequence of shift from civilian to military, from business-oriented administrators to labor-oriented administrators while at the same time the economy was struggling with its volatile cycles (Buxton, Phillips, 1999). The first military coup ended 14 years of democracy in the country (Daseking et.al, 2004).

Ergun (2010) highlights that due to the negative effects of the Great Depression; the state changed its economic policy. Argentina moved to a closed economy following an import-substitution based industrial strategy. Some import limitations like that of capital flow controls were brought in to be able to protect the national products and gold standard[12] was left and national currency was devalued (Ergun, 2010).

[12] Following World War II, in the 1944 Bretton Woods System which is a system of monetary management establishing the rules for commercial and financial relations among the world’s major industrial states was established. Under this system, International Monetary Fund (IMF) and World Bank were formed. Equally important, a system similar to gold standard was established in the 1946.

Within the context Ergun (2010) articulates that the negative effects of the Great Depression in Argentina were moderate and short-term when compared with the world standards. During that period, Argentina's real production decreased by 14 percent from the 1929 to the 1932. It reached to the 1929 levels in the 1935. In the same period, deflation was at a level of 6 percent. For instance, in US and Canada, the gold standard countries, real production decrease was 30 percent. These countries experienced circa 20 percent deflation. In the same period, Mexico's production decreased 19 percent, Chile's 27 percent and Brazil's 28 percent (Ergun, 2010).

With reference to the argument of de la Balze (1995) starting from the 1930s, there was insight stoppage and recession in the Argentinean economy. In the 1930s, the real economic growth lied behind the population growth and with the effect of the Great Depression; Argentina got alienated from the Gold Age of the previous years. However, since the Great Depression affected all the countries, Argentina reserved its position in the world. In the 1938, Argentina's per capita income was 57 percent of the most developed countries' per capita incomes namely; US, Australia and Switzerland. Argentina's economy was an open economy before the Great Depression in the 1920s by 33 percent but in the 1930s this percentage decreased to 25 percent **(**de la Balze, 1995 cited. Ergun, 2010).

2.1.3 Juan Domingo Peron Period and Peronism

Jonas (2002) emphasizes that Juan Domingo Peron who used to be Minister of Labor in the previous military government won the 1946 presidential elections. This period coincided with the second wave of democratization. Peron's populist politics increased the instability in Argentina even more. Peron nationalized many enterprises and increased the state control in the economy which was already high (Jonas, 2002). As a result of the protectionist policies of Peron, during the 1945-55s, FDI was not welcomed to Argentina (Chudnovsky, Lopez, 2008).

Under this Standard, countries fixed their exchange rates relative to US dollar. The US promised to fix the price of gold at 35 dollars per ounce. The system lasted until the 1971 (Oran, 2002: 480).

K. Lewis (2001) mentions that Peron expanded unionization. K. Lewis (2001) adds that he provided some short-term benefits to the workers and tried to empower the rural workers. K. Lewis (2001) also emphasizes the statute Peron brought which provided minimum wages for rural workers (K. Lewis, 2001). Thus, with these measures of Peron, the working class was integrated into the political and economic scene (Daseking et.al, 2004).

Between the years 1946 and the 1951, the total union membership in Argentina increased from 520,000 to 2,334,000. Similarly, real wages of the industrial workers' increased by 53 percent (K. Lewis, 2001). However, in order to be successful in his policy, Peron used rapid income increase as a political tool. Naturally, the results of this policy were not favorable to the economy of Argentina. In the same manner, the deficits of the expropriated enterprises increased rapidly and as a result fiscal deficits augmented. In order to close the deficit, the government monetized and as a result, inflation increased rapidly (Jonas, 2002).

Daseking et. al (2004) emphasizes that the democracy in Argentina did not last long. In the 1955 the military coup overthrew Peron's government and forced him to flee from Argentina. Peron's return was prohibited for 18 years (Daseking et.al, 2004).

Ergun (2010) draws attention to the issue that following the overthrow of Peron, Peronism continued as a political movement in Argentina. After the ouster of Peron until the 1973, many military and civilian governments ruled Argentina (Ergun, 2010). During this time, Argentina encountered problems between the military and the Peronists (Huntington, 1991). In between the 1958-1962, during President Frondizi's term, industrialization in Argentina was promoted. During this period, FDI boom in Argentina took place (Chudnovsky, Lopez, 2008). Khavisse, Piotrkowski (1973) emphasizes that in the 1966, during the period of the second wave democratization reversal, Argentina experienced another military intervention. During the 1966-69, FDI inflows continued to increase. Similarly, the share of foreign firms in Argentina increased (Khavisse, Piotrkowski, 1973 cited. ECLAC, 2001).

Peron was re-elected after 18 years in the 1973 to office (ECLAC, 2001). It can be said that this period coincides with the third wave democratization (Ergun, 2010). Ergun (2010) puts emphasis on the issue that Peron approved some new laws for the restriction of FDI After a year he died and his wife Eva Peron had succeeded him. Eva had little political experience. During her time, Argentina experienced high inflation. He also added that other than that of the economic deterioration, Argentina experienced political instability (Ergun, 2010). In the 1976, the military intervened again (Sullivan, 2006). At the end of the 1970s, Argentina was in the middle of economic and financial crisis. Inflation was high on one part and on the other part; national currency was losing its value rapidly. In between the 1976-1981, fixed exchange rate system had been abandoned and economy had been opened up. In this framework, towards the end of the period, in between the 1979-1981, orthodox policy[13] namely "tablita" based on foreign exchange rate was applied (F. Dogruel, S. Dogruel, 2006: 89-90). Chudnovsky (2008) mentioned that the military dictatorship passed new laws for the encouragement of FDI inflows. But, during the time of military regime, FDI inflows did not increase and even some TNCs closed their subsidiaries in Argentina (Chudnovsky, Lopez, 2008). Military regimes face with the problem of legitimacy in other words the problem of the acceptance of their governing authority. Authorities respond to this problem with a couple different ways. First of all, during the first phase of the intervention, the military leaders enjoy the "*negative legitimacy*" created as a result of the relief appeared in the public with the dislocation of the failed democratic government. However, as time passes this "*negative legitimacy*" evaporates. In such an environment, some authoritarian leaders promise for social reforms or economic growth and development (Huntington, 1991). The military dictatorship' encouragement of FDI in Argentina could be interpreted with the fall of "*negative legitimacy*" of the military dictatorship. Military government's legitimacy also weakens if it cannot achieve its promises. Similarly, the achievement of the purpose of the military dictatorship

[13] Orthodox Policy: increase of public revenues, and decrease of public expenditures; Heterodox policy: It is usually applied during chronic or high inflation periods. It is a macroeconomic stability program including not only tight fiscal and monetary policies but also price, wage and foreign exchange controls.

brings with it the loss of purpose which results again in the weakening of legitimacy (Huntington, 1991).

Huntington (1991) mentiones that in Argentina, during the 1978-80, the applied economic policies resulted with economic boom. However, this was an *"artificial boom"* which brought fall of import prices and the fall of competitive strength of the local industrialists. Similarly, it brought the increase of export prices. Thus, this artificial boom bursted in the 1981 and the economy went into deep recession. Following that, unemployment and inflation rose together with the loss of value of the Argentinean peso. Argentina experienced heavy capital flight together with the fall of its reserves. As can be seen, the military could not accomplish its promise in Argentina. General Le Opoldo responded to this situation in the 1982 by invading the Falklands Islands. War with Britain began in 1982 and lasted for 2.5 months. General Le Opoldo's failure in the war, brought the transition to democracy in the succeeding years. Similarly, during this time of military dictatorship, Argentina government eliminated the *"Montonero Guerillas"* (Argentina Peronist Urban Guerilla Group) and restored order and achieved its aims. As a result, one major reason to legitimize Argentinean military government faded away. The military dictatorship in Argentina responded by augmenting the repressive politics in the country (Hungtington, 1991).

2.1.3.1 Return to Democracy and Alfonsin Government

Pini and Cigliutti (1999) mention that in the 1983, Argentina returned to democracy under Alfonsin. After the 1983 Argentina did not experience any military interventions but instead experienced the cycle of fall and rise of the leaders succeeding the change of economic conditions. (Pini, Cigliutti, 1999). From the 1980's to the 1985 and from the 1985 to the 1990s, the country's GNI per capita decreased. The HDI value stayed more or less static due to the fact that the country's life expectancy and education rates stayed more or less static (UNDP, 2010a).

Pini and Cigliutti (1999) also add that the period of democratic return coincided with the economic crisis. The country went into bankruptcy due to increased external debt (Pini, Cigliutti, 1999). In that period, as a result of successive high-rate devaluations and uncontrolled budget-deficits, the inflation increased to 672 percent in the 1985 from 165 percent in the 1982 (F. Dogruel, S. Dugruel, 2006: 89-90). During this time, FDI concentrated on sponsoring the national debt (Basualdo, Fuchs, 1989 cited. ECLAC, 2001).

With the Raul Alfonsin government, a new era began in Argentina. The government faced many challenges as; consolidation of democracy in a country that was devastated by military coups and dictatorships, that faced high level human rights violations, that had high inflation and massive external debt. Argentinean people became hopeful with the arrival of the democracy however, it sank away after five and half years (Tedesco, 1999).

Pini and Cigliutti (1999) draw attention to the issue that with Alfonsin, a neo-liberal model was imposed. This model saw the welfare state too bureaucratic and inefficient. Neo-liberal model also believed that the inefficient and bureaucratic state was hindering the normal functioning of the free market due to its regulations, taxes which were put on capital and due to its decreasing number of investments and employment levels. Thus, the government was down-sized, public services were privatized and social spending was lowered down (Pini, Cigliutti, 1999).

Tedesco (1999) underlines that in the 1980s with the crisis, unemployment increased rapidly, and annual inflation came to a level of 1000 percent. This situation was met by the Alfonsin Government with some inefficient responses (Tedesco, 1999). Pini and Cigliutti (1999) draw attention to the point that the country committed greatly to the laissez faire economics. Privatization, decentralization and transference of responsibilities from national level to the provinces took place. The policies brought minimal social spending in education, health and social services thus at the end they brought impoverishment, social inequality (Pini, Cigliutti, 1999). GNI per capita during 1980s decreased (Appendix 4).

According Ergun (2010) due to this instability in the economy, a new stability program named Austral Plan had been prepared and put into practice. It was put into practice in the 1985 and applied until March the 1986. It was a shock program with the aim of decreasing inflation rapidly and eliminating the public financial instability. The plan was approved by the IMF. Its elements were; tight monetary and fiscal policy, freezing of prices and wages, switching to a new currency, increasing in state economic enterprise products and abandoning monetizing (Ergun, 2010).

Bahceci in his work in 1997, mentioned that with the implementation of the plan, national currency peso was devalued, public product prices were augmented and new taxes were introduced. With the declaration of the monetary reform package, Central Bank announced that Central Bank was not anymore going to monetize to finance budget deficits. New currency, *"austral"* started to be used. 1 Austral equaled to 1000 old peso and 0.8 Austral equaled to 1 dollar (Bahceci, 1997).

The Austral Plan, despite its positive results of the first months of implementation, in the second half, as a result of leaving the controls, and appeasing tight fiscal policy resulted with failure and inflation rates began to rise. Neither the policies to decrease inflation were supported by structural reforms, nor adjustments to ameliorate the effects of the taken measures were done (F. Dogruel, S. Dugruel, 2006: 89-90).

2.1.4 The Period of Carlos Menem

2.1.4.1 The Constitutional Reform

Tedesco (1999) stresses that at the top of the crisis, Carlos Menem came to the Presidency. He was elected freely. But, Menem had an *"unchecked discretionary authority"*[14] (Tedesco, 1999). *"President Carlos Menem had inherited*

[14] Tedesco (1999) believes that as a result of the economic crisis of the 1980s, a term called *"delegative democracy"* emerged in Argentina politics. The term *"delegative democracy"* was developed first by Guillermo O'Donnell. He used to term to describe a form of democratic regime which was seen in the third wave democracies. Accordingly, the regime differs from the democratic regimes of the Western Europe, North America and the Commonwealth. It is different because the *"delegative democracy"* has great emphasis on presidentialism. President who wins the elections in *"delegative democracies"*, rules the country according to his own preferences. Thus, in *"delegative democracies"* national interest definition and the policies of the government are designed by the president directly. The decrees of the president are able to replace the legislation (Tedesco, 1999).

a bankrupt government, a divided country when he took office in December the 1989" (Lewis, 2001).[15]

"President Menem has enjoyed the virtual absence of any checks and balances capable of frustrating his policies for most of his term" (Tedesco, 1999). Tedesco in his work in 1999 talked about the many decrees of necessity and urgency that President Menem brought to the scene. Those were decrees which were not formally listed on the constitution of 1853 (in effect until 1994). The decrees of necessity and urgency meant that executive was formally relying upon some decrees to respond to some emergent situations (Tedesco,1999).

2.1.5 The Convertibility Plan

Chudnovsky and Lopez in their work in 2008 mentioned that during Menem's term, in between the 1991[16] and the 1996, Domingo Cavallo was the Minister of Economy. During his time, Argentina has had a radical economic liberalization (Chudnovsky, Lopez, 2008). Argentina was transformed from a state-dominant economy to a free market economy. Most of the state enterprises were privatized and hyperinflation was eliminated, economy was opened to free trade and investment. In the 1991, under Domingo Cavallo, the government began the use of the Convertibility Plan. This plan, pegged the Argentina peso to US Dollar which limited the printing of pesos unless they were backed up by US dollars. Thus, with this policy inflation was put under check (Sullivan, 2006).

The plan brought price stability and took hyperinflation under control within the 1st years of the plan. Equally important, the plan took inflation to single digits.

[15]According to Lewis (2001) in the 1994 Menem tried to pass a constitutional reform. The main reason for the reform was to increase the term of the president. In the 1983 Consitution, the term of the president was limited for one term. Menem wanted to change it for his re-election. Thus a pact namely, "*Olivos Pact"* has been prepared by the representatives of Menem and by the Radicals. Accordingly, Menem's re-election was accepted. But the the presidential term was reduced from six to four years (Lewis, 2001).

[16] BBC (2010) highlighted that there was also one important economic development in the 1991. In the 1991 MERCOSUR, which is South America's leading trading bloc was set-up by Argentina, Brazil, Paraguay and Uruguay. In the 1994 it gained a wider international status and became a Customs Union. (it is a type of trading bloc with free trade area and common external tariff) Bolivia, Chile, Colombia, Ecuador and Peru are the associated members. Associate members join the free trade agreement but remain outside of the Customs Union (BBC, 2010).

Onis calls this system as *"an extreme version of a fixed exchange rate system"*. He emphasizes that *"the plan eliminated government's power to finance budget deficits through Central Bank and restricted new money creation to the inflow of foreign exchange"* (Onis, 2002b).

Onis (2002b) emphasizes that the plan involved extensive privatization works. As the mid-1990s came, Argentina had privatized all its public utilities and public enterprises. The government used the privatization revenues to offset fiscal and current account imbalances and aimed at achieving a fixed exchange rate system (Onis, 2002b).

Onis (2002b) underlines that Argentina economy was liberalized without considering the competitive strenght of the economy. Thus, the economy became dependent to the external sources and fragile to external shocks (Onis, 2002b). Lewis in his work in 2001 talked about the Mexican economic crisis. Accordingly, Argentina was affected badly from the Mexican economic crisis. Between December the 1994 and March the 1995, more than 4 billion dollars of deposits outflew from Argentina. Through the 1996s, Argentine remained in recession. On February 7, 1996, emergency powers were granted to the president to decree taxes and spending cuts. Therefore, Menem announced new reforms reducing the military spending and cutting social services together with workers' benefits (Lewis, 2001).

Onis (2002b) stresses that if looked at the strategy from its short-term effects, it is seen that Argentina had received a break from its past which was characterized by economic stagnation and instability. But looking at the strategy from its long-term effects, it is seen that the short term benefits were erased by the long-term disadvantages. Inflation had been eliminated but at the same time the country had lost its flexibility in the use of its monetary policy. Thus, authorities were unable to respond to recession of late the 1990s. Correspondingly, as a result of downsizing, the flow of dollars decreased and Argentina economy became vulnerable to external shocks which were at the end an important reason for the fall of the 2001. The country was affected badly as a result of the 1997 and 1998 Asian and Russian Crises as well as the devaluation in Brazil with Brazil being the major trading partner of Argentina (Onis, 2002b).

Sullivan in his work in 2006 highlighted that the due to the economic downsizing and widespread corruption in the 1999 elections, President Fernando De la Rua succeeded Menem. However, as the economy worsened with the Convertibility Plan, President Fernando De la Rua resigned in December 2001. After Fernando the country experienced a political turmoil and several provisional presidents ruled the country. On January 1, 2002 President Eduardo Duhalde was chosen by the legislative assembly as the president to complete the term of Fernando (Sullivan, 2006).

Ergun in his work in 2010 mentioned that since Argentina was not following the criteria of the program, IMF decided to stop payments. Argentina announced at the end of December that it will not be able to pay some of its debts and as in January 2002, Argentina declared that it terminated the convertibility regime totally (Ergun, 2010). Following the Convertibility regime, Argentina got into deep economic decline and social breakdown. 18 percent GDP decline had occurred in the country in between the 1999 to the 2002 (Chudnovsky, Lopez, 2008). Capital flows made a peak in the 1999 with US$ 23,986 but they fell back in the 2000 and the 2001 (ECLAC, 2001). At the end, Argentina lost its attractiveness for FDI. In the 1990s Argentina's share in world FDI flows was 1.5 percent but it decreased to less than 0.5 percent in the 2001-2005 period (Chudnovsky, Lopez, 2008).

It can be observed that Argentina's FDI inflows increased with the applied neo-liberal policies during the period of 1980-2000 and Argentina turned out to be one of the main destinations of FDI inflows. Note that at the end of the 1990s one third of the developed country FDI global stocks went to 5 economies namely; China, Hong Kong, Argentine, Brazil and Mexico (IMF, 2003). However, it was observed that FDI inflows and economic growth in Argentina were not on sustained basis. However, it can be said that due to the fragility of the democracy and economy together with the dependency to external sources, Argentina was affected badly from external shocks and experienced heavy capital flight in the 2000 and the 2001.

2.2 BRIEF OVERVIEW: TURKEY

2.2.1 Multiparty Democracy

Tachau and Heper in their work in 1983 highlighted that modern Turkey was founded in the 1923 from the remnants of Ottoman Empire. The country was administered by a single party, the Republican People's Party until the 1950s (Tachau, Heper, 1983: 15-17). From the 1923 to the 1930s, the new Turkish Republic lacked a developed, well-operating industry and trade composition. The reason for that were the policies of Ottoman Empire concentrating on military and bureaucratic affairs instead of industrial development (BYEGM).

Following the Great War and its war of independence, in the 1930s the young Turkish Republic adopted a protective and interventionist economic policy. Industry, mining and transport came under government control. The country witnessed tremendous industrial development during the course of the 1933-38 with state being the main economic stimulator (BYEGM). Saatcioglu (2003) highlighted that as part of the interventionist economic policies, the rare foreign financed establishments situated in the country had been nationalized and FDI was not attracted (Saatcioglu, 2003).

With World War II, the government restricted foreign trade and increased its military expenditures resulting with the shrinking of the economy (BYEGM). Turkey came under the need of foreign funds[17] (BYEGM).

In the 1950s during the time of the second wave democratization, Turkey moved towards multiparty democracy (Tachau, Heper, 1983: 15-17). The world at that time was moving towards liberalization. In such an environment, Turkey began to apply more liberalized economic policies. In this regard, in between the 1950-52, 65 percent of the import goods had been liberalized. However, the liberalization policies resulted with foreign trade deficits and thus necessitated tighter economic policies (BYEGM). This period even though protectionist policies were partially eliminated recorded low levels of FDI (Saaatcioglu, 2003).

[17] Following World War II, US initated the European Recovery Plan (Marshall Plan) with the aim of reconstructing the economies of Europe. The first aids went to Greece and Turkey in the 1947.

Following the multiparty democracy, periodic breakdowns followed by periods of military rule took place in Turkey. Onis (2001c) names the Turkish democracy as a *"delegative democracy"* [18]. In this regard, Turkish politics displayed politics based on leader domination as well as absence of checks and balances, lack of accountability and absence of rule of law (Alper, Onis, 2001c). As Huntington (1991) points out, these characteristics do not make a freely elected government undemocratic but they deteriorate the established democratic consolidation in the country (Huntington, 1991).

In the 1947, the 1950 and the 1954, regulations to encourage FDI inflows took place (Saatcioglu, 2003). However, the political instability of the time together with economic problems inhibited the increase of FDI inflows (Saatcioglu, 2003).

2.2.2 27 May 1960 Military Intervention

At the end of the 1950s, Turkey was out of reserves. Turkey could not get financial support from the West and therefore Turkey appealed to Russian credits. In spring the 1960, the economic and political problems got even severe. Thus, the military dissolved the government and removed it from the office (Tachau, Heper, 1983: 15-17). It can be observed that this period coincided with the reversal of the second wave democratization. It could be said that the military intervention brought relief to the country due to the failures of the democratic regime. By this way, it could be added that the military enjoyed the *"negative legitimacy"* (Huntington, 1991) it gained.

William (1994) draws attention to the point that following the military takeover, the former commander of the land forces, General Cemal Gursel began to rule the country. Eighteen-man cabinet named *"National Unity Committee (NUC)"* was established. In order to be able define its legal status; National Unity Committee issued a constitution known as *"Temporary Law No.1"*. In the preamble of the

[18] *"Delegative democracies"* include the presence of political parties with powerful leaders having uncontrolled authorities as well as the absence of intra-party democracy. Equally important *"delegative democracies"* have electoral support concentrating on clientelistic ties and populist redistributive politics (Alper, Onis, 2001c).

constitution, the previous government had been accused due to its violation of human rights, human freedoms and immunities as well as its establishment of one party dictatorship. Equally important, the *"Temporary Law No.1"* quoted the Article 34 of the *"Army Internal Service Law"* to justify army's intervention (William, 1994).

Economically, as to Saatcioglu (2003) radical changes occurred in the country. The country adopted an import-substitution policy aiming to expand domestic production capacity. Turkey applied restrictions to foreign trade together with a fixed exchange rate system (TCMB, 2002). During the import susbstitution years (late the 1950s to late the 1970s) Turkey did not receive much FDI inflows (Saatcioglu, 2003). Gilpin (1987) notes that in the world the 1960s is the year when developing countries began to see MNEs as hostile due to the fact that according to the view of developing countries, throught MNEs and FDI, the developed *"core"* impoverished the developing *"periphery"* (Gilpin, 1987).

It was decided by the National Unity Committee that the previous constitution of 1924 had some failures like that of the lack of executive legal checks. Thus a new constitution had been prepared (William, 1994). The new Constitution of 1961 had an elaborate system of *"checks and balances"*. This elaborate system restricted the government's authority. Similarly, the new constitution reduced the powers of the president and gave much importance to the rights and liberties of the individual beings (Balkan et. Al, 1961). It can be concluded that the military dictatorship following the loss of its *"negative legitimacy"*[19] promised for a better constitution. However, as Huntington (1991) pointed out the legitimacy of an authoritarian regime declines with the accomplishment of the promises. Thus, on 15 October 1961 general elections took place. As a result of the general elections, National Unity Committee got dissolved and the country returned to democracy again (William, 1994; Huntington, 1991).

[19] Huntington points out that with time the *"negative legitimacy"* of the authoritarian regime decreases. As a result, leaders in some cases promise to provide social and economic reforms and in some cases they promise to provide economic growth and development (Huntington, 1991).

2.2.3 1971 Military Intervention

1960 Junta had much confusion and divisions but it managed to bring a liberalized constitution (Jenkins, 2001). Jenkins (2001) and Hungtington (1991) believe that Turkey experienced the fractious and short-lived partisan governments together with political violence of the leftist groups. As a result, in early the 1971, the military once more intervened. It could be said, depending on the theories of Huntington that this act of the military brought relief to the country. Thus, the military dictatorship got *"negative legitimacy"*. On March 12, 1971 a *"memorandum"* had been issued in order to establish a new government (Jenkins, 2001; Huntington, 1991).

Regarding the economy, as a result of th first oil shock in the 1973-74, the term of trade in Turkey got affected badly. Turkey's domestic savings were low and was able to attract only little investments. Thus, with the deterioaration of balance of payments, Turkey applied to short-term borrowings (Central Bank, 2002). Within the context of the theories of Huntington (1991) the military dictatorship was unable to complete its promise and bring economic stability to the country which resulted in the transition to democracy. On October the 1973, general elections took place and full civilian governance got established during the time of the third wave democratization (Jenkins, 2001; Huntington, 1991). Starting from the 1977, imbalances in the aggregate demand and supply occurred which at the end increased the inflation. This situation deteriorated even more with the second oil crisis in the 1979.[20] As a result of the 1977-79 balance of payments crisis, Turkey changed its economic policy and began the trade liberalization process (Central Bank, 2002).

[20] The situation was similar 100 years ago. In the 1839 with the Rescript of Gulhane, Ottoman was devoid of its customs duties. The government had been indebted. Following the Crimean War in the 1854, the Royal Edict of Reforms and the capitulations were put in effect according to which, the collection and distribution of the government revenues were handed over to an International Organization. During that time, the industrial production in Ottoman Empire nearly came to level zero. With the abolition of the customs duties, imported goods came to the country and the local production got affected badly. The government took loans. The Empire only had, fez industry, wool woven fabric industry and gunpowder factory. All the other goods were imported goods. The Capitulations continued until the 1915. With the World War I in 1914 and the Independence War in the 1919, Turkey's industrial production and GDP decreased. In the 1922, the country came to the point of depletion.

2.2.4 24th January 1980 Decisions

The 24th January 1980 decisions were announced under the leadership of Turgut Ozal who used to be the Head of State Planning Organization under Suleyman Demirel[21] (William, 1994). Central Bank (2002) draws attention to the point that the aim of these decisions were to curb the inflation while attaining a more outward-oriented, market economy. The decisions allowed the export subsidies as well as depreciation of the exchange rates in real terms in order to make Turkish exports more competitive. The decisions promoted an export-led growth. The program included the export-subsidies, devaluation and price increase of local goods. As a result of these efforts, the country gained the confidence of the international creditors. *"The IMF stand-by and World Bank adjustment loans were rapidly arranged and disbursed in conjunction with additional debt relief operations"* (Central Bank, 2002). The decisions of 24th January 1980 turned out to be the main push for FDI inflows to Turkey. Between the 1980-1989 foreign investments increased 6-fold compared to the period of the 1964-1979 (Saatcioglu, 2003). However, economic liberalization did not bring political and economic stability to the country. The terrorist bloodshed continued together with economic problems. As a result, the military regime took power on 12 September 1980 and it lasted for three years and three months, until 6 December 1983 (William, 1994).

The military leaders declared *"martial law"*[22] all over the country and Kenan Evren said that the takeover took place because of the governments' inability to suppress the terrorism movements. The new regime became official by the declaration of a *"Temporary Constitution"* on 27 October 1980. On 18 September 1980, Kenan Evren became the head of the state and four other members of the military intervention became the temporary rulers of Turkey (William, 1994). In

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[21] Suleyman Demirel was the Party Chairman of the Justice Party (JP). Under the leadership of Demirel, the JP won 53 percent of the votes in the General Elections of October 10, 1965 and formed a majority government. Demirel became Turkey's 12th Prime Minister and ruled the country for four years. In the next general elections on October 10, 1969, Demirel's JP was the sole winner. Subsequently, Demirel formed Turkey's 31st government. Later on, however, due to an intra-party crisis, he formed a new government. He resigned upon the Military Memorandum of March 12, 1971 (MFA, 2010).

[22] Martial Law is the imposition of the military in specific regions on the basis of emergency.

regard of the works of Zurcher on 2004 and Huntington on 1991, as it was the situation in the previous military interventions, at the beginning of the intervention, the military gained a "*negative legitimacy*" due to the fact that the democratic government failed to rule the country and brought the country to the point of economic and political turmoil. Thus, military takeover was welcomed with legitimicy. But this legitimacy is a negative one because the military got the legitimacy only by benefitting from the failures of the previous democratic government. The military justified its acts on the grounds that they were combatting the terrorist acts. By the 1982, the "*terrorist networks*" came almost to an end (Zurcher, 2004; Huntington, 1991).

Feroz (1981) mentioned that following the military coup, the economic policies of Turkey continued under the leadership of Turgut Ozal. His job was; negotiating with the principal international organizations such as; "International Monetary Fund, the World Bank and the Common Market. He aimed to make the economy free and aimed for Turkey's involvement in world capitalist market (Feroz, 1981: 5-10). Realistic exchange rates and export subsidies were introduced with the aim of bringing foreign trade into a balance. In the same manner, increased encouragement for foreign investment took place (William, 1994).

As to William (1994) the policies of Ozal began to give positive results during and after the 1981. In January the 1981, the Turkish Lira had been devalued in order to be able to reflect the conditions of the market. Thus, with the development of Turkey's foreign trade, import shortages ended and black market[23] disappeared. Equally important, the inflation rate decreased compared to its position during the period of 1978-80. On the other hand, when compared with the international standards, the inflation rate was still high. However, improvement of foreign trade and restoration of law and establishment of order brought economic growth (William, 1994). It can be said that in Turkey the leaders of the military regime promised for economic growth and development in order to continue the legitimization of the regime.

[23] Black market is trade, goods and services that are not part of the fiscal economy of a country. Illegal activities or activities where no tax is paid can be given as examples.

2.2.5 The New Constitution

William (1994) highlighted on 7 November 1982, a new constitution was submitted to public referendum. The constitution had been accepted by 91.4 percent of the votes and 91.3 percent of the *"registered electorate cast ballots"*. The reason of this high number of attendance was the Provisional Article 16. As to Provisional Article 16; the registered voters would lose their electoral rights for five years if they did not vote. The Constitution of 1982 gave more powers to the president and restricted the individual rights. Similarly, the 1982 Constitution restricted the role and the authority of the political parties. The Provisional Article 1 of the new Constitution stated that Evren would be elected as the president for seven years as from the time of the approval of the new constitution and that no candidate could run against him (William, 1994). Within the context of the definition of traditional authoritarian regimes which is portrayed by single leader domination or small group of leaders domination together with weak parties, lack of mass mobilization, lack of political pluralism as well as lack of respect to society and human nature of Huntington (1991) it can be said that it is not easy to name the constitution of 1982 as a democratic consitution.

This new constitution took away all the rights of the individual beings. Individuals lost their rights to participate in politics and the working democracy that encouraged the social development lost its ability to function. Beyond these, torture became endemic during the interrogation of the detainees, after their arrest and during their imprisonment. The International Human Rights Organization, Amnesty International gave attention to the use of torture in Turkey (Zurcher, 2004).

Zurcher (2004) also points the issue that European Community criticized the military intervention harshly due to its violation of human rights. European Community[24] was very much concerned with the human rights' abuses and torture

[24] The European Economic Community (EEC) was formed in the 1958. In the 1959 Turkey applied for associated membership of the EEC. The Turkish military coup of the 1960 caused a delay in Turkey's relation with EEC. In the 1963, Ankara Agreement was signed and Customs Union entered into force in the 1996. As a result, Turkey abolished its custom duties and quotas, without achieving the free movement of people, services and capital. Turkey had to obey the rules without having any say in the Council of the Community. On 14 April 1987, Turkey submitted an application for

taking place in Turkey. As a result, in May 1981, Turkey's Council of Europe[25] membership had been suspended and in July 1982, an official examination for human rights in Turkey had been announced (Zurcher, 2004).

With the 24th January 1980 decisions, export-led growth strategies together with the exchange rate policies and export subsidies were applied in order to maintain the external competitiveness of the country. However, these policies brought real wage contradictions (TCMB, 2002). On 24 October 1983, the new Assembly was set up and military regime was closed down officially on 23 December 1983. This represented the third return to an elected government since the first military intervention (William, 1994). From 1980s to 1990, Turkey's HDI value stayed mostly static. From 1995 to 2000s, it increased (UNDP, 2010b).

Howard (2001) mentioned that since his election in the 1983 until his death, for ten years, the policies of Ozal dominated Turkey. After the elections, he continued his programs of liberalizing the Turkish economy. He aimed at getting rid of protectionist economy and making Turkish products competitive with the world market. Ozal's policies of; devaluating the Turkish Lira to make Turkish goods more competitive, high interest rates to combat inflation by lowering the consumer demand, privatization of inefficient state enterprises, wage controls, price increases and end to state industrial subsidies turned out to be successful throughout the mid-1980s. However, privatization program showed a slow pace during the 1980s. The state actually continued to have the largest role in expanding the economy (Howard, 2001). Onis (2002b) notes that Ozal enjoyed weak checks and balances. Even though he was able to accelerate the reform process, this low checks and balances deteriorated the democratization in the country (Onis, 2002b).

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membership to European Community (EC) again. Turkey's accession was refused by the European Council. At the Helsinki Summit of 10-11 December 1999, Turkey was accepted as a candidate country (ICT, 2004).

[25] The Council of Europe has its headquarters in Strasbourg. It has 47 members. It was first founded by 10 countries on 5 May 1949. It aims to develop common principles of Europe and democracy based on the European Convention on Human Rights. Turkey became a member of the Council of Europe on 9 August 1949 (COE, 2010).

2.2.6 September 1987 and August 1989

Rubin (2003) highlighted that September 1987 was the date of the return of unrestrictive party competition. The democratically elected governments were unable to contain the distributional pressures which were repressed in the early 1980s (Rubin 2003). This problem manifested itself in larger fiscal deficits and higher rates of inflation. In order to restore growth, in such an environment, Turkey allowed for large inflows of capital while not focusing on structural deficiencies like that of the fiscal imbalances (Rubin, Onis, 2003d).

Rubin and Onis (2003d) emphasized that in August the 1989 a reform of the capital account was announced-*Decision number 32*- that moved the economy towards full currency convertibility and permitted capital movements in and out of the country. [26] As a result of the 1989 measures Turkey faced large inflows of short term international capital or in other words portfolio investments. *"Arguably, Turkey was able to evade a crisis at the end of 1980s, but at the expense of a highly fragile pattern of debt-led economic growth- which resulted in crisis in the post-1990 era"* (Rubin, Onis, 2003d).

Howard in his work in 2004 mentioned that during the post-1990s the Kurdish ceasefire broke up and military operations against the terrorist organization PKK augmented. These problems brought with them also the economic problems. As a result, in January the 1994, Turkey's status had been downgraded by International Credit Rating Agencies (Howard, 2001). Isik (2004) highlighted that in April the 1994, Turkey got into economic crisis. Aside from the political turmoil, the main reasons of the 1994 crisis were the budget deficits. The budget deficits which were the result of lack of national savings were used to be eliminated by capital inflows. In this regard, the capital inflows at the time of budget and external deficit formed equilibrium thanks to high interest rate-low exchange rate policy. On one

[26] The capital account liberalization could also be regarded as a reaction of Ozal in order to gain his electoral support. This is called a populist cycle. According to Onis (2002b)*"A typical populist cycle is initiated by a period of fiscal expansionism designed to generate political support."* The process turns out to be advantegous in the short run on the other hand, in the middle term and in the long run, it creates its own destruction regarding the economic performance of the country (Onis, 2002b).

point, the high interest rate-low exchange rate policy fastened the flow of capitals on the other hand; market forces became suspicious about the policies being implemented, and this at the end, triggered the crisis (Isik et. al, 2004).

From the 1994 to the 2002, Turkey struggled with the unsuccessful party coalitions. During this period, the role of the religion in politics started to be discussed together with the augmentation of the terrorist activities. In June the 1996, the Islamist Political Party namely the Welfare Party formed a coalition. Thus, public debate regarding the role of religion in Turkish Republic and the meaning of political Islam began. Turkish Army began investigations on Welfare Party (Howard, 2001). It could be said that the act of military showed the still strong role of the military in the Turkish politics together with weakness of the democratization.

In the 1997 and the 1998, the country faced a sharp economic downturn due to East Asia and Russian financial crisis (WB, 2006). Howard (2001) and TCMB (2002) mention that with the Asian crisis, primary commodity prices decreased and the countries which were dependent on exports of primary goods got affected badly. In Turkey the prices of imports and exports decreased as a result of demand contraction but Turkey's current account balance did not deteriorate. The 1998 Russian crisis brought more serious damage to the Turkish economy with Russia being one of the main trading partners of Turkey. The economic problems brought political problems to the country together with withdrawal of foreign capital from Turkey (Howard, 2001; TCMB, 2002).

TCMB (2002) mentioned that in the 1998 following many unsuccessful economic stabilization programs, Turkey commenced a disinflation program namely; *"Staff Monitored Program"* (SMP). The aim of the program was to reduce inflation together with improving the fiscal performance of the country. However, August and November the 1999 earthquakes together with political uncertainties prohibited the SMP to reach its aims. Therefore, Turkey declared a new IMF monitored program at the end of the 1999. This program aimed to decrease inflation to single-digits by the end of the 2002 as well as decrease the interest rates and achieve stable economic environment (TCMB, 2002). With this program, interest rates declined together with the decrease of inflation. This brought with it real appreciation of the foreign exchange rates. Similarly, oil prices in the world increased and euro lost its value. All together these resulted with the deterioration of the current account deficit in Turkey. As a result of the deterioration of current account deficit, Turkey's structural reforms delayed and FDI inflows decreased (TCMB, 2002). In the 1999 FDI was 817 US $, it increased to US$ 1,719 in the 2000 and US$ 3,288 in the 2001 but decreased to US$ 590 in the 2002 (Appendix 1). On the political side, in 2002 the pro-Islamist Party came to power as a single party. This brought a degree of political stability following the weak coalition government period (Onis, 2002b).

Looking in whole, it can be said that Turkey was not able to accommodate itself to the globalization and increase of FDI flows. Turkey began to apply neo-liberal policies and opened-up its economy but this made Turkey dependent to external resources and fragile to external shocks as a result of the opening up in a fragile democratic environment and encountered economic crisis.

CHAPTER III

FDI INFLOWS TO ARGENTINA AND TURKEY, 1980-2000

In Argentina and Turkey with the commence of neo-liberal program, the attraction of FDI inflows became important. It is believed that FDI with its positive spillovers results in the learning process of the democratic ideas and values as well as brings economic growth and improves the life of the citizens (Onis, 2002a). First, the flows of FDI in Argentina throughout its history given emphasize on 1980-2000 period will be analyzed. Following that, the development of FDI in Turkish economy will be analyzed, with an emphasis on the period of 1980-2000.

3.1 FDI IN ARGENTINA

From the very beginning of the modern history, foreign investments in Argentina have had a significant role. FDI inflows in Argentina can be divided into three major waves (ECLAC, 2001).

3.1.1 First Wave of FDI

The first wave consists of a sequence of investment phases during late 19th and early 20th century when Argentina was consolidating its *"agro-export model"*. FDI during this period came to the sectors of railways as well as meat packing plants and utilities. FDI provided the necessary infrastructure to produce agricultural products to Argentina. Those products were then exported to other countries (ECLAC, 2001).

During that time British investment in Argentina increased 20-fold. (Chudnovsky, Lopez, 2008) Similarly, the FDI inflows from US also showed an increasing pattern throughout the period especially in the industrial sector (Chudnovsky, Lopez, 2008).

In the 1930s as a result of the Great Depression, *"agro-export model"* was abandoned and import-substitution strategy had been applied. During that period due to the economic crisis and to the Second World War, FDI decreased sharply

(Chudnovsky, Lopez, 2008). Note that this is the period when Argentina experienced the fall of its democracy as a result of the military coup.

In the late 1940s, President Juan Domingo Peron applied protectionist policies together with nationalizing most of the public utilities (ECLAC, 2001). Thus, during the Peronist Regime of the 1945-1955, FDI was not welcomed (Chudnovsky, Lopez, 2008). It is also necessary to note that in the 1953 a less restrictive look for foreign capital was established. However, many regulations discouraging foreign investors like that of the Article 40 of the Constitution declaring that public utilities together with natural wealth were immutable, were put in effect. In the 1955, foreign capital was only 5 percent of the total capital stock which was a large decrease in regard of the 48 percent of foreign capital at the beginning of the century (ECLAC, 2001).

Following the throw of Peron, many changes in the country took place (ECLAC, 2001). During the period of President Frondizi (1958-1962), the FDI boom took place. President Frondizi began an industrialization program and promoted foreign investment in intermediate goods, consumption durables and in capital goods with the aim of developing import-substitution strategy. In this regard, Law 14780 and Law 14781 about industrial promotion became the main pillars for attracting FDI (Chudnovsky, Lopez, 2008).

The increase of capital inflows to Argentina to manufacturing sector especially to the motor vehicle industry; the chemicals and petrochemicals sectors took place. The investments to these sectors accounted for two thirds of the total investments. In the same manner, the petroleum activities in the country were liberalized by tenders (ECLAC, 2001).

In between the 1958-1963, circa 200 foreign companies made Greenfield investment in Argentina. As the year 1970s came, TNC share in industrial production was 33 percent (Kosacoff, 1993 cited. Chudnovsky, Lopez, 2008). Cimoli and Katz (2003) highlight the point that the aim of the TNCs in investing in Argentina was not developing the local techonological capacity. However, the investors became forced to develop new techniques in order to fit their product and process technologies to the new affiliates. During this process, technological learning took place (Cimoli, Katz, 2003: 387-411 cited. Chudnovsky, Lopez, 2008). Therefore, it could be said that Argentina was able to benefit from the positive externalities of FDI during the period of the 1958-1963.

Chudnovsky and Lopez (2008) draw attention to the point that TNC activities were not welcomed by some of the intellectuals, politicians and also by the public-opinion. The main concern was the loss of the market power to TNCs especially after TNCs got their dominance in meat-packing industry which used to be the basic industry of Argentina. Even more, during the end of the 1960s-mid the 1970s, some works for restricting the TNC activities were aimed (Chudnovsky, Lopez, 2008).

3.1.2 Second Wave of FDI

The second wave of capital inflows was in between the 1966 and the 1969. At this time, investments were focusing on purchasing local firms as well as the expanding installed capacities. Thus, foreign firm' shares in Argentina in the sale of top 100 industrial companies increased from 63 percent in the 1957 to 76 percent in the 1962 and 79 percent in the 1969 (Khavisse, Piotrkowski, 1973 cited. ECLAC, 2001).

However, as a result of political and social instability, FDI during the 1970s decreased. Similarly, in the 1973 Peronists came to power and approved some new legislative restrictions on the inflows of foreign capital to Argentina (ECLAC, 2001). Chudnovsky and Lopez (2008) emphasize that the situation changed with the military dictatorship of the 1976. The military government passed a new foreign investment law, Law No 21382. Within the context of this new law, the equal treatment of foreign and domestic investors was guaranteed together with free transfer of funds of profits. However, the country did not experience increased FDI during the military dictatorship. Even more, some instances like the closing of TNC affiliates in automobile sector were examined during the military dictatorship (Chudnovsky, Lopez, 2008).

Chudnovsky and Lopez (2008) underline that during the 1980s, the economic conditions of Argentina were so volatile and stagnant together with the debt crisis that not much FDI had been attracted (Chudnovsky, Lopez, 2008). ECLAC (2001) emphasizes that in such an environment some local groups became the main beneficiaries. Thus, for the first time in history, TNCs began to think about partnerships with the local firms as local firms became powerful players in the economy of Argentina (ECLAC, 2001).

In the second half of the 1980s, most of the FDI was related with *"debt equity conversion mechanism"*[27]. Therefore, in between the 1984 and the 1989, nearly all the debt regarding the industrial projects was sponsored by TNCs operating in Argentina already (Basualdo, Fuchs, 1989 cited. ECLAC, 2001). During this period, the 1984-89, Argentina entered into deep economic crisis with high rates of inflation (ECLAC, 2001).

3.1.3 Third Wave of FDI

In the 1990, with the economic policies of Carlos Menem Administration (1989-99), the third wave and the largest FDI inflows occurred. This wave differed from the previous waves substantially (ECLAC, 2001). As the early 1990s came, Chudnovsky and Lopez (2008) emphasize that Argentina liberalized its economy, removed obstacles to FDI. Argentina privatized most of its State enterprises, applied market deregulation[28], trade and financial liberalization together with Central Bank independence and social security reforms (Chudnovsky, Lopez, 2008).

[27] In debt equity conversion mechanism; the external debt is converted into local currencies which the locals can access more easily. Thus, the indebtness of the indebted country gets erased as the country pays its debts with its local currency. Then, the granted local currency is used for investment projects in the previously indebted country.

[28] Deregulation means; removing or simplifying the government rules and regulations in order to make free the market forces.

Table 1: Argentina: FDI by Modality 1990-2001 (millions of dollars)

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	1992-2001[a]
Total FDI	**1,836**	**2,439**	**4,433**	**2,791**	**3,635**	**5,610**	**6,949**	**9,161**	**7,291**	**23,986**	**11,672**	**3,181**	**78,709**
Reinvestment of earnings	...	...	857	878	898	659	397	726	788	-144	1,548	-843	5,764
Capital contributions	...	...	474	628	1,287	1,685	2,011	2,580	3,179	4,116	3,178	2,750	21,888
Intra- company debts	...	...	371	251	387	700	1,525	1,159	802	1,627	688	500	8,010
Purchase of existing assets	1,174	460	2,717	1,036	1,063	2,566	3,014	4,694	2,522	18,386	6,258	774	43,030
- Privatizations	1,174	460	2,332	935	136	1,113	580	892	334	4,192	30	25	10,569
- Mergers and acquisitions	...	...	385	101	927	1,453	2,434	3,802	2,188	14,194	6,228	749	32,461

Source: ECLAC, Information Centre of the Unit of Investment and Corporate Strategies, Division of Production, Productivity and Management, on the basis of information provided by the International Accounts Office of the Ministry of Economic Affairs, Public Works and Services (MECON).
[a] Cumulative flows from 1992 to 2001.

Cited. (ECLAC, 2001).

According ECLAC (2001) FDI inflows to Argentina began to increase in late the 1980s (ECLAC, 2001). They increased more in the 1990s when the world FDI decreased drastically and reached to total of 78,709 US $ between the 1992 and the 2001 (Chudnovsky, Lopez, 2007). As can be seen from Table 1 Capital flows made a peak in the 1999 with US$ 23,986 but fell back in the 2000 and the 2001 (ECLAC, 2001). During this decade, for several years, annual inward FDI accounted for more than 2 percent of GDP (Chudnovsky, Lopez, 2008). The share of TNCs in Argentina economy increased during the 1993-2000 period. Among 500 leading Argentina firms, the TNC affiliates accounted for 219 in the 1993, 318 in the 2000. These TNCs were mostly takeovers of public or domestic private firms. Their share in total output was 60 percent in the 1993, 79 percent in the 2000 (Chudnovsky, Lopez, 2008). FDI stocks increased from US$ 11.524 billion in the 1990 to 75, US$ 998 billion in the 2001. (ECLAC, 2001)

Table 2: FDI Inflows to Argentina by Sector 1992-2004 (%)

SECTOR	1992-2001	2002-2004
Petroleum	**34**	**35**
Mining	**1**	**4**
Manufacturing Industry	**21**	**42**
Food, Beverages and Tobacco	7	7
Textiles	0	0
Paper	1	3
Chemicals, Rubber and Plastics	7	8
Cement and Ceramic Products	1	1
Base Metals and Base Metal Products	1	15
Machinery and Equipment	1	-1
Automotive Industry and Transport Equipment	4	9
Electricity, Gas and Water	**12**	**4**
Commerce	**5**	**1**
Transport and Communications	**9**	**-10**
Banks	**10**	**7**
Others	**7**	**17**
TOTAL	**100**	**100**

Source: (Chudnovsky, Lopez, 2008).

As can be seen in Table 2 one third of the inflows in Argentina went to the oil industry between the 1992 and the 2001. The manufacturing sector received 21 percent of the FDI. The manufacturing that attracted most FDI were; chemicals especially petrochemicals, auto, food and beverages. Rest of the FDI went to services sector partly due to privatizations in communications, electricity, and natural gas and also went to banking, retail, trade…etc (Chudnovsky, Lopez, 2008). Chudnovsky and Lopez (2008) emphasize that when in the 1999 Repsol Company of Spain bought the state petroleum company, petroleum consolidated its position as the leading investment recipient.

Table 3: FDI Inflows to Argentina by Origin, 1992-2004 (%)

COUNTRY	1992-2001	2002-2004
Europe	**62**	**14**
Germany	2	10
Spain	39	2
France	10	-9
Italy	4	4
Netherlands	4	12
United Kingdom	2	-11
Others	2	5
North America	**25**	**13**
United States	24	12
Others	1	1
Central America and Caribbean	**1**	**5**
South America	**5**	**21**
Chile	4	1
Others	1	20
Other Regions	**6**	**47**
TOTAL	**100**	**100**

Source: (Chudnovsky, Lopez, 2008).

As can be seen from Table 3, FDI to Argentina was mainly from US and Spain. In US and Spain the firms purchased many privatized enterprises instead of Greenfield investments. Other FDI came from France, Italy, the Netherlands, Germany and UK. Some inflows from Chile also took place, which were largely attracted by privatizations. None of the East Asian Countries had investments in Argentina. Note that during the 1990s, most of the FDI to Argentina was made via M&As and few greenfield investments have been made. Most of FDI inflows took place as takeovers of public firms and private domestic enterprises which accounted circa 60 percent of the total FDI inflows. Within the context of the data of Argentina's Secretariat of Industry, Commerce and Mining, M&As in numerical term exceeded US$ 70 billion between the years 1990-1999 and privatizations accounted for US$ 22. Similarly, nearly 83 percent of all M&A activities during the pre-mentioned period have been cross-border M&As (Chudnovsky, Lopez, 2008).

The main advantages of Argentina in regard of the flows of FDI were; abundance of natural resources, size and growth of the domestic market, privatization, price stabilization, and trade liberalization and to a lesser extend the integration to MERCOSUR (Chudnovsky, Lopez, 2008). Investor-friendly approaches also helped to attract FDI but this could not change anything without the presence of the upper-mentioned effects (Chudnovsky, Lopez 2008). However, the country became vulnerable to external shocks with the neo-liberal policies.

Chudnovsky and Lopez (2008) draw attention to the point that following the Convertibility Regime, the country entered into deep economic and social breakdown. From the 1999 to the 2002, more than 18 percent of GDP decline was reported. Similarly, banking crush occurred and resulted in default on external debt[29] and increased peso devaluation together with increasing unemployment and poverty rates. This brought with it the political crisis (Chudnovsky, Lopez 2008). Argentina lost its attractiveness for FDI, its share in world FDI inflows decreased from 1.5 percent in the 1990s to less than 0.5 percent in between the 2001-2005 (Chudnovsky, Lopez 2008).

Sorenson (2001) highlights that after the beginning of the 1900s, Argentina was one of the richest countries in the world (Sorenson, 2001 cited Ergun, 2010). During the first wave of democratization (1828-1926), Argentina was one of the countries experiencing transition. However, the democracy did not last long and as a result of the devastating affects of the Great War, Argentina returned to authoritarian rule in the 1930 (Huntington, 1991). As a result of the democractic government's inability to tackle with the economic problems, the regime change brought new hope to the Argentina and therefore the new authoritarian military government gained "*negative legitimacy*". In order to continue its legitimacy, following the fading of the "*negative legitimacy*", the military changed the economic policy and began to apply import substitution strategy based on domestic production protection. However, Argentina's rececession and economic stoppage continued together with the loss of legitimacy of the military government. In the 1946 Argentina returned to

[29] Default in external debt means that the indebted country cannot meet its legal obligations according to the debt-contract.

democracy with a populist leader. The populist politics together with protectionist economic policies worsened the economic conditions and in the 1955 during the second wave of democratization, the country returned to military rule. The cycle of democracy-military regime continued until the 1983 (Ergun, 2010; Huntington, 1991). Diamond (2002) emphasizes that from the 1930 to the 1983, which is the time of the re-establishment of democracy in Argentina, Argentina have had 6 major military coups in the 1930, the 1943, the 1955, the 1962, the 1966 and the 1976 and many other small ones. During that period, the country had seen 25 different presidents (Diamond, 2002: 21-35). As the theories of de Soysa (2003), Jensen (2003) and others emphasize this situation shows the fragility of the Argentinean democracy. It could be said that after the 1983 Argentina did not face any reversals however, its democratic consolidation continued to be low from the 1983 to the 2002. Argentina changed its economic policy in the 1983 and began a neo-liberal program. Accordingly the economy opened up, legal frameworks established for the free flight of FDI together with increased privatization programs. Since MNEs do not prefer countries with high political risks, Argentina tried to decrease its political risks which helps to consolidate democracy (de Soysa, 2003; Jensen, 2003: 587-616; Li Quan, Reuvency, 2003: 29-54; Oneal, Russett, 1997: 267-293) but it could be said that while doing that Argentina issued policies to please MNEs instead of the public which deteriorates the consolidation of democracy (Gray, 1996). Argentina faced economic growth and heavy FDI flows following the implementation of the neo-liberal model. Accordingly, economic growth promotes democracy by benefitting the middle class and improving education. However, the growth and the increase of FDI were actually in a way visionary and not on sustained basis. The presence of MNEs benefits the local community in a positive manner due to the condition of interaction and the export of democratic values and ideas. However, this did not occur in Argentina. The local community was mostly excluded from the process. Similarly, in Argentina the liberalization process exluded totally the strenghtening of the domestic economy and absorption capacity of the society, making the country heavily dependent on external sources. During the 1st wave of FDI between the years 1958-1963, Greenfield Investments in Argentina took place together with the learning process for the local people increasing the productive capacity of Argentina.

In between the years 1966-1969, during the 2nd wave of FDI, FDI concentrated on purchasing local firms and expanding installed capacities. During the 1970s, FDI decreased. During the 1980s, FDI was related with debt equity conversion mechanism. During the 3rd wave of FDI, in the 1990s, largest amount of FDI inflows to Argentina took place. This period coincided with the application of the harsh neo-liberal program together with harsh privatization policies. Therefore it was obvious that the picture was going to change at the end of the decade (Onis, 2002b). FDI flights made a peak in the 1999 but fall down in the 2000 and the 2001 together with the economic crisis and heavy burdens on the society, economy and the politics of Argentina (ECLAC, 2001). As to Table 2, FDI went mostly to oil sector. As Huntington points out wealth occurring as a result of oil revenues does not contribute to democratization. Oil revenues are added to the state revenues. They increase the power and bureaucracy of the state. They abolish the requirement for tax revenues. Therefore as the tax reveneus gets lowers, the public's reason for asking demand dimishes which at the end deteriotates the democratization instead of consolidating (Huntington, 1991; Onis, 2002b). Therefore, it could be concluded that in Argentina the policies to attract FDI benefitted the MNEs instead of the public decreasing the level of democratic consolidation. Similarly, the country liberalized at the expense of real economic development. The growth rates occurred as a result of the neo-liberal model applied were actually visionary. The model made the economy dependent to external resources and fragile to external shocks which at the end brought the 2001 economic crisis together with the fall of FDI inflows with heavy burdens on democratic consolidation. Similarly, FDI revenues being the oil revenues mostly by privatizations and M&As prohibited the positive externalities of FDI in regard of democratization to occur in Argentina.

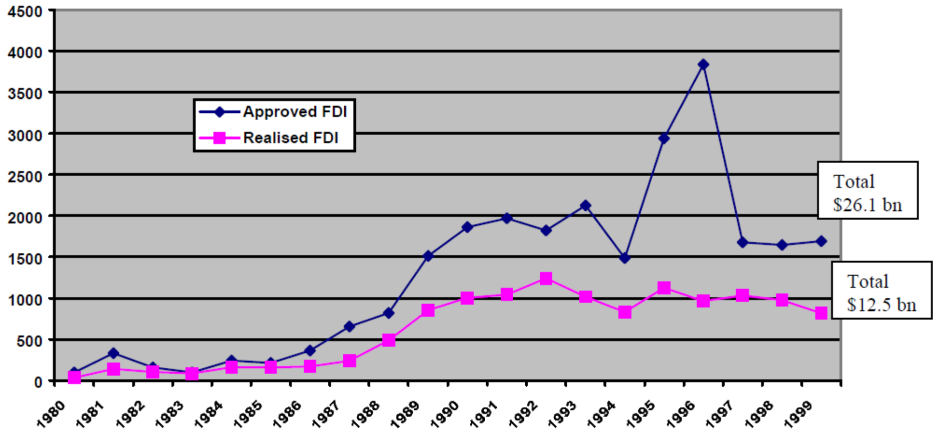
3.2 FDI IN TURKEY

As Ongun and Alper (1985) highlight, Turkey did not experience many FDI inflows during the Republican Era, the 1923-1932 and 1933-39. Similarly, due to the effects of the World War II, Turkey applied protectionist policies during the 1940s and did not welcome FDI to the country. The first regulation to foreign capital was brought in the 1947 and in the 1950; a regulation guaranteeing the transfer of foreign capital had been enacted (Ongun, Alpar, 1985). However, Karluk (2003) draws attention to the point that the Law for the Encouragement of Foreign Capital No. 6224 was the basic regulation in regard of the encouragement of the foreign capital. It was enacted in the 1954. Until the 1980s, all the foreign capital coming to the country was regulated by this law together with the Petroleum Law No. 6326 and Protection of the Value of Turkish Currency Law No. 1567 (Karluk, 2003). However, Turkey did not receive much FDI until the year 1980s. Following the Bretton Woods System in 1972, capital movements in the world gained momentum. However, Turkey continued the protectionist policies until the 1980s. (Hazine M, 2002).

3.2.1 24th January 1980 Decisions and FDI

The main push for the inflow of the foreign direct investment to Turkey was the decision of 24th January 1980. As a result of the decisions of the 24th January 1980, Turkey began to implement outward-oriented economic policies. As result, Turkey arranged its applicable law and removed its obstacles regarding the inflow of FDI (Karluk, 2003).

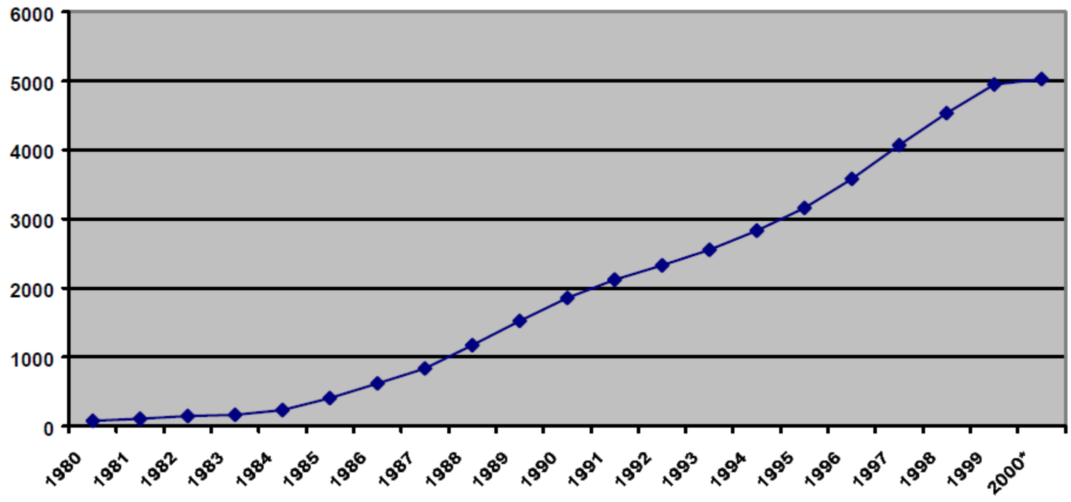
Figure 2: Foreign Direct Investment in Turkey, 1980-2000 in US $ Million



Source: GDFI (www.treasury.gov.tr) cited. (H. Loewendahl, E. Loewendahl, 2000).

As it can be seen in Fig. 2, from the mid-1980s the FDI in Turkey grew speedily and reached to 1 billion $ in the 1990. But after the 1990 not much increase of FDI inflows have been recorded. To say it otherwise, during the 1990s when FDI in the world was increasing, FDI in Turkey stayed the same. However, as it can be seen in Fig.2, there is difference between the realized and the approved FDI in Turkey. Approved FDI shows the cases where the investors said that they were going to invest and the realized FDI shows the cases where they did invest. From the 1980s to the 1999s, the approved and realized FDI had been pretty close to each other except in the years 1995-97. The 1995-97 is the period when Turkey and EU signed the Customs Union Agreement. With the Customs Union some new declarations of manufacturing investments took place. On the other hand, investors' view regarding the opportunities for investing in Turkey did not meet the reality. So, the declared investments have not been realized. This of course shows government's inability to turn the approved investments to realized investments (H. Loewendahl, E. Loewendahl, 2000).

Figure 3: Cumulative Number of Foreign Companies in Turkey in the 1980-2000 Period



Source: GDFI (www.treasury.gov.tr) cited (H. Loewendahl, E. Loewendahl, 2000).

In Fig 3, the number of FDI companies in Turkey over time is being presented. It is seen that since the mid-1980s the foreign companies in Turkey increased. It can be seen that since the mid-1980s to the mid-1990s, the foreign companies in Turkey was around 300 per annum but this number increased to nearly 450 per annum since the year 1995. As Loewendahl (2000) points out, in the 1990s FDI inflows to Turkey stayed static but number of companies with foreign capital increased. In the early 2000, in Turkey there were more than 5000 foreign equity companies in Turkey (H. Loewendahl, E. Loewendahl, 2000). This is due to the fact that foreign equity ventures in Turkey have been mostly joint ventures (Tataoglu, Glaister, 2001 cited. H. Loewendahl, E. Loewendahl, 2000).

Table 4: Main Sources of FDI to Turkey, Cumulative to March 2000

Country	Approved Investment, US$ million	Number of foreign equity investment projects
France	5,364.78	243
Germany	3,478.14	897
US	3,028.38	316
Netherlands	2,972.69	316
Switzerland	2,001.55	198
UK	1,825.21	317
Italy	1,598.26	182
Japan	1,284.24	49
Other countries	4497,98	2,506
Total	26,060.4	5,024

Source: GDFI (www.treasury.gov.tr) cited (H. Loewendahl, E. Loewendahl, 2000).

Table 4 shows the main sources of FDI coming to Turkey. Accordingly, the FDI in Turkey is dominated by the European States namely; France and Germany. In regard of the foreign equity companies, the most important source of FDI is Germany. Germany accounts almost 18 percent of all the projects in Turkey (H. Loewendahl, E. Loewendahl, 2000).

In between the 1990-2000, FDI seems high but still it is lower than intended. Equally important, it is seen that as years passed the ratio between foreign direct investments to Turkey and foreign direct investments to world decreased. In between the 1989-1994, the foreign direct investments that went to Turkey had a share of 0.35 percent in world and until the 2000 it decreased continuously and came to the level of 0.07 percent (UNCTAD, 2001).

Appendix 2 shows the FDI coming to Turkey according to sectors. As can be seen from the table, FDI in Turkey is dominated by manufacturing and services sector (Tataoglu, Glaister, 2001 cited. H. Loewendahl, E. Loewendahl, 2000). Thus, Turkey mainly attracted market and efficiency seeking FDI (H. Loewendahl, E. Loewendahl, 2000). Looking at Turkey, it is seen that Turkey cannot accommodate herself to the FDI in developing countries in a continuously fast growing world. Even though it is seen that FDI coming to Turkey increased after the 1980s, its share in the world and in developing countries has decreased speedily (Saatcioglu, 2003). It can be seen that Turkey was not able to attract large numbers of foreign direct investments. Actually, as Rubin and Onis (2003b) point out FDI is the positive feature of neo-liberal globalization. FDI not only supplies the necessary ingredients for economic development but it also helps to raise export competitiveness (Rubin, Onis, 2003d).

Turkey applied protectionist economic policies until the 1980s. Until the 1980s Turkey's inward economic structure inhibited the country to attract FDI. In between the 1971 and the 1980, total amount of FDI inflows to Turkey were circa US$ 100 million. During the same period, total FDI inflows to Britain was US$ 40.5 billion, US$ 7 billion to Spain and US$ 5.7 billion to Italy. In Turkey, the total number of permitted FDI from the 1980-2001 period was US$ 31.3 billion but only US$ 17.2 billion were realized (TCMB, 2002).

The main push for FDI in Turkey was the decisions of the 24th January 1980. As a result of the policies Turkey began to apply outward oriented economic policies and FDI inflows to the country began to increase. But still Turkey never gained high amounts of FDI. There are different reasons for this low number of FDI in Turkey. They can be summarized as in descending order of importance; *"political instability, high inflation, and uncertainty, deficiencies of the legal system, high tax rates, and problem in the financial system, inadequate infrastructure and pervasive levels of corruption"* (Rubin, Onis, 2003d). In the 1980s with the open up of the economy, Turkey faced economic growth. However, Turkey could not benefit from the positive externalities of the economic growth. On one hand, the growth was so fragile ready to shrank in any external shock. Second of all, Turkey was not able to attract FDI that would promote the positive externalities of economic growth. Similarly, Turkey was not able to benefit from the MNE's positive social and psychological externality of the learning effect due to the fact that Turkey was not a main FDI destination (Onis, 2006a; TCMB, 2002). With reference to Appendix 1, the small percentage of FDI Turkey received went mainly to manufacturing and services sector by joint ventures and came from developed countries. However, the percentage was not enough for positive externalities to occur. Similarly, the neo-liberal model excluded the local development and absorption capacity development of the host country. MNEs coming to Turkey formed joint ventures with the Turkish firms. It could be said that the MNEs concentrated on their own benefits on the other hand; Turkish firms lacked the necessary absorption capacity to benefit from the joint ventures. It could also be added that Turkey became dependent to external resources and fragile to external shocks resulting with the 2001 economic crisis with its heavy burdens on the society and the country. According to Appendix 1, the country's FDI levels made a peak in the 2000 just before the crisis and decreased again in the 2001 and 2002, 2003 (Appendix 1).

CHAPTER IV

THE EFFECTS OF FDI ON DEMOCRACY

COMPARISON OF ARGENTINA AND TURKEY

As can be seen, the inflows of FDI in Argentina and in Turkey between 1980-2000 period, showed both differences and similarities. In both of the countries, peak of FDI inflows happened during the application of the neo-liberal policies. On the other hand, regarding the sector, FDI-type; countries showed some differences. It was seen that FDI to Argentina was dominated by M&A and privatizations and it was mostly to oil sector (Chudnovsky, Lopez, 2008). On the other hand, FDI to Turkey was dominated by joint ventures and it was to manufacturing and to services sectors (H. Loewendahl, E. Loewendahl, 2000). It was absorbed by Onis (2002b) that both of the countries received FDI from developed countries but both of them had low absorption capacity. Accordingly, both of the countries were not able to benefit from the positive externalities of neo-liberal policies and FDI inflows totally. Both Argentina and Turkey became crisis-prone and fragile to external shocks with the neo-liberal policies (Onis, 2002b). The FDI inflows of Argentina and Turkey will be examined in a detailed fashion during the period of 1980-2000 as well as the increase of HDI values of both countries.

4.1 COMPARISON OF ARGENTINA AND TURKEY (1980-2000)

As Onis in his work in 2006 points out, Argentina and Turkey are two countries on the path from democratic transition to democratic consolidation being confronted with financial globalization and flows of foreign investments. During the 20th century both of the countries managed to achieve considerable amount of industrialization (Onis, 2006a).

In between the years 1976-1983 Argentina was ruled by the military dictatorship. During the military dictatorship, the country did not experience an increase of FDI. The country instead experienced the closure of TNC affiliates in the country even though the military government passed a new foreign investment law to enable equal treatment of foreign and domestic investments together with free transfer of funds of profits (Chudnovsky, Lopez, 2008).

Basualdo and Fuchs (1989) draw attention to the point that the 1983 is the return of democracy in Argentina with the Alfonsin Government. In the second half of the 1980s FDI inflows to Argentina began to increase. It is necessary to note that in the second half of the 1980s, most of the FDI in Argentina was related with *"debt equity conversion mechanism"*. Thus, Argentina's nearly all debt during the 1984-1989 was met with the TNC activities operating in Argentina (Basualdo, Fuchs, 1989 cited. ECLAC, 2001). According to Appendix 3, Argentina's GNI per capita decreased until the 1991 even though the country's HDI value increased which is due to the increase of life expectancy and education (Appendix 3).

However, at the top of the economic crisis, Alfonsin lost confidence and Carlos Menem came to the presidency. Even though he was elected freely, he enjoyed *"unchecked discretionary authority"*. Similarly, during his term he brough many decrees of necessity and urgency (Tedesco, 1999). It can be said that this act of Menem did not make the Menem government undemocratic however, it deteriorated the level of democracy in the country.

As Chudnovsky and Lopez (2008) point out FDI increased in the 1990s when the world FDI decreased (Chudnovsky, Lopez, 2008). During this time, GNI per capita in Argentina began to increase as well (Appendix 3). As can be seen in Table 3, In the 1990s FDI to Argentina was US$ 1,836, in the 1991 US$ 2,439, in the 1992, US$ 4,433 but in the 1993 it decreased to US$ 2,791 and increased to US$ 3,635 in the 1994, US$ 5.610 in the 1995 and US$ 6,949 in the 1996 (Table 3). But as Lewis (2001) points out through the 1996s, Argentina remained in recession. On February 7, 1996 in order to decree new taxes and spending cuts, some emergency powers were given to the president (Lewis, 2001). During the time of Carlos Menem, the quality of democracy deterioted with the *"unchecked discreationary authority"* but FDI to Argentina increased continuously. One reason for this increase of FDI was the harsh neo-liberal policy applied under the leadership of Minister of Economy Domingo Cavallo. Chudnovsky and Lopez (2008) highlight the issue that the country faced radical economic liberalization (Chudnovsky, Lopez, 2008). As

Sullivan (2006) points out Argentina was transformed to a free market economy. Most of the state enterprises were privatized and hyperinflation was eliminated. In the 1991, the country under Domingo Cavallo, began the convertibility regime. With this regime, the Argentina peso was pegged to US dollar limiting the printing of pesos. This policy put the inflation under check (Sullivian, 2006). Within the first years, the plan was succesful and FDI to the country increased but it was mostly FDI due to M&As and privatizations (Onis, 2002b). Capital flows made a peak in the 1999 with US$ 23,986 (ECLAC, 2001).

However, economy began to deteriorate as the economy became dependent to external forces. The economy was affected badly from the Asian and Russian crisis of the 1997 and the 1998 and also the Brazilian devaluation since Brazil is the major trading partner of Argentina (Onis, 2006). As a result of the economic problems and widespread corruption in the 1999 elections, President Fernando De la Rua succeeded Menem. FDI in the 2000 decreased to US$ 11,672. As the economy worsened, President Fernando De la Rua resigned on December 2001. After Fernando De la Rua, the country experienced political turmoil and several provisional presidents. In the 2001, FDI decreased to US$ 3,181 (Sullivian, 2006).

Turkey encountered with fall and rise of military interludes until the 1983. Until the 1980s, Turkey did not receive much FDI (Hazine, 2002 cited). As Karluk (2003) points out; the main push for occurred during the military dictatorship on 24th January 1980. With the 24th January 1980 decisions, Turkey began to implement outward-oriented economic policies. As a result, Turkey arranged its applicable law and removed the obstacles for the inflow of FDI. (Karluk, 2003). However, as can be seen in appendix 1, FDI was US$ 35 in the 1980; it increased to US$ 141 in the 1981, decreased to US$ 103 in the 1982 and to US$ 87 in the 1983, during the time of return of democracy. In the 1984, FDI increased to US$ 162. Until the 1988-1990 period, FDI to Turkey was more or less static. It made a peak in the 1990 with 1.005 US $ and stayed static until the 1994 (Appendix 1). It can be seen this period coincides with the application of neo-liberal policies in Turkey. Turkey began the neo-liberal policies in the 1980s. As Onis (2002b) points out the policies of Turgut Ozal who used to be the Head of State Planning Organization under Suleyman

Demirel, dominated the political agenda of Turkey. It should be noted that Turgut Ozal like Carlos Menem in Argentina used weak checks and balances which at the end deteriorated democracy in the country. In the 1989 a reform of the capital account was announced known as *"Decision number 32"* which moved the economy towards full currency convertibility and permitted capital movements in and out of the country (Onis,2002b). After the 1989 political problem like that of the breakup of the Kurdish ceasefire and the terrorist operations against the terrorist organization PKK rose in Turkey and made a peak in the 1994 together with the economic crisis (Howard, 2001). In the 1994 FDI in Turkey decreased to US$ 830 (Appendix 1). As Howard (2001) pointed out Turkey continued to encounter with political and economical problems with the short-term coalition governments and policies. Similarly, in the 1996, the role of religion began to be discussed in Turkish politics together with the rising the terror activities (Howard, 2001). Regarding the economy, a stabilization program was discussed with IMF which took effect on January 1, 2000. During this period, FDI stayed mostly static but made a peak in the 2001 with US$ 3.288 (Appendix 1). However, as Rubin and Onis (2003) highlight economic problems in the country rose and February 2001 crisis occurred. One reason that triggered the crisis was the public dispute between the President Ahmet Necdet Sezer and the Prime Minister Bulent Ecevit (Rubin, Onis, 2003). In the 2002, FDI decreased to US$ 590 (Appendix 1).

As can be seen from ECLAC (2001) values, the increase of FDI in Argentina and Turkey coincided with political stability in the country and similarly, the decrease of FDI coincided with the political turmoil in the country. During the 1990s, Argentina received huge amounts of FDI. Thus, in the sales of the top 100 companies, foreign firms' share increased from 24 percent in the 1991 to nearly 50 percent in the 2000. Most of this was due to purchase of existing assets (ECLAC, 2001). This increase of FDI in Argentina happened at a time when the Argentina Government applied the far-reaching economic liberalization program, the neo-liberal program together with reducing the costs of doing business and trying to increase the predictability of the rules of the system in order to attract FDI (Jensen, 2003: 587-616; Onis, 2006a). Turkey began to apply neo-liberal program during the 1980s and in the 1989 moved to full currency convertibility allowing the flows of capital freely. As Onis (2002b) points out during the 1980s Turkey also tried to reduce to costs of doing business and increase predictability of the rules of the system and FDI to Turkey increased but still its percentage in world continued to be low. During the 1990s FDI to Turkey stayed static. As Jensen (2003) and de Soysa (2006) emphasize investors search for political and economic stability while deciding to invest in a country. Unpredictability of the policies, increased regulatory burdens, lack of commitment to policies and lacking of property rights drive away the investors (Jensen, 2003: 587-616; de Soysa, 2006). As Jensen (2003) mentioned, before the 1990s, FDI had gone mostly to developed countries. In the 1990s, 85 percent of world FDI inflows went to industrialized democratic countries. However, the situation began to change in the mid 1990s. Some scholars emphasize that even though FDI to developing countries increased, large part of FDI still goes to rich, highly taxed developed democracies (Jensen, 2003: 587-616). Accordingly Jensen (2003), de Soysa (2006) and Kebonang (2006) emphasize that authoritarian leaders' unlimited powers augment the political risks like that of arbitrary expropriation, nationalization, or other forms of government interventions including tariff rates, change of policies that may affect the investors in a bad manner. Therefore, democratic regimes are more credible government forms for investors (Jensen, 2003: 587-616; de Soysa, 2006; Kebonang, 2006: 255-270). In Turkey there are different reasons for the low number of FDI in Turkey. They are; *"political instability, high inflation, and uncertainty, deficiencies of the legal system, high tax rates, and problem in the financial system, inadequate infrastructure and pervasive levels of corruption"* (Rubin, Onis, 2003d). It could be said that in the first course Argentina benefitted from the program and Argentina's FDI flows increased and Argentina became a main destination for FDI inflows. Turkey was unable to gain this advantage of being a main FDI destination. As Onis (2006) points out, the neo-liberal program made both Argentina and Turkey dependent to external sources and the economy vulnerable to external shocks. Because in both of the countries, democracy was new and fragile, not mature enough to benefit wholly from economic liberalization. Both of the countries did not have necessary ingredients for absorbing the positive externalities of economic opening-up and FDI inflows even though both of the countries received FDI mostly from developed countries (Onis, 2006). As can be seen from table 1, in Argentina FDI went usually to resource seeking oil sector made mostly as a result of M&As and privatizations. As Huntington (1991) points out wealth occurring as a result of oil revenues does not contribute to democratization. Oil revenues add up to the state revenues. They increase the power and bureaucracy of the state by abolishing the requirements for tax revenues. Therefore with the decrease of the taxes, public's reason for asking demand dimishes which at the end deteriotates the democratization process (Huntington, 1991; Onis, 2006a). As can be seen from table 4, Turkey received market seeking FDI mainly to manufacturing and services sectors mostly by joint ventures but as said before, Turkey never became a main destination for FDI, Thus, the amount of FDI Turkey received was not enough for positive externalities in Turkey to occur.

In Argentina, it can be observed that from the 1980 to the 2000 the HDI value increased from 0.655 to 0.734. Similarly, life expectancy at birth increased in the 1980 from 69.5 to 73.8 in the 2000. In the same manner, expected years of schooling was 11.4 in the 1980 and it increased to 14.8 in the 2000. Means years of schooling was 6.8 in the 1980 and in the 2000 it increased to 8.6. GNI per capita in the 1980 in Argentina was 10.804, in the 1985 it decreased to 7.755 in the 1990 and increased to 10.225 in the 1995. In the 2000 it reached to 10.835. As can be seen, HDI value, life expectancy rates, expected years and means years of schooling in Argentina followed an increasing pattern from the 1980 to the 2000. GNI per capita on the other hand, first decrease than increased in the 1995 and showed a small amount of increase from the 1995 to the 2000. This can show the fragility of the economy and democracy in Argentina. It can be said that even though, the life conditions in Argentina improved during the considered periods with liberalization, the economy became fragile to external shocks. As Onis (2002b) points out Argentina did not concentrate on improving the competitive advantage of Argentina but instead made the country dependent to external sources, thus the country's economic and political development rates in regard of the lives of the citizens showed a fragile pattern. It is also observed that during the economic crise years, as of the 1993 and the 2001, the HDI values almost stayed stable (UNDP,2010a; Onis, 2002b).

In Turkey, it can be observed that from the 1980 to the 2000 HDI value in Turkey increased from 0.467 to 0.629. Similarly, life expectancy at birth was 60.3 in the 1980 and it reached to 70.0 in the 2000. Expected years of schooling increased from 7.0 in the 1980 to 10.8 in the 2000. Means years of schooling was 2.9 in the 1980 and it reached to 5.5 in the 2000. GNI per capita also increased. It was 6.291 in the 1980, 7.139 in the 1985, 8.632 in the 1990, 9.243 in the 1995 and 10.422 in the 2000. It can be said that, even though Turkey's starting rates were lower than that of Argentina, in the 2000 Turkey's rates got closer to the Argentinian rates. It is seen that Turkey showed an increasing pattern in regard of life expectancy, expected and means years of schooling and GNI per capita and HDI value. However, the increase levels were low. As Onis (2002b) points out that Turkey was not able to benefit from the positive externalities of liberalization enough. It is also observed that during the economic crise years, as of the 1993 and the 2001, the HDI value almost stayed stable (UNDP, 2010b).

As a conclusion, it can be said that both in Argentina and in Turkey, during the period when there was full or partial political stability, in both of the countries FDI increased compared to their political instability periods but when they faced with political turmoil, the economic problems peaked and the fall of FDI followed. It could also be said that as the economy worsened and FDI decreased, the political problems increased. In both of the countries, the peak of FDI increase occurred during the neo-liberal regime policy. But, it can be said that the increase in the FDI in Turkey was a small amount when compared with the Argentina rates. This neo-liberal policy application period in both of the countries was followed by economical problems together with political problems and the fall of FDI. Thus, as Onis (2006a) point out both of the countries were not politically mature enough to handle the economic liberalization. Thus, they liberalized without encouraging the competitive strength of the country and became dependent to the external sources and thus fragile to external shocks. Onis (2006a) notes that the biggest crisis in Turkey and Argentina and the biggest fall of FDI were followed by the Asian and Russian crises of the 1997 and the 1998 together with the devaluation in Brazil, earthquake in Turkey and rise of oil prices (Onis, 2006a). This situation could also been observed when both of the countries' HDI values are analysed.

CONCLUSION

The purpose of this study was to explore the political effects of FDI. In this study, not only the overall FDI in the world in general terms was analyzed and the literature was reviewed and also the political effects of FDI in Argentina and Turkey was examined as well as compared and contrasted between the years 1980-2000. The literature reviewed in this thesis proposed that the political effects of FDI depend on whether the sector is primary or non-primary industries, whether it is made by Greenfield investments, joint ventures or M&A and privatizations whether the source country is a developed country or not and the absorption capacity of the host country.

It was observed that the financial liberalization can help to the spread of democracy to the developing world. It was highlighted by the scholars that developing countries promote democratic governance in order to attract foreign investors. The main concern of the foreign investors is the political, economic and social stability when they invest in a country. Accordingly, the unpredictability of the policies, excessive regulatory burdens, deficient enforcement of property rights and the lack of commitment in the government play a major role in deciding to invest in a developing country. MNEs prefer the countries that can minimize these risks. Therefore, democratic governance attracts the attention of foreign investors. In this context to attract FDI, governments in developing countries foster democratic governance. On the other hand, some scholars argue that foreign investors prefer authoritarian states since authoritarian regimes can protect the foreign capital from public pressure for high wages, business protection and stronger labor right. It can be said that, FDI to primary sector does not search for democracy because primary sector is limited with the possession of natural resources and it could be said that it is an extension of the idea of the colonial exploitation. On the other hand, it could be said that FDI to non-primary sector searches for democracy because in here, FDI does not aim to increase it gains by exploiting the natural resource in the country but aim to increase its gains by being productive and at the same time protect its investments. It could be added that, in an environment where there is no social, economic and political stability, it is not always possible for MNEs to increase their profits by being productive and protect their investments. The indirect effects of FDI on developing countries have been emphasized by the scholars. Accordingly, FDI increases the economic growth in the developing countries. This economic growth by promoting education, improves the lives of the citizens and the democratization in the developing countries. Scholars also mentioned the social and psychological effects of FDI according to which FDI helps to diffuse democratic ideas and values since MNEs stay in the host country for a long time and interact with the local government and the local people.

Looking in whole to the development of FDI in Argentina and in Turkey, it was seen that, after the beginning of the 1900s, Argentina was one of the richest countries in the world. During the first wave of democratization (1828-1926), Argentina was one of the countries experiencing transition. However, as a result of the devastating affects of the Great War, Argentina returned to authoritarian rule in the 1930. It can be said that as a result of the democractic government's inability to tackle with the economic problems, the regime change brought new hope to the Argentina and therefore the new authoritarian military government gained "*negative legitimacy*". In order to continue its legitimacy, following the fading of the "*negative legitimacy*", the military changed the economic policy and began to apply import substitution strategy based on domestic production protection. However, Argentina's rececession and economic stoppage continued together with the loss of legitimacy of the military government. In the 1946 Argentina returned to democracy with a populist leader. The populist politics together with protectionist economic policies worsened the economic conditions and in the 1955 during the second wave of democratization, the country returned to military rule. The cycle of democracy-military regime continued until the 1983. It was seen that from the 1930 to the period of the 1983, which is the time of the re-establishment of democracy in Argentina, Argentina have had 6 major military coups in the 1930, the 1943, the 1955, the 1962, the 1966 and the 1976 and many other small ones. During that period, the country had seen 25 different presidents which can show the fragility of the politics and economics in the country. It could be said that after the 1983 Argentina did not face any reversals however, its democratic consolidation continued to be low from the 1983 to the 2002. Following the democratic transition, Argentina also changed its economic policy and began to apply neo-liberal policies.

Accordingly the economy opened up, legal frameworks established for the free flight of FDI together with increased privatization programs. Since MNEs do not prefer countries with high political risks, Argentina tried to decrease its political risks which helps to consolidate democracy but it could be said that while doing that Argentina issued policies to please MNEs instead of the public which deteriorates the consolidation of democracy. Accordingly, Argentina faced economic growth and heavy FDI flows following the implementation of the neo-liberal model. As it was emphasized by the scholars, economic growth promotes democracy by improving education. However, it could be said that the growth and the increase of FDI were not on sustained basis in Argentina. The presence of MNEs benefits the local community in a positive manner due to the condition of interaction and the export of democratic values and ideas. However, it was seen that this did not occur in Argentina. The local community was mostly excluded from the process. Similarly, in Argentina the liberalization process exluded totally the strenghtening of the domestic economy and absorption capacity of the society, making the country heavily dependent on external sources. During the 1st wave of FDI between the years 1958-1963, Greenfield Investments in Argentina took place together with the learning process for the local people increasing the productive capacity of Argentina. In between the years 1966-1969, during the 2nd wave of FDI, FDI concentrated on purchasing local firms and expanding installed capacities. During the 1970s, FDI decreased. During the 1980s, FDI was related with debt equity conversion mechanism. During the 3rd wave of FDI, in the 1990s, largest amount of FDI inflows to Argentina took place. This period coincided with the application of the harsh neo-liberal program together with harsh M&As and privatization policies. Therefore it could be said that it was obvious that the picture was going to change at the end of the decade. It was seen that FDI values FDI flights made a peak in the 1999 but fall down in the 2000 and the 2001 together with the economic crisis and heavy burdens on the society, economy and the politics of Argentina. Similarly, FDI went mostly to oil sector. As Huntington points out wealth occurring as a result of oil revenues does not contribute to democratization. Oil revenues are added to the state revenues. They increase the power and bureaucracy of the state. They abolish the requirement for tax revenues. Therefore as the tax reveneus gets lowers, the public's reason for asking demand dimishes which at the end deteriotates the democratization instead of consolidating. Therefore, it could be concluded that in Argentina the policies to attract FDI benefitted the MNEs instead of the public decreasing the level of democratic consolidation. Similarly, the country liberalized at the expense of real economic development. The growth rates occurred as a result of the neo-liberal model applied were actually visionary. The model made the economy dependent to external resources and fragile to external shocks which at the end brought the 2001 economic crisis together with the fall of FDI inflows with heavy burdens on democratic consolidation.

It was observed that Turkey applied protectionist economic policies until the 1980s. Until the 1980s Turkey's inward economic structure inhibited the country to attract FDI. In between the 1971 and the 1980, total amount of FDI inflows to Turkey were circa US$ 100 million. Turkey moved to multi-party democracy during the 1950 however, this did not last long. Turkey encountered with military interludes during 1960s, 1971 and 1980s. On 1983 as did Argentina Turkey also returned to democracy however it could be said that the democracy continued to be fragile. Turkey encountered with continuous political problems like that of the Kurdish problem together with the weak coalition governments. As it was highlighted by the scholars; the main push for FDI in Turkey was the decisions of the 24th January 1980. As a result of the policies Turkey began to apply outward oriented economic policies and FDI inflows to the country began to increase. But still Turkey never gained high amounts of FDI. One of the main reasons for this low amount of FDI could be a result of Turkey's political economic and social instability since MNE's want invest in countries that can minimize the political, economic and social risks. In the 1980s with the open up of the economy, Turkey faced economic growth. However, Turkey could not benefit from the positive externalities of the economic growth. On one hand, the growth was so fragile ready to shrank in any external shock. In this regard, Turkey was affected badly from the Russian and Asian crisis of 1997, 1998 resulting in the 2001 crisis. Second of all, Turkey never became a main destination for FDI inflows. The small percentage of FDI Turkey received went mainly to manufacturing and services sector by joint ventures and came from developed countries. However, the percentage was not enough for positive externalities to occur. Similarly, the neo-liberal model excluded the local development and absorption capacity development of the host country. MNEs coming to Turkey formed joint ventures with the Turkish firms. It could be said that the MNEs concentrated on their own benefits on the other hand; Turkish firms lacked the necessary absorption capacity to benefit from the joint ventures. It could also be added that Turkey became dependent to external resources and fragile to external shocks resulting with the 2001 economic crisis with its heavy burdens on the society and the country. It was seen that the country's FDI levels made a peak in the 2000 just before the crisis and decreased again in the 2001 and 2002, 2003.

It is also necessary to point out that in both of the countries the leaders enjoyed low checks and balances. Both countries were called "*delegative democracies*" by some authors. Accordingly, in delegative democracies political parties or the leaders enjoy uncontrolled authorities. It was emhasized that Menem in Argentina politics and Ozal in Turkish politics speeded up the reform process and deteriorated the democracy at the same.

It could be concluded that, in Turkey starting from the mid-1980s, FDI began to increase but during the course of the 1990, it was mostly static. In between the 1989-1994, the foreign direct investments that went to Turkey had a share of 0.35 percent in world and until the 2000 it decreased continuously and came to the level of 0.07 percent. FDI inflows to Argentina began to increase in the late 1980s and reached to total 78,709 US $ in between the 1992 and the 2001. Capital flows made a peak in the 1999 with 23,986 US $ but fell back in the 2000 and the 2001. The flow cycles showed both differences and similarities in Argentina and in Turkey. Both of the countries faced with the increase of FDI inflows with the commence of the neo-liberal program during 1980s and both of the countries returned to democracy in the 1983. It was observed that FDI to Argentina was mainly to oil industry (primary sector) by M&A and privatizations. In Turkey, FDI inflows were dominated by the manufacturing and the services sectors by joint ventures. In the same manner, both of the countries received FDI mostly from European countries and from United States. The literature proposed that this kind of FDI, FDI coming from developed countries enhances the democraticatization in developing countries.

However, the point that FDI went to the oil sector in Argentina by M&As and privatizations and that the amount of FDI Turkey received was not enough for positive externalities of FDI to occur. Both of the countries opened up their economic so quickly before they were ready for such kind of inflows of FDI, privatization, liberalization…etc. before their democracy got mature enough. Thus, neither of the countries had the necessary absorption capacity to benefit from the FDI inflows. In both of the countries MNEs concentrated on their on profits and social and psychological learning process did not take place in Argentina and in Turkey with the increase of FDI inflows during 1980-2000 period. Looking at the HDI value of Argentina and Turkey, it can be observed that in both of the countries, the HDI value increased from the 1980 to the 2000 but the increase was rather low. As it was reviewed in the literature, as the life of the citizens improve, citizens begin using their democratic rights more which helps the consolidation of democracy. However, the increase of HDI was low especially in the case of Turkey. In the case of Argentina especially the rates of GNI per capita showed a fragile pattern. Similarly, the period of liberalization in both of the countries resulted with economic and political fragility and external source dependency which brought with it economic and political crisis, also undermining the level of democracy in the country. As an example, from the 2000 to the 2001 (when both of the countries encountered heavy economic crisis), in both of the countries HDI value almost stayed stable.

As a result, the findings of this study argue that FDI to primary sector as well as M&As and privatizations do not improve the productive capacity of a country. In the same manner, the countries need the necessary absorption capacity to benefit from FDI inflows. Both countries received FDI from developed countries however, the issue that they lacked the necessary absorption capacity, and that Argentina's FDI inflows were mainly to primary sector/oil industry by M&As and privatizations and that Turkey actually did receive very little FDI prohibited the positive externalities of developed country FDI inflows to occur in both of the countries.

In the future, the study can be enlarged by adding up countries like China, Czech Republic, Bulgaria, Russia, Romania and Albania which are important countries in regard of the study of the effects of FDI on democracy. Similarly, the profit transfers of the MNEs could be added to this study in order to understand the effects of FDI to the host country in a better way.

APPENDIX

Appendix 1: 1980-2003 Foreign Capital in Turkey (Million Dollars)

Years	Permitted FDI	Realized FDI	Cumulative Firm Number	Realisation Percantage
1980	97,00	35	78	36
1981	337,51	141	109	42
1982	167,00	103	147	62
1983	102,74	87	166	85
1984	271,36	162	235	60
1985	234,49	158	408	67
1986	364,00	170	619	47
1987	655,24	239	836	36
1988	820,52	488	1.172	59
1989	1.511,94	855	1.525	57
1990	1.861,16	1.005	1.856	54
1991	1.967,26	1.041	2.123	53
1992	1.819,96	1.242	2.330	68
1993	2.063,39	1.016	2.554	49
1994	1.477,61	830	2.830	56
1995	2.938,32	1.127	3.161	38
1996	3.836,97	964	3.582	25
1997	1.678,21	1.032	4.068	61
1998	1.646,44	976	4.533	59
1999	1.699,57	817	4.950	48
2000	3.477,42	1.719	5.328	49
2001	2.725,28	3.288	5.841	121
2002	2.242,92	590	6.280	26
2003*	1.207,99	150**	6.511	12
Total	35.204,30	18.235		52

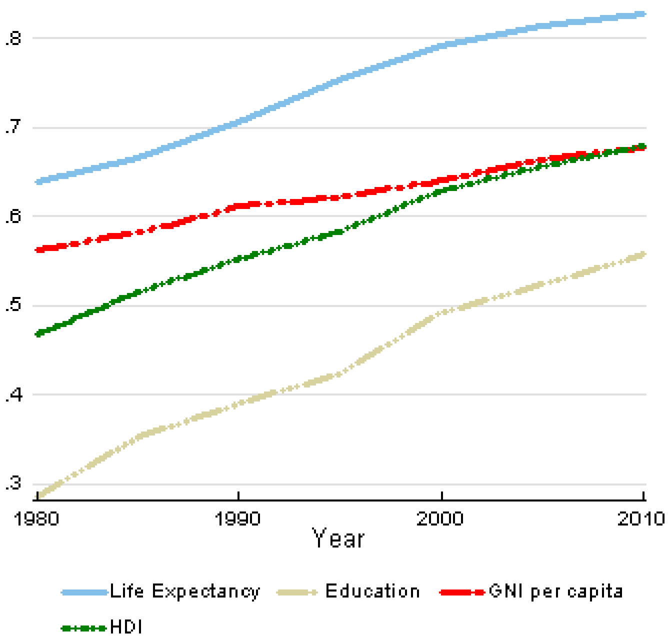
Source: GDFI (www.treasury.gov.tr) *As of June **As of January-May.

Appendix 2: Breakdown of actual FDI by sub-sector (1980-March 2000)

Sector	Number of Projects with Foreign Equity	%of total FDI
Agriculture and Mining	186	1.3%
Manufacturing **Of which:**	1,251	44.4%
Food & Beverage	146	5%
Tobacco	10	2.8%
Textiles & Garments	220	2.2%
Chemicals	165	8%
Plastics	52	2%
Cement	9	2.8%
Iron and Steel	15	1.9%
Electrical Machinery	69	1.9%
Electronics	72	1.7%
Automotive	28	8%
Auto side industries	102	2.9%
Services **Of which:**	3,587	54.3%
Trade	1,949	9%
Hotels	279	2.6%
Communication	14	1.7%
Financial Services	37	18.2%
Investment Finance	47	4.5%
Social Services	216	10.6%
Total	5,024	100%

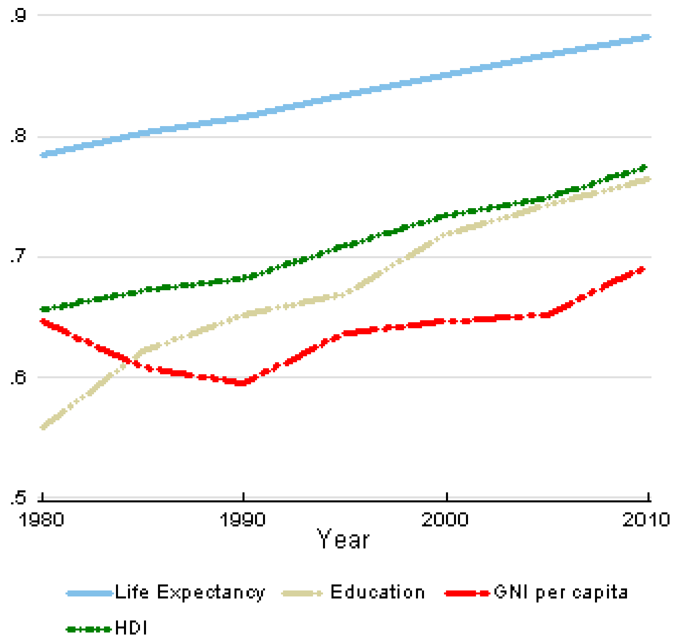
Source: GDFI (www.treasury.gov.tr) cited. (H. Loewendahl, E. Loewendahl, 2000).

Appendix 3: Trends in Turkey's HDI component indices 1980-2010



Source: UNDP (http://hdrstats.undp.org/images/explanations/TUR.pdf).

Appendix 4: Trends in Argentina's HDI component indices 1980-2010



Source:UNDP (http://hdrstats.undp.org/images/explanations/ARG.pdf).

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