NEW INSTITUTIONS OF REFORM PROCESS; INVESTMENT ADVISORY COUNCILS

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Abstract: After the 1970s crises of capitalist system, profit rates of the capitalist were decreasing rapidly. In early capitalized countries all investment areas were not as profitable as it used to be. These countries, capitalists, need to find new investment areas and markets. Simultaneously late capitalized countries need more capital and investments in their economy. The needs of two sides are overlapping in the same period, but late capitalized country economies have high risks for capitalist class. Their laws and rules were not compatible with early capitalized countries. For this reason, foreign investment regimes have became an important topic for the late capitalized and early capitalized countries since 1970s. Since it was a necessity to establish proper structures as parallel to the aim of drawing more and more investment to the countries, the concept of ‘Improving investment climate’ gained a dominant position in debates on investment. The concept itself mainly refers to consisting necessary conditions in order for giving a new impetus to accumulation of capital. The institutions which run all these works have been named as Investment Advisory Councils. These Councils are also known as governance bodies which have actively been functioning in many countries in the last decade. These Councils are the most important institutions of reform process. Although these Councils have common targets, each institution in invidual countries has different characteristics specific to its own structure. In this study we are trying to define the concept of investment climate and main institution of ‘second generation’ reform process.

There is a big consensus in development studies of World Bank, IMF and OECD organisations. They argue that improving investment climate studies are for prosperity of everyone. In this study we are trying to show this process creates some loosers and winners. IAC institutions receive strong support from international organizations as well, it is possible to argue that improving investment climate in single countries is for the general interest of entire capitalist class. Ironically, these Councils define their targets as to make their countries the most competitive economy. Thus, it is apparent that two opposite tendencies exist in this process. In this study, it is aimed to understand how does IAC reach its targets which have been determined via two opposite tendencies. The reviews which will focus on IAC and YOIKK in Turkey consist the field of the research. Furthermore, the legislation which was introduced in the context of YOIKK will be analysed and the observations on the two opposite tendencies: competition and cooperation will also be integrated in to the study.

Keywords: Reform process, Improving Investment Climate, Investment Advisory Council, New Institutions, Turkey

1. Introduction

This paper tries to determine the characteristics of the better investment climate and the improving studies of Councils in Turkey. In the literature of development, developing countries need to accumulate capital for growing. But few decades ago, we saw that they could not do this by their own capital stocks. In such a case, developing countries tried to increase their
Foreign Direct Investments (FDI). Thus, Improving Investment Climate (IIC) and FDI became the most important factors for the development of these countries. All countries began to create most suitable Investment Climate; that is why understanding IIC studies are very important. First of all, we have to define the reforms which are called ‘‘improving investment climate’’ and the members of the reform process. In the second section, we define main indicators of investment climate and then we search the institutions of this process. At the end, we try to explain the relations between capital organizations and government institutions in Turkey. Thereby we want to determine the relations, the actors and the tendencies of IIC studies by examining Turkey.

And we are examining two hypotheses which are generally accepted. One of them, supported by WB, is that “improving investment climate” is a process which is for the good / welfare of everyone. They argue that there are no losers or winners in this process, the whole community gains welfare. Critical question is; is it possible to claim that all reforms improve the whole community? And the second accepted thesis about IIC studies is: they help to built most effective economy and competitive national economy. If it creates welfare for all community, how we create most competitive national economy? Competition without losers seems impossible.

2. Definition of Investment Climate

Since 1970s the internationalization of capital is the most important thing for the developing countries and developed countries. The early developed countries need more new areas to gain more profit rates. In this period -end of 1970s- the profit rates were falling down. At the same time the developing countries need more capital to establish their own industries. These two parts needs are overlapping in the same period. And increasing the foreign direct investment has become an important goal of these countries. But the infrastructure of legislation and the trade laws was not suitable to invest for foreign countries. These countries have many risks and inhibitions for the foreign investors. Therefore, they have to be change their investment procedures and laws. These reforms are done to increase the FDI indicators because the success of economic transformation in transition economies and the developing countries is measured according to these indicators in recent years. (Petr Hlavacek, 2009) Since it was a necessity to establish proper structures as parallel to the aim of drawing more and more investment to the countries, the concept of ‘‘Improving investment climate’’ gained a dominant position in debates on investment. The weakness in investment levels, including especially FDI, has given rise to a concern with the quality of the “investment climate” in the developing countries, which depends on both policies and institutions. (Clinton R. Shields, 2003) Also the main question debate of this part is, What are the properties of better “investment climate” and how they measure it? In this point, we have to look at the definition of best investment climate. There are many international institutions make some definitions of better investment climate. IMF country teams made some surveys to determine the factors of the investment climate. In the first step IMF country teams were asked to identify the factors which had influenced, either favorably or adversely, the country’s investment climate. The responses show that the investment climate depends on a wide array of factors including burdensome taxation, widespread corruption and poor governance, weak legal and regulatory frameworks (including property rights violations) accompanied in many instances by pervasive state involvement in the economy, and the need to follow through with structural reform programs. (Clinton R. Shiels, 2003)

According to World Bank Business Environment and Enterprise Performance Survey, which
done between 1999-2002, we can define the investment climate by those indicators; (i) access to financing; (ii) quality of infrastructure; (iii) taxes; (iv) regulation; (v) quality of judiciary; (vi) crime; and (vii) corruption.

Access to financing; financial structure is one of the most important indicators of the investment climate. Restricted financial movements, high interest rates, dependent Central Bank are the negative properties of the financing system. These countries which have negative rated indicator have to reform their financial systems.

Quality of infrastructure; Infrastructure involves the development of transportation system, continuity of energy supply, cheap energy costs, widespread and high-speed internet connection, etc. These factors are closely related to the costs of investments.

Taxes; burdensome taxation, higher taxation rates, complex tax statements are not desirable for the investors. For this reason the taxation system have to reformed by the governments of these countries.

Regulation; Regulations are the most comprehensive factor of the investment climate. It involves, labor market regulations, market entry and exit regulations, foreign employment rules, health and insurance regulations, governance applications, accounting system regulations, etc.

Quality of judiciary; judicial system should be clear and strong for the investors. They need to protect their property rights. If the judicial system protects their rights effectively foreign investors will not hesitate to invest in these countries.

Crime and corruptions; All kinds of crime and the bribery have increased the costs and risks of investment. Transparency of public institutions and prevention of bribery are among the primary targets for having better investment climate.

These are the main indicators of the investment climate. However some countries have special indicators about their investment climates. For example Commonwealth of Independent States (CIS) are more sensitive to Russian economic regulations, than the other countries. These countries also required different questions to determine the investment climate.

Also improving investment climate studies are important for the European Union and the candidates of the union. Lisbon Program defines common targets of the European Union. These main targets are overlapping with the improving investment studies. According to World Development Report 2005, the aim of ‘Better Investment Climate’ is to create a climate in which firms and entrepeneurs of all types–from farmers and microenterprises to local manufacturing concerns and multinationals- have opportunities and incentives to invest productively, create jobs, and expand, and thereby contribute to growth and poverty reduction. Depending on these goals we need to define what governments can do to create better investment climates for their societies.

3. **Investment Advisory Councils (IAC)**

When we examine the improving investment climate studies we saw new institutions established by the governments. Since it was a necessity to establish proper structures as parallel to the aim of drawing more and more investment to the countries, these institutions gained a dominant position in debates on investment. The institutions mainly refer to consisting necessary conditions in order for giving a new impetus to accumulation of capital. The institutions which run all these works have been named as Investment Advisory Councils.
These Councils are also known as governance bodies which have actively been functioning in many countries in the last decade. As we have previously stated that improving investment studies are not only for developing countries as well as for the early developed countries. When we were trying to identify the institutional structure of improving investment climate studies we saw that the developed countries have Investment Advisory Councils at the same time. Each Advisory Councils studies to improve their countries investment climate and these studies coordinated by international institutions like OECD, IMF, WB and FIAC. International institutions organize meetings for investment advisory councils of the countries in regular periods. OECD has developed extensive partnership activities with more than 70 non-member economies. Committed to enhancing the positive contribution of investment to development, the organization co-operates with developing countries by sharing its experience through a variety of policy dialogue forums, workshops and seminars, peer reviews, the dissemination of the best practices embodied. (First Advisory Meeting Genova 2003) On the other hand countries advisory councils are the most important part of the improving process. The following section examines the Turkish Investment Advisory Council to examine the functions of investment advisory councils.

4. Coordination Committee for the Improving Investment Climate & Investment Advisory Council of Turkey

After 1980s the primary studies for improving and adapting of investment climate studies were starting in Turkey. But this process needed an institutional coordination between the state units. Resolving this coordination problem, “Coordination Committee for Improving Investment Climate” (YOİKK) was established in 2001. YOİKK declares the main idea and the aim of institution with these sentences; “YOİKK aims to Rationalize the regulations on investments in Turkey, develop policies by determining the necessary arrangements that will enhance the competitiveness of the investment environment, generate solutions to the administrative barriers encountered by the domestic and international investors in all phases of the investment process including the operating period.”[10] YOİKK works like an operation unit of the improving investment climate studies. It has 12 technical committees on its own structure. The Council conducts its agenda with the help of 12 Technical Committees working on specific issues with participation of both public and private institutions. Technical Committees working in technical issues and each of the technical committee is headed by high level bureaucrats. The following chart showed the structure of reform process.
In the beginning of the Reform Program YOIKK had 9 technical committees. But the Reform Program has a dynamic structure. The SME Technical Committee established in 2003, the Corporate Governance Technical Committee established in 2005 and the R&D Technical Committee established in 2008 are the Technical Committees that were established after the first structure as a result of the need in the economy.

The other platform is the Investment Advisory Council of Turkey (IAC) which is an international platform established in 2004, to receive the recommendations of executives of high ranking multinational companies and international regarding Turkish business environment. The recommendations stated in annual meetings by the Council members regarding business environment in Turkey are taken to the agenda of YOIKK Technical Committees. IAC acts as a parent committee of YOIKK. Reform areas and topics are determined by IAC. At this point, identifying of the members of IAC – which determines the reform areas- might be useful for understanding the reform process.
As shown in the table IAC has many private members. All these members have individual goals and common goals to increase their capital accumulation. In this case we have to determine how they influence the direction of official state reform process. As seen in the table below there were many different capital organizations in Turkish economy. Members of these organizations have common interests because of their activity areas. And they want to influence the reform process more than the other organizations. All capital organizations want to locate in the reform process but only the most powerful of those have the chance to represent in the reform process. These are; The Union of Chambers and Commodity Exchanges of Turkey (TOBB), Turkish Industrialists and Businessmens Association (TUSIAD), Turkish Expert Assembly (TIM), International Investors Association (YASED). These organizations have technical committees on their own bodies and these committees work with ministries technical committees.
The number of capital organizations are increase rapidly in the recent years. But the influence power of these organizations are very low. Because of this situation they can not take place in the Investment Advisory Council of Turkey. YASED, TUSIAD, TOBB and TIM are the most powerfull capital organisations of Turkey. And these organisations have more influence power on the state institutions. These organizations have some common targets but at the same time they have competition among themselves. Thus conflict and reconciliation involved the improving investment climate studies and Investment Advisory Councils. The reform process is influenced by these actors. In this reason the reforms are not defined as certain targets, these are called processes.

Finally the reform process influenced all the life of Turkish community because technical committees studies include all areas of the social regulations. If we examine the enacted laws we can see the huge influence area of the reforms. These laws regulates not only the firms but also individuals. Especially, The Law for the Recruitment of Expatriates (4817), Labor Law (4857), ISKUR Law (4904) and Law on Social Insurance for Workers (4958) are influence over individuals.
Tab.1: The enacted law list of the reform project

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<th>Enacted Laws</th>
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<td><strong>1.</strong> The Law for the Recruitment of Expatriates (4817)</td>
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<td><strong>2.</strong> Labour Law (4857)</td>
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<td><strong>3.</strong> Foreign Direct Investment Law (4875)</td>
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<td><strong>4.</strong> Company Registration Law (4834)</td>
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<td><strong>5.</strong> ISIKUR Law (4904)</td>
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<td><strong>6.</strong> Land Acquisition and Site Development Law (4916)</td>
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<td><strong>7.</strong> Law on Fighting Smuggling (4926)</td>
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<td><strong>8.</strong> Law on Social Insurance For Self Employed and Artisans (4956)</td>
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<tr>
<td><strong>9.</strong> Law on amendments of the Law on Encouragement of Tourism (4957)</td>
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<td><strong>10.</strong> Law on Social Insurance for Workers (4858)</td>
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<td><strong>11.</strong> Turkish Patent Institute Law (5000)</td>
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<td><strong>12.</strong> Law on the Inflation Accounting (5024)</td>
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<td><strong>13.</strong> Law on the Protection of Intellectual and Industrial Property Rights (5117)</td>
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<td><strong>14.</strong> Trademark Law Agreement (5118)</td>
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<td><strong>15.</strong> Law on Protection of Topographies of the Integrated Circuits (5147)</td>
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<td><strong>17.</strong> Changes about Definition of SMEs in the Law of Min. of Ind. and Trade (5331)</td>
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Source: www.yoikk.gov.tr, 2008

5. Conclusion

In this study we tried to explain the concept of improving investment climate. Institutional structure of IIC and the main indicators were identified. The two hypotheses which are generally accepted were examined to see whether they are true or false in the real economic area. One of them supported by WB is “improving investment climate” which is a good process for everyone. However, when we examined the IIC studies in Turkish economy, we saw that the project created some losers and winners. These losers and winners can be found in any part of the community. These can be companies, some producers, employers or workers and etc. The position of your situation is changed by your organization and its influence power. Finally we have to know that all applications of the IIC are not beneficial to the whole community. It is not possible to claim that all reforms improve the whole community. And the second accepted thesis about IIC studies is: these studies help to build the most effective and competitive national economy. Competitiveness is a multidimensional phenomenon which encompasses companies, economic sectors and the whole nation. The contemporary model of improving competitiveness is a process of cooperation among business people, the government, academia and labour representatives. But we know that competition and cooperation are two different tendencies. If our analysis of competitive process can not explain the tendency of the decrease of some capitals and the increase of some others, the analysis remains static and largely irrelevant. So we have to understand in which way they affect the IIC studies and the reform process. In our research area (in Turkey) we determine that only the most powerful capitals have chance to effect reform process and they change the laws for their benefits. In this reason, the most powerful capital organizations became the member of IIC institutions. YOIKK represents the two processes: these are co-operation between public and private sector and competition among capital organizations. Namely we can not say that the YOIKK and IAC improve the situation of all members of the whole community.
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